



Summary Report

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Panel Theme: Electoral Integrity: Political Financing

Key Issues: Political Finance and FI Financing

Assessment:

Foreign Interference (FI) requires resources and money. Building disinformation networks, paying influencers, and spreading messages takes money. It also takes money to engage in transnational repression activities, whether that's through official salaries, bonuses, or stipends. It also takes money to buy votes, fund candidates and parties, and ensure that voters who support a particular message make it to the polls.

Financing has been a neglected element of the study of FI. Indeed, this is a new concept, and little academic or policy work has elucidated the financial component of the FI threat. Yet, money trails often lead from state actors to interference activities and states increasingly use obfuscation techniques to hide these transactions.

Canada must invest in its financial intelligence capabilities to detect and disrupt FI. This applies to the financial intelligence unit, FINTRAC, and law enforcement and security services responsible for conducting FI investigations.

This report outlines how states are financing their FI activities. These cases inform a discussion of Canada's strengths and vulnerabilities (in terms of legislation, regulation, and capability). While there are some areas of improvement for Canada regarding legislation, most of the work Canada needs to do to exploit financial intelligence for FI financing disruption is in investigations: resources, skills, and political will.

Financing Foreign Interference

States such as Russia, India, Iran, and China use various methods to interfere in the politics of other countries. Dozens of countries around the world have been affected by FI. For instance, since 2014, Russia has transferred at least \$300 million to political

parties, officials, and politicians in more than 24 countries, and much more has likely gone undetected.¹ FI financing takes a variety of forms, outlined below:

- **Financing Political Parties and Candidates:** Foreign actors, especially Russia, have financially supported political parties and candidates aligned with their interests. Russia provided financial support to the National Front in France, the Five Star Movement in Italy, and the Syriza Party in Greece.² In another case, a Chinese billionaire donated to a political campaign in Australia and later pressured the party to change its stance on the South China Sea.³ This type of interference aims to influence policy decisions and gain leverage over politicians, potentially compromising national interests. The financing of candidates happens before and during election periods and at all levels of government.
- **Funding Political Campaigns:** Foreign governments have also funnelled money to support specific political campaigns. This funding can provide a significant advantage to the recipient, potentially distorting the electoral process and undermining fair competition. There are allegations that a national political party in Italy sought millions of euros from Russian investors through a secret oil deal to finance its campaign.⁴ In Moldova, a recent election also saw allegations of funding for pro-Moscow opposition groups.⁵
- **Incentivizing Voters:** Foreign actors also directly target the electorate to influence voting behaviour. China, for example, has offered discounted flights and shopping vouchers to Taiwanese voters returning to Taiwan to vote, aiming to influence their choice in favour of pro-China candidates. This tactic directly manipulates voters and can impact electoral outcomes.⁶
- **Exploiting Diaspora Communities:** Foreign actors also attempt to leverage their diasporas to influence elections in their host countries. This can involve

¹ Edward Wong, "Russia Secretly Gave \$300 Million to Political Parties and Officials Worldwide, U.S. Says," *The New York Times*, September 13, 2022, sec. U.S., <https://www.nytimes.com/2022/09/13/us/politics/russia-election-interference.html>.

² Authority for European Political Parties and European Political Foundations, "Foreign Electoral Interference Affecting EU Democratic Processes," November 2023, https://www.amo.cz/wp-content/uploads/2023/11/AMO_Foreign-electoral-interference-affecting-EU-democratic-processes.pdf.

³ Ibid.

⁴ Ibid.

⁵ Stephen McGrath, "Moldovans Cast Votes to Choose President and Decide on EU Path as Russian Interference Claims Spike," *AP News*, October 20, 2024, sec. World News, <https://apnews.com/article/moldova-elections-referendum-eu-russia-sandu-9411ab04ffb3230a83a4f8751c4e2414>.

⁶ Authority for European Political Parties and European Political Foundations, "Foreign Electoral Interference Affecting EU Democratic Processes."

mobilizing support for favoured candidates,⁷ providing financial contributions,⁸ or engaging in voter intimidation. For example, during the 2017 German elections, Turkish President Recep Tayyip Erdoğan urged Turkish citizens residing in Germany to vote against parties critical of his government.⁹

- **Vote Buying:** While not as common as other tactics, vote buying involves offering money or incentives directly in exchange for votes. In 2013, an Iranian national in France attempted to sell his vote.¹⁰ In 2024, Moldovan elections also saw accusations of a significant vote-buying scheme, which paid €15 million to 130,000 individuals to undermine two ballots.¹¹
- **Misinformation / Disinformation:** State actors will also spread mis- and disinformation in elections (and outside of election periods). Russia is alleged to have used a network of influencers, including Canadians, to create a propaganda network.¹² In the US 2022 midterm election, foreign payments were made to influencers to promote specific narratives.¹³ In the recent Moldova election, there were also allegations of Russia spreading disinformation.¹⁴ Russia is also believed to be behind fake, online viral content alleging that the US democratic candidate for vice president sexually abused a student when he was a high school teacher.¹⁵ Sometimes, state actors pay troll farms to amplify particular messages.¹⁶ States also pay for advertisements, sponsor investigative journalism, and pay for interviews to promote their interests.¹⁷

⁷ Elizabeth Thompson, "Former Parliamentarian Worked on Behalf of Foreign Government to Influence Parliament: CSIS," *CBC News*, September 27, 2024, <https://www.cbc.ca/news/politics/foreign-interference-csis-1.7336005>.

⁸ Marie Woolfe and Ian Bailey, "China Paid Approximately \$250,000 to 'Threat Actors' Working in Canada, Inquiry Told," *The Globe and Mail*, April 4, 2024, <https://www.theglobeandmail.com/politics/article-china-paid-approximately-250000-to-threat-actors-working-in-canada/>.

⁹ Authority for European Political Parties and European Political Foundations, "Foreign Electoral Interference Affecting EU Democratic Processes."

¹⁰ Ibid.

¹¹ McGrath, "Moldovans Cast Votes to Choose President and Decide on EU Path as Russian Interference Claims Spike."

¹² Will Sommer, "Inside Tenet Media, the pro-Trump 'Supergroup' Allegedly Funded by Russia," *Washington Post*, September 5, 2024, <https://www.washingtonpost.com/style/media/2024/09/05/tenet-media-russia-rt-tim-pool/>.

¹³ David D. Kirkpatrick, "The U.S. Spies Who Sound the Alarm About Election Interference," *The New Yorker*, October 21, 2024, <https://www.newyorker.com/magazine/2024/10/28/the-us-spies-who-sound-the-alarm-about-election-interference>.

¹⁴ McGrath, "Moldovans Cast Votes to Choose President and Decide on EU Path as Russian Interference Claims Spike."

¹⁵ Dustin Volz, "Spy Agencies Warn of U.S. Election Violence Stoked by Iran and Russia," *WSJ*, October 22, 2024, sec. Politics, <https://www.wsj.com/politics/national-security/spy-agencies-warn-of-u-s-election-violence-stoked-by-iran-and-russia-e8fbcbd4>.

¹⁶ Canadian Security Intelligence Service, "FI Threats to Canada's Democratic Process," July 2021, <https://www.canada.ca/en/security-intelligence-service/corporate/publications/foreign-interference-threat-to-canadas-democratic-process.html>.

¹⁷ Ibid.

Financial Transactions in FI

The activities involved in FI financing are important to understand, as are the transactions that support these activities. Several different types of financial transactions are used in FI. These usually involve cash payments, cryptocurrency transfers,¹⁸ and bank transfers, as well as the use of third-party intermediaries, foundations, think tanks, organized crime groups, political consultancies, shell companies, state-owned enterprises, and sometimes embassy accounts and resources.¹⁹

- **Cash Payments:** Cash payments for interference activities are common. In one case, a French politician was offered €500,000 in cash for his campaign by a member of the GRU, the Russian military intelligence service. In recent elections in Moldova, reporting indicates that cash was being brought into the country to purchase votes on flights from Moscow ranging from €2,000 to €7,000.²⁰
- **Loans:** In 2014, a French political party received a loan of €9 million from a Moscow-based bank, raising concerns about potential Russian influence.²¹
- **Secret Oil Deals:** In one case, an Italian political party sought millions of euros from Russian investors through a secret oil deal, intending to use the funds for its campaign.²²
- **Gifts and Luxury Goods:** A former White House official was accused of accepting gifts, including designer handbags, meals at expensive restaurants, and over \$37,000 in funding for a policy program, in exchange for advocating South Korean policy positions.²³
- **In-Kind donations:** In-kind donations in FI include the payment of legal fees, buying media space for the promotion of a selected candidate or party,²⁴ and even transportation subsidies to ensure voters get to the polls.
- **Obfuscation:** State actors often use intermediaries (including friends, family members, and trusted business associates) to receive funds on behalf of or in support of a political candidate or party. In some cases, financial institutions

¹⁸ Office of Foreign Assets Control, "Treasury Sanctions Russia-Linked Election Interference Actors," *U.S. Department of the Treasury* (blog), September 20, 2024, <https://home.treasury.gov/news/press-releases/sm1118>.

¹⁹ Wong, "Russia Secretly Gave \$300 Million to Political Parties and Officials Worldwide, U.S. Says."

²⁰ Sarah Rainsford, "Moldova Election: Russian Cash-for-Votes Flows into Ukraine's Neighbour as Nation Heads to Polls," *BBC News*, October 20, 2024, <https://www.bbc.com/news/articles/c23kdjxxx1jo>.

²¹ Authority for European Political Parties and European Political Foundations.

²² *Ibid.*

²³ Jonathan Stempel, "Former White House Official Accused of Acting as South Korea Agent | Reuters," *Reuters*, July 17, 2024, <https://www.reuters.com/world/us/ex-white-house-official-indicted-acting-south-korea-agent-2024-07-16/>.

²⁴ Authority for European Political Parties and European Political Foundations.

might be co-opted to enable the transfer of funds with less scrutiny. Finally, states also pressure donors to give money to specific candidates.²⁵

Recommendations: Combating FI Financing

Much of the FI financing activity described in this report is already illegal under Canadian law. However, some areas require refinement. For instance, detecting cash payments or international electronic funds transfers for FI purposes will be a challenge for financial institutions. Enhancing reporting requirements for Politically Exposed Persons (PEPs) could be useful. However, more structural changes are also required to enhance Canada's ability to detect and disrupt FI.

PEP reporting requirements: Politically exposed persons (members of parliament, deputy ministers, heads of international organizations, etc.) are subject to enhanced due diligence by financial institutions & entities.²⁶ Expanding the requirements for PEP reporting could enhance our ability to detect and disrupt FI finance.

There is no requirement for financial institutions to have proactive processes in place to identify existing clients as politically exposed persons. PEP reporting generally applies to the intake process of onboarding new clients. This part of FINTRAC's regulations could be amended to ensure that PEPs are more actively detected, enhancing reporting entities' ability to detect suspicious activity relating to FI. Enhanced & proactive reporting should also be applied to the family members and close associates of PEPs.

Further, PEP reporting only applies to individuals once they assume office. However, FI often happens before and during the electoral process. Legislative and regulatory amendments to the *Proceeds of Crime Money Laundering and Terrorist Financing Act* could be amended to ensure enhanced monitoring of candidates (PEPs) before elections. FINTRAC can further support this area by working with allies and developing reporting entity guidance on detecting FI targeting PEPs.

Finally, suspicious transaction reports about PEPs only apply to suspected money laundering or terrorist financing offences. This could be broadened to include suspected FI (tied to a specific offence, possibly foreign funding of a candidate, or other related offences). There is a precedent: suspicious transaction reporting was recently amended to include suspected sanctions evasion activity (in addition to money laundering and terrorist financing). It might also be proportional to expand existing PEP definitions

²⁵ Canadian Security Intelligence Service, "FI Threats to Canada's Democratic Process."

²⁶ Financial Transactions and Reports Analysis Centre of Canada Government of Canada, "Politically Exposed Persons and Heads of International Organizations Guidance | FINTRAC – Canada.ca," February 17, 2021, <https://fintrac-canafe.canada.ca/guidance-directives/client-clientele/pep/pep-eng>.

to include PEPs at the municipal level (and indigenous governments) since FI activities target all levels of government in Canada.

While enhancing PEP reporting will help detect FI financing, there are structural changes that are required to detect and disrupt this threat.

RCMP Reform: The structure and responsibilities of the RCMP hinder effective policing of federal and serious crimes. Establishing a separate and distinct police force capable of investigating, disrupting, and supporting the prosecution of FI offences is critical.²⁷ This is also necessary to allow the RCMP to protect resources (money and personnel) and maintain investigative focus.

Increased Funding and Staffing: Providing regulatory and investigative agencies with sufficient resources to investigate potential violations, track financial flows, and prosecute offenders is required to detect and disrupt FI and its financing. Mandate adjustments might also be required. For instance, FINTRAC legislation will require an update to allow for analysis of FI financing.

Enhanced Investigative Powers: Granting regulatory bodies the authority to conduct thorough investigations, including accessing financial records, interviewing witnesses, and collaborating with international partners. This might include making Elections Canada a disclosure recipient for FINTRAC information.

International Cooperation & Information Sharing: International collaboration is critical given the transnational nature of financial flows. Tactics in one country will likely be replicated (with some differences) in others.

Sanctioning Perpetrators: Imposing sanctions, such as asset freezes and travel bans, on individuals and entities involved in FI financing to deter future actions. Using Canada's *Special Economic Measures Act* sanctions could send a message to perpetrators of FI and prevent their ability to access the Canadian financial system.

Many, if not most, FI activities have a financial component, and states use bribery and financial incentives to achieve their objectives.²⁸ No single solution can fully address the challenge of FI financing. A comprehensive and multifaceted approach involving legislative reforms, empowered institutions, public awareness, and international collaboration is essential to mitigate this growing threat to democracy.

²⁷ Catharine Tunney, "Top Mountie Says He's Keen on Ottawa's Plan for a 'separate and Distinct' Federal Policing Unit," *CBC News*, June 22, 2024, <https://www.cbc.ca/news/politics/rcmp-federal-policing-structure-duheme-distinct-1.7241797>.

²⁸ Canadian Security Intelligence Service, "FI Threats to Canada's Democratic Process."