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.

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.

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.[1] 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.[2] 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.[3] 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.[4] 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.[5] 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.

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.

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.[6] 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.[7] 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.[8] 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.[9] 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.[10]

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 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.[11]

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.

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.[12] 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.[13] The 2021 National Defense Authorization Act also included a provision to end anonymous shell companies, a long awaited victory for the anti-kleptocracy movement.[14]

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.

Endnotes

1 Casey Michel and David Szakonyi, "America's Cultural Institutions Are Quietly Fueled by Russian Corruption," *Foreign Policy*, 30 October 2020, *https://foreignpolicy.com/2020/10/30/americas-cultural-institutions-are-quietly-fueled-by-russian-corruption*.

2 Nadège Rolland, *Commanding Ideas: Think Tanks as Platforms for Authoritarian Influence*, National Endowment for Democracy, December 2020, *www.ned.org/wp-content/uploads/2020/12/Commanding-Ideas-Think-Tanks-as-Platforms-for-Authoritarian-Influence-Rolland-Dec-2020.pdf*.

3 Ben Freeman, *Foreign Funding of Think Tanks in America*, Center for International Policy, January 2020, *https://static.wixstatic.com/ugd/3ba8a1_4f06e99f35d4485b801f8dbfe33b6a3f.pdf*.

4 Sarah Neville, "British Think-Tanks 'Less Transparent About Sources of Funding,'" *Financial Times*, 16 February 2015, *www.ft.com/content/ae6968c4-b5ec-11e4-b58d-00144feab7de*.

5 Eric Lipton, Brooke Williams, and Nicholas Confessore, "Foreign Powers Buy Influence at Think Tanks," *New York Times*, 6 September 2014, *www.nytimes.com/2014/09/07/us/politics/foreign-powers-buy-influence-at-think-tanks.html*.

6 United States Senate Permanent Subcommittee on Investigations, Committee on Homeland Security and Governmental Affairs, *Keeping Foreign Corruption Out of the United States: Four Case Histories*, Majority and Minority Staff Report, 4 February 2010, 3, *www.hsgac.senate.gov/imo/media/doc/FOREIGNCORRUPTIONREPORTFINAL710.pdf*.

7 Michel and Szakonyi, "America's Cultural Institutions Are Quietly Fueled by Russian Corruption."

8 Natasha Bertrand, "Congressional Probe: Russian Oligarchs Using Art to Evade Sanctions," *Politico*, 29 July 2020, *www.politico.com/news/2020/07/29/probe-russian-oligarchs-evade-art-sanctions-386154*.

9 "Shielding Seized Assets from Corruption's Clutches," *New York Times*, 30 December 2016, *www.nytimes.com/2016/12/30/business/justice-department-tries-to-shield-repatriations-from-kleptocrats.html*.

10 United States Senate Permanent Subcommittee on Investigations, Committee on Homeland Security and Governmental Affairs, *The Art Industry and U.S. Policies That Undermine Sanctions*, 29 July 2020, *https://www.hsgac.senate.gov/imo/media/doc/2020-07-29%20PSI%20Staff%20Report%20-%20The%20Art%20Industry%20and%20U.S.%20Policies%20that%20Undermine%20Sanctions.pdf*.

11 Leslie Wayne, "Exclusive: EU Eyes Legal Action Over Cyprus's 'Golden Passport,'" Al Jazeera, 27 August 2020, *www.aljazeera.com/videos/2020/08/27/exclusive-eu-eyes-legal-action-over-cypruss-golden-passport*.

12 Casey Michel, "The U.S. Is a Good Place for Bad People to Stash Their Money," *Atlantic*, 13 July 2017, *www.theatlantic.com/business/archive/2017/07/us-anonymous-shell-companies/531996*.

13 Casey Michel, "Congress Wakes Up, Finally Decides to Tackle Kleptocracy," Just Security, 7 October 2019, *www.justsecurity.org/66388/congress-wakes-up-finally-decides-to-tackle-kleptocracy*.

14 Casey Michel, "How to Stop Kleptocrats From Stashing Their Cash in America," *New Republic*, 18 September 2019, *https://newrepublic.com/article/155100/stop-kleptocrats-stashing-cash-america*.