

Russia's Embezzlement Problem Is Out of Control

By [Alexander Golts](#)

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Any Russian who regularly watches television knows full well that this country is surrounded by enemies. That gives special relevance to former Soviet leader Josef Stalin's bygone call to industrialize and step up military production, and his argument that "Either we do this, or they will crush us."

Heeding this sage utterance, the Kremlin decided in 2010 to spend more than 20 trillion rubles (then \$650 billion) rearming Russia's military. And now, President Vladimir Putin announced this week that "the pace of implementing state defense orders as of the end of 2014 has exceeded planned targets."

The progress is apparently so great that, for some reason, Putin finds it necessary, every six months, to meet personally for several days at a time with defense industry chiefs responsible for fulfilling state contracts. Putin has also approved the creation of an interagency system for controlling the use of state funds during the allocation and implementation of state defense orders.

The authorities plan to create an extremely complex system coordinating the databases of the Russian Defense Ministry, Federal Anti-Monopoly Service, Federal Financial Monitoring Service and the Bank of Russia. That supervisory Medusa will stand poised to strike the moment any ultra-patriotic defense industry manager transfers state funds allocated for weapons production into an unauthorized bank account.

For some mysterious reason, some of the top managers responsible for implementing defense orders seem to be agents of the U.S. State Department and Britain's MI6. How else to explain why workers at the construction site of Russia's future Vostochny Cosmodrome did not receive their salaries for several months running? Those workers first went on strike, and then declared a hunger strike in order to receive their back pay.

Of course, that news did nothing to strengthen the authority of Deputy Prime Minister Dmitry Rogozin, whom Putin had made responsible for that project and for overseeing defense contracts in general. Rogozin hastily traveled to the Far East and ensured the proper payment of wages, dismissed some officials and arrested others, and, of course, put the construction process back on track.

And as to the reason for the widespread theft and corruption — with one manager issuing a monthly salary to his wife of 800,000 rubles (\$15,000) — Rogozin said the problem stemmed from "the managers whom the former Defense Minister appointed, and who, instead of carrying out very important strategic orders from the president and government, often engaged in embezzlement."

Perhaps former Defense Minister Anatoly Serdyukov, who was dismissed from his post long ago, was also to blame for the fact that even after Rogozin had restored justice at Vostochny, the men who had organized the strike and hunger strike were fired from their jobs.

In fact, the story of the Vostochny Cosmodrome is just one of many examples of how budgetary funds get plundered under the cover of defense contracts. The new cosmodrome — on which work began in 2011 — is intended to replace Russia's reliance on the Baikonur Cosmodrome in Kazakhstan that Moscow pays \$110 million annually to use.

The authorities set a firm deadline: The new cosmodrome must execute its first launch by the end of this year. As usual though, construction on the numerous facilities in the new complex is lagging far behind schedule.

But the authorities have known that for some time already. Reports of blatant theft had plagued the construction process from the very beginning. The Audit Chamber calculated that project officials had stolen approximately 16 billion rubles (\$300 million) of the 400 billion rubles (\$7.5 billion) budgeted for construction.

Several months ago, the authorities arrested the chief of construction at Vostochny after he had successfully transferred approximately 500 million rubles (\$9.4 million) into a third-party account.

Back in September of last year, Putin expressed surprise that construction chiefs continued to brazenly steal despite knowing that the Kremlin was paying particular attention to the cosmodrome project. It was then that he sent Rogozin to Vostochny with strict instructions

to restore order.

The Kremlin also announced that the National Defense Management Center in Moscow would monitor work on the Vostochny Cosmodrome in real time.

Interestingly, Rogozin was unable to stop the runaway levels of audacious theft. Video surveillance of the construction site did nothing to reveal the source of the violations and even the clear and present threat of punishment did not stop the misappropriation of budgetary funds.

Almost one year ago, Rogozin threatened to give hell to anyone found guilty of corruption at Vostochny, and yet the stealing went on unabated.

Because every large-scale government project draws embezzlers like flies, the federal authorities first imprisoned corrupt officials responsible for construction on the APEC summit in Vladivostok, and then went hunting for those who illicitly pocketed billions of rubles during the construction of ski jumps for the Sochi Olympics.

Now the authorities are pressing charges against those responsible for building the cosmodrome — that is, senior officials at Spetsstroy, a military-related federal agency subordinate to the Defense Ministry that carries out its duties in complete secrecy. The staff of that agency answers only to its immediate superiors, whom they can either bribe or mislead.

Nobody — not parliament, the media or civic organizations — has any means of controlling the agency. It is therefore obvious that they will embezzle at an unimaginable scale. And all against the backdrop of Rogozin's lamentations and video surveillance from Moscow.

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