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CLIENTELISTIC RELATIONS BETWEEN POLITICAL ELITE AND ENTREPRENEURS IN SERBIA⁴

Klijentelistički odnosi između političke elite i preduzetnika u Srbiji

ABSTRACT: Main objective in this article is to describe in more details specific inter-linkages and exchange that is unfolding between political elite and entrepreneurs as key actors that possess, manage and deploy economic resources in the private sector of the economy. The focus is on the specific mechanisms through which the exchange has been unfolding, as well as on the perception of the functionality of the exchange for the position and interests of both type of actors.

The analysis is conducted using empirical findings from the qualitative, in-depth research on political clientelism and party patronage implemented in the spring 2015 upon sample of 55 representatives of political elite, 26 economic actors, 9 interlocking broker and 8 experts.

From the research, it is clear that economic actors have, to put it mildly, ambivalent attitude towards this way of functioning of the market. On the one hand, they feel all the risks they are exposed to: additional expenditure, unforeseen requirements, interference in their own personnel policy, uncertainty of their business in the long term, unfair competition, demand unpredictability etc. On the other hand, they take this play as given. When they think strategically, they rationally consider alternatives and cost-benefit relationship. Although the desire to get rid of the political embrace is present, the support that comes from that side represents at least a short-term guarantor of their position security. Political actors take this system as

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given to a certain extent and when describing the mechanisms of its functioning, they do not question the system itself.

KEY WORDS: Clientelism, informality, market.

APSTRAKT: *Glavni cilj ovog članka je da detaljnije opiše posebne veze i razmenu između političke elite i preduzetnika kao ključnih aktera koji poseduju, razvijaju i upravljaju ekonomskim resursima u privatnom sektoru privrede. Fokus je na specifičnim mehanizmima kroz koje se razmena odvija, kao i na percepciji funkcionalnosti razmene za pozicije i interese navedenih aktera.*

U radu je korišćena kvalitativna analiza empirijskih podataka, istraživanja o političkom klijentelizmu i partijske patronaže koje je sprovedeno proleća 2015. godine na uzorku od 55 predstavnika političke elite, 26 privrednih subjekata, 9 interlokera i 8 stručnjaka.

Analize jasno pokazuju da ekonomski akteri imaju, blago rečeno, ambivalentan odnos prema trenutnom načinu funkcionisanja tržišta koje podrazumeva klijentelističke odnose. S jedne strane, oni osećaju sve rizike kojima su izloženi: dodatnim troškovima, nepredviđenim angažmanima, uplitanja u svoju kadrovsku politiku, neizvesnosti poslovanja na duži rok, nelojalnoj konkurenciji itd. Sa druge strane, oni ova pravila prihvataju kao data. Kada strateški razmišljaju oni racionalno razmotraju alternative i odnos cene i dobiti. Iako je želja da se oslobode političkog zagrljaja prisutna, podrška koja dolazi sa te strane predstavlja makar kratkoročno garant njihove sigurnosti. Politički akteri u velikoj meri ovakav sistem razmene prihvataju kao datost i kada opisuju mehanizme njegovog funkcionisanja, oni ne dovode u pitanje sam sistem.

KLJUČNE REČI: Klijentelizam, informalnost, tržište.

Introduction

Clientelistic relations between political elite and entrepreneurs are one form of linkages that are developed and maintained within the more complex networks of political clientelism and party patronage through which political control over economic resources is established and reproduced. This broader phenomenon in Serbia is described in more comprehensive way elsewhere (Cvejic et al, 2016), contributing to the understanding of specific patterns and mechanisms that enable development of specific forms of political, or state centered capitalism in Serbia (Antonic, 1993, 2006; Holcombe, 2015; Lazic and Pesic, 2012).

Main objective in this article is to describe in more details specific inter-linkages and exchange that is unfolding between political elite and entrepreneurs as key actors that possess, manage and deploy economic resources in the private sector of the economy. The focus is on the specific mechanisms through which the exchange has been unfolding, as well as on the perception of the functionality of the exchange for the position and interests of both type of actors.

The analysis is conducted using empirical findings from the qualitative, in-depth research on political clientelism and party patronage implemented in the

spring 2015 upon sample of 55 representatives of political elite (representatives of the five biggest political parties in the last 10 years who were in the important positions inside the political structures and public administration), 26 economic actors (entrepreneurs and managers private enterprises), 9 interlocking broker occupying simultaneously positions of political and economic power and 8 experts (representatives of state and independent bodies that deal with the relevant topic directly or indirectly such as Anti-corruption Agency, Anti-corruption Council, relevant NGOs and independent experts from academic community). Research was conducted through in-depth interviews using semi-standardize interview guides, following principles of highly sensitive topic research.

The research of the informal relations in the economic field⁵ in Serbian sociology has its history, but the perspective of the investigation was slightly different from the one which is offered in this paper. Till now informal relations are examined as the part of survival strategy or social promotion (Babović, 2004) and as the importance of social capital for individuals and their families (Tomanović, 2004, 2006a; 2006b; 2008). These researches gave sufficient insights that informality sphere is quite wider and more complex and that in order to completely understand the mode of the social reproduction is necessary to explore other spheres as well, especially political. At the same time, approaches focused on the way institutions are functioning lost sight of significant part of the reality or they are simply treated them as deviant way of behavior. For this reason, we consider that informal relations should treat as functional on the level of reproduction of the system, even when they are completely opposite to normative. Only in this way we can recognize the key actors, centers of power, resources and mechanisms, regarding the real mode of the redistribution among political and economic fields.

In the first part of the article, we will describe the key concepts and social-historical context in which informal relations between political actors and entrepreneurs are created, structured and reconstructed.

The main goal is to show that clientelist relations in the period of post-socialism are very important for the reproduction of the system on economic and political European periphery. In the second part of the article, mechanism of clientelist exchange will be described based on the respondents' statements who are political and economic actors. According to their statements in the conclusion we will come back to the main concepts and we will try to contextualize the specificity of informal exchange in Serbia.

Theoretical background

The informality, the term which encompasses the Informal relations, practices and norms play important role in the political and economic sphere. Different informal institutions such as patron-client relations networks, clientelism and party patronage shape political and economic life creating informal structures

5 The research of the informal relations of political actors is just recently the object of research (Antonić, 2010; 2011; Vuletić, Stanojević, 2014).

and rules of the game. Hayos (2013: 52) stresses: "Governance is then happening somewhere between the poles of formality and informality". Similarly, Helmke and Levitsky (2004: 726) point out that: "good institutional analysis requires rigorous attention to both formal and informal rules". For this reason, scientific exploration requires the detailed analysis of formal and informal structures and institutions which is "a new set of research challenges" (Helmke and Levitsky, 2004: 725).

Particularly, clientelism is important for explaining interactions and interlocking between politics and economy in the contemporary societies. Even though clientelism can be found in different countries with various political systems, Kitschelt and Wilkinson (2007) notice that the clientelistic relations are more frequent and more developed in the countries which have multiparty system and a low level of economic development. The reason for this is that in the countries with low income levels, clientelistic relations are more frequent in the providing the political allegiance of clients because it is cheaper to buy someone's support (Robertson and Verdier, 2013, Stanojević, Stokanić, 2014). Especially in the context of weak and blurred institutional and normative framework, individuals tend to rely more on informal institutions. Because of that, patterns of clientelism are prevalent in the literature describing the political and economic changes post-socialist countries and their specific development of democratic political institutions (Giordano & Hayoz, 2013) or in the societies where the political capitalism dominates (Lazić, Pešić, 2012).

In the this article, we will define and understand clientelism as relations between political parties and other agents which rest on the forms of exchange, in which one side provides benefits that the other side needs, in order to insure political support and loyalty. It is important to mention that this form of relation is asymmetrical in its nature, involving actors who have different positions and power. For this reason, even though both sides enter this relation voluntarily, clientelistic relations usually assume inequality in exchange (Kopecky & Scherlis, 2008; Kitschelt, 2000). Furthermore, clientelist relations may vary in the extent of the personalism in the relations: from personalistic clientelism, based on face-to-face relations with normative bonds of dependence and loyalty between patron and client to modern clientelism of anonymous political machinery and competition between providers of selective incentives. Even if "clientelist relations involve exchanges between particular individuals and small constituency groups arranged in hierarchical political machines, the latter may be highly institutionalized (and thus impersonal) in the sense that actors express stable expectations vis-à-vis the nature of the players and the interactive linkage that they have entered" (Kitschelt, 2000: 852). One more feature of clientelism is the mode of resource exchange, which can be public and hidden (Green, 2011). In the first case, all processes took place in public but the logic of the exchange is influenced by political cliques or party on the power, which with these specific exchange favor certain actors. The most common example is exchange of subventions to certain companies, or regions with whom the power has specific informal connections. The other example is the exchange which takes place

with mediums and in the way which is not available to public. The employment of party members, the use of inspections for the making the pressure on entrepreneurs which are not cooperative and so on, are the examples for the second type of exchange. In these cases, the state are nominally in the position on neutral player, but in fact its resources are used in favor of the certain power network.

Clientelism is understood as specific form of exchange between electoral constituencies as principals and politicians as agenda in the democratic system (Kitschelt and Wilkinson 2007: 7). The organization of clientelistic relations is governed by the shared norms and arranged hierarchically, with various levels of brokers and patrons on the top. Three constituting elements of clientelistic exchange can be distinguished: contingent direct exchange, predictability and monitoring. Due to the fact that clientelistic relations evolve over time and can last for longer period, cognitive and/or motivational conditions have to exist. Cognitive condition means that actors have shared expectations of predictable behavior and they are aware of the motivations and payoffs for alternative courses of action. Motivational condition overwhelms voluntary compliance of actors to the rules of the clientelistic relations. In the situation when these conditions are not met enforcement structures are created in order to control behavior and prevent or punish defection from the bargaining and free-riding (Kitschelt & Wilkinson, 2007: 3–9). In order to build trustworthy relationships in the unpredictable environment with domination of informal rather than formally developed rules, clientelist exchange is organized around already existing social networks.

Authors stress that kinship and ethnic identities and social networks built around them are often used for the creation of clientelistic relations. Social networks play important role in the creation and maintenance of the clientelist interconnections due to a secretive manner of the clientelistic behavior (Kitschelt & Wilkinson, 2007: 19). Finally, it should be noticed that that clientelistic networks are not necessarily consisted of the relations between political parties and other actors, but also they are present inside the political party structures (Stanojević, Stokanić, 2014).

Furthermore, it should be noted that clientelist networks can emerge creating various forms. Mostly they are *personal or power networks*. We will focus in this article on the power networks who are formed as a clientelist networks of influential individuals in the political field. According to Ledeneva (2013:13) power networks have similar rules and mechanism like other informal networks creating reciprocity and informal constraints among members of the same networks such as: “(a) blurred boundaries between friendship and the use of friendship; (b) helping friends at the expense of public/corporate resources or access; and (c) recruitment into networks according to a particular logic – it could be loyalty, dependence, or compliance based on transgression / compromised recruiting – rather than the logic of competition and professionalism”. These networks are consisted of both strong and weak ties which can be used for the private and public interests. In that manner actors connect private and public settings. (Ledeneva, 2013:55)

Historical legacy and path-dependency of clientelism

Serbia had a specific social, economic and historical development in the context of the weak institutional environment in which formal institutions are still often dominated by the informal institutions and practices. This characteristic of development of Serbian society is burden by late modernization and inclusion into the world capitalist system on peripheral grounds. In that context, informality and clientelism have represented one of the crucial principles on which socio-economic and political development of Serbian society is based. Consequently, informality is the important feature and mechanism on the macro-structural level of the society as well on the micro-level shaping everyday life. Therefore, informality is omnipresent as a substitute to formal rules and institutions. Due to the lack or weak performance of formal institutions, individuals and social groups are obliged to rely on informal rules and institutions, thus creating a specific “culture of informality” (Grødeland and Aasland 2007: 218).

Informality was one of the important feature during the period of the late socialism in the late 1980s becoming an important sphere of social structuring. Even though, in this period, it was based on different legitimization principles, informality had similar functions than in the following period: it supported class differentiation. Concretely, the lower classes used informal contacts and networks as a part of their survival strategies. On the other side of the stratification ladder the upper classes used informal connection to provide and concentrate more political and economic power. As a result, the informality influenced on the increase of the economic inequalities and the control of economic sphere using political power (Lazić, 1994).

Afterward, in the period of post-socialist transformation, informality increased its scale and its importance for social structuring. Especially, in the time of blocked post-socialist transformation during the 1990s, the informal relations were very significant aspect of every-day life as well as social reproduction. Furthermore, since the 2000, Serbia passed through the period of ‘unblocked transformation’ in which many informal forms prevailed while process of privatization and democratization of political life presented the new challenges for the development of new forms of informality. Despite many problems in economic and political sphere, the consolidation of capitalist social relations was started to establish. Consequently the social structure went through many changes. Economic and political actors established new forms of mutual interdependence in the changing context. Concretely, political parties are depended on the funds acquired from economic actors, who need political support in order to maintain or increase position on the market. Despite of the many informal connections and interdependence between political and economic elite, their relationship became more autonomous in comparison to the previous period, since certain level of detachment of the economy from political sphere is a necessary for the development of market economy (Lazić, Pešić, 2012: 52).

The aforementioned changes in economic and political scenes affected the reproduction and transformation of clientelist relations and networks. In order

to provide resources and other benefits, diverse informal mechanisms among political and economic actors are used which we analyzed in the research conducted at the central and local level.

Actors and resources of exchange through clientelistic relations

Analyzing the data from our research, we distinguish three main groups of actors that are involved in clientelistic relations: actors which occupy only political positions (members of parliament, members of Government, influential people in the party etc.), actors inside the economic field (owners and managers of companies) and those who are inside the both fields (interlockers – managers of public companies appointed by ruling political parties).

Respondents are grouped either through membership in the formal organizations (like in political party or public enterprise board) or they are connected through the informal networks. It is usually the case that a political party is being used as clientelistic organization by informal network of persons who have power to impose their personal interest under the mantle of collective will.

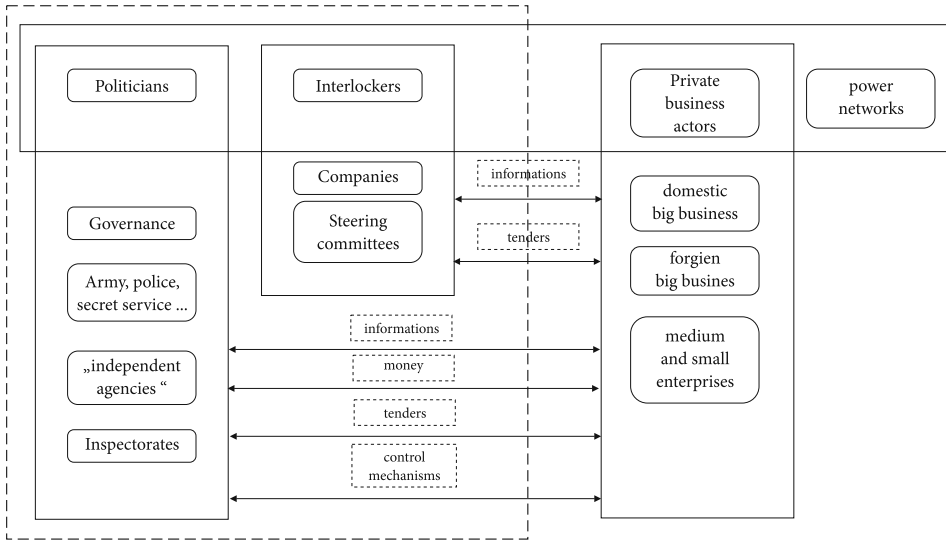
The graph 1 shows the crucial actors, the fields on which they have activities and resources which they exchange and created networks are shown. Firstly we will present the main **types of actors** which are mentioned in the interviews.

First of all, we divided **political actors** in three subgroups concerning the main functions/area of activities and responsibilities they have: actors who are responsible for the activities inside state institutions (government and administration), the actors who work in the economy (public enterprises) and those who primarily work inside the parties.

Inside the political parties the power is used to build and maintain power networks based on certain interests. Using activities in governance structure, power which is generated in the political parties is transferred to institutions. Finally, third power area is connected to the creation of links between political and economic system. As rarely one political actor can participate in all three power areas and have all three functions, certain functional division between political actors is present. However, in our research, it is stated that politicians can switch from one function to another during their political career.

Secondly, economic actors from private sector are divided concerning their economic power and size measured by the formal and informal strength to influence the business conditions in general or in the particular sector. Economic actors from private business sector usually have connections with political players using them for their economic opportunities. Furthermore, they are interested and relied on the public resources to a great extent.

Thirdly, interlockers are significant player with the important role to bridge the economic and political spheres. They usually have political background but they have o important economic influence and positions in the public enterprises and private companies.



Source: Cvejic et al, 2016.

Excluding economic actors in the private sector, for all other actors’ political influence and power is grounded in the affiliation in political parties. Political engagement can mean the direct political career in the party or building informal loyalty relations with party leadership. For this reason, parties play important role being the main field for competition over power and resources. In parties, individuals and networks create the positions of power inside the party which influence their position in other institutions and public enterprises.

In the clientelistic relations, different resources can be exchanged. By all means, financial gains are one of the most important resource for exchange. However, other resources can be crucial as well, such as information, different favors etc. Furthermore, financial resources can be exchanged in different forms, for example for the positions in the board of directors of public companies, for employment in public or private company, etc. In particular, employment became valuable resource after breakout of economic crisis in 2008, when unemployment rate significantly increased. Jobs can be provided in public administration, public enterprises or private sector on request from political party or influential politician. Usually jobs are provided for party activists, for lower echelons of party members. However, employment do not get only party activists but also friends and relatives of party members or persons from the place of the origin of some influential party members can be employed in this way. People get a job in public or private sector as a reward for volunteering work for the party, which is particularly expected during the election campaigns. They even engage their family members and close people for party tasks. Additionally, party members are obliged to give monthly financial contribution extracted from salary to the

political party, which is considered as expression of gratitude for being employed by party. Besides, there are different In-kind resources and favors such as travels, access to quality health care, vehicles, lunches and dinners. In-kind resources for the political parties from economic actors or media can be free of charge printing services, promotional material, and space in media for party promotion.

Additionally, changes in laws and regulations are resource required mostly from private business actors, which is exchange for financing political parties. This means that parties will influence on the introducing legal solutions and rules related to certain aspects of business and economy that enable more favorable conditions for certain businesspeople. Since those changes in laws can lead to better position on the market and providing certain benefits, they are important resource that private sector in economy can obtain from political elite. The most common way to establish control over business sector is using control mechanism– including judiciary, police and various inspections. Using the possibility to implement norms too strictly or too smoothly, they give opportunity for business in privileged conditions to certain actors, while the others are excluded from the game. In this process, information is one of the crucial resources for the private business actors. Valuable information can be changes in laws and other legal changes, about government decisions, market related information (who are new investors, who plans to invest in Serbia in certain industry, under which conditions, tenders-related information, etc.) These information are usually exchanged through informal networks and connections for the monetary or other favours.

Mechanisms of exchange between political elite and private entrepreneurs

As for the transactions with political actors, the private business sector has the following benefits: 1. Ensuring secure income through guaranteed jobs provided by the state or its intermediation; 2. Legal and other solutions (regulations, decisions, etc.) allowing operations under privileged conditions; 3. Non-institutional pressure on inspection authorities to tolerate various forms of irregularities in doing business or even to put pressure on the competition (through frequent inspection, initiating court proceedings, etc.). On the other hand, what political actors also gain in this exchange is: 1. Financial support (for functioning of their political parties, financing of political campaigns, and personal grants or bribe); 2. Opportunities for employment of their (potential) party membership.

Public tenders. The most important mechanisms of the financial exchange are public tenders. The primary function of such arrangements is to provide funds for the financing of political parties. Given that the budget funds have their own spending plan, the most common way of allocation involves private businesses as intermediaries. In this exchange both parties benefit: companies get secure jobs and party secure financing. Although some of the respondents in the survey expressed their opinion that it was not easy to manipulate tender

procedures, the majority of respondents agree that procedures were violated and the entire process manipulated in most cases of public procurement. The basic mechanism is based on an agreement between political and economic actors that a certain company would be favoured during the public bidding. On a practical level this means that they will be provided with otherwise unavailable information about the preferred price of services or works, quality, and often about the offers of other competing firms. Based on this information, they have the opportunity to formulate their offer so as to qualify as the most favourable one according to formal criteria. After signing the contract, part of the money goes to political actors, while the contract is subsequently extended through annexes which increase the value of the job and therefore benefits to both sides.

In cases of so called small public procurement, the procedure involves collection of at least three offers of private companies. Many respondents say that this procedure is formally followed, but that the selection process is done by mutual agreement between all actors. The invitation to participate in bidding is first forwarded only to certain companies. The agreement has already been reached with one of them, while others are asked to provide less favourable offers thus ensuring the formal correctness of the procedure. In other cases, the selected company will return the favour by participating in some other tender now only playing the game of competition.

Local governments compete with each other both for the private and public investments. However, in order to get the investments, (in addition to power networks on national level) they usually have to maintain good relations with the national authorities who are the main actors in managing of investments. Although the respondents find these investments very favourable for the local level, it becomes clear from a few examples that local political clique can function also as a gatekeeper for these investments. In the cases when they realize that they personally, local power network or their political party cannot benefit from such investments while some other competing network can (in case where the investment comes from a company that is a major funder of opposition parties), such investments are obstructed. Respondents from one municipality in central Serbia say that several such investments have been obstructed because they were mediated through an opposition party's channels, which was seen as a threat to the influence and control of the business sector at the local level.

Lobbying for legislative and administrative 'favours'. Actors from the business sector are attempting to influence long-term legal solutions (in their favour) through informal channels, by lobbying and making favours to political actors. This process involves complex negotiations which take place outside the institutional milieu and usually without the knowledge of the public. Although many respondents agree that there is now less and less room for such intervention, due to the process of accession to the EU and necessity of legal harmonization, big players still have an opportunity to use it.

The use of control mechanisms. A complex web of state control mechanisms can be utilized so to enable individual actors to do business under privileged conditions while other players can be excluded relatively easy. The mechanisms

include the work of inspection services, auditing bodies, independent state agencies, courts and others, i.e. all those instances with the power to determine the extent to which some company operates in accordance to the law. This means that these authorities are to ignore obvious violations of the law. Informal channels will be used to convey the message to the officials within the institutions and bodies who privileged actors are and how they must be treated in certain circumstances. Privileged companies are enabled to obtain licenses to operate even then when they violate certain provisions of the law. Respondents said that this was usually the case with anti-monopoly standards, fulfilment of conditions for doing a business (company's capacities and resources) and quality standards of goods or services, which could be presented so as to fit into legal requirements. Probably the greatest well known example of discussion on the monopoly in the domestic market is the position of MAXI retail. Even the state authorities investigated the proportion of sales on several occasions and they always determined the regularity of operations. Compliance with standards for doing a business or obtaining a job is another form of the service that can be provided. In order a company is enabled to work in a particular sector and to develop strategic partnerships with the state in particular, certain conditions are necessary (length of work, experience, results, etc.). A failure to fulfil such conditions can be overlooked to privileged companies. Thus, in a local self-government, a company without any experience in garbage collection and without own capacity to do the job is contracted to do this service, while it hires a third company to get the job done. This way, as intermediary, it gets an opportunity to make a profit. Inspection services are very important when it comes to giving an opinion on the quality of services provided on the market. At this point, respondents provided numerous examples of how *looking at the other side* enables acquiring extra profit.

The most common examples are building standards (especially in large cities with high rates of residential and office space). Construction companies often built regardless the scope of projects, building more squares than allowed which is why they often need additional legalization and subsequently political support for obtaining additional permits. This way, they can make far greater profits than if they operated within the legal framework. An example of the manipulation of results and standards of services was provided by the former director of a public company that had participated in the construction of a public building, together with the municipality in which the site was built. Execution of works was entrusted to a private company awarded the tender. When the work was almost finished, he stopped the works' execution and initiated court proceedings. He refused to confirm the quality of work by his signature, having in mind that the works had not been executed in accordance with the public call, used material had been of poor quality, while some parts of the contract had not been executed at all (missing thermal isolation).⁶ On this occasion he was pressured by the heads of municipality's services and the inspection bodies to sign it

6 We should bear in mind the context in which the proceeding was initiated, considering the fact that it occurred at the time of the split within the coalition at the local level.

with assurance that nothing bad could happen regardless the failures in works' performance. Although he failed to sign and the contracted job was not done according to the rules of the call, there was no reaction by the official authorities (including those from the national level). We got another similar example from a politician who provided us with the information that paving of roads was the least controlled service in terms of quality and that this was potentially the most profitable private business enabled by the state. He states that when a tender for a road section is called, the tender commission can set the terms of call so that only one bidder could match. In this case, others participate in the call most often only to imitate the competition. Then, it is possible to achieve extra profit in different ways. One of them is the increase in the real price of services and another one is lowering the quality of service. In the first case, the price of the service can be presented as significantly higher (he gives the example of 30%) and in the other one, for example, asphalt thickness could be reduced, e.g. from 10cm to 5cm. Both are very difficult to control while profits are shared between the company and the power network that provides the entire arrangement. Respondent further states that no inspection service has ever checked the work of these companies to determine whether they have completed undertaken job and, if not, what the reason was. The reason why the inspectors fail to do their job is because they are not told to do so, namely because they are not allowed to do it. His belief is that the work of all inspections is fully controlled.

On the other hand, competing companies as well as those not ready to cooperate according to the rules in an informal milieu can be under surveillance and pressure of inspection services. Given that they must allocate a significant portion of resources (money, time) in order to prove legal compliance (and, according to one respondent, "they can always find you something"), finding a solution outside the formal channels is faster and more cost-effective. This way of doing inspection services is applied with an intention either to exclude some companies from the market or to force them to cooperating under informal rules. This usually happens after the political changes when some companies lose existing contacts in the government. In such cases, economic actors would either manage to establish similar arrangements with new authorities or they would be pushed out by the competition that already has established contacts with the new authorities. In reality, this functions in the following way: inspection services intensively monitor these companies' operations and considering that they operated under privileged conditions in the past, often involving violation of legal norms, it is often not very difficult to find an evidence that may lead to a court proceeding. This is the experience of a woman entrepreneur who did not want to cooperate with political actors in this way:

"A politician came and said: 'Ok, you'll work for us', and I said, 'No, we will not'. After that we hardly uprooted. They had nothing to find, some background, but simply everything was controlled to the third decimal...And that lasted for months. It lasted from September to the end of March of the following year and it was agony, because it was not only the inspection, it was the crime police."

One politician who had previously worked in the inspection department explained that when a company was founded, contact with the owner was established soon with the request to recruit party members, namely its secure voters and/or to finance the political party. If the owner is not willing to respond positively, it is very likely that an inspection service will soon begin to inspect its business. He recalls:

“I worked as an inspector for 8 years and inspectors are exempt from their own mistakes. Even if someone does everything according to the law, you can always write a complaint that he is unable to respond, but has to pay a lawyer and thus spend some time and that is annoying. The inspector has the right to make a mistake and has no related consequences. People under this kind of pressure most often give up and say, “OK, so what, I’ll hire another two or three people, it’s better for me to be on good terms with them than to be constantly under some kind of surveillance.” (male respondent, political elite)

Another way of exclusion or exercising pressure on economic actors is by manipulating procedures, their postponement, additional requests that are difficult to meet and the like. Such cases may arise where there is competition between companies and when one of them already has an advantage due to already established contacts with the power network. Example of such practice is provided by the owner of a large company who attempted to expand his business to the territory of several major cities. He bought the land in one of the cities; he provided the inspection with all the necessary documentation for obtaining permits for the construction of commercial buildings. Although everything had been done according to the standards and within deadlines and although he had paid all required fees, competent authorities did not respond. He explained that they were obliged by the regulations to provide the permit for starting the works within 30 days. However, each addressing was followed by the verbal response that the request was about to be resolved. He kept receiving such response for more than six months when there was a change in the law and he was asked to re-apply with the entire documentation in accordance with some new standards. This would have implied doing all the projects according to the new standards and re-payment of all taxes. Although the law provided that the projects already in the process of obtaining the permits were not subject to the new standards, the inspection services insisted on a different interpretation of the law. Given that up to this point he had invested over 200,000 Euros in the business and there had been no indication that the work would be possible to complete, he decided to stop the project and postpone the whole thing for another time. At the same time, he received the information, through informal channels, that the problem would have been solved by informal arrangement with the Inspectorate of urban planning. He was told that a sum of several thousand euros would have broken the deadlock. He said that he had had enough at this point and that it is particularly angry at the way of racketeering business. He declined such arrangement. It has been five years since then and he has never got a work permit.

Yet these mechanisms are not so easy to detect by outsiders, bearing in mind that almost all formal procedures have been respected by all stakeholders. The respondents provided many examples why it was so.

Financing political parties. The most important element of the exchange of political actors with the business sector is financing of political parties and power networks. Competition within the political field leads to a relatively simple answer that funds are necessary for regular functioning of a party, but also that more funds means achieving greater impact on other stakeholders, ensuring loyalty and ultimately securing enough votes in the elections. Respondents say that the budget funds make only a small part needed for party's activities, so alternative sources of income are always welcome.

Financing mechanisms are different. One way is through various foundations, NGOs, donations and sponsorships. Thus, one respondent explained that even the church could be part of the financing of political parties, given the absence of the control mechanisms. He provides the following example: during the construction of the local church, a private company paid the donation to the church; however, only a small part is spent for this purpose while the financial statements presented it as fully utilized. The rest of the money was used to finance a political party. Political leaders are rarely directly involved in these agreements. Within the party there are persons who are responsible for the provision and control of finances. One big entrepreneur says that these negotiations can be very open, indicating directly how much a company is expected to allocate out of a transaction or over a period of time. If the money is paid into the account of a party, it is presented as sponsorship or donations. In the case of transactions that may be questioned, money is provided in cash or transferred to accounts opened only for that occasion. After the payment, money can be transferred abroad and the account permanently closed in order to remove traces.

According to experiences of people from the private sector, it seems that there are three ways of financing political parties based on mechanisms of exchange. The first one implies voluntariness to finance a party. These are usually private entrepreneurs who themselves have political ambitions or wish to influence certain political changes. Some political parties have a long history of cooperation with certain companies regardless of whether they are in power or not. Although it appears that this group of entrepreneurs represents a minority, financing of political parties is seen as an investment in creating a better socio-economic environment and thus better business context.

In the second case, private companies adapt to the logic of the market and the importance of politicians in the economy. On a practical level, the entrepreneurs themselves are trying to approach the power network and offer their services and resources even when they are not required to. One entrepreneur explains that this is a very widespread practice, because there is such an atmosphere that you can do nothing without political support. Such behaviour is a sign that the company is ready to cooperate, that it understands 'the rule of the game' and accept it as a part of doing business. They are willing to make a donation from time to time, to provide material resources and other services during the

political campaign. This practice is widespread at the local level. These actors usually have no problem with the financing of political parties, but often are not sure which political party or who within the power network is to be given money or other resources. Some of them finance only political parties that are in power and/or responsible for a particular sector which is in their interest, while others finance all major parties, hoping that they will retain a privileged position and survive in the market after the turbulences following political changes. It is not always about direct financing of political parties. One big businessman provides the following example:

“When the campaign was underway, we printed their billboards, tag for buses; we printed their posters, flyers etc. However, they never came openly with their conditions, they just called and said: “So, we need something in some amount.” If he had failed to meet the requirements, he would not be extended a contract with a public company: “Here’s now the latest example. During that campaign, tagging all the buses with a theme was done by our company free of charge and in turn we got the extension of the contract.”

In the third case, there is a direct pressure on the party’s funding. If a company does not want to participate in that exchange, different pressures are exerted in order to force it to cooperate. Several entrepreneurs pointed out the consequences of not cooperating. Most often there is a prolonged and intense pressure from the inspection services. Then suspension or redefinition of already initiated contracts with the state is also probable. Furthermore, other companies and public institutions may be suggested not to cooperate with the given company. Such behaviour is seen by entrepreneurs as extortion and apparent interference in the private sector’s business outside the legal framework. If entrepreneurs do not understand the rules of the game or if they believe there is room for negotiations, they usually put their business at stake. So, one big entrepreneur says that a person came to his company offering him a long-term cooperation – partnership with a clear statement that he/she is close to the government and that he/she may act as an intermediary to achieve good contacts with them. He says that at first he was shocked and refused the offer. However, he soon realized that he had been naive when believing he would be able to continue to operate without pressures. Inspections’ visits soon started (sanitary, labour, financial inspection), which forced him at the end to move the whole business abroad.

Although the public sector is the first destination for employment of party members, entrepreneurs may be put in a position to offer or requested to employ a number of party members in their company. This can happen in several ways. When a new company is opened, representatives of the power network usually require that vacancies are filled by the personnel they recommend. The possibility of influencing employment is somewhat different, given that entrepreneurs agree to enter such arrangements usually only in case of less skilled labour and rarely in cases of highly qualified. One representative of the political elite gave the example of opening a wholesale business in a big city. In return for obtaining the permits relatively quickly, management agreed to hire the people recommended

by the party. Another example is provided by a small entrepreneur at the local level. In some cases, some members of the local political power network suggest private companies who to employ. On one occasion, he was asked whether his company needs new staff. At that moment there were no vacancies, but when the one was opened, it was offered as a good turn to the power network. Although he had no direct benefit, such arrangement sent a message of goodwill and long-term cooperation and understanding.

This way, informal networks and complex system of exchange of resources between political and economic actors are founded. The intertwining of institutional requirements, organizational needs of political parties and interests of power networks is happening around public resources used for the sake of reproduction of the system. It is very important that the political actors have crucial role in the creation, maintenance and management of these networks. Although this does not mean that, in given circumstances, they have great freedom to act in another way (or that freedom is possible at all), these actors control the largest part of transactions within the system.

Conclusions

The relationship between political and economic actors in Serbia is very complex and far from independent and impartial functioning. Although the dependency of the economic on the political actors started to lower during the process of post-socialist transformation and introduction of market elements and party pluralism, this relationship is still markedly colored by the influence of political power. While politics (especially the Communist Party) during socialism was in a position to organize the entire reproduction of the social system, with social changes which introduced electoral competition, shift of the parties in power and private capital, this relationship has become much more complex. Along with the process of economic and political reforms, there has been the process of reduction of public expenditure, however followed by the inherited logic of the state interventionism (especially political parties) in the economic sphere, guided more by political interests rather than work on improvement of the economic environment. Democratization has proven to be quite an expensive project for which implementation the standard normative and institutional capacities were not sufficient. Paradoxically, the changes have led to increased costs of the political part of the system, however failing to create an economic environment to follow high expenditure. The budgetary funds and sources of private individuals and companies are usually not sufficient to cover the costs of regular functioning of political parties. That is why there is a need for providing additional funds from public and private sources, funds often obtained in an illegal or illegitimate manner with the help of informal networks and mechanisms. The political field remains central to the redistribution, while the economic sphere is still subject to its influence to a great extent.

The underdevelopment of the market does not lead to the need for developed competition in many areas of production or service provision, which otherwise leads to small number of actors participating in the economic field and fairly rapid emergence and disappearance of companies (especially SMEs). Bearing in mind that the state is still very important employer, in terms of contracting private companies, a significant part of the struggle over resources in the market has been for the contracts with the government (works/services contracted through public tenders or direct negotiations). This context requires from economic actors not only to adjust to market trends and new normative, but also to possess knowledge of the informal rules and the development of informal networks.

Although the party patronage takes place both publicly and latently, in this article we dealt primarily with hidden mechanisms. Key mechanisms of establishing and maintaining of domination over the private business sector are: controlling of budget funds and controlling of the operating conditions (through various services which can provide an advantage or prevent the operation of the market).

From the research, it is clear that economic actors have, to put it mildly, ambivalent attitude towards this way of functioning of the market. On the one hand, they feel all the risks they are exposed to: additional expenditure, unforeseen requirements, interference in their own personnel policy, uncertainty of their business in the long term, unfair competition, demand unpredictability etc. On the other hand, they take this play as given. When they think strategically, they rationally consider alternatives and cost-benefit relationship. Although the desire to get rid of the political embrace is present, the support that comes from that side represents at least a short-term guarantor of their position security.

Political actors take this system as given to a certain extent and when describing the mechanisms of its functioning, they do not question the system itself. According to more knowledgeable respondents, political competition is the main reason for that. Abandoning the rules of the game would mean the loss of resources and thus endangering the survival of their political party in the political game. Also, an informal network creates the system of trust and dependency based on involvement in activities that are either borderline or completely illegal. Founding and maintaining such networks within political parties and with external stakeholders (public services, inspectorates, courts, etc.) create parallel relationship structures representing integral part of the reproduction mechanism of the entire system. Institutional arrangements are complementary and intertwined with informal mechanisms. Although they usually interfere with each other at the normative level, they complement each other at a practical level, thus contributing to establishment of a fragile balance within the political field.

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