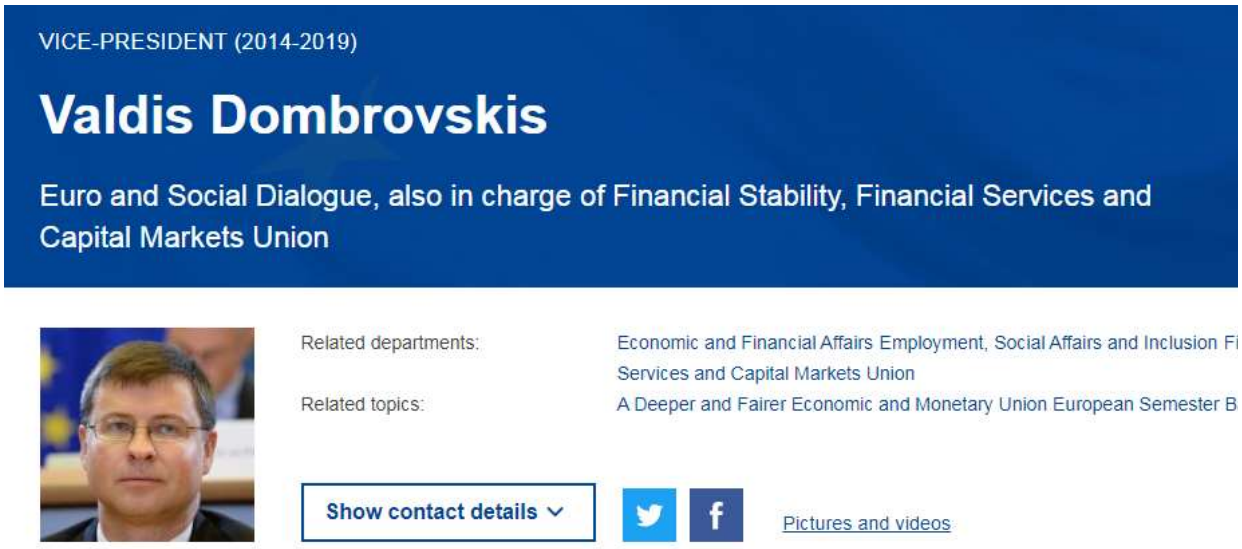
THE COLOUR OF RUSSIAN MONEY PART 18: HOW LATVIA'S FINANCIAL WIZARD MADE BILLIONS OF DOLLARS DISAPPEAR…(PART 1)

Stephen Komarnyckyj April 23, 2019



When David Copperfield made the statue of Liberty disappear it was hailed as the greatest illusion of the modern era. Sadly, we were wrong. The world is now full of magic realist politicians. President Trump has made liberty itself disappear from a country whose founding myth is a libertarian rebellion. Theresa May is making Jeremy Corbyn, the love child of Mr Bean and Leon Trotsky, appear like a credible prime minister. However, the greatest political magician of the modern day is Valdis Dombrovskis, the man who made billions disappear into the coffers of a crippled mafia bank while being hailed as a financial genius. The former Latvian PM and current European Commissioner is one of the officials determining whether Ukraine receives further financial aid from both the IMF and the EU. Ukraine, if it loses a legal battle to defend its 2016 privatisation of Privatbank, might also slip into default and lose the support of both the IMF and the EU. Ironically, the case of Privatbank bares many similarities to that of Latvia's Parex. Both these banks were looted by their oligarchic owners. However, Poroshenko, who nationalised Privatbank has just lost an election to Volodymyr Zelensky, a politician who seems to be a puppet largely controlled by Privatbank's former owner Ihor Kolomoiskiy. He is already sneeringly being referred to as a "political corpse." Dombrovskis's career by contrast bloomed after he nationalised Parex: he was lauded by Edward Lucas and Anders Aslund and became an EU commissioner. What accounts for the different fates of these politicians?

Dombrovskis handed the aftermath of Parex's 2008 collapse over to two institutions, the Latvian courts and the European Bank for Reconstruction and Development (EBRD). This column has often told the tale of this bank but like the Ancient Mariner, we are compelled to tell our story whenever we have a listener (and until such time as all of those responsible are prosecuted). When Parex was split into two parts in 2009, the EBRD pretended to invest in a bank created from its good assets, Citadele. The investment was made under the terms of a phoney privatisation deal with Latvia paying the EBRD EUR 88m in return for the EBRD purchasing a EUR 35m stake in the bank. Perhaps Latvia's government weren't very good at maths. A second bank, Reverta, which included Parex's bad assets and was the renamed successor of the original company, was created. Reverta pursued its former owners for some of the funds but the vast bulk of the looted capital was never recovered. A report detailing some of the questionable transactions undertaken at Parex when the bank collapsed was apparently suppressed. Meanwhile Latvia's finance ministry pumped funds into Reverta, like a saline drip into the veins of a brain dead body, until the bank

was wound up in 2017. Rather curiously Dombrovskis was hailed as a financial wizard in the European press and the EBRD has shown no inclination to probe into Parex's collapse. Has Poroshenko been torpedoed because he tried too diligently to recover the funds looted from Privatbank? He was certainly being lambasted from dawn to dusk by Ukraine's oligarchised media and portrayed as an aspiring dictator by his foes during the election campaign. Dombrovskis by contrast was feted as a magician. The differing fates of the two men may be accounted for by the allies they made and the foes they fought.

Parex's former owners were able to keep the majority of their cash and cheerfully watch loan after loan being paid off via the cash injections from the Finance Ministry into Reverta. The Latvian courts were a paper tiger. Privatbank's former owners by contrast were pursued internationally after the bank had been torn from their hands. While not suggesting anything improper, Latvia's oligarchs would been able to relax in their luxury villas in Riga's Jurmala district without wondering if Kevlar vested police were about to smash the door in. Poroshenko, who is to be fair himself an oligarch, had made the cardinal error of seriously trying to recover the money. If you are an oligarch you can break the law in Latvia and Ukraine: but perhaps you can't break the unwritten rules.

Equally Dombrovskis had secured the support of the EBRD by offering what was in effect a bribe to pretend to own part of Parex. However, was there another reason for the EBRD's bizarre complicity in a transaction that broke not only the principles of sound financing but outraged common sense?

One of the 'beneficiaries' of Parex's looting was Grigorijs Rabinovics, a Latvian-Russian Mafioso who assisted the bank's looting via loans to the Moskva department store and a UK registered firm. He appears to have worked alongside Aleksandr Torshin, who has both been the Chairman of Russia's Federation council and a former secretary of its Central Bank. Torshin gained notoriety in the west as Maria Butina's handler and features in a Spanish investigation into money laundering in which Rabinovics is honourably mentioned. It is more than likely that Torshin would have been in a position to influence the EBRD deal via its Russian representatives. He would not have wanted anyone to scrutinise the aftermath of the bank's collapse too closely.

Dombrovskis may have made billions vanish from Latvia's exchequer and into the coffers of Reverta: but the ugly questions about Parex will never disappear. Poroshenko, by contrast, may have lost an election and is a far from perfect figure: but sadly he may have paid the price for trying to do the right thing ....let's hope that Ukraine's voters don't end up handing over yet more cash to Zelensky's rapacious backer...

To be continued...

Steve Komarnyckyj is a PEN award winning literary translator and poet whose work is published by Kalyna Language Press and features on the PEN World Bookshelf. You can e mail him on komarnyckyj.steve(at)gmail.com

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