



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: Financial Warfare: Are Democracies ready to Fight?

Date & Time: Wednesday, 08.12.2022, 8:30 am - 10:00 am GMT -5

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Moderated by: Kinga Redlowska, Programme Manager, RUSI Europe

Panellists:

- Tom Keatinge - Director of the Centre for Financial Crime and Security Studies (CFCS) at RUSI
- Justyna Gudzowska - Director of Illicit Finance Policy at The Sentry
- Franz Wild - The Bureau of Investigative Journalism
- Sam Greene - Director of Democratic Resilience, CEPA

Share the thematic focus of the session, it's purpose and corruption risks?

The session focused on the intersection between finance and statecraft and revolved around three main themes: the threat landscape in Europe and beyond, raising defences, and implementing an offence approach against the threat. The panel considered the threats to national security posed by both illicit and licit finance, including corruption of political elites and donations of political parties, the role of enablers in facilitating corruption, and FDI by potential malign actors, especially as it relates to Chinese initiatives. The goal of the session was to identify the main illicit finance threats to national and international security in Europe, and identifying actions that can be implemented by EU and other Western countries to counter them.

Hostile states and corrupt actors are increasingly weaponizing finance, often facilitated by the blurred lines between what is "illicit" and what is "illegal": as a result, an approach to illicit finance that looks exclusively at the proceeds of crime may no longer help in the broader fight against corruption. There have been calls then to apply a national security

lens to financial threats, to strengthen European security and democracy and stop viewing illicit finance as a purely criminal issue.

Shortcomings on the democracies' side allow hostile states to exploit loopholes to not only undermine, in general, the security of EU member states and the EU, but also subverts the part that the EU must play in the response of the West to the Russian war in Ukraine in particular, and efforts to combat illicit finance more generally.

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

The discussion was articulated in three segments:

1. Segment 1: Identify the threat
2. Segment 2: Strengthen the defences
3. Segment 3: Elaborate an offensive

Step 1: identify the threat.

This session aimed at identifying the biggest threat in the financial crime landscape in the European landscape and in other Western countries.

Tom Keatinge - Director of the Centre for Financial Crime and Security Studies (CFCS) at RUSI

- The focus has shifted since 2014, from non-state based threats to malign state actors as evidence has emerged of far greater use of finance as a statecraft vector.
- While this is true, an even bigger threat is the naivety and the negligence of Western leaders: while we champion open financial borders, Western nations have failed to ask themselves what kind of money is coming into their countries, how it is spent, and who is enabling the coming of this money onto Western shores.
- This is also due to the fact that the focus so far has been on proceeds of crime. However, there is a much bigger threat that is not necessarily "illegal", as hostile actors weaponise finance to pursue malign purposes. Examples include SLAPPs lawsuits or the financing of political parties. This risk is slowly been recognised: for instance, Ursula Von der Leyen discussed about the risk of "shady finance". The goal now is to move the attention from proceeds of crime to the threat of the abuse of finance generally.

Justyna Gudzowska - Director of Illicit Finance Policy at The Sentry

- the biggest threat is the fact that actors in the anti-corruption/anti-financial crime landscape work in silos — civil society separate from private sector, public sector separate from private sector, etc. The "bad" guys, instead, they have teams of people advising them, working across professions and jurisdictions.
- This should urge us to do the same and communicate more across professions, sectors, and jurisdictions – for instance following the example of what has already been done in other disciplines such as counter-terrorism.

Franz Wild - The Bureau of Investigative Journalism

- When it comes to enablers, it is important to say that the majority of people, although they very much play within the rules, they still almost unwittingly support the expansion of criminal activity and nefarious influence. They do so by acting within a blurred framework of what's illegal and what is illicit.
- It is important to bring the matter of national security in the conversation. However, the focus should also be on how negligible regulation, enforcement, and supervision of the enablers industry is still in practice fairly negligible as it relates to regulations, enforcement and supervision and it is still lagging behind.
- Frank agreed with Justyna on the difference in cooperation efforts between anti-corruption actors, and corrupt actors and enablers — citing one recent investigation into gang of hackers based in India enabled by private investigators based in the UK and Switzerland, who often collaborate with British lawyers. These gangs were targeting heads of state or high caliber politicians — this is an example of a crossover from one threat to the other.

Sam Green - Director of Democratic Resilience, CEPA

- Now that we are dealing with war, the perception of the threat of these malign actors is higher. However, we need to be thinking less about what's coming in as in terms of attacks from outside, and more about the internal vulnerabilities. Malign foreign influence is, indeed, enabled by domestic shortcomings.
- It is important to also look at the impact of dirty money. This money can disrupt our ability to regulate normal profit-seeking activities and it can distort the accountability structures of institutions (economic, social, and political) in the very same rule of law countries.
- the issue is that government is as a separate organisation exclusively working on policy, civil society as a watchdog, and business communities as operating in whatever regulatory environment they are given. The biggest threat is a lack of a sense of a common threat.

Step 2: raising the defences.

This section focused on how to increase European defences and build financial resilience.

Franz Wild:

- if we are going to combat these activities, enforcement is fundamental. Even though there has been progress on the regulatory side, from the enforcement side, the resources are simply not there to pursue malign actors and act as a deterrent.
- To get the house in order, it is also important to see how financial intelligence operates and what they do with the information that they gather.
- Another important element is thinking about the balance of rights and the need for transparency: recent cases such as the ECJ decision on UBO highlight it is likely there will be a strain between protecting specific rights such as privacy and transparency, with the need to counter threats posed by malign actors and provide the legal framework for enforcement to take place.

Tom Keatinge:

- presented the findings of the Transatlantic Response to illicit finance (TARIF), which gathered over the course of 2021 and 2022 experts from the UK and the US discussing how to increase resilience in both countries and provide a coordinated response to illicit finance. The first and main point highlighted in the TARIF discussions is the need to come clean and be honest about the role global financial centres play in facilitating illicit financial flows. Instead of pointing the finger, we have a role that we must play - getting our house in order, looking at our vulnerabilities, and understand how they affect other countries' stabilities.
- Aside from honesty, it would be good to see tracking and monitoring, auditing of the FATF and other international fora's commitments that are brought forward over the years and that sometimes are just a copy-paste from previous documents. Tom was quite positive about the direction of travel of the FATF and the new priorities set by mr Raja Kumar. There is a lot that financial centres have to do and owe it to origin countries.

Justyna Gudzowska:

- the rules need to change, as they still have not changed enough. Likewise, there is still not a full understanding of the threat to national security and not all countries are on the same page. This all goes back to the lack of communication and the need to keep the pressure going.

Sam Greene:

- a specific attention should be given to China, as Chinese investment is present throughout Central and Eastern Europe in a number of different ways – Chinese investment is very opportunistic, and what it capable to achieve is heavily dependent on the response from the political environment in each country. "Offences tend to use what the defences give them".
- There is a very little understanding of the threat from Central and Easter Europe and to understand the landscape. There is a role to be played by information sharing, understanding how contracts that involve debt empowers malign actors and how to make them sustainable, accountable, and transparent.

Step 3: elaborate an offensive

This section looked at how to effectively use restrictive measures (e.g. sanctions or exclusion of actors from the financial system) as an offensive against malign actors.

Tom Keatinge:

- the EU has achieved a level of cooperation that is unprecedented, and credit is due. RUSI conducted a project called SIFMANet which looked at sanctions implementation in different countries in Europe, bringing together experts from different sectors to facilitate an honest conversation about the opportunities and the limitations. What SIFMANet discovered is that there is a reality gap between what you hear in Brussels about the sanctions and what is actually happening in the industries themselves. So there is the chance to actually do more as it relates to implementation of sanctions.

- There are also plenty of countries that do not currently follow the Western lead on sanctions. This urges to a response to sanction evasion and respond to the countries that facilitate it. Three things are needed: keeping the diplomatic pressure; publicising cases of sanctions evasion occurring; and, as global financial centres, they have a considerable power should they choose to use that: take economic countermeasures at the financial level against countries that decide not supporting Ukraine's right to exist peacefully as a sovereign nation.
- Sanctions change the landscape — it's important you decide the ultimate objective of the sanctions designation. If the objective is to cripple Russia's economy, then we should go further and pursue such objective, with the understanding that there can be consequences for the illicit finance landscape as a whole and the way we understand threat. As a result, we also need to be proactive and horizon scanning for ways that sanctions are going to be evaded (or at least they will try to)

Sam Greene:

- it is also important to recognise the limitation of sanctions. Sanctions are important and inevitable. However, as long as we focus on sanctions as a response to a specific threat, we are chasing mutating vulnerabilities.
- The question surrounding the impact of sanctions on Russia is not necessarily a sanctions question. In Russia, individuals who were generating massive amounts of money in a non-rule of law country were allowed to be protected in rule of law countries, seizing opportunities to have the best of both worlds.
- We need to think more strategically about our own trade offs (the level of accountability, transparency, and how this clashes with profit). If we start doing that, then we reduce the incentives for malign actors to “purchase the rule of law”, then leading them to reconsidering how politics work at home. It's a cascading effect, which however starts with a behavioural change in Germany, UK or US.

Justyna Gudzowska:

- The point of sanctions is to create friction, not to change the behaviour of a mad man. Sanctions are a tool against malign influence and are capable of making other countries (e.g. Moldova) changing the idea of the malign state (e.g. Russia) such a powerful actor when they are not.
- Anti-corruption sanctions are fundamental: the US has a way to target corrupt actors around the world that other countries do not have. The EU should be thinking of adopting an anti-corruption sanctions regime: Having such regime allows you to target corrupt actors before there is a major crisis.

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

Few key points were shared by all panellists:

- One of the biggest threat is represented by the naivety and negligence of Western countries in accepting money without asking questions surrounding their origin.

- Actors operating in the anti-corruption and illicit finance framework operate in silos: the lack of communication and connection between the public and private sector, and civil society, leads to a fragmented and uncoordinated response that is not capable of facing the threat posed by malign actors.
- There needs to be a bigger understanding of what can be done surrounding what can be defined as “illicit” and not “illegal”: this means adopting a security lens to the threat, and focusing not exclusively on proceeds of crime.
- There is a role for anti-corruption sanctions in the broader framework of tools to use against illicit finance. However, sanctions are not a solution to all our problems: they need to be implemented alongside other major reforms in enforcement, legislation, and regulation.

“Beneficial ownership, enablers...all these changes are coming, but too slowly.” -
Justyna Gudowska, Director of Illicit Finance Policy at The Sentry

Franz Wild:

- It is really about building resilience. *“The key is to make sure that corrupt actors do not have a safe haven for their money”*. To achieve this, you need to clean your house, increase collaboration and international cooperation, and embolden and protect actors that increase accountability and transparency.

“There are plenty of positive things we can do with the financial and economic power at our disposal” - **Tom Keatinge, Director of the Centre for Financial Crime and Security Studies (CFCS) at RUSI**

Key recommendations for the future and concrete follow-up actions

- Clean your own house: global financial centres should be honest about their shortcomings and their vulnerabilities, and actively bringing forward reforms that close the loopholes
- There should be a concrete follow up to sanctions, to ensure that states that decide they do not want to follow Western designations face the financial consequences of their choices. Countries should also pursue the criminalisation of sanction evasion.
- Enforcement, of sanctions and other restrictive measures, but of legislation and regulation as well, needs to be prioritised.
- Anti-corruption sanctions should be seen as a useful tool in the anti-financial crime toolbox and as a useful stopgap to illicit finance. However, we also need an honest conversation surrounding the tension between sanctions and human rights, as well as human rights, presumption of innocence, etc. and the need for transparency.
- Communication and information sharing should be prioritised: actors should stop working in silos and start a cross-sector, cross-profession, cross-jurisdictional conversation.
- We need to reconsider the ideas of “illicit” vs “illegal” and ensure measures are in place to counter measures such as SLAPPs or financing of political parties for malign purposes.

What can be done to create opportunities for scaling up the solutions discussed in the session? And by whom?

- The fight against illicit finance should be one which includes actors from multiple sectors, professions, and jurisdictions.
- Franz Wild: It is really about building resilience. “The key is to make sure that corrupt actors do not have a safe haven for their money”. To achieve this, you need to clean your house, increase collaboration and international cooperation, and embolden and protect actors that increase accountability and transparency.

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.

See summary

Rapporteur’s name and date submitted

Maria Nizzero, 09.12.2022