

The defence and national security implications of corruption, and new tools for addressing the issue

*Address to the NATO Parliamentary Assembly,
Economic and Security Committee*

Valencia, Spain November 14, 2008

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1. Introduction

Ladies and Gentlemen, addressing corruption risk and building integrity in defence and national security may seem an odd choice of subject at a time of global financial turmoil. But in this talk I hope to show you that it is a central feature of building a capable and trustworthy defence and security establishment. It has a similarity to the global financial crisis – many people knew that insufficient attention was being given to risk in the complex financial markets, but it seemed too difficult to really get to grips with it. Corruption risk in the defence and security world is not that different: we know how insidious corruption can be at rendering normally good processes completely ineffective – but it can seem too hard to tackle properly. I will show you that this is a subject that really can be tackled constructively – and that there is much new work going on at the moment to base that confidence on.

Transparency International

First a few words about my organisation. Transparency International is a non-government organisation, independent of political parties and not-for-profit. Focused on constructive approaches to combating corruption, it was founded in 1993 by World Bank executives, frustrated at the Bank's inability to address corruption. It is now present in some 100 countries around the world. You may know it best from the "Corruption Perception Index" which ranks all the countries of the world in order of corruption perception: from Finland at the top to Haiti at the bottom.

Most of our work is national, but we have a small number of international programmes: our defence programme is one of those. I lead a team of seven people, comprising former senior military officers and experts in procurement and anti-corruption. We work with governments, with defence companies, with NATO and with civil society in developing constructive solutions to corruption risks in defence and national security.

Some Definitions

Corruption has a simple definition: "The abuse of public office for private gain." It ranges from small-scale, petty corruption - such as bribes to avoid conscription or payments to pass roadblocks - through to sophisticated procurement fraud and on up to state capture. However, it is almost impossibly hard to measure it by absolute parameters, such as prosecutions.

Instead, it is most commonly measured through perceptions – of citizens and of business people. This science of perception measurement has made huge advances in the last ten years and is generally recognised as a valid way to characterise the problem. The World Bank for example, carries out a regular survey of corruption perception every two years for most countries of the world.

Integrity is the quality that we are seeking to build in order to raise trust in the armed forces. This is a subtle word that works on three levels.

- At the individual level, it means to work sincerely, competently and honestly.
- At the process level, it means that the process works as intended, without gaps, and fits into a larger system.
- Finally, at an organisational level, it means trusted, and completes tasks as intended, without loss or diversion.

The three usual ways to measure integrity – apart from individual observation – are staff surveys, public surveys of levels of trust in organisations, and external audits or reviews.

The Defence Sector in Context

Transparency International co-ordinates a large global survey that aggregates the opinion of businessmen comparing corruption in industry sectors. The two sectors where we find the biggest bribes likely to be paid are the defence sector, and in public works and construction. By way of corroboration, the US Commerce Department records all bribery-related complaints by US companies. Some 50% of these relate to defence contracts, though defence comprises only 1% - 2% of US exports. In my conversations with national defence officials, I am often told that significant proportions of a countries' acquisition budget is lost to bribery, sometimes 20% - 25%.

The agenda of this talk

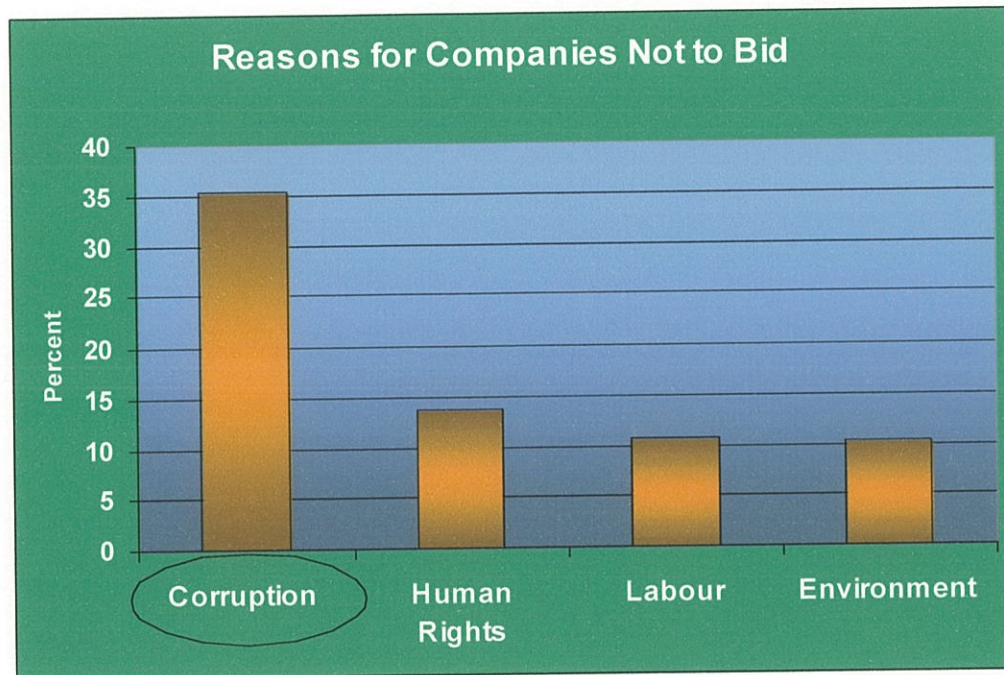
The agenda for this talk is in three parts. First, why should we care about this issue? Second, some constructive new measures that are being developed today. Some of these come through NATO's Euro-Atlantic Partnership Council (EAPC) Integrity Programme, and others come from our own Transparency International Defence Programme. The final part of the agenda is to offer some thoughts where Parliamentarians can take hold of this issue..

Why Care?

Defence officials and senior military officers tell us directly why they care about corruption risk in defence establishments:

- It is a waste of scarce resources
- It impacts on operational effectiveness
- It reduces public trust in the armed forces
- Defence budgets are an easy target for politicians looking for re-election funds
- International companies shun corrupt economies

Let me illustrate this last point, where a recent survey explored why defence companies choose not to bid in particular countries. By far and away the major reason is corruption. At least one country with whom we have been working sees this as the single largest reason for addressing corruption in defence.



Source: Control Risks Survey, December 2006

In the succinct words of your former Secretary-General, Lord Robertson: ***“Corruption in the defence sector is morally offensive, economically inefficient and politically corrosive.”*** I am pleased to say that Lord Robertson is working with us on one key part of this work, which I shall outline later.

When I ask the same question in relation to national security, I get an immediate response – those responsible for national security are all too well aware that corruption can completely invalidate security strategies. What we also see however is that work to improve security, for example border security, often pays lip service to corruption issues but does not seek to address them. A second example of this is in arms export control. I have spoken at a number of arms export control conferences and in the expert workshops the issue of corruption is always a top issue. Yet in the action plans and strategy papers you often don't see it even mentioned.

A second major area is in the difficult work of peace support and state building. Corruption issues are often central to the problem, but they are usually not recognised explicitly. The authors of the stabilisation strategies, and sometimes the commanders of the intervention forces, have viewed corruption as an inevitable side issue, rather than a central dynamic of the conflict that needs to be considered.

It is thus very clear why we should care about this issue: it matters, and it is not being adequately addressed. What has also been missing is the confidence to address it. It was a taboo subject all the way through the Cold War period. But we are living through a time of sweeping change, and the security landscape is utterly different from ten years ago. Governments are also less ready to accept the waste that comes with corruption. And the general topic of corruption has come of age: it is better understood, it is less sensitive, and there are good ways to measure it.

There are three important guidelines that we believe nations should follow:

- First, use multiple practical approaches, not high profile campaigns
- Second, focus on building integrity not just on closing off corruption risks
- Third, put effort into 'making the subject discussable' at the senior levels of the defence establishment and the government, through closed workshops and facilitated discussions.

2. Constructive measures: 1 - NATO

The Euro Atlantic partnership Council (EAPC) decided in November 2007 to implement a programme of work entitled "Building integrity and reducing corruption risk" as part of their efforts to support defence institution building. They approved a plan to develop four practical tools that nations could use to strengthen their own establishments. These were:

- A five-day Training Course on building integrity and reducing corruption risk
- A defence integrity self-assessment tool for nations
- Developing an expert community
- A compendium of good practice

2.1 Integrity and Corruption risk Training Module

The UK Defence Academy and ourselves have developed a five-day course targeted at military and civilian personnel in the security sector at OF5 level. We have now piloted this course twice: first at UKDA in July 2008, then at NATO Training School Oberammergau, in September 2008. We will trial it once more this year at the Peace Support Operations Training Centre in Sarajevo, Bosnia. The first two courses, for 20-30 participants from NATO countries, have been extremely well received.

There are now plans to run this course for several individual countries as well as more courses in 2009. I can highly commend this course to you and recommend that you press for it to be established in defence colleges in your own countries. For those of you interested in more detail, the following slide shows the main course elements. It covers both integrity building and corruption risks. It covers a wide range of applications, from procurement to operations. It is intensely practical.

NATO 5 day TRAINING MODULE

Course elements

Workshop Exercise Lecture/discussion		What is Corruption?		Govt and Civil Society	A NATO View	Corruption in my country
Mil corruption vulnerabilities	Personal conduct	Legal enforcement	Integrity & AC tools	Operations Iraq/Afghanistan - Organised crime - Media		
Asset/ eqpt disposal	Conduct with industry		Reform – The Bulgarian view	Exercise ‘Defence Procurement ’		
Integrity Building - Change Management Processes Georgia MOD/NGO experience				States in Transition Workshop Syndicate Presentations		
Education as an Integrity Tool		Integrity Building - How will I tackle it?				

2.2 Integrity and Corruption risk Self-Assessment Tool

This second measure, being led by Poland and Transparency International, is a combination of a detailed questionnaire and a review team meeting in-country. The questionnaire comprises 150 questions arranged under the nine topics that you see in the slide. The NATO country review team comprises a NATO Team Leader with a Defence Auditor, a respected anti-corruption expert from the Polish Defence Ministry and an expert from Transparency International. We have now tried out this tool twice: in Bosnia and in Ukraine, and are doing a third trial in Norway this month. The Croatian Mission to NATO is hosting a review meeting of the three trials at the end of this month, after which we hope that the questionnaire and the process will be finalised by early 2009. This tool will be freely available to nations.

2.2 Integrity Self Assessment tool *aimed at national Defence Ministries*

- Questionnaire of 150 questions
- Reviewed by group of 5-10 nations
- NATO team follow-up
- Pilots
 - Bosnia July 08
 - Ukraine Oct 08
 - Norway Nov 08
- Review Nov 08 led by Croatia
- Finalise Feb 09

Topics

1. Democratic control and engagement
2. Anti-corruption laws and policy
3. Anti-Corruption policy in defence and security
4. Personnel – behaviour, policy, leadership, training, discipline
5. Planning and budgeting
6. Procurement integrity
7. Procurement special topics
8. Other financial processes
9. Engagement with defence companies

Led by Poland with Transparency International

2.3 Building an Expert Community

As you will know better than me, one of the core issues in defence institution building is to have available a suitable community of subject matter experts, to give the individual experts a sense of shared international purpose. We are working hard to create several events per year where experts come together and to find funding to allow them to attend. In the last 18 months we have run events in the UK, Georgia, Geneva, as well as the two training module events referred to above. The next major one is in Monterey, USA, in February 2009.

2.4 Compendium of Good Practice

At present, there are no handbooks for building integrity and reducing corruption risk and we are hopeful that this will be the first of many. The Geneva Centre for the Democratic Control of the Armed Forces (DCAF) is leading it, together with NATO and Transparency International.

As you can see, this EAPC programme has been intensive and totally focused on practical tools; in order to prove the concepts and their practical utility. We hope that it will be substantially expanded from 2009 to become a significant component of NATO's Defence Institution building.

Constructive measures: 2 - TI'S Defence Programme

As you will have seen from this work, we at Transparency International are working in close collaboration with NATO. It is to NATO's credit that it is ready to work with a civil society, non-governmental organisation such as our own. On our side, we appreciate the leverage that comes from developing these tools across so many nations, rather than working one by one with each nation.

Our TI defence programme covers a wider scope than this work with NATO. I would like to show you a few of the other tools that that we are pioneering to strengthen integrity and reduce corruption risk in defence.

2.5 Defence Company Collaboration

We believe strongly that corruption can only be tackled by taking measures on both sides of the transaction – both governments AND companies. Catalysing defence companies to take action collaboratively is central to this. We initiated this collaboration in 2005 by bringing together all the major US and European defence companies.

We are very fortunate that Lord Robertson, the former Secretary-General of NATO, has been ready to chair these meetings and to work with us to encourage company participation. The first major success of this endeavour is that we have catalysed a new anti-corruption standard – the 'Common Industry Standard' – across all EU countries. Every single national defence association has signed this Standard.



The Common Industry Standard is not in itself a remarkable document: it looks like many other such anti-corruption codes, with the usual main headings – summarised in the slide below. The sanctions and monitoring section, in particular, is very weak.

The 'Common Industry Standards'

Launched July 2008; All 30 defence associations across Europe

No-corruption commitment

Active compliance Programme

'Tone at the top'

1. Compliance with laws and regulations
2. Extent of application - through to subsidiaries and affiliates
3. Prohibition of corrupt practices
4. Gifts and Hospitality
5. Political Donations and Contributions
6. Agents, consultants and intermediaries
7. Integrity Programmes
8. Sanctions

Five pages, detailed text on agents (due diligence, agreements, etc)

(Source: AeroSpace and Defence Associations of Europe, 'Common Industry Standards')

Nevertheless, we are pleased to support it on the basis that it forms the first version of what we hope will be a progressive raising of standards. This industry work has led to a surge of interest across most European defence companies in strengthening their compliance programmes and to national industry forums for exchanging good practice among defence companies.

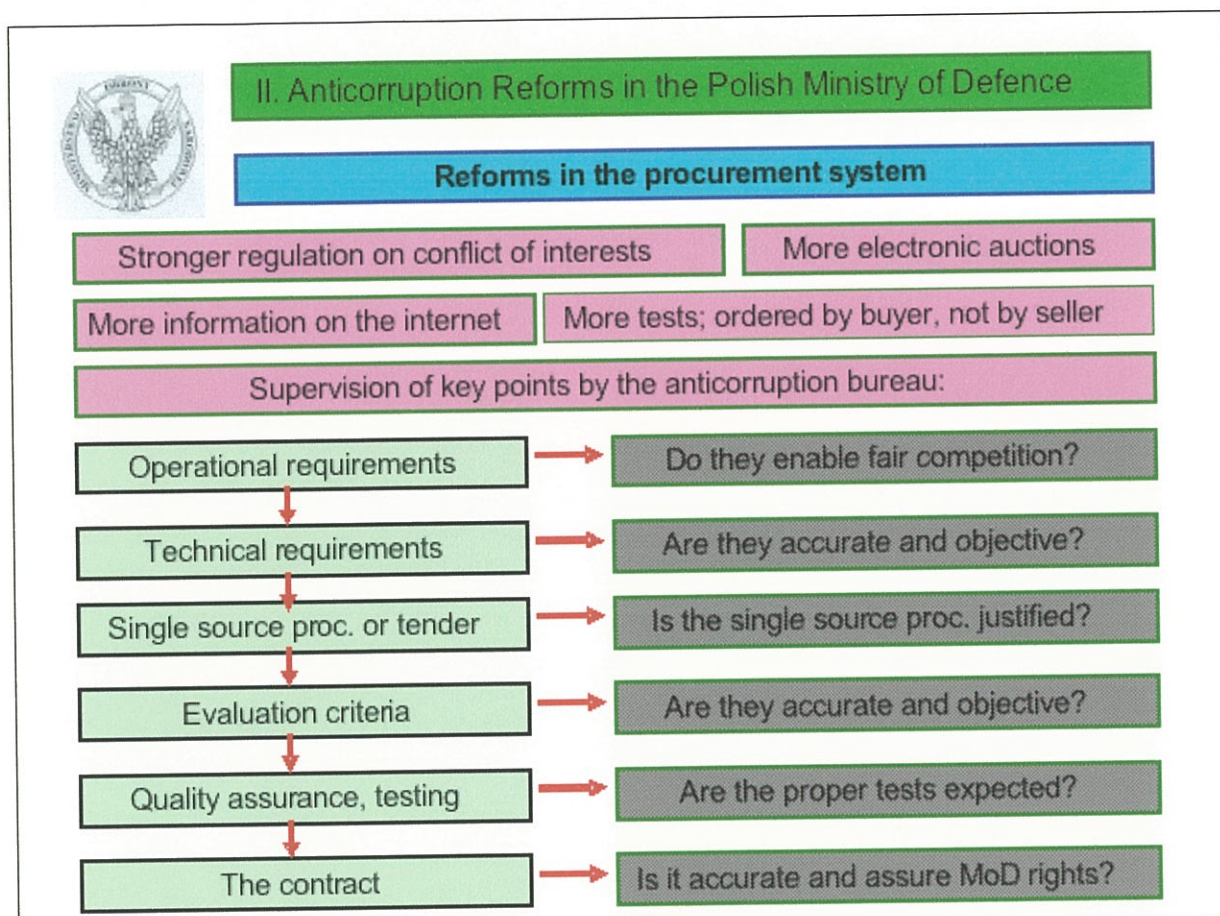
Our aim is for the industry to harmonise the European and US defence companies' standards, and then to expand the participation in the group to include other major defence exporters, particularly Russia.

2.6 TI Working with Governments

We have been surprised and pleased at the level of interest shown by national Defence Ministries in addressing defence corruption. Most of them are well aware that corruption has played a major part in the history of their Ministry and that it is a sensitive subject. Nevertheless, to reduce waste and to increase public trust, they are keen to explore what they can do, and how to collaborate with outside organisations such as ours.

Our engagement is of two kinds: either private or public. One example of private engagement is where we meet with the leadership of the MOD/military to lead a

discussion on ways of tackling defence corruption and how to build an anti-corruption plan. Another example is where a government asks us to carry out an external review of the integrity of the last two years of defence procurements. Here is an example of defence ministry introducing its own anti-corruption reform plan, from the Ministry of National Defence in Poland, outlining some of the measures they are taking in the reform of their procurement system. This has been driven by support from the Minister at the top level and by having an experienced anti-corruption expert inside the organisation able to develop and implement such a plan.



Source: Maciej Wnuk, Ministry of National Defence, Poland

We also promote transparency by bringing together the defence ministry, the public and ourselves to review or to monitor upcoming major procurements. One of these is the 'Defence Integrity Pact', which I will now briefly discuss.

2.7 Using Independent Monitors and "Defence Integrity Pacts"

Transparency International has pioneered a technique called "Integrity Pacts", which is a way of strengthening the integrity of a single large procurement. These pacts comprise on the one hand a respected independent monitor – an expert in the particular field of the procurement – and on the other hand, a short contract between all bidders and the procuring government that binds them to conditions of greater

transparency and disclosure than is usually required. They raise the confidence of both bidders and the public in the integrity of the process. This work has been most developed in Korea, where regular use of the Independent Monitor approach has been built into the Defence procurement System.

In our programme we have been trialling the application of this measure in defence. Defence presents particular challenges, because of the secrecy requirements and because of the technical complexity of many of the contracts. We have so far applied it to two large defence procurements, one in Colombia and one in Poland.

For example, in the purchase by Colombia of Drug Interdiction Airplanes, a reformist Defence Minister promoted the application of the Defence Integrity Pact, and the monitors were two respected retired parliamentarians. Our major comment was that the tender evaluation matrix was highly vulnerable to corruption, because it was too operationally weighted. A second finding was that the controls around the offsets package were woefully insufficient.

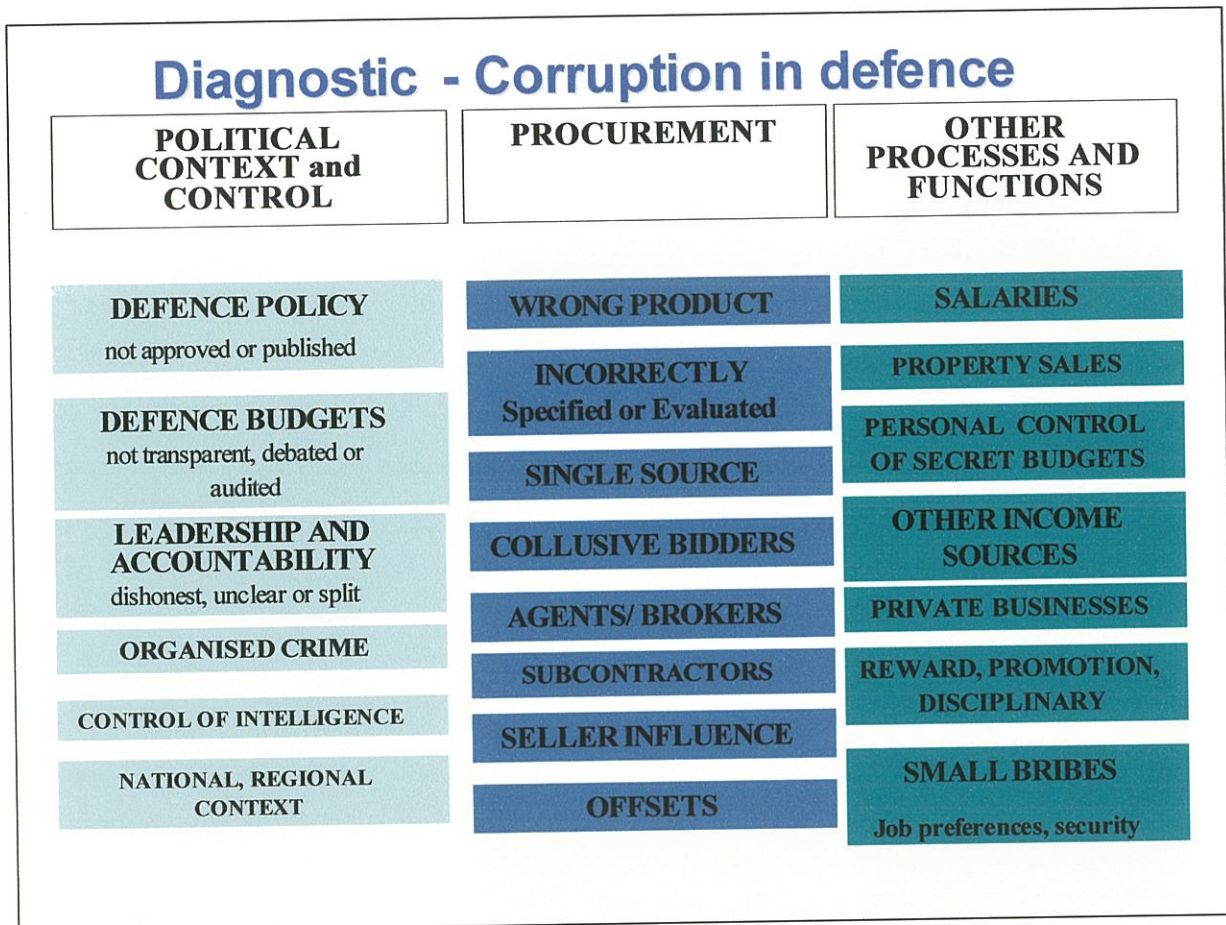
These Defence Integrity Pacts are a powerful, visible way of raising trust in the integrity of major procurements. Recent evidence also shows that they can speed up the procurement process, because of the raised levels of trust. Parliamentarians are in a strong position to propose their use in major national procurements.

2.8 Using new diagnostic tools

Corruption might have one simple definition, but it has multiple varieties. It is unwise to develop a defence anti-corruption plan until you have done the analysis of where you think the problem lies. You need to do this diagnosis on both corruption issues and integrity issues. The next two diagrams show the diagnostic tools that we use to characterise corruption and integrity in defence.

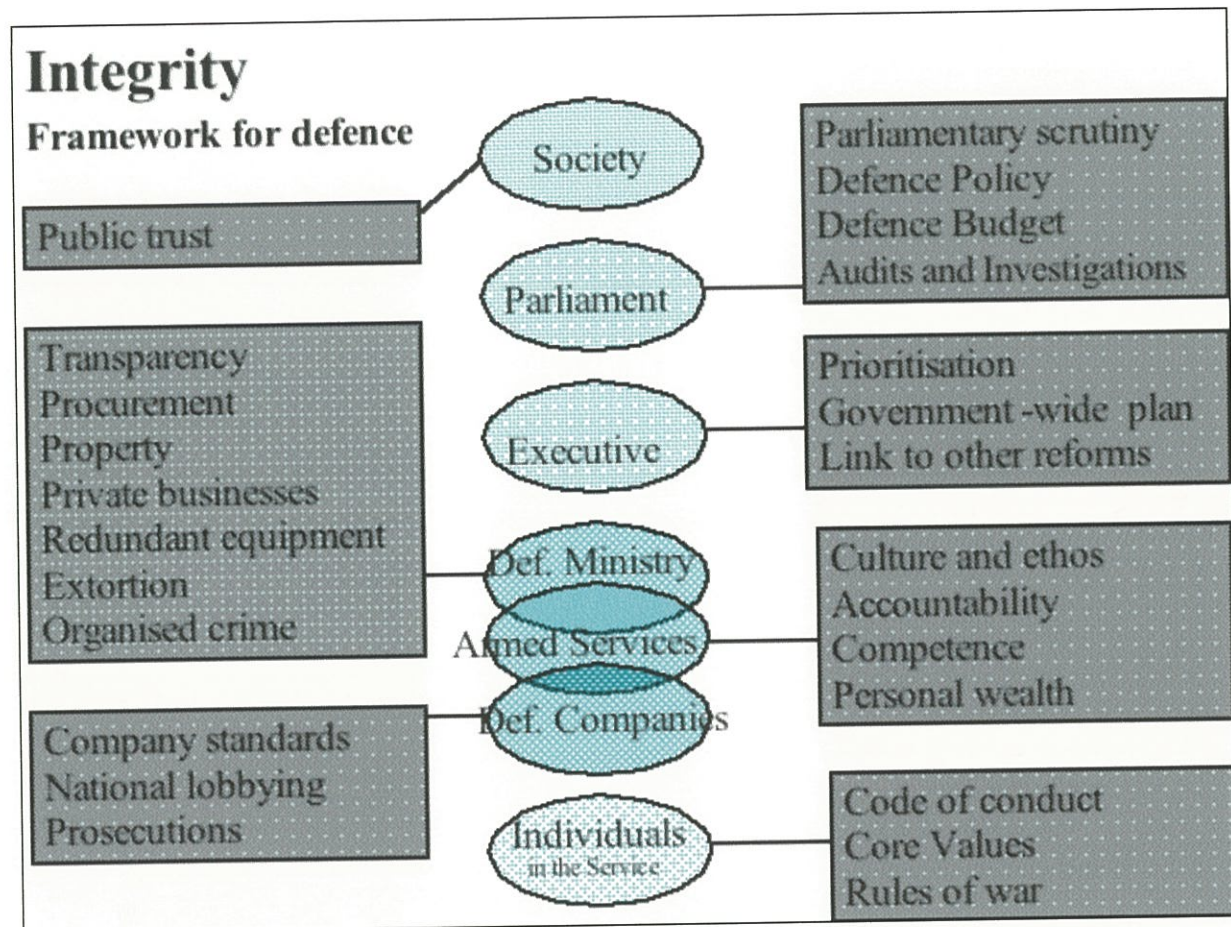
We see three principal areas of diagnosis: at the political level, in procurement, and then in all the other processes and functions.

At the political level, the three principal elements are Defence Policy – the extent to which it is approved or published, Defence Budgets – the extent to which they are transparent, debated, audited, and Leadership – the extent to which the chain of command and succession is clear and approved. At the process level, the key area is procurement, with a whole range of areas of corruption risk. Let me highlight only one. Offsets are a rapidly growing part of international defence sales that are currently very poorly controlled and are widely seen as an opportunity to repay favours.



Then there are several other processes and functions that are also corruption risks. Amongst these "other income sources" is where a defence establishment is receiving income that may not be clear in the budget. This could be defence-owned industries, it could be from equipment sales, it could be from peacekeeping. Controls can be very poor in these rather non-transparent areas.

Secondly, you need an analysis on integrity in defence. At its heart, this is an analysis of the level of public trust in the armed forces. This is easily obtainable from public surveys. At the other end of the chain, you need to know whether there is a clear code of conduct and set of core values for senior officers and officials, and whether these are embedded and respected inside the organisation.

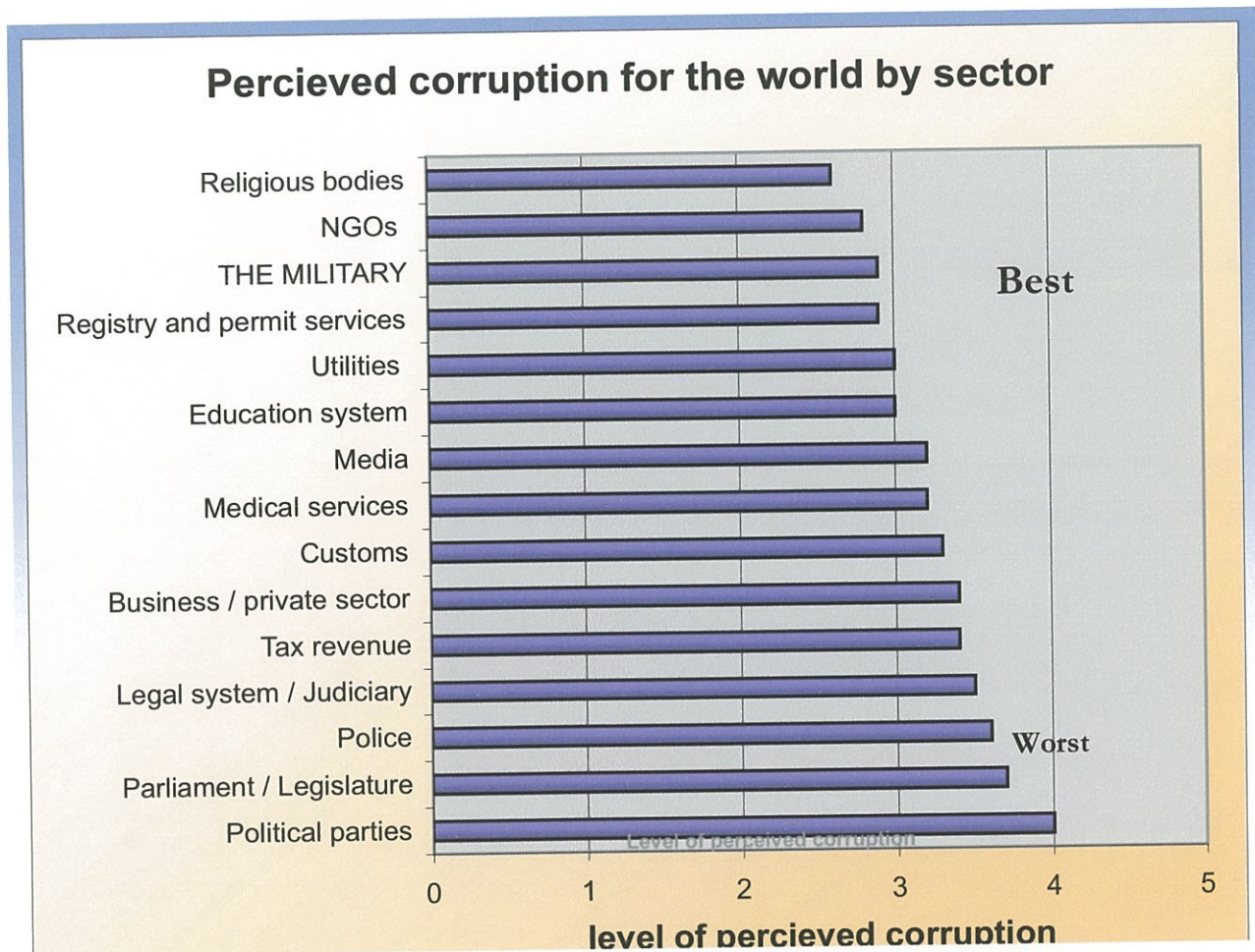


2.9 Do Comparative Surveys Across Nations

Finally, comparative surveys are powerful levers for change. The TI "Corruption Perception Index" has huge influence on nations and the perceptions of them. In my own country, as many of you will know, we have had major corruption allegations relating to sales from BAE Systems to Saudi Arabia. Those of us in the anti-corruption world have been saying for two years that this is having a major impact on the UK's standing in the international community. The latest CPI survey, published last month, shows Britain dropping significantly in the CPI ranking.

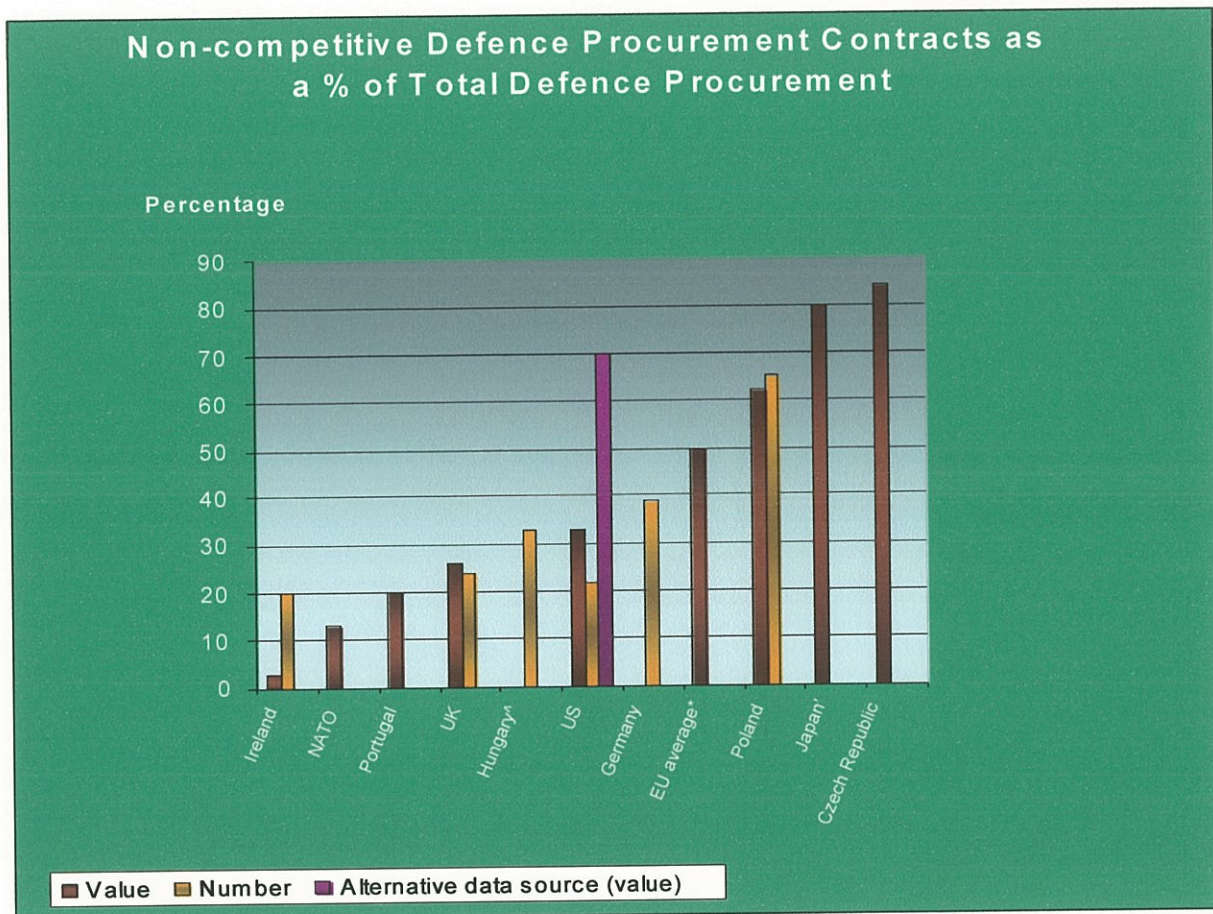
Let me show you three defence examples that may be useful in your own nations.

The first is to look at perceived corruption in different sectors of society on a global basis. This shows that the military are regarded on average almost as well as NGOs and religious bodies. Clearly this is not true in many countries, but it is a reassuring basis on which to build a military integrity programme.



Source: Transparency International, Global Corruption Barometer 2006

Second, one of our concerns has been that too many defence procurement contracts are given to a single company and are not tendered. This may well be for convenience and not for corruption, but it is a well-known area of risk. We have asked many defence ministries to provide us with their data on the percentage of non-competitive procurement and the slide below shows the results. There are many countries where over 75% of defence contracts are not competed. Such a poor percentage is highly unlikely to represent value for money, and is a real indicator of corruption risk.

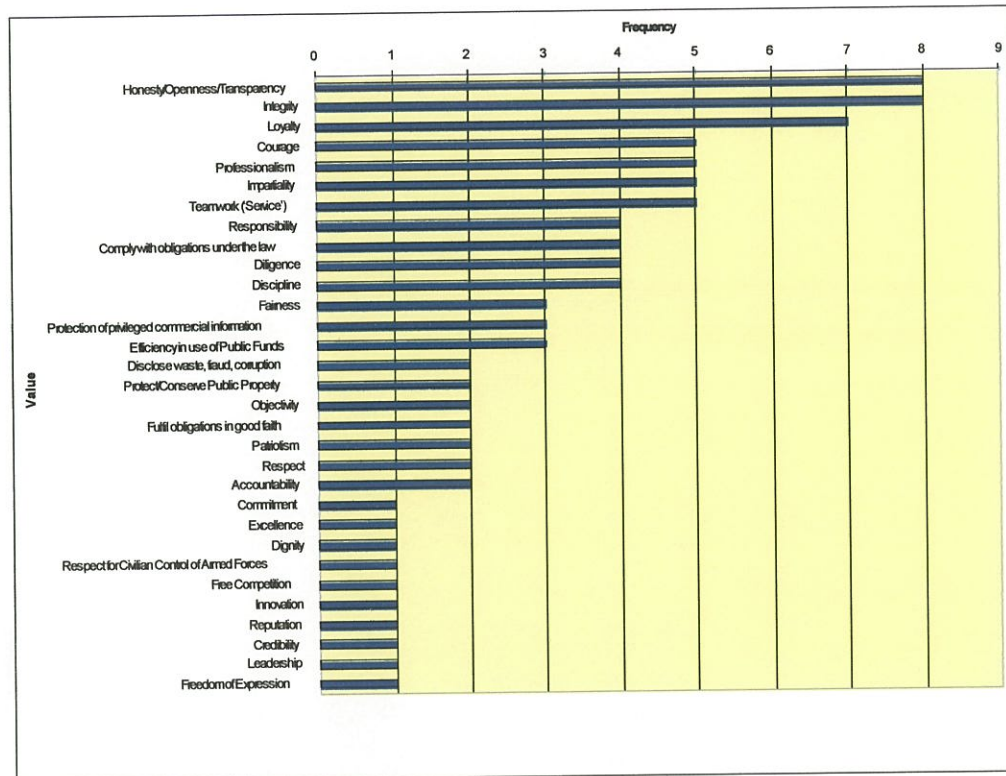


Source: Wilson et al. (forthcoming), 'The Extent of Single-Source Procurement in Defence: A First Look', in *Journal of Peace and Defence Economics*

Finally, let me show you recent research that looks at the standards setting out good ethical conduct for senior officers and officials in Defence Ministries and armed forces. We recently contacted 60 countries and have detailed responses from 32. The general finding is that, whilst a few nations have got good standards, most have multiple documents, fragmented across many organisations, and the training is usually poor. If I compare the quality of the standards and anti-corruption programmes with the standards that we see in good defence companies, the government ones are generally much less developed.

For example, the slide below shows the ethical values which defence establishments espouse across those 11 countries. As you can see, there is no strong pattern emerging. The values of Honesty or Openness, Integrity, and Loyalty were the only values to appear in over half the documents. Leadership, very surprisingly, was mentioned in only one country. Further, there were 32 separate values across the eleven documents, which was wholly unexpected. In the private sector, there is a very different picture, with three values tending to occur time and time again in their statements of values: integrity, responsibility, and reputation. Overall, by comparison, the statements of ethical values appear to be underutilised by defence establishments.

Ethical Values in Defense Establishments



Source: Magahy and Pyman (forthcoming) 'Ethics and Business Conduct in Defence Establishments'

3. Suggestions for Parliamentarians

Ladies and Gentlemen, I hope that I have given you some confidence that it is practicable to address corruption issues in defence and national security. Most of the measures I have been describing are quite new, and all are capable of being developed significantly further. Several of these can be directly employed and promoted by Parliamentarians and Defence Committees. Further, I think Parliamentarians themselves can use several of them with only minor adaptation.

Here are some thoughts as to how you can take some of this work forward:

- Apply the self assessment tool to your nation – it is easily done and NATO, ourselves or some other nations could act as a confidential peer review group.

- Ask your defence executive to present to you on corruption risks.
- Ask for a detailed analysis of corruption risks in defence and in national security. Such an analysis would be of significant value.
- Commission a survey for your Parliament of the level of trust in the military in your country. This is a powerful tool, and one where there is value in repeating it every few years. It can integrate well into other opinion surveys that you may in any case be carrying out on the morale of the armed forces.
- Call for Defence Integrity Pacts on upcoming procurements. Our experience in Poland and Colombia, and other TI experience, for example with the oil industry in India, shows that this tool can both improve integrity and reduce the time required for a major procurement by raising trust in the process.
- Call for public 'Round Tables' on upcoming procurements.
- Attend the current integrity course yourself or ask NATO to put on one for Parliamentarians
- Devote one day to a closed workshop on this topic. 'Making the subject discussable' in a closed workshop with senior military and defence officials is a significant way of changing internal leadership opinions. It is remarkable how attitudes to the subject change if it is addressed in a suitable constructive way.
- Devote one day to a public conference on this topic.

Finally, back to why this matters. In March 2008, US Marine Corps General Anthony Zinni and US Admiral Leighton Smith testified before the US Senate Foreign Relations Committee about the need for an increase in the civilian aspects of national security. They said: "We know that the enemies in the world today are actually conditions – poverty, political turmoil ... and corruption".

Corruption IS a central risk issue for security, and one that is being largely ignored. Just as, in the financial markets, counterparty risk has been ignored so fatally.

Ladies and Gentlemen, NATO is making a pragmatic and good start in addressing these twin issues of building integrity and reducing corruption risk in defence, as I have described. And now is a good time: other players like defence ministries, like civil society, like defence companies are ready to engage. But the scale of activity needs to be dramatically raised. I do urge you, both individually as nations and collectively as NATO Parliamentarians, to greatly strengthen your efforts in addressing corruption risk: it is a key factor in building international security. Thank you

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