

**Testimony of
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**Senate Foreign Relations Committee
“Corruption: Violent Extremism, Kleptocracy, and the Dangers
of Failing Governance”
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Chairman Corker, Ranking Member Cardin and members of the Committee, thank you for this opportunity to testify on the corrosive effects of corruption and kleptocracy and our efforts to combat them. We are grateful to the Committee for bringing increased attention to this challenge.

During one of my first visits to Africa in this job, I met a group of refugees who had fled a terror-ridden country on account of insecurity. They were trained professionals who had found work in their host country and were grateful for refuge, but when I asked what their new life was like, they noted treatment at the hands of the local police as one of the key challenges they continued to face. They each noted that they had been arrested at some point and held at the police station until a relative or friend could pay a bribe to get them out. One joked that they called the police station the “people market.” Seeing as how they had fled terrorism, I asked whether they would call the police if someone they suspected of having terrorist links moved into their neighborhood. The group laughed, and one man replied: “Of course not. If we did that, either the police would arrest us again to get a bribe, or, if they arrested the terrorist, someone would bribe him out, and then he’d come to kill us.”

Mr. Chairman, I have heard some version of this story again and again in every corner of the world. I think it illustrates well the connection on which you have asked us to focus today—between corruption and violent extremism.

Success in the fight against violent extremism depends in part on maintaining trust between governments and the communities where violent extremists hide and seek recruits. It can come down to whether people in those communities will call the police when they suspect trouble—to offer information or to ask for help. Corruption destroys that trust. When the authorities are as likely to shake people down as they are to protect them, people sometimes end up fearing the authorities more than the violent extremists. And some will be susceptible to terrorist propaganda that promises to purify their societies of this scourge.

As Secretary Kerry has said, there is no greater cause of disillusionment or surer way to alienate citizens from the state than the “sense that the system is rigged against them and that people in positions of power are crooks who steal the future of their own people.” Terrorist groups from Nigeria to Iraq to Afghanistan have exploited such grievances to build support through promises of well-resourced, uncorrupt schools, hospitals, justice, security, and public services. And when these groups threaten the people and state, corruption inhibits the ability of the state to fight back. Where military and police promotions, equipment, and loyalties are sold to the highest bidder, security forces cannot fight effectively. When procurement systems are

exploited, weapons end up on the black market. And when border guards can be bribed, terrorists travel freely along with illicit arms flows and human trafficking.

Fighting corruption is thus critical to our security. It's equally important to our shared prosperity. U.S. companies are disadvantaged by corrupt markets abroad, where they lose contracts to competitors that are willing to pay bribes. The World Bank estimates that approximately \$1 trillion is paid every year in bribes by the private sector alone, enriching elites to the detriment of desperately needed public investments, from education to healthcare to food security.

Fighting corruption is also central to our promotion of human rights and democracy. I've long thought that corruption is the main organizing principle of the authoritarian states responsible for most human rights abuses, and most instability, in the world. The opportunity to profit from graft is the reason why many dictators seek and cling to power. Corruption gives them a means of purchasing loyalty—and a means of enforcing it, since everyone addicted to these ill-gotten gains has a stake in the regime's survival and anyone who breaks ranks can be selectively prosecuted.

At the same time—and here is where the opportunity lies—corruption can be an authoritarian government's greatest political vulnerability. Such governments can sometimes manufacture excuses for shooting demonstrators, arresting a critic, or censoring a newspaper but no cultural, patriotic, or national security argument can justify stealing. Anger over corruption helped inspire the uprisings of the Arab Spring. It is one of the central grievances of the movement to restore good governance to Venezuela. It is one reason why so many Africans don't want their leaders to stay in power for life. It is the cause around which the most effective opponents of Putinism in Russia rally. Dictators see this, and they are becoming increasingly ruthless in silencing those who tell the truth about corruption; some of the human rights activists we work hardest to protect are those threatened for reporting on bribery, kickbacks, and the movement of illicit funds across borders. But it is becoming harder and harder to hide corruption, and that is a ray of hope for those struggling for more democratic governance around the world, at a moment when such hope is greatly needed.

For all these reasons, the 2015 National Security Strategy included corruption as a global concern and likewise through the QDDR and other policies, Secretary Kerry has insisted that we treat corruption as a first order national security priority. With our colleagues at the White House, Treasury, Justice, and USAID, the State Department has made a concerted push to combat corruption. Our comprehensive, whole-of-government approach is committed to supporting government reformers and civil society actors who hold leaders and institutions accountable and to strengthening international norms against corruption. For example by promoting Goal 16 of the Sustainable Development Goals; and leading by example to further strengthen our own anti-corruption efforts by putting forward wide-ranging commitments at the UK Anti-Corruption Summit last month.

A Three-Pronged Approach:

Over the last several years, independent civil society-led investigations supported by the State Department's Bureau for Democracy, Rights, and Labor (DRL) and USAID have steadily worked to reveal instances of massive corruption involving foreign companies and foreign

officials in their communities, and to report on law enforcement actions taken abroad against such officials and those who would corrupt them. By exposing corrupt conduct at home, civil society has provided important leads to domestic and foreign law enforcement and increased the impact of successful criminal investigations. The Justice Department – and, increasingly, other law enforcement authorities around the world – have launched their own probes that have resulted in billions of dollars in fines being levied against bribe payers and millions of dollars in recoveries from foreign kleptocrats for the benefit of the people harmed by the abuse of public office.

For just a few million dollars in U.S. support for civil society, this approach represents a good return on investment and an important element of a broader, effective strategy to combat grand corruption.

That strategy begins by promoting greater transparency globally and domestically and supporting multilateral anti-corruption initiatives. Law enforcement investigations like those I described have become more successful in part because of reforms the United States has promoted through the G-20, the United Nations Convention Against Corruption, the Financial Action Task Force (FATF), the Extractive Industries Transparency Initiative, and other institutions to increase the transparency of banking transactions, company records, extractive industry payments to governments, and the assets of public officials. The Bureau for International Law and Narcotics' Anti-Corruption team is at negotiating tables around the world to ensure these standards are continuously strengthened. Greater transparency and accountability also empowers civil society to expose corruption affecting their own communities. In 2011, President Obama launched the Open Government Partnership with seven world leaders to encourage governments in partnership with civil society to advance transparency and accountability through national action plans for reform. Seventy countries now participate in the Partnership and are subject to independent review every two years. In addition to implementing our own action plan at home, the United States supports efforts to help other countries join OGP and assists with the implementation of their action plans. We are working to improve transparency in the extractive sectors by supporting the Extractive Industries Transparency Initiative globally and, under the leadership of the Department of the Interior, within the United States through a multi-stakeholder group that brings together companies, state and tribal governments, and civil society. The SEC's issuance this week of a final rule implementing Section 1504 of the Dodd-Frank Wall Street Reform and Consumer Protection Act strengthens our credibility on corruption and transparency internationally.

Second, we need to support civil society-led investigations. Greater transparency leaves evidence of corruption hiding in plain sight, but someone still has to sort through the gigabytes of information that governments, companies, and financial institutions disclose each day to find it. Transnational networks of journalists and non-governmental organizations like those that have recently reported on notorious examples of kleptocracy can effectively advance this work through a combination of local knowledge and relationships with counterparts in other countries. Journalists and NGO networks are often the first to uncover illicit activity because they can deploy researchers in multiple countries at once, and because they tend to have anonymous sources who provide them with information, key documents, or road maps for how to obtain them. By exposing suspect conduct, journalists and NGOs have sparked further investigation by

law enforcement authorities or enabled financial institutions to better scrutinize the accounts of their clients.

Third, we need to support effective law enforcement. Ultimately, corruption is a crime committed by powerful people accustomed to impunity. While non-governmental networks can expose suspect activity, only governments can prosecute it. Furthermore, civil society often lacks the access to financial and other protected information available to law enforcement.

Wherever possible, we should invest in the capacity of governments with the will to be part of the solution, and this is a role that the State Department in particular, working in coordination and in conjunction with USAID and the Justice Department, can play. It is especially important that we coordinate and provide such support quickly to countries where reformers have come to power and have asked our help to strengthen institutions or to bring corrupt actors to justice and to recover their assets. A good example is Burma, where the success of a historic democratic transition will depend in part on whether the new government can get control of natural resource revenues that in the past have disappeared from public accounts. We are ramping up our support to the government and civil society to help. Kenya is another: a key outcome of President Obama's visit there was a joint commitment on good governance and anti-corruption in which our two countries promised to work together on everything from ethics training to procurement reform to police accountability. A third is Nigeria, where we are providing a variety of assistance to the government's Economic and Financial Crimes Commission and working to deepen our collaboration on asset recovery. We have many other opportunities to engage such governments in 2016—for example in Sri Lanka, Tunisia, Guatemala, Mozambique, and Burkina Faso.

And where governments lack the will to act, and funds connected to illicit activities touch the U.S. financial system, our own law enforcement institutions can play a key role. The Justice Department established a Kleptocracy Unit in 2010, which has taken on cases including the recovery of assets stolen by the late Nigerian Head of State Sani Abacha and his associates, to funds misappropriated by the Second Vice President of Equatorial Guinea Teodoro Nguema Obiang, and corrupt monies tied to the former head of the Department of Health and Social Security in Honduras. The Justice Department Fraud Section's Foreign Corrupt Practices Act Unit criminally prosecutes those individuals and companies over which the United States has jurisdiction who pay bribes to foreign corrupt officials. And the FBI recently established three International Corruption Squads to investigate and prosecute such foreign corruption. They could do even more with greater capacity and by strengthening legal authorities to combat kleptocracy.

Current Efforts

Across this range of efforts, there is more to be done.

For example, while we have done a great deal to promote financial transparency around the world, we still have work to do at home. When I ask human rights activists around the world how the United States can best help them, they often say something like: "We know you don't control what happens in Russia or the Congo, but you do control what happens in America. So please, at the very least, don't let those who profit from abuse of power in our country to hide their money in yours."

And yet, as you know Mr. Chairman, it is still possible for kleptocrats and those who seek to hide their wealth from around the world, and criminals of every other sort, to establish anonymously owned shell companies in the United States, and to use them to stash their illicitly acquired wealth in banks all over the world. That's why the Obama administration is proposing legislation to require all companies formed in the United States to identify their "beneficial ownership"—the actual human beings who own or control them—to the Department of the Treasury and make that information more readily available to law enforcement. There are few pieces of legislation that Congress can pass this year that will do more to advance the cause of global human rights and anti-corruption, and I hope Congress will act.

The successes of the Department of Justice's Kleptocracy Asset Recovery Initiative are mostly achieved through civil forfeiture actions. Preserving and strengthening that authority will be instrumental to the success of U.S. efforts to combat kleptocracy going forward. U.S. law enforcement could be strengthened through additional legislative steps to enhance the Department of Justice's ability to prevent bad actors from concealing and laundering illegal proceeds of transnational corruption and allow U.S. prosecutors to more effectively pursue such cases.

We can also do more to support the civil society groups that uncover evidence of corruption as more information about kleptocrats' finances becomes available. Efforts supported by DRL at the State Department have demonstrated the potential of this work. When a DRL-USAID funded investigative media organization uncovered a \$20 billion money laundering operation that funneled money from Russia through Moldovan courts to Latvia and the UK, a local investigation revealed that a Latvian bank was the destination for many of these funds. Latvian regulators asked the European Central Bank to revoke the bank's license, and it did. In Central America, two journalists we supported revealed the embezzlement of millions of dollars by the mayor of a Guatemalan town. The story was quickly picked up by several media organizations, eventually prompting an investigation that resulted in the now former mayor's disqualification from the 2015 elections. In Kyrgyzstan, when an investigative media story developed as part of a DRL grant revealed \$200,000 in funding embezzled by a local official, the resulting outcry prompted local law enforcement to launch an official investigation.

To build on this work, we announced at the UK Anti-Corruption Summit that State would establish a Global Consortium with USAID support to support the work of civil society and investigative journalists to uncover corruption. We will be making an initial investment in the Consortium, and hope that other governments as well as private foundations will contribute as well.

Asset recovery, essential to our international commitment to return stolen assets for the benefit of the people harmed by corruption, will be strengthened by the United States commitment to co-host in 2017 the first meeting of a Global Forum on Asset Recovery, a new mechanism to work collaboratively on major asset recovery cases where there is emergent need, modeled after the successful Ukraine and Arab Forums on Asset Recovery. With an initial focus on Nigeria, Sri Lanka, Tunisia, and Ukraine, this Forum will support law enforcement and civil society efforts in these countries while also providing a key way to reinforce the capacity of reform-minded governments with political will.

At the State Department, we can reinforce these efforts through responsible, effective implementation of the visa restriction for kleptocrats and by ensuring that U.S. foreign assistance discourages rather than inadvertently fuels corruption. In London, the United States committed to integrate anti-corruption into training for foreign security forces, ensure that our security assistance works to improve governance, and better assesses risk of corruption throughout our cooperation with foreign security forces. We are encouraged by the strong support of allies at the Department of Defense on these efforts and know there is more we can do.

CONCLUSION

Across all of these efforts, Congressional support will be vital to strong and effective follow through. None of this will be easy. Recent headlines have revealed the pervasiveness of global corruption and the deep web of laws, practice, and systems that will need to change—much bigger than any one law firm—to root it out. But this effort also reflects the growing capacity and will of those who demand accountability and expose the truth. We will not rid the world of dishonesty and greed, but we can realistically hope to empower willing reformers to set their countries on a new path, and to increase the likelihood that kleptocracy is exposed and punished—not just years after the fact but when the officials involved are still in power. And if we can make powerful leaders think twice before accepting a bribe or demanding a kickback or hiding their wealth in a shell company, if we can enforce the law at the highest levels and disrupt illicit supply chains, we strengthen our efforts to tackle the lower level corruption of police officers and petty civil servants that bedevils ordinary people, makes them more susceptible to violent extremism, and undermines democratic governance and security in so many countries.

Just as, over the last half century, the human rights movement took human rights from the periphery of international relations to a core policy concern—to ensure global security and the protection of universal values—our goal is to make anti-corruption a similar international priority today.

Thank you for the opportunity to testify today and for your partnership in the hard work ahead. I look forward to any questions.

