

Money laundering and Money Corporation Relations on Abkhazian Territory

Resume

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During the last period legalization of illegal incomes and criminal activities connected with it are under important transformation. The „centre“ of their realization has been moved to spheres and regions, where the situation created under the influence of various circumstances and factors makes it possible to realize the mentioned activities (financial operations of questionable function) relatively without restriction and in other cases rather freely. This especially refers to the regions formed in the result of separative activities, armed conflicts, non-legitimate and illegal armed formations. Norms established under Georgian judicial acts does not operate on this territory (among them are international norms directed against financing money laundering and terrorism facts).

In the result of Russian policy, which is directed to maintain the influence over Georgia by supporting the regime of self-declared republics existent on this territory, it made possible to maintain political conflicts in Abkhazia and sometimes to kindle it as well, which creates a good environment for financial crimes, illegal trading with weapons and with the property of refugees, for shelter for terrorists, for transition narcotics, for legalization illegal incomes (money laundering) and contraband. Abkhazia experiences extreme economic difficulties. In terms of destroyed economy resulted from the ruin of production infrastructure and traditional economic relations and connections, also after the forced deport of most of the population, self-declared government of the republic tries to convert this territory into an offshore zone for bringing any kind of income (among them illegal ones), which will assist to maintain their separative regime. Formation of institutional environment, especially in banking-financial sphere goes on this direction on this territory.

Abkhazian National Bank, based on so-called law “About National Abkhazian Bank”, is the surrogate of central-emitive bank. According to this law, this Bank is not ought to establish requirements on the activities of commercial banks and non-banking deposit institutions relevant to international standards and procedures, which will importantly

stipulate the formation of financing money laundering and terrorism in the region. This is endorsed by the activities permitted by this law:

- ❖ One of the functions of Abkhazian Bank is cash emission and organization of its flow (second item of article 4; article 29); At the same time, official currency of Abkhazian republic is Russian ruble and American dollar, both at the same time (article 27). In other words, Abkhazian Bank has the possibility to organize the emission of cash (Russian Ruble and American dollar) given to him based on this law. (We would like to mention here, that according to second item of article 4 of the federal law of Russian Federation about “Central Bank of Russian Federation” (Russian Bank), emission of Russian ruble belongs to the category of monopoly rights of Russian Bank.
- ❖ The banknotes of Russian Banks (banking tickets) and USA dollars represent the only legal source of payment and they might be used in any form of payment with its nominal cost. But according to law, one of the functions of the bank is the quotation of official currency of the Abkhazian Republic with foreign currencies (article 5), which gives the Abkhazian government a possibility to speculate with the help of these currencies. The most important function of this is to prolong the separatist regime and to mobilize as much financial resources as possible.
- ❖ Abkhazian so-called legislation “About Abkhazian Manufacturers” creates conditions for formation of most liberal, practically non-controllable environment. The example of this is the following: the rights to register as a manufacturer on the territory of Abkhazia own the citizens of “Abkhazia” and other republics and non-citizens as well. This so-called Manufacturing Law **does not oblige** persons willing to realize manufacturing activities to mention the name, surname, birthplace and date and living place of the constitutive physical person (partner) at registering office. And if the constitutive person is a legal one, he or she should mention the amount of share capital, document about accomplished deposit, the names, surnames, the dates and places of birth, places of living of every director, member of supervising board and the datum of representatives as well. **And this gives a possibility to any citizen to stay unknown on this territory and begin manufacturing activities.**
- ❖ According to regulatory norms “On Foreign Investments” actual in this region, the status of foreign investor will be given practically to everyone, who wishes to begin

manufacturing activities – among them are foreign governments, foreign legal persons, foreign citizens, also the persons without citizenship, and international organizations. The actual law ‘On Manufacturers’ does not require to mention the identification datum of every constitutive, director and the person of the supervising board, practically every wisher has the possibility to register its enterprises without any relevancy with the requirements of the fight against legalization of illegal incomes. Together with this, despite the fact that the “law” requires the existence of share capital, actually no obligatory requirement exists for submitting registration documentation, which creates the possibility to register enterprises without any practical cost. **Thus, the identification of persons and firms and registration of enterprises without any cost creates pre conditions for further legalization of illegal incomes in the region.**

- ❖ Abkhazian territory represents practically **free economic zone** for any non-resident, as the 30 and more percent of the share fond of the enterprises belongs to foreign investments, they are free from licensing obligations for the export and import of their products and they profit from payment privileges; The property of foreign investor invested in the share capital fund of the enterprises, which is fully or partly owned by him or her is free from importing and custom charges;

“Legislative acts” adopted by Abkhazian government show the “liberal” norms of bringing financial flows in the region, which go far away from international judicial requirements and support criminal, underground manufacturing. Based on this, this territory had been formed as a manufacturing territory of criminal character. This is also approved with the fact, that the decision of Russian Government received in the context of encroaching Georgian territorial unity by not spreading the visa regime for the citizens of Abkhazia and so-called South Osetia, gives the criminals and terrorists possibility to move rather freely and without control on this territories. Some of them (for instance well known terrorist Musa Shanobov) is welcomed publicly and on an official level. Contraband, preparation of armed forces and trading with weapons takes place on this territory. So-called Central Abkhazian Bank and 15 commercial Banks of this territory, which actively co-operate with the banking institutions registered in Russian Federation, support this and in fact, they are creating “International Corridor for Money Laundering” in this region.

Russian Banks have a possibility to use banks of Abkhazian region to disguise their own aims and avoid the accomplishment of the international obligations. With the help of various money transfers (“Contact”, “Golden Crown”, “Vip Money Transfers”) and the banking institutions registered in the Russian Federation, it is possible to organize financial operations from non-controllable territory worldwide. This is also promoted by the fact that based on Russian legislation, sums transferred from Abkhazian Banks into banking institutions and calculation centers registered on the Abkhazian territory does not subordinate to the requirements of financial monitoring as they are placed in the form of non-cash calculation. Together with this, government of Russian Federation had not put Abkhazia in the list of territories, which are not taking part in the fight against legalization of illegal incomes and financing terrorism. Russia is secretly annexing this territory, which creates an additional incentive for these territories not to be recognized as a zone for money laundering.

From our point of view, to overcome the created situation it is advisable:

- To provide Financial Action Task Force (FATF) about ongoing processes on the territory of Abkhazia and so called south Ossetia and to think about elaborating relevant requirements towards the Russian Federation, about using relevant sanctions when needed.

- Require from international organizations and from Central Banks of foreign governments to restrict having relationship of banking institutions under their supervision with the banking institutions operating on the territory of Abkhazia and South Ossetia, as they represent illegal structures.

- To require from FATF to bring territories subordinating to separetive regimes of Abkhazia and so called South Ossetia in the list of non co-operative countries (territories) and to work on special terms of controlling them, as they represent the most dangerous regions in financing terrorism and fact of money laundering

- In the international agreement signed by Georgia define the necessity to restrict any kind of co-operation between illegal government formation and non-legitimate banking structures in the regions of Abkhazia and South Ossetia without permission of Georgian Central Government (including manufacturing level).

- Begin working to quit co-operation with the Banks of Russian Federation (so called Abkhazian Banks).