

*Edited by Slobodan Cvejić*

**INFORMAL  
POWER NETWORKS,  
POLITICAL PATRONAGE  
AND CLIENTELISM  
IN SERBIA AND KOSOVO\***



Informal Power Networks, Political Patronage and Clientelism in Serbia and Kosovo\*  
Edited by Slobodan Cvejić

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Edited by Slobodan Cvejić

Belgrade, 2016

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- *Marija Babović*
- *Dragana Gundogan*

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## ACTORS, RESOURCES AND MECHANISMS OF CLIENTELISM IN SERBIA

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### ACTORS OF CLIENTELISM AND PARTY PATRONAGE IN SERBIA

In this chapter, the actors in the political and economic field, resources which are exchanged and mechanisms which provide informal arrangements will be described.

#### Mapping the key actors

Based on the respondents' statements, it is possible to distinguish the following actors which are relevant to the situation inside the political and economic field: 1. Formal organizations / political parties 2. Networks of trust consisted of individuals who form more or less stable power networks and they are divided onto the one consisted of: a) politicians b) interlockers and c) private business people, 3. International factor (embassies and foreign multinational companies).

The following graph shows the key actors, the fields of their activities, resources which are exchanged and networks the actors create. The primary field of political parties are state institutions and coming to the controlling positions of public enterprises through them. In this process, political actors are divided into three subgroups based on the functions they perform: the ones who are in charge of the activities inside institutions (government and administration), the ones who work in the economy (public enterprises) and politicians who primarily work inside the parties themselves.

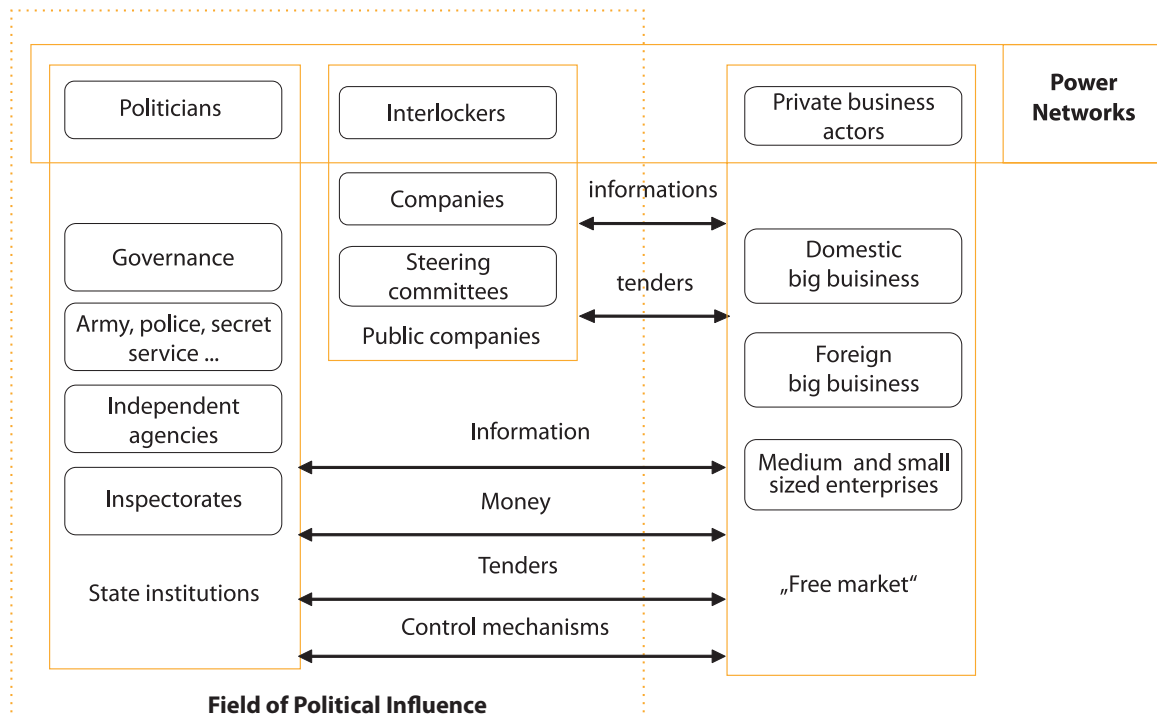
There are three areas of exercising political power: intra-party, governance positions and brokerage between the political and economic system. Within political parties, the power is

used to arrange, structure, build and reconstruct power networks in line with configurations based on certain interests. Within governance political action, power generated in the political parties is transferred onto institutions, governance structures. Finally, the third power area/function is related to the establishment of linkages between the political and economic system. Very rarely can one political actor perform all three functions, and there is usually a certain functional division between political actors.

On the other side, the primary field of private entrepreneurs is the economy. As we will see in the forthcoming chapters, they rely on public resources to great extent. Actors in this field differentiate according to their economic strength which is connected with the formal and informal strength to influence the general and particular business conditions.

On every level (republic, regional and local), more or less stable arrangements based on the informal agreements are formed between these actors. The networks which form these agreements are real power networks because inside those networks the key decisions concerning functioning of the relation between the political and economic sphere are made.

For all actors, except economic actors in the private sector, political influence is based on the engagements in political parties (by the direct political career in the party, or by doing favours and loyalty relations with the party leadership). Parties represent the primary field for competition in which the individual and networks form the positions of power inside the party and then inside the institutions and public enterprises. In that sense, the key actor is the very complex



political party structure. Without the party organizational infrastructure, informal networks, histories, individuals who are active in the party would not have importance.<sup>1</sup>

1. Political actors who interact with or influence economic actors whether in the public or private sector, but do not occupy any economic position in public or private enterprises. They can be considered as purely political actors, but their interaction with economic actors depends on the position in the power hierarchies at central or local level, as well as on their specific social capital represented by the linkages and loyalties shared and exchanged with specific power circles.
2. Political actors who presently or formerly occupied a position in the public economic system. Although at some point they were positioned in both systems, their source of power relies on political power and their recruitment channels are clearly from political circles. They are usually appointed to board

or manager positions. These actors are often called interlockers, because they are the key actors through which political and economic power are interlinked.

3. Economic actors with no (at least direct or formal) political background which include top managers in the private sector and entrepreneurs as actors who are at the same time owners of the capital and who perform leading management roles in their enterprises. Their background lies primarily in the economy, entrepreneurship and their recruitment channels are from entrepreneurial or professional circles.

As we will see from further presentation of research findings, intensive dynamics of diverse relations is unfolding between these actors during the entire observed period (unblocked transformation after 2000) and at all levels. Political actors interact with economic actors in various ways and with different intensity and dynamics. A small group of 'gate keepers' (if we observe from the perspective of the economic system) or 'network brokers' (if we observe from the political system perspective) can be identified, in the sense used by Burt to describe persons who bridge structural holes, (in this case the hole between political and economic elites) and who interlink the two systems, as we will see in a man-

1 Many examples can prove that when individuals lose the support of a party they can lose public positions, and it rarely goes in the opposite direction. Most of political affairs which were induced outside the party which had the aim to discredit some politician (even though they are justified from the legal point of view) were not successful if the politicians had full support from their party.



ner that reflects relations deeply entrenched in clientelism. These brokers or gatekeepers are mandated by highest political power to control the access to political power and state resources available to the economic sector through political power circles. These actors are not even necessarily party members, but they are persons of high loyalty to the most powerful political actors and are socially, often privately, closely linked to them. They are also less visible than other actors who occupy more visible positions in the government, at the top of political parties or in the high level business circles.

### 1. Political parties

**The structure of power within a political party.** The formal aspect of the political party organization is consisted of the Assembly, Main board, Presidency, Executive board, different councils and a network of municipal Boards. According to the organizational scheme, the power should be moved from local Boards, through the Assembly to the Main and Executive board and the Presidency. The reality is completely different since the parties are extremely centralized.

*Basically, it is a multi-level system with local, city and state level and every level decides on relevant topics. Of course, all promotions start and end on the top and then go to the lower positions. On the lower level, members have just to implement decisions taken on higher levels.*

(male respondent, expert)

And while most formal procedures inside parties are nominally followed, the key decisions are crystalized, negotiated and made in closed circles which represent the informal loyalty networks inside the parties. Behind the formal structure, our respondents reveal the complex and hidden structure with informal connections, networks and centres of power creating the informal structure of the party. This informal party pyramid plays a crucial role in shaping the party life, having a strong effect on the promotions, party politics and coalitions.

The respondents state that the decisions made in formal meetings are usually already negotiated and discussed in previous smaller, informal and intimate meetings.<sup>2</sup> After agreement in

2 Sometimes, more personal meetings are used to test some ideas or plans, check reactions of others.

informal settings far from the public, decisions and plans are just formally presented and accepted in official meetings.<sup>3</sup>

Even though it is very centralized, the power inside the party structures is based on the loyalty networks in which the party leader is one of the actors. Loyalty networks are created in the long term and often are relatively stable structures of trust (unless there is a big overturn inside the party). These networks are colloquially called groups (“*ekipe*”) and they intersect party structures horizontally (inside the Board, Councils and Presidency etc.) and vertically (from the Presidency to local boards). The influence of the party network is big as long as the network manages to hold intraparty discontent at minimum using distribution of resource or party discipline.

*Every time someone comes to the top of the party his/her group comes along to the spot, his/her trustworthy people. There is no democracy inside the party, there never was. People vote as they agree beforehand. As an example, you can follow how 5–6 people inside the party vote and if they are part of the same group they will all vote in the same way for ten years.*

(male respondent, political elite)

**Networks inside a political party.** Certainly, the political parties are not a monolithic structure and conflict emerges as a result of prevalent disagreements. The respondents indicate that debate inside a party is rarely about the political program or ideology, but rather there are interests that connect and divide party members. As in all organizations, there are oligarchic tendencies within different interest groups which tend to present their own interests as the general (shared) ones. Discontents and factions emerge mostly in the top of the party, and mostly during the periods of delegation of strategic positions inside the party and public functions after the elections. In these situations, individuals and networks which have been excluded or “underes-

It is the way to prepare the audience and companions for implementations of new ideas.

3 This sort of ‘bonding’ between close political comrades usually takes place behind closed doors and in a more informal atmosphere. Some respondents claimed that the traditional Serbian *kafana* is still an important site for different sorts of informal meetings and negotiations where people can speak freely and openly.

timated” in the distribution generate discontent which can result in latent or manifest conflicts. Furthermore, conflict can emerge between different party levels, which was the case, for example, in the SRS and SNS while they were part of the government. Another example is DS after losing power. Namely, the first party echelon can participate in the power (legislature) and achieve certain benefits for themselves, but the majority of party infrastructure members are excluded from participation in the power and they do not gain any benefits which come from positions in power (employment and access to other public resources). Pressures from below to open political space for promotion or achieving key positions can be significantly strong by a part of the political leadership— *new group*. Open conflict comes at the end after negotiation and “trial of strength”. The end result can be a relatively peaceful overturn of power inside the party or even party division which leads to the creation of new political parties. In another case, party division is performed horizontally and vertically to the level of municipality boards.

## 2. Governance

Interestingly, almost all respondents agree that major power is in the narrow political circles and international community, while they disagree about the role and influence of big local economic actors. Majority of respondents indicate the concentration and centralisation of power in a narrow circle around the Prime Minister, backed by strong international influence of the EU and the USA, or sometimes only by several countries perceived as most influential (most often the USA, Germany, the UK).

There is a widespread impression that the present Prime Minister has key power and nothing can be done without his consent. Concentration and centralization of power is perceived as a long-lasting phenomenon, though there is clear perception that in the present government they reached much higher levels.

*‘This is universal; it is not linked to this government. There has always been one circle, a number of people who have essentially constituted a key power and who lead the country, regardless of their formal position. Sometimes, the Prime Minister can have more power than the*

*President, while sometimes the President will be the most powerful person. We had Tadic and Cvetkovic and now we have Vucic and Nikolic. This is the only difference. The formal position is not so important. More important is the centre of power, how it was formed essentially.’*

(male respondent, businessman)

Even though there is no complete consistency in the respondents’ answers, the power network on the highest level is consisted of the Prime Minister, several influential ministers, important persons from the party, several political actors with significant social capital acquired while they were in power in previous governments and several wealthy individuals.

*‘Vučić is making all decisions, but I have the impression that he asks a few of his collaborators. People say that he trusts a lot to Zorana Mihajlović....Divisions inside the party exist but they are not so important at this moment since everything seems under control.*

*The current Prime Minister and nobody else. He is the “alpha and omega”. He knows everything and he is deciding on everything.’*

(male respondent, political elite)

Respondents state that the importance of the Parliament is very low. The greatest part of the power is concentrated in the hands of the Government, concretely in certain circles. Moreover, judiciary is to a great extent under the influence of these networks. This is most noticeable in cases when the persons from the network are the subject of the dispute.

Similar perception of centralized and concentrated power can be found among respondents in regard to local communities. Only the actors are slightly different. Here, the Mayor or President of the municipality is recognized as the most influential persons. In addition to these, national-level politicians originating from a particular municipality who are some kind of power brokers that bridge local power circles with central level power are perceived as important actors and when effective they can bring resources from the central level to the local community.

### 3. Economic actors – private and public sector

#### Public sector – interlockers

There are two types of actors in the public sector: 1. Directors of public companies and 2. Public companies' Board members. Directors of public companies are most often the cadres of political parties. They are appointed to leadership positions through institutional mechanisms. They are required to satisfy double requirements: formal and informal ones. On the one hand, they are expected to adequately manage a public company which is why skilled and experienced cadres are appointed to these positions. On the other hand, they are expected to execute informal requests of their party (as we will see later: employment, 'tuning' of tenders, financing of parties, etc.). The latter requires additional skills related to negotiation and adaptability. These actors are the most trustworthy in *the core* network because the financial situation of the party depends largely on them. They are also significant in terms of making connections between political actors and the part of economic actors. Their mediation is crucial when making a great part of informal arrangements with small and medium businesses and a significant part of such arrangements with big companies.

#### Private sector

The importance of the economic elite is perceived differently among respondents. Some perceive big business actors, and particularly tycoons as those who are together with key political actors mainly influencing policies and the business environment in Serbia. On the other hand, some respondents indicate low influence of the private sector.<sup>4</sup> When it comes to businesspeople, only large private companies (col-

4 Perception of the interviewed businessman is that the government did not use their potentials to foster development in an appropriate way. 'There was no systematic cooperation, public, institutionalized, through which the government could use private sector resources (knowledge, advice and other resources) to advance economic policies and developmental processes. There were occasional attempts to develop a cooperation mechanism such as that in 2008 after the breakout of the economic crisis. The government organized a big meeting with private sector representatives and announced that during the crisis, such consultation meetings will be held on a monthly basis, but this was not the case.'

loquially called tycoons), being the major financiers of political parties, are politically relevant at the national level. Their access to institutional resources is almost exclusively enabled in an indirect way, namely through power networks.

*'They mainly gravitate towards the leaders, at least the strongest ones, or towards influential party members at a lower level helping them in the campaign. Businesspeople have a strong instinct which party will become politically significant in a certain period of time and accordingly they are quickly approached and offered good services to be returned by the party's coming to power at any level.'*

(male respondent, local level politician)

However, in certain cases, they can have direct representatives in the government and institutions. One respondent said that one of the richest businessmen *had bought* a position in one of the government agencies dealing with the privatization process for a six-figure sum. A qualified person was appointed to that position and their duty, among other things, was to take account of the interests of the real employer.

The respondents nevertheless point out that the economic players at any level (national, regional or local), regardless of the amount of capital and the size of the company they own (large, medium or small enterprises), are usually secondary and that the real power remains in the hands of political parties and the political part of the power networks that form the government. Economic actors usually adapt to the current state either by knowing the rules of the game or by anticipating future developments within the political sphere. Among the economic actors with a certain power within the political field at national level, the richest businessmen, such as Miroslav Miskovic, Milan Beko, Miodrag Kostic and others, were mentioned. The respondents state that the position of economic actors is rather unstable long-term. They distinguish the ones able to manage to economically survive every political change while retaining their wealth, business and often their privileges in the market from those who happen to disappear from the economic life or drastically lower their influence with the diminishing of a political option. According to a highly positioned politician, if someone wanted to follow the clear direct re-

lation between the economy and politics, they would have to look at companies that ceased to operate after some parties had failed to join the government and which new ones emerged as important market actors. After these changes, the logic of the business remains the same, meaning an exchange where one side represents the investment in financing a political party and the other one enabling a business (under privileged conditions).

The economic actors who manage to establish a connection with the (future) election winners during the election campaign (or earlier) or immediately after the elections, will have the opportunity to keep their business and survive the government transition process without major hitches. One strategy is to finance several political parties, both those in power and those in opposition. The *unforgivable sin* of businesspeople is direct interfering in political affairs. This way, they may become competitors and not partners while such a situation most often leads to showdowns. Several respondents gave two striking examples of the events from the past decade: confiscation of part of Bogoljub Karic's property and judicial prosecution of Miroslav Miskovic. On the other hand, some respondents recognize that there have been some examples, e.g. in the media sphere, of relatively easy transition and attuning to the new authorities. The most common example given by the politicians is business operation of the consortium owning TVB92 and Prva as well as several marketing companies.

*'I think every government has its favourites, its major investors. And depending on the rotation of power, there is the rotation of these major local businessmen – I'm talking about the last ten years. The government led by Kostunica had its own large domestic investors, too, who had a certain impact.'*

(male respondent, expert)

Although it cannot be measured precisely, due to the qualitative nature of the research, there is an impression that among local level respondents there is stronger perception of importance of large economic actors. This is probably due to the stronger influence these enterprises have as major employers in small communities, where dependency of the local budget and population wellbeing on these companies is stronger.

#### 4. *International actors*

International actors are recognized as important on two levels. At one level, they influence, guide and control the institutional and policy reforms. At the other level, they are donors and investors and their economic role is perceived as important. Respondents perceive embassies as important instruments of channelling international influence and resources, but they notice there is hierarchy among foreign actors, depending on the strength of the country.

There are also opinions that a certain level of influence rests at the side of big multinationals who come to Serbia and who have huge profits, potential to employ a large number of people, to provide comparatively higher salaries, to introduce new modes and culture of work and who create a competitive environment for Serbian companies.

The respondents recognize the existence of a good network among the foreign political and economic elites currently present in the country. They further recognize that protection of the interests of economic arrangements is done through political channels. According to the respondents, these arrangements are sometimes a part of the formal agreement through which foreigners want to protect their investments and ensure legal work of firms from their own countries. However, there are often pressures requiring operations under privileged conditions. These pressures are outside from the field of formal agreements. Also, there are cases when foreign politicians (ambassadors) do not work only in favour of others, but also in the interest of their own company.

## ■ RESOURCES

The majority of respondents perceive money and financial benefits as a key resource that is being exchanged between actors. However, there are other resources of importance as well, such as jobs, contracts, information, acquaintances at right positions and various kinds of benefits.

**Money** is the most important resource for exchange, but it flows in various ways, between political and economic actors, some legal and formal while some neither formal nor legal:



- as compensation for board members appointed by the party
- as salary for people employed by intervention of the party
- as financial support to the party by a public enterprise
- as financial contribution to the party by the people who got the employment thanks to party intervention

The interest to be appointed to the management board of a public enterprise is mainly motivated by economic interests as compensations can be relatively high in comparison to regular salaries. According to some respondents, party members appointed to economically strong enterprises could reach monthly compensation of several thousands of Euros. Therefore, the competition for these positions is high among and within the parties (more described in the section on mechanisms).

Managers appointed to public enterprises by political parties have the obligation to provide financial support to the party in return. According to some testimonies, the circle of public enterprise managers is important within the party hierarchy.

*'These managers are very important as party sub oligarchy. They are not party workmen, nor chargers, but they are behind the party oligarchy, the most powerful group in the party. Their enterprises finance the party. This has been done very cautiously and that circle wants to stay in the game at any cost.'*

(male respondent, political elite)

Financial support to the party is not provided only by public and private enterprises, but also by persons employed through party intervention. Some respondents indicate existence of a 'standard party fee' which was at the level of 5–10% of the salary regardless of the job.

**Jobs** became a particularly important resource after the breakout of the economic crisis in 2008, when unemployment significantly increased. Jobs are provided on request of the political party or an influential politician in public administration, public enterprises or the private sector. Jobs are provided for party activists, for lower echelons of party members, for friends and

relatives of party members or persons from the place of origin of some influential party members. The mechanism of exchange that unfolds through employment will be elaborated later, here, it is important to notice that respondents value differently jobs in different sectors. Jobs that parties can provide are divided into three types: 1) job in public administration or a public enterprise for an indefinite period of time, 2) the same job but with a contract for a specified period of time and 3) temporary or permanent job in the private sector. The first two options can be implemented by appointed cadres directly in accordance with the possibilities. The first option is the most desirable and such jobs are occupied by the most loyal cadres; the second one represents a kind of stage mode and a second-best solution. However, experience shows that these people lose their job first after the power shifts. The third way of providing jobs implies including personnel issues in informal agreements with private companies. The businesspeople are often required to reserve some vacancies for the party's cadres when opening a new plant or branch.

*'Those who are employed through a political party, they don't want to work for private employers because there is no security and you have to work hard.'*

(male respondent, political elite)

**Volunteering work for the party** is a resource exchanged in favour of being provided with employment. People who are employed by political party intervention in return have to conduct some voluntary work (in addition to monthly financial contribution extracted from the salary). This is particularly expected during election campaigns. They have the obligation to participate in the campaign and even to engage their family members in party tasks. This is considered an expression of gratitude for being found employment by the party.

**In-kind resources** are diverse and according to testimonies usually include: travels, access to quality health care, vehicles, lunches and dinners. Although many of these resources are exchanged more on the individual level, some in-kind exchange occurs at the collective level as well. The examples are printing services, promotional material, space in media for party promotion and similar.

**Changes in laws and regulations** are a resource needed mostly by private business actors, requested often in exchange for financing political parties. This includes legal solutions and rules related to certain aspects of business and economy that enable more favourable conditions for running a business in some industries and are an important resource that the private sector in the economy can obtain from the political elite. Respondents say that the EU integration process narrowed the space for outside intervention because legal solutions are usually already done as a part of the EU accession process. However, several stated that it was clear there were examples of such influence.

*‘Tycoons in the past (also now) were often able to rewrite laws relating to their interests by meeting someone from the party leadership and offering them (or the party itself) certain monetary compensation. Not only tycoons had an impact in the political field. Such influence was extended to the banking sector.’*

(male respondent, political elite)

**The use of control mechanisms:** A significant way of using public resources is by utilizing institutional operational *control mechanisms*. These imply the work of the judiciary, police and inspections in the service of power networks. Bearing in mind that the control mechanisms are ultimately based on the use of the force apparatus, establishing control over the key positions of the police apparatus is a prerequisite. Control mechanisms can be used either by applying legal norms *overzealously* or by not applying them at all. In this way it is possible to provide benefits to some stakeholders and also to put pressure on others. The most common form of employing the mechanisms of control over economic actors is by utilizing inspection services, i.e. the services in charge of issuing and revoking licenses.

**Information** is considered one of the key resources, particularly in the private business sectors. This includes information about laws and legal changes, about government decisions, market related information – i.e. who are the new investors, who plans to invest in Serbia in a certain industry, under which conditions, tender-related information, etc. Information is usually gathered through informal conversations with persons on the appropriate positions. They are sometimes

exchanged for other favours and sometimes they have a monetary price.

**“Right places”.** This basically means to have appropriate social capital, which can be of different composition for different actors. For example, for private businessmen, this mostly includes persons in political positions who can open doors for tenders, contracts, investments, or persons in public administration who can facilitate obtaining of licences, documentation, etc. For political actors this can mean influential people inside a party, in the government or in a public administration position who can provide access to various resources: promotion, jobs, information or something else. Further, for political actors this can also include persons at the top of public companies or private enterprises, who can provide economic resources (jobs, money or in-kind benefits and services).

## MECHANISMS

Here we will describe mechanisms through which the previously identified actors exchange the noted resources. Different mechanisms are used for the exchange within a political party, between a party and institutions and between political actors and economic actors in the public and private sector of the economy and therefore, they will be presented separately. The key motive underlying the mechanisms is to provide long-term positioning of political parties in power for what they need: 1. enough people to vote for them and 2. sufficient financial resources to secure political influence.

### Within parties

The respondents point out three criteria for taking key positions and climbing the leadership ladder of their political party: 1) the ability to raise funds/money for the party, 2) organizational/communication skills and 3) personal loyalty.

Firstly, climbing the political party ladder is influenced by the ability to provide money for the party. Within the networks, persons who have the ability to provide party financing means from public or private sources are especially respected. Beside formal<sup>5</sup> funding channels, there

5 In Serbia, the legal framework in financing of political parties is regulated by the Law on financing polit-

is the so called “black funding” which is not presented in financial reports of political parties. There are two main sources for funding political parties: the state budget and its public sector and private companies. Through mechanisms to be presented later in more detail, money for regular functioning of political parties is provided. Such activities are particularly intensified during the election campaign. The origin of the money raised allows non-transparency of the financial operation. It is associated with the possibility but also the request for the networks within the party to perform some activities outside the institutional party frameworks (out of meetings, financial records, without accountability towards the party’s bodies and without the possibility of putting their issues on the official agenda). In this way, the networks within the party are strengthened securing an informal milieu.

Secondly, beside the money, it is important to have organizational skills; this especially applies to people who are in charge of human resource management. Some activists earn their positions within the network by working on the establishment and maintenance of formal and informal structures of the party. Bearing in mind that the formal organization is a prerequisite for the development of informal networks in the political field, work on harmonization and reconciliation of these two structures requires significant effort. These activities include making horizontal and vertical connections within the informal network in the party structure, taking into account the cadres’ policy, providing compensation for members of the network and the struggle / negotiations with competing networks.

Thirdly, the inevitable criterion for promotion is to be loyal. Position and reputation inside the party structure are influenced by “contribution to the party functioning and ability to express and bring quality to political activities”. The party nomenclature had to perceive a certain candidate as a trustworthy person who can “finish the job in party interests” without making

problems. In order to get a key position, a party member should be “stable, obedient and taking care about party interests”. In selecting political and bureaucratic personnel, loyalty and trust are of particular importance, since they shape the informal structure underneath the formal hierarchy. According to the respondents, obedience, politeness and loyalty influence promotion.

The basis of this trust is shared decision making in the allocation and occupation of strategic resources of the party and public resources as well as joint involvement in activities with questionable legality. The network is hence reproduced in accordance with the principle of *watching (one’s own) back*.

### ■ Between parties and institutions

Regardless of the fact that modern institutions are represented by a set of established rules and practices that (should) express the common good, they are not exempt from the influence of individuals and social groups. Given that they represent a legitimate field of power within which it is possible to influence the formulation of rules, allocation of resources and enabling/disabling of access to resources, the relation towards institutions is complementing the already presented forms of informality, i.e. the importance of formal channels and procedures for political action.

There were two occasions when a political party (the Socialist Party of Serbia), which nurtured the legacy of socialism and had access to all available public resources, began to withdraw from institutions leaving other political parties the opportunity to manage the institutions and resources. The first one was losing power in several major cities after the local elections in 1996 and the second one was withdrawal from the republic government in 2000 and 2001. These changes influenced intensified struggles between the political parties as the control over public resources became the key mechanism of survival of the ruling party. Though after the changes there was an idea to share functions and sectors not only in proportion to the election votes but also in a way that several political parties have their representatives in every public body and sector ensuring mutual control, this model was rapidly dropped along with introducing the so-called model of *feudalization of public institutions*. Feudalism refers to an agreement between political

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ical activities. Parliamentary parties are funded from budgets based on the number of deputies in the Parliament. Every year, parties are obliged to give a financial statement to the Anti-Corruption Agency, which has the right to directly and undisturbedly access bookkeeping records and documentation as well as financial statements of political entities and to engage appropriate experts and institutions. Other formal and legal sources for party fund raising are: affiliation fees and private donations.

parties where the whole sector or management of the public company falls under the control of one party. It is stated in the interview that “politicians perceive ministries as their trophy or feudal property”.

*Well, unfortunately, after October 5, only Djindjic's Government, actually only Djindjic, did not allow feudalization of ministries, but appointed ministers from one party and minister assistants from other parties in the same Ministry. Following his assassination and formation of Kostunica's government, Ministries were divided between G17, DSS (Democratic Party of Serbia) or who had already been in the government; SPS (Socialist Party of Serbia) was not formally in the government but they got, let's say the Railways. And so SPS had survived, being financed from the funds of the Railways. Regarding the issue we are now talking about, SPS are the biggest hustlers simply because of their many decades long experience, or let's say, if we neglect communism in the one-party system, it was simply not necessary because there was only one party which had all sources of funding. But, for example, as from Milošević's multiparty system, they have been learning it and they have become experts. All the other parties that came to power have learned it from SPS.*

(male respondent, expert)

The respondents recognize that the logic behind this division is an essentially ruthless struggle and competition between political parties. The model of operation had been set in the period of socialism when the party controlled the entire reproduction of the social system. However, electoral race and the necessity of providing the electoral threshold (which guarantees political clout to the party) led to intensification of the struggle and establishment of new mechanisms of control over public resources.

*After the elections, in accordance with the coalition agreement and the percentage of votes, division of spoils starts. The strongest gets the most significant part and if they have a large majority in the parliament, the blackmailing potential of smaller coalition partners weakens*

*and they get whatever remains. Here, we should also bear in mind that during the coalition government each party uses a variety of tricks to weaken partners. If coalition partners happen to start strengthening their ratings, the warning bells start to ring.*

(male respondent, expert)

The key questions that every party asks itself are how to pass the threshold and how to provide sufficient funds to finance the party's infrastructure and activities providing it positive publicity. A part of the answer to both questions lies in ensuring control over public resources: money, management boards, public offices, control mechanisms and jobs in the public sector. As political actors say, categorizing of all public offices, companies and other positions starts again after the election in accordance with their importance. Also, positions are an important topic of pre-election coalition agreements. These functions become *parties' loot* and there is no real external control over the work of appointed people. Whole sectors and public companies become *party feud* and *they can do whatever they want*, while they report only to their party.

#### Party loyalty

Simultaneously with the rise to power and the distribution of sectors and positions, there is another process related to the selection of cadres to occupy public office and run sectors and public companies. Here, several selection criteria intertwine. The first and most important criterion is work in the party and party loyalty. The highest positions are reserved for officials who have been the most engaged in party work before the elections and who usually occupy managerial functions within the party. People who otherwise occupy high positions in the party usually already take part in the established network of loyalties within the party. As we shall see, these networks result from infighting and they represent the teams to perform key functions after the election. Each team has a core consisting of several closest persons, then a wider circle and finally the support to the base (municipal councils). How many positions a party can take will depend on the amount of resources available after the elections. The principle is appointing confidants certain positions whose significance



depends on their place in the party's pyramidal structure. In addition to the designated positions, parties strive to have loyal people at all levels of sectors, public administration and public enterprises. People in leadership positions on all management levels are replaced after the change of power, as they guarantee (non)flow of information and execution of tasks, both those important for everyday normal functioning of work organization and those falling in the ambit of informality and clientelism.

*There were always different teams within the party. The motive to be in a team is ensuring a position to win the power together with your group of people. To become a part of the crew who is going to be in charge. To have an established network of associates so that you are able to know who you're working with when you come to power.*

(male respondent, interlocker)

Bearing in mind that political parties are highly centralized with a highly important leadership structure, closeness to the president of the party and influential people is a very important criterion, primarily to be part of the *team* and then to obtain a public office tenure. The goal of ambitious party members is to become the *core* team members, as these positions guarantee maximum power within the party but also within institutions in case the party is part of the government. This is the reason why many respondents emphasize loyalty (which implies proof in terms of the quality of the tasks' performance) as the key mechanism for the selection of party cadres for public office.

*Getting close to the boss is important, the ability to execute due responsibilities being the director of that company, including financing of the party.*

(male respondent, political elite)

*Roughly speaking, it is the familiarity and closeness to the boss, but when I say closeness to the boss, I don't think...I mean, no leader is so stupid as to put someone who is unable to work on a position that is a potential source of income for the party. Though, perhaps many would like to be chosen, but the leader is*

*the one who assess who can do it best and that means not becoming the front page of Kurir tomorrow.*

(female respondent, political elite)

#### Personal networks

The second, equally important selection criterion is personal loyalty of individuals who are not necessarily political party members. These are most often friends and relatives of political party's leadership. The respondents pointed out personal friendships of the former president Boris Tadic from high school or sports activities, kinship relations of the current president's advisor and many other examples. Although sometimes they are also political party members, it is of secondary importance (and it often comes after the appointment) as their credibility is not drawn from their work in the party but from personal relationships with powerful individuals in the party and the state. They occupy various positions, but mostly operational and not the highest ones (such as ministerial positions); they are often secretaries of cabinets or sectors, advisors, directors of public companies. Their real responsibilities are significant and often have influence in the political field which overcomes the responsibilities of their formal position.

*Personal relationships are important, mostly loyalty. When he appoints someone the director of NIS, through him he is going to fund the party, do money laundering while trusting he is able to make a profit of let's say 5 million Euros, something for the party, something for himself.*

(male respondent, big entrepreneur)

*Basically, these are people who are on good terms with the party chairman, whether as their friends or people they trust and it is also in order that the party could benefit from it, primarily financially.*

(female respondent, local politician)

As mentioned, the influence of these persons is based on personal relationships with the party leadership, which is recognized by other party members. The relation towards this practice is ambivalent. Even though party members recognize the reasons why this happens, there

is also dissatisfaction (because prize is not guaranteed no matter the engagement within the party).

*I have an example where in one of the previous governments a minister appointed his godfather the president of a large public company and he was not even a party member. Everyone in the party was dissatisfied but it was clear that he needed a loyal man there.*

(male respondent, interlocker)

*T: Do you mind when some non-party persons take positions, and leaders decide so without consultation?*

*I: Everyone does. But I'm used to that practice. I am aware that no one will get an important position as an expert. Education is irrelevant in politics, Serbia is a witness.*

*T: Why is this happening?*

*I: Because it is easier that your business is done by someone you trust to some extent. Things are done faster and contrived more easily.*

(male respondent, businessman)

In this way, the party's *core* achieves double benefits. On the one hand, it receives a person of trust in the important office, a person with whom it has already established loyalty on some other basis. On the other hand, this person is cut off from the party's infrastructure resources. Hence, he/she hinges exclusively on one or several persons from the *core network*, which makes the person more dependent and therefore more loyal. Taking certain positions in the public sector (particularly a public company) by party cadres brings along the danger of gradual formation of parallel networks of personal loyalty to a person in position, i.e. the network that can become competitive to the one that currently dominates. Therefore, the equilibrium in the party is realized either by trading resources (positions) or by ensuring party discipline in case individuals are not content with the current division.

#### Actors with symbolic and social capital

The third type of actors is represented by persons or cliques important due to their social,

organizational or symbolic capital. We are talking about people who have made a career either in another political party, organization or business and who are considered to be useful in public positions for various reasons. Symbolic capital is essential if a political party wants to raise the ratings by appointing socially and culturally significant people to prominent positions interesting to the media.<sup>6</sup> On the other hand, people whose social capital is developed are more likely to take operational positions with usually little publicity. Most often these are the people who collaborate with several political parties and who have had a role in several governments. Their importance lies in the possibility to make links between the old and new political actors, to establish channels of communication and exchange on a reasonable basis.

A special category of actors are the so called *flyers*, i.e. persons appointed to positions with guaranteed immunity and the opportunity to have their own mandate, who leave their parent party and join some other during the mandate. Usually, they are republican and provincial MPs or local councillors who join another political party and become loyal to it. The reasons for such change are rarely related to a principle (disagreement with parent party's policy) but far more often to personal benefit, money and/or position for themselves and their support networks. When a political party is out of power, party control is weaker because there are fewer resources the party relies on.

In addition to personal social capital, informal organizational capacity of the party becomes very important in the longer term. If it is in power long enough, the party has a good chance to form a solid network of loyalty in the institutions (ministries, public administration, enterprises, etc.). Even after the formal withdrawal from the government, social capital can make a party a good partner. One respondent says that the importance of URS (United Regions of Serbia) after the 2012 elections was proved, among other things, by the existence of a developed network of party loyalty in institutions. These networks were ready-made to be surrendered to the ruling coalition just coming into the position of power without loyalty networks developed deep

<sup>6</sup> For example, the current Minister of Culture Tasovac, Finance Minister Krstic, sportspeople Sapic, Udovicic, etc.

in state administration and public companies' infrastructure. This capital has made URS a partner to the government although having failed to get sufficient votes to pass the election threshold and hence to become a parliamentary party.

### Between the political and economic system

Between the political and public sector

**Party 'conquest' of management structures of public enterprises.** This mechanism represents the 'take over' of a public enterprise by political parties. To clarify, the procedure of appointment of political party representatives to the boards of public companies is a fully legitimate and legal process, regulated by the law. Selection of top managers of public enterprises is also usually conducted in line with the law and formal procedures of competition and selection. However, informal processes and interactions that have been taking place behind these legal and formal processes can be, and according to the testimonies from our research, often are conducted in the way that political actors control or use economic resources of public enterprises for their personal and their party benefit. In some cases, particularly when stronger and strategically more important public enterprises are at stake, this can be pure capturing of public economic resources through human resource management and informal practices of exchange.

Among and within the political parties, competition for prestigious positions in management boards (economically stronger enterprises) can be fierce according to some testimonies. Usually parties with more seats in the Parliament and Government get more posts in public enterprises and particularly in those which are more important. Among the respondents, a frequently used word to describe the distribution of posts in management structures of public companies is 'booty', which symbolizes the economic value they attribute to these positions and benefits they drain from these positions (more about this in the section on the culture of informality).

*'Why are negotiations about the government always so long, even when there is no coalition government? Because there are negotiations behind, like:*

*like-dislike, like-dislike, until the least important function is linked to the money or power. Nobody competes for the position in the library, but OK, even the library is part of the booty, because the party cannot be financed by the library like it can be financed from Serbiagas. Then some people who are not powerful are appointed to the library and they will be grateful and they will contribute to the campaign, they have some circle of friends who are probably powerful in art or science.'*

(male respondent, political elite)

Within the parties, more influential and powerful party members manage to get a board membership position in best enterprises. It is interesting how respondents describe the process of appointment of party members to the boards of public enterprises. Decisions are made mostly by party leaders or in very small circles of leading party members. This selection mechanism is reported by respondents from all parties, regardless of their size or position in the political spectrum.

Our respondents are of different opinions when competences of the party nominated managers of public enterprises are in question. Some are very critical stating that party leaders deliberately appoint incompetent loyal persons to these positions in order to be able to manipulate them more easily and achieve their/party interests. Others claim that although loyalty is the most significant criterion, it is in the best interest of the leader and the party to appoint somebody who is competent because only in this way will the enterprise be successful and funds will flow into the party structures. The third category of respondents is very optimistic. They perceive significant changes that slowly eliminate the previously described practices. They recognize the important role of the Law in such changes, since the new Law stipulates that members of supervisory boards in public enterprises can be appointed only with university education<sup>7</sup>, and managers of public enterprises cannot be members of political parties<sup>8</sup>. They also recognize the influence

7 According to the Law on Public Enterprises, Article 16, Point 2 ("Official Gazette of Republic of Serbia", no. 119/2012, 116/2013 and 44/2014).

8 According to the Law on Public Enterprises, Article 22, Point 5 ("Official Gazette of Republic of Serbia", no. 119/2012, 116/2013 and 44/2014).

of new restrictive policies related to employment in public administration, which limits the room for manoeuvre of party directed employment practices. According to these testimonies, the changes are already visible in higher competition for political positions. They expect that this higher competition will increase the quality of intra-party structures.

Our respondents often indicate that party cadres are awarded for their contribution to the party by being appointed to the board positions. They are sometimes presidents of the municipal or city board of the party, and they are rewarded for their field work and for strengthening party structures in their communities.

However, the 'capture' of a public enterprise does not end with taking control over the top of the company. The next step in 'taking over' the enterprise is to replace important staff in lower important positions with party cadres or people who are not party members but who trade their loyalty to the party for the interests of an advancing career.

Our respondents reveal interesting dynamics in relations between politically appointed board members and managers of public companies. According to some testimonies, general managers are more powerful than board members. Usually board members accept decisions reached by the manager. However, if there is conflict, it is usually solved outside of the enterprise, through political party structures. Basically, the power of political parties is mirrored in the composition of management boards of important enterprises.

**Financing of political parties by public enterprises** is the key benefit that political parties gain through establishment of control over the enterprise and this has been conducted through various mechanisms. Some of the most frequently indicated are described further below.

Budgetary funds are another very important resource available to the political actors. Deploying them in accordance with informal arrangements, political actors can obtain several benefits: to enable a subcontracting company (of importance to political actors) to get a beneficial contract and to get profit, to transfer part of the financial resources (due to the difference of real costs and presented costs) to individuals or political parties. There are two main methods of use

of budget funds: 1. through allocation of budget subsidies and 2. through public tenders. In both cases, budget funds are allocated to the actors with whom pre-made informal arrangements have been done or to the partners who were provided information in advance which made them more competitive in the formal competition with other actors/companies. We are talking about information on the preferred prices, business conditions, service standards and other information the knowledge of which makes one actor privileged in relation to others.

Not only that the favoured company gets the opportunity to perform a certain job, but it also means that the profit made from the job can multiply by additional informal arrangements agreed in advance. Most often, during the process of works' execution, the annexes to the main contract are signed in order to extend the scope of work and increase the price. Recent regulations have limited the amount of funds that can be claimed for additional work to a maximum of 25% over the originally agreed amount. A former director of a public company says that annexes are often signed for some activity that has not been done. *By the law, it is possible to sign a contract for up to 125%; in 100% of cases, contracts have been signed to 125% and even for jobs that have not been done.* Most of the money is utilized as extra profit for a private firm and a political party that *has attuned* the tender.

*For example, I publish a tender offer for road construction from point A to point B. There should be 20km of road constructed in my municipality..., for example. The tender offer is published. The tender commission has been formed by the Ministry of transportation and infrastructure. Five construction enterprises apply for the tender. They (the tender commission) develop criteria that a company has to fulfil. But these criteria are developed for a particular company. The real price of the work is, let's say 10 million euros, but the company which set the price at 13 million euros wins the tender. They win, they invest 10 million in the road, which was the real cost. Sometimes the difference can be bigger. For example, they state that the road will be 10 cm thick, but they make it 5cm thick. This is a huge amount of money which can hardly be controlled. Plus those 3 million*



*of difference...they put it in their pockets, they share it with those who gave them the contract (the president of tender commission, for example, plus the Minister, etc.), and the manager of the public enterprise records that all 13 million were spent.*

(male respondent, political elite)

Even more serious cases are those in which despite the legal obligation public tenders have not been published and contracts were agreed in informal meetings between political actors, public enterprise managers and private sub-contracting companies.

The mechanism of exchange means that a part of the money is given back to the political party in charge of the sector that calls the tender. As several respondents say, the party has certain expectations of such arrangements, however, without clear rules on expected monetary compensation, which leaves room for manoeuvre for the agreement participants to obtain a certain amount for themselves.

*When the party appoints you a position, it knows how much it can expect; when a leader appoints people, he does not deal with the people he does not know well, these things are not transparent. There are people in the party who are in charge of it, they obtain money for the party, the others are dealing with other matters. Public procurement is still a fictional thing. You call a tender, you submit a bid and you provide two other formal bids. Part of the money is given to the party, someone will ask money for themselves personally, and someone won't. There is no party control, only expectations...*

(male respondent, local politician)

Some respondents say that in some cases it is possible to accomplish only personal gain out of rigged public procurement without knowledge and involvement of the political party. Although in these cases party cadres are also the main actors, agreement and distribution of funds take place within the private informal network.

*There is huge room for all sorts of scams. I don't have to do anything, but I tell you where to go and what to say and that's it. You've got people who were not-*

*ing, mediocre welders and now they are entrepreneurs, dealing with huge amounts of money and they drive crazy cars. The state pays, he got it because he provided the best bid and that's it...who can prove anything. That's just the same money laundering as with sports players. The Director signs you're worth three million and he pays you back. You're worth a million. You give two million back to him, and he says that his estimate was that you're worth more and you are obligated to prove that by your sports results. How are you going to assess the sport scores? ... Money is returned to individuals or the team that made the deal. Here, you sit down and make a story and there's enough for everybody. It's like in life. Thugs gather and see where they can take the money. They are not like some scholars who do everything in line with the regulations, but they know how to fake papers to seem that all is going well. The agreement is made, they transfer the money to your account, and you do some work. He meets you at the corner, you give him his part and how are you going to prove anything. That's everywhere, all over Europe, wherever there is this system, this democracy. Now you imagine when you manage to join that canal and when you say now it is my time. My team, my people and my time, no ideology, you believe that there is someone here because of ideology. And there's no way to catch them, it can only be if one is completely sunk in so that they do not know where and how much is taken. Thus, if they work smart, drop by drop, unprovable, even if they admit, you can't harm them anyhow.*

(male respondent, businessman)

Another mechanism described by the respondents is use of marketing services as channels for money flows. A public enterprise pays for advertisements or some marketing campaign services to the marketing agency. The real price of those services is much lower than the amount of money transferred to the agency as compensation for their services. The marketing Agency processes the payment like it was fully spent on services, but the difference is transferred to the account of the political party as a donation. Therefore, many respondents indicate the sig-

nificant role of marketing agencies, stating that control over marketing agencies is part of gaining and maintaining the power of political parties and leaders.

*It works in the following way: Director of a public company gives money for a commercial to the marketing agency. He gives let's say 5 million dinars (RSD) while advertising costs are let's say 500 Euros (60,000 RSD). The rest is transferred to the party's account and booked like the full amount has been allocated.*

(female respondent, business woman)

One of the ways for transferring money to the political party that respondents described was informal financial transactions. Some public companies conduct some part of their business off the record. They receive compensation in cash and they transfer the cash to the political party. This requires strong political support which can prevent work of inspections and disclosing this kind of transactions. Among our respondents, this was found more at the local level, where clientelist networks seemed tighter, which made them easier to avoid inspection (linkages between parties and institutions and the local and central level of government). However, this mechanism is unreliable, harder to implement today than 7–8 years ago and it is reported less often among our respondents than other mechanisms.

**Party directed employment.** The network of loyalty of party members and their personal networks (family, neighbours, friends) are formed in order to ensure loyalty of the party cadre and the electorate. These networks are ultimately based on the promise that the party will provide jobs (either in the public or in the private sector). At the moment when the party wins power, its primary goal becomes to provide as many jobs in the public or private sector for their membership and (potential) voters.

In this way the party can reward their members for their work and loyalty by finding employment for them or their close persons. The mechanisms of party employment vary, but the one always present is through informal contacts between a party member and an influential person within the enterprise. Sometimes, almost formalized mechanisms of party regulated employment are established.

An interesting example is the one of a public enterprise in which one of our respondents is employed at one of the middle range management positions. Since the decision was enacted on the city level that employment in public enterprises should be reduced and accordingly a new employee could be engaged only after three employees went into retirement, our respondent reached an agreement with the General Manager to get the quota for employment on behalf of her party at the level of one third.

*I came to the Manager and told him: 'I am fully aware that you will be exposed to pressures, as I am exposed to pressures. We can make a deal: one of every three new employees is mine'. He said: 'Agreed, I understand'. He was really great. So I managed to employ three persons in one year. Among these three persons only one was from the party, since I had to employ a cousin. There was no pressure from the party to employ more people because people in the party are reasonable. They know exactly how much you can do in your position.*

(female respondent, interlocker)

According to our respondents, jobs in the public sector are more prestigious than employment in private companies, because they are considered more secure and less work intensive.

*'Those who are employed through a political party, they don't want to work for private employers because there is no security and you have to work hard.'*

(male respondent, political elite)

#### Between the political and private sector

Mechanisms that have been developed in the cross-section between political actors and the private business sector are different from the previous. Although money as the most valuable resource for exchange appears here as well, there are other important resources and mechanisms for financial exchange which are slightly different.

**Lobbying for legislative and administrative 'favours'.** This is one of the mechanisms through which business actors get benefits from political actors in exchange for economic re-

sources. Practices through which this mechanism functions include complex negotiations, bargaining at meetings that include various actors from both sectors.

*For example, there was a meeting of the Business club, at which it was concluded that it would be good to invest in agriculture, but there was some bylaw that did not suit us. It would prevent us from making a profit... the profit would be halved. In these cases, we speak with politicians and if they estimate that it is somehow also in their interest, then they initiate revision of the law or bylaw.*

(male respondent, big entrepreneur)

**Financing political parties.** Mechanisms for financing political parties are diverse. One way is through foundations, associations, donations, sponsorships. One respondent illustrated it by the example of building a church in one local community. A company makes a donation to the church for reconstruction. The church presents that all was spent on the reconstruction, while in reality only a part was spent on reconstruction and the rest is transferred to the political party.

In some cases communication between political actors and businessmen is rather direct.

*Well, a party leader tells you his price and then you see if you will pay it or not (laughing). I think that political parties present this money as sponsorship. This is not the same as 'harac'<sup>9</sup> (meaning regular payments to a political party), but this is some kind of 'free' donation.*

(male respondent, big entrepreneur)

Money is sometimes paid directly to some bank account that parties open only for this occasion. After the payment, money is transferred to some other account or abroad, and this account is closed, eliminating the traces of payments.

Based on the testimonies of our respondents we can notice that two forms of financing political parties could be observed based on the motivation of business actors: voluntary and compulsory (or extortion). Voluntary financing can be

found among those businessmen who have or had political aspirations, the desire to 'contribute' to the changes. In these cases (not so numerous among our respondents) financing of a political party is considered almost as an investment in a better socio-economic environment which is also a better business environment.

Another type of (semi)voluntary financing of political parties can be found among entrepreneurs who understand that this is 'the rule of the game' and they accept it as a part of doing business. This type of economic actors does not resist to requests for payments made by political parties. Some of them indicate that their contract with a public company was prolonged only after such payments to political parties.

*Like it or not, we have to maintain our relations with politicians. In my case this does not mean that I regularly attend cocktails at political parties, or participate in their regular activities, but I try to be at their disposal when they need me – whether it is about design, printing of party brochures, printing documentation for party conferences or advertisements in digital media. I could say that clients and colleagues with political background somehow always have advantage in my company (even if it is not in the best interest of my company, such as pro bono work). Simply, I follow my intuition for survival of the business and today, this means that you should be at disposal (to political parties).*

(male respondent, entrepreneur)

The dilemma of this type of economic actors is not whether they should finance political parties, but rather which parties they should finance. Some shift swiftly from one party to another guessing the next election winner or after the establishment of new power structures. Others finance different parties, expecting that they will keep a privileged position whoever wins the elections.

The third type of economic actors is those who are reluctant to finance political parties, those who resist such requests. They report various forms of 'punishment' for their refusal to finance parties. Sometimes this is intensive inspection of their work during longer periods, sometimes termination of contracts or warning

9 Turkish word for taxes that the non-Muslim population had to pay to Turkish authorities symbolizing submission to the Sultan's power during Turkish rule in the Balkans

others not to do business with the 'blacklisted' company. Among these respondents the request for financing is perceived as extortion. According to their testimonies sometimes they are approached by representatives of a political party directly, and sometimes by other businessmen who already 'cooperate' with the party.

*Then one man came to my office and said that we have a really nice autumn collection and that he would like to cooperate with us. I asked him who he was? I thought that he was somebody who had a chain of stores, so we could distribute our products via his stores...But he said: 'I am a businessman who is close to the government, so if you want to be close to them as well, I am your ticket in'. I was so surprised, shocked...I refused...and so...I was so naïve...after this we were visited by the inspection every second day – sanitary, labour, financial inspection – so I decided to move the office abroad.*

(male respondent, big entrepreneur)

**Public tenders.** This is the same mechanism like in the case of public enterprises, but this time seen through the eyes of the private sector. Although there are opinions of some respondents that presently it is not easy to manipulate this mechanism, since it is public competition there are legal rules governing the process, still many respondents claim that the major part of public tender procedures is manipulated. This is usually done by setting the criteria that match a particular company, by leaking the information about price offers of the competition, by provision of an already semi-prepared offer, or similar.

*Once, the company in which I was employed participated in a public tender that was opened for development of a web site and digital channels of one public enterprise. My company received a version of the already half-filled tender documents. I found it on my desk in a folder labelled 'confidential'. The other agency who was competing against us received a completely different set of documents, which I found out later from a colleague who was working on that tender in that agency. We got the job. It was clear that the 'deal' was*

*agreed earlier, in our offices with wine and a friendly chat between our Manager and the then Advisor of the President of state.*

(male respondent, entrepreneur)

In cases of small scale public procurement, when there is no legal obligation to announce the tender offer, there are common manipulations. According to the rules three offers should be submitted, among which the best one should be chosen. The invitation for competition is sent to selected companies. And what is usually done is that there is actually a deal with one company, which calls two other friendly companies to apply with a smaller offer, so its success is guaranteed. On another occasion this company will return the favour to the other companies. And this is how the circle of intertwined public, private and political network is created around specific economic resources and through series of cooperation occasions. But essentially, the process is controlled by the political actors.

At the local level, according to some testimonies, local political power can act as the gatekeeper for all external investments. Sometimes, if they do not recognize benefit for their circle (individual or party-related), they would even prevent the investment. Respondents described some cases when investments in particular local communities were coordinated from the national level (government). Even if these investments would bring benefits to the development of their local community and consequently enhance support to their political power, they prevented such arrangements, because they were not in control of such investment plans.

**The use of control mechanisms.** A very significant way of use of public resources is through operational *control mechanisms*. They are used to enable influence in two following ways: 1) By enabling economic actors to do business regardless of the legal framework. In these cases, even though the business violates some norms (mostly ones related to anti-monopoly regulation and quality standards), procedures deliberately *tune* results and business is misrepresented as legal and legitimate. 2. By putting pressure on disloyal and non-collaborative economic actors by threatening them with prosecution for violation of the rules if they fail to meet the expectations set outside the formal procedures and channels.



In the first case, this means that the prosecution, court, police services, inspection organs of all kinds will *look away* and they will not react to the violation of legal procedures. Informal channels within the institutions are used for sending the signal to key persons in the operating position to issue a permit, sign the statement on the quality control and enable smooth functioning of someone's business. On that occasion, the rules are violated while the participants in the process are aware of it.

*Everything is veiled in secrecy, all things are done away from the media, various permits are arranged, but very few people benefit from these operations of the Big Ones in the country. These are all combinations made among friends.*

(female respondent, local politician)

These mechanisms are very difficult to detect as all formal procedures have been implemented officially and, *on paper*, all is done in accordance with the regulations. One example given by a public company's director is related to the construction of a public institution building. The director, who shared the responsibility for the construction with the municipal government, stopped construction works personally and refused to testify by signature that it had been done according to the regulations (such acting also had a political background as he belonged to a political party which was about to leave the ruling coalition at that time). The building was not built in accordance with the standards set in the public invitation. On this occasion, he was pressured by the supervisory organs and head of the municipal administration. He was told that there was nothing to worry about if the head of the administration and supervisory authorities signed. Although he refused to sign that the work was done properly and although he informed relevant institutions, there was no consequent reaction about the issue and no additional quality control was carried out. The fact that such things actually do happen becomes clear during each pre-election campaign, when the public get to know more about privileges of some companies on the market. One of the most significant examples was a long dispute over whether the MAXI retail had a monopoly on the domestic market, as well as many examples of violations of construction standards repeatedly enabling con-

struction companies to increase their profits to an extent that would not be possible to achieve if operating within legal framework.

Another way of utilizing the operational control mechanisms is through the pressures on economic actors with the intention to prove that they did not comply with the procedures and standards in some segment of work. This method of utilizing, most often the inspection services, has a function to get some actors out of the market game or to persuade them to start informal cooperation. These are usually the economic players who used to be loyal to another political option so that after the political change their place is taken by another company (usually in obtaining work arrangements guaranteed by the state) or they are required to maintain informal arrangements with the new government. In practice, it works in the following way: the inspection services intensively monitor the conduct of these companies. Bearing in mind that they used to be under certain protection of former authorities and due to the privileged position clearly violated legal norms, it would not be hard to find some evidence against them.

*There are party companies. These are fairly clientelist firms which manage to win public biddings. It's hard to say exactly how, they will always find a reason why their company was the best, but you can clearly see the coincidence that a firm wins public bidding while a certain party is in power, then that it later loses bids, that they are more often controlled by all kinds of inspectorates, labour, financial, etc. Then some other companies start to bloom.*

(male respondent, political elite)

One of the current politicians who had previously worked in the finance inspectorate explains how it works. He believes it is very unlikely that there are the businessmen who use public funds out of reach of informal politics' requirements.

*The first kind of pressure is that if you start a company, someone immediately sends an emissary with a list and a number of people to hire ...these are always the party's voters. Another way is financing of campaigns, i.e. donations to political parties. If you want neither one thing nor the*

*other, a new form of pressure comes in the form of an inspection and it is now a question whether you want four inspection visits in a month, and they can always find something. 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, big entrepreneur)

Barriers to certain actors can be set by manipulating legislation and procedures, while state officials have a right to their accurate interpretation. Favouring one and excluding the other businessmen is done this way as well. One of these (disprivileged) individuals was a great entrepreneur who wanted to expand his business to the territory of a major city. He bought the land, obtained all the permits necessary for the construction of a wholesale facility and a gas station. Although he had submitted all required construction projects and assessments in accordance with all regulations and although he had paid all taxes and fees and submitted complete documentation, he waited four years to get the permission to start construction works. As per the legal framework, this had to be resolved within 30 days. After the first calls and after the insistence of his lawyers, he received verbal answers that the case was about to be resolved (it lasted more than six months). After that, he was informed that there had been a change in the legal framework and if he wanted to re-apply, he must re-submit the complete documentation, with the new standards. That would require not only time but also new taxes he had already paid. He complained to such interpretation as the new law stipulated that its provisions were to be applied only to new projects and not those which had already been in procedure. The response of the city authority for urban planning and construction was that it had not been their interpretation of the law and that if he wanted

to build the facility he had to abide by their decision. He had previously invested 330,000 Euros in the business. By informal channels, he was informed there had been other ways things could have been resolved. This would include bribing urbanism inspectors. The sum of 5,000 Euros was mentioned. He says he wanted to do business without paying it, because he was sick of all the inspectors racketeering businessmen. He refused the offer and was never given permission to work.

At the highest level of politics, the information obtained by the police and secret services becomes a method of control. Political actors say that information about individuals (especially their economic and political arrangements), stored in police files accessed by some members of the power network, is an important mechanism for controlling behaviour and discrediting political and/or economic opponents.

## ■ CULTURE OF INFORMALITY

### ■ Language

It is interesting which terminology some respondents use to describe the economic assets over which competition evolves after the election and establishment of new political power structures. *Booty* is the used term, and the process of distribution of positions is described as bargaining over *booty* after a successful conquest action.

*Why are the negotiations about government always so long, even when there is no coalition government? Because there are negotiations behind, like: like-dislike, like-dislike, until the least important function is linked to the money or power. Nobody competes for the position in the library, but OK, even the library is part of the booty, because the party cannot be financed by the library like it can be financed from Serbia gas. Then some people who are not powerful are appointed to the library and they will be grateful and they will contribute to the campaign, they have some circle of friends who are probably powerful in art or science.*

(male respondent, political elite)

## ■ Norms

**Norm of loyalty.** Paradoxically, loyalty is one of the most important norms regulating relationships within the parties and between political and economic actors, but at the same time, there is the broadly accepted norm of shifting loyalties in line with someone's interests. The party grants access to economic resources to those who are loyal and who can provide satisfactory exchange of values, but it is completely acceptable for loyalty to be broken when another party or political circle can provide better opportunities for the person. Therefore there is the broadly acceptable norm of shifting loyalties if backed by economic interest.

*In order to be loyal to someone, you have to cancel your loyalty to others. But this is not the problem. In every occasion you assess your opportunities – with whom it would be better, who can protect my interests better. And this is fascinating, how fast, without any scruple people can shift from one side to another... and nobody even blames them. The majority does that. Those who do not do this, they disappear. If you don't have your team, you disappear.*

(male respondent, local politician)

Some respondents indicate that norms of loyalty are completely different in the political and economic sphere. In business, loyalty

networks are fully grounded on the interest for money and profit making, while in politics they are different, they are being built and rebuilt from the lowest levels of engagement, such as sticking posters on walls during campaigns, up to the highest ranks.

## ■ Places of transaction

Our respondents indicated various places which are typically used to reach informal agreements. One of the most common places, very much linked to the business culture in Serbia is 'kafana' (tavern).

*Best business deals are still agreed in 'kafana', whether they are small deals or strategic projects. It is because 'kafana has no ears', and with good food and drinks everything seems much easier. In such a relaxed setting I often got additional deals. The agreement was set in the office only for one project and when we were leaving 'kafana', we had three signed contracts. So my attitude about informal meetings is mostly positive. At the end this is a part of our Balkan culture.*

(male respondent, entrepreneur)

Other places that respondents mentioned are: private homes and public places such as walkways along river banks or similar. People think that nobody can tap a wire there.

