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# The Enablers:

## How Western Professionals Import Corruption and Strengthen Authoritarianism

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*September 2018  
Report*



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## **Introduction**

**G**lobalization is playing out unexpectedly as governments, businesses, and individuals around the world are connected to one another at an unprecedented rate. These new connections were at first widely hailed as enhancing the influence of the United States, but their true political consequences are only just beginning to become clear.

One of the most important but overlooked dynamics, given its national security implications, has been the pervasive networking of American professional services providers with power brokers and their acolytes from corrupt authoritarian states. Certain elements within the legal, financial, and influence communities, seeking new markets, clients, and profits among an emerging global class of super wealthy actors with fortunes of dubious provenance, have in the past fifteen years begun offering their services to transnational kleptocrats linked to authoritarian regimes. From Washington lobbyists with Kremlin-linked accounts to New York law firms with Chinese Communist apparatchik clients, these tie-ups have a detrimental effect on the political and the financial workings of American democracy—one that is only growing.

This report argues that these professionals have become enablers of authoritarian influence within democracies in a twofold manner. First, they are facilitating the concealment, insertion, and deployment of kleptocrats' illicit funds within Western economies. Second, they are using their skills and expertise to help kleptocrats establish networks of influence inside democratic societies. This relationship between Western professionals and authoritarian elites has not only fueled a boom in money laundering; it has transformed significant elements of the most distinguished, influential professions into wholesale importers of transnational corruption.

## The Emergence of Offshore and the Rise of the Enablers

**B**efore we try to understand the enablers, we need to understand the system in which they thrive. For Western professionals, facilitating the finances of hostile powers is [nothing new](#). They have always overseen the offshore financial dealings of hostile powers, particularly since the rise of the Eurodollar and the Eurobond in the 1960s, to a significant extent on the back of Soviet funds and as a result of the disintegration of the Bretton Woods system.<sup>1</sup>

Since the end of the Cold War, however, the tempo has shifted. The dismantling of totalitarian regimes across Eurasia allowed their elites to become individual financial actors for the first time. This dovetailed with an aggressive expansion of American professional services into these territories. Whereas in the 1960s it was the Soviet state seeking Eurodollars, by the late 1990s, any Eurasian power brokers worth their salt were personally seeking access to Western professional services.<sup>2</sup> The consequences of this access to the globalized economy have arguably been vastly more empowering to political actors hostile to the United States than any other development of the late 20th century.

But why? Since the Bretton Woods system collapsed, one financial trend has been constant: the aggressive expansion of a shadow financial system referred to collectively as “offshore.” On the surface, this is a fiendishly complex interlocking web of anonymously owned companies and accounts, legally located in secretive jurisdictions that allow them to circumvent the regulatory and taxation systems of conventional jurisdictions. Yet lifting the veil of corporate secrecy reveals a simple principle: Offshore is actually a set of professional services that specialize in enabling businesses and individuals to [effectively retreat](#) from legal, regulatory, and public scrutiny, empowering them vis-a-vis those who have remained “onshore” without access to such services.<sup>3</sup> This system is how a business run, staffed, operating, and earning its profits in the United States can claim that it is in fact located in another country altogether, despite having no physical presence there.

“Globalization and financial deregulation have led to the ballooning of offshore finance,” said Gabriel Zucman, assistant professor of economics at UC Berkeley. “Changes in cultural norms have also played a role: before the 1980s, for instance, not all corporate executives thought that it was their fiduciary duty to avoid corporate income taxes by all possible means (e.g., by shifting profits to places like Bermuda). Today they almost all do.”<sup>4</sup>

Profit margins provide ample explanation for the motivation to escape taxation but tell us little about the shape and scale of the system itself. This has been driven by targeted innovation in the legal and financial communities, empowered in the commanding heights of both the state and the private sector itself, which equated the dismantling of regulatory frameworks with automatically encouraging growth. This process was powered by new technologies that permit instantaneous transactions and emerging forms of secrecy, encryption, and concealment.

The offshore system has turned Western professional services providers into partners for non-Western authoritarian elites and brought the latter into the Western financial system. “There are both ethical problems in the finance industry,” says Zucman, “and a collective intellectual failure at regulating tax havens and globalization.”<sup>5</sup> Instead, perks set up to profit Western corporations have become sources of unprecedented power for kleptocrats.

These powers—the power to generate, store, and deploy wealth in different countries, and the power of anonymity, which enables personal connections to that same wealth to vanish without a trace—are the common threads stitching together various global political trends. The increasing capacity of Russia, China, and even the Gulf States to interfere in Western political systems, and the eruption of protest movements in countries as varied as Malaysia, Ukraine, Libya, Egypt, and Pakistan, are all fueled by the power that the offshore system has bestowed upon authoritarian elites—and how they have played, abused, or mismanaged their hand. Money may not explain everything—but it does explain rather a lot.

Given the vast figures involved, it is often tempting to discuss global financial flows from a systemic point of view. However, zooming in, we realize that no individual transactions—and especially no illicit ones—happen without a helping human hand. Taking this view enables us to better understand the role played by professionals within Western legal, financial, incorporation, and real estate communities who have become systemic enablers of transnational kleptocracy. The boom in global money laundering that continues to empower authoritarian kleptocrats and fuel their growing influence would not be possible without them. Studying the intersection of Western professionals with these kleptocrats is essential to understanding this trend in modern power.

## **The Enablers' System**

**T**hanks to a surge in investigative reporting and academic studies, the pattern by which kleptocrats typically operate in the United States and other democracies has been clearly established in recent years.

First, a kleptocrat will engage legal and incorporation service providers to place illicit funds into the legal economy and conceal their origins. Second, financial and real estate professionals are used to integrate the funds into the mainstream U.S. economy. Third, lobbying and public relations specialists can suppress scrutiny of the kleptocrats, whitewash their criminal past, and extend their political reach. This well-trodden path has emerged from two systemic failings: an outdated and inadequate anti-money laundering (AML) system, and the failure of ethical standards and self-regulation within the professions themselves.

Regulators are also paying increased attention to this pattern and the critical role played by Western professionals within it. The Financial Action Task Force, the global anti-money laundering watchdog, published a [report](#) with the Egmont Group in July 2018 concerning the role of “professional intermediaries” in concealing beneficial ownership of legal entities.<sup>6</sup> In 100 case studies from 34 jurisdictions, “approximately half of all intermediaries involved were assessed as having been complicit in their involvement,” rather than simply “unwitting or negligent.” In June 2018, the U.S. Treasury Department’s Financial Crimes Enforcement Network (FinCEN) published extensive [guidance](#) on the use of “financial facilitators” by corrupt foreign officials, exploring how these facilitators enable the officials to “access the U.S. and international financial system to move or hide illicit proceeds, evade U.S. and global sanctions, or otherwise engage in illegal activity, including related human rights abuses.”<sup>7</sup>

## Legal Services

The first port of call for any kleptocrat seeking to benefit from this system is contact with the legal community. A lawyer is utterly essential, both to enter the offshore world and then to exploit its complex landscape, which cannot be navigated by anyone legally blind. From there, lawyers typically engage incorporation agents (if they cannot provide the service of company formation themselves) before managing the kleptocrats' offshore affairs. This includes providing introductions to the financial community, specific investment opportunities such as real estate, and even political opportunities such as contacts with lobbying or public affairs professionals.

Anti-corruption groups allege that the practice has become widespread within the American legal community. This was brought sharply to light in 2016, when [twelve out of thirteen law firms](#) approached by an undercover investigator for Global Witness were willing to discuss ways for an African kleptocrat to move money into the United States.<sup>8</sup> “The door is open and American lawyers seem quite willing and able to assist authoritarian kleptocrats who want to hide dirty money inside the United States,” says Jack Blum, former head of the United Nations Working Group on Asset Recovery and a former investigator for the Senate Committee on Foreign Relations Subcommittee on Terrorism, Narcotics, and International Operations. “Too many people are now engaged in importing corruption into the United States. This is drawing Americans into a game where they make money by entering into corrupt networks around the world and provide them with professional services which can establish them as players in the United States.”<sup>9</sup>

Unscrupulous lawyers have become the primary accomplices of transnational kleptocrats. This is abundantly clear from the trickle of kleptocrats who have been brought to justice in the United States. In recent cases prosecuted by the Kleptocracy Asset Recovery Initiative of the Department of Justice, in which members of the American legal community played a key enabling role, the defendants included [Pavlo Lazarenko](#),<sup>10</sup> former Ukrainian prime minister; [Chen Shui-bian](#), former president of Taiwan;<sup>11</sup> and [Teodoro Nguema Obiang Mangue](#), current vice president of Equatorial Guinea.<sup>12</sup> Legal services were their primary guides.

The legal community's services to kleptocrats sometimes extend far beyond advising them on their rights or conducting litigation. They often include business and investment advice; handling illicit funds in their clients' trust accounts; setting up corporate entities or handling interactions with incorporation agents on their behalf; and introducing them to other professionals in the financial, lobbying, and public relations communities.

The prevalence of such activities stems from lawyers' longstanding omission from the extensive—if often ineffective—AML requirements, which are based on affirmative reporting. This means that lawyers are not required to screen their clients or file suspicious activity reports in the same way, for example, as financial institutions—though they often handle substantial client funds. In fact, attorney-client privilege can be asserted to protect information about the sources of customer funds pooled in

Interest on Lawyers Trust Accounts (IOLTAs). Up to \$400 billion runs through IOLTAs each year, almost all of it for entirely legitimate and productive reasons—but the anonymity they afford has also made them [ripe for abuse](#) by all manner of financial criminals, including kleptocrats.<sup>13</sup>

The role of the legal community in facilitating transnational kleptocracy needs to be reassessed. Cases in which kleptocrats have been caught and prosecuted in the United States show that American legal professionals operate not merely as enablers, but also as force multipliers for kleptocrats' economic and political influence within democratic societies. A dangerous minority of legal professionals has been abusing important legal protections—such as attorney-client privilege—in order to use them as cover for illicit activity.

These practices have made the legal community an importer of weaponized corruption into the United States. Once illicit funds have been laundered into the U.S. economy, they are not just stashed in luxury real estate. They also have the potential to be deployed in the service of bad actors—including to further the geopolitical ambitions of adversarial states like Russia.

This has brought the legal profession in for intense criticism from activists campaigning against authoritarian kleptocracy across the world. “When you look at Russian government-connected crime,” said Bill Browder, the leading anti-Putin campaigner, “even more insidious than the actual Russian criminals are the Western lawyers who are letting them cover up their crimes. These people weren't brought up in the live-or-die criminal underworld of Russia but went to the same schools as us and should know better.”<sup>14</sup>

What is strange is that, on the face of it, none of this should be happening. On paper, the legal community in the United States holds itself to the highest ethical standards. The American Bar Association's [Model Code for Professional Responsibility](#) goes as far as to say in its preamble: “Lawyers, as guardians of the law, play a vital role in the preservation of society. The fulfilment of this role requires an understanding by lawyers of their relationship with and function in our legal system. A consequent obligation of lawyers is to maintain the highest standards of ethical conduct.”<sup>15</sup>

However, even the most casual look at the networking between the legal community and authoritarians shows that the profession is falling short of these standards and neglecting its role. “For years now the ABA has been downplaying the role of lawyers in money-laundering misconduct, claiming that voluntary anti-money laundering efforts are sufficient when it's clear lawyers, like banks, should operate under mandatory AML requirements,” said Elise Bean, a former staff director of the U.S. Senate Permanent Subcommittee on Investigations, who conducted multiple money-laundering investigations.<sup>16</sup>

As a result, the ethical leadership that the American Bar Association claims for the legal community is now somewhat clouded. Not only has the ABA done little to contain this phenomenon; it has actively resisted all extensions of AML reporting requirements, and

even acted as a defender of the most egregious form of enabling in the United States: the creation of anonymously owned shell companies, itself a consequence of the absence of any requirement to disclose corporate beneficial ownership information. Regulation is now required, before the entire legal community becomes tainted by an unscrupulous minority's willingness to put its financial alliance with authoritarian kleptocrats above its ethical responsibility to fellow Americans.

*Policy Recommendations*

- Congress should pass legislation requiring legal services providers to perform reasonable due diligence on prospective foreign clients.
- Given the potential for abuse of attorney-client privilege, Congress should consider whether legal firms should continue to be able to combine business, lobbying, legal, and other functions.
- Congress should also consider whether IOLTA accounts should be subject to the same anti-money laundering regulations as other financial products.

## Incorporation Services

**T**hough authoritarian kleptocracies differ from each other in their nature and in the quantity of funds they bring into the Western financial system, investigators from U.S. law enforcement are quick to point out that almost without exception, when they enter this system, they make use of anonymous shell companies. “We consistently see bad actors using these entities to disguise the ownership of the dirty money derived from criminal conduct,” Kendall Day, then acting deputy assistant attorney general of the Justice Department’s Criminal Division, [told a Congressional hearing](#) in January 2018.<sup>17</sup>

Anonymous shell companies differ from other money-laundering vehicles such as “front” companies in that they are legal entities that grant the rights and privileges of a company to the owner without obligating the owner to perform any of the activities typically associated with a company. Usually they are deployed within a vast, complex network of other such companies that are legally located across multiple jurisdictions. This renders the true identity of the beneficiaries almost impossible to determine without heavy mobilization of resources, and it is why anonymous shell companies have been dubbed “weapons of mass corruption” by anti-corruption campaigners.

The United States is currently the leading mass-producer of anonymous shell companies, generating [10 times more than 41 other jurisdictions](#) identified as financial secrecy havens combined.<sup>18</sup> Though some states require more information than others when a company is incorporated, none require full disclosure of the beneficial owners who ultimately control it.<sup>19</sup> With a few exceptions—most notably Delaware,<sup>20</sup> which now supports the collection of beneficial ownership information by the U.S. Treasury—a [race to the bottom](#) between some U.S. states is underway, as they become increasingly dependent on revenue generated by registration fees.<sup>21</sup> The result is that it currently takes more information to [obtain a library card](#) in the U.S. than to create an anonymous shell company,<sup>22</sup> a situation unmatched anywhere in the world except Kenya.<sup>23</sup> “The rest of the world is starting to crack down on secret and illicit finance while the United States continues to play banker to the world’s authoritarian kleptocrats,” said Gary Kalman, executive director of the Financial Accountability and Corporate Transparency Coalition.<sup>24</sup>

Researcher Anat Admati calls this “a crisis of the corporate form.”<sup>25</sup> The American company, historically intensely guarded, has become in her eyes bastardized, transformed into a tool that permits those with the resources to exploit it to evade financial liability and act with criminal impunity. This interpretation was largely validated by the 2014 [Global Shell Games](#) study, in which researchers approached incorporation agents for assistance in setting up anonymous shell companies while posing as money launderers, corrupt officials, and terrorist financiers.<sup>26</sup> Despite the suspicious nature of their inquiries, it was incorporation agents based in the United States who proved the most willing to help and least anxious to ask questions—putting the U.S. behind traditional financial secrecy havens like the Cayman Islands, St. Kitts and Nevis, or the British Virgin Islands.

This state of affairs has led to widescale abuse of U.S. company incorporation, not only by kleptocrats from countries as diverse as [Ukraine](#),<sup>27</sup> [Malaysia](#),<sup>28</sup> and [Equatorial Guinea](#),<sup>29</sup> but also by terrorist groups such as [Hezbollah](#)<sup>30</sup> and hostile regimes such as [Venezuela](#)<sup>31</sup> and Iran. In fact, Iran somehow managed to purchase and lease out [an entire skyscraper](#) on New York's Fifth Avenue for 20 years without detection.<sup>32</sup> The confluence of two factors has permitted this transformation in the use of American companies. One is the incorporation sector's omission from affirmative AML reporting requirements. The other is a powerful coalition of state and professional lobbies that resist the imposition of even a non-public beneficial ownership register available only to law enforcement—though this opposition is [dwindling](#) as the national security arguments in favor of such a register become more widely accepted.<sup>33</sup>

### *Policy Recommendations*

- Congress should mandate the creation of a federally overseen register of beneficial ownership for companies and trusts.
- Incorporation agents should be legally required to perform reasonable due diligence on prospective clients.
- Penalties should be introduced for failure to carry out reasonable due diligence and/or for intentionally submitting misleading information to the beneficial ownership register.

## Financial Services

**L**aw enforcement breaks down money laundering into [three stages](#): *placement* (moving illicit funds into the financial system), *layering* (concealing their origin), and *integration* (using the successfully laundered funds for purchases and investments).<sup>34</sup> Whereas the legal community is essential for the placement and layering of kleptocrats' illicit funds, financial services providers can be engaged to assist with integration. This is the point at which funds are set to work—accumulating value if securely stored in luxury real estate, generating profits if invested in Western business interests, acquiring influence if used for political or philanthropic donations—all the while multiplying the kleptocrat's wealth into new sources of power.

Unlike the legal community, however, most financial institutions are governed by the [Bank Secrecy Act](#) (BSA) of 1970, which requires them to proactively report suspicious financial activity to the U.S. Treasury.<sup>35</sup> The 2003 [USA PATRIOT Act](#) further requires them to establish internal AML compliance programs.<sup>36</sup> A new rule, [Customer Due Diligence Requirements for Financial Institutions](#) (CDD), effective May 2018, also demands that they collect beneficial ownership information on account holders, though this is not being aggressively enforced yet.<sup>37</sup>

Not all financial services providers are covered by this AML framework, however: hedge funds, asset managers, and the directors of family offices, for example, are not subject to any affirmative reporting requirements. “This lack of transparency is troubling in any case,” [wrote](#) Joshua Kirschenbaum of German Marshall Fund's Alliance for Securing Democracy, “but especially in the context of malign influence operations by Russia and other actors. To protect ourselves, we need more transparency into and enhanced vigilance over this \$12.5 trillion pool of capital.”<sup>38</sup> Kleptocrats, or their agents, will solicit financial services providers operating outside the U.S. AML regime not only to open bank accounts, provide financial advice, or transfer funds, but also to present them with investment platforms or opportunities or undertake deals on their behalf.

“These kleptocrats obtain funds in many different ways,” said Frank Vogl, co-founder of Transparency International, “but they all seek to launder funds and then invest in large markets protected by the rule of law ... And by far the largest market is the United States. In order to place such large numbers they use professional services not covered by anti-money laundering regulations to work their way around the system, such as hedge funds, private equity, and many others. Public authorities have not sufficiently looked beyond the bank area.”<sup>39</sup>

Designated financial institutions often continue to act as enablers, despite the significant compliance burden imposed by the BSA (and soon, CDD). However, these cases typically proceed from specific compliance failures rather than systemic loopholes in the regulatory framework. Individual bankers may be actively bribed or otherwise involved directly in money-laundering schemes. Alternatively, without direct inducement but with the temptation of lucrative commissions, they may choose themselves to turn a blind eye to suspicious transactions. More often, it is simply that a bank has failed to implement an AML system robust enough to comply with BSA

requirements. Failure to implement the right policies, introduce the latest technology, and hire the right staff can all be exploited by kleptocrats and other professional enablers. The question of whether these failings are intentional, negligent, or accidental on the part of the bank is often unclear, and in most cases irrelevant: financial institutions, as the gateway to the U.S. financial system, must continue to be held to the highest AML standards.

Lastly, one of the most pernicious forms of enabling occurs indirectly, when financial institutions enter into relationships not with a kleptocratic principle, but with another financial institution that is in fact controlled by a kleptocrat. In 2015, the Organized Crime and Corruption Reporting Project [revealed](#) that members of Azerbaijan's ruling Aliyev family and their close advisors are significant shareholders in at least eight major Azerbaijani banks.<sup>40</sup> In addition, government officials, their family members, and close associates of the ruling family have shares in five more banks. When financial institutions partner with captured banks like these and further their economic interests in the West, they are in fact advancing the geopolitical influence of authoritarian kleptocrats.

### *Policy Recommendations*

- Following extensive consultation, Congress should legislate a fundamental reform of the U.S. anti-money laundering system, recasting it to meet the challenges of the 21st century.
- Meanwhile, AML rules should be applied more consistently and proportionately across the financial services sector. In particular, the Treasury Department should review current exemptions and omissions from due diligence and reporting requirements.
- Senior executives at financial institutions should personally face tougher penalties for failing to implement adequate AML controls.
- To improve effectiveness and reduce administrative burdens, the Treasury Department should lead a cross-departmental initiative to accelerate development and rollout of new AML technologies, working closely with the fintech and financial services sectors.

## **Real Estate Services**

**W**estern real estate provides kleptocrats with valuable, secure, and discreet assets in which to safeguard successfully laundered stolen funds. In 2015, the “Towers of Secrecy” investigations in the *New York Times* [exposed](#) the scale of foreign dark money clouding Manhattan’s glittering skyline. More than half of the \$8 billion spent annually on New York real estate worth more than \$5 million involved shell companies.<sup>41</sup>

In January 2016, the Treasury Department responded by launching the Geographic Targeting Order (GTO) pilot scheme, which requires title insurance agents to provide FinCEN with beneficial ownership information on companies used to make all-cash purchases of luxury real estate in New York, Miami, and other jurisdictions deemed attractive to money launderers. This paid off: In January 2017, FinCEN reported that [one-third of all transactions](#) caught by GTOs involved a customer who had previously triggered a suspicious activity report.<sup>42</sup> In May 2018, a study by economists at the Federal Reserve Bank of New York and the University of Miami found that the introduction of GTOs had [reduced the amount of cash](#) spent in Miami on such deals by 95 percent.<sup>43</sup> Nationwide—that is, including areas not even affected by GTOs—the amount of money spent in all-cash luxury real estate deals fell by 70 percent.

While real estate agents were originally intended to be subject to customer due diligence requirements under the USA PATRIOT Act, their exemption means that, like lawyers, they have no obligation to ascertain the true identities of their customers or report suspicious transactions to FinCEN. While real estate professionals are not frontline “gatekeepers” to Western economies in the same vein as lawyers or financial services providers, they literally hold the keys to the high-value, secure assets that kleptocrats value the most. Mindful that many real estate agents will not have the resources to implement a full-scale AML compliance scheme, the Treasury should nevertheless revisit this question with an open mind.

### *Policy Recommendations*

- Congress should make the Geographic Targeting Orders pilot scheme permanent and expand it nationwide.
- The Treasury Department should also review anti-money laundering regime exemptions for real estate professionals.
- States should be required to keep a register of residential properties, including beneficial ownership information, and make it accessible to law enforcement.

## **Lobbying and Public Relations Services**

**A**fter successfully laundering money into Western economies, kleptocrats engage the services of lobbyists and public relations experts to protect their privacy, whitewash their reputation, present a positive public image, and even attempt to influence policymaking. A Center for Public Integrity [study](#) found that, between 2010 and 2015, the 50 countries with the worst human rights records spent \$168 million on American lobbyists and public relations experts.<sup>44</sup> Between January 2017 and August 2018, the Center for Responsive Politics [identified](#) at least \$534.7 million spent by foreign governments, political parties and other interests—democratic or otherwise—to influence U.S. policy or public opinion.<sup>45</sup>

Three case studies illustrate how authoritarian kleptocracies operate in Washington: Azerbaijan, a dynastic authoritarian kleptocracy; the now-deposed authoritarian kleptocracy of Hosni Mubarak in Egypt; and Nicolas Maduro’s increasingly violent authoritarian kleptocracy in Venezuela.

The case of Azerbaijan shows how the lobbying community can be exploited to whitewash the image of an authoritarian regime and advance its strategic objectives. Through its state-controlled oil company, Baku [employed](#) “strategic counsel” to provide introductions to influential figures in the Washington policymaking community, build and maintain its website and social media accounts, and set up an internship program.<sup>46</sup> Another public affairs company focused on [promoting relationships](#) with think tanks and the media, even organizing a dinner at the home of the ambassador of Azerbaijan.<sup>47</sup> Indeed, it is often hard to draw a distinction between the activities of such firms and the embassies that employ them.

The Egyptian government’s operations during the Hosni Mubarak dictatorship offer [another clear example](#) of authoritarians playing both sides of the political aisle when using lobbyists as influence multipliers.<sup>48</sup> In 2007, the regime engaged a highly influential and well-connected Democratic-leaning lobbying firm to [meet with](#) governors, members of Congress, generals, and other Washington powerbrokers to discuss U.S.-Egypt relations and military aid packages.<sup>49</sup> Between 2007 and 2010, another [lobbying outfit](#), founded by former congressmen with strong Republican connections and paid \$1.1 million annually by the Mubarak regime, made 1,873 contacts with lawmakers, their staff, and administration officials.<sup>50</sup> This was a good outcome for Mubarak, whose wealth when he was overthrown in 2011 was estimated at \$70 billion—partially thanks to embezzlement from foreign military contracts.

Venezuela, like many other authoritarian regimes, has spread around millions of dollars through a range of Washington lobbying firms in the past decade.<sup>51</sup> This includes \$1.3 million in 2016-17 alone to try to stave off further sanctions on corrupt officials and their criminal associates, despite rampant inflation, food shortages, riots, and repression at home.<sup>52</sup> Unlike Azerbaijan, Egypt, and many other authoritarian regimes, however, Maduro’s regime is openly and increasingly hostile towards the United States.

Given the scope of these professionals' activities, the term "lobbyists," with its connotations of proposing and contesting legislative change, conceals as much as it reveals. Exploiting both loopholes in the lobbying disclosure regime and a general lack of public awareness around foreign lobbying, some lobbyists have effectively become diplomats-for-hire in the service of America's adversaries: cultivating influential contacts, gathering information, and promoting hostile agendas designed to undermine U.S. national security. This has created an absurd situation in which authoritarian kleptocracies, while often denying their own people the right to vote or speak freely, are participating actively but stealthily in American democracy, with greater access to elected representatives than the average American voter could ever hope for.

### *Policy Recommendations*

- After a consultation period, Congress should consolidate the Lobbying Disclosure Act and Foreign Agents Registration Act into a single, streamlined lobbying disclosure regime fit for countering 21st-century authoritarian influence campaigns.
- The ban on administration officials working for foreign governments should be expanded to include foreign state-controlled commercial entities and should also apply to serving and former members of Congress.
- Lobbyists should be legally required to perform reasonable due diligence on prospective foreign clients.
- The Office of Government Ethics, Secretary of the Senate, Clerk of the House, and Department of Justice should launch an awareness campaign to improve public relations and lobbying-sector understanding of the risks of dealing with foreign clients.

## Fintech and Cryptocurrency

**T**he rise of cryptocurrencies, with their inherent emphasis on decentralization and maximizing anonymity, has provoked worldwide concern about how emerging financial technology might reshape the global economic order—and in the shorter term, allow for unrestrained money laundering. A constant stream of [stories](#) involving scams, fraud,<sup>53</sup> and even [election interference](#) continues to bolster such fears,<sup>54</sup> but a clearer picture of the threats and opportunities posed is now emerging.

Some authoritarian kleptocracies were quick to embrace the concept of issuing their own digital currencies, which they believed might allow them to subvert dollar hegemony, dodge U.S. sanctions, and avoid Western AML systems. In Venezuela, the Maduro regime launched its own “Petro” digital currency, [reportedly](#) developed with Russian assistance.<sup>55</sup> But it was promptly [rendered useless](#) when the United States placed anything and everything to do with it under sanctions.<sup>56</sup>

Of greater immediate danger is the use of established cryptocurrencies by authoritarian regimes and kleptocrats in order to evade sanctions and launder money. North Korea has [reportedly](#) raised hundreds of millions of dollars through cyberthefts of cryptocurrency<sup>57</sup> and is [apparently](#) particularly fond of one of the most secretive “privacy coins.”<sup>58</sup> Russian intelligence officers [allegedly](#) used Bitcoin to pay for web domains, which were then used to leak emails stolen from Hilary Clinton’s 2016 U.S. presidential campaign.<sup>59</sup>

Despite these and many other cases, the scale of money-laundering activity involving cryptocurrency remains negligible compared to conventional illicit financial flows. This is partly because cryptocurrencies derive value solely from the confidence of their users, which in turn is linked to their convertibility to fiat currency. For the foreseeable future, therefore, Bitcoin, Ethereum, and similar currencies will remain supplemental, not alternative, to fiat currencies. It follows that the most important enablers in any money-laundering scheme involving cryptocurrencies remain—for now, at least—the professional intermediaries listed in the preceding sections, because it is they who act as gatekeepers to the mainstream economy.

The blockchain technology underpinning Bitcoin and other cryptocurrencies—an immutable public transactions ledger—has actually made it easier in some cases for law enforcement to expose criminals and their entire networks. Crack one anonymously owned shell company, and you might find one crooked lawyer within a global network. But obtain just one point of identification on a Bitcoin ledger, and you have potentially collared the entire criminal organization, along with proof of all its financial transactions—though secrecy devices such as mixers, tumblers, and emerging so-called privacy coins can complicate matters considerably.<sup>60</sup>

Cryptocurrency has introduced one important new category of enablers. The United States treats cryptocurrency exchanges—services that convert fiat to crypto and vice versa—in the same way as traditional financial institutions, subject to the reporting and due diligence requirements outlined above. Rogue cryptocurrency exchanges, by

contrast, are usually situated outside the United States, refuse to be regulated, and do not gather identifiable information about their customers. This can pose a serious headache for law enforcement, but they do not operate with impunity: When the BTC-e exchange was suspected of converting billions of dollars' worth of stolen Bitcoin into fiat currencies using a network of shell companies, U.S. authorities [moved quickly](#) to shut it down.<sup>61</sup>

As Yaya Fanusie of the Foundation for Defense of Democracies [explains](#), the cryptocurrency world is settling into two streams: “An increasingly transparent, well-regulated space and an unregulated crypto underground likely to be exploited for illicit activity and the dark web.”<sup>62</sup> In such a fast-moving environment, it is critical that U.S. lawmakers and agencies remain apprised of the latest developments and be prepared to act swiftly in response to a new generation of threats in which the enablers will either find new opportunities—or become the least of our worries.

### *Policy Recommendations*

- The U.S. Government must develop a cross-departmental strategy that addresses money-laundering concerns without stifling innovation.
- It should then pressure the international community to develop and adopt a framework for consistent regulation and standards—especially financial secrecy havens now seeking to become crypto havens.
- The Defense Department should invest in research and development to ensure the United States maintains its technical superiority.
- A formal working group should be established so that regulators can work with developers designing new platforms and coins to understand and remain apprised of emerging crypto developments.
- The Treasury should continue to regulate cryptocurrency exchanges as financial institutions and the Justice Department should aggressively pursue rogue exchanges overseas.
- Training and ongoing education should be introduced for lawmakers and professions likely to engage with emerging crypto technologies in future.

## **Conclusion: Cleaning Up the Professions**

**A**s we approach the third decade of the 21st century, the globalization of transnational corruption has signaled an impending crisis for Western professions which—wittingly or unwittingly—have become the enablers and partners of authoritarian kleptocracy. Not only have the norms of these professions been compromised, but they have been compromised in a way that actively empowers those who wish to subvert the rule of law, undermine democracy, divide American society, and threaten U.S. national security. Only a substantial series of reforms led by the administration and Congress—dismissing long-held fallacies of self-regulation—and an ethical revolution spearheaded by corporate leaders will restore faith in these crucial professions, which for centuries were the cornerstones on which American democracy, prosperity, and society were built.

## **Policy Checklist**

### ***Legal Services***

- Congress should pass legislation requiring legal services providers to perform reasonable due diligence on foreign prospective clients.
- Given the potential for the abuse of attorney-client privilege, Congress should consider whether legal firms should continue to be able to combine business, lobbying, legal, and other functions.
- Congress should also consider whether IOLTA accounts should be subject to the same anti-money laundering regulations as other financial products.

### ***Incorporation Services***

- Congress should mandate the creation of a federally overseen register of beneficial ownership for companies and trusts.
- Incorporation agents should be legally required to perform reasonable due diligence on prospective clients.
- Penalties should be introduced for failure to carry out reasonable due diligence and/or intentionally submitting misleading information to the beneficial ownership register.

### ***Financial Services***

- Following extensive consultation, Congress should legislate a fundamental reform of the U.S. anti-money laundering system, recasting it to meet the challenges of the 21st century.
- Meanwhile, AML rules should be applied more consistently and proportionately across the financial services sector. In particular, the Treasury Department should review current exemptions and omissions from due diligence and reporting requirements.
- Senior executives at financial institutions should personally face tougher penalties for failing to implement adequate AML controls.
- To improve effectiveness and reduce administrative burdens, the Treasury Department should lead a cross-departmental initiative to accelerate development and rollout of new AML technologies, working closely with the fintech and financial services sectors.

### ***Real Estate Services***

- Congress should make the Geographic Targeting Orders pilot scheme permanent and expand it nationwide.
- The Treasury Department should also review anti-money laundering regime exemptions for real estate professionals.
- States should be required to keep a register of residential properties, including beneficial ownership information, and make it accessible to law enforcement.

### ***Lobbying and Public Relations Services***

- After a consultation period, Congress should consolidate the Lobbying Disclosure Act and Foreign Agents Registration Act into a single, streamlined lobbying disclosure regime fit for countering 21st-century authoritarian influence campaigns.
- The ban on administration officials working for foreign governments should be expanded to include foreign state-controlled commercial entities and should also apply to serving and former members of Congress.
- Lobbyists should be legally required to perform reasonable due diligence on prospective foreign clients.
- The Office of Government Ethics, Clerk of the House, and Department of Justice should launch an awareness campaign to improve public relations and lobbying-sector understanding of the risks of dealing with foreign clients.

### ***Fintech and Cryptocurrency***

- The U.S. Government must develop a cross-departmental strategy that addresses money-laundering concerns without stifling innovation.
- It should then pressure the international community to develop and adopt a framework for consistent regulation and standards—especially financial secrecy havens now seeking to become crypto havens.
- The Defense Department should invest in research and development to ensure the United States maintains its technical superiority.
- A formal working group should be established so that regulators can work with developers designing new platforms and coins to understand and remain apprised of emerging crypto developments.
- The Treasury should continue to regulate cryptocurrency exchanges as financial institutions and the Justice Department should aggressively pursue rogue exchanges overseas.
- Training and ongoing education should be introduced for lawmakers and professions likely to engage with emerging crypto technologies in future.

## **Kleptocracy Initiative Publications**

### [Cleaning Up Atlantis: How to Put a Kleptocracy on the Road to Transparency](#)

“From our experience counseling U.S. and foreign companies and foreign governments on issues related to anti-corruption, we set forth below a preliminary sketch of a plan that governments and civil society actors might employ to move state regimes from kleptocracy to greater transparency, if not necessarily to mature democracy.” (Thomas Firestone, 2015)

### [Stage Hands: How Western Enablers Facilitate Kleptocracy](#)

“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.” (Oliver Bullough, 2016)

### [The Kleptocracy Curse: Rethinking Containment](#)

“The United States needs to start paying attention to what has happened to the world economy. Gigantic sums of money are now traveling the world incognito. This has turned globalization into the golden age of money laundering.” (Ben Judah, 2016)

### [How Non-State Actors Export Kleptocratic Norms to the West](#)

“The truth is that the West has largely failed to export its democratic norms and is instead witnessing an increasingly coordinated assault on its own value system. This destructive import of corrupt practices and norms comes not only from post-Soviet kleptocratic regimes [but] other countries around the world whose ruling elites now possess far-reaching financial and political interests in the West.” (Ilya Zaslavskiy, 2017)

### [Weaponizing Kleptocracy: Putin’s Hybrid Warfare](#)

“The goal of this paper is to systematically explore how kleptocracy fits into Putin’s global strategy, the roots of the kleptocratic dimension of Russia’s hybrid warfare, and the ways in which it increases the risk of a conventional war between Russia and the West.” (Marius Laurinavičius, 2017)

### [The United States of Anonymity](#)

“The cast of characters abusing America’s system of anonymous companies—and the country’s overall transformation into a leading provider of shell companies—is as deep as it is sinister ... [The United States has] morphed into one of the chief jurisdictions for those looking to hide their funds from governments and investigators alike.” (Casey Michel, 2017)

### [Money Laundering for 21st Century Authoritarianism](#)

“The failure to build an effective twenty-first century anti-money laundering system has led to systemic collusion with kleptocrats. Drawing on six months of research, over one hundred interviews and extensive discussions with U.S. law enforcement, this report highlights the limits of ‘self-regulation’ and the need for policymakers to end the enabling of kleptocrats.” (Ben Judah and Belinda Li, 2017)

### [Countering Russian Kleptocracy](#)

“Kleptocratic regimes use corruption as a means of control at home and a weapon of influence abroad. Russian oligarchs and other Kremlin agents have become adept at exploiting the global financial system to launder illicit funds and convert them into new forms of power projection, including attacks on Western democratic institutions ... This report outlines a policy checklist that, if implemented, would amount to a comprehensive and effective strategy for countering Russian kleptocracy.” (Ben Judah and Nate Sibley, 2018)

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## Acknowledgements

We are grateful for the expertise and insights of Anat Admati, Elise Bean, Misty Blowers, Jack Blum, Jerry Brito, Bill Browder, Charles Davidson, Kevin Desouza, Yaya Fanusie, Miriam Himmelfarb, Gary Kalman, Michele Korver, David Tell, Frank Vogl, and Gabriel Zucman. Any errors are our own.

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