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“The Nexus between the Illicit Narcotics Trade and Corruption”
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Chairman Whitehouse, Ranking Member Grassley, distinguished Members of the Caucus; thank you for bringing us together today to examine the nexus of the illicit narcotics trade and corruption and for your leadership on these issues. I am grateful to have the opportunity to share with you how USAID works alongside our interagency partners – particularly the Departments of State, Justice, and Treasury – to address these critical, and mutually reinforcing, threats to inclusive development, democracy, and security. USAID’s robust on-the-ground presence, network of local employees and partners, and sustained investments in institutions and frontline actors are essential for shifting the systems, norms, and incentives that enable corruption and drug trafficking.

As Administrator Power said in outlining her vision for development on USAID’s 60th anniversary, “corruption is basically development in reverse.” It undermines national security, scares away private investment, contributes to environmental degradation, erodes the rule of law, and weakens support for democracy itself. Corruption fuels and is fueled by the prevalence of drug trafficking and the transnational criminal organizations (TCOs) that facilitate it. Both corruption and the trade in illicit narcotics are rooted in weak governance systems, captured or compromised justice sector institutions, and ineffective oversight and enforcement bodies. And these dynamics know no borders, involving actors, systems, and networks across countries and regions. Addressing the dual threats of corruption and the illicit narcotics trade, then, will require a persistent, coordinated, and whole-of-government effort. With Missions in more than 80 countries and programs in more than 100, USAID plays a critical role in this endeavor.

USAID’s Holistic Approach to Combating Corruption

The fight against corruption and efforts to enhance transparency, accountability, and good governance are central to USAID’s mission and work around the world. USAID’s approach to combating corruption is long-term,

systems-oriented, and people-centered. USAID's programs seek to identify points of entry to engage reformers and to strengthen the ecosystem within countries to prevent, detect, mitigate, and punish corruption. Our programs balance support to civil society and media to serve as watchdogs and expose corruption with the equally critical work of enhancing the effectiveness, independence, and accountability of public sector institutions.

Bolstering Civil Society and Media

USAID provides extensive support to civil society and investigative journalists to expose corruption, drug trafficking, money laundering, and other forms of organized crime, often at great personal and professional risk. Their work is vital to generating demand for reform and accountability.

For instance, since 2007, USAID has funded the Organized Crime and Corruption Reporting Project (OCCRP), which supports, networks, and strengthens the capacity of investigative journalists and editors across Europe and Eurasia to produce high quality, fact-based, cross-border investigative journalism. This network releases more than 80 major projects per year that uncover corruption, criminal activity, and the illicit trafficking in drugs, commodities, and natural resources.

One such project followed drug trafficking groups that have been operating in the Balkans and their rise to control some of the most lucrative drug markets in Europe. Using classified intelligence reports, police and court documents, as well as interviews with gang members and people who know them, the reporters pieced together the complex web of alliances behind the violent Balkan cocaine wars between rival clans. Their findings offer the first comprehensive picture of the secret war between these two cocaine clans, which have carved a bloody trail across Europe. OCCRP and its partners have also documented the coalescence of Balkan criminal groups into a syndicate that has earned billions and influenced politicians, police, and prosecutors across the region -- illustrating how the proceeds of illicit narcotics can be used to pay off public officials, who in turn undermine the fight against illicit narcotics.

Enhancing Public Sector Institutions

A central feature of USAID's anti-corruption approach is our work to make partner government institutions more transparent, responsive, and effective. Our programs do this by: strengthening justice systems, enhancing public administration and public financial management, and promoting transparency and

accountability across the public sector. Across these lines of effort, USAID works to curb money laundering, which sustains and enriches drug cartels, other criminal networks, kleptocrats, and terrorist organizations.

Our programs bolster **legal frameworks and oversight bodies** within countries to prevent and detect corruption. This includes supporting the development and passage of laws on bribery, anti money-laundering, and whistleblowing; supporting anti-corruption bodies and oversight institutions; and enhancing legislative oversight commissions. For example, in Mexico, USAID is strengthening oversight and regulatory bodies, and promoting collaboration among them at the federal and state levels, in order to reduce corruption risks at key points where government and citizens interact, such as when obtaining licenses or permits. In the Philippines, USAID's Integrity for Investments Initiative (i3) builds the capacity of government anti-corruption offices, including the Office of the Ombudsman and Commission on Audit, to enforce anti-corruption laws. Across our programs, these critical investments in democratic institutions provide the basis for effective anti-corruption efforts.

USAID **strengthens the rule of law and justice sector institutions** to help countries prevent, detect, investigate, and prosecute corruption. This includes programs to strengthen specialized anti-corruption units; improve the capacity of prosecutors, judges, and law enforcement officers to detect, investigate, and prosecute financial crimes and corruption; strengthen inter-governmental coordination in detection and referral; and support administrative and other civil sanctions for corruption. For example, USAID's Mali Justice Program works with the formal and informal justice sectors and civil society to advance institutional reforms, increase access to justice, and reduce corruption. Achievements of this program include the creation of a regional platform for the fight against corruption, development and implementation of capacity-building programs for the Ministry of Justice, and development of the human resources management system for the government entire justice sector. Efforts to prevent and disrupt illicit narcotics trade rest upon the foundation that these justice sector interventions provide.

USAID's extensive **public administration and public financial management** work contributes to preventing and detecting corruption and money laundering, weakening the ability of drug traffickers and other criminals to launder and hide their ill-gotten gains. Since March 2021, USAID has provided technical assistance to North Macedonia's Financial Intelligence Office to improve its capacity and policy framework for preventing and mitigating money laundering

and terrorist financing risks, including in the civil society sector. Through this partnership, USAID contributed to North Macedonia's 2021 Strategy for Preventing Money Laundering and Terrorism Financing and supported the Financial Intelligence Office in implementing anti-money laundering (AML) measures in preparation for its Council of Europe, Committee of Experts on the Evaluation of Anti-money Laundering Measures and Financing of Terrorism (MONEYVAL) evaluation in 2022. These efforts decrease the ease of profiting from corruption, drug trafficking, and other criminal activities.

USAID also **promotes transparency and good governance standards and norms** to transform public institutions. USAID partners with governments to create and strengthen ethics programs, codes of conduct, and disciplinary procedures for judges, prosecutors, public defenders, private attorneys and public servants, and supports ethical leadership training, legal education, and professional development programs aimed at promoting a culture of accountability. In countries such as Guyana, the Democratic Republic of Congo, Nepal, and Peru, USAID is supporting implementation of international transparency norms and standards through platforms such as the Open Government Partnership, the Extractive Industry Transparency Initiative, and the International Budget Partnership.

In addition, USAID's **campaign finance work** increases transparency and makes it more difficult for drug traffickers and other criminal actors to "buy" politicians they can then use to provide cover for their illicit activity. For example, for the last five years, USAID has worked to cultivate an expectation of financial transparency among Moldova's political parties by working with the Central Electoral Commission to build systems and train party members to maintain sound and accurate financial records, file official reports and asset disclosures, and remain in compliance with relevant political and campaign finance legislation. This activity reduces the space for political leaders to be corrupted by drug cartels, criminal networks, and other nefarious actors.

Leveraging USAID's Sectoral Work

As the largest bilateral development agency, USAID has the unique ability to combat corruption and drug trafficking through multiple sectors, including in health, education, conflict prevention and violence reduction, and the environment. USAID's work across development sectors helps address the overall environment of corruption and impunity, in which the illicit narcotics trade thrives.

For example, illegal wildlife trade is perpetrated by some of the same TCOs that traffic in drugs, arms, and humans, resulting in convergence with these crimes and with corruption. Based on data recorded in TRAFFIC's Wildlife Trade Information System from 2004 to 2019, 1,321 incidents of wildlife trade were linked to serious or organized crime and/or the seizure of other non-wildlife items, with 53 percent involving corruption, 14 percent involving illegal drugs, and 6 percent involving money laundering.

To address these linkages, USAID's Targeting Natural Resource Corruption (TNRC) project, which aims to improve biodiversity outcomes by addressing threats posed by corruption, held virtual roundtables connecting a group of AML professionals in the Washington, DC area with select conservation practitioners to identify information gaps and strengthen collaboration, including in areas such as beneficial ownership transparency.

As part of its approximately \$65 million annual response to wildlife trafficking, USAID supported the wildlife monitoring network TRAFFIC to analyze and address illegal trade in South African abalone, a highly sought-after, high-value marine mollusk, produced and harvested as a seafood delicacy for predominantly East Asian markets via Hong Kong. TRAFFIC found that East Asian criminal groups have long bartered for abalone using precursor ingredients for drugs, first for Mandrax (quaaludes) and later methamphetamines, forging cash-free trade relationships with gangs that control the local drug market. It is believed that a People's Republic of China-based organized crime group distributed approximately 16 million Mandrax tablets annually, worth an estimated \$36 million. Where there is this type of convergence, efforts to address wildlife trafficking also address drug trafficking.

Corruption is a critical issue in **extractive industries**, with clear links to transnational crime, smuggling, and human rights violations. The vast majority of artisanal and small-scale mining is informal in nature and uniquely vulnerable to exploitation by corrupt officials, elites, and criminal groups. For example, illicit artisanal and small-scale gold mining generates billions of dollars in revenue for drug trafficking organizations in Latin America, and these organizations also use gold to launder the proceeds of their drug trafficking. Some estimates value illegal gold as more lucrative than coca. USAID's gold mining program in Colombia has removed more than \$160 million dollars from the illegal economy, paying for itself eight times over.

Transforming the Fight Against Corruption

Anti-corruption work is not new to USAID. However, with the Biden-Harris Administration's elevation and prioritization of the fight against corruption, the Agency is now addressing corruption with the urgency and resolve that it requires. Under Administrator Power's leadership, USAID is deepening and expanding policy engagement, public outreach, and programming to tackle corruption from a variety of angles and confront the rise of transnational corruption and its linkages to kleptocracy, strategic corruption, and transnational organized crime.

USAID is taking concrete steps to upgrade its work on the linked threats of corruption and the trade in illicit narcotics. First, we are increasing our **agility** to respond to windows of opportunity or backsliding on corruption. Second, we are enhancing **collaboration** with other U.S. departments and agencies in Washington and at posts to leverage the full range of our capabilities and align incentives for reform. Third, USAID is creating more opportunities to support and **partner** with local anti-corruption activists and reformers, as well as the private sector, which is so crucial to winning the fight against corruption. Fourth, USAID is **experimenting** with new programmatic approaches and seeking to develop, test, and scale new tools and technologies that can be brought to bear on combating transnational corruption. And finally, we are expanding our **research and learning** efforts to identify the most effective ways of rooting out corruption in the public and private sectors and building cultures of transparency and accountability.

Conclusion

Corruption serves as a weapon of choice for drug cartels, allowing them to buy off politicians, police, border control agents, and judges who are supposed to regulate, prevent, and disrupt the production and trade of illicit narcotics and hold perpetrators accountable. As such, anti-corruption efforts remain central to a holistic and effective effort to curb the illicit narcotics trade.

Mr. Chairman, USAID's anti-corruption and development efforts play a critical role in addressing the enabling environment that fosters the illicit narcotics trade which has detrimental effects around the globe, including here in the United States. We look forward to continuing and strengthening our efforts in coordination with our partners across the U.S. government, the development community, and the frontline reformers and activists in the countries in which we work.