

Corruption: Violent Extremism, Kleptocracy, and the Dangers of Failing Governance

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Mr. Chairman, thank you for the opportunity to testify before the Committee on the topic of corruption and kleptocracy. The Committee's strong voice on the corrosive impact of corruption is exceptionally important. I also want to thank you for your critical efforts to draw attention to the pervasive problem of government corruption and its implications for democratic governance and political stability.

Senator Cardin, I also would like to commend you for your leadership on the Sergei Magnitsky Act and the Global Magnitsky bill. The impact of the Sergei Magnitsky Act in spotlighting human rights abuses in Russia is visible in the tenacious - and brazen - efforts the Russian government has put into discrediting Sergei Magnitsky posthumously. A controversial film that was shown earlier this month in Washington – one that that a *Washington Post* editorial referred to as “agitprop” – offers a manipulated and evidently dishonest depiction of Sergei Magnitsky. This cynical effort, and others like it, aim to remove Magnitsky's name from your pending legislation. Why? Because the Magnitsky case and the sanctions that have been imposed on key human rights abusers as a result of the act passed in his name put a sorely-needed spotlight on Russia's dangerous kleptocratic regime. The Magnitsky Act holds such abusers to account in ways that beleaguered Russian institutions cannot, given the thorough removal of checks on power by the Putin regime.

It is important to stress at the outset that corruption is a pervasive problem in many societies and has the effect of undermining public confidence government institutions. The scourge of corruption is typically viewed as a symptom of a larger institutional problem. All countries, to one degree or another, suffer from corruption. Systems in which independent media, civil society, courts, and political opposition are weak or marginalized are particularly vulnerable because they do not possess the needed accountability and transparency to prevent corrupt practices from taking root. In kleptocracies, however, the challenge is much more acute.

In kleptocratic settings, corruption is at the heart of the problem and not chiefly a symptom of it. Karen Dawisha, the author of *Putin's Kleptocracy* and one of the foremost experts on this issue, makes the observation that “in kleptocracies risk is nationalized and rewards are privatized.” Participation in the spoils of kleptocracies is organized and controlled by top political elites, who raid state resources with immunity and impunity.

In kleptocracies, the instruments of the state are directed to shielding and enabling the corrupt activities of dominant power holders. Corruption is the lifeblood of these systems, like the one in present day Russia, and the glue for regime survival. Therefore, in kleptocratic systems where the stakes for power are all or nothing, whistleblowers who seek to expose corrupt practices themselves routinely become targets of law enforcement; investigative journalists and

oppositionists become enemies of the state; and independent businesses are brought to heel in order to preserve the kleptocratic order.

It needs to be emphasized that in the era of globalization, kleptocracy represents an exceedingly dangerous threat to democracy internationally. Corruption has generally been considered a problem that corrodes developing democracies from within. Well-resourced kleptocracies differ in that they project their sophisticated corrupt practices beyond national borders with an ever-increasing impact felt in new and established democracies alike. Kleptocracy has emerged a serious global threat. Parasitic at home, abroad kleptocratic regimes by their nature seek to exploit the vulnerabilities in the institutions of individual democratic states, as well as regional and global rules-based institutions. They use global financial institutions to invest and protect their money, and with their stolen resources, they buy influence in the democracies and neutralize political opposition. Kleptocracy has become a crucial pillar of the international resurgence of authoritarian countries.

For these reasons, and with support from the Congress, the National Endowment for Democracy is devoting special attention to the issue of kleptocracy as part of a dedicated, strategic response to a number of fundamental and inter-related challenges that characterize different aspects of the present crisis of democracy.

In addition to kleptocracy, NED will be focusing strategic attention on five key problems: the systematic assault by authoritarian regimes on international democratic norms and values; the failure of transition and effective governance in many countries where autocrats have fallen; the rise of Islamist and other forms of religious and sectarian extremism; the closing of civic space in scores of countries; and an information offensive by Russia and other authoritarian regimes that is influencing opinion and undermining the integrity of the information space in many regions.

While aspects of these problems have long been common to systems of absolute power, together they represent a more formidable and integrated threat to democracy than anything the world has experienced since the end of the Cold War. NED will continue to fund programs that support democracy efforts in specific countries, but it is also fashioning a new approach that consists of effective transnational responses to key strategic challenges. In doing so, it will be able to build on its record over more than three decades of addressing critical challenges to democracy, and to leverage the experience and expertise of its core institutes and many dedicated partners around the world.

COMBATING MODERN KLEPTOCRACY

Returning to the principal subject of today's hearing, I would like to reemphasize the serious threat posed by modern kleptocracy.

Until now, NED has supported anti-corruption, transparency, and accountability projects, but has not focused on the transnational impact and phenomenon of modern kleptocracies and their negative impact on democratic, norms, values, and institutions in democratic and democratizing countries.

I will stress several key points relating to the challenge posed by kleptocracy:

Kleptocracy is a global threat. The taking of money out of corrupt countries by kleptocrats is a long-standing practice – think of Mobutu Sese Seko’s Zaire and Ferdinand Marcos’ Philippines – but in the present hyper-globalized era the scale and sophistication of this activity presents new and serious challenges to democracy. In this sense, and as the Panama Papers so vividly reveal, modern kleptocracy thrives by crossing borders, in the process projecting a wider, corrosive threat to democracy and its institutions.

Kleptocracy is a key pillar of the global authoritarian resurgence that is visible in so many critical spheres. This includes in regional and international organizations, activities such as election monitoring and the autocrats’ treatment of civil society, as well as the projection of propaganda through lavishly funded international media enterprises, such as the Russian government’s RT. Simply put, these regimes are reshaping the rules of the game.

The challenge presented by regimes in Moscow, Beijing, and elsewhere is being taken to an entirely new level by virtue of their projection of illiberal values and standards beyond their own national borders. Just a decade ago, few political observers could even have imagined such a development. It’s especially troubling that this growth in authoritarian ambition is taking place at a time when malaise seems to grip the world’s leading democracies.

Kleptocracy Subverts Democracy. Kleptocrats exploit the benefits of globalization to enrich themselves, hollow out their own countries’ institutions, and subvert the democracies. Given these particular features, kleptocracy should be understood as an especially acute subset of corrupt systems. The issue of kleptocracy is an important one for activists who are working for democracy in countries ruled by hybrid and autocratic governments. Such activists are on the frontlines in the struggle against resurgent authoritarianism where regimes are tightening political controls and closing civic space. The activists who took to the Maidan in Ukraine sought to extract their country from the kleptocratic grip of former President Viktor Yanukovich.

Deeply entrenched corruption has been an extraordinary challenge since Ukraine achieved its independence a quarter century ago. But in the four years that he was in power, Yanukovich took the country’s corruption to new heights, enabling the theft of a vast amount of Ukraine’s public wealth. As the analyst Anders Aslund notes, nearly \$40 billion was estimated to have been stolen from the state while Yanukovich was in power. This massive corruption funneled wealth primarily to the president, his relatives, and a limited circle of businessmen around the president. This systematic corruption has ravaged Ukraine and has been central to its population’s determination to chart a more democratically accountable course.

As journalist Oliver Bullough observes: “In 1991, Ukraine’s GDP was about two-thirds of Poland’s GDP; now it is less than one quarter.” He notes that state corruption on such a scale has ruined Ukraine, “dooming a generation of Ukrainians to poor education, unsafe streets and blighted careers.” The responsibility for such massive theft does not lie with unscrupulous Ukrainians alone, however. There would not be corruption on such a vast and sophisticated scale without offshore centers like Panama. “If you steal money, you need somewhere to launder it;

otherwise it is useless.” This raises the important issue of Western enablers, a subject which I will return to shortly.

Azerbaijan has descended into an ever more repressive and kleptocratic form of governance. Journalists who seek to report on the extraordinary corruption of the country’s ruling elite end up in jail, or worse. Courageous Khadija Ismailiyova, who produced detailed investigative reporting linking the family of Azerbaijani President Ilham Aliyev to massive corrupt enterprises, was sent to prison on patently trumped up charges. She was released last month. As Gerald Knaus points out in a July 2015 *Journal of Democracy* issue titled “Europe and Azerbaijan: The End of Shame,” Azerbaijan’s kleptocracy has a profound and corrosive effect within but also beyond the country’s borders. Knaus explains in painful detail the ways in which the authorities in Azerbaijan “captured” the Council of Europe and in the process managed to neuter its human rights work.

In Angola, as journalists such as Rafael Marques de Morais have observed, the country’s political elite has taken control of virtually all of the country’s public wealth. Here, too, the Angolan kleptocrats do not simply deprive their own country of critically needed resources for improving health, education, and infrastructure, but use this wealth beyond national borders to acquire an influential hand in media and financial institutions inside EU member state Portugal. Russia’s kleptocracy has managed similar feats in Latvia, also an EU member state.

The fact that these authoritarian regimes are also kleptocratic makes the challenge facing democracy activists in such countries even more difficult. This is because the kleptocrats have been able to establish an objective alliance with banks and other institutions that make up the global financial system. These institutions readily receive the stolen funds after they have been laundered through various offshore structures. With these assets safely invested and protected within the global system, the kleptocrats can then use the stolen funds to increase their domination at home and to purchase influence abroad, all the while expanding their holdings and leverage in the West and buying extravagantly priced properties in London, New York, Miami, and other global capitals.

The problem of Western enablers. The purchase of multimillion dollar properties, the arrangement of opaque offshore financial instruments, and the laundering of a kleptocrat’s public image, do not happen by accident or on its own. Professional intermediaries in the established democracies are critical links for venal kleptocrats who seek to move ill-gotten gains from authoritarian systems into the democracies, where they can enjoy the rule of law. As journalist Bullough observes, “only with the help of Western enablers can a foreign kleptocrat transform the ownership of a questionable fortune, earned in an unstable country where jail is often one court decision away, into a respected philanthropist” who can be photographed alongside celebrated international figures and media stars.

Anne Applebaum has noted the irony that while the rule of law prevails in Britain, “over the past couple of decades, London’s accountants and lawyers have helped launder billions of dollars of stolen money through the British Virgin Islands, among other British overseas territories.” Their complicity in kleptocracy has corroded the legal integrity of the British system. As Bullough notes, “what Western enablers do is in a sense more egregious than what foreign kleptocrats do,

because in the West we have a genuine, institutionalized rule of law, while kleptocrats operate in systems where no real rules exist. The result is that Western enablers effectively undermine democracy in foreign countries, even as Western governments lecture those same countries about civil society and the rule of law.” A crucial element necessary for combating modern kleptocracy will be bringing the professional intermediaries in the West – the enablers – out of the shadows and into the sunlight.

Kleptocracy is an engine for extremism. Kleptocratic governments by their nature extinguish or prevent the emergence of institutions that can hold them accountable, leading to governance arrangements that feature unchecked power and impunity. This is the modus operandi of “rule by thieves.” Critically, kleptocratic regimes deny space for moderate political voices that could offer possible alternatives to existing policies and leaders. In the kleptocracies of Eurasia and the Middle East, for instance, this kind of harsh political marginalization, where virtually all moderate voices are targeted, opens the way for extremists. Azerbaijani scholar Altay Goyushov observes that by repressing peaceful activists and reformers in Azerbaijan, the kleptocratic regime in Baku “argues that it is taking steps to ensure stability. They have this exactly wrong. By eliminating moderate voices in society, Azerbaijan’s leaders set the stage for anti-Western environment that will serve as a breeding ground for extremists, who pose a grave security threat to both the region and the West.”

RESPONDING TO THE CHALLENGE

Because kleptocracy is a global challenge it requires a response that takes the transnational nature of this problem into account. To this end, NED is at the beginning stages of an effort to analyze the scope and key elements of this problem, while deepening linkages among existing country-level anti-kleptocracy initiatives and those working at the regional or international level. We will look to expand and strengthen existing anti-corruption efforts that address key components of kleptocratic systems and support efforts by civil society and journalists to challenge regimes, leaders and institutions that are perpetuating kleptocracy.

Ending the symbiotic relationship between kleptocrats and the international financial system will be a critical dimension of our efforts. In this regard, it will be important to support activists and investigative journalists who are working within kleptocratic countries to fight state theft and to help them connect with international actors who are trying to monitor the flow of illicit capital and block its investment in the international financial system. We must identify how grassroots activists and such international actors can find more effective ways of working with and supporting each other. Through such cooperation, we hope that the activists will find new allies and outlets for their investigative reports, while the international actors will gain useful contact with indigenous groups whose knowledge of the way funds are stolen might contribute to the development of laws and strategies to block the receipt of these funds by the global banking system.

Greater cooperation among people fighting kleptocracy at different levels might also help efforts to alert the publics in democratic countries to the serious security risks they face by allowing hostile autocracies to exploit their institutions and legal protections to aggrandize their own power. Just as it is urgently important to end the corrupting collaboration between the

kleptocrats and their enablers, it is equally important to build a new partnership between the activists fighting for the rule of law in kleptocratic countries and potential allies in the established democracies who are committed to the defense of democratic values. Building such a partnership will help protect our own interests and security and advance the cause of democracy at a moment when it is in peril around the world.

Thank you, again, for the opportunity to contribute this testimony.