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IN BRIEF

Corruption in Russia: An Overview

Endemic corruption is a defining characteristic of the Putin regime. While the president is the prime beneficiary, cronies maintain this system of corruption. These loyal supporters are necessary for Putin to ensure the status quo and they often pursue the government's illicit interests, which it cannot fulfill itself.

This publication presents a succinct overview of the systemic corruption present in Russia. Unlike corrupt systems where oligarchs rule and compete with one another over power and wealth, Russia has developed a top-down structure of corruption, where the political and business success of elites is dependent almost entirely upon their relationship to the President. Although these elites continue to be called "oligarchs," it is no longer appropriate to think of them as such. Rather, they ought to be thought of as "cronies."

Putin's Cronies

The original oligarchs emerged in the 1990s, and included the likes of Mikhail Khodorkovsky, Boris Berezovsky, and Roman Abramovich. However, the Russian oligarchy waned in importance as Putin consolidated power.

Today, the President's most loyal friends from his days in St. Petersburg and the KGB inhabit the most critical roles in his kleptocracy. Cronies entrusted with state-run corporations must demonstrate absolute loyalty, rather than competency. The Putin-era cronies that enrich themselves on the backs of Russians aid the

President in his goals throughout all sectors of the economy.

Some examples of these cronies include Sergei Chemezov, CEO of Rostec; Sergei Gorkov, Chairman of Vneshekonombank (VEB); Yury Kovalchuk and Nikolai Shamalov, Co-Owners of Rossiya Bank; Alexei Miller, CEO of Gazprom; Sergei Roldugin, a Putin proxy alleged to control much of the president's offshore financial empire; the brothers Arkady and Boris Rotenberg, owners of energy construction firm Stroygazmontazh; Igor Sechin, CEO of Rosneft; Vladislav Surkov, current Deputy Prime Minister of Russia and former Deputy Chairman of the board of directors at Alfa-Bank; and Gennady Timchenko, owner of Volga Group.

In his 2014 report, *The Tsar and His Business Serfs*, Ilya Zaslavskiy, a scholar of the Russian political system, writes, "Total and unquestionable loyalty to Putin and the Kremlin is the ultimate capital of Russian business elites, not their billions, assets or prerogatives, all of which can be lost very quickly after a perceived act or word of betrayal or defiance."¹

In many instances, former insiders, who have found themselves isolated, faced tragic ends. In 2014, Senator Roger Wicker, currently Chairman of the Helsinki Commission, called on the U.S. Department of Justice to investigate possible wrongdoings by Mikhail Lesin under the U.S. Foreign Corrupt Practices Act (FCPA) and Anti-Money Laundering (AML) statutes, citing

Lesin's connection to Yury Kovalchuk.² Although no investigation commenced, allegations gained traction in Russia and led Lesin, the founder of state television network Russia Today (RT) and former media czar, to step down from his position at Gazprom Media.

Lesin was found dead on November 15, 2015 at the Dupont Circle Hotel in Washington, DC, following media reports of his ousting at Gazprom Media. At the time of his death, Lesin was in the process of moving his assets and immediate family to the United States and had purchased real estate in Los Angeles worth over \$28 million.³ Authorities initially ruled his death an accident, but a recent investigative report by BuzzFeed News cited evidence from a Washington D.C. metropolitan police report that showed that Lesin died from blunt-force injuries to his head, neck, and torso. Lesin had supposedly been in contact with the Justice Department and the FBI to schedule an interview about the inner workings of RT the day after he died, which raised questions about the involvement of his former Kremlin allies.⁴

Business continues to thrive for those cronies who remain loyal to Putin. The fall of the Soviet system in the 1990s created opportunities for oligarchs to steal government assets under the pretense of privatization, and the ensuing chaos ensured impunity. Today, the Kremlin condones asset stripping to the benefit of Putin's cronies.

According to economist Anders Åslund, an expert on transition economies, this behavior has effectively been legalized. Through renationalization of the Russian economy, cronies have gained control of major state-owned firms such as Gazprom, Rostec, Rostneft, and Vnesheconombank (VEB). Åslund has further claimed that the state sector expanded from 35 percent of the gross domestic product in 2005 to 70 percent in 2015.⁵

Economist Clifford Gaddy, an expert on Russia, claims, "[Putin's] vision of the country's entire economy is 'Russia, Inc.,' where he personally

works as the executive director" and the owners of nominally private firms are "mere divisional managers, operational managers of the big, real corporation."⁶

Corruption as a Tool of Statecraft

Putin's cronies are critical to the operation of the Russian state. This system is an amalgamation of corrupt practices that stem from the Soviet Communist party, the KGB, the FSB, and organized crime networks.

Putin's regime entrusts cronies to carry out various tasks, domestically and internationally. These responsibilities range from financing elections and supporting local political figures, using money coming from the state budget via procurement orders, to buying international support and strategic investments abroad. Additionally, cronies sometimes must execute strategic projects that might not make commercial sense, and can be tasked with the laundering of Putin's own assets.

For example, Putin attempted to obtain international recognition for Russia as a great power by hosting the 2014 Winter Olympics in Sochi. This politically-motivated mega-event—the most expensive Winter Olympics in history—was a great opportunity for grand corruption, with the Rotenberg brothers alone receiving \$7 billion worth of contracts.⁷

A more contemporary example of grand corruption with strategic importance is the bridge to Crimea. The bridge, illegal under international law, will connect mainland Russia to Crimea, bypassing mainland Ukraine. Putin called the bridge to Crimea a "historic mission," symbolically connecting mainland Russia to the annexed territories.⁸ SMG Group (Stroygazmontazh), a corporation owned by the Rotenberg brothers, is constructing the 12-mile bridge across the Kerch Strait.⁹

The Rotenbergs are subject to both U.S. and EU sanctions, and the United States has specifically targeted the construction of the bridge, which is

scheduled to be completed by 2018. In an interview with *The New Yorker's* Joshua Yaffa, Ambassador Daniel Fried, former Coordinator for Sanctions Policy at the U.S. Department of State, said, "We never thought we could prevent the bridge, but we could try and make it massively costly and radioactive, so that Crimea never pays for itself, that it turns out not to be a war prize but a liability."¹⁰

To avoid sanctions, Putin's cronies take advantage of the secrecy provided by Western offshore havens to secure stolen funds abroad. For example, the Panama Papers implicated Sergei Roldugin as one of the primary caretakers of Putin's hidden assets, as well as Kovalchuk, linking the pair to a \$2 billion offshore trail, which the leaked documents from Mossack Fonseca reveal.¹¹

Any anti-corruption measures implemented in the West undermine Putin's kleptocracy. At a July 20 Helsinki Commission briefing titled "Kleptocrats of the Kremlin: Ties between Business and Power in Russia," Ambassador Fried spoke about the need to screen foreign investment for national security purposes in order to reveal Russian strategic investment in the West. Åslund, who was also on the briefing panel, supported this proposal and called for strengthened transparency and beneficial ownership laws.

Cronyism and the lack of rule of law and clear property rights in Putin's Russia make possible a system that can distort markets, politicize courts, erode democratic governance, and promote corrupt norms and values. It should be combated in the interest of democracy in Russia and the Russian people and considered a national security threat for the United States and its international partners.

The Growing Backlash

Kremlin critic Alexei Navalny, a lawyer turned anti-corruption activist, has targeted Putin's closest cronies with his YouTube videos that

investigate political corruption. The work of his Moscow-based Anti-Corruption Foundation has largely been credited with inspiring the waves of anti-government protests that rocked Russia on March 26 and June 12 of 2017. In addition, the release of the Foundation's documentary film "Don't Call Him Dimon," which accused Prime Minister Dmitri Medvedev of embezzling \$1.2 billion, stirred protests in March.¹²

In an interview with "CBSN: On Assignment," aired on August 5, Navalny estimated his chances of assassination at 50 percent.¹³ During the July 20 briefing, Åslund deemed Navalny's focus on the corruption of Putin's inner circle, steering clear of the President himself, as "very wise," referring to the 2015 death of opposition leader Boris Nemtsov. Nemtsov was gunned down outside of the Kremlin in February 2015 after vocally criticizing Putin.

Navalny is credited with the revitalization of the Russian opposition, following the death of Nemtsov and the pro-Putin wave of popular support that followed the annexation of Crimea.

As demonstrations erupted during Putin's 17th year in power, many of the protesters were too young to remember a Russia without Putin. Unlike the older generation, many of whom revere Putin for reversing the hardships of the tumultuous 1990s, many young people do not remember the chaos of the Yeltsin era. For the young Russians who have taken to the streets in the past months, Navalny's ban from appearing on state television is not necessarily an obstacle, as the tech-savvy can watch him broadcast on YouTube, under the username *Navalny 2018*.¹⁴

This new generation already seems to be tired of the corruption and crony capitalism that has enriched so few at the expense of many. The resistance coming from this technological and politically engaged generation is exposing to the corruption at the top, by reinfusing the political culture with transparency and public participation.

About the Helsinki Commission

The Commission on Security and Cooperation in Europe, also known as the U.S. Helsinki Commission, is an independent agency of the Federal Government charged with monitoring compliance with the Helsinki Accords and advancing comprehensive security through promotion of human rights, democracy, and economic, environmental and military cooperation in 57 countries. The Commission consists of nine members from the U.S. Senate, nine from the House of Representatives, and one member each from the Departments of State, Defense, and Commerce.

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