



Royal United Services Institute  
for Defence and Security Studies

POLICY BRIEF

# The Illicit Finance Threat to Democracies

## A Transatlantic Response

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## EXECUTIVE SUMMARY

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In July 2021, RUSI established the Taskforce on a Transatlantic Response to Illicit Finance (TARIF). TARIF set out to explore the rising acknowledgement in US and UK governments that illicit finance, generated by corruption and kleptocracy, is not only having a negative impact on their own societies, security and financial integrity, but also on that of the wider democratic world.<sup>1</sup> The Russian invasion of Ukraine and subsequent economic response emphasised the need to restrict the financial influence of corrupt actors and ensure that the US and the UK are hostile environments for illicit finance.<sup>2</sup>

TARIF explored the domestic vulnerabilities of both countries to illicit finance, their responses to the international element of illicit finance and how 'active financial measures' undermine democratic societies. TARIF developed a set of principles and actions that US and UK governments must implement to better detect and disrupt illicit finance linked to corruption and kleptocracy.

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1. White House, 'United States Strategy on Countering Corruption', December 2021, <<https://www.whitehouse.gov/wp-content/uploads/2021/12/United-States-Strategy-on-Countering-Corruption.pdf>>, accessed 18 July 2022; HM Government, *Global Britain in a Competitive Age: The Integrated Review of Security, Defence, Development and Foreign Policy* (London: The Stationery Office, 2021).
  2. HM Government, 'Government Takes Landmark Steps to Further Clamp Down on Dirty Money', press release, 28 February 2022, <<https://www.gov.uk/government/news/government-takes-landmark-steps-to-further-clamp-down-on-dirty-money>>, accessed 18 July 2022; White House, 'Fact Sheet: President Biden's Comprehensive Proposal to Hold Russian Oligarchs and Elites Accountable', press release, 28 April 2022, <<https://www.whitehouse.gov/briefing-room/statements-releases/2022/04/28/fact-sheet-president-bidens-comprehensive-proposal-to-hold-russian-oligarchs-accountable>>, accessed 18 July 2022; Foreign Affairs Committee, 'Foreign Affairs Committee Launches "Dirty Money" Inquiry', 1 February 2022, <<https://committees.parliament.uk/committee/78/foreign-affairs-committee/news/160652/foreign-affairs-committee-launches-dirty-money-inquiry/>>, accessed 18 July 2022.

The proposed actions, summarised below, are grounded in three underlying principles which should be the foundation of any future transatlantic response to illicit finance: honesty; cross-border collaboration; and ambition.

- **Come clean.** The US and the UK must be honest about the deficiencies in their responses to illicit finance and how these have enabled wider international illicit finance.
- **Lead by example.** The US and the UK must set ambitious benchmarks for key pillars of the global anti-financial crime architecture. This must start with high-quality, transparent ultimate beneficial owner (UBO) registers and then focus on strengthening the response of designated non-financial businesses and professions (DNFBPs, often referred to as 'enablers').
- **Elevate information sharing.** The US and the UK must establish a joint and permanent public-private partnership (PPP) to share information on corruption and kleptocracy in addition to strengthening domestic PPPs.
- **Enable new technology.** The response to illicit finance can be accelerated by the wider adoption of new technologies to enrich the understanding of threats.
- **Invigorate asset recovery and return.** The international system for asset recovery and return urgently needs to be streamlined and investment sustained to recover the proceeds of corruption and kleptocracy.
- **Embolden and protect civil society.** Increase the capacity of and protection for civil society, which plays a vital role in identifying and exposing illicit finance.
- **Strengthen deterrent measures.** Lessons must be learned from the Russia experience on the benefits of coordinated sanctions. Moreover, other deterrent measures must be developed to make it more difficult to profit from corruption and kleptocracy.

In applying these principles and actions, the US and the UK will increase their resilience against the 'dirty money' that has taken root in their societies and defend against that which is to come. Many of the recommendations within this Policy Brief are not new, but rather the result of ongoing conversations on the shortcomings that have been present for decades and are yet to be properly fixed.

## INTRODUCTION

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Russia's invasion of Ukraine has reinvigorated a conversation on how illicit finance can be used to undermine democratic societies. Whether this is funding corruption to erode the integrity of state institutions to make societies weaker in the face of an invasion, or the more subtle use of targeted investments to skew internal markets, illicit finance can be a powerful tool wielded by authoritarian states and their associates. Thus, understanding how illicit finance can be used to undermine democratic societies should be an increasingly important dimension of both operational and policy-related transatlantic security.<sup>3</sup>

In the UK, the Integrated Review positioned illicit finance as an economic statecraft tool used to undermine the country's economic and security interests, good governance and global reputation.<sup>4</sup> In the US, the Strategy on Countering Corruption<sup>5</sup> recognised that legal and regulatory deficiencies in the developed world help autocratic leaders pursue their anti-democratic interests domestically and negatively impact welfare and development in origin countries.<sup>6</sup>

This Policy Brief explores how the US and the UK are exposed to and should respond to the illicit finance that undermines democratic societies. These two countries – as global leaders, financial hubs and favoured destinations of illicit financial flows – are in a unique position to take on international leadership in responding to this threat.<sup>7</sup> Drawing on conversations held as part of TARIF, this Policy Brief examines how the UK and the US should strengthen their domestic defences and coordinate internationally to tackle illicit finance linked to corruption and kleptocracy. In working together, both

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3. See, for example, Peter Reuter (ed.), *Draining Development?: Controlling Flows of Illicit Funds from Developing Countries* (Washington, DC: World Bank Publications, 2012); World Bank, 'Combating Corruption', <<https://www.worldbank.org/en/topic/governance/brief/anti-corruption>>, accessed 20 July 2022; Marie Chêne, 'The Impact of Corruption on Growth and Inequality', Transparency International, 15 March 2014.
  4. HM Government, *Global Britain in a Competitive Age*, p. 29.
  5. White House, 'United States Strategy on Countering Corruption'.
  6. For instance, corruption in the healthcare sector in Ukraine was found to be so widespread that it prevented ordinary citizens receiving the care they needed. See Judy Twigg, 'Ukraine's Healthcare System Is in Critical Condition Again', Atlantic Council, 21 July 2020. Similarly, nearly 10% of global GDP is estimated to be held offshore in tax havens or shell companies, including 50% of Russian wealth and 33% of African wealth. See Gabriel Zucman, *The Hidden Wealth of Nations* (Chicago, IL: University of Chicago Press, 2015).
  7. For a discussion of how the US and UK financial services sectors have enabled transnational corruption, see Oliver Bullough, *Butler to the World: How Britain Became the Servant of Tycoons, Tax Dodgers, Kleptocrats and Criminals* (London: Profile Books, 2022); Steve Goodrich (ed.), 'At Your Service', Transparency International, October 2019; Igor Logvinenko and Casey Michel, 'Global Kleptocracy as an American Problem', *Just Security*, 4 December 2020.

countries can also achieve a secondary aim of setting a new international standard, displaying to third countries what can be achieved when such principles are utilised to guide the response to illicit finance.

## TARIF BACKGROUND

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This Policy Brief draws its recommendations from TARIF, which was established in July 2021 by the Centre for Financial Crime and Security Studies at RUSI in response to the growing acknowledgement of the illicit finance threats posed by kleptocratic and corrupt actors to democratic societies, specifically those of the US and the UK. The taskforce convened 48 illicit finance experts and former policymakers from a broad range of civil society organisations, think tanks, academic institutions and private sector companies in the US and the UK.<sup>8</sup> TARIF met in July 2021, November 2021 and March 2022, each time focusing on a different vector of illicit finance. While the first two meetings looked at domestic vulnerabilities and shortcomings in a coordinated international response respectively, the third meeting was heavily influenced by the Russian invasion of Ukraine and considered how illicit finance can be used to undermine democratic societies. For the purpose of TARIF and this Policy Brief, this malign use of illicit finance was referred to as ‘active financial measures’.<sup>9</sup> While it requires further study, this paper uses this working definition: the strategic use of financial tools or resources to advance a state’s interests, which are deployed by states or individuals associated with (or who have profited from) corrupt or kleptocratic regimes in order to gain a foothold in democratic societies. For example, the financing of strategic lawsuits against public participation.

Each TARIF meeting resulted in policy recommendations to foster a coordinated response to the illicit finance problem in the US and the UK. The policy recommendations in this Policy Brief result from those earlier recommendations and do not represent the position of TARIF members but rather the authors’ conclusions drawn from conversations with them. Prior to launching TARIF, a literature review of relevant material was carried out, which served as a foundation for the three meetings and also informed this Policy Brief.

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8. RUSI, ‘New RUSI Taskforce on a Transatlantic Response to Illicit Finance (TARIF)’, 7 June 2021, <<https://rusi.org/news-and-comment/rusi-news/new-rusi-taskforce-trans-atlantic-response-illicit-finance-tarif>>, accessed 20 July 2022.
  9. The term reflects the Soviet concept of ‘active measures’, a form of political warfare using disinformation, deception, destabilisation and subversion. See Isabella Chase, Maria Nizzero and Sarah Manney, ‘Active Financial Measures: The Unseen Threat to Democracy’, *RUSI Commentary*, 19 April 2022.

## PRINCIPLES

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The following principles and actions are designed to tackle the vectors illicit finance uses to corrode democratic societies, such as exploiting domestic vulnerabilities, historic lacklustre international collaboration and the longstanding tendency to turn a blind eye to dirty money.

Truly effective measures must withstand ever-changing political agendas and administrations. The proposed TARIF actions equip leaders with the tools to combat hostile threats. However, they must be grounded on three underlying principles:

- **Honesty.** Promises of ‘silver bullet’ solutions to illicit finance will remain nothing more than empty rhetoric unless the US and the UK are able to truly come clean about the extent and complexity of the threat they are facing, the inadequacy of their responses to date and what is possible in the future.
- **Cross-border collaboration.** Joint efforts must be continually strengthened to ensure effective coordinated approaches. Current and future threats do not stop at the US or UK border – they are transnational in nature and thus any solution must also extend beyond national boundaries.
- **Ambition.** The US and the UK must remain ambitious in what they seek to achieve. The status quo must be broken with ambitious steps to reassert both countries’ stances on illicit finance. For this ambition to be sustainable it must be supported by a resilient approach to resourcing. Reforms must withstand administration changes, continual reprioritisation of national needs and objectives, and ebbing financial commitments. Ongoing learnings must be embedded into processes to support sustainable action.

Grounding the TARIF actions on these three principles establishes a foundation for sustainable success. It paves a strong path towards a step-change in countering illicit finance and ensures the US and the UK are resilient to broader economic crime, supporting both domestic and international responses.

## ACTIONS

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Each action evaluates a key problem, proposes a strategic response and a set of activities to operationalise this response. These actions have been constructed primarily with the US and the UK in mind but can be applied by any country that wishes to defend against and deter illicit finance.

### COME CLEAN

The US and the UK already have several tools at their disposal to fight illicit finance. Many of these tools have been reaffirmed by recent commitments at the Summit for Democracy and in respective anti-corruption and economic

crime strategies.<sup>10</sup> However, the continued flow of ill-gotten gains through American and British financial systems suggests that these tools are either not being used to their fullest or are not effective. Thus, the US and the UK must be honest about their own deficiencies, the harm they have caused and the role they continue to play in enabling international illicit finance. In jointly and thoroughly assessing existing tools, prior commitments and evolving threats, the two countries can set a clear and ambitious direction for where to go next.

- **Publicly recognise the role their states have played in enabling illicit finance.** This should include statements at the highest level that acknowledge the scale of the threat and the challenges the country has faced in addressing it, set clear targets for success and commit sufficient resources to make this possible. The UK must at least match high-level statements from the US on tackling this problem and ensure that a new anti-corruption Champion is appointed immediately in the next government. This anti-corruption Champion should seek to work closely with the newly appointed US Corruption Commissioner.
- **Map the legal and regulatory powers already in place to tackle illicit finance and determine barriers to effectiveness.** The Biden administration's National Security Study Memorandum of June 2021, which commissioned an interagency review of anti-corruption tools,<sup>11</sup> is a strong start and should be monitored and refreshed regularly. The UK's Economic Crime Plan 2.0 must also take the opportunity to review the effectiveness of existing powers and highlight where reforms are needed domestically and for international work.<sup>12</sup> Both countries should continue to issue strong statements on their commitment to and progress on maximising their effective use of all available tools.
- **Map the commitments made by the US and the UK domestically and in international forums.** Commitments to combat corruption and illicit finance made in forums such as the Financial Action Task Force (FATF), G7, G20 and Summit for Democracy, should be tracked and reported on annually to ensure that important reforms, such as beneficial ownership registers, do not falter on implementation.<sup>13</sup>

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10. The Summit for Democracy was launched in December 2021. See US State Department, 'Written Commitments', <<https://www.state.gov/written-commitments-the-summit-for-democracy/>>, accessed 19 July 2022.
11. White House, 'Memorandum on Establishing the Fight Against Corruption as a Core United States National Security Interest', 3 June 2021, <<https://www.whitehouse.gov/briefing-room/presidential-actions/2021/06/03/memorandum-on-establishing-the-fight-against-corruption-as-a-core-united-states-national-security-interest/>>, accessed 19 July 2022.
12. The Economic Crime (Transparency and Enforcement) Act 2022, introduced in the House of Commons in March 2022, seeks to update the expiring Economic Crime Plan (2019–22) with new measures to tackle illicit finance. See House of Commons Library, 'Economic Crime (Transparency and Enforcement) Act 2022', 23 March 2022.
13. Building on work such as Accountability Lab's G20 Anti-Corruption Commitments Tracker, see <<https://accountabilitylab.org/g20tracker/>>, accessed 19 July 2022.

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## LEAD BY EXAMPLE

The US and the UK should set ambitious benchmarks on the key pillars of the global anti-financial crime architecture as laid out in the FATF Ministers' Declaration of April 2022.<sup>14</sup> To start, both countries should focus on leading on UBO transparency. Currently, the lack of an accurate and accessible register of the true owners of companies allows actors to hide behind a mask of anonymity. Decisive leadership by the US and the UK can help overcome political and technical hurdles and provide business, civil society and law enforcement with the missing links to fight financial crime.

Leading by example, however, must extend beyond high-quality UBO registers. The next area of focus must be on the supervision of DNFBPs. Often referred to as 'gatekeepers' or 'enablers', these sectors are poorly supervised internationally – the US and the UK have a ripe opportunity to create best practices in supervising these sectors, which can be shared.<sup>15</sup>

- **Establish best-in-class UBO registers that are accurate and transparent.** In particular, the UK should enhance verification of its register, initiate investigations into known weaknesses and accelerate timelines for those of overseas territories. In addition, the UK should ensure the robust implementation of the Register of Overseas Entities and consider reporting on trends within this register. The US should make its UBO register publicly accessible, allowing for use and verification by third parties, and consider whether pursuing its own register of overseas ownership would be beneficial.<sup>16</sup>
- **Create sustainable resourcing models for regulators, supervisors and law enforcement to monitor, verify and enforce UBO requirements.** Sifting through large volumes of data for potential inaccuracies will demand investments in technology, skills and organisational capabilities. Law enforcement should be equipped to anticipate and pre-empt new forms of abuse, such as dividing ownership into ever-smaller shares or hiring front-persons. The US and the UK must also anticipate displacement risks and establish similar registers for UBOs of trusts.
- **Share learnings with third countries.** The US and the UK can provide learnings to international partner countries who wish to emulate

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14. FATF, 'Declaration of the Ministers of the Financial Action Task Force', 21 April 2022, <<https://www.fatf-gafi.org/media/fatf/documents/FATF-Ministerial-Declaration-April-2022.pdf>>, accessed 19 July 2022.

15. See, for example, Frank Vogl, *The Enablers: How the West Supports Kleptocrats and Corruption-Endangering Our Democracy* (Lanham, MD: Rowman & Littlefield, 2021); John Heathershaw et al., 'The UK's Kleptocracy Problem', Chatham House, December 2021.

16. For a full review of best practice principles, see Open Ownership, 'Principles for Effective Beneficial Ownership Disclosure', July 2021, <<https://www.openownership.org/en/principles/#:~:text=The%20OO%20Principles%20provide%20a,applications%20of%20beneficial%20ownership%20data>>, accessed 19 July 2022.



these registers and technical support to help lower costs and increase innovations in UBO registers. In doing so, the US and the UK should acknowledge that the FATF standards should be seen not as the gold standard but as the lowest standard for an anti-financial crime framework. With the support of the US and the UK, third countries should work to adopt and adapt these standards to their own illicit finance contexts so that controls can be as effective as possible.

- **To tackle the threats and vulnerabilities of ‘enablers’, the US and the UK should be ambitious.** First, supervision loopholes must be closed and enforcement against non-compliant persons must be prioritised and publicised. Next, the US and the UK should produce better intelligence and typologies on how ‘enablers’ can facilitate illicit finance linked to kleptocrats and corrupt actors.

## ELEVATE INFORMATION SHARING

The private and public sectors face challenges understanding how kleptocrats exploit the financial systems of democratic societies. This lack of understanding creates a vulnerability that can be exploited by malign actors to move and use dirty money either for pleasure or to undermine democratic societies.

To overcome this vulnerability, more information must be shared domestically and internationally so that there is a better understanding of how kleptocrats and corrupt individuals exploit weaknesses in the financial system.<sup>17</sup> In elevating and expanding the information-sharing mechanisms that have already been established, the US and the UK will break down the information silos which have created a fragmented view of illicit finance, often favouring the largest actors and excluding smaller and arguably more vulnerable ones.

- **Establish a US-UK PPP.** The PPP could share suspicious transaction data between banks and the government on money-laundering threats linked to corruption and kleptocracy. As a pilot, this PPP should explore information sharing on enablers, especially accountants and lawyers, connected with transatlantic illicit finance, to better understand this threat and how a more targeted response could be defined. Where possible, expanding PPPs to include intelligence services who could share information on the use of active financial measures would be beneficial to understanding how corrupt actors exploit democratic societies for personal gain. For PPPs to be effective, they must be well resourced and funding must be committed to ensure its sustainability.

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17. The US Strategy on Countering Corruption includes several mentions of greater public-private cooperation, including the \$15.7-million USAID-led ‘Combating Transnational Corruption Grand Challenge’ with businesses, technologists, philanthropies and other actors and the \$6.5-million State Department ‘Global Initiative to Galvanize the Private Sector as Partners in Combatting Corruption’. See White House, ‘United States Strategy on Countering Corruption’.

The US and the UK should work with Five Eyes and EU allies to build on information-sharing pilots

- **More information based on operational intelligence and typologies of corruption must be shared within current PPPs and more broadly with the regulated sector.**<sup>18</sup> Outside media reporting and alerts issued by the US or UK governments, too little information on corruption has been consistently shared with the broader private sector to be able to reliably identify money linked to it. Supervisors outside the financial sector should circulate threat alerts of how these activities can manifest in their sector.<sup>19</sup> More broadly, countries should consider whether their PPPs include all the necessary stakeholders, as membership of these groups is often predominantly made up of large financial institutions at the cost of newer or smaller firms.
- **The Common Reporting Standard could more deeply benefit financial investigations in the private sector and civil society.** The Common Reporting Standard – an important tool used by the public sector to combat tax evasion around the world – could also be used to combat illicit finance if its data was analysed to provide insights on corruption and kleptocracy, which could be shared in an anonymised fashion.
- **Information-sharing initiatives must extend to all trusted partners.** The US and the UK should work with Five Eyes and EU allies to build on information-sharing pilots such as the FIU Information Sharing Initiative on Russia and the Russian Elites, Proxies and Oligarchs Taskforce to consider how these can be made permanent.<sup>20</sup> The UK should also consider opening up its Overseas Territories Exchange of Notes company registry enquiry mechanism to close allies and provide the necessary additional resources to support an increase in enquiries.
- **There are several international forums which the US and the UK can learn from and continue to support.** For example, the US and the UK should continue their support of the Egmont Group

18. For example, the UK recently issued National Crime Agency (NCA) Red Alert. See NCA, 'Financial Sanctions Evasion Typologies: Russian Elites and Enablers', July 2022, <<https://nationalcrimeagency.gov.uk/who-we-are/publications/605-necc-financial-sanctions-evasion-russian-elites-and-enablers/file>>, accessed 20 July 2022.

19. The UK's National Economic Crime Centre (NECC) and Joint Money Laundering Intelligence Taskforce (JMLIT) are strong starting points for public-private cooperation and two-way intelligence sharing, but could be further targeted towards corruption to ensure adequate consideration and awareness. See NCA, 'National Economic Crime Centre', <<https://www.nationalcrimeagency.gov.uk/what-we-do/national-economic-crime-centre>>, accessed 20 July 2022.

20. HM Government, 'Russian Elites, Proxies and Oligarchs Task Force: Ministerial Joint Statement', 17 March 2022, <<https://www.gov.uk/government/publications/russian-elites-proxies-and-oligarchs-task-force-ministerial-joint-statement>>, accessed 20 July 2022. A subsequent update on the progress of the Russian Elites, Proxies and Oligarchs Taskforce can be found at HM Government, 'Russian Elites, Proxies, and Oligarchs Task Force Joint Statement', 29 June 2022, <<https://www.gov.uk/government/publications/russian-elites-proxies-and-oligarchs-task-force-joint-statement-2>>, accessed 20 July 2022.

and consider establishing a specific working group within it on illicit finance linked to kleptocracy and corruption.

- **Expand partnerships.** The US and the UK should work with other major financial hubs, building on initiatives such as the UK-UAE illicit finance partnership to facilitate information sharing on money laundering linked to kleptocracy and consider establishing similar initiatives with other significant financial centres.<sup>21</sup>

## ENABLE NEW TECHNOLOGY

Identifying and disrupting illicit finance connected to corruption and kleptocracy requires the use of technology. Technology is essential for processing the huge amounts of data relevant to this threat and technology providers, who are increasingly also providers of financial services, should be critical partners in disrupting it. Although considerable progress has been made in recent years on the use of new technology in compliance, restrictions, whether real or imagined, persist. Within the public sector, there is a capacity gap which struggles to keep up with the newest technologies, the risks they pose and the benefits they hold.

The US and the UK must be at the forefront of using new technologies to counter threats by using data to effectively map the threat landscape. To do so, policymakers must capitalise on work in this area by the FATF and take it further, using PPPs and committing to upskilling the necessary stakeholders as a matter of urgency.<sup>22</sup>

- **Cement the FATF Suggested Actions to Support the Use of New Technologies for AML/CFT in policymaking and produce a report on how these can be evidenced in policymaking.**<sup>23</sup> This must include clarifying positions on the use of new technology in compliance by producing national guidance on the topic. It should also include clarification on data privacy concerns so that the use of new technology in compliance does not undermine democratic values.
- **Establish a Public-Private Transatlantic Technology Working Group on Combating Illicit Finance.** This would ensure that policymakers engage with new forms of financial services and compliance technology. The aim of this group should be to share insights on how the public and private sectors operate, build

21. See Tom Keatinge, 'The UK Must Urgently Ratchet up its Sanctions Pressure on Russia', *Financial Times*, 28 April 2022.

22. In 2017, the FATF agreed on the San José Principles on the responsible use of new technologies. In 2021, these were updated with suggested actions to support the use of technology in AML/CTF. These suggested actions outlined next steps on how to support the new use of technology, but it is unclear whether these are being pursued.

23. FATF, 'Suggested Actions to Support the Use of New Technologies for AML/CFT', <<https://www.fatf-gafi.org/media/fatf/documents/reports/Suggested-actions-New-Technologies-AML-CFT.pdf>>, accessed 20 July 2022.

trust between new entrants and the public sector, and establish relationships which would allow both sides to more rapidly overcome future challenges in the new technology space, especially as relates to cryptocurrencies, which moves faster than traditional regulatory cycles. Here, it is especially important to educate new entrants on the national security dimension of financial crime and illicit finance. Any group must also have a sub-focus on data privacy and protecting other democratic freedoms.<sup>24</sup> This group should build on the outcomes of the US–UK Prize Challenge to Accelerate Development and Adoptions of Privacy Enhancing Technologies.<sup>25</sup>

- **Commit to increasing the digital skills of public sector stakeholders in regulatory, supervisory and law enforcement positions.** This will ensure they keep up with technological change. Consider how secondments could be used to build relationships between the public and private sectors. Invest in national data analysis capabilities within the FIUs and in wider law enforcement.

## INVIGORATE ASSET RECOVERY AND RETURN

Asset recovery is a core pillar in law enforcement efforts related to all proceeds-generating crimes. Not only does recovering assets help deter financial crime by discouraging the profit motive, but it is also a crucial element of global justice. However, in corruption cases or other complex economic crime cases, only a tiny share of corrupt funds is recovered, let alone returned,<sup>26</sup> due to lack of tangible evidence or technical knowledge, in origin and destination countries.

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24. This could build on or model the ‘Anti-Corruption Solutions Emerging Technology platform’ and the ‘International Grand Challenges for Democracy Affirming Technologies’ proposed in the US Strategy for Countering Corruption to mobilise innovation for fighting illicit finance. See White House, ‘United States Strategy on Countering Corruption’. Similarly, the UK has committed to ‘develop our UK–US partnerships in cyber, digital and technology’ – this could be expanded to include a focus on combating corruption. See HM Government, ‘UK Support to Summit for Democracy’, 16 February 2022, <<https://www.gov.uk/government/publications/uk-support-to-summit-for-democracy>>, accessed 19 July 2022.
25. White House, ‘U.S. and U.K. Governments Collaborate on Prize Challenges to Accelerate Development and Adoption of Privacy-Enhancing Technologies’, press release, 13 June 2022, <<https://www.whitehouse.gov/ostp/news-updates/2022/06/13/u-s-and-uk-governments-collaborate-on-prize-challenges-to-accelerate-development-and-adoption-of-privacy-enhancing-technologies/>>, accessed 19 July 2022.
26. For example, asset recovery numbers have, at best, stagnated, and assets returned to victim countries represented approximately 1.6% of the total value of proceeds of crime restrained, seized or frozen. See HM Government, ‘Asset Recovery Statistical Bulletin: 2016–2021’, 9 September 2021, <<https://www.gov.uk/government/statistics/asset-recovery-statistical-bulletin-financial-years-ending-2016-to-2021>>, accessed 19 July 2022.

As favoured destination countries for illicit financial flows, the US and the UK must take on a leadership role in asset recovery efforts by streamlining asset recovery processes, expanding the recovery tools at their disposal, strengthening international cooperation and ensuring greater transparency surrounding data on asset recovery and return.

- **Map asset recovery mechanisms to determine barriers to effectiveness and expand the asset recovery toolkit.** This includes exploring mechanisms beyond criminal law, leveraging the potential of civil recovery tools, but also increasing resources to strengthen investigative and prosecutorial capacities.
- **Ensure high-level political commitment and resourcing for national and international asset recovery initiatives.** This includes supporting the work of the UN Convention against Corruption, and the role of the FATF in encouraging the adoption of good practice legislation, as called for in the FATF 2022 State of Effectiveness report.<sup>27</sup>
- **Strengthen international cooperation and increase the use of joint investigations.** This was suggested by the G20 Anti-Corruption Working Group 2020 Accountability Report.<sup>28</sup> This translates into linking US and UK asset recovery legal mechanisms, but also streamlining mutual legal assistance processes to respond more effectively to victim country requests and provide guidance that would help overcome language, legal and institutional barriers.
- **Publish data on mutual legal assistance, asset recovery and asset return.** Civil society organisations should be increasingly involved in monitoring asset return processes to ensure that returned assets are put to good use.<sup>29</sup>

## EMBOLDEN AND PROTECT CIVIL SOCIETY

Civil society plays a crucial role in helping to assess and expose the illicit finance threat stemming from kleptocratic and corrupt actors. Civil society actors, from journalists to whistle-blowers, act as a valuable watchdog to hold governments accountable. They also provide technical expertise and help co-create policy solutions to close vulnerabilities.

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27. FATF, 'Report on the State of Effectiveness and Compliance with the FATF Standards', April 2022.

28. G20, 'Anti-Corruption Working Group: 2020 Accountability Report', <[https://www.unodc.org/documents/corruption/G20-Anti-Corruption-Resources/Accountability-and-Monitoring-Reports/2020\\_Accountability\\_Report.pdf](https://www.unodc.org/documents/corruption/G20-Anti-Corruption-Resources/Accountability-and-Monitoring-Reports/2020_Accountability_Report.pdf)>, accessed 19 July 2022.

29. The UK's Framework for Transparent and Accountable Asset Return should be applauded for setting a common point of reference for asset return principles. However, greater involvement of civil society in a watchdog capacity could enhance implementation. See HM Government, 'Framework for Transparent and Accountable Asset Return', 13 January 2022, <<https://www.gov.uk/government/publications/framework-for-transparent-and-accountable-asset-return>>, accessed 19 July 2022.

However, civil society's work is seriously undermined by corrupt and kleptocratic actors, who engage in active financial measures such as funding strategic lawsuits against public participation to such an unceasing extent that opposition is silenced.<sup>30</sup> Meanwhile, the exclusion of civil society from international and governmental initiatives to tackle illicit finance weakens their watchdog role, while also reducing the technical expertise they could provide at the policymaking stage.

- **Build on the learning resources that already exist for civil society organisations on international anti-illicit finance norms and conduct target dissemination activities.** Areas of note could include raising awareness of how civil society can be involved in FATF mutual evaluations or in how they can contribute evidence for sanctions designations through existing or the development of new mechanisms.
- **Enhance laws and increase funding to protect civil society organisations from legal action, especially those in countries with weak free speech protections.** In the UK, where libel laws are strongly in favour of the claimant, an example could be introducing an earlier judicial review phase to protect defendants from undue legal costs or other procedural safeguards against strategic lawsuits against public participation (SLAPPs).
- **Establish bottom-up accountability for ongoing illicit finance reforms.** In the UK, this could be achieved through independent officers on the UK Economic Crime Strategy Board<sup>31</sup> and the reiteration of Action 52 of the Economic Crime Plan, which introduced the Economic Crime Civil Society Organisations Steering Group,<sup>32</sup> in the Economic Crime Plan 2.

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30. US and UK efforts to defend civil society and journalists against legal threats financially and politically should be recognised (for example, the US 'anti-SLAPP' fund and the UK-supported UNESCO Global Media Defence Fund). See White House, 'Fact Sheet: Announcing the Presidential Initiative for Democratic Renewal', press release, 9 December 2021, <<https://www.whitehouse.gov/briefing-room/statements-releases/2021/12/09/fact-sheet-announcing-the-presidential-initiative-for-democratic-renewal/>>, accessed 19 July 2022; UNESCO, 'Global Media Defence Fund', <<https://en.unesco.org/global-media-defence-fund>>, accessed 19 July 2022.
31. HM Government, 'New Taskforce to Tackle Economic Crime', 14 January 2019, <<https://www.gov.uk/government/news/new-taskforce-to-tackle-economic-crime>>, accessed 20 July 2022.
32. The Civil Society Organisations Steering Group is an independent grouping of individual civil society organisations which was established to track and inform the UK government's delivery of the Economic Crime Plan 2019–22, to highlight any new and emerging areas of economic crime risk, and to provide an independent challenge function for the Economic Crime Strategic Board. See RUSI, 'Economic Crime Civil Society Organisations Steering Group (CSOSG)', <<https://rusi.org/ecp/economic-crime-civil-society-organisations-steering-group>>, accessed 17 July 2022.

- **Strengthening protections for civil society in their role as a source of information for sanctions designations and asset recovery cases.** This could be done by, for example, privileging sensitive evidence.
- **Strengthen reporting pathways.** The US should build on programmes like the US Treasury's Kleptocratic Assets Rewards Program to incentivise whistle-blowing and strengthen reporting pathways for professionals.<sup>33</sup> The UK should similarly explore how it could strengthen and expand its protections for whistle-blowers, including considering financial rewards.
- **Encourage professional services firms to strengthen environmental, social and governance protections.** This should focus on client selection and the inadvertent enabling of oppression, corruption and human rights abuses by companies.

## STRENGTHEN DETERRENT MEASURES

Russia's invasion of Ukraine has shone a new light on the use of sanctions and other financial tools to hold aggressors and corrupt actors accountable. However, to be effective, measures must be taken in concert to prevent targets from simply relocating to other jurisdictions.

The US and the UK have gone a long way in sanctioning the assets of Russian entities and individuals linked to the Kremlin. Both countries should take advantage of the political impetus they have generated over recent months to continue expanding their toolkit of accountability, by strengthening sanctions and other deterrent measures.

- **Streamline anti-corruption and kleptocracy sanctions.** This should be done via the newly announced Transatlantic Taskforce<sup>34</sup> and explore how sanction off-ramps could be designed to promote a change in behaviour more successfully. The US and the UK must work with third countries to share expertise on how to effectively implement and maintain sanctions regimes over time.
- **Evaluate the role of sanctions with a criminal justice lens.** Policymakers should consider the possibility of developing new mechanisms to allow for a move from temporary sanctions-based asset freezes, to long-term, permanent asset deprivation under proceeds of crime laws.<sup>35</sup> This can be achieved by ensuring that 'sanctions

33. US Department of Treasury, 'Kleptocracy Asset Recovery Rewards Program', <<https://home.treasury.gov/about/offices/terrorism-and-financial-intelligence/terrorist-financing-and-financial-crimes/kleptocracy-asset-recovery-rewards-program>>, accessed 20 July 2022.

34. US Department of Treasury, 'U.S. Departments of Treasury and Justice Launch Multilateral Russian Oligarch Task Force', 16 March 2022, <<https://home.treasury.gov/news/press-releases/jy0659>>, accessed 19 July 2022.

35. For a discussion of the legal tools available, see Maria Nizzero, 'From Freeze to Seize: Dealing with Oligarchs' Assets in the UK', *RUSI Commentary*, 13 April 2022; Justin duRivage, 'The Anticorruption Campaigner's Guide to Asset Seizure',

evasion' is a criminal offence, for example by legislating for disclosure requirements that impose a reverse burden of proof on those subject to asset freezes and lead to confiscation if a sanctioned individual fails to disclose assets. Other disclosure requirements triggering criminal action could include a failure to declare a politically exposed person or relative and close associate status.<sup>36</sup>

- **Explore tools other than sanctions which could be used to target malign actors.** This could include imposing tighter monitoring and reporting requirements on the funding of key democratic institutions, such as political parties and media organisations, and activities such as lobbying.<sup>37</sup> There should be greater scrutiny of the origins and aims of donations to institutions and political parties. Furthermore, the US and the UK both exercise oversight of investment in certain industries, and it is vital that these oversight mechanisms are regularly reviewed to ensure they are effective and cover all the necessary areas which can be exploited by malign actors.<sup>38</sup>
- **Provide the private sector with as much information as possible to make risk-based decisions.** The US and the UK should consider if they hold data that could be disclosed to enhance private sector risk-based decision-making, for example, publishing a list of visa applications that have been rejected on the grounds of corruption concerns or more actively issuing warnings on institutions or countries that might represent a significant money-laundering concern.<sup>39</sup>

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*Global Anticorruption Blog*, 2 May 2022, <<https://globalanticorruptionblog.com/2022/05/02/the-anticorruption-campaigners-guide-to-asset-seizure/>>, accessed 19 July 2022.

36. For example, the EU has recently introduced a requirement for sanctioned entities to disclose the assets they hold in the EU. Failure to do so results in confiscation. See European Commission, 'Commission Consolidated FAQs on the Implementation of Council Regulation No 833/2014 and Council Regulation No 269/2014', last updated 29 July 2022, <[https://ec.europa.eu/info/sites/default/files/business\\_economy\\_euro/banking\\_and\\_finance/documents/faqs-sanctions-russia-consolidated\\_en.pdf](https://ec.europa.eu/info/sites/default/files/business_economy_euro/banking_and_finance/documents/faqs-sanctions-russia-consolidated_en.pdf)>, accessed 5 August 2022.
37. For example, the US introduced a bill to tighten oversight of such activities on 16 June 2022. See Congress, 'H.R.8106 – Fighting Foreign Influence Act', <<https://www.congress.gov/bill/117th-congress/house-bill/8106>>, accessed 5 August 2022.
38. See, for example, the UK's National Security and Investment Act 2021 (Notifiable Acquisition) (Specification of Qualifying Entities) Regulations 2021.
39. The US already does this via the 311 Special Measures provision. See US Financial Crimes Enforcement Network, '311 Special Measures', <<https://www.fincen.gov/resources/statutes-and-regulations/311-special-measures>>, accessed 5 August 2022.



## CONCLUSION

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By employing these guiding principles and actions, the US and the UK will strengthen the transatlantic response to the illicit finance that undermines democratic societies. Concerted action against the threat will support stronger, fairer and more transparent societies at home and abroad. It will also be important to continue to study how these effects materialise. Further research of how active financial measures are used and what impact they have will be crucial as finance and wider economic statecraft play an increasingly central role in international security.

Abiding by these principles and implementing these actions, however, will be challenging.

First, without continued and committed political will reforms will not take place. While Russia's invasion has emphasised the need to combat this problem now, it was years of turning a blind eye to 'dirty money' that allowed it to take deep root in democratic societies, especially in the US and the UK.

Second, the necessary reforms require immediate and, crucially, sustained funding. If political will is not ensured, this funding could wane over time.

Third, many of the proposed actions and reforms are not new but have been hindered for years by perceived technical or legal barriers. Leaders should support, through resources and rhetoric, an uncompromising drive for solutions with higher-risk appetites, pilot programmes and an acknowledged need to go further than the status quo.

Fortunately, these challenges can be overcome by a renewed focus on the necessity of a transatlantic response to illicit finance. Growing political will and new relationships between leaders, legislatures, civil servants and civil society can drive the proposed actions. The longstanding policy barriers must be broken down and a new response to illicit finance must be defined that meaningfully addresses the threats faced today and those likely to be faced in the future.

If these actions are not implemented and these principles are not embedded into policymaking, dirty money will continue to flow into Western systems, threatening international security and eroding democratic values and societies.

## ABOUT THE AUTHORS

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