



Session Report

Please know you may design the structure of this report to better suit the session. It's important to capture the key outcomes and solutions proposed for the future.

Session Title: Putting the Pieces Together: Collaborating to Tackle Violent Kleptocracy

Date & Time: Wednesday, 07.12.2022, 8:30 am – 10:00 am GMT -5

Report prepared by: Greg Wiegand, DRL/FO

Moderated by: Justyna Gudzowska, Director, Illicit Finance Policy, The Sentry

Panellists:

- Heather Epstein - Americas Head of Sanctions & ABC, Barclays
- Jane Khodarkovsky - General Counsel, Celo Foundation
- Liat Shetret - Director of Global Policy and Regulation, Elliptic
- Denisse Rudich - Senior Advisor, The Sentry
- Brad Brooks-Rubin - Senior Advisor in the U.S. State Department's Office of the Sanctions Coordinator
- A cameo by Sen. Sheldon Whitehouse

Share the thematic focus of the session, its purpose and corruption risks?

This panel brought together experts from civil society, finance and the USG for a lively two-hour discussion on challenges and opportunities in addressing kleptocracy and the flow of illicit cash. A recurring theme was that civil society, finance and government must work together to deal effectively with bad actors, who are generally able to move much more quickly. Another point made is that cryptocurrency can be vilified but it is merely a tool; if crypto were unavailable, bad actors would merely find another vehicle for moving proceeds of corruption.

Summary of panellists' contributions & discussion points (please be as detailed as possible)

Sen. Sheldon Whitehouse, introduced as a “leading voice in the fight against kleptocracy,” asserted in a five-minute keynote that a clash of civilizations is underway between rule of law and kleptocracy. It makes no sense, he argued, to have laws that prohibit banks from laundering money when people can merely go to lawyers or hedge funds and hide their illicit assets. We need to start treating the hiding of assets as a national-security issue, he said.

Justyna Gudowska, Director, Illicit Finance Policy, The Sentry, the moderator, said her organization, the Sentry, gathers information related to kleptocracy, publishes hard-hitting reports, and makes them available to governments. She cited Russia, Myanmar and South Sudan as poster children for kleptocracy, saying diamonds, gold, banks and cryptocurrency are often involved.

Denisse Rudich - Senior Advisor, The Sentry talked about the Central Africa Republic (CAR), as a bastion of corruption, land theft, mercenaries and EJKs. The CAR government decided to accept Bitcoin as an official currency, even though only ten percent of people in CAR have internet access and nobody has broadband. Other countries of crypto-concern include DPRK and El Salvador.

Liat Shetret - Director of Global Policy and Regulation, Elliptic, who “spent 15 years in the Horn of Africa chasing cash,” is now part of a crypto intel analysis team that “follows the transactions – arms trade, narcotics, Ponzi schemes” and connects a particular “wallet” to a particular group. “You can see illicit actors trying to peel off funds.” She said the largest movement of illicit funds is coming from Russian entities in the dark web; for instance, funds from the sale of a yacht are rendered into crypto. Ms. Shetret said data privacy is important and because of this, privacy-enhancement technologies pose a challenge. There are anonymizers that let us comingle funds.

Heather Epstein - Americas Head of Sanctions & ABC, Barclays, who once worked for OFAC, said banks need to know their clients. “Whose money is running through our pipes?” She said public-private coordination is sadly lacking, and that the USG needs to share more information. Real engagement, she said, would be the USG making very clear which actors the USG is focused on. However, she noted, in the private sector, not many employees have a security clearance. Banks may not deal with Vagner, but need to know if they have any clients that deal with Vagner. Ms. Epstein made clear she is anti-crypto, noting, “Ransomware exploded when crypto exploded.”

Jane Khodarkovsky - General Counsel, Celo Foundation, a former DOJ attorney, said bad actors are moving much faster than we are, so government has to rely on subject-matter expert in its fight against the criminals. Part of the problem is that even with the right information, it can take a lot of time to ascertain whether a company is a shell company. On an unrelated note: Some bad actors are laundering their money using purchases of artworks.

Brooks-Rubin - Senior Advisor in the U.S. State Department's Office of the Sanctions Coordinator said the lesson that can be drawn from the Kimberley Process (on blood diamonds) is that there have been myriad efforts to certify good diamonds but not much done about bad diamonds. On crypto, there are a lot of banks working to focus on their known customers, rather than focusing on identifying their customers' customers.

Main outcomes of session (include quotes/highlights and interesting questions from the floor)

Questions from the floor came from a Washington-based official of the UK Government's revenue unit; a businessman who said he had suffered from Russian kleptocracy; an official of the World Bank's Stolen Asset Recovery Initiative; a Honduras Business Council rep; and others.

Key recommendations for the future and concrete follow-up actions

No concrete follow-up actions were formally agreed to, but there were a number of useful takeaways.

- A majority of proceeds from illicit activities are still moving through traditional financial institutions.
- The largest movement of illicit funds is coming from Russian entities in the dark web.
- We need to work on linking dark web onramps and offramps to banks and cash-intensive businesses.
- Data privacy is important and because of this, privacy- enhancement technologies pose a challenge. There are anonymizers that let us comingle funds.
- The fight against kleptocracy requires us to work across professions and jurisdictions, and to build trust between the government and civil society, as well as between the private sector and civil society.
- As Sen. Whitehouse noted, we need transparency, we need to make sure people are on the record about who their clients are, and we need to ensure law enforcement has access to records.
- As Mr. Brooks-Rubin, speaking for himself, observed, we in government can sometimes get up on our high horse about reporting requirements and transparency. But we also need to acknowledge what our shortcomings are.

Is there a specific call to action to key stakeholders, such as governments, businesses, funders, civil society, young people, journalists or any other stakeholder that should be noted? Please specify if relevant.

Clearly, some in finance and civil society believe that the USG can and should do more, including through info-sharing, to work with non-governmental actors who are fighting the good fight against kleptocracy.

If it has not done so already, the USG could learn from the experience of CAR, an apocalyptic “proxy state of Russia” where Vagner holds mining rights and CAR-sourced gold heads to Dubai through Chad and Cameroon.

Rapporteur’s name and date submitted

Greg Wiegand, DRL/FO