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# Olympic-sized corruption

Facts and Figures

*behind*

Sochi corruption scandals

TRANSPARENCY INTERNATIONAL – RUSSIA

February 2014

## Foreword

On 7 February 2014, the opening ceremony of the XXII Winter Olympic Games will take place near Sochi in southern Russia. Preparations for the Olympics have been going on for at least six years. The price tag of the Sochi Project is difficult to estimate. It is clear though that it is huge. While Vladimir Putin has said the games cost US\$6.07 billion of which US\$2.7 billion is from the national treasury)<sup>i</sup>, the Anti-Corruption Foundation of Alexei Navalny gives an estimate of about US\$42.2 billion.<sup>ii</sup> In addition, the construction of the Olympic stadiums and infrastructure has been accompanied by a number of corruption scandals. Given the huge amount of finance the Sochi Project consumed, any report on corruption is extremely troubling.

*Transparency International – Russia* has come up with an initiative to bring some order into the flows of information on the alleged corruption at Sochi. We have monitored the media reports on corruption scandals and verified them, where possible, using the official websites of the appropriate state agencies. We have not used the many unreliable reports published, only data that we could cross-check.

This report presents a short overview of violations involving corruption that have accompanied the implementation of the Sochi Winter Olympics. Note that this overview is just a selection from all the data we have collected. It should also be noted that there are many ongoing legal proceedings based on alleged violations. Because of this our overview only states the fact that the law enforcement agencies *suspect* or are investigating alleged corruption. We cannot assert that any of the incidences under investigation involve corruption.

The data are divided into a number of sections depending on the area or nature of a violation.

# Facts and Figures

## *behind*

### Sochi corruption scandals

#### **Employment relationships**

- 6 criminal proceedings were initiated against *Olympstroy*<sup>1</sup> employees alleging that they had used fake documents to get employment with the company.<sup>iii</sup>
- 141, 400 Russian roubles (US\$4,050) was the *Olympstroy* employees' monthly average wage in 2010, which is at least two to three times the 2011 average wage in the Moscow construction sector.<sup>iv</sup>
- In 2013, the General Prosecutor's Office revealed unreasonable spending at the Open Joint-Stock Company *Northern Caucasus Resorts (NCR)* which is tasked with building at Sochi. This included company money spent on trips by Ahmed Bilalov, Chairman of the Board of Directors, and other top managers.<sup>2</sup>
- Around 80 million Russian roubles (US\$2.3 million) were spent on Bilalov's charter flights to France, UK and other countries. More than 2 million Russian roubles (US\$57,000) were spent on his hotel in London during the London Olympic Games. It also turned out that 96 per cent of the company's authorised capital had come from the federal budget.<sup>v</sup>

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<sup>1</sup> *Olympstroy* is a state corporation responsible for the construction of Olympic Venues and for Sochi Development as Alpine Resort.

<sup>2</sup> *NCR* was incorporated in 2010 г. by a resolution of the Russian Government and claimed to be the management company of the tourist and recreational special economic zone which is to come in Sochi and the whole region after the Winter Olympics. Ahmed Bilalov had also been vice-president of the Russian Olympic Committee until fired on the 7<sup>th</sup> of February, 2013.

## **Overstatement of the construction costs**

- There was an attempt to steal over 8 billion Russian roubles (US\$230) of state funds allocated for the Olympic venues by overstating their construction cost. Two criminal proceedings were instituted against the two contractors involved and the over-spending was prevented.<sup>vi</sup>
- In September 2012, three more criminal proceedings were instituted after certain Olympic projects had been found to have costs inflated by an average of 30 per cent.<sup>vii</sup>
- 15.5 billion Russian roubles (US\$445 million) more than the allocated budget was spent on the Sochi sports facilities, according to the Russian Accounts Chamber. This is said to be the consequence of the *Olympstroy* employees' activities in 2008-2010.<sup>viii</sup>

## **Delayed implementation or ...?**

- Vice-president of the Russian Olympic Committee Ahmed Bilalov was dismissed in connection with the disruption of the construction schedule and misuse of loans from the state corporation *Vnesheconombank* in February, 2013.<sup>ix</sup> Later, a criminal case was brought against him for abuse of power.

According to the Russian newspaper *Kommersant*, it was the *Sberbank*, who owned 50 per cent of stocks of the entity in question, *Krasnaya Polyana*, who should be liable. At the time of his firing, Bilalov' owned 32 per cent.

Newspaper reports also suggested that Bilalov's dismissal was due to a conflict between Bilalov and *Olympstroy* on the future of Sochi and all the North Caucasus after the Olympic Games. The report suggested that Bilalov's dismissal could have been an act of "preventive protection" against transferring the Olympic infrastructure into the "wrong" hands from 2014.<sup>x</sup>

- In violation of the terms of the state contract, the open joint-stock company *Tunnelny otryad №44* was three months overdue in completing a construction project. The contracting authority *FKU DSD Chernomor'ye*, failed to sanction the company for missing the deadline.<sup>xi</sup>

## **Kickbacks**

- Deputy chief of the capital construction bureau under the presidential administration, Vladimir Leschevsky, is alleged to have taken bribes of more than 15 million Russian roubles (US\$431,000). The scandal erupted in June 2010 after the owner of the open joint-stock company *Moskonversprom*, Valery Morozov, accused Leschevsky of corruption in the media. Leschevsky allegedly demanded 12 per cent of 1.5 billion Russian roubles contract (180 million Russian roubles (US\$5.2 million) for participating in the construction of the Olympic facilities in Sochi.<sup>xii</sup> A criminal case has been opened by the Investigative Committee of the Russian Federation.<sup>xiii</sup>

## **Contract violations**

- In 2009-2010 the *FKU DSD Chernomor'ye*, while implementing four state contracts worth 14.5 billion Russian roubles (US\$4.2 billion) received advances for further work without accounting for work that had been done.
- *Tunnelny Otryad №44*, the *FKU DSD Chernomor'ye* also received advances without proper accounting for 1.084 billion Russian roubles (US\$31 million) in 2008, and 54 million Russian roubles (US\$1.4 million) in 2009.<sup>xiv</sup>

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<sup>i</sup> <http://www.rg.ru/2013/09/04/intervue.html>

<sup>ii</sup> <http://www.sports.ru/tribuna/blogs/dud/557702.html>

<sup>iii</sup> <http://kuban.sledcom.ru/news/detail.php?news=48850>

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