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Russia eludes financial sanctions through thousands of fictitious transfers abroad



Since financial sanctions were introduced against Russia due to its aggression against Ukraine, thousands of people have been engaged in a new business - they pose as money senders to overseas. These are not bankers, or financial experts. They are often students, unemployed citizens, migrant workers, and even homeless people.

This method of transferring money from Russia abroad has yet again triggered widespread corruption involving almost everyone - from the top echelons of the state to big business, all the way down to penniless citizens in need of money. At the start of the aggression against Ukraine, Russia was excluded from the SWIFT international money transfer system, and the two largest payment card systems - Visa and Master Card - withdrew from doing business in Russia.

Russia's attempt to circumvent financial sanctions with a domestic, alternative system of international payment, Mir, failed. Almost all the countries that initially accepted it have since blocked it, in order to avoid the danger of falling foul of indirect sanctions, except for Belarus and, in part, Armenia.

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In order to enable payments from Russia to overseas, the Russians devised schemes that would have probably been prohibited under normal conditions, even under Russian laws. Using these schemes, Russian citizens and companies can make payments abroad. All Russian payment and remittance systems can make multi currency remittances enabling a money sender to send rubles from Russia, and while doing so to indicate USD or EUR or any other currency payable to the beneficiary.

All Russian payments and remittance systems offer pay-outs in USD and EUR. These multi currency transactions are made in accordance with the Russian remittance system's internal

exchange rate. Russian payment and remittance systems have been using buy rate, then they add spread as their profit margin. Before February 2022 the average spread was 1-3%. After February 2022 the spread increased to 10-15%, so the volumes have increased dramatically. Russian payment and remittance systems have been among those who benefited significantly since the war started.

Individual scheme for transfers

There are two major schemes in which all Russian payment and remittance systems help Russia to avoid sanctions. The first scheme allows every citizen of Russia to make a personal money transfer. They can do it independently or through a friend. From a technical standpoint, the sender uses an app that is available all Russian payment and remittance systems.

That app enables the sender to add any debit card issued in Russia, even a debit card issued by a sanctioned bank, select the country of destination, specify the full name of the user, indicate the amount in USD or EUR to be paid to the beneficiary, check the exchange rate and the amount in rubles to be charged from the debit card and finally carry out the remittance.

In the second case, the sender makes the transfer by going to a bank. All Russian banks offer one or more services of the Russian payment and remittance system services. The beneficiary abroad visits a local remittance company partnered with the Russian bank from which the transfer originated, and collects USD, EUR or another local currency, such as Turkish lira, for the rubles sent from Russia.

Scheme for companies

The same scheme is used for commercial and non-private purposes. Students, homeless people, migrant workers and others who need

an extra \$5-10 in Russian currency have been working in Russia as remittance senders since the start of the war. These people, through a complicated chain of intermediaries, are engaged by various Russian entities that need to buy something abroad or in some cases just want to move money out of Russia.

These paid money senders are gathered in groups of 10-20 people and are taken to remittance locations. They are then given details about the beneficiaries including their location, and immediately before entering the remittance location, the real senders hand over the rubles to be transferred. Real senders then pay the fictitious senders for carrying out these transactions.

The maximum limit allowed by the central bank of the Russian Federation may vary, but has never been less than the equivalent of five thousand euros or dollars per person, per month. The total sum of this new type of clandestine transfers amounts to billions of dollars. Statistics show that the volume in Georgia, Kazakhstan, Uzbekistan, Serbia or Turkey has increased several times since the start of the war in 2022.

The former USSR - the crossroads for the Russian money route

Some central banks of the former USSR and commercial banks have started to place limits that can be paid out daily or monthly on remittances from Russia. In order to circumvent these restrictions, by using minor IT modifications and tricks, Russian payment and remittance systems can make some remittances originating from Russia appear as if they were sent from, for example, Uzbekistan.

Thousands of migrant workers from Uzbekistan in Russia are prepared to earn some extra money just for making a money transfer

This trick is very easy to perform provided there are thousands of migrant workers from Uzbekistan in Russia who have Uzbek passports and are prepared to earn some extra money just for making a money transfer. According to Russian legislation, a sender needs to provide their personal data to the Russian payment system at the physical location and in the app. A small amount - up to 15,000 rubles - can be made without identifying the sender.

Due to local peculiarities in the former USSR, with a few minor exceptions that include Georgia and to some extent Moldova, only banks or licensed financial institutions can offer money remittance services. The sender uses a bank or an app provided by a financial institution to send money, and the beneficiary visits the bank to receive the money.

Even before the war, Russia had one of the highest volumes of money transfers, primarily sending money to the countries of the former USSR. As a result, most banks in the countries of the former USSR offer the services of several Russian remittance companies. For example, a simple visit to the Georgian Liberty Bank reveals that the bank offers the services of all three Russian remittance companies: KoronaPay, Unistream and Contact (QIWI).

Weaknesses in Western financial control

Banks and financial entities in the Baltic countries have started to refrain from working with Russian remittance and payment systems. However, even in the Baltic States, not everyone feels solidarity with Ukraine. For example, a bank in Latvia works with Russian remittance companies and presents it as its own service. As an additional way to circumvent sanctions, banks in the EU and elsewhere sign agreements with European legal entities affiliated with Russian payment and remittance systems.

Georgia or Uzbekistan are transit countries after which the funds are re-sent to a third destination

As a result, everything takes place between Russia and the EU, while the relation of transactions is regulated by the EU jurisdiction. In many cases, Georgia or Uzbekistan are transit countries after which the funds are re-sent to a third destination. After these transfers are sent from of Russia, in many cases they are received by the same individuals, passed on to the rightful owners and then ultimately used to purchase goods and services that are then smuggled back into Russia. For example: California wines are still available in Moscow, Mercedes spare parts can still be obtained, just as can nearly everything else that "disappeared" from Russia after the first months of Western sanctions.

The Kremlin does not like cryptocurrency transfers

The major challenge for Russian payment systems in these clandestine remittance schemes is to be able to secure an advance deposit in USD or EUR with those banks that pay out multi-currency remittances originating from Russia. However, it works because Russia has huge amounts of cash in USD or EUR that can be taken elsewhere. Previously, all such schemes were prohibited by Russian law. Now Russian law and hundreds, if not thousands, of Russian legal entities, including Russian payment and remittance systems, are acting as a task force opposing Western sanctions. Russian remittance companies are not the only ones helping Russia avoid payment-related sanctions.

Some Russian payment schemes are arranged with cryptocurrencies. However, crypto is not something the Kremlin likes to see

There are nearly 500 different crypto agents and brokers located in Moscow, Russia's main financial district. Some Russian payment schemes are arranged with cryptocurrencies. In fact, some other remittances originating from Russia are initiated to buy cryptocurrency in Turkey, Georgia or elsewhere. However, crypto is not something the Kremlin likes to see.

The Kremlin wants to monitor volume, and wants to see the overall liquidity structure in Russia. Using the Russian payment and remittance system allows the central bank of the Russian Federation to first monitor the volume of money transfers from Russia, whilst allowing the Kremlin to decentralise Russian sanction-avoidance schemes. It is easy to sanction those close to the Kremlin: oligarchs or entities involved in the war or the production of something related to it.

But it is much more difficult for the free and liberal world to sanction hundreds of privately owned Russian payment and remittance systems, owned by politically unexposed Russian individuals, who in many cases hold citizenship of other countries of the former USSR or even Western countries. Hundreds, if not thousands, of small Russian trading companies, which have so far been spared from sanctions, have been involved in sanction-avoidance schemes.