The Moscow Times
30 YEARS
INDEPENDENT NEWS FROM RUSSIA

How Does the Head of an Anti-Corruption Agency Wind up With $120 Million in Cash?

By Andrey Movchan

October 10, 2016



Dmitry Zakharchenko **Moskva News Agency**

Economists correctly describe Russia's sociopolitical order as "market feudalism." The market is at the core of its economy, and feudalism is at the core of its management and political systems. Knowing this, we shouldn't be surprised when Russia's feudal lords engage in their favorite activity: raiding each other's fiefdoms.

Those with greater strength and more powerful patrons are able to expand their fiefdoms and attack others; their adversaries return the favor as soon as the balance of power shifts.

A new kind of war has emerged recently, however: the siloviki, the country's omnipotent security establishment, have started attacking old lords and fighting among themselves.

The September 10 arrest of Dmitry Zakharchenko, the acting head of one of Russia's anti-corruption agencies who was caught hiding $120 million in cash in his sister's home and over $300 million in foreign bank accounts registered in his father's name, is a perfect example of such an attack.

In this feudal war, it's likely that Zakharchenko's attackers didn't care about the money, which will now end up in the state's coffers. Rather, they were interested in the kind of business that is able to generate all that cash.

So, the question is: what kind of business were they feuding over?

There are only two businesses in Russia that involve moving such large amounts of hard cash: contraband importation and money laundering schemes designed to shelter profits (often as a means of tax evasion).

In all likelihood, Federal Security Service (FSB) operatives caught Zakharchenko while he was moving money for the importation of contraband. The contraband market in Russia is enormous. For example, there is a $10 million gap between Russia's calculations of Chinese imports and China's numbers on exports to Russia, and such a gap exists for imports from many other countries.

Contraband goods are brought into Russia labeled as something less expensive or exempt from tariffs, or are undeclared altogether in order to avoid paying heavy customs duties. In Russia they're sold to small shops and even official distributors, where retail prices top 250 percent of the cost of importation.

Undeclared excess cash must be converted into dollars and sent back to the seller so that more of the product can be illegally imported. Those who convert the money take a cut of between 3 and 10 percent, meaning they earn as much as $1.25 billion per year.

In the Zakharchenko case, it seems as though the FSB, which has been trying to gain control over smuggling and capital exports, found out about the timing of a large transfer and attacked while the "caravan was in transit."

The $300 million held in Swiss bank accounts, which may belong to those who are actually in charge of the smuggling business, raises a different set of questions, namely: how did Zakharchenko, someone with obvious political affiliations, manage to open accounts with banks that spend months investigating potential clients and refuse to work with those who have political ties?

We will probably never know who contacted the banks asking them to open the accounts, but we do know that it must have been an individual powerful enough to influence the banks' economic interests and perhaps even the interests of the countries in which the accounts were opened.

As for Zakharchenko's fiefdom? The state—the most powerful of all feudal lords—will take his cash as tribute. The takeover will thus be "legal" and the "business" will remain in operation.

Andrey Movchan is a senior associate and director of the Economic Policy Program at the Carnegie Moscow Center

This article originally appeared on Carnegie Moscow Center's Economic Policy blog.

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Original url:
https://www.themoscowtimes.com/2016/10/10/how-does-the-head-of-an-anti-corruption-agency-wind-up-with-120-million-in-cash-a55663