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Stage Hands: How Western Enablers Facilitate Kleptocracy

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Kleptocracy Initiative

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Our London Kleptocracy Tours are a simple idea. We rent a bus, invite along the curious, and show them luxurious London properties owned by wealthy foreigners who have bought chunks of the British capital, while expert guides describe the origin of the individuals' fortunes. In May we will launch tour number three and, if the reception of the previous two is anything to go by, it will be a hit. We have gained media coverage in newspapers and magazines, on the internet, the radio, and television; in English, French, German, Dutch, Swedish, and more. Everyone, apparently, is hungry for knowledge about the foreign tycoons who have bought up high-end London property, with only minimal checks on the origin of their cash.

Among our case studies, we have an ideologue of Russian exceptionalism who lectures widely against the materialism of the West, but whose son owns two large London houses and whose grandson has a fine London education. There's a Ukrainian who was instrumental in undermining his homeland's bid to break free of Russian control, made a fortune as a result, and bought a palace with the profits. There are Nigerians, Egyptians, Bahrainis, Malaysians, Azeris, Kazakhs, and many, many more. We could run a #kleptotour every day of the week without fear of running out of subjects for study.

There is something fascinating about the crassness of their consumption. Witanhurst, which is owned (according to journalist Ed Caesar's forensic *New Yorker* investigation) by a member of Russia's senate, is being totally remodeled to include an underground cinema, swimming pool, car park (with lift), gym, massage rooms, staff quarters, and more. In comparison, the Ukrainian Dmytro Firtash's £60 million Knightsbridge mansion looks positively pokey. These men (and they are pretty much always men) are the swaggering top predators of the offshore ecosystem.

Thanks to our Kleptocracy Tour, to reports from the likes of Global Witness and to investigative journalism from media sources around the world, we are beginning to understand their world. That understanding leads quickly to a particularly disturbing realization: foreign kleptocrats would not be able to fleece their home countries nearly to the extent they do without help from Western enablers. Western bankers, lawyers, real estate agents, accountants and the like are a critical part of the problem, and that makes the problems ours as well.

It is our problem in the West in at least three respects. Firstly, and most importantly, it is simply wrong to assist theft. Secondly, we are undermining our own nations' security by buttressing regimes that are hostile to us, while disenchanting their citizens, who are increasingly likely to conclude that we are as hypocritical as their governments say we are. And thirdly, 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.

The Three Stages of Enabling

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 photographed alongside British royals, American congressmen, and global mega-celebrities. The skills that allow the son of the president of a small African nation to amass a billion dollars are not the same skills required to buy a mansion in Malibu. Similarly, winning election as president of Ukraine does not provide the background knowledge required to set up a London shell company, held via Liechtenstein, and to use it to own your illegally acquired palace. Kleptocrats need enablers to take these fiddly but crucial steps for them. Without their armies of Western fixers and estate agents, kleptocrats' property would be vulnerable. If we want to break the system that lets politicians loot the world's poorest, spend the gains in the West, and do so with impunity, it is the enablers we need to stop.

The best way to understand how to do that is to look at the kleptocrats' own journey. Kleptocrats come from all continents; acquire their money in all sorts of ways; and decide to retire in any one of a dozen or more final destinations. Yet the pathway they take follows a very familiar pattern that can be broken down into three stages.

In **Stage One**, the kleptocrat secures his newly acquired assets by getting his money and company ownership offshore. This successfully insulates him against unexpected political changes at home.

In **Stage Two**, the kleptocrat secures himself and his children by physically moving his family offshore. This insulates those closest to him against the consequences of the misgovernment that made him rich, while providing both them and him with a more amenable environment in which to spend his wealth.

In **Stage Three**, the kleptocrat secures his reputation by building a network among influential people in Western countries. In simple terms, the goal of Stage Three is to make sure that a Google search returns more news stories about good deeds than about allegations of corruption and loutishness.

Many enablers—particularly lawyers—service all three stages of the pathway, but that does not matter. It is not the job title of the individual enablers that matters, but the nature of the services they provide. Once we understand those services, a far clearer picture emerges of the weak points in Western systems of financial regulation, civil and criminal law, and in Western politics as well.

Kleptocrats do not have to progress along every stage of the pathway. Some stop at Stage One, content that their money and assets are owned offshore, while they and their families continue to live in their home countries. Some stop during Stage Two; content to have their children living in the West, while themselves staying in their home countries. They decide not to buy property in Mayfair, Manhattan, or Monaco, and instead invest in palaces at home. But the logic of the pathway normally brings the kleptocrat to Stage Three. That is because that part of the pathway is open-ended; preventing the discovery of a fortune's true origins is a never-ending task.

What is clear, however, is that a kleptocrat cannot tackle the stages in the wrong order. Stage One has to come first, while Stage Two will always precede Stage Three. That means, for Western law enforcement and investigative journalists alike, that focusing on Stage One—by securing our banking systems against dirty cash, and preventing the misuse of corporate vehicles—remains the priority for anyone trying to prevent kleptocrats from keeping their gains. Stages Two and Three offer supplementary opportunities, however, to foil the efforts of kleptocrats. Let's now look at the three stages in more detail.

Stage One: provision of bank accounts; supply of offshore companies (and related services, including provision of nominee directors, secretarial services, and accountancy)

Western banks have become extremely cautious about handling the accounts of politicians. Thanks to the heightened care required when dealing with politically exposed persons (PEPs, which also include top officials' close relatives and/or associates) it has, according to one British MP, even become onerous for Western politicians' grandmothers to open bank accounts. However, if a kleptocrat wants to get his money out of the country, and beyond the reach of its own usually politicized law enforcement apparatus, he must somehow gain access to a foreign bank. That is Stage One on the kleptocracy pathway and, despite all the bureaucratic impediments that now festoon Western banks, it remains perfectly possible to do this.

Russia's foreign investment statistics show clearly how successful kleptocrats have been at accessing the Western bank system. In 2014, the top four centers for investment into Russia were Cyprus, the Bahamas, the British Virgin Islands, and Switzerland, with Bermuda also featuring in the top ten. The top three centers for Russian outward investment, meanwhile, were Cyprus, Switzerland, and Bermuda, with the Bahamas and British Virgin Islands just outside the top ten.

Once one starts cancelling out above and below the line, the picture is clear: money pours out of Russia, finds a home in an offshore bank, re-labels itself as foreign, and pours back in again with its ownership obscured. This is Stage One as it happens on a daily basis, and the benefit of it (from the kleptocrat's perspective) is that, if conditions worsen in his home country, he need not bring the money home at all. In 2014, when Western sanctions sent the ruble into freefall, Cyprus accepted $24.3 billion from Russia and sent just $5.87 billion back again. With all that money looking for a safer harbor, it's no wonder the London and New York super-prime property markets have remained buoyant.

Ideally, a kleptocrat avoids legal difficulties by not keeping the money in his own name, not least because that stops rival officials in his home country from identifying it on its return from, say, Bermuda. A second part of Stage One, therefore, is to register corporate vehicles, and to hold money or assets at arms length (or better still, at several arms lengths, via a chain of corporate vehicles in which each owns the other). The Panama Papers have revealed how family members of eight different senior Chinese communists owned offshore companies, as do insiders from all across the world, giving privacy/secrecy about the assets they control.

It is easy to buy shell companies from unscrupulous company-formation agents, particularly in supposedly prestigious locations such as the United Kingdom or the United States, as has been shown by dozens of investigations. In the United States most kleptocrats, smugglers, drug kingpins, and others in need of money-laundering enabling services know well the most desirable destination: Delaware.

We know less about how extremely wealthy people manage to evade banking checks, but some recent cases are suggestive. A British probe into Barclays last year showed bank staff were so keen to sign up top-end clients from Qatar that they simply waived the regulations. In this "elephant deal" the bank agreed to pay £37.7 million if its clients' identities were ever published. UK authorities fined Barclays £72 million for the breach. Last year, Deutsche Bank admitted that its staff in Russia had been aiding money laundering with $10 billion worth of "mirror trades" for wealthy clients, including close friends of Vladimir Putin. Investigations have not concluded, but the pattern appears to be the same as at Barclays: bankers simply waived the rules for top-end customers.

Properly organized by skilled enablers, Stage One alone can completely obscure the origin, movement and location of a kleptocrat's assets. We still have no clear idea, for example, who was behind the almost-billion-dollar bank fraud that came close to bankrupting Moldova, despite it having been uncovered back in 2014. The proceeds of the fraud were transferred to Scottish and Hong Kong shell companies, with accounts in Latvian banks, whence they vanished.

Stage Two: visas/passports; educating children; buying houses and other property

The weakness of relying only on Stage One was revealed in the downfall of former Yukos boss Mikhail Khodorkovsky. His company was not owned in Russia, but via corporate structures in Guernsey, Jersey, the British Virgin Islands, Gibraltar, Cyprus, and the Isle of Man. That has allowed lengthy litigation under treaties designed to protect foreign investors—classic Stage One maneuvers—but it did not stop him from going to jail. For that he would have needed to get offshore himself, as fellow oligarchs Boris Berezovsky and Vladimir Gusinsky did, when they fell out with Vladimir Putin. Unlike him, they progressed to Stage Two.

The first requirement for Stage Two is to gain entry to a Western country. Western countries have spotted this market, and many now offer specific visas to the very rich. Chinese demand for the U.S. EB-5 visas ($800,000 investment required) has been so large (Chinese applicants made up 90 percent of such visas issued in 2014) that it has exceeded the 10,000 annual limit, and there is now a waiting list. Chinese applicants also top the list for Britain's Tier 1 Investor visas (minimum £2 million investment required), followed by Russians, although the number of applicants fell by 83 percent in 2015 when the UK government began asking banks to check the origin of the cash being used to pay the fees. Similar, but cheaper, schemes are run in Latvia, Portugal, Greece, and elsewhere. Malta will even sell a passport, rather than just a visa, for €650,000 plus €500,000 in investments, as will various small jurisdictions in the Caribbean.

Many of these schemes are designed not by politicians, but by enablers—Henley & Partners in the case of St. Kitts and Nevis, Arton Capital for St Lucia—specifically to target very rich people. And inevitably, the schemes have been abused by kleptocrats entering Stage Two. Canada has stopped visa-free travel for citizens of St. Kitts thanks to wealthy Kazakhs and Iranians buying the island nation's passports to gain access to North America.

Once present in Western countries, a kleptocrat requires somewhere to live. Because he has already negotiated Stage One, he can buy a house via his offshore company, thus obscuring his identity from his host country. Estate agents are supposed to obey anti-money laundering legislation and check the purchaser's identity, but investigations this past year in Britain (a documentary called *From Russia With Cash*, which starred Roman Borisovich, author of our Kleptocracy Tours) and in the United States (Global Witness' expose of 13 top lawyers), showed that professionals in Western jurisdictions are happy to advise kleptocrats on breaking rules designed to keep dirty cash out of the property market, if the price is right. The consequences of Stage Two are the houses we show on our London Kleptocracy Tours. We could run such tours in many other cities, as well. In Beverly Hills, for example, we could show how one of Putin's main anti-Western propagandists—Mikhail Lesin, the founder of RT—bought mansions in the country his television channels kept deriding.

Kleptocrats' wives and children are included at reduced rates on investor visa and passport-for-sale programs. Once in the West, those children require schooling, which is a good opportunity for top-end private schools. Last year, almost every tenth child at British private schools was foreign, with a quarter of them coming from China or Hong Kong, and another 8 percent coming from Russia. Smaller numbers came from Nigeria, Malaysia, Central Asia, and other kleptocrat-rich jurisdictions. British private schools have set up overseas branches everywhere from Thailand to Kazakhstan in an attempt to suck in more business.

Of course, buying houses, finding schools, organizing transport, obtaining visas, and so on is time-consuming, which is why all major capitals now have companies offering full-spectrum concierge services covering all of Stage Two. They also help with translation, shopping, theater tickets, and every other detail required by those with money in a country that is not their own. Once your money, yourself, and your family members are safely in the West, you are secure from politicized court proceedings in your home country, and can breathe freely.

Stage Three: reputation

Stage Two will not, however, protect a kleptocrat from the courts in the country where he has chosen to spend his fortune. In 2014, Nguema Obiang, the son of the president of Equatorial Guinea, had to pay $30 million to U.S. authorities to settle charges that he had looted his homeland. It is possible that nothing would have saved Obiang from the Justice Department, but it is examples like his that have motivated so many kleptocrats to embrace Stage Three.

The aim of Stage Three is to so thoroughly embed a kleptocrat into the upper-crusted life of his adopted country that he becomes part of the scenery, as unremarkable as any garden-variety extremely wealthy person can be. It is an open-ended process, with different approaches taken by different individuals. Many Russian billionaires have chosen to buy sports teams: Dmitry Rybolovlev owns Monaco football club, Roman Abramovich owns Chelsea, Mikhail Prokhorov owns the Brooklyn Nets. This is a rapid and successful way of raising an oligarch's profile, while gaining him a strong constituency among his sports asset's fans.

High culture provides access to a more select class of people, and wealthy foreigners often move into that as well. Rybolovlev has spent tens of millions of dollars on art. Abramovich's other half—Dasha Zhukova, herself the daughter of a highly successful London-based Russian—has also embraced the collection of artistic treasures. Some kleptocrats, including Muammar Qadaffi's son Saif al-Islam, have donated large sums to universities, which also gives access to high society. Saif al-Islam hobnobbed with Tony Blair, the British royal family, and more, although even that was not enough to save him when his father's government was overthrown by a Western intervention. All of this cultural outreach requires particular enablers: auction houses, sports agents, insurance companies, and so on.

The most specialized enablers are found at the very summit of Stage Three, and those are the political lobbyists. Anar Mammadov and Tale Heydarov are both sons of ministers in the Azerbaijan government, and have focused on Washington and London respectively for their lobbying missions. Through shrewd choice of employees, and the artful distribution of paid-for trips to Baku and other goodies, they have spread the idea of Azerbaijan as a dependable ally in a dodgy neighborhood, while simultaneously inserting themselves into national life in their adopted countries.

Of course, not all home countries are the same, and some demand a more cautious approach to conspicuous consumption. Chinese kleptocrats are more numerous than Russians, but keep a far lower profile, probably because of the risk of being executed for corruption at home. In this they are assisted by the Chinese government's rigorous control over the internet, which prevents news of their misdeeds from spreading at home. Other governments lack that ability to neuter unwelcome news at its source, so tend to target the journalists who write it. Almost every kleptocracy has terrible ratings on any press freedom index. In one sadly typical case, investigative journalist Khadija Ismayilova exposed how the ruling family of Azerbaijan has expensive property in Dubai, and was jailed for seven years—supposedly for tax evasion.

Stage Three kleptocrats can also intimidate journalists outside their homelands, thanks to perhaps the most useful of enablers: British libel lawyers. The UK's highly restrictive laws on defamation mean journalists have to be very careful about what they say about kleptocrats, particularly those who have completed all three stages of the pathway, and thus can successfully argue that they have reputations in the West to protect.

This is a lesson that a small, local newspaper in north London learned the hard way when it reported on our April Kleptocracy Tour. Its article focused on Andrey Yakunin, a London resident. Yakunin's father is a close friend of Vladimir Putin's and a firm believer that Russians should live separately from Westerners. He became extremely wealthy through 15 years of state employment. But when the paper pointed out how his son and grandson were living freely in London and very probably spending his money, it received a warning from a top UK law firm. Lacking the resources to fight back, the newspaper deleted the article from its website. Thus was a Stage Three reputation, purchased at no small cost, successfully preserved.

This episode, as with many others, shows why understanding the stages of the enabling pathway is so important. If kleptocrats can be stopped at Stage One, they will lack access to such bullying, meaning that journalists and others will be free to write the truth about them, and the world will be accurately informed about the real source of their money.

The Western enablers who assist foreign kleptocrats may well have other lines of business. One of these may well include participation in the wealth defense industries in their own countries, an industry that helps protect very wealthy individuals from the encroachments of their own nation's tax codes and other nuisances. Those wealthy individuals, in turn, have an interest in keeping what their own enablers do for them technically legal. But that is what, often enough, keeps those enablers positioned so as to serve the objectives of foreign kleptocrats, sometimes by legal means but sometimes not.

The matter is not simple, and Kleptocracy Tours and investigative journalism are not sufficient means to end the tangled nests of abuse to which they call attention. For that, Western democratic politicians will need to summon both understanding and courage to amend our laws so that what is plainly immoral also becomes actionably illegal. The world is waiting.

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