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SQUEEZED? Russia and Illicit Financial Flows

CITYPERC City Political
Economy Research Centre



COFFERS
EU Horizon 2020 Project



Background

Pre- and post-Soviet money laundering has been a driver of the globalisation of Russian organised crime, formation of early capital and the oligarchy

FDI flows in and out of Russia are anchored into 3-4 core offshore centres

Post-2014, the offshore mode of Russian capital flows has helped the Russians avoid sanctions

2018: Russia's richest men hold about 60% of Russia's GDP offshore (\$1 trillion)



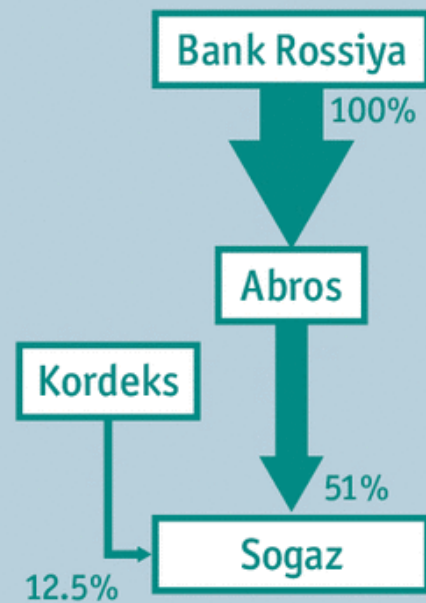
Changing hands

 Subject to sanctions

 Limited sanctions*

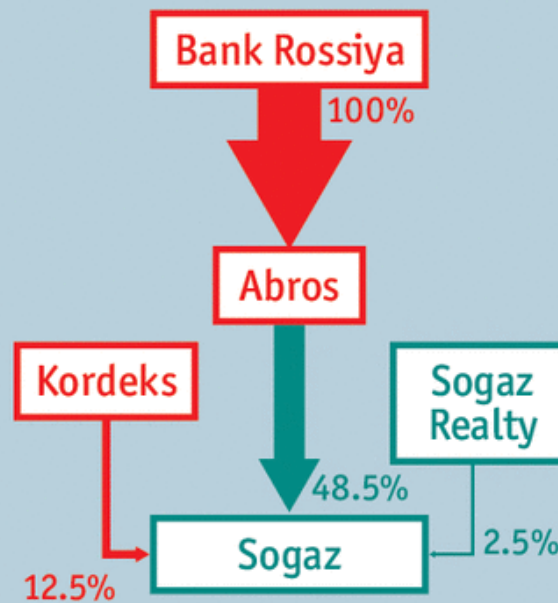
 Not subject to sanctions

Before March 2014



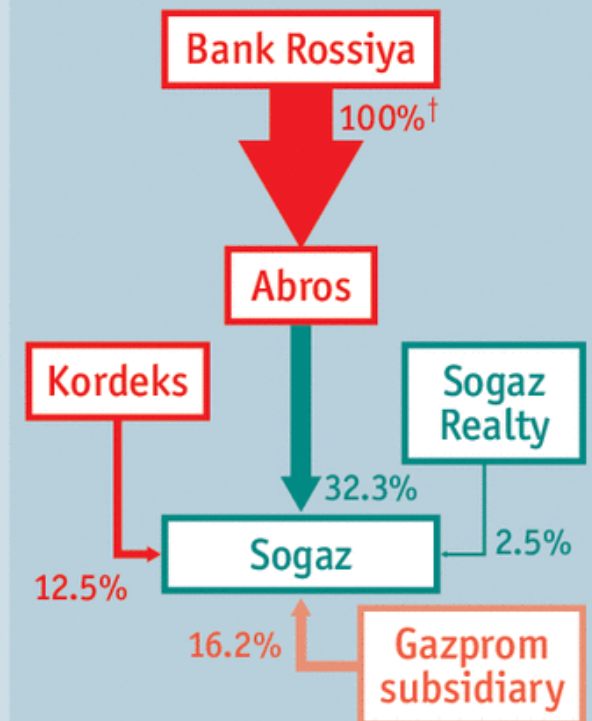
Source: *The Economist*

After March 2014



*Restrictions on financing in Western capital markets †Later transferred to Abros

After August 2014



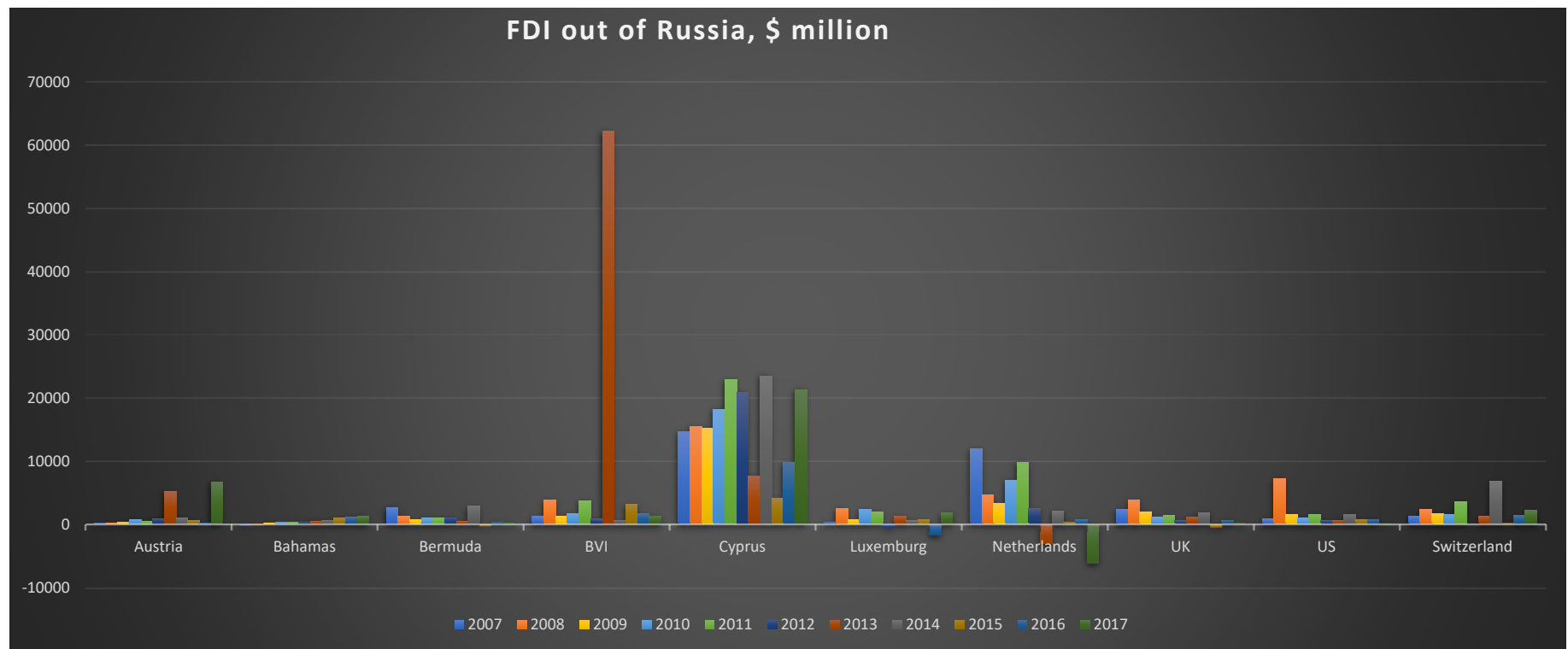
Cyprus: Russia's Real Financial Centre



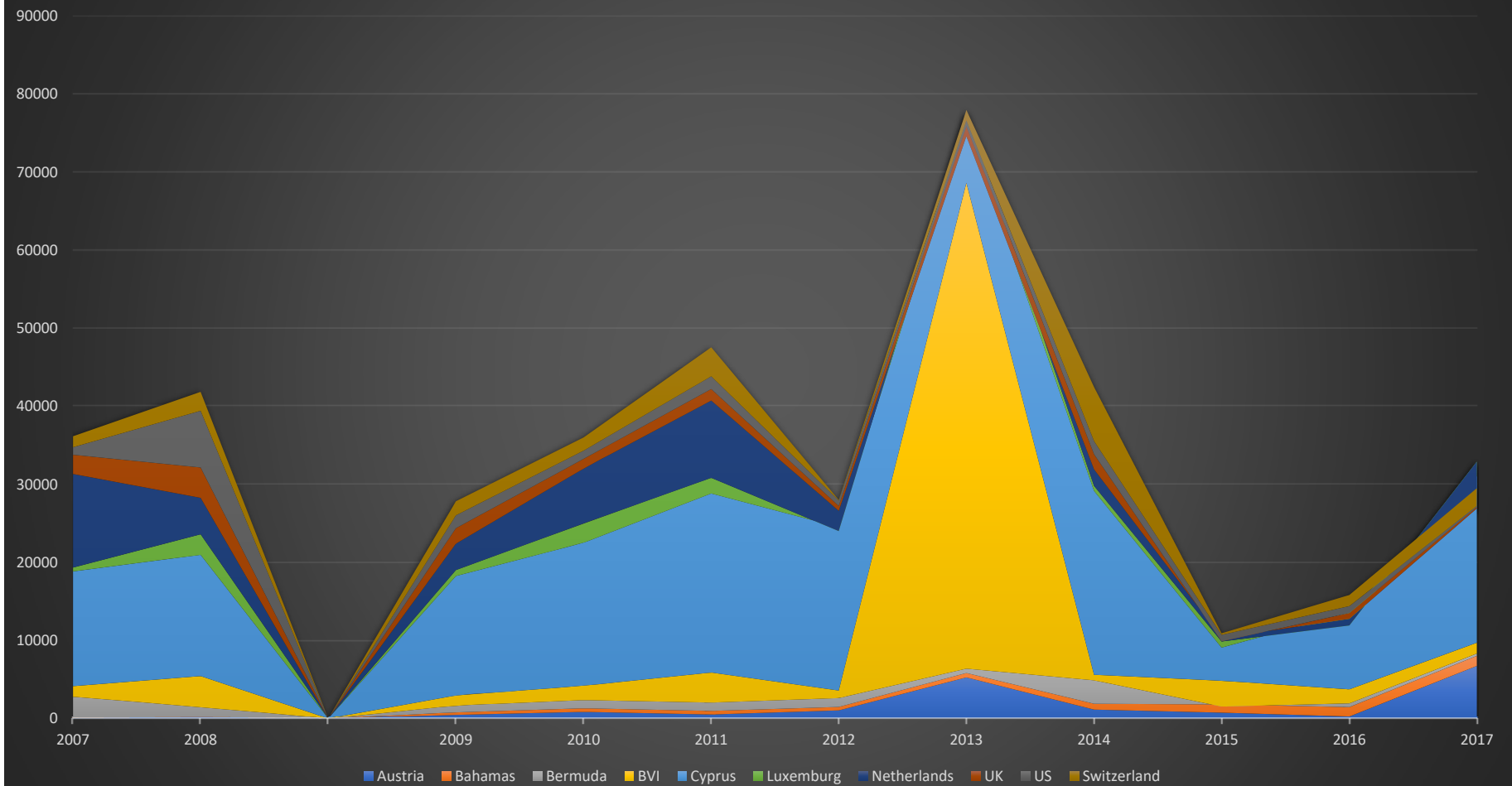
- 2014: 30% of FDI into Russia came from Cyprus
- 2017-2018: \$35.9bn flew from Russia into Cyprus
- Overall: \$177.4 bn of Russian money went into Cyprus

Kommersant

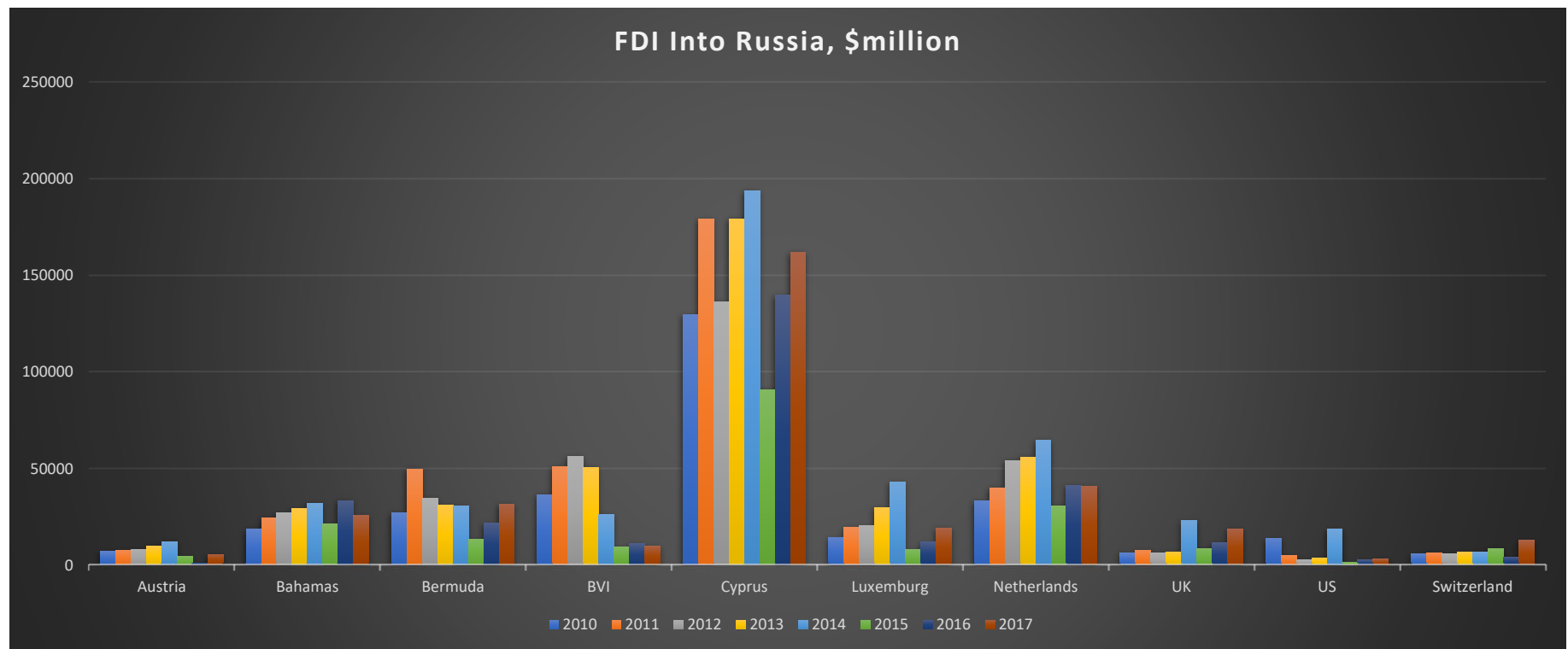
Data: Russian Central Bank, 2007-2017



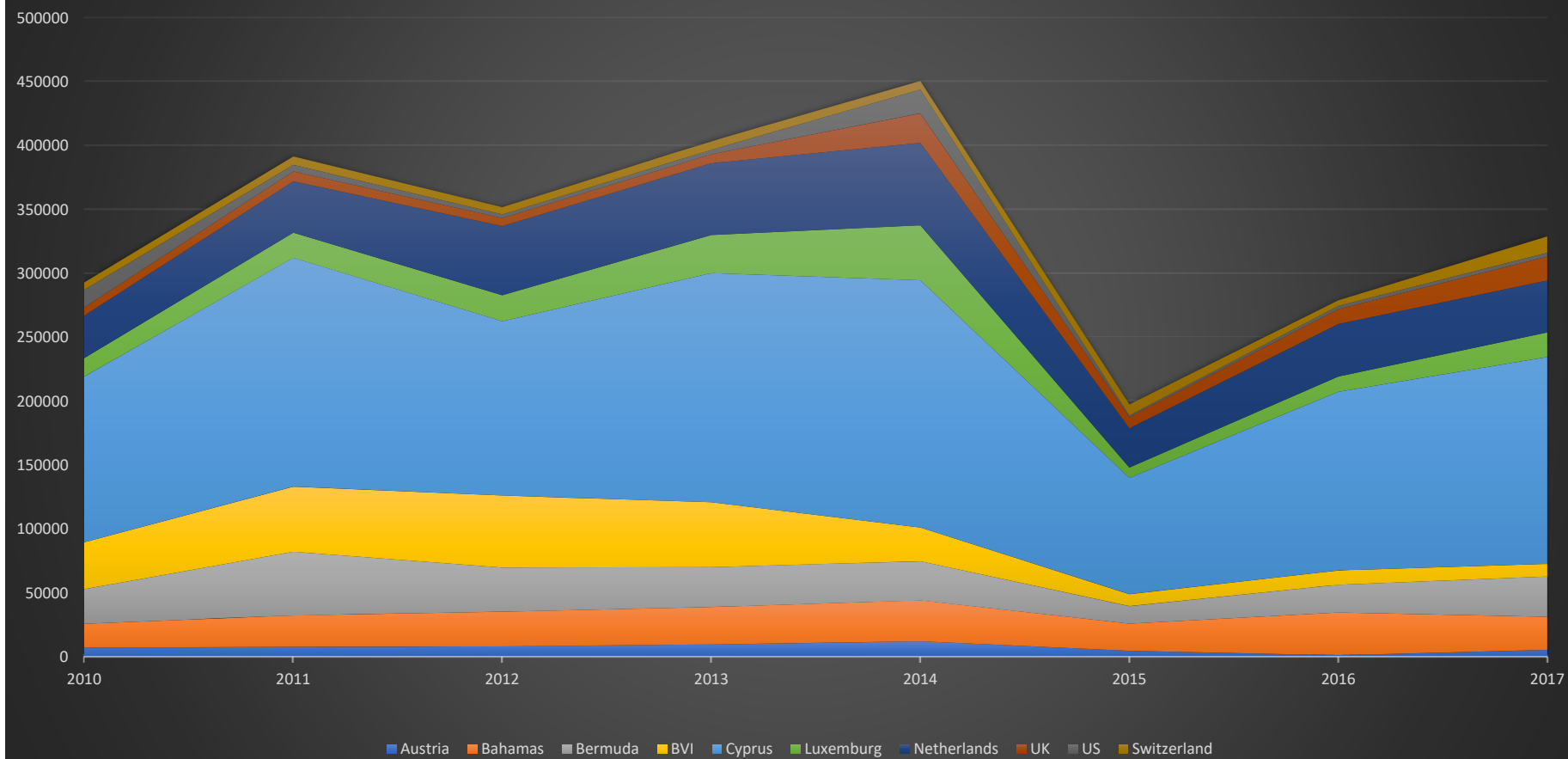
FDI out of Russia, \$ million



Data: Russia Central Bank



FDI Into Russia, \$million



Offshore for dummies: simple schemes

1. Move funds into say, Gibraltar or Malta. Get a bank account.
2. Moves the funds upwards into more secretive havens.
3. Repeat (2) continually until the money gets to final destination (e.g. London).

All bank accounts are in the name of an offshore company with nominal owners.

The scheme is not appropriate for civil servants, but totally ok for gangsters and entrepreneurs.

Alternatively, fake invoices

- A Russian company belongs to a Cyprus 'mother'.
- The Cyprus company gives its Russian 'daughter' a loan (or a right to use the brand name, licence, etc.).
- The Russian company sells products in the Russian market and earns revenue. Yet most part of this revenue goes to paying off the Cyprus mother (either as interest on the loan or as a fee for the title/right/royalty).
- As a result, the net profit of the Russian daughter is minimal, most of the sum goes to Cyprus.

Service providers

- Offshore companies have been a regular offering by specialised firms since the early 1990s to 2014.
- Business thrived in a lax regulatory environment internationally, and fed by (1) the demand of Russian clients to conceal the ownership of assets (rather than avoid taxation as such) as well as (2) use capital outside Russia.
- A typical example:

Оффшоры	Европа		США	Азия	Прочие страны
Багамские острова	Австрия	Люксембург	Арканзас	Гонконг	Австралия
Белиз	Бельгия	Монако	Делавэр	Китай	Новая Зеландия
Бермудские острова	Болгария	Нидерланды	Калифорния	Тайвань	Уругвай
Британские Виргинские острова	Великобритания	Норвегия	Кентукки	Сингапур	
Гернси	Венгрия	Португалия	Колорадо	ОАЭ	
Гибралтар	Германия	Турция	Колумбия		

2014:

- Targeted international sanctions against Russian capital have coincided with the new global regulatory drive to tame illicit financial flows and regulate banks
- This has produced several changes within the industry of enablers:

Post-2014 / AML/ CRS:

- Extremely difficult for politically exposed persons to move money, unless you are a close friend of the president
- Standard offshore enablers have switched to more complex 'international financial planning': due diligence, taxation, assessment of risk, paperwork for compliance, etc.

Two current trends

(1) Corporatisation of corrupt wealth and (2) consolidation of enablers

- New forms of illicit finance: trusts and fund management
- Always, the ultimate goal is access to a bank account in the West

By way of example,

- West Union can provide bank accounts in the following jurisdictions:

<p>Austria</p> <p>ANGLO IRISH BANK (AUSTRIA) AG</p> <p>CREDIT SWISS</p> <p>DEUTSCHE BANK (AUSTRIA) AG</p> <p>EURAM BANK AG</p> <p>RAIFFEISEN BANK</p> <p>VONTOBEL BANK</p>	<p>Latvia</p> <p>AIZKRAUKLES BANKA</p> <p>BALTIKUMS BANK</p> <p>NORVIK</p> <p>PAREX</p> <p>RIETUMU BANK</p>	<p>Singapore</p> <p>UBS SINGAPORE</p> <p>VP BANK (SINGAPORE)</p>
<p>Britain</p> <p>ACCESS</p> <p>CREDIT SUISSE (UK) LIMITED</p> <p>EFG PRIVATE BANK</p> <p>HSBC</p>	<p>Lithuania</p> <p>SNORAS BANK</p> <p>VILNIUS BANK</p>	<p>USA</p> <p>BANK OF AMERICA, CHARLOTTE, NC</p> <p>BANK OF NEW YORK, NY</p> <p>BANK ONE NA, CHICAGO, IL</p>
<p>Hong Kong</p> <p>HSBC HONG KONG</p> <p>STANDART CHARTERED BANK</p>	<p>Liechtenstein</p> <p>AP BANK</p> <p>HYPO INVESTMENT BANK</p> <p>NEUE BANK LIECHTENSHEIN</p> <p>VP BANK (LIECHTENSHEIN)</p>	<p>Switzerland</p> <p>AIG PRIVAT BANK AG</p> <p>AKB PRIVATBANK ZURICH AG</p> <p>BANCA COMMERCIALE LUGANO</p> <p>BANK SCS ALLIANCE</p> <p>BANQUE DE COMMERCE ET DE PLACEMENTS</p> <p>CREDIT AGRICOLE</p> <p>CREDITE SUISSE</p> <p>DRESDNER BANK (SWITZERLAND) AG</p> <p>EFG PRIVATE BANK SA</p> <p>HSBC PRIVATE BANK (SUISSE) SA</p> <p>UNION BANCAIRE PRIVEE</p> <p>UNION BANK OF SWITZERLAND</p> <p>VP BANK (SWITZERLAND)</p>
<p>Denmark</p> <p>JYSKE BANK</p> <p>NORDEA BANK DANMARK (UNI BANK)</p>	<p>Luxembourg</p> <p>DEXIA BANQUE INTERNATIONALE A LUXEMBOURG</p> <p>VP BANK (LUXEMBOURG)</p>	
<p>Cyprus</p> <p>ALPHA BANK LTD</p> <p>AVTOVAZBANK International Banking Unit</p> <p>BANK OF CYPRUS LIMITED</p> <p>EFG EUROBANK</p> <p>FBME BANK LTD</p> <p>HELLENIC BANK, LTD</p> <p>MARFIN LAIKI POPULAR BANK PUBLIC CO LTD</p> <p>PROMSVYAZBANK</p>	<p>Seychelles</p> <p>BARKLAY BANK</p>	
<p>China</p> <p>BANK OF CHINA</p> <p>STANDARD CHARTERED BANK (HK) LTD.</p>	<p>Saint Vincent and the Grenadines</p> <p>LOYAL BANK</p>	<p>Estonia</p> <p>SAMPO BANK</p> <p>TALLINA BUSINESS BANK</p>