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The Illicit Financialisation of Russian Foreign Policy

Mapping the practices that facilitate
Russia's Illicit Financial Flows

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Acronyms and abbreviations

AfD	Alternative für Deutschland
DPS	Democratic Party of the Socialists
EU	European Union
FN	Front Nationale
FPÖ	Freiheitliche Partei Österreichs
FSU	former Soviet Union
HTZ	Hrvatska demokratska zajednica (Croatian Democratic Union)
IFF	Illicit Financial Flows
NATO	North Atlantic Treaty Organization
OECD	Organisation for Economic Cooperation and Development
PMCs	private military contractors
PPD	Prvo Plinarsko Društvo
RT	Russia Today

Summary

This paper categorises the practices used by Russian Kremlin-connected actors to advance Russian illicit financial flows (IFF) and depicts them, as well as their relationships to one another and to IFF in a novel framework. It argues that conclusively identifying and tracing IFF in authoritarian environments is very difficult due to the politicised nature of authoritarian legal systems and the inevitable data gaps. Our framework seeks to remedy these challenges by mapping malign practices, enacted by Russian actors in collaboration with elite overseas partners to create conditions friendly to Russian IFF, across three vectors: 1) political activities, which blur formal and informal means of diplomacy and political influencing to promote Russia-friendly candidates and political parties; 2) media activities, which blur truth and falsehood by constructing and disseminating narratives painting Russia and pro-Russia actors in a positive light; and 3) political violence, which blurs legitimate and illegitimate use of force to secure investment projects, destabilise regions and undermine or eliminate opposition. We argue that the deployment of these practices is deeply connected to Russian foreign policy objectives, which are built in part on informal and patronal relationships with domestic elites. Thus, the principal actors in Russian foreign policy-making and -doing are not state institutions but elites, intermediaries, private companies, and organised crime groups.

1. Introduction

In this paper, we explore the relationship between Russian foreign policy and Russian illicit financial flows (IFF). We suggest that it is, in practice, virtually impossible to disentangle the two, since Russian foreign policy has a strong illicit financial – or kleptocratic – element. In other words, where there is Russian formal foreign engagement, it is also likely that IFF are present. Russian foreign policy initiatives expedite the overseas investment of corruptly acquired money; therefore, the informal, patronal relationships that facilitate IFF, as well as the domestic political conditions in which they are embedded, are key factors in Russian foreign policy decision-making. Given the centrality of these transnational mutually enriching relationships to Russia's external relations, there is no need for it to impose this model on overseas partners; rather, it is welcomed by elites already embedded as nodes in a global kleptocratic network. This paper categorises the various practices deployed by Russian agents in this network in order to create environments conducive to IFF.

Several scholars have noted the cosy relationship between Russian foreign policy decision makers and transnational business interests. Gvosdev and Marsh (2014) have identified a significant overlap between political and financial elites in Russia's legislative chambers: 'a third of deputies to the State Duma are either senior figures in business or major stockholders in Russian companies, and the upper house, the Federation Council, is also understood to be a place for business to have its interests represented'.¹ They surmise that 'government agencies interested in promoting a particular "vector" in Russian foreign policy can easily form alliances with business interests in order to pursue a shared agenda'. This conclusion is shared by Marten (2015, p. 76), who suggests that 'the economic interests of key network members will drive many foreign policy choices, even if that means diverting state policy in odd directions'. However, while existing literature frequently recognises Russian kleptocracy and corruption as a factor in Russian foreign policy (Tsygankov, 2016; Galeotti, 2016; Orenstein, 2019), the effects of this enmeshing of elite interests on Russian foreign policy practices have not yet been fully mapped. An important exception is the work of Dawisha (2011), who argued that the domestic kleptocratic relationships that had arisen since Soviet collapse were driving Russia's deteriorating relations with the West, its moves towards state capitalism in the energy sector, and the manipulation of the energy supply to neighbouring post-Soviet countries. We build on Dawisha's work to show precisely how Russia's foreign policy creates favourable conditions for Russian IFF.

While acknowledging the centrality of Russian IFF to understanding Russian foreign policy is easy, its practical inclusion in an explanatory framework is fraught with challenges. First, there are methodological difficulties in tracing the source of, and hence conclusively 'proving', IFF and, second, there are conceptual weaknesses in the term

¹ Russia is, of course, far from being the only country in which commercial and foreign policy interests overlap; yet given the chaotic and intertwined emergence of Russia's political institutions and business elites in the aftermath of Soviet collapse, this overlap is probably one of the most extensive.

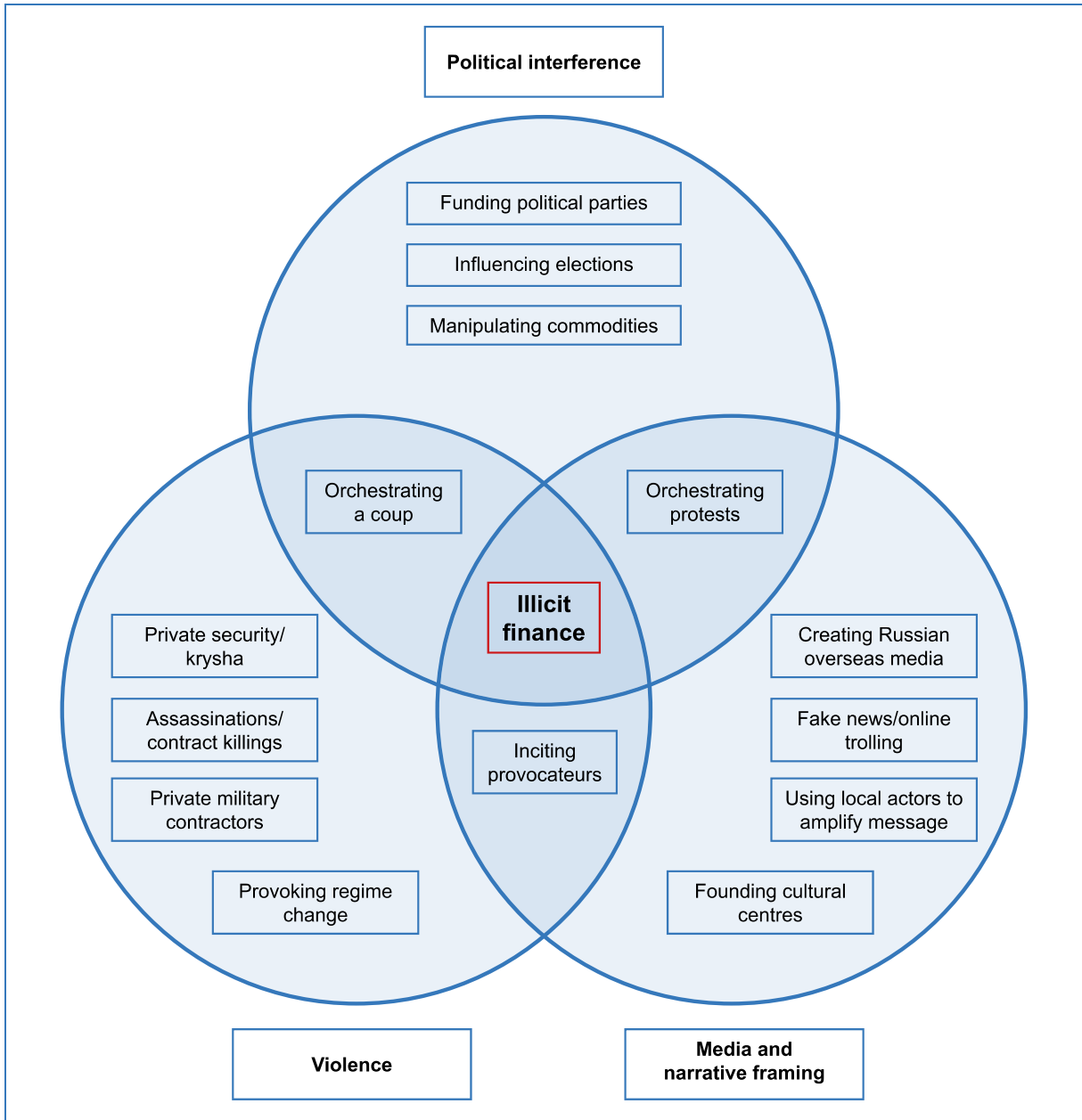
itself, which make it difficult to apply to authoritarian contexts. We address these challenges by adopting a wider approach that maps the conditions in which IFF can flourish and distinguishes the malign practices that accompany Kremlin-linked IFF.²

We map these practices, enacted by Russian actors in collaboration with elite overseas partners, across three vectors: 1) political activities, which blur formal and informal means of diplomacy and political influencing to promote Russia-friendly candidates and political parties; 2) media activities, which blur truth and falsehood by constructing and disseminating narratives painting Russia and pro-Russia actors in a positive light; and 3) political violence, which blurs legitimate and illegitimate use of force to secure investment projects, destabilise regions and undermine or eliminate opposition. While many of these practices have already been elaborated in the literatures on 'hybrid warfare/hybrid influence' and 'sharp power', discussed below, they have not yet been connected to the proliferation of Russian IFF. Figure 1 visualises the three vectors of activity and delineates their associated practices. The categories have been constructed via a close reading of the existing academic literature and the collection and categorisation of relevant news reports pertaining to Russian illicit finance and Russian foreign engagement. This visualisation constitutes a new framework to understand the means by which Kremlin-connected agents attempt to advance IFF overseas. Two caveats are important: first, these should be seen as ideal types and in practice they overlap and mutually reinforce each other and, second, these practices are not unique to Russia, but have been enacted by numerous states, including Western states, in order to advance foreign policy objectives.

The paper is composed of five sections. The first section highlights the conceptual and methodological weaknesses in the existing understandings of IFF, and proposes our wider approach, which we suggest can address them. The second section summarises Russia's overall foreign policy concept, reviews the terms used in the Western literature to capture the methods deployed by Kremlin-connected agents to advance Russia's overseas objectives – 'hybrid warfare/interference' and 'sharp power' – and argues for the inclusion of IFF in these models. The final three sections achieve this by breaking down the areas of Russian state practices overseas into the following three areas, (a) politics, (b) media and narrative framing, and (c) violence, highlighting the ways in which IFF is involved in each.

² There is precedent for this wider approach: in 2017, the Organized Crime and Corruption Reporting Project (OCCRP) documented the 'Azerbaijani Laundromat', a \$2.9 billion slush fund that was used to pay off European politicians, and buy luxury goods and services. It was rightly identified as IFF, despite the fact that the origins of the money were largely unknown (OCCRP, 2017).

Figure 1: Mapping the practices that accompany Russian IFF



2. Challenges of tracing IFF: conceptual and methodological

Studying IFF is fraught with conceptual and methodological challenges, even though, at a basic level, the concept is not hard to understand. In 2015, the OECD proposed a concise definition: ‘all cross-border financial transfers which contravene national or international laws’. However, as Van Schendel and Abraham (2005) have noted, not all national laws are the same; for instance, many countries including India, Japan, and the Philippines do not criminalise private bribery either in domestic or international business transactions (Boles, 2014). In 2017, the World Bank defined IFF as ‘money illegally earned, transferred, or used that crosses borders’, with the ‘illegal’ aspect of wealth generation falling into three main categories: that the acts themselves are illegal (for example, tax evasion); the funds are the results of illegal acts (for example, smuggling and trafficking in minerals, drugs, and people), or the funds are used for illegal purposes. However, these two definitions miss an important aspect of IFF: funds that have been acquired corruptly and immorally, but not necessarily illegally. This is encapsulated, in English at least, in the word ‘illicit’. Chowla and Falcao (2016) argue that ‘the term “illicit” is not restricted to a definition about legality’, and cite the OECD’s definition of ‘improper, irregular; esp. not sanctioned by law, rule or custom’.

However, although there is considerable debate in the literature about whether IFF should include tax avoidance (UNODC, 2020) – a legal practice in contrast to tax evasion, but with little difference in practice and consistently identified as potentially harmful (Tax Justice Network, 2020) – there appears to be less discussion about whether financial flows from authoritarian regimes could be considered IFF. Yet there are two reasons why a wider definition is necessary when considering these types of regimes. First, financial flows emanating from authoritarian regimes may be the result of activity that is actually illegal in the host country, yet, due to the executive’s control of the judiciary, the illegal activity will either be ignored, or even ruled legal by a corrupt judge – ‘legalized’ illicit financial flows (Mayne et al. 2022). Second, they may be ‘corruptly acquired licit flows’: authoritarian regimes provide ample opportunities for rent seeking and the capture of financial flows – for example, the awarding of lucrative extractive licences to shell companies controlled by family members of a head of state (Patrućić et al. 2016) – which may be wholly legal under the laws of the country or at least legally ambiguous. Therefore, simply focusing on the illegality of financial flows does not allow us to capture the scale of corruptly acquired money emanating from authoritarian states due to the arbitrary nature of their political systems.

Russia is a case in point here. Its authoritarian kleptocracy depends on both ‘legalized illicit financial flows’ and ‘corruptly acquired licit flows’. The amount of this money available to the Russian state is enormous in comparison with the amount tied to more traditional Russian organised crime elements (Mayne, 2022), a point Western governments implicitly understood when they sanctioned dozens of Russian oligarchs and business figures following Russia’s attack on Ukraine in February 2022. Indeed, it is the lack of any clear connection to a predicate crime that enables such monies to flow into our financial systems undetected. Much has been written about how issues such as

company formation structure (Bullough, 2019), a lack of oversight of company registers (Bineham, 2021), correspondent banking (Global Witness, 2012, p. 58), and a dysfunctional system of suspicious activity reporting (Maxwell and Artingstall, 2017) allows this money to flow onwards. It is therefore not only extremely difficult to settle on a workable definition of what constitutes IFF in relation to authoritarian states, but also extremely difficult to trace it. To overcome these challenges, our approach centres not only on IFF itself, but also on the political environments in which it can flourish – environments that are friendly to the Kremlin, both at the elite and societal levels, that possess low levels of oversight and accountability mechanisms, and present lucrative opportunities for personal enrichment. This is where it is instructive to examine Russian foreign policy, which seeks to create such environments.

3. Characterising Russian foreign policy

Various characterisations of Russia's overall foreign policy approach have been given in recent years. According to Rondeaux (2019, p. 59), 'restoration of Russia's great power status in a multipolar world order has been a driving factor in Putin's three-pronged strategy. Driving a wedge into the Euro-Atlantic alliance, reviving relations with former Soviet Union (FSU) client states, and projecting power beyond Russian borders are likely to remain central objectives for some time to come.' Similarly, Orenstein (2019, p. 30) lists three strategic objectives for Russia: first, to 'polarise, destabilise and ultimately destroy' the EU and NATO; second, to secure its position as the top supplier of oil and gas to Europe; third, to weaken links between Europe and the USA. Most recently, Riehle (2022) argues that Russia has five main national security objectives: first, to secure and sustain the Putin regime; second, to extend control over the post-Soviet space; third, to challenge and undermine US unipolarity in the international system; fourth, to present itself as a major player in world affairs; and fifth, to challenge and divide NATO and the European Union.

The tools that Russia employs in order to achieve these aims comprise both formal diplomatic and informal elements. The framework delineated below focuses on the informal elements, which scholars have described as 'hybrid warfare', 'hybrid interference', or more recently, 'sharp power'. The most popular of these terms is undoubtedly 'hybrid warfare'. As Bettina Renz (2016, p. 285) states, a war is considered 'hybrid' when there is evidence of 'the coordinated and combined use of different modes of warfare, both military (use of force) and non-military (irregular tactics, criminal disorder, terrorist acts, and so on)'. Numerous works disaggregating these tactics have appeared in recent years. For instance, Orenstein (2019) states that Russia's 'hybrid war' entails the following methods: covert intelligence gathering; deploying 'agents of influence' who 'not only trade in information, but also undertake operations on behalf of Russian spy services to undermine Western institutions' (p. 33); funding extremist parties; sowing propaganda and disinformation; conducting cyber attacks; and engaging in military intervention, both covert and direct. Similarly, Wigell (2019, p. 256) states, 'Three bundles of instruments, in particular, are central to hybrid interference: (1) clandestine diplomacy, (2) geoeconomics and (3) disinformation.' The overall aim of these 'hybrid' attacks is to achieve Russia's broader foreign policy objectives, outlined above.³

The concept of 'sharp power' was first used in a report by the National Endowment for Democracy (2017), and aimed to push the conceptual boundaries of Joseph Nye's classic concept 'soft power' (Nye, 1990) by placing the activity of contemporary authoritarian regimes in the context of globalisation. It theorises that such regimes take advantage of

³ Wigell (2019, p. 264) defines geoeconomics as 'the use of economic means to interfere strategically in target countries'; for instance, the use of economic sanctions by Western countries, and the Kremlin's use of energy resources to manipulate countries' behaviour.

the asymmetry between free and unfree systems with a view to 'limit[ing] free expression and distort[ing] political environments in democracies while simultaneously shielding their own domestic public spaces from democratic appeals coming from abroad' (Walker, 2018). Unlike soft power, which seeks to win over hearts and minds by using attraction or persuasion, sharp power focuses on explicit efforts by countries to 'manipulate their target audience by distorting the information' (Cristóbal, 2021, p. 6).

However, these concepts are not without their detractors. Critics have argued that the concept of hybrid warfare 'has now seemingly come to mean everything... and, as such, arguably means nothing' (Galeotti, 2019, p. 2); that it is a Western creation and is 'not embedded in Russian thinking' (Renz, 2016, p. 285); and that it 'constitutes a dangerous misuse of the word "war"' (Charap, 2015, p. 52). 'Sharp power', for its part, is a welcome theoretical addition in furthering 'soft power', but, by focusing on information-shaping techniques, is also arguably at risk of conflating the two (soft and sharp power), while struggling to explain the modernisation of 'hard power' methods.⁴ We do not take a position on the utility of these concepts; rather, we argue that this ensemble of practices, hybrid, 'sharp', or otherwise, is inextricably linked to Russian IFF. As Galeotti (2019, p. 3) states, 'Technological, social, economic and political developments all mean that, even if guns and missiles are getting more lethal and long-ranged, memes and dirty money are also ever more powerful instruments.' The remainder of paper seeks to elaborate the relationship between them.

⁴ Proponents of 'sharp power' have also been accused of advancing a 'propaganda cliché' used by the West against authoritarian states – though it should be noted that, in the academic sphere, such critique is mainly advanced by authors affiliated with Russian state institutions (Kuznetsov, 2021).

4. Political interference

In late Soviet times, Moscow cultivated ties not just with states that shared its political ideology – Cuba, Vietnam, Ethiopia – but also through the supplying of arms and military support to non-communist countries, such as Egypt and Syria. The end of the Cold War saw a continuation of many of those relationships, although new vectors of engagement, such as energy, became more prominent. As the Russian government grew increasingly autocratic, Moscow began to rely on more subversive and deniable methods in order to create, maintain and control political allies and disrupt the status quo in non-allies. The connection of these methods to IFF is twofold: first, they are often funded directly by IFF and, second, Kremlin-connected agents use political means to create conducive environments so that Russian IFF can move through host countries.

This section delineates these methods, which ranges from financial support, mostly covert (and often contravening election laws or parliamentary regulations), of pro-Kremlin political parties, to the influencing of elections (providing a link to media and narrative framing as this ties in with Russia’s broader disinformation campaigns), and the funding of protests with the aim of destabilisation of the political landscape in places where pro-Kremlin parties have less traction. Even countries that have seemed resilient to this kind of direct interference provide homes to the monies of possible pro-Kremlin actors, who, having acquired visas and/or citizenship, are able to donate to political parties (Heathershaw et al. 2021, pp. 41-42).⁵ In addition, the fact that Russia provides large percentages of various countries’ total energy supplies gives Russia licit political influence, yet even here we find an intersection with IFF. ‘Gas intermediary’ schemes provide millions of off-the-book dollars to corrupt elites that can be then used to fund political campaigns of pro-Kremlin parties.⁶ This is most predominant in Eastern Europe, but a similar scheme was proposed in Italy, before journalists uncovered it (Mayne, 2022). This suggests that there may be considerable data holes, as Russian illicit finance involvement in political systems overseas relies on opaque structures and hidden relationships.

4.1. Funding political parties

There are numerous motivations for far-right parties to seek Russian government support; for instance, a mutual antipathy toward the EU (for example, Austria’s Freiheitliche Partei Österreichs (FPÖ)), a distrust of the United States (Greece’s Golden Dawn), close economic links with Russia and economic expediency (Bulgaria), a shared populist outlook (Hungary’s Fidesz), and religious and ideological links; for instance Orthodoxy and Pan-Slavism (Slovak National Party, Serbian Radical Party). All these viewpoints can help reinforce Russian state power by either attacking the enemy (EU, United States, ‘liberalism’) or by bolstering the Russian state’s current belief systems

⁵ For example, there was a lot of speculation about possible Russian manipulation of the Brexit vote in the UK, but no conclusive evidence has yet been found.

⁶ The Russia-Ukraine gas crises of 2006 and 2009 are primary examples of this, as well as the recent heated discussions of the possibilities of ‘Putin cutting off the gas’ following Russia’s attack on Ukraine in 2022 (Schaer, 2022).

(‘Russia versus the west’; orthodoxy, autocracy and nationalism) and so could be funded accordingly. Overt support in the form of high-level meetings and agreements is coupled with more covert support, in order to give the Russian state plausible deniability in relation to meddling in another country’s political system and possibly contravening election laws. Thus, much Russian funding of pro-Russian and far right European parties will involve IFF – with money secretly funnelled through shell companies or oligarchic figures.

Numerous examples have been discovered and reported. In 2014, France’s Front National (FN) confirmed it received €9.4 million from the First Czech Russian bank in Moscow. The UK press described it as a ‘reward’ for Marine Le Pen’s backing of Russia’s annexation of Crimea, although she claimed it was because the party had been denied funds by French banks (Chazan, 2015). Separately, a former KGB office loaned €2 million via a Cypriot company to former FN leader Jean-Marie Le Pen (Rettman, 2014). In its 2016 report *Trojan Horses*, the Atlantic Council highlighted FN’s closeness to pro-Kremlin figures, citing Aymeric Chauprade, an FN international adviser and European deputy who is close to Russian Orthodox billionaire businessman Konstantin Malofeev. Chauprade was invited to act as an election observer during the March 2014 ‘referendum’ on Crimea’s annexation, which he approved (Polyakova et al. 2016).

In 2016, it was reported that American intelligence agencies were conducting a major investigation into how the Kremlin was infiltrating political parties in Europe, and identified Russian influence operations running in France, the Netherlands, Hungary, Austria and Czechia (Foster and Holehouse, 2016). Russia has also been accused of providing financial support to the pro-Kremlin, anti-EU, nationalist Ataka party in Bulgaria (Bechev, 2018, p. 12). In 2018, Germany’s far-right Alternative für Deutschland (AfD) party faced a parliamentary inquiry over Russian funding of a €25,000 flight three of its members took the previous year (DW, 2018). A report by the Khodorkovsky-funded Dossier Centre – an organisation that investigates Kremlin attempts to influence politicians abroad – stated that AfD MP Markus Frohnmaier ‘could be absolutely controlled by Russia’, citing Frohnmaier’s trips to the Crimea, and parts of eastern Ukraine controlled by pro-Russian separatists (Gatehouse, 2019).

4.2. Controlling energy and manipulating commodities

The main financial means through which Russia’s political influence abroad is cultivated and maintained occurs through the energy sector. This is arguably the most important vector of all as its primary function is to generate economic means for the Russian state through legal state-to-state agreements. Yet these agreements play into Russian foreign policy as they attempt to create economic relationships of dependency, tying elites to a Russian political economy. Alongside economic generation for the state runs a parallel track of illicit enrichment, some of which can then be funnelled to pro-Kremlin parties or political figures. Russia ‘plays the energy card’ (Bechev, 2017) in order to create and solidify patronage networks. The most obvious form is through the supply of natural resources that a country relies on. In late 2021, Serbia’s President Aleksandar Vučić said that with European gas prices soaring he would ‘beg’ Putin for a new gas deal (Stojanović, 2021), thus arguably further aggravating Serbia’s virtually complete reliance on energy supplies from Moscow. The Kremlin has attempted similar control

over Bulgaria's energy sector: in 2018, the Bulgarian Prime Minister Boyko Borisov announced that Putin had agreed to establish Bulgaria as a second point of entry for the TurkStream pipeline, which is intended to facilitate Russian gas exports to Turkey and Europe (Hanlon and Roberds, 2018). However, following Russia's attack on Ukraine, the Bulgarian government announced that it would turn elsewhere for its energy needs when its current gas supply contract with Gazprom expires at the end of 2022 (Hernández-Morales, 2022).

Germany's close energy relationship with Russia has historically acted as a competing vector in relation to European geopolitical concerns. Energy agreements date back over fifty years to when West Germany agreed to the extension of the Soyuz gas pipeline from the Soviet Union into Bavaria. Gas was paid for in steel piping which was exported in the other direction. Later, Nord Stream 1, signed in 2005 and opened in 2012, was an agreement struck by then German Chancellor Gerhard Schröder and President Putin, which saw direct gas imports from Russia to Germany via the Baltic Sea. This deal stresses the importance of personal relationships, as it was Schröder's ties with Putin that led to him becoming nominated in February 2022 for a board position at Gazprom, an example of how the Kremlin cultivates political ties through business elites (Gehrke, 2022). Markus argues that the 'use of political influence by Western public figures in exchange for monetary benefits from Russia qualifies as corruption', referring specifically to Russia's propagation of corruption abroad, citing examples from Germany, France, Czechia, and the United States (Markus, 2017, p. 26). Russia's attack on Ukraine may signify a new era with Germany taking on a more combative foreign policy towards Russia, but its continued energy dependence – Moscow supplies around 40% of Germany's gas – has made the country more reluctant to issue sanctions and sever energy ties with Russia, with Chancellor Scholz arguing that doing so quickly would plunge Germany into a recession, and risk entire industrial sectors (Arnold et al. 2022).

A more opaque and corrupt form of political influence is the establishment of a 'gas intermediary'. This process has been analysed in relation to Gazprom's *modus operandi* in several Central-Eastern European countries (Conley et al. 2016): a local company acts as a middleman for the Russian energy giant, bypassing the national energy company and entailing the possibility of hefty payouts propping up local and Russian elites. Examples include the establishment of such a scheme in the early 1990s in Serbia, which has demonstrated a remarkable resilience in the long term, as it is still active at the time of writing (Prelec, 2022).⁷ This instance illustrates the crucial importance of personal relationships: the gas intermediary scheme was set up by two prime ministers, Serbia's Marjanović and Russia's Chernomyrdin, who had earlier been heading the Moscow outpost of the Yugoslav commodities trading firm Progres, and Gazprom itself, respectively. Russia also seeks to penetrate the energy sector of Eastern European countries either by privatising them (for instance, Gazpromneft's purchase of Naftna Industrija Srbije in 2008) or by propping up loyal actors in state-owned businesses (such as the Socialist Party of Serbia, whose party officials control the state gas utility Srbijagas and other energy ventures). Less publicised instances are also present in countries that are nominally not so well inclined towards Russia from a political standpoint. Croatia's

⁷ This middleman scheme was interrupted the early 2000s when the post-Milošević leadership tried to get rid of the middlemen, but the Serbian leadership rebounded to this way of obtaining Russian gas only three years later.

fastest-growing private company in the 2010s, Prvo Plinarsko Društvo (PPD)/Energija Naturalis, signed a 10-year-long contract for exclusive gas distribution on Croatian territory with Gazprom in 2017. The same company had given generous pre-election loans to the ruling centre-right party Croatian Democratic Union (HDZ), helping them win the 2014 European Parliament election and the 2014-15 presidential election (Vidov and Prkut, 2019, p. 73). In October 2021, the owner of this company bragged about personally owning a 26% share in what was Croatia's biggest company, Fortenova (earlier called Agrokor) – which was already owned in large part by two Russian banks, Sberbank and VTB (Večernji List, 2021). Russia, therefore, makes use of a wide palette of strategies within the energy sector, adapting its methods from country to country.

4.3. Influencing elections and referenda

Of the countries whose electoral course Russia has tried to influence, Ukraine might be the most obvious. The interconnectedness of IFF with election meddling was perhaps at its clearest in 2004, when the efforts to influence Ukraine's direction of travel through financial means were described as 'nakedly partisan' (Schulman and Bloom, 2012, p. 458). Funds were channelled into the campaign of pro-Russian candidate Viktor Yanukovich through energy schemes; RosUkrEnergo, a gas intermediary between Gazprom, Turkmenistan and Ukraine, provided large amounts of funds to Yanukovich's campaign (Wilson, 2005, pp. 158-9). The workings of this gas scheme are remarkably similar to the dynamics described above in relation to Serbia, also insofar as the name of the intermediary changed with time, but the scheme did not.⁸ Furthermore, Russia's 'tactical' reduction of Ukraine's gas debt and the transfer of VAT for the transit of oil and gas to Ukraine had resulted in a gain of approximately \$800 million for the Ukrainian budget (Petrov and Ryabov, 2006, p. 150), giving the opportunity to a Russia-friendly government to dispense benefits and set up or reinforce rent-seeking schemes. And yet, the investment in the run up to the 2004 ballot did not yield success for the pro-Kremlin forces; the insistent allegations of voter intimidation and electoral fraud prompted a popular uprising (the so-called 'Orange Revolution') in November 2004, with a repeat vote a month later and the victory of pro-Western candidate Viktor Yushchenko.

But Yanukovich made a comeback as president in 2010, helped by Paul Manafort (of later Trumpian fame), who acted as his electoral strategist from 2005 onwards, with the backing of Donetsk-born oligarch Rinat Akhmetov (Myers and Kramer, 2016). Famously, it was Yanukovich's refusal to sign a trade agreement with the EU in November 2013 – coupled with the pervasive corruption to which his ostentatious palace was a testament⁹ – that led to the Maidan Square protests and then to Russia's intervention, the annexation of Crimea and the support of separatists in the Donbas region. The similarities with Montenegro, whose successful independence referendum campaign was supported by Paul Manafort in 2006 (Ames and Berman, 2008), do not stop at the choice of the political strategist. The allegations of a Russia-sponsored coup in Montenegro in 2016 may point

⁸ RosUkrEnergo was created in July 2004, but from 2002 to 2004, another intermediary, Eural Trans Gas, played a similar role (Schulman and Bloom, 2012, p. 457). In Serbia, similarly, Progresgas Trejding was active from the early 1990s until 2000; after a short hiatus, the same scheme was activated again through Yugorosgas (Prelec, 2022).

⁹ The opulent estate was later turned into a 'Museum of Corruption' (USA Today, 2019).

to a pattern whereby if Russia-backed election meddling and vote engineering fails, this can give way to violent methods (see below: *Provoking regime change*).

4.4. Orchestrating protests

Russian agents have a long tradition of orchestrating street protests, rallies and demonstrations, both inside Russia and overseas. When conducted abroad, this technique seeks to advance Russia's strategic foreign policy objectives, including in Ukraine where individuals were allegedly paid to attend in support of pro-Russian President Viktor Yanukovich during the Maidan demonstrations, as well as in eastern Ukraine in 2014 (Rudenko, 2014; Cowan, 2014); in the US, where pro- and anti-Islam protests were called at the same time and in the same place, in the run-up to the 2016 presidential election (Bertrand, 2017); and in Madagascar, where Russian agents paid students to protest against colonialism in front of the French Embassy during the 2018 presidential election (BBC News Africa, 2019). Studies tend to treat protest manipulation as part of Russia's broader disinformation campaigns, since many of these protests are organised through social media accounts run by the Internet Research Agency, Russia's now infamous 'troll farm' (see: Polyakova, 2020; Wigell, 2019, p. 267). We place it between narrative building and political interference, since orchestrated protests aim both to introduce doubt and confusion into the public sphere and to support pro-Kremlin political candidates in local elections – candidates who can create opportunities for illicit investments and financial flows once elected (Owen, 2022).

5. Media and narrative framing

Putin's Russia is not the first regime to use the media in order to twist truths and create disinformation. *Mutatis mutandis*, democracies are also engaged in influencing public opinion at home and abroad. However, for its brazenness, the case of contemporary Russia falls squarely within the remit of propaganda. In his study of the use of propaganda in the Third Reich, Welch clarified two widely-held misconceptions related to this subject (Welch, 2007, pp. 5-6). First, propaganda is supposed to be 'the art of persuasion', aimed at wholly changing attitudes and ideas; whereas, as he argues, propaganda is more often directed at reinforcing existing trends and beliefs, rather than creating new ones. Second, propaganda is often thought to consist only of lies and falsehoods, whereas in fact it operates with a wider palette of 'different kinds of truths': from the outright lie, to the half-truth, and to the truth out of context.

These insights are widely applicable to Russia's use of media and narrative framing. Furthermore, Russia's use of the media for foreign policy ends is inspired by and builds upon techniques used during Soviet times. According to Van Herpen (2016), Putin did not simply copy the Soviet 'model', but introduced important innovations. These innovations pertain to at least four areas. First, the Kremlin has allocated generous budgets to foster pro-Russian narratives through a wide range of channels, including traditional media, social media, 'cultural centres' and 'think tanks'. The way these enterprises are funded varies, and comprises resources funnelled through 'adocrats' (Galeotti, 2017), outright investments from the Russian state, and local proxies who use their regime-friendly media (in turn, funded through non-transparent methods) to amplify pro-Russia messages. To different degrees and with different nuances, all these can be seen as connected to IFF. Second, the Kremlin has profoundly modernised the propaganda machinery in line with technological progress and global interconnectivity. Third is the increased sophistication of the psychological know-how with which this new information warfare is conducted, including the ability to adapt its message with great ingenuity and flexibility to different audiences in different countries. Finally, Putin's Russia has been able to use the openness of the Western media to its advantage. This set of characteristics is particularly insidious because of its appeal to politicians with autocratic tendencies in other geographies. According to Ostrovsky (2016), Putin has pioneered a new form of demagogic populism, which is oblivious to facts and aggressively nationalistic – and could later be seen in the rhetoric used by other politicians, including Donald Trump.

5.1. Creating foreign-oriented news services to provide a Russian 'perspective'

One of the areas in which the 'generous budgets' intersect with foreign policy aims is that of the creation and potentiation of foreign-oriented services such as Russia Today (RT), RIA Novosti and Sputnik. In 2021, with his popularity falling, Putin increased the state media budget to 211 billion rubles (then worth about €2.5 billion), which marked a 34 billion-ruble (€420 million) increase from previous years (Nemtsova, 2021). RT, the most controversial of these services, was established in 2005 to provide a Russian

'perspective' on world events. Yablokov and Chatterje-Doody (2022) found that conspiracy theories were used widely in RT's output, serving as an instrument of public diplomacy and a means to influence foreign publics in sensitive matters such as the election of US president Donald Trump and the 2018 poisoning of former Russian military officer Sergei Skripal and his daughter Yulia in the UK. Clearly, RT is funded directly by the Russian state, rather than by international financial flows, but it nevertheless seeks to create an environment sympathetic to the interests of Kremlin-connected billionaires. Other Russian media organisations help amplify the Kremlin's messaging possess a clearer link to IFF: *Tsargrad TV*, a Russian Orthodox and ultra-nationalist television channel, is owned by Konstantin Malofeev, an oligarch placed under US and EU sanctions in 2014 over accusations (denied by Malofeev) that he funded pro-Moscow separatists fighting in eastern Ukraine (Cohen, 2022).

5.2. Producing 'fake news' and online trolling

Social media has become a fertile ground for Kremlin disinformation. The link between IFF and this vector of influence is clear in the case of the 'Internet Research Agency', described by the US government as 'a Russian organization engaged in political and electoral interference operations'. It employs hundreds of individuals for its online operations which include creating 'fictitious personas' to spread disinformation. The Internet Research Agency's annual budget totalled millions of dollars and it was funded primarily by a company called Concord Management and Consulting LLC, which is 'controlled' by Yevgeniy Viktorovich Prigozhin, who also 'approved and supported' the agency's operations (United States District Court for the District of Columbia 2018). Prigozhin, often referred to as 'Putin's chef' (BBC, 2019), received hundreds of millions of dollars in Russian government contracts supplying meals to school children and state workers. Prigozhin and twelve individuals were indicted in the US in 2018 in regard to allegations of political and electoral interference (the case was dismissed in 2020). It is of note that the twelve individuals were not identified as working for the Russian state intelligence unit or another Russian state body (United States District Court for the District of Columbia 2018). Prigozhin was sanctioned by the US Treasury in 2021. Prigozhin has also been accused of involvement in the financing of the Wagner Group, described as Russia's 'Shadow Army' (Bellingcat, 2020).

5.3. Founding cultural centres

The founding of cultural centres and think tanks is another area through which narratives can be crafted and controlled. Some have been accused of functioning as spying outposts. While direct links to IFF are hard to prove, it is clear that they contribute to the creation and maintenance of a pro-Kremlin political environment. The Russia Center New York, for instance, was founded in 2012 by Elena Branson, who was arrested in March 2022 on charges of espionage (Feuerherd, 2022). A controversial example in Eastern Europe is that of the Russian-Serbian Humanitarian Centre in Niš (Živanović, 2017). Centres of this kind are also present in Africa, such as the AFRIC think tank, sanctioned by the US in 2021 (US Department of the Treasury, 2021). As Anton Shekhovtsov explains, 'Conceived as a Russian network of agents of influence, AFRIC's activities – apart from its website – were mostly limited to promoting African politicians apparently useful for Moscow under the veneer of election observation' (Shekhovtsov, 2020, p. 24).

Such organisations work closely with Rossotrudnichestvo, which operates under Russia’s Ministry of Foreign Affairs and is tasked primarily with administering foreign aid and cultural exchange. It is operative in 134 countries and headed by Yevgeny Alexandrovich Primakov, the grandson of the late ex-director of the Foreign Intelligence Service, Yevgeny Maksimovich Primakov. Both Rossotrudnichestvo and its partner organisation, Russki Mir Foundation, have been found to have links to the FSB and the Foreign Intelligence Service among its staff members in various countries (Dossier Center, n.d.). In 2013, it was announced that Rossotrudnichestvo’s budget was to receive an increase from 2 billion rubles to 9.5 billion by 2020 (Chernenko, 2020).

5.4. Relying on local actors to amplify the messages

Finally, it is important not to underestimate the role of local actors in amplifying (and sometimes creating) pro-Russian disinformation. This dynamic is very clear in some South East European countries such as Serbia, where many media outlets have politically-connected owners, thus receiving financial backing from the state (Freedom House, 2022; Popović, 2020); and such government-connected outlets are often engaged in promoting the Kremlin’s line (Greene et al. 2021). Local politicians have prospered by pushing two narratives in parallel: one that is pro-Western and pro-EU (in the case of the Western Balkans, all governments are nominally committed to EU accession), and another one that promotes Russian and other countries’ (such as Chinese) influence. This latter strategy is used to both humour the parts of the population that are inclined to Russia while also increasing Russia’s ‘appeal’ among their citizens (very high in countries such as Serbia, according to several recent polls – see: Hajdu and Klingova, 2021), as well as to project a Russia ‘scare’ that is used to consolidate the local leaders’ power by creating an atmosphere of instability which they, alone, purport to be able to keep under control. This latter dynamic is part of a wider phenomenon that has been termed ‘stabilitocracy’ (Biepag, 2017).

6. Political violence

According to Bosi and Malthaner (2015, p. 439), political violence ‘involves a heterogeneous repertoire of actions oriented at inflicting physical, psychological, and symbolic damage to individuals and/or property with the intention of influencing various audiences for affecting or resisting political, social, and/or cultural change’. This section applies this broad definition to the specific domain of illicit finance, and elucidates five practices that use violence with the aim of facilitating the transnational flow of Russian dirty money. However, while the above definition highlights the spectacular or performative aspect of political violence, the violence that facilitates IFF is much more secretive and, hence, harder to observe and trace.

The relationship between political violence and illicit financial flows is complex, and has been explored from a variety of perspectives, from Collier and Hoeffler’s classic (2004, p. 688) formulation that ‘primary commodity dependence worsens governance and so generates stronger grievances’ to Sarah Chayes’ (2015) work that shows how acute government corruption can fuel violent extremism. However, this paper is less interested in the kinds of political violence that result from IFF, but rather the violence that accompanies or enables them. This narrower focus is important, we suggest, for two interrelated reasons: first, the IFF would not operate smoothly without the protection of its key assets and actors; and second, portions of IFF are funnelled into the operation of security providers.

In the case of Russia, political violence represents just one part of overall growing levels of societal violence following the collapse of the USSR (Andrienko and Shelley, 2005, p. 88). At the domestic level, the relationship between the birth of Russia’s crony capitalism and widespread political violence has been abundantly demonstrated: Vadim Volkov (2002) has shown how Russian capitalism was brought into being by ‘violent entrepreneurs’ during the 1990s, and Federico Varese (2001) has shown how Russian mafia groups became central actors in guaranteeing property rights during the same period. Relatedly, the emergence and consolidation of a symbiotic relationship between Russian security services (FSB) and domestic capitalist elites has been abundantly demonstrated by Dawisha (2015) and Belton (2020). Hence, both state and non-state purveyors of violence were instrumental in the birth of Russian capitalism. We suggest that this continues to be the case.

Therefore, mapping the forms of political violence that protect and enable Russian IFF is an essential part of the puzzle in understanding the latter’s persistence and resilience. However, the international dimensions have not yet been fully mapped. This section brings together hitherto disparate literature on the forms of violence connected to Russian illicit finance to elaborate a specific repertoire comprising five actions of political violence that accompany and enable illicit financial flows: first, private security, or ‘krysha’; second, assassinations and contract killings; third, private military contractors (PMCs); fourth, provoking regime change; and fifth, inciting ‘provocateurs’. And, while these forms of violence occur beyond the formal control of the state, and must therefore be seen as illicit, in practice they are frequently supported by, or indeed

carried out by, employees of the Russian state and can even be directly (yet informally) sanctioned by the Kremlin.

6.1. Private security or ‘krysha’

Private security is the most widespread form of political violence in the realm of illicit finance and, in the Russian case, is known as ‘krysha’ (roof). It is deeply connected to the mafia or organised crime groups, which protect businesses from extortion – defined ‘as activities aimed at appropriating someone's property or property rights under threat of violence or damage to that subject's property’ (Volkov, 2002, p. 3) – by rival criminal groups. Varese (2001, p. 36) has demonstrated how Russia’s poor transition to a market economy, characterised by the ongoing control by Soviet elites over key sectors of the economy coupled with the lack of clearly defined and state-protected property rights, ‘generated criminal opportunities: high incentives to strip assets, corrupt officials, evade taxes, illegally export capitals and launder money’, which in turn created demand for private protection agencies. Varese’s more recent research has shown how Russian organised crime networks have been transplanted overseas, notably in Hungary, which ‘experienced both the inability of the state to clearly define and protect property rights, and the presence of lucrative opportunities to obtain selective access to valuable markets, such as oil and gas, through the use of violence’ (Varese, 2011, p. 93). It is not surprising that one of the first examples of the ‘gas middlemen’ schemes described above was registered in Hungary, and had alleged ties to Russian organised crime figures (Global Witness, 2006). However, Galeotti (2016) highlights that the state security services themselves can demand protection money from companies: ‘there are many tales of businesspeople being forced to pay protection – or, more often, to hand over a share of their enterprise – to security officers (especially from the FSB)’. Similarly, the Solntsevskaya organised crime group ‘maintains a common fund (‘obshchak’), which is reinvested into the legal economy through a number of banks that work for the organization’ (Varese, 2011, p. 67). This highlights the fuzzy line between state and crime, legality and illegality in Russia.

6.2. Assassinations and contract killings

The use of hitmen to target one’s political opponents in Russia has been well-documented. As Favarel-Garrigues (2010, p. 151) has observed, ‘of the ten serving State Duma deputies murdered between 1994 and 2003, eight were certainly the victims of contract killers’. In March 2022, it was revealed that Russian opposition politician and researcher of systemic corruption, Boris Nemtsov, had been trailed by FSB agents before his assassination in 2015 (BBC, 2022), some of whom have been identified as part of the same squad that trailed opposition politician Aleksey Navalny ahead of his presidential campaign in 2017 and ahead of his poisoning in 2020 (Bellingcat, 2022). As well as organised crime groups, these killings may be conducted by hitmen connected to the state. Vaksberg has traced the Kremlin’s use of poison to eliminate enemies from the Soviet period to the contemporary era, arguing that ‘the current government has no other way of putting an end to the resistance or of preventing its own crimes from coming to light. The Stalinist school is still at work and is about to triumph. Terror serves two purposes. It eliminates trouble-makers and intimidates others in order to discourage potential imitators’ (2011, pp. viii-ix). Allegations also abound that

politicians operating in other countries who have crossed the Kremlin have been victims of attacks by Russia-connected actors – from Ukraine’s Viktor Yushchenko, to America’s Hilary Clinton, and to Montenegro’s Milo Đukanović (see: *Provoking regime change*).

While alleged assassination plots can sometimes be used by politicians to raise an atmosphere of tension and increase their rating at elections, what is undeniable is that a string of Kremlin critics have fallen ill or have died as a result of poisoning (Blake, 2017; Daily Sabah, 2020). The weight of the allegations, according to which the Russian political elite stood behind these and other instances, has been considerably reinforced by evidence that has emerged in relation to the Skripal and Litvinenko poisonings, both carried out in the UK. According to data gathered by the UK intelligence services, Vladimir Putin called former Russian military spy turned defector Sergei Skripal a ‘traitor of the Homeland’ and ‘scum’, before he was attacked with a Russian-made nerve agent by two Russian military agents in the UK in 2018 (Smith, 2018). Similarly, evidence presented by the Spanish authorities proved that former FSB officer Alexander Litvinenko was about to testify on Putin’s links with organised crime, strongly suggesting that he could have been killed to prevent him from doing so (Goldfarb and Kirilenko, 2016; Spanish Ministry of Justice, 2006).

6.3. Private military contractors (PMCs)

PMCs have become an increasingly prevalent element of Russia’s overseas operations. According to Østensen and Bukkvoll (2021, p. 5), they have three dimensions of activity: first, they provide additional fighting support to the Russian military on the battlefield; second, their illegal status provides the Kremlin with ‘plausible deniability’ of illicit or subversive political goals; and thirdly, their services form part of broader bilateral packages to overseas governments, alongside military and economic arrangements. In addition, they are used to guard the overseas mineral extraction operations of Kremlin-connected billionaires (Shekhovtsov, 2020, p. 5).

Sukhankin (2019) has highlighted the ‘geoeconomic’ aspect of Russian PMC activity, which juxtaposes Russia’s foreign policy ambitions with its economic goals in highly volatile regions, arguing that ‘this function of Russian PMCs has been most vividly demonstrated in Africa’. In Africa, Russian diplomatic engagements have intensified since 2018, while mutually enriching mineral and natural resource extraction contracts have been signed between elites (Owen, 2022). This economic function of Russia’s PMCs has been further elaborated by Marten (2019, p. 188), who argues that ‘one of their key purposes is to further the personal interests of the corrupt clique of individuals around Putin’, and Rondeau (2019, p. 58) who states that ‘at least some Russian PMSCs closely coordinate with the Russian military and cooperate with entities known to be involved in illicit sanctions-busting behaviors’. Following the activities of Russia’s PMCs, therefore, provides a good indication of where IFF may be present.

6.4. Provoking regime change

Russia is no stranger to orchestrations of regime change, with the example of Ukraine painfully evident. Even before the 2014 war and full-scale invasion in 2022, Russia had openly tried to influence the decisions taken in Kyiv on more than one occasion, as

illustrated above (see: *Influencing elections and referenda*). Parallels can be made with the methods, though not the scale, of Russia's activity in Montenegro. Russian IFF flowed copiously into Montenegro in the 2000s, strengthening the position of the Democratic Party of the Socialists (DPS), headed by long-time leader Milo Đukanović, and helping them secure a victory at the referendum on independence from Serbia in 2006 (Prelec, 2022). But Montenegro, led by Milo Đukanović, had 'turned its back' to Moscow in 2014 by falling in line with EU sanctions against Russia and by aiming to join NATO. It has been alleged that a coup against Đukanović, poorly executed on election day in 2016, had been plotted with the help of Russian financial backing and with the involvement of two officers from Russia's military intelligence (Bellingcat, 2018). Although the coup was comically ill-prepared and it arguably helped Đukanović keep the turnout low with better chances of controlling a clientelistically-run electoral machine (interview with Dejan Milovac, 2022), it is hard to dismiss these allegations outright. These examples indicate a possible pattern: where Putin's Russia is unable to attain foreign policy goals through corruption, it might well attempt to do so via force later on.

6.5. Inciting 'provocateurs'

The use of hired thugs to incite protesters to violence in order to delegitimise the claims of a movement is a tactic that spans the categories of media, narrative framing, and violence. It has been documented in a range of environments across the post-Soviet space and often involves the use of organised criminal gangs by government-connected agents wishing to alter the outcomes of protests in their favour (Kupatadze, 2019). Salem and Stack (2014) have shown how during the 2014 Maidan protests in Kyiv and war in eastern Ukraine, the pro-Kremlin government of Viktor Yanukovich paid individuals collectively known as 'titushki' to 'act... as provocateurs for the state, posing as violent, anti-government demonstrators to justify harsh police crackdowns'. In Belarus, Lukashenko's pro-Russian regime is also said to have deployed this tactic, 'pro-government thugs featuring sportswear and baseball bats who assault protesters' (Sukhov, 2020). Most recently, Ukrainian security services in Odessa reported that right-wing attacks on synagogues during important times, for instance during a visit from an Israeli delegation or chief rabbi, were orchestrated by Russians operating through Turkey.¹⁰

¹⁰ This was reported anonymously by a senior HMG official.

7. Conclusion

This paper has made three principal contributions to the study of Russian foreign policy and Russian illicit finance. First, it has argued for and developed a broad approach to studying IFF from kleptocracies and authoritarian regimes as a response to two challenges in this field: a conceptual challenge that recognises the difficulty of distinguishing ‘illegal’ financial flows in countries where there is little separation between business and politics, and that possess fluid and politicised legal systems; and an empirical challenge that highlights the practical difficulty of ‘following the money’ in environments with minimal regulatory or oversight mechanisms. Given these conceptual and empirical challenges, we have created a tripartite framework that maps the conditions in which IFF flourishes. Although the presence of specific IFF may be hard to prove, we have presented evidence to suggest that malign overseas activities funded by Russian elites seek to produce outcomes beneficial to Russia’s Kremlin-connected billionaires. We have grouped into three conceptual spheres, ‘political’, ‘media’ and ‘violence’, providing a novel framework to distinguish Russian overseas agents’ spheres of activity; however, in practice they are used alongside one another and mutually reinforce one another.

Second, the creation of these conditions is deeply connected to Russian foreign policy objectives, which are built in part on informal and patronal relationships with domestic elites. Thus, the principal actors in Russian foreign policy-making and -doing are not state institutions but elites, intermediaries, private companies, and organised crime groups, and the form they take is quite different. The relationship between Russian foreign policy directions and IFF is mutually reinforcing: on the one hand, Russia’s formal foreign policy initiatives can provide legitimisation, or ‘cover’, for recently established IFF and, on the other, IFF can build on or cement relationships forged through formal foreign policy agreements. Often those individuals forging such agreements – both on the Russian side and in partner countries – are very wealthy individuals with personal connections in a range of industries and sectors, who can use these agreements to enrich themselves.

Finally, this intrinsic interweaving of illicit finance into Russia’s foreign policy decision making has important consequences for theory. As Marten (2015, p. 77) states, ‘when key personal networks appear to be controlling state foreign policy choices for their own personal benefit, this is an indication that realism is an insufficient explanation for outcomes’. The more foreign policy becomes detached from the interests of the *res publica*, and the more it becomes linked to contingent considerations and increasingly personalised, the more it becomes prey to whimsical decisions that elude attempts at rational explanations. The same figures show up time and again in different locales (Yevgeny Prigozhin and Konstantin Malofeev, to name but two), which suggests that the personal circumstances of these individuals may be a better explanation for Russia’s foreign policy than any theory of international politics. The illicit financialisation of Russia’s foreign policy betrays this lack of a master strategy and indicates why its actions are sometimes ineffective, showing that the destabilisation of political processes outside Russia is funnelled through international kleptocratic networks, rather than

through a unitary top-down approach. The kaleidoscope of methods examined in this paper has examined how this occurs – and provided a framework to understand them.

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