

Money laundering and Money Corporation Relations in Abkhazia

By Mikheil Tokmazishvili

Recently, centers for money laundering and other financial crimes have become more diffuse as criminals have moved to regions where they can carry out illegal activities freely or with few restrictions. There are few such regions, but the few that exist are generally separatist regions or areas marred by armed conflict and civil violence. For Georgia, Abkhazia is one such area: Georgian law and international agreements signed by Tbilisi are not recognized there.

One of the results of Russian policy in the Caucasus, which strives to maintain Russian influence in and over Georgia through support for Abkhazia and South Ossetia, is that the breakaway regions are outside of the control of both Tbilisi and Moscow. As a result of international isolation and civil war in the 1990s, Abkhazia is experiencing severe economic difficulties. This crisis has manifested itself in the ruination of industry, agriculture, tourism, and transport networks. Thus, for the Abkhazian leadership, supporting all financial activities, even if illegal, is a means to support the separatist regime. The Abkhazian government, therefore, has created financial institutions.

The Abkhazian National Bank (ANB), which was created by the law, “On the National Abkhazian Bank,” is a subsidiary of the Abkhazian Central Bank. According to the law, the ANB may not establish requirements for the activities of commercial banks and non-banking deposit institutions. However, the ANB may carry out the following activities:

- Article s IV and XXIX give the ANB emission authority, although under Article XXVII, the official currencies of Abkhazia are the US dollar and the Russian ruble. Accordingly, in actuality the “Abkhazian” money supply is determined by the US Federal Reserve the Russian Central Bank.
- Article V gives the ANB the authority to set the exchange rate between the US dollar and Russian ruble. In essence, this ranges from currency speculation to a way to earn money from the spread when customers exchange currency. In addition, in the course of privatization, the ANB and Abkhazian government work together make privatization deals as profitable for the Abkhazian government. For example, the ANB can manipulate

currency prices forcing the tender winner to pay even more money than agreed upon. Abkhazian leaders often divide this “extra” money amongst themselves.

- Neither the ANB nor commercial banks operating in Abkhazia have minimum reserve requirements. First, Abkhazia does not have a currency, so the ANB does not need international reserves. Commercial banks do not have minimum reserve requirements, although this has some basis as banks in Abkhazia perform mostly transfers and therefore have very few deposits. (Based on our calculation, there is one bank for every 10,000 Abkhazians, a very high ratio.)

Other legislation in Abkhazia creates a legislative basis for crime and corruption. The law, “On Abkhazian Manufacturers,” has created ripe conditions for illegal activities. The law allows both residents and non-residents alike the right to register a manufacturing enterprise without providing the name, surname, date of birth, or current address of the business-owner. If a legal body is registering a business, it is not required to divulge its capital, deposit information, or personal data on directors.

Like the law, “On Abkhazian Manufacturers,” the law, “On Foreign Investments,” also creates a legislative basis conducive for illicit activity. “On Foreign Investments” give the status of “foreign investor” to practically anyone or any group, including foreign governments and companies, foreign citizens, persons without citizenship, and international organizations. The law does provide that an investor must provide his or her share of capital in an enterprise, but the law does not require fees or licenses for investment privileges, thus allowing for extremely fast and cheap registration of investment, a means for legalization of illegal income. Moreover, any property or funds a foreigner brings into Abkhazia to investment, whether partially or fully owned, are exempt from customs and other import taxes. Abkhazia is in essence a free economic zone.

Russian support for Abkhazia has also had the perverse effect of fostering criminal activity. In particular, the Russian government has created citizens of Abkhazia and South Ossetia citizenship, meaning that anyone, evening criminals, can move freely throughout the North Caucasus. For example, Musa Shanibov, a well known criminal, has exploited this gap.¹

¹ უსა შპანიბოვ ის ა ფორმერ ლეადერ ოფ ტჰე ჩონფედერაციონ ოფ ტჰე ოუნტაინოუს ეპილეხ ოფ ტჰე ჩაუცასუს ანდ სუპორტერ ოფ ტერრორისტ შპანიბლ ასაყეე. შპანიბოვ წას არრესტედ ინ ტჰე ეარლე სტაგეს ოფ ტჰე ეორგიან- ბეკაზ ცონფლიცტ ფორ ორგანიზინგ

This open border into Georgia has also facilitated contraband trade, including weapons smuggling.

Russian banks too have taken advantage of Abkhazia's nebulous legal status. Russian banks have ties with various money-transfer businesses, (e.g., Contact, Golden Crown, VIP Money Transfers). Through these businesses, Russian banks can send money throughout the world without the scrutiny of the international agreements they would face should the transfers abroad originate in Russia. Russian legislation allows sums transferred to banks and financial institutions registered in Abkhazia not to undergo the financial monitoring normally applied to international transfers. Unlike most countries, the Russian government does not include Abkhazia in the list of countries and regions with links to money laundering.

Thus, from our point of view, the following actions should be taken:

- Provide the Financial Action Task Force (FATF) with information on Abkhazia and South Ossetia with the aim of the organization creating recommendations for financial relations with the territory
- Along with the above, FATF should develop recommendations for financial institutions on how to work with all "breakaway" regions, as these regions represent one of the greatest threats to global security
- Restrict international organizations and banks from carrying out certain financial activities in Abkhazia
- Require any international organization or bank to receive permission for the Georgian government before initiating financial activities in Abkhazia
- Begin negotiations with the Russian Federation to limit Russian banks' activities in Abkhazia

მილიტარულ ანდ ტერორისტულ აქტივობებს ონ ეორგიან ტერრიტორიულ ხურუნტლუ ჰე ის რეხილინგ ონ ა ტერრიტორიულ ოფ ბკჰაზია.