

Corruption in State Economic Entities in Russia (Legal Aspects)

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ABSTRACT

The Russian Federation has a huge state sector in its economy. State economic entities unjustly do not often become an object of scientific research. That is the reason why the current theme is actual. This article is devoted to a problem of corruption in state economic entities in modern Russian. In the Russian Federation there are a lot of types of state economic entities. The main ones are state budgetary institutions, official duty enterprises, unitary enterprises, joint-stock companies. There are some differences in the corruption level in different regions of the country. There are a lot of corruption crimes in Moscow city, Rostov region, Moscow region, Krasnodar region, the Republic of Bashkortostan. Compared to other criminal acts the proportion of corruption is not very large. But it affects a wide range of people and has high public danger.

Keywords: *corruption, corruption in Russia, crimes in Russia, state economic entity, corruption in economic entity, corruption in state company*

1. INTRODUCTION

Today the federal and regional budgets in the Russian Federation are experiencing significant difficulties with incomings. One of the possible growth points is the receipt of income from the use of state property. Throughout modern Russian history the governing of state property was not very efficient. One of the main reasons of inefficient governing in Russia is corruption.

In many ways the content of governing processes was to reduce the number of facilities through privatization. One of the results is the emergence of business entities with state participation. Nearly 30 years of the post-Soviet period the presence of state in the form of participation in joint-stock companies and limited liability companies has been constantly decreasing. Over 35K state companies were formed during that period. Now there is less than 1K in federal property and 2.5K in regional property. But a decrease in their quantity did not affect the quality of governing.

2. MATERIALS AND METHODS

The main scientific methods of this work are analysis, synthesis, comparison, induction, deduction, grouping, generalization.

A theoretical ground of the research is represented by works of leading Russian and foreign specialists in different humanitarian spheres and official documents.

3. PROBLEM STATEMENT

Despite a high importance of functioning the Russian public sector, the theme of corruption in state economic entities does not become a subject of analysis in Russia or abroad. You can find a rather small number of studies devoted to this issue [1]. There are research works about different aspects of governing economic entities (strategy [2], capital investments [3], profit formation [4], economic security [5], decision-making [6]), corporate governance and management in general [7-11], public administration [12-13] and law [14] in economic field.

In Russia it's also possible to find scientific works devoted to legal aspects of combating corruption [15-16].

The main aim of this article is to eliminate the mentioned research gap.

4. RESULTS AND DISCUSSION

During a long time period a high level of corruption exists in Russia.

This statement is supported by data of one of the most respected organizations engaged in the study of corruption Transparency International. In their Corruption Perceptions Index (CPI) the Russian Federation is quite far from low-corruption countries (table 1).

Countries are ranked on a scale from 0 to 100 points (until 2012 the scale was 10 points). Countries with the highest level of perception of corruption receive 0 points and countries with the lowest corruption have maximum points

In 2019 the Russian Federation received 28 points on position number 137. In one group with Russia there were mostly African countries (Kenya, Liberia, Mauritania, Uganda), Dominican Republic, Papua New Guinea Paraguay and Lebanon [17].

These tables clearly show that the corruption level in the country is at a consistently high level.

In addition to international non-profit organizations researches on corruption is carried out by Russian non-governmental organizations.

Table 1 Corruption perceptions index in Russia in 1996-2019 [17]

| Year | Index | Number of countries surveyed | Place of Russia |
|------|-------|------------------------------|-----------------|
| 1996 | 2.58 | 54 | 47 |
| 1997 | 2.3 | 52 | 49 |
| 1998 | 2.4 | 85 | 76 |
| 1999 | 2.4 | 99 | 82 |
| 2000 | 2.4 | 99 | 82 |
| 2001 | 2.3 | 91 | 79 |
| 2002 | 2.7 | 102 | 71 |
| 2003 | 2.7 | 133 | 86 |
| 2004 | 2.8 | 145 | 90 |
| 2005 | 2.4 | 158 | 126 |
| 2006 | 2.5 | 163 | 121 |
| 2007 | 2.3 | 179 | 143 |
| 2008 | 2.1 | 180 | 147 |
| 2009 | 2.2 | 180 | 146 |
| 2010 | 2.1 | 178 | 154 |
| 2011 | 2.4 | 182 | 143 |
| 2012 | 2.8 | 176 | 133 |
| 2013 | 2.8 | 177 | 127 |
| 2014 | 2.7 | 174 | 136 |
| 2015 | 2.9 | 168 | 119 |
| 2016 | 2.9 | 176 | 131 |
| 2017 | 2.9 | 180 | 135 |
| 2018 | 2.8 | 180 | 138 |
| 2019 | 2.8 | 180 | 137 |

Let us focus on the results obtained by the specialists of the Autonomous non-profit organization “Analytical Center of Yuri Levada” (table 2).

As we can see from the table, more than half of the respondents believe that there will be high-profile corruption scandals and the resignation of ministers in the country. This indicates the confidence of residents in the corruption of large leaders in the state.

One major corruption scandal happened a few years ago. In 2016 the Russian Minister of Economic Development of the Russian Federation A. Ulyukaev was arrested. His former ministry controlled Federal Agency for State Property Management. The agency is a federal executive body with management functions for federal property. He was found guilty in receiving a \$2 million bribe. He took it

for the acceptance to buy a 50% stake in state oil company PJSC Bashneft. The buyer was Russian state oil giant PJSC Rosneft.

Table 2 The results of the Levada centre poll “Are high-profile corruption scandals possible in Russia?” [18]

| Year / answer | 2007 | 2011 | 2015 | 2018 | 2020 |
|-------------------|------|------|------|------|------|
| Definitely yes, % | 14 | 13 | 9 | 16 | 16 |
| Rather yes, % | 46 | 47 | 42 | 47 | 50 |
| Probably not, % | 16 | 18 | 26 | 20 | 18 |
| Definitely not, % | 5 | 4 | 7 | 6 | 6 |
| I do not know, % | 19 | 19 | 16 | 11 | 10 |

Another example of corruption in the federal government is a case with the Minister of the Russian Federation M. Abyzov. He suspected in embezzlement of \$20 million. An arrest of a person responsible for interaction with society and economic entities shows the complexity of the corruption situation in the country.

Federal executive bodies are not the only ones who have functions in the sphere of state property. Parliaments also play an important role. One of the main parliament tasks is control over state property, budget and economic entities. Russian polls show that people in the country do not trust deputies (table 3).

Table 3 The results of the Levada centre poll “Are declarations of the incomes and property of higher state officers and deputies reliable?” [19]

| Year / answer | 2010 | 2013 | 2015 | 2017 | 2019 |
|---------------------|------|------|------|------|------|
| All | 2 | 3 | 15 | 8 | 3 |
| Most of | 10 | 13 | 8 | 12 | 11 |
| Smaller part | 44 | 43 | 40 | 40 | 40 |
| A negligible part | 34 | 28 | 26 | 21 | 37 |
| Difficult to answer | 10 | 11 | 12 | 19 | 8 |

The results show the level of confidence to authorities and presence of corrupt officials.

According to the special federal law corruption is a very long and hard understandable category (Clause 1, Article 1 [20]). It consists of an enumeration of the most common corruption crimes in the country like giving and receiving a bribe, abuse of authority, commercial bribery. The law definition is also indicated for whom and for what benefits a corrupter does it.

The Criminal Code of the Russian Federation does not contain a definition of corruption. But it can help to identify corruption crimes [21]. Thus, corruption crime is an act committed using an official position responsibility for which is provided by the Criminal Code. The most

widespread corruption crimes are bribes and abuse of authority.

Below are the data on corruption crimes. The resource of information is the portal of legal statistics of the General Prosecutor's Office of the Russian Federation [22].

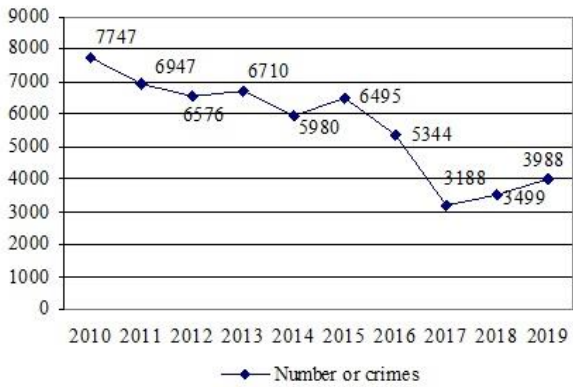


Figure 1 Number of registered crimes of bribe taking in Russia in 2010-2019

The number of crimes decreased in 2015-2017 from 6495 to 3188. In 2018 crime episodes started to grow. In 2019 there were 3988 registered crimes of the bribe taking.

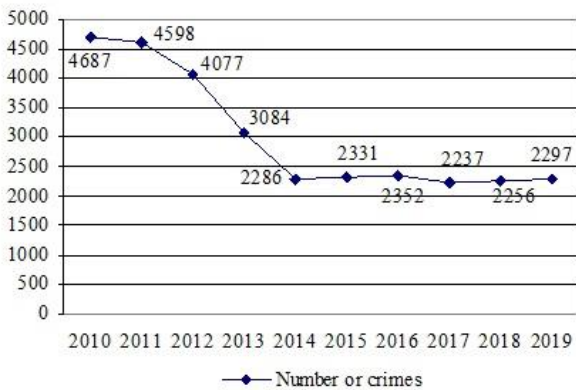


Figure 2 Number of registered crimes of abuse of authority in Russia in 2010-2019

The number of crimes of the abuse of authority in the country stays stable for the last 5 years.

Russian regions have different number of officially registered crime episodes.

There is a big difference between regions in Russia. The highest level of bribe taking is in Moscow. On the second place is Rostov region. Then goes Moscow region, Krasnodar region and the Republic of Bashkortostan. The lowest level of bribe taking is in Nenets autonomous okrug, Chukotka autonomous okrug, Jewish autonomous region. In each of those subjects of federation, there was only one case of the bribe taking. Only 2 bribes taking episodes were in 2019 in the Republic of Tyva and 3 in the Republic of Khakassia.

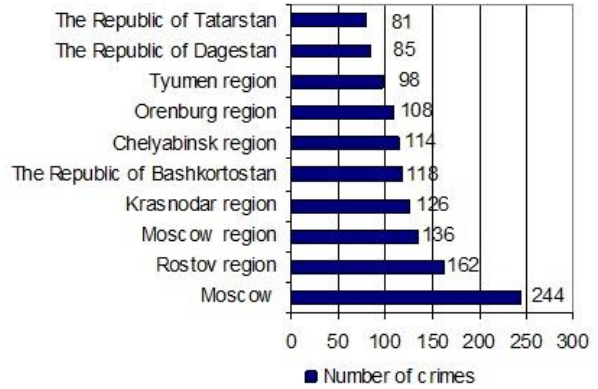


Figure 3 Number of registered crimes of bribe taking in Russian regions in 2019

With other crimes, the situation is the following.

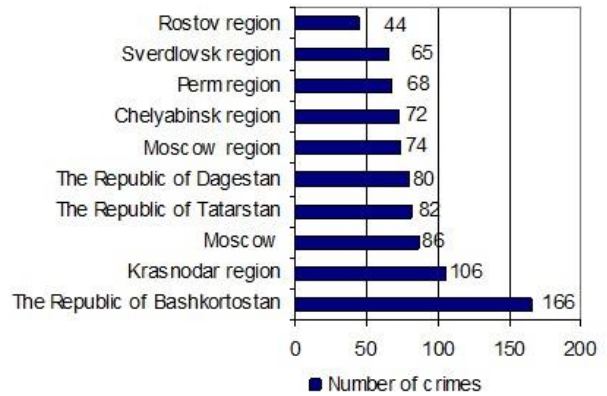


Figure 4 Number of registered crimes of abuse of authority in Russian regions in 2019

On the 1st place in abuse of authority in Russia is the Republic of Bashkortostan. Next are Krasnodar region, Moscow, the Republic of Tatarstan and the Republic of Dagestan. The lowest level of abuse of authority crimes are Nenets autonomous okrug, Bryansk region, Chukotka autonomous okrug. They had no abuse of authority crimes in 2019. Murmansk and Magadan regions had each only 1 episode of abuse of authority.

As we can see the top 5 regions in both crimes are almost the same. There is only on difference. Among the abuse of authority territories is the Republic of Dagestan and Rostov region is next.

Bribe taking and abuse of authority are not the only crimes in Russia. The whole crime situation in the country in 2010-2019 was the following (Figure 5).

If we make a comparison between number of all registered crimes and corruption crimes (bribe taking and abuse of authority) in the Russian Federation, the situation will be the following (Table 4).

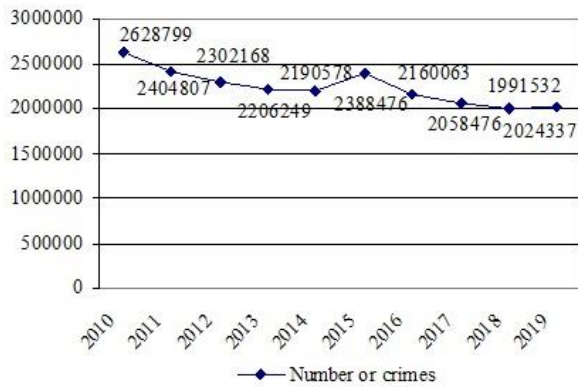


Figure 5 Number of all registered crimes in Russia in 2010-2019

Table 4 Share of bribe taking and abuse of authority in all crimes in 2015-2019

| Year / share of total crimes, % | 2015 | 2016 | 2017 | 2018 | 2019 |
|---------------------------------|------|------|------|------|------|
| Bribe taking | 0.27 | 0.25 | 0.15 | 0.17 | 0.2 |
| Abuse of authority | 0.1 | 0.11 | 0.11 | 0.11 | 0.11 |

Figures in the table show that shares of bribe taking and abuse of authority make a small fraction in all crimes in Russia.

In 2019 bribe taking was 0.2% of crimes, abuse of authority – 0.11%. Close results were during all the analysed period.

Besides discussed corruption crimes, there are a lot of others.

Quite widespread corruption crimes in state economic entities in the Russian Federation are:

- giving a bribe;
- petty bribery (less than 10K rub);
- commercial bribery;
- bribery mediation;
- abuses in procurement of goods (work and services) for state or municipal needs;
- fraud;
- bankruptcy misconduct;
- intentional bankruptcy;
- fictitious bankruptcy;
- avoidance of customs duties levied on an organization;
- falsification of the decision of the decision making bodies;
- illegal obtaining a loan;
- malicious loan evasion;
- illegal receipt and disclosure of information consisting of commercial, tax or banking secret.

Also there are other corruption criminal cases.

There are a lot of examples of corruption crimes in Russian state economic entities.

One of the common crimes is the use of the organization’s property in the interests of its management and associated people.

For example, a state organization acquires expensive equipment from its own or borrowed funds. After its purchase most of the time it produces products sold not from the organization that bought it, but from the company that do not pays any fee for the operation of the equipment. That company gives money directly to the director of the organization. Machines wear out. Their repair and purchase of spare parts, payment for electricity, rent payment, taxes come from the organization that bought it. Thus, all expenses in the state economic entity and all benefits go to the third parties and the director of personally.

For revenue from commercial activities, a company with state participation purchased a car. It put the car on the balance sheet of the organization. Soon this vehicle transfer for free use without registration of any documents, except for a power of attorney signed by the director general. Using his official powers contrary to the interests of the organization, acting out of selfish interest, the head of the company hand the car to his next of kin. It store throughout all the time and was used by next of kin for personal purposes. The rental of a parking space, insurance and car maintenance is paid by the company. As a result of prolonged use, the vehicle loses the bulk of its original cost.

There may be other variations in the personal interest use of property. In particular, the gratuitous use of office and other equipment of the organization by director’s friends, or the rental of a representative car with a driver for the chef of organization with affiliated persons. Sometimes a head of a state economic entity can even rent a car from his wife (son, daughter, etc.).

For personal purposes management is also use employees of the organization. Fear of sanctions and dismissal helps. Personnel carry out various works and provide services free of charge. For example, repair and maintenance of the director’s personal property, legal and accounting support to the parallel business of the director, etc.

A significant number of corruption acts are related to contractual relations. The head of the organization signs contracts that are obviously disadvantageous for the organization. This may be a contract for the supply of products at a lower cost, or vice versa, the purchase of goods at a price higher than the market, lower quality, obviously outdated, etc. Sometimes goods and services are purchased that are not needed in principle. But the counterparty pays fee to the director or other decision-making man personally.

In the field of state and municipal procurement abuses are committed daily. The public procurement mechanism created to save money leads to the fact that often the purchase is in violation of competition. Often those are low-quality goods. Again, the reason is the personal interest of the leadership of organization.

The practice of overstatement of staff has spread. Relatives, friends and other persons are accepted for work. Hiring of them is not stipulated by economic feasibility or the requirements of the legislation. This leads to an increase in the organization’s expenses for labour remuneration, reduces decision-making time, leads to

additional costs for the maintenance of the premises, the purchase of office equipment, etc.

There are frequent cases of concluding agreements with legal entities the founders of which are immediate relatives or lovers to the top management. Typically, such type of contracts is disadvantageous for the organization or are fictitious.

Ultimately all of the above in addition reduce the effectiveness of the functioning of the relevant state economic entity, affects the increase in the cost of production for the consumers.

5. CONCLUSION

Summing up, it is worth noting that corruption has become quite widespread in Russia. Compared to other criminal acts the proportion of corruption is not very large. However, in contrast to other crimes (theft, murder, rape, etc.) corruption affects, as a rule, a wide range of people. This indicates its high public danger.

In Russia as in other countries of the world there are a fairly large number of different corruption acts. In state economic entities, corruption acts are committed more often than in private ones. The reason is the weaker control by the owner. Actually, there is no owner because functions are held by many officials. They are often the ones who carry out corrupt activities.

It is extremely difficult to change the current situation, but there are states that have achieved significant success in this matter. Their experience can help Russia overcome the difficulties in which it found itself.

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