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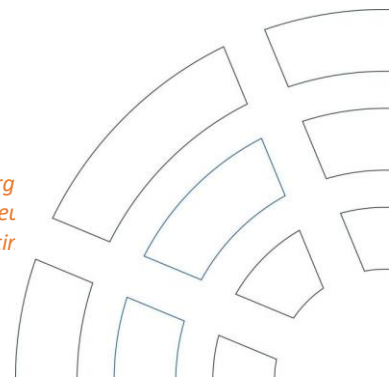
PRELIMINARY DRAFT GENERAL REPORT

# STRATEGIC AND ECONOMIC CHALLENGES POSED BY CORRUPTION

Preliminary Draft General Report  
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Corruption undermines institutions that are critical to administering states. It enables terrorist and criminal networks both by providing vehicles for these groups to finance their operations and by weakening the hand of the states that they oppose. Corruption forges links between political elites and organised criminal groups – some of which may be tied to terrorist groups engaged in drug, arms and human trafficking. Corruption weakens societies by undermining economic potential. It is, almost by definition, a misallocation of private and public resources; yet it is difficult to gauge its toll. How does one, for example, attach a figure to investments never made because pervasive corruption essentially raises risk premia and eviscerates the potential for earning returns? Corruption also renders state regulation of the market irrational and ponderous. It undercuts state finances by making fair tax assessment and collection all but impossible. It insidiously rewards the well-connected and untalented while penalising society's more skilful, productive and virtuous actors who are denied opportunities as channels of influence become distorted by venality. It erodes national financial systems when those systems are flooded with the revenues from corruption.

Corruption undermines democratic governance, election integrity and civil society participation in the life of the state. This is particularly problematic in countries where democracy is weak, but this malignant force also threatens stronger democracies. Freedom House, for example ranks corruption along with ever more powerful anti-liberal political movements, election subversion, and the breakdown of the rule of the law as among the drivers of a global retreat from democracy. When corruption is institutionalised, it becomes a means by which ruling parties and elites consolidate their hold over the state and the electoral process itself. State capture describes a condition in which well-connected elites state actors use corruption to shape national policies and laws to benefit their own private interests. It allows the corrupt to maintain their power, obtain riches from the state and avoid legal consequences for their theft.

Russia illustrates the phenomenon clearly. Its leaders, many hailing from the intelligence apparatus, have essentially seized both public and private assets and deployed these to enrich themselves, to maintain their hold on power and to ensure that their narrow interests are advanced globally. Russian corruption has dramatically constrained the emergence of a dynamic private sector and an autonomous and vibrant civil society.

Given its capacity to weaken the institutional and societal underpinnings of the state, corruption is also a powerful tool of hybrid warfare and national security policy. It is, for example, an instrument frequently deployed by Russia's security apparatus not simply to purchase compliance, but also to foster weakness and servility. The Kremlin has combined its use of corruption as a policy tool. It deploys its control over important oil and gas industries and corrupt practices to create political and economic dependencies, while sowing distrust, confusion and weakness. Putin's Kremlin has used this tool not only in countries like Ukraine, but also throughout much of the Western Balkans and in Western countries.

Both China and Russia have used large investment projects to subvert democratic resilience, foster dependence and weaken the capacity of recipient societies to counter the agenda of authoritarian competitors both domestically and internationally.

Bribing decision makers responsible for signing large infrastructure contracts both creates vulnerabilities and provides these authoritarian states with “shills” prepared to do their bidding both because they have been paid to do so and because they are vulnerable to blackmail – or worse.

For these and other reasons, the question of how to reduce purposeful and incidental complicity in corruption, particularly where it poses a strategic threat, has moved to the centre of the international agenda. The introduction of comprehensive sanctions against Russia following its invasion of Ukraine marks a sea change not only in international relations, but in how Allied governments intend to address the problem of international corruption and its security implications.

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## I- INTRODUCTION - WHY SHOULD NATO COUNTRIES WORRY ABOUT CORRUPTION: THE AFGHAN CASE

1. The recent collapse of the Afghan state and military in the face of a Taliban offensive has triggered a serious set of discussions among policy makers and strategic thinkers about what transpired in that country, why the international community failed to achieve many of its goals, and what exactly had led to the Afghan state's collapse and the utter dissolution of its military (NATO, November 2021). Almost invariably, experts and policy makers, including Afghan experts, have pointed to endemic corruption as a central factor in this tragedy. As allied countries assess these lessons, they will need to think more systematically and seriously about how corruption shapes the security landscape and what can be done both to account for it and to help limit it.

2. Indeed, the Afghan experience and the current crisis with Russia following its vicious and criminal attack on Ukraine raise a range of broad questions about the relevance of the corruption-security nexus. Policy makers will henceforward need to consider how serious a threat corruption poses in a given situation, how it shapes security, political and economic landscapes and how can it best be countered (as ending it entirely seems impossible even in countries with very low incidence of corruption).

3. In some foreign policy circles, corruption has often been treated as a matter of secondary importance. That should not be surprising. Corruption is not kinetic, it operates and indeed flourishes in the shadows, and its links to broader drivers of insecurity can be difficult to discern. Yet corruption's practitioners can and often do reach to very highest echelons of the state, national militaries and the commercial class, and its malign norms can very easily supplant the logic of good democratic governance, effective economic policy and national and international security. Clearly, this is also a problem that evades military solutions. Indeed, war itself is typically a catalyst for the intensification of corruption, while corruption can be both a tool and a catalyst for war. In short, to ignore corruption is to court disaster.

4. The case of Afghanistan is particularly salient in this regard. In that beleaguered country, corruption proved a primary source of insecurity and it exacerbated the country's fragility. A venal state undermined governance and weakened social trust and cohesion by utterly eroding faith in both public and private institutions. This damaged the state's legitimacy and created opportunities for a Taliban revival. Indeed, many Afghans were so alienated by the abject corruption of officials that they looked to the Taliban as a kind of a harsh remedy to this pervasive problem. That, in itself, reflected a kind of societal desperation in the face of a venal state.

5. Corruption also hollowed out the Afghan military with non-existent phantom fighting forces, the purpose of which were to enrich corrupt officers and officials who pocketed public funds, including aid from allies. Those funds were desperately needed for national security forces. After the fall of Kabul, a former Finance Minister, Khalid Payenda, suggested that most of the 300,000 troops and police on the government's books simply did not exist. So called "ghost soldiers" were added to official lists so that generals could pocket their wages. He added the ranks of the military may have been inflated by more than six times, noting that "desertions [and] martyrs who were never accounted for because some of the commanders would keep their bank cards" and withdraw their salaries. This was not news to Western governments. A 2016 report by the US Special Inspector General for Afghanistan Reconstruction (SIGAR) observed that "neither the United States nor its Afghan allies know how many Afghan soldiers and police actually exist, how many are, in fact, available for duty, or, by extension, the true nature of their operational capabilities". In a later report, Sigar explored "the corrosive effects of corruption (...) and the questionable accuracy of data on the actual strength of the force" (BBC News, 2021). It should hardly have been a shock that the Afghan military virtually evaporated during the final days of the conflict.

6. As one considers the destructive impacts of corruption and the central role it played in the collapse of the Afghan military and state, it is important also to reflect on the enormous toll this took on Afghanistan and on NATO allies. The combat mission in Afghanistan was the longest in American history and among its most painful. As of April 2021, several months before the fall of Kabul, 2,448 American service members had been killed in that conflict and 3,846 US contractors had died. 1,144 service members from other coalition members, including NATO member states had been killed in the conflict as well as 66,000 Afghan military and police. Officially, at least 47,245 Afghan citizens died in the conflict, although the numbers were likely higher. It is also estimated that the United States borrowed USD 2 trillion to underwrite the mission in Afghanistan and Iraq, and that the interest costs on this debt will reach USD 6.5 trillion by 2050 (Knickmeyer, 2021). If corruption was indeed a decisive factor in the outcome of this tragic war, then this sacrifice in lives and treasure should also be understood as part of the cost of corruption. The Afghan case thus provides a salient if nonetheless very painful lesson in how corruption can act as both a catalyst for and a product of societal fragility, state failure and costly security catastrophe.

7. Afghanistan's central place in the global opium trade provides yet another example of how corruption and criminality combined to erode state authority and national institutions. It was always understood that there were senior government officials profiting from the trade but so too were the Taliban and other extremist and criminal groups operating in the country, including the so-called Islamic State and Al Qaeda. Drug trafficking generated 60% of the Taliban's income and helped sustain its fighters in the battlefield. It also helped them forge links to farmers and traders in the countryside and thus deepen their presence in Afghan society. The trade, however, entrenched a culture of corruption throughout Afghanistan, and, in many ways, helped construct a subterranean alternative to the state while simultaneously undermining judicial, law enforcement, military and other essential governing institutions. When US and British forces began operations in Afghanistan, there were 74,000 hectares of Afghan land dedicated to opium cultivation. By 2017, that figure stood at 120,000 hectares and then leapt to 328,000 hectares by April 2019 (Rowlatt, 2019). That alone speaks to a serious degradation in governance in the country. Attempts to counter the phenomenon through military means such as US Operation Iron Tempest, were generally seen as not having succeeded in thwarting the trade nor in addressing the roots of the problem. Bombing low tech opium processing facilities with advanced aircraft, for example, proved both costly and ultimately ineffective (Hennigan, 2019).

## **II- CORRUPTION: PUTTING NATIONAL SECURITY AND NATIONAL ECONOMIES AT RISK**

8. Afghanistan's experience is not unique even if it is extreme, and it provides several critical illustrations of the relationship between corruption and security. It is first worth noting that there are many forms of corruption which challenge the rule of law, the functioning of national economies and social and political cohesion. Corruption undermines institutions that are critical to administering states. It enables terrorist and criminal networks both by providing vehicles for these groups to finance their operations and by weakening the hand of the states that they oppose. Corruption can also forge links between elements of the political elite and organised criminal groups – some of which may be tied to terrorist groups engaged in drug, arms and human trafficking.

9. As suggested above, the Afghan case also demonstrates how corruption can hollow out national military forces. It can do so in myriad ways: through the procurement process; through the diversion of military forces to criminal activities; by upending military meritocracy and undermining the good order and conduct of those forces; and by fostering illicit commercial and other ties between armed forces and avowed enemies of the state including the sale of arms and intelligence.

10. Given its capacity to weaken the institutional and societal underpinnings of the state, corruption is also a powerful tool of hybrid warfare and national security policy. It is, for example, an instrument frequently deployed by Russia's security apparatus not simply to purchase compliance, but also to foster weakness and servility. At the same time, Russia itself is riddled with corruption to the point where it is perhaps best characterised as a kleptocracy. Its leaders have essentially seized both public and private assets and deploy these to enrich themselves, to maintain their hold on power and to ensure that their narrow interests are advanced globally.

11. Corruption also weakens societies by undermining economic potential. It is, almost by definition, a misallocation of both private and public resources; yet it is difficult to gauge its toll. How does one, for example, attach a figure to investments never made because pervasive corruption essentially raises risk premia and eviscerates the potential for earning return? Counterfactuals are unprovable, but unconsummated investment certainly ranks among the greatest adverse economic consequences of deep-rooted corruption.

12. Corruption also renders state regulation of the market irrational and ponderous. It undercuts state finances by making fair tax assessment and collection all but impossible. The IMF, for example, estimates that governments annually forego USD 1 trillion in tax revenue due to corruption (The Atlantic Council, 2021).

13. Corruption insidiously rewards the well-connected and untalented while penalising society's more skilful, productive and virtuous actors who are denied opportunities as channels of influence become distorted by venality. This assault on meritocracy exacts yet another terrible toll and does so in a dynamic fashion that again is all but impossible capture with a simple "dollar figure". The erosion of economic opportunity simply becomes deeply rooted and pervasive. It affects the entire chain of individual economic decision-making while shaping the very mindset of citizens who grow increasingly resigned to corruption's perverse logic. Once this mentality takes root, corruption becomes almost a self-fulfilling prophecy, as it extends its tentacles, attacks good governance, undermines human aspirations, fosters wide-spread cynicism and suppresses economic potential.

14. Corruption also constitutes a hidden source of price inflation. It represents what economists call a deadweight loss – a kind of tax paid to criminals – that undermines production, investment and growth. Because this essentially shadow economy is untaxed, revenue that fails to enter state coffers, a range of essential services and benefits never accrue to society at large. When corruption involves fixing state contracts, taxpayers are effectively ripped off in terms of the price tag for goods and services and, of course, the quality of state services erodes measurably once the logic of corruption has set in.

15. Corruption also erodes national financial systems when those systems are flooded with the revenues from corruption and are charged with laundering them. This has become a critical challenge in many banking and financial centres. More stringent transparency and reporting requirements are needed to prevent essential financial services from being hijacked and corrupted by criminal groups, oligarchs, terrorists and corrupt officials.

16. In recent years, blockchain-driven cryptocurrencies have become a particular concern. This is essentially a means to exchange value in digital form through universally shared ledger sheets, and it has become a genuine sore spot for financial regulators and central banks. Cryptocurrencies like Bitcoin are essentially units of exchange, not issued by Central Banks and operating in the shadows. Blockchain facilitates value exchange among parties without requiring so-called middlemen to engage in transaction validation and settlement, and makes it easy to do so while evading state supervision and tax requirements (Katarzyna, 2019).

17. Because of these stealthy features, cryptocurrencies have become a widely used vehicle for the transfer of value for illegal purposes and to launder money garnered through criminal and corrupt practices. Put simply, cryptocurrencies have greatly facilitated money laundering, dark market payments, blackmail schemes, wholesale corruption by government elites, sanctions-busting and terrorist financing, and it poses a particular challenge for those implementing anti-

corruption measures because tracking the movement of these values is extremely difficult. In 2018 Europol claimed that roughly 3-4% of Europe's criminal intake was laundered with cryptocurrency. That figure is certainly far higher today. One study suggested that in that same year, roughly 25% of all Bitcoin users and 44% of all Bitcoin transactions were linked to illegal practices; 38% of Bitcoin addresses were held by those engaged in illegal activity and more than 50% of all Bitcoins were associated with criminal activities (Katarzyna, 2019).

18. It is interesting to note that in January 2022, the Russian Central Bank proposed a blanket ban on cryptocurrency trading and "mining" (the use of computers to maintain block chain ledgers) given the difficulties involved with regulating them. Interestingly, Putin expressed hesitancy about this proposal, perhaps seeing these currencies as offering a potential means of evading anticipated sanctions for a war he was clearly planning at the time. The United States, the EU, UK and Canada have now effectively denied the Russian Central Bank access to USD 640 billion in foreign currency reserves. There are concerns, however, that Russia and Russians could exploit under-regulated cryptocurrency markets to undermine these sanctions. It is worth noting that Iran has used its abundant energy reserves to power computers mining bitcoin to generate value it can use to meet its foreign exchange obligations and circumnavigate sanctions (Milmo, 2022).

### **III- CORRUPTION: IMPLICATIONS FOR DEMOCRACY, GOVERNANCE, AND DEVELOPMENT**

19. Of course, corruption also undermines democratic governance, election integrity and civil society participation in the life of the state. This is particularly problematic in countries where democracy is weak, but this malignant force also threatens stronger democracies. Corruption is a key factor in why democracy is on the retreat globally. Freedom House ranks corruption along with ever more powerful anti-liberal political movements, election subversion and the breakdown of the rule of the law as among the central manifestation of this trend, and all are related (Freedom House). Sadly, the Economist Intelligence Unit's 2021 global democracy index fell from 5.37 to a 5.28 out of ten – the lowest level in 16 years – and registered regression among many democratic societies including several of which are historically among the most vibrant (The Economist, 2022). Russia's assault on democratic Ukraine can be understood as part of this phenomenon, while Ukraine's brave resistance charts a path for democratic regeneration – for itself and for the rest of the world.

20. When corruption is institutionalised, it becomes a means by which ruling parties and elites consolidate their hold over the state and the electoral process itself. State capture describes a condition in which well-connected elites and groups close to the state – or state actors themselves – use corruption to shape national policies, laws and the economy to benefit their own private interests. It allows the corrupt to maintain their power, obtain riches from the state and avoid legal consequences for their theft. State capture reinforced by corruption naturally reduces the opportunities for opposition parties to prevail in elections and thus stunts a society's capacity for alternation in power and political regeneration (Transparency International, "Captured States in The Western Balkans and Turkey"). Political participation wanes, free media is repressed and social capital degrades in such circumstances and society-wide that ultimately cynicism sets in. Indeed, democratic governance requires a genuine possibility for alternance in government, a free media, and a vibrant civil society to generate input into the political process and sustain loyalty to and trust in the state.

21. When the prospect of changing the elected government recedes, the temptations for corruption only increase as governing and political elites become entrenched in the institutional life of the state. This then gives rise to impunity as the tentacles of entrenched power extend ever more deeply into essential institutions including the judiciary, the national economy and the military. This highly destabilising dynamic, in turn, becomes a source of deep cynicism and wide



societal despair. It can also animate an insurrectionist spirit and act as a trigger to political violence. The problem of state capture, for example, has become a matter of rising concern in parts of the Western Balkans, and those concerns see this challenge as pointing to both an erosion of democratic governance and a rising risk of political violence in the region.

22. Given the adverse impact of corruption on national economic potential, it should hardly be surprising that Goal 16 of the UN's Sustainable Development Goals (SDGs) includes a commitment to fight corruption, to impede illicit financial flows, to enhance transparency and to improve access to information. The inclusion of anti-corruption in the SDG's is premised on the notion that failure to tackle corruption will undercut progress on the other goals. Indeed, the problem of corruption is very much a development challenge, and some might argue it ranks among the most powerful impediments to long-term growth in poor countries.

23. But the burden here is not on developing countries alone. Richer OECD countries can be enmeshed in the cycles of corruption that have the greatest impacts on the developing world. The problem becomes particularly acute when developed country financial and commercial markets are complicit in developing country corruption and avail corrupt officials, kleptocrats and criminals' access to their national markets. As part of their support for developing countries, the most developed countries need to tackle cross-border corruption, foreign bribery, tax evasion and illegal financial flows which collectively hinder economic development in less developed countries.

#### **IV- THE RUSSIAN CASE**

24. Given its capacity to weaken the institutional and societal underpinnings of the state, corruption can also be a powerful tool of hybrid warfare. It is an instrument that Russia's security apparatus frequently deploys not simply to purchase compliance, but also to foster weakness and servility. Russia both wields corruption and is a victim of it as the country itself is riddled with corruption to the point where it should be characterised as a kleptocracy. Its leaders, many hailing from the intelligence apparatus, have essentially seized both public and private assets and deployed these to enrich themselves, to maintain their hold on power and to ensure that their narrow interests are advanced globally.

25. Western analysis of Russian statecraft often applies Western paradigms to explain Russian domestic and foreign policy. This invariably leads to disappointed expectation when Russia fails to conform to these pre-conceived notions and even, perhaps, objectively adopts positions and takes actions that seem to undermine the country's long-term interests and the welfare of the Russian people. But such views miss the point. Russian domestic and international policy-making must be seen, in part, through the lens of the corrupt oligarchic hierarchy that rules the country, their systematic looting of national assets both public and private, the role that international financial and commercial markets have played in facilitating this system and the degree to which the twisted logic of this corrupt system shapes Russia's malign international behaviour.

26. Vladimir Putin is often described as the richest man in the world (Morris, 2017). This is extraordinary as his entire career has been in government employment. This alone underlines the kleptocratic nature of the Russian state. Corruption, in fact, is a central organising principle of Russian governance. Systemic venality not only enriches the leadership, but also accords it a kind of tactical flexibility and impunity that it would not enjoy in a state characterised by the rule of law. Noah Buckley has described corruption in Russia as "a force to co-opt and control the political elite and to replace formal institutions with something more flexible and more amenable to the needs of a consolidated authoritarian regime" (Buckley, 2018). As in China, anti-corruption efforts in Russia are not at all used to address corruption as such, which is deep and systemic, but rather to target rivals of those in power, as part of a process of infighting among groups vying for power, or as a method simply to steal assets. It is noteworthy that the FSB has carried out these campaigns rather than normal police units (Trudolyubov, 2016).

27. As suggested above, massive corruption throughout the hierarchy of the state with mafia-like kickbacks up the chain of command, nurtures collective uncertainty that the Kremlin then readily exploits to demand conformity and compliance from those who might otherwise seek to buck that authority. When all are compromised, all can be threatened with jail for corruption. But punishment for corruption in Russia (or China for that matter) has nothing to do with the rule of law. It rather represents a means to punish those unwilling to bow in a sufficiently obsequious manner to a corrupt leadership. Alena Ledeneva, a professor at UCL's School of Slavonic and East European Studies, has noted that Russia has long been characterised by an economy of mutual help and favours ("blat") inherited from Soviet traditions, which were, in turn, shaped by extreme scarcity and an overly centralised and arbitrary bureaucracy.

28. But while the Soviet iteration of this system helped lowly outsiders gain access to scarce goods, in the so-called Putin Sistema, an economy of kickbacks simply undermines competition, exacerbates inequality, reinforces hierarchical patron-client relations and enhances the power of the leader at the expense of his subordinates. This dynamic is evident at many layers of society but is most consequential at the highest echelons of the state. Ledeneva writes: "Because the Soviet system was not economically viable due to its centralisation, rigid ideological constraints, shortages, and the limited role of money, blat networks had some equalising, "weapon of the weak" role in the oppressive conditions, and to some extent served the economic needs of the central distribution system. In Putin's Russia, power networks operate without those constraints and extract multiple benefits from the post-Soviet reforms, while undermining the key principles of market competition (equality of economic subjects and security of property rights) and the key principle of the rule of law (equality before the law). They essentially become the "weapon of the strong". The effect of the dominance, omnipresence and pressure under which everyone has to live is often referred to as "sistema" (Ledeneva, 2014).

29. Russian corruption has also constrained the emergence of a dynamic private sector and an autonomous and vibrant civil society. Once private firms begin to flourish in Russia, they attract the interest of Kremlin insiders, powerful oligarchs and criminal groups that are interested in seizing assets, eliminating competition or demanding protection money from firm owners. This has shackled the Russian economy and led many of the country's more dynamic entrepreneurs to leave the country rather than work under such burdensome conditions. Corruption has thus triggered a migration of Russian talent from a once promising domestic tech sector. Some have ended up in Silicon Valley. The other choice for many has been to accept work with state-run or state contracted malicious cyber operations supporting the Kremlin's strategic agenda. Others have moved directly to criminal operations aiming to steal western assets. Oftentimes, these groups operate with impunity as they enjoy political protection and are thus not subject to arrest and prosecution unless they have somehow fallen foul of the Kremlin or local bosses.

30. Perhaps because Russian leaders understand viscerally the allure and power of corruption, they very readily deploy it to cultivate international links, subvert rivals, promote friends and advance Russia's geopolitical agenda. It has used its control over important oil and gas industries to create political and economic dependencies and sow distrust, confusion and weakness. Putin's Kremlin has used this tool not only in countries like Ukraine, but also throughout much of the Western Balkans and, to varying degrees, in a number of NATO member countries (MacLachlan, 2019). Of course, corruption is possible even if the transaction is legal. Hiring influential figures to represent the interests of the agents of corruption, for example, those in Russia's energy sector can be both legal and corrupt at the same time and there are numerous examples of Western actors including some political elites readily accepting Russian money and working surreptitiously and even in the open to render the West more vulnerable to its malicious ambitions (Casey and Schmitt, 2022).

31. Both China and Russia have used large investment projects to subvert democratic resilience, foster dependence and weaken the capacity of recipient societies to counter the agenda of authoritarian competitors both domestically and internationally. Bribing decision makers responsible for signing large infrastructure contracts both creates vulnerabilities and provides these

authoritarian states with shills prepared to do their bidding both because they have been paid to do so and because they are vulnerable to blackmail – or worse. Russian revenues from its oil and gas production and pipelines system generate slush funds used to corrupt and weaken foreign officials and ensure their support on matters directly of interest to the clique in the Kremlin. This can range from backroom bribery to legally hiring well-connected individuals to lobby on behalf of these industries – often to further Russian ambitions that leave NATO members more vulnerable to Russian economic leverage. It is noteworthy that many of those politicians who accepted the logic of Russia's pressure on Ukraine had also received Russian financial support and only backed away from these positions after the horror of Russia's invasion became evident.

32. The systematic seizure of assets by Kremlin insiders and their oligarchic supporters has been made all the easier by the fact that they have availed themselves of western banks, schools, real estate markets and other commercial operations to recycle ill-gotten gains, educate their children and enjoy privileged lifestyles in global capitals. Concerns about Western tolerance of this have been on the rise in recent years and suggested a degree of complicity with Russia's fundamentally amoral and increasingly dangerous style of governance that increasingly came to be understood as posing an international threat. Putin's vicious and unwarranted invasion of Ukraine, however, has compelled a fundamental change in policy as the war has exposed the grave danger to the international order that complicity has engendered.

## **V- FIGHTING CORRUPTION: THE CHALLENGE IN THE TRANSATLANTIC SPACE**

33. For these reasons, the question of how to reduce purposeful and incidental complicity in corruption, particularly where it poses a strategic threat, has moved to the centre of the international agenda. Even prior to Russia's invasion of Ukraine, the Biden Administration had indicated that it would make anti-corruption a priority. Treasury Secretary Janet Yellen, for example, recently pointed to several lacunae in US financial regulations that have made it relatively easy for criminal groups and corrupt officials from around the world to move money through US financial institutions. She noted that "There's a good argument that, right now, the best place to hide and launder ill-gotten gains is actually the United States". Yellen added that "The United States cannot be a credible voice for free and fair government abroad if, at the same time, we allow the wealthy to break our laws with impunity," "If we want free institutions to thrive the world over, then first, we must model what they look like at home." Yellen has led an administration effort to close these loopholes, both in the United States and elsewhere (Condon, 2021).

34. Even prior to the Russian attack on Ukraine, the Biden administration had effectively declared corruption a national security risk and seemed determined to undertake measures aiming to deal with the challenge. The sanctions imposed on Russia by the United States, Europe and many other countries across the world have essentially taken this fight to a new level. Expanding diligence requirements for service providers and prohibiting foreign officials from accepting bribes have been on the international agenda for some time. But the war will accelerate this effort, initially as regards Russia, but most likely there will be more generalised impacts as the dangers to the international community posed by corruption have become self-evident in this crisis (Cooley and Nexon, 2022).

35. The Biden Administration has made the defence of democracy a central tenet of its political and diplomatic agenda and has made clear its view that corruption poses one of the greatest threats to the international democratic movement. President Biden made this linkage explicit at the Summit for Democracy he convened in December 2021. The Administration's view has also been conveyed in a report issued that same month entitled: United States Strategy on Countering Corruption. That report outlined a strategy for countering corruption and money laundering, and the governments that engage in these activities. Importantly, it also included something of a mea culpa

insofar as it recognised that the United States itself has been a “significant destination for the laundered proceeds of illicit activity, including corruption”. The report noted that criminals are using US industries to launder the proceeds of their criminal activity and employing American legal services to provide protection (The White House, December 2021).

36. The so-called Pandora Papers opened a window on the degree to which democratic states have opened their commercial, real estate and financial markets to organised criminals and corrupt officials. The White House and the Congress have accordingly begun to advance a so-called counter-kleptocracy agenda and much of this appears to have bipartisan support. In effect, by focusing on the weaknesses within its own institutions that have facilitated corruption, and targeting those individuals and institutions enabling corruption elsewhere in the world, the United States is seizing a leadership role on this issue and providing a model that other democracies may feel increasingly compelled to adopt.

37. The United States has also used its court systems to go after corruption beyond its borders. It is worth recalling, for example, that in a case that shook international football, the US Department of Justice indicted nine FIFA officials and five Corporate Executives for racketeering, bribery, wire fraud and money laundering in 2015 (US Department of Justice, 2015). The case generated a degree of resentment in some circles, but the legal reasoning was sound, and US judicial officials successfully prosecuted the case. The US was able to prosecute the case because US financial systems were used by those paying and accepting the bribes. This gave the US jurisdiction to carry out an investigation and bring a case to court that might never have seen the light of day without this initiative. It had done the same in 2014 when former Guatemalan president Alfonso Portillo was sentenced to six years in US federal prison for laundering money through US banks (Taub, 2015).

38. These cases should be a model for all democratic governments that have been more reluctant to take on their own commercial and financial institutions providing services to foreign kleptocrats and criminals. Many countries have laws on the books that seem to tackle the problem. But in fact, enforcement of these laws is often woefully inadequate and the laws themselves can be riddled with loopholes that defeat their very purpose (Heathershaw et al., 2021). The crisis with Russia over Ukraine will very likely accelerate movement on all of these issues – firstly with regard to Russia but ultimately in a more generalised sense.

39. President Biden further elaborated on the anti-corruption challenge in National Security Study Memorandum-1 (NSSM-1), arguing that “corruption threatens United States national security, economic equity, global antipoverty and development efforts, and democracy itself...[By] effectively preventing and countering corruption and demonstrating the advantages of transparent and accountable governance, we can secure a critical advantage for the United States and other democracies”. The White House has accordingly looked to develop a counter-corruption strategy that stresses the transnational nature of the challenges, actively seeks partners to join in the effort, and recognises the many ways in which corrupt actors have used international financial system and other legitimate institutions to launder their ill-gotten gains. That Memorandum calls for modernising, coordinating and resourcing US Government efforts to fight corruption, curb illicit finance, hold corrupt actors accountable, reinforce multilateral anti-corruption architecture and improve diplomatic engagement and leveraging of foreign assistance to advance these goals (The White House, 3 June 2021).

40. Like the United States, the United Kingdom has also recognised the challenge to do more on the money laundering front, and the crisis with Russia has occasioned important change there as well. According to a recently issued Chatham House study, UK anti-money laundering efforts have relied too much on “private sector professionals conducting appropriate checks”. However, evidence indicates that the system is effectively risk-insensitive, with banks over-reporting suspicious activity, and thereby creating a deluge of reports for UK authorities to process. Other, non-financial service providers often under-report such activity and are inconsistent in whether they undertake effective due diligence” (Heathershaw et al., 2021). The legal system has also made it

difficult for journalists to scrutinise the problem as they are potentially subject to libel actions. This has given kleptocratic oligarchs opportunities to create their own counter-narratives, for example, by making large donations to charities and universities or by acquiring attractive and marketable assets that generate public support. Even more worrying, is that certain commercial markets, including the real estate sector, can themselves become captive to this influx of dirty capital. Domestic market players, in effect, end up shielding the system from change rather than addressing obvious problems. It is clearly up to governments to address these challenges, as self-policing can only go so far (Casey, 7 February 2022). Similar challenges have been reported in other allied countries including Germany, France, Denmark, Italy and elsewhere. This is clearly a common problem which now needs to be addressed, preferably in a coordinated fashion and out of a shared sense of purpose. Vladimir Putin's invasion of Ukraine has starkly illustrated why this is essential and within the sanctions packages that are now being put in place. A number of measures will have spill-over effects and will help advance the fight against corruption (Milmo, 2022).

## **VI- RUSSIA'S WAR ON UKRAINE AND GLOBAL SANCTIONS**

41. Russia's vicious and illegal invasion of Ukraine has myriad implications for European and global security. Fundamental changes are unfolding every day including a complete revision of Western policies towards Russia and indeed, towards defence and security in general (Birnbaum et al., 2022). Interestingly, some of these changes spill over into the anti-corruption realm, although that should not be entirely surprising as Russia is a kleptocracy that employs corruption both to rule the country and to exercise influence and suasion abroad. The strong response of the international community to Russian aggression is leading to a reappraisal of policies that have perhaps facilitated corruption in Russia and beyond. The sanctions regime that is currently under development will actually address some of the lacunae in Western laws and practices which have heretofore eased the burden on corrupt Russian oligarchs and government officials seeking to launder their stolen assets.

42. The international community has imposed very powerful sanctions on Russia as a result of its illegal war on Ukraine. The sanctions are largely although not entirely comprehensive and cover elements of its energy, finance, high technology and military-industrial sectors. Sanctions also target a range of individuals linked to the Kremlin and strike at Russian national sports teams. The list of countries agreeing to sanction Russia is long and growing longer. It includes not only all NATO member states but also the EU and its member states, Switzerland, Japan, Korea, Australia and New Zealand among others.

43. The EU, United States, United Kingdom and Canada have now agreed to "prevent the Russian central bank from deploying its international reserves in ways that undermine the impact of our sanctions". The EU will accordingly forbid all transactions with the Central Bank of Russia which has EUR 640 billion in reserves. This will put a large share of Russian reserves out of reach (Henley, 2022). Many Russian banks have also been denied access to the SWIFT financial messaging system which dramatically impedes their capacity to participate in the global payments system and to engage in international trade. The United States, the EU and others have also frozen the assets of Russia's Central Bank, which will paralyse the capacity of the bank to make these assets available to the Russian state. Its ability to raise foreign capital is now dramatically impaired.

44. The US government has also forbidden Russia's ten largest financial institutions, which collectively account for roughly 80% of the country's banking sector, from conducting transactions through the US financial system. The EU and a range of other countries have frozen the assets of leading Russian banks, including VTB, the country's second largest. Bank Rossiya, which is particularly close to Putin and his circle, and Promsvyazbank, have also been hit with asset freezes and/or serious new restrictions in the EU, UK, U.S. and elsewhere (Henley, 2022). More than half

of Russian exports are dollar denominated. This is equivalent to roughly USD 300 billion, or 19% of GDP (Walker, 2022).

45. The EU will no longer allow Russia's state-owned firms, which generate resources that are then used to corrupt non-Russian decision makers, to list on European stock markets. Russian airliners are now denied access to airports across Europe and elsewhere, and most Western based airlines will no longer fly to Russia.

46. The foreign assets of the Russian president, his foreign minister, Sergei Lavrov, and the defence minister, Sergei Shoigu, have been frozen in the EU, U.S. and UK, as have those of the FSB security head, Alexander Bortnikov, the armed forces chief, Valery Gerasimov, and members of the Kremlin's security council. The EU has imposed sanctions on all 351 members of the lower house of the Russia's parliament, the State Duma, while the United States, the United Kingdom, Australia, Japan and New Zealand are punishing selected members. During his State of the Union address to Congress, President Biden pledged to go after the yachts, apartments and jets of Russian oligarchs while closing US airspace to all Russian flights. "Tonight, I say to the Russian oligarchs who made billions of dollars off of this regime: no more. We're coming for you." On the following day, Attorney General Merrick Garland announced the formation of Task Force Kleptocapture, an interagency law enforcement group aimed at holding sanctioned Russian elites accountable (Watson and Legare, 2022).

47. A range of oligarchs with ties to Putin's regime, including Andrey Patrushev (Rosneft), Petr Fradkov (Promsvyazbank), Yury Slyusar (United Aircraft), Boris Rotenberg (SMP), Denis Bortnikov (VTB bank) and Kirill Shamalov, the former husband of Putin's daughter Katarina, are on asset freeze and travel ban lists around the world (Henley, 2022). Among those targeted is a classical cellist, Sergei Roldugin, who has improbably become one of the richest people in Russia. It is generally understood that he is simply a front for Putin and uses his name to help the Russian President launder billions of dollars through the international banking system and offshore companies so that the cash and assets are not directly linked to Putin himself. Roldugin has played a key role in the so-called "Troika Laundromat", which has channelled as much as USD 70 billion through Russia's extensive money laundering system. The laundromat consists of 70 offshore shell companies and myriad bank accounts that are used both to move private wealth from Russia to the west and to launder it (Boffey, 2022).

48. So far, elements of the energy sector have been exempted from sanctions, and this is sadly due to the dependence of certain European countries on Russian oil and gas. Europe relies on Russia for 40% of its natural gas supply and 26% of oil. It is not clear how long this position will hold, and much will hinge on Europe's capacity to move quickly to find alternative energy sources. This will not be easy, but it is doable if a broad international coalition is constructed to make this possible.

49. Still, the Biden Administration has essentially banned Gazprom, Transneft and the power company RusHydro, as well as Russia's largest freight, rail and telecoms companies from US credit markets. For its part, the EU will now ban the export of aircraft and aviation parts to Russia, as well as a range of high technology products including computers, semiconductors, telecoms equipment and information and security equipment. UK and EU-based companies are also banned from exporting to Russian defence, naval, transport and communications companies (Henley, 2022).

50. Sanctions have also hit Russian sports and culture. Two important governing Football bodies, UEFA and FIFA, have suspended Russian football teams from all international competition. The Executive Board of the International Olympics Committee has recommended that International Sports Federations and sports event organisers not invite or allow the participation of Russian and Belarusian athletes and officials in international competitions (International Olympic Committee, 2022). The Formula One Grand Prix and all World Cup skiing events in Russia have been cancelled and Russia has been banned from taking part in the Eurovision song contest.

51. It is also important to recognise that a number of companies including Exxon, Shell, BP, Norway's Equinor and France's Total have to varying extents decided to lower their exposure or fully abandon the Russian energy market while Germany has fully suspended its participation in the Nord Stream 2 pipeline venture. This is a major development, and it demonstrates the degree to which Russia has made itself an international pariah. Energy companies are quite experienced at working in politically challenging settings, and these decisions encapsulate the degree to which the Kremlin has now isolated itself and prohibitively raised the reputational cost to Western companies of doing business in Russia.

52. Finally, it important to recognise that power in Russia has decidedly shifted from the oligarchs managing state and private sector capitalism to Putin himself. Putin's reign has been a narrative of accruing power at the expense of national institutions and those running the national economy. The oligarchs made a devil's bargain (not the first time in modern European history) and now they will pay the price as the value of their assets plummet and their own status falls in the Russian pecking order. It remains to be seen how Russia's ever-widening isolation will play out in the political life of this deeply unstable, troubled and dangerous country. Russia is led by a figure who is surrounded with sycophants, utterly isolated and restlessly pacing the marble hallways of the Kremlin and his stolen palaces, animated by a paranoid, distorted, hatred-filled vision of the West and driven by a grievance-addled, millenarian obsession with national martyrdom. In short, the situation could not be more dangerous.

## VII- THE ROLE OF NATO

53. NATO is not an institution that one would normally associate with anti-corruption as such, but the spirit of anti-corruption lies at its very core. This is primarily because NATO is an alliance of democracies, and corruption, in essence, is an enemy of democracy, a violation of the sacred covenant between leaders and their people, and a fundamental threat to the values that the allies hold most dear. The current crisis, driven by a nuclear armed kleptocracy dead set on overturning democratic rule in its imagined sphere of influence, fearful of its own people, and ever ready to wield corruption to advance its international interests makes this perfectly self-evident.

54. NATO's Building Integrity (BI) program is the most visible expression of these ideals within the institution itself. That program seeks to encourage member and partner countries to engage in self-assessments of corruption within their own countries. This is particularly essential in the defence sector, but NATO acknowledges that the problems certainly go beyond military spending matters. It recognises that fighting corruption demands the construction of broad coalitions that extend deeply into civil society and that transparency is fundamental. It elevates the notion of government accountability to a fundamental principle of democratic control over defence spending and it supports a range of training programs to imbue defence institutions with these principles.

55. Through the Building Integrity initiative, NATO aspires to contribute to construction of "transparent and accountable defence institutions under democratic control... to [build] stability in the Euro-Atlantic area and beyond" (NATO, 09 December 2021). The North Atlantic Council endorsed the NATO BI programme in the 2016 Warsaw summit. The policy outlines a programme of activities open to NATO Allies, Euro-Atlantic Partnership Council, Mediterranean Dialogue, Istanbul Cooperation Initiative, Partners across the globe and Colombia. NATO also considers requests to participate in this effort from other countries on a case-by-case basis (NATO, 9 December 2016).

56. The overarching aim of the effort is to promote the core values of the Alliance □ collective defence, crisis management, and cooperative security □ through the BI action plan. The action plan provides tools for self-assessment, education and training, and specifically tailored programmes to address acute needs of specific regions. To date, twenty nations utilise the BI self-assessment and peer review processes (EU Neighbours). By providing these tools to a wide

category of states, NATO intends to reduce corruption around the world in order to promote more effective international security cooperation.

## VIII- CONCLUSIONS

57. Among many other things, Russia's invasion of Ukraine has illuminated how corruption, when elevated to the level of state policy, can become an existential threat to the democratic order and to peace and security. The pervasiveness of corruption should thus never lead to its banalisation, and democratic policy makers should never accept its presence with a sense of resignation. It is too dangerous a force to neglect or to treat lightly. It erodes critical national institutions including national militaries, the rule of law, the practice and mores of democratic governance and leaves states vulnerable to the depredations of both domestic and external malign and often authoritarian actors, including rival states.

58. Today the most compelling anti-corruption measures Allied governments and parliaments can undertake are a set of watertight, comprehensive and powerful sanctions against the kleptocratic state of Russia, which is now engaged in a war on Ukraine. These sanctions must be comprehensive and include Russia's banishment from the SWIFT financial messaging system that is the key infrastructure of international banking. A massive mobilisation effort should be undertaken to reinforce allied energy security as continued normal trading relations with Russia are no longer tenable. There will be significant costs associated with this position, but the cost of not adopting it are far greater. Putin's regime is now an enemy of the West and of democracy more generally and should be treated as such. Putin's governing clique has long availed itself of Western financial institutions and commercial markets to steal from its own people, undermine democracy, to corrupt weak governments and to create varying degrees of strategic dependence expressed best by its pipeline networks. This must end.

59. Democratically elected parliamentarians have a special duty to implement tough anti-corruption measures to ensure the defence of democratic norms and values and to counter the nefarious and debilitating national security impacts of corruption. The current struggle with the Russian dictatorship, which has systematically elevated corruption to the level of statecraft, makes this all the more imperative.

60. Defending democracy is the very purpose of NATO, and this is why the NATO Parliamentary Assembly has repeatedly called for the establishment of a Centre for Democratic Resilience at the NATO Headquarters. Doing so would elevate the defence of democracy to its rightful place within the central institutional life of a democratic alliance. Because corruption so clearly undermines democratic governance and is deployed as a weapon by the enemies of democracy, most notably by Russia, such a centre would, among other things, become an important clearing house for exchanging information among allies and partners about external corruption threats, anti-corruption efforts, ways to insulate national defence and security institutions from corruption and best practices for preserving and defending democratic governance and the rule of law.

61. Transparency International, the leading NGO fighting global corruption, has provided excellent guidelines for addressing the specific challenges to global security when corruption is used as an element of statecraft (MacLachlan, 2019). Countering this threat first of all demands that leaders and the public understand the systemic nature of the security threat posed by corruption and engage in reforms to address this complex challenge. The challenge is not simply national, and allied governments should therefore encourage all allies and partners to take on corruption in a more systematic manner. In blunt terms, this means closing legal and other loopholes that facilitate it. There must be a collective effort to insulate allies, partners and the democratic world more generally from the nefarious influence of corruption, including its most malign forms when authoritarian states like Russia deploy it to subvert democracy, weaken



democratic alliances and advance their own interests which are antithetical to those of the democratic world.

62. The fight against corruption demands societal resilience. This can be achieved through the development of comprehensive strategies that include judicial and police reform, strong anti-corruption legislation and recognition of the key role played by a free press unhindered by governing elites. NGO's and civil society more generally play a fundamental role in demanding transparency and democratic accountability of government at all levels, and this should be fully and warmly embraced. Education systems should systematically impart democratic notions of integrity and the principles of good governance to young people. Indeed, integrity, transparency and accountability are all fundamental to fighting corruption. The more widely and deeply these virtues are held, the more successful societies will be in limiting corruption. Elevating these principles to the very heart of governance will leave democracies stronger and more resilient, and this will, in turn, enable national economies to generate significantly greater wealth and well-being.

63. It is essential that national militaries and security apparatus elevate integrity to the very heart of the institutional life of the state. Corruption is a devastating weapon that undermines the capacity of national security institutions and fighting forces to carry out core missions. Sadly, corruption was a key factor in the utter dissolution of the Afghan army. Constant vigilance and democratic control are essential to ensure that corrupt practices never infect NATO militaries, and this should remain a fundamental element in Alliance work with partner countries and a central priority for parliamentarians.

64. The efforts of journalists and NGOs to expose corruption will remain critical to the fight against that phenomenon in all of its forms, and allied parliaments should strongly support this work and ensure that the conditions for transparency are upheld and strengthened.

65. Parliamentarians should push for anti-kleptocracy efforts to close legal loopholes facilitating money laundering. They need to demand significantly more transparency from public and private institutions, demonstrate far greater willingness to impose anti-corruption sanctions against those non-nationals using Western institutions to launder ill-gotten resources and more forcefully challenge their own citizens who facilitate money laundering on behalf of criminals and kleptocrats (Heathershaw et al., 2021). A significantly more unified approach to regulating cryptocurrencies is essential to taking on the challenge of terrorist finance and sanctions-busting by pariah states like Russia, systemic corruption and organised crime.

66. National governments and parliaments should support and help empower anti-corruption efforts carried out by a range of international organisations and NGO's including the OECD's Convention on Anti-Bribery and its Anti-Corruption and Integrity program, the Financial Action Task Force's work on terrorist financing, efforts by the IMF and World Bank, and the United Nations to address various dimensions of the problem (Magnet □ Management & Governance Network, Centre for International Crime Prevention, United Nations Development Programme for Accountability, United Nations Convention Against Corruption (UNCAC)) as well as the work of the EU and their own governments in this area. NATO's Building Integrity and Reducing Corruption in Defence program should be reinforced and extended. The lessons learned from the experience in Afghanistan should inform this effort.

67. Civil society efforts should also be supported. Transparency International is the most visible NGO working in the field. It engages in campaigns and research that seek to expose the very systems that enable corruption while demanding greater transparency and integrity in all areas of public life. It also produces the highly valued Corruption Perception Index which ranks countries in terms of the degrees to which experts and the business community perceive corruption in their own country. This has become a very powerful analytical and political tool as it generates incentives for countries seeking foreign investment to demonstrably move up the list by addressing corruption problems. This vital NGO also produces the Global Corruption Barometer which polls citizens to establish an estimate of the percentage of public service users compelled to pay a bribe over the

previous two months. The metrics produced in these studies can help guide governments and parliaments to craft powerful anti-corruption tools.

68. Western property markets have become a particularly important vehicle for laundering the proceeds of those who have acquired wealth through corrupt means. A number of cities in the West are rife with uninhabited properties owned by criminals as well as corrupt oligarchs and officials for the purposes of recycling ill-gotten profits. These properties also provide them with an escape valve should their own arbitrarily governed countries turn against them. Governments and parliaments should close loopholes which allow property to be held by anonymous offshore shell companies, which so often are fronts for corrupt officials, oligarchs who have plundered their own countries and criminals. Democratic governments should also establish more powerful legal vehicles to freeze and capture these assets if evidence emerges that this wealth is simply the product of corruption. At the very least, property ownership should be perfectly traceable. Markets flourish when transparency becomes a precondition for participation. Corruption and authoritarianism thrive where opacity subverts rules and rewards impunity.

69. Adopting measures like these is critical to taking on systemic corruption and will, by extension, reinforce the hand of allied governments efforts to fully sanction the Russian state and those close to the ruling clique for their criminal aggression against Ukraine. Indeed, sanctions arising out of Russia's illegal war against Ukraine have the added benefit of taking on corrupt figures using the international financial and commercial markets to launder their illegally acquired assets. Allied governments need to close legal loopholes that allow former senior officials to work for kleptocratic regimes and the companies they use to subvert democracy domestically and internationally.

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