



Covert Foreign Money

Policy Brief

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AUTHORS:
Josh Rudolph and Thomas Morley



Please direct inquiries to
The Alliance for Securing Democracy at
The German Marshall Fund of the United States
1700 18th Street, NW Washington, DC 20009
T 1 202 683 2650
E info@securingdemocracy.org

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Alliance for Securing Democracy

The Alliance for Securing Democracy (ASD), a bipartisan initiative housed at the German Marshall Fund of the United States, develops comprehensive strategies to deter, defend against, and raise the costs on authoritarian efforts to undermine and interfere in democratic institutions. ASD brings together experts on disinformation, malign finance, emerging technologies, elections integrity, economic coercion, and cybersecurity, as well as regional experts, to collaborate across traditional stovepipes and develop cross-cutting frameworks.

Authors

Josh Rudolph is the Fellow for Malign Finance at the Alliance for Securing Democracy. He previously worked on coordinating Russia sanctions at the White House National Security Council, negotiating a new anti-corruption framework at the International Monetary Fund, and tracking financial markets at the U.S. Treasury Department. He spent seven years at J.P. Morgan as an investment banker and fixed income strategist.

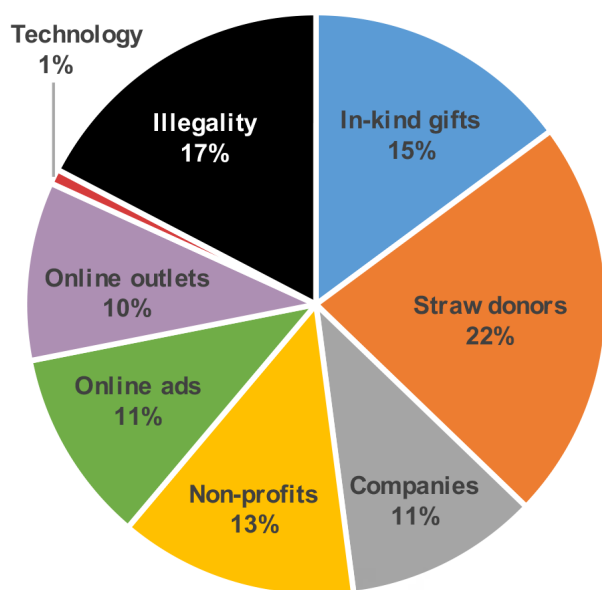
Thomas Morley is a research assistant with the Alliance for Securing Democracy. He previously worked as a consultant and as a program assistant at Yale University European Studies Council's Russia Studies Program.

In addition to more widely studied tools like cyberattacks and disinformation, authoritarian regimes such as Russia and China have spent more than \$300 million interfering in democratic processes more than 100 times spanning 33 countries over the past decade. The frequency of these financial attacks has accelerated aggressively from two or three annually before 2014 to 15 to 30 in each year since 2016.

We call this tool of foreign interference “malign finance,” defined as “the funding of foreign political parties, candidates, campaigns, well-connected elites, or politically influential groups, often through non-transparent structures designed to obfuscate ties to a nation state or its proxies.” A typical case involves a regime-connected operative funneling \$1 million to a favored political party, although buying influence in a major national election costs more like \$3 million to \$15 million.

Rather than start our analysis by focusing on any given policy area, we review open-source reporting in 16 languages to identify malign finance cases credibly attributed to foreign governments. Finding that approximately 83 percent of the activity was enabled by legal loopholes, we catalogue the resulting caseload into the seven most exploited policy gaps.

Breakdown of loopholes through which authoritarian regimes secretly funnel money into democratic politics



Broader than just money flowing through straw donors, shell companies, non-profits, and other conduits, malign finance includes a range of support mechanisms innovated by authoritarian regimes to interfere in democracies, from intangible gifts to media assistance. As such, policy strategies to address these vulnerabilities are not limited to campaign finance reforms, but also include greater transparency requirements around media funding, corporate ownership, campaign contacts with foreign powers, and other issues.

In addition to identifying loopholes, our case study informs the scope of our recommended policy solutions, which are meant close off channels for foreign financial interference without infringing upon the speech rights of domestic political spenders or

jeopardizing bipartisan support. Each of our recommendations balances these trade-offs differently based on empirical, legal, political, and administrative considerations vetted in consultation with more than 90 current and former executive branch officials, Congressional staffers from both parties, constitutional law scholars, and civil society experts.

This report is organized around each of the seven U.S. legal loopholes that need to be closed, starting with the most urgent priorities, plus an eighth chapter on the need for stronger governmental coordination.

1. Broaden the definition of in-kind contributions

Legal definitions of political donations are too narrowly scoped in many countries, effectively legalizing some foreign in-kind contributions. Examples include loans to Marine Le Pen’s party from banks controlled by Russian leader Vladimir Putin and his proxies, luxurious gifts and trips paid for by Russian oligarchs in Europe and Chinese United Front operatives in Australia, and black-market services provided by Kremlin instrumentalities.¹ U.S. President Donald Trump invited foreign support in two consecutive presidential elections, enabled by a narrow reading of the U.S. prohibition against foreign nationals contributing anything of value.²

The term “thing of value” should be more broadly defined, interpreted, and enforced, such that it unambiguously includes intangible, difficult-to-value, uncertain, or perceived benefits. The most robust form this change could take would be new legislation, although a similar result could be achieved by the Department of Justice (DOJ) and Federal Election Commission (FEC) enforcing existing law more broadly.

2. Report campaign contacts with agents of foreign powers

Authoritarian regimes send intermediaries on secret missions to enrich favored donors, politicians, or parties, as demonstrated by operations on four different continents. Nine elite Russian expatriates who donated to the U.K. Tories are named in the classified annex of a parliamentary report on Russian threats to British democracy.³ Zhang Yikun, a leader in China’s United Front work, is implicated in multiple cases of funneling money to New Zealand political parties and candidates.⁴ Yevgeny Prigozhin, Putin’s go-to oligarch for deniable hybrid warfare operations, offers package deals—including backpacks of cash, tailor-made news outlets, troll farms, and armed forces—to help the Kremlin’s preferred African leaders and presidential candidates obtain and hold on to power.⁵ The U.S. Department of Justice indicted George Nader, an American advisor to the ruler of the United Arab Emirates, for allegedly funneling more than \$3.5 million to the 2016 campaign of Hillary Clinton in order to gain access to and influence with the candidate and then use that to gain favor with, and potential financial support from, the U.A.E.⁶

U.S. campaigns should have to report to law enforcement offers of assistance from foreign powers. Legislation like the *SHIELD Act*

would require that type of reporting, although Congress should consider removing the exemption for contacts with foreign election observers, clarifying a broad definition of agents, covering big donors, and more narrowly scoping it toward non-allied countries to avoid closing off space for benign foreign relations.⁷

3. Outlaw anonymous shell companies and restrict subsidiaries of foreign parent companies

Foreign governments and their operatives use corporate entities, similar to their usage of human straw donors, as footholds to establish a legal presence—and thus the ability to donate—within target countries. This problem is most pervasive in the Anglo-American financial system, which offers deep asset markets, secure property rights, and the ability to incorporate without identifying owners. For example, Lev Parnas and Igor Fruman used an anonymous Delaware shell company to hide contributions funded by elite Russian businessmen, while a web of London-based entities tied to Kremlin-connected oligarch Dmytro Firtash have donated to numerous British politicians.⁸

Legislation like the *Anti-Money Laundering Act of 2020* would outlaw anonymous shell companies by forcing U.S. firms to report their true (beneficial) owners to the Treasury Department.⁹ This information would be held securely and confidentially, disclosed only to support law enforcement investigations. While shell companies are by far the most important corporate vulnerability, Congress should also take targeted steps to tighten restrictions on political activity by U.S. subsidiaries of foreign parent companies, such as making CEOs certify compliance or blocking donations by firms substantially owned by nationals of adversarial countries. However, this subsidiary loophole has mostly been exploited for corrupt commercial motives rather than geopolitical operations meant to weaken target societies.

4. Disclose foreign donors to non-profits

Foundations, associations, charities, religious organizations, and other non-profits are handy vehicles for malign finance because Western legal systems treat them as third parties permitted to spend on politics without meaningfully disclosing the identities of their donors. For example, far-right parties in Europe such as Alternative for Germany, the Freedom Party in Austria, and the League in Italy each have non-profit conduits that can channel foreign money into elections.¹⁰ Russia secretly funds non-profits serving as bespoke fronts to execute specific mandates, like a Dutch think tank campaigning against a Ukrainian trade deal with the European Union, a Delaware “adoptions” foundation lobbying against sanctions on Russia, environmental groups opposing U.S. hydraulic fracking, and a Ghanaian nonprofit employing trolls pretending to be African Americans.¹¹ Lastly, non-profits have been used as vehicles for elite capture, such as bribery run through CEFC China Energy, Firtash’s use of his British Ukrainian Society to influence elites in London, and Russian secret agents and money launderers working to cultivate top U.S. politicians through the National Rifle Association.¹²

Legislation like the *DISCLOSE Act* would require U.S. non-profits

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that advocate for a clearly identified political candidate to publicly disclose the identities of their donors, whether they are foreign or domestic.¹³ We also propose legislation more targeted toward malign finance, avoiding public disclosure requirements for domestic “dark money” groups. It would require all U.S. non-profits—whether they spend on politics or not—to report the identities of all their funders to law enforcement, while only having to publicly reveal their foreign funders. Compared to the *DISCLOSE Act*, this proposal would include 501(c)(3) charitable organizations, exclude corporations, identify beneficial owners, include forms of income beyond just donations, and require reporting of financial audits.

5. Disclose online political ad buyers and ban foreign purchases

Russia, China, Iran, and other foreign powers continue to buy political ads on social media platforms in order to covertly influence elections and public opinion in democratic societies.¹⁴ These secret ad campaigns are often legal because online ads are not subject to the same disclosure rules and foreign restrictions applicable to print and broadcast media.

A bill like the *Honest Ads Act* would require public disclosure of the sources of payment for online political ads, similar to rules that have long applied to traditional ad mediums.¹⁵ Legislation like the *PAID AD Act* would expand the foreign source ban to apply to ad purchases at any time, not just the period when U.S. buyers are regulated a month or two before elections.¹⁶ It would further prohibit foreign governments from buying issue ads in election years to influence the election. Those types of rules around ad purchases should extend to beneficial owners, while prohibitions like the *PAID AD Act* could be limited to adversarial countries.

6. Disclose foreign funding of media outlets

The cutting edge of Russian interference appears to be the intersection of malign finance and information manipulation, including covert funding of online media outlets. European intelligence services see the Kremlin’s hand behind financial and content support for at least six far-right news websites in Sweden, thousands of short-lived “junk websites” in Ukraine, and purportedly independent local news outlets based in Berlin and the Baltics.¹⁷ Investigative journalists have scrutinized U.S.-based fringe internet news sites suspected of receiving foreign funding, but have not found definitive answers because their finances are well-kept secrets and no disclosure is required.¹⁸

U.S. technology companies should have to maintain publicly accessible “outlet libraries,” similar to the “ad libraries” required by *Honest Ads* except that they would mandate disclosure of the beneficial owners who fund online media outlets using internet services provided by U.S. technology companies. Similar to how U.S. banks are employed to enforce sanctions and are responsible for collecting and verifying beneficial ownership information, the legal obligation to operate these proposed outlet libraries should fall to U.S. web hosting providers, domain registrars, search en-

gines, advertising technology firms, and social network platforms. Online media outlets wanting to use these services would need to provide tech companies with the identities of their funders—including equity owners, advertisers, and donors—for inclusion in the library. Covered outlets should include news organizations whose websites receive more than 100,000 unique monthly visitors or social media engagements while excluding publicly traded companies and other outlets already required to disclose ownership. The scope could be further limited to outlets receiving at least 10 percent of their financial support from abroad and require disclosure only of those foreign funders.

For traditional media outlets, Congress should require the FCC to again prohibit foreign-owned companies from acquiring more than 25 percent of U.S. broadcast licenses or at least give Congress a chance to overrule allowances. Lawmakers should require public disclosure when foreign agents like Sputnik and RT seek time on U.S. airwaves and clarify on-air disclaimers so that listeners know when they are hearing propaganda sponsored by the Russian government rather than just receiving an hourly attribution to some parent corporation that most Americans have never heard of.

7. Ban crypto-donations and report small donor identities to the FEC

In order to conceal financial flows into Western politics, authoritarian regimes have shown an intent to exploit two emerging technologies offering anonymity. First is the threat of political spending in the form of cryptocurrencies, a medium of exchange that Russian military intelligence mined, acquired, laundered, and spent on its 2016 hack-and-dump infrastructure because it is easier to keep off the radar of U.S. authorities.¹⁹ Second is the risk of donor bots capable of automating thousands of political contributions in the names of stolen identities, keeping such operations under wraps by capping donations at the \$200 disclosure threshold.²⁰

Donations and political ad purchases in the form of cryptocurrencies should be completely prohibited. Small donor disclosures require more nuanced handling. Campaigns, parties, and super PACs should have to report small donor identities to the FEC, which should make the information publicly accessible through a secure, limited, and conditional gating process. Any member of the public requesting access to the data should have to complete a security check and commit to not publicly disseminate or misuse personal information. This would deter stalkers, snoops, and other bad actors from abusing the data while enabling investigative journalists, watchdogs, and academics to analyze it for patterns of possible straw donor schemes.

8. Coordinate across the executive branch and reform the FEC and Treasury

A particularly aggressive 17 percent of malign finance cases do not operate primarily through legal loopholes. Examples include Russian oil profits earmarked to fund the League in Italy and various United Front bribery and straw donor schemes.²¹ When authoritarian regimes are caught breaking the law in ways that

involve large sums of money, that boldness is often reflective of broader multi-vector influence campaigns authorized at the highest levels.

U.S. administrative responses to foreign interference campaigns need to be similarly supported by the president and coordinated “in a sweeping and systematic fashion.”²² The Alliance for Securing Democracy has recommended appointing a foreign interference coordinator at the National Security Council, creating a Hybrid Threat Center at the Office of the Director of National Intelligence, and establishing other avenues for coordination.²³ We explain how economic departments and agencies should feed into these coordinating bodies, how the FEC needs structural reform to overcome partisan gridlock, and how Treasury should reorganize to dedicate as much administrative priority to fighting authoritarian influence as it does to combatting terrorist financing.

Global surge of malign finance

Most cases of malign finance we identify over the past 10 years occurred in the second half of the decade: 78 percent since 2016 and 92 percent since 2014. We are confident this marks a true acceleration—rather than the West simply paying more attention—because of detailed reporting on regional strategic influence campaigns approved by heads of state. Putin authorized campaigns against Europe in 2014, the United States in 2016, and Africa in 2018.²⁴ Chinese leader Xi Jinping elevated United Front work in 2014 and 2015, which has primarily targeted the Asia-Pacific but also extended to support the Belt and Road Initiative as far west as the Czech Republic and Africa.²⁵

“ The United States has failed to fortify its financial defenses since malign finance and other tools of election interference became top national security threats in 2016.

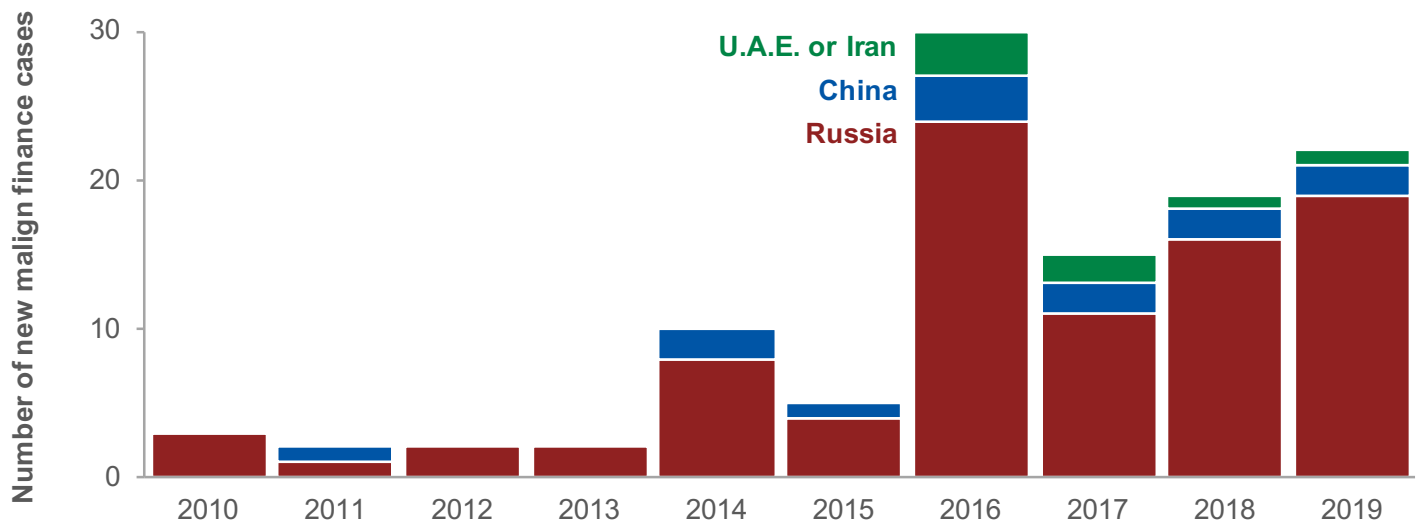
The largest regional concentration of malign finance involves Russia targeting Europe, which represents about half of the activity in our study. That is why U.S. intelligence and law enforcement officials have traditionally seen foreign political funding as a more pressing challenge for Europe than the United States.²⁶ That sense of safety is now gone, however, with U.S. officials warning in early 2020 that Russian interference in the U.S. election could not only reprise the 2016 tactics of disinformation and cyberattacks but also introduce covert financial support to political candidates or campaigns.²⁷ Indeed, our case study reveals that the most common target of malign finance—hit more than 25 times—is the United States.

LEGEND



ILLEGAL





Groundwork for sweeping policy overhaul

The last time the United States faced an emerging threat of civil infrastructure converted into asymmetric weaponry, the adversary’s arsenal did not include dirt on opponents, straw donors, shell companies, non-profits, ads, media outlets, or emerging technologies. Rather, it was airplanes flying into buildings.

Over the seven weeks following 9/11, among other responses, the U.S. government enacted the most sweeping overhaul in a generation to its anti-money laundering laws, started reorganizing executive branch agencies and functions around combatting terrorist financing, and persuaded 30 countries to impose similar financial security protections.²⁸ One reason why U.S. policymakers were ready to hit the ground running was that Congress—having seen the Russia mafia laundering billions through New York—spent the previous two years investigating how foreign financial institutions exploit loopholes in the U.S. financial security architecture in order to formulate bipartisan policy solutions.²⁹

The United States has failed to similarly fortify its financial defenses since malign finance and other tools of election interference became top national security threats in 2016, although some preliminary policy development work has begun. About half of the reforms we recommend mirror or build upon legislation already introduced in Congress, like the *SHIELD Act*, *AML Act*, *DISCLOSE Act*, *Honest Ads Act*, *PAID AD Act*, and FEC structural reforms in *H.R. 1*, even if in some cases we propose modifications to bills like these to ensure their scope targets the malign activity observed in our survey.³⁰ The other half of our recommendations are split among executive branch coordination, some straightforward statutory amendments, and five newly developed proposals: broadening the definition of a “thing of value,” requiring all non-profits to publicly disclose foreign funders, creating “outlet libraries” to identify beneficial owners, improving rules for traditional media, and mandating small donor reporting. These proposals would require some public debate and drafting work that should begin now in order to be ready when a political window opens. At the same time as we work to put our own financial security house in order, the United States should lead the democracies of the world to promote an open, transparent, and

secure arena for political finance.

Our hope is that the comprehensive empirical research provided in this report on financial loopholes exploited by authoritarian regimes to fund political interference in democracies will jumpstart a policy reform initiative to build resilience against this threat. There is no time to lose. Just like airplanes in the summer of 2001 and cyberattacks in the summer of 2016, the system is currently blinking red about incoming rubles and yuan.

Endnotes

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