



BEYOND THE OLIGARCHS

KLEPTOCRATIC CAPTURE
IN FLEDGLING DEMOCRACIES

Beyond the Oligarchs: Kleptocratic Capture in Fledgling Democracies

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Cover Image: Honduran protestors in September 2021 demanding the resignation of then-president Juan Orlando Hernandez (Photo by Reuters/Fredy Rodriguez).

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EXECUTIVE SUMMARY

Kleptocracy is an authoritarian form of governance where corrupt leaders exploit corruption and globalization as tools to accumulate power and wealth. Kleptocracy is transnational in nature, permeating autocracies and democracies alike. Following the invasion of Ukraine, kleptocrats everywhere have adapted to the unprecedented international action against Russian oligarchs.¹

Kleptocratic networks are highly skilled at finding loopholes in financial regulations globally; out-innovating the kleptocrats thus requires mobilizing broad international support for well-coordinated policy responses. To be successful, the solutions will depend on the active participation of kleptocracy's enablers, both in liberal democracies as well as in hybrid or fledgling democratic systems.

Within the latter, the reach of kleptocratic networks has been understudied. Although the most notorious and harmful kleptocrats are authoritarian leaders, kleptocracy can also flourish in partially free democracies. New democratic elites are as capable of state capture as their autocratic counterparts,² posing an existential threat to democratic governance globally.

The good news is that with support, anti-corruption defenders can use democratic checks and balances, even if imperfect, to resist the looting and laundering of stolen assets, strengthening the global response to kleptocracy. Amidst a growing awareness of the impact of transnational corruption, democracies—reliant on accountability mechanisms—can play a role in mitigating the very worst effects of kleptocracy.

Based on field research conducted in Bangladesh, Honduras, Panama and Sri Lanka, IRI has identified common features of kleptocratic governance in consolidating democracies as well as recommendations for international partners working towards supporting anti-kleptocracy reform in those jurisdictions. Specifically, the following measures can help build the resilience of fledgling democracies to kleptocratic networks:

- 1 Enhance assistance to strengthen basic democratic institutions.** Supporting the rule of law and building democratic institutions that hold those in power accountable for their actions is a necessary condition to build resilience against kleptocracy. This includes bolstering political parties, legislatures, and election management bodies, in addition to law enforcement agencies and the judiciary.
- 2 Promote the adoption of ambitious and targeted transparency and accountability mechanisms.** Transparency and accountability measures, such as anti-money laundering regulations, public procurement reform, and whistleblower protections can help in preventing kleptocrats from hiding their wealth and punishing those who expose their corrupt activities.
- 3 Expand support for civil society and independent media.** Civil society organizations can serve as a critical counterbalance to kleptocratic forces, as they can bring attention to corruption and push for reforms. Supporting a free and independent press further protects against kleptocracy by shining a light on corrupt practices and disseminating potential policy responses.
- 4 Augment bilateral and multilateral international cooperation.** In fledgling democracies, international cooperation is essential to combat kleptocracy, as corrupt actors often operate across borders. Increasing coordination between governments, civil society organizations, independent media, and international institutions can help expose and disrupt kleptocratic networks.
- 5 Adopt cross-sectoral approaches and establish coalitions to address the root causes of kleptocracy.** Kleptocracy thrives in countries with weak institutions, economic underperformance, and fragile governance, which afflict many consolidating democracies. Addressing these root causes requires cross-sectoral approaches and new partnerships and coalitions.

1. Vittori, J. and Page, M.T.: "Kleptocratic Adaptation: Anticipating the Next Stage in the Battle Against Transnational Kleptocracy," National Endowment for Democracy. January 2023. <https://www.ned.org/kleptocratic-adaptation-anticipating-the-next-stage-in-the-battle-against-transnational-kleptocracy/>

2. Mungiu-Pippidi, A.: "Controlling Corruption Through Collective Action," Journal of Democracy Volume 24, Number 1 January 2013. <https://www.journalofdemocracy.org/wp-content/uploads/2013/01/Mungiu-Pippidi-24-1.pdf>

Since its founding in 1983, IRI has supported democracy across the world, working to strengthen the democratic institutions of political parties, civil society, and government. In recent years, IRI expanded its focus to analyze and combat the growing threat of transnational kleptocracy. IRI has partnered with anti-kleptocracy experts around the world to research kleptocratic strategies and pilot and scale efforts to mitigate them.

KLEPTOCRATIC TRENDS: THE CASE OF FLEDGLING DEMOCRACIES

Kleptocracy represents a novel form of governance in which authoritarians weaponize corruption and globalization to amass power and wealth. Kleptocracy is defined by its transnational nature, and in particular, the vital role professional intermediaries in third-party countries play in laundering illegally acquired assets. Kleptocrats do not only rely on intimidation and violence to silence public opposition and investigative journalists looking into their corrupt dealings in their countries; they also leverage the influence they gain through their investments to exercise influence in other jurisdictions, including liberal democracies.

In between autocracy and democratic consolidation, developing or fledgling democracies are permeated by kleptocratic networks in different ways. Sophisticated patronage systems often mask the diversion of billions of dollars from public coffers to private pockets, with the assistance of international financial intermediaries. Large public procurements are the target of corrupt schemes, and money laundering-facilitated outflows of taxpayer money further challenge the capacity of state entities to invest in much needed public services. Meanwhile, attempts by the executive to reduce the powers of parliament and co-opt the judicial sector neuter oversight and control institutions, enabling foreign-aided state capture. Civil society and the media also tend to face restrictions or fall prey to overseas information operations. This political and authoritarian interference entrenches corruption and undermines the democratic feedback loop, contributing to the erosion of the public's faith in democracy.

While these tactics and strategies are commonly seen as domestic corruption, a closer examination reveals that they disguise a systematic attempt to achieve political and self-enrichment goals through illiberal means, with the assistance of international enablers. Whether these are transnational organized crime networks, white-collar professionals in Western financial jurisdictions, or multilateral development banks, cross-border actors and financial flows facilitate the oftentimes anti-democratic behavior that allows leaders in consolidating democracies to hold on to power, illicitly acquire wealth, and evade accountability. A kleptocratic model of governance that is dangerously close to that embraced by Russian, Venezuelan, or Equatoguinean kleptocrats.

Terminology

KLEPTOCRACY	FLEDGLING DEMOCRACY
<p>Literally meaning “rule by thieves,” kleptocracy refers to a form of government in which those in power abuse entrusted authority for private gain, often at the expense of the state and its citizens.</p> <p>USAID defines kleptocracy as a “government controlled by officials who use political power to appropriate the wealth of their nation.”³</p>	<p>A young, newly established, or developing democratic system characterized by the presence of democratic institutions and processes, but which may still face challenges in consolidating democratic norms and practices, ensuring the rule of law, and protecting civil and political rights.</p>

3. “USAID Anti-Corruption Policy: December 2022.” USAID. <https://www.usaid.gov/sites/default/files/2022-12/USAID-Anti-Corruption-Policy.pdf>

COMMON FEATURES OF KLEPTOCRACY IN FLEDGLING DEMOCRACIES

To shed light on the specific ways kleptocracy operates in countries that have not completed their democratic consolidation, IRI and its partners conducted research of kleptocratic tactics in South Asia (Sri Lanka and Bangladesh) and Central America (Panama and Honduras). IRI selected these countries as part of a broader effort to promote networked approaches to countering kleptocracy in both parts of the world and given the limited information on the operation of kleptocracy in areas not fully dominated by kleptocratic leaders yet porous to their malign influence.

Through desk and field research, key informant interviews, and focus group discussions, IRI and its partners identified the following kleptocratic tactics as prevalent in all four jurisdictions:

Suppressing dissent to escape accountability for large scale corruption

Even in semi-functional democracies, there are avenues to counter kleptocratic behavior and demand accountability. Active civil society and independent media in particular are critical to expose grand corruption and hold those in power in check. Unsurprisingly, governments around the world are trying to limit the capacity of organized citizens and reporters to disseminate information that is critical of public officials, using a variety of tactics depending on leaders' authoritarian tendencies and the strength of oversight institutions.

Kleptocrats undertake concerted efforts to suppress dissent in all four countries examined, to different degrees. In Bangladesh, Honduras, and Sri Lanka, journalists, activists, civil society, and political dissidents often face threats, harassment, and assault. Those speaking out on corruption can face severe consequences including physical harm in these three countries. According to the International Press Institute's data, Honduras is the second deadliest place to report from within the Western Hemisphere, with many journalists murdered for their work. Throughout 2020 in Bangladesh, journalists were beaten by uniformed security forces, forced to disappear, or even killed, which is a dynamic that predates the current government.

Journalists also face libel lawsuits and other laws designed to silence them. In Panama, independent journalists and media outlets are regularly sued for their coverage of corruption scandals. For example, a Panamanian politician sued the newspaper *La Prensa* for \$20 million after it reported on the alleged misuse of public resources used to win his election to the National Assembly. Bangladeshi and Sri Lankan journalists also face frequent defamation lawsuits and contend with criminal penalties for contempt and defamation. In late April 2021, the Sri Lankan government sought to amend a penal code that combats and criminalizes fake news, creating an avenue to suppress coverage of corruption scandals by labeling them fake news.⁴ In Honduras, the government has threatened journalists with prosecution under a law that criminalizes slander and insult as "crimes against honor," which are punishable by up to a year in prison.⁵

While the freedom of assembly is constitutionally protected in Bangladesh, Honduras, and Sri Lanka, it is inconsistently respected. For example, after Honduran former President Hernández was implicated in his brother's drug-smuggling operation, Tegucigalpa became the site of major protests in August

4. "Sri Lanka to Amend Penal Code to Combat Online Fake News." NewsWire, 16 Apr. 2021. www.newswire.lk/2021/04/17/sri-lanka-to-amend-penal-code-to-combat-online-fake-news/.

5. "Honduras enacts penal code maintaining 'crimes against honor.'" Committee to Protect Journalists. June 26, 2020. <https://cpj.org/2020/06/honduras-enacts-penal-code-maintaining-crimes-against-honor/>

2019 and again in the following month, when the president's brother was convicted in the United States.⁶ Amnesty International found that "authorities regularly used tear gas and live ammunition against demonstrators and bystanders as the year continued, and that six people were killed during protests or government reprisals by year's end."⁷ Likewise in Bangladesh—where political violence is a longstanding problem—protesters are frequently injured and occasionally killed during clashes in which police use excessive force.⁸

Kleptocrats also engage in coercion and bribing of journalists and media to influence coverage in their favor and suppress dissent. For example, in Honduras a 2021 indictment revealed that the administration of President Hernández employed direct payments of over \$5 million channeled through shell companies to 77 journalists and media personnel.⁹ In Sri Lanka kleptocrats have attempted to starve media organizations of ad revenues by influencing large state-owned entities including Sri Lankan Airlines and Telkom, who are the biggest advertisers in the local market.¹⁰

Patronage and clientelist networks facilitate public fund diversion

Expanding and entrenching patronage networks through bribery of public officials and private actors is a common and widespread tactic employed by kleptocrats to ensure political outcomes are in their favor. Rewarding patrons through the irregular use of state resources is a common phenomenon in all four countries. A report in 2019 by the Latin American Public Opinion Project found Honduras had the second-highest perception of clientelism in Latin America,¹¹ and clientelism and patronage are similarly embedded in the other countries' systems.

It is a common occurrence that civil servants, political appointees, and other public employees are hired on the basis of party affiliation or personal relationships in these four countries. A 2018 survey of Honduran public employees found that knowing the right people is seen as the most important factor for obtaining a job in their institution, alongside affiliation with the political party in power.¹² These patronage networks allow kleptocrats to install supporters in key state institutions which serves to advance kleptocrats' goals in numerous ways. For example, Sri Lanka's former Prime Minister Mahinda Rajapaksa frequently used Ministerial appointments to secure patronage networks, leading to the introduction of the Nineteenth Amendment, which imposed a cap on the number of Ministers to stem the resulting corruption and abuse of power.¹³ Similarly, Bangladeshi parties commonly use existing patronage networks to win the loyalty of rural elites and then dominate elections on the municipal, city, and local levels.¹⁴

Furthermore, vote-buying is another form of corrupt patronage that kleptocrats employ, and it is common in both Panama and Honduras. In a poll conducted by Transparency International, 23 percent of Panamanians and 36 percent of Hondurans reported they have been offered bribes in exchange for votes.¹⁵ Voters will be offered expensive food, aid, and other non-monetary bribes in exchange for votes or to try to influence them.

6. Freedom House. "Honduras: Freedom in the World 2020 Country Report." Freedom House. <https://freedomhouse.org/country/honduras/freedom-world/2020>.

7. Ibid.

8. Bangladesh: Freedom in the World 2023 Country Report. (n.d.). Freedom House. Retrieved from <https://freedomhouse.org/country/bangladesh/freedom-world/2023>.

9. "Caso 'Hermes': ¿Quiénes Son los Involucrados en Sustraer Mas de L120 Millones de Casa Presidencial?" El Tiempo. February 23, 2021. <https://tiempo.hn/involucrados-en-corrupcion-de-casa-presidencial/>

10. An Overview of Kleptocratic Tactics in Sri Lanka; a report commissioned by Transparency International Sri Lanka commissioned by IRI.

11. Gonzalez-Ocantos, E and Oliveros, V. "Clientelism in Latin American Politics", Oxford University Press USA, 2019. <https://doi.org/10.1093/acrefore/9780190228637.013.1677>

12. Sabet, Daniel. "When Corruption Funds the Political System: A Case Study of Honduras." The Wilson Center. August 2020. https://www.wilsoncenter.org/sites/default/files/media/uploads/documents/When%20Corruption%20Funds%20the%20Political%20System_Final.pdf

13. Saroor, S. (2020, November 14). "Reform the proposed 20th amendment to strengthen, not weaken, transparency and public oversight." Groundviews. Retrieved from <https://groundviews.org/2020/09/28/reform-the-proposed-20th-amendment-to-strengthen-not-weaken-transparency-and-public-oversight/>

14. Sarker, A. E. (2019). "Clientelism, Patriarchy and Democratic backsliding". Retrieved from <https://doi.org/10.1177/0971523119843692>

15. Pring, C and Vrushni, J. "Global Corruption Barometer - Latin America & The Caribbean 2019." Transparency International. September 22, 2019. https://issuu.com/transparencyinternational/docs/2019_gcb_latnamerica_caribbean_full_report/10

Money laundering and other forms of transnational financial crime enable kleptocratic governance

Necessary for plundering resources at scale, money laundering and adjacent forms of transnational financial crime remain the keystone of kleptocratic activity. It is a common issue among the four countries researched, though the degree and methods differ. Panama is a major destination and transit country for laundering illicit funds. According to the Tax Justice Network's Financial Secrecy Index for 2020, Panama is in the top 15 countries with the highest rates of financial secrecy and is the most secretive nation in Latin America and the Caribbean.¹⁶ For decades, the country's economic model has depended on loose financial regulations that allow for high levels of investment, with little action to close the financial crime-enabling loopholes.¹⁷ This has made it easy for domestic and international kleptocrats to conceal their illicit funds.

The extent of Panama's off-shore banking system as a transit and destination jurisdiction for illicit flows became apparent in 2016 with the release of the Panama Papers.¹⁸ According to leaked information, the Panamanian law firm Mossack Fonseca, the world's fourth biggest offshore law firm at the time, collaborated with more than 14,000 banks, other law firms, company incorporators, and other intermediaries to establish legal persons and arrangements for their customers, failing in many instances to verify the identity of their clients and report suspicious transactions. Some of the customers, who included wealthy individuals, corporations, political leaders, and organized crime groups, reportedly used these entities as conduits to manage and conceal illicit funds. The leaked data showed the involvement of more than 210,000 entities in 21 offshore jurisdictions.¹⁹

Over in South Asia, Sri Lanka appears to be moving towards the Panamanian model. In May 2020, in response to the COVID-19 pandemic, the Sri Lankan government implemented government policies to allow for the inflow of foreign exchange without investigations into their origins to bolster foreign currency reserves, an action that contradicted the country's anti-corruption laws. Additionally, the Governor of the Central Bank, W.D. Lakshman, encouraged both foreigners and Sri Lankans to deposit their money into the central bank. Such actions would allow kleptocrats and bad actors, both from within the country and from around the world, to more easily whitewash assets procured through corruption or other illicit means.²⁰ In October 2022, as Sri Lanka's economy unraveled, a UNHCR report highlighted economic crimes as an underlying reason for the collapse along with impunity for human rights abuses and corruption.²¹ In its aftermath, Sri Lanka has taken active steps to enforce currency controls as reports suggest that an estimated \$50 billion was laundered out of the country in the last decade.²²

Honduras and Bangladesh are not destination or transit countries for illicit funds, but kleptocrats regularly use money laundering to conceal and whitewash their stolen funds. According to Transparency International, annual illicit transfers out of Bangladesh through improper invoicing of foreign trade are estimated conservatively at \$10 billion.²³

16. Asmann, P. "Has Panama Kicked Its Money Laundering Habit?" InSight Crime. March 10, 2020. <https://insightcrime.org/news/brief/panama-money-laundering-habit/>

17. Dittmar, V. "Task Force Points Out Gaps in Panama Money Laundering Laws." InSight Crime. February 23, 2018. <https://www.insightcrime.org/news/brief/task-force-points-gaps-panama-money-laundering-laws/>

18. The Panama Papers refer to a massive leak of confidential documents in 2016 from a Panamanian law firm called Mossack Fonseca. The leaked documents, comprising millions of files, revealed the secretive offshore financial activities of individuals and companies worldwide.

19. Duri, Jorum. "Professional enablers of economic crime during crisis." U4 Anti-Corruption Resource Center. May 24, 2020. <https://www.u4.no/publications/professional-enablers-of-economic-crime-during-crises>

20. Manu, Don. "Black Money Gets the 'No Questions Asked' Whitewash." The Sunday Times, Sri Lanka. May 24, 2020. <https://www.sundaytimes.lk/200524/columns/black-money-gets-the-no-questions-asked-whitewash-403342.html>

21. "A/HRC/51/5: Situation of Human Rights in Sri Lanka – Comprehensive Report of the United Nations High Commissioner for Human Rights." UNHCR. October 4, 2022. <https://www.ohchr.org/en/documents/reports/ahrc515-situation-human-rights-sri-lanka-comprehensive-report-united-nations-high>

22. Lynch, Nathan. "Analysis: Sri Lankan Currency Controls Reflect Fraught Financial Crime Landscape." Thomson Reuters. March 2, 2023. <https://insight.thomsonreuters.com.au/business/posts/analysis-sri-lankan-currency-controls-reflect-fraught-financial-crime-landscape>

23. Zaman, Iftekhar. "Exporting Corruption Report: A Timely Alert for Bangladesh." Transparency International. October 29, 2020. <https://www.transparency.org/en/blog/exporting-corruption-report-a-timely-alert-for-bangladesh>

Meanwhile, organized crime is a vessel for money laundering in Honduras.²⁴ In particular, organized crime is used to finance political campaigns, where corruption helps criminal groups carry out their activities (for example, by bribing public officials to smuggle and deal drugs) and remains unpunished.²⁵ The most explosive case has been against former Congressman and brother to the former Honduran president, Juan Antonio “Tony” Hernández Alvarado.²⁶ Rather than serving as a go-between linking traffickers and the political and law enforcement communities, Tony Hernández was a trafficker in his own right. He used Honduran National Police officers both to protect shipments and to coordinate the murder of a rival. Furthermore, Hernández funneled millions in drug proceeds to the National Party. Criminality is not the patrimony of only one family: all three of the last elected presidents in Honduras are said to have accepted significant campaign contributions from organized crime.²⁷

Judicial and anti-corruption bodies are targeted to avoid accountability

In democracies, the role of judicial systems is to investigate and prosecute corrupt practices and ensure that individuals and organizations found guilty of corrupt acts are held accountable for their actions. Its role as lawful gatekeeper and accountability lead against corruption makes the judiciary a key target of kleptocratic activity. Indeed, the undermining of judicial and anti-corruption bodies and institutions is a common tactic used by kleptocrats in all four countries. A common theme is the politicization of courts and anti-corruption investigative bodies. In Panama and Honduras, the appointment of judges including supreme court justices can be influenced.²⁸ This allows for the ruling class to control the judicial system so that they can target opponents with criminal investigations and have cases against themselves or associates thrown out. In Bangladesh, the Anti-Corruption Commission (ACC) has been politicized and used to protect the incumbent. For example, in 2016, the Awami League government in Bangladesh forced in a bill through the parliament that ultimately limited the body’s ability to investigate 5,000 forgery and cheating cases, despite promises to push police authority to investigate such cases.²⁹ Previous BNP and AL-led governments in Bangladesh have similarly used legal mechanisms to shield political supporters and members from corruption prosecutions.

In Honduras, the mandate of the Mission to Support the Fight against Corruption and Impunity (MACCIH) was allowed to expire in 2020 in a blatant attempt to shut down anti-corruption investigations. MACCIH lacked independence and was subject to political interference from the onset, and its efforts were hindered by a lack of cooperation from Honduran authorities. Yet, it played a role in raising awareness of corruption in Honduras and bringing some corrupt officials to justice. Following its demise, a new penal code was passed that reduces sentences for most corruption-related crimes and allows those sentenced to less than five years to substitute prison sentences with less restrictive measures if they can repay the lost funds.³⁰ Anti-corruption investigative institutions are also regularly starved of resources and state institutions and officials will refuse to cooperate with prosecutors in corruption cases involving public officials.

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24. Sabet, D. “When Corruption Funds the Political System: A Case Study of Honduras.” The Wilson Center. August 2020. https://www.wilsoncenter.org/sites/default/files/media/uploads/documents/When%20Corruption%20Funds%20the%20Political%20System_Final.pdf.
25. Martini, Maria. “An Overview of Corruption and Anti-Corruption in Honduras.” Anti-Corruption Helpdesk, Transparency International. February 28, 2013. https://knowledgehub.transparency.org/assets/uploads/helpdesk/Country-profile-Saudi-Arabia-2020_PR.pdf
26. Meyer, Peter. “Corruption in Honduras: End of the Mission to Support the Fight Against Corruption and Impunity in Honduras (MACCIH).” Congressional Research Service. January 23, 2020. <https://crsreports.congress.gov/product/pdf/IN/IN11211>
27. Sabet, 2020. https://www.wilsoncenter.org/sites/default/files/media/uploads/documents/When%20Corruption%20Funds%20the%20Political%20System_Final.pdf.
28. Jennett, V. “Panama: overview of corruption risks in the judiciary and prosecution service.” U4 Anti-Corruption Resource Center. January 4, 2014. <https://www.u4.no/publications/panama-overview-of-corruption-risks-in-the-judiciary-and-prosecution-service>.
29. Rahman, K. “Social Accountability Initiatives and Civil Society Contribution to Anti-Corruption Efforts in Bangladesh.” U4 Anti-Corruption Resource Centre, 2018.. <https://www.u4.no/publications/social-accountability-initiatives-and-civil-society-contribution-to-anti-corruption-efforts-in-bangladesh.pdf>.
30. Cifuentes, J. and Beltrán, A. “A Year of Setbacks to Honduras’ Anti-Corruption Efforts.” WOLA. February 4, 2021. <https://www.wola.org/analysis/honduras-anti-corruption-efforts/>

Large procurements are a key target for kleptocratic leaders and their associates, foreign and domestic

Government procurement is a target for kleptocrats and a major source of wealth. While competitive biddings are required by law, in practice this does not occur in many cases. There is limited transparency in the government procurement process, allowing accessways for kleptocrats to get ahold of and mishandle funds. In Honduras, for instance, corruption occurs at all stages of the government procurement process including “need identification, design of tenders, potential prequalification or shortlisting, bidding procedures, contract award, and contract modification and execution.”³¹ Government officials will direct contracts to particular suppliers at inflated prices in exchange for bribes, political contributions, or kickbacks. Bribes are also accepted for cutting through red tape, awarding permits, or overlooking environmental impact assessments. Government procurement is also used to embezzle funds by creating false procurements, awarding contracts to shell companies, or even awarding contracts to businesses owned by the kleptocrats themselves.³²

In Panama, the most high-profile example of this is the Odebrecht case, an unprecedented corruption scandal involving several countries in the region. The scheme by the Brazilian Odebrecht construction company consisted of the payment of over \$700 million to government officials, public servants, and others in exchange for being awarded lucrative contracts.³³ In Panama, the construction company was awarded ten projects. The company was then found guilty of paying more than \$100 million in bribes to officials in the governments of three former Panamanian presidents: Martín Torrijos, Ricardo Martinelli, and Juan Carlos Varela.³⁴ Panama’s Prosecution Office said that Odebrecht laundered the illicit funds using Panamanian and foreign corporations as well as multiple intermediaries, fraudulent contracts, and political campaigns.³⁵

In Sri Lanka, Freedom House’s 2020 Freedom in the World report concluded that the government’s failure to operate with openness and transparency, particularly in contracting and procurement, provides significant openings to corrupt actors, such as Chinese companies that operate Sri Lankan seaports.³⁶ In one high-profile example, the Sri Lankan government’s default on a Chinese loan to build the Hambantota port led to the Chinese state-owned operator physically taking control of the project in 2017.³⁷ This project was initiated by local elites in pursuit of their own domestic agendas, including Former Prime Minister Rajapaksa.³⁸ The contract was also plagued by kickbacks and bribes, which is common in the construction contracting sector, both internationally and in the Sri Lankan context.³⁹

31. Sabet, 2022.

32. Ibid.

33. Sleinan, Julett. “Two Panama E-Presidents Accused in the Odebrecht Corruption Scandal.” Organized Crime and Corruption Reporting Project. May 28, 2021. <https://www.occrp.org/en/daily/14510-two-panama-ex-presidents-accused-in-the-odebrecht-corruption-scandal>

34. Guevara, Christina. “Basta Ya! How Pandemic-related Corruption Calls for a New Social Contract in Panama.” Atlantic Council. November 10, 2020. <https://www.atlanticcouncil.org/blogs/new-atlanticist/basta-ya-how-pandemic-related-corruption-calls-for-a-new-social-contract-in-panama/>.

35. Sleinan, Julett. “Two Panama E-Presidents Accused in the Odebrecht Corruption Scandal.” Organized Crime and Corruption Reporting Project. May 28, 2021. <https://www.occrp.org/en/daily/14510-two-panama-ex-presidents-accused-in-the-odebrecht-corruption-scandal>

36. “Sri Lanka to Amend Penal Code to Combat Online Fake News.” NewsWire, 16 Apr. 2021, www.newswire.lk/2021/04/17/sri-lanka-to-amend-penal-code-to-combat-online-fake-news/.

37. Frayer, Lauren. “In Sri Lanka, China’s Building Spree is Raising Questions About Sovereignty.” NPR. December 13, 2019. <https://www.npr.org/2019/12/13/784084567/in-sri-lanka-chinas-building-spree-is-raising-questions-about-sovereignty>

38. Jones, Lee and Hameiri, Shahr. “Debunking the Myth of ‘Debt-trap Diplomacy’ – How Recipient Countries Shape China’s Belt and Road Initiative.” Chatham House. August 2020. <https://www.chathamhouse.org/sites/default/files/2020-08-19-debunking-myth-debt-trap-diplomacy-jones-hameiri.pdf>

39. Ibid

Kleptocratic Adaptions During COVID-19

The COVID-19 pandemic proved to be a significant opportunity for kleptocrats to enrich themselves and steal public funds. The COVID-19 pandemic has become a prime example of how corruption allows kleptocratic actors to flourish at the expense of citizen health and wellbeing. Common themes include misappropriated aid, bribery in health clinics, and corrupt procurement of medical supplies. In Sri Lanka, many citizens did not receive the financial aid legally designated to them by the government due to a system that failed to trace funds as they were disbursed or hold fraudulent actors accountable for misappropriating funds. The aid was stolen by local government officials or was politically manipulated to win support for allied politicians and parliamentary candidates.

In Honduras, the head of INVEST-H, a government unit that manages strategic development projects, purchased seven mobile hospitals at highly inflated prices as part of the emergency purchases decreed during the COVID-19 pandemic. Five months after the funds were disbursed, only two of the seven mobile hospitals had arrived in Honduras, and both were inoperative because they arrived without the necessary equipment. The institute paid “more than three times the market value, resulting in a loss of over \$32.5 million in public funds.” In Bangladesh, the owner of two hospitals in Dhaka was indicted after an elite police unit found that hospitals were issuing fake negative COVID-19 tests in exchange for large bribes.

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INCREASING RESILIENCE AGAINST KLEPTOCRACY: POLICY RESPONSES AND PROGRAM RECOMMENDATIONS

The existence of democratic institutions, even those with a limited capacity to serve as a counterbalance to the executive, creates an opportunity for anti-corruption champions to push back against kleptocratic networks and dealings in-country. These entry points will vary from country to country, depending on the extent of kleptocrats’ cooptation of the levers of power and the relative development of checks and balances such as the judicial system, independent media, civil society, and organized labor and business. In general, there are five different lines of efforts that development partners looking to elevate domestic efforts to expose and counter kleptocracy should consider.

- 1 Enhance assistance aimed at the strengthening of basic democratic institutions and safeguards.** Supporting the rule of law and building strong democratic institutions that hold those in power accountable for their actions is a necessary condition to build resilience against kleptocracy. This requires assisting the main institutions that can serve as a check in the government, notably political parties, the legislature, and the judiciary. Internal democracy practices that enable non-corrupt candidates to compete fairly within political parties are critical for accountability. In addition, development partners should provide technical assistance to legislatures and election management bodies to make them more independent. On the law enforcement side, strengthened cooperation and increased diplomatic pressure can help create islands of “integrity.” The partial success of MACCIH in exposing corruption and addressing impunity in Honduras is evidence that the approach can yield results, provided that there is a longer-term commitment from

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41. Suazo, J and Castor, D. “Honduras Arrests Man Who Purchased Useless COVID Mobile Hospitals.” OCCRP. <https://www.occrp.org/en/daily/14227-honduras-arrests-man-who-purchased-useless-covid-mobile-hospitals>.

42. “A Crackdown in Bangladesh Reveals Corruption on a Daunting Scale.” The Economist, The Economist Newspaper, <https://www.economist.com/asia/2020/10/17/a-crackdown-in-bangladesh-reveals-corruption-on-a-daunting-scale>.

the international community. In tandem, empowering citizens to participate in the democratic process can support a more virtuous democratic cycle that reduces opportunities for kleptocratic cooptation. This includes providing opportunities for civic education and supporting citizen-led monitoring and advocacy efforts.

- 2 Promote the adoption of ambitious and targeted transparency and accountability mechanisms.** To counter kleptocratic embezzlement, misappropriation and other diversion of property, countries must update their frameworks for financial transparency, including anti-money laundering regulations, and ensure enforcement. Effective whistleblower protections are also necessary to expose the perpetrators. International actors can lend legal assistance to adopt these provisions that can help prevent kleptocrats from hiding their wealth and punishing those who expose their corrupt activities. In addition, public procurement reform should be a priority of any foreign assistance. As a key target of kleptocratic pilfering, establishing transparent, electronic procurement systems is a necessary step toward dismantling corrupt networks, as Ukraine's experience with proZorro illustrates. Lastly, development partners should put pressure on state owned enterprises (SOE) to adhere to international standards for SOE management which emphasize transparency.⁴³ SOEs in democratizing countries are often a vehicle for kleptocratic exploitation and development partners should thus prioritize them.
- 3 Expand support for civil society and independent media.** Civil society organizations can serve as a critical counterbalance to kleptocratic forces, as they can bring attention to corruption and push for reforms. Supporting civil society organizations can help strengthen their ability to advocate for change. Independent media can help expose corruption and hold those in power accountable. Supporting a free and independent press further protects democracy from kleptocracy by shining a light on corrupt practices and bringing attention to the need for reform. Several international initiatives and donor efforts are underway, including the International Fund for Public Interest Media. Ensuring that these reach relevant actors in non-priority jurisdictions is essential to ensure kleptocratic networks do not grow stronger elsewhere.
- 4 Augment bilateral and multilateral international cooperation.** International cooperation is essential to combat kleptocracy, as corrupt actors often operate across borders. Globally, the multilateral Russian Elites, Proxies, and Oligarchs (REPO) Task Force is a good example of bilateral coordination focused on asset freezing, seizing, and confiscating. Beyond neutralizing the oligarchs, coordination between governments, civil society organizations, the media, and international institutions can help expose and disrupt kleptocratic networks. As several transnational priorities compete for the attention of policymakers worldwide, sustaining the anti-kleptocracy cooperation exhibited in the wake of Ukraine's invasion will become increasingly challenging. International partners can contribute to maintaining the momentum by continuing to raise awareness and provide targeted assistance for the bevy of reforms and actions needed to close the loopholes kleptocrats exploit domestically and abroad. For fledgling democracies, recognizing their role both as victims and enablers of kleptocracy is important to ensure they are part of the global response.
- 5 Adopt cross-sectoral approaches and establish coalitions to address the root causes of kleptocracy.** Kleptocracy thrives in countries with weak institutions, economic underperformance, and fragile governance, which afflict many consolidating democracies. Addressing these root causes by promoting economic growth, improving public service delivery, and promoting social cohesion can help prevent the spread of kleptocracy. This requires cross-sectoral approaches and new partnerships and coalitions as outlined in USAID's first-ever Anti-Corruption Policy.⁴⁴ In addition, development partners need to involve the private sector in the response, recognizing that the implementation of many anti-kleptocracy measures, from beneficial ownership transparency to anti-money laundering frameworks, hinges on the effectiveness of corporate compliance measures. White collar professional associations that enable kleptocratic outflows, in particular, are key to closing the loopholes in regulation and enforcement that are pervasive in many fledgling democracies. Enabling chambers of commerce and other actors to promote collective action to advance business integrity can reduce opportunities for state capture.

43. Zemko, J. (2023, February 8). Kleptocracy: Its global impact on markets and democracy. Forum 2000. Retrieved from <https://www.forum2000.cz/en/news/kleptocracy-its-global-impact-on-markets-and-democracy>

44. Anti-Corruption Policy. USAID. <https://www.usaid.gov/anti-corruption/policy>

METHODOLOGY

IRI Research in Bangladesh and Sri Lanka

COUNTRY	METHODOLOGY	SUMMARY
Bangladesh	IRI's research partner followed a multi-component methodology. The first component was a desk review, which involved a review of secondary documents and reports produced by sources such as USAID, UNDP, and Transparency International to understand existing narratives and findings. The second component was primary research that involved in-depth discussions with key stakeholders, including political actors, civil society and media, academia, and law enforcement agencies. The third component was a focus group discussion, which consisted of four sets of online focus groups with participants from different backgrounds, including politicians from different political parties (10), local electors (10), civil society and journalists (10), and legal professionals (5). The findings were synthesized in two analytical reports.	Kleptocracy in Bangladesh is a complex and interrelated political and economic issue that spans political parties, requiring a localized and tailored approach. Regardless of the party in power, kleptocrats control state institutions and the private sector, accumulating wealth and power through nepotism and cronyism, leading to a culture of political impunity and weak democratic institutions. The kleptocrats in Bangladesh are empowered through three main channels: the lack of intra-party democracy in most major parties; an enabling legal framework; and hierarchical power dynamics. Accordingly, the challenges to counter kleptocracy in Bangladesh largely revolve around jurisdictional issues, law enforcement, and translation of political commitment into action.
Sri Lanka	This qualitative study aimed to analyze the kleptocratic tactics and strategies used by corrupt actors in Sri Lanka, and to identify effective ways to counter these tactics in the local context. The study covered a five-year period (2016–2021), with a focus on emblematic cases of grand corruption that demonstrated kleptocratic features. The study relied on a combination of desk research (including literature, media analysis, and legal review) and key informant interviews (with 18 participants). Due to the lack of literature on kleptocracy in Sri Lanka, the key informant interviews were the main source of information. Transparency International's Knowledge Hub also produced a paper on the destinations of Sri Lankan illicit financial flows for the study.	The research highlights the problem of kleptocracy in Sri Lanka and identifies 17 tactics used by kleptocrats to enable their corrupt practices. These tactics are classified into three main categories based on their level of risk. The paper raises the question of whether Sri Lanka has been captured or is on the verge of being captured by a group of kleptocrats with support from various networks in the private sector, politics, public sector, and criminal networks. In Sri Lanka, key state institutions like the judiciary, legislature, and executive appear to be susceptible to cooptation, while civil society and media face restrictions, and the accountability and legal frameworks are vulnerable to influence. Grand corruption remains unaddressed, including around infrastructure development, which benefits a select, powerful group.

IRI Research in Honduras and Panama

COUNTRY	METHODOLOGY	SUMMARY
<p>Honduras</p>	<p>The research primarily relied on investigative reporting, which included reviewing legal documents, public contracts, payments, and interviewing several government officials and beneficiaries of the “Vida Mejor” poverty reduction program. The in-depth reporting was conducted by Jeff Ernst, an American journalist investigating ex-president Juan Orlando Hernandez and its government for various years with publications in The Guardian and Univision. IRI’s research partner reviewed Mr. Ernst’s field notes from informants and personal observations. A literature review and case study analysis supplemented Ernst’s observations.</p>	<p>Former Honduran President Juan Orlando Hernández created a clientelist program, “Vida Mejor,” to enrich its allies and maintain political power. The program was linked to drug trafficking and co-opted key institutions, leading to impunity. Despite spending on social welfare programs, poverty indicators remained stagnant, and an estimated 10-12 percent of the country’s GDP was lost to corruption annually. The research concluded that reducing corruption in poverty reduction programs requires a long-term strategy with ex-ante measures, an institutional framework with oversight, and reducing poverty through sustained development. However, reducing corruption opportunities and kleptocratic capture also requires political will, technical capacity, and public awareness.</p>
<p>Panama</p>	<p>The case study was based on both primary research and secondary research. The primary research involved conducting 15 key informant interviews, with stakeholders from specialized state institutions, academia, the media, NGOs, and think tanks – all who are formally committed to the struggle against corruption. The secondary research included analysis of academic literature, newspaper articles, government reports, international legal instruments, and attitudinal surveys on corruption.</p>	<p>The study aimed to determine the extent to which Panama can be considered a full kleptocracy and to understand the impact of kleptocratic practices on citizens’ attitudes towards democracy, resulting in several key findings. First, the anti-corruption measures in place within the state are inadequately designed and prone to failure. Second, the interests of political, economic and media elites are so interlinked that they hinder major changes to counter kleptocracy, even when there is will to oppose it. Third, the most effective interventions to counter kleptocracy within the state or civil society require international support. Additionally, kleptocratic networks have weakened both anti-corruption measures and democratic institutions, leading to a decline in popular support for the country’s democratic institutions.</p>



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