THE INTERNATIONAL INVESTMENT BANK'S MOVE TO BUDAPEST: CZECHS, OTHER EU MEMBERS FUND RUSSIAN TROJAN HORSE SCHEME

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The International Investment Bank (IIB), nominally a United Nations-registered intergovernmental organization, but largely controlled by the Russian government (which contributes 47% of the bank's paid-in capital), moved its headquarters from Moscow to Budapest, Hungary in 2019. The institution ostensibly exists to promote development and cooperation among its predominantly Central and Eastern European members.

The unusual operations of IIB in Hungary and the bank's recent conduct, however, have raised serious concerns about the IIB's true mission. A number of United States Government representatives have challenged the move, citing the threat it poses to Europe's common security and democratic values. This PSSI Perspective argues that the IIB's opening in Budapest is, at best, a vehicle for Russian evasion of European Union sanctions and, at worst, an instrument of Russian economic and financial warfare.

The IIB was established in 1970 as a Soviet initiative intended to facilitate loans for joint development projects between the USSR and other COMECON members. The bank went into a period of dormancy with the collapse of the USSR in 1991, and Poland and Hungary subsequently left the organization altogether. Between 2012 and 2014, however, the bank was recapitalized through a series of bond issuances. The bank also brought on new management, with Nikolai Kosov, son of two former top KGB agents and reportedly an associate of Russian President Vladimir Putin, taking the helm.

Hungary rejoined the bank in 2015, and today its other members include Russia, the Czech Republic, Slovakia, Romania, Bulgaria, Mongolia, Vietnam and Cuba. Since 2014, the bank has issued bonds on debt markets in Russia, Hungary, Slovakia, Romania and the Czech Republic. According to its most recent annual report (2018), the bank manages some €1.2bn in assets. The Czech Republic is currently the Bank's fourth-largest stakeholder in terms of paid-in capital. Since recapitalization began in 2012, the Czech government's contribution to the bank has nearly doubled, reaching 37.5 million Euro in taxpayer funds by 2018.

CIRCUMVENTING THE LAW BY MOVING TO BUDAPEST

When the bank's headquarters were moved to Budapest in 2019, the IIB was granted a number of privileges, exemptions and immunities that raise doubts about the Hungarian government's willingness and ability to monitor and regulate the institution. As a registered international organization, for example, the bank is governed by international, rather than Hungarian, law. This means that it is not only exempt from taxes, but, more importantly, from: 1) reporting and auditing requirements; 2) EU and Hungarian financial regulations; and 3) the obligation to obtain government approval for its activities.

Moreover, the bank's staff, their families, and its guests all enjoy a form of diplomatic immunity and are permitted to enter Hungary (and thus the EU) without any regard to their citizenship so long as their travel is connected to IIB business. According to an article on the relocation of the bank from Index, a Hungarian news site, "in practice, this means that IIB will be able to bring virtually anybody into the EU."

The Hungarian government is even barred from entering the bank's premises without the IIB's express permission and cannot freeze or expropriate its assets under any circumstances. This means that the bank's status makes it impossible for Hungary, or any other government authority, to fully understand the nature of the activities in which the bank is engaged. This is especially troubling at a time when Russia is still sanctioned by all EU members.

RECENT CAUSES FOR CONCERN ABOUT THE IIB

— In July 2020, Bulgarian state gas company Bulgartransgaz received an offer from the IIB (in conjunction with two Bulgarian state banks) to finance Bulgaria's extension of Russia's Turk Stream natural gas pipeline. The link between IIB's offer and Russia's national interest in extending the pipeline is clear. Moreover, using the extension of debt eventually to acquire ownership stakes in national gas companies and enhanced political leverage is a well-known Russian tactic it has also pursued in former Soviet Union countries (e.g. as demonstrated in Moldova, Armenia and Ukraine).

— Also in July 2020, Czech newspaper, Deník, reported that the Czech Republic's continued participation in the IIB means that Czech capital is being used to finance problematic Russian firms like Rosatom and Sberbank. The Czech government has been calling for an exit from the IIB for nearly a year and from the similar Russia-controlled International Bank for Economic Cooperation for over three years, yet no apparent progress has been made towards leaving either institution.

— In January 2020, during the trial of notorious Slovak financial criminal Marián Kočner, it emerged that an office building Kočner owns in downtown Bratislava had been initially financed by the IIB. The IIB had extensive contacts with Kočner during this period and at least one of its representatives appears to have been aware of his intention to use the building in a corruption scheme.

ANALYSIS AND RECOMMENDATIONS

In virtually every action the IIB has taken since 2012 – including its choice for leadership, its entry into European bond markets almost as soon as sanctions on Russia were in place, its move to Budapest and its terms of operation there, and the nature of its "business activities" since that time – it has been clear that its intergovernmental character and development focus are merely a convenient guise for the IIB to serve Moscow's strategic interests.

With just €1.2bn in assets, the bank has only a small fraction of the funds required to carry out its stated goals in a single country, let alone nine. That said, when viewed as a secure, non-transparent slush fund for corrupt activity, this amount of money could be used to great effect in the pursuit of Russian interests in the region. For these reasons, membership in the IIB, and permitting its principals and their associates access to the EU, creates significant political, security and financial risks, while offering little to nothing in return.

PSSI calls on the Czech Republic to resign its membership in the International Investment Bank and the International Bank for Economic Cooperation without delay. It also encourages Slovakia, Romania, Bulgaria, and Hungary to weigh the serious security risks inherent in IIB membership against the meager development benefits the bank is able to provide.

Furthermore, each of these countries should reconsider the wisdom of allowing an essentially Russian state entity unfettered access to their national debt markets while sanctions remain in place. Poland does not appear to have suffered any negative consequences from leaving the IIB and should serve as an example to the bank's other members. Otherwise, their governments risk inviting the toxic Russian methods of corruption and political manipulation that it has honed and perfected in the countries of the former Soviet Union.

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