

RISKS OF INVOLVEMENT OF THE ANNEXED TERRITORIES IN SCHEMES OF ECONOMIC OFFENSES AND WAYS TO MINIMIZE THEM

Anna A. Bakulina

MGIMO UNIVERSITY

Ilya A. Bakulin

The Southern Federal University (SFU)

Abstract

This article focuses on assessing the current economic status of the new regions annexed to the Russian Federation: the Luhansk People's Republic, the Donetsk People's Republic, as well as the Zaporozhye and Kherson regions. The annexed territories have an area of 108,844 km² and a total population of 6.2 million people. New regions offer extensive economic potential for Russia, and a correct choice of priority areas of development is one of the most important tasks of the state. However, the special military operation has seriously destabilized the economy of most of the regions and undermined the small and medium-sized business sector. In the long term, this situation may lead to an increase in various economic crimes. The article deals with such economic crimes as money laundering and premeditated bankruptcy.

Keywords

Economic crimes, economic state of business, methodology of expertise, assessment of financial and economic state.

THE CURRENT SOCIAL AND ECONOMIC SITUATION OF THE NEW REGIONS

At the ceremony of signing treaties on accession of the new territories to Russia on September 30, 2022, Vladimir Putin stated that «the accession of the new territories to Russia is economically justified and will not have a negative impact on the Russian budget».

At the moment, experts are trying to calculate the expenditure of the Russian budget required for the reconstruction of cities and return to peaceful life in the new territories. Some experts and media, in turn, conduct a research to determine the economic potential of the DPR and LPR, as well as that of the Kherson and Zaporozhye regions. Thus, The Washington Post estimated the value of mineral resources in the new regions at around 12.4 trillion dollars [2]. According to an analysis by the Vedomosti newspaper, the economic potential of the DPR, LPR, the Zaporozhye and Kherson regions will amount to around \$130 billion as at 2021, which is equivalent to 20% of the Ukrainian economy, adding 2.9% to the Russian economy.

In fact, Russia will receive more than 5 thousand industrial, agricultural, processing, energy, and other enterprises. It is safe to say that all of them have extensive economic potential and their restoration is a rational investment in the future of the Russian economy.

The total area of the four territories is 109 thousand km². 4.1 million people live in the Donetsk region alone. Until 2014, it was the most advanced industrial region of Ukraine accounting for 20% of the country's industrial output (coal, non-ferrous metals, by-product coke industry). It is also worth noting that the Donetsk coal basin is the largest coalfield in Europe. The area of deposits is about 617.8 thousand hectares. At the moment, the following thermal power plants are in normal operation:

- Vuhlehirska TPP
- Starobeshevskaya TPP
- Sloviansk TPP
- Kurakhivska TPP
- Zuivska TPP

The population of the LPR is 1.4 million people. The region has several high-output metallurgical industry enterprises, a chemical and pharmaceutical plant, and a number of important traffic arteries.

Companies based in the Zaporozhye region include the following.

- The Zaporizhstal integrated iron and steel works
- The Dneprospetsstal steelworks
- The Ukrainsky Grafit graphite electrode plant
- The Zaporozhye alumina and aluminum plant (ZALK)
- The Zaporozhye Titanium and Magnesium Plant (ZTMC)
- The Motor Sich aircraft engine plant

- The Zaporozhye Automobile Building Plant (ZAZ)

The Dnieper hydroelectric power plant, the Zaporizhzhia Nuclear Power Plant, which is the largest nuclear power plant in Europe, the Zaporizhzhia thermal power plant, as well as the Berdiansk seaport on the northern coast of the Sea of Azov are also located in the Zaporozhye region, thus emphasizing the economic potential of this region.

The Kherson region has a population of more than 1 million people and about 200 enterprises in the following industries:

- engineering
- food and beverage
- processing industry
- chemical industry
- pulp and paper industry
- light industry
- electric power industry

Shipbuilding is traditionally considered a priority in this region. Industries related to mineral resources and agricultural land are key to stimulating the economy in the coming years. The region has the potential to produce at least 2 million tons of food grains annually, which is an extremely important indicator at present.

Let's take a look at the opportunities the Sea of Azov can provide, which, with the accession of the four new territories, has become an inland sea for Russia: additional seaports, agriculture, tourism, foreign trade, logistics in the south of the country, health resorts and recreation centers.

MAIN RISKS OF INVOLVEMENT OF THE ANNEXED TERRITORIES IN ECONOMIC CRIME SCHEMES

Today, integration into the Russian economy and its legal framework is an especially relevant issue for the new territories.

Despite the immense potential of the annexed regions and a large number of major industrial facilities, it is worth noting that Russia received these territories in an unstable economic state in the long term. This is due to the fact that for many years Kyiv failed to provide such enterprises with sufficient investments.

The special military operation has seriously affected the majority of small and medium-sized businesses. The period of hostilities is also characterized by a large outflow of the population.

There is a trend suggesting that the worse the economic situation in a region, the greater the risk of various economic crimes. In this case, this issue is especially relevant as Russia has not yet managed to fully integrate its system of control and suppression of economic crimes.

Economic crime endangers basic interpersonal relationships, economic development and in some cases the political stability of the

state.

Due to the lack of proper economic supervision in the annexed regions, the risks associated with money laundering are increasing. If the trend of the lack of financial and economic control continues, the DNR, LNR, as well as the Zaporozhye and Kherson regions, in theory, could become a haven for money laundering, which, according to FATF estimates, will negatively affect Russia's reputation after the end of the special military operation.

The risks of money laundering in the annexed territories are also increasing due to the start of reconstruction of the infrastructure destroyed during the special military operation. It's well known that civilian engineering accounts for a large share of money laundering cases. Since there are a number of contractors in this industry, criminals can engage in money laundering schemes involving concealed works which cannot be audited after the fact. Materials hard to account for and illegal workers paid under-the-table also make the construction industry attractive for both money laundering and tax evasion.

Therefore, the Federal Service for Financial Monitoring (Rosfinmonitoring) should keep a close eye on the DPR, LPR, Zaporozhye and Kherson regions. Integrating various Russian financial intelligence agencies into the new territories should be a priority task for the state for stabilizing the social and economic situation to prevent the new territories from becoming a center of economic crime in Russia in the aftermath of the special military operation.

It is also worth noting that the current economic situation in the new regions (a crisis of the regional economy, curfews, small and medium-sized businesses operating at a loss) leads to an increase in business costs and, as a result, to higher indebtedness. At present, Russian banks are still not operating in full in the annexed territories. According to the State Duma of the Russian Federation, the leading Russian banks will be integrated into the new regions as late as next year [4]. The first stage of integration is opening offices of banks that have successfully adapted their operations in the territory of Crimea. Thus, PJSC Promsvyazbank opened new branches in the DPR and LPR, however, at present these are insufficient to financially support the local population and businesses. In the meantime, the lack of proper funding leads to a deterioration in the economic standing of business. Under these circumstances, there is a higher risk of premeditated bankruptcy.

According to Article 196 of the Criminal Code of the Russian Federation, deliberate bankruptcy is the commission by an entrepreneur of actions aimed at worsening their financial situation, as a result of which the organization becomes insolvent. Thus, companies that have debt and are in an unstable financial situation can initiate bankruptcy proceedings in order to relieve themselves of the liabilities to creditors. These circumstances may adversely affect the operations of Russian

banks.

MINIMIZATION OF IDENTIFIED RISKS

A rational way to mitigate the risks described above can be the creation of state-owned think tanks for financial and economic audit of enterprises.

The creation of such think tanks can also help small and medium-sized businesses in assessing their financial situation and credit risks, as well as developing a business strategy.

Financial and economic audit relies on source accounting documents and financial statements of a company, while research methods are based on the existing theory of financial analysis. The information reflected in corporate financial statements is a comprehensive set of various indicators characterizing the financial and property status of a company.

The primary task of financial and economic audit is the study of financial statements through vertical and horizontal analysis. This study provides insights into the trends of a company's performance indicators, its structure, and the definition of the so-called red flags, i.e. items in accounting statements that have a noticeable spike.

At the next stage of the methodology an expert examines source accounting documents to determine the causes of structural changes. At this stage, it is possible to determine the main counterparties of the company, as well as to assess whether its current activities are real by matching source accounting documents with bank statements for the periods examined.

The final stage is to check the company's counterparties. This study is aimed at identifying signs of shell companies in their operations, i.e. inconsistencies between registered address and business address, mass character, lack of utility bills, inconsistencies in the number of personnel and scope of activities, etc. The transactions with such companies may be indicative of wash transactions and, consequently, falsification of financial statements in order to overestimate the company's debts.

Such an analysis will help to identify enterprises that are most susceptible to involvement in economic crime schemes or already involved in them, as well as to determine areas of development of the new regions and the most vulnerable industries that require enhanced control and additional financial support.

CONCLUSION

Russia annexed territories with extensive agricultural and industrial potential, but with severely degraded infrastructure due to underinvestment from Kyiv over the past 30 years. The main task of

the government is to integrate these territories and provide support by bridging the gap in economic development, eliminating the consequences of destruction caused and reducing the risks of involvement of the new territories in economic crime schemes. At the initial stage, Moscow will finance the budgets of the four regions. In the future, as the integration continues and the economy restarts, the amount of transfers from the federal budget will decrease. The activity of state-owned think tanks relying on methods of financial and economic audit in their research contributes to defining the main areas of government support for small and medium-sized businesses, as well as the territories as a whole.

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About the authors:

Anna A. Bakulina - PhD in Economics, Associate Professor, Department of Public Governance, MGIMO University. 76, av. Vernadsky, Moscow, Russia, 119454.

ORCID ID: 0000-0003-2110-4194

Scopus Author ID: 57203781801

Ilya A. Bakulin – Master's Degree Student, Southern Federal University (SFU). 105/4,2 B. Sadovaya str., Rostov-on-Don, Russia, 344006.

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