

3 anti-corruption takeaways from the war in Ukraine



Anti-corruption is intimately intertwined with global security and democratic prosperity.

Image: Unsplash/Paul Fiedler

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Delia Ferreira Rubio

Chair, Transparency International

Nicola Bonucci

Partner, Investigations & Compliance, Paul, Hastings, Janofsky and Walker

Rachel Davidson Raycraft

Judicial Law Clerk, US District Courts

- The war in Ukraine has shown how financial markets and anti-corruption are intertwined with global security and democratic prosperity.
- Western countries imposed sanctions on Russia in response, but their markets have been key in moving the same assets these sanctions target.
- Anti-corruption efforts worldwide need to be taken more seriously at home, abroad and across the public-private divide.

The war in Ukraine makes painfully clear that financial markets and anti-corruption are intimately intertwined with global security and democratic prosperity.

For weeks, anti-corruption experts have been discussing the various ways that long-standing regional corruption may be fuelling and perpetuating the current conflict. Meanwhile, Western democracies have responded to the war in Ukraine with ever-growing sanctions against the Russian economy and political elite.

As previously exposed by the “Panama” and “Pandora” papers, however, corruption is not only a regional problem. Rather, the international financial system, and Western markets in particular, have played an essential role in moving, hiding and investing the very same assets that Western sanctions are presently after.

According to these investigative reports, many of the targeted Russian oligarchs use networks of family members, shell companies, offshore finance, blind trusts, luxury goods and real estate in the world’s most expensive markets to invest and conceal massive sums of money.

These offshore and opaque financial instruments may also dampen the impact of Western sanctions by rendering certain assets untraceable and unaffected by the devaluation of the ruble.

Against this backdrop, the initial months of the war in Ukraine provide three powerful lessons about anti-corruption and illicit finance:

1. Anti-corruption is a linchpin of global security and democratic prosperity for all

Corruption and illicit finance have been thrust into the spotlight by the war in Ukraine. However, the corruption-laden context of the present conflict is not unique. Corruption, conflict and instability have long been, and will likely always be, profoundly intertwined.

A 2014 Carnegie Endowment report compared well-known indices tracking corruption against those tracking violence and instability and noted “a visible correspondence: countries characterized by severe corruption also tend to suffer conflict or state failure”.

Corruption erodes public services, distorts political priorities, exacerbates inequality and insulates political leaders from the will of the people. It can also fuel authoritarian violence and civil unrest.

Recognizing the close relationship between corruption and conflict, UN Sustainable Development Goal (SDG) 16 – Peace, Justice and Strong Institutions is grounded in the principles of anti-corruption, including targets such as reducing illicit finance, corruption and bribery; and developing effective, accountable and transparent institutions at all levels. Unfortunately, a recent OECD report shows that progress toward achieving this SDG is slow and suffering from nonexistent data and assessment.

The connection between anti-corruption and global security has largely been underappreciated until recently. In June 2021, the White House issued a memo establishing the fight against corruption as a core US national security interest. This was followed in December 2021 by the first US Strategy on Countering Corruption and the first Summit for Democracy, placing anti-corruption as one of the pillars of democratic prosperity. The war in Ukraine powerfully exemplifies the need for more such initiatives at the national and international level.

The ongoing conflict also makes clear that the anti-corruption efforts of powerful Western nations should not focus exclusively on corruption in developing or conflict-ridden countries. Rather, the role that Western markets, tax havens and international financial networks play in facilitating illicit finance warrants introspection and domestic regulatory reform. It should also spark a sense of urgency regarding international anti-corruption initiatives within and across the public and private sectors.

2. The role of private sector gatekeepers in tackling corruption is more vital than ever

Accountants, bankers, financial service providers, lawyers, real estate agents, luxury goods dealers and other private sector intermediaries, or “gatekeepers”, facilitate international financial flows across our globalized markets. They also play an indispensable role in the enforcement and realization of laws and regulations that target illicit finance.

The war in Ukraine has magnified calls for greater private sector participation in the fight against illicit financial flows. It is now well documented that private sector intermediaries help Russian oligarchs funnel billions of dollars in assets through major Western markets and tax havens.

Many now realize that by controlling, distributing and managing wealth, gatekeepers control, distribute and manage global power – and, in effect, global security.

The EU, the UK and the US have all recently introduced legislation that would increase regulation and reporting requirements for at least some gatekeepers. However, given the comparatively slow pace of legislative processes, much of the responsibility to respond to the instant crisis falls on gatekeepers themselves.

Fortunately, a variety of resources can help guide gatekeepers in the fight against illicit finance. Although no industry is perfect, highly regulated sectors, like financial institutions, have developed best practices around client due diligence and red flags that could be adapted to other gatekeeping industries.

Furthermore, the World Economic Forum's Global Future Council on Transparency and Anti-Corruption last year developed a value-based Unifying Framework regarding the role and responsibilities of gatekeepers in the fight against illicit financial flows. While just one piece in the anti-corruption puzzle, gatekeepers should be doing their part to defend democracy and rule of law.

3. The risk of corruption and illicit finance rises in a sanctions-heavy environment

The need for robust anti-corruption measures only increases in a sanctions-heavy environment. The Oil-for-Food scandal in Iraq in the late 1990s/early 2000s is a clear reminder of the risks. Since the invasion in late February, the Russian economy and political elites have been hit by a barrage of sanctions from various countries. Although sanctions can be a powerful tool for altering behaviour and deterring violence, they can also significantly increase corruption and illicit finance in the targeted region, as studies on both US and UN sanctions have found.

Affected companies and powerful individuals will look for ways to evade sanctions. The avenues through which money is laundered and taxes are evaded are some of the same channels through which sanctions will be avoided. Such countermeasures can include smuggling, setting up shell companies, money laundering and self-dealing, all of which may deepen corruption and allow sanctioned elites to increase their control over the economy.

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These perverse, secondary effects of sanctions have historically generated relatively little attention. However, public and private sector actors would be well served by having them on their radars in this sanctions-heavy environment.

The war in Ukraine and the resulting economic fallout should add significant weight and urgency to anti-corruption efforts worldwide. In order to deploy effective sanctions, put an end to the ongoing violence and prevent similar acts of aggression in the future, we must take anti-corruption more seriously at home, abroad and across the public-private divide.

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Written by

[Delia Ferreira Rubio](#), Chair, Transparency International

[Nicola Bonucci](#), Partner, Investigations & Compliance, Paul, Hastings, Janofsky and Walker

[Rachel Davidson Raycraft](#), Judicial Law Clerk, US District Courts

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