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Defence Integrity Pacts
Identifying the corruption risks in defence and security
Enlisting the defence contractors
Integrity self-assessment by nations
Developing counter-corruption pl

BUILDING INTEGRITY AND COUNTERING CORRUPTION IN DEFENCE & SECURITY

20 PRACTICAL REFORMS

Using metrics and surveys
Involving civil society
Leading Change
Reducing corruption risks in contracts in operations
Educating change leaders
Independent Monitoring
Codes of Conducts, values and behaviours
Military-owned businesses
Build leadership understanding
Diagnosis of Corruption Risks
Strategic and planning considerations for conflict environments
Asset disposal

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Transparency International (TI) is the civil society organisation leading the global fight against corruption. Through more than 90 chapters worldwide and an international secretariat in Berlin, Germany, TI raises awareness of the damaging effects of corruption, and works with partners in government, business and civil society to develop and implement effective measures to tackle it. For more information go to:
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The International Defence and Security Programme works with governments, defence companies, multilateral organisations and civil society to build integrity and reduce corruption in defence establishments worldwide. The Defence and Security Programme is led by TI-UK on behalf of the movement, and is based in London. Information on TI's work in the defence and security sector to date, including background, overviews of current and past projects, and publications, is available at the Defence and Security Programme's website:
www.ti-defence.org

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TRANSPARENCY INTERNATIONAL
the global coalition against corruption

BUILDING INTEGRITY AND COUNTERING CORRUPTION IN DEFENCE & SECURITY

FOREWORD
BY LORD ROBERTSON OF PORT ELLEN



To the despair of many trustworthy people working in the sector, many defence and security institutions have maintained a reputation for dishonesty and corruption. In too many countries across both government and industry, bribery is too often justified as merely 'doing business'. Alarm bells should be ringing, since corruption and organised crime have the potential to fatally undermine national – and indeed international – security policy.

In this new version of its Handbook, Transparency International (TI) has built on the popular response that the first edition received from governments, military and civil society. It benefits from further application of the TI approach over the past three years, in countries as diverse as Afghanistan, Bulgaria, Norway and Ukraine and includes many ideas for initiating and implementing positive change in defence and security. This is new and ground-breaking work, which will have a significant impact in reducing corruption.

Working with TI since 2006, I launched in 2008 the first Europe-wide set of standards to tackle the practice of bribery among defence companies. This was a significant step forward and an acknowledgement by the defence industry that it was ready to play its part in combating corrupt practices. In 2010, the industry launched a transnational forum, the International Forum for Business Ethical Conduct (IFBEC), and I look forward to seeing the positive impact of this.

But the defence industry is only one side of the problem. Defence and security ministries and armed forces must adopt wide-ranging integrity-building measures to reduce corruption risk and improve the ethical standards of officials and officers.

As Secretary-General of NATO I would not tolerate corruption. I am pleased to see the progress made by NATO, which together with TI established a new initiative called 'Building Integrity'. The initiative was very well received, and has since expanded. But there is much work yet to be done.

All nations – particularly those emerging from conflict – need to pay serious attention to addressing corruption, in their own interest. This Handbook is a good place to start. Please read it.



The Rt Hon Lord Robertson of Port Ellen KT GCMG honFRSE PC,
former Secretary-General of NATO

January 2011

TABLE OF CONTENTS

Foreword BY LORD ROBERTSON OF PORT ELLEN 3

Preface BY MARK PYMAN 6

Diagnosing the Corruption Risks

1. IDENTIFYING THE CORRUPTION RISKS IN DEFENCE AND SECURITY 9
2. INTEGRITY SELF-ASSESSMENT BY NATIONS 16
3. USING METRICS AND SURVEYS 18

Leading Change

4. FRAMING A PERSUASIVE ARGUMENT 21
5. BUILDING LEADERSHIP UNDERSTANDING OF CORRUPTION 24
6. DEVELOPING ANTI-CORRUPTION PLANS 26
7. EDUCATING CHANGE LEADERS – A FIVE-DAY COURSE FOR SENIOR OFFICIALS AND OFFICERS 30
8. STRENGTHENING CODES OF CONDUCT, VALUES AND BEHAVIOUR 32
9. ENLISTING DEFENCE CONTRACTORS 36
10. INVOLVING CIVIL SOCIETY 40

Operations

11. STRATEGIC AND PLANNING CONSIDERATIONS FOR CONFLICT ENVIRONMENTS 43

12. CORRUPTION AND CONFLICT RESOLUTION 45

13. REDUCING CORRUPTION RISKS IN CONTRACTS DURING OPERATIONS 49

Procurement

14. CONFIDENTIALITY, ORGANISATION AND COMPETITION 53

15. INDEPENDENT MONITORING 58

16. DEFENCE INTEGRITY PACTS 60

17. INDUSTRIAL COOPERATION AGREEMENTS (OFFSETS) 62

Budgets and Assets

18. DEFENCE AND SECURITY BUDGETS 65

19. ASSET DISPOSAL .....
68

20. MILITARY-OWNED BUSINESSES 70

Further reading 73

Abbreviations 75

List of figures 76

Endnotes 77

THIS HANDBOOK HAS A SIMPLE PURPOSE:

to show busy decision-makers how significant progress can be made in tackling corruption in defence and security.

Officials and senior officers tell us directly why they care so much about corruption risk in defence and security establishments. In their own words, this is because:

- Corruption wastes scarce resources
- Corruption reduces operational effectiveness
- Corruption reduces public trust in the armed forces and the security services
- Defence budgets, due to their secrecy, are an easy target for politicians seeking funds
- International companies shun corrupt economies

Those responsible are well aware that corruption can fatally undermine and invalidate well thought-out security strategies, negating the investment made in them.

It is also increasingly recognised that corruption is central to the challenges in peace support and state-building. Too often it is viewed as a side issue, rather than as a central dynamic of a conflict.

The case for addressing corruption is therefore clear, and there are good opportunities to do so. We are living through a time of sweeping change. The security landscape today is fundamentally different from the way it was during the Cold War. Particularly at a time of economic crisis, governments are less ready to accept the waste that comes with corruption. The general topic of corruption has also come of age: it is better understood, it is less sensitive, and there are good ways to measure, monitor and address it.

This Handbook presents 20 reform measures based on recent experiences, both of Transparency International (TI) and of governments engaged in developing new approaches.

ACKNOWLEDGEMENTS

TI's approach is non-partisan, neutral and focused on constructive ways of addressing the issues of corruption – rather than singling out bad behaviour.

Its 'Defence and Security Programme', based in London, has been operating in this field since 2004. We have been working constructively and in close collaboration with defence companies, governments, NATO and the African Union, and with other academic and defence organisations such as the Defence Academy of the United Kingdom and the Geneva Centre for Security Policy.

This is the second version of this Handbook. We have extensively updated it, adding new approaches and several new chapters on topics that have proved to be of interest – including operations, educating change leaders and asset disposals.

Many people from some 35 nations have contributed to the ideas and approaches described here. They include committed individuals in national defence and security ministries, national armed services, TI national chapters, academia and defence colleges, and journalism. I would like to thank them all sincerely.

I hope this Handbook will stimulate those of you reading it for the first time to engage with the issues it raises.

I have the privilege to work with a hugely talented multinational group of professionals. TI's Defence and Security team has been phenomenal, working long hours for very modest remuneration in making real all the visits, courses, workshops, multi-country studies and research that underlie our findings. To them and to the many experienced individuals and former military officers who have been working so energetically with us, a huge thank you.

I would also like to pay full tribute to the UK Department for International Development (DFID), which has funded much of this work, and to the NATO International Staff and members of NATO Ally and Partner missions who have embraced the ideas and approaches described in this Handbook with energy and commitment.

I hope you find this latest version of value. We welcome your feedback.



Mark Pyman
Programme Director,
International Defence and Security Programme
Transparency International UK

January 2011

Diagnosing the Corruption Risks

TI HAS A CLEAR AND FOCUSED DEFINITION:

CORRUPTION IS THE ABUSE OF ENTRUSTED POWER FOR PRIVATE GAIN

'Corruption' seems to be easily and intuitively understood. However this simplicity is deceptive. There are many different types of corruption. To diagnose corruption accurately in the field of national defence and security, two things are needed:

- A framework that sets out clearly the different corruption-related issues in defence and security
- An analysis and assessment of which of these issues exist in the national environment and which pose the most risk.

THIS SECTION SHOWS:

- A useful **framework** of the main defence and security corruption risks. TI has used this framework to good effect in a wide range of countries (Chapter 1).
- A mechanism that governments can use to carry out an **integrity self-assessment** of the corruption risks to their defence and security organisations. It consists of a questionnaire and a follow-up review visit by an experienced team to discuss the findings (Chapter 2).
- How **surveys and metrics can be used** in diagnosis and monitoring. There are many surveys on corruption, and these are central to understanding within government where the nation stands on this subject relative to other countries. Surveys can be developed and tailored for use in the defence and security sphere within specific nations. They are therefore invaluable for tracking and monitoring progress (Chapter 3).

1. IDENTIFYING THE CORRUPTION RISKS IN DEFENCE AND SECURITY

Corruption is a broad term. This Handbook breaks it down into 29 specific defence corruption issues that provide a basis for a country-specific analysis.

There is no generic diagnosis, and therefore no generic plan that will work in every situation. However there are key risk areas and recurring problems across the world. To help diagnose the risks, TI has devised a framework for understanding defence and security corruption that can guide you around the range of possible corruption issues and provide a starting point for your own analysis.

This framework has been used during dialogue with the senior leadership in many nations: with defence ministers, the most senior officials and high-ranking military officers, as well as at public meetings and with civil society.

While neither definitive nor exhaustive, the framework is robust enough to serve as the starting point for most nations. It breaks the generality of defence and security corruption down into five broad headings encompassing different types of corruption. Those areas of defence where corruption is most significant and causes the greatest problems have a subsequent chapter of this handbook devoted to them.

This framework is a good tool to open the debate within a ministry or department or across the armed services. It can identify which issues are relevant and which need to take priority. It can be used to talk to colleagues and identify which issues are significant.

FIGURE 1: FRAMEWORK FOR DEFENCE AND SECURITY CORRUPTION

POLITICAL	PERSONNEL	PROCUREMENT
DEFENCE & SECURITY POLICY	LEADERSHIP BEHAVIOUR	TECHNICAL REQUIREMENTS / SPECIFICATIONS
DEFENCE BUDGETS	PAYROLL, PROMOTIONS, APPOINTMENTS, REWARDS	SINGLE SOURCING
NEXUS OF DEFENCE & NATIONAL ASSETS	CONSCRIPTION	AGENTS/BROKERS
ORGANISED CRIME	SALARY CHAIN	COLLUSIVE BIDDERS
CONTROL OF INTELLIGENCE SERVICES	VALUES AND STANDARDS	FINANCING PACKAGE
EXPORT CONTROLS	SMALL BRIBES	OFFSETS
		CONTRACT AWARD, DELIVERY
FINANCE	**OPERATIONS**	SUBCONTRACTORS
ASSET DISPOSALS	DISREGARD OF CORRUPTION IN COUNTRY	SELLER INFLUENCE
SECRET BUDGETS	CORRUPTION WITHIN MISSION	
MILITARY-OWNED BUSINESSES	CONTRACTING	
ILLEGAL PRIVATE ENTERPRISES	PRIVATE SECURITY COMPANIES	

POLITICAL

If a corrupt individual or group is able to influence defence and security policy (for example, to create a requirement for procurement of fast jets when no such need truly exists), this is high-level corruption. The subsequent procurement process can be largely clean, yet fundamentally flawed.

A **defence** process can be manipulated or overcomplicated in order to hide corrupt decisions and illicit enrichment, for example, if a policy approval procedure is lacking or policy decisions are not published. In the most extreme cases, defence corruption at the highest level might represent 'state capture', if an elite is able to shape state decisions across a much wider area.

Where countries are rich in natural assets, such as oil, timber, minerals or fish, the military or security forces can become closely or improperly connected with their exploitation. This **nexus of defence/security and natural assets** is common in conflict environments (for example, in Sierra Leone with diamonds, Angola with oil), but it also occurs in peacetime circumstances, as in Nigeria or Indonesia. Such linkages can be prime drivers of subsequent conflict.

Organised crime is present in every country and is a growing transnational security threat. Increasingly technology-enabled, it does not respect national or international boundaries and prospers in ungoverned spaces such as fragile states. Motivated by the acquisition of wealth, it is arguably beyond the power of any one agency or nation to contain effectively, and may have penetrated the defence, security and intelligence establishment. In these circumstances counter-corruption strategies will have little chance unless organised crime is prioritised and addressed at the same time.

Corruption within the **intelligence services** has been a significant problem in some countries, notably in post-communist and post-conflict societies. Intelligence services gather information that has potential economic and political leverage. This makes them an attractive target for corrupt behaviour.[1]

Arms export controls are susceptible to the risk of corruption as a vehicle for illegal arms transfers with negative consequences for international humanitarian law, human rights, and sustainable development. Corruption also hinders efforts to combat violent organised crime and terrorism as it undermines the ability of states to control the diversion of weapons from their intended end-users.

FINANCE

Misuse of defence and security budgets is one of the most common problem areas. In the defence sector a culture of secrecy can create an environment in which good financial practices such as auditing by an external division are not employed on the grounds of national security. Yet much public trust is gained by being more transparent. In any organisation or department, sound management of assets, with timely and efficient accounting systems, is one of the most powerful devices for maintaining integrity. The better the systems in place, the less opportunity there will be for corruption. As well as providing opportunity for fraud, a poor and disconnected accounting system makes it easy to conceal irregularities. Even if irregularities are found, poor accounting makes it impossible to identify those responsible, and hold them to account.

Asset disposals are a common category for corrupt management. This can occur through the misappropriation or sale of property portfolios and surplus equipment, particularly where the military is downsizing. Even large assets can be poorly controlled and easy to sell off corruptly or undervalued.

Secret defence and security budgets are a perennially difficult issue. There are valid reasons for secrecy, but these are open to abuse. Several countries have developed innovative ways of addressing the risks. A broader risk is when there are budgets outside defence that are also used by the military or security forces, but not identified as.

In many countries, defence and security establishments maintain income sources separate to their state revenue streams. These include **military-owned businesses**, either civilian businesses or defence companies which are directly or indirectly owned by the defence establishment. These pose obvious integrity risks.

Misuse of assets also extends to **illegal private enterprises**, with individuals gaining an income from state-owned assets. This may be through the payment of exorbitant fees to cronies for consultancy or other services, or the use of service personnel for private work. It can also include bankrolling of the military by private enterprises in return for military protection of their business interests. The development of a system of patronage between the military and private business is highly detrimental; the more profitable it becomes, the more difficult it is to counter.

PERSONNEL

Personnel and recruitment processes are particularly susceptible to corruption, especially if it is endemic throughout a defence establishment.

Corruption to avoid **conscription**, for example, had already been recognised as a problem in Napoleonic times.[2] Box 1 (below) shows how, in the case of conscription in Russia, personnel management in the modern era can be affected by corruption.

This is just one example of how corrupt practices in the personnel sphere can occur. Other examples are given in Figure 3. They range from having non-existent 'ghost soldiers' on the payroll to extorting favours from subordinates.

The most common effect of corruption in personnel is that it undermines the confidence of staff, making them increasingly prone to participating in or condoning corrupt practices.

For top officials and officers themselves, **leadership behaviour** requires committed and visible engagement by strong role models. They, in turn, need feedback through honest and objective assessment, for example, through third parties and opinion surveys.

Many citizens' experience of corruption is likely to be in the payment of **small bribes** in daily life. These might include payments for speeding up administrative procedures, bribes at checkpoints or payments to avoid predatory police. While this Handbook concentrates on large-scale bribery and corruption, policy-makers should note that anti-corruption plans must equally address small bribes and petty corruption.

BOX 1: CONSCRIPTION IN RUSSIA

Compulsory military service, also known as conscription or draft, can be a cause of pervasive corruption within the armed forces. Such is the case in Russia. In order to avoid conscription, would-be soldiers pay bribes to the military authorities, medical personnel in charge of assessment and officials in draft boards. Such practices are widespread and publicly acknowledged. In July 2010, Russia's nationalist Liberal Democratic Party, led by Vladimir Zhirinovsky, tabled draft legislation which would allow potential conscripts to pay a sum equivalent to US $32,500 to avoid military service. The resulting funds would be channelled toward the costs of the Ministry of Defence (MoD). This measure, aimed at Russia's military commissions, signifies both the great extent of draft corruption in the country and a clear recognition of this reality.

Serious attempts to deal with this issue have been made in recent years by the Russian government. The length of conscript service was shortened by six months in April 2008 to one year, while the list of exemptions from conscriptions has also been made more restrictive.[3] However, the 2004-7 federal government programme designed to trial a transition to fully professional armed forces was largely ineffective, due to poor design and pervasive corruption which prevents full remuneration from reaching the contracted soldiers.[4]

A plan that focuses only on high-value corruption is unlikely to succeed; the general public needs to see benefit at a local level.

Leadership of a reform process requires several other competences: presenting persuasive arguments for why change is necessary (Chapter 4), developing a common direction and energy for change across the top leadership (Chapter 5), building a reform plan (Chapter 6), training more leaders of change across the organisation (Chapter 7) and involving third parties (Chapters 9 and 10).

Significant progress can be made by working on an organisation's values (Chapter 8).

The central issues of integrity in personnel are **payroll, promotions, appointments and rewards**. Examples are shown below:

The **salary chain** is the long link from the national treasury right down to payment to an individual soldier. In many corrupt environments those funds are stolen or diverted en route, so that far less of the due amount finally reaches the soldier. This problem is often extreme in conflict environments, but is also common in peacetime.

More broadly, tackling corruption issues requires attention to the **values** and ethical behaviour of troops, officers and officials. Building **a strong ethical culture** of adherence to policies, rules and guidelines minimises corruption risk. This is particularly relevant in defence and security establishments, which traditionally have a strong custom of compliance to written regulations.

FIGURE 3: **CORRUPTIONS RISKS IN PERSONNEL**

PAYROLL	Extracting percentages from total cash for payroll
	Ghost soldiers on payroll
	Cronies on secret payroll
	Skimming from soldiers' salaries
APPOINTMENTS/RECRUITMENT	Nepotism, favouritism and clientelism: preferred postings and pre-term rank promotion
	Sabotaging personnel/other reforms to preserve power and authority in a given sphere
	Conscription: fees to avoid military service Fees to gain participation in peacekeeping forces
	Favours and fraud during the entry process for respected military educational institutions
	Favours or payment in the selection process for peace support operations or international missions
REWARD AND DISCIPLINE	Extorting favours from subordinates
	Payments to avoid disciplinary process or for reinstatement of position
	Use of disciplinary process to remove threats to power
	Use of reward process to endorse supporters

OPERATIONS

The military's image during operations at home and abroad is vital in promoting and retaining public confidence and respect. Operations are the context in which the general population has most face-to-face daily contact with the military and officials. Therefore their conduct is of paramount importance. This applies both to military personnel and to personnel of **private security companies**.

Where international forces intervene in a conflict country, their approach to corruption once in theatre is critical to the success of their mission. **Disregard of corruption in-country** runs a high risk of being seen as complicity in it. In the past, it was sufficient for military doctrine to regard corruption as a purely civilian/governance issue. But recent experience from Afghanistan to Bosnia to Colombia has shown the need for nations to recognise corruption as a major contextual factor in operations.

Sadly, there are too many cases where intervention or peacekeeping forces have themselves been a source of corrupt behaviour, and **corruption within a mission** has occurred. In many countries the military is used to provide internal security, often in circumstances where the police are unable to operate. Border forces and domestic intelligence and security agencies are also often structured as part of the defence ministry and classed as military forces. This increases the importance of considering counter-corruption in operations as a key element of building integrity in defence.

In a conflict environment, the flow of money into a country represented by local **contracting** and logistics – whether aid money or military support – is an important part of helping to develop that country. With all the problems in a conflict situation, it is easy for corrupt contracts to be awarded, and for non-performance to be tolerated.

PROCUREMENT

Of all defence processes, procurement is usually the highest area of corruption risk, with vulnerabilities at every stage.

These are listed opposite according to the procurement phase: both those from the framework above and a number of others are shown. This Handbook does not attempt a comprehensive review of ways to tackle procurement risks. Instead it devotes four chapters (14-17) to new ideas and reforms for addressing the most serious risks in that area.

FIGURE 2: **CORRUPTION RISKS IN THE PROCUREMENT CYCLE**

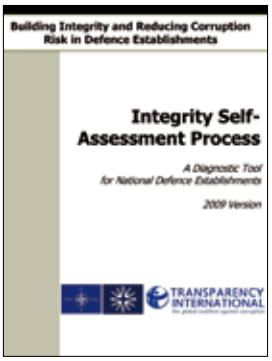
1. GOVERNMENT POLICY	Privileged defence relations; defence budgets; external financing; manufacturing government pressure on importers
2. CAPABILITY GAP DEFINITION	Military, political & commercial influence
3. REQUIREMENT/CONTRACT DEFINITION	Inadequate/corrupt military/official expertise, anonymous agents; 'justified opacity', excessive use of national secrecy
4. SUPPORT REQUIREMENTS DEFINITION	Costly & complex
5. OUTLINE PROJECT COSTING	Unreliable data
6. TENDER	Single sourcing; bidder collusion; lack of transparency; offset requirements; inadequate timescales
7. BID ASSESSMENT & CONTRACT AWARD	Evaluation manipulation; favoured bidders; offsets bias outcome; lack of transparency; failure to consider value for money
8. MANUFACTURE & DELIVERY	Variation order; lack of official control; incorrect equipment performance and lack of remedial contract measures
9. IN-SERVICE PHASE	Call-off contracts; lack of expertise; lack of long-term oversight (especially for service contracts)

2. INTEGRITY SELF-ASSESSMENT BY NATIONS

The Integrity Self-Assessment process is a tool that nations can apply to provide a first assessment of the scale of the challenge

One way for leaders of a defence or security establishment to take stock of their integrity processes and corruption risks is the Integrity Self-Assessment process. This methodology has been trialled and used by five nations: Bosnia-Herzegovina, Bulgaria, Croatia Norway and Ukraine. It is a powerful tool for stimulating thinking on integrity questions and for evaluating current procedures and processes. If applied throughout an establishment, it serves as a solid basis for future reform.

The Integrity Self-Assessment process was developed through collaboration between TI and NATO nations, with leadership from Poland. Not restricted to NATO, it has universal applicability and is freely available for any country wishing to use it.



Cover of NATO-TI's report on the Integrity Self-Assessment Process

The self-assessment consists of two parts: a detailed questionnaire and a series of review meetings held with ministries and others to consider the results.

THE INTEGRITY QUESTIONNAIRE

The self-assessment questionnaire focuses on practical performance rather than legislation, and addresses corruption risk in the main areas of a defence and security establishment. It covers eight different areas:

1. Democratic control and engagement
2. National anti-corruption laws and policy
3. Anti-corruption policy in defence and security
4. Personnel: behaviour, policy, training and discipline
5. Planning and budgeting
6. Operations
7. Procurement
8. Engaging with defence companies and other suppliers

The questionnaire and guidance on how to complete it can be found at:
http://www.ti-defence.org/component/content/article/42-publications/827-integrity-self-assessment-questionnaire

BOX 2: **SELF-ASSESSMENT PROCESS IN NORWAY**

The self-assessment process is intended to provide practical support to all nations. While initially unsure that Norway would have much to gain from it, the Norwegian Ministry of National Defence was surprised and pleased at the overall outcome. The self-assessment process allowed Norway to conduct a substantial review of its integrity-building and anti-corruption reforms and to assess how they fit together across the whole system. Norway's participation in this process demonstrates that the tools being developed will be of benefit to a wide range of nations.

- The use of complaints boards
- A handbook on *Ethical guidelines regarding business contracts for the defence sector* produced by the Ministry of Defence
- The development of an e-procurement process

Areas of concern included the apparent lack of coordination in anti-corruption policies between ministries, the use of best practice and the difficulties reported by the Office of the Auditor-General in detecting corruption. Overall, however, Norway was felt to be a leader in the field of integrity and anti-corruption in defence.[5]

THE REVIEW MEETINGS

After completing the questionnaire, follow-up meetings are a fast and effective method of assessing progress. There are three options:

- an entirely in-house review within the defence or security ministry
- a review involving other government departments as well
- a review that includes external input.

It is strongly recommended that the review be external, so as to build confidence in its objectivity and help ensure that the questionnaire is completed properly.

For NATO allies and partners conducting the self-assessment, the review is external. It is led by a NATO official and contains one person from a country that has been carrying out anti-corruption reforms and another with subject-matter expertise, for example from TI. In addition, there is sometimes a team member from a country about to carry out the self-assessment. For

The **review visit** usually lasts three days and involves discussions with a range of officials and others concerned with defence and security. These discussions are a very important part of the self-assessment approach and high-level political input is invaluable. Some nations have broadened the meetings to include other relevant departments such as Finance and Audit, and civil society organisations. They help raise awareness of corruption risks among other government officials. Moreover, the review team can share good practice from other nations.

The review team shares its assessment with the defence leadership, and makes proposals for reforms in the risk areas identified in the assessment.

The whole assessment process can be conducted on a one-off basis or as part of a repeated cycle.

3. USING METRICS AND SURVEYS

Measuring corruption provides perceptions, experience and actionable indicators that help to track progress

non-NATO nations, TI may be able to lead or to contribute to such an external review team.
Measurement is key to building the knowledge to design, implement and evaluate effective anti-corruption programmes. However, measuring corruption successfully has been a notorious challenge, not only for governments, but also for academics, policymakers and anti-corruption practitioners. By its nature, corruption is secretive and complex. This makes it difficult to assess its multiple levels. In addition, no single tool can measure corruption exhaustively.

This chapter describes the various corruption measurements used by organisations and countries, and outlines their application to the defence sector. Despite the challenges, defence corruption can be measured and the results used to direct reform.

MEASURING NATIONAL CORRUPTION

Perception- and experience-based surveys

These are surveys that rely on the informed opinions of a country's experts, business people and citizens. They are used frequently and widely to measure the level of corruption as citizens or experts see it.[6]

The best-known example of a perception-based measurement is TI's *Corruption Perceptions Index* (CPI).

Released annually, the CPI is an international comparative ranking of perceptions of public sector corruption. It is a composite index. In 2010 it was constructed from 13 separate business and expert surveys, and spanned 178 countries and territories. Countries are ranked according to scores ranging from zero to 10, zero representing highly corrupt and 10 very clean.[7]

Experience-based measurements collect data by surveying citizens and institutions about their personal experience of corruption. This data from multiple sources is then brought together to allow comparisons across countries and over time.[8]

Some aggregate surveys combine both perception- and experience-based metrics. These include the World Bank's *Worldwide Governance Indicators* which measure the quality of governance in more than 200 countries, and TI's *Bribe Payer's Index*,[9] which ranks countries according to the likelihood that their firms will engage in bribery abroad.

The major advantage of perception-based surveys is that they are based directly on people's experience. The disadvantage is that they cannot always be connected back to particular reform measures taken – or that need to be taken – by the administration. For this, other forms of surveys are required.

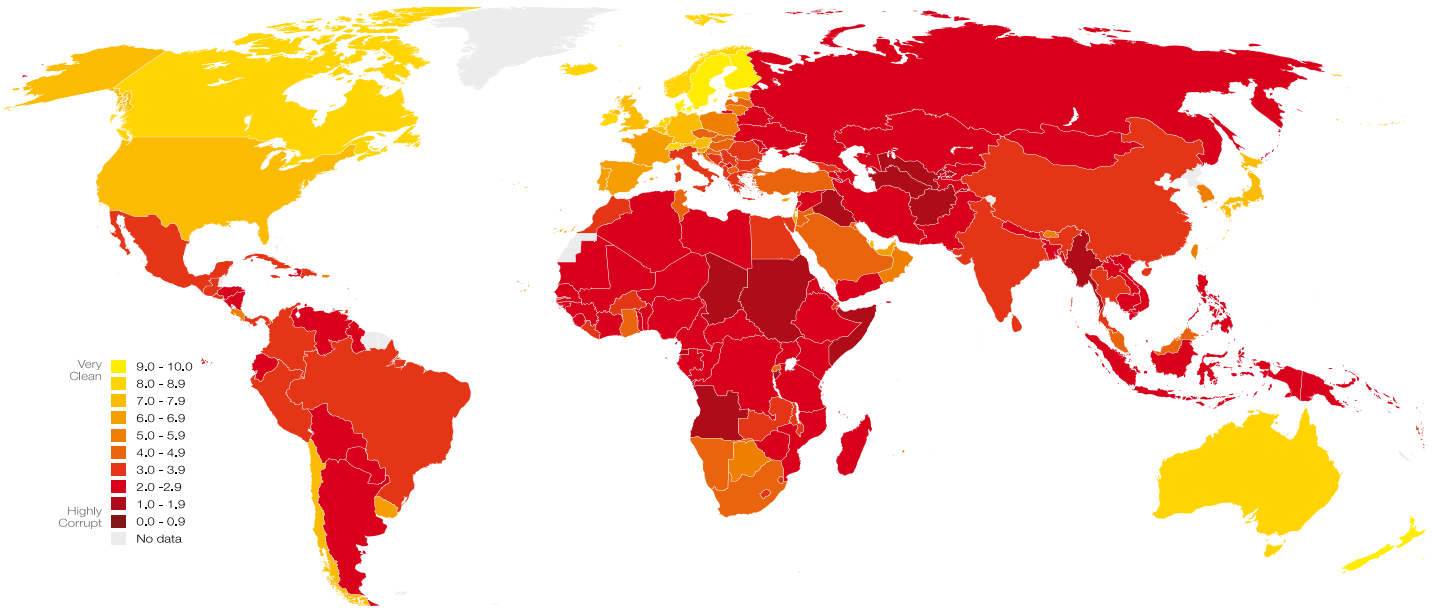
ACTUAL CORRUPTION LEVELS

Surveys based on actual corruption levels, for example prosecutions or actual experience of paying bribes, are rare simply because the data is usually not available or gives an incomplete picture. There are exceptions, such as the survey of corruption in Afghanistan conducted by the United Nations Office of Drugs and Crime in 2010. Similarly, some nations monitor proxies for corruption, for example, calls to whistleblowing hotlines.

INDIRECT MEASUREMENTS

Indirect metrics are constructed using 'the opposite' of corruption in a national context, for example, public accountability and oversight mechanisms; transparency and governance performance.[10] This is achieved through questionnaires and scorecards, with the findings then ranked against an external set of criteria. Significant examples of such measurements include the *Global Integrity Index* (Global Integrity), *Open Budget Index* (International Budget Partnership), and *Promoting Revenue Transparency Project* (TI and the Revenue Watch Institute). These indirect measurements serve as proxies in the absence of the possibility of measuring corruption directly. Some such tools also involve assessment of rules, laws and practice and are there-

FIGURE 4: **TRANSPARENCY INTERNATIONAL'S CORRUPTION PERCEPTIONS INDEX 2010**



fore both objective and subjective.

APPLICATIONS TO DEFENCE: SECTOR SURVEYS AND MEASUREMENTS

The knowledge and methodology from national metrics can be applied to defence establishments.[11]

The starting point is to diagnose the factors causing corruption in defence and consider how to direct reform efforts. The nature and focus of any defence corruption metric will depend on whether corruption is attributed to structural factors (complex procurement procedures, for example), a high degree of secrecy, or a country's particular developmental conditions. For example, a structural perspective would lead to measurements of internal control mechanisms or to degrees of due diligence.

The degrees of transparency and accountability of different countries' defence policies and budgets could be measured and compared through an expert-assessed scorecard similar to the *Open Budget Initiative* or the *Bribe Payer's Index*.

Audits and other objective indicators, on the other hand, are better suited for measuring instances of bureaucratic corruption, such as the diversion of salaries, asset appropriation or slush funds. In the same vein, it would be easy to aggregate data depicting indicators related to corruption.

Cross-country and over-time comparisons are also possible. For example, in 2006 TI's defence team produced a metric of the extent of single-source or non-competitive procurement in defence establishments.[12] The survey's objective was to quantify the use of single-source procurement by both number and value.

The examples above show that it is possible to develop metrics for practical application in the defence sector. There is plenty of scope for governments to build on capabilities that they already have available, for example, through using their national Chamber of Commerce or existing national surveys. Metrics are not an end in themselves, but play an essential part in convincing the public of progress that has been made.

Leading Change

VISIBLE, COMMITTED LEADERSHIP IS VITAL –

at the top of the ministry and at the top of defence and security forces. The military rightly puts leadership at the heart of the competences required of officers, and government departments need to do the same.

BUT MORE THAN THIS IS NEEDED

Leaders require knowledge and understanding of the right tools and levers. They can then better frame effective policy and anti-corruption measures, draw up a sound approach to building integrity and be credible in convincing others about the chosen reform path.

THIS SECTION SHOWS:

- How to set out convincing arguments for change (Chapter 4)
- A powerful approach for building a common purpose among the defence or security leadership (Chapter 5)
- How to develop anti-corruption plans for defence and security application (Chapter 6)
- How to build a cadre of mid-level officers and officials committed to change (Chapter 7)
- Codes of conduct for defence officials and cross-nation comparisons of national conduct (Chapter 8)
- How to build partnerships with defence contractors, whose support and collaboration can be transformative in 'cleaning up' procurement (Chapter 9)
- How engaging civil society raises credibility and contributes to greater objectivity (Chapter 10)

4. FRAMING A PERSUASIVE ARGUMENT

Staff, armed forces personnel and the public will support reform more strongly if the arguments are convincing

Leaders need to frame the argument for anti-corruption reform well, so that their officers, officials, staff and the public see and accept the need for change. TI's experience is that this is not as hard as it looks, and there are certain ideas and core reasons that have been used successfully in many countries.

SHOW GOOD REASONS FOR CHANGE

A wealth of leadership literature shows how much more effective the reform process can be if people feel genuinely engaged and empowered, rather than merely obeying an order from above or being subjected to some new 'initiative'. People are easily motivated to support change if they understand its importance, can relate it to their own circumstances and feel that they can contribute.

The heart of persuasion lies in having reasons that are not only convincing, but also have their roots in the daily experiences of people inside the organisation. Over the past seven years, TI has asked many officers and officials to tell us exactly why tackling defence and security corruption matters so much to them. The answers vary, depending on context, but three core reasons are always cited:

1. Corruption is a waste of scarce resources

Losses due to corruption can easily account for 25 per cent of a defence acquisition budget. Corruption leads to purchases of goods and services above their real value. In the salary chain, it can mean that many soldiers do not receive part, or even all, of their salary. The illicit sale of defence property or second-hand equipment deprives the military and the state of funds. Unnecessary, expensive hardware purchases in order to satisfy the personal greed of high-ranking officers or politicians are a scandalous waste of resources. Periods of economic austerity, when the waste is most obvious and morally unacceptable, are a good time to mobilise support to tackle the problem.

2. Corruption impacts operational effectiveness

Most senior officers point to equipment that does not fulfil operational requirements and mention equipment they lack or items that had been unnecessary or overpriced. In more serious cases, widespread corruption and the lack of meritocratic promotion mean that the armed forces are generally not as effective as they could be.

3. Corruption reduces public trust in the defence and security forces

The effectiveness of a nation's defence and security forces depends in large measure on the level of public trust they receive. A major corruption scandal quickly erodes popular support, yet it may take a very long time to recover an honest reputation. Some nations have worked hard to re-establish public trust in their defence and security ministries and in their armed forces by tackling corruption issues. One example is Colombia, where the defence sector's poor reputation was inhibiting government efforts to tackle drug and insurgency challenges.

Senior officers and officials also regularly mention three additional reasons:

- Corruption in defence can be very easy, so it is often used as a conduit for securing political re-election funds and for the repayment of favours.
- Reputable defence companies tend to avoid highly corrupt economies. This in turn limits the potential for growth and the availability of equipment for such economies. Colombia's Ministry of Defence cited this as one of the principal reasons for its anti-corruption reforms in 2004-6.
- Defence corruption limits national development. In some countries, parts of the military have become involved in exploiting natural assets, such as oil, timber and land, to the detriment of the national good.

TAKING A POSITIVE TONE: 'BUILDING INTEGRITY'

However it is expressed, corruption is always a negative. There can be counter-corruption campaigns and strategies to deter corruption. These are both correct and essential, but they are not enough. People need to buy into the idea, which comes more from doing positive things than minimising negative ones. Any counter-corruption plan should place significant emphasis on positive ideas and corresponding activities. 'Building Integrity' is a powerfully engaging concept.

BOX 3: 'INTEGRITY' - A UKRAINIAN PERSPECTIVE ON AN IMPORTANT WORD THAT IS HARD TO TRANSLATE

The literal translation of this word in Ukrainian ('цццццццц') means 'absence of internal contradictions'. This does not reflect its triple meaning in English, which refers to 1) the quality of being honest and morally upright 2) a state of being whole and 3) the soundness of a construction. Therefore, usage of the Ukrainian term in the context of the public officials' honest behaviour is inappropriate.

Instead, Ukrainian legal language uses the term 'цццццццц' (uprightness, honesty), defined as 'high moral purity and honesty'. An individual of this type is defined as one who 'lives the honest life, follows all the moral rules'. Although 'integrity' and 'morality' could not be fully included in formal law, it is possible to identify what 'integrity' means in the context of codes of conduct for public officials.

Integrity-building activities focus on strengthening human values and codes of conduct, training and education. However, in some countries, integrity is not a readily understood concept. For example, it is not an easy word to express in Russian or other Slavic languages. TI has worked extensively in such countries to develop a broader definition of the word to translate it in a way which will preserve its meaning (see box 3).

In winning support for a counter-corruption plan, it is vital to place at least half your emphasis on building integrity. This is as true when working with international organisations as it is when working with nations.[13]

IMPLEMENT PREVENTIVE MEASURES AS WELL AS PUNITIVE ONES

When considering corruption as an issue, people typically think first about prosecution and punishment. These are certainly part of the toolkit for tackling corruption – but they are not the major part.

Preventive and educational measures do not make headlines, but are fundamental to building a high-integrity, low corruption- risk culture. This Handbook describes such preventive measures you can adopt.

LIVE WITH THE CURRENT LAWS

Sometimes the priority for corruption reform has been the need for a better legal framework. But this is unusual: more commonly, the law is reasonable but implementation is patchy, slow or non-existent. (An exception was the UK, where the legal policy framework was poor, until the passing of a new Bribery Act in April 2010.)

In such circumstances, it is good practice for the leadership of the ministry and the armed forces to carry out their own analysis of corruption problems and to suggest key remedial and preventive measures.

These measures will probably consist of both policy and practice, and include:

- Clear signals from the leadership about a policy of zero tolerance toward corruption in any form and appropriate policy and military directives
- Specific policy instruments, such as asset declarations by senior officials
- Procedural changes, such as in defence procurement processes
- Training of officers and officials
- The involvement of external groups such as defence contractors, civil society and the media.

People leading the process need explicit political support for transparency and integrity changes.

If support is strong, the priority should be to carry out the most significant reforms rapidly.

If support is not very strong, measures should be taken to build change without being overly controversial. This can be done, for example, through training and education.

ACT WITHIN A GOVERNMENT-WIDE CONTEXT

Corruption has no respect for organisational and functional boundaries. If there is significant corruption in a country, it is likely to be present in all parts of the government. Defence and security action should be aligned with efforts across government. But the defence and security sector can also lead these efforts. This can be of particular value in post-conflict situations.

Often there is a government-wide corruption prevention plan, coordinated by an inter-ministerial group. Defence can benefit from such initiatives, and efforts should be aligned as much as possible. However, when there is no government-wide activity in this area, it is still highly beneficial for defence and security organisations to take the initiative in addressing corruption on their own. Many of the measures described in this Handbook have been applied in countries where the defence ministry was the only ministry active in anti-corruption work, with low support from other parts of government.

Defence and security organisations often have the advantage of having strong hierarchies as well as a culture of 'getting things done': this makes it easier for them to lead on transparency and anti-corruption. Poland, whose Ministry of National Defence has instituted many anti-corruption reforms, is an example of defence taking the initiative in as broad an issue as corruption.

BE EXTERNALLY FOCUSED

Defence and security ministries and the armed forces often shun publicity and can be heavily internally focused. An active policy of engaging outsiders as part of the process of change is beneficial: trusted third parties raise levels of public confidence and add credibility to the process. The readiness of senior officers to explain policies and changes to the public also raises trust and confidence, as does engaging civil society in scrutinising defence policy or major military procurements. Tools for doing this are described in subsequent chapters.

The most striking example of this is South Africa's post-apartheid government action in 1994. The government of South Africa held one of the most open reviews of defence policy in its history, assisted by widespread consultation.[14] A second example is Bulgaria, whose new Defence Minister declared that all future procurements would be subjected to civil society oversight from November 2009.

Chapters 9 and 10 discuss engagement with defence contractors and civil society.

5. BUILDING LEADERSHIP UNDERSTANDING OF CORRUPTION

TI has developed a one-day workshop where the top defence and security leadership can establish a common view on key issues

Corruption in defence can be a subject which officers and officials find difficult to address. Those at lower levels may fear the repercussions of exposing corruption or may be vulnerable to senior officials. At senior levels, the absence of discussion often develops out of habit: because the subject has been very sensitive, even top leaders are cautious about raising it.

In the experience of TI – and many nations – this reluctance to discuss the issue can be broken down easily. The best way to do this is to bring the subject routinely into normal leadership discussions and to give a clear signal from the top of the organisation that this form of waste and malpractice is unacceptable.

This chapter suggests one way to achieve this through the initiation of a high-level internal workshop that develops a common understanding of the corruption issues being faced and an agreed approach to fighting them.

THE SENIOR LEADERSHIP DAY

TI has worked with many nations in designing and facilitating a whole-day event for the civil and military leadership.

Our experience has shown that these Leadership Days have been highly successful and provide three principal benefits:

- People, even at the most senior level, have widely differing views on what corruption is and on the nature of corruption problems in particular. The one-day workshop allows a common understanding to be developed.

- Holding such an event is in itself a major signal that corruption matters and will be tackled. It gives top officers and officials the impetus and support to discuss the subject among their staff.

- It develops confidence that the subject can be tackled successfully, through the use of examples and experience from other countries.

Honest discussion of these issues can generate remarkable energy for change. Once the top person in the room has made it clear that it is acceptable to discuss corruption openly, this can open up areas of reform which could not have been previously addressed.

SUGGESTED PROCESS

Corruption is often a sensitive subject for people who have just begun addressing it, so the use of an experienced facilitator is very helpful. TI has facilitated several such events. Together with the organising sponsor, we have generally structured them as follows:

Attendance:
25-50 people, typically ministers and/or deputy ministers; director generals or other senior officials from ministries of defence and security; and senior officers from the military and/or the security forces, from colonel up to three- or four-star level.

Location:
Away from the normal office buildings so as to facilitate a free discussion. A high-status building, known to be used only for the most senior gatherings, is an advantage: it sends a strong message that this subject is being taken seriously.

Structure:
A one-day workshop could include the following parts:

- Introductory speech from a senior officer
- Talk from TI on defence/security corruption and ways of tackling it
- Group work on diagnosing the main defence/security corruption issues, using the TI framework from Chapter 1
- Talk from a senior official from another country on their experiences in tackling corruption
- Group work on prioritising the main corruption issues
- Lunch
- Afternoon spent in developing the main elements of an anti-corruption plan and ways to make it practical at the ministry/armed forces



A leadership day in 2009. The guest speaker is the anti-Corruption expert from the Polish Ministry for Foreign Affairs, Maciej; photo: A. Waldron

Output:
The written outputs could include:

- the main corruption issues being faced by the defence and security establishment
- an agreed list of defence and security corruption issues to be addressed as a priority
- an outline plan of how this will be achieved
- resources and timetables.

The objective is a shared understanding of what the principal corruption problems are and a jointly agreed approach to tackle them.

Afterwards:
There needs to be follow-up through the development of an action plan and communication from the senior people present across their organisations. Leaders can also commit to engaging their senior staff on the outcome of the leadership day, the actions being proposed and the importance of building integrity and reducing corruption risk.

Ideally, the leadership day is a catalyst for initiating further dialogue and action. Often, the external facilitating organisation can help through re-engagement on a regular basis with ministries and the military to assist in keeping up momentum.

6. DEVELOPING ANTI-CORRUPTION PLANS

Guidance on how to build a plan, and examples from different countries

Tackling corruption in defence and security is a process, requiring the diagnosis of specific problems and the engagement of officers, officials and stakeholders. A remedial plan is crucial to coordinating and managing integrity-building measures. This plan will be specific to the defence and security establishment concerned and its associated forces, but should not bypass national systems and institutions.

Using two powerful case studies of experiences in Poland and Bulgaria, this chapter shows how targeted anti-corruption plans in defence establishments can be developed, and the far-reaching effect they can have. Lessons can be learnt from case studies on defence reform in other countries.

Before developing an anti-corruption plan, a stock-take of the status quo can give helpful clues on strengths and vulnerabilities of anti-corruption work in an organisation. Figure 5 gives an example of a simple overview that can help in focusing on the areas which require new attention, and shows the results of such a stock-take undertaken by the Polish Ministry of National Defence.

FIGURE 5: **TAKING STOCK OF STRENGTHS AND VULNERABILITIES, THE POLISH MINISTRY OF NATIONAL DEFENCE**

+ STRENGTH	Awareness of corruption and schemes within the MoD and military
	Many organisations involved in anti-corruption activity: Control Department (MoD), Audit Bureau (MoD), Military Counter-intelligence, Military Police, Military Prosecutor's Office, Supreme Chamber of Control
- VULNERABILITY	No coordination between various actors
	Very few systemic changes, due to lack of integrity policy
	Lack of a prevention body
= RESULT	No integrity building, inefficient anti-corruption measures
	Inefficiency of procurement process: buying arms, not capabilities; focusing on spending money, not on value for money

BOX 4: **ANTI-CORRUPTION REFORM IN BULGARIA**

In August 2009, Bulgaria's Ministry of Defence (MoD) introduced an anti-corruption action plan to cover all levels of defence policy formulation and implementation. It aims to increase policy effectiveness by creating conditions which are unfavourable to corruption. The action plan introduces new governance practices and promotes values and standards of conduct among defence personnel, including the observation of a code of conduct.

11-STEP ANTI-CORRUPTION PLAN, BULGARIAN MINISTRY OF DEFENCE

1. Zero tolerance of political corruption
2. Analysis and assessment of the corruption environment
3. Establishing an independent audit of defence policy decisions
4. Reorganising the control system for defence policy implementation
5. Self-assessment, results analysis and developing measures to prevent corruption and mismanagement
6. Developing a system for reporting and investigating potential conflicts of interest at the MoD
7. Improving processes for reporting corruption / whistleblowing
8. Anti-corruption training
9. Developing standards of behaviour
10. Building public-private partnerships against corruption
11. Measuring confidence in defence

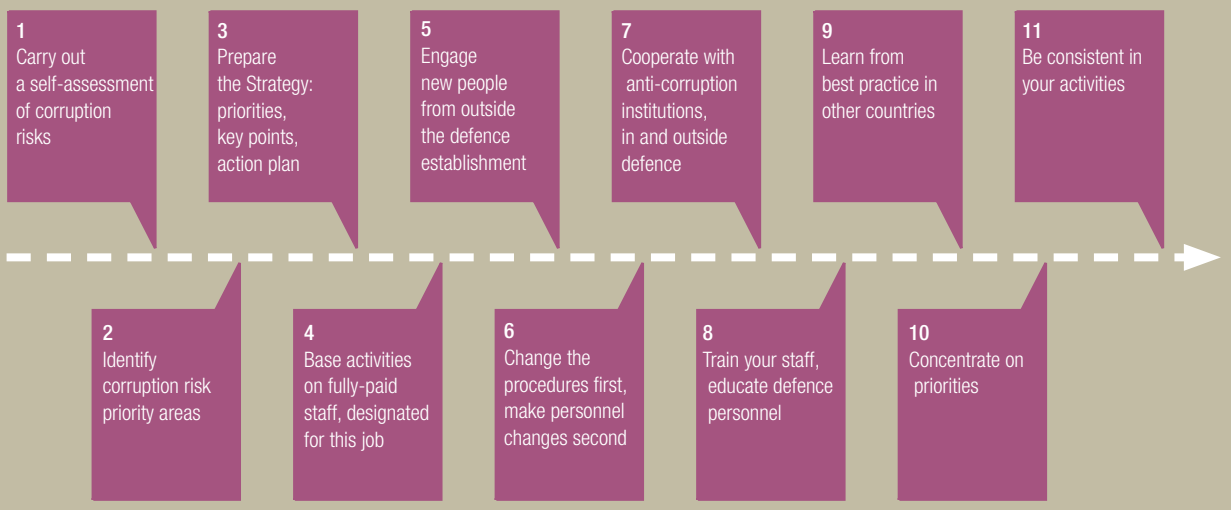
The Bulgarian Ministry of Defence developed this plan in line with other anti-corruption plans across the whole of government. There are formal steering structures with regular meetings both within the MoD and government-wide. There appears to be commitment to reform across the senior leadership of the MoD for the implementation of the plan.

An anti-corruption plan will then need specific time-frames and milestones. Figure 6 shows how Poland's Ministry of National Defence has defined its roadmap for defence integrity building (see overleaf), while box 4 shows Bulgaria's 11-step process. A roadmap of this type should be led at a senior (or ideally, the highest) level inside the ministry and/or military, depending on its scope. Progress should be reported regularly to a steering group responsible for the plan's implementation.

Most important of all, there should be some mechanism for monitoring progress and results. This could be done through a public survey, an employee survey, a review by an external evaluation group following a set of criteria, or through media scrutiny.

Sometimes the establishment will strongly hold the view that there is no need for a separate anti-corruption plan: that the plans and targets of the various departments and divisions are enough to cover the corruption issue. This is not a good approach because corruption is a classic cross-organisational problem and a new approach is essential if genuine change is to be delivered.

FIGURE 6: **POLAND'S ROADMAP TO BUILDING DEFENCE INTEGRITY**



PRIORITY SETTING, SEQUENCING AND FORMAT

As anti-corruption resources are usually limited, it is important to concentrate them on priority issues. High priority issues are often ones that are both very likely to occur and have a heavy impact. These include the prospect of significant financial losses, serious decreases in operational capability, or reputational damage. There is no generic formula for implementing anti-corruption reforms, as these should be developed in response to particular constraints identified in each country. Usually, an anti-corruption plan would cover a timeframe of 3-4 years.

PROACTIVE PARTICIPATORY DEVELOPMENT AND IMPLEMENTATION STRATEGY

The action plan should ideally be developed in consultation with civil society and government, systematically engaging a broad range of stakeholders from the earliest stage of project design. This approach is important to ensure buy-in from all those involved, particularly in the defence establishment, and to sustain the political will of partners and counterparts. Since industry also has a vested interest in the outcome of development projects, representatives from the commercial sector should be invited to form a part of the plan from the very start. Box 5 gives more detail on the reform process in Poland's Ministry of National Defence.

BOX 5: ANTI-CORRUPTION REFORM IN THE MINISTRY OF NATIONAL DEFENCE, POLAND

Since November 2005, the Polish Ministry of National Defence (MND) has introduced a wide range of anti-corruption and integrity-building reforms in the defence establishment. At the time, according to TI's *Corruption Perceptions Index*, Poland was perceived to have the highest levels of public sector corruption among the 25 European Union countries. Tackling corruption was an issue in the presidential and parliamentary elections that year.

Figure 5 outlines the initial strengths and vulnerabilities in corruption prevention at the MND in 2005. Several defence institutions had anti-corruption roles, including the Military Police, Military Public Prosecutor's Office, Military Intelligence Service, MND Control Department and MND Audit Office. However, their activities were uncoordinated and a report on corruption risk at the beginning of 2005 was laid aside and resulted in no action, meaning the Ministry had no effective anti-corruption policy.

ACTIONS: GOVERNMENT-WIDE

From 2005, anti-corruption activities at the national level focused primarily on better detection and the prosecution of criminal activity. The Central Anti-Corruption Bureau was established as a new special secret service. Specialised units were organised in the public prosecutors' bodies to carry out investigations into major frauds and cases of organised crime.

ACTIONS: MINISTRY OF NATIONAL DEFENCE

One of the Defence Minister's first decisions was to appoint a Director for Anti-Corruption Procedures, whose main role was to develop an anti-corruption policy for the MND and supervise its implementation. A specialised Anti-corruption Procedures Bureau was founded with the mission of improving procedures for transparency and accountability. The Ministry improved procedures to prevent conflicts of interest among members of tender commissions. The new rules for conflict of interest declarations applied, for example, not only to members of the tender commissions, but also to their families.

Existing codes of conduct for soldiers and civil servants were found to be too general for their practical enforcement, as were laws on lobbying in the legislative process, which omitted industry lobbying. A code of conduct for military and civilian personnel in relation to the defence industry was developed which contained common sense principles and detailed regulations (Chapter 8).

The Ministry also pressed for competitive processes in buying military equipment in order to limit single-source procedures (without competition). Access to information on future and current procurements was simplified and is published in one place on the MND website. Supervision by the ministerial anti-corruption entity was introduced for the preparation and implementation of procurement processes.

During a tender for VIP aircraft, the MND also introduced elements of TI's Defence Integrity Pacts (contracts committing all parties to ethical behaviour – Chapter 16). The use of electronic auctions has increased and further development of e-procurements is planned.

LESSONS FROM POLAND'S REFORM PROCESS

Significant anti-corruption measures have been introduced in the MND; however, much remains to be done. The reform process shows the importance of being proactive and stresses the significance of even small changes.
The combination of integrity-building (through improved procedures, training and education) and better anti-corruption measures (such as detection and prosecution) yields substantial benefits.

7. EDUCATING CHANGE LEADERS – A FIVE-DAY COURSE FOR SENIOR OFFICIALS AND OFFICERS

Building a critical mass of people across organisations who understand corruption and integrity reform

Introducing and sustaining reform requires both knowledge and champions. Some may exist naturally in an organisation. Many other people will be keen to contribute but will lack the knowledge and credibility to act.

Ministries and organisations can build this knowledge through integrity training and education, and by establishing a team of committed people who will drive and promote change.

BOX 6: **FEEDBACK FROM PARTICIPANTS OF THE FIVE-DAY DEFENCE INTEGRITY COURSE**

- "I had a plan before, but this course has given me motivation and inspiration"
- "We should lead by example in countering corruption and building integrity"
- "This course has equipped me with ideas which I can suggest myself within my ministry"
- "I have gained additional knowledge which I can apply practically in my professional capacity"

BUILDING INTEGRITY FOUNDATION COURSE

An innovative five-day course, the *Building Integrity Foundation Course* has been developed by TI (in collaboration with the UK Defence Academy and NATO) to educate senior officers and officials at the colonel[15] or department head level in anti-corruption approaches and integrity building. This level of seniority is a good starting point for integrity training and for education within ministries, as it encompasses people who are key influencers and who appreciate the benefits that integrity building brings. They are also catalysts for change within an organisation.

The course has been given both in an international context (more than 20 nations have participated) and on a national basis, where its purpose is to build a cadre of knowledgeable and committed officers and officials within a country's defence and security establishment. It is not limited to NATO countries but can be used by any nation. Due to its modular structure, either the entire course or elements of it can be used by any interested country.

The course is highly innovative and is updated on a regular basis. It can be adapted to national requirements.

FIGURE 7: **OUTLINE OF THE BUILDING INTEGRITY COURSE**



COURSE CONTENT

The *Building Integrity Foundation Course* (see outline above) consists of a mixture of presentations, case studies and exercises, and aims to strengthen the foundation for leadership, integrity, good governance and management within the defence and security sectors by sharing experiences, challenges and best practices among nations. It openly introduces corruption as a subject and makes it discussable. It develops and enhances knowledge and understanding in:

- transparency and good governance
- strengthening integrity and reducing corruption
- bringing integrity and corruption-reducing strategies into management, particularly procurement and operations
- engaging with the public and civil society to strengthen integrity and reduce corruption.

The sharing of experience and expertise from other nations and international organisations is one of the course's key strengths. By introducing a diverse range of actual examples as well as high-level guest speakers, the course allows participants to place their situation in the context of other countries and individuals in similar circumstances and to learn practical and achievable solutions. This also enables the course to be tailored to a region or to its participants and to facilitate networking.

The course achieves two outcomes: providing counter-corruption education (both ideas and mechanisms) in defence and security, and showing the role of leaders by giving participants confidence that they can bring about institutional change.

Nations interested in participating in the international version of this course, or in exploring how they can adapt it for their own national use, are invited to contact the TI Defence and Security team.

8. STRENGTHENING CODES OF CONDUCT, VALUES AND BEHAVIOURS

Guidance on promoting positive behaviour, and recent research on good and poor practices across countries

Good reform programmes reinforce positive behaviours and controls. It is a mistake for anti-corruption programmes to focus only on constraining illegal or bad behaviour: they must also accentuate the positive. In defence and security, this means strengthening the values and codes of conduct by which officers, officials and members of the armed forces conduct themselves.

The most effective integrity regimes place individual decision-making within a well-defined ethical framework. Such a framework should be designed to provide clear guidance as to what is and is not acceptable behaviour. Statements of ethical requirements increase public confidence in defence and security officials and military officers, not least by setting out unambiguously the conduct expected of them.

Clear guidelines about what is ethical and what is not acceptable provide direction and clarity in areas that often pose difficult dilemmas for individuals. Promoting a strong ethical ethos within an organisation both reduces violations of corruption law and allows unacceptable behaviour to be detected more easily.

TI has brought together a wide range of countries to review current standards and practices of business ethical conduct for defence officers and officials. In the first study, conducted in 2008-9, 32 nations participated.[16] In the second (more detailed) study, conducted in 2010, 12 countries collaborated: Argentina, Australia, Croatia, Denmark, Germany, Kenya, Lithuania, Norway, Saudi Arabia, Spain, Sweden and Ukraine.[17] The results show many examples of good practice, but also suggest that there is much scope for improvement, especially in training and in embedding values.

All the governments participating in the study had a legal framework to regulate business conduct, composed of an array of statutes, civil service acts and disciplinary and penal codes. However, what many countries lacked were the tools needed to clarify this legal basis to officials. Regulations were often fragmented across multiple documents rather than in a unified code of conduct; training and dissemination programmes were generally poor and in many cases regulations in key areas of corruption risk were weak.

Furthermore, setting standards in ethics and business conduct makes a clear statement of the seriousness with which a defence establishment takes corruption and integrity-building.

WHAT DO GOOD STANDARDS LOOK LIKE?

A programme of business conduct is most effective when it embodies values and ethical standards that reflect society's expectations of the defence establishment. The development of an ethical programme requires widespread public consultation, making a strict template for internal regulations inappropriate.

BOX 7: **KEY ELEMENTS OF GOOD PRACTICE**

- A single, easily accessible code of conduct for all personnel, firmly rooted in ethics and values, and appealing to read, with a simple layout, graphics and accessible (non-legalistic) text.
- Clear guidance on accountability, including who is responsible for the ethics programme, how to report suspicions of corruption and where further advice on the issues covered can be found.
- Regulations on bribery; gratuities, gifts and hospitality; conflicts of interest, and post-separation activities (by an individual who has left the organisation) – ideally with case studies.
- Regular ethics training and refresher courses to contextualise the regulations in real-life situations.
- Periodic updating of the code and its implementation programme.

A good example which can be viewed publicly on the internet is that of the Australian Ministry of Defence (see bibliography).

WEALTH AND ASSET STATEMENTS

Wealth and asset declarations by public officials are potent anti-corruption tools, with more and more nations recognising their usefulness. They are particularly significant for countries whose institutions cannot rely on an established, engrained culture of integrity among employees that will compel them to disclose potentially compromising information on a basis of honour. In addition to disclosing information which helps expose illicit enrichment, asset declarations enhance public trust in defence establishments, improve oversight and accountability mechanisms, and help prevent conflicts of interest.[18]

For example, the ministries of defence in Argentina, Croatia, Kenya and Lithuania require personnel to provide full asset and income statements in their conflict-of-interest disclosures. The results, along with other disclosure documents, are then transferred to ethics commissions and/or made available to the public.

Argentina has a particularly rigorous regime: officials are required to submit a sworn conflict-of-interest statement within 30 working days of beginning employment, which they must update annually and resubmit as a final declaration within 30 days of leaving. The system provides specific timetables for disclosures, with penal mechanisms for failures to comply. The Polish Ministry of National Defence has also implemented asset disclosure policies for officers and senior officials.

Disclosure systems differ from country to country, but some general pointers make asset and wealth disclosures effective:[19]

- **Purpose of the disclosure**: Is this to combat corrupt enrichment or to prevent conflicts of interest, or both? The objectives will determine the requirements. To combat corrupt enrichment, it is often helpful to establish within the system an independent group with investigative powers.

- **Public availability of information**: The line between the public's right to information and an official's right to privacy can be a fine one, particularly when spouses are included in asset and wealth statements. An approach used in Argentina is to create a distinction between categories of information that require disclosure, which appears to satisfy most concerns of this nature.

- **Verification**: To make asset disclosures effective, independent verification by well-qualified and impartial personnel is advisable. A system of warning indicators, or 'red flags', can be very helpful for the assessing officials, as can an active media.

- **Sanctions**: Appropriate and proportionate sanctions can be a particularly powerful deterrent and should be implemented, for example, for false disclosure. They can range from administrative sanctions (reprimand, demotion, suspension, dismissal) to criminal penalties.

- **Anchoring**: the requirement for asset and wealth disclosures should be anchored in a robust code of conduct (see Business Conduct, later in this chapter).

BOX 8: **WHISTLEBLOWING: RAISING THE ALARM IN SAFETY**

Governments, international organisations, businesses and civil society increasingly recognise the significance of whistleblowing as a powerful corruption prevention tool. Several defence establishments emphasise that officials have an ethical duty to report suspected corruption, but few ministries have concrete, anonymous and secure whistleblowing channels for employees to do so.

Australia's Defence Whistleblower Scheme is specific and includes a 24-hour hotline for employees.[20] Officials can also see the investigator personally or raise their concerns on the ministry's intranet site. A small booklet gives employees a comprehensive explanation of how to use the scheme, addressing questions such as identity protection and investigation procedures.

In Argentina, personnel can report suspected corruption through an anonymous online system, which is very visible on the homepage of the website. Through the system, reports are channelled directly to the minister of defence.[21] There is no specific whistleblower protection legislation, although the ministry tries to ensure maximum protection in each case.

VALUES AND STANDARDS EDUCATION FOR SENIOR PERSONNEL

A coordinated approach to ethical education is recommended, starting with fundamentals, which should be instilled in personnel through basic training and further developed throughout their careers. It should include promotion courses, staff courses and the incorporation of ethical case studies and dilemmas into all aspects of practical training.

For senior staff, integrity-building education should be covered by a dedicated module to give people the opportunity to focus solely on the issue. This can be a standalone course for staff which reach a particular rank (usually full colonel) or a focus subject of a staff course.

BOX 9: BUILDING AN INTEGRITY EDUCATION WORKSHOP IN UKRAINE

Attended by senior personnel from the key academies of the defence and security services, including the Security Service, the Ministry of Defence, the Ministry of the Interior and the Border Guards, a workshop held in Kiev examined how best to standardise integrity education modules. It aimed to ensure that personnel across defence and security institutions operating at the same rank or level, or in similar roles, receive the same standard of integrity training and education.

Participants agreed to create a permanent 'Building Integrity' education working group in order to ensure a strong and consistent defence integrity education programme. The working group contains personnel from all relevant institutions and will conduct a review of current counter-corruption education in each, including corruption prevention mechanisms and prosecution. This will result in the creation of a national integrity-building curriculum and educational material for use across all defence and security institutions.

BOX 10: ARGENTINA: ASSET AND WEALTH STATEMENTS, PROCUREMENT AND CONTRACTING EDUCATION

ASSET AND WEALTH STATEMENTS

Officials in Argentina are required to submit a full asset and wealth statement. Information contained in this statement is divided into two categories: public and confidential.

Public information includes a complete list of the assets owned by the official, his or her spouse and underage children. Assets in particular that must be detailed include: real estate, personal property, capital invested in securities and shares, loans and mortgages, wages and annual income/expenses from private practice, rent or social security. The source of money and assets and the date of every purchase made by the official must also be stated.

The asset and wealth statement can be accessed by any interested citizen by completing a form stating the purpose of the request.

Confidential information on the statement contains each bank account owned by the official, his or her credit card numbers, safe-boxes and the exact location of real estate owned. Only judicial authorities and prosecutors have access to this information.

PROCUREMENT AND CONTRACTING EDUCATION

At the initiative of the Transparency Department of the Argentinean Ministry of Defence, and as an essential part of its transparency policy, the Anti-Corruption Office gave several courses on transparent procurement and contracting in the army to officers in charge of contracting. Officers were trained in transparency policies and in the fight against corruption. The course, which was provided by the Department for consideration by TI, gave insight into the criminal aspects of corruption and into different ways of complying with transparency policies during contracting procedures. An updated version will be given to all armed forces officers in charge of contracts and purchases.

9. ENLISTING DEFENCE CONTRACTORS

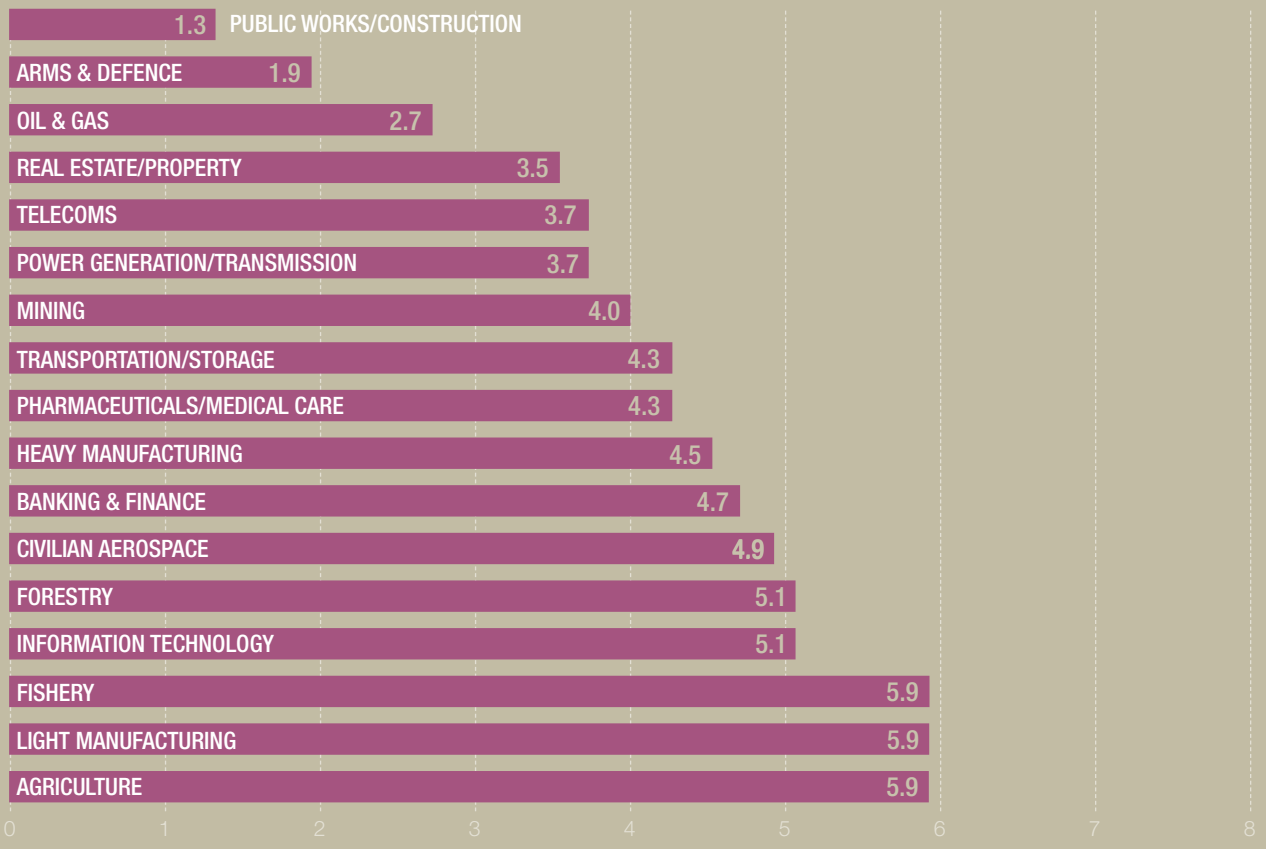
The defence industry has become more willing to engage in counter-corruption reform in the last five years – governments can use this willingness to accelerate their own reforms

This chapter illustrates how governments and companies can feed into each others' efforts to improve defence sector integrity. Governments can do so through supporting a sound business environment and by demanding high standards of integrity from companies they do business with, for example, through prosecution and debarment of corrupt behaviour. Companies can raise standards through better compliance programmes and through collective action, demonstrating that they want to operate in a bribery-free environment.

Several indices suggest the international defence sector is one of the most prone to corruption worldwide. One such index is TI's *Bribe Payer's Index*. In 2002, it ranked Arms and Defence as the industry sector perceived to be the second most corrupt.

In 2006 Control Risks released a survey of international businesses in which a third of defence sector respondents felt they had lost out on a contract in the year before due to bribery by a competitor, and stated this as the number one reason against bidding (Figure 9). As a result, defence companies are avoiding countries which they regard as high-risk, and corruption is given as the foremost reason for such action. This demonstrates that it is in the defence industry's interest to tackle the issue, and offers an opportunity for a defence ministry to collaborate with companies.

FIGURE 8: **TRANSPARENCY INTERNATIONAL'S BRIBE PAYER'S INDEX, 2002**



The scores are average all the responses on a 0 to 10 basis where 0 represents very high levels of corruption, and 10 represents zero perceived level of corruption.

COLLABORATION WITH DEFENCE COMPANIES

Once a defence establishment has the will and the knowledge to tackle corruption, and suitable policies have been put in place, its personnel need to build partnerships in order to control corruption across the entire sector. These relationships are crucial in opening up areas in which corruption traditionally operates discretely.

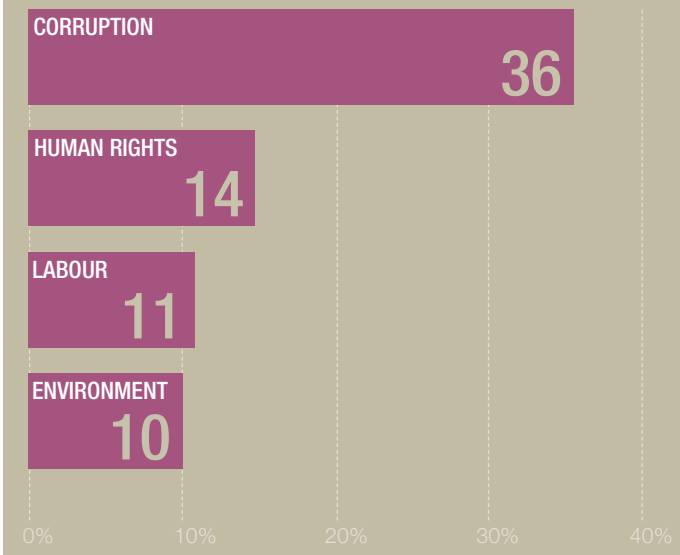
Anti-corruption programmes cannot be effective if designed and implemented in isolation from the contractor community. Active collaboration between governmental defence institutions and the defence industry can help isolate defence sector corruption. Each side can offer mutual cooperation and encouragement in integrity-building measures, and can refuse to do business with an entity perceived as corrupt, whether it is a company or a procuring government agency. One of the biggest concerns for defence establishments is how to attract high-quality suppliers. Clean companies will avoid environments where corruption is endemic, and will have stringent controls to minimise opportunities for corruption originating from their organisations or their agents. This can be a major driver for a ministry's reform.

COLLABORATION AMONG DEFENCE CONTRACTORS

There is much scope for private sector engagement at any stage of the programme to build integrity and reduce corruption risks. Companies can signal clearly to governments that they will not engage in bribery or corrupt practices, and so exert a positive influence over officials and organisations. In sectors such as mineral extraction, water, banking and construction, the private sector's role in raising standards has been crucial. For companies to raise standards within defence establishments, they must also raise standards among themselves. One way the industry can raise standards is by forming an anti-corruption forum and by setting a code of standards.

For example, Europe's defence industry has come together on corruption, coordinated by the AeroSpace and Defence Associations of Europe. Following meetings of major defence firms facilitated by TI, the Associations formed a group to develop a set of Common Industry Standards (CIS) for its member associations and their member firms to follow.

FIGURE 9: **REASONS FOR COMPANIES NOT TO BID IN A TENDER, 2006**
(CONTROL RISKS)



The Common Industry Standards released in 2008 cover:

1. Compliance with laws and regulations
2. Applicability to principal entities, agents and consultants
3. Prohibition of corrupt practices
4. Gifts and hospitality
5. Political donations and contributions
6. Agents, consultants and intermediaries – due diligence, legal provisions, fees, auditing/verification, etc.
7. Integrity programmes
8. Sanctions

Since the CIS were developed in 2007, the French and UK national associations have been engaged in efforts to develop national anti-corruption forums to implement them. There is also a much larger US forum, the 'Defense Industry Initiative' – see box 12 overleaf. Additionally, the UK's Society of British Aerospace Companies and Defence Manufacturer's Association have produced a short handbook containing guidance for implementing the CIS.[22]

Other industry sectors have taken similar actions (Box 11).

Another type of defence industry cooperation is the sharing of good practices. For example, in the United States, following high-profile problems in ethical conduct in several large defence contractors, the Defense Industry Initiative on Business Ethics and Conduct (DII) was established in 1986 to create a common ethos of ethics and integrity across the defence sector in the USA (see box 12). The DII organises an annual best practices forum and provides substantial training and guidance in ethics and business conduct to its members. For more information, see **www.dii.org**.

BOX 11: **EXAMPLES OF SUCCESSFUL COLLECTIVE ACTION ACROSS INDUSTRIES**

OIL, GAS AND MINING

The Extractive Industries Transparency Initiative (EITI) is a multi-stakeholder coalition of civil society, governments, industry, investors and international organisations, which sets a global standard for companies and governments to disclose payments and receipts in the extractive industries. Established in 2002, the EITI arose from the realisation of the 'natural resource curse', i.e. the paradox that countries rich in natural resources also tended to have high levels of poverty, corruption and conflict, fuelled by competition for riches. Many of these problems are the result of poor governance. The EITI aims to strengthen governance in participating countries by improving transparency and accountability in extractive industries. Both governments and natural resource companies are actively engaged.

For more information, see ***www.eiti.org***

SANCTIONS ON COMPANIES

Ultimately, such efforts aimed at building confidence between the public and private sectors require recourse to sanction should anti-corruption laws and regulations be breached. Defence establishments owe it to companies who comply with ethical norms to take action against those who fail to uphold the same standards. Efforts by companies to gain advantage through corrupt means should be given a high priority in terms of prosecutions through the criminal justice system. The defence establishment can reinforce can reinforce incentives to refute corruption by instituting debarment procedures for companies which are found guilty of corrupt practices, whether at trial or by plea. Box 13 describes the use of debarment within the context of wider regulation of defence companies in the USA.

GOVERNMENTS

Those at the top of defence and security establishments have an important role in bringing both national and international contractors into the reform plan. This can include some or all of the following:

- meeting with contractors as a body and encouraging them to develop an industry initiative
- meeting regularly with industry bodies to discuss progress
- emphasising to international companies that they have obligations under the CIS and that the government expects strict adherence to these standards
- speaking frequently at industry and other events on the importance of high standards of behaviour by defence contractors
- Carrying out a detailed review of where governments need to crack down on their own practices so as to better enable industry reform.

BOX 12: DEFENSE INDUSTRY INITIATIVE ON BUSINESS ETHICS AND CONDUCT

In the United States, following high-profile problems in ethical conduct in several large defence contractors, the Defense Industry Initiative on Business Ethics and Conduct (DII) was established in 1986 to create a common ethos of ethics and integrity across the defence sector. The DII supports the US federal legal framework by establishing six principles around which to organise companies and associations. The current principles are as follows:

1. Each Signatory shall have and adhere to a written code of business conduct. The code establishes the high ethical values expected for all within the signatory's organisation.
2. Each Signatory shall train all within the organisation in their personal responsibilities under the code.
3. Signatories shall encourage internal reporting of violations of the code, with the promise of no retaliation for such reporting.
4. Signatories have the obligation to self-govern by implementing controls to monitor compliance with federal procurement laws and by adopting procedures for voluntary disclosure of violations of federal procurement laws to appropriate authorities.
5. Each Signatory shall have responsibility to one another to share its best practices in implementing the DII principles; each Signatory shall participate in an annual Best Practices Forum.
6. Each signatory shall be accountable to the public.

For more information, see ***www.dii.org***

BOX 13: US AIR FORCE DEBARMENT PROCEDURE

The US Air Force has had much experience in dealing with defence contractors and has developed a structure whereby federal law can be used to punish and deter corruption, and to encourage compliance and ethical conduct.

US agencies have suspension and debarment officials, whose role is to debar or suspend contractors who contravene accepted rules of conduct. They update a public website of all debarred companies, which contracting officials are required to check prior to awarding new contracts. A decision to debar or suspend by an agency makes the person or organisation ineligible for new contracts by all agencies throughout the US federal government.

Companies and individuals become eligible for debarment if they engage in any crime that relates to business honesty, including fraud and corruption. The possibility of debarment is a substantial disincentive to participate in such activities. Debarment can also be employed should a party perform poorly on a contract, as well as for any other serious cause, at the discretion of the debarring official.

The US Air Force debarring official also oversees the US Government's investigation and prosecution of Air Force contractors suspected of committing procurement fraud. The legal basis for many of these actions is the False Claims Act (31 U.S.C. §3729-3733). This act provides incentives for people not affiliated with the government to file actions against federal contractors, by allowing them a share of the damages recovered. The US also requires the disclosure of misconduct by industry and imposes debarment as a sanction for failure to do so.

Incentives for strong ethical conduct by American firms are provided in the country's sentencing guidelines, which allow the strength of a company's compliance programme to be taken into account during sentencing for firms convicted of misconduct. Punishment for wrong-doing is further proportional to the extent the company has acted to prevent misconduct. The US Air Force also tends to favour contracting with companies which have good ethical reputations.[23]

10. INVOLVING CIVIL SOCIETY

Defence and security establishments are often too internally focused: reform is more successful and credible if civil society is engaged

Civil society organisations can make an important contribution to combating corruption in defence and security. They can carry out **independent reviews**, which can help a defence establishment assess its own progress and give credibility to its reforms. They can promote the introduction of **monitoring mechanisms**, through which clearer and more transparent processes are established, building trust in defence and security establishments. And they can contribute to **public debate** and subsequent follow-up.

As members of civil society are usually not engaged in party politics and may be seen as neutral actors independent of government, engaging with them demonstrates openness and provides governments with credibility. Civil society has a vital role to play not only in established democracies but also in post-conflict, post-authoritarian and transition states. Its knowledge and expertise can directly help defence and security institutions identify corruption risks, design and put in place measures to prevent them, and monitor these measures' success

While much of this Handbook discusses civil society involvement in defence and security, this chapter looks specifically at involving civil society as part of a broad, long-term strategy by the defence and security community.

COLLABORATION WITH CIVIL SOCIETY

Civil society engagement with the defence establishment aims to build stronger, more effective armed forces, under civilian oversight and responsive to the people they serve. Civil society organisations can articulate viewpoints that may otherwise not be heard within a defence establishment, providing a crucial missing link between the armed forces and society.

We recommend that procedures be developed in which consultations with civil society organisations become the norm. Useful areas in which this can be done are described below.

Policy formulation

Civil society can contribute to policy formation by helping articulate citizens' views on defence policy. This can be done either at the parliamentary level – through submitting proposals to a defence committee or lobbying its members – or through consultations launched by the defence establishment itself. By contributing to the policy-making process, civil society organisations can demand higher standards of integrity and transparency in defence establishments.

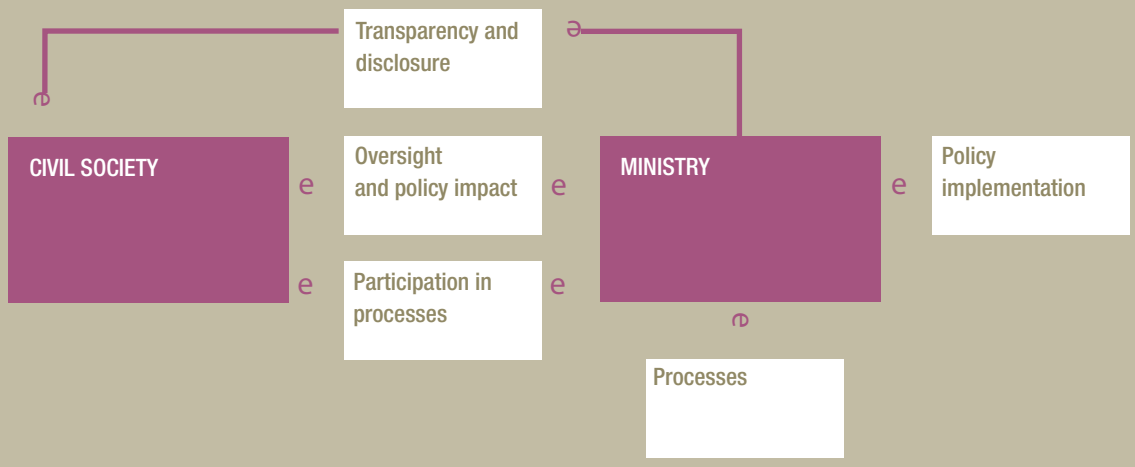
Budget transparency

Strengthening the confidence of the public in the integrity of the defence and security sector is important. One of the best ways to do this is by being open about budgets, finances and revenue. Several governments have done this as an explicit part of trust-building reform.

Procurement

This is a major area in which to involve civil society, for example, by using independent monitors (discussed at some length in Chapters 15 and 16). In addition, a defence ministry could also hold roundtable discussions on specific defence and security topics, as a powerful way to bring stakeholders together to get to know each other and share information in a lively, informal environment. Roundtable discussions can connect a wider range of internal and external actors such as defence and finance ministries, defence companies, civil society and the media.

FIGURE 10: **CIVIL SOCIETY ENGAGEMENT IN DEFENCE PROCUREMENT**



PUBLIC ENGAGEMENT

Active civil society engagement directly strengthens public trust. Encouraging senior personnel to build relationships between their organisations and the outside world that are firmly grounded in the needs and expectations of society increases public faith in the establishment, allowing it to fulfil its mandate more effectively and increasing its legitimacy.

INTEGRATION WITHIN THE REFORM PROCESS

Civil society engagement should be embraced early on in the reform process, particularly in relation to strategy development, and should be made a normal part of defence establishment procedure. This may mean substantial alterations to the way defence ministry business is conducted, requiring change management techniques to overcome internal resistance and build confidence among personnel in the new system.

HOW CIVIL SOCIETY AND DEFENCE ESTABLISHMENTS CAN INTERACT

There are several potential entry points for civil society. A defence ministry may appoint an individual from civil society as an anti-corruption director, preferably with experience in defence or one who otherwise commands respect and credibility. For example, a board member of Poland's TI chapter was appointed as anti-corruption director at the beginning of an integrity-building reform process by the Polish Ministry of National Defence.

Outreach to civil society may also begin with the development of a reform plan following a ministry's self-assessment process (Chapter 2). Engagement at this stage allows input into reform policy and the development of benchmarks against which to measure progress. Alternatively civil society organisations may become involved in parliamentary consultations and hearings to provide recommendations and submissions on the requirements for reform. The viability of this approach depends on the strength of civil society and of parliamentary procedures.

Civil society may also engage directly with the defence industry, encouraging it to raise standards and creating opportunities for firms to engage in open discussion about working towards a building a business environment of integrity.

BOX 14: **ASEAN WORKSHOP ON COOPERATION IN NON-TRADITIONAL SECURITY**

In June 2010, the Association of Southeast Asian Nations (ASEAN) and civil society organisations held their second workshop on cooperation on non-traditional security. The two-day workshop brought together different stakeholders from the region to promote trust and mutual understanding between civil society organisations and military entities. It focused on civil-military cooperation during humanitarian emergencies and how the lack of coordination and mistrust between military and civil society can cause confusion that may endanger operational success. More than 170 participants attended: the armed forces, specialist civil society organisations and ministries of defence, the interior and foreign affairs, and others.

Operations

THE NATURE OF MILITARY OPERATIONS HAS CHANGED SIGNIFICANTLY OVER THE LAST 50 YEARS

Today's operational landscape encompasses international interventions, peacekeeping missions and international military assistance in situations of internal armed conflict. Across this spectrum, corruption figures in three quite different ways:

- As a central issue in the operational environment, where it is likely to be both a principal cause and a consequence of the conflict
- As a risk necessary to prepare for within a deployed force, be it a national, international or peacekeeping mission
- As a priority in the post-conflict period of negotiation and subsequent state-building effort, when it is necessary to ensure corruption does not become more deeply embedded.

THIS SECTION SHOWS:

- How a deployed force can approach the issue of corruption as a critical factor for operational success, including guidance on doctrine and training (Chapter 11).
- How corruption in the conflict country can be considered as a central issue in the operational environment, and its relevance to the negotiations that may settle the conflict (Chapter 12).
- How to strengthen the integrity of contracting in theatre, especially with national companies (Chapter 13).

11. STRATEGIC AND PLANNING CONSIDERATIONS FOR CONFLICT ENVIRONMENTS

Corruption is a strategic issue for the military when on operations. We give guidance on doctrine, education and pre-deployment training.

Until very recently, it was thought sufficient for the military to regard corruption as a civilian governance issue only. However, experiences around the world, from Afghanistan to Bosnia to Colombia, have shown the need for the military to take an active approach to the subject – through doctrine, education and training.

Preparation to deal with corruption in all aspects of the operation will aid the mission's chances of success. This chapter examines how corruption issues can be incorporated into operational doctrine and mission planning and analysis, as well as pre-deployment education and training. Examining scenarios specific to theatres of combat provides lessons and examples of best practice, which can be used to further inform doctrine and training in order to ensure that personnel are equipped during operations to handle such challenges on their own. Doctrine should also guide the force manpower, specialisations and structures, taking into account the balance required between hard operational engagement and softer activities designed to win the hearts and minds of the population.

DOCTRINE

Addressing corruption as a major contextual factor in operations is very important, and should be incorporated into military doctrine at strategic, operational and tactical levels.

Many nations have started to update their military doctrine, for which the following major elements can be a useful guide:

- Corruption and corrupt activities fuel insurgency by providing funding for insurgent forces
- Corruption in the operational environment must be viewed within a cultural context
- Corruption within a host nation's security forces is often a primary cause of public dissatisfaction, hence it must be addressed as part of a comprehensive security force development programme.

As an example, the UK military has updated its stabilisation doctrine to include these issues – see box 15 below.

BOX 15: **UK ARMED FORCES DOCTRINE**



The UK updated its doctrine on stabilisation operations in 2009, as a result of the armed forces' experience in countries such as Afghanistan, Bosnia, Sierra Leone and elsewhere. The revision brought the issue of corruption firmly within the scope of military doctrine, with the following conclusions:

- Corruption is a major factor contributing to state instability and economic decline.
- Institutionalised corruption impacts the functioning of the security sector, undermines governance and fosters conflict.
- Corruption affords adversaries propaganda opportunities and contributes to wider crime and instability.
- Corruption may easily undermine a commander's strategy for winning popular support.
- Fostering host nation government capacity and legitimacy may also mean helping that government to reduce corruption and become more open and transparent.[24]

PRE-DEPLOYMENT EDUCATION AND TRAINING

To a large degree, training and education are the primary mechanism for countering corruption risks that arise on operational duty. The following suggestions are designed to help generate a comprehensive pre-deployment education and training package:

- **Briefings**: including external speakers from anti-corruption organisations on pre-deployment study weeks.
- **Exercises:** develop theatre-specific scenarios and corruption/ethical dilemmas to be included in pre-deployment exercises, which take into account cultural context, the population's tolerance level of corruption and the most prevalent types of corruption in that theatre. These can be included in training and exercises at all levels, from exercises which teach soldiers how to deal with corrupt officials at check-points, to the commander having to deal with corruption within local leadership structures.
- **Guidance**: issuing specific guidance and short training packages for tactical commanders, particularly those facing the local and/or international community and dealing with contracting or mentoring.
- **Role-training**: providing role-specific training for those involved in operational procurement and contracting processes.

POST-DEPLOYMENT: LESSONS-IDENTIFIED PROCESS

The lessons-learnt process is an essential tool for developing knowledge and understanding of a specific operational issue. In particular this involves the detailed debriefing of recently returned military personnel at all levels. There are a number of questions that can inform the learning process for a defence institution. Box 16 lists questions which could be addressed to returning brigades from Afghanistan. These debriefings can not only inform troops about to be deployed in the same theatre of operations, but also can contribute more broadly to education, training and the development of a military doctrine. Considering corruption as part of the lessons process is important due to its significant operational impact, particularly on peace-keeping and stabilisation missions.

BOX 16: **AFGHANISTAN: POST-DEPLOYMENT DEBRIEF QUESTIONS ON CORRUPTION**

1. Was corruption talked about in the *shura*, or council meetings of the elders, and related committee meetings? If so, what sort of topics?
2. Was it clear if people had bought positions, and if so who? What was the impact?
3. What were the main corruption issues that local people talked about? How important was it as an issue for them?
4. What were the main corruption issues as the brigade saw them?
5. What were the major products traded in the town? Did you get any insight into what was driving the price? Was there talk of corruption in these products?
6. Was your brigade commander interested in this subject? If so, with what effect? If not, was there any adverse consequence?
7. What did you do to safeguard your own procurement needs? Was there much diversion of goods/services for corrupt reasons?
8. Were there corruption issues that you or your colleagues observed while patrolling (e.g. with the Afghan National Police)? If so, how did you deal with them?
9. What guidance or training do you wish you had had before being deployed in theatre?
10. What were the three major 'take away' lessons?

12. CORRUPTION AND CONFLICT RESOLUTION

Anti-corruption issues need to be integrated across security, diplomatic and economic aspects of post-conflict settlement – corruption too frequently becomes embedded in post-conflict environments

Once a conflict has broken out, perspectives can narrow. International peacemaking efforts often focus on the requirements of the key parties, rather than setting out a roadmap towards stability and a functioning state. Under these conditions private greed can easily become a factor in the minds of prominent personalities and corruption can flourish.

A critical element in the conflict resolution and/or immediate post-conflict phase is the role of the military. Some analysts have suggested that in dealing with corruption and associated organised crime, peacekeeping operations may need to serve as a vehicle for the delivery of wider state functions, such as border enforcement and crime fighting; a co-ordination mechanism for other actors, and a focal point for longer-term capacity building.[25]

In these circumstances the defence and security sectors, police and judiciary need special attention.[26] This is not solely due to their key role in delivering sustainable state institutions but because in many cases they are likely to be better resourced than many other areas of government. In Europe and Asia, driven by the requirements of, for example, the Partnership for Peace or NATO membership, defence ministries have often led the way in security sector reform, setting an example for other areas of government.[27] Tackling corruption in defence and security is one of the most effective ways of strengthening nations' prospects for sustainable functionality and stability.

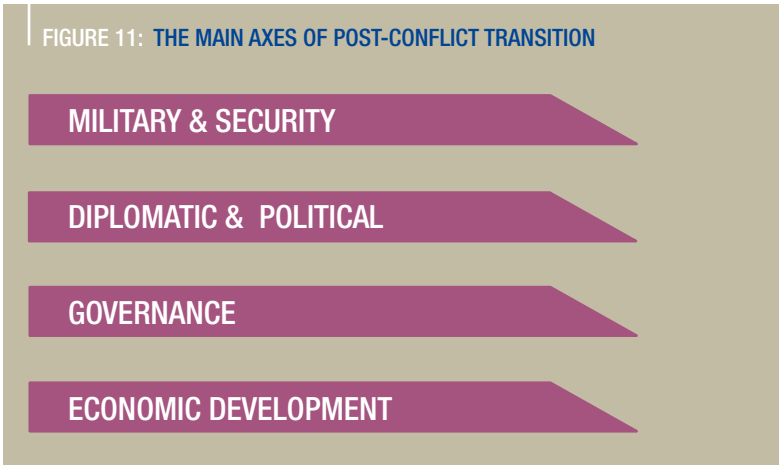
CONSIDERATIONS FOR STRATEGIC STABILISATION PLANNING

Within the framework outlined above there is a strong case for a new approach to the conflict resolution process. A more holistic view of the elements necessary for successful state-building, including a comprehensive approach to countering corruption, could be a useful negotiating tool at the diplomatic and political level. This will help negotiators work towards a better long-term outcome for post-conflict countries or to prevent fragile states from slipping into conflict.

To achieve lasting effect, operational activities need to be combined with systematic efforts to build rule of law and governance, and to combat corruption and organised crime. There are often close relationships between major power brokers in pre- and post-conflict situations, organised crime and the defence and security sector. This means that clear strategies are needed to prevent state-building efforts from being perceived as cementing powerful entrenched interests and embedding corruption and organised crime.

We suggest that policymakers factor corruption issues and solutions into each of the four main axes of post-conflict discussion, as shown in Figure 11 below:

FIGURE 11: THE MAIN AXES OF POST-CONFLICT TRANSITION



While post-conflict stabilisation plans cover all these axes, corruption is usually considered only as a governance issue, for example, related to the rule of law and the prosecution of lawbreakers. We believe that this is a major mistake: the strategy in relation to corruption should be that it forms an active element in each section of the plan.

The goals set must, of course, be realistic. Progress in addressing corruption takes years. However, it is not inconceivable that, for example, Afghanistan, which is currently at 176 out of 178 on TI's *Corruption Perceptions Index* (CPI), could within five years achieve a rating comparable to Pakistan, at 143 on the index, or equal Nigeria or Mozambique, at 134 and 116. Excellent progress for Afghanistan would be for it to match the progress made by Serbia (now at 78 on the CPI) or Rwanda (at 66) or Liberia (87) over of the next 5-10 years.

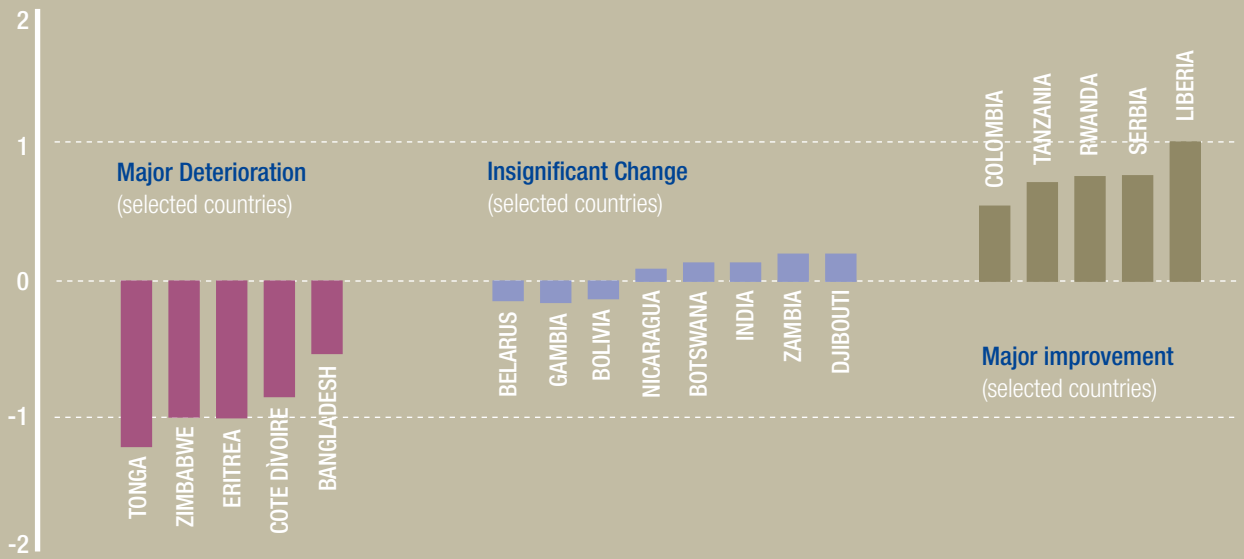
Despite the huge difficulties during and after conflict, nations can make progress in controlling corruption.

For example, the diagram below shows data from the World Bank on the control of corruption. Changes were calculated on the basis of differences in country estimates from 1998 and 2006. In this period, four of the five countries that have shown a significant improvement are post-conflict nations: Columbia, Liberia, Rwanda and Serbia.[28]

CAMPAIGN AND MISSION PLANNING

The impact of corruption is significant in an operational environment. This makes it a critical factor during the mission analysis and planning process at every level of command.

FIGURE 12: **CHANGES IN CONTROL OF CORRUPTION IN SELECTED COUNTRIES 1998-2006 (WORLD BANK INSTITUTE)**



Source for data: 'Governance Matters VI: Governance Indicators for 1996 2006.' By D. Kaufmann, A. Kraay and Mastruzzi, June 2007 – www.govindicators.org

The framework outlined in Chapter 1 can be used to assist in understanding which corruption issues in the operational environment will affect the mission. Intelligence and assessments staff can develop and add detail to the generic framework by drawing on historical and current reporting. Alternatively, the analysis can be done by bringing together the senior military and civilian personnel from the country of operations. This approach ensures that corruption is considered in the right cultural context. One such framework is shown in Figure 13 below.

Based on the diagnosis, the corruption risks most relevant to the mission at every level can be identified, in order that the appropriate plans and mechanisms can be established at formation, unit and sub-unit level.

FIGURE 13: **CORRUPTION DIAGNOSIS IN A CONFLICT ENVIRONMENT – A RECENT ILLUSTRATION (TI)**

RULE OF LAW/ GOVERNANCE	SECURITY	CONTRACTS	SMALL BRIBES
Corrupt senior appointments; abuse of power by officials	Lack of transparency of security spending	no transparency of contracts	overly complex daily processes; bribes needed
Lack of punishment of corrupt senior officials	salary theft, e.g. ghost soldiers/police	non-delivery/poor quality of outcome, especially construction	extraction of money by militias and at checkpoints
Lack of meritocracy in public positions	Security outsourcing	colluding cliques control procurement	
Narcotics and narcotics mafia inside government	lack of control over armed groups	multiple subcontractor layers	
Organised crime	Bribes for protection of convoys	minimal use of local contractors	
Lack of spending transparency	sale of weapons/equipment		
Lack of transparency of aid flows	inadequate border controls		
Corrupt management of national assets, e.g. mining, land, licences			

Problem partly caused by international community

BOX 17: **SIERRA LEONE ANTI-CORRUPTION COMMISSION**

Although its civil war would rage on until 2002, Sierra Leone's Anti-Corruption Commission was established by Act of Parliament in 2000, due to widespread recognition that corruption was a key factor perpetuating the conflict. It was a three-tiered structure aimed at curbing corruption, comprising prevention, public awareness-raising and investigations. However, the realities of a post-conflict environment were such that despite attempts to cast its net wide, the Commission was plagued by public distrust, an inadequate mandate, insufficient funding and a structure lacking genuine political independence.

In order to remedy this situation and prevent Sierra Leone from descending back into armed conflict, the government was pushed to intensify its anti-corruption efforts. Consequently, the creation of the National Anti-Corruption Strategy (NACS) aimed to build wide stakeholder coalitions in the fight against corruption, and placed a particular emphasis on active partnership with civil society and the media.

Importantly, NACS also called for an overhaul of the Anti-Corruption Act. The resulting Anti-Corruption Act 2008 instituted an independent Anti-Corruption Commission, tasked with the investigation, prevention, prosecution and punishment of corruption – without recourse to the attorney general and minister of justice, as was previously the (faulty) case. Its remit covered individuals and institutions, both public and private. The resulting policy is notable for its far-reaching measures.

GUIDANCE FOR PEACEKEEPING OPERATIONS

TI has provided guidance in addressing corruption risk for use by UN missions. This is similar to some of the approaches described in this Handbook. The success of the mission and the reputation of the peacekeeping nations are often at stake over the way corruption is handled.

But when is corruption large enough an issue for it to require the full attention of the UN Special Representative and a policy response?

TI believes there are four particular situations:

1. Where corruption is one of the prime causes of the conflict and/or a current driver of its continuation. An example might be the continuing frozen conflicts in the Caucasus, where leaders on both sides gain substantially from prolonging confrontation.

2. Where corruption is an issue of major concern to a country's citizens, as identified by opinion surveys, and the UN has a broad mandate. A current example would be Afghanistan.

3. Where there are substantial state assets and natural resources at risk of appropriation.

4. Where continuing corruption poses a major threat to reconstruction and to the likelihood of UN forces being able to leave.

13. REDUCING CORRUPTION RISKS IN CONTRACTS DURING OPERATIONS

The broader context of contracting – specifically the volume of money flows into a conflict country – needs to be considered beside normal procurement rules.

When an international force is present in a conflict country, the logistics and contracting required to sustain its presence significantly impact the local economy and the availability of local resources. Some campaigns are sustained by buying as much locally as possible. Others rely heavily on imported goods. Either case will significantly alter the marketplaces for goods, services and labour. If carried out effectively, local contracting holds the potential to be a vehicle for resuscitating the local economy. However, these impacts also all have the potential to increase corruption.

Contracting also impacts the campaign directly. Awarding contracts to those with known insurgent connections risks sending a very mixed message to the local community, as does contracting with those known to be highly corrupt. In both cases, the keys are *information* – especially about the networks of each of the contractors – and *awareness among the senior campaign commanders* of the impacts that the contracting may have on the campaign and the ways that they can influence it beneficially. In a difficult operational environment, especially during the early deployment and sustainment phases, it is unlikely that the intervention force can ensure that it contracts only with clean, non-corrupt contractors. But applying a systematic approach to knowledge-building about the contractor community and developing an open approach among the complete command chain will lead to a more effective operational support mechanism. Promoting and utilising 'clean' procurement at the earliest opportunity helps in building transparent processes.

All of the above requires leadership to require the command chain and implementing contracting teams to take corruption issues into account in their plans. For contracts, the international force and international donors will need to address the following questions:

- Have the contracts and logistics teams (both implementing and policy) been trained in ways to mitigate corruption risks in contracting in-theatre? Are the procedures disseminated, adhered to and updated?
- Do the operation-level commanders have an adequate understanding of the contractor landscape and how it can influence and shape the campaign?
- Has a database of all contractors been established; is it kept current and used by all the national and international contracts teams operating in the area?
- Is there a systematic effort to build knowledge of contractor networks and their possible corruption (and insurgent) connections? How often are these reviewed?
- Are there effective and implemented oversight mechanisms to monitor contract award, delivery and quality? is due diligence on contractors undertaken as a part of the award process?
- Is the value of the contract published locally? Is there a regular published list of the value and winner all the contracts awarded?
- How do you know whether community projects are really needed by the local community? With whom do you check this? Have you established a community group to do this?
- Who in the command chain has the responsibility -and the training- to ensure that mechanisms to check and review possible corrupt outcomes are investigated?
- Are there sufficient experts to build official mechanisms (at all levels) to ensure good governance and 'clean' contracting?
- Are there local organisations that can advise on local contractors and on performance monitoring?
- How can citizens play an active role in performance monitoring?
- Are there sufficient mechanisms for financial recovery when quality or services are not as contracted?
- Will there be payment or staged payment only on satisfactory completion?

LARGE-SCALE MILITARY CONTRACTS

The simplest mode of operation is to buy from known international suppliers. Such procurement is easy in the sense that the contractors know how to operate within defence procurement procedures and have previously been vetted and approved.

One risk in this approach is that a few large international contractors will view the operational necessity as an opportunity for corrupt contracting and actively exploit the situation. There have been numerous such examples over the years, most recently in Afghanistan and Iraq, many of them chronicled by the Special Inspector General (see box 18 below).

Logistics contracts are notoriously difficult in conflict environments. Intervention forces need to get material through to the theatre of conflict and often have limited opportunities for doing this. Sometimes the need for vital equipment is seen to be more critical than turning a blind eye to the payment of bribes to get the equipment through.

There will usually be no easy solution, but the starting point is simple: to be conscious that bribery is highly likely to be part of logistics' contracts, and to raise the level of transparency so that abuses will become visible and can be controlled and/or phased out. Examples include the trucking contracts for US forces' supplies in Afghanistan (see the report *Warlord Inc* for a detailed analysis of such contracts).[29]

LOCAL CONTRACTING

More challenging is local contracting. In stabilisation terms this is hugely significant in job creation and in reviving the local economy, and can therefore facilitate the intervention. However, corruption in local contracting can fuel instability and negatively affect the perception of the intervention force by the population, particularly when expectations are not met due to non-delivery of goods and services as a result of corrupt activities.

BOX 18: FIGHTING CORRUPTION IN IRAQI RECONSTRUCTION

Over the first few years of reconstruction in Iraq, billions of dollars of cash were shipped into the country. Rumours of corruption in contracting were rife. In January 2004 the Special Inspector General for Iraq Reconstruction (SIGIR) was appointed. A whistleblowing scheme reporting to the SIGIR Office brought a number of important leads to SIGIR's attention. Following the initiation of audit tracks, several individuals came to light who were using the cover of the Coalition Provisional Authority (CPA) reconstruction projects, including a police academy and a library, to commit fraud on a massive scale.

Lengthy investigations and audits uncovered numerous findings of misconduct, mismanagement and fraud. Control of cash disbursements by the CPA was so weak that many tens of millions of aid dollars were not properly accounted for.

This experience highlights the ease with which unscrupulous and corrupt individuals can exploit a system which is weak or lacking in oversight and accountability mechanisms. It emphasises the need to ensure robust oversight of contracts from the outset of stabilisation and reconstruction interventions, and to make certain that when crimes do occur, there are detection and prosecution measures in place. Despite the difficulty in maintaining a balance between accountability and effectiveness in an operational environment, a strong oversight body from the outset is a must.

Extracted from *Hard Lessons, The Iraq Reconstruction Experience, Special Inspector General for Iraq Reconstruction* [30]

There are however some very good examples of practical initiatives which can help to ensure transparency and accountability in local contracting, which enable the international military to continue to adhere to rules and procedures while supporting local business. One such case is the work done by the non-governmental organisation Peace Dividend Trust (PDT). PDT specialises in creating an interface between international organisations and local businesses, in order to ease the difficult task of identifying local capability and translating contracts and documentation. PDT is active in several conflict countries (see Box 20 below). Other practical lessons include:

- Be transparent with the local population about the contracts initiated: publish locally the main terms, intended outcomes, how performance will be verified and the budget
- Limit the number of subcontract layers and the number of times the contract can be passed on
- Pay in arrears and at scheduled delivery points. This is a core practice, for example, of the Afghan Reconstruction Trust Fund
- Keep some intelligence oversight of large contracts
- Use such dispensation as you have for single-source award, in order to get local companies started.

BOX 19: **AFGHANISTAN NATIONAL SOLIDARITY PROGRAMME**

The National Solidarity Programme (NSP) was created in 2003 by the Ministry of Rural Rehabilitation and Development to strengthen the ability of Afghan communities to identify, plan, manage and monitor their own development projects. Through the promotion of good local governance, the NSP works to empower rural communities to make decisions affecting their own lives and livelihoods. Empowered rural communities collectively contribute to increased human security. The programme is inclusive, supporting entire communities including the poorest and most vulnerable people. NSP allows communities to make important decisions and participate in all stages of their development, contributing their own resources. Communities elect their leaders and representatives to form voluntary Community Development Councils through a transparent and democratic process. There are currently NSP projects in 28,000 communities.[31]

CIVIL SOCIETY LEADERSHIP

There is huge potential for reconstruction not only to build the local economy, but also to empower local communities and leaders and to create a sense of ownership. The National Solidarity Programme in Afghanistan is a very good example of building local governance capacity in parallel with reconstruction programmes (see Box 19 below).

A second example is the work being done by Integrity Watch Afghanistan (IWA) in monitoring contract completion. There are many contracts in conflict zones where the assurance of project completion is sub-contracted several times over. IWA has instituted a process whereby individuals in the village or town concerned monitor project progress, ultimately reporting back to the original sponsor. The sponsor, who is often quite detached from the project, receives direct feedback on whether the money was properly spent or not.[32]

BOX 20: **PEACE DIVIDEND MARKETPLACE, TIMOR-LESTE**

The Timor Leste Peace Dividend Marketplace project (PDM-TL) was launched in August 2007. PDM-TL is based in Dili with regional field offices, and works with local businesses in each of Timor-Leste's 13 districts.

The PDM-TL project supports long-term economic recovery by increasing the procurement of goods and services available in-country. When the international community buys and hires locally, a substantive part of its operational spending is intended to directly enter the local economy. The PDM-TL project achieves this objective by creating jobs, generating tax revenue and building the local marketplace. The localised impact of increased business creates a significant economic stimulus in rural districts. As rural development is a national priority, the Government of Timor-Leste and the international community support this approach.

Since August 2007 PDM-TL has achieved results that support rural development by:

- Creating and accelerating more than US $24 million in local procurement transactions, including US $17 million of confirmed new spending
- Helping streamline more than US $7 million into Timor-Leste's rural economy through more than 12,000 business transactions
- Verifying and generating more than 2,700 business profiles to the Timor-Leste Online Business Portal
- Publishing 13 District Business Guides, detailing which goods and services are provided by businesses in each rural district.[33]

Procurement

PROCUREMENT IS ALWAYS A HIGH-RISK AREA IN DEFENCE AND SECURITY

The complexity, high contract values, confidentiality issues, security restrictions on competition and limited access for subsequent audit and investigation all serve to make it easier to hide corrupt actions. Procurement is normally one of the priority areas for action.

THIS SECTION SHOWS:

- How to start with addressing procurement policy, organisation and culture. The way that value for money is obtained from competition, partnership or single-source procurement needs examining, as does the attitude to confidentiality and secrecy restrictions. Sometimes the best integrity improvements can be made through changes in the organisation of the procurement function (Chapter 14).

- The use of independent oversight of tendering for defence contracts external to the ministry concerned. Some governments have placed such a requirement in law, while others are using civil society tool such as TI's Defence Integrity Pacts. These are short contracts obliging all bidders and the contracting authority to abstain from corrupt behaviour, and are overseen by an independent monitor (Chapters 15 and 16).

- How to address offsets contracts, which are a major area of corruption risk. The contracts are huge, often 150 per cent of the value of the main acquisition contract. This makes effective oversight of offsets crucial (Chapter 17).

14. CONFIDENTIALITY, ORGANISATION AND COMPETITION

Reform in procurement starts with paying attention to the culture of the organisation

A transparent and accountable procurement process starts with a good procurement policy. While some parts of procurement processes need to remain confidential for national security reasons, this will not hold true for the majority of acquisitions.

For a defence and security establishment to receive good value for money, open competitions are the most beneficial way to tender. There may be procurement needs that can be met only by one particular provider through single-source procurement. However, this should be true only for the minority of cases, which will need stricter scrutiny than competitive procurement.

Acquisition processes themselves need to be organised in a transparent manner, as defence procurements often involve large contracts.

SECRECY AND CONFIDENTIALITY

These appear to be the opposite of transparency, and are therefore tricky topics when raising integrity and reducing corruption risk. But there are many areas inside defence and security ministries that rightly need to be protected by confidentiality, and it is not the purpose or desire of this Handbook to suggest otherwise.

However, over time, what can easily be built is an environment where everything is protected by confidentiality restrictions, as a matter of convenience or habit, even when there is no particular need. This is especially the case in defence and security. For example, many defence and security purchases do not require special confidentiality restrictions. Boots, uniforms, transport vehicles, office facilities and many other procurement categories are publicly available goods. Even larger items such as patrol vessels have very little in them that needs to be protected. Defence procurement chiefs in various governments have indicated that in many cases, some 70-80 per cent of contracts (by value) do not need their current confidentiality marking.

One example of good practice is from Colombia, where the State Secretary for Defence changed the rules to require that all future defence contracts would be non-confidential, unless she personally signed that they needed to be confidential (or a higher classification).[34] This allowed for confidentiality to remain for all relevant contracts, but stopped the ‘bureaucratic’ marking of non-confidential contracts. Similar practices have been adopted elsewhere, for example in Nigeria’s Ministry of Defence.[35]

To raise integrity in procurement, it is therefore recommended that defence ministries examine their current practice in confidentiality marking and consider making a change to their culture along the lines of the Colombian example above.

PROCUREMENT ORGANISATION

Defence procurement organisations range from the very small, in countries with small militaries or very limited acquisition needs, through to the gigantic, such as in the US Department of Defense. But in all cases there are two perennial organisational issues: the competence of the professionals in the group, and the structure of the organisation.

It is too easily forgotten that procurement is a professional skill, and therefore not a job for generalists or staff on rotation.

It is important that ministries and agencies build up their procurement cadre just as they would build up other specialist skills.

In terms of organisational structure, the most common dilemma is whether to organise procurement separately in each of the services, or whether to centralise it in the defence or security ministry. The experience in a number of nations has been that placing procurement organisations within the armed services themselves is not good practice. The services often do not have the specialist skilled personnel, and the hierarchical nature

BOX 21: REFORM IN COLOMBIA'S MINISTRY OF DEFENCE

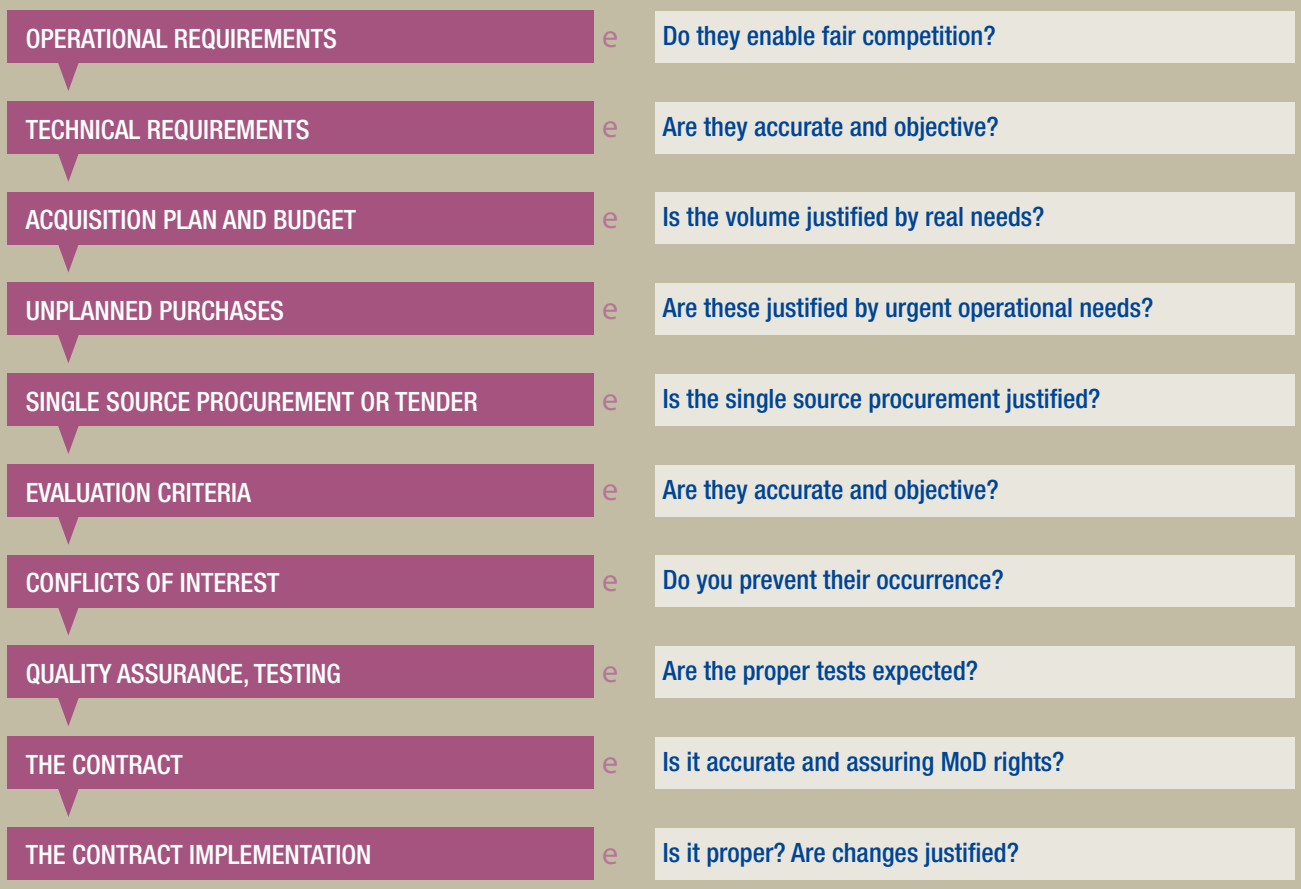
In 2004, Colombia's Ministry of Defence (MoD) initiated a series of reforms in order to reduce corruption vulnerabilities within its operations and create more effective and publicly accountable armed forces. Top-level political will and leadership within the MoD, particularly on the part of defence ministers of the time, was crucial to initiating these moves effectively. Following the initial impetus, the measures were promulgated by the MoD's administrative and institutional capabilities. Further progress, however, depended on public visibility and an institutionalisation of anti-corruption reforms not conditional on political leadership, valuable as this may be at the initial stages.

The MoD's Consolidation Policy of Democratic Security 2007-10 included as one of its five strategic objectives the 'creation of modern Armed Forces with the highest ethical moral standards and the trust and support of the citizenry'. One of the corresponding action lines was dedicated to improving the 'efficiency and transparency of the use of public resources'.[36]

The new political leadership at the MoD began the implementation of an improved decision-making and monitoring mechanism for procurements. These measures streamlined procurement execution and control mechanisms – from tender specification, through contract awards to delivery – by bolstering civilian leadership and incorporating other ministries and control agencies as well as the private sector and academia. A notable feature of this initiative was the creation of the so-called Ethics and Transparency Commission (*Comisión de Ética y Transparencia*) comprising key industry figures, the force commanders, two former defence ministers and the current Minister of Defence. It was tasked with the continuous monitoring of procurement funds, the generation of early-warning signals and making suggestions for changes if needed.

Another step in reducing corruption vulnerabilities was the creation of a Logistics Agency common to all forces, allowing for more centralised logistics within a specialised body. A final element was the so-called Active Public Management Model (*Modelo de Gerencia Pública Activa*), constructed jointly by the MoD and Office of the Controller General in 2006 and implemented by the Ministry's Internal Control Office. Dedicated to promoting high-quality public policies and visible public responsibility, the policy is credited with initiating internal cultural change within the Ministry and emphasising values of responsibility and accountability.[37]

FIGURE 14: KEY QUESTIONS ASKED FOR PREVENTING CORRUPTION IN PROCUREMENT, POLISH MND



of the services means that it can be relatively easy for a senior officer to have improper influence on the procurement department. Having a central procurement group allows better development of skills and reduces the risk of undue influence. In practice a number of nations split the role, either according to a certain financial cut-off, or with specific categories of acquisition remaining local, while all others are procured centrally. One such reform was carried out in Colombia (Box 21).

KEY QUESTIONS TO ASK ABOUT THE PROCUREMENT PROCESS:

Figure 14 above identifies key questions asked by the Polish Ministry of National Defence as part of its reform initiative. One consequence of this review was a stronger emphasis on electronic auctions (see Box 23 overleaf).

COMPETITION

Most public procurement systems adopt competition as the best means of ensuring value for money in large-scale purchases. These are usually covered by detailed public procurement laws, but bribery, kick-backs, collusion or coercion still distort the process of tender specification, supplier selection and award.

Even with detailed public procurement laws, defence is often exempt from such laws under national security provisions. In addition, limitations on the number of suppliers in specialist areas and urgent operational needs require defence procurement organisations to deviate from competitive procurement practices.

This lack of competition can greatly heighten corruption risks. Of particular concern are single-source procurements, where competition is bypassed in favour of one supplier.

BOX 22: **PROCUREMENT IN THE UNITED KINGDOM**

Public advertising of tender opportunities and subsequent open competition, even for the most sensitive operational requirements such as the nuclear deterrent, are the rule in the UK. Once received, tenders are subject to independent technical, financial and commercial assessment and approval. The whole process is also subject to parliamentary and public scrutiny with both specific and generic reviews conducted by the National Audit Office – as well as by the defence department's own internal auditors.
The evidence of this openness is seen in the relatively low percentage of single-source procurements in the UK, despite the high volume of acquisitions (Figure 15).

SINGLE-SOURCE PROCUREMENT

Single- or sole-source procurement is a non-competitive purchase or procurement process that takes place after soliciting or negotiating with only one supplier. This undermines the principle of full and open competition for a contract.

In some cases, single-source procurement occurs because goods or a service can only be purchased from one supplier due to their specialised or unique characteristics. Often, however, single-source procurement occurs because it allows a faster decision cycle and lower costs for the procurement process. But these savings are easily outweighed by a weak negotiating position: if there is only one supplier, or one supplier is favoured over others, it is very likely that supplier will ask for a higher price.

The extent of single source or non-competitive procurement in defence establishments is not well-known. In 2006, TI's defence and security team submitted surveys to defence establishments to assess the use of single sourcing in procurements by number and value; the results showed that non-competitive practices are widely used in defence procurement (Figure 15).

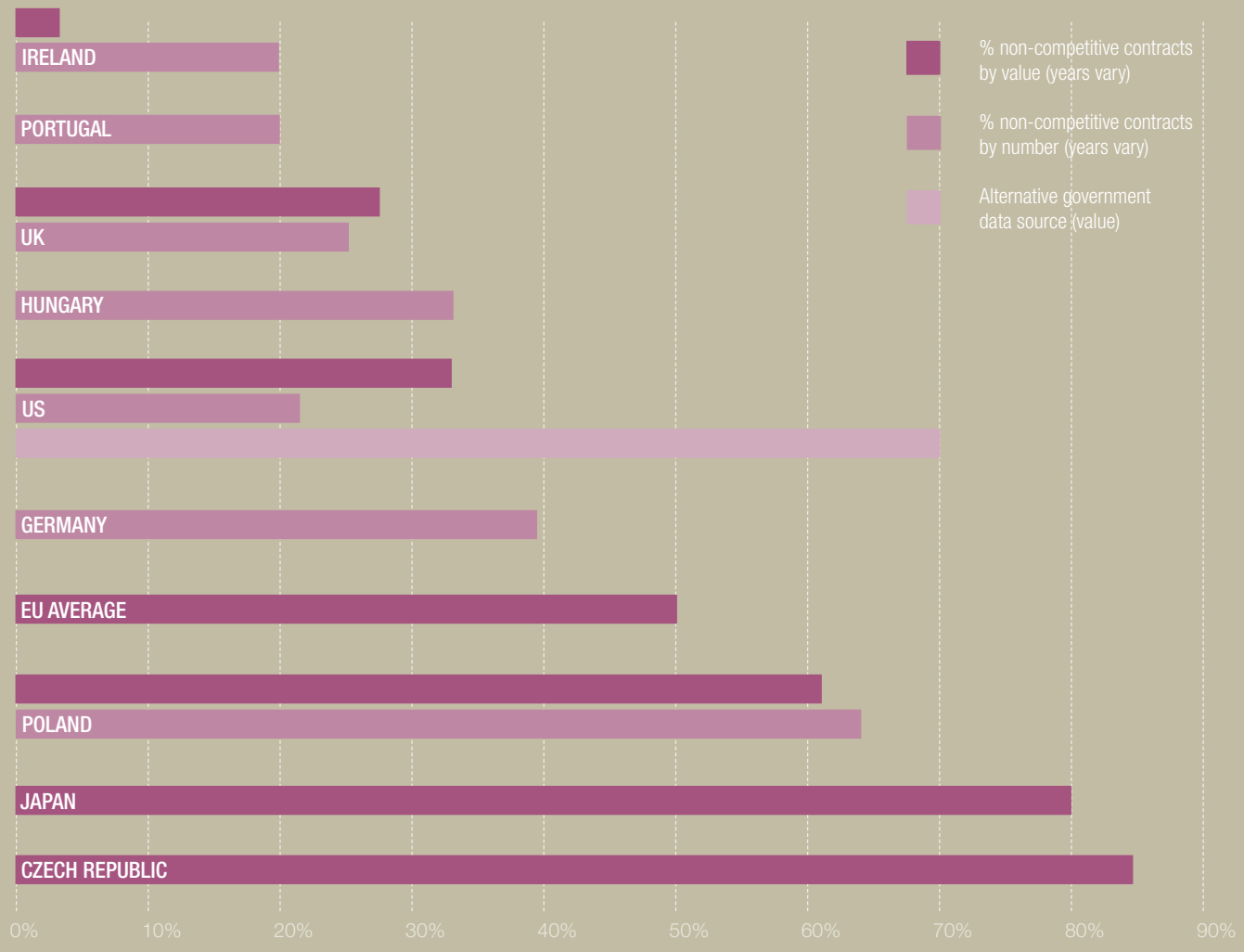
Where single-source procurement is unavoidable, it should be subject to maximum controls to ensure integrity. Governments must take coherent measures that minimise corruption risks: the usual degree of auditing and scrutiny is not enough. Auditors should be consulted not only from within the defence establishment but also from the overall executive auditing body. National security must be considered, but a conflict between scrutiny and security can be avoided by creating a special group of external auditors with security clearance.

Single-source procurements should always be discussed by the defence establishment's procurement or tender board. To increase transparency, the documents justifying single sourcing should be standardised and made available to auditors.

Single sourcing is not justifiable when used as a method of selecting a preferred vendor. Shielding single sourcing under the blanket of national security interest when this is not strictly necessary is also unacceptable.

Some nations have developed a partnering approach to working with single suppliers. While this may be highly effective, it is a sophisticated strategy with considerable risks to value for money and corruption.

FIGURE 15: **NON-COMPETITIVE DEFENCE PROCUREMENT CONTRACTS AS A PERCENTAGE OF TOTAL DEFENCE PROCUREMENT (TI)**



BOX 23: **ELECTRONIC AUCTIONS**

Electronic procurement or e-procurement is the electronic implementation of the procurement cycle, for example, through platforms hosted on the internet or through electronic business-to-business solutions. It is a key way of increasing effectiveness, efficiency and cost savings in all aspects of military acquisition. It also makes it harder for suppliers and corrupt government officials to manipulate the process.

Several governments and defence ministries have moved on a large scale towards electronic procurement, both for cost saving and especially as an integrity-raising measure. Mexico has done so to a very high degree, while Poland's Ministry of National Defence has introduced electronic auctions as an explicit part of an integrity-raising exercise.

However, while e-procurement can increase integrity and save a ministry large sums of money, it is more difficult to implement than it looks. Besides requiring up-front investments, it means a cultural change from highly bureaucratic, paper-based processes to electronic ones. Although it reduces corruption risk significantly by eliminating old-fashioned fraud methods, it is still vulnerable to modern ones.

15. INDEPENDENT MONITORING

Independent monitoring is a useful new integrity tool in defence procurement organisations

Much innovation is currently taking place in defence and security monitoring. Some countries are developing methods for civil society to scrutinise various aspects of defence plans, policies and budgets during their formation. For example:

- Bringing a well-respected outsider into the defence ministry as an expert adviser or decision-maker, sitting on key evaluation boards
- Including respected outsiders on the tender evaluation committee
- Independent technical review of the tender specification
- Independent review of the whole procurement process
- Independent review of the experiences of failed bidders
- Independent review of the extent of competition in defence procurement

Both the Republic of Korea and Mexico have made use of independent monitors in their precurement processes (Boxes 24 and 25).

TI is pioneering ways of providing independent monitoring of individual major contracts, through 'Defence Integrity Pacts' (DIPs). These are contracts between a purchasing government and bidding contractors, committing all parties in a procurement measures to honest behaviour, overseen by an independent monitor (Chapter 16). These are being used in imaginative ways in several countries; see box 26 for the example of Argentina.

BOX 24: INDEPENDENT MONITORING IN KOREA

The Republic of Korea responded to a series of corruption allegations over the Ministry of Defence acquisitions process by relocating the authority for acquisitions to a new body outside the ministry, the Defence Acquisition Program Administration (DAPA).The restructuring introduced a range of integrity-building measures into the defence acquisitions process, including disclosure of officials' wealth, declarations of gifts, limitations on officials' activities after they have left the organisation and heightened disclosure of information to the public.[38] DAPA created an internal ombudsman's office to oversee purchases. In particular, its purpose is to allow public oversight by launching investigations following civil petitions. The ombudsman is also authorised to instigate audits on contracts if faults are discovered, as well as settle disputes on a case-by-case basis.

The reforms also made it mandatory for defence acquisition personnel to submit to written Integrity Pacts (IPs) (contracts committing all parties to ethical behaviour) with the force of legal agreements. Among the organisations required to sign the IPs were DAPA itself, subordinate institutions, and bidding and contracting companies.

From 2006-9, the Ombudsman settled 50 out of 66 submitted cases, with 16 still under investigation. He made recommendations for correction or improvement in 13 cases and requested the audit procedure in one. As a result of the new process, the procurement process and decision making have been speeded up. Whereas the entire procedure took an average of 228 days in 2005, it now takes 124. The Korean defence sector has now been adopted as an 'exemplary model' by the OECD.[39]

ROUNDTABLES FOR DEFENCE PROCUREMENT

Exposing defence equipment procurement plans to public debate, especially for the first time, may seem strongly counter-intuitive to officials used to confidentiality.

However, roundtable discussions connect internal and external stakeholders such as defence and finance ministries, defence companies, civil society and the media, engaging a wide range of people on important aspects of defence and security planning. Roundtables help to ensure integrity and public confidence in the defence procurement process. Their objective is to ensure active participation and information exchange by participants. Sitting around a table is beneficial, as every participant is in an equal position and all thoughts and ideas can be fairly considered in order to build a level playing field.

WHAT IS AN EFFECTIVE ROUNDTABLE?

The template for a roundtable agenda is flexible. An agenda should reflect the local context and issues, and can be as wide or narrow as local need determines. Discussions should be moderated by a neutral facilitator who understands the subject. Other than a short introduction of the topic, presentations are usually discouraged. Most crucial is to ensure that all key stakeholders are involved in the process.

EXPECTED RESULTS

National roundtables provide a key means of engagement between the defence establishment and civil society, often for the first time.

By widening the procurement process and opening the defence establishment to scrutiny, roundtables alert defence officials to potential corruption risks they may previously have been unaware of. Used for individual procurements, they can introduce greater transparency into the standard process and serve as a prelude for further civil society engagement.

BOX 25: A CROSS-GOVERNMENT APPROACH USING INDEPENDENT MONITORS: MEXICO

Mexico has taken an imaginative and well-structured approach to raising integrity in public procurement (not specifically defence). It has adopted the 'Integrity Pact' (IP) approach described in this chapter, but instead of applying it case by case within a ministry, it chose to apply IPs to the top ten 'riskiest' public contracts in government. These may be large contracts, ones in a high corruption-risk sector or ones where the government is most concerned to ensure maximum integrity. There is a pool of some 20 independent monitors, called 'social witnesses', and a process that is now well established. Funding for the monitor comes mostly from the government, but is sometimes provided by the winning bidder. TI's Mexico chapter, *TI Mexicana*, has been closely involved in this process and has led some 60 IPs over the past 10 years.

BOX 26: COMBINING INTEGRITY PACTS WITH PUBLIC HEARINGS: ARGENTINA

Poder Ciudadano (TI Argentina) (TI Argentina) has played a leading role in introducing innovative changes in the way municipalities function. It has combined the use of public hearings and the Integrity Pact (IP) to demonstrate that cities can save substantial sums of money through the process. This process was first tried in the city of Morón, a municipality of more than 350,000 inhabitants located in the centre of the Buenos Aires Metropolitan Area. Later, Poder Ciudadano developed a similar process in other municipalities, and recently led a transparency and citizen engagement programme in Buenos Aires. This was with the aim of monitoring a public bidding process for waste management. The process comprises:

a) A Social Witness: an expert supporting the monitoring of the process
b) Public consultations on the draft bidding papers: workshops and interviews to collect opinions on the early versions of the bidding terms and specifications
c) Holding a public hearing: the responsible authority convenes citizens, businesses, experts and representatives of the opposition to express their objections and suggestions about the planned terms of the contracting.
d) Signing an Integrity Pact where the government and all businesses competing in the bid share a contract of reciprocal commitment to prevent the payment of bribes between the bidder and the municipal authoriti

More information is available at: ***www.unhabitat.org***

16. DEFENCE INTEGRITY PACTS

TI has developed a tool tailored to the defence sector for independent oversight of large procurements

Today's defence procurement processes are highly complex. This complexity may help raise transparency, but it can also make it easier for officials in the system to gain power and to abuse the process.

For example, in 2005 the then-Procurement Chief in the US Department of Defense awarded a US $30 billion contract for air refueling tankers to one company, Boeing, while at the same time negotiating with the company for a job. She was sentenced on public corruption charges. This shows that corruption occurs even in the most sophisticated national systems.[40]

TI has responded to the need for more openness during the procurement process in defence and security by developing the 'Integrity Pact' (IP). A IP is an independent monitoring tool to raise integrity in public contracting, now being used in many countries on a routine basis in the construction and extractive industries.

This procedure has been further refined for application in the defence sector and can be used not only for procurement, but can also be adapted for oversight and transparency during the disposal of equipment, land or infrastructure.

DESIGN AND IMPLEMENTATION OF DEFENCE INTEGRITY PACTS

A Defence Integrity Pact (DIP) usually contains three main features:

- A short **contract** in which all bidders and the procuring organisation agree to specified no-bribery pledges, and the bidders agree to enhanced disclosure rules. Bidders also agree to sanctions, including withdrawal from the tender, if they are found in violation of agreed pledges.
- An **independent monitor** (or monitoring team) who ensures that all parties abide by their commitments under the pact. This usually includes use of an independent technical expert who reviews tender documents for undue or corrupt influence, and who is available to bidders in case of concern or complaint.
- Greater public **transparency** over documents and processes. This also allows greater scope for input from the public and civil society, and enhances confidence in the process.

BOX 27: **COLOMBIA'S AIRCRAFT ACQUISITION**[41]

In 2004 *Transparencia por Colombia* (TI Colombia) and TI-UK helped Colombia's Ministry of Defence (MoD) implement a DIP during an aircraft acquisition programme.
Colombia's need to replace an ageing fleet of combat aircraft engaged in anti-drug-running operations was identified. US $237 million was earmarked to purchase more than 20 aircraft. An earlier attempt had stalled owing to lack of clarity over aircraft type and associated capability. *Transparencia por Colombia* had been working with the MoD for several years to improve integrity in the defence establishment, and had extensive experience in anti-corruption reform and public contracting, but it lacked access to specialist technical advisors for defence acquisitions. TI-UK provided two technical experts with military and defence acquisitions backgrounds to support the DIP.

Colombia's MoD made all bid documents available to the TI-UK technical team, who submitted a report within 14 days identifying key concerns. The bid team responded swiftly, agreeing with some comments, rejecting others and providing justifications for the rest. Unresolved technical and contractual issues led TI-UK to send an expert to Bogota to meet with the MoD and stakeholders. Particular attention was paid to technical specifications and contract details. Pressure had been applied from the Colombian Defence Minister's office for complete openness and for the technical specification to be as precise as possible, to reduce the potential for corruption. The military also provided support, recognising the positive impact of clean procurement on the aircrafts' operational effectiveness.[42]

A short contract document is drawn up, based on a template available from other countries or from TI. This may need adaptation to align with national procurement laws. The independent monitor is chosen and a suitable form of funding is agreed; guidance on both is available on the TI website. Advice can also be sought from nations who have used this tool or from TI's defence team.

The most significant difference between the DIP and the use of IPs in other sectors is the inclusion of a review of the technical specification into the process. This is because in defence one of the principal sources of corruption is when people bias the technical specification in the advertisement or requirement list so that it favours a particular contractor.

DIPs in specific procurements can easily be put in place. They can, in theory, be used for any procurement, but it is recommended that they are only used for major equipment contracts.

Different countries have different priorities: Mexico, for example, will select six or seven of the most vulnerable major procurements annually, whereas Bulgaria has indicated that in future all major military procurements will be subject to a DIP.

Defence companies are also becoming increasingly aware of the pacts.

BENEFITS OF DEFENCE INTEGRITY PACTS

Procurement credibility: DIPs bring credibility to the procurement process, providing a valuable safeguard that reduces corruption risks in individual contracts. Increased confidence in integrity can help establish a smoother procurement process, where non-successful bidders accept the outcome without suspicion of impropriety. This can prevent costly delays caused by challenges to contract awards and improve relations across the defence sector. In some countries a DIP has reduced the length of the tender process. Enhanced credibility may also attract more bidders for future contracts, as suppliers trust that the outcome is not predetermined.

Contractor confidence: In the event of genuine concerns with the process, the independent monitor provides a credible body to which organisations and companies can turn. This increases confidence that complaints will be heard fairly and addressed appropriately. DIPs also supplement enforcement of regulations by strengthening sanctions and making them applicable at the time of tender, rather than after the award.

BOX 28: **INDIA'S DEFENCE PROCUREMENT DIRECTIVE**

The 2006 Defence Procurement Procedure of the Government of India makes it mandatory to:

- increase transparency in the conduct of field trials
- use IPs for all contracts above 1 billion Rupees (US $22 million).

Article 61 states: 'An "Integrity Pact" would be signed between government department and the bidders for all procurement schemes over 1 billion Rupees. The Integrity Pact would be a binding agreement between the government department and bidders for specific contracts in which the government promises that it will not accept bribes during the procurement process and bidders promise that they will not offer bribes'.

More information is available at
http://mod.nic.in/dpm/welcome.html

Increased public confidence: Both DIPs and independent monitors strengthen public confidence and reduce the suspicion that can accompany large, complex contracts. This is primarily due to enhanced transparency and disclosure requirements, which give stronger oversight of the procurement process. They also increase public participation and oversight, particularly if the independent monitor is from civil society. Where defence establishments and civil society collaborate over individual contracts, the scope for wider civil society engagement increases as trust develops between them.

Catalyst for reform: While DIPs can play a crucial role in enhancing procurement integrity, they can themselves be a catalyst for reform. In particular the transfer of knowledge from external experts to in-country officials coupled with increased value for money and better equipment can contribute to defence reform. This is especially relevant if oversight of procurement is extended to the delivery and operational support phases of the equipment. Indeed, it is possible that DIPs coupled to transparency and oversight of offsets (Chapter 17) could have a major impact on reducing corruption risk over an extended period.

Increased operational capability and value for money:
Besides reviewing the specification for corruption risk, a side-effect of the DIP is to raise a range of useful questions regarding value for money and operational capability. Sometimes corruption risk and value for money concerns are indistinguishable. It can therefore be the case that the quality of the specification is improved, resulting in equipment with increased capability for reduced costs.

17. INDUSTRIAL COOPERATION AGREEMENTS (OFFSETS)

Offsets are a high corruption risk that need special attention: how to reduce the risk

Offsets or industrial cooperation agreements are arrangements in which a government procuring goods or services makes the foreign supplying company reinvest a portion of the contract back into the importing country. Many governments use the term 'industrial cooperation agreements', as the term 'offsets' can carry negative connotations. A key rationale behind governments' offset requirements is strengthening the national industrial base in high-technology defence and commercial infrastructure.[43]

VULNERABILITIES TO CORRUPTION

Offsets are under much less scrutiny – either governmental or public – during their negotiation than the main arms deal. In many countries, there is almost no due diligence on potential improper beneficiaries from offsets, no monitoring of performance on offset contracts, no audits of what was delivered compared to pledges and no publication of offset results, benefits or performance. This makes offsets particularly vulnerable to corruption.

Another risk factor is that offsets involve complicated and detailed contracts including investments into a variety of companies and subsidiaries, making monitoring even more difficult.

Virtually all importing governments require offsets when purchasing defence materials. The percentage of the offsets contract in relation to the original defence contract is large, often exceeding 100 per cent, with EU member states in particular reporting such high-value offsets.

Because defence contracts involve great expenditure, the offset arrangements are similarly high-value – and extremely susceptible to corruption.

As governments and the defence industry are increasingly aware of these corruption risks they are beginning to tackle them.

WHAT ARE THE RISKS?

Offsets are non-transparent instruments, with decisions made away from scrutiny, contracts awarded on a discretionary basis and too little commitment to management evaluation, audit or completion of contracts.

Politicians or officials with conflicts of interest may influence decision-makers over the need for a particular defence acquisition and be rewarded through a benefit from the offsets package. Within an offsets project it is quite easy to conceal the reward for a person who has influenced or secured the contract award decision. There is also the straightforward diversion of funds allocated to the offset package.

RECOMMENDATIONS

Importing governments requiring offsets should ensure that performance delivery and transparency are at the core of their offsets policy. Defence purchases should be embedded within long-term strategic security requirements; procurement decisions should not be influenced by offsets considerations. The offsets team must consist of competent and experienced personnel bound by a robust code of conduct: offsets are a specialist area not suitable for defence ministry officials or military officers without experience in the field. Purchasing governments should also require that due diligence is carried out to prevent members of the government from benefiting improperly from any offset contract and to ensure that all potential conflicts of interest in officials, military officers and parliamentarians are disclosed.



Cover of TI's report on the corruption risks of defence offsets

National governments should require that every offset obligation contract is specific about how performance will be monitored, and how and when the results will be made public. To enhance monitoring, authorities dealing with defence procurement should strongly consider a dual pricing requirement, under which all bids would be submitted with two prices: one with the offsets package and one without.

Defence companies should explicitly address corruption risks through internal codes of conduct, and compliance and business ethics programmes which shape the corporate culture and extend to subcontractors. It is also important for companies to conduct due diligence on offset intermediaries and all third parties who may benefit from association with the offsets package. Defence industry associations should take the lead in promoting transparency in offsets contracts by developing and publishing guidance on what a high-integrity offset package looks like, as well as collating intra-industry experience and encouraging discussion of corruption issues in offsets.

BOX 29: OFFSETS AGREEMENTS IN PORTUGAL

In 2004 Portugal finalised the purchase of two submarines constructed by the German Submarine Consortium (GSC). As a member, the German industry giant Ferrostaal AG was responsible for the majority of the €1.1 billion offset deal[44] (while the acquisition value amounted to €760 million), encompassing direct offsets as well as projects in the naval, automotive and new technologies industries. In 2006 Portuguese authorities opened criminal investigations into the contract when questions stemming from a different investigation's findings arose over payments of €30 million to an intermediary company for brokering the deal and the offsets contract.

According to public officials, the ensuing investigation concerns cases of corruption, mismanagement and money laundering mostly associated with undue financial gain accruing to political actors and parties.[45] The investigators have already targeted several offices of the companies and law firms involved in the acquisition; the Portuguese Offset Commission; the MoD and its property, and the residences of senior staff and other personnel linked to the tender.[46, 47, 48]

Offsets, in particular, were also targeted by a spin-off investigation that led to a formal prosecution in autumn 2009. Portuguese prosecutors have indicted three German executives and seven Portuguese executives on allegations of fraud and document forgery in relation to automotive offset projects included in the submarines package.[49]

Budgets and Assets

CORRUPTION AND MONEY ARE NEVER FAR APART

Corrupt activities can occur in the most obvious places, such as the national budget, all the way down to local asset disposals. While budgets and procurement tend to get most attention, there are also other categories of assets in defence and security which attract corrupt actors. These are often under much less scrutiny. There are three prime categories of such resources:

- Disposal of physical assets – whether land, transport, weapons or similar
- Misuse of government assets for private benefit
- Military-owned businesses.

THIS SECTION SHOWS:

- The importance of strengthening the transparency of the defence budget and the budget process. Nations are finding that a high level of transparency in budgets and assets can repay the effort of tackling this issue, leading to greater public trust and better use of scarce money (Chapter 18).
- How to give due consideration to reducing corruption risk in asset disposals (Chapter 19).
- Some of the integrity issues involved in military ownership of businesses (Chapter 20).

18. DEFENCE AND SECURITY BUDGETS

Raising transparency of the defence budget is an important reform: we give examples of how various nations have addressed this

DEFENCE BUDGET TRANSPARENCY

A high level of transparency of the defence and security budgets, and strong levels of scrutiny of those budgets, are central features of a high-integrity and accountable defence environment. Yet this is surprisingly uncommon.

Secrecy surrounding the defence sector is particularly evident from inadequate information disclosed in governments' defence budgets. Some of this is necessary. But excessively withholding or manipulating defence budget information undermines governments' credibility, indicating possible abuses in resource allocation and a lack of accountability.

Reform in this sector is relatively straightforward and pays dividends. Defence and security ministries have found that greater budget transparency leads to greater public trust.

A recent study covering key aspects of the defence budget cycle of more than 100 countries found that one third scored low in terms of transparency. In addition it showed that close to 85 per cent of countries disclose to their parliaments very little or no information on military expenditure related to national security. This impacts public trust, as seen in examples in this chapter.[50]

The key requirements are that confidential expenditure is justified by a reasonable and well-informed strategic objective (i.e. protecting the territorial integrity of the state in the case of external threat; building an adequate witness protection system, etc.). There should also be a regulatory procedure in place that stipulates the exact mechanisms by which expenditures can be classified.

Transparency can be compatible with appropriate confidentiality if there is momentum at the top for openness. Reform-minded countries make budget transparency a priority.

Bulgaria is one such example, where the new government is making huge efforts to clean up a long-standing corrupt defence and security environment. Colombia is another, where the prime challenge lay in convincing the public that the security forces were not corrupt. Being very transparent about the funds the Government was using and how they were being spent was one of the key ways of making a convincing case (Figure 40).

SECRET BUDGETS

There will always need to be secret budgets. The challenge is to ensure that secrecy is used only when essential, and then at the right level. One good approach is that adopted by South Korea.

South Korea's government separates its defence budget into three categories of differing secrecy. Category A budget items are presented for discussion to the National Assembly in aggregated form; Category B items are presented to members of a National Assembly Committee of National Defence in disaggregated and detailed form; Category C items are further disaggregated and presented to the Committee of National Defence. Previously, members of the legislature were given only a lump sum figure for debate.

While many countries are reluctant to disclose financial information relating to national security or military intelligence expenditures, organising information by degree of secrecy and designating special committees with the necessary security clearance allows for greater parliamentary control over the budget process.[51]

BUDGET AUDITS

The International Budget Partnership's *Open Budget Index* also indicates that regulation and oversight of security sector funds are overwhelmingly unsatisfactory. Nearly a quarter of all countries covered (22 out of 92) either did not conduct any security sector audits or conducted only partial ones often excluding military intelligence agencies or other security sector bodies altogether.

Countries that only partially audited their security sector were Algeria, Argentina, Bolivia, Costa Rica, Fiji, Guatemala, Pakistan, the Philippines and Uganda. Audits of secret funds or the entire intelligence agency were typically excluded. In Bangladesh and China, security sectors are audited only internally and jurisdiction falls within the respective department (army, police, etc.).[52]

BOX 30: RAISING TRANSPARENCY IN BULGARIA

In 1999 the Bulgarian Ministry of Defence embarked on ambitious reform of the security sector. Goals included raising standards in defence education; embracing good practices in defence budgeting and strengthening civilian control over the military. The MoD adopted an *Integrated System for Planning, Programme Development and Budgeting*, similar to systems used by NATO members which align long-term security objectives with short-term priorities, within existing resources. Planning begins with an analysis of resources and defence capabilities, and a delegation of authority to appropriate and accountable institutions in order to raise transparency. The MoD invites the Ministries of Finance and Economics to assist in economic forecasting.[53]

Legislators' input into the budget proposal is critical to ensure the effective use of resources: after discussions in the Bulgarian Parliament, the defence budget is finalised and becomes a key document for promoting accountability. To ensure effective budgeting oversight, Bulgaria's government has a three-level control process:

- The Budget Planning and Management Directorate, a specialised MoD administration, conducts preliminary internal control
- It also coordinates oversight of expenditure, whereby external non-military organisations carry out random verifications
- The Audit Chamber conducts independent follow-up controls and reports findings to the legislature and the public.[54]

BOX 31: **HOW TO BUDGET TRANSPARENTLY**

- Create a sound legal framework that ensures public access to accurate and reliable defence budget information
- Strengthen the role of parliament in the defence budget process
- Involve external actors such as the ministry of finance in planning the budget process, to provide input and improve resource allocation and economic projections
- Designate a parliamentary committee on defence budget work; give members security clearance to access information relating to national security and military intelligence
- Allow sufficient time for debate in parliament so legislators can actively contribute to the defence budget proposal
- Make the proposed budget publicly available when it is introduced to parliament, not after legislative approval, so the public and civil society organisations can monitor the approval process
- Issue quarterly reports throughout the budget execution stage to raise transparency and improve monitoring of resource allocation
- Hold regular internal and external audits of the security sector and make them publicly available. Request-forms on the defence ministry's website are an easy way to disseminate budget information to interested parties
- Set up an independent oversight agency with staff knowledgeable in both budgetary work and the defence sector
- Find regional and global partners to mutually raise levels of defence budget transparency.

19. ASSET DISPOSAL

Often 'below the radar', asset disposals are a prime area for corruption, but one that is easily addressed with controls

In both the military and the civilian worlds, assets are economic resources and include both intangible assets (capital/financial) and tangible assets (e.g. buildings, land, equipment).

Besides personnel and expertise, equipment and buildings are often the most precious assets a defence or security establishment possesses. Within defence and security establishments, assets can be subdivided into six categories[55]:

1. **Single Use Military Equipment** (SUME): military equipment which cannot be used for civilian purposes. This includes weapons as well as equipment which supports and delivers them, e.g. warships, submarines, fighter aircraft, tanks, missiles and launchers.

2. **Land and Buildings**: offices, warehouses, hospitals, barracks, hangars, runways, car parks and associated holdings (excluding dwellings).

3. **Assets under construction**

4. **Transport equipment**: any equipment that moves either people or objects, e.g. lorries, trains, ambulances and aircraft (as long as they do not qualify as SUME).

5. **Plant and Machinery**: portable and fixed equipment needed either to repair or maintain assets or for administrative purposes.

6. **Information Technology (IT) and Communications**: All IT systems and the respective hardware and software (as long as they do not qualify as SUME).

BOX 32: **EXAMPLES OF ASSET SALES PROCESSES**

- In Canada, a consultancy has been contracted to remarket 'military surplus assets' directly to foreign governments. The consultancy 'represents Canada much like a real estate agent representing the home owner in the sale of a property'.[56]
- Bulgaria's Defence Ministry has recently reformed and reorganised its real estate management, taking into account corruption risks which led to improper asset disposal in the past.[57]
- In Australia, as in the UK, the Department of Defence considers the disposal of surplus assets as a distinct phase of asset life-cycle management. An overview of the process can be downloaded at www.defence.gov.au/IM
- The British military also has a website dedicated to asset disposal. Surplus equipment is also auctioned from the site: www.edisposals.com

All six of these categories can be subject to corruption. The two most commonly reported categories are *Land and Buildings*, and *Weapons*. Corruption risks exist particularly in nations that are selling or disposing of large quantities of assets, and in conflict or post-conflict countries where military assets cannot be protected. Often, outside actors have contributed to diversion and improper disposal. In Iraq, for example, a vast amount of military equipment is already missing or unaccounted for, highly increasing the risk of diversion once this equipment is subject to later disposal (Boxes 33 and 34).

Examples of asset-related corruption vary, from post-communist countries, which have been very vulnerable in the process of asset disposals, through to countries that score well on TI's *Corruption Perceptions Index,* such as Finland.[58]

The use of surplus equipment and infrastructure is a challenge for all defence and security establishments. When the sale or disposal of surplus equipment and infrastructure is not subject to the same scrutiny as defence procurement, management of equipment and surpluses can involve a very high corruption risk. It can be helpful to think of the sale of equipment or infrastructure the same way we think of procurement.

BOX 33: **IRAQ: WAITING FOR MILITARY EQUIPMENT TO BE DIVERTED?**

A 2007 report by the Inspector General of the US Department of Defense showed that in Iraq, US $1 billion in military equipment provided to the Iraqi security forces had gone missing and posed a major risk for diversion at a later point. According to a CBS News Investigative Report, 'the military could not account for 12,712 out of 13,508 weapons, including pistols, assault rifles, rocket propelled grenade launchers and machine guns'.[59]

BOX 34: **EX-USSR ASSET DISPOSAL DIVERSION**

Since the end of the Cold War and the demise of the Soviet Union, Ukraine has been a state where the disposal of military equipment has posed a particular challenge. In the early 1990s this was facilitated both by the sheer amount of arms and weapons no longer needed, and by socio-economic conditions. Ukraine's economy collapsed by nearly half, producing a greater recession than that experienced in the West in the 1930s. Of the US $89 billion worth of stocks in 1992, a massive US $57 billion had gone missing. No inventory was ever carried out for the period 1992-2002. Equipment transferred illicitly to conflict zones such as West Africa included some that the West had paid for to be dismantled under the Treaty on Conventional Armed Forces in Europe. UN sanctions were also broken by the delivery of military radars to Iraq in 2000. Ukrainian weapons have ended up, for example, in Angola, Burma, Eritrea, Ivory Coast, Iran, Iraq, Liberia, Rwanda, Sierra Leone, Sri Lanka, South Yemen and Zaire[60] (now DR Congo).

20. MILITARY-OWNED BUSINESSES

These are a specific challenge in some countries:
this chapter reviews the issue and identifies some reform efforts

A surprisingly high number of national defence and security establishments have military-owned businesses in a variety of industries.

However, there is a significant integrity problem with military engagement in profit-seeking enterprises: it creates a conflict of interest and compromises the primary role and function of the armed forces. In cases where military businesses have devolved into engaging in corrupt practices, this is particularly problematic, as it damages the public image of the military.

HISTORICAL ROOTS

There can be many reasons for the creation of military enterprises. Traditionally, military involvement in businesses developed due to governments being unable to support the full scope of military operations. This could either be due to insufficient funds to sustain the military's budgetary requirements or to the urgent need to allocate funds to other elements of government spending. Two examples of this are Indonesia and China.

As a result, the military is often instructed to adopt a self-sustainability model and seek alternative means to fulfil its budget requirements. In some instances, military businesses function as a funnel for demobilised or retired military personnel to be employed in the private sector.

In most countries where the military owns businesses, this happens through a formal structure. In the cases of Pakistan and Turkey, the armed forces own businesses which are incorporated under a holding company. In Pakistan, the military-business complex has evolved around four foundations owned by the various service wings. As of 2007 some sources estimate that the combined value of these companies was approximately US $1.13 billion.

BOX 35: INDONESIAN ARMY WITHDRAWAL FROM BUSINESS

By 2007, Indonesia's government reported that the Indonesian National Armed Forces (*Tentara Nasional Indonesia*, TNI) owned gross assets of US $350 million and that its 'legal business' activities generated profits of approximately US $30 million[61]. In 2004 several laws were passed by the country's parliament which officially required the Indonesian government to shut down or take over all TNI businesses by 2009. The new law ordered that within a five-year timeframe the government was to take over all military businesses which were owned either directly or indirectly. This was followed by a presidential decree which provided instructions for the establishment of a new inter-ministerial oversight team to monitor the transfer of TNI businesses. Both the laws and decrees declared that TNI foundations that failed to conform to the legal standards would be subject to liquidation or merger.

The introduction of these government measures to end the military's involvement in business resulted in sell-offs and closures of various business enterprises. However, even after these sales TNI continued to operate 23 foundations and more than 1,000 cooperatives. Along with its ownership of these businesses, the TNI continues to operate various companies and maintains leases on several government properties and buildings. Despite good intentions, the government has failed to see through its plan to reverse the investment in TNI businesses.[62]

Arguably, the reforms had only limited success for five reasons:

1. Vagueness of laws regarding the divestiture programme
2. Failure to clarify the status and powers of the oversight team
3. Unwillingness of the TNI hierarchy and the MoD to participate in reforms
4. Insufficient judicial and political clout to prosecute guilty individuals
5. Unrealistic timeline for ending military businesses.[63]

BOX 36: **PEOPLE'S LIBERATION ARMY DIVESTITURE OF BUSINESSES IN CHINA**

The case of China and the PLA's divestiture shows that the task of ending military businesses is not impossible. There are, however, several essential pre-conditions for such reforms to be successful.

One of the key lessons from the PLA's divestiture programme is that preparatory steps were integral to its success. Prior to Jiang Zemin's official announcement of divestiture, several measures had been introduced which ultimately helped to soften the blow from the loss of the PLA's economic empire:

1. Withdrawal of preferential tax rates
2. Removal of privileged access to national infrastructure
3. Installation of a new military leadership
4. Introduction of focused and targeted legislation to curb the scale of military enterprises
5. Strengthening the judicial system and its ability to prosecute military officials.

These measures are not listed in any particular order: each played a vital role in ensuring the success of Jiang's reforms. It should be noted that these measures were all introduced over a period of time, to help reduce any potential discontent that may have arisen. The foundations for divestiture began as early as 1989, and the process was only completed by 1999. By effecting these reforms, Jiang Zemin not only ensured that a new leadership sympathetic to his cause would be in place, but he also minimised opposition to his proposed changes. The early removal of preferential treatment for military businesses also helped to improve competition in the economy and ensured that PLA enterprises were forced to compete on an equal footing. This helped to reduce the PLA's privileged status in society, reducing the strength of the omnipotent army model.[64]

INITIATING REFORM

Whatever the reason for the military to own private businesses, it is not good integrity practice. Where possible, the ministry and/or the military should divest themselves of businesses. When this is not possible, or not possible within current political constraints, then special efforts should be made to make businesses transparent. This includes accounts, assets, audit and oversight, beneficial ownership and the financial flow from the business to its owners.

CASE STUDY: CHINA'S MILITARY BUSINESSES

The People's Liberation Army (PLA) involvement in the Chinese economy dates back to the end of the civil war in 1949. The motivation for the development of the PLA's military economy was two-fold: self-sufficiency and ideology. At its peak in 1993, it was estimated that the PLA owned approximately 20,000 businesses which ranged from small cooperatives to conglomerates.

By 1997 approximately 10,000 PLA-owned businesses earned between US $1-3 billion a year, by some estimates.[65] However, the entrenchment of this profit-driven culture within the military, the lack of civilian oversight mechanisms and the PLA's privileged position in society increased the risk of corruption among the PLA's ranks.

The growing concerns regarding corruption were heavily detrimental to the PLA's public image. From the viewpoint of the civilian leadership under Jiang Zemin, the best approach to combating corruption within the PLA was to eliminate the roots of the problem. This resulted in the official 1998 announcement that the PLA was to dissolve its military business empire (Box 36).

Further reading
Abbreviations
List of figures
Endnotes

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- DCAF Backgrounder, *Parliament's Role in Defense Budgeting*, available at: www.dcaf.ch/publications/kms/details.cfm?lng=en&id=25263&nav1=5
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ABBREVIATIONS

AEP	Army Ethics Programme
ANP	Afghan National Police
ASEAN	Association of Southeast Asian Nations
BI	Building Integrity (NATO programme for integrity in defence)
CFE	Treaty on Conventional Armed Forces in Europe
CIS	Common Industry Standards
COMISAF	Commander, ISAF Forces, Afghanistan
CPA	Coalition Provisional Authority
CPI	Corruption Perceptions Index
DAPA	Defence Acquisition Program Administration
DCAF	The Centre for Democratic Control of the Armed Forces, Geneva
DFID	Department for International Development, UK
DII	Defense Industry Initiative on Business Ethics and Conduct (US)
DIP	Defence Integrity Pact
DTIC	Defense Technical Information Center, US
EITI	Extractive Industry Transparency Initiative
ESDP	European Security and Defence Policy
EU	European Union
EUFOR	European Union Military Force
GCSP	Geneva Centre for Security Policy, Geneva
GPA	World Trade Organisation's Government Procurement Agreement
GSC	German Submarine Consortium
IP	Integrity Pact
ISAF	International Security Assistance Force
IWA	Integrity Watch Afghanistan
MoD	Ministry of Defence
MND	Ministry of National Defence
NACS	National Anti-Corruption Strategy
NATO	North Atlantic Treaty Organisation
NGO	Non-Governmental Organisation
NSP	National Solidarity Programme
OBI	Open Budget Index
OECD	Organisation for Economic Co-operation and Development
PDM-TL	Peace Dividend Marketplace, Timor Leste
PDT	Peace Dividend Trust
PLA	People's Liberation Army (China)
TI	Transparency International
TNI	Tentara Nasional Indonesia (National Armed Forces Indonesia)
SIGIR	Special Inspector General for Iraq Reconstruction
SUME	Single Use Military Equipment
UN	United Nations

LIST OF FIGURES AND BOXES

		pages
Figure 1	Framework for Defence and Security Corruption	10
Figure 2	Corruption risks in the procurement cycle	12
Figure 3	Corruptions risk in Personnel	14
Figure 4	Transparency International's Corruption Perceptions Index 2010	19
Figure 5	Taking-stock of strengths and vulnerabilities, the Polish Ministry of National Defence	26
Figure 6	Poland's Roadmap to building defence integrity	29
Figure 7	Outline of the Building Integrity Course	31
Figure 8	Transparency International's Bribe Payer's Index, 2002	36
Figure 9	Reasons for companies not to bid in a tender, 2006 (Control Risks)	37
Figure 10	Civil society engagement in defence procurement	41
Figure 11	The main axes of post-conflict transition	45
Figure 12	Changes in control of corruption in selected countries 1998-2006 (World Bank)	46
Figure 13	Corruption diagnosis in a conflict environment – a recent illustration (Transparency International)	47
Figure 14	Key questions asked on Procurement, Polish Ministry of National Defence	55
Figure 15	Non-competitive defence procurement contracts as a percentage of total defence procurement (TI)	57

Box 1	Conscription in Russia	13
Box 2	Self-Assessment Process in Norway	17
Box 3	The term 'integrity': a Ukrainian perspective	22
Box 4	Anti-corruption reform in Bulgaria	27
Box 5	Anti-corruption reform in the Ministry of National Defence, Poland	28
Box 6	Feedback from participants of the five-day defence integrity course	30
Box 7	Key elements of good practice	33
Box 8	Whistleblowing: raising the alarm in safety	34
Box 9	Building Integrity' Education Programme Workshop in Ukraine	35
Box 10	Argentina: asset and wealth statements, procurement and contracting education	35
Box 11	Examples of successful collective action across industries	38
Box 12	Defense Industry Initiative on Business Ethics and Conduct	39
Box 13	US Air Force debarment procedure	39
Box 14	Workshop on ASEAN Establishments and Civil Society Organisations Cooperation on Non-Traditional Security	41
Box 15	UK Armed Forces doctrine	43
Box 16	Afghanistan case study: post-deployment debrief questions on corruption	44
Box 17	Sierra Leone Anti-Corruption Commission	48
Box 18	Fighting Corruption in Iraqi Reconstruction	50
Box 19	Afghanistan National Solidarity Programme	51
Box 20	Peace Dividend Marketplace, Timor-Leste	51
Box 21	Reform in Colombia's Ministry of Defence	54
Box 22	Procurement in the United Kingdom	56
Box 23	Electronic auctions	57

Box 24	Independent monitoring in Korea	58
Box 25	A Cross-government Approach using Independent Monitors: Mexico	59
Box 26	Combining Integrity Pacts with Public Hearings: Argentina	59
Box 27	Colombia's Aircraft Acquisition	60
Box 28	India's Defence Procurement Directive	61
Box 29	Offsets agreements in Portugal	63
Box 30	Raising transparency in Bulgaria	66
Box 31	How to budget transparently	67
Box 32	Examples of asset sales processes	68
Box 33	Iraq: waiting for military equipment to be diverted?	69
Box 34	Ex-USSR asset disposal diversion	69
Box 35	Indonesian Army Withdrawal from Business	70
Box 36	PLA Divestiture of Businesses in China	71

ENDNOTES

1 See Tagarev T. (2010), Compendium of Best Practices, p. 219.
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7 Detailed information on TI's surveys and indices can be found at: www.transparency.org/policy_research/surveys_indices/about
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43 The World Trade Organisation's Government Procurement Agreement (GPA) prohibits offset contracting for its signatory countries, as do regional trade agreements such as NAFTA and the EU internal market rules. But the GPA makes exceptions for defence procurement and for developing countries – although they must still negotiate and clearly state the conditions of offset requirements. Offsets must not form part of contract award criteria.

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52 Countries undertaking no security sector audit at time of the OBI survey are Afghanistan, Azerbaijan, Cambodia, Chad, DRC, Equatorial Guinea, Jordan , Kazakhstan, Liberia, Morocco, Niger, Nigeria, Rwanda, Saudi Arabia, Serbia (Supreme Audit Institution established, but not fully functional) and Sri Lanka. Countries undertaking a partial audit, typically excluding secret funds or the entire intelligence agency, are Algeria, Argentina, Bolivia, Costa Rica, Fiji, Guatemala, Pakistan, the Philippines and Uganda.

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I and my colleagues in the Defence Ministry have found the contribution of the TI defence programme to be very helpful to our reform process. Their Handbook is an excellent document, both for me personally and also to distribute to my staff and our senior officers. This way we all get a common understanding of the subject.
Avgustina Tsvetkova, Deputy Defence Minister, Bulgaria

Corruption's potential to damage the image, effectiveness and legitimacy of defence institutions and armed forces cannot be overstated. This useful Handbook demonstrates that it is not only possible to address the issue in a systematic and constructive way, it dispels the myth that such interventions in this area are simply too difficult. It shows many ways in which practical, positive impact can be achieved. I wholeheartedly recommend this Handbook to all those in positions of responsibility in defence and security.
John Githongo, Principal, The Policy Practice Kenya, and former Permanent Secretary for Governance and Ethics in the Office of the President, Kenya

The Norwegian Ministry of Defence is determined to keep corruption away from Norwegian defence purchases and actions. It is essential that we do this both for the integrity of our work and to retain the trust of the Norwegian people. The work of TI's defence and security programme is well known to us and we very much support the reforms and approaches that TI propose in this excellent handbook."
Morten Tillar, Deputy Secretary General and National Armaments Director, Ministry of Defence, Norway

This handbook is an excellent practical contribution from Transparency International. NATO has broken new ground in working with NGOs and other organisations in the areas of building integrity and reducing the risk of corruption. The cooperation between NATO and Transparency International is impressive.
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This second edition of the handbook reflects a further two years of work with NATO nations and I strongly commend it to you.
Mariot Leslie, CMG, UK Ambassador to NATO

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