

NIGAAR BASU

**SOCIAL AND CULTURAL  
COMPLEXITY OF  
INFORMAL PRACTICES  
VOLUME 3**



Social and Cultural  
Complexity of Informal  
Practices: Volume 3

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Nigaar Basu





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Nigaar Basu  
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## Part III

# Blurring Boundaries of Market

*The functional ambivalence of informal strategies: supportive or subversive?*

Preface

Alena Ledeneva

Part III discusses the blurring of boundaries between formal and informal economies, resulting in strategies termed ‘the system made me do it’ (Chapter 5) or ‘gaming the system’ (Chapter 6). These entries reveal the complex and often symbiotic relationship between formal constraints and informal behaviour. Survival strategies often compensate for the rigidity of state regulation, while strategies of gaming the system depend on compliance with it. The evidence presented here suggests, counterintuitively, that the informal sector is driven by regulations more than the formal is.

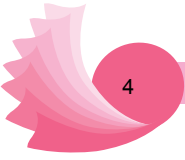
The entries in Part III illustrate the functional ambivalence of informality – supportive of participants yet viewed as subversive by observers; subversive of formal constraints (such as geographical borders, shortages, all kinds of regulations) yet also supportive of them; bending the rules yet also complying with and reinforcing them. The blurred boundary between need and greed is the key theme and an underlying principle by which the material presented here is organised: from practices aimed at bare necessities to those driven by greed, ambition and passion to challenge the constraints. Other key themes in Part III include the role of the state, the enabling power of constraints and the sources of effectiveness of informal systems emerging in response to the over-controlling centre.

Chapter 5, ‘The system made me do it: strategies of survival’, focuses on practices such as informal housing and welfare that are both subversive and supportive of political and socio-economic frameworks. In his introduction, Colin Marx outlines the puzzles of informality, challenges common assumptions, and summarises 45 years of debate over

the impact of the informal economy on growth, development, innovation, poverty and gender. The coping strategies described in the entries are often conceptualised as ‘everyday forms of resistance’ or ‘weapons of the weak’, channelling resistance to existing constraints, thereby subverting but also supporting them. But these are not necessarily the strategies only of the dispossessed, lacking more direct forms of satisfying their needs. Where does need end and greed begin? When does evasion of domination become a form of manipulation? Is it possible to distinguish between supportive and subversive aspects of ‘functionally ambivalent’ practices and measure them? In his conclusion to Chapter 5, Scott Radnitz maps for us the grey zones and offers insights into when evasion turns into manipulation, need into greed and prey into predators.

The strategies of manipulation assembled in Chapter 6, ‘Gaming the system: strategies of camouflage’, can often be seen by the participants as a forced choice, necessity or need (and therefore justified as restoring competitiveness rather than seeking competitive advantage). By outsiders, however, they are likely to be classified as bending the rules. In his introduction, Philip Hanson unmasks the dual functionality of informal practices, subversive to the system yet still supportive of formal frameworks, if only to exploit them further. From the minor forms of free-riding and under-the-radar cash practices, where rules are bent but in a socially acceptable way, the argument unfolds to embrace practices of creating fronts and façades to camouflage more serious forms of rule-bending. These include cover-ups by intermediaries (conceptualised as representative brokerage by David Jancsics), creative accounting and other forms of partial compliance, all the way up to the practices of enforcing the letter of the law in order to violate its spirit, and legislating for unfitting purpose. The latter deprives the formal/informal division of its sense: the formal law becomes an expression of informal interests.

Hanson identifies features of the Wittgenstein-inspired ‘family resemblance’ of gaming the system practices: the role of informal, sometimes illicit, intermediaries, the elements of wheeling and dealing, something requiring a certain skill, know-how and daring, and raises the question of the correspondence, or lack of it, between the values and beliefs underlying a society’s informal norms, on the one hand, and its formal institutions on the other. In his conclusion to this chapter, Gerald Mars offers an adaptation of Mary Douglas’ cultural matrix to classify ‘part-time’ crime, and links gaming the system strategies to specific work-related contexts and types of constraints shaped by informal norms and grid or group pressure. As these professional contexts are not country or



culture specific, Mars reflects on the universal methods of inquiry into sensitive subjects.

The dynamics, represented by the functional ambivalence of informal practices and the identified pattern of turning the existing constraints to one's advantage, have important implications for policy-making. Producing more and more regulation enhances the enabling power of constraints for those playing them against the system. Questioning the constraints is the common theme of Part III. It is implicit in most of the entries and explicit in the questions raised by Marx and Radnitz, who turn the tables against the wider ideological frames and systems of domination associated with market, capitalism and neoliberalism.

# Informal Housing and Welfare: Subversive and Supportive Framework

## **Introduction: the puzzles of informal economy**

Colin Marx  
UCL, UK

The concept of the informal economy covers a vast and diverse array of economic practices. It might indeed be argued that, in its widest sense, the concept becomes so vague as to be meaningless. Used in a narrower sense, however, it affords rich and clear insights into contemporary economic dynamics that create or sustain injustices and inequalities. This overview provides a brief historical sketch of the concept before considering key issues in contemporary scholarship.

The concept of informal economies began with a focus on informal *sectors*. Already present in scholarship in the 1960s (e.g. Nisbet 1967), in the early 1970s the concept began to attract serious attention from both an academic and a policy perspective. This can be dated to the publication of Keith Hart's work on underemployed rural migrants in Nima (an area in the Ghanaian capital, Accra), and of a policy study of Kenya's economy by the International Labour Organisation (International Labour Organisation 1972; Hart 1973). Ray Bromley attributed this burgeoning interest to three causes: the time and place in which the concept was introduced in relation to other key developmental debates; its institutional adoption by international agencies such as the International Labour Organisation; and its political appeal to elites since it provided a way of 'helping the poor without any major threat to the rich' (Bromley 1978: 1036).

The concept also has regional histories. It is evident that there are different traditions across Latin America, the Middle East and North Africa, sub-Saharan Africa, Asia and Europe/Eurasia (Portes et al. 1991;



Roy and AlSayyad 2004; Varley 2013b). To some extent, these histories are a consequence of the dominance of different economic regimes in different regions with different intellectual traditions. One example is the dominance of the economic dependency paradigm in Latin America, while in Europe/Eurasia socialism had a profound effect on economic activities. Consequently, it is hazardous to inscribe a single historical trajectory on debates. This diversity of intellectual trajectories notwithstanding, criticism of the concept of an informal sector, on the grounds that it was too vague, had by the 1990s grown to such an extent that it became clear that the notion of 'informal economy' offered a better grasp of the dynamics at play.

The concept's continued success has been attributed to its vagueness. Elaborating on an argument first made by Lisa Peattie (1987), it is possible to ascribe the success of the 'informal economy' to its ability to allow diverse groups to address key gaps in development thinking without actually addressing what it is that constitutes the gap.

Throughout the history of the concept of informal economy, the problems of working with binaries have provoked animated discussion. Cathy Rakowski (1994) notes that scholars have continued to work with the concept even while accepting its limitations. In order to get away from binaries, attempts have been made to think of informality (more generally) as a mode of operation (AlSayyad and Roy 2004); to see the reality as more messy and less clear-cut than binary thinking would suggest (Roy 2009); or to argue for approaches that work on the 'principle of difference in practice rather than principle' (Varley 2013a).

While dualities have plagued the precision of scholarship, state-policy actors have been much more willing to work with starker categories. Many states and international agencies have consistently implemented some of the most problematic features associated with the concept. As identified by Ray Bromley in 1978, these are: that the classification and accounting processes are often flawed; that the formal and informal are seen as separate rather than interdependent; that blanket policy prescriptions are applied to extremely diverse economic activities; that informality is seen as an exclusively urban phenomenon; that the informal economy has a present but no future; that economic activity is confused with places, so that entire neighbourhoods are described as informal; and that informality and poverty are seen as one and the same. The consequences have often been severe for poor people as states have sought (often violently) to harass, remove or eradicate what are considered to be informal activities (Bryceson and Potts 2006; Potts 2006, 2008; Ndezi 2009; Lyons et al. 2014).

In more progressive instances, the ‘solution’ to economic informality (as practised by the poor) is to convert these activities into formal ones. The key work straddling this academic/policy interface is that of Hernando de Soto (1989, 2001). De Soto and his colleagues at the Lima-based Institute for Liberty and Democracy have argued for the need to formalise informal property rights in order to allow the value of informal rights and resources to be recognised in wider capitalist economies. Among the many critiques of this position, a key argument is that this approach ignores the fact that many people already have rights to resources that are in danger of being lost should they be formalised.

The concept of the informal economy is generally recognised as a means of analysing a set of practices that are hidden – either by their nature or because researchers lack the analytical precision to grasp them. Quite what is revealed through analysis, and how, often requires rigorous ethical consideration. Related to this, however, is a recognition that, if the informal economy is considered as hidden and subordinate to broader economy dynamics, what can be contributed to economic theory is limited. That is, if the informal economy in the global South is the ‘other’ on which the propulsive, dynamic, productive, advanced economies depend and theorisations of the informal economy do not challenge this, then the power of the concept of informal economy will always be curtailed.

There are a number of interrelated ways to try to address these problems. One has been to argue for a need to avoid both working with a universalised view of capitalist relations (that is, interpreting events and processes as functional or caused by capitalism) while avoiding the specificity of local forms of economic arrangement that suggest practices are simply a local particularity (Guyer 2004). Another, from Milton Santos (1975) onwards, has been to argue for a single economy that is composed of different parts, logics, circuits and/or activities. This is better to appreciate the interrelations between different economic activities. In this view, it is clear that informal economies are important in constituting and mediating multiple registers of value. They play important roles in circulating money, goods and people on which both the economies and the people depend. They can accelerate or slow down circulations and such processes can profoundly affect the performance of the ‘formal measured economy’.

Finally, it is accepted that the informal economy is highly gendered. All too often, gender determines who gets access to the most profitable resources and enterprises and who, as a result, will have the worst. This points to the deep entanglement of gender with economic dynamics and means that, almost always, analyses must take gender into account.

Many of the initial questions that animated debates in the 1970s remain relevant today. For example, what is the potential of the informal economy to contribute to growth, employment or innovation? Arguably, scholarship continues to work within many of the initial limitations created through the use of dichotomous thinking. The current state of the art provides important pointers for disentangling informal economies from a severely curtailed analysis that is situated in relation to capitalism and neoliberalism. However, there is still some way to go.

## Informal dwelling

### 5.1 *Squatting*

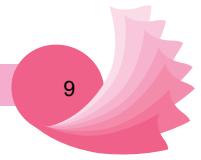
Jovana Dikovic

University of Zurich, Switzerland

Squatting is mostly an urban phenomenon. The term generally refers to informal housing whereby, for a variety of existential, legal, political and ideological reasons, people settle on vacant land or occupy abandoned buildings, both private and public. People who squat possess no legal title to land or building, pay no rent for the respective property and live there without any formal entitlement.

Alternative names, though not always with exactly the same meaning, are in use for squats. These are: informal settlements, spontaneous settlements, slums, shantytowns, favelas, ghettos and social housing. The numerous synonyms for someone who squats, i.e. a squatter, indicate the complexity of the phenomenon, its spread and a wide range of perceptions. The most common include: informal settler, illegal tenant, invader, thief, beatnik, homesteader and so on. It is estimated that approximately a quarter of the world's urban population lives in slums, with over 863 million slum dwellers in developing countries (UN-Habitat 2012–13). Squatting is considered to be a universal phenomenon. Widely known squatter communities include favelas in Rio de Janeiro, Neza-Chalco-Itza in Mexico City, Kibera in Nairobi, Shanyrak in Almaty, squatters around Metro Manila, Israeli squatters on Palestinian land in the West Bank, Christiania in Copenhagen and Rote Flora in Hamburg.

In urban areas, rapid growth of squats is to a large extent associated with intensified industrialisation in the world. Many poor migrants from villages move to cities seeking jobs and opportunities. As the size of the low-skilled, cheap labour force grows, the demand for affordable accommodation increases accordingly. Shortages of legal accommodation forces people to seek alternative housing solutions and pushes them



to the outskirts of cities, usually leading to the extension of existing settlements or the formation of new ones. Since large numbers of newcomers cannot meet the demanding financial and legal criteria for building permission, they start to illegally squat on private or public vacant land in order to build rudimentary shelter. For this reason, the developing world is faced with the growing conversion of rural land to urban use in city peripheries. As a consequence, reclassification of settlements from 'rural' to 'urban' has become one of the most significant determinants of urban population growth and expansion in the developing world today according to the UN-Habitat (2012–13: 30). Over time these new settlements become organised, vibrant and self-sustained communities, with diverse local economic and subcultural life. As one UN-Habitat expert said, 'Just as slums and slum dwellers need cities to survive, so do cities need slums to thrive' (Mumtaz 2001: 20). Nevertheless, city officials and property developers are not always benevolent towards squatter settlements and usually do not perceive them in such a positive way. That is the reason why squatter settlements all over the world continuously run battles against city administration and face threats of evictions and demolition of their settlements.

Although practices of squatting sporadically occurred in the past, the first big wave of squats emerged in developing countries and Western urban districts during the late 1960s and early 1970s. The second wave began in the 1980s in The Netherlands and from there spread further to Switzerland, Germany, Denmark and other Western countries (Mikkelsen and Karpantschov 2001; see *Schwarzwohnen*, 5.2 in this volume) (see Figure 5.1.1). The growing and omnipresent practices of squatting since the 1980s have led many authors to identify them as a new urban movement (Pruijt 2003; Martinez 2007). The main characteristics of these movements are: illegality, in the sense that they violate private property rights; the subcultural character, displayed through symbols, messages, dress code and lifestyle; their association with youth; and organisational strength, as these social and political movements are well coordinated on local and international levels (see Martinez 2013: 866–7). Such tight interconnectedness, international cooperation and transnational coordination is impressive and becoming increasingly formalised. For example, an international squatter movements conference 'European Squatting Meeting' was held in Barcelona in June 2010 in order to discuss such burning problems of squatter movements as evictions, development of negotiating capacity in dealing with governments, and prospective options for institutionalisation of their position.



**Figure 5.1.1** Zurich Altstetten quarter.  
Source: Author. © Jovana Dikovic.

Depending on the context, squatting can be perceived either as a crisis resolution or as a proactive strategy, or both in some cases. Five categories of squatting can be distinguished: (1) deprivation based squatting – when people squat in order to avoid homelessness; (2) squatting as an alternative housing strategy – a temporary housing solution when people face a lack of housing opportunities or cannot afford them; (3) entrepreneurial squatting – when people want to revive a particular urban district or building through different entrepreneurial services such as bars, clubs, factories, etc.; (4) conservational squatting – when the main aim is restoration and preservation of an old building or quart that is neglected by city officials; (5) political squatting – when direct action such as occupation of the building aims to transmit and address certain political and social messages (Prujit 2012). The latter includes diverse political activities such as protesting, political campaigning, networking workshops and engagement in various environmental issues locally or globally.

It can be argued that squatter movements all over the world share some common political ground. Many authors place them on the radical

left or left-libertarian, depending on the nature of their radicalism and opposition against the local or state government. Squatter movements challenge worldwide capitalism and neoliberal political agendas, with particular focus on the problems of house shortages, expensive housing, speculation on the property market and corruption in government administration. One of the main concerns of these movements is the gentrification of urban spaces, which they believe adversely affects the middle and lower classes and pushes them to the margins of urban spaces. According to this view, areas previously inhabited by lower social strata tend to become extremely expensive and practically unaffordable for them after rebuilding, thus accommodating only the needs of the wealthy. Even more fundamental for the squatter movement is undermining the idea that private property rights are absolute, which is viewed as central to major inequalities and injustices.

Given their prevailing characteristics, such as independence from the existing political, social and cultural establishment, anti-authoritarianism, emphasis on direct action as a means of political protest and autonomous lifestyles, squatter movements evoke strong, and often conflicting, reactions in society. Some perceive them as thieves, due to the fact that squatters violate someone's private property rights, or prevent someone from accessing their private asset. For others, squatters are pioneers in enabling social housing, in highlighting inequalities in society and in fighting for social justice.

Such duality in perceptions perhaps reflects the duality in the nature of squatting practices. These practices dwell on the important distinction made between the possessor and the owner of land – these roles are not as identical as could be assumed by the property rights. The time factor as well as active use of certain property can work in favour of an illegal possessor and to the detriment of the legal owner, or vice versa, depending on the legal system (civil code-based European or Anglo-Saxon common law). In other words, the time someone has spent in a certain property, or the activity someone has engaged in to keep the asset active, can be recognised as a legal basis for claiming certain rights over it (Jansen 2012: 158–65). These are the most common grounds used for launching legal claims over specific assets. Legal battles are essential for legal recognition and institutionalisation – the problems that both squatting communities and squatter movements share. *Inactivity* of an owner over certain property may open the way for another person to undertake an informal, or *active*, possession of the property in question. An owner's inactivity over property lends itself to informality and breeds different interpretations of property rights and, most importantly, their

relativisation. In this context, squatting appears as an informal sanction for the inactive ownership.

There are three possible legal outcomes in the disputes over squatted property. The first envisages the possibility for an illegal possessor (squatter) to acquire ownership due to his/her active usage of certain property. The second provides an illegal possessor (squatter) with some protection, resulting from the fact that the owner loses his claim to recover immediate ownership. The third outcome does not recognise any of the squatter claims (Jansen 2012: 153). The legal disregard of squatter claims normally leads to the eviction or demolition of squatter settlements.

Interestingly, the first two legal solutions rely on Roman law, which had provisions for accommodating the interests of squatters. This shows that the practice of squatting had been known since ancient times, unlike the organised political and social movements that have emerged since the 1980s in response to the problems of modern civilisation. Thus, squatting represents probably one of the oldest informal practices that has evolved in conjunction with the institution of property rights, and one of the most universal, driven by a belief in a fundamental human right to shelter and life.

## 5.2 *Schwarzwohnen* (GDR)

Udo Grashoff

UCL, UK

*Schwarzwohnen* referred to illegal flat occupation in the German Democratic Republic. The literal meaning is 'black (i.e. illegal) living'. The term denoted the undermining of the state allocation of housing by unsanctioned occupation, and thus effectively meant 'squatting' in the context of the East German communist regime.

A small minority of flat occupants rejected the term *Schwarzwohnen* because of the similar term *Schwarzfahren*, which means fare dodging on public transport. Nevertheless, *Schwarzwohnen* was widely used in the GDR by *Schwarzwohner* (those illegally occupying the accommodation) and administration staff as well (Grashoff 2011a). Besides *Schwarzwohnen*, other denominations were 'living in teardown' (*Leben im Abriss*) and 'flat occupation' (*Wohnungsbesetzung*). The latter term predominated in East Berlin, probably due to the proximity to the squatter movement (*Hausbesetzerbewegung*) in West Berlin. Also, in some parts of the GDR the term 'maintenance habitation' (*Erhaltungswohnen*) was in use.



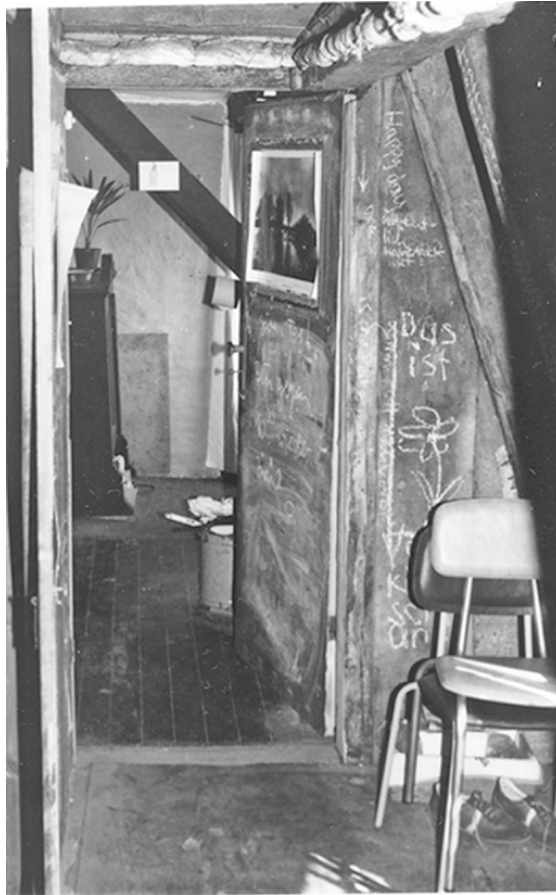
Despite the fact that *Schwarzwohnen* emerged at about the same time as the squatting movement in Western European countries such as Netherlands, Denmark and West Germany (1960s/early 1970s) (Squatting Europe Kollektive 2013), there were significant differences between the two concepts. *Schwarzwohnen* was closely linked to the forced administration of habitation in the post-war period (although a precursory term, *Schwarzmieter*, can be traced back to the first years of Weimar Republic (Fuehrer 1995)). From the 1950s the post-war emergency measure of forced administration of flats became permanent in the GDR (*Wohnraumlenkungsverordnung* 1955 and 1967).

Living in a flat without state permission was considered an administrative offence in the GDR, because the state claimed the right to entirely determine the allocation of flats. In contrast, most *Schwarzwohner* had no sense of guilt in view of the inefficiency of the housing administration. From the late 1960s, the phenomenon of *Schwarzwohnen* could be observed in several East German towns with more than 100,000 inhabitants such as Berlin, Dresden, Halle, Jena, Leipzig, Rostock and Schwerin (see Figure 5.2.1). The vacancy of flats was a consequence of the GDR's extensive house-building programme. While new districts were built at the periphery, many town centres were left to decay. *Schwarzwohnen* occurred almost exclusively in older buildings. The living conditions in run-down flats under the roof or in the basement were poor. Students who lived 'in teardown' sometimes compared their situation to living in a shantytown. Single young people in particular had almost no chance of being allocated a flat. A large number of young Christians and students practised *Schwarzwohnen*, but it was not limited to the youth. Divorced wives (including the future German chancellor Angela Merkel), shift workers, families with children and even pensioners illegally occupied flats as well.

In contrast with squatters in Western Europe, in most cases *Schwarzwohnen* was not carried out as a collective but an individual action. The main concern was to live in one's own four walls. *Schwarzwohnen* was a tacit practice. Attaching a banner at the façade would have caused the immediate end of the illegal housing. As long as the dictatorship was intact, there were no public campaigns, no squatter organisations or informal networks. Most of the occupations were not politically motivated either.

Nevertheless, *Schwarzwohnen* provided a niche for the cultural opposition. Literary clubs, illegal art exhibitions, rehearsals of Punk and New Wave bands, parties and gatherings of opposition groups (foundation of the green network 'Arche', for instance) took place here. Moreover, in the last two years of the GDR's existence, illegal cafés and bars were opened in illegally occupied flats.





**Figure 5.2.1** An occupied flat in Rostock in the 1980s.

Source: Udo Grashoff. © Cornelia Ogilvie.

As flats in the GDR were cheap, *Schwarzwohnen* was not a means of saving money. Indeed, most of the *Schwarzwohner* paid rent, often anonymously. In private houses there was often an informal agreement with the owner. After some time had passed, many *Schwarzwohner* would try to obtain legal residency for the flat they occupied. Chances to obtain permission to stay in the occupied flat were reasonable. Random samples range from 50 to 86 per cent (Grashoff 2011a). Even though *Schwarzwohnen* was punishable by moderate fines, the state administration was limited in its power by the civil code, which allowed evictions only when other living space was available to the occupant. In addition, sometimes putting cases of *Schwarzwohnen* on an official footing was

actually in the authorities' interests. The run-down flats could hardly be allocated officially, and the government lacked the means to refurbish them due to the shortage economy. In such cases, legalisation could not only solve a housing problem but also enable provisional repair to take place at no charge to the state. At the same time, several *Schwarzwohner* experienced the apparent neglect as a chance to assume responsibility for the dwelling.

*Schwarzwohnen* can be quantified only partly. For the East German capital it is possible to calculate the number of illegal flat occupiers due to occasional state checks. In the late 1970s and in the 1980s, a total number of several thousand *Wohnungsbesetzer* in East Berlin is realistic. In the Prenzlauer Berg district alone there were 1,270 unofficially occupied flats in 1987. According to another statistic from Rostock the number of *Schwarzwohner* totalled 700 at the beginning of 1990 (Grashoff 2011a).

Due to the unofficial character of *Schwarzwohnen*, oral history is the most effective method for researching this practice (Felsmann and Groeschner 2012; Grashoff 2011a, 2011b). With regard to official sources, the files of the communal housing administration are the most revealing. These files document grievances of the persons concerned, impositions of fines and decisions about the further occupation of the flats. In contrast, the Ministry of State Security was rather indifferent.

The mere fact that *Schwarzwohnen* was possible to some extent highlights the scope for action within grey zones of authority, and the feasibility of compromises between the state and society in the East German dictatorship. The experience of a weak administration encouraged many *Schwarzwohner* to subvert the state's claim to power in other areas as well, and it is no coincidence that many of them played an active role during the 1989 'peaceful revolution' (Rink 2000).

### 5.3 **Kraken** (The Netherlands)

Hans Pruijt

Erasmus Universiteit Rotterdam, The Netherlands

*Kraken* is a Dutch word that indicates living in – or using otherwise – a dwelling without the consent of the owner. People involved in *kraken* (*krakers*) take buildings with the intention of relatively long-term use. *Kraken* is organised or at least supported and/or inspired by a social movement. The common English translation is 'squatting'. This translation is somewhat problematic, because the term squatting also covers a

short-term use of buildings, for example, as crash pads. The notion of relatively long-term use, that is part of the concept of *kraken*, implies that *krakers* make necessary repairs and invest in basic amenities.

From 1963, the practice of *kraken* became more and more established. It was fuelled by an increasing supply of empty houses as an effect of planned large-scale urban transformation. The terms *kraken* and *krakers* came in use in 1969, when an Amsterdam-based group that identified itself as 'Woningbureau (Housing Bureau) de Kraker', published a squatting manual (*kraakhandleiding*). The verb *kraken* means to crack. 'Krakers' originally referred to criminals who specialise in cracking vaults. The manual emphasised the respectability aspect of *kraken*: 'Furnish your home as quickly as possible. Invite your neighbours to come over for coffee ... Clean your windows, paint window frames and exterior doors, enter into a dialogue with the neighbours' (Duivenvoorden 2000: 32).

While remaining a highly controversial issue, *kraken* came to enjoy some legitimacy and support. Polls show that a large minority of the Dutch population supported *kraken*, while a majority of Amsterdam's population was in favour of it (Pruijt 2013). Compared to squatting in other countries, the level of acceptance of *kraken* – as at least a reasonable if not beneficial and exciting way to make use of unused space – and concomitantly a willingness on the part of the *krakers* to talk to the authorities, may be a special feature. The custom developed that once the *krakers* had a bed, table and chair in the house, and had replaced the front door lock, the police were not supposed to intervene. For the casual observer, the generally relaxed nature of the practice can easily be obscured by the spectacular eviction-related violent confrontations with the police that also occurred, especially during the early 1980s. However, if compared to the hundreds of buildings that were either voluntarily given up or legalised (around 200 buildings in Amsterdam were legalised), the confrontations were exceptions.

Around 1970, *kraken*, promoted by the anarchist/hippie *Kabouters* (gnome) movement, spread across the country and into all possible types of real estate. Support groups appeared that operated advisory services (*kraakspreekuren*). Social centres and squatters' bars (*kraakcafé's*) served as meeting points in a nationwide network. There were newsletters, special radio stations and regular meetings on the neighbourhood, city and national levels.

According to a study done by mobilising the network of local *krakers* for the data collection, Amsterdam housed around 9,000 squatters (Van der Raad 1981). Duivenvoorden (2000) estimated that in the

Netherlands as a whole, between 1965 and 1999, 50,000 people lived as *krakers* at one time or another. After the 1980s, numbers declined because changes in the law made it easier for owners to obtain an eviction, and above all because of the increased use of ‘*anti-krak*’ occupants. *Anti-krak* occupants are basically tenants who are denied tenant’s rights, and serve as security guards.

Practices similar to *kraken* exist in all Western nations. To some extent these practices are interconnected as result of international mobility and the sharing of information and ideas. The logo of the international squatter’s movement, a circle crossed by a lightning-shaped arrow, originated in the Netherlands. The first version of the logo appeared in 1979, in *Kraakkrant* (squatter’s paper) no. 28.

A large percentage of squatting actions (*kraakacties* – in Amsterdam more than 50 per cent, Van der Raad 1981: 37) took place in working-class neighbourhoods located around the city centres. This involved buildings that had become empty because of the planned construction of new social housing. With very few exceptions, *krakers* in these areas left voluntarily without protest in time for the scheduled demolition and construction work to start. This is because they approved of this specific type of urban renewal dubbed ‘building for the neighbourhood’.

In many other cases, *krakers* wanted control over building or land use, for example, in Amsterdam’s Nieuwmarkt neighbourhood in the early 1970s where activists attempted to block subway and urban highway construction. Often, *krakers* obstructed the plans of property speculators. This led to highly contested evictions, but also to legalisation of occupations. Such dynamics have had a long-term effect, with more low- or moderate-income people living individually or communally in expensive locations. In addition, various projects that combine housing, artists’ workspaces and venues for alternative culture, such as the Poortgebouw in Rotterdam, owe their existence to the movement (Breek and de Graad 2001; Kaulingfreks et al. 2009).

#### 5.4 ***Allegados*** (Chile)

Ignacia Ossul

Development Planning Unit, Bartlett Faculty,  
UCL, UK

The term *allegado* (literally: ‘close’, ‘near’ or ‘related’) is used in Chile to refer to poor families or individuals who live in the homes of their relatives. *Allegados* usually do not pay rent, but make small contributions towards household utilities and other expenses. Some 75 per cent of *allegados*

affirm that they live in this way for economic reasons (MIDEPLAN 2013). Typically, they occupy a single room in their relatives' house, though they may also live in a larger part of the house. In this respect, *allegados* differ from South Africa's *backyarders*, who build a shack in the backyard of a shared plot (Gilbert and Crankshaw 1999).

In countries where the poor cannot access housing through alternative practices such as informal settlements, renting or sharing existing housing stock becomes the only way to access accommodation. This is particularly the case in big cities where land is scarce (UN-Habitat 2003). Gilbert (2014) points out that, contrary to general assumptions, most informal dwellers in developing countries do not live in their own accommodation (that is, in informal settlements) but rather rent or share accommodation. Relatively little attention has been paid to this phenomenon because of its 'invisibility'. It is only in recent years that the authorities, academics and policy makers have begun to recognise the prevalence of this practice.

*Allegados* became a significant feature of Chile's housing scene following the social-housing projects launched by the military regime of 1973–90. These were large-scale projects, constructed mainly by the private sector but financed by the Ministry of Housing, usually on the outskirts of cities. While the mass construction of housing helped to reduce the housing deficit, its poor design, location and social conditions had a negative impact on people's quality of life (Rodríguez and Sugranyes, 2004). As a result, many young adults preferred to set up home in their relatives' houses rather than apply for a housing subsidy. While doing research in Chile, Collins and Lear (1995: 156) observed *allegados* and described the phenomenon as follows:

The simple houses of the *poblaciones* [poor neighbourhoods] often are home to two to four extra families. These *allegado* (drop-in) families, often adult children of the owner of the house, live with their spouses and children one family to a bedroom, often three children to a bed. Within four walls they try to create a nuclear family life, each family usually with its own TV and separate paraffin or gas stove.

Every two years, Chile's Ministry of Social Development carries out a survey of households' economic conditions. More than half of the country's total housing deficit is accounted for by people living as *allegados*, while the rest are people living in poor housing conditions or informal settlements. *Allegados* are classified as 'external' or 'internal'. External *allegados* are two or more families living in the same house or site but



**Figure 5.4.1** In the Municipality of San Joaquín, Metropolitan Region (Chile) there are 44,079 inhabitants that live as *allegados*. They have organised into 29 different Housing Committees to apply collectively to social housing, nevertheless due to scarce land in the area and long housing waiting lists only a few have managed to secure land and acquired social housing. The rest wait as *allegados*, sharing a reduced space with their host family and dreaming of owning their own house.

Source: <http://chilerecupera.net/>. © Verónica Francés.

with separate budgets, while internal *allegados* are two or more families sharing a single budget (e.g. a daughter who lives with her partner and their child in her parents' house and off her parents' income). The number of *allegados* is calculated by the ratio between the number of families and houses (external *allegados*), or the ratio between nuclear families and the main family (internal *allegados*) (MIDEPLAN 2013).

Chile's *allegados* differ from house sharers in other parts of the world in several important ways. Whereas informal residents in Peru, Venezuela and Mexico have been able to settle on land on the outskirts of the big cities, in Chile such land occupation fell drastically under the military regime because of violence towards illegal occupants. In circumstances where occupying land on the edge of the city became more difficult, renting and sharing inside the city became more common.

The situation in Chile also differs from that in countries where there is high migration from the countryside into the towns. In such cases, it is common for rural migrants to seek temporary accommodation in the city, often sharing with another family for a short period until they can find a permanent home. In the case of Chile, however, most *allegados* are city-born and can stay in this type of arrangement for several years (UN-Habitat 2003).

Another key distinction between Chile and other countries is that in Chile the occupants of a house, both host family and *allegados*, all tend to be members of a single extended family. It is, for example, common for young couples or single mothers to return to or remain in their parents' houses. This reflects the fact that the family acts as a key social network in Chilean society, especially for poor communities.

Many *allegados* see this as a semi-permanent arrangement (Arriagada et al. 1999) with as many as 65 per cent stating that they are not looking for another solution in the near future (MIDEPLAN 2013). However, it is important to note that often both *allegados* and their host families find the arrangement far from ideal. This apparent contradiction reflects the complexity of the situation. The cramped nature of the space occupied by the family members creates potential sources of tension such as the threat of sexual assault or the discomfort of limited space in which to carry out daily activities. As a result, the practice can carry high psychological costs. Where possible, therefore, people who have lived as *allegados* (usually when they were starting a family of their own) try to move out of the family home to unoccupied land. However, most of them stay as *allegados*.

*Allegados* have been a key factor in Chilean housing policy since the military regime ended in 1990. Since then, *allegados* have fought to be recognised in state assessments of the national housing deficit – they refer to themselves as ‘the biggest invisible settlement in the country’ – and their plight has prompted some housing policy reforms. An emblematic case was that of the *Toma de Peñalolen* housing movement (*toma*, meaning ‘take’, refers here to the illegal seizure of land). In the 1990s, when the housing problem was supposed to have been resolved, 1,800 *allegado* families seized private land in Santiago and created an informal settlement, claiming the right to remain in the area and not to be pushed out of the city (Castillo 2010). Thanks to its highly organised leadership, clear demands and at times radical collective action, *Toma de Peñalolen* had a strong influence on housing policy. In 2006, a location subsidy was introduced, providing additional funding on top of the existing housing-subsidy scheme in order to allow the building of social housing in more desirably located land.



Scholars and *allegados* movements alike recognise the practice of *allegados* not only as a response to the shortage of housing but also as a manifestation of poverty more generally. As a coping strategy, sharing accommodation helps people to deal not only with homelessness but also with other vulnerabilities such as limited childcare, access to jobs in the city or alternatives for domestic abuse victims. In this sense, a better examination of *allegados* introduces new elements enabling us to better understand the relationship between housing and vulnerability. *Allegados* movements are accordingly campaigning to be recognised as a symbol of inequality and to highlight the social and political significance of the housing deficit and of poverty more widely.

### 5.5 *Favela* (Brazil)

Marta-Laura Suska

Department of Anthropology, University of Wisconsin-Madison, USA

*Favela* is the name given to informal settlements in Brazil, typically located in urban areas. The official definition of *favela* by the Brazilian Institute of Geography and Statistics (IBGE) in collaboration with the United Nations (UN) is 'subnormal agglomeration' (IBGE 2011). It describes a community of at least 51 units illegally occupying public or private land in a 'disorderly and dense manner'. The settlement is characterised by lacking a property title and displays at least one of following: irregular infrastructure and streets; lack of basic services such as clean drinking water, sewage, electricity, refuse collection; and insecurity. The IBGE uses *favela* interchangeably with the English term 'slum'. The latest census of 2010 reported that approximately 11.4 million Brazilians, about 6 per cent of the Brazilian population, lived in *favelas*.

*Favelas* emerged due to many factors, but the most important reasons were slavery and urban migration. From the mid-sixteenth century Brazil imported millions of slaves from Africa and when slavery was finally abolished in 1888, most freed slaves no longer had accommodation and enjoyed only limited rights. They built houses in less desired areas, such as on hilltops, near swamps and in the suburbs. More recently, the growth of *favelas* was fuelled by massive domestic migration of people looking for work (especially from the northeast of Brazil), who were not able to afford housing, so they built their own. A feature of all *favelas* is that houses are in a continuous state of transformation and expansion. New rooms are being added or enlarged; roofs converted into second or third floors; and terraces built on top of homes (Riveira 2012). This



alteration and production of space are what James Holston described as an act of ‘insurgent citizenship’ (Holston 2009).

*Favelas* can be found in the centre and peripheries of Brazilian cities, on hills and on flatlands. Some slums are fairly recent, others, like the Morro da Providência in Rio de Janeiro are over a hundred years old. *Favelas* vary greatly in size, population, political structure and layout. The largest *favela* with approximately 200,000 inhabitants (governmental and non-governmental organisation (NGO) data varies significantly) is arguably Roçinha in Rio. Over decades of improvisation, many *favelas* developed into self-sufficient economies – with their own supermarkets, bars, beauty salons and rules. Because there was no formal government presence the residents developed their own justice system, infrastructure, water and electricity supply. Roçinha and many other *favelas* became ‘cities within the city’.

Preparations for the 2014 World Cup and 2016 Summer Olympics have seen city governments throughout Brazil investing billions of dollars in ‘slum-upgrading’ projects that seek to redesign and integrate *favelas* into the city. *Favela* residents, however, are often resistant to such attempts, fearing that the benefits are only temporary and that they will lose their independence once international attention has ceased. However rudimentary and limited, *favela* residents generally have access to education and health care, and are often recipients of social programmes such as *Bolsa Família*, a conditional cash-transfer programme that makes grants available to low-income households providing that they send their children to school and have regular medical check-ups.

Many residents use the terms *favela* and *comunidade* (community) interchangeably because *comunidade* is supposedly a less derogatory term. However, critics point out that the term *comunidade* makes the false assumption that *favelas* are homogenous communities where the residents have close and friendly relationships with each other. In reality, most *favelas* host thousands of people who often do not know each other, nor trust each other any more than people in other neighbourhoods. In Rio de Janeiro, *favelas* are also known as ‘hills’ (*morros*), because *favelas* in the city centre are located on hill tops.

The concept of *favela* cannot be fully understood without discussing the social inequality in Brazil. Brazilian philosopher Marilena Chauí wrote that Brazil’s is a ‘verticalised and hierarchised’ society ‘in which social relations are always realized either in the form of complicity (when the social subject recognizes each other as equals) or in the form of orders and obedience between a superior and an inferior’ (quoted in Kingston and Power 2000). Thus, the idea of ‘equality of rights and the juridical

equality of citizens' does not exist (quoted in Kingstone and Power 2000: 221). Anthropologist Roberto da Matta reaches a similar conclusion; he argues that the cordiality and conviviality that often impress tourists also produce personal exceptions to every rule, the so called *jeitinho* (Da Matta 1997; see also 1.2 Volume 1). Different rules are expected for different layers of society and laws are not enforced universally, but internally, among peers.

In Rio de Janeiro, youth from wealthy neighbourhoods regularly enter *favelas* to attend the (in)famous *Baile Funk* – a specific music and party scene (Figure 5.5.1). In recent years, *favela* tourism has also become a popular business. However, in cities in the northeast, upper-class members or tourists would rarely be seen entering a *favela*. Here the communities are much more segregated from the rest of society, as well as being much poorer and the *favelas* are less visually appealing than in the south.

The image of *favelas* remains predominantly associated with Rio de Janeiro, but it is not a representative image for *favelas* in other cities in Brazil. The public perception of *favelas* is distorted by the imagery offered by the arts and media, who paint a homogenous picture of *favelas* and obscure the realities of the life within. *Favelas* need to be disaggregated



**Figure 5.5.1** The favela 'Morro da Coroa' in Rio de Janeiro, 2009.  
Source: Author. © Marta-Laura Suska, 2009.

into specifics of geography, demography, cultural characteristics and institutions. While Rio's *morros* have become emblematic regarding image, violence, music and arts, in other regions security, leisure and opportunities are experienced in a vastly different manner. Thus the term '*favela*' may not be as uniformly Brazilian as it seems.

A study jointly published by WHO, the United Nations Development Programme and the United Nations Office on Drugs and Crime, based on global data from 2012, the most recent year available, showed that Brazil had the highest number of homicides in the world. The nation's death toll was more than 64,000 in 2012 (UN Report 2014). The characteristics of violence differ drastically from region to region, however, victims (and perpetrators) are the same: overwhelmingly young, dark-skinned men from *favelas*.

In Rio de Janeiro and São Paulo drug gangs are highly organised and have significant influence over the police and local politics. Local drug lords will contribute to their *favela*'s infrastructure and help residents; they will also declare laws unilaterally and punish any wrongdoing. In other regions, however, drug gangs are not as well organised, with the result that they contribute less to the community overall.

In many cities, but especially in Rio and São Paulo, heavily armed drug traffickers rule regions inside the city and security crackdowns have culminated in police raids on the sprawling *favelas*. The resulting gun battles have killed scores of innocents. Anthropologist Ben Penglase observed how by accusing each other of being the source of arbitrary violence, the police and traffickers depend on each other to justify and to produce their own competing strategies for 'order' and 'security' (Penglase 2009). Drug traffickers and the police contribute to the creation and the perpetration of a 'state of emergency' (Agamben 2005) in which no 'normal' rules can apply.

Due to the public's heightened fear of crime a profound urban segregation developed (Perlman 2010). Those citizens who could afford it retreated from public space into enclaves with private security systems and bulletproof windows. The poor citizens' only option for security, however, was to turn to the drug traffickers, who secured their territories against the state with weapons. The ensuing 'spectacular violence' when police invaded *favelas* in urban tanks to counter shirtless drug traffickers using warfare weaponry was seized upon by the media who adopted the motif for books and movie productions. As Erika Robb Larkins argues, the practice of *favela* tourism is also a commodification of the *favela* and becomes a form of violence itself. *Favela* violence is transformed into a commercially viable by-product of a profit-driven war on drugs, which

serves to keep the poor marginalised and creates the ‘spectacular *favela*’ (Robb Larkins 2015).

Several public safety initiatives have emerged to address the alarming murder rates. The Pacification Police Unit (*Unidade de Polícia Pacificadora* UPP) in Rio de Janeiro, in particular, stands out for its approach to ‘pacify’ *favelas*. It is a military takeover of territories ruled by armed drug gangs and the installation of a permanent police presence, with the intent that the provision of social services and improvements to infrastructure will follow. Initially, the UPP achieved a vast decrease in violence but soon it faced vulnerabilities due to political volatility, financial cuts and historical distrust towards the police. Brazilian police remain among the most lethal in the world, annually killing thousands of civilians with impunity. Shoot-to-kill policies and death squad activities can be directly linked to a lack of political will and implicit public support of such practices. As a result, certain divisions of the military police have continued to ‘clean up’ *favelas* by killing drug traffickers and their families without facing legal charges. Their actions are deemed ‘illegal but not illegitimate’ (Cívico 2012: 79); human rights and public security have developed into seemingly conflicting priorities.

### 5.6 **Campamento** (Chile)

Armando Caroca Fernandez  
Universidad Católica de Chile

The official definition of *campamento*, as used by the Chilean Ministry of Housing and Urban Planning (Ministerio de Vivienda y Urbanismo (MINVU)) is of ‘settlements, usually found in urban areas, of more than eight families living on an irregular land tenure, lacking at least one of the three basic services (electricity, drinking water and sewage system) whose homes are closely grouped together’ (MINVU 2011: 23).

According to the official statistics provided by MINVU there are 657 *campamentos* in Chile, currently housing 27,378 families. This represents a total of 83,863 inhabitants. TECHO-Chile, the main non-governmental organisation (NGO) dedicated to working with slum dwellers in the country reports that 75.8 per cent of households in the *campamentos* do not have formal access to drinking water; 91.5 per cent do not have sewerage and 47.6 per cent are illegally connected to an electricity supply (TECHO 2015: 25). Moreover, TECHO has established that 27.8 per cent of all dwellings in the *campamentos* are constructed using hazardous or waste materials, a figure almost 30 times higher than the national average (Ibid.: 27).

Neither the definition nor the statistics are particularly different or unfavourable compared with many other 'slums' found in most countries in the developing world. Each country in Latin America has its own term for these informal settlements: they are known as *Favelas* in Brasil, *Villas Miseria* in Argentina, *Barrios Brujos* in Panamá and *Ranchos* in Venezuela. To a large extent all experience the same deprivations and difficulties. However, the Chilean case has some significant characteristics that differentiate it from the others.

The term *campamento* literally means a 'camp' and is an explicit reference to the military camps of Chile, from which it acquired three distinct features – the settlement has a clear, well-defined social and urban layout; it has an internal discipline that allows for a high degree of self-organisation; and it is acknowledged as being temporary. Uniquely, the first inhabitants of *campamentos* made attempts at organising and providing their own systems of justice, health, education and house building (De Ramón 1990; MINVU 2011).

As a term, *campamento* entered common day language in the early 1970s, signifying the combative and militant aspects that characterised illegal land occupation of that period. During the political polarisation of Chile leading up to the 1973 military coup and subsequent dictatorship, the settlements were 'organised to fight' (MINVU 2011: 14), turning their inhabitants into fundamental political actors. This political movement, which found expression in the settlements, generated a new power base within the cities, which acted in direct opposition to local and central authorities (De Ramón 1990). De Ramón noted that 'This phenomenon, compared with similar ones in other countries, had at that time a magnitude and scale that went beyond merely housing or urban problems, becoming a socio-political factor that shaped a pre-revolutionary state, historically different to what happened in other cases' (De Ramón 1990: 15).

*Campamentos* are the latest expression of a long history of precarious settlements in Chilean cities. Each stage in the development of the settlements was uniquely named. The first, known as the 'indian village' (*pueblo de indio*), originated in the sixteenth century in Spanish colonial times, and referred to the towns located near the Spanish cities, where indigenous communities were forced to live in a highly segregated urban scheme (De Ramón 1990). The second type of development appeared at the second half of the twentieth century and was referred to as a 'mushroom village' (*población callampa*). These settlements were the equivalent of 'shantytowns', in so far as they were unplanned settlements of self-built houses made out of discarded materials, located near

river banks, empty plots, train lines or other hazardous places (MINVU 2011). In the 1960s the settlements were labelled 'land occupation' (*toma de terreno*). Commonly they were the construct of a political party and were formed 'in a single, sudden and sometimes violent act that took the authorities and ... the owner by surprise' (De Ramón 1990: 13).

Most of the *campamentos* that exist today were created in the 20 years between the end of the military dictatorship in 1990, and 2010, a period characterised by a strong state emphasis on housing, which saw the creation of two specific government policies designed to solve the housing conditions of slum dwellers.

The first of these policies was the 'Chile-Neighbourhood' programme (Chile Barrio), which ran from 1997 to 2007. This programme, as part of a larger governmental policy, sought not only to provide housing for the slum dwellers, but also to improve other aspects of their lives, such as social inclusion and employability. After a period of relative success in reducing *campamentos* nationwide, this policy was replaced in 2007 by the 'Informal Settlements' Attention Programme' (*Línea de Atención de Campamentos*), which continued until 2009. This programme's objective was simpler and focused only on the provision of housing for slum dwellers. However, a subsequent survey conducted in 2011 showed that the number of *campamentos* had increased after 2007, not only because of the emergence of new settlements, but also as a result of the resurgence of old ones (MINVU 2011).

Remarkably, since the end of the 1990s, and during four subsequent presidential periods, up to 12 official announcements have been made promising an end to *campamentos* (Domínguez 2011: 83). Yet, in spite of said government efforts to eradicate *campamentos*, they are still increasing in number, as are the number of families living in them (TECHO 2015). How can this be explained?

First, the main reason for living in *campamentos* remains startlingly simple: 'there is no other place to live' (TECHO 2015: 18). However, a number of contemporary authors define *campamentos* as a manifestation of a phenomenon that represents not only a housing shortage, but is indicative of more complex social processes. They suggest that it is a strategic practice undertaken by the inhabitants, who have chosen to live in *campamentos* in order to have access to employment opportunities available in urban centres (Brain et al. 2010; Domínguez 2011; MINVU 2011).

This may be confirmed by a study of the demographics of the *campamentos*' inhabitants: 50 per cent of the families currently resident in *campamentos* have lived in them for a period of 10 years or less (MINVU 2011: 30); the most frequent inhabitants are young people and children,



the majority of whom are families at the early stages of their life (MINVU 2011: 40), precisely those who most need to engage with the cities' network of opportunities. According to the 'National Socio-economic Characterisation Survey' (CASEN), the official national instrument for measuring the socio-economic conditions of households, in 2009, the population of *campamentos* was not only younger in relation to the total population of the country, but also in relation to the poor population in Chile (MINVU 2011: 41). Furthermore, the heads of the households in *campamentos* had a higher occupancy rate compared with the poorest quintile of the population (MINVU 2011: 46).

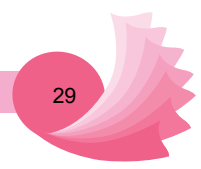
Second, living in a *campamento* can also be a strategic way of obtaining government housing (Brain et al. 2010). Paradoxically, the current social housing policy seems to support this strategy. Since the devastating earthquake of 2010, the government has made a great effort to build social housing for families who lost their homes and were accommodated in temporary housing. However, in the interest of presenting a just system, the government declared that the same programme would apply to all families living in *campamentos*, which in effect gave them preferential treatment in obtaining housing. As a result of this policy, some families



**Figure 5.6.1** Cardinal Juan Francisco Fresno *campamento*. Santiago, Chile, July 1984.

Source: <http://www.archivomuseodelamemoria.cl/index.php/>

© Marco Ugarte.



chose to go and live in a *campamento* in order to gain an official recognition of need, and thus they were able to strategically improve their chances of being rehoused.

A third reason that explains the existence of informal settlements in Chile is immigration, in particular with respect to immigrants from Peru and Bolivia. While the number of immigrants does not represent a high percentage of the total population (in 2013 the figure was 354,581 out of 17.6 million people), the overall number of foreigners living in Chile increased by 130 per cent between 2006 and 2013 (Ministerio de Desarrollo Social 2015: 4). Many immigrants choose to settle in *campamentos* as it permits them faster access to opportunities in Chilean cities (MINVU 2011: 50; Blanco 2014). This is especially so in the north of the country, as found in the city of Copiapó in the Atacama region. Mining is the dominant force in the economic and social dynamic of this city. Local inhabitants prefer to work in the mines, as it is better paid than other employment. This in turn encourages people from other regions of Chile and Latin American countries to migrate to this region in search of the employment opportunities that arise as a by-product of mining, usually in low-paid service jobs such as in restaurants, housekeeping or hairdressing. However, the high salaries in the mining sector produce a rise in the cost of living within the city, which artificially inflates the housing rental market. As a consequence many people are not able to afford the cost of housing and therefore have no choice but to live in the *campamentos* settlements.

Finally, some *campamentos* can be explained as a consequence of their productive function. The Chilean case of informal settlements is characterised by the wide variety of geographical, cultural and economic contexts in which *campamentos* appear. In many of these settlements, located in rural areas or medium-sized cities, the individual houses are inserted into a larger productive network, in which living and working occurs in the same space and time (Lovera 2015: 8, 9). Good examples of the above mentioned networks are found in the informal settlements associated with fishing activities located in the southern part of the country. They possess both a temporal dynamism, given by the fluctuating cycles of extractive activities, and a spatial flexibility, where courtyards and common spaces 'are not only the individual houses' extension, but also allow for the development of crafts and serve as support infrastructure for groups of families' (Lovera 2015: 18). In contrast, Government policies aimed at providing housing for slum dwellers are, by definition, based on standardised solutions, and therefore they are not usually able to maintain the flexibility and adaptability provided by *campamentos*.



### 5.7 **Mukhyyam** (occupied Palestinian territories and neighbouring Arab countries)

Lorenzo Navone and Federico Rahola

Department of Education, University of Genoa, Italy

Palestinian refugee camps (*mukhyyam*) are ‘temporary settlements’ built to house Palestinians who were expelled from their homes after the first Arab–Israeli war (1947–9), when some 700,000 Palestinians were forced out of territory that is currently controlled by the State of Israel. As defined by the United Nations (UN), Palestinian refugees are ‘persons whose normal place of residence was Palestine during the period 1 June 1946 to 15 May 1948, and who lost both home and means of livelihood as a result of the 1948 conflict’ (UNRWA). Following the destruction by Israeli armed forces of 511 Palestinian villages and 11 Palestinian towns, the refugees fled to neighbouring countries, where most of them were given shelter in refugee camps (Khalidi 2006; Pappé 2006).

Today, at least 5 million Palestinians live in some 60 refugee camps. Of these camps, 27 are located within the occupied Palestinian territories (OPT) – that is, East Jerusalem, the Gaza Strip (where there are 8 camps) and the West Bank (where there are 19). Most of the camps are, however, situated in neighbouring Arab countries. These include 10 camps in Jordan, 12 in Lebanon and 12 in Syria (of which 3 are not officially recognised).

The location of camps within the OPT creates a further striated space in territory that is already crossed by several kinds of border (Deleuze and Guattari 1987). Being structures as temporary as they are permanent, Palestinian refugee camps trigger a set of as yet unanswered political questions while symbolising an unresolved and ongoing transition. Can these spaces be considered informal places? If so, how? What character is conferred on the camps by their specific political dimension – is it one that is not found in other informal urban housing? What kind of political discontinuity do the OPT’s refugee camps produce and reflect?

In morphological terms, Palestinian refugee camps appear to resemble other informal and disadvantaged settlements (ghettos, slums, shantytowns, *favela* in Brazil or *villa miseria* in Argentina). A tin roof with intermittent water and electricity supplies is not, however, sufficient to define the informality of these camps. At first glance, they are almost indistinguishable from the surrounding space. Originally provisional encampments, consisting of blue tents erected on empty or abandoned fields that had been sold to the UN, many of these camps have now become a kind of urban fringe, encapsulated within the expansion of the main West Bank and Gaza Strip urban areas (Ramallah, Bethlehem, East Jerusalem,



**Figure 5.7.1** Shuafat refugee camp, East Jerusalem (occupied Palestinian territories).

Source: Author. © Lorenzo Navone.

Nablus, Gaza City and Rafah). They are situated in overcrowded areas populated by underprivileged, working-class people. Buildings usually consist of cement and iron grids; handmade and unstable, they are not built according to professional plans or standards (Hailey 2009). Even so, as radical urbanisation occurs within the OPT, such a dichotomy tends to vanish, and the outcome is a continuum, where camps and cities overlap with one another seemingly by osmosis: while the camps are incorporated into irregular urban growth, the cities are affected by the informality of the camps. The dynamic processes typifying the former seem to counter the apparent inertia of the latter.

In broader terms, OPT refugee camps are informal spaces not so much because of their marginal situation relative to urban settlements and governmental territoriality (Roitman 2005), but because they reflect the lack of state sovereignty and the suspended temporality that this lack produces (Parizot 2009). They form a 'limbo' that is configured as a kind of 'definitively temporary zone' (Rahola 2010), and that more generally reflects the peculiar predicament of a never-accomplished transition towards a possible state (Said 1998). It is therefore a case less of a morphological or dwelling informality than of a political one.

In addition, the informality caused by the lack of full sovereignty of the Palestinian Authority (the government established in 1994 in the Gaza Strip and West Bank) is reflected and intensified within the refugee camps in terms of a specific lack of private property over the space. Dwelling practices in refugee camps reconfigure symmetric relations between public and private spaces. On the one hand, the private dimension of space is contested by the lack of property rights (since the residents are temporary tenants and not owners); on the other hand, the public space does not properly reflect state order (since Palestinian property rights and ownership of the occupied territories are contested). In this sense, informal practices reflect both the public and the private dimension of the space in the form of, respectively, a refraction inward (fences, enclosures, barriers, protective grids) and a projection outward (gardens, functional structures such as informal garages, 'illegal' workshops), thereby providing the camps with an increased interstitial character (Brighenti 2013). We may accordingly conceive the camps' informality both as a broader attitude vis-à-vis public/private space, and as an act of transformation and appropriation, claiming a form of possession beyond any formal right to property or sovereignty.

It follows that refugee camps in the OPT should be seen not only as informal, but also as transformative spaces: the outcome of practices and forms of reinvention that configure camps as dynamic and paradoxically 'open' spaces within a confined and imprisoned state (one whose sovereignty is limited or 'concentrated'). Nonetheless, even though the specific space of camps should be seen as an outcome produced by its inhabitants, such a space materially informs the internal conditions of their lives, reshaping the field of social relations, actions and interactions. In other words, Palestinian refugee camps must be considered as both 'representational spaces' and 'representations of spaces' (Lefebvre 1991). This latter dimension, while referring to camps' formal, objective and violent constraints, has a direct impact on the status of camp inhabitants, formally defining them as refugees – a label that may hang over them as a stigma. Even so, a refugee has a recognised political status, one that may be inherited (as testified by the existence of a second or third generation of refugees, who never suffered any actual forced displacement) and that may also provide a crucial though as yet undefined right to return to the territory of the former British mandate of Palestine (1920–48), nowadays part of the State of Israel.

Here a paradoxical situation emerges. In the OPT's over-striated space, the (almost invisible) borders surrounding refugee camps often act less as territorial divisions (to the extent that any actual form of

discontinuity between inside and outside, camps and cities, tends to vanish) and more as immaterial signals of status. They do this by distinguishing and yet deconstructing any unambiguous dimension of Palestinian citizenship. While these borders still reproduce class and political differences, they first and foremost increase and multiply the processes of Palestinians' differential inclusion (Mezzadra and Neilson 2013; Balibar 2015) or 'reclusion' within the OPT. Seen from this perspective, camps become apparatuses of reproduction and confinement of Palestinian precarious identity (and labour).

Refugee camps are typically depicted as places of loss and deprivation. In the case of the OPT camps, however, the multiplicity of internal and external borders and statuses leads to a situation that is both more complex and more intertwined. Camps, along with their recognised informality and temporariness, represent a space that may, to some degree, reveal itself as paradoxically more defined and 'structured' than the surrounding 'official' and relentlessly transitional Palestinian urban territory. Being holes in a 'hollow land' (Weizman 2007), the camps above all reflect and multiply the undefined and heterogeneous quality of Palestinian political space.

### 5.8 *Dacha* (Russia)

Stephen Lovell

King's College London, UK

The *dacha* is an out-of-town dwelling and plot of land for intermittent use by urbanites. It may be thought of as the Slavic equivalent of the 'country cottage', 'log cabin' or 'second home'. But we should not be too hasty with such analogies: over the three centuries of its existence, and especially since the mid-nineteenth century, the *dacha* has taken a wide variety of forms, many of them far more modest in dimensions and appearance than any Western equivalent; it has catered to many different social constituencies; and it has been subjected to varying, but often severe, economic and political pressures.

Summer relocation to the *dacha* became a social norm for the urban middle strata in the second third of the nineteenth century, and the *dacha* had become something close to a mass phenomenon by the end of the century with the spread of the railway network and the growth of the population of Moscow and St Petersburg to 1 million and beyond. During the revolutionary period, *dacha* settlements saw their share of depopulation, looting and expropriation. But the *dacha* as a social institution made the jump across the 1917 divide: there was a flourishing *dacha* market in

1920s Moscow and Leningrad, not least because overpressed urbanites continued to need respite from the squalid and overcrowded city. In the 1930s, a variety of Soviet institutions – from the Central Committee down to trade unions and individual enterprises – began to take charge of the *dacha* stock, handing out summer dwellings or plots of land to favoured functionaries or employees. The *dacha*, then, had reinvented itself as a perquisite of a privileged Soviet ‘middle class’. During the war and just after, it once again changed its character, as the authorities handed out ‘garden plots’ to much wider sections of the urban population. Although this was designed purely as a subsistence measure in desperately hard times, and recipients were forbidden from building habitable dwellings on their plots, over time the boundaries of the permissible were pushed back. From the 1950s onwards, a widening range of workplaces and other ‘collectives’ set up ‘garden associations’, which allowed members to build modest summer dwellings in which they could spend nights alongside their potato patches. Besides allowing hundreds of thousands of urbanites to supplement their diet, this mass Soviet *dacha* fostered a more demotic kind of exurban sociability: vodka and *shashlyki* (meat skewers) by the fire rather than Chekhovian hammocks and *far niente* (doing nothing). The fall of the Soviet Union gave this model of *dacha* life a further boost: the severe hardship and economic uncertainty of the 1990s once again made urban Russians preoccupied with subsistence and committed to toiling on their garden plots. At the same time, the lapsing of Soviet restrictions on land use and the rewards (for some) of the market economy led to a diversification of models of *dacha* existence: by the early 2000s it was quite common to see hulking American-style brick houses alongside Soviet-era shacks.

As this historical sketch begins to suggest, the *dacha* exemplifies well the ambivalence of the informal domain. Its defining ambivalence is this: although invariably used by urbanites, and for that reason an outgrowth of urban civilisation, *dachas* have often been conceived as a return to nature – a way for Muscovites and Petersburgers to reconnect with their rural roots, shed urban pathologies, and rediscover the virtues of agricultural toil. But if we look more closely, the balance between the urban, the bucolic and the downright agricultural has tilted this way and that over time. In the nineteenth century, the spread of *dacha* use from a small elite to a broad urban public gave rise to apprehensions that *dacha* life was falling prey to a familiar range of urban vices (crime, marital infidelity, vulgarity, ‘petty bourgeois’ materialism). Many of these fears would gain a new lease of life in the Soviet 1920s, and then again in the post-Stalin era, as the guardians of communist morality policed the number of windows in people’s garden plot houses. The debate on what

constitutes ‘authentic’ dacha life has never really ceased. In the nineteenth century, the more austere commentators focused on the health-giving properties of the *dacha* (which were very real, given the dreadful sanitation in Russia’s cities) without setting much store by the more frivolous pastimes of the *dachniki*; other stakeholders in the *dacha* experience were more interested in entertaining guests and playing games. Pre-revolutionary Russians did not, however, make the connection between *dachas* and subsistence, seeing out-of-town living as restorative and/or recreational. In Soviet times, the intelligentsia model of *dacha* as recuperation for overtaxed urban minds coexisted with the peasant-infused garden plot model. In the post-Soviet era, many *dachniki* continued to insist that their plots were primarily a survival strategy, even though hard-nosed economists pointed out that they could have obtained their potatoes and tomatoes more cheaply at the market. The breakneck rural–urban migration of Russia’s twentieth century has left many traces and imposed many costs, and the *dacha* has proved an excellent way for modern Russians to finesse the rural–urban divide: to engage in more or less refined recreation or to demonstrate their enduring connection to the soil, as circumstances dictate. It has also provided a genuine protection against the uncertainties of Russian life: urban housing has always been scarce, apartments are usually tiny, and Soviet people exercised very little control over their immediate urban environment. The *dacha* (or garden plot) was, by contrast, a patch of land that was their very own (even if it was often only ‘theirs’ at the discretion of the cooperative). And the community of the *dacha* settlement – its open-air visibility and legibility – made for a striking contrast with the closed-doors anomie of the typical post-Stalin apartment block: the dirt tracks and fences of *dacha* settlements evidently did more to engage the Soviet spirit of collectivism than the (usually urine-soaked and graffiti-ridden) stairwells of apartment blocks back in the city.

## Informal welfare

5.9 ***Pabirčiti*** (or *pabirčenje*) (Serbia, Croatia, Bosnia and Herzegovina)

Jovana Dikovic

University of Zurich, Switzerland

*Pabirčiti* is a verbal form in the Serbian and Croatian languages that refers to the collection of grains that are left over in the field after harvest. Etymologically, the verb derives from the noun *pabirak*, which means the



'remains' in fields, vineyards and orchards after the harvest. In a broader context this noun may refer to the remains of food, the remains of wood after cutting, or small pieces of a bigger whole. The use of these terms is widespread in Serbia, Croatia and Bosnia and Herzegovina. There are similar sounding words in Slavic languages. The Russian verb *pobirat'sya* is associated with begging for remains of food. The English term 'gleaning', French *glanage*, and German *nachlese*, all have the same meaning – gathering activity after the harvest or an informal 'second harvest'. This practice exists in many other European languages, although in varying forms and degrees. The practice was depicted in one of the better known paintings of Jean-Francois Millet (1814–75), a French painter in the tradition of realism and naturalism. Currently in the Museum d'Orsay, *The Gleaners (Des glaneuses)* (1857) depicts three poor women picking up leftover grain in a field (see Figure 5.9.1).

The practice of gleaning in general is linked to the centuries-old custom embedded in common law, whereby the master of the land has the right to allow the poor to follow reapers in the field to gather and glean fallen grains for their own needs. One of the earliest Hebrew agricultural



**Figure 5.9.1** *The Gleaners* by Jean-Francois Millet, 1857.  
Source: <https://commons.wikimedia.org/w/index.php?curid=20111149>.

laws, described in the Old Testament, illustrates how the generosity of the master determined the amount of gleaned grains (The Story of Ruth 2: 2–23). This early form of welfare for the needy is still present in countries from Syria to the USA. The old custom involves a relationship between the landowner and the poor that is still maintained in some places, while in other places faith-based groups glean and redistribute the leftover crop as part of their religious calling. The practice of gleaning is widespread in rural areas and not constrained to Europe; rather, it reaches out to the areas of Biblical Levant and beyond.

The practice of *pabirčenje* (gleaning) in Serbia spread predominantly in agricultural regions, particularly in the province of Vojvodina (Pavković 2009). Part of the current territory of Serbia used to belong to Ottoman Empire, and part to the Austro-Hungarian Empire, so the prevalence of the feudal mode of production, or ‘tribute mode of production’ (Wolf 1982), lasted longer than in other parts of Europe. The end of feudal relationships came as late as the first agrarian reform (1919–41) in an independent Kingdom of Serbs Croats and Slovenes, where small private holdings started to emerge. Until the first agrarian reform, for the landless, gleaning was often the only way to evade starvation. The poor could not, however, enter the fields without the consent of the landowner. The explicit or implicit, socially and culturally, communicated consent was fundamental for the practice of *pabirčenje* (Pavkovic 2014, 284–96).

There were at least two reasons for landowners’ explicit consent and generosity: sociability and instrumentality. On the one hand, generosity was meant to build the landowner’s reputation in the community, to extend and to strengthen his social network by providing favours or protection to his subordinates. In this way, *pabirčenje* was a way to sustain and support his clientelist network that could potentially become instrumental in support of his political ambitions, local leadership, etc. On the other hand, there was even more pragmatism in *pabirčenje*. By allowing the poor to glean on his field in the short run, the landowner prevented the potential social unrest and acquired stable political support among the local population in the long run. As Foster points out, in traditional communities all social interaction is based on well-recognised norms of exchange and reciprocity (Foster 1973: 105). Similarly, Wolf ascertains that various redistribution practices in traditional communities may not be as altruistic as they appear at first glance, because they were often socially forced, and moreover they resulted from social and class stratification (Wolf 1982: 98).

After the first agrarian reform and subsequent changes in agriculture and state provision of welfare, perceptions of *pabirčenje* changed

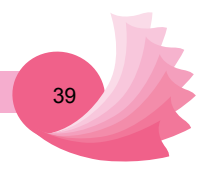


significantly due to several factors. In socialist Yugoslavia (1944–91), the category of landless people officially disappeared due to the parallel existence of three types of property: collective, state and private. In the same period, the state took over the role of welfare provision. Under socialism, reliance on the state for the provision of welfare rather than private patrons changed perceptions and practices of *pabirčenje*. It can be argued that state welfare and maintaining of private property in land (though limited to 10 ha in the socialist period) are fundamental factors that contributed to diminishing significance of *pabirčenje*. This continued following liberal-democratic reforms in the post-socialist period (from 1991) when private owners were granted the right to enlarge their property without any restrictions, unlike socialist times, while the state still remained the main provider of the welfare.

Since the 1990s onwards, due to the civil war in former Yugoslavia (1991–5), and during the political and economic transition of Serbia after 2000, poverty and criminality have risen in cities and villages respectively. Given the fact that Roma belong to the most vulnerable groups in villages because they are unemployed, uneducated and mostly landless, they are often related to criminality, partly due to these factors and partly due to their traditional stereotype of being ‘free riders’. These unfavourable circumstances have influenced the fact that Roma are seen as trespassers, while the contemporary use of the term *pabirčenje* mostly represents a euphemism for the field theft.

The previous semantic connotations of *pabirčenje* – that included relations of social, economic and political reciprocity, plus the landowner’s consent (which was the main condition activating the right to glean) – have been almost lost today. This is due, first, to the growth of private property and a significant decrease in the number of landless people. Second, the growing importance of state welfare created a general perception that the needy are the responsibility of the state and its social institutions. In such an environment landowners have neither a social nor a political stimulus to support persons in need. Correspondingly, landowner consent to *pabirčenje* is steadily vanishing.

On the other side, would-be gleaners (*pabirčari*) are well aware that their activity is potentially theft. This is not to say that every case of *pabirčenje* is theft, but sometimes it crosses over into stealing from unharvested fields. The *pabirčari* justify their actions by referring to the old meaning of socially embedded practice of *pabirčenje* in order to avoid social criticism and potential sanctions. The authorities display a similarly ambivalent attitude: on the one hand, the state is committed to prosecuting cases of theft, but on the other hand, the police tend to



be very tolerant towards alleged *pabirčari* – a de facto form of institutional patronage over socially vulnerable groups. Such a fluid situation can aggravate tensions between agricultural producers and state institutions such as the police and the courts, resulting in farmers' distrust of the state.

In this modern context, contemporary practices of *pabirčenje* have lost their main driver, the bonds of reciprocity. It became a self-serving practice with little social purpose, aggressive rather than consensual, and satisfying short-term needs rather than long-term relationships. In other words, *pabirčenje* has drifted away from being an informal norm in the past, with socially shared unwritten rules, that were created, communicated and enforced outside of official state and public channels (Helmke and Levitsky 2004), to a substantively different type of informal behaviour. Contemporary *pabirčenje* has become an informal strategy of individuals without land or regular income, who view it as socially justifiable in the absence of other types of access to means of survival.

Such tendencies are closely linked to the formalisation of welfare institutions. From the beginning of the twentieth century, and particularly in the former socialist societies, the state established a monopoly over welfare provision (see Palmer 2012). As a result, forms of informal welfare such as *pabirčenje*, based not merely on charity but also on mutual supportive mechanisms for the interested parties (the landowner and the poor), have been 'crowded out' by the state provision of welfare. Correspondingly, practices of *pabirčenje* that remain have lost their give-and-take embeddedness in the local community, and gained an aspect of parasitism. The role of self-regulating informal forms of organisation has diminished, thus leaving it to the state to penalise, or to overlook, practices of *pabirčenje*.

### 5.10 ***Skipping*** (general)

Giovanna Capponi

University of Roehampton, UK

In English, the term 'skipping' refers to the action of collecting objects or food items from the waste. It is the equivalent of the American term 'dumpster diving', and both expressions are now widely used in the media and in the press. The term comes from 'skip', which defines the bins themselves, generally large open-topped waste containers, but the term also refers to the items that can be found within them.

'Skipping' as an urban foraging technique is a widespread practice in the context of squatting (the act of unlawfully occupying property or

land, see 5.1 in this volume) and as part of radical political movements. Just like squatting, 'skipping' can be defined as a polysemic practice (Pruijt 2004) as it can acquire different functions and meanings. It can be practised as a provisioning strategy in the contexts of marginality, but also exists as a critical commentary on the enormous waste and the poor distribution of resources in both housing and in social support in a capitalist economic system. This provisioning practice therefore does not necessarily emerge as a direct product of violence, marginality and survival strategies, but is often part of a whole movement of resistance, supported and informed by literature, culture and ideology. It is also related to other movements that advocate consumption consciousness, such as 'freeganism', the practice of reclaiming food thrown out by shops, anti-consumerism and environmentalism.

'Skipping' is normally performed by a heterogeneous group of peoples, including the homeless, squatters, political and environmental activists, social anarchists, artists and students with limited income (see Figure 5.10.1). 'Skipping' is rarely carried out as an individual practice, but often performed within an organised community of people sharing resources, especially in the context of big cities. In fact, these types of reclaimed resources are abundant in urban areas, as a result of a socio-economic model in which the increasing demand for goods leads to the constant production of commodities and their continuous replacement (Bauman 2004).

As different items are collected in different spots, these urban foragers re-map the city according to the potential items that can be found: furniture, mattresses, appliances and clothes may be collected in residential areas, while shops, local markets and supermarkets in the main streets provide a constant and regular supply of food items. Supermarkets are obliged on a daily basis to get rid of food, which according to the product labelling is reaching its optimum consumption date and ignores the actual status of the commodity itself. In other cases, items are thrown away because the packaging is broken or damaged. The same happens in local markets, where fresh vegetables and fruits with small imperfections or slight signs of decay are discarded (Black 2007).

As a rule, communities that practise 'skipping' as a provisioning strategy develop certain routine habits regarding their favourite spots. Usually a further consideration is to scavenge in bins that provide the widest variety of wasted goods. For example, for daily provisioning, a supermarket or a grocery store bin will be favoured over the waste bin of a Japanese take away. These parameters of choice reflect personal tastes and needs, reproducing a standard comparison between costs and benefits (Narotzky 2007). The goods that have been reclaimed from the



**Figure 5.10.1** Skipping does not require specific tools: people normally wear washable gloves and coats and use plastic bags or old backpacks to carry the items they find in the bins.

Source: <https://flic.kr/p/7JmKPU>. © Carlos. A. Martinez, 2010.  
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garbage are usually brought into the community (be it a squat, a social centre or a shared habitation), to be redistributed and consumed.

Both official and informal social centres, community centres and non-profit associations employ a variety of different strategies to redistribute the resources that have been discarded from the mainstream economic system. One of these strategies is the establishment of a ‘free shop’ – an anti-consumerism area where items like second-hand clothes,

bags and shoes can be left or taken for free. 'Free shops' are commonly present inside squats and social centres, where dwellers, friends and visitors can acquire objects they like or need, but also leave items they do not use anymore, making them available to others.

In a similar vein, a popular way of redistributing soon to be date expired or unsold food is through what is known as the 'People's Kitchen'. Activists and volunteers reclaim edible goods from the skip or from the shops, then cook it and share it in a communal meal for free, often inviting disadvantaged people, friends and fellow activists to join them. Such events can be seen as collective performances of social critique and often provide an occasion to discuss related political issues.

While structured non-profit organisations prefer to negotiate with and reclaim food directly from the shops, squats and occupied social centres use 'skipping' as their predominant way of provisioning. 'Dumpster diving' is not a socially accepted behaviour and foragers risk incurring criminal charges for theft (applicable when the bin is technically owned by someone else) or trespass (applicable when a bin is located on private property). The prevailing social attitude towards garbage is that it represents objects of no value, thus cases of criminal prosecution relating to 'skipping' are rare. However, several companies have taken action to prevent their garbage being taken by locking their bins or surrounding them with secure fencing.

It should be noted that on a political level, the semi-legal status of 'skipping' makes the practice difficult to measure, but its high visibility reinforces its value as a protest action. Re-appropriating something that has been expelled from the production/distribution chain represents a reconfiguration of consumption choices, but also redefines what is considered 'clean', 'edible' and 'desirable'. Reclaiming useful goods from the garbage not only aims at denouncing the amount of wasted resources in the neoliberal world, but it also implies the creation of alternative values and criteria of consumption (Clark 2004).

### 5.11 *Caffè sospeso* (Italy)

Paolo Mancini

University of Perugia, Italy

Why do many Neapolitans (*napoletani*) enter a bar and ask '*C'è un caffè sospeso?*' ('Is there a suspended coffee?') Those who ask this question know that an old tradition exists in Naples whereby a customer who has had a coffee in a bar elects to pay for two cups of coffee instead of one, thereby leaving a free coffee for an unidentified future customer.

We can only speculate about the origins and meaning of this tradition, as it has not been the subject of scientific investigation. One of the few literary sources associated with the topic is a book entitled *‘Il caffè’ sospeso*, which features a collection of essays on the variety of daily life in Naples, written by a well-known Neapolitan writer, Luciano De Crescenzo (De Crescenzo 2005). Although the book does not detail this particular practice, the subtitle ‘Everyday wisdom by small sips’ suggests that the *caffè sospeso* tradition comes from distant times and is deeply rooted in the everyday culture of Naples.

The question ‘*C’è un caffè sospeso?*’ conceals a rich history of traditions, social and cultural attitudes, and specific ways of determining community life. First, *caffè sospeso* is informed by a subtle stereotype: the Neapolitan fantasy. People living in Naples are renowned for their creativity and this is often displayed in a tendency to use symbolic language. In this case, ‘suspended’ indicates that something is floating in the air, moving continuously over the heads of the bar’s customers, just waiting to be captured. *Caffè sospeso* is a metaphor; it is an image that does not go directly to the heart of the matter. A more straightforward expression such as a ‘paid for coffee’, or ‘left coffee’ would have been too trivial an expression, and in Neapolitan society considered almost rude as a question directly addressed to another guest. Equally, an expression such as ‘Would you pay for a coffee for me?’ would imply a direct commitment by the donor to the receiver, stressing also possible economic differences between the two persons. Instead, the *caffè sospeso* question is a gentle query, in which the identity of the one who has paid for the coffee and the one who receives the coffee is kept in the background. Neither of them is directly involved in the exchange: the coffee falls down ‘from the clouds’, not from the donor’s hands (Schwartz 1967: 2).

Iconic and metaphoric language is typical of Naples and constitutes one of the subtlest stereotypes of the inhabitants of this city. But, as Walter Lippman says, often stereotypes are tools for knowledge and for sharing knowledge (Lippman 1922). In other words, simplicity and directness are not typical of this city. Asking for directions in the street will not receive a simple response such as ‘Go left’. It would be too direct and definitive, removing the possibility of establishing a personal relationship with the questioner as part of the exchange, something that is not considered polite in Neapolitan society. In the context of Naples, the person answering the question would be likely to show his left hand to the enquirer, adding in strictly Neapolitan dialect, ‘*vai pe sta mano accà*’, meaning ‘follow the hand that I am showing’.

Second, the coffee itself has a specific meaning for the cultural and social background of the city. Here coffee is synonymous with Naples; in Naples it is widely held that there is no other place in Italy in which it is possible to enjoy a coffee of such a high quality. Coffee in Naples is very 'small' (*corto*), much smaller than any other Italian coffee. It is 'intense' and 'strong'. Common wisdom states that the very special quality of the Neapolitan coffee is governed by the quality of the water but, of course, no scientific validation of this exists. Coffee embodies Naples more than any monument of the city itself. Along with pizza, coffee defines the identity, the life and the tradition of this city.

Finally, it is well known that Naples is a superstitious city. Superstition is part of every act and action of the Neapolitan people (Di Nola 1993). Before doing anything it is necessary for *napoletani* to ensure that luck will be with them. The tradition of *caffè sospeso* itself is connected with superstition: through this practice, people aim to gain positive favour from those who may 'decide' their future (patron saints, deceased's souls and so on). The action of leaving a *caffè sospeso* is informed by a kind of reasoning that asks 'If I do not leave an already paid for coffee, who knows what may happen to me?' As superstition is an important part of the culture of Naples, the fear is that the decision not to obey this old tradition may bring a curse upon the person who has declined; therefore they consider that it is a risk not worth taking. This is a widespread, yet largely unspoken, dynamic underpinning the practice of *caffè sospeso*.

*Caffè sospeso* embodies the very cultural soul of Naples and some of its attributed characteristics. This well-rooted practice highlights the existence and importance of community in Naples. Neapolitans know how to behave when they enter a bar; they know that this tradition exists and that they can benefit from it. In contrast to the criminal reputation that contemporary Naples enjoys, urban legend states that *caffè sospeso* was originally an act displaying the elegance and politeness of Neapolitan society. According to some literary sources, the tradition was born out of discussions in a bar between friends and relatives over who should pay for the coffee they had enjoyed. Everybody in the group desired to take responsibility for payment as a way of showing and reinforcing the sense of friendship that bound the members of the group together. It is commonly held that the group, unable to reach an agreement, incorrectly identified the number of coffees needing to be paid for, and overpaid, which resulted in them leaving an 'already paid for' coffee for a future customer.

The consequence of this action was that the community embodied by the group of friends or relatives expanded its borders of friendship to include all those who might enter the same bar in the future (Pazzaglia



and Pipolo 1999). The message left by the one who paid is: ‘All those living in this area are friends of mine, even if I do not know them personally’. Since *caffè sospeso* embodies the idea of reciprocity as shared knowledge at the Neapolitan local level, both the giver and the receiver act on the basis of mutual expectation, which constitutes the fundamental roots of a community (Komter 2005).

The idea of community is completed and enriched by a sense of solidarity: leaving an already paid for coffee is recognition of social and economic differences that need to be bridged. It clearly acknowledges that if someone cannot afford a coffee, there is someone who wishes to help by leaving a gift that embodies the idea of community, of ‘Neapolitan-ness’ itself (*napoletanità*), and that is expressed in donating the coffee. To sum up, lacking any written codification, *caffè sospeso* is an informal practice, which articulates everyday culture in Naples. Within this practice fantasy, iconic language, solidarity and superstition are mixed together, establishing a shared Neapolitan identity.

*Caffè sospeso* has been imitated in other parts of the world, where it assumes similar characteristics. Besides several other Italian cities and towns, initiatives of this kind have been reported in Romania (Getlokal.ro), the Netherlands (AT5 2011) and the UK (BBC 2013). Some of these imitators have highlighted the solidarity aspects of this practice, regarding it as an occasion to offer the poor the possibility of enjoying a coffee, if not a whole meal (Nove.Firenze.it 2004; Retedelcaffesospeso.com). In other cases the practice of charity embodied by *caffè sospeso* has entered the logic of market competition, becoming an occasion for the social legitimation of important brands of coffee makers and vendors (Reynolds 2013).

## 5.12 **Gap** (Uzbekistan)

Timur Alexandrov

Department of Sociology, University of Cambridge, UK

*Gap* means ‘word’ or ‘conversation’ in Uzbek (also known as *gapkhuri*, *gapfona*, *shai* (tea), *gashtak*, *meshrep* in Uzbekistan, southern Kazakhstan, Tajikistan and Uyghur communities in Central Asia). It refers to regular, informal get-togethers over dinner by groups of people, usually of the same age. As an indigenous institution, *gaps* are common in both urban and rural Uzbekistan, southern Kazakhstan and other parts of Central Asia. Usually they bring together between 3 and 12 individuals, but that number may extend to 30 or even more.



The primary aim of the meetings is to enable people to socialise and share information, but some *gaps* also run a rotating savings fund – an informal safety net whereby members can quickly access cash for personal use and in case of an emergency. In the wider context, *gaps* help to build close-knit communities with high levels of mutual trust, reciprocity and support. Historically, only men attended *gaps*. Today, women may also attend; generally, however, *gaps* still tend to be single-sex events. Members are likely to be related to one another through friendship, family, school, residential, professional or other social ties. Many people belong to two or three *gaps* (Hiwatari 2008).

The practice of such regular face-to-face meetings predates the arrival of Islam in Central Asia. They were held in places with hearths in rural settings (*alowkhonas*) and money was typically collected to pay for meat, rice and oil (Andreev 1928). With the arrival of Islam in the eighth century, *alowkhonas* evolved into mosques. Men of all ages could socialise and seek advice from elders (*aksakals*) in a reception room (*mekhmonkhona*) (Rakhimov 1990, 2007). The fact that both *alowkhona* and *mekhmonkhona* had heating made it possible for food to be prepared and shared, thereby building on the tradition of collective meals. *Gaps* continued to be held during the Soviet period, enabling *aksakals* to pass on local values, ethics and traditions to the younger generation, along with regional etiquettes of communication and hospitality (Seiple 2005).

At present, *gaps* are particularly popular in the Uzbek capital Tashkent, and in the Fergana Valley, which extends across eastern Uzbekistan, southern Kyrgyzstan and northern Tajikistan. *Gaps* bring together individuals from different classes and social standing. The social capital derived from *gaps* translates into various forms of mutual support – it may help to reduce transactional costs related to contracts and official procedures. Informal personal relations between people who are not of equal social status may imply the presence of patronage relations (see *blat*, 1.1 Volume 1). For example, this occurs when a person obtains goods and services with the support of an influential member from the same *gap* circle.

*Gaps* are organised according to specific albeit informal rules. They may be held in the home of one of the members, or in a café, restaurant or tea-house (*chaikhona*) where members can rent cooking utensils and prepare the traditional rice dish, *plov* (see Figure 5.12.1). A table laden with exotic food is frowned upon since it is seen as an attempt by the host to show off in front of other members. While the *plov* is being eaten, conversation normally focuses on social life in the local neighbourhood community (*mahalla*), current political affairs, personal issues and matters



**Figure 5.12.1** Artwork depicting Uzbek men engaging in *gap* meeting over dinner in *chaikhona* (tea-house).

Source: Author. © Timur Alexandrov.

relating to mutual help. Usually, at the end of the lengthy dinner, everyone chips in and makes an equal contribution to pay for food and rental costs. Alternatively, members may take it in turns to host the *gap* and pay for the meal.

Each *gap* is headed by a group leader (*jo'ra boshi*) who must be a respected and sociable individual able to motivate the members and organise meetings. The principle of equality is crucial: if it is not maintained, the *gap* can elect a new leader. Mutual trust is another crucially important condition and determines who may or may not become a member of the *gap*.

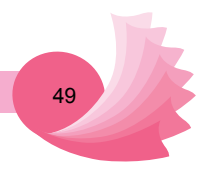
The practice of *gaps* has evolved over time to include modern trends such as joint savings funds as a social safety net, and the organisation of *gaps* among women. Joint savings funds make it possible to raise substantial amounts of cash in a short time. Members hand over to the host an agreed amount of cash at every dinner. In accordance with a pre-agreed rotation list, a lump sum will be handed over to the member whose turn it is to receive payment. In Uzbekistan, this process is known by the Russian term *igrat'v gap* (literally, 'to play in the *gap*'). How much each individual

contributes varies from *gap* to *gap*. In some instances, members hand over 50,000 Uzbek Som (about US\$10); in others, as much as 500,000 Uzbek Som (US\$100). In *gaps* whose members are wealthy businessmen, individual contributions have been known to reach as much as 1–2 million Uzbek Som. The recipient is free to spend the money as he chooses: on family or personal needs, to launch a small business, or to purchase durable goods. *Gap*-generated funds may also be used to pay for a wedding feast (*toi*); this enables families with modest incomes to organise lavish wedding celebrations for as many as a thousand guests.

In this respect, *gaps* closely resemble the practice of rotating savings and credit associations (ROSCAs), also known as peer-to-peer lending, which is found in many other parts of the world (see, for example, *esusu*, 5.18 in this volume). In the former USSR, the practice was known as mutual assistance fund (*kassa vzaimopomoshchi*) or black cashbox (*chernaya kassa*) (Kandiyoti 1998). The major difference between modern interest-free *gap* loans and ROSCAs is that the latter are aimed only at generating cash, whereas *gaps* provide social as well as financial benefits. Indeed, the social function remains considerably more important than the financial. For example, some *gaps* also generate a separate travel fund. This is collected during the year and is spent not on individual travel but on collective trips to the mountains, to sanatoriums, or to rent of a country house (*dacha*, see 5.8 in this volume).

Women's *gaps* trace their roots to the female labour cooperatives of the Soviet era (Bushkov 2002). Like men, women are likely to belong to several *gaps*. Also like their male counterparts, women's *gaps* tend to be formed between neighbours, workmates, former classmates, neighbours and relations; wives often meet, for example, with the wives of their husbands' circle of friends. Women's *gaps* are generally organised according to age: middle-aged women meet together in one group, while young married women and daughters-in-law (*kelins*) meet in another. Membership of women's *gaps* is by invitation-only and, in the case of *kelins*, the permission of the mother-in-law is also required. Women's *gaps* tend to focus on entertainment and recreational activities. Women dress nicely for the occasion and do their best to project themselves as successful and happy mothers, sisters, *kelins* and wives. The money contributed at female *gaps* is used primarily to cover the cost of dinner. Anything left over goes to the hostess, to spend on her personal needs. Some contributions may also be generated for joint recreational activities.

Interview data collected by the author during ethnographic fieldwork in the south of Kazakhstan in 2014 found that, for women, *gaps* help to create a sense of belonging; they also allow participants to keep



up with local news. For married women, a *gap* may be a legitimate reason to be away from home for several hours and spend time with friends. *Gaps* between *kelins* provide moral support and advice on family life. *Gaps* with female colleagues help to broaden professional horizons and identify opportunities for career development.

Both male and female *gaps* enable their members to expand their contacts and build networks beyond the simple *gap* circle itself. For example, they may mobilise participants to volunteer to help (*khashar*) other members from the wider local community when, for example, a house is being built. In this way, *gaps* may be seen not only as a manifestation of comradeship, brotherhood and sisterhood, but also as fertile ground for the creation and maintenance of social capital and civil society (Alexandrov 2017).

### 5.13 **Pomochi** (Russia)

Irina V. Davydova

unaffiliated scholar

*Pomochi* is a Russian term denoting an occasion of collectively helping, on request and free of charge, a member of the village community to accomplish a particular task in one day. On completion of the work, the effort was rewarded with a feast provided by the beneficiary. The practice was widespread among peasant communities in Imperial Russia, but died out in the early twentieth century, due first to increasing monetisation of the economy, and then due to the collectivisation of agriculture under the Soviet system.

The noun *pomochi* is derived from the verb *pomoch*, which means ‘to help’. In grammatical terms the word is plural in form, but can also be used to designate a singular occasion of help (although this is subject to regional variation – in some areas a singular form, *pomoch*, exists). Vladimir Dal in his *Explanatory Dictionary of the Living Great Russian Language* (1882) recorded the word *pomochi* as common in the northern and eastern parts of the Russian Empire, with the equivalent term *toloka* used in the south, west, Tver and Novgorod regions. In addition, there were many specific terms denoting *pomochi* for particular kinds of work: to complete reaping – *dozhinki*, *vyzhinki*, *otzhinki*, *boroda*, *borodnye*, *kasha*, *salamata*; to muck out, transport and spread manure – *navoznitsa*; to make a mud stove – *pochebit’e*; to erect the timber frame of a house – *vzdymki*; to process cabbage into sauerkraut – *kapustki*; to cut and gather firewood for winter – *drovnitsy*; a gathering to spin yarn together – *supryadki*.

Fundamentally, *pomochi* was the custom of collective assistance in peasant communities, encompassing a wide range of practices. *Pomochi* could be organised by either a family in need or the village assembly (*skhod*). In the former case, the family's members would go to each individual household asking them to come on a particular day to help. Participation was voluntary and reward was never monetary but a good party. The absence of formal payment and the fusion of work and enjoyment were important for the participants. Evidence from the Tobolsk region in 1810 states that, 'people readily help each other and this is called *pomoch* ... Festivities afterwards involve singing and dancing to the accompaniment of balalaika or violin... working for money on such occasions is considered reprehensible and nobody would agree to do *pomoch* for money' (Gromyko 1975: 78). In poor Belarusian neighbourhoods, verbal gratitude was provided after *talaka* instead of a feast (as *toloka* was called there). A specific type of *pomochi* was the 'round *pomochi*' (*krugovoye pomochi*) when several households worked together for each other, sometimes without any special reward but each benefiting from a greater number of hands put to work when time was of the essence. On those occasions when *pomochi* were organised by decision of the village assembly, participation was considered mandatory and was not rewarded with a feast. Such *pomochi* were typically used for helping a family in misfortune, or infirm and disadvantaged members of the community. There were many other variations: in some places *pomochi* to complete harvesting or to erect roof beams of a new house involved ritual elements to mark the occasion; sometimes it was mostly young people who participated (as with making a mud stove, processing cabbage into sauerkraut), or women (as with scutching flax, spinning yarn); some *pomochi* were organised during workdays, others on weekends or holidays. Usually *pomochi* lasted one day, but in the Tver region it was customary to work only until midday, while gatherings for scutching flax took place in a barn at night. The common traits were informality, mobilisation of the collective to help a community member, the free nature of the help, and fun as its accompaniment.

*Pomochi* were a case of generalised reciprocity, which is a very different form of exchange to market exchange based on pre-agreed payment for goods and services. Only with the 'round *pomochi*' was there a specific expectation of help in return. For the most part, the participants' 'reward' consisted in enjoyment of the social occasion, with the general understanding that one would also be helped in the future if in need. Lone elderly people, widows and the infirm were helped even though they would not be able to repay in a *quid pro quo* manner.

The vast ethnographic surveys conducted in the second half of the nineteenth century, systematised by Gromyko (1986: 39–48) confirm the ancient origin and wide geographical spread of *pomochi* in Imperial Russia. For the earlier period, evidence has been found in local archival materials concerning administrative and criminal proceedings (Gromyko 1986: 32). The very word *toloka* also meant commons – publicly owned pastures – strongly suggesting links with the communal farming system (Gromyko 1986: 36–7). ‘Round *pomochi*’ appear to be a survival from earlier times when land was farmed collectively by the village community (see Figure 5.13.1). In general, practices of *pomochi* were rooted in the system of peasant economy. Chayanov (1967), who in the 1920s developed a fully fledged theory of this system, emphasised the absence of the institution of hired labour as its key element. In peasant economy the basis of production is not the capitalist enterprise but the household unit that has rather limited relations with market. Consequently, labour is valued not in monetary terms (wages), but in subjective terms: its perceived difficulty measured against the necessity to satisfy the family’s needs. Seen from this economic perspective, mutual collective assistance in the form of *pomochi* is an alternative to hiring labour on occasions when a family does not have enough hands for the job. Hence, practices similar



**Figure 5.13.1** *Time of Harvesting (Mowers)* by Grigoriy Myasoyedov, 1887.

Source: [https://commons.wikimedia.org/wiki/File:Grigorij\\_Grigorjewitsch\\_Mjassojedow\\_003.jpg](https://commons.wikimedia.org/wiki/File:Grigorij_Grigorjewitsch_Mjassojedow_003.jpg)



to *pomochi* can be expected in peasant societies other than in Imperial Russia. Such practices were recorded in the early twentieth-century *Encyclopaedic Dictionary* for the Bulgarian, Chechen and Ingush populations and Jewish diaspora in the Caucasian Mountains, as examples in the entry for the term *toloka* (*Brockhaus and Efron Encyclopaedic Dictionary* 1901: 439). Despite *pomochi*'s economic functionality, its social aspect was a fundamental part of the custom. A respondent from Siberia wrote to the Geographical Society in 1850 (Gromyko 1975: 79):

processing of cabbage, which marks the completion of field work, is joyful for the young: *kapustki* start the village parties, the village balls so to speak; it is a rare family with even one daughter of marriageable age, which would make sauerkraut themselves ... all invite young people of both genders to come in the morning to take part.

The practices of *pomochi* were eroded by monetisation of the rural economy. In 1894 the author of *Olonetskie pomochi* was already lamenting the decline of 'this wonderful ancient custom', conveying reports that rewarding with a feast was being replaced by payment of money in places located near main roads and towns, meaning the participants of such help were becoming just hired hands (Kulikovskiy 1894: 412). In 1898 a respondent from Vologodskiy region noted that *pomoch* was becoming more expensive than hired labour because one had to thank the participants with costly treats (Gromyko 1986: 59). Some forms of *pomochi*, such as those involving spinning yarn, easily mutated into low-wage employment of the village poor by their better-off neighbours. A woman born in 1908 recalls how in her youth she worked hard spinning wool for other people, and the money she earned in this way over the winter only sufficed to buy new boots and galoshes (Berdinsky 2011: 43). Evidence from the Saratov region, collected in the early 1990s, depicts *pomochi* as a thing of the past, of the time when the respondents were young, but also provides plentiful examples of later practices which seem to be transitional forms between the old-style mutual assistance and fully monetarised exchange based on formal agreement, typical of modern economies (Davydova 1999). Examples of such 'transitional forms' include: craftsmen charging less for their work when the buyer was a relation or a neighbour, especially if poor; a girl taken as a nanny, receiving lodging but no wage; a family that lost their horse being helped to transport their sheaves, but returning the favour with their labour, by weeding and reaping on the fields of people who provided this help; home-made vodka being

bartered for grain pilfered from the collective farm, to be used to feed the household's own livestock, which later might be sold at market. With collectivisation of farming in the USSR in 1929–34, households ceased to be the primary production units, which made much of the rationale for *pomochi* redundant. Caring for the elderly and infirm was gradually taken over by the state. Mechanisation made easier tasks that in the past had required many hands – such as felling and transporting timber for construction of a house. Now when in need one had to ask for assistance not from the village community, but from the individuals with access to the collective farm public resources, such as machinery. This unequal access to public resources and to people with such access fed corruption and much resentment. A form of abuse of the retreating custom of *pomochi* was inviting people to 'help' with certain chores and then not feeding them, as if the job done was disinterested help. The expectations of reward were informal, and as such could not be enforced. Generally, the boundary between help and paid work was blurred at that time due to the rural practice of paying for work (such as digging a kitchen garden, chopping and piling up firewood, weeding a field, occasional cleaning of the house, etc.) with food or drink rather than money. This created ambiguities that could be exploited by the greedy. Yet the social aspect of *pomochi* – fun of collective work and merrymaking afterwards – was much missed by those who had memories of it when the custom finally died out.

#### 5.14 ***Nachbarschaftshilfe*** (Germany and German-speaking countries)

Roland Arbesleitner  
UCL, UK

The term *Nachbarschaftshilfe* is a compound word formed from *Nachbarschaft* (neighbourhood) and *Hilfe* (help), describing aid and support given to neighbours, family or friends. The practice can be found in all German-speaking countries, but varies in terms of definition and legality. While *Nachbarschaftshilfe* itself is legal in all German-speaking countries, it sits right at the border of illegality and therefore as a practice lends itself to being used as a cover for illicit employment.

Hake (2003) defines *Nachbarschaftshilfe* as a practice in which (at times unpaid) labour is provided to neighbours, friends or family. It is found in particular to be common in rural areas of a country. The term itself covers a wide array of different forms of support and help, but is usually associated with (but not limited to) manual labour found in workshops



or on construction sites, and used in particular with reference to construction projects involving the building of private houses. Other areas in which the term *Nachbarschaftshilfe* is commonly used include childcare and car-pooling. Activities attributed to the umbrella term *Nachbarschaftshilfe* differ widely, however the common denominator of definitions is that *Nachbarschaftshilfe* describes (manual) labour provided to people who are in one's extended social network. A crucial element of the practice is that the labour is neither recorded, nor are taxes paid on the remuneration for it. It therefore follows that *Nachbarschaftshilfe* takes place largely outside the government's sphere of control (Sonnenschein 1976; Igl et al. 2002; Hake 2003; Wiesinger 2005; *Der Tagesspiegel* 2013; Buhl Tax Service GmbH 2014; *Die Presse* 2015).

The concept of *Nachbarschaftshilfe* lends itself by nature of its definition to be used to disguise illicit employment and illegal work. This problem has been recognised and discussed by legislators (see, for example, Nationalrat XX.GP 1998), however, despite legal adjustments, various forms of *Nachbarschaftshilfe* remain in the grey area between legality and illegality, with parts of *Nachbarschaftshilfe* being recognised as legal activity in compliance with the law, and the rest continuing to be associated with illicit work and moonlighting (Janisch and Brümmerhoff 2004).

An additional hurdle in the general separation of legal activities from illegal activities in the context of *Nachbarschaftshilfe* can be attributed to legislature itself, which differs even in countries with similar legal traditions. Thus even in law *Nachbarschaftshilfe* is not a clearly delineated or strictly defined term, but instead can be interpreted in a number of different ways. If positively connoted an actual valid synonym for *Nachbarschaftshilfe* is 'community service' (*Gemeinschaftsarbeit*) (Teichert 1988).

In recent years *Nachbarschaftshilfe* has become commonly used to describe forms of structured and organised help particularly across municipal and state borders specifically in the aftermath of natural catastrophes. The new usage of the term has been used primarily by authorities in this context to describe any form of organised help offered to affected regions for the sake of disaster relief. Additionally, *Nachbarschaftshilfe* is sometimes used to describe the activities of clubs and associations (*Vereine*) that exist to serve public interest, for example, to describe the work of the volunteer fire brigades (Bundesministerium für Arbeit, Soziales und Konsumentenschutz 2009; Österreichische Präsidentschaftskanzlei 2012).

The most obvious reason for engaging in *Nachbarschaftshilfe* and indeed other practices associated with the informal sector is the

opportunity to acquire goods and services at a lower rate than would normally apply. Wiesinger (2005) goes so far as to argue that these informal practices can noticeably contribute to safeguarding the means of existence (livelihood) of a population. This becomes especially relevant in the instance of projects that require large investments: without the aid of *Nachbarschaftshilfe*, for example, many family homes, shops, workshops or farms would never have come into being (Hake 2003). Wiesinger (2005) argues that enhanced living standards, typically manifested in owning a family house rather than a flat in rural communities, can only be realised with the help of *Nachbarschaftshilfe* and other forms of informal practices.

This rather simple one-dimensional interpretation focusing merely on monetary incentives to engage in *Nachbarschaftshilfe* may not always hold true. Lamnek et al. (2013) argue that informal labour is a prevalent part of lifestyle, particularly in rural communities. Due to tighter social networks in rural environments, both demand and supply offered by opportunities to work informally together are greater, and are said to some degree to require people to take part in such activities as part of their social obligations to the community. The implication is that *Nachbarschaftshilfe* is more often perceived to be legal in rural areas than in urban environments. Consequentially, the perception of legality is shifting.

Generally, the compensation for labour provided in this context can come in the form of barter trade, money or labour itself. Seen from a legal perspective, any agreement on remuneration shifts these transactions from the legal into the illegal sphere, even though the people involved may regard the informal agreements as being entirely normative. Lamnek et al. (2013) continue to argue that the higher degree of solidarity usually found in rural networks as compared with their urban counterparts leads to a phenomenon in which informal labour is not immediately remunerated, but often repaid after some period of time. If this is the case, the remuneration might consist of labour being provided for a person who had not even been part of the initial transaction (Lamnek et al. 2013). It follows that *Nachbarschaftshilfe* in both its legal and illegal form is more prevalent in rural communities and is in fact an important social element contributing to the well-being of the social group. However, this does not imply that the practice is totally unknown in urban environments. Rather, the motivation for engaging in *Nachbarschaftshilfe* shifts noticeably in an urban environment from a combination of monetary and social incentives, to a stronger focus on financial (tax) advantages.

The expression *Nachbarschaftshilfe* itself is often used synonymously with other practices such as *Pfusch*. The latter, however, can have one of two meanings, and it depends on the context as to which interpretation is applicable. In the context of *Nachbarschaftshilfe*, *Pfusch* is work that is being carried out illegally, i.e. outside of the formal sector. It is synonymous with ‘moonlighting’ (*Schwarzarbeit*) and is a term frequently used in Austria (Politik-Lexikon 2016). It is therefore an expression describing the work usually carried out by a professional to evade the payment of taxes. The second meaning of *Pfusch* is a term describing something of low quality, something undertaken in a hasty manner and/or not living up to one’s expectations in terms of quality (Maschmann 1990). Other terms that are frequently used in order to describe illegal labour include ‘informal sector’ (*Informeller Sektor*) and ‘shadow economy’ (*Schattenwirtschaft*). Per definition, these terms are not actual synonyms of *Nachbarschaftshilfe*, but rather umbrella terms that can include the informal part of this practice (Meyer 2000; Enste 2002; Enste and Schneider 2006).

### 5.15 **Sosyudad** (Philippines)

Ramon Felipe A. Sarmiento

Catanduanes State University, Philippines

The *sosyudad* refers to an entire class of voluntary associations practised in Virac, the capital town of the province of Catanduanes in the Philippines. *Sosyudad* is a local term for the Spanish *sociedad*, which denotes either a society or a sodality (Catholic association). As a practice of association, the *sosyudad* was first extensively described in an ethnographic study conducted between 2007 and 2008 (Sarmiento 2009). Two types of *sosyudad* were identified, a secular type and a devotional type; the basic difference being that the latter takes on a religious observance while the former does not. But there are other aspects of distinction. First, the secular associations are much more numerous. The author’s study found that around 300 secular groups were active, distributed around the 63 villages of the town, compared with only 20 groups of the devotional kind. Second, the study found that the secular group membership of *sosyudads* is small, usually restricted to an average of 11 members, whereas the devotional association groups often have a membership of more than 100 each. The difference in size matters – the secular groups typically meet weekly, while the devotional groups tend to meet on a monthly basis or more infrequently. Membership is open to both sexes, although the study found male membership to be slightly

higher. Typically, practitioners are middle aged and married, but groups also exist with younger members. Groups are formed according to various bases of affinities such as age, occupation, kinship, school affiliation or neighbourhoods. The practice has been observed to cut across the social classes.

For the people of Virac, mention of the *sosyudad* invokes two things: the weekly gatherings to partake of food and alcoholic drinks, and the depositing of money in a savings and lending enterprise. While there are exceptions, the typical *sosyudad* and the secular type in particular, revolves around these two activities. In most cases the majority of practitioners assert that eating and drinking takes precedence over saving and lending activities. The weekly meetings are the core of the *sosyudad* and the economic element lends a long-term and more utilitarian purpose since it operates in a one-year cycle. In addition to drinking and saving, many *sosyudad* groups find time to engage in other activities such as one-off economic enterprises, various forms of mutual aid and a few are involved with civic projects.

The eating and drinking, however, is not an end in itself, but merely the means to the enactment of egalitarian camaraderie, which appears to be the essence of the *sosyudad*. Accordingly, the intoxicated participation involves an elaborate set of norms that allows gratification of expressive fellowship among equals. For example, participants take equal number of shots from the same glass that goes around in a circular sequence, to symbolise equality. Conversational exchanges take place without anybody assuming leadership, and few topics are taboo, although discussions do not get serious and easily stray from the point. Language can become graphically profane, and participants joke and mock or insult each other just for the fun of it. The more expressive groups might even spontaneously break into playful and silly antics.

With such basic purpose pursued through its brand of interactive practices, the *sosyudad* is essentially a form of what Victor Turner called *communitas* (Turner 1969: 96–203). For Turner, the *communitas* is an experience of egalitarian liberty that is a stark contrast to the asymmetrically contoured mainstream social arrangement. In the *sosyudad*, *communitas* is generated through the reversal of the norms of status quo, which allows practitioners a respite from hegemonic social structures. Thus, to be able to sustain active participation in the *sosyudad*, a member must cultivate the practical competency involved in conjuring up the *communitas*-like state during sessions. But in spite of being a practice of reversal and resistance, the *sosyudad* does not pose a challenge to the prevailing order; instead it supports it. It plays a homeostatic function

where practitioners, having recharged from the weekend experience of *communitas* in the *soyudad* are afforded a new lease of endurance for the struggle and strains of everyday life throughout the rest of the week.

The anti-structure character of the *soyudad* is further manifested in the ways it shuns the more formal aspects of society: it operates with the barest minimum of organisational structuring, having no set of hierarchical roles and positions. It requires only a secretary-cum-treasurer who keeps a record of transactions relating to the savings/lending scheme. Nonetheless, the *soyudad* avoids any dealings with formal institutions, be they government or non-government organisations. Attempts by some development workers to convert *soyudad* into proper cooperatives failed. It thrives in what Turner termed as the 'interstices of social structure' (Turner, *Ibid.*). In fact, practitioners see their *soyudad* enterprise as 'a game played out' (*karawat-kawat*), albeit by adults, and therefore not worthy of preoccupation by the legitimating schemes of formal institutions.

*Soyudad* as a form of sociality is akin to many similar types of informal aggrupation observed elsewhere in the Philippines and typically associated with the agricultural economy (Castillo 1981; Manalili 1990; Abaya 2001). Early *soyudad* groups were really labour-exchange circles of farmers called *cumbinyu* (from the Spanish *convenio* meaning 'conference') that had decided to extend their regular congregations beyond the working seasons in the fields through weekly drinking sessions. Labour-exchange arrangements were popular in agricultural Philippines until recently, specifically in small-scale cultivation, and practised along various aspects of farming such as clearing of land, planting, irrigation and harvesting. They were known by different names such as *alayon*, *kompang*, *bataris*, *kabisilyahan*, *amuyong*, *pakyawen*, *sangheras*, *palusong*, *payuhwan*, *loyohan* and *hunglos* (for various cooperative forms in rural Philippines see Ortiz 1915; Lewis 1971; Ricafort 1980; Zialcita 1981; Jocano 1982; Mangahas 2008). Other informal cooperative systems were also popular all over Philippine rural society, some of them still being practised today. For example, the *atag* in Catanduanes is a mobilisation of voluntary labour for community purposes such as church building or clean-up campaigns. Neighbours in Virac may be summoned for a day of free labour to assist with the start of the building of a house (*duksoy*, Sarmiento 2009: 372). Groups may also form for specific purposes such as mutual assistance in cases such as the 'adoptive siblings' (*minagsoon*), as seen in the Visayas region. When death occurs in the family of a member, the *minagsoon* mobilises its resources to provide assistance to the family in the form of cash and kind, labour and

emotional support (Morales-Madrid 1990). There are also various savings schemes collectively known as 'rotating credit associations' such as the *paluwagan*, which is used for general purposes and is popular all over the Philippines (Bunda 1990), and the *komboy* in Mindanao, where year-round savings are collected to be used for *fiestas* or village feasts (Cuezon 2006).

Informal mutual aid and common-interest voluntary groups have been reported all over the world and are held to thrive in so-called developing societies. In early studies of people experiencing transition from traditional to modern, common interest groups are seen as adaptive mechanisms (Little 1957; Kerri 1976). More recently, the notion of civil society and social capital has been applied, seeing these groups juxtaposed against the coerced organisational scaffolding of the state and attributing to them an essential role in sustaining democracy (van Deth 1997). Purportedly, they are virtual training grounds for participation in the larger polity; greater civil society translates into more vibrant democratic governance. Can this be said of the *sosyudad*? The impact of the *sosyudad* on the broad scheme of Catandunganon society, even as a form of reversal and resistance, is at best ambivalent. It represents the limited small-scale sort of civil society, that while being a practice of egalitarian relations, hardly makes a democratising dent on the largely patronage character of local and national politics.

### 5.16 *Vay mu'otn* (Vietnam)

Abel Polese

Tallinn University of Technology, Estonia and

Dublin City University, Ireland

Both *vay* and *mu'otn* refer in Vietnamese to the act of borrowing money. Used together, they come to mean 'borrowing from all available sources'. This describes a situation where an individual, a couple or a family collects funding from a variety of sources to buy property or start a business.

The practice is fuelled by three main factors. The first is the large number of people in Vietnam who are informally employed. Because of the informal nature of their contract and hence of their income, many self-employed workers cannot meet the formal requirements to apply for a mortgage. Second, many ordinary people tend not to trust the banks (Le and Nguyen 2009). Third, the idea of a mortgage runs against prevailing ideas of property in Vietnam and, while mortgages are becoming more commonly accepted in urban areas, banks have so far identified few if any products that both meet the needs of potential customers and that

manage risk in such a way as to enable the banks to loan money to private borrowers.

In 1986, Vietnam launched a series of reforms known as ‘renovation’ (*Đổi Mới*). Aimed at moving Vietnam towards a socialist-oriented market economy, these reforms included allowing competition between the state and the private sector in non-strategic sectors of the economy. While the state formally retained ownership of land, it now allows land to be privately rented. This has led to substantial growth in private agricultural investment and production (Kerkvliet 2005; Fforde 2007).

These reforms have enabled private individuals to rent property, set up companies and carry out most of the activities that are commonplace in market economies. Modernisation has taken place relatively quickly and entrepreneurship has flourished (Szalontai 2008). Even so, the availability of start-up capital remains limited, not least because interest rates on loans remain relatively high. In 2015, for example, the interest rate stood at 7.1 per cent (World Bank 2015). This was, however, the lowest rate for the previous decade, which saw interest rates peak at 17 per cent in 2011.

In these circumstances, *vay mượn* has proved an effective mechanism for satisfying the demand for start-up capital. The practice is based on social solidarity and a scaled approach to secure money. Once someone decides that they need capital in order to make an investment, they discuss the issue with their close relatives who, depending on their own financial situation and the level of trust they feel for the borrower, will offer a sum of money, possibly at zero interest, to be repaid within a flexible timeframe. The lender may seek to agree a deadline by which the loan should be repaid, but will in practice have no formal means of enforcement. Unlike a formal bank loan, for example, the lender cannot repossess property in the event of a delay or failure to repay a loan. Even so, the practice is commonplace and remains widely used. This is because there are social and moral mechanisms in place to punish those who fail to repay loans. A borrower who fails to repay risks losing face and reputation, as well as the loss of family and social connections. As a result, the borrower has every interest in repaying the loan as quickly as possible. The borrower may in future be invited to reciprocate and to offer a loan to another relative to give continuity to the practice.

In cases where an aspiring borrower’s close relatives are unable to come up with as much money as is needed, the borrower will approach extended family members or close friends. The capacity to request a loan, and to be trusted by others, depends largely on one’s personal reputation. A person is unlikely to be lent money if one is seen as unreliable and if one has

a track record of defaulting on loans. An exception might be a relative in dire circumstances, in which case relatives might become more flexible and lend money in spite of higher risks of non-repayment. Interest rates tend to be zero, or close to zero, when money is borrowed from very close relatives. Rates are, however, likely to be higher when a borrower approaches friends or distant relatives, and when the sum in question is substantial. In such circumstances, the interest rate is likely to depend not only on how likely the borrower is expected to repay the money on time, but also on the nature of the personal relationship between the borrower and the potential lender. Every loan is negotiated on a case by case basis. If, for example, the lender thinks that one day they may need the borrower's services, they may suggest a zero interest rate that will give them informal credit with the borrower, enabling them to request a return favour at some future date. It may also be the case that a potential lender (A) owes a favour to or is dependent on someone (B) who, in turn, requests assistance for a borrower (C). In such circumstances, A may consider assisting C as a means of repaying a debt to B.

How much and from whom to borrow depends largely on individual choices. The practice of informal loans is acceptable both socially and legally. A possible related danger *vay muton* presents is that people may fall victim to loan sharks when trying to borrow from outside their closest circle. While the practice is well known and openly discussed in Vietnam, it has not as yet been closely studied in the academic literature.

### 5.17 **Loteria/Lloteria** (Albania)

Drini Imami

Agricultural University of Tirana, Albania

Abel Polese

Dublin City University, Ireland and Tallinn University of Technology, Estonia

and

Klodjan Rama

Leibniz Institute of Agricultural Development in Transition Economies (IAMO), Germany

In addition to state lotteries, in Albania *loteria* refers to a private lottery scheme through which money is poured into a common pool and is then awarded to one member of the community each month by drawing lots. It works in a way that is similar to the *tanda* scheme in Mexico (see *Tandas and cundinas*, 5.20 in this volume). The scheme originated in communist Albania. Although no written reference to the scheme exists that allows



the start of the practice to be located chronologically, it is possible to place the practice in the 1970s, as this was the period to which most informants refer and was also the period when many of the industrial complexes and large factories started operating in Albania (Kovacs et al. 2016).

The lottery scheme was conceived as a solution to several issues. First, the lack of private banks and the scarcity of loans from state banks made it difficult to borrow large sums of money. This situation was exacerbated by the fact that savings deposits in the state banks were poorly rewarded with low annual interest rates of 1–2 per cent. Second, average salaries were low: in agriculture cooperatives, earnings were in the region of 150–250 Albanian Lek (ALL) a month; factory workers could earn 400–500 ALL a month, while teachers, professors and engineers were paid a monthly salary of 700–900 ALL (for comparison purposes, at that time the price of a large loaf of bread was around 5 ALL and a kilo of meat cost 15 ALL; one US dollar was converted at 8 ALL in the late 1980s). It is interesting to note that these sums did not change substantially during the last two decades of communism (1970–90), thanks to government measures to control inflation.

As in other socialist countries, the housing policy was dictated by a state monopoly. Citizens had to apply for accommodation by signing up to a waiting list. Depending on the family situation, the city and location where the family were living (in addition to the possible strings the family was able to pull), applicants had to wait a number of months or years for a home. However, furniture and other household equipment were rarely, if ever, provided with the accommodation; rather it was generally sold through state-owned retail chains.

Items such as televisions and washing machines were allocated according to existing supplies. An applicant would make an order and wait, sometimes years, until stocks became available, regardless of the fact that they might have the money available for the purchase at the time that the order was made. As in other communist states, active party members and those with large personal networks advanced up the queue faster than common people with no resources or connections.

However, not everyone was in a position to pay for a desired item. For instance, people working in agricultural cooperatives could save so little that it might take them 10 years to save sufficient funds. Meanwhile, although people on higher salaries were able to save some money, they still faced an unknown waiting time for the supply of each of the items they wanted.

In larger employment institutions, employees commonly established an autonomous informal savings network. Collective saving meant

agreeing on a fixed amount to be deposited every month (eg. 50 or 100 ALL) into a common pool that would grow more rapidly than an individual savings pool. For example, a pool of 10–12 participants (which was the common group size), each saving 100 ALL per month, were able to save a total of 1,000–1,200 ALL in the first month alone – a sum sufficient to buy a television or a washing machine. To determine the winner, at the end of the month the organiser of the scheme would allocate *loteria* tickets to all the participants and draw a winning number. The winning number, or ticket, would secure the owner the total money required to purchase the equipment. However, the lucky ticket holder was not obliged to purchase a particular item. In some instances families used the money to cover an unexpected or extraordinary expense, such as a wedding ceremony. Whatever their decision, once a participant had won, they were then obliged to continue contributing to the pool every month until each of its participants had received the same amount of money.

The situation was a win-win for everyone. The ‘winners’, that is those awarded the money at the very beginning, gained by having the available sum of money they required much more quickly than if they had saved money individually. The ‘losers’, that is those who received the money after a period of a few months or a year (the usual lottery cycle would be up to one year), would still have the money at a similar time as they would have had if they had continued to save individually. The scheme could also be seen as a way of saving money, obliging a participant to put money aside every month, *de facto* forcing them into some saving habits; an opportunity that did not exist for all.

Finally, these schemes enhanced social solidarity among participants and created a bond between them that could then be used on other occasions. For instance, participants could decide to allocate the money in a given month not by lottery, but according to need. If it was known that one participant needed money urgently for a wedding or to remedy an emergency situation, then by consensus, the money could be awarded to the needy person, without a lottery draw taking place.

Because salaries were all paid on the same day, there was no need to store the money anywhere. On payday each participant gave their contribution to the savings pool accountant, who might also be the person in charge of paying out the salaries. After the draw had taken place the accountant would then pay the money directly to the winner. In spite of the high level of regulation and control present in socialist Albania, these lottery schemes were never formally banned. In fact, it is possible that they were boosted by the low rate of geographical and job mobility, allowing people to consolidate and trust one another over time. At the

same time this was accompanied by peer pressure and a desire or necessity to create dependency relations in order to have people to rely upon.

Interestingly, this informal practice has survived and can be found in present-day Albania, albeit in different forms and in spite of the fact that commercial loans are available and interest rates on deposits have increased. The modern version of the *loteria* still rests on cash-only contributions (bank transfers are rarely, if ever, used) made by a group of people into a common pool that is smaller than that used in socialist times. One explanation for the smaller groups may be the desire to compensate for the higher risk associated with the scheme, as participants no longer always come from the same neighbourhood or workplace. They might not know one another well and may be dependent on the *loteria* organiser knowing and trusting them all individually.

The goal is no longer the purchase of household equipment, but rather having an available sum of money that would allow an extraordinary purchase. The money might be used for a variety of items ranging from the purchase of a mobile phone or an ipad, to paying for a holiday. Because salaries are now paid at different times, and participants may come from different environments, they need to agree on a specific pay-day and a draw day. They might also on occasions decide not to apply the lottery scheme at all, but simply agree consensually on when each participant will receive their money. Should they fail to agree, if, for instance, too many people want the money in the same month, then they would revert to drawing tickets and get back to the lottery-like method of allocating the savings.

#### 5.18 **Esusu** (Nigeria)

Evans Osabuohien and Oluyomi Ola-David  
Covenant University, Nigeria

*Esusu* describes traditional forms of cooperation in African societies whereby groups of individuals contribute to informal savings and credit associations for their mutual benefit. These associations are found mainly in agricultural production and credit financing and they substitute for and complement modern cooperative institutions and formal financial systems. The practice is believed to have originated among the Yoruba people of Nigeria and to have spread from there to Liberia, the Democratic Republic of Congo and most of the West African countries (Seibel 2004). While known as *esusu* or *esu* among the Yorubas in south-western Nigeria, the practice is called *etoto* by the Ibos in south-eastern Nigeria; *adashi* by the Hausa people in northern Nigeria; *dashi* by the

Nupe people of Nigeria's Kwara and Niger States; *osusu* by the people of Ogoja in Cross River State; *isusu* by the Igbos from Abia, Anambra, Ebonyi, Enugu and Imo States; *asun* by the Ishans of Edo State; *etoto* by the Ibibios of Akwa Ibom State (Nigeria Real Estate Hub (NREH) 2014); *bam* by the Tivs of Benué State (Seibel 2004); *tortine* in Cameroon and Niger; and *susu* in Ghana (Iganiga and Asemota 2008). The term refers to the funds collected, not to the contributors themselves (Bascom 1952; see *obshchak*, 5.22 in this volume).

Outside Africa, *esusu* practices can be found in the Caribbean Islands, where they presumably migrated at the time of the transatlantic slave trade. Maynard (1996) documents the translocation of the Yoruba *esusu* rotating-credit association in Anglophone Caribbean. In Jamaica, the practice is called *partner*, while in other Caribbean Islands it is called *syndicate*. Migrants were also instrumental in establishing contribution societies in several American cities (Bascom 1952).

Among the Yorubas, traditional cooperatives known as *aaro*, *owe*, *esusu* and *ajo* are common. *Aaro* refers to a cooperative agricultural arrangement in which peer farmers form ad hoc groups and work on one another's farms at peak periods on tasks such as land preparation, planting, weeding and harvesting, until all the members of the group have been serviced (see *pomochi*, 5.13 in this volume). *Owe* is another form of agricultural cooperation whereby physically capable members of the community (usually young or middle-aged men) unite to assist the needy, elderly and chieftains on their farms.

*Esusu* and *ajo* describe means of informal financing, whereby individuals come together to further their individual and collective interests. This may take several forms. First, there are units that are aimed at mobilising savings but that engage in little or no lending. Second, there are lending units that engage in little savings mobilisation. Third, there are groups that engage in self-help finance and involve various types of savings, including rotating ones as well as those provided by licensed cooperatives (Ojenike and Olowoniyi 2013). In the literature on informal finance, *esusu* is generally associated with rotating savings and credit associations (Seibel 2004).

Among the Yorubas, *esusu* cooperatives operate as follows: a group of people team up to contribute a fixed and equal sum of money at specific intervals – daily, weekly, fortnightly, monthly or bi-monthly – enabling each member to collect the entire sum in rotation. When everyone in the group has benefitted from the pool, a new rotation cycle is launched. The order in which people get to draw the money is usually decided by means of a ballot or by consensus.

In urban areas, the Yorubas distinguish between *esusu* and *ajo*. In *ajo*, a professional collector, the *alajo*, goes round to collect contributions, usually on a daily or weekly basis, and is paid a small commission for this service. This is more personal than the formal financial system, since no one needs to go to the bank to make a deposit. At the same time, it is less personal than *esusu* associations, since *ajo* contributors do not necessarily know the other contributors. Rather, their relations are mediated by the *alajo*, who keeps a record of contributions. Each contributor must make regular contributions within a given period, but is at liberty to contribute according to their budget. In certain circumstances, such as an emergency, a contributor may ask the *alajo* to return a certain amount of their contribution; this is what distinguishes *ajo* from *esusu*. In some cases, the *alajo* has a bank account, in which he or she deposits the funds until the end of the collection cycle, at which point the money must be paid to the chosen contributor. The decision on how and when the contributor gets the money from the *alajo* is mutually agreed between the two of them. For instance, if the contributor contributes daily (which is popular among traders and small business owners) and the contribution ‘matures’ at the end of the month, the *alajo* will, after subtracting his or her fee, return the rest of the contribution to the contributor.

It is left to the *alajo*’s discretion whether or not to use a bank account for the collected funds. Many Nigerians are reluctant to subscribe to formal financial services. In southern and northern Nigeria, for example, street traders resort to informal means of credit and savings mobilisation because they do not trust most formal microfinance institutions (Oloyede 2008). When an *alajo* chooses to use a bank account, however, this means that informal finances enter the formal financial system, and creates a link between the formal and the informal systems. This coexistence has been recognised under the concept of financial dualism (Osabuohien and Duruji 2007).

*Esusu* operates outside the formal legal and financial systems and tends to function solely on an oath of allegiance and mutual trust. This ensures that members of the association who have collected their funds early do not pull out of the system, causing other members to lose some or all of their contributions. As for *ajo*, the credibility of the *alajo* plays the key role in preventing risk and ensuring continued patronage.

*Esusu* remains popular despite the establishment of formal microfinance institutions in Nigeria. It is used by workers of the informal sector, market places, rural and urban communities and religious groups. It is

particularly popular among low- and middle-income earners. Many rural workers rely on it because they are poorly paid and therefore do not have access to the formal financial system. *Esusu*, by contrast, tailors its financial services to the real, day-to-day needs of each member of the group. With *esusu*, saving is more convenient and credit is less costly than it would be in the formal financial system (Oloyede 2008). There are also cost-related incentives for joining an *esusu* group: it is interest free. Gender also plays a role: Nigerian women are more likely to use *esusu* as an informal means of saving than men (National Bureau of Statistics 2013).

While *esusu* is largely an informal practice, it also penetrates formal work settings and serves individuals and groups within business organisations. Engaging in *esusu* is often seen as supplementary to other means of obtaining credit (such as cooperatives). Many people engage in *esusu* in order to pursue a specific objective such as purchasing assets, starting a business or expanding their trade. Informal business operators often resort to *esusu* since they find it hard to obtain loans from banks.

Empirical studies of informal finance, financial exclusion, modern cooperatives, poverty alleviation, micro-financing and savings mobilisation in Nigeria recognise the significance of *esusu* and its variants and acknowledge its impact. Legal aspects and trust issues around the practices of *esusu* are less straightforward. Nonetheless, *esusu* practices in Nigeria and beyond are based on trust and on the integrity of the contributing members (Hofstede 1980; Fukuyama 1996). Comparative research into the origins and instruments of informal financing in a cross-country or a cultural-type perspective may bring interesting, if unconventional, results.

### 5.19 **Mahalla** (Uzbekistan)

Rustamjon Urinboyev

Department of Sociology of Law, Lund University, Sweden

Derived from the Arabic *mahali*, meaning ‘local’, the term *mahalla* is formally used in Uzbekistan to mean neighbourhood, local community, or state administrative unit. There are today some 12,000 *mahallas* in Uzbekistan, each of which consists of anything between 150 and 1,500 households (Micklewright and Marnie 2005: 431). However, the word’s rich cultural roots mean that *mahalla* has multiple meanings and definitions. In Uzbekistan it is also used by local people to describe community-based, informal economic practices (Sievers 2002; Urinboyev 2013). In this sense, *mahalla* denotes the means whereby people obtain access to public goods, services and social protection while bypassing the state. It is therefore necessary to distinguish between the ‘administrative’ (formal)

and the 'social' (informal) functions. For example, the term *informal mahalla* may be used to refer to *mahalla*-based welfare and redistributive practices.

Typically, *mahalla* practices include monetary and labour exchanges, rotating savings and credit initiatives, mutual assistance and non-compensated labour, housing construction and contributions to charity, all carried out within the local community. A non-compensated community project (*hashar*) is the commonest *mahalla* practice, where local residents cooperate with one another by the reciprocal exchange of labour, money, material goods and services. *Mahalla* residents arrange *hashar* for a variety of purposes, such as constructing irrigation facilities, cleaning streets, asphaltting roads, building houses or mosques, organising weddings, funerals and circumcision feasts and many other services not provided by the state. Sievers notes that, 'In modern Uzbekistan, few weddings, emergency medical operations, university matriculations, house repairs, or funerals take place in the life of the average *mahalla* resident without some community financial support' (2002: 129). Similarly, Seiple (2005) depicts *mahalla* as a means by which neighbours look out for one another by collectively parenting children, providing labour for repairs to houses, connecting friends and family to jobs and distributing funds to needy families.

The origin of the practice dates back to the eleventh or twelfth centuries when Islamic empires dominated Central Asia. In the pre-Soviet period, *mahallas* were usually communities of several hundred people, organised in accordance with Islamic rituals and social events. A group of elders known as 'white beards' (*oqosoqol*) acted as administrators, providing advice and direction to the local community (Geiss 2001; Dadabaev 2013). According to Olga Sukhareva (1976), a Russian anthropologist specialising in the study of *mahallas* in medieval Bukhara, *mahallas* gave residents access to services and infrastructure that were not accessible to non-residents. These included mosques, tea-houses, bazaars, cooking areas and water supplies.

During the early Soviet period, the authorities attempted to eliminate the *mahalla* as an institution; these attempts were abandoned after it became evident that they would provoke social unrest (Abramson 1998). As a result, the Soviet authorities changed their strategy and tried instead to use *mahallas* to disseminate communist ideology by integrating them into the state and party structures. As a result, *mahallas* continued to serve as local village councils throughout the Soviet period (Bektemirov and Rahimov 2001).

After Uzbekistan became independent in 1991, the authorities expanded the role and responsibilities of *mahallas* (Louw 2007). The



*mahalla* was transformed into the basic administrative unit of local government. *Mahallas* are now hybrid institutions, operating both as part of the formal system of public administration (*formal mahalla*) and as an informal, community-based welfare system (*informal mahalla*) (Sievers 2002; Urinboyev 2011, 2013, 2014). One may distinguish between 'formal' and 'informal' *mahalla* by looking at their functions and regulatory



**Figure 5.19.1** Dinner at a *mahalla*.

Source: Author. © Rustamjon Urinboyev.



structures: formal *mahallas* take the form of committees headed by a state-salaried chairman (*rais*) and act on behalf of the state; informal (social) *mahallas* are founded on moral ideas of solidarity and mutual help and are led by an *oqsoqol* chosen by residents.

Given the existence during the Soviet period of an all-encompassing social protection system, people in those days felt less need for a *mahalla*-based welfare system. But cutbacks in state welfare support in the post-Soviet period mean that *mahallas* have now become primary providers of social welfare. Sievers (2002: 103) notes that, ‘The economic significance of *mahalla* has shifted from a vehicle through which to amass additional or disposable wealth to a vehicle for basic survival’.

Since 1991, the Uzbek authorities have portrayed the *mahalla* as an Uzbek national brand, but analogous institutions may be found in Islamic areas stretching from Central Europe to Southeast Asia. Similar traditions persist in Tajikistan, Kyrgyzstan, Iran, Afghanistan, Turkey and Azerbaijan (Trofimov 1995; Coudouel et al. 1998; Sievers 2002; Louw 2007). Other examples may be found in the Balkans, dating from that region’s Ottoman (Islamic) past (Choleva-Dimitrova 2002).

*Mahallas* embody moral ideas of solidarity and mutual help. But while this *mahalla*-based solidarity is based on ties of kinship, reciprocity and good neighbourliness, it may also contribute to the emergence of initial elements of nepotism, cronyism and patron–client relations. According to informal norms of *mahalla*, the individual is expected to share his or her economic resources and political influence with his *mahalla* (family, relatives, neighbours). These *mahalla* norms shape the behaviour of individuals when they engage in public administration, business and social life. State officials frequently find themselves compelled to choose between, on the one hand, loyalty to their kin and *mahalla*, and, on the other hand, honesty at work. Therefore, upholding respect and loyalty for kin and *mahalla* networks often comes at the expense of the formal structures, thereby leading to an omnipresence of clientelistic relations in state institutions (Urinboyev and Svensson 2013). In this way, *mahalla* structures undermine the rule of law and good governance initiatives by promoting alternative versions of how people should behave.

## 5.20 ***Tandas and cundinas*** (Mexico and south-western USA)

Carlos G. Vélez-Ibáñez

Arizona State University, USA

Rotating savings and credit associations (ROSCAS), known as *tandas* in central and southern Mexico and *cundinas* in northern Mexico and

the south-west United States, are informal economic mechanisms that enable members to save and, when necessary, to access money.

In its simplest form, a ROSCA might consist of an organiser and four other individuals who agree to contribute a set amount equivalent to, say, US\$10 a week. The order in which these sums are distributed may be decided either by lot or by the order in which the members joined. Each person, including the organiser, will receive a one-time payment of \$50, and the lifespan of this hypothetical ROSCA will be five weeks. In the words of Shirley Ardener, one of the pioneers in the study of this phenomenon, a ROSCA consists of 'a core of participants who agree to make regular contributions to a fund which is given, in whole or in part, to each contributor in rotation' (Ardener 1964: 201). From this simple model, however, ROSCAs have evolved into much more complex structural and institutional types, which vary widely in their formality. ROSCAs are a worldwide phenomenon, with comparable practices found in North America, Africa (see *esusu* in Nigeria, 5.18 in this volume), Asia (see *gap* in Uzbekistan, 5.12 in this volume) and Europe (see *loteria* in Albania, 5.17 in this volume). ROSCAs are often (though not always) associated with population migration. That said, the Mexican versions can be both local and trans-border in character.

Originally, ROSCAs were organised by men and developed from forms of agricultural exchange. Women in land-based economies were traditionally excluded from owning land and, other than payment for their labour, had access to few resources. This was, for example, the case in rural India and Africa, as well as elsewhere. In today's monetised economies – whether rural or urban, developing or developed – many ROSCAs are in the hands of women (Ardener 1964). Many of the thousands of *tandas* or *cundinas* in northern Mexico and the south-western United States are today run by women, who act as managers as well as participants. Women have few resources other than limited wage labour to develop capital for consumption, investment or saving. With credit markets limited – because of low wages, lack of collateral or attitudinal or market conditions – women must use all available means to provide for their families. Among these are ROSCAs, which can be a means for generating savings in order to create income-producing enterprises. The main strength within networks of women worldwide is social capital and their willingness to extend it to others. This enables and helps to explain the rise of ROSCAs run by women (Vélez-Ibáñez 2010: 15–17).

The database cited in this section draws on field research carried out by the author from 1971 intermittently through to 2008. The first extensive database was compiled in 1978 and 1979, based on ROSCAs

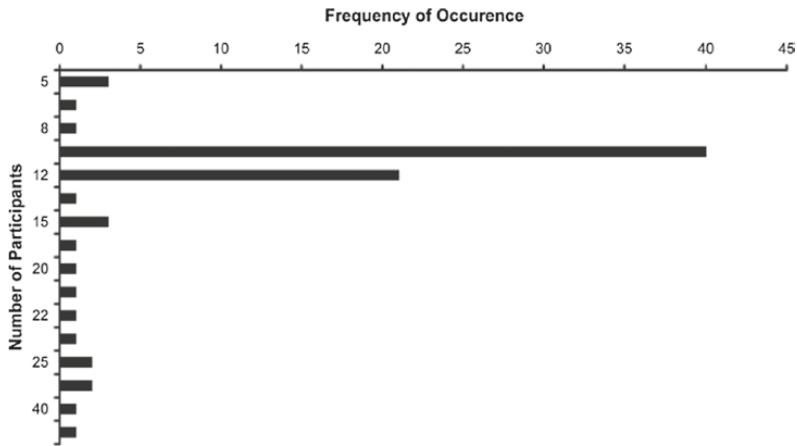
identified in Mexico and the United States. Snowball and opportunistic samples generated data on 65 informal and intermediate ROSCAs, 4 of which may be described as Rotating Credit Associations (RCAs), that is, formally organised institutions. The author's 1983 book, *Bonds of Mutual Trust*, was based on this fieldwork. From 2000 to 2009, two intensive field studies used opportunistic and snowball-sampling to gather additional data. This work focused on the US states of Arizona, southern California and Washington; the Mexican states of Baja California, Sonora and Sinaloa; and the Arizona-Sonora border. This database included 65 new informal ROSCAs and 7 RCAs. The entire sample covered 137 ROSCAs and 25 RCAs, representing about 5,000 people, with data gathered from more than 90 informants, 10 web pages, countless emails and numerous conversations with at least 40 people, from Seattle in the north-west of the USA all the way to Xalapa, Veracruz in south-west Mexico. The author also participated in three ROSCAs: two in Phoenix, Arizona and one in San Luis Río Colorado, which straddles the Arizona-Sonora border. This last was a complex trans-border organisation, with participants living on both sides of the border and using both Mexican pesos and US dollars as currency (Vélez-Ibáñez 2010: 21–3).

The number of individuals participating in informal and intermediate ROSCAs (the latter defined as occurring in institutional settings) is shown in Figure 5.20.1. ROSCA members commonly numbered between 10 and 12, with higher numbers in intermediate ROSCAs.

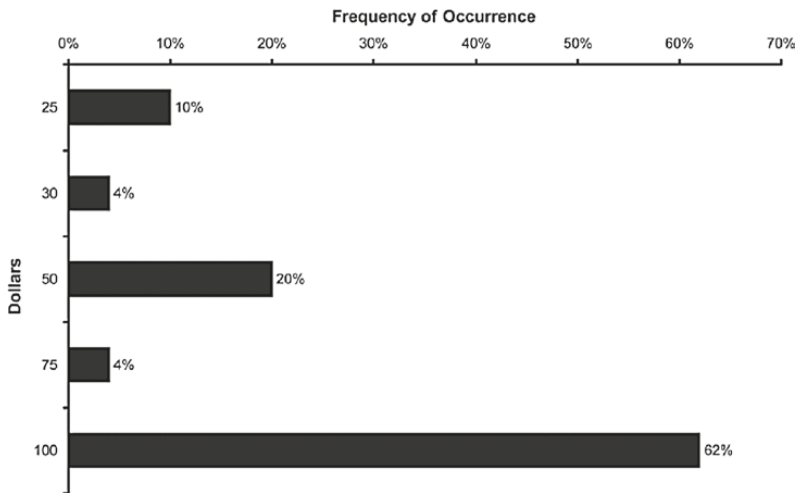
The amount of contributions (given here in US dollars) is shown in Figure 5.20.2 with a contribution of \$100 being the most typical, made on a weekly basis for the informal *tandas* and monthly for the intermediate ones.

As shown in Figure 5.20.3, for the majority of ROSCAs the total 'fund' (that is, the amount dispersed or rotated at each turn) averaged between \$1,000 and \$1,250. Of all the funds dispersed, the highest amount was \$10,000 dollars for 4 per cent of the sample. This amount was distributed in *tandas* made up mostly of individuals in business enterprises or larger networks of associates. If, for example, over a period of 40 months 40 individuals made a monthly contribution of \$250 each, at each turn one of the 40 could receive \$9,750 (the person on the receiving end does not make a contribution); alternatively, 20 individuals could receive \$500 each, or 10 persons \$1,000. The permutations are endless.

Risks associated with fraud, non-payment or any other 'act of God' were mitigated by two factors. First, most participants were members of tight social networks, meaning that neighbours were likely also to

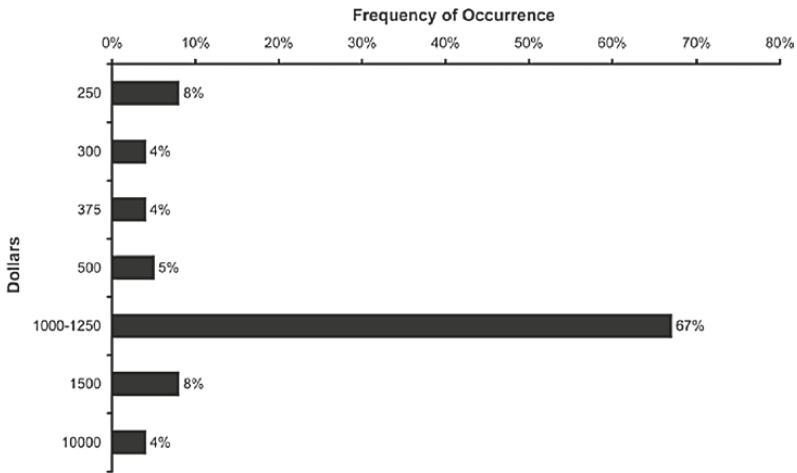


**Figure 5.20.1** The number of individuals participating in informal and intermediate ROSCAs.  
 Source: Vélez-Ibáñez 2010: 68.



**Figure 5.20.2** The amount of contributions (in USD).  
 Source: Vélez-Ibáñez 2010: 72.

be relatives or friends, to visit one another’s homes, to exchange useful information and to attend the same local events or social activities. This in turn developed dense relations of trust. The second factor was the establishment of mutual trust based on kinship, friendship or other such relationships (*confianza*). In most of the 130 ROSCAs studied, informants



**Figure 5.20.3** The total amount distributed in *tandas*.

Source: Vélez-Ibáñez 2010: 77.

raised the issue of risk, but only a few had actually suffered the consequences of someone defaulting or of the organiser absconding with the funds. Out of 130 ROSCAs with a total of 1,300 members (calculated on the assumption that 10 is the normative size of a *tanda*), 4 defaults prior to 1983 and 5 after 1983 had resulted in a default rate of slightly more than 0.005 per cent of the total funds (Vélez-Ibáñez 2010: 111).

Why would someone not just simply go to a bank to deposit their savings, collect interest and borrow money when the need arises? The reason is that participation in *tandas* is a social as much as a financial activity. There is no social glue enforcing weekly or monthly savings deposits in a bank. *Tandas*, by contrast, create an environment in which the social glue strengthens with every transaction. In particular, they help to alleviate the stress and uncertainty generated by dynamic migration processes.

### 5.21 *Salam credit* (Afghanistan)

James McLeod-Hatch

UCL, UK

The *salam credit* system is an informal credit system in which the repayment of cash advances towards agriculture is made in agricultural produce. This system is prevalent in the south and east of Afghanistan, and

generally refers to the advance of cash for agricultural inputs, such as seeds and fertiliser, to be repaid by the debtor in raw opium paste.

During times of financial stress, a farmer will enter into a contract to provide a certain amount of opium to a creditor, usually just after the harvest (*salam* credit tends to be a short-term seasonal loan). The loan can be used to finance the cost of agricultural inputs for poppy cultivation, although this is not always the case – it may also be taken to service another debt, such as marriage costs (Mansfield 1999b: 12). The amount of the loan is typically 50 per cent of the value of the current price of opium. So for example, a farmer agreeing to provide 10 kilos of opium at a time when opium costs \$100 a kilo will receive a \$500 loan. The cash value of the loan will vary according to such factors as the proximity of the harvest (the closer to harvest, the higher the farm gate price due to falling stocks) (Anand 2004: 26), and the creditworthiness of the farmer (often opium cultivation in itself gives the farmers access to more favourable credit). Less creditworthy farmers might receive less than the typical 50 per cent, if, for example, they do not own any land (Mansfield 2004: 4).

This type of informal credit mechanism does not uniquely pertain to opium poppy cultivation: it can also (less commonly) be used for agricultural inputs towards the cultivation of livestock and fruit (Mansfield 2001b: 11) or grains and spices (Mansfield 2004: 3). However, the *salam* credit system is most commonly associated with the cultivation of poppies, especially as formal micro-financing strategies that (intentionally) support the cultivation of illicit crops do not exist.

The term *salam* (سلم) can be roughly translated as ‘delivery’, and comes from the Arabic financial concept of *Bai' Salam*, ‘an ancient form of forward contract wherein the price was paid in advance at the time of making the contract for prescribed goods to be delivered later’. Its principles are laid out in the *Hadith* (the body of works discussing the words and actions of the Prophet Mohammad) and it appears to have originated specifically as a method for farmers to raise finance (Ayub 2009: 241). The mechanisms by which it operates, under its original design, were such that it was compliant with other Islamic financial principles, such as avoiding usury (Ayub 2009: 242).

Although *salam* is a basic Islamic financial principle, the fact that it involves money being repaid with commodities means that it is not a suitable mechanism for formal Islamic financial institutions, such as banks, to employ. It is a more useful mechanism for traders of goods. Outside of Afghanistan, it is not commonly reported, although such a system has been described in the Sahel region of Africa (Srivastava 2013: 106).

Using opium as a form of credit is also not exclusive to Afghanistan – similar systems advancing payments against opium exist in Thailand, Pakistan and the Lao People’s Democratic Republic (Ayub 2009: 11).

In the literature on *salam* in the 1960s and 1970s, the practice is only referenced in relation to *in extremis* funding to support licit farming activities – typically, for a sharecropper to feed his family wheat during the winter (Stevens and Tarzi 1965: 63). By the mid-1970s, the high cost of borrowing and the introduction of formal, more efficient borrowing mechanisms such as banks meant that *salam* credit had ‘largely been abandoned’ throughout Helmand (Farouq and Scott 1975: 61). However, large-scale geopolitical developments, including the Soviet incursion and subsequent civil war, meant that opium became an extremely attractive crop to grow (Goodhand 2005: 191–216). By the time the Taliban were toppled, *salam* credit was resurgent – and squarely associated with the opium trade (Stevens and Tarzi 1965; Farouq and Scott 1975). Thus, *salam* credit did not emerge in Afghanistan specifically to service the opium economy: rather, it was adapted from existing agricultural financing practices.

*Salam* is not the only informal economic practice associated with agricultural credit in Afghanistan. There are similar mechanisms in other parts of the country, such as *raf-e-zawat* and *pishaki* in the north and north east Afghanistan. Other informal practices for raising money also exist, such as *anawat* (also known as *jawzai* in eastern Afghanistan), ‘the short-selling of commodities for cash loans’ (Mansfield 2015, personal correspondence) – although it too has negative associations ‘due to the punitive mark-up charged by the lender’, which could be argued as being interest and therefore un-Islamic (Mansfield 2004: 4). The preferred option to borrow cash in the first instance is always an interest-free loan – *qarz-e-hasna* – which usually comes from a family member (Mansfield 1999a: 14). In early 2015, *salam* had disappeared from many areas where it had been formerly used, due to increased liquidity in these areas allowing for *qarz-e-hasna*. Farmers recognise that opium is an expensive form of credit: in some areas *salam* has disappeared simply because poppy cultivation no longer occurs (Mansfield 2015, personal correspondence).

Due to the loan being agreed in terms of output, and not the cash sum borrowed, poor harvests can lead to indebtedness. If the amount of opium the farmer has produced is less than that required to pay off the *salam* credit, he may have to borrow enough through another type of loan to purchase the shortfall in opium; or he might try and parlay the shortfall to the next season, if the creditor agrees. This encourages cycles of debt, but also encourages season-on-season increases of land put under

poppy cultivation, since the farmer must grow more poppy to make up the shortfall from the last season. Moreover, if the price of opium has increased in the period between the loan being taken and the repayment, the farmer will find himself even more indebted. This means that ‘the real cost of repaying the *salam* initially received could be as much as six times the original loan’ (Mansfield 1999a: 15).

The effects of a spike in opium prices were especially evident in the 2000/1 growing season, following the Taliban (then governing the country) banning poppy cultivation. Just 7,606 hectares of poppy were grown in 2001, down from 82,171 hectares in 2000 (United Nations Office on Drugs and Crime 2012: 28). With a markedly reduced supply, the market consequently responded with increased opium prices, which had ‘the equivalent effect of charging interest at 1,000–1,500 per cent’ (Mansfield 1999a: 8).

Currently the government of Afghanistan does not have the writ to impose an effective ban on poppy cultivation, but there are other extreme price risks that the farmers face, for example, from disease. The 2010 poppy crop was badly affected by disease; as a result, opium prices jumped from an average price of \$71/kilo in July 2009 to \$300/kilo in February 2011 (United Nations Office on Drugs and Crime and Islamic Republic of Afghanistan Ministry of Counter Narcotics 2013: 64). Other threats facing the farmer include drought, which would also negatively impact on opium yield, or government eradication of the farmer’s poppy crops.

The potential for a *salam* loan to spiral out of control is greater for more marginal farmers who are less liquid. If other loan sources have been exhausted, and the creditor will no longer let the loan ride to the next season, the farmer is forced to resort to more extreme cash-raising strategies. This might include engaging in wage labour; the sale of livestock or a vehicle; or, if the debt is larger still, the sale of land or even family members is sometimes used as a last resort to service debts – giving away young female family members in marriage as settlement (Gayan 2012: 308). This practice is effectively an extension of the marriage dowry system common across the subcontinent and especially in Pashtun culture. In 2008, it was reported that the incidence of these so-called ‘opium brides’ was increasing (Yosafzai 2008).

*Salam* credit is one of the myriad complicating factors that undermines efforts by the government of Afghanistan and the international community to encourage farmers to grow licit crops (such as the provision of formal micro-finance initiatives). Combatting it is simple in principle, but complex in practice. In simple economic terms, *salam* is not



especially popular, and people will naturally seek cheaper and more stable debt. As in the mid-1970s, in the past few years *salam* loans have become less common in Helmand, where ‘liquidity and the possibilities of getting cash loans from family members mean that few farmers stake *salam*’ (Mansfield 2015, personal correspondence). However, the entire matrix of factors that lead to illicit cultivation in the first place – economic necessity, instability, lack of formal alternatives, lack of infrastructure, corruption, etc. – needs to be comprehensively addressed in order to permanently reduce the prevalence of *salam* credit. In the meantime, any formal alternatives – such as micro-finance initiatives – that are attempted must be efficiently delivered and institutionally sound enough to withstand corruption or abuse. They must be aimed at the most economically vulnerable farmers in poppy cultivating areas, especially during times of economic stress; as these are the same conditions that favour *salam* credit.

## 5.22 ***Obshchak*** (Russia)

Gavin Slade

Freie Universitat, Germany

The *obshchak* is a term that emerged in the early Soviet penal system in Russia (Gurov 1995; Varese 2001; Dolgova 2003). It derives from the Russian adjective for shared, common or communal (*obshchii*) and denotes a collective fund, used primarily for the purposes of mutual aid among like-minded convicts.

The practice of collecting the *obshchak* was originally confined to the Soviet Union. In the post-Soviet period, the term is used in criminal communities and prisons in most countries of the former Soviet Union. In the Baltic States, the South Caucasus countries and in Central Asia, the Russian word is given a local twist. Georgians, for example, call it the *obshchaki*, where the addition of *i*, a Georgian nominative ending, makes it sound colloquial. In Central Asian states such as Kyrgyzstan, the word is used as an adjective to denote any prisoner who concedes to the informal code of the prisoner elite, the *vory v zakone*, (see *kanonieri qur-debi*, 3.21 Volume 1). Thus, a prisoner can be described as *obshchakovyi*. In some Russian regions, the word has acquired an additional meaning, synonymous with criminality. For example, in Khabarovsk in the Russian Far East there is a powerful organised criminal grouping that simply calls itself *Obshchak*. The norms associated with such practices have also spread outside the successor countries of the Soviet Union through migration from the old Soviet bloc (Varese 2011).

In criminal contexts, funds are raised through the extortion or voluntary contributions of prisoners or entities outside prison. Those who give voluntarily signal their commitment to the criminal community. The term is linked to organised crime in a two-fold way. On the one hand, *obshchak* is part and parcel of extortion, whereby so-called protection money is paid by racketeered businesses. On the other hand, the *obshchak* ensures integration within and cooperation between criminal groups. This penetrates all levels, from individual prison dormitories and street gangs to city districts and even regions, with funds funnelling upwards to the most powerful groupings (Varese 2001; Volkov 2002). Both functions – the collection (informal taxation) and redistribution (informal welfare) of common funds, dissociated from the state or other legal providers – are essential for the emergence of mafias (Gambetta 1996). The colloquial use of the word *obshchak* can also be used in non-criminal contexts, as an abbreviation of ‘common fund’ (*obshchaya kassa*), to highlight the informal nature of collection and distribution (see ‘black cash’ or ‘black coffer’ – *chyornaya kassa*).

While the criminal *obshchak* can be used for mutual aid and support to those who are ill, in police custody, or in the segregation unit of the prison, the spoils generally accrue to those at the top of the criminal ranks. Thus, the *obshchak* should be understood as a form of generalised reciprocity that locks those who practise it into consistent lines of action. This means it represents an investment by criminals who do not receive immediate benefits but who then have an interest in remaining within the criminal community to reap the long-term returns as they move up the ranks. As such, voluntary investments in the *obshchak* can be understood as a signal of commitment, solidarity and positive attitudes towards the criminal community (Slade 2013). Investments are a measure of this commitment and can lead to promotion within the prison hierarchy or organised criminal group. However, for those who do not adhere to the inmates’ code that supports the *obshchak*, it may be nothing more than a source of extortion.

The practice of pooling resources for mutual support and insurance against the worst is of course common in many informal settings. Paoli’s work on the Cosa Nostra and ‘*ndrangheta*’ mafia groups in southern Italy shows similar common pooled resources (Paoli 2003: 85–6). As well as creating rational incentives for long-term individual commitment to a social group, such pooling of resources is often sacralised as surrender of the individual to a higher good – that of the collective. In post-Soviet Georgia, criminal materials confiscated by police included a document with rules concerning the use of *obshchak* (Glonti and Lobjanidze

2004: 118–19). The pious language it uses is revealing: ‘The *obshchak* is a sacred place. It may only be governed by saintly people ... These people must be absolutely honest to the thieves’ idea, dedicated in their heart and soul ... Every keeper [of the *obshchak* – GS] must have from five to fifteen people in his care’ (Glonti and Lobjanidze 2004: 118–19) Misuse of the *obshchak* and abuse by the keepers is a particular sin. This sacralisation of the community that the *obshchak* represents is by no means unique. Communal work and investments that inspire feelings of a higher calling to a collectivity is widespread in groups such as religious sects and utopian communities (Kanter 1972; Tilly 2005).

The *obshchak* norms and practices are related to other informal practices that emerged in the prison camps of the Soviet Union and became institutionalised. The practice of the *skhodka* – an informal ‘court’ for meetings of elite level prisoners – was and still is important for organising the *obshchak*, sanctioning breaches of rules connected to it, and electing those who should look after the fund. An insight into the rules and sanctions in Russia comes from the 2015 conflict between factions of one of the most powerful organised criminal groupings of *vory v zakone* over irregularities in *obshchak* book-keeping. After conducting an ‘audit’ of *obshchak* finances, a high-ranking boss uncovered instances of dubious book-keeping in the prison colonies of Ryazan region in Russia. This serious episode led to the person responsible for the *obshchak* records having his criminal status downgraded as punishment (Znak.com 2015). While in the past, the importance of the *obshchak* lay mainly in providing mutual support to prisoners and in furnishing the authority of the prisoner elite in the Soviet gulags, today the practice has been adapted for the purposes of organised crime-led business and is monitored more closely by both insiders and outsiders.

Police forces from Sweden to Armenia have endeavoured to find hidden resources associated with the *obshchak*, to uncover traces of their investment and to establish their beneficiaries. As the *obshchak* was the key mechanism of criminal coordination and cooperation for those imprisoned in the Soviet gulags, its norms and practices have lent themselves to transnational organised crime in the present day. Transfers of resources can be made without actual flow of funds, thus making payments invisible to the authorities. In this respect, the *obshchak* resembles underground banking systems based on informal rules and honour operational in the Middle East, India, Pakistan and North Africa (see *hawala*, 5.40 in this volume). In cases where *obshchak* has been exported beyond the geographical boundaries of the former Soviet Union – for example, among post-Soviet immigrant labourers in Greece, ethnically Russian prisoners

in Israel and Eurasian criminal bosses laundering money in Spain – there is a shared understanding of what the *obshchak* is and of the correspondent code that enables its operation.

Perhaps the most important implication of *obshchak* practices is their functionality for, if not symbiotic relationship with, formal institutions. Prison is the most common example (see *krugovaia poruka*, 3.10 Volume 1). According to ex-prisoner respondents in Kyrgyzstan, the criminal authorities are actively involved in the running of prisons. They report that *obshchak* contributions are collected on Fridays in all prison dormitories, records of the contributions are kept, and the resources are then redistributed according to need. In Lithuania, prisoner respondents report the *obshchak* is still collected as it was in Soviet times, though its importance has declined with the prison reforms and the greater efficiency of the formal prison authorities.

Prison reforms aimed at inmates' well-being reduce their dependence on *obshchak*, while anti-mafia policies directly targeting *obshchak* can make a real difference. Thus, during an anti-mafia campaign in Georgia in 2006 as part of President Saakashvili's anti-corruption reforms, 19 people were arrested and an *obshchak*, containing 100,000 lari (\$50,000 USD) was seized. Along with the money, an encoded list was recovered with names, dates and amounts given. According to the Georgian police, 'the money was collected by criminal authorities or contributed by people who voluntarily donated money to support the criminal world and transferred funds to this criminal account' (Prime Crime 2006). These examples show the importance and variation of *obshchak* as a distinct form of collective resource pooling and wider solidarity among like-minded criminals across the post-Soviet region and beyond.

## Informal entrepreneurship

### 5.23 *Zarobitchanstvo* (Ukraine)

Alissa Tolstokorova

independent scholar, Kyiv, Ukraine

*Zarobitchanstvo* is a term used in Ukraine for 'earnings made away from home', that is, labour migration, both internal and external. Today, between 10 and 20 per cent of Ukrainians of working age are engaged in *zarobitchanstvo*. Recent years have seen a surge in female migrant labour, and this is having a significant impact on Ukrainian society. Travelling abroad to work is not a new phenomenon in Ukraine: it has long been a means of self-reliance in times of social and financial turmoil. It was

practised both in tsarist Russia and under Soviet rule. In the USSR, for instance, there was a common informal practice known as 'to leave in search of a long rouble', meaning to travel to work in the Russian Far North, where salaries were substantially higher than elsewhere in the country. There were also informal cooperative associations of people who travelled around the country in search of temporary or seasonal work, chiefly in building or agriculture, and mainly with private employers (*artels* of *shabashniks*, Zemtsov 2001: 332). In the 1990s, during Ukraine's transition from a command to a market economy, working abroad became commonplace.

Work has traditionally been assigned in Ukraine according to gender, and migrant workers are no exception. As a result, the 'gendered structure of *zarobitchanstvo*' is a key characteristic of migrant labour today (Haidinger 2008: 132). Ukrainian men generally find work abroad as builders, drivers, mechanics and fitters. Ukrainian women, by contrast, are generally employed as office cleaners, domestic or factory workers, carers for the elderly, or dancers in bars and nightclubs. In the 1990s, when the construction industry was the main source of foreign work for Ukrainians, migratory flows were mostly male (GfK Ukraine 2008: 9). The 2000s, by contrast, saw a surge in female migration. Recent estimates put the female share of the workforce at between 35.4 per cent and 50.5 per cent (Markov 2009).

Many migrant workers come from the rural regions of western Ukraine. For example, 41.9 per cent of the population of Transcarpathian Oblast (region) in south-western Ukraine are believed to have worked abroad, of whom 56.1 per cent are male and 43.9 per cent are female. In Ternopil Oblast in western Ukraine, 17.6 per cent of the economically active population have worked abroad, of whom 51.4 per cent in the region overall are female, while in the regional capital the female share reaches as high as 62.5 per cent (Shushpanov 2009). Of the European Union (EU) countries, Ukrainian women are most likely to travel for work to the Mediterranean region. In Spain, for example, up to 55 per cent of Ukrainian labour migrants are female; in Greece 75.5 per cent; in Italy 90.2 per cent. Male workers are more likely to find work in Portugal, where they make up 68 per cent of the Ukrainian workforce; in Russia 60.4 per cent; or in Germany 60 per cent. Recent years have seen an acceleration of female labour force outflow to Russia (up from 39.6 per cent in 2001 to 50 per cent in 2009) and to Poland (up from 19.4 per cent in 2001 to 66 per cent in 2009).

The feminisation of *zarobitchanstvo* has led to several new phenomena. These include: *Neapolitisation*. This term describes the process of adaptation to life in a host city/society. It is used in particular by

Ukrainian migrants in Italy where Naples is the most common destination (Ukrainian – Neapol); ‘*New Cinderellas*’ (Tolstokorova 2011) or ‘*Naples Cinderellas*’. These terms describe Ukrainian migrant women whose target country of migration is often (though not always) Italy, again with Naples as a frequent destination; ‘*Skype mommy*’ (Savka 2013) and ‘*transnational supermom*’ (Tolstokorova 2013). These terms refer to migrant mothers whose children remain in Ukraine; ‘*Italian syndrome*’. This term was coined by psychologists in western Ukraine to cover a complex of mental and physical disorders that migrant workers, especially women, may develop during their time abroad (not necessarily in Italy, but also elsewhere). These include depression, paranoia, agoraphobia and other psychological problems resulting from alienation from family and loss of familiar social connections. Female domestic workers may suffer spinal injuries, for example, as a result of having to lift bed-ridden patients. Long absences from home and a fragmented style of transnational family life may also encourage unsafe sexual relations, which may in turn harm migrants’ reproductive health; ‘*Italian children*’ (Majdanik 2010). This describes children of migrant workers (again, not only those working in Italy) who, in the absence of their parents, become ‘social orphans’ – a term usually used in Ukraine to describe children who have biological parents but who live on the streets, with foster families, or in boarding houses. Deprived of family socialisation and gender role models, these young people often lack opportunities to learn survival skills such as self-organisation, individual responsibility and emotional maturity. As a result, labour migration has been accused of fostering a generation of young people who are reluctant to work and choose instead to live on remittances sent by their parents, frittering them away on luxuries, alcohol or drugs (Kyrchiv 2004). They do not see how hard their mothers and fathers work abroad to provide for their well-being. All they see is the remittances arriving from abroad and they regard their parents as ‘pay-check Moms’ (Tolstokorova 2010), ‘personal money bags’ and ‘private ATMs’ providing them with banknotes. They come to associate international employment with easy money and *la dolce vita*, and to believe that money can only really be made abroad. Being financially better-off than children from non-migrant families, they are perceived by their peers as proof of this belief. A sociological poll of migrants’ children at several Kyiv high schools found that 86 per cent of them did not see their futures in Ukraine, and that 65 per cent of school leavers wanted to leave Ukraine and work abroad as soon as possible (Kyrchiv 2004). This suggests that ‘*Italian children*’ may come to represent a lost generation that is unlikely to contribute directly to Ukraine’s national economy.

The term 'Italian husbands' denotes spouses left behind in Ukraine by female migrant workers. There is evidence of social alienation among such husbands, who are often unemployed and dependent on the remittances sent home by their wives. Alcohol and drug abuse are commonly reported problems, as is unprotected sex, which may have damaging health effects and lead to higher male mortality. The positive effect of this trend, however, is that many husbands of female migrants take on the roles of carers and housekeepers – if only for as long as their wives remain abroad – and this is changing the stereotypes of masculinity in the direction of responsible fatherhood.

In today's Ukraine, *zarobitchanstvo* is perceived not merely as a spontaneous form of self-organisation of the population but as a frame of collective thinking. It is a specific Ukrainian phenomenon with its own social values. It is not just a means of making money, but a lifestyle choice that has implications for Ukrainian society at large.

#### 5.24 ***Rad na crno*** (Serbia)

Kosovka Ognjenović

Institute of Economic Sciences, Belgrade, Serbia

*Rad na crno*, literally 'black labour', is a Serbian term that describes socially acceptable ways of coping with the problems experienced by ordinary people during Serbia's turbulent transition from socialism, that is, away from the system of worker-managed enterprises that characterised the Yugoslav economy from the late 1940s until the late 1980s. Specifically, *rad na crno* denotes payment for jobs that are not officially registered or that are only partially reported to the state authorities, and that are therefore not subject to taxation, social insurance or labour law. While the term has negative connotations in formal and legal contexts, ordinary people use it routinely and generally accept it as legitimate.

The term was commonly used in all the republics that, until the beginning of the 1990s, constituted the Socialist Federal Republic of Yugoslavia. For instance, *rad na crno* is translated in Slovenian as *delo na črno* and in Macedonian as *rabota na crno*, while similar phrasing is used in Bosnian, Croatian and Montenegrin. The term was not included in the early editions of the *Economic Encyclopaedia* (published in Belgrade in 1984 and 1986) or the *Economic and Business Encyclopaedia* (1994), but it did appear in dictionaries of the Serbian language published in 1986 and 2003. These define *rad na crno* as 'work without a permit', 'illicit' or 'illegitimate work' – *bespravni rad*. While the term predates the end of

socialist Yugoslavia, however, the post-socialist transition can be seen as shaping its subsequent use and meaning.

Informal practices such as *rad na crno* are associated with the 'black', 'grey', 'shadow' or 'hidden' economy in Europe and elsewhere (European Commission 2014). These terms are used interchangeably and surface in the media to denote activities in the informal economy. In the social sciences, the informal economy is defined as 'all economic activities that contribute to the officially calculated gross national product, but are currently unregistered' (Schneider and Enste 2000: 77). According to this definition, illegal activities such as the production and distribution of criminal or forbidden goods and services, or legal activities such as unpaid household work, are excluded. In common usage, however, 'informal' may be seen as a euphemism for other adjectives in 'coloured markets' (Katsenelinboigen 1977: 69). Accordingly, *rad na crno* encompasses all wage earners in principal, secondary or self-employment who work without or outside labour contracts.

One of the first researchers into the workings of the informal economy and *rad na crno* in Serbia and the other former Yugoslav republics has concluded that, as a result of anonymity and lack of data, it is difficult to accurately measure or even to approximately estimate the incidence of *rad na crno* practices (Božović 1992). This is also because the lines are not clearly defined: *rad na crno* may denote not only economic activity that is illegal because it is not officially reported, but also work that is legal but that is only partially reported. For example, the activity of only some of the employees may be reported to the authorities, or workers may be reported to have received only the minimum wage, whereas in reality they have been paid above that rate (see Latvian *alga aploksne*, 6.27 in this volume). Such 'informal' employment is seen as beneficial by wage earners since their income is not taxed, but it may also be detrimental, since those who earn money in this way are not covered by the social security system. The ambivalence surrounding such practices makes them hard to pin down and creates avenues for tax avoidance and social-protection fraud.

The transition from Yugoslavia's socialist economy began in the late 1980s, when the system of worker-managed enterprises was abandoned and new legislation on business enterprises came into force. However, ethnic tensions, which were already high throughout the 1980s, provoked widespread conflict and declarations of independence by Yugoslavia's constituent republics, resulting in the break-up of the federation. The conflict disrupted Serbia's transition to the market and its economy was pushed into depression by political and economic sanctions imposed by



the international community from 1992–2000 and by the North Atlantic Treaty Organization's (NATO's) bombing campaign of 1999. Serbia suffered heavy economic disruption throughout the 1990s.

In these circumstances, *rad na crno* became the 'last resort' for people who had suffered the loss of the socialist principles of guaranteed employment and pension provision. How people behave in such circumstances may also be explained through the prism of creating distance between the official and actual norms that make up a particular social structure (Collins 1981). In circumstances where official norms are not clearly enough defined to provoke sanctions when they are broken, people may instead follow actual norms that are generally accepted by the majority. This mirrors the conditions of disadvantaged urban communities in 'Third World' countries, where informal employment studies originated (Hart 1973). In this sense, *rad na crno* is part of a global phenomenon of informal employment and shares many of the features observed elsewhere, though of course the specific dynamics and scale of the practice vary across countries and regions.

One of the most important shared characteristics of informal employment is its paradoxical relationship with state control. The scope of informal practices increases as levels of state regulation increase, meaning that market economies tend to be less burdened with informality (Portes and Haller 2005). While people may consider informal employment an opportunity, it has negative implications for social and economic development. What people perceive as a solution is seen by the state as a problem. Researchers of Serbia's informal economy in the transition period branded it as 'a kind of mirror in which we can see all too clearly the reality and relationships in our society' (Marinković 2004). The 'reality' embraces informal practices, while the 'relationships' refer to people's responses to the situation created by the political establishment, often viewed as corrupt and incompetent. It may perhaps be concluded that, where they are pervasive, informal economic activities are indicators of existing contradictions between official and actual norms.

Under socialism, small-scale *rad na crno* was widely practised in the agricultural sector and in traditional crafts. In the post-socialist period, when the labour market has been re-oriented towards business and job seekers have been pushed from the public to the private sector, *rad na crno* serves to accommodate surplus labour and 'hidden unemployment'. One of the new practices associated with *rad na crno* in this period is wages 'in hand'. This involves an oral agreement reached between a private employer and a worker that part of the worker's wages will be paid

formally, 'on the books', and that part will be paid in cash and will not be officially recorded. Such an arrangement allows enterprises to misreport how much they have spent on wages and thereby reduces their social tax payments and mandatory contributions to the state pension and health funds; it also enables them to pay workers a certain sum of tax-free income over and above the minimum wage. Other common forms of *rad na crno* include paid household work (cleaning, cooking, looking after children or the elderly), street vending, the sale of goods on green or flea markets, private tutoring, small repairs and other forms of moonlighting (Alter Chen 2006; Radović-Marković 2007; Schneider 2012).

The role of *rad na crno* practices may be interpreted in different ways. According to one interpretation, it is a way to cope with unemployment and supplement the household budget. Another interpretation focuses on the state budget. While these practices directly contribute to an increase in employment and personal consumption, they do not have an effect on collective consumption.

The International Labour Organisation (ILO) recognises two forms of informal employment (Husmanns 2004; ILO 2013). The first is enterprise-based, such as paying workers in cash as described above, but also including the operations of those enterprises and employees who are not registered with the official authorities. The second is a broader, job-based concept. Given that an employee may have more than one formal and/or informal job, this concept comprises informal jobs in formal sector enterprises, in informal sector enterprises, or in households. Research on *rad na crno* is usually based on surveys that cover respondents' participation records, scaled up to reflect the population as a whole and with economic effects estimated on the basis of expert assessments. The most important effects of *rad na crno* are the under-reporting of gross domestic product and the loss of tax revenue from under-reported economic activity, meaning that the whole society loses out.

In post-socialist Serbia, *rad na crno* practices have increasingly come to be associated with corruption. Nowadays, it is often necessary to pay in order to get either a formal or informal job; one must also give a kickback to the 'right person', or exploit one's personal connections in order to secure employment for one's relations. Pursuing one's economic interests individually, through informal and illegal payments or as part of 'informal groups', is symbiotic with systemic corruption and organised crime (*Ekonomaska enciklopedija* 1984–1986: 1154). In such circumstances, the capacity for elites to reinvent themselves is limited and reforms of formal institutions remain ineffective, while the burden of reform falls on the individual practitioner of *rad na crno*.

### 5.25 *Small-scale smuggling* (general)

Bettina Bruns

Leibniz Institute for Regional Geography, Germany

Small-scale smuggling is a fairly universal practice associated with bending the rules on the passage of goods through the borders between countries. In the majority of cases it is an illegal economic practice aimed at income generation, made possible by permeable, or porous, borders; price differential between countries; or unequal supply of goods. Ordinarily, small-scale smugglers exploit the loopholes in regulations; navigate the ineffective enforcement of these regulations; or risk carrying more goods than allowed across a border without declaring them. They either sell these goods at a small profit or keep them for their own use. In short: they use the border as a resource. The practice is a case of the enabling power of constraints.

Etymologically, ‘smuggling’ stems from the Germanic word *smeug* or *smugan*, which means ‘to lurk secretly and spitefully’ (Kluge 1960: 667), and from the Danish *smug*, which means ‘secretly’, ‘hidden’ (Schomburg 1992: 6). It originated during the 1660s in the North Sea region, from the Low German *smuggeln* or Dutch *smokkelen*, which originally meant something like ‘to sneak’ or perhaps literally ‘to slip’ (smuggled goods through), as well as ‘to creep’ and ‘to move in a ducked way’ (Pfeifer 1993). It is also connected with the German word *schmiegen*, which means ‘to nuzzle’: ‘Smuggling comes from nestling. One nestles up against the circumstances’ (Finckh 1943: 8, own translation). Thus, originally smuggling was associated with ‘hiding’, with getting around customs rules and reacting to external conditions. This significance also holds true in completely differently rooted languages: the Swahili *chora chora*, which refers to smuggling also means ‘to flee’, ‘to by-pass’ and ‘to hide’ (Doevenspeck and Mwanabiningo 2012: 100). In contrast to this rather cultural linguistic development, the Russian translation of smuggling is simply *provozit’ kontrabandoi* (literally ‘to transport contraband’), which focuses on the illegality of the practice: the term originates from the Latin *contra bannum*: against the ban.

Small-scale smuggling is rather a technical term used in print and science (see, for example, Wallace et al. 1999; Wagner and Łukowski 2010; Archer and Rącz 2012), but usually not by the smugglers themselves. People carrying out this informal practice are rather reluctant to define their activities so clearly, as this might be potentially harmful for their business (see Stammner-Gossmann 2012: 239). They prefer to use a multiplicity of euphemisms for their trading activity, depending

on where, what and how they perform it. One example is the use of the word *mrówki* (English: ants) in Poland, which focuses on the smugglers' arduous frequency (up to several times a day) of crossing the border to import a small amount of goods each time. *Mrówki* might even transport goods in a legal way across the border, provided that the quantity of their merchandise does not exceed the allowed norm. Russian traders who regularly cross the border to Finland to make a profit on selling goods and providing tourist services such as transportation, advice on visas and other information, refer to themselves as 'carriers' (*perevozchiki*, Stammler-Gossmann 2012: 240), avoiding completely any potential illegality and/or informality in the description of their activities.

Formally, small-scale smuggling differs from small-scale trade in respect of legality: "Traditionally, "trade" is the legal and "smuggling" is the illegal means of moving items from one side of the border to the other" (Thuen 1999: 741). However, in practice legality and illegality in small-scale smuggling cannot be separated quite so neatly. On the one hand, parts of the activity may be perfectly legal: purchasing the goods, paying



**Figure 5.25.1** An informal market in front of a railway station close to the Polish-Belarusian border on the Polish side.

Source: Author. © Bettina Bruns.

for the transportation across the border and for the visa to enter another country. On the other hand, illegal elements of the smuggling activity involve bending the rules such as non-declaration of all the goods, bribing customs officials, or subsequently selling the goods at a local market without a licence. Circumventing official rules while observing formal procedures is expressed in a motto circulating among smugglers: 'Do not violate the law, but know the ways to avoid it' (Stammler-Gossmann 2012: 241). It is also an indication of the ambivalent nature of the practice: neither wholly legal nor illegal.

The practice of small-scale smuggling also has a normative ambivalence, inasmuch as its illegal elements are not always perceived as illegitimate or morally reprehensible. In countries with high excise duties on alcohol and cigarettes, small-scale smuggling of such goods is often seen as justified in the face of 'unfair' taxes, especially if the goods are only intended for personal use. In cases of high unemployment and poverty levels, small-scale smuggling is frequently regarded as a survival strategy, viewed as entrepreneurial by individuals and as legitimate by the wider population. Even the local authorities, including police, can be the conniving parties out of necessity. The legitimacy of smuggling, however partial, is the reverse side of the state's failure to improve economic conditions and to provide employment for its population. The lack of opportunities for legitimate income creates a justification for alternative income. Although the government is not likely to admit the acceptance of small-scale smuggling, it often enjoys greater tolerance than smuggling on a larger scale or by organised crime. Thus, at least two levels of smuggling have to be differentiated: 'Commercial smuggling involves the transportation of large quantities to be sold for profit ... [while] petty smuggling applies to individual people crossing a border to purchase goods at a cheaper price' (Deflem and Henry-Turner 2001: 473). The first one is associated with profits, the second with survival.

In the socialist period, small-scale smuggling was a popular means for the population in many countries to cope with ongoing supply shortages. *Schleichhandel* across the GDR-Polish border was a reaction to the all-encompassing economy of shortage under socialism (Logemann 2012). The practice of petty smuggling carried out on trains from Vojvodina in Serbia to Hungary and Romania (*šverc*) was rooted in the economic crisis of the 1980s (Archer and Rácz 2012: 62). In the post-socialist period, small-scale smuggling has compensated for economic insecurity and for some is a survival strategy. Findings from the

Polish-Russian border indicate that small-scale smuggling plays very diverse roles in individual households (Bruns 2010). The economic function of smuggling is defined by the degree of the financial dependence on the activity: when smuggling is the only source of income, the household is totally reliant on it. Therefore, smuggling is carried out on a regular basis and in a professional fashion, in the sense that the gains are used for further investment in smuggling equipment and the structure of daily life is organised around smuggling activity. In other households, smuggling is combined with other sources of income, such as formal employment or social benefits (these are normally very low and insufficient to live on). In such cases, smuggling is also regular and constitutes an essential addition to the household's income, but it is the formal employment schedule that determines possible time slots for smuggling. It can be difficult to fit smuggling into the weekly routine, because the waiting times at border crossing points are often unpredictable. The most rare and adventurous scenario involves profit-oriented smuggling. In this case the household has a good standard of living guaranteed from other sources, for example, in the form of pensions or parental contributions, but the income from smuggling funds additional consumption, such as lifestyle consumer goods and/or leisure activities.

Economic necessity aside, small-scale smuggling contains one further very important function for individuals carrying it out: it replaces not only the economic, but also social aspects of formal employment. 'I go out normally every day, just as I would go to work' is how one smuggler put it. Small-scale smuggling structures daily life, providing social contact as well as filling the day with activity.

Although smuggling has a short-term positive impact on the economic situation for individuals and the regional economy, these precarious activities cannot be relied upon for sustainable development in the long term, whether micro- or meso-level. People involved in small-scale smuggling do not enjoy any social security and insurance benefits, thereby creating the danger of massive poverty among the elderly. This in turn will be very expensive for local authorities to deal with.

Small-scale smuggling is widespread in all central European post-socialist countries, but also prevalent in other parts of the world, such as at the Afghan-Iranian, Mexican-Belize and Rwandan-Congolese borders. Smuggling of gold bullion from Peru to Bolivia is a widespread practice, with smugglers using special clothing such as 'long, purpose-built vertical pockets in a bulbous down-filled coat' designed exclusively for smuggling gold bullion (Finnegan 2015: 15). Examples in Europe range from

cigarette smuggling across the Polish-Ukrainian border to smuggling household commodities from Russia to Finland and trafficking of walnuts from Azerbaijan into Georgia.

Due to its ambivalent nature and functional relevance for survival, small-scale smuggling is a sensitive research topic (Lee 1993). In order to collect data, a relationship of trust between researcher and smuggler should be established. This needs time, long-term ethnographic fieldwork and a mixture of methods such as participant observation and in-depth interviews.

### 5.26 **Chelnoki** (Russia and FSU)

Anna Cieślowska

Research Unit of Iranian Studies, Institute of Oriental Studies  
of the Jagiellonian University, Krakow, Poland

*Chelnok* (pl. *chelnoki*) is a colloquial Russian term used to describe a trader involved in shuttle trade in regions of the former Soviet Union (FSU) and in Eastern Europe. The term *chelnok* literally means a shuttle that is moved from one edge of a loom to the other in the process of weaving. The activities of shuttle traders are similarly associated with constant movement – travelling from a point of purchase to a point of sale of goods. In Polish, two equivalent terms are used: ‘tourist-trader’ – *handlarz-turysta*, or ‘anti-trader’ – *handlarz-mrówka*. Similar practices across the world are associated with unstable labour markets and occupy a semi-informal sphere of business (see *small-scale smuggling*, 5.25 in this volume). Petty trans-border traders are referred to as ‘ants of globalisation’, ‘the new nomads of underground economy’ such as *sacoleiros* in Brazil, or African mobile phone buyers in Hongkong and Guangzhou (Telles di Silva 2012: 90).

*Chelnoki* has its origins in the phenomenon of *meshochnik(i)* – speculator(s), the vendors engaged in the prohibited trade of food during the Russian Civil War (the period after the 1917 Russian Revolution until 1922). The term *meshochniki* is derived from the sack (*meshok*), in which people transported goods. During the period of the Civil War, the Soviet regime banned private trade. Famine in the cities forced the Soviet government to develop a system of rationing, whereby food was distributed to those in possession of ration cards. In consequence, surplus food in rural areas was smuggled from the villages to the cities. Food was bought from farmers or exchanged for valuable goods and frequently ended up at the cities’ black market (Davydov 2007). Under Soviet criminal law, speculation – the selling or buying goods for the purpose of making



profit – was defined as ‘one of the most dangerous economic crimes which affects the normal functioning of Soviet trade and genuine interests of buyers’ (Kaiser 1997). Traders were persecuted as ‘speculators’.

Under the Soviet command economy, food and consumables were in short supply and foreign trade was controlled as part of the state planning system. Nevertheless, everything from fashionable clothes to imported electronic goods (in the latter period) could be accessed through *blat* (Ledeneva 1998), informal contacts or on the black market. In time, black market traders, specialising in imported goods, became known as *fartsovshchik(i)* (Kaiser 1997) (see *baraholka*, 5.35 in this volume).

After 1988, restrictions on trade became less severe and the number of trading agencies sharply increased. Nevertheless, the majority were state agencies that concentrated on exporting goods produced in the USSR and focused little on importing consumer products. Consequently, when the economy opened up at the beginning of the 1990s the official retail trade sector was not ready to import goods. By the mid-1990s the number of foreign trade outlets reached 20,000 (IMF 1998: 9, 10).

Concurrently, the labour market in post-communist Russia was collapsing. Shrinking domestic production triggered an increase in informal activities. The transitional period, associated with porous borders, as well as non-existent regulations for export and import, allowed for relatively free movement of people and goods. The shortages in foods and diversity of provisions in different regions made it profitable to buy certain goods in one country and to sell them in another, thanks to significant discrepancies in prices between the countries of the former Soviet Union and Eastern Europe. For example, traders brought a variety of domestic and hardware goods to Poland (mostly from the territory of the former Soviet republics) and on their return journeys purchased textiles, electronic equipment and other goods, which were in demand in their home markets (Esim 2002: 8; Ozcan 2006; Cieślowska 2014: 126). *Chelnoki* also travelled from regions of the former Soviet Union and Eastern Europe to China, India, the United Arab Emirates, Iran, Italy, Pakistan, Syria, Thailand, Turkey and Central Europe in order to buy goods destined for the domestic market. In the 1990s, *chelnoki* business was associated with those travelling with big suitcases full of consumer goods, containing in the main, food products, textiles, clothes and household goods (Esim 2002: 8). Small tour companies organising ‘tourist excursions’ flourished at this time. Although officially, such trips were targeted at tourists, the majority of clients were traders who rarely had time to visit tourist attractions (Cieślowska 2014: 126).



According to some estimates, *chelnoki* trade provided employment for up to 30 million traders in the mid-1990s. It is thought that the majority of *chelnoki* are women, for whom bazaars became the only source of employment during the turbulent years of transition (Taraban 2002; Abazov 2009: 27–9). A popular myth reinforces the notion that women are more skilful at trading than men. Men involved in *chelnoki* trade are often related to the female traders, and play a significant role in helping to develop business and in protecting the women from a variety of dangers such as intimidation by strangers or sexual abuse. A typical *chelnok* trader operated through a personal network, involving flexible distribution of responsibilities. Members of the network of family and friends might be involved in a range of activities from the transportation of goods across borders, to selling the products at market and distributing goods among the group. Another form of assistance included providing relevant personal contacts and advice (Slonimski et al. 2012: 174). Traditionally, *chelnoki* are especially widespread in Central Asia and the Caucasus, but their overall number is declining (Avtokratov 2001; Abazov 2009: 27–9; Cieřlewska 2014: 126).



**Figure 5.26.1** *Chelnoki*. Margaret Morton©OmbraLuceLLC\_2006.  
Source: Anna Cieřlewska. © OmbraLuceLLC\_2006.

Over time, some of the *chelnoki* trade has transformed into profitable business. Traders still travel, but the scale of trade and their purchasing power has increased. Many former *chelnoki* became retail suppliers to wholesale outlets. Others continue to travel abroad to buy a variety of goods for their own stalls in the markets; but in the majority of cases, they send the purchased goods through intermediaries, thus they are required only to supervise their delivery. At the outset of the post-communist transition, *chelnoki* trade suffered from unstable economic conditions, racketeering and operated in a high-risk environment. A so-called 'protection fee' was often extorted from shuttle traders and collected on a regular basis. Typically a particular gang or criminal entity controlled each bazaar. Traders were forced to pay up to 30 per cent of their profits to racketeers. Theft of the *chelnoki*'s possessions occurred on a daily basis, either as punishment for those who had not paid their dues or as a warning to others. Further financial exploitation was experienced by *chelnoki* at the hands of customs officers at the cross-borders control points, by transport police and other officials keen to benefit from the earnings of traders who were readily identifiable. Officials continue to seek personal gain from the *chelnoki* trade to this day (Cieślowska 2014: 126; see also Avtokratov 2001).

A number of monuments commemorate *chelnoki* trade. In July 2009, a monument to *chelnoki* was erected in Yekaterinburg, near the main entrance to the largest market in the Urals, Taganskii riad (Lenta.ru 2009). Another shuttle trader monument was constructed in Manzhouli, on the border between Russia and China. The sculptures, dedicated to *chelnoki* entrepreneurs of the 1990s were erected in the centres of Belgorod in November 2007 and in Blagovshchensk and Sloviansk in Ukraine (Polsergmich.blogspot 2012).

A documentary entitled *Chelnoki: A School of Survival (Chelnoki. Shkola vyzhivaniia)*, released in Russia in 2011, showed the reality of *chelnoki* business in the first years following the fall of the Soviet Union, during the period of transformation. Another documentary, *Jarmark Europa*, by Minze Tummescheit was produced in 2004. It depicts Warsaw's *Dziesięciolecia Stadium*, one of Eastern Europe's largest bazaars, and a centre of the trans-border trade between the early 1990s and 2007. The book *Wielkie Bazaary Warszawskie (Warsaw's Big Bazaars)* describes the 'life' of two bazaars in Warsaw: Jarmark Europa and Różyckiego and includes the life stories of the traders, their clients and the policemen who controlled the bazaars (Kurczewski et al. 2010). Overall, *chelnoki* trade became a symbol of the rapid changes of the 1990s, a period of uneven transformation, instability and a flourishing informal economy.

### 5.27 **Spaza shops** (South Africa)

Vanya Gastrow

African Centre for Migration and Society, University of the Witwatersrand, South Africa

In South Africa, a *spaza* shop is a small informal grocery shop operated from residential premises in townships. The term *spaza* lacks clear etymological roots (Spiegel 2005: 192). One view is that it originates from the Zulu word *isiphazamiso* or the Xhosa word *isiphazamisa*, both meaning something that causes a disturbance or hindrance (Spiegel 2005: 195). This interpretation supports the common belief that *spaza* shops first emerged during boycotts of white businesses in South Africa in the late 1970s and garnered the name *spaza* because they were seen as enabling the disturbance of apartheid and white-dominated institutions. Yet, as early as the 1960s *spaza* was also understood to mean cheap, fake and imitation, or to tease and fool around (Spiegel 2005: 196–7, 202) indicating several different and contrasting etymological roots.

Today the term *spaza* shop (or just *spaza*) is used throughout South Africa to refer to informal grocery shops operated from houses in townships (i.e. areas formerly classified as ‘black’ by the apartheid government). These shops supply basic household items such as food, soft drinks and toiletries to nearby residents. *Spaza* shops are located in large cities as well as in small rural towns across the country and vary in size and form. Traders operate shops from converted garages, shipping containers placed in front yards, corrugated iron structures attached to houses, and from houses themselves. Some shops comprise small rooms where shopkeepers serve customers through a window, while other shops resemble small supermarkets where customers can walk in and select goods.

*Spaza* shops are considered informal as they tend not to be registered with state authorities. This does not necessarily mean that shops operate illegally. While legal frameworks differ from municipality to municipality, generally very few laws regulate *spaza* shops. For instance, until recently there was no requirement for businesses earning below the tax threshold to register with South Africa’s revenue service (Charalambou 2010). Not all municipalities require *spaza* shops to possess trading licences or permits. While a number of *spaza* shops trade in illicit cigarettes, most of their goods are legal items purchased from formal wholesalers. Furthermore, many township zoning schemes permit the operation of businesses from residential properties on condition that the dominant use of the property remains residential and the business does not create any nuisance. These lenient regulatory frameworks have

meant that *spaza* shops are relatively easy to set up and operate. Yet at the same time they have resulted in state authorities possessing very little information about or control over *spaza* shop activities.

In recent years South African *spaza* shopkeepers have faced increasing business competition from large formal supermarket chains, as well as *spaza* shops that are operated by foreign migrants originating from countries such as Somalia, Ethiopia, Pakistan, Burundi and China. Large supermarket chains were historically based in distant central business districts, and were not easily accessible for township consumers. This benefitted *spaza* shopkeepers, whose businesses were located closer to where township residents lived. However, over the past few years supermarket chains have increasingly penetrated township grocery markets, offering low prices and wide product ranges within closer reach of where township residents live. This poses a challenge to smaller *spaza* shops, many of which can no longer rely solely on geographical convenience to remain competitive.

Foreign migrant traders began to enter the *spaza* market from the mid-1990s. While some foreign migrants reside illegally in the country, others are documented asylum seekers or refugees and thus are entitled to work in South Africa. They access township premises by renting shops from South African landlords, who were often previously *spaza* shopkeepers themselves. Foreign migrant *spaza* shopkeepers characteristically sleep on beds or mattresses in their shops, or in rooms behind their shops to save income on rent as well as to guard their shop's contents. Their arrival has introduced new competitive trading practices into the *spaza* market. For example, foreign migrant *spaza* shopkeepers invest great efforts in sourcing low prices for their goods, place low mark-ups on them, and offer enhanced customer services (such as credit, longer operating hours, bulk 'hampers' sold at discounted prices and flexible quantities such as small pouches of sugar or single eggs (Gastrow and Amit 2013: 26)). They also collaborate by sharing transport costs and jointly investing in new shops. These competitive practices contrast with those of many South African *spaza* shops, which tend to be more 'survivalist' than opportunity driven (Charman et al. 2012).

Increased supermarket and foreign migrant *spaza* shop competition in townships has seen a corresponding decline in South African *spaza* shops (Charman et al. 2012). This phenomenon has had widespread political, social and economic implications for the country. In particular it has ignited anger among many South African *spaza* shopkeepers who resent having to compete against foreign nationals and allege that they engage in unlawful activities and unfair trading practices. These

hostilities have often spilt over into violence, with some foreign migrant *spaza* shopkeepers falling victim to orchestrated murders and arson attacks (Gastrow and Amit 2012: 35). Many township residents also view foreign migrant *spaza* shopkeepers as depriving them of economic opportunities and have engaged in frequent xenophobic lootings of foreign migrant shops, as occurred in Soweto in January 2015 (Essa 2015).

These attacks have garnered extensive negative publicity for South Africa, which since 1994 has enjoyed a worldwide reputation for combatting discrimination and embracing diversity. In response to violence and political lobbying by South African shopkeepers, the South African government has generated new policy proposals aimed at regulating foreign migrant *spaza* businesses. These include considering placing limits on the ability of foreign nationals to trade (Department of Trade and Industry 2013a: 20–1), and requiring all businesses in the country to register with local authorities (Department of Trade and Industry 2013b). In June 2015 South Africa's Competition Commission launched an enquiry into the business practices of foreign migrant *spaza* shops in South Africa (Competition Commission 2015) to assess their impact on South Africa's grocery sector.



**Figure 5.27.1** *Spaza* shop in the town of Velddrif, Western Cape Province, South Africa.

Source: Author. © Vanya Gastrow.

There is still much to learn about the scale and nature of the *spaza* market in South Africa. Research methods used thus far include locational mapping (Charman et al. 2012), surveys (Hikam 2011) and qualitative interviews (Gastrow and Amit 2013). Challenges faced in measuring the market include the lack of official data, the frequent relocation of foreign migrant *spaza* shopkeepers, the context of fear and violence, as well as privacy concerns relating to the disclosure of personal income levels and shops' legal compliance. Because *spaza* shops vary in size, ownership and business methods, attempts to measure their activities should ideally combine qualitative and quantitative approaches.

In endeavouring to resolve conflict in the *spaza* market, state authorities have had to try and balance diverse and conflicting concerns. These include the interests of South African consumers and landlords, the country's obligations towards asylum seekers and refugees, the economic interests of South African *spaza* retailers, and popular fears over restricted economic opportunities. The lack of detailed information about the market makes the resolution of competing interests in the *spaza* market more difficult. It also hinders the state's ability to collect tax and ensure compliance with health and safety standards. At the same time, low levels of state regulation enable traders with relatively little education and financial resources to set up businesses for themselves, and also contributes to the spread of ownership and competition in South Africa's grocery sector.

### 5.28 ***Shebeens*** (South Africa)

Nicolette Peters

The University of the Western Cape, South Africa

Informal alcohol outlets commonly known as *shebeens* operate in South Africa's townships. The *Oxford Dictionary* defines *shebeen* as, 'an unlicensed establishment or private house selling alcohol and typically regarded as slightly disreputable' (*Oxford Dictionary* 2015). The word *shebeen* was coined in the late eighteenth century from the Anglo-Irish *síbín*, from *séibe*, mugful (*Oxford Dictionary* 2015). It was commonly used in Ireland and Scotland as well as South Africa. Currently *shebeens* are the most widespread enterprise in South African townships; the Western Cape is estimated to have 25,000 unlawful *shebeens* and 152,500 people working in *shebeens* (Barnes 2012).

*Shebeens* sell legally manufactured alcohol, but in an illegal fashion (i.e. without a licence). There is no economic incentive for them to sell illegally produced alcohol because legal alcohol is cheap and accessible.



Indeed, South African Breweries (SAB), which dominates the South African beer market with a market share of 95 per cent, actively supports *shebeens* and in turn is dependent on them – over 82 per cent of SAB beer is sold in *shebeens* (Tsoeu 2009: ii).

In 1902 licences were introduced for traditional beer sellers in South Africa, which led to the growth of *shebeens* (La Hausse 1992: 89). During the colonial and apartheid eras, the manufacture, distribution, sale and use of alcohol were regulated by the Liquor Act 30 of 1928 and the Native (Urban Areas) Act 21 of 1923 (Cameron 1999: 14). These statutes prohibited the supply and delivery to, or possession of, alcohol by ‘non-whites’. Only white people could trade liquor; black people could only drink at beer halls introduced in 1908, established to fund the improvement of black areas, though the profits were in fact not used for this purpose (Freeman and Parry 2006: 4–5). In addition, Singer claims that the regime ensured that alcohol was more easily obtained by Indians and ‘coloureds’ than by black Africans. These racial restrictions on alcohol forced black people to enter the illegal alcohol industry, and consequently led to the growth of *shebeens* as an act of resistance to the apartheid-era exclusion (Singer 2003: 2).

Despite the legal restrictions, black women brewed and sold traditional beer, and rural women played a significant part in creating urban *shebeens* (La Hausse 1992: 86). The beer industry was unique in that it was mostly controlled by black women, known as ‘*shebeen* queens’. *Shebeen* queens gained prominence in a political context due to their key role in the Cato Manor Beerhall Riots of 1959 and the killing of nine policemen in riots seven months later. However, *shebeen* queens were mostly apolitical and simply sought to earn a livelihood: their opposition to the municipal beer halls (symbols of the apartheid government) was motivated by the need to protect their own revenue (Edwards 1988: 75–6, 95). *Shebeen* queens were not always the owners of the *shebeen*: some *shebeen* queens managed *shebeens* for men. *Shebeen* queens used their femininity and that of their female workers to encourage patrons into purchasing alcohol (Tsoeu 2009: 127).

According to Hernando De Soto, the law on *shebeens* restricted economic growth under apartheid by limiting informal businesses (quoted in Marquez 1990: 209). *Shebeens* could have been legalised had the barriers to entering the formal economy been lifted, which could have enhanced economic growth and employment. Likewise, lifting barriers to entering the legal alcohol trade in the post-apartheid era could lead to economic development, but since 2010 moral and public health arguments have pushed legislation in a different direction.

The views of the African National Congress (ANC, the ruling party since 1994) and the Democratic Alliance (the official opposition party) illustrate the existing tensions regarding *shebeens*. The ‘moral regeneration movement’ originated in the 1997 meeting between Nelson Mandela and key South African religious leaders, followed by the 1998 ‘moral summit’, where Mandela spoke on the moral agenda for the regeneration campaign. The central problem discussed was crime (Rauch 2005: 16), without much focus on *shebeens*. However, the moral regeneration movement has subsequently advocated a stricter alcohol policy. While not explicitly criticising *shebeens*, the movement has called for the law to ensure that premises selling alcohol are not set too close to one another, and that new licences should not be awarded in communities where this is already the case (Mdhladhla 2012: 5). These recommendations would impact *shebeeners*, especially those in poorer areas where the proximity of *shebeens* is common. Similarly, the Democratic Alliance (DA) calls for more regulation of *shebeens* on its website, under the titles such as: ‘DA welcomes proposed clampdown on illegal *shebeens*’. Media reports and the DA’s rhetoric suggest that a moralistic framework has influenced the party’s views on both alcohol and *shebeens*.

Since 2009 the ruling ANC has also come to adopt a tougher stance towards *shebeens*. The ANC youth league has called for a crackdown on illegal *shebeens* and a ban on all alcohol advertising. In 2011, the party chief whip, Mathole Motshekga, stated that abuse of alcohol and drugs has led to moral deterioration in South Africa. Motshekga reported that a group of women from the Cape Flats townships complained that *shebeens* were selling liquor to school children on a daily basis (Motshega 2011: 1–2). In 2012, the Minister of Social Development, Bathabile Dlamini, launched an anti-alcohol campaign with the theme: ‘Towards an alcohol and drug abuse free South Africa – take a stand’. In addition, the 2011 ‘substance abuse summit’ saw Dlamini and other participants calling for restrictions on liquor marketing and the re-examination of licence fees (Parliamentary Monitoring Group 2012: 40). Thus, both major parties express great concern about the harm caused by alcohol in South Africa. The availability of alcohol via informal outlets has certainly made it easy for people to access it; however, because *shebeens* are informal businesses, there is no direct way to measure to what extent *shebeens* contribute to alcohol-related problems.

The term *shebeen* is used to refer to similar establishments in several other southern African countries, namely Botswana, Zambia and Tanzania. *Shebeens* and other forms of trading in illegal alcohol continue to exist within the developing world where informal business is one of



the few accessible forms of employment for poor people (see *hoyos* or *hoyo* in Mexico). In South Africa today there are legal *shebeens* that operate. Legal *shebeens* are run from residential homes and possess the necessary alcohol trading licence to make the business legal. These include *shebeens* that converted to legal operation after the end of apartheid. Nonetheless, unlicensed *shebeens* continue to operate in South Africa today and constitute illegal, informal businesses. *Shebeens* continue to operate because of South Africa's high unemployment rate. Poor people have chosen to operate illegal businesses to provide for themselves and their families. *Shebeens* are usually run by black or coloured women who are minimally or entirely uneducated. *Shebeening* is perceived as the only way they can provide for their families, and the establishments are therefore largely tolerated by local communities. The widespread practices of using or running *shebeens* continues to be under-researched, as *she-beeners* are usually reluctant to participate in research due to the illegal nature of their activity.

### 5.29 ***Samogonovarenie*** (Russia)

Mark Lawrence Schrad  
Villanova University, USA

In Russia and regions of the former Soviet Union, *samogonovarenie* is the illegal process of distilling homemade spirits, or *samogon*. The word *samogon* is derived from the Russian verb *gnat'* ('to chase, drive out, distil') with the prefix *samo-*, or 'self'. As a form of homemade hard alcohol, *samogon* is similar to homebrew, 'bathtub gin', or moonshine whiskey in American Appalachia, but it has a far longer history both as an intoxicating beverage and facilitator of informal exchange.

Often mistaken as simply homemade 80-proof vodka, *samogon* can vary significantly in terms of strength, flavour and ingredients. Unlike American moonshine, which is typically distilled from corn mash, Russian *samogon* can be distilled from grains, corn, potatoes, beetroot, fruits, honey or other ingredients at hand, occasionally achieving a strength of up to 160 proof. Similar to American moonshining, *samogonovarenie* is an illegal practice that is often conducted away from the prying eyes of the state and law enforcement, while the revenues gained from the sales of such untaxed and unregulated products often contribute to the corruption of those same organs.

The origins of *samogonovarenie* are contested, but date from the era of the Russian empire. Some suggest that it was the inevitable counterpart to the development of the Russian state's monopoly on

alcohol, established under Ivan the Terrible in the mid-sixteenth century. *Samogonovarenie* tends to flourish in the vast expanses of rural Russia, especially during times of economic hardship.

*Samogon* is integral to the Russian system of mutual assistance, connections, and favours used to cope with economic hardship, known as *blat* (see 6.2 in this volume). Unlike cold and impersonal exchanges embodied in ‘bribery’ or ‘corruption’, *blat* exudes the warm solidarity of a community struggling through hard times together. A useful illustration of the roots of this traditional peasant hospitality is the practice of *pomoch’*, or ‘help’ (see *pomochi*, 5.13 in this volume). Since the Orthodox priest in a Russian village could only derive income from nominal fees for administering sacraments, they relied on the collaboration of local parishioners. ‘*Pomoch’* is inconceivable without vodka’, wrote nineteenth-century parish priest Ioann Belliustin. ‘The work begins with vodka; it continues with vodka; it ends with vodka’ (Belliustin 1985: 129–30). Since priests had little money to begin with, they often had to resort to *samogonovarenie*.

Despite a complete prohibition against vodka and draconian penalties for homebrewing under Vladimir Lenin and the Bol’sheviks, their ideological outlet *Pravda* reported ‘an ocean of home brew’, as entire villages essentially became spirit-distilling cooperatives. In Tomsk, prosecutors were so overwhelmed with illegal distillation cases, they simply gave up. Even in the shadow of the Kremlin anyone could buy *samogon* by simply ‘requesting “lemonade” and winking at the salesman meaningfully’ (Schrاد 2014: 210).

Yet the flood of *samogon* was not just about quenching a thirst for alcohol; it also provided a vital medium of exchange at a time when the ruble was virtually worthless. An official Soviet delegation to the countryside in 1923 concluded: ‘A peasant needs *samogon* or vodka, it does not matter which. For example, if one needs to build a house, one can never find workers; but if there is vodka or *samogon*, you treat the neighbors to it, and the house is soon ready’ (quoted in Transchel 2006: 76). *Samogon* was well placed to serve as a medium of exchange: if peasants could not get adequate value for their grain, they distilled it. *Samogon* did not spoil, and was more easy to transport (or conceal from requisitioners) than piles of grain, and it could more easily be traded, divided and consumed by end users. Most importantly, since homemade alcohol could be sold for more than artificially low grain prices, it evened out the terms of trade between manufactured goods from the cities and agricultural produce from the villages. Consequently, every time agricultural and industrial prices diverged – as with the ‘scissors crises’ of the 1920s – the Russian countryside would be awash with illegal alcohol, even as foodstuffs disappeared from store shelves in the cities (Schrاد 2014: 226).

Vodka and *samogon* also greased the wheels of the Soviet administrative-command economy, as Soviet enterprises employed well-connected supply officers – *tolkachi* – who could find the scarce materials necessary for their firms to fulfil their production quotas, often for the cost of a few bottles or cases of vodka (Simis 1982). Living on fixed budgets, pensioners in the countryside often turned to *samogonovarenie* in order to obtain *pomoch'* from nearby collective farmers (Gerasyuk 1984: 4).

The very first reform initiated under Mikhail Gorbachev upon his ascension to the post of General Secretary was a public health and labour-discipline campaign against alcoholism in the Soviet Union. While drastic restrictions on the availability of vodka produced tremendous and immediate benefits to health and demographic indicators, Soviets soon turned to *samogonovarenie* to pick up the slack. As homebrewing increased, poisonings from *samogon* and other surrogates increased. By 1988 the failed reforms were withdrawn, tainting Gorbachev's other reforms of *perestroika* and *glasnost'* with a public cynicism that was difficult to overcome, while the loss of state vodka revenues to the 'home brewers' (*samogonshchiki*) exacerbated the economic crisis, and collapse of the Soviet ruble, and ultimately the Soviet state.

*Samogonovarenie* and barter exchange rise in tandem during times of extreme economic crisis, such as the post-Soviet economic collapse. 'You can buy anything for a bottle, they don't know any other price', explained a newcomer to Orel region in the 1990s (Pilkington 1998: 170). Even in the capitals of Moscow and St Petersburg, pensioners openly sold *samogon* on the streets just to make ends meet.

Many inefficient Soviet firms that should have gone bankrupt in a pure market economy of the 1990s stayed afloat thanks to *samogonovarenie* and non-monetary barter transactions. Some factories even started up their own self-distilling operations to produce the liquor necessary for their *tolkachi* to swap for much-needed raw materials and supplies. Alcohol was also necessary to buy off good relations with high-level officials: firms employed government-relations specialists known colloquially as *pechenochniki* – literally, 'those with liver problems' – based on the copious amounts of alcohol they had to drink to secure government favours (Schrad 2014: 319). For a time, the Kremlin even accepted in-kind payments of alcohol for tax bills – which the Ministry of Agriculture then used to pay subsidies to collective farmers (before a wave of alcohol poisonings ended the experiment). Throughout the 1990s, firms that could procure or produce vodka or *samogon* became

pivotal links in extensive barter chains that maintained Russia's so-called 'virtual economy' (Humphrey 2000). In more recent years, as the Russian economy has strengthened and beverage markets have diversified, the traditional *samogonovarenie* of necessity has been joined by hobbyists making craft and artisanal *samogon*, similar to the micro-brewing boom in the West.

Estimating the pervasiveness of *samogonovarenie* can be a difficult task, as it can take on a variety of forms, from individual pensioners distilling a few bottles to entire factories manufacturing their own illicit alcohol. The difficulties are compounded in historical eras where potentially telling statistics on crime or even alcohol consumption are either not available or not published, as during the years under Nikita Khrushchev and Leonid Brezhnev. However, in the 1970s, Duke University economist Vladimir Tremml began to construct estimates of *samogon* based upon available data. Tremml's method involved accounting for urban–rural population differences (as *samogonovarenie* was primarily a rural phenomenon), estimating how much alcohol constituted the 'other foodstuffs' category in official Soviet statistical digests, then double-checking the model against regional indicators of consumption of primary *samogon* ingredients – sugar, flour, potatoes, sugar beets, etc. The data produced suggested that from the 1950s to the early 1980s, the illegal production of *samogon* added roughly 30 per cent to official alcohol production figures (Tremml 1982). Tremml's rigorous estimates were corroborated by Soviet statisticians, anecdotal evidence, interviews with Russian experts and even defectors from Soviet officialdom, and today are cited widely in Russia as more accurate than Soviet government statistics. Tremml and others have stated that *samogon* was a leading contributor to the spike in Soviet alcohol poisonings that claimed some 50,000 fatalities per year, or over 100 times higher than the rate in the United States (Murphy 1983).

Illegal alcohol production in general and *samogonovarenie* in particular present a continuing challenge to the Russian state. Whenever restrictions on legal alcohol rise in the interest of public health, *samogon* rises to pick up the slack – especially in times of economic crisis. Demographic investigations in the present-day Russian Federation suggest that consumption of *samogon* and other hazardous, high-alcohol surrogates may account for up to half of all deaths of working-age men in Russia (Leon et al. 2007). While contemporary *samogonovarenie* may be a short-term, informal coping mechanism to deal with shortage and hardship, its long-term consequences for Russian health are both worrying and enduring.

### 5.30 *Buôn có bạn, bán có phường*'ng (Vietnam)

Abel Polese

Tallinn University of Technology, Estonia and

Dublin City University, Ireland

*Buôn Bán* is a Vietnamese term meaning 'buy to then sell' (in simple terms it can be defined as trading); *bạn* means 'friend' and *phường* '(small) association'. *Buôn có bạn, bán có phường* can be translated as 'you need friends when trading'. It may refer to an informal association (in Vietnamese *HỘI*) of sellers who unite to gain greater control over a given market, agree on a common price for a given, or simply defend themselves from external threats.

It is a trading principle particularly used by food vendors and it refers to a group of traders, each specialising in a limited number of dishes – sometimes just one dish – who pool their resources to offer their potential customers a wider variety of choice. The practice is also known simply as an 'association' (of street vendors) since these vendors associate with one another in a cooperative-like fashion.

Vietnam is a society driven by entrepreneurs and small entrepreneurs make up a good part of it. Since the reforms of 1986 known as *Đổi Mới* (renovation) private initiative has been encouraged in a number of sectors, allowing private individuals to rent land and entrepreneurship has flourished.

Women play an important role in the development of business in Vietnam (Leshkovich 2011, 2015) and, in particular, in small and micro business. This refers to a very small activity, often limited to one person, with a low turnover. From moto-taxi ownership to the provision of street food, a large portion of the Vietnamese society specialises in micro business that tends to be labour intensive, but requiring little initial capital investment. It is common, therefore, that a single person – usually a woman – cooks a single dish and tries to sell it on the corner of a street, or wherever she is able to find some available space.

The practice of an 'association' of vendors can be regarded as solving at least two issues. The first is division of territory: when a large space is available and many vendors want to use it, they can share the territory and work together, rather than fighting to prevail to win space over others. The second issue is the diversification of supply. If a single customer needs to buy something (rice, noodles, drinks) they can simply go to the person selling what they are looking for. However, if two or more persons go out to eat together, the likelihood that they want to eat the same thing decreases and the group might choose to go to a larger restaurant

offering them more choice. However, an association of vendors allows each one to offer their customers a full menu of diverse food and drink, which increases the chance of attracting customers both individually and collectively.

Once a space is made available for trading, it is occupied by a number of micro entrepreneurs, each specialising in a single product. One will sell spring rolls, one will prepare fried rice, another noodles, another drinks (ice tea, juices). The greater the number of sellers within an association, the wider the availability of different items. Each entrepreneur occupies a small part of the available space and sometimes will place plastic chairs and tables in their area for customers to use.

Once a customer arrives, each of the vendors tries to attract them and invites them sit in their designated area. However, once they are seated, customers will be given a menu containing all the dishes that are available to order from each of the competing vendors. In more advanced unions the vendors prepare a common menu listing all the items available from which customers can choose. In less advanced unions the menu will be offered orally.

The customers place their order and the vendor brings all the dishes that have been ordered. Some will be prepared by the 'owner' of the sitting area, others, the dishes the seller does not specialise in, will be 'bought' from another stand. Accounts will be kept so that each seller will accumulate debts and credits with the other sellers. At the end of the day a balance will be calculated and all credits and debts paid.

People participating in this mechanism are not always linked by family ties, nor are they necessarily long-time acquaintances. They might simply find it convenient to join forces with other people to increase sales. Although they profit only when they sell their own dishes, an alliance is convenient for two reasons. First, it allows street vendors to increase the number of customers, and thus the potential number of items sold. Second, it allows them to sell their own dishes through other vendors. In theory, it is possible for a customer to sit at one vendor's table but not order anything that that particular vendor produces, in which case only the other vendors benefit from that particular customer. In a more complex scenario, the vendor might get a discount when buying from their colleagues, so in effect he makes a small profit even if he is not selling his own products. In other cases simple reciprocity applies: I sell your dishes to my customers at no extra cost and you will sell mine later on, when they come to you and order things that I produce.

The scheme is, however, not free of risk and conflict is perhaps the main concern. For instance, if the day accounts are kept orally,

vendors might not agree on the amount of credit or debit they have accrued with other vendors. This disagreement might escalate into a fight between tired vendors at the end of the day, or in a conflict bearing more long-term consequences such as stigmatisation and progressive marginalisation from the community, pushing them to look for another alliance elsewhere. When the practice is successful, however, it helps to bond the sellers and gives them a definite competitive advantage since it exploits the mechanism of a cooperative, where everyone contributes capital and labour, and profit is shared more or less evenly among the participants.

### 5.31 **Chợ cóc** (Socialist Republic of Vietnam)

Gertrud Hüwelmeier

Department of European Ethnology, Humboldt-Universität zu Berlin, Germany

In the Socialist Republic of Vietnam, *chợ cóc* (lit. toad markets) are informal trading places that emerged starting in the late 1980s, after the political and economic reforms known as *đổi mới*. The term *chợ cóc* refers to small amphibians, toads, which are considered unobtrusive with regard to their colour and can quickly disappear in the case of danger, just like the many small traders selling their wares in the informal marketplaces (Figure 5.31.1). Often located at backstreet crossings, these small street-corner markets are considered illegal by the communist government, and as a result are prone to unannounced inspection by the local authorities. Petty traders, most of whom are women from lower-class backgrounds or urban–rural migrants, are targets of government control, and they risk having their goods confiscated in the case of the sudden arrival of the authorities. Nonetheless, these small-scale traders, most of whose clients have been regular customers for years, will continue trading the next day, delivering fresh fruit and vegetables to people living in the neighbourhood.

Since the introduction of economic reforms in 1986, a ‘socialist market economy’ has developed through shifting processes of mobility within cities and between cities and the countryside, resulting in new places for trading. The emergence of *chợ cóc* is linked to new economic activities taking place on a private basis, after the collapse of the planned economy in the Socialist Republic of Vietnam in the early 1980s. Even shortly before the collapse, poor peasants from the surrounding countryside would travel to the city to sell fresh produce, which was not allowed by the government. As predominantly women



participate in trading in general (Leshkovich 2014), vending in informal markets is a highly gendered activity (Agergaard and Vu 2010). Small traders sell their goods in mountain regions (Bonnin and Turner 2014) and in cities (Turner and Schoenberger 2012) to earn the livelihood for their families. The increasing emergence of *chợ cóc* in urban Hanoi points to the difficult living conditions of poor families and a growing rural–urban migration in contemporary Vietnam (Endres and Leshkovich, 2017).

Informal markets in North Vietnam must be placed within the context of war damage and the shortage economy that started in the 1960s. During the Second Indochina War (1955–75), known as the American War in Vietnam, the black market (*chợ đen*) flourished, in particular in Hanoi, the capital of communist North Vietnam. The black market existed parallel to the establishment of two kinds of government shops, one for political elites and cadre families, and the other one for ordinary people. Female shop assistants (*mậu dì ch viên*) in the government-controlled shops were considered very powerful by many people as they reserved the better quality pieces of meat for special clients according to the strength of the beneficial relations (*quan hệ*) or connections they shared with them. The black market was ‘regulated’ via food ration cards,



**Figure 5.31.1** *Chợ cóc* (informal market) in Hanoi, 2015.

Source: Author. © Gertrud Hüwelmeier, 2015.



many of which were illegally exchanged for money in front of the government stores.

All female shop assistants lost their jobs when the government shops were closed as a result of the introduction of economic reforms in 1986. Based on their specialist knowledge of buying and selling, many former shop assistants became small traders (*tiểu thương*), with a number of the women running small stalls in covered marketplaces that had been built in French colonial times. Others opened privately owned retail shops in Hanoi, a type of business that had not existed during the war. Farmers from the surrounding countryside came to the city on a daily basis to sell vegetables, eggs and chickens in informal urban trading places, the *chợ cóc*. Whenever the police approached, the petty traders would quickly drop their goods into boxes and carry them to small backstreets (*nhỏ*), to hide and wait for the police to disappear.

Over the past 25 years, buying and selling in the *chợ cóc* has become increasingly popular in the neighbourhoods and backstreets of Hanoi. Thousands of trading families are involved in this economic activity, as they are unable to pay huge sums of money (the informal transfer fee to the previous 'owner' of the place), to receive the state-registered 'right to use' a trading place in one of the covered government-controlled markets. Apart from the small traders in the *chợ cóc*, an increasing number of female mobile traders (*người bán rong*) are selling products in the streets of Hanoi. Due to growing rural–urban migration, many women from the countryside sell their goods, which they buy in the central wholesale fruit market in the early morning, by roaming the city streets with the traditional pole on their shoulder and two baskets on each side (*gánh rong*). A number of mobile street vendors also walk around with bicycles, offering flowers, fruit and vegetables for sale from baskets on their bikes.

Distinct from mobile street vendors (cf. *rod-re*, 5.32 in this volume), petty traders in the informal marketplaces sit at backstreet crossings on small stools made of plastic. They either settle in the neighbourhood and sell wares in front of their houses or live elsewhere in the city and offer fruit and vegetables on the stairs of a house owner they know personally. These retailers start work around two o' clock in the morning, transporting goods from the central fruit market in Hanoi, a wholesale market, to the *chợ cóc* to meet the needs of local people. From 5am until about 11am, the hustle and bustle of the *chợ cóc*, where employees from nearby offices and middle-class women have breakfast by consuming the traditional noodle soup (*phở*) or rice rolls, is characteristic for city life and part of the daily experience of urban residents. Many Hanoians do not like to buy fruit, vegetables and meat in the supermarkets (*siêu thị*), as they

consider the supermarket goods to be expensive and not fresh. Moreover, customers cannot drive through supermarkets by motorbike, as they used to when shopping at the many traditional open-air markets in the past. In addition to housewives who visit the small markets every morning, shoppers on motorbikes pass through the informal markets and are therefore as much a part of urban mobility as the many traders (Truitt 2008).

The recent demolition of traditional marketplaces by the government in order to create a 'beautiful, green and clean' city resulted in the reconstruction of these localities (Endres 2014). However, the related relocation of market stalls contributed to an economic decline for a number of female traders, as they lost their regular customers. Simultaneously, the numbers of street vendors increased near the former traditional marketplaces and new *chợ cóc* emerged throughout the city. Due to processes of neoliberalisation, including accelerating real estate development, investors constructed high-rise buildings on the grounds of former marketplaces, while the traditional markets were transposed to other localities while construction work was carried out. After the new buildings were completed, the vendors returned to the previous location, but now found themselves in air-conditioned basements, venues with no windows and no market atmosphere. Having lost most of their former customers as a result of moving and the new venue, many of the female traders gave up their 'right to use' the small market stalls in the new building, which both traders and clients consider *ghost markets* (Hüwelmeier 2017), empty places in formerly bustling localities.

In recent times, tensions have emerged among various groups, in particular between small traders (*tiểu thương*) doing business in the new high-rise buildings, and the mobile and sitting traders in the surrounding *chợ cóc*. Even as *tiểu thương* wait for customers in the basement and hope for business, they simultaneously claim that the goods of the mobile and sitting street vendors are not controlled by the government, and complain that these vendors do not pay taxes and that they just disappear in the case of police raids. In contrast to the 'safer' trading conditions in the government-controlled markets, selling in the *chợ cóc* may become uncomfortable at certain times. In order to be protected, women selling in the *chợ cóc* (*ngưòi bán lẻ*) make arrangements with the owners of houses in backstreets to sell goods on their stairs. For the opportunity to sit and sell from the stairs, the women pay a small amount of money to the owner, and in return, the traders can feel safe in the case of police raids, as they can quickly carry the wares into the owner's house. Newly arrived female street vendors selling goods on the pavement (*ngưòi buôn bán vỉa hè*), do not have any support from relatives or neighbours and are

therefore targets of ‘the black society’ (or mafia, *xã hội đen*), known to be threatening and violent and to put pressure on small traders, either by requesting money on a regular basis or fresh products daily. However, by expanding trading geographies and appropriating urban space, women are not simply victims of state policies, but simultaneously agents of change in an increasingly globalising Vietnam.

### 5.32 **Rod-re** (Thailand) Kisnaphol Wattanawanyoo UCL, UK

In Thai, the term *rod-re* is a name given to a form of mobile street vending practice that has emerged over the last three decades. The prefix *rod* in general indicates any type of vehicle that can be both motorised and non-motorised. The suffix *-re* is the adjective describing ‘the act of moving or wandering around into any places’. Thus, *rod-re* is used to describe this particular kind of street vending in the form of modified pick-up truck, filled up with food, goods and products, that moves around the urban area providing market services to various groups of customers. Many of them can be found operating in Bangkok and the neighbouring cities, but they can also be found in the other big regional cities of the country.

*Rod-re* can be seen as the adaptation or transformation of the traditional street vending known as *harb re* (hawker). Street vending is a dominant form of urban informality that can be found in cities of the Global South. It is a form of occupation, highly persistent and yet diverse and flexible (Bromley 2000: 1), which fills the gap of incomplete urban services. Mobile street vending or public space vending in Bangkok has long historical roots that date back to the early days of the capital city formation during the period of King Rama I-III. The practice of *rod-re* has also incorporated the traditional ‘wet market’, or so-called *talaad sod*, and the well-known ‘floating market’ or the *talaad nam*, along with the informal street market into a new configuration of contemporary mobile and dispersed marketplaces. *Rod-re*, along with other various forms/typologies of existing mobile vending found in the Thai cities reflect the persistence of local culture in Thai society (Polakit and Boontharm 2008: 175, 185).

During the 1980s and 1990s, even though Thailand was regarded as one of the ‘Asian tigers’ with rapid economic modernisation, there was no decline of such informal sector (Askew 2002). Also, since the 1998 economic crisis, there has been a clear rise of the middle class plunged

into the informal sector, as many of the workers who lose their jobs in the formal sector take an informal job such as street vending as an option that allows them to make a living (Bhowmik 2005). This 'new generation' of Bangkok Street vendors saw the post-1998 economic crisis as both an opportunity and threat (Maneepong and Walsh 2013).

Despite their contribution to urban life, street vendors are seen by the local authorities and elites as an undesired element, a chaotic eyesore in the cityscape that should be removed from modern urban areas (Crawford 1999, 2005; Polakit and Boontharm 2008; Yatmo 2008). At their arrival, street vendors make announcements through a loudspeaker, creating an unpleasantly loud environment. The tension between authorities and vendors over the use of streets, sidewalks and public spaces has often been high. Yet, such tension provides a picture of the dynamic interplay between vendors, the Thai public (customers) and the Thai authorities, which produces a unique Thai streetscape (Tepwongsirirat 2004). Street vending in the public spaces adds interest to Bangkok street space, and hence vending has become an informal institution in itself (Mateo-Babiano 2012).

Nowadays, mobile street vending can be divided broadly into non-motorised and motorised. The existing typologies of mobile vendors can be grouped according to the means of mobility and the response to the contemporary form of transport technology, which are comprised of six sub-groups (Tepwongsirirat 2004; Polakit and Boontharm 2008):

1. *hab-re* (hawker with light bamboo pole/stick and baskets filled with their products and walking around on foot);
2. *rod-khen* (push cart);
3. bicycle and tricycle (non-motorised peddler);
4. motorcycle (both the one with container/storage and the one with extra hanging display);
5. motorcycle (with modified container/storage) and tricycle (motorised with modified container/storage);
6. *rod-re* (pick-up truck with modified rear storage and covered roof to display food, produces and goods).

From the above typologies, *hab-re* (hawker) is the only type that still maintains the traditional form of street vending. *Rod-khen* (push cart) is one of the most popular types with great variations in the cart design that can support various forms of trading activity and investment. The first two types are more ambulatory in nature and can cover nearby distances, whereas bicycles and motorcycles can cover longer distances. The last

typology, *rod-re*, is the most advanced form of mobile vending, capable of covering the longest distances.

This study of *rod-re* is based on fieldwork data collected by the author in Bangkok in 2015 and 2016. The author conducted part of his research by riding along with or driving after the vendors, depending on the modes of transport and conditions. In many cases, the vendors meandered through Bangkok's busy streets into smaller alleyways (*sois*) of the inner neighbourhoods and peripheral communities. Following some of these vendors provides the basic understanding of the spatial practices in relation to their trading activities. It also reveals how the vendors select and manage their schedules, routes and trajectories.

In order to provide a variety of goods similar to that of more formal kinds of market, and also due to the limitation of the pick-up truck's back storage and display space, the *rod-re* vendors have to select certain types of products to fill their trucks accordingly. This selection shapes the practice of *rod-re* into three variations, which are:

1. *rod-kub-khao* (selling fresh food, meat and vegetables);
2. *rod-phak phon-lamai* (selling fruits and vegetables);
3. *rod-khong-cham* or *rod-cho-huay* (selling wide range of groceries, clothing, fashionable and gift items, also consumerist products).

The first two variations are often mistakably perceived by the public as the same type. The two types might look alike and even provide similar products. But the slight difference or variation here is that *rod-kub-khao* provides fresh meats, whereas *rod-phak phon-lamai* do not.

Another common feature of these two types is connoted in the given nickname of *rod-phoom-phuang*. The word '*phoom-phuang*' – means 'in bundle', and hence *rod-phoom-phuang* in this context refers to the outstanding display of ready-made packages of the products in small bundles, hanging on both sides of the truck. Most people consider both *rod-kub-khao* and *rod-phoom-phuang* as the same, and use these names interchangeably. But for most of the vendors, they prefer to be called *rod-kub-khao* or *rod-re*, rather than *rod-phoom-phuang*, as the latter could also refer to the motorcycle type of food vending.

The third type of variation, *rod-khong-cham* or *rod-cho-huay*, is a kind of grocery shop that also provides clothing and other consumer goods. Besides variations in their product provision and their display features, the three types of mobile market also have different target groups of customers.

In fulfilling the daily need of food and services, vendors play a crucial role, especially in the everyday life of those inhabitants who are in remote areas and far away from marketplaces, or those who find it inconvenient to move around. Vendors bring the market to the customers' doorsteps. Mundane spaces are transformed into a temporary marketplace, an ephemeral social gathering. The vendors' presence also fosters interaction between the people who live and work within a given area. Moreover, in some cases, different social classes are drawn together through such temporary market events, yielding a mix which rarely happens nowadays.

As *rod-re* takes place in the so-called 'subsector of urban informality' (Askew 2002: 74–5), with a larger amount of investment and better means of accumulation, these vendors seem to be making a profit. Also, due to their mobile nature and their economic status, for a long time they have not been the authorities' top priority in terms of being removed from the urban landscape. However, new regulation on banning street vending from major Bangkok streets imposed in mid-September 2016 by the Thai Government might affect the resilience of this practice. Yet, recently, the conflicts that have risen in relation to street vending are not between local authorities and vendors, but rather between vendors themselves, ranging from minor arguments to major disputes in terms of competing for the same group of customers, or operating in overlapping areas.

In summary, *rod-re* has evolved from the traditional mobile vending as a practice that makes good use of the interstitial, fragmented urban spaces providing economic opportunities to vendors. It is a creative appropriation of space-time by the ordinary people. With their strong characteristics of diversity, fluidity and flexibility, these practices generate enough creativity in negotiating the possibilities of the informal economy and its spaces (Askew 2002: 74–5).

### 5.33 ***Boda-boda taxis*** (Uganda)

Tom Goodfellow

Department of Urban Studies and Planning,  
University of Sheffield, UK

*Boda-boda* is the local term for bicycle and motorcycle taxis in Uganda (Figure 5.33.1), although the term is also used in some neighbouring countries such as Kenya. While informal motorcycle-taxi transport is prevalent across many parts of the world, the sector has particular economic and political significance in Uganda, where it has come symbolically to represent the 'ungovernability' of the country's informal economy.

Involving a sizeable proportion of the country's male youth, this thriving informal occupation is seen to fill critical gaps both in transport provision and employment, while at the same time posing threats to security and undermining the authority of local government agencies that have long sought to control and regulate its growth.

The use of bicycles as a form of transport service for both goods and people dates back to the 1960s and 1970s in this region of Africa, but it was in the 1990s that the term *boda-boda* came into common currency. The term derives from the English word 'border', emerging in the context of transport across the Kenya-Uganda border in the town of Busia. Here there was a gap of over half a mile between the border gates on either side, and bicycle drivers offering their services would call out *boda-boda* ('border to border') to passengers who might want to be transported across the divide.

The use of these services quickly spread to other parts of Kenya and Uganda, and with the increase in cheap, low-powered Japanese motorcycles flooding Uganda from the 1990s, motorcycle taxis increasingly came to dominate over pushbikes in many parts of the country – especially in the major cities (Bryceson et al. 2003). The popularity of this transport option can be linked to the lack of good road infrastructure, collapse of the national public transport system from the 1980s onwards, deregulation of transport services, increased congestion in cities that motorcycles can navigate much more easily than larger vehicles, and sustained economic growth. Indeed, the poor can rarely afford to use *boda-bodas* as they can cost as much as seven times more per kilometre to use than buses or minibuses. They do, however, benefit greatly from *boda-bodas* as a source of income. One 2003 study found that some 1.7 million people, or 7 per cent of the population, received part or all of their livelihood from the industry (Howe 2003).

In the Ugandan capital Kampala, *boda-bodas* grew at an exponential rate during the 2000s, as the city mushroomed in size and the large number of *matatu* minibus taxis contributed to traffic gridlock. It has been claimed that nowhere in the world are motorcycles more popular as a public transport option, and an estimated 800,000 *boda-boda* trips are taken every day (Kidimu 2015). Various studies indicate a rise from around 4,000 *boda-boda* drivers in Kampala in 2003 to 16,000 in 2007, 40,000 in 2010 and as many as 100,000 in 2014 (Bryceson et al. 2003; Goodfellow 2015). This rapid growth was partly a consequence of government policy, with the introduction of credit schemes to allow drivers to purchase their own motorbikes. For the most part, however, drivers either rent their bikes or are only able to purchase them gradually





**Figure 5.33.1** *Boda-boda* taxis.

Source: Author. © Tom Goodfellow.

through a hire-purchase system. This provides a very lucrative opportunity for investors, who frequently make profits of at least 60 per cent per motorcycle when they sell to a driver incrementally. *Boda-bodas* therefore quickly became ‘big business’; those with means would often purchase tens or even hundreds to resell in this way.

Despite initial government efforts to stimulate the sector, the Kampala City Council soon began to fear that the sector was running out of control, dominating the roads without any regulatory oversight, generating huge numbers of traffic accidents. Around 60 per cent of the people admitted to the city’s main hospital with fractures are there due to *boda-boda* related accidents. In 2014 alone, 3,124 people died on the spot as a result of *boda-boda* accidents, while 12,754 were seriously injured (Kidimu 2015). It is therefore little surprise that *boda-boda* drivers are often considered to be an out-of-control group of ‘hooligans’. Very few are registered as operators with the Transport Licensing Board, and many do not even possess driving licences. They also pay nothing by way of tax. These problems led to repeated efforts in the 2000s to introduce regulations in the form of mandatory driving licences, Passenger Service Vehicle permits, helmets (for driver and passenger) and third-party insurance, as well as controls on numbers. There were also repeated attempts to impose a basic local tax on drivers.



These efforts overwhelmingly failed, often due to interventions by central government politicians who would make announcements saying that these new regulatory systems were not compulsory or that the tax was inappropriate (Goodfellow and Titeca 2012; Goodfellow 2015). These deliberately undermined the city government's efforts and made it extremely difficult for them to enforce their regulations. It is this highly politicised nature of the sector, and the way in which it became a focus of conflict between the central government under the National Resistance Movement and the opposition-controlled Kampala City Council, that gives *boda-bodas* their particular socio-political significance. The drivers in the sector were effectively cultivated as a client group by the central government, both through micro-credit schemes and through 'protecting' them from the city government's efforts to regulate. This played a key role in the ruling party's strategy for building political support in an opposition-controlled city.

These political dynamics further fuelled the growth of the sector, because the continued absence of controls or taxes made it ever more appealing as a livelihood option, particularly given the lack of alternative employment opportunities. In 2011, the central government abolished the City Council and replaced it with a new Kampala Capital City Authority that pledged to 'clean up' the city. Yet even though the central government was now officially committed to greater regulation, the vested interests in the sector were so powerful that it was difficult to bring about any effective change. The police regularly round up drivers who lack the relevant paperwork and confiscate their motorcycles, but this rarely achieves much beyond creating opportunities for bribes and recirculating some of the resources in the sector among the police.

The uncontrolled growth of this sector and the failure to formalise, regulate or tax it over successive decades contrasts strongly with neighbouring Rwanda, where the same phenomenon (known as *taxi-moto*) was brought under tight regulatory control from 2007, with strict limits on numbers and the introduction of numerous taxes (Rollason 2013; Goodfellow 2015). In Uganda, *boda-boda* drivers are now such a substantial component of the urban population that they have come to represent a broader socio-economic category, sometimes referred to as the '*boda-boda* class', which implies an uneducated, roguish urban underclass with particular political leanings. In reality, this is not always an accurate characterisation, as many *boda-boda* drivers are actually highly educated – some even have university degrees – and engage in this practice simply because it is the best option available to them.

Even though the state has achieved little by way of control of the sector, various entrepreneurs have entered to try and capitalise on and improve the operation of *boda-boda* activities in recent years. One initiative is *Safe Boda*, a business start-up along the lines of the global taxi phenomenon *Über*, which was set up by a former Deloitte employee and – interestingly – a former advisor to the government of Rwanda, in conjunction with local drivers. Through a mobile phone application, users of this service can guarantee to be linked to trained, registered *boda-boda* drivers. Though a promising initiative, drivers registered to this service numbered only 50 in 2015 – a small drop in the ocean of *boda-boda* operators. Another initiative is *Tugende*, a company started by an American entrepreneur that aims to provide hire-purchase motorcyces to large numbers of *boda-boda* drivers on more favourable terms than were otherwise available to them.

#### 5.34 **Stoyanshiki** (Georgia)

Lela Rekhviashvili

Leibniz Institute for Regional Geography, Leipzig, Germany

*Stoyanka* is the Russian word for a parking space. In Georgia, the term *stoyanshik* (*stoyanshiki-pl.*) is used to denote a person that watches over cars parked in public spaces; the suffix *-shik* signifies a person in Russian. In other words, a *stoyanshik* is an informal parking attendant/guard (see Figure 5.34.1). *Stoyanshiki* may be found in different parts of Georgia, but their activity is most widespread in the capital city, Tbilisi.

The practice emerged in the late Soviet years, but became much more widespread in the 1990s, when crime rates rocketed as a result of the collapse of the USSR and resulting loss of state authority. *Stoyanshiki*'s services – ensuring the security of cars against theft or vandalism – were thus in high demand. Later in the 1990s *stoyanshiki* became semi-formalised when the Tbilisi city government licensed the guards, distributing special uniforms and using them as agents for collecting parking charges. Given that at that point Georgia was one of the most corrupt countries in the region (Shelley et al. 2013), a share of the rents collected by the guards was most probably informally distributed among state officials. By the mid-2000s, however, two crucial factors making *stoyanshiki*'s services relevant – the rent collection and ensuring cars' safety – were eliminated. Since 2003, crime rates in Georgia have fallen significantly due to high-profile reforms pursued by the United National Movement headed by President Saakashvili (2003–12) (Engvall 2012; Slade 2012). Moreover, the Tbilisi city government stopped relying on



**Figure 5.34.1** Picture taken in Tbilisi, near Galaktion Tabidze bridge. The *stoyanshik* is listening to the radio while having no customers. Source: Author. © Eka Paverman.

individual *stoyanshiki* for revenue collection for parking services in the city from 2007, when it held an open tender for parking management in the city. The winning company, C.T. Park, marked the parking slots and established annual parking fees to be paid by drivers, which meant that *stoyanshiki*'s role as unofficial collectors of parking fees became redundant.

The author's fieldwork (conducted in summer 2015) revealed that neither drivers nor the *stoyanshiki* named the threat of car theft as a reason for car guarding. Nevertheless, *stoyanshiki* continue to operate to the present day, but their role has adapted to the new circumstances. There are no official or other forms of data concerning the number of *stoyanshiki* in Tbilisi, although fieldwork informants interviewed by the author estimate that there are at least a few thousand *stoyanshiki* in the city. It is notable that every important parking spot in the city has an informal car guard safeguarding the place. They are mostly concentrated around parking spaces with high car turnover, such as banks, shopping centres, state institutions, bars and entertainment centres. In central districts of

the city, parking slots are extremely scarce and the cars are often parked behind each other, blocking cars in. In such cases, *stoyanshiki* collect drivers' phone numbers or even store the car keys themselves, so that they can either call the driver to move the car or move it themselves. Sometimes the cars are parked so tightly that the *stoyanshiki's* presence is also necessary to ensure that a car drives off safely, without damaging the other parked cars.

Nevertheless, at the majority of parking spaces, drivers can easily park and drive off without the help of a *stoyanshik*. *Stoyanshiki* often underline that tips are voluntary. They do not try to force drivers to pay tips, and indeed do not have any means to attempt to do so. They do report that, despite the existence of free riders, most drivers do tend to pay tips. As a rule, *stoyanshiki* tend to stay at parking spots throughout the day (working for more than 10–12 hours) and do not report having any other job. Thus, car guarding is their main means of generating income, and would appear to generate sufficient income for them to earn a living.

Informal parked car attending as an informal service is reported mostly in developing and 'transitioning' countries. However, as the practice is usually marginal and sometimes of a temporary nature, the literature on informal parking attendants is limited (Blaauw and Bothma 2003). Most of the existing literature concentrates on Africa, notably on the case of Cape Town, where informal car attending is a widespread and socially and economically significant phenomenon. In Cape Town the car-guarding industry started up as an entirely informal activity, and was often equated to begging. Over time it came to receive partial recognition from the state as well as from private businesses (Bernstein 2003). In the South African case, two reasons are commonly named to explain the proliferation of car guarding: extremely high levels of unemployment, and high crime rates, especially car theft (McEwen and Leiman 2008). In Georgia, high unemployment rates, reaching up to 30 per cent in urban centres, is certainly a possible explanation for the widespread nature of car-guarding practices.

Due to the very nature of the service, car-guarding services are susceptible to what in economics is known as the 'free-riding problem' – the opportunity for people to benefit from a service or resource being paid for by others. Car guarding can be seen as a semi-public good: it is mostly non-excludable and non-rival (McEwen and Leiman 2008). This means that if the parking guard is present at the parking site, their very presence will ensure the security for all the cars present (non-rival), and that drivers will benefit from the service whether they pay for it or

not (non-excludable). However, car guarding persists, indicating that the practice withstands the free-riding problem and generates enough income for the guards to continue the activity. Explanations for drivers' willingness to pay 'tips' include altruistic motivations (McEwen and Leiman 2008), and desire to gain social approval (Saunders and Lynn 2010). Another possible explanation is that to a certain degree the parking guards' presence is beneficial for local private businesses and in some cases the local and national authorities, who are therefore willing to support the activity. In Cape Town, for example, private businesses came to endorse the services of the car guards as beneficial for their customers. While guards were rarely hired officially and largely depended on informal tips, the business owners offered selected guards a uniform, name tag and permission to operate on their company's car park. Moreover, the city municipality started contracting the parking guards to collect compulsory parking payments from drivers (McEwen and Leiman 2008).

Existing studies thus illustrate that despite free-riding problems, local governments and businesses in the South African context saw car-guarding services as useful and informally cooperated with them. However, in the Georgian case, *stoyanshiki* have not benefitted from such unofficial 'sponsorship' from public or private institutions. Their capacity to collect tips thus depends on the driver's goodwill, and *stoyanshiki*'s own creative tactics to invent new functions for their services.

Drivers in Tbilisi express a range of opinions on *stoyanshiki*. While some see them as useless 'parasites' (in the words of one interviewee), others – in particular inexperienced drivers – view *stoyanshiki*'s services as valuable. Most commonly, however, drivers report that they do not need the services of *stoyanshiki*, but feel compelled to pay – both out of compassion, and appreciation of *stoyanshiki*'s efforts to provide some kind of service. Hence, drivers' decisions to pay tips to *stoyanshiki* appear to be motivated by altruism or the observance of a social norm. In this sense, *stoyanshiki* are rewarded for their efforts to provide a service, rather than fulfilling an actual demand for the service.

Acknowledging that their existing services are of limited use for customers, *stoyanshiki* have recently invented new services. An important one is protecting cars from punitive action by the supervisors of C.T. Park. The C.T. Park supervisors are responsible for issuing fines to drivers parked without possessing the annual parking licence. *Stoyanshiki* will often ask supervisors to refrain from issuing fines for their regular customers. Curiously, despite there being no benefit to the supervisor from acceding to such a request, they sometimes do refrain from issuing fines as a favour to a *stoyanshik*. One supervisor reported that he helps

*stoyanshiki* as ‘they are also human’, adding that the favour is not asked too frequently.

It is interesting to note that the government has not attempted to eradicate the phenomenon of *stoyanshiki*. Georgia’s post-revolutionary government under President Saakashvili was determined to tackle all sorts of informal and illegal practices (Slade 2012; Curro 2015; Rekhviashvili 2015), but the services of *stoyanshiki* were never targeted. This might be due to the fact that *stoyanshiki* are not connected with mafia and organised crime circles. Furthermore, *stoyanshiki* do not compete with the private parking management system administered by the C.T. Park, but operate in parallel, based on drivers’ voluntary tips. The government has found ways to collect parking charges with a private company in charge of parking management, which makes the removal of *stoyanshiki* unnecessary.

### 5.35 **Baraholka** (Kazakhstan)

Dena Sholk

Independent scholar, USA

In Russian, a *baraholka* is a pejorative term for an outdoor, open-air flea market where second-hand goods are bought and sold. The Russian words for ‘market’, *rynok* or *bazaar*, are more neutral synonyms. Related terms include the noun *barakhlo*, which refers to low-quality junk, and the verb *barakhliit’*, which is to hoard or to collect items of little value.

In Kazakhstan, *baraholka* refers to a series of bazaars located along the Northern Ring road in the outskirts of Almaty. Almaty’s *Baraholka* gained notoriety in the late 1990s as a regional hub for informal trading. The *baraholka* was one of many open-air markets that mushroomed across the former Soviet Union: others include Moscow’s Cherkizovskii *rynok* (*Cherkizon*), the *Hippodrome* in Tashkent, Uzbekistan and *Dordoi* in Bishkek, Kyrgyzstan. The dismantlement of Soviet institutions and supply chains left millions of former Soviet citizens unemployed and devoid of retail outlets. Desperate to make a living, many of them began trading anything they could find – from pots and pans from local factories to Japanese cell phones. In Kazakhstan, ethnic Kazakhs, Dungans and Uighurs revived relations with their kinsmen in Xinjiang, in north-western China, and began shuttling goods by car across the border to Almaty’s *baraholka* where they would resell them at a premium to other traders. These traders, who came from all parts of the former Soviet Union, Turkey and Korea, resold goods purchased from the *baraholka* in their local markets at a mark-up. For most of the 1990s, this system of

informal purchasing, transporting and reselling of goods by individuals defined the supply chains. Almaty's proximity to China, and connection to rail, road and air networks, made it a central location for a wholesale trading hub. In Almaty's *baraholka*, in the 1990s, the volume of trading activity was such that traders did not need storage facilities – they worked side by side out of wooden crates.

While informal trading contracted over time in Southern and Eastern Europe as the implementation of privatisation reforms and transition policies allowed for formal trading mechanisms to materialise, weak state capacity, corrupted privatisation efforts and an unsuccessful transition policy led to the proliferation of *baraholkas*. Beginning in the early 2000s, well-connected entrepreneurs formed limited liability partnerships (*Tovarishchestvo s Ogranichennoi Otvetstvennost'iu*, or *TOO*) and utilised abandoned shipping containers to assemble open-air trading centres (*torgovye tsentry*) in the area that had become known as *baraholka*. In Almaty's *baraholka*, the bazaars were constructed on land that was reportedly acquired illegally in the 1990s. Between 2004 and 2012, the number of registered bazaars in Almaty oblast increased from 66 to 85, while the number of individual trade spaces grew from 8,480 to 18,880 (Agency of Statistics of Kazakhstan 2014). By the late 2000s, Almaty's *baraholka* contained between 25 and 35 independently owned bazaars. An informal system of commerce was effectively institutionalised throughout Kazakhstan as a result of the construction of TOO-owned bazaars, and the state's failure to modernise trade processes, streamline customs procedures and strengthen public institutions for small- and medium-sized enterprises. Almaty's *baraholka* is the poster child of this system.

Quantifying the *baraholka*'s impact on Almaty's economy is challenged by methodological discrepancies: differing definitions of which bazaars are part of the *baraholka*, limited self-reported statistics and the high level of undocumented migrant workers. In 2012, the World Bank estimated that the *baraholka* contained 15,450 trade spaces, directly and indirectly employing 250,000 people, or 5.1 per cent of local employment (Kaminski and Mitra 2012: 57). In 2013, the Chamber of Entrepreneurs of Kazakhstan (PPK) reported (in a private report given to the author) that the *baraholka* contained only 20,000 traders and 11,000 trading spaces across 35 markets, and yet in an interview with the author, the PPK highlighted that trading alone constitutes 70 per cent of Almaty's economy.

Beyond Almaty, *baraholkas* continue to fulfil an important economic role in regional supply chains, trade and employment. In 2013, it



was estimated that *baraholkas* generated 51 per cent of total retail trade turnover and occupied 67 per cent of all retail trade spaces (Statistics Committee of Ministry of Economy of the Republic of Kazakhstan 2016). Between 2004 and 2014, according to the Agency of Statistics, while the number of registered bazaars throughout the country fell from 935 to 752, the number of trading spaces increased from 150,497 to a high of 189,177 in 2012, before falling to 174,149 in 2014. During the same 10-year period, the total square footage occupied by trade spaces grew from 4.4 million to 6.6 million cubic meters (Statistics Committee 2014). This suggests that bazaars were consolidated and expanded. By 2012, 818 registered bazaars employing 968,000 individuals operated throughout the country (Today.Kz. 2015). Furthermore, nearly 70 per cent of informal workers in Kazakhstan are employed in the market services sector, primarily in trade and food services (Rutkowski 2011: 7).

Today, traders who own the containers from which they trade lack legal title to the land on which their containers stand and are therefore not entitled to compensation in the event of forced expulsion. They continue to operate informally, following an unwritten set of rules, norms, values and practices. Traders purchase and sell goods



**Figure 5.35.1** *Baraholka* in Almaty.

Source: Author. © Dena Sholk.

based on trust and oral agreements, without written documentation of transactions and inventory. Gross earnings and tax deductions are calculated on pocket-sized notebooks with a mobile phone calculator. All transactions are conducted in cash. Employment in the bazaar is gained through informal social connections, *svyazi*, and the most successful traders maintain formidable relations with the bazaar security personnel and other traders. Whereas formal retailers market goods for fixed prices that account for the products' value chain, goods in the bazaar can be sold for prices that are barely above face value. For traders, the tradition of 'price haggling' in the bazaar means that there is no universal model for wage compensation: an individual can earn zero, or over 10,000 KZT in a given day depending on the quantity of goods, and at what prices they are sold for (the annual average exchange rate was 152 KZT per USD in 2013, 179 in 2014, 223 in 2015 and 342 in 2016).

Despite their economic impact, President Nursultan Nazarbayev has called for the 'installation of order' in all bazaars. Beginning in 2011, former Akim (mayor) of Almaty, Akhmetzhan Esimov, among others, undertook an initiative to 'install order, eliminate chaotically assembled trade centers behind the red line and impose a civilized appearance' (Zakon.kz 2013). Esimov emphasised that the *baraholka* attracted illegal migrant workers, smuggled goods and was a fertile ground for fires and infectious diseases. By 2014, the combination of forced closures by the local government led by Akimat, along with a series of destructive fires, eliminated 26 bazaars in the *baraholka*. By the end of 2015, the Akimat planned to close an additional 20 markets. In April 2015, Zakon.kz declared that the liquidation of 28 bazaars in the *baraholka* signified the 'end of an era of uncivilized trade' (Mutalipov and Ashimzhanov 2015), declaring that Almaty residents would be able to enjoy a more civilised retail experience on the territory of the *baraholka*, on which the Akimat was constructing modern trade centres.

Despite the disruption, trade in the *baraholka* increased by 9 per cent in 2014, as consumers continued to rely on it for affordable goods during times of economic stagnation (Esenkulova 2015).

Local authorities have, to a certain extent, succeeded in civilising *baraholkas*. Since January 2013, traders have been required to register as *individual'nye predprinimatel'i* (individual entrepreneurs), and are accordingly obliged to pay taxes on 6 per cent of generated revenue, as well as social security contributions, at six monthly intervals. Authorities also attempted to require the use of POI (point of sale) terminals by 2017, but were forced to delay this initiative due to the absence of Internet in most bazaars.

Notwithstanding state-led efforts to modernise the *baraholka*'s infrastructure and eliminate open-air trade, *baraholkas* in general and Almaty's *baraholka* in particular will continue to exist given their importance in job creation, supply chains and in providing an affordable retail outlet for consumers. Kazakhstan's 'formal' economy is not as yet conducive to small business creation. Reducing the *baraholkas* requires institutional reforms to the formal sector: individuals will continue to opt for informal employment in *baraholka* as long as formal sector opportunities are less attractive. Despite the stigmatisation of Almaty's *Baraholka*, and all of Kazakhstan's *baraholkas*, they will endure as long as current business conditions prevail.

### 5.36 **Budženje** (Serbia)

Marko Živković

Department of Anthropology, University of Alberta, Canada

*Budženje* (noun) can be translated as jerry-building, cobbling together, jury-rigging or bodging. The verbal form *budžiti* implies a sense of augmentation. It suggests not only rigging something up in a makeshift, slipshod or improvised manner, but also in a way that makes the thing bigger, more awkward and ungainly. *Budženje* may be carried out on houses, cars and household and electrical objects. As a verb, *budžiti* is often used with prefixes. Thus *zbudžiti*, and an even more powerful *skarabudžiti*, have a stronger connotation of cobbling something together quickly – in order that it might hold for a minimum period of time. *Nabudžiti*, on the other hand, emphasises the quality of augmentation, or making something bigger and stronger, but in a rough manner. *Prebudžiti* has an additional sense of transforming something into something else by rough rigging. The noun, *budževina* (the product of *budženje*) is sometimes modified with the prefix *kara-* as in *karabudževina*. In this instance it serves to augment words it precedes in a particularly rough manner. *Karabudževina* could therefore, but only imperfectly, be rendered as 'mega-cobbling together'.

The word *budženje* has a Turkish feel for Serbian speakers, possibly due to the sound *dzh* that occurs mainly in words of Turkish origin. However, rather than having a Turkish origin, the word may have come from an etymologically obscure Romani word '*budzho*', meaning 'bundle', 'pack' or 'rag' but also 'scam' (Victor Friedman, personal communication). This etymology resonates interestingly with the local acknowledgement of Roma as renowned masters of *budženje*, as illustrated by the 2003 documentary *Pretty Dyana: A Gypsy Recycling Saga*. The film gives an insight into rigging as a way of life, showing how Roma refugees from Kosovo

living in Belgrade lovingly rebuild Dyanas – the successor to the legendary Citroen CV2s – equipping them with radios, cigarette lighters and even miniature TVs, and attaching them to their carts (Mitić 2003).

*Budženje* is a type of *bricolage* and therefore, as a practice, firmly identifies as informal. Typically it is what is done to homes, cars and computers in ways deemed to be in direct opposition to official, proper or legally, technologically and scientifically legitimate actions. It is the general shoddiness of infrastructure and everyday objects associated not only with socialism, but also with general Balkan backwardness that necessitates *budženje*.

Cars present the original and most important locus for *budženje*, perhaps rivalled only by houses. The concept has two basic meanings when applied specifically to cars. One involves modifying the car by enhancing the engine and other parts (a more specific synonym is *frizirati*). There is still a lingering sense of rough and improvised work, yet the word in this context usually conveys a kind of approval and even admiration. The other sense is more negatively connoted and means jury-rigging or jerry-building that may or may not include enhancements.



**Figure 5.36.1** *Trabi* and *Fića* on a Belgrade street, 2003.  
Source: Author. © Marko Živković.

In the former Yugoslavia, the domestically produced version of the Italian Fiat 600, the Zastava 750, popularly known as Fića and produced from 1955–85, served as a canonical object of car *budženje*. As the first domestically produced car, and the first to become affordable for a relatively wide segment of the population, Fića became the ‘people’s car’. It was small and hardy and could pull astounding loads, but when suitably souped up (*nabudžen*), Fića could leave bigger and more expensive cars in the dust. Augmented by Abarth racing car parts, the Fića became the mainstay of the so-called National Class category in car racing, as demonstrated in one of the most cult of Yugoslav movies, *The National Class* (Marković 1979).

Just like the Trabi in the German Democratic Republic (Berdahl 2001), the Fića was an object of endless modifications and enhancements, involving huge expenditure of time, effort and *blat*-capital (cf. *blat*, 1.1 Volume 1) in order to keep it running (see Figure 5.36.1). Just as the Trabi became the icon of Ostalgie, nostalgia for aspects of life in East Germany, so the Fića became the icon of the Yugoslav equivalent, Yugonostalgia.

A personal ad nailed to a tree at a Belgrade street corner in 1998 (author source) offers an interesting example of *budženje* in relation to housing. The advert offered ‘*Budžim po kućama*’ (‘I rig at your home’, or ‘I will jerry-build at home’). The interesting feature of this usage is its apparent lack of irony and the universality of application. Normally a part of an intimate repertoire of resourceful improvisation, *budženje* is here presented as a straightforward business proposition. It would appear that the advert was addressed to people who lacked money for a proper plumber, painter or contractor, but desperately needed problems fixed in the home and would settle for a cheaper jury-rigger who could fix something so that it held, albeit temporarily.

As with similar informal practices of ‘making do’, practitioners of *budženje* tend to see it ambivalently – somewhere between pride in their own resourcefulness, and shame in failing to attain some sort of posited standard of civilised or ‘normal’ living. If Americans joke that the whole universe is held together by duct tape, ex-Yugoslavs could be beset by a profound sense that their whole social existence is jury-rigged – one huge, ugly *karabudževina*. In 2006, social commentator, Milosav Marinović lamented that Serbia was a *karabudževina* (2006),

that is to say, as a country where closets are made out of balconies, basements out of closets, rooms out of basements, living rooms out of kitchens ... dogma out of stupidity ... history out of leftovers,

wisdom out of ignorance, victory out of defeat ... We discard nothing, we are constantly cobbling something together [*budžimo nešto*] just so it could continue to serve some impossible, useless, and wrong purpose.

Here, society itself is seen as a fine mechanism that has been jury-rigged over and over again to the point of hopelessness. Things are made to serve purposes they were never intended for, and most importantly, all kind of past debris is jerry-built into the present, making it hopelessly confused, makeshift, crooked, improvised, shoddy, unreliable, irrational, ill-formed and ungainly.

*Budženje* provokes contrasting reactions among Serbs. Some feel a kind of pride in their countrymen's resourcefulness and ingenuity that goes into all this bodging of things – from cars and living spaces to politics and society in general (de Certeau (1988) famously celebrated these everyday improvisations and *bricolage*). On the other hand, laments such as Marinović's come from a particular type of intellectual elite in Serbia, and regret the country's apparent inability to produce an idealised rational and orderly environment. This ideal state of things is often referred to as 'normality', while to have to constantly resort to *budženje*, and to sense one's entire social world as an ungainly *budževina*, is precisely what is not 'normal'. 'Normality' has emerged as one of the central keywords in post-socialist studies (Fehérváry 2013; Jansen 2015), and popular notions of what constitutes 'normal life' among citizens of post-socialist societies project an ideal often associated with 'Europe' or 'the West'. Yet paradoxically, it is often everyday life under socialism, notorious for its informal techniques of survival, that is seen as 'normal' in Serbian society, as opposed to the instabilities of that which came after it. It is this sense that life under socialism was 'normal' that accounts for the great appeal of various socialist nostalgias that persist to this day such as Yugonostalgia and Ostalgie.

As with other informal practices of 'making do' found in socialist societies such as 'economies of favours' (see Chapter 1 Introduction, Volume 1), *budženje* can be seen as both 'normal' and 'abnormal'. As a practice and metaphor, *budženje* tends to hover between seeming opposites – not only between 'normality' and 'abnormality', but also between *bricolage* and engineering, sometimes emphasising one, sometimes the other, and sometimes suspended between the two. That *budženje* could be considered as a feat of engineering is attested to by a comment that a Belgrade taxi driver made in response to the author's mention of ingenious solutions used to convert Fića to propane – 'man, that's mathematics!'



While ‘mathematics’ should normally be the exact opposite to *budženje*, there is a sense in which even *budženje* can be undertaken with ‘mathematical’ precision.

### 5.37 *Jugaad* (India)

Shahana Chattaraj

Blavatnik School of Government, University of Oxford, UK

*Jugaad* denotes a way of solving problems by working around constraints and improvising with limited resources. The concept originates in a Hindi word that means ‘cobbled together’ – *jugaad* initially referred to jury-rigged vehicles common in rural India. Built from diesel pump engines and old motor vehicle parts fitted onto wooden carts, *jugaads* are a cheap and useful form of motorised transport. Unregulated, unlicensed and uninsured, they transport people, fertiliser, farm tools and produce.

In contemporary India, *jugaad* refers to various sorts of improvised machines and makeshift structures, quick-fix solutions or workarounds. It might also refer to an object or technology used in a new or unintended way. A commonly cited example of *jugaad* is the ‘missed call’ – a mobile phone call that enables communication without cost to either sender or receiver. A missed call might be used to signal arrival at a designated meeting place or convey any other pre-decided message. Initially driven by expensive call rates when mobile phones were introduced, missed calls remain a feature of everyday life in India, saving money as well as time.

In a broader sense, *jugaad* implies devising fixes and strategies that are not on the books, intended to address practical problems and cope with a lack of resources, burdensome rules and regulations, inadequate infrastructure and unreliable services. In urban India, residents of squatter settlements use *jugaad* to gain access to municipal water connections, illegally affixing small-bore pipes and pumps to water mains, typically with the collusion of political representatives and street-level municipal workers. ‘Share taxis’ and ‘share auto-rickshaws’, which run short, fixed routes, serve as a *jugaad* form of intermediate public transport in Indian cities, but operate outside of the official regulatory system.

*Jugaad* has in recent years gained currency in the fields of management and engineering, spurred by popular business books such as *Jugaad Innovation* (Radjou et al. 2012). The idea of *jugaad* has been co-opted and reframed by Indian business leaders and management thinkers as



an indigenous system of adaptation and innovation that is well suited to what the CEO of Hindustan Unilever describes as ‘an increasingly resource-starved, volatile and unpredictable world’ (<http://jugaadinnovation.com/supporters/>). *Jugaad* today finds regular mention in the international business press, as a characteristic of India’s major firms as well as small entrepreneurs and informal businesses. *Jugaad* in this sense implies a flexible and adaptive mode of practice, a ‘mindset’ geared towards improvising and solving problems as they come up. The Tata nano car, launched in 2009 by one of India’s largest industrial conglomerates, was extolled as an example of *jugaad* innovation. Priced at roughly \$2,000 at its launch, making it the cheapest car in the world, the nano was a safe, no-frills, ‘frugally engineered’ car intended to make car ownership accessible to India’s newly emerging middle class (Rajagopal, 2011; Radjou et al. 2012). The nano, a small but conventional looking four-door vehicle, used unconventional and innovative methods in its design and manufacturing process in order to keep costs low, such as gluing some parts together with high-performance glue (Rajagopal 2011).

The missed call is a classic example of an informal *jugaad* practice that has been put to commercial use. Indian firms, from banks to vegetable vendors, use ‘missed calls’ to communicate with customers and provide information about services (Pandey and Verma-Ambwani 2015). For example, a local newspaper lets customers renew subscriptions with a missed call, and a mass political campaign against corruption invited citizens to register support through missed calls.

The positive and celebratory spin that *jugaad* has acquired reflects India’s new self-confidence as an emerging economic power, buoyed by the global success of some homegrown firms. Much of the literature on *jugaad* comes from the field of management, and consists of case studies of innovative low-cost products, technological adaptations and flexible, responsive management strategies (Radjou et al. 2012). There has been less research on *jugaad* in rural and informal settings, the environment within which *jugaad* vehicles and other grassroots innovations and adaptations emerged and scaled up. A study on *jugaad* among the so-called ‘bottom of the pyramid’ (a management term that refers to India’s poorest but largest consumer class) argues that it is a survival strategy adopted by households with meagre resources (Singh et al. 2012). In small-town North India, the idea of *jugaad* has gained traction among unemployed youth, who work as brokers and fixers and see themselves as small entrepreneurs (Jeffrey and Young 2014). *Jugaad Urbanism: Resourceful Strategies for Indian Cities*, a well-received exhibition at the Center for Architecture in New York, celebrated the

resourceful and efficient ways in which slum residents, small-scale and informal businesses addressed daily problems of housing, livelihood and basic services. The exhibit framed *jugaad* as more than just ‘making do’, a model of doing more with less that architects, engineers and designers could emulate. Anthropologist Vyjayanthi Rao, in her write-up for *Jugaad Urbanism* (Center for Architecture 2011) uses the term to describe the ‘messiness’ of Indian cities, ‘but not based on notions of failure and chaos ... *jugaad* incorporates an assembly of different notions of urbanism, far more variegated than the western models’. The flipside of *jugaad* – the constraints of unreliable infrastructure and services, weak institutions and an unwieldy regulatory and bureaucratic system – are underplayed in these accounts.

*Jugaad* is a pervasive feature of Indian urban space. Slums and squatter settlements, bazaars and informal industrial districts are continuously improvised and adapted to absorb new migrants or new sorts of economic activity (many Indian slums function as informal industrial districts). Their existence circumvents official plans, laws and regulations and involves a continual negotiation with state authorities just to avoid demolition, let alone gain a measure of public services and resources. Slum structures grow in a *jugaad* fashion, from makeshift shelters to more permanent structures, adding extensions, mezzanines and upper storeys – not according to pre-existing plans or drawings, but based on functional needs and available resources. Slums may be seen as *jugaad* solutions to the housing and livelihood needs of the urban poor that formal institutions – both state and private – have failed to meet. But they also help ensure that India’s growing cities have a readily available, ‘flexible’ low-wage labour supply, under the radar of state regulation.

*Jugaad* patterns of urban growth are not restricted to slums. As India goes through a period of rapid urban transformation and growth, the capacity of formal institutions to plan and manage urban development is stretched. In the absence of effective municipal governments, the ad hoc conversion of rural land to urban use, unregulated urban development, illegal construction, encroachment on public land and the self-provision or informal provision of services are widespread.

The state, in most accounts, is considered the ‘enemy’ of *jugaad* practices. However, this author’s research in Mumbai finds that *jugaad* practices also characterise the working of local state. ‘*Jugaad* governance’ is engendered by the contradictions between the state’s legal and regulatory regime – which is that of a centralised, high-modernist bureaucracy, little changed from its colonial roots – and the need to govern a largely informal city. The state lacks the resources and institutional capacity to

eliminate or formalise informal activities, but must instead accommodate and control them, to ensure economic activity and maintain social order. In Mumbai, the author finds that the state governs the informal city not through the organisational tools of a centralised bureaucratic state, but through decentralised, flexible, improvised and on occasion extra-legal practices of governance (Chattaraj 2012).

*Jugaad* governance enables the state to service slum areas, informally regulate and tax informal economic activities, incorporate and 'regularise' unplanned urban development. Mumbai's municipal engineers, in Björkman's (2014) account of the city's water supply infrastructure, are not merely corrupt individuals providing illegal services for a fee, but state actors involved in a complex, extra-legal process of negotiation, adjusting and tweaking in order to meet service demands in a city that grows in little accord with statutory plans. Senior officials may participate in corruption, but even upstanding bureaucrats implicitly tolerate *jugaad* practices. They overlook infractions, apply discretionary interpretations of rules and regulations, identify loopholes or delay taking actions that disrupt informal economic activities or impose heavy financial, social or political costs on the state (Chattaraj 2012).

Jeffrey and Young (2014) argue that *jugaad* is used as a euphemism for corruption but with a virtuous tinge, necessary to get by and improve one's circumstances. The concept thus serves to legitimise corruption. Some Indian business leaders chafe at the term, recalling its association with the shoddy and make-do *jugaad* vehicles and an unsavoury cutting of corners (Sharma 2015). Critics argue that *jugaad* is often a product of necessity rather than choice and leads to less than ideal solutions. For example, *jugaad* strategies enable residents of illegal slums to gain access to water 'one way or another', but might reduce their incentive to organise collectively to demand services. They allow the state to renege on its obligations, but make it difficult to plan and manage an adequate water supply system. The implications of *jugaad* for India's politics, economy and society are empirical questions that need further research.

In popular accounts of the practice, *jugaad* is considered a uniquely Indian attribute, born out of the ingenuity of India's ordinary people in the face of scarce resources and a sclerotic state. *Jugaad* has several elements in common with the Brazilian concept of *jeitinho*, and *system D* or *debrouillard* in West Africa. It is sometimes mentioned as analogous to *guanxi* in China, but the element of reciprocal social relationships is not central to the idea of *jugaad*. Comparative research

will be useful to tease out similarities and differences between these practices, and to develop useful, empirically grounded social-scientific concepts.

### 5.38 *Jangmadang* (North Korea)

Sokeel Park

Director of Research and Strategy and Liberty in North Korea (LiNK)

and

James Pearson

author of *North Korea Confidential*

Contemporary North Korea effectively has two messily interlinked economies: the ‘official’ economy (where people work in state jobs and are paid a state salary) and the ‘real’ economy, where people earn money in the shadows. The latter is de facto of much greater importance in today’s North Korea, and at its heart is the *jangmadang*. A portmanteau of *jang* meaning ‘market’ and *madang* literally meaning ‘place’, *jangmadang* is an archaic Korean term for marketplace that was brought back into widespread usage in North Korea in the 1990s, when a devastating famine forced North Koreans to engage in informal market activities in order to survive. The word has its roots in old-fashioned Korean farmers’ markets, often seen at the busy intersections of narrow, muddy residential streets in rural North Korean towns or, on occasion, in specially constructed buildings designed for market activity.

Before the famine of the 1990s drove people to private trade, the state presided over one of the most tightly organised command economies in world history. The system was neither efficient nor innovative, but thanks in part to subsidised trade and aid from other communist countries, the state-socialist economy was relatively serviceable and provided the people with their basic needs. Following the disintegration of the USSR in 1991, former communist countries withdrew their economic subsidies to North Korea. This resulted in the collapse of the economy, causing a devastating famine and forcing a long-term decentralisation and restructuring of the economy and a bottom-up opening of society that continues to this day. Realising that they could no longer rely on the government for food and other basic needs, ordinary North Koreans abandoned their defunct work units and turned to private farming and private entrepreneurialism centred around the new *jangmadang* in order to survive. To this day, North Korean refugees regularly report that

without the *jangmadang*, survival would be impossible. This is reflected in the popular saying, ‘you can buy anything in the *jangmadang* but a cat’s horn’, meaning, if it exists, you can buy it in the *jangmadang*. Some 62 per cent of defectors surveyed in 2010 stated that they had engaged in work other than their official jobs before leaving North Korea (Tudor and Pearson 2015: 16).

As the *jangmadang* grew they became networked both to each other and through the porous border to China, with the result that the sub-systems and mentality of capitalism became increasingly entrenched. The government, uneasy with this development but ultimately powerless to stop it, has oscillated between trying to rein in the market forces and making halting steps to formalise and co-opt certain aspects of the market economy. Officially, private property and private trade are still illegal in North Korea, yet in practice private trade accounts for a major share of the economy. The fact that many government insiders are now using trade as a means of generating personal wealth, as well as the potentially destabilising economic and social upheaval that clamping down on private trade would bring at all levels of society, effectively neutralises any desire the government may have to wage war on the *jangmadang*.

People setting up stalls in formalised *jangmadang* are required to pay a stall tax to Party cadres in order to keep their slots – thus making the state complicit in marketisation. In some large markets, there are even electronic registration systems in effect, to keep track of who has paid their stall tax. Traders looking for new customers often transport their goods by hand over mountain paths, across rivers and through muddy valleys or dusty tracks in order to avoid the prying eyes of government officials who may try to stop them or, more likely, demand a cut of the profits.

The typical *jangmadang* stallholder is a lower- or middle-class, middle-aged married woman (*ajumma*). Though Korean culture has been male dominated since neo-Confucianism stamped its imprint on the Joseon dynasty (1392–1910), it was often the case among the peasant population that women were the market traders, not men. This legacy can still be seen in South Korea today, where poor old ladies sell vegetables and rice cakes on street corners, and appear en masse outside metro stations with baskets full of umbrellas on rainy days. It is therefore natural that *jangmadang* traders in North Korea are usually female. There is an additional reason why the *ajumma* dominate the *jangmadang*. In North Korea, adults are assigned to work units, to serve the state in return for pitiful salaries. Married women, however, are exempt from this rule, which means they are free to work as market traders. They can therefore

earn significant multiples of what their husbands make, turning them into breadwinners and challenging the traditional Korean husband–wife dynamic.

The term *jangmadang* is also used by North Korea watchers to denote the ‘Jangmadang Generation’, the cohort of North Korean youth born in the 1980s and 1990s who grew up during the famine and post-famine era. This generation has little to no memory of a functioning state-socialist economy, instead operating in and relying on the market economy from an early age. Researchers of social change in North Korea also note that this generation came of age at a time of unprecedented access to illegal foreign media smuggled into the country on DVDs and USB sticks, contributing further to a cultural and ideological shift among this generation, making them harder to control through traditional North Korean propaganda and social controls.

Many officials working in government agencies and institutions have also seized opportunities for covert or camouflaged capitalism in order to generate operating budgets for their department, as well as enriching themselves personally and making payments to senior levels to buy good favour. This has spawned a plethora of de facto private businesses operating under the guise and licences of state-socialism, which seek protection and stability through links to the top political families in the country. Lack of funding by the state for its own bureaucracy following the economic collapse of the 1990s led to the emergence of these informal ‘public–private partnerships’, which outstrip in size and scale grassroots *jangmadang* trading. Joint ventures or import–export opportunities in food, agricultural supplies, medicine and consumer luxuries are particularly lucrative. A successful firm may contribute 30–40 per cent of its profits to its parent department (as well as bribes to senior officials), with the remaining 60–70 per cent being pocketed by its private de facto owners (Tudor and Pearson 2015: 36). The practice bears similarities to the phenomenon of ‘state capture’ in 1990s Russia and other post-Soviet countries, whereby private individuals, firms and groups (including the mafia) were able to extract enormous rents from the state due to its institutional weakness (Frye 2002). However, the crucial difference in the North Korean case is that there is no legally recognised private sector. There thus obtains the somewhat paradoxical situation that these informal private companies can only exist under the guise of the state, and sustain it while simultaneously siphoning resources away from it into private hands.

This loss of centralised control over the economy and resource distribution significantly degrades the government’s hard and soft

power. These trends seem not only to be irreversible but are actually increasing year by year. The growth of the *jangmadang* means that it is inaccurate to classify the contemporary North Korean economy as 'communist' or 'collectivised'. The growing market economy and the increasing economic independence of the people is one of the biggest long-term challenges facing the North Korean government, and how they respond will be a key determining factor for the future of the country.

### 5.39 *Informal mining* (general)

Alvin A. Camba

The Johns Hopkins University, USA

'Informal mining' describes the locally based exploration and extraction of precious and base metals. 'Mining' in this sense does not denote a particular manual activity. Rather, it describes a series of activities such as digging, marking, panning and shovelling that leads to the extraction of minerals. Meanwhile, the term 'informal' denotes mining by individuals, groups and cooperatives that is carried out without formal restraints and sometimes even illegally. In this way, 'informal mining' (also known as 'artisanal' or 'small-scale' mining) is distinguished from 'formal', capital-intensive mining carried out by large state or transnational mining companies (see Figure 5.39.1).

Informal mining has the following characteristics: (1) reliance on physical labour for all types of operations, making minimal use of technology; (2) lack of legal mining licences, titles, leases and claims to the mineral areas for exploratory and extractive activities; (3) low levels of productivity per mining operation, resulting from relatively small geographical areas and water resources; (4) absence of economic, health and environmental security for miners, workers and local communities; and (5) the transient character of employment due to the seasonal dependence of mining.

Informal mining has deep historical roots throughout the world, but recent changes in the world economy through the decline of agriculture, logging, foraging and state-sponsored employment have caused increasing numbers of people to become informal miners. The World Bank put the number of informal miners in 2014 at 13 million. Meanwhile, as many as 100 million people are estimated to depend on informal mining in 80 countries across the world (Hentschel et al. 2002). The spread of informal mining has been further fuelled by the rollback of state regulation of the economy in the Global South. Recent neoliberal reforms there





**Figure 5.39.1** Informal mining in Indonesia.

Source: Alvin A. Camba.

mean that state companies that had traditionally held a monopoly over access to leases and employment have effectively been disenfranchised in many states. As a result, informal mining associations have sprung up across the world to compete for loan and credit opportunities (Hilson 2010, 2012; Bridge 2011; Camba 2015).

Informal mining relies on labour-intensive methods to extract minerals. Manual labour such as shovelling, picking, digging and extracting, and the use of explosives such as mercury and cyanide, are common features in underground mining tunnels. While capital-intensive mining digs deep into specific sites, informal mining tends to move on to other sites as soon as easily accessible mineral deposits have been gathered (Hilson and Garforth 2013; Camba 2015). Membership in an informal mining firm is subject to social and market concerns, which include community involvement, ethnic kinship and families (ELLA 2012; Hilson 2012). As organisations grow to employ more people and as demand for minerals increases, market-based employment concerns take increasing precedence over social ones.

Often the families of informal miners take part in the mineral-production process. In most cases, informal mining has been and remains

male dominated, with men involved in manual work and handling of technical equipment (Hentschel et al. 2002; Hilson 2010, 2012). Even so, informal mining enterprises in many places employ female workers. Typically, women supply food and water, handle tools and provide auxiliary services such as vending, marketing and bartering (Hilson 2012). In Guinea, 75 per cent of informal employees are women; in Madagascar, Mali and Zimbabwe the figure is 50 per cent; while for Bolivia it is 40 per cent (Hentschel et al. 2002; Hilson 2012). Children are often employed as auxiliaries, going on to become fully fledged miners when they reach adulthood. Gold-panning is carried out in some places by children aged as young as 3, picking by those aged 6, and underground extraction by 12-year-olds (Hentschel et al. 2002; Hilson 2010).

Informal mining, like other human pursuits, may act both to bring workers together and to provoke conflict among them. A gold or gem rush can attract hundreds or even thousands of people, leading to aggression and encouraging the takeover of an area by armed groups. In the Philippines, 150,000 informal miners swarmed into the Diwalwal gold mines after the mineral sector was neoliberalised in 1986 and the mines were abandoned by state companies (Nem Singh and Camba 2016). Local governments, regional mining companies, community-based miners, indigenous organisations and rebel groups all fought for access. The conflict ended in a truce only in 2011, when the various groups carved out niches in their own areas. Overall, informal mining provides 15 to 20 per cent of precious metals such as gold, along with gemstones such as rubies and sapphires, while the rest of the market is taken up by the production of base metals such as bauxite, marble, iron ore, copper and nickel.

National governments, local agencies and communities have tried to create formal structures to legitimise and tax informal mining. In the Philippines, the People's Small-Scale Mining Act of 1991 gave local governments the power to approve licences and operations for informal miners. Various kinds of informal-mining organisations have been created by local communities to lobby the state and protect their rights. Similarly, Tanzania tried to formalise informal mining by liberalising the gold trade (Hentschel et al. 2002), while Ghana has gone through a similar experience in recent years (Hilson and Clifford 2010). However, many informal mining organisations have been reluctant to deal with the state authorities because they fear bureaucratic rent-seeking and corruption (Hentschel et al. 2002; ELLA 2012; Nem Singh and Bourgoignie 2013). Their unwillingness has not, however, prevented these and similar illegal practices (Hentschel et al. 2002; Hilson 2010). Indeed, informal mining

often operates in a black market that thrives on rent-seeking, smuggling and money laundering (Hilson 2010, 2012). Middlemen and dealers profit financially precisely because there are fewer people in the production chain. In 2010, the value of illegally and informally mined Peruvian gold was estimated at \$2.9 billion (ELLA 2012).

As mentioned above, informal mining has deep historical roots throughout the world. The twenty-first century has seen an influx of Chinese financial investment that has further increased the global demand for informal mining. In the Philippines, for example, informal mining firms have been formed by local communities in response to Chinese demand, and millions of dollars' worth of gold is annually shipped to Hong Kong and mainland China. Across the world, Chinese investments in Peru, Mali, Namibia and Burma have fuelled similar demands for informal mining (Lee 2014). The mineral sector, both formal and informal, has become a source of resource conflicts, global inequalities and environmental damage.

#### 5.40 **Hawala** (Middle East, India and Pakistan)

Nauman Farooqi

Mount Allison University, New Brunswick, Canada

*Hawala* is an informal value transfer system operating through a large network of money brokers that allows money to be transferred from one geographic location to another. The *hawala* system operates outside of more traditional financial and banking channels, and is based mainly in the Middle East, Indian subcontinent and parts of Africa. In Arabic, the root h-w-l signifies 'change' or 'transformation'. The word *hawala* is derived from this root and is defined as a bill of exchange or promissory note that can be used as *hawala safar* or a traveller's cheque (Jost and Sandhu 2000). The word permeated into Hindi (national language of India) and Urdu (national language of Pakistan), retained its original meaning but acquired the additional connotations of 'trust' and 'reference'. This reflects the basic principles on which the system operates. A *hawala* dealer is described as a *hawaladar* (Jost and Sandhu 2000).

An alternative term is *hundi*, a word that is etymologically rooted in Sanskrit and means 'to collect'. This meaning is synonymous with promissory note, bill of exchange, or *hawala*. A *hundi* operator is referred to as a *hundiwala*. Padayachee and Morrell (1991: 71) define *hundi* as:

A kind of bill of exchange or written order for payment that its drawers used much in the same way that the Americans used checks to

draw on their checking accounts. In order to draw a Hundi, a client had to open up an account and maintain a correspondence relationship with a [private] banker.

Essentially, *hawala* and *hundi* have the same meanings and are used interchangeably, especially now that the system has gained international notoriety. However, *hawala* is an Arabic term while *hundi* is its Indian and Pakistani variant. It has been suggested that *hundi* and *hawala* have amalgamated into one network and their distinctions have been dissolved (Jost and Sandhu 2000).

Every year billions of dollars are transferred across countries and continents using Informal Value Transfer Systems (IVTS). The Financial Crimes Enforcement Network (FinCEN) defines IVTS as 'any system, mechanism, or network of people that receives money for the purpose of making the funds or an equivalent value payable to a third party in another geographic location, or not in the same form' (US Department of the Treasury 2003). *Hawala* is one of the key forms of IVTS. It is estimated that every year US\$100 billion to US\$300 billion flow through the IVTS (Buencamino and Gorbunov 2002).

IVTS were established means of transferring valuables and money long before any of the formal methods were conceived. However, since the growth of formal value transfer systems, informal systems have operated in the shadows, albeit maintaining a devoted following. Many of today's IVTS originated among ethnic Asian peoples who based codes of conduct for value/money transfer on mutual trust within groups and individuals. The various systems derived their names from the geographical locations and the ethnicity of the groups that practised them. Passas (1999) has summarised some of the more common names for IVTS practices in different parts of the world:

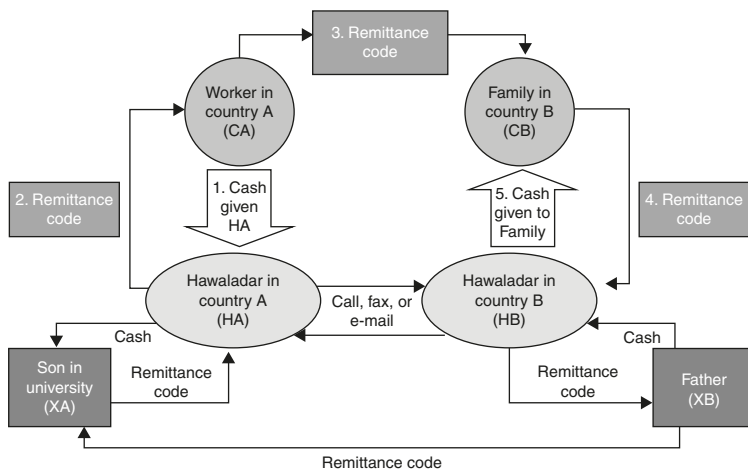
- *Hawala* ('trust, reference, exchange'; the Arabic root h-w-l means 'to change' or 'to transform') – India.
- *Hundi* (commonly translated as 'trust'; it means bill of exchange or promissory note; comes from a Sanskrit root meaning 'to collect') – Pakistan.
- *Fei ch'ien* ('flying money') – Chinese.
- *Phoe kuan* – ('message houses') – Thailand.
- *Hui k'uan* (to remit sums of money) – Mandarin Chinese.
- *Ch'iao hui* ('overseas remittance') – Mandarin Chinese.
- *Nging sing kek* ('money letter shop') – Tae Chew and Cantonese speaking groups.

- *Chop* (shop) – non-Chinese use this term for one of the Chinese methods.
- *Chiti* banking – refers to the ‘chit’ used as receipt or proof of claim in transactions introduced by the British in China (short for ‘chitty’, a word borrowed from the Hindi ‘chitthi’, signifying a letter, document or mark).
- *Hui* or *hui kuan* (‘association’) – Vietnamese living in Australia.
- *Stash house* (for *casa de cambio*) – South American systems.

A simplified model of a *hawala* transaction is provided by El-Qorchi (2002):

- Customer A (CA) wishes to send money to customer B (CB).
- CA visits *hawaladar* A (HA) in country A.
- HA receives money to be remitted (Q) to CB plus a service fee from CA.
- CA receives code of authentication and passes it on to CB.
- HA then instructs *hawaladar* B (HB) in country B to remit Q to CB.
- CB discloses the code to HB who then presents CB with the funds.

*Hawala* persists due to a number of reasons, which include; anonymity, cultural friendliness (Chene, 2008), low transaction costs (Maimbo, 2003), less transit time (Schramm and Taube, 2002), enhanced level



**Figure 5.40.1** The Model of Simple *Hawala* Transfer.

Source: International Monetary Fund, 2002. Copyright: IMF, Fair use.  
<http://www.imf.org/external/pubs/ft/fandd/2002/12/elqorchi.htm>

of trust versus banks and other conventional channels (Schramm and Taube, 2002), and increased efficiency (Ballard, 2003).

'Underground banking' is a core term widely used to describe *hawala*. This term, however, is inherently fallacious. The actual transfer process rarely involves any banking procedures. It is structured more as an exchange on open accounts between two or more individuals (Passas 1999). For these reasons, 'underground banking' is a misnomer and incorrectly implies a submerged activity of illegality and corruption. Another term coined by media hype is 'black *hawala*', which alludes to illegal *hawala* transactions (Jost and Sandhu 2000). However, for some critics, 'black *hawala*' has come to define all *hawala* transactions. This is typical of the partisan thrust of many present-day media commentaries.

By their nature, *hawala* networks enable transnational economic activity conducted in a world of increasing interconnectedness. However, unlike 'formal' transnational economic activities that operate from relatively static identifiable entities (such as banks and other multinational corporations), and that are regulated by national and international governmental institutions, the *hawala* economy is constituted by networks of spatially dispersed heterogeneous actors with no specific centre. As *hawala* is located in the 'grey' area of legality and may be illegal in some circumstances, one might expect that the default rate and default risk would be high, fraud would be rife and exploitation common. However, there is a surprising consensus among scholars that the *hawala* has a history of being reliable, speedy and convenient (Schramm and Taube 2003; Ballard 2005a, 2005b). Thus, *hawala* produces positive economic outcomes but without the traditional visible elements of management control (reporting processes, audit/documentation, formalised clearing system) normally associated with the formal sector.

*Hawala* gained increasing attention in the US and international media after the 9/11 terrorist bombings involving Al-Qaida. It has been alleged that Al-Qaida used *hawala* to transfer money – undetected – across international borders to finance its terrorist activities. Since then, research into various aspects of *hawala* by governments, academics and journalists has increased significantly. This sudden surfeit of information has generated a 'fact by repetition' phenomenon (Passas 1999). Emanating mostly from the West, a large number of negative commentaries have cast *hawala* as a dangerous practice that needs regulation, monitoring, or even abolition. However, contrary to popular misconception *hawala* did not have their beginnings in criminal enterprise or

financial malpractice, and continue to be used primarily for legitimate purposes all over the world (Passas 1999). De Goede (2003) has commented on the general misconception that *hawala* is an 'underground' banking system, noting that these informal networks are connected to Western banking systems in many ways.

Although *hawala* is considered an alternative to formal transfers involving banks and financial institutions, the processes involved are quite similar. Formal value transfers can take several forms: cash carriers, exchange houses, and money remitters. Apart from cash carriers, formal value transfer systems do not physically move cash or valuables, but an institution forwards a sum to an individual/business entity on behalf of another institution representing a different individual/business entity. An illustration of this is a transfer of funds through Western Union. Detailed records are kept that are then settled through the formal banking sector, while impartial third parties monitor and enforce rules and regulations.

In contrast, while *hawaladars* keep some records of transaction these are not to monitor their activity but as reminders for details of individual accounts, transactions and balances. This record-keeping is a matter of individual practice, in contrast to the standardised procedures followed by the formal sector. However, the settlement process for *hawala* works on the same basis as the formal system: open accounts are kept and there is occasional netting off between *hawaladars* to settle accounts, although they may not necessarily use formal channels (Wilson 2002).

The biggest difference between the two systems is the monitoring process. As mentioned, the formal system relies on an impartial third party to monitor all transactions and ensure compliance with the rules. Any party that departs from fair transactions would become liable to penalties imposed by the laws governing the system. On the other hand, the informal system does not rely on third-party monitoring. Individual *hawaladars* and other members of the network monitor all transactions. This is enabled by the customary trust that exists between the *hawaladars*, a trust that stems from a homogeneous set of beliefs that governs code of conduct within ethnic groups and communities. Any individual engaging in acts contrary to the code of the network is punished accordingly (Schramm and Taube 2002). The informal mechanism does not have the detailed documentation that is the essential part of monitoring in the formal system. While records exist, they are neither standardised nor available in a form that would be accessible to monitoring agents in the formal system. This makes it difficult to track suspicious



fund transfers. The *hawala* system is based on a hierarchy of agents, each involved in a certain segment of the transaction, making it very difficult to trace the fund's transfer chain.

#### 5.41 **Bitcoin** (general)

Jean-Philippe Vergne and Gautam Swain

Ivey Business School, Western University, Canada

Bitcoin, originally described as a 'peer-to-peer electronic cash system', was introduced in 2008 by Satoshi Nakamoto (a pseudonym) as an alternative to national currencies issued by central banks (Nakamoto 2008). Unlike the formal institutions of global finance (e.g. banks, credit card companies), bitcoin is to a large extent a bottom-up, activist-driven, lightly regulated ecosystem. Like other software innovations in the past, its creation draws upon various technological building blocks developed among libertarian hacker communities since the mid-1980s (Durand and Vergne 2013), particularly in the areas of peer-to-peer networking and cryptography. With Internet access and a digital wallet, which can be created for free in a few seconds, anyone can transfer value to a third party anywhere in the world, whether to purchase goods from merchants who accept bitcoin payments, or to exchange bitcoin for fiat currency such as



**Figure 5.41.1** Bitcoin symbol.

Source: <https://www.flickr.com/photos/thespeakernews/>.

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the US dollar. All bitcoin transactions are recorded on a public ledger, called a blockchain, which is maintained in a decentralised fashion by thousands of computer nodes (Swan 2015). These nodes secure the bitcoin network by verifying and validating cryptographically all the transactions. As well, each node stores a copy of the public ledger that can be compared to other copies in order to ensure integrity and detect fraud.

More specifically, the security of bitcoin transactions relies on public-key cryptography, based on the generation of random pairs of keys consisting of alphanumeric characters and used to digitally sign transactions. Bitcoin users are assigned a public key upon joining the bitcoin network, and that public key acts as an address (similar to a bank account number) to which funds can be transferred. The blockchain records the number of bitcoin held by each address and can verify the authenticity of associated transactions. The private key associated with each address (or public key) must be kept secret since it is used to prove ownership of the address and allows the user to unlock the funds. Public-key cryptography enables bitcoin users to transfer value without having to reveal their real identity, which makes bitcoin transactions 'pseudonymous'. Even though full anonymity is not a feature of bitcoin (i.e. public keys can sometimes be connected to real-world identities), it still offers more privacy than traditional financial transactions. As a result, bitcoin has been a tool of choice for transferring value outside the boundaries of formal financial institutions, occasionally helping black market entrepreneurs eschew scrutiny by law enforcement and tax authorities (for a detailed, multi-media overview of how bitcoin works, see Vergne and Lomazzo 2015).

Not only does bitcoin have the potential to power the informal economy, but it also represents an attempt at managing informally an international payment system. Indeed, bitcoin is not a corporation, neither is it a for-profit structure of any kind. Instead, it is run as (and by) a multi-stakeholder community comprising users, merchants (who accept bitcoin), developers (of the bitcoin software), and miners (i.e. the owners of network nodes in charge of maintaining the integrity of the bitcoin blockchain in exchange for bitcoin rewards) (Antonopoulos 2014). Over time, third-party service providers backed by venture capital firms have entered the scene (e.g. Coinbase, Kraken), offering tools to facilitate bitcoin storage and exchange. The decentralised nature of bitcoin's governance means that the traditional tools of monetary policy are inapplicable to bitcoin – for instance, no central authority can debase bitcoin by 'minting' additional coins. New bitcoins are released gradually into the ecosystem following transparent rules, and the maximum number of bitcoins in circulation has been fixed once and for all in the software code

at 21 million. It would require a large consensus among bitcoin stakeholders to change this parameter.

While bitcoin offers a promising digital alternative to the centralisation of financial transactions, its future is still mired in uncertainty. Bitcoin's total market capitalisation has been highly volatile since its inception and represents a tiny fraction of the market capitalisation of the world's largest banks (i.e. the top three are each valued at more than \$200 billion). Besides, the regulatory environment remains unpredictable (De Filippi 2013), and standardisation efforts by the bitcoin community have been slowed down by persistent governance issues, including feuds between factions of bitcoin developers who disagree about the cryptocurrency's future (World Economic Forum 2016). Some countries, such as Iceland, Russia or Bangladesh, have sought to ban the use of bitcoin, while China prohibits its financial institutions from transacting in bitcoin (Swan 2015). In contrast, countries such as the UK, Singapore or Canada are more open to the technology and seek to design attractive regulation.

One of the major obstacles to bitcoin's mass diffusion is the difficulty to understand what bitcoin represents at a deeper level or, put differently, to classify bitcoin using an adequate category label, such as 'asset', 'payment system', 'commodity', 'property', or 'virtual currency'. In fact, in the British media alone, more than a hundred distinct category labels have been used to describe bitcoin between 2009 and 2015 (Vergne and Swain 2017), creating substantial confusion among the general public. In addition, many category labels used to refer to bitcoin are inconsistent and fail to accommodate some of bitcoin's core features (e.g. a 'virtual currency' is typically issued by developers in a centralised fashion, as is the case in videogames, yet bitcoin was designed precisely to avoid centralisation) (European Central Bank 2012). The multiplicity of category labels used to describe bitcoin also nurtures contradictory beliefs regarding which attributes bitcoin possesses – or not (e.g. bitcoin is not 'anonymous', despite numerous public claims to the contrary).

Such instances of 'categorical anarchy' (Vergne and Swain 2017) are rare, but do not necessarily imply the ultimate failure of the innovation. For instance, back in 1993, the *New York Times* (Johnson 1993) wrote, rather ambiguously, about 'a television station without programmers or a newspaper without editors' to describe what is now consensually labelled 'the Internet'. Interestingly, in the case of bitcoin, the ambiguity regarding which category labels adequately describe the technology is at times nurtured by insiders who are not keen on seeing

bitcoin leave the sphere of the informal economy. While some clarification around bitcoin's definition and applicable regulatory regime would likely reassure potential investors, it would also constrain users' ability to transact without having to rely on the institutions of global finance. For example, if regulators were to categorise bitcoin as a 'commodity' instead of 'currency', then sales tax would apply to bitcoin transactions (Peters et al. 2015), and the latter would require additional records and reporting, thereby diminishing bitcoin's potential as the informal economy's currency. Today, cash is still (by far) the preferred means of payment for racketeering, money laundering, drug and human trafficking, bribery, tax evasion, extortion, and terrorism (Rogoff 2016). But bitcoin – now recognised, with increasing consensus, as the first 'decentralised cryptocurrency' – continues to develop regardless of censure because it cuts out the financial sector's middlemen and provides ways to mitigate both regulatory power and government surveillance (Maurer et al. 2013).

## **Conclusion: how do tools of evasion become instruments of exploitation?**

Scott Radnitz  
University of Washington, USA

People have an amazing capacity for resilience in the face of oppression. As the examples in this chapter show, those with limited means who are excluded or marginalised from the system often resort to various 'weapons of the weak' (Scott 2008). These include community networks; informal institutions of reciprocity, favours and backscratching; and tricks to eke out a living outside the formal economy. The combination of ingenuity, cooperation and official tolerance of (or connivance in) informal practices can, in some cases, transform the survival instinct into a viable business plan.

While our normative sympathies may lie with the underdog succeeding against long odds, there is a darker side of this story. It turns out that the measures taken in collective self-defence are dual purpose and can be used to amass, consolidate and exercise power in ways that may transform the exploited into exploiters and lead to collectively unfavourable outcomes.

This chapter identifies several mechanisms that determine how actions taken by the weak may be conducive to oppressing others, whether

occurring simultaneously on a different scale, or taking on a new purpose when conditions change. Examples of informality from Soviet and post-Soviet Central Asia show how network construction, authoritarian governance structures, exclusive identities and internalised narratives of victimhood can turn prey into predators.

The ironic notion that the same actors may occupy distinct and ethically incongruent niches with respect to power has broad resonance in popular culture and folk wisdom, illustrated by tropes such as revolutions devouring their children, generational cycles of victimhood and abuse, and captives turning into tormentors. In times of turmoil, it is often the case that groups are simultaneously victims and aggressors, while people engage in the self-justifications that turn themselves into the former and their enemies into the latter (Ross 2007; Deák et al. 2009). Informal responses to social or political restrictions during ordinary times can also serve as weapons of the weak or the strong.

First, the process of network construction is a sociological behaviour that protects assets and information from the powerful while solidifying exclusivity. Actors collaborate with those with whom they have a previous relationship, or form strategic alliances with people who have access to complementary resources. In the fluid environment that emerged after the Soviet institutions collapsed, the rule of law was weak and new threats and opportunities appeared. Actors at all levels endeavoured to secure their interests by strengthening social ties and exploiting institutional remnants of the old system (Ledeneva 2006). In many cases, it is difficult to tell a 'defensive' from an 'offensive' motivation, as networks help actors both to protect their property and persons, and to accumulate resources to improve their well-being. In Kyrgyzstan, for example, businessmen who had succeeded in accumulating wealth formed alliances with other elites unaffiliated with the regime in order to defend their assets. However, these networks also competed for the spoils of power against other elite groups, perpetuating the concentration of the nation's wealth in a few hands at the expense of the majority (Radnitz 2010b).

Informal networks that are engaged in illicit economic activity or subversive collective action operate *sub rosa* because of the high risk that exposure would cause harm. An authoritarian governance structure with centralised decision-making and strict monitoring and sanctioning of subordinates has the advantage of ensuring discretion and securing compliance where negligence could be damaging to the organisation (Hechter 1988). But what may benefit the organisation can limit the freedom and autonomy of its members and those who cross its path. In Soviet Uzbekistan during the Brezhnev-era (1964–82), actors at multiple

levels – from republic-level leaders to ordinary cotton farmers – carried out a massive conspiracy to profit from the underreporting of the harvest and the black market siphoning of cotton from state procurement channels (Gleason 1991). Contemporaneous reports pointed to a highly organised and hierarchical system of justice and public goods provision parallel to the formal system based in Moscow. It was run as a fiefdom with punishments meted out arbitrarily by a local strongman (Rumer 1989). In more recent times, the leaders of organised criminal groups from the region have displayed the dual markers of ‘Robin Hood’-type providers of substitute public goods and ruthless defenders of their turf (Kupatadze 2012). Finally, protest leaders who inveighed against tyranny and corruption, once ascendant, were tempted by the seduction of power and turned into despised imitations of their predecessors (Mitchell 2009; Collins 2011).

Another feature of informal networks that has the potential to lead to exploitation is the tendency of members to develop exclusive identities. The imperative of self-protection leads to the establishment of rules, norms and conventions that help draw a clear line between the in-groups and out-groups. Identity markers associated with language, region, lineage or dialect can act as shortcuts to distinguish members from non-members but also, more insidiously, to shape the boundaries of competition, which can be perceived as zero-sum (Richerson 2003). Soviet personnel policy in Central Asia sought to balance between cadres representing different regions, which in turn derived from historical settlement patterns and imperial administrative boundaries. By sharpening lines of division that were previously fluid, Soviet governors intensified competition over official posts (Jones Luong 2002). This laid the groundwork for the Tajik Civil War of 1992–7, which arose from an inability of regional groups to share power; and intermittent but (mostly) low-level clashes between Tashkent/Fergana and Samarkand/Bukhara cohorts in Uzbekistan (Tunçer-Kılavuz 2009; Markowitz 2013). Aside from the potential for violence, losers included people distant from the elite representatives of these interest groups, and people hailing from weaker regions.

Finally, informal networks and ethnic divisions of labour can lead to divergent perceptions of success, disempowerment and potential threat. Social comparisons between groups, coupled with stereotypes and national myths, may lead multiple groups to consider themselves the weaker party and others a threat to their livelihood or even existence. Take the case of Kyrgyzstan, for example, where ethnic Uzbeks make up some 15 per cent of the overall population, but constitute majorities or

near majorities of the population in several major cities near Kyrgyzstan's south-western border with Uzbekistan. Since Kyrgyzstan became independent in 1991, ethnic Kyrgyz have dominated the public sector in the south of the country, including the power ministries, while members of the ethnic Uzbek population have concentrated on business and trade (Fumagalli 2007). While this division can be complementary as each works within its own sphere and interacts with the other in shared spaces such as bazaars, it may also be a volatile arrangement, since groups may propagate self-serving narratives about their own entitlement versus the dishonesty or illegitimate practices of the other. This has generated insecurity and concerns over sovereignty among the Kyrgyz population. Thus, when Kyrgyzstan's President Kurmanbek Bakiev was overthrown in 2010, causing a vacuum of state power, insecurity fuelled violence as members of each group sought to act on long-held grievances and protect their own group interests (Radnitz 2010a). In this instance it was impossible to distinguish the oppressed from the oppressor; what mattered was that both sides believed themselves to be the former and the other the latter.

The above examples illustrate the propensity for adaptive behaviours in response to adversity to become predatory in their own right. It raises the question of how (or even whether) we can recognise a threshold at which one effect turns into the other. But perhaps this is the wrong question, premised on an assumption that surviving and thriving are distinct activities. Instead of trying to identify an illusory boundary, we can perhaps understand more by loosening dichotomies that often motivate the investigation of informality.

First, we might argue for watering down the distinction between the elite and mass levels. Networks that are primarily 'political' or 'social' are usually studied in isolation, by different disciplines and using different methodologies, consistent with the 'hourglass' depiction of post-Soviet societies (Rose 1995). But the actions of communities or firms that are at first blush merely adaptive and apolitical may, in certain circumstances, put pressure on existing institutional arrangements and have political ramifications. These include the co-optation of state actors, erosion of formal institutions through noncompliance, mobilisation of protest, the operation of a parallel state and even making a bid for state power.

Second, we might dispense with assumptions that state and non-state networks operate according to different principles. States are ostensibly unitary and come with standard operating procedures. States rule and dominate, whereas societies follow and comply, at least in theory.



In practice, the difference in the basis of relations and the types of order that emerge ‘inside’ and ‘outside’ the state may be a matter of degree rather than of kind (Darden 2008). A depiction of a more porous boundary helps us make sense of cases in which informal networks become state-like, and people who begin by evading or manipulating formal rules come to make and enforce their own; and how economic agents who evade strictures such as taxes and regulation can reach such a scale that they seek to impose them on others.

Given the fluid categories and complex webs of relations at different levels that predominate in weakly institutionalised systems such as those in Central Asia, we find actors who resist as they rule, evade while they enforce and contest as they connive. Scholars attuned to these possibilities can advance the study of informality beyond traditional categories.

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## Informal dwelling

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## Conclusion: how do tools of evasion become instruments of exploitation?

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# Gaming the System: Manipulating the Rules and Procedures

## **Introduction: gaming the system**

Philip Hanson

Russia and Eurasia Programme, Royal Institute of International Affairs/Chatham House, London, UK

The notion of ‘gaming the system’ may be summed up as manipulating the formal rules and procedures that are intended to preserve an existing system, in order to exploit that system for one’s own purposes. The notion does not, however, lend itself to a simple definition, as is shown by the complexity and richness of the material contained in this chapter. In my introduction, I offer some reflections on the degrees of complexity of the informal practices described here; on family resemblances across the practices of different countries; on the importance of symmetry between formal rules and informal norms, and, since the period that followed the end of communism in the Soviet Union and Eastern Europe offers so many rich examples of gaming the system, on the effects of post-communist social change.

### Complexity

A system can be gamed with widely varying degrees of elaboration. Parking your car in a disabled parking space barely qualifies as gaming the system, even if you get away with it. You have secured the advantage of a parking place by breaking a formal rule; that is all. That is akin to simple fare-dodging. If, however, you illicitly acquire a ‘Disabled’ sticker for your car and then park in a disabled parking space, you are gaming the system in a

slightly more elaborate way. A cartoon by Alex (*Daily Telegraph* 2016) illustrates a particularly sophisticated variation on the theme of insider trading (see insider trading in USA, 6.16 in this volume). A city trader thanks a financial analyst for his share tips, which are invariably wrong. The gratitude is double-edged. By basing some of his trades on those tips, the trader can keep his overall performance down to a level at which it does not arouse suspicion. The rest of his trades are based on inside information.

In gaming the system, complexity can vary a great deal. *Blat* in Romanian usage can refer to something as straightforward and innocent as hitching a ride, through fare-dodging on public transport to giving (and taking) bribes. In Arabic, *wāṣṭa* can refer to informal intermediation in family disputes but also to ‘politicians swapping political largesse for votes’. Intermediary in exchanges of favour (see economies of favours in Chapter 1) may simply help the speeding up of a bureaucratic procedure or it can be used to protect students from extortion of informal payments by instructors and teachers.

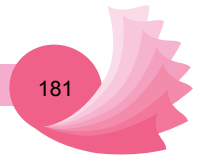
Some of the terms explored in this chapter, however, are highly specific. They do not permit a great deal of variation in the sophistication with which they are applied, and they seem to be endemic to a particular country. This is true in particular of *externe Personen* in Germany and *flipping* by British members of parliament. What makes them so apparently specific? Could they be assimilated into informal practices of a more general kind?

### Family resemblances

‘Gaming the system’ applies to a range of activities that bear a certain family resemblance to one another. In this it resembles the word ‘game’ itself. It is impossible to concoct a neat definition of ‘game’ that covers card games, board games, ball games and children’s games like ring-a-ring-a-roses. Very little is in common between all of these. Rather ‘Similarities crop up and disappear’, like family resemblances (Wittgenstein 1953).

Are there groups of family resemblances within the most general characteristic of gaming the system, namely that of winning some advantage by acting against the spirit of the formal rules? It seems that there are. One family resemblance is the role of informal, sometimes illicit, intermediaries who secure, or try to secure, some advantage for someone from a third party who is in a position to provide that advantage. *Wāṣṭa* in the Middle East, *torpil* in Turkey, *pulling strings* in the UK and USA and *raccomandazione* in Italy all have this in common. This family resemblance is visible across societies in which patron–client relations are readily observed and societies in which they are not. In each





case the practice can take forms that are regarded as scandalous and other, milder forms that may be regarded as routine.

Another family resemblance across the varieties of system-gaming is that an element of wheeling and dealing is involved, something that requires a certain skill, know-how and daring. This is apparent in a number of the practices described below but perhaps most strongly in the Bulgarian *s vrutka* and the Polish *kombinacja*. The entry on *s vrutka* in Bulgaria says that ‘The phrase ... invokes creativity, fluidity and mastery of the social milieu and social and cultural knowledge’. The entry on *kombinacja* in Poland quotes sociologist Joanna Kusiak as saying that *kombinacja* ‘has been considered a skill which one should be proud of’ (Kusiak 2012: 296–7). These descriptions lead one to wonder what the relationship may be (across countries) between entrepreneurship and the wheeling-and-dealing varieties of informal practice. Are *s vrutka* and *kombinacja* practices that amount to informal (unincorporated) enterprise? Or are they behaviour that is provoked by a bureaucratic environment inimical to business?

There is a rich source of data on national rates of business ownership and on national environments for enterprise, assembled from surveys conducted by the Global Entrepreneurship Monitor. That might be one source on which to draw in making cross-country comparisons of entrepreneurial informal practices.

### Formal rules and informal norms

The entry in this chapter on *cash in hand* in the UK raises the question of the correspondence or lack of correspondence between the norms, values and beliefs underlying a society’s informal institutions on the one hand, and its formal institutions on the other: where there is a lack of correspondence between the two, *cash in hand* is more likely to be a common practice. Empirical studies across many European countries support this conclusion.

Is this true of informal practices in general? If most of the individuals in a society trust that society’s politicians, police officers and tax inspectors and have internalised the values embodied in official arrangements, there will be less tolerance of tax evasion. The same might well apply to *pulling strings* in the UK, *insider trading* in the USA, and *otkat* (kick-backs) in Russia, to take a few more examples of informal practices described in this chapter.

There are, however, some other practices that amount to a semi-formal repair of a defective area of legislation: the *no entry* system in

Hyderabad, India, for handling property transactions on land where formal property rights are not established, is one example. It has evident uses in developing countries; there are parallels in Bogota, Cairo and in some sub-Saharan African countries. It is not obvious that in cases like this an asymmetry of informal and formal norms and values is necessarily involved; rather, the defective machinery of state needs patching up, and the patching up is done by an informal practice that has acquired a degree of formal support.

Other informal practices seem mostly to depend on a divergence between formal and informal norms. That probably would help to explain two phenomena: the popular view of some practices that they exist in 'good' and 'bad' versions (e.g. *kombinacja* in Poland and *tapş* in Azerbaijan) and that there is often a moral stigma attached to a practice in which many people nonetheless engage (such as *raccomandazione* in Italy).

Are there countries where formal and informal norms substantially converge, and confidence in formal institutions is high, so that our informal practices play only a marginal role in people's lives? This may be idle speculation, but I am struck by the absence, in the wealth of material provided here, of examples from the Nordic countries – the perennial good guys (along with New Zealand) in Transparency International's Corruption Perceptions Index. Perhaps there really is an unusual degree of congruence between formal and informal norms in the Nordic countries (see *janteloven* in Denmark, Norway and Sweden and *Vetterliwirtschaft* in Switzerland (3.11 and 3.15 Volume 1)).

### Post-communist transformation

The end of communism in Europe meant the end of certain informal practices. For example, the *tolkach* – the Soviet enterprise's supply fixer – was needed only as long as the Soviet Union was a shortage economy with centralised supply-planning. The end of enterprise output targets meant the end of the games described by the economist Janos Kornai for Hungarian light industry. In a rare empirical study of state-enterprise performance, Kornai showed how fulfilment of output targets had a bimodal distribution. If, near the end of the year, it became clear that you, the enterprise director, were going to miss your output target and therefore fail to collect your bonus, it made sense to miss it by a clear margin in the hope of securing a correspondingly easier target next year. If you were going to collect this year's bonus anyway, it equally made sense, for the same reason, to over fulfil only narrowly (Kornai 1959).

At the same time, the end of communism meant the beginning of many other informal practices that replaced *blat* and enabled the transition to work (Ledeneva 2006). Some could exist only in a world of private enterprise. The Russian term *dzhinsa*, for example, denotes paid-for material presented in the media as ordinary news. Ukrainian *deryban* – the looting of state property – is also dependent on there being non-state entities to sell to or otherwise do business with. It might be argued that the environment required for these practices is not simply that of a private enterprise, market economy, but a *poorly regulated* private enterprise, market economy. In any case, private enterprise is a necessary, if perhaps not a sufficient, condition for such practices to flourish.

Some practices, including *deryban* in Ukraine, may be limited to the early phase of economic transformation: the period depicted so vividly for Russia in Steven Solnick's *Stealing the State* (Solnick 1998; see also Chayes 2015). After all, the point comes when, in the popular phrase, there is no more state left to steal. What happens then? One answer, at any rate in some ex-communist economies, is asset-grabbing from existing private owners, or *reiderstvo*. As is described in this chapter, *reiderstvo* has evolved from asset-grabbing by the use of private violence to asset-grabbing with the assistance of law enforcement agencies and the courts. Indeed it can on occasion end with the state's taking back an asset previously privatised: capture of the state gives way to capture by the state.

Some informal practices appear to be more marked in ex-communist than in never-communist countries, though not confined to the former. An example would be wages in an envelope, *alga aploksnē* in Latvia but also *cash in hand* in the UK. Others, such as *reiderstvo* and Russian 'bankruptcy to order' (*zakaznoe bankrotstvo*), seem on the face of it to be specific to some former Soviet states. If this is really the case, and not just a reflection of unavoidably incomplete coverage, it suggests that many informal practices observed in the ex-communist world are a response not to capitalism as such but to capitalism when combined with a weak rule of law.

## Free-riding (staying under or over the radar)

### 6.1 *Cash in hand* (general)

Colin C. Williams

Sheffield University Management School, UK

In the UK in particular and in developed economies more generally, a recurrent question that customers ask of tradespeople, such as those

doing home maintenance and repair work, is 'How much for cash?' Similarly, it is commonly the case that such tradespeople will give customers an official quote for doing a job with value-added tax (VAT) included, and then say, for example, 'or 20 per cent less for cash in hand'.

'Cash-in-hand work' refers to monetary transactions that are unregistered by, or hidden from, the state for tax, social security and/or labour law purposes but that are legal in all other respects (Williams and Windebank 1998; European Commission 2007; Williams 2014a). 'Cash-in-hand' work has been denoted in other contexts using over 45 different adjectives and 10 different nouns. It has been called the 'black', 'concealed', 'informal', 'irregular', 'hidden', 'invisible', 'off the books', 'subterranean', 'undeclared', 'underground', 'unobserved', 'unorganised' or 'unregulated' economy, sector, work, employment, activity, sphere or realm, to name but a few of the adjectives and nouns employed. It is immediately apparent when one examines these adjectives that they all describe something that is absent, insufficient or missing.

The one thing absent from 'cash-in-hand' work, and its only illegitimate feature, is that it is not declared to the authorities when it should be. It is not declared for three reasons: to evade paying direct or indirect taxes (income tax in the former case; VAT or excise duties in the latter); to make a fraudulent benefit claim (where someone who is officially unemployed claims state benefits while working); and to avoid labour legislation (such as employers' insurance contributions, minimum-wage agreements or safety standards in the workplace). Cash-in-hand work covers only activities where the means do not comply with regulations but the ends (goods and services) are legitimate (Staudt 1998). It does not include criminal activity where the goods and services are themselves illegal, such as drugs-trafficking. The only illegitimate feature of cash-in-hand work, to sum up, is that the monetary transactions are not declared for tax, social security or labour law purposes (Thomas 1992; Portes 1994).

Examining the extent of participation in cash-in-hand work, an English Localities Survey conducted at the turn of the millennium found that 4.6 per cent of those surveyed had engaged in cash-in-hand work in the past 12 months (Williams and Windebank 2001). Similarly, a 2013 Eurobarometer survey found that 4 per cent of respondents across the European Union (EU) had engaged in cash-in-hand work in the previous 12 months (Williams 2014b). These were, however, likely to be lower-bound estimates given the likelihood of under-reporting in these surveys.

Cash-in-hand work has traditionally been viewed as low-paid waged employment forced on marginalised populations by unscrupulous

employers (Gallin 2001). Since the turn of the millennium, however, it has been recognised that much cash-in-hand work is conducted not only voluntarily but also on a self-employed basis. More recently, it has been recognised that much of this work is conducted for and by kin, neighbours, friends and acquaintances for community-building and redistributive rationales (see 'paid favours', 2.5 Volume 1) (Williams 2004a, 2004b; Williams and Windebank 2004). Indeed, the English Localities Survey found that some 20 per cent of the cash-in-hand work that respondents had undertaken had been waged employment, 15 per cent had been self-employment for previously unknown customers and 65 per cent had been 'paid favours' (Williams and Windebank 2001). This finding was reinforced at EU level in a 2007 Eurobarometer survey, which found that in the EU 20 per cent of cash-in-hand work had been waged employment, 25 per cent had been self-employment for previously unknown customers and 55 per cent had been paid favours (Williams 2014b).

How can participation in cash-in-hand work be explained? In recent years, the lens of institutional theory has been increasingly used. In institutional theory, institutions are defined as the cognitive, normative and regulative structures that give stability and meaning to social behaviour (Scott 1995). Institutions or governance mechanisms exist in every society (North 1990; Baumol and Blinder 2008). On the one hand, there are formal institutions, which are the codified laws and regulations. On the other hand, there are informal institutions, which are the 'socially shared rules, usually unwritten, that are created, communicated and enforced outside of officially sanctioned channels' (Helmke and Levitsky 2004: 727); the norms, values and beliefs held by citizens reflect their individual views about what is morally right (Denzau and North 1994).

The norms, values and beliefs of a society's informal institutions may be 'complementary' if they reinforce formal institutions, or 'substitutive' if the rules they prescribe are not compatible with the formal institutions (North 1990; Helmke and Levitsky 2004). When there is symmetry between formal and informal institutions, cash-in-hand work will be largely absent since citizens will adhere to the legal rules of the game. If, however, there is asymmetry between a society's formal and informal institutions (caused for example by a lack of trust in government), cash-in-hand work is more likely to be prevalent (Feige 1999). The view has therefore emerged that, the greater the non-alignment of formal and informal institutions, the greater the likelihood of cash-in-hand work (Williams et al. 2014, 2015, 2016; Williams and Shahid 2016).

Evaluating whether or not this is the case, numerous studies have analysed whether there is a statistically significant correlation between participation in cash-in-hand work and institutional asymmetry. These studies have used ‘tax morality’, which refers to the intrinsic motivation to pay taxes (Torgler 2007; Cummings et al. 2009), as a proxy for institutional asymmetry. They have found a strong statistically significant association between participation in cash-in-hand work and the degree of institutional asymmetry in the EU (Williams and Horodnic 2016a), East-Central Europe (Williams and Horodnic 2015a), the Baltics (Williams and Horodnic 2015b, 2015c), South-East Europe (Williams and Francic 2015; Williams and Horodnic 2015d) and the UK (Williams and Horodnic 2016b). Studies have also revealed that socio-demographic and socio-economic groups with lower tax morality are more likely to engage in cash-in-hand work (Williams and Horodnic 2015a, 2015b, 2015c, 2016a, 2016b).

This opens up a new avenue for tackling cash-in-hand work, suggesting that there is a need to move beyond stricter penalties and higher risk of detection. Rather, it is necessary to tackle the causes both by improving formal institutions and by raising citizens’ norms, values and beliefs through campaigns to increase awareness of the benefits of taxation and the public goods and services that are provided by tax revenue (Williams 2014a).

## 6.2 *Blat* (Romania)

Marius Wamsiedel

Xi’an Jiaotong-Liverpool University, Suzhou, PR China

In its primary sense, *blat* in Romanian means ‘cake batter’. Colloquially, however, it has many more colourful meanings, which have been in common use for many years. The first documented use of the term dates back to 1906, in a newspaper article describing prison life (Zafiu 2009). Later, in the period between the two World Wars, it acquired new meanings. It might refer, for example, to a thief’s accomplice, a friend, cheating at cards, or acting out of camaraderie.

During the communist period (1947–89), the word grew increasingly popular and its meaning more specific. At that time, it was used mainly to denote informal ways of securing access to various kinds of services, usually by means of negotiating with state officials. In the late 1950s, dictionaries defined *blat* as meaning ‘comrade’ or ‘friend’ – meanings that are now lost – while the verb *a blătui* in those days meant ‘to make an arrangement’ or ‘to reach an agreement’ (Ciorănescu 1958/

2002). Later, the term acquired the meaning ‘to hitch a [free] ride’ or ‘thumb a lift’. Travelling by *blat* became part of youth subculture and was romanticised in songs such as ‘The train without a godfather’ (‘godfather’ in this sense meaning a ticket inspector) performed in 1984 by the rock band Iris, and ‘The hymn of the *blatists*’, a hiking song popular in the 1980s.

After the collapse of communist rule, Romania’s newly independent media made frequent use of the term *blat* to mean fare-dodging not only on the railways but also in the context of sports events and match-fixing. The word’s multiple meanings are spelled out in the *Explanatory Dictionary of the Romanian Language* (Academia Română 1998, 2009) and in the dictionary of slang (Volceanov 2007): these range from fare-dodging on a train or watching a show without buying a ticket, to more general forms of illicit activity, such as paying a bribe or securing influence by exploiting one’s connections. The term is also found in the pun *Blătescu*, meaning ‘Mr Freedrider’ (Zafiu 2001: 222). Terms commonly used today include ‘to practise *blat*’ (*a face blatul*), ‘to travel by *blat*’ (*a merge pe blat*), and simply ‘to do something by *blat*’ (*pe blat*), that is, secretly or furtively. The etymology of the word is contentious. Some linguists suggest it is German or Russian in origin (Zafiu 2009: 15) while others argue, more plausibly, that in the case of both Romanian and Russian its origin is Yiddish.

In both Romania and Russia, *blat* denotes the exchange of ‘favours of access’ at the expense of public resources (Ledeneva 1998; see also *blat*, 1.1 Volume 1). It follows that, in both countries, the practice stands in clear opposition to the official rules and subverts the formal economy. Linguistic and etymological similarities apart, however, the way in which *blat* is practised differs significantly in the two countries. This relates not only to the nature of the exchange and the scale of the transaction, but also to relations between the participants and the duration of their relationship over time. Unlike the Soviet practice, which was essentially non-monetary and was closely linked to relationships based on friendship, the Romanian variant implies the exchange of money. The amount may vary considerably, depending on the formal price of the service to which access is granted, and it may also be the subject of only a brief negotiation. In Russia, by contrast, *blat* normally implies, as it did in the Soviet period, either a pre-existing relationship between the participants in an exchange, or the use of an intermediary agent personally related to one or both of the parties. Connections are nurtured and usually extend over an indefinite period of time. In Romania, no such prerequisite is required. More often than not, the connection between Romanian participants is situational and a one-off. Even when exchanges recur, as in the case of



a frequent traveller on a specific train serviced by the same ticket inspector, they rarely lead to the development of a personal relationship or extend beyond the nature of a here-and-now transaction. Whereas in Soviet Russia *blat* could take the form of a system of generalised exchange, in Romania it was necessarily dyadic and did not entail any future commitments. In Romania under socialism, *blat* was confined to a limited set of services (such as going to a cinema or theatre, taking a train or bus, getting accommodation) and its primary goal was to minimise costs. In Soviet Russia, *blat* included access to a wider range of goods and services, and was used to get hold of goods in short supply or of better quality than those available through formal channels (Ledeneva 1998).

Another important distinction between the practices observed in Romania and Russia concerns the post-socialist trajectory. In Russia, the transition to capitalism from an economy of shortage and the resultant monetisation of society created conditions under which *blat* reoriented itself towards new shortages – whether of money, information or know-how that could be later converted into money. In Romania, by contrast, *blat* was already a form of monetary exchange, exercised for the pursuit of financial reward, and so it remained in the post-socialist period.

As in Russia, *blat* in Romania is surrounded by moral ambiguity. In the USSR, the non-monetary character of transactions and familiarity between participants created conditions for misrecognition and concealment (Ledeneva 1998: 59–72, 2000: 185). People involved in exchange networks justified their actions through the rhetoric of friendship, invoking norms of camaraderie and unselfish generosity to discount the moral responsibility of engaging in informal practices. In Romania, by contrast, where money is exchanged and participants are connected only by the transaction itself, the illicit nature of the practice is more easily apparent. Even so, and despite the official representation of *blat* as petty corruption, illegal and reprehensible, the practice remains common, if not widely accepted. Numerous surveys indicate the pervasiveness of petty corruption in Romania. According to the 2013 Global Corruption Barometer, for example, 65 per cent of Romanian respondents said they thought corruption had increased over the previous two years, whereas 27 per cent said it had remained unchanged (Transparency International 2013). According to the same study, 17 per cent of Romanian respondents claimed to have paid bribes, a figure well above the European Union (EU) average of 11 per cent. It should, however, be noted that, while this and other reports clearly indicate that the incidence of petty corruption in Romania continues to be perceived as high, there is as yet no report that explicitly discusses the *blat* transactions that are the subject of the present discussion.

The word used for informal payments in *blat* is *șpagă*, a colloquial term meaning a bribe but without moralistic overtones. Another expression used to describe payments is the ironic ‘give what one is entitled to receive’ (*a da dreptul*). It has been suggested that *dreptul* conveys the idea of pervasive, organised corruption, whereas *șpagă* is generally used in a more generic sense (Zafiu 2007: 132–3). The vocabulary attests to the fact that official condemnation of *blat* fails to affect the common understanding of the practice, as is the case with other forms of informality akin to petty corruption (Zerilli 2005).

The scale of *blat* in Romania has not been scientifically assessed, but estimates of its incidence on the railways and of its economic consequences do exist. While these reports are impressionistic in their findings, they concur in showing that *blat* is not a marginal phenomenon. Over a period of nine months in 2001, for example, 300,000 individuals were fined for travelling without a ticket (Șerban 2001). Unofficial estimates by the railway police suggest that, between 2005 and 2010, train operators lost as much as 370 million Euros as a result of fraudulent *blat* transactions, the equivalent of 40 per cent of the total revenue from tickets sold (Cană and Fantaziu 2012). A criminal investigation into 43 railway workers, the majority of whom were ticket inspectors, estimated the damage at 44.5 million Euros (Roșca 2012).

*Blat* as match-fixing is a hot topic in sports journalism. A search on the websites of two major national publications, *Gazeta Sporturilor* and *ProSport*, reveals, respectively, 1,199 and 1,144 entries for the word *blat*, and 399 and 499 entries respectively for the plural form, *blaturi*. But, while *blat* is believed to be widely practised in sports events, concrete evidence of matches whose outcomes were predetermined by informal agreements is scarce and anecdotal. More often than not, it consists of retrospective confessions of involvement in games that took place at least two decades earlier. Drawing on statements by football-team managers who admitted to having engaged in *blat* practices, a sports journalist has argued that match-fixing was reconfigured during the season 2001–2 (Udrea 2008). The traditional practice, founded on honour and involving the exchange of commonplace goods such as wine, cured meat or training equipment, was replaced by monetised exchanges devoid of any moral obligations. However, the alleged transformation applied exclusively to teams in the highest home division, and the argument is not supported by sound empirical evidence. Moreover, confessions by retired players indicate that, even under socialism, financial recompense for members of the losing team was a prerequisite of *blat* matches (Udrea 2011).

Apart from linguistic studies of the word's origins and semantic reconfiguration, *blat* has so far attracted only limited academic interest in Romania. One of the few studies of post-socialist informality (Stoica 2012) acknowledges the existence of the practice, but focuses on *pile*, the functional equivalent of the Russian *blat*. Very little is known about the structural factors that shaped the development of *blat* and confined it to specific forms of access, or about how transactions are realised in practice. Research is needed to disentangle *blat* conceptually from *pile* and other local practices involving personal connections. The subjective motivation for and rationalisation of involvement in *blat* both during socialism and in the post-socialist period remain largely unresearched; rigorous data collection will be necessary to advance knowledge and understanding of the practice.

### 6.3 **Švercovanje** (Serbia, Bosnia and Herzegovina, Croatia, Montenegro)

Ivana Spasić

Department of Sociology, University of Belgrade, Serbia

*Švercovanje* is a colloquial term used in Serbia for free-riding on public transport. It is used in slightly different forms in other parts of former Yugoslavia where varieties of the Serbo-Croatian language are spoken: *švercanje* in Zagreb and *švercanje* or, still more informally, *šveranje* in Sarajevo. While the practice of free-riding can be found throughout the world, this entry focuses on the Serbian capital Belgrade, where *švercovanje* has a long and glorious history. It has developed a rich repertoire of techniques and justifications and traditionally enjoyed considerable cultural acceptance. What is particularly remarkable is the extent to which the practice is used in Serbia as a gesture of defiance to state authorities.

Derived from the German words *schwarz* ('black') and *schwärzen* ('to blacken'), *švercovanje* is the gerund of the verb *švercovati*. *Švercovati* today has two meanings, which are reflected in the different grammatical forms that the verb follows. The first denotes black-marketeering as in 'to smuggle, trade illegally, speculate'. In this sense, the verb is used in the transitive form. The second meaning denotes 'free-riding' and in this sense the verb is used in the reflexive, *švercovati se*, roughly translated as 'to smuggle oneself'.

*Švercovanje* is practised mainly on urban buses, trams and trolley-buses. It may also occur on inter-city coaches and trains, but it is much less frequent there. It is virtually impossible, for instance, to board a

coach without being spotted by the driver. And whereas on trains people may simply try to dodge the ticket collector, a more widespread practice is to collude with the conductor by giving him or her a small bribe (similar to *blat* in Romania, see 6.2 in this volume), a practice that does not fall under the heading of *švercovanje*.

In order to qualify as a true case of *švercovanje*, an act must contain a component of 'beating the system'. Merely saving money, even if that remains the main motivation, is not the point. Rather, the practice is culturally framed as the underdog versus the powerful and is associated with notions of cunning, courage and popular resistance. A satirical linguistic website defines *švercovanje* as 'an excellent opportunity for you to feel at least once a day like an action hero hiding from the evil mutant ninjas' (vukajlija.com 2016). These 'evil mutant ninjas' are the conductors or ticket inspectors – informally known as *ridža*, after the American general Matthew Ridgway (Andrić 2005) – who are representatives of the 'system'. They show up unexpectedly, demand to see passengers' tickets, and (supposedly) fine anyone without one.

Free-riding has been part of Belgrade's urban lore since the beginnings of its public transport system in the late nineteenth century. A practice especially valued by reckless young men in the decades leading up to the Second World War, but trailing off in the late 1960s, was 'hooking onto a tram' or 'taking a hitch' (*kešanje na tramvaj*), which consisted of hanging off the back of the carriage on the outside. Later, ways of tricking the ticketing system changed as the technology developed. Free-riding became easier in the late 1970s, when human conductors were replaced by ticketing machines. Since then, the prospective free-rider is constrained more by moral concerns – personal conscience or (more rarely) reprobation by fellow passengers – than by the (relatively low) risk of being caught by the *ridža*.

*Švercovanje* comprises a variety of methods, ranging from 'passive' to 'active'. Passive methods are the most common: keeping on the alert for inspectors, avoiding them whenever possible and leaving the carriage if they approach. An active method is to engage in conversation with the inspector and attempt to get away with free-riding, either by playing dumb ('I left my pass at home', 'I forgot to top up my card', 'I got onto the bus just a second ago') or by being unfriendly, quarrelling with the conductor and refusing their request for an ID. Sometimes these altercations escalate into verbal (or occasionally even physical) fights, and it is usually the *švercer* who is the abusive actor.

In such on-the-spot rows or in broader public debates, several arguments are used to legitimate *švercovanje*. Some are economic. A free-rider

confronted by a *ridža* may say, 'I didn't buy a ticket because I'm poor/unemployed/haven't received my salary in months'. The same reasoning claims that tickets are too expensive relative to the material status of the majority of the population. Another argument focuses on the quality of service: old, dilapidated, uncomfortable, crammed, unsafe carriages; irregular schedules and long waiting times; wild drivers.

Most interesting are the political arguments. Following Serbia's experience of undemocratic government in the 1990s, *švercovanje* may be seen as an expression of political resistance. Another argument is framed in terms of civic entitlement: public transport is a public good and should be free for all. Yet another version of the resistance argument sees *švercovanje* as a civic fight against institutional corruption. This became particularly popular in Belgrade following the introduction in 2012 of a new electronic monitoring-cum-ticketing system by a public-private partnership between the city government and a Turkish company. Street protests focused on allegations of corruption and of high profits reaped by the private company to the detriment of the public interest. A contemporary website informs users of public transport about their rights and defines *švercovanje* as a method of conscious resistance (99posto.org 2016).

Such arguments are based on diverse, even contradictory, understandings of the institution of public transport. On the one hand, passengers wish to be treated as customers who should receive service for their money according to the logic of the market; on the other, they see themselves as citizens for whose welfare the state has responsibility (Simić 2014: 185) and who therefore have the right to challenge faulty government policies. As an arena for ongoing confrontation between the micro and the macro, the mundane and the institutional, public transport may be seen as a kind of social laboratory, providing insight into the condition of society and its changing cultural traditions (Živković 2010). The willingness of passengers to pay for a journey may be interpreted as an indicator of the overall level of social trust (Marković 2007). During the transition from socialism, public transport became a potent symbol of the disturbed relations between citizens, with their old and new expectations, and what was perceived as a mostly failing state (Lemon 2000; Simić 2014; Jansen 2015).

*Švercovanje* is essentially a solitary practice, pitting the individual against the authorities. It is not an exchange and it does not normally establish a social tie. It does not rule out solidarity entirely, but it does not assume it, either. While fellow passengers tend to stay aloof, they are also likely to side with the free-rider. *Švercovanje* is no great moral violation in Serbia, if at all. On the contrary, it is seen as a way of asserting one's

rights as a citizen, one's independence and one's identity. It is also used to express one's defiance of or contempt for the powers that be.

It is hard to say how many people in Belgrade engage in *švercovanje* on public transport. Estimates have fluctuated since the 1980s from as low as 5 per cent to as high as 90 per cent (Marković 2007). The official figure of 2–3 per cent of travellers who have been prosecuted and fined is merely a fraction, since the majority of passengers without tickets go undetected, while the figure of 50 per cent sometimes cited in the press appears inflated. More significant than the actual numbers, however, are the persistence of the practice and the lack of any moral sanction.

#### 6.4 *Deryban* (Ukraine, Russia)

Olga Kesarchuk

independent scholar, Ukraine

*Deryban* denotes the process of distributing public or state-owned resources among a narrow circle of the elite, serving their private interests at the expense of the public interest. It is closely associated with corruption. *Deryban* often occurs by formally legal means, without violations of laws and procedures that are themselves designed in a way that creates opportunities for *deryban*. The term has been used widely in Ukrainian and Russian. It takes various forms – *derybanyty* (verb), *derybanivshiy* (participle), *derybanshchyk* (noun referring to the one who loots) and *deryban-team* (noun referring to a team of looters) (Chepurnyy 2015).

No one English term fully captures the meaning of *deryban*, but looting, asset-stripping, embezzlement or (political) corruption come closest. In Ukrainian, *prikhvatizatsiia* (literally, grabbing of state-owned resources, which is a play on the Russian word *privatizatsiia*, meaning 'privatisation') comes closest to *deryban*. The difference between the two terms is that *prikhvatizatsiia* refers to the corrupt nature of a specific process – privatisation of former state assets – whereas *deryban* has a broader meaning, even though it also refers to the misappropriation of state resources. In the private sphere, the term *reiderstvo* (raiding, see 6.36 in this volume) comes closest to *deryban*. *Reiderstvo* refers to a sudden, illegal change of ownership of privately owned assets, usually by use of force. *Delyozh* or *raspil* (Russian), which mean 'distribution, sharing, partition', also come close in meaning to *deryban*, which tends to be used more often in the Ukrainian media.

*Deryban* is used across all sectors of the economy, but refers most frequently to corruption in the distribution of land. For example, a

Facebook group Deryban.net ('No to *deryban*') was set up, and a website with the same name, which aimed to identify cases of unlawful land distribution in Crimea (Sereda 2012). *Deryban* may also refer to the misappropriation of budget resources. For example, it is used to describe corruption during the state purchase of goods and services, when a government official informally privileges a supplier who charges a higher price than others. In return, the official receives personal favours or money (*vidkat* in Ukrainian and *otkat* in Russian, meaning 'kickback', see 6.29 in this volume). Privileged individuals may also obtain opportunities for *deryban* by exploiting their control of state property to serve their private interests. In an article published in mid-2015, for example, Serhiy Kuyun discussed the potential implications of the changes in management of Ukraine's largest oil-extracting company, Ukrnafta. The state owns 50 per cent plus one share, yet the company is controlled by Ihor Kolomoysky, one of Ukraine's richest oligarchs and head of the Pryvat business group. Under its previous head, Ukrnafta accumulated substantial debts to the state. Kuyun predicts that *deryban* will continue under Ukrnafta's new management, since the new head has close ties to Pryvat (Kuyun 2015).

*Deryban* became widespread following the collapse of communism, when the post-Soviet states inherited significant resource endowments from the Soviet era yet were too weak to enforce their power. The state's poor control over its property was the main driver that created opportunities for *deryban*. In many cases, indeed, the state deliberately dismantled its own control mechanisms (Ganev 2007: 47) in order to enrich certain societal actors. By this means, the state was able to buy loyalty and political support and to maintain its own power (Darden 2008).

The scale of *deryban* differs from case to case and different levels of government may be involved; in all instances, however, access to state resources is granted with the permission and compliance of state authorities. This exemplifies the neo-patrimonial nature of many post-Soviet states, where the boundaries between private and public interests are blurred (Van Zon 2001). In the words of Chrystia Freeland, the tragedy of the post-Soviet states was that 'the best opportunity [for self-enrichment] was ripping off the decaying state' (Freeland 2000: 180). Tilly (1985) famously argued that west European elites agree to certain constraints in exchange for the right to extract resources from the population. In the post-communist states, by contrast, the fact that the bulk of resources was initially located in the hands of the state made the state a target for predation by former managers of state enterprises and members of the Soviet *nomenklatura*; this in turn undermined the



building of efficient state institutions (Ganev 2007: 180–8). Moreover, certain individuals who in the Soviet period had been on the margins of the society, or even outside the law, had connections to state officials that they were able to use to grab state assets. The practice, which is now known as *deryban*, was a common way of so doing.

*Deryban* has had negative implications for the economies of the post-Soviet states since it has deprived the state of the key resources needed to maintain state capacity. *Deryban* shapes but also reflects the nature of relations between business and the political elite since it involves the distribution of public resources according to private interests at the expense of the broader public good. *Deryban* is focused on short-term gain: assets taken from the state are consumed immediately, with no regard for their potential future value. Often, therefore, assets simply disappear or are wasted. If, for example, a forest is privatised, its trees may be chopped down and the land on which it stood distributed among a number of privileged individuals, who will use it to build their ‘cottages’ (often mansions); as a result, the forest is lost as a public good. In the case of *reiderstvo*, by contrast, the expropriated assets may continue to function. For example, a factory may continue production, even though ownership has shifted illegally and by use of force (Ivan Presniakov, personal correspondence, 2015).

*Deryban* has important political and social implications. In the majority of cases, it occurs with the approval of a state bureaucrat who not only profits materially from the transaction but also gains power through patronage. As a result, *deryban* undermines state legitimacy since the population comes to view the bureaucracy and the political elite as corrupt. The social implications of *deryban* can therefore be severe. For example, a few privileged pharmaceutical suppliers in Ukraine, intent on creating opportunities for *deryban*, deliberately undermined public trust in imported vaccines. According to Ukraine’s Security Service, up to 40 per cent of the cost of medicaments purchased by the state disappeared into the pockets of these companies (*Tsentr Protydii Koruptsii* 2015).

*Deryban* is difficult to measure given its informal nature. Independent media that expose cases of corruption are the most helpful in identifying the frequency and scale of *deryban* (see Holmes 2015 for a discussion of potential ways to measure corruption).

*Deryban* could be prevented or diminished if there were political will to change the nature of business-state relations and to eradicate corruption. So far, such will has been missing in Ukraine and much of the rest of the post-Soviet space. There are, however, public initiatives aimed at eliminating *deryban*. The popular website Nashi Hroshi (‘Our Money’ <http://nashigroshi.org/>) was created in 2010 to combat the abuse of



**Figure 6.4.1** Representation of *deryban* as greedy hands.

Source: Pyrozhyk, O. 'Yakyy "deryban" zadumaly novi "volyns'ki lozys'ki"?' *Pid Prytsilom*, 5 March 2012. © <http://p-p.com.ua/articles/22437/>.

budgetary funds in the course of official tenders. The site aims to raise social awareness of the misuse of taxpayers' money and to draw attention to specific cases of the misappropriation of funds. The website also covers cases of land *deryban*. For example, it speculated that the Suprun family, closely related to Ukraine's former president Victor Yanukovich, might be the owners of 17 plots of land in Kyiv's elite Feofaniia park (Nashi Hroshi 2015). Similarly, Ukraine's Anticorruption Action Centre ([antac.org.ua](http://antac.org.ua)) works to expose instances of corruption and identify those involved in it. *Deryban* has also been offset by means of symbolic gestures, such as the erection of a monument in protest against construction in downtown Kyiv that destroyed ancient monuments.

### 6.5 *Fimi Media* (Croatia)

Ružica Šimić Banović

Faculty of Law, University of Zagreb, Croatia

The term *Fimi Media* emerged from a political scandal surrounding the marketing agency of the same name, FIMI-Media, which operated between 2003 and 2009. The agency was established by the Croatian

Democratic Union (HDZ) – one of the country’s two major political parties, in power 1990–2000 and 2003–2011 – with the purpose of siphoning money from ministries, state agencies and state companies. In its current use, *Fimi Media* refers to any scheming or misuse of public funds and power by political parties at the local or national level. The term has become a euphemism for the widespread political corruption and fraud involving top officials in Croatia.

High government spending, a strong collectivist culture and insufficient civic participation in Croatia provide fertile ground for the corrupt activities of incumbent politicians under the façade of economic and political reforms (Šimić Banović 2015). Such simulation is evident in the FIMI-Media court case, where numerous economic crimes, embezzlement and misuse of power were revealed. The exposure of the case also brought to light other similar schemes, in which the Head of the Croatian Chamber of Economy and the Mayor of Zagreb have been implicated among others (these cases are still under investigation).

The FIMI-Media marketing company operated under the direct patronage of Prime Minister Ivo Sanader. Sanader himself, government ministers and other heads of state institutions all gave orders to the directors of state companies to enter into business contracts with FIMI-Media. These contracts were not subject to open tenders, and thus breached provisions of the Public Procurement Act. FIMI-Media would submit invoices for fictitious consultancy services, at rates substantially higher than the market price, and the payments would be duly authorised by state leaders. FIMI-Media’s owner would then deliver the payment, in cash, to the State Secretary Mladen Barišić, who would pass it to Sanader. The proceeds were used both to fund the HDZ political party, and for the personal enrichment of the individuals involved (Vuletić 2014: 144). Sanader fled Croatia in December 2010, shortly before the Croatian parliament voted to remove his immunity from prosecution. He was arrested in Austria a day later, and extradited back to Croatia in July 2011.

The Zagreb County Court’s 2012 verdict (No. 13 K-US-8/12) in this case is quite unique, because in addition to six individuals and FIMI-Media as a legal entity, the political party HDZ was also convicted. The individuals convicted included the former Prime Minister Ivo Sanader, former State Secretary and Head of Customs Mladen Barišić, former Government spokesman Ratko Maček, HDZ’s chief accountant Branka Pavošević and the director of FIMI-Media Nevenka Jurak. The total embezzled funds amounted to over 3 million EUR (USKOK 2011).

Even though the FIMI-Media affair is considered to be a landmark case of the misuse of public power and authority in Croatia and

has gained significant domestic and international media coverage, it has been little researched in the academic literature. Nor has *Fimi Media* as a general practice been subject to academic research. However, media headlines give a sense of both the pervasiveness of *Fimi Media* as a form of political corruption at various levels, and the expansion in use of the term to refer to corruption in Croatian politics in general. The following headlines are examples from 2010–14: ‘Is Rizol Media SDP’s *Fimi Media*?’ (Soundset 2014), ‘Euromarket – *Fimi Media* of Virovitičko-Podravska County’ (Virovitica 2010), ‘Is Labin Stan Just Like *Fimi Media*?’ (Labin.info 2010), ‘Is the Company RMC Owned by Darko and Igris Smrkinić a *Fimi Media* from Zadar?’ (Voxportal 2011), ‘Periska is SDP’s *Fimi Media*...’ (*Slobodna Dalmacija*, 2010), ‘Pre-Electoral Imputations or SDP’s *Fimi Media*?’ (Vidov 2013). Furthermore, *The Economist* coined the term ‘Sanaderisation’ after Ivo Sanader, and used it to describe the arrests of the top officials in the region, in particular in Montenegro in 2010 (*The Economist* 2010).

Since 2007, businesspeople in Croatia have consistently ranked corruption among the top three most problematic factors for doing business (WEF 2015). According to the most recent Global Corruption Barometer (TI 2013) 72 per cent of the general public in Croatia believe that political parties are corrupt, 70 per cent consider the judiciary to be corrupt, followed by public officials and civil servants (64 per cent) and parliament/legislature (63 per cent). However, despite the scandals, pre-election opinion polls suggest that HDZ still enjoys high levels of support among voters.

The fact that the term *Fimi Media* has entered common parlance to describe the embezzlement of public funds points to a widespread societal perception that such schemes remain active even after the FIMI-Media convictions. Shell companies and charity funds serve as a façade to collect cash at the level of the municipality, county or a nation and can usually be traced back to a certain political party, political stream or a powerful official. Such firms and schemes are aimed at constructing ‘Potemkin villages’ (see 6.30 in this volume) in order to hide the real beneficiaries and political brokers, but their existence (and the kickbacks associated with them) are an open secret in Croatian society.

Corruption, the misuse of public funds for private gain, appears to be inevitable in post-communist societies. During the transition to a free market economy, economies based on personal relations are slowly transformed into impersonal rule-based markets. Despite its formal shift from a police state to a market-supporting institution, the role of the government in transitioning post-socialist countries was rather contradictory in

the 1990s. On the one hand, in such countries ‘there is consistently more support for authoritarianism and economic intervention of government’ (Roland 2012: 165–6), something that is chiefly explained by the communist legacy and cultural inertia. On the other hand, the de facto role of the government has often been that of a ‘grabbing hand’ that feeds parasitically on weak economic institutions (Abed and Davoodi 2000), including ‘the sale by government officials of government property for personal gain’ (Shleifer and Vishny 1999: 91). The grabbing hand model relies on government officials possessing the opportunity to convert their power into income via the use of politics. In seeking powerful positions, election and re-election, politicians are motivated by their own self-interest rather than ideological goals. In any case, such motivation is substantially different from the idea of welfare maximisation (Shleifer and Vishny 1999: 2–7).



**Figure 6.5.1** Cost of corruption across EU.

Source: <http://macedoniaonline.eu/content/view/24588/2/>.

© MINA.

In general, there is a substantial degree of (tacit) tolerance for corruption in Croatia as it is a common way of shortening procedures and solving problems (with public services in particular). Quite contrary to their responses in various corruption surveys, most ordinary people in Croatia have been involved in some corrupt act at the street level even though most of them do not consider themselves as bribe givers or bribe takers; businesspeople on the other hand possess a higher level of awareness on these issues (UNODC 2011; European Commission 2014; Ernst and Young 2015). In a recent international survey (Ernst and Young 2015: 21), Croatia took the top place for perception of the prevalence of bribery/corrupt practices in business: 92 per cent of respondents perceived them to happen widely. Thus, despite nominally criticising corruption at any level, ordinary people still rely on the omnipresent practices that work for them immediately (i.e. petty corruption) rather than time-consuming, fully legal yet uncertain, solutions. These attitudes and behaviours of ordinary citizens, combined with the extremely slow implementation of any top-down anti-corruption policies, means that *Fimi Media* is likely to remain a feature of Croatian politics and administration for years to come.

## 6.6 *Tangentopoli* (Italy)

Liliana Onorato  
UCL, UK

The term *Tangentopoli* comes from the words *tangente*, meaning 'kick-back' or 'bribe' in Italian, and *poli*, from the ancient Greek word *polis*, meaning 'city' (De Mauro and Mancini 2000). It is commonly translated in English as 'Bribesville' (Clari and Love 1995) or 'Kickback City' (Bareggi 2010). The word was coined by the Italian media to describe the web of corruption that characterised the political and entrepreneurial scene in the city of Milan (*Treccani Vocabolario* 2015). This was revealed in February 1992 when Mario Chiesa, a member of the Italian Socialist Party (PSI), was arrested on suspicion of accepting a bribe in order to promote a business deal (Guanci 2011). The PSI disavowed Chiesa, claiming that he had been acting as a lone wolf and did not represent the party (*Corriere della Sera TV* 2012). Chiesa retaliated by spilling the dirt on the political system as a whole. His revelations uncovered a web of corrupt relations between political parties, business and organised crime, and provoked a judicial investigation known as *Mani pulite* ('Clean hands') (Guanci 2011). Soon it became clear that what had been going on was not an isolated event confined to Milan, but a nationwide



system of political corruption (*Treccani Enciclopedia* 2015). The term *Tangentopoli*, accordingly, came to denote a system based on tacit agreements whereby entrepreneurs paid bribes to politicians as an informal ‘tax’ to obtain public contracts, and politicians then used the money to fund their political parties (Della Porta 2015). In its broadest sense, the term became synonymous with any kind of widespread political corruption (*Treccani Vocabolario* 2015).

The term *Tangentopoli* was widely used both in the Italian media and in the international press (see bibliography). The level of coverage of corruption in the Italian media is higher than in most other European countries and encompasses national politics, the judicial system and, to a lesser extent, business (Mazzoni 2016: 3–22). An analogous practice might be *otkat* in Russia (‘kickback’, see 6.29 in this volume) whereby officials choose a supplier of goods or services for a public contract and receive remuneration from the provider in the form of a fixed sum of money or a percentage of the transaction amount. However, *Tangentopoli* differs from *otkat* in that in Italy it denotes kickbacks that are mainly used to fund political parties, whereas in Russia the money may be used however the recipient chooses.



**Figure 6.6.1** Milan as *Tangentopoli*.

Source: ‘Si ruba ancora ma per sé stessi ecco perché Tangentopoli non è finita’ (Lit. ‘People are still stealing, but for themselves, that’s why Tangentopoli is not ended’). *La Repubblica*, 10 February 2012. Image not under copyright (permission given by *La Repubblica*).



The fact that *Tangentopoli* sees politicians asking businesspeople for bribes in return for public contracts suggests a degree of coercion that might make the practice comparable to the system of corruption practised by the mafia, where bribes are characterised by extortion of kickbacks (colloquially called *mazzette*). The main difference between the two practices, however, is that, in the case of *Tangentopoli*, it is politicians who ask for kickbacks to allow companies to win public contracts whereas, in the case of the mafia, mafia members extort money from civilians and owners of small businesses in return for protection. The behaviour of both politicians and mafia members is similar in that both are the 'actors' who demand kickbacks. Although it is always hard to define which direction corruption takes – who is the agent and who is the target – it might be claimed that, in some specific instances, politicians may be seen as the 'targets' of corruption, rather than as its instigators. This is the case in situations in which the mafia, being in control of some areas, makes financial demands to politicians in return for their votes and the extortion of votes from civilians. Indeed, the informal systems of the mafia and *Tangentopoli* may be closely associated when mafia members put pressure on politicians and convince them through extortion to assign public contracts to companies controlled by the mafia, thereby creating a three-way system of corruption that includes not only politicians and entrepreneurs, but also the mafia as an active player. An example of such interrelation is provided by *Mafia Capitale*, a criminal organisation uncovered in 2014 through which mafia exponents controlled many public works in the city of Rome by means of contacts and bribery of politicians and public officials (Micocci 2015). While this has been compared to *Tangentopoli*, it has also been seen as a new form of corruption since it directly involves organised crime (*Libero Quotidiano* 2014).

The *Tangentopoli* scandal had a significant impact on Italian politics and society. Under strong public pressure and intense investigations, many politicians confessed or resigned; some fled the country, including the leader of the PSI, Bettino Craxi, who fled to Turkey in 1995; while others, including Sergio Moroni, a Socialist Member of Parliament (MP), committed suicide while under investigation (Montanelli and Cervi 2013: ch. 14). The 'moralisation campaign', headed by magistrate and future politician Antonio Di Pietro, won enthusiastic public support (Pollo 1996). More broadly, the widespread public indignation provoked by the *Mani pulite* operation resulted in significant changes on the political scene. At one point, more than half of the members of parliament were under investigation, while 400 city and town councils were dissolved as a result of corruption charges (Koff and Koff 2000: 2). Political parties including Christian

Democracy, the PSI and the Communist Party, which had dominated the political scene for decades, lost public confidence and were eventually dissolved. By contrast, populist parties that pursued anti-corruption campaigns, such as the Northern League, won increased public support (Montanelli and Cervi 2013: ch. 15). The scandal led to a radical restructuring of the 'First Republic', that is, the political system that had operated in Italy since the end of the Second World War, and its replacement by a reformed electoral system that came informally to be known as the Second Italian Republic (Koff and Koff 2000: 1–3, 31). The scandal also had important economic implications, provoking a sharp fall both in the value of the Italian currency and in international confidence in the country's reliability as a haven for investment (Barbacetto et al. 2002: 32–3).

In popular perception, *Tangentopoli* left a strong mark on Italian culture and was depicted in literature, theatre and cinema productions (see Bibliography). *Tangentopoli* became the Italian variant of the game Monopoly (*Corriere della Sera* 1992). Music played a particularly important role in spreading opinions and criticism. Anti-politics became a popular theme of many Italian songs, which in their lyrics depicted the negative elements related to Italian political life such as the unlimited power and corruption exercised by political parties. Singers who denounced the system included Franco Battiato in his song 'Poor Italy' (*Povera Italia*), Pierangelo Bertoli in 'Golden Italy' (*L'Italia d'oro*), Antonello Venditti in 'Everybody to Hell' (*Tutti all'inferno*), Edoardo Bennato in 'Who Are You?' (*Tu chi sei?*) and Giorgio Gaber in 'Right–Left' (*Destra–Sinistra*).

## Intermediation (partial compliance with the rules by creating invisibility)

### 6.7 *Brokerage* (general)

David Jancsics

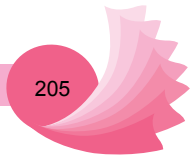
School of Public Affairs, San Diego State University,  
Imperial Valley Campus, USA

In general, brokerage involves the flow of valued resources from one actor to another via an intermediary (Gould and Fernandez 1989; Stovel and Shaw 2012). Any brokered relation requires at least three actors: a 'giver' and a 'receiver' who are the parties of the transaction, and the broker serves as the connection between them. Brokerage is central to informal transactions in particular (Jancsics 2015). In many countries informal arrangements provide a low-cost and low-risk infrastructure for a whole range of activities, from everyday informal practices such as helping

friends to build their house in a village to bribing public administrators. Under communism in Central and Eastern Europe, informal social networks served as a survival tool and means of 'getting things done' under the strict, over-centralised socialist bureaucratic system (Ledeneva 1998; Hankiss 2002: 248; Lomnitz and Sheinbaum 2004; Heinzen 2007). Following the collapse of old communist regimes in the 1990s, the capitalist market economies that emerged in the region brought new uncertainties, emerging inequality and high levels of unemployment. Accordingly, the use of informal networks has survived, adapted and even proliferated under post-communism (Sík and Wellman 1999). Although mutual favours, once widespread in the socialist economy, have been partially replaced by monetary-based informal exchanges (Ledeneva 1998), brokers still play an important role in these multi-player transactions in many countries (Szántó et al. 2013).

Brokerage practices can be categorised according to the form of the exchange (market vs. reciprocal) and according to the mechanisms through which the broker manages the transaction (catalyst vs. middleman) (Jancsics 2015). Generally, in any market-type exchange, the exchanged resource is mainly cash and the players are not socially close, resulting in a precise balance and an equivalent return without delay between the players (Sahlins 1965; Gregory, 1982: 42). By contrast, in a reciprocal exchange the actor who gives something expects to get something of value in return, but what exactly and when is not spelled out (Sahlins 1965: 147). In the case of *catalyst brokerage*, the broker connects the client with the agent by introducing them to each other, but then steps aside (Stovel et al. 2011). In contrast, *middleman brokers* control the transaction throughout and remain the only link between the otherwise unconnected actors. These two variables – the form of informal exchange and the brokerage mechanism – give rise to four different types of brokerage: (1) *representative brokerage*, (2) *entrepreneur brokerage*, (3) *gatekeeper brokerage* and (4) *multiple insider brokerage*.

*Representative brokerage* is probably the most widespread form of informal brokerage. Here a social group 'delegates' one of its members to establish contact (weak ties) with outsiders and communicate or negotiate with them or obtain resources, often from formal organisational settings (Gould and Fernandez 1989; Granovetter 1973). A range of culturally specific forms of representative brokerage are described in the entries in this Encyclopaedia: *wāṣṭa* (Arabic speaking countries), *tapş* (Azerbaijan), *torpil* (Turkey), 'pulling strings' (UK), *raccomandazione* (Italy), *stróman* (Hungary). Here the middlemen are usually catalyst brokers who are willing to share a contact with their fellows and thus



establish a new relationship. Since they ‘just help’ their group members – relatives, friends, acquaintances, neighbours, ex-classmates or colleagues – they are not interested in controlling the transaction and holding back or manipulating information between the parties. This is a reciprocal exchange between the broker and his/her group member where the broker creates a gift-debt, a reciprocal dependence, which, eventually, should be returned (Gregory 1982: 42; Graycar and Jancsics 2016). Here the counter transfer may take the form of another favour, or simply the broker’s enhanced status and loyalty within his close-knit group.

An *entrepreneur broker* is a neutral middleman who benefits from the situation by controlling the flow of resources and information between actors who do not know each other (Boissevain 1968; Marsden 1982: 206; Gould and Fernandez 1989; Burt 1992). An entrepreneur broker, for example, can help acquire counterfeit documents such as fake passports, driving licences, high-school diplomas, etc., which may even be officially registered. Such diplomas are in demand on the black market since they are often required by employers for particular jobs (Jancsics 2015). This is a form of middleman brokerage where the broker does not let the two parties directly meet with each other; he/she extracts commission (typically cash) from the market-type exchange.

In *gatekeeper brokerage* the broker and the agent are members of the same social group (Gould and Fernandez 1989) – or in many cases, the same organisation or political institution – while the client is an outsider. The political practice of ‘cash for access’ in the UK is an example of gatekeeper brokerage (see 2.18, Volume 1). Here, individuals give monetary payment to the broker (who may be a party official, Member of Parliament (MP) or parliamentary aide) who in exchange secures a meeting with an office holder – often a senior minister or Cabinet member. On the broker-client side this is a market-type exchange (as indicated by the name ‘cash for access’); however, there is a possible reciprocal exchange on the broker-agent side where fellow members of the same formal institution can share the profit of the deal or repay each other with favours. For example, in one form of ‘cash for access’ the money paid by the client is given to the political party of which the agent is a member, which helps to fund the political resources that guarantee the agent’s career.

*Multiple insider brokers* are people who are simultaneously members of different groups (i.e. they have multiple formal organisational or social group memberships). This brokerage type often results in a strained relationship, because both groups are suspicious that their group member (the broker) may serve the other group’s interest (Simmel 1950: 142; Vedres and Stark 2010; Stovel et al. 2011). For example, in

Germany ‘external persons’ (*externe Personen*, see 6.17 in this volume) are individuals who maintain an external employment relationship in the non-state sector while working temporarily in the federal administration. These brokers serve ‘two masters’ at the same time and thus often have conflicts of interests. *Externe Personen* may influence laws affecting their private sector ‘home’ organisation or leak confidential government documents to them. Insider traders provide another example of multiple insider brokerage (see 6.16 in this volume). These brokers gain access to exclusive information about financial markets and provide tips to friends or relatives who can take advantage of it.

Brokered informal transactions are complex social phenomena. Brokers make informal (and sometimes illegal) deals possible across formal organisational boundaries and facilitate the ‘smuggling out’ of organisational resources through such boundaries. In this respect, informal brokerage may be seen as socially undesirable. On the other hand, brokerage is also a means of establishing or maintaining personal relationships and reproducing socio-cultural systems inside and outside of formal organisational structures.

## 6.8 *Wāṣṭa* (Middle East, North Africa)

James Redman

University of Utah, USA

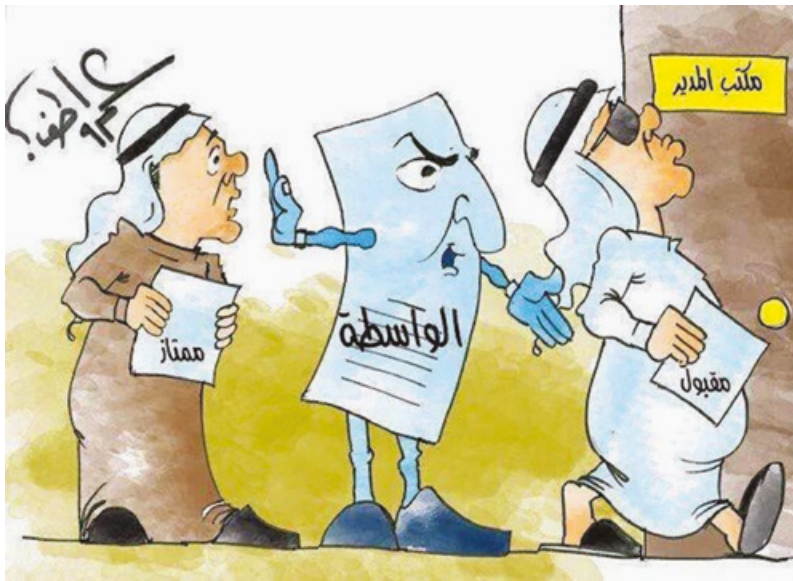
*Wāṣṭa* is an Arabic term that, in its day-to-day usage, refers to the deployment of intermediation on behalf of an individual or a group to secure some benefit that would be otherwise unobtainable or too burdensome (Makhoul and Harrison 2004: 25–7). The term is derived from the three letter root *wāw/sīn/ṭā’*, a consonant pattern that forms the basis of words, both nouns and verbs, relating to ‘middle’. Accordingly, this configuration serves as the root of a number of expressions ranging from ‘to place, put, or set in the middle’ to ‘medial, median, intermediate’ (Wehr 1994: 1250–1). It is within this semantic variation that *wāṣṭa* is defined as an ‘act of mediation/intercession’ (Cunningham and Sarayrah 1994: 29), ‘mediator, mediatrix, intermediary’, or a ‘personal connection (of someone, used to gain something)’ (Wehr 1994: 1251).

The scope of *wāṣṭa* spans across the Arabic-speaking countries of the Persian Gulf, the Levant and North Africa, alongside the occurrence of a somewhat similar colloquial phrase, *coup de piston* or simply *piston*, found in Morocco, Algeria and Tunisia (Branine 2011: 454). Familiarity with *wāṣṭa* is not limited solely to native Arabic speakers in the indicated areas. Everyone living and working in these regions is often intimately

accustomed with the advantages and hindrances of *wāṣṭa* (Shah et al. 1996: 326) – a fact that underscores its pervasiveness in many Arab states.

In its least contentious guise, *wāṣṭa* is called upon to negotiate or resolve disputes between parties without resorting to formal legal procedures. The underlying logic in such cases is that, ‘intervention for conflict management is always recommended ... [and] the intermediary is always to be preferred to the self as an effective pleader’ (Antoun 2000: 460). Ideally, one or more mediators are to act as even-handed conciliators who are agreeable to the antagonists. Moreover, engaging *wāṣṭa* is intended not only to resolve the discord itself, but also to redress the social disruptions that the friction had caused (Ayoub 1966: 109–10). The desired outcomes of *wāṣṭa* arbitration are compromise, reconciliation and the restoration of relationships, rather than clear assignment of blame or one-sided punishments (Antoun 2000: 448–50).

More commonly, though, *wāṣṭa* is associated with the informal trading of favours between persons or groups. These exchanges can be precipitated by various needs, but common examples include helping someone to get state permits for a business, enrolling a child in a



**Figure 6.8.1** Outside an administrator’s office, *wāṣṭa* is seen here opening the door for an underqualified applicant while denying entry to the candidate with excellent credentials.

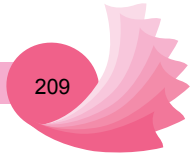
Source: Author. © Amro Atef Nasr Al Sharqawi.

prestigious school, finding employment, postponing legal action, etc. (Huxley 1978: 36). The deployment of *wāsta* in such cases involves chains of interpersonal ties being activated until a liaison who can potentially provide satisfaction is located within the networks of family, friends, colleagues, coworkers or the ubiquitous ‘friends of friends’ (Boissevain 1974: 24–5).

Unlike prototypical patron–client dealings, however, *wāsta* is not normally viewed as a hierarchical transaction; instead, procuring and using *wāsta* is part and parcel of the obligations that underwrite existing, or coveted, social bonds. In other words, much like similar occurrences in other geographic and cultural settings, *wāsta* support is infused with sentiments that are in line with the notion that it is ‘not a relationship for the sake of exchange but an exchange for the sake of a relationship’ (Ledeneva 2000: 184). For this reason, *wāsta* favours tend to circulate within the economies of ‘good faith’ that come with social closeness and familial trust (Bourdieu 1990: 114–15, 119). Consequently, when *wāsta* is extended, it is usually without deadlines for compensation or explicit requisites. Nonetheless, it should be recognised that there are those who are adept at manipulating this entire *wāsta* framework for their own agendas: politicians swapping bureaucratic largesse for votes, businessmen bartering parliamentary backing for contracts, or local elites dispensing aid to augment the retinues and bolster their individual reputations (Redman 2014: 127–31).

Not surprisingly, *wāsta* has attracted the attention of critics, local journalists and scholars who are quick to note that it carries many of the same connotations as nepotism, dependency and corruption (Kilani and Sakijha 2002: 19). From headlines in Kuwait City declaring that “‘Wasta’ frees law-breakers’ (*Arab Times* 2009: 6) to World Bank researchers isolating *wāsta* as an accessory to the Middle East’s ‘meritocracy deficit’ in employment (Gatti et al. 2013: 189–94), it is clear that the prevalence of *wāsta* practices is well known from the local community all the way up to international levels. On the one hand, it is true that *wāsta* can facilitate the necessary inroads required to press legitimate claims, such as those that are put before what are often overstuffed and opaque state bureaucracies (Hertog 2010: 282–3). Yet on the other hand, it is just as accurate to pinpoint *wāsta* as a mechanism by which those with insufficient credentials can outflank more qualified competitors, like with landing a job or winning a promotion (see Figure 6.8.1). Still, whether *wāsta* is used for so-called benevolent purposes (Kilani and Sakijha 2002: 25), such as navigating impenetrable government red tape, or utilised for more questionable motives, what is unmistakable is the power of *wāsta* brokerage





to disproportionately improve the probabilities of a better outcome in a multitude of arenas.

### 6.9 *Dalali* (India)

Nicolas Martin

Asien-Orient-Institut, University of Zurich, Switzerland

The Hindi/Urdu word '*dala*' can be literally translated as 'commission agent', 'broker', 'fixer' or 'mediator', and tends to carry negative associations due to the fact that *dalals* take fees and commissions and produce nothing themselves. Stock exchange brokers, ticket touts, pimps, match-makers, real estate brokers, and the large number of people who unofficially mediate between ordinary citizens and the state are all occasionally referred to as *dalals*, and their occupation as *dalali* (fixing/brokerage). A vast assemblage of fixers surround the formal Indian state and claim to facilitate people's access to it and its resources. Because they can be both helpful and exploitative, Indians frequently regard them as morally ambivalent characters. To emphasise their role as facilitators, some fixers describe their work as 'social work' or '*seva*' in Hindi, as *pyravee* in Urdu (Ram Reddy and Haragopal 1985), or even simply as politics (*rajniti*). They rarely, if ever, describe themselves as *dalals*, or to their work as *dalali*, but their clients do so when they wish to emphasise how either they or their practices are exploitative and corrupt.

Fixers who mediate relations between citizens and the state can be found throughout the world in places where institutional channels necessary to gain access to state resources are weak. Fixers arise where institutionalised party structures are absent, and where citizens face difficulties gaining access to the state, either because decision-making centres are inaccessible and/or because of the lack of clear bureaucratic procedures necessary to gain access to state documents and entitlements. In low-income neighbourhoods in Argentina, they are referred to as '*punteros*' or '*referentes*', and in similar neighbourhoods in Mexico as '*padrino politico*' or '*cacique*' (Auyero 1999: 302). During the earlier part of the twentieth century in Chicago, they were referred to as '*party precincts*' and played an important role in 'machine politics' (Auyero 1999: 302). However, one thing that is arguably distinctive about Indian fixers is their sheer number in proportion to the population. Thus James Manor claims 'they are a major national resource which India possesses in greater abundance than just about any other less developed country' (Manor 2000: 817).

Scholars have attributed their large numbers to deepening party competition since the 1970s and to the concomitant expansion in the

number of services that the Indian state provides, as well as to the decline in caste-based power structures. Broadly, increased electoral competition has pushed competing parties to implement a growing number of schemes and services. The state's limited capacity to implement these has fuelled both the demand for and the supply of fixers (Berenschot 2010). The erosion of caste-based power structures has likewise fuelled the emergence of a large number of lower caste fixers. In Uttar Pradesh such fixers are known as 'new politicians' (*naya netas*) (Jeffrey et al. 2008), and they have partially overtaken the mediating functions once monopolised by members of the upper castes.

Among many other things, fixers help people gain access to credit, development schemes, electricity and water connections, caste certificates, land records, government jobs and even to gain access to the police when they are involved in a dispute. Fixers are a common feature of Indian villages and poorer urban neighbourhoods. While they may sometimes provide valued services, people have no way of determining the legitimacy of the fees they charge, and of the commissions that they take. An illustration of this can be found in the case of fixers who offered people jobs in the state-owned Bhilai steel plant in exchange for a payment of between 30,000 and 50,000 Rupees (Parry 2000). The fixers claimed that much of this money was to pay officials in charge of recruitment. However Parry reports that it was in fact far from clear that officials were indeed taking money in exchange for jobs. It transpired that in many cases the fixers had managed to secure access to the shortlist of selected candidates, and had then offered jobs to those already being considered. If the candidates got the job, the fixers would take the credit for it, and if they didn't, they would simply return some of the money (preferably as little as they could get away with).

Fixers essentially need people to believe that government officials are corrupt and that they take bribes in exchange for jobs, or services. They encourage this belief because otherwise people would think it futile to try to use them to bribe government officials. Thus it can be argued that fixers play a crucial role in magnifying the extent to which the Indian state is perceived as corrupt (Oldenburg 1987; Parry 2000) and as a consequence, the Indian state is sapped of legitimacy. In turn, this notion feeds neoliberal agendas, which favour downsizing the state as the best way to reduce corruption (Parry 2000).

While it is undoubtedly true that fixers greatly contribute to the perception that the Indian state is corrupt, there is nevertheless a body of literature attesting to the real and systematic nature of corruption in India. Officials in various departments – including public works,

irrigation and police departments – need to take bribes to pay senior officials and politicians in order to secure promotions and desirable postings (Wade 1985). Officials may prefer to take these bribes through intermediaries in order to avoid being seen taking them. Citizens themselves may also prefer to approach officials through brokers because they don't know the procedures necessary to pay a bribe, and because they lack the contacts necessary to approach the particular official they wish to deal with.

Where fixers do indeed collude with government officials – rather than merely claim to do so – they form an integral part of unofficial power structures that subvert state functions and drain the state of resources. They may, for example, subvert state functions by helping their clients obtain jobs they do not merit, or subsidies they are not entitled to. Moreover they may contribute to the depletion of state resources by taking a cut of funds destined for the construction of roads or maintaining irrigation canals (Wade 1985). Harriss-White (2003) suggests that the informal assemblage of agents that includes fixers, advisors, political workers, crooks and contractors and formal state agents acting in an informal capacity constitute a 'shadow state' that deprives the poor majority of its fair share of government resources. The presence of this vast shadow state goes a long way towards explaining the fact that in 1989 Rajiv Gandhi estimated that only 15 per cent of state subsidies ever reached their intended beneficiaries.

The Indian government has in recent years sought to curb corruption and fixing through the introduction of electronic technologies that simplify bureaucratic procedures. Citizens can now, for example, access their land records within minutes and for a fixed fee without the need to bribe officers (either directly or through fixers). However, simple surveys, questionnaires and ethnographic research all reveal the extent to which citizens continue to gain access to a number of state services through fixers. On the other hand, to determine the extent to which fixers do in fact collude with corrupt state officials is more difficult, but can be researched through ethnographic methods by spending time with bureaucrats in government offices.

#### 6.10 *Torpil* (Turkey)

Onur Yay  
UCL, UK

*Torpil* is a widespread informal practice in Turkey that revolves around finding private solutions to the problems faced when dealing with

bureaucracy. *Torpil* relations are formed in order to obtain benefits in a number of situations such as finding jobs for oneself or one's relatives, avoiding queues in hospitals and even obtaining free health care. Achieving an objective by means of *torpil* is common, however, to date there is a lack of systematic work that interprets how ordinary people make use of this practice in their daily lives.

There is little information on the origins of *torpil* exchanges. According to the most authoritative Turkish dictionary published by the Turkish Language Institute, one of the definitions of *torpil* is 'favouring someone over others' (*kayırmacılık* or *iltimas*). The term *kayırmacılık* derives from Arabic and originally means holding someone's hand or the lower part of someone's caftan, and asking for a favour or petitioning to obtain benefit.

In contemporary Turkey both *torpil* and *kayırmacılık* are widely used in the context of employment. Hiring and promotion decisions are commonly influenced by *torpil* networks. For example, state universities are required to announce vacancies through the state press agency *Basın İlan Kurumu*. These announcements specify the ranks and the number of positions to be filled. In one reported case, a university uploaded a draft version of the required listing announcement for vacant positions that accidentally included the names of the academicians the university intended to hire (Ozgenç and Gökçe 2013). In another well-documented example, it was found that 85 close relatives of government ministers were appointed to senior posts in various ministries without being required to undergo competitive state examinations (Cumhuriyet.com.tr 2015). These revelations caused little comment or public discontent because most Turkish people are accustomed to the practice of *torpil* influencing their daily lives. The importance of knowing influential people in Turkey's capital is further confirmed by common sayings, such as 'do you have an uncle in Ankara?' For example, in a popular Turkish song 'Mamudo', about the loneliness and desperation of a nephew who has no support in life, the poet and folk singer Asik Mahzuni Şerif reminds him of the hopelessness of his situation with the words: 'you do not have an uncle in Ankara Mamudo, why did you come to this world?'

*Torpil* also implies influence and protection. The expression 'the holder of this business/calling card is my acquaintance' (*'Kart Hamili Yakınımdır'*) is commonly used to suggest protection. In particular, before mobile phones were in common usage, business leaders and Members of Parliament would give their contacts business cards printed with the above-mentioned words and their signatures on the reverse side. This enabled the cardholders to obtain benefits by showing the signed cards

during business transactions. In this way, the cardholders were able to obtain a range of benefits including price reductions, loans from banks and preferential treatment in job applications. This practice predated the practice of writing the name of a protector on examination papers. One respondent interviewed by the author took banking exams in the 1960s. As part of the recruitment process, the candidates were required to declare the names of the senior members of the bank with whom they were closely associated. The respondent's relative was the Chief Inspector of the Bank and unsurprisingly, she got the job.

The intervention of powerful people helps facilitate desired outcomes. The close link between *torpil* and intervention makes this practice very similar to *wāṣṭa*, a practice widely employed in Arab societies (see *wāṣṭa*, 6.8 in this volume). Literally, it means the middle and refers to bringing parties to 'middle point or [a] compromise' (Al-Rahimi 2008: 37). This practice dates back to tribal times and was used as a prevention mechanism against inter-personal and inter-tribal conflicts (Cunningham and Sarayrah 1993). In Jordan, for example, this practice is still a part of the legal system and is designed to bring peaceful solution to conflict. There is, however, a second form of *wāṣṭa* known as intercessory *wāṣṭa*, which has become more pervasive in the Arab world. It is defined as 'the intervention of a patron in favour of a client to obtain benefits and/or resources from a third party' (Mohammed and Hamdy 2008: 1). In most situations there is more than one benefactor and therefore the strongest among them achieves the desired outcome for the person on behalf of whom he intervenes.

The use of *torpil* is widely criticised in Turkish society and the initial attitudes of respondents interviewed by the author confirmed this negative connotation. However, in spite of this, it became apparent that most respondents solved their problems efficiently and helped others through *torpil* networks. Some respondents, who initially were highly critical of *torpil*, changed their attitude towards it after realising that their life stories revealed their use of personal ties to obtain services or help relatives in need. Alena Ledeneva refers to this anomaly as 'misrecognition' in her study on the use of *blat* ties in Russia, and cites it as the reason for 'its pervasiveness, on the one hand, and the lack of attention to it, on the other' (Ledeneva 1998: 59). Some respondents misrecognised *torpil* in such a way as to deny their involvement in the very practices in which they took part. They viewed their own *torpil* relations positively while being critical of the practice when describing the relationships of others. This response to *torpil* can be identified as 'misrecognition as a system of denial' (Ledeneva 1998: 60).

The inefficiency of institutions is one of the main justifications Turkish citizens give for their adoption of *torpil*. Thus, the use of *torpil* is seen as a compensation for defects. Where the involvement of *torpil* networks is not denied, it is not uncommon among citizens to blame others. The ‘rules of the game’ make people believe that *torpil* serves the interests of its seekers. It should be noted that the practice of *torpil* contradicts Islamic religious principles related to fair treatment and hence, religious-minded people consider *torpil* a great sin, known as ‘kul hakkı yemek’, the violation of the equal rights granted by Allah to all humans.

### 6.11 *Gestión* (Mexico)

Tina Hilgers

Department of Political Science, Concordia University, Canada

*Gestión* (noun; plural: *gestiones*; verb: *gestionar*) can be translated as management, but is used informally in Mexico to refer to negotiations for, or the processing of, public goods or services in a private manner. A citizen or group of citizens negotiates with a politician or official to use their resources, knowledge or influence to help them access public resources or programmes rather than having to undergo lengthy formal processes with uncertain outcomes. This is done on the understanding that the citizen(s) will then be indebted to the agent.

The word *gestión* comes from the Latin *gerere*, meaning to manage or conduct. It translates as relating to management and administration, usually in business, but may also be used in the context of politics. Sometimes defined as paperwork or red tape, the term is generally associated with business and political administration. *Trámite* (noun) or *tramitar* (verb) as the primary synonym means to process or to negotiate. The colloquial meaning of *gestión* cannot be found in a dictionary and rarely appears even in specialised publications. While *gestión* is found in Mexican media, English-language academic and mediatic treatments of the topic usually use the synonym clientelism. The compound ‘clientelistic management’ – *gestión clientelista* – is used in academic and media sources across the Spanish-speaking world, but in Mexico, the informal meaning of *gestión* (as discussed below) is common.

*Gestión* is, indeed, akin to clientelism and many other personal exchanges involving public resources. There are, however, important differences. *Gestión* refers to any instance in which someone tries to negotiate access to public resources, while clientelism is often understood as a long-term relationship involving a number of favours between a patron and a client (Auyero 1999). Similarities are found to vote-buying

(a one-time exchange of goods or money for the vote) and patronage (public sector job appointments in exchange for loyalty). These kinds of informal interactions exist worldwide, but with local variations in the vocabulary used, the norms governing the interactions and the degree of social acceptability. Similar phenomena are found in Russian *blat*, Chinese *guanxi* and Middle Eastern *wāṣṭa* (see 1.1, 1.12 Volume 1 and 6.8 in this volume). Mexicans use the term *gestión* to describe their day-to-day interactions with the state. Informal settlements may be required for a variety of needs. Examples found include roads needing to be paved or water to be supplied; peasant organisations seeking land rights; taxi drivers needing licences; public employees requiring pensions, and entrepreneurs requesting permits: all involve negotiating (*gestionar*) to obtain a result.

While the *gestión* permeates politics, in particular its use provides resolution for societal tensions experienced by the lower classes. Mexico's wealthy are a hermetic elite, economic opportunities are scarce, and since the start of the economic restructuring and austerity of the 1980s, social mobility has moved as frequently downwards as upwards (Shefner 2008). Resource redistribution is inadequate. Policies and programmes to improve access to decent nutrition, housing, health care and education are underfunded. It is particularly difficult for the poor – officially 46.2 per cent of the population (CONEVAL 2014) – to meet their needs.

The poor know from experience that bureaucrats will be unresponsive to their demands and are uncertain regarding their position vis-à-vis the state; therefore they try to create certainty through personal appeals. Instead of struggling with the red tape of bureaucratic procedure and accepting interminable delays, they seek a person in a position of power with whom they can negotiate directly. For example, in one case a woman, who lived in a small self-built cinderblock house on an empty lot next to a low-rent apartment building in Mexico City, petitioned her municipality in vain for the installation of a street light in the alley connecting the property to the road (author interview 2004). When nothing happened she asked a local politician to negotiate (*gestionar*) for her. Shortly thereafter, lighting was installed. The woman reciprocated by becoming the leader of a committee, formed to convince her neighbours to be represented by the same politician in a politically lucrative bid involving the demolition of their homes as part of a plan to construct a new housing complex.

Although *gestión* meets immediate needs, it has negative consequences. *Gestiones* undermine transparency, merit and equality. Citizens and officials evade formal rules for access to the state and its resources,



decisions are made to benefit those from whom an obligation appears the most advantageous and there is no control over where and how resources are allocated. Democracy is perverted as the ability of citizens to hold elected and appointed officials accountable is countered by the capacity of officials to force citizens to support them (Stokes 2005). In addition, *gestiones* are exchanges that require the poor to show solidarity with elites, rather than with other citizens facing similar political and economic problems. Citizens put aside their ideological convictions to negotiate with officials whose political views they find objectionable, but whose intercession is necessary to satisfy an immediate goal. Holland and Palmer-Rubin (2012) report that peasant organisations, critical of the state and desirous of an alternative political order, are nevertheless forced to negotiate with the state in order to retain benefits. The only way to maintain mobilisation is through direct benefits such as government subsidies. The same is true for urban organisations, which may have anti-system goals, but nevertheless find that they have to negotiate with officials to provide their members with the means for survival, which in turn allows the longer-term struggle for justice to continue (Shefner 2008). An unfortunate result of these processes is that horizontal networks and shared aims among citizens facing problems of inequality and marginalisation are undermined because of competition between them for access to officials (Montambeault 2015). The possibilities for social mobilisation are reduced and non-egalitarian systems remain stable.

Because of the adverse effects of *gestión*, educated individuals, as well as savvy politicians and community leaders, disapprove of the word and the activities it denotes. Intellectuals and elites would prefer that the state and its agencies functioned on the basis of formal, transparent rules. Politicians and social leaders competing for votes at a local level are aware that the *gestión* is objectionable and not only avoid using the term, but may also go to great lengths in interviews to make clear that they shun the practice. Observation of their interactions with citizens, however, reveals that *gestiones* are central to politics. Measuring the incidence of the phenomenon is thus difficult.

Individuals who are easily accessible for interviews and surveys – the middle and upper classes – may be highly critical of such exchanges, but unwilling to offer honest responses regarding their own behaviour as they are reluctant to appear in a negative light. People like those whose case is described above regularly resort to *gestiones*, but are typically more difficult to access. They may be distrustful of interviewers, and may be loath to discuss the source of their resources for fear of losing

privileges. Consequently, much available research on *gestiones* (and clientelism more generally) is based on ethnographic interviews and participant observation in particular locations. Researchers wanting to gather broader, survey-based data, try to avoid the sensitive elements of the issue by posing questions that do not target the respondent as an active participant in the behaviour. Respondents might be asked whether they have been offered something in return for their vote (AmericasBarometer 2011) or how corrupt they perceive various political institutions and state agencies to be (Universidad del Valle de México 2014). The results of such questions provide little certainty regarding the extent of public goods distribution that occurs through *gestiones*. Nevertheless, the initiated hypothesise that little happens without a *gestion* in Mexican public services, particularly when the poor are involved (see Álvarez Prieto 2015).

#### 6.12 ***Pulling strings*** (UK/USA)

Peter B. Smith

University of Sussex, UK

‘Pulling strings’ is a procedure for achieving a goal through the use of a more powerful intermediary. The phrase is most frequently used in relation to obtaining employment, or access to privileged treatment in ways that circumvent official or established bureaucratic procedures. Because of the prevalence of gender-based power relations, ‘pulling strings’ is often referred to as using the ‘old boys’ network’ (see 3.13 Volume 1). The implicit assumption behind the latter phrase is that powerful men will have established friendly relations with one another either during their education in British public schools (that is to say, expensive private schools), or at high-status universities such as Oxford or Cambridge. When they achieve positions of power later in life, they are likely to be able to accommodate favours requested of them by their peers on behalf of some more junior person.

A related but subtly different concept is that of ‘pulling the strings’, that is, with the inclusion of the definite article. While ‘pulling strings’ is an informal practice in which the ‘pulling’ is initiated or requested from below, ‘pulling the strings’ is a factual statement about who really holds power or is in control. To ask, ‘Who pulls the strings?’ is akin to asking, ‘Who is really in control?’ For example, in 2012 the Northern Ireland branch of the environmental group Friends of the Earth launched a campaign called ‘Who Pulls the Strings?’, calling for donations to political parties in Northern Ireland to be made public (Friends of the Earth

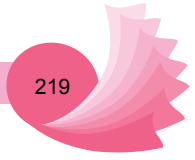
Northern Ireland 2012). The logic was that when large, private donations were made to political parties by business interests, those interests thereby gained some form of hidden political power, and were thus 'pulling the strings'.

The *Oxford English Dictionary* (OED) (Little et al. 1933/1973) provides two definitions of 'pulling the strings': 'to control the state of affairs', and 'to be the concealed operator in what is ostensibly controlled by another'. The OED suggests that the phrase derives from marionette theatres such as Punch and Judy shows, where the puppets are controlled by strings operated by a hidden puppeteer. *The American Heritage Dictionary of Idioms* (1997/2003) cites the following examples of usage of the term 'pulling strings': 'By pulling strings he got us house seats to the opening', and 'His father pulled some wires and got him out of jail', sourcing both from the nineteenth century.

Pulling strings is widely disparaged in contemporary Britain, being seen as more characteristic of times gone by, and not in accordance with strongly felt norms about equality of opportunity and fairness (Fox 2004). It continues nonetheless to be a widespread phenomenon. For instance, during the economic recession that began in 2008, many UK university graduates found that the only way to obtain employment was first to take a temporary unpaid internship with an organisation (Baker 2003). Achieving an internship in an attractive organisation can rest upon using opportunities for pulling strings. As one 17-year-old put it: 'If parents have a business, then they take on their child or their child's friends. It is really hard because you might have the enthusiasm and the qualifications for it, but if someone else is related to them or knows them, they will have the upper hand on you' (cited in Baker 2003).

Two studies of attitudes towards pulling strings and related concepts in other countries reveal interesting findings. The first study (Smith, Huang et al. 2012) sampled students from four countries – the UK, China, Brazil and Lebanon – while the second (Smith, Torres et al. 2012) sampled business managers from the UK, Singapore, Brazil, Saudi Arabia and Russia. In both studies, respondents were asked to react to a series of brief imaginary scenarios that represented processes of informal influence. One of the scenarios used in the study with students was as follows:

John is a student who has a job in a restaurant four evenings a week. His friend David is short of money and needs a job too. He



has not worked in a restaurant before. Even though there are other candidates with more experience, David asks John to convince the owner of the restaurant that it would be best if he would take on his friend as extra cover for the times when the restaurant is very busy at the weekend.

One of the scenarios used in the business-manager study was as follows:

Dan's father went to the same school as Ashley, who is now the chief executive of the local hospital. Dan needs to get some work experience before applying for an MBA programme. Dan's father asked Ashley to hire him in a junior position for a year and Ashley was able to arrange this.

The scenarios were drawn from all the countries represented in the studies, but their specific origins were concealed from respondents, through translation into relevant languages and substitution of locally typical character names. In the first study, British respondents viewed 12 scenarios, of which only 3 were instances of pulling strings (the other 9 were instances of similar practices in the other 3 countries). They were asked to rate how representative each scenario was of pulling strings, how typical it was of what happens in the UK, and how much they liked this kind of behaviour. It was found that the British scenarios that involved pulling strings were rated by British respondents as more representative of pulling strings than were the scenarios exemplifying Brazilian *jeitinho*, Chinese *guanxi* and Middle Eastern *wāṣṭa* (see 1.2, 1.12 Volume 1 and 6.8 in this volume), which they also rated. In addition, British respondents saw the 'pulling strings' scenarios as typical of what happens in the UK, but the respondents from Lebanon, China and Brazil actually rated them as *even more* typical of what happens in their countries. The results of the second study were similar, with pulling strings being seen as most typical by the Russian respondents.

Thus it appears that, while pulling strings is a recognisably British phenomenon, as a broad type of informal practice it is far from unique to the UK. Respondents from all the sampled countries rated all the informal influence processes portrayed in the scenarios negatively, but the 'pulling strings' scenarios were rated less negatively than the scenarios exemplifying *guanxi*, *wāṣṭa*, *jeitinho* and Russian *svyazi*. This may however have been because the 'pulling strings' scenarios exemplified less extreme forms of influence than those drawn from the other countries.

6.13 ***Kombinacja*** (alt. *kombinacya, kombinowanie, kombinować*) (Poland)

Edyta Materka

Queen Mary University of London, UK

*Kombinacja* is a colloquial Polish term used to describe the process of manipulating legal, political or cultural rules in order to access a resource. Food, commodities, labour, information and power can all be accessed via *kombinacja*. An individual, group, institution or state can exercise *kombinacja* and thus be called a *kombinator*, but the practice is most often transferred from one generation to the next among poor, marginalised families (Mazurek 2012: 306). Kusiak argues that historically, the practice has been seen in a positive light, as a survival tool in the face of oppressive regimes (2012: 296–7):

[*Kombinacja*] has been considered a skill which one should be proud of, as it allows the underprivileged to access otherwise inaccessible resources and trick the oppressor. It was the exceptional ability to *kombinować* that helped the majority of Poles to survive the Nazi occupation, the socialist shortages, and the shock of post-1989 inflation.

*Kombinacja* reflects Poles' low levels of confidence in formal economic and political institutions. 'Getting around the system' is seen as a more effective survival strategy for both the family unit and nation. The etymological roots of the word *kombinacja* likely originate from the Latin *sociare* (to combine) – the origin of the word 'socialism' (Bevir 2011: 14). 'Combinations' were an early form of trade union in Europe during the Industrial Revolution. Witnessing the industrialisation of partitioned Poland at the turn of the twentieth century, the Young Poland literary movement picked up on the term to critique Poles' initiation into the 'cycle' of *kombinacja* (labour struggle). In *Promised Land* (1899), Władysław Reymont wrote: 'Think, what is this strange *kombinacya* [sic.] that is unfolding today in the world: the human enslaved nature's forces, discovered masses of strength – and went into his own shackles exactly into his own forces' (Reymont 1899: 345). To counter this oppression, the Polish worker, 'wandered around Łódź for entire days, submerged only in *kombinacyas* that sought to harm the manufacturer' (Reymont 1899: 355).

In the 1920s, Soviet literature reframed the *kombinator* as a bourgeois capitalist. The 'Grand Schemer' ('*Velikii Kombinator*') Ostap Bender

was the antihero of Ilia Ilf and Evgenii Petrov's seminal novel *The Twelve Chairs* (1928/2011). Ostap, whose dream was to become a millionaire and move to Rio de Janeiro, 'effortlessly squeezes information out of people, slips in and out of roles, and penetrates through situations' (Pesmen 2000: 204). He was a chameleon who played by his own rules in a collectivist landscape that attempted to assign class and economic function to each citizen. His transformations and ability to artistically manipulate language and political discourse made him an 'economic wrecker' of the Soviet command economy. Yet ironically, this form of *kombinacja* became 'the prerequisite for understanding Soviet life', because the command economy itself suffered from shortages, corruption and red tape, and individuals had to find innovative strategies in order to access basic resources (Pesmen 2000: 204).

*Kombinacja* as the everyday man's strategy for basic survival became widespread during the Second World War. Polish peasants who were forced to meet agricultural quotas for the General Government under Nazi occupation found ways to sell their yields on the black market. Polish doctors in Warsaw acquired Red Cross identification cards to give underground Polish hospitals immunity from Nazi surveillance (Tucker 2005: 283–4). German brigadiers colluded with Polish forced labourers on German estates to steal goods from Nazi warehouses and sell them on the black market in exchange for food and money. *Kombinacja* became an expression of solidarity across classes, ethnicities and nations.

Holocaust literature also records this emerging 'consciousness' of *kombinacja* during the war. Primo Levi recalled in *Survival in Auschwitz* how *Häftlings* (prison inmates) used the practice to trade third-rate tobacco called Mahorca for a larger bread portion (1958: 80):

The traffic is an instance of a kind of '*kombinacja*' frequently practiced: the *Häftling*, somehow saving a ration of bread, invests it in Mahorca; he cautiously gets in touch with a civilian addict who acquires the Mahorca, paying in cash with a portion of bread greater than that initially invested.

This practice was inmates' only chance of survival: 'Whosoever does not know how to become an "*Organisator*", "*Kombinator*" ... soon becomes a "*musselman*" – a walking cadaver' (Levi 1958: 89). ('*Musselman*', the German word for a Muslim, was concentration camp slang for an inmate on the brink of death from starvation.) In Art Spiegelman's Holocaust memoir *Maus*, the narrator's cousin, Haskel, uses *kombinacja* to obtain

favours from the German guards in the Sosnowiec ghetto (Spiegelman 1973: 118):

‘Always Haskel was such a guy: a *kombinator*’.

‘A what?’

‘A guy what [sic] makes *kombinacja*, a schemer ... a crook’.

The practice of *kombinacja* took on new dimensions under the socialist regime in Poland (1945–89). It became a widespread strategy used by workers, peasants, the nomenklatura and the state to control the workplace, as well as to survive and/or benefit from economic shortages. ‘Good’ *kombinacja* served ‘my/our’ interests; ‘bad’ *kombinacja* served the ‘other’ (usually state or *nomenklatura*) interests; although such nuances were in the eye of the beholder and subject to political manipulation. One worker’s claim that, ‘The State robs me, I rob the State, and it all comes out even’ (Pawlik 1992: 89) neatly summarises the broader findings of this author’s research: that the state used *kombinacja* against the people, and the people in turn responded with *kombinacja* against the state. A number of mandatory unpaid labour obligations (*corvées*, Soviet *subbotniks*, etc.) were formalised by legislation passed by the Polish People’s Republic (PRL). Communes could impose these obligations on workers and peasants, using their unpaid labour towards state building projects or fulfilling production quotas. Rather than supplying the harvests and commodities back to the people, the state exported them for profit, resulting in material shortages.

To balance out this state *kombinacja* and its resultant shortages, workers without independent unions used *kombinacja* to ‘take out’ (*wynosić*) or ‘domesticate for oneself’ (*przyswoić sobie*) state property (Pawlik 1992: 79). Workers’ inner justification for their *kombinacja* was rooted in the idealised socialist ‘common goods’ philosophy, i.e. that the state owned all property, and that the people owned the state (Barcikowska 2004). Thus, the workers were only taking what was theirs anyway. ‘*Zkombinowane*’ resources were usually food, tools, commodities and building materials taken home from state workplaces. Peasants withheld state agricultural quotas and diverted state property (meat, labour, technology, building materials) from the collective (*kołchoz*) and state farms (*sovkhos*) into their farms to meet subsistence levels, or sold them to workers on the black market. Both workers and peasants manipulated this ‘paradoxical role as simultaneous employee and co-owner’ (Firlit and Chłopecki 1992: 100) by paying themselves ‘dividends’ from their factory or collective farms.





**Figure 6.13.1** Navigating the world through the double consciousness of *kombinacja*.

Source: Author. © Edyta Materka, 2009.

State officials and managers also exercised *kombinacja*, both to enable them to fulfil their official duties and to benefit privately. They ordered services from moonlighting repairmen who installed *zkombinowane* sinks into private homes; sold state-produced commodities on the black market for private gain; bought grain on the black market to meet a state quota; organised field trips for workers to travel to other bloc countries and sell state commodities on the black markets to supplement wages; and even allowed entrepreneurial *kombinator*s to divert capital from state-run to ‘private’ factories that sold products to locals. Some were punished: a director of a state-run meat warehouse in Warsaw who admitted to taking bribes from state-run meat stores was hanged for his ‘economic crime’ in 1956 (Newsweek.pl 2010). For the most part, however, the authorities sided with the ‘us’ and allowed *kombinacja* to be exercised ‘against’ the higher state apparatus – a strategy that increased the *nomenklatura*’s private profits, helped them meet their ‘formal’ state obligations, and socially reproduced their local power.

During the post-socialist transition, the *nomenklatura* privatised and liquidated state property for profit or entrepreneurial ventures. This led many Poles to regard entrepreneurialism as ‘bad’ *kombinacja* that contributed to their poverty. Post-socialist *kombinacja*, ‘has been given a new cut-throat “entrepreneurial” twist’, in that people, ‘think that there must be a trick to everything’ (Barcikowska 2004: 3). Conversely, entrepreneurial Poles value *kombinacja* as fostering innovation in the new post-socialist economy. In 2012, Arkadiusz Hajduk – the founder of the ‘Huge Thing’ accelerator – told the *Wall Street Journal* that Poland’s start-up scene has a competitive edge: ‘We have a word in Polish – *kombinować* – it’s not really translatable, but it sort of means finding a way to do something but without a lot of resources’ (Rooney 2012: 1).

Meanwhile, *kombinacja* as survival strategy has also flourished in the turmoil of the post-communist transition to a free market economy. Free movement of labour has opened up new avenues for the practice, with workers able to switch between countries to maximise their income. Migrant workers who engage in transnational *kombinacja* between Poland and Norway informed the author that *kombinacja* is untranslatable and invisible to Westerners, implying that the concept lacks parallels in the West. White’s study showed how a village nurse relies upon *kombinować* (‘the idea of combining various assets’) to feed her family: ‘Grandmother helps a bit ... My husband works at the bus factory. He does overtime when it’s available. Those are the different ways we survive [*Tak kombinujemy*]’ (White 2011: 39). The urban poor use the practice to supplement their wages: they temporarily migrate overseas, grow their own food, squat, access electricity illegally, claim benefits while working, apply for credit on behalf of family members. Their ‘good’ *kombinacja* absorbs any organised call on politicians to enact welfare and workplace reform.

#### 6.14 **S vrutka** (Bulgaria)

Lora Koycheva  
unaffiliated scholar

*S vrutka* is a rhetorical expression found in Bulgaria that literally means ‘with a twist’ and appears in phrases such as ‘everything happens with a twist’ or ‘everything is achievable with a twist’ – ‘*vsichko stava s vrutka*’. *S vrutka* is sometimes substituted by other terms, for example, *s fint*, *s trik*, and *s dalavera*, which comes from the Turkish word *dalavere*, meaning ‘deception, swindle, ploy or manoeuvre’. This colloquial figure of speech refers to the practice of pooling resources and manipulating one’s

networks and connections in order to achieve a goal. *S vrutka* is a part of the repertoire of linguistic means to communicate the intricate interplay between the formal and informal, legal and illegal, licit and illicit, legitimate and illegitimate modes of getting things done in contemporary Bulgarian society. It refers to practices across various normative domains and to activities that include both legal and illegal means of pursuing a goal.

In itself, 'twisting' suggests repositioning the existing elements in a system or re-arranging available resources. The introduction of new elements from outside and the use of expert knowledge can also be employed. Twisting can connote out-of-the-ordinary circumstances, an exceptional case, or an extraordinary effort necessary to conduct a transaction. The phrase *s vrutka* highlights several characteristics of everyday practices – it invokes creativity, fluidity and mastery of the social milieu and social and cultural knowledge, bordering on what Michael Herzfeld has called 'cultural intimacy' (Herzfeld 2004). The phrase refers not to the repertoire of informal practices, but rather to the way in which informal practices can be conducted. It signals communicative creativity and cultural intimacy because only insiders in a culture are able to exploit the existing rules, norms, regulations and other available social and cultural resources in order to achieve the desired goal.

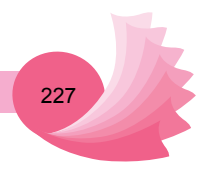
There are many other popular figures of speech and ways to denote corruption or informality in Bulgaria. Two other common examples of expressions used are 'beer money' (*pari za edna bira; da pocherypa bira*) and 'coffee money' (*pari za kafe*). It is worth noting that neither expression is exclusive to the Bulgarian case. The same terms are found in Africa (Blundo et al. 2006). In both cases, however, the expressions tend to be used in the context of situations involving low-level bureaucrats. For example, when paperwork needs to be expedited, it may necessitate 'beer money' or 'coffee money' being paid. Unlike these popular figures of speech, however, *s vrutka* is not the same as discursive expressions 'legitimizing discourses about corruption' (Znoj 2007: 59).

It is methodologically difficult to definitively date when and how such popular expressions enter or leave everyday language, and if *s vrutka* has replaced 'coffee money'. It is worth noting that *s vrutka* appears to have been referred to in the media towards the end of the first decade of the 2000s. In the same time, observations of people casually leaving a small amount of money (not unlike a tip) for public officials, saying they were for 'coffee', were, in this author's ethnographic work carried out intermittently between 2008 and 2011, non-existent – in contrast to the 1990s when such a practice was reportedly common.

There are two prevailing contexts in which the phrase *s vrutka* is used. In media coverage the phrase is often used to imply a scheme circumventing a legal obstacle, usually through the workings of hierarchy and informal power, or through the careful navigation of available legal loopholes. In this case, saying that something happens '*s vrutka*' is usually embedded in a narrative about elites and power play. For example, in a highly critical editorial in the daily newspaper *24 chasa*, chief editor Danka Vassileva used the term to question the way in which public funds are deposited in banks and for what reason. 'For this twist [*vrutka*], Europe will not say congratulations ... There is another version, of course, concerning corruption, which we would not even voice out loud, let alone believe' (Vassileva 2012; translation Koycheva). When used in such contexts, *s vrutka* is often accompanied by an explanation of exactly how the manipulation takes place. In this usage, the term is another way of contributing to the visualisation of the mechanisms of power and the state through the deployment of narratives about it (Gupta 1995, 2005).

The second context is the vernacular one, encountered in daily usage, when usually no further explanation is given as to what the 'twisting' involves, but rather a form of meaningful silence follows. Employing the term in this way covers a range of everyday practices and communicative tactics that are often overlooked both within the larger field of post-socialist studies and within the specialism of informality studies: namely, the indeterminacy that Ledeneva has referred to as 'open secrets' and 'non-articulated knowledge that people prefer to leave ambiguous' (Ledeneva 2011: 727). It requires from all participants 'the complicity to leave things unarticulated' (Ledeneva 2011: 733), thus achieving through linguistic means what Blundo and Olivier de Sardan have termed, 'an incessant alternation between condemnation and tolerance' by actively engaging the 'semantic fields of corruption' (Blundo and Olivier de Sardan 2001: 110–11).

In a similar vein, in an everyday context, as used verbally and among friends, the term is encountered when people give an account of how they overcome daily challenges, or ostensibly absurd situations arising from bureaucratic restructuring or a contradiction of rules. Unlike *vruzki* (see 1.9 Volume 1), which can in certain circumstances occupy the same broad semantic space, *s vrutka* is often used when paperwork is involved. For example, since kindergarten spaces in the capital are severely limited, a family may acknowledge securing a space for their child 'with a twist', but will not specify which means were used: whether they actively exploited paperwork loopholes or employed *vruzki*, which



implies connections and a personal network. Thus, *s vrutka* does not necessarily always imply using *vruzki*.

In sum, the usage of this term reveals several important aspects of informality, both in methodological and in theoretical terms and points to an area of research that has been under-explored in the scholarship on informality: language. The use of such a term raises methodological questions regarding the way in which social phenomena resist articulation by local informants and make such phenomena elusive. This in turn leads to important theoretical preoccupations about the pragmatics not only of informal practices themselves, but also crucially of the pragmatics of the scholarship of informality. It presents a conundrum: how to name phenomena without a priori ascribing normative value to them, which may or may not be part of the way they are experienced in the world of formal and informal interactions (see Lucy 1993 on pragmatics).

### 6.15 *Raccomandazione* (Italy)

Dorothy L. Zinn

Free University of Bozen-Bolzano, Italy

*Raccomandazione* (noun) is a widespread phenomenon in Italian culture that refers to the use of social connections in order to get things done. In English, it can loosely be translated in a more literal sense as ‘recommendation’ or ‘reference’, but its connotation is more accurately that of clout, string-pulling, influence and morally dubious backscratching. Informal practices in numerous other societies bear strong analogies to *raccomandazione*: among these, we may consider French *piston*, Russian *blat*, Chinese *guanxi*, Spanish *enchufismo*, and German *Vitamin B* (‘B’ as in *Beziehung*, meaning relationship, see entries 1.1–1.21 Volume 1).

In Italian, *raccomandazione* has a colloquial synonym, ‘little push’, *la spintarella*. Other expressions associated with it include: ‘to grease the wheels’ (*ungere le ruote*), ‘a kick in the rear end’ (to propel someone forward – *il calcio nel sedere*) and ‘the key’ (to open doors – *la chiave*). In spite of its common occurrence, a significant social stigma surrounds *raccomandazione*, and it is therefore often referred to with the euphemism *segnalazione* (‘put in a good word for someone’). In addition to its verb form, *raccomandare*, the key nouns deriving from *raccomandazione* are *raccomandato* and *raccomandante*. The *raccomandato* is a person who, bearing a *raccomandazione*, makes use of it to achieve some end. The term is derogatory, usually used to describe someone who has unjustly received some benefit, implying that he lacks merit or has violated proper procedures in order to get ahead. The *raccomandante* is the person who,

enjoying a position of power, prestige or influential relations, recommends the *raccomandato*. A third term of more recent usage (especially in the press) but less widely adopted, is *raccomandatario*, which denotes a person who is on the receiving end of a *raccomandazione* and who is presumably able to grant the request.

Among its wide-ranging implications, the term *raccomandazione* principally evokes the practice of using connections to find employment, especially in an attempt to secure a job in the public sector. This fact has led to the consolidation of an Italian cultural stereotype of the civil servant who, under-qualified and motivated primarily by the job security and benefits provided by public employment, has undeservingly managed to land such a job through his connections, and who performs his work in a lackadaisical manner. By association, *raccomandazione* is further linked to the overall perception of a bloated, Byzantine Italian bureaucracy. As a result, bureaucratic inefficiency itself begets the need for yet more *raccomandazioni* in order to speed things up or otherwise improve the delivery of services in the public sphere, including public hospitals. In the education sector, school and university students may become *raccomandati* in order to obtain better marks, often thanks to the initiative taken by their parents. More generally, *raccomandazione* can come into play in virtually every sphere of daily life: even in shopping or dining out, where a *raccomandazione* can be deployed to receive ‘special attention’ (*un occhio di riguardo*) or a discount.

*Raccomandazione* can encompass relatively innocuous interactions, such as the performance of a small courtesy, as well as more blatant forms of illegality. In the latter sense, it bears nuances that shade into bribes (*tangenti*, including the practice of *bustarella*, see 2.20 Volume 1), corruption and organised crime (*mafia*) – all of which may well feature the use of *raccomandazioni*. As a form of patronage-clientelism, *raccomandazione* can easily become bound up with chains of illicit and/or illegal exchanges for votes and other resources such as disability pensions, permits or jobs. On the other hand, *raccomandazione* can also be viewed in positive terms as a means of levelling the playing field in order to give an underdog a chance. The implication here is that because the well-to-do are automatically privileged, and others will be equipped with *raccomandazioni*, an otherwise deserving person may be unfairly penalised by the lack of a *raccomandazione*. We thus perceive the moral complexities surrounding *raccomandazione*, a phenomenon that Italians have often defined as a central negative feature of their own identity: associated with slyness, slighted as ‘a poor man’s making do’ (*l’arte dell’arrangiarsi*) and denounced as illegality, it is simultaneously



an expression of positive values of family, friendship, solidarity and reciprocity (see Figure 6.15.1).

Early social science treatments of Italian *raccomandazione* from the 1950s to the early 1970s framed the discussion in terms of patronage-clientelism issues that characterised a large part of the Mediterranean region, looking in particular at rural contexts. Such traditional clientelistic relationships featured vertical, dyadic ties between the *raccomandante* and *raccomandato*. In urban settings, the use of *raccomandazioni* for electoral patronage and organised crime has received greater attention



**Figure 6.15.1** The sculpture by artist Donato Linzalata appears in the town of Bernalda, Italy and represents *raccomandazione* as a 'key' (to open doors). The artist says he was inspired by the study of *raccomandazione* by Zinn (2001).

Source: Author. © Dorothy L. Zinn.



(Gellner and Waterbury 1977; Chubb 1982). In Italy and in many other Mediterranean settings, the literature also describes how the language and practice of god-parenthood consolidated such relations. Moreover, Jeremy Boissevain's pioneering work in Sicily (1966) noted the homologies between *raccomandazione* in patronage-clientelism and the Catholic religion, in which the devout may recommend themselves to the saints in order to reach a purpose. More recent analyses (Zinn 2001, 2013) have traced continuity and change in *raccomandazione* with Italy's modernisation, underlining the way in which this cultural category and practice remains deeply entrenched. Post-war Italian society created the conditions for a 'democratisation' of *raccomandazione*, allowing it to become consolidated in new spheres and among ever-wider segments of the population.

The post-war expansion of *raccomandazione* is visible in Italian popular culture: an extremely well-known cultural trope in Italian society, *raccomandazione* has been depicted in numerous examples of Italian cultural production. One significant literary work is Alberto Moravia's short story, *La raccomandazione*. The theme has also received attention periodically in cinematic representations, for example in classic films like *I mostri* (1963) and *Mi manda Picone* (1984), but also in more recent works such as *C'è chi dice no* (2011) and *Quo Vado?* (2015). With some irony (and self-irony), RAI public television used *raccomandazione* as the driving concept behind the television talent programme *I raccomandati*, which ran for nine seasons (2003–11).

*Raccomandazione* is difficult to research empirically because of the embarrassment and stigma associated with the phenomenon; nonetheless, people are generally willing to discuss cases of *raccomandazione* involving others. Despite the challenge of quantifying instances of *raccomandazione*, surveys published in Italian newspapers routinely report that a substantial percentage of persons interviewed utilise *raccomandazioni* when seeking employment. Quite apart from the empirical manifestations of *raccomandazione*, the ethnographic method employed in Zinn (2001) focused on the importance of its ideological dimensions. It was found that even in instances in which no actual *raccomandazione* had taken place, informants often assumed that one was involved. Moreover, the long-term, intimate approach of ethnography allows for the development of relations of trust that favour data-gathering despite a tendency for secrecy, and it effectively probes the morally ambivalent stances that people maintain with regard to *raccomandazione*.

Commonplace though the practice is, there is nonetheless widespread condemnation of *raccomandazione* in Italian society, and the

2012 Anti-Corruption Law (No. 190) attempted to make it illegal by defining it as ‘traffic of illicit influences’. Yet from a strictly legal point of view, court decisions have continued to decree that it is not a crime in the context of putting in a good word for someone. If, however, *raccomandazione* is supplemented with gifts or payment to a civil servant, it constitutes bribery or corruption in a penal sense. *Raccomandazione* persists in Italy in its various forms, even though measures for accountability and transparency have been enacted in the public administration since the 1990s. Simultaneously, the possible benefits made available through the public sector (especially jobs) have diminished through budget cuts and the shrinking of the welfare state. Moreover, a new cultural awareness emphasising meritocracy has gained increasing consensus among the younger generations of Italians: they often hesitate to ask for *raccomandazioni* or will protest more readily when they find that an injustice or a crime has been committed through the use of connections.

#### 6.16 **Insider trading** (USA/general)

Ilja Viktorov

Department of Economic History, Stockholm University, Sweden

‘Insider trading’ in financial markets refers to trading in securities such as equity and bonds by market participants who have access to exclusive information about the issuer of a particular security before such information is released to the general public. This allows insiders to benefit from buying or selling shares before they fluctuate in price. The longest prison sentence for insider trading in the United States – 11 years – was handed down in 2011 to hedge-fund manager and billionaire Raj Rajaratnam. Following this case, in 2012 the American judiciary found Rajaratnam’s business partner Rajat K. Gupta (former Goldman Sachs director and CEO of global consultancy firm McKinsey & Company) guilty of leaking non-public corporate information to Rajaratnam. Gupta was sentenced to two years in prison for conspiracy and securities fraud. Access to insider information had enabled Rajaratnam to make profits on trading stocks (and to avoid losses) to the tune of US\$64 million, part of these gains resulting from Gupta’s tips (Raghavan 2013).

Insider trading has been present throughout the history of financial markets, and was particularly prevalent during periods of speculative stock market bubbles. Because of the strong influence of US anti-insider trading laws on other jurisdictions, the English word ‘insider’ is used in most languages. In most European Union (EU) member-states, a legal distinction is made between primary and secondary insiders.

Primary insiders gain access to information by virtue of their position, employment or responsibility. They include controlling shareholders, corporate executives and officers, as well as financial-market professionals who compile information on a firm's operation. Government officials with access to insider information also fall into this category. Secondary insiders are friends or relatives of primary insiders, acting on tips and referred to as 'tippees' in the American legal tradition (Alexander 2007).

Insider trading is closely associated with price manipulation in financial markets, such as the creation of special corporate events to influence price movements of specific securities with the aim of eventual profit-making (Engelen and Leiderkerke 2010). While the practices associated with insider trading are less aggressive and more widespread than price manipulation, they are considered dubious and unethical. Since trading in securities may be viewed as a zero-sum game between market participants, insiders' profits mean losses for their counterparties, including small and institutional investors such as pension funds. Empirical studies from the US and UK found that insiders earned abnormal profits above the average market-price fluctuations (Seyhun 2000; Friederich et al. 2002).

The US was the first country to ban insider trading. Since the nineteenth century, the American stock market had been the world's largest, with broad popular involvement in securities trading, including the investment of pension savings in equities. The Great Crash of the American stock market of 1929 provoked the development of a complex regulative framework against insider trading. Initially, this was based on legislation such as the Securities Act of 1933 and the Securities Exchange Act of 1934, and on rules imposed by the powerful Securities and Exchange Commission (SEC), which investigates insider dealings. However, in accordance with common law tradition, the subsequent evolution of the anti-insider legal framework came to depend more on judicial interpretations in particular cases and court decisions. Thus, the actual prohibition of insider trading in the US was delayed until the 1960s, and lacked codification in the form of a specific anti-insider law. This makes the American judicial anti-insider trading framework somewhat contradictory and inconsistent. At the same time, the lack of a specific legal code provides more flexibility for the implementation of legislation (Bewaji 2012; Bainbridge 2013).

To meet the requirements of the SEC, US investment banks separated flows of information between their own departments by

instituting 'Chinese walls'. These information barriers are purely normative, though in some cases departments dealing with mergers and acquisitions or research are physically separated from the trading department. The purpose of a 'Chinese wall' is to restrict access to information by employees who are not directly involved in delivering services for the bank's corporate customers. Otherwise, non-public information may leak beyond interdepartmental 'walls' and other bank employees may potentially use it for insider trading in securities (Bartos 2008: 187–8).

Under the pressure of financial globalisation, the American experience of anti-insider legislation has spread to the rest of the world. Most advanced economies with developed financial markets have made insider trading illegal: France in 1970, the UK in 1980, Japan in 1988, Italy and Denmark in 1991, Austria in 1993, Spain and Germany in 1994. In the EU, the implementation of anti-insider laws was driven mainly by the European Community Insider Dealing Directive of 1989. Criminalisation notwithstanding, legal definitions of insider trading vary substantially between jurisdictions (Alexander 2007: 37–81; Engelen and Leiderkerke 2010). There is no universal take on the type of securities or other financial instruments. For example, UK insider-trading legislation exempts shares of public sector bodies while their debt securities are affected. In the US, courts have been reluctant to apply anti-insider laws to debt securities (Bewaji 2012). In Japan, non-listed securities and treasury instruments are excluded from anti-insider legislation. Actual enforcement of insider-trading regulation also varies (Bhattacharya and Daouk 2002). So far, the US remains the jurisdiction with the strongest record for enforcement. It has seen a significant number of legal cases where long prison sentences have been imposed on insiders found guilty of illegal trading, while enforcement tends to embrace a broader range of insiders (Bainbridge 2013).

Insider trading is common in developing countries, where it is practised by a wide range of market participants, corporate officers and regulatory authorities. Quantitative studies of this practice in the emerging markets are virtually absent because of a lack of reliable data and actual non-enforcement of anti-insider legislation. Interviewing market participants remains the main research method, making qualitative approaches of economic sociology and oral history an integral part of the few available studies in the field.

Despite evolving anti-insider legislation, there is a significant discrepancy between legislation and its implementation. The case of

anti-insider trading regulation in China is illustrative. China's insider-trading legislation began to develop in the 1990s but its implementation was delayed until the late 2000s, the drawbacks including state regulators' lack of independence and accountability, selectiveness of legal enforcement and low levels of judicial expertise to hear difficult cases (Huang 2013).

Wunmi Bewaji's (2012) empirical study of insider trading in Nigeria attests to the broad abuse of insider trading in domestic financial markets. The release of corporate news does not generally lead to a change in share prices, since potential profits have already been taken by insiders before any such information is made public. More importantly, the Nigerian practice of insider trading highlights the unrooted nature of anti-corruption legislation when forcefully imposed on emerging markets. Few financial market professionals have an adequate understanding of insider trading or are aware of the existence of Nigeria's anti-insider legislation.

In post-Soviet Russia, insider trading and market manipulation appeared with the emergence of the securities market in the 1990s. Foreign – mainly American – consultants played an active role in the formation of financial market institutions, leading on several occasions to conflicts of interests (Wedel 2001). Ironically, Russia's only case to date of insider trading and market manipulation was uncovered by the American judiciary as part of the 'Harvard Affair' (McClintick 2006). High-ranking Russian officials were also engaged in speculation in the government short-term bond GKO market (Viktorov 2015). Since the 2000s, insider trading has been practised mainly by Russian state bureaucrats and corporate executives, who are well aware that their conduct is unethical. Such dealings are kept secret, though market participants usually know whose interests a particular stockbroker represents. Because of strong resistance by influential government ministers and oligarchs, the ban on insider trading was delayed until 2010, when a special anti-insider law was finally adopted, but its actual enforcement remains a task for the future.

Insider trading is internationally recognised as a serious problem by both financial market regulators and legislators. The evidence shows, however, that closing the gap between the introduction of a formal legislative framework and its implementation takes time. There is no uniform legal interpretation of insider trading. In particular, attempts to transplant the American model, grounded in the common law legal tradition, to countries with a civil law tradition makes implementation of legislation even more difficult.

## 6.17 *Externe Personen* (Germany)

Andreas Maisch

Author and journalist, Germany

In Germany, *externe Personen* (which literally means ‘external persons’) are individuals who work in the civil service, but do not officially have the status of civil servants. They maintain an external employment relationship in the non-state sector while on temporary secondment in the civil service. *Externe Personen* are seen as a potential gateway for lobbying. In the past, the European Commission also used external persons from private companies, but stopped this practice in 2009 following substantial criticism by politicians, media and non-governmental organisations (NGOs).

The German administrative regulation on the use of *externe Personen* in the federal administration regulates the exchange of personnel between the public administration on the one side, and the private sector or institutions of science, culture and civil society on the other side. The first paragraph of this administrative regulation from 2008 defines the term *externe Personen* as follows: ‘*Externe Personen* is one who has an employment relationship outside the civil service and works temporarily in the federal administration, while maintaining his previous employment relationship’ (General administrative regulation 2008). In the media external persons are often called ‘externals’ (*Externe*) or ‘external employees’ (*externe Mitarbeiter*). They work for a limited but sometimes extended period of time, usually for several months or sometimes a number of years.

The term *externe Personen* does not include those working on temporary contracts or completing expert reports for the civil service. It includes only the use of personnel in the civil service who maintain their previous employment. For the purpose of the administrative regulation, ‘civil servant’ is an occupation in the service of the state, a federal state, a municipal, or another public body. In this regard, public enterprises are considered to be part of the civil service. Hence, religious associations, which are usually organised as public corporations in Germany, are excluded.

In the eyes of some observers, external persons are a new type of lobbying. They argue that *externe Personen* serve two different organisations at the same time and can have conflicts of interests. For example, the anti-lobbying NGO LobbyControl argued that *externe Personen* serve two masters at the same time (Maisch 2014), while some politicians have demanded that the practice be ended altogether (Gathmann 2008).

In contrast to policy advisors, *externe Personen* work within the administration and have access to internal data. In this respect, *externe Personen* bear similarities to national seconded experts in the European Commission. The difference is that national seconded experts today do not work for companies, unions or the like: they are usually employees of a national or regional public administration. Yet, several years ago, before the Commission put an end to the practice, national seconded experts and temporary administrators (non-permanent officials) were allowed to come from private companies. For instance, an employee of the German chemical company BASF worked as a temporary administrator in the European Commission from 2001 to 2004. His work was concerned with the European Union directive REACH (Registration, Evaluation, Authorisation and Restriction of Chemicals) – a conflict of interests. Siim Kallas – the commissioner responsible for administrative affairs at that time – put an end to the practice in the European Commission as a response to criticism by Green politicians, media and NGOs. Kallas stated that the use of external persons was a ‘German idea’. According to the European Commission, no representatives from companies, associations or trade unions have worked for the European Commission since 2009 (Adamek and Otto 2008: 197, 219; Röhrig 2008).

It is important to distinguish between the terms *externe Personen* and lobbyists. Some *externe Personen* may be perceived as lobbyists, because they are employees of private companies. Hence, in Germany most external persons’ original employers are public institutions or research centres like the German Aerospace Center. For instance, the Ministry of Justice feared that a planned exchange with a trade association could be perceived as industry influence on the ministry’s policy, and cancelled its plans for the exchange (Maisch 2015: 27).

In 2004, the German government under Chancellor Gerhard Schröder (comprised of the Social Democratic Party (SPD) and the Greens) introduced a new programme for the exchange of personnel in order to improve the mutual understanding of public administration and the economy, and improve the transfer of knowledge between the public and private sectors. The government makes use of the temporary need for the externals’ expert knowledge and also sends officials to the private sector. The initiative, which started in October 2004, was part of the state programme ‘Modern State – modern administration’. Although under this programme personnel exchange took on a new dimension and became more public, this was not the beginning of such efforts: the Federal Ministry for Economic Cooperation and Development had already been practising such an exchange with the Federation of German



Industry (BDI) since 1997, while the Federal Ministry of Economics and Technology has had an exchange with companies and associations for more than 30 years.

In 2006, German media reported cases of conflicts of interests and how *externe Personen* influenced laws affecting their companies. Lobbyists contributed to laws in several ministries. One *externe Person* even leaked internal government documents to his original employer. An employee of the car manufacturer Daimler copied Ministry of Transport internal documents and informed his company about plans for a lorry toll (Adamek and Otto 2008: 147ff.).

As a reaction to these disclosures and the resulting widespread criticism, the government passed an administrative regulation on the use of *externe Personen* in July 2008. Since then, the Federal Ministry of the Interior has had to report twice a year to two committees of the Bundestag, giving details of the use of *externe Personen* in government and the ministries they are working in. Although it is forbidden for externals to write laws or to assign public contracts, they remain a potential gateway for lobbying. Research has shown that the ministerial bureaucracy is the primary addressee for lobbyists (von Alemann 1987: 175; Sebaldt 1997: 29, 254ff.; Lösche 2007: 66–70). One problem is that externals lack the legitimacy to work in the civil service, because they have not applied for a position in the civil service and are not officials. Hartmann (2014: 35f., 41) has criticised the use of external persons as unconstitutional, finding that neutral and effective control was missing.

In addition, externals reinforce the existing asymmetric access of big companies and associations to ministries. Some single organisations get privileged access to the civil service, while others lack these opportunities, which potentially adversely impacts marginalised groups and un-organisable interests. Research shows that the BDI has sent many externals to multiple ministries, while only one came from a trade union (Maisch 2015: 30ff.).

In general, there is surprisingly little research on the phenomenon of *externe Personen*. In principle, research may combine qualitative and quantitative methods. It is possible to count how many *externe Personen* there are in each ministry, because the Federal Ministry of the Interior publishes annual reports on their use. Until the year 2015 the ministry produced biannual reports, but these were not published. Even though these older reports are not public, it is possible to obtain access to them (for instance, by using the Freedom of Information Act called *Informationsfreiheitsgesetz*). The number of externals can be compared over time and across ministries. Researchers can use the reports for a

content analysis and classify the external persons' activities. Expert interviews are a further method to measure the impact of externals, although in practice most ministries involved seem to be unwilling to answer scientists' questions about this topic.

An analysis of the above-mentioned reports by the author shows that the number of external persons within the federal administration decreased from 61 in 2008 to 42 in 2014 (Maisch 2015: 24f.). It seems that increasing transparency and public criticism of the use of externals led to the decrease in their use.

#### 6.18 ***Pantouflage*** (France)

Frédérique Alexandre-Bailly and Maral Muratbekova-Touron  
ESCP Europe, Paris, France

*Pantouflage* is the practice of leaving a civil service position to obtain work in the private sector in France. The civil servant is typically granted secondment to the private sector position in the first instance, and so reserves the option to return to his civil service position at the end of the secondment period, although a permanent move to the private sector is also known as *pantouflage*. The term *pantouflage* is derived from the word *pantoufle* (a slipper), which in the slang of students from the Ecole Polytechnique (a high-status military engineering school, popularly known as 'X' due to the school symbol of two crossed canons), means the price paid to the State to defray one's obligations to it: education costs and the commitment to serve it for 10 years (Kessler 1986). In an American context, this practice is known as 'revolving door'. There are several reasons why civil servants opt for *pantouflage*: the wage differential with the private sector; the attractiveness of new experiences in business where they can actually take risks and see their projects realised; and the difficulty of access to the few most prestigious civil service positions (Rouban 2002).

The top management positions in the public sector (and indeed, frequently the private sector too) are held by *corpsards*: members of the *Grands Corps de l'Etat*, networks of civil servants that play a significant role in the government and business structure of France. It is a social group drawn from the dominant social classes, providing it with an aura of prestige and power (Kessler 1986). Having a pyramid structure, the *grands corps* require a significant fraction of their members to move on, because not everyone cannot attain the highest levels. Civil servants may be granted secondment from their job in the public sector to a private sector position for a period lasting from one to three years.

For its part, the industry ‘buys’ or hires *corpsards* from the State by offering them high-paying and prestigious job positions. The rationale is to gain personal access to government officials, obtain governmental inside information and seek favourable legislation and government contracts. Consequently, *pantouflage* raises ethical problems of duty and vested interests resulting from the boundary between public and private spheres becoming obscured. A number of legal safeguards are in place to try and prevent such conflicts of interest arising. For example, civil servants are prohibited from moving to a company they have supervised, advised or drawn up a contract with in the previous three years. A special ethics commission (*commission de déontologie de la fonction publique*) is in charge of ruling on *pantouflage* secondments, although this has not always been sufficient to prevent perceived conflicts of interest. For example, in 2009 François Pérol was accused of a conflict of interest when he became CEO of BPCE, France’s second-largest bank. BPCE had been created from the merger of two banks, Banque Populaire and Caisses d’Epargne. Pérol was said to have overseen the merger as an economic advisor to President Nicolas Sarkozy, but did not inform the ethics commission of his move (*The Economist* 2014). Two members of the commission resigned in protest and Pérol was prosecuted following formal complaints by anti-corruption pressure groups and banking trade unions (*The Economist* 2014). Nevertheless, the Paris Court acquitted François Pérol in September 2015.

*Retro pantouflage* refers to the practice of coming back from *pantouflage* to take a civil service position again. The *corpsards* who choose *retro pantouflage* may expect an important position in exchange for their financial ‘sacrifice’ in rejoining the public sector. One controversial example of *retro pantouflage* concerns François Villeroy de Galhau, who held many prestigious civil service positions including Counsellor of the Prime Minister of France and Head of Cabinet of the Minister of the Economy. He opted for *pantouflage* from 2003 to 2015, his last position being at BNP Paribas, a French multinational bank and financial service company. When the French president proposed his candidacy for the position of Governor of the Bank of France, 150 French economists denounced his nomination in an open letter published in *Le Monde*. They objected that his nomination posed a serious conflict of interests because, having served the banking industry, he could hardly be expected to monitor the banks with impartiality and independence just a few months later. However, his candidacy was approved by Parliament and he became the Governor of the Bank of France in November 2015.

To better understand why industry is so interested in attracting *corpsards*, it is important to understand how they are selected, trained and developed. *Corpsards'* solidarity is rooted firmly in their sense of being part of an elite: members are very conscious of their common values forged during a tough entrance contest and a highly competitive learning process (Kessler 1986). The members of the *Grands Corps de l'Etat* are mainly (although not exclusively) the top-ranking graduates from the French elite *Grandes Ecoles* (graduate schools): the Ecole Nationale d'Administration (ENA, National School of Administration), which produces entrants to the Grand Administrative Corps of the State; and the Ecole Polytechnique, which produces entrants to the Grand Technical Corps of the State. The *Grandes Ecoles* may be compared to Oxbridge (Oxford and Cambridge Universities) in the UK or to the Ivy League in the USA. Unlike French universities, which do not have the right to select their students, *Grandes Ecoles* select their students by means of a tough entrance contest focused on strong mathematical or cultural knowledge and skills (Barsoux and Lawrence 1991). In order to pass the contest, students enrol in two-year preparatory classes, known as *classes préparatoires* or simply *prépas*.

Top-ranking graduates can choose which *grand corps* they wish to join. As the ENA, Polytechnique and the Ecole normale supérieure (ENS) are civil servant schools, their students are already technically civil servants during their studies and are obliged to give 10 years of service to the State. *Corpsards* receive challenging assignments and strategic responsibilities within the civil service from the beginning of their careers. These elite state development opportunities together with the elite academic legitimacy enables *corpsards* to develop skills and networks that are crucial for their careers (Bauer and Cohen 1981). Thus, the *grands corps* possess a form of 'double capital': social capital of relationships at the highest level and technical capital of knowledge and methods (Kessler 1986).

According to Bauer and Bertin-Mourot (1996), 44.5 per cent of top managers in major French firms had previous experience in the senior civil service, being recruited externally and appointed ('helicoptered' or 'parachuted') to the top positions. As a consequence of the importance of *pantouflage* (and thus the *grands corps* and *Grandes Ecoles*) in French business networks, the number of self-educated executives among leaders of large firms is particularly low in France (Roussillon and Bournois 2002). Thus, some studies of *Grand Corps de l'Etat* are devoted to the careers of *énarques* (e.g. Bouzidi et al. 2010) or careers of top managers in general (e.g. Bauer and Bertin-Mourot 1996; Davoine and Ravasi 2013). The former studied a sample of civil administrators who had graduated from the ENA and been assigned to the Ministry of Finance from

1960 to 1992. They found that *pantouflage* is a common practice: in a 20-year career, 40 per cent of finance directors have at least one spell in the private sector, a percentage that rises to 60 per cent in the course of a 30-year career (Bouzidi et al. 2010).

The career path of top managers in France is called the Latin model, and is characterised by high inter-functional and inter-company mobility. The Latin model relies on the selection of top managers in relation to their educational qualifications, i.e. *corpsards* or alumni of other elite *Grandes Ecoles* (Evans et al. 1989). More recent research by Davoine and Ravasi (2013) has shown that the model is still functioning in the same way. In France, one-fifth of top managers (and a third of CEOs) in the study sample had previous experience as a senior civil servant, while in Germany and the UK only 3 per cent of top managers had civil service experience. Moreover, 38 per cent of university-educated top managers in France are graduates of the Ecole Polytechnique, HEC or ENA. For comparison purposes, only 14 per cent of university-educated top managers in the UK graduated from Oxford or Cambridge (Davoine and Ravasi 2013).

### 6.19 **Stróman** (Hungary)

David Jancsics

School of Public Affairs, San Diego State University,  
Imperial Valley Campus, USA

*Stróman* is a Hungarian colloquial term used for a person who acts on behalf of a principal. The literal English meaning of *stróman* is scarecrow or hay-man. The word is widely used in Hungary; it is almost universally known. When it appears in everyday conversations, it often has a negative connotation because somebody's *stróman* is regarded as an inferior servant who loyally follows his/her master's orders. Moreover, there is also a common belief that the principal probably has an unethical or even illegal reason to use a *stróman* instead of acting by him/herself. Analogous practices exist in other countries. For example, the word *strohmann* is known and used in a similar way in Germany. *Prestanome* is the Italian version of *stróman*, while in Russian the words *podstavnoe litso* (literally 'dummy person'), or *frontirovanie* ('fronting') are used.

In Hungary the use of the term *stróman* can be traced back to the pre-Second-World-War years when the first (1938) and second (1939) 'Jewish Law' in Hungary significantly restricted the number of Jews in liberal professions, public administration, and in commercial and industrial businesses. As a result, about 90,000 Jewish people lost their jobs or businesses. Jewish owners were forced to pass their enterprises – from small shops to large

corporations – to new Catholic owners, but many of them continued to control the company from behind the scenes (Kadar and Vagi 2004: 63). Hungarians started to use the word *stróman* to refer to these visible but fake Catholic business owners. In fact, the widespread *stróman* system helped many Jewish families to maintain some level of income during the hostile anti-Semitic political environment of the late 1930s.

New forms of the use of *stróman* emerged in Hungary in the 1990s and have become a ‘normal’ phenomenon in the daily life of the country’s post-socialist economy. Being a ‘paper’ owner of a company that provides fake receipts for fictitious services is the most typical role of a *stróman* in contemporary Hungary. Buying fake receipts from a *stróman*’s company is a response of entrepreneurs and many ordinary citizens to strong external constraints. For example, tax statistics indicate that more than one-third of the Hungarian labour force earns only the minimum wage (NAV 2013), yet in reality most of these employees are earning more, but declaring only a minimum wage. To avoid the tax burden on labour, companies often force their employees to obtain fake receipts for bogus services in order to receive the part of their salary that exceeds the minimum wage.

The value-added tax (VAT) rate in Hungary is 27 per cent, the highest in the world. Hungarian companies routinely buy receipts from *stróman* companies in order to prove false costs for fictitious service and so reduce the VAT they need to pay. It is reported that *stróman* company schemes – chains of deliberately created and managed fake ‘receipt factories’ (*számlagyár*) – exist in Hungary, in which the final receipt giver often happens to be a foreign company in Ukraine or Serbia that cannot be investigated by the Hungarian tax authority (Baka 2014). Many receipt schemes operate relatively securely because their shadow owners have good connections to political parties, to government officers and to the tax authority. Thus they are able to ‘turn off’ external controls of anti-corruption units, judicial authorities or prosecutors (Jancsics and Jávör 2012).

*Stróman* relations constitute a hybrid informal institution. Although a *stróman* is a visible and legal member of a formal organisation, they fulfil the principal’s hidden, often illegal, agenda that may significantly deviate from the official organisational goals. On the surface a *stróman* follows formal rules, yet he also has to violate them to obey his boss’s orders. A *stróman* is thus an intriguing type of actor who belongs to the formal and the informal realms at the same time, acting as a broker to connect the shadow principal with the outside world. According to a classification based on the group orientation of the actors in brokerage (Gould

and Fernandez 1989), *stróman* falls into the category of ‘representative broker’, who is delegated by another actor or a group to represent the group’s interest and deal with outsiders on behalf of the real boss.

There are three functions that a *stróman*, sometimes simultaneously, performs: (1) fall guy, (2) hidden identity and (3) hidden ownership. A *stróman* may fulfil a fall guy function that buffers risk between the outside world and his principal. Whenever a company gets involved in illicit practices such as bankruptcy fraud, tax evasion or embezzlement and when things go wrong, the *stróman* as the formal owner or executive of the company will be responsible for tax, salary or mortgage debts, while the authorities cannot reach the real owner since they are not officially affiliated with the company. In this way the use of a ‘representative broker’ reduces the transaction costs derived from high-risk illegal business activities (Della Porta and Vanucci 2012: 158; Lambsdorff 2007: 160).

Another function of *stróman* is to keep the identity of the real actors hidden in different deals. In the case of offshore schemes or trust ownership the right of the real owner is usually guaranteed by a private contract such as a declaration of trust. Here *stróman* is just a trusted individual and there is not any formal relationship or contract between the fake and the real owner. The practice of some multinational companies in Hungary offers an example. In order to keep the price down, a *stróman*’s company is used to buy property that later will be bought and used by a foreign carmaker, bank or merchandise retailer. If a financially strong and a well-known brand negotiated directly with the seller, often a local government would set a much higher price for the property. A similar *stróman* function can also be found in corrupt procurement cases, when tender-winner principals try to hide the fact that they informally control all the subcontractors in a project. Hungarian *oligarchs* often use this arrangement. Here seemingly independent companies perform different works while in fact all subcontractors are run by a *stróman*, and ultimately every penny ends up in the principal’s pocket. This structure also allows the principal to control and manipulate the prices and resources at all levels of the project.

Principals may also use *stróman* when their ownership rights are limited or banned by law. For example, despite the fact that foreign citizens are prohibited from buying agricultural land in Hungary, German and Austrian farmers have bought large areas of land by using a Hungarian *stróman*. Public servants whose business activity is limited by law also hire *stróman* to run their companies. Such companies often receive big government contracts from the department where the shadow owner is in a position of power.



In most cases, there is an unequal power relationship between the *stróman* and the principal. Sometimes socially marginalised people, homeless or foreign refugees are chosen as company owners and CEOs (see Figure 6.19.1). They are willing to take huge risks for a relatively small amount of compensation. It is also typical that people who are unemployed or retired ‘on paper’ are owners of several companies and the *stróman*’s apartment in a poor residential area is the ‘headquarters’ of dozens or even hundreds of companies. However, since the global economic crisis severely hit Hungary it is much harder to find good white-collar jobs and more well-educated young people are willing to take the risk and become visible but fake leaders of companies with suspicious activities. In cases when the ownership rights of the principal are limited but the company’s operation and assets are real, the shadow owner needs a reliable *stróman* to actually run the company. Here a socially closer



**Figure 6.19.1** The two homeless people pictured (László Kutrucz and László Baráth) were CEOs of several companies. The Hungarian subsidiary of Siemens received huge amounts of public money through procurement from Hungarian hospitals. These fake companies had consulting contracts with Siemens. The homeless CEOs’ job was to withdraw money from the fake companies’ bank accounts and give it back in cash to their shadow principals. This case was explored by an investigative journalist, Annett Sipos, and published in *HVG* (Hungarian economic magazine) in 2006.

Source: [hvg.hu/itthon/20061211\\_siemens](http://hvg.hu/itthon/20061211_siemens). © Gergely Túry.

*stróman*, such as a family member, friend, former colleague or classmate is chosen to be the visible representative of the company.

Although the *stróman* is usually in a subordinate position he still has some leverage with his boss. The fact that he knows a lot about the shadow principal's illicit practices makes their relationship dynamic and complex. The actors become interdependent and capable of black-mailing each other and this provides bargaining chips in negotiations between them.

## 6.20 **Benāmi** (India)

Kalindi Kokal

Max Planck Institute for Social Anthropology,  
Halle-Saale, Germany

A *benāmi* transaction is one where a person purchases a property in the name of another without intending to transfer any beneficial interest in the property to the other person. The person in whose name the property is bought is known as the *benāmidār* and the person who advanced the consideration for the property (and is the real owner) is described as the holder of beneficial interest in the property (Law Commission of India 1988; Mitra 2010: 448–9). The term *benāmi* can be broken up to literally translate as ‘without name’ (*be* being ‘without’, and *nām* being ‘name’). The origin of the expression ‘*benāmi*’ is also traced back to the Persian language, in which the term means ‘fictitious’ (Mitra 2010: 448). A *benāmidār* comes very close to the practice of *stróman* in Hungary (see 6.19 in this volume), acting like the latter to conceal the identity of the true owner of the property, primarily from state agencies.

Prior to 1988, *benāmi* transactions were a part of Indian law. However, in May 1988 following recommendations made by the Law Commission of India, the President of India passed an Ordinance entitled ‘*Benami* Transactions (Prohibition of the Right to Recover Property) Ordinance, 1988’ whereby *benāmi* transactions ceased to be recognised as legal. A law entitled the ‘*The Benami* Transactions (Prohibitions) Act 1988’ (‘The Act’) was brought into force soon thereafter. The Act defines *benāmi* transactions as ‘any transaction in which property is transferred to one person for a consideration paid or provided by another person’ (Government of India 1988: sec. 2 (a)).

This definition in itself has been the basis of much debate (Bhaskaran Nambiar 1989; Joseph 1989), which has resulted in the nature of *benāmi* transactions and their validity being largely decided by case law. The Supreme Court of India has construed that the word *benāmi* is used to

denote two classes of transactions, which differ from each other in their legal character and incidents.

Where a person buys a property with his own money but in the name of another person without any intention to benefit such other person, the transaction is called *benāmi*. In that case, the transferee holds the property for the benefit of the person who has contributed the purchase money, and he is the real owner. The second case, which is loosely termed as a *benāmi* transaction is a case where a person conveys in favour of another without the intention of transferring the title to the property thereunder. In this case, the transferor continues to be the real owner.

(Supreme Court of India 1979)

The difference between the two kinds of *benāmi* transactions referred to above lies in the fact that in the first case there is an operative transfer from the transferor to the transferee, where the latter holds the property for the benefit of the person who has contributed the purchase money. In the second situation there is no operative transfer at all and the title rests with the transferor despite the execution of conveyance. One common feature, however, in both of these cases is that the real title is divorced from the ostensible title and they are vested in different persons (Mitra 2010: 448, 451).

While deciding whether a transaction is *benāmi* or not, the court considers the motive of the person taking the sale deed in the name of another, the custody of the sale deed, the passing of consideration and the possession of property. Additionally, the court also pays attention to the relationship between the parties, the reason for the transaction, the source of the consideration and the circumstances surrounding such a transaction. *Benāmi* transactions, however, have always been part of property ownership practices among both Hindus and Muslims in India, and particularly within the affluent class (Derrett and Duncan 1962: 865). One reason why such transactions remain prominent is because of the customary belief that certain persons are 'luckier' than others (see also Law Commission of India 1988: 37) and therefore it is thought that properties bought in the names of such persons are more likely to remain secure and bring increased wealth. In such cases the nominated *benāmidār* is often a female individual with close relations (sister, mother, wife or daughter) or a minor child. Simultaneously, such investments also act (albeit unintentionally) as a source of financial security for women who traditionally enjoy little other protection. Later this provision was incorporated in the Act under Section 3 (2), which

allows a person to buy property in the name of his wife or unmarried daughter, on the presumption that the property has been purchased for the benefit of the wife or the unmarried daughter (Government of India 1988: sec. 3 (2)). The law applies the ‘doctrine of advancement’ as understood under English Law in this scenario, which prevents the father or husband from reclaiming the property on the grounds that either the wife or the unmarried daughter was a *benāmidār*.

Apart from this exception, the Act proceeds on the basis that the whole purpose of *benāmi* transactions is to conceal from strangers, and from the Government in particular, the identity of the actual owner and beneficiary of the property. More specifically, as the Law Commission of India points out in their report, preceding the enactment of this Act *benāmi* transactions were always undertaken with the intention of either circumventing tax laws such as wealth tax, gift tax and income tax or to overcome socially beneficent legislation enacted by the state and central governments in India for an equitable redistribution of property (Law Commission of India 1988: 38).

For example, under section 35 of the Bombay Tenancy and Agricultural Lands Act, 1948, it was provided that on ‘Tiller’s day’, on 1 April 1957, all tenants of agricultural property should become eligible to become owners of the land. Subject to some provisions of the said Act, such transfer of title from landlord to tenant became inevitable. However, decades after the Bombay Tenancy and Agricultural Lands Act, 1948 was passed, a survey in Borsad Taluka of Kaira District in the state of Gujarat revealed thousands of concealed tenancies that had been retained under the guise of *benāmi* transactions; the then owners having transferred the property to the names of the then tenants, while continuing to retain a beneficial interest in the property (Law Commission of India 1988: 36). In recent times, it is not uncommon to find cases of *benāmi* transactions in the purchase of tribal land by non-tribal individuals. In this instance the objective is to overcome an order by the Supreme Court of India that made it unconstitutional to purchase land belonging to Scheduled Caste (SC) and Scheduled Tribes (ST) by members of communities who were neither SC or ST; companies were also included in this ruling (*Indian Express* 2012; Misra and Radhakrishnan 2012).

While *benāmi* transactions remain commonplace, very little research has been conducted into the nature and importance of such transactions in the present day. Recently, as the Government of India has set its focus on curtailing the flow of ‘black money’ (defined as income from undeclared illegally earned sources) into the country, *benāmi* transactions have received renewed attention from the Indian legislature.

A new Bill to limit the instances of such transactions and make them more visible was introduced by the Indian parliament in August 2015 (Deshpande 2015; *The Hindu* 2015).

The new bill is unlikely to end the practice of *benāmi* as these transactions exist where customary beliefs and practical efficiency coincide, and at the same time are reinforced by the dynamics of social structures that actually facilitate such transactions. Section 24 of the new Bill on *benāmi* transaction provides for the appointment of an ‘initiating officer’, who is entitled to investigate transactions he suspects to be *benāmi* (Parliamentary Legislative Research 2016). The nature of *benāmi* transactions often makes them socially legitimate within communities, thus making it very challenging to trace such transactions; in most instances they are carried out between people connected through close family relations or complex networks of reciprocities. As the monetary value of land increases rapidly in India, the government needs to devise more strategic initiatives to regulate this practice rather than trying to ban it completely.

#### 6.21 **No entry** (India)

Nikhilesh Sinha

Development Planning Unit, UCL, UK

and

Indivar Jonnalagadda

Hyderabad Urban Labs, India

The term *no entry* refers to an informal system of land transfer that is prevalent within the urban limits of Hyderabad, India. While similar practices may exist in other parts of the country, the term is specific to Hyderabad, which is India’s fifth largest city, and the capital of the recently formed state of Telengana. The term itself derives from the English word ‘notary’ or ‘notary public’, through the agency of which the alienation and transfer of property rights is deemed to be ratified. A notary public of the common law is a public officer appointed by either the central or state government to serve the public in matters concerned with estates, deeds, powers of attorney and foreign and international business (SRO.324, The Notaries Rules 1956). *No entry* is a colloquialism that has passed into common use, and while its root may be an English word, it is used frequently and even predominantly by those who do not speak English. The term can relate to the land that is being informally transferred, to the informal way it has been transferred, or to the informal documents that accompany such informal transactions.

*No entry* transactions are informal as they do not go through the State Revenue Department – the authority in charge of all matters pertaining to urban and rural lands at the state level (sub-national), including land expropriation, registration of transactions, determining terms of tenure, documenting title deeds etc. (Banerjee 2002a). Formal land transactions require approval by the State Revenue Department in addition to the signature and stamp of a Notary Public. In the case of a *no entry* transaction, the vital additional step of being approved by the State Revenue Department – and the resultant paying of land tax and stamp duty – is not taken. While the notary is a public officer, the ratification of property exchange without the State Revenue Department's approval and formal registration constitutes an extra-legal act.

Sale and purchase of property via the *no entry* system is not entered in the land registry records, and none of the associated fees are paid to the state. These should include stamp duty (7 per cent of property value), transfer fee (2 per cent of property value) and registration fee (0.5 per cent of property value). Indian law requires the registration of all property transfers unless the value of the property under consideration is less than one hundred rupees (Registration Act 1908), which is roughly equivalent to £1 in exchange value. Yet in practice, such registration is rarely carried out. *No entry* documents resemble formal property sale agreements, made in good faith (*bona fide*), but drawn up on non-judicial stamp paper. A large proportion of *no entry* transactions involve exchanges of property located within informal settlements, slums or spaces where there may be multiple or conflicting claims on land (Bartlett and Satterthwaite 1989: 2–5).

The dual nature of the *no entry* system – not formal, but not wholly informal either, because it is structured and codified – is well suited to enabling transactions in cases where property rights are not clearly defined or deemed inalienable/non-transferable under the existing legal constraints. In other words, the *no entry* system appears to have evolved as a tactic to enable transactions that would otherwise be impossible under the law. Slums, spread across the country, create a massive demand for systems similar to *no entry*, based on a *mélange* of informal arrangements with the state, as well as those that emerge where the state is absent. Slums can be divided into notified, i.e. identified and recognised by the state, and non-notified slums. Notification is essential for slums to receive municipal services such as piped water, sanitation services and electricity, yet half of all slums in India are estimated to be non-notified (Subbaraman et al. 2012). The reasons for non-notification are associated with issues of ownership of the land that the slum occupies.

Notification is possible if the land belongs to the city government, but several slums in the Hyderabad area are located on government land that does not belong to the city government (Banerjee 2002a). For example, there are slums on land that belongs to the Central Defence Ministry, Ministry of Railways, and on private lands where there is some ambiguity about legal ownership.

In practical terms, for residents in notified slums on city government land, or in low-income housing colonies built under government schemes, notification opens the possibility of being granted a *patta*. *Pattas* are documents issued by the State Revenue Department, which bestow an inalienable property right under certain conditions and for a certain time period (Banerjee 2002b: 37–58). The conditions of the *patta* reflect the underlying objectives of the state and often aim at granting tenurial security, while restricting sale or marketisation (Banerjee 2002b: 37–58). Thus, the *patta*-holder may hold the right to live on the property and bequest it, but is not allowed to transfer or lease the property to a third party.

Against the backdrop of such limited property rights, the *no entry* system serves as an instrument for trading the officially non-tradable *pattas*. If a *patta*-holder decides to sell the land specified in the *patta*, a *no entry* document is drawn up and then notarised by the public notary office. The original *patta* along with the *no entry* document then constitutes a proof of ownership – with the understood limitation – for the new owner. With each subsequent sale, the original *patta* along with all of the *no entry* documents from each of the previous transactions gets passed on to the new owner. *No entry* land is not normally built over by the de facto owners or used as collateral, but it is often leased out either partially or wholly.

The nearest equivalent to the *no entry* system can be found in squatter settlements in Bogota, Colombia. Here, illegally subdivided plots are transferred via a private agreement, which is drawn up on ordinary paper, usually handwritten and not even registered by a notary (Aristizabel and Gomez 2002: 100–13). Interestingly, the seller may employ the use of a ‘figurehead’ (*testaferro*) – someone over 60 – to act as a co-signatory and nominal owner as ‘cover’ for the real owner, because senior citizens cannot be prosecuted under Colombian law (Aristizabel and Gomez 2002: 100–13). The *no entry* system can also be likened to the transfer system of properties through *aurfi* (roughly translatable as ‘hand claims’) contracts in Cairo, Egypt. The *aurfi* contract requires signatures of the buyer and the seller, as well as those of two male witnesses of their handshake agreement. Such contracts can be formalised through a relatively



simple and inexpensive procedure in a local court (the *dawa saha wa towqia*), though such formalisation does not give any legal status to the property transaction itself (Sims 2002: 79–87). In other words, while the procedure formalises the exchange of certain limited rights to the land, it does not acknowledge legal ownership of the land by the seller – and by extension the buyer. Like *no entry*, the *aurfi* contractual system is not recognised by the state as a legitimate means of property transfer. There is, however, an important difference between the two systems: the *aurfi* contract infers liability to pay *aawayid* (property tax), and thus implies a tacit acknowledgement of the informal system of property transfer by the Egyptian authorities, while in India there is no recognition of the *no entry* system. Comparable yet distinct informal land transfer practices have been reported to exist in Benin (Durand-Lasserve et al. 2002: 114–35), Burkina Faso (Mathieu et al. 2002: 109–28), North-West Rwanda (Andre 2002: 153–72), as well as some other parts of Africa (Rakodi 2004).

While the *no entry* system is specific to Hyderabad, most of the informal systems of land property transfer mentioned above perform similar functions in rural as well as urban contexts in developing countries. In rural contexts, they provide a low-cost means of enabling free market transactions that brings land to its most productive use (Deininger and Feder 2001: 288–331). For instance, land that is not being cultivated may be brought under cultivation by the new owners, especially where certain investments are required that would be uneconomical under a short-term lease. These informal mechanisms of transfer may also be recognised by informal lenders, allowing access to capital, where formal systems may be cumbersome or unavailable. Most significantly, these systems are more accessible to a wider set of potential buyers and sellers, providing greater equity in land markets. In urban settings, the issue of access to land is often intimately linked to access to housing or shelter and associated benefits such as livelihood opportunities, public services and credit (Payne 2002: 3–22). In countries like India where one in four city dwellers can be classified as poor, informal systems like *no entry* provide access to basic services for a vast number of people.

## 6.22 **Repetitorstvo** (Russia and FSU)

Eduard Klein

Research Centre for East European Studies, University of Bremen,  
Germany

*Repetitorstvo* is a Russian/Ukrainian term used across much of the former socialist bloc (Azeri *repetitorluq*; Belarusian *repietytarstva*; Polish

*korepeytycje*) to describe supplementary private tutoring. The origin of the word is the Latin *repetere*, which stems from *re* ('again') and *petere* ('to seek, beg, beseech') and means to repeat, revise or reread. *Repetitorstvo* means that students are taught individually or in small groups on a paid basis in addition to their official school curriculum. Usually a school or university teacher is hired, who is then called the *repetitor*.

Private tutoring is a common practice all around the world, but *repetitorstvo* has its own peculiarities. While many parents hire private tutors to help their children to earn better grades, in the post-Soviet states *repetitorstvo* is seen as part of a wider shadow education system (Bray 2007) with both positive and negative consequences. On the one hand, it is a means to improve learning and increase human capital. It provides an additional source of income for education workers and compensates for the fall in their official wages, which, for example, in Russia in the 1990s fell by up to three-quarters in real terms (Kuzminov 2012: 334). It is also profitable for the state since it enables the government to save spending on education. On the other hand, *repetitorstvo* may distort teachers' performance, foster unethical behaviour and corruption, and waste financial resources that might be used more effectively (Bray 2007: 18). It penalises the poor, by creating and expanding social inequalities. Hiring private tutors is costly, so *repetitorstvo* discriminates against students whose families cannot afford it. It undermines equal access to universities and increases social stratification and inequality.

*Repetitorstvo* is a common practice in all the post-Soviet states but its nature, costs and scale vary from country to country. During the Soviet period, *repetitorstvo* was not widespread. Tutors were hired to improve foreign-language skills, but this involved only a small number of students. But after the collapse of the USSR in 1991, *repetitorstvo* experienced dramatic growth when the state lost its monopoly over education and a private education industry emerged (Büdiene et al. 2006: 8). According to a comparative survey conducted among freshmen in 2004–5, 93 per cent of Azerbaijani students had received private tutoring in their final secondary school year. In Georgia the number was 80 per cent, Ukraine 79 per cent, Mongolia 71 per cent, Poland 66 per cent and Lithuania 62 per cent (Büdiene et al. 2006: 14). An Internet search for the term *repetitorstvo* comes up with over 8 million results on the popular Russian search engine yandex.ru, most of which are professional private tutoring services.

Silova (2010) identifies a chain of circumstances explaining the huge growth of *repetitorstvo*. One of the main reasons is the fall in

teachers' salaries (Biswal 1999: 238). After the break-up of the Soviet Union, state spending on education fell dramatically across the successor states. Teachers and lecturers at all levels faced heavy wage cuts, often to below subsistence level. This forced them to seek supplementary income in the private economy, developing private education sector or shadow education system. *Repetitorstvo* was the most convenient alternative, as teachers kept their workplaces, but earned extra income without great effort. This 'service' was tolerated and even demanded by a growing middle class, who increasingly spent money on education to invest in their children's futures (Bray 2013).

In the post-Soviet states, *repetitorstvo* often resembles *petty corruption* in the sense that citizens pay for a service that, according to law, should be provided for free. Biswal even applies Klitgaard's (1988) famous formula, 'Corruption equals monopoly plus discretion minus accountability', to private tutoring and concludes (Biswal 1999: 223),

Klitgaard's definition of corruption closely resembles the school teachers' tutoring practice ... They are the monopoly suppliers of their services to the students, they have the full discretion in what they supply, and they are hardly held accountable for their actions. This gives rise to a situation where the teachers try to extract students' consumer surplus by shirking at school and supplying tutoring outside the school for a fee.

In the Central Asian states in particular, teachers create 'artificial demand' (Johnson 2011) to compel their students to take private lessons according to the logic that 'You need to know X, Y, and Z to pass the exam. We'll cover X and Y in class. If you want to learn Z, come to tutoring' (Jayachandran 2013: 222), making tutoring virtually compulsory. Most citizens in the former USSR believe that schoolteachers treat pupils who receive private tutoring from them better than they do those who do not (Silova 2010: 334).

On a broader scale, *repetitorstvo* leads to a decline in quality of secondary education, because private tutoring is financially more attractive. 'When schools offer for-profit tutoring, teachers teach less during the regular school day' (Jayachandran 2013: 14). As a result, the gap between the secondary and tertiary education curriculums increases. At the same time, the demand for higher education increased rapidly in the region in the 1990s, heightening competition for university places and boosting the demand for *repetitors* to help aspiring students prepare for the entrance exams. Tutors with access to or membership of university admission boards, e. g. through *blat*-networks (Ledeneva 1998), were in

high demand. They used their influence to secure admission in return for higher remuneration than a normal *repetitor* would request.

This form of *repetitorstvo* was common in the 1990s and early 2000s, until most post-Soviet states reformed their university admission systems to prevent such forms of corruption (Gabršcek 2010). The new admission systems withdrew responsibility for university entrance examinations from admission boards and replaced them with unified and centrally state-administered examinations. As a result, the special *repetitors* lost their means of influence. Surprisingly, however, the practice of *repetitorstvo* increased further after the reforms: parents now no longer secure university access through bribes, but instead oblige their children to study with private tutors (Gabršcek 2010: 55).

Private supplementary tutoring is also widespread and highly institutionalised in East Asia (Zhang 2011). In Japan, two-thirds of students take supplementary classes at *juku* cram schools after their regular school lessons. In South Korea, more than 70,000 *Hagwon* cram schools teach the vast majority of Korean students. The amount of private money spent on private tutoring in Korea in 1996 equalled 150 per cent of the government's education budget (Bray 2007: 27). Private tutoring is common both in developing countries in Africa (Paviot et al. 2008) and in developed countries such as the USA (Gordon et al. 2005) and Germany (Schneider 2005). It is rare, however, in most of these countries for private supplementary tutoring to have connotations of unethical behaviour or corruption, unlike the case of the post-Soviet countries. This makes *repetitorstvo* a specific informal phenomenon in the post-Soviet region.

### 6.23 *Krysha* (Russia, Ukraine, Belarus)

Yuliya Zabyelina

and

Anna Buzhor

John Jay College of Criminal Justice, City University of New York (CUNY), USA

Originating from criminal and law enforcement jargon, the term *krysha*, literally meaning 'roof' in Russian, is now broadly used to refer to individuals or organisations that provide a range of services, predominantly illicit and informal, ranging from protection and patronage, to the enforcement of contracts and settlement of disputes. The term has become popular in Russian, Ukrainian and Belorussian languages.

In Russian, it has a number of different forms: *kryshevaniye* (noun) meaning ‘protection racket’; *kryshevat* (verb) meaning ‘to provide protection or patronage’; and *kryshuyushchiy* (participle) meaning ‘an individual or a group that provides protection or patronage’. In Ukrainian and Belorussian, the terms *kryshuvannya* and *kryšavaŋnie* correspond to the Russian *kryshevaniye* and relate to the same phenomenon. No single English word can fully incorporate the multiple meanings and forms of *krysha*, but the term ‘protection racket’ roughly conveys the general meaning.

The term *krysha* became widely used in the post-Soviet republics after the disintegration of the Soviet Union when a series of sweeping political and socio-economic reforms, mainly concerned with the privatisation of state property, created a conducive environment for the empowerment of criminal organisations. Therefore, the earliest and most common usage of *krysha* relates to extortion by criminal organisations and gangs through the threat of violence or actual violence. ‘In many cases, the business will have to pay from 10 to 60 per cent of its pre-tax income for protection regardless of who provides it. ... If the criminals find a business particularly attractive, they will demand an ownership share of it’ (CSIS 1997: 29).

Although extortion rackets are often indistinguishable in practice from protection rackets since, for the former, there will always be an implied threat that the racketeers themselves may attack the business if it fails or refuses to pay, *krysha* may turn into a mutually beneficial arrangement between organised crime and business owners. In such a case, a criminal organisation will not only promise not to attack the business, but it would also defend from other racketeers, corrupt law enforcement, debt collection, and would assist with customs clearance and help it to compete with actual or potential enemies and competitors. A threat of violence or actual violence as a means of collecting money or property from businesses is therefore not an inherent feature of *krysha* (Siegel 2012). Galeotti (2005: 57) writes that

[a] ‘good’ *krysha* provided by the more entrepreneurial gangs will not only protect you from other criminals, it will also provide a range of other services, from debt recovery (handled far more quickly and efficiently than Russia’s corrupt and inefficient courts) to an inside track on whom to bribe within the local authorities to get things done. This explains why an estimated 70–80 per cent of firms pay an average of 10–20 per cent of their profits for this ‘roof’.

Although Russian organised crime groups have been known to run *krysha*, public officials have also sought to offer such protective services and extract the same kind of informal payments as criminal organisations. Law enforcement agencies have been reported to operate a de facto protection racket for criminal organisations (Volkov 2002a). Dishonest public servants would need neither violence nor threat of violence to establish *krysha* but will manipulate the law and bureaucratic procedures. Such abuses of public office undermine the competitive market system, especially in the case of small and medium-sized businesses, making them dependent on informal arrangements between state officials and criminal organisations. McCarthy (2011: 64) argues that the involvement of public servants in protection rackets makes *krysha* in Russia strikingly different from analogous informal practices in other national contexts, such as *pizzo* (extortion money) levied by mafia organisations in Italy. Therefore, the effectiveness of a criminal *krysha* often depends on the power it has, relative to other protective 'roofs', including those provided by state institutions (Volkov 2002a). 'Less powerful criminal groups would seek to align themselves with more powerful criminal groups, who in turn ... obtain their own *krysha* from corrupt government officials' (von Lampe 2015: 275).

Private security companies are another major player in the market of private protection. They are often run by criminal organisations that partially or fully legalise protection services (Volkov 2002b; Taylor 2011). Russian private security companies may thus engage in extra-legal activities, such as 'sophisticated intelligence-gathering ... and the informal use of blackmail files (*komprobat*), including copies of bank statements, currency transfers, business and real estate transactions and other official documents as well as general correspondence, personal information and unofficial transcripts of telephone conversations of a compromising nature' (Ledeneva 2004: 138). These informal practices go far beyond the services that security companies are licensed to perform and clearly reflect the risks and uncertainties of doing business in Russia.

Moreover, since the police and the military personnel were largely underfunded after the collapse of the Soviet Union, they actively sought a share of the legal market in private protection (Cox 2001). While in some cases, criminal organisations would run private security firms, Taylor (2011: 164) notes that the police may often control the legal market in private security: 'for example, the head of the municipal militia in St. Petersburg in the early 2000s reportedly oversaw roofing operations in the city, partially by controlling licenses for private security companies'.

Summing up, the types of *krysha* distinguished in post-Soviet societies are: criminal *krysha* provided by organised crime, semi-legal (or

‘combined’) *krysha* provided by criminal organisations and public officials working hand in hand, and government *krysha*, involving public officials of various state institutions. Having emerged in the 1990s, *krysha* practices remain a characteristic feature of the business culture in post-Soviet countries. Despite the efforts of post-Soviet governments to tackle these informal practices, foreign investors have continuously raised concerns about the troublesome reputation these states have when it comes to anti-competitive behaviour, extortion and bribery.

## Creating façades (partial compliance with the rules by visible camouflage)

### 6.24 *Window dressing* (general)

David Leung

Coventry University, UK

‘Window dressing’ describes a pretence or a façade, a showy misrepresentation of an idea or policy in an attempt to disguise an undesirable reality. The term is derived from the retail sector, where it means decorating a shop window with goods and trimmings in order to attract customers. In the financial sector, it denotes the deliberately misleading manipulation of a company’s income statement and balance sheet in order to create a falsely attractive image and thereby conceal poor performance or monetary losses; it may also refer to an excessively negative presentation of such figures. In the financial context, ‘window dressing’ is synonymous with ‘cooking the books’, ‘creative accounting’, ‘Enronomics’ (a reference to the accounting fraud carried out by US energy giant Enron, bankrupted in 2001), and the more euphemistic ‘earnings management’, which is used by accounting regulators and the academic community.

There are many reasons why companies engage in ‘window dressing’. Manipulating earnings upwards may help executives to hide poor decisions (such as value-destroying acquisitions), mitigate potential breaches of debt covenants (such as interest cover), meet analysts’ forecasts and boost share prices as a way of attracting investors. Managing earnings downwards may on the other hand help companies to secure government subsidies or relief, avoid or evade taxation, and pre-empt regulatory interference (such as anti-trust regulation). Meanwhile all these forms of manipulation can, of course, help to boost managers’ remuneration.

Window dressing is accordingly a global phenomenon that pervades all types of organisations, large and small, public and private, national and multinational. Even states and governments have been

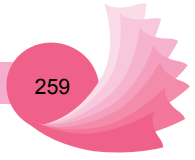


accused of dressing up, for example, their gross domestic product and unemployment rate statistics. Window dressing is widely reported in the international media, especially its most extreme form – accounting fraud (see, for example, the cases relating not only to Enron but also to Polly Peck, WorldCom, Tyco, Parmalat, American International Group, Satyam, Olympus and Tesco). Comparable cases in academia have included fraudulent statistical studies (Burgstahler and Dichev 1997) and case-study ethnographies (Leung 2011). ‘Creative accounting’ has also entered popular culture, for example, in Mel Brooks’ satirical film *The Producers* (1967) and its Broadway musical version (2001).

From the legal perspective, window dressing is an ambiguous concept. While it is widely considered to be unethical – since it involves an element of deception – window dressing is not necessarily illegal. Accountants are expected to follow the spirit as well as the letter of the law and to observe the economic substance of a transaction rather than its legal form (ASB 1994). However, there is a jurisdictional contest between accountants and lawyers that undermines the authority of accounting standards (Pong 1999). There are also ‘finitist’ and interpretation problems in the application of accounting rules (Hatherly et al. 2008; MacKenzie 2008; Leung 2011). The debate about arguably the most important UK accounting term, ‘true and fair view’, is a case in point. Legislation and official accounting and auditing pronouncements require financial statements to give a ‘true and fair view’ of the state of affairs of a company. Yet there is no formal definition of the term and no universal agreement as to its meaning. In practice, the term is merely the *opinion* of a group of purported experts, the auditors. It is moreover generally acknowledged that there is more than one true and fair view that faithfully reflects a company’s position.

So how does one cook the books? Depending on one’s motive (to increase or decrease earnings and to hide debt), the practice involves overstating or understating the key elements of the financial statements: revenue, expenses, assets and liabilities. Examples of techniques that overstate revenue include recognising income early, before the product is delivered to the customer (treating sales orders as completed sales); ‘channel stuffing’ or ‘trade loading’, where excess products are dumped onto a distributor to inflate sales; and ‘round tripping’, where the same amounts of sales and cost of sales are recognised, for instance, from the reciprocal sales of identical assets between two companies.

There are myriad ways to manipulate expenses, such as changing the depreciation method (from reducing balance to straight line, extending the useful economic life of assets), using ‘cookie jars’ and ‘big baths’,



which involves making unrealistically large charges in the current period in order to decrease expenses in later periods, not writing down assets that have declined in value (such as obsolete inventories, damaged goodwill, bad debts) and capitalising expenses (such as classifying scientific research as assets rather than as expenses).

To remove debt or liabilities from the balance sheet – and thereby improve a company’s risk profile or creditworthiness – various ‘off-balance sheet’ tricks are employed. These include the sale and leaseback of assets, where finance leases are dubiously classified as operating leases, and the use of ‘special purpose entities’. In the latter case, various types of entities such as partnerships, joint ventures and trusts are excluded from the balance sheet because of their ‘materiality’, that is, their insignificant impact on investors (IASB 2010).

These techniques are well known, yet little has been done about them. In the UK, regulators and the accounting profession have revised the corporate governance and ethics codes, issued reporting standards that focus on the economic substance of transactions (ASB 1994, 2003) and consulted widely on the quality of auditing practice (APB 2001, 2010, 2012). In response to the Enron, WorldCom and other accounting frauds, US regulators created the Sarbanes-Oxley Act of 2002, which imposed stricter requirements on auditors and senior executives as regards the accuracy and completeness of financial reports.

As the 2008 banking crisis showed, however, such regulatory measures have had little or no impact on window dressing. As Arthur Levitt (1998) observed during his tenure as Chairman of the US Securities and Exchange Commission, the culture of the financial community and the structure of the capitalist system seem to *demand* that all listed corporations engage in earnings management. Participants in this market play a self-serving game of ‘nods and winks’: as used-car dealers spin stories to sell vehicles, corporate accountants concoct ‘bullshit’ to satisfy the needs of investors and analysts (Macintosh 2006, 2009) while auditors, who have long deserted their duties (House of Lords 2011), continue to be ‘lick-arses’ for corporate management (Sikka 2009).

### 6.25 ***Pripiski*** (Russia)

Mark Harrison

University of Warwick, UK

*Pripiski* (‘add-ons’) is a Russian word denoting plan fraud – a form of accounting fraud that was specific to command economies under communist rule. Accounting fraud is found in all economic systems that separate

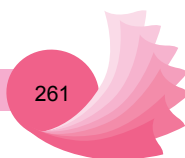
the ownership of business assets from their management, so that managers must report performance to the owner or to superior officers. By falsely overstating performance, the manager is able to extract a benefit from the enterprise – directly, through a performance-based incentive, or indirectly, by creating a cover for some other criminal activity. The victim of accounting fraud is the owner or shareholder, whose true residual income from the enterprise is less than reported in the accounts. Because the fraud is not victimless, there is generally someone who has an incentive to expose it.

In communist command economies, accounting fraud had specific features. First of these was the form of the fraud. Under the command system, managers' performance was evaluated by the degree of fulfilment of a plan, which specified the quota of output to be delivered to the state. Plan fraud involved falsely claiming fulfilment of the quota, and *pripiski* denoted the non-existent output 'added on' to true output to make up the false claim. By overstating performance, the manager could obtain promotion, or a bonus, or reduced oversight. Such gains were generally shared with others: the management team, and sometimes the entire workforce, would enjoy public recognition or private rewards.

Plan fraud came to light if a victim or someone with inside knowledge blew the whistle. In principle the enterprise was state-owned, so the state was the legal victim, but this does not tell us who suffered directly. Suppose the plan required 100 tons of steel. When the enterprise claimed to have produced 100 tons, but delivered only 70, the immediate victim was the state purchaser, now short of 30 for use or further distribution. Downstream were more victims: the steel-users that would be short of steel and who therefore shared an incentive to expose the crime.

This indicates another feature of plan fraud: it relied on informal networks. A strong network based on mutual obligation and collective responsibility (see *krugovaia poruka*, 3.10 Volume 1) was needed to co-opt victims and silence whistle-blowers. Such networks were easily formed. Inside the enterprise, colleagues and subordinates stood to gain from the manager's deception. Ministerial superiors could also share the credit. Outside the enterprise were the victims, who would suffer losses. Therefore, the victims also had to be brought into the venture because, if left outside, they might expose it.

During the communist period, evidence on plan fraud was anecdotal, based on press reports and the recorded impressions of emigrants. The Soviet press offered selective reporting of particular cases. Expert evaluation suggested that this was the tip of an iceberg (Berliner 1957;



Nove 1957; Grossman 1960; Shenfield 1983; Shenfield and Hanson 1986; Linz 1988; Gregory 1990). Beneath the waterline lay undetected (but probably minor) offending on a wide scale.

Since then, more evidence has come from former Soviet archives (Harrison 2011; Harrison and Markevich 2015). The core evidence comprises records of 59 trials involving 163 defendants convicted on charges of plan fraud between 1943 and 1947, and 88 Communist Party investigations of 454 party members involving proven cases of plan fraud between 1943 and 1962. The archival records differ from Soviet-era press reports in that they are uncensored: they were selected as typical, for the information of Party leaders, whereas press reports were limited to what was thought suitable for public education.

Archival documents reveal a range of offenders. The most organised fraudsters systematically hid poor results to show loyalty, win reputation, and obtain bonus payments. Some managers did the same in order to be left alone while they carried out other crimes, for example, embezzlement or asset-stripping. In a third category were managers promoted above their capability, whose work was so chaotic that they were unable to do anything without breaking rules. These engaged in plan fraud to postpone the discovery of their other shortcomings.

The more common methods of plan fraud may be ranked in order of increasing risk of exposure. The safest method was to meet the plan by running down inventories, keeping the planner in ignorance. This was the only method that did not require the collusion of outsiders. Typically it came to light only when the plan fraud was used to cover crimes such as asset-stripping that others with inside knowledge found to be too risky.

Next was reporting work in progress as finished output. This stratagem required the collusion of the buyer, who had to sign for products not yet delivered. In effect the buyer 'loaned' the missing products to the seller, trusting the latter to make the arrears up in the next period. The buyer's incentive was usually the need to keep the seller's goodwill, backed by the seller's implicit threat to treat the buyer even worse in future. Such threats and promises could work for a while, but fell apart if arrears accumulated, so that downstream plans were threatened. Another scam, widely practised in industry, construction and agriculture, was 'quality shading'. The seller met the quota, but with products made from inferior materials or to inferior standards. Here the buyer's cooperation was based on their inability to prove a deficiency or, again, fear of yet worse treatment in future.

The largest frauds took place in agriculture, where local party organisations shared farmers' incentives to report success. When

harvests fell short, everyone in the local administration was under pressure to hide the shortfall ‘for the good of the cause’. To make up the quota, farms sold crops that were allegedly standing in the field to state distributors based on a promise to deliver the harvest later in the year. When the harvest failed, they would quietly buy the missing produce back. They also sold produce to the state, then bought it back and sold it to the state again; on occasion they recycled produce that they bought back from their own members. In this way, farms, distribution agencies and retail stores could count the same grain and butter against the plan several times over. Such scams were particularly risky because, when the harvest failed across a region, many agencies were trying to do the same thing in competition with each other, making concealment more difficult.

Economists seeking to measure the real growth of command economies were interested in whether the incidence of plan fraud varied over time. Optimistically, Alec Nove (1956) proposed a law of ‘equal cheating’: if fraud was equal over time, measures of real year-on-year growth would be unaffected. Stephen Shenfield (1983) took a gloomier view, suggesting that fraud was likely to rise and fall with plan tension. On the archival evidence, Shenfield was on the right track. The distribution of party investigations from 1943 to 1962 (the only continuous period for which we have data) shows several waves. A positive correlation between the annual value of cheating and the number of reported offences suggests that the waves were caused by variations in the level of crime, not of policing. On that basis, the extent of plan fraud rose and fell from year to year, making it harder to trust reports of the annual change in output of command economies.

### 6.26 *Kupona* (Kosovo)

Arianit Tolaj  
UCL, UK

*Kupona* is a system of tax evasion found in Kosovo and refers to the practice of commercial businesses not registering transactions or printing receipts in order to avoid paying value-added tax (VAT). It is distinct from fraud as it is a consequence of ‘protection racketeering’, which is endemic in Kosovo, allegedly perpetrated by former guerrilla fighters and warlords of the Kosovo War (1998–9) who have now established themselves as the country’s political elite. *Kupona* is a practice that allows commercial businesses to generate enough revenue to survive, classifying it as a functional form of ambivalence. The word *kupona* is derived from the

singular *kuponi fiskal*, the Albanian word for ‘receipt’, which literally translates as ‘fiscal coupon’. However, the term is mostly associated with the informal practice.

The practice of *kupona* seems to be prevalent in the new states emerging from the dissolution of Yugoslavia, in part resulting from their inefficient bureaucracies. It is therefore likely that there are, or previously were, similar practices throughout the countries of the former Yugoslavia exacerbated by their recent statehood. Other analogous practices can be found in the Far East as indicated by the countermeasures employed there, and include the practices of ‘*fapiao*’ in China and the ‘*Uniform Invoice Lottery*’ in Taiwan (Wan 2010). In the Taiwanese case, in order to prevent this specific form of tax evasion, the state prints lottery numbers for the state lottery on receipts, thus effectively transforming the receipt into a lottery ticket. This has the desired effect of increasing the likelihood of a customer not only requesting a receipt, but also retaining it.

According to the typologies of formal–informal institutional interactions (Helmke and Levitsky 2004), the *kupona* practice can be considered as a competing practice, although not an institution in itself. *Kupona* is competing against the formal institutions of the state, specifically the tax authorities, in trying to ensure that the businesses retain as much of the income they generate as possible, which in turn then enables them to cover the hidden cost of ‘protection racketeering’. The development of such informality can be traced to the current economic situation of Kosovo and its development in the immediate post-war period (1999–2008). In terms of its economy, the Province of Kosovo was the poorest province of Yugoslavia because of its lack of significant natural resources. It was therefore heavily reliant upon Yugoslav federal subsidies. The dissolution of Yugoslavia brought an end to the subsidies and the ensuing war destroyed most of the pre-existing industry, of which there was little. With a lack of natural resources, it was inevitable that the economy would be driven primarily by small commercial businesses. As a result of the development of the commercial services sector as the primary business, it was natural for illegal activities and practices to develop alongside and within them. It is estimated that \$200 million per year (Phillips 2010: 8) is generated through such practices, much of it through ‘protection racketeering’.

The illegal practice of racketeering remains one of the primary factors influencing the economy, fuelling practices such as *kupona* as a necessary reaction. Although establishing and conducting business in Kosovo is already difficult due to the high levels of corruption,

'protection racketeering' presents an additional 'hidden' cost to the business process. Furthermore, Kosovo remains one of the poorest countries in Europe with an average gross national income (GNI) per capita of \$3,990 as of 2014 (World Bank 2014). Youth (18–24) unemployment is very high at 61 per cent, with an overall unemployment rate standing at 35 per cent. Those in employment report an average net salary between €300 to €400 a month (Agjencia e Statistikave të Kosovës 2015). Given these statistics, it is unlikely that the running of a commercial business can be considered a very profitable venture, a fact that is irrelevant to the protection racketeers.

The practice of *kupona* was devised in order to cover the hidden cost of business demanded by the 'protection racket'; this distinction separates it from ordinary fraud and classifies it as a functional practice. The practice is a way of generating additional profit that otherwise would prove impossible for a business that is unable to sustain itself financially through commercial demands alone. As it is a case of tax evasion, *kupona* is similar in nature to traditional tax evasion schemes (Iakovlev 1999), which require certain criteria to be fulfilled. The common features are that: (1) the transaction is completed in cash (currency); (2) traditional tax evasion is common for self-employed people or small, non-corporate businesses; (3) part of the operation of the business with customers is illegal; (4) tax evasion is strongly linked to underreporting total revenue in order to conceal the profits of the business before tax; and (5) all transactions are real (Iakovlev 1999: 6).

While Kosovo has a high number of credit and debit card users, the majority of transactions are still cash-based due to the limited adoption of point-of-sale terminals necessary to process credit and debit card transactions. This is especially marked in the services sector of the economy, which is mainly comprised of small, non-corporate businesses. In 2015, the overall value of all transactions in Kosovo amounted to €3.6 billion, of which only €18 million were through card transactions; the rest consisted of payments in cash (Central Bank of the Republic of Kosovo 2016). This allows a widespread informal economy to exist in the country, containing within it a large number of different informal practices, including that of *kupona*. As of 2014, the informal economy is estimated to represent 30 to 35 per cent of the country's \$7.8 billion gross domestic product (GDP) – this amounts to a total of approximately \$2.5 billion (European Commission 2014).

Currently, VAT represents 49 per cent of Kosovo's tax revenue (European Commission 2014), making it one of the primary sources of



income for the government. It can be assumed (although it is in no way corroborated), that VAT evasion generates the majority of the estimated wealth of the informal economy through practices like *kupona*. It is likely that such practices make up a large percentage of the informal economy. Not only do black market transactions form a large part of the informal economy, but also the simplicity of the practice makes it widespread and functional in a struggling economy.

Non-cash transactions are generally immune to the basic versions of tax evasion, such as the *kupona* practice, because the records created by the transactions are kept by third parties. Tax evasion on cash transactions, on the other hand, is elusive, especially in cases where indirect taxation is involved and in instances where tax is collected by the business, such as VAT. For the government to collect indirect taxes themselves and in essence transform them into direct taxes would require access to all transaction records, which would be costly in terms of implementation, as well as in terms of control and general supervision (Wan 2010). Given the unlikelihood of such a system being adopted, asymmetrical information in regards to indirect taxes will always exist between the governmental tax authorities and businesses, with the asymmetry favouring the latter.

The current monitoring system for indirect tax collection is through random tax inspections at the place of business. As a result of these random tax inspections, the *kupona* practice has shown certain flexibilities in its application that allow successful evasion of these formal inquiries. During the tax inspectors' normal working hours in the day, when activity in commercial businesses such as restaurants or cafés is usually slow, it is more difficult for businesses to avoid invoicing transactions or printing receipts. In order to circumvent this obstacle, transactions are invoiced and given a receipt, but show only one item on an order containing multiple goods. During peak hours of business, the sheer number of customers and orders provide the business with enough cover to avoid the need to resort to subtle deception. Furthermore, the night hours when business is at its peak in restaurants and cafés are outside the working hours of the tax inspectors.

The implications of the *kupona* practice and its effect on society is evident by its development as a functional form of ambivalence and a survival practice. It is a product of the economic environment of a country facing a growing trade imbalance, high unemployment and a low average wage – factors exacerbated by the corruption from the informal economy that permeates throughout the state structure.

## 6.27 *Alga aploksnē* (Latvia)

Klāvs Sedlenieks

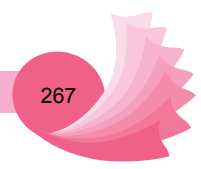
Riga Stradins University, Latvia

The Latvian terms *alga aploksnē* ('salary in an envelope') and *aploksņu alga* ('envelope wage') refer to an undeclared part of a regular wage, concealed to allow the employer to evade a proportion of compulsory labour and social security taxes. The term derives from the widespread practice of handing over such salaries in envelopes, rather than by bank transfer or in an open, over-the-counter manner. This practice can be seen as part of a wider family of practices whereby the income of an employee or contractor is completely or partly concealed from the authorities (for instance, moonlighting, tips in service industries or outright illegal employment – see Fudge et al. 2012 for a detailed description of varied informal work practices).

*Alga aploksnē* refers mostly to the regular but officially unrecorded payments of salary that is paid alongside official payments. Part of the salary is indicated in the employment contract, signed for and officially reported. The other part of the salary does not feature in official books, is paid unofficially and concealed from tax authorities. The ratio of the officially declared wage versus the *alga aploksnē* is estimated to be 50 per cent in Latvia (Williams 2013: 331). The official part of the salary is often levelled down to the minimum wage that is required by law (360 EUR per month in 2015). The money is paid by the official employer, thus making it different from various tipping arrangements (e.g. in bars or hotels, see O'Connor 1971) and illegal private entrepreneurship where the money is paid directly by the customer and on an irregular basis (e.g. 'cash in hand' in the UK (see 6.1 in this volume) and various other countries).

Both the employer and employees often perceive *alga aploksnē* as mutually beneficial. The employer has the opportunity to attract workforce at less expense, while employees receive more cash immediately and directly, rather than through benefits redistributed by the state. The difference between the formally and informally paid salary is normally discussed in job negotiations, so it is clear what will be received 'on paper' and what 'in hand' (*uz rokas*).

Using the system of *alga aploksnē* does also incur drawbacks for both employer and employee. In addition to the legal consequences, the employer needs to maintain a constant supply of ready cash that is not accounted for in the official books. This requires careful manipulation of the electronic cash register and/or dealing with criminals who provide services of small-scale money laundering for a fee. For the employee *alga*



*aploksnē* means significantly reduced social benefits, such as job security and pensions.

A survey by Putniņš and Sauka concludes that in the period 2009–14 the percentage of underreported salaries in the Baltic states fluctuated from 35.5 (in Latvia, 2010) to as low as 12.2 (in Lithuania, 2014). In Latvia and Lithuania the underreported part amounts to 11–30 per cent of the total salary while in Estonia the most frequently used proportion falls within the interval of 1–10 per cent. Only just over 10 per cent of the surveyed company representatives in Estonia and Latvia and 24 per cent in Lithuania declare that they pay all social taxes as required by law (Putniņš and Sauka 2015: 16).

The *alga aploksnē* payments in Latvia are so omnipresent and socially acceptable that credit institutions are reported to have accepted declarations of informal income as proof of the creditworthiness of clients. Allegedly such banking practices were widespread before the economic crisis of 2008 and credits issued on the basis of such information contributed to the economic meltdown. Banks supposedly learnt their lesson and stopped the practice, but one case was reported as late as 2015 (LETA 2015), though the bank officially denied the practice. The practice of *alga aploksnē* is only a semi-open secret when it comes to identifying concrete employers who use it. As a social practice, though, it is widely acknowledged by the public, representatives of government and non-governmental organisations, in particular when tax policies are discussed.

Practices similar to *alga aploksnē* can be observed elsewhere in the world. ‘Envelope wages’ are well-researched in the European Union (Woolfson 2007; Williams 2008, 2009a, 2009b, 2013). A 2007 Eurobarometer survey indicates that envelope wages can be found throughout the European Union (EU); however, the practice is most widespread in countries of Central and Eastern Europe and least widespread in Scandinavia. While in Central and Eastern Europe 10 per cent of employees have received a wage in an envelope, it is only 4 per cent in Southern Europe and 2 per cent in Western Europe and Nordic countries (Williams 2013: 330). About 50 per cent of all envelope wage payments in the EU happen in five countries: Bulgaria, Latvia, Lithuania Poland, Romania (Williams 2013: 330). Moreover it is possible that Western European and Nordic respondents by envelope wages understood income that they earned for doing an irregular, part-time job (in contrast to East Europeans for whom it is a part of a regular job arrangement).

All neighbouring countries of Latvia have terms and practices that are virtually identical to Latvian *alga aploksnē*: Estonia (*ūmbrikupalgad*),

Lithuania (*alga vokeliuose*), Russia (*zarplata v konverte*), Belarus (*zarplata ū kanvertse*). Similar terms also exist in Ukraine (*zarplata v konverti*), Moldova and Romania (*salariu într-un plic*) and Bulgaria (*pari v plik*). All of these terms literally mean ‘salary in an envelope’, and refer specifically to the arrangement of concealing a given part of the regular salary (as opposed to undeclared earnings in general). Other societies may have similar practices but lack a particular term (see *rad na crno*, 5.24 in this volume). However, it seems that neither the term nor the practice goes beyond the area of post-socialist countries in Central and Eastern Europe (CEE) and Russia.

*Alga aploksnē* is a phenomenon that only developed after the dismantling of the Soviet economic system. During the Soviet period either all salary was paid according to the books or the employment was off the record altogether (hence the term ‘second economy’, see for example Grossman 1985/1992). Thus *alga aploksnē* has no direct precedent in the Soviet heritage. Woolfson (2007: 552), speaking of salaries in an envelope argues that the ‘informalization in the post-communist transition period ... derives less from the legacy of Soviet times than from the predatory nature of the neo-liberal capitalism’. Fudge (2012) similarly argues that the recent proliferation of informal work practices in all kinds of societies is due to globalisation and deregulation stemming from neo-liberal policies. Contesting the view that traces the roots of informality to features of Soviet citizenship, Sedlenieks (2013) and Mühlfried (2014) argue that the tendency of citizens to treat rules lightly and avoid regulations is not a result of Soviet heritage but an adaptation of citizens to the instability of state policies over a much longer period. The aforementioned Eurobarometer survey indicates that in Western Europe and Nordic countries envelope wages are paid almost exclusively for jobs performed outside one’s regular employment, similar to what used to be the case in Central and East European countries during the socialist period, while currently *alga aploksnē* and similar practices in CEE are part of the regular employment.

According to quantitative comparative research, the spread of envelope wages negatively correlates with the level of regulation. Testing the hypothesis of correlation with over-regulation/under-regulation, Colin Williams finds that the practice is least widespread in countries with strong welfare systems and effective redistribution of wealth, whereas in countries that have a more neoliberal orientation with less state intervention in the labour market and weaker redistribution, envelope wages are more prevalent (Williams 2013: 325). The qualitative evidence suggests that motivation to participate in the system of *alga aploksnē*

is linked (apart from monetary gains) to the lack of trust in state social security systems and the perception that tax money is often wasted by corrupt officials and politicians (Sedlenieks 2003: 45). Accordingly, *alga aploksnē* and related practices become rationalised and reproduced at the expense of paying taxes to an unreliable state.

### 6.28 **Vzaimozachety** (Russia)

Caroline Dufy

Centre Emile Durkheim, Sciences Po Bordeaux, and Centre national de la recherche scientifique (CNRS), France

*Vzaimnyi zchet* (also known as *vzaimozachety*, *zachetnaya skhema* and *zchet vzaimnykh trebovanii*) is a Russian term meaning ‘bilateral exchange in kind’. When used in the plural (*vzaimnye zachety*), it refers to a specific type of inter-firm exchange, whereby a commodity transferred to a partner is paid for by non-monetary means. In this sense, *vzaimnye zachety* are part of a wider concept of transactions-in-kind described in Russian as *barter*, which in turn is derived from the English ‘barter’, meaning the exchange of goods or services for other goods or services without the use of money.

Non-monetary transactions are commonplace in international trade. Under the Soviet economic system, such transactions enabled socialist states such as the Soviet Union, which lacked access to foreign-currency reserves, to pay for imported goods. Trade between the member-states of the Soviet-led Council for Mutual Economic Assistance (COMECON), for example, was mostly handled through countertrade or bilateral clearing agreements. For instance, the German Democratic Republic supplied the USSR with machinery and in exchange the USSR supplied it with oil.

Following the collapse of the USSR, *vzaimnye zachety* came in the 1990s to be seen by Russian economists as a specific feature of domestic barter in the context of a dire financial and monetary crisis during which money surrogates and inter-enterprise arrears were widespread (Yakovlev 1999). Massive arrears in wages, pensions and welfare benefits paralysed the economy at every level. Demonetisation and the disrupted role of money as a universal means of exchange made *vzaimnye zachety* an alternative means of enabling goods to circulate in the economy (Marin 2002).

While *vzaimnye zachety* took many different forms, two major types may be identified. The first denoted successive bilateral exchanges, whereby one original entity exchanged goods or money surrogates in

successive bilateral transactions with several partners until the desired commodity was attained. This strategy allowed holders of low-value goods, who were excluded from the hard-money circuit, to distribute and sell their goods on alternative circuits, using non-monetary means of exchange (Yakovlev 2000). The second denoted a complex chain of exchanges, mixing commodity transfers and debt schemes, whereby party A transferred a commodity to party B, who thereby became indebted to party A. The commodity was then transferred to party C, who in turn became indebted to party B, and so on. The chain might involve five, six or even more parties in debt and delayed payment chains (Ledeneva and Seabright 2000). While the first type described above referred to demonetisation, the second often involved tax evasion and the bypassing of legal regulations. In the illegal and criminal transactions described by many experts as Russia's 'virtual economy' (Gaddy and Ickes 1998; Tompson 1999; Woodruff 1999a), intermediate firms were often artificially bankrupted; this meant that, while the original supplier went unpaid, the final recipient took possession of a commodity that had no owner needing to be paid for it.

High negative moral value was accordingly attributed to *vzaimnye zachety* by economists, officials and experts from international economic and financial organisations – such as the International Monetary Fund, the World Bank and the European Bank for Reconstruction and Development – which monitored the transition of the former socialist countries to a market-based economy. In his annual address to the Russian parliament in 1998, President Boris Yeltsin declared that 'The Russian market is still cluttered with barter. It is in the stranglehold of mutual debt defaults; enterprises live on debt and have no intention of repaying their debts ... This practice cannot be continued. It is useless and dangerous to try to cheat the economy' (Yeltsin 1998).

*Vzaimnye zachety* have been criticised by economists and officials on several grounds. The first concerns the discrepancy between barter and economic norms in modern capitalism, while the second relates to a loophole in the legal conditions of exchange. Anthropologists have also noted the phenomenon of 'shadow barter', that is, the close association between the ingenuous schemes of barter exchanges justified by economic necessity and the illegal workings of the shadow economy (Ledeneva 2000). The dramatic rise of the practice of barter in Russia in the 1990s surprised Russian observers as well as many experts from international organisations (Commander and Mumssen 1998; Commander et al. 2000). Up until then, the socialist economy had entailed fixed prices that generated shortages, informal exchanges and a lack of competitiveness. In 1991,

when Russia began its transition to a market economy, prices started fluctuating, thereby reflecting the volatile desirability of goods. Pro-market advocates see the monetisation of transactions in the economy as encouraging efficiency, favouring the emergence of interest-based behaviour and, more generally, paving the way for further structural changes. This was not, however, the case in Russia. Far from declining as expected in the new market conditions, the share of barter in commodity exchanges grew dramatically. In 1993, barter was estimated to account for a mere 9 per cent of the volume of industrial sales in Russia. Within three years, however, its share nearly quadrupled, reaching 35 per cent in 1996, 42 per cent in 1997 and 51 per cent in 1998 (Aukutsionek 2001; Russian Economic Barometer 2001).

The financial crisis of August 1998, the sharp devaluation of the rouble and Russia's default on its external debt led however to a dramatic drop in barter, which in 2001 and 2002 fell to a low of 16 per cent of industrial sales (Russian Economic Barometer 2003). Following the 1998 crisis, the Russian government tasked the State Statistics Committee with measuring the various means of transaction used by businesses. Their findings revealed a steady decline in barter. In 1999, 47.4 per cent of all transactions were based on non-monetary means of payment, 24.5 per cent of which were *vzaimnye zachety*. In 2000, barter accounted for only 30.2 per cent of all transactions, 15.5 per cent of which were *vzaimnye zachety*. The massive devaluation of the rouble in 1998 had reduced arrears in the economy and remonetised transactions. Russia's competitiveness increased, easing exports and reducing the flow of imports. In the 2000s, a process of legislation and accounting regulation effectively banned barter in Russia, leaving only bilateral exchanges in kind (Efimova 1997; Dufy 2011).

Classic economic anthropology highlights the moral value of transactions (Parry and Bloch 1989; Humphrey and Hugh-Jones 1992). This provides a basis with which to explain the negative appraisal in relation to the norms and models implemented by society. The British economist William Stanley Jevons defined barter as a situation requiring a 'double coincidence of wants' (Jevons 1875). In support of his argument, multiple testimonies collected in fieldwork in Russia in the early 2000s depicted barter as a less than optimal situation, requiring additional work to negotiate which commodities were to be accepted as means of payment. Furthermore, barter generated an imbalance between parties, uncertainty as to the quality of the goods received, and confusion over the return deadline (Dufy 2008). As shown by the history of the rise and fall of *vzaimnye zachety*, the definition of transactions is at the heart of



economic and social design. For, as the cornerstones are being laid in the burgeoning market, these definitions make a clear-cut distinction between those types of transactions that are considered desirable, and those that are not.

### 6.29 *Otkat* (Russia)

Alexandra Vasileva

University of Amsterdam, Netherlands

*Otkat* is a colloquial term used to describe a form of corruption in Russia. It literally means ‘rolling back’ and is the equivalent of the English term ‘kickback’. *Otkat* is the diversion of part of the money allocated for a purchase to the person responsible for the purchase, for example, to an employee of a state administration or a company. As the result of collusion between a person in charge of a purchase and a supplier, *otkat* implies embezzlement and results in the overpricing of goods and services. *Otkat* emerged as a practice in the 1990s following the collapse of the Soviet Union, and proliferated in Russia during the 2000s as the state’s role in the economy expanded, resulting in the creation of state corporations. The practice grew further as a result of the general economic upturn and the respective increase in resources associated with the oil boom.

*Otkat* is widely used in public procurement: the state allows itself to be overcharged, and the bureaucrats responsible for the purchase pocket the difference between the actual price and the stated price. As a result, part of the public funds gets diverted for private gain. According to the Russian law on public procurement, state purchases must be conducted via transparent competitive tenders according to the principle of obtaining the ‘best quality for the lowest price’. However, in reality, numerous techniques are employed to evade the procedure, thus undermining honest competition and allowing the practice of *otkat* to flourish. During the tender process a company affiliated to the bureaucrat often makes the winning bid. In 2013, the Russian Court of Auditors concluded that 70 per cent of the largest tenders were awarded without any competitive process (Zamakhina 2013). Moreover, *otkat* is a widespread practice in the procurement procedures of big state-owned conglomerates and by monopolies. Similarly, the suppliers of goods and services involved in the kickback schemes may be affiliated to the conglomerate and, in some instances, have been identified as its (shell) subsidiary, opaque in terms of ownership and registration.

As a result of an *otkat* scheme, the resources of the state or a state-owned company get embezzled: the contractor returns a certain percentage of the deal to the client – in most cases, in cash. Unaccounted ‘black cash’ is generated through encashment (*obnalichivanie*) – an illicit informal practice that involves bogus companies, often affiliated with banks (Yakovlev 2001: 38f.). For a certain ‘fee’ (around 7 per cent of the total sum) these sham companies generate both the cash and the respective paperwork necessary to cover up the illicit scheme. In some cases, *otkat* takes more sophisticated forms: rather than a straightforward cash payment, money is transferred for imaginary consultancy work or ‘market research’ to a shell company owned by the person responsible for making the order.

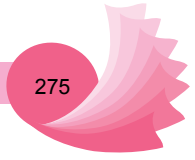
*Otkat* is also widespread in Russian inter-business relations, where it causes a typical agency problem as rank and file managers cheat the company by pocketing some of its resources. For example, managers of purchasing departments buy overpriced goods or services, charging the supplier an illicit ‘commission’. In some sectors, such as corporate insurance, *otkat* is widely used to make corporate clients pay higher premiums than the market price (Grigorieva 2007). As a rule, *otkat* is negotiated clandestinely between the representatives of the two firms in advance and paid as a ‘gratitude fee’ by the contractor to the person representing the purchasing company. Vague language is used during *otkat* negotiations (the Russian internet in fact is full of ‘instructions’ for using the practice): an *otkat*-giver might suggest ‘being ready to make concessions’, ‘making a very good offer’, ‘giving you a personal discount’ or ‘paying particular attention to your needs, whereby “you” is deliberately used ambiguously to refer both to the company and to the person in charge’ (Lonkila 2011: 66f.).

Along with other forms of corruption, *otkat* is openly acknowledged as a problem by the Russian leadership. For example, in his 2010 annual address, President Medvedev condemned the embezzlement of state funds, including the practice of *otkat*, and estimated losses at 1 trillion roubles annually, which corresponds to about 15 per cent of state purchases (Medvedev 2010). Similarly, President Putin regularly declares the fight against corruption a priority, and has acknowledged that *otkat*, as a percentage of contract volume, reached 50 per cent of public procurement contracts (NTV 2013). *Otkat* is also a widely discussed topic in the Russian media, deemed to negatively affect both business and public procurement. Using the Integrum database, Markku Lonkila examined the frequency of the term ‘*otkat*’ in printed media in Russia since the early 1990s. It was found that the term became more commonly used during

the 2000s (Lonkila 2011: 68). On the Internet, websites and blogs dedicated to the techniques, advantages and disadvantages of *otkat* schemes abound. The term *otkat* sometimes seems to be used in a broader sense in these sources, and is often (falsely) used as a synonym for bribe, if the size of the bribe is fixed as a percentage of a deal. However, as a form of corruption, *otkat* differs from bribery. While a bribe represents an illicit money flow to agent A from agent B, *otkat* involves a formal legal payment from a budget overseen by agent A (but not owned by him personally) to agent B, and a subsequent illegal, private repayment of part of that sum back to agent A. Therefore, for example, a payment received by a supermarket manager from a wine supplier for displaying the produce prominently is a bribe rather than an *otkat*. But if the supermarket manager colludes with the supplier of wine and receives in return an informal 'personal bonus' in cash of some 10 per cent of the 'on-paper' purchase sum, the correct name for the informal practice is *otkat*.

Another practice related to *otkat* is *raspil* (literally meaning 'sawing through'), which refers to the theft of budget money through hugely overpriced state purchases, with those in charge of procurement 'sawing off' a cut of the money for themselves and disguising it through creative accounting (Ledeneva 2013: 277). *Raspil* is a broader and simpler concept than *otkat* as it implies only one agent (the bureaucrat who embezzles state funds from a public project), whereas *otkat* necessarily involves two agents working in different organisations.

*Otkat* has several adverse implications for the economy and society. In public procurement, the spread of *otkat* implies private appropriation of public funds: as a result, the total amount expended for public purpose diminishes (Bayley 1966: 725). Interestingly, although business-to-business *otkat* falls under article 204 of the Criminal Code as a 'commercial bribe', the practice of *otkat* in public procurement is not directly specified in the legislation, which makes it hard to prosecute corrupt bureaucrats. Another adverse effect of *otkat* is inflated prices: goods, services and equipment procured with *otkat* become more expensive than they would have been without it. The consumer often ends up paying an excessive price. Examples include increased tariffs for monopoly services, such as electricity, or having to pay inflated prices for wine in a supermarket. Moreover, by defrauding fair competition and promoting businesses affiliated with the bureaucracy, *otkat* disadvantages outsiders, especially smaller firms. The 2005/6 reform of the law on public procurement in Russia required an increase in the share of state purchases to be made from small and medium-sized firms. However, according to surveys by the Higher School of Economics, the reforms have had little



impact (Yakovlev 2009). Finally, *otkat* can result in the provider cutting corners or sacrificing quality in order to finance the *otkat* payment, which in itself can be more costly for society in the long run. For example, in the case of a company using *otkat* to secure a road building contract, lower quality materials may be used, with the result that the road will have to be repaired more often and may even result in accidents.

*Otkat* is typically measured as a percentage of the contract volume. Researching the scope and average size of *otkat* is difficult given the informal nature of the practice; however, several methods may be used. The first method is to establish the use of the practice through a business survey: company managers are asked about the occurrence of kickbacks in their business practice. For example, surveys by the Higher School of Economics show that the share of firms encountering *otkat* increased between 2005 and 2009 from 34 to 40 per cent (Yakovlev 2009). The World Bank's business surveys found that between 2008 and 2011 the average sum of *otkat* increased from 11 to 15 per cent of the contract volume (BEEPS 2013: 7).

Another method used to research the scope of *otkat* in the sphere of public procurement is estimation based on expert opinion, used in conjunction with a comparison of market prices with actual expenditure. For example, the head of the National Anticorruption Committee, Kirill Kabanov, estimates the scope of *otkat* in public procurement at 30–40 per cent of the contract volume, while in particularly non-transparent cases, such as purchases made by the Ministry of Defence, it is estimated to reach at least 60 per cent (Makarov 2011; see Ledeneva 2013: 100f.). According to the late Boris Nemtsov, at least half of the \$51 billion USD cost of the notoriously expensive 2014 Winter Olympic Games in Sochi can be attributed to corruption, and in particular to *otkat* (Nemtsov 2013). Many lucrative contracts for building the Olympic facilities were won by close friends and associates of President Putin: for example, his friend Arkady Rotenberg alone procured construction contracts worth USD7 billion – more than the entire budget of the 2010 Vancouver Olympics (Arkhipov and Meyer 2013).

Finally, in-depth interviews with entrepreneurs may be useful for gaining a better understanding of specific *otkat* schemes and their mechanisms. Interviews conducted by the author with small and medium-sized entrepreneurs in Russia revealed two *otkat* scenarios: some contractors were paid from lavishly inflated public procurement budgets and thus had no difficulty in completing the work while also meeting the requirements of *otkat*; others were forced to cope with budget

cuts and struggled to stay profitable as a result of paying *otkat*. In one instance, a company in St Petersburg won a tender for building a road. The successful bid was for 18 million roubles; however, the state officials responsible for the project offered to pay 28 million roubles, with specific instructions to the company that ‘eight [million] you will bring back – in cash. We are not interested in how you are going to do the “encashment” (*obnalichivanie*), but all the documents need to be waterproof!’ (author interview 2014). Conversely, a Moscow construction company that had been undertaking works for the upper chamber of the Russian Parliament for years reported difficulties in dealing with budget cuts: ‘A new team arrived, new guys, a hungry lot. They summoned all contractors one by one: “Roll back 20 per cent”. They said it in plain text. The budgets are being slashed. But we want to have a profit’ (author interview 2014). Filing a formal complaint was not an option, as it would have resulted in the company being ‘blacklisted’ and being debarred from future bid-making opportunities.

*Otkat* remains an under-researched practice both because of its informal character and due to the involvement of state bureaucracy. However, it has implications for the political economy as a whole: by participating in *otkat* schemes, firms not only need to generate illicit black cash, but they also have to deal with an inevitable mismatch between the actual and ‘on-paper’ transactions, which in turn requires further illicit operations and concealment techniques. Viewed from this perspective, *otkat* deserves more scholarly attention, as its prevalence may be key to understanding the endurance of the shadow economy in Russia and in other emerging economies.

### 6.30 *Potemkin villages* (Russia)

Jessica T. Pisano

New School for Social Research, New York, USA

A Potemkin village is a simulation: a façade meant to fool the viewer into thinking that he or she is seeing the real thing. The concept is used in the Russian-speaking world as well as in English and in other languages. Potemkin village belongs to a genus of phenomena that proliferate in post-Soviet space. Those phenomena describe gaps between external appearances and underlying realities. In the Russian language, the genus includes species such as *pokazukha* (window dressing, see Radio Maiak 2010; Pisano 2014), *imitatsiia* (mimicry – a loan word from English, in contrast to the Russian *podrazhenie*, or imitation), *feik* (doctored news

images or reports), as well as a rich vocabulary describing various sub-species of shell companies: *roga i kopyta* (Ilf and Petrov 1998/1931), *firma-odnodnevka*, *fonar*, *pomoika*, *ezhik* and many others.

Potemkin villages bear a family resemblance to the phantasms of capitalist reproduction that Baudrillard (1985) described as simulacra (Epstein 1995), but they arguably express a different ontological orientation. Some understand Potemkin villages as imaginaries rather than illusions (Clowes 1995; Seifrid 2001). In such interpretations, Potemkin villages are aspirational, rather than deceptive, and they are only meaningful insofar as their referent exists somewhere in the world. In Russia, Seifrid writes, the ‘prolific construction of simulacra’ is ‘not a sham culture suspended over reality’s absence, but one energetically cycling, responding to, and transforming into hard cultural currency the fabricated signs that it appropriates, magpie-like, from abroad – sustained by a hope in the referent’s eventual advent’ (Seifrid 2001: 214).

The original Potemkin villages were said to be eighteenth-century façades constructed by Prince Potemkin to impress Empress Catherine II as she traveled in Crimea following its annexation from the Ottoman Empire. Historians now agree that this legend is likely an exaggeration (Panchenko 1999). But debates about the veracity of the original story crystallise frictions embodied in the concept: Where should the lines be drawn between artifice and embellishment, and between embellishment and mere decoration? Wherein lies the distinction between deception and aspiration? And where artifice is persuasive, how do we know what it is that we are seeing? These questions have become particularly salient during the current period, in which Potemkin villages and related concepts are frequently used to describe political institutions, including electoral practices and elite-led and elite-captured social movements (Wilson 2005; Pisano 2010; Radnitz 2012; Gabowitsch 2015). Increasingly, politicians and others across the political spectrum refer to Potemkin villages, or some variation on the concept, to accuse their opponents of inauthenticity (Grigor’ev 2007; Orbán 2014).

Potemkin villages appear in numerous guises in nineteenth- and twentieth-century literature, as well as in Soviet-era political economy. In the nineteenth-century literary and political imagination, façade and theatrical tropes surface most famously in Gogol’s *Revisor* (1836) and with greatest present-day resonance in *Mertvye dushi* (1842), in which Gogol’s protagonist Chichikov schemes to raise money by purchasing

recently deceased serfs (upon whose head landowners continued to owe taxes) and using their names as collateral. Writing in reaction to liberalisation later in the century, Aksakov (1863) bemoaned the ubiquity of mere appearances. Among the most infamous statements about Potemkin villages are the observations of the Marquis de Custine, who described Russia as an 'empire of catalogues' (1893).

Soviet-era Potemkin villages included performances of economic development: presentations of model farms, factories, schools and other institutions were staples of visits by delegations from Moscow and abroad. In 1988, Mikhail Zadornov published a widely read satirical essay about the practice. Post-Soviet literature likewise contains numerous references to a variety of types of Potemkin village. For example, in the world of Viktor Pelevin's *Omon Ra* (1992), humans dress as game to entertain hunting parties of party elite and millions of political prisoners simultaneously jump up and down in order to simulate tests of nuclear warheads.

The concept plays a central role in *The Post-Soviet Potemkin Village* (Pisano 2008), which analyses the political economy of villages along the present day Russia-Ukraine border. In it, Jessica Pisano drew on long-term field research in rural communities to show how post-Soviet privatisation of land in Russia and Ukraine produced widespread rural dispossession and consolidation of state and corporate control, all concealed by a paper record of rural ownership. In contrast to many other examples, Potemkin villages in the post-Soviet countryside were not entirely intentional charades. Instead, they were produced by a confluence of economic policy choices at the national level and local actors' responses to those choices.

Beyond the Russian-speaking world, variations on Potemkin villages can be found in most contemporary polities and in many vernaculars (e.g. Goffman 1959; Debord 1992/1967). These 'experience near concepts' (Geertz 1985) most often are used to describe political phenomena. In Lusophone Africa and Brazil, people speak of laws that are '*só para inglês ver*' ('just for the English to see'), originally in reference to nineteenth-century pro-forma Portuguese efforts to stamp out the slave trade in the face of British criticism (Penvenne 2000; Ashcroft 2015). In Francophone Africa, Emmanuel Terray (1986) writes of *la véranda* (front) and *le climatiseur* (air-conditioner) (1986). Journalism and scholarly research in and about Latin America has long referred to the 'democratic façade' (*fachada democrática*). And in politics in the United States, 'Astroturf' lobbyists pay PR firms to create campaigns that resemble grassroots political movements (Walker 2014).



### 6.31 **Astroturfing** (USA/UK)

Anna Bailey

UCL, UK

and

Sergei Samoilenko

George Mason University, USA

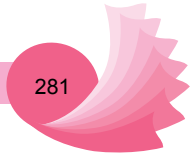
'Astroturfing' refers to the practice of artificially creating the impression of widespread public support for a policy, cause, organisation, individual or product, where little or no support in fact exists. Such practices exist globally, but the term itself predominates in English-language political and media discourse, particularly in the USA and UK. Etymologically, the term derives from AstroTurf, a brand of artificial turf that, when spelt in lower case, is commonly used to refer to artificial grass in general. The metaphorical adaption of the term is commonly attributed to US Senator Lloyd Bentsen, who in 1985 complained about the large volume of letters he received, ostensibly from members of the public, which he viewed as part of a hidden organised campaign by insurance companies to protect their interests. 'A fellow from Texas can tell the difference between grassroots and astroturf', Bentsen stated (Sager 2009). The concept of 'astroturfing' is thus intrinsically bound up with the concepts of 'grassroots support' and 'grassroots activity'. 'Grassroots activity' refers to coordinated political or social activity spontaneously generated and organised from the 'bottom up' by ordinary citizens. The use of the term 'grassroots' in this sense can be traced back to the US Senator Albert Jeremiah Beverege, who in 1912 referred to the Progressive Party as the party that 'has come from the grass roots. It has grown from the soil of people's hard necessities' (Samoilenko 2014: 189). In the case of astroturfing, the connotation is that genuine grassroots support does not exist but has been artificially replicated, just as astroturf replicates real grass.

A typical pre-Internet form of astroturfing was paid-for letter writing campaigns, such as that referred to by Bentsen when he coined the term. Such campaigns were used by corporate clients as a lobbying tool, with the aim of convincing political representatives that their cause enjoyed greater public support than was in fact the case (Lyon and Maxwell 2004: 563–4). However, the growth of Internet use, in particular social media and crowdsourcing platforms, has dramatically increased the range and scope of astroturfing behaviours. The cloak of anonymity makes the Internet a highly effective platform for astroturfing, while the growing importance of online and crowdsourced information provides a powerful incentive for engaging in it.

The core type of deception involved in astroturfing is identity-based deceit – a false representation of the identity of the author or supporter. However, some forms of astroturfing also involve message-based deceit – the delivery of false or misleading information (Zhang et al. 2013: 3). The latter is the case, for example, in fake product reviews and other forms of disinformation. Astroturfing involving message-based deceit is often employed in a corporate context, for example, to generate positive consumer reviews for one's own product or service, or to generate negative reviews for that of a rival. One recent study found that nearly one in five reviews on the business review website Yelp were suspected of being fake (Luca and Zervas 2016). Some major companies use sophisticated personal management software to create entire astroturfing 'armies' of authentic-looking but nevertheless fake social media accounts, which can be deployed as and when needed (Bienkov 2012).

Astroturfing has been the subject of increasing political and media attention in the twenty-first century, as the growth of Internet and social media usage has led to these platforms being exploited by governments and their supporters as tools of information warfare. Some national governments are alleged to employ large armies of hidden paid agents to troll online discussion forums with pro-government views. For example, the Chinese state employs an army of paid online commentators (dubbed the '50-cent army' after the amount they are supposedly paid per post) to spread pro-regime propaganda on online forums (Han 2015). State-sponsored trolling is by no means confined to authoritarian regimes, but is also employed by Western democracies. For example, the United States Central Command (Centcom), which oversees US armed operations in the Middle East and Central Asia, has awarded contracts to companies to develop persona management software that will allow its military personnel to secretly propagate pro-American propaganda on social media sites via fake online personas (Fielding and Cobain 2011).

Another form of astroturfing that has received increased attention in recent years is the phenomenon of 'sock puppeting'. In its literal meaning, a sock puppet is a simple form of puppet made by wearing a sock on one's hand. The gap between fingers and thumb give the impression of a mouth, and the addition of simple details like eyes make the sock resemble a face. In political and media discourse, a 'sock puppet' refers to an organisation that has the façade of independence, but whose existence is in fact dependent on often concealed funding from another source, thus compromising its independence. The term can also refer to an author who uses a fake persona, often online, to positively review or discuss their own work.



Sock puppets typically champion policies that do not enjoy significant public support, but that are favoured by a government ministry or bureaucratic department. The government can then justify the adoption of these policies by claiming that they are responding to external pressure from civil society. This is by no means a new phenomenon: the 1960s and 1970s saw the rise of single-issue health pressure groups in the UK – ostensibly independent but funded by the government – campaigning on such issues as smoking and alcohol (Berridge 2007: 164). For example, the foundation of the anti-tobacco lobby group Action on Smoking and Health (ASH) in 1971 was actively encouraged by the Department of Health, which also provided the bulk of its funding in its first two decades. ASH provided a source of external pressure for policies the Department of Health itself favoured, and in practice they often worked collaboratively (Berridge 2007: 167–77). At the other end of the spectrum, tobacco companies have responded by creating sock puppets of their own to counter-lobby. For example, in 1993 several major tobacco companies funded the foundation of the National Smokers Alliance (NSA), which purported to be a grassroots organisation representing smokers' rights (Givel 2007).

In the UK, the charitable sector as a whole has been criticised for becoming increasingly dependent on state funding, and thus risking turning itself into an entire sector of sock puppets (Snowdon 2012). Sock puppeting has even been criticised from within the state itself. The UK's Department for Communities and Local Government (DCLG) called for other government departments to 'cease funding "sock puppets" and "fake charities"' in order to reduce wasteful government spending. The DCLG stated: 'Many pressure groups – which do not deliver services or help the vulnerable – are now funded by state bodies. In turn, these nominally "independent" groups lobby and call for more state regulation and more state funding' (DCLG 2012: 11).

It is possible that, with the increased trend towards Freedom of Information (FOI) legislation in Western polities, sock puppeting will become increasingly subject to public exposure as covert funding streams are revealed. However, whether exposure alone is sufficient to curb such an entrenched practice is another matter.

Political campaigns in the future will be progressively threatened by online astroturfing in the form of social bots and other imposters posing as autonomous individuals on the Internet, with the intent of promoting a specific agenda. As astroturfing technology develops it is becoming increasingly difficult to distinguish fake personas from real individuals (Bienkov 2012), which poses a threat to open democratic debate as well as the utility of crowdsourcing platforms such as consumer review

websites. There is a very real danger, in both politics and business, that participants will be forced to spend money on astroturfing just to remain competitive with their rivals. In game theory terminology astroturfing is thus a form of non-optimal behaviour known as a ‘prisoner’s dilemma’, since money is sunk on rival disinformation that effectively cancels out both sides. It also represents a ‘social loss’ (Simmons 2011: 187–8), as resources are spent on non-productive uses rather than those that generate wealth or add value.

### 6.32 ***Dzhinsa*** (Russia)

Françoise Daucé

Centre d’étude des mondes russe, caucasien et centre-européen  
Ecole des Hautes Etudes en Sciences Sociales, Paris, France

*Dzhinsa* (derived from the English word ‘jeans’) is a term used in Russian journalistic jargon to refer to paid-for material presented in the media as ordinary news. It is a form of ‘hidden advertising’, a practice that is both cheaper for advertisers and lucrative for journalists. According to Irina Petrovskaya, a television journalist in Moscow, this term was first used in the 1990s when a firm selling jeans in Moscow asked journalists from the television station *Pervyi Kanal* (‘First Channel’) to promote its activities. It paid the journalists ‘in kind’ with jeans. This kind of practice has been known as *dzhinsa* ever since (Petrovskaya 2005).

The term is widespread in journalists’ milieu in Russia – as shown by the numerous press articles on the practice – but the term is not widely recognised by the general public. The term is also used in other former Soviet republics, for example, by Ukrainian journalists (Iwanski 2012). The verbal form *dzhinsit*’ expresses the act of receiving money for the publication of paid materials in the media. It is one of a range of informal practices known collectively as *chernyi piar* (literally ‘black PR’) or *chernukha*, which developed after the fall of the Soviet Union (Ledeneva 2006; see *chernukha*, 8.5 in this volume). *Dzhinsa* can be used as a tool to both promote (also known as *zakazukha*), or to discredit (see *kom-promat*, 8.4 in this volume) (Iwanski 2012). Academic works on the Russian media make little reference to *dzhinsa*, despite the term’s common use in journalistic circles. Lack of sources makes empirical analysis difficult. Journalists speak of it as a widespread phenomenon, but are reluctant to provide concrete details about it, such as information about prices, frequency and the actors involved. Nevertheless, Koltsova (2006) succeeded in gathering and analysing data about *dzhinsa* in the Russian media at the beginning of the 2000s.



**Figure 6.32.1** Moscow in April 2016.  
Source: Author. © Françoise Daucé.

In Russia, the emergence of *dzhinsa* is intimately linked with the marketisation of economic relations in the media. It results from the commodification of media products, which began in the late 1980s. The practice of publishing *dzhinsa* developed in the 1990s, during the economic reforms of the ‘shock therapy’ period. It allowed newly privatised firms to promote their products and work in a novel way, via journalistic articles. At the same time, the use of *dzhinsa* also came to be of great significance in the political sphere. From the early 1990s, politicians in their election campaigns used public relations (PR) strategies based on the publication of covert political advertisements in the media. The privatisation of the media was the catalyst for this marketisation of journalism. The lack

of resistance by journalists to *dzhinsa* was the result of economic difficulties encountered in the media business. As Australian scholar Brian McNair noted, during the 1990s, ‘those who work in the Russian media have struggled for survival in an environment characterised by chronic resource shortages, political instability and the ever-present threat of criminal interference’ (McNair 2000: 69). According to Russian academic Olessia Koltsova, ‘in some extremely badly off publications, journalists lived almost entirely on ordered articles. Thus, *dzhinsa* is a form of latent privatisation of media organisations by individual journalists’ (Koltsova 2006).

*Dzhinsa* is just one aspect of the informalities, oligarchism and ‘black PR’, which are often considered as the main features of the ‘wild 1990s’ in Russia (Ledeneva 1998). However, this practice did not cease during the 2000s. In the Russian media today *dzhinsa* remains a widespread informal practice, which is periodically denounced by journalists not involved in the practice. According to *The Insider*, an independent website, the leading Russian newspapers *Komsomolskaia Pravda*, *Izvestia* and *Rossijskaia Gazeta* continue to publish *dzhinsa* (*The Insider*, 2014). This was confirmed in 2014 by hackers from the ‘*Shaltaj-Boltaj*’ Internet site who published documents showing that government authorities in Moscow paid for the placement of articles in the main Russian newspapers. According to these documents, the newspaper *Izvestia* received 935,000 rubles, *Nezavisimaia Gazeta* – 760,000 rubles and *Komsomolskaia Pravda* – 645,000 rubles to promote the politics of the government (Okrest 2014). Journalists report that the development of the Internet in the 2000s has not diminished the appearance of *dzhinsa* in the media sphere and paid-for content in newspapers remains a common practice to the present day. Economic difficulties have not disappeared with the web economy; on the contrary, growing competition for financial resources between Internet sites and traditional newspapers has created further economic difficulties for journalists.

According to journalists, *dzhinsa* is a malady of post-Soviet media practices (Iwanski 2012), which goes against journalistic ideals of independence and objectivity. Russian textbooks for students in media faculties condemn the practice and underline its negative effect on the public sphere. *Dzhinsa* contributes to the decline of public trust in the media in general, and to a growth in mistrust of journalists’ work. From a political point of view, the ideal of a Habermasian public space based on civic grammars is opposed to the mercantile practices of *dzhinsa*, which pervert public debates. From an economic point of view, *dzhinsa* runs contrary to the principles of free information in a free market. The strength

of this informal practice is often considered by media scholars to be the result of the lack of judicial regulation of media activities. McNair considered that the problem in the 1990s was that 'No effective regulation of the changing broadcast economy was put in place and transparency in financial matters was absent' (McNair 2000: 75). At the beginning of the 2010s administrative measures to regulate *dzhinsa* were adopted by the Federal Directorate of the Anti-Monopoly Service of the Russian Federation, which has the power to punish media editors for the publication of PR texts not presented as advertisements. However, because of the informal practices sustaining *dzhinsa* and the difficulty of proving monetary exchange between a journalist and a client, the attempted clampdown on *dzhinsa* through federal regulation looks unlikely to succeed. Furthermore, in the context of growing political pressure on independent journalists, some fear that regulations may be abused and used as a repressive and arbitrary tool against them.

### 6.33 *Shpargalka* (Russia)

Elena Denisova-Schmidt

University of St Gallen, Switzerland

*Shpargalka* (*shpora*) (English: crib sheet or pony, German: *Spickzettel*) are unauthorised materials used by students during tests and exams at school, university and other educational institutions. They may be divided into traditional and innovative.

A traditional *shpargalka* is a handwritten or typed sheet of paper that is small enough to be hidden in the palm of the hand, up a sleeve or in a pocket, and that can be used surreptitiously during exams. This is not easy to do, however: one needs 'dexterity' (*snorovka*) – a particular kind of social skill in itself. Students do not even need to produce their own *shpargalki*: paper *shpargalki* can be purchased in almost every bookshop and online. Many books or booklets can be cut up and used during exams.

The spread of mobile phones, smartphones and other devices has created new opportunities. Answers to likely exam questions, complex formulas and even entire essays can be uploaded onto a mobile device prior to the examination. Students only have to find a way of using their device without being detected. Alternatively, they can send a text message to an 'assistant', who will in turn dictate the correct answer via an earpiece hidden in the student's hair. Some students may adapt their bodies for cheating: their nails, hands or legs might be inscribed with formulas, data and other important information. Female students may have an advantage here. This kind of body art is exotic, however. In spite of technical



progress, paper *shpargalki* remain the most popular form of cheating among Russian students.

As with other academic cheating techniques, the reaction of the professors is crucial. Do they notice it or not? Or do they pretend not to notice? As often as not, professors see all the traditional as well as the innovative and exotic cheating tools used during exams. Their reactions may differ, however: they may or may not act on what they have seen. If a professor picks up on a case of cheating, they might lower the student's mark and/or set additional questions. The reasons for ignoring cheating vary: if a student worked very hard during a semester and attended all the lectures, this small 'sin' may be forgiven. Some professors may even judge 'self-made' *shpargalki* positively, arguing that, by summarising the course materials, the student has critically reflected on the topic.

The Russian educational system is still oriented more towards providing knowledge than fostering competencies. This trend forces students to memorise a lot of information without critically reflecting on it. In addition, students often justify their use of *shpargalki* in classes that they consider 'unnecessary'. Science students, for example, are also required to study philosophy and sociology, while literature students must pass exams in mathematics and ecology. Knowledge of these disciplines is by no means essential to working in their chosen professions; as a result, students usually consider such courses superfluous. Using *shpargalki* during exams is also seen as less reprehensible by students who lack time to study, such as part-time students, *zaochniki*, who are usually adults with families and full-time jobs. They might not secure promotion without a higher education qualification, even though this is often viewed as a merely formal requirement. At the same time, many students believe that using *shpargalki* is immoral, and may not be proud of themselves for passing exams in such a way.

The use of *shpargalki* is widespread in Russia; many young Russians learn how to do so at school and perfect the skill during their time at university. *Shpargalki* are, however, violations of academic integrity linked to plagiarism, ghost-writing, manipulation of accreditation, degree mills and other forms of monetary and non-monetary corruption in academia. Sometimes students use *shpargalki* because they find it hard to study to such a high level. At the same time, they feel compelled to enter higher education because it is seen as the only way to secure a professional future. About 80 per cent of young Russians enrol in some form of higher education, and almost all of them complete their studies within the allotted time frame. One reason why students feel pressured to act in this way is the lack of social acceptance both of vocational education and of blue-collar employment.



**Figure 6.33.1** Pony from Poland.

Source: Author Pöhlein, Erlangen. © Schulgeschichtliche Sammlung der Universität Erlangen-Nürnberg.

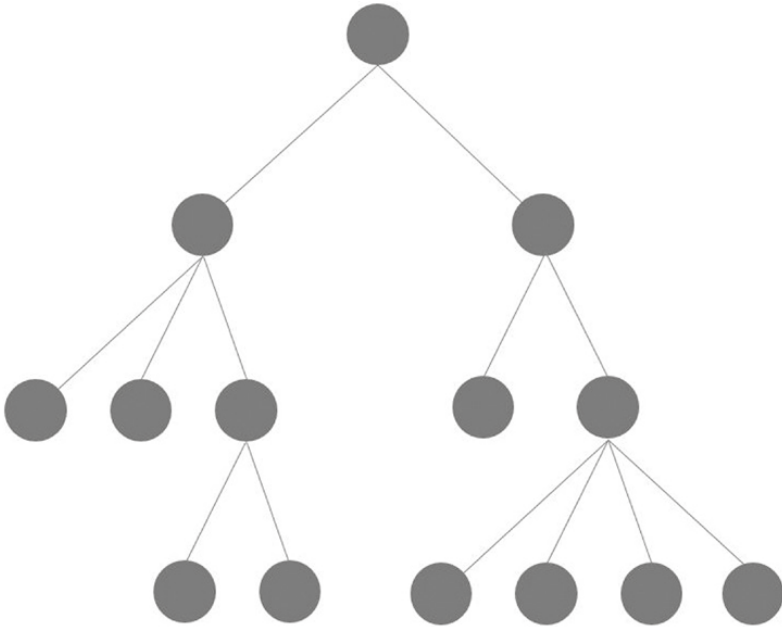
Ponies have a long history and tradition not only in Russia, but also in other countries. In 2009, the School Museum in Nürnberg in Germany organised an exhibition of around a thousand ponies from the past 100 years. The exhibits came from all over the world and were displayed together with students' success stories about their use of ponies. One such story was by Germany's first post-war chancellor, Konrad Adenauer (1876–1967). In 2014, a similar exhibition opened in Russia's Ekaterinburg, showcasing more than 80 items dating back to the 1980s. One of the exhibits was a 100 ruble banknote with math formulas written on it. This was a pony no teacher would have dared to confiscate, given the potential risk of being accused of having extorted a bribe!

### 6.34 **Pyramid schemes** (general)

Leonie Schiffauer

Department of Social Anthropology, University of Cambridge, UK

Pyramid schemes are a type of financial fraud. Operators recruit unsuspecting investors with the promise of high returns. They claim to run successful business projects, but in fact early investors are paid with the money collected from later investors (a practice also known as 'robbing



**Figure 6.34.1** Structure of a multilevel *pyramid scheme*.

Source: Author. © Leonie Schiffauer.

Peter to pay Paul’). Products and services may be presented in order to mask the pyramid structure (Figure 6.34.1), but sales play only a marginal role, if any at all, in the schemes’ compensation formula. Essentially, pyramid schemes are money-transfer schemes that benefit a small number of people at the top of the pyramid while resulting in an eventual loss of money for the majority of investors. The rules regarding recruitment and recoupment of money vary, but whether or not one makes money depends almost entirely on one’s position in the pyramid. A pyramid scheme may survive for several years but, sooner or later, when growth stagnates, it will collapse. Pyramid schemes are a global phenomenon and have been observed for at least several decades. Though they are illegal in most countries, pyramid schemes keep appearing in political economies as diverse as those of the United States, China, Colombia and Lesotho. New technologies such as the Internet appear to have facilitated and accelerated the recent worldwide proliferation of pyramid schemes (Valentine 1998).

Pyramid schemes are sometimes confused with Ponzi schemes, which share the same underlying logic. The term Ponzi scheme goes back

to Charles Ponzi, an Italian immigrant to the United States who in 1919 initiated a fraudulent scheme by promising investors that they make massive profits by purchasing international reply coupons and redeeming them in the US for postage stamps. Ponzi's scheme was not sustainable over the long term, but for a while he managed to deceive his investors by paying early ones with the money he collected from later ones, while pocketing millions of dollars himself. Eventually, the fraud was detected and the scheme collapsed. In 1920, Ponzi was arrested, charged with fraud and imprisoned.

In both pyramid and Ponzi schemes, existing investors are financially compensated from the contributions made by new investors. But while investors in Ponzi schemes are (misleadingly) informed that they are earning returns simply from their investments, participants in pyramid schemes are usually aware that their income is dependent on the recruitment of new investors and that they themselves must recruit additional investors, who will themselves recruit new investors, and so on. This may at first sight seem an insignificant detail, but in fact it is important because the multilevel structure resulting from the recruitment strategy of many pyramid schemes makes them difficult to distinguish from a business model that is legal in many parts of the world, that is, multilevel marketing (MLM).

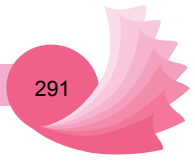
MLM is a huge industry. Worldwide, it involves more than one hundred million individuals who represent direct-selling companies. The companies built on this model do not have retail outlets for their mainly beauty- and health-related products but sell them directly to the customer via independent salespeople. The salespeople do not receive a salary, but are paid a commission on their own sales as well as on the sales of any subcontractors they succeed in recruiting. While some direct-selling companies have been accused of operating illegal pyramid schemes, many pyramid schemes claim to be direct-selling companies (Keep and Vander Nat 2014).

Pyramid schemes can have devastating consequences, not only for investors but also for their families and whole communities. Participation may lead to financial ruin because people may invest their live savings and even sell their homes in order to invest in the schemes. Moreover, the schemes often provoke social conflict because investors are encouraged to put pressure on their friends and relatives to recruit them into the schemes. When the schemes collapse – as sooner or later they inevitably do – questions arise as to who bears responsibility for the disaster. Not only the initiators but also those who promoted the schemes locally – and who may well not have been aware of their illegality – face accusations of fraud.

Contrary to popular assumptions, participation in pyramid schemes is not always related to low education or financial illiteracy. Krige (2012: 73–4), for example, draws attention to the fact that in South Africa people from various social backgrounds including doctors, lawyers and company managers have participated in pyramid schemes that were operated from prestigious business addresses and that claimed to be prosperous, global business projects legally registered with the authorities. Newly emerging market economies appear particularly vulnerable to pyramid and Ponzi schemes. For example, a wave of schemes swept the former communist countries during their transition from socialism in the 1990s. Some of these schemes were huge in scale, such as the Caritas scheme launched in Romania in 1992; Caritas affected at least one in every five Romanian households and involved sums of money that came close to the country's annual gross domestic product (GDP) (Verdery 1996: 174). Similar schemes in Albania reached such a scale that their collapse provoked a recession in the national economy (Musaraj 2011: 85–6). Russia's MMM scheme – the most spectacular Ponzi scheme in any post-communist country so far – attracted 15 million investors over a period of six months; its collapse provoked a wave of suicides by despairing investors (Krechetnikov 2009).

A number of anthropologists have suggested that the proliferation of pyramid schemes should be understood in the context of larger global developments. Comaroff and Comaroff (2001) argue that while high-risk finance and banking have reduced the international financial system to a virtual casino, speculation and gambling have emerged as powerful sources of value creation. This is an unsettling experience for people both at the margins of the global economy and in developed countries, but in particular in societies that have recently undergone significant economic change. Disrupted lives and increasing inequality lead to feelings of exclusion from global prosperity; this may in turn enhance the attraction of economic structures such as pyramid schemes. Elaborating on this argument, Krige (2012) emphasises that risk-taking in the context of pyramid schemes not only corresponds to what is happening in global financial markets, but also fits a neoliberal discourse that celebrates entrepreneurship and self-empowerment.

While the post-socialist surge of pyramid and Ponzi schemes provides a strong case in point, it is difficult to assess the impact of large-scale economic developments on the proliferation of pyramid schemes, in particular because little is known about their history. The study of pyramid schemes might benefit from approaches that take account of historical and macro-economic as well as socio-cultural and micro-economic



factors in order to understand the appeal of such schemes in different times and different places.

## Playing the letter of the rules against their spirit

### 6.35 *Flipping* (UK)

Jonathan Webb

University of Sheffield, UK

In the context of UK politics, ‘flipping’ refers to the practice of Members of Parliament (MPs) manipulating the classification of their second home to maximise their parliamentary allowance. By designating a property as a second home, money can be claimed for it through Parliament’s Additional Costs Allowance (ACA) system, which allows second homes to be financed and renovated through the expenses system. The system also exempts second-home sales from capital gains tax. In cases of ‘flipping’, an MP changes which of their homes is registered as their official ‘second home’ with the apparent aim of maximising financial gain.

The etymology of the term ‘flipping’ is the English-language verb ‘flip’, which can mean to put something into motion, and also to turn something over (*Oxford English Dictionary* 2015). This second meaning is implied in the practice of flipping because MPs changed, or ‘flipped’, the status of a particular home for the purpose of claiming expenses. Flipping also has a specific business definition and refers to the practice of purchasing an asset with the intent of quickly reselling the asset at a higher price (Depken et al. 2009: 249). This definition is relevant to the accusations levelled at some MPs, who were alleged to have made substantial profit by selling taxpayer-funded second homes at the market rate and exempting any profit from capital gains tax.

The practice of flipping came to prominence with the so-called ‘expenses scandal’ that broke in 2009. *The Daily Telegraph* first brought the expenses scandal into the public eye and in doing so, focused heavily on flipping as one of the most financially significant and unethical abuses of the parliamentary expenses system (*The Daily Telegraph* 2009). As the expenses scandal gained public notoriety by mid-2009, particular attention was placed on flipping as one of the most deviant abuses of the expenses system. Many high-profile MPs including cabinet ministers were accused of flipping. Perhaps the most high-profile resignation to result from the scandal was that of the Secretary for Communities and Local Government, Hazel Blears. Blears bought a property in Kensington, London that was sold after four months at a profit of £45,000



**Figure 6.35.1** The practice of *flipping* was intertwined heavily with the much larger ‘expenses scandal’. The public outrage in reaction to the expenses scandal manifested itself in many forms. This image shows a satirical effigy representing the expenses scandal being paraded at Lewes Guy Fawkes night.

Source: <http://www.geograph.org.uk/reuse.php?id=1570166>. © Peter Trimming, 2009. Licensed under CC BY-SA 2.0.

(BBC 2009). Because the property was designated as a second home, it was exempt from capital gains tax and mortgage repayments, leading to widespread criticism that the property had been bought with the intention of making a profit by ‘flipping’ it under the second-home allowances system (see Figure 6.35.1).

A nuanced analysis of parliamentary procedure is necessary to understand how and why flipping has developed as an informal practice. Historically parliamentarians were from the upper classes of society. Because of this, they viewed their job as a civic duty and were opposed to sully their work with the application of a formal salary. Therefore, MPs did not receive any kind of pay or allowances until 1911 (Kelso 2009: 330). The payment of an ‘allowance’ (a fixed sum that was effectively a salary) began in 1911 and enabled increasing numbers of non-aristocratic members to enter parliament. In 2015 an MP’s salary was £74,000 (Independent



Parliamentary Standards Authority 2015) – significantly higher than the average UK salary, but significantly lower than that of many senior civil servants and comparable professionals. The Additional Costs Allowance (ACA) was introduced in 1972, to cover the additional accommodation expenses incurred by MPs with constituencies outside of London when sitting for long hours in Parliament. From 1985, MPs could claim for mortgage repayments under the ACA, which soon gave rise to the phenomenon of MPs outside of London owning properties substantially paid for through public funds (Kelso 2009: 331). By 2009, the funds that could be drawn on to support second homes stood at £24,222 per annum and included mortgage interest payments, furniture, fixtures and utility bills.

As the allowance system relied heavily on trust and was subject to light auditing, it became easy to systematically abuse the system. A weak system of auditing in combination with the comparatively low rate of pay offered to MPs resulted in many MPs viewing the expenses system as a supplement to their salary. Consequently, allowances were understood as an entitlement and MPs sought to gain financially from practices such as flipping. While the media has widely represented flipping as a ‘corrupt’ practice, many MPs believed their behaviour was legitimate within the context of Parliamentary culture (Kelso 2009: 330–1).

In spite of the complex systemic origin of flipping, the British media has overwhelmingly portrayed the practice as unethical and even immoral, with little attention given to the institutional mechanisms that have allowed MPs to take advantage of the system. Although the practice is technically legal and within Parliamentary rules, it is commonly presented as a form of corruption. The issue of flipping has further been problematised in the context of a perceived decline in the integrity of British politics (see cash for access, 2.18 Volume 1). In 2015 public trust in politicians stood at just 22 per cent and at the height of the expenses scandal it reached an all-time low of 13 per cent (IPSOS Mori 2015a).

Few solutions to eliminate the practice of flipping have been presented, despite an extensive review of the Parliamentary expenses system being promised. To reduce the occurrence of flipping, one solution may lie in recognising the resources needed by MPs to serve in a modern democracy, as well as the salaries typically available to such individuals in other professions. By failing to significantly provide these resources on a personal level through a competitive salary and attempting to supplement pay through a poorly regulated expenses scheme, flipping became a parliamentary norm (Kelso 2009: 335). As a consequence, a review has recommended that the salaries of MPs increase while the existing expenses system is much more tightly regulated (Independent

Parliamentary Standards Authority 2015). However, increasing MPs' salaries is also unpopular with the public. In 2015, 72 per cent of people thought that MPs should refuse the 10 per cent pay increase that had been recommended by the Independent Parliamentary Standards Authority (IPSOS Mori 2015b).

Although a reform process of the expenses system is taking place that may curb the continued occurrence of flipping, the damage done to Parliament's reputation by the practice may be difficult to repair. Understanding the institutional dynamics that caused flipping to emerge is necessary to explain its occurrence and provide solutions for preventing further abuse of the Parliamentary allowance system.

### 6.36 *Reiderstvo* (Russia and FSU)

Michael Mesquita

West Sands Advisory Limited, UK

The Russian word *reiderstvo*, derived from the English term 'corporate raiding', is an attempt by an investor or group of investors to purchase a majority or significant minority stake in a publicly traded or privately held company. Once a raider acquires a controlling interest, they may replace the current management team or implement cost-saving measures in an attempt to increase the company's overall share value (Salinger 2013). Unlike corporate raiding in the West, *reiderstvo* is designed for short-term gain rather than long-term investment, often for the purpose of stripping the business of its assets. The acquisition of the company may be technically in accordance with the law, but the methods by which the transfer is achieved are often semi-legal or outright illegal, including the use of physical force or corrupt collusion with state institutions.

Much of the research on *reiderstvo* focuses primarily on Russia and Ukraine; however, this tactic with its various forms can be found in other post-Soviet countries, including Uzbekistan, Kyrgyzstan and Kazakhstan. While the practice may vary slightly by country, common characteristics of *reiderstvo* include fraud, blackmail, manipulation or distortion of the law and actual or threatened physical violence. *Reiderstvo* is the result of uncertainty stemming from the privatisation of formerly state-owned industries, corrupt officials, poor corporate governance and an insufficient criminal code (Firestone 2008). The practice threatens both foreign investors and domestic business owners and undermines the development of market economies.

*Reiderstvo* dates back to the late Soviet era when organised crime groups exacted 'protection money' from bazaar (marketplace) traders

(this process is referred to in Russian as *krysha*, which means ‘roof’, see 6.23 in this volume). Not only did this provide safeguards against business rivals and competing criminal groups, but a *krysha* could also be used to attack a competitor’s business (Rojansky 2014). Following the collapse of the Soviet Union and subsequent privatisations, raider tactics shifted from small-scale protection and confiscation of minor assets to large-scale theft and seizure of state property. For instance, ‘black’ or ‘bandit’ raiding explicitly involved illegal activity and the use of force or intimidation whereby organised criminal groups would send armed men to the premises of a business to physically remove assets including cash, computers and machinery (Rojansky 2014).

By the late 1990s, raiding had evolved from the use of force to more sophisticated methods of coercion, including the manipulation of legal and political institutions. Although the use of force could still be present, it was commonly applied in conjunction with a variety of legal and administrative tools and was often used to facilitate or expedite a judicial ruling. Additionally, criminal figures no longer held a monopoly on force; private entrepreneurs and government officials actively participated in *reiderstvo* with the assistance of a vast network of judges, law enforcement, lawyers, accountants, journalists and others (Viktorov 2013). One of the more profound changes that precipitated the evolution of *reiderstvo* was the active assistance of regional and federal agencies. Such connections (through informal networks of influence or bribery) grant access to the security services, customs, courts and regulatory agencies, which can be manipulated to acquire, for instance, corporate documents or favourable judgments. For example, raiders across the former Soviet Union (FSU) commonly employ their connections to tax officials to open investigations into target companies, which can be used to initiate a state or private takeover. Indeed, the use of the state apparatus plays such a significant role in corporate raiding that the consensus among academics is that it is nearly impossible to conduct a raid without government assistance (Rochlitz 2014).

Academic research has identified four primary raiding schemes: forced bankruptcies/business crises, shareholder attacks, extortion and litigation (Firestone 2008). Although they may vary slightly by country or the specific tools applied (i.e. government agencies used), a variation of each scheme is present across the FSU. Although conceptually distinct, raiders often employ these tactics in conjunction with one another rather than as separate raiding tools.

The practice of ‘bankruptcy to order’ (see *zakaznoe bankrotstvo*, 6.37 in this volume) was common in Russia in the late 1990s and

early 2000s at a time when Russia's bankruptcy laws were ineffective. However, similar schemes are still used today, either to force a company into bankruptcy to enable a raider to acquire it, or to drive down the share price of a given company for a raider to purchase a stake at a significantly lower cost. One tactic involves a state agency (such as the tax police or environmental regulator) affiliated with the raider issuing fines or penalties, which may either increase the cost of doing business or lead to bankruptcy. For example, between 2005 and 2009 Russian law enforcement agencies opened an investigation into the mobile phone retailer Yevroset, accusing the company of illegally importing mobile phones and extortion. Prior to the investigation, Yevroset was in discussion to sell the company for an estimated \$3–5 billion; however, following the investigation, the company was sold for approximately a third of its original value (*Moscow Times* 2010). A government agency cancelling a state contract that the business relies on has a similar effect. Finally, the media may be used in a 'black PR' campaign (see *chernukha*, 8.5 in this volume). A media outlet (likely owned by the raider) accuses the company of various violations damaging to its reputation, again with the purpose of driving down the company's share price or pushing it into bankruptcy. This tactic was used by Ukrainian oligarchs to seize a refined foods and oil company based in Dnipropetrovsk in the mid-2000s (Rojansky 2014).

The tactic of corporate or minority shareholder attacks is an attempt to seize a business from within, typically through the manipulation of shareholder rights. In this case, a raider buys out a minority shareholder (possibly through bribery or intimidation) to acquire a small stake in a target company. As a shareholder, a raider gains access to company registers that can then be manipulated or used to investigate any weakness in the company's legal status (questionable privatisation deals, licence discrepancies, etc.). If discovered, the raider files a criminal case, which may lead to bankruptcy proceedings or a business crisis as described above. Another tactic is the continual acquisition of minority shares to influence board decisions. Once a raider is in this position, they may convene a shareholders' meeting but systematically exclude other shareholders. This can be achieved by holding the meeting in a remote location, or simply by arranging the meeting at short notice. Once a meeting is convened the raider can replace the board with more favourable allies, or sell off the company's assets to third parties (often affiliated with the raider). A shareholders' meeting may also provide opportunities to issue more shares (sold to the raider or an affiliated party), effectively diluting the voting rights of other shareholders.

In the 'extortion' scenario, a raider or affiliated party disguised as an investor approaches a company, suggesting a new business partnership. If the company refuses, the raider leverages contacts in state agencies to apply pressure on the company by increasing the cost of doing businesses (such as fines, arbitrary investigations, environmental violations, etc.). The company is then compelled to sell a stake in the company for the attacks to stop. This process is repeated until it becomes too costly for the company to continue; thus it is forced to sell to the raider. Extortion may also be used to guarantee the target company receives the necessary state licences or government contracts to operate. Uzbek President Islam Karimov's daughter, Gulnara, who allegedly received bribes from Russian and Finnish telecoms companies, reportedly used this practice to exact bribes and increase her stake in the local telecoms market (Patrucic 2015).

Courts play an integral role in the raiding process and are commonly used to legitimise forged documents, freeze company assets and accounts, or sanction the use of private security forces (owned by the raider) to enforce court orders. Legal systems across the FSU tend to suffer from institutional weakness and are highly susceptible to corruption and elite interests. This provides opportunities for raiders to manipulate the courts and use litigation schemes to take control of companies. Judges may be bribed or directed to rule on false criminal charges against the management or owners of a target company. The victim is then arrested, but can buy their freedom by selling the company at a reduced price. Alternatively, a raider may employ the 'shareholder scheme' to seize company assets while the victim is in custody. According to the Moscow-based non-governmental organisation (NGO) Liberal Mission Foundation (Open Democracy 2013), between 2000 and 2010 over 15 per cent of all Russian business entities were subject to groundless criminal proceedings, of which over 100,000 resulted in convictions.

While intimidation and violence has decreased since the early 2000s, corporate raiders may still hire private security firms to seize a company building or headquarters based on an injunction that has been granted by a bribed judicial figure. While any corporate raid is usually reliant on the support of a legal or political actor, intimidation is still used to facilitate or expedite the process. A recent public instance of hiring armed men to seize company property was the case of Ukrainian oligarch and former Mayor of Dnepropetrovsk, Ihor Kolomoysky, in March 2015. Following the passing of legislation that limited his influence over state oil company UkrTransNafta, Kolomoysky, who owned a minority stake in the company, hired a militia to raid the property. The raid, however,

was unsuccessful; Kolomoysky was unable to exert greater influence over the company and lost his position in Dnepropetrovsk shortly after. Nonetheless, the event highlights how intimidation can still be a useful tool for corporate raiding.

### 6.37 *Zakaznoe bankrotstvo* (Russia)

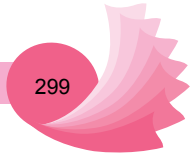
Yuko Adachi

Sophia University, Tokyo, Japan

In general, bankruptcy proceedings usually function as a mechanism for liquidating or rescuing distressed companies and protecting creditors' rights. However, in post-Soviet Russia, bankruptcy proceedings have often served as a mechanism to enable hostile takeovers, or as a means of attacking a rival company (see *reiderstvo*, 6.36 in this volume). The manipulation of bankruptcy proceedings is known as *zakaznoe bankrotstvo*, which literally means 'bankruptcy to order': *zakaznoe* is the adjectival form of the noun *zakaz*, which means an order, contract or commission. *Zakaznoe bankrotstvo* is made possible through the exploitation of legal weaknesses and informal networks. One expert noted in 2004 that, '[b]ankruptcies "to order" have become a major business, often combining strategies for exploiting weaknesses in the law with political intervention and outright corruption' (Tompson 2004: 1).

The practice became widespread in the late 1990s and was closely linked to the Federal law 'On insolvency (bankruptcy)' of 1998 (henceforth 'the bankruptcy law'). The number of bankruptcy cases soared after the 1998 law came into force, rising from 4,200 in January 1998, to 15,200 in January 2000, and 52,500 in January 2002 (Simachev 2003). According to the Federal Service for Financial Rehabilitation (FSFO), which had been responsible for supervising bankruptcy proceedings, in approximately 30 per cent of cases creditors were more interested in bringing about a change of ownership in a particular company than in recovering the debt (Golovachev 2001).

One of the most high-profile cases of *zakaznoe bankrotstvo* was that of Chernogorneft, a subsidiary of the oil company Sidanko, which was artificially bankrupted in 1999 by Tyumen Oil Company (TNK), another major Russian oil company at the time. TNK acquired debts from Chernogorneft's creditors and instigated bankruptcy proceedings to obtain control over the company. BP Amoco (which had paid \$571 million USD for a 10 per cent share of Sidanko in 1997) along with other foreign shareholders found themselves squeezed out, and accused TNK



of intimidating judges and journalists to pull off the successful raid (*The Economist* 1999).

The main reason the 1998 version of the bankruptcy law triggered the practice of *zakaznoe bankrotstvo* is that it set a very low threshold for filing a bankruptcy suit. For example, a bankruptcy proceeding could be initiated against a company if the outstanding debts exceeded an amount 500 times the minimum wage (i.e. a relatively small sum in the context of corporate finance), and if the company failed to meet payment obligations within three months of the due date. In addition to overdue debts, bankruptcy proceedings could be started on the basis of tax arrears or unpaid utility bills. The 1998 law was intended to rectify the defects of the 1992 law, which allowed debtor companies to continue accumulating debts and unpaid bills. However, the 1998 law set the threshold so low that not only truly insolvent companies but also those capable of servicing debts were forced into bankruptcy (Tavernise 2000; Volkov 2004).

Another weakness of the 1998 bankruptcy law was that it granted court-appointed (temporary and external) administrators considerable power over bankruptcy proceedings. Once bankruptcy proceedings were started, a temporary administrator took charge of the debtor company. The creditors who had filed the application for the initiation of bankruptcy proceedings often influenced temporary administrator appointments, effectively installing someone to serve their own interests rather than the interests of the company subject to the bankruptcy proceedings. For example, in the aforementioned Chernogorneft case, the administrator was allegedly allied to TNK (*The Economist* 1999). The temporary administrator had the authority to grant or withhold approval for many of the transactions carried out by incumbent managers, including disposal of assets or taking out of loans. They also had the power to control creditors' registers, which enabled them to exclude or undervalue the claims of some legitimate but 'undesirable' creditors, and to inflate the claims of others. In addition, the temporary administrator was responsible for organising the first creditors' meeting where it was decided whether to appoint an external administrator, or whether company liquidation and asset disposal should be initiated immediately. If the decision favoured external administration, then the external administrator candidate would be decided at this meeting (Oda 2001; Tompson 2004; Volkov 2004). The external administrator, who was given substantial authority, would then take over the management of the entire bankruptcy process, with the director of the debtor company removed from post and the power of the incumbent manager terminated. The external



administrator had the power to make changes to the company's management, to dispose of company assets and to take control of the debtor company's financial flow (Volkov 2004).

When launching a hostile takeover or an attack against a bankrupt debtor, the key to success was obtaining as much debt as possible as a creditor and then appointing 'one's own' (*svoi*) person as bankruptcy administrator. Through this bankruptcy administrator, a creditor could control the entire procedure. If a creditor could manage to appoint a closely connected administrator, bankruptcy was a cheaper and sometimes more reliable means of company takeover than obtaining shares in that company (Afanasiev 1998; Bashkinskas 2000). For this practice to succeed, the initiating party was required to coordinate and mobilise an informal network of various actors such as external administrators, courts, the regional governor, the regional representative of the FSFO, law enforcement agencies, etc. (*Novaya gazeta* 2000). Also, some alliance was required between the court-appointed bankruptcy administrator and the judges, as well as some political intervention for its enforcement. The cooperation of – or at least non-interference from – regional authorities was important in bankruptcy proceedings, since arbitration courts were often dependent on the regional authorities.

The 1998 bankruptcy law was amended in 2002 in an attempt to bring to an end the excesses of *zakaznoe bankrotstvo*. The amendment raised the threshold to initiate bankruptcy and made it more difficult for creditors to apply for bankruptcy proceedings. Moreover, the powers granted to bankruptcy administrators, which had been seriously abused through the practice of *zakaznoe bankrotstvo*, were also substantially curbed. For example, the administrator's power to dispose of debtors' assets was brought under the strict control of the creditors' meeting (Oda 2007). Following the 2002 amendment, the previously typical phenomenon of using or 'ordering' a particular administrator in launching *zakaznoe bankrotstvo* became less common (Iukhin 2006).

Although the practice of *zakaznoe bankrotstvo* has decreased following the 2002 amendment of the bankruptcy law, it has not been eliminated altogether. For example, the tactic was used since to bring about the de facto privatisation of state-owned vodka producers. One example concerns the vodka factory Yarich, which in 2006 (when it was owned by the federal state alcohol holding company Rosspirtprom) took out a 10 million rouble bank loan, with its property as the guarantee. The debt was purchased by the trading house SDS-Alko in April 2009, which then demanded its repayment. When Yarich was unable to repay, SDS-Alko took out a court action for the bankruptcy of

Yarich. A few months later a new company began operating at the Yarich site, owned by SDS-Alko. The case was described by national newspaper *Vedomosti* as ‘a clear example of how bankruptcy is becoming an instrument of privatisation’ (Bailey 2018).

In terms of linguistic usage, it seems that the term *zakaznoe bankrotstvo* has become less common since the early 2000s. This may be partly due to the practice itself becoming less widespread since the bankruptcy law was tightened up in 2002, but also due to the term *reiderstvo* gaining wider currency from this time (Sakwa 2011; Sagova 2012). *Reiderstvo* is a broader concept than *zakaznoe bankrotstvo*, with its meaning encompassing a range of informal tactics used to execute hostile takeovers. *Zakaznoe bankrotstvo* is one of those tactics, but others can include the use of contacts in the judiciary, in state agencies (who can, for example, impose fines or revoke licences), and even physical force and violence.

### 6.38 *Dangou/Dango* (Japan)

Shuwei Qian

UCL, UK

*Dangou* (sometimes spelt *Dango*) consists of two Japanese *kanji* characters, *dan* meaning ‘dialogue’ and *gou* meaning harmony. Originally, the meaning of *dangou* was consultation or conference, but the meaning has changed and come to refer to a practice of cartel – a mutually agreed position to predetermine the successful bid for a contract within the Japanese procurement system. Thus, its equivalent English term is bid rigging.

*Dangou* has a long history dating back 500 years to the Edo era, and as such it may be argued there is no other case in the world that has such a pervasive and codified system as is found today in the Japanese public construction system (Woodall 1993: 297). Japanese citizens were so accustomed to this practice that it was not until after the end of the Second World War, with America’s intervention in the Japanese domestic market, that scandals relating to *dangou* were publicly acknowledged and reported by the press (McMillan 1991: 201).

One illustration of how *dangou* practices work is found in the example from the late 1980s of an American company who decided to submit a bid for constructing toilet facilities at the US Yokosuka Navy Base. The American company participated in the bidding process, unaware that over 100 national and local contracting projects were in place at the base, rigged by the Yokosuka ‘teahouse’ network. The Americans were

surprised that all the other companies bid at highly inflated levels and that there was little variation in the levels at which they bid. As the only foreign bidding company they won the contract with a reasonable bid price, which was half that of the bids made by the Japanese companies. Without the American company's bid, the Yokosuka 'teahouse group' (an informal network of Japanese contractors) would have won the contract, but more importantly, at a highly inflated price. After the bidding process was concluded, the Americans overheard the Japanese complaining about letting a *gaijin* (an outsider) interfere with their internal rules of bidding. The Americans feared harassment and vandalism by the losing group, but some months later a raid on the offices of the Yokosuka 'teahouse' group, known as the 'Star Friendship Club', produced evidence of *dangou* and endemic bid rigging.

Over time, *dangou* has been viewed as part of the unique political culture and history of Japan. For this reason the Japanese mode of doing business is simply explained to Westerners by the word '*dangou shakai*' meaning 'society'. In the first instance it is necessary to explain *dangou*'s embedment with Japanese society throughout history as part of the 'iron triangle'. The 'iron triangle' here represents the relationship between politicians, government bureaucrats and business. The triangle functions in the following way: businesses take it in turns to win competitive bids, operating from a position of strength because they are armed with the prior knowledge of the ceiling price of the bid, which has been leaked to them in advance by government bureaucrats. In return for the information, the bureaucrats are guaranteed a high-profile position in the company after retirement. Meanwhile the politicians who are responsible for the public construction programmes receive a kickback (Black 2004: 603). The retired bureaucrats are called *amakudari* ('descents from heaven'). This 'iron triangle' has its origins in ancient Japanese culture, but was also influenced by behaviours found in the centralised Soviet style of management (Ross 1994: 64). A second reason for *dangou*'s popularity is the fact that with the exception of big firms and tycoons, the major part of the Japanese economy consists of small and medium-sized businesses – often family businesses – that have endured from one generation to another. Apart from being part of a personal network, *dangou* embodies a benign practice for the purpose of helping small firms survive harsh competition from business giants. Another contributory factor that explains *dangou*'s unshakable position in society is the age of globalisation. In the process of globalisation, traditional Japanese businesses perceive themselves to be under constant attack from international corporations, thus practising *dangou* provides them with protection (Black 2004: 611). In the opinion

of *dangou* participants, *dangou* has saved the Japanese economic environment from being polluted by outsiders and prevented unpredictability and instability in the global market (Ross 1994: 65).

Considered from the socio-economic perspective, *dangou* can be regarded as a rational corollary of the specific economic environment of post-war Japan (Woodall 1993: 298). First, as understood literally, the process of *dangou* requires consultations taking place among participants. The optimum number of dialogues is considered to be  $N(N-1)/2$ . Since the tendering system designed by the procurement department of government normally regulates the number ( $N$ ) of participants in the bidding pool to a range from 10 to 12, the actual number of dialogues taking place in the process of *dangou* is limited to a manageable number (Woodall 1993: 301). Second, as mentioned above, this tendering system is designed by the government to guarantee the quality of participating businesses, and to provide a natural barrier against opportunistic outsiders who might be attracted by the potential profit created in the collusion process (Woodall 1993: 302). Third, to stabilise the illegal group behaviour, mechanisms of punishment were developed. Thus to ensure loyalty, if one of the conspirators broke the *dangou* (*dangou yaburi*), they were automatically ostracised from all trade associations as they had lost the confidence of the group (Woodall 1993: 303). These informal devices elicit compliance since in Japanese society no business can survive without close associations, nor survive the loss of social capital. Another layer of protection for *dangou* participants are the disincentives for whistleblowing (Woodall 1993: 303–4). In Japan, a pension is paid according to one's longest length of service. Hence, no one can afford to change jobs frequently or to suffer the loss of their social network; therefore the price of opportunistic bidding is too high.

*Dangou* not only inflates government expenses, causing government deficit and wasting taxpayers' money, but it also avoids fair competition and encourages particularism and corruption, which could eventually hurt the development of the Japanese economy. It is estimated that *dangou* is responsible for inflating government expenditure by between 30 per cent and 50 per cent (McMillan 1991: 209). The inflation of government expenses can be used as one of the measurements of *dangou*. The second method of estimating the extent of the practice is to evaluate the number of scandals reported in the media. Third, it is possible to estimate levels of *dangou* according to the extent of legislation passed to prohibit this crime. Since the legal reforms of the early 2000s, laws such as the anti-monopoly law, and a law against *kansei dangou* have been passed, yet little success can be observed thus far in deterring the practice (Yoshida

and Park 2014: 144). Research on *dangou* also heavily depends on the findings of investigations of suspect companies and subsequent convictions, but the networks of participants are extremely hard to break.

Another informal practice related to *dangou* is *ten no koe* ('voice from heaven'). This term is used as a metaphor to describe a practice whereby before a bidding process starts, a government official claims to have heard a voice from the Gods urging him to use a particular company. As a result the bidding process is ignored and the 'recommended' company is automatically appointed (Logan 1994). On one hand, the absence of any competition makes this informal practice even more suspect than *dangou*. On the other hand, on certain occasions it may be explicable, for instance, if specific technologies, skills or patents are required that only the chosen company is in possession of, it may be considered ethical. However in practice, *ten no koe* is usually seen as an excuse invoked when the *dangou* process has broken down and an emergency solution is needed to obtain the 'right' result.

In China, *dangou* is known as *Weibiao*. Literally, it means 'bidding being surrounded by companies in a union'. *Weibiao* and *dangou* share cultural similarities. Thanks to the same influences of Confucian culture, the tradition of gift-giving is widely used not only in *weibiao* but also in the infamous informal practice called *guanxi* (see 1.12 Volume 1). The starting point of gift-giving, in both cases, is to maintain and strengthen *jinmyaku* (Japanese for personal networks, see 1.18 Volume 1), which is directly translated as *guanxi* in Mandarin. However, there are significant differences between the two informal practices of *weibiao* and *dangou*, which may be explained by crucial differences in the economic and political environment of the two countries. First, although both China and Japan passed anti-bid-rigging laws, in neither case has the legislation made a significant difference in prohibiting the practices. Yet, the problem of the Japanese anti-*Kansei dangou* law is in its enforcement, while the problem in China is that the law itself is less detailed, leaving loopholes for people to continue practising *weibiao* (Weishaar 2010: 409). Second, as a socialist country, a huge percentage of the Chinese economy is taken by state-run businesses. However, state-run companies are eliminated from the anti-*Weibiao* law thanks to complicated measures in force to protect national reserves. As a consequence, this encourages a certain level of bid rigging because state-run companies cannot be prosecuted (Jingshifaxun 2009). In the Chinese case, bid rigging often happens in less-developed states along with other traditional informal practices, while in Japan the practice occurs within a well-established, developed market economy in a democratised system. Furthermore,

although defined as illegal by the government and outdated, *dangou* is both traditional and habitual within the Japanese economy.

### 6.39 ***Vzyatkoemkost'*** (Russia)

Christian Timm

Private University Göttingen/German Institute for International and Security Affairs, Germany

*Vzyatkoemkost'* expresses, in a narrow sense, the potential of a piece of legislation to create opportunities for bribery. In a broader sense, it refers to a legal framework that grants state officials discretionary power to extort bribes, obedience or other forms of benefits. The term 'corruptogenic potential' has been given as the standard translation of *vzyatkoemkost'* into English (akademik.ru 2011). This Russian neologism is made up of two words: *vzyatka* for 'bribe' and *emkost'* for 'capacity' or 'potential'. The term first appeared in 1996 in an article in a leading Russian newspaper on ways in which regulations imposed on car drivers might be exploited as an opportunity to demand bribes (Sokolov 1996). It was picked up again in another journal article, this time in 2000, which generated considerable interest and contributed significantly to the term's popularity (Privalov 2000). In 2003 and 2005, the term found its way into two Russian dictionaries (Mochenov et al. 2003; Pogrebnyak 2005).

Law is commonly seen as a power resource because of its ability to constrain options for action by making certain behaviour more costly than others. *Vzyatkoemkost'*, by contrast, relies on another characteristic of the law: the capacity to create or prevent predictability. Following the basic definition of law as 'a prediction of ... what an official will do' (D'Amato 1983), the quality of legislation determines the predictability vis-à-vis the discretion of official action. The more discretion is granted to state officials and the less predictable the law becomes, the more citizens are forced to seek predictability by informal means. Bribery is an informal answer to administrative discretion created by formal law.

The United Nations Development Programme (UNDP) Anticorruption Assessment Guide identifies four major legal corruptogenic sources (UNDP 2013). First, if a law is vaguely formulated, that allows officials flexibility both in evaluating the legal facts and in deciding what actions to take with respect to procedure, term, sequence, delegation and punishment. A second source is legal gaps within a law or with regard to other regulations that may emerge as a result of the non-existence, non-enactment or invalidation of a law. Third, conflicts of rules within one law or with other laws may also prevent rule-abiding behaviour and allow state officials to act at their own

discretion. Fourth, the corruptogenic potential increases with the administrative obligations of a law, which may establish an undue burden or even make law-abiding behaviour impossible. In addition, a fifth source of *vzyatkoemkost'* may arise from the volatility of law, which occurs when regulations are frequently changed. In all instances, the specific character of legislation may increase the costs of compliance or prevent law-abiding behaviour and thereby enhance the discretionary power of state officials. *Vzyatkoemkost'* may emerge unintentionally as the result of a rushed or careless legislative process; it may then be maintained once the corruptogenic potential of the law becomes apparent. *Vzyatkoemkost'* may also be created deliberately by a targeted interference in the law-making process.

*Vzyatkoemkost'* is not only relevant for the extraction of bribes and kickbacks (*otkat*, see 6.29 in this volume) but is also constituent with the formation of a new type of political order. In the Soviet period, partly repressive legislation was applied selectively and demonstratively. The deterrence function of law served to ensure obedience within the Communist Party and the state, thereby maintaining the given political order. In the post-Soviet era, by contrast, a political order emerged that was based on the irresolvable contradiction between formal rules and informal practices. *Vzyatkoemkost'* was its central institutional prerequisite. Officials were equipped with sufficient legal opportunities to collect bribes, which had to be shared with superiors. The corruption pyramids created thereby extended through all levels of the state administration.

The prevention of legal predictability helps to establish regular routines and patterns of informal interaction between state and society. *Vzyatkoemkost'* may become a dominant feature to the extent that the intended content of a law is virtually eliminated and the distinction between tax, fine and bribe becomes blurred (Paneyakh 2008). In such cases, a law may become a mere shell facilitating the emergence of specific informal institutions and practices. Another crucial component was that the collection of bribes was comprehensively monitored. The data gathered (*kompromat*, see 8.5 in this volume) on wrongdoings could be used against state officials at any time, thereby ensuring their loyalty to the regime. The result was de facto criminalisation of wide ranges of state and society. Darden has called this form of political domination, which was paradigmatic for the first decade of the post-Soviet transition, a 'blackmail state' (Darden 2001). *Vzyatkoemkost'* contributed to this fragile socio-political order in two ways: first, it turned the state into a vehicle for the extraction and distribution of rents (*state capture*), and second it provided a powerful tool to discipline and balance the various influential societal groups.



The character and purpose of applied legal *vzyatkoemkost'* may change over time. As more capable and assertive states began to emerge in the post-Soviet space, the law's corruptogenic potential did not become redundant but helped to facilitate 'business capture', that is, the informal or de facto takeover of firms and markets by political elites. This provided politics with a powerful informal management instrument for steering private investments in areas of national interest.

Changes in the legal framework may also affect the functioning of *vzyatkoemkost'*. Russia, for example, introduced anti-corruption legislation in 2009, which among other measures established a parliamentary commission to review draft laws for their corruptogenic potential. Law has become increasingly important for the efficient organisation of state administration and promotion of economic development.

Increasing juridification of state–society relations and greater reliance on legislation does not necessarily, however, lead to the development of the rule of law. In fact, greater transparency and availability of information for state officials may increase the likelihood that entrepreneurs will be targeted by state officials (Paneyakh 2008). Moreover, given the prevalence of *vzyatkoemkost'* at regional and secondary law level, increased stress on formal rules increases the conflict between formal rules and informal practices. In this respect, it may turn law and its corruptogenic potential from a background facilitator of informal relations into a more direct threat for political, economic and societal entrepreneurs, since wrongdoing becomes more likely to be punished.

Various taxonomies have been developed (Tihomirov 2004; Krasnov et al. 2005; UNDP 2013) to analyse the *vzyatkoemkost'* of legal regulations. The specific extortion potential depends on various factors such as the type and density of relevant corruptogenic rules, the scale of the penalties imposed, the degree of independence (or lack of it) of the judiciary, and the financial dimension of the respective legal area.

## **Conclusion: methods of researching part-time crime and illicit economic activity**

Gerald Mars  
UCL, UK

'Part-time crime' is an intrinsically ambivalent concept. Many occupational practices that are defined as illegal by the wider society are accepted as legitimate within most occupations. Pilferage or 'fiddling' ('scamming' in the US) based in the workplace has been a recognised

feature of employment ever since employment was invented, and is generally regarded as 'different' from regular crime (Ditton 1977). An Egyptian papyrus of 1500 BC records a collective scam at a Pharaoh's farm (Peet 1924) that closely mirrors the 'firm within a firm' practices recorded in a Soviet biscuit factory in the 1980s, where output produced above the central plan was sold on to the private market (Mars and Altman 1987a, 1987b). The organised pilferage and distribution of cargo from Newfoundland docks (Mars 1974) echoed the pilferage from London's docks in the eighteenth century. Nor are the professions immune. Charles Dickens' notorious, albeit fictional, account of legal delays and the profits amassed by independent nineteenth-century lawyers can still be found today (*Business Insider* 2015). Such practices are evident to all who hire employees paid by time. Delivery people are similarly prone, while garage servicing is notorious in this respect. And everyone has had experience of 'Oops, sorry!' short-changing cashiers.

These occupations have not been identified randomly: they typify wide differences within a field long treated as homogeneous. Given their variation, one cannot apply the same research methods. Methods developed to examine, say, regular pilferage in the docks, or irregular 'leakage' from a factory, are not suitable to examine the deviance of roundsmen, bankers or shop assistants. These varying occupations, however, all offer additional illicit earnings and often the building and maintaining of social bonds inside and outside the workplace. And all foster ambiguities as both a shield and a means to their ends.

Because the wider society and the law classify illicit earnings as deviant and often as criminal, practising fiddlers naturally attempt to conceal their activities. To determine their likely incidence however, it is often useful to adopt a basic police mantra to identify if and how a particular situation reveals three characteristics: whether it offers the incumbents the MEANS, the METHODS and the OPPORTUNITY to practise illicitly.

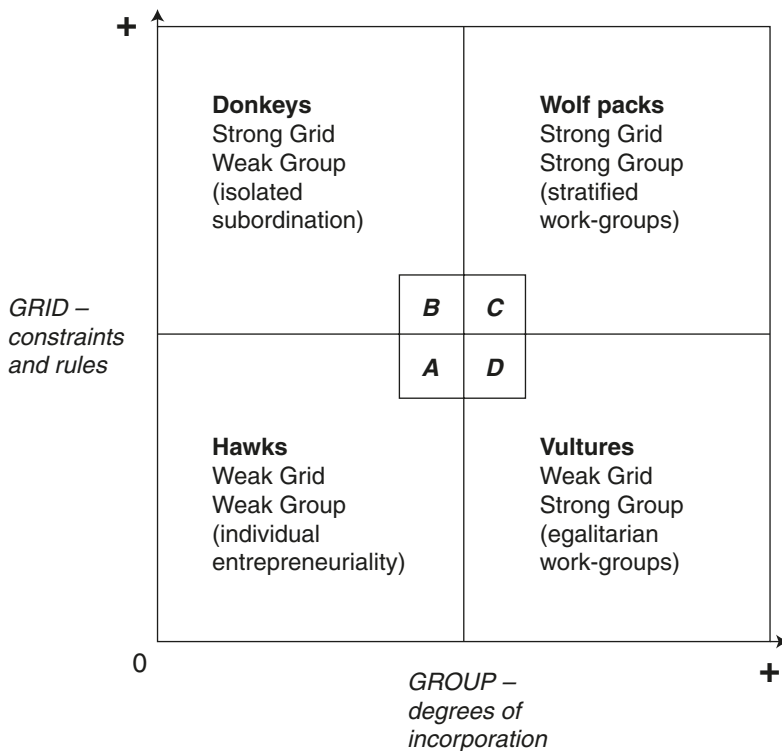
Since all illicit activity is subject to moral assessments, a prime requirement for any researcher is to suspend (without necessarily abandoning) their own moral standpoint: impartial understandings can be achieved only if, like anthropologists, one lays one's own values aside. Only then can the field be assessed from the standpoint of the actors involved.

The next requirement is access to a system of classification with categories that are both exclusive and exhaustive and that therefore allow effective comparison. Alternative systems of classifying jobs or their fiddles based on income, class, skill or prestige have not satisfied these requirements. But without classification and comparison there can be no science. The classification chosen here is derived from Cultural Theory,

devised by the anthropologist Mary Douglas and originally termed 'Grid/Group Theory' (Douglas 1970). As applied to the study of work, it posits four archetypal ('ideal type') work cultures based on how jobs are organised (Mars 1982/1994).

The allocation to work cultures is determined by two structural principles – rules and relationships – considered here as continua. The first, 'Grid', assesses jobs where constraining rules are imposed on incumbents at one extreme (strong grid) to where, at the other, an absence of rules (weak grid) permits a degree of worker autonomy. The second, 'Group', assesses the degree to which workers are integrated into a group, as part of a team or gang (strong group) at one extreme and extends to whether they work in isolation (weak group), at the other.

These two continua, when arranged as a 2 x 2 matrix, provide four archetypal cultures – sometimes termed 'ways of life' (see Figure 6.40.1). It is these forms of organisation that facilitate and foster their incumbents'



**Figure 6.40.1** Typology of work cultures.

Source: Author.

values, attitudes and behaviours, though not their individual psychological orientations. This is a sociological, not a psychological, theory.

A. *Hawks*. Where constraints are minimal and opportunities are ‘up for grabs’, Hawks (weak group and weak grid) operate competitively and independently. Here we find entrepreneurs, those in innovative, autonomous, risk-taking jobs, and employees operating in ‘their own’ territories. Here too are the time-based fiddlers of professionals: lawyers, accountants and industrial consultants who not infrequently fiddle to excess. Hawk fiddlers are prone to ‘bending time’ and they similarly ‘bend’ rules, precedents and sometimes laws. Seeking to extend their networks is a constant activity with a tendency to impress via conspicuous consumption and fashion. Their perceptions and strategies are short-term: bonus-earning bankers are archetypal Hawks (Mars 2013b: ch. 9). Their fiddled incomes tend to provide a high and expected proportion of their total rewards. And, since archetypal Hawks are not subject to constraints from groups of colleagues or historical precedence, they are likely to follow existing trends to excess. For example, they are unlikely to anticipate changes in market conditions or economic downturns. Sources of data on Hawk fiddlers, which vary widely according to the context, include whistleblowing by former employees, media reporting and the results of official enquiries. Active fiddlers are, of course, unlikely to provide data. Cross-checking data is essential.

B. *Donkeys* (weak group and strong grid) are employed in highly constrained and isolating jobs such as in call centres, and include many of those who work from home and some shop assistants. Lacking group support they tend to be passive yet capable of short-changing and occasional excessive pilfering. As one headline put it: ‘Shop Assistant’s Home was an Aladdin’s Cave – Police Report’. If the grid is strongly asserted – especially when mechanised – donkeys may well respond with sabotage.

There is normally no shortage of donkey data from people who have worked or continue to work. Again, cross-checking is valuable. In ‘one-to-one’ service dealings, such as customer to sales assistant, close observation is a fruitful data source. Obscured measuring scales and till windows placed out of sight can be a sign – appear careless and look around. If male, shop where the usual customers are female. Check the change against the receipt (if any). Often, the control systems that might be effective are not in place, either because of the expense of installation or as a result of managerial collusion to incentivise workers and allow the cost to be borne by the customers. Incentive coupons issued by stores and petrol stations are not infrequently retained by staff to be later redeemed by them or their friends. The creation and exploitation of ambiguity has

long been the basis of illicit activity, and is so even more with increasing globalisation and the complexity of technological developments.

C. *Wolf packs* (strong group and strong grid) are noted for hierarchic divisions of labour that coordinate different functions to a common task and that typically 'adapt' legitimate work roles to illegitimate ends. Mutual support and loyalties are firm and consistent. Wolf packs were found among the ancient Egyptian farm scammers, eighteenth-century dockworkers and Soviet factory managers (who in that case were allied to Hawks). Wolf packs typically exert collective controls over their members – especially over the amounts pilfered – and apply sanctions against those who exceed them. But they also work to maintain minimum levels. In effect, Wolf packs operate a quantitative morality: taking above the specified limits is unjustified and sanctioned, while achieving lower levels is justified and creditable. The effective maintenance of this morality reflects adherence to long-time perceptions, overall risk aversion and a clear distinction between insiders and outsiders. Among Wolf packs there is usually a strong intermesh of work and community that supplies the basis of team recruitment, moral support and a conduit for fiddled goods (Mars 2013a).

Wolf packs are hard to research. The intricacies of their internal controls; the complexity of intermeshing roles and the created ambiguities that conceal their deviance; their means of recruitment and typically the tightness of their boundaries against outsiders, all tend to limit communication with them. Ideally, participant observation would be the most effective research method. But, in the absence of a researcher who has actually worked in the context, the next most effective method is to use, as informants, former Wolf-pack members who preferably have physically moved from the community (Mars and Altman 1987a, 1987b). Retrospective studies are easier, and people tend to talk more readily and to be less apprehensive of publication when there have been subsequent changes in technology or organisation. Approaching the subject obliquely, without a focus on deviance, identifying several informants to cross-check accounts, and, if possible, raising examples of personal experience as a participant in occupational deviance can help build rapport.

D. *Vultures* (strong group and weak grid) are found where individuals fiddle for themselves but are subject to the constraints of a common employer. Examples are roundsmen, garage mechanics and waiting staff in hotels and restaurants. Like real-life vultures, they work together, but are independently competitive 'at the kill'. They value group involvement and embrace egalitarianism, but reject group-sourced constraints and do not validate arbitrators – thereby contributing to group instability and schism. Since the boundaries of Vulture groups are typically less

strong than those of Wolf packs, their ability to control recruitment and maintain group controls is weaker. Their labour turnover tends to be higher – many Vulture jobs are seasonal – so bonding within Vulture groups is less intense and their defences against outsiders are weaker. Because Vulture groups, unlike Wolf packs, are unable to sustain any group-based consistency about levels of pilferage, there is a tendency for them to agree collusive levels with overall supervisors who often use access to fiddles to reward extra effort differentially. This partiality further weakens the consistency and stability of Vulture groups. Suggested research methods for this category include participant observation – by far the most effective research method – or finding informants. Provisos about the need for multiple informants and the cross-checking of data stand.

Ambiguity is often fostered where a good's quality, quantity or exact category can readily be 'fudged'. It is not easy to compute the quantity of drink consumed at a wedding, the extent of a car's servicing, the number of bricks delivered to a site, the thickness of concrete once it is laid, the amount of copper in a building or the gauge of zinc on a roof. Since these fiddles often require collective, cooperative support they are the particular but not the exclusive province of Wolf packs or Vulture groups. At busy times, especially in a sellers' market, ambiguity is likely to be deliberately increased – as at the New Year sales and when drinks are served during intervals at crowded theatre bars. This is when price lists go missing; cash-register windows become obscured and short-changing increases.

Globalisation – the free and rapid movement of capital, labour and ideas – facilitates increase in the centralisation and scale of enterprises. Managers grow increasingly distant from their workforces both socially and physically. Despite central controls, planned targeting, transparency and accountability measures, local managers enjoy greater autonomy and this in turn facilitates Wolf pack and Hawk fiddles. Through larger and more 'distant' units, they gain not only economies of scale, but also greater anonymity, lack of worker identification and more opportunities for theft (Smigel 1956). Because of the increased competition, globalisation involves, it also encourages an extension of information technology (IT) and technical complexity.

Ambiguity is fostered when gaps widen between levels of practitioner expertise and the relative ignorance of customers. John Adams (2000) has pointed to the 'hypermobility' of Western society that, together with globalisation, involves people travelling over steadily increasing distances with a growing proportion of people living in urban conurbations. Both facilitate fiddle-proneness.

Four contexts that facilitate fiddling and have intensified with globalisation can be distinguished; often they operate simultaneously. First, 'passing trade' typically occurs where two sides to a transaction transact only once, precluding a build-up of goodwill. It also operates when the fiddler is mobile relative to the customer: the 'relief hand', 'the filler-in' and 'the temporary replacement' are more fiddle-prone than the regular jobholders they replace. This is a particularly common feature of Vulture operations, where the public 'pass through' as in holiday resorts, pilgrimage centres, or airport and railway snack counters.

Second, 'triadic occupations' enable service workers directly involved with customers to play off two of the trio (employers, staff and customers) to their own advantage and against the interests of the third party. For example, a sales assistant or café-staffer sells items to friends at below cost, or an employer tells an employee to mark up prices to customers in anticipation of a stocktaking shortfall. With globalisation, increasing urbanism and hypermobility, burgeoning travel and tourism all increase both passing trade and triadic occupational deviance.

Third, 'exploiting expertise' is found where a relative imbalance of customer knowledge can be presumed – as in garage services, domestic repairs and many professions. Globalisation, together with increasingly complex technical developments, offers Hawks greater opportunities to exploit their expertise, since they can more easily insulate their activities and gain multiple payments for the same time – a common fiddle of consultants.

Fourth, 'gatekeepers' are found where there is an imbalance between the supply and demand for goods or information. Typically Hawks, gatekeepers feature both in command economies – such as the case of the Soviet biscuit factory – and in competitive economies when there is a surplus of suppliers relative to demand. This facilitates a propensity to bribe buyers, as in municipal purchasing and, notoriously, the international arms trade. Globalisation has, with the spread of IT, reduced monopolistic control of this factor and increased the number of gatekeepers.

To sum up: the various types of part-time crime cannot be treated homogeneously, though all require a suspension of the researcher's own moral judgement. The various types must first be identified, and will then demand very different methods of research. This in turn requires an effective means of classifying them. Any effective classification must be both exclusive and exhaustive, and the method suggested is a development of a classificatory schema derived from anthropology.



When we applied this approach to part-time crime, we deduced four broad types with different principles applicable to each of the four work cultures. These were discussed and then considered in the context of change – particularly technical change and change arising from the increasing pace of globalisation.

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## *Intermediation (partial compliance with the rules by creating invisibility)*

### **6.7 Brokerage (general)**

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Dorothy L. Zinn

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## *Playing the letter of the rules against their spirit*

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## Conclusion: methods of researching 'part-time crime' and illicit economic activity

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