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Strategic Corruption

The Nexus Between Russian Illicit Financial Flows and Offshore Finance

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THE STUDY OF
DEMOCRACY

Strategic corruption has become one of the defining challenges to democratic governance and international security. Increasingly, authoritarian states rely on opaque financial networks, offshore jurisdictions, illicit financial flows, and captured institutions to project influence beyond their borders, circumvent sanctions, and undermine democratic resilience. As geopolitical competition intensifies, tackling these systemic vulnerabilities requires moving beyond isolated enforcement actions toward greater financial transparency, stronger international coordination, and more resilient governance frameworks.

Building on CSD's *Shadow Economies* research, this report examines how Russia has transformed offshore finance into an instrument of geopolitical influence. It traces the evolution of Russian corporate ownership networks following the invasion of Ukraine, analyses how offshore structures, crypto assets, and alternative payment systems facilitate illicit financial flows and sanctions evasion, and argues that effective responses must target the financial architecture enabling strategic corruption rather than individual actors alone.

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EXECUTIVE SUMMARY

Russia's use of offshore finance has become an essential pillar of its geopolitical strategy of evading sanctions and perpetuating its state capture driven foreign influence networks. Over the past three decades, **Russian capital has systematically flown out into offshore financial centres**, where it has been protected, restructured, and redeployed across global markets. These financial flows have helped establish increasingly elaborate informal networks of influence that underpin what has become popular in literature as **strategic corruption** – a system in which state power, business interests, and opaque financial infrastructures are fused to advance political objectives. **Offshore finance** plays a central role in this system because it allows capital mobility and assets to remain closely tied to state interests and political control.

Russia's continuous aggressive push into its former Soviet sphere of influence since 1999, culminating in the full-scale invasion of Ukraine in 2022, marked a turning point in Kremlin's quest for control over state capture networks at home and abroad. Western sanctions **disrupted key financial channels**, restricted access to capital markets, and targeted Russian banks and oligarchs. Yet, while these measures constrained traditional pathways, they **did not dismantle** the underlying networks, which sought ways to adapt, pushing them further into Kremlin's control**.** The Russian financial networks became more **fragmented, less transparent**, **more difficult to trace**, and leaned into Kremlin's strategies to reduce the negative effects of sanctions.

The illicit financial flows (IFFs) behind these networks have sustained Russian economic power abroad, facilitated sanctions evasion, and created channels for foreign malign influence. Being largely reactive, the existing policy responses are focusing on individuals, assets, to transactions, while leaving the enabling infrastructure intact. This creates conditions in which illicit and legitimate capital flows, including foreign direct investments and official development assistance, become increasingly difficult to distinguish and effectively govern.

For the European Economic Area, the UK, and the European Union, this poses **a direct economic security challenge**. Russian capital continues to operate within and through **European offshore structures** and **third-country conduits,** distorting markets, undermining sanctions, and creating dependencies among closed elites and in strategic sectors. To confront this challenge, policymakers must redirect their efforts from targeting outcomes to addressing complex multi-layered systems. They would need to also re-strategise and re-purpose its ODA to address the trust gaps, which the current global power competition has opened in the Global South.

Data and Methods

The paper combines three strands of analysis. *First*, a **corporate network analysis** of Russia's Top -100 firms maps how ownership and control are exercised across jurisdictions in 2015 and 2025, using commercial corporate registry databases. *Second*, **UNCTAD's offshore wealth method** (**Method 6**) is applied to estimate the scale of Russian IFFs, with a focus on key European offshore hubs: Cyprus, the Netherlands, Luxembourg, and the British Virgin Islands (BVI). This follows up on previous work downstream on IFFs in the Western Balkans and the Black Sea, using UNCTAD's Methods 1 (Partner Country Method Plus) and 2 (Gross Excluding Reversals). *Third*, a systematic review of **documented sanctions evasion cases** – drawn from enforcement actions, investigative journalism, and court records – reveals the mechanisms through which Russian financial flows circumvent sanctions pressure, including shadow fleet operations, trade misinvoicing, crypto-based settlement, and gold-backed payment processes.

Key Findings

The Russian IFFs corporate network expanded rather than contracted. From 2015 to 2025, Russia's Top-100 corporate ownership network increased from 8,155 to **10,935 companies** (**+34%**) and from 9,895 connections to **14,459 connections** (**+46%**). While the number of European companies in the network fell from 1,379 to 777, this conceals an underlying **structural shift**: direct Russian ownership of European companies declined from 46.6% to 37.5%, while indirect ownership routed **via Cyprus, Luxembourg, the Netherlands, the UK, or the BVI rose from 17.3% to 31.5%**. The system did not retreat from Europe – it insulated itself within it.

Cypriot entities in the network more than doubled (95 → 216), while Dutch-registered entities fell (83 → 49). Between 2021 and 2024, alone, Russian citizens acquired over 4,100 properties in Cyprus. **Post-2022 there was a migration from a more visible, brand-name control to layered, offshore-based decentralisation of capital.**

Russia related IFFs remain large, yet have grown increasingly difficult to trace. Russia's traceable offshore financial wealth fell from **USD 208 billion in 2021 to USD 99.3 billion in 2022** following the invasion. This reflected a temporary disruption. The Russian Central Bank acknowledged net private capital outflows of over **USD 160 billion in 2024**. Crucially, the UNCTAD method captures only flows visible in investment statistics. Cryptocurrency, unregistered trusts, gold-backed channels, and trade misinvoicing remain **largely invisible** in official data. Since 2022, Russia has institutionalised alternative payment methods: a rouble-pegged stablecoin claimed to process over **USD 90 billion outside SWIFT**; state banks integrated crypto services; and gold – now accounting for over **41% of Russia's foreign exchange reserves** – is exchanged for hard currency through the United Arab Emirates (UAE) and Turkish hubs outside formal financial systems.

Trade corridors in the EU and Russia's neighbourhood are amplifying sanctions evasion and IFFs. Across the Western Balkans, the Southern Caucasus, and Central Asia, Russia's corporate footprint has reconfigured rather than declined after 2022. Armenia's exports of sanctioned European dual-use items surged by 2,660% in 2023 compared to its pre-war average

(2010-2022) of USD 2 million.[1] Georgia reroutes Russian petroleum products to EU markets through documentation changes and re-registration. Serbia's only partial sanctions alignment has created regulatory asymmetry that allows Russian-linked capital to expand its foothold in the country and use it as a drive through channel. These patterns are structural extensions of the Russian offshore-enabled system – and, through them, sanctioned capital can re-enter European markets, eroding the integrity of the EEA/UK/EU's enforcement regime.

Policy Implications

Addressing Russian IFFs and offshore-enabled influence requires a shift from reactive, actor-based measures toward a **systemic approach targeting enabling infrastructures**. Six priorities follow from the analysis:

- **Integrate economic security frameworks**: align sanctions enforcement, AML, beneficial ownership transparency, trade controls, and digital asset regulation, supported by an EEA/EU/UK-level integrated risk platform combining these data sources for proactive detection. Their effectiveness would increase further if aligned with the OECD.
- **Expand sanctions to capture effective control**: move beyond formal ownership thresholds to target de facto control exercised through minority stakes, governance rights, shareholder agreements, debt instruments, and proxy actors.
- **Target conduit jurisdictions and professional enablers**: subject lawyers, fiduciaries, and corporate service providers from non-complying and non-cooperating jurisdictions to enhanced due diligence, supervisory oversight, and targeted sanctions for facilitating evasion or ownership obfuscation.
- **Strengthen beneficial ownership transparency**: move beyond formal disclosure toward active verification and cross-border interoperability, linking registries with sanctions lists and financial intelligence systems.
- **Close alternative channel blind spots**: extend enforcement systematically to crypto-assets, hybrid payment systems, and gold-backed instruments, with clearer compliance obligations for digital asset service providers.
- **Formalise enforcement partnerships with third countries**: establish structured cooperation with the Western Balkans, Black Sea, and Central Asian countries, embedding sanctions-alignment standards in enlargement and neighbourhood policy instruments.
- **Revamp ODA policies as part of new, integrated economic statecraft** policies, which take into consideration the new geopolitical realities and the sever trust gap with the countries of the Global South.

The central lesson of this analysis is that the offshore infrastructure sustaining Russian strategic corruption has successfully adapted to the new global sanctions' environment. Meaningful progress requires moving

[1] Vladimirov, M., and Kostova, T., *Shadow Economies: The Rise of Illicit Networks and Alternative Markets in Sanctions Circumvention*, Sofia: Center for the Study of Democracy, 2025.

from targeting outcomes to dismantling the systems that generate them.

STRATEGIC CORRUPTION AND THE KREMLIN PLAYBOOK

Russia's reliance on offshore finance is a central mechanism for economic power accumulation, protection and projection beyond national borders. Since the collapse of the Soviet Union, the Kremlin has increasingly directed capital flows toward opaque tax jurisdictions, obfuscating the ultimate beneficial ownership (UBO) of companies and assets. This system has enabled the concentration of wealth among politically connected actors, and, after the Russian invasion of Ukraine in 2022, has shielded key Russian firms from international sanctions. Offshore finance has become a powerful vehicle for illicit financial flows (IFFs), embedded in the **Kremlin Playbook** for state-enabled corruption serving geopolitical ends.

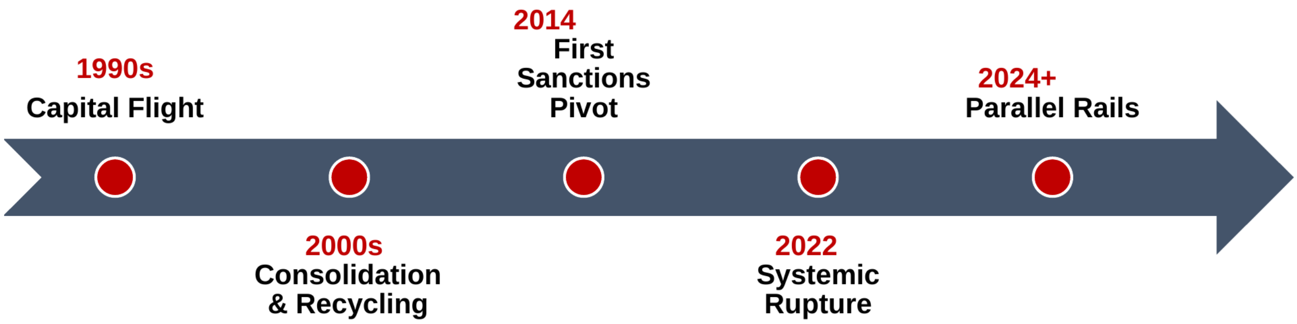
The Kremlin Playbook framework defines Russia's governance model as state capture, which fuses state authority, (loyal) business elites, and permissive legal-financial infrastructures to advance strategic geopolitical objectives through corruption. Offshore finance provides the anonymity, flexibility, and jurisdictional arbitrage necessary for Russian capital to circulate globally while remaining politically controlled at home. Using this mechanism, the Kremlin rewards loyalty, disciplines dissent and cultivates economic and political influence abroad.

Russian IFFs encompass a wide spectrum of practices, ranging from aggressive tax avoidance and round-tripping through offshore hubs to the laundering of corruption proceeds and the evasion of international sanctions. This paper argues that such flows are best understood not as isolated financial crimes but as components of **a broader architecture of malign influence** with direct implications for European economic security.

The full-scale invasion of Ukraine in February 2022 marked a structural rupture in this system, but not its dismantling. Western sanctions, including the freezing of Russian central bank assets, the exclusion of major Russian banks from the SWIFT messaging system and the restrictions on capital markets access, significantly constrained traditional channels for cross-border finance. Yet Russian IFFs have adapted. Corporate structures have been reconfigured, ownership chains further obscured, and new intermediaries and payment mechanisms have emerged to sustain cross-border transactions.

The persistence of Russian capital in European offshore jurisdictions after 2022 underscores the resilience of this system and the limits of sanctions that target endpoints – individuals, assets, transactions – rather than the enabling infrastructure that makes reconfiguration possible. The 2022 rupture catalysed the migration from Western infrastructures toward more opaque, non-aligned payment mechanisms (Figure 1).

Figure 1. Timeline of Evolution of Russia's Use of Offshore System



Source: CSD.

This working paper situates offshore finance at the intersection of IFFs, foreign malign influence, and economic security. It advances three core propositions. First, that Russian offshore wealth and corporate structures constitute a latent form of power that can be mobilized in support of political objectives, including influence over strategic sectors, media ecosystems, and political elites. Second, that IFFs serve as the transmission mechanism linking this offshore wealth to concrete forms of influence, particularly in jurisdictions with weaker regulatory and governance capacities. Third, that the scale and opacity of these flows pose systemic risks to European economic security by distorting markets, undermining sanctions regimes, and weakening the integrity of financial systems.

Box 1. Key Methodological Approaches

The analysis integrates three complementary approaches, each underpinning a distinct section of the report. **Section 2** draws on a targeted review of existing literature on offshore finance, Russian capital flows, and foreign malign influence to develop the conceptual framework and typology of IFFs. **Section 3** presents original CSD analysis: a corporate network analysis of the 100 largest Russian companies by revenue and strategic importance, constructed from global corporate ownership data drawn from the **Bureau van Dijk Orbis** database. Two comparable datasets were built – one for 2015 and one for 2025 – to capture how ownership structures evolved before and after the 2022 invasion.

Section 4 applies **UNCTAD's Method 6** (**Flows of Offshore Financial Wealth by Country**) to estimate the scale of Russian-related IFFs. Method 6 was chosen because it allows us to measure IFFs related to **offshore financial assets** and **wealth held in offshore jurisdictions**. It uses international bilateral investment position statistics to calculate the stock of wealth held by residents of a given country in offshore financial centres, then derives annual flow estimates and applies an assumed 75% non-compliance rate to identify the illicit share. Besides Method 6, we have applied UNCTAD's **Method 1** (Partner Country Method +) to estimate the IFFs related to trade in the Western Balkans and the Black Sea in the first paper of the GI-ACE series.[2] Methods 2, 3, 4, and 5 could not be implemented due to insufficient data availability and verifiable sourcing.

Sections 5 and 6 draw on a systematic review of documented enforcement actions, investigative journalism, regulatory filings, and court records to examine post-2022 sanctions evasion mechanisms and regional patterns of Russian financial influence.

By integrating these perspectives, the paper contributes to ongoing debates on sanctions effectiveness, financial transparency, and democratic resilience. It challenges approaches that treat IFFs, corruption, and

[2] Vladimirov, and Kostova, Shadow Economies, Sofia: CSD, 2025.

economic security as separate policy domains, and instead demonstrates how offshore finance functions as a common denominator linking them. Understanding this nexus is essential not only for assessing the true scale of Russian capital abroad, but also for designing policy responses that move beyond reactive sanctions toward a more systemic strategy for uprooting strategic corruption.

This working paper is the second in a series produced under CSD's GI ACE project on Building Institutional Resilience to Global Illicit Financial Flows as Enablers and Drivers of State Capture. The first paper, *Shadow Economies: The Rise of Illicit Networks and Alternative Markets in Sanctions Circumvention* (CSD, 2025), estimated the scale of trade-based illicit financial flows in ten ODA-eligible countries of the Western Balkans and the Black Sea, applying UNCTAD's Partner Country Method Plus and the Gross Excluding Reversals methodology. It put the regional figure at USD 31 billion in 2023, with Armenia, Serbia, Georgia, Bosnia and Herzegovina and Moldova identified as the principal re-export hubs for dual-use goods bound for Russia. The accompanying Policy Brief No. 157 distilled the findings for a wider policy audience.

The present paper turns to the upstream side of the same circuit. Where Shadow Economies measured IFFs at the destination, in the transit countries themselves, this paper maps the source: Russia's offshore financial architecture, the corporate networks through which its capital is held across Europe, and the parallel payment infrastructures that have emerged in place of the banking channels cut off after February 2022. Read together, the two papers cover both ends of the same system. The capital that surfaces as IFFs in the Western Balkans and the Black Sea does not originate in those countries. It is routed through them from, and back into, a Kremlin-managed offshore architecture whose internal workings the present paper traces.

A third output, currently in preparation, will integrate the IFF estimates from Shadow Economies and the corporate-network findings of this paper into CSD's State Capture Assessment Diagnostics (SCAD) framework.

THE OFFSHORE INFRASTRUCTURE: HOW RUSSIAN CAPITAL MOVES AND HIDES

Offshore Finance as an Enabling Ecosystem: Key Russia-Friendly Jurisdictions

Offshore finance is a global infrastructure of legal, financial, and regulatory services that encompasses low- or zero-tax jurisdictions, secrecy havens, specialised legal vehicles, professional intermediaries, and permissive regulatory regimes that allow capital to be owned, controlled, and transferred with limited transparency.

For Russian capital, offshore finance has served three key functions. First, it **protects wealth** from domestic political and legal risks by allowing elites to place assets beyond the reach of Russian courts or political rivals. Second, it **provides access** to Western financial markets and legal systems, lending credibility and stability to assets whose origins may be opaque. Third, it allows firms and individuals **to optimise taxation**, regulation, and disclosure across borders. While these functions are not unique to Russia, the scale and centralisation of their use distinguish the Russian case. Since 2022, these mechanisms have become even more critical, providing channels for assets protection, ownership restructuring, and the continued movement of capital under intensifying sanctions pressure.

Over the 2010-2023 period, Russia's offshore wealth fell from approximately 20% to 5% of GDP, while the EU average rose from around 9% to 65% (see Figure 2)[3]. **Two caveats are essential.** The EU's rise reflects the growing role of EU-based financial hubs (Luxembourg, Ireland, the Netherlands) as pooling centres for globally managed assets. Russia's decline, conversely, reflects the combined impact of **de-offshorization policies from the mid-2010s** and the post-2022 sanctions shock – but as the corporate network analysis in Section 3 demonstrates, this statistical decline does not mean Russian offshore capital has disappeared. It has **migrated to harder-to-track jurisdictions and less visible instruments.**

Several factors may explain this pattern. First, the Russian government **de-offshorization policies** beginning have aimed at encouraging the repatriation of capital and increasing transparency of offshore holdings.[4] The centrepiece was **Controlled Foreign Company (CFC) rules**: legislation requiring Russian tax residents to declare and pay Russian corporate tax on profits retained in foreign-controlled entities, closing the fiscal advantage of simply leaving capital in offshore accounts. Combined with broader tax reforms and targeted, direct repatriation pressures on specific companies, these measures reduced the statistical footprint of Russian wealth in Western offshore jurisdictions.

Second, successive rounds of sanctions accelerated the decline. After the **annexation of Crimea in 2014,** Western governments passed measures to restrict Russian access to international financial markets. The **full-scale**

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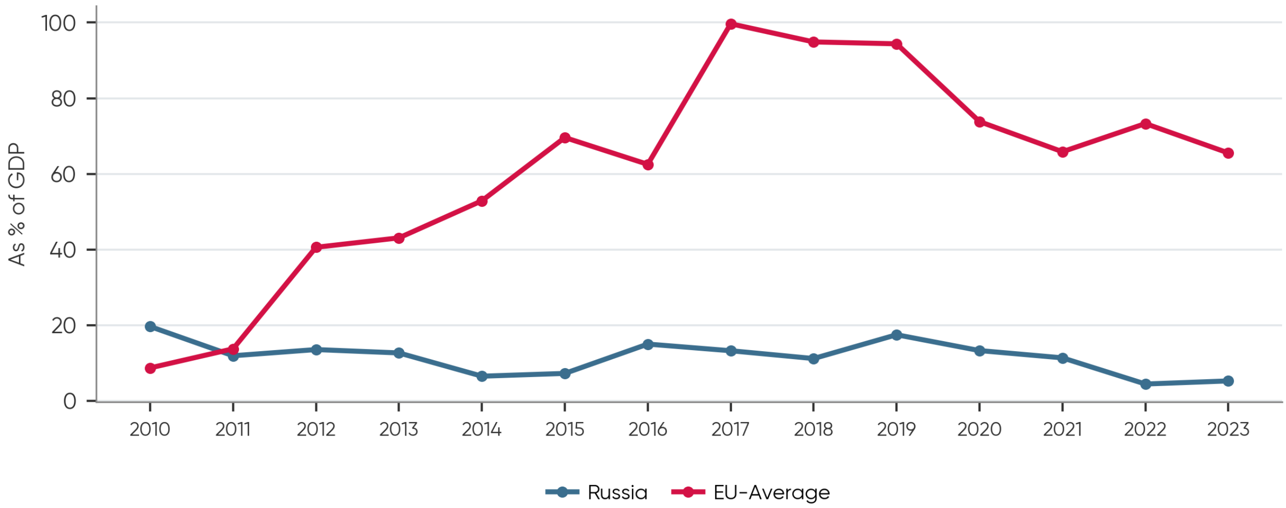
[3] The EU average is calculated based on all 27-member states.

[4] Tereschenko, A., "B2B: Deoffshorization as a Trend in the Reform of Russian Tax Law", *The Moscow Times*, 25 February 2014.

invasion of Ukraine in 2022[5] brought a far more sweeping response: major Russian banks were disconnected from the SWIFT system, assets held by state-owned entities, corporations, and individuals abroad were frozen, new investment in Russian assets was banned, and access to international financial infrastructure – including securities transactions via Euroclear and Clearstream – was severed. These measures **limited the ability of Russian elites to transfer and maintain wealth** in traditional offshore jurisdictions such as Cyprus, the Netherlands and Luxembourg, making Kremlin-linked firms increasingly reliant on more distant 'sink' offshore jurisdictions, such as the UAE, which became a dominant destination for outbound Russian capital since the start of the war in Ukraine.[6]

Figure 2. Russia's vs. Europe Average Offshore Financial Wealth



Source: CSD estimation based on Method 6: Offshore Financial Wealth, UNCTAD's methods for measuring Illicit financial flows.

Offshore finance should not be equated with illegality. Many offshore structures operate within the letter of the law. However, their systemic effect is to lower the cost of opacity and to normalise arrangements that obscure the UBO of companies, related-party transactions, and the true locus of control. This creates fertile ground for IFFs and allows formally legal structures to be repurposed rapidly for illicit or malign ends when political incentives shift.

Cyprus has historically functioned as the central node for Russian capital round-tripping and relabeling.[7] Its ecosystem of Russian-speaking professional services and a legal environment that creates a symbiosis between political and corporate elites makes it a cornerstone of the Russian economic footprint in Europe.[8] Despite a decline in the total investments since 2022, Cyprus remains the single largest source of

[5] Critical elements of the new sanctions following the full-scale invasion of Ukraine included the disconnection of major Russian banks from the SWIFT system, the freezing of assets held by state-owned entities, corporations, and individuals abroad, bans on new investment in Russian assets, and restrictions on access to international financial infrastructure, including transactions in foreign securities via Euroclear and Clearstream.

[6] Russia's Pivot to Asia, "Russia Reorganizes Its Double Tax Treaties As The UAE Tops Russian Fixed Investment List", 24 November 2025.

[7] Ledyaeva, S. et al., "Offshore Foreign Direct Investment, Capital Round-Tripping, and Corruption: Empirical Analysis of Russian Regions", *Economic Geography* 91 (3), April 2015, pp. 305–341., Repousis, S., Lois, P., and Kougioumtsidis, P., "Foreign Direct Investment and Round-Tripping between Cyprus and Russia", *Journal of Money Laundering Control* 22 (3), May 2019, pp. 442–450.

[8] Shentov, O., Stefanov, R., and Vladimirov, M. (eds.), *Kremlin Playbook in Europe*, Sofia: Center for the Study of Democracy, 2020.

accumulated foreign capital in Russia, acting as a gateway for funds to reenter the Russian economy with EU-based legal footprint.[9]

The **Netherlands,** on the other hand, is considered a high-repute conduit, which has been consistently used by major Russian private and state-owned companies such as Gazprom and Lukoil to operate on the global market.[10] The Netherlands also reduces friction in the process of routing capital through Western corporate frameworks and extensive tax treaty networks.[11] This allows Russian firms to access European capital markets while obscuring the ultimate political control exercised by the Kremlin.[12] After 2022, the Dutch-based segment of the Russian corporate network contracted as structures shifted toward Cyprus.

The **British Virgin Islands (BVI)** function as an offshore sink jurisdiction for retained Russian offshore value,[13] providing a strong mechanism for concealing beneficial ownership through nominee arrangements and shell companies.[14] These entities serve as repositories of accumulated profits, often holding the shares of intermediate Dutch or Cypriot entities.[15]

Luxembourg is a key instrument in the global asset management, engineering special purpose vehicles (SPVs) that execute investment deals while concealing the true ownership of the capital funding them.[16] It has become a key conduit for routing Russian investments into the broader European economy, embedding illicitly controlled capital into mainstream private equity and asset management systems.[17]

Kremlin-linked firms have leveraged these Western jurisdictions to embed themselves within European energy and financial infrastructures, shielding assets from domestic Russian volatility while enjoying the legal protections afforded to foreign investors. Following the invasion, Russian actors have moved deeper into the shadows, exploiting **dark financial networks** and **professional brokers** to move wealth and obscure ownership chains. The reliance on BVI shell companies and Cypriot intermediaries has intensified as a means to bypass the removal of Russian financial institutions from SWIFT and the freezing of financial assets.

Cypriot financial service providers have played a significant role in helping Russian oligarchs and politically exposed persons (PEPs)

[9] Ledyaeva et al., "Offshore Foreign Direct Investment, Capital Round-Tripping, and Corruption", *Economic Geography* 91 (3), April 2015, pp. 305–341., Busfield, A., "Cyprus' EU presidency: The Mediterranean island that turned its back on Russia", *EUObserver*, 27 January 2026.

[10] Fernandez, R., and Wigger, A., "Lehman Brothers in the Dutch Offshore Financial Centre: The Role of Shadow Banking in Increasing Leverage and Facilitating Debt", *Economy and Society* 45(3), January 2017.

[11] Fernandez, R., Hendrikse, R., and Klinge, T.J., "Where State Capitalism Meets the Transnational Capitalist State: The Ties between Gazprom and Amsterdam's Offshore Financial Center", *Journal of Economic Policy Reform* 27 (4), October 2024, pp. 367–388.

[12] Conley, H. A. et al., *The Kremlin Playbook 2: The Enablers*, Lanham, MD: Rowman & Littlefield, 2019

[13] Garcia-Bernardo, J. et al. "Uncovering Offshore Financial Centers: Conduits and Sinks in the Global Corporate Ownership Network", *Scientific Reports* 7(1), March 2017, Art. 6246.

[14] Chang, H. C. et al., "Complex Systems of Secrecy: The Offshore Networks of Oligarchs", *PNAS Nexus* 2 (3), March 2023.

[15] Garcia-Bernardo, Javier, Jan Fichtner, Frank W. Takes, and Eelke M. Heemskerk. 2017. "Uncovering Offshore Financial Centers: Conduits and Sinks in the Global Corporate Ownership Network." Scientific Reports 7: 6246.

[16] Weeks, S., "Channeling the capital of others: How Luxembourg came to be asset managers' "plumber" of choice", *Environment and Planning A: Economy and Space* 56(2), March 2024, pp. 627-644.

[17] Conley, H. A. et al., *The Kremlin Playbook 2: The Enablers*, Lanham, MD: Rowman & Littlefield, 2019.

restructure their wealth in ways that undermine Western sanctions[18]. PwC Cyprus, for instance, may have aided Russian steel magnate Alexey Mordashov in transferring USD 1.4 billion in investment out of his name ahead of EU sanctions.[19] The consultancy in Cyprus has also facilitated the **movement of USD 100 million in assets for a pair of Russian oligarchs –** part of Putin's inner circle.[20] Russian firms have also routed USD 8 billion of trade, ranging from oil-drilling equipment to luxury yachts, through UK-controlled offshore jurisdictions since the full-scale invasion of Ukraine, **USD 4.4 billion of which involved BVI-registered companies**.[21]

The agility of the Cypriot trust and corporate service providers sector based on the country's flexible legal framework, as well as the well-established links to other tax havens such as the BVI and Luxembourg make it an important node in **cross-border ownership structures**.[22] A case identified by the UK's Office of Financial Sanctions Implementation (OFSI) illustrates this mechanism. [23] After a Russian individual was designated by the UK in 2022, assets held in a **BVI discretionary trust** administered by a **Cyprus-based trust and company service provider** (**TCSP**), which also has operations in BVI, were rapidly restructured. Shortly after the designation, the Russian individual was formally removed from the trust through a deed of exclusion, after which the **trust's property portfolio** in the UK and EU was sold at a significantly below-market price to **a low-profile UK company** (Company Gamma LLP), which was owned by individuals connected to the designated person. The sale price was significantly lower than the estimated market value of the property portfolio, indicating that the transaction may have been designed to transfer assets to trusted associates. Shortly after the deal, the acquiring company created a new **share class transferring economic rights** to an EU national with limited public profile, adding another layer of separation between the assets and the sanctioned individual.

To evade restrictions, **sanctioned actors maintain ownership stakes just below regulatory disclosure thresholds** (e.g., under 25% or 50%), while **managing to preserve effective control** via disproportionate voting rights, board appointment powers, shareholder agreements, or debt instruments. The opacity is further reinforced through establishing or partnering with shell or front companies, registered to act as intermediaries, masking the connection to sanctions entities and individuals, by operating under different names, ownership structures, or

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[18] Kenner, D., "Critics question the depth of Cyprus' much-touted reforms to its secretive financial industry", *International Consortium of Investigative Journalists*, 13 November 2024.

[19] Weinberg, N., "Cyprus ignores Russian atrocities, Western sanctions to shield vast wealth of Putin allies", *International Consortium of Investigative Journalists*, 14 November 2023.

[20] Weinberg, N., "Cyprus ignores Russian atrocities, Western sanctions to shield vast wealth of Putin allies", *International Consortium of Investigative Journalists*, 14 November 2023.

[21] Davies, R., "Russian firms have routed $8bn of trade through British island territories since invasion of Ukraine", *The Guardian*, 25 February 2026.

[22] Paphitis, A., "The Strategic Role of Cyprus Trusts for Ultra-High-Net-Worth Individuals", *Agp Law*, 10 March 2025., For an example, an entrepreneur intents to invest in real estate in Cyprus as well as in other EU member states, sets up a Cyprus trust that owns a number of companies, such as a Cyprus company, which, in turn, acquires real estate in Cyprus, or a UK company which in turn will hold real estate investments in the UK, and so forth

[23] Office of Financial Sanctions Implementation, HM Treasury, *Legal Services: Threat Assessment*, April 2025.

locations. These companies conduct seemingly legitimate transactions to access financial systems or facilitate trade.

For EU policy-makers, these sanctions evasion strategies imply that corporate transparency, beneficial ownership disclosure, and scrutiny of intermediary jurisdictions are core elements of economic security. As long as offshore-enabled corporate networks remain intact, Russian capital will retain the capacity to influence markets and institutions even under restrictive regimes. Furthermore, even advanced network analysis may capture only the visible layer of control and influence, underscoring the need for forensic, cross-jurisdictional investigation to identify real control structures.

Amid the strengthening of international sanctions against Russia, the role of offshore zones has evolved from mere tax-avoidance jurisdictions into a **strategic "connective tissue"**, which allows the Kremlin to maintain cross-border mobility, sustain "shadow fleets," and continue exporting "strategic corruption" despite being technically severed from formal Western financial channels.

Illicit Financial Flows: A Three-Tier Typology

Illicit financial flows are commonly defined as **cross-border movements of capital** that are illegal in origin, transfer, or use. IFFs exist along a **spectrum from technically legal but economically harmful practices to clearly illegal activities** (table 1). Russian IFFs span this full range: from aggressive but lawful tax planning and round-tripping (which return capital to Russia disguised as foreign investment, thereby obtaining legal protections meant for genuine foreign investors) to money laundering, bribery, and sanctions evasion. The analytical challenge and core policy problem is that all three tiers of this spectrum **rely on a shared infrastructure**: the same offshore jurisdictions, corporate service providers, and financial instruments facilitate both legal and illegal flows. Enforcement strategies that target only criminal proceeds leave the structural enablers intact.

Table 1. Three-Tier Typology of IFFs

Tier	Category	Definition	Russian-Specific Examples
1	Legal but fiscally destabilizing	Activities that comply with the letter of the law but openly exploit loopholes in ways that erode financial integrity, distort economic data, and drain domestic public resources. The mechanism is transparent; the loophole is the problem.	Strategic Round-Tripping: Routing capital through offshore jurisdictions and returning it to Russia as 'foreign' FDI to obtain investor protections. This pattern was established by the Yukos group (once Russia's largest oil producer) in the 1990s-200s and remains central to the system today. Profit shifting: Using conduit jurisdictions to minimize tax obligations. For example, VEON (ex-VimpelCom), established its parent company in the Netherlands and used the Russia–Netherlands double taxation treaty to transfer profits abroad through dividends, loans and service payments taxed at reduced or zero rates.

2	Grey Zone	Practices that conceal ownership or control to exploit regulatory gaps and jurisdictional ambiguity. Unlike Tier 1, the concealment itself may violate disclosure requirements, even if the underlying activity is not explicitly criminal.	Ownership obfuscation: Multi-layered shell companies and nominee directors used to separate legal ownership from beneficial control. After a Russian banker was designated by the UK in 2022, assets held in a BVI trust managing a UK–EU property portfolio were sold to a UK company owned by associates and later restructured through a new share class transferring economic rights to an EU national. This layered restructuring distanced the sanctioned individual from his formal ownership although he preserved the indirect control over the assets and the full economic benefit. Tankers with obscured ownership and insurance structures are used to sell Russian oil above the price cap to India, China and Türkiye often routing profits through offshore entities. Kremlin uses several Russia-linked traders (e.g., Coral Energy) to continue exporting oil owned by Lukoil and Rosneft.
3	Criminal	Clearly illegal acts involving the proceeds of crime, including corruption, money laundering or direct violations of international and domestic law.	Strategic money laundering: Direct laundering of embezzled state funds or using "dark financial networks" to manage illicit political influence abroad. Over USD 20.8 billion were moved out of Russia between 2010 and 2014 through the so-called Moldovan Laundromat. The operation used a clever loophole involving the Moldovan judicial system to "legalize" dirty money before it entered the EU. While historical, this scheme established the structural template – offshore shells, judicial arbitrage, layered bank transfers – that subsequent operations have adapted and refined. Sanctions evasion via crypto: In 2024, German authorities seized 47 cryptocurrency exchange services operating as 'no-KYC' platforms, whose primary clientele proved to be sanctioned Russian banks.

While the typology above illustrates some of the financial practices through which the Kremlin is moving capital across jurisdictions, offshore financial practices operate within a broader system for linking economic resources to Russian foreign policy. Capital flows can reinforce political control over strategic companies abroad and/or sustain elite networks that ensure a country's alignment with the Kremlin's objectives. Understanding the interaction between IFFs and political influence is essential to explaining how offshore finance supports what scholars increasingly describe as **strategic corruption**.[24]

Strategic Corruption and State-Linked Capital

Strategic corruption refers to the systematic use of corruption not as a governance failure but as a **governance model**. It reflects a political-economic system, in which state authority and market power are combined to advance strategic objectives both domestically and internationally**, where the line between public and private capital is intentionally blurred**.

State-owned enterprises, banks, and Kremlin-linked private conglomerates operate within a shared political hierarchy, structured through informal mechanisms of control, loyalty, and discipline, while offshore jurisdictions provide the infrastructure through which politically

[24] Strategic corruption represents an informal foreign policy tool utilized by malign governments to exert influence, destabilize, and undermine the societal and political institutions of another state. Zelikow, Ph. Eric Edelman, Kristofer Harrison, and Celeste Ward Gventer. The Rise of Strategic Corruption: How States Weaponize Graft, *Foreign Affairs* 99, no. 4 (2020): 107–20., The U.S. Strategy for Countering Corruption defines strategic corruption as a process "when a government weaponizes corrupt practices as a tenet of its foreign policy. The White House. United States Strategy on Countering Corruption. Washington DC, 2021., Strategic corruption can be employed for political purposes, for example, to influence the decision-making processes of another state. However, it may also be used to exert influence in civil society or in the private sectors of the economy, including banking and energy. Thompson, D., "Theories of Institutional Corruption", *Annual Review of Political Science* 21, May 2018, pp. 495-513.

conditioned capital circulate internationally while maintaining plausible deniability. The case of Konstantin Strukov illustrates this fusion. In July 2025, the billionaire CEO of Russia's third-largest gold producer, Yuzhuralzoloto, was prevented from leaving Russia when security officers boarded his private jet moments before departure and confiscated his passport. Authorities subsequently moved to nationalize his mining empire, accusing him of transferring profits to 'unfriendly jurisdictions.' This episode was triggered by sanctions: Western restrictions having made offshore capital movement more visible and politically sensitive, the Kremlin moved to make an example of those attempting to exploit remaining channels. Capital mobility in Russia is now strictly tied to political loyalty, and the assets can be seized by the state for its own strategic needs.[25]

In contrast, **state-approved actors** continue to use offshore finance primarily because it provides access to international markets, contracting under foreign law, and access to international dispute resolution mechanisms. State banks and **quasi-state financial institutions also use offshore finance to reinforce the Kremlin Playbook abroad**. These actors structure cross-border financing vehicles, corporate networks, and investment platforms that link commercial operations with state interests.

Gazprom provides a clear example. Although formally a publicly listed company, the Russian state holds a controlling stake and exercises strategic influence over its activities. **At least sixteen Gazprom subsidiaries incorporated in the Netherlands** are functioning as holding companies, financing vehicles, and project entities for the group's international operations.[26] **These Dutch-registered SPVs** – including Gazprom Holding Coöperatie U.A., South Stream Transport B.V., and Gazprom Finance B.V. – manage billions of U.S. dollars in assets, **facilitating large-scale cross-border financing** while the underlying economic control remains linked to the Russian state.

In Ireland, Russian state-linked banks and corporations have used Irish SPVs for international fundraising. According to the Central Bank of Ireland**, 33 Irish-registered SPVs have been linked to Russian banks** and **corporations, collectively holding approximately EUR 35.5 billion in assets**.[27] Half were connected to sanctioned individuals or entities, illustrating the degree to which sanctioned Russian capital had already been embedded within EU financial structures. These SPVs have been frequently used by state-owned banks such as **Vnesheconombank** (**VEB**) and oil majors like Rosneft to raise capital in international markets. Some continue to service outstanding debt obligations.

Offshore Finance as a Vector of Foreign Influence

Offshore finance functions as a vector of foreign malign influence when opaque capital is deployed not merely for private enrichment but to **shape political, economic, or regulatory outcomes in target jurisdictions**. In the Kremlin Playbook, the transition from securing

[25] The Moscow Times, "Russian Gold Mining Tycoon Barred From Leaving Country Amid Nationalization Efforts", 7 July 2025.

[26] SOMO, *Enabling Putin's war: The ties between Amsterdam's financial centre and Gazprom*, SOMO Paper, March 2022.

[27] Brennan, J., "Half of Irish Russian-linked SPVs have connections to sanctioned parties", *The Irish Times*, 30 March 2022.

financial opacity to gaining political leverage reflects a systemic strategy for deploying economic assets to create structural dependencies and influence decision-making abroad.

Offshore layering through holding companies, trusts, and intermediary jurisdictions obscures the link between capital and its ultimate owner. When Russian state-linked or politically connected actors acquire assets through such non-transparent vehicles, ownership appears internationalised - reducing reputational risk and political scrutiny while preserving effective control. There are four related outcomes:

- First, **sectoral entrenchment**, where offshore-enabled capital allows Russian-linked actors to acquire or **retain positions in strategic sectors** such as energy infrastructure, refining, telecommunications, logistics, and finance. Control does not require majority ownership; minority stakes combined with supply contracts, financing arrangements, or infrastructure dependencies can generate substantial leverage.
- Second, **elite capture** where **opaque financial relationships** between Russian **investors** and **domestic political** or **business elites** align local decision-makers with Russian economic interests while remaining shielded from public scrutiny. There are numerous examples of this pattern. In **Serbia**, Dušan Bajatović – head of Srbijagas – has maintained close links with Gazprom, reinforcing structural dependence in the gas sector through long-term supply contracts and offshore-linked trading structures.[28] In **Hungary**, cooperation between MOL Group and Russia's Lukoil is sustained via offshore intermediaries and trading structures that obscure ownership, pricing, and contractual arrangements.[29] In Moldova, oligarch **Ilan Shor,** convicted in the country's banking fraud scandal – leveraged offshore financial networks both to facilitate large-scale financial schemes and to support Russia-backed efforts aimed at destabilizing democratic institutions and undermining EU integration.[30]
- Third, **legal and regulatory leverage**, where the threat of costly international arbitration deters regulatory action. An apt example is Mikhail Fridman, who has used his Luxembourg-based holding company, ABH Holdings, to launch a **USD 16 billion arbitration claim** against the Luxembourg government (representing nearly half of Luxembourg's annual budget), serving as a potent deterrent against regulatory assertiveness by smaller states.[31] Russia's total sanctions-related arbitration claims against EU and non-EU countries have already **exceeded USD 62 billion**.[32] By incorporating assets in offshore jurisdictions, Russian-linked actors ensure their investments are protected by Bilateral Investment Treaties (BITs) and investor-state

28 Stefanov, R. et al., *The Kremlin Playbook in Southeast Europe: Economic Influence and Sharp Power*, Sofia: Center for the Study of Democracy, 2020.

29 Vladimirov, M. et al., *The Last Mile: Phasing Out Russian Oil and Gas in Central Europe*, Sofia: Center for the Study of Democracy, 2025.

30 Olari, V., "Telegram network seeks to manipulate Moldova's local political discourse", *DFRlab*, 6 March 2025.

31 Red Carpet Courts, "The Russian oligarch suing over sanctions: Fridman vs Luxembourg".

32 Flues, F., *Frozen Assets, Hot Claims: How Russian oligarchs and other investors sue over sanctions*, Veblen Institute for Economic Reforms, 2025.

dispute settlement (ISDS) clauses; 23 such BITs between EU member states and Russia remain active even after the invasion.[33]

- Fourth, offshore structures have been used to channel **funding into media outlets, advertising networks**, or **digital platforms –** the **penetration of the information ecosystem**. While not always directly attributable to the Russian state, these financial flows can influence editorial lines, amplify disinformation narratives, or distort the public debate on a strategic issue.

Understanding offshore finance as a vector of foreign influence bridges the analytical gap between illicit financial flows and economic security. Foreign malign influence can operate through altered **incentives** and **risk calculations**. When policymakers are aware that key infrastructure, employment, or capital flows depend on opaque foreign-controlled entities, regulatory assertiveness may diminish. Over time, this produces a subtle but durable erosion of institutional autonomy. Sanctions may **constrain formal channels**, but as long as offshore infrastructure remains accessible, capital can be **reconfigured and redeployed in ways that sustain foreign state leverage**.

[33] The Luxembourg Government, "Kurs op muer. Ee Muer fir Jiddereen" – Gilles Roth presents the State budget for 2025", 10 October 2024. Luxembourg's central government revenue is anticipated to be €29.6billion in 2025, and was €25.7billion in 2023 (the most recent year for which statistics were available at the time of writing)., Darvas, Z. et al., *EU trade and investment following Russia's illegal invasion of Ukraine*, European Parliament, Policy Department for External Relations Directorate General for External Policies of the Union, PE 702.591, July 2023.

MAPPING RUSSIA'S CORPORATE FOOTPRINT IN EUROPE

Corporate networks translate offshore wealth into operational control, allowing Russian actors to own assets, manage supply chains, and participate in European markets while obfuscating UBO and political alignment. Sanctions have **altered the form of these networks**, but not their underlying logic. This section examines how Russia's corporate footprint in Europe evolved **before and after the full-scale invasion of Ukraine,** using original network analysis of the **100 largest Russian companies**.[34]

A central challenge in **mapping Russia's corporate footprin**t after 2022 is that the very phenomenon we seek to measure – the migration from **systematic obfuscation into a hyper-fragmented, highly adaptive circumvention architecture** – is partly designed to evade detection. The Kremlin-linked entities, strategic private firms, and Kremlin-affiliated individuals have constructed **complex multi-layered corporate networks** across multiple jurisdictions to **fragment ownership trails** and **obfuscate detection**. The understanding about the level of fragmentation comes on the back of extensive documentation in legal enforcement actions, regulatory reports, and investigative reports. What the network analysis captures is the **visible structure** of these networks, which constitutes a lower bound on the full picture. This makes the scale of the findings – a network that grew from 8,155 to 10,935 entities despite unprecedented sanctions pressure – all the more significant.

Sanctioned actors exert influence **without formal ownership** by appointing third parties (e.g., lawyers, accountants, family members, or trusted associates) as nominal owners or directors while **retaining effective control.** Shortly after the invasion, control of Norma Investments, a BVI offshore vehicle long associated with Roman Abramovich, was transferred to his business associate David Davidovich.[35] Such asset transfer mechanisms often involve trusts, foundations, and other opaque legal structures, which are utilized specifically to hold assets and exercise indirect control, very often overseen by trust companies for no legitimate reason, thereby concealing the UBO. Since 2014, nearly 800 companies and trusts, owned or controlled by sanctioned Russian individuals, have been registered in secrecy jurisdictions.[36] Cyprus remains a preferred destination: more than 650 of these were registered there, including some owned by individuals first sanctioned as early as 2014.[37]

Box 2. Methodology for the Corporate Network Analysis

The analysis maps the ownership and control relationships of the 100 largest Russian companies by revenue and strategic importance, including state-owned enterprises, state-controlled banks, and politically connected private

[34] CSD based on global corporate databases.

[35] Colchester, M., and Patrick, M., "Abramovich Investment Vehicle Shifted Control Shortly After Russia Invaded Ukraine", *The Wall Street Journal*, 15 March 2022.

[36] Weinberg, "Cyprus ignores Russian atrocities, Western sanctions to shield vast wealth of Putin allies", ICIJ, 14 November 2023.

[37] Kenner, "Critics question the depth of Cyprus' much-touted reforms to its secretive financial industry", ICIJ, 13 November 2024.

conglomerates. Rather than focusing only on legal incorporation, it traces parent companies, intermediate holding structures, and operational subsidiaries across jurisdictions, using global corporate ownership data drawn from the **Bureau van Dijk Orbis database**. Two comparable datasets were constructed: one for 2015, capturing the pre-sanctions architecture, and one for 2025, capturing the post-invasion reconfiguration.

Figure 3 shows the criteria for identifying companies with Russian direct and indirect control. 'First level' subsidiaries are companies in which a Russian parent entity holds a direct ownership stake. 'Further level' subsidiaries are companies held indirectly – through one or more intermediate entities – where a chain of ownership links back to a Russian ultimate beneficial owner. The analysis distinguishes between these levels to measure both the reach and the depth of Russian corporate control across jurisdictions.

Figure 3. Criteria for the Identification of Companies with Russian Direct and Indirect Control

The network analysis is a quantitative methodology that conceptualises complex systems as sets of nodes (e.g. companies or individuals) and edges (e.g. ownership ties or control relationships). By modelling corporate ownership as a relational structure rather than a simple list of entities, it becomes possible to uncover indirect control pathways, identify structurally influential actors, and detect clusters of tightly interconnected firms. This approach is particularly well suited to analysing covert or opaque UBO, as it enables the tracing of control through multiple layers of intermediate holding companies, shell entities, and cross-border vehicles that may otherwise obscure the identity of the controlling actor.

The 2015 network comprises 8,155 companies connected through 9,895 parent – subsidiary relationships, while the 2025 network includes 10,935 companies and 14,459 ownership links. Each edge in the network was weighted according to the percentage ownership stake held by the parent company in the respective subsidiary, allowing the analysis to differentiate between minority participations and controlling interests and to more accurately assess the intensity of corporate control. Network metrics such as betweenness centrality, closeness centrality, and eigenvector centrality were used to identify central nodes, jurisdictional hubs, and choke points within the corporate architecture of Russia's largest companies.

Betweenness centrality is a value that describes the centrality of a node in a graph, based on shortest paths. Nodes that are likely to lie on the shortest path between other nodes, more likely to be 'in between' two nodes, thus have a higher betweenness centrality. This suggests that these nodes, which may be individuals or organisations, act as crucial intermediaries between different clusters. For instance, a consultant who has previously worked for both German and Russian companies may facilitate the most direct route for establishing new business relations between a German and a Russian company that have both engaged with the consultant in the past, but not with each other.

Closeness centrality is calculated as the average of the shortest path length from one node to every other node in the network. A high closeness centrality value indicates that a person or organisation has a relatively short path to reaching most other nodes in the network. This allows them to rapidly obtain and disseminate information, as they can gain access to other individuals or organisations through mutual contacts with minimal effort.

Eigenvector centrality, by contrast, measures not only how many connections a node has, but also how well-connected its neighbours are. A node receives a high eigenvector centrality score if it is connected to other nodes that themselves have high centrality, meaning it is embedded in a structurally influential part of the network and linked to other prominent or powerful actors. These metrics also help distinguish between countries that merely host low-tier subsidiaries with Russian ultimate beneficial ownership and those that function as strategic control centres within Russian corporate networks through which Russian ultimate beneficial ownership is obscured.

The corporate analysis is subject to inherent limitations. Firm ownership structures are often deliberately complex, and a lack of transparency is exacerbated by offshore secrecy jurisdictions, incomplete or inconsistent beneficial ownership disclosure, nominee arrangements and frequent corporate restructuring. Consequently, certain ownership chains may be partially obscured or only traceable up to a particular jurisdiction or holding entity. Nevertheless, network-analytic approaches remain highly informative even when individual links are incomplete. Rather than relying on fully verified ownership chains, the methodology identifies structural patterns across the network as a whole. The recurrent use of specific jurisdictions, legal forms, intermediaries and multi-layered holding structures indicates systematic organisational strategies rather than isolated anomalies. In this sense, even partial visibility can reveal the broader architectures of control and influence underlying Russian-linked corporate networks in Europe, allowing robust inferences to be made about their configuration and evolution.

Before and After 2022

Prior to the large-scale invasion of Ukraine in 2022, Russian ownership chains were often layered through offshore and conduit jurisdictions, yet the brand names at the top of these structures were clearly Russian. Gazprom, Rosneft, Lukoil and Mechel, among other large-scale state-linked corporate entities, established presence in European markets through subsidiaries, joint ventures and holding companies bearing their names. Capital was routed through reputable Western jurisdictions, but political control remained firmly anchored in Moscow.

Cyprus played a pivotal role in this architecture, functioning as the main hub for 'round-tripping' and capital relabelling between Russia and the EU. Its legal framework, network of double taxation treaties, and dense ecosystem of Russian-speaking lawyers, accountants, and corporate service providers created a symbiotic financial environment between Russian and Cypriot elites.[38] Following the imposition of Western sanctions in 2014, rather than retreating, Russian capital consolidated further in Cyprus. Russian businesses and high-net-worth individuals increased their physical and financial presence in Limassol, effectively turning it into an extension of the Russian corporate sphere. This process had a striking macroeconomic footprint: the share of Russian assets in the Cypriot economy rose from 35% in 2015 to 78.4% of the total foreign assets held in Cyprus in 2021.[39] Not all of this capital was Kremlin-linked: a portion reflects the transfer of Russian private wealth held by individuals seeking legal protection from domestic political risk rather than advancing state objectives. However, the concentration itself, regardless of motive, created structural conditions for the Russian offshore system to operate through an EU member state, making Cyprus systemically important to the network even where individual holdings were privately motivated.

The **Netherlands** and **Luxembourg c**omplemented Cyprus as conduit jurisdictions. Dutch holding companies were particularly prevalent in the

[38] Shentov, Stefanov, and Vladimirov (eds.), *The Kremlin Playbook in Europe*, Sofia: CSD, 2020.

[39] Center for the Study of Democracy, Russian Economic Footprint in Europe database.

energy and extractive industries, providing access to EU legal protections, tax treaty benefits and capital markets, while shielding parent companies from direct Russian registration. In the 2015 network, the **Lukoil Holding B.V.** emerged as the most central non-Russian node: it had 34 direct subsidiaries and was linked to a further 51 lower-tier entities across Bulgaria, Ukraine, Romania, Türkiye, Serbia, Italy, Cyprus and the Netherlands. Through **intermediaries** such as **Lukoil Netherlands B.V**., the group continues to **control assets in Germany, Belgium**, and **Spain,** becoming embedded in the EU's downstream fuel distribution and trading chains.

A similar logic applied to **Mechel,** one of Russia's largest mining and metals conglomerates. In 2015, **Mechel Service Global B.V**., registered in the Netherlands, held shares in Germany's HBL Holding GmbH, which in turn, has controlled multiple steel trading entities – a bridge between Russian industrial production and European steel markets, positioned within a reputable EU jurisdiction. Although later corporate restructuring obscured some of these connections, the pre-2022 configuration reflected a broader pattern.

Gazprom's pre-2022 footprint was even more extensive. Through Gazprom Germania and its subsidiaries, the company-controlled supply, storage, and trading operations across Europe. Layered structures linked **Swiss, British,** and **Dutch intermediaries** to assets in Central Asia and downstream ventures in Mexico and the United States. This vertically integrated yet legally fragmented architecture enabled coordination from a limited number of central nodes while maintaining jurisdictional dispersion – locking host countries into long-term energy dependencies and creating political leverage.[40] This architecture was designed to thrive in an era of open markets and incomplete transparency, and would only mutate, not disappear, after 2022.

In sum, the pre-2022 arhitecture relied on recognisable brands and direct equity stakes. Almost all major Russian energy companies had subsidiaries in the Netherlands, Luxembourg, or Cyprus under their own names. Logistics and industrial intermediaries, such as GEFCO and Gruppo Mercurio, acted as additional connectors. By **routing investments through EU jurisdictions**, while BVI sink jurisdictions absorbed accumulated profits and ownership structures, keeping beneficial control hidden.[41]

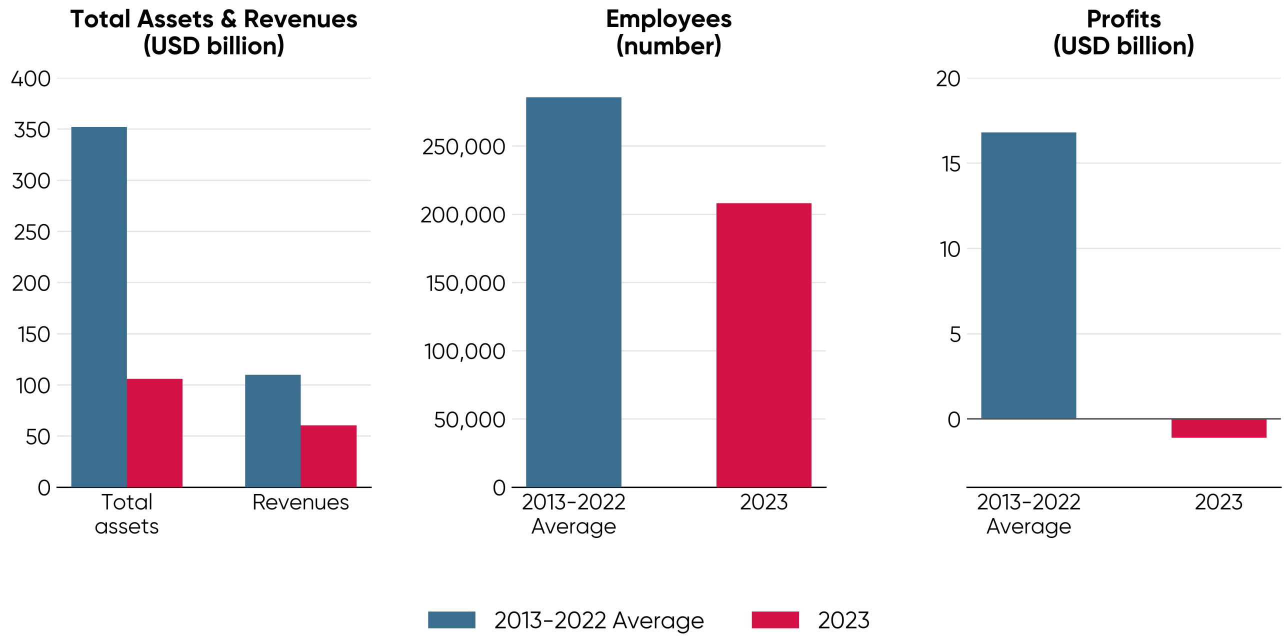
Taken together, these structures gave Russian-controlled companies a substantial economic footprint in Europe. In the decade preceding the invasion (2013-2022), the European entities ultimately controlled by the 100 largest Russian companies held, on average, around **USD 352 billion in total assets** and generated **roughly USD 110 billion in annual revenues**, while employing some 286,000 people and producing close to USD 17 billion in annual profits (Figure 4 contrasts this pre-invasion annual average with the post-invasion position in 2023 for each measure; in every pair of bars, the left-hand bar shows the 2013-2022 average and the right-hand bar shows 2023). This weight was concentrated in energy,

[40] Shentov, Stefanov, and Vladimirov (eds.), *The Kremlin Playbook in Europe*, Sofia: CSD, 2020.

[41] Ibid.

metals and extractive industries and operated largely under recognisable Russian brands routed through Dutch, Cypriot and Luxembourgish holding companies.

Figure 4. Changes in the Russian Corporate Footprint in Europe



Source: CSD calculations based on corporate databases.

Post-2022 Mutations: Fragmentation, Obfuscation, and Rerouting

Sanctions imposed after February 2022 produced a sharp contraction in the measurable financial footprint of Russian companies in Europe. Total assets fell from an average of USD 351.8 billion to **USD 105.7 billion in 2023** — a decline of approximately **70%**. Revenues dropped from USD 109.8 billion to **USD 60.4 billion** (a **45% fall**), while the workforce contracted from around 285,700 to **208,150 employees**. Profits turned negative: after averaging USD 16.8 billion annually before the invasion, Russian-linked companies in Europe collectively recorded a **loss of USD 1.1 billion in 2023**. Yet this contraction in measured value coincided with an expansion in the number of entities and ownership links: the footprint became financially smaller on paper but structurally larger and more fragmented – consistent with a deliberate shift from visible direct ownership toward layered, intermediary control.

At first glance, the European footprint appears to have diminished. The number of European companies in the network fell from 1,379 in 2015 to 777 in 2025. Yet this apparent reduction is deceptive. In 2015, 316 European companies were directly owned by Russian entities – 46.6% of all European companies in the network. By 2025, this had fallen to 223, representing 37.5%. Meanwhile, the number of European companies **owned via Cyprus, Luxembourg, the Netherlands, the UK or the BVI** increased from 117 to 258, rising from 17.3% to 31.5% of all European companies in the network. **Direct ownership receded while intermediary ownership expanded.**

Rather than shrinking under pressure, the system became more granular and layered. Cyprus in particular became a hub for post-2022 reconfiguration, absorbing corporate structures that had previously relied more heavily on Dutch conduits. The property records show that between 2021 and 2024, Russian citizens acquired 4,124 properties in Cyprus, including 2,561 only in Limassol,[42] underscoring the degree to which this small EU member state remains structurally intertwined with Russian capital. Dutch-registered entities declined from **83 to 49**, while Cypriot entities more than doubled from **95 to 216**. Luxembourg entities rose from **13 to 25**, and UK-registered companies from **27 to 53**. The presence of the British Virgin Islands remained broadly stable.

The expansion of Cypriot offshore corporate ownership is visible in the restructuring of Gazprom-linked assets in the **Western Balkans**. Through several intermediary companies, registered in Cyprus, Gazprom and its oil subsidiary, Gazpromneft, control one of the largest refineries in the region, a gas storage facility, the extension of the TurkStream gas pipeline and several thermal power plants. The Cyprus-based offshore layer is serving as a **jurisdictional buffer between Russian corporate parent control** and **legal entities in the EU candidate countries**. The strategic objective of the offshorisation of corporate control is not tax optimisation but the preservation of control over energy infrastructure while reducing direct exposure to sanctions risk.

Broader regional data reinforce the distinction between proximity and opacity. In **Armenia** and **Georgia**, Russian energy and transport assets are still directly owned by Gazprom, Rosneft, Inter RAO, VTB and Russian Railways – overt, vertically integrated ownership. In contrast, in **Moldova** and the **occupied territories of Ukraine**, assets are often routed via **Dutch** or **Cypriot entities** such as Inter RAO Holding B.V., or **Cypriot vehicles** linked to Mechel and Sberbank.

This shift is strategic. In politically sensitive jurisdictions **closer to the EU regulators, intermediary layers multip**ly. While prior to 2022, corporate structures prioritised tax efficiency, capital market access, and reputational legitimacy, after the start of the invasion control increasingly flows through minority ownership stakes, shareholder agreements, circular ownership structures and cross-border holdings in Cyprus, Luxembourg, or the UK with the goal of increasing opacity and evading sanctions.

Central Nodes, Conduits, and Jurisdictional Hubs

The network structure reveals that not all jurisdictions play equal roles. Certain nodes function as **control hubs**, concentrating **ownership rights, financing flows,** or **decision-making authority**. Others serve primarily as **conduits**, facilitating the **movement of capital without hosting substantial economic activity.** The network metrics used here – numbers of entities and ownership connections, as mapped in the Orbis dataset – measure the structural prominence of jurisdictions in ownership architecture, not the monetary volume of flows through them. The latter is estimated separately using the UNCTAD Method 6 approach in Section

[42] CitizenX, Russia's Unprecedented Wealth Exodus Reshapes Global Capital Flows, March 2026.

4.

*In 2015, **Dutch B.V. entities** such as Lukoil Holding B.V. and Gazprom-linked holdings were among the most significant non-Russian connectors. While the Netherlands remains relevant in energy structures such as that of the Russian state-owned power suppliers, Inter RAO Holding B.V., the number of the Dutch-registered entities in the network fell from 83 to 49 between 2015 and 2025. **Cyprus** and **the UK** became more prominent as intermediary jurisdictions.*

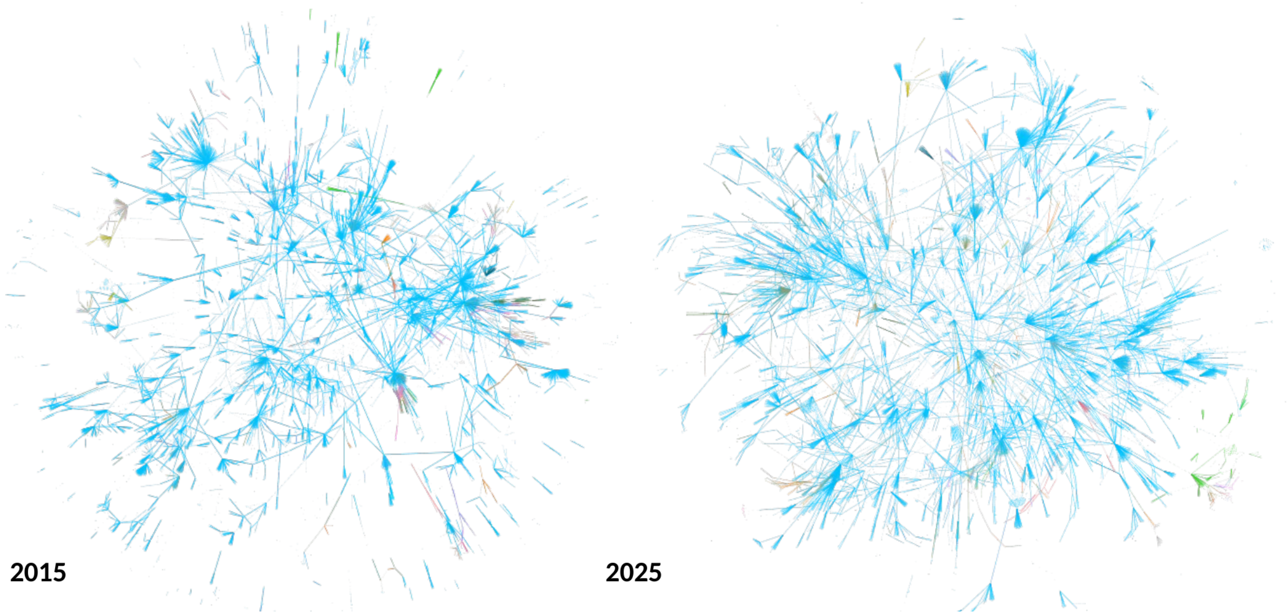
Dutch and Cypriot entities are similarly involved in Georgian and Moldovan energy assets. Inter RAO Holding B.V. – a Dutch entity – connects hydropower plants and distribution companies in Georgia, as well as the Moldavskaya gas-fired power plant in Moldova. These structures incorporate Russian-controlled infrastructure into European legal systems, ensuring enforceability of contracts and shareholder rights within EU-compatible frameworks. Inter RAO Holding B.V. directly or indirectly controls a total of 9 subsidiaries in the network with a combined revenue of EUR 268 million.

Cyprus-based entities demonstrate how direct Russian beneficial ownership is achieved through **complex corporate structures**. Libertatem Materials Ltd. sits within the following chain: Russian aluminium giant Rusal owns 100% of the Qatari company "Al Plus Holding" LLC, which in turn owns the Cypriot-registered Libertatem Materials. It is through Libertatem Materials that Rusal holds aluminium assets in Germany, Ireland, Italy, and Sweden. The insertion of a non-EU intermediary (Qatar) between a Russian parent and a Cypriot EU holding company means that the ultimate control remains intact but the immediate shareholder is neither Russian nor directly exposed to sanctions scrutiny. In total, Libertatem Materials Ltd. is connected to 74 direct or indirect subsidiaries that generate a total of EUR 4.23 billion in revenues. These subsidiaries are located primarily in Germany, Ireland, Italy, Sweden, Russia and Cyprus and operate in aluminium refining, smelting and metals processing. The largest subsidiary is Limerick Alumina Refining Limited (Ireland), which alone generates approximately EUR 798 million in revenues. Limerick itself controls a further network of 56 subsidiaries across Ireland, China, Europe and Asia, with total revenues of approximately EUR 2.43 billion. The largest subsidiary in this network is North United Aluminium (Shenzhen) Co. Ltd., generating approximately EUR 1.67 billion. Neither Rusal, EN+ nor Limerick Alumina are currently subject to comprehensive EU, UK or US sanctions, despite their continued links to the Russian aluminium industry.

Another Cyprus-based entity, "Nevsky Property Finance" Ltd, reflects a different tactic: **circular round-tripping within an EU legal shell**. Owned by the Russian state-owned VTB Bank, the Nevsky Property Finance group holds shares in Delimobil Holding S.A. (Luxembourg), which in turn holds stakes in Carshering Russia PJSC. Meanwhile, another Russian entity holds shares in Nevsky Property Finance Ltd., creating an **ownership loop**, in which capital flows from Russia to Cyprus to Luxembourg to Russia and back again. The companies involved in this loop generated a total of EUR 515 million in 2025. While the formal ownership structure internationalises the holding chain under EU corporate law, substantive control remains within the Russian banking perimeter.

Figure 5 visualises the corporate ownership networks of Russia's 100 largest companies in 2015 (left) and 2025 (right). Each node represents a corporate entity, while each edge represents an ownership relationship. The 2025 network is visibly denser, more fragmented and geographically dispersed than its 2015 counterpart, containing more entities, more ownership links and a larger number of intermediary holding companies. While the sanctioning, liquidation or state takeover of prominent entities such as Gazprom Germania has reduced the number of direct ownership links between Russian parent companies and European subsidiaries, the overall network has not contracted. **The share of European companies directly owned by Russian entities declined from 46.6% in 2015 to 37.5% in 2025, while the share owned through companies registered in offshore jurisdictions increased from 17.3% to 31.5%.** This transformation is reflected visually in the growing dominance of blue edges (i.e. ownership by a Russian-registered entity) in the 2025 network.

Figure 5. Changes in the Structure of the Corporate Network of the Largest 100 Russian Companies around the World



Source: CSD statistical analysis based on corporate databases.

Betweenness centrality is the most useful network analysis metric for identifying the most important 'bridges' between Russian parent companies and subsidiaries within or outside the EU. It identifies every shortest path between every pair of companies in the network and then determines how many of these paths each company lies on. The higher the number, the more important the respective company is as a bridge on the shortest paths between many other companies, i.e. one of the 100 largest Russian companies are likely to use it to control a large network of subsidiaries in other jurisdictions.

While the companies with the highest betweenness, closeness, and eigenvector centrality scores in the 2025 network are overwhelmingly Russian-registered entities, a small number of **foreign-registered companies** occupy structurally important positions as bridges between

Russian parent companies and extensive networks of foreign subsidiaries. Most companies in the network are lowest-tier subsidiaries with a betweenness centrality of zero, meaning they do not lie on any shortest path between other companies. By contrast, the foreign entities discussed below all exhibit betweenness centrality scores **above 50**, indicating that they lie on at least 50 shortest ownership paths between other companies in the network. Given the size of the network (10,935 companies and 14,459 ownership links), this still represents less than 1% of all possible shortest paths but highlights their role as **key intermediaries** within Russian corporate structures after 2022.

Among the **most significant foreign hubs** is **VTB Capital PLC** (**United Kingdom**), which connects the Russian state-owned VTB group to a network of 1,650 direct and indirect subsidiaries with combined revenues of approximately EUR 90.7 billion. Its largest subsidiary is VTB Bank PJSC, generating approximately EUR 11.6 billion in revenues. The network spans banking, insurance, financial services, leasing, real estate and investment companies across dozens of jurisdictions. VTB Capital PLC remains connected to VTB Bank, the Russian Deposit Insurance Agency, and ultimately the Central Bank of Russia. However, following the imposition of Western sanctions, VTB Capital PLC entered administration and no longer functions as an active international investment platform. Its continued presence in the network therefore illustrates an important distinction between formal ownership structures and actual operational control in the post-2022 environment.

A related example is Global Yatırım Holding A.Ş. (Türkiye), which controls 31 subsidiaries generating approximately EUR 1.84 billion in revenues across the ports, energy, natural gas, mining, financial services and real estate sectors. Its largest subsidiary, Global Liman İşletmeleri A.Ş., generates approximately EUR 620 million in revenues and forms part of the Global Ports Holding network. The company appears in the Russian ownership network through a historical ownership link involving **OWH SE i.L.** (**formerly VTB Bank Europe**), a German entity that was majority-owned by VTB Bank. However, OWH was placed under German regulatory control following Russia's invasion of Ukraine, VTB lost its voting rights, and the company entered liquidation. As a result, while OWH continues to appear in corporate registries and ownership databases, it no longer represents effective Russian control. The case illustrates an important limitation of ownership-network analysis: formal ownership links may persist long after the underlying control relationship has been disrupted.

Another major foreign intermediary is **Baggio Holding B.V.** (**Netherlands**), which forms part of the Rosseti electricity transmission and distribution network. It controls 52 subsidiaries generating approximately EUR 5.74 billion in revenues, primarily in Russia's electricity distribution sector. Its largest subsidiary, Rosseti Moscow Region, generates approximately EUR 1.38 billion in revenues. While most subsidiaries are Russian regional electricity grid operators, the network also includes entities in Armenia, Belarus, Georgia, Kazakhstan and the Netherlands. These foreign subsidiaries are primarily active in electricity transmission and distribution, regional grid management, infrastructure services, and corporate holding activities, extending the group's presence beyond Russia into neighbouring electricity markets. Although the non-Russian entities account for only a small share of the network's revenues, they demonstrate how Russian state-controlled electricity infrastructure has been embedded in foreign jurisdictions through a combination of operational grid assets and intermediary holding structures. Although Baggio Holding itself is not directly sanctioned, it remains connected to the sanctioned Rosseti group and therefore continues to function as a foreign holding vehicle for Russian-controlled electricity infrastructure.

Finally, **Norilsk Nickel (Cyprus) Limited** demonstrates how offshore structures are often used primarily as holding and financing vehicles. It controls 17 subsidiaries located in Cyprus, the Netherlands, Switzerland, Finland, the United Kingdom, Hong Kong and South Africa, where the company serves as an important intermediary within the international structure of Norilsk Nickel, one of the world's largest producers of nickel and palladium. Unlike many Russian state-owned enterprises, Norilsk Nickel itself is not currently subject to comprehensive EU, UK or US sanctions, illustrating how strategically important Russian-linked corporate networks can remain deeply embedded in global markets despite the broader sanctions regime.

BITAR Holdings Limited (Cyprus) provides another example of how Russian-linked energy assets are embedded within foreign corporate structures. The company controls 19 direct and indirect subsidiaries with combined revenues of approximately EUR 155 million, primarily in the electricity and district-heating sector. Its largest subsidiary is TE-TO AD Skopje, a combined heat and power plant operator in North Macedonia. BITAR is connected to Gazprom through a chain involving TGC-2, one of Russia's major power generation companies, illustrating how Russian energy interests have historically extended into Southeast European energy infrastructure through offshore holding vehicles. Neither BITAR nor TGC-2 are currently subject to comprehensive international sanctions, although Gazprom faces extensive sanctions-related restrictions.

Sectoral differences are significant. **Energy** and **extractive industries** display the highest levels of state involvement and strategic coordination, with offshore structures used to manage ownership risk and sanctions exposure. **Metals, fertilizer**s, and **logistics** rely heavily on offshore finance for asset holding and trade finance, while **financial** and **digital sectors** have shown the **fastest post-2022 adaptation**, making greater use of non-bank intermediaries, SPVs, and alternative payment arrangements. Russian corporate networks are designed not only to optimise returns, but to absorb political shocks, preserve market access, and sustain influence under pressure from sanctions.

ESTIMATING RUSSIAN IFFS THROUGH OFFSHORE WEALTH

The corporate network analysis reveals how Russian capital is structured abroad, but not its scale. This section applies UNCTAD's Method 6 to estimate the magnitude of Russian IFFs[43], and links the results to Russia's corporate footprint and FDI patterns in key offshore jurisdictions. The goal is to establish orders of magnitude and identify structural trends that illuminate the role of offshore finance in sustaining Russian economic power under sanctions.

The Offshore Wealth Method Explained

UNCTAD's Method 6 (Flows of Offshore Financial Wealth by Country) estimates the stock of financial assets held offshore by residents of a given country – primarily portfolio assets and bank deposits – and converts changes in these stocks into annual flow estimates.[44] The method is grounded in discrepancies between national balance-of-payments data and global financial statistics, using the **External Wealth of Nations Database** and the **Atlas of the Offshore World** as primary sources.[45]

How Method 6 Works: Three Steps

Step 1: Calculate Offshore Financial Wealth (OFW): Portfolio Wealth (Portfolio Liabilities minus International Portfolio Assets) plus external deposit discrepancies.

Step 2: Disaggregate by IFC region: American (Bermuda, Bahamas, Cayman Islands, Panama); Asian (Bahrain, Malaysia, Macao, Singapore, Hong Kong); European (Austria, Belgium, Cyprus, Guernsey, Isle of Man, Jersey, Luxembourg); Switzerland (standalone category).

Step 3: Derive illicit flows: Convert stock changes into annual flows, isolate positive outflows, and apply **a 75% non-compliance rate** – i.e., 75% of positive outflows are treated as illicit. This rate is grounded in studies by major financial institutions and corroborated by Panama Papers leaks data, and has become the standard assumption in IFF estimation.[46]

Portfolio Wealth = Portfolio Liabilities minus International Portfolio Assets[47]

OFW = Portfolio Wealth + Deposits (external discrepancy)

- **Stock**: The total amount of Russian wealth sitting in offshore accounts at a single point in time.
- **Flow**: The annual change in that stock (new money leaving Russia) plus the investment returns (dividends/interest) generated by the existing stock.
- **Illicit Share Assumptions**: We apply the assumption suggesting that a specific portion of this offshore flow is likely "illicit," meaning it was either earned illegally or transferred to evade taxes and sanctions. Our

[43] For a review of all UNCTAD methods see Vladimirov, and Kostova, *Shadow Economies*, Sofia: CSD, 2025. Methods 1 (Partner Country Method Plus) and 2 (Gross Excluding Reversals) have been applied to ten Western Balkans and Black Sea countries in the first paper of this series (CSD, 2025). Method 6 is applied here to the source jurisdiction. Methods 3 to 5 have been found lacking in terms of practical applicability to to source, transit or target destinations.

[44] UN Trade and Development, Methodological Guidelines to Measure Tax and Commercial Illicit Financial Flows, 2021, pp.82-89.

[45] Milesi-Ferretti, G., "The external wealth of nations database", *Brookings Institution*, 9 April 2026., Atlas of the Offshore World, Offshore financial wealth, Datasets.

[46] UN Trade and Development, Methodological Guidelines to Measure Tax and Commercial Illicit Financial Flows, 2021, pp.82-89.

methodology relies on the assumption of 75% non-compliance rate, which means that 75% of the total positive flows is considered illicit. The reasoning for this rate is based on several studies carried out by banks, other institutions, and based on the Panama Paper leaks, for instance. This rate has become the general assumption in financial flows.[48]

Linking the offshore financial wealth method to Russia's corporate footprint and FDI patterns is significant for two reasons. Russia has consistently ranked among the world's largest holders of offshore wealth relative to GDP, reflecting long-standing incentives for capital externalisation. In addition, the concentration of Russian assets in a small number of offshore jurisdictions allows for meaningful linkage between aggregate wealth estimates and observed corporate structures.

At the same time, the method has well-known limitations. Offshore wealth is a stock variable, while IFFs are dynamic. Not all offshore assets are illicit in origin. The method does not capture FDI, real estate, or trade-based flows – channels through which capital can also be shifted. Offshore wealth estimates should therefore be interpreted as conservative indicators of potential IFFs rather than comprehensive measures.

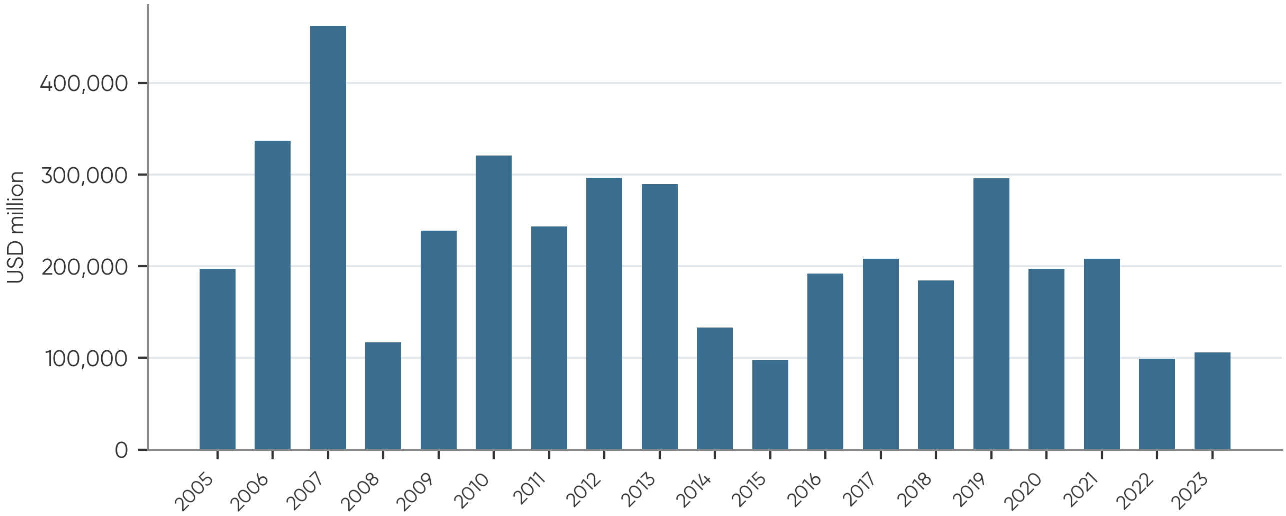
Russian Offshore Wealth Before and After 2022

Russia's offshore wealth remained high prior to 2022 despite the Kremlin's de-offshorization drive. Sanctions after 2014 altered its composition but did not reverse the broader pattern. The 2022 invasion triggered a sharp contraction: offshore financial wealth fell from **USD 208 billion in 2021** to **USD 99.3 billion in 2022** – closely mirroring the first sanctions shock, when offshore wealth fell by two-thirds between 2013 and 2015, to USD 98 billion. The 2022 decline reflected freezes by Western sanctions authorities, forced restructuring, and emergency capital movements by major Russian companies. The post-sanctions contractions, however, reflect a temporary disruption rather than a structural reconfiguration. Offshore wealth quickly recovers as corporate networks adapt. For example, by 2019, offshore wealth had nearly returned to pre-2014 levels. However, after the 2022 decline, the rebound was much more modest in 2023.

[47] Atlas of the Offshore World, Offshore financial wealth Methodology.

[48] Alstadsæter, A., Johannesen, N., and Zucman, G., "Who owns the wealth in tax havens? Macro evidence and implications for global inequality", *Journal of Public Economics* 162(4), February 2018, p. 95.

Figure 6. Offshore Financial Wealth, Russia



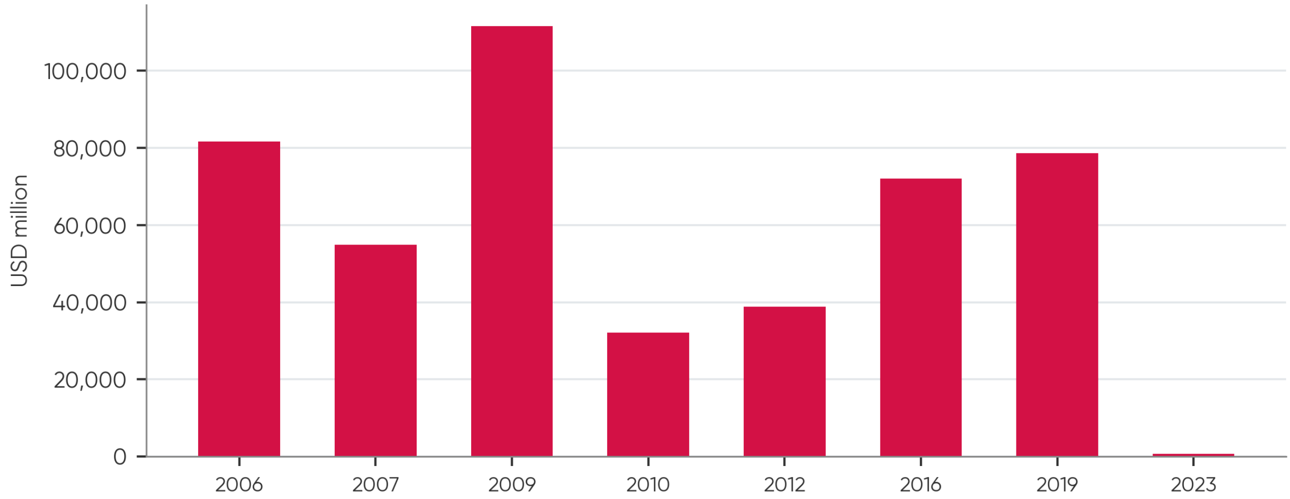
Source: CSD calculations by applying UNCTAD's Method 6 "Offshore Financial Wealth".

The Russian Central Bank acknowledged **net private capital outflows of over USD 160 billion in 2024**, **equivalent to roughly 8% of GDP**.[49] Capital outflows took both direct forms (purchase of foreign real estate, cryptocurrencies, and offshoring of dividends), and indirect forms (debt write-offs and under-invoicing of exports). Much of this capital was routed through **opaque financial instruments and intermediares** in the **UAE**, **China, Türkiye** and **Central Asia**.[50]

Russian private business owners and government officials have increased attempts to move wealth out of the country amid the growing fear of heavy taxation, asset seizures, and nationalization – a rational response to the Kremlin's tightening **consolidation of control over capital, assets**, and **loyalty**.[51] Corporate network data indicate **restructuring rather than withdrawal** as trade flows in strategic sectors remain significant, and alternative payment mechanisms have replaced restricted banking channels.

[49] Lviv Herald, "The Great Escape: Capital Flight from Russia and the Kremlin's Desperate Clampdown", 10 July 2025.
[50] Lviv Herald, "The Great Escape: Capital Flight from Russia and the Kremlin's Desperate Clampdown", 10 July 2025.
[51] Ibid.

Figure 7. Illicit Financial Outflows, Russia



Source: CSD estimation based on UNCTAD's Method 6.

Linking Offshore Wealth to Corporate Structures: Round-Tripping and FDI

The persistence of Russian capital in offshore havens reflects a deliberate architecture combining so-called **"sink"** and **"conduit"** offshore jurisdictions[52] to maximize ownership obfuscation, legal insulations, and sanctions resilience. In this system, **Cyprus** functions as **the primary conduit** for round-tripping and restructuring hub, allowing Russian capital to re-enter both Russia and third countries as EU-origin investment. The **Netherlands** and **Luxembourg** serve as legal and financial gateways, providing treaty access, investment vehicles, and reputational cover.

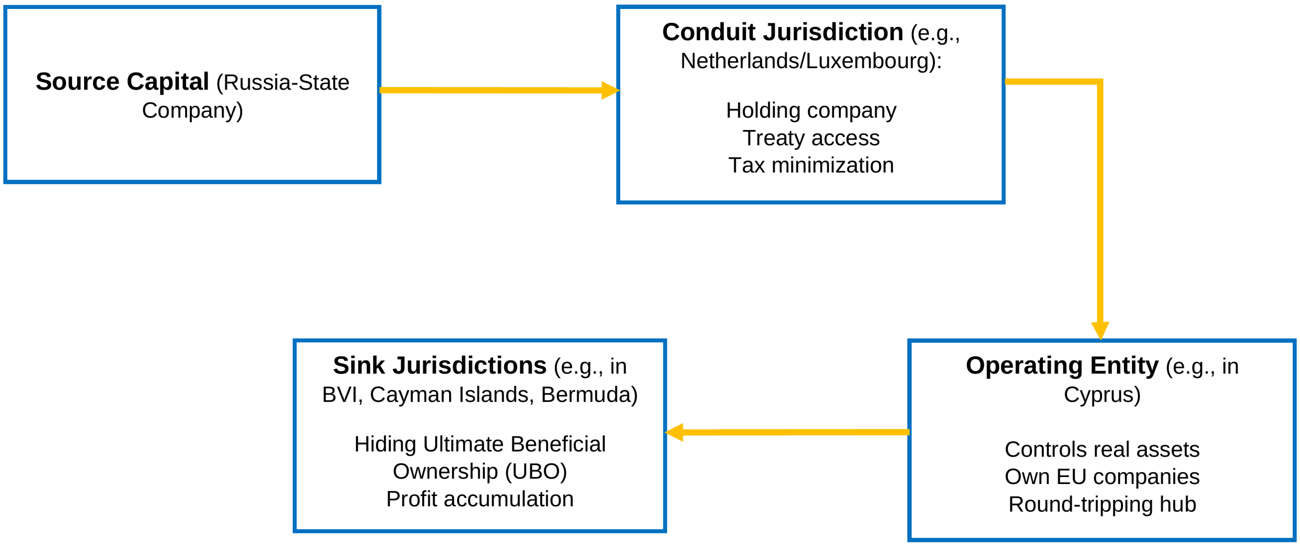
The **BVI** function primarily as a sink jurisdiction, hosting ultimate ownership entities that accumulate and retain value. Mechanically, these jurisdictions function less as separate destinations than as stages in a single, repeatable cycle that moves capital in and out of Russia while obscuring its origin. Capital leaving Russia is first booked into a Cypriot, Dutch or Luxembourg holding company – frequently a letterbox or "money-box" entity that exists only on paper, complying with the bare minimum of registration requirements while the real activity occurs elsewhere. Built and maintained by a dense industry of corporate service providers – lawyers, accountants and incorporation agents who specialise in layered, multi-jurisdictional structures – these vehicles convert Russian funds into nominally EU-origin investment.

The capital can then be *round-tripped* back into Russia as "foreign" FDI, capturing the tax advantages and legal protections reserved for outside investors, or pushed onward into further holding layers that supply treaty access, investment vehicles and reputational cover before ultimate ownership is parked in a sink jurisdiction such as the BVI, where beneficial-ownership disclosure is minimal. Each layer performs a distinct function – origin disguise, tax optimisation, legal insulation and ownership concealment – and much of it operates in a deliberate grey zone: following the letter of company and tax law while defeating its

[52] Garcia-Bernardo et al., "Uncovering Offshore Financial Centers", *Scientific Reports* 7(1), March 2017, Art. 6246.

spirit, and remaining just below the threshold at which national authorities, overwhelmed by the complexity and cross-border reach of the schemes, can intervene.

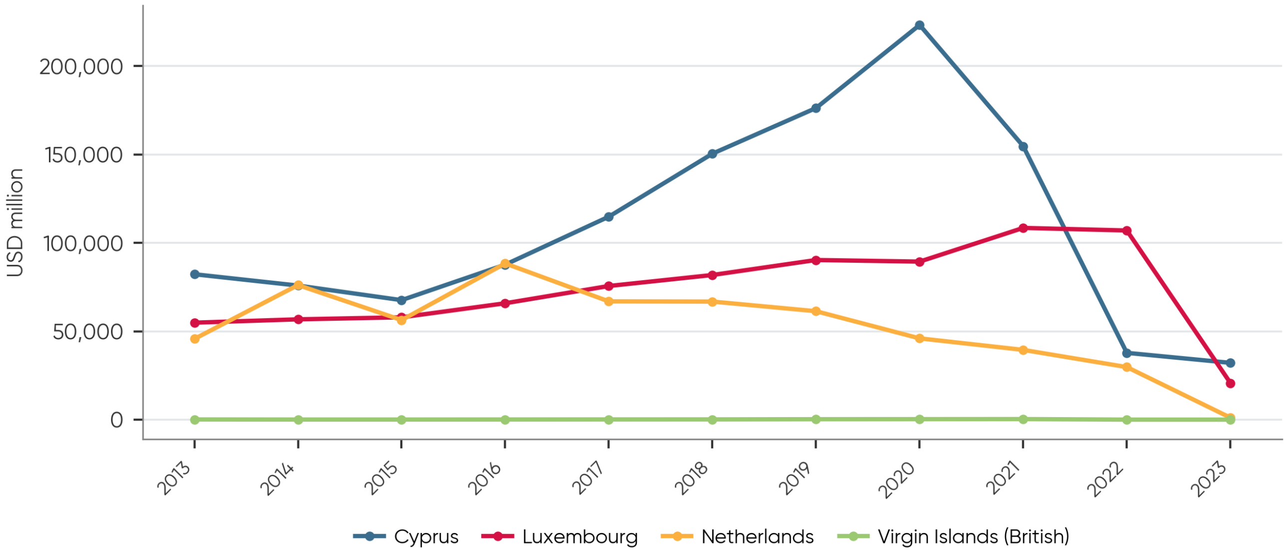
Figure 8. Conduit-Sink Offshore Network



Source: CSD.

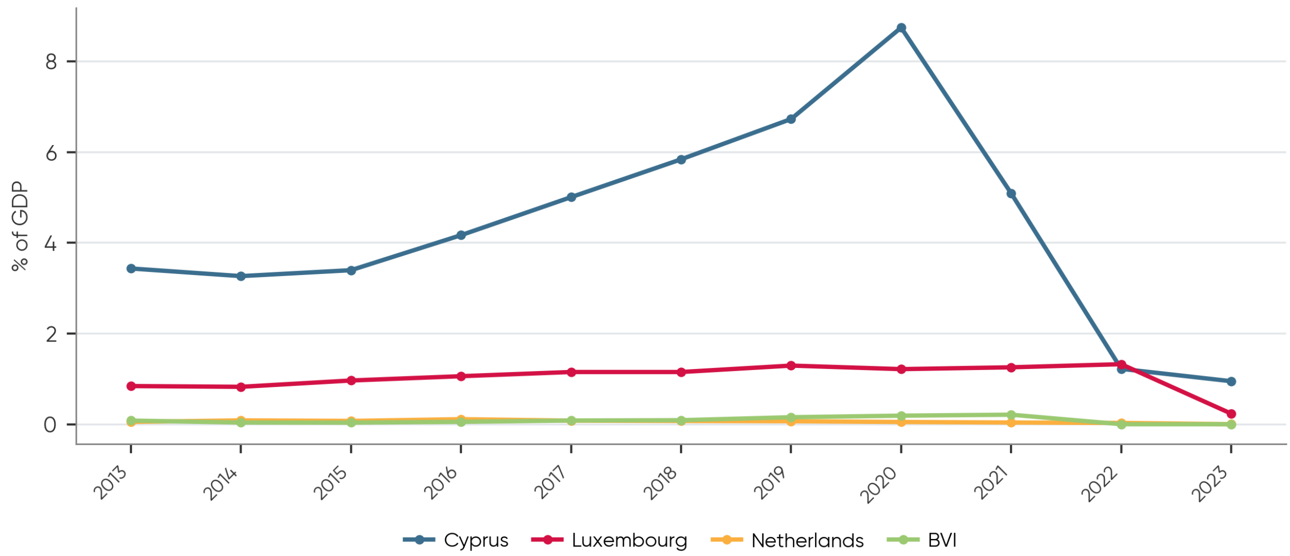
The gateway role of offshore hubs role has important **implications for sanctions enforcement** and **economic security**. Measures focused narrowly on freezing assets in sink jurisdictions may overlook the role of conduit jurisdictions in enabling capital mobility and vice versa. As long as Russian capital can move through European legal-financial systems via intermediaries, it retains the capacity to influence markets and circumvent restrictions. European offshore hubs therefore provide a combination of credibility, flexibility and scale that is difficult to replicate elsewhere, making them key nodes in the architecture of Russian IFFs.

Figure 9. Russian Corporate Footprint (Turnover) in Offshore Hubs



Source: CSD estimation based on Orbis database.

Figure 10. Russian Corporate Assets



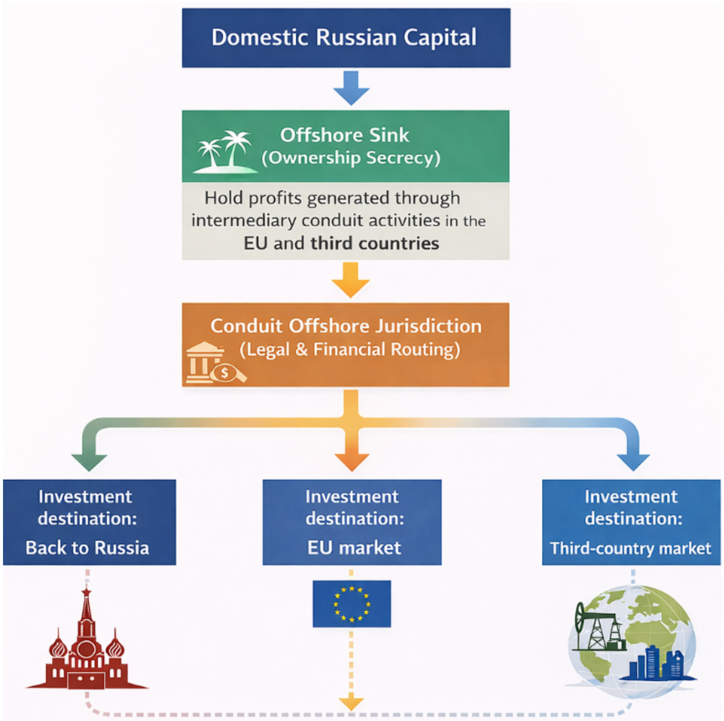
Source: CSD calculations based on corporate databases.

FDI statistics confirm this architecture at scale. A large share of Russia's outward and inward FDI has historically been routed through offshore jurisdictions, creating the phenomenon of phantom FDI, referring to investment with little connection to real economic activity. Russian FDI in Cyprus peaked at approximately **USD 153 billion in 2021**. The **Russia-Cyprus double taxation treaty** played a central role: reduced withholding taxes on dividends and interest, favourable capital-gains treatment, and access to EU corporate law made Cypriot holding companies particularly attractive vehicles for Russian investors. In practice, many Russian firms established Cypriot SPVs that held shares in domestic companies, allowing profits to be distributed as foreign dividends under the treaty framework. Similar, though smaller, patterns were visible in the Netherlands and Luxembourg.

This dynamic is best understood as round-tripping rather than conventional foreign investment. As set out in *The Kremlin Playbook in Europe*, round-tripping is the practice of returning funds to their original owner after routing them through a shell subsidiary in another jurisdiction, so that domestically sourced Russian capital re-enters Russia – or the wider EU – relabelled as "foreign" investment. Cyprus sits at the centre of this circuit in two distinct roles: as the initial conduit through which Russian funds enter the Eurozone, and as the final destination, or "sink", for profits generated elsewhere under the preferential regimes of the Netherlands, Luxembourg and other financial-service hubs. The corollary is that a large share of the FDI recorded as originating in Cyprus and the Netherlands is, in substance, Russian capital exploiting laxer corporate-registration and tax rules to park profits and conceal ownership: Russian firms such as Lukoil, for instance, have long channelled investments through Dutch, Cypriot, BVI and Swiss subsidiaries.

This carries a direct measurement consequence. Because the flows are layered through holding companies with little genuine economic substance, headline FDI statistics simultaneously overstate the volume of true foreign investment and understate the degree of Russian control behind it – the essence of phantom FDI. Critically, the same conduit jurisdictions that intermediate this capital, principally Cyprus and the Netherlands, are the ones that recur as the central nodes in the corporate-ownership network analysed above, confirming that the FDI and ownership data are two faces of a single architecture.

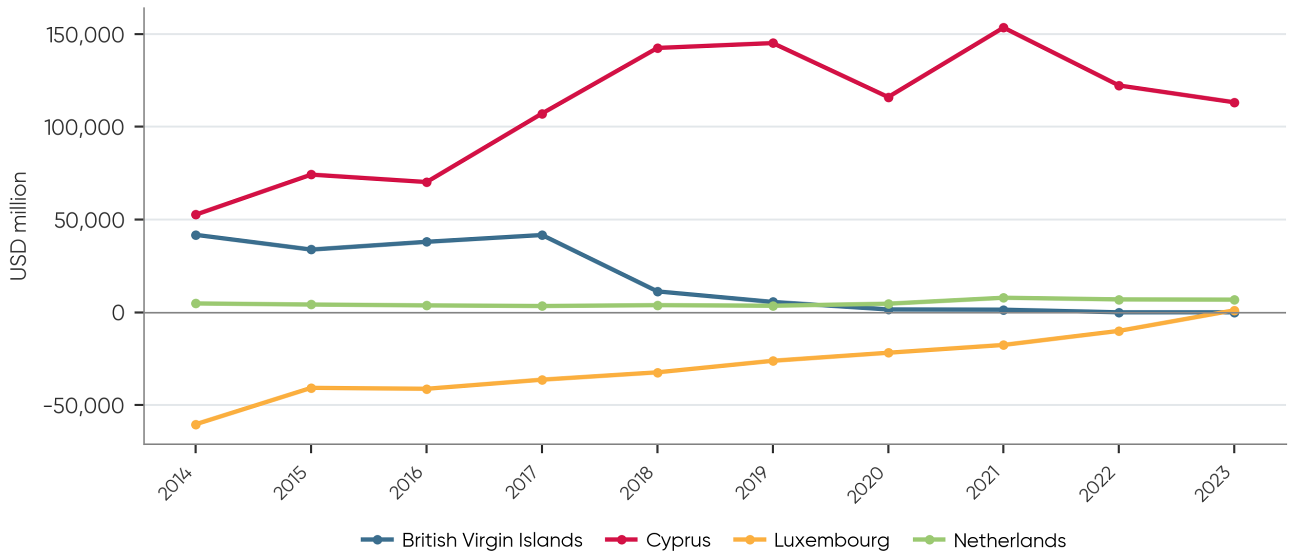
Figure 11. FDI Round-Tripping Structure



Source: CSD.

Offshore jurisdictions enable the separation of legal ownership from effective control through multi-layered holding chains combining sink jurisdictions (e.g. the BVI) with conduit jurisdictions (Cyprus, Luxembourg, and the Netherlands). Each additional jurisdictional layer introduces legal complexity for investigators. When one entity becomes sanctioned or exposed, ownership can be shifted across adjacent nodes without disrupting operational control.

Figure 12. Russian Foreign Direct Investment Stocks in Key European Offshore Hubs



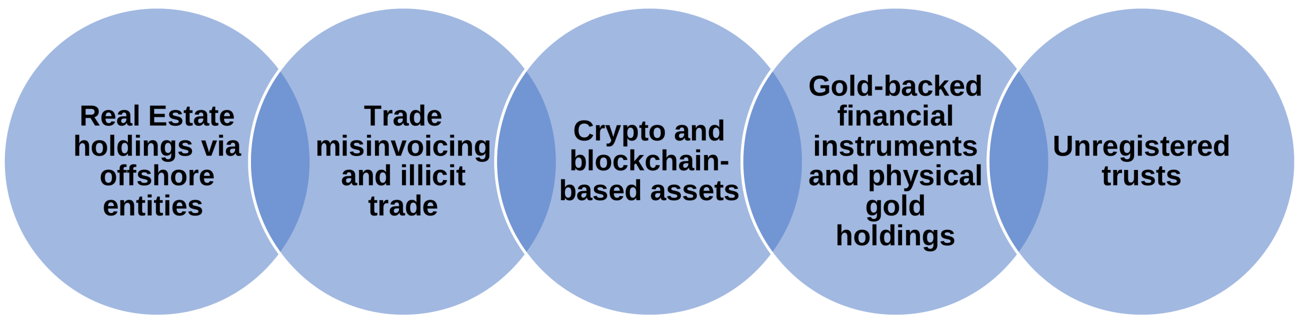
Source: National Central Banks, FDIs stocks statistics; Russian Central Bank, FDI statistics (till 2021).

Targeting sink jurisdictions alone addresses only one part of the chain. As long as conduit jurisdictions remain structurally permissive, capital can be repackaged and reintroduced into regulated markets. This is particularly relevant for EU economic security: vulnerabilities often lie not in exotic island havens but in highly developed financial centres embedded within the European legal order.

What the Data Cannot See: Critical Blind Spots

The offshore financial wealth estimates understate the full scale of Russian IFFs because important channels remain difficult to observe. These blind spots allow **capital to leave Russia** and **retain foreign control** while **evading beneficial ownership transparency** requirements (Figure 14).

Figure 13. Critical Blind Spots



Source: CSD.

Real estate: Russian actors have long acquired high-value property through offshore shell companies, trusts, and nominees, especially in cities such as London. There are **thousands** of UK properties worth billions of pounds linked to suspicious wealth[53] – concentrated in high-value areas of London such as Westminster and Kensington, where

[53] Transparency International, "Stats reveal extent of suspect wealth in UK property and Britain's role as global money laundering hub", 18 February 2022.

luxury real estate serves as a vehicle for storing wealth and integrating capital into the legitimate financial system. As of 2022, an estimated **GBP 1.5 billion** (**around USD 2 billion**) worth of property had been bought by **Russians accused of corruption** and **Kremlin links**.[54] More than half of these real estate assets is held through British Overseas Territories and Crown Dependencies – many operating as offshore financial centers, including the BVI.[55] Around **40% of foreign-owned property in Kensington and Chelsea is bought through a trust,** meaning the real owner does not appear on the land registry.[56] In this and many more similar cases, the offshore company is listed as the legal owner in the UK Land Registry, while the ultimate beneficial owner remains hidden behind nominee directors or trusts, allowing sanctioned and politically exposed individuals and oligarchs to obscure both their identity and the origin of the funds used for the purchase of the property.

Box 3. The Role of State Banks and Legal Enablers

Offshore architectures are sustained through **state-linked financial institutions** and **professional intermediaries** that create legal, financial structures. Russian state banks such as Promsvyazbank, Gazprombank, and VTB have historically functioned as **strategic financial arms** of the Kremlin. Prior to 2022, they structured offshore holding vehicles, underwrote international bond issuances, and facilitated cross-border investment through European subsidiaries, anchoring Russian corporate networks **within the EU financial system**. A concrete example: Gazprombank acted as the primary financial conduit for the Bulgarian part of the strategic for Russia "TurkStream" pipeline, channeling funds from Gazprom through a network of offshore companies registered in Cyprus (e.g., Polarson Invested System Limited) and Luxembourg (e.g., Completions Development) to the formal contractor (Arkad consortium). State-linked banking and offshore corporate vehicles thus served as a mechanism for both financial control and ownership obfuscation.[57]

Designated Russian individuals can also maintain effective control through service-company structures.[58] According to OFSI's HM Treasury Legal Services Threat Assessment (2025), three UK companies formally owned by a non-designated individual provided estate management, security, and maintenance services for a sanctioned Russian's residence. One of the companies regularly received high value payments from the designated person's account at an Austrian bank, as well as direct and indirect transfers from Cyprus-based trust in which the designated person was both the settlor and sole beneficiary. Funds were regularly transferred between all three companies as working capital loans or reimbursement of expenditure, making transactions look commercially normal while obscuring their true source.

[54] Transparency International, "Stats reveal extent of suspect wealth in UK property and Britain's role as global money laundering hub", February 2022.

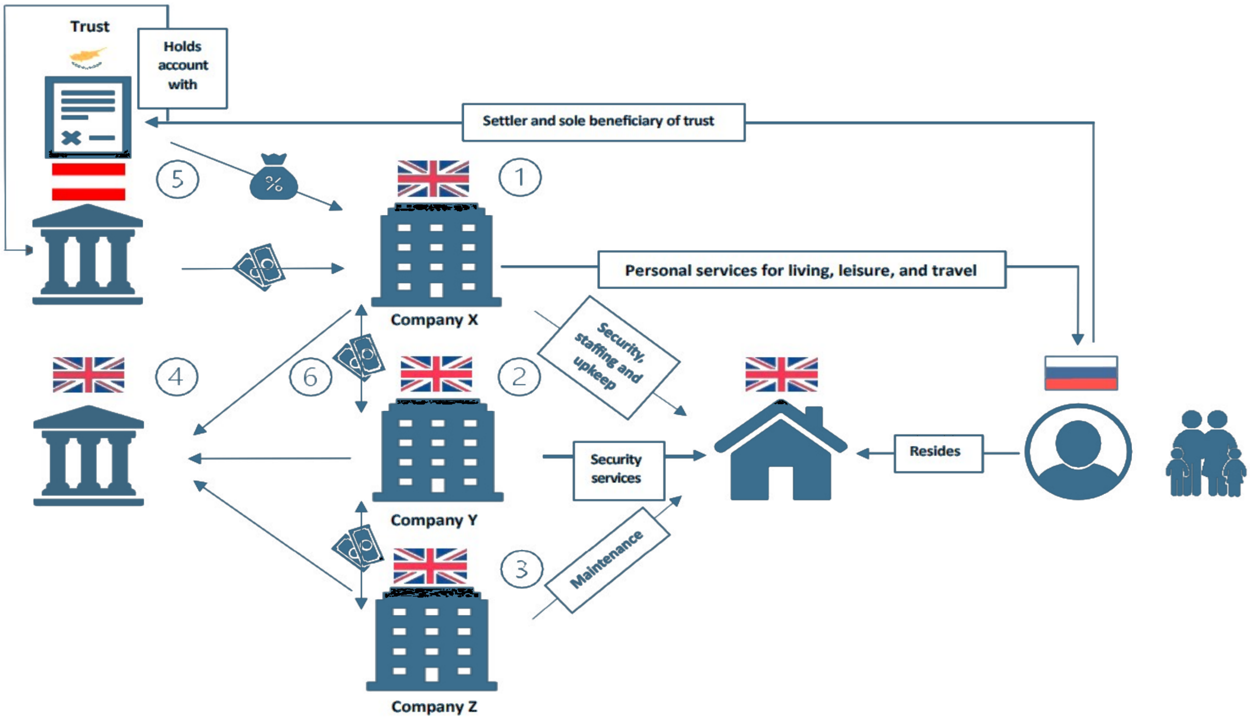
[55] Ibid.

[56] Myers, E., "Russia sanctions emptied these London mansions. Now they're falling apart", *Politico*, May 2025.

[57] Kostova, T. et al., Impact of Sanctions on Infiltration of Russia in Europe: The Kremlin's Malign Influence Through Strategic Corruption, Bridgegap Working Paper series, Working paper 25-03, September 2025.

[58] OFSI, HM Treasury, Financial Service Threat Assessment, February 2025.

Figure 14. Russian Designated Persons (DPs) with a UK Nexus Maintaining Lifestyles and Assets: UK Residential Properties



Source: Office of Financial Sanctions Implementation (OFSI), HM Treasury.

Trade misinvoicing is another major blind spot. Embedded in ordinary trade transactions, it does not appear in capital-account data or offshore wealth estimates. In one Dutch case, a Russian businessman used **false end-user declarations** and **a Maldivian intermediary** to export dual-use electronics to Russia.[59] Similarly, in the **Milandr–Milur network**,[60] Armenian and **Swiss intermediaries** created legal and financial distance between a sanctioned Russian microelectronics producer and its foreign partners, illustrating how offshore and third-country structures can obscure both destination and control.

Cryptocurrencies represent a growing channel invisible to standard financial reporting. Crypto wallets are controlled anonymously, and transfers occur outside conventional financial reporting frameworks – remaining entirely off the radar of UNCTAD's Method 6 estimates unless voluntarily declared.

Russia has institutionalized this channel over the last three years: in July 2024, the Duma passed legislation, **allowing cryptocurrencies in international trade,** as part of Russian efforts to **skirt Western sanctions.**[61] The Kremlin then legalised **cryptocurrency mining**[62] and major state-owned banks including **Sberbank** are integrating crypto services into their offerings.[63] In 2024, German authorities seized the infrastructure of

59 Stöckl, B., "Dutch court sentences Russian citizen for breach of EU sanctions", *Euractiv*, 1 November 2023.

60 Pope, H., "U.S. Treasury Sanctions Kremlin Microelectronics Supplier", OCCRP, 17 November 2022.

61 Bryanski, G., "Russia to allow crypto payments in international trade to counter sanctions", *Reuters*, 30 July 2024.

62 First Channel News, "Putin signs law on legalizing crypto mining in Russia", 8 August 2024.

63 Reuters, "Russia's Sberbank offers custody services for Russian crypto assets", 17 July 2025.

47 cryptocurrency exchange services **operating as "no-KYC" platforms**[64] – services that accept transactions without verifying customer identity, allowing users to move funds anonymously outside anti-money-laundering controls. Subsequent investigation revealed that their primary clientele was **sanctioned Russian banks**.[65]

The scale of crypto-enables evasion is significant. Vladimir Potanin's Rosbank, launched an **international cryptocurrency transaction service** in June 2023 promoting **commodity-backed digital tokens**.[66] The state nuclear corporation Rosatom has been implicated in laundering **stablecoins to obscure the origins funds used to procure sensitive technologies**.[67] Rostec announced a rouble-pegged stablecoin designed to **replace SWIFT** for international transactions.[68] **Rosselkhozbank** has also proposed the use of cryptocurrency payments for international grain trade settlements.[69]

Gold provides another opaque channel. It can be held outside the banking system or traded through offshore custodial and commodity structures, making it difficult to capture the sales through financial-account statistics. Gold has become a strategic resource for the Kremlin since the invasion: by the end of 2025 it accounted for more than 41% of Russia's foreign-exchange reserves (around USD 295 billion). Since 2022, Russian banks have used gold exports to hubs such as Türkiye and the UAE to obtain foreign currency. The Russian "Lanta Bank" and "Vitabank", were identified as part of a sanctions-evasion scheme: in Q1 2023, they imported over USD 82 million in foreign currency by shipping gold to Türkiye and the UAE in exchange for dollars, euros, and UAE dirhams.[70]

Moscow also exerts influence through strategic stakes in gold production in former Soviet states and parts of Africa.[71] African gold smuggled through Kremlin-linked networks has generated over USD 2.5 billion in revenues for Russia since 2022.[72] Gold has become a strategic resource for the Kremlin since the invasion of Ukraine, supporting the state's monetary policy and foreign currency reserves. By the end of 2025, gold accounted for more than 41% of Russia's foreign exchange reserves (USD 295 billion), underlining its growing strategic role. [73]

Unregistered trusts represent one of the most clandestine ownership instruments. Offshore trusts separate legal ownership from beneficial ownership, allowing assets – bank accounts, corporate shares, investment portfolios, and real estate – to be controlled without appearing in public

[64] Koch, M., "Operation Final Exchange: Police shut down criminal money laundering platforms", *Heise Online*, 19 September 2024.

[65] Chainalysis, "In Large Operation, German Law Enforcement Seizes Servers of 47 Russia-centric No KYC Exchanges", 25 September 2024.

[66] Кузнецов, М., "Росбанк первым среди крупных банков запустит трансграничные платежи в криптовалюте", *Ведомости*, 2 июня 2023.

[67] Office of Public Affairs, US Department of Justice, "Founder of Cryptocurrency Payment Company Charged with Evading Sanctions and Export Controls, Defrauding Financial Institutions, and Violating the Bank Secrecy Act", 9 June 2025.

[68] Rostec.ru, "Система обеспечивает проведение международных платежей, мультивалютных операций, идентификацию пользователя и хранение цифровой валюты", 2022.

[69] TASS, "Russian bank explores use of cryptocurrencies in grain trading", 30 May 2025.

[70] SAYARI, *Russian Banks May Be Engaging in Cash-For-Gold Scheme to Obtain Foreign Currency*, 2024., Ibid.

[71] Kennedy, J., "Corruption and Russia's Illicit Gold Trade", RAND, 13 December 2024.

[72] Transparency International, "Gold and Crossbows: How Russian Mercenaries Enable Dirty Business in Africa", July 2025.

[73] Global Banking & Finance Review, "Russia's central bank says its operations with gold are increasing", 19 November 2025.

registries. Many jurisdictions, including the BVI, do not maintain public beneficial ownership registers for trusts.

As Russian actors adapt to sanctions and regulatory scrutiny, the relative importance of these less visible channels will likely increase, reinforcing the need for systemic approaches that integrate financial intelligence, beneficial ownership transparency, and asset registers across jurisdictions.

The next section examines the strategic incentives driving Russian actors to maintain their extensive footprint in offshore finance and infrastructure.

THE RISE OF PARALLEL PAYMENT

Financial sanctions imposed after Russia's invasion of Ukraine targeted the core of the country's banking system. All major state and private systemic banks – Sberbank, VTB, Gazprombank, and Alfa-Bank – have faced asset freezes, restrictions on international operations, and exclusion from SWIFT. These measures have disrupted traditional payment channels but simultaneously drove the development of **parallel payment infrastructures** combining offshore entities, non-bank intermediaries, digital assets, and informal settlement mechanisms – fragmenting oversight and redistributing financial risk across jurisdictions.

Sanctions escalated in waves: in **February-March 2022**, major Russian banks were removed from SWIFT and the Russian Central Bank's reserves were frozen.[74] Through **2022-2023**, financial sanctions expanded to cover correspondent banking and capital market access. Through **2023-2024**, enforcement focus shifted to sanctions circumvention via intermediary jurisdictions and third-country financial institutions; and by **2025**, scrutiny extended to parallel payment channels, crypto-enabled transactions, and third-country intermediaries.

Their proliferation carries significant economic security implications. **First**, it reduces the deterrent effect of sanctions by demonstrating that alternative liquidity channels can be constructed. **Second**, it increases fragmentation in global financial governance, complicating coordinated enforcement. **Third**, it incentivises jurisdictions outside the EU to position themselves as permissive intermediaries, potentially deepening geopolitical fault lines.

Since 2022, **over 80% of Russia's cross-border transactions are settled outside SWIFT**, largely denominated in Chinese yuan but also in UAE dirhams, and Indian rupees.[75] Russian actors have adapted to SWIFT exclusion by expanding: bilateral currency settlement with non-Western partners; Russia's domestic SWIFT alternative (Sistema Peredachi Finansovykh Soobshcheniy (SPFS)), which now connects more than 500 institutions across Russia and neighbouring countries; intermediary banks in third countries; and trade-based settlement and netting arrangements.[76] Financial cooperation between China and Russia has been at the forefront, with over 95% of bilateral trade transactions now settled in yuan and roubles.[77] Both countries have promoted integration of the **Chinese Cross-Border Interbank Payment System** and the **Russian SPFS** to facilitate cross-border payments, alongside broader financial cooperation including regulatory coordination, bilateral investment, and bond issuance.[78]

A prominent example of this evolution is the Russian fintech firm "A7,"

[74] Council of the European Union, Timeline - EU Sanctions against Russia.

[75] Global Times, "Over 80% of Russia-China trade settlement now using local currencies: Russian president", 17 June 2023.

[76] Jamestown Foundation, "Russia Builds Alternative to SWIFT as Part of Digital Sovereignty Push", 5 January 2024.

[77] Intercfax, Share of rouble, yuan in Russia-China mutual settlements exceeds 95%, 21 August 2024.

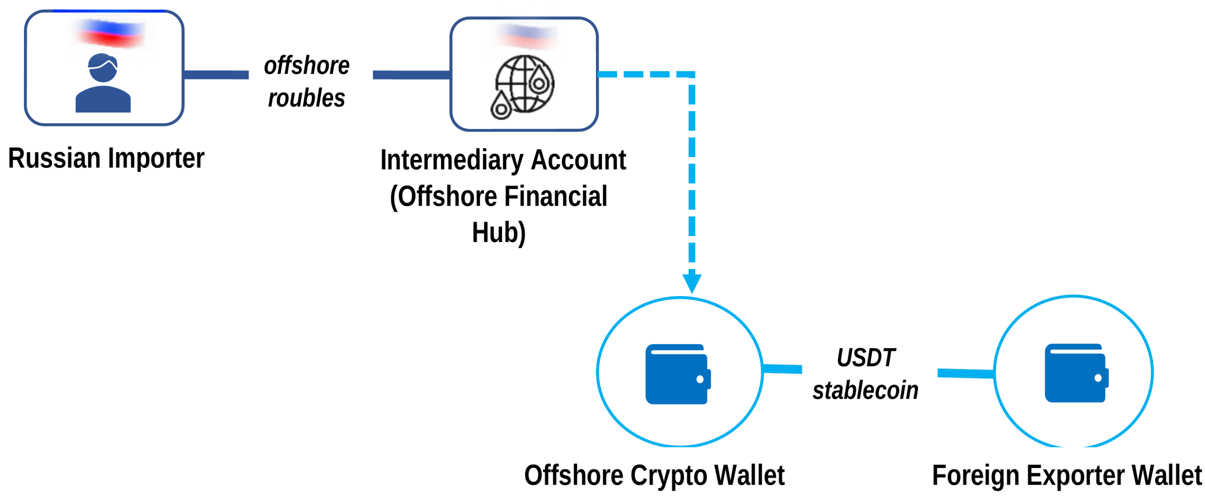
[78] Ibid.

which in 2025 launched the rouble-pegged stablecoin "A7A5" to facilitate cross-border payments outside conventional banking channels.[79] A7 is partly owned by the sanctioned Promsvyazbank and it operates through a network of **more than 30 foreign shell companies**, many registered in the **UAE**. The system may have processed **over USD 93 billion in transactions within its first year**, with approximately 1,500 transactions daily and to have over 10,000 customers.[80] A large share of its transactions is routed through Chinese jurisdictions, while the network is also expanding in Africa.

Blockchain technology has expanded the illicit finance payment ecosystem by decentralising settlement functions. In 2025, illicit blockchain addresses **surged by 162%, reaching at least USD 154 billion**. Much of this increase **was driven by sanctioned entities, whose transaction volumes increased by 694%,** reaching approximately USD 104 billion.[81]

Two dynamics are particularly relevant. The first one is the **use of crypto wallets** for cross-border trade settlement. Russian importers and exporters increasingly rely on digital assets to settle transactions with partners willing to accept such instruments, reducing reliance on dollar- or euro-denominated clearing systems and limiting exposure to Western financial surveillance. The second one is the development of **rouble-linked stablecoins** and **tokenised financial instruments, which have emerged as experimental trade-settlement tools** that replicate banking functions while operating in regulatory grey zones.

Figure 15. Sanctions Evasion Payment Flow via Offshore Intermediary and Cryptocurrency



Source: CSD, adapted from TI, Exved: The Ghost Successor of Garantex.

The **Exved payment platform** illustrates how digital mechanisms interact with **offshore finance**.[82] The system emerged after the shutdown of the

[79] ARKHAM, "What Is The A7A5 Ruble Stablecoin Linked To A Growing Shadow Economy?", 27 February 2026.

[80] Chainalysis, "Crypto Crime in 2025 Was Primarily Driven by 694% Surge in State-Driven Sanctions Evasion Volume", 5 March 2026., Centre for Information Resilience, "A7 Abroad: Sanctions evasion as a service", 6 October 2025.

[81] Chainalysis, "Crypto Crime in 2025 Was Primarily Driven by 694% Surge in State-Driven Sanctions Evasion Volume", 5 March 2026.

[82] Baghdasaryan, K., *Exved: The Ghost Successor of Garantex*, Transparency International, 2025.

sanctioned crypto exchange **Garantex** as a covert system facilitating sanctioned Russian cross-border payments. Exved functions through an "agent model" that separates the domestic and foreign legs of a transaction: Russian importers sign agency agreements with shell companies in offshore jurisdictions (Hong Kong, UAE, Thailand, and some EU countries) and transfer roubles to their bank accounts inside Russia. The offshore intermediary then settles the payment abroad in USDT (stablecoins), dollars, or yuan using offshore accounts and crypto liquidity pools. Shell companies act as legal buffers, allowing transactions to appear as ordinary commercial payments rather than sanctions-related transfers.

In the **A7 model** (Figure 16), a Russian importer transfers roubles to an A7 agent in Russia, who coordinates with a foreign sub-agent – often a shell company in an offshore jurisdiction – that settles the payment with the foreign supplier using offshore accounts or digital instruments. Trade documentation is routed back through the same chain. This structure separates the Russian payer from the foreign recipient, allowing the transaction to appear as a routine commercial payment rather than a sanctions-sensitive cross-border transfer.

Box 4. A7, the A7A5 Stablecoin and the Türkiye–Russia Gas Channel

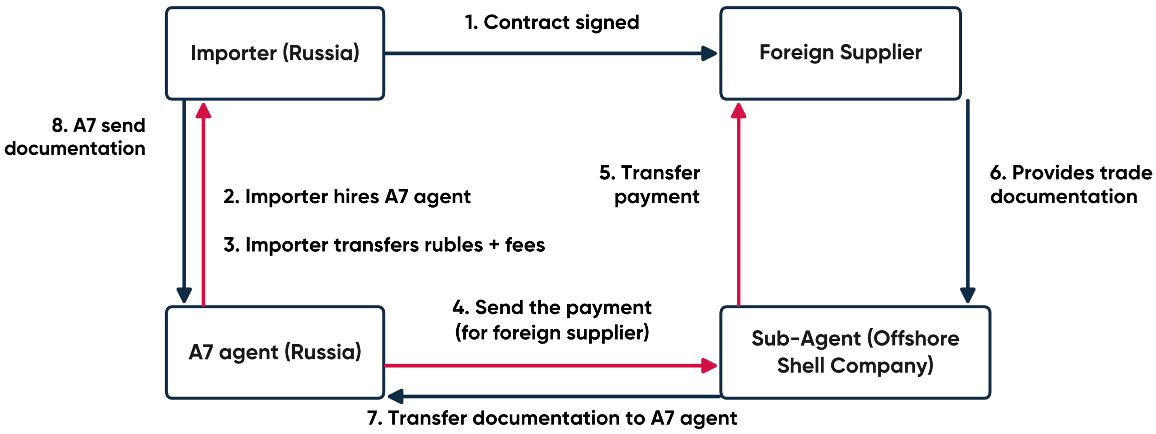
A7 is a cross-border payment service launched in October 2024 explicitly as Moscow's answer to Western sanctions. Its operator is reportedly 51% owned by Ilan Shor – a fugitive Moldovan oligarch convicted over the theft of roughly USD 1 billion from Moldovan banks and 49% by Promsvyazbank, Russia's sanctioned state defence bank. A7 routes payments for Russian entities through a network of more than 30 shell companies concentrated in Kyrgyzstan, using trade-based money-laundering techniques such as promissory notes, and is paired with a rouble-pegged stablecoin, A7A5. It claims to have moved over USD 86 billion in under a year – equivalent to around 12% of Russia's total foreign trade. A7 and A7A5 have since been sanctioned by the United States, the United Kingdom and the EU, most recently in the EU's 20th sanctions package of April 2026.

Türkiye illustrates why such infrastructure matters. Ankara pays Russia an estimated USD 3–10 billion a year for natural gas – roughly 40% of Turkish supply and one of the Kremlin's largest hard-currency earners. When the US Treasury imposed blocking sanctions on Gazprombank in November 2024, the bank through which Russia had historically settled commodity exports, an alternative became urgent. According to leaked A7 documents reported by exiled Russian journalists, Turkish payments are layered to avoid direct Gazprombank involvement: gas consumers pay a Gazprom subsidiary (ZMB Gaz Depo AŞ) at Türkiye's state-owned Emlak Bank; funds then move to the Trade Company of the Kyrgyz Republic, a Kyrgyz government entity holding an account at the same bank, which acts as the critical buffer node; from there, part flows to Rosatom's Turkish subsidiary Akkuyu Nükleer AŞ for the Akkuyu nuclear plant, while the remainder reaches Gazprom through offshore intermediaries.

The design is built to defeat the dollar-clearing system rather than merely move money. Settlement is denominated in UAE dirhams (AED) rather than dollars or euros: although the dirham is pegged to the dollar, transactions between non-US institutions in non-USD instruments fall outside the US correspondent-banking system, so confining all flows to a single Turkish state bank in AED removes the SWIFT dollar-clearing exposure that would otherwise create secondary-sanctions risk. In autumn 2025, the Turkish and Russian presidents went a step further, announcing a clearing mechanism that offsets part of Türkiye's gas bill against Ankara's contribution to the Akkuyu plant – so that, in principle, no money need pass through any bank at all.

When one sanctioned platform is closed, the underlying functions migrate rapidly to a newly created vehicle. This pattern is visible in the transition from **Garantex** to the successor **Grinex**, where frozen balances were reconstituted through new digital tokens (A7A5) and routed through replacement trading platforms. This illustrates how sanctions often disrupt individual actors but leave intact the broader mechanisms that enable cross-border financial activity.

Figure 16. Payment for Import Transaction, Involving A7



Source: CSD based on Centre for Information Resilience, "A7 Abroad: Sanctions Evasion as a Service", October 2025.

Box 5. The Mechanism: The Garantex–Grinex Migration

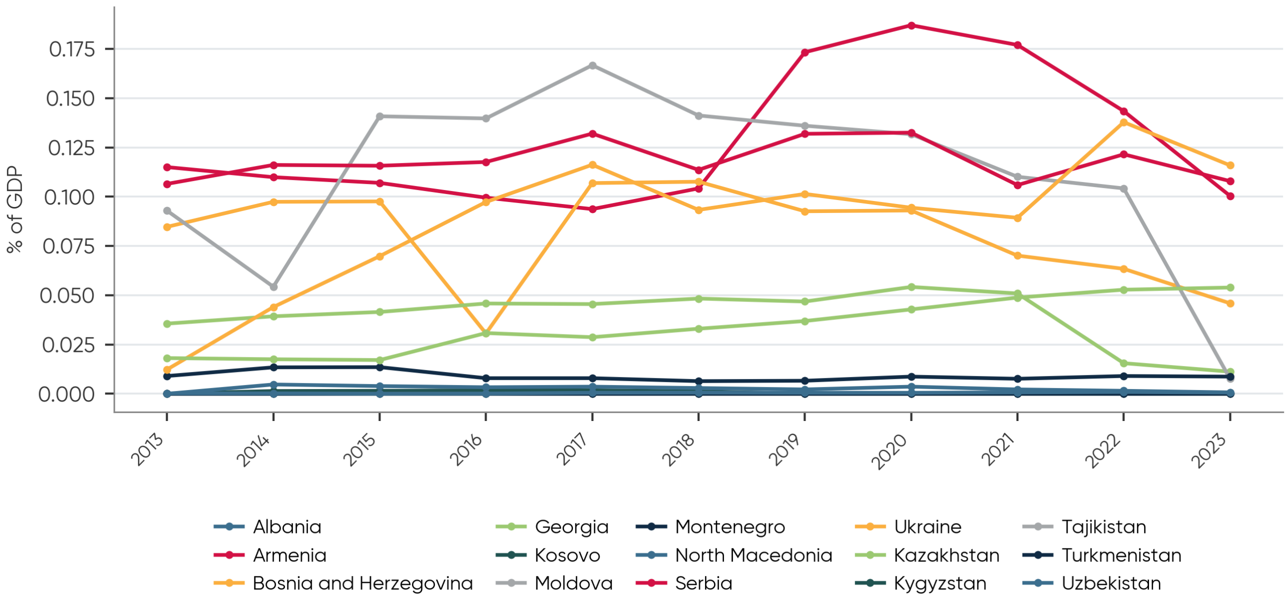
- **Step 1 – Anticipation of enforcement:** Garantex operators anticipate regulatory action against the exchange and begin preparing a contingency plan to preserve customer assets and platform liquidity.
- **Step 2 – Creation of a replacement settlement token:** The A7A5 token, a rouble-pegged digital asset, is introduced as a settlement instrument. The token is issued by Old Vector LLC (Kyrgyzstan) and linked to the broader A7 cross-border settlement network.
- **Step 3 – Coordination with the A7 network:** Garantex executives coordinate with representatives connected to A7 LLC to integrate the new token into exchange operations.
- **Step 4 – On-chain migration of funds:** Beginning in January 2025, wallets controlled by Garantex start transferring assets into A7A5 tokens. One key wallet later identified by OFAC — **TNDjh6WGLYyWmkh8vfu42bXVHUqFNQ3rDq** — played a central role in this early migration.
- **Step 5 – Tokenisation of frozen balances:** Customer balances held on Garantex are effectively converted into A7A5 tokens, allowing users to recover value despite enforcement actions against the original exchange.
- **Step 6 – Launch of the replacement exchange (Grinex):** The new platform Grinex is introduced as a successor infrastructure capable of supporting A7A5 trading and settlement.
- **Step 7 – Distribution of compensation tokens:** Former Garantex customers receive A7A5 allocations equivalent to their frozen balances, which can then be traded or redeemed through Grinex.
- **Step 8 – Re-establishment of trading activity:** A7A5 becomes integrated into Grinex's ecosystem, functioning as both a liquidity bridge and settlement asset, enabling trading activity to resume despite the sanctions-driven shutdown of Garantex.

Although blockchain transactions are technically traceable, enforcement depends heavily on jurisdictional cooperation and regulatory capacity. When digital assets are routed through multiple wallets, offshore intermediaries, and exchanges operating in low-transparency environments, tracing flows becomes complex and resource-intensive.

RUSSIAN IFFS IN VULNERABLE NEIGHBOURHOODS

The Western Balkans, the Southern Caucasus, Ukraine, Moldova, and parts of Central Asia function as **critical hubs for Russian illicit financial flows and sanctions evasion practices**.[83] These regions share common vulnerabilities such as excessive trade and energy dependencies, severe democratic backsliding, and uneven sanctions enforcement. Together, these factors create **permissive conditions** for Russia to circumvent U.S. and EU measures, manage extensive supply chains for dual-use goods and opportunities for the deployment of new cross-border payment strategies. Russia has become skillful in **rerouting trade through intermediary firms** in these neighbourhood regions, many of which are controlled by offshore entities. Russian firms have also pioneered here the use of **hybrid settlement mechanisms**, such as digital assets, promissory instruments, cash settlements, and non-bank intermediaries to facilitate transactions where correspondent banking channels are constrained.

Figure 17. Total Assets Controlled by Russian Companies (as % of GDP) in the Western Balkans, Black Sea, and Central Asia



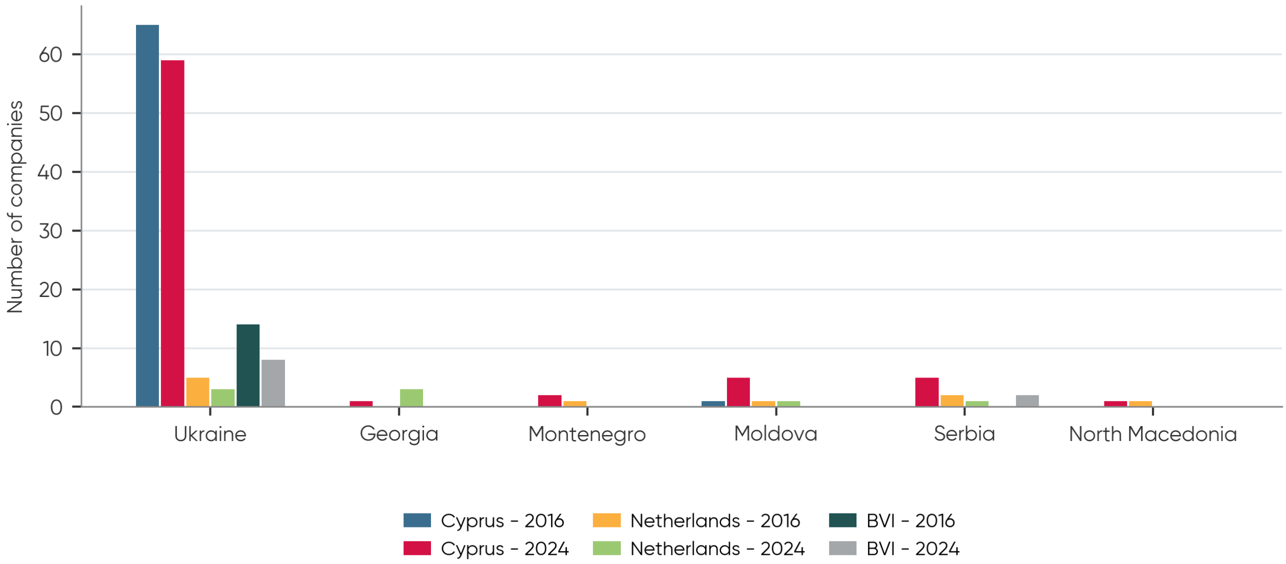
Source: CSD calculations based on corporate databases.

Offshore finance amplifies these dynamics as a regional multiplier. Figure 12 shows that between 2016 and 2024, Cyprus is the main offshore hub for Kremlin-linked companies across threse regions, with its role as key destination for the shareholding company growing in Georgia, Montenegro, Serbia, and North Macedonia. The Netherlands, BVI, and Luxembourg played smaller roles as secondary jurisdictions for hosting the operational European subsidiaries for large-scale Russian firms. Corporate structures established in these offshore financial centres frequently own or control regional subsidiaries, achieving three objectives: legitimising capital as 'Western-origin' investment; shielding

[83] For a country-by-country IFF estimates and the dual-use re-export analysis, using UNCTAD Methods 1 and 2, please refer to Vladimirov, and Kostova, *Shadow Economies*, Sofia: CSD, 2025.

disputes in international arbitration venues beyond domestic regulatory reach; and enabling profits to be transferred onward to sink jurisdictions with minimal transparency.

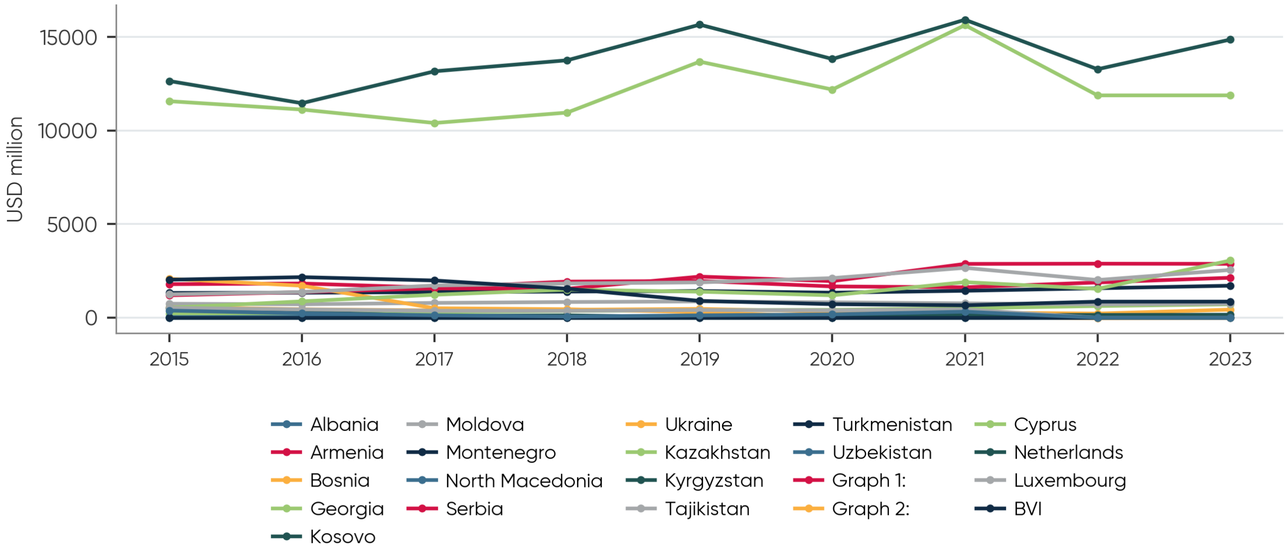
Figure 18. Number of Companies in the Western Balkans and Black Sea Countries with a Russian Ultimate Beneficial Ownerships



Source: CSD calculations based on data from corporate databases.

Across the three regions, **structural governance vulnerabilities** enable the persistence of Russian illicit finance. Beneficial ownership registries often exist only on paper but suffer from incomplete data and limited enforcement capacity. Financial intelligence units lack the capacity and resources to investigate complex cross-border transactions. In addition, many of these countries remain dependence on Russian energy imports, commodity trade, or remittances, creating incentives for governments to seek to accommodate more Russian-owned business over sanctions enforcement. For the EU, these widespread governance deficits create enormous economic security risks that allow for illicit financial flows and sanctioned dual use goods to continue passing through the neighbourhood, eroding the integrity of the EU's enforcement regime.

Figure 19. Inward Foreign Direct Investment Stocks from Russia (Graph 1) and from Key Offshore Hubs (Graph 2) in the Western Balkans, Black Sea Countries, Southern Caucasus and Central Asia



Source: CSD calculations based on central banks data on Russian FDI stocks.

The Eurasian Economic Union (EAEU), a Russia-led customs union and single market established in 2015, whose members are Russia, Belarus, Kazakhstan, Armenia and Kyrgyzstan, supplies the institutional scaffolding for this arbitrage. The bloc guarantees four freedoms modelled on the EU single market: the free movement of goods, services, capital and labour among member states. Because it functions as a single customs territory with a common external tariff and no internal customs controls, goods cleared into one member can circulate to the others without further border checks. In practice, this lets Western-origin goods – including restricted and dual-use items – be imported into Armenia, Kazakhstan or Kyrgyzstan and then moved into Russia as intra-union trade, beyond the reach of EU and US export controls; the same freedoms extend to capital and payments, easing the financial settlement of these transactions.

Moscow reinforces this structure politically and legally. It casts Western sanctions as unlawful interference incompatible with EAEU commitments, presses partner states to drop the customs checks they introduce on "grey" and dual use flows and wields trade disputes and retaliatory import bans to penalise members that align with Western restrictions. EU member states, by contrast, operate under steadily tightening anti-money-laundering and sanctions regimes. The resulting jurisdictional arbitrage – permissive movement inside the EAEU on one side, hardening EU controls on the other – is structural rather than incidental, and it is precisely this gap that re-export hubs in the South Caucasus and Central Asia exploit. The **Western Balkans** is one of the regions with the most concentrated Russian corporate presence in Europe, particularly in oil refining, fuel distribution, gas infrastructure, and the heavy industry. Serbia and Bosnia and Herzegovina represent the most structurally exposed countries. The **Russian acquisition of local assets** has been financed through loans from offshore affiliates at above-market rates, enabling extraction of value while maintaining nominal local investment commitments.

Poorly managed privatization procedures left much of Bosnia and Herzegovina's oil refining and fuel trade sector under the control of the Russian state-owned company Zarubezhneft, which acquired the Brod Refinery, Modriča Oil Plant, and Nestro Petrol for EUR 125.8 million — approximately 55.9% below the original asking price of EUR 285 million. The case of Zarubezhneft's acquisition illustrates how Russian-linked investors used intra-group loans rather than fresh equity to finance post-privatisation commitments.

The local subsidiaries received loans from Russian parent and affiliate entities, including companies registered in offshore jurisdictions, at interest rates above prevailing market levels, increasing their debt burden while enabling value extraction through interest payments and preserving the appearance of continued investment. Over time, the refinery system accumulated substantial losses and liabilities despite repeated promises of modernization and recapitalization. The structure allegedly enabled the extraction of value through transfer pricing and intra-group financial flows while the local subsidiaries moved closer to insolvency.[84]

Since 2022, Russian-linked firms in the region have adapted through two strategies: **reducing visible ownership stakes below sanction-sensitive thresholds** and **increasing reliance on local intermediaries** and **minority shareholders.**

After US sanctions pressure on Serbia's oil company NIS, Russia's Gazprom Neft reduced its stake from 50% to 44.9%, transferring about 5.15% to the parent company Gazprom, which was not the directly targeted entity at that point, to mitigate sanctions exposure by reducing visible ownership below regulatory thresholds.[85] According to the US OFAC's "50 percent rule" a company is treathed as sanctioned if it is owned 50% or more, directly or indirectly, by one or more sanctioned entities. At the time, Gazprom Neft was more exposed to sanctions risk than the parent company Gazprom, which was facing more limited or selective restrictions. However, despite the formal ownership restructuring, NIS effectively remained under Russian corporate influence through Gazprom-linked entities and affiliated holdings.

Meanwhile, local companies such as Serbian "Ventrade" DOO, "Soha Info" and the Montenegro-based "International Business Corporation Bar" have facilitated the export of dual-use items to Russian military-linked companies.[86] Founded in April 2022, Ventrade DOO was connected to Promsvyazradio, a Russian firm specializing in radio equipment and dual-use technology imports. Between October 2022 and July 2023, Soha Info exported USD 18 million in goods to Russia, including 30% in high-priority, dual-use electronics and USD 4.3 million in tightly controlled Intel components used in Russian weapons.

Direct Russian corporate ownership in the **Southern Caucasus** declined after 2014 but has not disappeared. Energy transmission, logistics, and selected industrial assets remain under Russian control through layered ownership networks. More importantly, the region has emerged as a **critical trade interface** between Russia and global markets especially for dual-use goods. Since 2022, **trade volumes** between **Russia** and **the region** have increased sharply.[87] By 2023, Armenia's exports to Russia had risen to 34% of its total export volume. Within this, exports of EU-origin dual-use goods, subject to sanctions, surged by 2,660% against the pre-war annual average, leaving the Armenian economy increasingly dependent on re-exporting and re-selling sanctioned dual-use items as

84 Sito-Sucic, D., "Bosnian refinery reopening shows Russia's hand", *The New York Times*, 6 January 2009., Sarajevo Times, "Dodik's Privatization Under the Russian Cap: Billions Flow Into Optima Group as Workers Lose Their Jobs", 28 October 2025.

85 Vasovic, A., "Gazprom Neft cuts stake in Serbia's NIS as US sanctions loom", *Reuters*, 26 February 2025.

86 Vladimirov, and Kostova, *Shadow Economies*, Sofia: CSD, 2025.

87 Ibid.

well as Russian gold.[88] **Georgia** has also emerged as a transit hub for **rerouting Russian energy resources to EU markets**. Russian petroleum products are imported into Georgia, where their origin is formally altered through documentation changes, registration under local companies, or minimal blending with small amounts of local output, and then re-exported mainly to Netherlands and Greece under a local label.[89] **Hybrid payment mechanisms** enable these flows to bypass correspondent banking constraints. In 2025, Georgian police arrested a group of Russian citizens for laundering money through an unlicensed cryptocurrency business[90] Large sums of smuggled foreign currency were allegedly converted into digital assets to integrate the illicit funds into the legitimate financial system.

Following Russia's invasion of Ukraine, financial inflows from Russia to Georgia surged. Regulatory loopholes enabled **local intermediaries to facilitate money transfers and company registrations for Russian clients, mimicking offshore practices and leading to a new industry of financial and legal service providers.**[91]

The Cayman Islands of Georgia: Abandoned villages in southern Georgia have become home to hundreds of businesses registered by Russian citizens who were hiring unemployed Georgian men to serve as Russian financial intermediaries.[92] They would withdraw funds in cash and hand the money over to the real beneficiaries (citizens of Russia) in exchange for a fee.[93]

Even without overt political alignment with Moscow, structural **trade incentives**, **institutional and regulatory gaps** enable continued Russian IFF activity. Since 2022, **over 30,000** new Russian companies have been established in Georgia.[94]

Despite the risk of secondary sanctions for doing business with Russian firms, Georgian public institutions have allowed these companies to retain their right to participate in and win national public tenders - a trend that has accelerated since 2022.[95] Out of USD 5,76 million paid from Georgian state agencies to Russian companies, approx. USD 2,22 million went to companies that were registered in Georgia after 2022.[96]

Relocated Russian-linked logistics companies in Georgia continued to rely on practices associated with opaque post-Soviet business networks. Cases involving logistics operators such as "Service-Multi"[97] and "Cargo

[88] Ibid.

[89] iFact, "Ghost Cargo: The Hidden Journey of Sanctioned Oil to Europe", 22 January 2025., Razmadze, M., "Georgia's natural gas consumption rises as dependence on Russian imports grows", *Georgia Today*, 26 September 2025.

[90] The Moscow Times, "Georgian Police Arrest 5 Russians Over Crypto Scheme and Money Laundering", 16 October 2025.

[91] Global Initiative against Transnational Organised Crime, Global Organised Crime Index 2023 - Georgia. , Transparency International Georgia, "Georgia's Economic Dependence on Russia: Impact of the Russia-Ukraine war", 22 February 2023., Ibid.

[92] Lomsadze, G., "Georgia's "Russian" villages. Eurasianet", *Eurasianet*, 2 December 2022,

[93] Marat, E., and Kupatadze, A., *Under the Radar: How Russia Outmanoeuvres Western Sanctions with Help from its Neighbours*, Research Paper No. 18 University of Birmingham.

[94] Maisuradze, D., and Gvelesiani, Z., "Russian Investments and Corporate Relocation: Economic Strategy or Threat to Democracies", CELIS, 27 March 2025.

[95] Menabde, G., "Russian Companies Winning State Tenders in Georgia", *Eurasia Digest* 1(26), The Jamestown Foundation, November 2025.

[96] "Russian Money Quietly Sustain Influence in Georgia Through Legal Aid and Media", 13 October 2025.

[97] Business and Human Right Resource Centre, "Georgia: New investigation unveils country's role in facilitation of military tech exports to Russia despite intl. sanctions", 1 August 2024., Yusif, A., and Mikhelidze, N., "Sanction Evasion: How Georgia Facilitates Russia's Military Supply Chain", Experiment #1, *iFact*, 1 August 2024.

Rapido"[98] demonstrated how sanctioned European dual-use items such as drones, processors, and memory cards, were transported to Russia through intermediary routes via Türkiye, Azerbaijan, and Armenia, using falsified origin documents, undeclared shipments, and additional "insurance" payments designed to bypass customs controls. More recently, a group of local smugglers have laundered over USD 660 million from Azerbaijan by converting 59 billion illegally transferred Russian roubles. The group has smuggled undocumented cash form the neighborhood region, deposited it into banks with falsified documents, and funneled it into the economy through transfers and property purchases.[99]

Georgia's direct border with Russia, combined with permissive trade and transit conditions, enabled the country to become an important logistical corridor for sanctions circumvention networks. Insufficient regulatory framework has enabled the export of luxury high-value vehicles to Russia without triggering export restrictions.[100] Despite tightening the export controls this pattern in the vehicle trade continued, but increasingly shifted toward intermediary jurisdictions, mostly Kazakhstan, Kyrgyzstan, and Armenia, from where vehicles were reportedly moved onward to Russia. In response, the Georgian government expanded export restrictions, prohibiting Russian and Belarusian citizens from exporting vehicles from Georgian territory.[101]

Ukraine and Moldova have achieved significant economic decoupling from Russia. Ukraine's direct Russian corporate presence collapsed after 2014 and contracted further after the full-scale invasion. **However, Russian economic influence persists through legacy structures that predate the war.** Moldova's exposure remains concentrated in the partial Russian control of the energy infrastructure, particularly the gas distribution sector where Gazprom still controls most of the market and has used legacy debt payments as political leverage.

Prior to 2022, the Russian asset ownership in both countries frequently involved Cypriot intermediaries and **offshore layering**. In Ukraine, pre-war Russian-linked holdings were structured through offshore vehicles, complicated asset seizure and divestment. The **Crimean Soda Plant** and the **Lugansk Diesel Locomotive Plant** exemplify this pattern: both strategic assets, now operating under Russian control in occupied territories, were historically embedded in ownership webs involving Cypriot entities.[102]

By 2025, most Russian-linked companies in Ukraine that remain tied to offshore structures are concentrated in these **occupied regions**. **SIB Limited**, a Cyprus-registered entity indirectly linked to Sibur Holding, holds stakes in the **Lugansk Diesel Locomotive Plant**, which maintains participations in multiple Ukrainian companies in the Luhansk region.[103] Russian Mechel, via Daveze Limited (Cyprus), controls the **Donetsk Electrometallurgical Plant**.[104]

In Moldova, Russian-linked corporate presence in 2025 is structured

98 Business and Human Right Resource Centre, "Georgia: New investigation unveils country's role in facilitation of military tech exports to Russia despite intl. sanctions", 1 August 2024., Yusif, A., and Mikhelidze, N., "Sanction Evasion: How Georgia Facilitates Russia's Military Supply Chain", Experiment #2, *iFact*, 1 August 2024.

99 OCCRP, "Georgia Detains Exchange Owner in $660M Laundering Probe", 18 September 2025.

100 Asatiani, I., "Investigations Russia's "Auto Heaven"", iFact, 13 February 2024.

101 Meduza, "'Lifting sanctions is the last thing they want' Western sanctions on Russia have upended cross-border trade. In Georgia's case, that just might be a good thing", 28 March 2025., Shamanauri, K., "Record Car Re-Exports From Georgia Raise Sanctions Evasion Concerns", *Eurasia Digest* 1(26), The Jamestown Foundation, August 2026., European Parliament, Sanctions evasion networks and implications for the EU's Eastern Partnership policy, Parliamentary Question, November 2025.

102 Samar, V. (ed.), "How Ukrainian chemical business of Firtash is absorbed by Rotenbergs, Putin's friends", *Center of Journalistic Investigations*, 2 June 2022.

103 CSD's Analysis of Russian Corporate Networks (2015 and 2025) based on corporate databases.

through a combination of direct Russian ownership and intermediary jurisdictions, most notably Austria and the Netherlands, which function as conduits for capital and control. Offshore layering complicates the full disentanglement of Moldova from Russia. **LUKOIL-Moldova** is fully owned by **Austrian Lukoil International GmbH**, itself controlled by PJSC Oil Company Lukoil (Russia). In this structure, Austria functions as a nearshore financial hub rather than a classic offshore secrecy jurisdiction, providing regulatory flexibility and reputational buffering, while maintaining full operational control over fuel import, distribution, and retail activities within Moldova.[105]

One of the most strategically significant energy assets in the country - **Moldavskaya Power Station** (Cuciurgan GRES), which supplies electricity to Moldova and export markets, is held indirectly by Russia through the **Dutch-registered Inter Rao Holding B.V,** which also owns some Georgian companies in the sector.[106] **Hybrid financial arrangements** and **trade re-routing** further obscure residual Russian-linked flows. Transnistria's industrial sector and firms have emerged as a key player in facilitating the evasion of Western sanctions. Even prior to the full-scale invasion of Ukraine, Transnistria-based companies such as **Moldavizolit plant** and its Russia-registered subsidiary **BIZ,** have been implementing contracts with the Russian defence ministry.[107] Since 2022 several more Transnistrial factories have been spotted and sanctioned for re-exporting Western dual-use items to Russia.[108]

The three Moldovan companies - **Airrock Solutions, Aerostage Services**, and **Maxjet Service** reportedly traded with Russian airlines such as Pobeda, Rossiya, and S7 Airlines, supplying aircraft parts worth around USD 15 million to Russia. A more recent case exposing **intra-EU export control failure** is describing how Romanian authorities have detained a shipment of Belarusian fiberglass fabric destined for the **Moldavizolit plant in Transnistria**. The material which can be used in drone manufacturing was being transported by order of the **Czech company** - Labara SRO.[109]

Leaked documents exposed how Kremlin-aligned actors relying on a hybrid parallel financial infrastructure combining **crypto, proxy** and **offshore companies** in alternative jurisdictions allegedly used **USD 8 billion** to evade sanctions and influence elections in Moldova.[110] Illan Shor - Moldovan pro-Russian fugitive oligarch was in the centre of this scheme. Through the **A7** – a Russian-backed crypto and financial platform, Shor has managed to facilitate large-scale illicit financial flows outside traditional banking channels by using ruble-backed digital assets and cryptocurrencies designed to reduce exposure to Western financial oversight and finanancially support political activists, pro-Kremlin

104 CSD's Analysis of Russian Corporate Networks (2015 and 2025) based on corporate databases.

105 CSD's Analysis of Russian Corporate Networks (2015 and 2025) based on corporate databases.

106 CSD's Analysis of Russian Corporate Networks (2015 and 2025) based on corporate databases.

107 Dadu, A., "Moldova tightens control over Transnistria's exports", *The European Correspondent*, 4 May 2024.

108 Court, E., "RFE/RL: Moldovan companies supplied aircraft parts to Russia", *The Kyiv Independent*, 31 January 2024.

109 Safronov, T., "From Belarus to the PMR: Romania Exposes Dual Use Materials Supply Scheme", *Militarnyi*, 7 August 2025.

110 Quittner, J., "Leaked Documents Expose $8 Billion Crypto Web Behind Russia Sanctions Evasion", *Decrypt*, 29 September 2025.

mobilization networks, and online influence campaigns.[111]

Central Asia – above all Kazakhstan and Kyrgyzstan – has become a principal corridor for re-routing Western goods into Russia. Both states belong to the Eurasian Economic Union (EAEU), the Moscow-led customs and economic bloc that also includes Armenia and Belarus. The EAEU operates as a single market built on four freedoms modelled on the EU: the free movement of goods, services, capital and labour across member states. In practice this means that once an imported good clears customs at the EAEU's external border, it can circulate to any other member state without further customs control, tariffs or origin checks.

This design is what makes the bloc an effective sanctions-evasion channel. Western dual-use items – microelectronics, CNC machine tools, telecommunications components – can be imported into Kazakhstan or Kyrgyzstan declared as civilian end-use goods, then moved on to Russia as ordinary intra-bloc trade that attracts little or no inspection. The EAEU's free-movement rules thus turn a border that sanctions are meant to police into an internal, frictionless transfer. Newly created logistics, trading and electronics firms – many linked to Russian nationals – have proliferated to operate precisely this leg of the route. The effect is visible in the trade data: EU exports of dual-use items to the Kyrgyz Republic surged by roughly 800% after 2022, while Kyrgyz re-exports of the same goods to Russia rose by around **1,200%**.[112]

In its 20th sanctions package, adopted in April 2026, the EU activated its **anti-circumvention tool against Kyrgyzstan for the first time in the instrument's history** — a step the EU itself had previously designated as a measure of last resort, to be used only after diplomatic engagement had failed to produce results. The tool has been designed to target systemic behaviour at country level. With it the EU prohibited the export of specific high-risk goods – notably CNC machines and certain telecommunications/radio equipment — from EU companies to Kyrgyzstan under its anti-circumvention mechanism, due to concerns that these products could be re-exported to Russia.[113]

Central Asia functions as a **structural shock absorber** within Russia's financial ecosystem. Sanctions-related risks in Central Asian states differ and arie primarily through three channels: financial connectivity with Russian institutions, continued cooperation in critical sectors such as mining and metal, and the use of domestic corporate structures or intermediaries in transactions involving Russian strategic assets.

Russian-linked firms own energy, mining, logistics, and banking assets across the region. **Kazakhstan** and to some extent **Uzbekistan** have historically maintained substantial economic ties with Russia. In Kazakhstan, Lukoil holds stakes in the massive **Karachaganak** and **Tengiz oil fields**.[114] In Uzbekistan, the company has funneled billions into

111 Kulakova, M., "Moldova's Fugitive Oligarch Ilan Shor Exposed Running $8 Billion Crypto Network to Fund Russian Elections Interference", *United24*, 26 September 2025.

112 Official Journal of the European Union, Council Decision (CFSP) 2026/508 of 23 April 2026 amending Decision 2014/512/CFSP concerning restrictive measures in view of Russia's actions destabilising the situation in Ukraine, April 2026.

113 Ibid., Thompson, A., "EU imposes "anti-circumvention" sanctions on Kyrgyzstan for assisting Russia", *Eurasianet*, 27 April 2026.

114 Pokidaev, D., "Kazakhstan Yet to Decide on Potential Purchase of LUKOIL Assets", *The Times of Central Asia*, 16 December 2025.

gas projects like **Kandym-Khauzak-Shady**.[115] Gazprom dominates through various production-sharing agreements, remaining a vital partner for Uzbekistan's gas transit and extraction infrastructure.[116] Russian **Rusal** maintains a formidable presence in Kazakhstan's coal and alumina sectors via the **Bogatyr Komir joint venture**.[117] As the world's leading uranium producer, Kazakhstan's ties with Rosatom remain deep-seated through long-standing joint ventures such as **Karatau** and **Akbastau**.[118] The evolution of regional logistics further cements this interdependence. By 2025, the **Selyatino logistics center**[119] – a trilateral Russian-Kazakhstani-Chinese project – achieved record container processing rates. This development has effectively transformed Kazakhstan into a vital hub for Russian goods heading to Asian markets.

While formal ownership may appear diversified, **cross-border corporate linkages remain dense**. Russian-linked capital in Central Asia often connects via EU jurisdictions, specifically **Dutch, Cypriot,** or **Luxembourg intermediaries**.

> The Dutch-registered Lukoil International Upstream Holding B.V holds direct shares in **eight Cypriot** and **four Dutch companies**, which in turn hold assets in **four Kazakh** and **one Uzbek companies**.[120] Via multiple other Dutch entities, Lukoil International Upstream Holding B.V holds shares in the Dutch-registered company North Caspian Operating Company N.V. which owns a number of vessels, sailing under the Kazakhs flag, and raising doubts about their project-specific goal in supporting offshore oil and gas activities in the Caspian Sea.

These offshore structures provide legal and financial flexibility while anchoring disputes outside domestic courts.

The region also hosts **subsidiaries of Russian banks** and **financial institutions** that serve as **intermediation nodes** between Russia and global markets. Very often, Banks in Central Asian countries (e.g., Dushanbe City Bank, Keremet Bank) maintain **correspondent banking relationships** that allow for the movement of funds from Russia through **nested accounts**[121] before they are integrated into the global financial system.[122] In this case, Russian entity can open account either in a Central Asian bank subsidiary or partner local bank which maintains their own correspondent accounts with a global Western bank. This allows financial flows from Russia to these Central Asian banks (in rubbles or other local currency) to be converted and moved into the global financial system.

The rapid modernization of Central Asia countries' **financial** and **digital**

[115] MarineLink, "Lukoil to Sell International Assets", *Reuters*, 18 November 2025.

[116] Gazprom International webpage, Uzbekistan.

[117] Rusal webpage, Bogatyr Komir.

[118] Siddi, M., and Silvan, K., "Russia and Kazakhstan in the global nuclear sector: From uranium mining to energy diplomacy", *FIIA Briefing Paper*, October 2023.

[119] Antonov, V., "Russia-Kazakhstan's Business Dialogue: Updates from SPIEF 2025", *Special Eurasia*, 19 June 2025.

[120] CSD's Analysis of Russia's Corporate Networks (2015 and 2025) – part of this working paper.

[121] The Bank for International Settlements (BIS) define the nested correspondent banking as the use of a bank's correspondent relationship by a number of respondent banks through their relationships with the bank's direct respondent bank to conduct transactions and obtain access to other financial services.

[122] Putz, C., "More Central Asian Banks Sanctioned by the EU", *The Diplomat*, 24 October 2025., Ismailov, V., "EU Targets Kyrgyz Financial Sector Over Russia Sanctions Evasion", *The Times of Central Asia*, 27 February 2026.

frameworks has deepened the **region's exposure to Russia's sanctions-evasion ecosystem**. Kyrgyzstan has launched its state-backed stablecoin – USDKG – a digital asset fully backed by physical gold,[123] Kazkahstan is advancing the digital tenge as a national currency,[124] while simultaniously Uzbekistan, Tajikistan and Turkmenistan also are accelerating their own digital economy frameworks and financial modernization.[125] For the Kremlin, this modernization has created a combination of jurisdictional distance from EU oversight, access to hybrid settlement infrastructure operating outside dollar-denominated correspondent banking, and a regulatory environment whose capacity to govern its own digital expansion remains critically underdeveloped - making the region structurally attractive as an alternative financial corridor. Financial institutions across the region have accordingly emerged as **critical conduits** for transactions that would face significantly greater scrutiny within the EU or other Western financial system.

Kyrgyzstan illustrates how far this integration has already progressed and how central are offshore structures to its operations. Beyond its role as a transshipment hub for dual-use goods, Kyrgyzstan has emerged as a **crypto hub** where locally registered exchanges have repeatedly facilitated transactions linked to sanctioned Russian entities.[126] Critically, many of these virtual asset service providers were not standalone commercial actors but **shell companies** – registered in Kyrgyzstan but beneficially controlled through **offshore intermediaries** – exhibiting structural patterns strikingly similar to those of the now-closed Russian exchange Garantex, including layered ownership, rapid turnover of registered entities, and transaction flows consistent with coordinated sanctions circumvention rather than organic commercial activity.

The offshore layer has not been incidental to this model. On contrary, the offshore element provides the beneficial ownership opacity that allows Kremlin-linked networks to operate via Kyrgyz entities while remaining shielded from identification and designation. The scale of the resulting activity is significant – **Kyrgyzstan recorded over USD 7.9 billion in digital transactions since July 2025**,[127] a volume that, set against the country's GDP, is difficult to explain through domestic commercial activity alone.

The consequences of this architecture for Central Asian financial institutions are now concrete and escalating across successive sanctions packages. In its 19th sanctions package, the EU designated five Central Asian banks – two from Kyrgyzstan and three from Tajikistan – for facilitating circumvention of restrictions imposed on Russia, imposing a blanket ban on transactions with EU entities. The Tajik case produced a rapid diplomatic response and all three Tajik banks were removed from the sanctions list in the 20th package, following expanded engagement with the European Commission and commitments to strengthen compliance and anti-money laundering frameworks. The **Kyrgyz trajectory has moved in the opposite direction**. Rather than delisting previously designated institutions, the 20th package added two further Kyrgyz banks – **Keremet Bank** and **OJSC Capital Bank of Central Asia** – for providing crypto-asset and payment services in support of Russia's

[123] Gold Dollar (USDKG) webpage.

[124] Satubaldina, A., “Kazakhstan’s Digital Tenge Project Wins Award at Global CBDC Conference”, *The Astana Times*, 19 September 2025.

[125] The Times of Central Asia, “Central Asia’s Digital Currency Ambitions: New Opportunities and Old Constraints”, 2 December 2025.

[126] TRM, “Russia Leveraging Kyrgyzstan’s Crypto Ecosystem to Evade Sanctions”, 21 July 2025.

[127] Collet, M., “Kyrgyzstan in EU crosshairs over Russia sanctions circumvention”, *Euractiv*, 26 February 2026.

war effort.[128]

[128] Official Journal of the European Union, Council Decision (CFSP) 2026/508 of 23 April 2026 amending Decision 2014/512/CFSP concerning restrictive measures in view of Russia's actions destabilising the situation in Ukraine, April 2026.

UNPLUGGING STRATEGIC CORRUPTION: POLICY GAPS AND RECOMMENDATIONS

The preceding analysis demonstrates that Russian IFFs are embedded in a transnational system of offshore finance, corporate layering, and adaptive payment infrastructures that together sustain strategic corruption. Sanctions have imposed real costs: formal banking has been disrupted, assets frozen, and corporate structures forced to reorganise. Yet the has adapted: offshore architectures shifted from optimisation to survivability; corporate networks fragmented; and hybrid payment systems emerged. **Policy responses have targeted the most visible actors rather than the most structurally consequestial enablers.**[129]

Policy Gaps

Despite the unprecedented scope of sanctions imposed since 2022, current policy responses remain **structurally insufficient** to address the **offshore-enabled system** sustaining Russian IFFs and economic influence, geared towards destabilising and decoupling countries from Central Europe and Asia and the Global South from the Western finance and ODA systems. The **core gap** lies in the continued focus on visible actors and transactions, rather than on the underlying financial and corporate infrastructures that enable Kremlin's adaptation and resilience.

First, **a persistent fragmentation of policy frameworks**: sanctions enforcement, AML, beneficial ownership transparency, trade controls, and digital asset regulation are treated as separate domains, creating **institutional silos** and inadvertently **enabling the complexity of offshore systems** – allowing actors to exploit gaps between regulatory regimes.

Second, policymakers remain overly reliant on **entity-based sanctions**, targeting individuals and companies while leaving **intact the mechanisms that allow ownership** and **control to be reconfigured**. Russian-linked actors increasingly rely on minority stakes, nominee arrangements, shareholder agreements, and layered offshore structures to preserve effective control while avoiding formal designation. Legal ownership is increasingly decoupled from real influence. Sanctions and economic security policies continue to not heed the role of the Kremlin within Russia's state capture controlled oligarchic IFFs system.

Third, insufficient attention is paid to **conduit jurisdictions** and **professional enablers**. Jurisdictions that provide legal certainty, corporate vehicles, and financial market access play a critical role in facilitating capital mobility and ownership obfuscation. Lawyers, fiduciaries, corporate service providers, and other intermediaries remain central to the functioning of offshore networks yet are only partially integrated into enforcement frameworks.

Fourth, a **growing gap in addressing alternative financial**

[129] For an outline of key policy gaps and recommendations in relation to IFFs in the Western Balkans and the Black Sea region, including in relation to Official Development Assistance, see CSD, *Illicit Fianncial Flows and Strategic Corruption*, Policy Brief No. 157, April 2025.

infrastructures. The expansion of **crypto-assets, stablecoins, non-bank intermediaries**, and **hybrid settlement systems** has reduced Russia's reliance on traditional banking channels, allowing over 80% of its cross-border transactions to be settled outside SWIFT system. Enforcement remains largely bank-centric, leaving significant blind spots in monitoring and disrupting cross-border financial flows.

Fifth, **third country** and **Russia's wide neighbourhood** exposure remain under-addressed. Russian-linked capital increasingly operates through jurisdictions with **weaker governance and regulatory capacity** or partial alignment with sanctions regimes, using trade rerouting, proxy ownership, and offshore intermediaries to re-enter global markets. Limited cross-border coordination allows these channels to persist.

Finally, **sanctions authorities face challenges in identifying effective control beyond formal ownership**. Current frameworks are **not fully equipped to capture indirect influence** exercised through **contractual arrangements, circular ownership structures**, or **proxy actors**. Combined with limited data integration across jurisdictions, this constrains the ability to detect and disrupt complex corporate networks. In addition, economic security policies are not integrated in the wider economic statecraft strategy, leaving ODA in a flux and reducing its overall effectiveness.

Taken together, these gaps highlight a **central policy challenge**: as long as offshore-enabled systems remain intact, sanctions will continue to impose costs on Russia without dismantling the structures that sustain IFFs and strategic influence. Their downside effects on the West would continue to playout across the Global South countries, straining further geopolitical relations.

Policy Recommendations

Integrate economic security frameworks

The EEA/EU/UK should **establish a coherent economic security framework** by aligning sanctions enforcement, AML, beneficial ownership transparency, trade controls, and digital asset regulation. This requires **stronger coordination** among financial intelligence units, sanctions authorities, customs agencies, and regulators, supported by enhanced cross-border data sharing. A concrete step could be the creation of an **OECD-level integrated risk platform** combining sanctions data, beneficial ownership registries, trade flows, and financial intelligence to enable proactive risk detection.

Economic security should also be embedded in **EEA/EU/UK trade, investment**, and **development policy**. **Investment screening** must account for complex offshore ownership and indirect state control; trade agreements and accession processes should include enforceable transparency and sanctions-alignment standards; and EU/UK development and neighbourhood instruments should incorporate **economic security risk assessments** and link funding and market access to measurable progress in enforcement and transparency.

Expand sanctions to capture effective control

The EEA/EU/UK sanctions regimes should incorporate methodologies capable of identifying and targeting de facto control, including minority stakes combined with governance rights, shareholder agreements, debt instruments, and proxy ownership. This requires the developing legal standards and evidentiary thresholds that capture indirect influence, rather than relying solely on formal ownership percentages. Russia's network has evolved **from relatively concentrated but private controlled (2015) to fragmented and opaque but state-controlled (2025)**: sanctions frameworks must evolve in parallel.

Target enabling infrastructures and intermediaries

Cyprus, the Netherlands and Luxembourg, and the BVI continue to serve as key conduit jurisdictions for obfuscating Russian capital. Greater emphasis should be placed on the **infrastructure of offshore finance**, including **conduit jurisdictions**, **special purpose vehicles**, and **trust structures**. Professional enablers – lawyers, fiduciaries, accountants, and corporate service providers – should be subject to enhanced due diligence, supervisory oversight, and targeted sanctions for facilitating evasion or ownership obfuscation.

Strengthen beneficial ownership transparency and verification

Russia’s corporate footprint across the Western Balkans, the Black Sea region, and Central Asia did not decline after 2022 – it reconfigured from direct ownership to layered, offshore-mediated structures. The EEA/EU/UK should **strengthen beneficial ownership frameworks by moving beyond formal disclosure toward active verification and cross-border interoperability**. This includes linking beneficial ownership registries with sanctions lists, financial intelligence systems, and corporate databases, as well as enhancing scrutiny of trusts, nominee arrangements, and complex multi-layered ownership structures.

Address vulnerabilities in alternative financial systems

The EEA/EU/UK should **more systematically extend its sanctions enforcemen** to **crypto-assets** and **hybrid payment systems**, including enhanced **monitoring of offshore-linked digital settlement networks** and **non-bank intermediaries**. Enforcement frameworks should also **address Russia’s use of gold holdings and gold-backed financial instruments** to circumvent sanctions, enabling access to foreign currency through offshore trading hubs such as the UAE and Türkiye, outside formal financial systems. This requires closer coordination between sanctions authorities, financial regulators, and blockchain analytics providers, as well as clearer compliance obligations for digital asset service providers.

Strengthen enforcement in third-country and regional corridors

Reducing sanctions leakage requires structured cooperation with the Western Balkans, the Black Sea region, Central Asia, and key intermediary jurisdictions increasingly used for sanctions evasion, such as the UAE and Türkiye. Evidence shows that the closer a jurisdiction is to EU regulatory oversight, the greater the reliance on indirect ownership and obfuscation mechanisms, including offshore intermediaries and proxy structures. The **EU should move beyond general cooperation** and **establish formalised enforcement partnerships with priority third countries**. This should include the alignment of sanctions screening procedures, interoperability of beneficial ownership registries, and real-time exchange of financial intelligence and customs data. **Joint risk assessments in high-risk sectors** and **coordinated monitoring of high-risk trade flows** - particularly in dual-use goods and re-export channels - should become standard practice.

Targeted capacity-building programmes should support financial intelligence units, customs authorities, and supervisory bodies in detecting complex ownership structures, trade misinvoicing, and proxy ownership schemes. These efforts should be embedded within existing **EU external instruments – enlargement policy, neighbourhood policy frameworks**, and **development assistance programmes** (e.g. IPA, NDICI/Global Europe) to ensure sustained technical support and institutional strengthening. The EU should also introduce **conditionality mechanisms** by linking access to EU funding, market access, and accession progress to measurable improvements in sanctions enforcement, beneficial ownership transparency, and regulatory alignment. These capacity-building prohrams should be well-integrated into EEA/EU/UK ODA and trade policies.

Enhance data integration and network-based enforcement tools

Public authorities and sanctions enforcement units should invest more in **network analysis capabilities** that integrate corporate ownership data, trade flows, financial transactions, and digital asset movements. This would allow enforcement to shift from **isolated case-by-case actions toward identifying systemic patterns**, central nodes, and high-risk structures within offshore-enabled networks. This should be supported by enhanced **cross-border data exchange**, common analytical standards, and joint investigative teams, enabling authorities to trace complex ownership chains, detect indirect control, and respond more effectively to evolving sanctions evasion networks.

Strategic corruption is a governance problem. Offshore-enabled IFFs distort markets, weaken regulatory credibility, and entrench opaque networks of influence that erode democratic accountability. When opaque capital finances strategic sectors, funds political patronage, or embeds itself within local elites, it alters incentives. Policymakers may hesitate to enforce regulations; regulators may face political pressure; media ecosystems may become economically dependent on opaque advertisers or investors. Over time, this creates a permissive environment for foreign malign influence.

Unplugging strategic corruption therefore strengthens more than financial compliance - it reinforces democratic resilience. Transparency of ownership reduces space for elite capture. Coordinated sanctions enforcement signals collective resolve. Oversight of digital assets limits the creation of shadow financial spheres beyond democratic scrutiny.

The experience since 2022 demonstrates that resilience cannot rely on economic interdependence alone. **Openness without transparency becomes vulnerability**. Economic security is the safeguarding of democratic systems from coercive or corrosive capital. The Russian case offers a broader lesson. As global financial systems fragment, and geopolitical competition intensifies, the architecture of offshore finance will remain attractive to actors seeking leverage. The challenge for the EEA/EU/UK is to ensure that its own legal and financial systems do not function as inadvertent conduits for strategic corruption.

Unplugging that system requires moving beyond episodic sanctions toward sustained structural reform, aligning transparency, enforcement, digital regulation, and neighbourhood cooperation within a coherent economic security strategy. Only then can the nexus between illicit financial flows, offshore finance, and malign influence be meaningfully disrupted.

Implications for ODA Countries and the Global South

The recommendations set out above are directed primarily at the European Union, which holds the regulatory levers most relevant to unplugging the offshore architecture, though they apply equally well to all OECD countries, including the UK. Yet, countries in the Western Balkans, the Black Sea and the wider Global South in which Russian, and increasingly Chinese and Gulf, offshore-enabled capital is active, need to also develop their own set of responses: regular IFF and state capture monitoring, capacity-building among financial regulators and financial intelligence units, FATF-aligned background checks, and pressure on offshore hubs to block flows linked to sanctioned actors.[130] The corporate-network and offshore-wealth findings reported here add operational specificity to each of those.

Beneficial ownership. The Cyprus-based round-tripping structures, the Dutch-registered SPVs holding regional infrastructure assets, and the BVI-administered trusts should be a concern for ODA-country regulators. They are the legal vehicles through which a substantial share of the Russian-linked corporate footprint in the Western Balkans, the Black Sea and Central Asia is now structured. National FIUs, competition authorities and public procurement bodies in these countries need verification capacity, besides disclosure rules. Development assistance that supports beneficial ownership registries in ODA contexts should be conditioned on case-level investigative capability and on cross-checks with the registries of the conduit jurisdictions, beyond the formal compliance review of current FATF assessments.

Sanctions exposure where no formal sanctions regime is in place. The mechanisms documented in this paper, i.e. minority stakes paired with effective control, layered offshore intermediaries, professional enablers and hybrid payment systems, function whether or not the host country has aligned itself with EU, UK, or US sanctions. The instruments used by Russian capital to maintain a foothold in Serbia or Armenia are equally

[130] Vladimirov, and Kostova, *Shadow Economies*, Sofia: CSD, 2025.

available to other state-backed corrosive capital sources in Africa, Latin America and Southeast Asia. Development partners working on anti-corruption in those settings can use the typologies set out here as a starting checklist for assessing exposure, with or without a sanctions overlay.

Limits of bank-centric AML enforcement. IFFs in the Western Balkans and the Black Sea region rose sharply after February 2022.[131] The present paper explains why much of that capital remains uncatchable through traditional AML channels. Crypto-based settlement, gold-backed channels, trade misinvoicing and unregistered trusts now move significant value outside the systems that FIUs in ODA countries have historically monitored. Donor-funded financial intelligence support in these contexts has to follow this shift, with dedicated programming on virtual asset service provider supervision, gold-trade due diligence and beneficial-ownership verification of trusts.

ODA enforcement framework. For the Western Balkans and the Black Sea, the EU enlargement and neighbourhood instruments remain the most effective conduit for moving these capacities into national systems. For Global South jurisdictions outside these frameworks, the UK and other bilateral donor frameworks, the EU's Global Gateway, the World Bank's governance programming and the African Development Bank's illicit-finance partnerships are the closest equivalents, but without comparable conditionality. Sustaining their effect against an offshore system whose operators are deliberately shifting toward less supervised jurisdictions will require donor coordination on a scale of different proportion. Moreover, the risign geopolitical fragmentation, calls for even more complex coordination efforts, which in most cases could face adversity or at least strategic ambivalence from duplicating and completing formal and informal ODA from Russia, China and the Gulf States.

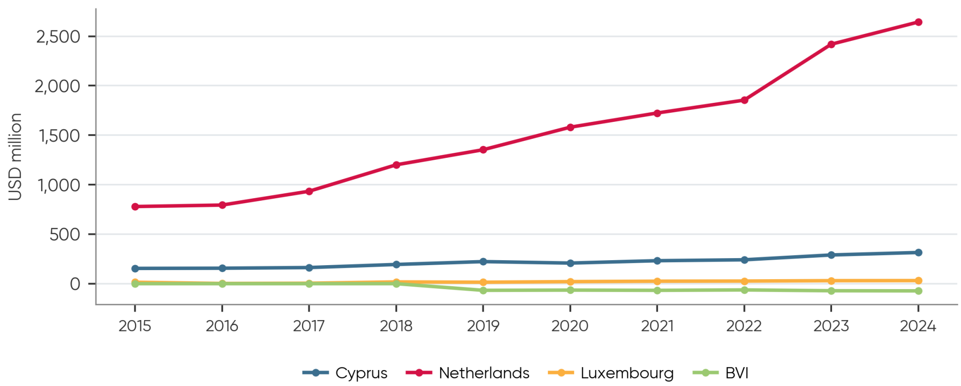
Budget and costs. Donor defence spending is rising; at the expense of ODA budgets. There is a real risk that long-horizon anti-corruption support is among the first programmes to be reprioritised when fiscal space tightens. ODA-funded work on IFFs, beneficial ownership transparency and offshore enforcement is itself a hard-security investment. The capital that finances Russia's war economy, sustains its sanctions evasion and underwrites its capture of strategic sectors abroad travels through the same offshore plumbing that ODA-eligible jurisdictions are being asked to police. Hence, anti-corruption development cooperation should be treated as part of the same agenda as economic security and sanctions enforcement.

131 Ibid.

ANNEX 1. FDI STOCKS FROM OFCS IN VULNERABLE REGIONS

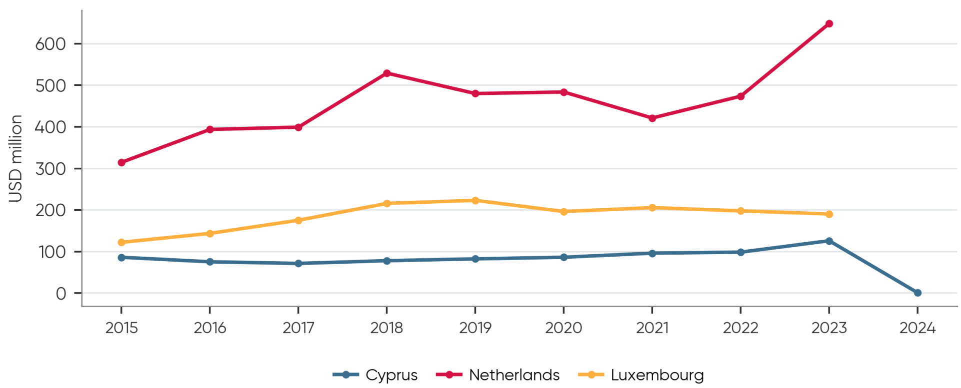
This annex presents FDI stock data from Cyprus, the Netherlands, Luxembourg, and the British Virgin Islands into specific countries of the Western Balkans, Black Sea, and Central Asian regions. All figures are based on **CSD calculations** using central bank data on FDI stocks. These data underpin the regional analysis in **Section 6** and should be read in conjunction with **Figures 17-19** in the main text. The key takeaway across all regions: offshore FDI stocks from the four main conduit jurisdictions remained substantial or grew after 2022, consistent with the network analysis finding that Russian capital reconfigured rather than retreated.

FDI Stocks from Key Offshore Hubs – Albania



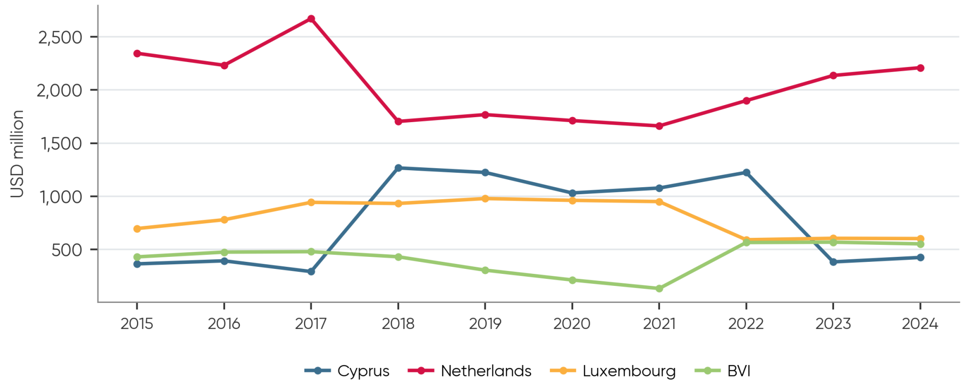
Source: CSD calculations based on data from central banks.

FDI Stocks from Key Offshore Hubs – Bosnia and Herzegovina



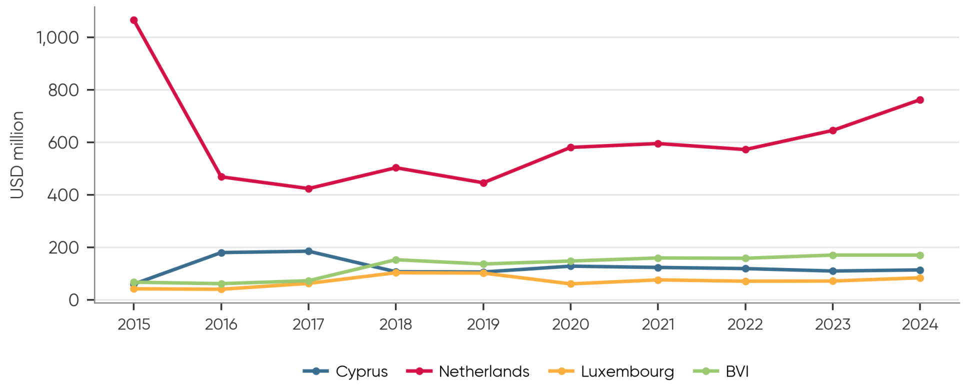
Source: CSD calculations based on data from central banks.

FDI Stocks from Key Offshore Hubs – Georgia



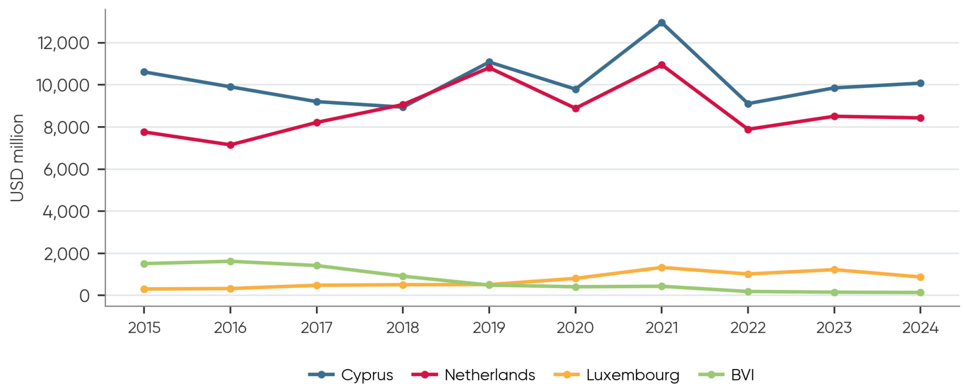
Source: CSD calculations based on data from central banks.

FDI Stocks from Key Offshore Hubs – North Macedonia



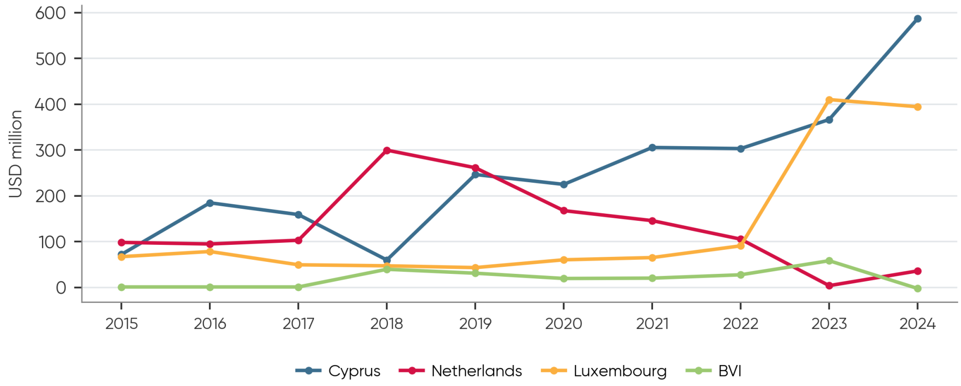
Source: CSD calculations based on data from central banks.

FDI Stocks from Key Offshore Hubs – Ukraine



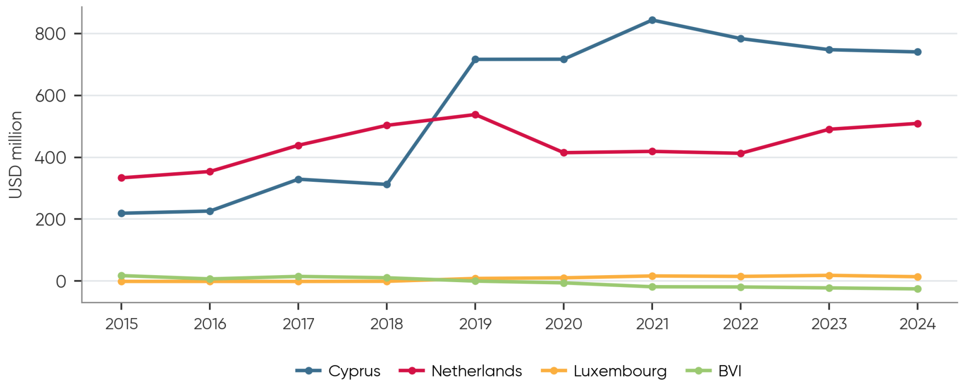
Source: CSD calculations based on data from central banks.

FDI Stocks from Key Offshore Hubs – Armenia



Source: CSD calculations based on data from central banks.

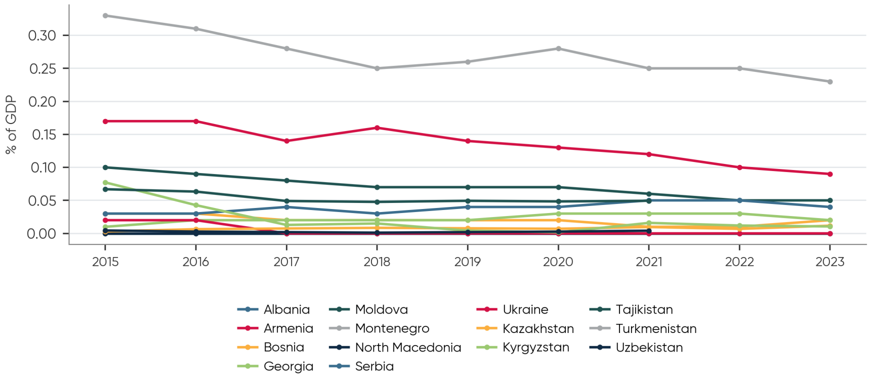
FDI Stocks from Key Offshore Hubs – Moldova



Source: CSD calculations based on data from central banks.

ANNEX 2. RUSSIAN FOREIGN DIRECT INVESTMENTS (STOCKS) AS % OF GDP, WESTERN BALKANS, BLACK SEA AND CENTRAL ASIAN COUNTRIES

Total Assets Controlled by Russian Companies (as % of GDP)



Source: CSD calculations based on central banks data on Russian FDI stocks.