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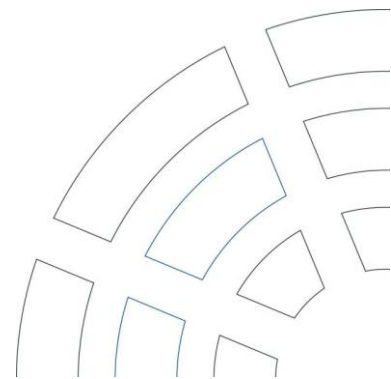
GENERAL REPORT

STRATEGIC AND ECONOMIC CHALLENGES POSED BY CORRUPTION

General Report
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Corruption undermines national institutions that are critical to administering states, endangering national stability and deepening international differences. 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. It weakens societies by undermining economic potential. It is, almost by definition, a misallocation of private and public resources; yet it is difficult to measure 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 illegally generated revenues. The erosion of economic opportunity simply becomes deeply rooted and pervasive.

Corruption also undermines democratic governance, election integrity and civil society participation in the life of the state. This is particularly problematic in countries such as Afghanistan 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 elite insiders consolidate their hold over the state and the electoral process itself. State capture describes a condition in which well-connected elites both within and outside of the state use corruption to shape national policies and laws to benefit their own private interests. It allows the corrupt to maintain their grip on power, illegally 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. Corruption has dramatically constrained the emergence of a dynamic private sector and an autonomous and vibrant civil society in Russia. It 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.

Furthermore, given its capacity to weaken the institutional and societal underpinnings of the state, Russia has used this powerful tool for hybrid warfare and national security policy. Russia's security apparatus, through corruption, not only purchases compliance but also fosters weakness, servility and undermines democracy globally.

The Kremlin has elevated its use of corruption to the level of statecraft. 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.

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. Bribing decision-makers responsible for signing large infrastructure contracts 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. With allied countries still assessing lessons on corruption from Afghanistan, they have been compelled 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. 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.

Among NATO countries, significant progress has been made on tackling the proceeds of corruption since the invasion of Ukraine in February. The crisis with Russia over Ukraine will very likely accelerate movement on these issues, firstly with regard to Russia but ultimately in a more generalised sense.

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I- INTRODUCTION - WHY SHOULD NATO COUNTRIES WORRY ABOUT CORRUPTION: THE AFGHAN AND UKRAINE CASES

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. With allied countries still assessing these lessons, they have been compelled 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, like the current crisis with Russia following its vicious and criminal attack on Ukraine, rising insecurity in Bosnia and Herzegovina, which has been paralyzed by corruption, raises a range of broad questions about the ongoing relevance of the corruption-security nexus. Policy makers will henceforward need to consider how serious a threat corruption poses in a given national context, how it shapes security, political and economic landscapes and how it can best be countered (as ending it entirely seems impossible even in countries with very low incidences of corruption).

3. In the community of strategic policy analysts, 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 the 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 Afghan case is particularly salient in this regard. In Afghanistan, corruption proved a primary source of insecurity and significantly 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 abject corruption within the state and among the governing elites 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 chronic venality.

5. Corruption also hollowed out the Afghan military. The army itself was plagued by non-existent phantom fighting forces, which existed only on paper and were designed to enrich corrupt officers and officials who pocketed public funds, including aid from allies. Those funds were desperately needed for actual national security forces capable of defending the country and the state. 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 that the ranks of the military may have been inflated by more than six times, noting that some "desertions [and] martyrs 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. Although the decision to withdraw Western troops from the country had certainly been one factor for this catastrophe, so too was pervasive corruption.

6. 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 allowed this extremist group to forge links to farmers and traders in the countryside and thus deepen their presence in Afghan society. This illicit but tolerated trade thus 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).

7. 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. Service members numbering 1,144 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 treasury 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 tragedy.

8. It is worth noting that the United States and NATO Allies invested significantly in anti-corruption programmes in Afghanistan and established a number of anti-corruption institutions in the country. The US Department of State, for example, launched the Justice Sector Support Program to train Afghan officials and create a case management system for the Afghan government. The Department of State’s Bureau of International Narcotics and Law Enforcement Affairs (INL) also assisted with the training of justice sector officials.

9. Support from the international community did not necessarily translate into lower levels of corruption. An August 2021 review from the Special Inspector General for Afghanistan Reconstruction (SIGAR) found that anti-corruption programmes did not include specific benchmarks and targets, and most of the reforms did not produce tangible results. Afghanistan’s anti-corruption efforts also failed to dismantle a culture of immunity among the nation’s most powerful. The Afghan legal code restricted law enforcement’s ability to arrest and detain members of parliament, and the country’s bail system allowed defendants to flee the country and avoid prosecution (SIGAR, 2021).

10. Ukraine provides a contrasting case. Corruption there had long been a source of instability, institutional weakness and had created legitimacy crises that triggered a popular uprising. The problem, however, proved deeply entrenched and difficult to overcome. Russia used corruption in Ukraine both to exercise influence and to weaken the state. The Kremlin accordingly saw anti-corruption efforts in Ukraine as a direct threat to its influence in that country and a sign of creeping Western influence. This perception was, in large measure, correct insofar as Western governments and institutions like the World Bank had identified corruption as a fundamental challenge to Ukraine's economic and political development. It is noteworthy however, that fighting corruption has been a central tenant of the Zelensky government. The Kremlin clearly saw this effort as part of Ukraine's broader determination to align itself with the West. The invasion it launched on that country in March 2022 represented an effort to eviscerate the very notion of an independent and Western aligned Ukraine.

11. The primary Western actor backing anti-corruption reform in Ukraine has been the European Union. Since the signing of an association agreement between the EU and Ukraine in 2014, the EU has sought to promote anti-corruption reform through the conditionality of grants – which amounted to over EUR 7 billion between 2014 and 2021 – and through other incentives such as visa liberalisation. Bringing financial and technical assistance, the EU has helped establish a number of institutions in the country to reduce corruption, including the National Anti-Corruption Prevention Agency (NACP), which sets anti-corruption policy and monitors public officials for conflicts of interest and indications of corrupt behaviour, the National Anti-Corruption Bureau (NABU), which investigates high-level corruption, and the Specialised Anti-Corruption Prosecution Office, which oversees NABU investigations.

12. These anti-corruption initiatives have produced some successes: the number of ongoing investigations by NABU quadrupled between 2016 and 2020. However, a report by the European Court of Auditors (ECA) found that these institutions were broadly ineffective in tackling grand corruption. The NACP, for instance, is tasked with monitoring asset declarations, but the Court found that of the 900,000 e-declarations each year, only 0.1% are checked for compliance. Of the 1,005 declarations fully checked in 2019, two thirds were found to have irregularities. Very few of these cases were brought to court, and none resulted in convictions for illicit enrichment. EU reform efforts were also hindered by the lack of specific, quantifiable targets guiding anti-corruption reforms. One initiative, for instance, called for Ukraine to “adopt quality legislation for the launch of reforms” against corruption, but it did not provide targets for measuring the efficacy of that legislation. Without tangible goals and rigorous enforcement of anti-corruption law, Ukraine's anti-corruption programme had done little to dismantle the grip that the oligarch class had on Ukrainian politics, economy and society (ECA, 2021). Be that as it may, the existential war that Ukraine is now fighting against Russia will be transformative for the country and could result in fundamental changes in how Ukrainians view the state and ultimately how it is ruled. The very high level of mobilisation required to take on the Russian military and that so many are making enormous sacrifices for the common good will transform Ukrainian civil society. This could well lead to a situation in which it is sufficiently galvanised to construct powerful new societal barriers against venality.

13. The Afghan and Ukrainian cases both point to the difficulty of reducing corruption in countries where the rule of law is tenuous. NATO Allies engaged in anti-corruption assistance should learn from these two cases and ensure that anti-corruption programmes have clear, tangible benchmarks that define progress and that new anti-corruption institutions have the sufficient muscle to prosecute high-level corruption (ECA, 2021; SIGAR, 2021).

14. Bilateral programs are also important. The United Kingdom, for example, has drawn funds from its cross-Government Conflict, Security and Stability Fund (CSSF) to strengthen local police and to enhance the legal system's capacity to address corruption, improve transparency and to support reforms in those areas most affected by corruption. It has been active in Ukraine and the Western Balkans and also funds a [Global anti-corruption programme](#). Running until 2022, this GBP 45 million

project focuses on nine projects to invest in new policies and laws that increase public sector transparency, strengthen investigations of stolen assets, raise awareness of the causes and impacts of corruption as well as to identify and share good practices with partners. In the Western Balkans, for example, between 2010 and 2020, the UK provided a total of GBP 28.1 million in aid to projects that included anti-corruption elements. Kosovo received over half of this aid (GBP 14.7 million) and was one of only two Balkan countries to receive aid on corruption-related projects in 2020 (the other was Bosnia and Herzegovina). All aid going to corruption-related projects in the Balkans in 2020 (and much of the total from other years) was provided by the CSSF (House of Commons, 2022).

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

15. 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. Broadly speaking, 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 among 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.

16. 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; by eroding public faith in and support for military institutions, the official purpose of which is to protect the citizenry; and by fostering illicit commercial and other ties among armed forces and avowed enemies of the state, including the sale of arms and intelligence to the enemy.

17. 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.

18. 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 the toll it takes on society. How does one, for example, attach a figure to investments never made because pervasive corruption essentially raises risk premia and eviscerates the potential for earnings return? Counterfactuals are unprovable, but unconsummated investment certainly ranks among the greatest adverse economic repercussions of deep-rooted corruption.

19. 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). Tax burdens are thus shifted to those who do not enjoy this kind of political access. Fiscal resources are depleted, social and political polarisation mounts, and instability becomes ever more likely.

20. Corruption also 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 to 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, undermines governance, inhibits human aspirations, fosters wide-spread cynicism and suppresses economic potential.

21. Corruption also constitutes a hidden source of price inflation. In economic terms, it constitutes a deadweight loss – a kind of generalised tax paid to criminals – that undermines production, investment and growth. Because this essentially shadow economy is untaxed, revenue fails to enter state coffers, and 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. What were initially conceived as generalised benefits, become discretionary favours, and the beneficiaries are limited to insiders enjoying access or those willing to pay government officials bribes.

22. Corruption also undermines the integrity of national financial systems when those systems are both flooded with the revenues from corruption and are charged with laundering them. This has become a critical challenge in many banking and financial centres, even in societies less marked by pervasive corruption. Because of the role played by Western financial institutions in handling wealth generated through corruption, some critics speak of developed country complicity in developing country corruption. It has also inspired calls for more stringent transparency and reporting requirements to prevent essential financial services from being hijacked and corrupted by criminal groups, oligarchs, terrorists and corrupt officials.

23. 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 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).

24. Because of these stealthy features, cryptocurrencies have become a widely used vehicle for the transfer of value for illegal purposes and for the laundering of 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, 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).

25. 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, Russian President 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, the 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 could exploit under-regulated cryptocurrency markets to undermine these sanctions. It is also 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).

26. The EU has led the global effort to achieve a degree of regulation of the cryptocurrency market. In June 2022, the European Parliament reached an agreement on regulations that would subject cryptocurrency transfers to the same anti-money laundering checks as regular bank transfers. The rules should make cryptocurrency transactions less anonymous and easier to trace, helping reduce the potential for these digital currencies to be used for illegal activity (European Council, 2022). Legislators and regulators in the US and the UK have also taken steps toward tightening the rules on these particular markets (Donevan and Jarenwattananon, 2022; Browne, 2022).

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

27. 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 law as among the central manifestations 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, 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.

28. 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"). Political participation wanes, free media is repressed, and social capital degrades in such circumstances. Effective 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 to sustain loyalty to and trust in the state.

29. When the prospect of changing the elected government recedes, 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. The challenge is obvious in Transparency International's Corruption Perception Index in which Bosnia-Herzegovina and Albania both ranked 110th in the world (out of 180 countries), North Macedonia ranked 87th, Montenegro ranked 64th, Serbia ranked 96th and Kosovo ranked 87th (House of Commons, 2022).

30. The case of Bosnia and Herzegovina is particularly instructive in this regard, and the worsening situation in that country now poses a genuine security challenge that cannot be ignored. Bosnia's ethnically driven political polarisation obscures a high degree of state capture. In that country public attention on systematic theft of public assets is deflected by an equally systemic effort to drum up ethnic and sectarian animosity, leaving the country increasingly impoverished and tense. Pervasive corruption has closed off opportunities for the most dynamic elements in society, leaving many of the country's youth little choice but to emigrate to the EU. They are, in essence, voting with their feet and feel that they can no longer afford to wait for positive changes and economic opportunity in a heavily statist national economy which corrupt leaders exploit while undermining the private sector. This dynamic poses a challenge not only to Bosnia and Herzegovina, but to the entire region and is opening a door for opportunistic and destructive Russian meddling (Szczerba, 2022; NATO PA, 2022)

31. 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 SDGs 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.

32. Yet the burden here is not on developing countries alone. Richer OECD countries can be enmeshed in 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 and financial institutions. 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 while eroding the rule of law. In March 2022, for example, the British Parliament passed the Economic Crime Act which seeks to tackle both economic crime and sanctions evasion. The Government pushed the bill through Parliament in response to the events in Ukraine. It included measures to increase transparency and endow law enforcement with enhanced powers to combat money laundering and sanctions evasion.

33. Corruption not only undermines good governance, it also has dire implications for human rights. In China, weak rule of law and human rights protections have allowed for an illicit organ harvesting industry worth USD 1 billion to flourish unimpeded (Brown, 2021). UN human rights experts, based on evidence collected by the Independent Tribunal into Forced Organ Harvesting from Prisoners of Conscience in China (known as the China Tribunal) have called for investigations into the industry's targeting of ethnic minorities in detention, notably Tibetans, Uyghurs, and Falun Gong practitioners. The Tribunal found that the number of transplants occurring in China far exceeds the number of organs that could be provided through non-coercive means, and Western journalists have found evidence that suggests Chinese doctors are using organ removal from prisoners who have been executed (Lavee and Robertson, 2022; OHCHR, 2021). Organ harvesting in China is just one example of how corruption can disproportionately harm the most vulnerable in society – minorities and the incarcerated.

IV- THE RUSSIAN CASE

34. 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. In fact, Russia both wields corruption and is a victim of it as the country itself is riddled with corruption to the point where the Russian state itself might best be characterised as an authoritarian 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 at the expense of its own citizens and those countries left less secure because of its international behaviour.

35. Western analysis of Russian statecraft often applies Western paradigms to explain Russian domestic and foreign policy. This invariably leads to disappointment 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.

36. 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. Putin's accumulated wealth 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). Ill-gotten proceeds from high level corruption in Russia not only help finance rigged elections in Russia while underwriting domestic patronage networks, but it is also moved offshore to purchase equity, real estate, education, health care and most importantly, political influence (Massaro and Rausing, 2017). Once this elite engages in corrupt practices, however, it is also vulnerable to arrest and prosecution, although only those seen as threatening elite power are selected for trial. The "justice" system thus becomes a weapon to be used against other groups vying for power and can provide another means for the most powerful to appropriate assets from their rivals. It is noteworthy that the FSB has carried out these campaigns rather than normal police units (Trudolyubov, 2016).

37. 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. Yet 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.

38. Alena Ledeneva, a professor at University College London'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. Whereas 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).

39. Corruption in Russia is thus obviously systemic, and it should hardly be surprising that it is also a tool of foreign policy. It often exercises this influence in subtle ways. Russian money underwrites art galleries, academic institutions, football clubs and charities and thus achieves both acceptance and proximity to power in the West. There are countless example of Russians directly funding Western political parties, and, here, the influence is more direct and potentially impactful (Zussman, 2022). Russia has covertly provided at least USD 300 million to foreign political parties and candidates in more than twenty-four countries since 2014 to enhance its political leverage, according to a recent US intelligence review (Ryan, 2022).

40. 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 their homeland rather than work under such burdensome conditions. Corruption has thus triggered a migration of Russian talent from a once promising domestic tech sector. This exodus has increased substantially since Russia launched a massive attack on Ukraine in March 2020 as it became clear that Russia would soon be cut off from a large share of the world’s technology markets. 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 afoul of the Kremlin or local bosses.

41. 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. The Kremlin has used its control over important oil and gas industries to foster 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, to varying degrees, in several 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 of dubious provenance and working surreptitiously, even in the open, to render the West more vulnerable to its malicious ambitions (Casey and Schmitt, 2022).

42. 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 skills 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 pipeline system generate slush funds used to corrupt and weaken foreign officials, as well as to 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 the 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 brutal invasion became evident.

43. 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

44. 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. The Biden Administration had indicated from the very start 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).

45. 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 due diligence requirements for service providers and prohibiting foreign officials from accepting bribes have been on the international agenda for some time. But the war has accelerated 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).

46. The Biden Administration has made the defence of democracy a central tenet of its political and diplomatic agenda and clarified 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 fighting corruption and money laundering and penalising 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 while employing American lawyers to provide a legal shield (The White House, December 2021).

47. The so-called Pandora Papers revealed 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 Congress have accordingly begun to advance a so-called counter-kleptocracy agenda. 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 while providing a model that other democracies may feel increasingly compelled to adopt.

48. 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).

49. 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 as 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 these issues, firstly with regard to Russia but ultimately in a more generalised sense.

50. 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 the 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, June 2021).

51. The Biden Administration also issued a U.S. Strategy on Countering Corruption, which promises to close loopholes in the US regulatory system, support civil society organizations and journalists around the world that expose corrupt actors, and create senior anti-corruption positions throughout the US government including USAID, the Treasury and the State Department. This has elevated the fight against corruption to a key priority of US foreign policy. USAID has, for example, created an Anti-Corruption Response Fund to support countries when opportunities to do so open up and help fund innovative anti-corruption efforts. It intends to support efforts to hold the local

government accountable through a combination of diplomatic pressure and sustained support for reformers and journalists confronting corrupt oligarchs and governments (Mackinnon, 2022). In July 2022 President Biden named Richard Nephew as the United States Department of State's Coordinator on Global Anti-Corruption. Nephew will integrate and elevate the fight against corruption across all aspects of US diplomacy and foreign assistance (U.S. Department of State, 2022).

52. 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". There is some evidence that are 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). There are also clear gaps between the law on paper and the law in implementation, and this too has created space for bad actors to operate with a degree of impunity. A recent report by the UK Anti-Corruption Coalition criticized the UK's anti-corruption efforts as lacking the capacity to cope with the broader scope of the problem and failing to cooperate with sufficient depth with key partners like the United States (UK Anti-Corruption Coalition, 2022).

53. The British legal system has also made it difficult for journalists to scrutinise the problem as they are potentially subject to libel actions. Kleptocratic oligarchs have seized opportunities to create their own counter-narratives, for example, by making large donations to charities and universities or by acquiring attractive and marketable assets like football teams 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. Ultimately, however, it is up to governments to address these challenges, as self-policing can only go so far (Casey, 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 it is not coincidental that many of the measures included in sanctions packages address corruption problems in new ways. A number of these measures will have positive spill-over effects by facilitating the broader fight against corruption (Milmo, 2022).

54. In April of 2021, the British government introduced anti-corruption measures allowing the government to impose travel bans and assets freezes on individuals and companies accused of corruption. These measures are similar in structure to the US Magnitsky laws and have enhanced the capacity of the British state to target individuals engaged in human rights violations and corruption, although the US government has invoked its law against a significantly larger number of individuals. But the pace of actions has increased in recent months partly in response to Russia's war on Ukraine. Between March and May 2022, the UK sanctioned more than 1,500 individuals and companies linked to Russian president Vladimir Putin, freezing GBP 275 bn in the process (Beioley, 2022). The list has since grown longer.

VI- RUSSIA'S WAR ON UKRAINE AND GLOBAL SANCTIONS

55. The Ukrainian people have suffered enormous hardship because of Russia's unprovoked war. Defending the country has understandably become the all-consuming priority of the Zelensky government, but it also has kept part of its focus on Ukraine's long-term ambition: to place itself firmly in the trans-Atlantic community of nations. Needless to say, the trauma of Russia's concerted

aggression has compelled the country to concentrate on the essentials. There is also a sense that this crisis has been transformative and will generate a certain political momentum to confront some of the more enduring challenges Ukraine has faced. These include the weakness of the Ukrainian state, divisions in the body politic and endemic corruption which have long undermined Ukrainian cohesion and strength. It is important to recognise that the Kremlin itself had contributed to these problems and actively fostered corruption in the country, rightfully understanding that to do so might help deliver the country into Russian hands. Like other post-Soviet countries, Ukraine has struggled with widespread corruption, and, as elsewhere, the greatest burden has fallen on the least powerful. Ordinary Ukrainians were long compelled to pay petty bribes to obtain access to needed services that, in any case, were guaranteed by law but often unobtainable without paying bribes. In practice, access to state services was limited and controlled by gatekeepers who illegally charged fees for services supposedly already covered by taxpayers. This kind of petty corruption touched virtually everyone in Ukrainian society and had already been a driving force of the so-called Orange Revolution of 2004-2005 and later the Euromaidan uprising of 2014. Both events marked important cases of civic mobilisation in the face of systemic corruption and poor governance. But in some respects, they have been seen by some as missed opportunities for deeper change (De Waal, 2016; Pifer, 2020).

56. Ukraine was also beset by more strategic forms of corruption in which the country's largest and most precious economic assets were essentially hijacked by an unaccountable oligarchy and its supporters embedded in the state. The election of President Zelensky had, in part, represented yet another expression of public discontent with state capture. Zelensky's government had dedicated itself to taking on the problem. Mounting tensions and a low intensity conflict with Russia, however, turned into a full-scale war in March 2022, and the question now is whether the country that emerges from this tragedy will be sufficiently altered to address these enduring and costly corruption challenges.

57. Anti-corruption efforts in Ukraine began in earnest after the 2014 Euromaidan Revolution and the signing of an Association Agreement between Ukraine and the European Union. The agreement spelled out reforms that Ukraine would have to make in order to deepen political and economic ties to the bloc, and serious action against entrenched corruption was a significant aspect of this. The centrepiece of Ukraine's anti-corruption reform was the creation of the National Anti-Corruption Bureau of Ukraine (NABU), and its efforts were reinforced by the High Anti-Corruption Court and the Specialised Anti-Corruption Prosecutor's Office (Radina, 2021). Despite attempts to undermine these institutions, driven by appeals from pro-Russia politicians that led Ukraine's Constitutional Court to declare NABU unconstitutional in 2020, these anti-corruption institutions have had some success and have helped uncover and prosecute corruption at the highest levels of Ukrainian society. In September 2021, Ukraine passed an anti-oligarch law that provides a legal definition for the term based on an individual's control over the media, business and politics, and it subjects these individuals to increased scrutiny and restrictions on holding public office and purchasing state assets (Raczkiwycz and Ivanova, 2021). Although there was some progress, a 2021 audit by the European Union – which has provided billions of euros of support to Ukraine – found that these reforms were largely ineffective in tackling high-level corruption (ECA, 2021).

58. The Biden Administration believes these reforms ultimately helped harden Ukraine's defences against Russia and offer a model for other emerging democracies seeking to cope with legacies of corrupt governance. Indeed the U.S. Agency of International Development recently issued a guidebook on "Dekleptification" that among other transition experiences draws on the Ukrainian experience following the 2014 uprising which led to the ousting of the highly corrupt government of then-President Viktor Yanukovitch (Mackinnon, 2022). The Administration is convinced that Ukrainian success on the battlefield is a function of the high motivation of Ukrainian forces and success in taking on corruption and seeing Russia as an aggressive kleptocracy has been part and parcel of their motivation. Likewise, the Administration has identified corruption within the Afghan state as a fundamental reason for its collapse in the face of the Taliban's military offensive.

In introducing the new guidebook, USAID Administrator Samantha Power said it would provide “advice to reformers on how to root out deeply entrenched corruption and technical advice on how to implement radical transparency and accountability measures, and how to stand up new anti-corruption structures. Moving rapidly and aggressively in historic windows of opportunity will make these reforms harder to reverse.” (USAID, 2022)

59. That said, although oligarchs have exploited their access to state institutions, corruption has not radically undermined state security in the same way it did in Afghanistan in 2021. Ukraine’s stout defence against the Russian aggressor and the unity of the public’s determination to resist is testimony to this. Some see this resistance as revealing a previously elusive sense of unity that could ultimately be used to build stronger defences against corrupt officials. But this, of course, remains to be seen and much will depend on the outcome of the war itself and the degree to which this wartime sense of shared purpose will carry forward into a post-war period. The war has reduced the leverage of Ukraine’s oligarch class and consolidated the power of the Ukrainian government. When the country moves to the reconstruction phase, the expected inflow of international support for reconstruction could pose a new set of challenges and will have to be managed effectively to avoid a recrudescence of oligarchic power and insider dealing. The hope is that Russia will no longer be positioned to meddle in what will be a very consequential moment (Hall and Olearchyk, 2022).

60. Russia’s vicious and illegal invasion of Ukraine has myriad implications for European and global security. Fundamental changes are unfolding including a 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 broad set of sanctions imposed by the international community have actually addressed some of the most glaring lacunae in Western laws and practices – gaps in the law which have heretofore eased the burden on corrupt Russian oligarchs and government officials seeking to launder their stolen assets.

61. Though not comprehensive, these sanctions have struck at elements of Russia’s energy, finance, high technology and military-industrial sectors. Sanctions have also targeted a range of individuals linked to the Kremlin. The list of countries agreeing to sanction Russia is long and includes not only most NATO member states, but also the EU and its member states, Switzerland, Japan, Korea, Australia and New Zealand among others. But it is not comprehensive, and this limits their impact.

62. The EU, United States, United Kingdom and Canada have agreed to “prevent the Russian central bank from deploying its international reserves in ways that undermine the impact of our sanctions.” The EU now forbids all transactions with the Central Bank of Russia which holds EUR 640 billion in reserves. This has put a large share of Russian reserves out of reach of the state and its ability to raise foreign capital is now dramatically impaired (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 underwrite international trade. The US government has 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. All these institutions have been hit with asset freezes and/or serious new restrictions in the EU, UK, U.S. and elsewhere (Henley, 2022). Prior to the war, more than half of Russian exports were dollar denominated. This is equivalent to roughly USD 300 billion, or 19% of Russia’s GDP (Walker, 2022).

63. The EU will no longer allow Russian 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. These airlines have also lost access to parts needed to keep their fleets in the air. Over time, this is expected to ground a number of Russian-owned aircraft.

64. 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 Russian 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 through the imposition of sanctions (Watson and Legare, 2022).

65. 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). The United States has also sanctioned Alina Maratovna Kabaeva, who is believed to be the partner of Putin and who has grown rich from the connection, "for being or having been a leader, official, senior executive officer, or member of the board of directors of the Government of the Russian Federation" (Hansler, 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).

66. 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. Prior to the war, Europe relied on Russia for 40% of its natural gas supply and 26% of its oil but has moved quickly to reduce this reliance although it cannot fully wean itself from this energy until it finds alternative energy sources. The EU has embargoed a significant share of Russian oil exports to the continent, and the EU and UK recently announced that their firms would no longer insure ships carrying Russian oil (Cahill, 2022). The share of gas imports from Russia has also fallen but reducing Europe's dependence on Russian gas will prove much more challenging given the dearth of LNG capable ports (Smith, 2022). Making Western countries independent of Russian energy will not be easy, but it is doable if a broad international coalition is constructed to make this possible. It is also important to recognise that several 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. 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.

67. The EU and the US have banned 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).

68. Sanctions have also targeted 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 were cancelled and that country has been banned from taking part in the Eurovision song contest. This reduces the capacity of the Kremlin to use sports and culture as vehicles for pumping out propaganda designed to obfuscate its predatory international ambitions.

69. 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, 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. None of this will resolve Russia's deep corruption crisis. Rather, it further tightens the Kremlin's control over the corruption game and further undermines the capacity of corrupt officials and oligarchs to operate in anything approaching an autonomous fashion.

VII- THE ROLE OF NATO AND THE EU

70. 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.

71. 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 an essential principle of democratic control over defence spending, and it supports a range of training programs to imbue defence institutions with these principles.

72. Through the Building Integrity initiative, NATO aspires to contribute to the construction of "transparent and accountable defence institutions under democratic control... to [build] stability in the Euro-Atlantic area and beyond" (NATO, 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, the Euro-Atlantic Partnership Council, the Mediterranean Dialogue, the 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, December 2016).

73. The overarching aim of the effort is to promote the core values of allied 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, n.d.). By providing these tools to a wide category of states, NATO intends to reduce corruption around the world to promote more effective international security cooperation. The heads of NATO member governments reiterated this commitment at the Brussels NATO Summit in June 2021. The final communique read: We remain committed to NATO's Building Integrity Policy and Programme. Corruption and poor governance undermine democracy, the rule of law, and economic development, thus constituting challenges to our security. Implementing measures to improve integrity building, to fight against corruption, and to foster good governance is of continued importance for NATO, Allies, and partners alike" (NATO, June 2021).

74. The EU has a central role to play in countering corruption both among its members and internationally, including those countries aspiring to membership. Indeed, putting in place effective and proven safeguards against corruption and state capture are now prerequisites for accession to the Union, and these requirements have been strengthened in recent years. However, the EU is also focused on corruption in member states, particularly on matters pertaining to the misuse of its own funding. In recent years, the European Public Prosecutor's office has launched 576 investigations into economic and financial crime, mainly involving EU subsidies and cross-border VAT fraud. The European Court of Justice has ruled that the disbursement of EU funding can be made conditional on member state respect for the rule of law and critical notions of judicial independence as well as academic and press freedom – all not only essential to fighting corruption, authoritarianism and state capture but also to ensuring the smooth functioning of the single market. It is worth noting that the European Parliament's Budget Committee recently noted that the influence of oligarchical business groups in the EU had "reached an unprecedented magnitude in the past several years" (Barber, 2022).

VIII- CONCLUSIONS

75. 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, truth and transparency, and the practice and mores of democratic governance. It leaves states vulnerable to the depredations of both domestic and external malign and often authoritarian actors, including rival states.

76. 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 as comprehensive as possible. Banning Russian banks from the SWIFT financial messaging system, which plays a vital role in international banking, represented an important step in this regard. Russia's war on Ukraine has presented allied governments with an opportunity to strengthen their own resilience against strategic corruption. Ensuring Russia does not prevail requires that allied

governments not succumb to the corrupt illiberal logic of Putin's Russia, although some governments have done a significantly better job than others of resisting Putin's siren call.

77. 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 doing so is far greater. Putin's regime has become an avowed 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, corrupt weak governments and create varying degrees of strategic dependence expressed best by its pipeline networks. Allied governments should do all in their power to undercut this activity while holding out models of good governance, transparency and genuinely free markets.

78. Democratically elected parliamentarians also have a special duty to implement tough anti-corruption measures at home 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.

79. Defending democracy is the very purpose of NATO, and the NATO Parliamentary Assembly has repeatedly called for the establishment of a Centre for Democratic Resilience at 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.

80. 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 above 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. Allied governments should therefore encourage all allies and partners to take corruption on 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.

81. The fight against corruption demands societal resilience as well as institutions designed to both resist and to counter actively corrupt practices and to encourage transparency at all levels of government. Comprehensive strategies should 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, integrity 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. 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.

82. It is also 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 both a fundamental element in Alliance work with partner countries and a central priority for parliamentarians overseeing national defence establishments. NATO's Building Integrity program accordingly deserves the strong support of Allied governments and parliaments.

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

84. Parliamentarians should push for anti-kleptocracy efforts to close legal loopholes facilitating money laundering and more aggressively enforce laws on the books. 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. Increased funding is needed for sanctions enforcement, and governments must close the often-large gaps between laws on the books and actual sanctions enforcement.

85. National governments and parliaments should support and empower anti-corruption efforts carried out by a range of international organisations 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, the World Bank and the United Nations to address various dimensions of the problem 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.

86. 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 at work in their own country. This has become an immensely 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. It is important to recognise that low corruption countries are more likely to attract foreign investment, while domestic investors will be more confident in undertaking long-term capital spending when they know that the game is not rigged.

87. 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.

88. At the very least, property ownership of assets should be perfectly traceable, but resources are needed to enforce these laws. The British case here is instructive. In June 2016 the United Kingdom was the first G20 country to establish a publicly accessible central registry showing ownership and control of UK companies. This was a welcome development; however, the UK company registrar lacked the resources and power to verify the data in the register, and abuse continued. The lesson has been that proper funding for regulatory authorities is essential to ensuring compliance with the letter and spirit of these kinds of laws. Governments also need the power to investigate those who are reasonably suspected of engaging in criminal activity and cannot account for the sources of their wealth. Likewise open contracting data transparency for public procurement is essential to ensuring that government contracts are not used for corrupt purposes. According to Transparency International, this is important in defence markets as well and will be increasingly applicable as governments engage in massive spending efforts to reduce carbon emissions and convert to sustainable energy. Markets flourish when transparency becomes a precondition for participation. Corruption and authoritarianism thrive where opacity subverts rules and rewards impunity.

89. Adopting measures like these is critical to taking on systemic corruption, reinforcing security and ultimately making it more difficult for corrupt officials and criminals both domestic and foreign to recycle ill-gotten gains. It 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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