INFORMAL ECONOMIES IN POST-SOCIALIST SPACES
PRACTICES, INSTITUTIONS AND NETWORKS

EDITED BY
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Informal Economies in Post-Socialist Spaces
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Practices, Institutions and Networks

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Contents

List of Tables and Figures vii
Acknowledgements ix
Notes on Contributors x

Introduction: My Name Is Legion. The Resilience and Endurance of Informality beyond, or in spite of, the State 1
Abel Polese and Jeremy Morris

Part I Thinking Informality and Development Writ Large and Small

1 Evaluating the Validity of the Contrasting Theoretical Perspectives towards the Informal Economy in Ukraine 25
Colin C. Williams and Olga Onoshchenko

2 Institutional Transformation and Informality in Azerbaijan and Georgia 51
Huseyn Aliyev

3 Fighting the Shadows: Lithuania’s Informal Workers and the Financial Crisis 70
Ida Harboe Knudsen

4 Formal Crutches for Broken Sociality 95
Aet Annist

Part II Retheorizing Informality: Power, Culture, Kinship and History

5 Field Notes on Informality’s Culture of Ubiquity: Recognition and Symbolic Power within Informal Economic Practices in Kosovo 117
Anna Danielsson

6 The Importance of Having štela: Reproduction of Informality in the Democratization Sector in Bosnia 139
Karla Koutkova
7 Perceptions vs. Practices: Nepotism in Small Businesses in Bulgaria
    Tanya Chavdarova

8 The Importance of Personalized Relationships in Post-Socialist Rural Bulgaria: Informality of New Capitalist Entrepreneurs
    Christian Giordano

Part III Informal Public Sectors and Welfare: State Intervention or Withdrawal?

9 Informal Payments for Healthcare Services in Lithuania and Ukraine
    Tetiana Stepurko, Milena Pavlova, Irena Gryga, Liubove Murauskiene and Wim Groot

10 Nuclear Borders: Informally Negotiating the Chernobyl Exclusion Zone
    Thom Davies

11 Governing Informal Payments in Healthcare: Lessons from China
    Jingqing Yang

12 Informal Economic Practices within the Kyrgyz Police (militsiia)
    Liam O’Shea

Conclusion: Agency Strikes Back? Quo Vadis Informality?
    Jeremy Morris and Abel Polese

Index
Tables and Figures

Tables

1.1 Old and new views of the informal economy  28
1.2 The most important activities for the standard of living of the household, by household income  37
1.3 The second most important activities for the standard of living of the household, by household income  38
1.4 Participation in the informal economy, by level of income groups  38
1.5 Exit or exclusion from formal economy, by gender  40
1.6 Exit or exclusion from formal economy, by household income group  40
2.1 Unofficial payments to public institutions (%)  59
2.2 Households’ access to public services, by income groups (%)  63
9.1 Dimensions, factors and indicators that explain the presence of informal patient payments  200
9.2 Indicators of the four dimensions of the presence of informal patient payments applied in the SPACE-matrix analysis  204
9.3 Healthcare services consumption and payments during the last 12 months  210
9.4 Public perceptions and attitudes towards informal patient payments  213
12.1 Violence-managing agencies  281

Figures

3.1 ‘Darbo Birža’ at the riverside in Kaunas  82
8.1 Intimacy zones and personalized relationships in the network of a post-socialist agricultural entrepreneur  188
9.1 Country profiles of Lithuania and Ukraine based on the average standardized scores from the SPACE-matrix analysis (see Table 9.2)  206
List of Tables and Figures

9.2 Public attitudes towards informal patient payments in Lithuania and Ukraine 211
9.3 Public perceptions of informal patient payments as corruption or gratitude 212
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Introduction

My Name Is Legion. The Resilience and Endurance of Informality beyond, or in spite of, the State

Abel Polese and Jeremy Morris

In spite of theoretical predictions by a number of scholars, and efforts by practitioners, laws, regulations and institutions to reach a high level of transparency in economic dealings, informality remains one of the most important socio-economic and, indeed, culturally inflected phenomena in the world. We refer here to informal payments, but not only to these. A (large) number of processes, procedures and habits are shaped according to and within practices that resist formalization or regulation from above. These include local terms for ‘connections’ in particular national cultures, such as štela and veze (Bosnia), guanxi (China), blat (Russia), tutvuste kaudu (Estonia) and vruzki (Bulgaria), a number of which feature in this book, as well as more amorphous and shifting informal unwritten rules of conduct and mutuality (Hann and Hart, 2009; Kovacs, 2014; Ledeneva, 1998, 2009; Morris, 2012; Stan, 2012; Wanner, 2005; Williams et al., 2013). Indeed, the language of informality is part of the measure of its enduring and adaptive nature: localized, always changing and encompassing micro, meso or macro scales. The starting point of this book is case studies which could be classified mostly as engaging with the micro scale. However, our choice to engage with a large territory, encompassing wide geographical diversity and tackling informality at several levels of the society, from a single citizen (Lithuania) to a whole sector (healthcare in Ukraine or companies in Bulgaria), as well as our previous argument that informality is used by both winners and losers of post-socialist transition (Morris and Polese, 2014, 2014b), gives an idea of the size, spread and depth of the phenomenon of informality.

Our goal here is to go beyond the argument that informality is everywhere (Misztal, 2000) and to show that informality has a systemic reality not only at the micro level but also, and more importantly, at the macro
level. In this book, the authors attempt to move beyond functionalist or structuralist perspectives to propose that informality at the macro scale is nothing but another way of responding to policy-making, and its reality must inform policy decisions. Informality can start as a micro phenomenon, but often grows to such proportions that it must be considered a macro phenomenon rivalling the actions of the state. When this happens, its reality shows the failure of certain measures and perforce prompts a change in attitude or policy-making itself. The authors examine informality through the prism of state–society relations. This book looks at the aspects of informality developed in all segments of a society. While agreeing that sometimes informality is a way to survive, the authors view informality within a critical realist frame, as a ‘normal’ response or set of tactics for individuals, classes and communities. Where expectations (of the state, of a company, of a commission) are too far from citizens’ existing models of normative behaviour, informal tactics continue and, indeed, new ones are adopted that are designed both to cope with the disjuncture between theory and reality and also to serve as a clear contrast to the imposed values of the centre (state/EU). This brings back into the purview the concept of social milieu, social networks and the moral economy, and at the same time speaks to the literature around civic development and the Habermasian public sphere.

Examples in this book are taken from the most diverse contexts in the post-socialist world: ‘old boy’ networks of arendatori; agri-business land entrepreneurs in Bulgaria; newly formed ‘invisible citizens’ in Lithuania who have chosen not to contribute to or receive any benefits from a system they do not believe in; and more familiar practices of informal payments in post-socialist hospitals. The intentional conflation of the United Kingdom-specific term ‘old boy network’ with the highly specific socialist and post-socialist informal constellation of events that produces arendatori in Bulgaria or the ‘shadow’ workers in Lithuania should not belie this collection’s central argument to universality and ubiquity. Just to take one example, how often does the selection of top managers from medium, large and multinational companies start from an informal information process? Or the appointment of high-profile academics, for that matter? Agreements on the stock exchange are often oral, and trust is a derivative of the respectability of a broker; political consultations and decisions often originate in informal processes; and informal institutions may play a key role in multi-million deals (Dixit, 2007; Helmke and Levitsky, 2004; Isaacs, 2011).

The accounts in this book show that informality and informal practices have come a long way from the supposedly exclusively sweatshop
or street-level bureaucratic practices they were initially relegated to, and that their continuation might not simply depend on red tape, over-regulation, convenience or illegality. We take a lead here from Keith Hart’s position that the formal and the informal economy stand in a relationship of complementarity that does not depend on the type of society (2005). It has been shown that informality in the Western world is still regularly utilized at most levels of a society (Williams, 2004; Williams et al., 2011). What can change are the ways informality emerges as a phenomenon, the ways it perpetuates itself and the aspects of a society or system it comes to permeate the most. It could be said that excessive red tape generates a kind of informality that is different from the one we can see in a well-functioning society or system, or that informality in some regions is more linked to monetary exchanges, but we are not sure we could find a society with little or no informality to use as a model when justifying the fight against informal practices (we refer here to the systemic fight against all varieties of informality that does not differentiate between unrecorded extra-legal or illegal practices).

**Contextualizing informality historically and conceptually**

History is full of examples of people, collectively or at the level of in-group status, trying to take advantage of their position and doing so until new rules or procedures are identified, limiting the role or the power of a single organization or individual. Informality is a social phenomenon and originates with people, or with a single group. It originates from a human desire to maximize certain advantages in two main directions: in spite of the state or beyond the state.

First, informality exists as long as there is a state, or at least an overarching entity, trying to regulate relationships and interactions between people. In a primitive economy or society, with no entity formally regulating transactions or relations between citizens, the definition ‘informal’ is meaningless. ‘Transactions’ are not primarily economic; they are inflected by ritual, but nor can they be called institutionally rule-bound (see Mauss, 1990). As such, it makes no sense to study, or even talk of, informal practices. There is little interaction with people other than immediate neighbours, and transactions are regulated on a personal or ritual basis. Respect, reputation and trust are major elements allowing the regulation of relations. Disputes are solved via recourse to reputation or custom, or the desire not to lose the ‘client’ or contact.

As the system becomes more complex, ‘references’, calling cards and ‘introductions’ become more necessary. A first reference could be
respectable people (the elders, the wise, people whose authority or respectability is widely accepted) who mediate, guarantee and provide a ground to regulate exchanges and relations. A second set of references are informal customs, embedded in certain cultural settings and allowing one to reflect: ‘If I do this, the standard reaction or behaviour should be this.’ Obviously, the system of references works only as long as the majority of people are willing to abide by it. There are exceptions and cases in which one, and then more, people decide not to play by the rule, so that two outcomes are possible. If they remain a minority, they will be treated as deviant, but if they grow to a substantial number, the customs change and the society plays by the new rules until a new reference, new attitudes and behaviour are identified.

With societies gaining in complexity, and states taking over, there is an urge to regulate, that is, to put on paper certain rules and patterns of behaviour to make sure everyone is aware of them, but also that there is some sort of agreement and acceptance of a series of rules to avoid a scenario of anarchy or some intermediate situation. Along with this, there is a need for a punitive system to encourage people to comply with these identified rules.

The state becomes the main arbiter of ‘reference’ and the state-administered territory becomes wider. This, in turn, gives rise to the necessity to regulate more and more in order to make practices uniform under the roof of that state, to make sure that everyone has the same principles, references and opportunities: a process that has not always worked in the way it was conceived (see Scott, 1998). There is a wide range of cases where such attempts have maintained, or even increased, disparity, uneven access to opportunities and increased gaps between regions, resulting in an inability to take care of some people’s needs.

‘In spite of the state’ and ‘beyond the state’

Once a state regulates, or claims to regulate, certain interactions between people, there is still room for exceptions that are conducted in spite of a state or beyond a state. ‘In spite of’ a state refers to customs, habits, structures or even rules that overlap with, or do not correspond to, state instructions, codes and formally adopted laws and rules. ‘Beyond the state’ refers to attempts to regulate what the state is not yet regulating or where an insufficient number of instructions are in place. Not only may the categories above be blurred, but also the spectrum of situations between them is unclear.

Where the state regulates a relationship and instructions are clear enough, most exceptions to this rule are – by force of law – illegal. There
are, of course, several kinds of illegality one can deal with, and different societal perceptions of what is illegal, so that not all situations will fall under the same category, and the concept of illegality is too wide to allow deep understanding and, in turn, help policy-making or inform public debates. Social scientists who have been sympathetic with this approach have suggested a division into legal-licit (Van Schendel and Abraham, 2005) or socially acceptable. That is, actions in contravention of legal codes might be experienced by people as ‘normal’, or at least acceptable, and this, it has been suggested, depends on a structural problem. Instead of deducing overarching rules pragmatically from a societal need, these rules have been copied from elsewhere and uncritically implanted into a new context (de Soto, 2000), often producing a friction between the local ethos and international standards (Gill, 1998). As such, punitive approaches in opposition to local customs, trying to eradicate them for the sake of uniformity with or ‘upgrade’ to international standards, have often failed (Scott, 1998).

Criminal organizations can be seen as partially replicating the role of the state. They can regulate some markets (prostitution, drugs) and provide protection (rackets) and even jobs to affiliates. In some cases, they are also seen as socially acceptable and even preferred to the state by those who benefit from them, and, if the number of beneficiaries is high enough, they become a socially embedded phenomenon and a competitor to state monopoly. This is not to say that they need be morally justified, but their role should be seen in context. In his book *The Other Path: The Economic Answer to Terrorism*, de Soto (1989) showed that depriving a criminal organization of its popular support meant its sudden death. Gene Sharp (1973, 1993) has dealt indirectly with criminal structures embedded in state structures and has also shown that the persistence and survival of such structures relies on popular support and legitimacy (which might simply come from passive acceptance of a status quo).

‘Beyond the state’ refers to a sector, an area or a region that the state does not effectively regulate, for whatever reasons. This could be due to the fact that the need has not been identified or there is no political will to address it. It could be an extremely depressed region, a minority that seeks support, or an emergency situation due to a natural catastrophe or war (both situations are seen in the case studies in this book). Rather than saying that the state is not there, it might be more accurate to say that the state is trying to get there but it is unclear when, or whether, it will. The state might be doing something that is perceived as not enough; measures taken might be weak or considered insufficient, or there might be a tacit understanding
that people should take care of things themselves; the intervention or policy might not be cost-effective; or the discontent arising from not addressing the issue is estimated as sufficiently low not to worry decision-makers.

In all these situations, there are a number of people who will try to work reciprocally and occupy the niche that is not (yet) regulated. When they organize themselves formally and register, we talk of either a private sector or examples of civil society operating in a particular field. But civil society, or the public sector, is not always ‘there’. What happens in that period, which can vary in duration, between when people identify a need that is not covered and when they organize themselves formally? The period also coincides with a time when it is unclear whether there is a market for the need (and thus the necessity to devote effort and invest in economic and human capital).

Transitologists and transitionalists of developing or post-socialist societies may see informality as the ephemeral moment that happens between the realization of a need and the formalization of a new rule. This can certainly hold true for some cases, but not all possible cases, and it would be deterministic to claim otherwise.

In the case where a new need is identified, a growing number of people engage with a certain practice and eventually organize themselves into a formal organization that provides a given service to a growing number of others who ask for that service. The state, at this point, has three options: to regulate, to ignore or to repress the new tendency.

A possible chronology is the following:

An informal practice is born to complement formal rules. Initially it is carried out by a limited number of people, so it is ignored by the state. It does not matter whether the practice is legal or illegal; what matters is the cost of repression. After a certain time, a number of people might find it comfortable to act by the informal rule (in spite of the state or beyond the state). The practice can remain very marginal in a society, and thus is not worthy of attention.

If the number of people engaging is irrelevant to the state, or the socio-economic damage is considered irrelevant, the informal practice will be tolerated. If it involves a large number of people or interferes with powerful interests, it will become a political issue.

If the authorities perceive this new practice as a challenge and try to repress it, at least four outcomes are possible:
They convince a substantial number of people not to engage in such a practice (this is more likely to come from a combination of a punitive approach mixed with some alternatives whose advantage is clear).

They understand that this is, or is going to be, a major societal need in the coming years, and try to regulate it. That is, the state either replaces informal rules or opens the way to the private sector by establishing regulatory mechanisms to allow private initiative in the management of the practice.

They try to repress it, but the practice persists, and people start confronting the authorities (contentious politics), claiming that it is their right to engage in such a practice. This might lead to a new set of policies addressing that need.

They try to repress it, but fail because the practice is so deeply rooted in the society that political will is not met by will at the local level (instructions are given to tackle the problem, but those in charge of doing so locally either disagree or understand they will lose support if they do so). At this point the practice either stays in limbo – it is officially illegal but widely accepted – or is promoted to a formal rule.

The outcomes above have in common the fact that these activities lie between how the state should function and how it functions in reality. The difference is not whether there is a gap, but the type and situation of the gap. Informal practices are, by definition, more elastic and dynamic than formal ones; they move faster, develop faster and often die out faster also. In this respect, we do not see only a complementarity between the formal and the informal; we also see a constant tussle, or competition, between the two.

One important argument of this book is that informality is a mode of alternative governance as much as formal governance or contentious politics. The evidence our authors provide engages with our argument in various directions and, to different extents, considers deviations and variations from it. However, all their described practices occur and develop in the grey zone between formal and informal.

The interpretive meanings of informality

Andrey goes to a laboratory to get his blood tested. The doctor takes a sample, codes it and sends it to the next room. Then he asks for money to pay for the test. Andrey replies: ‘Medical care in this country is free
of charge, I do not understand why you are asking for money and I am not going to pay for anything.’ Then he leaves. The next week, to his surprise since he was sure they would not proceed with the test, he gets his results. Medicine is free of charge in this country.

Natasha goes to a public office and applies for a certified document. She has all the paperwork needed, but the official tells her that something is missing. Natasha insists that she has brought everything and they can do without the extra documents she is now asked to produce. The officer insists, claiming that this is the rule and she needs to produce whatever she is asked to. She says: ‘I won’t move from here until I get the certificate’ and stands still. The officer calls security and gets Natasha dragged out of the building.

Those two situations, relatively common in post-socialist spaces, differ in their outcome but have one important thing in common: subjective reasoning and the possibility of discretion. In the first situation, the doctor had the possibility of looking for a formal reason not to perform the blood test, but he decided to proceed anyway, even though no extra payment had been made. In the second, the officer went as far as to call security to remove a citizen allegedly asserting her rights. Their attitude and reaction were situational, and this is something that most readers will have experienced even in the best ‘ordered’ societies of the West. It is the street-level bureaucrat who decides whether a date is written correctly or not, whether to accept a figure ‘seven’ written with a cross or not, whether to turn a blind eye to a document not in the format it should be but still possibly acceptable, whether to give you suggestions on how to get your documents more quickly or to feign incompetence or lack of experience to make you wait longer. It is up to a vendor to give you a discount because you have just discovered some common interests or, simply, they find you a pleasant person to have a chat with.

There are situations in which subjectivity is not as favourable as in the situations above. True, a sympathetic officer can help get things done. But an unsympathetic, or simply greedy, officer can also bring unnecessary complications into your life. After all, discriminatory practices may be seen as the result of a negative subjective reasoning applied to a given situation, and there is no guarantee that citizen A, entering a given place, will be given the same treatment as citizen B. As a result, human history is full of examples of people trying to minimize the chances of negative discrimination while maximizing the chances of positive discrimination. Status, money and social capital have been used since time immemorial to ensure a better treatment in a given situation. While this can be seen as part of human nature, approaches to such issues have
recently changed. The first turning point can be seen in the emergence of the idea of the state as an overarching entity for those living in a given territory. A further step has been the gradual transformation of the Weberian state into a welfare state. The more the state has a role in its citizens’ life, the more it feels the necessity to guarantee an equal treatment to all its citizens, resulting in an attempt to ‘objectivize’ the state.

Objectivity, as opposed to subjective or individual choices, has gradually become one of the main concerns of a state, to the point of becoming a fetish in the present era. Objectivity can be defined here as the denial, or, better, minimization, of the role of subjectivity (human agency) in an attempt to secure equal treatment for all individuals sharing the same status (of citizens, inhabitants, employees, spectators, applicants). The embarrassing side of this definition is that – while we can provide a clear hands-on definition of subjectivity – take an individual, his or her choices are subjective – it is harder to find a consensus on how to turn subjectivity into objectivity. The most common approach, which is at the base of democratic principles widely acceptable in Western settings, is to dilute one single subjectivity into so many subjectivities that it becomes impossible to see the role of that given subjectivity in the whole decisional process. Logics such as conflict of interests – the interest of a subject in influencing the outcome of an aggregate of subjectivities – or transparency – the ability to show, at given moments, that the decision-making process has not been influenced by a subjectivity with a clear interest in a certain direction – are the result of the search for objectivity, which is achieved when too many different actors have a say in a particular decision to be able to influence its outcome. ‘Objectivity’ is perhaps too pretentious; ‘impartiality’ could be a better fit for what we mean, or simply a second best, given that objectivity is virtually impossible to achieve. The big bet of public administration can be seen as an attempt to reach impartiality and objectivity, as much as the claim of policy-making is to minimize, or remove completely, individual interests and act for the good of the whole community, a thing that is de facto impossible but still represents an objective.

Objectivity, or impartiality, is often perceived as the best way to grant equal opportunities to all those operating in a given sphere or field. The idea, in a public sector or administration, is that everyone is equal before the law or before a set of rules, such that the same process can be repeated a million times with the same (objective) outcome and no possibility of bias. In the private sector, the starting principle is that all actors should ‘start from the same line’ and abide by the same set of rules to be able to discern the winners and the losers.
Informality, as we see it, is the undefined area between the objective and the subjective described above. It is the continuum of actions, behaviours and attitudes that can influence a particular outcome in a given situation. Informality cannot overlap with full subjectivity, since it encompasses the presence of more than a single actor. Nor can it overlap with full impartiality or objectivity, since there is no margin of manoeuvre for individual choices. All the situations in between can be seen as being classifiable as informality. The problem with this definition is that it designates an area that is too wide to be the object of any study. The rest of this chapter will narrow down possible objects of study on informality.

**Informality as dramatizing conflicts between agency, institutionalism and the limits of the Weberian state**

For at least the past half-century, there has been an increased tendency to limit the effect of human agency on the most important decisions. Democracy, intended as the possibility for ordinary people to have their voice heard to the point that they influence their government's decisions, has often been combined with a ‘desire for objectivity’.

Objectivity, as we call it, is the claim of a public administration, a government or an institution that their decisions and policies represent what people really think, with no distortion due to misconduct of their staff, misinterpretation or any other kind of hindrance. Objectivity is the claim that an institution is working for the people, that it correctly interprets the desire of the people it is representing and, with minimal bias, does what people (indirectly) ask it to do. This is matched by the assumption that people will also meet their obligations towards that institution with minimal diversity in individual standards. As Scott put it, the role of the state is to uniformize and standardize (1998), and in this approach there is little room for individual, non-standard choices.

There are a number of scholars whose work implies that this is possible and that, taking as a model a number of successful countries, we can achieve this in the rest of the world. In our view, this rests on a number of assumptions that cannot be taken for granted.

First, even in the countries with the most formalized relations, informal relations persist. They may be limited to non-monetary transactions (Williams et al., 2011), but reciprocity and trust are a capital no one has been able to do without. Second, modernization and economic growth trends are dynamic, and they affect the level of informality of an environment. Economic crisis, and the subsequent unemployment,
low productivity and despair, results in an increase of informal activities. By the same token, any country demonstrates different levels of development in different regions or areas, or different opportunities offered to different strata of its population. Those inequalities can certainly be addressed, but structural reforms take time (Davies and Polese, 2015; Polese et al., 2014). What will people do while they await the results of these reforms? Development is not something acting linearly from A to B, but a series of processes that brings up a region or a segment of the population while often bringing down another one. Even the most modernized country cannot do without a minimal level of informality.

Third, formalization of certain activities may be nothing less than the legalization of socially acceptable practices. A patient who needs an urgent test in a Ukrainian hospital will pay some extra money to speed up its delivery. A patient who needs an urgent test in a UK hospital is likely to do the same and pay extra (Polese, 2008, 2015; Stepurko et al., 2013; Williams and Onoschenko, 2014). The difference is that the doctor in Ukraine will not declare the income, while the one in the United Kingdom will (as part of their private activity, often complementing their activity in a public hospital). If one is concerned only about making things legal, this is enough. However, such a practice simply perpetuates inequality as much as informal payments do.

Fourth, formalization of economic and social phenomena may lead to social isolation. Informal economic practices, it has been shown, are often embedded in social relationships, to the point that the boundary between the economic and the social relationship becomes blurred. The social function of informal practices is to create a network of trusted people who will help you not only materially, but also morally (in more than one sense), something that a state cannot possibly, or theoretically, achieve. Perfect information and perfect transparency are only ideal types, and mutual dependence is still a feature of human beings everywhere in the world. The average level of anomie and social integration issues are higher in countries that have succeeded in formalizing most of their economic and social life. This might point to the fact that people, \textit{de facto}, need a certain degree of informality in their everyday life.

This desire for informality, or the impossibility of getting rid of informality \textit{in toto} due to its deep embeddedness in a society, leads to the starting point of the book. In some cases, where other scholars see a transitional period, we argue that a transition drawn out over time becomes \textit{de facto} a different system, based on values other than the ones we know or accept. Informality makes us nervous because it is dynamic; we cannot always map informality, and it is often based on things we
do not (yet) understand. But that is not a reason to reject it or its function in the current world. Our next step would be to advocate for new models of local and national governance that acknowledge the role of informality and take advantage of it to secure better governance. Some examples are already available, one being the change from repressive to formalizing approaches when dealing with unrecorded transactions and shadow economies. Further to the 2008 crisis, it has been acknowledged that repression has a cost that formalizing a transaction does not have. Furthermore, the latter approach, encouraging formalization of transactions, achieves higher revenues for a state and is, from an economic point of view, more desirable. Development workers have long understood the role of local governance structures and try to involve them in decision-making in a two-way process that enhances commitment by participation in decisions.

The points above have informed the preparation of this volume, which we have conceived as a debate between disciplines and standpoints on the role of informality. We have not limited the variety of the contributions, and welcome any approach supporting or criticizing the points above. However, as a matter of consistency, we start from the points above: the chapters that make up this book engage and move forward this debate in the following ways.

**Book outline**

In Part I, ‘Thinking Informality and Development Writ Large and Small’, we begin with two more theoretical and macro-scale chapters, coupled with two more empirically grounded chapters that focus on the Baltics.

In Chapter 1, ‘Evaluating the Validity of the Contrasting Theoretical Perspectives towards the Informal Economy in Ukraine’, Colin Williams and Olga Onoschenko critically evaluate the contrasting theories of the informal economy that variously read this sector as a leftover of pre-capitalism, a by-product of a new emergent form of capitalism, a complement to formal employment or an alternative to the formal economy. The authors argue that, until now, there has been a common tendency either to universally privilege one theorization over the others, or to depict each as appropriate in places. Reporting data collected through face-to-face interviews in Ukraine, however, the finding is that only by combining these theories will a finer-grained and more comprehensive understanding of the complex and diverse nature of the informal economy be achieved. The chapter concludes by outlining a way of synthesizing these theorizations in order to develop
a more multi-layered and variegated understanding of the informal economy. What is required is to start mapping the diversity of the informal economic activities in post-socialist economies and the multifarious motives that underpin such activities. It is time to move beyond narrow conceptualizations of the informal economy and to open up this field of enquiry by recognizing and highlighting the multitude of activities that take place under the ‘umbrella’ concept of the informal economy.

In Chapter 2, ‘Institutional Transformation and Informality in Azerbaijan and Georgia’, Huseyn Aliyev examines the relationship between institutional transformation and the reliance on informality in post-Soviet Azerbaijan and Georgia. While the economic crises, the failure of democratization and numerous other problems of post-communism continued to affect the South Caucasus throughout the 1990s, encouraging the growth of the informal sector, little is known about the effects of the economic growth which occurred in both Azerbaijan and Georgia throughout the 2000s, or the comprehensive post-’Rose Revolution’ institutional reforms in Georgia, on the importance of informal institutions and practices. Drawing on findings of cross-national surveys and in-depth elite interviews, Aliyev demonstrates that the informal sector – in both Azerbaijan and Georgia – remains resilient to change.

In Chapter 3, ‘Fighting the Shadows: Lithuania’s Informal Workers and the Financial Crisis’, Ida Harboe Knudsen focuses on ‘shadow workers’ – people engaged in informal work. This had been a noticeable issue in Lithuania since independence in 1990, but in the light of the financial crisis it has been singled out as one of the country’s main problems. This has resulted in new and stricter laws as well as appeals to citizens’ civic duties and solidarity. Through ethnographic accounts of three very different shadow workers, the homeless, the construction worker and the businessman, this chapter analyses the situation of Lithuania’s shadow workers. Harboe Knudsen suggests that workers’ continued preference for pursuing informal work is based on a situation of social insecurity, marginalization and an outspoken cynicism towards the state. While informal working strategies are not a response to the financial crisis, the fight against the shadow workers has become a political response to the crisis.

In Chapter 4, ‘Formal Crutches for Broken Sociality’, Aet Annist takes a contrasting view on informality. Based on long-term fieldwork in post-Soviet centralized villages, Annist challenges the vision of the ubiquity of informal relations. She suggests that in the circumstances where
societal fabric has been severely torn, and people have become associated with new, unfamiliar and often shameful statuses, they withdraw from informal relations and lead a less sociable existence. Instead of informality, people’s relations become mediated and eased by formal structures that neutralize the charges triggered by new inequalities and shame. Studying such processes allows anthropologists to concentrate on various forms of human condition, including the limitations of its social aspects.

Part II, ‘Retheorizing Informality: Power, Culture, Kinship and History’, presents four empirical re-evaluations of ‘informal connections’ in detail from the Balkans and South Eastern Europe, building on as well as refining what is often referred to as the ‘blat’ literature, after Ledeneva’s work on Russians’ use of informal network relationships. Similarly localized yet comparable phenomena to blat – vruzki in Bulgaria and štela in Bosnia – are explored. In addition, chapters in this section introduce new frames of understanding informality: a Bourdieusian cultural capital and power relations analysis in Kosovo (Danielsson); a cultural and structural perspective that analyses informality through the collision between international actors’ democratizing agenda and locally embedded practices in Bosnia (Koutkova); the continuing salience of kinship nepotism in Bulgarian small business contacts that is both embedded and socially and economically problematic (Chavdarova); and a complementary case describing strategies of cooperation in rural Bulgaria, where informal relations between arendatori have become cemented in the agricultural sector (Giordano). In all these cases we see the socialist and pre-socialist past reflected in the present constellation of social and cultural forces inflecting informality.

In Chapter 5, ‘Field Notes on Informality’s Culture of Ubiquity: Recognition and Symbolic Power within Informal Economic Practices in Kosovo’, Anne Danielsson explores the issue of how power relations and domination may constitute everyday informal economic practices, at times with ambiguous effects. By aligning with an embedded understanding of informality, yet proceeding from a point where most established approaches to informality leave off, Danielsson suggests that the production and reproduction of everyday informal practices in post-socialist and post-conflict Kosovo may be alternatively analysed as implications of ‘symbolic power’, that is, the power of world-making and the imposition of a particular vision of the world that is taken for granted and undisputed by agents. In so doing, she problematizes the understanding of informal economies as spheres of welfare and coping in favour of an understanding of how informality may involve
differences and hierarchization as well as establishing and exacerbating socio-economic cleavages. Also, the chapter briefly reflects upon how scholars may approach the complex phenomenon of informality, and argues that any particular instance of informal exchange and interaction needs to be ‘culturally decoded’ through a power analysis.

In Chapter 6, ‘The Importance of Having štela: Reproduction of Informality in the Democratization Sector in Bosnia’, Karla Koutkova seeks to expand our thinking about informality and (post-)socialism beyond the fixed binary of ‘formal rules’ versus ‘informal practices, institutions and networks’ and beyond the association of informality with socialist or transitioning economies. While the categories of ‘formal’ versus ‘informal’ have informed much of current scholarship on informality, this chapter points out cases in which such rendering was analytically unhelpful. Furthermore, by bringing in various actors within the democratization sector in Bosnia, the argument departs from the notion that informality and informal practices were an inherent feature of Eastern European societies. Instead, it investigates how the language of štela helps to communicate concepts, ideas and identities to both local and international actors in Bosnia’s democratization and state-building sector.

In Chapter 7, ‘Perception vs. Practices: Nepotism in Small Businesses in Bulgaria’, Tanya Chavdarova explores the tension between the perception and practices of small entrepreneurs in Bulgaria with regard to nepotistic hiring and vruzki (connections). It argues that their experience of nepotistic hiring can be retold as a story of a collision between the impersonal market forces that dictate maximized economic action and the moral obligations ensuing from adherence to the principles of familism and friendship. The nuclear family succeeds in coping with this challenge. It runs the enterprise as a family business and thereby combines shared economic interests with taking care of the family. The emergence of a second generation of young entrepreneurs who enlist their parents in their businesses, however, sets the family in opposition to the business hierarchy. This lays a trap for the future development of small enterprises as family businesses. With regard to hiring relatives and friends, the analysis shows that the overall experience of small proprietors is definitely negative. It stems from the impossibility of keeping the rights ensuing from kinship/friendship apart from the rights involved in the economic activity. The result is a refusal to hire relatives and friends, regardless of whether or not they are qualified for a particular job. In the eyes of small proprietors, nepotism is rejected as a way of thinking and taking economic action. Nevertheless, powerful
factors continue to operate in society in support of nepotism. These are related to the pressure of the dominant socio-cultural concepts of kinship and friendship obligations, combined with economic factors such as unemployment and poverty. They are also related to the need to fight insecurity through personal trust. Accordingly, the de-legitimization of nepotism in entrepreneurial perceptions does not yet imply its abolition as an existing practice. The analysis is based on data from two sociological studies.

In Chapter 8, ‘The Importance of Personalized Relationships in Post-Socialist Rural Bulgaria: Informality and the Socio-economic Success of Capitalist Agricultural Entrepreneurs’, Christian Giordano focuses on trust/mistrust relations and strategies of cooperation in rural Bulgaria in the period between 1989 and 2013. Of specific significance in this frame is the analysis of agency, in which individuals possess mainly informal and personalized types of trust and cooperation relations (patronage, instrumental friendship, etc.) and are suspicious about any kind of formal and systemic trust. The analysis of the empirical materials collected in Dobrudzha (an agrarian region in northeast Bulgaria) reveals that there is a fracture between the legality and the legitimacy of formal state rules and bureaucratic institutions, which breeds mistrust towards anything non-personalized. From social actors’ viewpoint, informalities based on networks, as well as specific personal relationships, are ‘weapons of the weak’, that is, rational strategies needed both to neutralize the negative effects of the public power’s formal actions and to successfully infiltrate what is regarded as the inextricable ‘jungle’ of the political–bureaucratic apparatus.

Part III, ‘Informal Public Sectors and Welfare: State Intervention or Withdrawal?’ offers a final set of chapters, two of which offer contrasting portraits of informality, state welfare provision and welfare withdrawal in Ukraine. The first is based on survey data and attempts a policy-focused analysis of healthcare payments and the need for their eradication (Stepurko et al.). The second provides a contrasting portrait of state withdrawal and the more classic mode of informality as a coping mechanism among people living in and around the Chernobyl zone (Davies). In a contrasting chapter to Stepurko’s, an analytical overview of under-the-table payments in Chinese hospitals sees government-policy-led steps to eradicate informality as ineffective (Yang). The final chapter offers another perspective on the entwined nature of informality and the state, where informality in the Kyrgyz police is an increasingly prevalent phenomenon after the collapse of the Soviet Union (O’Shea).
In Chapter 9, ‘Informal Payments for Healthcare Services in Lithuania and Ukraine’, Tetiana Stepurko, Milena Pavlova, Irena Gryga, Liubove Murauskiene and Wim Groot describe the features of informal patient payments in two post-Soviet European countries, namely Lithuania and Ukraine. Transition countries, such as Lithuania and Ukraine, are characterized by a specific environment which seems to be conducive to ‘gifts’ exchange. The multi-sectoral causes of informal patient payments can be found in the socio-cultural, economic and labour, as well as political and regulatory, dimensions of the healthcare system. These dimensions are rather interwoven, leading jointly to the existence of a specific pattern of informal payments in the country. Empirical data suggest that these payments are widespread in Ukraine and somewhat lower in Lithuania. New moral principles of wealth distribution, goods and services access, consumption and provision have appeared during the transition period. This provides a basis for flourishing informal practices and a mixture of patient payments; for example, informal patient payments co-exist with quasi-formal patient payments and formal ones that become a barrier to accessing public services. At the same time, negative attitudes towards informal payments prevail in both countries, and about three-quarters of the respondents support the statement that informal patient payments should be eradicated.

In Chapter 10, ‘Nuclear Borders: Informally Negotiating the Chernobyl Exclusion Zone’, Thom Davies explores the everyday experience of living in the shadow of the Chernobyl nuclear disaster in Ukraine. Through long-term ethnographic research, the chapter reveals the informal methods and understandings of nuclear space that allow people to inhabit a landscape of extreme social, economic and environmental marginalization. The chapter finds that informal activity can be used as a means to circumvent the stealthy violence of state abandonment: a tactical method of asserting agency over spaces from which you have been excluded. By framing Chernobyl as a ‘space of exception’ (Agamben, 2005), we can begin to unravel the way that informal activities are used to circumvent and challenge people’s vulnerable status of post-atomic ‘bare life’ (Agamben, 1998). In doing so, the Exclusion Zone’s porous nuclear borders become contested and subverted, as people and materials informally pass in and out of this official nuclear geography. Though radiation is an ever-present and unseen reality in this post-atomic landscape, so too are the intricate and embedded uses of informal activities that challenge the official narratives of nuclear space.

In Chapter 11, ‘Governing Informal Payments in Healthcare: Lessons from China’, Jingqing Yang examines two major approaches that have
been employed to govern informal payments in the Chinese healthcare system – the disciplinary approach and the market approach. Exploring its complex structure and function, the chapter highlights the defects in the institutional design of the disciplinary approach and the limitations of its effect. The analysis of the market approach demonstrates that its damage to the medical profession and the patient is likely to exceed its benefits. The chapter argues that, although the Chinese government has expended great efforts to contain informal payments, due to institutional and policy inadequacies, the outcomes of the two approaches are far from satisfactory.

In Chapter 12, ‘Informal Economic Practices within the Kyrgyz Police (militsiia)’, Liam O’Shea presents a wide set of interview data that shows how informal economic activities are prevalent within the Kyrgyz police as a result of both long-standing embedded organizational practices and the economic crises which have afflicted Kyrgyzstan since the collapse of the Soviet Union. Contemporary informal economic practices are an expansion and extension of Soviet-era practices stemming from an overly hierarchical and patrimonial organizational structure. After independence, new informal practices emerged as the state's economic leverage over the police lessened dramatically. Lower-level police have misused their powers to extract economic resources in order to survive, while organized crime groups and corrupt elites have exerted economic pressure on police to perform various tasks, including resolving disputes in their favour. Informality within the Kyrgyz police can be seen as a response to dysfunctional politics, as ordinary police and citizens use informal means to circumnavigate an overly harsh and corrupt criminal justice system. At the same time, it is a contributor to the system, as informal economic practices enable those with resources to escape prosecution and use the system for their own individual ends.

Conclusions

While the goal of this book is to provide a wide range of empirical case studies, each of which focuses on a set of informal practices in a number of post-socialist countries, taken as a whole it illustrates the ubiquity of informal subversions of rules, contract- and law-based social and economic interaction in post-socialist states, and its significance for the lives of citizens in these countries. The cases here show that, while informality is embedded in the social relations of countries exiting socialism after 1989–1991, there are a host of other factors that ensure its survival as a key factor in understanding these societies and political economies. These can be summarized in four points:
Informality as social ‘solidarity’ after neoliberal reform: the informal as a response to precarity. Authors draw in particular on the more recent work on domesticating neoliberalism and responses to neoliberal reform in the discipline of geography in addressing this perspective (Kingfisher and Maskovsky, 2008; Round and Williams, 2010; Stenning et al., 2010).

Informality practices as a response to botched political/economic reform: informality as a ‘working solution’ among street-level bureaucrats and above, and entrepreneurs, to insoluble conflicts between local governance practices and the wider state/external actors (EU acquis, presidential decrees, etc.). This area speaks and responds to the literature on corruption in particular (Rose-Ackerman, 2010), and challenges normative perspectives that the solution is more administrative/legal reform. This approach draws on the work of Carothers (2002) and Granovetter (2007) in particular.

Informality as embedded in spatial/cultural/moral lay normativity (Sayer, 2005): over and above economistic reasoning (rational actor theories) for participation in informality. A neglected interpretive framework for grasping the ubiquity of informality is to view participants’ reasoning as ‘normal’, everyday. This approach is also informed by the rich literature on informality within ethnomethodology and allied interactionalist interpretations (Misztal, 2000).

Finally, relating to all the above points, our authors present a ‘critical realist’ account of informality that is situated firmly within ethnographically based validity stemming from in-depth interviews and observation – this means that they do not polemically argue for a ‘winners and losers’ approach to informality, but indicate that informality itself is a ‘case study’ of the alternative pathway in terms of the socio-economic and political development of the non-West (Ó Beacháin et al., 2012).

References


Part I

Thinking Informality and Development Writ Large and Small
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Evaluating the Validity of the Contrasting Theoretical Perspectives towards the Informal Economy in Ukraine

Colin C. Williams and Olga Onoshchenko

Introduction

To date, research on the informal economy in Ukraine has largely focused on measuring its size rather than exploring the nature and motives of people engaged in the informal economy. Only a few authors have addressed this latter question (Dzvinka, 2002; Thiessen, 1997; Williams and Round, 2008; Williams et al., 2011a,b). Moreover, even fewer have sought to evaluate the validity of the contrasting theorizations of the informal economy in relation to Ukraine (Williams, 2007; Williams and Round, 2008; Williams et al., 2011a) and none have carried out in-depth qualitative analysis.

Lack of qualitative research on the informal economy is not the only gap in knowledge in this field. The other gaps include a lack of studies of particular regions, not enough empirical evidence for theoretical conclusions, and no consensus on the theorization of the informal economy. Therefore, the objective of this chapter is to analyse the extent and nature of informal work in an urban area of Ukraine in order to evaluate existing theorizations of the informal economy.

Contrasting theorizations of the relationship between formal and informal work

Williams and Round (2008) have produced a classification of existing theorizations of the informal economy. They distinguish four different
Theoretical approaches that consider informal employment as a residue; a by-product of the formal economy; a complement to the formal economy; and an alternative to the formal economy. They suggest, however, that universal theorizations are not possible due to the diverse nature of the informal economy. This can be viewed as the fifth, post-structuralist perspective.

**Residue theory (dualistic approach)**

The first perspective, residue theory, is based on the assumption that the informal economy is a leftover from an earlier mode of production and consumption and will disappear as a result of economic advancement. This theory corresponds with Derrida’s (1967) theory of binary oppositions, where the two elements are in a hierarchical relationship with each other: one is considered superordinate, while the other is subordinate. Informality is subordinate and considered a negative phenomenon, which is associated with underdevelopment, while the formal economy is superordinate, positive and connected with progress (Williams, 2014; Williams and Round, 2008).

In the middle of the last century, there was a belief that industrialization would pull workers in developing countries from the unproductive informal sector towards a modern, industrial formal sector (Moser, 1977; Willman-Navarro, 2008). This theory stemmed from ‘the experience of rebuilding Europe and Japan following World War II, and the expansion of industrialization in the United States and Britain’ (Willman-Navarro, 2008: 369). However, in the 1970s, the informal sector around the world was still growing and these expectations were not borne out. The empirical data showed that development policies were slow to trickle down and that the formal economy could not absorb the large pool of unemployed (Willman-Navarro, 2008).

However, the actual growth of the informal economy is not the only reason to criticize the residue theory. Potts (2008) sees the main problem of the dualistic conceptualizations (residue theory) of less developed economies to be the fallacious view of ‘disconnection’ between the two sectors, and argues that the residue theory ‘has descriptive value but is dangerously misleading if translated into policy that is founded on an idea that the sectors are functionally separate’ (Potts, 2008: 152–153).

On this issue of indisputable fallacies, the view of the informal economy as a residue has ‘resurfaced’ in a vast range of studies. For example, Chen et al. (2004) argue that the residue theory has to be rethought due to the fact the informal economy has not only grown but also emerged in unexpected places and in various forms. They summarize the
main differences between the ‘old’ and ‘new’ concepts of the informal economy (see Table 1.1).

Indeed, this ‘old’ view, or the formalization thesis, remains widespread and commonly accepted today, although a growing literature refutes this theory. The reason for its defectiveness is seen in ‘a widespread recognition that the informal economy is not some weak and disappearing realm but strong, persistent and even growing in the contemporary global economy’ (Williams and Round, 2007: 32).

**By-product theory (structuralist approach)**

The second theory, the by-product/globalization/marginalization approach, like the residue theory, represents the informal economy negatively, but, in contrast to the former, views this sphere as an integral part of the formal economy. The informal economy is here seen as emerging in late capitalism as a result of an increasingly deregulated global economy. Here, marginalized populations engage in exploitative work conditions in the informal economy as a ‘survival strategy’ in the absence of alternative means of livelihood. These first two theories tend to focus upon waged informal employment and also necessity-driven informal self-employment (Williams and Round, 2008).

The International Labour Office (2007), adopting a by-product approach, negatively depicts informal work and promotes formal employment as decent and progressive. For example, in sub-Saharan Africa, the ILO adopts the policy of ‘progressive formalization of the informal economy’. In Asia, the ILO (2007) similarly argues that informal workers are ‘unrecognized, unprotected and lack access to basic services and rights’. As the ILO (2007: 18) puts it,

> The main benefit of formalization should be considered in terms of increased economic and social security that builds a platform for investment and enables informal operators to take a longer perspective on their future than day-to-day survival allows.

Another example of the by-product theory can be found in Williams and Round (2008). They studied the work practices of households in Ukraine and found that the formalization thesis is not applicable. Instead, informal work in Ukraine can best be described using a by-product approach, due to two main findings. First, over a quarter of households mainly rely on the informal economy. This shows that the informal sector is not a disappearing residue from pre-capitalism. Second, for those engaged in the informal work the main motive is to ‘eke out a living’. However, the
Table 1.1  Old and new views of the informal economy

<table>
<thead>
<tr>
<th>The old view</th>
<th>The new view</th>
</tr>
</thead>
<tbody>
<tr>
<td>The informal sector is the traditional economy that will wither away and die with modern, industrial growth.</td>
<td>The informal economy is ‘here to stay’ and expanding with modern, industrial growth.</td>
</tr>
<tr>
<td>It is only marginally productive.</td>
<td>It is a major provider of employment, goods and services for lower-income groups.</td>
</tr>
<tr>
<td>It exists separately from the formal economy.</td>
<td>It contributes a significant share of GDP.</td>
</tr>
<tr>
<td>It represents a reserve pool of surplus labour.</td>
<td>It is linked to the formal economy – it produces for, trades with, distributes for and provides services to the formal economy.</td>
</tr>
<tr>
<td>It is comprised mostly of street traders and very small-scale producers.</td>
<td>Much of the recent rise in informal employment is due to the decline in formal employment or to the informalization of previously formal employment relationships.</td>
</tr>
<tr>
<td>Most of those in the sector are entrepreneurs who run illegal and unregistered enterprises in order to avoid regulation and taxation.</td>
<td>It is made up of a wide range of informal occupations – both ‘resilient old forms’ such as casual day labour in construction and agriculture as well as ‘emerging new forms’ such as temporary and part-time jobs plus homework for high-tech industries.</td>
</tr>
<tr>
<td>Work in the informal economy is comprised mostly of survival activities and thus is not a subject for economic policy.</td>
<td>It is made up of non-standard wage workers as well as entrepreneurs and self-employed persons producing legal goods and services, albeit through irregular or unregulated means. Most entrepreneurs and the self-employed are amenable to, and would welcome, efforts to reduce barriers to registration and related transaction costs and to increase benefits from regulation; and most informal wage workers would welcome more stable jobs and workers’ rights.</td>
</tr>
</tbody>
</table>

Source: Revised version of Chen et al. (2004: 20).
commentators argue that the by-product thesis is not the most accurate approach to depict Ukrainian reality (although it is the closest). They argue that the informal economy in Ukraine is, rather, ‘a core integral component of contemporary work organization’ (Williams and Round, 2007: 38). This is explained by the fact that the majority of those in the formal economy rely heavily on the informal economy to secure their livelihood.

One more example of the by-product approach is the work of Smith (2006), who considers the informal economy as ‘constitutive outside’ of neoliberalism. The author also employs the example of post-socialist countries in the transition period. He sees the informal economy as ‘a response to reductions in social benefits and as a way in which poor households sustain livelihoods in the face of falling incomes’ (Smith, 2006: 11). This correlates with the ‘survival strategy’ theory. However, the author also mentions the reciprocal nature of non-market informal labour, when informal activities imply being part of a community. Here, Smith adheres to the post-structuralist view (discussed below) of the informal ‘as part of a diverse economy of post-socialism constituted by a range of forces, not only those corresponding to capitalist induced austerity’ and suggests that informal practices cannot be seen just ‘as the “survival strategies” of the poor, but as complex cultural and socio-economic phenomena’ (Smith, 2009: 53). Some informal economic activities are not just profit earning; they have a particular social and cultural significance for the participants – it is the way of being a valuable member of your community; ‘the “glue” that enables “held togetherness” of societies in traumatic times’ (Smith, 2009: 62).

Finally, Varnaliy (2007) portrays the informal economy in Ukraine as having a negative impact on all social-economic processes, arguing that this sector constantly expands connections with the legal one, competes with the latter and supplants it. On the basis of this depiction of the informal economy as a negative phenomenon and as intertwined with the formal, one can assume that here the informal economy is also considered as a by-product of the formal.

Complementary theory

In the third theory, the relationship between the formal and informal economies is complementary, with both growing and declining in tandem, rather than substitutive as in the by-product approach. Nevertheless, as with the by-product approach, both spheres are again seen as intertwined with each other, albeit in a mutually iterative
relationship rather than one arising as a consequence of the other. Moreover, although inclusion into the formal economy is retained as a ‘path to progress’, the informal economy is viewed more positively than in the residue and by-product approaches. Economic development implies not only formal economy development, but also informal development. Both economies are growing and declining in tandem, and those who are better off have more opportunities to generate informal income, while deprived households are less involved in the informal economy (Williams and Round, 2008).

As Williams and Round (2008) argue with reference to Ukraine, higher-income households give and receive some 41% more paid favours than the average household, while the lowest-income households account for just half of the paid favours of the average household. This displays ‘how this informal work reinforces the disparities produced in the formal economy’ (Williams and Round, 2008: 382). Paid favours here include domestic tasks conducted for kin, friends and neighbours. This work is done not only for profit motives, but also to help close people and/or reinforce social ties. A study of English localities reveals a similar situation (Williams, 2010). Here, own-account work for closer social relations can take various forms, from profit-motivated informal self-employment undertaken for more distant acquaintances to work performed solely for social motives.

Another piece of evidence supporting this theorization of the informal economy as a complement to the formal economy is provided by a study of rural Pennsylvania (Slack and Jensen, 2010). This study refutes common assumptions that formal and informal economies are substitutes: in other words, that informal work is a survival strategy and participation in the informal economy is inversely related to family income. Households with members in stable, well-paid jobs are more likely to participate in the informal economy (e.g. entrepreneurial moonlighting) than those with low-paid household members. This implies that ‘good’ jobs provide more opportunities for on-the-side earnings and informal work is a complement to formal work. In addition, Jensen et al. (1995) find that, although the prevalence of the informal activities declines with rising income, households with the lowest incomes are the least likely to report informal activities. These findings, therefore, correspond with the informal-as-complement theory. As Dzvinka (2002) similarly argues, the informal economy does not have an adverse effect on the formal economy. Instead, they are ‘complements’ rather than ‘substitutes’. Adam and Ginsburgh (1985) are in agreement when studying the Belgian economy.
Alternative theory

The fourth theory, which views the informal economy as an alternative to the formal economy, is advocated mostly by neoliberals (De Soto, 1989; Maloney, 2003; Schneider and Enste, 2000). They consider over-regulation of the economy to be very negative, and argue that the real problem is not so much informality as formality. The solution is to liberate the labour market from intervention, and informal employment exemplifies how formal employment could be organized if it were deregulated. In this approach, which is more commonly applied to a third world context, the normative hierarchy of the residue and by-product discourses is inverted. The conventional normative portrayal of economic development as a process of formalization is countered with an alternative inverted view of development as a process of informalization. In this approach, opportunity-driven informal self-employment is discussed. This consists mainly of micro-entrepreneurs who prefer informality due to the cost, time and effort required by registration (Williams and Round, 2008).

For example, Cross (2000) argues that informal sector takes over where the formal sector fails. This is the ‘micro-business’ sector that absorbs part of increased unemployment, tempering the negative social effects of economic downturn. Therefore, the view of the informal sector as ‘a bad copy of the formal’ is seen to be erroneous. Furthermore, Cross (2000) criticizes the projects for informal micro-business development. He argues that imposing formal rules on informal businesses undermines their success factors. ‘From engaging in a flexible and evolving economic activity focused on family subsistence needs…, they are sucked into a rigid set of rules that they can barely understand…’ (Cross, 2000: 44). It is further suggested that, in order to encourage entrepreneurship, micro-firms should be allowed to remain unofficial, at least until there is more sense in becoming formal in order to protect their capital.

Maloney (2003), while criticizing dualism, compares informal work and self-employment in micro-enterprises with official employment and presents alternative views of informality on the basis of a survey conducted in Latin America. The survey shows that the core of informality in Latin America is self-employment, which is preferred due to dignity/prestige and autonomy/flexibility/comfort rather than due to necessity. The author supports this theory, concluding that ‘it may be the attractiveness of informal self-employment that causes dualism rather than a segmented market causing informality’ (Maloney, 2003: 4).
Moreover, the Latin countries’ informal sector is seen here as a ‘healthy, voluntary small firm sector’ (2003: 14).

Williams et al. (2011) support the alternative theory, using the example of Ukrainian own-account workers. In order to define which theory is more applicable to this type of worker, they analyse the motives for being informal in terms of voluntariness. Their study reveals that the informal self-employed can be divided into three groups: those who voluntarily exit the formal sector (57% of all self-employed), those who are excluded from the formal sector (20%) and those who have both exit and exclusion reasons for being informal (23%). Who, then, are those self-employed exiting the formal economy? They are mostly the higher-income informal self-employed driven by the extra-earnings opportunities from their formal job. They include, for example, plumbers, electricians, builders and even lawyers whose motive is just to ‘top up’ their formal incomes. The other major motive for performing informal work is to avoid the informal taxation and administrative corruption that are characteristic to Ukraine. They perceive informality positively due to the belief that the taxes they pay are being stolen by the officials.

**Post-structuralist theory**

Analysing these four theories, Williams and Round (2008: 383–384) conclude that ‘each theory is talking about very different forms of informal employment (e.g. neo-liberals largely discuss informal self-employment while by-product theorists discuss informal waged employment)’. They then assert that, ‘although evidence can be found to support nearly all these theories by looking at specific types of informal employment, no one theory accurately depicts informal employment as a whole’. Indeed, one might see this approach of Williams and Round (2008) and Chen et al. (2004) as a fifth perspective: what might be termed a post-structuralist perspective. The term ‘post-structuralist’ is used here to recognize the economic plurality and diversity inherent in the ‘economy’ writ large. The literature on this approach is briefly discussed below.

First of all, there is a ‘diverse economies’ perspective that is grounded in the work of Gibson-Graham (2008). This highlights the huge variety of economic transactions, labour practices and economic organizations in societies. Indeed, Pavlovskaya (2004) bases her study of post-Soviet households in Moscow on the post-structuralist concept of diverse economies. She analyses three theoretical approaches in terms of the existence of capitalist/non-capitalist forms of economy in capitalist
society. First, she argues for the existence of multiple economic forms within capitalism. This approach is post-structuralist. In the frame of this theory, the post-Soviet economy may be identified ‘as consisting of multiple economies instead of its generalized characterization as “post-socialist” or “market-based”’ (Pavlovskaya, 2004: 334). Second, she claims the existence of non-capitalist forms of labour in modern capitalist societies. And, finally, she argues that mixed capitalist and non-capitalist economic institutions can exist together when socialism and capitalism are not mutually exclusive.

The similar, diverse (multi-coloured) economies concept is developed in Smith and Stenning (2006: 1), who argue that ‘capitalist development in post-socialist societies should be seen as one part of a diverse economy’ and that the informal economy is articulated with other types of economies in different geographies – both local and global. Speaking about informal work, the authors connect it with ‘forced flexibilization’ of workforce and emergence of ‘portfolio workers’ caused by the retrenchment of formal labour markets (i.e. they adopt a by-product approach). Being unemployed or employed part-time, the workers had to find new sources of income (mostly self-employment), often several at a time, in order to provide a decent standard of living. They suggest, however, that informal work conducted for family members is not always financially motivated, and that affluent households have more opportunities to receive informal income and therefore are even more engaged in informal activities than less well-off households. Poor households usually engage in ‘defensive’ informal practices, while the informality of the ‘elite’ is ‘entrepreneurial’ in their practices.

Supporting the views of post-structuralism, Chen (2007: 5) finds that ‘informal enterprises include not only survival activities but also stable enterprises and dynamic growing businesses’. She asserts that each theory suits different types of informal work. Based on these assertions, she divides informal employment into two groups. The first group comprises self-employment in informal enterprises. These may be employers or own-account operators (both heads of family enterprises and single-person operators) or unpaid family workers. The second group comprises wage employment in informal jobs without social benefits and protection.

Mandybura (1998) reviews different shades of the informal economy: from bloody black (criminal activity) to light-grey (mostly informal activity of households); and different timeframes: from the 1970s in the Soviet era to the first decade of independence. The author explains the light-grey economy as a positive phenomenon, which helps people to
survive and achieve satisfactory levels of income during the transition period. In particular, he mentions that food production for household consumption on domestic plots of land is of great importance for households’ survival in developing and transition countries. However, as mentioned above, Smith (2009) shows that these agricultural activities were not a prerogative of the poorest population, according to research in Russia and Slovakia in 2002. According to Mandybura, one more positive impact of these light-grey activities on the economy is that they enforced ‘marketization’ of the transitive economy. The author does not describe the interaction between the light-grey and white economies (his theoretical implications concern mostly the illegal ‘black’ economy). He argues that each component of the informal economy should be considered individually.

To conclude, among the five perspectives discussed above, the most popular and up-to-date is the post-structuralist perspective, which can also be called a ‘diverse economies’ approach because it recognizes the plurality of economic practices in post-socialist societies and the fact that capitalism is not yet hegemonic. However, there is no consensus yet about the theorization of the informal economy. Commentators persist who advocate each and every one of these rival theoretical perspectives.

Methodology

To evaluate these rival theorizations, this chapter reports data collected from 200 semi-structured face-to-face interviews conducted in Mykolayiv in 2009. The interviews included both closed- and open-ended questions and were analysed both qualitatively and quantitatively. The unit of analysis in this research is the household. Both the supply and demand sides of informal work are examined, which allows comparisons to be made between them (see Williams and Martinez, 2014a). The questions about the demand side are asked first due to their less sensitive nature, because consuming informal services is viewed as more socially acceptable and is also less illegal (Williams and Ram, 2009). Afterwards, the supply-side questions are posed. Such a gradual approach is applied throughout the whole questionnaire: starting with the less sensitive questions on the general socio-demographic background of the household members and the repairs done in the household, and ending with second employment and the reasons for being unregistered. Such a gradual approach to posing personal questions detected a higher amount of informal activity than the direct approach in a study comparing different techniques in
the Netherlands (Kazemier and van Eck, 1992, cited in Williams and Ram, 2009).

The survey is carried out on a local population sample. The locality used for the data collection is Mykolayiv, a city in the South of Ukraine. The city was chosen as an average one (for example, Kyiv, the capital, might not be representative as a whole of Ukraine because the gap between Kyiv and the rest of Ukraine in terms of income and development levels is very large) and is also the home town of one of the authors.

A critical evaluation of the validity of the contrasting theoretical perspectives towards informal work

Here, the findings regarding the participation of households in informal work will be reported. The data will be quantitatively and qualitatively analysed to evaluate critically the validity of the four perspectives when explaining informal work in Mykolayiv.

Residue theory
To evaluate the validity of residue theory with regard to Mykolayiv, the extent of the informal economy in this locality can be analysed. When the 200 survey participants were asked about the primary and secondary means of livelihood upon which they relied, 11% of participants named their cash-in-hand job as their primary means of livelihood and 30.5% as the second most important means of livelihood, totalling 41.5% of households. Well under half relied on formal employment as their primary means of livelihood. Based on these results, the residue theory could be refuted in terms of its applicability to Mykolayiv. The economy in this city is not formalized and, moreover, informality is rife in Ukraine and there is no evidence of its disappearing. The informal economy here, therefore, cannot be a ‘residue’. However, this argument has a few limitations.

Even if the percentage of informality is very high, could this be a residue of even higher informality earlier? To answer this question, an easy example – informal hairdressing services in the past and at present – can be considered. The services sector, and specifically hairdressing services, was underdeveloped in Ukraine in Soviet times due to the state system and in the 1990s due to the lack of demand from the deprived population. Although there is no data on informal work in this sphere 10 or 20 years ago, today the survey shows that 69% of hairdressing services were performed informally. During the last two decades, the
personal services sector has developed greatly in Ukraine, suggesting that this figure may be lower than before.

There is no evidence, therefore, regarding the extent of informality in Ukraine in earlier decades. Thus, the current 40% level of informality may be far below what it was earlier, especially during the early years of the transition process. As such, it is wholly possible to assert that a residue theory might be considered as valid in Ukraine. Take, for example, medical services. Although almost all doctors in Ukraine are officially employed, they can all take cash informally for a consultation in public hospitals (Morris and Polese, 2014). This is a generally accepted and well-known practice in public hospitals, where medical treatment is officially (only) free. The survey shows that more than half of medical services are rewarded with cash or a gift. Those in private hospitals, where the service is paid for to a cashier, usually do not receive this unofficial money. More private hospitals have been opening since the turn of the millennium, attracting more doctors and patients from the public sector. This leads one to concede that, although the income of doctors in public hospitals is partially informal, informality in this sector is in decline due to the development of private medical practices and hospitals.

To conclude, as there is no data available about the level of informality before the turn of the millennium, there is not enough evidence to reject the residue theory. However, the basic fact that the informal economy is not some minor practice but a core part of everyday coping tactics does suggest that the informal economy is more than some mere residue in this city. Although it is not known whether it is growing, staying the same or declining, the informal economy is not some backwater or marginal activity existing in a few minor enclaves of this urban economy. It is part of the mainstream economy.

**By-product theory**

To test the by-product theory with regard to Mykolayiv, the following questions can be asked. Who are the people involved in the informal economy? Are they deprived households striving to get by and performing multiple jobs as a survival strategy? First, the finding is that lower-income households are more likely to depend on cash-in-hand work. There is a significant association between income level and households’ sources of income (Chi-square = 47.197, p < 0.01). Table 1.2 reveals that for 90% of the highest-income households a regular job is the most important source of income, and only for 4% are cash-in-hand earnings the most important. For the lowest-income households, earnings from a regular job are still more important than cash-in-hand
Table 1.2 The most important activities for the standard of living of the household, by household income

<table>
<thead>
<tr>
<th>Total monthly income (hryvnias)</th>
<th>Our own self-provisioning</th>
<th>What we get as favours/the help from friends and relatives</th>
<th>Cash-in-hand earnings</th>
<th>Earnings from regular job</th>
<th>Pension/unemployment benefits</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt;2,000</td>
<td>2%</td>
<td>4%</td>
<td>12%</td>
<td>42%</td>
<td>40%</td>
<td>100%</td>
</tr>
<tr>
<td>2,000–3,000</td>
<td>6%</td>
<td>0%</td>
<td>23%</td>
<td>57%</td>
<td>13%</td>
<td>100%</td>
</tr>
<tr>
<td>3,000–5,000</td>
<td>2%</td>
<td>2%</td>
<td>6%</td>
<td>83%</td>
<td>8%</td>
<td>100%</td>
</tr>
<tr>
<td>&gt;5,000</td>
<td>2%</td>
<td>2%</td>
<td>4%</td>
<td>90%</td>
<td>2%</td>
<td>100%</td>
</tr>
</tbody>
</table>

earnings: 12% rated cash-in-hand earnings as most important for the standard of living of their family, and 42% earnings from a regular job. However, this data should be treated with caution, as for some participants their ‘regular job’ does not necessarily mean their formal job. There is also the issue that many formal employees in Ukraine receive from their formal employer not only a regular declared wage but also an undeclared additional ‘envelope wage’ (Williams, 2007). Table 1.3 shows that cash-in-hand earnings and earnings from their regular job, as the second most important type of activity generating household income, do not significantly differ between different income-level households. Therefore, it would be erroneous to assert that by-product theory is applicable to the whole Ukrainian population.

The above statement, that informality is more characteristic of lower-income populations, is supported by Table 1.4. This demonstrates that participants in higher household income groups are less involved in informal activities. For example, only 26% of members of households with income more than 5,000 hryvnias regularly work informally, while 62% of workers from the least well-off households are informal. There is a significant association between income and participation in informal activities (Chi-square = 17.923, p < 0.01).

Is participation in the informal economy a result of exit or exclusion?

To identify whether the participants have engaged in informal work as a result of exit from the formal economy (voluntary) or as a result
Table 1.3  The second most important activities for the standard of living of the household, by household income

<table>
<thead>
<tr>
<th>Total monthly income (hryvnias)</th>
<th>Our own self-provisioning</th>
<th>What we get as favours/the help from friends and relatives</th>
<th>Cash-in-hand earnings</th>
<th>Earnings from regular job</th>
<th>Pension/unemployment benefits</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt;2,000</td>
<td>11%</td>
<td>37%</td>
<td>33%</td>
<td>4%</td>
<td>9%</td>
<td>7%</td>
</tr>
<tr>
<td>2,000–3,000</td>
<td>19%</td>
<td>23%</td>
<td>37%</td>
<td>7%</td>
<td>9%</td>
<td>5%</td>
</tr>
<tr>
<td>3,000–5,000</td>
<td>10%</td>
<td>25%</td>
<td>31%</td>
<td>8%</td>
<td>19%</td>
<td>6%</td>
</tr>
<tr>
<td>&gt;5,000</td>
<td>0%</td>
<td>2%</td>
<td>35%</td>
<td>5%</td>
<td>23%</td>
<td>35%</td>
</tr>
</tbody>
</table>

Table 1.4  Participation in the informal economy, by level of income groups

<table>
<thead>
<tr>
<th>Total monthly income (hryvnias)</th>
<th>Yes</th>
<th>No</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt;2,000</td>
<td>62%</td>
<td>39%</td>
<td>100%</td>
</tr>
<tr>
<td>2,000–3,000</td>
<td>61%</td>
<td>39%</td>
<td>100%</td>
</tr>
<tr>
<td>3,000–5,000</td>
<td>34%</td>
<td>66%</td>
<td>100%</td>
</tr>
<tr>
<td>&gt;5,000</td>
<td>26%</td>
<td>74%</td>
<td>100%</td>
</tr>
</tbody>
</table>

of exclusion (involuntary), they were asked an open-ended question: ‘Why do you register/not register your activity?’ The answers given to the question are multifarious; however, the rationales for not registering the activity might be clustered, based on their answers, into the following groups:

(a) The employer does not want to register me (‘it is unprofitable for the employer’).
(b) I do not want to register (‘the taxes will not be used according to the intended purpose’, ‘taxes are too high and it is unprofitable to pay them’, ‘it is impossible to get registered and then run official business without a bribe’).
(c) There is no need to register (‘the activity is occasional’, ‘income from this activity is insignificant’).

Rationale (a) is indicative of exclusion of the respondent from the official economy and rationales (b) and (c) give evidence of exiting the formal domain by the respondent. For example, a salesperson, a 46–55-year-old woman, answered the question about the reasons for not registering her activity as follows:

This was unprofitable for my employer [to pay full wage officially]. At that time I could not find any other job and had to agree with his terms.

This answer relates to rationale (a), as it was the employer’s preference not to register the participant, and she had no choice but to be employed unofficially. Therefore, this answer fits the ‘exclusion’ category. A worker in the services sector, a woman aged 26–35 years, responded:

My unofficial activity does not bring significant income and this is not our main source of income. Being registered is unprofitable for me as the taxes are too high for the amount of money I get for this job…

Obviously, in this case, the participant exits the formal economy out of choice, fitting into the group (b) rationale and, accordingly, the ‘exit’ category. Meanwhile, a student aged 16–25 years said:

I am not officially registered because I work occasionally, on some weekends and holidays, so there is no sense in getting registered.

Here the participant does not see any need to become formal (rationale (c)) and fits into the ‘exit’ category as well. Some 64 out of 80 participants (80%) involved in informal activity voice voluntary ‘exit’ rationales, and only 16 (20%) participating in the informal economy voice exclusion rationales. The clear suggestion is that the exclusion explanation of by-product theory does not cover the majority of the population engaged in the informal economy.

Who are those excluded from the formal economy?

In order to answer this question, we here examine, first, gender variations and, second, income variations. Table 1.5 examines the
Table 1.5  Exit or exclusion from formal economy, by gender

<table>
<thead>
<tr>
<th></th>
<th>Respondent’s gender</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Men</td>
<td>Women</td>
</tr>
<tr>
<td>If the respondent performs his/her main activity informally, is it exit or exclusion?</td>
<td>Exit</td>
<td>85%</td>
</tr>
<tr>
<td></td>
<td>Exclusion</td>
<td>15%</td>
</tr>
<tr>
<td>Total</td>
<td>100%</td>
<td>100%</td>
</tr>
</tbody>
</table>

Table 1.6  Exit or exclusion from formal economy, by household income group

<table>
<thead>
<tr>
<th>Total monthly income (hryvnias)</th>
<th>&lt;2,000</th>
<th>2,000–3,000</th>
<th>3,000–5,000</th>
<th>&gt;5,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Does the respondent participate in informal work?</td>
<td>Yes</td>
<td>67%</td>
<td>86%</td>
<td>81%</td>
</tr>
<tr>
<td></td>
<td>No</td>
<td>33%</td>
<td>14%</td>
<td>19%</td>
</tr>
<tr>
<td>Total</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
</tr>
</tbody>
</table>

gender differences. This reveals that there is no association between the rationales for informality and gender (Chi-square = 0.67, p > 0.05). Men and women participate in the informal economy for the various rationales in very similar proportions: the informal work of 85% of men and 77% of women is a result of ‘exit’, whereas 15% of men and 23% of women engage in it as a result of exclusion from declared work.

Turning to the relationship between household income and the rationales for participating in the informal economy, and contrary to what might be expected, Table 1.6 reveals that there is again no association (Chi-square = 4.275, p > 0.05). It is not the case, for example, that lower-income households are significantly more likely to participate for exclusion rationales.

As can be seen, therefore, there is no clear-cut pattern regarding who engages in the informal economy for exit and exclusion rationales. There is, nevertheless, a statistically significant association between the economic status of people and their reasons for participation in the informal economy. Those excluded from the formal labour market
(e.g. students, retired and unemployed) are significantly more likely to participate for exclusion rationales. As a retired man stated,

I and my wife used to work at the plant during the Soviet times. Now the plant is dead. And the pension is scanty and even not enough to pay for utilities. We tried to obtain subsidies, but were refused because of extra living space. But we have been living in our flat all our life and do not want to move to a smaller one. Therefore we try to get informal job from private entrepreneurs – selling water and ice-cream in summer.

Another participant, a retired woman who works as a cleaner in a state institution, asserted:

I work officially there. My salary is 700 hryvni. Friends helped me to make some money on the side in the shop. The owner of the shop does not want to register me officially because it is unprofitable for him: he pays me 400 hryvni while monthly contributions to the pension fund only would be 269 hryvni.

An unemployed man aged 46–55 years, who gets by due to casual informal earnings, said:

I worked in the plant for a long time. After the bankruptcy of the plant all my connections are lost. Now I have to get by somehow, working at different temporary jobs, because after 50 years of age and without connections nobody wants to employ you full-time and formally.

An unemployed woman aged 46–55 years reported a similar problem:

Nobody in our family works officially. My sons cannot find permanent job after they finished technical school. And it is very difficult to find permanent job for women after 40 and men after 50 years.

To conclude, the by-product theory of the informal economy in Mykolayiv is more prominent among low-paid salaried workers, whose employers seek to decrease costs (probably also trying to survive) by not registering some of their employees and saving on contributions to social security funds. These employees would rather be registered officially, but have no other way out than to agree with the employers’
terms. However, the theory does not apply to the self-employed and waged-employed voluntarily exiting the formal economy.

**Alternative theory**

The theory of the informal economy as an alternative to the formal economy discusses mainly opportunity-driven informal self-employment. However, there are cases when salaried employees choose informality even when they have an opportunity to be registered employed. Nevertheless, in order to determine whether these unregistered workers exiting the formal economy fit the alternative theory, deeper analysis is needed. Here, therefore, we analyse a range of different types of informal worker to analyse the validity of the exit rationales of the alternative theorization of the informal economy.

**Fully informal self-employed**

Despite the common view that the informal self-employed who exit the formal economy are exemplars of the alternative theory, this survey reveals that these informal self-employed are only partially informal. Most of them work officially as well as engaging in informal self-employment. In contrast, the totally informal self-employed have no official second job. Such self-employed are opportunity driven, show distrust of the government and state social benefits system, and see no point in paying taxes. They are afraid of the time, money and effort involved in registration procedures and subsequent communication with local authorities (fire safety officers, police, tax inspection, sanitary centre), including paying bribes and establishing connections with ‘useful people’. As a young woman employed in the services sector stated,

> I do not officially register my activity because my future pension depends little on it, I do not see any benefits, any use for me in being registered. The taxes people pay go to the pockets of the government. I cannot see anything is done [by the government] for improving our welfare.

Another participant, a builder aged 36–45 years, explained:

> I wanted to register a firm, but was not sure whether I will cope with all these bureaucratic procedures as I have neither useful connections, nor money to pay bribes...
A woman, an entrepreneur, reported a similar problem:

I could be registered, but my business is not in a plain view and it is difficult to detect. Even though there is still a risk of being disclosed, it would be cheaper to pay only for cover-up than to give bribes to tax inspection, fire safety inspectors, sanitation centre – they all want to squeeze money from you.

Indeed, in view of poor pavements, roads, motorways and public transport, the catastrophic condition of some state schools and hospitals, and the low salaries of state-funded employees, which are evident to people, the mass media tend not to promote anything good done for Ukraine by the government with taxpayers’ money; instead, they eagerly bring to light the luxurious possessions of officials. This shakes people’s faith and negatively influences tax morality (see Williams and Martinez, 2014b).

Informal self-employed, officially registered at their main job

This group of partially informal self-employed can enjoy the benefits of both being formally registered and receiving undeclared income. The first advantage of being formally registered is social security: a record of service, pension fund contributions, paid sick leave and regulated employee–employer relations. Although the social security system is known to be weak and ineffective, it still works and some people still rely on it. Second, formal registration provides an opportunity to officially prove income when needed: to take a loan or apply for a visa. Informal income from self-employment allows costs to be cut through avoiding taxes. Besides, such activities usually do not require public advertisement or a fixed office, and therefore the risk of detection is insignificant. There are activities that are never registered by anyone. These are mostly personal services such as hairdressing, tailoring, manicuring and giving injections. While these activities are performed at clients’ or suppliers’ homes, informal tutoring can be done even in the teachers’ workplaces, schools and universities; this is a common and conventional practice. Interestingly, in most cases the informal income from self-employment is reported to be too small and occasional/periodical to be registered. For example, a sales manager aged 26–35 years explained:

I am registered officially in the firm as I need to care about pension, social security, record of service. My self-employment is not registered as the volumes of this activity are very small – there is no sense in registering it.
Similarly, a private entrepreneur aged 36–45 years reported:

I registered my private enterprise. I also have secondary activity, but the orders are periodical. This is why I do not register it.

Another participant, a driver aged 26–35 years, replied:

I don’t register as my work is generally seasonal: I have a lorry and in summer and spring I privately transport grains and vegetables for different clients.

A hairdresser, aged 46–55 years, who works officially in a salon and moonlights unofficially, said:

I work officially in the hairdressing salon. Out of work I often render mobile services at my clients’ homes unofficially. I do not have to share my income with the salon – this is more profitable for me and for the client as I charge a lower price than if they would do the same in the salon... I even do not think about the risk of being detected – I work with my old clients and their friends. Besides, all mobile hairdressers are unregistered.

Could this type of unregistered self-employment, then, be attributed to the alternative theory? On the one hand, the answer is ‘yes’, as this is opportunity-driven self-employment. On the other hand, the answer is ‘no’, as the formal and informal economies are not separate in these cases – the same person is involved in both formal and informal activities. Moreover, the same activity can be performed by the same person both formally and informally at different times of the day. Can these activities, therefore, support some other theory? The view of this type of the informal economy as a complement to the formal economy would also be erroneous, as the abovementioned activities are exclusively profit motivated, though performed for acquaintances.

_Waged employees officially registered at their main job_

Formal employees can make money ‘on the side’ unofficially. Similarly to the previous group, their main reasons for not registering are an unwillingness to pay taxes in order to maximize profit, an insignificant amount of revenue from such endeavour and/or occasional orders, and a low risk of being detected. Like the unregistered self-employed discussed above, they are socially secure (as far as this is possible in Ukraine) and see no sense in registering their secondary activity. Their informal employment is voluntary and opportunity driven and, like the
above category of partially informal self-employed, could be explained using alternative theory but for the intertwining of the formal and the informal. As an IT specialist aged 26–35 years noted,

I am registered at my first job because I want to extend a record of service and be eligible for pension. I do not want to register my side activity as the taxes are too high. I would have to pay 600 hryvnias monthly when my income is 3000–4000 hryvnias.

A doctor aged 26–35 years reported similar reasons for being informal at her second job:

My first job is in the state hospital, everybody is officially registered there. As for my secondary activity – it is preferable for me not to be registered as I do not have to pay taxes. My second employer is absolutely happy with this – he employs three people, but pays taxes only for one.

Both partially informal self-employed and partially informal salaried employees are registered officially in their primary workplace and contribute to social security funds, expecting to obtain a pension and other social security benefits in the future. However, they are not interested in registering their secondary activity and paying more contributions, as this will not positively influence the amount of their expected pension.

Fully informal waged workers

Surprisingly, exiting the formal economy is a characteristic not only of opportunity-driven entrepreneurs, but of waged employees as well. Similarly to the unregistered self-employed, among their motives are the tax burden and distrust of the government and pension system. Therefore, this group of informal workers could support the alternative theory. For instance, a sales manager aged 16–25 years stated:

There is no sense in official registration – I do not want to pay tax as I do not expect to receive a decent pension. Besides, I do not want officials to buy those posh cars for my money.

A beauty salon employee aged 36–45 years, although aware of the benefits of being formal, does not want to register:

I work informally even though it creates some difficulties: you cannot have a sick leave and take a loan from bank. I cannot afford myself formal registration. It is unprofitable – the taxes are too high.
Certainly, the opportunity to have paid sick leave and to obtain a bank loan ensuing from the formal salary is an incentive to be declared. However, as the survey shows, it is largely the tax burden that is stated by these participants as the reason for informality.

**Students, retired, unemployed (both waged and self-employed)**

Students and the retired are among those who have the least motive to be registered officially. Taking into consideration the size of pensions in Ukraine, a side job is very important for a decent standard of living for the retired, no matter whether it is official or unofficial, self- or waged employment. Students are usually supported by their parents and often have a part-time job to earn some extra cash or to support their families. The motives of these two social groups are similar, and have much in common with the groups of unregistered workers discussed above. This endeavour is undertaken to avoid taxes, and is characterized by small volumes and/or periodicity and/or non-regularity of such activities, and a low risk of being detected. As a retired man aged 46–55 years responded,

> I am a beekeeper. Trade with honey brings me a considerable income. I mostly sell the honey wholesale and have no necessity to trade in the market in a full view of tax inspection.

A retired teacher, who still sometimes teaches students privately, asserted:

> My income from tutoring is insignificant besides it is not common to register tutoring or baby-sitting. Tax inspection does not control these types of services at all.

To conclude, both self-employed and waged workers can fit the theory of the informal economy as an alternative to the formal economy. They work informally out of choice, and some of them are driven by opportunities from their formal employment. However, the ‘pure’ representatives of this theory include only completely informal participants, whose informal job is their main job. Those who are formal at their primary job may not fit this theory perfectly. First, with their formal registration they concur with the state and its regulations. Second, their second employment, despite being a result of exit, might appear to be a survival strategy, which better suits a by-product theory. Moreover, not all informal workers who voluntarily exit the formal
economy are necessarily representatives of the alternative theory. Those who voluntarily exit the formal economy for social rather than financial motivations should be considered under the prism of complementary theory.

**Complementary theory**

The view of the informal economy as a complement to the formal economy describes how those who benefit most from the formal economy also benefit from the informal economy. It also shows how the formal and informal economies therefore rise and fall in tandem, rather than in counter-cyclical ways. This theory can be represented by paid work done only for/by relatives, friends and neighbours, which is not solely profit motivated. On the demand side, people can employ their less well-off relatives in order to help them out. From the supply side, the workers provide paid services for their friends, who otherwise will not be able to get the task completed. For example, one of the respondents, a retired woman, let a room to her nephew (a newcomer to the city) for a small fee. As can be seen from the participant’s response cited below, money is not important to her. She just wants to help her close people, for whom paying rent at a market price would be unaffordable. This will also be a contribution to the development of their good relations:

> My cousins’ granddaughter entered the university here and they asked me to rent a room for her. I live alone in a two-room flat, therefore I could let her in without any money. I do not feel myself comfortable taking money from close people, they always help me without any money…Finally we decided that she will pay just a nominal charge, 300 hryvnias a month.

However, it is not common in Ukraine to pay money to close people when they help with domestic tasks. If the task is one-off and performed for the closest relatives – elderly parents or children living separately – it will not be paid at all, either in monetary form or as a reciprocal favour (especially if such help is not profit motivated). If the favour was done for less close people – friends and distant relatives – the gift can be given in a *chysto simvolicheski* way, which means the gift is small (often a box of sweets or similar – a tradition left over from the Soviet era) and it represents just a nominal recompense for the service. This includes another term, *vystavliatys*, which means to treat the friend who helped with some alcohol and drink it together. Indeed, services performed for friends and acquaintances are usually
rewarded by reciprocal favours rather than money and gifts (Williams and Onoshchenko, 2014a,b).

Conclusions

This study of Mykolayiv reveals that informal work takes an array of different forms and the motives for being informal are multifarious. The only conclusion that can be reached, therefore, is that no one single theorization adequately explains the character and motives underpinning participation in the informal economy. Different theories, however, are apt as descriptions of various types of informal work and informal worker.

This study of Mykolayiv reveals that the most prominent type of informal worker is engaged in several activities, one of which is officially registered, who exits the formal economy in order to avoid ‘extra’ tax and therefore conforms to the alternative theory of the informal economy. The second most popular type of informal worker includes students/unemployed/retired, who are, like the first group, informal out of choice and therefore conform to the alternative theory. Although not supposed to work, they work informally with the motive of profit maximization. The next largest category is waged employees who would choose to work formally, but cannot find a formal job. These people have to work informally because their employers do not want to register them in order not to pay taxes for their salary. Thus, such workers should be considered from the structuralist point of view (by-product theory). The last group are fully informal waged workers and self-employed who do not have any registered activity. They voluntarily exit the formal economy because of their distrust of the government and low tax morality. These workers choose informality as an alternative to formal work.

To sum up, the informal economy in Ukraine is diverse by nature, and so are the motives for participation. Each of the four theories can be applied to Ukraine, although they are not equally prevalent. This means that the fifth, post-structuralist theory, which acknowledges the diversity of informal activities, is valid in relation to Ukraine. What is now required, therefore, is to start mapping the diversity of the informal economic activities in such post-socialist economies and the multifarious motives that underpin such activities. It is time, in other words, to move beyond narrow conceptualizations of the informal economy and to open up this field of enquiry by recognizing and highlighting the multitude of activities that take place under the ‘umbrella’ concept of the informal economy.
References


Institutional Transformation and Informality in Azerbaijan and Georgia

Huseyn Aliyev

Introduction

The end of Soviet rule in the South Caucasus was followed by a decade of economic and political instability. Failed democratization and stalled transition to a market economy encouraged the continuity of informal socio-economic practices deeply rooted during the Soviet period. In the immediate post-communist period, people in the South Caucasus widely employed informal practices both as private safety nets in daily life and as long-term coping mechanisms, which, due to the weakness of state institutions, were often indispensable. The reliance on informal structures, rather than on formal institutions, in the 1990s was as widespread as in many other former Soviet regions. However, due to the economic growth and political transitions of the last decade in Azerbaijan and Georgia, the region’s socio-economic and socio-political landscapes have begun to change. Yet, little is known regarding the extent to which the institutional transformation and formalization are challenging the importance of the informal sector: inter-personal connections, reciprocal exchanges of favours, individual informal networks, informal entrepreneurship and other forms of informal relations in the former Soviet Union (fSU). With a primary focus on two case studies – Azerbaijan and Georgia – this chapter examines the relationship between informality and institution-building in the post-communist South Caucasus. Combining cross-national survey data with qualitative expert interviews, this chapter – much in line with the central theme of this volume – concludes that, although institutional changes are capable of reducing the population’s reliance
on informality, in Georgia, and particularly in Azerbaijan, informality remains widespread.

**Institutional change and informality**

There is no scarcity of research on the relationship between institutional change and the transformation of the informal sector (Apressyan, 1997; de Soto, 2000). Many researchers of the informal economy have attempted to demonstrate that the process of strengthening, or weakening, formal institutions irrevocably affects the population’s support for informal practices. Among the plethora of studies on the correlation between informality and institutional transition (Chen, 2006; Hart, 2006; Loayza et al., 2005; North, 1990), the majority have shown that the decline or weakness of formal institutions leads to the growth of informality (Kim and Koh, 2011; Loayza, 1997). For instance, a study by Chong and Gradstein (2007: 160) has found that, in conjunction with other determinants of the informal sector’s strength, ‘institutional quality, is a statistically significant and robust determinant of the relative size of the informal sector’. Gërxhani (2004) insisted that such institutional causes as weak or overtly complicated legal and institutional systems, ineffective enforcement mechanisms and the lack of popular trust towards formal (state) institutions are the distinctive reasons for informalization in transitional countries. However, not only institutional weakness but also excessive regulation are mentioned as determinants of the informal sector’s growth (Loayza et al., 2005).

In this chapter, the informal sector acquires a much broader meaning than the informal economy, and, although both the former and the latter are associated with the household sector, informality and the informal sector are understood here as encompassing generic concepts. In line with broad sociological approaches to understanding informality (Morris and Polese, 2014), this chapter examines the informal sectors of Azerbaijan and Georgia as not being limited to economic for-profit activity of the population, but extending into various other aspects of day-to-day social and inter-personal interaction. In fact, broadening the informal sector’s definition beyond the concept of the informal economy becomes indispensable for studies of informality in post-communist societies (Polese, 2008). In contrast to Western industrial societies, informality in the fSU is not limited to economic activity. Rather, over the decades of Soviet rule, informal practices became an integral part of both inter-personal association and institutional behaviour.
Origins of informality in the South Caucasus

According to the consensus, well established in the contemporary scholarship on informality, the informal sector pre-dates the formal (Turner, 2004). However, in the absence of a formal or state-controlled and institution-framed sector, informal practices, rather than being referred to by the term ‘informality’, are usually described as pre-industrial or pre-modern economic exchanges and social interactions (Gaughan and Ferman, 1987). It was with the creation of modern states, industrialization and the development of market economies that the debates on the role of the informal sector began to emerge. Although both Azerbaijan and, particularly, Georgia boast a centuries-long history of statehood, modern nation-states first appeared in the region in the early 20th century. However, by 1922 the short-lived independent states in the Caucasus were included in the Union of Soviet Socialist Republics (USSR) and the arduous process of communist state-building began. A massive wave of Sovietization that engulfed the Caucasus from the 1930s not only wiped out traditional forms of social organization and economic production, replacing them with the Soviet ‘way of life’, but also reshaped the societal structure of the Caucasus’s ethnic groups. Apart from economic developments, the Soviet Caucasus experienced en masse Soviet social standardization in education, public administration, culture and other areas of social life.

Due to the unequal distribution of goods and services between the Soviet core – the European regions of Russia – and the peripheral regions of the Caucasus and Central Asia, the role of informal structures and practices was in supporting the larger households of the Caucasus’s ethnic groups and procuring goods beyond the quota allocated to the regions by Moscow. The spread of the informal economy in the Soviet Azerbaijan and Georgia reached enormous proportions, which ‘can be explained by reference to a complex of geographical, economic, historical, and sociological factors’ (Feldbrugge, 1984: 541). The low average national income and formal consumption per capita registered in Azerbaijan and Georgia during the 1960s contributed to the entrenchment of informality in these Soviet republics (Greenslade, 1980). In contrast to fairly low formal living standards in these two South Caucasian countries, the relative levels of household income from private agricultural farming in Azerbaijan (109 roubles) and Georgia (153 roubles) exceeded the Russian average (95 roubles). As described by Greenslade (1980: 7), ‘[i]n 1975, over half of all cattle in Georgia and Azerbaijan…was in private hands’. The physical spread of the
informal sector in Soviet Azerbaijan and Georgia was indeed impressive: 40.7% of all housing in Georgia and 41.7% in Azerbaijan was privately constructed and owned (1980: 49). In addition, in both republics the informal sector accounted for an unprecedented (by Soviet standards) share in the physical production of crops and livestock products.

Although the considerable literature on informality in the Soviet South Caucasus is focused on the second economy (Mars and Altman, 1992; Sampson, 1987), researchers of the Soviet informal economy had to admit that the vast and multidimensional second economy of Azerbaijan and Georgia was not typical of the developing world's profit-centred underground system of entrepreneurship. Rather, the ‘shadow economy’ in the South Caucasus operated upon an intricate network of social inter-personal connections and contacts and a far more complex underlying structure of relationships between the population and state institutions (Altman, 1983; Feldbrugge, 1984; Mars and Altman, 1983). By the end of the 1960s, the Soviet way of life not only became the daily reality for the Caucasus’s residents but also influenced the identity-building process, resulting in a transformation of people’s attitudes and behaviours. The Soviet culture in the Caucasus easily became ‘distilled’ into local customs and traditions. As pointed out by Kaiser (1976: 110), ‘[s]ocialism seems never to have taken firm root in Georgia, where money talks too loudly to suit proper Communists’. Regardless of ethnic, linguistic or religious differences, informal kinship- and clan-embedded relationships among the residents of the South Caucasus were based on a common principle of honour-centred reciprocity of favours and services, often entangled into the web of corruption and informal monetary exchanges (Aliyev, 2014b). These informal networks, though often described under different definitions, are synonymous with the Soviet-Russian term blat, the spread of which in 1930s Russia became part of the Sovietization process. The reliance on informality was not only a coping mechanism and a means of supplementing meagre formal household incomes; it also served as an important source of inter-personal networking and performed a number of social functions.

In order for the informal economy to function efficiently, the construction of inter-personal networks – reciprocal or based on honour and seniority – became an indispensable characteristic of informality in the Soviet Union. In other words, the relationships within the second economy extended well beyond profit- and gain-focused entrepreneurial deals. Personalization of formal institutions and of relations among individuals was an inseparable part of the informal economy. In that regard, the construction and maintenance of complex inter-personal
informal networks, often functioning within formal institutions, was as critical as the procurement of goods and services. In Ledeneva’s (1998: 85–86) observation, ‘[t]he personalization of the bureaucracy, or informal connections within formal structures, became a significant factor in keeping the command economy afloat’. Also, by personalizing Soviet officials – many of whom, following the korenizatsia or ‘indigenization’ policy, were locals – the Caucasus’s residents preferred to treat the Soviet bureaucracy not as a system of institutions, but as networks of individuals with kinship and family obligations and material needs similar to their own.

With the start of perestroika and glasnost, informality in the Soviet Union, including the South Caucasus, became deeply immersed in social and political issues. Under Brezhnev, the relaxation of Soviet totalitarianism led to a steady development and expansion of informal artistic, cultural, environmental and political circles of dissidents known as neformaly (informals) (Alekseeva, 2001; Evans, 2006; Reshetnikov, 2009; Shubin, 2006). During the 1980s, along with the procurement of scarce goods and services, the Soviet society employed informality to address broader socio-political and socio-cultural issues. Although, by the late 1980s, the majority of neformaly networks in Azerbaijan and Georgia had become staunchly anti-Soviet and nationalist, they, too, actively engaged in non-political issues.

**Post-communist transition and informality**

**Informality and the failure of transition**

The end of Soviet rule in early 1990s Azerbaijan and Georgia resulted not only in the dismantling of a decaying system of communist institutions, but also in the ensuing failure of transition to democracy and market economy. The immediate post-communist period in the two South Caucasian countries was marked by severe economic crises, failures of nationalist governments – replaced by the old-school former communist leaders – and the entrenchment of authoritarianism. In economics, from 1990 to 1995, the GDP of Azerbaijan dropped by over 60% and the GDP of Georgia plummeted by around 70%. As demonstrated by the Nations in Transit (NIT) 1999 report (Karatnycky et al., 1999: 23), the pace of political and economic reforms in Azerbaijan and Georgia remained nearly static from 1997 to 1999.

Not surprisingly, the reliance on informality became even more important. In the absence of the Soviet system of public social welfare and social safety nets, the role of the informal sector, not only
Thinking Informality and Development

in the South Caucasus but also in other former communist countries, increased (Sik, 1992; Thießen, 1997). In the post-Soviet South Caucasus, the scale and spread of the informal economy surpassed the Soviet-age standards. For example, by 1999 the size of the shadow economy in Azerbaijan reached 60.6% of GDP, and in Georgia 67.3% (Schneider, 2004: 25). Informal practices were also widespread in inter-personal relations. A study on informal coping mechanisms in 1990s Georgia by Dershem and Gzirishvili (1998: 1834) showed that ‘informal social networks remain vital resources to individuals and households in post-Soviet Georgia’. According to the World Values Surveys (WVS) survey conducted in 1996–1997, over 80% of its respondents in Azerbaijan and over 90% in Georgia reported relying heavily on their family and kin members. Over 85% of the public in both countries felt that they were unsatisfied with their household’s financial situation. Furthermore, over 65% of survey participants in Azerbaijan and around 50% in Georgia thought that the political governance had been better under Soviet rule. In addition, the same survey revealed that 97.6% of the public in Azerbaijan and 96.5% in Georgia thought that more people in their country were living in poverty today than ten years earlier.

Both economic and political landscapes began to transform in the early 2000s. Since 2004, a range of political reforms implemented by Saakashvili’s government has introduced significant improvements into many areas of governance and administration in Georgia. While not all the democratic reforms undertaken in Georgia were successful, notable institutional transformation has been observed in the judicial sector, local administration and democratic governance (Walker and Habdank-Kołaczkowska, 2013). Furthermore, the effective anti-corruption campaign – vigorously pursued by the Georgian government since the Rose Revolution – significantly elevated the country on international corruption rankings and succeeded in nearly eliminating administrative corruption among low and mid-ranking officials. The lack of political transition in Azerbaijan affected democratic institution-building. According to Nations in Transit (2013), from 2003 to 2013 the transparency of electoral processes, civil society development, independent media, national and local democratic governance, judicial efficiency and independence all steadily decreased. By contrast, Azerbaijan’s corruption ratings continued to show the increase of corruption during the past decade.

On the economic front, the post-Rose Revolution Georgia experienced one of the fastest economic growths in the fSU. As the result of comprehensive reforms, which included tax liberalization, privatization of state property, simplification of administrative registration and labour
legislation, as well as customs and banking sector reforms, the country's GDP continued its upward growth, with the exception of 2009 (–3.8%), and increased by over 40% from 2007 to 2011. In the European Bank for Reconstruction and Development's (EBRD) (2012) assessment, Georgia's strong macroeconomic performance is a reflection of its recent institutional improvements. In a similar vein, the World Bank reported a notable increase in life expectancy at birth, reduction of poverty rates and a series of other improvements in Georgia.

Azerbaijan's economy also experienced significant growth over the past ten years: the country's GDP has more than tripled since the late 1990s. Similarly to Georgia, the government of Azerbaijan implemented a range of economic reforms aimed at market liberalization, economic diversification, banking sector reforms and improvement of regulatory efficiency. In spite of the slowing pace of reforms over the past several years, the country managed to improve tax regulation and simplification of the business environment, praised by the World Bank and reflected in the country's rating on the Global Competitiveness Index.

All of the above raises a number of important questions, as yet unexplored in the literature. Have the political and economic transitions, or the lack thereof, of the past decade in Azerbaijan and Georgia affected the nature of informality in these two countries? If the immediate post-Soviet failure of transition to democracy and market economy had led to the increase in reliance on informality, in both economic and social spheres, would there be a change in popular support for informal practices and higher trust towards formal institutions in present-day South Caucasus?

**Relative size of the informal sector**

What happened to the informal sector during the last ten years? According to a study by Schneider et al. (2010: 30) on the size of informal sectors worldwide, the informal economy of Azerbaijan experienced a steady decline over the past decade: from 60.6% of the official GDP in 2000 it steeply declined to 51% in 2008. In Georgia, the shadow economy fell from 67.3% (2000) to 59.9% (2008). These data show that, although the informal economy still accounts for a significant share of both countries' GDP, the largest reduction in the size of the informal sector occurred in Azerbaijan, rather than in reformist Georgia. However, the above estimates are based on official country statistics, which often fail to accurately capture the socio-economic situation. For instance, the official unemployment rate in Azerbaijan was registered at about 5% (2011) and in Georgia at 15% (2012). These figures reflect the numbers
of officially registered unemployed persons. However, due to the lack of adequate unemployment benefits, the vast majority of unemployed people do not report their status to officials. For example, according to the Caucasus Barometer survey (2013), 60% (65% in 2008) of respondents in Georgia and 59% (54% in 2008) in Azerbaijan said that they had no job. The official statistics on monthly incomes of households also differ significantly from the independent survey data. While the National Statistics Office of Georgia reported the average per month income at around US$425 (2011), the Caucasus Barometer (2013) survey revealed that the majority (over half) of their respondents estimated their household’s monthly income at about US$50–250.

The data from the Caucasus Barometer (2013) survey on informal employment broadly confirm that Georgia’s informal economy is slightly larger than the informal sector of Azerbaijan. While 29% (14% in 2008) of the public in Azerbaijan mentioned that they were self-employed and 45% (34% in 2008) said that they were employed at a state organization, 38% (35% in 2008) of respondents in Georgia were self-employed and 28% of respondents worked for the state. However, the basic source of household incomes – as opposed to individual incomes – does not always originate from employment in the public sector. Azerbaijan’s State Statistical Committee reported that 43.3% of household incomes emanate from various forms of private employment and only 16% derive from the public sector.

However, informality in the FSU extends well beyond the borders of the informal economy. Though the informal entrepreneurial activity constitutes a sizeable part of the informal sector, it depends upon a complex ensemble of informal practices. Of these, interpersonal connections, reciprocity of favours, bribery, clientelism and other forms of informal networking construct a base for informal entrepreneurship. The Caucasus Barometer (2013) survey showed that 19% of its respondents in Azerbaijan believed that connections are the most important factor for getting a good job, and an additional 14% thought that doing favours for the ‘right’ people is very important. In Georgia, 31% of the public said that connections are very important in searching for jobs, and only 3% thought that favours are useful. The impact of Georgian institutional reforms on informal practices is noticeable from the survey data on the populations’ unofficial payments for public services (Table 2.1).

As seen from surveys conducted by the EBRD (2011) in Azerbaijan and Georgia from 2006 to 2010, institutional reforms implemented during the early years of Saakashvili’s presidency maintained their effect,
Table 2.1  Unofficial payments to public institutions (%)

<table>
<thead>
<tr>
<th>Institution</th>
<th>Azerbaijan</th>
<th></th>
<th>Georgia</th>
<th></th>
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<tr>
<td></td>
<td>2006</td>
<td>2010</td>
<td>2006</td>
<td>2010</td>
</tr>
<tr>
<td>Public health sector</td>
<td>42</td>
<td>72</td>
<td>20</td>
<td>7</td>
</tr>
<tr>
<td>Education sector</td>
<td>26</td>
<td>65</td>
<td>11</td>
<td>5</td>
</tr>
<tr>
<td>Traffic police</td>
<td>20</td>
<td>66</td>
<td>3</td>
<td>1</td>
</tr>
<tr>
<td>Official documents</td>
<td>28</td>
<td>60</td>
<td>7</td>
<td>1</td>
</tr>
<tr>
<td>Social security benefits</td>
<td>15</td>
<td>63</td>
<td>9</td>
<td>2</td>
</tr>
<tr>
<td>Unemployment benefits</td>
<td>15</td>
<td>65</td>
<td>8</td>
<td>4</td>
</tr>
<tr>
<td>Civil courts</td>
<td>18</td>
<td>61</td>
<td>5</td>
<td>3</td>
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resulting in a sustainable reduction of reliance on informal practices in Georgia. In Azerbaijan, by contrast, the role of informal payments to institutions has only increased during the reported period.

The anti-corruption campaign, vigorously implemented in Georgia, also seemingly paid off. As reported by the Caucasus Barometer survey (2013), none of its respondents in Georgia mentioned having to pay a bribe during the last 12 months. In contrast, 27% of the public in Azerbaijan admitted that they recently paid bribes. A study by Abdih and Leandro (2013) concluded that, while the regulatory burden in financial and product markets is the key factor contributing to the size of the informal sector in Georgia, in Azerbaijan the strength of the informal sector is predetermined by institutional quality. While comprehensive empirical research on the size of the informal sector in the South Caucasus is scarce, a number of recent studies on informal practices in the region suggest that the patterns of reliance on informality in Azerbaijan and Georgia have not changed much since the immediate post-communist period (Aliyev, 2013). For instance, a study by Closson (2012: 179) confirmed that ‘[d]espite attempts by President Saakashvili to narrow their influence, these [informal] networks have persisted’. Similar findings are reported by Valiyev (2011: 12) in Azerbaijan. Bayramov (2012) insists that in 2011 the informal economy comprised around 66% of the official GDP of Azerbaijan.

Qualitative data from in-depth expert interviews suggest that, while no reduction of the informal sector is reported in Azerbaijan, there is a notable pattern of changes in the Georgian case (Aliyev, 2014b). As mentioned by one of the interviewees, the reliance on informal practices had significantly decreased; if previously, in order to obtain an official
document such as a passport, one had to rely on networks and bribes, nowadays ‘it is all done legally and formally’. Informal practices have also allegedly disappeared from the educational system. As observed by an informant, ‘[before] at the university you could not get good grades if you did not have contacts… now it all changed’. An expert on civil association in the South Caucasus observed that, if previously in Georgia ‘to obtain many goods and services one had to depend on informal networks’, after the formalization and the reforms ‘the importance of informal connections decreased because [things are] no longer done through them’. However, even in the Georgian case, informality did not completely disappear. In the words of a senior EU policy-maker in Georgia,

Personal contacts still matter. Because in spite of the state introducing official channels for administrative procedures, the fees are often very high and, therefore, doing things informally is still very attractive. As a matter of fact, in many areas the state took over the role of individual informal actors.

For instance, a lecturer from the Ilia State University of Tbilisi argued that in the aftermath of reforms informal actors and structures started infiltrating formal institutions because ‘they realized the advantage of penetrating the systems and using the systems for their own benefit’. A similar observation has been made by experts in Azerbaijan. It has also been noted that the informal practices are far from being rooted out in Georgia:

it is not that we eradicated everything: in searching for jobs it is important to have personal networks, political parties depend on personal networks, but still in some areas, such as education, dealings with property, courts, etc. it [reliance on informality] is less important [because of reforms].

Informal structures are still used as social safety nets and mutual support mechanisms. In the words of an expert, ‘they are limited to very traditional things: such as issues related to weddings, funerals and other family-related issues. Participation in these informal relations is voluntary, but it also requires reciprocity, because people expect return favours.’ The population’s participation in informal activities, economic and social alike – among other factors – depends on people’s attitude towards formal structures, such as state and civil society
institutions. Despite the significance of quantitative methods of measuring the informal sector, the relationship between institution-building and informality extends beyond the quantitatively measurable indicators: it is often a sum of popular perception of institutions and attitudes towards informality. Although the causal association between institutions and informal practices is a complex phenomenon, the rates of institutional trust, in conjunction with high levels of confidence in informality, may help identify trends of growth or decline of the informal sector.

**Perception of formal institutions**

It has been argued in the literature that the support for the informal sector and the reliance on informality are often a side-effect of institutional deficiencies (North, 1990; Rasanayagam, 2011). Hence, in order to affect people's attitude towards informal practices, the institutional transformations have to be recognized by the population. Given that the size of an informal sector is analysed in terms of the population's participation in the informal economy – as well as by assessing the need for informal structures – the effectiveness of institutional changes and their impact upon the informality are much harder to measure. The research to date has tended to focus on the efficiency of reforms rather than on popular perceptions of institutional changes and their possible implications for the informal sector. A study by Torosyan and Filer (2012) argued, based on the 2005 Georgian tax reform, that, although there was no significant change in self-employment or per-capita consumption, Georgian tax reform created better mechanisms of household income and employment reporting. In contrast, Börzel and Pamuk (2011: 20), while acknowledging that Georgian anti-corruption reforms were more successful than a similar campaign in Azerbaijan, argued that the reforms in both countries were hi-jacked by the elites seeking ‘to tighten their control over the allocation of resources within the political system and to attract the additional resources from the outside’. Similarly, Rinnert (2012) insisted that Georgian reforms have failed to eradicate the massive social inequality and poverty in that republic. As argued by an expert from a local NGO in Tbilisi,

On the lower level of governmental bureaucracy, for example, when one needs to obtain an official document, [the reforms] really worked and there is no corruption there because it is so de-individualized and so automatized. But it [informal practice] switched to higher levels and now it is more of an issue of politics than a social issue. 

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Throughout the 1990s, the popular trust in formal institutions remained equally low in Azerbaijan and Georgia. As presented by the WVS in 1996–1997, 45.6% of respondents in Georgia and 46.6% in Azerbaijan expressed their confidence in the justice system, and 56.4% of the public in Georgia and 43.5% in Azerbaijan said that they trust the civil service. The popular trust towards formal institutions in Georgia has not significantly changed during the past 15 years. The Caucasus Barometer survey (2013) reported that 45% of respondents in Georgia trusted the healthcare system, 28% the justice system, 39% banks and 60% the education system. Of survey participants in Azerbaijan, 39% trusted the court system, 50% trusted the healthcare system, and slightly higher numbers of people trusted banks (49%) and the education system (67%). Remarkably, the levels of institutional trust appear to be higher in Azerbaijan than in Georgia.

The use of financial institutions by the population is relatively limited. While 56% of the Caucasus Barometer participants in Georgia confirmed that they have bank accounts, only 40% of the public have bank accounts in Azerbaijan. Regardless of the differences over the usage of formal financial institutions between Azerbaijan and Georgia, populations of both countries have similarly low personal savings: 89% of the public in Georgia and 82% in Azerbaijan stated that they have no savings. Representative surveys conducted by the Caucasus Barometer and the EBRD confirm that the majority of households in the South Caucasus continue relying on informal financial mechanisms, particularly obtaining loans from relatives. For instance, 71% of respondents to the Caucasus Research Resource Centers (CRRC) (2011) survey on volunteerism and civil participation in Georgia stated that in the case of a car accident they would borrow money from a family member or a relative to pay for the damage.

The levels of popular trust towards non-state institutions, according to the survey data, are even lower than confidence in formal state structures. Fewer than 30% of the public in Georgia and Azerbaijan expressed confidence in NGOs. Registered membership in civil society is even lower: 4% of respondents in Georgia and 6% in Azerbaijan mentioned to the Caucasus Barometer survey (2013) that they had participated in the work of a civic organization during the last six months. As argued by experts, low participation in civil society in Georgia and Azerbaijan can be explained by the commercialization of the NGO sector. For many people, volunteering for an NGO is seen as a means of career promotion, similar to doing internships in for-profit companies and organizations, rather than ‘volunteering for a cause’. A senior
official of a European NGO in Brussels working with civil society in the South Caucasus explained that the attitude of people in Azerbaijan and Georgia towards civil society persists because civil society organizations in the region purposefully commercialize and alienate themselves from the population: ‘[creating a NGO] became a livelihood, an alternative source of income for people, for intellectuals, so it created elite groups. It also alienated these groups of people from the population.’\textsuperscript{20} However, the lack of involvement in formal civil society is compensated by the existence of a vibrant informal civil sector. Over 50\% of the public in Georgia and over 40\% in Azerbaijan meet their friends almost on a daily basis (CRRC, 2013). Low participation in formal civil society in post-socialist countries (Howard, 2003), as well as in the Caucasus (Aliyev, 2014b), was often explained by the prevalence of informal social networks which are more trusted than NGOs.

Lastly, the performance of public institutions and their capacity to limit the population’s reliance on informal practices are also assessed by the public services’ ability to supply people with basic communal services. In that regard, the average capacity of public services in the two South Caucasian countries is fairly similar (Table 2.2).

Although the majority of respondents to the EBRD (2011) survey indicated that they have almost unlimited access to electricity, the households’ supplies of tap water and gas, as well as the access to public sewage, remain limited for a large number of households. Access to district heating in Georgia is non-existent, and only a tiny number of households in Azerbaijan use centrally provided heating in their homes. The majority of the Caucasus Barometer (2013) survey participants in Georgia (55\%) and Azerbaijan (43\%) indicated that they use a

\begin{table}[h]
\centering
\caption{Households’ access to public services, by income groups (\%)}
\label{tab:public_services}
\begin{tabular}{lcccc}
\hline
& \textbf{Azerbaijan} & & \textbf{Georgia} & \\
& \textbf{Lower} & \textbf{Middle} & \textbf{Lower} & \textbf{Middle} \\
\hline
Tap water & 45 & 58 & 49 & 66 \\
Electricity & 100 & 100 & 98 & 100 \\
Landline phone & 43 & 60 & 22 & 38 \\
Central heating & 2 & 2 & 0 & 0 \\
Gas & 36 & 45 & 21 & 41 \\
Public sewage & 32 & 47 & 34 & 48 \\
\hline
\end{tabular}
\begin{flushright}
\textit{Source: EBRD (2011).}
\end{flushright}
\end{table}
wood-burning stove as the main source of heating. The state-managed public communal services are also poorly organized. Over half of all survey participants in both countries stated that the communal areas in their neighbourhoods are not maintained by local governments, but managed by neighbours collectively. This shows that the ability of public agencies to provide basic communal services to the population is rather limited. In consequence, informal channels are still needed to maintain households.

However, as reflected by a researcher from a Tbilisi-based think-tank, institutional reforms – regardless of whether they were effective in eradicating informality – have influenced the attitudes and mentality of the population, in particular the younger generation, many of whom are ‘fairly negative towards informal practices’.21 One of the interviewees at the International School of Economics (ISET) in Tbilisi confirmed that reliance on informal practices is becoming more and more socially inappropriate for younger Georgian people, adding that during the last ten years using informal favours had become ‘unacceptable for me and my friends’.22

Conclusion

The goal of this chapter was to examine the impact of institutional transformation, or the lack thereof, on the population’s reliance on the informal sector. The end of Soviet rule in the South Caucasus and the plethora of socio-economic and socio-political challenges which affected the region in the immediate post-communist period have led to increased reliance on informal structures, which functioned not only as private safety nets in day-to-day life but also as substitutes for dysfunctional formal institutions. Since then, the strength of the informal sector in Azerbaijan and Georgia has steadily decreased. However, participation in informal economic activities among the Azerbaijani and Georgian populations remains high. As shown in this chapter, the size of the informal economic sector in Georgia is still enormous. Due to the low incomes of Georgian households, participation in informal entrepreneurship in Georgia is slightly higher than in Azerbaijan. The survey data on self-employment and work in family businesses, as well as the official data on informal (unregistered) employment, suggest that the actual size of the informal economy in Azerbaijan – regardless of its economic development – is similar to that of Georgia. Yet, overall, it seems that neither Azerbaijan’s economic growth nor Georgia’s post-Rose Revolution reforms have succeeded in addressing the issues
of unemployment and social inequality. Institutional transformation in Georgia continues to be hindered by deregulation, unequal income distribution and incomplete democratization. Despite Georgia’s success in improving the quality of public institutions, the population’s access to communal public services remains limited, and high, but often unregistered, unemployment rates sustain the immense informal sector. There is also a concern, raised by many experts and civil society activists interviewed by the author in Georgia, that the effects of institutional reforms in the country are only temporary and the institutional achievements in reducing the negative influence of informality can only be deemed successful if newly built, or reformed, institutions prove their sustainability. The long-term effects of Georgian reforms on informality are still difficult to observe. Given that the use of informal practices is deeply embedded in society, the efficacy of institutional transition could well be short-lived, and, as keenly observed by a scholar at Ilia State University in Tbilisi, ‘we will still need time to see if they [informal structures] manage to re-establish’. While there are differences between Azerbaijan and Georgia in popular attitudes and the use of formal state institutions, people’s perception of formal non-governmental institutions is rather similar in both countries. The levels of trust towards civil society are even lower than the population’s confidence in institutions of the state.

A causal connection between institutional change and informality is not easy to observe. Yet, the following conclusions can be drawn from this chapter. First, although recent institutional reforms in Georgia have succeeded in undermining the importance of informality within institutions, the reforms have so far failed to significantly decrease the population’s reliance on informal economic practices. Second, the lack of efficient institutional change in Azerbaijan, the resilience of autocratic forms of political and administrative governance, and the elites’ unwillingness to transform formal institutions result in continued reliance on informality. The spread and scale of the informal economy in Azerbaijan are similar to the situation with informal economic practices in Georgia. Yet, the spread of institutional corruption, bribery, inter-personal connections and other informal means of receiving preferential treatment in Azerbaijan’s formal institutions, according to the survey data, continues to increase. Taken together, these findings suggest that institutional transformations do not always reduce the population’s reliance on informality. While effective institutional change – as seen in the Georgian case – may weaken the influence of informal practices in some areas, the reliance on informality still remains crucial in many other aspects of the daily lives of the population. This shows that the
employment of informal practices and participation in the informal sector cannot be easily ‘eradicated’ through transition to market economy and by encouraging economic growth – as in the case of Azerbaijan – or by implementing formalization and modernization of institutions – as in the case of ‘post-revolutionary’ Georgia.

Notes

1. The qualitative evidence is taken from a series of face-to-face expert interviews conducted by the author in Brussels, Baku and Tbilisi from July to September 2013. Interview participants included academics (five), policymakers (seven), civil society practitioners (ten) and researchers (five) at international organizations, local think-tanks and universities in the South Caucasus and in the European Union. These semi-structured in-depth interviews were based on open-ended questions and were designed to learn about the importance of informal practices in present-day Azerbaijan and Georgia.

2. The average for the Russian Soviet Federal Socialist Republic (RSFSR) was 24.7% from 1960 to 1975.

3. According to Greenslade (1980: 45–46), 63.8% of meat products in Georgia and 65.6% in Azerbaijan were privately produced, in contrast to only 29.2% in the RSFSR, 34.7% in Ukraine and 20% in Estonia (1975). Similarly, in 1975 53.3% of all milk products in Georgia and 57% in Azerbaijan (in RSFSR only 27.9% and in Ukraine 28.1%) were produced by the informal sector.

4. Informal practices are known as krtami (translated as ‘bribe’) in the Georgian language and as tapsh (‘pull’) in the Azerbaijani language.

5. According to Alekseeva (2001: 51), the first samizdat publications began appearing in late 1970s Georgia, publishing forbidden literature and the ‘anti-Soviet’ authors.

6. For instance, Nodia (2005: 13) describes civil protests in perestroika-period Georgia against the construction of the Trans-Caucasus railway and Khudoni power station in the late 1980s.

7. The NIT 1999 report ranked Azerbaijan’s political system at 5.50 (with 7 as the highest and 1 as the lowest), and the economic system was rated at 5.00. Georgia’s political rank was 4.00 and economic 3.67.

8. According to the Transparency International Corruption Perception Index (CPI), Georgia’s rank upgraded from 124th place in 2003 to 51st in 2012.

9. The CPI placed Azerbaijan in 124th place in 2003 (out of 133). In 2012, the country’s rating was 139 out of 174.

10. Interview, NGO official, Tbilisi, 10 September 2013.

11. Interview, researcher at an NGO, Tbilisi, 10 September 2013.

12. Interview, scholar and head of an NGO, Tbilisi, 12 September 2013.


14. Interview, senior lecturer, Tbilisi, 10 September 2013.

15. Interview, scholar and head of an NGO, Tbilisi, 12 September 2013.

16. Interview, NGO official, Tbilisi, 10 September 2013.

17. Interview, researcher at a local NGO, Tbilisi, 10 September 2013.

18. According to the EBRD survey in 2006, fewer than 2% of the public in Azerbaijan mentioned that they had a personal bank account, and only about 8% of respondents in Georgia.
19. Interviews, Baku (July–August 2013) and Tbilisi (September 2013).
21. Interview, analyst at a local NGO, Tbilisi, 10 September 2013.
22. Interview, researcher at a university, Tbilisi, 10 September 2013.
23. Interview, senior lecturer, Tbilisi, 10 September 2013.

References


Fighting the Shadows: Lithuania’s Informal Workers and the Financial Crisis

Ida Harboe Knudsen

After a short delay, the global financial crisis reached Lithuania in 2009, severely impacting the country’s economy. It led to the bailouts of several banks and bankrupted companies; unemployment rose steadily. To revive the financial sector, economic experts and foreign advisory boards suggested that large sums could be recovered from Lithuania’s ‘shadow economy’. In 2010 the informal economy was estimated to account for between 27% and 33% of the country’s GDP.¹ In this calculation, smuggling of goods was ranked as the highest contribution, followed by undeclared work and services. The annual loss of tax to the shadow sector amounted to 2.4 billion euro-equivalent. Informal work had been a noticeable issue since Lithuania regained independence in 1990, but had hitherto not attracted much attention in the media. Now, in the light of the financial crisis, the lack of control of informal work was singled out as one of the main problems of Lithuania’s economy, and the issue frequently appeared in newspapers and on TV. New legal initiatives tightened the grip on shadow workers, just as campaigns against illegal work were initiated, both attempting to scare people into the formal sector and appeal to their feeling of solidarity with the state and their fellow citizens. Shadow workers had become a thorn in the side of the state. Their sudden visibility undermined apparent progress in the realm of law and order as their working strategies increasingly challenged the hegemony of the state and, by extension, the proclaimed

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success in establishing Lithuania as a modern member of the EU. Informal working strategies were not a response to the financial crisis. Rather, the fight against the shadow workers became a political response to the crisis.

Inspired by the heightened attention to the informal sector, I set out to make an in-depth ethnographic research into Lithuania’s shadow workers. In line with Jeremy Morris, who conducted research among informal Russian workers, the question that framed my fieldwork was why people would choose insecure employment conditions in the informal sector above presumably secure formal employment (Morris, 2012). As my research progressed, I realized that working in the formal sector was often regarded as being just as insecure as, if not more so than, working in the informal sector. In Lithuania, working legally with a contract is not a guarantee of regular working hours, nor does it guarantee adherence by an enterprise to health and safety laws or payments for overtime work. As one informant explained, ‘Westerners work until the working hours are over. Lithuanians work until the work is done.’ Labour unions are weak in Lithuania. Indeed, union members are known to be the last hired and the first fired. Outside the system, shadow workers take their own risks, and do not pay tax to a system which they do not feel is working in their favour. While the question ‘why informality?’ still remained key throughout my research, questions such as ‘who’ and ‘how’ became equally important. I soon realized that a variety of different people, jobs and practices were grouped together under the generalizing label of shadow work. Thus, I found both homeless people and well-off businessmen pursuing the same line of informality in their work.

In this chapter I set out to examine the post-socialist shadow sector with a focus on the juxtaposed positions of shadow workers and state representatives in the current ‘fight against the shadows’. Working from a legal pluralistic perspective, I suggest that current campaigns against unregistered work are unlikely to have lasting effects, as local (unwritten) norms embedded in the close social environment have even greater impact on people’s daily practices than national law (see von Benda-Beckmann, 1997; von Benda-Beckmann and von Benda-Beckmann, 2006). Through three ethnographic accounts of shadow workers, I will argue that three key terms connect and appear determining in various degrees for people engaged in the informal sector: social insecurity, marginalization and cynicism.

Social insecurity corresponds to a poorly functioning welfare system which puts workers, in particular, in precarious situations. This is
combined with the post-socialist ‘undoing’ of the previously celebrated working class through a systematic neglect of their rights (Kideckel, 2002). The response to the spiral of downward mobility many experienced after the Soviet break-up is manifested in different ways. Some shadow workers find themselves in marginalized bewilderment, claiming to be victims of transition, as their main experience since regained independence has been loss. Others shadow workers manage quite well outside the boundaries of the state, and have become key representatives of fundamental neoliberal ideas. Characterizing both responses is an outspoken cynicism towards the current state of affairs in Lithuania, where those ‘at the top’ are seen as the most corrupt and untrustworthy, which in turn helps people justify their own less than legal actions, such as shadow work (see also Ries, 2002). In this line of analysis, ‘material gain’ in avoidance of taxes is a motivation to carry out unregistered work, and some narratives based on a cynical discourse might be merely justificatory of this.

The post-socialist informal economy

Elsewhere I have worked with the term ‘invisible citizens’ as a way to analyse Lithuania’s informal workers (Harboe Knudsen, 2013). In this instance, my focus has been on a general disengagement from society and extreme marginalization, of which informal work was but one aspect, albeit an important one. In the present analysis, my focus is on unregistered working practices and the way they are comprehended by state representatives and shadow workers alike. This chapter thus also includes informants and practices that did not fit into my analytical framework for invisibility. Instead, I have chosen the more general term ‘shadow work’. This is but one term used by scholars, notably Schneider (1994). Unregistered transactions and practices of various kinds have also been referred to as blat – a particularly Soviet and post-Soviet phenomenon (Ledeneva, 1998), as a second economy (Verdery, 1996), as informality (Hart, 1973) or informal economic practices (Morris and Polese, 2013), and as a black economy (Thomas, 1999). In Lithuania, people working without a contract are commonly referred to as ‘being in the shadow’ Šešelyje. I have thus chosen to use an emic term. The work carried out in the shadow sector is, as a rule, unregistered work, meaning that the work in itself is not usually illegal, but the non-registration of it is illegal.

During the Soviet period, the country’s shadow sector was closely intertwined with the official planned economy, and was often a
prerequisite for its functioning. Thus, administering property for personal gain, making use of personal networks, or taking goods or products from one’s workplace were fundamental aspects of, and interrelated with, the Soviet economy, and were necessary supplements to the daily economies of households (Firlit and Chlopecki, 1992; Ledeneva, 1998; Verdery, 1996; Wedel, 1992). In the post-Soviet era, we therefore also witness how state resources have been manipulated for the sake of personal gain, just as slipping ‘in and out’ between formality and informality has been a characteristic feature both before and after the Soviet break-up (Bridger and Pine, 1998; Ledeneva, 2006; Mandel and Humphrey, 2002; Verdery, 2003). However, whereas the second economy during the Soviet regime was characterized by the circulation of goods and state resources, the shadow workers presently engage in a whole different set of actions, as they engage in employment for cash-wages (see also Morris and Polese, 2013). Notably, as my ethnographic examples will show, none of my informants engaged in unregistered work during the Soviet period, either because they were too young to have held a job during the Soviet system, or because there was no need for such practices, as jobs were secured through the state. As emphasized by Burawoy and Verdery, unstable environments act as an impetus for innovations of practices as well as reversions (1999). Rather than ‘restorations’ of socialist patterns, practices of informal work should be seen as direct responses to the new neoliberal environment, not as a heritage of a certain culture or a specific ‘Soviet mentality’ (Burawoy and Verdery, 1999).

David Harvey outlines neoliberalism as a theory of economic and political practices in which the wellbeing of citizens is best advanced by liberating individual and entrepreneurial skills within an institutional framework in which the state fulfils necessary functions, including the securing of education and healthcare, and the establishment of proper legal structures to secure ownership rights (Harvey, 2005). What Lithuanians experienced throughout the 1990s, and in some instances up to the present day, was that state institutions did not keep their part of the deal. Privatization of collective property was mainly secured for people in better positions (Harboe Knudsen, 2012) and public health services were often intertwined with extra informal payments, just as workers’ rights in general were ignored, which often resulted in exploitation of the workforce by the employers (for comparison see Kideckel, 2002). This has affected the way people perceive social security. This concept is here understood as arrangements through which people obtain food, shelter, care, medical treatment and education, but also,
and just as importantly, arrangements that provide people with emotional support and a general sense of security. In many cases, social security may be nothing more than an unrealized potential that is never put into action, and yet the mere awareness of a potential guarantee gives people a feeling of being safeguarded in the long run (von Benda-Beckmann and von Benda-Beckmann, [1994] 2000; Leutloff-Grandits et al., 2009; Thelen et al., 2005). Pinning down aspects of social security relates equally to insecurity. Indeed, when examining recent history in Lithuania, as well as other post-socialist countries, the aspect of insecurity has played a dominant role as governments, politics and socio-economic circumstances changed continuously. The emergence of shadow work in the post-Soviet era, I suggest, is thus based on previous experiences of instability, lack of state security and growing scepticism towards institutional arrangements, leading people to stray away from institutional arrangements and formal employment. These processes of marginalization have been analysed by anthropologist David Kideckel as new forms of subalternizations in post-socialism (2002). Based on his research among Romanian miners, he poses the argument that workers have been placed at or near the bottom in post-socialist societies. This hierarchical displacement has been radical in the sense that workers went from being the celebrated class during socialism, to degrading supplicants during post-socialism. Thus, Kideckel argues, it is most adequate to view the systems in the previous socialist countries as neo-capitalist, as capitalist principles have been altered through their implementation in a new context. The decreasing prestige and welfare of workers are notably expressed through their limited knowledge about and access to the labour market, decreasing standards of living, health problems, ineffective representative institutions, manipulation of working conditions by unscrupulous employers, and loss of the symbolic capital previously connected with their work (Kideckel, 2002: 119). In the case of Lithuania, this has crystallized in the emergence of the country’s new poor: social groups that are excluded from both the economic and the social domain of modern Lithuania (Mincyte, 2009). While we never could speak of a classless society during socialism (Verdery, 1996), class differences have become more visible since the fall of socialism (Schröder, 2008). In addition, demonstrating wealth has become an accepted feature in society (Vonderau, 2007, 2010a,b). As my ethnography bears witness to, the emergence of neo-capitalism has not only been a top-down approach leading to the emergence of poor workers; rather, neo-capitalistic thoughts have equally been implemented by workers themselves, putting state institutions in a vulnerable
position. The neo-capitalist approach is, from the workers’ vantage point, expressed through an ‘undoing’ of the state, as they claim maximum personal freedom, exercise zero tax payment and primarily look out for their personal interests rather than seeking to strengthen class solidarity among workers. While in Slovakia and Poland we have witnessed demonstrations and riots as a direct protest against neoliberal reforms resulting from EU membership (Stenning et al., 2011), the Lithuanian shadow workers appeared to express their dissatisfaction through everyday working practices, not through open confrontation.

While the downward mobilization in society has re-created the workers as the new and tainted ‘other’, the case of Lithuania shows that not all of them are pushed out into a helpless situation on the margins, but likewise respond by actively opposing a system of which they no longer feel themselves to be an integrated part. While not explicitly expressed as a political statement, shadow workers still actively talk about and analyse their actions. Being outside the boundaries of legal work, therefore, does not go ‘without saying’, but is embedded in a discourse of cynicism. Following anthropologist Nancy Ries, expressions of cynicism (and cynical actions) serve different purposes in post-socialist societies (2002). According to Ries, cynicism is both a way to come to terms with the experiences of loss (of work, savings, security, stability) and also an efficient way to deconstruct the legacy of the current political discourses by blaming people at ‘the top’ for daily injustices and falling living standards. In this sense, it likewise serves to explain and justify one’s own illegal actions, as these are nothing compared with the crimes committed by high-standing officials and politicians (Ries, 2002).

Methods
This chapter is based on one longer period of fieldwork and several shorter ones. The first fieldwork lasted one year, from the autumn of 2006 to the autumn of 2007, and was conducted in two villages in the western part of Lithuania. The following fieldwork lasted half a year in 2011, before being continued for part of the summer of 2012 and the summer of 2013. This research was conducted in Kaunas, a larger former industrial city in the centre of Lithuania with more than 300,000 inhabitants. Several interviews with public institutions were conducted in the capital Vilnius.

It was during my 2006 fieldwork among small-scale farmers that I was first alerted to the persistence of shadow work in Lithuania. This was not through the farmers, but through their sons. Due to the meagre prospects of small-scale farming, most of the young men had found
unofficial employment in the larger cities. The majority solely worked in the shadows, whereas others combined legal work in the daytime with unregistered work in the evenings and weekends. Through talks, informal interviews and visits to unregistered work sites, I gradually familiarized myself with their situation. Gender deserves a remark in this aspect. I noticed that unregistered work is most frequent in areas of seasonal and mobile employment. Thus, male construction workers, plumbers, agricultural workers and other craftsmen dominate the field. One additional occupation is undeclared repair of cars. As these work areas are strongly gendered, the shadow workers are characterized by an overrepresentation of males. In the villages I started out from, I knew of no women who travelled to the cities to work in the shadows.

I returned to Lithuania in the summer of 2011 in order to focus solely on the issue of shadow work. I chose an urban site for the second fieldwork, the city of Kaunas. My informants were no longer solely circular migrants from rural Lithuania, but also urban Lithuanians. In addition, I carried out interviews about unregistered work with people from public institutions: the Lithuanian Tax Inspectorate (Valstybinė Mokesčių Inspekcija), the Lithuanian Workers’ Union (Lietuvos Profesinių Sąjungų Konfederacija), the Lithuanian Labour Inspection (Lietuvos Respublikos Valstybinė Darbo Inspekcija) and the Lithuanian Unemployment Agency (Lietuvos Darbo Birža).

Emerging inequalities

In order to better understand the situation in Lithuania, it is pertinent to look at developments after independence in 1990. Before EU membership, Lithuania, like other accession countries, had to undergo processes of rapid political, economic and legal change in order to comply with the Acquis Communautaire. EU intervention in the early 1990s coincided with the elimination of Soviet features in society, which resulted in a disruptive political, legal and socio-economic climate (Harboe Knudsen, 2012). For many citizens, living standards decreased; many lost their jobs, while reforms for privatization were introduced overnight, giving way to economic shock therapy and escalating inflation (Smith et al., 2002). As initial expectations of newly gained independence failed to materialize for the new poor, we witnessed growing scepticism and increasing lack of trust in the shifting governments and state institutions (Klumbytė, 2008). Indeed, the break-up of the Soviet Union was for many not accompanied by success and greater wealth (Anderson and Pine, 1995; Bridger and Pine, 1998; Hann, 1994, 2002, 2003; Humphrey, 1995, [1998] 2001; Kideckel, 2002;
Verdery, 2003). On the contrary, increasing gaps between rich and poor led to a spiral of downward mobility for the previously privileged workers, who were more or less left to their own coping devices (Kideckel, 2002; Schröder, 2008). Such tendencies were reinforced with EU membership in 2004: while strong political forces led the country’s way to the geo-political remaking of the state, proclaiming Lithuania anew as a modern, self-conscious and liberal country, many promises were yet again unfulfilled for the poorer parts of the population, who were left dissatisfied with what is perceived as a lack of political attention to social and economic deficits and crime (Harboe Knudsen, 2012; Vonderau, 2007).

In the late 1990s, the economy finally stabilized and gave way to steady economic growth. 1998 to 2008 were prosperous years for Lithuania, with a positive GDP nine years in a row. The 2008 financial crisis hit Lithuania in 2009. From having been one of the fastest-growing economies in the EU, known as ‘The Baltic Tiger’, Lithuania saw a steep fall in state budget during the crisis, accompanied by an increase in the unemployment rate: from 4.3% in 2007 to 17.8% in 2010. Lithuanian politicians and state employees now experienced the consequences of the crisis, and searched for sources which could revive financial fortunes. In 2011, the government called for action: the Labour Inspectorate, State Tax Inspectorate and police intensified their control of a wide range of companies, and an anonymous hotline was established to report unregistered work. Another initiative was the strong encouragement of unregistered shadow workers to register work; unregistered workers could also be fined directly, not only their employers, as previously. Furthermore, national campaigns were launched, which both publicized the criminal aspects of informality and appealed to citizens’ feelings of solidarity and civic obedience. As state institutions now advocated solidarity with society in the light of the financial crisis, the people among whom I conducted research remembered well that the very same state institutions had been the primary driving force in destroying such feelings of solidarity in the first place.

**Laws and social security in everyday life**

Like children, pupils, students and pensioners, any working citizen of Lithuania is guaranteed state health insurance. People who run their own companies have the option of buying private health insurance. An unemployed person is guaranteed health insurance as long as he is registered at the Lithuanian Unemployment Agency, Darbo Birža.
Almost every unemployed worker has the opportunity to register at Darbo Birža. The minimum age is 14, and there is no upper limit – even pensioners who want to work as well as receiving their pension can register and search for jobs. In addition, the unemployed person will get monetary support from the state for the first six months of his or her unemployed status. The average sum paid a month is 530 litas (153.50 euros) and the maximum sum is 600 litas (174 euros). If the person is still unemployed after six months, this contribution stops, although the unemployed status and health insurance provision continue. In such cases there are other options for support: contacting the civil service, which, depending on the case, will pay a minimum contribution to the unemployed.5 People who fail to fulfil any of the abovementioned criteria have no health insurance. They are entitled to first aid at the hospital in case of an accident, but cannot receive any other treatment unless they pay for it themselves. These regulations for health insurance were not new, but not until the financial crisis singled out shadow workers as a central problem did official institutions pay attention to these laws. The only law that was in fact new was the one allowing the Labour Inspectorate to fine workers directly. The head of Darbo Birža in Vilnius explained:

For a long time nobody paid illegal work any attention in Lithuania. As long as the economic situation was fine…practically nobody cared. We did not even have efficient mechanisms which could help us trace cases of illegal work. But then the crisis started. [T]he war against illegal work…is only in its first stages. Practically it only began in 2009–2010. [E]arlier we did not need it. Everybody lived nicely together. If you wanted – you worked legally – if you did not want – illegally. Nobody checked your health insurance. Today, if you go to the hospital, the first thing [they check] is whether or not you are insured.6

The health insurance appeared to me as a particularly important subject. As I set out to do my fieldwork among shadow workers, I considered their actions highly ‘risky’ in the sense that they were deprived of institutional support. This impression was only confirmed when talking with the head of Labour Inspectorate in Vilnius. He explained how working unregistered and without insurance could have tragic consequences for both the worker and his family. To take an example, he said, a worker could chop off one or both hands in an accident. Seeing the horrified look on my face, he underlined: ‘But this happens. These are the kind of
cases we deal with here. It is not unusual. I could show you pictures... I politely declined and he continued: if the worker chopped his hands off and if he was not insured, he would have to pay for the treatment. This would be a long and costly affair, which could put him and his family in debt indefinitely. With such a serious handicap, the man would no longer be able to work and provide for his family, and because he had no legal status and no insurance, he was not entitled to any benefits from the state. Thus, working without insurance, he confirmed, was a risky and highly serious matter, not only in the eyes of the state but also out of regard for the workers themselves.

Risk, however, was interpreted differently by the shadow workers among whom I did my research. From their vantage point, being part of the official system was even more risky than being ‘outside’ the system. Chopping off hands was not part of their daily considerations, as this appeared to be an extreme and rare case to them, whereas making ends meet was an everyday challenge. Fuelled by memories of the ever-changing political and economic environment, a feeling of everyday insecurity haunted them, which, as von Benda-Beckmann and von Benda-Beckmann (2007) have argued, may be just as much a counterpoint to social order as open conflicts and disruption. Social security should, therefore, not only be understood as something material; there is also a strong emotional dimension to it, as the perception of social security is ‘based on a combination of past experiences, on promises encapsulated in existing mechanisms, in entitlements and the continuing availability of resources, and on some estimations on future developments’ (von Benda-Beckmann and von Benda-Beckmann [1994] 2000: 17). In the case of the shadow workers, the many confusing, contradictory and rapid changes throughout the 1990s in politics and the economy, combined with corruption scandals among the political elite, not to mention severe social changes, had taught people to trust themselves only and not rely on institutional solutions.

A man in his early forties thus narrated how he had initially held a legal job in a company where he worked in the construction business. After some time, the company ran into economic difficulties and stopped paying salaries. After three months without being paid and with no prospect of being paid, he chose to leave the company completely and take up unregistered work. His colleagues, however, who stayed in the hope that things would get back to normal, worked an additional three months without being paid before the company finally went bankrupt. As the workers applied to official state institutions in
order to get their rights secured and to get paid for their work, they were informed that, since the company was bankrupt, there was no money and nothing could be done about it. Personal experiences and stories like these supported the idea that being ‘inside’ may be just as risky as being ‘outside’ the system.

However, shadow workers were also aware of situations in which official institutions could be useful, and the new enforcement of the old laws for health insurance led to a creative use of the official system. Indeed, by registering as unemployed at Darbo Birža while working on the side, they were guaranteed health insurance. One ‘shadow’ informant thus narrated how he had broken his jaw through an accident. He went straight to Darbo Birža, registered as unemployed, then received treatment in hospital, now fully insured. Another told how he kept his status as unemployed at Darbo Birža while working on the side. Every time he was offered a formal job from the Birža, he made sure to give the potential employer as bad an impression of himself as possible, so that he would not be hired. In this way, he could keep his unemployed status indefinitely while getting an income on the side. Darbo Birža are aware of such creative strategies, yet, even in the light of the recent campaigns, have few resources to combat them. A senior employee explained the situation regarding abuse of the institutional functions:

We feel it and we know it. I, for example, can tell you that…our institution opens at 8 am. But already 7.30 am people are waiting outside the doors. And what do they want? Some of them only have an appointment with us at 8 am, some at 9 am, some even at 10 am, but they still try to get to their appointment with their social worker early on, because their [unregistered] employer is already waiting for them, saying: ‘But where are you? Don’t be late!’ (laughing). So we know it, we feel it, but we cannot prove it. We have started to intensify our cooperation with the Labor Control and the Tax Expectorate. We exchange information. [T]hey ask us [when they catch a person working illegally]: is this person registered at your institution? We respond adequately, and [if he is] we can take his status as unemployed away from him. At least for a while.8

As the above examples show, the general distrust in official institutions has led to a persistent avoidance of formal jobs. This also leads to creative use of law, as the cases from Darbo Birža show, as some workers circle in and out between the official and unofficial systems in order to obtain at least the right to medical care, but otherwise disregard the system altogether. In this way, the internal battles between official
institutions and unregistered workers are carried out between official and unofficial strategies, widening the gap between formal law and normative rules for obtaining security in daily life.

Law as a subject of interpretation, and law as a subject you could choose either to enforce or not to enforce under specific circumstances, also characterized the institutional approach. One example is the law for health insurance, which had existed all along, but was only enforced in light of the financial crisis. Another example was given by the head of the Labour Inspectorate as he narrated how they went on raids to catch unregistered workers. If the workers started running when they entered, the Labour Inspectorate made sure to catch them and fine them heavily. But the unregistered worker who did not run away, but stood his ground and explained his reasons for doing this, this man they would let go without any further consequences. In this sense, official law and bans against unregistered work are still subject to normative interpretations, both by the workers and by the officials enforcing the law.

Three case stories

In order to show the diverse lives and destinies that are subsumed under the label of ‘shadow workers’, as well as the related post-socialist features, I offer in the following section three ethnographic accounts. My first example, Juozas, had been working for years during the Soviet system, but involuntarily lost all institutional affiliations at the time of independence and was pushed into the shadow sector in order to make a living. Marius, my second example, had just returned from the army at the time of independence and chose to set up an unregistered business instead of being dragged into an insecure working situation with a minimum salary, while my last example, Liudas, was barely more than a child at the time of independence and has pursued unregistered work throughout the main part of his career. Despite their very different circumstances, all of them have turned to the informal sector as an answer to their current challenges.

The day labourer

Juozas is 55 years old. He is a tall man with a mild look on his face. Looking at him, your attention is immediately drawn to his neatly trimmed beard, which stands in strange contrast to his unwashed look and scruffy old clothes. I met him at the riverside in Kaunas during my fieldwork in 2011. He is sitting with a few other men below a wooden sign, which is hammered onto a nearby tree. On the sign is written ‘Darbo Birža’ – Unemployment Agency. The sign signals that the
men sitting here are waiting for work, while it is also a sarcastic comment on the official Unemployment Agency (also called Darbo Birža), as the men have created their own ‘institution’ under the shadow of a tree. Juozas and his friends show up around 7 am and spend the day waiting for work. The principle behind ‘Darbo Birža’ is that people who need to get work done, such as cutting wood, cleaning stables, simple construction work or other kinds of physical work, drive by in their cars and collect the men they need for the day. For a day of hard work, the men earn about 50 litas (about 14.50 euros). The place at the riverside was created in a period of economic growth, and people gathering there could expect to get a day’s work. Indeed, as I inquired about ‘Darbo Birža’ among friends and acquaintances in Kaunas, I was told that ‘Darbo Birža’ used to be a lively place where up to 20 men a day would gather and cars would pass by frequently. Now the place is almost abandoned, except for four to six regulars who still show up in the hope of getting some work. Yet, the economic and financial crisis has had an impact. Most Lithuanians stopped renovating their homes, meaning that the men often wait in vain (Figure 3.1).

![Figure 3.1 ‘Darbo Birža’ at the riverside in Kaunas](image)

*Source: By permission of Harboe Knudsen (2012).*
While spending time with Juozas and his companions at the riverside, I notice that the police pass by several times. I ask the men why the police do not interfere, especially in the light of the recent campaigns; after all, it is obvious that the men here are working informally. Juozas explains that, in principle, the police cannot intervene unless they catch them in the act. But they do not wait around for that. As long as they do not do any harm or disturb public order, the police leave them alone. The men seem far more concerned about hiding their beers from the police than the fact that they are looking for work, as drinking in public spaces is illegal in Lithuania.

Juozas is a construction worker by education. During the Soviet regime, he was at first employed according to his specialization; later he took up work at a collective farm in the countryside. He was married – and divorced – twice, and has two children whom he hardly ever sees. After independence, at the age of 34, he lost his formal employment. Unable to find a new job, he started working ‘outside’ the state. For a while he was illegally employed at a construction company, in the sense that the non-registration of the work was illegal. Furthermore, it meant that he had no health insurance and no legal rights. Twice he needed to go to the hospital due to accidents at the workplace, and he had to bribe the doctors in order to get the help and attention he needed. Later he lost his informal job at the construction site, and has been a regular at the ‘Darbo Birža’ at the riverside ever since. He hardly makes ends meet. At our first meeting, he tells me that he is renting a small flat in the city; however, as we get to know each other better, he reveals that he is homeless. His only income is what he gets from ‘Darbo Birža’, while he gets his clothes from various containers around the city. He refers to himself as a ‘victim of the political system’ (santvarkos auka). Now he is mainly passing time, waiting to reach his retirement age (62.5 years), as he then will get a pension from the state. The pension paid by the Lithuanian state consists of two parts: a base amount and an additional amount. The basic pension is 266 litas (77 euros). The additional part of the pension depends on the social security contributions a person paid and on the number of years a person was employed. In order to receive more than the basic pension, it is required that the person has been working officially for at least 15 years. The reason Juozas hopes for a decent pension is due to the years he worked legally during the Soviet system. His various unregistered employments after independence do not add to the official pension. As Juozas explains, ‘This [work] doesn’t count at all. Say, it’s like you don’t even exist.’ (čia išvis nieko nesiskaito. Kaip va tave ir nėra, skaityk.)
Juozas – The undoing of the worker

Juozas has experienced Lithuanian independence as a steady road downhill, from being integrated in society, with work, an income, a place to live and a family, to being what Lithuanians popularly refer to as bomžas (a bum), with neither stable work, residence nor family and a highly irregular income based on different tasks as a day labourer. The term bomžas is not originally Lithuanian, but comes from Russian. The original Russian word is bomzh (бомж), which consists of the first letters of bez opredelionnogo mesta zhitelstva (без определенного места жительства): in English, ‘without a permanent place to live’. As clarified by anthropologist Tova Höjdestrand in her analysis of homeless people in St Petersburg, Russia, this was the term originally used by state administrators after the Soviet breakdown to classify people without a home (2009). In present-day Lithuania, however, I frequently overheard people use this term with reference to socially excluded people, without explicitly knowing whether they were homeless or not. In this sense, the present use in Lithuania is equivalent to what Höjdestrand, in reference to the work of Wardhaugh (2000), calls ‘bomzh-bums’: people who are barred from spaces where social persons are created and maintained (Höjdestrand 2009). Indeed, people in the street would turn away from Juozas and his friends, while cashiers would treat them with disgust, demonstratively holding their breath or covering their noses as the men entered the shops to buy their daily beer(s). What Juozas experienced in the post-Soviet period was an undoing of his personhood and his status in society, from being an integrated member to an unwanted resident. He and his friends at Darbo Birža resemble the new poor, who, in the words of Bauman, are ‘[…] fully and truly useless and redundant, and thus become burdensome “others” who have outstayed their welcome’ (1997: 5).

In their current state of marginalization from society, people like Juozas make use of their own space: Darbo Birža. This was a counter-hegemonic act, using the symbols and values from the official institutions and turning them into a strong symbol expressing ridicule of the official system (we cannot get any work by approaching the formal institutions; we thus create our own version of it). As anthropologist Robert Keesing clarifies, such counter-hegemonic symbols ‘may replicate the structure through which domination is exercised and administered’ (1992: 225). Interestingly, Juozas and his colleagues are largely left in peace, not only by passing citizens, but also by the police, despite their clear intention of breaking the law. Through their ironic circumvention
of hegemonic symbols, they thus successfully create a hide-out place for otherwise excluded citizens, which becomes their domain, in the sense of what von Benda-Beckmann et al. have referred to as ‘spatial idiom-shopping’ (2009). By this, they refer to law and its (spatial) limitations as providing resources for people, allowing them to pursue their own (economic, political) interests within the given space (ibid.). Despite the fact that the place nowadays seldom fulfils the original purpose of getting the men a day’s work, the symbolic power of the place remains. It becomes a place to socialize and meet friends, just as the wooden sign in itself justifies their existence in society: they are not just homeless, poor and alcoholic bomžai (bums); they reclaim space and a certain state of personhood at the margin of society, as workers and day labourers in fruitless search for occupation.

The construction worker

Liudas is 33 years old, a bachelor from a village in the western part of Lithuania. His face bears witness to fierce fights; his nose has been broken at least once and has healed badly. His hands look rough and are covered with scars. When I first met him in 2007, he was working informally at a construction site outside the city of Marijampolė. When he got this job, he was asked by his employer whether or not he wanted a contract. He chose to work without a contract, as he did not want to reduce his salary by paying taxes. His employer, too, would save money, as they would negotiate a salary which was lower than the gross payment yet higher than the net payment Liudas would otherwise have received. Some of Liudas’ colleagues worked with a contract, while others had likewise chosen to work informally. Once the Labour Inspectorate came to audit the site, and, corresponding to what I had learned about the pre-crisis laissez-faire approach, there were no consequences as they discovered the many informal workers. Asked about the particular situation, Liudas responded: ‘They just told me that I was an idiot. That was all.’ A few months later, Liudas faced more serious difficulties, as his employer stopped paying him, referring to financial difficulties. Liudas stayed for a few more months, hoping for the situation to work out. It never did. Unpaid and frustrated, he left. A similar situation occurred a couple of years later, in 2009, as he was working on a construction site in the northern part of Lithuania. Having spent months at work with repeated promises of salary, he left in the end with the employer owing him about 4,000 litas in total (about 1,158 euros).

In the years prior to the 2009 financial crisis, Liudas had plenty of work in the construction business, and went from job to job and
from city to city. As the economic crisis struck, he, like many other Lithuanians, began having difficulty in finding and keeping work for a longer time. Now a turbulent period began, when he went from unemployment to illegal work and back again. During periods of unemployment he moved back to his mother in the countryside, who supported him economically. Although Liudas perused newspaper job announcements once in a while, the low salary paid to legal workers discouraged him from applying. An additional reason was that, after various incidents of drunk driving without a driver’s licence, disturbance of public order and attempted violence against the police, he had built up a large debt to the state. He did not keep count of how much he owed to the state, but estimated that it was around 7,000–8,000 litas (2,027–2,317 euros). The debts enforce his already marginal position in relation to the state, as he does not want to register any employment or open a bank account, which would make the state enforce the payment of his debts.

Liudas grew up in a poor family. He managed to finish elementary school in the countryside, although he hardly ever attended classes, and continued with an education as a carpenter. Later, he seldom worked at his profession, having mainly been employed on construction sites. His short experience of formal employment is connected with low salaries and long working hours. Liudas’ main reason for working informally is to avoid paying taxes. Paying tax would be the same as putting money directly in the politicians’ pockets, as he explained to me. While he frequently stated that he would save money for the future in order to build a house, buy a motorbike or a car and establish a family, he was never able to put money aside. In some periods he had no work and no income. And in periods with work he spent his weekly salary almost faster than he earned it. Friday was payday, and the weekends were used for drinking and partying with other shadow workers. Liudas’ money was spent on alcohol and cigarettes, for himself and his friends, and on entertaining female company. Likewise, money was frequently lent and borrowed between Liudas and his friends, depending on who had work at the time. Liudas had pride in keeping up an image of being wealthy and generous, even though his relative wealth only lasted a weekend. As a rule, Liudas would be broke again by Sunday.

**Liudas – Increasing marginalization**

Nancy Ries, in her analysis of post-socialist Russia, emphasizes ideas of cynicism and quick money as determining people’s minds and actions, turning the highly complex daily realities and changes into simple
narratives about corrupt officials and betrayed hopes (2002). With a reference to anthropologists Jonathan Parry and Maurice Bloch (1989), she analyses this environment as a collapse of two essential economic spheres: the long-term sphere of collective values and the short-term sphere of private striving, resulting in a neglect of social values and money fetishism (2002). Thus, co-existing with the undoing of the worker’s rights and social capital, as referred to by Kideckel (2002), a spirit of disregard for state institutions develops together with a social breakdown which seems to entail a promise of making ‘quick money’ (Ries, 2002). Liudas, whose entire working experience derives from the period after the Soviet break-up, and who came of age in this environment, kept fantasizing about accessing great wealth through various more or less concretely formulated business plans. This atmosphere had influenced his work choices so deeply that, despite the fact that he was more than once cheated of his salary, he never calculated this as a loss in the same sense as paying tax to an unreliable system.

His situation as a marginalized worker, living in relative poverty, dependent on payments from week to week and short-lived feelings of success in the company of friends and women, underlines the battle between his everyday reality and dreams about money and wealth. His life and work had led him into a vicious circle of increasing marginalization, as he had neither formal employment nor health insurance, but also found himself in debt to the state. The latter only increased his distance from formal society. As Liudas had no intention of paying the debt, in line with his general contempt for present-day Lithuania, he was put in a specifically precarious situation: formal work was not even an option (the income would be registered and state authorities would take his salary), he could not open any bank account (it would be registered and the state authorities would claim the money from the account), and he could not own any property, or inherit property from his parents (this property would be taken as a compensation for his debt). Only as long as he does not have any income, does not receive any public support, does not own any property and has no bank account is he capable of avoiding debt. Thus, in his case we find apparent contradictions of growing exclusion from society paired with hopes of wealth in the spirit of a general moral breakdown.

The car dealer
Marius is 42 years old. He appears shorter than he is due to his round features. By education he is a radio technician, yet he never worked in
this field. He served in the Soviet army just before Lithuania declared independence in 1990, and, as he explains, when he returned from the army, everything was changing. While he was initially excited about independence, the new opportunities to travel abroad and the perspective of pursuing a better life, he was soon disappointed by the actual chaotic and insecure state of things. He quickly understood that working legally would never bring him a decent income or the life he hoped to achieve. According to Marius, salaries were too low, working conditions too poor, and employers were just enslaving people under inhuman circumstances. Marius thus decided to establish his own informal business trading cars. Marius buys cheap cars in Germany, brings them to Lithuania through a middleman, repairs them if needed, and sells them for a higher price to Lithuanian buyers or to buyers from previous socialist republics. His company is not formalized and his activities are not registered anywhere. Marius lives with his wife Birutė. They have two children, while Birutė has one additional child from her first marriage. She is a housewife, while Marius makes the money for the family.

As I came to their place to conduct an interview, I was taken aback by the sight of their big flat, decorated in what was presumably a fashionable style: heavily draped brownish curtains, pieces of voluminous furniture and a brownish pattern on the wallpaper, which matched the entire colour scheme of the flat in detail. At one and the same time, the flat appeared as extravagant baroque and as kitsch. Their car and the flat point to attempts to pursue an upper-middle-class lifestyle. What they own is theirs, Marius explains. They have never had any loans from the bank. They have obtained their money and property due to their own hard work and good business sense under unstable circumstances. Marius continues:

I do not work. Officially I do not work anywhere […] But I do not see why I should pay [tax] because I do not ask the state for anything. I do not need anything, just leave me in peace; that is all. […] The person who earns a little [money], he should pay immediately. But for what? I do not ask for anything, I do not stand in line in order to get welfare money. I do not ask. Just allow us to make money and that is all. That is all we need.

Birutė interrupts:

In Lithuania nobody gets by with a good conscience. Nobody!
Marius:

Nobody! Take any company you want, the largest company, or the smallest. Then you say [to yourself]: ‘You can get by with a good conscience so you have to note everything down you earn,’ but half... no, more than half of it I have to give to the state... so what is left for me? Then why should I make efforts [to achieve something]?... And if something happens to you, then they will do what they can to make it worse for you, and then you go bankrupt and get nothing at all.16

Marius stopped voting several years ago. If you vote at elections, he clarifies, you cannot complain afterwards when you are unhappy with the politicians. After all, you yourself voted them into power. Marius and Birutë hold the point of view that politicians all steal and get the best deal from their high positions. The couple do not register any income and make sure to pay expenses for doctors and hospitals themselves. Since you have to bribe the doctors anyway, Birutë explains, there is no reason to pay twice: both for the insurance and for bribing the doctor, and then again to buy the best medicine, since they only give you low-quality medicine at the hospital.

Marius – The post-socialist neoliberal

The case of Marius demonstrates that shadow work is not found solely among manual labourers, but also among people owning their own business and pursuing higher living standards than the majority of Lithuanians. As Dunn has argued in the case of a Polish meat factory, informal business and trade did not disappear with the introduction of capitalism and the ‘free market’ (2005). While Marius would never identify himself with the other informants from my case studies, his practice of avoiding the state, avoiding taxes and having no official relations was essentially no different from other, less fortunate shadow workers. Marius practised a clear justification of his actions and approaches, embedded in the very same neo-capitalist discourse which, according to Kideckel (2002), had estranged the workers in post-socialist societies in the first place. Indeed, Marius argued for a ‘no-state’ approach in which each man was responsible for himself, the state mainly being an obstacle on the way to achieving this goal. In the above case, a cynical approach to state institutions was clearly articulated as a way to explain and justify behaviour which was on the boundary of official law. ‘A fish rots from the head’, as a Lithuanian saying goes (žuvis genda nuo galvos),
expressing exactly this logic: that tax fraud and illegal actions on the ‘bottom’ of society are nothing compared with the degree of corruption which is found higher up at state level – indeed, the process starts in the head and therefore spread to the entire body. As Ries has emphasized, embedding one’s actions in an understanding of ‘official society’ as being corrupt, as a way to articulate one’s position and defend one’s actions, is a predominant feature in post-socialist societies (2002).

Concluding remarks

The shadow workers reflect a highly problematic relation between workers and state institutions in present-day Lithuania, which, I argue, is a product of the unstable environment and disregard for workers’ conditions experienced throughout the 1990s and up to the present day. Thus, while the issue of shadow work only received extra attention from politicians and media in light of the financial crisis, it has been a salient issue for years. Current attempts to decrease the number of informal workers have additionally failed to address the core of the problem, which I have framed as social insecurity and marginalization crystallizing in an outspoken cynicism towards the system which serves as an explaining narrative legitimizing one’s own less than legal actions. As the three ethnographic accounts show, shadow work embraces people in very different circumstances, such as the homeless, the worker and the businessman. Despite their different degrees of agency, they all pursue a life outside the legal boundaries of the state and explain their lives as being in opposition to official society, either as ‘victims’ or as a conscious strategy in search of wealth and money. Recent political attention and actions had little, if any, effect on the lives of my informants, as they related ideas of risk and insecurity to everyday uncertainties, not to politically motivated campaigns. It thus appears unlikely that intensified campaigns and new fines will have a lasting impact on the shadow workers’ choices and daily work, as they deal with more immediate risks and insecurities in their daily life than those enforced by formal law. This feeling of living in opposition to present-day society was pithily expressed by one informant when I asked him whether he felt like a part of Europe after Lithuania achieved membership in 2004. He answered: ‘If I feel like a citizen of Europe? – I do not even feel like a citizen of Lithuania!’ Indeed, in a period when we should ideally witness greater legal compatibility within the EU, the example of Lithuania shows a paradox between, on the one hand, the political attempts to create the nation as a well-functioning, modern and determined EU state, and,
on the other hand, increased reliance on alternative strategies on the margins of society.

Notes

3. The total body of EU law.
8. Interview, Lithuanian Darbo Birža, November 2011.
9. In the cities, Lithuanians leave bags with used clothes in front of the containers for poor people to find.
11. A person works 30–35 years in order to receive a normal state pension (basic plus additional), which is approximately 766 Lithuanian litas (222 euros). This ranks number three on the list of lowest pensions in the EU (source: http://bnn-news.com/smallest-pensions-eu-%E2%80%93-bulgaria-romania-lithuania-14778, accessed 27 November 2014). Lithuanians without sufficient years in the labour market are left with the basic pension of 266 litas (77 euros), which is difficult, if not impossible, to survive on.
12. Quotation from interview, September 2011.
14. Liudas’ situation somewhat parallels that of another informant, whose life is explored in my previous work (Harboe, 2013).
15. These car markets developed in Lithuania after the declaration of independence. With the country’s beneficial location between Western Europe and Asia, Lithuania became a central point for car trade and developed big outdoor markets for car sales, for example in Kaunas, outside the capital Vilnius and Marijampolė. After independence most buyers came from Russia and Belorussia, but with time more buyers started to arrive from Kazakhstan and Kyrgyzstan.
16. All quotations from interview, January 2012.
17. Interview, October 2011.

Literature


Schneider, F. (1994) Can the shadow economy be reduced through major tax reforms? An empirical investigation for Austria, Public Finance = Finances publiques, 49, 137–152.


This chapter will discuss informality in a way that is the reverse of other chapters in this book. While most cases in the book cover the ubiquity of informal subversions of rules and formally arranged interactions in the post-socialist world, my data demonstrates that in some cases informality is more an assumption than reality. It is not necessarily accessible for those experiencing new adversities after crises overcoming the effects of widespread neoliberal changes, or a useable device for understanding people's relations in troubled waters. In the circumstances that I encountered during my fieldwork during 2002–2004 and 2012 in Estonian centralized villages, there is little evidence for informality as a solidary response to precarity. This chapter agrees with the general anthropological knowledge of the value of informal relations (see, for example, Wanner, 2014); however, I aim to demonstrate that, while informal relations may well be beneficial, there are circumstances in which people shy away from these, and for good reasons. The difficult relationship between people in post-socialist Estonian villages and informal ways of arranging their daily life to respond to difficulties and changes demonstrate that informality is not always a solution that people have established in the face of adversity, but may be, instead, something that they perceive as contributing to it.

I will show how informality is the source of grievances, not solutions, and, as a result, it is not employed in daily personal politics – even if it may occasionally arise in municipal arrangements and in daily village encounters. For the people in the studied area, informality, which was the epitome of daily functioning during the Soviet era, something to rely on, has become an irregularity, an abnormality, and diminished considerably since the Soviet collapse. The crisis of 2008 has not triggered the increase that could have been expected. Interestingly, an increase in the
numbers of NGOs can be seen – but this rather proves the point that mere informal relations are not enough for people to gain support. For some, an informal, personal response that is not institutionally arranged has become something to be avoided as much as possible, rather than sought to advance one's interests or maintain one's lifestyle or daily sustenance. My data will indicate that people prefer resorting to impersonal sources of solutions, mostly in the form of institutional arrangements, as their source of solace and support.

However, the existence of formal associations, according to my data, may have a significant role in disempowering individuals who cannot use informal relations and have to appeal to formal ones. The grass-roots ability (as well as obligation) to formalize throws an especially negative light on those who cannot or do not participate. Despite that, the option of (re)starting relations is not open. Their social dispossession has been sufficiently thorough to disable such choices.

Formal structures replacing informal connections in difficult times in certain circumstances appear unusual in the context of most East European research into the transformations and their results in very similar circumstances. Recognizing such processes, however, enables us to study what the mechanisms are that explain a lack of willingness to reciprocate, or even indifference towards others, whether or not they may share the same fate. It demonstrates the role of, and expectations from, formality in responding to adversities, and the implications and importance of such research in anthropology.

I carried out my fieldwork in two centralized villages – that is, villages that used to be state or collective farm centres and were now serving as the centres of rural municipalities. Both municipalities were slightly smaller than average by Estonian standards, hovering just above 1,000 inhabitants, and the villages had around 400 inhabitants. The villages were Soviet amalgamations of multi-storey houses in the middle of the countryside, which is traditionally characterized by dispersed homesteads, sometimes kilometres apart. These modern villages were meant to service the Soviet state farms by accommodating their workforce. They offered modern urban comforts and proximity to work and other infrastructure. After 1992, the state farms were massively downsized or shut down altogether. As a result, the villages lost their binding structures, most importantly employment, but also acquaintance networks. Such acquaintance networks were originally spontaneously created to overcome the deficiencies of the Soviet economy, and characterized village life until the collapse of the Soviet system. With the arrival of the capitalist market economy, Soviet acquaintance networks crumbled.
They had been built around access to information from those working in the marketing and distribution structures and the relative unimportance of money in gaining goods and services. The availability of goods and services for money freed those previously held hostage by the system, in which they had to have certain key acquaintances to acquire goods that were in short supply. Subsequently, the generally abhorred and ridiculed informal structure that had been unavoidable within the official Soviet distribution structures became publicly disgraced, and people who had held key positions within it lost their status. Getting something through acquaintances (*tutvuste kaudu*) had been seen as a sign of being beneficially placed, but, although often necessary, it was not a general source of pride. While such structures were falling into disrepute and disappearing, relations into which people had been semi-forced also dissolved. This offers just one example of how the base on which the relationships had been built vanished within a short period of time. Instead of acquaintances, money and formal structures of exchange (i.e. the market) became vital for responding to one's daily needs. In contrast to several other thoroughly studied East European examples, such changes did not only affect the more distant relations between work colleagues and shop assistants (cf. Pine, 1998; Stenning, 2005). Trust disintegrated much closer to home.

During my fieldwork, I befriended the very poor family of 75-year-old Maali, who lived in one of the apartment blocks with her two great-grandchildren, 6-year-old Tönn and 11-year-old Mann. Her children and grandchildren had left the village some years ago and she alone looked after Tönn and Mann. One evening, I was called by Tönn to come quickly to their place as Maali had fallen on ice. The paths around the Soviet housing blocks in the villages had become very slippery over a few days of melting and freezing, and even younger people struggled to stay up. Maali's leg was badly swollen and painful and she feared it was broken. We knew that, as the medical services had severely reduced, the ambulance was unlikely to come. They knew that I had no car to take her to town about 12 km away, so they asked me to call around for help. We sat near the phone in their tiny flat, thinking who to turn to for help. The men they came up with were immediately discounted as likely to be drunk. A neighbour was expected to charge them the equivalent of roughly four euro for the ride – and my offer to pay this was rejected. Another villager was considered not to be close enough. I insisted on calling her, as I knew her and she worked for the municipality. However, she redirected us to the municipal doctor. I called the doctor, thinking that as a fellow villager, as well as a representative of an institution of
care, she would come. However, she flatly refused, saying that this was not her job: her obligations as a doctor were, in her view, limited to her working times – while the municipal worker, as well as at least some other villagers, considered that her status as a doctor obliged her to do more. One after another, other villagers were discounted as sources of help, and everyone rejected the family in this moment of need.

This sinking feeling of desperation from indifference was not only in contrast to what I expected to experience in the villages, but in contrast to most of what we tend to hear in social sciences about crises and about people's ability to overcome them by social means. Help, support, gift-giving and other expressions of mutuality are survival strategies that anthropologists habitually depict. Many ethnographic accounts from post-socialist societies demonstrate an activation of social relations and people's ability to cope with the new situations together (Buyandelgeriyn, 2008; Creed, 1998; Hann, 2006; Hivon, 1998; Nazpary, 2000; Pesmen, 1996; Pine, 1998). These can be summarized as the 'resources of poverty' (de la Rocha, 1994): cooperation, mutual help, exchanging goods and services within friendship networks, and so on, in response to personal and societal crises. Even more, communities can be seen to take advantage of the destructuring effects of post-socialism (Burawoy and Verdery, 1999: 2). Despite the failure of the system of links binding people together, the human threads in most accounts of social scientists still remain enmeshed and create nets that support all but the frailest and least able to participate. This sociality is institutionally unsupported. Solidarity and social ties are seen as an enduring phenomenon, static and definitive in their presence.

This is in contrast to another tradition of research on Western capitalist individualism (e.g. Beck and Beck-Gersheim, 2001; Putnam, 2000), suggesting that a loss of social capital or embeddedness in social institutions is taking place in the Anglo-American world. East European literature has developed in conditions where a move towards Western structures is a constant point of reference. And yet, similarities in this loss of social embeddedness are not picked up in East European literature (see also Rogers, 2010) – as social scientists have often used this region to provide various critiques of both Western realities and theories (for instance, Greenberg, 2010). In Latin America, the individualizing effects of capitalism have been thoroughly examined over many decades (de la Rocha, 2001; Lewis, 1966; O'Donnell, 1988; Perlman, 1976). De la Rocha (2001) provides an interesting example of change here. In an earlier article (1994), she poses an argument similar to those offered by many East European scholars – that poverty or other unfavourable conditions will trigger the resources of the poor, who pull together and
support one another through difficult times. In 2001, however, De la Rocha laments the changes that Latin American societies have undergone, triggering the erosion of a survival model, undermining its social base and reciprocal relations.

The loss of the social

While we may well suggest that Estonia offers a typical example of Western individualism and its characteristically weak communal structures, the particular circumstances within which people have to face loss of informal and/or communal networks are, similarly to de la Rocha’s Mexicans, vital to its outcomes. One of the most profound changes that took place over the 1990s, and had generated important results by 2002–2004 that I was able to observe, was social stratification. This has particular importance in Estonia, where experience with inequalities has been rare historically. The history of the country has been one of developing strata being broken down at regular intervals at least since the end of the 19th century, which was when any significant stratification among Estonians became possible for the first time. Nevertheless, every 20–40 years since then, wars, new regimes, occupations, deportations and so on have disrupted developing social stratification (see Annist, 2011). As a result of such lack of experience with well-formed stratification, people were not equipped with the cultural means to respond to inequalities by vertical support systems binding the poor and the rich in some form of mutuality. Today, being poor or rich is not easily accepted and does not form the basis of normal relations – something Helemäe and Saar (2012) refer to as ‘highly unequal but classless’, that is, while inequality is clearly present, it is far from restructuring people’s views on where they accept themselves as belonging in the social strata.

Yet, the new differences have quickly taken on value, as they are seen to have arisen from path-dependent advantages and disadvantages, which those who are disadvantaged may consider unfair. However, the disadvantaged rarely have an opportunity to directly challenge the outcome, and often are forced to recognize the effect that this has on their public image. Sayer suggests that shame is ‘a product of internalization of others’ contempt for one’s identity’ or other apparent failures (2005: 153). The values that define such failures are internalized and seen to reflect one’s lack of worth, or trigger envisaging others in similar positions not as similarly unfairly disadvantaged. In such cases, others in the same position are seen as undeserving, drunkards, lazy, deceitful, while the self is seen as the deserving kind of poor (cf. Howe, 1998). It appears that citizens have lined themselves up with what Mitchell Dean (1997)
has called ‘new prudentialism’ and see others as responsible for their own plight. Thus, being exposed as poor and in need does not unite. It divides. As a result, there is no ‘fellowship of the flawed’ (Herzfeld, 1997). Many people used various strategies for managing the impression of coping well, which were very problematic in close encounters. Therefore, they needed and preferred to keep a distance from the prying eyes of their fellows, which, of course, was more difficult to achieve because of the apartment block living arrangements.

When people have little, and connecting with others means losing that carefully managed facade behind which they struggle, they learn to avoid and withdraw. In some cases this may lead to what could be described as collective ‘involution’. White (2004: 201) talks about this process in Russia, pointing out that the strengthening of local identity is not out of choice but out of necessity. In the case of my fieldwork villages, local identity was not necessarily valued. In some cases, it was, in fact, something to be ashamed of. Withdrawal would be from local as well as rural identity, associated with various negatives, and also from others in the villages who would be representing such negative features.

White looks primarily at regional and national, rather than local, disparities and omits those among the small-towners. Yet this was certainly an important element in the withdrawal in Estonian villages. Those who had enough were increasingly surrounded by others who did not and who looked at the ‘haves’ accusingly for their success. In this process, people learned to ‘uncare’ (Ross, 2010: 5). The inhabitants of such new social settings experienced daily the inability to connect, to reach towards others, to bind their trails. This process had begun in the mid-1990s, and its results were clear by the early 2000s, as old friends stopped going to each other’s birthday parties; as groups of drinking pals disintegrated into dyads and rejected the few teetotallers, or ex-alcoholics whose treatment, even if medically successful, had turned socially disastrous; as people left the villages after bitter back-stabbing and mostly indirect challenges from other individuals, over often misunderstood and never clarified interests. Their encounters were haphazard, unwelcome moments, as if torn, uncovered electric cables dangled randomly and triggered charges. Such zaps damaged people’s honour and defused any desire to return to the experience.

Reparing the informal

Anthropologists have tended to seek sociability in all circumstances. Even in cases where humans are forging relations with non-humans,
researchers have worked to demonstrate the sociality hidden in circumstances that political economists and cultural critics have argued reveal the loss of sociality (see, for example, Bloch and Parry’s (1989) collection of ethnographic examples to challenge Marx’s take on money as undermining human sociality etc., or the various challenges that anthropologists have thrown at Polanyi, e.g. Hann and Hart (2011)). The social, whatever we define as being part of it (fungi, gut microbes, machinery or horses included), is, in such research, what defines us – it just cannot be suppressed and will always rise from the ashes. In fact, it subjugates even the bureaucratic machinery, personalizing it (Morris and Polese, 2014) or inhabiting it (Caldwell, 2007).

Research on the sociability of humans in the unlikeliest of circumstances has left the other side of the coin almost entirely unexplored. Recognizing the elements in human culture that can be described as lacking sociality – inasmuch as sociality is the desire to engage with other social beings, to associate with one’s fellows – is vital for a more rounded understanding of humanity. Lack of desire to associate with one’s fellows and a desire to diminish or avoid such associations is as much a part of human nature as the desire to forge relations. Turnbull’s research on the Ik (1972) is an interesting example in anthropology. On the one hand, it is a rare glimpse into living in a rather diminished kind of social world. On the other hand, it stands as a monument to anthropological aversion to such research. Widespread rejection of Turnbull’s study – while perhaps justified for methodological reasons – is also an example of anthropologists’ unease with deliberately indifferent co-existence. Ross (2010: 192) has pointed out that ‘As social scientists we do not yet have a way to think adequately about “uncaring”, its causes and effects.’ Laughlin carried out research (1974) on deprivation and reciprocity among the So in Uganda, not far from Turnbull’s Ik, and a few other researchers have considered scarcity and deprivation. However, these are examples of people facing life-threateningly dire circumstances. What this leaves out is indifference as a norm – at least as much of a norm as warm communality. As a result, we are less likely to study what it is that people are using to respond to daily problems when sociality is less available. The following fieldwork case starts unravelling this mystery.

Koidu was 84 years old, living alone in her flat in a large apartment block in the village, and all her family were scattered in towns and cities far away. Koidu’s legs often failed her and she was officially considered ‘disabled’. She needed help to get groceries and medicines and to potter on her tiny allotment plot, tending her potatoes. I visited her frequently,
and almost every time I was there, her neighbour, Mare, popped over, without knocking, to check whether Koidu might need anything. Koidu never introduced us, and Mare never came to the living room where I was sitting, so I know little about her. But I heard their discussion about Koidu’s various needs and Mare’s offers of help.

This example may appear as a simple case of care offered naturally within the community. Yet, aside from the fact that Mare was probably also a helpful person, this was a mediated relationship. In particular, this was an institutionally mediated relationship. Mare had the status of a state-paid carer for the disabled. The small sum she received every month for her role in helping Koidu helped them overcome the uneasiness that the potentially asymmetric reciprocity triggered in the many other cases where help was not asked for or offered. Something, rather than someone, mediated the relationship that, if kept informal, would have been difficult or perhaps even broken, impossible to repay. The key is the social neutrality of this relationship. The source of neutrality, here, is formality. The relationship has to be formal, publicly driven by impersonal reasons, and perhaps, as such, it would have an element of the non-social hidden at its heart. A researcher concentrating on informality might work through this by suggesting that the formal structure is boldly filled with informal content. This would not recognize the fragility of that relationship where the real relationship has to be aided by formal crutches, or scaffolding, to function and last from one day to another.

Thus, what we see is that, instead of carving the way through the maze of changes by informal, sometimes illicit, but always personal, rather than officially mediated, means, the solution here is to turn to formal institutions. The desire for someone or something neutral to mediate needs was, therefore, a reflection of the kind of mechanism of self-protection in such situations. As an anthropologist, I was a sympathetic stranger for Maali’s family, and, as such, neutral. Turning to me to mediate calls for help was less challenging to this family in need than to turn directly to their fellow villagers, distanced by unfamiliar differences. Their now charged personal relations could not be put aside at moments of emergency and distress; in fact, this was exactly when they surfaced particularly clearly and painfully.

Similarly, the case of directing Maali’s family to the village doctor appeared to be an example of offering a mediated solution. However, the institutional position of the doctor was viewed in opposite terms by the municipal worker, as well as some other villagers, as I learned later, and the doctor, who saw her working times, set by the same
institutional framework, as defining the limits of her obligations. This case also demonstrates how the poor in such circumstances were facing a double deprivation, where the general medical service was stretched for resources and rejected transport of non-emergency cases, and, at the same time, social resources were equally in short supply.

The grim reality here was not of the resources of poverty, but of the ‘poverty of resources’ of the poor (de la Rocha, 2001). Indebtedness and asymmetric relations that they had no means to overcome became points of embarrassment, shame and danger. While Sayer (2005) links such issues of shame with class, this type of unwillingness to enter a unilateral relationship that the elderly display certainly pre-dates and defeats any class formation in Estonia. It has to do with reciprocity as an obligation.

Studying reciprocity as burden is not unheard of in anthropology (Nelson, 2000; Offer, 2012) – earlier examples include Gouldner (1960), who has discussed the ‘norm of reciprocity’, which is strongly tilted towards avoiding overbenefiting. This becomes especially painful in the case of the poor and the elderly, who are in increasingly unequal positions with respect to the rest of society, and actively strive to withdraw from unidirectional relationships with others in which they would have no chance of reciprocity that is up to scratch. Previously, the elderly had plenty of value to offer: starting with home produce and handicrafts, finishing with more substantial contributions such as accommodation and money. Accommodation in central villages has lost most of its appeal, and the meagre pensions leave little to offer. The handicrafts that the elderly are able to provide have, at least in the regions where cultural authenticity is not particularly celebrated, disappeared from the list of wanted items (see also Annist, 2011). Home produce is the only remaining offering that diminishes the inequality – however, being seasonal and mostly limited in variety, it can only go so far. Left without access to reciprocity, it is the formal care options that at least diminish the discomfort triggered by lack of mutuality.

Caldwell (2007) describes how formal care relationships may turn highly personal. For example, elderly care networks in Russia have changed with the younger generation leaving home, either mentally or physically. It may be strangers, offering formal, for instance church-mediated, care, with whom relationships become intimate (ibid.). The benevolent and compassionate relations with volunteers may even be global in their nature, bringing in family values from societies very far from the Russian homes. In other words, a gaping hole is at least partly filled by another source of compassion and care. Caldwell does not study
the role of formality in mediating these relations. However, this may be what makes these relations work so well – being mediated through a formal system makes the relationships emotionally uncharged, and, in this setting, warmth and personal desire for sociality can be brought back into those lives that experienced lack of sociality and lack of care. In turn, Rebecca Kay (2011) looks into the processes of inclusion and exclusion in communities of care, and points out the informal routes to formal structures in a Siberian village.

This reverse process, presuming a prior informal network, was only minimally present in my fieldwork villages, and mostly triggered by care workers identifying a family in need, rather than a fellow villager coming forward and recommending someone. At least, I was not aware of such occasions, while care workers did point out how they approached and supported families in dire circumstances. If any such informally triggered help from formal institutions was present, it was not something people felt they could boast about, which in itself suggests a value system clearly opposed to benefiting from informal relations.

Formalization reorganizes human relations in ways that diminish unpredictability as well as flexibility. Weber (1964) suggests that formality offers protection for both individuals and wider organizations that may potentially be treated unfairly within informal arrangements. Formal arrangements have a huge role in social relations, and pre-arranged, institutionally established ways of channelling human activities are the basis of a large amount of social research. Informality, according to van der Waal and Sharp (1988: 143), has long been seen as formality in the making – as proved by the long history of development policies and state-building. However, it has been studied as a friend as well as a foe. The dangers of subjugating humans to the rules of society are well mapped out by research into how complex societies aim to bring to order various fringe and marginal groups. Much justified criticism has beenlevelled at development and policy improvement efforts by development anthropologists and other critics of development (e.g. Ferguson, 1990; Perlman, 1976; Scott, 1998). Primarily, such critique indicates the impossibility of formal solutions offered by development structures to solve problems perceived to afflict people and/or societies.

Despite this well-represented analysis, the relationship between people and formality itself is often not covered ethnographically. Postsocialist regions in particular, seemingly having emerged from the Cold War through informal popular force demolishing the formal structures of the bureaucratically arranged edifice, have seen anthropologists mostly foraging for the miraculous mushrooms of informal assemblages
in the post-collapse world. Some researchers (e.g. Kharkhordin, 1999; Tismaneanu, 1993) have described formal Soviet society as having cast an iron net over its subjects, stripping away people’s ability for both individuality as well as cooperative activity. In contrast, the new capitalist era was meant to liberate the agency of the people, and to restrain the bureaucratic state system. As James Ferguson (2007) points out, in the brave new world of neoliberal capitalism, informality is increasingly seen as a resource to be harvested for its benefits (see also Dolan, 2012). Informality becomes much like the invisible hand of the market forces, while formal arrangements of the society are seen to interfere with such natural ingenuity. Informality stands for the positive in the traditional, while formal structures take the position of the negative in the modern – a tradition going back at least to Weber’s idea of the iron cage of rational systems (Weber [1905] 2001).

Giordano and Hayoz (2013) introduce their book on informality in Eastern Europe by reminding us that we should not leave good informality to anthropologists and bad to political scientists. Perhaps even more importantly, we should not be content with the division of labour whereby formality is dehumanized and not ethnographically scrutinized. As such, it runs into the danger of undermining our understanding of something very vital – the human condition. For, by concentrating on informality, we are upholding the view that humans are only, and primarily, social creatures. Anthropology, the science of humans, should not assume this to be the case, or establish research in ways that prevent us from seeing the lack of sociability in certain circumstances. Approaching research without such assumptions would demonstrate that humans’ sociability is not their defining characteristic, but can be stronger and weaker, can grow and lessen as well as disappear, and not only in the case of individuals, but of whole social groups. The human condition always has the potential both to be social and to limit sociability to a degree that could be called non-social, a-social, post-social or pre-social.

Discussion the development of post-social anthropology, Marcio Goldman (Viveiros de Castro and Goldman, 2012) points out that social scientists have a tendency to see networks as, in essence, social, when this is not necessarily the case. Strathern (1996) describes how, for instance, ownership and technology damage the network, curtailing the relations between people. Formality, although human-made, goes beyond the obligation to remain social: institutions and structures made to organize people can become inhumane (see also Agamben, 2005), non-social; that is, although they represent power which, at its roots, is
undoubtedly social, its effect on humans who are its subjects (including the creators of such structures) can be the opposite. However, the cases described indicate that, while society is perhaps an inevitable condition of human life, within it, sociality is not always necessary for humans. In fact, formality might be more vital than personal relations and well-oiled sociality to keep going.

**Harmful informality**

The ethnographic examples offered above problematize the assumption that informality is preferable to the institutional and, as such, more neutral formality offered by the state. Informal links are described as personal, close and mutual, and, as such, essentially providing, sustaining people and allowing them to survive. The presumption that personal ability to help and care for each other is positive and better than formally structured relations rests on the ideal of caring communities that are warm, affectionate and able to look after anyone more or less decent within their confines. The reality may be very different. There are situations in which a neutralized setting is desperately needed as a framework for survival. Without it, people go to great lengths to communicate lack of desire to care, while those in need withdraw their demands, leaving broken legs unset, going without a warm meal or medicine, doing without those goods their neighbour could have brought them from town, and, vitally, doing without the relations that such needs and their person-to-person solutions would provide.

It is important to recognize that the informal, personal dimension in such situations is what does or would do damage, and is actively avoided. We are not talking about ‘bad informality’ or bad social capital, but the normal personal relations being eroded and transformed to the degree that they are to be avoided. This did not mean that everyone in the village was keeping to themselves. There were clubs (choral societies, pensioner groups, entrepreneur clubs), and some of the people involved in such settings could certainly be described as the ‘social capital elite’. They account for a tiny minority, however, and in some regions such elites are additionally supported by various neoliberal schemes oriented towards those who can help themselves – excluding the majority, who do not participate in such settings and are increasingly deprived even of the possibility of participating, as prior ability to demonstrate participation may be necessary for support and facilities to be provided (see also Annist, 2005, 2011).
In times of crisis and need, informal relationships and sociality are not necessarily activated. On the contrary, they become even more strained, and further fallout is expected for the people in greatest need. This crisis does not need to be life-threatening, or one in which the majority or all of the residents are facing severe deprivation (e.g. Laughlin, 1974; Turnbull, 1972; Wutich, 2006). Yet, those who were previously part of the same networks are suddenly facing personal, local, regional, societal or global crises, with different capacity to respond to and/or benefit from these – and do not feel or cannot afford mutual compulsion to seek or offer help in an informal manner. In such conditions, formality is the only hope. Preferring the formal to the informal works as a crutch in such circumstances, and is the only, or main, way to seek solutions to needs that cannot be met by the individual alone.

Discussion: Formality feeding informality feeding formality

Kumlin and Rothstein (2005) demonstrate in the case of Sweden that contacts with universal welfare-state institutions increase social trust, whereas the necessity to prove one’s needs undermines it. It is interesting to note that, in the case described by Kay (2011), the very opposite appears to be the case: a non-discriminatory approach to access to a care centre in fact turns away those who are most needy. My explanation of this process is that we are dealing with face-to-face open access, which makes those in newly low ranks of society exposed in their new neediness. This, in fact, demands a more in-depth look into what is meant by ‘formal’. If informal structures inform and compose formal ones, this type of formal structure is much more vulnerable to the harm that informality can cause to the ‘undeserving’, needy poor. This may well be the reason why the positive effect of universality did not apply in Kay’s (2011) Russian village – the universal is defined and composed through the informal, that is, through the need to prove one’s worth, especially in freshly transformed situations, in personal, not even bureaucratic, interactions with care providers.

It was this personal interaction that people in my fieldwork village were rejecting. In fact, Kay is defining two types of care. One is the monetary, distanced and impersonal form of care. The other is the provision of care that requires intimate and involved relationships and interactions, which are more difficult to access for those ‘othered’, seen as ‘undeserving’. In the case of my fieldwork villages, what was directly
lamented was the inability of the existing social structures to provide universally available care for universal needs – such as sanding streets or looking after the elderly. What is particularly striking is the differentiation that we can see evolving between formal provision proper, which is offered to the neediest, and the formal social care that depends on informal care and links. When informal links are severely undermined, seeking such personal yet formally provided care is particularly difficult, as the routes to it are closed down.

Hence, the model offered by Scandinavian welfare states, which had already informed people's views of life under capitalism during Soviet times, especially via Finnish TV, accessible in northern Estonia, addresses those problems. It is at least partly for this reason that otherwise highly neoliberal reforms have not involved a complete privatization of the care systems and are constantly criticized publicly for their poor provision for the needy (see also Cook, 2007). However, as the need has increased for various demographic and politico-economic reasons, the roll-back of the welfare structures has meant that people are increasingly unable to face each other in times of crisis or to appeal to formal structures no longer there or targeting only very narrowly defined groups. At the same time, people also experience increasing pressure to prove their needs to the formal structures that, as a result, become less accessible and useful for them. As a result of such developments, each individual was left to their own devices by the lack of both formal solutions and the capacity to forge informal ties.

When I asked around the village the next day after the incident with Maali – eventually taken to hospital by her son – about the possibility of preventing further falls by simply sanding the paths, people expressed anger at the municipality, which had not done their job of sanding. When I suggested people could sand the paths themselves, I was told they could not get hold of sand. My suggestion of using ashes instead, which people, at least in the oven-heated smaller houses, had plenty of, was rejected as being unhygienic and dirty, and villagers remained adamant that it was an unfulfilled duty of the municipality. However, it is only in a very abstract sense that we could use this as an example of continuing expectations of paternalism. Soviet citizens had to constantly address the shortcomings of the system, which was hardly ever able to provide them with adequate goods or services. It is therefore questionable to suggest that the municipality would suddenly be expected to take on additional functions. The grudging expectations may well have had some part to play, but common solutions were unachievable for reasons that had to do with the new, negative context
of coming together. Pooling resources or otherwise achieving a better common standard of living was rejected, as this would have required coming face-to-face with other villagers who had become the source of embarrassment and shame.

Taking responsibility for communal, cultural and societal organization depends on the existence of trust and solidarity rather than generating it. Yet, instead, the inability of the rural poor in centralized villages to self-organize for help is taken as one further proof of their self-inflicted problems. The already destitute are further marginalized as the social causes of their distant relations (cf. Charlesworth, 2006; Howe, 1998; Kay, 2011). Thus, their need for institutionally provided welfare is rejected and is seen as an example of enduring reliance on paternalistic systems from the Soviet period. This response allows the overstretched structures to become uncommitted, both personally and officially – like the local doctor who did not feel the informal pressure to help and was also freed from the official obligation to act in such moments of distress – adding to this tragedy. As a result, inability to care about helping oneself and one’s community generates new hierarchies of deserving and undeserving poor, communities and cultural groups. There seemed to be notable unanimity in the views of municipal workers, media and various funders that the people in the villages are so passive they cannot be helped. Such an inverted projection of social reality and the pathologization of the poor is present in public discourse and, in particular, in policy-making and materials informing policy-makers.

Poverty in Estonia has been marginalized, and dependence on institutional support is pictured in this cosmology as suffering from ‘learned helplessness’, Soviet attitudes and expectations of faulty mentalities. Nevertheless, this defiance in not letting go of the right to demand state or municipal provision of care services is, in my view, not a sign of lingering Soviet mentalities, enduring reliance on paternalism or even a strictly post-socialist phenomenon. In the Estonian case, it is a reflection of far greater time spans of societal preferences, as well as an example of distanced solidarity: solidarity in demanding a society that is organized and arranged, not through face-to-face contact that may bring humiliation or allow smugness. Instead, this could be seen as lending support to a more universal, shared kind of formal system of organizing and responding to needs. Such solidarity as a society will also provide less familial, and, as such, less socially demanding, forms of care for the individual. The defiant expectation of the right to be served by the state has a certain support in the public discourse that sees Estonia as a Scandinavian country. It is at least partly this strong adhesion to
the ideal of centrally arranged welfare that has not allowed the welfare state to be completely rolled back or prudentialized (Kaya, 2011; cf. Read and Thelen, 2007). While Williams et al. (2011) suggest that informal relations may indicate ability to resist the hegemony of capitalism, I would like to suggest that the resistance to letting go of the formal arrangements of social life may be an equally important mechanism of resistance. Furthermore, the sense of entitlement from the state is not a post-socialist phenomenon, as indicated most recently by a cross-cultural study of seven cultures – the United Kingdom, Uganda, Norway, Pakistan, India, South Korea and China (Chase and Kyomuhendo, 2014; Gubrium and Holstein, 2013). In times of crisis, it is the institutions that people are still turning to, bodies of which they consider they have the right to make claims, and mediators through which they can reach out in moments of need when caring directly has been suspended. Make no mistake: the formal crutches offer no warmth and comfort (cf. Thelen, 2007) – crutches are not like that; they rub and prevent one from moving freely. But they are nevertheless necessary in order to move at all, and potentially to allow one to walk again, and to participate in informal social life.

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References


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Part II

Retheorizing Informality: Power, Culture, Kinship and History
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Seven giant, brightly coloured letters stand in front of the massive Palace of Youth and Sports in downtown Pristina, Kosovo. The letters spell NEWBORN and were erected in celebration of Kosovo’s unilateral declaration of independence on 17 February 2008. At the time of its creation, the monument symbolized what many people in Kosovo hoped for: a prosperous and more secure future. The monument was also a symbol of expectations held by the ‘international community’ that a renewed Kosovo would emerge. Only three years later, the NEWBORN monument had lost its glory and was covered in graffiti. For the celebration of Kosovo’s five years of independence, however, the graffiti was painted over with the flags of all countries that have officially recognized Kosovo.

The story of the NEWBORN monument’s life cycle is metaphorical of the resilience of ubiquitous informal economic practices in Kosovo and of the consequences thereof for development, equality and security for the local population. At first glance, post-conflict and post-socialist Kosovo appears to function fairly well. Yet beneath the surface various complex matters exist, which have been deeply affected by the presence of the formerly powerful international administration of Kosovo. When the United Nations Interim Administration Mission in Kosovo (UNMIK) was installed in 1999, the ‘formalization’ (rather than eradication) of the informal economy was seen as a prerequisite for peace and development (European Commission/World Bank, 1999: 11). Formalization was
to be achieved through co-optation and policies that, by targeting individual businesses, sought to create a friendly environment for private businesses. The establishment of a Kosovo Tax Administration (ATK) and a customs service were among the first measures taken. In addition, the tax regime was refined and costs for business registration were reduced (Organisation for Economic Co-operation and Development, 2009; SME Support Agency, 2009).

Since 1999, then, the topic of informality has underpinned the developmental work performed in Kosovo by the UN, the EU and various international organizations (Business and Strategies Europe, 2007; Kusari, 2007: 2–4). Since 2008, this work has been performed in collaboration with the national authorities, as responsibility over a number of policy areas has shifted from international to national administration. The policy instruments designed to curb informality are generally consistent with a neoliberal conception in which the establishment of formal market institutions is seen as both a necessary and a sufficient condition for formalization to take place. However, despite the anti-informality institutional measures pursued, the Kosovar economy is characterized by ubiquitous and resilient informal economic activities among micro and small businesses (Business and Strategies Europe, 2007; Krasniqi and Topxhiu, 2012; Organisation for Economic Co-operation and Development, 2009; SME Support Agency, 2011; World Bank, 2003). Kosovo is not a unique case. In the literature on post-socialist political economies, there is strong emphasis on the pluralities of capitalism and on how informality has proved resilient or even increased in the face of neoliberal policies (see, for example, Bojicic-Dzelilovic and Bojkov, 2005; Burawoy et al., 2000; Morris and Polese, 2014; Pavlovskaya, 2004; Polese and Rodgers, 2011; Round, 2006; Wallace and Haerpfer, 2002).

According to local observers in Kosovo, the most common articulations of informality concern private businesses that are registered but that operate informally by not reporting their complete income, or any income, to the tax authorities (author’s interview with Grajçevci, September 2010; author’s interview with Abdixhiku, March 2011). Further, informal economic activities have acquired a socially commonsensical and accepted status and are taken for granted by the majority of the population (author’s interview with Abdixhiku, March 2011; author’s interview with business owner Veton, April 2011). The journalist Migjen Kelmendi explains how ‘everybody knows how it works; it goes without saying as it is the normal way to do business’ (author’s interview with Kelmendi, March 2011). At the same time,
the commonsensical social practice of informality in Kosovo involves highly unequal circumstances. In the direct aftermath of the 1999 conflict, a lack of regulations was the most pressing concern. However, only two years later the existence of ‘unfair competition’ was deemed the most pressing impediment. Many businesses state that in their everyday operations they face a number of obstacles that go beyond institutional constraints (Shaipi, 2008; Union of Independent Trade Unions in Kosovo, 2005). Abdixhiku tells of a parallel system ‘built into the grey economy’. Businesses that enjoy a privileged position act in a manner that creates unfair competition and that forces other, less privileged businesses to operate informally (author’s interview with Abdixhiku, March 2011).

For some scholars, the ubiquity and resilience of informal economic practices in Kosovo would be suggestive of kinship-based solidarity against the backdrop of transitional socio-economic hardships and global precarity. Emerging in the 1990s, there is a well-established scholarship on how informality serves as a ‘coping mechanism’ for local populations (see, for example, Benovska-Sabkova, 2002; Bridger and Pine, 1998; Caldwell, 2004; Cellarius, 2004; Humphrey, 1995). Recently, a similar perspective has developed in which informality is theorized as resistance against externally imposed neoliberal structural reforms. For example, in their analysis of post-Dayton Bosnia and Herzegovina, Divjak and Pugh suggest that the lack of a social contract to replace the Yugoslav welfare system has increased people’s reliance upon the informal economy. Informality provides some measure of social cohesion and helps to ‘sustain resistance to the socially alienating neo-liberal economic paradigm’ (Divjak and Pugh, 2008: 383). The informal economy provides possibilities of obtaining goods and welfare services as well as a chance of economic inclusion for vulnerable groups. Without the possibility of resorting to informality, the situation for large parts of the population would be worse (Divjak and Pugh, 2008).

Both the coping and the resistance approach to informality, as well as practice-based accounts that consider informal economic practices as normalized everyday activities (Ledeneva, 2006; Roth, 2002), have contributed greatly to our understanding of the resilience of the informal. Yet, these approaches unwittingly defer important questions. The ambiguities of informality in Kosovo are suggestive of an alternative interpretation of how this phenomenon is constituted, produced and reproduced. In Kosovo, informality seems to nurture informality. Some agents are compelled to operate in the informal economy due to the activities of other agents, who for various reasons enjoy relatively high
status and beneficial positions. In this sense, informality appears to form a hierarchical and unequal social activity. At the same time, informal economic practices have become commonsensical in the minds of people. Informality is taken for granted and undisputed. This situation, marked by intersubjective understandings in the midst of hierarchies and inequalities, is suggestive of a power dynamic that would go unnoticed within the frames of the established approaches. It opens up the need for an understanding of how intrinsic relations of force constitute informality as a commonsensical social practice, while the very effectuation of informal practices as something accepted and undisputed hides the underlying force relations.

In this chapter, I conceptualize informality as a set of practices and explore the potentialities of power and domination within informal economies. Specifically, by analysing practices that produce informality as commonsensical and non-questioned, I suggest that the production and reproduction of informality in Kosovo may be fruitfully analysed as implications of what Pierre Bourdieu terms ‘symbolic power’. Symbolic power refers to the power of ‘world-making’, that is, the power to construct and impose a particular vision of the world that when at its most efficient is made commonsensical and undisputed by the agents involved. Symbolic power is the power of constituting the given in terms of a specific vision of the world, and thereby of constituting action and, thus, the world itself (Bourdieu, 1989, 1991). To change the world, one has to change the vision of the world and its reproductive practices (Bourdieu, 1990 [1980]: 23).

For Bourdieu, symbolic power rests on the possession of ‘symbolic capital’. Capitals (potential powers) are various forms of resources that, when socially recognized as valuable, are turned into symbolic capital that may effectuate gains for the holders thereof. Symbolic power is tied to control over such specific and socially valued resources. As agents are differently endowed with symbolic capital, social life is hierarchical and characterized by relations of domination, subordination or equivalence (Bourdieu, 1993 [1984]: 72–77; Bourdieu and Wacquant, 1992: 97). This is not all, though. For Bourdieu, power is a relational concept. This implies that symbolic power exists only through circular relations of legitimization between agents endowed with large amounts of symbolic capital (‘dominating agents’) and agents that hold lesser amounts (‘dominated agents’). In other words, symbolic power insists on the complicity between dominating and dominated agents as expressed through dominated agents’ practical legitimization of the current order. Symbolic power thus implies domination through an imposition of
certain cognitive categories and templates for action upon dominated agents, who observe, evaluate, judge and strategically operate in the world according to these categories and templates. As a result, dominated agents tend to perceive the current state of affairs as given and unchangeable. Practices that appear improbable tend to be, due to a kind of self-censorship, ruled out as impossible (Bourdieu, 1990 [1980]: 54).

In this chapter, then, I use Kosovo as an illustrative example of how the culture of ubiquity within informal economic practices may be alternatively analysed as constituted through relations of force and, ultimately, the productiveness of symbolic power. In this view, informality is constituted through immanent and productive relations of force that form and come into play in the practical effectuation of informality. These immanent force relations – in terms of resource inequalities and divisions as much as convergences and shared social understandings – constitute agents’ reasons for participating in informal economic activities at the same time as agents’ practical effectuation of informality produces and reproduces the underlying force relations. Circular processes of legitimization imply that the everyday practices and strategizing of relatively less powerful agents may have ambiguous effects. For this reason, it is vital to explore the complexities of informal and to acknowledge the unexpected consequences of human action.

By drawing upon Bourdieusian theorizing, the chapter’s relevance for the study of informal practices lies in how it suggests a broadened understanding of power within the intrinsic constitution of informality. This is closely related to the more general questions of what informality means for the lives of people in post-socialist countries and how we, as scholars, approach this phenomenon. Rather than merely providing a means of coping and welfare and thereby improving the living conditions of local populations (see earlier analyses of Kosovar informality along these lines, for example, Strazzari, 2008; Wennmann, 2005), the chapter is suggestive of how economic informality may also establish, exacerbate and reproduce socio-economic differences. By rethinking informality through a comprehensive power analysis, this chapter problematizes the established view of informal economies as homogeneous spheres of coping and welfare in favour of a more ambiguous understanding. In this way, the chapter proceeds from a point where most established approaches to informality leave off.

The analysis is structured into three parts. First, I explore a moment of the inner dynamic of informal economic practices in Kosovo by analysing the templates for action of a number of business owners.
This part traces agents’ constructions of the informal reality as occurring through cognitive categories and symbolic systems of classification that help agents to observe, evaluate, make sense of and operate in the world. In the second part, I historicize the social practice of informality in Kosovo. The patterned frame of agents’ informal economic practices implies that their readings of and actions in the world are not acts of pure voluntarism. Effectuated informal practices are grounded in historical processes of socio-economic differentiation that underlie differences in capital holdings, particularly with regard to resources that in the present ordering of informality constitute symbolic capital. An exploration of the 1990s reveals how contemporary informal practices of small businesses are only the visible parts of historically conditioned resource allocations that create unity and division among Kosovar businesses. Third, by summarizing the discussion in terms of the potentialities of symbolic power, I demonstrate how informality in Kosovo constitutes a social phenomenon that emerges and is expressed through social practices, which over time and across space have tacitly become institutionalized to the point that informality is considered not only a commonsensical but also an unchangeable state of affairs. Through acceptance, complicity and a circular process of practical legitimation, the informal economic practices of dominated agents turn out to have ambiguous effects, as they end up reproducing the force relations that placed these agents in relatively less advantageous positions in the first place.

**Tracing the inner dynamic of informal economic practices among small businesses**

As a first step towards exploring the potentialities of symbolic power within informal economic practices, I turn to analyse the worldviews and practical orientations of a number of small business owners. By exploring the categories of perception that agents employ in order to make sense of and act upon the surrounding world, this part analyses how the culture of ubiquity of informality is produced and reproduced as people act upon their knowledge and interpretations of the world. A basic dimension of a Bourdieusian understanding of culture concerns principles of vision and di-division, that is, the principles and categories of perception that ground practice (Williams, 2013: 133). The question, then, is how the intrinsic order of informality is constituted, achieved and constantly maintained through the knowledge, interpretations and everyday doings of knowledgeable agents. 

Bekim owns a company that employs six people and that has one store in the centre of Pristina. In his business, Bekim depends upon imported goods. He tells of how other businesses that have the right political or criminal connections import goods without paying the VAT or the correct amount of custom duties. For Bekim, ‘informality is in any restaurant, in any street corner and in any business’ (author’s interview with business owner Bekim, April 2011). Bekim sees himself as a small fish in comparison to the big ones, that is, businesses that he sees as responsible for the current state of affairs. In Bekim’s view, informality comes strictly from above, from the linkages that certain businesses have with politicians and criminals. He claims to know of businesses that every year report a minus in their official accounts but in fact make millions of euros in annual profit. Yet, Bekim does not know how to decrease the level of informality in Kosovo, and he appears incapable of even envisioning such a possibility (author’s interview with business owner Bekim, April 2011).

Since 2005, Fatmir has been the owner of a well-regarded restaurant in Pristina. Fatmir depends upon imported foodstuffs and beverages that he buys from large importers. In Fatmir’s view, some of the importers enjoy links to people in the government. This gives them the support and protection of influential people. By virtue of these links, Fatmir says, certain importers may avoid paying VAT or custom fees. To Fatmir’s knowledge, the relations between advantaged businesses and political agents amount to mutual support (author’s interview with business owner Fatmir, April 2011).

In the city of Prizren in the south of Kosovo, worldviews and experiences similar to those of Bekim and Fatmir are articulated by Agim. Agim owns a company that produces baby products, and he buys most of the raw materials in Istanbul. Agim tells of how he faces unfair competition from businesses that import goods in an illegal manner, often through criminal connections. According to Agim, either goods are imported without any duty being paid or they are labelled with a false code that results in a lower amount of custom duties:

Some of these importers falsify their papers and need only to pay a lesser amount of import duty. These companies do this two or three times – they go to China, get the goods and then import it falsely. When enough money has been made, some of these companies close down and the owners re-start in some other company. Or, the company changes owners and continues its practice.

(Author’s interview with business owner Agim, April 2011)
Kushtrim articulates similar readings of the world. Kushtrim works in small premises in the suburbs of Pristina, in a company that he owns together with his siblings and that specializes in the repair and trade of computers. When he was 14 years old, Kushtrim obtained an internship at a PC shop in Pristina called Data.2. He served as an intern for three months and learned, as he says, ‘all the tips and tricks there are to learn’ (author’s interview with business owner Kushtrim, April 2011). To get the merchandise that he needs, Kushtrim either deals with a person who imports used computers from Switzerland or goes to the warehouses in Pristina. He tells of warehouses where he would not get a receipt even if he asked for it. Warehouses that refuse to offer an official invoice or receipt do this because they would otherwise need to increase the price of the goods in order to cover the tax that they would then need to pay. According to Kushtrim, though, it is always possible to get an unofficial, internal invoice. Unofficial invoices are used because they allow warehouses to keep an internal track of transactions without having to report them to the tax authorities. For Kushtrim, this is not something bad but simply the way it works (author’s interview with business owner Kushtrim, April 2011).

The social space of economic informality in Kosovo contains divergent interpretative frames. Agents such as Bekim and the others display detailed knowledge of the ‘rules’ that guide and order the informal economy. However, there are also agents who, although they share the basic understanding of the value of political and criminal connections, articulate less detailed knowledge of the current ordering of informality. These agents make sense of informality and of their own possibilities for action by linking it to the Kosovar state as such and to the whole of the political sphere. For Agron and Zamir, the enduring character of informal activities implies that the whole political sphere is involved (author’s interview with business owner Agron, April 2011; author’s interview with business owner Zamir, April 2011). Dritan owns a construction firm in Prizren. He started his business in 1993 and experienced the difficult period of the 1990s when Kosovars, as he says, could get no work from the Serbian regime. After 1999, more prosperous periods followed. The initial post-conflict economic boom yielded large profits. At present, Dritan expresses a pessimistic view as his business faces what he understands as unfair competition:

All the tenders that other companies get, it is only because they [the political sphere] are giving it to their people. Politicians have their
chosen companies with which they are in close connection. I would like for all of us to come in the market with the same preconditions. Then, public jobs would be spread.

(Author’s interview with business owner Dritan, April 2011)

For Agron, Zamir and Dritan, businesses that are acknowledged to gain from their political or criminal connections turn into representations of the state and the government as a whole and are considered to exercise authority in the name of the state. The state is seen as being made of and for the distinguished few, who are known to more people than they know and are also worthy of being known. In comparison to Bekim and others who display a more detailed knowledge of the current force relations, these agents construct and activate a greater distance between themselves and businesses that are involved in informal practices. The way in which Dritan talks about ‘other companies’, ‘their people’, yet also of ‘all of us’, and the way in which Zamir expresses his view of the Kosovar state, function, without any intention of distinction, as distinctive signs of how these agents view themselves, what action is conceivable for them, and, not least, what responsibility (if any) they place upon themselves for maintaining the commonsensical status of informality.

In spite of their somewhat differentiated experiences and readings of the world, what unites these agents is a basic recognition of the value of political and criminal contacts and of how the right connections are needed in order to be successful. Recognition implies that specific resources gain a cognitive correspondence in agents who read the world and their own opportunities through categories of perception that recognize the logic of these resources. In other words, recognition implies that specific resources are socially seen as valuable in a certain activity. Thus, resources are never valuable in and of themselves, but depend on a social recognition that turns specific resources into ‘symbolic capital’ (Bourdieu, 1989). This is not something that occurs automatically; it rests upon lived experiences and practical involvement in informality, which, in this case, have taught Bekim, Fatmir and the others on what grounds certain businesses are to be acknowledged as advantaged and how to act – enacting a more or less conscious pattern of trying to reproduce one’s position in this particular social universe. For these agents, recognition effectuates certain practices that are judged to be potentially rewarding; not by directly causing certain actions, but by informing agents of what is meaningful action and of how they can and should operate.
Recognition thus has tangible effects upon these agents’ intuitive and more or less strategic practices. For them, informality is the undisputed and accepted way to do business (author’s interview with business owner Fatmir, April 2011). The informal economic practices of these agents form around double bookkeeping and the use of false or manipulated invoices, contracts and receipts (author’s interview with business owner Veton, April 2011). Contracts and invoices are issued in a manner that hides the identity of the buyer. Receipts may provide false information about the amounts exchanged. Empty receipts may also be issued. Also, these agents commonly obtain fake receipts from other businesses in order to hide the gains from a transaction (author’s interview with business owner Kushtrim, April 2011). For Bekim, the practice of using a double set of invoices for the same transaction is extremely common. One invoice is for internal use and shows the real price. The other is for external use (that is, for the tax authorities) and demonstrates a fake amount (author’s interview with business owner Bekim, April 2011).

Agim tells of how the companies that buy his products commonly want to avoid a completely formal transaction. Agim works with false invoices that have been issued either in the name of individuals (rather than in the name of the buying company) or in the name of X, that is, without specifying the identity of the buyer. In this way, the company that buys his products may avoid declaring its sales and thereby avoid paying some of the required taxes (author’s interview with business owner Agim, April 2011). Fatmir is involved in similar practices, but from another perspective:

I buy everything for the restaurant from large importers. Many of these companies falsify their papers in order to avoid custom fees and VAT. So I get an invoice that shows half of what I have spent. And then, when I am to declare my expenses and potential profit, I need to hide part of the profits because otherwise it will look extremely high due to the false lesser amount of expenses that I have in the papers.

(Author’s interview with business owner Fatmir, April 2011)

Although informal economic practices in contemporary Kosovo are, as we shall see, strongly shaped by the dynamic of the 1990s, they also point to agents’ ingenuity in the present. The establishment of a regulatory framework and a tax administration has strengthened the external control of businesses. Yet, during the last decade, informality has turned into a constituent component of the formal market. Thus, informality is
not produced and reproduced once the formal institutional framework has weakened, but is symbiotically tied to the emergence and functioning of the formal economy and the institutional setting in the first place. In adapting their practices to the post-socialist and post-conflict situation, agents display innovative ways of distancing themselves from the formal regulations without abandoning them completely. In fact, agents display great ability in utilizing the formal regulations and the gaps therein. Also, as informal practices rely on attributes that are commonly associated with formality, such as contracts, receipts and bookkeeping, they support the façade of a formal economy while tacitly undermining it.

Historicizing the ubiquitous practice of informality

The decade of the 1990s is of crucial importance for how informal practices play out in contemporary Kosovo. On the one hand, the 1990s epitomize the culmination of the struggle for independence. This period cemented a sense of national pride and solidarity. On the other hand, the 1990s epitomize the formation of resource inequalities that underlie the contemporary ordering of informality. In this section, I explore the process of socio-economic differentiation through which contemporary categories of perception, routines and practices were formed. The possession of valued resources that mobilize certain practices and that distinguish between, yet also connect, Kosovar businesses is, in this way, the product of historical processes and struggles.

In 1989, amendments that abolished Kosovo’s autonomy within Yugoslavia were made to the Yugoslav constitution (Babuna, 2000). This was met with rage among the Kosovar population (Hockenos, 2003). Riots broke out and a state of emergency was declared. By the autumn of 1989, the gap between Serbs and Kosovars was greater than ever before. Around this time, the idea of a non-violent resistance was born. Ibrahim Rugova and the Lidhja Demokratike e Kosovës (Democratic League of Kosovo, LDK) spearheaded the Kosovar movement and called on Kosovars to organize and collect funds for the creation of parallel state structures (Kostovicova, 2005; Vickers, 1998). In the early phase, the parallel state was a largely unplanned phenomenon (Pula, 2004). Nevertheless, the maintenance of parallel institutions soon demanded efforts of social control and coercion. With LDK, the pacified resistance gained structure (Maliqi, 1998). Non-violence and the parallel state brought forth a large-scale informalization, as the majority of Kosovar businesses began to operate informally in relation to the Serbian
authorities. Of the taxis, buses and vans that were registered, twice as many operated unregistered (Vickers, 1998). Also, many Kosovars established their own private businesses, particularly within trade and services, and informality was a given feature of many restaurants and hotels (Babuna, 2000; Judah, 2002; Maliqi, 1998). Kosovo’s transition from socialism to a market economy started during this period (King and Mason, 2006).

At the same time, the Balkan wars were fuelled by tacit collaborations between political, economic and military elites that crossed crumbling national borders. This paved the way for war entrepreneurs who benefited from new smuggling channels. Kosovo turned into an important crossroads (Woodward, 1995). The ‘pax mafiosa’ and smuggling activities that developed in the border areas between Kosovo, Serbia and Albania help to explain the relatively peaceful yet tense status quo that characterized everyday life in the Kosovar parallel state (Strazzari, 2007). A stable Kosovo was important for the proliferation of informality and criminality in the Yugoslav territory as a whole. The situation was particularly favourable for businesses that managed to forge links of mutuality with political elites, criminal groups and militias. After 1999, the **Ushtria Çlirimtare e Kosovës** (Kosovo Liberation Army, KLA) was officially dissolved. However, members of the KLA continued to assert authority over politics and economics (International Crisis Group, 2000; Strazzari, 2008). By appropriating former socially owned enterprises and other assets, the privileged few could divert material resources to their own benefit. The international administration’s focus upon security and stability implied a quiet acceptance of this socio-economic restructuring (Pugh, 2005).

Recently, observers have noted an increased politicization of the economy (Knudsen, 2010; Zogiani, 2011). Procurement and privatization processes involve a bending of the formal rules and regulations in a way that disproportionately benefits certain businesses at the expense of others, often more qualified (Anti-Corruption Agency, 2010; Olluri, 2012; Youth Initiative for Human Rights, 2010). Public officials are subject to pressure from political agents who want to influence the process (Jahaj, 2012; Kosovo Stability Initiative, 2010). Documents and licences are reportedly being falsified. For example, contracts may be vaguely formulated in order to facilitate a bending of the formal regulations. Contracts may also be formulated in highly specific terms that *de facto* point in the direction of a single supplier that would otherwise not have gained the contract (Anti-Corruption Agency, 2010; author’s interview with Senior Manager of the Kosovo Tax Administration, April 2011).
In addition, there is a strong criminal influence over economic matters (Reljić, 2009; author's interview with Shahini, September 2010; author's interview with Salihu, March 2011). Secret service organizations with links to political parties are allegedly responsible for upholding the current order (Montanaro, 2009; Phillips, 2010b). The Shërbimi Informativ i Kosovës (Kosovo Information Service, SHIK), which consists mainly of former KLA fighters, is deemed particularly important (Kosovo Stability Initiative, 2011; author's interview with Kelmendi, March 2011). According to Phillips (2010a, 2010b), SHIK controls a large share of the privatization and procurement processes and receives financial contributions when a contract is awarded to certain businesses.

The immediate post-conflict period cemented economic patterns and configurations as they had been established in socialist, pre-conflict and conflict times. The process of socio-economic differentiation, with its roots in the 1990s, has been absorbed into the present economic system and reveals itself as regularities that systematically place certain businesses in a better position than others to win contracts in openly announced procurement processes, win public bids despite their operating licence having been withdrawn, gain licit and illicit profits from processes of privatization, and variously benefit from the protection and involvement of criminal groups. These regularities depend on underlying differences in capital holdings that create unity and division among Kosovar businesses. Particularly important is the value granted to political and criminal contacts. Links to political and criminal agents appear to distinguish advantaged and dominating businesses from dominated ones. For example, the right political contacts may provide certain businesses with private acquisition of public goods, services and assets. To benefit certain businesses, political agents may exert pressure upon state officials who manage procurement processes. Criminal contacts may provide access to smuggling channels or contraband goods.

The status and informal practices of dominating businesses thus depend on links to political and criminal agents. Differences in holding of these capitals create an internal hierarchization of the informal economy. Yet, any gains from holding the right political and criminal contacts are never automatic, but need to be continuously earned. Mutual demands of loyalty may be discerned, as dominating businesses profit financially from their links to political agents, who, in turn, enjoy opportunities to gain political and financial support (author's interview with Shahini, September 2010 in Pristina). In a study of the results of public investments and procurement processes, Haraqia and Bajrami show how political agents and political parties are financially supported
by affiliated businesses that, in turn, are awarded contracts, tenders and other advantages at the expense of more qualified businesses (Haraqia and Bajrami, 2011: 26–30).

Furthermore, the systematic regularities and the internal ordering of informality in Kosovo imply that the holding of political and criminal contacts influences not only dominating businesses but also businesses dominated from afar that are relatively less equipped with symbolic capital. In other words, as we have seen, the status of dominating businesses depends on dominated agents recognizing the value of the identified resources and legitimizing — through their own practices — such valuing. This brings us to the discussion of the potentialities of symbolic power within informal economic practices in Kosovo and of the extent to which dominated agents perceive the current order as given and unchangeable.

**Split consciousness and the presence of symbolic power within informal practices**

In this section I will summarize the discussion by exploring the potentiality of everyday informal practices to produce and reproduce through the presence of symbolic power. In spite of heterogeneous everyday situations, dominated agents such as Bekim, Fatmir and the others adhere to the imposed *doxa* of economic life and engage in informality for reasons that are not the direct result of the ‘decline of the state’ but are moulded through their lived experiences and shared understandings of what is going on and what forms of action are necessary. The reconstruction of the culture of ubiquity of informality in Kosovo illustrates how — through dominated agents’ recognition of political and criminal contacts as valuable resources and their engagement in meaningful practices — immanent and productive force relations form and come into play in the practical effectuation of informality. In other words, informality in Kosovo is reproduced through a circular rather than a top-down logic, in which relations of force constitute agents’ reasons for participating in informal economic activities at the same time as agents’ practical and strategic effectuation of informality produces and reproduces the underlying force relations.

The symbolic power to define and constitute informality as common-sensical, and thereby to constitute material actions, thus occurs through the susceptibility of all involved agents. The act of recognition informs agents of meaningful action by defining what is necessary, suitable and wanted. At the level of everyday doings, dominated agents practically
construct the necessity and taken-for-granted status of informality as much as their statements express it. Further, dominated agents’ ability to recognize and to play the informal game implies that their practices may have ambiguous effects. Through their practical effectuation of informality, dominated agents legitimize the underlying force relations through which they ended up in a relatively worse position in the first place.

The ambiguity of participation illustrates the lack of questioning of the current order upon which the presence of symbolic power within informal practices rests. Symbolic power is only partly a power that is recognized: ‘a power or capital becomes symbolic, and exerts a specific effect of domination, which I call symbolic power or symbolic violence, when it is known and recognized, that is, when it is the object of an act of knowledge and recognition’ (Bourdieu, 1987: 111). Symbolic power is also a power that is exercised through the complicity of those ‘who do not want to know that they are subject to it or even that they themselves exercise it’ (Bourdieu, 1991: 164). For dominated agents, the current order of informality in Kosovo is not only commonsensical but also non-questioned and internalized to the point that it appears unchangeable. Although some of these agents have a very detailed knowledge of current force relations and display a feeling of being compelled to engage in informal activities – they are the ‘willy-nilly of informality’ (author’s interview with business owner Fatmir, April 2011) – dominated agents’ interests in operating informally are tacitly formed and acted upon in terms of the interests of dominating agents. Indeed, dominated agents are not able to articulate any direct threat or punishment that would follow if they did not adhere to the doxa of economic life, nor do they express any possibility of meaningful choice. Rather, they understand the current order as given, accept its implications and subordinate themselves to the state of affairs, as they are unable to envision any alternative order. For Kushtrim, ‘everything pertains to the informal economy’ (author’s interview with business owner Kushtrim, April 2011). Likewise, Bekim has no idea how to decrease the level of informality in Kosovo (author’s interview with business owner Bekim, April 2011).

One reason for not questioning may be a quest for security and meaningfulness. Dominated agents are subjected on a daily basis to the implications of an unequal capital distribution. This is likely to produce demystification and naturalization of the current force relations. At the same time, dominated agents’ practical knowledge and their enactment of informal economic practices provide them with a sense
of security and meaning. By knowing the world, agents gain a sense of security and of being in the world. The ability to play the informal game may thus give dominated agents a sense of meaning, security and of being recognized, despite the fact that the very same game implies that they continuously end up disadvantaged. Indeed, complicity implies that dominated agents, through their own informal practices, exercise symbolic power and institute the particular structure of meaning and practices that reproduces informality as given and unchangeable.

That said, it is vital to note the tension between the structural and practical conditioning of informality (which also opens up the potential for change). While dominated agents are critical of the situation in which they find themselves, they are also practically orientated in line with the underlying force relations. Through their practices, dominated agents constitute themselves in relation to relatively more powerful agents and subject themselves to the force relations that they, at times, verbally reject. This tension can be grasped through what may be called a ‘split consciousness’. Dominated agents display a state of split consciousness insofar as they are verbally, and at times publicly, critical of the current order of informality while adhering to it in practice – and this by masking even from themselves the implications of their own practices for the reproduction of the order that dominates them. A sense of powerlessness may be noted, as for these agents informality necessarily comes from above (author’s interview with business owner Bekim, April 2011; author’s interview with business owner Zamir, April 2011). Dominated agents do not consider their own actions to have any influence. Any course of action other than what they currently engage in is deemed unthinkable.

Conclusion

By analysing informality as a set of practices that constitute, produce and reproduce informality as something given and unquestioned, this chapter has explored the potentialities of symbolic power and domination within the informal economy in Kosovo. Practices entail a focus upon what people do, in conjunction with what they say and at times in opposition to it. In this view, informality emerges as a particular relational configuration organized around specific meanings and templates for action, in which the susceptibility and effectuation of informal practices by all involved agents contribute to the temporary fixing of meanings and practical doings that enable the differentiation between dominating and dominated businesses. Through a circular logic and the
practical, yet not necessarily verbal, complicity between dominating and dominated businesses, Kosovar informality is turned into a commonsensical and unchangeable state of affairs in a manner that hides the underlying asymmetries in power.

This chapter has also shown an alternative approach to explore informality and resilience. The circular reproduction of informality implies that the practices of dominated agents turn out to serve a power that is not held by any particular individual. Informal practices may only be rendered meaningful in relation to the system of immanent relations of force. In other words, the resilient character of informality in Kosovo does not depend upon repeated interactions but upon how this system – although expressed in repeated interactions – is situated in and developed through shared webs of meaning and practices. To understand resilience, then, the true object of analysis is not individual agents who operate informally but the hierarchical system of domination, which – above and beyond the level of interaction – constitutes agents’ practices in the first place. Any particular informal interaction may only be assessed against this backdrop and ‘culturally decoded’ through a comprehensive power analysis.

Notes

1. The concept of ‘economic informality’ refers here to the income-generating economic activities of businesses that, through avoidance of official tax rates and duties, occur outside the official regulative accounts of the state (cf. Neef, 2002; Williams, 2009). This definition should be conceived of in mere descriptive terms in order to avoid normative or teleological interpretations in which, following a not-yet-there reasoning, informality poses barriers to development along the ‘normal’ path of market capitalism. Also, in transcending the simplistic formality/informality dualism, informal economic practices have been shown to occur not outside the formal economy but while firmly embedded within it (for a similar critique and discussion of the continuum of informal activities, see, for example, Harding and Jenkins, 1989; Morris and Polese, 2014; Routh, 2011; Verdery, 1996; Williams and Round, 2007).

2. Micro and small private businesses make up a large section of Kosovo’s national economy. In 2010, around 98% of all registered businesses were categorized as micro (individual businesses dominate the ownership structure) and 1% as small. The criterion for categorizing enterprises is the number of employees.

3. See Danielsson (2014) for an analysis of how the idea of ‘informality’ has been conceptualized by a variety of theoretical schools and how these conceptualizations have subsequently been put to use and acted upon through the policy instruments and practices of international organizations in Kosovo. The empirically thinkable/unthinkable in relation to informal economies is
in this way produced and reproduced through interlinked methodological assumptions, explanatory premises, research techniques and policy instruments.

4. A cautionary note about the scope of this chapter is in order. As an illustration of the value of rethinking informality through the concept of symbolic power, the chapter seeks to provide neither a complete explanation of informality in contemporary Kosovo nor a full-fledged Bourdieusian analysis of the phenomenon. Rather, the idea is to pursue a ‘critical intervention’ into scholarly and practitioner discussions about informality in a way that initiates a dialogue about informality, power relations and domination rather than closing a debate.

5. The research material for this part consists predominantly of interviews with owners of small businesses that were conducted during a longer fieldwork in Kosovo in 2011. Templates for action are not easily observed from the outside. For this reason, qualitative interviews are best suited as a research technique, as they allow a reconstruction of agents’ viewpoints and of how agents have internalized certain visions of the world (Pouliot, 2013: 51). All respondents have been given pseudonyms. Questions concerning everyday operations and business strategies guided the discussion. As the topic of informality could prove sensitive, I did not bring it up as such. Yet, most respondents perceived double bookkeeping, false documentation and other informal practices as given parts of their everyday operations. For this reason, informality was not a difficult topic to discuss, although most respondents did not equate their own practices with those of the informal economy.

6. This is not to deny that informality has played a key role in state formations and deformations throughout the Balkan region ever since the Ottoman era (Barkey, 1994).

7. Doxa is the ‘set of rules’ and ways of acting that define what is taken for granted (see Pouliot and Mérand, 2013: 27).

References


**Interviews**

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Grajçevci, Naser, director of the SME’s Support Agency at the Ministry of Trade and Industry, September 2010 in Pristina.

Kelmendi, Migjen, journalist and broadcaster, March 2011 in Pristina.


Salihu, Labinot, executive director of KUSA, March 2011 in Pristina.

Senior manager, Kosovo Tax Administration, April 2011 in Pristina.

Shahini, Agim, executive director of Alliance of Kosovar Businesses, September 2010 in Pristina.


The Importance of Having štela: Reproduction of Informality in the Democratization Sector in Bosnia

Karla Koutkova

Introduction

Dejan, a 38-year-old ‘local’, stands out as an energetic, outspoken, self-confident entrepreneur. He is a true jack of all trades, active in many sectors: politics, private consultancy, non-governmental organization, and boat tourism in his Herzegovinian hometown. Sharing a ride from an anti-corruption workshop held in the outskirts of the city, I listen to a conversation between Dejan and his younger co-worker Jelena. Dejan seems agitated by the interactions between representatives of the EU and local NGOs at the workshop. According to him, people who design criteria for local project evaluation have no legitimate grounds on which to judge them:

[the EU] have some system of awarding projects on the scale of 5 to 10, just like at school. But, there is no way of knowing what passes for 5, what passes for 10, what passes at all. There is no feedback, no guideline for how to make their decisions. These are some sort of attempts at formalizing this procedure, making it more transparent, but in the end it is totally ko fol.

At this point, both Jelena and Dejan speak with a mixture of disdain and anger. Dejan, who is in the driver’s seat and trying to keep his eyes on the road but gesturing dramatically with his right hand, starts to elaborate on how it works ‘in this business’ – with the obvious conclusion: in the end, the funding that you get for any project depends on who you know (ko je sa kime dobar) rather than on some transparent criteria. Driving far past their destination in the Sarajevo neighbourhood of Grbavica,
I capture a part of Dejan’s narrative about intricacies and connections within the democratization sector in Bosnia:

But you know, how it works usually, I mean, how this project indicators and priorities become formulated… So there is this guy Pavol who is from Slovenia, who gets hired as a consultant. He comes from Slovenia, writes up the project priorities and some ko fol analysis of the situation. But Pavol is on good terms with Brigita who has a consultancy firm in Slovenia, which usually implements these projects, so Pavol is going to ring up Brigita and write the project the way that Brigita’s company seems like the best match to do it. Then Brigita applies together with someone from Greece, [at this point I start to lose track of people and places due to Dejan’s rapid speech] and then they invite to seminars only people who they are comfortable with and we are out of the game.

(Field notes, 19 June 2013)

The capacity in which I have known Dejan throughout my fieldwork in Bosnia3 (2012–2013) is that of a civil society leader active in the anti-corruption movement ACCOUNT. This group of externally sponsored non-governmental organizations was formed in November 2012 in order to fight corruption and štela, the Bosnian colloquial term for social connections and their use in both public and private sector. However, during my conversations with Dejan and other informants on both sides of the recipient–donor relationship, it became clear that štela was not only an informal practice to be eradicated by joint efforts of the ‘locals’ and ‘internationals’. Rather, it presented an interpretive filter through which social and institutional relations were read and which influenced how one navigated them. This was pertinent to both the ‘local’ institutions and to the plethora of international democratization, governance and aid-distributing agencies that governed the country.

This chapter seeks to expand our thinking about informality and (post-)socialism beyond the fixed binary of ‘formal rules’ versus ‘informal practices, institutions and networks’ and beyond the association of informality with socialist or transitioning economies. While the categories of ‘formal’ versus ‘informal’ have informed much of current scholarship on informality (Christiansen and Neuhold, 2012; Helmke and Levitsky, 2006), this chapter points out cases in which such rendering was analytically unhelpful. Furthermore, by bringing in various actors within the democratization sector in Bosnia, the argument departs from the notion that informality and informal practices are an
inherent feature of Eastern European societies. Instead, it investigates how the language of štela helps to communicate concepts, ideas and identities. The aim here is, thus, not to essentialize štela as something unique and representative of Bosnianness but, rather, to examine it as a multi-layered system co-produced by both the local and international actors.

**Origins and concept of štela**

If you ask a Bosnian ‘what does štela mean?’, the immediate, common-sense response will be about a person or a connection that one needs to ‘get by’ in most aspects of public life, ranging from once-a-lifetime to everyday needs. Typically, responses will include getting a job, getting medical treatment (e.g. surgery), getting bureaucratic paperwork done, getting enrolled into a university, or successfully passing university exams and specialized courses (such as in the medical profession). If you further enquire: ‘who can be your štela?’, the response will be less definite: anyone, you just need someone to set it up for you. It is only deeper into the conversation that one uncovers the multi-layered meanings of štela and the significance it holds in organizing public life in Bosnia and Herzegovina on almost any level. The lived semantic denotation of štela is not entirely negative as one would observe in experience-distant concepts, such as corruption, clientelism or patronage. Unlike most of these, it can be used in a playful manner across paradigms of public and private life. In the words of Katnić-Bakaršić, štela and its derivatives [i.e. derived verbs such as (na)šteliti, imati štelu – to provide štela, to have štela] have a less negative connotation than the word “corruption”: they are “softer” and more connected to private than to public discourses, although [they are] increasingly common in public discourse.5

The joyous, playful nature of štela has been brought up in many conversations I have noticed during fieldwork. In this sense, the difference between corruption and štela is neatly articulated in the words of Dejan:

Here, you should understand, the common perception, the understanding of corruption is very blurred...people are educated, taught to act in a certain way. Ever heard of the expression marifetluk? You know, it is from the family of turksisms in our language, like the words čeif or merak...Well, Marifetluk that is something irregular, it is not entirely bad or negative, but it is like you muddle through (mučkaš, petljas) the system, you manage to get something out if (nešto izvučeš),
it is playful but also flattering in some respect. People will say: look at him, he did all right for himself.

Marifetluk here represents the positive aspect of štela. In Dejan’s vivid account, it embodies joy, pride and mischief. It is important to know what’s best for him (zna za sebe) or ‘find a hole in the law’ (našao je rupu u zakonu), earning good dough (zaradio lovu). Similarly, people who refuse to take part in the ‘the system’ will be called out and ridiculed: ‘if you don’t take opportunities, your neighbours, everyone will call you a fool (budala). People admire those who manage to get by (koji su se snašli).’

On one of our morning encounters over coffee in café Sova, Dejan mentions the example of his late aunt, who through a štela-based circumvention of the system managed to build a house during the war ‘for only a hundred marks’. During the total chaos of the first years of the war, she managed to claim land that ‘was not exactly hers’ and found somebody at the municipality who would let her get building material from an abandoned factory nearby. Through these informal connections, she also got a series of loans that she never had to pay back. As Dejan narrates the story, it is becoming clear to him that he too sees the unusualness of the situation and the ways his aunt ‘got by’ as twisting the letter of the law. But, it is with a sense of pride that he explains that ‘smart’ people learn how to navigate and then stay afloat. Those who do not take advantage in such situations are called fools. Hence, his nemoj biti budala (‘don’t be a fool!’) serves as encouragement to be creative about the formal procedures; succeeding in doing so will yield a higher social recognition in one’s referential group.

Dejan’s story illuminates the three possible emic denotations of štela in colloquial Bosnian language. The first-layer immediate response generated in an initial encounter with a curious foreigner is the štela-person. This is the acquaintance Dejan’s aunt needed at the provisional municipality to get the semi-legal building material. The second layer, štela-act, adds a dimension in which štela is increasingly mentioned as ‘something that is done’ rather than ‘someone to be had to set it up’. Finally, an immersion in the discourses in which štela is used, the implications of its use, the variety of actors enmeshed in it as well as the omnipresent sense of lack of individual agency in avoiding its unwritten rules, helps to flesh out the final layer: štela-system. Throughout Dejan’s narrative, as well as in other interlocutors’ accounts, it is obvious that ‘system’ refers to both the complex yet dysfunctional formal governance structure and the informal system of štela.
Beyond ethnicity and kin

As systems of informality are rarely documented in written form, in tracing the origins of the štela system one must rely on second-hand historical and anthropological research related to norms and expectations imposed on inter-personal and community ties, norms of reciprocity embedded in cultural and religious traditions. In this literature, Sorabji’s (2008) article ‘Bosnian Neighbourhoods Revisited: Tolerance, Commitment and Komšiluk in Sarajevo’ is the sole attempt to uncover the origins of systematized favour and gift exchange. In exploring the change and ‘betrayal’ in neighbourly relations during the war, she places komšiluk as a ‘positive political force and […] a value alongside citizenship’ (Sorabji, 2008). Without unnecessarily over-romanticizing the nature of neighbourly relations, komšiluk served as an important social glue in a traditional Bosnian society that cut across ethnical demarcations.

The norms and values of komšiluk were similar to those associated with štela. Based on Hayden’s premise, ‘the institution of komšiluk […] established clear obligations of reciprocity between people of different “nations” living in close proximity’ (2002: 206). Sorabji (2008: 104) furthers this claim by conceptualizing komšiluk as primarily a moral space, as she refuses to see it as a rationally calculating behaviour optimizing one’s personal revenues in a favour economy. The key organizing principle in her account is duty: ‘[D]uty with religious overtones, a duty that is sometimes pleasurable and profitable, sometimes painful and testing, but never a morally neutral choice’ (2008: 104). She juxtaposes, however, this finding with veze, a term that literally means ‘connections’. Unlike štela, it can be used in a neutral sense and can denote any kind of relations outside a štela relationship. Sorabji considers that veze lack the degree of moral commitment she finds typical of komšiluk. For example, ‘[i]f a person consistently fails to return or acknowledge a favour the veze relation ends’ (2008: 105). Despite the difference between the nature of obligation connected to one’s role as a member of komšiluk and that of acting in a štela relationship, it cannot be unnoticed that one would not be able to do without the other: the communitarian spirit and moral duty connected to komšiluk helped to foster relationships between individuals that were based on trust and that brought the notion of reciprocity from the private sphere to the public. The social structure of komšiluk provides the key to understanding the strength of ties that were originally employed in a štela-act, in which the notion of kin often transgressed ethnic boundaries.
The primary place to look for a štela is among one’s relatives and kin members. Due to the workings of komšiluk, however, the notion of blatant familism has to be problematized: first of all, it is not only family members and ethnic in-group that characterize a strong tie in the Bosnian context (Granovetter, 1973). In mixed neighbourhoods, such a role could have been performed by any nationals living in a shared moral space of komšiluk. Similarly, in the ethnically divided town of Mostar, štela worked across formal divisions, parallel institutions, and deep trauma that separated former neighbours. Sitting and talking about how things were sorted out in Mostar after the war, my local informant Amela, a 34-year-old civil society activist currently living in Sarajevo, told me a story of her father, who had a chronic heart disease. While both her parents lived in the Bosniac part of the town and attended hospital there, it was known that the hospital in the Croat area was better. In order to secure the best possible care for her husband, Amela’s mother, who was a dental assistant, contacted her friend, a nurse at the Bosniac hospital, whose pre-war colleague worked in the Croat hospital and was married to one of the leading doctors in the cardiology department. Together, they set it up for Amela’s father to get an appointment and subsequent treatment in hospital ‘on the other side’.

Even if it is often lamented that the spirit of neighbourliness characteristic of pre-war society has died out, it can arguably be shown that štela relations have not fallen into the trap of post-Dayton omni-ethnicizing, and that when it came to ‘setting it up’ ethnicity was not the key demarcation.

**Informality as a local practice?**

Current studies of informality in the space of Central and Eastern Europe tend to portray informality as a set of locally embedded practices, growing out of cultural and other societal idiosyncrasies (Ledeneva, 1998, 2008, 2013; Morris and Polese, 2014a, 2014b; Pardo, 2004; Polese 2008). Alternatively, they offer a top-down view, in which the ‘informal’ is firmly fixed as the opposite of and residual to formalizing initiatives of state- and institution-building (Christiansen and Neuhold, 2012; Helmke and Levitsky, 2006; Pejovich, 1999). Contrary to those views, the ethnographic material presented in this chapter renders the dichotomy of ‘informal’ versus ‘formal’ as analytically unhelpful, and departs from the view that informal practices, such as štela, are a purely local, Eastern European or post-socialist phenomenon.

Studies of informality in post-socialist space have relied on the concepts of ‘informal networks’, ‘informal institutions’ and ‘informal
practices’. Favoured by sociologists, the informal networks-based literature builds on the accounts of strength of ties (Granovetter, 1973) and social network analysis (Scott, 2000). In political science, presenting informality as an institution sprang out of North’s (1990) account of institutionalism in which he focuses on the rule-governed components of human interaction. In the case of formal institutions, both the constraints and the sanctions imposed on human behaviour were codified in written form. In this school of thought, informality takes on a residual role: the extent to which informal channels are relied upon depends on the extent of state weaknesses (1990: 40). Works of neo-institutionalist scholars remedy the lack of attention by putting informal institutions in the forefront and seek to develop a theory that would explain their emergence and role in a formal institutional setting. The common denominator among definitions of informal institutions sees them as ‘socially-shared rules, usually unwritten, that are created, communicated and enforced outside of officially-sanctioned channels’ (Helmke and Levitsky, 2006; Pejovich, 1999).

The last concept, ‘informal practice’, was initially adopted by scholars writing on the localized practices of blat and guanxi, the Russian and Chinese systems of provision. Ledeneva (2008: 119) defines informal practices as ‘people’s regular strategies to manipulate or exploit formal rules by enforcing informal norms and personal obligations in formal contexts.’ Similarly to Bourdieu’s concept of habitus (1990), she sees the function of informal practices as responsive to current needs: in state centralized economies, for instance, their role was to compensate for shortages in the state distribution system. However, once the centralized control is removed, their function shifts to ‘active exploitation of weaknesses in the new systems’ (Ledeneva, 2008: 119). The Bourdieusian approach to informality as a practice, reflected in the studies within the post-socialist realm, aims at sensitivity towards the emic understandings of informality, seeing the practice as outside normative categories. Agency in reproduction of the norms and ‘culture’ of informality remains with a local set of actors. The assumption that informality is an objectified phenomenon, localized primarily in non-Western societies, however, is questionable in contexts of limited or non-existent statehood, such as Bosnia.

**Democracy assistance and the ‘two worlds’**

Bosnia has been a primary target of international humanitarian and, later, development assistance since the end of the 1992–1995 conflict. Eighteen years after the end of the war, the presence of a large number
of multilateral, bilateral and private organizations allocating donor aid is still justified by goals that have not been met, including sustainability of domestic institutions, fully accomplished democratization and EU integration (Fagan, 2006, 2010; Hafner-Ademi, 2012; Huskic, 2011). Reports on donor activity indicate that, even in times of global crisis, donor funding is on the increase, as the external assessments of state institutions range between ‘failed state’ (Huskic, 2011) and ‘lacking popular legitimacy’ (Bieber, 2004). Hence, the primary goal of democracy assistance has been to develop formal state institutions and foster electoral participation. However, non-electoral civic participation through civil society funding became an elementary component of democracy assistance. Similarly to other post-socialist countries, civil society was generally assumed to be non-existent prior to democratic transition. The new focus on civil society aid resulted in a boom in NGOs that had not existed prior to the supply of donor aid.

In the specific context of development initiatives in post-conflict countries such as those of former Yugoslavia, developed and flourishing civil society was considered to be an indicator of successful state-building. This logic was adopted by most of Bosnia’s international donors focused on democracy aid. The total amount of annual funding (342.8 million euros in 2011, DCF BiH) as well as the proportion of funding going to civil society aid made Bosnia the primary target in the region. Among the multilateral, bilateral and private donors, the EU/EC (with 4.2 million euros for civil society, DCF BiH, 2011) and the U.S. development and humanitarian agency USAID (1.67 million euros, DCF BiH, 2011) have been identified as the most important donors in terms of size of funds distribution and of perceived importance among civil society organizations (Hafner-Ademi and Fagan, 2012).

The importance of informal social networks and associations began to attract international policy-making towards the end of the 1990s. At this time, the (missing) associational life and civil society were, in some of the literature, held accountable for the lack of trust and cohesion in Bosnian society. This was, for instance, reflected in the World Bank’s (2002) research on social capital and trust towards local institutions, the UNDP-funded ‘Trust in Transition’ study (Håkansson and Hargreaves, 2004) and the UNDP (2009) study on social capital in Bosnia and Herzegovina. The report contained data about the overwhelming pervasiveness of štela in Bosnia and Herzegovina on both quantitative and qualitative levels: štela was documented as presenting a very important system in the life of Bosnian citizens, the terms and conditions of which were known to most of the respondents.
Conversations that I had in Bosnia during work on this report, and after it was finished, convinced me that the phenomenon was far too complex to be dismissed as simply a ‘local’ or ‘localized’ practice. From the emic perspective of my local informants, štela was a modus operandi not only of the local individuals and institutions, but also of international ones. It seemed to be the constitutive principle of ‘formalized’ or ‘formalizing’ procedures, in that staff of both local and international agencies understood their pro forma fakeness, while reading, interpreting and acting out those procedures through the prism of štela.

Štela, mahalanje and the ‘2 × 2 × 2 method’: Building democracy from below

On the long and windy road through Herzegovinian vineyards, chatting with driver Franjo makes our time in the white Škoda Lipa, the official Mission vehicle, pass faster. One of the first things I learn about Franjo, shortly after getting in, is that he defines himself as Croat and Catholic, originally from Sarajevo. Before the war, he had worked as a traffic policeman, but later he could not continue this job because of being mobbed by colleagues of other ethnic and religious backgrounds. […] Shortly before we reach Mostar, a police officer stops us. Franjo greets the police officer and starts excusing himself. After a while, his strategy changes – he asks the policeman what he did before the war, and tells him that he, himself, worked for the police. The officer seems to slightly warm up to this information. Franjo continues with dropping names of former colleagues until eventually they find an acquaintance they have in common. As this person happens still to be working with the police, Franjo begs the officer to just give him a call and verify that they had indeed served together. The officer dismisses this offer and gives Franjo a warning to watch out for the speed limits, and we proceed on our way.

The meeting in Tomislavgrad, chaired by my local colleague Senad, took place at the premises of one of the participant NGOs, in an unheated room with one long table covered by a plastic tablecloth, several ashtrays, plates with napolitanki (local sweets), plastic cups, and about a dozen people sitting around, smoking and chatting. At a first glimpse, the group seems very diverse. First, there are five elderly ladies from a women’s association with unspecified objectives. Then there are two men, representatives of a newly formed association with the ambiguous name ‘Good People’. One participant is from a local rugby association. Finally, two women are here to represent an association of
mothers of children with disabilities. As becomes obvious soon after the beginning of the meeting, their expectations of the meeting are slightly different from ours. As the ‘Good People’ representative makes clear, in order to cooperate with us, or develop any of the anti-corruption initiatives that Senad is hoping for, they will need premises. And money. And one full-time paid employee.

Senad keeps his professional face and seems to be confident about knowing how to handle this misunderstanding. For about half an hour, he explains details of the ‘watchdog methodology’ and mentions how using local methods such as mahalanje – the word-to-word gossiping spread through a neighbourhood – could help them. Then he goes on to explain his infamous lobbying formula, which he refers to as ‘2 × 2 × 2’ – dva sata u kafani, dva litra rakije i dva kila mesa (‘two hours in a café, two litres of rakija and two kilos of meat’). Attendees do not seem to be convinced and try the ‘broken record’ on Senad: stressing that what they need is resources, or access to resources, not advice.

Senad acts towards local participants of the meeting as both a ‘local’ and an ‘international’. He is a local in that the meeting is conducted in Bosnian and they all come from the same cultural context. Participants construct him, on the other hand, as a representative of the international community, and thus a potential source of funding. As a ‘local’, Senad understands his counterparts’ expectations about funding and the pro forma nature of the performance he is giving. He is aware that most of the participants did not come for the training itself but to see whether, after all, the ‘international community’ could not turn once again into a valuable financial resource. Since he admits that there is no funding available, his power position and influence over the group decrease, as can be seen in the overall loss of attention paid to him during the rest of the encounter.

As a representative of the ‘internationals’, however, Senad needs to go on with the training and keep appearances. Pro forma, he is required to give training on watchdog coalition-building and motivate the counterparts to form an anti-corruption accountability network in the local community. He is aware of the emptiness of these concepts to the local audience, and deliberately attempts to address them by using local štela-related vocabulary: mahalanje comes from the turkism mahalla, which, like komšiluk, encompasses several households composing a neighbourhood. The related verb mahalati has strongly negative denotations of spreading information through the grapevine, behind somebody’s back, usually in order to damage or violate her reputation.
It is also a strongly gendered concept, as this activity, in the linguistic sense, is connected with elderly women (mahaluše) who participate in this informal sharing instead of positively sanctioned ‘minding their own business’. Similarly, his $2 \times 2 \times 2$ technique, which he elaborates on to various audiences throughout his career in the Mission, stems from an equal portion of personal cynicism and persuasion that, ultimately, state-building can only be accomplished only if delivered and communicated in local language. While two litres of rakija and two kilograms of meat translate to what the ‘internationals’ could call a bribe, Senad sees the strategy as a legitimate, locally embedded lobbying technique.

**Ko fol: Reading the ‘internationals’ through the prism of štela**

Among my informants, compliance with the state structures was, to a large extent, faked. The overbureaucratization of most aspects of administrative encounter in both national and international organizations partially enabled the functioning of the ko fol filter. According to Vezic, this was due to a clash between international and local perspectives: while in the West high demands placed on an application are a sign of a transparent procedure, in Bosnia these may signify the direct opposite. A high number of required documents was seen as a disincentive to apply or as a signal of the agency’s autonomous and arbitrary decision over selection, leading to access being denied. In the first case, a common complaint of NGOs noticed by Fagan (2010) and Howard (2011), and similar to Dejan’s complaints at the beginning of this chapter, is that rejected applicants seldom get feedback on the grounds for their rejection. If they did, in some examples they have cited their applications being rejected as incomplete for missing a one-page document out of 150 pages of required documentation, or not getting feedback even after direct request. This left room in the recipients’ community for interpreting such behaviour in the context of local bureaucratic practices, that is, as pre-arranged set-ups usually going to the same group of large, urban-(mostly Sarajevo-)based NGOs.

The issue of the ‘usual crowd’ – a group of NGO leaders who attend the same seminars and events – connects also to another stigma of the professionalized NGO sector – the leader-centred, personality-based type of management carried out in these organizations. In practice, this means that, both in the NGO community and outside it, particular organizations are not referred to by their official name but by the name of
their leader,\textsuperscript{13} which also reflects the strong connection between the personality of the director and the public image, sources of funding and networks of the given NGO. Clientelism and the role of networks are explicitly mentioned in expert analyses of big donor projects, such as those of the EU. Fagan (2010: 82), for instance, notices that the EU delegation invariably works with the same NGOs in each round, which are informally referred to by the EC managers as ‘our clients’, who are typically ‘well established and connected’ (2010: 99) and create a ‘magic circle’ (Howard, 2011: 114) which remains impenetrable to outsiders and newcomers.

Overbureaucratization and ‘usual crowd’ enabled the ko fol interpretive filter to influence the identities and social roles that were assigned to actors. As observed among the recipients in the anti-corruption movement ACCOUNT, the effects of the discourse were the following. First, from the viewpoint of the local actors, international decisions on problem identification, implementation modalities and project evaluation were deemed arbitrary, and all official documenting strategies as a mere pro forma. Second, in the perspective of my local informants, there was no difference between how štela and ‘informality’ worked among the locals and internationals. It was believed that decisions on donor funding, objectives of intervention and selection of key local partners were based on connections (ko je sa kime dobar, i.e. who is on good terms with whom), just like the practice of assigning consultancy positions within the democratization community based on friendship.

\section*{Conclusion}

In this chapter, I have proposed rendering the Bosnian štela as a part of an interpretive filter, rather than as an ‘informal practice’ or something that the locals do and others do not. Analytically, this argument moves beyond the binary categories of ‘informal’ and ‘formal’ and the subsequent conceptualizations of informal institutions, practices and networks. The usage of štela as a vehicle of communication across donors and recipients in the democratization sector collapsed such distinctions. The ethnographic material in this chapter pointed to the usage of štela-related terminology by local employees in international organizations, in their attempt to bring across and humanize the prerogatives of the ‘internationals’. Similarly, it showed how the overarching ko fol filter helped to maintain the emic understanding that all institutional formalism and textualism were essentially ‘as if’, faked, and masking the pragmatics of štela.
Notes
I am grateful to my informants in Bosnia, who, over the course of 2012–2013, agreed to participate in my doctoral research on informality and state-building in Bosnia. Observations in this text are based on their narratives, my experience as a participant observer with the Organization for Security and Co-operation in Europe Mission to Bosnia and Herzegovina (hereinafter referred to as the OSCE or the Mission) and encounters with the worlds of the ‘internationals’ and ‘locals’ outside the organisation. Identities of informants have been altered, as well as names of organizations they represent. Research was funded by Central European University and International Visegrad Fund. I am further indebted for comments and insights to three anonymous reviewers.

1. In the following, I use ‘locals’ and ‘internationals’ in inverted commas as emic categories of social identification within the democratization sector in Bosnia.
2. Ko fol means approximately ‘as if’ or ‘just for the appearances’ in colloquial Bosnian.
3. For the sake of brevity and reader-friendliness, hereafter Bosnia refers to the official name of the country, Bosnia and Herzegovina.
4. Based on conversations with people from all former Yugoslav republics, štela is a term used prevalently in Bosnia and in some parts of Croatia (notably around Zagreb). It is a colloquial term derived from the German word Stelle (place, position) and in other parts of former Yugoslavia merges into veze, a more neutral term for connections (see in further detail below). Germanisms such as štela found their way into Bosnian language during the Austro-Hungarian reign, 1878–1918.
5. I received an initial semiotic insight into štela from Prof. Dr Marina Katnić-Bakaršić, Head of Department of Slavic Languages and Literatures (and my former boss at the University of Sarajevo), parts of which were later provided for UNDP (2009), p. 73.
6. A Bosnian word of Turkish origin which translates as neighbourhood or neighbourliness.
8. In Bosnia, fewer than 10% of the associations, unions and non-governmental organizations currently supported through donor aid existed before 1992 (Kronauer, 2009).
9. Speeding is a very common misdemeanour committed by drivers with diplomatic license plates, usually pardoned or ignored by local officials.
10. Anonymous authors in Bosnia Daily (23 February 2010) describe ‘civil society’ as an ubleha, a nonsensical word: ‘nobody knows what it means but it sure sounds good’ – noticed also by Helms (2013) and Stubbs (2011).
11. Interview with an independent NGO specialist and consultant, Aida Vezic, 9 December 2011.
12. Ibid.
13. In this vein, Helms (2013) makes a similar point that the women's rights organization Zene zenama (Women to women) will be known as kod Nune (at Nuna's), coming from the director Zvizdic’s first name.
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Introduction

In the business world, nepotism is commonly perceived as describing a variety of practices related to favouritism in hiring one’s own family members (by blood or marriage) or advancing unqualified or under-qualified family members simply on the basis of family relationship (Bush-Bacelis, 2006). In this article I adopt an extended definition of nepotism which includes kin and friends (see Hillstrom and Hillstrom, 2002), and consider nepotism only in its capacity as an informal hiring practice. Research into nepotistic hiring has been very limited and its effects are poorly understood (Laker and Williams, 2003). There are both positive and negative definitions of nepotism. The negative discourse that perceives nepotism as ‘favouritism for the undeserving’ is dominating and largely accepted (Bellow, 2004: 467; Vinton, 1998). However, it is challenged by Bellow, who redefines the concept in positive terms as a natural, healthy concern for family and those ethnically or otherwise similar to ourselves, which is the very ‘bedrock of social existence’ (ibid.). Bellow argues that nepotism has a biological basis, as it increases survival chances. The two understandings of nepotism are rooted in opposite sets of cultural values and norms: those centred on rules and firm separation between public–private and formal–informal relationships, and those centred on relationships and diffuse bonds between the pairs mentioned above. It can be assumed that, depending on the dominant cultural attitudes in society, nepotism may be differently valued. It will be understood as ‘undue preference for kin’ in rule-oriented cultures, or as a natural concern for family in relationships-oriented cultures. Accordingly, research on nepotism in a specific society should not start with predetermined concepts but with the legacy of the past.
The practice of nepotism depends on the kind and scale of business. There seem to be differences between family-owned businesses and publicly owned businesses. Most family-owned businesses simply expect the family to be involved in the future, as well as the in-laws who join the family (Bush-Bacelis, 2006). Studies find variance in favouring different kinds of relatives depending on their participation in business ownership. Favoured are lineal rather than collateral kin – for example, one’s children rather than one’s siblings. Kin are considered employees of the firm and are not expected to share in its ownership (Blim in Ginsbourg, 2003: 56). Attitudes to nepotism are different in big businesses and small businesses. The introduction of anti-nepotism policies is most typical of big businesses and is a rare occurrence in small ones.

Most of the literature underlines that recruiting family members can boost both performance and retention (Aronoff and Ward, 1993; Molofsky, 1998; Nelton, 1998; Padgett and Morris, 2005). In his overview of pros and cons of nepotism in terms of economic rationality, Prokosch (2001) stresses that nepotism finds support because this practice can lower recruiting and training costs and employee turnover. It can also increase the level of trust, commitment, sense of ownership and loyalty in the company. On the negative side, favouritism may lead to disciplinary problems, fraud, suspicion and mistrust between employees and between them and the manager (ibid.). The nature of the relationship between the positive and negative aspects depends strongly on the socio-economic and socio-cultural context in which the nepotism practices are set. The economic factors are connected with the level of unemployment and the difficulty of getting a foothold in the labour market. The cultural factors primarily refer to the traditions of practising nepotism, the degree to which trust is a scarce good in economic life, and the availability of cultural resources for keeping personal aspects (kinship and friendship) separate from economic roles. Regarding roles, the challenge for firms is to establish a clear division of roles for family members involved in the business that would meet their expectations and wants. If these roles can be kept separate, no incompetence is tolerated and nepotism works as well as any other management choice (Richardson, 1993). This is difficult to achieve in practice because of the power dimensions inherent in the different roles. The family roles are structured both horizontally and vertically, depending on the authority culturally assigned to them. As a rule, power is assumed to be distributed equally in a friendship. In a business organization, however, relations between those granting favours and those receiving them are always hierarchical. The
ability to perceive the powers deriving from the different roles as separate is a matter of cultural specificity. If they are confused, obstacles inevitably arise to the normal functioning of the company. The significance of the way roles are interrelated becomes very clear in cases of conflict between family and business needs. A family's objective of caring for its members may contradict the business objective of producing quality goods and services as efficiently and as profitably as possible. An unqualified heir may ultimately drive a company into the ground. This is the basis of the conflict between family and market values.

The emerging market economy in Bulgaria after 1989 presented opportunities for the family to adopt new economic roles. Under socialism, nepotism was solely practised in organizations, the property of the state, and in conditions of very weak economic motivation. After 1989 this practice was transferred to the newly established private sector, which legitimized striving for profit maximization. ‘Small businesses’ (micro- and small-sized enterprises) made up 97.9% of all the enterprises in the 2005–2008 period and employed 50% of all employees in the country in 2008 (IANMSP and NOEMA, 2011). They operate primarily in areas with low added value, requiring relatively low levels of investment (Chavdarova, 2014a). Nearly 90% of the private sector consists of micro-firms with no more than nine employees (IANMSP and NOEMA, 2011). Typically, these firms have a family basis and rely on assistance in cash, labour, contacts and so on from social networks (Chavdarova, 2014a). The confusion of family and economic roles in the conditions of private ownership has seriously challenged the traditionally established perceptions of nepotism.

This article addresses the question of how the new market logic of maximizing utility interacts with the inherited social logic of nepotism and how it influences the perceptions and practices of nepotism. It explores the nepotistic experience of small entrepreneurs operating in the capital, Sofia, and how they evaluate it. I argue that the pressure of market competition raises pragmatic concerns about the adequacy of nepotism in hiring. Conflicts arise between the values of kin/friendship and market values due to culturally validated difficulties in keeping private and public economic roles apart. However, maximizing market logic collides to varying degrees with the various social bonds of small proprietors. It may well be compatible with relationships within the nuclear family whose members share the ownership of a business, but not with relationships with kin and friends who are only considered as employees in the company. As far as kin and friends are concerned, this
undermines the legitimacy of nepotism as a habitual rule for thinking and acting.

The attitudes towards members of the nuclear family, relatives and friends as employees are compared on the basis of data from two sociological studies. The first one, ‘Sole Traders: Economic Culture’, was accomplished in 2002 by means of standardized interview. The sample of 206 enterprises in Sofia is representative of the legal form referred to as ‘sole trader’. The second survey, ‘The Small-Scaled Entrepreneurship: Patterns of Emerging and Establishing’, was conducted in 2002/2003. In its first, quantitative phase, a non-representative quota sample was taken of 181 small businessmen working in six sectors and located in Sofia. The standardized interview was used. In the second, qualitative phase, 30 semi-structured interviews were conducted. A mix between criterion and maximum variation sampling (Palys, 2008: 697–698) was applied. The respondents met the criteria of being small business owners operating in Sofia who were also managers of their firms. The maximum variation search was related to the qualification spectrum and to the economic sector. The methods used can only validate the findings for the studied group, and the conclusions must be accepted as hypotheses requiring further verification.

In what follows, I first outline theoretically the Bulgarian legacy of the past concerning nepotism and the challenges of the new market realities, and then analyse the main findings in respect to changing nepotistic attitudes.

**Nepotism as legacy of the past vs. market pressure**

Nepotism has historically and culturally been determined in Bulgaria in a dual aspect. On the one hand, it has been supported by the dominating values of particularism and familism. On the other, nepotism is a practice aiming to overcome specific problems of the operation of trust in Bulgaria’s economic life. I shall examine these two aspects separately.

One of the main features of culture concerns the principles governing behaviour – rules vs. relationships. These opposing values are usually theoretically explored through the cultural dimensions of universalism vs. particularism and specific vs. diffuse culture (Trompenaars and Hampden-Turner, 1997). Universalism is a striving for consistency and uniform procedures, which seek fairness by treating all like cases in the same way, whereas in the particularistic perspective it is fair to treat all cases on their special merits. While universalists build formal methods, particularists build informal networks and create private
understandings (ibid.: 48–49). The tradition of rules-domination favours the equal opportunity principle. The second cultural dimension, diffuse vs. specific cultures, relates to the degree to which we are engaged with others in specific areas of life and at separate personality levels (specific) or we are engaged in multiple areas of life and different levels of the personality (diffuse). Specific cultures clearly distinguish between public and private life, whereas interpenetration between these two spheres characterizes diffuse cultures (ibid.: 100–101).

Historically, universalism stresses the importance of impersonal economic transactions. It is strengthened by market forces, for ‘The market is fundamentally alien to any type of fraternal relationship’ (Weber, 1978[1922]: 637). In contemporary universalistic societies, nepotism is evaluated negatively in a double sense: first, because of its varietal difference of being ‘undue preference for kin’, and second, because of its generic character of informal practice. In the perspective of universalistic and specific cultures the term ‘informal’ typically receives negative definitions such as illegal, unauthorized, unplanned, and unregulated (Jenkins, 2001). The discrepancies between the meritocratic ideas and real practices in Western economies, however, are abundantly documented in the literature of informal networks after the seminal works of Granovetter (1974, 1985), and raise the question of meritocracy as myth (McNamee and Miller, 2004).

In particularistic, relationship-oriented societies, the concept of ‘informal’ is not considered as an opposite to formality. Instead, formality is permeated by informality. Familism is one of the central features of such societies. Family and personal relationships enjoy unconditional primacy over the public sphere. Family constitutes the basic unit of economic organization, and trust is mainly pertinent to the kinship. This is why nepotism may be accepted as a licit (although it might be illegal) informal practice. Bulgarian society, being historically shaped by the values of particularism, diffuseness and communitarianism, is a familistic society (Chavdarova, 2004). In terms of doing business, the particularism and diffuseness of Bulgarian culture basically means that an entrepreneur usually goes into business with people who can be trusted because they have already been invited into a variety of life areas, and this is a precondition for proceeding with business. People prefer to enter business relationships after private relationships have been established, and the two spheres remain mixed (Chavdarova, 2007).

The other cultural basis of nepotism is the scarcity of social trust, which further burdens personal trust with additional compensatory
functions (ibid.). A specific combination of cultural and institutional factors in Bulgarian history has led to persistent and profound mistrust in the reliable functioning of public institutions. Historical tradition lends legitimacy to mistrust of strangers. To counterbalance the huge difficulties experienced in undertaking faceless commitments, the informal institution referred to in Bulgaria as vruzki (from the word връзки, meaning connections) comes into play. Vruzki can be defined as informal rules for building and maintaining personal trust, and personally negotiated (facework) commitments and loyalties in a formal environment. It runs through the modern history of Bulgaria since its liberation after five centuries of Ottoman rule in 1878 (Chavdarova, 2013). Vruzki is culturally determined, as it carries the ethics of particularism and familism. It is an informal institution, which is at the top of a variety of informal practices. As an informal institution, vruzki creates shared expectations for interweaving of roles stemming from the personal relationships of individuals with their public, socio-professional roles. Thus, vruzki becomes a socially legitimate (licit) rule of intrusion of the private sphere into the public one: through instrumentalization of personal relationships and personalization of social relationships.

The essence of all informal practices guided by vruzki is a reciprocal exchange of favours of access (Ledeneva, 1998) to scarce goods (trust, jobs, commodities, etc.). The licit institution vruzki may guide and lead to both legal and illegal, licit and illicit practices. Nepotism, for example, is an informal practice that is clearly guided by the vruzki institution. In cases of large businesses where anti-nepotism policies have been adopted, nepotistic hiring may be an illegal practice. In small family businesses, however, there might be no established formal procedures to be violated. The reciprocal exchange of favours of access might be legal and licit (exchange of information, trust, etc.) or illegal and illicit (use of social contacts for practising corruption). Thus, vruzki may lead to accumulation of positive social capital, but it also may reveal the different forms of negative social capital such as exclusion of outsiders, excess claims on group members, restrictions of individual freedoms, and downward-levelling norms (Portes, 1998: 15).

The transition from socialist redistribution to free market exchange has exerted a contradictory impact on nepotism as a way of thinking and acting. On the one hand, the new conditions of a tighter labour market and ineffective market institutions reconfirm nepotism. Drastic economic restructuring has led to a sharp rise in unemployment. Young people, those aged 50+ and members of ethnic minorities, have
experienced enormous difficulties in (re-)entering the labour market. This is still widely used as a justification for nepotism as a way of finding a job. The main market institutions of property rights, competition, exchange and contracts have likewise been sources of instability. They have been the object of incessant and often contradictory changes (Chavdarova, 2013, 2014a). Their ineffectiveness in guaranteeing business contracts leads to ever-decreasing confidence in them and widespread opportunism in business behaviour. Indeed, trust in correct, honest and adequate economic behaviour is very scarce and in demand in the newly emerging market (Chavdarova, 2007, 2014b). This encourages employers to hire close friends and relatives, whom they can trust incomparably more than people they do not know.

On the other hand, however, the establishment of a market economy also seriously shakes the foundations of nepotism. The transfer of Western formal market institutions to Bulgaria has led to a confrontation between the indigenous Bulgarian relationships-oriented culture and the dominant North-Western rule-oriented culture. The influence of marketization in Bulgaria on culture is reflected in the rise of individualism over the last 20 years (Davidkov, 2009; Silgijan et al., 2007). These developments have challenged family precedence as a cultural bed of nepotism.

The socio-economic transformation has also changed the logic vruzki follow. From a mechanism of maximizing consumption (Ledeneva, 1998), vruzki have turned into an instrument of maximizing utility. This drastic turnaround in the post-communist world occurred under the banner of Washington consensus neoliberal ideology (Harvey, 2005). Neoliberal globalization bears a resemblance to the 19th-century process of Great Transformation conceptualized by Polanyi (Hart and Hann, 2009). The neoliberal reconfiguration of state–market relations has been expressed in recommodification, cost containment and recalibration (Pierson, 2001). The new processes of social disembeddedness of the economy result in reconfiguration of the kin–market relationship, too, and rethinking of nepotism practices. These processes have penetrated to a different extent into the state and private sectors of the economy. The market pressures of economizing and effectiveness are much more compelling for the participants in the private sector, as compared with those in the public sector, where the legacy of the past is much stronger. Therefore, small business owners may be expected to continue to be subjected to social pressure to practise nepotism. Thus, they experience a confluence of different forces, which simultaneously reconfirm nepotism and place it under reconsideration.
Abandoning nepotistic hiring practices?

Attitudes towards nepotistic hiring practices are studied within the framework of the ‘Sole Traders-2002/4’ survey. Respondents were placed in a simulated managerial role, confronted with the appointment of a new employee and having to choose between skills and kinship. The businessmen interviewed had to point out (1) the right behaviour, in their view, and (2) the typical behaviour for the country in similar situations. The results testify to a major discrepancy between the respondents’ choice and the choices they consider most typical in the country. The overwhelming majority of the respondents (95.1%) opted for hiring by merit rather than a nepotistic decision. At the same time, however, most of them asserted that the principle of kinship prevails in employment in Bulgaria (57.1%).

The second indicator measures the spread of perceptions of nepotism as a moral or immoral act. An identical indicator was also included in a 2001 nationwide survey on Bulgarian cultural values (Genov and Karabeljova, 2001). The comparison reveals that the small businesses owners interviewed perceive Bulgarian society as more strongly influenced by nepotism than Bulgarians themselves, included in a national representative sample. An agreement with the statement ‘A superior who makes use of his/her power in order to get a job for a member of the family in need is regarded as immoral’ is expressed by 28.6% of the respondents in the national sample and by 17.6% of sole traders. These results lead to the conclusion that small businessmen are subjected to enormous pressure from the social milieu to practise nepotism in hiring.

The ‘Small Entrepreneurship 2002/3’ study, though not representative, shed light on the trends in the development of nepotism. The quantitative data shows that the overwhelming majority of employers have personal relations with employees, who are either paid or unpaid family members or friends and acquaintances. A comparison between employment at the time when the companies were established and at the time the survey was conducted highlights a reduction in kinship relations in the hiring. On the one hand, companies tend to become ‘marketized’: the share of unpaid helpers drops and that of paid family members rises. On the other hand, the share of paid employees who have no personal relations with the employer increases (from 22.1% to 33.1%), particularly in cases when the business is growing and employs more than three workers.

Qualitative data backs up the trends outlined above and allows closer examination of the nature and specific development of nepotistic
practices. This bears out the fact that the majority of interviewed owners have employed family members and friends in the course of their activities. However, their experience has led to a substantial change in their assessment of nepotism. Small business owners realize that, although nepotistic hiring resolves some problems, it may at the same time give rise to other equally serious problems. The latter more generally refer to the fact that close friends and relations are difficult to manage. In this respect, a clear distinction emerges between members of a nuclear family (spouses, parents and children) and all other relatives and friends.

Family

Nuclear family members are closely involved in the businesses studied. Most often they are partners, regardless of whether or not that partnership has been legally established. In other cases family members are included to help whenever needed. As a rule, the professional competence of family members in carrying out the business functions assigned to them is not contested; their participation is just accepted as a fact. The need to learn on the job is also accepted as a datum. This way of thinking is clearly shaped by shared economic interests and ownership of the business.

My wife worked as a trader for us years ago before our child was born. She used to do everything: very good work. She was a good specialist but in what she had worked. At the beginning she might not have known anything; I probably had been patient enough to explain it to her (…)

(male, 36 years, IT services)

The small businessman quoted above has a computer-related business in partnership with his sister, who is in charge of ‘matters more administrative-like’. His positive experience in involving family members in business determines his willingness to employ relatives and to ‘give this salary to someone close to the family’. For them, however, the requirement for professional competence begins to be valid.

The assignment of functions among family members often acquires a hierarchical nature. Typically, the functional hierarchy reflects the natural family hierarchy: one of the spouses and/or the children are functionally subordinated to the other spouse-manager or parents, or the hierarchy is between siblings. This type of compatibility bolsters family relations of cooperation and mutual assistance. Problems emerge, however, when the functional business hierarchy is not compatible with
the traditional family hierarchy. Such cases were found in the budding second business generation who take up the business of their parents, or with young entrepreneurs who set up their business independently and subsequently drew family members into it. In all such cases registered, the older generation does not appear to accept its functional subordination and interferes in the decisions made by the offspring owners. The latter consider this extremely undesirable, which generates tension in both business and family relations. These situations result in a highly negative attitude among young proprietors to the hiring of family members and relatives.

A young man referred to as Assen is a case in point. He is in charge of a company manufacturing and trading in souvenirs, founded by his parents in partnership with another family of friends. After his father’s death, his mother remained in the company in charge of the warehouse where the products are stored. She has a monitoring rather than a managerial role, as a trusted person to ensure the proper use of the warehouse. She is not perceived as an employee; her presence is defined by Assen as ‘just like that, she is there as a person existing at present’. Assen works in very close partnership with his brother, who has a company of his own. As the two firms specialize in closely related areas, the two brothers carry out joint professional activities. Relatives of the other family that established the company were employed in Assen’s company. They protested vigorously against the harmful working conditions, involving the use of chemicals and dust, and were forced to leave: ‘little by little we drew apart from them’. Assen’s father-in-law and mother-in-law were also employed in the company. They had tried to force him to do business in an unacceptable manner, and for this reason he made great efforts for them to find other jobs. As a result of this experience, Assen considers the need to be loyal to one’s relatives to be very harmful, as it interferes with the exercise of his rights as an employer as he sees fit.

The relative is very well in this situation for you may trust him. (…) In this respect, yes, but in some other respect it is just completely tragic. So I do not recommend it to anyone. Well, because you cannot possibly reprimand [whenever you want to] so that matters proceed in another way… as it happened with my father- and mother-in-law. How could it be. Well… there are things, details, which I want them to do in a certain way. They presented their own things. I cannot accept this. Anyway I have greater experience in this respect. In some other respect they have infinitely greater experience. But
in this particular case I want matters proceeding in this way. I was accepting all this swallowing and keeping it within myself, was I not, because they are my mother- and father-in-law. Well, this is senseless. Now it is the same with my mother, but she has no such functions, she has rather monitoring functions.

(male, 29 years, souvenir production)

For the time being, the practice of involving members of the nuclear family as partners or assistants rather than as employees appears to be generally accepted. It is backed up by shared ownership and common economic interests, which counterbalance power struggles between family roles when they emerge. Nevertheless, this practice is likely to be fundamentally altered with the advent of the second generation in the family business. In cases where family members are involved in the business as employees, the conflict between family and business roles finds no counterweight.

**Relatives and friends**

Nepotistic attitudes in relation to the nuclear family are not transferred to the broader circle of relatives and friends. First, almost all the small business owners interviewed had hired relatives and friends. Second, the overwhelming majority of them considered having done so as ‘tragic’ and as ‘a great mistake’, and stated that they never intended to do it again. Third, they gave very similar explanations of the reasons for their experience.

I shall first consider the broad extent of nepotistic hiring. The underlying causes are intricately interwoven. On the one hand, it is influenced by natural care and responsibility for relatives and friends. It is also linked with the need to maintain reciprocal social relations, including responding to social pressure for nepotistic hiring. The latter, for its part, is further intensified by unemployment and the tight labour market, where you can only find a job through friends, otherwise there are absolutely none. On the other hand, the demand for personal trust in market relations also exerts an influence. In the case of employees, there is widespread mistrust of their integrity, work ethics and professional competence. Combining business interests with care for relatives is deemed to be natural when relatives are granted greater trust and when the business does not require specific skills, as is typical of the small business sector.

This set of factors convincingly emerges from the interviews, but it is very rarely articulated explicitly. This is the case because it is based on
facts and circumstances accepted as given and not subject to challenge. Only in one single case, a businessman (Boyan) reflected in detail on the reasons for hiring relatives. He had developed a strategy to provide temporary employment for younger relatives as partners in his printing firm to help them find their footing:

Yes, yes, naturally [I have hired relatives]. This is a way of saving the genes in such hard times, isn’t it so? Nieces, cousins, you have to save people. (…) This has always been sheer support for the gene, it is a tribute paid to kin. The kinship relations are always harmful, at least in business. You cannot do without that evil. (…) Usually they do not value it, the younger I have offered that gesture; they fail to appreciate it straightaway. These (…) are many years now, probably 4–5 cases. Because I usually sack them, such people. Yes, once I see a chance that they can already do on their own, that they have become stabilized – whether psychologically stabilized or already (…) he has learnt something, he has a chance of working in some other activity… And the result is – I already have these four cases – of which I am very satisfied, that in time, after quite a long time – 5–6 years or so, they suddenly understand what I had done for them and are very, very grateful to me. But there is a latent period, in which they judge me a bad man.

(male, 55 years, printing and prepress)

Boyan does not extend this logic and behaviour to his friends, to whom he applies strict professional criteria. His deliberate strategy is a rare exception against the background of widespread vacillation between duty and interest, where one or the other takes precedence alternately.

I had, for example, a case with a friend I hired. Her husband was jobless, she was jobless; she asked me, I hired her, although I have always suffered from this kind of thing. For instance, she had artificial nails and wore mini-skirts. During the second month I was forced to dismiss her although she is a friend, even though I knew that she was in dire straits, but I couldn’t explain that to the customers all the time.

(female, 55 years, café shop)

The businesswoman quoted above recognized that she had gradually moved away from friendly to more formal relations with the staff. She is representative of small entrepreneurs who progress successfully
to medium-sized companies and appear to adhere strictly to formal employment relations. In particular, those who run successful businesses requiring high qualifications view nepotism as a practice that belongs to the past.

I have always insisted on pure capitalist relations – the meaning of the employment contract must be as clear as possible: you give me 30% of your life, of your time, I undertake to give you money and during that time you have to be prepared to make sacrifices, and so on. Nothing else should be involved in these relations, so no relatives and no friends. Because they immediately stop being your relatives and friends, but they are no good as workers either.

(male, 40 years, furniture manufacturing)

Especially those who run successful businesses which require high qualifications view nepotism as a practice that belongs to the past. In their eyes, nepotism is ‘complete ignorance’ typical of ‘some small grocery shops in little towns’; it is a sign of hopelessly ‘obsolete patriarchal spirit’

(male, 33 years, law services).

The second major conclusion refers to the assessment of the experience acquired in nepotistic hiring. Most generally, the conduct of relatives is considered as abuse of the trust vested in them, but not in the sense of dishonesty or theft. Not a single one of the businessmen interviewed referred to such a bad experience. Abuse is construed as inadequate behaviour on the job. It finds expression in inappropriate demonstrations of closeness in the working environment, discrediting others, claiming a privileged status, voicing unwanted views and overtly demonstrating envy. In the employers’ view, relatives find it hard to accept their subordination to other relatives whom they primarily consider as equals: ‘What’s so good about him that I have to do as he tells me? What makes him more valuable than me?’ They reject their boss’s authority because they do not construe the hierarchy as a functional means of ensuring more effective management, but as a personal expression of inequality. This type of attitude is typical of cultures of large power distance\(^\text{11}\) (Hofstede, 1980), as is undoubtedly the case in Bulgarian society (Chavdarova, 2004). Abuse also takes the form of unjustified trust in the work ethics of relatives and friends. Businessmen point out the absence of working habits, insufficiently conscientious performance and failure to abide by labour discipline. Their self-perception as the hierarchical superiors of relatives and friends also leads to a negative assessment of nepotism. They are completely
dominated by a sense of awkwardness and a feeling of failure in tackling the situation of being the hierarchical superior of close relations and friends: expressing dissatisfaction, reprimanding and making the same level of demands on all personnel.

I appointed, or rather suggested that a close relative start work, but I feel awkward if I have to reprimand him (laughing), I don’t like it. It’s no good hiring friends either, because at the end of the day I have to make enormous efforts in relation to what I have achieved and at one point I can’t afford to let everything collapse.

(female, 42 years, detergent shop)

A small proportion of the businessmen interviewed who had recently hired close friends and relatives reported a positive experience; their trust had been justified. Even they, however, recognized the risks of nepotistic hiring and defined their positive experience as good luck.

Some of my employees are children of colleagues of mine. It is hard. From experience I can give advice: ‘You should never hire someone close, an acquaintance, a friend, nor should you lend money.’ You shouldn’t just do it; you should not. It is very hard to reprimand afterwards. One should be very conscientious to appreciate the fact of being given a job. I have been lucky to come across conscientious people.

(female, 57 years, food trading)

It is not therefore surprising that according to the overwhelming majority of the entrepreneurs interviewed, the most frequent result of nepotistic hiring is disastrous: ‘we turn into enemies’ with the relatives, whereas friends ‘break off their friendship’. Businessmen come to the conclusion that ‘I will certainly never hire either friends or relatives again – hundred per cent sure.’ Not a single one of them, however, even hints at the possibility that they themselves could modify their managerial practices: for instance, hiring relatives only on merit and learning to treat them on a par with all other employees. On the contrary, they develop the theory that it is impossible as a matter of principle to act as an exacting boss towards friends and relatives: ‘The closer people are to you, the fewer the demands you can make because you have to take many more things into consideration.’ This argument is the core of a categorical refusal to hire relatives. It is indicative that only one single respondent stated adherence to an ideally typical universalistic
attitude of equal treatment on merit of all the employees. This 33-year-old woman had never hired family members, relatives or friends but would have hired them ‘only if they have the qualities required for the job. At the point when they fail to comply with their obligations, I would not hesitate to replace them with others.’ Bearing in mind the absence of actual experience, this statement has a somewhat abstract ring.

The third essential conclusion refers to explanations as to why kinship and friendship are not ‘effective’ at work. The businessmen interviewed articulated one fundamental reason: they find it impossible to make a clear distinction between occupational and kinship roles and between the public and private aspects of practical activities. For that reason, relatives consider that they can transfer their rights from their kinship onto their rights in carrying out the activity. This reflects significant features of Bulgarian economic culture, such as diffuse relationships, particularism and a large power distance. The fact that there are still no firmly established standards governing relationships between employers and wage-earning workers also plays a role. This intertwining of cultural and structural factors can be clearly traced in the statements of a number of respondents:

I can assert that there are still no established rules in Bulgaria between hired hands and employers. The game has no clear-cut rules. Even if we are cousins: you are just in your place and are doing your job. There is no understanding that as soon as you get a job in your cousin’s company you are no longer a cousin, you just hold the job you have been hired to do. (…) The absence of this duality stands in the way. But it has to exist. (…) You cannot create relations and friends every day, so it would be better if there was an absolute rule not to hire relatives.

(male, 55 years, distribution of lighting equipment)

The experience of small business owners unequivocally leads them to a negative assessment of nepotism, even though they may continue to practise it under the influence of their own moral feelings or under social pressure. An owner of a manpower resources company expertly testifies to the reality of the dilemma: kinship or bankruptcy.

[Hiring relatives] is not an apt variant for Bulgaria, because relatives sometimes cannot accept you as an employer or as a partner of equal standing. I have lots of observations of such companies, hiring
relatives and friends, but they do not make much progress; they operate rather because of good luck – absolutely no market principles. We even had one such case in Sofia: a company in which quite a few people were hired along these lines – cousins, relatives and the like. The company was declining and before Christmas a total clean-out started whereby the people we had chosen remained.

(female, 31 years, manpower resources company)

Empirical evidence gives grounds to the claim that nepotism would not be the managerial option adopted by small entrepreneurs if they had a completely free choice. Wherever nepotism is practised, it results in a constant and uncomfortable conflict between moral obligation and economic interest. Results obtained support the belief that the balance has already shifted in favour of economic interest. Verifying this hypothesis is a matter for future studies.

Giving up nepotism does not necessarily entail forsaking the familism principle. Some of the small businessmen purposefully develop their firm’s culture according to resources of the cultural tradition of familism. It is manifest more particularly in their preference for making formal labour relations informal: in establishing and keeping up quasi-family relations at work.

In our company, when someone comes to work, he can never feel like a worker. He becomes member of the family; we are one big family. We integrate them into the family; we do not set them apart from it. We leave them be free, find free self-realization and show their skills.

(female, 45 years, production of calendars)

Small firms often use holiday rituals to lend a family character to labour relations (Petrova, 2010: 101–123). The holidays aim at legitimizing an order in the company, whereby the boss–employee relationship resembles parent–children relations (ibid.). Among younger business owners who have employees of a similar age, informal attitudes find expression in the transformation of the formal relations into friendly relations. The quasi-family and friendly relations with the employees are essential in some type of businesses, where some big-volume orders have to be urgently executed. The cultivation of informal relations with the workers is considered to be ‘the only way’ for their mobilization in cases when the ‘fire hot’ system has to be adopted, that is, three-shift work and overtime. Making informal the formal relations with employees
becomes the basis of an organizational culture of familism, typical of small businesses.

**Concluding remarks**

An inherent characteristic of Bulgarian culture is the perception of informal practices as intrinsic to formal order, rather than in opposition to it. Historically, nepotism has been part of the informal institution referred to as *vruzi* (personal connections), which is used as a means of combining the formal and the informal in a single entity. Having started a business of their own in the new anonymous market conditions, small entrepreneurs naturally turn to the cultural resources of *vruzi* and familism to try to improve their chances on the market. Their experience of nepotistic hiring can be retold as a story of a collision between the impersonal market forces that dictate maximized economic action and the moral obligations ensuing from adherence to the principles of family precedence and friendship. The nuclear family succeeds in coping with this challenge. It runs the enterprise as a family business and thereby combines shared economic interests with taking care of the family. The emergence of a second generation of young entrepreneurs who enlist their parents in their businesses, however, sets the family in opposition to the business hierarchy. This lays a trap for the future development of small enterprises as family businesses.

With regard to hiring relatives and friends, the overall experience of small proprietors is definitely negative. It stems from the impossibility of keeping the rights ensuing from kinship/friendship apart from the rights involved in the economic activity. This negative experience appears to be predetermined by the particularism, diffuse relations and large power distance that characterize Bulgarian culture. Employers fail to ‘modify’ this experience creatively and to cultivate the skills required to treat all their employees equally. They admit that they find it impossible to cope with managing relatives and friends. They do not consider this as a personal failure, but, rather, that such a feat is a natural impossibility. The result is a refusal to hire relatives and friends, regardless of whether or not they are qualified for a particular job. In the eyes of small proprietors, nepotism is rejected as a way of thinking and taking economic action. Nevertheless, powerful factors continue to operate in society in support of nepotism. These are related to the pressure of the dominant socio-cultural concepts of kinship and friendship obligations, combined with economic factors such as unemployment and poverty. They are also related to the need to fight insecurity through personal
trust. Accordingly, the de-legitimization of nepotism in entrepreneurial perceptions does not yet imply its abolition as an existing practice.

Processes of developing informality take place, which adapt the principle of familism to the market conditions. The formal relations of employment are strategically made informal by acquiring the character of quasi-family or friendly relations. The small entrepreneurs perceive this strategy to be the best form of labour mobilization. This is probably the most culturally adequate answer to the failure of formalizing informal relations of kinship and friendship by means of nepotism.

Notes

1. Micro enterprises are those with fewer than ten persons employed and an annual turnover of not more than two million euro; small enterprises employ fewer than 50 persons and their annual turnover does not exceed ten million euro, defined by the EU criteria (EC 2009). The Bulgarian law for SMEs mirrors the EU criteria for employment and adapts the turnover threshold to the size of the county's economy.
2. So far there is no data about the relationship between small and family businesses in Bulgaria. It was only in 2011 that family businesses were first defined for statistical purposes and data was gathered about its distribution. According to this, it makes up 42.1% of the total number of enterprises and accounts for 28.3% of total employment (NSI and AFB 2011). About four-fifths of family enterprises are operating in trade and services, primarily services requiring low qualifications.
3. The sole trader is defined as a physical owner and is represented by the social category ‘self-employed’ or ‘employer of few workers’.
4. The branches were: services in construction, small industries, catering, transport, trade and highly qualified services.
5. Here I refer to the different origin of the regulatory authority embedded in the distinction between legal/illegal (permitted/prohibited by law) and licit/illicit (socially perceived as acceptable/unacceptable) (van Schendel and Abraham, 2005).
6. This specificity is characteristic not only of Bulgaria, but also of other societies from the periphery of Europe (Giordano, 2003).
8. ‘Instead of the economy being embedded in social relations, social relations are embedded in the economic system’ (Polanyi, 1944: 57).
9. This is why the respondents assess their business as (non)-family, not because of its juridical regulation, but, rather, because of the actual involvement of family members in it.
10. Names have been changed.
11. The concept of ‘power distance’ refers to the way in which power is distributed and the extent to which the less powerful accept that power is distributed unequally. In a large power distance culture, the relationship
between bosses and subordinates is one of dependence. In a small power distance society, the relationship between bosses and subordinates is one of interdependence (Hofstede 1984).

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The Importance of Personalized Relationships in Post-Socialist Rural Bulgaria: Informality of New Capitalist Entrepreneurs

Christian Giordano

Introduction: The role of personalized networks in fieldwork

On arriving in Bulgaria at the end of December 1991 for a preliminary assessment of empirical research on the modalities of the so-called transition from socialist economy to free economy in the agricultural sector, I immediately had a feeling of *déjà vu*. In fact, aside from obvious historical differences, I was faced with a field situation that I had had the opportunity to study during my various fieldwork in Mediterranean societies, specifically in Sicily, Andalusia and Alentejo (Giordano, 1992). The outset in Sofia was indicative in itself. I had to rely almost entirely on the collaboration of a fellow sociologist from the Academy of Sciences, with whom I had established a personal relationship following our meeting at a conference in Budapest in June 1991, and who was willing to act as my guide and thus as my principal informant. She suggested focusing the research on Dobrudzha, a region in the country’s north-east that, as we shall see, played a specific role in the Bulgarian context, since it is the country’s breadbasket. I agreed to her suggestion, and after renting a car we set off during an exceptional snowstorm for a gruelling trip, since snowplough services were practically non-existent at the time due to the economic and political situation. Once there, we immediately contacted a high-ranking employee of the now-disbanded agricultural trade union, whom we shall call Vesna. We need to add that an important functionary of the said trade union, with whom she
shared, so to speak, a close personal relationship, had given my colleague this contact. From the start, my colleague tried to establish a personalized friendly relationship with Vesna, and a rather close relationship soon developed between the two women, with information and gift exchanges that indicated a good level of intimacy. Vesna then introduced us to her vast network of personalized relationships with the leaders of production cooperatives, by now in the process of shutting down, who were preparing to become agricultural entrepreneurs through practices that will be described further on. I need to add that it was solely thanks to this strategy that I was able to enter the field and carry out my long-term research based on two annual stays between 1991 and 2007, each lasting a few weeks, and complete the research in a more exhaustive and less systematic way up to 2012.

This situation further confirmed the observation that, in societies where distrust in the public sphere, regarded as risky and thus dangerous, is the rule, only personalized and informal relationships are, so to speak, safe and trustworthy. In this aspect, at a theoretical level I drew inspiration from the concept of ‘network’ developed by the students of Max Gluckman, founder of the Manchester School (Bailey, 1969; Epstein, 1961; Mitchell, 1973), and subsequently perfected by Jeremy Boissevain in his book *Friends of Friends* (Boissevain, 1974).

**Socialist collectivization policy in Bulgarian agriculture**

Bulgarian communist rulers gradually enacted a land reform soon after World War II. They did not embark directly on collectivization, but, rather, started by expropriating the greater landowners and distributing land on a private basis. At first, every person who owned more than 20 ha of land (30 ha in the Dobrudzha) was dispossessed without compensation. Through these measures, 300,000 ha was nationalized, of which 130,000 ha was distributed among 135,000 families, while the remaining 170,000 ha was handed over to the newly established state-owned enterprises.

The process of collectivization in Bulgarian agriculture was relatively slow. In 1950, the newly established agricultural cooperative collectives controlled only 51% of the cultivated land, while the property law had not yet been touched. The peasants had *de facto* ceded their land to these production cooperatives, while remaining *de jure* proprietors (Giordano and Kostova, 2000: 164 ff.)

Over the following years, in parallel with the forced industrialization that the communist rulers regarded as the primary task of a
people's republic', the collectivization process forged ahead. Although the communists regarded the existence of these private small peasants as inappropriate, the process was finally brought to a close only at the end of the 1950s. At this point the collectivization was practically complete, since only minute land plots, that is, vegetable gardens of a few are, which in principle should have yielded produce for family consumption, were left in private hands (Giordano and Kostova, 1995: 160 ff).

The starting point of a new phase in Bulgarian agriculture occurred in the 1970s. By creating gigantic agro-industrial complexes, the regime imposed an extensive centralization that left a dire economic and socio-economic legacy. A decentralization, aiming to correct the mistaken development and at the same time to demonstrate the real potential of the socialist planned economy, was introduced from the mid-1980s onwards. This tentative reform policy was totally overwhelmed and swept away by the unexpected events of 1989 (Giordano and Kostova, 2000: 165 ff.).

Post-socialist agricultural reform in Bulgaria: A return to the future?

The de-collectivization of farmable land was one of the foremost problems of all Eastern European post-socialist governments. Still, this process was slightly different in each of these countries. The new post-socialist governments in Bulgaria enacted the return of the land to the original owners as a necessary act of justice towards the people who had been illegally deprived of their property (Giordano and Kostova, 2000: 166).

In many cases the entire process was based on the following two specific agro-political premises:

- Restore pre-socialism ownership relationships.
- Establish family-operated farms on the basis of the post-socialist agricultural sector.

The official intention of a necessary compensation for suffering screens the rather covert wish to reverse history. At first, the main idea was to recreate that peasant society and village community, wiped out by 50 years of socialist collectivism, that were regarded as the cradle and guardians of true national values, virtues and traditions. Immediately after the breakdown of socialism, some politicians upheld a village ideology based on the creation of a population consisting of small farmers.
Bulgaria is an excellent example of how land reform laws and their application shortly after the fall of the Berlin Wall were intended to reinstate the pre-socialist past of the ‘small nation of smallest farmers’. Thanks to these ideological instruments, the 1991 land law and its amendments in 1992 and 1995 managed to provide the conditions to dissolve the agricultural collectives, which were the socio-economic basis of Bulgaria’s entire socialist agricultural sector, and subsequently re-establish the state of affairs of farmland existing in 1946. The expectation was that new legal landowners, following the philosophy of the reformers, would take on the role of small farmers as in pre-socialist times. However, this attempt to place the past in the present and even in the future through a reversion of history has proven to be highly problematic.

It should be mentioned that the total lack of land registers in many of the Bulgarian Dobrudzha villages, and the poor organization of the land registry offices in other parts of Bulgaria, made it extremely difficult to define the borders of the land parcels as they were in 1946. In several cases, the local land commissions thought that asking the older members of the community to reconstruct the size and location of the individually owned land parcels would suffice. It is not surprising that the method chosen by state institutions, especially in a society of public mistrust (Giordano, 2012: 57 ff.) such as the Bulgarian one, was considered arbitrary and dubious. The upshot was an astonishing number of protests, court proceedings, pleas and disputes, not only between the state and the people involved, but also between former and new individual landowners. Contentious cases were handed over to the courts, but these were understaffed, did not enforce the new and constantly changing terms of the land reform laws, and were therefore unable to solve the cases quickly. The land commissions were soon accused of siding with different parties and of dishonesty (if not corruption), and for many citizens the bad reputation of the state’s courts was once again confirmed. The perception of permanent and widespread judicial uncertainty increased, especially among the population of the Bulgarian Dobrudzha, since they already deeply mistrusted the official powers, and especially the courts.

A second serious problem with the land reform was the fact that returning the land division to its 1946 state of affairs resulted in an extremely fragmented landscape, as we have already pointed out. This was also true in the Bulgarian Dobrudzha, although the fragmentation was not as severe as in other parts of Bulgaria.
Until 1878, when it was granted autonomy that *de facto* put an end to Ottoman domination, Bulgaria had neither laws of Slavic origin nor an Ottoman legislation regulating the equal division of land between several heirs. All the owned land, regardless of its lawful categorization (*timar*, *tchiftlik*, *zadruga* or other), represented a whole that was passed on as such from generation to generation. After 1878, during the so-called Europeanization, foreign law policies and practices from the western part of the Old Continent were imported. This process of restructuring the laws affected not only the entire public administration and the government structures, but also private relationships. The new inheritance and land laws stated that the land was to be divided equally among all heirs, a circumstance that led to the progressive fragmentation of the land parcels. The land fragmentation reached its peak in 1946, when over 92% of all farms were smaller than 10 ha, about 7% of the land parcels were smaller than 20 ha and only 1% of the landowners had more than 20 ha (Minkov and Lazov, 1979: 12). The requirement of the 1991 land reform to revert land distribution to its 1946 state of affairs also meant reintroducing the small-scale production of the past, while the fragmentation worsened, since many owners of the small land parcels had died during socialism and their heirs were having to divide the land even further between themselves.

The third fundamental problem with the return of landownership to its 1946 state of affairs was linked to the fact that the land reform’s beneficiaries were people who had little or no experience or knowledge when it came to agricultural work.

The forced industrialization of the late 1940s caused a massive migration of the Bulgarian population to the cities. This caused the greatest population reduction in the agricultural sector within all Eastern European satellite states (Eberhardt, 1993: 35). Massive urbanization meant not only a radical job change, but also a great change in social position, value system and lifestyle. Thus, the new migrants constituted an urban middle class with its own values, life standards, wishes, goals and so on. Members of this new social stratum, with its distinct mental attitudes and social practices, could hardly negotiate peasant life or a return to the countryside. According to our personal observations, the managers and technicians, and often also the workers on the agricultural farms in the Bulgarian Dobrudzha, lived in an urban social environment. They commuted daily between their town residence and the rural working place as if they were industry employees. In these unpopulated regions, characterized by a high level of mechanized wheat production
as well as intensive stockbreeding, the land areas were almost entirely deserted. In the villages, one could meet only old people and a few qualified agrarian workers.

**Unexpected consequences and awkward agents: The role of the *arendatori* in the post-socialist agricultural sector in Bulgarian Dobrudzha**

For the abovementioned reasons, the resurgence of the family-run farms based on small land parcels never took place. Both the people directly involved in agriculture (managers, technical workers and employees of the former collectivized production farms) and the new landowners, most of whom lived in an urban environment, thought that the land reform law was absurd. Almost without exception, the people involved described the new land law not so much as unjust, but, rather, as a mistake and a project created by the incompetent political elite in the capital. Some critical voices from the Bulgarian Dobrudzha declared that politicians in Sofia were acting in accordance with a plan that was not based on actual reality and consequently were unable to grasp the problems of the region’s agricultural sector, let alone solve them. First and foremost, turning large farms into thousands of small autonomous land parcels, given Dobrudzha’s geographical location and practical circumstances, seemed utter nonsense and the prelude to a socio-economic catastrophe for the entire region. One must add that today this negative stance is shared even by those few who more than 18 years ago endorsed the agrarian law. Nowadays the agricultural reform is unanimously regarded as a complete fiasco that had catastrophic consequences for the development of agriculture in the Dobrudzha region.

In the framework of this widespread atmosphere of public mistrust, several actors who had already been present in the agricultural sector under socialism took initiatives that later proved to be economically sound and financially successful for them and their co-workers. Loopholes in the agricultural reform laws allowed them in the early 1990s to develop economic strategies that they have maintained to this day.

The main players in this new scenario, which the lawmakers did not foresee in the Bulgarian Dobrudzha or in the other fertile regions of Bulgaria, are undoubtedly the so-called *arendatori*. These are entrepreneurs in the agricultural sector who rent land from the new owners whose land was returned to them through the reform laws but are unable or unwilling to farm it and rarely want to sell it. We ought to mention that most beneficiaries of the post-socialist agricultural
reform are citizens who are barely, if at all, familiar with market-oriented agriculture.

Several *arendatori* were members of the local political or agricultural elite during the socialist period. They were well-trained professional farmers who began their careers as functionaries in the TKZS (Labor Cooperative Agrarian Farms) production farms. Although these old agricultural unions were dissolved and all the employees of these huge institutions were laid off in the first half of the 1990s, the land reform did not manage to take away their leaders’ power. The goal of eliminating all traces of communism in the country’s agricultural and industrial branches was not reached, because the local *nomenklatura* realized that after a short period of widespread confusion they could appropriate the best machines and equipment. At the same time, they were able to mobilize their past network of relationships in order to rent the best land parcels from the new owners who had got them back during the agricultural reform. The *arendatori* also turned astonishingly quickly into remarkably capable capitalists.

In the Bulgarian Dobrudzha, where the first *arendatori* appeared, some were able to garner up to 10,000 ha. In addition, they recruited people from the agricultural collectives who belonged to their closer circle of acquaintances, and hired them as employees in their post-socialist companies. At first, the *arendatori* engaged in highly speculative privatization ventures in the agricultural sector. Their strategies at that time were similar to those Max Weber describes as pre-rational capitalism (Weber, 1956: vol. 2, 834), of which short-term rent contracts (one to five years) are an example. The *arendatori* focused on intensive wheat production with the use of pesticides, neglecting both the necessary improvement of the farmland and the ecological balance.

After a glorious start, several *arendatori* quickly went bankrupt. In the Bulgarian Dobrudzha, however, several of them were very successful and are still the leading characters of the agricultural sector.

In order to portray such socio-anthropologically representative and relevant careers, we will analyse a case study, which can undoubtedly be considered nearly ideal and was often used as a reference model by the people of Dobrudzha.

The person is N.M., whom we interviewed regularly between January 1992 and April 2008 in order to reconstruct his social and economic development systematically.

In January 1992, we were introduced to N. by an employee of the regional section of the agricultural trade union in Dobric, the capital of the Bulgarian Dobrudzha region. This was shortly before the agricultural
reform laws came into force. At that time, the centre-right coalition’s plans for agrarian reform had caused great excitement in the whole region, but had not yet come into effect. Public opinion feared that the entire socio-economic structure of the Dobrudzha region was endangered. In these regions, with their almost legendary ‘red’ traditions, great resistance could be expected, if not an open rebellion against putting the government’s reform project into practice. In this general atmosphere of open discussions, in which there was no lack of slogans and catchphrases against the de-collectivization and the land restitution, we had our first talk with N., who was known for being a staunch advocate of the socialist agricultural collective system. We were in the village of O., about 15 kilometres from Dobric, where the collective’s main office was located. Here everything was still under N.’s control, since this agricultural production collective had not yet been dissolved. In our first long conversation, he delved into his socialist management policy. He was positive that the collective’s economic success was due solely to his personal experience as an agronomist and his loyalty to the old party directives. Next, he pointed out the advantages of collectivization for a region such as Dobrudzha, and stated that the policy of privatization and restitution was a fatal mistake. At the end of the interview, he stated in the presence of his employees:

The members of this collective will never accept the de-collectivization of agriculture. We will continue to do what we have been doing until now.

About six months after the revised land reform law was put into effect, we met N. again. In the meantime, he had been dismissed, and by judicial intervention his collective had been placed under the power of a liquidation council consisting of a small group of people who were very close to the new centre-right government. This second conversation with N. took place in a cold, small room of the once grand headquarters of the agricultural union in the town of Dobric. This meeting had none of the collectivist pride that had been central in our first discussion; it was a shorter and more dramatic conversation. N. explained with uneasiness, and not without bitter irony, that now he was just an unemployed person looking for a job, naturally in agriculture. He already had various plans, as he stated, but none of them had yet been carefully thought through. We learned that after the new land law came into effect the situation in the entire Bulgarian Dobrudzha was so unclear that he could only live from one day to the next, and any long-term
planning was impossible. When we pressed on to learn more about the immediate consequences of the de-collectivization of Dobrudzha, N. broke down, shook his head and explained in between sobs:

What a catastrophe... all is lost... They [the politicians in Sofia and the members of the liquidation committees] have destroyed everything we accomplished in years and years of hard work.

At the end of the conversation, visibly defeated and not truly convinced, he formulated the following sentence:

Probably the only prospect is to begin a market economy in years and years of work.

Several years later, in May 1996, we were surprised by N. as he arranged our regular meeting in his old and by now closed-down collective building. He greeted us in his old office, and it was immediately obvious that he was in much better spirits than the last time we met. He was very lively and seemed more confident than ever. Immediately after we entered his office, he started to tell us proudly of his success.

N. gave the impression of having finally reconquered his old co-op. He told us he had started renting land parcels from the new owners, who lived in the cities and barely had any interest in agriculture, and that in this way he had managed to gather enough land to have a profitable agricultural enterprise. He explained:

In Dobrudzha agriculture can only work on the basis of big plots of land, but those in Sofia don't understand that. So, we have to do things our way.

As in the past, he complained about the ‘new politicians in the capital’. What could one expect from people who ‘have never seen the countryside’? According to him, this inappropriate behaviour of the national political elite also explained why obtaining financial resources, that is, affordable bank loans to buy seed and machinery and to pay wages, was so difficult. Despite these difficulties, he had managed to buy equipment that used to belong to the co-op, since the newly founded co-op did not have the resources to buy that machinery from the old collective. He had also managed to select the best workers from the wide range of qualified and unqualified people who had used to work in the collective while he was still running it.
At the end of the interview, he insisted on inviting us to lunch at the privately operated inn that had been recently opened in the village of O. There the owner and regular customers greeted him with respect and deference. From this observation, we concluded that N. had brought us to this little restaurant to show us he had won back the prestige he had enjoyed at our first meeting. Here he could display the centrality of his role and his strategic position in the framework of his relationship network.

We met N. again in 1998. He was several hours late for our meeting, so we had enough time to look around his establishment. From the huge increase in the number of employees, we concluded that his enterprise was developing successfully. When he finally arrived, he announced he was currently farming 3,500 ha. The business was running quite well, but he had to be on the lookout for wheat speculators (the notorious akuli, i.e. sharks) from the big cities, mainly Sofia, who tried to keep the prices low. We asked whether he wanted to buy the rented land sometime in the future. With a cunning smile he replied: ‘The situation is still too uncertain; but this is a future goal.’

Then he suggested we take a look at what he had newly created in order to relieve the pressure from the akuli. He proudly took us over to the granary of the closed-down collective, which he had renovated and equipped with brand-new metal silos. We congratulated him, and he responded: ‘One needs good storage capacity in order to not feel the pressure from the speculators, just as many of the arendatori and especially the new co-ops are.’

In the end, he asked if we could invite him to Switzerland (of course he would pay for himself, as he emphasized) because, from what he knew, there he could learn how to improve efficiency in the agricultural sector from a capitalistic standpoint. At this point, it was clear to us that, from being a member of the old local nomenklatura, N. had turned into a post-socialist capitalist.

Further long conversations with N. took place in September 2006 and 2007 and in April 2008. He always welcomed us in a brand new three-storey building in downtown Dobric. He told us he had left the old collective’s run-down office to move his enterprise to these much more pleasant premises. The interview took place in his personal office, where, on a small but clearly visible shelf next to an icon of Jesus, stood a carefully arranged display of trophies (cups and diplomas) that N. had received in recognition of his outstanding, and for the time being nationally renowned, career as an agro-businessman, that is, an independent agricultural entrepreneur. With some pride, he announced
that he was already cultivating 7,500 ha, which, according to him, was the ideal size for a profitable enterprise in the Bulgarian Dobrudzha. He added that the land market was becoming a bit more flexible, as the old/new owners were ready to sell because of the land’s higher prices. He also noted that buying such extremely small land parcels was not always easy, since among the many heirs who had got the land back following the land reform there were often conflicting opinions and expectations, which often caused troublesome conflicts and disputes. Despite these difficulties and the resulting very long negotiations, he had managed to buy 3,500 ha to date. Given the current situation in the Dobrudzha region, N. viewed his property as sufficient. The future would tell whether additional land was needed.

After the conversation in September 2006, he suggested taking us to his country house on his estate. Along the way, he showed us a great number of new silos under construction and again explained the key role of storage. After a short ride along the rather flat landscape, we saw his country house: a pseudo-traditional, neo-rustic building which, according to N.’s conception, had a true rural feel. A fence over two metres high surrounded the house. From above the walls one could make out a large, well-tended garden, as well as a chapel, which N. insisted we visit. He was especially proud of the small fresco on the altar, which, in the tradition of Orthodox iconography, depicted the 12 apostles rather realistically. In the garden, he had installed a huge granite water basin, which he had bought and brought to Bulgaria from Romania and which had belonged to the Rotary Club in Dobrudzha before World War II. Finally, we visited the house and spent most of our time in a large hall that N. had set up as a meeting place for his co-workers. The hall also contained a very conspicuous portrait of Che Guevara. We also saw a small but significant display of official photographs from the communist era, depicting the striking activities of the old agricultural collective, dissolved over 16 years ago. One could recognize the festive opening ceremony and the subsequent festive process of collectivization, as well as the glorious phase of mechanization. This unexpected exhibition of socialist memorabilia also included a reproduction of the 1943 founding act of the co-op, signed by N.’s father. This proved what we had already surmised that shortly after the advent of the communist regime N.’s father had been among the most important and influential leaders of the ‘red’ collective movement in the Dobrudzha region.

From this visit to his agricultural empire’s core, we were able to conclude that his present position is a sort of dialectic *bricolage* consisting
of socialist nostalgia, neo-orthodox reinvention of the past and capitalistic orientation for the future. N. is clearly the embodiment of a specific version of the current capitalistic entrepreneur, who is definitely not entirely in line with the Western model, which makes the ideas of Samuel Eisenstadt (Eisenstadt, 2002) about multiple modernities seem very plausible and legitimate.

**Networking know-how: The pivotal role of the arendatori and the social production of informal personalized trust**

N. should not be viewed solely as a representative example of the new, rich and wealth-producing agricultural entrepreneur in the Dobrudzha region. At the same time, he is also an admired, envied and probably even hated protagonist of the post-socialist era. Therefore, not only local arendatori but also those in other markedly agricultural regions in Bulgaria view him as a paradigm and try to emulate him. Almost without exception, they perceive him as the touchstone of their own economic achievements. N.’s achievements are a recurring topic in conversations with the arendatori in the Dobrudzha region. These people are always wondering whether they will be able to reach N.’s success and social position. From a sociological and anthropological point of view, how should we interpret the brilliant career of this agricultural entrepreneur?

Shortly after the fall of socialism, in general, but especially among the new political elite in Bulgaria’s capital, the arendatori were actually viewed as negative social figures. They were regarded as staunch accomplices of the old system and a hostile, dangerous remnant of the local communist nomenklatura that ought to be fought with all legal means in order to keep it in check, if not to annihilate it socially and politically.

Nowadays this negative attitude towards the arendatori has somewhat changed. Although some political circles still find them objectionable, in general the arendatori are accepted because they have proven to be useful and even necessary actors in the agricultural sector, able to create workplaces and produce and accumulate social wealth. This is proven by the changes in legal regulations, by which the land’s arendator has a right of first refusal if the landowner wishes to sell his property. Thus, the land can be sold to another person, provided the arendator has refused it in writing.

Bearing in mind the abovementioned difficulties at the beginning of the establishment of the new system, and in line with the theory of rational choice or based on the reductionist view of the *homo economicus* acting solely according to the logic of what Max Weber described
as rationality versus scope, one might assume that the success of some arendatori is simply the outcome of purely individual qualities and acquired capabilities held to be universal, such as willpower and persistence, rational planning, ability to make economic calculations, a good education and so on.

Notwithstanding the great importance of these crucial qualities, we also want to stress the exceptional significance of the informal network of personal relationships created in part during socialist times. Only the arendatori who had carefully maintained such relationships and had also had the chance to be at the centre of these networks could survive in their workplace during the first post-socialist years and later achieve economic and social success.

To illustrate this point, we will once again refer to the paradigmatic example of N. His entire enterprise is based on a close-knit network of highly personalized relationships, with his closest family and himself at its core. N. as the person in charge, together with his wife and daughters, who manage administrative and financial matters, as well as his agronomist and engineer sons-in-law, who direct the agricultural and construction employees, represents the network’s core. Without this structure of relatives, mobilized daily, running the business would have been impossible. For work in the fields N. relies on a trusted team of workers and tractor drivers who used to work at the old socialist agricultural collective and even then had a high-trust relationship with N., who was their director under the past regime. Of course, some of the old employees have retired in the meantime. However, N. gave their jobs to their children or other close relatives.

Moreover, a successful arendator cannot help but have necessary relationships of a personal and informal nature with politicians and high-level administrators in the capital. These are indispensable when it comes to getting subsidies from the state or the EU (e.g. money from the Special Accession Programme for Agriculture and Rural Development (SAPARD)-Fund, Regional funds, Agricultural funds, etc.). In return for these important benefits, the arendatori, as N. and several of his colleagues confirmed, had to give 10–20% of the received sum to the brokers. With the politicians, the arendator also acts as a client who secures them votes from the people in his network. The reciprocal exchange of corrupt monetary transactions or classic patronage services is typical of these personal relationships. In addition, the network of relations is reinforced in clubs such as Rotary that provide the essential trustworthy and organizational environment for meetings aimed at winning over key contacts.
An *arendator*'s extended network also includes personal relationships with the individual owners of the land parcels he rents. Maintaining such relationships, as N. stresses, should guarantee the cultivated lands’ unity through the continuation of the lease. This is the only way one can make significant long-term plans for profitable agricultural activities.

Finally, the personal relationship network, which, according to our observations, is crucial to the success of the *arendatori* and the prosperity of the members of their networks, may also be represented as concentric areas with different levels of intimacy (Boissevain, 1974: 47). Figure 8.1 illustrates the decreasing level of intimacy with the increasing distance from the network’s core.

Up to the end of World War II, Bulgaria had been a markedly agricultural country weighed down by three major socio-economic problems: the excessive fragmentation of land property, the non-absorption of

![Intimacy zones and personalized relationships in the network of a post-socialist agricultural entrepreneur](image-url)

*Figure 8.1*  Intimacy zones and personalized relationships in the network of a post-socialist agricultural entrepreneur
peasant overpopulation by an industrial sector still at a planning stage, and the consequent high rates of underemployment and unemployment in the countryside. As mentioned before, in the years after World War II socialism tried to remedy this thorny situation by launching a forced-march industrialization process that included agriculture as well.

In this economic sector, industrialization mainly affected the country's more fertile and flat areas by encouraging a massive urbanization that significantly decreased the rural population, especially in regions like Dobrudzha. This situation was the legacy of the socialist economic system following its sudden, unexpected and ruinous collapse in 1989.

Clearly, therefore, those who embarked on capitalist activities in the so-called transition agricultural economy, such as the arendatori, have had to reckon with these socio-structural specificities resulting from the previous system. In fact, these skilful entrepreneurs of the post-socialist rural economy have taken on a major role and have become crucial in linking city and countryside. In Dobrudzha, as N.'s exemplary case illustrates, practically all transactions concerning the agricultural market economy and involving city and countryside will almost inevitably go through section A of the ideal-typical network represented in Figure 8.1. For any dealings between people in section B and those in sections C, D or EXT, applying to the arendator himself or someone within his closer family proves useful, if not, indeed, necessary. In fact, the diagram shows that there are practically no links between section B, which mainly consists of the arendator's rural associates, and sections C, D and EXT. Accordingly, capitalist economic relations would be virtually impracticable without the presence of the arendator, assisted by some of his family members. Yet, we need to add that the arendator cannot avoid acting as broker if he wants his economic activities to thrive. Therefore, taking on this role, which also contributes to his prestige and power, is definitely in his best interests. We can reasonably assume that an arendator who lacks the ability to act as a mediator will soon become a bankrupt entrepreneur. The personalized and informal relationships in the EXT zone are with high-ranking ministry bureaucrats rather than with politicians, since the former are practically immovable while the latter may change with each new government. In fact, bureaucrats are often a legacy of the old system with whom the arendatori had close relationships before the collapse of socialism, that is, when they were not yet capitalist entrepreneurs but high-ranking functionaries of the old and by now disbanded production cooperatives.

N.'s case indicates that the arendatori are 'urbanites' whose economic interests are totally or to some extent focused on the agricultural sector,
and thus on the countryside. However, to ensure continuity of their work and possibly an expansion of activities, as well as the jobs and pay of their employees, the *arendatori* must prove to be accomplished and patient negotiators with the landowners. One of the most important strategies calls for the ability to convince landowners to agree to long-term leases on their mostly microscopic land parcels, often located rather far apart from each other. The *arendatori* will only be able to obtain an undivided stretch of farmland through these often enervating negotiations, which become particularly difficult when there is more than one heir to a single land parcel. In this rather common case, each person entitled to a part of the property needs to be won over. If an owner, out of spite or for any other reason, should decide not to rent his plot to the *arendator*, the latter will have to cope with outsiders right in the middle of his farmland, with all the previously mentioned negative consequences for the efficiency of agricultural activities. Since these difficulties are, notoriously, quite common, *vox populi* has it that, more likely than not, the *arendatori* will resort to rather brusque methods, Mafia-style so to speak, to reach a solution in their own favour. Finally, the other actors with whom the *arendatori* must show themselves to be good negotiators are those in control of the allocation of agricultural subsidies, especially in the capital. Moreover, without a skilled *arendator* or a cooperative’s president acting exactly like an *arendator*, these funds, administrated in the city, would never reach the countryside. The *arendatori*’s success, beyond their activity as middlemen and negotiators between actors from various segments of society, lies also in being able to play highly mobile and hybrid roles.

**Conclusions: Legacies from the past, today’s mistrust and informal networking practices**

The analysis of the strategies employed by the new capitalist entrepreneurs in rural Dobrudzha reveals how the abstract societal project of land reform, as conceived by the political elite, diverged from the expectations and behaviour of the actors on the ground. In fact, a discrepancy has emerged between the legal framework and informal social practices, a gap that challenges the Weberian assumption according to which legality and legitimacy are inseparable (Weber, 1956: vol. 1, 124). The Bulgarian land reform and its unexpected outcomes reveal a critical divide between legality and legitimacy, because the new legal framework is constantly circumvented via personalized social networks that agents deem more appropriate to their circumstances. In other
words, legal norms and institutions co-exist with other norms and social conduct that are regarded locally as licit, legitimate, yet are extra-legal or even illegal (Morris and Polese, 2014: 12–13). Competition between the two is prevalent, and in everyday life gives rise to misinterpretations, tensions and conflicts between the state, on the one hand, and citizens, on the other. Many citizens in the Dobrudzha countryside perceive state laws as restrictions imposed by incompetent and dishonest politicians and bureaucrats. At best, the state and its representatives are perceived as ‘distant’ from and ‘alien’ to the population’s real problems. At worst, the public institutions are a foreign body, an obstacle to be avoided whenever possible. In the eyes of the new power elite and functionaries, the citizen is a person of dubious loyalty, scarcely aware of the public interest and always about to infringe the law. He or she must therefore be kept in check and treated more as a subject than as a citizen.

Such a rift between legality and legitimacy allows the social production of mistrust to thrive in the form of negative representations and activities outside the law. This fracture between the legality and the legitimacy of formal rules and institutions breeds mistrust towards anything non-personalized. From the agricultural entrepreneurs’ viewpoint, informality based on networks as well as specific personal relationships are ‘weapons of the weak’ (Scott, 1985), that is, rational strategies needed both to neutralize the negative effects of the public power’s formal actions and to successfully infiltrate what is regarded as the inextricable ‘jungle’ of the political–bureaucratic apparatus.

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Part III
Informal Public Sectors and Welfare: State Intervention or Withdrawal?
Informal Payments for Healthcare Services in Lithuania and Ukraine

Tetiana Stepurko, Milena Pavlova, Irena Gryga, Liubove Murauskiene and Wim Groot

Informal payments for healthcare services

The healthcare systems of many European post-communist and post-Soviet countries have been considerably affected by informal patient payments (also known as ‘under-the-table’ or ‘envelope’ payments) (Chawla et al., 1998; Gaal et al., 2006; Stepurko et al., 2010). The definition of informal patient payments usually includes a cash or in-kind supplement to the official payment for healthcare services (Belli, 2002; Gaal et al., 2010) as well as payments for commodities, such as pharmaceuticals (Lewis, 2000). Additionally, informal payments take place outside the official payment channels (Lewis, 2007), and payers may not even know that they are making an informal payment if they are not well informed about official fees (Thompson and Witter, 2000). Still, informal patient payments are not always perceived as illegal (Ensor, 2004; Gaal et al., 2006; Lewis, 2000) especially when the legislation and codes of ethics (even the moral codes) in the country fail to prescribe proper conduct and behaviour. As a result, informal patient payments are typically not prosecuted. Besides, the healthcare sector is not unique in such behaviour. Informal payments are also seen in other areas, for example in education, police, court and customs offices (Miller et al., 1998; Polese, 2008). Thus, general moral dispositions in society such as ‘everything that is not forbidden is allowed’ may well predispose to the existence of informal payments in the healthcare sector.

Informal payments for healthcare services are of an unregistered and hidden nature, and comprise all unofficial patient payments for publicly funded healthcare services. They are examined as a type of out-of-pocket
payments. However, two other types of out-of-pocket payments – formal and quasi-formal payments – refer to official patient charges for public and private healthcare services that may accompany informal patient payments (Belli, 2002; Thompson and Witter, 2000). In particular, formal payments are regulated by national legislation, while quasi-formal payments are set by the healthcare provider in the absence of clear government regulations. Compared with formal and quasi-formal charges, informal patient payments claim more attention, as ignoring these payments causes an underestimation of total healthcare expenditure and their hidden nature imposes a great challenge to provision in terms of accessibility, accountability and transparency.

This chapter describes the features of informal patient payments in post-Soviet countries, with empirical evidence on cash and in-kind informal payments for health services from Lithuania and Ukraine. In the next section, background information on the consequences of informal patient payments and the prevalence and escalation of the problem is presented. This is followed by a section that outlines the context of the two post-Soviet countries – Lithuania and Ukraine – and provides recent empirical evidence on the scope and scale of informal patient payments in these countries as well as on the public attitudes towards informal payments. The final section concludes the chapter by discussing the key challenges in post-Soviet countries and strategies for the elimination of informal patient payments.

The impact of informal patient payments on the healthcare system

The impact of informal patient payments on healthcare provision is revealed at the macro (system) level as they impede reforms, and at the micro (service) level by creating barriers to adequate care. Indeed, informal patient payments distort policies aiming to improve the efficiency and quality of healthcare services. Although informal payments may help individual patients to obtain services with better quality (Maestad and Mwisongo, 2011), there is no evidence that these payments significantly contribute to the improvement of clinical quality in the healthcare sector in general (Gaal and McKee, 2005). Moreover, informal payments may affect physicians’ decisions on what services to provide and to whom. Parallel to the informal payment, however, physicians or the healthcare facilities receive a formal reimbursement (public funds) for services provided. Thus, the allocation of public resources is affected
by individual willingness to pay informally, not just by the social value of the use of these resources. In addition to allocative efficiency, the cost-effectiveness of provision can be also undermined if patients are willing to receive and pay informally for less cost-effective services (e.g. caesarean section vs. natural birth).

The most adverse effects of informal patient payments concern equity. When informal patient payments are established as a practice, patients who lack funds or social protections, and who cannot afford to pay informally, either avoid or delay seeking treatment (Lewis, 2007). Frequently, they use personal savings, take out loans and sell assets to cover these payments (Tambor et al., 2014). The idea that physicians (guided by a ‘Robin Hood’ principle) charge rich patients informally and provide free-of-charge service to poor patients is not supported by empirical findings (Szende and Culyer, 2006).

Therefore, informal patient payments are a threat to public health, since they jeopardize the efficiency and equity of healthcare provision (Gaal et al., 2010; Szende and Culyer, 2006). Most importantly, those who cannot afford to pay informally might receive inadequate care, or even delay seeking treatment (Burak and Vian, 2007; Tambor et al., 2014).

Studies show that informal patient payments are not unique to post-Soviet countries. They are a well-known phenomenon around the world. The practice of small gifts (flowers, chocolates, wine) given by the thankful patient to healthcare staff after service provision exists in many countries (Abbasi and Gadit, 2008; Lyckholm, 1998). Such gifts are not typically expected by providers. Although it is recognized that such gifts should be regulated and monitored, they are not seen as a problem in healthcare provision (Dodge, 1978; Greenberg, 1990) as long as patients who do not give gifts are not deprived of adequate services. Rubin (2012) even argues that such small gifts to physicians should not be forbidden, since gift refusal may hurt the feelings of the patient. Therefore, in exceptional cases, medical professionals have asserted their right to accept small gifts from patients. However, when expensive in-kind gifts to physicians in exchange for better or quicker services become a common practice, and when informal cash payments appear, concerns about equity in access to adequate healthcare start to emerge (Allin et al., 2006; Barber et al., 2004).

A huge variety in the nature and patterns of informal patient payments is reported across countries. Studies provide evidence on the variation of payment types (cash or in-kind gifts given by patients or
Informal Public Sectors and Welfare

their families), timing (before, after or during service provision), subject (out-patient or in-patient service), purpose (obtaining better quality or access) and motivation (physician’s request or patient’s initiative) (Balabanova and McKee, 2002; Belli et al., 2004; Shishkin et al., 2003; Thompson and Witter, 2000). As empirical evidence suggests, developing and transition countries are more often affected by informal payments because the economic and socio-cultural environment is more conducive to ‘gift’ exchange as a means to maintain the underfunded healthcare system (Allin et al., 2006). Overall, the boundaries between informal payments and true gifts are blurred and not easy to determine (Polese, 2008; Wanner, 2005).

Furthermore, a variety of interrelated factors are associated with informal payments. Different authors (Gaal and McKee, 2005; Tambor et al., 2012; Thompson and Witter, 2000; Tomini and Maarse, 2011) argue that the presence of informal patient payments can be explained by the tradition of giving gifts, as mentioned above, as well as by other cultural, social and ethical factors that do not directly affect the healthcare system. In contrast to Western countries that moved towards objectivity and fairness (Scott, 1994) aimed at ensuring social welfare, the post-Soviet approach relies more on private bonds and informal relations in a context of weak institutions and poor governance. Indeed, the term ‘multiple moralities’ (Wanner, 2005: 530) emerged during the transition period. Political and economic changes in the countries (especially those related to the accountability and transparency of public services provision) are seen as a key factor in resorting to informal exchanges. The latter serves as a means for individuals to achieve at least individual welfare when the state fails to ensure social welfare (Wanner, 2005). In particular, payments requested by healthcare providers do not exclusively reflect unethical behaviour by providers. Still, these solicited payments are more widespread in situations of chronic underfunding – poorly paid personnel and lack of medical supplies, commodities and sanitary aids. It appears that provision is conditioned by unavoidable informal payments when the need for healthcare is high. In other words, when certain goods or services have to be accessed, consumed or provided, it is not only morality or inherited values that rule human actions. Economic factors, such as low funding and low physician salaries, as well as managerial and legal aspects and poor governance, also matter (Ensor, 2004; Gaal and McKee, 2005; Tambor et al., 2012; Tomini et al., 2012).

Overall, four basic dimensions are noted (Gaal and McKee, 2005; Mossialos et al., 2002; Tomini et al., 2012) – socio-cultural factors,
economic and labour factors, political and regulatory factors, and healthcare systems in particular – that can be used to classify the factors and shed light on the causes of informal payments. Table 9.1 presents the key factors and their possible indicators by dimension, together with an explanation of their relation to the presence of informal patient payments.

It should be pointed out, however, that the dimensions (factors and their indicators) presented in Table 9.1 are rather interwoven, leading jointly to the existence of a specific pattern of informal payments in a country. For example, the existence of informal payments is associated with insufficient healthcare system funding and low physician salaries (healthcare system dimension in Table 9.1). This offers an explanation for why healthcare providers request informal payments, and emphasizes the providers’ role in the informal payment chain.

Nevertheless, insufficient healthcare system funding is largely a result of poor economic circumstances (economic and labour dimension in Table 9.1). Low earnings in the country imply low general tax revenues and low social insurance contributions, which, in turn, limit the resources available for public healthcare provision. Thus, the two dimensions, the healthcare sector and the economic and labour environment, are interrelated, and it might be difficult to distinguish their intertwined influence in practice.

Similarly, socio-cultural factors (including indicators such as public opinion and attitudes in Table 9.1) indicate the role of society, but also the role of the patient, as a key element of the informal payment chain (healthcare system dimension in Table 9.1). Thus, even when the informal payment is requested, the patient makes the final decision on whether or not to resort to an informal transaction with the provider. In other words, the patient is able to pour oil on the fire of the defective regulatory mechanisms and the economic climate that leads to informal payments. But it is also the patient who initiates informal payments as a means to obtain the desired services. Cohen (2012) describes this behaviour as a ‘do-it-yourself’ approach – an adaptive strategy of an individual who is unsatisfied with government services and is willing to apply different (e.g. informal or ‘extra-legal’) approaches to fulfil healthcare needs. Therefore, theoretical discussions (Gaal and McKee, 2004) and empirically tested theories (Burak and Vian, 2007) offer a deeper look at individual motives for informal payments.

The culture of giving gifts seems to be the most straightforward explanation that applies beyond the borders of a single country. However, in the context of inadequately funded public healthcare services,
Table 9.1 Dimensions, factors and indicators that explain the presence of informal patient payments

<table>
<thead>
<tr>
<th>Dimensions</th>
<th>Factors</th>
<th>Example indicators</th>
<th>Explanation</th>
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<tbody>
<tr>
<td>Healthcare system</td>
<td>Healthcare funding and policy</td>
<td>Total/government expenditure on health Level and structure of user charges Allocation and management of funds</td>
<td>Inadequate levels of healthcare funding, efficiency, equity and quality of service provision provide incentives to providers and patients to resort to informal payments in order to achieve their expectations for a reasonable income and service quality, respectively. Low level of physician salaries and lineitem budgets lack incentives to increase productivity and satisfy patients’ needs.</td>
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<td>Healthcare organization and provision</td>
<td>Range and reach of services GP practice functioning Range of competing health facilities</td>
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<td>Healthcare providers</td>
<td>Type of provider payment mechanism Providers’ aspirations and expectations Moral standards of the medical profession</td>
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<td>Patients</td>
<td>Willingness and ability to pay Patients’ preferences</td>
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<tr>
<td>Socio-cultural environment</td>
<td>Demographics</td>
<td>Age structure of the population Dependency ratio</td>
<td>Widespread informal payments can be associated with deeply rooted gift-giving culture and social acceptance of undeclared (informal) transactions. The abilities of individuals (and the society in general) to change their attitudes and perceptions may depend on education level and demographic factors (e.g., age structure).</td>
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<td>Social factors</td>
<td>Level of education and literacy Civil society functioning</td>
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<td>Social psychology and morals</td>
<td>Attitudes towards corruption Attitudes towards informal transactions Moral standards of citizens</td>
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<td>Culture</td>
<td>Culture and cultural belief in gifts Perception of tipping and gratitude money</td>
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<td>Economic and labour environment</td>
<td>Employment opportunities</td>
<td>Economic growth reduces the need for a grey economy and informal transactions. Well-functioning labour market gives alternatives to physicians who are not satisfied with work conditions and reimbursement.</td>
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<td>Economic circumstances</td>
<td>Levels of unionization</td>
<td>Rate of economic growth</td>
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<td>Level of capital mobility</td>
<td>Size of the informal economy</td>
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<td>Income rates</td>
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<td>Political and regulatory</td>
<td>Appointment of new ministers</td>
<td>Good practices in politics and governance facilitate a bribe-free environment. Adequate regulations are reflected in proper performance (e.g. no informal payments). Lack of regulations in terms of ethics (e.g. Code of Ethics) can create atmosphere conducive to informal payments.</td>
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<td>New governments</td>
<td>Joining unions, e.g. the EU</td>
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<td>Levels of corruption</td>
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<td></td>
</tr>
<tr>
<td></td>
<td>Political will to combat</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>corruption</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ethics</td>
<td>Clear professional and ethics codes</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*Sources: Cohen (2012); Ensor (2004); Gaal et al. (2006); Gaal and McKee (2005, 2006); Leichter (1979 in Mossialos et al. 2002); Lewis (2007); McPake et al. (1999); Thompson and Witter (2000); Tomini and Maarse (2011); Walt (1998).*

Informal payments also provide a means for patients in post-Soviet countries to receive services with quicker access and better quality, as well as for healthcare providers to obtain adequate reimbursement for services provided (Belli, 2002; Chawla et al., 1998; Cockcroft et al., 2008; Tatar et al., 2007). Governments that are unable to effectively reform and fund their healthcare sectors often ignore the problematic side of informal payments (Lewis, 2006; Shahriari et al., 2001; Thompson and Witter, 2000). Hence, when the government policies and promises on
the amount of service provision do not correspond to the organization and funding of the services, patients and providers resort to informal payments (Cohen, 2012).

Given the above, informal payments are considered to be a great concern to health policy-makers. A better understanding of the country-specific context and the roots of informal patient payments is essential for the design of adequate strategies for decreasing the negative impact of informal payments on the attributes of healthcare service provision (Vian, 2008; Vian et al., 2006).

Healthcare systems and the socio-political context of post-Soviet European countries: Lithuania and Ukraine

The transition from a state-planned to a market economy has created a mix of contrasting political and social values, and a continuously changing socio-economic environment, in former Soviet republics (Deppe and Oreskovic, 1996). Generally, a shortage of resources, a lack of good governance (e.g. lack of transparency and accountability), as well as other disadvantageous trends (poor health indicators, unemployment, low salaries of medical staff, lack of trust), are considered to be characteristics of all post-Soviet countries (Gaal, 2004; Kuszewski and Gericke, 2005; Lekhan et al., 2010). Although Lithuania and Ukraine have much in common, they also show some diversity in terms of economic development, demographic patterns and health indicators, and the extent of the abovementioned problems also differs between the countries. More specifically, the characteristic features of these two post-Soviet countries are briefly described in this section.

In order to compare the context of Lithuania and Ukraine, we draw upon the SPACE-matrix (Strategic Position and Action Evaluation Matrix) analysis, which is a management tool for determining the competitiveness of an organization in the market place. It uses a set of pre-selected indicators of four key dimensions, and the exact indicators per dimension depend on the type of organization and its industry (Swayne et al., 2008). The matrix method can be also applied for healthcare and other sectors at the country level (Country Assessments and Performance Measures, 2007).

We apply this tool to determine the conduciveness of the environment in Lithuania and Ukraine to informal payments. To select the indicators, we use the four dimensions of the presence of informal patient payments described in Table 9.1: economic and labour factors,
socio-cultural factors, political and regulatory factors, and healthcare system factors. For each dimension, we select five key quantitative indicators whose values are readily available for the two countries from a single source. This means that important context-related indicators (such as average physicians’ salary per country) are omitted, because their values are either not available or come from different sources.

The indicators and their values per country are presented in Table 9.2. The values of the indicators are used to calculate standardized scores per indicator per country. In particular, for each indicator, we sum up the two country values and then divide the country value by this sum. As a result, the country values are rescaled, and the new values fall in the range from 0 to 1. When high original values of an indicator indicate low conduciveness to informal payments (e.g. in case of GDP, expenditure on health, etc.), the new rescaled values are reversed. Thus, a high standardized score per country per indicator in Table 9.2 indicates a relatively high conduciveness to informal payments, that is, a relatively problematic area in the country. The sum of all country standardized scores per indicator equals 1. Thus, the standardized scores allow a comparison across countries and across indicators. An average standardized score per country per group of indicators (dimension) is also calculated, that is, four average standardized scores per country.

The average standardized scores (see Table 9.2) indicate differences in economic, regulatory and healthcare systems and perhaps, to a lesser extent, differences in the cultural environment in the countries. Based on the average standardized scores per country, the country graphic profile is drawn (see Figure 9.1). The area within the country profile indicates the conduciveness of the country environment to informal payments. A larger area indicates a relatively more conducive environment. Thus, Figure 9.1 shows that the environment in Ukraine is relatively more conducive to informal payments compared with that in Lithuania. Changes in the set of indicators do not change this main conclusion, which suggests robustness of the results. Based on the SPACE-matrix analysis, informal payments in Ukraine can be expected to be higher and more widespread than in Lithuania.

Nonetheless, the country profiles in Figure 9.1 lack some qualitative indicators. Two decades ago, virtually all post-Soviet European countries experienced economic recession and difficulties in revenue collection. Later, the majority of the countries in the region experienced economic growth, but not the countries from the Community of Independent
States (e.g. Ukraine). This was due to the slow privatization process, widespread corruption and the greater distance from European markets. In particular, it is worth underlining an important change that occurred in Lithuania, which joined the EU in 2004. EU membership provided a frame and stimulus to improve regulations and to achieve

<table>
<thead>
<tr>
<th>Economic and labour factors</th>
<th>Lithuania</th>
<th>Ukraine</th>
<th>Socio-cultural factors</th>
<th>Lithuania</th>
<th>Ukraine</th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP (PPP per capita, US$ billion)</td>
<td>12,323</td>
<td>6,656</td>
<td>Human development index (rank, lower value = higher level)</td>
<td>40</td>
<td>76</td>
</tr>
<tr>
<td>Standardized score</td>
<td>0.35</td>
<td>0.65</td>
<td>Standardized score</td>
<td>0.35</td>
<td>0.65</td>
</tr>
<tr>
<td>GDP real growth rate (%)</td>
<td>1.30</td>
<td>4.20</td>
<td>Education index (score, higher value = higher level)</td>
<td>0.883</td>
<td>0.858</td>
</tr>
<tr>
<td>Standardized value</td>
<td>0.76</td>
<td>0.24</td>
<td>Standardized score</td>
<td>0.49</td>
<td>0.51</td>
</tr>
<tr>
<td>GNI (PPP per capita, US$ billion)</td>
<td>16,234</td>
<td>6,175</td>
<td>Survival self-expression values (score, higher value = higher level)</td>
<td>–1.00</td>
<td>–1.72</td>
</tr>
<tr>
<td>Standardized score</td>
<td>0.28</td>
<td>0.72</td>
<td>Standardized score</td>
<td>0.37</td>
<td>0.63</td>
</tr>
<tr>
<td>Black market (US$ billion)</td>
<td>0.044</td>
<td>4.310</td>
<td>Corruption perception index (rank, higher value = higher level)</td>
<td>46</td>
<td>134</td>
</tr>
<tr>
<td>Standardized score</td>
<td>0.01</td>
<td>0.99</td>
<td>Standardized score</td>
<td>0.26</td>
<td>0.74</td>
</tr>
<tr>
<td>Average standardized score</td>
<td>0.35</td>
<td>0.65</td>
<td>Average standardized score</td>
<td>0.37</td>
<td>0.63</td>
</tr>
<tr>
<td>Healthcare system factors</td>
<td>Lithuania</td>
<td>Ukraine</td>
<td>Political and regulatory factors</td>
<td>Lithuania</td>
<td>Ukraine</td>
</tr>
<tr>
<td>---------------------------------------------------------------</td>
<td>-----------</td>
<td>---------</td>
<td>---------------------------------------------------------------------</td>
<td>-----------</td>
<td>---------</td>
</tr>
<tr>
<td>Total expenditure on health (%GDP)</td>
<td>7.8</td>
<td>7.0</td>
<td>Political stability index (rank, higher value = higher level)</td>
<td>69</td>
<td>42</td>
</tr>
<tr>
<td>Standardized score</td>
<td>0.47</td>
<td>0.53</td>
<td>Standardized score</td>
<td>0.37</td>
<td>0.62</td>
</tr>
<tr>
<td>Total expenditure on health (per capita, US$)</td>
<td>730</td>
<td>180</td>
<td>Government effectiveness index (rank, higher value = higher level)</td>
<td>74</td>
<td>25</td>
</tr>
<tr>
<td>Standardized score</td>
<td>0.20</td>
<td>0.80</td>
<td>Standardized score</td>
<td>0.25</td>
<td>0.75</td>
</tr>
<tr>
<td>Government expenditure on health (per capita, US$)</td>
<td>499</td>
<td>98</td>
<td>Control of corruption index (rank, higher value = higher level)</td>
<td>66</td>
<td>17</td>
</tr>
<tr>
<td>Standardized score</td>
<td>0.16</td>
<td>0.84</td>
<td>Standardized score</td>
<td>0.20</td>
<td>0.80</td>
</tr>
<tr>
<td>Maternal mortality (deaths per 100,000 live births)</td>
<td>8</td>
<td>32</td>
<td>Rule of law index (rank, higher value = higher level)</td>
<td>72</td>
<td>25</td>
</tr>
<tr>
<td>Standardized score</td>
<td>0.20</td>
<td>0.80</td>
<td>Standardized score</td>
<td>0.26</td>
<td>0.74</td>
</tr>
<tr>
<td>Physicians density (physicians per 10,000 population)</td>
<td>3.61</td>
<td>3.25</td>
<td>Democracy index (score, higher value = higher level)</td>
<td>7.24</td>
<td>5.94</td>
</tr>
<tr>
<td>Standardized score</td>
<td>0.47</td>
<td>0.53</td>
<td>Standardized score</td>
<td>0.45</td>
<td>0.55</td>
</tr>
<tr>
<td>Average standardized score</td>
<td>0.30</td>
<td>0.70</td>
<td>Average standardized score</td>
<td>0.31</td>
<td>0.69</td>
</tr>
</tbody>
</table>

Note: Standardized scores indicate the relative conduciveness to informal payments; the sum of the country standardized scores per indicator equals 1.
better living standards, more transparency and accountability. It also required the eradication of corruption. Meanwhile, Ukraine is a non-EU member and, until recently, the chance of the country achieving membership has been doubtful. Its disadvantaged situation is also visible in our SPACE-matrix analysis.

In addition to this, more than one decade ago, almost all post-Soviet European countries, including Lithuania but not Ukraine, switched from the system of central planning and free-of-charge healthcare to a decentralized system with a health insurance fund. While Ukraine largely preserved the tax-based healthcare system established during communism, Lithuania established a social health insurance system as early as the 1990s. In Lithuania, access to healthcare is assured for the vast majority of residents, while the working population are obliged to join the state health insurance scheme, and the state increasingly contributes for the 60% of the total population who are not economically active (Murauskiene et al., 2013). Lithuania has achieved more in the field of reducing hospital capacity and extending primary healthcare (general practitioners (GPs) play a gatekeeping role and are paid per capita), as well as in improving quality and equity in provision and cost-effectiveness. Emergency care remains free for everyone in need.

Although in both countries there is little discussion of the introduction of user fees for publicly funded services, the systems of patient...
payments are unclear in Ukraine, where a list of ‘paid services’ has been introduced. In Lithuania, payment regulations seem to be more grounded: Lithuanians who are non-residents, non-insured and non-registered are charged for using non-vital services (Murauskiene et al., 2010, 2012). In addition, a price list has been developed in case of consumption of services from the negative list of (mostly auxiliary) services. Quasi-formal payments and informal patient payments are considered to be widespread, but they are not the subject of consistent policy debates, and are not always recognized by policy-makers as essentially problematic. Recently, the Lithuanian government has attempted to regulate the quasi-formal payments for healthcare services that were introduced by public facilities.

Thus, healthcare reforms in the two post-Soviet republics have an uneven character. The countries experienced numerous appointments of ministers of health during the last decade (17 in Lithuania and 18 in Ukraine, with an average length of stay of 1–1.5 years). The general political and social situation in the countries has also not been very stable in recent years. While Wanner (2005) suggests that ‘the “Europeanness” of Ukraine is more questioned than that of the Baltic or other former-socialist Eastern European countries’ (517), in both Ukraine and Lithuania political and economic changes have also entailed new combinations of individual–social interests (skewed towards individual ones) as well as new consumer values. However, during transition, most post-Soviet societies, including Lithuania and Ukraine, are characterized by a low level of expectation of and trust in authorities because of the political intention to ensure private wealth instead of maintaining the principles of social welfare (Dobryninas, 2005; Polese, 2008; Wanner, 2005). In particular, the overall situation in Ukraine till 2014 has been characterized by monopolization of political and economic power by political forces for self-enrichment, as well as by the lack of public trust in state institutions coupled with non-fulfilment of political and economic obligations (Kuzio, 2012). As has been noted (EU Neighbourhood Barometer, 2012), the level of trust in the national government and parliament was about 18% and 13%, respectively, in 2012 (the lowest in the region). Apart from the negative effect of corruption on trust (Life in Transition, 2011), lower levels of trust are observed in poorer countries as well as in societies with an unequal distribution of income (Morrone et al., 2009). At the same time, Lithuania is enduring a demographic crisis, with one of the highest emigration rates in Europe.
Despite these qualitative aspects, the country profiles in Figure 9.1 highlight the strengths and weaknesses of the environment in each country with regard to informal patient payments. These profiles can also be used to elaborate a single-country strategy for solving the problem of informal patient payments.

Empirical evidence on informal patient payments in Lithuania and Ukraine

Based on a cross-country survey conducted in 2010 (multi-staged probability representative sample designed for each country and face-to-face structured interviews), we present data on the scope and level of informal patient payments in Lithuania and Ukraine. Widespread informal practices in healthcare provision in Ukraine, and to a lesser extent in Lithuania, are noted. In particular, there is a variety of patterns of informal patient payments as well as a mixture of patient payment policies that accompany informal payments.

The scope and level of informal patient payments in Lithuania and Ukraine

Table 9.3 shows the valid percentage of respondents and the number of those who report that they have ever paid informally in cash or in the form of in-kind gifts. In Lithuania and Ukraine, the percentage of those who have ever given cash to medical staff is almost the same (48% and 53%, respectively). A higher percentage of respondents report that they have ever made informal payments to medical staff in the form of in-kind gifts compared with cash payments. Moreover, every third respondent in the Ukrainian sample, in contrast to every eighth respondent in the Lithuanian sample, has ever been asked to pay informally for healthcare services. Generally, informal payments are more widespread when they are solicited or expected by providers, and also higher amounts of informal payments are given at the medical staff’s request, as suggested by previous studies (e.g. Tomini et al., 2012). According to Cohen (2012), solicited informal payments can be seen as an indicator of major financial troubles in the healthcare system, while patient-initiated informal payments can be related to patients’ unmet expectations of better service quality.

Furthermore, the probability and the size of the informal payment are to a great extent determined by the type of service consumed (out-patient or in-patient care). Our study results presented in Table 9.3 suggest a higher number of users as well as higher amounts that are
paid for hospitalization. The literature also provides evidence on more expensive payments paid by a higher share of patients during hospitalization (Kornai, 2000; Shahriari et al., 2001; Szende and Culyer, 2006; Tomini and Maarse, 2011; Vian et al., 2006). In detail, when the annual proportion of informal payer is examined, it appears that about 23% of Lithuanian and about 37% of Ukrainian out-patients, and about half of the in-patients in both countries, pay informally. However, with respect to the average amounts paid informally, Ukrainians report a median value of about 14 euro in informal payments per respondent per year, while this is about 44 euro in Lithuania. When the means of the informal patient payments per respondent per year are compared with the minimum wages in the countries (see Eurostat, 2010), it appears to be virtually equal to one monthly minimum wage in Ukraine and to half of this in Lithuania. This indicates a considerable burden on households caused by informal patient payments (especially for lower-income households, and especially in Ukraine).

It is worth mentioning that informal patient payments can co-exist with other types of patient payments, such as quasi-formal and official patient payments. When a clear regulation of the basic package and formal patient charges is lacking, patients experience a mixture of payment obligations. For example, we observe that informal payments are a widespread supplement to also widespread quasi-formal payments in both countries. Meanwhile, patients in these two post-Soviet countries are poorly informed about the size of the formal fees, as indicated in Table 9.3. Therefore, similar practices of informal payments constitute a behavioural pattern in healthcare consumption. Perhaps a common social past provides many similarities; however, the more modest nature of the phenomenon in Lithuania can be stipulated by higher levels of economic development and governance practice (also illustrated by the SPACE-matrix analysis in Table 9.2 and Figure 9.1).

Attitudes towards informal patient payments: Empirical evidence

The existence of informal patient payments in Lithuania and Ukraine indicates that the public fails to oppose payments. Indeed, public opinion, though rarely considered in policy-making, can play an essential role in dealing with informal payments (Ensor, 2004), since it reflects culture, social norms and historical developments. The acceptance of informal patient payments enables the existence of these payments and may hinder measures for their elimination. Moreover, public opinion towards a social phenomenon may affect individual patients’ and
Table 9.3 Healthcare services consumption and payments during the last 12 months

<table>
<thead>
<tr>
<th></th>
<th>Lithuania</th>
<th>Ukraine</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Ever</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Have you ever personally paid informally in cash to physicians, medical staff or other personnel in healthcare facilities?</td>
<td>No N (%) 525 (52.0)</td>
<td>467 (47.0)</td>
</tr>
<tr>
<td></td>
<td>Yes N (%) 484 (48.0)</td>
<td>527 (53.0)</td>
</tr>
<tr>
<td>Have you ever personally given any gift in kind to physicians, medical staff or other personnel in healthcare facilities?</td>
<td>No N (%) 472 (46.7)</td>
<td>417 (42.0)</td>
</tr>
<tr>
<td></td>
<td>Yes N (%) 539 (53.3)</td>
<td>576 (58.0)</td>
</tr>
<tr>
<td>Number of respondents who have ever been personally asked to pay informally</td>
<td>No N (%) 887 (87.9)</td>
<td>689 (69.5)</td>
</tr>
<tr>
<td></td>
<td>Yes N (%) 122 (12.1)</td>
<td>303 (30.5)</td>
</tr>
<tr>
<td><strong>Last year</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Use of out-patient (physician) services during the last 12 months</td>
<td>No N (%) 272 (26.9)</td>
<td>426 (42.7)</td>
</tr>
<tr>
<td></td>
<td>Yes N (%) 739 (73.1)</td>
<td>572 (57.3)</td>
</tr>
<tr>
<td>Number of visits</td>
<td>Median 3.00</td>
<td>2.00</td>
</tr>
<tr>
<td></td>
<td>Mean (SD) 5.02 (5.32)</td>
<td>3.45 (4.25)</td>
</tr>
<tr>
<td>Payments for out-patient (physician) services by users</td>
<td>No N (%) 414 (56.0)</td>
<td>246 (43.3)</td>
</tr>
<tr>
<td></td>
<td>Yes N (%) 325 (44.0)</td>
<td>322 (56.7)</td>
</tr>
<tr>
<td>Total payments</td>
<td>Median 28.9</td>
<td>19.2</td>
</tr>
<tr>
<td></td>
<td>Mean (SD) 85.4 (159.3)</td>
<td>60.8 (123.5)</td>
</tr>
<tr>
<td>Informal payments for out-patient (physician) services by users</td>
<td>No N (%) 569 (77.0)</td>
<td>359 (63.3)</td>
</tr>
<tr>
<td></td>
<td>Yes N (%) 170 (23.0)</td>
<td>208 (36.7)</td>
</tr>
<tr>
<td>Total informal payments</td>
<td>Median 28.9</td>
<td>9.6</td>
</tr>
<tr>
<td></td>
<td>Mean (SD) 80.5 (161.3)</td>
<td>32.2 (62.4)</td>
</tr>
<tr>
<td>Use of in-patient (hospital) services during the last 12 months</td>
<td>No N (%) 846 (83.7)</td>
<td>816 (81.6)</td>
</tr>
<tr>
<td></td>
<td>Yes N (%) 165 (16.3)</td>
<td>184 (18.4)</td>
</tr>
<tr>
<td>Number of hospitalizations</td>
<td>Median 1.00</td>
<td>1.00</td>
</tr>
<tr>
<td></td>
<td>Mean (SD) 7.85 (6.87)</td>
<td>1.48 (0.81)</td>
</tr>
<tr>
<td>Payments for in-patient (hospital) services by users</td>
<td>No N (%) 65 (39.4)</td>
<td>48 (27.0)</td>
</tr>
<tr>
<td></td>
<td>Yes N (%) 100 (60.6)</td>
<td>130 (73.0)</td>
</tr>
<tr>
<td>Total payments</td>
<td>Median 86.9</td>
<td>95.9</td>
</tr>
<tr>
<td></td>
<td>Mean (SD) 149.7 (160.1)</td>
<td>195.9 (235.2)</td>
</tr>
<tr>
<td>Informal payments for in-patient (hospital) services by users</td>
<td>No N (%) 79 (49.0)</td>
<td>87 (49.4)</td>
</tr>
<tr>
<td></td>
<td>Yes N (%) 82 (51.0)</td>
<td>89 (50.6)</td>
</tr>
<tr>
<td>Total informal payments</td>
<td>Median 130.3</td>
<td>38.3</td>
</tr>
<tr>
<td></td>
<td>Mean (SD) 143.9 (129.2)</td>
<td>81.2 (121.1)</td>
</tr>
</tbody>
</table>

Note: All amounts in the table are presented in euros. First, amounts in local currency for 2011 and 2009 are converted to 2010 values based on Consumer Price Index per country (Source: World Bank), then these are converted from local currency to euros based on average conversion rate for 2010 (Source: ECB – European Central Bank).
What is your attitude towards informal cash payments to physicians, medical staff or other personnel in healthcare facilities?

Ukraine
- 75% (738) Negative
- 13% (130) Indifferent
- 12% (117) Positive

Lithuania
- 72% (725) Negative
- 11% (113) Indifferent
- 17% (166) Positive

What is your attitude towards informal cash payments to physicians, medical staff or other personnel in healthcare facilities?

Ukraine
- 52% (508) Negative
- 19% (188) Indifferent
- 29% (288) Positive

Lithuania
- 45% (449) Negative
- 12% (124) Indifferent
- 43% (432) Positive

Figure 9.2 Public attitudes towards informal patient payments in Lithuania and Ukraine

providers’ behaviour, and thus the specific patient–provider relation, from which informal payments originate.

Therefore, recent data on public attitudes and opinions are very important. Figure 9.2 shows the valid percentage and number of respondents per country who stated their perceptions and attitudes towards informal patient payments. Generally, the attitude towards informal cash payments, and to a lesser extent towards in-kind gifts, is negative overall. The attitudes towards cash informal patient payments are rather negative (72.2% in Lithuania and 74.9% in Ukraine), whereas a relatively lower percentage of people in Lithuania and Ukraine (44.7% and 51.6%, respectively) report negative attitudes towards in-kind gifts, and people are not afraid to voice a positive attitude towards such gifts.

Previous studies have also reported on the prevalence of negative attitudes towards informal payments, as well as a more positive attitude to in-kind gifts compared with cash payments (Balabanova and McKee, 2002; Belli et al., 2004; Cockcroft et al., 2008; Tatar et al., 2007). Although in-kind gifts (like cash payments) can be considered as a means to obtain better and quicker services when the system fails to offer adequate service standards to all patients, in-kind gifts are not supposed to induce expenditures beyond patients’ means. Tokens of gratitude are common practice all over the world, but the extent of the gift-giving practice differs (Abbasi and Gadit, 2008; Spence, 2005), as in some countries clear regulation of physician behaviour is more developed and adhered to (Gaufberg, 2007; Kutzin, 2010; Rechel et al., 2011). Moreover, when gifts are not expected or encouraged, they do not adversely affect efficiency in provision (Gaal and McKee, 2005).
Another dimension of consumers’ acceptance of informal transactions is to label the payment as ‘corruption’, ‘bribery’ or ‘gratuity’. As shown in Figure 9.3, there is widespread adherence to the notion that informal cash payments are similar to corruption and that in-kind gifts are an expression of gratitude. Still, diversity of opinions is observed in the midpoints; for example, about 22% of the public in both countries believe that informal cash payment can be seen as gratitude. Also, 30% of respondents in Ukraine and 38% in Lithuania think that in-kind gifts given to medical staff can be treated as corruption. However, Polese (2008) and Morris and Polese (2014) suggest the term ‘brifts’ or ‘grafts’ for describing the hybrid nature of giving ‘gifts’ or ‘bribes’. In other words, a very extensive grey zone appears when a typical differentiation between corruption and gratitude is applied. Informal patient payments are gratitude payments as long as they are in-kind gifts with negligible monetary value and are given after the service provision by the thankful patient.

As the role of media in shaping public attitude is very powerful, it is also important to take a deeper look at individual consumers’ perceptions. Specifically, attitude coupled with previous experience is a personal construction that ensures specific behaviour in a given situation and is a regulatory mechanism of human behaviour. However,
it is difficult to measure, especially in case of informal patient payments. Therefore, we attempted to examine perceived behavioural statements related to informal payments (which indicate personal disposition towards these payments). As a result, we observe that patients who feel uncomfortable without a gratitude payment, and who feel unable to refuse payment informally if asked, more often report making informal payments than the rest of the respondents.

As shown in Table 9.4, the Lithuanian and Ukrainian scores are almost the same for such statements as ‘feels uncomfortable leaving without giving gifts’ (about 60% of respondents answered ‘no’ in both countries) and ‘ready to pay informally in case of serious health problems’ (about 11% negative answers in both countries), which may indicate quite similar cultural contexts. However, more Lithuanians state that they ‘would not refuse to pay informally if asked to make such payments’ (28% in contrast to 41% of Ukrainians). Perhaps differences in patterns of patient–physician communication with the more empowered Lithuanian patients may explain the diversity in the scores, as well as consequences of such non-payment. Overall, obedience to the requests of medical staff to pay informally can be conditioned by patients’ expectations of better treatment or by a fear that treatment may be denied (Belli et al., 2004; Lekhan et al., 2007). The latter is explained

<table>
<thead>
<tr>
<th></th>
<th>Sample size</th>
<th>Lithuanian</th>
<th>Ukrainian</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>N = 1,012</td>
<td>N = 1,000</td>
<td></td>
</tr>
<tr>
<td>Feels uncomfortable leaving</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>without giving gifts</td>
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<td>61.0</td>
<td>56.3</td>
</tr>
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</tr>
<tr>
<td></td>
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<td>22.6</td>
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<tr>
<td>Would recognize the hint for</td>
<td></td>
<td></td>
<td></td>
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<tr>
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<td>16.0</td>
<td>10.5</td>
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<td></td>
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<td>if asked to make such payments</td>
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<td>41.1</td>
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<td>Prefers to use private</td>
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by the market power of healthcare providers, who do not always follow moral principles, as well as by external pressure (e.g. by low-paid medical staff) (Miller, 2006). Still, as data is lacking, it is difficult to track the changes of consumers’ disposition with regard to economic, legislative and healthcare sector development.

Opinions on the eradication of informal patient payments

The key challenges in the eradication of informal payments become more visible when the scope of and attitudes towards informal payments are considered in the light of economics and governance. Perhaps, in Lithuania and even more in Ukraine, the public are willing to change their pattern of behaviour, but poor governance, economic development and low healthcare funding leave much to be desired (as the SPACE-analysis matrix demonstrates).

A key function of informal payment in services provision is seen as supplementing inadequate healthcare funding (Lewis, 2007). Indeed, in Lithuania and in Ukraine, per capita government expenditure on healthcare is even lower than in other countries in the region where informal payments are negligible, namely the Czech Republic and Slovenia (Leive, 2010). In addition, our survey results indicate that about 25% of Lithuanian respondents consider informal payments to be inevitable because of low healthcare funding, whereas this percentage is even higher for Ukraine (44%). Furthermore, the Lithuanian and Ukrainian public support the statement that informal patient payments should be eradicated (73% and 66%, respectively); only about 8% of them think that this is not necessary.

Perspectives on informal patient payments in post-Soviet countries

Informal patient payments present a huge challenge for post-Soviet countries in their drive towards more efficiency and equity in healthcare. Empirical results show that informal payments are often used in healthcare services consumption, even though they provoke negative opinions and perceptions among users.

Informal patient payments have a variety of facets described by various neutral characteristics, such as nature, timing, reason and initiator, as well as other particularities tinged with different attitudes, perceptions and beliefs. On the surface, the approach of labelling informal payment as ‘gratitude’ or as ‘corruption’ can provide a framework
for the differentiation between types of informal payments, since ‘corruption’ is associated with negative and stigmatized effects, while ‘gratitude’ seems solely initiated by the giver without expectations of reciprocity. However, empirical data and analysis suggest a more complex reality. For example, does the gift given to a friend as a birthday present have the same connotation as a present given to a public service provider? Key differentiation points are easier to envision using the question offered by Polese (2008): ‘Why somebody spontaneously (1) decides (2) to offer a gift (3)?’ The question contains three key pitfalls that can shed light on informal payments from a gratitude perspective. In particular, we observe that some groups of consumers report (1) feeling uncomfortable leaving a physician’s office without gratitude, (2) preference for the private sector as being uninfected with the ‘gift’ ‘virus’, as well as (3) underfunding of the healthcare sector as a key factor for the presence of informal patient payments. Therefore, do healthcare service users really ‘spontaneously’ (instead of planned intentional action) ‘decide’ (instead of being requested or feeling obliged) to give a ‘gift’ (not donation, fee-for-service, bribe) to a provider? The question should be adjusted to reality and should ask about reasons and motives for resorting to ‘gratitude money’ or ‘non-monetary gifts’ to physicians, including institutional (political, cultural, economic) pressure.

A gap between the official discourse and reality (Polese, 2014) and the image of state withdrawal, as well as the lack of trust in government and public institutions in transition societies, induce the substitution of weak formal practices with informal ones. A variety of strategies in the legal and quasi-legal space are noticed at all levels of the economy. In order to find a solution for today’s urgent needs, the achievement of social welfare goals, suggesting continuous improvement of the socio-economic and political arrangements, has been postponed. Still, anti-corruption measures and the elimination of informal payments are on the agenda of the government of Lithuania, but not Ukraine. A key obstacle to activating government policies eliminating informal payment practices is the lack of motivation of policy-makers. However, among post-communist countries in the region, Poland, with its relative effectiveness of state institutions, presents a case of a ‘season of corruption’ in contrast to the deep-rooted ‘climate of corruption’ in other countries (Miller et al., 2001). Having administrative capacity and political will, Poland provides an example of anti-corruption measures realized in cooperation between related sectors (Golinowska, 2010).
Possibly, anti-communist public mood and lack of nostalgia, as well as the intention to join the EU, facilitated reforms in virtually all sectors (Leven, 2005). Moreover, an output-oriented performance is crucial for diminishing the extent of informal patient payments and of the shadow sector in general. Also, quality of governance is stimulated by the presence of civil society, which can influence policy-making and, thus, affect the level of corruption (Grimes, 2008). Thus, civil society is seen as an ‘anti-corruption watchdog’ (Grødeland and Aasland, 2011). However, a strong civil society is an attribute of a political regime, and it is still in the process of creation and development in the post-Soviet countries.

Also, informal exchange practices may reflect the challenging economic environment. While governance is considered essential for economic development (Lewis, 2006), economic development is tightly related to fiscal revenues allocated to ‘non-profit’ sectors. Government inability to ensure adequate levels of public service provision is often attributed to insufficient resources. Informal payments (e.g. for healthcare services) are more deep-rooted in countries where the government tolerates and relies on informal payments, since these payments are an additional source of funding. This misuse of informal payments causes a mismatch between the healthcare sector goals and the measures applied to achieve these. Therefore, in order to prevent rising informal exchanges in the market, healthcare system performance should be stimulated by implementing adequate regulations rather than relying on informal contributions.

Furthermore, market relations are still connected to the social and cultural context of the society, which is less clear from the strategic stewardship angle. Changing consumer perceptions about informal payments is an important part of government policies focused on the consumer side. However, the means of achieving this are doubtful, since, on the one hand, social as well as individual values and beliefs are stable, and, on the other hand, the effects of activities within political, economic and other institutions (e.g. healthcare organization and funding) are unpredictable.

Pre-eminently, poor governance, undeveloped civil society and the lack of resources discussed above prevent post-Soviet societies from achieving effective sector reforms. Still, interventions to eradicate informal patient payments can be developed considering the dimensions indicated in the SPACE-matrix analyses (see Figure 9.1). Five key layers related to the formalization of certain activities can be identified to eradicate informal patient payments from the healthcare system environment:
(1) Assuring adequate remuneration of staff and reimbursement of healthcare facilities. Lower physicians’ salaries compared with the country average or the industrial sector average, coupled with quality and access problems in healthcare, provide a motive for consumers and providers to enter into informal payment arrangements. From a macro-level perspective, adequate remuneration of healthcare providers is crucial for strengthening sector capacities. When work conditions are not attractive, physicians search for alternative and better-paid jobs in other sectors or other countries. This undermines the intellectual capacities of the public healthcare sector (Ensor and Duran-Moreno, 2002). Informal payments can provide a motive for physicians to stay in practice.

(2) Defining clear professional rules (e.g. staff performance assessment and punitive measures for underperformance) as well as standardized provision of healthcare services (clinical, informational and service aspects). Also, increased remuneration will not be a panacea for the problem of informal patient payments. For example, in Lithuania, healthcare providers’ salaries were increased in 2005–2008, but informal patient payments still prevail. In this case, the assessment system and punitive measures can create a negative staff disposition towards informal payments. This can include the implementation of strict moral and ethical standards (Code of Ethics), penalties and sanctions for underperformance (such as the acceptance of informal payments), bonuses for good practices, and staff training, as well as participation in professional committees (Lewis, 2006). Moreover, clear quality standards should be defined. When such standards are absent or when their application is not monitored, in a context of underfunding, providers themselves may choose the attributes of the service to be offered to the patient. Sometimes, standards of healthcare can be lowered by the provider in order to make the patient pay informally for better service quality.

(3) Assuring adequate investment in, and an efficient use of, healthcare resources. The lack of suitable investment leads to outdated equipment and facilities’ buildings being in an unsatisfactory state. Also, shortages in medical supplies are seen as a direct result of underfunding, but also of inefficient management of healthcare resources. Still, increased funding is a matter of political interests and the overall economic situation, and the government can play an important role in assuring an efficient allocation of the
scant resources. A clearly defined and properly sized basic package of services that fit the available resources will be important for the elimination of informal payments for these services. Additionally, a performance-based provider payment mechanism may play an important role in stimulating the provision of sufficient service quality and quantity. A uniform central payment scale does not take account of quality of services and professional skills of the personnel, and therefore, efficiency in healthcare becomes less feasible.

(4) Introducing clear patient payment policies (e.g. presence of formal fees together with relevant exemptions) and raising patients’ awareness about their rights and payment obligations. Although official charges cannot replace informal ones, because, in practice, the two types of payments serve different purposes (Baji et al., 2011, 2012), still, the presence of official payment channels can stimulate retrieving funds from the shadow sector. The need for informal payments can be reduced when patients are stimulated to use the official channels exclusively, when providers are adequately remunerated, and when public healthcare services are provided with adequate quality and access. The concern that official fees increase the burden for vulnerable population groups is partly diminished by the introduction of exemption categories and charge reductions. Such mechanisms are actually lacking in so-called quasi-formal patient payments initiated by the facility-level management (in the absence of clear government regulation of formal payments, as in Lithuania). If official patient charges for healthcare services are introduced, consumers have to be well informed about fee levels and exemptions. Service consumption mechanisms only work when they are clear to all patients (Belli et al., 2004). Complicated schemes and regulations regarding provision become a barrier to use and can lead to informal payments. Thus, raising patients’ awareness about their right to services with adequate quality and access and with no informal charges or gratitude payments, as well as empowering the patient to object to paying informally, are essential policy strategies for the elimination of informal patient payments.

(Pavlova et al., 2010; Vian, 2008; Vian and Burak, 2006)

(5) Developing the private healthcare sector to support alternatives to public provision (Ensor, 2004). The data from our survey shows that there is little inclination in Lithuania and Ukraine to use private services as a response to informal payments. Overall, developed
private markets create a competitive climate, and this may bring improvements in public healthcare service provision as well.

(Ensor and Witter, 2001; Thompson and Witter, 2000)

These specific healthcare system strategies are seen as an essential part of the overall anti-corruption strategies. Only drastic, multidimensional measures can be effective in decreasing the scope and the scale of informal patient payments. To be successful, the implementation of priority measures should be combined with the other, more general strategies for the elimination of informal payments discussed earlier. Also, only by securing the political commitment and involvement of all stakeholders in the process of elimination of informal patient payments can appreciable effects be ensured.

Note


References


Polese, A. (2008) ‘If I Receive it, it is a Gift; If I Demand it, then it is a Bribe’ on the Local Meaning of Economic Transactions in Post-soviet Ukraine, Anthropology in Action, 15(3), 47–60.


10
Nuclear Borders: Informally Negotiating the Chernobyl Exclusion Zone

Thom Davies

Introduction

...so I was at the checkpoint where they check the cars for everything that is prohibited from leaving the Zone, and I was caught by one of the guards. He said ‘What is that in your bag?’ And I said ‘Mushrooms’, and the guard said ‘You know that mushrooms are especially prohibited from leaving the zone?’ And I said ‘Yes I know, but they are not for me!’ [laughter] And the militia asked ‘Well who are they for?’ and I said ‘They are for my mother in law’ [laughter] And the militia said ‘OK, have a nice trip!’

Viktor, late forties, former Chernobyl liquidator

Borders have been a part of Viktor’s life for most of his adulthood. Until the ‘anthropological shock’ (Beck, 1987) of the 1986 Chernobyl nuclear disaster, Viktor was doing national service as a border guard on the western edge of the Soviet Union. He showed me photographs of his former self: uniformed, proud and young. They were stuck carefully into a velvet-clad scrap book of a previous life. He patrolled the barbed wire fence that separated the USSR from the Socialist Republic of Romania, miles away from his home near a power station in northern Ukraine, where we now sat: ‘After Chernobyl it all changed’ he said. He shows me a pile of ‘liquidator’ passes which he held until 2008, each one signed and stamped with a nuclear warning symbol next to a photograph of his face. A different, more serious man stared back, his face the embodiment of life on the margins. These passes let him enter the 30 km ‘Zone of Alienation’ which surrounds the exploded reactor, and contains some of
the highest levels of nuclear contamination on earth. A contamination that is a constant threat, but remains completely invisible.

The ubiquitous yet invisible presence of informal activity also dwells within the ‘floating mists’ (Lefebvre, 2000: 98; Round et al., 2008: 172) of post-socialist space, not threatening the marginalized but helping them negotiate everyday life. Beyond the more obvious street-level traders, most informal activity – for good reason – occurs beyond the state’s ‘panoptic gaze’ (Foucault, 1977). The seemingly invisible nature of this economy is suggested in the various names it is given: from ‘shadow’ to ‘underground’ to ‘hidden’ or ‘black’, there is an underlying assumption that informal activity takes place in ‘other worlds’ (Gibson-Graham, 2008: 1). Of course, not all formal economic activity is visible – from secret board meetings to the everyday action of covering your PIN code – but it is the enigma of the informal that both perplexes and continues to attract a growing intellectual interest. This scholarly fascination stretches back to academics such as Keith Hart (1973) through to structuralist (Fortuna and Prates, 1989; Wallerstein, 2007) and more recent post-structuralist interpretations (Gibson-Graham, 2006; Latouche, 1993; Smith and Stenning, 2006). Yet, despite a growing interest in informal economies, the majority of academic discourse still maintains that market forces have penetrated almost every sphere of modern society (Williams et al., 2011), and the complex role that informality plays in people’s lives remains under-researched.

In Ukraine, the route through post-socialism is no longer planned by neoliberal ideas of ‘transition’ from A to B, or mapped out by a superimposed Washington-consensus cartography; in fact, there is no ‘route’ at all (Buraway, 2002; Ledneva, 2004; Stenning, 2005). Instead, coping mechanisms such as economies of favours (Kuehnast and Dudwick, 2004; Pavlovskaya, 2004; Polese, 2008), informal/undeclared work (Stenning, 2005; Williams and Round, 2007, 2010), ‘social acknowledgement’ (Morris, 2011: 629), gift exchange (Mauss, 2002), social capital (Moran, 2001; Round, 2006), blat (Onoshchenko and Williams, 2013), social networks (Grabher and Stark, 1997; Lonkila, 1997, 1999; Walker, 2010) and memory (Buyandelgeriyn, 2008) have all helped circumvent the challenges of post-Soviet everyday life.

Previous scholarship that has focused on the monetary nature of informality has been challenged by recent research that highlights the complete entanglement of the informal sphere into the social fabric of society (Bourdieu, 2001; Gibson-Graham, 1996, 2006; Lee, 2006; Zelizer, 2005). For example, scholars have emphasized how informality often
occurs within kin networks, friendship groups and family units (Nelson and Smith, 1999; Smith and Stenning, 2006; Williams and Round, 2008), and is often so socially embedded as to hold cultural and social significance that extends beyond mere economic rationales (Parry and Block, 1989). Such is the prevalence of these behaviours that one can argue that informality has become the rule and formality is the exception (Routh, 2011). This case study starts from this basis to highlight not only how informal activity around the Chernobyl Exclusion Zone helps people survive day-to-day abandonment, but also how these informal activities help reinforce social relations and understandings of complex and risky environments.

An ethnography of Chernobyl

This chapter is based on over three years of ethnographic research around the Chernobyl border region in Ukraine, on territory officially contaminated by the 1986 nuclear accident. Ethnographic methods were employed, including over 100 semi-structured and informal interviews with local residents, border guards, gatekeepers, evacuees, returnees, liquidators and community leaders. Local elites such as mayors were also interviewed, but in a more formal setting and style. Other key research tools included the extensive use of participant observation and a visual methodology, which involved participant photography research, discussed more extensively elsewhere (Davies, 2013). As with other research in post-socialist space (Disney, 2015; Harrowell, 2014), the identities of all participants are concealed and any information that may be damaging to those I have spent time with has been withhold.

The ongoing Chernobyl disaster has recently become the focus of scholarship in social science and humanities fields such as human geography (Davies, 2013, 2015; Rush-Cooper, 2013), sociology (Kuchinskaya, 2010, 2013, 2014; Morris-Suzuki, 2014), history (Geist, 2015; Kalmbach, 2013; Marples, 2004; Schmid, 2015), area studies (Davies and Polese, 2015) and anthropology (Arndt, 2012; Petryna, 2002, 2011; Phillips, 2005; Phillips and Ostaszewski, 2012), as well as visual studies (Bürkner, 2014), literature studies (Gerstenberger, 2014) and tourism (Stone, 2013; Yankovska and Hannam, 2014). These researchers share the realization that the Chernobyl accident has diverse understandings and multiple realities, with disputed impacts that extend well beyond its official nuclear geography and its enigmatic death toll. For some, the nuclear disaster has come to exemplify the failure of state socialism – not only in the way the disaster itself contributed to the sudden disintegration
Informal Public Sectors and Welfare of the USSR (van der Veen, 2013), but also in the way that the Exclusion Zone today has become a symbolic space for a bygone Soviet age, where tourists flock to gaze upon the frozen ‘other’ of communism and reproduce their own ‘ruin porn’ (Davies, 2013, 2015).

In the years following the disaster, over 350,000 people were displaced as ‘ecological refugees’ (Brown, 2011: 32), and the number of deaths remains a highly contentious issue. But what these numbers fail to expose is the huge sociological, economic and psychological effect that Chernobyl had, and continues to have, for many thousands of people in Ukraine and beyond. Adriana Petryna posits that after Chernobyl, ‘scientific knowability collapsed’ (2004: 250) and a new ‘informal economy of diagnoses and entitlement’ was created (ibid.: 263). In a post-Chernobyl world where harmful radiation is invisible to the lay perspective, informal methods of overcoming this technological blindness emerged. Doctors were bribed not only for better healthcare, but to diagnose a more lucrative Chernobyl disability status (Petryna, 2002). Sites of healthcare, such as hospitals, are well-known spaces of informal exchange (Mæstad and Mwisongo, 2011; Morris and Polese, 2014; Polese, 2006, 2008), but Chernobyl presented a scenario where an individual’s entire bio-political status could be altered through bribery and connections. New forms of ‘biocitizenship’ (Petryna, 2002) surfaced after Chernobyl – whereby a higher disability status equalled more social benefits. Suddenly, an individual’s damaged biology became useful biocapital to be informally traded within the state’s healthcare system. Individuals who had been (out)cast as post-nuclear ‘bare life’ (Agamben, 1998) after Chernobyl could now informally renegotiate their vulnerable economic and social position in this fledgling capitalist economy. This research expands upon these findings, to explore how informal activity has permeated the everyday lives of those who dwell in the shadow of the Chernobyl disaster.

Theorizing Chernobyl

Chernobyl exemplifies a ‘state of exception’ (Agamben, 2005) – a space where the normal rules of governance, state protection, and citizenship do not apply. Here – as in other modern spaces of exception suggested by Giorgio Agamben, such as Guantanamo Bay or Nazi concentration camps – certain people are excluded from the normal protections of the law. With Chernobyl, the emplacement of nuclear ‘Exclusion Zones’ and governance from Ukraine’s ‘Ministry of Emergencies’ ensures that a permanent state of exception persists. As such, those living in
Chernobyl-affected spaces can be viewed as ‘*homo sacer*’ (Agamben, 1998) – their individual biologies no longer the responsibility of the state. To live inside contaminated territory is, therefore, to live outside the protection of the law. As such, Chernobyl can be considered a perfect case study for ethnography at the margins of society. It is here that the tension between the citizen and the state is more visible (Polese, 2011). I argue that informality – in terms of not only informal economic practice but also informal understandings of nuclear space – is a key way in which individuals are able to enact agency and circumvent their status of post-nuclear bare life.

This informality takes place against a backdrop of state violence and neglect. Recent scholarship argues that the failure to adequately compensate and protect citizens can be framed as a form of violence (Gilbert and Ponder, 2014; Li, 2009), especially in situations of forced displacement (Shaw, 2013). This is not the physical violence of genocide or ‘thanatopolitics’ (Foucault, 2003: 230), but, rather, a ‘stealthy violence’ (Li, 2009: 67) of abandonment that casts Chernobyl citizens outside the *de facto* protection of the state, and forces them to rely on informal actions and understandings of their nuclear landscape. It is within this context of abandonment that Chernobyl-affected citizens are compelled to employ unofficial understandings of space, and enact informal activities which circumvent their bio-political status of bare life, as illustrated by the following ethnographic vignettes.

**A tapestry of informality**

Through his window, a flat expanse of uncultivated land spreads to the horizon – a bank of conifer trees dividing the summer sky from the steppe. Beyond the trees is the Exclusion Zone. Looking around the bedroom of his home, Viktor explains how ‘every piece of wood in this house is from the Zone’. He described how there is plenty of material in the Zone that can be salvaged if you know the right people; if you have the right connections. Numerous abandoned homes and collective farms lie beyond the distant conifer trees. Explaining how he could smuggle people past the checkpoints, he even offered: ‘I have an old friend who works for the militia, maybe I could get us into the Zone?’ Where Viktor’s social networks could not be used to negotiate this nuclear border, he described other informal methods:

> I would buy six bottles of vodka and beer in Chernobyl, and then I would take it to the second border to bribe [the militia]. And then
they asked for 5 litres of petrol. So I took this from the car and then we entered the inner zone.

This mixture of social network and ‘gift-giving’ to negotiate the various levels of border control shows how informal activity is a normalized part of everyday life. Each of the three checkpoints within the Zone – the outer 30 km perimeter, the 10 km inner checkpoint and the final guard post around the ‘ghost city’ of Pripyat near the reactor – required altering styles of informal subversion. This ranged from paying the border guards to giving them gifts to simply being friends with them: a tapestry of informality as sophisticated as it was normalized. But this also had an affective dimension: Viktor’s descriptions of his encounters with the Zone were full of emotion – with obvious pride that he knew how to subvert the official nuclear borders.

While recounting his various exploits within the Zone, his expression was that of the young soldier in his military scrapbook, and unlike the aged portraits shown on his liquidator pass. He had a clear sense of satisfaction in beating the system. A border such as the one seen through Viktor’s window, between the ‘clean’ and ‘contaminated’ territory of north-central Ukraine, is a ‘place where it is possible to see the potential conflict between the citizens and their state amplified to the maximum’ (Polese, 2011: 22). For Viktor, being able to negotiate the state-enforced border was a minor victory against a government that had done so little to help him. As de Certeau suggests, for those who lack power, there is a ‘pleasure in getting around the rules of a constraining space’ (de Certeau, 1984: 18).

Many people affected by Chernobyl feel that they have been ‘exposed’ twice – once to the hidden threat of radiation, and once more to a state that has abandoned them (Davies, 2013). Viktor’s mild pleasure in being able to informally subvert the ‘border processes’ (Newman, 2006) that occur within sight of his own house was tangible: part ‘resistive’, but at the same time an embedded social practice. ‘It’s our tradition’, he explained. Informal economic activity is vital for Viktor and his wife to supplement their small formal income. In 2008, he was sacked from his job as a driver in Chernobyl after an argument with his boss about not being paid for half a month’s work. His wife Masha, now the main breadwinner, works two jobs, getting paid around £150 per month. Their combined income gives them just enough to get by. On top of this, ‘the government give us 2 hryvnia and 10 kopeks a month to buy clean food’, explains Masha, ‘What the hell can we get with that?’ Many informants complained about the low level of Chernobyl compensation that they receive. This paltry amount, which originates from the early
1990s and does not increase with inflation, reinforces the reality that people are living on contaminated territory, yet does nothing in the way of actually helping. ‘We couldn’t even buy bread with that’, said Viktor. Most of the food that Masha and Viktor eat is grown themselves, in the very soil against which the compensation is supposed to mitigate. Their son visits them most weekends from his job in Kyiv, often taking fresh produce back to the city, connecting this nuclear landscape with the rest of Ukraine.

**Food for thought**

As in other rural spheres of post-socialist space, self-provisioning is an important survival strategy in this bucolic, if contaminated, landscape. Viktor explained how he intended to exchange surplus sacks of potatoes with members of his local social network: ‘I have no money to pay them, only potatoes. If I have the money to pay them then I do.’ The potatoes were stored below a wooden outbuilding where he and Masha keep a few farm animals: a milking cow and three pigs, their chickens roaming around the yard. The smallholding was typical of the parcels of land found in the Chernobyl border region, more ‘household plot’ (Czegledy, 2002: 203) than farm. Between formal employment and looking after their elderly relatives who live nearby, there is little time for growing surplus cash crops. In the small, cool cellar, above the mounds of potatoes grown earlier in the summer, an array of other self-cultivated or foraged foods stood high on shelves, pickled in large jars: onions, tomatoes, mushrooms, beetroot, berries, gherkins and a variety of other fruit and vegetables sealed in glass. Though a prosaic scene to anyone familiar with post-Soviet rural life, it is one made distinct and remarkable by the contention that the consumption of radiation in food ‘for those living near Chernobyl – is practically unavoidable’ (Phillips, 2005: 288). Yet this array of hard-earned produce in Masha and Viktor’s cellar was, for them at least, untarnished by the threat of radiation. If the jars represented anything, it was not the invisible threat from contamination, but the months of toil it had taken to put the food there in the first place; domestic food production in Ukraine should not be over-romanticized (Round et al., 2010). Like other forms of informality, the self-cultivated and gathered food was an expression of agency – minor victories against the uncertainty of poverty: each jar an ‘economic cushion’ (Czegledy, 2002, 209) that exists beyond the formal economy.

Large-scale post-socialist marginalization has meant that many Ukrainians are forced to prioritize the basic struggle for food security rather than worry about the food’s ‘ecological state’ (*ekolohichnyi stan*)
Informal Public Sectors and Welfare

(Phillips, 2005: 288). As one elderly woman who lives near the edge of the Exclusion Zone explained, in the confusion and chaos after Chernobyl, she was told to avoid eating various foodstuffs such as berries and mushrooms, or drinking locally produced milk, but:

if you are not going to drink or eat everything that they say, then you won’t even have the energy to move even your legs…you’ll have no power to even move your legs…

Viktor took the potatoes to his friend, who was sitting in a boat moored at the water’s edge very near the border of the Chernobyl Exclusion Zone. Concealed from the road, between a smallholding and the tall reeds that are synonymous with the Pripyat Marshes, around 30 men were busily folding fishing nets, repairing their boats and hauling in the morning’s catch. The number and size of the fish suggested that this was not just evidence of ‘the growing commercialization of rural household production’ (Pallot and Nefedova, 2003: 47) but part of a wider industry of informal (and formal) activity that takes place in this border region. Dilapidated concrete signs nearby read ‘Fishing Is Strictly Forbidden’, as the river here runs past the ‘most contaminated water body in the zone of the Chernobyl accident’ (Kryshev, 1995: 217). The unfixed and ephemeral character of this watercourse that flows through the Exclusion Zone itself adds one more layer of liminality to an already fuzzy nuclear border. While it was not possible to trace the end destination of these prohibited fish via a ‘follow the thing’ (Cook, 2004) approach, respondents suggested that the fish were destined to be sold for money in cities such as Kyiv, as opposed to being solely exchanged within localized kin networks – the sheer amount of fish collected in large nets made this monetary outcome inevitable. Environmentally risky foodstuffs from restricted areas, such as mushrooms, game, berries and fish, regularly enter the food chain in Ukraine through various informal actions involving trespassing over the official borders of the Exclusion Zone (Davies, 2011). A curious consequence of imposing an ‘Exclusion Zone’ the size of Greater London has been the resulting boom in wildlife, including fish stocks.

The informal pull of place

‘All of the men you saw are criminals, you see – it is illegal to fish there. And they are dangerous…’ said Viktor that evening over a bowl of soup made from the traded fish, ‘but I am not afraid of them’. Nor
was he afraid of the higher levels of radiation that could be found in
the food. Viktor is a well-connected man, his large social network vital
to his household survival strategies: allowing him to weave in between
the informal and formal; to tactically access spaces that have been sub-
divided, forbidden and controlled by those with power (de Certeau,
1984). When asked whether he was ever tempted to move away from
this region to somewhere less contaminated, he explained that it would
be worse for his health to emigrate from the landscape he knows best:

Most of the people who left here died very quickly, because they
had not been accepted into their surroundings... when they left
separately, away from people they knew, they died from stress.

This is a widespread opinion held by those living in this region: that it
is better to live with the invisible threat of radiation than to risk the tan-
gible reality of severing social networks, and thus harming the ability to
use informal methods of survival and reciprocity. This was not based on
an opinion that Chernobyl radiation is risk free; indeed, every respon-
dent had personal experiences of death and tragedy associated with the
accident; but, rather, on an understanding that moving away would
shatter social networks and the ability to sustain themselves through
informal means.

The significance placed on the agency of informal activity – even
in this extreme environment – speaks to the importance of informal-
ity throughout Ukraine in general, and, indeed, many other spheres
of post-socialist space. Even on the edge of the Chernobyl Exclusion
Zone, where radiological risk makes some informal activity hazardous,
the ability to act informally is given a very high importance by local
inhabitants. The capacity to use social networks, informal activity and
local knowledge to survive outside the formal economy is placed above
the risk of contamination. This has parallels with previous research
in extremely marginalized areas of the former Soviet Union, such as
Magadan in Russia's Far East. Here, individuals who face extreme eco-
nomic and climatic conditions reject relocation to more affluent areas
due to the threat of damaging their informal survival techniques and
social networks, on which they so completely depend (Round, 2006).

To an outsider, the nuclear borderland around Chernobyl is the
antithesis of a ‘therapeutic landscape’ (Gesler and Kearns, 2002: 132) or
‘therapeutic space’ (McCormack, 2003: 490). However, to marginalized
individuals who are able to negotiate everyday life through subverting
the border processes of the Zone, or through social networks and
informal economic activity, the risk from radiation is less of a threat than the reality of migrating elsewhere. Many people who were given the theoretical opportunity to be resettled to less contaminated territory decided not to leave, citing the reasons that connect them to their landscape: that they would not know anyone if they were resettled, that their loved ones are buried here, that those who left have ‘died from stress’. This nuclear landscape may be polluted, but it is still home. The risk of not being able to perform informal activity is framed as a greater risk than the ever-present threat of radiation. The agency demonstrated through expertise in the local area and the mobility of knowing where to informally cross into the Exclusion Zone, for example, is paired with the wider significance of immobility: of wanting to remain living with the known landscape, however polluted it may be. The reliance on local knowledge of the landscape and social networks creates an informal pull of place that goes beyond formal techno-scientific understandings of place and radiation risk. When analysing why individuals stay within environmentally dangerous environments such as Chernobyl, their ability to perform informal activity that subverts the official understandings of space should not be underestimated. A key example of such informal activity is the prosaic, yet illegal and potentially harmful, act of gathering food inside the Exclusion Zone.

Nuclear mushrooms

For economically marginalized individuals living on the border of Chernobyl’s nuclear Exclusion Zone, illegal mushroom and berry foraging in contaminated areas is a widespread informal activity. Often, this food is sold in urban centres in Ukraine. The ebb and flow of these goods is an unseen but prosaic example of an informal economic activity that has potential health implications. These wild foods are some of the most harmful in a nuclear landscape because of the high levels of radiation that they can contain. Indeed, levels of contamination in individuals increases dramatically during the foraging season (Botsch et al., 2001). This fact is combined with the social and anthropological importance of foraged foods, especially in post-socialist space, relating to identity, spirituality and survival (Caldwell, 2007; Staddon, 2009; Stryamets et al., 2012; Yasmin-Pasternak, 2009). Despite mushroom and berry collection being banned in contaminated regions, especially inside the Zone itself, this informal behaviour is a widespread and normalized part of everyday life for marginalized individuals in this border region. With the use of foraged products ‘ranging from emergency food for the hungry to
the mark of the festive table’ (Yasmin-Pasternak, 2008: 95), it is perhaps unsurprising that many people collect, consume and sell berries and mushrooms that are potentially ‘unclean’. This paradox of invisibly tainted, yet abundant nature was summed up concisely by a woman who lives on the edge of the Zone: ‘The nature here is really beautiful…’ said Svetlana (late 50s), ‘it’s just that people from the USSR fucked it up.’

Svetlana, who lives a few hundred metres from the fence around the Chernobyl Exclusion Zone, was at her local cemetery during Easter provody celebrations, where people traditionally visit the graves of their relatives and eat and drink to their memory. Svetlana had brought home-made vodka and mushrooms with her, but was alone that day, as her husband was at home due to illness and her son, who is a guard in the Exclusion Zone, had to be at work. As a priest walked past repeating a prayer and sprinkling holy water, she explained where the mushrooms were from. Like many people, she had taken them from within the Exclusion Zone itself – the forbidden forests of the Zone are only a short walk from her front door. She explained how she knew which areas were clean and which were harmful, insisting that beyond the fence ‘into the zone for some kilometres it is clean’. Although Svetlana does not own any scientific equipment able to ‘see’ the radiation, she insists that she knows which areas are ‘dirty’. Her informal activities in the zone are intrinsically linked to her informal understanding of radiation risk.

When asked whether she was worried that she would get into trouble with the police if she was found inside the Exclusion Zone, she described how most of the border guards just turn a blind eye to ‘an old lady like me’. Many of the militia are part of Svetlana’s social network:

The border guards come to my house sometimes and they say ‘Baba Svetlana, please make us some food’ and so I do…I am very friendly with them.

Other respondents described how border militia often stop in for a cup of coffee in their homes as they make their rounds patrolling the border. She described, too, how during high season a van from Kyiv arrives in her border village to buy foraged mushrooms and berries that people have collected. The van then goes to Kyiv, where the food is sold on informally. For example, that season, after Svetlana had preserved enough berries and jam for her own household, she sold 37 kg of surplus berries to these men, making around £50. Considering that her formal household income from her husband’s and her own pension comes to £125 per month, this extra money proves very useful. Other people from
the border region sell mushrooms at the side of the road leading to the cities of Ivankiv and Kyiv. While this is a very important and everyday informal activity in post-socialist space, it is made exceptional because of the invisible threat of radiation. This informal activity around the nuclear border should not be viewed in terms of an ‘arbitrage opportunity’ (Cassidy, 2011: 634), one based in pure economic terms, with goods being cheaper on one side of the border than the other (ibid.; Bruns and Migglebrink, 2012), but, rather, based on local understandings of radiation risk relating to a privileged ‘sense of place’: an opinion that lay knowledge is more reliable than state-supported ideas of ‘clean’ and ‘dirty’. As Svetlana explained when talking about collecting food from inside the Exclusion Zone,

> many people ask me ‘are you not afraid of radiation?’ and I tell them ‘What can I do? It hasn’t got any smell... and it is invisible... what can I do?’ There is not even any clicking...

There are few more alternative foods than those taken from contaminated rivers and soils within (and without) Chernobyl’s official landscape, to be exchanged through gift, barter and social networks and to arrive at street level at the top of metro staircases in the bustling heart of urban Kyiv; or, more visibly, to be eaten by local inhabitants of the Chernobyl border region, not in a ‘grow-your-own’ act of romanticized post-socialist defiance, or in denial that radiation is a very real and harmful reality, but simply to survive. For marginalized households on the edge of this nuclear landscape, the collection of food from within the Exclusion Zone is just one aspect of the formal and informal behaviours that construct their survival strategies. Indeed, the potential risk from radiation is only one of a number of threats that punctuate everyday life, including the risk of getting caught performing the illegal activity, not to mention the enduring – and highly visible – risk of poverty.

**The fence**

That winter, the flat expanse of uncultivated land seen through Viktor’s window was white with snow, the distant conifer trees drooping under its weight. Viktor and his brother-in-law Igor (late 60s) walked through the trees until they came to the border fence: the physical embodiment of a failed state attempt to contain harmful radiation. Everything beyond the border was illegal space, a post-nuclear space of exception
where different rules, modes of behaviour and exclusions apply. It is, of course, like any other fence: six feet high, with concrete posts every few metres, and topped with barbed wire. Low-level radiation is not stopped by it, nor are the informal ebbs and flows of people and goods from within the Zone – as indicated by the large person-sized hole in front of which Viktor and Igor were standing. Of course, as with many borders, ‘the state is the ultimate judge and has the right to set limits, to decide what is good and what is bad’ (Polese, 2011: 22): what is inside and outside, what is ‘clean’ or ‘unclean’. It is the state that decides on the official boundaries, nuclear borders, and limitations of an invisible risk, that emplaces and performs the official nuclear geographies of the Exclusion Zone. On the other side of the fence a track runs parallel to the border, allowing the militia to patrol, and beyond that is the darkness of more woodland. Standing in front of one of the many holes in this porous border, Viktor explained how

the militia sometimes wait in the forest and then wait for you to cross the border, then they catch you. It depends who caught you, you may be able to bribe.

Igor described how he used to remove scrap metal from the Zone, taking it from the many abandoned buildings on the other side of the fence. He described selling the metal ‘to different dealers. We take it to the factory where it is crushed, melted down, and mixed with other metals…’ From here it is in the formal economic sphere, and ‘it is impossible to find or trace it’ – it becomes invisible. The informal removal of scrap metal, though not as common as mushroom picking, was described by several respondents as a key informal economic activity. In a landscape of widespread unemployment, the money one can make is relatively high. However, the risk of getting caught performing this illegal activity is a real possibility. For example, Igor had an ongoing deal with the border guards that meant he could drive a vehicle in and out of the Zone unchecked. However,

we took scrap metal out of the Zone, with a lorry – I took my brother but he is not so generous. You see, we had an agreement with the militia that meant we could take scrap out through an unofficial route…so when we left the Zone on the way back they arrested us. The price of the agreement was three litres of vodka. But when we were arrested there was no longer any chance of giving a bribe. This was a year and a half ago. They took us out of the lorry, surrounded us
with guns and put our face in the sand, and beat us. After that, they took us to a judge in Ivankhiv and we had to pay a 150 hryvnia fine.

That could have been avoided if his brother had provided the vodka. The official punishment was a fine of 150 hryvnia (£12) each; the unofficial punishment (for not providing the vodka) was a beating from the militia and the end of future informal links with these border police. When asked how much he could make from a successful journey out of the Zone, he explained how each loaded lorry can fetch 2,500 hryvnia (£200), which is then split between two or three men.

Viktor described how during the hunting season he would shoot four or five animals and sell their furs: ‘I have a constant buyer of the furs. I also get money for the meat as well as the furs.’ This informal activity more than doubled his formal income from his liquidator pension. Igor, too, was a hunter, preferring to set traps within the Zone, describing how he goes ‘through the deepest parts of the forest that the militia never enter – they are afraid’. He was not sure whether that year would be so profitable, worrying that the government ‘will be securing this area for the 25th anniversary’. Sure enough, during the anniversary in April 2011 the Exclusion Zone became a post-Chernobyl ‘Potemkin Village’ for the world’s media. Medvedev, Yanukovich and Ban Ki-Moon all posed in front of the reactor – soon to be refurbished at a cost of hundreds of millions of pounds. Thirty kilometres away, standing on the edge of the Zone (and society), things are different: ‘we have no way out – unless you can you steal something; if you cannot steal something – you are hungry….’ said Igor, staring through the hole in this permeable nuclear border.

Conclusion

As discussed earlier, Chernobyl can be viewed as a state of exception: an extreme situation that is governed in a way that recasts the affected citizens as ‘bare life’ (Agamben, 1998, 2005), abandoning them to their own devices. Informal activity can be seen as a way of subverting this state of exception, a way of claiming back agency. The fence, a physical expression of this state of exception, is as porous to radiation as it is to the to-and-fro of informal activity. Indeed, Viktor spoke with great pride of his home he had built almost entirely from Chernobyl-sourced material, by subverting the official rules of the nuclear landscape.
Unlike other informal activities around borders, what makes this case study unique is the added concern of health. Each example of informal enterprise described above – from trading home-grown potatoes for illegally caught fish, to picking mushrooms within the Exclusion Zone, or even trying to smuggle out contaminated scrap metal – has potential, though invisible, health implications. Just as there are informal and formal economic activities, so, too, are there informal understandings of health and radiation risk. The example of bribing doctors to provide a more financially lucrative Chernobyl disability status further complicates this confluence between informal activity and health (Petryna, 2002). So does the oft-mentioned accusation made by research participants that some people had illegally acquired liquidator passes in order to claim compensation, thus informally entering the formal protection of Chernobyl’s sprawling – if massively underfunded – welfare system. Just as individuals who live near the Exclusion Zone are able to navigate the boundary between nuclear and non-nuclear space, so, too, are some people throughout Ukraine able to informally subvert the ‘nuclear borders’ of the social welfare system – through informal payments or bribes and connections.

The same in-depth local knowledge that allows Igor to navigate the Zone undetected while hunting also allows him, and others such as Svetlana, the confidence to decide which areas are contaminated and which are clean. The formal geography of Chernobyl has been created and emplaced by the state, but how these spaces are interpreted by individuals in everyday life is open to informal negotiation.

Informal activity can be used as a means to circumvent the stealthy violence of abandonment; a tactical method of asserting agency over spaces from which you have been excluded. In the same way that the lay perspective cannot see the invisible ‘blinding light’ (Petryna, 2002: 75) of Chernobyl’s harmful radiation, so, too, do those who govern this nuclear state of exception fail to see informal economic activities – even when state actors such as border guards are implicated. From the removal of scrap metal from the Exclusion Zone itself, to more prosaic activities such as foraging and selling food sourced from within and without the Zone, informal behaviours are entwined into the everyday fabric of life on the edge. Through these embedded informal behaviours, we can also get a better appreciation of what it is like living under the spectre of nuclear radiation, in spaces where the official nuclear narratives are not the only ways of understanding space.
Notes
1. Justifiable estimates of Chernobyl-related deaths range from 4,000 (IAEA, 2011) to a figure well in excess of one million (Yablokov et al., 2009).
2. This monthly compensation is only 10 pence at the time of writing.

References
Davies, T. (2011) Nuclear mushrooms: Attitudes to risk and the state through food consumption in the Chernobyl border region, in *Universitas 21 Graduate Research on Food Proceedings*, Nottingham University, Malaysia Campus, June, 92–96.


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This chapter analyses how informal payments in the Chinese healthcare system are governed. Focusing on two major approaches that the Chinese party-state has employed to contain informal payments and other misconduct, it looks into the institutional and policy designs and examines why the governing efforts have failed to rein in this rampant practice.

As in other post-communist countries (Aarva et al., 2009; Gaal et al., 2006; McMenamin and Timonen, 2002; Thompson et al., 2003), informal payments, referred to as red packets in Chinese, are endemic in healthcare in China. Students of the Chinese healthcare system have long noted the prevalence of the phenomenon and explored why it came into being. Gerald Bloom and colleagues (Bloom et al., 2001) were among the first scholars in the West who provided a preliminary account of the practice in China. Based on documentary sources, they tried to analyse what motivated patients to give informal payments, how doctors justified taking them, how the practice influenced doctors’ behaviours, and how it was regulated within the hospital. They also attempted to understand how the Chinese healthcare reform policies had changed financial incentives to health providers and led to the emergence of the phenomenon. Limited by the availability of data, however, the study only depicted a fragmented picture. Not only was the examination of those informal economic activities based on secondary data, but also the discussion of the regulation of these activities was limited to hospital level only, and left the government’s efforts at higher and top administrative levels largely untouched.

In the new century, many other studies on China’s healthcare reform alluded to this phenomenon. Most of them confirmed the continued prevalence of informal payments (Cao, 2010; X.-Y. Chen, 2006;
Eggleston and Yip, 2004; Fan, 2007; Hougaard et al., 2011; Tam, 2011; Zhan, 2011). Cao’s empirical study (2010) indicates that informal payments constitute an important source of income for doctors and nurses in key positions. Although hospital managers alleged they would take a firm stance against informal payments, in reality their main concern was generating revenue for the hospital, and they usually turned a blind eye. Fan argued that informal payments are one of the three corrupt practices haunting the Chinese healthcare system, and blamed the corrupt practices on ‘misguided governmental policies’ (2007: 111) which set doctors’ salaries low, incentivized profit-driven activities, but prohibited patients from motivating doctors with extra out-of-pocket payments. He prescribed a Confucian marketization approach. By claiming that such a practice is illegal, or at least unofficial or informal, English-language literature acknowledged that the Chinese government has made informal payments an unacceptable economic activity in legal or administrative terms, but existing studies usually balked at discussing what efforts the Chinese government and health authorities have expended to contain the practice. This has created an impression that the Chinese government has taken little action against it apart from making it illegal.

The red packet in the healthcare system is a much-studied topic in Chinese language scholarship. Major concerns have been the origins of the practice, its impact, the causes behind its ever-increasing popularity, and what the government and health authorities should do to contain it. It is widely acknowledged that over the past two decades, the government has failed to control the problem. Scholars have blamed the endemic phenomenon on the government’s failure to build up a comprehensive governing and supervisory structure, and failure to introduce competition and market mechanisms into the healthcare system. In general, these studies have recommended that the government should improve monitoring and supervisory mechanisms, and incorporate market elements and competition into the healthcare system so that incomes of medical professionals reflect their professional work and performance (X. Chen, 2006; Kong, 2004; W. Li and Tong, 1995; Lu, 2012; H. Wang, 2005; Y. Wang, 1998; Xu, 2006; Yan, 1994). However, existing studies have not adequately explored what supervisory and governing structures the government has established and what anti-informal payment policies have been implemented, or analysed to what extent and why they have failed. Scholars have excessively focused on how hospital management responded and should respond to the practice, while the government’s response to the practice has been largely overlooked.
Review of the Chinese literature seems to further enhance the impression generated from review of the literature in the English language: that is, because of the considerable inadequacy of the Chinese government and health authorities, informal payments have prevailed in the healthcare system.

Such an assumption is misguided and does not accurately depict what the Chinese government has done. There is every reason to believe that the Chinese government and the Chinese Communist Party (CCP) are seriously concerned about the phenomenon. Gao Qiang (2004), who was health minister and the secretary of the ministerial CCP Committee, said that the red packet, together with other medical misconduct, ‘damaged the immediate interests of the masses, ruined the good image of the health industry, affected the blood-flesh ties of the Party and the government with the masses of people, and impeded health reform and development’ (emphasis added). His remarks reflected the CCP’s worry about the potential threat of the practice to the legitimacy of the Party’s rule.

As will be shown in the following discussion, the Chinese government and health authorities have made great efforts to establish comprehensive monitoring and disciplinary mechanisms, and have implemented market methods and internal competition in an attempt to contain the practice. In the meanwhile, however, it is also obvious that the prevalence of informal payments in the healthcare system has not abated. The reason behind the apparent failure of the government’s efforts and the continuous prevalence of informal payments, I would argue, does not rest in the government’s inaction, but in the defects in the two major approaches that the CCP and the government have employed to contain informal payments. One is the disciplinary approach that features complicated organizational establishments and regulatory policies to combat the informal payment head-on, and the other is the market approach intended to ward off informal payments by increasing market-style competition within the healthcare system. In the following text, I will analyse the two approaches in detail.

**Disciplinary approach**

The informal payment, or red packet, made by service users to doctors in the Chinese healthcare system is defined by the government as inappropriate benefits, such as cash, goods, credit cards, negotiable securities, meals and so on, that workers of the public healthcare system receive in the course of performing profession-related activities
Informal Public Sectors and Welfare

(Guangdong Provincial Health Department, 2004; Shanghai Municipal Health Department, 2004). The Law on Medical Practitioners promulgated in 1999 prohibits doctors from ‘solicit[ing] or illegally accept[ing] money or other articles from patients or seek other illegitimate gains by taking advantage of ones’ positions’ (Article 27). However, the CCP and the government have predominantly relied on their disciplinary agencies instead of judiciary agencies to deal with the problem.

Disciplinary agencies and their roles

The informal payment is viewed as a form of ‘malpractices’ (bu zheng zhi feng), which are defined as widespread and frequently occurring inappropriate administrative or service conduct performed by government agencies and public service work units and their employees. Malpractices are not deemed as serious as corruption, but are morally, politically and legally incorrect. Disciplining malpractices involves three major government and CCP disciplinary agencies: the Office of Redressing Malpractices (ORM), the Central Commission of Discipline Inspection (CCDI) and the Ministry of Supervision (MOS). Disciplining informal payments in the healthcare system comes under the jurisdiction of these agencies.

The ORM was established in 1990 as a response of the CCP to increasingly endemic misconduct across all sections and industries in the public sector, including governments, CCP organs, public security, healthcare, education, public traffic and transport, banking, telecommunication and so on. Its main responsibility has been to oversee illicit charges, illicit apportioned charges and illicit fines collected by government agencies and public enterprises, and poor service quality of the public sector. The informal payment in the public healthcare system has always been a major area that the ORM oversees and disciplines. Although its name contains ‘Office’, the ORM is, in fact, a ministerial unit and reports directly to the State Council. However, it is staffed by officials from, and is physically located in, the MOS.

The MOS was established in 1986 to supervise civil servants and investigate corruption in the government. Originally, malpractice did not come under its jurisdiction. In 1998, the State Council decided to streamline its agencies and incorporated the ORM with the MOS. The ORM retained its name and administrative rank, which means it is not subordinate to the MOS, but is a parallel unit of ministerial rank within the MOS. The head of the ORM is the minister of supervision. The administrative overlapping gives both agencies expanded power and jurisdiction.
The CCP is another major force in rectifying malpractice. In the party-state, the government and the Communist Party are so intertwined that it is impossible to separate the two. Anti-corruption and anti-malpractice have been deemed instrumental in protecting the legitimacy of the CCP. As a result, the CCDI of the CCP Central Committee was established to investigate corrupt behaviours of CCP members (Bezlova, 2007). Since many doctors are CCP members, the CCDI is thus involved in fighting corruption and malpractice in the healthcare system. However, the CCDI is not only focused on the misconduct of public employees and civil servants with CCP membership, but is also heavily involved in the investigation of non-member employees and the formation of action plans for all sectors and industries. In 1993, the CCDI joined office with the MOS. Since then, the CCDI has been physically located in the MOS.6 But in the party-state administrative framework, the CCDI is more powerful than both the MOS and the ORM. Administratively, the chief secretary of the CCDI is a member of the standing committee of the CCP Political Bureau, which is the top ring of leadership in China. The minister of supervision also serves on the CCDI administrative board, but only as the third vice-secretary. In other words, both the MOS and the ORM are under the leadership of the CCDI. The integration of the CCDI, MOS and ORM has created a politically and administratively powerful complex which has the power and authority to discipline all officials and employees in every corner of the public sector.

This CCDI–MOS–ORM complex does not sit in the central government and the headquarters of the CCP only. It exercises its disciplinary power through a hierarchically structured network that expands into all government agencies and major public enterprises and institutions. This network has two dimensions. First, the complex is duplicated at every level of government down to the county. That is, sitting at each level of the government and party organization, there is a joint office representing the Party’s discipline inspection, the government’s supervision arm and the ORM. Take Guangdong Province as an example. Its Bureau of Supervision accommodates both the provincial Commission of Discipline Inspection (CDI) and the provincial ORM. The secretary of the provincial CDI, which is more powerful than the Bureau of Supervision, is a member of Guangdong CCP standing committee. One of the deputy directors of the Bureau serves on the administrative board of the CDI as one of the vice-secretaries. The provincial ORM, although physically located in the Bureau, is not a subordinate department but reports directly to the provincial government. This means that ORM is
a parallel agency of the same administrative authority with the Bureau. Such a complicated governing structure ensures the absolute leadership of the CCP, and grants the complex the necessary power to counter corruptions and to rectify malpractice in both the party organs and the public sectors.

Second, since the central complex is under the direct jurisdiction of a member of the standing committee of the Political Bureau, it acquires power over all other ministries. The central complex is able to send out resident agencies in each of the ministries and ministerial agencies supervising and investigating ministerial officials and employees, and is responsible for the implementation of the anti-corruption and anti-malpractice tasks and decrees of the headquarters. Within the Ministry of Health (MOH) there are ministerial CDI, the ministerial Department of Supervision, and the ministerial Office of Redressing Malpractices. These establishments are despatched or authorized by their headquarters. While the first two are usually established units within the administrative structure of the MOH, the latter is largely a task force headed by the health minister. Its function and duties change in accordance with new anti-malpractice tasks set by related authorities. Such a power structure is also duplicated at local levels. Each of the provincial, municipal and county health administrative agencies has a discipline–supervision–redressing malpractice complex despatched from the three CCP and government agencies at equivalent administrative levels. Take Guangdong as an example again. The provincial Department of Health has a joint resident unit of discipline inspection and supervision despatched by the Guangdong CDI and Bureau of Supervision. The director of the unit sits on the Department CCP Committee.

Major hospitals have similar disciplinary units responsible for the investigation and disciplining of corrupt and informal economic activities of their staff. While some hospitals have relatively fixed ORMs in their management structures, others have special task forces formulated according to the requirements of specific campaigns launched by the central disciplinary complex, particularly the central ORM. For example, the Guangdong People's Hospital, one of the major hospitals in the province, has a resident Discipline Inspection and Supervision Office in its administrative structure. The head of the hospital CDI sits on the hospital's administrative board and oversees the joint disciplinary office. The hospital does not have an ORM, but has organized several task forces to carry out campaigns targeting different types of malpractice and misconduct as required.
As we can see, the organizational structures governing malpractice in the healthcare system constitute a series of hierarchical complexes in which the CCP dominates at every administrative level, from the central government down to the hospital. Such an institutional design ensures that policies made by the CCDI can be carried through to the end. In the structures, health professionals are disciplined by governmental and CCP agencies. It needs to be pointed out that an important stakeholder has been largely excluded from the governing structure – the Chinese Medical Doctor Association (CMDA), a semi-governmental organization which claims to be the home of over two million licensed medical practitioners. Its constitution claims self-discipline and supervision as two of its major functions. However, in the policy process disciplining medical professionals’ inappropriate conduct, the CMDA does not have much influence.

**Policies and campaigns targeting informal payments**

The MOH issued its very first directive specifically targeting the red packet in 1993 (Ministry of Health, 1993; S. Zhou and Wei, 2004). This was the first time the MOH used the term ‘red packet’ to refer to informal payments in the healthcare system. The regulation was enacted as required by the CCDI and ORM (Anonymous, 1993). This regulation was very brief and only enjoined medical workers not to take red packets from patients. In 1995, the MOH enacted a supplementary directive, reiterating the ban on red packet taking and demanding that medical professionals who took red packets must be disciplined in accordance with the CCP and civil servant disciplinary rules (Ministry of Health, 1995).

The first national campaign targeting inappropriate conduct in the healthcare system was launched in 2004 in response to the resolutions of a CCDI meeting and the State Council’s meeting on redressing malpractice in all sectors and occupations (Office of Redressing Malpractices, 2004). That year, the MOH had a series of meetings with the CCDI and the ORM, and enacted several directives, action plans and guidelines targeting red packets, drug kickbacks, illicit charges and commissions on prescriptions. The MOH aimed to achieve one goal and three tasks in the campaign. The goal was to effectively contain malpractice in the health sector. The three tasks were: (1) setting good examples of individuals and hospitals of great professionalism; (2) building up and improving a set of institutions governing organizational and individual behaviours in the sector, including the responsible person taking responsibility, hospital evaluation, health workers’ assessment, reward and disciplining,
and community supervision; (3) tightening up discipline and investigating health workers who seriously violate laws and disciplines, and managers of hospitals or directors of health agencies who overlook the management of malpractice (Ministry of Health, 2004c).

Through the hierarchical structured disciplinary complexes, the CCDI, ORM and MOH were able to push policies down to hospitals swiftly. In the implementation process, each administrative level of disciplinary complexes was required to formulate local policies specifying local implementation strategies and detailed rules of handling, investigation and punishment. For example, the MOH suggested types of punishment that the hospital should apply to offenders, including public criticism of the taker, ineligibility for good performance and promotion, suspension or dismissal (Ministry of Health, 2004a). Then, local disciplinary complexes were responsible for deciding how red packet takers should be disciplined. For instance, the ORM and Department of Health of Sichuan Province postulated that health workers would receive an administrative warning or a note of offence for taking red packets with monetary value of less than 1,000 yuan, a note of grave offence or demotion for red packets between 1,000 and 2,000 yuan, demotion or dismissal for taking red packets between 2,000 and 5,000 yuan, and dismissal or sacking if the value of red packets reached above 5,000 yuan. Different authorities usually postulated different punishments for taking red packets, and the punishments were usually harsh.

In 2007, the MOH further institutionalized its counter-malpractice measures by incorporating the assessment of doctors’ conduct into their annual assessment of ethical conduct. If a doctor is found soliciting red packets from patients or their relatives or obtaining other inappropriate benefits, they will fail the assessment and have their licence suspended for three to six months. They have to undergo training and further education before their licence can be reinstated (Ministry of Health, 2007).

In the Chinese healthcare system, the complicated networks of disciplinary complexes are designed to ensure that the central government’s anti-malpractice policies are overseen and implemented by specific agencies at each level of governing. Since 1993, the central disciplinary complex, together with the MOH and the ministerial complex, has released numerous policies, action plans and guidelines targeting malpractice, including informal payments. The Chinese government has made great efforts to contain unethical conduct in the public health sector. As far as the informal payment is concerned, however, the
achievements of the complicated disciplinary structure and numerous policies seem limited. And the limitation is largely attributable to the patient's non-cooperation and the hospital management's reluctance to discipline.

**Non-cooperation of patients**

Although disciplinary complexes at all levels of administrative authority have employed many measures to investigate informal payment transactions, since policy endeavours targeting red packets are meant to protect ordinary patients from exploitation by doctors, health authorities and disciplinary complexes have relied predominantly on patients and their relatives to report doctors who take informal payments. The MOH demands that hospitals install report boxes and set up a grievance hotline accessible to patients. Complaints must be processed by a specific unit or appointed staff (Ministry of Health, 2004c). Surveys of out-patients, in-patients and discharged patients must be administered regularly (Ministry of Health, 2004b). Patients are warned at the point of admission to hospital not to give red packets to doctors. On being discharged from the hospital, they are asked to complete a survey about the quality of services, including whether they have given red packets. Health authorities and hospitals also offer rewards for informers. For example, Fujian Provincial Health Department requires hospitals to pay informers up to 50,000 yuan for reporting red packet and drug kickback takers (Fujian Provincial Health Department, 2003). A hospital in Zhuzhou, Hunan Province, offers free medical treatment for patients who report their doctors taking red packets (W. Zhao and Ruan, 2010).

Apart from encouraging the patient to report, health authorities also inspect hospitals and monitor doctors directly. In the 2004 campaign, a special task force was organized to inspect hospitals in Beijing and Tianjin. The task force was composed of officials from both the Ministry of Health and the CCDI. They organized focus groups for patients, circulated patient questionnaires, examined prescriptions and medical records, and interviewed discharged patients in order to search for clues and traces of doctors taking informal payments. The hospital may even send disciplinary staff to visit doctors' homes and check for signs of unearned wealth.

The effectiveness of these forms of investigation, however, is not commendable, for several reasons. First, informal payments are under-the-table deals between patients and doctors. If patients do not report them, it will be very hard for a third party to find out. Normally, patients
do not report their doctors as long as they are satisfied with the services. Second, even if patients report them, doctors can easily deny it because of the secrecy of the giving and taking (G. Li and Zhao, 2004). In the early 2004, the Municipal CCP Committee of Beijing and Beijing Health Department employed public inspectors to carry out secret investigations in 17 hospitals. Three hundred and thirty-four patients or their relatives were privately interviewed. Only seven, or 2.1% of them, reported giving red packets. The total amount of money involved was only 6,300 yuan, which is ridiculously low.

Investigation in other cities has encountered the same problem. For example, during the 2004 campaign, a local newspaper in Nanjing set up a hotline for readers to complain about their experiences of giving informal payments (C. Li and Zhang, 2004). One complaint is illuminating:

Mr Wu: My father had a heart surgery in a hospital last year. Under the suggestion of my friends, I gave the doctor a 2000-yuan red packet. The outcome of the operation is just so-so. After [my father was] discharged from the hospital, I wrote two letters to the hospital's 'office of redressing malpractices' to report this doctor for taking red packet. But the letters were anonymous, and didn't tell when and how much. I am afraid that the doctor could guess it was I who complained. Since my father has to receive follow-up check-ups in the hospital every other month, how do I dare to offend these doctors? I know the 'office of redressing malpractices' can hardly carry out any investigation in response to my letters. What I want to do is just to vent my anger.

The same newspaper reported that 99% of complaint letters received in Nanjing hospitals are anonymous. So are the complaints made through the hotline. When the operator of the hotline asks callers for their names and identities, and the names and hospitals of the doctors whom they report to have taken red packets, over 90% of the callers refuse. The reasons the callers give are all the same. First, giving and taking informal payments has become a norm. Second, patients do not have evidence to prove they have given. Third, they may have to see the same doctor in the future and cannot afford to offend them.

Apparently, patients are not happy about giving red packets, but in the meantime, they cannot and do not intend to report their doctors for taking them (Kong, 2004; Peng, 2004; H. Wang, 2005). Consequently, despite the involvement of multiple government and CCP agencies,
special task forces, and numerous harsh methods used for investigation, the effect is extremely limited from the perspective of the patient. The complaining users of the public healthcare system whom the government and the CCP undertake to protect are forced to ally themselves with doctors who ‘abuse’ them.

Reluctant punishment of red packet takers

Although the punishment for taking red packets is severe, as indicated above, with few givers willing to report their doctors, the punished are even fewer. Major hospitals have resident disciplinary complexes responsible for implementing policies and supervising staff in the hospital. But the work of hospital disciplinary complexes is greatly compromised by their double loyalty, or ‘dual leadership’ (Gong, 2008: 149). On the one hand, a hospital disciplinary complex is appointed by the local government and is responsible to the disciplinary complex resident in the local health authority, or that of the local government, or both. On the other hand, a hospital disciplinary complex is not an independent third-party unit. The complex is part of the formal administrative structure of the hospital, with its jobs likely to be staffed by employees of the hospital. The director of the complex sits on the hospital’s administrative board and the CCP Committee, which means the director is at the same time responsible to the hospital management, and his or her work is under the supervision of the hospital CCP Committee. The disciplinary capacity of the complex is considerably limited by such an administrative structure. Moreover, the hospital disciplinary staff members are likely to be on the hospital payroll and receive bonuses from the hospital. This means that their personal interests are tightly connected with the economic performance of the hospital, and it is in their interest not to interfere with the hospital’s efforts to pursue revenues or to offend the major contributors to its revenue. This dilemma has posed difficulties for the hospital disciplinary complex in carrying out its duties.

The Chinese healthcare system has undergone substantial marketization since the 1980s (Blumenthal and Hsiao, 2005; G. Liu et al., 1994). A major outcome of the market-oriented healthcare reform is that public hospitals have received a drastic reduction in investment from the government, and have to depend significantly on their performance in the healthcare market to survive (Duckett, 2011; Hsiao, 1995; X. Liu et al., 2000). A hospital’s ability to attract patients in the market becomes economically vital. Hospitals usually rely on two elements to attract
patients: one is high-tech medical equipment (X. Liu and Hsiao, 1995), and the other is senior and reputed surgeons.

Patients do not give red packets to every doctor they see. Informal payments usually occur in medical procedures involving major surgery, which means that doctors of internal medicine do not attract much informal payment. Minor and community hospitals and clinics are usually overstaffed and lack the capacity to perform major surgery. Informal payments are rare in these settings (Yang, 2008a; X. Zhou and Tian, 2002). Generally speaking, surgical departments in major hospitals attract far more informal payments than other departments, and their surgeons are the major red packet takers (X. Zhou and Tian, 2002). Patients do not give red packets indiscriminately. In fact, there is an underground market in the public healthcare system. Each type of surgery and every surgeon has a price tag, of which both patients and doctors have a tacit understanding (Yang, 2008b; X. Zhou and Tian, 2002). Senior surgeons are usually in high demand, and thus have higher informal price tags than middle-rank and junior surgeons. They attract more red packets than other surgeons, and at the same time contribute more to the hospital’s revenue. Furthermore, senior surgeons are usually the responsible persons of their departments and are involved in the management of the hospital (Chen, 2002). Consequently, hospitals and their disciplinary complexes are unwilling or unable to investigate their senior surgeons for taking red packets (Peng, 2004).

Hospitals do punish red packet takers, especially when there is a campaign targeting inappropriate conduct. Those punished, however, are usually junior doctors and/or are troublemakers in the eyes of the hospital management (Yang, 2008b).

Market approach

In Chinese political wisdom, there are generally two tactics for approaching a problem: blocking and channelling. The disciplinary approach represents the blocking tactic, while the market approach represents the channelling tactic.

In the past three decades, state investment in healthcare and the healthcare system has been inadequate and in decline. Meanwhile, wage reforms in the healthcare have failed to raise doctors’ official incomes (Yang, 2006). Low income has a significant demotivating effect on morale. To address the issue, the government introduced market elements into healthcare. Patients are treated as consumers of healthcare services and given more power of choice, while competition
is introduced into the medical profession by linking doctors’ incomes to their performance. Two policies have been adopted in the public healthcare system to increase user power, to stimulate doctor competition and to contain inappropriate conduct. One is to let patients choose their doctors for ‘free’, and the other is to allow patients to choose their surgeons by paying extra fees.

‘Patients Choose Doctors’ and internal competition

Previously, patients were not allowed to choose doctors. They paid a small registration fee to get a number to see some doctor in a particular speciality in the hospital, but they did not know who would see them until their numbers were called. The ‘patient choose doctor’ scheme, implemented nationally in 2000, was designed to empower the patient and to encourage patient-centred healthcare. To facilitate patients’ selection of doctors, hospitals are required to publicize doctors’ photos, professional titles, specialities and other information (Ministry of Health and State Bureau of Traditional Medicine Administration, 2000). Under this scheme, doctors’ incomes are determined by their performance. The more patients choose them, the more income for doctors. Therefore, doctors have to improve their service quality and attitudes to attract and retain more patients in order to earn more. The scheme seems reasonable and effective, as demonstrated in two hospitals – Chongqing Surgical Hospital and Tianjin No. 3 Central Hospital – which have been set up as model hospitals in this regard.

Both hospitals implemented the scheme for almost the same reasons: lack of competition, which resulted in low efficiency, low morale, and tense doctor–patient relationships. Chongqing Surgical Hospital allowed patients to choose their doctors in 1993, the first hospital to do so. The management of the hospital remunerated doctors or surgical teams according to their workloads, ethics and degrees of patient satisfaction. More work, more pay; better work, better pay. Doctors are no longer paid in line with their professional ranks. A senior doctor can be employed as a senior doctor but paid at the rates for middle-rank or even junior doctors, while a middle-rank or junior doctor can be paid at the rates for higher ranks. The difference is decided by their performance. Doctors are therefore pressured into competing with each other for patients by improving their skills, service quality and attitudes (Y. Zhao, 2001).

Tianjin No. 3 Central Hospital enacted similar policies in 1998, and went even further. By 2000, 21 doctors were laid off because of low selection rate by patients; 93 doctors were transferred to other (possibly
Informal Public Sectors and Welfare

non-medical) posts. The competition between doctors differentiated their incomes dramatically. For doctors of the same ranks in the same unit, the highest income can be seven times the lowest (Han, 2000).

With patients as the choosers, doctors have to compete for their patronage and are supposedly unlikely to solicit or to be offered informal payments. The health authorities apparently hold the view that as long as patients dominate the relationship with doctors, the quality of doctors’ services and their attitudes towards patients will naturally improve.

The reality, however, seems to point in the opposite direction. In spite of the government’s insistence on the policy, hospitals do not seem as enthusiastic, and many have phased it out. For example, all major hospitals in Nanjing embarked on the programme in 2001, but six years later, only two were still running it (L. Zhou and Chen, 2007). The reasons are manifold. First, the promised choosing power is, in fact, very limited. For the same consultation and service fees, everyone wants to see prominent doctors, even for minor conditions. This puts great pressure on senior doctors, and in turn gives them more power over the doctor–patient relationship. To guarantee quality, as required by the ‘patients choose doctors’ scheme, they have to spend a longer time on patients to ensure accuracy of diagnosis. This means they see fewer patients every day. This, in turn, pushes up the demand for their services and creates a long waiting list. To jump the queue, patients are likely to give red packets. Otherwise, patients have to settle for less prominent doctors or whoever is available (Zhang and Xu, 2007).

Second, China’s healthcare system does not have general practitioners as gatekeepers. Patients have to diagnose themselves first and then decide which medical specialities they need to go to for further consultation and services. In the hospitals, patients have to choose doctors from the department of that speciality from the very beginning. If the self-diagnosis is not accurate, their selections may land them in the wrong hands. Even if they make a correct self-diagnosis and come to the right speciality, many patients cannot exercise their choosing power properly by merely looking at the photos of doctors and reading their brief biographies on the noticeboard. For many patients, choosing power is meaningless. At the end of the day, they will choose doctors of senior ranks anyway (Xiong, 2000; L. Zhou and Chen, 2007).

‘Operation by Nomination’

While ‘patients choose doctors’ gives patients choosing power without extra charges, ‘operation by nomination’ allows patients to buy
choosing power with extra payments. It was first implemented in some Beijing hospitals in 1989 as a form of special needs service (Beijing Municipal Health Department, 2006). In 2001, Beijing Municipal Commission of Development and Reform and Beijing Health Department formulated ‘unified medical service fee standards’, which set up a ‘special needs’ service category. This category allows the patient, in a fully voluntary, informed and consensual way, to pay extra fees to choose the surgeon he or she prefers. This practice is only applicable to surgical procedures, and only senior surgeons are qualified to be chosen for special needs services (S. Wang, 2006). Nomination fees were charged at the rate of 50% of the basic cost of an operation, with a ceiling of 800 yuan, and are redistributed between the hospital, the chief operator, the anaesthetist, assistants and nurses (C. Li, 2006).

‘Operation by nomination’ represented the government’s attempt to formalize and legalize informal payments (Meng and Liu, 2004), but the policy was problematic. In 2006, Beijing Municipal Health Department put the policy on hold, claiming that in spite of the benefits the policy had brought to the healthcare system, the damage was greater. First, before the scheme was implemented, hospitals had administered surgery according to categories and degrees of complication, and allocated patients to surgeons of the relevant ranks. Under the ‘operation by nomination’ scheme, senior surgeons were nominated to do all kinds of operations, regardless of the degree of complication, in order to meet the requirements of patients. As a result, surgeons did not have time to do ward visits, to discuss complicated and critical cases with colleagues, or to train junior doctors. In the meantime, junior and middle-rank doctors were deprived of the opportunity to perform surgery. Second, the scheme differentiated income between surgical units and non-surgical units, and had an adverse impact on the job selections of medical personnel. Third, it increased the economic burden on patients (Beijing Municipal Health Department, 2006). The policy had also encouraged patients from other localities to seek medical treatment in Beijing, for they could nominate their surgeon without having guanxi (that is, social connections) in the first place. The influx of patients increased pressure on the Beijing healthcare system and prolonged the waiting lists of senior surgeons (C. Li, 2006).

The ‘operation by nomination’ policy did very little to stop informal payments. It is reported that even if patients paid nomination fees to desired surgeons and their teams, some of them paid extra money informally to chief operators and anaesthetists (C. Li, 2006; S. Wang, 2006). There are two possible reasons for this. First, the nomination fees are capped and are shared between the members of a surgical team, as well
as the hospital and the department. The hospital usually takes 50%, and another 25% goes to the department. The rest is shared among the team (C. Li, 2006). Chief operators do not feel particularly motivated, because the policy seemingly does not bring much more income to surgeons (S. Wang, 2006). Some patients may find it still necessary to motivate their surgeons with informal payments. Second, the informal payment is intended to personalize the doctor–patient relationship. The public seem to have an ingrained distrust of the public hospital and its employees and believe that only personalized relationships can obligate them. This belief prompts some patients to continue to pay informally even if they have paid extra fees for special services.

But the policy had some merit. It did give patients the power to choose prominent doctors who were otherwise unavailable if patients did not have guanxi. A survey shows that 40% of patients opposed the abolition of nomination fees. They had two concerns. First, they would probably have to resort to red packets again to motivate doctors. Second, and more importantly, patients feel that they will lose their choosing power along with the abolition of special services. This may have greater impact on non-Beijing patients who usually do not have any guanxi to help them obtain the services of prominent doctors in Beijing (Fang and Guo, 2006; Fang and Wang, 2006; C. Li, 2006; S. Wang, 2006).

Like the ‘patients choose doctors’ scheme, ‘operation by nomination’ gives patients more choosing power, only to reinforce the power and market position of prominent doctors and put a strain on the relationship between senior doctors and their colleagues of middle and junior ranks.

My research shows that the Chinese government and the CCP have been by no means inactive in containing informal payments. They have established complicated disciplinary complexes from the centre down to the hospital. Numerous policies have been implemented to rein in informal payments through both disciplinary and market approaches. However, defects in institutional and policy design have greatly compromised the efforts of the party-state.

In spite of the existence of the legal structure (such as the Law on Medical Practitioners) and professional organizations (such as the CMDA), disciplining of informal payments is administered predominantly by party-state apparatuses. The heavy involvement of the CCP organs in the supervision and regulation of the conduct of medical professionals indicates that the medical profession is deemed to be a functionary of the party-state. Although only a small proportion of the medical body has membership of the CCP, the whole profession is nonetheless
subordinate to the control of the latter. The disciplinary approach is only possible in this institutional context.

In spite of its top-down hierarchical structure and the involvement of powerful CCP and government agencies, the success of the disciplinary approach relies predominantly on its operation at hospital level. Patients’ cooperation and the functioning of the hospital disciplinary complex are prerequisites. However, it is in these key areas that the approach does not function well.

First, evidence indicates that patients do not cooperate with the authority. Whether patients give red packets willingly or unwillingly, very few report their doctors even in the cases of extreme unhappiness. Second, the attitude of hospitals is ambivalent. On the one hand, their old role as functionaries of the party-state remains. They are required to execute the party-state’s orders in the hospital. Major hospitals have resident disciplinary complexes to ensure the implementation of anti-malpractice policies and to investigate and discipline misconduct among hospital staff. On the other hand, with decreasing state budget and increasing economic and administrative autonomy, the hospital has gained more independence from the state and more control over its internal affairs. The economic interest of the hospital becomes the prime goal of the management. To protect their interests, hospitals may defy the government’s regulatory efforts and protect patient-attracting senior doctors from being punished for taking informal payments. The dual leadership and the conflict of interests that a disciplinary complex in the hospital has to face greatly compromise its power to discipline. As it is embedded in the hospital’s administrative structure, it cannot challenge the top leadership of the hospital, and its interests are closely connected to those of the hospital. This institutional arrangement weakens the operative capacity of the disciplinary complex.

The disciplinary approach has thus become a political game. The party-state agencies formulate policies and regulations and organize campaigns to fight informal payment for the purpose of protecting patients’ interests. Patients, for the same purpose of protecting their interests, do not cooperate with the authority by reporting their doctors for taking informal payments. Hospitals, to protect their own interests, are unwilling to punish their doctors, especially senior doctors, who are usually the prime recipients of informal payments. This strange alliance between the doctor and the patient, and the ambivalence of the hospital with a crippled disciplinary complex have reduced all the party-state’s efforts to little more than lip service to appease complaining but powerless patients. In Janos Kornai’s words, ‘the state is outwitted by
collusion’ between doctors, patients and hospitals in informal payment transactions (Kornai, 2000: 211).

The market approach seems to have produced a more positive effect on controlling informal payments than the disciplinary approach, but its outlook is not optimistic. Previously, doctors relied solely on their hospitals for livelihood and welfare. Now they are economically dependent on patients to a significant degree. Doctors are compelled to improve their responsiveness, attitudes and quality of services to win over patients. As a result, the medical profession seemingly no longer dominates the doctor–patient relationship. Patients are gaining power over doctors. The change of power relationship, however, is not all good news for patients, because patients readily surrender their choosing power to senior doctors, especially senior surgeons. As a result, the medical profession is polarized. At one end of the power spectrum are senior doctors of some specialities who continue to exert dominating power in their relationship with patients. At the other end are the junior and middle-rank surgeons, and doctors of other specialities and of lower-level hospitals, who are losing power to patients. In general, patients continue to stand in awe of the professional power of doctors, and most of the time would not dare to challenge it even if they are not happy about having to pay informally. On the contrary, to compete with each other for the temporal, physical and mental resources of senior and particularly prominent doctors and their preferential services, patients still have to pay informally. The only difference may be that, with the freedom of choice and increasing buying power on the part of patients, red packets now accrue to senior doctors more than before. In the meantime, the polarized incomes create great tensions between senior doctors of lucrative specialities and doctors of other specialities and/or of other ranks. As the findings indicate, both the ‘patients choose doctors’ and ‘operation by nomination’ schemes are being abandoned, either by hospitals or by the government, for the reason that they seem to have brought more harm than benefits to the healthcare system, patients, hospitals and the profession.

The failure in controlling informal payments in China, as well as in other former socialist countries and developing countries, is predominantly attributable to government failure (Lewis, 2000), which is caused not by a single factor, but by multifarious interrelated factors across social, political and economic arenas. More deeply, the failure can be attributed to the CCP’s philosophy of healthcare, which features a profound contradiction between the country’s enthusiastic pursuit of capitalism and the market economy and the party-state’s
persistent intervention and excessive regulation of the economy (Yang, 2009). Even the failure of the market approach is not a failure of the market. Although the failure of healthcare reform was blamed on over-marketization (Ge and Gong, 2007), this is a pseudo-market distorted by the interference of the state. In this ‘market’ there is hardly any open, free negotiation or bargaining between the consumers, the providers and the government, three of the major actors in the healthcare system. The party-state exercises predominant power, which not only decides how much funding the public healthcare sector has access to, but also sets limits to the salaries of health professionals, controls the organization of health professions, owns and runs major hospitals, determines the threshold of ‘market entry’, and to a large degree protects the monopoly of public hospitals and restricts the development of the private sector. Within this structure, the patient and the doctor can hardly negotiate openly with the government and with each other. However, the advance of market reform and liberalization of the economy has significantly decentralized the power of the CCP and the government, and created some private space in the once iron-tight public sector. This space allows covert negotiation and thus creates a shadow market in which informal payments and preferential services are exchanged.

As Lewis points out, addressing the informal payments effectively entails major restructuring of the healthcare system (Lewis, 2000). In China, this system is fraught with problems inherited from the command economy. But more fundamental to effective solutions is a clear positioning of healthcare provision in the ideology of the CCP and the creation of an open and democratic negotiating mechanism between all the actors in healthcare provision. Any piecemeal solutions treat only the symptoms but not the disease.

Notes

3. http://www.ccdi.gov.cn/xxgk/zzjg/201403/t20140314_45334.html, accessed 24 March 2015. It must be noted that CCDI, ROM, and MOS were restructured in 2014 with MOS and ROM being formally integrated into CCDI.
Informal Public Sectors and Welfare

8. For example, in 2012, the head of MOH Redressing Malpractices Task Force was the minister, with the secretary of the MOH resident Commission of Discipline Inspection as one of the deputy heads. See http://www.moh.gov.cn/publicfiles/business/htmlfiles/mohjcg/s3578/201203/54441.htm, accessed 8 October 2012.

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Informal Public Sectors and Welfare


Wang, S. (2006, 1 March) ‘Shoushu dianming fei’ bei jiaoting: dui huanzhe shi fu shi huo? (‘Surgeon nomination fee’ is put on hold: Good or bad


Zhao, W. and Z. Ruan (2010, 20 August) Wei ezhi wai feng, Zhuzhou yi yiyuan chengnuo: jubao yisheng shou hongbao ke mian dangci yiyao fei (To curb unhealthy practice, a hospital in Zhuzhou promise: (the patient) can receive free medical service for the visit if they report red packet taking doctors), Fazhi ribao (Legal Daily), 7.


Informal economic activities have long been embedded within the Kyrgyz police, as they have throughout police organizations in the former Soviet Union (FSU), but the nature and extent of these have expanded since the collapse of the USSR. After gaining independence, officers’ involvement in informal economic activity has continued and increased because of their own precarious economic positions, the lack of state capacity to control and incentivize them, and the long history of economic informal activity within the police and society more generally. The provision of police services in Kyrgyzstan has increasingly become marketized as state control over the economy and political arena has weakened, and actors with money, most notably organized crime groups and elements from within the police, control large aspects of informal activity. For example, junior officers provide their superiors with a proportion of the money they acquire via bribery in a systematized pyramid of informal exchange. However, police and less powerful social actors also use informal economic means to provide police services. Where the state is unable and/or unwilling to do so, and at the same time retains an excessively regimented legal framework, lower-status social actors use informal economic activity to provide basic services and to circumvent excessive legal requirements and punishments.

In part, many contemporary police in Kyrgyzstan interpret informal practices in a manner similar to their Soviet predecessors: a degree of flexibility and the selective enforcement of the law may be justified because the demands of official laws and regulations, and those of political elites, are impossible to implement on the ground. An important difference, however, is that contemporary police operate in a more fractured political context and an environment of economic scarcity. The
dichotomy between formal and informal economic activity has become even less clear as state elites and police leaders have very publicly been implicated in using state assets for private gain, while some local elites have usurped central resources to provide public services to their local constituencies. Whereas in Soviet times some low-level informal police economic activity was known to occur, it was constrained and contained by the Soviet state. In the independence period, informal economic activity at all levels has become less marginal and very visible. Low-level informal economic activity is often perceived as an unfortunate necessity to supplement inadequate salaries.

The example of the Kyrgyz police demonstrates the tension between governance models which work within a framework promoting ‘objective’ forms of public administration and alternatives which advocate greater acknowledgement of the role of informality. Informality is an outcome of overly rigid standardization, yet at the same time restricts the development and implementation of basic standards which would serve the interests of the population in general. The strictness of the legal code and an overly hierarchical and militarized police system encourage officers and citizens alike to circumnavigate harsh rules and regulations. At the same time, the marketization of policing means that rich individuals can use money and/or connections to escape prosecution and to influence police activities and decision-making during social and economic disputes. Overall, although some lower-ranking officers, and even private citizens, justify certain types of informal police economic activity, the officers and citizens interviewed for this chapter almost unanimously deplored the impact of market forces and elite corruption on police work. Informal economic activity is, in part, caused by over-standardization, but for ordinary Kyrgyz the more visible problems caused by a lack of standardization are more pressing.

This chapter analyses informality by using a mixture of focused anthropological approaches (e.g. interviews) and broader sociological ones (e.g. analysis of the political economy). Fieldwork was conducted in the Kyrgyz capital, Bishkek, and the largest city in the south of the country, Osh, during a six-week period in May/June 2011, as part of a larger project comparing policing and police reform in Georgia, Kyrgyzstan and Russia. In Kyrgyzstan, 13 interviews were carried out with police officers, and interviews were also conducted with NGO workers (nine), international personnel (nine), politicians (four) and an academic. The author also spent six months in Kyrgyzstan in 2008.

A mixed sociological and anthropological approach is useful because informal police economic activity has been affected strongly
by political-economic changes in the FSU in recent decades, and ethnographic approaches allow a greater understanding of how these have impacted upon individual officers. However, there are certain inherent difficulties associated with studying police in the FSU using such approaches. In most contexts, police organizations tend to be conservative and somewhat secretive. These problems are amplified in the FSU, where policing has traditionally been closed to external scrutiny, especially that of foreigners. It is difficult to get access to police, officially or otherwise. When one does, officers are often reluctant to maintain a relationship over time, fearing that such an association could threaten their jobs (or worse). For example, one officer interviewed asked me not to phone him back in case Interpol had bugged his phone. Nevertheless, although the research context and relationships presented certain limitations, the conversations with ordinary police revealed in some detail how these officers manage informality.

**Background**

Since independence in 1991, the policing environment in Kyrgyzstan has been strongly affected by severe political and economic upheaval. There was a huge contraction of the economy during the 1990s, and GDP per capita (PPP) still remains below its 1991 level, according to World Bank figures.\(^2\) Unemployment and underemployment remain very high. Politically, the country was relatively stable and open under the presidency of Askar Akaev, but Akaev’s tenure increasingly became marked by widespread use of state resources to control economic interests in the favour of the ruling family and various patronage networks. He was deposed in 2005.

The Kyrgyz police has undergone considerable change as a result of political and economic turbulence. Its overall size has declined from around 26,000 to somewhere in the region of 5,000–8,000 today. Many experienced officers left the police in the 1990s, and instead of being dominated by Slavs, it is now an almost ethnically homogeneous Kyrgyz institution. Economically, the position and status of ordinary officers are considerably worse than in the Soviet period. At the end of the Soviet era, Soviet police were not well paid, but they received a wage with which to support themselves and additional benefits (e.g. housing, access to health services). Today, as throughout much of the independence period, Kyrgyz police live a rather precarious economic existence. Officially, the lowest ranks earn around 10,000 som ($215) and the highest around 15,000 s ($320) per month. Before the 2010 revolution, the
basic figure was around 6,000–7,000 s ($130–150). In a country with a large shadow economy, it is difficult to find reliable aggregate economic data which can account for the income constraints felt by households across a varied economic landscape. One 2010 paper, for example, estimates that the total poverty line in Kyrgyzstan was at 18,000 s a year in 2008 (around $385), but that this figure masks substantial variation in living conditions (Chzhen, 2010: 3). Interviews with Kyrgyz police confirmed that official wages are below or on the breadline. For example, as one former officer stated,

I have dependants now (a spouse, two daughters, of two and three years) and the least amount we need is about $400 per month, including accommodation, rent. It is hard to imagine how married policemen manage to run their lives.

Similarly, one traffic police officer said: ‘We earn 10,000 s [$215] a month. But each day costs us 500 s [$11] (gas, food etc.).’ This officer illustrated the impact poor pay has on police work by using a Russian phrase: ‘If you feed a dog well, it guards well. If you don’t, it wanders.’

In general, police ‘corruption’ in Kyrgyzstan is usually understood, in line with Palmer’s definition, as ‘the use of the public function for a private advantage’ (Palmer, 1983; cited in Polese, 2008). This understanding often invokes a picture in which the government and civil service of a country are working intelligently and actively to promote economic development and provide public services, only to be thwarted by the efforts of grafters (Leff, 1964: 10). Indeed, this perspective can be found in much of the documentation of the Organisation for Security and Co-operation in Europe (OSCE), which has run a police reform programme in Kyrgyzstan since 2003 that has produced few tangible benefits (International Crisis Group, 2012: 10; Lewis, 2011: 6). A 2004 article in the OSCE magazine, for example, is typical in praising the government’s ‘willingness’ to reform. Corruption is attributed to wide social practices and low salaries, but the active involvement of political and police elites is ignored (OSCE, 2004). The OSCE has continued to work in the country and fund counter-narcotics programmes despite the active involvement of senior Kyrgyz personnel in the drugs trade (Lewis, 2011: 38).

Perceptions of police informal economic activity in Kyrgyzstan are more nuanced than Palmer’s definition allows, because the public–private divide is far from clear. In colonial and Soviet times, various state institutions were perceived to act in particular groups’ interests. Certain
informal police activities have not always had a negative connotation, because large sections of the Kyrgyz population have considered their use, to circumvent state rules or officials, as legitimate or justified, given the illegitimacy and injustice associated with various state actors. At the same time, there are certain state rules which are widely considered to be applicable to all, equally, and the circumvention of these by powerful or rich individuals has historically engendered wide social disdain. Perceptions of informality must thus be understood within the context of the dynamic and contingent nature of relationships between state and non-state actors. At a basic level, a state is a body of people which creates and enforces rules and arbitrates disputes via its monopoly of force, and police are the state’s means of enforcing rules and arbitrating disputes on the streets. However, a Weberian understanding of police behaviour is restricted because the basic Weberian model of the state is limited, as argued by Torsello:

> From whatever side one wishes to take it, the public sphere is not easily defined, rationally, in opposition to the private one. [...] Institutions are rules of the games also in anthropological evidence, but they are so in that they are made up by people, through their agencies, discourses, ideas which do not necessarily reproduce the kind of artificial reality present in a vacuum that the Weberian rationality called for.

(Torsello, 2011: 3)

In Kyrgyzstan, as in any state, attitudes towards informal police economic activity depend on the nature of the activity and the actors involved. For the sake of simplicity, I use the term ‘corruption’ only to refer to elite-level corruption or systems of informal economic activity that directly benefit political elites. I do not use it to refer to individual small acts of informal economic activity, although, in the sections below, I refer to authors and interview respondents who have done so.

The continuation of Soviet-era informal practices

Many contemporary informal police practices became embedded within the MVD (Interior Ministry) during the Soviet era as a result of the particular development of Soviet governance. The Soviet state created a system of rules and an environment in which it was impossible to abide by these rules. In an economy of shortages, almost all citizens resorted to informal economic mechanisms for basic services/goods, to make a profit, or to avoid more severe punishment. The position of the
police was especially contradictory. It was expected to uphold a formal order, which was officially just, and to punish any transgressions of this order severely. At the same time, there was wide tacit social agreement that it was impossible to live by these formal rules, and therefore many transgressions could be tolerated (Polese, 2014: 85). Although the order dictated by the state is significantly weaker in Kyrgyzstan today, the practice of using informal economic activity to circumvent officialdom remains prevalent.

The continuation of Soviet-era informal economic practices is particularly evident in the traffic police. In Soviet times, the traffic police were known as GAI, and, despite various name changes, they are frequently referred to by this acronym across the FSU. According to Shelley, GAI officers had a well-earned reputation for corruption because they regularly pulled citizens over to elicit bribes (Shelley, 1996: 130–131). In contemporary Kyrgyzstan, this practice continues. Traffic police, for example, regularly pull over vehicles which are legally unroadworthy, as are many cars in Kyrgyzstan, and extort bribes. The size of a bribe for such infringements is variable, but usually it is relatively small, around 50–250 s (approximately $1–5). Citizens do not always consider the process a hindrance. Bribing GAI officers to escape prosecution for minor infringements of the law is common (more on this below).

A further continuation from the late-Soviet era is that the Kyrgyz state retains an overly bureaucratic set of laws and regulations that are difficult, and on occasion impossible, to observe, while at the same time violations of many of these are meant to be punished severely. This creates a demand and opportunities for informal economic activity. For example, remnants of the Soviet passport and registration systems remain in force in Kyrgyzstan. A person can be detained for up to 15 days for not carrying their documents. On the one hand, although officers may not use the full strength of the law to extort bribes, the severity of the law opens up this possibility. Citizens pay in order to avoid violations, real or otherwise, being processed. On the other hand, officers and citizens may mutually consider it more just, or, at least, less unjust, to circumvent or avoid enforcing the law, and to use informal economic and other means to do so, rather than to apply the rules of an overly severe and demanding state. Citizens are likely to resort to informal economic practices when they are required to go to the police in order to deal with passports, visas or licensing matters. In practice, ordinary people often circumnavigate official channels, as follows:

For example, I have a problem because I want to get a licence... Once you’ve got to the place you’ve got to be, there are queues everywhere
Informal Public Sectors and Welfare

at each window. Once there, there are those who gather, ask how can I help? They’ll do it for 1000s in a day. Officially, it could take a week, a month.

(Praporshchik, GAI)

As was the case during the Soviet era, various small payments to police can take the form of petty extortion, but they can also be convenient. Official fines can be on a similar level to bribes, but the latter involve less hassle.

Such practices were common, but less prevalent and overt, in the Soviet era. The passport and registration systems provided the state with an imperfect tool with which to attempt to control movement and, at the same time, often prevented various state agents from meeting central targets. In parts of the Union, collective farm chairmen often recruited seasonal migrants because they were unable to meet centrally imposed targets with their own labour force. After 1976, seasonal travel permits were only available for six weeks, shorter than the time required to harvest various crops. The police were reluctant to move against seasonal workers, although they were often forced to fine them, and in many cases illegal migrants used bribery to circumvent checks and/or gain required paperwork (Shelley, 1996: 127, 129). However, although informal activity occurred, several interviewees remarked that, during the Soviet era, the state’s internal coercive and surveillance mechanisms kept informal economic activity in check. A former colonel who worked in the Soviet-era police stated:

There was [corruption] but the level of corruption was so low. First of all, it was very controlled. It was a system of control. A real system. Even if you are out service. For example, you spend 24 hours in service, and 72 out. Even during the 72, you need to be evaluated. To be checked. By your supervisor.

The Kyrgyz deputy minister of internal affairs argued:

Now we have more democracy. During the Soviet Union, what democracy there was, was no democracy. But the law worked firmly, of course. Corrupted officials, those who took bribes or were cruel, if you took a bribe, were corrupt, then the consequences were very, very, dire. There was much less corruption then when the law was strict [said while banging his fist down].
Of course, senior personnel who served in the Soviet era tend to describe it with an element of nostalgia, and their comments regarding the quality of the system and law should be treated with a critical eye. Nevertheless, such views are not out of line with more widespread popular conceptions of the Soviet era, which contrast the relative order and predictability of Soviet times with the disorder of the independence period.

Police and citizens often justify the continuation of the above informal economic practices because Kyrgyzstan retains the legacy of a historical system in which numerous formal procedures are impractical, difficult to enforce, and widely circumvented. Kyrgyz police, like police everywhere, are meant to uphold the state’s rules and regulations, and are authorized to use force to do so. As in all states, there is common acknowledgement that certain formal procedures, rules and laws can, at times, be circumvented, but in Kyrgyzstan this is particularly pronounced, as is explained by the following exchange with neighbourhood inspectors, a position broadly akin to community police officers.

We have a completely different mentality [from the Western expectation of order]. They look at us from their own perspective. They have, whether they need it or not, everything [in order]. We have, as you might say [the attitude] ‘you can go around [the law].’ For us, if it’s not allowed, but if you really want to, you can. [...] It’s not permitted to violate but you can go around.

The continuation of informal police activity is, in part, a result of the continuation of wider Soviet-era social practices, such as blat (personal networks and informal contacts to obtain goods and services in short supply) (Ledeneva, 1998: 1). In Kyrgyzstan, blat has developed into a norm which can be used to ‘go around’ various official procedures. The unwritten rules which determine how a citizen or officer can ‘go around the law’ are fluid, however, and it may take some learning to determine the going rate of petty bribes, for example, as evidenced by the following conversation between a former officer and his friend:

The first time, I paid 500 s for going through a red light. I didn’t know how much to pay.

[Former lieutenant, Directorate of Criminal Investigations] – ‘You should have studied!’
Blat was common, particularly in the late-Soviet era, but forms of blat, and how it is interpreted, have changed in response to the increased influence of market forces on Kyrgyz society. One contrast with the Soviet era is that, although petty extortion may have been common under communism, it may now be excused with reference to the relatively high economic differential that has developed between police and some, but by no means all, citizens. As is the case with many official salaries in Kyrgyzstan, police are widely known to receive a salary that is insufficient to support themselves. A small bribe may, therefore, be considered quite reasonable:

[Former lieutenant, Directorate of Criminal Investigations] – You know he gets paid nothing so 200 s so he can get himself a cup of tea is not so bad.

Of course, not all those who are stopped are as understanding. During a 2008, 280 km taxi ride from Cholpon-Ata to Bishkek, the battered-looking Lada my party was in was stopped three times by police, whom the driver bribed. Given that the fare was in the region of $30, these stops significantly impacted upon the driver’s profit margin, and he was clearly frustrated by these encounters.

Precedents for the involvement of higher-level personnel in informal economic activity were set during the Soviet era, although this was less obvious and on a smaller scale than during the independence period. In general, higher-level informal economic activity is harder to observe, and it is difficult to delineate clear patterns. There is little specific information available on the Soviet-era Kyrgyz police, but, in the late-Soviet era, both the MVD generally, and the political leadership in Central Asia, were famous for their cronyism and patronimialism, which increased considerably during Brezhnev’s tenure in office. In the post-Soviet period, both the Akaev and Bakiev families utilized state assets, including law enforcement structures, to gain control over formal and informal sectors of the economy (see below). One economist estimates that the Akaev family amassed between $500 million and $1 billion over its 14 years in power (Levchenko, 2006; cited in: Engvall, 2007: 37; see also Sershen, 2006). In the absence of an overall Soviet hierarchy, and occasional purges directed from Moscow, the ability of one family/patronage network to dominate economic activity was considerably greater.

The relatively high incidence of informal economic activity, and, indeed, patronage, can be explained with reference to the development
of the Soviet system of governance. Fairbanks describes how kinship networks, at the bottom of the Soviet system, and patronage, in its upper reaches, were strengthened because of the social climate generated by Stalinist governance. First, the continuity of peasant traditions encouraged the continuity of patron–client relations. Second, the randomness of Soviet law meant that it was more propitious to seek security via relationships than by recourse to state authorities. Third, the impossible demands of central government imposed unrealistic targets and crushing punishments, thus requiring officials to violate rules and protect themselves from the consequences. Fourth, the Soviet Union lacked an impartial and professional civil service to reduce favouritism in public service (Fairbanks, 1996: 352–355; see also Lovell et al., 2000: 11; Özsoy, 2007: 74). Note that any contrast with supposed rational–legal Western bureaucracies is not absolute, because they also often feature the above characteristics.

The Soviet-era Kyrgyz MVD was certainly characterized by the above system of governance. At the same time, the level of police informal economic activity was more constrained in Soviet times, largely because the central state officially prohibited it and remained powerful enough to control it. Internal monitoring mechanisms and the perception of their effectiveness contained lower-level informal economic activity. Higher-level informal economic activity was contained by Moscow, which oversaw police activity in Kyrgyzstan and occasionally purged republican leaders. The decline of the Soviet state did not lead to the curtailment of informal economic practices, which it had done so much to embed, but it did result in the decline of those institutions which constrained embedded practices.

**New informal economic activities**

Various embedded police informal activities can be seen as an outcome of the evolution of Soviet-era practices. These have continued after the collapse, but they have also merged with new and expanding patterns of informal economic activity, which resulted from the decline and collapse of the totalitarian system. Informal economic activities pervade all levels of the MVD, as reported by Kubatbek Baibalov, a former interior minister (July–September 2010):

[Problems exist] at the very top, the very top. At the lowest level there is police corruption, every day. A packet of cigarettes, a bottle of vodka, just like that. But at the highest level, there’s very high
Informal Public Sectors and Welfare

corruption. With things like petrol, narco-traffic, big things. High up personnel are involved in high level corruption, low level in low level corruption.

The low-level ‘corruption’ which Baibalov refers to includes actions which bear a close resemblance to the classic, common definition of corruption (i.e. which benefit the officer with little reciprocity to anyone else). High-level ‘corruption’ is often used to describe the increased activity of numerous state and non-state actors in formal and informal economic activity.

In Kyrgyzstan, as throughout much of the FSU, police involvement in informal economic activity increased because the state’s grip on the policing arena loosened. With the demise of Soviet power, the state’s political and economic leverage over the police diminished. It could no longer provide either adequate incentives (e.g. pay, housing, other benefits) or disincentives against engaging in informal economic activity. At the same time, the fragmentation and marketization of economic and political power resulted in a similar fragmentation within the policing arena. The state’s monopoly over policing functions was eroded and replaced by a competitive environment in which state police, corrupt security actors and organized crime groups all vied for control over the regulation of economic activity, with the latter two groups often better resourced and/or capable of this. Thus, whereas in Soviet times informal economic activity was somewhat regulated within a context where there was a relatively clear division between public and private norms, in the independence period this division blurred. Embedded informal economic practices continued, but they expanded and evolved, and new ones emerged, as state and non-state actors sought to profit or to control spheres of informal economic activity.

This competition is best explained by conceptualizing the police as one of several ‘violence-management agencies’ existing within a state. The term was coined by Volkov in his 2002 work, *Violent Entrepreneurs*, to explain the similar type of involvement in economic activity of police, organized crime groups and business actors that occurred in Russia after the collapse of the USSR. Essentially, it refers to all organized social actors in a society who are involved in the ‘business’ of violence or the use of violence for economic purposes. A violence-management agency is ‘any human activity that commands organized force and manages this key resource in such a way as to make it the source of a permanent income, eventually by establishing control over a local economy’ (Volkov, 2002: 108). Although he recognized a significant blurring of the boundaries between them, Volkov differentiated violence-managing
agencies into ideal types according to their relationship to the law (i.e. whether they command force and manage resources legally or illegally) and their relationship to the state (whether they are state or non-state actors (public/private)) (Table 12.1).

In Soviet Kyrgyzstan, the division between public and private was more pronounced than in the independence period, and the Kyrgyz police largely performed the function of a state protection actor, defending a mixture of the state’s interests and those of the public. Private security actors were only legalized at the very end of the Soviet period, and the influence of criminal groups, as defined by the Soviet state, was far less pronounced in Kyrgyzstan than in other parts of the Union. As Kupatadze notes, ‘In Soviet times Kyrgyzstan was known as a kras-naia respublika (red republic) implying low crime rates, rigid control by the Soviet police (militsiia) and weak influence of professional criminals’ (Kupatadze, 2010: 176).

The violence-management arena became much more contested during the 1990s. With the decline of the Soviet state’s monopoly on political and economic power, state security actors’ ability to regulate either formal or informal economic and political activity was increasingly undermined. Not only did the influence of non-state violence-management actors grow, but the Kyrgyz police increasingly transformed from a state protection agency to one which used its resources and position to control parts of various legal and illegal markets. In contemporary Kyrgyzstan, the dichotomy between formal and informal activity has widened. The state’s ability and inclination to control the legal and illegal violence-management ‘markets’ has declined with the collapse of the totalitarian system, and its monopoly has been usurped by non-state actors.

**Organized crime groups’ increased involvement in informal police economic activity**

The increased influence of organized crime groups, both generally and, specifically, with regard to policing, was a constant theme in the
interviews. Respondents believed that criminal elements or corrupt officials, or both, usurped the police after independence and continue to exert substantial influence over them. The use of the term ‘criminal’ is subjective and relative. Officers, like other social groups in Kyrgyzstan, often use the term ‘mafia’ to refer to the systematic informal practices of both known and unknown persons and groups, within and outside of the police, rather than to specific organizations. As one colonel (K-8, colonel, Directorate of Criminal Investigations, 30 years’ service) stated, ‘Corruption? It’s not at the bottom. It’s at the top. It’s everything there. It’s like a mafia… The Soviet system was strict. Now it’s a mafia.’ Because the terms ‘organized crime group’ or ‘mafia’ can be used to refer to various disparate actors, their activities can be difficult to distinguish from those of, for example, political actors or officials. Indeed, it is not surprising that ordinary police blur the lines between politicians, criminals and police leaders, because there are many prominent public examples of these lines being crossed.

Respondents, from both the upper and the lower echelons of the MVD, tended to corroborate the idea that ‘criminal’ groups began to increase their influence on the police towards the end of Akaev’s presidency, and that the situation deteriorated into the 2000s. To use Volkov’s terminology, the violence-management arena became more competitive in this period as the state structure, already weakened under Akaev, weakened further. As K-8 (colonel, Directorate of Criminal Investigations) said, ‘It started a little in Akaev’s time and under Bakiev, the whole thing fell apart, family influences increased.’ The head of the Kyrgyz Police Academy, Almaz Bazarbaev, explained the process in more detail:9

Everything began from 1990, when the police began to lose the trust of the people. It’s the worst thing. With the collapse of the Soviet Union, you could say from 1993, the criminalisation of society began, when organized crime groups began to appear. And here, the police didn’t exactly show themselves to be on the good side.

They started to join these criminal gangs. If the structure of vertical power worked in the Soviet system, it didn’t come to work in the new Kyrgyzstan. The reason being, in the first place, because all structures were criminalized. For example, organized crime groups appeared at the level of the district MVD. One officer starts to work for them. He then moves up the chain, he’s got good money, a financial inflow. He makes an agreement with someone at the regional level and he’s
raised up, to the regional level. But this doesn’t satisfy the leader of the crime group, that he just sits there. It’s like a mafia. They push him further to here, to the Ministry and he starts to work in the Ministry.

President Akaev’s family were deeply implicated in using law enforcement to support the family’s economic activities. The president’s son, Aidar, was particularly active, as noted by Aslund (Aslund, 2005: 477):

His protégés held the posts of Minister of Finance, Minister of National Security, and Head of the Customs Service. Major government agencies in finance and law enforcement appeared to function as his personal revenue services… The capital abounded with anecdotes about how Aidar Akaev drove around the city in his Hummer. He saw a shop, named a price, and demanded the firm. If the owner refused, an array of state inspectors and law enforcement officers were dispatched to persuade the obstinate target that he had better succumb and sell.

Similarly, the Bakiev family are widely reputed to have utilized law enforcement agencies and develop ‘roofs’ (i.e. protection rackets) over large swathes of the formal and informal economies, including the drugs trade (International Crisis Group, 2010: 5, 6; Kupatadze, 2012: 148–151; Marat and Isa, 2010). Regardless of whom the term refers to, informal economic influence has been used to manipulate the behaviour of Kyrgyz police in a manner that violates statute law. Economic resources can be used for the following purposes (Salagaev et al., 2006: 10):

- to obtain information (e.g. information about raids, on other personalities);
- to support criminal activity (payment to make arrests, purchase arms, convey goods, remove people from databases);
- to gain economic advantage (using police connections with municipal authorities, initiation of proceedings against rival businesses);
- support during investigation process, court proceedings and imprisonment (information about witnesses, etc.).

While ‘mafia’ and ‘corrupt’ officials are usually referred to negatively, local actors may express positive sentiments towards ‘organized crime groups’, which have been known to use appropriated resources for the
benefit of local constituents. Kupatadze, for example, notes that Bayman Erkinbaev, a regional figure in the south of Kyrgyzstan from the late 1990s until the mid-2000s, controlled both the drugs trade and legal business, as well as local law enforcement. He managed to cultivate a degree of local popularity by investing money in local factories and infrastructure, and it was quite common to see slogans such as ‘Bayman is our hero’ in southern towns in 2005 (Kupatadze, 2012: 146–147). This does not necessarily mean that such a powerful local figure is always regarded as legitimate, but it does demonstrate that the dichotomy between legitimate state rules and illegitimate informal rules is far from absolute.

Although the limited relationship between the author and respondents may have discouraged disclosure of details of, or praise for, patrons within and outside the police hierarchy, it was noticeable that virtually all respondents were critical of ‘mafia’, ‘corrupt’ officials and political leaders. A colonel’s (Directorate of Criminal Investigations) comments are typical, and particularly interesting because police in Osh, the city in which he works, have, like other southern units, long been under the influence of local political figures, many of whom are widely suspected of active involvement in racketeering and controlling large sections of the drugs trade (BBC, 2010b; International Crisis Group, 2012: 10). Exactly which ‘mafia’ group he is referring to is unclear. Control of the ‘racketeering’ and drug market sectors has been contested in the south in recent times, and the fortunes of various political, criminal and police figures have ebbed and waned. The colonel did not discuss his own involvement in informal economic activity, and he offered an almost ideal-type Weberian explanation of the role police should play in society: to defend the rights and interests of ‘the people’ and to guarantee order and stability. However, he, like most of the officers interviewed, makes a distinction between the Soviet order and that of the independence period. The former was able to control and constrain informal economic activity in general, and that of police actors specifically. By contrast, the decline of state power and its replacement by actors with money has had a negative influence on the colonel’s economic position and police professionalism:

During the Soviet years, there was stability, trust in tomorrow’s day. Now, there’s no stability. Will I get my pension tomorrow? In the Soviet days, there was order, quality police, professional, literate – but now, those with money, connections, they have influence.
It is not possible to determine the extent to which K-8 has encountered links to organized crime, but even though he operates in an environment where such links are prominent, he frames police behaviour against the ideal of a state protection police force.

The marketization of the MVD

Ordinary officers’ opportunities and behaviour have also become more susceptible to manipulation by those with money from within the MVD. Previously, informal economic activity was constrained by political power. In the independence period, parts of the MVD organization have developed into money-making entities and police services, while recruitment into, and progression through, the MVD has increasingly depended on money.

The Soviet-era practice of traffic police taking bribes has been expanded into a system of systematic extraction. Lower ranks, particularly within the traffic police, extract resources from the citizenry on behalf of themselves and their immediate bosses, who, in turn, having taken their cut, pay ‘a tribute’ to those higher in the chain. Respondents were unlikely to admit openly to being involved in informal economic practices, generally referring to those of other officers and the leadership. At the end of one interview, the traffic police officer (Praporshchik, GAI) did, however, admit that he took bribes while describing the hierarchical system of extraction, stating: ‘The whole system is bad. I take from the taxi driver, my boss takes from me. He gives to the minister. The minister gives to the President.’

This phenomenon is well known across the former Soviet Union. Kosals reports that a similar process of marketization has impacted upon the day-to-day operations of the Russian police. Traffic officers pay their bosses to patrol lucrative areas, such as those with high numbers of immigrants who are unlikely to have the correct documentation and are therefore susceptible to being extorted. At the same time, enquiry officers who need to meet their arrest quotas, but are unable to because they have uncovered an insufficient amount of crimes within their region, may pay investigators to avoid punishment (Gilinskiy, 2009; Kosals, 2010: 3). The systematic and hierarchical system of informal economic activity within the traffic police is common knowledge, as illustrated by the following joke: ‘It’s a GAI’shnik’s birthday. One of his colleagues goes up to the boss and says, “Hey, it’s his birthday. Give him any place he wants!”’

The marketization of the police means that being an officer can be a profitable pursuit, and that certain positions provide more of an
opportunity for profit than others. Recruitment into the police often depends on money:

There’s a black market in GAI. A customs inspector’s position costs $2,000.
Well, it depends on the position. You could be photocopying. But if you can go somewhere you can milk, that could be $4,000.\(^{12}\)

Similarly, progression up the hierarchy does not depend much on skill. Positions are often bought. This is a new aspect of informal economic activity rather than the evolution of a Soviet-era embedded practice, as noted by a captain, Department of Social Order:

It used to be if you wanted to. In our country [now] it is not possible to become an officer immediately. It depends on who can afford it. Those with money in their pockets become officers. Ranks are purchased. No-one will look at your work, if you work well or badly. It does not mean anything. Money is important. Corruption.

The purchase of positions and promotion in the police perpetuates further marketization, as officers are often dependent upon informal economic activity to pay back the investment they have made. For example, a former CI colonel notes:

You have to pay money to be a cadet of Police Academy. From the very beginning. I’m a father, for example, of a 16-year-old son. And I need to collect money. It’s a good amount of money… I collect money from my neighbourhood, from relatives, and I say to my son, I’m paying for you. You need to return back this money to the family. With this mind, I come and become a police officer. So I need to complete the school and return the money to my family.\(^{13}\)

As with regard to the other forms of informal transactions discussed above, there may have been pyramids of corruption during the Soviet era, but the scale of these increased dramatically in the post-independence period. The same colonel continues:

The situation has not changed since the last 15 years… the last guys, clear guys, high professionals. They moved 15 years ago from this system. Then, this gap was closed by guys with corrupted ideas.
Officers frequently explained that their involvement in informal activity stemmed from the financial demands made of them by their superiors. One traffic police officer said: ‘There was no corruption during training. That all changed when I started work! It was, “How many cars did you stop? Where’s the money?” ’

This officer also exhibited an internal conflict when portraying himself as both a victim and a perpetrator of corruption. The problem he identified was not so much informal economic activity or corruption, but greed. The former existed during Soviet times, but, in general, people did not have very much, but they had enough to eat and drink and there was a level of social support. ‘A good person has no money. Those with money, become more greedy, take more.’ Money is unclean and dishonest. It has the power to corrupt people. Good people are those who are clean, who have nothing. The officer somewhat reconciled his awkward position by referring to bribe-taking as a necessity to compensate for poor pay and by contrasting his bribe-taking to survive with the greed of police and political leaders who extracted more than was necessary. He portrayed himself as a relatively honest cop, who has not taken much, and he has not advanced because of it.

The use of informal economic activity to provide police services

Not all officers are involved in high levels of informal economic activity, and some depend on informal economic transactions to do their official work, rather than merely for the purposes of self-gratification, or for that of others in the MVD. The OSCE reform programme has attempted to develop the position of neighbourhood inspectors, and one OSCE officer identified an informal system of exchange which enabled community actors to access police services:

OSCE Officer 3 – We have a lot of Neighbourhood Inspectors who are respected. They can solve crimes quickly, in a day or so. They want to work, and they do the job well, but they are still getting money. From shops, etc. To solve a crime they need fuel or phone credit, so they go to a local shop-keeper.

Similarly, one neighbourhood inspector (captain, Department of Social Order) said that ‘Officers even have to have fill the duty car with fuel from their own pockets.’

Instead of formal rules being manipulated to further informal economic activity, such practices illustrate informal economic activity being used to uphold formal rules. This is characteristic of a society
Informal Public Sectors and Welfare

where the state is weak and in which practices such as _blat_ are deeply embedded. The state cannot or will not provide police with resources to uphold formal rules. Some, although clearly not all, of these formal rules are recognized as legitimate and advantageous to actors within the local community, who provide officers with various gifts, services and payments to perform their duties.

The use of informal economic activity to support the enforcement of formal rules is highly dependent on the rules in question, and the personalities and relationships involved. Whereas some shopkeepers may provide gifts and money to provide a general ‘public good’ (i.e. reducing petty thievery in a market), others may be willing to utilize police services to undermine a rival trader. Depending on the personalities and networks surrounding both local actors and local police, there is the possibility for either to occur.

The nature and extent of officers’ involvement in informal economic activity is contingent on individuals’ willingness to engage in various practices and their opportunities to do so, the latter of which is usually dictated by their position in the hierarchy (or relationship to others in political and criminal hierarchies). Positions such as neighbourhood inspectors are likely to provide fewer opportunities for engagement in informal economic activity than others (i.e. GAI, criminal police), which may mean that certain officers, who are not inclined or able to engage in such activities, are more likely to end up in such posts. As one OSCE officer put it,

**OSCE Officer 3** – Whatever the police force there are always going to be some good guys, regardless. And whether they all happen to be NI, I doubt it. [But] it is the position where it would be the most challenging to be unethical, it would be the most challenging to be dismissive, it would be the most challenging to be corrupt, because you’re out facing people on a day-to-day basis.

In comparison to neighbourhood inspectors, officers working in other branches of the police characterized by systematic extraction have greater opportunities to engage in bribe-taking, and so on, and there is more pressure to do so. Refusal to participate in such activities can threaten an officer’s position.

**OSCE Officer 1** – The moment somebody is more competent or less corrupt he will not stay in the system. Either he’ll be kicked out or he doesn’t tune into to this [system and] he’s out.
It is possible to find officers at both the top and the bottom of the police hierarchy who are minimally engaged in informal economic activity or who avoid it altogether. A number of respondents suggested that the practice of paying to enter the Kyrgyz Police Academy had been curtailed under its current leadership.\textsuperscript{14} One local NGO worker also praised her neighbourhood team, noting: ‘We have these problems [typical day-to-day policing problems – e.g. neighbours playing loud music] … And Neighbourhood Inspectors solve these problems very well.’\textsuperscript{15}

Nevertheless, although not all police activity or informal economic activity works in the interests of individual officers or their patrons, since independence, informal economic activity has become institutionalized within the MVD for the benefit of political and police elites. Many officers, willingly or unwillingly, are forced to engage in systematic extraction, and those who do not are bucking the trend. The status of the police has fallen from the fairly low position it had in the Soviet era, and many of its recruits are rural and poor. In a country with high unemployment, lower-ranking recruits have little alternative to participating in the political economy of policing. Almost all police need to engage in informal economic activity to some extent in order to sustain themselves and their families. The exact reason why some engage to a greater extent than others is likely to be explained by factors particular to individual officers, such as the personalities involved and their individual circumstances and connections. What is clear is that, as a system, the MVD organization isolates or removes those who demonstrate a determined reluctance to engage in informal activity or display active resistance.

\textbf{Conclusion}

The expansion in informal police economic activity was an inevitable outcome of such institutions becoming embedded within the police and society over the long term, combined with radical alterations to the political economy and economic contraction in the short term. The Soviet police policed a society where there was full employment, an economy subsidized by Moscow, and a political system regulated by Soviet authorities. Although the state’s attempt to regulate economic activity and social and political life, combined with the impossibility of doing so, embedded informal practices within the fabric of Soviet governance, until the very end of the Soviet era informal economic activities were constrained and contained within the framework of state institutions. When the Union collapsed, Kyrgyzstan was faced with
an extremely precarious economic situation and a weak political system unable to regulate conflict and political transition. Informal police economic activity increased because the state could no longer provide for the police, and its political and economic power was distributed among a fractured and divided group of actors.

Ordinary police live and work in an environment where informal economic activity is deeply embedded, and different police navigate this informality in different ways. For some officers, minimal state control and a police hierarchy dominated by patrimonialism present opportunities for graft in the interests of themselves and others within the hierarchy. Many others, however, are forced to engage in informal economic activity to maintain their positions, or they choose to do so to aid the day-to-day activities of neighbours, relatives and acquaintances, and the legitimacy of doing so is often correlated with the extent of their involvement. In times of economic scarcity and political uncertainty, low-level informal activity is frequently viewed as an undesirable but justifiable necessity. High-level informal economic activity is universally condemned, and, for many officers, it is associated with the degradation of the police organization and society in general. In practice, informal economic activity within the Kyrgyz police is both a response to, and caused by, an overly rigid legal hierarchy and a political elite often indifferent to the needs of its populace. For ordinary citizens, government officials and international workers alike, however, the Kyrgyz police requires more, not less standardization, and less, not more, tolerance of informal activity. Although there is no simple solution to the problems of Kyrgyz policing, a more nuanced response would need to encompass the complexity of informality and examine which aspects of regulation and deregulation can best improve the access to justice and fairness of the population as a whole.

Notes

Kyrgyzstan has a militsiia, rather than a police, based on the Soviet model. For the sake of simplicity, in this paper, I use police officer to refer to militsiia of all ranks, including non-officers. For the purposes of continuity when discussing the organization and its personnel, I translate militsiia as police when referring to the organization.

The author would like to thank Dr Ammon Cheskin for looking over an earlier draft of this paper.

1. More details can be found at www.liamoshea.co.uk.
4. In private conversations, OSCE officials were far more critical of the Kyrgyz government and police leadership.
5. This definition is a simplified version of Bittner’s and Bayley’s (Bayley 1990: 7; Bittner 1980: 44).
7. Humphrey makes a similar point with regard to the historical development of criminal culture in Russia (Humphrey 2002: 101).
8. Interview, Kubatbek Baibalov, former interior minister (July–September 2010), Bishkek (23 May 2011).
9. Interview, Almaz Bazarbaev, head of the Kyrgyz Police Academy, Bishkek (7 May 2011).
10. Salagaev is writing about the Russian police, but informal economic influence has also been exerted on the Kyrgyz police in a similar manner.
12. OSCE Officer 2 noted that a career in the police costs around $10,000–15,000, and more for more lucrative posts, e.g. GAI.
13. OSCE Officer 2 also noted this point.
14. Praporshchik, GAI. Although it was also reported that once they join their units, new police are absorbed into systems of corruption.
15. Anonymous contact, NGO working on policing issues.

References


Polese, A. (2008) ‘If I receive it, it is a gift; If I demand it, then it is a bribe’: On the local meaning of economic transactions in post-soviet Ukraine, *Anthropology in Action*, 15(3), 47–60.
Conclusion

Agency Strikes Back? Quo Vadis Informality?

Jeremy Morris and Abel Polese

Informality is a regular and persistent presence in a wide range of life spheres and among various actors in the post-socialist world. This is true in both the public and private sectors, and in many situations presented in this book that straddle the notions of public and private (hospitals, for example). In this sense, the studies here contribute to the burgeoning literature on informality conducted in post-socialist and other regions (Bruns and Miggelbrink, 2012; Giordano and Hayoz, 2013; Isaacs, 2011; Morris and Polese, 2014, 2014a, 2014b; Polese et al., 2015; Rodgers et al., 2012; Stenning et al., 2010). Informality may certainly be seen, as it has been in the past, as a way for the poor and the marginalized to cope with transition, inequality and social injustice. However, informality is also a way for a growing middle class to gain access to services and, thinking beyond this functionalist perspective, a way to access resources and benefits that it is not possible to get formally at any given moment. As we have shown elsewhere, monetary and social relations are embedded, or, better, entangled, in a mutual dependency relationship (Morris, 2014; Morris and Polese, 2014b; Polese, 2014). Engaging in informal transactions is not always, or necessarily, motivated by a rationale of saving or gaining money. There are a number of other ‘currencies’ that have received little recognition so far, such as respectability, satisfaction, acceptance and shame. Some of our authors have previously engaged with these concepts. For instance, Round et al. (2011) explore the symbolics of domestic food production; similarly, Pardo (1996) surveys the role and significance of respectability. However, further work in this direction is needed for such discussion to truly become an international debate. In addition, studies on informality in former socialist spaces and studies of Islamic economic systems of banking and welfare redistribution (Cizakca, 2011, 2011b) have led to sometimes similar, or at least
complementary, conclusions that have, nonetheless, not been taken advantage of. Although not directly engaging with these practices in this book, we believe that there is significant merit in comparing the way social solidarity is lived as actual experience in Islamic countries and the way informal relations have been constructed, lived and interpreted in post-socialist spaces. While the former may be perceived as religion-incepted, they also come from a desire to pragmatically tackle social and economic issues that are inherent in a given context. The fact that these rules have come to overlap with religious principles has led to their institutionalization and normativized them to a degree that is largely unknown in former socialist spaces.

As with regard to the chapters of this book and their ‘red line’, while acknowledging the strong influence that Scott’s seminal works (1984, 1998) have had on our intellectual path to informality, we do not necessarily see informal economies or practices as a matter of resistance or a weapon of the weak. This can certainly be one of their functions, but informality is also used by better-off segments of a society to achieve their goals. The difference may lie in the level of informality, but also in its very use. Informality is a way to gain access, but access to what depends on the actors involved, on what they need and prioritize, and on their principles and values – hence the very clear link to the scholarly tradition of moral economy evident in numerous contributions.

Informality, at least in the beginning, does not make headlines. This continues until it is perceived by the authorities as something to deal with. This may happen because it becomes a potential threat to the symbolic power of the state, because it points at some direction that the authorities feel can serve to address a societal or economic problem, or because it poses a threat to the financial and economic basis of society (although this final point is a matter of debate).

In the first case, we can have people massively ignoring certain rules, which challenges a state or institutions and authorities, and needs to be addressed, even if it is apparently innocuous, because it could spread to other sectors or aspects of that state’s existence. The second case happens when an informal practice that could contrast with some policy is understood or perceived as being actually beneficial. There might be some redistributive system put in place by a neighbourhood, a village or a community, or simply by a fraction of a country’s population, that turns out to be effective in some measurable way, so that the authorities begin to replicate the model while institutionalizing and regulating it. A further, in-between situation is when an informal practice is identified
and state authorities find out, or acknowledge, that this was the response to a partially failed policy or a set of measures. Self-criticism does not often result, but can lead to a more pragmatic approach, for instance reducing bureaucratic obstacles or preferring a lower tax income to no tax income (we are thinking, among other things, of the regular decision by the Turkish authorities to regularize business that has remained in the shadow for some time). The third case is, in our view, the strongest evidence that informality may become extremely undemocratic, or even discriminatory. Negative social capital may be seen as the advantage of a community at the expense of others (Bourdieu, 1986) and is the result of using informality on a macro, in contrast to a micro, scale. Informality can be seen as a way to regulate citizens’ lives in the absence of an effective redistributory or regulating state (or an overarching institution), a situation that happens either in pre-modern and pre-state societies, or in regions, sectors and areas where the state does not penetrate for a number of reasons (Davies and Polese, 2015), or in circumstances approaching state failure, with tentative cases for that status in this book including Ukraine and Kosovo.

In a community that is sufficiently small, rules are generally known by every member, and there are conflict-solving and management mechanisms that, although not formalized, regulate the life of all community members. As the community expands, the risk of unequal or unjust treatment increases. First, if informal channels are organized along ethnic or religious lines or even sexual orientation, minorities are at higher risk of discrimination. Second, in the case of rapid change and incapacity of society to adapt to new needs, there is a risk of discrimination towards a number of people. Finally, individual welfare and societal welfare do not necessarily overlap, and one needs a ruling class, institution or elite to mediate individual needs and ambitions into collective welfare, something that a system completely ‘governed’ through informal rules does not necessarily guarantee.

Apart from these cases, informality has the power to influence, to a greater or lesser extent, most forms of governance in a state. Informal practices may be exclusive (discriminating against those who are external to the system); they are embedded in a short-term timeframe; they are effective ‘for now’; and they allow people to cope with the ineffectiveness of certain parts of a system. As such, they can be seen as transitional, temporary, transitory, destined to fade away as soon as the system addresses those failings. We share this with transitologists. But we diverge from them in our view that failings in a system are endemic. Our assumption is, thus, that a system will never be perfect; conditions
and the market change faster than a state can respond to these changes, so that ‘informality is here to stay’ (Morris and Polese, 2014a: 1).

The conclusions that we can draw about informal practices, based on the empirical material that our authors have produced for this volume, can be seen as three-fold:

Informality mechanisms are alternatives, embedded longitudinally in a particular local cultural–historical logic, and often preferred to formal ones. In the Lithuanian case, the lack of a gap between formal and informal employment pushes a substantial number of workers out of the formal employment market, meaning higher risks (lack of health insurance) and social cynicism, but higher gains and more flexibility. Štela in Bosnia follows a similar logic, as it may integrate formal mechanisms or provide extra services; the same is true in the Bulgarian case among a number of landowners. State–society relations that have recently undergone extreme stress, or which are failing, also loom large in this argument. Informality is a bellwether of challenges to mainstream political legitimation in states that continue to transition to ‘liberal democracy’. The Kosovar case in this book highlights the contradiction at the heart of informality – it is a source of social resilience during difficult periods of change, yet can serve to reinforce the very systems of domination that normalize inequality. Hence the turn to ‘negative informality’.

The second conclusion relates to negative informality and competition between formal and informal mechanisms. We do not claim that informality always benefits people. On the contrary, informality allows short-term benefit, or self-centred and networked individuals to make claims on the economy that, while benefiting one or a small number of people, damage larger portions of the community. The Bulgarian companies working against practices that serve as an obstacle to a more efficient market environment are one case. The practices of the Kyrgyz militia are another, but perhaps the most remarkable case is the rejection of informality as documented in the chapter on Estonian villages. The belief in being part of a community larger than one’s village, yet experiencing an inadequate response from the state, could be interpreted in two different directions: either a blind faith in the state that stops people from acting (‘learned helplessness’) or a political incapacity for local action. Whichever is true, this is also a case of new values (the symbolic role of the state, rejection of the past, shame and social atomization) tending to replace more community-based ones. The chapter is a timely response to arguments about informality’s capacity to assuage structural-social deprivation.
A third direction, the structural-social, is suggested by the chapters dealing directly with the public sector, in particular the health sector, and the mushrooming of informal practices within institutional settings in post-socialism. As the authors show, informality both acts structurally and is acted upon at an individual level by those engaging in informal practices. While the picture painted is one of inadequate structural or juridical reform or the continuation of institutional and legal circumstances that make informality more likely and enduring, there is a healthy scepticism that institutional mechanisms alone can be a source of meaningful change. Even in the most normative approach (the ‘elimination’ aim of the chapter on Ukrainian healthcare), there is a clear awareness that changes to ‘institutional quality’ alone are not the answer. As the chapter on Azerbaijan and Georgia indicates, causal connections between institutional change and informality are not easy to observe.

Finally, the relationship between informality and individual or group agency is also crucial. It may inhibit institutional transformation, as the chapter on the southern Caucasus implies, but also, although in a different form and modes, it contributes to the persistence of current power structures and dynamics in areas where the state does not act, as in the chapter on the Chernobyl Exclusion Zone.

All these accounts have in common the presentation of informal practices in a way that is not necessarily in contrast to, or in conflict with, formal mechanisms and institutions. They are, rather, a way to complement formal rules, and present actors acting contradictorily as both a buffer and a glue between the two. Informality, like a gas in an enclosed space, comes to occupy the space between what a state or formal institutions are and what they claim to be, diminishing pressure on the formal managers/rulers (be this a state or any other overarching entity) and suggesting alternative ways to deal with (not necessarily to solve) pressing social issues.

References


Index

Agamben, Giorgio, 17, 105, 228–9, 238
agro-industrial complexes, 177
Akaev, Askar, 272, 278
anti-corruption measures, 59, 61, 128, 139, 148, 150, 215–16, 219, 249–50
arendatori, 2, 180–90

Bakiev, Kurmanbek, 278, 282–3
blat, 1, 14, 54, 67–8, 72, 96–7, 145, 226, 277–8, 288
Bosnia, 139–50
Bourdieu, Pierre, 14, 120–2, 125, 131, 134, 145
Bulgaria, 156–7, 159–61, 168, 176–91
by-product theory of informality, 27–9
capital, 14, 120, 131, 228
criminal capital, 129–30
political capital, 129–30
social capital, 8, 87, 98, 106, 146, 159, 226, 296
symbolic capital, 74, 120, 122, 125, 131
Chernobyl disaster, 225, 227–9, 232
China, 245–63
civil society, 140, 144–6
clientelism, 58, 141, 150
collectivization, 96, 176–80, 182, 185
cooperatives, 176, 183, 189
corruption, see also anti-corruption, 19, 32, 54, 56, 59, 61, 65, 79, 90, 141, 159, 178, 200–1, 204, 212, 215, 248, 271, 273–81, 286–7
criminality, 128–9
organised, 281–5
cynicism, 72, 75
democratization, 139–40, 146–50
deserving poor, 99, 107, 109
disciplinary complex, 251, 253, 255, 261, 262
dispossession, social, 96
diverse economies, 29, 32–4, 48, 226
double bookkeeping, 126, 128–9
economic exchanges, 53
economic factors, 198
education system, 62
employment, informal self-, 30, 32, 43–5
informal employment, 27–8, 58, 64, 71, 73, 76, 297
Estonia, 96–103, 108–9
ethnicity, 143–4
EU accession, 76, 90, 187
formalization, see also residue, 11, 27, 35–42, 51, 60, 66, 117–18
gifts, 17, 36, 47, 98, 143, 176, 197–200, 208–15, 226, 230, 236, 288
globalization, 27, 160
Gluckman, Max, 176
Gratitude, 212
guanxi, 1, 145, 260, 267
Hart, Keith, 3, 101, 226
health care system, 62, 77–8, 97, 102–3, 199
in China, 246–9
private sector, 218
individualism, 98–9, 160
informalization, 28, 31, 52, 127
insecurity, social, 71–2, 87, 90
institutional reform, 13, 58, 64–5
international organisations, role of, 27, 117–18, 140, 148–50, 271, 273
inter-personal connections, see networks
involution, 100
kinship, 14–15, 54–5, 119, 155, 158, 161–2, 164, 168–70, 279
go fol, 139–40, 149–50
komšiluk, 143–4
Kosovo
historicising informality, illicitness and criminality, 127–30
informal economic practices, 117–38
Lithuania, 70–90, 202–14
living standards, 53, 75–6, 89, 206
marginalization, see social insecurity marifetluk, 141–2
modernization, 10, 66
multiple modernities, 186
neoliberalism, 19, 29, 73, 105
theory of informality, 31
nepotism, 154–5, 157–62, 164, 166–7, 169, 278, 283–4
networks, personalized, see also blat, 2, 15–16, 51, 54, 58, 65, 73, 96, 98–9, 106, 144, 146, 156–7, 175–6, 181, 184, 187–91, 233
NGOs, see also international organisations, 61–3, 96, 139, 146–7, 149–50, 271, 289
passports and ID systems, 60, 275–6
patronage, see also clientelism, 16, 141, 187, 258, 279
peasant (farmers), 176–7
Polanyi, Karl, 101, 160
policing, predatory, 285
post-socialism, see also transformation, 29, 74, 98, 104, 226, 298
post-structuralist theory of informality, see diverse economies
power relations, 14, 120–1, 262
public opinion, 182, 199, 209, 214
quasi-formal payments, 196
reciprocity, 10, 54, 58, 60, 101–3, 143, 215, 233, 280
recognition, 125–6, 130–1
‘red packet’, 245–63
residue theory of informality, 26–7
resilience and reproduction, 117, 119–20, 132–3
‘Robin Hood’ principle, 197
Scott, James, 10, 191, 295
second economy, 54, 67
shame, 14, 99–100, 103, 109, 294
small businesses, 122–32, 156–7
social care, formally mediated, 98, 102–4, 107–9
sociality, 98, 101, 104–7
social safety nets, see welfare state, 55, 60
de Soto, Hernando, 5
solidarity, 19, 70, 75, 77, 98, 109, 119, 127, 295
Soviet militia, 276
SPACE-matrix, 202
štela, 139–51
Strathern, Marilyn, 105
stratification, 99
survival strategy, 27, 29–30, 98, 231, 233
symbolic power, 120–1, 130–3
tax evasion and avoidance, 28, 38, 42–8, 70–2, 86–9, 118, 122–7, 296
transformation, post-socialist, 6, 51, 56, 61, 64–5, 175, 189
transition, see transformation
trust, 10, 61–2, 97, 109, 158–9, 178, 187–8, 190, 207

Ukraine, 27–30, 32, 35–48, 202–14
unofficial payments, 58–9

Volkov, Vadim, 280

Vruzki, 1, 15, 159, 170

Weber, Max, 9–10, 104–5, 186–7
welfare state, 55, 60, 107–10