About Frank Vogl's "The Enablers.
How the West supports kleptocrats and corruption - endangering our democracy"
A Financial and Political Economy of Corruption

By François Valérian
Editor-in-Chief of Les Annales des Mines
Professor of Finance, Regulation and Supervision at Mines ParisTech and Associate Professor of Finance at Conservatoire National des Arts et Métiers
Member of the International Board of Transparency International and of the Board of Transparency International France

Frank Vogl's latest book exposes, based on a very rich documentation, a financial and political economy of corruption. The author's background has given him first-hand knowledge of many of the problems and issues he deals with. As a journalist, former World Bank executive, co-founder of Transparency International, and academic, he has been able to observe and combat both corruption and the way in which the profits of corruption were invested since the 1970s.

It is important to understand that corruption is not limited to the payment of a bribe in exchange for an undue favor. For sure the author reminds us how important this phenomenon is and goes back to the US post-Watergate Foreign Corrupt Practices Act to trace the more or less successful efforts to combat this phenomenon which considerably harms development and causes countless victims worlwide. Vogl cites the IMF and its estimate of the global costs of corruption at between 1.5% and 2% of world GDP. However, he does not stop there and implements his long-standing maxim: "Follow the money".

Corruption's money is indeed paid to political leaders who are in fact kleptocrats, men and women whose essential, unique objective is to plunder the resources of the countries they lead. These kleptocrats, Vogl reminds us in a moving chapter, have ruined the immense hopes born in 1989 and 1990, hopes of a post-communist and post-apartheid world where democracy would have triumphed everywhere and economic development would have benefited everyone. Their money, in the first instance, goes abroad, which represents a net impoverishment of the country which they are responsible for. It goes abroad through the channels of banks, to be invested in real estate, works of art, luxury goods, with the help of auditors, lawyers and consultants.

All these helping people, mainly from the West, bankers, real estate agents, art or luxury goods dealers, auditors, lawyers and consultants, are the "enablers" that Vogl evokes and accuses as early as in his book's title. He invites us to accompany him on a world tour in pursuit of this illicit money, through the last decades' multiple scandals.

The banking world obviously is the main one involved. Vogl reminds us of BNP Paribas' efforts to conceal its shady deals with Cuba, Iran and Sudan, the various abuses committed by HSBC, Deutsche Bank's glorious worldwide expansion which resulted in a long judiciary and stock market ordeal for a bank that has not yet recovered from its hubris. Extremely knowledgeable about the banking world and its leaders, Vogl points out what is at stake, the culture of high risk and high short-term profit supposed to reward risk-taking in ignorance, sometimes of the law, and very often of the general interest.

This last point is important in Vogl's book. Not all enablers are criminals in the narrow sense of their jurisdictions' law. However, they act in ignorance of, and often with a conscious disregard for, the public interest, an interest of which at least the large banks' executives, who are particularly well compensated, should feel they have a stake. Vogl particularly insists on the need for a cultural change inside the banks, he recognizes that it is not a question of stopping or paralyzing all banking activity but he tells us that it is the responsibility of the banks' leaders to profoundly reform a culture where the obsessive search for short-term profit maximization coexists with a "tick-boxing" practice of compliance with a regulation that misses the point. Sanctions or legal settlements, even if heavy but still rare, and which never reach bank CEOs on a personal level, are still too often considered as a simple "cost of doing business".

Before being transformed into a superb London apartment, a Parisian mansion or a Mediterranean villa, the money stops in one of these tax havens that are still not dismantled. Vogl reminds us that 7 trillion dollars are deposited in the Cayman Islands and the British Virgin Islands, which represents 8% of the world's GDP. The Panama Papers, and more recently the Pandora Papers, have reminded us of the importance of these jurisdictions and of the activity, denounced by Vogl, of all the enablers, lawyers, auditors, consultants, who help structure individual assets, or up to a financial empire like that of Isabel Dos Santos, with different anchors in tax havens.

It is also common for State Owned Enterprises (SOEs) to set up subsidiaries in tax havens, under the fallacious pretext of searching exchange rate stability, but in fact making it easier for some of their managers to benefit from illicit payments.

Another approach pointed out by Vogl is to use countries that were previously more or less well regulated as havens for illicit gains. The trade in golden visas, or even passports, by different EU member states allows corrupt individuals to enjoy the European single market's benefits with impunity.

Once the money is safe, it can be invested, and this is when what Vogl calls "klepto-investing" begins. Real estate investment has a prominent place in "Londongrad" where real estate agents hardly control the origin of the funds, in North America from Vancouver to Miami, in France, in Singapore, in Dubai. These investments drive up real estate prices and are facilitated by a considerable opacity on the beneficial owners' identity.

In real estate, as in luxury goods or jewelry, and as in banking, it is the "Know your customer (KYC)" principle that is still insufficiently enforced. Vogl insists on this essential point, which is recalled by the regulations but which does not seem to have yet entered into the various actors' culture. Vogl calls for a "quantum upgrade in enforcement capabilities on the central KYC issue".

The author describes the whole financial cycle of the corruption economy, but this economy is political as well as financial. Regulators, or those who are supposed to regulate, are often exposed, in some countries, to lobbying by enablers. The corruption of kleptocrats also unfolds under the cover of Cold War arguments. Money laundering from Azerbaijan, for the benefit and then at the expense of Danske Bank, was also made possible by the American search for allies against Iran, the Western failure in Afghanistan was largely caused by corruption, and Vogl recalls the long complicity between oil and corruption, between defense and corruption.

The West has tolerated corruption for too long and now seems, from reading Vogl's book, to be caught in its own trap. "Klepto-debts", sovereign debts with false motives, are invented by kleptocrats with the help of Western banks, Credit Suisse in Mozambique or Goldman Sachs in Malaysia, and then sold to investors. These investors in sovereign debt, attracted by high returns, then become the best allies of the governments whose debt they have bought and, for example, oppose possible international sanctions, as in the case of Belarus. Russia and China are now using corruption as a weapon, one to intervene in electoral processes in the West, the other to serve its global economic expansion.

Vogl concludes about business with the importance of a culture of public interest, not just a compliance tick-boxing practice. About governments, he is resolutely political. His conclusion is clear: corruption undermines democracy, distorts both elections and political decisions, and by angering citizens it paves the way for populists who will be even more corrupt because they will have abolished rule of law. Vogl signals a sign of hope with the recent US Corporate Transparency Act and notes that when the United States, and the whole of the West, wanted to wage war on terrorism, they were able to do so. Terrorism was then and still is considered a death threat to democracies. So why don't we wage war on corruption with the same weapons?

A brilliant book, which makes us think, and think to act better.