

Hiding Riches In Plain Sight:

Money Lost In The Web of Kleptocrats

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Illustration by Savannah Flores

After the deposition of Ukrainian president Victor Yanukovich in 2014, journalist Oliver Bullough toured Yanukovich's lavish home. He was most struck by the bathrooms, which featured two luxury televisions perched at the perfect height for any observer who'd be sitting on 'the throne.' With the funds he had taken from the Ukrainian people, Yanukovich was able to buy both a castle and a two-thousand-acre hunting lodge, technically English property, which he acquired after funneling money through several corporations. Yanukovich is just one example of a kleptocrat: a ruling person or class who uses their systems of power, which they can often bend to their will, to build their personal wealth.¹

Since the end of World War Two, kleptocrats have used their stolen wealth to evade criminal punishment and live luxurious lives unhindered by domestic and international laws. These leaders are able to hide their wealth in a new underground criminal money network, dubbed "moneyland."² With the rise of globalization, this network has become all the more sophisticated as bankers have created more avenues to shuffle wealth around the world. Thus, the way to contain kleptocrats is to focus on banking regulations on a global scale.

What is a Kleptocracy?

Political commentators frequently critique foreign despots and crooked political leaders like Putin, Maduro, and

Berdimuhamedow in the news. The existence of corrupt leaders almost never surprises people, but one scathing title for their ilk has remained unpopular until recent years: kleptocrat, a denotation often used interchangeably with corruption.

The idea of offshore wealth is crucial to understanding a kleptocrat. With offshore wealth, illicit money physically lies within a certain domain and is accessible for use, but will legally be categorized elsewhere under a different jurisdiction. Such offshore conduct relies on these loopholes to protect perpetrators from legal ramifications. As of 2019, 52 percent of private wealth, which is held by the richest households in Russia, was offshore. In Africa, 30 percent of privately held wealth is offshore, and the rate jumps to 57 percent in the Gulf countries.³

With the development of international banking, avenues for politicians to hide their wealth have multiplied. Before the 1960s, one could obtain stolen money, but spending it was very risky. The 1960s saw the advent of tax-free bearer bonds, which enabled kleptocrats to both spend and save their stolen wealth. These bonds did not require registration of ownership or a record of one's holdings, functionally eliminating any paper trail. With this development, the "golden age of money laundering" was born.⁴ Now, laundered money makes up about two to five percent of global GDP.⁵

Laundered money poses threats far greater than expected. On one hand, it is less efficient than legally obtained money and can contaminate and corrupt legal transactions. Kleptocratic regimes are also very good predictors of economic downfall. Leaders can destabilize currencies by siphoning off a significant enough portion of the country's wealth. They can also jeopardize financial systems by favoring companies that they can collaborate with to build wealth, endangering the larger and more legitimate parts of the same sector. Once money is stolen, it is likely gone forever: only one-hundredth of every dollar stolen is recovered and given back to the public after the fall of a kleptocratic regime.⁶

Once a kleptocrat makes their fortune, they can use it to remain safely in countries with systems that protect their wealth. Often, these criminals will buy lavish houses in major western cities like New York, Los Angeles, and London. They ultimately avoid responsibility for their actions and are able to use their wealth to keep international penalties at bay.

How Money Is Hidden

The networks in which politicians hide their illicit money are vast and complex, forming a hidden realm of criminal money. Bullough describes this world as “Moneyland,” a place where leaders can use their wealth to hire armies of bankers and lawyers to scrub their money of any trace of illegal activity. This is often done by moving money through layers of businesses, especially shell corporations.

Shell corporations are corporations that hide wealth by separating money from the people who control it. Below enough layers of shell corporations, hidden money is impossible to trace. A famous example of a shell corporation is Pompolo Ltd., owned by Donald Trump's former campaign consultant and lawyer Paul Manafort. It was housed at 2 Woodberry Grove in London, an unassuming building for a company owned by the famously ostentatious Manafort. Bullough found that 2 Woodberry Grove was reported to have housed thousands of businesses over its short life. 29 Harley Street, a highly respected address in the heart of London's healthcare sector, is also home to over 2,000 companies.⁷ However, neither place actually houses any legitimate companies; the businesses registered to them are shell companies.

Networks of people can be used to aid a kleptocrat with their schemes, creating a “mobilization state” and ultimately undermining democratic systems. Mobilization states come into existence when a leader has created a network of loyal workers, often made up of military leaders, lawyers, bankers, and the like. Typically these people are on a kleptocrat's payroll and use their expertise to further their leader's personal desires. These kleptocrats will make sure to get multiple citizenships, hire swarms of public-relations experts, and engage in philanthropic activities – this is especially true

for the modern kleptocrat who must launder their fortune in broad daylight and manipulate their reputations with it. For example, a former leader of Azerbaijan gave lavish gifts, later found to total upwards of \$2.9 billion, to international officials to prevent them from voting on issues regarding political prisoners that would harm the country's reputation.⁸ This mobilization state has diplomatic consequences, allowing leaders to corrupt foreign institutions and banks.

Stolen money often ends up being spent in major real estate cities, such as New York, Los Angeles, and London. However, this money can be invested in nearly any big-ticket industry.⁹ Since 2008, around 30 percent of condo sales in luxury Manhattan developments have been sold to foreign buyers, with the majority of them paying the full price in cash upfront.¹⁰ Jonathan Miller, a well-known real estate consultant, says that luxury real estate has become a new global currency. London is the most popular city for this because it lacks co-ops, meaning neighbors are unable to veto others in the building. New York closely follows as the second most popular city, but co-ops allow the wealthy elite in Manhattan continually vote to keep these foreign buyers out of their buildings. To get around the issue of co-ops in Manhattan, buildings like 15 Central Park West were built. These buildings house what writer Michel Gross called the new “Global Super-Society,” a collection of very wealthy individuals that gained their wealth somewhat recently and keep their money in holdings across the globe.

Where Are These Kleptocrats?

Many countries, especially those that had established governments before World War II, are equipped with systems to mitigate corruption, such as the “checks and balances” system in the United States. However, newer and poorer countries have not been afforded the time and resources to develop institutions, such as internal regulators or congressional bodies, that could limit the power of heads of state or prevent a kleptocracy.

The structure of countries subject to kleptocratic regimes sustains these administrations for relatively long periods of time. Of course, corrupt leaders can change policies to promote their own desires, but there are some characteristics already in place. This often manifests in pre-existing inefficient systems that aim to move money from the masses to the ruling class. There are also strong incentives in place to reward supporters and intimidate detractors. One Ukrainian lawyer said that “the choice isn't between taking a bribe or being honest; it's between taking a bribe or your children being killed.”¹¹ Even if one does not want to participate in aiding a kleptocracy, they may be compelled into doing so.

The Cold War era, a time marked by mass decolonization, was the birth of many of the most famous modern kleptocratic regimes. The Cold War and the fall of the Soviet Union, as well as the end of World War II, left many countries to reconstruct on their own. This is exemplified in one

1983 report by the Nigerian government, noting: “high death tolls on roads, disregard for traffic violations... and the inability of the Nigerian Electric and Power Authority and the Nigerian Telecommunications Company to meet the country’s power and communication requirements.”¹² This created a new pathway for corrupt leaders to gain power in weakened countries, producing a new generation of kleptocrats.

Two Modern Kleptocrats

Kleptocratic ruler Viktor Yanukovich has served as a reminder that kleptocratic regimes did not die with the new millennium. When Ukraine was first liberated in 1991, the distribution of wealth was mostly even, but in 2013, 45 people held assets that equaled half of the country’s economy. Yanukovich was president of Ukraine from 2010 until 2014 when he was removed from office through a revolution. During his presidency, he would speak as a man who cared about the average citizen. At the time, he’d been known to be wealthy, but the extent of his assets was still hidden from the public. When revolutionaries entered his newly evacuated homes, they discovered that the houses were lavish beyond belief, a level of gauche that must be compared to Baroque French nobility. Yanukovich’s story reveals another fact about kleptocracy: even though his regime may have collapsed, it is proving impossible to find all of his wealth. Since Yanukovich’s fall, Ukraine has been left to rebuild.¹³

The story of Suharto, the former president of Indonesia, is another example of a modern kleptocrat. During his 30-year reign, Suharto and his family managed to steal \$35 billion from Indonesian citizens, amounting to over 4% of the country’s GDP.¹⁴ Despite making minor campaigns against corruption, which were mostly confined to the first decade of his reign, he eventually earned the title of the most corrupt leader from Transparency International.

The Suharto family accomplished this by favoring companies owned by the president’s family for government contracts, a system dubbed “KKN,” which is the Indonesian acronym for corruption, collusion, nepotism.¹⁵ These companies would grossly overcharge the government and the family would pocket the surplus. Or, third-party companies would have to be aided by someone close to Suharto to conduct their business, needing their help navigating extensive red tape. For example, the country privatized its water in the mid-90s, and the company that gained control of the system had to pay Suharto’s son, Sigit, 20 percent of their shares.¹⁶ The family’s companies would also frequently borrow from the national bank, Bank Indonesia, and wouldn’t have to pay back their loans. Shortly before Suharto left in 1998, the country experienced an extreme economic downturn, around 1997, and it took until 2004 for the country’s GDP to reach pre-crash levels.¹⁷

Keeping Klepts In Check

The greatest hope for combating these kleptocrats is international regulation. A lack of regulation has allowed corruption in these kleptocracies to flourish as they take advantage of the newest loopholes. These solutions must also be made on a global level to ensure that there is no safe haven to hide.

While some international officials and agencies may be subject to influence by the money of kleptocrats, others have made it their mission to combat these corrupt regimes. The International Monetary Fund (IMF) has led anti-corruption efforts, outlining its goals in global addresses over the years. The IMF seeks to ensure that its Financial Action Task Force has the power to enforce regulations and to supervise banks on a global scale. It has found that regional task forces tend to be the most successful, especially if efforts are presented as a mission, giving moral value to task force goals.¹⁸

Transparency International is another organization devoted to combatting kleptocratic regimes. Headquartered in Germany, the organization aims to combat corruption at every turn, taking a special interest in making the public aware of corruption on a country-by-country basis. They created the Corruptions Perceptions Index in 1995, now the most widely used measure of corruption, which scores each country out of 100.¹⁹ The higher the score the less corruption is present. Currently, the United States has a score of 67, placing it as the 27th-least-corrupt country in the world. Indonesia’s score is 38, putting it in 96th place, and Ukraine’s score is 32, putting it in 122nd.²⁰ Interestingly, Indonesia’s score is rising despite its relatively volatile economic recovery in the wake of Suharto.

Expert agencies have also identified direct banking actions that can help reduce kleptocratic crime. Their biggest focus is on limiting the movement of illicit money across borders. The ability to move money offshore gives more flexibility to those who have it because the bounds of what they can do with their newfound wealth all but disappear. Considering kleptocratic regimes skyrocketed with the rise of globalization, it only follows that one of the best ways to combat kleptocracy is to remove the benefits of a global economy.

The problem of kleptocracy is a global one, so the treatment must be applied on a global scale. As long as one sovereign state is willing to house illicit money, there will be a place for kleptocrats to move it without legal repercussions. Furthermore, due to the structure of the global economy, as long as one jurisdiction is friendly to kleptocratic stolen wealth, it can provide methods to hide money and enable the kleptocracy to flourish. It is a problem that violates the pure existence of a government, breaking the trust between citizen and government in the most basic way. A kleptocrat treats their populace as nothing more than a body to steal from, a Machiavellian avenue to increase their own wealth. The measures to defeat these leaders should be similarly aggressive and make use of extensive global cooperation.