

## OVERVIEW

Russia's recent illegal invasion of Ukraine has increased international scrutiny of its financial crime threat landscape. Indeed, in February 2023, FATF, the global money laundering and terrorist financing watchdog, suspended Russia's membership in the organisation on the grounds that its actions pose a threat to the integrity of the global financial system.

Strong evidence uncovers an extensive list of predicate offences Russia is involved in, the most significant of which include bribery and corruption, money laundering, and sanctions violation, much of which is, if not facilitated, exacerbated by the state. Of further concern is the rampant use of complex structures with opaque ownership and agents with vast international networks, which enable criminals to evade detection and scrutiny. Importantly, the country is a significant exporter of crime, including fraud, cybercrime, and conflict financing, internationally.

Although Russia has a functioning AML/CFT regime on paper, experts, including the former FATF President, question the extent to which this is truly implemented. The private sector in Russia suffers from inconsistent application of financial crime-related laws that, coupled with a lack of accountability in the public administration, undermines the regulatory strength of the AML/CFT legislative framework. The state's involvement in aggravating financial crime both domestically and internationally in recent years has made Russia a real threat to global financial integrity, as well as to national security more broadly.



### Bribery & Corruption

Both the private and public sector are highly vulnerable to bribery and corruption in Russia, the latter reflected in Russia's score of 28 out of 100 (where 0 indicates the highest possible perceived level of public sector corruption) in Transparency International's (TI) Corruption Perception Index in 2022. Blurred boundaries between the state and private sector have resulted in state capture, with pronounced rent-seeking behaviour by elites in the country. Russia is also a significant exporter of corruption abroad, particularly in the natural resources sector, and is deemed by TI as a country with "little or no enforcement" of the OECD Anti-Bribery Convention that requires signatories to prohibit and enforce against foreign bribery.



High



### Money Laundering

Money laundering is pervasive amongst nefarious actors in Russia seeking to legitimise their illicitly acquired assets, as well as amongst Russian nationals seeking to transfer and obscure their assets internationally. Professional and corporate services abroad are vulnerable to abuse, as well as the international banking system and luxury real estate markets, by Russian nationals and entities looking to hide assets abroad. Luxury items and precious metals and stones are another mechanism used by high-wealth nationals to launder and protect assets. Crypto currencies and other virtual assets are also exploited as a means to legitimise illicitly acquired funds and circumvent sanctions abroad.



High



### Fraud

Russia's National Risk Assessment conducted in 2018 identified fraud as one of the most prevalent crime types for generating illicit proceeds in Russia. Given the economic uncertainty that has stemmed from the pandemic and invasion of Ukraine, Russian nationals have sought "get rich quick" opportunities, resulting in a proliferation of pyramid schemes and investment scams. Credit card fraud is a further risk, leading to the Russian government ordering a crackdown on carding shops in 2022 that resulted in a 24% decrease of these online stores.



High/Medium



### Cybercrime

Russia is a source country for cybercrime, in part a result of the state-sponsored cyber operations the Kremlin engages in. Phishing, ransomware-related attacks, and distributed denial of service attacks are particularly common as a means to illegally extract data, down internal systems, and spread propaganda.



High



**Terrorist & Conflict Financing**

According to the Global Initiative Against Transnational Organized Crime, Russia is assessed as a high risk jurisdiction for the financing of terrorism. Drug trafficking is a particular source of funding, especially in the Caucasus region, whilst fintech, social media, and cryptocurrency are vulnerable to abuse by financing operations both domestically and abroad involving Russian actors. Moreover the Putin regime, as well as Russian nationals and organisations, have been implicated in the funding of conflicts globally. The Wagner Group, for example, has been designated as a terrorist group by some countries and employs an extensive global network of front companies and illicit activities such as illegal mining to fund itself.

**High****Sanctions Violation & Weapons Trafficking**

Sanctions evasion is a pervasive trend amongst sanctioned Russian individuals and entities, as well as the Russian government. Often shell companies and financial and legal services are exploited to circumvent sanctions and funnel money or sanctioned goods. Oil, gold, technology, and cryptocurrency are key items vulnerable to abuse by sanctioned individuals. Following the invasion of Ukraine, weapons proliferation and trafficking have grown as Russia has been cut off from Western supplies, resulting in the government turning to countries facing similar international isolation, of the likes of North Korea and Iran, for military equipment.

**High****Modern Slavery & Human Trafficking**

Russia is a source, destination, and transit country for human trafficking and has been deemed a Tier 3 country by the US State Department for the government's lack of response to this high risk. Forced labour is typically found in the informal and less regulated industries, including agriculture, construction, and domestic work, though the Kremlin has itself been implicated in forced labour allegations. The invasion of Ukraine has exacerbated the risk of human trafficking across the region given the vulnerabilities caused by people being forced to flee their homes.

**High****Drug Trafficking**

The country is a major transit and destination country for heroin, with a third of the drug's global turnover passing through Russia, according to the Global Initiative. Russia is also a major consumer of cocaine and cannabis and acts as a transit country for traffickers from Latin America, the Middle East and North Africa, and Eastern Europe.

**High/Medium****Environmental Crime**

Illegal logging is a pervasive risk in Russia, with the Kremlin being actively complicit in the degradation of Russian forests. Oil theft is a further risk given the destruction that is caused by unmonitored spills that are not properly cleaned up. The invasion of Ukraine has further implicated Russia in ecological crime, including, as evidenced by reputable sources including the New York Times, the destruction of the Kakhovka Dam.

**High/Medium****Tax Crime and Financial Secrecy**

Financial secrecy is a particular risk given the number of sanctioned Russians that seek to hide their wealth in offshore jurisdictions, a risk that the Russian Elites, Proxies, Oligarchs Task Force (established by the EU, G7, and Australia) issued an advisory on in March 2023. Tax evasion, by both companies and individuals, is estimated to have cost the country US\$3.4 billion in 2021, according to the Tax Justice Network.

**High/Medium**