Papering over cracks or building stronger systems together? Financial crime in the context of covid-19

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Covid-19 has exposed cracks and flaws in the systems designed to protect communities from corruption and has accelerated existing trends in financial crime.

The next systemic disruption may come from another pandemic, climate change or perhaps biological or cyber attacks. It could shake the structures and institutions that uphold the rule of law and promote development even harder and precipitate yet faster change. It is clear that financial crime systems must become more resilient if they are to protect us from whatever the future holds.

Through our research and technical support for government agencies, the private sector and international organisations, staff at the Basel Institute on Governance touch on many different angles of corruption, governance, rule of law and development. Our observations on the ground tell us two things about building resilience against financial crime.

First, the answer is not to put a sticking plaster over corona-induced cracks and wait for everything to go back to normal, because it won't. In any case, situation "normal" for **financial crime has been undermining development and global financial systems for too long**.

Second, nor should we think that everything has to change overnight. **Knee-jerk reactions** to a narrow set of problems, implemented too hastily without regard for the wider consequences, **have a bad habit of backfiring**.

Three areas that illustrate these points are improvements in:

1. Technology
2. Streamlining procedures
3. Engaging citizens in the fight against financial crime

1. Technology: dearly needed but not sufficient

Technological weakness exacerbated the paralysing effect of lockdowns on many corruption and money laundering cases around the world. In our partner countries, cases were put on hold as courts and investigative agencies – lacking digital communication and case management systems – closed down. Law enforcement officials, stuck at home and unable to interview witnesses in person or conduct field investigations, watched as the clock ticked down on suspects' remand periods or case files got buried in the backlog.

Meanwhile, textbook examples of crisis-related corruption and fraud arose around the world. As in other emergency situations like natural disaster relief, we have already seen instances of price inflation, embezzlement and kickbacks, as well as misappropriation of loans and other aid. A quick glance at the international news reveals multiple reports of organised crime involving counterfeit goods and scams perpetrated on governments as well as private companies and citizens. Several cases directly implicate health ministers and others in the highest political office.

Another problem is that **corrupt actors and organised crime groups are digitalising far faster than the authorities** in charge of stopping them. For example, our Green Corruption team has confirmed their prediction that many illegal sales of wildlife products quickly moved to online marketplaces and social media platforms, speeding up an existing trend. The huge increase in mobile money transfers and use of virtual assets for money laundering and other illicit purposes are also new focal points for corruption, organised crime and money laundering.

Many financial investigators do not yet appreciate the potentially **rich source of information that these new money transfer mechanisms can provide**, and do not include them systematically in financial investigation processes.

To catch up or even overtake the criminals, it is clear that **investment in technology needs to be a priority**. This is true for low-income countries in particular, where anti-corruption agencies and judiciaries often rely on paper case files and lack IT skills and personnel.

- For a start, we hope that more government authorities charged with tackling financial crime will be able to introduce **digitalised case management systems** and upgrade IT equipment and internet access.
- **Professional email services** with end-to-end encryption should be made a priority to avoid the insecure transmission of sensitive case files that we are already seeing in many places.

- **Maximising the use of [open-source intelligence](#)**, with the help of tools such as our [Basel Open Intelligence](#) financial crime search engine, can also help generate vital leads and evidence.
- **Financial investigations training** focusing on mobile money and the [use of cryptocurrencies for money laundering](#) is also needed.
- **[E-government](#)** has long been known to help reduce the risk of corruption in interactions with governments, particularly around public procurement, but it is still underused. If ever there is a time to push for this it is now.

These kinds of technological upgrades are long overdue and will have far-reaching benefits for financial crime-fighting beyond the pandemic situation. Properly planned and resourced, they will help to build resilience in the main institutions charged with tackling financial crime.

But here's a big but. Though investment in technology is needed, we should not fall into the trap of thinking it alone can solve all the problems caused by covid-19 and potentially caused by future crises.

First, **a basic level of infrastructure is needed**. If internet and communications technologies are weak and expensive and government staff lack fundamental IT skills, then new computers, digital case management systems and secure file-sharing software will not have an instant impact.

Second, a **country's legislation needs to be adapted to technical innovation**, for example be able to receive evidence that has been gathered via open-source research on the internet, or to receive testimonies and witness statements delivered through video conferencing. Many are not, and legislative change take far longer than installing new IT systems.

Third, it remains true that **personal relationships and speaking to people in real life are essential to building trust**, in low-tech countries even more than others. The same goes for [eLearning courses](#) and online training. Though immensely valuable as a complementary channel for capacity building, virtual learning is not a substitute for in-person training or on-the-job mentoring.

Last but not least is the need to be **pragmatic and sensitive to resources**. Technology comes with significant costs, from equipment, infrastructure and software to personnel, training and security. It is notorious how IT spending can quickly spiral out of control, especially if implemented too quickly without proper needs assessments and technically competent experts. Even with costs going down, the money is simply not available in some countries.

It is all very well saying that anti-corruption actors need better technology, but somebody has to pay for it, and everybody has to know how to use it.

2. Speed and streamlining procedures

Cases of covid-related corruption have arisen fast, in parallel with an easing of due diligence and other procurement-related processes in the interest of speed.

In the public sector, we have seen emergency procurement rushed through with careless needs assessments and without proper transparency mechanisms like Integrity Pacts or dedicated complaints reporting mechanisms. When it comes to aid transfers, a lack of coordination among donors has opened the door to misuse of funds. And according to compliance officers across many sectors, businesses and financial institutions in survival and remote-working mode are bypassing due diligence and know-your-customer procedures.

Whatever happens, the law will remain the law. Companies and financial institutions still need to comply with anti-bribery laws and anti-money laundering standards. At the same time, for anti-corruption authorities, practical and legal hurdles to prosecuting corruption and recovering stolen assets did not go away when covid-19 came in.

But covid-19 has revealed great scope for streamlining procedures to effectively prevent and combat financial crime. This will not only bring efficiency benefits but build resilience across the public and private sectors. Our asset recovery team point to several cumbersome procedures that have hindered cases during covid-19 and are ripe for a rethink.

- Why insist that **witnesses appear in court hearings in person when they can appear by video link**? They are already starting to do this in Peru and Kenya, allowing many more hearings to go ahead.
- Through closer international cooperation at the operational level, there is huge scope to **speed up information-sharing and to fast-track asset restraining and confiscation orders**.
- **Mutual legal assistance** has long been up for innovation. A digital system that bypasses the archaic transmission of evidence between central authorities or diplomatic channels would save time and money in the long run, especially if diplomatic mail services are stopped in a crisis situation.

In the private sector, **Collective Action has succeeded in helping companies streamline anti-corruption compliance and risk management processes**. Initiatives to harmonise and raise industry standards have already proven their value in industries from mining and metals technology to health and pharmaceuticals. Others issues that companies can tackle better together through Collective Action could be identifying and eliminating new risks from new ways of working, or collaborating on training for a weakened supply chain.

Encouraging innovation when it comes to sharing information and rethinking investigation practices, and being more courageous in collaborating with others facing the same integrity issues, are real possibilities. In a crisis people are more willing to be flexible.

But first, there need to be safeguards and proper oversight to prevent abuse of fast-tracked processes and legislative interpretations.

Second, history warns that newly streamlined systems need to be sustainable and institutionalised to prevent things going back to their old ways after the crisis subsides. This may require domestic legislative change. It will definitely require political will, and this will be harder to achieve.

Perhaps citizens can help shift the needle.

3. Citizen engagement

Prompted by the pandemic and related media coverage, including several high-level arrests, more and more citizens are making the **link between corruption and poor outcomes in development and public services**. A rapid influx of donor funds is triggering stronger calls for accountability and transparency. The pressure on governments to demonstrate their commitment to tackling corruption and to invest concretely in public services is growing from the ground up.

One way in which governments can respond to this pressure is by **involving anti-corruption actors and citizens in designing emergency relief mechanisms and monitoring high-risk processes**. This inclusive and participatory approach has proven successful in Malawi's review of its National Anti-Corruption Strategy. In public procurement, Collective Action tools like Integrity Pacts and High Level Reporting Mechanisms have helped to engage citizens and improve trust in government.

Again though, this needs a careful approach that considers not just covid-19 procurement but more general **management of public finances**. Diverting the resources and attention of civil society organisations and supervisory bodies to covid-19 alone may put other

procurements, investments and social programmes at greater risk of corruption. Such an approach also needs to be based on a thorough understanding of governance as well as the social norms that drive individuals, and networks of individuals, to engage in corrupt behaviour.

A second way for governments to demonstrate their commitment to tackling financial crime and supporting sustainable development is by **investing assets recovered from corruption cases to fund the covid-19 response**. Kenya has led the way in this, with its announcement that USD 19 million in recovered stolen assets have already been allocated to the fight against the virus.

This pragmatic use of recovered assets for healthcare illustrates very pertinently that while corruption can kill, **asset recovery has the potential to save lives**. It may be a way to turn around fears that states will marginalise asset recovery efforts and cut funding for assistance programmes.

Like the other recommendations in this article, this fits into a wider narrative of how we can build more **resilient and coherent systems against financial crime**. It has precedents. In Peru, for example, recovered assets are being used to strengthen the country's asset recovery system, including by paying for investments in electronic case management systems and in building a strong asset recovery team.

4. Balancing resilience and sustainability

There is also a strong argument to **use anti-corruption tools in a much broader range of "crime sectors",** in particularly those related to illicit trade, for which corruption is a major enabling factor.

If we use this opportunity to bring financial investigation and asset recovery into areas such as environmental crime – as we do through our Green Corruption programme – or human trafficking, we will contribute not only to recovering dearly needed assets now, but also to building stronger foundations to achieve the Sustainable Development Goals.

This way, citizens will see the tangible value of fighting financial crime and will be more likely to participate in these efforts.

In conclusion: when considering financial crime in the context of covid-19, policymakers need to **balance the need for quick, pragmatic solutions to specific problems with the need to look around and look ahead**. There is a risk that without proper consideration of the consequences of counter-measures, more problems will be created than solved. The

same goes for accountability and tracking of implementation of solutions to ensure they hit the issues they're supposed to deal with.

A risk is an opportunity. Let's act fast, but smart. And let's make sure what we do today sticks positively in the future and helps us become more resilient, together, for the challenges that lie down the road.