

The Illicit Financialisation of Russian Foreign Policy: Focus on the Balkans

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SOC Serious Organised Crime &
ACE Anti-Corruption Evidence
Research Programme

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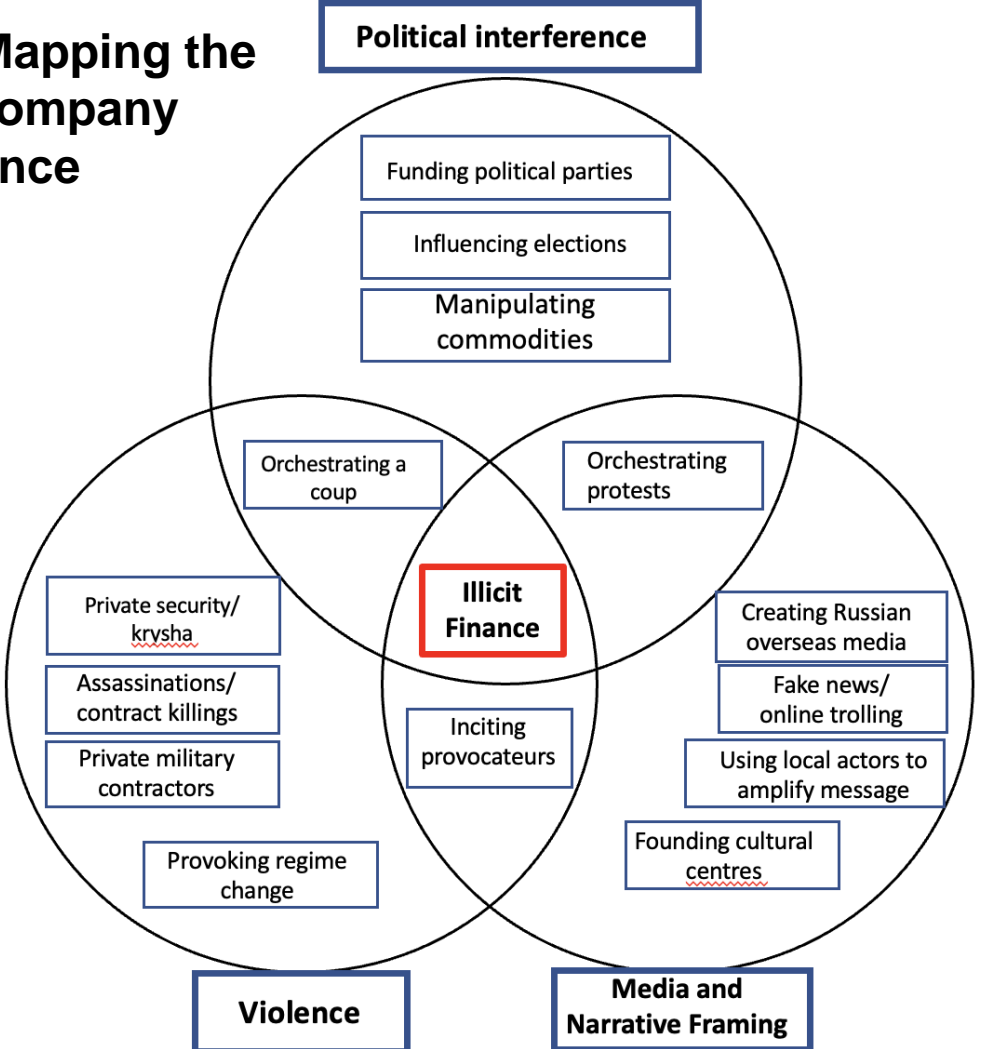




Structure of the presentation

- Introducing our key argument and framework
- Mapping Russian illicit finance in the Balkans
- What might have changed after Feb 2022?
- The West's role in enabling IFF
- Conclusions and recommendations

Our Framework: Mapping the practices that accompany Russian illicit finance



Why this framework?
 Two weaknesses in current understandings of IFF:

1. By focusing on **illegality of money**, we miss the fact that much of this money comes from countries where the judiciary may be captured by the executive, allowing 'illegal' to be easily designated as 'legal'
2. It is especially hard to trace IFF if the money **cannot be linked to a predicate crime**, e.g. in environments with minimal regulatory oversight and the data is not available

Therefore, we propose a wider approach that focusses on the malign practices and effects of purported Russian IFF

Securing Russian Illicit Finance in Montenegro

Political
interference

Funding of
independence
referendum +
Lobbying

Illicit
Finance

Coup attempt
through
Kremlin-
connected
actors?

Locally-led, by
proxies who are
accused of being
funded by Russia
/ Serbia

Violence

Narrative
framing

Friends with benefits: 2005-2014

- Privatisation of KAP through Deripaska
- Indep referendum campaign (Manafort)
- Real estate on the coast (Laundromat)
- Biggest recipient of FDI

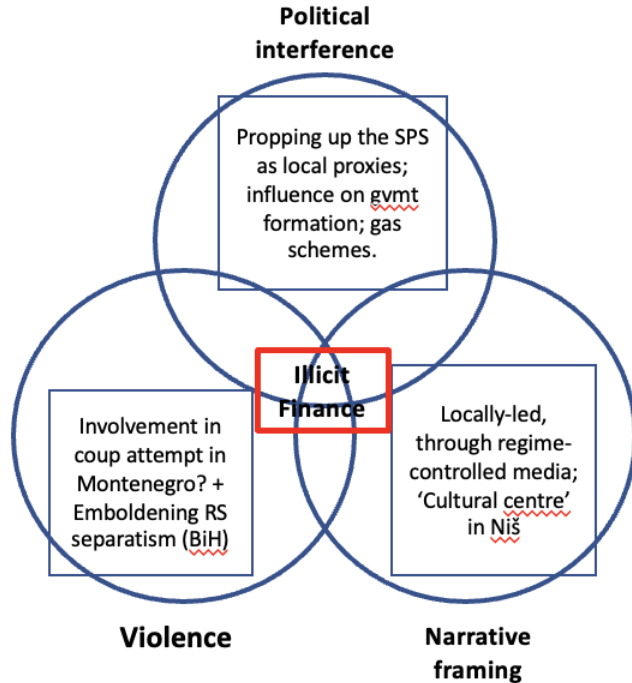
Lost love?: 2014-2022

- Deripaska sues Montenegro
- Coup / assassination attempt?
- FDI goes down, but not wholly

Going forward: AC & anti-SOC opportunity

- Russian influence today is often overblown
- Narrative 'trap': stabilitocracy
- Willingness to confront SOC issues, need EU 'carrot'

Securing Russian Illicit Finance in Serbia



Gas intermediary schemes & their resilience

- Set up in the 1990s
- Attempt to crack down in 2000
- Rebound

Privatisation

- Naftna Industrija Srbije (NIS) in 2008
- Russia using FP considerations of Serbia to its advantage
- Obtaining huge concessions

Non-privatisation

- Penetrating the state-owned enterprises through local actors (Socialist Party of Serbia)
- Local proxies: key.

Takeaways: Balkans (Serbia & Montenegro)

FP & IFF are indeed interconnected and part of a wider 'playbook'. Maximise destabilisation gains with little effort and investment

However, the two are not always aligned. Sometimes, the nominally 'most loyal' country does not get the better economic reception from the Kremlin.

Local proxies are key: what remains a constant is that loyal politicians, businesspeople, and other actors are rewarded with generous spoils.

Pragmatism has trumped FP considerations. In the case of the imposition, or lack of imposition, of sanctions in 2014, IFF from Russia will try to reflect that (lack of) shift in the short term. But ultimately, inertia and the loyalty of ad hoc actors have so far been more powerful forces than short-term policy considerations.

What has changed after Feb 2022?

1) Recipients of IFF

AFRICA – clearest example:

Russia's use of illicit finance has been increasingly widespread across Africa.

Informal political and, where necessary, military means are used to secure lucrative natural resource extraction contracts.

Some states are not necessarily 'pro-Russia' but certainly 'anti-Western', which Russian agents can exploit.

Depth of anti-Western sentiment on the continent, which Russia is cleverly manipulating in order to advance illicit financial flows.

Western sanctions may lead to more illicit financial flows between Russia and Africa, not less.

Ties with mineral-rich African states such as Sudan, but also the Central African Republic, Burkina Faso, Mali and others, may enable Moscow to minimize the impact of Western sanctions.

What has changed after Feb 2022?

1) Decision-makers in Russian FP

Pre-Feb 2022: Putin as the 'final arbiter'.

Balancing several interest groups:

- Dollar capital (incl. oligarchs)
- Energy complex
- Ruble capital
- Military
- Siloviki
- Church

Post-Feb 2022:

The influence of some of some of them was thrown out of the window (also literally).

What is left?

- Ideologically-minded actors
- Authoritarianism turning into totalitarianism
- Whimsical decisions front and centre.

The UK's Kleptocracy Problem



- The intertwining of **financial globalization** with the **post-Soviet transition**
- The UK's risk-based system is effectively **risk-insensitive** – all process, no outcome
- **Failures of enforcement** have led to **flawed judgments** by UK courts
- The provision of aggressive **reputation management** services in the UK means we know less than we should
- The integrity of important domestic institutions – including **parliament and the parties** – is undermined
- In sum, the UK has effectively **serviced the system** in Russia – and not only!

Conclusions

- Russian foreign policy initiatives rely on **informal and patronal relationships** with domestic elites. They can therefore provide legitimation, or ‘cover’, for IFF – or viceversa.
- We have grouped these relationships into three conceptual spheres, ‘political’, ‘media’ and ‘violence’: they are used alongside one another and mutually reinforce one another, with an **escalatory tendency** if things do not work out for Russia (from the projection of soft power → violence)
- Anti-corruption response: **less ad-hoc and reactive, but recognize it as a systemic issue**: Given the long-term character these processes take, it is important to take a **long-term view** on the solutions: there is no short-cut to deep-seated democratization (stabilitocrats can be allies only in the short run – and still get us nowhere).

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