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Congressional Testimony

**CORRUPTION: VIOLENT EXTREMISM,
KLEPTOCRACY, AND THE DANGERS
OF FAILING GOVERNANCE**

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I'd like to thank Chairman Corker for holding this important hearing. Just calling it has already had the salutary impact of challenging officials in the foreign policy and assistance communities to think through the implications of corruption for their operations. And my thanks also to Ranking Member Cardin for extending this invitation for me to testify today.

There is a growing recognition of the impact of corruption on the U.S. national interest. Signs of the rising awareness can be found in recent official statements. “From the Arab Spring to Latin America,” wrote U.S. Secretary of State John Kerry in May, “political turbulence has made clear that governments are unwise to shrug off their citizens’ growing concerns about corruption....It is long past time for the international community to treat corruption with the seriousness and attention it deserves.”¹

And yet, given the consequences of the type of sophisticated and systemic corruption that has taken widespread hold in the past quarter-century, especially its impact on global stability and the legitimacy of governments—and therefore on the U.S. national interest—the policy approaches to the problem remain disproportionately weak.

The issue of corruption should be central to foreign and international trade policy development and should inform the way U.S. assistance—military as well as civilian—is shaped. Members of Congress can provide important guidance to the executive branch to help make that happen.

The scope of global corruption:

Given the mesmerizing capacity of numbers to focus our imaginations these big-data days, it is tempting to seek a dollar figure to quantify the scale of corruption worldwide. By its nature, of course, that is a fraught proposition, given the incentives for the corrupt to conceal their deeds and the facilities the current globalized economy offers them for doing so.

The non-profit organization Global Financial Integrity, for example, uses strict methodologies to derive an estimate as to the quantity of money illicitly departing developing countries annually.² That number, however, leaves out cash transfers, whereas millions certainly³ and doubtless billions of physical dollars are shipped around by the criminal and the corrupt each year. It also mixes the proceeds of corruption with the proceeds of other sorts of criminality in its reckoning. And it misses all corruptly obtained money that is spent within the countries where it was looted.⁴

But even if it were possible to arrive at a fair estimate of the sum siphoned into the pockets of the corrupt each year, that would not constitute an adequate measure of the scope of the problem. At least as important as the monetary losses corruption inflicts on countries and their populations is the damage of a less material order.

When a policeman or a doctor or a registrar of deeds demands a pay-off, he or she doesn't do it politely. The shakedown is typically accompanied by arrogant contempt. The victims—like that young Tunisian who lit himself on fire in 2011, setting off the Arab Spring revolutions—suffer scalding humiliation alongside the theft of their scarce resources.

The injustice of the way the whole system functions compounds the injury. It's not as though everyone is poor side-by-side. When people have to walk past huge mansions with strings of electric lights burning day and night while the power is cut off to their part of town, or when they keep being forced to jump aside when a swish SUV splashes past them on a pitted street, and when they know the money to buy these things has been skimmed off of public works or development contracts—or has been extorted from people like them—the sense of personal injury grows. And with the expanding availability of information through the electronic media, such juxtapositions are on increasing display.

Especially galling to many victims of corruption is that the very officials to whom they might turn to report the abuses are the primary abusers themselves. As an indignant young Afghan man put it to me in 2009, referring to the police, “They’re supposed to be defending the law, and they’re the ones breaking it!”

Far from representing an accepted “part of the culture,” in other words, as so many Westerners surmise, corruption is experienced as a bitter betrayal by people I have interviewed in nearly a dozen countries on three continents, corroding their respect for their public institutions. They see their governments as a hostile force—against which, of course, there is no recourse. They and other victims are left either to suffer or rebel.

All too frequently, and contrary to conventional wisdom, corrupt practices can't be summed up as the venal behavior of a certain number of individuals. They represent a sophisticated set of operating procedures employed by a successful, if sometimes loosely structured or contentious, network. This is a final point to bear in mind when considering the “scope” of the problem. The street-level foot soldiers in these corruption syndicates—the cops or the clerks or the customs officials who shake down ordinary people—are passing part of their take up the line, just like rank-and-file members of the Mafia.

At the top, the syndicates typically bend parts of the government apparatus to serve their purposes, be it the tax authority, the justice sector, the legislature, or the ministry of energy and industry. Other agencies may pose a threat, or command a fat budget that can be pillaged. Such was the fate of the Iraqi and Nigerian militaries, both of which collapsed when challenged in 2014. Their platoons were filled with ghost soldiers who existed on paper only, their officers collecting their pay. Officers had been selling materiel, leaving those troops who did take the field disarmed before the enemy.⁵

Another way these networks pursue their self-enrichment goals is to integrate across to the private sector. The principal companies in industries most likely to benefit from government contracting or concessions, such as construction or mining or energy, are owned by the president's daughter or son-in-law or by retired generals. Network members dominate regulated sectors, such as telecoms and banking. In Azerbaijan, for example, the family of President Ilham Aliyev owns no fewer than eleven banks.⁶

The structured nature of so many of these systems poses an added problem of scope for policymakers. It means that remedies aimed at individual corrupt actors and their facilitators are important but insufficient. The challenge is one of policy alignment, for at least minimal consistency across the disparate agencies of the U.S. government, so as to send a legible message to corrupt networks and truly affect their incentive structures.

Based on research I have been conducting over the past five years, I estimate the number of countries that fall into this category of widespread and systemic corruption at just over 60.⁷

How corruption impacts national and international security:

It's hard to miss the rising level of indignation at the kind of systemic and often ostentatious corruption described above. In just the past year, popular protests have broken out in Azerbaijan, Brazil, Guatemala, Honduras, Iraq, Lebanon, Malaysia, Moldova, and Venezuela. Two chiefs of state have fallen.

But not all the victims have been able to express their frustration in such relatively civil ways. The revolutions of the Arab Spring and Ukraine represent, at least in part, more determined variations on such anti-corruption protests. In every country that erupted in 2011, demonstrators denounced the corruption of detested ruling cliques, and demanded legal accounting for corrupt officials and a return of looted assets.

Those revolutions have degenerated into some of the chief security challenges Washington is currently confronting: a lingering East-West stand-off on the redrawn Ukrainian frontier, slaughter in Syria, the implosion of Libya, Yemen and part of Iraq, and an expanding insurgency in Egypt.

For, corruption fuels the scourge of terrorism too: it gives credence to the arguments of militant religious extremists such as the self-proclaimed Islamic State, and has helped them gain recruits or submissiveness from Afghanistan and Iraq to Pakistan, Central Asia, the Sahel, and West Africa. The pitch is a simple one, rooted in the manifest moral deviance of the corrupt: "They were saying the truth about the violations committed by government agencies," residents of Maiduguri, Nigeria told me during an outdoor conversation on November 21, 2015, explaining the early preaching of the extremist group Boko Haram. "They said, if our constitution were based on the Islamic system, all these things wouldn't be happening; it would be a just and fair society."

It may seem a spurious argument, especially in light of the behavior of extremist organizations when they gain power (including the government of Iran). But it can be awfully persuasive to a young Nigerian man whose sister has just been fondled by a professor as the cost of matriculation. Indeed, a glance at Western history, including our own, indicates that militant puritanical religion is a frequent reaction to abusively corrupt governance.⁸

The anger is not just directed against host-country governments, either. When the United States is seen as intimately associated with the corrupt practices, victims not unreasonably assume our country explicitly approves them. "The Afghan government is your face," a member of my manufacturing cooperative in downtown Kandahar, Afghanistan told me one day. "If it's pretty or it's ugly, it's your face."

In light of this reality, counterterrorism partnerships that reinforce abusively corrupt governments may be doing more harm than good. They may lead to the radicalization of a dozen people for every one that is killed, and excite anger against the U.S. patron as well as the venal local client.

Other security challenges that are inflamed by corruption include chronic outbreaks of violence due to rivalry among competing kleptocratic networks (as in Somalia or the Democratic Republic of Congo, for example)⁹ and the reinforcement of transnational organized crime structures through their interpenetration with corrupt governments in their home bases (as in Central America or the Balkans). It would not be unreasonable to ascribe even some of the adventurism of China and Russia to corruption, and an effort to distract a restive population from its grievances via an appeal to nationalist feeling.

The effectiveness of current anti-corruption efforts:

There is no question that corruption has attracted measurably increased policy attention over the past year, not just in words but in deed. Some 30 investigators have been added to the U.S. Department of Justice's anti-kleptocracy unit; the State Department's regional bureaus now feature an anti-corruption assignment; and the United States is participating in several multinational law enforcement initiatives aimed at information sharing and asset recovery.

Still, given the dimensions of the problem, the approaches adopted to date have been sadly inadequate.

Corruption, first of all, is typically viewed as a functional specialization, and a poorly rewarded one at that. It is subcontracted to often marginal units within the State Department or USAID: the Bureau of International Narcotics and Law Enforcement Affairs, for example, where it counts, presumably, as a subset of law enforcement. According to two young officials reflecting on the atmosphere within the State Department over the past several months, the mention of corruption is met with "rolled eyes," in one bureau; elsewhere interest in the topic is seen as a career-killer.

At USAID, an organization whose business model entails investing millions of dollars per year into severely corrupt environments, a comparison between the number of personnel assigned to LGBT rights, clearly a vital issue touching fundamental human dignity, and the number of people assigned to corruption might be instructive.

Where steps are being taken, moreover, they are scattershot. Decisions to pursue kleptocracy investigations are made by front-line investigators, on the sole basis of the quality of evidence that has come to hand, not any deliberate strategy. The focus on beneficial ownership or transparency initiatives carries with it the implication that corruption is the work of disconnected individuals, who can be taken on individually. Transparency becomes an end in itself, when too often it fails to result in ultimate accountability. Support to civil society groups is provided in blissful isolation from the countervailing incentives that other aspects of U.S. engagement may be providing to a corrupt leadership. Sometimes the contradiction puts beleaguered activists or reformist government officials in impossible, even life-threatening, situations.

Indeed, it is this disconnect that likely precludes current U.S. anti-corruption programming from having any noticeable impact. When Washington is providing millions of dollars in military and development assistance, or when the CIA station chief is handing over a similar sum per month to a corrupt leader in private meetings, as has been the case in Afghanistan,¹⁰ a few hundred thousand dollars spent on capacity building for the inspector general of police, for example, or to support a civic group agitating for budget transparency, is almost laughable. Indeed, viewed from the

perspective of the corrupt leader, U.S. policy is hardly even contradictory; it's clear: the United States approves of his venal practices, and the occasional public scolding or paltry anti-corruption programming must surely just be designed to check a box or mollify Congress, rather than to convey any meaningful message as to U.S. policy.

It is in this light that the U.S. Congress should frame its questions to the military and civilian assistance communities. It is not so important to ask what is being spent on what programs designed to curb corruption, but rather what steps are being taken to shape flagship projects, such as Power Africa, or our military partnership with Ethiopia, in such a way that their implementation and outcomes don't inadvertently benefit the kleptocratic network.

Recommendations:

The Foreign Relations Committee can push Congress to help remedy some of these deficiencies in approach by taking the following steps.

- For every assistance package (USAID, INL, and State Department-overseen military programming) of significant size, require that a systemic political economy analysis, depicting the structure of corrupt networks, the main revenue streams they capture, and their key external enablers and facilitators be completed and submitted to Congress alongside the funding request.¹¹
- Require that such a request include a strategy for mitigating any reinforcement the programming might provide to the corrupt governing system.
- Require that budgets for projects that, due to some other security or diplomatic imperative, are knowingly launched in severely corrupt environments devote a greater than normal proportion of the funds to monitoring and evaluation; require that the RFP or project design include provisions for citizens' oversight of project delivery, and suspension or cancellation where misuse of funds is discovered. Improvement of governance should be considered as an equally important goal of such projects as their stated objectives.
- Redirect some appropriations away from the already well-resourced U.S. Department of Defense counterterrorism or countering-violent-extremism programming toward civilian-led activities that can help curb partner governments' corruption and dissociate the United States from it.
- Direct the U.S. Department of State and USAID to increase the number of billets, including intelligence billets, for personnel deeply versed in corruption and its implications for the broad range of programming and diplomatic relations. (And direct USAID to spend its allocated anti-corruption budget to this effect, instead of passing it along to State.)
- Direct the U.S. Department of State to develop mandatory training on the implications of corruption, its structure and functioning, and ways in which diplomatic relations, trade promotion, and civilian and military assistance interact with it, for all political, economy, and political-military officers.

There are a variety of other actions Congress could take that lie outside the purview of this Committee. I would be happy to elaborate as appropriate.

Please accept my gratitude for the opportunity to contribute to this deliberation.

¹ John Kerry, “Time to Treat Corruption With the Seriousness It Deserves,” U.S. Department of State, May 12, 2016, accessed June 28, 2016 at <http://www.state.gov/secretary/remarks/2016/05/257175.htm>. See also his remarks delivered at “Against Corruption,” a summit hosted by British Prime Minister David Cameron on May 12, 2016, accessed June 28, 2016 at <http://www.state.gov/secretary/remarks/2016/05/257130.htm>

² Global Financial Integrity (GFI), “Data by Country,” accessed June 27, 2016 at <http://www.gfintegrity.org/issues/data-by-country/>.

³ According to reporting by the *Wall Street Journal* in 2010, as much as \$10 million per day was leaving Afghanistan at that time, much but hardly all of it declared. Matthew Rosenberg, “Corruption Suspected in Airlift of Billions in Cash from Kabul,” *Wall Street Journal* June 25, 2010. A U.S. intelligence professional told me that millions of dollars in cash had been flown out of Nigeria in the wake of the March 2015 election of Muhammadu Buhari as president.

⁴ See GFI’s methodological note here: <http://www.gfintegrity.org/issues/illicit-financial-flows-analytical-methodologies-utilized-global-financial-integrity/>

⁵ See, for example, David Kirkpatrick, “Graft Hobbles Iraq’s Military in Fighting ISIS,” *New York Times* November 23, 2014, or Aryn Baker, “Nigeria’s Military Quails When Faced with Boko Haram,” *Time Magazine*, February 10, 2015.

⁶ Organized Crime and Corruption Reporting Project, “Azerbaijani First Family Big on Banking” June 11, 2015, accessed June 28, 2016 at <https://www.occrp.org/en/corruptistan/azerbaijan/2015/06/11/azerbaijani-first-family-big-on-banking.html>. For a full discussion of the way kleptocratic elites structure their networks, see Sarah Chayes, “The Structure of Corruption: A Systemic Analysis,” Carnegie Endowment for International Peace, expected July 1, 2016.

⁷ The countries are: Afghanistan, Algeria, Angola, Armenia, Azerbaijan, Bahrain, Bangladesh, Brazil, Bulgaria, Burkina Faso, Burundi, Cameroon, Chad, China, Colombia, Cote d’Ivoire, Egypt, Equatorial Guinea, Eritrea, Ethiopia, Guatemala Guinea, Guinea-Bissau, Guyana, Honduras, Iceland, India, Indonesia, Kazakhstan, Kenya, Kyrgyzstan, Lebanon, Libya, Mali, Mexico, Moldova, Morocco, Nepal, Niger, Nigeria, Pakistan, Paraguay, Philippines, Romania, Sierra Leone, Slovenia, Somalia, South Africa, South Sudan, Sudan, Syria, Tajikistan, Thailand, Tunisia, Turkey, Turkmenistan, Uganda, Ukraine, Uzbekistan, Venezuela, Yemen, and Zimbabwe. This list was derived by Carnegie Junior Fellow Julu Katticaran by aggregating the following indices: The African Development Bank Country Policy and Institutional Assessments, Afrobarometer, Asian Development Bank Country Policy and Institutional Assessments, European Bank for Reconstruction and Development Transition Report, Economist Intelligence Unit Riskwire and Democracy Index, Freedom House, Global Integrity Index, Gallup World Poll, International Budget Project Open Budget Index, Latinobarometro Sustainability Index, Political Economic Risk Consultancy Corruption in Asia Survey, Political Risk Services International Country Risk Guide, Transparency International Corruption Perceptions Index and Global Corruption Barometer Survey, U.S. State Department Trafficking in People report, World Justice Project Rule of Law Index, plus my own qualitative corroboration as to degree of structure.

⁸ For a complete discussion of how puritanical religion is often a reaction to severe corruption, see Sarah Chayes, *Thieves of State: Why Corruption Threatens Global Security* (New York: W.W. Norton, 2015).

⁹ See Alex de Waal, *The Real Politics of the Horn of Africa: Money, Politics, and the Business of Power* (New York: Polity, 2015). Note de Waal uses the terminology of the marketplace, rather than corruption, but the his description applies.

¹⁰ Matthew Rosenberg, “With Bags of Cash, CIA Seeks Influence in Afghanistan,” *New York Times*, April 28, 2013.

¹¹ For a template for such an analysis, see Chayes “Structure.”