Kleptocracy: Its Global Impact on Markets and Democracy

Introduction

The study of kleptocracy as a global phenomenon typically focuses on individuals who steal money from the state for personal gain. This paper will examine the broader issue of kleptocratic behavior channeled through public institutions and foreign governments as well as through individual kleptocrats. From the straightforward siphoning of state funds into private accounts, kleptocracy has evolved into a multifaceted practice that distorts how markets and democratic institutions function both at the origin and destination of siphoned funds. Within its scope lie not only individual kleptocrats stealing money and investing it in Western markets but also state-owned enterprises whose poor governance jeopardizes the $45 trillion that they represent globally. Similarly, corrosive capital investments from authoritarian countries such as Russia and China can have significant geopolitical repercussions. Each component of this kleptocratic web demands a different form of analysis to comprehend and specific tools designed to curtail their impact. Below you will find a brief analysis of each of these forms of kleptocracy, including corruption, state-owned enterprises, and corrosive capital, followed by some recommended policy solutions that can discourage these practices

The Scope of Kleptocracy

Kleptocracy has become more systemically embedded than the enrichment of individual kleptocrats. The movement of funds through kleptocratic channels affects the way markets function and has geopolitical consequences due to the massive amounts of money being funneled from kleptocracies into Western markets. This flow of assets can cause corrosive effects as it negatively impacts local economies and exploits governance gaps, as well as increases the costs of goods (like real estate) in Western markets. In addition to those flows, there are the funds originating in Russia and China (arguably kleptocracies themselves) that become corrosive capital benefiting kleptocrats in the developing world. Finally, the negative impact of kleptocracy on the average citizen's view of democratic governance is devastating. As citizens lose faith in democratic institutions because of the widespread kleptocratic behavior they experience, those democratic institutions become ever more difficult to maintain and strengthen.

Kleptocratic behaviors are incredibly difficult to track and prevent within the globalized economy. The globalized nature of contemporary financial transactions allows stolen money to be invested in the world's highest performing economies, including the United States and Europe. In these developed markets, legitimate legal vehicles designed to protect and facilitate business interests and growth are leveraged by international bad actors to launder stolen funds. Thus many white-collar industries (unwittingly or not) enable global kleptocrats, and therefore the conversation around kleptocracy has to have multiple angles: preventing theft at the source (often in developing or authoritarian nations) and limiting their ability to launder the stolen funds in Western markets. Preventing the receipt of stolen funds in global markets requires updating the level of scrutiny and due diligence in banks and other financial institutions, as outlined in recent steps such as the Magnitsky Act, the Corporate Transparency Act as well as associated enforcement rules, and others. Unfortunately, while banks and other institutions have measures in place to flag suspicious activity, the government offices tasked with following up are understaffed and unable to keep up with the volume of requests. As a result, additional steps forward must focus on supporting enforcement agencies so that legislation against illicit funds is rendered effective, as current enforcement is not always sufficient to maintain compliance. Offshore wealth accounts for one-tenth of all global financial wealth, and the storage and maintenance of wealth of this size requires an extensive network of industries. Ensuring stolen funds do not circulate freely through that network is an essential component of fighting kleptocracy and maintaining democratic standards of transparency and accountability, as well as insulating global and domestic markets from the harm kleptocracy inflicts.

With the recent invasion of Ukraine, much attention has been paid to the sanctions enacted against Russia. Headlines often highlighted the seizure of luxury yachts owned by Russian oligarchs even though the bulk of their wealth was stored in complex webs of international entities. While Western countries are improving their efforts to track and prevent the movement of illicit funds through their economies, these crackdowns are highlighting another reality of kleptocratic behavior in a globalized economy: there is always another back door. As a result of the sanctions against Russian oligarchs, Xi Jinping announced that all senior officials, deputy ministers, and their family members cannot own overseas assets. African kleptocrats from Angola, Nigeria, and Ethiopia are now moving financial activities to Dubai, where watchdog lists and money laundering rankings have raised concerns about the available scrutiny to ensure these funds are above reproach.

For those who believe in and actively support democratic principles of governance, political leaders stealing funds from their people and government must always be a concern. Kleptocracy enables the governing elite to consolidate both political and economic power. In addition to siphoning away funding needed for social programs, infrastructure projects, or the effective running of a government, kleptocratic theft also makes it more difficult to vote in new leaders as the institutions within government have eroded. What is even more alarming, kleptocrats tend to undermine people's hope for democratic transition by showing little to no interest in transparency and accountability. This has played out in countries like the Republic of Congo, Sudan, and South Sudan where kleptocrats use varying levels of violence to maintain power and suppress dissenting voices. It is worth noting that kleptocratic activities often go beyond national borders to affect other nations including established democracies. Therefore, kleptocracy should be seen as a national security threat. Strengthening democracy and the principles of fairness, inclusion, transparency, and equal enforcement of laws that undergird democratic society is a crucial part of the prevention of kleptocratic behavior.

State-Owned Enterprises Amplify Kleptocratic Behavior

Kleptocratic systems are not limited to individuals who abscond with public resources. Sometimes entire institutions in the public sector are captured by kleptocrats, even within democratic societies. Corrupt politicians have often used these enterprises to extract resources for both political gain and personal enrichment. In addition, they leverage their economic influence to offer private privileges or positions in exchange for loyalty, thereby exercising political control in their countries. Kleptocrats in state-owned enterprises (SOEs) thrive on the ambiguity about who really controls and manages these enterprises and the lack of concrete rationale for why SOEs exist in the first place. According to the Organization for Economic Cooperation and Development (OECD), "the ultimate purpose of state ownership of enterprises should be to maximize value for society, through an efficient allocation of resources." When kleptocrats can steal public money through SOEs, the enterprise is failing to carry out its ultimate purpose.

Globally, the economic scope of SOEs is broad, which makes them appealing targets for kleptocratic capture. An OECD survey highlights that 22% of the world's largest companies are state-owned and usually in sectors of strategic importance. Since SOEs are often found in natural

Reputation washing: greenwashing and transparency as instruments for more opacity

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Kleptocratic administrations use laws, treaties, labels, and certifications as a means of opacity! Laws are passed but never to be applied, treaties are ratified to be better violated, and certifications are sought to be falsified on demand; finally, they create national forest parks to expropriate the natives and better deforest illegally! This situation is symptomatic of what I call the "Congolese disease."

For example, indigenous peoples are present in almost all departments of the Congo, representing between 1.4% and 10% of the population of Congo (total population estimated at 5 million inhabitants in 2016). Despite an almost complete legislative framework and the promulgation in 2011 of Law 5-2011, the first law in Africa about indigenous peoples, the situation has deteriorated. On paper, the Congo has ratified a state-of-the-art legislative arsenal only to better transgress almost all the international treaties on the subject. On the ground, a cruel ethnocide is raging. In 2015, the death penalty was abolished in the new constitution, but since then the number of extrajudicial executions has continued to increase.

The Sassou Nguesso administration is a system hardened in crime, and ecology is only a pretext to stay in control by diverting new resources while buying a "progressive image" at little cost.

Tackling kleptocratic networks with correspondingly multi-levelled response

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I believe we need to cast a wider net when it comes to defining actors or active features of kleptocracy in addition to the State-Owned Enterprises or Corrosive Capital already flagged here. Kleptocratic networks have frequently grown more complex beyond the politician at their helm, their family, and a network of professional enablers (lawyers, bankers, advisors). These networks often exist in symbiotic relationships with **seemingly independent private businesses** which in reality provide the lifeline of funding for the kleptocrat in charge during the electoral process.

These business 'supporters' fuel the kleptocrat's network, via political sponsorship or indirectly, such as by employing kleptocrat's proxies or owning a newspaper which supports the kleptocrat's narrative. The 'supporters' are then rewarded by public contracts — granted directly or via manipulated tenders — and/or by immunity from prosecution. However, their proximity to the kleptocrat is often difficult to capture or investigate, as the western governments are now experiencing when trying to target oligarchs close to the Kremlin. My point is that in many instances, a kleptocratic network is a many-headed monster, and untangling them and/or even freezing them is a highly complex task which should address all its tentacles.

The proposed three-level solution — Transparency, Accountability &

resource sectors of the economy, or in the financial sector, they can be prime channels for diverting large amounts of money. The web of corruption present in SOE management comes into sharper relief when you consider that between 1999 and 2014 around 70% of bribes paid to public officials involved SOE managers. For example, in 2014, a corruption case involving the Brazilian oil SOE Petrobras demonstrated the acute corruption risks present in public companies through Petrobras's central role in the "Car Wash" scandal. Weak governance of Petrobras allowed for kickbacks from major contracts paid to Petrobras executives that totaled billions of dollars and permeated the political systems of countries across Latin America.

Without transparency and proper oversight, instruments of the state such as public enterprises are ripe for kleptocratic capture by a small number of dominant power holders. And yet, SOEs across the board are ill equipped to control the potential corruption they are prone to suffer and perpetrate. They often experience poor governance, weak management systems, and inefficiency. These factors can raise their corruption risk. An International Monetary Fund (IMF) report on governance of SOE's indicates that only nine out of 81 SOE's assessed in 2017 in the Resource Governance Index achieved a good standard on transparency and accountable governance. In Latin America, for example, the core problem is that the management of state-owned enterprises tends to be heavily influenced by government actors and their political agendas rather than being run like competitive commercial companies. Consequently SOEs—many of which are large companies in resource-rich industries—can operate with minimal transparency and accountability. As a result, poorly governed SOEs create unfair competition that hinders the competitiveness of commercial markets as well as siphoning funds out of the local economy.

The highest corruption risks for SOEs lie in public contracting, conflicts of interest, marketing, privatization processes, theft of assets, and money laundering. A good portion of SOE corruption is concentrated in the procurement process these companies have in place. According to Transparency International, this process in many SOEs is susceptible to political interference in the areas of sourcing, evaluation, awarding, and monitoring of contracts. Corruption can take place via bribes, kickbacks, patronage, bidding collusion by third parties, related party trading, use of suppliers owned by public officials, or providing illegal insider information. The nature of these forms of corruption in SOE management practices can distort the development of competitive markets and limit the development of the private sector. This is because under such systems competitive private sector contractors will lose out to those who curry favor with kleptocrats.

Weak public reporting practices by SOEs are another indicator of the lack of transparency and accountability in how public enterprises are governed. Transparency International's research shows that many states do not perform well on their level of beneficial ownership transparency and that SOEs are weak in reporting on their internal anti-corruption programs. A 2015 report by Transparency International assessed the extent to which G20 members were fulfilling their legal and regulatory commitments to principles created in response to recommendations from the Financial

Innovation — certainly offers steps in the right direction. However, I think further and deeper action is needed in effective **international cooperation and information exchange** among all the stakeholders engaged — from government authorities, to law enforcement, financial sector, and civil society and media.

And finally, I fear that the challenge to topple these networks can often be so large that it literally takes a revolution and one which lasts long enough to allow for a rebuild or a clean-up of the infected system. As the recent developments in Slovakia or Montenegro show, governments formed on lofty pledges to wipe out kleptocracy or political corruption often fizzle out quickly due to inter-coalition infighting over the hefty task at hand.

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Action Task Force (FATF) one year after their adoption. The report delivered a mixed picture on the efforts of the G20 nations, with 15 out of 19 G20 countries showing either an average or weak legal framework for implementing the G20 Framework (*Social Cohesion, Global Governance and the Future of Politics*). As custodians of public assets SOEs should be champions of integrity and transparency. So too, the best check against them becoming instruments of kleptocracy is to adjust their management according to prudent regulation and adherence to models of best practice. To counter corruption in SOEs, all actors (states, SOEs, investors, business partners, civil society, and the public) need to set expectations for SOEs to operate according to high standards of integrity, transparency and accountability. All actors should monitor and hold SOEs to account for the way they meet — or fail to meet — these standards. Best practice standards should include: OECD guidelines on corporate governance of SOEs (OECD 2015) and Transparency International's ten Anti-Corruption Principles for SOEs which provide comprehensive anti-corruption guidance. The implementation of Transparency International's Principles is imperative for increasing integrity and transparency and preventing corruption in SOEs.

Corrosive Capital and Kleptocracy

The same opaque investment climates that allow foreign investment to have corrosive impact can also permit it to be susceptible to kleptocratic practices. Foreign investment that lacks transparency and accountability is easily manipulated by kleptocrats looking to enrich themselves through their position and status. Corrosive capital — financing, whether state or private, that lacks transparency or accountability and is not market driven — can frequently be used by kleptocrats to fund projects that are political in nature — either directly benefiting themselves or improving their own political brand. Financing decisions that are influenced by kleptocratic interests can pose strategic risk to recipient countries by raising national security concerns.

The only way for countries to protect themselves from the corrosive effects of this badly needed capital is to create an investment environment that protects the country from foreign influence and self-serving kleptocrats. Transparency and clear investment rules form the foundation of an environment that harnesses the constructive power of foreign investment, where countries maintain their sovereignty, develop economically, and support flourishing democracies. Sensible regulation, evenly applied, creates clear investment rules that govern flows of constructive capital. For example, Chile receives large amounts of foreign investment with limited negative consequences. In 2021, Chile received 12,719 million USD in investments according to UNCTAD, second only to Brazil in the region, in an investment trend that spans decades. Because the government has regulations in line with international standards that are unbiasedly applied and transparent processes, the country boasts few recent large-scale corruption scandals. A law created in 2014 in response to procurement scandals is one of the regulations unique to Chile that sets it apart in the region. The lobbying registry law mandates that public employees detail the contents and participants of lobbying meetings. The application of this law allows civil society to access the lobby registers and closes spaces for "back-room deals."

Some of the policy solutions that create accountable investment environments are ones that revolve around transparency. A beneficial ownership transparency registry allows countries and the public to know who the real owners of a company are and mitigate national security or monopolization risks by including this consideration in their award process. While bad actors may use tools to obfuscate corrupt systems, investment screening processes can also play a similar role in requiring countries to conduct deeper analyses of the source of investment and ensure it aligns with international best practices and national regulations. It is important to pay attention to ensuring those investment screening processes are properly designed to ensure that they guard against kleptocratic practices rather than facilitate them. Transparent national regulation and processing surrounding public procurement processes, competitive contracting, feasibility studies, and labor stipulations all support investments that contribute to the development of the local economy and reduce opportunities for corrosive capital and kleptocratic practices.

One example of corrosive capital becoming embroiled with kleptocratic interests comes from Bolivia. Bolivian authorities unfairly favored a Chinese company with construction contracts. Individuals from the China Harbour Engineering Company Ltd. (CHEC), which was contracted to build seven highways in Bolivia, were caught paying off officials from the Administradora Boliviana de Carreteras (ABC) — the branch of the government's public works department in charge of highway construction and repair. CHEC paid over 2.5 million USD in bribes to ABC officials during the contract awarding process for a double-lane highway from Sucre to Yamparáez. This company has seven concurrent projects in the country and is known to engage kleptocratic officials who receive kickbacks and bribes while managing public funds. Because of the opaque investment system, the contracts were awarded to CHEC without proper oversight and kleptocratic individuals profited from their proximity to the contracting mechanism.

Additionally, the example of Gulnara Karimova, the daughter of independent Uzbekistan's first president further demonstrates the enabling role of poorly governed foreign capital for kleptocracy. Karimova leveraged her political ties to grant service licenses in Uzbekistan to telecommunications companies in exchange for monetary bribes. European telecommunications companies TeliaSonera, VimpelCom, and MTS were repeatedly coerced to submit bribes through license suspension and tax investigations. These kickbacks were then laundered through a web of shell corporations and charitable organizations. From 2006 to 2011, the telecom companies paid over one billion dollars in bribes and in doing so were pivotal in reinforcing corruption schemes in the country.

These Bolivian and Uzbek cases represent only some examples of how collusion between an authoritarian power and kleptocratic officials can misuse public resources. There is considerable evidence from around the world that China seeks commercial concessions, asset control, resource extraction and political leverage in emerging markets. China's role as the largest creditor in the global market means it holds notes for many emerging markets. This concentration of debt in the hands of an authoritarian government at the behest of kleptocrats in recipient countries can easily become corrosive capital when combined with the secrecy of China's loans

The importance of an empowered citizenry

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Kleptocracy and corruption undermine the basis of liberal democracy. Latin America is not immune to these effects, particularly when the economies of several countries are dependent on the presence of so-called corrosive capital. The effects of corrosive capital go beyond creating economic dependency and ultimately have direct influence on the fundamental rights and liberties of citizens.

Corrosive capital uses various means to infiltrate Latin American economies such as direct foreign investment, linked credits and foreign debt. The overwhelming presence of corrosive capital from Russia in Venezuela, or from China in Ecuador, are examples of these efforts. The resources afforded by corrosive capital are used to build great national projects that are later accused of overpricing, structural failure or corrupt practices that benefit government connections. Such examples are present in Bolivia, Peru, Nicaragua and Chile, to name a few. The rise and consolidation of authoritarianism and totalitarianism in several Latin American countries is connected to kleptocracy funded by corrosive capital.

Citizens have the opportunity to stop this negative phenomenon by preventing impunity. Beyond establishing public policies that promote transparency and integrity, we need civil society to play an active and responsible role in auditing investments. Only an empowered citizenry can prevent the degradation of democracy in the hands of corrupt powers.

Kleptocratic Trends in Asia

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Kleptocracy is a growing phenomenon deeply rooted in Asia. The recent Pandora Paper leak revealed that corrupt elites, private businesses and individuals with close proximity with political leaders have parked billions of their ill-gotten money in offshore tax havens in both democracies and authoritarian regimes. The Pandora Paper implicated companies and individuals from Malaysia, India, Cambodia, the Philippines, South Korea, and Qatar, to name a few, in cumulative illicit flows to the tune of US$ 32 trillion. While illicit flows and black money transactions by kleptocratic elites can be found in nearly every country in Asia, some regions like Central and West Asia have no competitors. Notably, the former Soviet republics from Central Asia have attracted global attention to their growing kleptocratic tendencies in recent years. For instance, the ruling elites in Kazakhstan have amassed massive sums from unscrupulous rents extracted from the country's export of gas and oil. Investigation found President Nursultan's son-in-law Timur Kulibayev was able to amass US$ 3 billion through these illegal deals. Similarly, Uzbekistan under Islam Karimov has turned into a kleptocratic enterprise.

Beyond Central Asia, kleptocratic behavior with regard to misuse of state-owned enterprises can be found in China, Indonesia, Thailand, Myanmar, Bangladesh, Nepal, Pakistan, Sri Lanka and Cambodia, among others. In recent years the launching of the Belt and Road Initiative (BRI) has involved massive and the pre-existing fiscal challenges of the countries to which it lends. From a geopolitical perspective, this type of lending also poses a clear threat to the competitive functioning of the global economy.

How to Fight a Kleptocrat: Investment Screening and Beneficial Ownership Transparency

Corrosive capital studies such as the Bolivian case outlined above point to the sometimes perverse influence that authoritarian powers like Russia and China can have in collusion with kleptocrats in developing countries. These relationships — which can involve financial transactions in the billions of US dollars — may pose strategic risks with geopolitical and national security ramifications. Financially responsible governments across the globe have expanded tools in recent years to review investments, safeguard strategic interests, enhance transparency over investment flows, and allow for economic exchange without compromising national security. These tools are aimed at the overarching goal of strengthening investment security, a key part of a country's wider economic security policy.

There is no blueprint for how to combat kleptocracy, nor is there a tried and true approach to safeguard democracies against backsliding or the erosion of norms. Notwithstanding, investment screening tools and beneficial ownership transparency — one slice of the transparency agenda in the field of anti-corruption work — can function as foundational building blocks to more effectively fight kleptocracy, counter illicit financial flows, identify money-laundering schemes and combat other major crimes that negatively impact societies in kleptocracies and beyond.

In 2016, the Australian Government drew international attention by blocking the sale of a 50.4% stake in Ausgrid, the country's biggest energy grid, to two Chinese companies on national security grounds. This decision by the Australian Treasurer is an example of what is called an investment review, security, or screening mechanism, a process by which governments review and approve or block potential foreign investments into their markets based on established criteria usually relating to national security and public order. More recent examples include the U.S. government's blocking of several Chinese firms, most notably Huawei, on national security grounds in 2021. Many of the world's most developed markets have used these tools for decades, but the Chinese expansion into Western markets raised additional security concerns thanks to additional layers of scrutiny.

As competition has intensified between the U.S. and authoritarian powers such as China and Russia, these authoritarian powers have increasingly sought to use investments as a tool to advance their anti-democratic aims and expand their influence. The U.S. government, European Union (EU), and the OECD have each championed screening mechanisms for investments involving critical technologies, infrastructure, and security interests.

However, much of the existing guidance provided by these governments and international organizations consists of highly technical advice on inflow of Chinese money into mega infrastructure projects across many continents, resulting in a growing body of evidence of illicit money and bribes used to secure deals from political regimes and officials. The most sensational case of kleptocracy, however, is Malaysia's 1MDB scandal involving former Prime Minister Najib Razak for which the Supreme Court sentenced him to 12 years imprisonment. There are several similar instances of high volume corruption and kleptocratic behavior of elites which have led to regime change and political disruptions. Even relatively better governed democracies such as South Korea and India have rising cases of the state-private sector nexus and large illicit flows to offshore tax havens.

In response, many Asian nations have enacted legal frameworks, as well as created anti-corruption bodies and regulatory mechanisms to check kleptocratic tendencies. After South Korea imprisoned former president Park Geun Hye for 20 years for corruption and misuse of power, the country established a stringent Ombudsman to monitor and prevent illicit flows. India, which experienced a series of corruption scandals in late 2000s, has amended its old laws and added a new law - The Black Money (Undisclosed Foreign Income and Assets) and Imposition of Tax Act in 2015 - to tackle the phenomenon. Unfortunately, there are very few examples of concrete measures within Asia towards reducing kleptocracy. Most countries in Asia, particularly the kleptocratic regimes in Central Asia, are largely run by autocrats and have not shown any seriousness to address this pervasive and deeply distorting problem.

investment screening mechanisms aimed at national governments, not businesses or civil society. Integrating business associations and civil society organizations as stakeholders in the development of investment screening standards will go a long way toward building best practices for investment security policies in emerging markets.

A central, verified and ideally open register (perhaps following the model of Open Ownership, an organization which collects public government registers into a single searchable database) with information about who owns and controls which significant assets in a given jurisdiction would enable domestic rule of law institutions to more effectively fulfill their role in identifying and combating crimes. In addition, a register could be used by the private sector, civil society and the public to better understand who benefits from economic transactions involving a given firm, company or trust. This is especially important if transactions involve Politically Exposed Persons (PEPs) and seemingly neutral political decisions or procurement processes that should benefit the public but in reality, benefit a small suite of ultimate owners.

Furthermore, existing guidance fails to account for governance shortcomings that can pose significant strategic risk to democracy and economic security in emerging markets, such as damage to the investment climate, and the risk of local elites using these mechanisms as an exclusionary tool for their own interests. While investment screening mechanisms can be a useful tool in mitigating corrosive capital, it is critical that policymakers understand these risks and work together with stakeholders in the private sector and civil society to address them. To best enable and facilitate this collaboration, the private sector and civil society must be made aware of best practices in investment screening from international models.

Identifying and then safeguarding against the concentration of economic and political power in the hands of few is a key steppingstone in countering kleptocratic tendencies which beneficial owner transparency (BOT) reforms can encourage. BOT reforms may also be helpful in identifying kleptocrats' possessions, hidden and stashed in layered companies around the globe — as is the case in the ongoing conflict with Russia's war against the Ukraine — to enable the prosecution and seizing of such assets. Ultimately, BOT can play a critical role in aiding societies' push back against kleptocratic tendencies and other forms of illicit market power concentration that impede societies' ability to prosper according to standards of democratic development.

Empowered by greater understanding about these mechanisms, the private sector and civil society will be able to engage in the process of dialogue with the government, help formulate screening legislation, and be invited to play a consultative role in implementing the screening process. Even the most advanced investment review processes, often covering wide-ranging sectors, are done primarily behind closed doors. Well informed non-governmental stakeholders who can participate in inclusive consultation processes, petition reviews, share information, voluntarily comply, contribute to reviews, and provide support, are key to the effectiveness, legitimacy, and thereby success of this process. Similarly, a register of beneficial owners is a necessary step in creating the openness and resources necessary to conduct effective investment screenings.

In tandem with broader economic security, anti-coercion policy, and sanctions compliance, investment review processes hold the potential to safeguard free trade while blocking corrosive capital entering democracies. If crafted through inclusive and transparent processes with expert technical input, they can serve as a part of a much-needed alternative to the decoupling of global economies. Yet, as these policies move beyond advanced economies, tailored guidance and open dialogue are needed to ensure effective policy, guard against corruption, and prevent improper implementation which could pose a threat to the proper functioning of democracy.

Summary Recommendations to Curtail Kleptocracy

This paper has aimed to highlight some key characteristics of kleptocracy in the world and to underscore some of the perverse influence it has on the world's economies and on the institutions of democracy. While, as mentioned at the beginning of the paper, there is no blueprint for addressing the problem of kleptocracy, there are a set of best practices and systems of governance that can be put into place to effectively fight it.

Transparency: Bringing the behavior of kleptocrats to light. There are sets of instruments that can be used to make the activities and investments of kleptocrats more transparent in order to curb their actions. These include the Magnitsky Act, monitoring of capital flows across borders and identifying irregular transactions, etc. Investigative journalists and civil society organizations can bolster the work of committed governments in this regard. In addition, implementation of beneficial ownership transparency systems would significantly enhance efforts to root out kleptocratic activities.

Accountability: Institute greater transparency in the management of institutions of the state. In particular, a priority needs to be placed on how SOEs are governed and managed. They should adhere to internationally accepted principles of governance (such as the OECD SOE governance standards). In addition, government procurement systems must be made more transparent and competitive. Government authorities should work with the institutional private sector to solicit their recommendations on how to reform procurement practices.

Innovation: Implement investment screening mechanisms to manage risks inherent in investments by foreign actors. In order to ensure that capital investments by foreign entities—in particular from non-democratic countries—do not invigorate kleptocrats in recipient countries, investment screening mechanisms should be implemented. It is important that these mechanisms are carefully constructed so as to not favor the enterprises owned by kleptocrats but serve to open the competitive playing field and make the decision-making process more transparent.

Much more can be done to curb kleptocracy but the implementation of these three recommendations would go a long way toward improving its insidious effects. Political leaders should seek alliances with the private sector and international organizations to institute these reforms in order to ensure that public funds are spent constructively and accountably, shielding democratic institutions (independence of powers, political parties and campaigns) from the influence of dirty money.

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