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## **When Local Corruption Goes Global: The Internationalization of Uzbekistan's Telecommunications Bribery Scandals**

Alexander Cooley

In March 2019, the U.S. Department of Justice announced a settlement with the largest mobile telecommunications company in Russia, Mobile TeleSystems PJSC (MTS), in which MTS agreed to pay a total of \$850 million in penalties for scheming to bribe Gulnara Karimova, the daughter of former Uzbekistani President Islam Karimov, for her assistance to access Uzbekistan's telecommunications market.

The MTS scandal was the third in a trilogy of recent high-profile settlements by foreign telecommunications companies for their corrupt actions in the Central Asian country. Prior to the MTS announcement, U.S. and European prosecutors made historically large global settlements with the Russian-founded and Dutch-based VimpelCom (now VEON) and the Swedish-Norwegian company Telia (formerly TeliaSonera). Although the three companies are not American, they ran afoul of the U.S. Foreign Corrupt Practices Act (FCPA) because they all issue securities called American depositary receipts (ADRs) in the United States.

The MTS-related indictment explicitly states that over the course of 11 years, Karimova and her co-defendant Bekhzod Akhmedov engaged in an “extensive bribery scheme” on behalf of Karimova—who, at the time, was “an Uzbek official”—for hundreds of millions of dollars, and that “in exchange for the bribes, Karimova corruptly used her influence over the Uzbek government to ensure” that the three companies acquired telecommunications licenses.<sup>1</sup> Further, the defendants “conspired with others to launder the bribe funds” through bank accounts, including in the United States. Assistant U.S. Attorney General Brian Benczkowski remarked, “Gulnara Karimova stands accused of exploiting her official position to solicit and accept more than \$865 million in bribes from these publicly traded telecom companies, and then laundering those bribes through the U.S. financial system.”<sup>2</sup>

In total, the three companies—which, until 2012, dominated Uzbekistan’s telecommunications market in mobile services with 23 million subscribers—were responsible for funneling nearly \$1 billion worth of bribe payments to Karimova and her high-level associates, making this one of the most significant series of enforcement actions in the history of the FCPA.

Why did all three of these experienced companies not only fail to conduct proper due diligence, but participate in elaborate corrupt schemes involving such a high-profile Uzbekistani official? Any cursory research would have revealed significant political risks to foreign investors given that Uzbekistan was consistently ranked near the global bottom of international governance and anti-corruption rankings for its abysmal rule of

law, authoritarianism, and chronic state predation and corruption.\*

Since gaining independence from the Soviet Union in 1991, Uzbekistan's economy remained mostly closed, autarkic and state-dominated—lagging in trade liberalization and retaining currency controls—rendering entire sectors at the mercy of connected state officials and bureaucrats. Indeed, an investors' survey conducted in 2008 found that businesses in Uzbekistan rated the country as the second-worst for frequency of bribe payments to tax authorities across the post-Soviet states, while a number of Canadian, Turkish, Indian and Kazakhstani investments in the country had been expropriated by Uzbekistani officials and ended in arbitration. The country's political situation should also have been of concern, given that it had been ruled with an iron fist by President Islam Karimov. The post-9/11 War on Terror made Uzbekistan a key strategic partner of the West due to its border with Afghanistan. Without much international protest, the Uzbekistani autocratic president was able to brutally crack down on all forms of political and religious activity under the guise of anti-terrorism. However, Karimov became a pariah in the West in May 2005 when Uzbekistan's security services brutally killed hundreds of demonstrators in the eastern city of Andijon, precipitating U.S. and EU sanctions.

Karimova, the Uzbekistani president's eldest daughter, was herself an international lightning rod of controversy. She

\*In 2016, the last year of Karimov's rule, Uzbekistan was ranked 177<sup>th</sup> out of 199 by TRACE's Bribery Risk Matrix and 156<sup>th</sup> out of 176 countries by Transparency International's Corruption Perceptions Index.

adored the media spotlight and had free reign to pursue a number of activities in and out of the country. Even as she finished her Harvard education and went to work for Uzbekistan's Foreign Ministry, Karimova forged a career as a glamorous fashion and pop music icon (known by her stage name, Googoosha). She also rapidly built a business empire through her opaque conglomerate Zeromax, which she ruthlessly used to muscle in on successful local businesses in gold mining, cotton textile and energy. Broadly feared for her political clout—an often-quoted U.S. Embassy cable described her as “the single most hated person in Uzbekistan”—she was widely considered as a likely successor to her father to lead the country.

Because of her domestic power and standing, these three telecom companies actively sought Karimova's assistance in pursuit of access to Uzbekistan's market. Certainly, the perceived upside of investing was that Uzbekistan was an untapped market in the most populous Central Asian country, with over 30 million residents and a growing youth population. The lack of domestic technological or financial capacity made authorities turn to foreign investors to modernize the country's mobile cellular and internet infrastructure. The companies were aware of corruption and reputational dangers, but probably believed that such risks would be mitigated by finding the “right” local partner, calculating that the country would remain stable, secure and relatively predictable, especially if they secured the blessing of politically connected gatekeepers. An internal audit of Telia by the law firm Mannheimer Swartling found that the company's senior management showed “low ambition” in obtaining information about the short history and opaque ownership of its local partner and demonstrated no

interest in how this partner acquired its assets; the report also reprimanded the company's CEO for his uncritical attitude about conditions in Uzbekistan.

It is this assumption that offers the most interesting and important set of lessons from Uzbekistan's telecommunications corruption cases. Even though the leadership in these companies may have assumed that Uzbekistan's closed political and economic system would contain media and investigative scrutiny and provide adequate political protection, in practice, the corruption schemes were global in scope, involving complex networks of Western facilitators and fixers, foreign-registered shell companies, and an array of banks and bankers all too eager to facilitate transactions involving these corrupt proceeds. As a result, once the first Western media reports about the suspicious deals in Uzbekistan came out, international journalists and government investigators rapidly began to unravel the corruption schemes and even actively coordinated their investigations.

As the scandal snowballed and Karimova received a wave of negative international press reports for her suspected involvement, she herself became the target of a domestic political power shift in Uzbekistan. She was placed under house arrest by the security services, and her business empire was publicly dismantled. Quite simply, attempts to limit the scrutiny of these "local partnerships" in a seemingly remote country rapidly collapsed as the Uzbekistani telecom scandal erupted into a global scandal of dizzying proportions.

## **Lesson One**

### **Global Vulnerability of Corruption: Shells and Banks and Schemes**

The first lesson of the Uzbekistani telecom scandal is that even in the most closed polities and economies, grand corruption operates at a global level. International corruption rankings—such as TRACE’s Bribery Risk Matrix or Transparency International’s Corruption Perceptions Index—focus on the taking of bribes by public officials within individual countries, and the environment of countries where corrupt money changes hands. However, these same rankings tell us little about the national profiles and overseas operations of the companies that offer the actual bribes, the vehicles required to structure these illicit payments, and how these proceeds end up in the Western banking system and in Western assets such as luxury real estate.

Though demands for bribes might be made by gatekeepers and their agents in closed and local settings, the architecture of grand corruption is run by networks of professional intermediaries—service providers, accountants, lawyers, bankers and real estate brokers—that collectively help to reroute corrupt payments from their point of origin and channel them into safe and secure assets that are owned or accessed by the bribe taker. In this light, one international report described Karimova as the head of a “powerful organized crime syndicate” embedded within the state of Uzbekistan. Yet this network required the enabling practices of corporate service providers in British overseas territories and the unethical actions of the group’s bankers in the UK, Switzerland and Latvia.<sup>3</sup>

Initially, each of the three foreign telecommunications companies acquired a local subsidiary in Uzbekistan with the purpose of obtaining 3G and 4G mobile licenses and radio frequencies from regulators at the Uzbek Agency for Communications and Information. But in all three telecom deals, a critical role was played by offshore-registered shell companies that were founded with the sole purpose of facilitating corrupt acquisition and kickback schemes. The most important of these was the Gibraltar company Takilant, which received bribe payments from Telia and VimpelCom and was deemed by courts in the Netherlands and the United States to have been beneficially owned by Karimova herself. Court registry documents indicate that the company was registered by 22-year-old Gayane Avakyan, an executive at the House of Style fashion group and a reported associate of Karimova, and two nominee directors from St. Kitts and Nevis who had resigned by the time Takilant engaged in the telecom-related transactions.

Foreign telecom companies paid at least \$570 million to Takilant, with the multiple transfers structured over a number of years in exchange for access to Uzbekistan's telecom market in the form of frequency licenses. Of this total, over \$456 million came from TeliaSonera. The shell company also made a \$50 million payment to TeliaSonera in December 2007 to purchase a 26 percent stake in TeliaSonera as part of the scheme. According to the U.S. Department of Justice (DOJ), from 2006 to 2012, Takilant was also the vehicle for at least \$114 million in improper payments from VimpelCom.<sup>4</sup> On 20 July 2016, a Dutch court found Takilant guilty of complicity to bribery and forgery, and ordered the company to forfeit \$135 million and pay a fine of €1.6 million (approximately US\$1.8 million).<sup>5</sup> According to the Organized Crime and Corruption Reporting Project

(OCCRP), the shell company also served as a “holding company for other Karimova deals including those involving duty-free shops, clothing businesses, and pharmaceuticals.”

Other shell companies used in these corruption schemes included Gibraltar-registered Swisdorn Limited and Expoline Limited, incorporated in Hong Kong, both of which were owned and directed by Rustam Madumarov, Karimova’s boyfriend at the time.<sup>3</sup> In the MTS case, Karimova and Akhmedov used three different shell companies, beneficially owned by Karimova, to funnel bribe payments via purchased stakes in MTS’s Uzbekistani subsidiary, Uzdurobita. Importantly, at the time of the 2016 settlement with VimpelCom, Dutch prosecutors announced that they would also target the “facilitators” of these corruption crimes and subsequently brought charges against VimpelCom’s accountant for not reporting a series of suspicious transactions to the government’s Financial Intelligence Unit.

These companies managed their transactions through a number of international banks, including Latvian banks Aizkraukles Banka (later renamed ABLV Bank) and Parex Banka (later renamed Citadele), and UK bank Standard Chartered. According to the U.S. DOJ, Karimova deposited around \$446 million of corrupt proceeds into these Latvian banks. In June 2015, U.S. prosecutors also filed a complaint with the U.S. District Court for the Southern District of New York to seize \$300 million from bank accounts in Ireland, Luxembourg and Belgium that were allegedly the proceeds of the corrupt payments made by MTS and VimpelCom. Swiss bank Lombard Odier, which serviced Karimova personally, has been scrutinized by international prosecutors and regulators for its role in enabling a number of illicit transactions. As part of a non-prosecution agreement with



the U.S. DOJ in 2015, the bank admitted to assisting U.S. clients “in concealing their assets and income by opening and maintaining accounts in the names of non-U.S. corporations, foundations, trusts or other entities.”<sup>6</sup>

Karimova’s schemes began to unravel when two of her associates attempted to conduct transactions from her account with Lombard Odier on her instructions, but without proper paperwork. This triggered a Swiss investigation into the origins of these funds, which resulted in the freezing of 800 million Swiss Francs. The aftermath of the scandals further revealed that Karimova had accumulated an empire of luxury properties across the world, including in Paris, Geneva, the Gulf and Hong Kong. For example, the UK *Telegraph* revealed that Madumarov purchased—via offshore shell companies—four luxury properties worth over £17 million (approximately \$21 million) in the elite London areas of Mayfair and Belgravia. A French investigation opened in connection with the Swiss case revealed three properties in France purchased for a total €61 million. In 2019, authorities agreed to auction these off and return the proceeds to the national budget of Uzbekistan.

## **Lesson Two**

### **Successful Global Cooperative Investigations**

Our second lesson is that the very global dimensions of Karimova’s international corruption network gave multiple openings to investigators and journalists across several countries to delve into the structure and scope of her illicit activity network. Although the media environment in Uzbekistan remains closed and state-controlled, international

journalists uncovered different overseas parts of the scheme, while the various jurisdictions used for money laundering and corruption prompted close international cooperation among state regulators and prosecutors in pursuit of a global settlement.

Even before reporting on the scandal emerged, Karimova's own cosmopolitan lifestyle and conspicuous consumption had attracted media scrutiny. Viewed by many as a possible successor to her father, Karimova had spent most of her adult life residing overseas, having married at the age of 19 to an Afghan-American businessman she divorced 13 years later. She officially served as counselor at Uzbekistan's mission to the United Nations in New York (2001 - 2003), counselor at Uzbekistan's embassy in Moscow (2003 - 2005), advisor to Uzbekistan's Minister of Foreign Affairs (2005 - 2008), Uzbekistan's permanent representative to the United Nations and international organizations in Geneva (2008 - 2010), and finally, the country's ambassador to Spain (2010 - 2012).

Widely feared and reviled in Uzbekistan, Karimova eagerly rubbed shoulders with world celebrities and elites, attended cultural events and film festivals, and presented herself as a philanthropist and cultural emissary. But Karimova's global profile also attracted the scrutiny of human rights organizations and activists who looked for points of leverage to attract attention to Uzbekistan's appalling human rights record. For example, these groups conducted a high-profile campaign in 2011 that canceled Karimova's scheduled appearance and collection exhibit at New York Fashion Week.

Swedish media articles on Telia's investments in Uzbekistan had appeared in February 2008, and again in February 2010, in the newspaper *Svenska Dagblat*, raising questions about Telia's partnership with the mysterious Takilant and the shell company's possible ties to the Karimov family and associates. The most significant investigation in the telecom scandal occurred in 2012, when Swedish public broadcaster *Sveriges Television's* prime investigative program, *Uppdrag Granskning*, aired a four-part series in 2012, including one titled "TeliaSonera and the Dictator's Daughter" that revealed Telia's investments in Central Asia and spotlighted the possible involvement of Gulnara Karimova and her associates. The programs included dramatized testimony from two executives at Telia who witnessed the company's 2007 negotiations to enter Uzbekistan. The broadcasts generated widespread domestic and international attention, and just days after the final show, a Swedish prosecutor published internal memos showing that Telia leadership knew that their Uzbekistani partner was beneficially owned by Gulnara Karimova. In response, Telia commissioned an internal audit by the law firm Mannheimer Swartling, whose critical report precipitated the resignation of Telia's embattled CEO, Lars Nyberg, and the replacement of the entire board.

In the fall of 2012, a parallel inquiry was opened in Norway by the business newspaper *Dagens Næringsliv* into VimpelCom/Telenor's involvement with Takilant. No further government action was taken, but two years later, the revelations of specific transactions between VimpelCom and Takilant prompted a Norwegian Parliamentary hearing and forced resignation of Telenor's board chairman in 2015. Subsequent Swedish and Norwegian investigations provided

more details on the prominent role played by shell companies, Takilant in particular. Importantly, journalists in TV and print readily shared information with one another and campaigned to have their respective editors and producers continue to cover the case.<sup>6</sup>

Finally, a critical role in the unraveling of the scandal was played by the OCCRP, and especially by its regional editor in Sarajevo, Miranda Patrucic. Patrucic advised the Scandinavian investigative reporters on how to track down information about the telecommunications companies and their offshore-registered subsidiaries. OCCRP also had information about Karimova's network of associates, whose profiles and shell companies matched the addresses of Takilant. On 25 March 2015, OCCRP published its own groundbreaking exposé of how Karimova controlled the telecom industry, accusing the Uzbekistani president's daughter of receiving \$1 billion worth of shares and payments from the three foreign telecommunications companies in exchange for her influence. OCCRP posted a key timeline of the TeliaSonera deal, as well as critical primary documents, including the registry documents of the various prominent shell companies in the scandal.

The global attention to these initial investigative documentaries and reports prompted government authorities to open or deepen their initial investigations. Following the *Uppdrag Granskning* televised series, the Swedish prosecution authority launched a preliminary corruption probe into Telia's license acquisition and contacted U.S. authorities. The Swedish investigation, in turn, also uncovered details of suspicious transactions involving the Netherlands-based VimpelCom, triggering further U.S. and Dutch investigations.

The announced global settlement of the VimpelCom and Telia cases represented two of the highest ever under the FCPA and highlighted strong international cooperation and coordination. VimpelCom entered into a three-year deferred prosecution agreement with the DOJ. In related proceedings, VimpelCom settled with the U.S. Securities and Exchange Commission (SEC) and the Dutch Public Prosecution Service, Openbaar Ministerie (OM). As part of its global resolution, VimpelCom agreed to pay \$375 million in disgorgement and prejudgment interest (divided between the SEC and OM)—as well as \$230 million each to the DOJ and OM in criminal penalties—for a total resolution of more than \$835 million. The company also agreed to reform its compliance system and to retain a compliance monitor for three years. In addition, the DOJ filed a civil complaint with Swiss courts seeking the forfeiture of \$550 million of corrupt proceeds in Swiss bank accounts, noting previous requests for forfeitures from banks in Belgium, Ireland and Luxembourg. U.S. authorities first named Karimova as the implicated Uzbekistani government official in April 2016 at a federal court hearing in Manhattan when prosecutors maintained that Karimova and her associates had failed to turn over \$500 million held in Swiss banks as part of a money laundering investigation.

The Telia global settlement involved U.S., Dutch and Swedish authorities. Telia agreed to pay a \$548.6 million criminal penalty to the DOJ, and further, \$457 million to the SEC in disgorgement of profits and prejudgment interest, with the SEC agreeing to credit up to half of that amount if it was paid to the Swedish Prosecution Authority or OM. Telia also agreed to pay a \$274 million criminal penalty to the Dutch authorities. In addition to the authorities in the three countries mentioned

above, prosecutors in the Telia and MTS cases credited authorities from the following jurisdictions for their “valuable assistance”: Austria, Belgium, Cyprus, France, Ireland, Latvia, Luxembourg, Norway, Switzerland, the Isle of Man and the United Kingdom.

### **Lesson Three**

## **How the Global Boomeranged on the Local**

The final lesson of the telecom cases concerns how the global coverage affected local politics back in Uzbekistan. Despite her seemingly untouchable status, Gulnara’s international negative press proved deeply embarrassing to the Uzbekistani government—and her father, the president—and empowered her domestic political opponents. According to one insider account, the head of Uzbekistan’s feared National Security Services (SNB) showed Islam Karimov—her father and the president—a dossier of Karimova’s alleged criminal activities and negative press reports. That apparently led Karimov to authorize domestic prosecution against his daughter. The contents of the dossier were then leaked in an apparent attempt to shield Karimov himself from his daughter’s scandals.

The campaign against her at home gathered momentum in the fall of 2013, in the aftermath of the Telia reports. Karimova was removed from her ambassadorship to Spain, which also stripped her of diplomatic immunity. In October 2013, Uzbekistani regulators shut down the Uzbekistani television stations owned by her holding company and froze the company’s assets. Within a month, Uzbekistani prosecutors opened a financial crimes investigation into her main charity,

while a network of businesses and boutiques owned by Karimova were also shuttered.

But most dramatically, having returned to Uzbekistan's capital, Tashkent, in February 2014, Karimova was placed under house arrest, along with her daughter. Her home was searched by Uzbekistani security services. Karimova's popular Twitter account went completely silent soon after. A BBC correspondent a few weeks later claimed to have received a smuggled letter from Karimova that complained of poor treatment and lamented the state of the legal institutions in the country. Her boyfriend, Madumarov, was also arrested, along with Gayane Avakyan, the nominal Takilant owner. Both were sentenced to six-year terms for financial crimes in July 2014.

In a particularly bizarre twist, after international prosecutors had taken steps to freeze Karimova's assets worldwide, the Uzbek Minister of Justice in December 2015 wrote a letter to a U.S. federal district court judge requesting that Karimova's frozen assets be returned to Uzbekistan, given that the funds were the results "of an organized criminal group accepting bribes from telecommunications companies and transferring them to overseas bank accounts." The letter argued that Uzbekistan was clearly "an injured party because its officials were the subject of the bribes at issue." In April 2016, the question of the status of the frozen accounts was moved into direct bilateral settlement talks between Uzbekistani and American authorities, but remains unresolved.

Back in Uzbekistan, following her father's death in September 2016, Karimova was sentenced to 10 years in prison in 2017 on fraud and money laundering charges. In 2018, her jail sentence

was commuted to five years of house arrest, but apparently, she was ordered back in jail in 2019 for violating the terms of her house arrest. In June 2019, in a dramatic public plea posted via Instagram by her daughter, Karimova asked President Shavkat Mirziyoyev for clemency. She expressed regret for her actions, noted that \$1.2 billion of her funds had been returned to the state budget, and declared that she had instructed her lawyers to end litigation on her behalf over another \$686 million in her overseas bank accounts.

### **Conclusion: All Large-Scale Corruption is Global**

In one final twist, in a February 2019 decision that widely dismayed transparency advocates, a Stockholm district court acquitted Telia's embattled former CEO, Lars Nyberg, and two of his former colleagues on individual charges of bribery. Even though the telecom executives admitted that they had approved the payments of hundreds of millions of dollars to Takilant, which were linked to the president's daughter, the court found that the prosecution did not clearly establish that the money was targeted to an official in the telecom sector, as narrowly required by the Swedish law applicable at the time. In contrast, U.S. authorities had clearly accepted that despite lacking an actual relevant position in public service, Karimova influenced the "governmental body that regulated the telecom sector" and was charged with conspiracy to launder funds that arose from these corrupt payments to intermediaries.

Despite the Swedish court decision, the experiences of the international telecom companies in Uzbekistan reveal how difficult it is for companies to maintain secrecy over questionable payments and corruption schemes, even in



relatively closed societies. VimpelCom, TeliaSonera and MTS all determined that in some manner, dealing with Karimova was unavoidable given the prevailing state of Uzbekistani politics, but they had not adequately understood how vulnerable their supposedly secret dealings with Karimova actually were due to her global networks and the fact that she was of intense interest to international media and activists. Grand corruption on the scale of what happened in Uzbekistan always involves multiple actors and complex networks of international enablers.

Whether the settlements paid by Telia, MTS and VimpelCom will serve to deter other companies from participating in such payoff schemes remains to be seen, but it should, at the very least, highlight just how severe the global risks can be of deciding to pay off politically connected elites in even the most seemingly closed and far-off countries.

## **About the Author**

Dr. Alexander Cooley is the Claire Tow Professor of Political Science at Barnard College and Director of Columbia University's Harriman Institute for the study of Russia, Eurasia and Eastern Europe. His research examines the impact of external actors on the sovereignty and governance of the post-Soviet states. His books include *Great Games, Local Rules: The New Great Power Contest in Central Asia* (Oxford 2012), *Ranking the World: Grading States as Tool of Global Governance* (Cambridge 2015, with Jack Snyder), and *Dictators without Borders: Power and Money in Central Asia* (Yale 2017, with John Heathershaw).

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