

PREVENTING CORRUPTION IN THE OFFICIAL ARMS TRADE



**REDUCING CORRUPTION IN THE DEFENCE & SECURITY  
SECTORS**

Update Note 3

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TI(UK)

## Synopsis

We believe that it is realistic – and increasingly possible - for civil society organisations to play an active and critical role in defence governance, whether it is a highly industrialised nation or a developing one. Good governance of national defence and security is necessary not only for defence, but as a pillar of a country's development for increasing the confidence of its citizens. Strong anti-corruption measures, such as transparency and civil society engagement, form an integral part of that good governance. We are also finding that the corporate climate has changed sufficiently in the last ten years that defence companies are ready to work together collaboratively and with others to combat defence corruption.

Transparency International, through both its UK Chapter and others, is engaged with defence importing and exporting governments and with defence companies to strengthen anti-corruption measures. This paper reviews the subject, outlines TI(UK)'s current work, and suggests priorities for action.

## 1. Introduction

Transparency International's Global Bribe Payers Index rates the defence sector as one of the top three sectors for bribery and corruption, along with the oil sector and major infrastructure projects.<sup>i</sup> Defence is arguably the most corruption-prone of all international businesses. Although it is difficult precisely to quantify the costs of corruption, the U.S. Department of Commerce estimated that corruption in the arms trade accounts for approximately 50% of all corrupt transactions globally, despite the fact that the value of arms traded annually does not exceed 1% of global trade.<sup>ii</sup>

Corruption scandals in defence and the military have been with us for centuries. Yet this sector remains one of the least explored areas of governance in the public sector, still hidden behind the veils of secrecy and the national interest. This is only now – perhaps – beginning to change. This article describes some of the reasons for change, the work that Transparency International is doing to facilitate and accelerate that change, and the lessons that are being learnt along the way.

Transparency International (TI) is an NGO dedicated to fighting corruption. It was founded in 1993 by ex World Bank executives who believed corruption was a major development issue, which needed to be more actively addressed. It is focused on developing constructive solutions to corruption issues and works through building coalitions to effect change. It comprises over ninety national Chapters around the world and a central secretariat in Berlin: the UK Chapter (TI(UK)) leads the international work in the defence sector.

## 2. Why integrity in defence and security really matters

A high integrity, non-corrupt defence and security sector is an essential factor for development. Sadly, in many countries and in some multilateral organisations the case for reform of this sector still has to be made. We see three principal reasons why it is important:

1. ***Improving public confidence and tackling embedded interests in the defence sector:*** Defence is disproportionately important in shaping public opinion. Public feedback indicates that the defence arena is perceived to be corrupt by both citizens and government employees. It is the 'classic' area for grand corruption. Defence is the area where embedded corrupt influences at the heart of government find their natural home: these influences, whether they be agents or intermediaries or holders of high office, often have stronger and more enduring power than the government of the day. If the defence sector can be seen to be free of such influences and to operate transparently, then reform is well on the way.
2. ***Reducing unnecessary spending and waste:*** Defence spending will be higher than it needs to be if there is a high level of corruption and/or if there are high levels of secrecy around defence. The two are of course related, and increasing the transparency of defence budgets and procurement serves a triple objective: reducing needless demand, reducing corruption and increasing accountability. Corruption in defence procurement also leads to the waste of scarce public funds and to low performance or malfunctioning military equipment
3. ***Building confidence and capability in the Security Sector:*** An effective security sector – being not only defence but also police, interior ministry forces, border guards, intelligence and other security agencies – is important both for the security of individual citizens and for the defences against terrorism. It is now recognised that poor security for citizens is a key impediment to economic growth as well as an impediment to other social goals. Mistrust of the Security organisations is founded on poor transparency and perceptions of corruption.

These are key drivers for an individual country and its citizens. The same logic also should drive agencies like NATO, and should be compelling for IDBs like the World Bank. Defence companies are acknowledging that they too are part of both the problem and the solution. Our experience is that they are today much readier to engage in discussing and addressing this topic.

A caveat is needed. Military procurement has always been an intensely political activity and it is unrealistic to expect this to change. As one senior defence official put it to us: "The only thing that is certain in a major defence procurement is the telephone call from George Bush". There are government priorities that will have a political flavour – like job protection or national industrial champions – and there will always be political influence for preferred companies. Where this moves from legitimate political strategy to corruption is a grey area.

### 3. Defence corruption in developing countries and transition states

Our anti-corruption work in defence aligns with increasing activity in broader reforms of the defence and security sectors, in developing countries, in transition states and in post-conflict countries. Some quite disparate forces drive this broader trend: an understanding of the need fundamentally to reshape defence and security organisations towards individual security and away from external military threats; accession of countries into the EU and into NATO; and the need to strengthen national security integrity and arms controls in the wake of 9/11.

Much of the knowledge and expertise developed in defence reform comes from the 'Defence Institution Building' (DIB) activities of multilateral organisations such as NATO, OSCE, the UN and organisations such as the Centre for the Democratic Control of the Armed Forces. There is also expertise in the wider sphere of 'Security Sector Reform' (SSR), which covers not just the military but also police, justice, border guards and intelligence. The two main objectives of Security Sector Reform are to establish good governance in the security sector; and to enhance a country's capacity to develop systems of economic and political governance that benefit society as a whole and foster the creation of a safe and secure environment at the international, regional, national and local levels.<sup>iii</sup> SSR has become a focal point of development policies for many countries, most notably the UK.<sup>iv v</sup>

Some practices and tools are a natural part of defence institution building and democratic defence reform, and which have the additional benefits of reducing opportunities for bribery and corruption. Examples are:

- a. Improved governance
- b. Increased transparency of processes, data and budgets
- c. Greater accountability
- d. Professionalisation of the armed forces
- e. Greater civil society engagement
- f. Stronger oversight mechanisms

In addition, there is a need for tools and approaches that focus specifically on corruption risks. The risks that we believe need additional focus are the following:

- a. Secrecy
- b. Procurement
- c. Embedded networks and intermediaries
- d. Non-budget sources of finance
- e. Political leadership

#### 3.1 Secrecy

The cultural norm that most distinguishes defence in a government perspective is secrecy. Whilst secrecy is necessary to protect vital knowledge from potential enemies, the culture of secrecy is also one of the biggest factors in any environment that allows corruption to thrive.

A SIPRI study investigating the barriers to greater transparency found that secrecy worked more in the interest of the officials and the companies than the public purse or security.<sup>vi</sup> As a result, the barriers to greater transparency more often sprang from lack of political commitment than genuine national security reasons.<sup>vii</sup>

Secrecy can be addressed by reform of the culture of classification: studies show that defence documents are regularly classified when they do not need to be. A second approach is to encourage whistleblowing, although this varies hugely across countries. A law that has evolved in the USA allows whistleblowers to collect a portion of the proceeds when they help uncover a fraud and corruption in the security sector: it is having an appreciable impact in the US by providing “insider oversight” and thus reduce secrecy.

**USA:** This US law encouraged two people working for the security firm Custer Battles to allege massive fraud by Custer Battles on \$30 million in contracts the company received to provide security at Baghdad Airport and to provide security and support on a project to replace the old Iraqi currency in the months following the ousting of Saddam Hussein.

### ***3.2 Defence procurement***

The defence procurement process has become increasingly complex over the years. Efforts to bypass it have persisted, including efforts to bypass it through corruption. The way in which significant purchases are carried out is largely uniform across countries, and weaknesses can be identified in the different process steps<sup>viii</sup>.

Procurement reform is a top priority for reform in most nations. One tool is to create a Unified Military Procurement Agency - the main advantage is that it provides a single point of accountability for the acquisition and through-life support of defence equipment, and one that is removed from excess influence of a single military service. Transparency is enhanced by shifting procurement from the hands of military personnel to the hands of an independent group of civilian professionals.

**South Korea:** recently implemented a unified agency, consolidating nine existing organisations. A more open procurement process resulting from the creation of this agency will ensure greater transparency, professionalism and efficiency in the country’s weapons purchases in the future.

A second approach is through a periodic external review of the Defence Procurement Process. These can be driven by parliament or Congress, or can be done by the Ministry of Defence through engaging independent people or Civil Society. Transparency International(UK) has been engaged in one such review.

**Australia:** The Kinnaird Report of the Defence Procurement Review 2003 was the catalyst for the anti-corruption reforms carried out the following year. The most important component of these reforms was the transfer of the Defence Materiel Organization, responsible for defence procurements, from a government department to a prescribed agency.

A third approach is to achieve greater transparency through the use of Electronic Procurement. This has been a favoured reform tool in many countries, not only in defence sector, and has been hugely developed in Latin America.

**Guatemala:** The country's internet-based public contracting system *Guatecompras* was launched in September 2003 as a response to corruption scandals. However, it operates within the framework of the Law on State contracting, which includes significant exceptions to transparency requirement. Amongst them, is an exemption for the Ministry of Defence which is not required to participate in *Guatecompras*!

### **3.3 Making additional revenue sources transparent**

Ensuring that the armed forces' budget comes solely from the Government strengthens civilian control over the armed forces. Civil society can lead pressure for accountable financing and media can help to publicise the lack of accountability associated with alternative financing.

**Indonesia:** The Department of Defence's Strategic Defence Review requires the armed forces to withdraw from commercial business activities within 5 years. The government is gradually increasing the defence budget to make up for the revenue shortfall that this change will produce. For example, it was/is common practice for Indonesia's military to receive payments from Multinational Corporations as payment for the protection they provide.

### **3.4 Embedded networks and intermediaries**

One of the most troublesome features of defence corruption is the role of embedded networks and intermediaries. Not only is there often little transparency about them and their role, but they have a role that can transcend individual governments and national boundaries and they provide a buffer behind which officials and industry can hide in "ignorance" of corruption and bribery. It is astonishing to the outside observer that more has not been done to bring transparency and accountability to this area: national laws often do not cover disclosure, or are easily flouted. Companies defend their continuing use of agents – and resist greater transparency – on the grounds that they are a source of competitive advantage. A recent example was the efforts in the UK of defence companies to lobby for watered-down anti-bribery provisions in the UK Export Credit procedures.<sup>ix</sup>

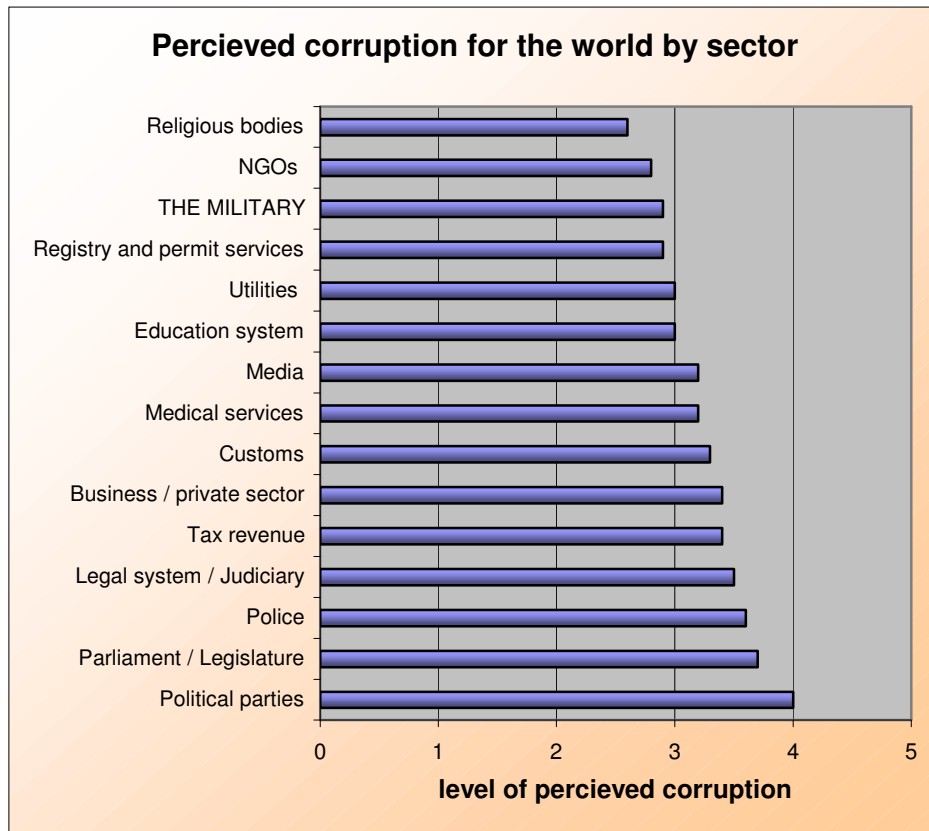
Recent allegations in Kenya attest to this influence. Until last year, John Githongo was the Permanent Secretary in charge of governance and anti-corruption at the Ministry of Defence in Kenya. He was leading the anti-corruption drive of the new Government that had swept out Daniel Arap Moi on a platform of addressing corruption. Despite the early optimism, he was forced to resign his position as apparent evidence of renewed corruption, partly in security and defence, made it probable that corruption again extended to the highest levels of government.

One way of addressing the issue is to bring civilian oversight into the defence establishment, as in the example below.

**Lesotho:** The government established a National Steering Council of NGOs and Media that provides oversight of implementation of security sector reform. According to the OECD, this is a useful way to create local ownership and incentives for reform. Additionally, this sets a precedent for the country in terms of civil society directly holding the government accountable for its actions.

### 3.5 Military and political leadership

Leadership, both military and political, is required to address corruption. On the military side, there is confidence to be drawn from the good standing in which the military is held in many countries. The graph below, drawn from the TI Global Corruption Barometer, shows that over the world as a whole, the military have a relatively low level of perceived corruption, only a little more than NGOs. The ranking is broadly the same over most areas of the world.



In respect of political leadership, there are some inspiring examples around the world of leaders taking a bold stance against corruption; enough, we all hope, to counter the depressing number of bold stances that turn out to be false dawns.

**GEORGIA:** When the new president Mikheil Saakashvili was elected to power in early 2005, he opted for radical police reform. He used the political momentum and support of the people following the protests that brought his predecessor out of power, to fire all 15,000 police officers and recruit an entirely new force. He equipped the reformed service like any other European police force and increased their salaries 10-fold. This surgery resulted in a quick recovery of Georgia's law enforcement capacity. The new police force has 95% approval rating and Georgians now see the police as protectors rather than as predators.

#### 4. Defence corruption in highly industrialised countries

Whilst there are major corruption risks in developing and transition economies, the problems are still prevalent in the most industrialised nations. The last few years have seen no letup in allegations of defence corruption in industrialised countries. Box 1 highlights a few recent ones. Whilst some of the vulnerabilities are common to all countries, some seem more prevalent in industrialised ones:

**Lack of prosecutions under OECD:** the lack of prosecutions reveals a lack of commitment by OECD countries to enforce the OECD Convention. A number of high-profile prosecutions would help to send the message that a blind eye will not be turned to the bribery of foreign officials by OECD companies.

**Black budgets:** black budgets are military expenditures that are not approved by parliament and are therefore particularly susceptible to corruption. A recent case involved Randy Cunningham, a US Congressman who used his position to push black budget defence funds to certain contractors in exchange for personal favours.

**Single source procurement:** This might be necessary where there is only a single competent supplier, or where there is a need for great urgency. However, it is often a response to cumbersome competition procedures. Corruption is not necessarily present, but as the system degrades, with greater and greater percentages of work going out single source, so the corruption risk grows. Industrialised countries in particular rely on single source contracting for defence purchases for a surprisingly high proportion of their purchases. We hope that the recent Code of Conduct issued by the European Defence Agency is one positive step in addressing this.

**Revolving doors:** decision makers who migrate from MoD in the government to defence company may develop close ties that could engender corruption.

##### **Box 1: A few recent defence corruption allegations in the press**

**Thales slush fund:** Former employee Michel Josserand made public accusations that Thales Group, a French defence corporation, held a centralised slush fund from which to dole out bribes to ensure key contracts. Thales group vehemently denied the allegations, pointing out that Josserand had been fired for “irregularities” that involved corruption. The case is ongoing

**Boeing tanker leasing scandal:** US defence company Boeing, the second largest defence company in the world, was embroiled in scandal surrounding former Pentagon official Darleen Druyun. The company’s former finance director, Mike Sears, admitted to offering Druyun and her son jobs in return for major government contracts that Druyun oversaw.

**BAE Systems and Pinochet:** Britain's leading arms manufacturer BAE Systems has been accused of paying more than £1 million to former Chilean dictator General Augusto Pinochet

**Denel Indian deal:** South African arms firm Denel is said to have paid \$3.6 million (12.75% commission) for “consulting and technical services” to obtain a contract for supplying arms to India after the Kargil war. Denel is alleged to have got a hold of the crucial price negotiating committee (PNC) notes, to gain an unfair advantage over its competitors.

**Israel Aircraft Industries:** Israeli police are investigating IAI executives for taking bribes to award exclusive sales territories. One of the alleged bribers was said to be involved in military contracts worth about \$150 million, including the purchase of Russian Ilyushin Il-76's. Investigators are focusing on nearly a decade of suspected graft and kickbacks involving “many tens of millions of dollars of IAI, or rather, national funds.”.

## 5. TI's current work in defence

TI (UK) began working to address corruption in the defence arena in 2000, gathering two arms exporting governments and two defence companies to consider what constructive measures might be taken to reduce corruption in defence. Out of two conferences, one in Stockholm, Sweden, and one in Cambridge, UK, came a number of recommendations. This led to the formation of a defence team, funding from the UK government, and later funding from the Swedish government. There are four main activities that TI (UK) is pursuing:

1. **Working with defence companies to encourage the development of an industry consortium against corruption in international tenders.** Defence companies are engaging with this topic. Their national governments are supportive of these developments.
2. **Trialling the use of a procurement anti-corruption tool, "Integrity Pacts" in major defence tenders.** The Integrity Pact is an anti-corruption procurement tool that has been used extensively in Latin America and with considerable success, but has been little used so far in defence contracts. Integrity Pacts are enforceable no-bribery pledges with an independent monitor, which lend added credibility to the procurement process through enhanced transparency and accountability. We have been involved through the local TI Chapter in one major defence tender in Colombia and are currently engaged in a second in Eastern Europe. For discussion, see [www.transparency.org.uk/pcoat.htm](http://www.transparency.org.uk/pcoat.htm).<sup>x</sup>
3. **Working to improve anti-corruption capability in defence ministries and in their procurement practices.** There is an appetite to develop good practices in this area. TI's current focus is in defence procurement, where we are working both with Integrity Pacts and in with countries on other useful tools, such as independent reviews of defence procurement practices and civil society oversight.
4. **Working to strengthen laws and international instruments against bribery in defence.** We have been engaged in discussions on the EU Code of Conduct on arms export controls, and are participating in the UK Consultation over the anti-bribery requirements for the Export Credit Guarantee Department, where new requirements have been relaxed at the request of defence companies.

In addition to the above, we are engaging the World Bank and other multilateral lenders to discuss ways to influence government defence reform, and national Export Control organisations to discuss ways to strengthen anti-corruption measures in arms exports. Other TI Chapters are engaged in defence reform activities. In India, Integrity Pacts are being brought in as an official part of the defence procurement process. In Korea, there has been extensive engagement between TI Korea and the Korean Ministry of Defence on the use of Integrity Pacts for regular defence procurement. In Colombia, the Ministry of Defence has been actively engaged with the national TI Chapter, Transparencia por Colombia, in making their procurement processes more transparent.

### ***The TI defence team***

The ability to field competent and experienced procurement and defence people is central to this project. It makes for a strong partnership between the local knowledge of the national TI Chapter and the central TI team, and for greater credibility with governments and with companies. To make a meaningful contribution in the defence arena, we need to draw on a mix of skills. We have found many military people with immense enthusiasm for addressing this problem: they have all seen the problem at first hand for themselves. This includes professional procurement skills, people with military experience at the high level of policy making/influencing. Finally, and closer to TI core competence, we join this military experience with TI staff, experienced in corruption potential in contracts/government processes, in local civil society engagement and in monitoring politically charged processes like a major tender.

## **6. Next steps**

Many nations have only just started on the route to greater transparency in the defence and security sectors. Focusing on reducing corruption in the defence and security will prove, we believe, to be one of the most effective ways in which a reformist government can tackle corruption in its own administration, and also leverage additional beneficial change. The following are priority areas for action:

- Defence Ministers and their chief officials should share knowledge and expertise in addressing corruption with their counterparts in other countries. They should demand that civil societies develop capability to help them in this.
- Multilateral security organisations like NATO and OSCE have capabilities that should be sought by, and offered to, other countries and spread more widely
- Multilateral finance organisations like the World Bank and IADB should be more demanding of transparency in defence and security budgets, processes and systems; and develop their own competences in this area as required
- International defence companies should be encouraged to take strong collaborative action to raise anti-bribery standards in international defence procurement

## **References**

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<sup>ii</sup> TI(UK) Policy Research Paper "Corruption in the Official Arms Trade" <http://www.transparency.org.uk/prp-001-coat.pdf>

<sup>iii</sup> Nicole Ball, "Good practices in Security Sector Reform", in 'Security Sector Reform', BICC Brief 15, 2004

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<sup>v</sup> Global Facilitation Network "Compendium of Good Practices on Security Sector Reform" 2005. Available at [www.gfn-ssr.org](http://www.gfn-ssr.org)

<sup>vi</sup> Ravinder Pal Singh: Arms Procurement Decision Making Vols. 1-2 SIPRI: Oxford, (1998 and 2000)

<sup>vii</sup> Ibid, Vol.2 p.181

<sup>viii</sup> Transparency International(UK), "The Defence Procurement Process and its vulnerabilities", available at [www.transparency.org.uk](http://www.transparency.org.uk)

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<sup>x</sup> Transparency International (UK), "Defence Integrity Pacts" available at [www.transparency.org.uk](http://www.transparency.org.uk)