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CENTER FOR THE STUDY OF DEMOCRACY

UNPLUGGING ILLICIT OFFSHORE ARCHITECTURE

Policy Brief No. 165, July 2026

Russia's use of offshore finance is a central feature of its state capture centred political economy. CSD's Kremlin Playbook series outlines how in this feature corruption is not just a governance failure but a governance model, in which state authority, loyal business elites and opaque financial infrastructures are fused to accumulate, protect and project power. Offshore structures are the conduits of this model across borders. They let capital circulate globally while remaining tied to political control at home, shielding assets from scrutiny, opening access to Western markets, and placing legal distance between ownership on paper and control in practice.

The full-scale invasion of Ukraine in 2022 tested the resilience of this system rather than ending it. Western sanctions cut traditional channels, froze assets and removed major banks from SWIFT. The enabling infrastructure stayed intact. What followed was a rapid and aggressive reorganisation: a move toward more fragmented, decentralised and opaque, yet more closely controlled by the Kremlin, ownership. By 2025, Russia's corporate presence in Europe looks smaller on paper while remaining deeply embedded in European financial and legal structures.

This brief draws on new CSD analysis of the offshore architecture behind Russian illicit financial flows (IFFs). It is the upstream complement to Shadow Economies (CSD, 2025), which measured IFFs at the destination – USD 31 billion in 2023 across ten ODA-eligible countries of the Western Balkans and the Black Sea, using UNCTAD's Partner Country Method Plus and Gross Excluding Reversals. The capital that surfaces as IFFs in those countries is routed through them from, and back into, the Kremlin-managed offshore system mapped here.

KEY POINTS

- **Sanctions reshaped Russia's offshore system; they did not dismantle** it. Between 2015 and 2025, the corporate network of Russia's 100 largest firms expanded **by 34% in new entities** and **46% in new ownership connections**.
- **Control migrated from direct ownership to offshore intermediation**: the share routed via Cyprus, Luxembourg, the Netherlands, the UK, and the BVI rose from 17% to 31%.
- This architecture is the source of the **USD 31 billion in IFFs** CSD measured across ten ODA-eligible countries of the Western Balkans and Black Sea region.
- **Russia increasingly relies on stablecoins, gold**, and **crypto** – to circumvent financial restrictions and preserve capital.
- **Enforcement must target the enabling system** — sink and conduit jurisdictions, professional enablers, and ownership structures — not just individual actors.
- For **FCDO** and **other development partners**, IFFs is both a development and security imperative: the offshore system enabling Russia's war is the same system undermining the institutions aid is meant to build.

The Architecture: Conduits, Sinks and Enablers

The system rests on a division of labour between conduit and sink jurisdictions. Conduits move capital between countries, supplying legal protection, treaty access and layered corporate structures.

ACE GOVERNANCE & INTEGRITY Anti-Corruption Evidence Research Programme
US University of Sussex | CSC Centre for the Study of Corruption
Global Research and Technology Development Funded by UK Government

This research is part of the Governance & Integrity Anti-Corruption Evidence (GI ACE) programme which is hosted by the Centre for the Study of Corruption, University of Sussex and funded by the UK government's Foreign, Commonwealth & Development Office (FCDO) through its Global Research and Technology Development portfolio. GI ACE generates actionable evidence that policymakers, practitioners and advocates can use to design and implement more effective anti-corruption initiatives. The views expressed here do not necessarily reflect the UK Government's official policies.

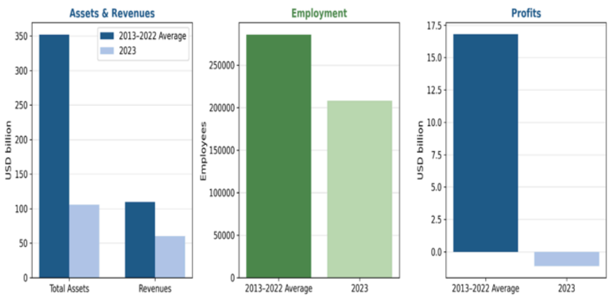
Sinks store it, offering secrecy and minimal beneficial-ownership disclosure. Cyprus, the Netherlands, Luxembourg, the United Kingdom and the British Virgin Islands (BVI) form an integrated ecosystem in Europe in which Russian capital can move, hide, adapt and preserve control across regulatory environments.

Cyprus has long sat at the centre: a legal framework, a dense ecosystem of Russian-speaking service providers, and close economic ties have made it the principal gateway in and out of European markets. The Netherlands offers reputable holding companies, capital-market access and an extensive treaty network; Luxembourg supplies investment vehicles and special-purpose entities; the BVI absorbed ultimate ownership where disclosure is thinnest. After 2022 these structures shifted function – from tax optimisation toward survivability, ownership restructuring and sanctions-risk management – sustained throughout by professional enablers.

From Direct Ownership to Offshore Control

CSD analysed the ownership networks of Russia's 100 largest companies in 2015 and 2025, using global corporate-registry data. The measurable economic footprint of these firms in Europe fell sharply after the invasion, reflecting divestments, asset freezes and withdrawals (Figure 1). Total assets of their European entities dropped from a 2013–2022 average of around USD 352 billion to USD 106 billion in 2023; profits turned negative.

Figure 1. Russian Corporate Footprint in Europe, Pre-2022 vs. 2023

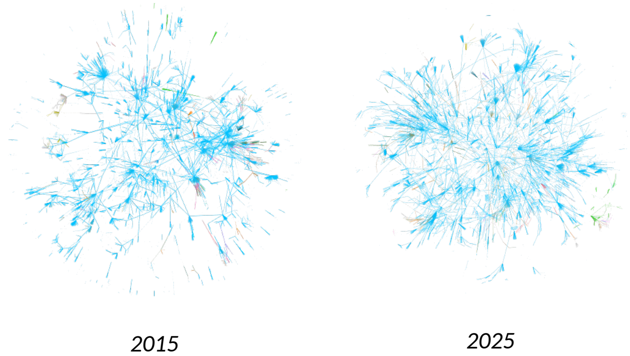


***Source**: CSD calculations based on corporate databases.*

The ownership data point the other way. As the financial footprint contracted, **the architecture grew larger, denser and more fragmented.** The network expanded from 8,155 to 10,935 companies (+34%) and from 9,895 to 14,459 ownership links (+46%) – under unprecedented sanctions pressure. Because much of the post-2022 structure is designed to evade detection, this is a lower bound on the full picture, which makes the growth more striking still. It also conceals the increased leverage of the Kremlin as it has sought to tap into any available income streams.

The structure of control changed with it. In 2015 nearly half of European companies in the network were **owned directly by Russian parents;** by 2025 that share had fallen to 37%. Ownership routed through Cyprus, Luxembourg, the Netherlands, the UK or the BVI rose from 17% to 31%. **Cyprus was the main beneficiary of post-2022 restructuring:** Cypriot entities in the network more than doubled (95→216) while Dutch-registered entities fell (83→49). Between 2021 and 2024, Russian citizens acquired over 4,000 properties in Cyprus, 2,561 of them in Limassol alone.

Figure 2. Russia's 100 Largest Companies: Ownership Network, 2015 vs. 2025



***Source**: CSD statistical analysis based on corporate databases.*

The change is sharpest in **sectors that matter for national security** – energy, extractives, metals, transport and finance – where ownership chains involving Cyprus, Luxembourg and the Netherlands routinely separate operational assets from ultimate controlling entities. A small set of foreign-registered nodes carries **disproportionate structural weight,** bridging Russian parents to large subsidiary networks while masking the direct link:

- **VTB Capital PLC (UK)** connects the state-owned VTB group to 1,650 direct and indirect subsidiaries with combined revenues of near EUR 90.7 billion across banking, insurance, leasing and real estate.
- **Libertatem Materials Ltd. (Cyprus)** is the vehicle through which Rusal holds aluminium assets in Germany, Ireland, Italy and Sweden – with a Qatari entity inserted into the chain to create attributional distance from the Russian parent.
- **Nevsky Property Finance Ltd. (Cyprus),** owned by VTB Bank, runs a circular round-trip – Russia → Cyprus → Luxembourg → Russia – that internationalises the holding chain while keeping control inside the Russian banking perimeter.
- **Norilsk Nickel Ltd. (Cyprus)** shows the challenge reaching beyond designated entities: a strategically important, largely unsanctioned firm embedded across seven jurisdictions and global commodity markets.

Sanctions, in short, have not removed Russian corporate influence from Europe. They have changed its form – more adaptive, more decentralised, more dependent on intermediary jurisdictions that separate ownership from control and on the Kremlin for providing backstopping.

Offshore Resilience and the Limits of Sanctions

Offshore jurisdictions supply the opacity and legal framework. Lawyers, trustees, accountants and corporate-service providers translate sanctioned intent into compliant structure. The flexibility of Cyprus's trust and corporate-services sector, and its established links to the BVI and Luxembourg, make it **a central node.** For example, PwC Cyprus allegedly helped steel magnate Alexey Mordashov move USD 1.4 billion out of his name ahead of EU sanctions and shifted USD 100 million for two oligarchs in Putin's circle. In a separate case, after a UK designation in 2022, a BVI discretionary trust administered from Cyprus removed its Russian beneficial owner by deed of exclusion and sold the trust's UK and EU property portfolio below market value to a low-profile UK company linked to him – adding successive layers between the assets and the sanctioned person.

Resilience is reinforced where **third-country corridors, offshore structures and alternative payments converge. Eurasian Economic Union** members' swollen exports to Russia after 2022 are largely Western dual-use goods rerouted through them; Russian entities moved USD 8 billion of trade through UK-controlled offshore jurisdictions since the invasion, USD 4.4 billion via BVI-registered companies. Kyrgyzstan shows how far integration has gone: **locally registered crypto exchanges** – many shell companies controlled through offshore intermediaries – have repeatedly handled transactions linked to sanctioned Russian entities, with over USD 7.9 billion in digital transactions recorded since mid-2025, far beyond any plausible domestic demand.

None of this means sanctions have failed. They have imposed real costs and broken established models. The lesson is that sanctions bite hardest when they **target the enabling infrastructure,** not only the actors. As long as the structures that allow ownership control to be preserved stay intact, no matter how fragmented, power networks can be reconfigured, influence preserved and capital redirected. Targeting actors without the systems treats symptoms.

Parallel Payment Worlds

The same logic now extends to payments. With major banks cut from SWIFT, Russia has institutionalised channels that sit largely outside bank-centred enforcement. The A7 cross-border service – reportedly tied to fugitive Moldovan oligarch Ilan Shor and the sanctioned Promsvyazbank – routes payments through dozens of shell companies and is paired with the rouble-pegged A7A5 stablecoin both were sanctioned by the US, UK and the EU, most recently in the EU's 20th package of 2026. When the sanctioned exchange Garantex was shut, its functions migrated to a successor, Grinex, with balances reconstituted in A7A5. Gold – now over 41% of Russia's reserves – is exchanged for hard currency through Turkish and UAE hubs outside formal channels. UNCTAD's wealth and trade methods cannot capture these flows, which is why offshore-wealth estimates understate the true scale of Russian IFFs.

Offshore Finance as an Economic-Security Challenge

Offshore finance is usually read through separate tax, anti-money-laundering or sanctions-compliance lenses. The Russian case shows it is also an economic-security problem linked to where capital comes from but also how ownership and control are organised. Russia's state capture control over its private sector means effective influence needs no majority stake: minority holdings, shareholder agreements, financing arrangements and layered structures preserve political and economic links while assets stay formally integrated into European markets.

Gazprom's network of at least 16 Dutch-registered subsidiaries managed billions while control remained in Russia; in Ireland, 33 Russian-linked SPVs held some EUR 35.5 billion, half tied to sanctioned individuals or entities. The TurkStream project in Bulgaria shows influence exercised without direct ownership – offshore-linked finance through Cyprus and Luxembourg, politically connected intermediaries and opaque procurement carried a project of contested European geo-economic rationale. Offshore has thus transformed from a financial-integrity issue into the infrastructure through which economic power is converted into political leverage.

How This Matters for Development Policy

The neighbourhood states where this capital operates are, for the most part, ODA-eligible. CSD's measurement shows IFFs in the ten Western Balkan and Black Sea countries reached USD 31 billion in 2023, doubling pre-war levels, with Armenia, Serbia, Georgia, Bosnia and Herzegovina and Moldova as the **principal re-export hubs.** These countries are not passive victims; their beneficial-ownership registries, financial-intelligence units and procurement systems are the front line. They are also where the offshore architecture mapped above interconnects.

Three implications follow for FCDO and European development partners. *First*, anti-corruption assistance has to reach beyond institution-building toward the analytical, investigative and verification capacity needed to trace transnational ownership – beneficial-ownership verification, financial-intelligence systems, network analysis, and investment screening. *Second*, the typologies in this brief work whether or not a country has aligned with EU or US sanctions, so they **apply equally to corrosive capital** in Africa, Latin America and Southeast Asia. *Third*, as donor defence spending crowds out ODA budgets, **long-horizon work on IFFs** is among the first to be reprioritised, although the same offshore plumbing that finances Russia's war economy and sustains its sanctions evasion runs through the jurisdictions that aid is meant to protect. Hence, ODA needs to treat anti-corruption development cooperation as part of the economic-security agenda.

Policy Priorities: From Targeting Actors to Targeting Systems

Effective responses must address the ecosystem that enables opaque ownership and influence, not only the actors that appear on registries.

- **Target effective control.** Move beyond percentage thresholds that minority stakes, trusts, proxies, shareholder agreements and debt instruments easily defeat. Sanctions authorities (including the EU's newly created AMLA in Frankfurt) need evidentiary standards for de facto control.
- **Shift beneficial ownership from disclosure to verification.** Link registries to sanctions lists and financial-intelligence systems; build active verification and cross-border interoperability; scrutinise trusts and nominee arrangements.
- **Act on conduit jurisdictions and professional enablers.** Cyprus, the Netherlands and Luxembourg remain core conduits in Europe. Where there is facilitated evasion – apply targeted sanctions to jurisdictions.
- **Integrate economic-security frameworks.** Align sanctions enforcement, AML, beneficial-ownership transparency, investment screening, trade controls and digital-asset regulation, supported by an EU-level integrated risk platform.
- **Close the alternative-channel blind spots.** Extend enforcement systematically to crypto-assets, stablecoins, gold-backed instruments and non-bank settlement, with clear obligations for digital-asset service providers.
- **Formalise enforcement partnerships with third countries.** Embed sanctions-alignment, registry interoperability and customs/financial-intelligence sharing in enlargement and neighbourhood instruments (the EU's Growth Plan, the Reform and Growth Facility, the Ukraine Facility) and, for the wider Global South, in the Global Gateway.
- **Invest in network-based enforcement.** Move from case-by-case action to mapping systemic patterns, central nodes and high-risk structures, supported by joint investigative teams and common analytical standards.

As financial systems fragment and geopolitical competition sharpens, offshore finance will keep attracting state and non-state actors seeking leverage. The task for development partners in Europe and the OECD is to ensure that their own legal and financial systems, and those of the countries they assist, do not function as conduits for strategic corruption. That requires unplugging the architecture that makes reconfiguration possible.