

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: Combatting Modern Kleptocracy: Assessing the Impact of Two Years of Sanctions on Russia

Date: 20 June 2024

Time: 02:30 PM - 04:00 PM (GMT +3)

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Moderated by:

Kinga Redlowska

Head of CFS Europe

Centre for Finance and Security at RUSI

Panellists:

- Tom Keatinge
Director of the Centre for Finance and Security at RUSI
- Bridget Millman
Senior Program Officer, Global at the National Endowment for Democracy
- Heather Marquette
Professor of Development Politics at the University of Birmingham and leads the FCDO-funded Serious Organised Crime & Anti-Corruption Evidence (SOC ACE) research programme
- Juhani Grossmann
Head, Green Corruption programme, Senior Advisor, Central and Eastern Europe, Basel Institute for Governance

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

The architecture that facilitates kleptocracy enables corruption by providing tools and services that allow the corrupt to monetise their activities. Neutering this architecture by policy, legislative, and operational action will restrict the ambitions of those seeking to profit from corruption.

This workshop draws on RUSI research assessing the tools that existed prior and after Feb 2022; and the work of the other panellists, all of whom have much to share in the field of kleptocracy. The discussion zoomed in on how we (a) can secure advances made since Feb 2022 in fighting modern kleptocracy, and (b) ensure these new policy, legislative, and operational tools can be effectively deployed to achieve the necessary step-change in combatting modern kleptocracy.

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

Combating Kleptocracy. Lessons from the Response to Russia's War in Ukraine

Since the beginning of Russia's full-scale invasion of Ukraine, the sanctions regime has focused primarily on freezing the assets of Russian oligarchs. Many experts and policymakers have dedicated their efforts to strengthening the system against kleptocracy. However, the lack of significant progress in this area can be disheartening.

More than two years later, we must ask: where do we stand now?

It's important to note that the focus on combating kleptocracy didn't start in February 2022. However, the invasion has provided new momentum to address the issue more effectively. The major concern is that the discourse around kleptocracy has been predominantly Russia-focused. For instance, in the UK, Russian oligarchs have been publicly targeted almost like criminals, creating an atmosphere reminiscent of the Wild West.

While addressing Russian kleptocracy is crucial, it's equally important to broaden the focus. There are kleptocrats around the world who also demand our attention and action.

The paper "Combating Kleptocracy. Lessons from the Response to Russia's War in Ukraine" examines the progress made in combating kleptocracy and explores how these strategies can be "copy-pasted" to address other forms of kleptocracy worldwide. It highlights the need to maintain momentum and ensure that these measures are applied universally against all forms of kleptocracy.

NED's support of the kleptocracy fight

For over 40 years, the National Endowment for Democracy (NED) has supported the fight against kleptocracy while striving to consolidate democratic values. With partners around the world, NED can identify how kleptocracy undermines democracy, fuels conflicts, and affects human rights. There is a pressing need to hold governmental institutions accountable.

Kleptocracy is often recognized as a cross-cutting, regional issue. Since February 2022, NED has observed a growing awareness of the high risks associated with kleptocracy. NED has been actively working in Africa, Asia, the Caribbean, and other regions to engage more effectively, recognizing that all regions face significant challenges.

NED is striving to develop a more robust strategy against kleptocracy through various activities. It is crucial to consider the role of local civil actors and how they can contribute to responding to kleptocracy effectively.

Serious Organised Crime & Anti-Corruption Evidence (SOC ACE) research programme

SOC ACE is a research program that began as a pilot initiative in 2021 and has since been extended until 2027. The program collaborates with 24 organizations and has published over 100 publications. One of the key themes of SOC ACE's research is transnational threats, examining how local community issues escalate to a geopolitical level.

Before the invasion of Ukraine, the government requested that the program implementers focus on sanctions and kleptocracy. As a result, at the outbreak of the full-scale invasion, SOC ACE was already conducting valuable research to support communities.

Some notable projects include research by RUSI on the freeze and seizure of assets under Russian sanctions. New research efforts are focusing on incentivizing whistleblowing, smuggling in Eurasia, and examining Russian sanctions, including occupied territories.

From sanctions to confiscation while upholding the rule of law

Several years ago, in Nizhniy Novgorod, there was an ongoing discussion on how to hold Russian kleptocrats accountable. We are now witnessing the consequences of these discussions. We have tried to address the problem of kleptocracy over a long period using various tools. Currently, the primary tool is sanctions, but they have proven to be unsatisfactory.

The purpose of sanctions is to coerce and change behavior, which makes using them for asset seizure problematic. While we have achieved some behavioral changes, more robust measures, such as seizure, are needed. The moral imperative is that these funds should go to Ukraine. The challenge is how to do this without undermining the legal framework.

There are broader issues beyond the narrow discussion on sanctions. We have highlighted several options for asset recovery tools. Since the paper was written, there has been progress in the criminalization of sanctions and a case of money being redirected to Ukraine. Another approach involves both conviction-based and non-conviction-based forfeiture.

Additionally, many Ukrainian assets have been frozen for a long time and should also be returned to Ukraine.

How OCCRP analysis of sanctions circumvention add to the assessment of the international community's response to modern kleptocracy?

We have been thinking that sanctioning someone is sufficient. However, it requires research, uploading to the internet, and that's basically it. It's nothing compared to investigations proving that assets should be seized.

We should focus on dismantling the enabling architecture, which includes uncovering Ultimate Beneficial Ownership (UBO) information and shining a light on those who facilitate and enable kleptocracy. Our collaboration with OCCRP has resulted in over 100 investigative stories, highlighting the need for more rigorous actions and accountability.

We identified 12 different typologies that reveal the tools and measures used by enablers who support kleptocracy. While these methods are not new, it is crucial to encourage policymakers to remove these tools from enablers, making it more difficult for them to operate.

We aim to act as a bridge between investigators and policymakers, ensuring a clear understanding of the measures policymakers are taking seriously. Our goal is to see concrete actions specifically targeting the enablers of kleptocracy.

Building a dedicated community

It is a moral imperative to take decisive action against kleptocracy. The exploitation of resources such as oil, gas, and timber, coupled with the laundering of funds and their storage in destination countries, underscores the need for a comprehensive approach.

Recognizing that kleptocracy is highly systematic, it is vital to move beyond investigating individual cases. We must examine and dismantle the entire system, including the networks used for sanctions evasion and the extraction of assets.

To effectively combat kleptocracy, it is critical to build and support a dedicated community focused on this fight. This collective effort is essential for making significant progress.

We recognize the moral imperative of this mission and emphasize the importance of taking action on the ground.

How research efforts support the fight against kleptocracy

We often focus solely on tactics, deploying sanctions without a deep understanding of the core problem, which can render these measures ineffective. Research plays a critical role in not only identifying unintended consequences but also in informing strategic decision-making.

- 1) Implementing numerous sanctions in a short period can inadvertently increase smuggling activities.
- 2) A comprehensive review helps to illustrate how sanctions influence and recalibrate political relationships with Russia and many other countries. These dynamics are predominantly shaped by political and geopolitical factors rather than purely economic considerations, driven largely by the private sector.
- 3) It's essential to understand the broader strategic role of sanctions. There is a valid concern that sanctions could be seen as a panacea. As jurisdictions increasingly adapt to evade sanctions, their effectiveness could diminish over time.

There is a genuine risk of losing sanctions as an effective tool if these trends continue unchecked. We must ensure effective utilization of the resources at our disposal.

Other ways to combat kleptocracy

One of the key takeaways is recognizing the limitations of sanctions. As a society, we have come to understand the severity of kleptocracy, particularly evident to those living in Finland. For instance, an ice hockey arena in Helsinki was frozen because it is owned by Russian individuals, highlighting the disproportionate impact and pain that sanctions can bring.

To effectively combat kleptocracy, the best approach is to support Ukraine. Ensuring Ukraine remains well-functioning requires addressing critical issues such as corruption within the defense sector and manufacturing. These challenges are real and demand immediate attention.

Beyond addressing corruption, we should also consider supporting Ukraine through energy and air defense initiatives as effective tools for bolstering its capabilities.

Interesting questions from the floor

Audience Question:

Russian oligarchs are using crypto for money flows. It takes just 2 hours to get cash delivered to any door in London. It seems every Russian oligarch has their own crypto project or mixer. We are talking about modern kleptocracy. Should we focus on traditional ways or address things like crypto?

Speakers' Response:

We should definitely consider crypto as a critical aspect. However, is it truly a core tool used by kleptocrats? We must identify and designate mixers and other tools that present significant vulnerabilities.

One major concern involves mining operations in regions like Transnistria, where electricity is cheap and regulations are lax. Newly minted coins lack transaction history, making them ideal for illicit activities and difficult to trace.

The question is where should addressing crypto fall on our priority list compared to other measures?

Audience Question:

There is considerable criticism surrounding sanctions, exacerbated by Kremlin propaganda. Despite this, sanctions remain one of the most powerful tools available. How should disinformation regarding sanctions be effectively addressed?

Speakers' Response:

Political leaders have often been complacent, assuming that the rationale behind sanctions is self-evident to all. However, the Kremlin's propaganda machine is exceptionally effective in sowing doubt and misinformation. It is crucial to thoroughly interrogate these claims, with some of the most insightful analyses often coming from Russian economists who know the numbers.

To counter disinformation, we need to demonstrate unequivocally the tangible impact sanctions have on economies. This requires a clear and transparent presentation of evidence.

Currently, there is noticeable fragmentation within Europe regarding the narrative on sanctions. We have struggled to effectively illustrate how sanctions are functioning and achieving their intended objectives.

Key recommendations for the future and concrete follow-up actions

- 1) We are operating in a rapidly evolving landscape where all tools must be upgraded to meet new challenges effectively.

- 2) The entire system of secrecy jurisdictions facilitates various crimes using the same tools within their framework. Addressing secrecy is paramount.
 - 3) Strengthening capacity and resources to address systemic challenges requires engagement with the private sector, financial sector, and all other actors.
 - 4) Progress will stagnate until we hold enablers accountable. It is crucial that some countries step forward to show leadership.
 - 5) The Financial Action Task Force (FATF) needs to be empowered further to enhance its effectiveness in combating financial crimes globally.
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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.