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**STOP THE  
CORRUPT  
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## **COUNTERING CORRUPTION AND KLEPTOCRACY**

*What Can Be Done to Uproot a Global Scourge?*



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# COUNTERING CORRUPTION AND KLEPTOCRACY: WHAT CAN BE DONE TO UPROOT A GLOBAL SCOURGE?

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*Corruption and kleptocracy have metastasized in the globalized era, infecting the health of the international financial system and weakening the integrity of rule-of-law in societies around the world. Kleptocracy can be understood as the systematic capture of state resources for personal private gain by a country's top leadership. Its effects can be devastating to the populations that suffer deprivations and [harmful](#) to the foreign countries where kleptocrats stash and spend their corrupt, ill-gotten gains.*

*Kleptocracy has become a key feature of modern-day autocracy, enabling authoritarians and their cronies to consolidate their grip on power at home and manipulate the international system to stymie criticism of their abuses of power. Corruption at the scale of kleptocracy has a destabilizing effect on countries that are looted. It spills over into the global arena as kleptocrats and corrupt actors look to launder their stolen wealth and tarnished reputations.*

*Countering corruption and kleptocracy is an immense challenge because of the scale and complexity of the abuses and schemes. The good news is that innovative strategies for countering corruption and kleptocracy have already been put into practice. Democracies around the world – and the United States in particular – must recognize that kleptocrats are trying to take advantage of their openness and their institutions. Left unchecked, these kleptocrats risk corrupting our financial systems, our real estate markets, and even our political process. Democracies can and must play a leadership role in countering corruption globally by closing loopholes and enforcing anti-money laundering mechanisms to signal to kleptocrats that their crimes are unacceptable to the international community.*

## EXPLAINED IN THIS PAPER:

- Understanding corruption and kleptocracy
- Corruption and kleptocracy fuel instability and enable authoritarianism
- The enabling role of the international community
- Emerging innovations for countering corruption and kleptocracy
- Our recommendations

## UNDERSTANDING CORRUPTION AND KLEPTOCRACY

The pursuit of wealth and power typically go hand in hand. Access to one can often help consolidate a more secure grip on the other. The unrestrained and unchecked

accumulation of these two forces, however, can create a sinister knot that can become increasingly difficult to untangle.

Transparency International defines corruption as “the abuse of entrusted power for private gain.” Corruption can be perpetrated by any individual who is in a relative position of authority – they need not be in a formal government position to abuse power for financial benefit. But when government officials take advantage of their public roles for personal profit, corruption, if not quickly uprooted, risks spreading pervasively like a toxic weed, poisoning the soil of governance and crowding out space for accountability to flourish.

When corruption becomes systemic and is employed as a *modus operandi* for maintaining wealth and power at the highest levels of a state, a country can be classified as a kleptocracy. The Greek roots of the word “kleptocracy” translate as “rule by thieves.” In such a system, political leaders come to depend on the accumulation of vast wealth to fund patronage networks and benefit the loyalists who keep them in power. For the kleptocrat, the stakes of losing access to either wealth or power can become terrifyingly high. Losing power not only means losing access to wealth, but also increases the likelihood of facing severe retribution, including possible imprisonment, or worse.

Grand corruption of the nature that leads to kleptocracy is generally accomplished through state capture, whereby political elites put family members, political allies, or opaque business entities they control in charge of state-owned companies, procurement decisions, and other state resources. It can take many different forms, and even filter into the judicial systems to rig courts and appoint judges in their favor, but the corrosive effects on government performance and accountability are the same.

In the modern era of globalization, kleptocracy should also be understood as something even more invasive than a hostile takeover of the resources of a particular country. The interconnected global financial system has created new avenues for kleptocratic actors to stash and spend their stolen wealth far beyond the borders of the country they rule. After all, they don’t trust their own country for safekeeping their ill-gotten gains and look elsewhere, to more reliable places. As journalist and author Oliver Bullough has [observed](#), kleptocracy is what happens when “corruption meets globalization.” Once resources are captured, kleptocrats naturally look for ways to spend their vast volumes of newfound wealth. But as the world has implemented some basic safeguards to prevent the international transfer of ill-gotten gains, kleptocrats have discovered new ways to stay several steps ahead of investigators. This style of modern kleptocracy, Bullough has [noted](#), “combines 19th-century autocracy with 21st-century finance.”

## **CORRUPTION AND KLEPTOCRACY FUEL INSTABILITY AND ENABLE AUTHORITARIANISM**

The resources required to finance a modern-day autocracy almost inevitably entail the regime’s transformation into a kleptocracy. Authoritarian leaders who lack the legitimacy of a popular mandate must shore up political allies, support an apparatus to repress dissent, and invest in foreign relationships to stave off criticism or isolation from the international community. This costs significant sums of money.

Kleptocratic autocracies often try to paint themselves as the best guarantors of stability

because they seem to marshal considerable political and economic resources. The truth is, however, that unchecked corruption and kleptocracy weaken state institutions, limit meaningful accountability, and ultimately entrench autocrats even further in power. The foundations of power remain wobbly, and the result is instability. The coauthors of [The Kremlin Playbook](#) described this interplay between the forces of autocracy and kleptocracy as “an unvirtuous cycle.”

In countries where corruption is systemic, political elites capture the wealth of the state for their own personal gain at the expense of the general population. For example, the Anti-Kleptocracy Coalition of Central Africa’s [Kleptolands](#) initiative documented how medical facilities, access to education, utilities, basic infrastructure, and other public goods and services are almost nonexistent in the five countries of Angola, Cameroon, Chad, Equatorial Guinea, and the Republic of Congo, where a small political elite have gained control over state-owned entities and resources.

President George W. Bush recognized the link between poverty and instability as part of his 2002 [National Security Strategy](#), acknowledging that “poverty, weak institutions, and corruption can make weak states vulnerable to terrorist networks and drug cartels within their borders.” In the years since, new challenges stemming from the consistent decline in levels of freedom and the resurgence of authoritarianism around the world have seen the effects of kleptocracy spill beyond state borders in even more complex ways.

In the Western Hemisphere, corruption and kleptocracy have created a regional migration crisis on a scale not previously seen. This is putting ever more strain on the countries where refugees travel when they flee from simultaneous regime corruption, systemic poverty, endemic violence, and authoritarian crackdowns. The gutting of the Venezuelan state by the repressive and highly corrupt “Boligarchy” allied with the Nicolás Maduro regime has created a humanitarian disaster that has compelled approximately 7 million Venezuelans to exit the country since 2014 – producing more refugees than most war-torn nations. Waves of relentless corruption in Haiti have seen the country’s leaders lose their authority to ruthless gangs who have benefitted from systemized corruption. Haiti’s volatility has prompted yet another wave of migration from the island nation.

Russia’s war of aggression in Ukraine can also be traced back to kleptocracy in the Kremlin. Ever since the 2004 Orange Revolution when Ukrainian citizens protested Viktor Yanukovich’s attempt to steal the presidential election, President Vladimir Putin has viewed Ukraine’s existence, especially its prospect of becoming a successful democracy, as a direct threat to his own power. Ukraine’s 2014 Revolution of Dignity against rampant corruption under Viktor Yanukovich’s Kremlin-allied presidency only reinforced this. Every advance that Ukrainian citizens made toward anti-corruption reform and greater accountability in their own country, halting though they were, made Putin and his allies more fearful – even if those fears were overblown – of the demonstration effects that democratic reforms would have for their own accumulation of wealth and power in Russia.

Ironically, autocrats have leveraged citizen frustrations with high levels of corruption to further concentrate their own authority by using anti-corruption campaigns as a guise for targeting political opponents. The Chinese Communist Party’s (CCP) repressing of high-profile party officials that has coincided with President Xi Jinping’s consolidation of power is a particularly notable example – one which started with the investigation and

trial of his own principal political rival, Bo Xilai. Despite the CCP's persistent prosecution of corruption under Xi Jinping's leadership, corruption and kleptocracy remain central to the party's governance model and ability to maintain power. But the heavily publicized condemnations of corruption – ignoring that they are often against Xi Jinping's political rivals while cronyism and bribery remain endemic – have muddied the waters of the global fight against corruption by lending the CCP regime a veneer of internal accountability.

## THE ENABLING ROLE OF THE INTERNATIONAL COMMUNITY

Corrupt officials are no different than any other people in their desire to put money to work. They also know better than anyone else that opportunities to accumulate wealth through power can be fleeting. In an illiberal regime where the exercise of power is arbitrary, any official's position of authority could be easily reversed without warning.

The result is that these individuals begin looking for safer havens abroad, where the rule of law can be used to protect, spend, and even grow the value of their stolen wealth; their own countries are too unreliable and predictable. Although the international community has recognized this movement and undertaken efforts over the past decades to identify and sanction known corrupt actors, the [global financial secrecy system](#), as termed by the anti-corruption organization Global Financial Integrity, has continued to enable kleptocrats to do so.

Unscrupulous competition between rule-of-law financial jurisdictions eager to welcome capital into resource-poor economies has created a global race to the bottom. Jurisdictions that have come to be recognized as "offshore," such as the Cayman Islands, Cyprus, the Seychelles, and even U.S. states like Delaware, Nevada, and North Dakota have developed various forms of anonymous beneficial ownership entities that allow corrupt actors around the world to obscure the origins of their wealth and hide the identity of the account owner. By establishing and linking a series of these corporations under layers of anonymous account holdings across multiple countries and jurisdictions, it can become nearly impossible for investigators to trace money to its original source.

Kleptocrats have discovered that other globalized marketplaces that tend to escape formal regulations – such as the real estate market, the luxury goods industry, and art and antiquities auctions – provide alternative ways to spend and launder stolen wealth. For instance, the vice president of oil-wealthy Equatorial Guinea (and son of the country's president), [Teodoro Nguema Obiang Mangue](#), used a trusted, secret buyer to anonymously build the world's largest collection of Michael Jackson memorabilia from various public auctions. Additionally, he amassed a fleet of sports cars and multiple luxury properties in the United States and France using a network of lawyers, associates, and shell companies.

Power-hungry kleptocrats who seek above-board participation in the international community must take great care to not only launder their ill-gotten gains, but also their reputations. Scores of institutions in open societies have – both wittingly and unwittingly – facilitated kleptocratic reputation laundering. Philanthropic gifts to [universities](#) and cultural centers are one favored venue among kleptocrats that allow them to flaunt apparent generosity by establishing academic centers, scholarships, and endowed positions in their own names. Rebranding oneself as an [entrepreneur](#) is another.

Kleptocrats have also been known to hire foreign lobbyists and public relations firms which

help them place sponsored content and advertisements in high-profile international media outlets. These lobbyists sometimes include [former government officials](#) and [military officers](#) who can provide kleptocrats with high-level access to lawmakers and business leaders in democratic societies.

These money-laundering and reputation-laundering strategies enable kleptocrats and corrupt government officials to extend their illiberal aims deep into open societies. The international community, and especially established democracies who prize the rule of law, must recognize their own role in enabling and facilitating transnational kleptocracy. Too often, policymakers and business-sector leaders in open societies have refrained from asking the hard questions necessary to determine where influxes of foreign capital truly originate and acknowledge the corrosive effect that allowing corrupt, state-linked money into an open economy has on democratic institutions and integrity.

Fortunately, open societies also possess strategic advantages that provide opportunities for self correction. A sustained and growing civic debate in the United States and other countries about the effects of transnational kleptocracy has also been gaining steam alongside the kleptocrats' own evolving strategies.

## EMERGING INNOVATIONS FOR COUNTERING CORRUPTION AND KLEPTOCRACY

Policymakers in the United States have long recognized that corrupt actors around the globe have aspired to move their ill-gotten gains into the country, but the adoption of [meaningful policies](#) to regulate this have been hard fought and were few and far between for many years. In 1970, the U.S. Congress passed the Currency and Foreign Transactions Reporting Act (commonly known as the Bank Secrecy Act), which established a requirement and mechanisms for U.S. financial institutions to collect data and report to the federal government suspicious customer activities that could indicate money laundering, tax evasion, and other criminal activity. In 1990, during the George H.W. Bush Administration, the Treasury Department established the Financial Crimes Enforcement Network (FinCEN). Over the years, FinCEN has played an important role in investigating complex cases of foreign money laundering, as well as enforcing anti-money laundering regulations and policies.

The Sept. 11, 2001, terrorist attacks brought the issue of preventing money laundering by illicit actors to the forefront of U.S. policymaking. The Patriot Act was swiftly adopted in 2001 with strong bipartisan support in the U.S. Congress and required U.S. banks to scrutinize foreign jurisdictions, financial institutions, and certain classes of international transactions that are more vulnerable to criminal and money laundering abuse. Although sections in the legislation requiring other U.S. financial industries to abide by the same regulations have never been fully implemented thanks to persistent industry lobbying efforts, the legislation reinvigorated the U.S. policy debate around the impact of corrupt and illicit funding entering the United States.

Building on this momentum, President George W. Bush in 2006 became the first U.S. president to publish a national strategy document outlining the case for internationalizing efforts against kleptocracy. The document identified that “kleptocracy is an obstacle to democratic progress, undermines faith in government institutions, and steals prosperity from the people.”

Recognizing the challenges and lengthy process required to prosecute foreign kleptocrats in the United States under criminal law, the Obama Administration in 2010 established the Kleptocracy Asset Recovery Initiative to create a civil forfeiture process for the U.S. government to seize U.S.-based assets purchased with illicit wealth.

The passage of the National Defense Authorization Act of 2020 included a crucial set of updates to the Bank Secrecy Act within the framework of the Anti-Money Laundering Act, such as calling for the establishment of national anti-money-laundering priorities and guaranteeing protections for whistleblowers. This legislation also included within it the Corporate Transparency Act to direct FinCEN to establish a national registry of beneficial owners, with the aim of limiting opportunities for illicit actors to hide their identity.

President Joe Biden has made countering corruption and kleptocracy a key priority of his administration, publishing a dedicated [Strategy on Countering Corruption](#) his first year in office. The administration's [Summit for Democracy](#) process identified countering corruption as one of three central themes in which participants should consider developing commitments during the Year of Action between the 2021 and 2023 summits. As part of the U.S. government's own commitments connected to the Summit for Democracy, the U.S. Agency for International Development (USAID) launched several funding streams to incentivize and support governments, civil society, and private sector-led cooperations in countering corruption around the world. Additionally, USAID published a "[Dekleptification Guide](#)" for USAID staff working in severely corrupt countries, and it announced the establishment of the Reporters Mutual platform to provide independent media outlets and investigative journalists from around the world with affordable libel insurance. The latter initiative is designed to meet a critical need for the media sector and mitigate the costly risk of being sued by well-resourced kleptocrats in retaliation for reporting on corruption.

U.S. and international civil society voices have been key players in driving forward momentum for policy innovations adopted in the United States and other established democracies. It is important to highlight the role of the nonprofit sector in identifying gaps in the democratic regulatory framework that corrupt actors have been able to exploit. Around the world, civil society activists and researchers from countries plagued by corruption have been able to document evidence that law enforcement agencies can use to levy sanctions or travel restrictions against individual kleptocrats, as well as to prosecute cases of corruption in the U.S. and European judicial systems.

Networked journalism initiatives such as the [International Consortium of Investigative Journalists \(ICIJ\)](#) and the [Organized Crime and Corruption Reporting Project \(OCCRP\)](#) have been particularly effective at researching and contextualizing how kleptocrats have moved and obscured illicit wealth around the world. Because transnational kleptocracy is multijurisdictional and reflects a cumulation of illicit activities that can be carried out and impact more than one country or locality, such international journalism networks can more effectively trace illicit financial flows across borders and convey back to public audiences a tailored story that details how their local jurisdiction was impacted. These networked journalism initiatives have successfully drawn global attention to massive data leaks that have implicated high-level political leaders, such as the Panama Papers, the Pandora Papers, and the Paradise Papers.



## OUR RECOMMENDATIONS

*The United States and other democracies need legislation and regulatory mechanisms to close loopholes commonly exploited by foreign kleptocrats to launder their ill-gotten gains and reputations in rule-of-law societies*

Currently, several financial service industries beyond the banking sector – including lawyers, arts and antiquities dealers, investment advisors, and other service providers – are not legally required to conduct due diligence to confirm that their client’s financing is derived from a legitimate source. Such industries can be leveraged as money laundering conduits or interlocutors for kleptocratic actors looking to obscure the origins of their wealth by providing an extra layer of anonymity and have come to be recognized as “enablers” of kleptocracy.

Kleptocrats also take advantage of democratic legal systems by filing “strategic lawsuits against public participation” (SLAPPs) that are time intensive and costly for individuals, media outlets, and publishing houses to defend. Bolstering speech protections for journalists and whistleblowers speaking to matters of public interest would close off a means of retaliation by kleptocratic actors, Casey Michel and Michael Weiss, two investigative journalists experienced in researching financial crimes by foreign oligarchs, have [noted](#).

*To enforce their own laws, democratic governments committed to fighting corruption and transnational kleptocracy that crosses their own borders must ensure agencies charged with investigating and prosecuting corruption are fully funded*

Anti-money-laundering cases are highly complex and require significant resources to meet the legal bar for prosecution. However, the successful recovery of illicit assets significantly outweighs the cost invested in building a legal case against corrupt, kleptocratic actors. The investigation and legal prosecution of foreign corrupt actors serves as an important deterrent against future attempts to launder money, while underequipping these agencies sends a signal to kleptocrats that they can launder their ill-gotten gains in democratic societies with impunity.

*Industry leaders and business associations representing real estate agents, lawyers, and other financial industry professionals that are targeted markets for money laundering should adopt and advance ethical standards promoting greater due diligence research*

This will help determine the origins of financing they are asked to handle. Such industries need to recognize the reputational risks that stem from participating as enablers in money and reputation laundering and which harm the professional integrity of its members.

*Nonprofit institutions that are sought-out venues for reputation laundering by kleptocrats and corrupt actors, such as universities, think tanks, museums, and other charities, should also adopt and advertise voluntary due diligence standards to promote greater transparency around institutional gifts*

Nonprofit organizations can safeguard their own integrity by individually or collectively rejecting gifts from individuals and business entities that are suspected of close linkages to

a corrupt, authoritarian regime. The adoption of voluntary standards can promote a race to the top to enhance institutional accountability.

*International donors must continue developing creative forms of support for investigative journalism, such as Reporters Mutual libel insurance, USAID's Strengthening Transparency and Accountability through Investigative Reporting (STAIR) program, and the International Fund for Public Interest Media*

Investigative media outlets and consortiums require sustained funding from donors given acute challenges to the media business model and financial pressure that hard-hitting investigative outlets typically encounter because of focused reporting on corruption and kleptocracy. Investigative media outlets also need legal support when they are targeted by repressive governments in retaliation for their work. Funding from public and private grantmaking organizations has been crucial in supporting innovative investigative journalism that sheds a light on corrupt and kleptocratic practices.

*Policymakers and law enforcement agencies should work with civil society organizations and investigative media to follow up on leads and leverage collected evidence to build legal cases for sanctioning and prosecuting corrupt and kleptocratic foreign officials*

Given the relative scarcity of resources to investigate complex, multijurisdictional cases of corruption and kleptocracy, government agencies and civil society can more effectively multiply the impact of their individual efforts by identifying opportunities to share information more efficiently with one another about where and how corrupt actors steal, launder, and spend ill-gotten gains.

With support from civil society, policymakers in the United States and other established democracies should identify common goals and seek to collectively raise standards that would prevent money and reputation laundering by foreign corrupt and kleptocratic actors.

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As enterprising autocrats have innovated their means of accumulating wealth and power, corruption and kleptocracy have spilled over the boundaries of the countries where they are initially perpetrated and into the international financial system. Despite the scale of the challenge, democracies must resist the temptations of accepting illicit and illiberal financial flows into their economies, and, more importantly, develop the capacity and tools to do so. Corruption and kleptocracy represent a threat to the national security and integrity of societies everywhere, and the United States and other democracies must continue focusing efforts on uprooting and eliminating this persistent global scourge.





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