

# Addressing corruption and building integrity in defence establishments

This document is for all those who want to build the integrity of a country's defence establishment: politicians and ministerial leaders, military officers, defence company officials and civil society. It provides guidance on how reformist elements can address corruption and build the defence sector's integrity.

## 1. Introduction

'Defence is the last refuge of grand corruption', said John Githongo, Kenya's former permanent secretary for governance, in 2006. The defence establishment has historically been one of the least open of any government organisation — to public or even intra-governmental scrutiny. The secrecy that necessarily veils some defence activities often extends more widely than can be justified, making the sector particularly vulnerable to the abuse of corruption through lack of proper oversight.

The defence sector involves sizeable spending that is vulnerable to the capture of corruption. Global defence expenditures exceeded US \$1 trillion in 2005. Transparency International's *Bribe Payer's Index* (BPI) ranked defence among the top three most corrupt sectors (along with oil and construction & engineering). Research by the International Monetary Fund has signalled that corruption is correlated with higher military spending and arms procurement, as measured both in terms of gross domestic product and total government

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spending.<sup>1</sup> As with any form of corruption, abuses of power in the defence sector are not a victimless crime. Every dollar misappropriated represents a lost opportunity to invest in other, more socially-productive areas — from under-funded schools to life-saving health treatments.

Defence companies are increasingly recognising the problem that corruption poses for the sector. A 2006 survey by Control Risks showed that roughly one third of international defence companies felt they had lost out on a contract in the last year because of corruption by a competitor.<sup>2</sup> Many defence companies are addressing the issue more directly than they did during the days of the Cold War. The changing legal environment, including the anti-bribery convention of the Organisation for Economic Co-operation and Development (OECD), has generated the conditions for this shift. Media and citizen interest in the topic means there is now a much greater risk of damage to a company's reputation from any type of corruption scandal than ever before.

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The military is potentially a source of further change and could play a key role in strengthening the integrity of the defence sector. In many countries they are considered to be one of the least corrupt institutions. The 2006 *Global Corruption Barometer* (GCB) signals that on average the military is held in higher regard than all other sectors of society — except religious groups and civil society organisations (CSOs). While perceptions may vary greatly from country to country, the trust and respect that society broadly places in the military leaves this institution well-positioned to lead anti-corruption efforts.

### 2. Linking defence and development

There are good reasons for addressing corruption in the sector, both for leaders in defence establishments and those championing development:

- Corruption is costly and a waste of scarce resources. Whether through corrupt procurement, payment of non-existent soldiers or non-transparent privatisations, corruption occurs at the expense of more socially productive investments such as in health and education.
- Corruption dramatically impacts the operational effectiveness of the military forces.
- Corruption reduces public trust and acceptance of the military. Civilian and military staff pride in their service to the country is seriously degraded when they learn of corruption among their leadership.
- Corruption reduces the credibility of national and international forces deployed on peace-keeping missions.
- Defence acts as a 'concentrator' of corruption across government and involves numerous actors. Because money can be easily extracted from the sector, a network of corrupt middlemen, accountants and lawyers is kept in business.
- Adequate security is now well recognised as one of the key conditions for promoting development and growth (the most persuasive argument of all).

### 3. Types of defence corruption

Corruption in defence looks a lot like corruption in other parts of society. Nonetheless, it has its own characteristics. For instance, the veil of secrecy and claims of national security in matters of defence prevent transparency and outside scrutiny. Secrecy is not just a bad habit but forms part of the military culture. By its nature, the military is respectful, both of secrecy and authority, especially if it has been created following a war or when the country is characterised by a culture of resistance.

There are three broad sources of corruption in defence:

#### **Defence officials** (ministerial and military staff)

- Failure to observe agreed standards of business conduct.
- Bribery of public officials to bend rules (e.g. avoiding army service; getting preferred postings; 'typical' small scale bribery and extortion).
- Money to pass security and other checkpoints.

#### **Defence institutions** (ministries and the armed forces)

- Profiteering from procurement (e.g. steering business to one's self and cronies; breaking rules of competitive bidding; taking kickbacks and bribes; and corrupt government subsidies and tax write-offs).
- Profiteering from soldiers' payroll (e.g. extracting percentages from total cash; ghost soldiers; adding cronies on secret payrolls).
- Income from state-owned assets (e.g. below-price sales of property portfolios; selling of surplus equipment; and below price privatisations of services such as training).
- Self-serving use of budgets and resources (e.g. paying exorbitant consulting fees to one's self and cronies; appropriating or leasing cars, apartments, equipment and other goods for personal gain; using service personnel for private work).

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- Receiving benefits from private defence companies (e.g. non-declared sources of income and opportunities for diversion of funds).
- Misuse of reward, promotion and disciplinary processes (e.g. nepotism, clientelism and favouritism; extorting favours from subordinates; sabotaging personnel/other reforms to preserve or secure personal advantage).

### Political context and control

- Non-agreed defence policy.
- Under-estimated or off-budget defence spending.
- Dishonest leadership and secret power networks.
- Involvement in elections and politics and misuse of power to influence legislation and parliamentary investigations.
- Corruption of the judicial process.
- Organised crime links.
- Control of intelligence and misuse of investigatory powers.
- State capture and the de facto, illicit takeover of defence.

These different forms of corruption have one repeating commonality: weak accountability in procurement. Procurement practices pose the greatest corruption risk for the defence sector. Defence procurement is characterised by large, infrequent and technically complex contracts. It is an area hard for outsiders — and indeed for some insiders — to fully comprehend. Understanding equipment specifications is a highly technical task since they must be accurately described and specific for the project. Vast sums of money, a lack of transparency and accountability, and the temptation by defence officials to profiteer from procurement can contribute to the corruption of the process.

The other weakness of procurement is the extensive use of agents or middlemen. Their involvement is more widespread than in any other industry. The identities and activities of agents are largely kept secret by firms, who

regard such information as 'commercially sensitive'. In many cases this is because those involved are either senior military personnel or are close to the 'leadership'. Nearly every case of defence sector bribery shows that an agent is the conduit through which bribes were paid. TI believes the identities of all such intermediaries, as well as information on their contract arrangements and payments, should be disclosed to the authorities conducting defence procurement.

Another area to address is the lack of competition in defence procurement. One recent study found that governments were bidding out 50 percent or more of their defence procurement requirements to a single supplier.<sup>3</sup> This astonishing statistic reflects the unique position that suppliers have and their close relationship with the defence establishment, which can open the process to possible misconduct.

Offsets, which are additional investments made by the providing company on top of the actual defence sale, are a huge and unregulated area that poses another challenge for corruption. They are widespread in the defence sector, despite being banned by the World Trade Organisation in all other areas of commercial business. TI believes that offsets are a source of corruption and would like to see them banned in defence procurements. At the minimum, offsets must be disclosed to enhance transparency and monitoring.

## 4. The key players

**National defence ministries and a country's military leadership** have a primary role to play in pursuing sector reforms that respond effectively to corruption. The disciplined nature of the military facilitates the work of reformist leaders seeking to initiate change in the sector.

**Defence companies** are a resource and partner for helping to champion these reforms. A number of international companies are increasingly ready to play their part in raising anti-corruption standards for procurement. National defence suppliers can also be brought into reform efforts. The positive shift in private sector support reflects how international attitudes on corruption have improved since the days of the Cold War. Companies are well aware of the reputational

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damage that can be suffered in connection to corruption scandals and the increasing readiness of many governments to prosecute them for any misdoings. In addition, many defence companies have a high share of their business coming from non-military sectors. This characteristic makes it important for them to demonstrate that their defence work adheres to the same corporate standards as their other operations.

**Arms exporting governments** need to be supportive of anti-corruption efforts being pursued both by their national companies and the purchasing countries. Some arms exporting governments, like France and the United States (see box), are showing new determination in taking large defence companies to court in corruption cases. Reform-minded ministries also are embarking on efforts to build the integrity of the national defence establishment. Unfortunately, the termination of the British government's investigation in 2006 into arms sales to Saudi Arabia is a notable retrograde step.

**Civil society organisations** also have an essential part to play when it comes to fighting defence corruption. Although they often avoid engaging with defence and security organisations on principle or because of dangers to personal safety, CSOs can have a major national impact when a reform-minded defence establishment is in place.

**International development banks** can promote reform by demanding equally high standards and budget transparency from the defence sector as they do from other sectors of government.

**International defence bodies** like NATO (North Atlantic Treaty Organization) and the peacekeeping arms of the African Union (AU) and the United Nations have a huge role in demanding transparency and setting good standards in security operations.

**Defence academies, universities and training agencies** can help to build capacity by bringing the topic of 'building integrity' into all career development programmes for officers and defence ministry officials.

Increased partnership with many of these different key actors is particularly needed for tackling the challenges of corruption in conflict and post-conflict countries.

### The US: The world's arms supplier and spender

The United States (US) accounted for 46 percent of global military expenditures in 2006, spending over US \$0.5 trillion. The next four biggest spenders — the United Kingdom, France, China and Japan — accounted for approximately five percent each of the total. The US is also the world's leading exporter of major conventional weapons. Between 2002 and 2006, it sent more than US \$32 billion in arms abroad, with Russia following a close second (US \$30 billion). Given its role in the global arms trade, US support is key for addressing corruption in the defence sector.

Since a series of scandals in the 1970s and 1980s, the US government has raised business standards. Yet recent events show the defence sector still suffers from poor practices and a lack of transparency:

- **Earmarking.** The case of Randy Duke Cunningham — a US congressman who took kickbacks in return for directing defence funds to a particular company — illustrates the problem when a small cadre enjoys an unhealthy degree of discretion over large pots of public money devoted to defence.
- **Unaccountable private military companies.** The US is increasingly relying on private security companies in its military operations. Allegations of cronyism dog the awarding of contracts while the companies continue to operate in a vacuum of accountability.
- **Single sourcing.** According to internal reporting by the US government on military expenditures, 70 percent of all defence contracts for "defense (*sic*) items and components" were non-competitive (based on values for 2003).<sup>4</sup>

The US could respond to these issues by being a driver of reform. It should demand more stringent standards in the corporate behaviour of defence firms seeking to break into the US market. It should also promote the US debarment and suspension system as a model of good practice that could be adopted by other countries abroad.

Development partners may be uncertain about how to prioritise corruption reform efforts given the pressure to maintain peace and consolidate ceasefire agreements. In spite of the need to establish government institutions that can lead the country into lasting peace and development, addressing corruption in defence establishments is often completely absent from assistance programmes. Peacekeeping forces can support reform efforts by developing joint strategies for tackling corruption which make use of local knowledge and expertise.

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African countries also pose a unique set of challenges when it comes to promoting defence sector reforms in partnership with different actors. Many countries are full of unnecessary arsenals of weaponry (many acquired during the Cold War), which often have been purchased through corrupt deals and bribes rather than for strategic reasons. It is not realistic to expect African countries to eliminate corruption in the buying of weapons unless there is equal effort from the industrialised countries to clean up the selling methods. As the British journalist Anthony Sampson aptly said, 'If Africa is a scar on the conscience of the world, the scar cannot be healed if the world connives in corruption'.

### 5. Ways for civil society to contribute

At conferences in Stockholm (2000) and Cambridge (2001), it was agreed among defence companies, governments and civil society representatives that citizens could have a positive and sizeable impact on effecting change in the defence sector. The main areas signalled for civil society engagement were:

- Building awareness in defence ministries, companies and among parliamentarians that the subject can be tackled effectively.
- Using any upcoming major procurements as a basis for organising a public discussion about the process. Senior defence ministry or presidential staff, procurement officials, members of parliament,

ambassadors, defence companies and the media should be invited.

- Encouraging the defence establishment to appoint an anti-corruption director. For example, Poland's ministry of national defence has designated an anti-corruption advisor who is a former CSO member.
- Suggesting that the defence ministry set up an independent ombudsman's office to oversee defence procurement, similar to what the government of South Korea has done.
- Working with defence companies, encouraging them to collaborate with ministry officials in support of reformist governments. Care should be taken to restrict work to companies that operate in the official arms trade.
- Using independent oversight tools. An example is the implementation of *Defence Integrity Pacts*, which are enforceable no-bribery pledges that use an independent monitor to assess the process.

There is a real energy for defence reform in many countries and among inter-governmental institutions. Good political leaders are well aware of what corruption in defence costs and are very open to constructive engagement with civil society. The UK national chapter of TI has led a project to address some of these issues ([www.defenceagainstcorruption.org](http://www.defenceagainstcorruption.org)). To date it has engaged largely with European and American stakeholders although it is seeking to enhance its involvement with other key players, including from China and Russia.

### 6. Lessons learnt

The principal lesson is that building integrity in defence establishments — and thereby reducing corruption — is a task that is viable in a way that has not been possible before. There are common interests across defence companies, defence establishments, and international bodies (such as NATO and the World Bank).

Defence procurement is one of the areas that could most immediately benefit from greater transparency and active engagement with civil society. The principal tool

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for pursuing these changes is through an integrity pact, modified for a defence environment.

Examples of successful anti-corruption reforms targeting national defence systems include the following countries:

- South Africa. A new national defence policy was drafted after the fall of apartheid, widely consulted and publicly debated.
- Colombia. Defence procurement functions were reorganised into a single organisation serving all armed services and run by qualified civilians.
- South Korea. New tendering regulations were passed that require the presence of an ombudsman for large procurements.
- India. The country included a requirement for integrity pacts to be done in cases of large defence procurement contracts.
- Democratic Republic of Congo. The country has reorganised the military's payment system so that funds are not misappropriated and soldiers are paid.
- Croatia. National defence procurement needs and the full defence budget for the next 10 years have been published.

### 7. Actions for key stakeholders

Every country will be different in how it approaches and handles defence corruption. A measure that is effective in one country may be quite wrong in another. However, some general guidance can be provided based on TI's work to date. These measures should be seen as the next step in a plan of action.

To deal effectively with corruption in the defence sector, TI calls for leadership on the following policy proposals.

#### For defence ministries and the armed forces:

- Talk openly about the need to address corruption and the benefits to be gained from building the integrity of the national defence system.
- Conduct a thorough diagnosis of the key problems and then focus on solutions.

- Use the twin themes of building integrity and transparency to advance work.
- Take action even if other ministries are reluctant. The defence ministry can benefit from reform even without having an intra-governmental consensus.
- Engage civil society, even if they are initially suspicious.
- Find ways within the military and ministerial hierarchy to investigate and sanction corrupt defence officials and officers.
- Actively engage defence suppliers to assist in the reform process. Require all of them to have strong compliance programmes.
- Declare that 'secrecy categories' will no longer be used, except in the most pressing circumstances. Publish defence sector costs and expenditures to the greatest extent possible.
- Demand suppliers to fully disclose the use of agents and intermediaries and the terms of their contracts.
- Challenge the requirements of using offsets. If they are still to be used, insist on more rigorous standards when setting them up, supervising them, and disclosing progress.
- Make use of anti-corruption expertise from international lending banks and organisations like NATO and the AU.

#### For defence companies:

- Collaborate with other defence companies, nationally and/or internationally to raise anti-corruption standards in tendering.
- Have a strong compliance programme. There are many good examples to copy.
- Show rigorous implementation of the compliance programme.
- State clearly that suspected corruption incidents will be fully investigated within the company and reported to the board (and show that this happens).

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### For arms exporting governments:

- Publicly demand strong anti-corruption practices from national defence companies.
- Actively support international efforts to raise standards, by working with defence companies and through discussions with NATO and the EAPC (Euro-Atlantic Partnership Council).
- Pursue more aggressively prosecutions under the anti-bribery convention of the OECD.
- Strengthen the export credit guarantee procedure against bribery, particularly in regards to the disclosure of agents and intermediaries.
- Create a mechanism that assists purchasing nations to investigate alleged corruption by the exporting country's national companies.

### For multilateral development banks:

- Make defence and security as integral a part of anti-corruption plans as others sectors of government. Insist on publication of (complete) defence budgets.
- Require anti-corruption diagnostics and measures to assess the defence establishment as well as other areas of government.

- Build capacity in the area of reducing corruption in defence and security sectors in post-conflict countries as well as in more stable development contexts.

### For CSOs:

- Engage the defence establishment.
- Organise meetings with the government and other interested parties to raise awareness.
- Tap into the expertise of retired military officers. Many of them care deeply about addressing defence corruption.
- Promote Defence Integrity Pacts.
- Assist as independent monitors.
- Promote independent reviews of corruption risk in the defence establishment.
- Utilise the knowledge and support available from the TI defence team.

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This Working Paper was prepared by the TI-UK defence team and coordinated by TI-Secretariat's Policy and Research Department. It will serve as a working document that will continue to evolve along with TI initiatives on the issue of defence and corruption.

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