

WAR AND CORRUPTION

CORRUPTION'S ROLE IN RUSSIA'S
FULL-SCALE INVASION OF UKRAINE

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Disclaimer: Transparency International Russia condemns the unprovoked expansionist war initiated by Russia against Ukraine. The thousands killed, tens of thousands injured, and millions of Ukrainian refugees are the result of Putin's policies and his corrupt authoritarian regime. We stand in solidarity with all participants of the Transparency International movement, supporting those who fight against corruption and defend democratic values.

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EXECUTIVE SUMMARY

There is very little research on the relationship between war and corruption. Most academic papers on the topic are on civil wars, not on wars between countries. However, there is a consensus that wartime exacerbates corruption.

- > Experts agree that corruption in and of itself is not the main reason why Russia attacked Ukraine on **24 February 2022**. However, the highly corrupt kleptocratic system of governance that exists in Russia is, in many ways, the cause of this war. Abuse of power by top officials led to the concentration of resources in the hands of a small circle of beneficiaries. This, in turn, created a situation where the “war part” was not controlled by any checks and balances. At the same time, some experts refuse to use the term “corruption” to refer to the Russian system of governance, as corruption inflicts no significant damage on the Russian government system, being the main component of its functioning instead. Therefore, corruption, as a necessary part of the Russian political regime, could hardly have been the driver of the war, but it was an enabling factor.
- > The war showcased the extreme weakness of the Russian Armed Forces. The question of whether or not corruption has caused the current state of events is controversial. Some experts say that theft and graft have been the main cause of the army’s degradation, others claim that the incompetence of the commanding officers or the principal impossibility of preparation for such large-scale war are more important factors. However, it’s safe to say that the scope of corruption was immense, and at least some of the country’s military budget has been embezzled, that makes dozens of billions of rubles (hundreds of millions of dollars). Also, corruption might have overlapped with the Russian military’s fundamental lack of preparation for large-scale warfare. Since the August **2008** war, the army has been preparing for short-term special operations instead of creating a substantial mobilization reserve. The Armed Forces of Ukraine were also tainted by corruption, according to various sources. However, the results they showed on the battlefield until November **2023** have demonstrated their high resilience. This testifies that corruption in and of itself might not be the decisive factor determining military efficiency. The recent Gaza–Israel conflict also exemplifies it, as reports have been made about insufficient supplies received by people mobilized into the Israel Defense Forces despite much smaller corruption potential in Israel’s defense sector.
- > Statistics show rapid growth of registered criminal corruption directly before and after the beginning of the full-scale war. **293** contract servicemen were convicted for corruption as their main offense in **2019**. In **2022**, this number was **434** people (**48% more than in 2019**). All in all, the number of employees of armed forces and paramilitary organizations (including conscripts and civilians) who were convicted of corruption was **351** people in **2019** and **678** people in **2022 (+93%)**. As of November **2022**, **80%** of government contracts for military objects were not completed on time. Thus, the number of uncovered corruption-related violations grew considerably. Corruption during the full-scale war was analyzed through **3** types: petty, administrative, and political corruption¹.

¹ These levels are not strictly defined, as anti-corruption investigations still don’t have an accepted classification of corruption levels. Transparency International uses the following classification: petty corruption, administrative corruption, and political corruption.

PETTY (LOW-TIER) CORRUPTION

Petty (low-tier) corruption includes bribes given by recruits to military recruitment centers and small-scale embezzlement by the army's lower ranks. Previously, corruption in military commissariats was endemic, i.e. characteristic of the system as a whole. The same can be said about small-scale embezzlement. There are numerous examples of stolen military equipment, nutrition, clothing, precious metals, and even weapons and military hardware. Having said that, the scope of the system and its highly inefficient management would significantly impede adequate supplies even if there was no corruption. On top of that, the scale of bribery in the context of mobilization and conscription after the start of the draft is unclear. According to various sources, a draft/service dodging bribe in Moscow varies from 1 to 1.5 million rubles (~\$11,000 to ~\$16,000), but it's nearly impossible to find any information on either arrests for taking bribes or on bribers (conscripts, draftees), even though in the previous years it was acceptable in Russia to almost openly talk about "taking care of" the draft issue for money. We assume that law enforcement agencies were instructed to show zero tolerance towards bribery in military commissariats, which led to a significant reduction of grafting in this area, as of December 2023. The Kremlin has showcased its ability to discipline the bureaucracy for the sake of achieving a particular set of tasks in a short time. However, it is also possible that the existing corruption has become much more clandestine. Likewise, petty corruption was widespread beyond military commissariats: for example, when someone attempted to leave Russia during the draft and encountered the police. Some practices related to higher education could also be seen as corrupt: for example, enrolling in paid postgraduate courses without any actual intent to study. Still, most petty corruption takes place inside the military system.

ADMINISTRATIVE CORRUPTION

Administrative corruption occurs within the context of government and business relations. It consists of breaking the law during state procurement, regulation of foreign trade operations, property relations, implementation of business support measures, and mobilization. After the full-scale war began, corruption risks grew significantly due to the cessation or restriction of public access to budget expenditures, customs statistics, corporate reporting, and the real estate register. Moreover, there has been a significant rise in non-competitive state procurements and closed bidding, driven in part by the expansion of state defense orders, as the transparency of supplier selection procedures has decreased. Corruption is also prompted by the lack of transparency in military spending, mandatory appointment of contractors for state procurements, and obligation of businesses to co-finance the war directly, e.g. by paying for their employees going to war. In 2023, Russian state budget expenditure on national security and law enforcement agencies saw a significant 60% increase compared to 2021. For the military, this increase was 30%. "Grey" and parallel import, as well as expropriation of property for military needs, are also vulnerable to corruption. General government transparency has become lower. Apparently, there is now a widespread practice of ghost employment for draft dodging.

POLITICAL CORRUPTION

Finally, political corruption involves oligarchs, top officials of state-owned enterprises, and global kleptocratic networks, all of whom are the direct beneficiaries of the war. One prominent example is Rostec, a state corporation. Profitable state contracts serve as a reward for loyalty to the regime in these tumultuous times. Many businessmen close to the government received substantial benefits, they bought foreign companies for very little money. Selective nationalization of foreign assets leads to their redistribution between businessmen close to the authorities.

The creeping nationalization of Russian businessmen's assets stopped in August 2023, but it might be resumed. In exchange for assets, oligarchs and state-owned companies conduct clandestine financing of warfare through government contracts. For example, 2 trillion rubles (around \$21.7 billion) were spent on Yevgeny Prigozhin and his now-dissolved Wagner Group. As long as supporting the war is profitable and helps those close to the government make money, sanctions will not have a big impact. **The current approach to sanctions does not encourage kleptocrats to change their ways. It actually strengthens their support for Vladimir Putin. This carrot-and-stick policy is all sticks and lacks the carrots necessary to achieve the results the authors of the sanctions expect.** Moreover, most of the so-called "oligarchs" have limited influence on the Kremlin's policies, while indiscriminate sanctions can, and do, have effects that work against creating divisions among the elite.

Preventing corruption, combating it, and eliminating its consequences – all that should be one of the top priorities during the post-war reconstruction of the Russian state and society.

Judicial practice and statistics were analyzed using the open segment of the Justice State Information System ('Gas Pravosudie'), as well as data from the Judicial Department at the Supreme Court of the Russian Federation. If you have inquiries about the research methodology, please contact info@ti-russia.org

I. WAR, CORRUPTION AND RUSSIA

1. 1. HOW WAR AND CORRUPTION ARE RELATED

The link between war and corruption has only recently gained attention among corruption scholars, representatives of NGOs, academia, and government. The study of corruption itself also emerged relatively recently, in the late **1980s**, with the publication of “Corrupt Cities” by Robert Klitgaard, one of the earliest popular books on the subject. Studies of corruption normally concentrate on Europe and North America, regions that haven’t experienced major warfare since 1945.

Furthermore, the military conflicts of the last decades usually have more apparent causes than corruption. In addition, there has been significant corruption in countries that were previously engaged in military conflicts but are no longer, e.g. Afghanistan and Iraq after the US invasion.

In these conditions, the connection between war and corruption has mainly been studied within the context of civil wars. Still, despite the lack of comprehensive studies on the subject, the following basic features of this relationship can be identified.

First, corruption creates conditions for military conflicts by undermining the rule of law and exacerbating social divisions. While most studies concentrate on corruption as a cause of civil wars, some experts suggest that corruption allows elites to wage war², which is highly similar to the situation in Russia. Likewise, the weakening of the rule of law hinders governmental responses to threats³. An example of this is the actions of the Wagner Group in Africa, characterized as mercenarism and a criminal offense under the Russian Federation’s Criminal Code, continue unprosecuted due to the lack of intervention by Russian authorities.

Second, corruption in countries that are at war creates a breeding ground for other military conflicts. During war, weapons are often sold on the black market, easily accessible to any prospective buyer⁴. In the Russian-Ukrainian conflict mass use of weapons by both sides is to create a massive black market for weapons, raising concerns about their potential misuse. Besides, the chaos of war loosens control over the drug trade and might lead to human organ trade, as it happened in the former Yugoslavia⁵. While these crimes don’t always include corruption directly, they do generate massive streams of dirty money⁶. Ultimately, wartime corruption breeds other wars and acts of violence⁷.

² Le Billon, P. (2003). Buying peace or fueling war: the role of corruption in armed conflicts. *Journal of International Development*, 15(4), 413-426.

³ Chayes, S. (2015). *Thieves of State: Why Corruption Threatens Global Security*. New York: W. W Norton & Company; Dix, S., Hussmann, K., & Walton, G. (2012). Risks of corruption to state legitimacy and stability in fragile situations. <https://assets.publishing.service.gov.uk/media/57a08a7940f0b652dd00074c/U4-Issue-2012-03-risks-of-corruption.pdf>

⁴ O’Donnell, M. (2006). Post-conflict Corruption: A Rule of Law Agenda. In *Civil War and the Rule of Law*; Ralston, L. (2014). *Trafficking and Fragility in West Africa*. World Bank Policy Research Working Paper 7079. <http://elibrary.worldbank.org/doi/abs/10.1596/1813-9450-7079>

⁵ Fioretti, J. (2014, July 29). Inquiry finds “indications” of organ harvesting in Kosovo conflict. Reuters. <https://www.reuters.com/article/us-eu-kosovo-investigation-idUSKBN0FY1FK20140729/>

⁶ Zdanowicz, J. (2009). Trade-Based Money Laundering and Terrorist Financing. *Review of Law & Economics*, 5(2), 855-878.

⁷ North, D., Wallis, J., & Weingast, B. (2013). *Violence and social orders: a conceptual framework for interpreting recorded human history*. Cambridge: Cambridge University Press.

Notably, there is a direct correlation between a country's position in the Corruption Perception Index ("CPI") and the level of safety of living in that country: countries with lower CPI rankings tend to be less safe places to live⁸.

Third, although corruption might help individuals survive during wars⁹, its pervasiveness seriously hurts any efforts to rebuild territories ravaged by warfare. One of the reasons is the fact that people in such places get used to corrupt behavior in extreme situations¹⁰. Furthermore, the country most hurt by war may experience worsening corruption, as this country will receive the majority of financial donations¹¹.

Fourth, corruption is often used as a foreign policy tool, which might be related to warfare. For example, Russia has frequently been accused of bribing foreign officials. One notable example of this is Russia providing subsidized loans and gas discounts to Viktor Yanukovich's government in Ukraine in 2013 in exchange for halting the signing of an association agreement with the EU¹².

Thus, even though researchers have not often concentrated on corruption as a cause of international armed conflicts, there is a consensus that such conflicts exacerbate corruption¹³. This report is going to also demonstrate this principle, citing petty and grand corruption in Russia following the start of the full-scale war.

1. 2. RESEARCH METHODOLOGY

Studies of Russia's invasion of Ukraine and its consequences will likely result in a number of papers on the topic. In this study, we're showing the impact of corruption on the Russian army and society during the war.

We are also exploring the extent of influence corruption had on the decision to start the full-scale war in the first place and the role played by the monopolization of power, business, and financial resources. In this work, we are concentrating on practical aspects, i.e. how exactly war influenced levels of petty, administrative, and political corruption in Russia. Petty corruption refers to the everyday activities of millions of people. In the context of an armed conflict, it means not only direct theft of military equipment by yefreytors, praporshchiks, and michmans, lower Russian army ranks. It's also people bribing draft officers to avoid conscription, bribes for border crossing, etc.

Grand corruption mostly occurs in the dealings between business and the government. We will examine changes in state procurements and governmental transparency during wartime.

The political corruption that we will be talking about takes place in the context of interaction between Russian kleptocrats and international elites.

⁸ Transparency International. (2023, January 31). CPI 2022: Corruption as a fundamental threat to peace and security - News. Transparency.org. <https://www.transparency.org/en/news/cpi-2022-corruption-fundamental-threat-peace-security>

⁹ Cheng, C., & Zaum, D. (2012). *Corruption and Post-Conflict Peacebuilding: Selling the Peace?* London: Routledge.

¹⁰ Le Billon, P. (2008). Corrupting Peace? Peacebuilding and Post-Conflict Corruption. *International Peacekeeping*, 15(3), 344-361. <http://www.tandfonline.com/doi/abs/10.1080/13533310802058851>

¹¹ Mungiu-Pippidi, A. (2022, October 18). For a clean and sustainable reconstruction of Ukraine. ERCAS. <https://www.againstcorruption.eu/articles/for-a-clean-and-sustainable-reconstruction-of-ukraine/>

¹² Rupert, J. (2022, January 9). Ukraine: How to oppose Russia's weaponization of corruption. United States Institute of Peace. <https://www.usip.org/publications/2022/06/ukraine-how-oppose-russias-weaponization-corruption>

¹³ Transparency International Defence & Security. (2023, January 2). Corruption Risks and Military Operations. <https://ti-defence.org/what-we-do/conflict-insecurity/corruption-in-military-operations/>

We are going to demonstrate how inconsistent countermeasures from developed countries allowed the kleptocrats to enrich themselves and stay in power. Unlike the previous paragraphs, paragraph 4 contains less numerical data¹⁴, as some data was publicly unavailable. This was compensated by extensive qualitative analysis¹⁵.

Finally, this study not only showcases the influence of corruption on the state of Russian society and the army but also demonstrates that it functioned as an enabler of the full-scale invasion.

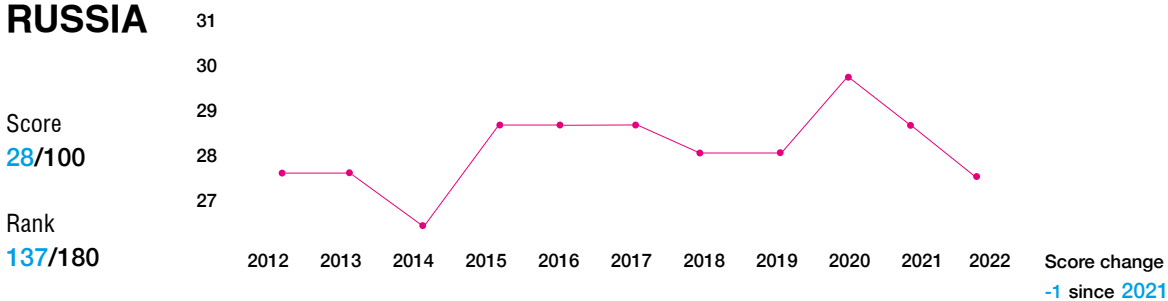
1. 3. THE GENERAL SITUATION WITH CORRUPTION IN RUSSIA AND UKRAINE BEFORE THE BEGINNING OF THE FULL-SCALE WAR

In 2012-2022, Russia occupied a steady position in Transparency International's Corruption Perception Index between 130 and 140 out of 180 countries with 28-30 points out of 100. This rating shows a high level of corruption, but the Index does not provide disaggregation into specific sectors.

EASTERN EUROPE AND CENTRAL ASIA

Score changes 2012 - 2022

RUSSIA



Score
28/100

Rank
137/180

There is also the Global Defence Index, which assesses corruption in the defense sector worldwide¹⁶. In 2019-2020, Russia received a D on the scale from A to F in that index, which means high corruption-related risks in its defense sector. Back in 2018, the index authors highlighted the sector's vulnerability to corruption due to insufficient oversight of state policies, budget, and activities such as procurements by the parliament and civil society. Transparency, especially in procurements, is lacking, and anti-corruption measures for military operations are weak. Personnel management scored the highest, while the Ministry of Defence's operational risks and government procurements received poor ratings. It's interesting to note that the lowest grade (F) was awarded to all the major enterprises of the military-industrial complex, mainly due to their lack of transparency. For instance, the Almaz-Antey Corporation ranked 0 almost in all parameters. Rostec also scored poorly.

As for Ukraine, in the 2019-2020 Global Defence Index, it also got a D rating due to insufficient strategic planning. At the same time, Ukraine's political control over its armed forces was rated twice as high. The country scored slightly higher in government procurements and personnel management. Consequently, while Ukraine and Russia were placed in the same category, Ukrainian results were still noticeably better.

It appears that Ukraine's corruption situation remained relatively stable by the start of the full-scale war, as Ukraine had a neutral dynamic in the Corruption Perception Index (score 32 in 2020; score 33 in 2022).

¹⁴ Statistics and other numerical data.

¹⁵ Case analysis and other non-numerical data.

¹⁶ Transparency International Defence & Security. (2022, January 7). Russia — Government Defence Integrity index. Government Defence Integrity index. <https://ti-defence.org/gdi/countries/russia/>

Russia's CPI dynamics also showed no major fluctuations; however, transparency notably declined, especially in the military-industrial complex. In 2018, 85% of its enterprises disclosed their vendors for non-classified state procurements¹⁷. Nevertheless, starting in January 2022, military companies completely stopped publishing their procurement data¹⁸.

It must be said that in Ukraine the scale of governmental corruption has been¹⁹ and remains significant, which can be seen if one looks at hundreds of criminal cases of high treason committed for profit²⁰. A detailed analysis concerning crimes within the Russian Armed Forces is provided in item 1.4, paragraph I.

According to Global Data PLC, a data analytics company, corruption is widespread among all levels of the Russian Armed Forces, from low-ranking to high-ranking officers. Low-ranking officers engage in petty theft of military supplies, most likely as a result of inadequate salaries, while corruption is prevalent at higher levels, particularly in government procurement processes²¹.

Experts interviewed for this study hold varied opinions on how different forms of corruption have influenced the military losses of the Russian army. K., an expert, said that before Anatoly Serdyukov became Minister of Defense in 2007, corruption in the Russian army was much worse. From 2010 onwards, there was a significant increase in internal audit oversight, leading to stricter financial discipline. While corruption levels remained high domestically, opportunities for theft notably decreased. According to K., the dismissal of Dmitry Bulgakov, the Deputy Defense Minister in charge of logistics, in September 2022, shortly after the announcement of mobilization, is significant. This was preceded by a report²² revealing the online sale of army equipment on the Avito marketplace by private persons. K. also pointed out that the quality of food supplied to Russian troops, formerly managed by entities associated with Yevgeny Prigozhin, the late founder of the Wagner Group, was poor.

Opposing, Pavel Luzin does not agree with this assessment. According to him, the influence of corruption on the army was insignificant. Luzin points to the breakdown of the officer training system, the major collapse in the quality of military education compared to the late-period USSR, and the bureaucratization of army management as having played more substantial roles. Overregulation of the procurement system turns any contract into a system of mutual agreements and exchanges that become necessary to conduct state procurement orders. Luzin believes that the total "kickbacks" from the 2011-2020 state rearmament program were no more than 2 to 3 percent of its 15 trillion rubles (~\$163 billion) cost, which is comparatively little. Moreover, Luzin contends that the lack of readiness for war and the dismantling of the army's mobilization infrastructure under Serdyukov have made it impossible to maintain optimal supplies and logistics consistently.

¹⁷ Transparency International Russia (n.d.). Protected by Sanctions: How the Russian legislation has changed, and how this change has influenced the transparency of defense companies in Russia. <https://web.archive.org/web/20220515052007/https://transparency.org.ru/special/sanctions>

¹⁸ Petrov, V. V. (2024, January 15). Classifying of procurements conducted by all security, defense, and law enforcement agencies: pros and cons. The FSB license. <https://licenziya-fsb.com/zasekrecheny-goszakupki-vseh-silovikov>

¹⁹ War and Corruption in Ukraine. (Issue 2.2022). Eucrim, 3, 152-157. <https://eucrim.eu/articles/war-and-corruption-in-ukraine/>

²⁰ Bonner, B. (2022, August 1). Ukraine's wartime foes include corruption, spies, traitors. GIS Reports. <https://www.gisreportsonline.com/r/ukraine-war-corruption/>

²¹ GlobalData. (2022, July 19). Russian corruption: A factor in the war in Ukraine? Army Technology. <https://web.archive.org/web/20230604200843/https://www.army-technology.com/comment/russian-corruption-war-ukraine/>

²² Brovinska, M. (2022, October 31). Buy an armored vehicle, full or in parts. Avito is used to sell Russian military vehicles and gear. dev.ua. <https://dev.ua/ru/news/kupyty-btr-na-avito-prodaiut-rossyiskuiu-voennuiu-tekhniku-y-obmundyrovanye-rosarmy-1667216105>; The Moscow Times. (2022, May 18). Bloody Corruption: Russian army equipment has been sold at Avito. The Moscow Times. Russian service. <https://www.moscowtimes.ru/2022/05/18/korrupsiya-v-voiskah-a20456>

In this context, it's worth mentioning the war in the Gaza Strip in 2023, during which the mobilization of the Israel Defense Forces reservists in October 2023 was accompanied by mass reports of lacking or obsolete equipment²³. Despite Israel's C-rating in the Global Defence Index, which is a much better result than Russia or Ukraine²⁴, we can hardly attribute equipment problems faced by the Israel Defense Forces to corruption.

As experts differ in their assessments of the extent of corruption within the Russian army and its impact on combat capabilities, there are some things they agree on. The current system's structure makes it highly challenging to adhere to rules, leading military personnel to break them frequently. **Corruption alone, as a singular issue within the Russian army, would not have significantly impaired combat capabilities if it were not combined with inadequate management and personnel skills.**

The monopolization of the military-industrial complex may have played an important role. Out of the top 10 companies of the complex with the highest revenue in 2017²⁵, only Almaz-Antey is not currently (2023) owned by Rostec. Competition development within the military industry is currently worse than in the Soviet times. Back then, there were always 2-3 competing design bureaus belonging to different agencies, fostering a more competitive environment.

1. 4. WAR IN UKRAINE: CORRUPTION-RELATED BACKGROUND

The question of whether corruption in Russia is the primary driving force behind the Russian-Ukrainian war remains a controversial subject. There are no apparent benefits for the initiators of the war, be it resources or privileges. While it might be too early to draw definitive conclusions after just one year, numerous sources suggest that the full-scale war was launched for ideological reasons and largely stemmed from a personal initiative of Vladimir Putin²⁶. However, it was the system of governance within Russia that ultimately allowed for such a situation to unfold.

Also of interest are statements by Yevgeny Prigozhin of the Wagner Group made in 2023, that it's the oligarchs who want the war, "the clan that is right now basically controlling Russia"²⁷. Prigozhin acknowledged the redistribution of property on the territories occupied by Russia and confirmed that after regions of Ukraine were occupied, they were looted – equipment, metal, etc. were taken to Russia.

K., an expert, notes that the Minister of Defence of Russia, Sergei Shoigu, is a very strong lobbyist, including legislative lobbying. This might have been the reason why Russian authorities overestimated their capabilities. Such unrealistic expectations might have influenced the decision to start the war within a system built on unsubstantiated claims. According to K., tighter corruption control would have significantly reduced the risks of global isolation of Russia, which, in turn, would have lowered the chances of a full-scale war. On the other hand, Pavel Luzin notes that the main causes of the war are authoritarianism and anti-capitalism, the excessive involvement of the state in the economy specifically. In his opinion, everything else constitutes mere consequences of this system.

²³ RBK. (2023, October 13). Israel Defense Forces Denies Equipment Problems Faced by Reservists. RBK. <https://www.rbc.ru/politics/13/10/2023/65289ff29a7947413a5de584>

²⁴ Transparency International Defence & Security. (2022, January 6). Israel — Government Defence Integrity Index. <https://ti-defence.org/gdi/countries/israel/>

²⁵ Afanasyev, S. (2017, September 30). Putin's Hawks: how "Two Comrades" Chemezov and Manturov Put Russia's Defense Family under Arms. Realnoye Vremya. <https://realnoevremya.ru/articles/64588-top-100-oboronnyh-kompaniy-rossii>

²⁶ Zhegulev, I. (2023, April 25). How Putin Started Hating Ukraine. Verstka. <https://verstka.media/kak-putin-pridumal-voynu>

²⁷ Russian Army is Retreating. Ministry of Defense is Lying to Putin. Ukraine and NATO never planned to attack Russia. New video by Yevgeny Prigozhin. (2023, January 23). Meduza. <https://meduza.io/feature/2023/06/23/rossiyskaya-armiya-otstupayet-minoborony-obmanyvaet-putina-ukraina-i-nato-ne-sobiralis-napadat-na-rossiyu>

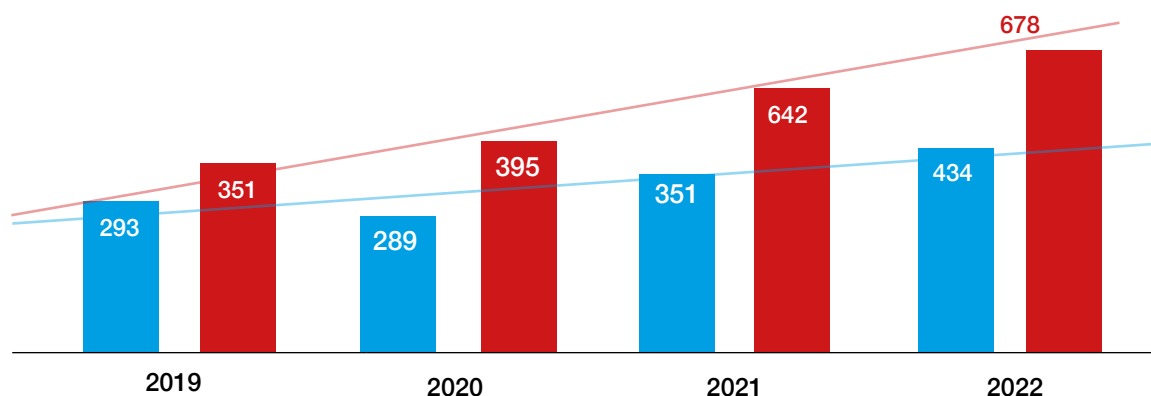
Therefore, experts agree that authoritarianism and lack of free market capitalism contributed to the beginning of the war. **If we classify corruption-related risks into drivers and enablers²⁸, we can say that corruption, although it was hardly a driver, was definitely one of the enabling factors.**

1.5. OVERVIEW OF STATISTICS

In this item, we are going to provide a quantitative analysis, a general overview, of corruption-related crime statistics in Russia for the years **2019 and 2022²⁹**. Specific cases and court rulings (with qualitative analysis) are categorized into specialized sections based on types of corruption.

The years **2019 and 2022** were selected as reference points: **2022** was the first year of the full-scale war, while **2019** was characterized by relative calm in the country, without any significant events that could have caused statistical anomalies. In contrast, anomalies were widely present in **2020** due to the COVID-19 pandemic and in **2021**, attributed to both the pandemic and Russia's alleged preparations for a full-scale war according to various sources.

THE NUMBER OF CORRUPTION-RELATED CONVICTIONS IN THE RUSSIAN ARMY IN 2019–2022



- Contract military personnel convicted of corruption as the main offense
- All those convicted of corruption in the armed forces and paramilitary departments (including contract military personnel and civilians)
- Trend line. Total number of civil servants convicted of corruption (including contract military personnel and civilians) in the Armed Forces of the Russian Federation.

N.B.: Corruption-related crimes are defined in the instruction by the General Prosecutor's Office; they normally include bribery and any other abuses of authority by officials to receive personal profit.

According to a criminal law expert, an increase in the number of cases with corruption as the primary offense can signify an increase in the crime detection rate and/or a growing number of corruption-related crimes. As for additional offenses, corruption-related crimes are considered serious, and other elements of crimes can rarely outweigh them and become the primary charge.

²⁸ Wathne, C. (2021). Understanding Corruption and How to Curb It (Issue 2021:3). Series editor: Mullard, S. <https://www.u4.no/publications/understanding-corruption-and-how-to-curb-it.pdf>

²⁹ We analyzed the data of the Judicial Department at the Supreme Court of the Russian Federation. If you have details you would like to inquire about, please contact us at info@ti-russia.org.

During an 8-month period in 2021, the number of corruption-related crimes, including those not brought to trial, increased by a modest +16% compared to the same period in 2020³⁰. One can see that the increase in the number of people from the army and paramilitary organizations sentenced for corruption was much greater than in other sectors. Note that criminal cases are investigated for at least 3-4 months, often longer. Therefore we can guess that a surge of criminal cases that were disclosed during the mobilization that started in 2022, if such a surge occurred, was not reflected in 2022's statistics.

The increase in the number of cases that came to trial in 2021 can be explained by a return to normal court procedures after COVID restrictions were lifted, a decrease in the number of sick court and investigation authorities employees, and the cessation of other pandemic-related factors. Additionally, various sources state that preparation for the full-scale war started, one way or another, in Spring 2021³¹.

Furthermore, there has been a threefold increase in crimes against military service, jumping from 1,089 cases in 2021 to 2,835 cases in 2022. This increase is not due solely to 'dedovschina' (hazing) incidents but also to cases of insubordination, desertion, unauthorized absence, soldier mistreatment, and other offenses related to military service³².

According to a letter the Chief Military Prosecutor's Office published in the 'VCHK-OGPU' anonymous Telegram channel, approximately 80% of government contracts for military infrastructure construction were not fulfilled by 2022, while the number of embezzlement cases related to construction grew almost twofold during the first year of the full-scale war³³, rising from 66 to 107 cases. Furthermore, the percentage of compensation for damages due to court rulings does not exceed 1% of the total amount of 186 billion rubles, roughly equivalent to 2 billion dollars³⁴.

Therefore, we can confidently state that **there was a major surge in the number of corruption-related crimes in the Russian Armed Forces right before and right after the onset of the full-scale war**. At the same time, it's impossible to look at the statistics and say which crimes involving state procurements did not have military personnel as defendants, as these crimes are qualified as fraud or abuse of power. It is noteworthy that the article of the Criminal code explicitly addressing abuse of authority in relation to military procurements is seldom invoked, with only a few instances reported each year.

³⁰ RBK. (2021, April 30). In Russia, an 8-Year Record in Detected Corruption Crimes Has Been Set. RBK. <https://www.rbc.ru/politics/30/08/2021/612d07919a79470efb759237>

³¹ Zhegulev, I. (2023, April 25). How Putin Started Hating Ukraine. Verstka. <https://verstka.media/kak-putin-pridumal-voynu>

³² Military Lawyers. (2023, January 24). General Prosecutor's Office: Number of Crimes Against Military Service in 2022 Increased Threefold. https://t.me/voen_advokaty/808

³³ Stated in the source text.

³⁴ VCHK-OGPU. (2023, February 15). The Chief Military Prosecutor's Citation to Minister of Defense Sergei Shoigu after Checking the Situation with Military Objects Construction. <https://t.me/vchkogpu/36617>

II. PETTY CORRUPTION

While studying petty corruption, we organized cases into groups based on institutions like military recruiting centers (commissariats) and police, rather than by events such as recruitment as the levels of work-related discipline and availability of information might highly differ for an outside observer depending on the institution in question. While information on higher education and healthcare is typically readily available, any information about the FSB personnel, for example, is classified.

The number of types of corrupt and fraudulent practices in the context of draft and mobilization is relatively high³⁵ : forging medical documents, ghost employment in companies that allow their employees to avoid draft, and enrolling into higher education institutions without planning to study. Therefore, many corrupt practices in this sphere occur independently of military commissariats.

2. 1. ARMY'S LOWER RANKS

Apparently, theft in the Russian army is endemic. According to the BBC Russian service, at least 558 sentences³⁶ handed down by Russian military courts in the last 8 years contain information on theft of property from storage facilities³⁷ : duffel bags, masks, handkerchiefs, bulletproof vests, first aid kits, etc.

Sentences that contain any amount of classified information can't be published legally hence there is a high probability that many rulings have not been disclosed. Also, the levels of latent crime of this kind are not known. The BBC article also highlights that theft can occur at an unknown moment and can only be discovered during inventory checks, potentially leading to no criminal investigation being initiated.

In recent years, there have been many reports about theft of fuel and other resources³⁸ . The court rulings that we studied contain almost no information on weapon theft³⁹ . We can guess that such sentences are often not made public.

Furthermore, online marketplace Avito published ads selling various military items, including Armiya Rossii rations, bulletproof vests, helmets, boots, and other uniform items⁴⁰ . Although some of these items can be purchased freely, the information we possess on frequent thefts of army equipment means that some of the equipment being sold might have illicit origins.

³⁵ Lykov, V. (2022, November 4). Draft Dodging Costs 50 Thousand, a New Identity a Million and a Half. How the War in Ukraine Changed the Russian Darknet. Lenta.RU. <https://lenta.ru/articles/2022/11/04/dark/>

³⁶ Roughly from 2014 to 2022.

³⁷ Zakharov, A. (2022, October 10). "Transported in a KamAZ Truck." How Russian Soldiers and Officers Were Stealing the Army's Underpants, Boots and Vests. BBC News, Russian Service. <https://www.bbc.com/russian/features-63177093>

³⁸ Ocrp. (2022, April 7). The Most Dependable Ally. How Corruption in the Russian Army Can Save Ukraine. <https://www.occrp.org/ru/home/37-ccb/16181-2022-04-07-16-58-46>

³⁹ Example: Cassational ruling by the Military court of cassation from 3 March 2023 on case 7U-58/2023. Cassational ruling by the Military court of cassation from 2 September 2021 on case 7U-530/2021.

⁴⁰ CHITA.Ru - News of Chita (2022, December 22). "You are not going to be accomplices, the guilty party will be found." <https://www.chita.ru/text/society/2022/12/22/71919674/>; <https://www.avito.ru/all?q=%D0%90%D1%80%D0%BC%D0%B8%D1%8F+%D0%A0%D0%BE%D1%81%D1%81%D0%B8%D0%B8+%D1%80%D0%B0%D1%86%D0%B8%D0%BE%D0%BD>

According to the expert K., however, the number of such ads has decreased significantly after the start of the full-scale war. K. also states that much of the theft of budget funds consists of money being sent to repair military equipment as this process is hard to control on the go. Also, there was a lot of theft of precious metals that were used in military equipment, especially in the 1990s.

Curiously enough, less than a year after the mobilization was declared, two of the deputy defense ministers in charge of logistics were replaced. In late September 2022, Dmitry Bulgakov left the post, which he occupied since 2010. In April 2023, Alexander Kuzmenkov also left the same position after seven months⁴¹. We can only guess what led to these changes as the reasons were not publicized. However, K. believes that Bulgakov's resignation was demonstrative, as it happened at the peak of mobilization. There's a good chance that it means an admission of problems with supplies that were related to corruption to some degree.

At the same time, military expert Pavel Luzin opines that it was impossible to keep a large number of rations, machine guns, and other small accounting units in good condition, both because of the Russian army's system of management and because the army never prepared for a large-scale mobilization war, preparing for short-term special operations instead.

2. 2. MILITARY COMMISSARIATS

According to various surveys⁴², in previous years, military commissariats consistently made the top 10 of the most corrupt Russian institutions. There were widespread reports of bribery connected with conscription dodging. Related criminal cases have kept coming to trial after the beginning of the full-scale war. In November 2022, a draft officer was arrested in Moscow's Preobrazhenskoye District. He headed military commissariats in the capital's various districts for at least 20 years. The charge included at least 9 episodes of bribery during drafting⁴³.

Corruption in military commissariats mostly concerns conscription dodging. Illegal exemption from conscription is usually achieved by either changing a conscript's category of fitness or via other kinds of document forging. Corruption might involve military commissariat employees and members of the draft board where the draft officer is the sole representative of the commissariat. In Kazan, for example, the head of Tatarstan's military medical commission and the draft officer of one of the districts were charged with corruption⁴⁴. The commissioner received a suspended sentence for 26 episodes of bribery, while the draftee was sentenced to actual prison time for just one episode.

On the Darknet, one can buy forged military registration cards with prices varying from 20,000 to 200,000 rubles (~\$200 to 2000)⁴⁵. The gray zone might include various practices of "legal" exemption from conscription with full legal backing, especially in the case of organizations that sell franchises for such services⁴⁶.

⁴¹ BBC News, Russian Service. (2023, April 30). New Head of Logistics Appointed in Russian Ministry of Defense. <https://t.me/bbcrossian/45465>

⁴² Russian Public Opinion Research Center (RPORC). (2018, January 1). Corruption in Russia: monitoring. News. <https://wciom.ru/analytical-reviews/analiticheski-obzor/korruptsiya-v-rossii-monitoring>; Levada Center. (2017, January 28). Institutional corruption and personal experience. <https://www.levada.ru/2017/03/28/institutsionalnaya-korruptsiya-i-lichnyi-opyt/>; Kommersant. (2015, April 19). Anatomy of Corruption: Badges and Bribes. <https://www.kommersant.ru/doc/2703354>

⁴³ Sudebnyie Krossovki (2022, February 29). <https://t.me/sneakerscourt/1940>

⁴⁴ Realnoye Vremya. (2022, July 11). In Kazan Draftee Jailed for One Bribe, Military Physician Gets Suspended Sentence for 26 Bribes. <https://realnoevremya.ru/articles/255331-v-kazani-prizyvnik-pozadili-za-odnu-vzyatku-voenvrachu-za-26-dali-uslovku>

⁴⁵ For example, <https://probiv.one/threads/otsrochka-ot-armii-na-odin-prizyv-rabotaju-po-vsej-rossii.131404/>

⁴⁶ For example, Prizyvanet. Services. <https://prizyvanet.ru/uslugi/>

According to the Baza media outlet, exemption from conscription usually costs 5 to 6 thousand euros in Moscow's military commissariats. Receiving a military registration card with falsified military service details would cost 2 to 3 million rubles (~\$21,500 to \$32,500). In regions, conscription exemption costs roughly 50 to 150 thousand rubles (~\$540 to \$1600). In Moscow, the bribe for exemption from mobilization amounted to 1.5 million rubles (~\$16,000) but no guarantees, as the draftee was moved to the end of the mobilization list but was not removed from it.

We were unable to uncover any other information on corruption in military commissariats during mobilization. Transparency International Russia⁴⁷ and a major media outlet Helpdesk.media⁴⁸ both called on their social media followers to report corruption using specialized bots. The announcements were seen by roughly 100,000 people in total. However, despite the anonymity of bot messages, no substantial reports were received in both cases. A consultation with a lawyer specializing in draftees' rights revealed no knowledge of corruption cases during mobilization. This all might mean that exemption from mobilization via the means of corruption was happening on a small scale and was done non-publicly. At the same time, there is more and more information about corruption that is not connected with mobilization. In April 2022, a draft officer responsible for several of Saratov's districts was arrested for accepting a bribe in exchange for a military registration card that stated non-fitness for service⁴⁹.

2.3. POLICE AND OTHER LAW ENFORCERS

In the context of war, petty corruption often occurs when potential draftees cross the border during mobilization. There were well-documented episodes of corruption at the Verkhny Lars border crossing between Russia and Georgia where employees of the traffic police were taking bribes for escorting people to the border out of turn. The FSB reported arresting 10 individuals involved in this corruption scheme simultaneously⁵⁰.

We haven't discovered any other similar cases. Occasionally, there were reports about attempts to solicit bribes among the police officers to avoid the draft but such cases weren't widely publicized. It is likely that similar cases of corruption were infrequent due to the Kremlin's particular attention to mobilization.

New forms of corruption-related risks continue to emerge. In July 2023, a bill was passed that permitted the release of former and current prisoners from punishment on the condition that they go to war.

This bill opens the door to potential corruption, as the Ministry of Defense can select prisoners and persons with criminal history⁵¹ and, as it happened with the Wagner Group, there is a chance that individuals could potentially evade punishment in exchange for bribes without being deployed to the frontline⁵².

⁴⁷ Transparency International Russia. (2023, January 13). Increasing Rumors about Second Mobilization Wave. Corrupt Officials See It Too. https://t.me/ti_russia/1620

⁴⁸ Helpdesk.media [HM chat]. (2023, January 12). Have you resorted to bribery to avoid mobilization? <https://t.me/helpdeskmediachat/86728>

⁴⁹ Vzglyad Info news agency. (2023, April 12). Bribe for Saratov Draft Officer. Details, schemes and sums. <https://www.vzsar.ru/news/2023/04/12/vzyatka-dlya-saratovskogo-voenkoma-podrobnosti-shemy-symmy.html>

⁵⁰ BAZA. (2022, September 28). FSB Employees Arrested About 10 People in North Ossetia. They Include Policemen and Taxi Drivers. <https://t.me/bazabazon/13518>

⁵¹ RBK. (2023, June 19). How Will People Be Freed From Criminal Responsibility in Exchange for Military Service. <https://www.rbc.ru/politics/19/06/2023/6489f88a9a794740a30bb48e>

⁵² Radio Liberty (2023, January 30). They're Coming Back. Wagner Group Prisoners Are Being Released. <https://www.svoboda.org/a/oni-vozvrashchayutsa-zaklyuchennye-iz-cvk-wagnera-vyhodyat-na-voly/32246049.html>

2. 4. HIGHER EDUCATION

Studying at universities, including postgraduate studies allows the students to defer from draft and mobilization. Corruption in these cases can involve direct bribery or indirect methods.

In October and November 2022, there were arrests at Synergy University for enrolling over 800 individuals under false pretenses to secure deferments⁵³. This meant fake enrollments where individuals did not actually study. Corruption can also occur through paid training of students and postgraduates without genuine learning or thesis preparation. Synergy University has the reputation of fake education university⁵⁴. According to the HSE University's Institute of Education, 45,000 people enrolled in postgraduate studies in Russia in 2022, a 1.5-fold increase from 2021 (28,000), and the highest in the past decade⁵⁵.

The current education system essentially allows deferment in exchange for money without actual training as many universities offer low-quality teaching and students might not even attend classes⁵⁶.

It's not quite clear whether such an approach to education can be considered corruption. It can be said though that the general system of education in Russia allows for these practices, giving individuals plenty of options that don't involve direct bribery.

2. 5. HEALTH CARE

Petty corruption in health care in the context of war is mainly related to opportunities to dodge the draft. It can involve doctors working at the commissariat and external medical organizations where the draftee can be sent or go on his own accord. According to Baza, bribes for relevant physicians were 200 to 250 thousand rubles before the full-scale war (~\$2,100 to \$2,700). After the war began, they became as high as 400-500 thousand rubles (~\$4,300 to \$4,800)⁵⁷. At the beginning of mobilization, there was information that many healthcare establishments were prohibited from issuing sick leaves to men⁵⁸.

While reports of medical bribery during mobilization were minimal, they were mainly related to the drafting process and/or occurred before the mobilization. For example, in 2022, there was a case involving a criminal case against the former head of the neurological department at hospital n.4 in the city of Vladimir, who was accused of accepting a bribe in exchange for issuing a military ineligibility certificate⁵⁹.

⁵³ Sergeev, N. (2022, October 15). About 800 Draft Dodgers Found in Synergy. Kommersant. <https://www.kommersant.ru/doc/5618848>

⁵⁴ Lukyanova, Y., Rubin, M. (2018, October 22). Conservation of Synergy. Proekt. <https://www.proekt.media/investigation/synergiya-biznes/>

⁵⁵ Gubernatorov, E. (2023, May 15). 2022'S Number of Postgraduates is the Highest in 10 Years. Vedomosti. <https://www.vedomosti.ru/society/articles/2023/05/16/975178-chislo-prinyatih-v-2022-godu-aspirantov-stalo-maksimalnim-za-10-let>

⁵⁶ Kucheroва, M. (2018, April 11). "So-called "sharaga" is the kind of place where a teacher can drink vodka right in the middle of a lesson." Mel. <https://mel.fm/blog/mariya-kucheroва/14395-sharaga-eto-takoye-mesto-gde-prepodavatel-mozhet-vyti-vypit-vodki-pryamo-na-pare>

⁵⁷ Baza. (2023, April 5). Due to the Military Operation, Military Registration Cards Cost in Moscow has Doubled. t.me/bazabazon/16761

⁵⁸ Vesti Voronezh. (2022, September 28). Voronezh: private clinics issuing fewer sick leaves to men. <https://vestivrn.ru/news/2022/09/28/voronezhskie-chastnye-kliniki-nachali-otkazivat-muzhchinam-v-vydache-bolnichnykh/>

⁵⁹ Ryumtseva, V. (2022, November 23). Head of the Neurology Department Made Bogus Diagnosis to Help a Draftee Dodge Draft. Zebra TV. <https://zebra-tv.ru/novosti/ekstscessi/zavotdeleniem-nevrologii-za-vzyatku-postavil-prizyvniku-diagnoz-dlya-otsrochki-ot-armii/>

III. ADMINISTRATIVE CORRUPTION

3. 1. CORRUPTION RISKS OF THE “MOBILIZATION ECONOMY”

Foreign studies of corruption during wartime and in post-war settings indicate that worsening material conditions and increased uncertainty about the future resulting from war lead to growing bribery and extortion⁶⁰. This trend is already evident in Russia according to official statistics. The monthly crime reports published by the Prosecutor General’s Office of the Russian Federation⁶¹ show an 11% increase in investigated corruption-related crimes from March to November 2022 compared to the same period in 2021. For bribery, the increase is 23%. When compared to the same period in 2019 and 2020, there was a 21% and 23% growth in corruption-related crimes, respectively.

The Accounts Chamber of Russia’s assessment of the federal budget bill for 2023-2025⁶² demonstrates that the war negatively impacted nearly all macroeconomic indicators in Russia. The GDP declined by 2.9%, retail turnover shrunk by 6.1%, fixed-asset investment went down by 2%, and the real disposable income of the population by 2.2%⁶³. Additionally, a review by the Plekhanov Russian University of Economics⁶⁴ stated that 2023’s structure of federal budget expenditures shows “traceable redistribution in favor of relatively nonproductive areas”.

The Accounts Chamber of Russia’s conclusion also shows that similar to 2022, there was a growth of the Russian budget expenditures relative to the GDP in 2023, signifying an increase in resources redistributed through state institutions. The trend mirrors the global pattern of the increased involvement of the state in the management and redistribution of resources within countries engaged in military conflicts. Such an increase in the framework for administrative management amplifies opportunities for corruption. State efforts to assist businesses and the population through financial subsidies introduce corruption risks among administrators overseeing such aid. Moreover, this type of aid encourages economic subjects to lower their tolerance towards corruption to access state support amid diminishing manufacturing resources.

3. 2. GROWTH OF MILITARY SPENDING AND ADMINISTRATIVE CORRUPTION

According to data from the Accounts Chamber of Russia on consolidated expenditure budget utilization in 2021⁶⁵ and consolidated budget utilization predictive estimates⁶⁶, there was a significant growth of expenditures for national defense (+31%), security, and law enforcement (+19%) in 2022, compared to 2021.

⁶⁰ Transparency International. (n.d.). Lessons learned in fighting corruption in post-conflict countries. https://www.transparency.org/files/content/corruptionqas/355_Lessons_learned_in_fighting_corruption_in_post-conflict_countries.pdf

⁶¹ <http://crimestat.ru/analytics>

⁶² Conclusion on the budget bill – 2023. <https://ach.gov.ru/audit/project-2023>

⁶³ The downward trend in GDP and the deterioration of some macroeconomic indicators in 2023 was overcome: <https://ach.gov.ru/upload/iblock/278/tuxqzdc2zvaltacz8ysttz1cfe69te0u.pdf>

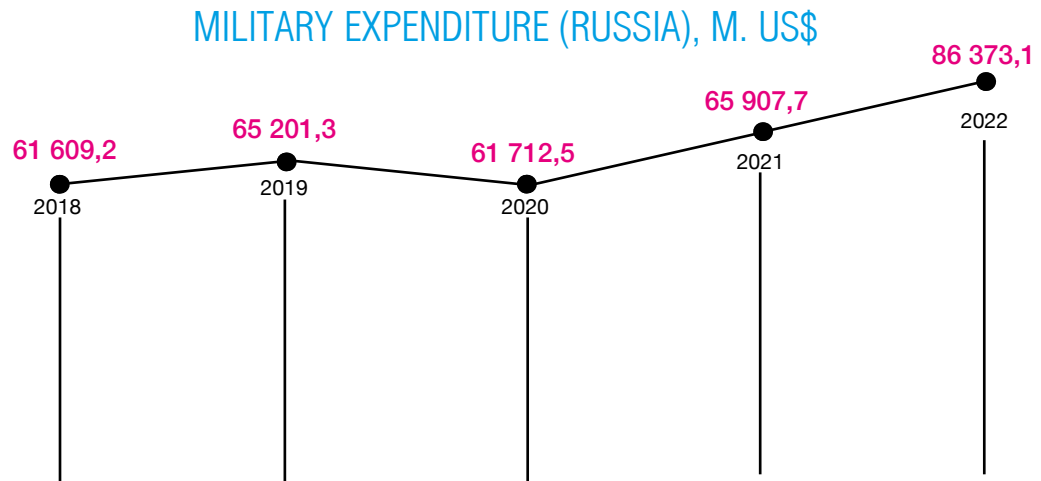
⁶⁴ Bill No 201614-8: On 2023 Federal Budget and the Planning Period of 2024 and 2025. The First Reading of the Bill section. <https://sozd.duma.gov.ru/bill/201614-8>

⁶⁵ Electronic Budget, a state-integrated information system for managing public finances. Expenditures - Liferay. <https://budget.gov.ru/%D0%91%D1%8E%D0%B4%D0%B6%D0%B5%D1%82/%D0%A0%D0%B0%D1%81%D1%85%D0%BE%D0%B4%D1%8B?regionId=45000000>

⁶⁶ Accounts Chamber of Russia. (2022, October 17). Conclusion on the budget bill – 2023. <https://ach.gov.ru/audit/project-2023>

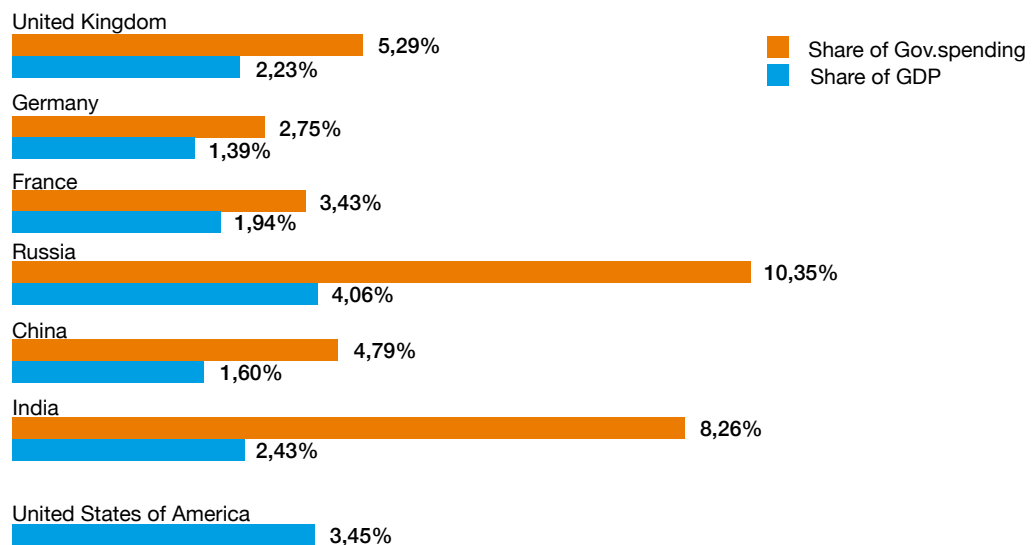
According to the plan, this trend of increasing expenditures on national defense, security, and law enforcement is set to continue in 2023⁶⁷. The growth in national defense expenditures is projected to be 6.5% from 2022, while national security and law enforcement expenditures are expected to surge by nearly 58.5%. According to the Vedomosti⁶⁸, national defense is the largest section of the federal 2023 budget which amounts to 17% of the entire budget. Simultaneously, spending on national security and law enforcement will increase to 15%. When combined, these items make up one-third of all budget spending.

According to the Stockholm International Peace Research Institute (SIPRI)⁶⁹, Russia's military spending was 40% higher in 2022 than in 2018 and accounted for 4% of the country's GDP.



Russia ranks third globally in terms of absolute military expenditures. However, if considering spendings by GDP, Russia has the biggest military spendings burden in world, if comparing to other great powers like China, US, UK, Germany, India and France.

MILITARY EXPENDITURE IN 2022



⁶⁷ The paragraph was written when the final report on federal budget execution for 2023 was not available yet.

⁶⁸ Romanova, L., Kozlov, A. (2022, September 28). There's still 77% left in the public part of the 2023 Russian budget. Vedomosti. <https://www.vedomosti.ru/economics/articles/2022/09/29/943018-v-otkritoi-chasti-byudzheta>

⁶⁹ SIPRI Milex. Military Expenditure Database. <https://milex.sipri.org/sipri>

Increased military and security expenditures create additional corruption-related risks due to several factors.

1. Increased budget spending extends corruption's economic basis. This is especially visible in sectors where the government is heavily involved in business. For example, the military-industrial complex which supplies the majority of material resources for defense and security largely belongs to this category. Heavy government involvement reduces motivation for efficient business decisions and oversight over top managers, which consequently increases risks of unscrupulous activities of the personnel, including embezzlement and corruption.

2. As noted in some foreign studies, corruption often thrives in military and political institutions that emerge during wars, where agents and networks profit from illegal sales of weapons, equipment, and food. This lack of control over resources during wartime is highlighted in studies by the U4 Anti-Corruption Resource Centre⁷⁰ which examine countries like Afghanistan, Iraq, Somalia, Sudan, and Congo⁷¹. According to experts, the trend towards corruption in both state and private military units increases in wartime. Weakened control over allocated resources as well as additional motives for corruption appear as a result of varying levels of logistics support of armed units, and due to the variety and non-transparency of their financing channels. It's commonly known that the invasion of Ukraine is being conducted not only by military units of Russia's Ministry of Defense but also by militias of the former self-proclaimed LNR and DNR, Chechen units of Rosgvardiya, the Wagner Group, as well as Potok and Fakel, both private military companies sponsored by Gazprom⁷².

3. Military and security expenditures in the Russian budget are traditionally highly classified, resulting in reduced transparency in how these funds are allocated and used. This lack of transparency significantly limits the possibilities of independent public control and complicates the detection thwarting of corruption-related abuses.

According to Transparency International Defence & Security Programme⁷³, risks of corruption related to defense spending and auditing of secret programs were key risks for the Russian military sector in 2020⁷⁴.

In this context, the levels of registered crime in the military-industrial complex are particularly interesting. According to the Federal State Statistics Service "Rosstat"⁷⁵, the number of the Ministry of Defence staff members who committed crimes in 2022 more than doubled compared to 2017, and increased by almost 40% compared to 2019. This indicator became especially high right before the full-scale war in Ukraine: in 2021, the number of Ministry of Defence employees who committed corruption-related crimes⁷⁶, was the biggest since 2017, with 1663 people (more than 24% more than in the previous year and 61% more compared to 2019)⁷⁷.

⁷⁰ https://www.transparency.org/files/content/corruptionqas/355_Lessons_learned_in_fighting_corruption_in_post-conflict_countries.pdf

⁷¹ Maringira, G. (2017, December 15). Military corruption in war: Stealing and connivance among Zimbabwean foot soldiers in the Democratic Republic of Congo (1998–2002). *Review of African Political Economy*, 44(154), 611–623. <https://doi.org/10.1080/03056244.2017.1406844>

⁷² The Bell. (2023, July 2). FT Discovered Data on Potok and Fakel, PMCs Sponsored by Gazprom. <https://thebell.io/ft-uznala-podrobnosti-o-sponsiruemykh-gazpromom-chvk-potok-i-fakel>

⁷³ Transparency International Defence & Security. (2022, January 7). Russia - Government Defence Integrity Index. <https://ti-defence.org/gdi/countries/russia/>

⁷⁴ Transparency International Defence & Security. (2020). Global Defence Integrity Index 2020: Russia Country Scorecard. https://ti-defence.org/gdi/wp-content/uploads/sites/3/2021/11/Russia_GDI-2020-Scorecard.pdf

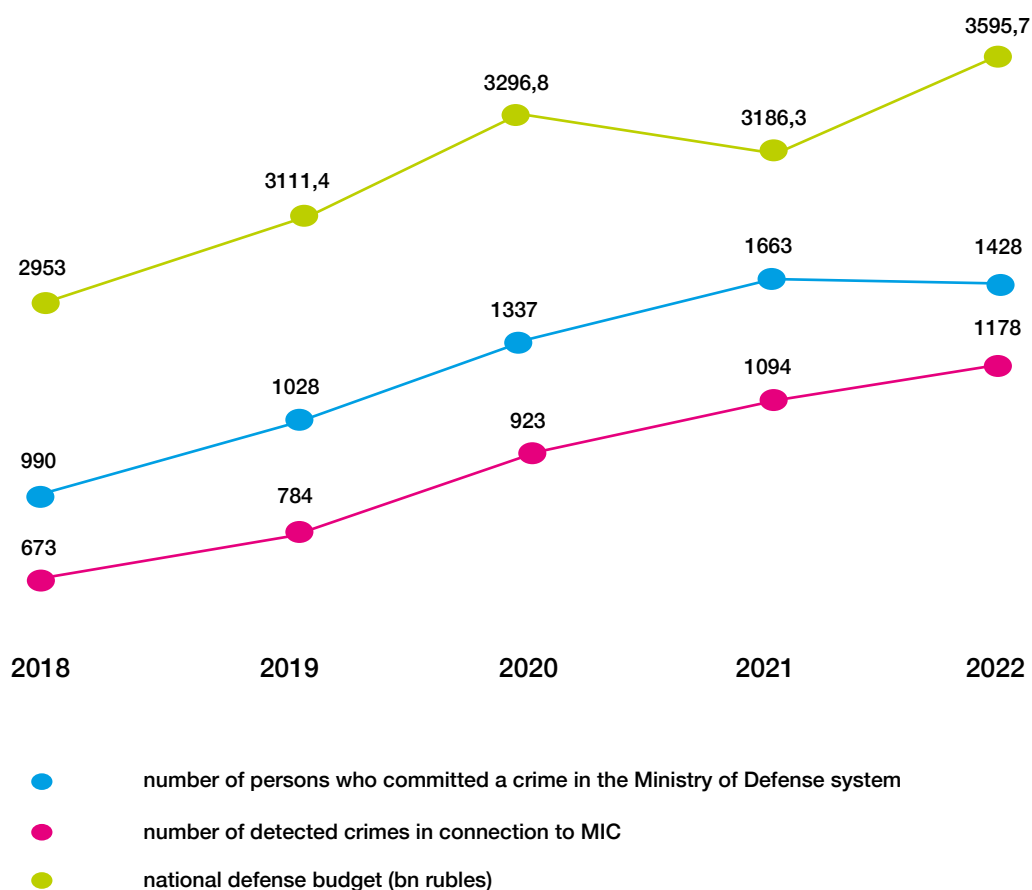
⁷⁵ Federal State Statistics Service. Federal Statistical Monitoring System. <https://www.fedstat.ru/indicator/41846>

⁷⁶ Data may not fully comply with the data from the first section of the report, as it derives from different source of statistics, but the trend is the same

⁷⁷ Indicator from the 1-KORR form called Data on the Results of Law Enforcement Efforts to Combat Corruption-Related Crimes, approved by Rosstat Order No. 233 of 4 May 2011.

As recorded by state statistical bodies and prosecutor's offices⁷⁸, the growth of corruption in the military-industrial complex is simultaneous with increased national defense expenditures. It's also noticeable that the crime dynamic in the military-industrial complex is similar to the corruption dynamic in the armed forces.

MIC SPENDING AND CRIME DYNAMICS (MIC–MILITARY INDUSTRIAL COMPLEX)



A detailed analysis of statistics concerning crimes within the Russian Armed Forces is provided in item 1.4, paragraph I.

4. Redistribution of budget funds to support the mobilization economy leads to a general decrease in living standards and a reduction in the quality of state services, including those for businesses and financial aid for entrepreneurs. Shrinking of available financial resources means that only certain companies can be supported, mainly those that are loyal to or connected with the government or particular persons in governmental and political circles.

⁷⁸ Data on the number of crimes in the military-industrial complex is provided as an estimate based on statistics by the Prosecutor-General's Office (Crime statistics portal, <http://crimestat.ru/analytics>; Statistical Data on Main Indicators of Prosecution Bodies section) on the Russian Prosecutor-General's Office website, <https://epp.genproc.gov.ru/web/gprf/activity/statistics/office/result?item=85327980>), Ministry of Internal Affairs and mass media information.

3. 3. CORRUPTION IN MILITARY AND SECURITY

According to the Transparency International Defence & Security Programme⁷⁹ data from **2019-2020**, the Russian military-industrial complex is characterized by high risks of corruption due to limited external control over politics, budgets, and activities of defense institutions. The program's experts noted the lack of transparency in the procurement sphere. The military doctrine of Russia mentions corruption only shortly, not mentioning system or strategy to combat corruption during warfare. Exhibiting such high risks of corruption, Russia only managed to score **36** points in the Global Defence Integrity Index⁸⁰, ranked between Kenya and Argentina. The countries that scored the most points and ranked best on the index were New Zealand (**85**), the UK, Norway (**76**); while Egypt (**6**) and Sudan (**5**) scored the lowest.

Although corresponding indicators for **2021** and **2022** haven't been published, we can guess that the situation with corruption-related risks in the Russian military-industrial complex has not improved. The transparency levels decreased due to the restriction of access to financial accounting and information on purchases made by military-industrial complex companies that became subject to sanctions and due to the closure of economic statistics, including data on fund allocation, subsidies, and foreign trade.

Data is restricted through both a direct ban on publication and by making it difficult to access in publicly available sources. For instance, in November **2022**, the software used for the Unified Information System in Procurement (UIS) was altered, resulting in the removal of the function that allowed users to select state and municipal mobilization procurements from a single vendor. This change was based on regulations outlined in Federal Law No. **44-FZ** "On the contract system for state and municipal procurement of goods, work, and services"⁸¹, as well as acts issued by the government of the Russian Federation and supreme government bodies of regions in accordance with Federal Law No. **46-FZ of 8 March 2022 (46-FZ)**⁸².

Procurements made by the majority of military-industrial complex companies are typically conducted in accordance with Federal Law No. **223-FZ of 18 July 2011** "About purchases of goods, works, services as separate types of legal entities"^{223-FZ}. Currently, this law does not require publishing contracts or any data on vendors in UIS. The system has never provided any functions that allowed retrieving relevant information from the website in a convenient and structured form for purchases made under this law.

Transparency International Defence & Security rated corruption-related risks in the Russian defense sector's staffing process as low⁸³. According to the state-related experts, clearly defined organizational structure, monitoring procedures, and system of punishment for the employees guilty of abuse, including high-ranking ones, lower the chances of corruption such as bribery for promotions. However, the reality of Russia's defense sector demonstrates numerous cases of corruption and embezzlement of funds or property in relevant companies.

⁷⁹ Transparency International Defence & Security. (2022, January 7). Russia - Government Defence Integrity Index. Government Defence Integrity Index. <https://ti-defence.org/gdi/countries/russia/>

⁸⁰ Government Defence Integrity Index. (2022, February 17). <https://ti-defence.org/gdi/downloads/>

⁸¹ Article 94. Features of contract performance \ ConsultantPlus. https://www.consultant.ru/document/cons_doc_LAW_144624/17c58c1903f7b6212924ba9ce701489655e9a8e0/

⁸² Federal Law No. 46-FZ of 8 March 2022 on Amendments to Certain Laws of the Russian Federation (as amended) \ ConsultantPlus. https://www.consultant.ru/document/cons_doc_LAW_411095/

⁸³ Government Defence Integrity Index. (2022, February 17). <https://ti-defence.org/gdi/downloads/>

Media reports since the last corruption risk assessment show examples of corruption, embezzlement, and misappropriation of funds in companies like State Corporation Rostec⁸⁴, JSC United Engine Corporation⁸⁵, JSC Tactical Missiles Corporation⁸⁶, JSC Concern VKO “Almaz-Antey”⁸⁷, and other companies that fulfill state defense orders⁸⁸.

In August 2022, Kommersant reported⁸⁹ the completion of the investigation one of two criminal cases against Rostec’s former legal support and corporate governance manager. According to the investigators, the lawyer received monthly kickbacks of **6 million rubles (~\$65,000)** from the CEO of Novosibirsk Synthetic Fiber Factory. The total sum of money paid for general patronage and for financing the modernization of the company which produces rocket heads for Iskander missile systems and rockets for multiple rocket launchers was about **70 million rubles (~\$758,000)**.

In November 2022, the Rostov-on-Don district court ordered the imprisonment of the CEO of Zvezda-Strela factory (part of JSC Tactical Missiles Corporation that specializes in the production of parts for rockets and aerial vehicles, as well as wooden containers) for misappropriation of **15 million rubles (~\$162,500)** while fulfilling a state defense order⁹⁰. In relation to this case, it was also reported⁹¹ that the head of the Ministry of Defence’s military representative office was detained. According to the investigators, the defendants committed accounting fraud while fulfilling state defense orders. By April 2023, estimated damages caused by the Zvezda-Strela management, a Taganrog-based military factory, increased significantly according to the media⁹², which amounted to **700 million rubles (~\$7.5 million)**.

According to international indexes, Russia’s military sector is known to be vulnerable to corruption connected to monitoring of operations, export, transparency levels and competitiveness of procurements for the needs of defense and security are also at risk. Corruption abuses in the military sector often involve officials from the Ministry of Defence and other government institutions. In 2022, law enforcement agencies and courts worked on several cases involving extortion, fraud, and abuse of power by officials from supervision institutions, government structures, and licensing authorities.

⁸⁴ Tass. (2022, February 8). Ex-Director of a Factory in Bataisk Suspected of Fraud in Weaponry Repair. <https://tass.ru/ptoisshestviya/16270923>

⁸⁵ Kommersant. (2024, February 13). Defense Ministry and UAC Staff Suspected of Government Contract Bribery. <https://www.kommersant.ru/doc/5119431>

⁸⁶ Avia.Pro. (2022, March 26). Ex-Director of JSC Tactical Missiles Corporation Sentenced to 8 Years for Selling Rocket Parts to Ukraine. <https://avia.pro/news/byvshiy-direktor-ao-korporaciya-takticheskoe-raketnoe-vooruzhenie-osuzhdyon-na-8-let-za>

⁸⁷ Kommersant. (2022, September 2). Convicted General Deprived of Rank and Freedom. <https://www.kommersant.ru/doc/5546235>

⁸⁸ Nikolsky, A. (2021, June 9). Former Top Managers of PAO Zvezda detained in Saint Petersburg. Vedomosti. <https://www.vedomosti.ru/business/articles/2021/06/09/873585-v-peterburge-zaderzhani-bivshie-top-menedzheri-oboronogo-predpriyatiya-zvezda>

⁸⁹ Kommersant. (2022, April 5). Cash Kickbacks for Iskanders. <https://www.kommersant.ru/doc/5501413>

⁹⁰ Lebukhova, I. G. (2022, December 23). Maslensky, Head of Taganrog’s AO Zvezda-Strela, Arrested for Bribery. Novye Izvestia. <https://newizv.ru/news/2022-11-25/glavu-taganrogskogo-ao-zvezda-strela-maslenskogo-arestovali-zamoshennichestvo-369377>

⁹¹ Ryazan.Life. (2022, February 25). Court Arrests Head of Taganrog Factory on Charges of Embezzling 15 Million on State Defense Orders. <https://ryazan.life/news/20221125/103747/>

⁹² Rostov Gazeta. (2023, April 28). Management of Taganrog’s Zvesda-Strela Misappropriates 700 Million Rubles. <https://rostovgazeta.ru/news/2023-04-28/na-700-mln-rublej-obmanula-minoborony-direktsiya-zavoda-zvezda-strela-v-taganroge-2915785>

Persons accused of bribery included employees of the Ministry of Industry and Trade⁹³, the Federal Service for Environmental, Technological and Nuclear Supervision Rostekhnadzor⁹⁴, and the prosecutor's office⁹⁵.

In January 2023, Moscow's Basmanny District Court sentenced Rostekhnadzor's former inspector to 6 years in a maximum security penal colony⁹⁶. The court convicted the former official for accepting a large bribe that he extorted from the management of the national testing association called Russian Ammunition Test Sites. The investigators state that the inspecting officer demanded 1.3 million rubles (~\$14,000) in exchange for his signature on the acceptance certificate for newly finished buildings at a weapons and munitions testing facility in Krasnoarmeysk, Moscow Oblast.

In 2022, the Investigative Committee of Russia⁹⁷ indicted 60 officials for corruption within the military-industrial complex and 27 officials for crimes while fulfilling state defense orders. There was a 10% increase in the number of cases that went to trial within 10 months of 2022 compared to 2021.

It's possible that frequent abuses by Ministry of Defence officials related to the conclusion and fulfillment of state defense contracts led to the inclusion into the Criminal Code of Russia (CCR) of a separate article no. 285.4. It stipulates responsibility for authority abuse while fulfilling a state defense order. According to the legal statistics portal⁹⁸, only 5 officials were sentenced under this article since its adoption, receiving fines or prison terms.

In September 2022, two more articles were added to the CCR: one addressing violations of state defense order contracts (Article 285.5) and another focusing on the refusal to enter into necessary contracts for state defense orders (Article 285.6). According to these articles, officials who previously committed administrative offenses can now be prosecuted under criminal law.

3. 4. CORRUPTION RISKS OF “ANTI-SANCTION MEASURES”

Some experts warn that corruption levels in Russia could increase due to the Western sanctions imposed on the country. Such a prediction was voiced by Mikhail Barshchevsky, plenipotentiary representative of the Government of the Russian Federation in the Constitutional Court and the Supreme Court of the Russian Federation, in an interview with Kommersant FM⁹⁹. According to Barshevsky, the new economic sanctions are going to lead to the increased concentration of power in the hands of the state, giving officials greater authority, which could lead to further abuses. He also claims that implementing stricter controls or harsher punishment for corruption are not going to lower these risks. On the one hand, Western sanctions may lead to higher centralization of power and the need to make quick decisions, sometimes disregarding earlier ones. On the other hand, the number of checks and supervisory measures that could help counterbalance the situation is reduced.

⁹³ Kommersant. (2022, April 23). Moscow City Court Did not Acknowledge the Bribe as Fraud. <https://www.kommersant.ru/doc/5525410>

⁹⁴ RBK (2022, July 25). In Kazan, Court Arrests Deputy Director of Rostekhnadzor's Volga Federal District Directorate. <https://rt.rbc.ru/tatarstan/freenews/62de864f9a7947e8e08955c4>

⁹⁵ Kommersant. (2022, July 11). An Outlandish Bribe Results in Earthly Conviction. <https://www.kommersant.ru/doc/5458538>

⁹⁶ Yegorov, I. (2023, January 18). Former Rostekhnadzor Inspecting Officer Sentences to 8 Years of Penal Colony for Extorting Bribe from Military Testing Facility. Rossiyskaya Gazeta. <https://rg.ru/2023/01/17/byvshij-inspektor-rostekhnadzora-poluchil-6-let-kolonii-za-vymogatelstve-vziatki-u-oboronnogo-poligona.html>

⁹⁷ Kaverin, D. (2022, December 8). Investigative Committee: in 2022, 60 Officials Were Indicted for Corruption. Gazeta.Ru. <https://www.gazeta.ru/social/news/2022/12/08/19217887.shtml>

⁹⁸ Legal statistics of Russia. API press. <https://stat.xn----7sbqk8achja.xn--p1ai/stats/ug/t/14/s/17>

⁹⁹ Kommersant. (2022, April 7). Offshores barred for corruptioneers. <https://www.kommersant.ru/doc/5295666>

During military conflicts, governments often disregard universally accepted norms and standards of economic regulation. They do this because they see it as necessary during times of crisis. To justify these actions, they may issue new decrees that contradict international norms of business practices and agreements, including those that the warring country previously adhered to.

Such legal nihilism inevitably reaches all social institutions, making people more accepting of criminal behavior, including corruption. Law enforcement agencies may get away with treating illegal activities as temporarily acceptable due to the emergency situation, creating an environment where corruption can thrive.

The government may introduce new regulations that allow for the violation of property rights or existing contracts. These changes can encourage criminal activity that threatens political stability. Changes in property rights, including items covered by exclusive rights that are protected by copyright, patent law, trademark law, and other immaterial goods, and to freedom of contract and the right of sides to determine its conditions may also change the established modes of behavior, lower legal certainty and might influence people's respect for legal institutions and intolerance towards abuse of authority for private gain.

The same can be said about [Russia reconsidering its position regarding international intellectual and industrial property norms](#). The introduction of sanctions after the beginning of the full-scale war in Ukraine led to a significant reduction in imports, including high-technology products. According to the Federal Customs Service of Russia and the Russian government¹⁰⁰, general import has decreased by about 30% since February 2022, with critically important goods, decreasing 11-12%. However, the drop in import of consumer goods has been only 3-5%, due to parallel import¹⁰¹.

Formally, Russia legalized parallel import in late July 2022 through an amendment to Article 18 of the "anti-sanctions" law N. 46-FZ. The amendment states that the use of intellectual property and trademarks is permissible for goods listed by the Russian government even before the changes were made to the legislation. This list was approved before these changes were made to the Russian legislation. Based on the Russian government's Resolution No. 506 of 29 May 2022, the Ministry of Industry and Trade of the Russian Federation Minpromtorg published on their official website the list of goods¹⁰² that included many known brands, e.g. Apple, Samsung, Land Rover, Bentley, CADILLAC, BMW, MERCEDES-BENZ, L'Oréal Paris, Vichy, Lancôme, Giorgio Armani, Yves Saint Laurent, etc. Additionally, the import of other items such as weapons, ammunition, vehicles, ships, clothing, toys, electronics including video game consoles, smartwatches, cameras, etc., was permitted without the consent of the rights holders.

The practice of using inventions without the consent of the rights holders started during the peak of the COVID-19 pandemic and continued beyond that period. For instance, the Russian government approved regulation No. 429 by the Federal Antimonopoly Service FAS of 5 May 2022 which allowed the R-Farm pharmaceutical company to produce Remdesivir without the patent owner's consent.

¹⁰⁰ Ivin, V. V. (2022, October 13). Reduction of Critically Important Goods Imported into Russia Estimated at 11-12%. Alta-Soft. https://www.alta.ru/expert_opinion/94173/

¹⁰¹ Parallel import mechanisms imply usage of international copyright exhaustion principle and allows importing goods without the right holder's consent after the sales started anywhere in the world.

¹⁰² <http://publication.pravo.gov.ru/Document/View/0001202205060001?index=0&rangeSize=1>

The legalization of parallel import during sanctions resulted in a rapid increase in the import of goods without the consent of foreign rights holders. According to FAS¹⁰³, the average monthly growth of such imports in terms of value was 20% in 2022. According to Minpromtorg¹⁰⁴, this indicator could reach \$16 billion by the end of 2022.

Many experts believe¹⁰⁵ that parallel import has two major shortcomings. When you purchase goods, you can never be sure that they are genuine, which raises concerns about warranty coverage if the products malfunction. Retail specialists note¹⁰⁶ that parallel import increases the risks of counterfeit goods (fake goods disguised as genuine being imported), while also increasing the number of “gray” schemes that can be used to siphon money overseas. Experts also believe¹⁰⁷ that allowing parallel import might lead to additional strain on business due to increased paperwork, vendor verification processes, and the assumption of responsibility for product quality. Such a situation is going to increase corruption risks as businesses may have to deal with customs services, currency regulators, and other oversight agencies.

Currently, despite a sharp decrease in imports, the number of abuses related to the import of counterfeit goods into Russia remains similar to previous periods. This was confirmed by the head of the Federal Customs Service of Russia (FCS) during an interview¹⁰⁸. The Southern Customs Administration, which uncovered the highest number of counterfeit goods, reported 4.6 million fake items in 2022, triple the amount discovered in 2021. Most counterfeit goods discovered in 2022 were consumer goods, with popular sports brands like Nike, Adidas, and Reebok. There were also major quantities of fake Duracell batteries, Colgate toothbrushes, and alcoholic beverages branded as Imperiya, Otborny, and Polyus Kholoda¹⁰⁹.

It means that the share of counterfeit goods within Russian import has most likely grown, raising concerns about difficulties in verifying product authenticity which may lead to increased corruption involving importers and supervisory agencies. The Federal Customs Service of Russia (FCS) states¹¹⁰ that despite the sharp decrease in export-import operations with countries that introduced sanctions against Russia due to the war, the number of customs officers prosecuted for corruption in 2022 grew even in comparison with the pre-pandemic 2019. In the first half of 2023, 42 FCS employees were prosecuted for corruption, which is 17% more than in the same period of 2019.

¹⁰³ Interfax.ru. (2022, September 15). Parallel Import into Russia Growing by about 18% a Month in Physical Terms. <https://www.interfax.ru/business/862286>

¹⁰⁴ Interfax.ru. (2022, September 15). Manturov Estimates Parallel Import since its Start to be Worth 6.5 Billion. <https://www.interfax.ru/business/856615>

¹⁰⁵ vc.ru. (2022, April 11). Parallel import. Legalized Piracy or Protection from Deficit? <https://vc.ru/legal/399716-parallelnyy-import-razreshenie-na-piratsvo-ili-spasenie-ot-deficita>

¹⁰⁶ vc.ru. (2022, April 11). Parallel import. Legalized Piracy or Protection from Deficit? <https://vc.ru/legal/399716-parallelnyy-import-razreshenie-na-piratsvo-ili-spasenie-ot-deficita>

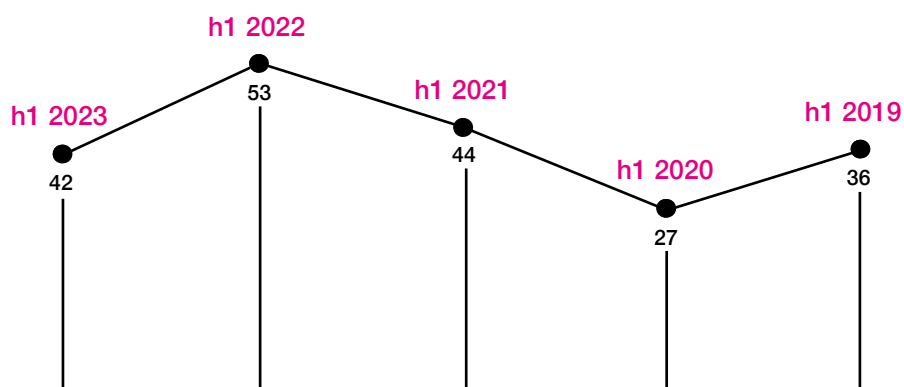
¹⁰⁷ Ibid.

¹⁰⁸ Ivin, V. V. (2022, October 13). Reduction of Critically Important Goods into Russia Estimated at 11-12%. Alta-Soft. https://www.alta.ru/expert_opinion/94173/

¹⁰⁹ Southern Customs Administration. (2023 February 3). 4.6 Million Counterfeit Items Discovered in 2022. <https://yutu.customs.gov.ru/news/document/379026>

¹¹⁰ The Federal Customs Service of Russia Results Demonstrated by Anti-Corruption Departments. <https://customs.gov.ru/activity/protivodejstvie-korruptcii/doklady.-otchet.-obzory.-statisticheskaya-informatsiya/rezul-taty-raboty-upravleniya-po-protivodejstviyu-korruptcii?page=1>

NUMBER OF CUSTOMS OFFICERS CHARGED ON GROUNDS OF CORRUPTION-RELATED CRIMES



In April 2023, there was a criminal case against the head of a department of Ussuriysk customs. He was accused of accepting a bribe in exchange for easing controls on shipments of consumer goods arriving from China¹¹¹.

3. 5. DIFFICULTIES WITH MAINTAINING PROPERTY RIGHTS AND CONTRACTUAL FREEDOM DURING THE WAR IN UKRAINE

Military operations often pose risks to property rights. The reason is that mobilization and the declaration of a state of emergency in some of the regions can lead to the forced seizure of private and corporate property.

Federal Law “On mobilization training and mobilization in the Russian Federation” of 26.02.1997 No 31-FZ9 (“mobilization law”) requires organizations to assist military commissariats in conducting mobilization during both peacetime and wartime. This assistance includes transporting equipment to assembly points and military bases. Order No 151 by the Minister of Defence of 14 March 2014 approved a list of vehicles to be provided to the Russian armed forces, other types of troops, military units, and organs, as well as special units created for the time of war. The list includes wheeled vehicles, tracked vehicles, and other types of vehicles. According to the media¹¹², mobilization institutions might also get interested in privately owned vehicles due to their cross-country capabilities. Other vehicle types that might be seized during mobilization and war are snowmobiles, all-terrain vehicles, and quadracycles.

Each decision of this kind will be made by officials from the above-mentioned bodies and structures with consideration for the current situation. This increases the likelihood of potential abuses occurring during the process of determining which individuals’ property and equipment to seize.

¹¹¹ The Federal Customs Service of Russia. (2023 July 6). Information on the results demonstrated by anti-corruption departments of customs authorities of the Russian Federation in the first quarter of 2023. <https://customs.gov.ru/activity/protivodejstvie-korruptzii/doklady-otchety-obzory-statisticheskaya-informacziya/rezul-taty-raboty-upravleniya-po-protivodejstviyu-// 408133>

¹¹² Moskva 24. (2022, September 29). The Types of Cars that Can be Seized during Mobilization Were Revealed. m24.ru. <https://www.m24.ru/news/transport/29092022/506417>

The situation in the regions of Russia along the Ukrainian border may provide justification for restricting property rights through property requisition. Article 242 of the Civil Code of the Russian Federation states that one of the reasons for such requisition, “in the interest of society and by the decision of the state bodies”, might be “circumstances of an extraordinary nature”. According to Article 51 of the Land Code of the Russian Federation, land lots can also be seized from their proprietors on the same grounds.

The Plenum of the Supreme Court of the Russian Federation (**court ruling No. 7 of 24 March 2016**) clarifies that “extraordinary nature” refers to exceptional qualities of a situation that are not typical under normal circumstances. According to the Rostov Oblast government, an example of such exceptional circumstances is the situation at the border of the Oblast where large numbers of vehicles gathered at the Veselo-Voznesenska, Matveyev Kurgan, and Kuybyshevo (Marinovka) vehicle checkpoints. Due to this, 16 land lots, typically of an agricultural kind, were seized from owners usually citizens¹¹³. The Rostov Oblast governor’s PR service stated that these land lots would be handed over to authorized organizations to construct and equip new traffic corridors and to increase the capabilities of the vehicle checkpoints.

Corruption risks in decision-making and implementation of requisition measures exist due to various factors. Firstly, determining what qualifies as an “emergency” is extremely subjective. Court rulings have demonstrated that requisitioning is a right of authorized agencies, rather than their duty — even in cases of objective emergencies¹¹⁴. This means that some of these decisions may have had corruption-related motives.

Secondly, government agencies have the discretionary power to determine which land plots are requisitioned, for how long, and in cases where the land will not be returned to the owners. Any decisions related to this procedure can only be contested in court. This raises costs for land lot owners, including expenses for lengthy judicial proceedings and legal fees.

Limiting the rights of proprietors is now viewed as one of the anti-sanction measures. On **13 May 2022**, changes were made to the Air Code of the Russian Federation through Federal Law **No. 56-FZ**. These changes included requirements for the registration of rights to foreign aircrafts leased to Russian companies and the issuing of airworthiness certificates, which some pundits saw as expropriation¹¹⁵. Additionally, in accordance with laws **No. 46-FZ and 56-FZ**, the Russian government was granted the right to determine the specific terms of rental and leasing agreements not only for foreign aircraft but also for all types of sea vessels, inland water transport, motor vehicles, and electric vehicles, including the option for early buyouts of such vehicles.

Such limitation of proprietors’ rights creates legal confusion, increases entrepreneurial and investment risks, and creates fertile soil for corruption by officials during decision-making.

¹¹³ Rostov Oblast Government Executive Order No 405 of 1 June 2023 “on temporary requisition of land lots”. https://pravo.donland.ru/doc/view/id/%D0%A0%D0%B0%D1%81%D0%BF%D0%BE%D1%80%D1%8F%D0%B6%D0%B5%D0%BD%D0%B8%D0%B5_405_02062023_35027/page/1/

¹¹⁴ See, for example, the 6 May 2015 appellate ruling on case No.33-4288/2015 by the Civic Action judicial board of the Perm Krai court

¹¹⁵ Bulanov, K. (2022 March 14). 4th Package of EU Sanctions, Expropriation of Foreign Planes, Potential Blocking of YouTube. The Bell. <https://thebell.io/chetvertyj-paket-sanktsij-es-ekspropriatsiya-inostrannyh-samoletov-i-youtube-pod-ugrozoj-blokirovki>

3. 6. REDUCED TRANSPARENCY AND ACCOUNTABILITY OF GOVERNMENT AGENCIES. CONCEALMENT OF BUSINESS INFORMATION

Restricting access to information increases corruption risks by decreasing the possibilities of public oversight over budget expenditures, hindering the discovery of legislative violations in relevant areas, and establishing conflicts of interest. This also may lead to illicit enrichment of officials in all branches and levels of power, heads of state and municipal institutions and corporations created with state involvement.

According to a report by the Accounts Chamber of Russia's auditors on utilization of the January—June 2022 budget referenced by RBK media¹¹⁶, “clandestine” federal budget expenses increased to **18.6% in 15.2% in 2021**. The Ministry of Finance explained this with growing expenses due to the impact of sanctions.

According to an article in Vedomosti¹¹⁷, **2023's clandestine budget expenses are going to grow by 2.7 trillion rubles (~\$29.5 billion) and will constitute one-third of the expenditure part of the 6.5 trillion rubles (~\$71 billion) budget.**

After the start of the full-scale war in Ukraine, the Ministry of Finance of the Russian Federation stopped publishing budget expenditure details. It was explained by the need to partially limit the distribution of information, including budget reports, due to “unfriendly actions”¹¹⁸.

Starting February 2022, the Federal Customs Service of Russia stopped publishing current export and import statistics on its official website¹¹⁹. In October 2022, the service's deputy head admitted in an RTVI imedia interview that “the decision to stop publishing the data was made due to security reasons so that these numbers wouldn't encourage anti-Russian sanctions during the so-called economic war”¹²⁰. The Federal Customs Service resumed publishing data in February 2023 but without grouping by product categories.

Federal Law No. 266-FZ of 14 July made amendments to Federal Law No. 218-FZ of 13 July 2015 “On state registration of immovable property”. Previously, property owner information was openly available in the Unified State Register of Real Estate, allowing anyone to see who owned a particular property by ordering an extract¹²¹. Since 1 March 2023, the situation changed considerably. According to new rules, personal data contained in the Unified State Register of Real Estate can now only be provided to third parties with the individual's consent. Obviously, this change is going to make it harder for the public to independently monitor the income and property of servicemen and law enforcers. The same goes for all state and municipal officials, officials of public authorities including MPs and senators who initiated these amendments. It may also fuel the growth of black markets for leaked data.

¹¹⁶ RBK. (2022 April 31). Accounts Chamber Admits Growth of Clandestine Budget Expenses. <https://www.rbc.ru/economics/31/08/2022/630e126e9a7947f10622913f>

¹¹⁷ Romanova, L., Kozlov, A. (2022, September 28). There's Still 77% Left in the Public Part of the 2023 Russian Budget. Vedomosti. <https://www.vedomosti.ru/economics/articles/2022/09/29/943018-v-otkritoi-chasti-byudzhet>

¹¹⁸ RBK. (2022 April 31). Accounts Chamber Admits Growth of Clandestine Budget Expenses. <https://www.rbc.ru/economics/31/08/2022/630e126e9a7947f10622913f>

¹¹⁹ The Federal Customs Service of Russia Customs operations statistics. <http://stat.customs.ru/>

¹²⁰ Kolomychenko, M. (2022, October 21). “Import into Russia Fell by 30%”. Deputy head of the Federal Customs Service of Russia on consequences of sanctions, trading patterns of the 90s and “castles” at the border with China. RTVI. <https://rtvi.com/stories/import-v-rossiyu-upal-na-30-zamglavy-fts-o-posledstviyah-sankczij-shemah-torgovli-iz-90-h-i-dvorczah-na-granicze-s-kitaem/>

¹²¹ PRAVO.Ru. (2022, July 7). Lawyers' Opinion on USRRP Data Access Restriction for Individuals. <https://pravo.ru/story/241811/>

According to Castellum, a sanctions-tracking service cited by RBK¹²², more than 7,000 sanctions were introduced by early May 2022 against Russian companies, banks, businessmen, and politicians by the US, the EU, Canada, and the UK. In retaliation, the Russian government began adopting acts that limit access to financial reporting by Russian companies in May 2022, which hinders the implementation of limitations put in place and deters the introduction of new ones, including the so-called “secondary” sanctions. The Russian government’s Resolution No. 351 of 12 March 2022 stated that issuers of securities may only partially disclose information required under Federal Law “On Joint Stock Companies” and “On the Securities Market” or withhold it altogether in cases where such disclosure can lead to the introduction of new sanctions against the issuer or others. Additionally, Resolution No. 395 of 18 March 2022 introduced a temporary procedure for accessing the State Information Resource of Accounting Statements¹²³. This procedure allows limiting or blocking access of third persons to some of the information at the request of an interested company.

These resolutions resulted in **a sharp decrease in the amount of corporate accounting information made public**. The Business Integrity expert group estimates in its “New Reality of the Russian Business Transparency” report¹²⁴ that the availability of information dropped by almost one-third. The sections most affected are IFRS¹²⁵, issuer accounting, and affiliated persons list - sections that contain information on asset flows, shareholders, management, vendors, creditors, and companies belonging to the issuer’s group.

ADE Professional Solutions, a company that provides consultation on accounting, economy, and finance, commented on these new rules by saying that a company that provides full information to interested parties receives more trust by demonstrating transparency and legality of its business¹²⁶.

In early May 2022, there were reports in the media suggesting that the Federal Taxation Service might restrict access to information from the Unified State Register of Legal Entities (USRLE) and the State Information Resource of Accounting Statements¹²⁷. Unlike earlier regulations, new rules were expected to restrict access to information not just on already sanctioned legal entities but also on those who could potentially be sanctioned, such as those with connections to already sanctioned entities.

Head of the International Arbitration and Cross-Border Disputes practice of the Region Service Bar Association made the following comment on the Vedomosti media website: **the secrecy of USRLE concerning multiple companies is going to increase corruption risks and significantly complicate checking of contractors** while concluding business deals and normal economic activities¹²⁸.

However, in September 2022, the Russian government adopted two more “anti-sanctions” resolutions (No. 1624 and No. 1625 from 16 September 2022). They established the rules of limiting access to information contained in the State Information Resource of Accounting Statements.

¹²² RBK. (3 May 2022). Ministry of Finance Decides to Limit Access to Information about Legal Bodies that Fell under Sanctions. <https://www.rbc.ru/business/03/05/2022/62717bce9a7947c9b86c0a29>

¹²³ <https://bo.nalog.ru/>

¹²⁴ Business Integrity. (n.d.). New Reality of the Russian Business Transparency. <https://drive.google.com/file/d/1prDmRTinSPxXodBkjielWtwWf1sMCt7sJ/view>

¹²⁵ International Financial Reporting Standards

¹²⁶ Bezginova, L. (2022, June 4). Possibilities of Restriction of Information Availability in Accounting under Russian Accounting Standards. ADE Professional Solutions. <https://www.ade-solutions.com/materialy/articles/vozmozhnost-ogranicheniya-raskrytiya-informatsii-v-bukhgalterskoy-otchetnosti-po-rsbu/>

¹²⁷ RBK. (3 May 2022). Ministry of Finance Decides to Limit Access to Information about Legal Bodies that Fell under Sanctions. <https://www.rbc.ru/business/03/05/2022/62717bce9a7947c9b86c0a29>

¹²⁸ Mukhameshtina, E., Tsareva, M. (2022, May 4). Federal Taxation Service to Start a Classified Register of Sanctioned Legal Bodies. Vedomosti. <https://www.vedomosti.ru/politics/articles/2022/05/04/920935-fns-zakritii-reestr>

3. 7. CORRUPTION RISKS RELATED TO PROCUREMENTS AND MUNICIPAL NEEDS

3. 7. 1. LESSENERED TRANSPARENCY AND COMPETITION IN PROCUREMENTS

The rise in military and security procurements during the war and anti-Russian sanctions resulted in two notable trends in the legal regulation of public procurements¹²⁹:

- Expansion of the reasons for non-competitive procurements;
- Limitation of the amount of data and documents on the official government websites available to the public.

Non-competitive procurements are conducted without competition, i.e. directly from the selected and sole vendor. Under the 46-FZ Federal Law, the Russian government and regional top executive bodies are allowed to make procurements for state and municipal needs from a sole vendor without competition in some cases. According to the explanatory memorandum¹³⁰, the bill was developed to defend the national interests of Russia in response to hostile actions of foreign countries and international organizations.

Analysis of regional acts adopted under relevant stipulations of Federal Law No. 46-FZ reveals that only some of the decisions on non-competitive procurements were justified by the need to protect national interests due to sanctions. None of the analyzed acts clearly define the criteria for what makes procurements fit the above-mentioned goals. It means that the current legislation basically allows officials, members of committees and operations centers, or even individual purchasers to decide the necessity of single-vendor procurements. Federal Law No. 286-FZ of 14 July 2022 made Federal Law 135-FZ of 26 July 2006 “on Protection of Competition”, which rules out any limitations and anti-competition agreements concerning relations of government agencies and purchasers with economic entities, irrelevant for “anti-sanction” non-competitive procurements, i.e. those conducted under Federal Law No. 46-FZ.

According to the Ministry of Finance of Russia¹³¹, federal and regional government contracts signed with sole vendors amounted to 786.1 billion rubles (~\$8.6 billion) in the first 9 months of 2022. Transparency International Russia’s analysis of these purchases showed no justification for national security protection needs in most of these contracts. Investigations by various journalists also uncovered cases of vendors and contractors being selected and large-scale contracts¹³² being concluded without competitive procedures, possibly to suit the personal interests of regional officials and deputies¹³³.

¹²⁹ Public procurements include both state and municipal procurements, as well as procurements for certain categories of legal bodies (business entities with more than 50% of their shares owned by the state or municipalities, state-owned corporations, autonomous institutions, natural monopoly holders), public principles of which are established in Federal Law No. 223-FZ.

¹³⁰ Federal Law No. 80712-8 On Amendments to Certain Laws of Russian Federation Concerning Improvement or Mechanisms that Ensure Stable Economic Development under Sanctions from Foreign States. <https://sozd.duma.gov.ru/bill/80712-8>

¹³¹ Ministry of Finance of Russia. (2022, October 31) Quarterly report on results of monitoring of goods, works, and services subject to Federal laws “About contractual system in the sphere of purchases of goods, works, services for ensuring the state and municipal needs”, “About purchases of goods, works, services as separate types of legal entities” for the third quarter of 2022. https://minfin.gov.ru/document?id_4=300587-ezhekvtalnyi_otchet_o_rezultatakh_monitoringa_zakupok_tovarov_rabot_uslug_osushchestvlyayemykh_v_sootvetstviy_s_federalnymi_zakonami_o_kontraktnoi_sisteme_v_sfere_zakupok_tovarov_rabot_uslug_dlya_obespecheniya_gosudarstvennykh_i_munitsipalnykh_nuzhd_o_zakupkakh_tovarov_rabot_uslug_otdelnyimi_vidami_yuridicheskikh_lits_za_tretiy_kvartal_2022_g/

¹³² Transparency International Russia. (n.d.). Interim results: non-competitive state procurements in 2022. <https://transparency.org.ru/projects/novosti/666-milliardov-promezhutochnye-itogi-nekonkurentnyh-goszakupok-2022>

¹³³ Sirena. (2022, April 19). State Procurement of Officials: how Putin Gifted Regional Budgets to Local Elites. <https://telegra.ph/Goszakupka-chinovnikov-kak-Putin-podaril-mestnym-ehlitam-regionalnye-byudzhetny-08-19>

Initially, the norm that allowed additional reasons for non-competitive procurements, including those conducted under decrees by regional authorities, was adopted as a temporary measure until **31 December 2022**. However, Federal Law No. 420-FZ of **3 November 2022** extended these powers for another year, until **31 December 2023**. At the same time, information on such contracts was classified, with the contracts and documents on their performance not being published on the UIS website. Finally, Federal Law No. 420-FZ stipulates that defense-related and other executive bodies listed by the Russian government, as well as state institutions and state unitary enterprises, are allowed to procure from a single vendor for the needs of the “special military operation”.

Besides, as before **2022**, non-competitive purchases were explained as preparation for mobilization, prevention and/or liquidation of emergency situations, and humanitarian relief. According to The Moscow Times¹³⁴, in the first **10 months of 2022**, **2.6 billion rubles (~\$28.6 million)** was spent on preparation for mobilization, based on data collected by analyzing state procurements using the “preparation for mobilization” filter that isn’t available since November 2022. The media outlet estimates that **32.5 billion rubles (~\$357 million)** were spent on preparing for mobilization, but only one-fifth of this money was spent on protecting the population from warfare.

In Fall **2022**, news emerged about the construction of a defense line consisting of large pyramid-shaped concrete blocks and trenches being built in Belgorod Oblast near the border. According to Interfax¹³⁵, the defense lines amounted to almost **10 billion rubles (~\$110 million)**. According to the region’s deputy governor, more than **37 square kilometers** of land was taken out of economic use, while the direct expenses of land users were **63 million rubles (~\$ 693 thousand)**. Military experts say that big investments in such defense lines look dubious, especially considering the nature of current warfare¹³⁶.

Since the day mobilization was announced, government agencies spent money on various things related to mobilization. This includes transportation services, purchasing clothing, equipment, mobile phones, and grocery packages for the troops. Russian government’s Resolution No. 1745 of **3 October 2022**, it was stated as a “special economic measure” that regional government agencies, local self-government bodies, public institutions, budget organizations, autonomous establishments, and unitary enterprises are allowed to buy dual-use goods and other items requested by the Ministry of Defense and military commissariats. These goods could be transferred to federal possession free of charge.

Regional authorities approached the issue of provisions for the conscripts very differently. In some regions, individuals mobilized were given money to buy their own equipment and groceries. In other regions and municipalities, authorities decided to purchase these items for the conscripts themselves. Predictably, regions that chose the second scenario received a lot of complaints about the quality of goods¹³⁷. There were also concerns about pricing and efficiency of budget use in cases of single-vendor procurements (without competition).

¹³⁴ Moscow Times. (2024, February 13). “Where Were You for 8 Years”: How Russia Spent Money on Protecting the Population from Warfare. The Moscow Times. Russian service. <https://www.moscowtimes.ru/2022/11/24/gde-vi-bili-8-let-kak-rossiya-tratila-dengi-na-zaschitu-naseleniya-ot-vojni-a26718>

¹³⁵ Interfax. (2023, February 27). Belgorod Oblast Spent Nearly 10 Billion Rubles on Building Defense Lines. <https://realty.interfax.ru/ru/news/articles/143175/>

¹³⁶ Stepanov, A. (2023, February 26). Crimean Barrier — Defense Lines are Being Created near the Border with Ukraine. Versia. <https://versia.ru/na-granicax-s-ukrainoj-sozdayutsya-linii-oborony>

¹³⁷ Conscript from Arkhangelsk Oblast Complained about Quality of “Governatorial” Parcel. (2022, November 8). Arkhangelsk News Feed. <https://arkhangelsk-news.net/other/2022/11/08/90484.html>. Mobilized Oryol Conscripts Angry at Quality of Knives and Backpacks. (2022, November 7). Oryol News Feed. <https://orel-news.net/incident/2022/11/07/127871.html>

According to the Ministry of Finance quarterly report¹³⁸, single-vendor state and municipal procurements accounted for 29% of all contracts signed during third quarter of 2022, which is an increase of 9% compared to the previous quarter and 16% compared to the same period last year, as per the Ministry of Finance quarterly report¹³⁹.

Changes introduced by Federal Law No. 272-FZ on July 14, 2022, similar to those in Federal Law No. 223-FZ, have reduced the competitiveness of procurements. It established procurement rules for state-owned corporations, state-owned companies, and economic entities with more than 50% of shares owned by the Russian Federation, as well as their subsidiaries, i.e. for the majority of legal bodies working in the military-industrial complex. Following these changes, purchasers can now skip competitive procedures when procuring goods, works, and services for fulfillment of state defense orders and creating reserves of produce, raw materials, semi-products, and parts.

The Ministry of Finance quarterly reports for 2021¹⁴⁰ and 2022¹⁴¹ demonstrate that in the third quarter, under Federal Law No. 223-FZ, 20.4% of contracts were single-vendor contracts, which is an increase of 1% compared to the previous quarter and 10% compared to the same period in 2021. According to UIS statistics, from January 1, 2022, to December 8, 2022, single-vendor contracts under Federal Law No. 223-FZ accounted for 43.92% of the total value of all contracts.

The total value of contracts concluded under Federal Law No. 223-FZ has significantly decreased based on information from UIS, indicating that much of the data about this group of purchasers may be classified. UIS statistics reveal that in 2022, the value of contracts made under Federal Law No. 223-FZ was 11.3 trillion rubles (~\$125 million), down from 23 trillion rubles (~\$255 million) in 2021. Market participants estimate¹⁴² that around 3,000 state-owned companies, accounting for about 50% of state procurements, do not disclose their procurement information in the UIS.

From 16 April 2022, the number of state procurement authorities that can make competitive procurements with a closed procedure has increased. The Russian government can now include in this list any purchasers that fell under economic or political sanctions. Since the information on such procurements and vendor selection procedures is not published, they may be less competitive. The use of such procedures eliminates the possibility of public oversight and increases corruption risks.

¹³⁸ Ministry of Finance of Russia. (2022, October 31). Quarterly report on results of monitoring of procurement of goods, works, and services subject to Federal Laws "On the contract system for state and municipal procurement of goods, work and services", "About purchases of goods, works, services as separate types of legal entities" for the third quarter of 2022. https://minfin.gov.ru/ru/performance/contracts/purchases?id_57=300587-ezhekvaralniy_otchet_o_rezultatakh_monitoringa_zakupok_tovarov_rabot_uslug_osushchestvlyaemykh_v_sootvetstvii_s_federalnymi_zakonami_o_kontraktnoi_sisteme_v_sfere_zakupok_tovarov_rabot_uslug_dlya_obespecheniya_gosudarstvennykh_i_munitsipalnykh_nuzhd_o_zakupkakh_tovarov_rabot_uslug_otdelnymi_vidami_yuridicheskikh_lits_za_tretii_kvartal_2022_g

¹³⁹ Ministry of Finance of Russia. (2022, June 1). Quarterly report on results of monitoring of procurement of goods, works, and services subject to Federal Laws "On the contract system for state and municipal procurement of goods, work and services" for the third quarter of 2021. https://minfin.gov.ru/ru/performance/contracts/purchases?id_57=136262-ezhekvaralniy_otchet_o_rezultatakh_monitoringa_zakupok_tovarov_rabot_uslug_osushchestvlyaemykh_v_sootvetstvii_s_federalnym_zakonom_o_kontraktnoi_sisteme_v_sfere_zakupok_tovarov_rabot_uslug_dlya_obespecheniya_gosudarstvennykh_i_munitsipalnykh_nuzhd_za_iii_kvartal_2021_g

¹⁴⁰ Ministry of Finance of Russia. (2022, June 10). Quarterly report on results of monitoring of procurement of goods, works, and services subject to Federal Law "About purchases of goods, works, services as separate types of legal entities" for the third quarter of 2021. https://minfin.gov.ru/ru/performance/contracts/purchases?id_57=136370-ezhekvaralniy_otchet_o_rezultatakh_monitoringa_zakupok_tovarov_rabot_uslug_osushchestvlyaemykh_v_sootvetstvii_s_federalnym_zakonom_o_zakupkakh_tovarov_rabot_uslug_otdelnymi_vidami_yuridicheskikh_lits_za_iii_kvartal_2021_g

¹⁴¹ Ministry of Finance of Russia. (2022, October 31). Quarterly report on results of monitoring of procurement of goods, works, and services subject to Federal Laws "On the contract system for state and municipal procurement of goods, work and services", "About purchases of goods, works, services as separate types of legal entities" for the third quarter of 2022. https://minfin.gov.ru/ru/performance/contracts/purchases?id_57=300587-ezhekvaralniy_otchet_o_rezultatakh_monitoringa_zakupok_tovarov_rabot_uslug_osushchestvlyaemykh_v_sootvetstvii_s_federalnymi_zakonami_o_kontraktnoi_sisteme_v_sfere_zakupok_tovarov_rabot_uslug_dlya_obespecheniya_gosudarstvennykh_i_munitsipalnykh_nuzhd_o_zakupkakh_tovarov_rabot_uslug_otdelnymi_vidami_yuridicheskikh_lits_za_tretii_kvartal_2022_g

¹⁴² Interfax-ProZakupki analytical center. (2023, May 26). The Amount of Purchases by State-Owned Companies Reflected in UIS in 2022 Halved and is 11.3 Trillion Rubles. <https://prozakupki.interfax.ru/articles/2963>

The legislators also reduced the grounds for prosecuting officials for misconduct in state and municipal procurements by excluding other types of personal interest as a crime motive from Article 200.4 of the Criminal Code of Russia¹⁴³. Since 25 July 2022, only cases where abuses of procurement laws are driven by financial gain and lead to significant damages are considered criminal offenses.

3. 7. 2. CORRUPTION RISKS WITHIN STATE DEFENSE PROCUREMENTS

Federal Law No.275-FZ of 29 December 2012 (“On the State Defense Order”) defines state defense orders as assignments for supplying goods, carrying out works, and providing services to meet federal requirements aimed at safeguarding the defense and security of the Russian Federation. This also includes delivering products related to military and technical cooperation with foreign states in line with international obligations. State-owned companies, typically part of significant vertically integrated corporate groups, are the primary entities responsible for fulfilling state defense orders.

Most military-industrial complex companies are currently united under the Rostec state corporation and have consistently ranked among the top 100 highest-earning companies in the defense industry by a reputable media outlet Defense News¹⁴⁴. The 2014 rating, based on data from 2013, included 8 Russian companies, with Almaz-Antey listed as the 12th highest-earning military-industrial company in the world. However, the 2022 rating only included JSC Tactical Missiles Corporation which dropped 7 positions compared to the previous ranking.

On 1 July 2022, TASS reported¹⁴⁵ that the Almaz-Antey Corporation stopped participating in international ratings of major international arms producers. The company’s PR service explained that despite the growth in income in 2021, they believed that disclosing their indicators could reveal sensitive information that might lead to increased sanctions pressure on the company and its Russian and foreign partners.

The Defence Companies Index on Anti-Corruption and Corporate Transparency (DCI)¹⁴⁶ that Transparency International compiles every year demonstrates high corruption risks in the largest companies in the Russian military-industrial complex. This index divides companies into 6 groups based on their levels of corruption-related risks. In 2020, not a single company in the Russian military-industrial complex managed to get even the minimum rating of companies with poor transparency and anti-corruption achievements. Companies like Rostec, United Aircraft Corporation, United Shipbuilding Corporation, RTI Systems, and Russian Helicopters were listed as companies with low levels of corruption prevention and corporate transparency. Almaz-Antey, the United Engine Corporation, the United Instrument Manufacturing Corporation, Uralvagonzavod, and High Precision Systems were ranked as companies with extremely low levels of anti-corruption measures.

Numerous corruption-related scandals concerning the Russian military-industrial complex in 2021 show that anti-corruption compliance levels have remained unchanged in that sector.

In 2018, widespread corruption abuses related to state defense orders led to stricter accountability measures for both state procurement authorities and vendors.

¹⁴³ Federal law 14 July 2022 No. 345-FZ. <http://publication.pravo.gov.ru/Document/View/0001202207140121>

¹⁴⁴ Top 100 | Defense News, News about defense programs, business, and technology. <https://people.defensenews.com/top-100/>

¹⁴⁵ Tass. (2022, July 1). Almaz-Antey to Quit Participating in International Ratings of Military Equipment Producers. <https://tass.ru/ekonomika/15095385>

¹⁴⁶ Defence Companies Index. <https://ti-defence.org/dci/>

The Russian Criminal Code with the inclusion of Article 201.1, criminalized abuses of power by persons with managerial functions while fulfilling state defense orders. Since the Article's inclusion at the end of 2022, three people were prosecuted under this Article according to the legal statistics portal¹⁴⁷. They either received suspended sentences or were fined.

In May 2023, the director of OKTB Vektor, a military defense complex company, received 5 years suspended sentence. He was charged with abuse of authority while fulfilling a state defense order¹⁴⁸. The court supported FSB's conclusions that the director has been including fraudulent expenses in the costs of state defense orders for 2 years.

The 2022 public report on Rosfinmonitoring's activities¹⁴⁹ states that the rise in criminal cases related to abuses in state defense orders surged by 31%. Out of these cases, there were 13 guilty verdicts, resulting in compensation for damages totaling over 860 million rubles (~\$9.5 million).

The requirements and liabilities outlined in the On the State Defense Order law are applicable not only to companies of the military-industrial complex but to any economic entities that cooperate with chief contractors and supply military-industrial companies with materials and components. Before the full-scale war in Ukraine, stipulations of the On the State Defense Order law were still in effect in Russia. These regulations stated that fulfillment of state defense orders was a duty of certain organizations. Such organizations included vendors of Russian weapons and military equipment whose military goods have no Russian analogs (data on such organizations is recorded in a specialized registry managed by the Federal Antimonopoly Service), as well as other organizations deemed to have a dominant position in the state defense order market in cases when there are no competitors emerged during bidding processes.

In these cases, dominance is determined based on criteria typically used in anti-monopoly legislation to evaluate an economic entity's market position. Any company can be considered a dominant entity if it is the exclusive manufacturer of items that are explicitly required by the state purchaser's design specifications, other forms of documentation or are explicitly requested by them. Thus, the designation of a vendor as a dominant company depends not on objective market indicators, but on the purchaser.

For instance, the Moscow District Arbitration Court in ruling of **24 December 2021**¹⁵⁰ directly points out that it's enough for a purchaser to include its yearly maintenance schedule of command posts to grant a defense order vendor the status of a dominant company.

This creates corruption risks in the negotiation and fulfillment of state defense orders, which may escalate due to the heightened accountability for evading contract negotiations and failing to deliver crucial defense and security goods. In 2013, amendments were made to the Code of the Russian Federation on Administrative Offenses, introducing articles that establish liability for the refusal of Russian weapon and military equipment vendors to sign contracts and for contract breaches. Starting **24 September 2022**, the responsibility was toughened. Repeat offenses of this type now carry criminal consequences. This escalation puts vendors in a more vulnerable position, increasing opportunities for putting pressure on companies by threatening their managers with criminal cases.

¹⁴⁷ Legal statistics of Russia. Criminal procedures. Data on sentencing under Criminal Code articles. <https://stat.xn---7sbqk8achja.xn--p1ai/stats/ug/t/14/s/17>

¹⁴⁸ Kommersant. (2024, February 13). Rostov News Feed. Head of AO OKTB Vektor Receives 5 Years Suspended Sentence for Abuses While Fulfilling State Defense Order. Kommersant. <https://www.kommersant.ru/doc/5984867>

¹⁴⁹ Rosfinmonitoring. (2022, December 31). Public report from 2022. <https://www.fedsfm.ru/content/es/%D0%BF%D1%83%D0%B1%D0%BB%D0%B8%D1%87%D0%BD%D1%8B%D0%B9%20%D0%BE%D1%82%D1%87%D0%B5%D1%82%20%D1%80%D1%84%D0%BC202022.pdf/>

¹⁵⁰ No. F05-30207/21 on case No. 40-30619/2021

Additionally, the increased accountability for vendors might be inefficient in solving the problems in the defense and security sectors. The Vedomosti quotes an expert¹⁵¹ who argues that imposing criminal liability is the least appropriate method for addressing issues related to military supplies in the defense sector. Given the sanctions restricting the import of high-tech products into Russia, which are crucial for the production of military equipment, delays in fulfilling state defense orders could potentially be linked to a shortage of foreign components.

Federal law 2022 No. 272-FZ of 14 July allows the Russian government to implement special economic measures to support anti-terrorism and other operations conducted outside of Russia. These measures might significantly influence the rights and duties not just of the military-industrial complex companies but of any business. Under this law, any legal entity is obliged to deliver not just military supplies or provide services related to state and municipal needs but also to accept contracts with state-owned corporations and other organizations created with state or municipal participation. The Russian government can also establish special conditions for particular manufacturers regarding overtime work, weekends, and vacations, i.e. basically invade the sphere of corporate relations.

In a publication by the Russian Agency of Legal and Judicial Information concerning these new developments, many company directors expressed concerns about the challenges associated with fulfilling defense orders, particularly for small and medium-sized businesses. This opinion was echoed by the CEO of a private company that produces radio communication and navigation devices for the fleet. According to them, while major companies can fulfill formal state defense order requirements towards contractors, small and medium businesses¹⁵² might find these requirements impossible to meet. Additionally, the cost of goods can grow significantly for smaller enterprises due to the bureaucracy involved. Representatives of businesses also complained about the difficulty of communicating with the contractor while fulfilling defense orders, excessive standardization requirements, and tough requirements towards banking support. Interestingly, the general tone of the publication is optimistic about the role of Russian businesses in achieving mobilization-related objectives.

¹⁵¹ Nikolsky, A., Sidorkova, I., Mukhametschina, E., Sergeev, V. (2022, September 20). Punishment for Crimes during Military Operation and Mobilization Introduced in Russia. Vedomosti. <https://www.vedomosti.ru/society/articles/2022/09/21/941797-prestupleniya-vo-vremya-voennoi-operatsii>

¹⁵² Business in the Service. (2022, September 28). Russian Agency of Legal and Judicial Information. <https://rapsinews.ru/publications/20220928/308330610.html>

3. 8. RELATIONSHIP BETWEEN BUSINESS AND GOVERNMENT DURING THE WAR

3. 8. 1. CONTEXT: HOW WAR IMPACTS BUSINESS

According to a survey conducted from **25 March to 1 April 2022** by the presidential commissioner for entrepreneurs' rights together with the Institute for the Economy of Growth, Stolypin P.A.¹⁵³, comprising more than **43,000** respondents, the effects of sanctions are noticeable for more than **84%** of business owners. Among these respondents, **1.6%** had to close their business, **13.5%** had to temporarily suspend operations. Only **69%** of the surveyed business owners continue their work, albeit without adapting to the new conditions.

According to Rosstat¹⁵⁴, the business confidence index showed a reduction in nearly all categories. Wholesale and retail trade has reduced significantly. For example, in August **2022**, wholesale turnover reduced by almost **20%** compared to **2019**, and by more than **25%** compared to **2021**.

A study of trends and business activity conducted in the third quarter of **2022**, involving **6,200** retail companies, including small businesses, showed the following: **66.6%** of entrepreneurs expected no change in the fourth quarter of **2022**, and **15.1%** expected the situation to get worse.

Aside from declining demand from the population, another factor contributing to the worsening condition of Russian business was the significantly increased emigration of qualified workers. According to Rosstat¹⁵⁵, the number of individuals who left Russia in the first **8 months of 2022** (i.e. before partial mobilization was announced) increased by **290.4** thousand people, marking a **2.4-fold** increase compared to the same period in the previous year.

3. 8. 2. BUSINESS SUPPORT MEASURES

Foreign studies of corruption note that periods of warfare and their aftermath, often demonstrate reduced legitimacy of authorities and a decline in trust in public institutions. To overcome this deficit of legitimacy, politicians often resort to offering material incentives in exchange for political support, thus maintaining their power through patronage networks¹⁵⁶. This manifests itself in the development and implementation of state support measures for businesses, where in exchange for these benefits the authorities seek loyalty and support for their domestic and foreign policies.

State Duma's website¹⁵⁷ lists business support measures that were adopted after sanctions were imposed.

¹⁵³ Garant.Ru. (2022, April 21). Business and Sanctions: Proposals by Business Ombudsman on Support Measures. <https://www.garant.ru/news/1539999/>

¹⁵⁴ Federal State Statistics Service. Socioeconomic condition of Russia. January to September 2022. <https://web.archive.org/web/20230628184114/https://rosstat.gov.ru/storage/mediabank/osn-09-2022.pdf>

¹⁵⁵ Federal State Statistics Service. Socioeconomic condition of Russia. January to September 2022. <https://web.archive.org/web/20230628184114/https://rosstat.gov.ru/storage/mediabank/osn-09-2022.pdf>

¹⁵⁶ Transparency International. (n.d.). Lessons learned in fighting corruption in post-conflict countries. https://www.transparency.org/files/content/corruptionqas/355_Lessons_learned_in_fighting_corruption_in_post-conflict_countries.pdf

¹⁵⁷ State Duma. (2022, March 14). Support of business during sanctions: benefits for IT, standstill on small and medium-sized enterprises audits, credit holidays. <http://duma.gov.ru/news/53640/>

- Suspension of audits of small enterprises;
- Softening of licensing requirements as well as automatic renewal of licenses and other authorization documents;
Introduction of a new stage of capital amnesty;
- Extension of the tax payment deadline;
- Possibility to change essential terms of state and municipal contracts by mutual agreement if these terms cannot be fulfilled due to reasons beyond the control of either party;
- Possibility to change terms of special investment contracts and extending the deadlines for the return of subsidies that were issued to exporting companies prior to **31 March 2022**;
- Option to reduce payment for land lots used for construction.

There are also support measures aimed at specific sectors. IT companies accredited by the Ministry of Digital Development, Communications, and Mass Media are exempt from paying income tax and from routine audits until the end of 2024. Their employees can receive a preferential mortgage and receive a deferment from military service.

As a supporting measure for agricultural producers, subsidies are provided for previously issued credits. There are also funds allocated to subsidize credits issued in 2021 to form a payroll fund for food service operators, the hotel industry, culture, and sports sectors.

In 2022, the support program for systemically important companies was renewed. It included measures such as compensation for production and sale costs, state guarantees for loans and bonds, and tax deferment. However, the criteria for inclusion of companies in the list of systemically important ones was thoroughly reworked. On **21 March 2022**, RBK, citing sources in the radio electronics market, reported that selection criteria would be changed so that design centers Baikal Electronics and MCST could be included in the list. These companies produce Russian processors Baikal and Elbrus¹⁵⁸. Earlier, these processors were produced based on microprocessors from Taiwan, which are no longer supplied due to the US sanctions, necessitating urgent assistance for the companies transitioning to working with Chinese suppliers. In the end, the criteria and methods for including organizations in the list of systemically important ones, as established by a governmental sub-committee¹⁵⁹ fully justified these expectations.

The criterion for inclusion in the list of systemically important companies is based on exceeding the minimum threshold for gross income in the industry and the number of staff. These values are defined individually for each industry. Also, an organization may be included in the list based on recommendations from federal executive authorities, state corporations, or chief executive officers of federal subjects of Russia, provided that at least one of the following conditions is met:

- > It serves as a town-forming enterprise that significantly influences the region's development;
- > It is the main contractor or a primary cooperation level contractor for state defense orders;
- > It operates critical infrastructure and/or maintains security in Crimea, Sevastopol, Kaliningrad Region, and the Far Eastern Federal District;

¹⁵⁸ RBK. (2022, March 21). A Proposal Made to Expand the List of Systemically Important Companies. https://www.rbc.ru/technology_and_media/21/03/2022/6237369f9a794702e71c8ba5

¹⁵⁹ Appendix 1 to the protocol of the meeting of the subcommittee on increasing stability of the financial sector and particular branches of economy of the governmental committee on improving stability and development of the Russian economy during sanctions from 22 April 2022 no. 5ks. http://static.consultant.ru/obj/file/doc/pr_com_130522-kriterii.pdf

- It develops and implements critically important technologies and software;
- It ensures information security, provides services related to the development and operation of state information systems or socially significant Internet services;
- It ensures transportation availability in remote territories;
- It sells non-grocery consumer goods, sourcing from Russian vendors when foreign vendors refuse to supply, and has a workforce of at least 900 employees.

These new support measures can also breed grand corruption. **Corruption risks are connected with significant discretionary authority held by officials who make decisions on the inclusion of companies in the support list or about changing the terms of state and municipal contracts, investment contracts, or subsidy-granting agreements.**

Federal Law **No. 46-FZ** eased the requirements for granting preferences to economic entities based on Article 19 of Federal Law **No. 135-FZ** “On Protection of Competition”. In **2022**, companies can receive state or municipal property, incentives, subsidies, state loan guarantees, and other benefits without consent from anti-monopoly authorities.

3. 8. 3. RISKS ASSOCIATED WITH BUSINESS OPERATIONS DURING THE “MOBILIZATION ECONOMY”

President’s decree **No. 647 of 21 September 2022** initiated the mobilization. Ensuring the exemption of employees from military service created more complications between businesses and the authorities.

Article 18 of the mobilization law specifies grounds for deferment from mobilization. Specifically, deferment is granted to citizens who are exempted as stipulated by the Russian government. The Russian government ordered Minpromtorg to compile a list of organizations that participate in fulfilling state defense orders whose staff would be eligible for exemption from mobilization¹⁶⁰.

Furthermore, article 23 of the mobilization law states that individuals exempted “to ensure the functionality of government bodies, local government bodies, and organizations for the duration of mobilization” are exempt from mobilization. However, Instruction **No. 664** on the exemption of Russian citizens from **3 February 2015**, approved by the Interdepartmental Committee on Exemption of Citizens (ICEC)¹⁶¹, is a secret document. This means that the criteria for determining which employees of which companies fit the goals of ensuring the functionality of government bodies and organizations as stated in the law are not publicly available. This creates unlimited possibilities for interpretation of the law by decision-makers on an exemption, therefore posing significant corruption risks.

The disarray surrounding draft and exemption criteria was reported by Nezavisimaya Gazeta media on **13 October 2022**, three weeks after the mobilization began¹⁶².

¹⁶⁰ Russian government’s Resolution No. 1725 of 30 September 2022 on establishing rules for receiving deferment from mobilization for citizens of the Russian Federation working in the military-industrial complex. <https://www.garant.ru/products/ipo/prime/doc/405265877/>

¹⁶¹ ICEC was created by president’s decree No. 890 of 14 August 1992. Its members are chosen by the Russian government. According to the Russian government’s executive order No. 2863 of 29 September 2022, the current committee consists solely of officials (mainly from departments of the Russian governments, Ministry of Industry and Trade and Ministry of Defense) and representatives of the General Staff of the Armed Forces.

¹⁶² Solovyova O. (2022, October 13). Special Military Operation and Mobilization Exacerbate Lack of Staff. Nezavisimaya Gazeta. https://www.ng.ru/economics/2022-10-13/1_8565_hunger.html

The newspaper mentioned that the authorities had not yet established any by-laws that would regulate the labor of mobilized individuals or that would address how businesses should operate in the event that their owners are conscripted.

Due to the lack of clearly defined principles and criteria for exempting employees of various companies from mobilization, authorities had to clarify the issue to both society and businesses. TASS, a state-owned news agency, reported¹⁶³ on **3 October 2022**, citing the Telegram channel created by the Russian government to inform the population, that exemptions would be based on ICEC's list of positions and professions that are deemed essential to fulfilling mobilization-related goals. It was also mentioned that exemption could be conducted by organizations that support the population during wartime and those that provide military training to citizens.

In the regions, the issues of citizens' exemption are handled by committees established in accordance with decrees issued by governors, district heads, or local administrations. An analysis of such committees in various regions reveals that they are formed from employees of corresponding state or municipal organs and military commissariats. Many regional or local committees also employ personnel from the Federal Security Service. Therefore, these decision-making committees include no representatives from associations of entrepreneurs or from civil society organizations.

According to The Bell¹⁶⁴, "the fight for exemptions" began on the second day after mobilization was announced. The outlet believes that it's the major strategically important companies with significant lobbying potential would be most effective in protecting their workers.

Two days after the mobilization announcement, journalists from the Saint Petersburg-based Fontanka.ru Internet outlet tried to survey¹⁶⁵ the heads of companies and government agencies of Saint Petersburg regarding their reaction to these events and what they were planning to do. They discovered a complete lack of clarity regarding eligibility for exemption. Many organizations were worried they could lose qualified personnel.

By **30 September 2022**, one-third of companies in Russia tried to get an exemption from mobilization for their employees. Additionally, **7.9%** transitioned a portion of their staff to remote work, while **4.2%** helped their employees relocate to other regions or countries. This was demonstrated by the results of the survey conducted by an HR agency for Forbes¹⁶⁶. A study by Aktion Upravleniye media¹⁶⁷ showed that in early October, more than **78%** of respondents considered the influence of potential mobilization of employees as having a "very serious" or "quite serious" impact on the operations of their companies.

Associations of employers have begun proactively reaching out to the Russian government and sectoral ministries about deferment from mobilization. The Electronics Developers and Manufacturers Association (EDMA) sent a letter¹⁶⁸ to Mikhail Mishustin, the Russian Prime Minister, asking for an exemption from mobilization for their employees. Trade unions of air staff and sailors discussed similar conditions with ministries.

¹⁶³ TASS. (2022, October 3). List of Professions to be Exempted from Mobilization is Updated Every Year. TASS. <https://tass.ru/armiya-i-opk/15943757>

¹⁶⁴ Smirnov, S. (2022, September 22). The Beginning of Fighting for Exemption, Exchange of Medvedchuk, FRS Chooses Recession. The Bell. <https://thebell.io/nachalo-srazhenij-za-bron-ot-mobilizatsii-obmen-medvedchuka-frs-okonchatelno-predpochla-retsessiyu>

¹⁶⁵ Fontanka.ru (2022, September 23) "Final Paper! Exemption!" How Saint Petersburg Companies Reacted to Mobilization of their Employees. <https://www.fontanka.ru/2022/09/23/71680538/>

¹⁶⁶ Demidkina, K. (2022, September 29). Almost One Third of Russian Companies Try to Exempt their Staff from Mobilization. Forbes.ru. <https://www.forbes.ru/svoi-biznes/478455-pocti-tret-rossijskih-kompanij-pytaetsa-bronirovat-sotrudnikov-ot-mobilizacii>

¹⁶⁷ Mishina, V., Kalyapina, E., Sutulin, P. (2022, October 5). Business before mobilization: how not to lose control. Vedomosti. <https://www.vedomosti.ru/management/articles/2022/10/06/944108-biznes-pered-mobilizatsiei>

¹⁶⁸ Military Summonses Not Fitting into Microchips. (2022, September 25). Kommersant. <https://www.kommersant.ru/doc/5581347>

The Russian Union of Industrialists and Entrepreneurs RSPP asked for deferment from mobilization for company owners and executives¹⁶⁹.

Since the onset of mobilization, experts noted a particularly adverse impact on small and medium-sized businesses¹⁷⁰. Alexandr Kalinin, the head of SMEs union 'OPORA RUSSIA', sent a letter to the Minister of Economic Development on **27 September 2022**, requesting deferment from mobilization for key highly skilled workers in small and medium-sized businesses¹⁷¹. The organization believes that the right of deferment should extend to directors, company owners, and sole proprietors. The association also proposed the idea of conscription quotas for each enterprise to avoid critical loss of staff that could result in business closures.

The executive office of Boris Titov, the presidential commissioner for entrepreneurs' rights, proposed limiting mobilization to **10%** of a company's staff and exempting **95%** of employees at hi-tech, strategic, and town-forming enterprises¹⁷². Titov emphasized the importance of businesses having a clear understanding of the implications of mobilization.

74.ru, a Chelyabinsk-based news portal, also reported on staff problems faced by regional businesses¹⁷³. Additionally, The Bell conducted a series of interviews on this topic with business owners from Moscow and other Russian cities. These interviews showcased that while big businesses were lobbying for exemptions or deferments for their employees, medium and small businesses faced staff shortages from the first days of mobilization¹⁷⁴.

As mentioned in multiple media reports, agricultural enterprises were also vulnerable to the impacts of mobilization. RBK reported¹⁷⁵ that **700** employees of Bashkortostan's agricultural complex were conscripted, with enterprises allowed to exempt only **26%** of the staff from conscription. The head of the Association of Farms, Smallholdings and Cooperatives of Leningrad Oblast and Saint Petersburg¹⁷⁶ stated that mobilization "made the survival of farming itself dubious". He also advocated for clear criteria for the selection of conscripts.

One week before the announcement of the end of mobilization, a Bulletin of the Central Bank of Russia **No. 6 (58)** from October 2022¹⁷⁷ estimated how mobilization was going to affect the economy. The institution noted that mobilization in the context of low unemployment levels creates additional challenges for manufacturing processes and for maintaining output rates, especially for small and medium businesses. This negatively affects consumer and business confidence.

¹⁶⁹ Zlobin, A. (2022, September 27). Business Asks for Deferment from Mobilization for Owners and Heads of Companies. Forbes.ru. <https://www.forbes.ru/biznes/478243-biznes-poprosil-dat-otsrocku-ot-mobilizacii-vladel-cam-i-rukovoditelam-kompanij>

¹⁷⁰ Mishina, V., Kalyapina, E., Sutulin, P. (2022, October 5). Business before Mobilization: how not to Lose Control. Vedomosti. <https://www.vedomosti.ru/management/articles/2022/10/06/944108-biznes-pered-mobilizatsiei>

¹⁷¹ OPORA RUSSIA. (n.d.). Working Situation: Small Businesses Want Exemption from Mobilization. <https://opora.ru/news/delovoe-polozhenie-malyy-biznes-poprosil-bron-ot-chastichnoy-mobilizatsii.html>

¹⁷² Ignatova, O., Lyubovetsky, A. (2022, October 11). Business Proposed Limiting Mobilization to 10% of Companies' Staff. Rossiyskaya Gazeta. <https://rg.ru/2022/10/11/pole-broni.html>

¹⁷³ Chelyabinsk Online. (2022, September 27). "With Each Day We Have Fewer and Fewer Men": Sole Proprietors and Small Businesses Ask for Deferment from Mobilization. <https://74.ru/text/business/2022/09/27/71684654/>

¹⁷⁴ Kasyanchuk, D. (2022, September 26). "I'm Bamboozled." Entrepreneurs are Beginning to Lose Staff because of Mobilization. The Bell. <https://thebell.io/ya-v-polnom-aute-predprinimateli-nachali-teryat-sotrudnikov-iz-za-mobilizatsii>

¹⁷⁵ RBK-Ufa. (2022, November 8). 170 Bashkortostan Companies Request Exemption from Mobilization. <https://ufa.rbc.ru/ufa/08/11/2022/636a42b39a79474a52e88b44>

¹⁷⁶ RBK. (2022 October 29). Representatives of Agriculture on Pins and Needles because of Mobilization. https://www.rbc.ru/spb_sz/29/10/2022/6358e3499a79471143d35a79

¹⁷⁷ Central Bank of Russia Research and Forecasting Department bulletin. (Issue No. 22-06). WHAT DO TRENDS MEAN. Macroeconomy and markets. https://cbr.ru/Collection/Collection/File/43410/bulletin_22-06.pdf

In late November 2022, the media started reporting on a potential new phase of mobilization that could be announced in January 2023. However, none of the legal and decision transparency issues that were raised during the mobilization announced on 21 September 2022 have been addressed. Key issues persist unresolved:

The exact criteria for exempting entrepreneurs and employees from mobilization remain undefined;

Normative acts lack specified conscription quotas for different categories of organizations;

Transparency in decision-making by exemption committees concerning granting or refusal of exemption is lacking;

Business associations or civil society organizations, such as trade unions and human rights organizations, have not been engaged in the development of criteria or decision-making processes related to mobilization.

The lack of proper legal institutions that could ensure transparency in mobilization procedures creates conditions for corruption abuses and illegal lobbying of interests of specific commercial organizations.

IV. GRAND CORRUPTION AND THE GLOBAL KLEPTOCRACY

4. 1. RUSSIAN KLEPTOCRATS AND OLIGARCHS: TERMS

Despite the widespread use of the term “kleptocrat”, as well as the corresponding term “oligarch”, neither has a clear definition. This allows for their flexible application, particularly for political and law enforcement purposes. For instance, in Ukraine, the law concerning oligarchs defines an oligarch as an individual who fits three of the following four criteria: participation in politics, significant influence over media, benefiting from a monopoly, possessing assets exceeding one million of minimum wages (~\$600 to \$700 million)¹⁷⁸. The so-called CAATSA Report or “Putin List” published by the United States Department of the Treasury in 2018 has drawn criticism for its approach, including the inclusion of Russian businessmen based solely on their rankings in the Russian Forbes list.

We believe that the appropriate usage of these terms depends on the social groups they’re attributed to. A kleptocrat typically refers to a senior official in an autocratic state who exploits their position for personal gain. On the other hand, an oligarch is commonly defined as an exceedingly wealthy and influential individual, often a Russian citizen, who amassed their wealth through business ventures following the collapse of the Soviet Union¹⁸⁰. However, the intergovernmental consensus of Western countries, aimed at detecting and arresting Russian assets obtained through corruption, expands the terminology to include not just oligarchs, but also “Russian elites and their trustees (proxies)” involved in corrupt activities¹⁸¹.

Due to broad interpretation, the list of individuals who are justifiably considered members of corrupt Russian elites was extended and now includes kleptocrats which include senior officials such as top managers of state-owned entities; oligarchs who influence political and administrative decisions and who used to be seen as main beneficiaries of the Russian regime; and proxies (trustees) who manage the assets owned by oligarchs and kleptocrats. However, the topic of proxies who serve kleptocrats and oligarchs demands its own methodology and a separate study.

4. 2. OLIGARCHS AND KLEPTOCRATS: FREQUENT MISCONCEPTIONS

It’s often said that the main defining characteristic of Russian oligarchs is their personal connection to president Putin and his administration. Photos where they appear together, particularly during official events like governmental award ceremonies, are typically cited as evidence¹⁸².

¹⁷⁸ “Preventing threats to national security associated with the excessive influence of individuals who have significant economic and political weight in public life (oligarchs).” Article 2. Official Website of the Parliament of Ukraine. <https://zakon.rada.gov.ua/laws/show/1780-20#Text>

¹⁷⁹ Rose-Ackerman, S. (2003). Corruption and the State: Causes, Consequences, Reform. p 150. Logos.

¹⁸⁰ Oxford Advanced Learner’s Dictionary at OxfordLearnersDictionaries.com. <https://www.oxfordlearnersdictionaries.com/definition/english/oligarch>

¹⁸¹ Press release by the US Department of Justice No 22-241 “U.S. Departments of Justice and Treasury Launch Multilateral Russian Oligarch Task Force.” (REPO), U.S. Departments of Justice and Treasury Launch Multilateral Russian Oligarch Task Force. (2022, March 16). <https://www.justice.gov/opa/pr/us-departments-justice-and-treasury-launch-multilateral-russian-oligarch-task-force>

¹⁸² Zakharov, A. (2022, October 20). Putin Awards Rotenberg. Lenta.RU. <https://lenta.ru/news/2022/10/20/nagradss/>; Putin’s Meeting with a Major Businessman. (2015, December 24). Kommersant. <https://www.kommersant.ru/doc/2884721>

While such visual evidence may offer some insight, a more significant indicator of the connection between the Kremlin and these businessmen is their frequent meetings with the president. One of the key meetings between Russian oligarchs that resulted in the introduction of numerous sanctions against the oligarchs took place on the next day after the full-scale Russian invasion of Ukraine began in February 2022¹⁸³.

The consensus that exists among the elites in contemporary Russia shows that the influence of oligarchs on the Russian authorities changed significantly during the last 30 years. The trajectory from the dominance of oligarchs (so-called “semibankirschina”) to state capitalism was a direct uninterrupted evolution. In the late 1990s, oligarchs effectively controlled entire sectors of the economy and distributed shares of state companies among themselves, as it happened with Svyazinvest¹⁸⁴. In today’s Russia, their influence has been curtailed to a point where they mainly receive major government contracts and shares in governmental subsidies issued to support business during the pandemic or due to sanctions.

To safeguard their interests, oligarchs maintain personal ties with the president or cultivate patronage-based connections with high-ranking officials or entire clans, usually law enforcement officers (“siloviks”). It’s clear who the leading partner in this corrupt tango is when considering that nowadays Russian oligarchs carry a necessary burden imposed by the authorities. They have to provide pre-election support to parties and candidates, sponsor unprofitable sports teams and sports federations, finance social projects, and make “donations” to the budget¹⁸⁵.

An oligarch might be part of the kleptocratic elite, exemplified by figures like Arkady Rotenberg, Gennady Timchenko, Oleg Deripaska, or operate independently having gained access to power during the early stages of capital accumulation. Those who fall into the latter category often exhibit merely formal loyalty to the Kremlin, such as Mikhail Fridman, Petr Aven. Conversely, some oligarchs may even be attacked by elites, as seen in the case of Vladimir Yevtushenkov¹⁸⁶.

The term “oligarch” has sparked legal disputes among Russian businessmen following its usage by European regulatory authorities. As a result, the EU no longer refers to Russian individuals targeted by sanctions as oligarchs. Presently, the wealthiest Russians who are considered among those responsible for the war in Ukraine are called leading businessmen¹⁸⁷.

Terminological inconsistencies create confusion related to the definition of the terms “kleptocrat” and “oligarch”. Many representatives of Western regulatory authorities go as far as calling public officials “oligarchs”. For example, the US Department of Justice refers to “oligarchs” as some representatives of the Russian political elite, such as members of the Federation Council and of the State Duma.

¹⁸³ Kolesnikov, A. (2022, February 24). Kommersant newspaper. Life over Business. What Vladimir Putin Asked Businessmen Gathered in the Kremlin to Think about. Kommersant. <https://www.kommersant.ru/doc/5230566>

¹⁸⁴ Forbes. (2021, October 18). The Battle of Terminators: how Conflict between Oligarchs Affected Choice of Yeltsin’s Follower. Forbes.ru. <https://www.forbes.ru/society/443179-bitva-terminatorov-kak-ssora-oligarhov-povliala-na-vybor-premnika-el-cina>

¹⁸⁵ In 2023, Russian Companies Will Make Voluntary One Time Donation to the Budget. (2023, February 21). PRAVO.Ru <https://pravo.ru/news/245371/>

¹⁸⁶ CAATSA Report U.S. Department of the Treasury. (2018, January 29). US Treasury CAATSA 241 Report Unclassified. <https://www.clearlytradedwatch.com/wp-content/uploads/sites/410/2018/01/US-Treasury-CAATSA-241-Report-Unclassified-January-29-2018.pdf>

¹⁸⁷ Radio Liberty (2023, September 14). EU No Longer Calls Sanctioned Businessmen Oligarchs. <https://www.svoboda.org/a/es-bojlshe-ne-nazyvaet-oligarhami-biznesmenov-pod-sanktsiyami/32593076.html>

This happened to at least two Russian politicians: Suleyman Kerimov, a member of the Federation Council,¹⁸⁸ and Andrei Skoch, a Member of the State Duma¹⁸⁹.

However, even a quick look at their biographies shows that they are representatives of Russian authorities, and their welfare and assets are closely tied to corrupt or clandestine lobbying practices. According to the US Department of Justice's description¹⁹⁰, this is exactly what kleptocracy is: using political power for personal gain.

Kleptocrats should not be confused with corrupt officials and deputies who have no relation to global kleptocratic networks but have their own nets of corrupt connections and use them for profit. This might be members of regional corrupt elites¹⁹¹ or certain individuals who operate at the federal level¹⁹² but are not part of the global network of corruption. Their influence is limited to servicing their personal business interests or those they support, securing governmental subsidies and contracts for these ventures. They usually originate from regional elites and have limited access to federal funding.

The former category should also include corrupt businessmen who are not Russian oligarchs but might belong to networks of corruption¹⁹³. The widely publicized list of "Russian oligarchs deceased since the full-scale war in Ukraine started"¹⁹⁴ mostly contains names that are unknown to the general public and even to experts specializing in the Russian elite. Contractors of gas companies and middle-tier managers of Gazprom's subsidiaries can hardly be called oligarchs or kleptocrats even if they have access to significant financial resources. This group has no political influence or support and often becomes the object of attacks by law enforcement agencies.

After clarifying the terminology and distinctions among oligarchs, kleptocrats, including top managers of state-owned companies, and corrupt officials and businessmen, it is important to note that **oligarchs and kleptocrats are the primary figures with substantial influence over political decision-making and are beneficiaries of the existing regime.** On the other hand, corrupt officials (deputies) and businessmen belong to the second-tier elite, both at the federal and regional levels. They have to cooperate with higher-standing kleptocrats and oligarchs and try to fit into the budgetary "food chain". While these corrupt officials and businessmen may have access to regional and municipal budgets, their access to federal funds is limited.

¹⁸⁸ Press release by the US Department of Justice No 22-469 about the arrest of Suleyman Kerimov's yacht: \$300 million yacht of sanctioned Russian oligarch Suleiman Kerimov seized by Fiji at request of United States. (2022, May 5). <https://www.justice.gov/opa/pr/300-million-yacht-sanctioned-russian-oligarch-suleiman-kerimov-seized-fiji-request-united>

¹⁸⁹ Press release by the US Department of Justice No 22-851 stating that the US received a warrant for the arrest of a plane belonging to Andrei Skoch, a sanctioned Russian oligarch: United States obtains warrant for seizure of airplane of sanctioned Russian oligarch Andrei Skoch, worth over \$90 million. (2022, August 8). <https://www.justice.gov/opa/pr/united-states-obtains-warrant-seizure-airplane-sanctioned-russian-oligarch-andrei-skoch-worth>

¹⁹⁰ Sierck, S. (2012, December 17). The US Department of Justice now uses Anti-Money Laundering and civil Forfeiture laws to seize US assets of corrupt foreign government leaders and their associates. UNCAC Coalition. <https://uncaccoalition.org/the-us-department-of-justice-now-uses-anti-money-laundering-and-civil-forfeiture-laws-to-seize-us-assets-of-corrupt-foreign-government-leaders-and-their-associates/>

¹⁹¹ Sergeev, S. (2019, June 10). Panel of Judges Sees No Criminal Organization: Former Leader of Komi Found Innocent on Charges of Organized Crime, but Sentences for Corruption and Embezzlement. Kommersant newspaper. No. 100. <https://www.kommersant.ru/doc/3998435>

¹⁹² Kornei, A., Veretennikola, K. (2023, October 31). Sentence without Discussion. Sentenced State Duma Deputy Vadim Belousov Loses at Constitutional Court. Kommersant newspaper. No. 203. <https://www.kommersant.ru/doc/6310328>

¹⁹³ Kashperskaya, A., Shumanov, I., I. (2023, March 7). Gas is Creeping On: Mysterious Suicide of Gazprom Top Manager Could Be Due to Money Laundering Elite Hotel in Montenegro. Investigation by Novaya Gazeta Europe and Transparency. Novaya Gazeta Europe. <https://novayagazeta.eu/articles/2023/03/07/gaz-polzuchii>

¹⁹⁴ Kashperstaya, A., Shumanov, I. (2023, March 7). Gas is Creeping On: Mysterious Suicide of Gazprom Top Manager Could Be Due to Money Laundering Scheme and an Elite Hotel in Montenegro. Investigation by Novaya Gazeta Europe and Transparency. Novaya Gazeta Europe. <https://novayagazeta.eu/articles/2023/03/07/gaz-polzuchii>; Wikipedia. (2024, January 20). Suspicious deaths of Russian businesspeople (2022–2024). [https://en.wikipedia.org/wiki/Suspicious_deaths_of_Russian_businesspeople_\(2022–2024\)](https://en.wikipedia.org/wiki/Suspicious_deaths_of_Russian_businesspeople_(2022–2024))

The unique relationship that each of these groups has with the phenomenon of corruption underscores the necessity for in-depth studies. However, for clarity of our narration, we will adhere to this classification, recognizing that it may not be thorough and there might be flaws in descriptions of particular cases. We are to concentrate on members of the Russian political (kleptocratic) and economic (oligarchic) elite who were the first targets of foreign sanctions after the Russian invasion of Ukraine began.

4. 3. HOW SANCTIONS AFFECT CORRUPTION LEVELS IN RUSSIA

Since the beginning of the hybrid aggression against Ukraine in 2014, sanctions have become the primary tool through which Western countries react to Russia's aggressive foreign policy. The effectiveness of this sanctions-based approach needs its own studies. We will look at how sanctions impact oligarchs and kleptocrats, as well as the general level of corruption in the country.

Contrary to the popular and widespread opinion, sanctions are no cure for corruption¹⁹⁵. Opposition politicians and groups that promote sanctions against the Russian economy and particular members of the Russian elite don't seem to notice the backward effect of sanctions: the growth of petty and grand corruption. Foreign researchers who mention the growth of corruption due to sanctions often receive no significant support among the political elites of their countries.

The history of sanctions imposed by the EU, the US, the UK, and their allies against different countries allows us to see the effect of these sanctions on these countries as well as Russia. **The examples of former Yugoslavia, Haiti, and Iraq under Saddam Hussein¹⁹⁶ demonstrate that sanctions increase the shadow economy and encourage government corruption. Sanctions against a state or its various branches frequently lead to an increase in illegal activities, as political, military, and business elites and criminal networks can use the situation to smuggle prohibited goods. Additionally, the response of regimes to sanctions might exacerbate the difficulties faced by the population, forcing it to turn to a shadow economy to survive.**

In the case of Russia, it's already clear that financial flows into and out of Russia are successfully bypassing the restrictions imposed by sanctions to a large degree. This is also demonstrated by the significant growth of exports into Russia from neighboring countries such as Georgia (by 22%) and Kazakhstan (by 57%)¹⁹⁷. Although not all of this export consists of sanctioned goods, the growth demonstrates the resilience of financial flows and ample opportunities for enrichment.

We should also mention that sections 1 and 2 of this report, while not directly related to political corruption, still provide documentary evidence that demonstrates the connection between the start of the full-scale war, the introduction of Western sanctions, and the growth of corruption in Russia.

¹⁹⁵ Voice of America, Russian service. (2021, April 29). European Parliament Calls for Anti-Corruption Sanctions against Russia. VOICE OF AMERICA. <https://www.golosameriki.com/a/eu-should-impose-anti-corruptions-sanctions-on-russia/5871729.html/>

¹⁹⁶ Early, B., & Peksen, D. (2018). Searching in the Shadows: The Impact of Economic Sanctions on Informal Economies.

¹⁹⁷ Gavin, G., & Aarup, S. A. (2023, April 26). Leaking Russia sanctions send floods of cash to ex-Soviet countries. POLITICO. <https://www.politico.eu/article/lithuania-russia-vladimir-putin-stop-turning-blind-eye-to-back-doors-for-russian-trade-top-diplomat-tells-eu/>

4. 3. 1. OLIGARCHS AND ULTRA-HIGH NET-WORTH INDIVIDUALS

The first sign that rich Russians might be counted as corrupt Russian elites simply because they made it to the Russian Forbes list emerged in 2018. The CAATSA Report by the US Department of the Treasury contained a list of Russian billionaires, commonly referred to as oligarchs¹⁹⁸. While this report was being made, there was no intention to prove that each person on the list was corrupt and received benefits from working with the state.

Until 2022, the concept of imposing sanctions against Russian oligarchs¹⁹⁹ had undergone no changes other than merely superficial ones. The targeted individuals on the sanctions lists included notorious figures from Vladimir Putin's personal circle²⁰⁰ or individuals who actively benefited from Russia's corrupt system.

Currently, the inclusion of people in sanctions lists appears to be conducted manually, without clear criteria and with many undisclosed reservations and exceptions, which leads to criticism within the Western society and finds no understanding among the Russian elite.

The wealth of oligarchs included in the sanctions lists reduced by 30%-70% since the beginning of the full-scale war, which makes them the main victims of sanctions. However, by March 2023, 39 billionaires subject to Western sanctions added a staggering \$104 billion over the course of 12 months, according to Forbes USA²⁰¹. It means that within a year following the beginning of the war, their combined wealth reduced only by 13%. The total number of billionaires, measured in US dollars, increased from 88 to 110 within a year. By 2024, the wealth of Russian billionaires increased further by \$50 billion²⁰².

We made our own analysis of net assets owned by Russian billionaires using data from the Bloomberg Billionaires Index. The analysis involved examining the assets of Russian billionaires from the list of the top 500 richest people according to Bloomberg. We analyzed the wealth of Russian businessmen from January 2022, right before the war in Ukraine started, and until January 2024. The list of the top 500 of the world's billionaires contains 26 people from Russia. 20 of them were objects of various Western sanctions.

Out of the Russian billionaires listed, 6 individuals—Galitsky, Popov, Bakalchuk, Rybolovlev, Fedun, and Prokhorov—did not face sanctions. They increased their wealth by the start of 2024. The average increase in wealth for a Russian billionaire not targeted by Western sanctions was roughly \$1.11 billion from 2022 to 2024. Sanctions eventually affected even those who were not sanctioned by the West. By 2023, the average loss of net assets for each non-sanctioned billionaire was roughly \$0.13 billion.

Six sanctioned billionaires overcame the effects of sanctions and actually increased their wealth: Potanin, Guryev, and Skoch achieved this by 2023, while Usmanov, Alekperov, and Melnichenko accomplished it by 2024.

¹⁹⁸ Wikipedia. (2023, November 12). CAATSA Report. https://ru.wikipedia.org/wiki/Кремлёвский_доклад

¹⁹⁹ Kara-Murza, V. (2014, August 6). Putin's Inner Circle Blacklisted Radio Liberty. <https://www.svoboda.org/a/25476764.html>

²⁰⁰ Zlobin, A. (2018, April 6). Strike against Elites: US Added Billionaires and Officials to Sanctions List. Forbes.ru. <https://www.forbes.ru/biznes/359751-udar-po-elite-ssha-vnesli-v-sankcionnyy-spisok-milliarderoi-i-chinovnikov>

²⁰¹ Zlobin, A. (2023, April 13). Why Western sanctions failed to truly impact the wealth of Russia's billionaire oligarchs. Forbes. <https://www.forbes.com/sites/giacomotognini/2023/04/13/why-western-sanctions-failed-to-truly-impact-the-wealth-of-russias-billionaire-oligarchs/>

²⁰² Kommersant. (2024, January 2). The Wealth of Richest Russian Businessmen Grew by \$50 Billion in 2023. Kommersant. <https://www.kommersant.ru/doc/6441786>

The wealth of 10 sanctioned billionaires declined in 2022 but demonstrated growth in both 2023 and 2024. Compared to 2022, losses were partially compensated by the following Russian billionaires: Lisin, Mikhelson, Mordashov, Timchenko, Fridman, Rashnikov, Khan, Abramov, Kuzmichev, and Aven.

Four of the sanctioned billionaires experienced substantial declines in their assets since the onset of the full-scale war: Suleyman Kerimov's by 35%, Roman Abramovich's by 51%, Vyacheslav Kantor's by 28%, and Viktor Vekselberg's by a staggering 60%.

The cumulative sanctions-related losses by Russians from the Bloomberg Billionaires list were \$61.12 by 2023. By 2024, their losses shrunk to \$24.75 billion compared to the pre-war levels. The majority of these losses affected four sanctioned billionaires: Viktor Vekselberg (-\$10.7 billion), Roman Abramovich (-\$8.58 billion), Suleyman Kerimov (-\$4.88 billion) and Gennady Timchenko (-\$4.4 billion).

Therefore, we can state that sanctions have a long-term effect. In a short period of time, the wealth of sanctioned individuals might not change significantly, but those considered "veterans" of the sanctions list such as Vekselberg, Timchenko, and Kerimov are experiencing the full effects of sanctions over time.

It's highly important not to misuse the term "oligarch" and refrain from applying it to any Russian person with a billion rubles in the bank. Change of citizenship, receiving second citizenship, or sale of Russian assets provided only limited relief for businessmen who were sanctioned due to being included in the list of Russian "oligarchs". While individuals on the sanctions lists may be suspected of connections with Russian authorities, wealthy Russians such as Pavel Durov (Telegram), Oleg Tinkov (formerly of Tinkoff Bank), and some others can hardly fit the traditional definition of oligarchs based on the data we have. However, the lack of clarity in defining the term and establishing clear criteria for what constitutes an "oligarch" there is a risk of counting any affluent Russian citizen as one.

4. 3. 2. KLEPTOCRATS

The description of a Russian kleptocrat provided at the beginning of this chapter is that of a senior official of an autocratic state who leverages their authority to amass personal wealth. However, it's hard to provide a precise definition that exclusively describes senior officials in Russia. Various authors define the following groups that are, in our opinion, justifiably can be regarded as Russian kleptocrats:

The country's political leadership²⁰³. Not all of the political elite participate in kleptocratic practices, there are different levels of involvement. However, a successful kleptocratic system requires cooperation and collaboration from key political and administrative actors to ensure its stability. It would be reasonable to include in this group all representatives of the leadership of political parties represented in the State Duma, members of the Federation Council, and key political figures not involved in the bureaucratic system.

For instance, the leadership of the ruling United Russia party, including the party's general council, presidium, supreme council, central executive committee, and central control and audit commission²⁰⁴. The party's general council includes not only representatives of federal authorities but also heads of municipalities, deputies of regional parliaments, heads of civic organizations, and heads of the party's youth organizations.

²⁰³ Kosals, L. (2007). Essay on clan capitalism in Russia. Acta Oeconomica, 57, 67-85. <https://doi.org/10.1556/AOEC ON.57.2007.1.5>.

²⁰⁴ Faces of the party. United Russia. <https://er.ru/persons>

After the adoption of the 2020 law establishing the State Council of Russia this redesigned political institution assumed responsibility for developing strategies and goals of domestic and foreign policies of Russia²⁰⁵. The Council's members include heads of federal subjects of Russia, the head of the Presidential Administration of Russia, the Chairmen of the State Duma and the Federation Council, and the Prime Minister. The President of Russia serves as the chairman of the State Council.

Bureaucracy²⁰⁶ : The bureaucratic class in Russia plays an important role in maintaining the kleptocratic system by ensuring its functioning, protecting it, controlling political processes, and allowing the country's top leadership to use the state for personal gain.

Firstly, the bureaucracy serves as an instrument for the top political elite to practice and control corruption. This is reflected in bureaucrats following orders and decisions of top elites. A study of systemically important companies from 2020²⁰⁷ by experts from the Raven volunteer project revealed that 34% of companies that applied for state support were either state-owned or municipal entities. It was discovered that no less than 30% of enterprises that made it to the list of systemically important companies turned out to be tightly connected with regional or federal political elites. Many of the owners of these companies were government officials or deputies. Some of the companies were controlled by sanctioned Russian oligarchs.

Therefore we can state that the bureaucracy controls state resources and budget, which enables political and economic elites to use state resources the way they see fit. Moreover, the bureaucratic class maintains stability within the system through methods such as suppression, threats, handling protests, and creating an illusion of legality and democracy through legitimate institutions and procedures.

Additionally, bureaucracy can also use formal norms and procedures to cover up corruption and illegal activities, acting as a mechanism of control and supervision over citizens and organizations, which increases the power of kleptocratic elites. All these functions make the bureaucratic class an essential part of the kleptocratic system, as it ensures its operation and stability.

Law enforcement agencies²⁰⁸ : Secret services and law enforcement agencies probably play the most unique role in the context of the Russian kleptocratic system. They don't only deal with security and create the illusion of the rule of law; they function as an instrument to maintain and strengthen this system.

Political scientist Nikolay Petrov chronicled²⁰⁹ the transformation of law enforcement and depicted law enforcement agencies as corporations that compete with each other not just for authority, but also for political and economic influence.

²⁰⁵ State Council. The President of Russia. <http://www.kremlin.ru/structure/state-council>

²⁰⁶ Ledyayev, V. (2008). Domination, Power and Authority in Russia: Basic Characteristics and Forms. Journal of Communist Studies and Transition Politics, 24, 17-36. <https://doi.org/10.1080/13523270701840423>.

²⁰⁷ Plyusnina M.(2020, May 6). Oligarchs, State-Owned Corporations and Non-Functioning Organizations. How Authorities Decided to Support Offshore and Corrupt Companies during Crisis. KM.RU. <https://www.km.ru/economics/2020/05/06/873547-oligarkhi-goskorporatsii-i-nedeistvuyushchie-organizatsii>

²⁰⁸ Lanskoj, M., & Myles-Primakoff, D. (2018). The Rise of Kleptocracy: Power and Plunder in Putin's Russia. Journal of Democracy, 29(1), 76-85.

²⁰⁹ Petrov, N. (2019, April 20). 20 Years of Putin: Law Enforcement Transformed. Vedomosti. <https://www.vedomosti.ru/opinion/articles/2019/08/21/809260-transformatsiya-eliti>

Former law enforcement officials often transition to prominent political roles in Russia. In the 7th State Duma (2016-2021), for example, law enforcers were the largest influential, with 82 deputies²¹⁰. In the security council, which is the key security body in the country, the percentage of FSB/KGB agents is even higher, 30%²¹¹.

The economic influence of security services manifests itself in their control over state-owned assets. For example, there are former KGB officers, and colleagues of Vladimir Putin: Sergey Chemezov, who became the CEO of Rostec Corporation, and Nikolay Tokarev, the current president of the state-owned company Transneft. Another high-ranking KGB/FSB officer holds the position of Chairman of the Board of Directors at the Russian state oil company Zarubezhneft. The extension of law enforcement influence on the financial sphere is increasingly facilitated through indirect means, primarily through family connections²¹².

Secret services and law enforcement agencies also control the information landscape by applying pressure on mass media and journalists. This manipulation is instrumental in shaping public opinion that suits the ruling elite and suppresses critique. These entities also play a crucial role in protecting the interests of oligarchs and political elites by ensuring impunity for corruption and other illegal activities. This allows top officials to go unpunished.

Special services actively influence political processes by blocking election monitoring and ensuring victory for candidates endorsed by the ruling elite²¹³. The Central Election Commission of the Russian Federation admitted that it conducted official consultations with FSB²¹⁴ about elections in Ukrainian regions occupied by Russia, underscoring the depth of their involvement.

The extensive integration of law enforcement in the Russian kleptocratic system upholds the status quo and ensures long-term stability. Law enforcement also demands additional preferences that manifest themselves in higher official income, social mobility within the political and economic systems of Russia, and opportunities to siphon off money belonging to state-owned companies offshore²¹⁵.

4. 4. CLANDESTINE FINANCING OF THE WAR

The practice of using clandestine operations for financing military campaigns is not new and originated as part of the Soviet foreign policy practices²¹⁶. The beginning of the full-scale war in Ukraine created a situation where private military companies (PMCs) became strong and influential despite being formally banned in Russia. In 2022, PMCs started operating outside of Russia, including annexed territories.

²¹⁰ Balandin, Y. (2021, April 7). Deputy Account: What's Wrong with Lobbying in Duma and Federation Council Forbes.ru. <https://www.forbes.ru/obshchestvo/425523-deputatskiy-schet-cto-ne-tak-s-lobbizmom-v-dume-i-sovfe>

²¹¹ Davletgildeev, R. (2017, March 16). Every Third Person is an Agent. How Siloviks Took over Russia. Current Time. <https://www.currenttime.tv/a/28372143.html>

²¹² Petrov, N. (2016, July 24). Remaking Siloviks. Vedomosti. <https://www.vedomosti.ru/opinion/articles/2016/07/25/650380-postroenie-silovikov>

²¹³ OVD.INFO. (2021, September 16). In Sochi Siloviks Searched the Place of an Election Monitoring Coordinator OVD Info. <https://ovd.info/express-news/2021/09/16/v-sochi-siloviki-prishli-s-obyskom-k-koordinatoru-nablyudeniya-na-vyborakh>

²¹⁴ Kornya, A. (2023, December 11). Presidential Elections Fixed on New Territories Central Election Commission Allowed Them in DNR, LNR, Zaporizhzhia Oblast and Kherson Oblast. Kommersant newspaper. <https://www.kommersant.ru/doc/6395285>

²¹⁵ Kashperskaya, A., Shumanov, I. (2023, March 7). Gas is Creeping On: Mysterious Suicide of Gazprom Top Manager Could Be Due to Money Laundering Elite Hotel in Montenegro. Investigation by Novaya Gazeta Europe and Transparency. Novaya Gazeta Europe. <https://novayagazeta.eu/articles/2023/03/07/gaz-polzuchi>

²¹⁶ Steinberg, M. (2000). Generals, Guerrillas, Drugs, and Third World War-Making. The Geographical Review, 90(2), 260.

Detailed information on the financing of PMCs remains unavailable. It's only clear that PMCs perform common tasks with Russia's armed forces and are mostly financed from the Russian Federal budget. Following Yevgeny Prigozhin's failed coup in June 2023, officials stated that Prigozhin's structures directly received 860 billion rubles (~\$9.4 billion) for financing PMC activities, including Ukrainian and African campaigns²¹⁷. State procurement expenditures on nourishment for the Ministry of Defense constituted an additional 850 billion rubles (~\$9.3 billion). During the first year of the full-scale war with Ukraine, from May 2022 to May 2023, the Wagner Group received 86 billion rubles (~\$946 million) for salaries and an additional 110 billion rubles (~\$1.2 billion) for insurance payouts²¹⁸. A significant portion of these funds was paid to PMC employees in cash, exemplified by the discovery of a GAZelle car containing 10 billion rubles (~\$109 million) in cash near the Wagner Group's offices. This underscores how deeply dysfunctional the governmental anti-money laundering system is.

Yevgeny Prigozhin was not the only one participating in the organization of PMCs in Russia. Similar companies were established by state-owned companies and corporations such as Gazprom (Fakel PMC, Potok PMC, and Plamya PMC)²¹⁹ and Rosatom (Atom PMC). In addition to state entities, Russian oligarchs like Gennady Timchenko (Redut PMC)²²⁰, Arkady Rotenberg (Konvoy PMC)²²¹, and Oleg Deripaska (Sokol volunteer battalion)²²² have also been linked to financing PMCs.

The sources of funding for these PMCs were never fully revealed, and their combat capabilities were never evaluated. At the time of writing of this report, there is no legal basis for the existence of PMCs in Russia, which technically means that all of their employees could face criminal charges for mercenarism²²³ unless formally registered as volunteers of the Ministry of Defence.

Another practice that has become widespread since the full-scale war began involves financing of the war through forcible collection of money from employees of state-funded institutions²²⁴, officials²²⁵, and residents of certain regions²²⁶. There is now a widespread practice of using funding from reserve funds (gubernatorial funds) from regional budgets to buy equipment and gear for conscripts from these regions²²⁷. This was explicitly prohibited until a special executive order by the Russian government²²⁸ was adopted on 3 October 2022.

²¹⁷ Arkhipov, D. (2023, July 2). Summer and Cash. How Much Money Wagner Got from the State, and Other Sources of Prigozhin's Money Trade Secret. <https://secretmag.ru/news/leto-i-banknoty-skolko-deneg-vagner-poluchil-ot-gosudarstva-ina-chyom-eshyo-zarabatyval-prigozhin-02-07-2023.htm>

²¹⁸ Ibid.

²¹⁹ Fokht E., Barabanov I. (2023, May 16). "Potok" near Bakhmut. What Is Known of PMCs Connected with Gazprom. BBC. <https://www.bbc.com/russian/features-656602020>

²²⁰ Shevchenko T. (2021, May 29). Three Personal Armies of Putin's Friends. Strelkov Leaks Secret Info on Russian Participation in Syrian War. Dialog.Ua. https://www.dialog.ua/war/230170_1622293469

²²¹ Meduza. (2023, August 14) «Dossier»: Konvoy PMC Created by Leader of Annexed Crimea Received Hundreds of Millions of Rubles from VTB and Arkady Rotenberg's Structures. <https://meduza.io/news/2023/08/14/dosie-sozdannaya-glavoy-anneksirovannogo-kryma-chvk-konvoy-poluchila-sotni-millionov-rublej-ot-vtb-i-struktur-arkadiya-rotenberga>

²²² Ivanova, A. (2023, August 1). Russian Billionaires Fund Frontline Mercenaries. dw.com. <https://www.dw.com/ru/rassledovanie-milliardery-iz-rt-sponsiruut-naemnikov-dla-fronta/a-66409804>

²²³ Lutsenko, S. (2023, June 29). Legal Status of PMCs and National Interests. The Russia in Global Affairs magazine. <https://globalaffairs.ru/articles/chvk-i-nacjonalnye-interesy/>

²²⁴ Shanava, D. (2022, November 24). Voluntary Compulsion: How Russian State Employees Finance "World's Second Army". Sovanews. <https://sova.news/2022/11/24/dobrovolno-prinuditelno-kak-rossijskie-byudzhethniki-finansiruyut-vtoruyu-armiyu-mira/>

²²⁵ Rfe/RI. (2023, November 30). Novgorod's Officials Forced to Give Up 10% of Their Salaries to Soldiers' Families. Radio Liberty. <https://www.svoboda.org/a/v-novgorode-chinovnikov-obyazali-otdatj-10-zarplaty-semjam-voennyh/32707916.html/>

²²⁶ Siberia. Realities (2023, May 30). You Pay Income Tax; Time for War Tax. How Residents of Siberia and Far East Gather Money for War in Ukraine. Current Time. <https://www.currenttime.tv/a/kak-s-zhiteley-sibiri-dalnego-vostoka-sobirayut-dengi-na-voynu-v-ukraine/32432632.html>

²²⁷ Vyazigina, A. (2022, September 29). Yaroslavl Oblast's Budget Will Spend 33 Million Rubles on Gear for Conscripts. 76.Ru. <https://76.ru/text/gorod/2022/09/29/71696897/>

²²⁸ Competition and Right. (2022, October 4). Regions Allowed to Make Procurements on Request by Russian Ministry of Defense. <https://cljournal.ru/news/24192>

4. 4. 1. CHANGES IN ILLEGAL FINANCIAL FLOWS CONNECTED WITH RUSSIA AFTER THE BEGINNING OF THE FULL-SCALE WAR IN UKRAINE.

After the introduction of international sanctions²²⁹, Russia made major steps to adapt its financial system to external challenges. The main direction of this adaptation has been the use of innovative methods of minimizing the influence of sanction-related limitations.

The key instruments of this strategy are the use of cryptocurrency and parallel import which allow the country to bypass the usual financial barriers.

Cryptocurrencies, due to their anonymity and easiness of international transfers, give Russia an effective method to make international payments bypassing traditional banking systems. This became especially relevant after Russian banks were switched off from SWIFT.

Parallel import, on the other hand, allowed an alternative route for goods affected by Western sanctions to enter Russia by redirecting trade routes through countries not involved in the sanctions. This parallel import program was introduced after the start of the full-scale war and it completely changed Russia's international trade system. This program included complicated schemes intended to hide the real goal of payments for imported goods. Such measures allow Russia to mitigate the economic impact of Western sanctions.

There was also a major increase in investments related to money laundering through gold trade, which encouraged the growth of the shadow economy and an increase in illegal financial flows. These operations involve both direct gold trade and its use as a means of illegal financial operations including international financial transactions that circumvent sanctions.

International regulatory authorities have also observed shipments of coal and other resources from occupied Ukrainian territories. These deliveries were seen as part of illegal financial flows that feed the shadow economy and strengthen Russia's financial independence.

As a response to sanctions and the current military situation, Russia refocused its trade and economic connections by building new partner relations with countries that don't participate in sanctions against the Russian economy. This refocusing creates new challenges for regulatory authorities from Asia, Africa, and South America, who now have to adapt to the risks of sanctions.

These changes in Russia's financial strategy raise serious questions about the durability and efficiency of international sanctions. It appears that countries imposing sanctions on Russian companies, individuals, and branches of the economy are looking for new approaches and expanding international cooperation to control and fight illicit financial flows that have adapted to new challenges during two years of the full-scale war in Ukraine.

In November 2023, the discount for the sale of foreign assets located in Russia was at least 50%. Vladimir Potanin, the owner of Norilsk Nickel, bought Rosbank from a French company with a discount of around 50%. Lukoil purchased Shell, with a similar.

Josef Liokumovich bought OBI, a supermarket chain, for 600 rubles (~\$6) later transferring it to businessmen linked to Ramzan Kadyrov

²²⁹ It would be legally correct to call them restrictive measures, as sanctions may be imposed only by the UN Security Council. However, as the term 'sanctions' is widely used for description of restrictive measures, we call them in this report with the popular term.

All such deals must be approved by the Governmental Committee, as it limits sums of buyout deals. Tetra Pak and Renault sold their Russian shares to affiliated persons with repurchase rights. Highland Gold, owned by Vladislav Sviblov, bought Russian enterprises of Kinross Gold from Canada at a negotiated price of **\$680 million**, significantly lower than the original price of **\$1.5-2 billion**, as the Governmental Committee prohibited any higher price, resulting in an **80%** discount with the final sale price of **\$340 million**. Essentially, the following instances can be considered as nationalizations:

- Acquisition of Carlsberg's share in Baltika Breweries
- Acquisition of Danone's share in its Russian business
- Acquisition of Russian assets of Fortum
- Acquisition of Russian assets of Uniper

4. 5. BENEFICIARIES OF WAR

Despite the dramatic wealth decline experienced by some billionaires on the Forbes list, not all of them suffered losses due to the war. Some representatives of the Russian elite found a way to enrich themselves in non-market conditions.

Vladimir Potanin, the owner of Norilsk Nickel, bought Rosbank from a French company. Additionally, PJSC Lukoil signed an agreement with subsidiaries of Shell PLC about purchasing **100%** of Shell Neft, a company dealing with retail sales of oil products and producing lubricants in Russia²³⁰. The discount on these deals exceeded **50%**²³¹.

There are even more fascinating cases. Businessman Josef Liokumovich purchased OBI, a supermarket chain, for **600 rubles (~\$6)**²³², then sold it to entrepreneurs connected with Ramzan Kadyrov, the leader of Chechnya²³³. All such deals required approval from the Governmental Committee. This situation begs a question: was the sale a genuine market deal, or was it a sham?

Of course, not all agreements have led to actual and permanent loss of assets. For example, Tetra Pak and Renault sold their Russian shares to affiliated individuals with repurchase rights²³⁴, while the Governmental Committee limited the sums of buyout deals. This restriction is an incredibly strong factor that promotes corruption in the absence of transparency in the committee's operations²³⁵.

For example, Highland Gold, a company owned by Vladislav Sviblov, purchased Russian businesses belonging to a Canadian oil mining corporation called Kinross Gold. Pre-war, these assets were estimated to be **\$1.5 to 2 billion**. In April, the sides agreed on a **\$680 million** deal, but the Governmental Committee capped the transaction at **\$340 million**²³⁶.

²³⁰ Interfax. (2022, May 12). Lukoil to Purchase 411 AZS Shell in Russia and oil plant in Torzhok. Interfax.ru. <https://www.interfax.ru/business/840419>

²³¹ Lyalikova, A. (2022, August 28). What Russian Billionaires Got Assets of Companies that Left Russia. Forbes.ru. <https://www.forbes.ru/milliardery/475191-komu-iz-rossijskih-milliarderoz-dostalis-aktivny-usedsiah-rossii-kompanij>

²³² Popov, I. (2022, April 15). New Owner Obtained Russian OBI Business for 600 Rubles. Forbes.ru. <https://www.forbes.ru/biznes/474169-novyj-vladelec-kupil-rossijskij-biznes-obi-za-600-rublej>

²³³ Churmanova, K., Goryanov, A. (2023, February 13). Factory in Mariupol and OBI Stores. How Businessman Close to Ramzan Kadyrov Obtains Russian Business during the War. BBC News, Russian Service. <https://www.bbc.com/russian/features-64599582>

²³⁴ Terentyev, I. (2023, January 12). Replacement of Investments: Who Got The Assets of Foreigners who Left Russia. Forbes.ru. <https://www.forbes.ru/biznes/482806-zamesenie-investicij-komu-dostalis-aktivny-inostrancev-pokinuvshih-rossiu>

²³⁵ Terentyev I. (2023, January 12). Replacement of Investments: Who Got The Assets of Foreigners who Left Russia Forbes.ru. <https://www.forbes.ru/biznes/482806-zamesenie-investicij-komu-dostalis-aktivny-inostrancev-pokinuvshih-rossiu>

²³⁶ Interfax.ru. (2022, June 15). Kinross Sells Russian Assets to Sviblov's Structures for \$340 mn. <https://www.interfax.ru/business/846381>

The government was considering making it even more complicated for foreign beneficiaries to leave Russia, going as far as using threats of forced buyouts of companies²³⁷. This resulted in a temporary transfer of shares of foreign companies like Carlsberg and Danone in their Russian business²³⁸. Previously, the Federal Agency for State Property Management took temporary control of the companies Fortum and Unipro²³⁹. Importantly, the control over both companies was passed to top managers of Rosneft²⁴⁰. The future trajectory of Russian businessmen taking control of foreign companies remains uncertain. The experts claim that not only the companies belonging to individuals or legal entities from “unfriendly” countries are at risk, but also those companies that - regardless of their origin - follow the demands of foreign sanctions and have stopped their activities or are seeking to divest their assets²⁴¹.

Since the beginning of the full-scale war, there have been signs that the results of privatization might be revised. In September 2023, the Prosecutor General of Russia Igor Krasnov stated that during the last few years, the prosecutor’s office requisitioned through court illegally privatized assets based on 24,000 lawsuits. The total value of the seized property was 187 million rubles (~\$2 million)²⁴². While the prosecutor’s office figures are compelling, it is noteworthy that around two dozen lawsuits initiated since 2022 have resulted in the return of assets worth over \$5 billion to the state budget²⁴³.

The case of oligarch Andrey Melnichenko is notable. Following an interview where he referred to Russia as an aggressor state in the context of the war in Ukraine, in two weeks, the General Prosecutor’s office swiftly filed a lawsuit seeking to seize the assets he received from former minister Mikhail Abyzov²⁴⁴. However, the office later reached a settlement withdrawing its suit²⁴⁵. This, once again, shows that oligarchs have a wide array of options to protect their interests.

Since August 2023, after Vladimir Putin publicly discussed the situation, the Prosecutor General’s office has significantly reduced the number of new suits filed aimed at seizing assets and turning them into state property²⁴⁶. Currently, the consolidated state budget remains stable; however, excessively optimistic revenue predictions for 2024 might once again lead to the need to actively replenish the treasury²⁴⁷.

²³⁷ Alexandrov, A. (2023, June 22). “It’s All about Hurting the Foreigners.” Why the Kremlin is Going to Sell Business of Companies that Left Russia for Laughably Low Prices. Current Time. <https://www.currenttime.tv/a/zadacha-sdelat-bolno-inostrantsam/32465516.html>

²³⁸ Meduza. (2023, July 16). Putin Signed a Decree to Put Baltika and Danone under the Control of the State. Meduza. <https://meduza.io/news/2023/07/16/putin-podpisal-ukaz-o-peredache-pod-upravlenie-gosudarstva-baltiki-i-danone>

²³⁹ Interfax. (2023, April 30). “Fortum” is renamed “Forward Energo.” Interfax.ru. <https://www.interfax.ru/business/918540>

²⁴⁰ RBC. (2023 April 26). Unipro and Fortum Now Headed by Rosneft Managers. RBK. <https://www.rbc.ru/business/26/04/2023/644934889a79478ebe088715>

²⁴¹ Osipchuk, D. (2023, April 25). “No Reason to Expect Liberalization of Current Legal Regime.” Kommersant. <https://www.kommersant.ru/doc/6183593>

²⁴² Shumanov. (2023, September 26). Prosecutor General Krasnov During Report to President of Russia Raises the Issue of Nationalization of Assets. t.me/bazabazon/3224

²⁴³ Gorby magazine. (2023, December 27). Government Wanted More. Gorby.media. <https://gorby.media/articles/2023/12/27/gosudarstvu-pokazalos-malo>

²⁴⁴ Shumanov. (2023, September 1). If we read the full interview Melnichenko gave to the Financial Times, we can see that he puts the blame for starting the war in Ukraine on (attention, please!) the president of Ukraine Vladimir Zelensky, and on the CIA, as they knew about the planned invasion and failed to prevent it. <https://t.me/CorruptionTV/3195>

²⁴⁵ Batyrov, T. (2023, October 6). General Prosecutor’s Office Withdraws Suit Against Billionaire Melnichenko. Forbes.ru. <https://www.forbes.ru/milliardery/497959-genprokuratura-otkazalas-ot-iska-k-milliarderu-mel-nicenko>

²⁴⁶ Shumanov. (2023, September 23). Preliminary Results of General Prosecutor’s Office’s Nationalization of Strategic Assets of Russia. <https://t.me/CorruptionTV/3222>

²⁴⁷ Orlova, N. (2023, October 2). In Favor of Public Sector: what 2024 Budget Project Says of Government Priorities. Forbes.ru. <https://www.forbes.ru/mneniya/497544-v-pol-zu-gossektora-cto-proekt-budzeta-2024-goda-govorit-o-prioritetah-pravitel-stva>

The annexed territories also provide wide opportunities for corruption, but there are a few reservations. Due to the special status of these territories and the lack of transparency in the distribution of substantial assets, doing business in these territories is virtually impossible for anyone but people with Kremlin connections.

An oligarch Konstantin Malofeev financed LNR and DNR separatists in 2014 and continued financing the war in 2023²⁴⁸, which might showcase his financial interest in the war. An example of this interest occurred in February 2023 when he asked the president's administration to transfer the ownership of the Donetsk Metallurgical Plant, Yenakieve Coke Plant, Azovstal Iron and Steel Works, and other metallurgical giants of Donbas²⁴⁹ to himself.

Some of Donbas's metallurgical objects are reportedly claimed by individuals linked to Ramzan Kadyrov²⁵⁰. Half of the shares of the legal entity for Mariupol's Illich Steel and Iron Works ISIW were obtained by Valid Korchagin. He leads a business in Kadyrov's native village and is connected through his father with Adam Delimkhanov, an associate of Kadyrov. Apparently, ISIW was used as a reward for Kadyrov's people's participation in the siege of Mariupol²⁵¹. Numerous businessmen connected with Russia received industrial assets before the full-scale war began. For example, Sergey Kurchenko, a Ukrainian oligarch, managed to monopolize coal mining in Donbas from 2017 to 2019²⁵² only to later lose this position.

In addition to industrial assets, agriculture is also being raided. For example, Agrocomplex, owned by the former Minister of Agriculture of Russia Alexander Tkachov, forcefully seized hundreds of square meters of agricultural land in Donbas²⁵³. It appears that the lack of information about raids in Kherson Oblast and Zaporizhzhia Oblast means that they're seen as less dependable territories from the business point of view.

Some profit from rebuilding annexed territories. Among beneficiaries of construction companies that are rebuilding Mariupol are Maxim Krylov (son of former Deputy Minister of Defence Yury Borisov's fellow student), Nikolay Milkis (former deputy governor of Khanty-Mansi Autonomous Okrug), Viktor Kazakov (son of a Saint Petersburg real estate developer), Andrei Volobuyev (security agency veteran), and various companies that use Russian budget funds without transparency²⁵⁴.

Hence, it can be said that **for many businessmen the opportunity to profit from their ties to the authorities only became possible during the war. Key players such as law enforcement agencies, construction firms, and the Ministry of Defence all secure their share of the budget allocation and assets in the occupied regions. Individuals facing sanctions are even rewarded with new assets as compensation from the state.**

²⁴⁸ Dron Media. (2023, April 1). RDK vs RosDK: when Russian is No Mere Adjective. Dron Media. <https://dron.media/rdk-vs-rosdk-koghd-a-rossiiskii-nie-prosto-prikmietnik/>

²⁴⁹ VCHK-OGPU. (2023, February 15). VCHK-OGPU keeps informing its readers about documents concerning the "military operation business plan". t.me/vchkogpu/36619

²⁵⁰ Churmanova, K., Goryanov, A. (2023, February 13). Factory in Mariupol and OBI Stores. How Businessman Close to Ramzan Kadyrov Obtains Russian Business during the War. BBC News Russian Service. <https://www.bbc.com/russian/features-64599582>

²⁵¹ Churmanova K., Goryanov A. (2023, February 13). Factory in Mariupol and OBI Stores. How Businessman Close to Ramzan Kadyrov Obtains Russian Business during the War. BBC News Russian Service. <https://www.bbc.com/russian/features-64599582>

²⁵² RBC. (2022 April 21). EU Adds Businessmen Prigozhin and Kurchenko to the Sanctions List. RBK. <https://www.rbc.ru/politi/cs/21/04/2022/62615ba79a79479cc039aa33>

²⁵³ Current Time. (2022, December 7). WSJ: Ex-Agriculture Minister Tkachov's Company Stole 1600 km² of Land from Ukraine's Farmers. <https://www.currenttime.tv/a/tkachev-zemlya-v-ukraine/32166425.html>

²⁵⁴ Prokushev, V. (2023, February 10). Work for One Month, Get 5 Thousand. Novaya Gazeta. <https://novayagazeta.ru/articles/2023/02/10/otrabotal-mesiats-dali-5-tysiach>

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