

INTERNATIONAL ANTI-CORRUPTION CONFERENCE 2024

Vilnius, Lithuania

18-21 June 2024

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: Confronting Strategic Corruption and Illicit Finance: Democratic Resilience and Economic Security

Date: 20 June 2024

Time: 06:00 - 07:30 PM (GMT +3)

Report prepared by:

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Moderated by:

Desislava Gotskova

Head of Secretariat

Regional Anti-Corruption Initiative, Sarajevo

Panellists:

- Christian Beck
MEP Daniel Freund's Head of Office
European Parliament
- Dr. Oksana Huss
Anti-corruption and Public Integrity Policy Analyst
OECD
Associate Researcher
BIT-ACT, University of Bologna
- Prof. Dr. Elizabeth David-Barrett
Director, Centre for the Study of Corruption
University of Sussex
- Dr. David Jackson
Senior Adviser
U4 Anti-corruption Resource Centre
- Daniela Mineva
Senior Analyst, Economic Program
Center for the Study of Democracy

- Dr. Nedim Hovic
Postdoctoral Research Fellow
University of Oslo
- Dr. Ramadan Ilazi
Head of Research
Kosovar Centre for Security Studies

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

Building on the Summit for Democracy's Cohort on Anti-Corruption Policies and National Security, the workshop focused on how to effectively combat strategic corruption and state capture. Experts shared best practices on:

- investment screening;
- tracking illicit wealth;
- assets of sanctioned individuals;
- use of big data for risk assessments;
- corruption-proofing of legislation.

The participants delved into how corruption has evolved into both a strategic threat (used by authoritarian regimes to undermine democracies), and a systematic policy gap (state capture subverting government policy and decision-making in favour of private interests). The session included call for actions in specific areas (see the last section of the report). It was highlighted that external support needs to be given to reform-minded CSOs, experts, and policy-makers, while the focus is placed on actual impact and results, not legal changes and declarative statements.

This session tried to give a better understanding of the latest schemes and tools used by authoritarian countries exerting malign influence, as well as the factors facilitating state capture and national level. These could include:

- governance elements;
- involvement of lower level officials in long-term capture and protection of the interests of economic groups (which do not change with every new government);
- mapping the kleptocratic networks (e.g who are the facilitators and enablers, and their motives).

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

- **Christian Beck** focused on the enablers within the European Union of foreign influence. He claimed that the radical right parties across Europe are mediums of strategic influence, because these MEPs can be influenced through companies such as Gazprom instead of bribing them directly. This complicated scheme is very difficult to track. He clarified that the Kremlin and the Chinese Government can influence the European legislation with few politicians, those in the middle which can be swayed around. The Gazprom scheme is a good example because it shows how legal definitions are evaded and crimes cannot be prosecuted.

Christian listed different instruments used by the EU to strengthen democracy and rule of law structurally such as:

- a. Conditionality mechanism
 - b. Lobbying register
 - c. Defense of democracy package
 - d. Asset declarations for MPs
- **Dr. Oksana Huss** noted the OECD definition of strategic corruption available in the OECD Anti-Corruption and Integrity Outlook 2024: ‘the weaponisation of loopholes in target states’ anti-corruption and integrity frameworks, to achieve the perpetrator’s geostrategic goals’. She provided examples of the phenomenon from Russia’s operations before the full-scale invasion in Ukraine, where strategic corruption has been used as a tool of hybrid warfare. She built up with three implications of strategic corruption for anti-corruption policies (although it is not a new phenomenon, it has severe effects over the current anti-corruption agenda): 1) Corruption risk assessments should go beyond potential monetary losses and the frequency of corruption occurring. Instead, countries should anticipate the damage which elite- and regulatory capture can do to public institutions’ abilities to perform and uphold the public interest. 2) Coordinated responses within governments should build upon competence of a range of public sector actors, and authorities’ responsible for security, open government, public sector standards, and/or the rule of law. 3) The urgency of re-evaluating anti-corruption and integrity efforts in high-income countries, and the need to co-ordinate internationally in detection and sanctioning is evident due to the critical role of corruption enablers operating in transnational networks.
 - **Prof. Dr. Elizabeth David-Barrett** linked state capture to strategic corruption. Strategic corruption occurs when governments use financial resources to facilitate state capture in another country by the local elites, with a view to building a strategic alliance. This could be achieved through sovereign investment from state-owned enterprises or sovereign wealth funds, with opaque deals and outside the regular legal frameworks. The appeal of this lies in the size of the received funds, equivalent to investment from Western companies or multinational development banks which require commitment to reforms or compliance with higher standards.

State capture can involve capture of three different pillars:

- a. influencing the formation of policy or the rules of the game;
- b. controlling its implementation;
- c. disabling the accountability institutions that would otherwise hold his government to account.

By understanding the mechanisms through a comparative framework, we can start to create indicators of state capture and illicit financial flows (IFFs). There are some good tools already out there – CSD’s SCAD is one of them; another is

the use of big data analytics to understand how public procurement processes are corrupt, and new work is creating indicators of capture of the legislative process. There is also a lot of data that is collected but not always freely available – e.g. data on PEPs, company beneficial ownership, banking data on flows between countries. We need to do more to make this data available and match it up.

- **Dr. David Jackson** focused on corruption as a problem of political economy. The concept of strategic corruption gives insights to blind spots. He underlined that we should avoid a general agenda, when finding solutions and strategies. It is important to find the definition which resonates throughout the world.
- **Daniela Mineva** focused on the methods for breaking the anticorruption deadlock in Southeast Europe. On the one hand, Western Balkans' anti-corruption efforts were weakened by Russia's war and China's influence. On the other hand - EU's weak enforcement allows local elites to delay reforms by partnering with Russia and China, while "box-ticking" reforms are tolerated due to weak conditionality. Daniela presented data about corruption progress from SELDI's [Corruption Monitoring System](#), which observes 10% bribery in Montenegro, 40% in Albania. Political corruption remains a major challenge. Self-reported corruption involvement and levels of pressure from officials remain unacceptably high – on average at 21% and 25%, respectively. Most of the countries with high corruption involvement and pressure are also characterised by low resilience to corruption pressure (most of the citizens who were asked for a bribe gave one). In 2023/2024, Albanians were the most vulnerable to corruption victimization amounting to 80% of the surveyed Albanians are susceptible to bribing. The least vulnerable are the Montenegrins where only 48% are susceptible to corruption. The stagnation of anticorruption optimism contrasts with the formal developments which Western Balkan governments showcase (strategies, action plans, commissions, etc). The window for bolder reforms around is now 2010 closed. The anti-corruption strategies do not address the risks of foreign influence through corruption, they also lack impact, focus and measurable goals. At the same time, the return on investment of EU assistance has been less than expected. The overly technical approach failed to foster the political transformation needed to overcome state capture. Daniela called that external assistance can only hope to become effective if it proceeds from an assumption of state capture in these countries, which is then factored in the design of support provided by the EU.
- **Dr. Nedim Hagic** underlined that strategic corruption impacts the countries of the Western Balkans as several regimes flirt with the idea of acting as proxies for authoritarian countries. International presence is institutionalized and the Western influence is in a geopolitical competition with Russian and Chinese influence. Strategic corruption serves as evidence of the close nexus between

corruption and legitimate activities such as economic developments that would lead to green transition. Corruption needs to be treated but remains largely unrecognized as a national security threat. Money laundering remains an important challenge, and existing capacities are insufficient to prevent it from happening on a massive scale, especially in the real estate sector, weakening protection against corruption. Many legal reforms, such as better regulation of whistleblowers and the norms regulating the usage of evidence gathered by foreign authorities, remain ambiguous and unclear in domestic legislation. The European enlargement project remains an important structural factor that could decrease the need for third-party financing sources, thereby lowering the need for corrosive and corrupt investments.

- **Dr. Ramadan Ilazi** focused on Kosovo as a case study for understanding strategic corruption, which involves the merger of financial and private gains with geopolitical goals. The external and internal challenges for consolidating Kosovo's statehood and advancing its European integration process create an enabling environment for strategic corruption. It intertwines economic interests with broader geopolitical objectives. He underlined the controversies in the region which turn it into a battleground for the far-right in Europe and Russia. He flagged that messaging of the Euro-Atlantic community is very inefficient and gave the example of two bridges in Croatia. The last one was built by a Chinese company and previously with EU funds, but received much less attention. He also flagged that 40% of the FDI of the region are Chinese loans and Russian investments. He also focused on:
 - a. Legal and Institutional Weaknesses in Political Party Financing: The existing regulations do not adequately address self-financing by candidates, digital and third-party campaigning, and non-financial contributions, creating significant loopholes.
 - b. Lack of Media Ownership Transparency: Hidden ownership structures and reliance on funding, such as from the government and other political entities, undermine the credibility and independence of the media.
 - c. Inadequate Regulation of Beneficial Ownership: The absence of a centralized registry for beneficial owners and the reliance on self-declared information by financial institutions complicate the tracing of real ownership.
 - d. Foreign Malign Influence: Russia exploits the divisions in the Western Balkans to increase polarization and undermine the European integration process, portraying the West as ineffective. In more pragmatic ways, the region of the north of Kosovo was highly utilized as a base of operations and organization for organized crime and strategic corruption.

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

Quotes:

Christian Beck:

“You don’t need to buy 720 MPs to change new policies, you can buy just those in the middle. 40 people can be swayed from one side to the other with money by Russia and China”

Oksana Huss:

“It is not only an economic problem, but in many cases such as a captured parliament strategic corruption’s consequences cannot be calculated.”

“We need much more intergovernmental work in order to tackle international crimes but also to define together the concepts and the crimes, and to build capacity together.”

Elizabeth David-Barrett:

“State capture is distinguished from administrative corruption, which is a kind of petty corruption. State capture is about improperly influencing the law and politics with larger consequences.”

“Disabling the media, civil society and the judiciary, these institutions and parts of society which hold accountability.”

“Strategic corruption is a political issue and we need more than technical measures. The EU failed as the strongest tool of conditionality was ineffective. We need to have stronger political solutions.”

Nedim Hovic:

“Strategic corruption is a concept which tries to explain how corruption is used to implement foreign influence.”

“The enlargement does not seem possible without the internal reform of the EU.

The stronger engagement of the EU in the Western Balkans can undercut the problematic structural issues which facilitate this corruption.”

Ramadan Ilazi:

“The Western Balkans has become a battleground between the far-right in Europe and Russia.”

Daniela Mineva:

“How to deal with state capture, when no one wants to admit that state capture actually exists. It is omitted from all official and public documents.”

“Improved rule of law cannot be both an objective and a condition of assistance. External assistance can only hope to become effective if it proceeds from an assumption of state capture in these countries, which is then factored in the design of support provided by the EU.”

Desislava Gotskova:

“Corruption is much more expensive than anti-corruption.”

Highlights:

David Jackson and Oksana Huss had a disagreement on the definition of the concept. David claimed it is a problem of political economy that should be calculated, but Oksana stated that sometimes the effects of corruption cannot be calculated or measured as they are political and not solely economic.

Elizabeth David Barrett confronted Christian Beck’s promotion of EU tools to confront strategic corruption, as she claimed that the EU has failed and the conditionality mechanism has proved ineffective.

Key recommendations for the future and concrete follow-up actions

- Ensuring transparency in decision-making processes, financial transactions, and ownership structures.
- Create an EU judicial court with capacity to prosecute corruption crimes.
- Strengthening anti-corruption measures and enforcing anti-money laundering laws.
- Involving civil society in monitoring and addressing malign influence, as well as conducting public awareness campaigns on disinformation and foreign interference.
- Ensuring energy security.
- Enforcing regulations on media ownership and promoting media pluralism.
- Adapt and develop capacity to address threats of the Information Age, including cyber-attacks and online fraud.
- Adopting and expanding the legal definitions of “corruption”, as well as the acts leading to “strategic corruption” and “state capture”.
- Building financial investigation and anti-money laundering capacities and procedures, tackling the current barriers related to offshore financial secrecy and lack of data on final beneficial ownership.

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

- The EU should create a unified register for assets.
- The EU should engage more with the Western Balkans and accelerate the enlargement processes.
- Much hope is placed on the future oversight of the European Anti-Money Laundering Authority (AMLA), in cooperation with EPPO and U.S. Financial Crimes Enforcement Network (FinCEN).
- European administration should focus on digitalization to enable 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.

It called for action governments, civil society and private actors to:

- a) thwart strategic corruption by flagging malign financial investments, hybrid attacks and disinformation;
 - b) monitor systemic corruption through reporting and open government;
 - c) prevent corruption through better implementation of counter-measures, rigorous assessments and warning systems; and
 - d) ensure broad participation in the development of legislation and policies in cooperation with regional partners.
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Rapporteur's name

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Date submitted

21 June 2024

Action! This report needs to be emailed to iacc-av@transparency.org within 24 hours of the session. If you wish to update the report, please do so by 21 July. Thank you.