

# Transnational Kleptocracy and the COVID-19 Pandemic

## Containing the Spread

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### KEY INSIGHTS

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The essays in this collection are the product of six workshops held by the International Forum for Democratic Studies during the spring and summer of 2020. These workshops—which gathered a multisectoral group of civil society representatives, journalists, academics, researchers, donor organizations, and policymakers—aimed to assess the intersection between COVID-19 and transnational kleptocracy, and how civil society and independent media can respond to new challenges posed by the pandemic. Key insights include:

#### **Economic upheaval creates opportunities for kleptocracy:**

- The pandemic has prompted a massive, rapid surge in aid, spending, and procurement that frequently undermines transparency and accountability. This issue is especially prevalent in the healthcare sector where embezzlement, bribery, and price gouging are rampant, enabling elites to enrich themselves during the pandemic.
- Economic pressures may encourage universities and think tanks to turn to sources of kleptocratic funding, allowing kleptocrats to launder their reputations and put academic freedom and integrity in jeopardy.
- In semi-authoritarian settings, the economic fallout may tempt leaders in “rule-by-law” states to increase their participation in kleptocratic networks and allow more illicit funds to flow through their financial systems.
- Low oil prices may cause some heavily oil-dependent source countries to double down on corrupt deals as they search for alternative energy sources.

#### **Kleptocratic source countries are unprepared for health emergencies:**

- Decades of looting in kleptocratic countries leaves few health, education, and other public resources available to assist citizens during this public health emergency.
- In Central Africa, for instance, leaders and governments enlist political allies to design responses to the pandemic instead of health experts, awarding favorable deals to businesses with close ties to the government.

#### **Civil society seizes new opportunities:**

- Restrictions against movement and gatherings during the pandemic push more people online. Consequently, there is increased social media engagement that protests corrupt actions taken by governments and draws attention to resulting hardships.
- In addition to impromptu social media campaigns, civil society groups could focus on building a diverse and durable network of advocates to expose and combat transnational kleptocracy.

#### **Investigative journalism and media outlets are adapting:**

- Independent media and journalists, suffering from financial shortfalls, seized opportunities for networked forms of journalism to uncover abuses and their impact on people’s daily lives.
- Outlets that are adaptable, flexible, and responsive to the public interest have an opportunity to build trust and expand readership during the pandemic.

# Transnational Kleptocracy and the COVID-19 Pandemic

## How to Contain the Spread?

By Melissa Aten



Since the onset of the coronavirus pandemic, certain trends are moving with greater intensity and velocity. The dynamics surrounding transnational kleptocracy—a form of supercharged global corruption—are mirrored in the COVID-19 pandemic’s spread from nation to nation in key ways. Given the large sums of international aid and public spending being mobilized abruptly and quickly to meet acute public health needs, the risk of deepening kleptocracy is grave.

Given the importance of the issue and the serious stakes involved, beginning in June 2020, the International Forum for Democratic Studies at the National Endowment for Democracy convened a series of specially designed virtual workshops on how the COVID-19 pandemic is impacting trends in transnational kleptocracy. The essays in this Global Insights series are the result of those workshops, in which leading experts, activists, and journalists assessed the challenge from a number of critical perspectives, offered predictions on the trajectory of kleptocracy in the post-COVID environment, and identified potential opportunities for progress in an otherwise dire situation.

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The authors in this series describe a phenomenon in which there is both good and bad news. The good news is that prior to the pandemic, an important constellation of efforts had taken shape to counter kleptocracy. This includes networked journalistic and civil society initiatives that complement official efforts to contain and roll back kleptocratic networks and their harmful effects on “source” and “destination” countries alike. The bad news is that the challenges posed by modern transnational kleptocracy to date have exceeded and outpaced the democracies’ ability to contain the problem. These challenges are compounded in the difficult context of COVID-19. Coming out of the pandemic, the experts in this series emphasize several critical themes that may help combat kleptocracy’s threat to democracy:

- Citizens in source countries are increasingly frustrated by corruption in their countries, and the COVID-19 pandemic has further emphasized the impact public theft has on the quality and quantity of public services available to them. Well-placed civil society groups should consider harnessing this discontent to advocate for reform.
- Broad, diverse, and specialized international coalitions that connect actors in source and destination countries are necessary in the fight against transnational kleptocracy. These types of coalitions ensure that kleptocracy’s full impact is explained. They also have a multiplier effect in terms of increasing the numbers of advocates for change and attracting the interest of policymakers able to enact reform.
- While independent media will likely face increased funding challenges due to the economic impact of the pandemic, outlets that are flexible and responsive are better suited to adapt to the “new normal” of the post-pandemic world. Crucially, networked journalism, a proven success in the fight against kleptocracy, will allow outlets to share scarce resources and provide an added degree of security for journalists working in closed settings.

## Two potent global ailments

**Nate Sibley** argues that the pandemic has the potential to worsen global trends in transnational kleptocracy at a fundamental level. Before the pandemic struck, leaders in democracies were starting to recognize the corrosive impact that illicit money exerts on their own systems. Important new sanctions regimes, such as the Magnitsky Act, were implemented, and gaping loopholes were targeted for closure to stem the trillions of dollars in illicit money sloshing around the international financial system.<sup>1</sup> Yet, the abrupt and serious impact of the pandemic in public health terms, at least for the time being, has shifted attention away from combating kleptocracy. This loss of international focus, coupled with the massive infusion of public spending and procurement to fight the new coronavirus, provided opportunities for kleptocratic elites to funnel even greater resources to themselves and their allies. Since authoritarianism and kleptocracy often go hand-in-hand, some authoritarian kleptocrats used the public lockdowns designed to curb the spread of the new coronavirus to further repress civil society and independent media—two essential weapons against transnational kleptocracy.<sup>2</sup>

Although source countries of kleptocracy tend to attract much of the focus, **Casey Michel** reveals how the pandemic's economic fallout poses dangers for nonfinancial institutions in democratic rule-of-law destination settings. For example, universities and think tanks, often the recipients of donations from authoritarian sources, may be tempted in the pandemic's tough economic conditions to pursue funding from opaque entities more aggressively as other funding options dry up.<sup>3</sup> Even if academic and research integrity are safeguarded from outside influence, donations of questionable provenance can serve to launder the reputations of kleptocratic figures and legitimize kleptocratic regimes. As Michel points out, this behavior allows kleptocrats to “whitewash their pasts, their practices, and their broader reputations for domestic and international audiences . . . and insinuate themselves into the body politic of democracies.”

Adverse impact on institutions in democracies is not the only concern. **Jodi Vittori** argues that even though kleptocrats have tended to favor rule-of-law settings as safe, stable places to park their resources, a change is underway. Increasingly, authoritarian hubs are gaining favor as destinations for illicit kleptocratic cash because they offer opacity that is consistent with kleptocratic preferences. Hubs in closed systems lack vibrant local civil society and independent media that might expose these activities and advocate for reform. A case in point is the United Arab Emirates (UAE), which had been facing economic challenges before the pandemic hit owing to record-low oil prices and other structural weaknesses.<sup>4</sup> With shrinking oil prices and reduced tourism revenue due to the pandemic, Vittori posits that the UAE may seek to position itself as a haven for illicit finance. As democratic governments make their financial systems less friendly to illicit funds and enact targeted sanctions against kleptocrats, the attractiveness of authoritarian hubs as kleptocratic havens is likely to rise.

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Natural resources are among the main drivers of transnational kleptocracy and pre-pandemic, record-low oil prices were already impacting kleptocratic source countries. **Alexandra Gillies** examines what the future of oil might mean for transnational kleptocracy—one that is not all bad news. If less oil money comes in, then there will be less oil money lost to corruption. The corruption that remains, though, will be even more costly to citizens; as kleptocrats use a larger revenue cut to maintain their patronage systems, public services will receive even less of a share. Moreover, as a smaller pool of investors wields more leverage, they may avoid countries where the political contexts are unfavorable and riskier to their returns and reputations. With climate change concerns prompting more of the world to turn to alternative sources of fuel, it will be important to analyze how these trends play out over the long term in the oil-dependent source countries.

### A silver lining for exposing the scope of the problem

Several authors point out a potential bright side to the pandemic for activists and journalists working to expose and combat transnational kleptocracy. The pandemic has helped ordinary citizens gain a clearer sense of the corrosive impact of kleptocracy on their daily lives. People around the world are experiencing the role of corruption in hobbling governmental responses to the COVID-19 crisis in profound ways, and they are losing patience with governments that prioritize elites' venality over the public good.<sup>5</sup> Civil society activists and investigative journalists are seizing these new opportunities to advance their work.

Noting the dismal pandemic response in the heavily kleptocratic Central African region, **Elsa Peraldi** lays out considerations for activists' response to kleptocracy and the pandemic. Drawing a direct connection between state looting and the hardships ordinary citizens face and communicating these facts through trusted social media and other channels have been key to increased awareness among citizens. Since kleptocracy is a distinctly transnational phenomenon, broad coalitions of actors from both source and destination countries are needed to combat it. These coalitions need to collaborate across borders, professions, and issue areas to paint a bigger picture of kleptocracy's full impact and attract allies from a wide array of advocacy groups. This method has proven effective in exposing kleptocrats and holding them accountable for their misdeeds. Civil society's push for beneficial ownership legislation in the U.S. is an informative example. In this context, a broad and diverse coalition of forces—groups focused on national security, corruption, human rights abuses, business, and law enforcement—united to advocate for reform, pulling in audiences interested in these issues as well as the key policymakers that legislate on these topics.

One Central African country provides a textbook case of a kleptocratic response to a public health emergency. **Lucas Olo Fernandez** points to the pandemic response of the government of Equatorial Guinea, which distorted the number of COVID-19 cases in the country and used the pandemic as cover to crack down on citizens and further misappropriate public funds. Yet, in a country long considered one of the most corrupt in the world,<sup>6</sup> the pandemic has provided small windows of opportunity for well-placed civil society activists to capitalize on the online protests that erupted as a result of the country's pandemic response. These activists need the international support and solidarity of a broad, transnational coalition to help defend against the inevitable heavy-handed government crackdown.

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Flexibility and adaptation are crucial features of successful investigative journalism, especially during the pandemic. **Miranda Patrucic** describes the efforts of new collaborative outlets that have been formed to expose governments' pandemic-related corruption, and how existing outlets adapted to bring citizens fast, reliable information on the status of the health emergencies in their countries. As mis- and disinformation surrounding the pandemic flourished, fact-checking services were able to build on the public trust they had engendered to push out urgent information to the public. Other groups seized on the lack of official information to release their own statistics on the number of COVID-19 cases, death rates, and other pertinent information. Groups that adapted quickly were rewarded with historic levels of readership and an increase in public donations for their work. Yet, journalists operating in highly kleptocratic settings are often those most at risk for state-sponsored retaliation, harassment, imprisonment, and murder. In addition to further financial support, they need *connections* with outlets operating in more open settings to provide a measure of security for themselves and their work.

The COVID-19 pandemic has both exposed transnational kleptocracy and helped illuminate avenues of action for civil society activists and independent journalism. Globalized challenges require a globalized response. Journalists and activists should cross traditional boundaries to make an impact when appropriate. New partnerships among disparate groups should be formed. New methods of addressing the pandemic's inevitable financial fallout must be considered. Kleptocrats are exploiting these new vulnerabilities. Civil society and independent media should also prepare to adapt to the next stage in the battle to expose and combat transnational kleptocracy.



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# A Perfect Storm

## The COVID-19 Pandemic and Transnational Kleptocracy

By Nate Sibley



**T**he COVID-19 pandemic has exacerbated existing corruption risks worldwide while creating new opportunities for authoritarian regimes to repress political opposition, independent media, and civil society groups. An unprecedented global surge in public spending and procurement that has sidestepped important safeguards against abuse, combined with distraction and disarray in the international community, has created ideal conditions for transnational kleptocracy. Yet authoritarian regimes also are facing unprecedented challenges, as their populations grow less tolerant of the corruption that often undermines the pandemic response.

The new coronavirus swept across a world that had only recently begun to recognize and acknowledge the serious, pervasive harm inflicted by decades of unchecked transnational corruption. From the Arab Spring to Malaysian voters' backlash against the 1MDB (1Malaysia Development Berhad) scandal,<sup>1</sup> populations suffering the consequences of kleptocracy have turned to social media activism and protests to challenge corrupt political systems. In advanced economies, leaks such as the Panama Papers in 2016 combined with Russian attempts to interfere in democratic processes have caused many to reflect on the role that the legal and financial institutions based in democracies have played in facilitating authoritarian behavior and illicit financial flows. Nonetheless, democratic governments still have far to go in their efforts to insulate these institutions against this "corrosive capital."<sup>2</sup> They are only starting to explore measures that target the corrupt underpinnings of adversarial mafia states—the Global Magnitsky Act being a notable example.<sup>3</sup> Meanwhile, authoritarian leaders continue to engage freely in corrupt activities for the reinforcing purposes of illicit self-enrichment, consolidating their power at home, and projecting malign influence overseas.

Even before the pandemic struck, independent media and civil society groups working to expose and document these activities faced increasing repression. Whether the threat came from authoritarian governments or from sometimes deadly attacks by criminal networks linked to powerful interests in politics and business—no longer just in places like Russia and Venezuela, but in democracies like Malta and Slovakia—those who attempted to perform a watchdog role did so with heightened peril.<sup>4</sup> Inspired by the sweeping crackdown launched by Xi Jinping in 2012, several regimes have emulated China's example by coopting anticorruption narratives and launching their own disingenuous campaigns to target political opponents.<sup>5</sup>

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Meanwhile, trillions of dollars continue to be siphoned out of developing countries into tax havens and major financial centers. A recent United Nations (UN) study pegged global money laundering at around \$1.6 trillion per year, and found that more than \$7 trillion in private wealth is being held in secretive offshore accounts—the equivalent of 10 percent of global gross domestic product (GDP).<sup>6</sup> This level of capital flight, sustained over decades, has crippled many countries' capacity to respond to unexpected crises like a global pandemic.

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### **Opaque public spending**

This is the precarious context into which an estimated \$11 trillion in emergency fiscal assistance has been unleashed worldwide in response to the COVID-19 pandemic.<sup>7</sup> Democratic and authoritarian governments alike have suspended or ignored anticorruption safeguards as they scrambled to meet unprecedented strains on their healthcare systems, prop up collapsing economies, and placate fearful and frustrated populations. Anecdotal evidence suggests that the International Monetary Fund's (IMF) early plea to governments to “spend what you can, but keep the receipts” is being adhered to patchily or not at all.<sup>8</sup>

Law enforcement and private sector institutions charged with detecting suspicious financial activity have reported a surge in COVID-related fraud and cybercrime.<sup>9</sup> For corrupt elites, this chaotic environment has created new opportunities for self-dealing, price gouging, bribery, and embezzlement. For obvious reasons, the criminal involvement has been most acute in the healthcare sector, which even in ordinary times loses an estimated \$500 billion to corruption each year.<sup>10</sup> In Russia, wealthy individuals hoarded ventilators and other resources for their own use.<sup>11</sup> Moreover, kleptocratic networks also took advantage of the crisis to engage in reputation laundering by stepping in to supply equipment when local health providers came up short.<sup>12</sup> In South Africa, rampant overpricing of personal protective equipment (PPE) and widespread fraud has created a political crisis.<sup>13</sup> But scarcity has created opportunities for graft in almost all sectors. In Bangladesh, for example, officials were accused of reselling six-hundred thousand pounds of rice intended as food aid for hungry citizens.<sup>14</sup>

### **Restrictions on civil liberties**

In many countries, these heightened corruption risks have been compounded by draconian restrictions on civil liberties. As of September 2020, the COVID-19 Civic Freedom Tracker, a project of the International Center for Nonprofit Law, identified ninety countries with emergency declarations; 124 with measures affecting freedom of assembly; 44 with measures affecting freedom of expression; and 47 with measures that affect privacy.<sup>15</sup> In most cases, these restrictions are legitimate, proportionate, and temporary efforts to prevent further spread of the virus. But others undoubtedly have been implemented primarily in response to perceived threats to governments during this period of uncertainty, or even proactively as an opportunistic attempt to crush dissent while the international community is distracted. Even where they do not directly target efforts to document corruption, these actions can have a chilling effect on investigative activities. The declaration of emergency powers to handle the pandemic response has too often carried echoes of post-9/11 antiterrorism laws enacted hastily by governments whose primary intention was to use them against nonvio-

lent political opponents.

Legitimate justifications for restricting freedom of expression and access to information are few and far between, especially during a global pandemic when access to reliable information saves lives. Yet according to a recent survey of 1,308 journalists in 77 countries, three-quarters reported experiencing deliberate obstruction or intimidation in their efforts to cover the virus.<sup>16</sup> Several countries also have implemented internet shutdowns, ostensibly to prevent the spread of misinformation about the virus or for vague “security” reasons.<sup>17</sup>

Unsurprisingly, whistleblowers who expose the spread of the new coronavirus or the misappropriation of life-saving resources have been especially targeted. Indeed, the origin of the pandemic owes much to the persecution of honest health officials by authorities in Wuhan and subsequent cover-up efforts by Beijing.<sup>18</sup> In Russia, more than a few doctors who have highlighted problems with the country’s coronavirus response have faced an unusually gruesome fate: falling to their deaths from windows, with enough suspicion around the circumstances to suggest deliberate defenestration.<sup>19</sup>

Some governments have also enacted prohibitions on movement and initiated surveillance measures that significantly compromise privacy and civic activity. In China, for instance, track-and-trace technology seems likely to become yet another method of monitoring perceived opponents of the Chinese Communist Party.<sup>20</sup> In much of the world, edicts that limit movement and assembly are vital for preventing further spread of the virus, yet they have the side effect of hindering journalists and researchers from conducting interviews and other in-person research, especially in societies where it would be unsafe or impractical to do so online. In theory, they also prevent citizens from gathering to protest against corruption and other issues—though of course, this has not stopped anyone in Iraq, Hong Kong, Belarus, or indeed the United States from taking to the streets.

### Challenges for kleptocrats

Even though the pandemic has offered numerous opportunities to those who make a living by fraud or exploitation for self-enrichment, in some cases it has reduced corruption risks and hampered the activities of those engaged in it—albeit temporarily. Anecdotal evidence suggests that closed borders and shuttered businesses have significantly disrupted much of the illicit economy that preys on them. This may especially be true of schemes linked to the cross-border movement of goods such as trade-based money laundering, drug trafficking, and the illegal wildlife trade. Incentives for corruption may have been reduced or have disappeared altogether in sectors affected by the economic shutdown, for example where bribes are routinely demanded in return for license acquisition.

Perhaps more significantly in the long term, the potential costs of being caught engaging in corruption are higher as populations ordinarily conditioned to tolerate avaricious political elites begin to lose patience. In Kenya, for example, police fired tear gas to disperse crowds protesting alleged misuse of PPE.<sup>21</sup> Countries that have tried to use the crisis for political advantage by engaging in exploitative or corrupt behavior often have found their efforts backfiring.<sup>22</sup>

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Finally, corrupt leaders should be concerned about the implications of renewed global anticorruption leadership by the United States and its democratic partners. President Biden has committed to countering kleptocracy as a cornerstone of his administration's foreign policy, while the 116<sup>th</sup> Congress overcame partisan divisions to enact the most significant anti-money laundering reforms in nearly two decades.<sup>23</sup>

This is not to downplay the alarming proliferation of corruption risks caused by the pandemic; however, the situation is more complicated than initial fears of an unmitigated kleptocratic free-for-all would suggest.

### Dealing with the inherent transnational links of modern kleptocracy

The best thing that democratic governments can do in response is stay the course on enacting vital anticorruption reforms and ramping up measures to target authoritarian kleptocracy overseas. Because contemporary kleptocracy is inherently transnational, improving transparency in advanced economies will assist independent media and civil society groups working to expose and document abuses within authoritarian regimes. Additional support for whistleblowers, strengthened anti-money laundering controls, and improved corporate transparency all will be part of this focus on fighting corruption on all fronts.

The same is true of law enforcement actions and sanctions to hold those responsible for COVID-related corruption and human rights abuses accountable. After all, authoritarian regimes are counting on distraction in the international community to engage in repression that might ordinarily carry adverse consequences. Providing material support for independent media and civil society within kleptocratic societies, for example through the Global Media Defense Fund, and helping them to network with collaborative groups, such as the International Consortium of Investigative Journalists, should also be priorities.

The COVID-19 pandemic undoubtedly has exacerbated existing corruption risks while creating new opportunities for avaricious political elites. At the same time, it has posed some unexpected challenges and exposed vulnerabilities for corrupt authoritarians who are accustomed to exploiting the global economy in secrecy and with total impunity. Public awareness of the harm caused by kleptocracy has never been keener—and never felt more personal than when it involves the theft of resources that should have been used to save lives. Independent media and civil society groups who work to expose corruption may be under severe attack, but they are also more organized and connected than ever before. And with renewed U.S. leadership, many democracies are now working to address financial vulnerabilities that facilitate and incentivize transnational corruption while targeting kleptocracy overseas. It is still possible that we may look back on the COVID-19 pandemic as a turning point, rather than a setback, in the longer struggle against transnational kleptocracy.

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# Illicit Temptation

## Funding of Universities and Think Tanks during COVID-19

By Casey Michel





Over the past few years, international attention, investigations, and concern increasingly have focused on a long-ignored phenomenon: kleptocracy. Centered broadly on transnational money laundering—in which corrupt and crooked officials and oligarchs in developing countries turn primarily toward developed countries in search of opportunities to convert their looted, ill-gotten gains into legitimate financial products—modern kleptocracy has threatened political stability, electoral infrastructure, democracy, and national security around the world.

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*Such kleptocratic mechanisms and networks often extend well beyond the initial money laundering phase. In later stages, these connections allow kleptocrats to transform their reputations as corrupt figures into beneficent philanthropists and successful business leaders.*

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However, modern kleptocracy does not merely entail the theft of state resources or their laundering through shell companies and real estate in democratic countries. Such kleptocratic mechanisms and networks often extend well beyond the initial money laundering phase. In later stages, these connections allow kleptocrats to transform their reputations as corrupt figures into beneficent philanthropists and successful business leaders. Through this process, even deeply corrupt individuals may be able to whitewash their pasts, their practices, and their broader reputations for domestic and international audiences alike. Even more ominously, they may have greater opportunities to insinuate themselves into the body politic of democracies. This transformation is known, perhaps unsurprisingly, as reputation laundering—a phenomenon that relies on institutions and organizations in democracies that are willing to overlook the sources of kleptocratic funds and receive their share of the proceeds without asking difficult questions about provenance.

Some of these organizations, such as universities and think tanks, have proven themselves to be more reliant on questionable funds, including donations from oligarchs and other figures from kleptocratic settings, without any required due diligence mechanisms in place. Others, such as art vendors and auction houses, cater largely to high-net worth individuals regardless of the sources of their income. Although some of these entities have taken steps to implement better due diligence mechanisms, they repeatedly have been susceptible to the flood of dirty money, and have reaped the benefits of its influx as they have helped transform both funds and reputations alike.

The numbers are staggering. To take just one illustrative example, over the past two decades post-Soviet oligarchs connected to political interference efforts have donated upward of \$435 million to more than two-hundred of the most prestigious nonprofit institutions in the United States.<sup>1</sup> Unfortunately, as the coronavirus-related recession continues to restrict funding mechanisms elsewhere, the temptation to rely on such dirty money will likely only continue—and expand—for the foreseeable future.

Think tanks have many characteristics that make them vulnerable to being used as conduits for dirty money.<sup>2</sup> Even though the think tank industry has seen a steady flow of foreign financing over the past two decades—in the United States alone, one recent study put

the total foreign funding for the most prominent think tanks at nearly \$200 million—their revenue sheets are far from transparent. Most think tanks are not required by law to screen for questionable sources of income and they are under no legal obligation to publicize their funders.<sup>3</sup> British think tanks, for instance, are notoriously opaque regarding the sourcing of their funding, with one recent study placing them near the bottom of European think tanks with regard to donor transparency.<sup>4</sup> Given their proximity to the policymaking community, think tanks increasingly have appeared as preferred targets for autocratic governments abroad, from Saudi Arabia to Qatar to Azerbaijan.<sup>5</sup> Such donations also have the potential to help these funding sources whitewash government reputations—as well as those of oligarchs who issue these donations—while simultaneously downplaying concerns about everything from human rights to democratic backsliding.

Universities, likewise, increasingly have exposed themselves to sources of questionable funding. Such financing allows these universities to expand their geographic base of funding, but at the same time it provides opportunities for kleptocrats and corrupt figures to spin their own images as supposed philanthropists, interested in little more than expanding educational opportunities. For example, a U.S. Senate Permanent Subcommittee on Investigations report noted that Nigerian businessman and former Vice President Atiku Abubakar utilized an offshore network to funnel millions of dollars to American University, earmarked as “consulting services” related to Abubakar’s supposed intent to fund a university in his home country.<sup>6</sup> Cambridge University, meanwhile, found itself in hot water after accepting funds from Ukrainian businessman Dmitry Firtash, who is currently awaiting extradition to the United States in connection with charges related to an alleged bribery scheme.<sup>7</sup> As with think tanks, universities are not required to maintain internal anti-money laundering mechanisms, or even to disclose their donors.

Art and auction houses also have been known to sometimes act as fronts for money laundering opportunities writ large.<sup>8</sup> For years, these institutions have been magnets for illicit financial flows, given that they have never been subjected to any significant due diligence or anti-money laundering regulations. Of course, activists and legislators alike have known how the world of arts and antiquities is vulnerable to suspect funds. In one infamous example, Equatorial Guinea’s Teodorin Obiang faced allegations of turning repeatedly to auction houses to launder his ill-gotten monies—a process through which he became the world’s largest collector of Michael Jackson memorabilia.<sup>9</sup> A 2020 U.S. Senate report singled out art and auction houses for their lack of “detailed procedures to prevent money laundering,” and specifically cited cases in which sanctioned Russian figures utilized a series of shell companies to skirt the sanctions regimes by funneling money into high-priced artwork and collectibles.<sup>10</sup>

All of these entities—universities and think tanks, art and auction houses—have raised numerous red flags in the broader anti-kleptocracy efforts that democracies have undertaken over the past few years. However, the ongoing global financial instability will likely increase pressures on such entities to expand their reliance on suspect funding. As these institutions’ broader financial bases dry up, shrinking their potential pool of funding, they will have more incentive to cast a wide net for potential financial help, including to kleptocrats positioning themselves as philanthropists or collectors. Likewise, such entities are likely to

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resist becoming subject to anti-money laundering provisions. Like the hedge fund and real estate industries before them, they will almost certainly claim that the “regulatory burden” of financial transparency regulations will be nothing but unnecessary red tape. These entities could hedge off the need for new regulations by committing to greater transparency about the sources of the foreign funds flowing toward them. Publishing a comprehensive list of donors, especially high-level donors, and creating formal donation review committees, as well as identifying the ultimate beneficiaries of art and auction purchases, would help to create transparency and signal that these industries take the threat posed by illicitly sourced donations seriously.

To be sure, other industries that rely on the proceeds of modern kleptocracy will act along the same lines, even as kleptocrats and their ill-gotten gains tighten their financial stranglehold on them. One such arena is the “golden visa” industry, which provides a fast track to citizenship for investors who are willing to meet a certain financial threshold, often with few questions asked about the sources of such funding. Numerous countries use these programs to continue to cater to the needs of kleptocrats, to the point of slashing application costs or program investment requirements—even though lax regulations weaken governments’ ability to weed out crooks and traffickers who might take advantage of such programs.<sup>11</sup>

Those same kleptocrats, increasingly spooked by political instability and concerned about rising antiauthoritarian movements, will also rely more heavily on enablers, industries, and loopholes in democratic countries.<sup>12</sup> For both kleptocrats and the industries and entities that lack anti-money laundering oversight, the ongoing recession will likely only to push them that much closer together.

Thankfully, such incentives do not exist in a vacuum. Over the past few years, democracies have made great strides in patching up broader anti-kleptocracy loopholes. The United States, for instance, has raised awareness of the benefits of enacting anti-kleptocratic policies in some of the most vulnerable industries, such as real estate and private equity.<sup>13</sup> The 2021 National Defense Authorization Act also included a provision to end anonymous shell companies, a long awaited victory for the anti-kleptocracy movement.<sup>14</sup>

Unlike the post-9/11 period, when actions to counter kleptocracy were largely an afterthought compared to efforts to crack down on financial flows linked to extremism and terrorism, far more eyes (and greater awareness) are now being directed toward combating kleptocracy. Momentum is growing in related quarters to tackle kleptocracy, as seen most recently by the United States’ aforementioned ban on anonymous shell companies. Universities, think tanks, and art houses now have greater incentive to push new transparency regimes. Far stronger due diligence and transparency requirements from these entities would go a significant way to ending innumerable kleptocratic networks, from those involved in money laundering to those involved in whitewashing regimes and oligarchs. Given the increased incentives to rely on funds with suspicious origins to prop up their strained finances in the pandemic context, taking advantage of the democracies’ anti-kleptocracy push is more imperative now than it has ever been for the health and integrity of political systems around the globe.

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# Illicit Financial Flows in Authoritarian States

## When There is No Rule of Law

By Jodi Vittori



**T**he COVID-19 pandemic is proving a boon for corrupt, authoritarian leaders and their cronies, allowing them to expand opportunities for crime and graft while curtailing oversight and accountability. Worldwide, Freedom House has assessed that democracy and human rights have deteriorated in eighty countries since the new coronavirus outbreak began.<sup>1</sup> The problem is at its worst in highly repressive states and weak democracies where safeguards on democracy already were insufficient.<sup>2</sup>

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*As many kleptocratic regimes use the pandemic as an excuse to clamp down on media and civil society freedoms, transparency, and accountability, it becomes all the more important to recognize the roles that authoritarian illicit financial flow hubs play in laundering ill-gotten gains.*

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At the same time, as Transparency International notes, the monumental influx of domestic and foreign resources provided to fight the pandemic have opened up more opportunities for rent-seeking activity and its deleterious effects. Meanwhile, governments often have even more discretion to allocate resources and funds with weaker transparency, accountability, and anticorruption oversight and enforcement mechanisms to provide checks on their behavior.<sup>3</sup> It is thus no surprise that according to the aforementioned October 2020 Freedom House report, respondents in 45 countries considered “corruption and money in politics” to be among the top three issues associated with the COVID-19 response.<sup>4</sup>

As opportunities for kleptocracy increase, efforts to expose and reform illicit financial flows focus usually—and often correctly—on financial centers situated in democracies. Those who engage in kleptocratic activity are assumed to prize the overall, long-term political stability that derives from consolidated democratic systems and rule of law. Consequently, they choose to store their wealth in banks in key financial centers such as London and New York, buy real estate in Miami and Paris, educate their children in the famed schools of the United Kingdom and the United States, and invest in businesses and sports teams throughout Europe and the United States.

Democracies are not the only destinations for kleptocratic wealth, however. Plenty of illicit finance networks span a variety of (semi) authoritarian states. Some of these states act as waystations for resources earmarked for final deposit in Western repositories, but others are financial centers themselves. As many kleptocratic regimes use the pandemic as an excuse to clamp down on media and civil society freedoms, transparency, and accountability, it becomes all the more important to recognize the roles that authoritarian illicit financial flow hubs play in laundering ill-gotten gains.

## The journey . . .

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*Without a free press, robust legislative oversight, or independent institutions, there are few checks to prevent kleptocratic actors from further taking advantage of these authoritarian hubs' deliberate weaknesses.*

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Illicit finance hubs run by authoritarian regimes make attractive holding areas and destinations for illicit financial flows from fellow dictators. These authoritarian hubs have in some cases used their implicit willingness to overlook questionable transactions to attract investment in their countries. Without a free press, robust legislative oversight, or independent institutions, there are few checks to prevent kleptocratic actors from further taking advantage of these authoritarian hubs' deliberate weaknesses. Without the rule of law, it is all the more difficult to hold elites accountable for engaging in or encouraging illicit financial flows, not least because of the lack of extradition treaties and sovereign immunity for many of those involved.

Sometimes, individuals in the highest circles appear to demonstrate their country's willingness to launder elites' ill-gotten gains. For instance, members of the royal families of Saudi Arabia, Kuwait, and the United Arab Emirates reportedly helped launder funds from the Malaysian 1MDB (1 Malaysia Development Berhad) scandal through their sovereign wealth funds and state-owned enterprises, apparently with help from certain Western banks.<sup>5</sup> Chinese officials then allegedly offered to help bail out the Malaysian prime minister at the center of the scandal, Najib Razak, in return for Chinese stakes in various railway and pipeline projects—a charge the Chinese government denies.<sup>6</sup> It is vexingly complicated to investigate such allegations when those involved are high-level political and financial actors based in a multitude of settings.

Or, take the example of the so-called Moldovan Laundromat. Moldova is the poorest country in Europe, and yet between \$20 billion and \$80 billion allegedly were laundered through its banks from 2010 to 2014.<sup>7</sup> According to reporting by the Organized Crime and Corruption Reporting Project (OCCRP), shell companies were created in the United Kingdom, Cyprus, and New Zealand in which a fake “lender” company would use a Moldovan court to collect debts from a defaulting fake Russian “debtor.” The Russian shell company would then allegedly wire the money through a Moldovan bank to accounts of the “lender” in a bank in Latvia; from there, the funds were wired to 5,140 companies in 96 countries. Although the United States, United Kingdom, and European Union could have done more to help prevent this immense theft, it nonetheless demonstrates how weaker jurisdictions like Moldova and Latvia can be used for massive money laundering scenarios.<sup>8</sup>

## . . . Or the destination

Authoritarian states that act as willing nodes in illicit laundering networks may also at times be a destination themselves. Those that are best suited for this role often are locales that can be desirable places for those with means, where both kleptocratic elites and the gatekeepers they rely on are willing to take up residence. They are both trade and financial hubs, enabling both illicit finance and trade-based money laundering networks to easily and efficiently overlap and intermingle.



*In the post-pandemic world, the UAE may thus be especially susceptible to the temptation to look the other way if various forms of illicit resources and associated corruption were to attempt to flow in.*

One illicit finance destination in particular stands out today: the United Arab Emirates (UAE). It has a long history of dubious trade and financial activities. For instance, its lucrative property market is a haven for those who might use real estate to launder illicit finances, and its more than two dozen free-trade zones operate with minimal regulatory oversight or customs enforcement activity.<sup>9</sup> At the same time, it is also in deep financial straits, not just from the pandemic, but also from preexisting structural weaknesses. The UAE was already suffering from low oil prices just as the COVID-19 pandemic hit its tourism, trade, and finance sectors. As a result, the International Monetary Fund expects its economy to shrink by at least 6 percent this year.<sup>10</sup> In the post-pandemic world, the UAE may thus be especially susceptible to the temptation to look the other way if various forms of illicit resources and associated corruption were to attempt to flow in.

The UAE is currently undertaking anti-money laundering reforms in order to comply with the standards set forth by the Financial Action Task Force, which had placed the country on its grey list as a major money laundering haven. Despite these efforts, money laundering-related scandals have continued during the pandemic. For example, Bulgarian investigative reporters found highly questionable trade between Bulgarian companies associated with senior political figures and personal protective equipment (PPE) shipments from the UAE, whereby Bulgarian foodstuffs had been traded to the UAE for what was supposed to be fifteen tons of PPE instead of the mere three tons that was actually delivered.<sup>11</sup> Meanwhile, a Reuters investigation has demonstrated how oil tankers registered in UAE's Fujairah free-trade zone in 2019 have been shipping Venezuelan oil despite sanctions since summer 2020, thereby helping to prop up Venezuelan President Maduro's regime. The Fujairah Free Zone Authority's director general noted that, while the free zone will provide beneficial ownership information if specifically requested by law enforcement, the free zone was not responsible for monitoring the activities of companies registered there.<sup>12</sup>

Dubai, the financial, real estate, and trade capital of the UAE, is expecting an especially rocky economic path in the coming years. It never fully recovered from the 2008 financial crisis, and the fallout from the COVID-19 pandemic is expected to cause the city's economy to contract by 11 percent this year.<sup>13</sup> These vulnerabilities have not gone unnoticed. As the *Economist* recently summed up, "Of all the big global financial centres, [Dubai] is the shadiest—not only a haven for clean money seeking investments or fleeing turmoil elsewhere, but also for the dirty stuff. It is used by kleptocrats, money-launderers, arms-smugglers, sanctions-busters and other criminals."<sup>14</sup> Yet, Western governments often have ignored some of Dubai's myriad shortcomings because it is an important regional hub for Western businesses. In addition, it has perhaps the most competent military in the region, and as such the UAE is considered a bulwark against Iran. Unsurprisingly, the "Little Sparta"—to use the phrase coined by General Jim Mattis, then the head of U.S. Central Command<sup>15</sup>—is considered an important regional security partner for the United States and United Kingdom in particular. Any possible crackdown on potentially kleptocratic activity in the UAE might easily have unintended repercussions for regional economic, political, and military stability in the Middle East as a whole.



The publication of the recent so-called FinCEN Files, exposing suspicious activity involving major international financial institutions, has led to calls from politicians and civil society alike in democratic financial centers to clean up the global anti-money laundering system.<sup>16</sup> Efforts are rightly focused on apparent gross malfeasance by major U.S. and European banks. Yet, in the process, the role of banks and businesses in places such as the Gulf States and in Eastern Europe must be kept in view. Popular pressure to clean up these financial and business centers will be more difficult because their authoritarian governance limits bottom-up pressure to push for much-needed reforms. It is difficult for investigative journalism or government agencies to shine a light into the affairs of states that routinely intimidate and arrest the media and civil society. Often, these states are also important security partners for Western countries, allowing them a “pass” on many illicit financial flow controversies.

Thus, as financial centers in democracies debate how to respond to the clear breakdown of the global anti-money laundering system, identifying a response to illicit financial flows in authoritarian states must be part of the conversation. Democracies must strengthen their own anticorruption and anti-money laundering institutions to minimize their attractiveness as a destination for dictators’ corrosive wealth. It also means that democratic, rule-of-law states will need to make curtailing illicit financial flows from authoritarian states an important foreign policy priority. This should include a combination of isolation and threat mitigation for states where there may be little hope of substantial, domestically-led reform efforts. If democracies are serious about minimizing democratic and economic backsliding as a result of the COVID-19 pandemic, then the ability of authoritarian elites to benefit from the financial flows associated with the global response to the new coronavirus must be reduced.

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*Thus, as financial centers in democracies debate how to respond to the clear breakdown of the global anti-money laundering system, how to respond to illicit financial flows in authoritarian states must be part of the conversation.*

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# A Pandemic and a Price Plunge

## Oil-Rich Kleptocracies in Uncertain Times

By Alexandra Gillies



**O**il and other natural resources fuel most of the world's kleptocratic networks. When the new coronavirus pandemic first hit in early 2020, the global drop in oil demand sent the commodity's already-low prices plummeting further. For the oil-rich kleptocratic regimes of the world, this shock further constrained the patronage and corruption possibilities available to them. The ways in which these networks have responded to the dual crises of collapsing revenue and a worldwide pandemic may offer potential opportunities to support democracy, curtail illicit financial flows, and even combat climate change.

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*In Congo-Brazzaville and many other countries, ample evidence shows how authoritarian regimes have used oil industry spoils to enrich their inner circles and strengthen their grip on power.*

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### **Market crash and an uncertain future**

In June 2020, U.S. authorities seized a penthouse condo in Miami allegedly purchased with oil revenues stolen by a member of Congo-Brazzaville's first family. According to the court filings, the president's son allegedly diverted funds from the national oil company's accounts to acquire the condo, as well as expensive cars, private flights, a \$650,000 Los Angeles hotel bill, and other luxury properties.<sup>1</sup> Though discouraging, the charges in this case are hardly shocking. In Congo-Brazzaville and many other countries, ample evidence shows how authoritarian regimes have used oil industry spoils to enrich their inner circles and strengthen their grip on power. The 2008–2014 oil boom was a prime moment for several dictators to nurture their national oil industries by partnering with foreign oil companies that had little issue with their repressive and corrupt tendencies and expanding the corrosive reach of their national oil companies (NOCs).<sup>2</sup> They then steered the oil windfalls toward their allies through bloated oil sector deals, as well as other forms of public spending, preferential access to credit, and monopoly control over various areas of the economy. Bits of the oil largesse benefited larger groups of citizens as well, whether through public sector jobs, subsidies, or public goods. As long as the oil revenues continued to flow, the regimes mostly were able to quell potential unrest. And, with oil prices regularly topping \$100 per barrel, there was plenty left over for political elites in systems permitting unchecked power to spend extravagantly on mega-yachts, fleets of supercars, \$450 million paintings, and other trappings of a globetrotting luxury lifestyle.<sup>3</sup>

This model is less affordable now. In 2014, oil prices plummeted and took revenues with them. The oil revenues collected by Middle Eastern governments in 2019 were half of what they were in 2012.<sup>4</sup> Then, in 2020, the new coronavirus arrived on the scene, global demand for oil dried up, and prices dropped even lower. Since hitting rock-bottom in April 2020, prices have recently settled above \$40 a barrel—an amount that nonetheless is lower than the level many oil-dependent countries need to balance their budgets.<sup>5</sup>

Oil's future looks uncertain. Although many industry experts are predicting that oil will rebound in the near term, they also expect the market will exhibit longer-term decline as the world transitions to cleaner fuels.<sup>6</sup> In response to today's low prices and this bearish

prediction, many oil companies are cutting their budgets, narrowing their portfolios, and (in selected cases) deemphasizing oil in their future plans. In Africa, for instance, companies have hit pause on major projects in Angola, Chad, Gabon, Nigeria, Uganda, and elsewhere.<sup>7</sup> Some investors are backing away from the industry entirely, with major hedge funds divesting from fossil fuels and oil stocks falling from weak demand. Oil-dependent kleptocracies will be much slower to adjust.

### Variable impacts across producers

The current downturn and future instability of the oil market will hit some producer countries harder than others, including those exhibiting kleptocratic tendencies. The more dependent a country is on oil, the more the decline will hurt. The producers of higher-cost, “dirtier” oil will also face a tougher road ahead. Where production costs are low, such as in the Persian Gulf, operations should remain viable at lower prices. Where production costs are higher, as in Algeria, Kazakhstan, Venezuela, and offshore in the Gulf of Guinea, it will be more difficult to attract investment and collect a healthy return. Producing countries also arrived at the COVID-19 crisis in different fiscal positions. Qatar, Saudi Arabia, Azerbaijan, Russia, and Kazakhstan had some savings and the fiscal space to borrow to get through the immediate turmoil; others, such as Angola, Chad, Congo-Brazzaville, and Venezuela, were already facing debt crises.<sup>8</sup>

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*When oil revenue can no longer prop up a faltering regime, leaders with significant corruption challenges run a greater risk of being shown the door.*

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Political contexts also vary. A number of regimes used the previous commodities boom to entrench themselves in power. In Azerbaijan, high oil prices enabled the ruling elites to assert control over the entire economy, and this control will not be easily undone even as oil revenues fall.<sup>9</sup> In Equatorial Guinea and Congo-Brazzaville, the political opposition has suffered from years of disenfranchisement, and long-standing dictators retain their firm grip on power.<sup>10</sup> That said, where politics are shifting, the decline in oil may help speed potential transitions. Angola’s long-time ruler handed over power to his successor in 2017, and the new government has had to embrace significant reforms in order to weather the economic crisis and secure major financing from the International Monetary Fund.<sup>11</sup> Low oil prices have reduced room to maneuver for incumbents seeking to hold onto power, whether in the face of popular uprisings as in Sudan and Algeria or elections as in Malaysia and Nigeria. When oil revenue can no longer prop up a faltering regime, leaders with significant corruption challenges run a greater risk of being shown the door.

### Possible governance trends

Despite this variation, a few governance trends are likely. Corruption will undoubtedly absorb fewer dollars than it did during the boom years. At \$40 per barrel prices, there simply is not enough money available to regularly inflate oilfield service contracts by millions of dollars, award favorable pricing terms to politically-connected oil traders, or collect bribes from oil-thirsty investors. Instead, governments and companies alike will seek to minimize production costs and avoid the excess expenses associated with corruption schemes.

Any corruption that does continue will carry heavy opportunity costs. If a kleptocrat relies on certain oligarchs or a high-spending NOC to run their patronage system, these actors may

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*The manner in which oil-rich regimes react to the current crisis will have wide-ranging global impacts, thanks in particular to the cross-border nature of both kleptocracy and climate change.*

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still receive an outsized share of the country's oil money. Every dollar captured by private interests further gouges the scarce public funds available for managing the pandemic or providing other public goods during a period of economic recession. NOCs are an area to watch, given the central role they play in many kleptocratic political economies. Research conducted by the Natural Resource Governance Institute shows that, on average, when oil prices drop, the money that NOCs transfer to the state drops even more dramatically.<sup>12</sup> In other words, NOCs tend to hold onto a disproportionately large share of scarce public funds. In Angola, for instance, oil prices fell by 50 percent between 2012 and 2016, but NOC transfers to the public budget fell from \$25 billion to \$6 billion.<sup>13</sup> This trend suggests that some kleptocratic leaders may be tempted, despite the wider fiscal crisis, to continue to use NOC spending to reward loyal insiders and manage other political pressures, not least because NOC revenue typically comes under relatively less scrutiny from outside actors such as the International Monetary Fund.

Because oil industry investment dollars are in scarcer supply, current events also shift leverage away from oil-producing governments and toward companies and investors. Companies likely will be more selective about their chosen investment areas, so they could choose to avoid states or regions with high corruption and political risks. Such preferences could further dampen oil sector corruption—a positive dynamic. Conversely, a “race to the bottom” could ensue. Governments, desperate to keep oil companies from exiting or narrowing their investment plans, could offer deals that contain weak fiscal, environmental, or operational requirements. Observing the deals made during this time of crisis could help reveal which governments are choosing to trade their country's longer-term needs for their own short-term political security.

### **What is at stake**

The manner in which oil-rich regimes react to the current crisis will have wide-ranging global impacts, thanks in particular to the cross-border nature of both kleptocracy and climate change.

On the kleptocracy front, the oil industry supports some of the world's least democratic governments. It also represents a major source of the illicit financial flows that spread offshore into accounts, companies, and assets worldwide, with destabilizing impacts. The recent FinCEN files are just the latest illustration of the scale of stolen money circling the globe.<sup>14</sup> Less oil money available to kleptocratic regimes could lead to political openings and help reduce the amount of illicit money flowing through these global channels. Assertive anticorruption activity targeting these states can help to bolster these positive trends.

Kleptocratic oil producers also are considering how to respond to the longer-term shift toward cleaner energy. Some observers have characterized recent oil market decline, prompted by the COVID-19 pandemic, as a “dress rehearsal” for the upcoming decline in demand for fossil fuels.<sup>15</sup> Some producers will double down on oil, especially since prices may well rebound in the near term. Such regimes, whose economic survival and political futures depend on high oil demand, may pose obstacles to global responses to the climate

crisis. They would represent powerful vested interests willing to fight for the oil-fueled status quo. Their NOCs could continue producing at levels incompatible with the Paris climate agreement, and their politicians could thwart the collective action needed for the world to advance to a future that is less dependent on petroleum products. However, energy transition realities could finally push other producer countries toward diversifying their economies, which could have democratizing political impacts as well.

During the recent boom years, oil-rich kleptocratic regimes enjoyed a range of options. They could pay off their rivals, enrich their allies, direct some largesse toward their citizens, and still fund their luxurious lifestyles. These regimes now face a much harsher set of tradeoffs. In a post-COVID environment, the choices kleptocratic regimes are obliged to make may offer new opportunities, including for cutting off illicit financial flows at their source, fighting climate change, and identifying pathways for democratic reform.

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# Kleptocracy as the Underlying Disease

## How Years of Looting in Central Africa Undermined the COVID-19 Response

By Elsa Peraldi<sup>1</sup>



Corruption and kleptocracy is rife in oil-rich Central Africa.<sup>2</sup> The discovery of oil in the region brought vast resources into the countries' coffers, but those in power have funneled that money into their own pockets or those of their allies to fund lavish lifestyles.<sup>3</sup> The common feature among these states is that corruption is the operating system,<sup>4</sup> aided by lax regulation in democratic countries and a network of enablers who help kleptocrats launder and stash their ill-gotten gains overseas.

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*Presidents in all four countries have appointed allies and friends to key government positions and used anticorruption investigations to remove their foes, a tactic that has allowed them to remain in power for decades.*

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Despite the riches that natural resources could provide to these countries, their rulers' actions have left citizens poor and human development indices flat. In 2018, Congo-Brazzaville, Equatorial Guinea, Chad, and Cameroon all ranked at the bottom of the United Nations' Human Development Index.<sup>5</sup> The ruling elite has prioritized their pockets over social development. Presidents in all four countries have appointed allies and friends to key government positions and used anticorruption investigations to remove their foes, a tactic that has allowed them to remain in power for decades.<sup>6</sup> As investigative reporting uncovers the extent of this corruption,<sup>7</sup> and corruption-related judicial cases around the world provide a wealth of detailed information to support these claims,<sup>8</sup> the public has learned that these kleptocrats' ambitions are enabled by networks that facilitate mass looting and the use of repressive measures to maintain control of their governments. Yet even the best possible intentions to address these concerns have been derailed, to some extent, by the problem of the new coronavirus—which in itself has opened up opportunities for the unscrupulous to attempt to profit from global catastrophe.

### **The kleptocrats' response to the health crisis**

Kleptocracy is the norm in these Central African states. When a crisis occurs, their institutions are inherently weaker and less able to respond effectively. Ministries are not staffed with experienced, knowledgeable civil servants, but with the family and friends of the ruling class.<sup>9</sup> When the COVID-19 pandemic hit the region in March 2020, institutions could respond neither effectively nor efficiently—if, indeed, they could respond at all.<sup>10</sup> The governments followed their usual formula when creating COVID-19 response teams: they chose to appoint close allies instead of the doctors and technical experts who could provide valuable knowledge for a proper response.<sup>11</sup>

Favoring oversized security and defense budgets, governments in the region have long neglected the necessary investment to advance their social sectors, including health and education.<sup>12</sup> Healthcare facilities throughout the region have paid the price. In Congo-Brazzaville, medical personnel worked without pay for months even before the global health crisis.<sup>13</sup> Hospitals and doctors have gone without proper training, adequate supplies, medical equipment, and hospital beds for years, well before the surge in demand caused

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*Citizens in these countries face far greater risks of dying from COVID-19 because of the underlying kleptocratic conditions that have resulted from decades of looting by the ruling elite.*

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by the new coronavirus.<sup>14</sup> Unsurprisingly, when personal gain presides over the good of the people, ordinary citizens consistently lack access to basic services. In many regions throughout these countries, people have been forced to endure poor sanitation, decaying hospitals, and even a lack of clean water. Citizens in these countries face far greater risks of dying from COVID-19 because of the underlying kleptocratic conditions that have resulted from decades of looting by the ruling elite.<sup>15</sup> These preexisting conditions came together in a lethal combination, leaving states ill-prepared to respond when the global health crisis hit the region.

Much as with other government resources, funds to combat the spread of the new coronavirus—including government budgets, donations, and international aid—have been managed without transparency. In Cameroon, certain donations and contributions do not appear in the information published by the government,<sup>16</sup> and in-kind donations have disappeared from the state's budget.<sup>17</sup> In Congo-Brazzaville, government mandates required that those exposed to the virus be quarantined in hotels belonging to the ruling family, and in-kind donations of personal protective equipment and sanitizer were distributed to commercial stores or channeled for political activities.<sup>18</sup> In Chad, money for its COVID-19 response has been diverted to the pockets of government officials, and protective equipment has been advertised for resale.<sup>19</sup> With little accountability, it is difficult to determine the true depth of the corruption—or the likely cost in lives that has resulted from it.

### **Exploiting the pandemic: sustain oppression and continue looting**

Central African governments have not allocated sufficient financial resources from state budgets to respond to the pandemic. Instead, they have relied heavily on private or international donations and aid requests. In Equatorial Guinea, for example, government officials and private companies owned by relatives of the ruling family donated masks or money to support the government, even as they used their positions to circumvent the restrictions imposed during quarantine for their personal benefit.<sup>20</sup> In Cameroon, the pandemic has opened up profitable business opportunities, while conflict-of-interest allegations have marred the response to build COVID-19 health units.<sup>21</sup> In all cases, the public health crisis has taken second place to the private interests of medical profiteers.

Although some independent, critical voices have attempted to sound the alarm on these issues, civil leaders and independent journalists who express dissent in these Central African countries are regularly harassed and jailed.<sup>22</sup> Others who might speak out are silenced by a tacit fear of retaliation. This environment of hostility fostered by kleptocrats has been key to their ongoing rule: it has successfully disrupted and controlled the flow of information and ensured that kleptocrats remain able to operate unencumbered by the checks and balances that otherwise could supply counterweights to their authority. From the earliest weeks of the pandemic, kleptocrats throughout Central Africa continued to influence public opinion and leave their citizens in the dark by restricting the publication of COVID-19 figures and manipulating datasets on case rates, hospitalizations, and fatalities.<sup>23</sup> It is important to note that just as the COVID-19 virus is not limited by national boundaries, neither is transnational kleptocracy. Kleptocrats consolidate their power at home in part by integrating themselves with the elite in democracies. This reputation laundering, in combination with the enabling

role democracies often play in transnational kleptocracy, causes reputational damage in democracies. The flow of illicit funds through the political and financial systems in democratic states has a deeply corrosive effect on governance in those settings.

Furthermore, the pandemic has offered a unique opportunity for kleptocratic and authoritarian regimes to pass even more restrictive measures to control their citizens and secure their grip on power. In Congo-Brazzaville and Equatorial Guinea, local police have used quarantine measures to harass citizens, demand bribes, and beat those who have not complied with restrictions.<sup>24</sup> In Chad, Congo-Brazzaville, and Equatorial Guinea,<sup>25</sup> those who criticize the government response face retaliation ranging from job suspension to jail time. In such repressive circumstances, there is little room for the sort of hard-hitting investigations that might force kleptocratic actors to face justice.

### How to beat a kleptocrat

Kleptocrats take control of state institutions to ensure that there are few accountability mechanisms and mobilize state resources to quash dissent. Yet, just as the kleptocratic machine is oiled by a network of enablers, those fighting kleptocracy need to use similarly collaborative and proactive tactics to help build an accountability ecosystem that will put in place the countermeasures needed to oppose kleptocratic rulers. Because kleptocracy is a systemic problem, one that cannot be addressed by a singular or isolated approach,<sup>26</sup> national and international civil society should explore four interrelated responses:

- **Raise citizen awareness:** Citizens need to feel personally affected by the looting to understand the link between kleptocracy and the lack of services. An important step would be to highlight that the hardships that citizens suffer on a day-to-day basis—which have been exacerbated by the COVID-19 pandemic—are the result of the kleptocrats who rule their countries. Because this can be difficult to achieve in the tightly-controlled settings of source countries, the international community must be made aware of the corrosive effect of transnational kleptocracy in their countries, as well as their countries' role in facilitating it.
- **Build broad coalitions:** Investigative reports and cases prosecuted in Western countries provide detailed information about how elites have robbed their countries' coffers. However, this information does not always resonate with citizens or reach them in ways they can comprehend. Coalitions of local and international civil society organizations and journalists need to translate this detailed information for domestic and international audiences in a way that will have a real impact on public awareness.<sup>27</sup>
- **Adapt delivery methods to context:** In Central Africa, most people have only limited access to internet and technology, so information needs to be shared through the channels available to citizens, such as WhatsApp or Facebook.

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*Yet, just as the kleptocratic machine is oiled by a network of enablers, those fighting kleptocracy need to use similarly collaborative and proactive tactics to help build an accountability ecosystem that will put in place the countermeasures needed to oppose kleptocratic rulers.*

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- **Collaborate across borders:** By building partnerships with influencers, artists, international organizations, and media, opponents of kleptocrats in Central Africa can amplify messages of hardship and its link to the looting of resources at the international and national level.

These actions will help build a citizenry that is informed about the ways kleptocracy affects them at home and forge connections with international partners who can help increase pressure against kleptocrats. Building and reinforcing the foundations of engaged citizens who demand accountability and change from their governments is a necessary prerequisite for holding leaders to account.

Kleptocratic networks today branch out with speed and ease, reaching into virtually all corners of the globe. Given its complexity and the way it reverberates between countries seen as kleptocratic source settings and those with rule of law, the problem can be addressed only through diverse, complementary efforts by local, regional, and international actors. These suggested actions lay the foundation for the systemic change required to curb kleptocracy.

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# Mobilizing Against Kleptocracy

## Lessons from Equatorial Guinea

By Lucas Olo Fernandes





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*Even though a country like Equatorial Guinea may have a high gross domestic product (GDP) per capita rate from oil wealth, its low life expectancy and education levels, high poverty rates, and other lagging development indicators point to a pattern of resources being redirected from social or public services into the pockets of political elites.*

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**T**ransnational kleptocracy is a method of authoritarian control where political leaders direct state resources into the international financial system, usually ending up in democracies with strong legal protections. Repression and corruption frequently prevent citizens in kleptocratic countries from realizing their full spectrum of civil and political rights. To hold onto power, kleptocrats undermine civil society efforts to promote accountability in both the source countries of their illicit financial flows and the democracies that host the global institutions used to launder this funding. If civil society at home poses a threat to their ability to use ill-gotten funds to support themselves and their allies, then kleptocrats will go to great lengths to eliminate this threat.

#### **Africa and the new coronavirus: A case study of Equatorial Guinea**

In many countries in West and Central Africa, such as Equatorial Guinea, Congo-Brazzaville, Cameroon, and Gabon, the evidence of kleptocracy is not hidden. Even though a country like Equatorial Guinea may have a high gross domestic product (GDP) per capita rate from oil wealth, its low life expectancy and education levels, high poverty rates, and other lagging development indicators point to a pattern of resources being redirected from social or public services into the pockets of political elites.<sup>1</sup> Oil production may have enabled Equatorial Guinea to attain a level of financial sustainability despite the state capture of resources, but much of its revenue allegedly has been directed to President Teodoro Obiang Nguema Mbasogo's network, mainly through wasteful infrastructure projects. Very little of the country's budget is spent on social services to enhance the prosperity and welfare of the public.<sup>2</sup>

At the same time, independent media is illegal in Equatorial Guinea, and only state-run communications are permitted, meaning that sorely needed scrutiny of corruption is difficult, if not impossible. Most private and public companies in Equatorial Guinea are owned and operated by the political leadership and its associates. The ruling coalition also has been known to shut down the internet and social media platforms during elections or after violent attacks against the country's opposition parties, preventing civil society advocacy or criticism of the government. Freedom of assembly is restricted and critics may be charged with arbitrary crimes, arrested, or abused. In 2018, the most recent year for which data are available, 26 percent of people in Equatorial Guinea were reported to use the internet—an internet penetration rate far below that of most other countries in Africa.<sup>3</sup>

In March 2020, Equatorial Guinea registered its first diagnosed case of COVID-19. The pandemic has revealed a host of other issues in the country, including mismanagement and corruption, on top of existing rights violations and high levels of poverty. Earlier in 2020, falling oil prices hit the country's economy hard. This downturn worsened with the pandemic

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*The growing threat of prosecution that kleptocrats have faced overseas—as well as the restrictions on movement that many countries have enacted in response to the pandemic—has pushed many kleptocrats to stay closer to home, thereby impeding their full enjoyment of their ill-gotten gains in high-end destinations around the world.*

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and ensuing rampant unemployment. In late May, the Equatoguinean government accused the World Health Organization (WHO) of falsifying COVID-19 data and inflating the number of cases; in response, it forced the WHO to replace its representative in the country.<sup>4</sup> As a result, from the end of May to July, the government suspended its daily report of cases, only to reinstate them in mid-August.<sup>5</sup>

The Equatoguinean elite's contentious attitude toward the threat of the pandemic highlighted the prevalence of corruption that became evident during the distribution of pandemic-related emergency funds. In one instance, all the hotels selected to quarantine people diagnosed with the virus were owned by President Obiang's extended family and trusted associates.<sup>6</sup> The amount of money raised from this activity was about double the 5 billion CFA fund created to fight the pandemic. However, it is unclear what this fund was being used for, and there is no evidence that it was being used to help the population.<sup>7</sup> The country's schools also continued to be overcrowded despite mandates that they operate at half capacity. Public education in Equatorial Guinea is so underfunded that there are few schools available for students, especially for families who cannot afford private education.<sup>8</sup>

Efforts to cover the country's burgeoning social unrest and the government's haphazard response were met with little but threats and reprisals. During the lockdown in the spring, videos spread on social media accusing the Equatoguinean police and military of violence, with numerous citizens reporting claims of assault. However, when a local television program aired some of these videos, the program in question was suspended.<sup>9</sup> An opposition party also reported that healthcare workers were not being informed of proper precautions against coronavirus and that the capacity of the country's health system was unknown. When one nurse spoke up on this subject, she was arrested and imprisoned.<sup>10</sup>

### **Potential opportunities, or possible pitfalls?**

One unexpected potential benefit of the pandemic is that technology has provided an outlet for citizens to express their frustration and discontent. Equatorial Guinea, Congo-Brazzaville, and Gabon have businesses run by kleptocrats who must remain competitive in the global economy and innovate using new technologies. This changing technological landscape can lead to surveillance, disinformation, and other undemocratic activities, yet it also has given civil society the tools to use social media as a form of activism if the pandemic leads to increased internet connection and democratized access to it. Thus, the pandemic has opened up an opportunity to tear down hindrances to civil society that governments deliberately built to curtail fundamental rights. Social networks such as Facebook, Twitter, or WhatsApp act as a bridge that allows citizens to exercise their rights of political expression and protest—and, when these rights are attacked, demand their reinstatement through those same means. Unsurprisingly, in response to the growing repression in Equatorial Guinea and neighboring African countries, citizens have taken to social media to protest.

The pandemic has led to fundamental changes in how kleptocratic actors operate, at least temporarily. Increasingly stringent regulations in countries that have been the preferred destinations for kleptocrats' ill-gotten gains and the prosecution of legal cases in those settings have shrunk kleptocrats' operating space. The growing threat of prosecution that klep-

tocrats have faced overseas—as well as the restrictions on movement that many countries have enacted in response to the pandemic—has pushed many kleptocrats to stay closer to home, thereby impeding their full enjoyment of their ill-gotten gains in high-end destinations around the world.

That said, several factors may reduce the potential value of these opportunities:

- The new normal **may not be as permanent as anticipated**, and the digital divide might reopen sooner rather than later. This is a relatively low risk, because situations in many other countries have proven that the economic benefits of a low-cost internet are higher than the need to silence a few dissenting voices. At the end of the day, kleptocrats tend to be more business-driven than politically or ideologically motivated.
- The longer the pandemic lasts, the more **time** kleptocrats will have to find ways to deflect the impact of the situation and establish new safe havens for their assets. This is a greater risk, as there is always a port somewhere in the world waiting to serve as a harbor for easy money. Sources have shown how Dubai provided a channel through which the vice president of Equatorial Guinea was able to participate in an auction to buy back part of his car collection, which had been seized by the Swiss judicial authorities.<sup>11</sup> More recently, a former head of the national oil company and in-law of the president, Cándido Nsue Okomo, was arrested<sup>12</sup> in Dubai and he is apparently now awaiting extradition to Spain where he is under investigation.<sup>13</sup>
- An **economic rebound** could result in the increase of oil prices and therefore a rise in the source of income favored by most kleptocracies. This risk might be tempered by a more rapid movement toward a global green economy that is less reliant on oil and natural gas.
- **Safety** for activists and advocates is always a concern. Repressive countries have invested heavily in the capacity to digitally monitor their citizens. Paradoxically, the effectiveness of such practices relies on the increased ability of the citizens to access the internet. Another safety-related issue is linked to the direct retaliation against concerned, vocal citizens. In Equatorial Guinea during the first months of the pandemic, police and military forces attacked an increasing number of individuals, but fortunately those who challenged these actions were able to mobilize quickly against these practices, forcing the government to take a step back or at least to address some of the cases that went viral on social media. This was a groundbreaking event: on other occasions, these cases simply had been ignored.

If the fulfillment of fundamental rights is viewed as a linear process, one could argue that citizens in most kleptocracies are still struggling to obtain their first-generation rights (political and civil rights). Their second-generation rights (social, economic and cultural rights) are also undermined due to high levels of corruption. But in this potential window of opportunity, the third-generation rights may be what triggers change. This could be the case of the right to communication (under the right to development) that should enable first- and second-generation rights, as experts have suggested.<sup>14</sup>

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*The longer the pandemic lasts, the more time kleptocrats will have to find ways to deflect the impact of the situation and establish new safe havens for their assets.*

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In considering the rise of social media usage and civic activism in Equatorial Guinea, one could counter-argue that the moribund situation in other countries with higher internet penetration does not indicate that a domino effect is likely to occur, particularly in some other African countries. That is a fair argument; however, those countries had a different starting point. At least they had a system or a field where the political game could be played—even if the leadership might have been inclined to cheat in ways that undercut democracy. Where the actual presence or absence of *any* kind of playing field is at stake, the potential bridging effect of third-generation rights could be more likely to impact citizens.

This task of motivating civil society in Equatorial Guinea online to press for change requires the support of the international community. Since the proceeds of the theft that occurs inside Equatorial Guinea typically ends up in rule-of-law settings, corroding norms, institutions, and democracy along the way, there is plenty of space for advocacy among a broad coalition of democratic forces. Even though the COVID-19 pandemic has forced people around the world to rethink how they connect, interact, and come together, the need for transnational approaches to combating kleptocracy has never been greater.

## Endnotes

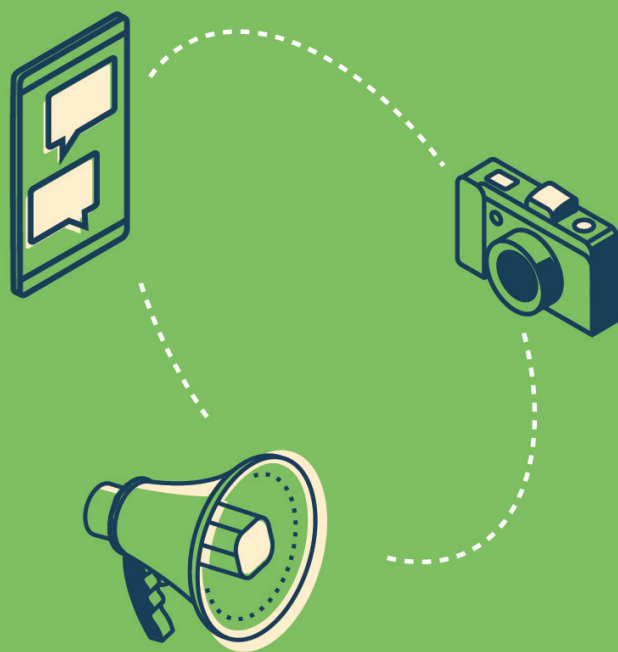
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# An Unlikely Bright Spot

## Networked Investigative Journalism in the Age of COVID-19

By Miranda Patrucic



As the 2016 Panama Papers, 2017 Paradise Papers, 2017 Azerbaijan Laundromat, and 2020 Luanda Leaks have shown, collaborative investigative journalism initiatives are key to linking the complex pieces of information that help explain and expose transnational kleptocracy. While many traditional media outlets have struggled in recent years to adopt journalistic models capable of responding to the multifaceted nature of cross-border kleptocracy, the collaborative platforms have demonstrated their impact in this regard.<sup>1</sup> When the COVID-19 pandemic hit in early 2020, investigative journalists all over the world launched efforts to track and expose potential avenues for corruption, given the vast amounts of aid to be disbursed in very short order to meet emergency public health needs. The potential for the conditions associated with the pandemic to turbocharge kleptocracy is considerable.

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*As the new coronavirus swept across the world, collaborative platforms such as the Organized Crime and Corruption Reporting Project (OCCRP), as well as the independent investigative outlets that support them, saw new prospects to hold governments to account.*

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The pandemic undoubtedly will have some negative consequences for collaborative journalism platforms. As the economic impact of the virus reverberates across the world, traditional funders of independent media may become stretched or turn their attention elsewhere. However, investigative journalists also may be able to take advantage of unexpected opportunities for independent media involvement in the exposure of transnational kleptocracy, particularly those operating in kleptocratic countries. As the new coronavirus swept across the world, collaborative platforms such as the Organized Crime and Corruption Reporting Project (OCCRP),<sup>2</sup> as well as the independent investigative outlets that support them, saw new prospects to hold governments to account. They went out of their comfort zone, moving in part from long-form journalism to daily news and using their investigative skills to probe official responses, expose failures, and provide the public with reliable information.

Fact-checking has always been an integral component of quality journalism, but public facing fact-checking became a vital resource to citizens worldwide as mis- and disinformation around the new coronavirus flourished. In one example, the Serbian outlet KRIK (The Crime and Corruption Reporting Network)<sup>3</sup> has used its fact-checking arm, RasKRIKavanje, not only to debunk misleading news about the COVID-19 pandemic in the media and on social networks, but also to conduct traditional reporting. Building on the public trust it developed through fact-checking, it informed citizens about a range of topics, from the emergency measures being implemented in Serbia to incidents of citizens being arrested for violating isolation requirements (even though they were not subject to mandatory quarantines).<sup>4</sup>



In Kyrgyzstan, the popular news website Kloop<sup>5</sup> turned its focus to engaging the audience and providing critical statistics and explanations on pandemic-related topics that the authorities failed to provide. Kloop's journalists used their data analysis skills to probe the official numbers and show when the official statistics were misleading. They used the power of visual storytelling in important ways. For instance, Kloop presented short documentaries featuring the work of medical professionals who lacked essential protective equipment and used these reports to appeal for safer working conditions for the country's healthcare providers.<sup>6</sup> Crucially, in a difficult time for the country, their reporting also showed how ordinary Kyrgyz people joined together to help each other during the peak of the pandemic by bringing groceries to those in need and providing food and other supplies to doctors and other public service workers. Other investigations also looked into how money from donations and international grants was spent.

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*The COVID-19 pandemic has shown that these collaborative forms of journalism are well positioned to continue their work and even raise it to new heights.*

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In Russia, another group of reporters established a new outlet called Important Stories, or iStories,<sup>7</sup> during the height of the pandemic. As they were preparing to launch, the reporters realized they needed to drop all their carefully planned investigations and focus on COVID-19-related stories. The outlet's first investigation exposed how the authorities allegedly procured ventilators through bogus companies who sold them bad equipment.<sup>8</sup> Their other reports told stories many other outlets did not cover, including about how lockdowns implemented to stop the spread of the virus have led to a rise in domestic violence and substance abuse.

The outlets that have demonstrated this flexibility and responsiveness in their reporting are reaping the rewards. Many have reported significant, if not historic, increases in traffic since the beginning of the crisis. KRIK alone had a tenfold jump in views, from one-hundred thousand a month to more than a million. This explosive growth has revealed the extent to which there is public demand for reliable sources of information they can trust. Such demand can often be masked in authoritarian settings in which the authorities seek to dominate and manipulate the media environment.

Investigative journalism sites also have reported a significant rise in donations. Just before the Serbian elections in June, the government gave each citizen 100 euros to help them get through the crisis. Many people saw this one-off payment as an attempt to buy their votes and mask the state's inability to fight the pandemic, so they decided to donate their money to KRIK and support the outlet's award-winning investigative reporting.

With the growth in traffic and funding has come an equally remarkable growth in citizen activism. Some new outlets turned to crowdfunding to support their activities and saw a rise in interest among the public to contribute to independent journalism. The reporting for the stories started to be crowdsourced, too. Newsrooms began to receive tips in large numbers from ordinary citizens experiencing problems in their day-to-day lives, such as police harassment and medicine shortages. Journalists even began to receive documents, images, and videos from people who wanted to contribute to their investigations and trusted them to use this information responsibly. The COVID-19 pandemic has shown that these collaborative forms of journalism are well positioned to continue their work and even raise it to new heights. Even though health precautions forced reporters and editors to work from home,

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*The ultimate opportunity the COVID-19 pandemic has provided is a change in the way people see the role and the effects of journalism in their lives. The pandemic showed that corruption is not merely an abstract concept that rarely impacts people's daily affairs. It kills and it deprives people of their basic rights.*

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their newsrooms were able to initiate extensive investigations into how their countries were dealing with the new coronavirus, pulling together large teams to expose new stories at a rapid pace. They also found ways to develop new sources without meeting them in person.

But the ultimate opportunity the COVID-19 pandemic has provided is a change in the way people see the role and the effects of journalism in their lives. The pandemic showed that corruption is not merely an abstract concept that rarely impacts people's daily affairs. It kills and it deprives people of their basic rights. The pandemic makes the human cost of theft and corruption all the more obvious. In a time of rampant misinformation and propaganda, it also shows the value of independent media. Organizations like OCCRP and other collaborative outlets ensure that populist leaders and demagogues who claim to operate effectively during a crisis are held to account. Now the challenge is to keep the gains that have been made and engage people even further.

One way to encourage ongoing public engagement—besides the well-reported stories and solid sourcing that are the hallmarks of good journalism—is to develop new ways to present information in clear and comprehensive ways. Part of the innovation lies in technology and web design. New approaches to journalism include providing the public with the original documents behind each publication. Some viewers simply may want to see a list of key findings and share it with their friends. Others, such as professional journalists, officials, or investigators, want to dive into every minute detail of each and every offshore company involved in a complex story. Another aspect involves improving storytelling skills to translate complex kleptocracy-related stories into digestible information. Pairing investigative journalists with professional writers enables the finished product to reach incredible, never-before-possible levels that resonate with audiences at home and abroad.

One critical concern is the need to protect independent media themselves, especially from financial uncertainties when it comes to donor funding. When the COVID-19 pandemic started, a number of donors, especially private foundations, understandably shifted their focus from funding the media to providing COVID-19 support. That led to a number of media organizations facing unexpected shortfalls at a time when their work was more important than ever. It is true that independent outlets in poorer countries will always have to rely on donors in some way. But they need to find ways to adapt, protect their core activities, and survive at times when money is running short. Those that are able to survive will have a vision, long-term planning, and efficiency in spending. They also will need to shift their funding from project grants and conference-style events to core funding and focusing on strengthening their key activities—developing their journalists and publishing stories that matter.

The COVID-19 pandemic has forced a reckoning among journalists, particularly those who investigate corruption and kleptocratic behavior in environments that are unfriendly to media inquiry. Media outlets that are flexible—both in terms of the type of news they cover and the ways in which they cover it—are able to capitalize on unexpected opportunities presented by the pandemic to continue exposing transnational kleptocracy and its devastating impact on people's health and well-being.

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## About the International Forum for Democratic Studies

The International Forum for Democratic Studies at the National Endowment for Democracy (NED) is a leading center for analysis and discussion of the theory and practice of democracy around the world. The Forum complements NED's core mission—assisting civil society groups abroad in their efforts to foster and strengthen democracy—by linking the academic community with activists from across the globe. Through its multifaceted activities, the Forum responds to challenges facing countries around the world by analyzing opportunities for democratic transition, reform, and consolidation. The Forum pursues its goals through several interrelated initiatives: publishing the *Journal of Democracy*, the world's leading publication on the theory and practice of democracy; hosting fellowship programs for international democracy activists, journalists, and scholars; coordinating a global network of think tanks; and undertaking a diverse range of analytical initiatives to explore critical themes relating to democratic development.

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