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THE STRUCTURE OF CORRUPTION

A Systemic Analysis Using Eurasian Cases

Sarah Chayes

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About the Author

Sarah Chayes is a senior associate in the Democracy and Rule of Law Program at the Carnegie Endowment for International Peace. Her work explores how corruption exacerbates international crises such as terrorism, revolutions and their violent aftermaths, and environmental degradation. She is the author of *Thieves of State: Why Corruption Threatens Global Security*.

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Summary

Corruption is gaining recognition among civil society and government decisionmakers alike as a central factor in many of the world's worst problems. It is acknowledged as a cause not only of persistent poverty and underdevelopment but also, increasingly, of many of the security challenges undermining global stability. Yet the understanding of the way it functions lags behind this realization—as does, therefore, the likelihood of devising good remedies.

A prerequisite to building an effective anticorruption approach is an intimate—and unflinching—examination of the specifics of corrupt operations in the individual country of interest and its physical and electronic neighborhoods. The picture that emerges from such an analysis can help in tailoring effective anticorruption efforts, and should inform any interaction with such a country, to avoid reinforcing such networks and their practices.

Key Themes

- Corruption is not just the behavior of some venal officials in a particular agency; it often represents the operating system of sophisticated—and successful—networks.
- Examination of three dissimilar Eurasian countries—Azerbaijan, Kyrgyzstan, and Moldova—reveals some of the ways these networks may structure themselves.
- Distinctions between public and private sectors, licit and illicit actors hardly apply. Kleptocratic networks integrate across sectors, with some individuals playing multiple roles. The network leader may be outside government.
- Ruling kleptocratic networks harness levers of government power to the purpose of maximizing gains or ensuring discipline. Other elements of state function are disabled, meaning capacity deficits may be deliberate.
- These networks' practices are facilitated by developed-country business registration service providers, or real estate agents that sell to

suspect buyers. But Western enabling goes further. Military and development assistance, the character of diplomatic relations, even foreign direct investment can contribute to an incentive structure that rewards corruption.

- Investigative journalists and civil society organizations are well positioned to develop the information an analysis of such systems requires, but they may need help framing their efforts—which alone should not be expected to bring about change.
- A clear infographic presentation of the structure of such networks may be helpful in driving home these realities.

Some Framework Questions for a Structural Analysis of Kleptocratic Systems

- What elements of governmental function have been deliberately shaped or disabled to serve the enrichment objectives of the kleptocratic network?
- Are the networks vertically integrated; if so, how?
- What elements of the private, ostensibly nonprofit, or criminal sectors are integrated into these networks?
- What institutions or factors outside the country enable the networks' activities?
- What revenue streams are captured and where and how is the money secured or spent?

Introduction

Recent events have made corruption and its consequences difficult to ignore. In the single year 2015, like an unremarked rerun of the Arab Spring, mass protests broke out in Brazil, Guatemala, Honduras, Iraq, Lebanon, Malaysia, Moldova, and South Africa, among other countries, ultimately toppling two chiefs of state and threatening others. And those were hardly the most virulent demonstrations of corruption's destabilizing effects. Its role in the rise of the self-proclaimed Islamic State or of the gangs that terrorize Central American neighborhoods is increasingly clear. In the wake of the Unaoil and especially the Panama Papers revelations,¹ Western citizens are becoming increasingly sensitized to the severity and scope of the phenomenon as well, and have demanded accounts from their own political leaders.

In this context, anticorruption activists, both in afflicted countries and in the West, are reinforcing their campaigns. Policymakers are challenged to respond. The scramble to find approaches that work is on.

In May 2016, British Prime Minister David Cameron convened a first-ever chief-of-state-level summit to gain some consensus and commitments on steps to facilitate the fight against corruption internationally. Civil society organizations and investigative journalists have doubled down on efforts to shatter secrecy protections shielding the identities of the real beneficiaries of shell companies and the assets they hold. The U.S. Congress is considering expanding to the rest of the world language the House approved in the wake of the 2014 Ukraine crisis authorizing the imposition of sanctions on officials "responsible for, or complicit in, or responsible for ordering . . . acts of significant corruption in the Russian Federation." Among the corrupt practices the original bill enumerated were "the expropriation of private or public assets for personal gain, corruption related to government contracts or the extraction of natural resources, bribery, or the facilitation or transfer of the proceeds of corruption to foreign jurisdictions."²

That's a fair list of the principal types of activities that make up corruption in this early twenty-first century.

But corruption as it is currently manifested across much of the globe is not just a collection of practices indulged in by some—or even a large number

In the single year 2015, mass protests broke out in Brazil, Guatemala, Honduras, Iraq, Lebanon, Malaysia, Moldova, and South Africa, toppling two chiefs of state.

of—officials. In a striking number of countries, corruption represents the adaptive behavior of sophisticated structures. These structures have deliberately bent or crippled key elements of state function in order to capture important revenue streams, ensure impunity for network members, and provide opportunities to secure and flaunt the gains—in a world in which the accumulation and display of wealth has increasingly become the chief marker of social value and success.

The networks that perpetrate such whole or partial state capture frequently coalesce around a kinship kernel. They cross international boundaries and vertical echelons, and weave together public-sector (and state-owned-enterprise) and ostensibly private-sector actors with outright criminals, sometimes including terrorists. But because the elaborate and purposeful nature of such structures has not drawn an equivalently sophisticated study by those who would address the problem, remedial efforts often fail to make much impact.

While a sanctions authorization, for example, and public listings of the beneficial owners of companies registered in all U.S. states would provide essential tools that could be applied to specific situations, on their own they don't guarantee corrupt practices will be curbed. The question is how strategically and with what degree of concerted focus they are applied.

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Burgeoning protests and civil society actions have often fizzled out short of achieving meaningful reform, either within existing frameworks or by attempting to build new ones. Such disappointments seem, so far, to mark the experiences in Guatemala, Lebanon, Moldova, and South Africa. Even in countries where more dramatic anticorruption uprisings have resulted in regime change, such as

Egypt, Kyrgyzstan, Tunisia, and Ukraine, civil society has struggled to prevent an alternate network from simply stepping into the void left by the collapse of the old one, with little change in the underlying scheme.

The unconvincing record may be at least partially due to the lack of a systematic analysis, on the part of campaigners and their supporters abroad, of the complex, structured, and often transnational phenomena they seek to reform. Beleaguered civil society organizations may be scattering precious resources, rather than concentrating them against high-value system vulnerabilities. Or broad-based social movements may fail to predict and plan for likely system countermoves or reinforcement from abroad, with the result that they crumble in the face of determined or violent reactions. Or else reformers may not be equipped to capitalize on a brief window of opportunity with tailored institutional modifications that could shut down key functions of the kleptocratic system they oppose.

Outside efforts, meanwhile, such as international legal proceedings or individual sanctions, have to date been too piecemeal to fundamentally alter the incentive structure shaping kleptocratic officials' decisions. Especially when the countervailing signals—sent by foreign direct investment in captured

industry, for example, or generous military assistance to an offending regime, stature-enhancing state visits, or unfettered access for corrupt financial flows to banks and property markets—remain so powerful.

Improved analysis that could help guide more effective anticorruption initiatives must be highly specific to each situation under consideration. It must be informed by an intimate, on-the-ground understanding of the personnel and practices of the local kleptocratic networks and their international interlocutors, with attention to a calendar of internal and external events that might provide opportunities for—or thwart—initiatives.

To assist such analysis, a common framework of questions and a way of organizing the resulting information could help shape the inquiries and improve their legibility, and facilitate cross-country analysis, comparison, and action. Alongside examples from elsewhere, Azerbaijan, Kyrgyzstan, and Moldova model such a framework in the following pages, illustrating its key elements, typical country-specific divergences, and some knotty problems encountered during research, which would require further elaboration for a comprehensive examination of these or other countries.

These focus countries were deliberately selected to reflect different degrees of evident authoritarianism (therefore different implications for how civil society can even function to promote change) and different relationships with the European Union (EU) and other Western partners. The information provided here is derived from the practical experience of civil society groups on the ground (representatives of which met for a three-day workshop in September 2015 to launch this effort) together with more traditional research methods. A noticeable tightening of repression in Kyrgyzstan—including against some of the participants—made it the most difficult to depict in up-to-date detail. In any case, a definitive analysis would require more granular, on-the-ground research employing a variety of investigative techniques. These countries' role here is largely illustrative.

A brief sketch of relevant recent history in each follows, to set the stage.

Historical Background

All of these countries were part of the former Soviet Union and still depend on Russia to some degree. But they diverge in their ethnic and cultural complexions, resource bases, and political processes. All of them can be described as kleptocracies, though network structures and practices differ in significant ways.

Azerbaijan

Since 1993, Azerbaijan, home to some 9.8 million people, has been ruled by one man and his son. Authorized opposition parties have obtained official results reaching no higher than single-digit percentages of the vote in presidential elections held every five years. In 2003, Ilham Aliyev succeeded his father,

former KGB officer Heydar Aliyev, in such an election. This transition to a younger autocrat, like nearly contemporaneous ones in Morocco and Jordan (in 1999) and Syria (in 2000), was initially greeted with some optimism as to its potential for ushering in reform. As in the three Arab cases, however, such hopes have been disappointed in Azerbaijan. Ilham Aliyev has surprised many observers with his deftness and determination in consolidating power, including obtaining the passage of constitutional amendments in 2009 that abolished term limits, and with the severity of his recent crackdowns on civil society and the media—not to mention some erstwhile network members.

It was within the borders of today's Azerbaijan that, sometime in the second millennium BCE, jets of fire spontaneously alight in the low-lying flats by the Caspian Sea contributed to the emergence of one of the world's great religions. Zoroastrianism holds fire to be an emanation of God, linking it to truth and purity. But the ultimate destiny of this particular fire was to diverge sharply from the Zoroastrian ideal.

Those sacred fountains were produced by hydrocarbon reserves so significant that today's Azerbaijan was also the site of some of the world's first commercial oil wells and refineries, and was producing as much as half the world's output at the end of the nineteenth century. Oil and gas are estimated to account for more than one-third of the country's gross domestic product (GDP), and three-quarters of its government revenues.³

This combination of a repressive, authoritarian government and a volatile and unaccountable resource-based revenue stream has led to a structuring of Azerbaijani state institutions around systemic corruption—and compounds the difficulty of reform.

Plunging oil prices, however, have led to a sharp economic downturn, including a currency devaluation resulting in soaring prices for consumer goods. According to the government's own figures, the country is in a recession, with GDP growth in the first quarter of 2016 estimated at -3.5 percent.⁴ This slump represents a drop from 5.8 percent growth reported by the World Bank in 2013, and a staggering 34.5 percent in 2006.⁵

The country's geostrategic situation—as a potential alternative to Russia for energy supplies and a potential counterbalance to its neighbor Iran, with which it shares adherence to the Shia strand of Islam, but frosty relations—have perhaps influenced Western interlocutors to soften their assessment of its government to some degree. But the features of Azerbaijan's political economy explored below are cause for concern.

In more than half a dozen cities in January 2016, despite the harsh political context, protesters poured into the streets, and riot police and soldiers broke up demonstrations.⁶ Rising prices for staple goods sparked the events, but marchers castigated the country's tentacular, inescapable corruption, too. Meanwhile, Azerbaijan's prisons contain several dozen political detainees, including purported supporters of radical Islamist movements, whose recruiters often gain traction with arguments against the corruption of secular regimes, as they

have in a number of Central Asian countries, Afghanistan, Iraq, and Nigeria.⁷ The combustible combination of corruption, repression, and a sharp economic downturn has not yet sparked a conflagration in Azerbaijan, but the potential is there.

Kyrgyzstan

Lacking significant natural resources, Kyrgyzstan (with a population of less than 6 million) has by default a more diversified economy than Azerbaijan. Agricultural production accounts for about one-quarter of GDP; mining, especially of gold, brings in some 10 percent, and almost all of the country's electricity is locally generated hydropower.⁸ Were it not for earnings sent home by its citizens who have been forced to seek work in Russia, however, the country would probably be bankrupt. Remittances make up as much as 30 percent of the country's approximately \$7.4 billion GDP.⁹ And black-market commerce, including the international narcotics trade, is a vibrant economic activity. Even so, nearly one-third of the population lives in poverty, as defined by the World Bank in 2014.¹⁰

The only reasonably pluralistic country to emerge in Central Asia after the fall of the Soviet Union, Kyrgyzstan enjoys a comparatively positive reputation. Still, it was already taking an authoritarian turn by 2000. After what came to be known as the Tulip Revolution, which ousted the first post-Soviet leader in 2005, the country provided a taste of what was about to sweep the Arab world when protests at least partly fueled (as was the Tulip Revolution) by indignation at pervasive corruption toppled the government of then president Kurmanbek Bakiyev in 2010.

After widespread shock at the degree to which the previous administration of Askar Akayev had diverted large sectors of the economy to his own or his family's benefit,¹¹ many in Kyrgyzstan were outraged that just five years later, Akayev's successor—who had ridden to power on an anticorruption platform—was looking even worse.¹²

Bakiyev had appointed family members or close personal friends to key cabinet positions.¹³ The Central Agency on Development, Investment and Innovation, run by his son Maxim, served essentially as a money-laundering clearinghouse, passing revenues from the telecommunications sector, development assistance, contracts with the U.S. military, and other sources to shell companies and bank accounts in the West, especially the United States, the United Kingdom, and Austria. The Bakiyev network dominated the black market and the narcotics industry, and deliberately disabled the nation's Drug Control Agency.¹⁴

In early April 2010, amid dismay at this betrayal of the Tulip Revolution's principles—and sharply rising public utility prices—a day of protest called by opposition parties escalated into a nationwide movement. After clashes with the police, demonstrators stormed the White House, Kyrgyzstan's presidential palace, and Bakiyev fled the country on April 15.

This revolution lurched out of control just two months later, when support for and opposition to the interim government fell out along ethnic lines in some southern towns, with rioting and widespread killings, largely, but not exclusively, of ethnic Uzbeks (who broadly favored the revolution and transition) by ethnic Kyrgyz. A struggle to consolidate control over the narcotics industry may also have played a part in motivating the violence.¹⁵ Tens of thousands of refugees fled across the Uzbekistan border.¹⁶

Amid this chaos, a revised constitution, enacted in June 2010, represented a new effort at establishing parliamentary democracy. But the ethnic rift dividing the country remains painful, and ethnic Uzbeks are still largely disenfranchised. A list-based voting system does not allow for personal connections between individual officeholders and any given constituency, thus preventing sanctions at the polls for officials not seen to be serving voters' interests.

The consensus among civil society activists from Kyrgyzstan is that the new dispensation has done little to change prior corrupt practices, including electoral fraud, shakedowns for basic public services, and physical intimidation of regime critics, which seems to have increased in the first quarter of 2016.¹⁷ Transnational criminal organizations continue to prosper, trafficking drugs and other types of contraband across the country's borders, and official anticorruption efforts are often criticized as window dressing or politically motivated. The structure of the dominant network is far looser than it is in Azerbaijan or Moldova, with subordinate officials, advisers and confidants, as well as local officials, capturing much of the gain.

Until 2014, Kyrgyzstan's critical role as the host of Manas, one of the most important regional military bases servicing the war in Afghanistan, shaped its external relations, allowing successive leaders to play Russian and U.S. interests off against each other in a bidding war to gain control of the base.

Moldova

Even smaller in terms of population than Kyrgyzstan, Moldova (with approximately 3.5 million people) has been convulsed by political upheaval and popular protests since May 2015, when the speaker of the parliament, Andrian Candu, leaked a central bank-commissioned report on suspicious money transfers from the country's top three private banks.¹⁸ No less than \$1 billion—or fully 12 percent of GDP—had been spirited offshore into accounts held by shell companies domiciled in places like Delaware in the United States, Scotland, and Belize, according to auditors from the Kroll investigations and risk management firm.

The country erupted. Marches and tent villages lining the stately downtown streets of the capital, Chişinău, have been a feature of everyday life ever since. In January 2016, protesters stormed the parliament after deputies broke months of deadlock to approve a new cabinet, which recycled a number of former top officials and included Pavel Filip as prime minister, a man many see as a proxy for the country's most powerful oligarch, Vladimir Plahotniuc.

Squeezed between Ukraine and Romania on the EU's eastern border, Moldova has long served as a corridor for contraband, notably women trafficked via the Balkans for sex in Europe, and a variety of foodstuffs and consumer goods.

According to civil society activists, government reforms enacted in 2010 as part of negotiations aimed at strengthening ties with the European Union and charting an eventual path toward accession reduced street-level extorted bribes, especially by the police, at least temporarily. Yet epic corruption has persisted in the judiciary and the Ministries of Finance and Education, among other agencies.¹⁹ And most agree that Moldova's two dominant corruption networks were left largely undisturbed.

Parliament Speaker Candu's leaking of the Kroll report and the subsequent arrest of a former prime minister and head of one of those networks, Vladimir Filat, are seen by some not as harbingers of true reform, but rather as a kind of hostile takeover of Filat's network by the now-dominant structure of Vladimir Plahotniuc. Candu is a well-known Plahotniuc confidant.²⁰

The cultural, or language-identity, rift that Moldova shares with Ukraine—between those who favor more integration with the West and speak Moldovan (a language close to Romanian) and the minority who identify more strongly with Russia—adds a separate element to this dynamic. It may prove distracting to some Westerners. Their tendency to view situations on Europe's eastern marches in terms of an East-West geostrategic contest may obscure the importance of corruption as a driver of popular discontent, and lead to counterproductive policies.

The fact is that both of Moldova's kleptocratic networks are nominally pro-EU. So some people's Russian-leaning tendencies may reflect a simple desire for an alternative as much as a sense of cultural affiliation—let alone an active belief that Russia offers a markedly better governance model than the West. In the January 2016 protests opposing Filip's selection as prime minister and demanding stepped-up anticorruption measures, civil society activists from across the identity divide joined forces.

While the International Monetary Fund, the World Bank, and even the EU have recently suspended foreign aid for varying periods, Romania and the United States, perhaps susceptible to the Plahotniuc network's ostensibly pro-Western imaging, continue to play an enabling role. Financial assistance from both is rising, and senior State Department officials welcomed Plahotniuc in a stature-enhancing visit to Washington in May 2016.

The situation in Moldova remains extremely fluid, with activists keeping up the pressure for systemic reforms. A restructuring of the state prosecutor's office and mandate is under way, and in early March 2016, the constitutional court invalidated a 2000 law under which the president was chosen by the parliament rather than by a popular vote.

The tendency to view situations on Europe's eastern marches in terms of an East-West geostrategic contest may obscure the importance of corruption as a driver of popular discontent.

The Analytical Framework

Devising effective anticorruption approaches to countries like these requires digging beneath the narratives of their unique and divergent histories to find underlying structures. Tailored remedies require an understanding of the architecture of economic and political power, as well as the way each kleptocratic network has harnessed elements of state function to its own purposes and has exploited its circumstances and those willing to enable its activities, wittingly or not. To gain such an understanding, it is helpful to apply a common set of questions to each situation, and depict the results as clearly as possible.

Any such depiction will, of course, represent a compromise: between clarity and detail, multidimensional realities and two-dimensional representations, well-founded suspicions and hard proof. The infographics that follow may seem to imply separation between the sectors of what are in fact deeply interpenetrated networks. Some compromises had to be made in the interests of a visual clarity that might, in its own right, spark realizations. Educated guesses will sometimes have to stand in for firm pronouncements about what are constantly shifting but remarkably resilient structures. Nevertheless, the following provides a basic, if inevitably incomplete, entry point.

If corruption is seen as the deliberate practice of one or more networks of interrelated individuals that are at least somewhat organized, then the network structures and modes of operation should be ascertained and depicted in as much detail as possible, through answers to the questions below. Comparative examples that illustrate some of the distinct forms such structures can take are drawn from Azerbaijan, Kyrgyzstan, and Moldova, along with several other countries.

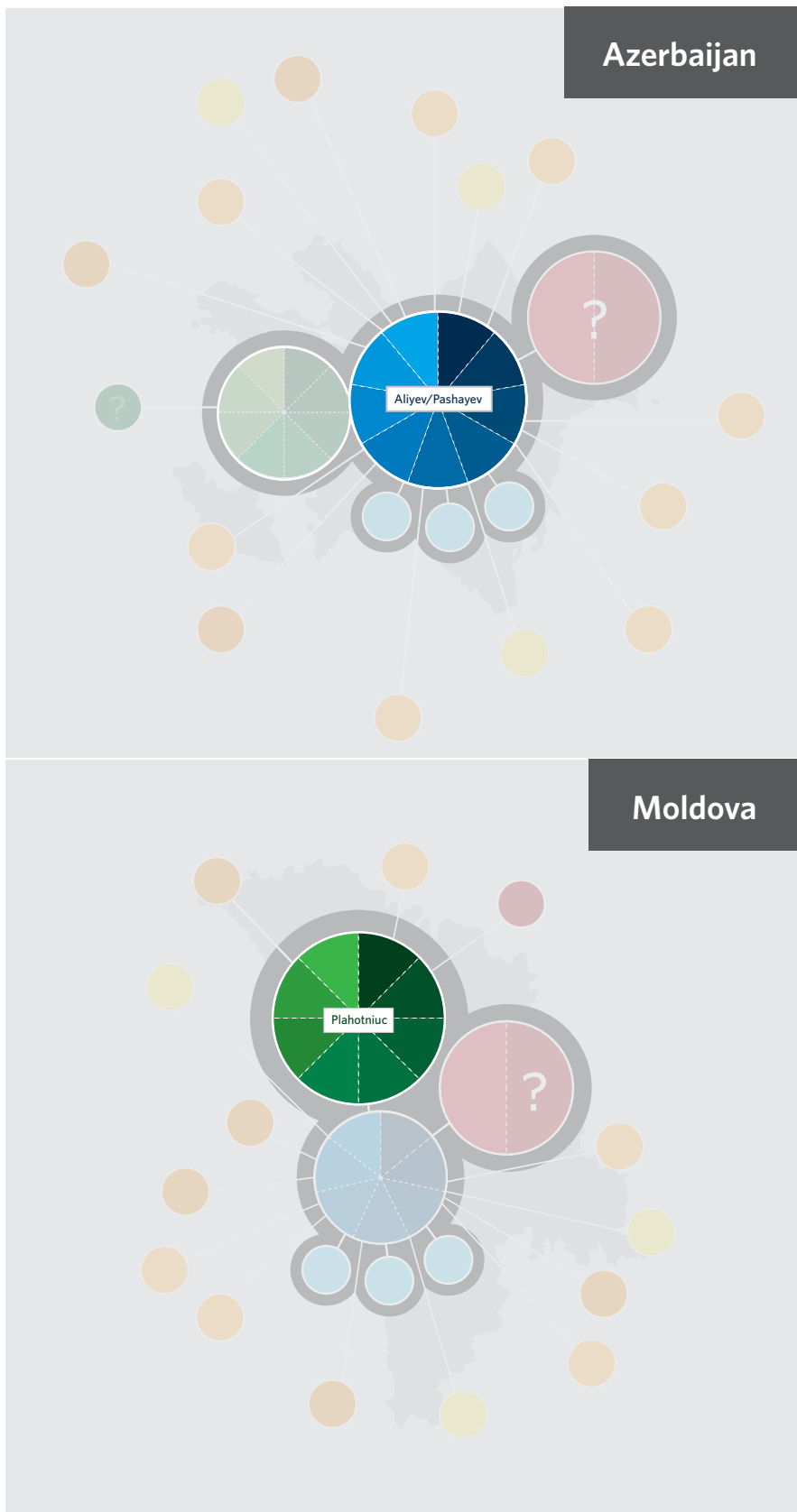
Does a single network dominate?

For Azerbaijan, for example, given regime continuity reaching back to before the collapse of the Soviet Union, the answer seems to be yes. Still, some separation does exist between the networks controlled by the families of Aliyev and of his wife, Mehriban Pashayeva Aliyeva.²¹ President Aliyev must manage the competition. Some people point to the dismissal of the then minister of state security in October 2015, as well as Minister of Emergency Situations Kamaladdin Heydarov's sale of several hotels, as evidence that Aliyev is actively disciplining the network. The incidents may also suggest that fissures are deepening.

In figure 1 below, the blue circle representing government elements of the network is labeled with the names of both of the leading families, to reflect the divided authority.

To Western eyes, Moldova presents an entirely different picture. It is by far the most democratic of the three countries examined here. Indeed, as of 2014, Moldova has been bound to the European Union by an association agreement, similar to those negotiated with neighboring Georgia and Ukraine. Civil

Figure 1. Network Dominance



society activists have taken over neighborhoods in the capital without serious fallout.

And yet, Moldova's kleptocratic network appears to be almost as unitary as Azerbaijan's. According to local and international experts, the separation that once existed between Vladimir Plahotniuc's larger and more powerful group and the smaller one structured around former prime minister Vladimir Filat has largely collapsed over the past year.

Unlike the situation in most other highly corrupt countries, however, Moldova's network is not dominated by a chief of state. Plahotniuc holds no government office, but from outside official institutions has managed to stack government structures with either his cronies or individuals too weak to threaten his operations. Perhaps reacting to—but reinforcing—this aberrant reality, international interlocutors sometimes seem to treat him as a stand-in for the government.²²

Figure 1 illustrates this Moldovan peculiarity by displaying the network leader's name not in the blue government circle, but in the green circle, which represents private-sector network elements.

How dependent is the network's functioning on the person of the chief of state? Or instead, is there a significant cadre of network members who could re-combine and retain their grip on the economy and key aspects of political function if the network is decapitated?

This is a question that should preoccupy local civil society actors who are demanding reform as well as their international supporters, especially if they have met with so much recalcitrance for so long that they are driven to demand dramatic remedies, such as high-level resignations or legal proceedings against senior network members. The identities, contexts, and inclinations of likely successors to the current ruling networks merit exploration in as much detail as possible.

For, as recent events in Egypt, Kyrgyzstan, Tunisia, and Ukraine demonstrate, even networks that seem clearly to be dominated by a single individual display a remarkable ability to rebound after he and his family members are removed from dominance—or the country. The mechanisms by which that resilience is achieved should be carefully examined.²³

In the case of Moldova, the identity of the chief of state is nearly irrelevant to the network's functioning. President Nicolae Timofti has complained of Plahotniuc's bald interference in political affairs.²⁴ Moldova's degree of formal democracy may not, therefore, be as important a factor shaping its real political economy as Westerners may think.

The constitution of Kyrgyzstan—perhaps the most loosely structured of the three systems—permits presidents to serve only a single six-year term. A significant transition is therefore expected after the 2017 presidential elections. In the lead-up, repeated episodes of harassment reported by civil

society activists and journalists suggest that President Almazbek Atambayev may be intensifying efforts to consolidate control.²⁵ Such developments suggest that the functioning of at least one network may rely considerably on the chief of state himself. But there seems to be significant play even within his network, and any serious rivals likely command networks of their own. Jockeying and repositioning is to be expected.

In Azerbaijan, the person of President Aliyev is clearly central to the functioning of the current network.

How important is kinship to the network structures?

Family ties (principally relatives of Aliyev on the one hand, and his wife, Pashayeva Aliyeva, on the other)²⁶ are key to dominance within Azerbaijan's allied network. According to the Organized Crime and Corruption Reporting Project's (OCCRP) Miranda Patrucic, who has had access to the unexpurgated Panama Papers materials, one of the most remarkable aspects of the complex web of companies the Panamanian law firm Mossack Fonseca established for the Aliyevs was its layering. The couple's children and other young or more distant relatives are built in as subsidiary beneficiaries of the fortune being amassed by the joint network.²⁷

To what extent does competition exist within the dominant network?

Competition is a fact of life in this kind of system, animated as it is largely by self-interest. Even in Azerbaijan, evidence of rivalries can be discerned. They are far more pronounced in Kyrgyzstan. Both outside of President Atambayev's circle and even within it, considerable rivalries pit players against each other. This sometimes kaleidoscopic friction is greatest across the country's north-south ethnic and political divides, where conflict erupted in 2010.

Such identity-based cleavages often exacerbate the tendency for kleptocratic governance to fuel outright violence, as has been the case in Iraq and Syria. Canny network chiefs, like Syria's Bashar al-Assad or the Karzais in Afghanistan, often take pains to federate the top layer of their networks across these ethnic or sectarian cleavages, so as to co-opt at least some part of out-group elites. But perhaps because today's information technology and social media facilitate the organization of leaderless movements in which elite direction is no longer requisite, such efforts have in neither case succeeded in maintaining peace or restoring it once violence has broken out.

Competition can open up vulnerabilities in the network or suggest potential allies for reform-minded activists (be the reformist sentiment real or counterfeit). But it can therefore also present a danger, by increasing the likelihood of violent eruptions, which may quickly spin out of control, in case of intensified pressure on the network.

Where one network does not dominate, do relatively evenly matched networks peacefully coexist?

This dynamic is rare in kleptocracies with well-developed state institutions. Pakistan is one of the few examples. There, military and civilian kleptocratic networks essentially divide up the cake, while criticizing each other publicly (though the military has a stronger hold on the levers of political and economic power, and may influence the electoral chances of a given civilian candidate). Kyrgyzstan is the only country examined here that might be seen to fit this model, though competition or taking turns perhaps more accurately characterizes the relations among networks, rather than shared spoils or coexistence.

In the case of multiple networks, how contentious is their rivalry?

In Egypt, an up-and-coming private-sector crony-capitalist network woven around then president Hosni Mubarak's son Gamal was brought down in favor of a stronger military network, by way of the 2011 Tahrir Square revolution and the subsequent coup against then president Mohamed Morsi. The military network, under the leadership of President Abdel Fattah el-Sisi, now dominates. A less intense degree of rivalry pits Thailand's economic elites against a military network empowered in a 2014 coup, and the same might be said about Honduras's current ruling network, with its focus on infrastructure projects and land-based revenue streams, and the more economically powerful business elite in control of such modern economic sectors as telecommunications. In more chaotic countries, such as Somalia, the kleptocratic competition itself may be a main cause of chronic conflict. The obvious competition between the Moldovan networks of "the Two Vlads" has been largely conducted via leaks and judicial proceedings; in Kyrgyzstan, such competition arguably helped fuel the violence of 2010.

What elements of state function have been deliberately bent or distorted by the networks with the aim of extracting resources and/or ensuring compliance?

Even in the brighter light that has been shed on the problem of late, corruption is still largely seen as the work of separate individuals, and as parasitic on government function—as a cancer or corrosion eating away at government institutions. In reality, in dozens of countries on almost every continent, corruption has become the central principle structuring governments. Ministries or departments become a set of instruments in the hands of the kleptocratic networks that they harness for the purpose of sustaining and maximizing their personal revenues and assuring their impunity. Consequently, anyone seeking to interact with corrupt structures of this sort needs to know which government agencies are the most critical to advancing the network's purposes.

Given the importance of impunity to the kleptocratic bargain that typically connects subordinate officials to their superiors—some proportion of the cash corruptly amassed in exchange for freedom from repercussions—the judicial branch is almost always at least partially captured. Afghanistan’s then president Hamid Karzai didn’t even bother to hide the fact (indeed, he might be understood to have deliberately broadcast it to subordinate members of his network), publicly boasting about his ability to have an arrested suspect released with a phone call.²⁸

Tax authorities frequently serve coercive purposes alongside their usual revenue-generation duties. In Tunisia, when Zine el-Abidine Ben Ali was president, even the Ministry of Agriculture or the local water department might play a role, as, for example, when network insiders sought to obtain high-quality deglet nour dates for export at below-market prices.²⁹ There, as in Moldova, a compliant central bank allowed for network looting of private financial institutions.³⁰

In resource-rich countries, oil ministries, or ministries of energy or mining, are almost always placed under direct network control. In Kyrgyzstan, hydroelectricity and the Ministry of Energy and Industry play a poorer but similar role to that played by oil, the State Oil Company of the Azerbaijan Republic (SOCAR), and the Ministry of Energy in Azerbaijan.

Note that this question overlaps to some degree with another below on revenue streams captured by the networks. In some cases, a judgment call will be required to determine to which category an agency or branch of government should be assigned. Kyrgyzstan’s Ministry of Finance, for example, can be understood both as a repurposed element of state function that serves to ensure docility, and as the provider of a revenue stream for the personal benefit of the network, through manipulation of customs enforcement.

According to several interviewees, the Moldovan Ministry of Economy fulfills a similar dual function, not only by way of differential tax and customs enforcement but also by requiring national utility companies to pass electricity or telecom services by way of network-affiliated intermediaries, which skim off some proportion of the rates being paid.³¹ In the case of electricity, those rates rose by about one-third over just a few months at the end of 2015 and the beginning of 2016.³²

Cynically, anticorruption agencies or economic crime investigations units are often trained on the opponents of a corrupt regime. The effect is not just to intimidate potential reformers but also to confuse the broader population (and sometimes international donors), so that a paralyzing sense of futility sets in, a conviction that no principle has meaning or is anything other than a hypocritical facade. In many Central and Eastern European countries, civil society activists decry the hijacking of the anticorruption narrative—and coercive tools—by kleptocratic networks.

In resource-rich countries, oil ministries, or ministries of energy or mining, are almost always placed under direct network control.

Moldova’s National Anticorruption Center is believed to keep files on various government officials and is criticized for preferentially targeting those who buck the Plahotniuc line. The Economic Crime Unit of the National Inspectorate of Investigations plays a similar role, with senior officers ensuring impunity by tampering with evidence.³³ According to civil society participants in this mapping exercise, the Special Operations Department collects information on potential Plahotniuc rivals and is sometimes deployed in ways designed to intimidate.

Figure 2. Government Functions Bent to Serve the Network



What instruments of coercion or violence do the networks rely upon to enforce discipline, both on network members and on the population at large, especially activists or media?

The Moldovan example, illustrated in figure 2 above, leads directly to this subquestion on the use of physical force. From a security perspective for local activists—but also for international providers of military assistance, or training or capacity building for local police—it is critical to answer this question with precision. Careful intelligence collection and analysis should be devoted to understanding the real connections between informal armed groups operating in civilian clothes and official security structures.

High-profile examples of such partnerships include the camel-riding “thugs” who invaded Cairo’s Tahrir Square during the 2011 revolution, and the likely assassins of Honduran environmental activist Berta Cáceres in March 2016.³⁴ There, as in Thailand, with recent coups in both countries, the army plays a more central coercive role than the police. In some cases, network leaders may tighten their control over a more independent instrument of force by creating substructures they consider more loyal. Honduran President Juan Orlando Hernandez seems to be doing this through the formation and expansion of a new militarized police brigade, the Military Police for Public Order.³⁵

In Kyrgyzstan, both the special Interior Ministry police (SOBR) and informal thugs technically external to the government, but in fact answering to corrupt officials, may be employed for intimidation purposes.³⁶

It is important to remember, however, that sometimes the mere threat of violence or job-loss is sufficient to intimidate network members or the population at large.

What elements of state function have been deliberately crippled or allowed to languish or else cannibalized for the revenue streams they provide?

Here, overlap with the revenue-streams question below may be especially significant, as some branches of government may be disabled as a by-product of the theft of their budgets, rather than deliberately to advance a separate strategic objective. There is no reason not to double-list some branches or agencies of government to assist in forming a nuanced understanding. Egregious examples include the kleptocratic pillaging of the Iraqi and Nigerian militaries in 2014, to the point that both institutions were helpless to confront relatively low-grade asymmetric threats, from the Islamic State and Boko Haram, respectively.

How vertically integrated are the kleptocratic networks?

Too often, corruption is considered piecemeal, and so-called petty corruption, perpetrated against ordinary people by low-level civil servants, is

dismissed as insignificant or “part of the culture”—as it is so often presumed to be—or is explained away by low salaries. In fact, in almost every case of severe and structured corruption, strong vertical connectivity is integral to the system.

Typically, this integration takes the form of payments by subordinate echelons to their superiors either of a percentage of the bribes or kickbacks they extort (in money or in kind) or of a lump sum up front to obtain the government positions they hold—in effect, the purchase of office—or both.³⁷ In Afghanistan, extorted bribes are estimated to total well more than \$2 billion per year.³⁸ The usual recompense for such payments up the line and other forms of obedience is protection from any repercussions for corrupt and other criminal practices. In this context, civil servants’ salaries may be kept low deliberately, so as to prime the pump that propels the upward flow of cash.

Typically, vertical integration takes the form of payments by subordinate echelons to their superiors of a percentage of the bribes they extort.

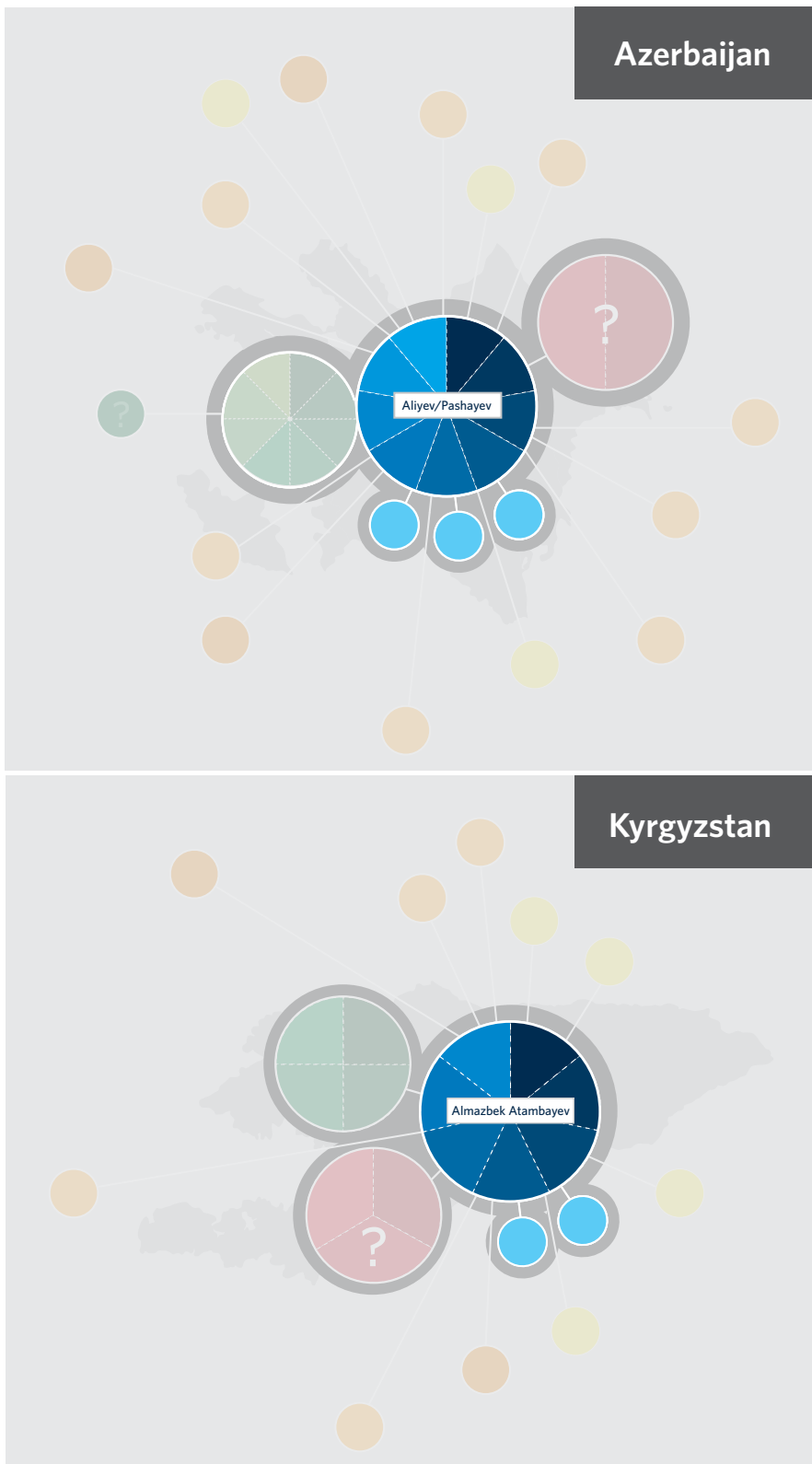
In Azerbaijan, this familiar vertical integration features a remarkable element. Civil society activists report that bribes (or spurious fines) collected at street level are sent upward as usual, but then are pooled centrally and shared back downward with street-level officials as bonuses, known as “envelope salaries.”³⁹ While the practice has reportedly diminished amid the precipitous drop in oil prices, such informal top-ups are a critical income support for the significant numbers of (underpaid) government workers, who represent more than half of the active population, according to official statistics.⁴⁰ Such a system reinforces personal dependency on superiors, with their whims. By the same token, a sudden, sharp drop-off in the downward distribution of benefits like these could give rise to aggrieved reactions on the part of an important segment of the population.

In Kyrgyzstan, local officials help secure one of the system’s key revenue streams: land, for building and for agricultural purposes. Journalists and activists providing legal aid report numerous cases of land expropriation via forged documents. But the degree of these officials’ autonomy, or whether and how expropriated land is shared among the local officials who confiscate it and members of national-level networks, requires further investigation.

To illustrate the vertically integrated nature of these systems, figure 3 below includes small circles to represent subordinate government echelons.

The decision to depict structural elements of kleptocratic networks separately from the money flows they capture may unintentionally downplay the vast revenue stream supplied by extorted fees, bribes, and kickbacks that makes its way upward through the network, as well as the downward redistribution of a part of that take in Azerbaijan. But superimposing money flow imagery on top of network structure seemed likely to produce a diagram so complex as to be illegible.

Figure 3. Vertical Integration



How horizontally integrated are the networks?

Western leaders, diplomats, legal and development practitioners, and investors tend to place private- and public-sector actors in different conceptual categories, with criminals—let alone terrorists—considered as entirely beyond the pale. Any overlaps are usually treated as abnormalities.

Reinforcing these distinctions, outsiders interacting with each sector usually belong to separate structures themselves. While international law enforcement may be poring over the identities of and interconnections among illicit actors, businesses normally try to avoid those individuals. Within partner governments, commerce ministries or trade representatives spearhead relations with the private sector, while diplomats and military officers interact with their counterparts, and development agencies may focus on local civil society organizations.

Even some activists or members of the population inside corrupt countries, most of whom do suspect overlap across the sectors, may still unconsciously presume the groups are more distinct than they really are. Unpaid employees of a short-lived mining company in Azerbaijan petitioned multiple government agencies for help finding their employer and securing their back pay, ranging from the Ministry of Ecology and Natural Resources to the office of the president himself, to no avail. The Panama Papers revealed that the owners of the delinquent company were none other than the daughters of President Ilham Aliyev.⁴¹

To correctly understand the operations of today's kleptocratic networks, therefore, it is critical to see them as integrated, if sometimes loosely structured, entities that fully straddle all sectors of ostensibly licit as well as clearly illicit activities.

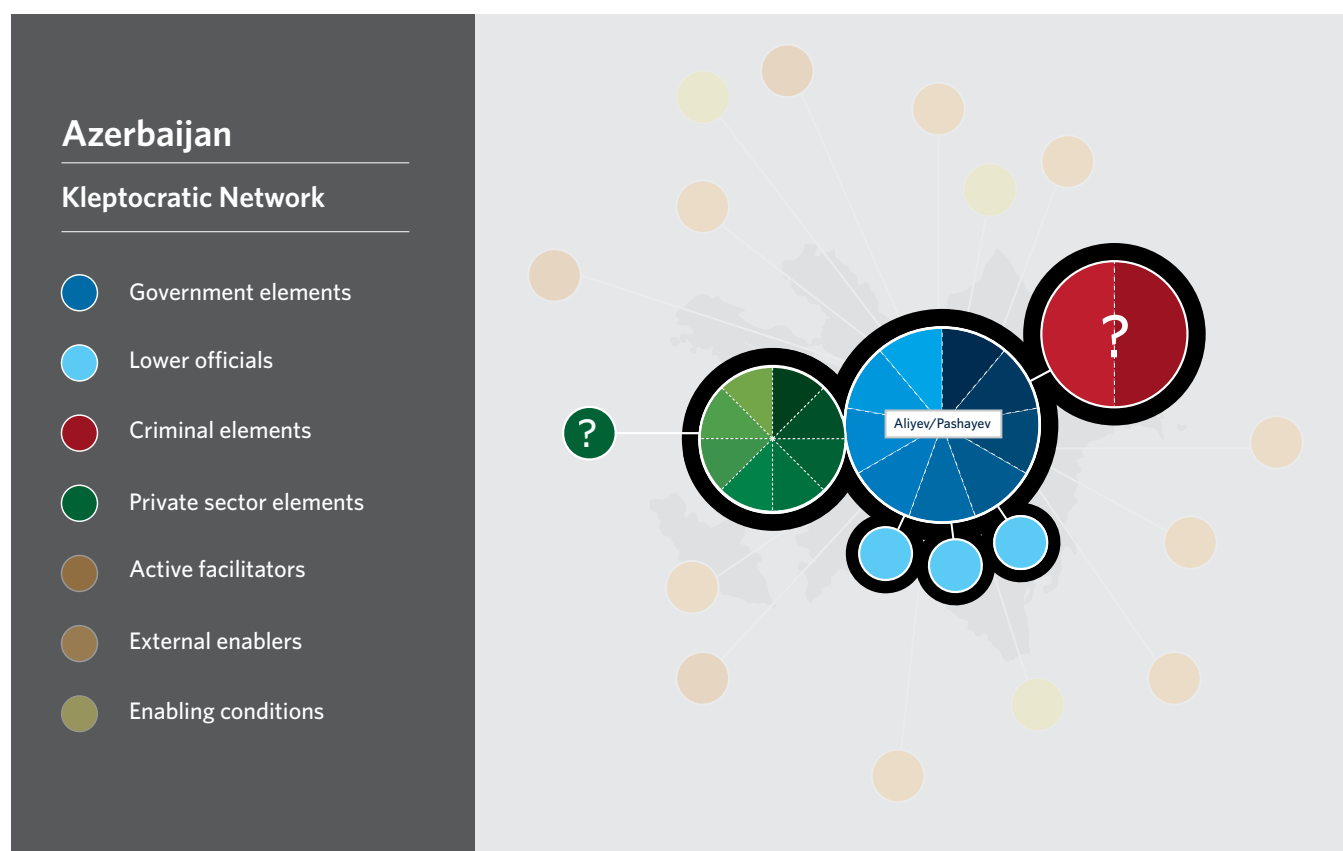
To understand the operations of today's kleptocratic networks, it is critical to see them as integrated entities that straddle all sectors of activity.

Ideally, the representation of such a structure (as in figure 4 below) would not be a flat picture, but a three-dimensional model, displaying the complete interpenetration among the sectors, especially as individuals move from position to position across the ostensible boundaries over time. According to information revealed in the Panama

Papers, for example, Azerbaijan's minister of taxes also maintained a controlling stake in a private-sector conglomerate whose principal beneficiaries are members of the Aliyev family,⁴² so he's effectively double-hatted, occupying a position in the blue government circle and the green private-sector circle simultaneously. The infographics developed here treat each sector separately for ease of understanding. But the shape used, reminiscent of a chemical compound, is meant to imply that the three main elements form an inextricable whole.

This type of integration is easiest to prove for Azerbaijan, where members of the Aliyev and Pashayev families and other high-ranking government officials hardly try to hide their ownership stakes, not just in gold-mining concerns, but in these massive conglomerates whose subsidiaries work in almost all sectors of lucrative economic activity. Dubai-based DIA Construction, for example,

Figure 4. A Fully Integrated—and Fully Interpenetrated—Network



controlled by brothers who are listed as directors of shell companies nominally owned by Aliyev’s daughters, participated in some of the most extravagant megaprojects in the country: the Flame Towers in Baku and the Shahdag tourism complex, for example.⁴³ Other subsidiaries of DIA Holding have built and operate power plants and provide import and customs clearance services. Ata Holding is another, as is the Aliyev-controlled Silk Way Group, which includes banks and hotels as well as construction firms, as does the family’s Pasha Holding.⁴⁴ According to the OCCRP’s Patrucic, the Aliyev/Pashayev clan owns no fewer than eleven banks.⁴⁵

In the case of Moldova, the ownership structures of presumed private-sector network elements are more opaque. Numerous shell companies belonging to other companies with no physical existence, for example, were listed as owners of the banks that ran an industrial-scale money-laundering operation for years on behalf of Russian organized crime. The 2015 Kroll audit found that some of the same establishments had proffered the various loans totaling the \$1 billion at the heart of the 2015 scandal to other, presumably separate, UK-based shell companies.⁴⁶

More obvious network-affiliated businesses in Moldova include importers, especially of metals, foodstuffs (including flour), and consumer goods; public

works contractors; bakeries; hotels; and media organizations.⁴⁷ In many formerly socialist countries, state-owned enterprises make up an intermediate group between the public and private sectors. In Moldova, telecommunications and the national railway might also be included in this category.

Does the horizontal integration include ostensibly charitable institutions?

With the rise since the 1980s in gifts by public agencies and private philanthropists alike to nonprofit organizations carrying out humanitarian or development projects, kleptocratic networks in many countries have sought to capture this important and often poorly supervised revenue stream. So commonly do government officials in Nigeria set up their own nonprofits, for example, that locals have dubbed them GONGOs, or government-organized nongovernmental organizations.⁴⁸

When I took over as field director of a nongovernmental organization (NGO) founded by Hamid Karzai's older brother Qayum and began working in Kandahar in 2002, the Karzais' younger half-brother Ahmed Wali kept exhorting me to "get some projects." I didn't quite understand what he meant, until a friend of the family who ran his own so-called nonprofit which was internationally blacklisted, urged me to bid for a road-building contract. I explained that Afghans for Civil Society did not do construction work, that it had neither the expertise nor the equipment to implement infrastructure projects. But he assured me that was no problem; his organization would carry out the work. All I had to do was secure the contract and then subcontract to him.

In Ben Ali's Tunisia, civil servants were required to make "donations" to an ostensibly charitable solidarity fund called 20/20, whose activities were as opaque as its accounts.⁴⁹ In early March 2013, Gulnara Karimova, the daughter of Uzbekistan's president, held a gala fundraising event in support of her supposed charity, the Fund Forum of Culture and Arts in Uzbekistan. Western officials, representatives of aid agencies, and NGOs were invited, and their presence was generously televised.⁵⁰ This organization or others like it were frequently used to collect extorted payments from local and international businesses.⁵¹

Such a widespread practice poses particular problems for Western donor agencies and philanthropies, whose policies increasingly emphasize partnerships with local civil society. To avoid counterproductive entanglements, they must do intensive due diligence regarding the true independence of their partners. Even without monetary contributions, mere public association with well-known GONGOs, as in the Uzbek example, may be sufficient to discredit the international institutions and their efforts in the eyes of jaded local populations.

The most obvious example of this species of private-sector network element in the three cases examined here is Azerbaijan's Heydar Aliyev

Foundation, whose president is Mehriban Aliyeva, wife of President Ilham Aliyev.⁵² In Kyrgyzstan, too, local officials have founded “NGOs” to make extra money, according to several interlocutors.

Does horizontal integration extend to outright criminals?

The interaction between corruption and organized crime is most frequently described, particularly by specialists who focus on the criminal dimension, as one of facilitation. The main characters in the drama from this perspective are the organized criminals, against whom significant institutional resources and capabilities are invested. Corrupt officials appear in supporting roles: the vicious cop, or the customs agent who looks away in return for a bribe.

The true picture in most systemically corrupt countries is different. The two sectors are wired together in a relatively equal symbiosis, with key individuals often playing substantial roles in both sectors.

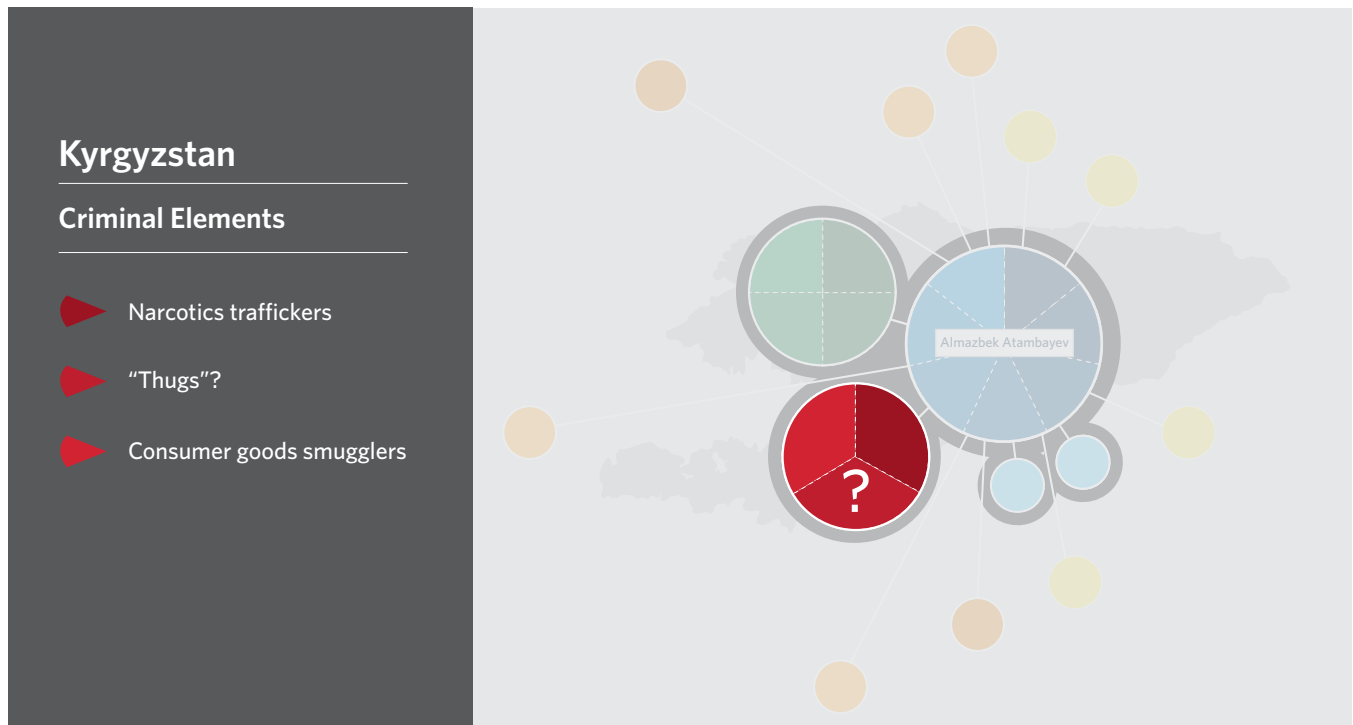
In Afghanistan in the 2000s, the Karzai network as well as the locally competing southern network of Gul Agha Sherzai indubitably included opium trafficking and processing elements.⁵³ During the same period, Kyrgyzstan also displayed almost overt kleptocratic penetration of the narcotics industry. Consumer goods smuggling typically provides an important revenue stream for kleptocratic networks, whose street-level customs officials often let ordinary people skirt tariffs for a bribe, while ushering network-connected smugglers across the border with a wave of the hand.⁵⁴

At present, this question is particularly relevant with respect to Kyrgyzstan and Moldova. Strategically situated between China, Kazakhstan, and chaotic Tajikistan, and sharing an accordion-like border with Uzbekistan, Kyrgyzstan represents a significant transshipment zone for Afghan opiates among other drugs, especially to Russia and China.⁵⁵ According to some estimates, approximately 20 percent of opium produced in Afghanistan is trafficked through Kyrgyzstan.⁵⁶ For its part, Moldova—whose banking sector is clearly intertwined with Russian organized crime networks—has long been known as a point of origin for sex workers trafficked to Europe and the Middle East.⁵⁷

Evidence of the capture by today’s kleptocratic networks of these clearly illicit revenue streams is harder to come by than it was when Kyrgyz President Bakiyev brazenly disbanded his country’s Drug Control Agency in 2010.⁵⁸ But it is safe to presume that drug trafficking and corruption networks remain interlinked in Kyrgyzstan, as illustrated in figure 5 below.⁵⁹ As for Moldovan sex trafficking, it is difficult to imagine that such a rich sector would entirely escape the grasp of the Plahotniuc kleptocratic network, though this examination did not identify any concrete evidence.

It is worth expending the effort to answer this question accurately, in order to reinforce cooperation and information sharing among officials or civil society activists whose efforts may ordinarily be stovepiped.

Figure 5. Openly Criminal Network Elements



Does the network incorporate terrorists or other violent insurgents?

Such a question may seem even more counterintuitive than the last two, especially in the case of governments that are valued allies in counterterrorism operations, such as Ethiopia's or Algeria's. But international military assistance can prove to be so important in reinforcing a regime that some network members choose to cultivate at least a degree of insurgent activity in order to keep the money and visually intimidating support flowing.

Or a government might rely on insurgent groups to advance national priorities that are separate from obtaining Western military assistance, as has been the case with the Pakistani Inter-Services Intelligence agency, now widely known to use militants as proxies.⁶⁰ Evidence suggests that some state-level officials in northern Nigeria may also have connived with the founders of Boko Haram, at least for a time.⁶¹ Sometimes, as with Afghanistan's Karzai family, historical and tribal relationships may link government officials and insurgents, leading to more protection and interdependence than meets the eye.⁶²

Do the networks extend across national boundaries?

For simplicity's sake, kleptocratic networks are discussed here on a country-by-country basis. But for a variety of reasons, it might make more sense to understand them as fully transnational organizations.

The national border between former president Viktor Yanukovich's network in Ukraine, for example, and the more powerful Russian networks with which it was entwined can hardly be said to have existed. In Moldova, too, the banking sector might be seen as a fully integrated member of Russian criminal networks, at least until early 2014. Moldovan consumer goods smugglers are reportedly interwoven with their counterparts based in Ukraine and the contested territory of Transnistria. Kyrgyz drug trafficking networks clearly cross borders, and are especially implanted in Russia. Ties are reportedly just as strong between the governmental leadership in those two countries. It would be interesting, finally, to explore the personal relationships among the executives of the principal energy and construction giants in Azerbaijan and Turkey, or those between top Moldovan network members and their Romanian counterparts.⁶³

A perhaps more sensitive question from a Western perspective would be the degree to which businesses headquartered in developed countries might be considered full-blown members of foreign kleptocratic networks, rather than just enablers. Decades of research on French political and economic penetration of its former colonies in Africa, including the diverse activities of government-protected oil giant Total, have birthed the epithet *Françafrique* to describe the phenomenon.⁶⁴ The shorthand for a similar dynamic in the twentieth-century Americas was “banana republic.”

Given the well-known state of Azerbaijan's political economy, a determination whether certain British oil companies and construction firms, or such U.S. equivalents as KBR, are functioning as members of the Aliyev/Pashayev network would depend on the nature of the personal interactions among those holding leadership positions on each side. As suggested above for Turkish-Azerbaijani links, it might take on-the-ground observations of how these individuals spend their time and the kind of favors they exchange in private to fully apprehend the scope and nature of their interdependence.

The infographics here try at least to hint at this internationalism. The orientation of the main structure diagrams and their placement athwart national boundaries is deliberate. In a few cases of clear interpenetration with another country's networks, a small circle of the appropriate color is situated outside the focus country.

Alongside the basic elements of structure listed above, it is critical to identify the modes of operation and the techniques kleptocratic networks employ, as well as the accommodations they exploit, to monopolize their countries' most important revenue streams.

What are the key enablers for the kleptocratic networks, especially outside the country?

Accurately identifying and classifying the institutions and situations that make kleptocratic practices easier to perpetrate requires a good deal of nuanced analysis.

On one end of the scale, an individual or business that provides tailored services to members of a single kleptocratic network might almost be considered a full network member. If, however, the entity is a business that provides such services to all comers, with no particular preference for or entanglement with a specific kleptocratic network, it might better be considered an active facilitator than a network member. The Panamanian law firm Mossack Fonseca would fit this latter designation. So would lobbying firms, such as Fabiani and Company, working to improve the images of several different kleptocratic governments in Washington or other Western capitals.⁶⁵ Examination should be devoted to providers of other services, such as air transport or logistics, contract negotiations, and forged documents. Country-specific associations, such as the Azerbaijan America Alliance or the Congressional Azerbaijan Caucus, may approach the status of network member.

The larger group of enablers—those whose contribution to consolidating or financing a kleptocracy may be unwitting—include the major multinationals doing business in captured sectors of economic activity, such as much of the oil and gas or international construction industries in Azerbaijan. Increasingly, network-controlled state-owned enterprises, such as SOCAR, are requiring international investors to enter into joint ventures or use specific vendors. So the international partner may find itself wired into the network willy-nilly.⁶⁶ Given current difficulties in determining the identities of those truly benefiting from offshore corporations and their transactions, Western banks or real estate agents that take money without carefully examining the ownership structure of the shell companies investing it should probably also be considered enablers, rather than active facilitators.

As well-intentioned as they may be, overseas development assistance and loans or grants from international financial institutions may also constitute important enablers, especially when they support infrastructure projects that are known to be contracted out to network-affiliated businesses. In these cases, some of the money they provide may simultaneously be serving as a revenue stream for the network.

The Asian Development Bank's (ADB's) ongoing investments in Kyrgyz hydropower projects would require close examination in this context. Hydropower has long been seen as a profoundly troubled sector in Kyrgyzstan,⁶⁷ as it is in other corrupt countries, such as Brazil and India.⁶⁸ One of the causes of the 2010 revolution was spiking electricity rates, while the country was exporting hydropower.

The ADB's current financing in this sector, including a \$44.5 million grant, provides essentially for refurbishing turbines and other machinery and does not entail any significant new construction.⁶⁹ Still, there are no indications that President Atambayev has reformed the sector since taking office after the 2010 revolution, nor that the ADB financing stipulates independent oversight or monitoring and evaluation of project implementation, or specific remedies to previously identified corrupt practices.⁷⁰ Russia's partially state-owned giant

RusHydro pulled out of a massive new Kyrgyz dam project in early 2016.⁷¹ While that change of plan may have been prompted by Russia's economic crises, similar withdrawals by China's state-owned Sinohydro, the Dutch development bank FMO, and its Finnish counterpart Finnfund from the Agua Zarca project in Honduras came in response to local challenges and human rights abuses—which can themselves be understood as examples of intimidation by that country's kleptocratic networks—and thus indicated sensitivity to the risk of being perceived as enabling such practices.⁷²

So, unless donors or lending institutions obtain evidence of (or require) significant reforms to the sector, or build in reinforced monitoring and evaluation and citizen oversight mechanisms, such investments must be understood in and of themselves to enable kleptocratic practices. Even in cases where the money they provide may not constitute a significant revenue stream benefiting network members. The realization of the projects' overt objectives, such as expanding the population's access to a stable electricity supply, should be balanced against the uses to which that electricity is actually put (supply for other extractive industries, sale to neighboring countries potentially affording separate opportunities for capture of the cash generated) and the nonmaterial enabling impacts of these projects.

Often, incidentally, such international development support is provided via a combining or layering process reminiscent of that used by the beneficiaries of offshore shell companies or of the packaging of debt before the U.S. financial crisis. It becomes difficult to discern what funding comes from which institutions, and the original institution's ability to perform independent oversight is often disabled. The ADB's website, for example, only identifies the top nine shareholder countries, representing two-thirds of the bank's capital. Its hydropower financing in Kyrgyzstan is in turn "coordinated" by the Central Asia Regional Economic Cooperation Program, which lists a variety of institutional partners.⁷³ The main implementer of the latest ADB project is the almost entirely state-owned Electric Power Plants, which has no web presence in English, no independent auditor, and a bank account that appears to be located in Russia.⁷⁴ The Central American Bank for Economic Integration, which funds some contested infrastructure projects in that region, is partially capitalized by the governments of Spain and Taiwan, as well as by the United States Agency for International Development, the Millennium Challenge Corporation, and the Japan International Cooperation Agency.⁷⁵ It in turn has invested in specialized funds, such as the Central American Mezzanine Infrastructure Fund. In such cases, according to the CEO of one Western development bank, only general investment guidelines are provided to the fund managers, such as the poverty level of the countries to be invested in. Development banks do not examine the details of individual projects in which their money is invested.⁷⁶

Unless donors obtain evidence of significant reforms or build in reinforced monitoring mechanisms such infrastructure investments must be understood to enable kleptocratic practices.

Alert to the potential enabling impact of overseas development assistance in Moldova, the EU, which provided approximately \$623 million from 2007 through 2013,⁷⁷ has now frozen its support and is requiring significant reforms before “envisag[ing]” a resumption of budget support.⁷⁸ But Romania granted an undisclosed sum in emergency assistance in early 2016,⁷⁹ and approved a \$177 million loan in May 2016 (though under international pressure, officials decided to delay disbursement of the first tranche until further conditions have been met).⁸⁰ Some see the ongoing high-level political involvement in Moldovan affairs by Romanian Prime Minister Dacian Cioloș as an enabler.

The other outlier on Moldova is the United States. The Department of State has provided some \$30 million in a combination of military and civilian assistance in 2016, and has increased that sum to \$41 million in its request for the 2017 fiscal year.⁸¹

Unless assistance to a country like this is carefully channeled to independent journalists or civil society organizations struggling for reform, or to the rare government officials or agencies whose independence can be verified, almost all such aid must be considered an enabler, and if captured by network-affiliated implementers, some of it may constitute a revenue stream. Careful study of specific programming—for which information is often not readily available—would be required to make these distinctions.

Even purportedly apolitical development assistance, such as medical programming, can be understood to serve an enabling function if it releases a highly corrupt government from its obligation to provide public services, and allows for the capture of government revenue or its expenditure on instruments of coercion, such as a dedicated police unit.

International NGOs, including those focused on civil society, sometimes fall into the enabling trap. Their desire to be present in a country and to make small gains, as they often claim to do, may blind them to their entanglement with the kleptocracy, or the degree to which their presence, on balance, may provide a whitewashing effect that outweighs the good they do.⁸²

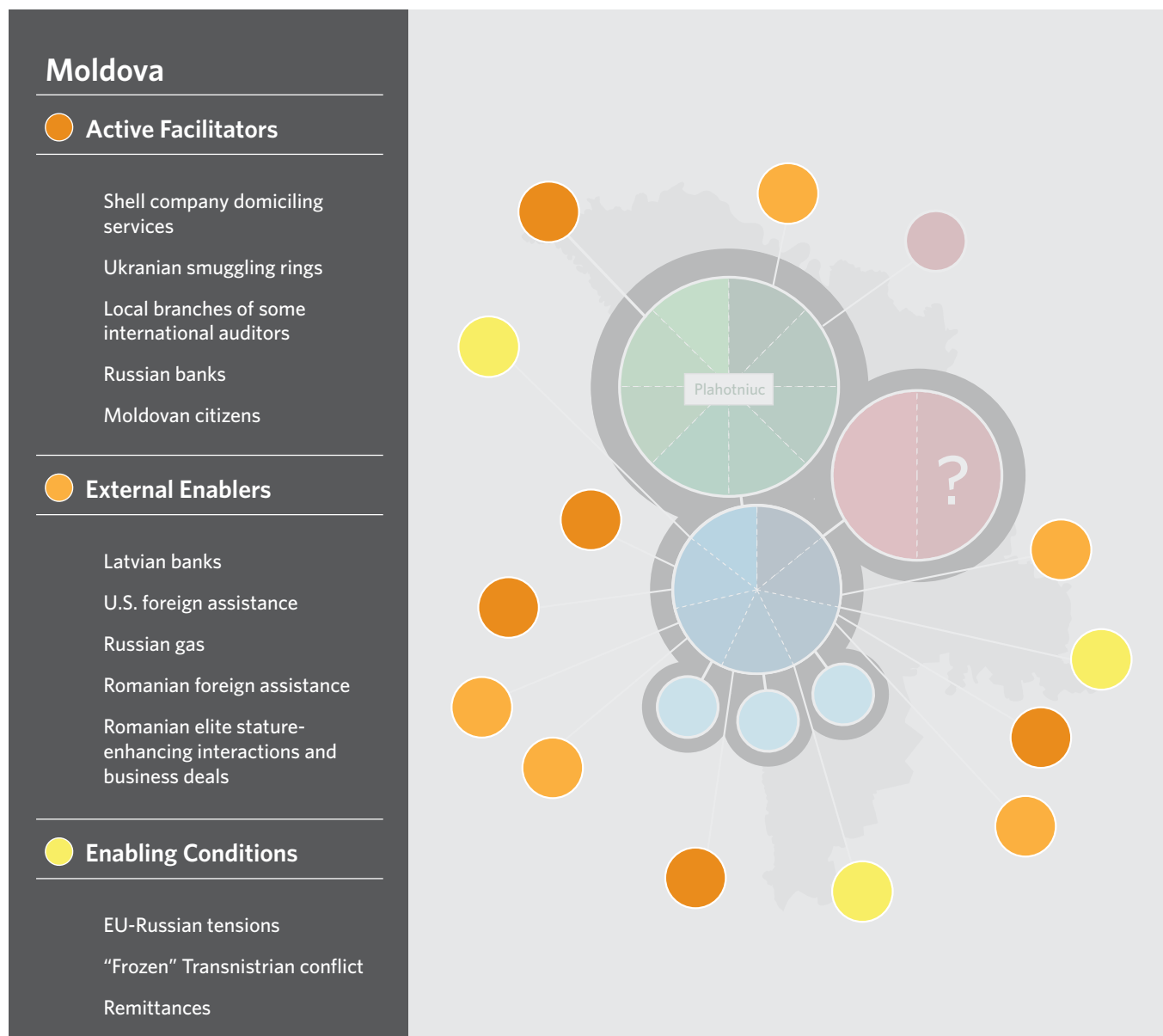
Such unintended image laundering is one of the less concrete forms enabling can take. The prestige (as well as the revenue-generation opportunities) afforded by Azerbaijan’s presidency of the Council of Europe is an egregious example.⁸³ Vladimir Plahotniuc’s May 2016 visit to Washington, where he met with the assistant secretary of state for European affairs, was seized upon by the Moldovan media. Private establishments, such as the Atlantic Council, the Partnership for Transparency Fund, and Yale University have recently provided image-laundering services.⁸⁴

Least intense on the scale of factors contributing to the health of kleptocratic systems are what might be termed enabling conditions. They include geopolitical contexts such as the frozen conflicts over Transnistria and Nagorno-Karabakh, which facilitate Moldovan smuggling and provide opportunities for Aliyev to distract the Azerbaijani population, respectively. Moldova’s East-West cultural divide, which resembles Ukraine’s, may be contributing to

Washington's relatively tolerant attitude toward the nominally pro-Western Plahotniuc. In Kyrgyzstan and Moldova, and to a lesser extent in Azerbaijan as well, remittances sent home by guest workers cushion some of the impact of government corruption, while Baku has reportedly dipped into civil servants' salaries in order to mitigate some of the budget shortfall resulting from the plunge in oil prices since 2014.⁸⁵ Figure 6 below depicts the various entities and circumstances that enable the activities of Moldovan networks.

The elements of the structure and functioning of kleptocratic systems detailed above are important to explore because they will indicate how an interaction with such a system may inadvertently reinforce it, allowing for better

Figure 6. The Enablers



cost-benefit analyses of doing so. They may also suggest fissures or vulnerabilities that can be exploited by those seeking improvements in governance, and provide clues as to some of the likely downstream effects if reform campaigns make headway. The answers to these questions may suggest ways to shape those campaigns and their objectives so as to reduce the likelihood that the system will rebound.

Ideally, this type of rigorous analysis of the structure and functioning of a kleptocratic network should also include a parallel mapping of the networks—or, more likely, the isolated individuals—who are truly dedicated to more honest and responsive government and a more open economy.

If the prime aim of these networks is personal enrichment, then it is also critical to understand the financial flows irrigating the network in as much detail as possible. For, without understanding these dynamics, investors or donor agencies may get trapped in a vortex of extraction, or come to constitute one of the main sources of funding feeding a system whose impact on its population they are ostensibly trying to mitigate. Armed with details, civil society activists or international law enforcement agencies can focus advocacy or investigation efforts on some of the extraction points or ultimate destinations for corruptly acquired funds.

What are the most important revenue streams the networks concentrate their efforts on capturing?

The sources of funds directly captured by the networks may overlap with, but will rarely be identical to, the main underpinnings of the country's economy. Extorted bribes should not be neglected in the calculations: surveys in Afghanistan demonstrate that total yearly sums can be very significant even in poor countries.⁸⁶ As discussed above, some portion of foreign assistance, loans from international financial institutions (IFIs), or EU subsidies may constitute an important revenue stream, as well as serving as an external enabler for a given kleptocratic network.

Increased law enforcement focus on financial flows in the wake of the September 11, 2001, terrorist attacks, as well as more recent tightening of money-laundering protections, has prompted many corrupt officials to take pains to disguise their transfers of illicit wealth. Often money is moved in cash.⁸⁷ Needless to say, the upshot is excruciatingly difficult research. This paper relies on the work of investigative journalists and the results of leaks such as the Panama Papers. But these inevitably supply only fragments of an incomplete picture.

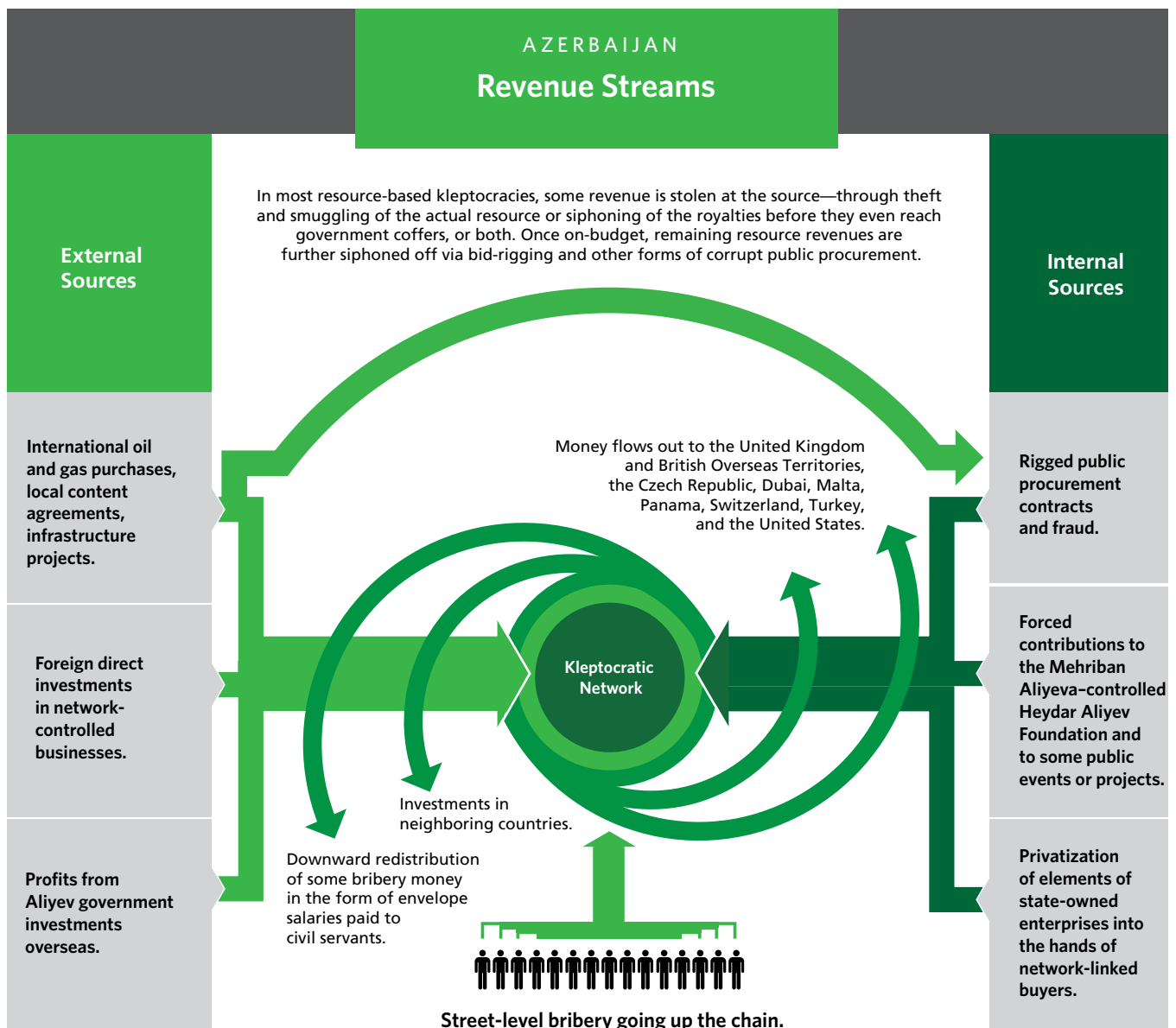
One of the conceptual difficulties in mapping these revenue streams is the distinction between the initial origin of the funds, such as an IFI loan or international purchases of oil or gas, and the means by which the money is actually captured and transferred to network members, such as public-works contracts. As at other stages in this analysis, a degree of overlap is inevitable, and judgment calls will be necessary.

What are the illicit funds used for?

Are they invested in local property? Real estate overseas? Businesses, which in turn are incorporated into the network? Is the money deposited in bank accounts overseas? Is it spent on lavish consumption? How much is directed back downward within the country, either as payments for the loyalty of network members who lack their own direct access to revenue streams or to finance electoral campaigns (often including vote-rigging or vote-buying)?

Real estate purchases are one of the most common uses for the excess cash kleptocratic practices generate. When such purchases are made in luxury cities and neighborhoods, such as Hampstead or Hyde Park in London, or the Time Warner Center in New York, the purchases double as stature enhancement or image laundering for the corrupt buyer—indeed that’s the point.⁸⁸

Figure 7. Money Flows



Ideally, a more developed version of figure 7 would indicate at least an order of magnitude of the amounts of money generated for the benefit of network members of these various revenue streams. The clandestine—and sometimes hard to define—nature of corrupt practices makes such a task difficult.

Compounding it is the overlap between the origin of some of the external revenue streams (listed on the left) and the means by which they are secured (for example, public procurement fraud, listed on the right).

Another image that might prove enlightening would be to juxtapose a map of the kleptocratic country in question with those of its main donor partners and the main destination countries for its captured revenue streams.

Answers to the lifestyle questions above may in turn provide insight on a topic particularly relevant to would-be reformers, both inside and outside the country: the key vulnerabilities that potentially weaken the networks or render them more brittle than they might seem. These vulnerabilities are often tied to the aspirations of network members, their habits, or internal contradictions in the structures' cultures, practices, or personnel. Ascertaining just what these vulnerabilities might be often requires the imaginative powers of a devilish mind.

Most people and institutions that interact with governments like those of Azerbaijan, Kyrgyzstan, and Moldova do so without a nuanced understanding of the dynamics of the corruption that is legendary in each country. Or, where they do have some insight, it is into a small, disconnected piece of the overall picture. Civil society organizations may know about the bribes that have to be paid to get an electricity meter installed, for example, or may have discovered the identities of all the officials who secured the services of a single Washington lobbyist. Investigating a case under her country's anti-bribery legislation, an international prosecutor may have worked her way back from an offending company to the three foreign officials who were paid off. Aid agencies may do corruption risk assessments to reduce the likelihood that their programs will be subject to fraud or waste.

But corruption cannot be reduced to bribery alone. It frequently constitutes a robust and sophisticated operating principle shaping most aspects of a government's structure and practices. The fully built-out figures 8, 9, and 10 in the following pages provide the broad outlines of a more comprehensive picture of how such systems are organized in the three countries discussed in the most detail above. Accurately fleshing out these pictures would require painstaking and wide-ranging research, making use of unpublished information that is not readily accessible. Such an effort might be dangerous for locals, or politically uncomfortable for partner governments. But given the significance and all-pervasive repercussions of corruption, it's hard to imagine a serious planning process taking place without this type of an understanding. To go into such a context blind to these realities would seem almost irresponsible.

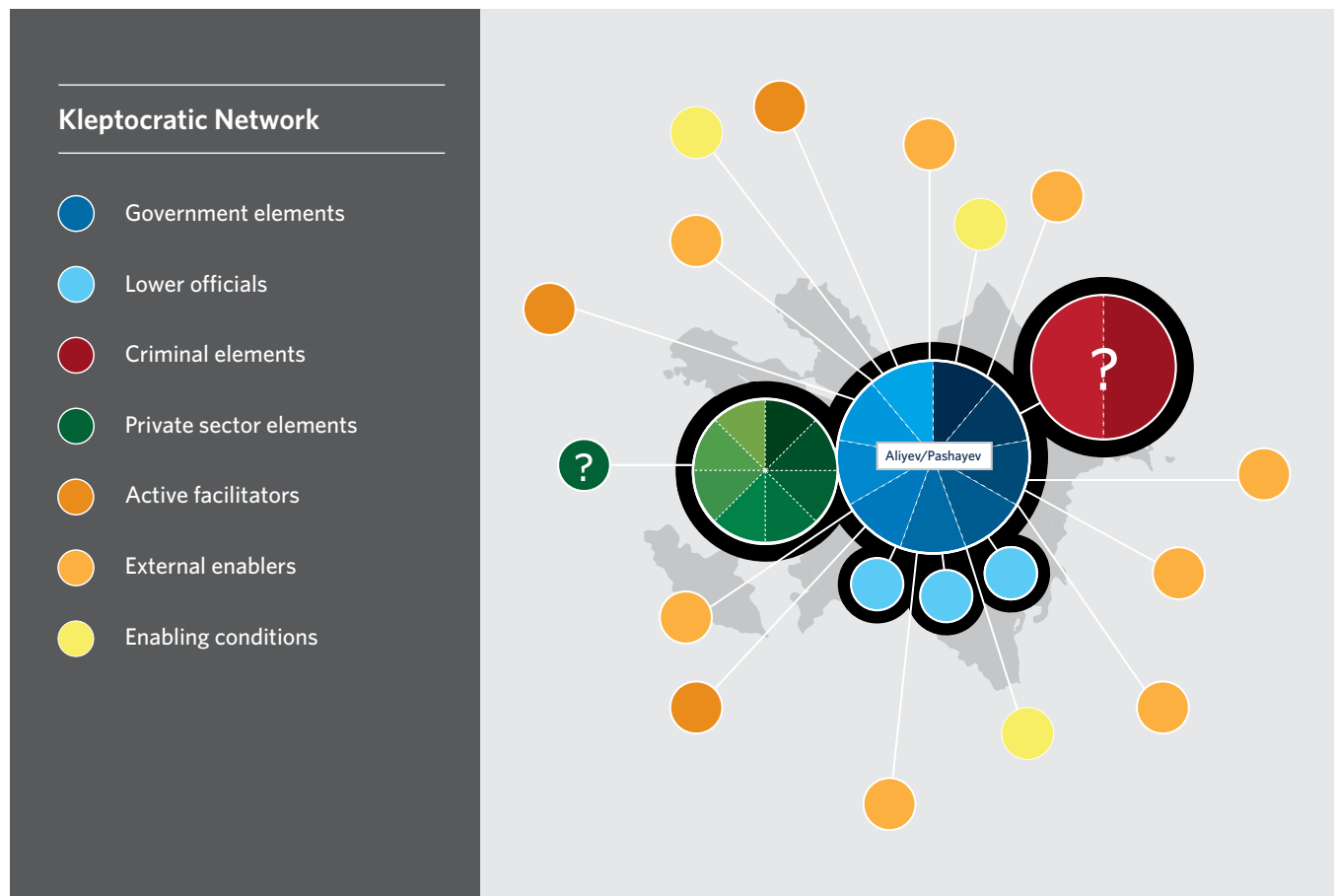
Figure 8.

Infographic. The Structure of Kleptocracy in Azerbaijan

This diagram, especially its central elements, is meant to depict a fully interpenetrated network. The apparent separation visible here represents a compromise to ease understanding.

Azerbaijan

Azerbaijan presents a fairly clear example of a single dominant network, with some separation between the networks controlled by the families of President Ilham Aliyev and his wife, Mehriban Pashayeva Aliyeva. Aliyev must manage and occasionally discipline competition, however, as in the October 2015 purge of the Ministry of State Security. This network is vertically integrated in a remarkable way: observers describe what they call a bribe-pooling system, whereby bribes and spurious fines extorted at street level are sent upward and pooled centrally, and then a portion is redistributed back down in the form of so-called envelope salaries. The networks are also horizontally integrated, especially into massive holding companies that are composed of subsidiaries in a variety of lucrative economic sectors.





The elements of state function that are key to Aliyev/Pashayev network operations include most of the main ministries, especially:

- ▶ **Ministry of Energy**
In particular the State Oil Company of the Azerbaijan Republic (SOCAR), the national oil company.
- ▶ **Ministry of Internal Affairs**
Controls the police. In particular, the specialized unit on organized crime and the Special State Protection Service.
- ▶ **State Security Service**
One of the two reconstituted intelligence agencies that were left after the December 2015 dissolution of the Ministry of National Security.
- ▶ **Judicial Branch**
Including the prosecutor general. Widely seen to provide justice for sale, reducing sentences or fines and “disappearing” evidence for payment. Also relied upon by the Aliyev network to discipline dissidents or recalcitrant or independent-minded network members.
- ▶ **Ministry of Taxes**
Presses tax-evasion charges. The minister, Fazil Mammadov, also plays a role in structures controlling at least one of the Aliyev’s conglomerates, Ata Holding.
- ▶ **Customs Committee**
A cabinet-level office, seen to protect Aliyev/Pashayev-linked monopolies.
- ▶ **Army**
Some close Aliyev/Pashayev associates hold high positions. Even the threat of force becomes a powerful coercive tool.
- ▶ **Ministry of Emergency Situations**
Charged with protecting the population from natural and man-made disasters. Oversees security installations and mining and oil facilities, as well as construction licensing. Disposes of significant infrastructure contracts. Ties to Customs Committee.
- ▶ **Central Election Commission**
Believed to execute various forms of electoral fraud, such as carousel voting, and to ensure participation by civil servants, including teachers.



The main private sector network elements include:

- ▶ **Banks***
Such as Ata Bank, Kapital Bank, Pasha Bank, and Silk Way Bank.
- ▶ **Construction***
DIA Holding, Pasha Construction (part of Pasha Holding), and Silk Way Construction, for example. Offshore companies such as Arbor Investments, LaBelleza Holdings, the Harvard Management Ltd., and the DDLAR Group controlled by children of the Aliyevs or other senior officials have also won major construction bids.
- ▶ **Oil and gas supply chain**
Including contractors for such state-owned companies as SOCAR and Azerenergy—often overlapping with construction companies listed above.
- ▶ **Mining**
- ▶ **Telecommunications**
Especially Azerfon.
- ▶ **Tourism and hospitality**
Such as AtaTravel and Excelsior Hotel Baku, also part of Ata Holding.
- ▶ **Charity**
Especially the Heydar Aliyev Foundation.
- ▶ **Food processing**
Via Azersun Holding, for example, controlled by Aliyev confidants Hassan and Abdolbari Goozal.
- **Turkish business interests?**

*Note: These large holding companies often include several subsidiaries, extending into different sectors of the economy. Construction and banking are particularly tightly interwoven.



While no documentary evidence has been found proving links between the Aliyev/Pashayev network and drug or human trafficking, interviews with law enforcement personnel indicate collusion. The networks' control of other lucrative activities is suggestive.

▶ **Drugs?**

▶ **Human Trafficking?**



Some significant external facilitators are:

- **Law firms and business registry services**
 Provided by specialized firms such as Malaysia-based Naziq & Partners, or Portcullis in Singapore, or London-based Child & Child.
- **Offshore banks**
 The key locations where corrupt Azerbaijani officials keep their money include Britain (London and the British Overseas Territories), the Czech Republic, Dubai, Malta, Switzerland, Turkey, and the United States.

- **Shell company domiciling**
 Some Aliyev-linked companies have been reported to be domiciled in the British Virgin Islands, Dubai, and Singapore.

AZERBAIJAN External Enablers



The main external enablers are:

- **International oil and gas industry**
Given the role played by the oil revenues in enriching members of the Aliyev/Pashayev networks, this industry serves as an important enabler, wittingly or not. Key companies invested in Azerbaijan include BP, Chevron, ExxonMobil, Türkiye Petrolleri AO, and Japan's Inpex and Itochu. France's Total is expanding activities in the gas sector. Contractors such as KBR that do business with SOCAR can be included in this category.
- **European organizations**
These organizations, including the Council of Europe, have bolstered Azerbaijan's image through high-visibility events such as the European Games and Eurovision Song Contest, held in Baku in 2015 and 2012, respectively. The construction projects associated with these events were largely captured by network-linked businesses.
- **Washington lobbyists**
Azerbaijan has been a high spender among foreign countries lobbying in Washington, but the main lobbyist, Anar Mammadov, son of powerful Transport Minister Ziya Mammadov, curtailed his U.S. operation in 2015. Azerbaijan's embassy or other entities such as SOCAR USA have retained the Podesta Group, Roberti Global, Bob Lawrence & Associates, and others. The Azerbaijan America Alliance has also been active and works closely with the Congressional Azerbaijan Caucus. As is the case with European officials, U.S. officials are often wooed with generous trips, or offers of caviar.
- **International construction companies**
Notably UK businesses.
- **Western real estate agents**
Corrupt Azerbaijani officials buy property in Britain, Switzerland, and Turkey, among other countries.
- **Russia**
Azerbaijan's chief weapons supplier (Israel also cooperates with Azerbaijan on defense and intelligence).
- **Turkey**
Plays a significant enabling role, most visibly in its partnership in the Baku-Tbilisi-Ceyhan oil pipeline and the agreement for a new trans-Anatolian pipeline. This infrastructure is meant to secure Azerbaijan's position as a non-Russian supplier of gas to Europe, while Turkish companies executing pipeline-related projects are believed to be paying kickbacks to the Ministry of Emergency Situations among others, and might be considered external network members.

● **Georgia**

To the extent that Georgia has made it somewhat more difficult for Azerbaijanis—especially activists—to travel back and forth or stay safely in Georgia, it is enabling Azerbaijani corrupt practices.



The main enabling conditions are:

- **European desire for non-Russian sources of energy.**
- **Simmering conflict with Armenia over Nagorno-Karabakh.**
Opportunity to distract the population and increase restrictions on civil liberties.

- **Access to statutory salaries of civil servants.**
Can be tapped in times of a budget shortfall.

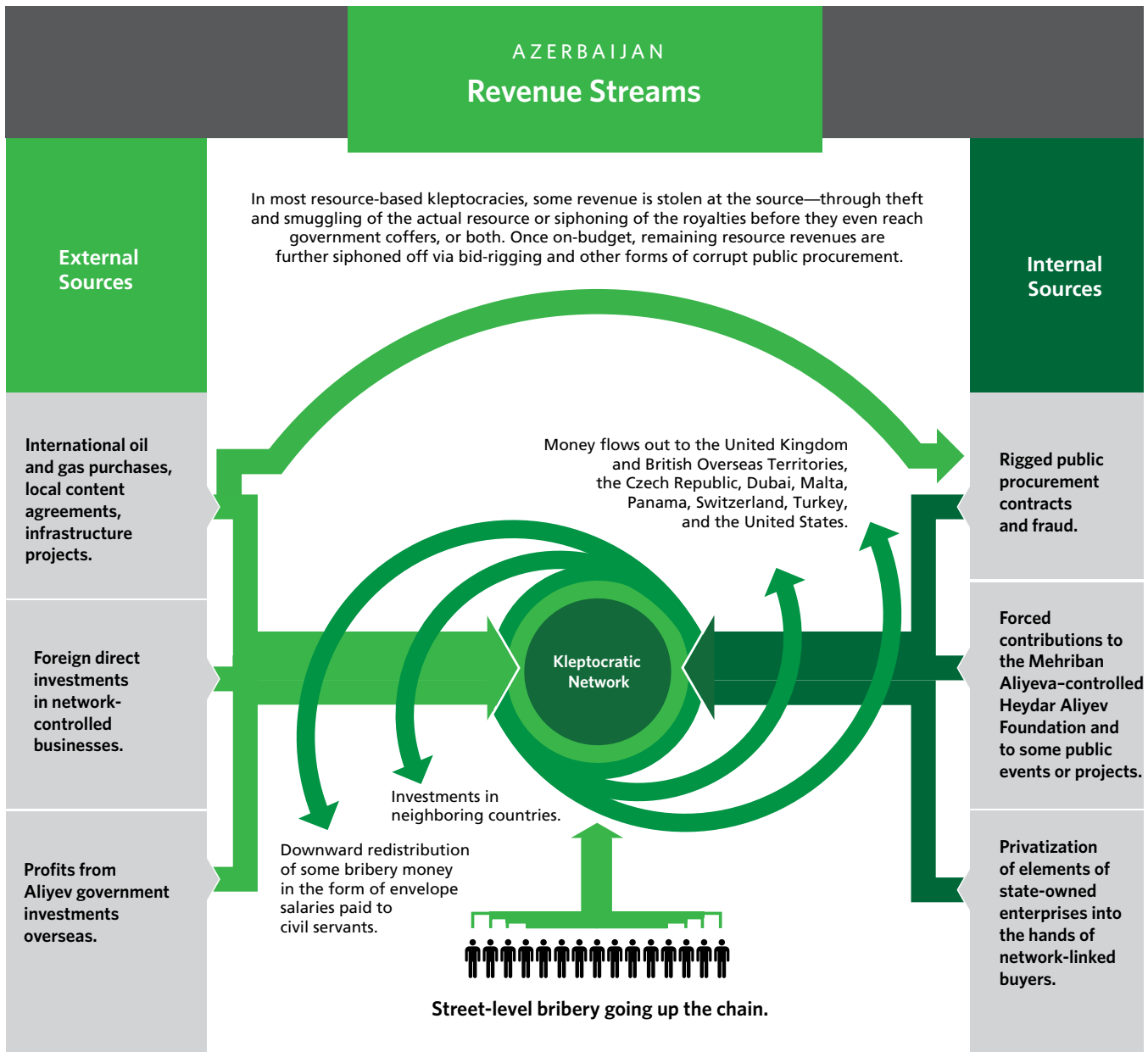


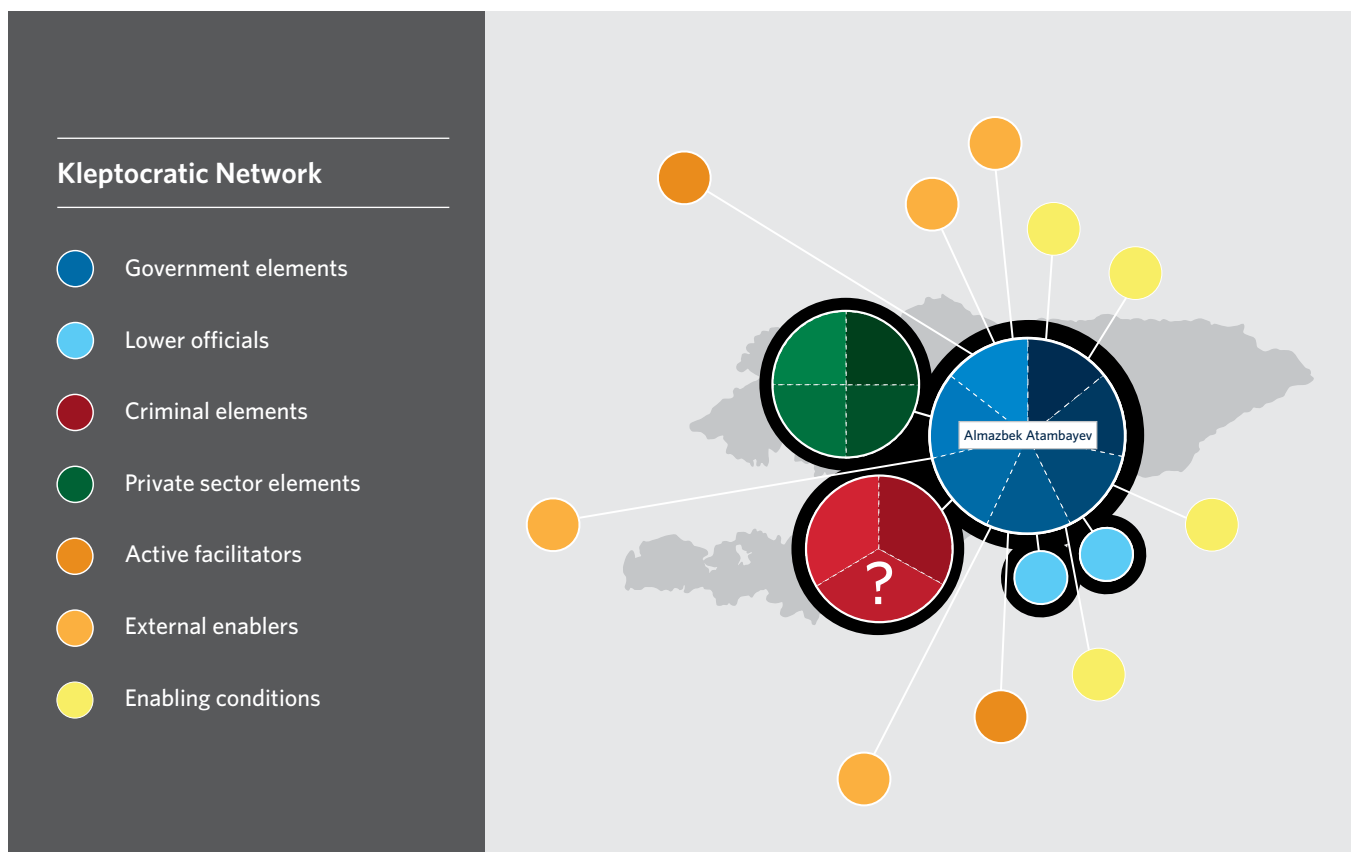
Figure 9.

Infographic. The Structure of Kleptocracy in Kyrgyzstan

This diagram, especially its central elements, is meant to depict a fully interpenetrated network. The apparent separation visible here represents a compromise to ease understanding.

Kyrgyzstan

A new constitution enacted on the heels of an anticorruption revolution in 2010 has increased the degree of competition among rival corrupt networks in Kyrgyzstan. Both outside President Almazbek Atambayev’s circle and even within it, considerable rivalry pits members against each other. The friction is greater across the country’s north-south ethnic and political divides. Elections in 2017 may mark an important transition, since, according to the constitution, Atambayev may not run for a second term. Competing networks are likely to seek to replace him. The current ruling network displays vertical integration, with a portion of street-level bribes paid up the line in return for impunity guaranteed by a notoriously corrupt judicial sector.





The elements of state function that are key to network operations include:

▶ **Ministry of Finance**

▶ **Ministry of Economic Development and Trade**

Especially for purposes of customs enforcement and non-enforcement.

▶ **Ministry of Interior**

With a variety of specialized branches, including a rapid-reaction unit known as Spetsial'nyi Otriad Bistrogo Reagirovaniia, or SOBR. For intimidation purposes.

▶ **Ministry of State Security**

Including its National Security Service.

▶ **Judicial branch**

Including the constitutional court and state prosecution.

▶ **Ministry of Energy and Industry**

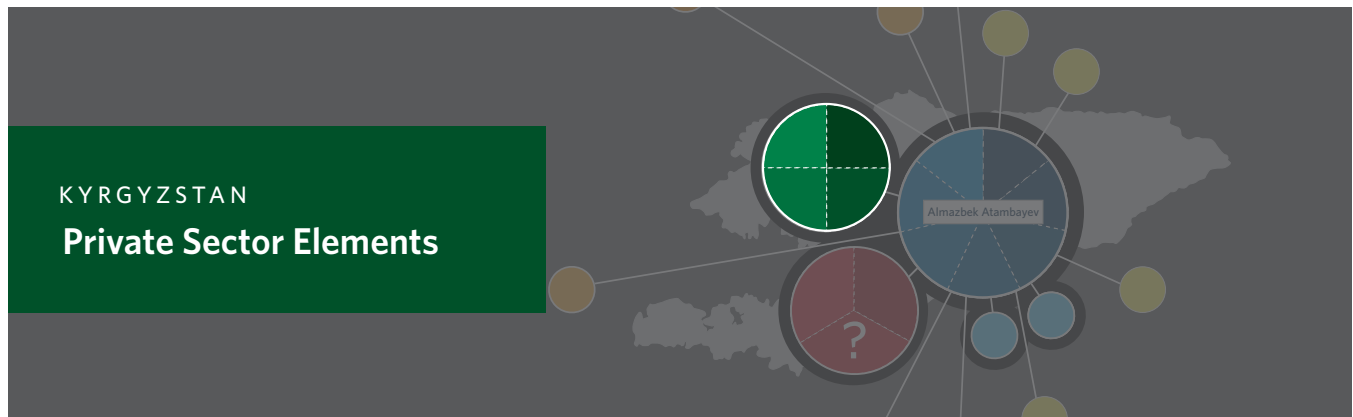
Especially with regard to exporting hydropower, rate-padding, and establishing connections to the grid for businesses as well as residential customers.

▶ **Parliament**

Insufficiently checks the operations of the kleptocratic network, especially given the rule permitting parliamentarians to designate colleagues to vote in their place in case of absence from the chamber. A number of parliamentarians may be using political office to get into the corruption business on their own.

● **Local officials**

Including municipal land bureaus accused of illegally expropriating land via falsified documents. The practices of the Land Redistribution Fund, which controls some 25 percent of arable agricultural land, are contested.



The main private sector network elements include:

▶ **Construction industry**

Companies under network control are believed to provide kickbacks and to benefit from sweetheart deals for buildings and infrastructure projects (including power generation and transmission) funded largely by external development partners. Often building materials are observed to be shoddy and the resulting structures left empty.

▶ **Mining and associated enterprises**

Gold represents some 10 percent of GDP, but output fell dramatically in early 2016.

▶ **Electricity generation and supply companies**

The various joint stock companies (JSCs) that manage electricity generation and distribution are almost entirely state-owned. The board of directors of Electric Power Plants, the electricity generation JSC, for example, includes a member of the Bishkek City Council among other officials; the chairman was a close confidant of Askar Akayev when he was president. The sector is infamous for corruption.

▶ **Consumer goods import-export and retailers**

Until Kyrgyzstan's 2015 accession to the Russian-sponsored Eurasian Economic Union (EEU), the re-export business, exploiting a tariff differential on Chinese imports between Kyrgyzstan and Kazakhstan, was highly profitable. The full impact of joining the EEU is not yet clear.



Criminal sector integration into kleptocratic networks is quite clear in Kyrgyzstan, though adherence to the Russian-sponsored EEU has disrupted smuggling patterns.

▶ **Narcotics traffickers**

Kyrgyzstan represents a significant transshipment zone for Afghan opiates, among other drugs, especially traveling toward Russia and China. According to some estimates, around 20 percent of Afghan opium production is trafficked through Kyrgyzstan. Atambayev's predecessor, Kurmanbek Bakiyev, deliberately disabled the nation's Drug Control Agency.

▶ **"Thugs?"**

These informal instruments of force and intimidation may have stronger ties to criminal groups than government officials, but they seem to be at the disposal of the integrated networks. Journalists and civil society activists report stepped-up harassment by such difficult-to-identify operatives in 2016.

▶ **Consumer goods smugglers**

These actors are key to networks' ability to exploit tariff differentials or evade customs altogether for consumer goods sold in Kyrgyzstan or re-exported. But this activity has been disrupted by Kyrgyzstan's 2015 adherence to the EEU, reducing customs barriers at its borders.



The main external facilitators are:

- **Latvian banks**
These banks have been found to play an intermediate role in placing corrupt Kyrgyz assets offshore.
- **Shell company domiciling services**
Providers, such as the Belize-based International Corporate Services Limited, are also located in the UK and Ireland.



The main external enablers are:

- **The Russian government**
 Moscow has provided a number of long-term loans, and has invested in Kyrgyz infrastructure projects. Significant entanglement with Kyrgyz networks is reported.
- **Overseas security and development assistance and loans from development banks**
 Support is currently provided by EU institutions, Germany, Japan, Switzerland, Turkey, and the United States, among others. Even in cases where development assistance is spent on such humanitarian priorities as health or electoral reform, it may bolster regime prestige.
- **Infrastructure loans**
 Major infrastructure projects represent a revenue stream for Kyrgyz networks when network-affiliated businesses capture the contracts or—as in the case of hydroelectricity—the benefits of the project. So the provision of grants or even loans without detailed conditions and reinforced oversight may constitute an enabler. Loans provided by multistakeholder funds managed by financial professionals lacking a development lens or practice are particularly vulnerable.
- **Luxury real estate agents**



Some of the conditions that Kyrgyz networks may exploit are:

- **Remittances**
Mostly from Kyrgyz working in Russia; estimated at up to 30 percent of GDP.
- **Porous border with Tajikistan**
Eases narcotics trafficking.
- **Strategic location**
Allowed the Kyrgyz government to bid up the competition between the United States and Russia for use of the Manas air base, especially during the height of the war in Afghanistan. No longer significant.
- **Image as Central Asia's lone parliamentary democracy**
May reduce donors' selectivity and oversight in providing grants, loans, and assistance.

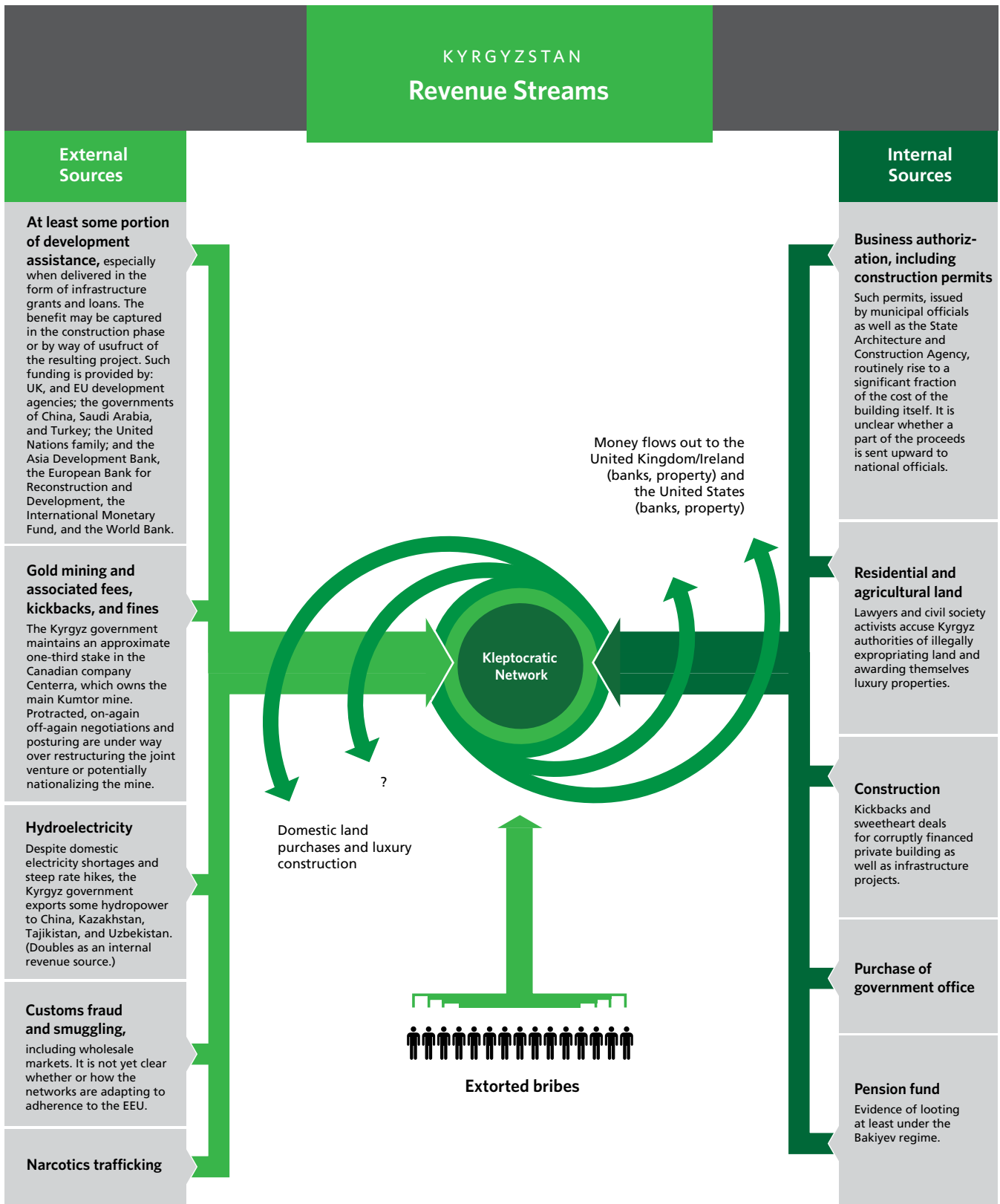


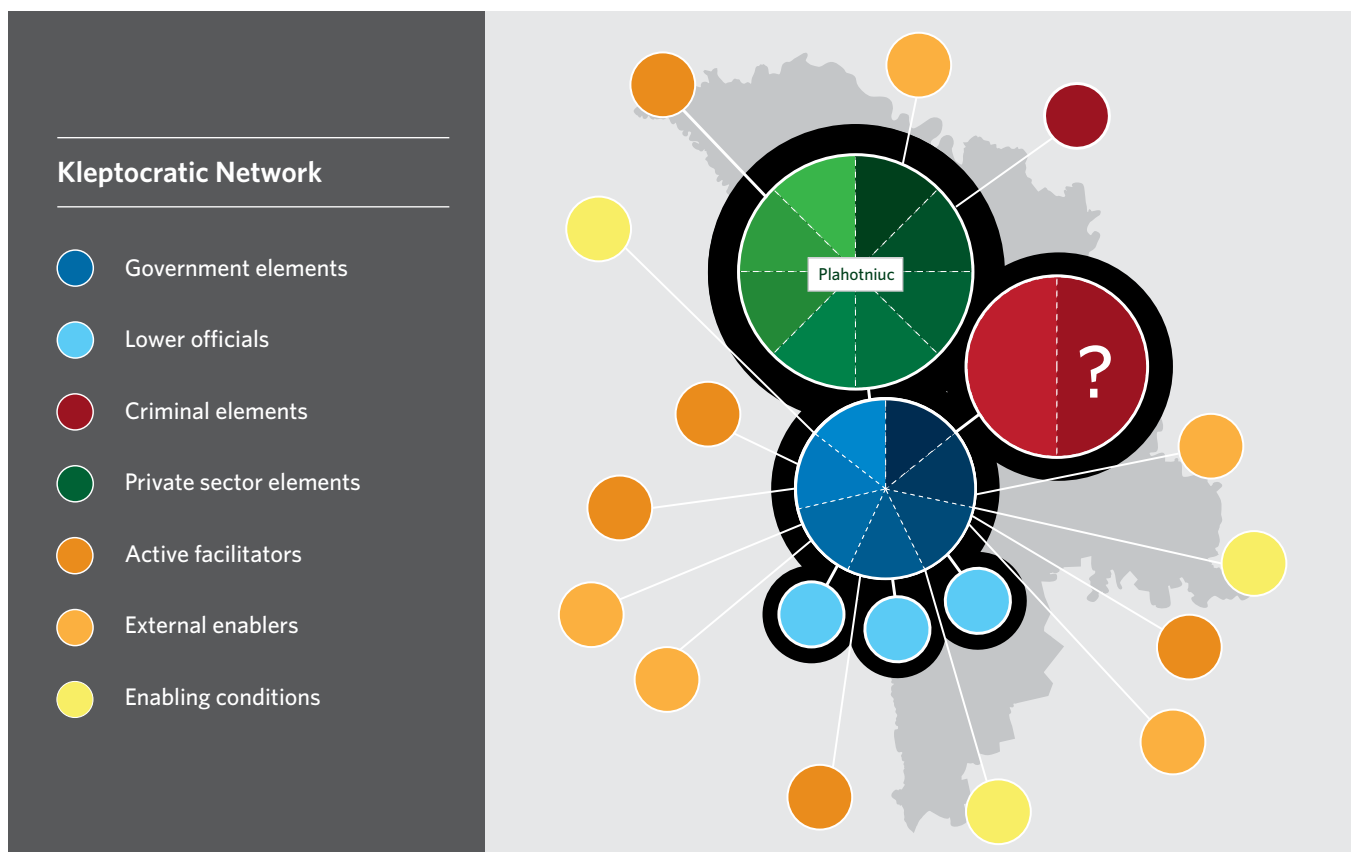
Figure 10.

Infographic. The Structure of Kleptocracy in Moldova

This diagram, especially its central elements, is meant to depict a fully interpenetrated network. The apparent separation visible here represents a compromise to ease understanding.

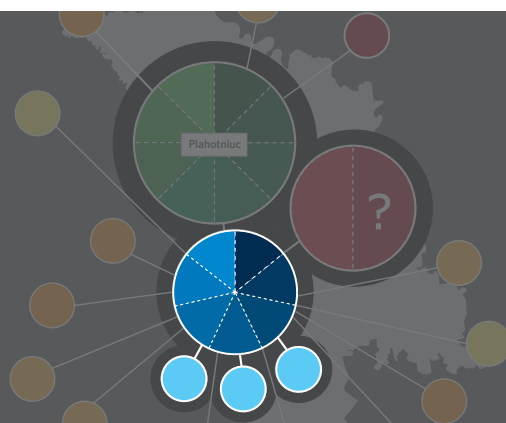
Moldova

Moldova's network is controlled not from within its government, but from the private sector, by business magnate Vladimir Plahotniuc. The leak in May 2015 of a central-bank-commissioned report detailing the suspicious transfer of some \$1 billion—fully 12 percent of GDP—from the country's top three private banks sparked massive anticorruption demonstrations. It was also seen as a move by the Plahotniuc network to disable its lone competitor, the network around former prime minister Vladimir Filat, who was implicated in the report. It was a Plahotniuc confidant, Speaker of the Parliament Andrian Candu, who leaked it. The network is vertically integrated in the usual fashion, with bribe money paid to justice sector professionals, teachers, and doctors traveling up the line in return for protection from legal repercussions or the impact of institutional reforms. Both the Plahotniuc and Filat networks are nominally pro-European, so some degree of popular pro-Russian sentiment may reflect indignation at the corruption that even negotiations aimed at charting a path toward European integration have failed to reduce, rather than purely cultural affinities.



MOLDOVA

Government Elements



The elements of state function that are key to network operations include:



Judicial branch

Prosecutors as well as judges. Justice sector personnel ensure impunity for corrupt customs officials or criminal bank executives by destroying or abandoning evidence, enforce fraudulent debt claims as part of money-laundering schemes, and block attempted institutional reforms. A number of judges have resigned or are under investigation, but whether these changes will be adequate to reform the system is an open question.



National Anticorruption Center

This nominally independent agency keeps files on various government officials and is seen to preferentially target those who buck the Plahotniuc line.



National Investigation Inspectorate

Especially the Economic Crime Unit and Special Operations Department, believed to tamper with evidence and collect information on potential rivals.



Ministry of Economy

Agencies under its jurisdiction use customs and tax audits to discipline, handicap, or punish competing businesses. According to several interviewees, the Ministry of

Economy has required national utility companies to route electricity or telecom services by way of network-affiliated intermediaries, which skim some portion of rates paid. (Electricity rates rose by about one-third over just a few months at the end of 2015.)



Ministry of Information Technology and Communications



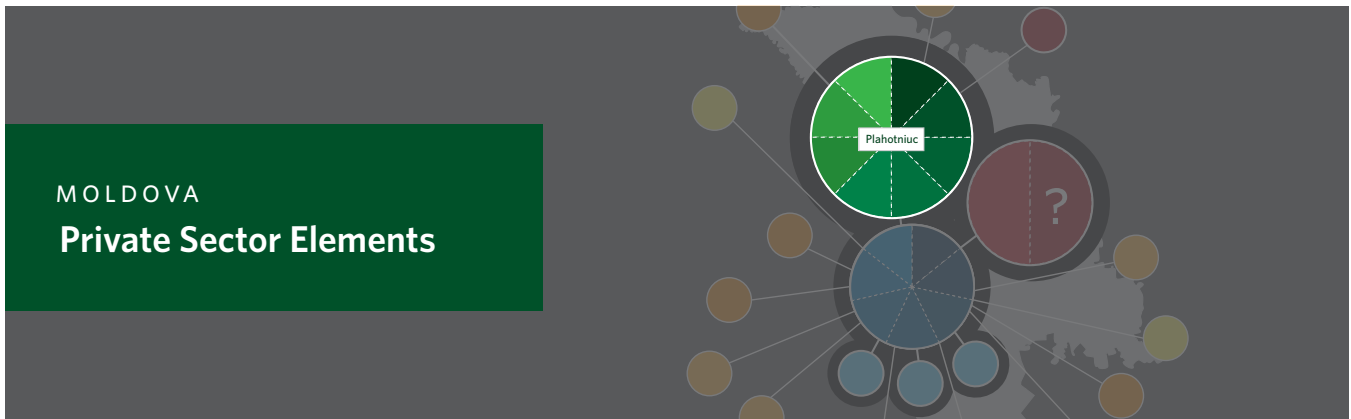
Central Bank

Non-enforcement of banking regulations by the central bank has also been critical to Moldova's ability to provide money-laundering services.



Central Electoral Commission

Plahotniuc's control of the autonomous Central Electoral Commission, whose chairman is a member of his inner circle, allows the network to influence elections via vote-buying and the disqualification of candidates. As a result of these levers and direct emoluments or intimidation, the parliament is largely under network control.



The main private sector network elements include:

- ▶ **Banks**
Owners of Moldovan banks have used a variety of layered and opaque corporate structures and proxy owners, so it is difficult to determine who they actually are, or who is profiting from the money-laundering services that have been provided to Russian clients, or on whose behalf \$1 billion was siphoned out of the three main banks.
- ▶ **Construction contractors**
Contract fraud is suspected, especially regarding public buildings such as schools and hospitals, as well as roads. Moldova does not have the type of megaprojects that are evident in Azerbaijan.
- ▶ **Consumer goods importers**
- ▶ **Bakeries and butchers**
- ▶ **Media**
Prime, Canal 2, Canal 3, and Publika, among others.
- ▶ **Hospitality and travel**
Nobil Luxury Boutique Hotel and Codru Hotel, among others.
- ▶ **Real estate**
- ▶ **Public utilities intermediaries**



As elsewhere in this region, criminal actors are intertwined with kleptocratic networks.



Sex trafficking?

Moldova has been famous for sex trafficking since at least the turn of the millennium. At that time, women entrapped in Moldova were trafficked across the still-chaotic Balkans, leaving for Italy in rubber dinghies. From Italy they were dispatched across Europe, ending up, for example, in Lyon, France, where they competed with regulated prostitutes. This trade continues, with other routes leading through Turkey to the Middle East. No evidence of concrete links to the Plahotniuc network has been publicly uncovered.



Smuggling

Especially foodstuffs, alcohol, and cigarettes.



Russian corruption and organized crime networks

These foreign networks have relied heavily on Moldovan banks for money-laundering services.



MOLDOVA
Active Facilitators

The main external facilitators are:

- **Shell company domiciling services**
Providers have been identified in Belize; Cyprus; Hong Kong; the Netherlands; New Zealand; South Africa; the United Kingdom, including Scotland and the British Overseas Territories, and the U.S. state of Delaware.
- **Ukrainian smuggling rings**
- **Local branches of some international auditors**
They have signed off on clean bills of health for banks providing illegal loans.
- **Russian banks**
They provide fictitious deposits to disguise Moldovan banks' disappearing capital.
- **Moldovan citizens**
Some Moldovans have allowed their names to be used as "owners" of shell companies in Russia that guaranteed fictitious loans between other paper companies. Payments by these Moldovan-owned "guarantors" to the supposed creditor when the supposed borrower "defaults" is the mechanism by which money has been laundered. In fact no loan would ever have been made. The fiction was concocted to provide an apparently legitimate paper trail explaining the transfer of funds.

MOLDOVA

External Enablers



The main external enablers are:

- **Latvian banks**
These banks are the first ports of call for money freshly laundered in Moldova.
- **Russian gas**
Gazprom owns a 51 percent stake in Moldovagaz.
- **U.S. foreign assistance**
Donor funds from Europe and international financial institutions have been significant until quite recently. But most international donors and lenders are now freezing their programs with Moldova. The International Monetary Fund (IMF) has provided no new loans since 2013, and has made it clear that the current state of the political economy precludes negotiations for the moment. While the U.S. Millennium Challenge Corporation compact has not been renewed due to corruption concerns, the U.S. State Department included \$41 million in civilian and military assistance in its fiscal year 2017 budget request. Activists see this U.S. support as moral reinforcement for the Plahotniuc network.
- **Romanian foreign assistance**
Despite pressure from other lenders, the Romanian government approved a \$177 million loan in May 2016, though no funds have been disbursed as of mid-2016.
- **Romanian elite stature-enhancing interactions and business deals**



The main enabling conditions are:

● **EU-Russian tensions**

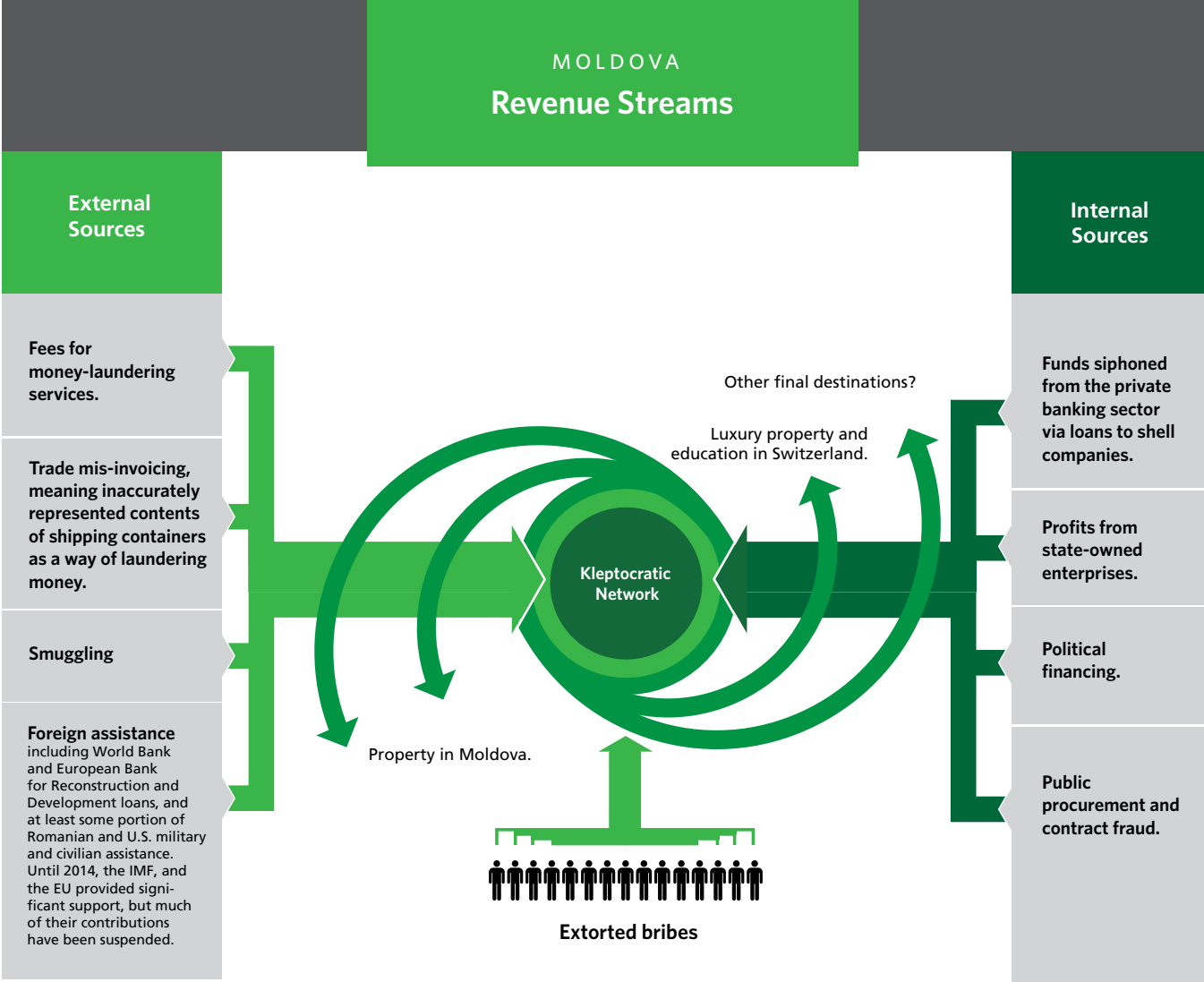
This geostrategic context has played an enabling role for the nominally pro-EU Plahotniuc network. Ironically, the United States has remained more sensitive to this geopolitical alignment than the EU, which has suspended its financial support.

● **Frozen Transnistrian conflict**

The unresolved claims and counterclaims to this piece of territory have left it in a degree of administrative limbo that facilitates cross-border smuggling from Ukraine.

● **Remittances**

Most of the guest workers sending money back to families in Moldova are employed in Russia. The flow is estimated to total approximately one-quarter of Moldova's GDP. This cushion is vulnerable to Russia's economic contraction.



Appendix: Questions to Guide a Systemic Analysis of Kleptocratic Systems

Does a single network dominate?

- How dependent is the network's functioning on the person of the chief of state? Or instead, is there a significant cadre of network members who could re-combine and retain their grip on the economy and key aspects of political function if the network is decapitated?
- How important is kinship to the network structures?
- To what extent does competition exist within the dominant network?

Where one network does not dominate, do relatively evenly matched competing networks coexist?

- In the case of multiple networks, how contentious is their rivalry?

What elements of state function have been deliberately bent or distorted by the networks with the aim of extracting resources and/or ensuring compliance?

- What instruments of coercion or violence do the networks rely upon to enforce discipline, both on network members and on the population at large, especially activists or media?
- What elements of state function have been deliberately crippled or allowed to languish or else cannibalized for the revenue streams they provide?

How vertically integrated are the kleptocratic networks?

How horizontally integrated are the networks?

- Does the horizontal integration include ostensibly charitable institutions?
- Does horizontal integration extend to outright criminals?
- Does the network incorporate terrorists or other violent insurgents?

Do the networks extend across national boundaries?

What are the key enablers for the kleptocratic networks, especially outside the country?

What are the most important revenue streams the network(s) concentrate their efforts on capturing?

- What are the illicit funds used for?

NOTES

- 1 Unaoil is a Monaco-based consulting firm that provides “industrial solutions to the [international] energy sector,” according to its website, www.unaoil.com. But e-mails included in a trove of documents obtained by the Australian newspaper the Age and the *Huffington Post* indicate the services largely boiled down to bribing host-nation officials on behalf of Western energy companies and contractors. Some of the e-mails even suggest that Unaoil took aggressive steps to actively corrupt host-country officials or to prevent companies that had not paid bribes from obtaining contracts. The best overview of the scandal is to be found in Nick Baumann et al., “Unaoil’s Huge New Corruption Scandal Explained,” *Huffington Post*, March 30, 2016, accessed June 16, 2016, http://www.huffingtonpost.com/entry/unaoil-scandal-explained_us_56fbd2f0e4b0daf53aee0cff.
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- 7 For these recent developments, see Thomas de Waal, “Azerbaijan’s Perfect Storm,” Carnegie Europe, January 19, 2016, accessed June 15, 2016, <http://carnegieeurope.eu/strategieurope/?fa=62501>. For the causal relationship between severe and structured corruption and religious extremism, see Sarah Chayes, *Thieves of State: Why Corruption Threatens Global Security* (New York: Norton, 2015).
- 8 “Countries / Kyrgyz Republic: Overview,” World Bank, <http://www.worldbank.org/en/country/kyrgyzrepublic/overview>; and “Electricity Production From

- Hydroelectric Sources (% of Total),” World Bank, accessed June 15, 2016, <http://data.worldbank.org/indicator/EG.ELC.HYRO.ZS>. (Figures for the second half of the last decade.)
- 9 As of 2014. See “Personal Remittances, Received (% of GDP),” World Bank, <http://data.worldbank.org/indicator/BX.TRF.PWKR.DT.GD.ZS>; and “Data: Kyrgyz Republic,” World Bank, <http://data.worldbank.org/country/kyrgyz-republic>.
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