

# UNDERSTANDING & MEASURING CORRUPTION RISK IN DEFENCE



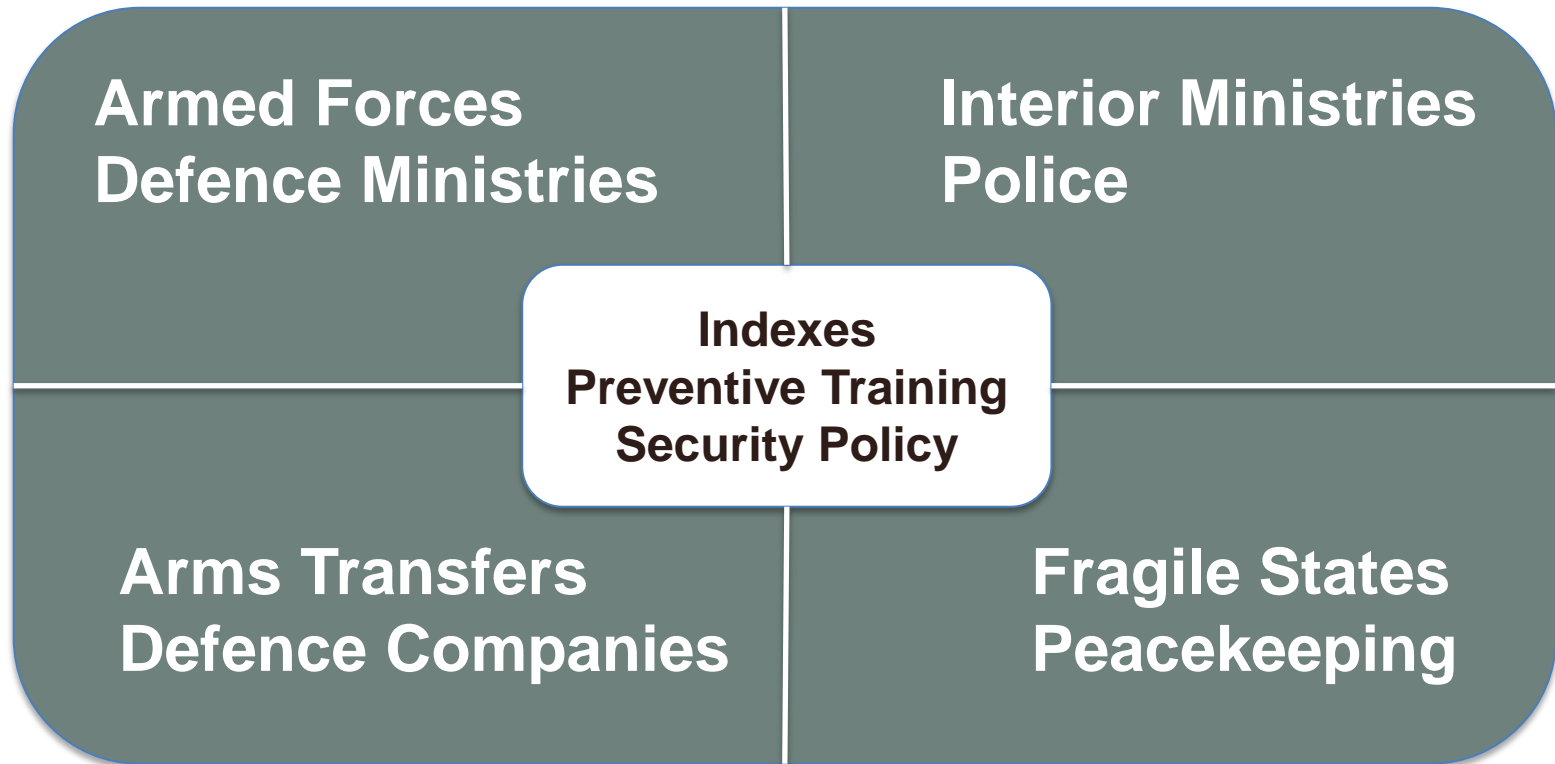
**Mark Pyman**  
**TI-UK Defence & Security Programme**  
TI Summer School, Vilnius, July 2014

# OBJECTIVES of this talk

1. What we are doing and why it matters
2. The extent of corruption risk in the defence sector – governments and companies
3. What these risks are
4. How we measure the extent of these risks
5. Criticisms of the Index



# WHAT WE ARE DOING



**VISION:** A safer world through less Defence and Security corruption

**OBJECTIVE:** At least 50% of governments and companies have a serious corruption risk reduction programme in place

**TEAM:** 18 full time staff plus 12 senior military/police experts

# 1. WHY CORRUPTION IN DEFENCE MATTERS..

**DANGEROUS** It undermines military effectiveness.  
Poor equipment risks the lives of troops

**DIVISIVE** It destroys citizens' trust in government and  
the armed forces. It reduces security.

**WASTEFUL** The sector is worth \$1.7 trillion a year. The  
waste from corruption is in billions of dollars

# IT MATTERS FOR.. THE SECURITY OF CITIZENS

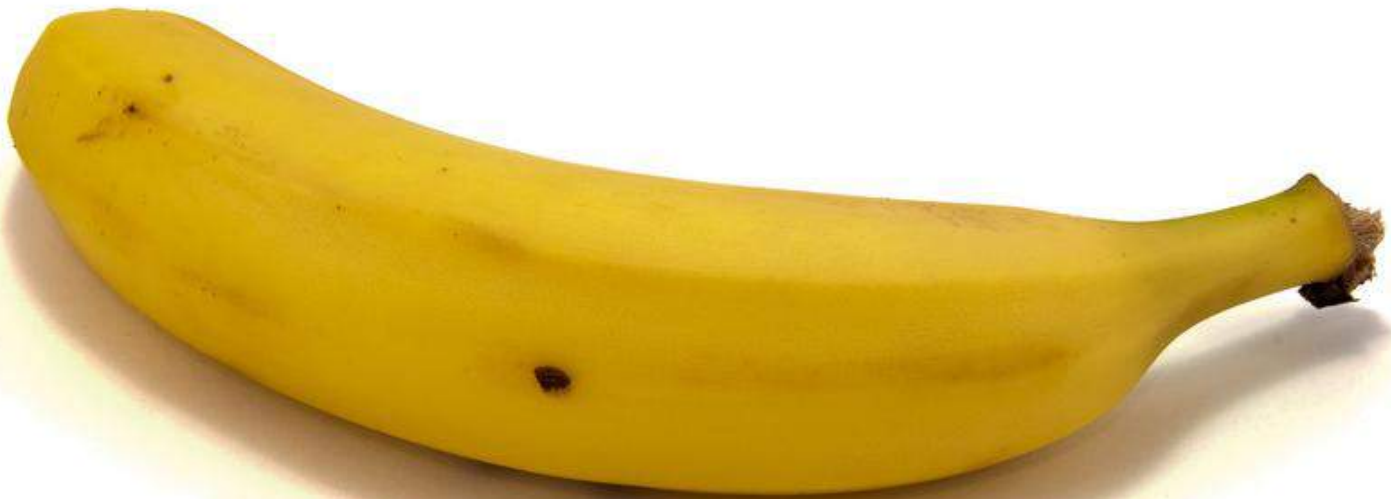
“Corruption – systemic graft – is at the heart of the state's inability to respond to insecurity in general.”

John Githongo,  
former Permanent Secretary  
of Governance, Kenya

29 May 2014, Associated Press



# IT MATTERS FOR.. INTERNATIONAL ARMS REGULATION



# IT MATTERS FOR.. INTERNATIONAL OPERATIONS

## IT MATTERS

### 1. Major effect on operations

- *an operational imperative (Petraeus)*
- *ISAF seen as complicit (McChrystal)*
- *the principal threat to ISAF (Comisaf)*

### 2. Technical assistance

*Corruption prevention in defence forces will pay big dividends*

### 2. Gaining support

*Never think host nation citizens are OK with corruption. They are not*

## SO...

### 1. Review Pol/Mil strategy

- *Revise security policy*
- *Understand corrupt'n dynamics*
- *Mission mandates*

### 2. Institutionalise military knowledge

- *Training; Doctrine; Exercises*
- *Threat analysis; Force structure*
- *Intelligence; Contracting*
- *A new mind-set*

# IT MATTERS FOR.. COUNTERING TERRORISM

## TERRORISM



The diagram illustrates the factors contributing to terrorism. A central box labeled 'TERRORISM' is connected by red arrows to three surrounding boxes: 'RECRUITMENT, RADICALISATION' (top right), 'CORRUPT SERVICES' (middle right), and 'RICH PATRONS' (bottom right).

### RECRUITMENT, RADICALISATION

- Revulsion at excessive riches
- Inability to get jobs due to patronage
- Daily humiliations: encourages recruitment
- Prisons

### CORRUPT SERVICES

Bribes: checkpoints, borders, licenses, etc.

### RICH PATRONS

Corruption may be their source of wealth  
May be associated with organised crime



## 2. THE EXTENT OF THE RISK: GOVERNMENTS

### GOVERNMENT DEFENCE ANTI-CORRUPTION INDEX 2013

- 82 countries
- Defence Ministries, Armed Forces
- Strengths, weaknesses of anti-corruption controls
- Based on public information plus interviews
- Now being repeated for 136 countries (publication 2015)



# GOVERNMENT INDEX: BANDS

The 82 countries in the Index were placed in the following bands:

Band A – Very low corruption risk

Band B – Low corruption risk

Band C – Moderate corruption risk

Band D – High corruption risk

Band E – Very high corruption risk

Band F – Critical risk level

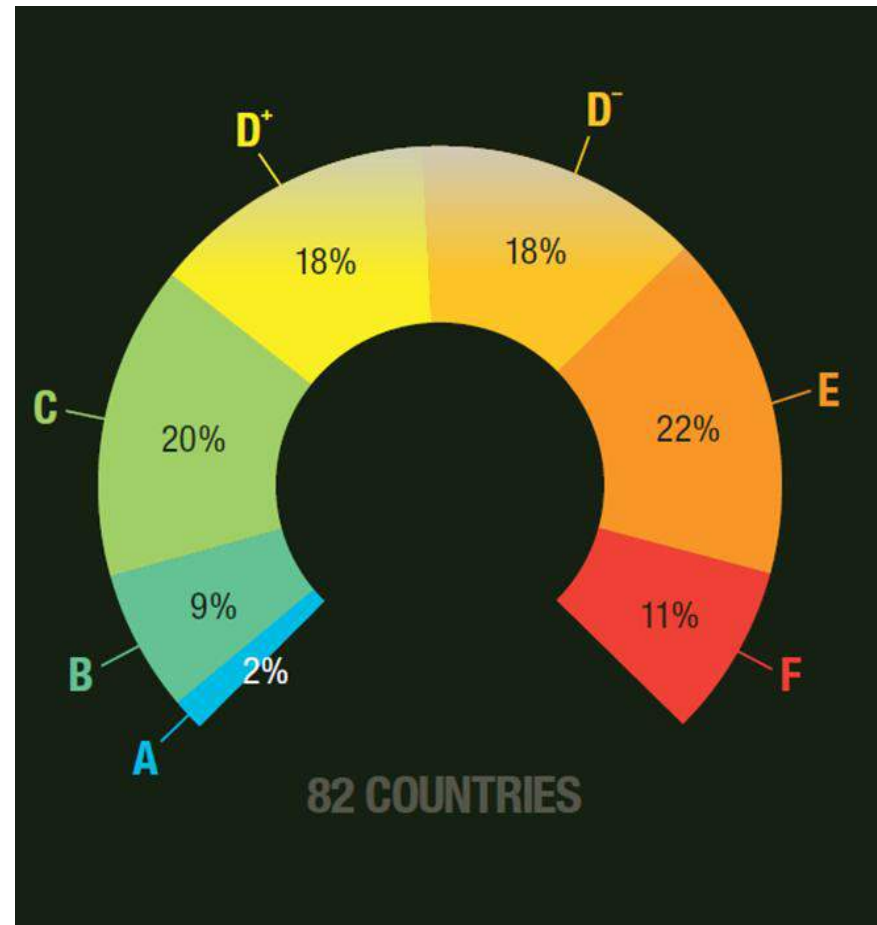


# GOVERNMENT INDEX: RESULTS

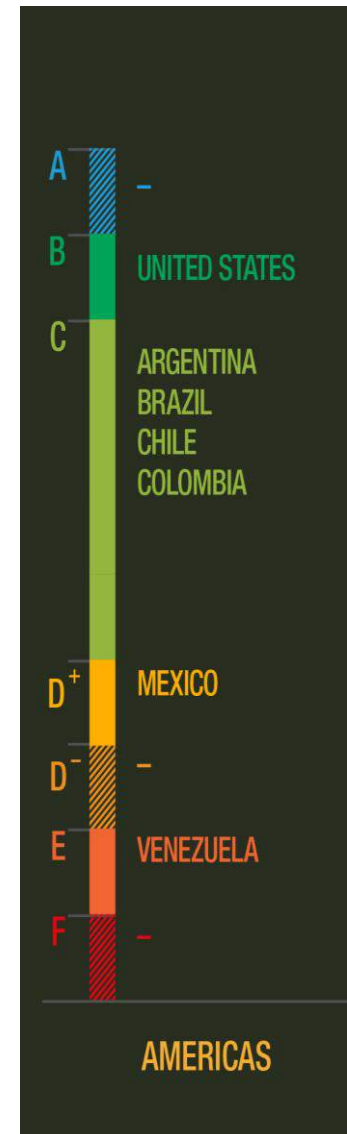
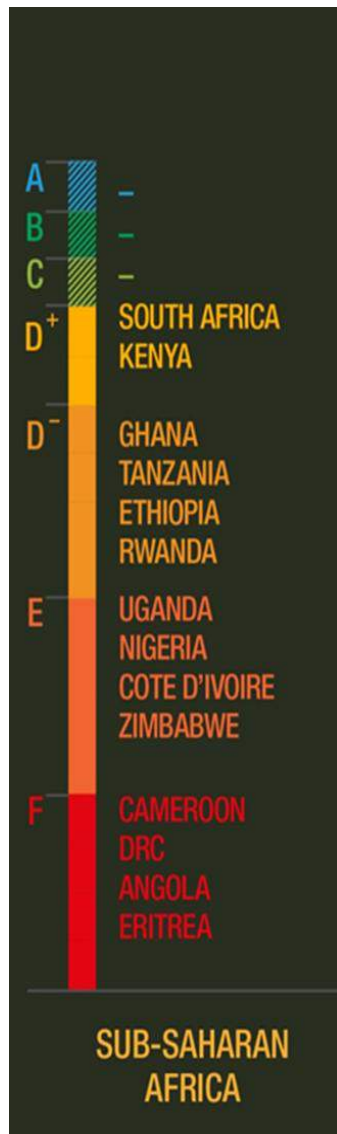
Only 2% of the countries  
Band A.

11 % of the countries in  
Band F.

69% of the countries had a  
**high**, **very high** or **critical**  
corruption risk.



# GOVERNMENT INDEX: RESULTS



# USING GI: EXAMPLE

## INDIA – BAND D+

POLITICAL

41%

FINANCIAL

64%

PERSONNEL

56%

OPERATIONS

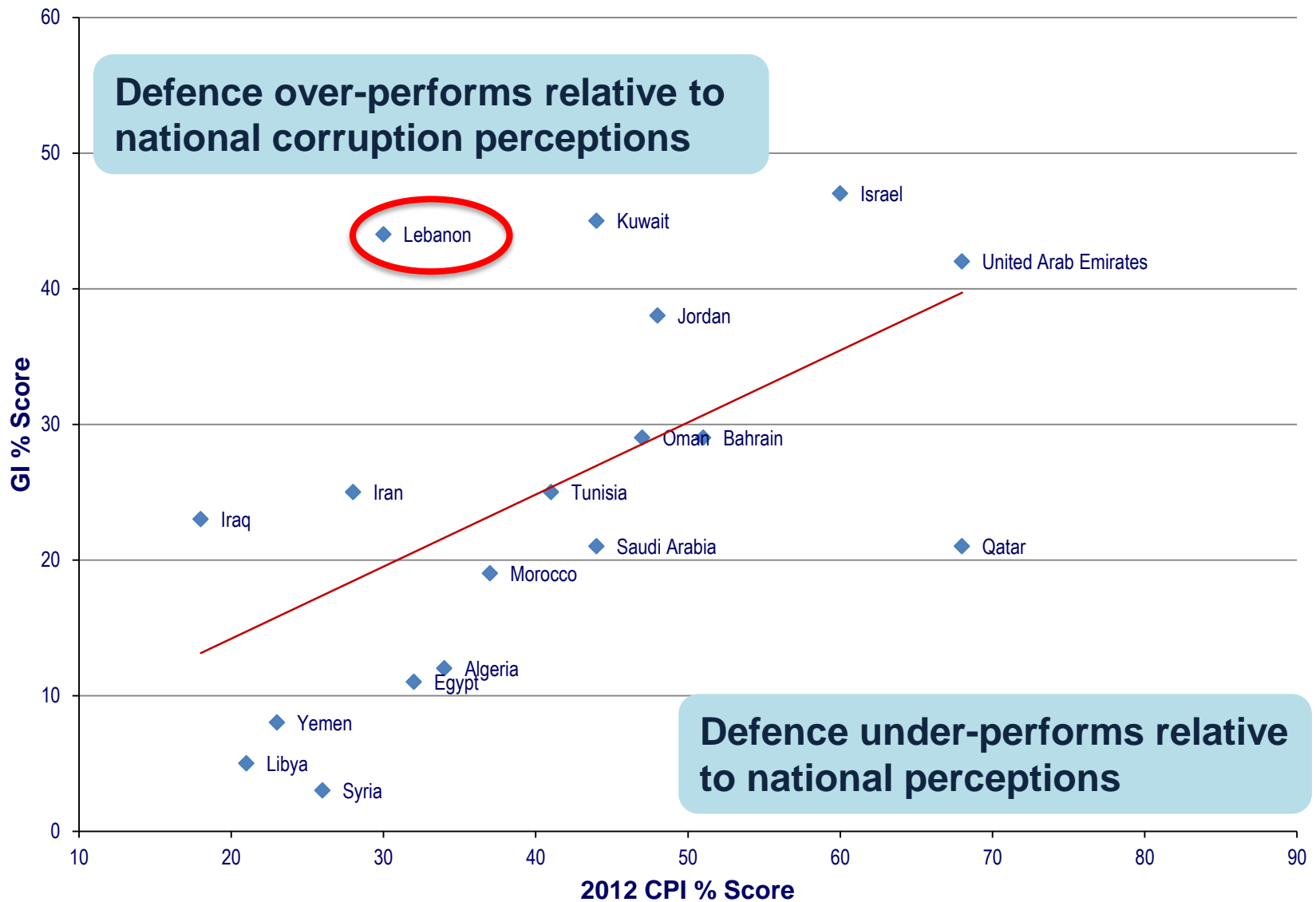
30%

PROCUREMENT

50%

- + Parliamentary Committee on Defence approves defence spending
- + Objective appointments and promotions of personnel
- + Payment system transparent; no evidence of ghost soldiers
- + Number of personnel known and publicly available
- + Procurement mostly based on clearly identified requirements
- Uncertainty over the existence or not of a national defence policy
- Recommendations of standing committee on defence not binding
- % of defence and security spending secret not available
- Legislative debate on audits of secret programmes limited
- No evidence of a Code of Conduct covering corruption

# USING GI: EXAMPLE



# THE EXTENT OF THE RISK: COMPANIES

## DEFENCE COMPANIES ANTI-CORRUPTION INDEX 2012

- 129 companies worldwide
- Evidence of robust systems to limit corruption risk
- Banding based on:
  - public information only
  - internal information
- Now being repeated for 166 companies (publication 2015)



# COMPANIES INDEX BANDS

The 129 companies in the Index was placed in the following bands:

Band A: Extensive evidence of corruption risk management

Band B: Good evidence

Band C: Moderate evidence

Band D: Limited evidence

Band E: Very limited evidence

Band F: Little evidence



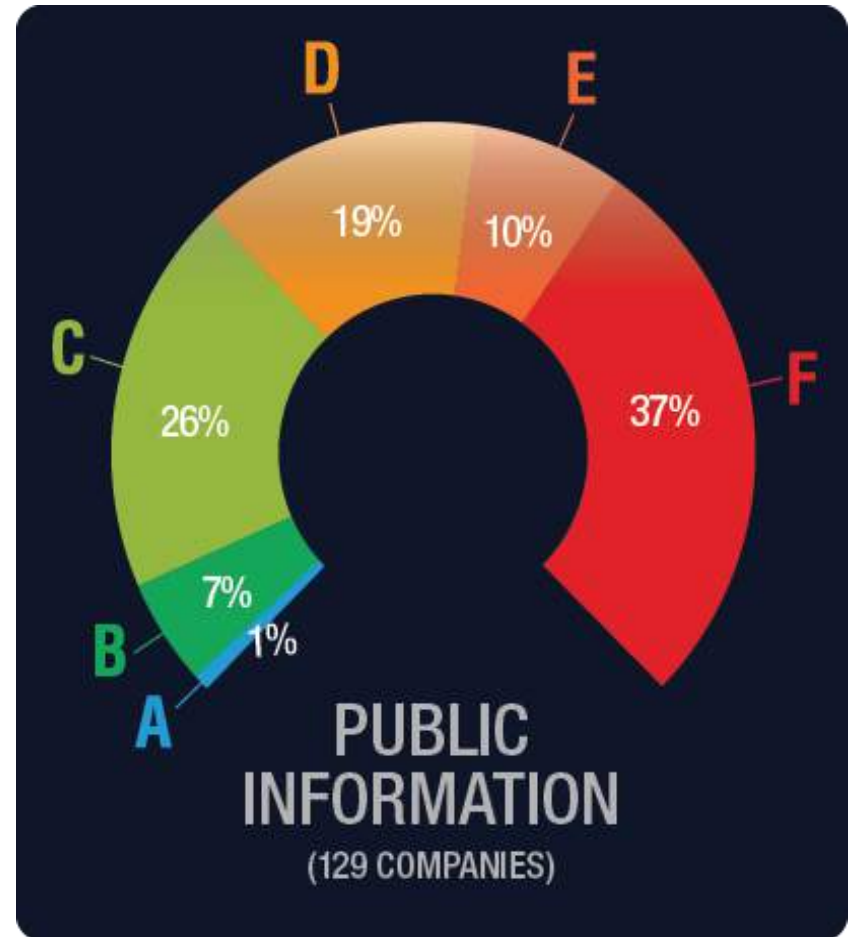


# COMPANIES INDEX: RESULTS

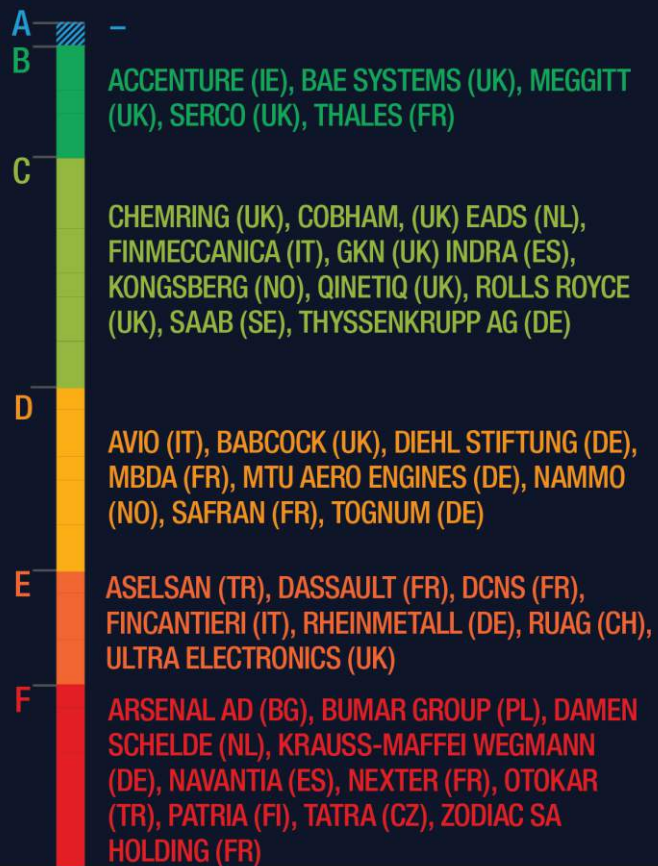
Only 1% of the companies  
Band A.

37% of the companies in  
Band F.

66% of the companies had  
a **limited**, **very limited** or  
**little** evidence of robust  
systems to counter  
corruption risk.



# COMPANIES INDEX: RESULTS



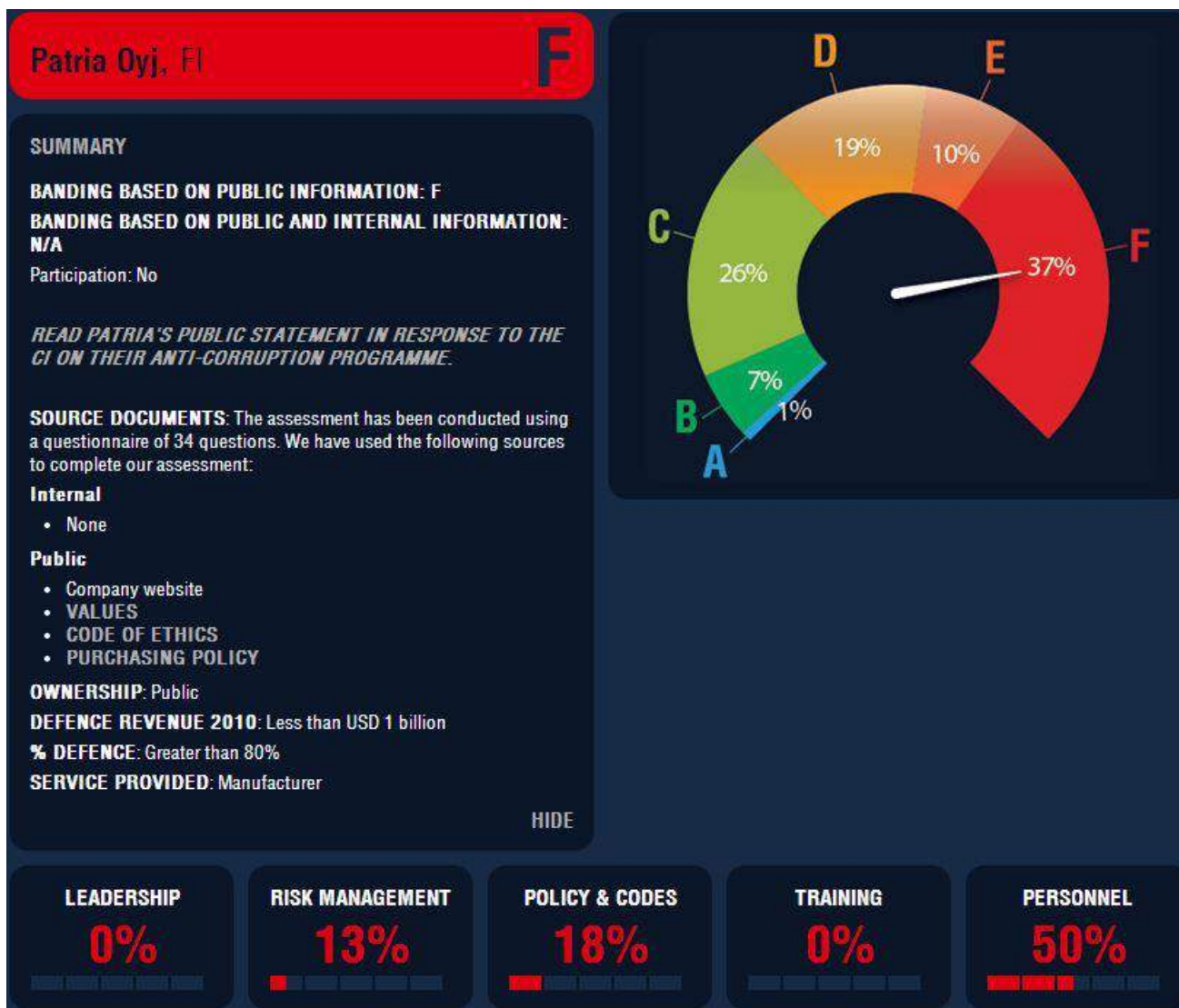
**EUROPEAN COMPANIES**  
(BANDS BASED ON PUBLIC INFORMATION - 41 CO.S)



**US COMPANIES**  
(BANDS BASED ON PUBLIC INFORMATION - 44 CO.S)

# DEFENCE COMPANIES

## Examples



Saab AB\*, SE

C

## SUMMARY

**BANDING BASED ON PUBLIC INFORMATION: C**

**BANDING BASED ON PUBLIC AND INTERNAL INFORMATION: B**

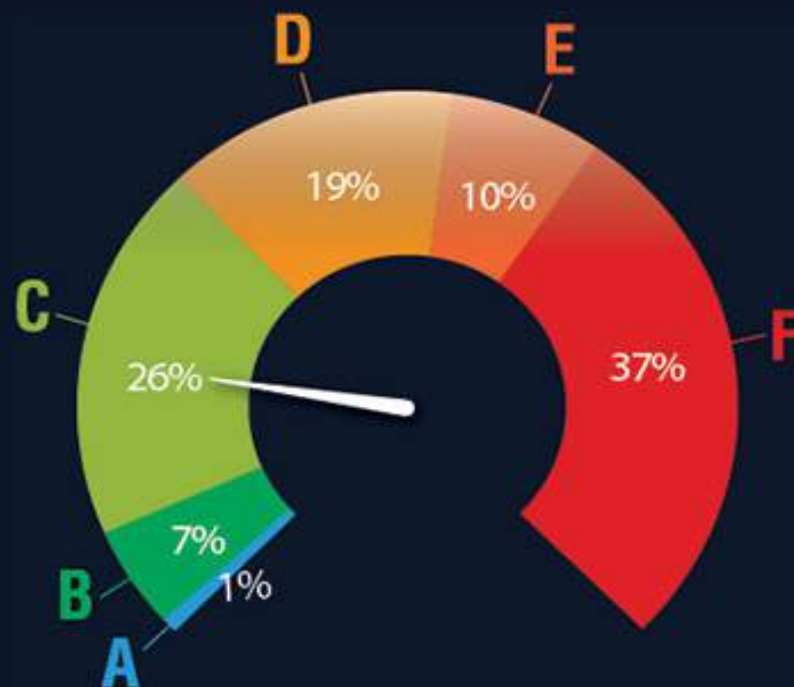
Participation: Yes

**SOURCE DOCUMENTS:** The assessment has been conducted using a questionnaire of 34 questions. We have used the following sources to complete our assessment:

### Internal

- Discussions with the company
- Letter from CEO to ASD

[CLICK HERE TO READ MORE](#)



### LEADERSHIP

61%



### RISK MANAGEMENT

50%



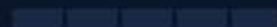
### POLICY & CODES

55%



### TRAINING

0%



### PERSONNEL

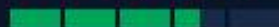
70%



**COMPANY'S BAND & ANALYSIS BASED ON INTERNAL AND PUBLIC INFORMATION: BAND B**

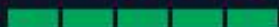
### LEADERSHIP

\*72%



### RISK MANAGEMENT

\*100%



### POLICY & CODES

\*96%



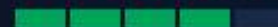
### TRAINING

\*30%



### PERSONNEL

\*80%





### 3. WHAT ARE THE RISKS? GOVERNMENTS

We have placed corruption risk for governments under five main risks areas:

- **POLITICAL** – defence legislation and controls
- **FINANCIAL** – large, potentially secret budgets
- **PERSONNEL** – armed forces, defence ministry
- **OPERATIONS** – during military operations (nat'l or int'l)
- **PROCUREMENT** – defence equipment & arms

# 29 defence corruption risks

## 29 DEFENCE CORRUPTION RISKS

### POLITICAL

Defence and Security Policy **10**

Defence Budgets **7**

Nexus of Defence & National Assets **1**

Organised Crime **2**

Control of Intelligence Services **2**

Export Controls **1**

### FINANCE

Asset Disposals **2**

Secret Budgets **6**

Military-owned businesses **2**

Illegal Private Enterprises **1**

### PERSONNEL

Leadership Behaviour **4**

Payroll, Promotions, Appointments, Rewards **5**

Conscription **2**

Salary Chain **2**

Values & Standards **4**

Small Bribes **1**

### OPERATIONS

Disregard of Corruption in Country **2**

Corruption within Mission **1**

Contracts **1**

Private Security Companies **1**

### PROCUREMENT

Technical Requirements / Specifications **7**

Single Sourcing **2**

Agents / Brokers **1**

Collusive Bidders **1**

Financing Packages **1**

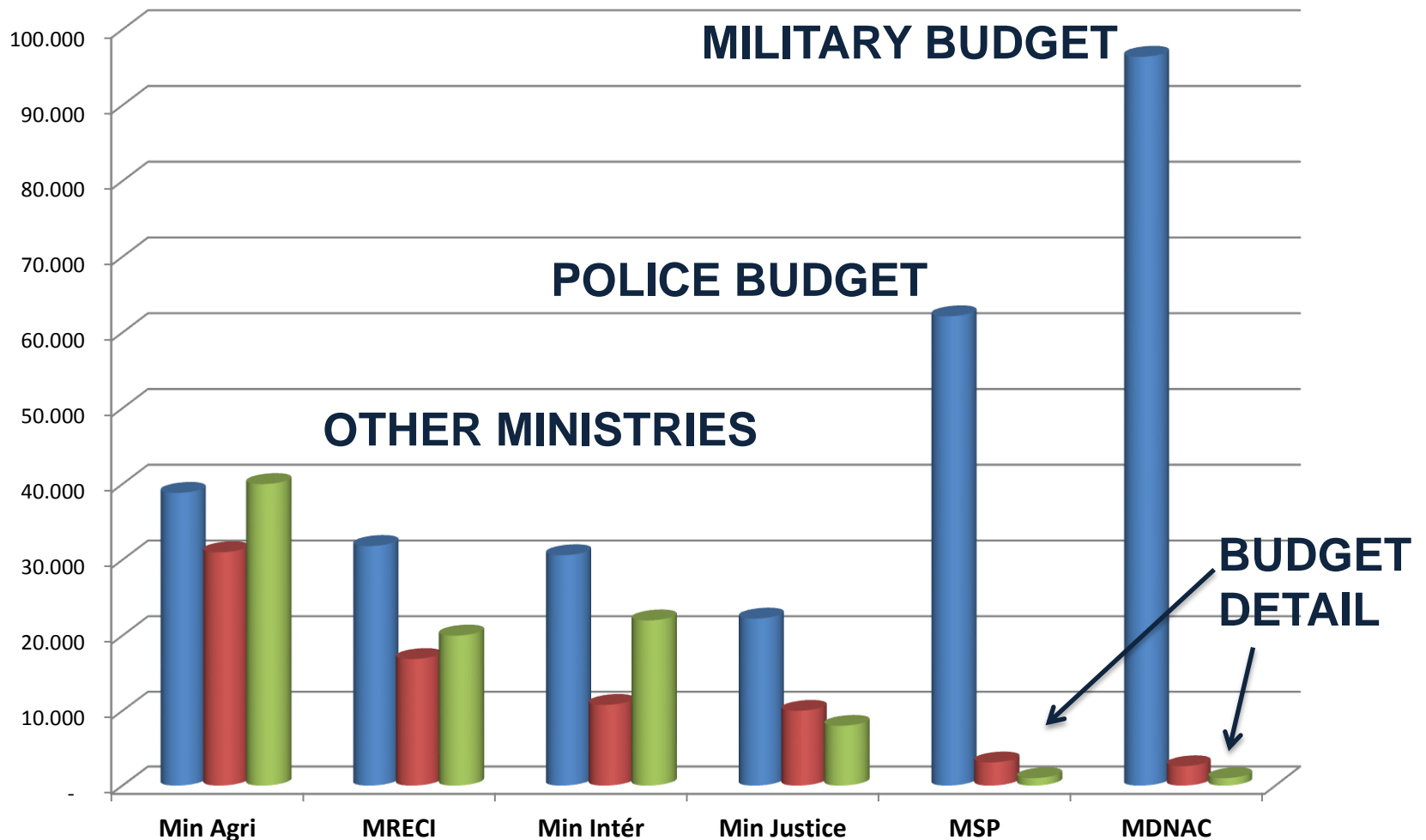
Offsets **3**

Contract Award, Delivery **3**

Subcontractors **1**

Seller Influence **1**

# DEFENCE BUDGET TRANSPARENCY BURUNDI



# WHAT ARE THE RISKS? COMPANIES

The five areas of the Ethics and Anti-Corruption programmes in companies that we looked at.

LEADERSHIP, GOVERNANCE & ORGANISATION

RISK MANAGEMENT

COMPANY POLICIES & CODES

TRAINING

PERSONNEL & HELPLINES



# COMPANIES

## 35 risk areas

### Companies Index 5 Pillars of Ethics and Anti-Corruption Systems

LEADERSHIP, GOVERNANCE & ORGANISATION	RISK MANAGEMENT	COMPANY POLICIES & CODES
LEADERSHIP, GOVERNANCE & ORGANISATION	RISK ASSESSMENT	POLICIES
EXTERNAL ENGAGEMENT	PARTNERS & AGENTS	GIFTS & HOSPITALITY
STRUCTURE & ORGANISATION	ANOTHER DUE DILIGENCE	FACILITATION PAYMENTS
MONITORING & EVALUATION	OFFSETS	POLITICAL & CHARITABLE INSTITUTIONS
TRAINING	PERSONNEL & HELPLINES	
GENERAL TRAINING	PERSONNEL & DISCIPLINE	
SPECIALIST TRAINING	HELPLINES & WHISTLE-BLOWERS	

# COMPANIES

## The 7 distinguishing risk areas

### The seven distinguishing areas of good practice

PUBLIC DISCLOSURE

LEADERSHIP SPEAKING UP

BOARD ASSURANCE

CORRUPTION RISK ASSESSMENTS

THIRD PARTY RISK MANAGEMENT

SPECIALISED TRAINING

EFFECTIVE WHISTLE-BLOWING

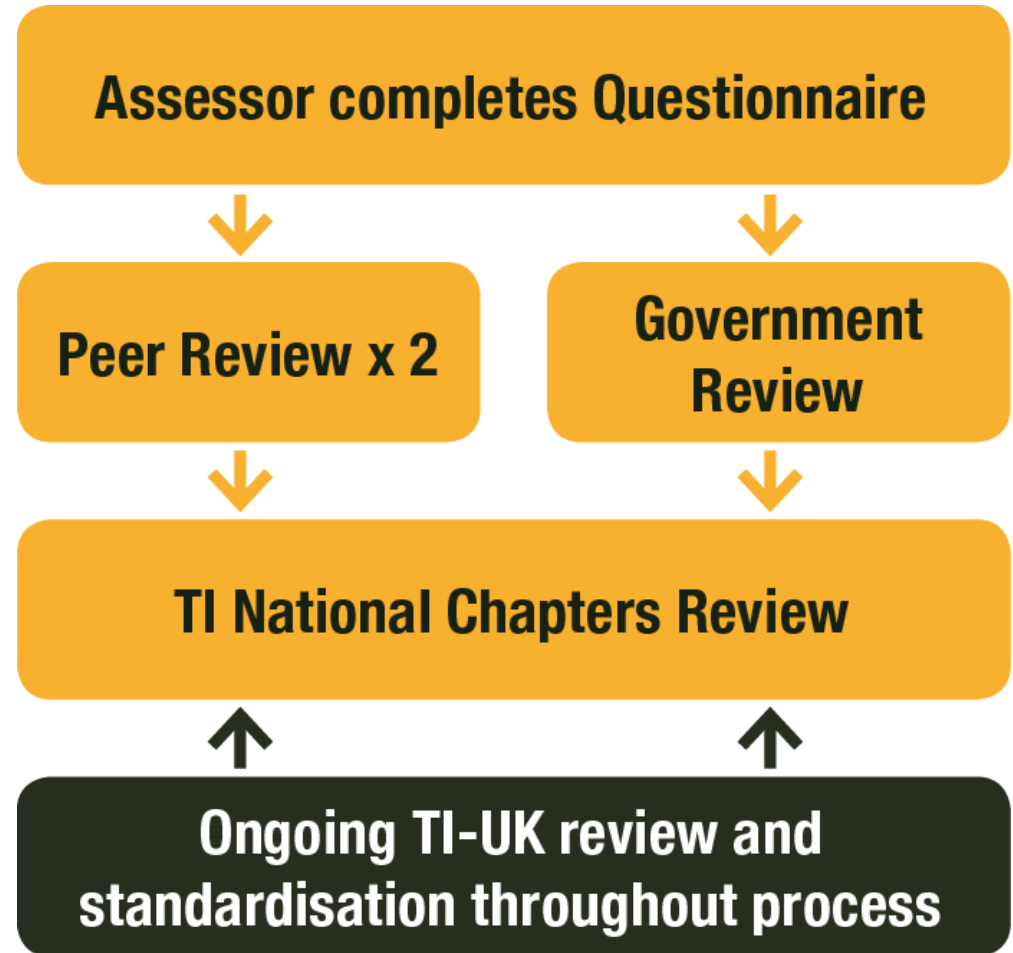
## 4. MEASURING THE RISKS: GI process

- 77 questions
- The concept of a 'hybrid' index:

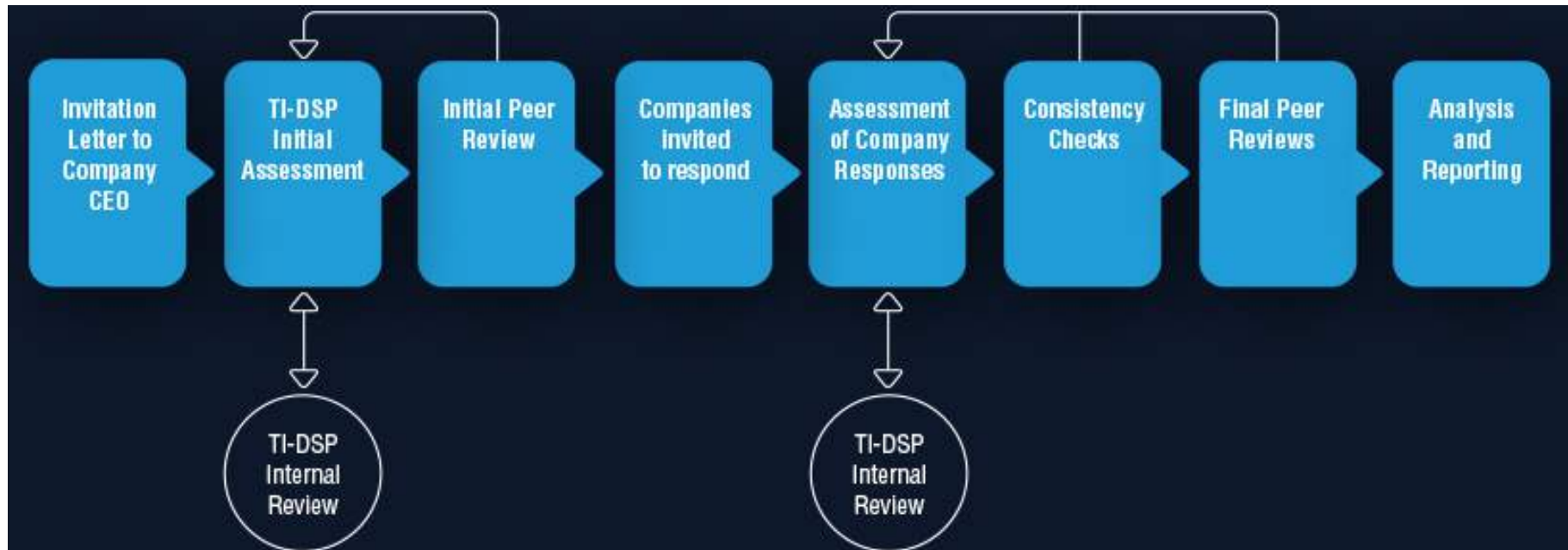
*Quantitative questions*

*Qualitative questions*

- Use of TI-DSP typology, particularly the 29 sub-risks, to underlie questionnaire.



# MEASURING THE RISKS: CI process



- 34 detailed questions on anti-corruption systems
- Two rankings – public information only; public plus internal information
- Companies all given chance to comment

# MEASURING THE RISKS:

## CI – internal information example



# 5. CRITICISMS of the index

1. Cultural bias towards Western definition of corruption.
2. Dependent on the quality of the risk typology.
3. How do you decide on the weighting of the risks?
4. Typology includes implicit weighting.
5. The model answers are highly normative.
6. Too open to assessor bias.
7. Assessor insufficiently qualified.
8. Insufficient data to do a meaningful analysis.
9. Results overly dependent on what is on the website.
10. Meaningful data requires government/company cooperation.
11. Positive bias if government/company cooperates.
12. Other?

“This is not pink and fluffy stuff. This is very hard-nosed common sense that militaries need to know and absorb.”

Rear Admiral Bruce Williams  
Deputy Head, EU Military Staff

# THANK YOU

# QUESTIONS?

Visit [www.ti-defence.org](http://www.ti-defence.org) for more information  
about our programme.

[mark.pyman@transparency.org.uk](mailto:mark.pyman@transparency.org.uk)



# OUR WORK STRATEGIC CHOICES

1. Penetrate the Ministry or work through the media?
2. An independent civil society view or engaging with government?
3. Compare with other national institutions or internationally?
4. Use technical index or perceptions index?
5. Tackling corruption sector-by-sector or holistically?
6. Work with government or against government?
7. Use scandals or avoid scandals?
8. Use public information only or also use internal information?
9. Recommend comprehensive plan or narrow focus?
10. Continue with indexes or raise the bar?