

**MONEY IN THE ELECTIONS:  
PROBLEMS OF ENSURING  
TRANSPARENCY OF FINANCING  
POLITICAL PARTIES AND ELECTION  
CAMPAIGNS IN THE RUSSIAN  
FEDERATION**

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A Research Report by Transparency International Russia

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**Money in the elections: Problems of ensuring transparency  
of financing political parties and election campaigns  
in the Russian Federation**

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# INTRODUCTION

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Modern political rhetoric in almost all countries of the world, regardless of the political regime, implies adherence to the values of democracy, carried out through regular competitive elections. Russia is no exception and declares its adherence to honest democratic elections.

One of the key election problems, which are being actively discussed around the world today<sup>1</sup>, is the problem of election campaign financing and political activities in general. Moreover, it is gradually growing in connection with the increasing role of money in politics. Thus, the official budget of Russia's largest political party, "United Russia" has grown more than twice (excluding electoral funds at elections of all levels) during 2012-2016. The gap in income between the largest participants of the political market in Russia is also growing: if in 2014 the gap between the first and second parties was about 1.7 times, today it has almost quadrupled. In 2016, the official revenues of "United Russia" turned out to be larger than the incomes of the four following parties combined.

In this report, we rely on generally available, mostly official, data. Unfortunately, they show an incomplete picture of the real amounts of funds attracted to the political sphere, as a significant part of the expenditure of political actors does not fall into the official records at all. We managed to identify some of these funds by indirect indications, however, determining the real share of "shadow" financing of policy in Russia remains a challenge for the future.

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<sup>1</sup> See, for example, the publications of the International Institute for Democracy and Electoral Assistance devoted to political finance, which contain an extensive list of publications from researchers from different parts of the world. In addition, International IDEA developed a global database on finance legislation in elections (access mode: <http://www.idea.int/data-tools/data/political-finance-database>). Special resources appear that disclose information about donors to politicians, created both by official bodies and journalists and by civilian investigators. For example, there are two such bases available to voters in the United States: created by the Federal Electoral Commission (<https://www.fec.gov/data/>) and the civilian site Opensecrets (<https://www.opensecrets.org/>).

Today, there are two points of view in disputes about the need for public financial reporting by political parties. According to the first, political parties, being voluntary associations of citizens, have the right to determine the mechanisms of financing their own activities and the amount of disclosure. With this approach, the requirements of public financial reporting are considered as interference in the private affairs of citizens. According to the second approach, parties fighting for access to public resources distribution instruments are of public interest, therefore the requirements of mandatory open detailed reporting are applicable to them. We think the second point of view is more justified, especially since the largest parties in Russia receive the lion's share of their incomes through funding from the federal budget. By 2015, the five largest parties received at least  $\frac{2}{3}$  of their income from the budget, and in some cases, this share had reached almost 100%<sup>2</sup>.

For the international movement Transparency International, the work for increasing the transparency of elections and political life in general should become one of the most important areas of work since effective counteraction to corruption is impossible without working civil control institutions. The supreme form of such control is the institution of elections and referendums. It is no coincidence that the problem of transparency in political finance is reflected in the UN Convention against Corruption, which states that participating States should "consider the possibility of taking appropriate legislative and administrative measures... in order to increase transparency in funding candidates for elected public posts and, where applicable, financing of political parties"<sup>3</sup>.

**We understand the financing of political activity in our work as the legal and/or illegal financing of the current activity of political actors (parties, candidates and third parties affiliated with them) that affects the results of election campaigns and competition in the political market as a whole. The latter is especially important, because in In 2015, the five largest parties's conditions in Russia, the greatest impact on the results of elections often has not the course of the election campaign, including the voting day, but the permanent distortion of the competitive political field.**

Actually, the problem of financing political activity is divided into two closely related, but still independent topics: providing financial transparency for political activities and adherence of the principles of political neutrality of the state in electoral processes. We consider both the direct material support of parties, as well as more sophisticated ways to provide additional resources to political players and increase their competitive advantages. It might be, for example, an unequal coverage in the media, holding closed sociological studies for a budget account, etc.

The issue of financial transparency is caused by voters concern with the problem of ensuring a real representation of their interests in the process of state governance. The formation of the budgets of political parties and electoral funds of politicians, uncontrolled by society, usually leads to distortion of such representation. The most innocent consequence of this is the excessive influence of big business on state policy. Elections in this case are becoming a way of lobbying large corporations

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<sup>2</sup> Report. The financial activity of political parties on the eve of the election of deputies to the State Duma of the Federal Assembly of the Russian Federation in 2016. Available at: <https://www.golosinfo.org/ru/articles/103801>

<sup>3</sup> United Nations Office on Drugs and Crime (2005), United Nations Convention against Corruption. Art. 7.3.

in parliament. In the worst case, money from criminal structures, for example, drug cartels or other organized criminal groups, bandit or terrorist formations, falls into the political sphere, as it has been for decades in Latin America, Africa, Asia and the post-Soviet expanse.

The second component of the problem is public control over compliance with the principles of political neutrality by officials. This problem is especially acute today in Russia. It is not by chance that the term “administrative resource”, indicating the abuse of official powers to obtain benefits in the election, has appeared and entered into widespread use in the Russian language<sup>4</sup>. Unfortunately, the administrative resource has become part of everyday political practice and is expressed in the use of budgetary resources in the interests of specific political actors. This may be hidden state funding for political campaigns, the use by the official of his/her official position and the worker (paid at taxpayers’ expense) time for agitation, the offer of other material and non-material support. The use of an administrative resource is actually one of the forms of corruption, although it does not match its definition, which is established in Russian legislation. In this situation, the predominance of the executive branch of power over the legislative branch in Russia has become an important factor, which in fact turns the executive bodies into political actors that directly influence the outcome of elections and political competition in general<sup>5</sup>.

This report is based on a series of studies carried out over the past two years, not only by the Center for Anti-corruption Research and Initiatives of Transparency International-Russia, but also by other structures, primarily by independent observers from the Movement for the Protection of Voter Rights “Golos”. In addition, a number of journalistic materials and civil investigations have appeared recently on the issue under consideration<sup>6</sup>. In this publication, we tried to summarize all the accumulated experience and develop a comprehensive set of recommendations for changing legislation and everyday practices.

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<sup>4</sup> Financing of political parties and election campaigns. Guide to the financing of political activities. –Stockholm: International Institute for Democracy and Electoral Assistance, 2016. –C. 13, 53.

<sup>5</sup> In particular, this is manifested in the fact that executive bodies use legislative initiatives in the Russian parliament much more often. Usually the State Duma only approves the bills presented by the government and the president (see for example: <http://www.rbc.ru/newspaper/2016/07/25/578f789c9a7947c1f115cf09e> ). It may be concluded that the influence of the executive power is predominant even in the implementation of the basic functions of parliamentarians. In addition, the executive bodies control the lion’s share of the staff of the election commissions (see <https://www.golosinfo.org/en/articles/102661>). Representatives of the executive often participate even in the agreement of candidates for elections, including from officially opposition parties (see, for example: <https://www.golosinfo.org/ru/articles/91781> ).

<sup>6</sup> The sites of civil and journalistic investigations “Lapshesnimalochka” and Russiangate, which published materials about the use of budget funds in politics and the financing of political parties were strong examples of such activity.



# 1

## NORMATIVE LEGAL REGULATION OF PARTY AND ELECTION CAMPAIGN

In this chapter we will consider the framework conditions in which financing of political activities in Russia is carried out.

It is impossible to estimate regulatory legal system in isolation from the context in which a particular country exists, and from the challenges facing its political system. What works fine in one country may not make any sense in another. All references to international experience make sense only when comparing similar problems under similar conditions. And even in such a case, such analogies should be extremely cautious, since the general context in which there is the same problem can differ in the two countries in the most drastic way.

There are a number of tasks that the system of legal regulation of financing political activities can solve. Unfortunately, many of them do not correlate to each other. For example, combating the excessive influence of large donors on political life, which often leads to a serious restriction on the size of donations, often leads to a distortion of accountability and contradicts the goal of increasing the openness of donations, and the latter may adversely affect the desire of private donors to provide public support to the candidate, because it can somehow threaten their safety or welfare. Therefore, in assessing the state of regulatory legal regulation, it is necessary firstly to rank the problems facing the political system at a particular moment. We will do this a bit later, but for now we provide only a general description of the regulatory system.

It is also important to remember that often the key role is played not by laws themselves, but by law enforcement practice. So, if the legislator in the fight against excessive, in his/her opinion, influence of money on the outcome of elections, decides to strictly limit the amount of spending of election funds, then he/she must immediately create the working mechanisms of control and coercion. Otherwise, such a decision will take away a significant part of the funds “in the shade”.

Russia is a federal state with three levels of authority distribution: federal, regional and local. This leaves an imprint on the functioning of the system of financing parties and candidates. Nevertheless, it is possible to single out several general principles that are typical for most of the country, at least on a declarative level.

**One of the main principles is that public officials do not have the right to help elected political parties with money and administrative resources, and the authorities should be politically neutral.**

Russian legislation, including the constitution, declares the conduct of elections is based on the equality of all candidates. In particular, Art. 13 of the Constitution of the Russian Federation states that all public associations, including parties, are equal before the law and no ideology can be declared as state. This idea was

developed in the federal legislation. For example, Article 4 of the Federal Law No. 25-FZ from March 2, 2007 “On municipal service in the Russian Federation” refers to the main principles of municipal service the non-partisan principle for municipal officials. And paragraph 1 of Article 14 of this Federal Law directly and unambiguously prohibits a municipal employee from “using his official position in the interests of political parties, religious and other public associations, and publicly expressing his attitude towards these associations as a municipal employee” and “self-government, other municipal bodies of the structure of political parties, religious and other public associations (with the exception of trade unions, as well as veterans and others regimes of public initiative) or contribute to the creation of these structures”.

Electoral and party legislation also does not allow the use of state and public resources, including the advantage of official position and budgetary means, to create preferences for certain political forces. For example, Art. 10 of the Federal Law No. 95-FZ from July 11, 2001, “On Political Parties” states that “interference of public authorities and their officials in the activities of political parties... is not allowed”. The same norm provides that “persons who replace state or municipal offices and are in the state or municipal service are not authorized to take advantage of their official or official position in the interests of the political party of which they are members, or in the interests of any other political party”. Art. 9 of the same law prohibits the activities of political parties in local government and state organizations.

According to the electoral legislation, executive bodies and their officials are prohibited from interfering in the campaign process, supporting anybody from the candidates, and providing them with their resources. Any assistance to candidates and parties in the inter-election and during the election period can be carried out only on the principles of equality and on a voluntary basis.

There are a number of other restrictions on participation in the financing of parties and candidates. Thus, paragraph 6 of Article 58 of the Federal Law “On Basic Guarantees of Electoral Rights and the Right to Participate in the Referendum of Citizens of the Russian Federation” establishes a ban on financing election campaigns for candidates from foreign sources and at the expense of budgets of all levels. In particular, it is prohibited to participate in the financing of election funds for organizations in which 30% of the authorized capital belongs to foreigners or Russian authorities. Similar restrictions are imposed on the financing of political parties, except for cases of state support provided for by law. This norm is unchanged in other related laws, including regional laws.

These prohibitions are designed not only to protect the Russian voter from foreign interference in the political process in Russia, but also to guarantee the observance of the principle of political neutrality of the state. We try to show in the relevant sections how these norms work in reality.

In Russia there is rather detailed legislation regulating the sphere we are considering. It concerns not only the mechanisms of donating funds and their expenditure, but also the provision of public reporting, quite detailed, relative to many other countries.

At the federal level, the system of financing parties and candidates is written in several laws, the basic of which is Federal Law No. 67-FZ of June 12, 2002 “On Basic Guarantees of Electoral Rights and the Right to Participate in a Referendum of Citizens of the Russian Federation” about donors to election funds of candidates. According to this law, during federal elections, information about donor-legal entities who donated more than 25,000 rubles to the electoral fund are published, as well as data on the number of citizens who donated more than 20,000 rubles, indicating the total amount of such donations. Similar norms work in special laws on the election of the President of the Russian Federation and the deputies of the State Duma. Similar rules have been established in the Law “On Political Parties”, where, however, there is more detailed reporting. In particular, the annual reports of political parties reveal the names and regions of residence of individual donors.

Unfortunately, some of the norms related the transparency of financing candidates registered in 20-FZ “On Elections of Deputies of the State Duma of the Federal Assembly of the Russian Federation” make worse the theses that are prescribed in the “framework” Law No. 67-FZ. In particular, information about legal entities that have made a donation to the electoral fund is subject to mandatory publication. But if in 67-FZ this information is disclosed in relation to all companies that have contributed more than 25 thousand rubles, then 20-FZ raises this threshold to 200 thousand rubles. In addition, there is no any mentions what information, other than the name of the legal entity, should be published, and if the CEC (Central Election Committee) on its own initiative indicates the company’s tax ID, the district commissions do not usually do this.

**As a result, it becomes impossible for an ordinary citizen to identify a real donor, as the names of different companies may be identical.**

The situation is even worse in regional legislation. In some regions, election commissions have stipulated in their decisions that information will only be provided

for publication on the total amount of donations or have established a different minimum threshold for transferring to the media.

Thus, in the election of governors in 2015 in Chuvashia, Omsk, Rostov and Smolensk regions, subject to mandatory publication was only information about the total amount of funds received by the relevant electoral fund and the total amount of funds expended from it. In the Kemerovo region, the media published only data on legal entities that donated at least 110,000 rubles. and the total number of citizens who donated more than 25 thousand rubles. In the Jewish Autonomous Region, compulsory publication was subject to information about legal entities that donated at least 500,000 rubles, and individuals who donated at least 100,000 rubles. At the same time, the maximum size of the election fund was set at 5,000,000 rubles. Thus, in the Jewish Autonomous Region, funding for the election campaigns of candidates for governors turned out to be almost completely non-transparent.

A similar situation was in the gubernatorial elections of 2014. In the Altai Territory, data were published on legal entities that had contributed more than 200,000 rubles to the election fund and about the total number of citizens who donated at least 20,000 rubles. In the Stavropol Territory, these amounts were 400,000 and 40,000 rubles respectively. The Volgograd, Kurgan and Lipetsk regions published data on legal entities that donated at least 500,000 rubles. In the Orel region, this amount was 1,000,000 rubles for legal entities, and 100,000 rubles — for individuals. In Yakutia, Udmurtia, the Krasnoyarsk Territory, Ivanovo, Kirov, Murmansk, Nizhny Novgorod, Novosibirsk and Tyumen regions was published only the total amount of donations.

The situation with maintaining the transparency of this data is complicated not only by the fact that at different levels of elections different standards are used in different territories, but also due to data, even those that are mandatory for publication, is often simply not available on the websites of the relevant election commissions. For example, in the Republic of Altai in 2014 data on legal entities that donated more than 150,000 rubles, and on the number of individuals who donated more than 15,000 rubles was the subject for publication. However, this data were not found on the site of the Election Commission, and an official request to the Regional Election Commission was ignored.

It is symptomatic that the same situation develops even at the federal elections. In accordance with Art. 74 FL-20 “On the electoral procedures to the State Duma of the Federal Assembly of the Russian Federation” “Sberbank” is to reveal the arrival of funds to electoral accounts and their spending at least once per week. The election

commissions send this data to the media. However, only the Central Election Commission is obliged to publish this information through official resources regularly, and as for territorial groups and single-seat constituencies, these are regional and sometimes district election commissions that hold this responsibility. As a result, there are different practices in the regional and district commissions for the communication of this data to citizens: some reports are regular and the latest information presents the state of affairs on the election day, other commissions stop publishing two or three weeks before the election when a significant part of the funds are not on the candidates accounts yet. Moreover, it is becoming quite hard for the interested parties to locate this kind of information. Moreover, in some cases this data is not disclosed at all. For example, at the elections of deputies to the State Duma we were not able to discover this kind of report in the Republic of Tyva and Udmurtia, as well as in the Kaliningrad Region. Again, in the Krasnodar Territory, the Moscow Region and the Sverdlovsk Region, Moscow and Saint Petersburg these reports were lacking in the following districts: 2, 118, 120, 121, 122, 124, 126, 127, 173, 214, and 217.

It is quite simple to remedy the situation: the information about the arriving funds and occurred spending during an election race of all levels should be posted according to a single standard on the site of the Central Election Commission (for example, in the “Elections and Referendums” section, moreover, some information is already there). It would be extremely handy if the reports stored in this kind of database were compiled in a machine-readable format allowing a machine search through the whole volume of the data.

Unfortunately, it is not the solution for the cases when the sole sponsor of a candidate is his/her political party. In this case, the sponsors are registered only in the consolidated financial papers of the party, and the papers are exposed only almost 9 months after the single voting day. As a result, we are facing “postponed reporting” that does not help the voter to understand who the sponsor of the candidate is while the election race is still on. Moreover, in these kinds of reports it is almost impossible to correctly distill the donations made to the fund of a certain candidate. A clear-cut example of that is the election campaign for governor in the Kaliningrad Region in 2017. As of September 4, Anton Alikhanov declared that more than 10 million rubles had arrived in his campaign coffer. At the same time, the report submitted by “Sberbank” does not contain donations (from neither a legal entity nor a private person) that exceed 20 thousand rubles. His competitors, it must be said, are no less “humble” – they would not expose their sponsors as well.

Another issue that was pointed out by the Group of States against Corruption (GRECO)<sup>7</sup> is the absence of a comprehensive regulation of membership and admission fees. A bill binding parties to present not only the information about their donors, but also about the citizens paying membership fees was introduced at the State Duma<sup>8</sup>. Once a practice when political parties registered in their consolidated financial papers every citizen who donated more than 20K rubles to the party, but disclosure of this kind of data for fee-payers was possible at 4.3 million rubles which is the maximum amount of a donation from a private individual (the size of a membership fee was not regulated at all). However, this issue was of secondary importance for Russia since the share of membership and admission fees is a trifling part in the income of any party. For example, in 2016 their share in the income of four parliamentary parties was only 2.5%<sup>9</sup>.

Let's have a look at another problem which is not connected directly to our subject, but it plays a big role helping to evaluate the system of financing of the parties and candidates in Russia in general.

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**In accordance with the law on political parties all electoral associations achieving over 3% of votes at the latest federal elections will obtain the public financing. Up to 2015 one vote was worth 55 rubles. Later this figure was raised at once to 110 rubles per vote, and now it is 155 rubles per vote.**

Obviously, those were "parliamentary parties" that were extremely interested in a significant increase of funds streaming from the federal budget, especially after the State Duma elections in 2016 that failed from the point of view of voter turnout<sup>10</sup>.

As of 2014 the public financing of political parties in one form or another existed in two thirds of all countries in the world, and one third of them had it on a regular basis<sup>11</sup>. As a rule, a financing of this type is grounded by two arguments. Firstly, the state support can weaken the dependence of the parties from major sponsors.

# 2,5%

SHARE OF MEMBERSHIP  
AND ADMISSION FEES IN THE INCOME  
OF FOUR PARLIAMENTARY PARTIES

Secondly, these receipts are much better controlled. Besides, in the majority of cases the state financial support is an incentive in this or that way stimulating positive changes in the parties, as the society sees it. For example, in France it depends directly on the gender balance in the lists of candidates fielded for elections.

However, the method of state support for political parties gets criticized more and more often – both from the point of view of a philosophic approach to public participation in the politics and practical outcome of such a practice. The main argument is that in this case parties turn into bureaucratic semi-public structures and lose their connections with the voters. We can observe it analyzing the situation in Russia: the share of donations and membership fees in a party's income is, as a rule, significantly smaller than the share of a direct financial support from the state. While at the State Duma elections 57% of the parties' incomes came from donations and membership fees, the year 2015 saw the following shares: "United Russia" — 31.4%, the Liberal Democratic Party (LDPR) — 25.4%, the Just Russia — 13.6%, the Communist Party of the Russian Federation (CPRF) — 10.6%. The public financing covered the rest. What is most disturbing is that even in 2016 only 4.8% of income of the four major parliamentary parties came from private individuals<sup>12</sup>. Besides, the parties also receive indirect support from the state: free publications in the print media and free airtime, salaries for deputies, the maintenance of their facilities and offices, etc. The system that formed in Russia is such that the financial well-being of political associations virtually does not depend on contacts with voters.

<sup>7</sup> [http://www.coe.int/t/dghl/monitoring/greco/evaluations/round3/2nd%20RC3/GrecoRC3\(2016\)9\\_Russian%20Federation\\_2ndRC\\_RU.pdf](http://www.coe.int/t/dghl/monitoring/greco/evaluations/round3/2nd%20RC3/GrecoRC3(2016)9_Russian%20Federation_2ndRC_RU.pdf)

<sup>8</sup> The State Duma prohibited the donations that are disguised as membership fees // *Pravo.ru* — 28.07.2017. Available at: <https://pravo.ru/news/view/143101/>

<sup>9</sup> S. Andreychuk Should a party's membership fees be limited // the site of "the Voice" movement . Available at: <https://www.golosinfo.org/ru/articles/142082>

<sup>10</sup> Since the size of state support does not depend on the share of the received mandates, but is calculated on the basis of the absolute number of votes casted for the party list, the parties risked loosing a major part of their income if turnout decreases. Even the winner — "United Russia" — lost almost 2 million votes (absolute numbers) in comparison with the 2011 elections.

<sup>11</sup> Political Finance Database / International IDEA. Available at: <http://www.idea.int/data-tools/question-view/548>

<sup>12</sup> <https://www.golosinfo.org/ru/articles/142082>

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Thus, the statutory regulation imposed on the financing system for political parties and candidates in Russia worked out quite thoroughly in many federal and regional acts. The declared general principles of the system are public accountability to citizens, stop-lines to the size and source of donations as well as ceiling limits on spending. The Russian legislator also declares that the authorities and certain officials should be politically neutral and avoid creating any preferences for political actors by their professional activity.

However, the mere fact that these rules exist does not guarantee compliance with these principles. A comprehensive analysis of implementation is required to obtain a realistic assessment of the current system developed to secure financial transparency of the political domain. This issue will be reviewed in the following chapters.



# 2.

## DISGUISED FINANCING OF POLITICAL PARTIES AND ELECTION CAMPAIGNS IN RUSSIA

It is sometimes hard or impossible to identify the real sources and size of financing even in those countries where the control over the financing system is quite tough. Not only business may use the money to manipulate political figures, but criminal groups as well, while the “parties in power” in many countries use taxpayer money to retain this power.

Unfortunately, Russia is no exception. Moreover, we have a long way to go before we find ourselves in an ideal situation when the campaigning candidates for elected office will flash their sponsors’ logos as sportsmen do on their uniforms.

The issue of the disguised financing in Russia has two aspects to consider. Firstly, a substantial amount of financial resources is not registered in any reports whatsoever and can be tracked down only by indirect marks. Secondly, in the majority of cases there is no way to identify the real owners of the funds that are indicated in the official accounting papers of candidates and parties.

It is hard to ascertain the correct share of the disguised financing of politics in Russia, and the share might fluctuate depending on the specifics and the electoral level. The solution, which calls for development of a special methodology, is still to be created. Nevertheless, we can now talk about some manifestations of this problem in Russian reality.

One of the most evident signs of unofficial financing of elections is the understated spendings of the election fund in the accounting papers. As the gubernatorial campaign of 2014 shows a significant part of the funds spent by the candidates does not appear in the official reports at all. Moreover, the sizes of the electoral funds submitted by the candidates from every political party are very much disputable. For example, Oleg Boronin, the candidate from Just Russia in the Altai Territory (1.8 million voters), had an active election campaign in 2014, but meanwhile he declared only 300K rubles in expenses. Vladimir Kirillov, the candidate from the Green Party, who ran for election till the end claimed that his fund consisted of a stingy amount of 119K rubles. Taking into account that the municipal filter constitutes 549 signatures, these sums are scarcely enough even for registration. Andrey Andreychenko, the candidate from the Liberal Democratic Party (LDPR) for governor in the Primorski Territory (1.5 million voters), spent only 330,500 rubles out of the allowed 100,000,000 rubles. However, the title of most cost-efficient candidate goes to Andrey Bocharov, the candidate from “United Russia” and the elected governor in the Volgograd Region in 2014, who spent only 250K rubles out of the 77,542,500 rubles allowed for his winning campaign (the population in the region is over 2 million people)<sup>13</sup>.

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<sup>13</sup> Analytical report. Financing of election campaigns for the election of heads of subjects of the Russian Federation. 2015.  
Available at: <https://www.golosinfo.org/ru/articles/35351>

Moreover, the fact that there is no expenses on political consulting in the reports of many candidates is noteworthy and indicative. For example, Igor Rudenya, Governor of the Tver Region, nominated from United Russia, submitted an official report of 4.7 million rubles spent for the election. The financial report of his electoral fund contains the following objects of expense: 0 rubles are spent under Art. 3.6. “payment for informative or consulting operations (services)”, 35.5K rubles are spent under Art. 3.7. “payment for other works (services), executed (provided) by legal entities or RF citizens under contract” and 2.3K rubles are spent under Art. 3.8. “other payments related to the organization of the electoral campaign”. Thus, only about 38K rubles are spent under the articles that allow payments for political consulting<sup>14</sup>. The similar case was in the Tyva Republic where “United Russia” nominated Sholban Kara-ool. His electoral fund consisted of 2.5 million rubles out of which 0 rubles were spent on informative or consulting operations (services), 550 rubles were spent on other works (services), executed (provided) by legal entities or RF citizens under contract and 135,400 rubles were spent on other performance-related issued to the organization of the electoral campaign<sup>15</sup>. Here is another prominent example — the Chechen Republic and Ramzan Kadyrov, who reported an electoral fund of only 1 million rubles and expenditures amounting to less than 700K rubles. Along with this 0 rubles were spent under the three articles that allowed payments to consultants, lawyers, accountants and other specialists<sup>16</sup>.

The problem remains in 2017 as well. Till this moment final financial reports have been published only by few nominees who ran for the latest gubernatorial election. But neither Alexey Tsydenov (the size of the official electoral fund was 18.5 million rubles) nor Alexander Yevstifeev (16.5 million rubles) registered any spendings under the article “Payment for informative or consulting operations (services)”. Only Valeriy Radaev (10 million rubles) reported the humble sum of 286K rubles spent on consulting. It is obvious that currently there is no winning campaign without political consultants as well as there is no triumph during a gubernatorial election with an electoral fund of 250K rubles.

The Administration of the President of the Russian Federation did not make it a secret that the best and

from 40 000 000 rub.  
to 100 000 000 rub.

THE COST OF ELECTIONS TO THE STATE DUMA  
IN A SINGLE-SEAT DISTRICT IN 2016  
ESTIMATED BY THE EXPERTS<sup>19</sup>

most expensive political strategists were sent to the regions to assist during the gubernatorial campaigns. Sergey Kirienko, Deputy Head of the Administration, personally thanked the political strategists after the elections were over<sup>17</sup>. For example, as reported by the media Sergey Zverev, Head of CROSS company, worked in Buryatia, Georgy Kazankov, allegedly connected with “Rosatom”, worked in Mariy-El and Alexey Vasilyev, a political strategists from Irkutsk, went to Karelia. Dmitriy Orlov, Gleb Kuznetsov, Alexey Vysotskiy and others, visited other regions<sup>18</sup>. For example, Artur Parfenchikov spent almost half of his electoral fund — no less than 14.5 million rubles — on informative and consulting services (including sociological surveys and salaries to experts on electoral campaign techniques).

The cost of elections to the State Duma in a single-seat district in 2016 was estimated by the experts to be at 40-100 million rubles depending on the size of the territory and competitiveness of a campaign<sup>19</sup>. As a rule, districts that run for gubernatorial elections are larger than single-seat districts running for the State Duma election; therefore, gubernatorial campaigns should cost no less than tens of millions of rubles even if there are no contenders around. We might assert that in some cases the share of unofficial financing constitutes more than 90% of the electoral fund.

It should be mentioned, however, that in many cases, the very system of existing limitations imposed on donations and spendings spurs candidates to violations. While there is a recent tendency to increase the critical size of electoral funds at the federal level, the regions may face quite different situations. Let alone regulations at local levels.

<sup>14, 15, 16</sup> The declaration by “The Voice” movement against any interference of the administration in financing and political consulting of candidates and parties at the elections in 2017. 04.14.2017. Available at: <https://golosinfo.org/ru/articles/141895>

<sup>17</sup> Sergey Kirienko thanked the political strategists for taking part in the gubernatorial campaigns // KommersantЪ. – 02.18.2017. – Available at: <https://www.kommersant.ru/doc/3414925>

<sup>18</sup> Political strategists and the corresponding percentage gained by their clients-governors // URA.RU. – 12.09.2017. – Available at: <https://ura.news/articles/1036272209>

<sup>19</sup> The cost of elections to The State Duma for single-seat deputies was estimated as 100 million rubles. // RBK. 28.01.2016. Available at: <http://www.rbc.ru/politics/28/01/2016/56aa2a759a794707df462d61>

For example, the critical sizes of electoral funds for gubernatorial nominees are set quite unevenly. In 2015 it turned out, the biggest electoral fund if considered in terms of the number of voters can be that in thinly populated Kamchatka where you can spend 102.1 rubles on a voter while this index is only 2.5 rubles in the densely populated Krasnodar Territory which in other words is a gap of 40 times<sup>20</sup>.

No doubt, those tough limitations on financing terms push many candidates into shadows because otherwise it is almost impossible to be competitive. That is why candidates do not pay much attention to these restrictions preferring to find unofficial schemes.

Another issue forcing candidates into the shadows is the burden of heavy and sometimes simply redundant accounting for the expenses. For example, a candidate is obliged to attach to his/her financial report originals or copies of promotional materials as well as financial documents proving payment for the production of these materials even though they are still to be handed over to the election commission during the campaign. Evidently, the candidates keep double accounting. Besides, even at regional elections candidates have to prepare and sign tens, sometimes hundreds of contracts with promoters, supervisors, and the mass media. It is not only time-consuming, but it also requires additional spending on a team of accountants and lawyers, which definitely leads to greater costs of the campaign. For this reason, many candidates and parties try to optimize reporting, to minimize spending and cover up their financial sources.

To remedy the situation, firstly, it is necessary to significantly increase the critical size of permitted expenditures as well as to raise the limits imposed on the maximum donations, since the impossibility of making a substantial contribution officially is also conducive to shadow funds (this issue will be discussed additionally). This process has already started on the federal level and it seems to slither down to the regional and local levels as well.

Secondly, it requires the shift of attention of election commissions and the society in general from control of candidate and party's spendings over to their incomes. It calls for a serious facilitation of reporting on expenditure, while a closer supervision over revenue sources is required. Several functions are attributed to the control

over spendings. This is a fight against "money-laundering" (however, we have not seen such cases lately), countermeasures against excessive electoral funds (here we need more of a liberalization of the legislation than another crackdown) and a campaign against bribery of voters (as we know these rules do not cope with it). Besides the system of election commissions does not provide enough power for real control over expenditures. In this respect, it is more important to secure transparency of donations.

However, the impossibility of identifying the real sources of the means donated to a candidate or a party is not only the issue of unofficial receipts. Often it is impossible to identify the real sources even of the means are declared in the official reports. It is mostly due to existence of two donation schemes: via public organizations or via individuals.

**In accordance with Russian legislation, only public organizations (with a few exceptions) are allowed to be sponsors of candidates and parties<sup>21</sup>. The bottleneck is that such legal entities are not obliged to disclose their own sponsors. Therefore, they often become a "party's coffer" collecting donations from those who want to stay anonymous.**

The described scheme for financing political activity is not new and was first used in Russia in the 1990s. Then, under the leadership of Sergei Popov, the "People's House" organization operated<sup>22</sup>, through which "Our House is Russia" movement was financed.

Today Popov is a member of the Federation Council and, apparently, is actively replicating his financial experience of the 1990s. This scheme was actively used both in the election of deputies of the State Duma in 2016, and in the inter-election period. So, 68% of all donations of legal entities made by "United Russia" in the order established by the legislation in 2013-2014, were committed on behalf of public organizations<sup>23</sup>.

Donations from non-profit organizations have been revealed in other parties. For example, the Communist Party of the Russian Federation in 2015 received the

<sup>20</sup> Analytical report. Financing of election campaigns for the election of heads of subjects of the Russian Federation. 2015. Available at: <https://www.golosinfo.org/ru/articles/35351>

<sup>21</sup> Religious organizations, charity funds, the so-called foreign agents are banned from donations.

<sup>22</sup> Sergei Alexandrovich Popov (politician), Wikipedia <https://goo.gl/dpr8gC>

<sup>23</sup> Analytical report. Financing of election campaigns for the election of heads of subjects of the Russian Federation. 2015. Available at: <https://www.golosinfo.org/ru/articles/35351>

largest donation (3.6 million rubles) From the Omsk regional cultural and educational public organization “INTEGRATION”, whose chairman of council, Alexander Kravets, is the first secretary of the Omsk regional branch of the party. A similar situation has been observed with the financing of the Yabloko party — a donation in the form of the receipt of property (an apartment worth 1.5 million rubles) was received from the public organization Murmansk Center for Economic and Political Studies, an organization affiliated with the Murmansk branch of Yabloko, the head of both structures was Igor Lebedev<sup>24</sup>.

This trend continued in 2016 and spread to other parties. According to official reports on the expenditure of the funds of the federal electoral funds of political parties, donations in the election of deputies of the State Duma in 2016 from various NGO amounted to about 20% of all funds received, or 529.3 million rubles. In some parties, this share was significantly higher. “United Russia” received from 12 regional public organizations affiliated with it only at the federal level 289 million rubles from 663.1 million rubles collected to the electoral fund (43.6%) For “A Just Russia” seven NGO donated 140 million rubles of 432.2 million rubles (32.4%), Yabloko donated 98 million rubles to four NGO. of 432.2 million rubles (22.7%). Taking into account donations to single-mandate candidates and regional chapters of parties, the expenses of non-profit organizations to support candidates in these elections amounted to about 0.8 billion rubles<sup>25</sup>.

As a rule, such NGO-donors are organizations affiliated with the party itself. Thus, in the 2016 elections, the largest donors were various regional funds affiliated with “United Russia” (they are in almost all cases were established by the party). The Bashkortostan Fund for Regional Cooperation and Development donated to candidates more than anyone else — 53 million rubles. At the same time, according to the “Kontur.Focus” system, the fund received only 6.2 million rubles of property contributions and donations. It is founded by the National Fund for Support of Regional Cooperation and Development, formerly known as the Interregional Public Fund for the Support of the “United Russia Party”. The Fund for Support of Future Generations donated 78.3 million rubles to “United Russia” candidates another 20.2 million rubles — The Foundation of People’s

Projects. Both funds have the same founders: Alexey Grishkovets, Yuri Puzynia and Olga Shabalina. At least one of them, Alexey Grishkovets, worked in various legal positions in “United Russia”: he was an adviser to the first deputy chairman of the “United Russia” faction in the State Duma, head of the legal service of the party<sup>26</sup>.

The trend remains in 2017 as well. For example, Maxim Reshetnikov received the amount of 20 million rubles from two of the above funds.

Besides, the NGO donated to the budgets of the parties themselves, apart from their electoral funds. For example, “A Just Russia” in 2016 received 1.2 billion rubles from sponsors. The largest sums were donated by various funds supporting political parties. According to Russiangate estimates, at least 19 funds (out of 20 in the list) have a common origin: common leaders and founders connect them all, and some funds are registered at the same places and created on the same day. In total, these structures donated 701.5 million rubles to “A Just Russia” — that is, 60% of all the party’s donations in 2016. The fund’s connections lead to the party leader Sergei Mironov through his assistant Anatoly Pavlyuk<sup>27</sup>.

The problem of ensuring the transparency of financing through an NGO is also associated with the problem of control over hidden state funding. In 2014, the Samara regional public organization “Heroes of the Fatherland” donated to 958,861 rubles the “United Russia” party. It should be noted that in the same year the organization became the winner of the regional government grant competition with the project “From the Georgievsky Cavaliers to the Heroes of Russia”, and received grants to carry out the statutory activities and the “Parade of Remembrance” project at a comparable amount to the donation. The head of the region at the time of the grant being awarded was Nikolai Merkushev, who in the same year became a candidate for governor from the “United Russia” party — the financial circle was closed<sup>28</sup>. Donors often become various associations and trade unions, among the founders of which may also be a large number of state and municipal enterprises. For example, in 2014 this was 500,000 rubles. The Association of Veterinary Workers of the Kursk Region donated to “United Russia”, among the founders of which are many federal state institutions<sup>29</sup>.

<sup>24</sup> Report. The financial activity of political parties on the eve of the election of deputies to the State Duma of the Federal Assembly of the Russian Federation in 2016. Available at: <https://www.golosinfo.org/ru/articles/103801>

<sup>25, 26</sup> Analytical report. Financial transparency of the election campaign for the election of deputies of the State Duma of Russia in 2016. 2016 Available at: <https://transparency.org.ru/projects/partnerstvo/izbiratel'naya-kampaniya-na-vyborakh-v-gosdumu-2016-finansirovalas-neprozhachno-i-s-ispolzovaniem-tenevykh-skhem.html>

<sup>27</sup> Expensive mandate// Russiangate. July 15, 2017. Available at: [https://russiagate.com/obshchestvo/dorogoy-mandat/?sphrase\\_id=87211](https://russiagate.com/obshchestvo/dorogoy-mandat/?sphrase_id=87211)

<sup>28, 29</sup> Analytical report. Financing of election campaigns for the election of heads of subjects of the Russian Federation. 2015. Available at: <https://www.golosinfo.org/ru/articles/35351>

The solution to the problem is possible through mandatory public financial reporting of such NGOs, which would disclose detailed information about all the donors of the organization.

Another classical scheme of concealing real donors is a donation through individuals. It should immediately be stipulated that donations from individual donors in general should be assessed positively and seek to increase their share in the incomes of parties and candidates, as this can be an indicator of the quality work of political actors with voters.

**However, in Russian reality, this generally positive practice is greatly distorted: donor citizens are often only intermediaries, hiding real donors.**

For example, in the Civil Platform party, approximately 80% of the total budget is provided by income from individuals: individuals donated 25,237,200.74 rubles to the party, while the legal ones — only 4,480,400. At the same time, 21 million rubles of this amount came from only five people. It is also noteworthy that among the individuals-donors was a political technologist who worked for the party and transferred several hundred thousand rubles to it<sup>30</sup>. Donations from staff members of candidates are common practice and show that they have become one of the important channels for legalizing financial receipts. The accountant of the Irkutsk regional executive committee of the “United Russia” Vladimir Anatolyevich Konovalov contributed 3,695,000 rubles for two years the parties, 2,000,000 rubles — Andrey Lirievich Pezhemsky, chief specialist of the agitation and propaganda department of the Irkutsk regional chapter of the party “United Russia”. Accountant of the Ryazan regional chapter of LDPR O. A. Matveeva in 2013, donated 123,500 thousand rubles to its party, and a year later — another 473,000 rubles<sup>31</sup>.

Besides, often, citizens who have solvency become donors and this raises big questions. The most striking example was the donation of 2013, committed by an Irkutsk resident, Maria Eduardovna Yankovskaya. Presumably, the donor was at that time the main specialist on social work of the trade union committee of students of the Irkutsk State Technical University. A donation of 3 million rubles should be 20 - 30 times higher than the annual income of the donor<sup>32</sup>.

There are interesting cases in other parties. For example, among the contributing individuals of “A Just Russia” in Karelia in 2015, there were three people born in 1993-1994 (21-22 years old) who donated the same amount — 73 thousand rubles each. A similar situation is observed in the Green Party, which in 2015 received 709,300 rubles donations, of which from legal entities — only 9,300 rubles. Two residents of Novosibirsk donated the remaining 700,000 rubles. A 19-year-old resident of Yekaterinburg, Konstantin Akatyev donated 100,000 rubles to the Communist Party of the Russian Federation. In 2013 Sergei Klyukin from St. Petersburg, which, according to media reports, at that time did not work anywhere donated 2,708,830 rubles to “A Just Russia”<sup>33</sup>.

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It is not possible to check the “purity” of such donations under the existing legislation, although such a check of the solvency of people who donate large sums to organizations that claim to participate in the allocation of budget funds and the adoption of laws would be justified by citizens. These functions of verification could be incurred by the tax service.

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<sup>30</sup> Report. The financial activity of political parties on the eve of the election of deputies to the State Duma of the Federal Assembly of the Russian Federation in 2016. Available at: <https://www.golosinfo.org/ru/articles/103801>

<sup>31, 32</sup> Analytical report. Financing of election campaigns for the election of heads of subjects of the Russian Federation. 2015. Available at: <https://www.golosinfo.org/ru/articles/35351>

<sup>33</sup> The parties are spent on cars and apartments // Fontanka. Petersburg Internet newspaper. June 6, 2013. Available at: [www.fontanka.ru/2013/06/06/181/](http://www.fontanka.ru/2013/06/06/181/)



# 3.

## **BYPASSING RULES AND AVOIDING TRANSPARENCY**

There are some restrictions on donations in most countries of the world. In Russia, the two most important restrictions are a ban on foreign financing and a ban on public funding, except for cases specifically stipulated by legislation<sup>34</sup>. However, the formulations chosen for this norm are extremely unsuccessful and leave many opportunities to circumvent this norm.

Consider the example of a ban on foreign funding. According to paragraph 6 of article 58 of the Federal law “On basic guarantees of electoral rights and the right to participate in referendum of citizens of the Russian Federation”, to contribute funds to the election Fund of a candidate or party are forbidden to foreign States or foreign organizations, foreign citizens, subject to exceptions, persons without citizenship, international social movements, etc. Prohibited financing of election campaigns of the Russian legal entities with foreign participation, if share (contribution) of foreign participation in their authorized (share) capital exceeds 30 percent. It is also forbidden to donate money to legal entities, 30% of which belong to organizations with foreign participation (if the share of foreigners is at least 30%).

**However, it is worthwhile to extend this chain to only one link — and such a financing scheme becomes legal. As a result, the situation may seem completely absurd.**

Suppose a US-registered company, Romashka Diamonds Ltd owns 30% of the Russian “Romashka” LLC. “Romashka” LLC, in turn, owns 30% of “Lopukh” LLC. If in this situation “Lopukh” donates funds to the election fund of candidate Ivanov, then such a donation will be considered illegal, although the real share of foreigners in “Lopukh” LCC will be less than 10%. We extend the chain by one link: enter “Repeinik” LLC. The scheme becomes legal, even if the share of ownership of foreigners throughout the chain will be 99%<sup>35</sup>.

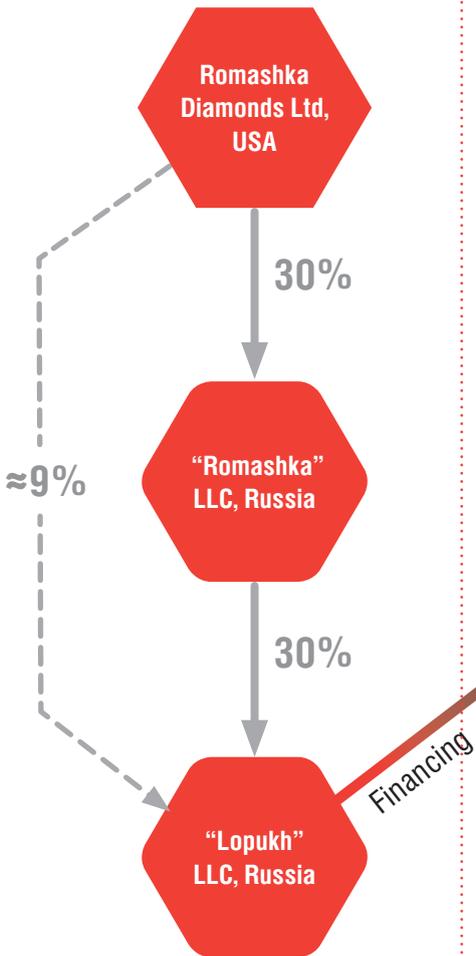
The expert and journalistic communities have already identified quite a large number of similar examples. And in some cases, donors do not respect even the necessary length of the chain of ownership. For example, in the election of deputies to the State Duma in 2016 in the Voronezh region “GC Agroeco” LLC, 90% of which belongs to “Agroeco Group Vrn Limited”, registered

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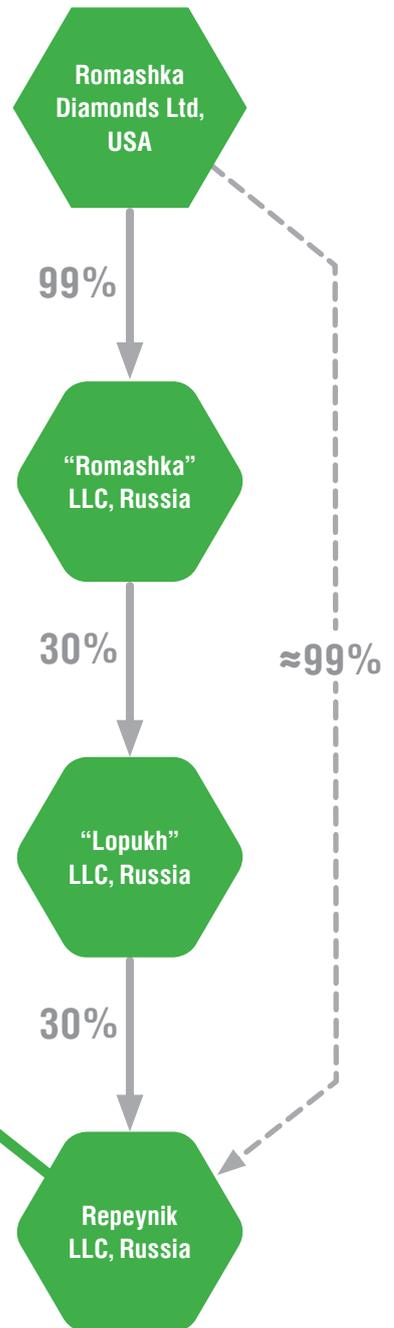
<sup>34</sup> It is about state funding from the federal budget, which is carried out on the basis of election results to the State Duma and accessible to parties that have collected more than 3% of the vote

<sup>35</sup> The Movement for the Protection of the Rights of Voters ‘Golos’ formulates the example considered. See: <https://www.golosinfo.org/ru/articles/74151>

**👎 ILLEGAL**



**👍 LEGAL**



in Cyprus, made 600 thousand rubles to the fund of the regional chapter of “United Russia”. Another 500 thousand rubles donated to the “TShCh APK” LLC. The company is 100% owned by “Agroproduct” LLC, owned by “United Sugar Company” OJSC, owned by PRODIMEX FARMING GROUP LIMITED (Cyprus). Another 200 thousand rubles by Tatiana Evgenievna Voronina, “Kursk-Agro” LLC, also owned by Agroproduct LLC, was donated to the electoral fund of the single-mandate candidate for Kursk Region No. 109. On September 15, there was no information on the return of funds<sup>36</sup>. During those same elections, 8 million rubles from “Kolabyt” LLC, which is part of the “Norilsk Nickel” holding, was received by Ivan Dmitrievich Grachev (“Party of Growth”) running for the Irkutsk region No. 95. Another 2 million rubles donated by “Arktik-Energo” LLC, also owned by “Nornickel”. Among the shareholders of the metallurgical giant are Cyprus Bonico Holdings Co Limited (23.163%) and Aktivium Holding B.V. (27.67%)<sup>37</sup>.

Obviously, almost all offshore companies that own Russian enterprises in fact belong to Russian citizens. However, this does not preclude the possibility that foreign players could also use this scheme. In addition, the Russian state reacts rather sharply to such schemes in less painful cases. A striking example was the recognition by the so-called foreign agent of the Dynasty Foundation, which supported Russian science and was financed from personal funds of its founder Dmitry Zimin, placed in foreign banks<sup>38</sup>. In addition, the use of such schemes does not allow the establishment of the real owners of donated funds.

**The obstacle to changing the situation is the absence in Russian legislation of the concept of a “beneficial owner”, the introduction of which would completely close the described scheme for financing political activity.**

This is especially important because similar language prohibitions on foreign financing are used in Russian legislation and to counter the illegal state financing of election campaigns and political parties.

For example, in 2014, during the elections to the State Council of the Republic of Tatarstan, 1 million rubles was donated by the “Elecon Plant” OJSC to the fund of the party “United Russia”. As of September 30, 2014, 25% of the shares belonged to “Concern Radioelectronic Technologies” OJSC, which, in turn, is 100% owned by the state corporation “Rostekh”. A year earlier on the accounts of “United Russia” 500,000 rubles were transferred by the “Izhevsk Electromechanical Plant Kupol” OJSC, of which 93.65% belongs to the Concern “Almaz-Antey”, which is owned by the Russian Federation<sup>39</sup>.

Another common practice of hidden budget financing is the allocation of grants and subsidies to companies belonging to candidates for elected offices or to companies that are affiliated with them in one way or another. For example, in the Altai Territory on June 3, 2016, a list of machine-building enterprises — recipients of governor’s grants was published<sup>40</sup>. The Rubtsovsk plant of spare parts belonging to the candidate for the State Duma deputies in the 40th single-member district Viktor Zobnev (“United Russia”) entered this list. A similar scheme was used in the Altai Territory in the election of deputies to the Barnaul City Duma in 2012, when large funds for the modernization of production were allocated to a halva factory belonging to one of the candidates for deputies. This allows candidates-entrepreneurs to withdraw part of their funds from their enterprises and send them to finance the election campaign.

Such schemes are quite difficult to identify, since the information is fragmented. It is much easier to track the receipt by parties of donors and candidates of public funds through the government procurement system. Indeed, as studies of consolidated financial statements of political parties show over the past two years conducted by independent observers from the “Golos” movement and journalists of the Russiangate website, the recipients of large state contracts are almost exclusively donors to the party in power. Among the donor companies of political parties that received in 2015-2016 relatively large state contracts, more than 90% fell on the donor companies of “United Russia”<sup>41</sup>. In the year of elections to the Russian parliament, this scheme

<sup>36, 37</sup> Analytical report. The financial transparency of the election campaign for the election of deputies to the State Duma of Russia in 2016. 2016 Available at: <https://transparency.org.ru/projects/partnerstvo/izbiratel'naya-kampaniya-na-vyborakh-v-gosdumu-2016-finansirovalas-neprovracheno-i-s-ispolzovaniem-tenevykh-skhem.html>

<sup>38</sup> “Is it worth continuing to work in Russia?” // Gazeta.ru. May 25, 2015. Available at: [https://www.gazeta.ru/science/2015/05/25\\_a\\_6716969.shtml](https://www.gazeta.ru/science/2015/05/25_a_6716969.shtml)

<sup>39</sup> Analytical report. Financing of election campaigns for the election of heads of subjects of the Russian Federation. 2015. Available at: <https://www.golosinfo.org/ru/articles/35351>

<sup>40</sup> Machine-building enterprises of the Altai Territory will receive governor’s grants // Official site of the Altai Territory. June 3, 2016. Available at: [http://www.altairregion22.ru/region\\_news/mashinostroitelnye-predpriyatiya-altaiskogo-kraya-poluchat-gubernatorskie-granty\\_507400.html](http://www.altairregion22.ru/region_news/mashinostroitelnye-predpriyatiya-altaiskogo-kraya-poluchat-gubernatorskie-granty_507400.html)

<sup>41</sup> Report. The financial activity of political parties on the eve of the election of deputies to the State Duma of the Federal Assembly of the Russian Federation in 2016. Available at: <https://www.golosinfo.org/ru/articles/103801>

also worked. In 2016, 61% of “United Russia’s” donor companies were state contractors<sup>42</sup>. And this is without taking into account the situations when state contracts are won not by donors themselves, but by their affiliates. For example, “Sharhinsky Career” JSC in 2016 donated 18 million rubles to the party, although it did not receive state contracts. However, several contracts already in 2017 received the “Construction company Konsol-Story LTD”, established by this joint-stock company<sup>43</sup>. Another example (2015) is the company “Transport and Forwarding Company of the Magnitogorsk Iron and Steel Works”, which donated 30 million rubles to “United Russia”: it did not receive state contracts, but its direct owner from the end of last year received 91 state contracts for a total of about 5.16 billion rubles<sup>44</sup>.

At first glance, the problem of participation of companies-state contractors in financing political parties and candidates seems to be inconspicuous. However, the analysis shows that a significant part of the donors-sirs, after donations to the budget of “United Russia” things really went much better. According to Russiangate estimates, 104 companies from this list began to receive more state contracts in 2016 - 2017 than in previous years of work<sup>45</sup>.

In the 2017 elections of, such examples also took place. Therefore, in the electoral fund of the candidate for governors Artur Parfenchikov, JSC PSK donated which according to the system “Kontur.Focus” received government contracts for 6 billion rubles within the period from 2011 to 2017. The contract with the Prionezhskaya Grid Company alone concluded in December 2016 was valued at more than 3 billion rubles<sup>46</sup>.

**Such a dependence may serve as evidence of the direct relation between getting government orders and financial support of the party. This is clearly reminiscent of a traditional kickback scheme. For this very reason, some countries ban financial contributions from government contract winners.**

# 104

**COMPANIES LISTED BY RUSSIANGATE GOT MORE STATE CONTRACTS IN 2016-2017, AFTER THEY HAVE BECOME DONORS OF “UNITED RUSSIA”**

It is noteworthy that such forms of latent government support are often related to corrupt practices or practices having a negative impact on commercial competition. Receipt of government contracts by the holding company Tomsk House Building Company is a classic example.

Following the petition by Transparency International — Russia Center in Barnaul, in 2017 the Office of the Federal Anti-monopoly Service for Tomsk region filed a case on the violation of the law On Protection of Competition by the Strezhevoy city administration. The Office of the Federal Anti-monopoly Service discovered possible violations in the procurement of apartments in different municipalities of the Tomsk region. In May 2016 the Strezhevoy city administration procured apartments 13 times for rehousing from dilapidated dwellings. Total procurements exceeded 360 million rubles. In almost all cases, only one supplier could bid. Take JSC Tomsk House Building Company (TDSK), which received all the contracts without price reductions<sup>47</sup>. The TDSK Director and one of its owners is Alexander Speter, a “United Russia” deputy in the Tomsk Region Duma.

The company is one of the major donors to “United Russia”: in 2015 it donated 24.8 million rubles to the party<sup>48</sup>, in 2016 — as much as 45 million rubles. It’s noteworthy that in 2016 CJSC Tom-Dom Tomsk House Building Company, being part of the same holding company, donated 15 million rubles more to the party. This brings us to one more issue to be raised — circumvention of donation limits.

<sup>42, 43</sup> As a sacrifice to the regime // Russiangate. 06.19.2017.

Available at: [https://russiagate.com/goskompanies/v-zhertvu-rezhimu/?sphrase\\_id=87209](https://russiagate.com/goskompanies/v-zhertvu-rezhimu/?sphrase_id=87209)

<sup>44</sup> ‘Golos’ found a scheme of hidden funding for “United Russia” // RBC. August 4, 2016. Available at: <http://www.rbc.ru/politics/04/08/2016/57a1f67c9a7947f9e2d61f2a>

<sup>45</sup> As a sacrifice to the regime // Russiangate. 06.19.2017.

Available at: [https://russiagate.com/goskompanies/v-zhertvu-rezhimu/?sphrase\\_id=87209](https://russiagate.com/goskompanies/v-zhertvu-rezhimu/?sphrase_id=87209)

<sup>46</sup> <https://clearspending.ru/contract/31604536840-01/>

<sup>47</sup> The Office of the Federal Anti-monopoly Service has recognized restrictions of competition in housing procurements in Tomsk region // Official website of Transparency International –R Available at: <https://transparency.org.ru/projects/goszakupki/ufas-priznalo-ogranichenie-konkurentsii-pri-zakupkakh-zhilya-v-tomskoy-oblasti.html>

<sup>48</sup> Honorary donors. How Major Donors to Political Parties Make Money Off Government Contracts //

Official website of Transparency International –R Available at: <http://transparency.org.ru/special/donory/>

Donation limits have always been applicable to a particular legal entity, while large holding companies can circumvent the restrictions quite easily. For instance, in 2016 four companies related to Vakhoy Agaev, a State Duma deputy, deposited 43 million rubles each to the Communist Party's accounts. In total, these companies donated 172 million rubles, which exceeds donation limits by almost four times. This amount makes up about quarter of all donations to the Communist Party made during the parliamentary election year<sup>49</sup>.

Viktor Trautvein, an entrepreneur from the Altai Region, used a somewhat different scheme. He became one of the major individual donors of "United Russia" in 2016 by donating 2.5 million rubles to the party. His company LLC Mayskoe donated the same amount. This scheme is not as large-scale as donations through holding companies; however, it is also operational.

We have not raised one more issue yet. It is also related to problems with government contracts and big holding companies, i.e. the issue of latent and uncontrolled lobbying.

**The analysis of government contract winners among parties' donors reveals major lobby groups that support parties or candidates. It is also typical for other countries; however, in Russia these practices have their own specific features combined with the non-observance of the political neutrality principle by government agencies with federal ministries and state corporations being major groups.**

In 2015 national security agencies were the main governmental customers, primarily, the Ministry of Defense and affiliated organizations including enterprises of the military industrial complex. For instance, LLC Volgostalkonstruktia, having donated 500 thousand rubles to "United Russia" in 2015, won government contracts with the total of more than 1.7 billion rubles during the same period. Almost all of them were related to providing services to one legal entity — JSC Main Directorate of Billeting Services. The Ministry of Defense actually is the key customer of companies donating money to "the party of power". National security

agencies grant some government contracts to companies-donors of other parties that represent the patriotic movement, i.e. the Communists of Russia and the Patriots of Russia. PJSC Chelyabinsk Forging Plant was one to receive government contracts from enterprises of the military industrial complex. However, this is more of an exception caused by the fact the plant is owned by the leader of the Chelyabinsk "A Just Russia" Valery Gartung. Two more federal agencies Rosatom and Rosavtodor were major players on the market of "United Russia" support through the government contract system<sup>50</sup>. It may be worth recalling that at that time Sergey Kirienko held the position of Rosatom's head. He was soon after designated Deputy Head of the Presidential Executive Office and became de-facto supervisor of the domestic affairs in the country. In 2016, OJSC RZD took the lead in its lobbying ambitions: 20 companies-donors of "United Russia" started concluding expensive contracts with the organization right after making major donations<sup>51</sup>.

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In conclusion, we should mention that GRECO also touches upon abuses of public employees. In its Compliance Report in the Third evaluation round for the Russian Federation published on November 21, 2016, the organization points out that "while acknowledging the progress achieved, GRECO notes that the above reforms are only yet partial and need to be continued. It would appear, for example, that insufficient measures have been taken to ensure that the regulation of political financing is not undermined by the misuse of public office... and to strengthen the independence of the election commissions"<sup>52</sup>.

<sup>49</sup> Give Alms to Politics // Russiangate. 07.03.2017. Available at: <https://russiagate.com/obshchestvo/podayte-na-politiku/>

<sup>50, 51</sup> In Sacrifice to the Regime // Russiangate. 06.19.2017. Available at: [https://russiagate.com/goskompanies/v-zhertvu-rezhimu/?sphrase\\_id=87209](https://russiagate.com/goskompanies/v-zhertvu-rezhimu/?sphrase_id=87209)

<sup>52</sup> [http://www.coe.int/t/dghl/monitoring/greco/evaluations/round3/2nd%20RC3/GrecoRC3\(2016\)9\\_Russian%20Federation\\_2ndRC\\_RU.pdf](http://www.coe.int/t/dghl/monitoring/greco/evaluations/round3/2nd%20RC3/GrecoRC3(2016)9_Russian%20Federation_2ndRC_RU.pdf)



# 4.

## INDIRECT GOVERNMENT SUPPORT OF POLITICAL PARTIES AND CANDIDATES

Russian legislation stipulates some forms of indirect government support of candidates and parties<sup>53</sup> such as provision of printing surface and airtime for free. Besides, in some big municipalities, e.g. Perm, incumbent deputies of the city parliament are in a position to manage so-called “deputy’s fund” which is an amount of money allocated from the city budget to deputies for solving local problems. This practice, although dubious as far as ensuring equality for all participants of the political process is concerned, is still quite transparent and, as mentioned earlier, legal.

However, in Russia there are illegal forms of indirect government support, which are generally meant by the term “administrative resource”. Identifying such technologies may be a serious problem for any researcher. An even more complicated task is finding ways of countering this practice since the fight efficiency depends almost entirely on the political will of election organizers (both official and real).

There is a number of abuses, or essentially political corruption, that fall under this category<sup>54</sup>.

One of the most common schemes is the increase in budget expenditures on solving major social problems, mass cultural events during the election season, which is used for propaganda. According to mass media, before the elections in 2015, Kaliningrad saw an almost double increase in funds allocated for road repairs<sup>55</sup>. In the same year, enterprises in Chuvashia urgently started paying off salary arrears before the visit of the candidate for the position of the republican head. “United Russia” placed information boards and made a virtue out of constructing social and cultural facilities (schools, kindergartens, sport complexes, playgrounds, hospitals, etc.) which were financed from the budget funds<sup>56</sup>.

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<sup>53</sup> The chapter is based on a series of studies conducted by Transparency International –Russia in 2016-2017 In particular: The analytical report “Crooked Mirror. Administrative Resource and Budget Funds in Moscow Politics” (2017) and Report “ The Price of a Word: Altai Region Taps Into Budget Funds for Governor PR” (2016)

<sup>54</sup> We insist that the schemes and technologies that we analyze hereinafter are corrupt practices at their core, for they involve abuses of various public officials or misuse of public resources aimed at creating a competitive advantage for specific political players. It is difficult to imagine something that would correspond to a greater extent to the modern understanding of corruption in the whole world.

<sup>55</sup> Planned repair of 37.5 km regional and inter-municipal roads in Kaliningrad Region// Official website of the Ministry of Infrastructure Development in Kaliningrad Region. 03.26.2015. Available at: <http://infrastruktura39.ru/news/952/>

Candidates with an administrative resource also actively use their working hours and facilities belonging to government agencies or state-financed institutions in their election campaign. In 2015 Acting Governor of the Kaliningrad Region Nikolay Tsukanov held a meeting with his election campaign team during his office hours. Marina Orgeeva, a meeting participant, reported the fact on social media<sup>57</sup>. In 2017 independent observers in Barnaul reported a similar situation with public officials participating in internal party events<sup>58</sup>.

Similar practices are common for the whole country. Such technologies raise suspicions that they are controlled by the center. For instance, it is about the distribution of political strategists in those regions where important elections are to be held. The President's Executive Office presumably formed a pool of political strategists<sup>59</sup>.

The analysis of government procurement for social research in Moscow conducted by Transparency International Anti-Corruption Center in May-June 2017 has revealed the scale of the problem with political strategist fees<sup>60</sup>.

In spring 2017 we uncovered 79 government procurements for social research to the amount of around 400 million rubles. However, more in-depth study demonstrated that such services were regularly procured by Moscow authorities. Nearly 1.4 billion rubles was spent for this purpose from 2011 to May 2017.

Almost all the contracts include an assignment of social research conducted with various quantitative and qualitative methods: focus group, polls, in-depth interviews, media and social media monitoring. At the same time a large portion of government contracts evidently deal with the elections and specify the scope of work for finding electoral preferences of the citizens, monitoring candidates' activities and voters' evaluation of their programs.

For example, on August 28, 2014 the prefecture of the Eastern Administrative District in Moscow and Federal State Institution "Center for Security Studies of the Russian Academy of Sciences" signed an agreement valued at 10 million rubles on the social research "of performance of the candidates for Moscow State Duma during the election campaign in the Eastern Administrative District, Moscow"<sup>61</sup>. The objective of the research is "gathering and analyzing information on the attitude of local citizens towards performance of the candidates for Moscow State Duma during the election campaign, their assessment of electoral programs proposed by the candidates from the Eastern Administrative District, Moscow". There is evaluation of electoral dynamics (ratings) of the candidates among the research tasks. Methodology of the research includes both qualitative and quantitative studies: three focus groups, two waves of telephone surveys (the total number of respondents is 8,400).

The same year the prefecture of the Eastern Administrative District in Moscow and LLC "Agency of Human Technologies" signed a contract of 14.6 million rubles on the social research "of topical problems in the North-Western Administrative District of Moscow, efficiency of local authorities and local governance, of general political and social climate and social tensions among the population of the district"<sup>62</sup>. One of the topics of the research is the performance of local authorities and local governance, political and social situation in the district. The government customer specified in the comments that it meant finding electoral preferences among the district's citizens.

The scope of procurement often does not mention election-related purposes of the client; however, the technical documentation clearly reflects them. The most telling example is, perhaps, the contract between Arbat Municipal Council and LLC "Alpha" signed on September 3, 2013 (less than one week before the mayoral elections) on the social research of "social sentiment of Arbat

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<sup>56</sup> Report. The financial activity of political parties on the eve of the election of deputies to the State Duma of the Federal Assembly of the Russian Federation in 2016. Available at: <https://www.golosinfo.org/ru/articles/103801>

<sup>57</sup> [https://www.facebook.com/permalink.php?story\\_fbid=118397995170416&id=100010006470245](https://www.facebook.com/permalink.php?story_fbid=118397995170416&id=100010006470245)

<sup>58</sup> <https://www.bankfax.ru/news/104900/>

<sup>59</sup> See the following publications: Moscow technologies prepared for gubernatorial elections. President Executive Office launches selection of political consultants <http://www.kommersant.ru/doc/3229273>; Whom governors are paying to be elected and stay with Moscow. Full picture of political consultation market on the elections of regional heads. With names and prices <http://ura.ru/articles/1036270419>; Kremlin launched selection of political strategists for gubernatorial elections <http://ura.ru/news/1052279478>; Kremlin handler goes to the regions. Alexander Kharichev launches pre-election inspection <http://fedpress.ru/article/1756226>; Politconsultant plus. Maksim Reshetnikov to involve leading Russian political consultants in elections <http://www.kommersant.ru/doc/3229365>;

<sup>60</sup> The analytical report "Crooked Mirror. Administrative Resource and Budget Funds in Moscow Politics". Available at: <https://transparency.org.ru/projects/goszakupki/transperensi-interneshnl-r-predstavlyaet-doklad-o-korrupsii-v-sfere-politicheskogo-piara.html>

<sup>61</sup> <http://zakupki.gov.ru/epz/contract/contractCard/common-info.html?reestrNumber=0173200004014000062&source=epz>

<sup>62</sup> <http://zakupki.gov.ru/epz/contract/contractCard/common-info.html?reestrNumber=0373200067114000049&source=epz>

local citizens and its dynamics". The research task included two waves of survey during the week before the elections aimed at revealing electoral preferences and protest activity, channels of communication, a problematic field. The file itself with the research task published on the government procurement website was named "calculation+research task elections"<sup>63</sup>.

In many contracts one may encounter explicit statements such as "finding electoral preferences of local citizens as far as attitude to and support of political parties are concerned"; "study of electoral preferences of citizens, rating of political parties"; "study of the attitude evolution of different groups of respondents towards political parties (by groups)" etc.

A large portion of contracts stipulated actual violation of the principle of separation of powers enshrined in the Constitution of the Russian Federation and establishment of control of executive power bodies over deputies. This part of procurements provided for monitoring of deputies' activities by executive power bodies including their publications, in personal accounts on social networks among other things. For example, in spring 2016 the Savelki Municipal Council spent 1.9 million rubles for "monitoring topical issues and forecasting tendencies in the principal fields of the activities of Savelki Municipal Council, Zelenograd Administrative District, Moscow, organizing data analytics and conflict study of activities of executive power bodies on the community, district and city level, and deputies on the municipal level"<sup>64</sup>.

In most cases, contracts directly related to monitoring of political preferences or candidates' or deputies' performance were signed before 2014. Later Moscow authorities somewhat changed their approach, and tender documentation no longer included explicit reference to specific political views of Muscovites.

At present, we usually encounter such phrases as revealing potentially conflict issues in the particular area or assessment of public authorities and local governance performance in different fields. Many contracts stipulate specific attitude to public services and amenities, urban development, housing and utilities services etc. Nevertheless, almost all contracts include not only local problems and issues related to local governance but also much broader issues: welfare level, price level, quality of food products etc, as well as a sort of "consideration of public opinion".

In almost all cases similar contracts stipulate revealing social tensions, launching information campaign in mass

media and social media, forming and supporting the pool of reference persons, weekly monitoring of mass media and social media, and consultative and organizational support of public hearings.

Companies that are well known on the market of political consulting conduct the great majority of such surveys. Almost all similar contracts include continuous consultative support of public authorities and local governance by political strategists.

**One of the major problems of such government procurements is the failure to publish the results of the studies. Only a restricted number of persons with administrative resource have access to the results of regular surveys. It consistently affects competition on the political market.**

It is easy to imagine the following situation: candidates from the party of power obtain the data received because of surveys conducted using budget funds, receive access to political strategists, and provide consultative services for executive power bodies. From the ethical point of view, such an approach with taxpayers paying for surveys but the results being concealed seems dubious.

Besides, the problem is to determine what authorizes public authorities and local governance to procure secret social research and political consultations. For example, in Chapter 3 of the Federal Law No. 131-FZ from October 6, 2003 "On General Principles of Local Governance in the Russian Federation" we have managed to find only one clause that could justify such polls: Clause 12, Article 14.1 stipulates "ensuring conditions for independent quality evaluation of services provided by the organizations as specified by federal laws". However, this evaluation implies specific mechanisms, as follows from various legislative acts. For instance, Article 36.1 "Independent quality evaluation of services provided by cultural organizations" in "Principles of legislation in the cultural field" approved by the Supreme Council of the Russian Federation in 1992 stipulate that social councils are to exercise control on open data principle. The same regulation is repeated in the Federal Law No. 442-FZ from December 28, 2013 "On Principles of Social Services for Russian Citizens" (Article 23.1). It is specifically stipulated that the results of such surveys should be publicly available and published on the official websites of relevant government bodies.

<sup>63</sup> [http://zakupki.gov.ru/pgz/public/action/orders/info/order\\_document\\_list\\_info/show?source=epz&notificationId=6801056](http://zakupki.gov.ru/pgz/public/action/orders/info/order_document_list_info/show?source=epz&notificationId=6801056)

<sup>64</sup> <http://zakupki.gov.ru/epz/contract/contractCard/common-info.html?reestrNumber=2773556629016000031&source=epz>

Therefore, there are not any local issues that would require local authorities to conduct social research.

Besides, Federal Law No. 131-FZ from October 6, 2003 “On General Principles of Local Governance in the Russian Federation” provides for the ways for the population to participate in local governance. Article 31 provides such a way as “Citizens poll” which has nothing to do with social research conducted in Moscow, since this way requires certain official procedures to be completed, including notifying citizens of the poll at least ten days in advance.

Current legislation declares the inadmissibility of intervention of executive bodies and officials in the activities of political organizations and an establishment of advantages for political organizations at the expense of budgetary resources. Furthermore, state and local self-government authorities have no power that would involve spending budgetary funds for sociological studies. Russian legislation provides for a sufficient number of methods for identifying citizens’ opinions, including elections, referendums, public hearings, surveys, etc., which are strictly regulated and publicly held.

**The analysis of the Moscow market of government procurements for sociological studies and political consulting has revealed not only its significant monopolization, but also showed that the major part of this market is occupied by companies engaged in political consulting and informational support of the activities of politicians and authorities.**

For example, IMA-Consulting LLC had been one of the largest recipients of contracts for a long time<sup>65</sup>. In 2014–2016, this major contractor received 52 contracts on sociological studies in Moscow worth 132.6 million rubles. However, recently the company has not been so successful: it began to constantly lose to other players, and mostly to the “Center for Political Technologies” fund. Revealingly, both companies belong to well-known and reputable experts who, according to the latest reports in the media, are involved by the Moscow authorities to run campaigns for the election of deputies in the municipalities of Moscow in 2017<sup>66</sup>.

IMA-Consulting LLC is a part of IMA Group Holding, whose president is Andrey Gnatyuk, a political strategist. In the 1990s, he worked with Igor Mintusov, another famous political strategist and founder of Niccolo-M Company and one of the main consultants of Boris Yeltsin’s presidential administration. Following the results of the elections to the State Duma in 2007 and the President of the Russian Federation in 2008, Andrey Gnatyuk was awarded the First Class Medal of the Order “For Merit to the Fatherland”. Moreover, he was honored by five gratitudes from the President of the Russian Federation, as well as personal gratitude of the former Minister of Civil Defence, Emergencies and Disaster Relief, S. K. Shoigu, the former mayor of Moscow Y. M. Luzhkov, and assistant to the President of the Russian Federation in 2000-2008 S. V. Yastrzhembsky.

The company’s role on the Moscow market is emphasized by the fact that TV channel “TsAO TV” was included in its structure (as per the IMA Group’s website).

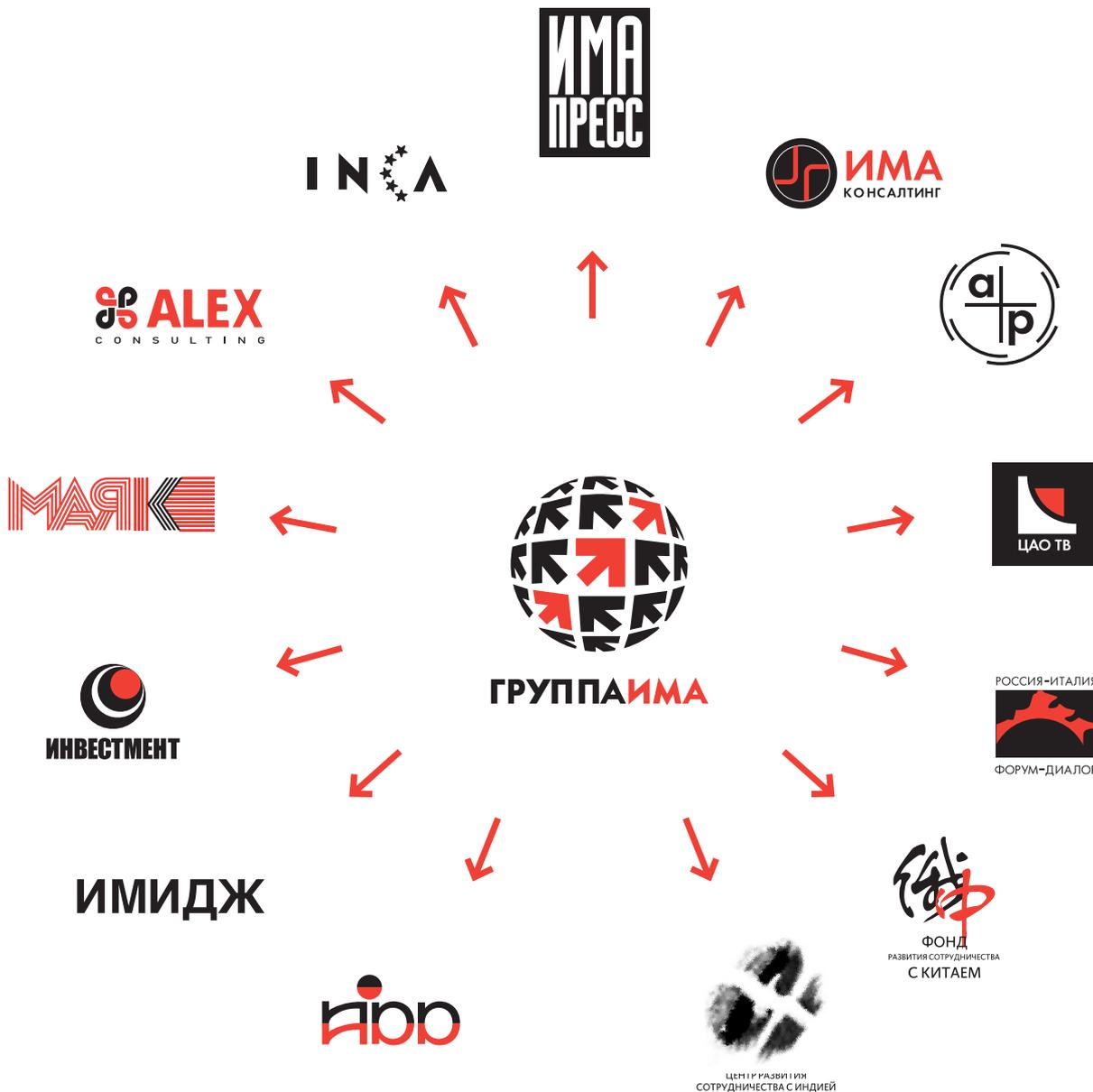
IMA Group and its affiliates received over 400 state contracts for a total of almost 2.5 billion rubles in six and a half years. In particular, in 2011–2017 IMA Group DLC received 20 state contracts worth 433 million rubles from the Moscow authorities, the Moscow City Electoral Commission and federal structures, including the Ministry of Education, the Social Insurance Fund, the Presidential Administration of Russia and the Federal Tax Service. IMA-Consulting LLC received 250 state contracts worth 666 million rubles, mainly from the Moscow authorities. CA IMA-Press LLC received 89 state contracts worth 1.031 million rubles, mainly for information support of the activities of Moscow and federal structures, including the Presidential Administration of the Russian Federation. Tretya Tochka LLC won 35 contracts worth 283 million rubles.

Igor Bunin and Boris Makarenko, well-known political strategists, own the main competitor of IMA Group Center for Political Technologies foundation. Bunin also has state awards for his work in the elections. In 2016, he was awarded the Order of Friendship<sup>67</sup>. In the period March-May 2017, “Center of Political Technologies” has already won 13 state contracts from Andrey Hnatiuk’s structures for carrying out sociological studies and political consulting for 28.5 million rubles. In total, in

<sup>65</sup> IMA-Consulting have come into the mass media’s field of vision more than once. For example, a very detailed journalistic investigation of its activities can be found here: <https://noodleremover.news/sobyanin-propaganda-raspil-6c6100fb9d3e>

<sup>66</sup> Leading political strategists take part in the Moscow municipal elections // Vedomosti. 08.18.2017. Available at: <https://www.vedomosti.ru/politics/articles/2017/08/18/730023-vibori-v-moskve>

<sup>67</sup> Decree No. 608 of the President of the Russian Federation of 11.17.2016 “On Awarding the State Awards of the Russian Federation”. Available at: <http://publication.pravo.gov.ru/Document/View/0001201611170043?index=4&rangeSize=1>



Source: <http://www.imagroup.ru/pages/ima/>

2011–2017 fund received 30 state contracts worth 96 million rubles for this purpose. Political Technologies CJSC that is closely affiliated with the fund received another contract worth 2 million rubles.

“Center of Political Technologies” fund has been cooperating with the Moscow authorities for a long time: in 2011-2016, the company concluded 61 state contracts for rendering various services worth 307 million rubles. Most contracts are ordered by different state Moscow structures.

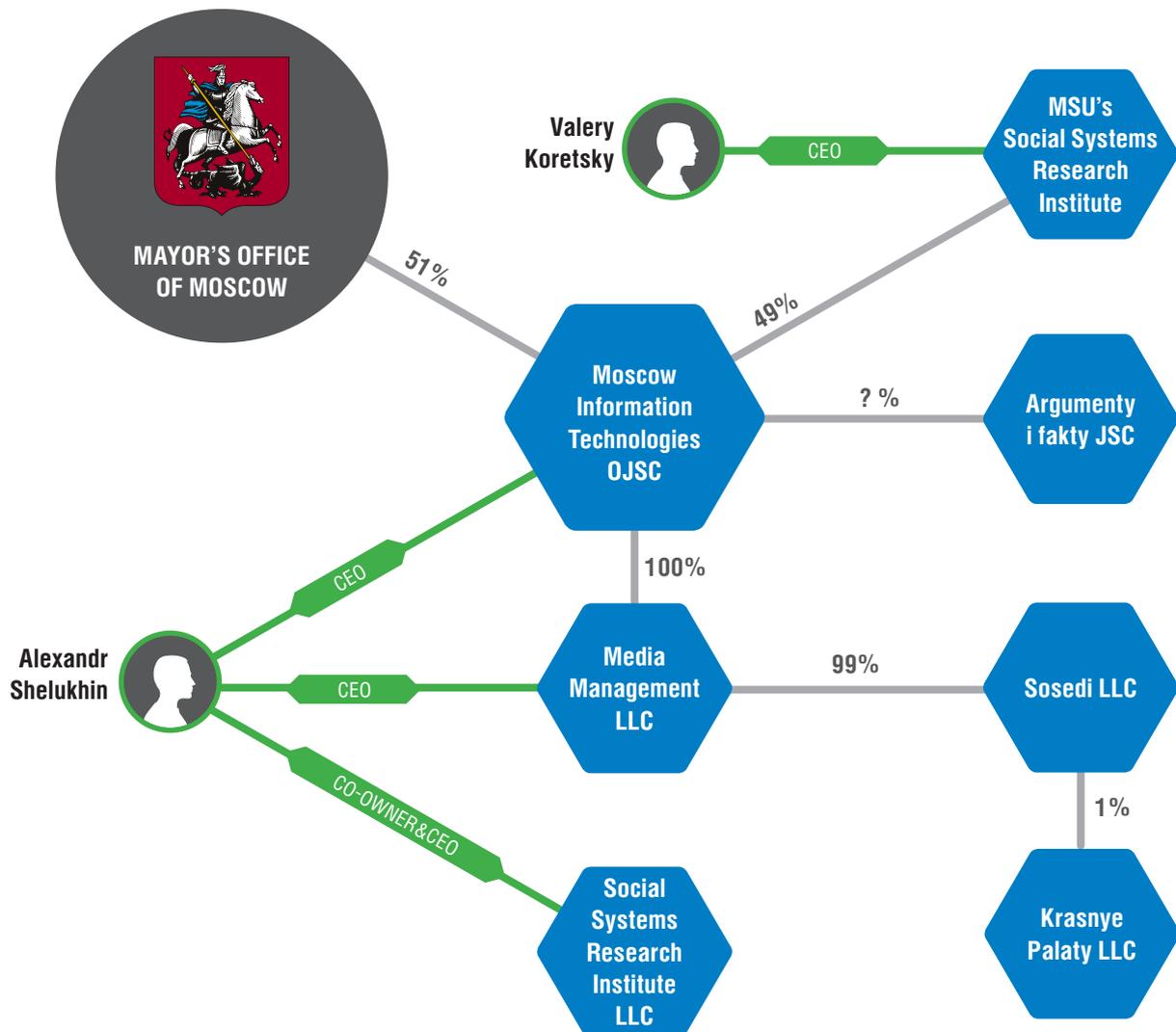
It is necessary to mention Scientific Research Institute of Social Systems CJSC, which received 16 state contracts worth 67.6 million rubles in 2015. This company received 54 state contracts worth 737.5 million rubles in total. Moscow authorities are main government customers.

The company ceased to exist in August 2016, but in the same year Scientific Research Institute of Social Systems CJSC, with the same founder – Aleksandr Shelukhin appeared. It has already won four state contracts worth 20 million rubles. Several other legal entities are associated with Aleksandr Shelukhin: Moscow Information Technologies JSC (received 25 state contracts worth 250 million rubles for information support of the state authorities), Arguments and Facts JSC<sup>68</sup> (48 state contracts worth 315.5 million rubles across the country), Krasnyye Palaty LLC (2 contracts worth 26 million rubles), Sosedi LLC (2 contracts worth 13 million rubles).

In most cases, Moscow authorities are the government customers. Meanwhile, the holding is directly connected with the Moscow Mayor’s Office, which is the main owner. For example, Moscow Mayor’s Office owns 51%

<sup>68</sup> According to mass media, in 2014 the company was acquired by Moscow Information Technologies JSC: <https://www.vedomosti.ru/business/articles/2014/03/12/moskva-kupila-gazetu-argumenty-i-fakty>

## Moscow Information Technologies OJSC's affiliates



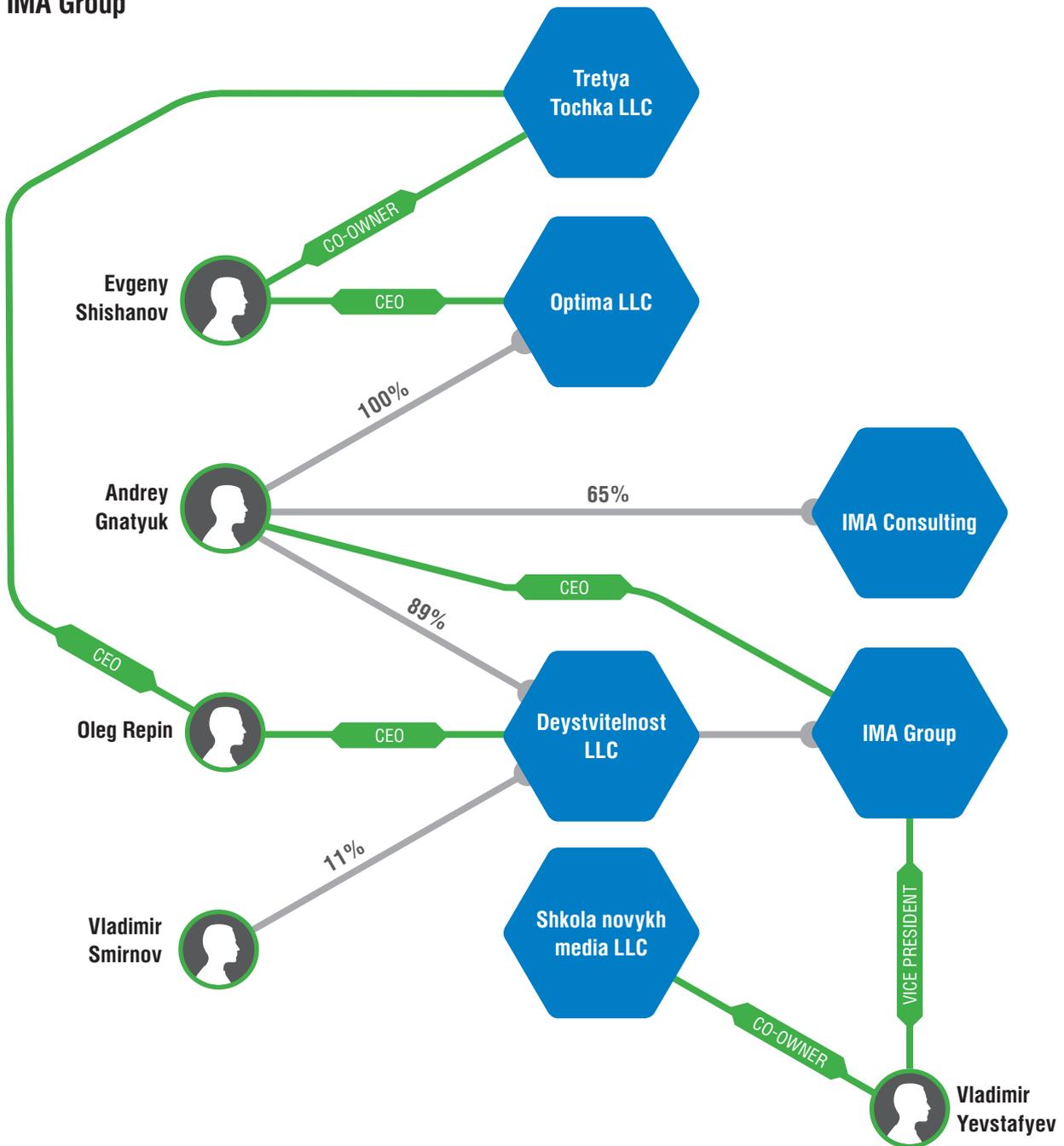
of the shares in Moscow Information Technologies OJSC (MIT OJSC). The company has redeemed the controlling interest of Arguments and Facts CJSC<sup>69</sup>.

Here, as in the case of state contracts of donors of the “party of power”, the high level of monopolization in the system of government procurements by the Moscow authorities for carrying out sociological studies and providing consulting support is ensured by a rather simple mechanism: the majority of key market players have the same companies as constant competitors in competitions and auctions, which are often closely linked with them. The only exception here is Igor Bunin’s “Center of Political Technologies” fund.

For example, IMA Group has two affiliated companies (“satellites”) that constantly “compete” with it for state orders of the Moscow government. These are School of New Media LLC and Tretya Tochka LLC. Vladimir Evstafiev, vice-president of IMA Group DLC is the founder of the School of New Media LLC. The company was a competitor of IMA-Consulting in almost all purchases of services for carrying out sociological studies. There was only one purchase of IMA-Consulting, where it did not take part. Tretya Tochka LLC is one more frequent competitor of the holding in the information support of the authorities. Evgeniy Shishanov, the company’s founder, is the general director of Optima LLC, which belongs to Hnatiuk. Furthermore, director Oleg Repin also manages Deystvitelnost LLC owned by

<sup>69</sup> Moscow Government will not intervene in AiF policy // Izvestia. March 11, 2014. Available at: <http://iz.ru/news/567272>

## IMA Group



Hnatiuk. Interestingly, School of New Media LLC and Tretya Tochka LLC receive the majority of contracts that IMA-Consulting has lost, and, in turn, they constantly lose these contracts to IMA-Consulting LLC and other companies of the holding.

It turns out that almost all major government contractors win their contracts from their main competitors, who are usually affiliated with the winners<sup>70</sup>.

<sup>70</sup> The analytical report "Crooked Mirror. Administrative Resource and Budget Funds in Moscow Politics". Available at: <https://transparency.org.ru/projects/goszakupki/transperensi-interneshnl-r-predstavlyaet-doklad-o-korrupsii-v-sfere-politicheskogo-piara.html>

## Акт № 51 от 07 июля 2014 г.

Исполнитель: ООО ТРИА "Катунь", ИНН 2223007010, 656008, Алтайский край, Барнаул г, Пролетарская ул, дом № 252, р/с 40702810302140012870, в банке ОТДЕЛЕНИЕ N8644 СБЕРБАНКА РОССИИ, БИК 040173604, к/с 30101810200000000604

Заказчик: Краевое бюджетное учреждение "Издательский дом "Регион", ИНН 2225084356, 656056, Алтайский край, Барнаул г, Анатолия ул, дом № 81, тел.: 385-2-65-22-02

№	Наименование работ, услуг	Кол-во	Ед.	Цена	Сумма
	Услуги информационно-организационные, предусматривающие освещение в федеральных средствах массовой информации и на интернет-сайтах деятельности органов исполнительной власти Алтайского края по решению вопросов, перечисленных в статье 26.3 Федерального закона от 06.10.1999 №184-ФЗ (Контракт 2014.58952 от 28.03.2014), в том числе:				
1	Комментарийная программа (распространение тематических комментариев в аффилированных СМИ)	4	шт	20 000,00	80 000,00
2	Разработка тематических планов - генерация плановых информационных поводов	1	шт	11 000,00	11 000,00
3	Обработка информационных поводов (копирайтинг информационных и тематических текстов). Рассылка материалов и инициирование публикаций в федеральных СМИ и на интернет-сайтах.	3	шт	35 000,00	105 000,00
4	Инициирование тематических запросов журналистов по направлениям: инвестиции, бизнес, туризм, знаковые региональные проекты Алтайского края	1	шт	10 000,00	10 000,00
5	Мониторинг публикаций, клиппинг-отчет	1	шт	10 000,00	10 000,00

Итого: **216 000,00**  
Без налога (НДС) -

Всего оказано услуг 5, на сумму 216 000,00 руб.

Двести шестнадцать тысяч рублей 00 копеек

It is important that the services provided to the Moscow authorities by political strategies that are paid from budget funds are complex, directly connected technologically, and include work on information support and organization of interaction with the leaders of public opinion<sup>71</sup>.

Such a structure is classical for political consulting: firstly, the strategist evaluates public opinion, reveals the mood, key problems and preferences of the citizens, secondly develops the concept of information campaign and implements it.

Let us consider some points that are directly related to the main subject of the study.

Many contracts, as already mentioned, include not only consulting and sociological surveys, but also information support for the activities of the Moscow authorities. For example, in October 2013, the contract between the SEAD district and IMA-Consulting LLC "on informing

residents through the organization and holding of meetings with residents of the districts, representatives of labor associations and public organizations" was concluded. The contract assumed sociological studies and "development of informational materials on implementation of district social and economic development programs", "informational support of events", etc.

The costs of government and local self-government authorities for work with the mass media have raised questions about its validity and transparency long before. Such a problem is not only in Moscow, but also in all Russian regions. As our last year study on the government financing of mass media in the Altai Territory showed that such contracts in the year of elections may contain a task for the development of hidden political campaign and its placement in mass media<sup>72</sup>.

So, in September 2014, the governor's elections took place in the Altai Territory. Aleksandr Karlin who has been governing the region since 2005 won these

<sup>71</sup> In practice, such "work" with leaders of public opinion often means an uncovered "purchase of loyalty" from their side. For example, in the study of distribution of NGO government grants in the Altai Territory, it has been shown that the majority of the largest recipients of such support appear to be affiliated with the government authorities anyway: Report "Loyalty Sale. How the budget funds are spent on NGO support in the Altai Territory." Available at: <https://transparency.org.ru/projects/prozrachnost-nko/rasprodazha-loyalnosti-kak-v-altayskom-krae-raskhoduyutsya-byudzhetye-sredstva-na-podderzhku-nko.html>

<sup>72</sup> Report "Cost of the Word: How Budgets for the Governor's PR are Allocated in the Altai Territory." Available at: <https://transparency.org.ru/projects/goszakupki/doklad-tsena-slova-kak-v-altayskom-krae-osvaivayut-byudzhety-na-gubernatorskiy-pr.htm>



elections. In the accounting papers of the government contracts for information support of the activities of the Altai Territory Administration in 2014, an unexpected type of services appears which does not occur either before or after. These services include the regular development of thematic plans, creation of news maker,

“initiation of publications in the federal mass media,” initiation of thematic inquiries of journalists on issues relevant to the election program of acting governor, and, above all, the “commentary program”, i.e. payment of comments in electronic mass media. For example, in July 2014 only 80 thousand rubles were allocated to pay

**Акт № 6 от 10 апреля 2014 г.**

Исполнитель: **ООО ТРИА "Катунь", ИНН 2223007010, 656008, Алтайский край, Барнаул г, Пролетарская ул, дом № 252, р/с 40702810302140012870, в банке ОТДЕЛЕНИЕ №8644 СБЕРБАНКА РОССИИ, БИК 040173604, к/с 30101810200000000604**

Заказчик: **Краевое бюджетное учреждение "Издательский дом "Регион", ИНН 2225084356, 656056, Алтайский край, Барнаул г, Анатолия ул, дом № 81, тел.: 385-2-65-22-02**

№	Наименование работ, услуг	Кол-во	Ед.	Цена	Сумма
1	Услуги по обработке фотоматериалов и изготовлению оригинал-макетов трассовых модулей социальной рекламы "10 шагов к заданной цели" размером 3*6 м (Контракт 2014.58952 от 28.03.2014)	10	шт	8 889,00	88 890,00

**Итого: 88 890,00**  
Без налога (НДС) -

Всего оказано услуг 1, на сумму 88 890,00 руб.

**Восемьдесят восемь тысяч восемьсот девяносто рублей 00 копеек**

Вышеперечисленные услуги выполнены полностью и в срок. Заказчик претензий по объему, качеству и срокам оказания услуг не имеет.

**Приложение к Акту №6 от 10.04.2014г.: 1. CD - диск - 1штука; 2. Дизайн-макеты в печатном виде (1 лист)**

**ИСПОЛНИТЕЛЬ**

Генеральный директор, ООО ТРИА "Катунь"



**ЗАКАЗЧИК**





Materials paid for from the budget



Election campaign of the "United Russia" party

commentators. Another 105 thousand rubles they spent for three publications in the federal mass media that month. We did not take into account these amounts in the previous section.

These accounting papers made up to 750 thousand rubles in total. Naturally, not long after the election campaign ended, the funds for this kind of activities almost ceased to be allocated.

Increased circulation of the official regional newspaper "Altayskaya Pravda" was another characteristic feature of 2014. With the usual daily circulation of about 50,000 copies for 2014, on May 10, 2014, there was a half-million circulation with the special project "Priorities" which was distributed for free. The cost of publication of this material amounted to 1,360,000 rubles which were additionally allocated to the usual funds for maintenance of the edition. And already by 2017, just before the start of the election campaign for the election of deputies of the Barnaul City Duma, as well as in its course, "Altayskaya Pravda" passed the baton to municipal newspaper "Vecherniy Barnaul". The official city newspaper (which editor-in-chief is a member of the city election committee) has not only increased the circulation, but also published a series of materials about almost all future main candidates for the "United Russia" party<sup>73</sup>.

In the Altai Territory's state contract in the year of the governor's elections, there is also a mention of "social advertising" or "thematic project" called "10 Steps to the Stated Goal". For example, almost 700 thousand rubles<sup>74</sup> were allocated from the budget funds in 2014 for "Dok22" portal to cover the events of this project. It is worth mentioning that in 2014 the Altai Territory Administration launched a large-scale project "What the Success of Altai Means To Us?" which implied a survey of a large number of residents of the region to generate the regional social and economic development program "10 Steps to Success." The social action was accompanied by the placement of dozens of posters and billboards on information planes throughout the Altai Territory.

Development of the original layouts for these route modules was also paid for from the regional budget and cost the taxpayers almost 90,000 rubles.

At the end of June 2014, the election campaign was officially launched, and closer to the voting day residents of the region were able to observe how social advertising, which was developed and supported from the regional budget, was actually turned into one of the candidates' agitation.

<sup>73</sup> The newspaper wrote about 39 of the party's 40 main candidates. It is noteworthy that for the same period not a single (!) article appeared about acting deputies who were not lucky enough to get on this list.

<sup>74</sup> Report "Cost of the Word: How Budgets for the Governor's PR are Allocated in the Altai Territory." Available at: <https://transparency.org.ru/projects/goszakupki/doklad-tseny-slova-kak-v-altayskom-krae-osvaivayut-byudzhety-na-gubernatorskiy-pr.html>

Photograph: Site "What's to be done?"



A similar campaign technique was used at the State Duma elections in Moscow in 2011 when billboards paid for from the public budget appeared on the streets summoning people to the elections. The billboard design was so much alike the pre-election promo campaign of one of the parties that it was a bit confusing.

These examples are good illustrations of how the public budget may be used for disguised political advertising. However, systematic prevailing of political incumbents is secured not only during the pre-election period. Our Altai research shows that biased (sponsored) articles in major federal and regional mass media are constantly paid out for from the regional public budgets.

Sometimes though it looks rather odd. For example, The Altai Territory's budget was used to pay for the articles posted on the site "Regions' club" ([www.club-rf.ru](http://www.club-rf.ru)), particularly — "Publication about the work of Head of Regional Administration in Monthly analytical review "Assessment rating of the work of Heads of Russian regions""<sup>75</sup>. Quite large sums were disbursed for articles on the sites of "Interfax", TASS and "Argumenty i Fakty". Sufficiently large sums were injected into the regional mass media, and the leader was a site with small traffic, but belonging to one of the regional political strategists.

<sup>75</sup> Report "Cost of the Word: How Budgets for the Governor's PR are Allocated in the Altai Territory." Available at: <https://transparency.org.ru/projects/goszakupki/doklad-tsena-slova-kak-v-altayskom-krae-osvaivayut-byudzhety-na-gubernatorskiy-pr.html>



# CONCLUSIONS

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The financing system for election campaigns and political parties in the Russian Federation is developed quite thoroughly in legislative terms; however, the undertaken analysis reveals a significant gap between rules and practical application. Moreover, the legislative control itself may vary depending on a region and, as a rule; the changes are not for the better in comparison with the rules adopted on the federal level. Besides, there are cases when explicit legislative standards are just not complied with. For example, very often one won't find financial reports which should have been published by election commissions on their official sites.

The situation becomes more complicated since many reports are misrepresented and do not reflect the real state of affairs: a huge amount of money raised to support political campaigns, is not registered in official reports at all. At the same time the authorities responsible for the organization of elections are not endowed with powers to efficiently control electoral funds — the investigative bodies should do that. Virtually, the only method to remedy this state of affairs and the one we can count on as a rather effective technique is the decision to increase the critical size of donations and sizes of electoral funds. Besides, simplification of accounting and reporting on political actors' spendings should also be considered as a method.

**We believe it to be to in the interest of the voter that the focus of control shifts from candidates and political party spending to the sources of their income. Moreover, the income sources present a real problem and attract keen interest of the voter, representatives of the expert community and the media.**

It is not always possible to identify even the sources of official financial arrivals to candidates and parties coffers. It is connected with the peculiarities of Russian legislation which does not contain the notion of “a beneficial owner”, social organizations, that support parties, are not obliged to reveal their sponsors and there is a practice of donations via figureheads.

However, today's biggest issue is the usage of advantages by the incumbency and indirect state support in favor of certain political forces. This is support with the use of public means, on the taxpayers' dime. It may come as distorted information through the media controlled by the state or administrative officials, as services of political strategists and sociologists paid for from the public budget or as any other advantage provided by the incumbents. It may go as far as a direct participation of public officials in election campaigns or putting pressure on the voter, candidates or members of election commission. Such a violation of the approach of political neutrality by public officials will cause a serious distortion to the political arena and is nothing less than an obvious manifestation of political corruption.

Unfortunately, it is obvious that changes and amendments to the current legislation won't be enough to remedy the situation. It is more important to find political will and resolution to change the frustrating state of affairs in the very officials who stipulate the rules of the game. However, this need will arise only if there is a clearly articulated public request and a particular push from “below” — from the citizens themselves.

Bearing in mind everything that has been said above, the Center of Anti-corruption Research and Initiatives “Transparency International — Russia” has prepared a few recommendations.

# RECOMMENDATIONS

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## TO LEGISLATORS AND POLITICIANS

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- More attention should be paid to the identification and elimination of administrative resources and disguised public financing. For this purpose, there may be a need to reconsider functions and powers of election commissions even to the point where the functions of election organization and financial control are separated. There is a great experience accumulated in world practice on the subject as well as different implementation methods of this idea. For example, in a number of countries such as Norway, Great Britain, France, Belgium and others, there exists a specific ad hoc body set up for this cause and dealing with the verification of candidates and parties financial reporting. The system in the USA works exactly the same way, which means that the Federal election committee deals exclusively with verification of financial reports. Another working model is when the functions of financial control over conformance with the settled rules and bans are entrusted to a state auditing body (these powers are delegated to corresponding institutions in Austria, Iceland and Israel). We believe that this kind of approach will allow election commissions to focus exclusively on the function of election organization meanwhile financial control will be performed on a more professional level.
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- To introduce into Russian legislation the notion of “a beneficial owner” of a company (“an ultimate owner”) – that will finally terminate the mere possibility of financial support of election campaigns from abroad or by companies partially owned by the state. As well as it is necessary to prevent circumvention of the bans on critical donations from major holding companies.
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- To increase critical sizes of electoral funds and donations in situations when they are unnecessarily low. This will drive most of the “political” money out of the shadows.
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- To oblige nonprofit organizations that provide financial support to candidates or parties to reveal their donors to society (name of a company or an individual, TIN, region and the sum of donation). To publish these reports on the site of the Ministry of Justice of the Russian Federation.
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- To adopt a law on donations from holders of public contracts and recipients of various state support (subsidies, grants and etc.)
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- To develop methods that will encourage financial support of parties from their own members and ordinary citizens. For example, to make amendments to the Tax Code allowing citizens to redirect a certain share of the paid income tax (not more than 1%) to the fund of a social organization or a political party. This will make it possible to reject public financing of major parties. If official state support of political parties remains it should be connected not only with the number of the votes gained during a federal election, but more importantly with compliance to certain criteria that induce a party to develop (for example, number of local deputies, a correct gender balance in the lists of candidates and etc.).

## TO EXECUTIVE AND SUPERVISORY BODIES

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→ To offer support for journalistic and civil investigations in the field of political financing. It is not possible to change the situation without serious attention of society to these issues.

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→ To create a united public database of sponsors of candidates and political parties at all levels. To publish all financial documentation including a must-have list of TIN legal entities-sponsors of regional departments and single-seat deputies running for the State Duma elections on the site of the Central Election Commission in a machine-readable format (for example, as dynamic spreadsheets). In the long run the possibility of a compulsory publication of this kind of reporting from elections at all levels in the system GAS “Vybory” and according to uniform standards should be considered comprehensively.

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→ To the Federal Tax Service — to initiate an income audit of those individuals who donated more than 100,000 rubles to political parties’ funds during one year.

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→ To shift the focus of financial control from the spending of funds over to the sources of arrivals of funds to the account. This measure might require additional powers to be conferred upon the supervisory bodies in order to control whether official reports are in compliance with the real state of affairs.

## TO PARTIES

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→ To the “incumbent party” — to avoid direct and indirect support from the state because this kind of support is not provided for in the legislation on political parties and by doing this to avoid undermining trust in itself, to the party system and the electoral system in general. Once legitimacy is disrupted in the eyes of society, the country might become destabilized — it has already happened in different counties.

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→ To opposition parties — it is important to realize that civil society is their ally in the fight against administrative resources. Only a public proactive campaign may stop or significantly diminish the abuse of official powers that creates preferences for one party.

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→ To all parties — to develop internal rules for declaration of a conflict of interest and to formulate internal anti-corruption policy. This will allow political parties to minimize the chances that people who care more about their own business interests rather than society’s well-being will ever be enrolled. It will enhance the voter’s trust as well.

## TO POLITICAL CONSULTANTS

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→ The distortion of the competition factor on the political arena provokes a corresponding distortion of the competitiveness on the political strategy services market. A small circle of authorized companies selected in advance prevents the segment from development, sets high entry barriers to the market, causes hierarchization of this economic section and in the long run will lead to decrease in quality of competence in general. That is why we recommend introducing into the code of ethics for political strategists the principles of reasonable financial transparency and open competition with the gradual rejection of shadow financing. As a result, it will lead to the legalization of received income, the reduction of legal risks and normal development of professional associations. In this case, the institutions of civil society will come as a natural ally.

## TO CIVIL SOCIETY

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→ The current conditions place an enhanced responsibility on civil society's institutions because real reform of the existing financing system of politics is not possible without a hard-hitting social claim. That is why social associations should persistently counteract the abuse of administrative resources and the use of the public budget in favor certain of candidates and parties, since these practices are not envisaged in Russian legislation. This is the systemic distortion of competition on the political arena that provokes violation of the standards of a fair democratic election. In this situation, a very important role should be attributed to explanatory work with representatives of different social groups.



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