



Turning the Tide on Dirty Money

Why the World's Democracies Need a Global Kleptocracy Initiative

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Preface

Transparency and honest government are the lifeblood of democracy. Trust in democratic institutions depends on the integrity of public servants, who are expected to put the common good before their own interests and faithfully observe the law. When officials violate that duty, democracy is at risk.

No country is immune to corruption. As representatives of three important democratic societies—the United States, the European Union, and the United Kingdom—we recognize that corruption is an affront to our shared values, one that threatens the resiliency and cohesion of democratic governments around the globe and undermines the relationship between the state and its citizens. For that reason, we welcome the central recommendation of this report that the world’s democracies should work together to increase transparency in the global economy and limit the pernicious influence of corruption, kleptocracy, and illicit finance on democratic institutions.

On both sides of the Atlantic, political leaders have recognized fighting corruption as an important foreign policy priority that will strengthen the global democratic community and contribute to prosperous, inclusive societies at home. A joint effort to address kleptocracy and illicit finance is an opportunity to strengthen ties between the United States, Europe, and the United Kingdom at a pivotal moment in the transatlantic relationship. The goals expressed in the report reflect a practical, actionable agenda for transatlantic cooperation that builds on reforms our respective legislatures have recently passed to curb corruption in our own economic systems.

There is no better way for the United States, Europe, and the United Kingdom to advance our shared interests and values than by acting collectively against the common foe of corruption and kleptocracy. To quote one of ancient democracy’s most famous philosophers, Aristotle, “the many are more incorruptible than the

few.”¹ By acting in concert, democratic states can root out corruption and the illicit financial activities that support it with far more success than they could by going it alone. The fight against corruption and kleptocracy is winnable, but we will need to work together.



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Introduction and summary

In November 2017, U.S. federal agents arrested former Hong Kong Home Secretary Patrick Ho at John F. Kennedy International Airport in connection with an astonishing set of criminal charges.² As detailed in a complaint filed by the U.S. Department of Justice, Ho had participated in a political corruption conspiracy that spanned several continents.³ At the time of the arrest, Ho was an executive of the nonprofit arm of CEFC, a mysterious Chinese energy conglomerate with close ties to the Chinese state.⁴ While at a meeting of the U.N. General Assembly, Ho had plotted with the Senegalese minister of foreign affairs to bribe top officials in Chad and Uganda to secure business opportunities and oil rights for CEFC in both countries.⁵ In one scheme, Ho arranged for \$500,000 to be wired from Hong Kong via New York to a bank account in Dubai designated by Sam Kutesa, the foreign minister of Uganda, who had just completed a term as president of the General Assembly.⁶ Kutesa, likely not by coincidence, had appointed CEFC's chairman, Chinese national Ye Jianming, an adviser to the General Assembly during his tenure.⁷

During his trial, which ended in his conviction, Ho stated that his actions were “in furtherance of the Chinese state’s agenda” regarding the Belt and Road Initiative, a massive foreign investment and assistance project that is at the center of Chinese President Xi Jinping’s foreign policy.⁸ It is unlikely the public will ever know precisely the degree to which Chinese authorities directed or encouraged Ho’s actions. But given CEFC’s alleged ties to military intelligence and the role Ye Jianming had carved out as “China’s unofficial energy envoy,” it seems likely that Ho acted with the knowledge of the Chinese government, if not its support.⁹ Furthermore, the unexplained disappearance of Ye Jianming following Ho’s conviction suggests that Beijing was not indifferent to Ho’s fall from grace.¹⁰

The Ho saga is remarkable on its own terms, but it is more than a colorful tale of international intrigue. Rather, it is reflective of a broader pattern of conduct by state and state-associated actors that carries serious geopolitical implications for the United States and its democratic partners. Corruption, once regarded as a domestic problem that necessitated only domestic solutions, has emerged as a sharp power tool used

principally by authoritarian and kleptocratic regimes to advance their geopolitical agendas and, in some cases, undermine democratic systems. Corruption and the political dysfunction it spawns have been around forever, but they have never been more dangerous to the national interests of democratic states.

This report examines how corruption and kleptocracy—defined as a political system organized around oligarchy, self-dealing, and illicit finance—have become a serious national security concern for the United States and its democratic partners. It makes the case that current efforts to fight corruption and illicit finance in the international system have failed—or, at a minimum, been incommensurate to the scale of the threat—and too often have treated financial crime as primarily a regulatory and law enforcement challenge, rather than a necessary element of a foreign policy that aims to strengthen global democracy and limit the influence of authoritarian competitors on international norms and rules. Crucially, this report argues that the most promising avenue for combating kleptocracy and ridding the global economy of dirty money is a Global Kleptocracy Initiative (GKI) organized around informal but meaningful and sustained cooperation among the key gatekeepers of cross-border financial flows, with the additional participation of other influential democracies with advanced and globally integrated economies. In addition to defining how such an initiative would be structured and who might participate, the report offers a series of policy reforms and innovations that the GKI could catalyze in the world’s major democratic economies.

Finally, the report argues that a sequence of diplomatic events in 2021 offer a pathway to construct and promote the GKI. These include the G-7 summit to be hosted by the United Kingdom, one of two EU-U.S. summits in the first half of the year, the 2021 U.N. General Assembly Special Session Against Corruption, and the planned Summit for Democracy toward the end of the year.

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Proposed Global Kleptocracy Initiative members

To achieve a multilateral initiative against kleptocracy and corruption, the GKI should be launched through consultations between the three most influential regulators of the global financial system that are also democracies. These three founding members should seek the participation of other democratic financial powers with a demonstrated commitment to anti-corruption and anti-money laundering norms.

Founding members: These democratic states have the following attributes: regulator of major global currency; home to one or more leading financial center; considerable financial regulatory reach; a leading regulatory role over extractive industries; the presence of significant kleptocratic activity or illicit finance involving domestic institutions and entities.

- **United States**
- **European Union** (including all of its member states)
- **United Kingdom** (including overseas territories and crown dependencies)

Potential invited members: These democratic states possess at least one of the following attributes: regulator of major global currency; host of one or more major financial centers; large extractive industries sector; high regulatory capacity; the presence of significant kleptocratic activity or illicit finance involving domestic institutions and entities.

- **Japan**
- **Australia**
- **Switzerland**
- **New Zealand**
- **Norway**
- **Canada**

How dirty money went global and why efforts to stop it have failed

The profound transformations of global financial markets over the past 50 years have had many unanticipated side effects on world politics. Of these, perhaps the most pernicious has been the explosion of clandestine financial flows in the global economy, creating a shadow financial system whose goings-on are opaque even to law enforcement bodies.¹¹ This profusion of dark money has been enabled by the flourishing of legal and financial services that specialize in providing anonymity in cross-border transactions.¹² A large share of these service providers operate in marginal jurisdictions that sit outside major economic centers and regulatory blocs—in many cases on literal islands—giving rise to the term “offshore finance.”¹³

This decadeslong proliferation of financial anonymity has precipitated a corresponding boom in transnational corruption and kleptocracy.¹⁴ Secrecy and crime are natural bedfellows, and offshore finance has proven an invaluable tool for practitioners of embezzlement, money laundering, and other forms of illicit finance that enable graft.¹⁵ The sums involved are difficult to accurately estimate, but the expert consensus is that they are of considerable size. The World Economic Forum, for example, has suggested that the global cost of corruption is at least \$2.6 trillion, roughly 5 percent of global gross domestic product (GDP), and the World Bank estimates that more than \$1 trillion is paid in bribes annually.¹⁶

These estimates have been corroborated by anecdotal but deeply illuminating work by investigative journalists into the murky world of offshore finance. The most famous of these—the leak in 2016 of 11.5 million documents held by a Panamanian law firm, a scandal now known as the Panama Papers—offered an unprecedented glimpse of how dirty money is hidden offshore and laundered into the economies of wealthy democracies.¹⁷ More recently, a leak of millions of suspicious activity reports (SARs) filed by banks and other regulated entities with the U.S. Treasury Department illustrated the scale of high-risk transactions processed by major financial institutions around the world.¹⁸ These exposés and others like them demonstrated the extent to which Western banks and law and accountancy firms have enabled illicit financial activities on a large scale—in many cases on behalf of authoritarian governments and their associates.¹⁹

The long reach of Angolan corruption

For decades, oil-rich Angola has been a byword for corruption and kleptocracy.²⁰ The country's elite—and, in particular, the family of former President José Eduardo dos Santos—have been credibly accused of massive self-enrichment.²¹ Angola's media and judiciary are among the least free in Africa, but the pernicious influence of Angolan kleptocracy has spilled beyond its borders to its former colonizer, Portugal.²² As documented by the Committee to Protect Journalists, Angolan investors linked to Angola's ruling party poured money into the Portuguese media, creating a chilling effect on negative depictions of Angola's ruling class.²³ In 2017, Portuguese authorities announced that the country's then-vice president paid a bribe of 760,000 euros (\$925,000) to a Portuguese prosecutor investigating allegations of corruption against him.²⁴ All this has occurred against a wider backdrop of large-scale money laundering by Angolan elites using Portuguese companies and assets.²⁵

Casual observers of the war on graft might be surprised by these dismaying reports and figures. At the level of international cooperation and institution-building, the past three decades have witnessed a dramatic escalation in the global fight against transnational corruption and illicit finance. To give a few examples, in 1989, the G-7 nations launched the Financial Action Task Force (FATF) to set and review global anti-money laundering (AML) standards; it has since grown to around 40 members that encompass nearly all major global financial centers.²⁶ Less than a decade later, in 1997, most of the world's high-income nations agreed to prosecute their own citizens' and firms' corrupt activities abroad.²⁷ This was followed by the U.N. Convention Against Corruption (UNCAC), the world's only legally binding anti-corruption treaty, which entered into force in 2005.²⁸ Meanwhile, over the past decade the United States, the United Kingdom, and the European Union (EU) have taken increasingly stringent steps to impose transparency on their economic systems and sanction corrupt figures and rogue financial actors.²⁹

But despite all these efforts, there is strong reason to believe that corruption and illicit finance remain central features of the global economy, which raises the question: Given the tools and rules built during the past 30 years, why does the international community seem to be losing the war on dirty money? The complexity of the international financial system means that there is no simple, straightforward answer to this question. Nevertheless, it is possible to identify three overarching challenges that have frustrated progress against kleptocracy and the financial netherworld that sustains it.

The first challenge is that when it comes to policing financial transactions, a regulatory framework is only as strong as its weakest link. The transnational character of contemporary finance has been deeply advantageous to malign actors, who have proven adept at exploiting inconsistencies and asymmetries in national anti-corruption and AML frameworks. This same principle applies not just within regulatory blocs but across them: Once dirty money is laundered into one market, it can easily pass into another; as a result, the states with the weakest regulatory regimes set the conditions for entry into the financial systems of high-income democracies.³⁰ These gaps and vulnerabilities exist not only across countries' regulatory frameworks but also within them. For example, the United States has an anti-money laundering regime that imposes strict compliance on depository institutions while leaving most real estate, private equity, hedge funds, and opaque, illiquid markets such as luxury goods and, until recently, antiquities uncovered.³¹

The second challenge is that the regulatory gaps described above are often compounded by irregular enforcement. For example, the United Kingdom's much-lauded beneficial ownership registration system, under which companies must disclose their real—as opposed to legal—owners, has been undermined by an apparent lack of repercussions for reporting false, inaccurate, or misleading information.³² In the EU, meanwhile, all 27 member states are required by law to have a beneficial ownership registration system in place; but as of January 2020, only five member states were judged to have functioning systems in place by the nongovernmental organization Global Witness.³³ These omissions and transgressions are part of a broader failure to grapple with the full scope and magnitude of white-collar crime in democracies, as has been described by critics such as Jesse Eisinger and Jennifer Taub in the United States.³⁴ Viewed in this context, the rise of kleptocracy is downstream from a general state of impunity in the global economy.

KLEPTOCRACY CASE STUDY

The foreign agent running a U.S. presidential campaign

For over a decade starting around 2004, Paul Manafort, a U.S. citizen, conducted what the U.S. Senate Intelligence Committee has described as “influence operations” in Ukraine on the instructions of Russian billionaire Oleg Deripaska and a number of pro-Kremlin Ukrainian oligarchs.³⁵ After the ouster of Russian-aligned Ukrainian President Viktor Yanukovich in 2014, this line of work became less lucrative.³⁶ But in 2016, Manafort's prospects improved when he was hired by Donald

Trump's presidential campaign and eventually promoted to campaign manager.³⁷ On the campaign, Manafort attempted to communicate with Deripaska via a Russian intelligence officer.³⁸ Manafort shared sensitive internal campaign info with the officer and collaborated with him in developing “a peace plan for eastern Ukraine that benefited the Kremlin” and “narratives that sought to undermine evidence that Russia interfered in the 2016 U.S. election.”³⁹

The third challenge is that broader trends and tensions in geopolitics have undermined cooperation on illicit finance. For example, U.S. unilateralism in financial regulation and law enforcement has led many European officials to, at times, question the motives of American enforcement actions as a disguised tool of commercial policy.⁴⁰ As a result, U.S. criminal and civil regulatory actions against European private sector institutions have at times produced a defensive, aggrieved response from local officials, rather than galvanize reform. Within the EU itself, meanwhile, the reluctance of many national governments to cede regulatory authority over their domestic financial sectors has created a suboptimal division of labor in which tough standards set in Brussels receive sharply inconsistent enforcement.⁴¹ Of particular note, the bloc shares common financial regulations but currently, despite active discussions, still lacks a single EU anti-money laundering agency with a direct supervisory mandate.⁴² Finally, the departure of Britain from the EU means the world's second-largest financial center in London and the United Kingdom's global jurisdictional web are now diverging and not harmonizing with Brussels on regulation.⁴³

In short, for all the progress made, malign actors have managed to stay at least one step ahead of the institutions best positioned to keep dirty money out of the global economy. These deficiencies have left democracies, in particular, ill-equipped to meet the threat of kleptocracy.

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Why illicit finance and kleptocracy are a threat to global democracy and should be a foreign policy priority

The globalization of corruption and illicit finance has had a number of important geopolitical consequences with alarming implications for the resilience of global democracy and the national security of the United States and its democratic partners.

First, the proliferation of offshore finance has removed some of the fragility from the authoritarian model that made kleptocratic regimes vulnerable to economic coercion.⁴⁴ During the late 20th century, authoritarian regimes frequently struggled with a shortage of financing—not only to both their economies and state industries but also to their elites.⁴⁵ In many cases, the authoritarian breakdowns that occurred in less-developed countries during that era were characterized by fiscal crunches that eroded the loyalty of elites and clientelist networks.⁴⁶ Today, by contrast, the leaders of autocratic states typically have access—sometimes directly, but more often through opaque intermediaries—to deep financial markets and services, which has allowed them to skirt sanctions, ensure the loyalty of key allies and stakeholders, and stave off financial collapse. Money laundering and other forms of illicit finance enabled by offshore service providers allow kleptocratic officials to quickly convert the proceeds of corruption—or legalized self-dealing that would be viewed as corrupt in most democracies—into new domestic and international sources of power and authority.⁴⁷

In this context, pervasive corruption or kleptocracy can serve as a source of stability for autocratic regimes, rather than a driver of state failure as it is often characterized. In a variety of cases, including many post-Soviet states such as Russia, Kazakhstan, or Azerbaijan, corruption has been used as a tool of statecraft to unify, reward, and co-opt elites.⁴⁸ Such kleptocratic networks have demonstrated tremendous resiliency even where they are profoundly unpopular at the level of the ordinary citizen: In countries from Ukraine to Guatemala, successive efforts at democratic reform have been thwarted by oligarchic and clientelistic forces that have conspired with corrupt officials to impede a transition to full democracy and robust rule of law.⁴⁹

Second, globalized corruption and the illicit financial activities that sustain it have enabled a more competitive form of authoritarian capitalism. State corporations from Russia, China and other authoritarian states, typically operating as state-capitalist hybrids in international markets, have used the absence of effective international corruption curbs to their advantage. Weak laws and norms have often enabled these state corporations to advance a mixture of private and state interests using graft.⁵⁰ Over the past few decades, this advance has led to a rise in the incidence of authoritarian corruption in strategically vital industries and supply chains. In the Russian case, it is most visible in the latticework of corporations and pipelines in the international oil and gas industry and pipeline network, whereas in the Chinese case, it is most visible in the international network of companies and infrastructure projects known as the Belt and Road Initiative.⁵¹ Again, this ease of operations for kleptocratic business has strengthened the prestige and global reach of the authoritarian model.

KLEPTOCRACY CASE STUDY

A Chinese tycoon visits the Czech Republic

In 2016, Xi Jinping became the first Chinese head of state to visit the Czech Republic.⁵² Among the members of his delegation was Ye Jianming, the CEO of Chinese energy conglomerate CEFC, who is reportedly close to Xi himself.⁵³ Ye was the only businessman to accompany Xi to Prague, and his reason for being there soon became clear: In the years that followed, CEFC made a number of high-profile investments in Czech firms, including media companies, and Ye himself became an adviser to Czech President Miloš Zeman.⁵⁴ At the same time, CEFC hired Zeman's adviser on China—a former defense minister—as the head of its European division.⁵⁵ When CEFC collapsed and Ye Jianming vanished in the wake of the arrest of a top lieutenant in New York on bribery charges, the company's holdings passed into the hands of Chinese state-owned enterprise CITIC.⁵⁶ As a result, the Chinese state came to possess a direct stake in strategically sensitive Czech industries and employ key advisers on Czech-Chinese relations.

Third, corruption has been used as a weapon of foreign policy, one that has been deployed against the United States and its democratic allies.⁵⁷ Politically directed or “weaponized” corruption has been used to interfere in elections in the United States and in European allies and to build bulkheads amongst political elites. The Alliance for Securing Democracy at the German Marshall Fund has calculated that authoritarian regimes such as Russia and China have spent more than \$300 million interfering in democratic processes more than a hundred times and spanning 33 countries

in the past decade.⁵⁸ In a related phenomenon, the proxies of authoritarian regimes have cultivated corrupt relationships with prominent businesses, cultural figures, and institutions across much of the democratic world. These efforts have undermined trust and faith in democracy and spread paranoia, conspiracy theories, and confusion. Globalized corruption, therefore, has worsened a crisis of legitimacy and democracy in the United States and its allies, leaving them divided as they face more stable and assertive authoritarian regimes and more global and robust authoritarian networks.⁵⁹

These developments offer strong grounds for making the fight against kleptocracy a foreign policy priority for the United States and its democratic partners. But there is an additional benefit to consider: A renewed multilateral effort to curb globalized corruption and illicit finance would have positive consequences not just for the national security of democratic states but also for their respective domestic political and economic systems. In many high-income democracies, including the United States and most European countries, the middle class has paid a material price for kleptocrats' and other financial criminals' abuse of the global financial system. Money laundering schemes involving luxury real estate properties have contributed to unaffordable housing costs in many cities and towns;⁶⁰ offshore secrecy jurisdictions have enabled high-net-worth individuals to pay a lower tax burden than the majority of working people;⁶¹ and unregulated flows of dirty money have allowed foreign powers to influence and buy off public officials.⁶² Fighting kleptocracy and illicit finance abroad will contribute to more just and inclusive societies at home. Such a project would be a clear example of how, in the words of U.S. national security adviser Jake Sullivan, "foreign policy is domestic politics, and domestic politics is foreign policy."⁶³

Fighting kleptocracy and illicit finance abroad will contribute to more just and inclusive societies at home.

The case for optimism: Why democracies have a structural advantage against kleptocracy

Given the apparent failure of 30 years of sustained effort to curb illicit finance and the corruption and kleptocracy it feeds, it would be easy to view these problems as intractable in a globalized economy. But the war on dirty money is by no means unwinnable. The United States and its democratic partners have structural advantages that, when properly leveraged, can strike formidable blows against financial crime. Put bluntly, the global support system for kleptocracy runs through democratic economies.

Collectively, the dollar and the euro account for around three-quarters of cross-border transactions.⁶⁴ With the pound and yen, that figure rises to around 85 percent.⁶⁵ Furthermore, although it is difficult to measure with precision, a vast trove of anecdotal evidence reflects that a substantial share of the proceeds of kleptocracy and corruption wind up in assets and investments in affluent democracies, which offer stable and professionally managed markets and well-defined property rights.⁶⁶ If the Panama Papers and other investigations into offshore finance teach observers one lesson, it is that money generated in corrupt and crime-dominated jurisdictions rarely stays there. Whether it is Venezuelan-owned assets in Miami,⁶⁷ the fruits of Russian oligarchy pouring into the United Kingdom,⁶⁸ Equatoguinean oil riches stashed in Paris,⁶⁹ or hundreds of millions in Malaysian sovereign wealth embezzled in Switzerland,⁷⁰ the story is the same: Poorly regulated financial spaces in advanced economies are the favorite landing areas for authoritarian and kleptocratic regimes.

It is hardly an accident that wealthy democracies have become slush funds for kleptocratic and authoritarian regimes. The offshore infrastructure that has come to serve as a support system for those regimes was not, for the most part, built by those regimes; nor was it constructed solely on the initiative of enterprising actors in offshore jurisdictions. Rather, the investor-friendly legal systems, anonymity-enabling corporate vehicles, sophisticated service providers, and attractive tax policies that define the offshore financial system were in large part the creation of financial planners in wealthy democracies.⁷¹ That corrupt officials and crony capitalists now use the same tools and methods as high-net-worth individuals in the democratic West is not a sign of globalization gone awry; rather, it is the system working as it was designed, just for a different set of beneficiaries.

How an eighth of Moldova's GDP vanished

Sandwiched between Romania and Ukraine, with a Russian-backed breakaway region known as Transnistria, the small post-Soviet state of Moldova has struggled with corruption since its independence. In 2015, a BBC investigation determined that a shell company—an anonymous corporate vehicle with no real operations—registered at a humble two-bedroom apartment in a rundown part of Edinburgh held the rights to \$1 billion in funds, or around one-eighth of Moldova's GDP, that had disappeared from Moldovan banks.⁷² The same investigation revealed that more than 500 other shell companies had been registered at that same address.⁷³ The fraud led the Moldovan government to bail out three banks, triggering a slide in the value of Moldova's currency, a fall in living standards, and mass protests.⁷⁴

This presents a challenge to democratic states, but also an opportunity: A substantial reduction in the volume of dirty money within the dollar-, pound-, and euro-based financial systems would dramatically limit the avenues by which kleptocracy sustains itself. Without access to U.S. or European correspondent banks or assets in American and European markets, kleptocrats and other beneficiaries of illicit finance would be forced to choose between keeping the proceeds of crime and corruption within their own domestic institutions and moving it into marginal jurisdictions with limited connectivity to the global economy. Limiting access to democratic financial institutions would constitute a new and potentially effective pressure point against authoritarian regimes at a time when existing tools, such as collective sanctions, are showing diminishing returns.

Such a curtailment presents obvious geopolitical advantages for the United States and its democratic partners. Crucially, it would limit the corrosive influence of illicit finance on democratic institutions and defang a key form of “sharp power” deployed by authoritarian states: the strategic use of corruption to secure geopolitical advantage.⁷⁵ In addition, it would deliver a shock to the basic operating system of many authoritarian oligarchies such as Russia and Venezuela, where crony capitalism and capital flight lubricate the political order and bind political elites and other stakeholders in clientelistic networks. As a corollary, the coercive power of U.S. and international sanctions against authoritarian states that violate international norms would increase as regime figures are cut off from laundered assets abroad.

Azerbaijan's caviar diplomacy

Azerbaijan, a post-Soviet state on the Caspian Sea with vast oil and gas resources, has long sought to cultivate ties with the West as a hedge against overdependence on its main geopolitical patron, Russia.⁷⁶ But the authoritarian and kleptocratic character of Azerbaijan's government has been a frequent impediment to such engagement. The country's long-term president, Ilhan Aliyev, has shown a particular intolerance of foreign criticism of his human rights practices, insisting that "no one can dictate to Azerbaijan."⁷⁷ For these reasons, Azerbaijan's participation in one of Europe's oldest human rights organization, the Council of Europe, was always going to be a fraught affair. For years, rumors of vote rigging had swirled around the Azeri government's practice of lavishly entertaining other country's delegates, commonly referred to as "caviar diplomacy," especially in light of the council's reluctance to condemn Azerbaijani human rights practices.⁷⁸ In 2018, following an internal inquiry, the council expelled 13 members for having violated the organization's ethics rules, adding that they were "strongly suspected" of corruption.⁷⁹

To be clear, the redeployment of financial power to curb kleptocracy need not be an American-dominated endeavor. To the contrary, such an initiative presents a unique opportunity for EU policymakers—and a post-Brexit United Kingdom—to function as a coequal with the United States in shaping global rules of the road. European power projection is at its strongest in the regulatory space: The terms that EU states set in areas such as financial stability, privacy, antitrust, carbon emissions, and consumer safety shape global standards and affect corporate decisions well outside of European borders.⁸⁰ By partnering with the world's other leading financial power, the United States, on a robust anti-corruption and anti-kleptocracy platform, Brussels can strengthen its international position at a time when its ability to formulate and execute a coherent and effective foreign policy faces broad skepticism. The United Kingdom, as the host of a leading financial hub in London and sovereign of several of the world's most important offshore financial centers in the Caribbean, also has potential significant regulatory impact.

Such an anti-corruption platform is especially promising in the present moment, when, after many decades of divergent attitudes toward financial transparency and white-collar crime, three key gatekeepers of the global financial system—the European Union, the United States and the United Kingdom—have begun to converge on a common set of principles and policies. On both sides of the Atlantic, revelations that authoritarian regimes and corrupt actors have used economic institutions in the democratic West to stash assets and bribe government officials have moved political leaders and civil society

to strengthen anti-corruption institutions and close long-festering gaps in anti-money laundering architecture. In January, the U.S. Congress passed a major overhaul to its anti-money laundering and financial transparency regime.⁸¹ The EU, meanwhile, made a number of major leaps forward in its 5th anti-money laundering directive last year and is currently implementing a robust AML action plan.⁸² In areas such as beneficial ownership registration, increased penalties for regulatory breaches, and cross-border exchange of financial and tax information, the United States, the European Union and the United Kingdom are singing from the same page, if not always the same line. (see Table 1) A joint effort by democratic states organized around anti-kleptocracy objectives could sustain the momentum behind these reforms and guide regulators in these jurisdictions—and other important markets—toward better harmonized standards, practices, and enforcement.

TABLE 1
The United States, the European Union, and the United Kingdom—which together account for around four-fifths of cross-border transactions—are converging on a common set of standards to keep dirty money out of their economies and fight corruption and kleptocracy

Comparison of U.S., EU, and U.K. measures to combat money laundering and transnational corruption

| | United States | European Union | United Kingdom |
|--------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Beneficial ownership registry¹ | ✓ <i>The registry excludes trusts and may exclude partnerships and nonpublic entities.</i> | ✓ <i>Public access is granted per the fifth anti-money laundering (AML) Directive; however, implementation has been uneven and most national directories are nonpublic; trusts must be nonpublic.</i> | ✓ <i>Public access is granted for domestic companies; the pending Registration of Overseas Entities bill would require non-U.K. companies that own U.K. property to register beneficial ownership; trusts to remain nonpublic.</i> |
| Criminalization of foreign bribery, supply side² | ✓ <i>Foreign Corrupt Practices Act of 1977</i> | ✓ <i>Provided under the OECD Bribery Convention, but with highly inconsistent enforcement across national jurisdictions.</i> | ✓ <i>The Bribery Act</i> |
| Criminalization of foreign bribery, demand side³ | ✗ | ✗ | ✓ <i>There is demand-side criminalization under the Bribery Act, but there is very limited enforcement.</i> |
| Authority to sanction foreign entities/jurisdictions over money laundering concerns⁴ | ✓ <i>Section 311 of The Patriot Act</i> | ✗ <i>There is heightened due diligence for certain jurisdictions under the fifth AML Directive, but no sanction authority.</i> | ✗ |
| Authority to sanction foreign individuals for corruption-related activities⁵ | ✓ <i>Global Magnitsky Human Rights Accountability Act</i> | ✗ <i>A proposal is before the European Council.</i> | ✗ <i>In 2021, corruption-related sanctions may be added alongside the existing human rights sanctions regime.</i> |
| Cross-border transactions registry⁶ | ✗ <i>A registry was authorized but never implemented.</i> | ✗ | ✗ |

continues

| | United States | European Union | United Kingdom |
|------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| “Know your customer” due diligence requires beneficial ownership information⁷ | ✓ <i>The requirement includes Bank Secrecy Act-covered financial institutions and title insurers in some jurisdictions at a 25 percent ownership threshold.</i> | ✓ <i>There is a 25 percent ownership threshold for the requirement.</i> | ✓ <i>There is a 25 percent ownership threshold for the requirement.</i> |
| Foreign investment screening process⁸ | ✓ | ✓ <i>Varying national systems exist, although not all are functioning, and some have low efficacy.</i> | ✗ <i>A bill to create a new foreign investment screening process is pending, paralleling EU developments.</i> |
| Some foreign financial intelligence units (FIUs) allowed to query suspicious transaction data⁹ | ✗ | ✓ <i>To a limited extent, queries are permitted within EU FIUs.</i> | ✗ |
| Compliance with Extractive Industries Transparency Initiative (EITI) implementation standard¹⁰ | ✗ <i>The United States withdrew from the EITI in 2017</i> | ? <i>(Partial)</i> <i>Some countries are in compliance.</i> | ✓ <i>The United Kingdom is in compliance with the EITI.</i> |
| Restrictions on lobbying by agents of foreign entities¹¹ | ✓ <i>Foreign Agents Registration Act</i> | ✗ <i>Legislation is under consideration.</i> | ? <i>(Partial)</i> <i>Some regulation exists but has limited scope</i> |
| Institutional mechanism for seizing laundered or corruptly-obtained assets¹² | ✓ <i>U.S. Department of Justice Kleptocracy Asset Recovery Initiative</i> | ✓ <i>Unexplained Wealth Orders authorize U.K. authorities to seize assets of high-income individuals or entities if they cannot explain the source or their wealth.</i> | ✓ <i>Asset forfeitures are permitted under EU law but limited enforcement at national level.</i> |
| Entities subject to AML reporting requirements¹³ | <i>Covered entities include depository institutions, securities firms, money service businesses, insurance companies, antiques dealers, and real estate title insurers for certain all-cash transactions in select municipalities; lawyers, real estate agents and brokers, trusts, partnerships, auction houses, art dealers, luxury goods dealers, hedge funds, escrow agents, and sellers of luxury vehicles are excluded.</i> | <i>Covered entities include depository institutions, securities firms, real estate brokers/agents, art and antiques dealers, auction houses, lawyers, accountants, and insurance companies.</i> | <i>Covered entities include depository institutions, securities firms, real estate brokers/agents, art and antiques dealers, auction houses, lawyers, and insurance companies and accountants.</i> |

- Does the government have a dataset of the beneficial (i.e. true or ultimate) owners of companies, as distinguished from the “legal” or “registered” owners, who may be hired by the beneficial owners to act on their behalf in order to preserve their anonymity? These may be public-facing or accessible only to government officials.
- Has the government made it a crime for its own citizens and companies to engage in corrupt activities abroad, such as paying a bribe to a foreign official?
- Has the government made it a crime for a foreign official to accept a bribe from that government’s citizens and companies?
- Does the government have the authority to impose economic sanctions, such as blocking access to domestic financial institutions, on foreign entities and countries that either engage in or have failed to take reasonable steps to prevent money laundering?
- Does the government have the authority to impose sanctions, such as asset freezes or visa bans, on noncitizens believed to have engaged in serious corruption?
- Does the government maintain a dataset of all transactions in which funds are transferred from a domestic financial institution to a foreign one, or vice-versa?
- Are certain organizations required to collect beneficial ownership information about current or prospective clients or their counterparties, which can be made available to law enforcement and regulatory authorities as needed? This is distinct from beneficial ownership registries in that the information is collected and maintained by banks and other service providers rather than a government agency.
- Has a national or regional government created a mechanism for reviewing proposed foreign investments for national security and other risks?
- Does the government allow some other countries’ FIUs to run queries or seek matching entries on its database of suspicious transactions without first going through a formal, lengthy authorization process?
- Has the government put in place regulations that implement the standards of the EITI, a multinational initiative in which governments promote public disclosure around the sale of natural resources?
- Is there a framework regulating the lobbying of domestic officials by agents of foreign governments or foreign firms?
- Does the government have a formal method for freezing or confiscating assets believed to be obtained through money laundering or corruption?
- Are businesses or organizations that owe a legal duty to report certain forms of transactions, typically those that have suspicious features or exceed a certain monetary value, subject to AML reporting requirements?

Note: U.S. measures reflect the recently passed [National Defense Authorization Act](#), which modified existing anti-money laundering requirements as provided under the [Bank Secrecy Act of 1970](#) and [The Patriot Act](#) and associated rulemakings. EU measures are current as of the [fifth AML Directive](#), but individual national standards vary. U.K. measures are current as of the [2019 Money Laundering and Terrorist Financing Regulations](#). Other relevant legal authorities are referenced in individual measures.

Source: To compile these measures, the authors relied on input from AML scholars and policymakers in the United States, the United Kingdom, and Europe and public registers of existing legislation on government websites across U.S., EU, and U.K. jurisdictions. For a full list of sources, see the digital version of this report at <https://www.americanprogress.org/?p=495402>.

How to harden democratic defenses against kleptocracy: Key principles and areas for improvement

Making good on the promise and potential of an anti-kleptocracy agenda will require international action that goes beyond stern rhetoric and high-profile summits. It will require a major adjustment in the way the United States and other democratic financial powers conceive of the problem of corruption and kleptocracy, with an associated shift in resources, enforcement patterns, and forms of multilateral cooperation. The practitioners of illicit finance have made a lucrative business out of identifying and exploiting gaps and asymmetries in the global economy. Ring-fencing the financial systems of democratic states against dirty money from kleptocratic and authoritarian regimes will require a new level of political will and collective action.

Such an anti-kleptocracy campaign should be rooted in three basic premises:

1. Only through collective action can the democratic community prevail against kleptocracy and illicit finance. Countries acting unilaterally will be continuously undermined by malign actors skilled at identifying arbitrage opportunities and loopholes in the global financial system.
2. Ungoverned financial spaces will persist in the international system as long as they are treated as a regulatory challenge, rather than a problem of national security and a threat to the vitality of democratic systems.
3. The private sector is a necessary partner in combating kleptocracy, but its incentives currently favor satisfying compliance obligations over meaningful efforts to stop financial crime.

A campaign organized around these principles will generate momentum to address the most glaring gaps in international anti-corruption and AML architecture. Such a campaign should, at a minimum, seek to make the following four improvements in the way democracies detect and disrupt illicit financial flows.

First, it should ensure that the bureaucratic actors tasked with policing the world's financial plumbing are sufficiently resourced relative to their missions. A recent analysis found that many European financial intelligence units (FIUs)—the government bodies

responsible for collecting information on suspicious transactions from banks and other regulated entities—are “overwhelmed by incoming data, short staffed, with delays of as much as six months to get potential pressing leads.”⁸³ The situation is, if anything, more dire when it comes to law enforcement. The U.K. Serious Fraud Office, for example, has for much of the past decade suffered from underfunding and lack of political will to support its mission; only within the past few years has it been able to pursue meaningful enforcement of its well-regarded Bribery Act.⁸⁴ In many EU countries, meanwhile, judicial and prosecutorial agencies and law enforcement units focused on white-collar crimes vary tremendously in their expertise and staffing.⁸⁵ Although the EU recently created a regional-level prosecutorial agency focused on fraud, it has only a handful of staff to handle thousands of cases.⁸⁶

Second, an anti-kleptocracy campaign should seek to improve financial intelligence exchange and law enforcement cooperation across national lines, which are still slow, cumbersome, and riddled with inaccuracies and dead ends. The IT system used for exchange of information among FIUs, for example, is technologically outdated and functions less like a database than a secure messaging system.⁸⁷ Furthermore, many FIUs, in part because of domestic restrictions, cannot proactively seek information from foreign counterparts without it relating to an underlying suspicious activity report; some are also prohibited from following up with financial institutions to obtain more information.⁸⁸ Finally, there are often restrictions on what can be done with the information once it is received—for example, in some cases, FIUs may not be able to share it with their national law enforcement partners or tax authorities.⁸⁹ As a result of these impediments, investigations into complex financial crimes, which usually involve complex cross-jurisdictional transactions and layers of shell companies and other vehicles designed to obscure the real beneficiaries of capital flows, tend to fall victim to bureaucratic inertia.⁹⁰

KLEPTOCRACY CASE STUDY

How a Danish bank exposed Europe’s weak money laundering defenses

In 2017, Denmark’s largest bank, Danske Bank, was exposed as having facilitated around 230 million euros (\$280 million) in suspicious transactions from 2007 to 2015 through its branch in Estonia.⁹¹ Most of the funds that passed through the Estonian branch are believed to have originated in Russia, including some attributed to the family of Vladimir Putin and Russian intelligence, and a large share of them involved U.K. shell companies.⁹² In an especially shocking twist, Danske Bank’s Estonian employees were alleged to have established many of the shell companies involved in the suspicious transac-

tions.⁹³ The scandal called into sharp question the financial supervisory authorities of Denmark and Estonia, both of which lacked the resources, expertise, and coordination to track and prosecute the vast money laundering misconduct that had occurred.⁹⁴ Adding to the controversy, the European Banking Authority voted to drop its investigation into the scandal without making any findings.⁹⁵ The European Commission has since used the scandal to propose a single EU anti-money laundering supervisory authority.⁹⁶

Third, an anti-kleptocracy campaign should seek to change the enforcement culture surrounding anti-money laundering and anti-corruption rules, which has favored compliance over deterrence and frequently eschewed tough sanctions against large firms. In both the European Union and the United States, multimillion-dollar—and in some cases billion-dollar—penalties have failed to restrain corporate behavior and are instead treated as the cost of doing business.⁹⁷ In Europe, prosecutions relating to illicit finance are quite rare, with authorities instead favoring regulatory fines.⁹⁸ U.S. authorities have proven more willing to bring criminal actions against firms for violating AML laws, but these virtually always end in quasi-settlements that avoid the economic fallout of a criminal conviction in favor of financial penalties and that strengthen compliance mechanisms and, in some cases, third-party monitorships, with questionable deterrent effect.⁹⁹ These tendencies have been even more glaring in the case of anti-foreign bribery laws. In 2018, the United States and Germany accounted for around 70 percent of global anti-foreign bribery enforcement actions against both individuals and companies.¹⁰⁰ A substantial number of EU countries, including Denmark, Estonia, Greece, Ireland, and Portugal, engaged in zero enforcement.¹⁰¹

Finally, an anti-kleptocracy campaign should seek to make corruption and illicit finance a major concern of foreign policy officials. For years, scholars and transparency advocates have been documenting the pernicious effects of kleptocracy on democratic institutions and drawing attention to the nexus between rampant corruption and national security.¹⁰² Such analyses have, at times, been echoed by national security officials and political leaders.¹⁰³ But the policy response to these challenges continues to remain largely stuck in the realm of domestic regulation and ad hoc law enforcement actions. Corruption and kleptocracy have yet to break through into the first tier of national security priorities, with the commensurate resources and political commitment required to contain and defeat them—though recent remarks by national security adviser Sullivan suggest that may soon change.¹⁰⁴ The same cannot be said of, for example, terrorism, the financing of which has been substantially degraded in the two decades since September 11.¹⁰⁵

Corruption and kleptocracy have yet to break through into the first tier of national security priorities, with the commensurate resources and political commitment required to contain and defeat them.

Recommendations

To realize the anti-kleptocracy goals outlined in this report, the authors propose a Global Kleptocracy Initiative (GKI) that would serve as the foundation for a multi-lateral campaign against corruption and illicit finance. Although much of the GKI's substance would be regulatory and prosecutorial in nature, the initiative's overarching purpose would be to strengthen the collective security of its members and the global democratic community more broadly.

The Proliferation Security Initiative (PSI), created in 2003 through the efforts of the Bush administration and still operational today, can serve as a model for the Global Kleptocracy Initiative. The architects of the PSI recognized that additional international legal authorities were unlikely to be effective in the fight against proliferation. They chose instead to make more robust use of existing U.S. domestic legal authorities, supplemented by sustained informal, ad hoc cooperation with like-minded international partners and assistance to states whose counter-proliferation laws were inadequate. In other words, the PSI aimed “to change international law through actions by sovereign nations to change their national legal authorities.”¹⁰⁶

As with proliferation, kleptocracy will not be contained through innovations in international legal architecture alone. The world's nations have already formally committed themselves to rooting out corruption and money laundering through a range of instruments and arrangements, such as UNCAC, the OECD Anti-Bribery Convention, and participation in FATF and the Egmont Group of Financial Intelligence Units. These efforts have realized some accomplishments, but as described above, they have fallen short in addressing sophisticated practices of kleptocratic regimes and their private sector enablers. Going forward, a far more promising avenue would be more aggressive and better-coordinated action by the relatively few geopolitical actors that act as gatekeepers to the global financial system.

To ensure its effectiveness, membership in the GKI should be limited to democracies that have a demonstrated institutional capacity to address the most sophisticated forms of illicit finance and the economic reach to enforce tough anti-kleptocracy standards. As an initial matter, the GKI could be launched through consultations between the three

most influential regulators of the global financial system that are also democracies: the United States, the European Union, and the United Kingdom. These three actors should in turn seek the participation of other democratic financial powers such as Switzerland, Japan, Norway, Australia, New Zealand, and Canada. Although the GKI could potentially expand its membership, the purpose of the initiative would not be inclusion for its own sake, but rather maximizing collective action and avoiding redundancy in efforts to limit the influence of kleptocratic networks.

Moreover, like the PSI, the GKI would not be implemented through the creation of formal institutions or accession to international legal agreements; rather, participation would reflect a political commitment anchored in routine, if ad hoc, consultation and increased intelligence-sharing and joint law enforcement efforts. This being said, the founding members should express their political commitment to the initiative by pledging tangible and significant changes to their domestic legal and regulatory structures to achieve the goals of the GKI. Progress under such pledges could be tracked by periodic public reporting and potentially an independent review mechanism similar to that deployed by the Open Government Partnership (OGP). Furthermore, participation in the GKI could also serve as a vehicle for appropriations, where feasible, and be reinforced by legislation requiring periodic reporting on national progress under the initiative.

A key theme of the GKI, expressed in statements issued by its members, should be the threat that kleptocracy poses to the national security interests of democratic states. This emphasis on the security dimensions of illicit finance and corruption should serve to broaden avenues for dialogue among GKI members beyond the financial regulatory sphere and bring in stakeholders from the national security communities of participating governments. To the extent possible, the GKI could include representatives from NATO, with the goal of incorporating anti-corruption into the alliance's collective defense strategy.

The fundamental components of a GKI

Although the specific components of a GKI should be flexible and evolve in accordance with the nature of the kleptocratic threat, the initiative should be anchored on several key pillars: 1) harmonization of regulatory standards; 2) strengthening of institutions with equities in the anti-kleptocracy fight; 3) more robust and coordinated use of existing anti-corruption and AML authorities; 4) lowered barriers to information exchange and joint law enforcement efforts; and 5) better integration of anti-corruption and anti-kleptocracy initiatives into national and regional-level security strategies. Progress under these pillars could be monitored by a peer review process similar to that performed by FATF members.

A set of initial commitments under the GKI based on these pillars could prospectively include the following:

Agree to a common set of anti-money laundering and anti-corruption standards that surpass current international best practices.

Although the United States, the United Kingdom, and the European Union have been among the most vocal and effective advocates for global anti-corruption and anti-money laundering norms, their respective AML frameworks still contain significant gaps, loopholes, and asymmetries. As long as opportunities for cross-border arbitrage exist, kleptocracy will find a foothold in these nations' respective systems. To that end, the GKI founding members should agree on new, more ambitious standards to fight illicit finance and corruption that go beyond current FATF standards and should pledge to pursue those reforms within their domestic political systems, with periodic progress reports.

Essential reforms under these new standards could include expansion of suspicious transaction reporting requirements to include currently noncovered—or inconsistently covered—entities, such as investment advisers, real estate brokers, and legal professionals; establishment of national cross-border payments databases; verification mechanisms for data in beneficial ownership registries; the development of shared principles on regulation of political lobbying on behalf of foreign entities; and the creation of an EU-level anti-money laundering body and anti-foreign bribery investigative body authorized to issue civil penalties and issue public reports on its findings.

In the longer term, GKI members should seek to move toward a more preventive, risk-based paradigm for combating illicit finance, as has recently been proposed by prominent experts in the field.¹⁰⁷ Such an approach would have the dual benefit of reducing compliance costs on regulated private sector actors and focusing the efforts of financial intelligence and law enforcement professionals on the financial data with the greatest implications for national security. The shift could be accompanied by greater consultation between national governments and the private sector in GKI countries—to include not only regulated entities such as banks but also technology firms. GKI member governments should seek to leverage the tremendous data analysis and software capabilities resident in democratic states.

Pledge to adequately resource institutions and strengthen enforcement of laws and regulations designed to prevent illicit finance and corruption.

The persistence of kleptocratic networks and associated illicit financial flows in the global financial system represents a failure of political will. To that end, GKI members should jointly pledge to step up enforcement of anti-money laundering and anti-corruption laws and regulations. The pledge should include a commitment to increase resources

to the agencies and institutions tasked with enforcing those norms, as well as enhanced civil and criminal penalties for violations. Although the specific measures taken under this pledge will vary according to national context and budgetary constraints, members should aim to make their commitments meaningful and should issue periodic public updates on their progress under the pledge.

Automate and reduce barriers to information exchange relating to suspicious transactions.

Failure to share or make available relevant financial data and intelligence across national lines has proven a major hindrance to effective action against kleptocratic actors. GKI member states should examine current obstacles to timely information exchange and make investments in information technology and, where necessary, pursue legal and regulatory reforms to facilitate more responsive sharing of suspicious activity reporting, beneficial ownership information, and other relevant financial data. Strengthening existing mutual legal assistance treaties (MLATs), which facilitate law enforcement cooperation between nations but are often plagued by inefficiencies, would be a good place to start.¹⁰⁸ But this effort should not stop at MLATs; for example, GKI members could draw on the current EU financial data exchange platform, FIU.NET, which allows for anonymous cross-matching across FIU databases, as a model for less cumbersome information exchange.¹⁰⁹ In addition, GKI members could seek to establish an automated information-forwarding system modeled on the Common Reporting Standard (CRS) for exchange of tax information. Under such a system, if the FIU of one GKI member state were to receive a suspicious activity report involving a citizen or business entity of another member state, that report would automatically be forwarded or made accessible to the FIU of that other member state. Such reforms would require legislation in many jurisdictions and careful consideration of privacy and civil rights concerns; however, the immense advantages that their realization would create in the fight against kleptocracy make them worth pursuing.

Increase access to FATCA and CRS data.

Presently, many nations collect and exchange data on large financial accounts under the Foreign Account Tax Compliance Act (FATCA) and CRS regimes. These data, which identify large amounts of cash and assets, wire transfers, and the beneficial owners of accounts, are currently restricted to tax authorities. GKI members should also make such data accessible to their law enforcement agencies involved in combating money laundering and corruption.

Ensure that corruption-related financial crimes are not deprioritized relative to terrorism and narcotics.

Perhaps the most significant inflection point in the development of current global anti-money laundering and counter-illicit finance architecture was the September 11 terrorist attacks, which led the United States and many of its key international partners to emphasize the financial threat of terrorist activities in the collection of financial intelligence. The United States, for its part, explicitly emphasizes terrorism in the organization structure of its counter-illicit finance bureaucracy.¹¹⁰ Preventing terrorism and other broadly recognized nonstate threats such as narcotics trafficking and nuclear proliferation remains an important national security goal, but it should not come at the expense of countering kleptocracy, which represents a more pervasive and often more sophisticated abuse of the international financial system. GKI members should accordingly agree to treat corruption and kleptocracy with equal or greater urgency relative to other threats enabled by illicit finance, ensuring that they are not deprioritized in international cooperation on AML matters.

Promote harmonized use of coercive economic tools.

A united front against corruption means not only closing gaps in detection of illicit financial activities but also greater and more coordinated use of punitive measures to deter and sanction kleptocratic actors. Under the GKI, the United States, the United Kingdom, and the European Union could pledge to pursue—and, where necessary, create the domestic legal authority to enable—harmonized use of sanctions against corrupt officials and their private sector enablers. This could be accomplished, for example, by creating equivalent legal authorities to sanction corruption and lax money laundering standards within the United Kingdom and the European Union as exist under the U.S. Global Magnitsky Act and Section 311 of the USA PATRIOT Act. This would enable Washington, London, and Brussels to engage in synchronized designations coordinated through multilateral information exchange. GKI members should also encourage and make resources available for joint prosecution of corruption-related crimes when they involve people or institutions based or registered in multiple member states.

Align foreign-investment screening standards to cover kleptocracy.

In October, the EU's long-awaited mechanism for screening foreign investment became operational, creating a regional-level equivalent to screening processes that already exist in many EU member states.¹¹¹ This development parallels a pending major reform to the UK's foreign investment screening process¹¹² and a significant strengthening of the authority of the Committee on Foreign Investment in the United States.¹¹³ U.S., EU, and U.K. authorities should engage in consultation to ensure that these foreign investment screening mechanisms do not ignore or minimize corruption- and kleptocracy-related

risks. For example, investment screening reviews could seek to identify scenarios in which foreign-owned entities could potentially serve as fronts for state-directed influence operations or conduits for illicit finance. The purpose of such screening would not be to eliminate all cross-border investment from authoritarian states, of course, but rather to identify especially high-risk transactions. Australia's recent improvements to its investment screening framework could serve as a potential model for such efforts.¹¹⁴

Provide whistleblower protections and incentives in cross-border corruption cases.

Until January 2021, the United States provided legal protections and financial incentives for whistleblowers on domestic corruption cases but not for individuals who contribute to the recovery of assets stolen through kleptocracy.¹¹⁵ This gap is now thankfully closed.¹¹⁶ In EU states and the United Kingdom, meanwhile, there are no rewards for whistleblowers and a number of concerning exceptions to whistleblower protections.¹¹⁷ GKI members should rectify this asymmetry by amending their domestic legal frameworks to protect and reward whistleblowers who expose foreign corruption, modeled on the Kleptocracy Asset Recovery Rewards Act introduced in the U.S. Congress in 2019 and incorporated into the most recent National Defense Authorization Act.¹¹⁸ In addition, GKI members should consider positive incentives for private sector actors to report when they have been asked for a bribe abroad.

End visa schemes that permit abuse by corrupt actors.

Both the U.S. EB-5 investor visa program and the so-called “golden visa” schemes of a number of EU member states have been criticized as pathways for kleptocratic officials and the beneficiaries of corruption to obtain residence permits and associated benefits, such as enhanced access to bank accounts and assets, in high-income democracies.¹¹⁹ The United States already possesses the authority to reject visa applications on corruption-related concerns, but it is unclear how often this authority is exercised.¹²⁰ In the EU, meanwhile, there is little indication that golden visa applicants are rejected on the basis of unexplained or suspect wealth.¹²¹ GKI members should seek a uniform standard for protecting investment-based visa schemes from kleptocratic abuse, ideally with the added transparency of publishing the identities of individuals whose visas were rejected over corruption-related concerns, as was proposed in the draft Kleptocrat Exposure Act introduced in the U.S. Congress in 2019.¹²²

Elevate the role of anti-corruption aims within national security strategic planning and intelligence collection.

As observed in this report, corruption and the national security threats it spawns, such as kleptocracy, have been treated more as a problem of domestic regulation and law enforcement than a first-order national security concern. GKI members should pledge to elevate the role of corruption and kleptocracy in their respective national security strategic plans, readiness objectives, and intelligence collection priorities, while also facilitating greater bilateral and multilateral cooperation on anti-corruption issues among national security bureaucracies. GKI members could also consider making anti-corruption mechanisms an element of NATO readiness, similar to what has been achieved in cybersecurity over the past decade.

Coordinate an anti-corruption agenda at international forums.

Although the focus of the GKI should be on policing the financial systems of its members, the initiative could also serve as an incubator for anti-corruption efforts in other international settings and initiatives such as the OGP. For example, the anti-money laundering standards devised and implemented under the GKI could form a component of national action plans under the OGP for countries that wish to go beyond FATF requirements. Likewise, GKI members could jointly seek sanctions designations at the United Nations parallel to those pursued under the Global Magnitsky Act and its U.K. and EU equivalents.

Conclusion

Although anti-corruption has traditionally been viewed as a separate domain from foreign policy, the malign influence of kleptocracy in the international system and on the internal affairs of democratic states requires a new form of international cooperation, one rooted in President Joe Biden's call to "strengthen the coalition of democracies that stand with us around the world."¹²³ The GKI offers a design to make that happen, which can be promoted through a series of major international events through the course of this year.

The annual G-7 summit, provisionally scheduled for summer 2021 and hosted by the United Kingdom, offers an optimal occasion to introduce the GKI to core allies. Another promising venue will be one of the two EU-U.S. summits that European leaders have said they intend to conduct in the first half of 2021.¹²⁴ Both of these convenings present an opportunity for the United States to sit down—virtually—with key foreign counterparts and flesh out the goals and elements of the GKI. This provisional plan can then be shared with other prospective GKI members and refined in line with their concerns and suggestions.

Once a concept has been presented and worked in detail, the United States and other GKI members should socialize it to the broader international community at the U.N. General Assembly Special Session Against Corruption, slated for September 2021. Finally, toward the end of the year, the Summit for Democracy proposed by President Biden, which is set to contain an anti-corruption pillar, could serve as the setting for the formal launch of the GKI.¹²⁵

APPENDIX

Corruption and kleptocracy: Key definitions and concepts

Corruption and bribery are as old as government itself and have been defined in many ways. It is now a truism that practices that would be regarded as corrupt in some cultures are an acceptable, even expected, feature of social and economic relationship-building in others.¹²⁶ Despite these variations, corruption and related concepts such as bribery and kleptocracy are now embedded in a large number of international legal instruments and are used in standardized ways across legal systems.¹²⁷ This report uses the following definitions:

Corruption: The abuse of office by a public official for private benefit. Within this broad category of conduct, it is possible to make many distinctions—for example, “petty” (paying minor amounts to lower-level officials to speed up the delivery of services) versus “grand” (the allocation of large resources or contracts involving senior officials) and “personal” (corruption undertaken for individual enrichment) versus institutional (corruption intended to enrich a political party or government or to achieve other political institutional benefits).¹²⁸

Bribery: The act of offering an inducement, such as cash, services, or favors, for a public official to engage in corrupt acts. What precisely counts as a bribe varies across legal systems and may be defined narrowly in terms of a strict *quid pro quo* or more expansively to encompass a broader range of influence-peddling and selling of access. In some legal systems, bribery also encompasses the act of demanding remuneration or favors in exchange for performing a service.

Strategic corruption: A form of institutional corruption through which government actors, or their nongovernmental or private sector proxies, use corrupt means to create conditions in foreign states that advance geopolitical interests.¹²⁹ Strategic corruption is distinct from other forms of corruption in that its practitioners are less interested in securing a business advantage or other private benefit than in shaping policy outcomes or manipulating electoral environments to align with a particular country’s foreign policy aims. Strategic corruption is often an element of what some scholars have called “corrosive capital”—state-directed cross-border investments from authoritarian states

into fragile or weak democracies that strengthen the influence of the former at the expense of transparency and rule of law.¹³⁰ More generally, strategic corruption represents an especially pernicious form of “sharp power”—that is, the authoritarian exploitation of the openness of democratic systems to undermine social cohesion, honest government, and the independence of political institutions.¹³¹

Kleptocracy: In its most literal sense, kleptocracy means government by thieves. In its contemporary usage, it has come to refer to a political system characterized by pervasive corruption at the highest levels of government and a consistent pattern of self-dealing and siphoning of state resources by senior officials, often in collusion with powerful private sector interests.¹³² Kleptocracy is distinct from conventional corruption in the sense that kleptocratic officials are themselves stealing directly from the state, as opposed to merely accepting bribes. Kleptocracy has been facilitated by the globalization of banking and reduced barriers to capital flows, which have allowed corrupt officials to stash stolen assets in foreign jurisdictions, often using opaque corporate vehicles, where they are beyond the reach of domestic law enforcement and tax authorities.¹³³

Illicit financial flows: Also known as “dirty money,” illicit financial flows refer to funds acquired by, or used for, prohibited activities such as corruption, drug trafficking, terrorism, financial crime, and, under some definitions, tax evasion.¹³⁴ Although corruption does not in all cases require illicit finance—bribes may take the form of nonmonetary favors or services—grand corruption and strategic corruption typically entail the use of financial institutions such as banks and money transfer services because of the need to move large sums of money across national lines.

Offshore finance: The practice of providing financial services to nonresident firms and people on terms that are more favorable—for example, allowing for less transparency or lower tax obligations—than would be available “onshore” in the client’s country of residence or citizenship.¹³⁵ Although the use of offshore financial centers may be perfectly legal, they have become synonymous with abusive and prohibited practices, such as tax evasion and avoidance, money laundering, and corruption.¹³⁶

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And we believe an effective government can earn the trust of the American people, champion the common good over narrow self-interest, and harness the strength of our diversity.

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We develop new policy ideas, challenge the media to cover the issues that truly matter, and shape the national debate. With policy teams in major issue areas, American Progress can think creatively at the cross-section of traditional boundaries to develop ideas for policymakers that lead to real change. By employing an extensive communications and outreach effort that we adapt to a rapidly changing media landscape, we move our ideas aggressively in the national policy debate.

