

# The problem of tracing dirty money from Russia: How 'illegal' are 'illicit' flows?

*Russia's invasion of Ukraine has prompted renewed calls to tackle the flow of 'dirty money' from Russia into other European states. Tom Mayne, Tena Prelec and Catherine Owen argue that given the challenges associated with conceptualising illicit financial flows, a wider approach to studying the transnational reach of dirty money is needed.*

Russia's invasion of Ukraine and on-going attempts to eradicate money laundering in London by wealthy Eurasian political elites have made the connections between Russian illicit financial flows and the Kremlin's formal foreign policy goals the subject of much debate. In [new research](#), we aim to map the connections between these two spheres and enable an informed policy response.

However, before we can propose concrete advice on how to tackle these flows, we must confront some basic definitional questions. What do we mean by 'illicit' finance? How can we trace it? Is illicit finance always against the law? In this article, we pinpoint three difficulties in conceptualising and, hence, tracing illicit financial flows, and suggest that, given these challenges a wider approach to studying the transnational reach of dirty money is needed.

First, a major difficulty in identifying illicit financial flows originating from Russia concerns the two-step question of, first, what Russia's illicit financial activities consist of and, second, how to apply this definition to real world financial activity. Most [definitions](#) speak of illicit financial flows as cross-border financial flows made up of the proceeds of crime. Such flows are easy to identify if the money is clearly linked to a predicate crime – for example, drug trafficking.

'Corruption' on behalf of a government official is often cited as a predicate crime, yet here we encounter difficulties: in kleptocracies, corruption on behalf of government officials is often 'legalised' through control of law enforcement agencies and the court system. If a Russian government official falls out of favour with the Kremlin and a law court in Russia subsequently rules that a particular tranche of his/her money constitutes the proceeds of corruption, it will be easy to designate financial flows related to the transaction as illicit financial flows. Yet, it is impossible to be sure whether these are genuine illicit financial flows or whether the ruling is simply politically motivated – especially in places such as Russia where there is limited respect for the rule of law. Thus, what constitutes a 'crime' is highly unstable in authoritarian environments.

Second, identifying illicit financial flows becomes more difficult where the act in question, though immoral and corrupt, is not in fact derived from illegal activity. For example, an oil minister awarding a lucrative extractive contract to a company owned by a close relative is likely to be improper, especially in instances where the entity receiving the contract is a recently registered shell company with no prior experience in oil drilling. Yet, given the lack of formalised bidding processes in many countries, such a deal may not be illegal under local law. In kleptocracies, the majority of wealth concentrated in the hands of senior officials and their associates is likely to be earned in this fashion: contracts are awarded on the basis of nepotism, cronyism and fealty to the country's ruling powers.

Another such instance is aggressive tax avoidance: while it might not be against the laws of a specific country, it does impoverish the public coffers (of, often, another country) – thus having a detrimental effect that may well be classified as 'illicit'. Tracing illicit financial flows sometimes requires moral judgements to be made about particular transactions – judgements which are not shared with the actors involved, do not have legal backing, and are thus very difficult to act on.

Third, this problem is complicated by the absence of a consensus on what constitutes illicit financial flows in the research and policy community, and even on how to name them. In fact, some countries do not have a way to distinguish the 'illicit' from the 'illegal'. This seems to be a recurrent problem in the Slavic languages: Russian uses *nezakonnyye finansovyye potoki* i.e. illegal financial flows, (see [here](#) or [here](#)). Similarly, in Croatian, the corresponding term *nezakoniti* or *ilegalni finansijski tokovi* has taken hold (see [here](#), [here](#) and [here](#)).

Terminology is not purely a cosmetic issue. If we have no way of describing flows that do not break laws outright, but are nevertheless detrimental to the development of a country, then measuring them and finding policy measures to contain them becomes much more difficult. The teams at [UNCTAD](#) and [UNODC](#) working on the definition and measurement of illicit financial flows are currently grappling with this very issue. To reflect better this complexity, they have started using 'hidden' rather than 'illegal' in the [Russian translation](#) of their new conceptualisation of illicit financial flows. The debate is ongoing.

Thus, while the names of Russian oligarchs and business figures with strong ties to the Kremlin are well known, linking these individuals with predicate crimes is fraught with difficulty. In the last two decades, these individuals have expanded their portfolios to encompass legitimate business dealings on the back of more opaque capital earned in the 1990s. And if potential criminality is discovered by foreign law enforcement, the origins of oligarchic financial flows will take even experienced criminal investigators months, or even years to unpick. Such dealings will be hidden behind a bewildering array of offshore companies, trusts, and loan agreements, with transactions routed through a variety of banks and jurisdictions in order to obfuscate the ultimate origins of the money.

With few checks and balances at banks located in corruption hotspots, oligarchs' money can be transferred around the globe with ease through correspondent banking relationships and then utilised for a variety of purposes. In oral evidence [given](#) to the UK foreign affairs committee in 2018, one anti-corruption campaigner described the relationship thus: "Every one of them [oligarchs] made money through a relationship with the Russian Government... That bond forces them to do all sorts of chores for Putin, whether hidden, visible or invisible. It might be donating \$7 million to the GOP in the year of the presidential election in the States, or supporting an anti-EU think tank in Germany. They all do something; it is just that we don't see most of it."

These considerations suggest that straightjacketing illicit financial flows into the remit of 'illegality' and sticking to the prism of Serious Organised Crime (SOC) risks missing out on the multifaceted and insidious nature of the Kremlin's money-fuelled activities abroad. Instead, we must focus on the wide repertoire of tools deployed in target countries by Russian financial actors, both in government and in the private sector, to advance Russian business interests abroad.

These tools range from the use of political disinformation campaigns and organised street protests to the deployment of private military corporations and targeted assassination. This wider understanding of Russia's overseas illicit activities allows us to explore how formal and informal, licit and illicit, activities entangle with one another in different locales of interest to Russia and to study their malign effects across the globe.

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*Note: This article gives the views of the authors, not the position of EUROPP – European Politics and Policy or the London School of Economics. Featured image credit: [alevision.co](#) on [Unsplash](#)*

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