

# How to Assess Corruption in Defence

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## A Framework for Designing, Comparing and Interpreting Corruption Measurement Tools

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This report provides guidance for measuring corruption in the defence sector. It lays out a series of conceptual frameworks for designing, comparing and interpreting corruption measurement tools, including suggestions for how to adapt general corruption indicators to defence. The report is divided into four sections. The first offers an exposition on the problem of defence corruption, its forms and consequences. The second section applies programme design principles to clarify how understandings of corruption and theories of change can inform a measurement endeavour. The third section is a structured review of four general approaches to measuring corruption, including descriptions of several major indexes in the field. Finally, the fourth section explores how the design principles and measurement approaches could be applied to the defence sector.

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### **Note about Terminology**

In the report, the following definitions are employed: *Corruption* is the abuse of power for private gain. It includes, but is not limited to, bribery, embezzlement, fraud, straddling, favouritism, nepotism and similar acts. It includes both bureaucratic and political, or grand, corruption.

The *defence establishment* refers to the Ministry of Defence, or equivalent, and the military and armed forces, but not internal security or police forces. The *defence sector* includes the public defence establishment and private defence companies, such as arms manufacturers and military suppliers. Defence here does not include non-state actors such as terrorist or rebel/armed groups, non-military or paramilitary intelligence, gendarmerie/state police, or unofficial trafficking operations. This document is primarily concerned with corruption as it pertains to conventional fighting forces and conventional arms. Nuclear, biological and chemical weapons may be traded in corrupt transactions in defence, but their specific problems as weapons of mass destruction with additional protocols and concerns are left to other authors to explore.

*Civil society* refers to the multitude of individuals and organizations, including international and national non-governmental organizations (NGOs), media and community groups, which are generally not-for-profit and exert some influence on public life, but are not generally part of either the public or private sectors.

*Indicators* are here defined broadly, following UNDP's *Governance Indicators: A User's Guide*, as a measure that points to something about the state of corruption (or some other related phenomena) in a country or context.

*Assessments* offer broader contextual analysis, drawing on multiple indicators of corruption.

According to the *User's Guide to Measuring Corruption*, "A balanced assessment will draw from a mix of qualitative and quantitative corruption indicators."

## ABBREVIATIONS AND ACRONYMS

<b>BPI</b>	Transparency International Bribe Payers Index
<b>CPI</b>	Transparency International Corruption Perceptions Index
<b>CSO</b>	Civil Society Organization
<b>EIRIS</b>	Ethical Investment Research Service
<b>GI</b>	Global Integrity
<b>MOD</b>	Ministry of Defence (any government, regardless of official title)
<b>NATO</b>	North Atlantic Treaty Organization
<b>NGO</b>	Non-governmental Organization
<b>OBI</b>	Open Budget Index
<b>OECD</b>	Organization for Economic Cooperation and Development
<b>PEM</b>	Public Expenditure Management
<b>PETS</b>	Public Expenditure Tracking Surveys
<b>PRT</b>	Promoting Revenue Transparency Project
<b>TI</b>	Transparency International Secretariat
<b>TI (UK)</b>	Transparency International, United Kingdom National Chapter and Defence Against Corruption Initiative
<b>WB/WBI</b>	World Bank / World Bank Institute
<b>WGI</b>	Worldwide Governance Indicator (produced by World Bank Institute)

## EXECUTIVE SUMMARY

This report provides guidance for measuring corruption in the defence sector. It lays out a series of conceptual frameworks for designing, comparing and interpreting corruption measurement tools, including suggestions for how to adapt general corruption indicators to defence. The report is divided into four sections. The first offers an exposition on the problem of defence corruption, its forms and consequences. The second section applies programme design principles to clarify how understandings of corruption and theories of change can inform a measurement endeavour. The third section is a structured review of four general approaches to measuring corruption, including descriptions of several major indexes in the field. Finally, the fourth section explores how the aforementioned design principles and measurement approaches could be applied to the defence sector.

### **I. Understanding the Problem of Corruption in Defence**

Corruption in defence is a serious problem for the world's governments, soldiers and citizens. From bribes paid at military checkpoints to multi-million dollar procurement kickback schemes, corruption squanders scarce public resources, reducing budget effectiveness and slowing economic development. It distorts policy-making and implementation when officers or administrators abuse their access to state resources and privileges. Even at the highest levels of office, corruption affects decisions of war and peace, policy and society. The most basic information about defence spending, such as the national budget, may be secret. This undermines public confidence in the state and armed forces. In the worst cases, corrupt networks embedded in national and transnational economies encourage and sustain violent conflict, leading to further economic degradation and deplorable impacts on human life and living conditions. In short, corruption in defence is a threat to national, as well as international, security.

The secrecy, technical complexity and political-strategic importance of the defence sector facilitate corruption by erecting legal and social barriers to transparent oversight, public awareness, political accountability and legal enforcement. Violent conflict in particular undermines good governance, allowing corruption to fester in a deadly feedback loop. Integrity is bound to suffer in such an environment.

### **II. Towards a Strategy for Reform**

Even as the international anti-corruption and good governance movement has gained force, the defence sector has received relatively scant attention until recently. However, a movement against defence corruption is gaining initiative. Civil society groups—most notably Transparency International—have been actively raising awareness, lobbying governments and international bodies to take action. Today, major powers, including NATO, are recognizing security sector corruption as a major threat to national security and financial integrity from the Balkans to Afghanistan.

Yet, fundamental questions remain unanswered or contested: How much money is lost each year to defence corruption? Which defence establishments in which countries are the most corrupt? Which have the best standards for transparency procurement? What are the empirical relationships between defence corruption and other contextual factors such as overall governance quality, geographic location and macroeconomic conditions? Are things getting better or worse—globally? Nationally? How do we know?

Unfortunately, not only do these questions remain unanswered, they may be *unanswerable* without better information. Measuring corruption is not an obvious process. Corruption is a complex, ambiguous phenomenon. It occurs in secret and takes a variety of forms, ranging from petty abuses to major political scandals. Researchers and practitioners designing assessment tools must not only decide *what* to measure, they must also determine *how* and *why* to collect information in order to make strategically sound decisions about where to allocate their resources to maximize long-term anti-corruption effect.

It may be tempting to undertake corruption work without questioning the fundamental assumptions about why corruption occurs and how it might be stopped. Such lack of clarity inhibits programme design, potentially conflating different facets of the problem in unhelpful ways. This approach risks wasting time, money and political capital. For this reason, sound corruption measurement tools are those which flow from the following programme design principles:

- The programme should proceed from explicit and convincing theories of corruption and reform. Staff should seek to identify causes of corruption, as well as changes which must occur for corruption to be reduced. A theory of change extends this analysis to ask *how* anti-corruption change can be generated. This is a subtle, but important part of the process,

because it suggests which phenomena are most important for measurement indicators to track.

- The ultimate strategy for measurement should be *conflict sensitive*. That is, it should be designed to ensure that the collection or publication of the measurement results does not feed into or exacerbate violent conflict.
- The strategy should also seek to overcome the gap between *research* and *practice*. To the extent possible, the indicators should be designed not just to capture accurate diagnostic information about the state of corruption in a particular context; they should be useful and actionable to policy makers, and presented in a manner which feeds into the strategic theory of change.

### **III. Comparing and Interpreting Corruption Measurement Approaches**

A variety of approaches to general corruption measurement exist, ranging from well-known tools like the Transparency International Corruption Perceptions Index to lesser-known approaches such as the Open Budget Index produced by the Center on Budget and Policy Priorities. There is no single best approach. Instead, selecting a particular approach should be based on an analysis of the particular corruption context, as well as strategic thinking and design about how a particular corruption assessment will make a difference for reform.

This report analyzes some of the most notable corruption and integrity measurement tools along the following spectrums:

- It categorizes the different methodologies into four types: *perceptions-based indicators*, *technical indicators*, *socio-legal indicators*, and *non-traditional indicators*, offering annotated examples of each approach.
- It suggests a set of six criteria for comparing corruption measurement tools, applying them to the examples. The criteria of *reliability*, *validity*, and *precision* capture information about individual measures. Criteria of *robustness*, *appropriateness*, and *usefulness* can be used to compare indicator baskets in light of some more general theory of change.
- The examined measurement tools are the Corruption Perceptions Index, the Bribe Payers Index, the Worldwide Governance Indicators, the World Bank's Quantitative Service Delivery Surveys and Public Expenditure Tracking Surveys, Citizen Report Cards, the Global Integrity Index, the Open Budget Index, the Promoting Revenue Transparency index, EIRIS's

reports, and, finally, two examples of non-traditional studies looking for correlations of corruption with diplomat parking tickets and reports of Dick Cheney's health.

#### **IV. Applying the Lessons to Defence Corruption**

By thinking carefully about how and why a particular measure might provide useful information about some aspect of defence corruption, reformers can match the right tool to the job. It is beyond the scope of this academic report to structure and implement a real world measurement undertaking, but it does offer some general suggestions. Creative thinking and cooperation by those in positions to share quality data will produce the best measurement results in the long run.

For example, a group like Transparency International (UK), perhaps in partnership with NATO or an academic institution, would be in a good position to distribute and collect a range of surveys and questionnaires, including:

- Perceptions-surveys of defence professionals, modelled on the TI Bribe Payer's Index, collecting information about which firms or ministries of defence have the best-reputed standards of integrity, transparency, or accountability;
- Technical indicators or reviews, whereby defence ministries might work in collaboration with civil society or international financial institutions like the World Bank or International Monetary Fund to monitor and evaluate reform of their own military establishments;
- Socio-legal questionnaires, ranging from just a handful of questions to a much longer set, could be completed by country-experts regarding the integrity of particular national-level defence establishments. These measures would be based on a set of standards and best practices identified by a team of experts and researchers.
- Non-traditional indicators, especially unconventional reports, could be compiled by researchers with an eye on attracting media attention on a particular country or aspect of defence corruption.

In addition, with more information and better sharing of data, defence economists and other researchers will be positioned to begin refining and testing models on the causes and consequences of abuse.

Proposals for certain tools are included in the **appendixes** to this report.

# I. UNDERSTANDING THE PROBLEM OF CORRUPTION IN DEFENCE

This section seeks to provide context for understanding why corruption in defence is a problem and how it occurs. The first part of the section is a general overview. The second part delves deeper into the topic with an analysis of defence corruption across the three transactional categories: political context and control, defence functions and processes, personnel. The section concludes with a discussion of the importance of localized national and regional contexts.

## GLOBAL CONSEQUENCES OF DEFENCE CORRUPTION

Corruption in the defence sector is a serious problem for the world's governments and citizens. In terms of frequency and sheer financial scale, corruption in defence is massive. Transparency International's 2002 Bribe Payer Index (BPI) lists "Arms and Defence" as the second most likely sector for senior public officials to pay bribes, after "Public Works and Corruption" and before "Oil and Gas"<sup>1</sup>. Defence budgets in many countries account for large portions of government expenditures, over 2.5% of GDP worldwide—an enormous figure which is currently increasing at an accelerating rate<sup>2</sup>. The large sums of money involved in defence expenditures ensure that billions of dollars are lost each year to corruption. Indeed, the recent U.K. Serious Fraud Office investigation into BAE Systems alone uncovered a \$146 million "slush fund," which was part of other illicit payments made to support the £43 billion Al Yamamah contract<sup>3</sup>. Despite receiving scant attention until relatively recently, corruption in the defence sector is undoubtedly one of the most imposing problems for anti-corruption today.

All across the world, and especially in poor countries, corruption is a waste of public funds which drains money from social welfare and development programs. Generally speaking, "Corruption diminishes the impact of public spending on social outcomes and alters the quality of public services."<sup>4</sup> Funding is lost in absolute terms as it is skimmed into private coffers. When bribes

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<sup>1</sup> *Bribe Payers Index 2002: Explanatory Notes and Comparative Tables*, Berlin: Transparency International, 2002,

<http://www.transparency.org/content/download/2863/17759> (accessed 20 August 2008). The 2008 edition saw defence ranked as relatively less corrupt among sectors, but, due to methodological differences, the two surveys are not directly comparable.

<sup>2</sup> Petter Stålenheim, Catalina Perdomo and Elisabeth Sköns, "Chapter 5: Military Expenditures," in *SIPRI Yearbook 2008: Armaments, Disarmaments, and International Security* (Stockholm: SIPRI, 2008), <http://yearbook2008.sipri.org/05> (accessed 13 April 2009).

<sup>3</sup> Rob Evans, "The BAE Files," *The Guardian*, (London, 2008), <http://www.guardian.co.uk/profile/robevans+world/bae> (accessed 25 May 2009).

<sup>4</sup> Clara Delavallade, "Corruption and distribution of public spending in developing countries," *Journal of Economics and Finance* 3, no. 2 (June 2006): 223, [http://findarticles.com/p/articles/mi\\_qa5443/is\\_200607/ai\\_n21401105/](http://findarticles.com/p/articles/mi_qa5443/is_200607/ai_n21401105/) (accessed 20 August 2008).

account for as much as 15 percent of the total spending on weapons acquisitions, ministries of defence suffer a loss of absolute purchasing power<sup>5</sup>. What's more, research has indicated that the allotment of money to other socially desirable sectors (such as education or health) is reduced as money is re-directed into corrupt channels<sup>6</sup>. Studies also suggest that corruption tends to have a negative impact on investment and growth<sup>7</sup>.

Aside from lamentable loss of public funds, corruption is also dangerous from a security standpoint when it causes defence spending to depart from legitimate security policy ends<sup>8</sup>. For example, corruption in procurement may cause militaries to acquire equipment which is not appropriate or sufficient for their needs<sup>9</sup>. In the Philippines, for example, corruption in the armed forces has allowed militant rebel groups to acquire weaponry, co-opt government forces, and ultimately de-legitimize the state<sup>10</sup>. This occurs for a variety of reasons: for example, bribe premiums mean militaries pay more for less. The black market allows sellers to behave more fraudulently by swapping products, taking poor care in delivery and so on. Moreover, corruption affects the decisions of procurement officials and policy makers, encouraging defence procurement to remain unconnected with an overall strategic security framework. When the incentive is private profit rather than national defence, expenditures will depart from legitimate ends.

Yet another detrimental effect of corruption in the defence sector is its negative impact on the credibility of the state and military. As Huguette LaBelle, Chairman of the Board of Directors of Transparency International's Secretariat explained, "Corruption reduces public trust in the armed forces, and reduces morale... This impacts on operational effectiveness, by putting lives in danger,

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<sup>5</sup> Sanjeev Gupta, Luiz de Mello, and Raju Sharan, *Corruption and Military Spending*, IMF Working Paper WP/00/23 (Washington, DC: International Monetary Fund, 2000), <http://www.imf.org/external/pubs/ft/wp/2000/wp0023.pdf> (accessed 20 August 2008).

<sup>6</sup> Catherine Courtney, *Corruption in the Official Arms Trade*, (London: Transparency International UK, 2002), 4, [http://www.defenceagainstcorruption.org/index.php?option=com\\_docman&task=doc\\_download&gid=11](http://www.defenceagainstcorruption.org/index.php?option=com_docman&task=doc_download&gid=11) (accessed 20 August 2008).

Paulo Mauro, "Corruption and the composition of government expenditure," *Journal of Public Economics* 69, no. 2 (June 1998), <http://ideas.repec.org/a/eee/pubeco/v69y1998i2p263-279.html> (accessed 20 August 2008); Gupta et al.

<sup>7</sup>, Paulo Mauro, "Corruption and Growth," *The Quarterly Journal of Economics* 110, no. 3 (August 1995), <http://ideas.repec.org/a/tpr/qjecon/v110y1995i3p681-712.html> (accessed 20 August 2008).

<sup>8</sup> For example, Roger Tangri and Andrew Mwenda, "Military Corruption and Ugandan Politics since the Late 1990s," *Review of African Political Economy* 30, no. 98 (2003), <http://prod.informaworld.com/smpp/content~content=a713630639~db=all~order=page> (accessed 20 August 2008).

<sup>9</sup> Mark Urban, "Obama's Pentagon Spending Fight," *BBC Newsnight*, 30 March 2009, <http://news.bbc.co.uk/1/hi/programmes/newsnight/7972917.stm> (accessed 13 April 2009).

<sup>10</sup> Matthew Herbert, "Armed Forces of the Philippines: Endemic Corruption and Ongoing Conflict," unpublished paper, Medford, MA: The Fletcher School, 2008.

and it can invalidate security strategies.”<sup>11</sup> Internationally, donors and allied nations may adjust their attitudes and behaviour towards corrupt countries, most notably by reducing levels of investment or development aid. The U.S. Millennium Challenge Corporation, for example, ties its aid awards to indicators about corruption levels<sup>12</sup>. For citizens, corruption subverts democracy and undermines the social contract. In a democracy, this can be disastrous for the politicians in power and the country in the long run, and a less credible state even in non-democracies is more likely to face attacks to its legitimacy<sup>13</sup>.

One common misconception about bribes and other illicit transactions is that they are one-time events. In fact, the opposite is true. Corruption schemes usually involve high transaction costs and barriers to entry. Once these obstacles are overcome and an illicit agreement is struck, however, the incentives to perpetuate the corruption relationship are strong. The lack of transparency, accountability or enforcement for the defence sector makes it a fertile breeding ground for corruption, which then, argue some, spreads to other areas of government such as the political parties, security forces, election systems and elsewhere<sup>14</sup>. The inverse logic is also true; it will be difficult to fully reduce corruption across society without addressing it in defence, where the frequency, size and high-level nature of corruption are especially serious.

Perhaps most troubling, corruption in the defence sector, particularly as it becomes more entrenched, could lead to or sustain violent conflict. Most of the major indexes of conflict, including the Failed States Index, Bertelsmann Transformation Index, Global Peace Index and others, list corruption as one of the causal factors presumed to lead to conflict. If data were available on defence corruption specifically, then arguably the influence would be even more pronounced. In some cases, as bureaucratic corruption becomes increasingly politicized, corrupt elites embedded in the military and corrupt networks may choose to launch a coup or prolong violence. This has been the case at various times in Middle Eastern countries such as Lebanon’s Hezbollah, where militia leaders have leveraged their funds from bribery, their military power and their nepotistic

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<sup>11</sup> Huguette LaBelle, Remarks at NATO/Naval Post Graduate School Conference, Monterey, CA, on 26 February 2009.

<sup>12</sup> Millennium Challenge Corporation, Selection Indicators, <http://www.mcc.gov/selection/indicators/index.php> (accessed 13 April 2009).

<sup>13</sup> John McMillan and Pablo Zoido. "How to Subvert Democracy: Montesinos in Peru," *Journal of Economic Perspectives* 18, no. 4 (Fall 2004), [http://ideas.repec.org/p/ces/ceswps/\\_1173.html](http://ideas.repec.org/p/ces/ceswps/_1173.html) (accessed 20 August 2008).

<sup>14</sup> Interview with Mark Pyman, Transparency International (UK), who cites one example in John Githongo’s dossier on security-related corruption in Kenya in AfricaFocus Bulletin, Feb 26, 2006 (060226), available at <http://www.africafocus.org/docs06/git0602.php>.

ties to seize greater political power<sup>15</sup>. In other cases, violent conflict leads to corrupt and illicit transactions, which themselves serve to perpetuate conflict, as in the case of the war profiteering during the civil wars of West Africa<sup>16</sup>.

Meanwhile, corruption linked to defence can affect other aspects of the economy. Complicated schemes such as Export Credit Guarantees allow companies and politicians to exploit international trade laws to engage in masked favouritism, prioritizing contracts for certain national defence companies over other industries and national companies<sup>17</sup>. Companies themselves are also hurt by corruption when bribes, collusion and nepotism all coalesce into systems which distort market forces, disentangling revenue from performance and innovation.

In sum, corruption in defence is a serious problem for rich and poor governments, for defence companies worldwide, and finally for citizens, who ultimately lose scarce public resources and experience a reduction in national security.

## CORRUPT TRANSACTIONS IN DEFENCE

Corruption in defence is a complex phenomenon with causes and consequences found throughout the security sector and political context. Soldiers at checkpoints demand bribes from civilians and humanitarian agencies. Officers and administrators collect bribes to manipulate post assignments and promotions, or to channel payroll funds to secret bank accounts. Uniformed and civilian personnel alike abuse their access to state resources and privileges, while billions of U.S. dollars are spent every year on massive, complicated procurement contracts with elaborate bribery and kickback schemes built into every aspect of the transaction. Even at the highest levels of leadership, officials rotate in and out of government office, further blurring the lines between “public” and “private” interests. Even the most basic information about defence spending, such as the national

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<sup>15</sup> Mohamad Bazzi, "People's Revolt in Lebanon," *The Nation* (20 December 2006), <http://www.thenation.com/doc/20070108/bazzi> (accessed 18 October 2008).

<sup>16</sup> Ian Douglas, "Fighting for Diamonds: Private Military Companies in Sierra Leone," in *Peace, Profit Or Plunder? the Privatization of Security in War-Torn African Societies*, edited by Jakkie Cilliers and Peggy Mason, Chapter 9, Ottawa, Canada and South Africa: Institute for Security Studies, 1999; Dominik Zaum, "Thought Piece: Grand Vs Petty Corruption in Conflict Zones," Medford, MA: The Fletcher School, 12 April 2007, <http://fletcher.tufts.edu/corruptionconf/pdf/zaum.pdf> (accessed 2 January 2009).

<sup>17</sup> Jurgen Brauer, J Paul Dunne, *Arms Trade and Economic Development: Theory, Policy, and Cases in Arms Trade Offsets*, (London and New York: Routledge, 2004), <http://books.google.co.uk/books?hl=en&lr=&id=8UJKpYqlq2YC&oi=fnd&pg=PR9&dq=Arms+Trade+and+Economic+Development:+The+ory,+Policy,+and+Cases+in+Arms+Trade+Offsets&ots=ZvIXbyo0Sc&sig=A-m5x503tpWwgCSxxja-NJbQrr4#PPP1.M1> (accessed 15 September 2008).

budget, may be secret, and defence policy may be crafted with an eye on the potential for future abuse. The following chart lists some of the damaging activities manifesting corruption in defence.

Corruption of individuals in defence	<ol style="list-style-type: none"> <li>1. Profiteering from procurement (from kickbacks, bribes, straddling, etc.)</li> <li>2. Profiteering from soldiers' payrolls (extracting percentages, using ghost soldiers, making payments to cronies)</li> <li>3. Income from state owned assets (such as cars)</li> <li>4. Self-serving use of budgets and resources (steering consultants' fees, appropriating cars, apartments, etc.)</li> <li>5. Receiving benefits from private defence companies</li> <li>6. Misuse of reward, promotion and discipline (nepotism, extortion, sabotage)</li> </ol>
Political Corruption	<ol style="list-style-type: none"> <li>7. Non-agreed defence policy</li> <li>8. Off-budget defence spending</li> <li>9. Secret power networks and organized crime</li> <li>10. Influencing elections</li> <li>11. Corrupt judicial proceedings</li> <li>12. State capture and misusing intelligence</li> </ol>
<p>Source: Adapted from "Types of Defence Corruption," in <i>Addressing corruption and building integrity in defence establishments</i>, Transparency International, Working Paper #02/2007</p>	

Analysts have suggested a number of different ways for conceptualizing corruption generally, and within defence. These viewpoints are often embedded in a particular theoretical model of corruption (discussed later on page **Error! Bookmark not defined.**), though the most common distinction is between *bureaucratic* (or "administrative") and *political* corruption. The former refers to the common transactional elements of corruption, such as bribes, kickbacks and exploitation of institutional loopholes, whereas the latter refers to the more abstract process

whereby elites begin purposefully creating policies and loopholes that afford them opportunities for corruption<sup>18</sup>.

For the purposes of this report, a more useful set of conceptual frameworks have been developed by Transparency International's UK chapter (TI (UK)) and the chapter's "Defence Against Corruption" team. In 2002, TI (UK) published an influential report calling attention to "Corruption in the Official Arms Trade."<sup>19</sup> In this article, TI explained how corruption in defence negatively impacts various actors in defence, government and industry. Subsequent work by TI (UK) expanded the analysis to include the whole defence sector, resulting in a present framework which divides typology into three categories for analysis (which are to be interpreted in light of the national and regional corruption context):

1. Political Context and Control
2. Functions and Processes
3. Defence Personnel

This distinction between personnel and processes lends nuance to the more standardized framework of so-called bureaucratic corruption by recognizing that institutions are a mix of social-psychological functions as well as legal or rules-based systems<sup>20</sup>. The following chart produced by TI (UK) offers a convenient visual guide to the framework<sup>21</sup>:

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<sup>18</sup> Phyllis Dininio, "Chapter 14: The Risks of Re-Corruption," In *Fighting Corruption in Developing Countries: Strategies and Analysis*. Spector, Bertram, ed. (Bloomfield, CT: Kumarian Press, 2005)

<sup>19</sup> Courtney

<sup>20</sup> Abundant literature exists on the topic of institutions and institution-building, particularly in the context of governance reform. For critical academic work on institution building, refer James Scott, *Seeing Like a State: How Certain Schemes to Improve the Human Condition have Failed*, (New Haven, CT: Yale University Press, 1998).

<sup>21</sup> A slightly updated framework was published in early 2009. Refer to [www.defenceagainstcorruption.org](http://www.defenceagainstcorruption.org) for more information.

# Types of Corruption in defence

POLITICAL CONTEXT and CONTROL	FUNCTIONS and PROCESSES	DEFENCE PERSONNEL
<b>DEFENCE POLICY</b> not approved or published	<b>PROCUREMENT</b> bribery, diversion of funds	<b>VALUES, STANDARDS, RULES</b> weak, ignored
<b>DEFENCE BUDGETS</b> not transparent, debated or audited	<b>SALARIES</b> Diversion of funds	<b>SMALL BRIBES</b>
<b>LEADERSHIP AND ACCOUNTABILITY</b> dishonest, unclear or split	<b>PROPERTY AND SALES</b>	<b>MONEY for SECURITY</b>
<b>ORGANISED CRIME LINKS</b>	<b>PERSONAL CONTROL OF SECRET BUDGETS</b>	<b>JOB PREFERENCES</b>
<b>CONTROL OF INTELLIGENCE</b> For dishonest purposes	<b>PRIVATE BUSINESSES</b>	
	<b>REWARD, PROMOTION, DISCIPLINARY</b> failures, inequities	

## National and regional corruption context

### *POLITICAL CONTEXT AND CONTROL*

The security sector is central to the identity and power of the state. The majority of the world's governments are made up of the institutions which were created by military forces through a war of liberation or revolution, or as a consequence of civilians wresting control away from military forces through legal institutions or popular movements. As such, one should not be surprised to discover that the institutions of governance generally—the character of the democratic or non-democratic states, the overall levels of checks, balances and rights—are reflected in the arrangements surrounding national defence establishments.

The structure of defence institutions (or lack of institutions), including laws and policies, can become enabling factors for corruption. *National security* can always be invoked as an excuse for outrageous sums paid for weaponry, for low transparency in the system at large or for silencing of

dissent<sup>22</sup>. In many countries, it has been (or still is) dangerous for private citizens to ask too many questions about defence practices<sup>23</sup>. Official defence policies are rare, and transparent defence budgets rarer<sup>24</sup>.

The lack of accountability among public officials, both within and outside the ministry of defence, allows politicians to use defence resources for private purposes. While bribes and profiteering are obvious examples of misbehaviour, more extreme forms of abuse can also emerge when corruption takes hold at the political level. The criminalized resource wars of West Africa and Central Asia provide perhaps the clearest examples of politicians using military forces and violence force to amass vast fortunes through profiteering in resource extraction<sup>25</sup>. The case of Montesinos in Fujimori's Peru is a less extreme example of a security sector official making use of his resources within the police and armed forces to subvert democracy<sup>26</sup>. For the 2003 Iraq war in the U.S., meanwhile, officials engaged in abuse at several levels by refusing to publish key documents related to defence policies, defence spending and politicized use of intelligence<sup>27</sup>.

Indeed, the growing movement for security sector reform (SSR), arising from the international development community, aims to assist states transitioning into systems allowing for greater civilian control and oversight of the armed forces. The SSR field as a whole confronts the deeply political nature dealing with military forces through the mechanisms and language of international development.

Thus, from the anti-corruption perspective, political corruption is perhaps the most difficult to address. The rise and fall of the Kenya Anti-corruption Authority (KACA) is a case in point. In 1997, the International Monetary Fund and World Bank, among other donors, stopped lending to Kenya on account of corruption. President Moi, who had no intention of permitting real reform, established the KACA in 1999. The international donors resumed lending, making grants to the

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<sup>22</sup> Courtney, 5. See "National Security."

<sup>23</sup> Dominic Scott and Mark Pyman, "Public Perceptions of Corruption in the Military in Europe and the Rest of the World," *Journal of European Security* 17(4), (December 2008: 495-515), <http://www.informaworld.com/smpp/content~content=a907734285~db=all~jumptype=rss> (accessed 22 May 2009).

<sup>24</sup> Courtney, 18. See "Secrecy."

<sup>25</sup> Douglas; Zaum

<sup>26</sup> McMillan and Zoido

<sup>27</sup> Examples abound in the press. For example, Charles Lewis and Mark Reading-Smith, *The War Card: Orchestrated Deception on the Path to War*, (Washington, DC: The Center for Public Integrity, 2008), <http://projects.publicintegrity.org/WarCard/> (accessed 3 January 2009).

KACA. By 2000, however, the KACA was summarily disbanded by the attorney general and commissioner of police. The decision was undoubtedly politically driven, and it illustrates the difficulty of progressing with reform without a coherent strategy based on accurate assessment of the drivers of abuse and barriers to reform<sup>28</sup>.

### *FUNCTIONS AND PROCESS*

Without doubt, the area of corruption in defence which receives the most substantial attention is corruption in transactions and bureaucratic affairs, particularly procurement. This makes sense. Global defence spending is massive, accounting for 2.5% of world GDP in 2007, or approximately \$202 per person on the planet. In absolute terms, fifteen countries account for over 80% of all expenditures<sup>29</sup>. The US \$547 billion spent in 2007 in the U.S. alone made up 45% of the world's total, with the U.K., China and France coming in next and each accounting for about 4-5%<sup>30</sup>.

The size of the market for defence products may be huge financially, but the number of competitors is very small. U.S. companies Boeing, Lockheed Martin, Northrop Grumman and Raytheon dominate the market, collectively generating \$102 billion in arms sales in 2006. The U.K.'s BAE Systems recorded \$1.189 billion for the same year, rivalling the Americans. Meanwhile, Europe's EADS, Finmeccanica (Italy) and Thales (France) are among the other major players<sup>31</sup>. Essentially, the number of competitors is tiny compared to the financial size of the market. As such, many of the positive effects of market forces—new entries undermining collusion, for example—are not at play.

Contracts are often multi-year in nature, each worth millions of dollars and distributed at relatively rare intervals. In this environment of massive “windfall” contracts, companies have the incentive to use every means possible to win a contract—including bribes and kickback schemes.

Consequently, corruption is lamentably widespread in the administrative processes of defence establishments worldwide. Profiteering from payroll, private appropriation of defence assets,

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<sup>28</sup> Dininio, 247

<sup>29</sup> The 15 countries, in descending order, are U.S.A., U.K., China, France, Japan, Germany, Russia, Saudi Arabia, Italy, India, South Korea, Brazil, Canada, Australia, Spain

<sup>30</sup> Stålenheim, Perdomo and Sköns

<sup>31</sup> Sam Perlo-Freeman and Elisabeth Sköns, "Chapter 6: Arms Production," In *SIPRI Yearbook 2008: Armaments, Disarmaments, and International Security*. 2008 edition. (Stockholm, Sweden: Stockholm International Peace Research Institute (SIPRI), 2008),

<http://yearbook2008.sipri.org/06> (accessed 18 October 2008).

establishment of secret budgets, legal abuses and simple bribery and fraud are all perceived to be common<sup>32</sup>.

Because of the risks involved with conflict and the few number of competing firms, companies can sometimes engage in fraud and blackmail with relative impunity. In Iraq and Afghanistan, many of the contracts administered by U.S. officials were “single source” or “cost plus” arrangements, where bidding is limited and there are guaranteed profits. While these arrangements are not always bad, they are particularly vulnerable to abuse. According to Peter Singer of the Brookings Institution, “In effect, this deal rewards companies with higher profits the more they spend, and thus is ripe for abuse and inefficiency.”<sup>33</sup> One U.S.-based security firm, Custer Battles, arranged several corrupt and fraudulent deals with Coalition Provisional Authority (CPA) at the outset of the U.S. occupation of Iraq. The firm was contracted to provide security to the Baghdad Airport and Iraqi Stock Exchange. Custer Battles forged invoices and engaged in other forms of fraud, while also not performing the services promised in their bid, but even as suspicions arose over their behaviour, the CPA was too dependent on them to press charges, leading to a monopoly situation<sup>34</sup>. In any case, a legal framework for prosecuting against corruption in the CPA was undeveloped.

## **Procurement**

Of course, the most common (and oft-cited) form of abuse in the procedural arena occurs within military procurement. Because of the technical complexity and relative obscurity of the process, procurement officers often have the opportunity to engage in nepotism, steering business to themselves or related parties, or to use their influential position to extract bribes and kickbacks. “Many of the big defence sector corruption cases to hit the news over the last few years relate to procurement,” note Mark Pyman and Dominic Scott of TI (UK) in a recent report<sup>35</sup>. These news

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<sup>32</sup> For example, Jane Perlez and Raymond Bonner, “Freeport-Rio Tinto: Gold’s other price,” Mines and Communities website, adapted from *The New York Times*, 28 December 2005, <http://www.minesandcommunities.org/article.php?a=989> (accessed 3 March 2009); Michel Sido, “Case Study: Reform of Soldier’s Remuneration in DRC (Interview with Colonel Michel Sido, Chef De Projet, EUSEC Programme in the DRC),” (London: Transparency International (UK), 2008),

[http://www.defenceagainstcorruption.org/index.php?option=com\\_content&task=view&id=61&Itemid=158](http://www.defenceagainstcorruption.org/index.php?option=com_content&task=view&id=61&Itemid=158) (accessed 3 January 2009).

<sup>33</sup> Peter W. Singer, “Nation Builders and Low Bidders in Iraq,” *The New York Times*, 15 June 2004, [http://www.brookings.edu/opinions/2004/0615iraq\\_singer.aspx](http://www.brookings.edu/opinions/2004/0615iraq_singer.aspx) (accessed 3 December 2008).

<sup>34</sup> Nikos Passas, *Corruption in the Procurement Process/Outsourcing Government Functions: Issues, Case Studies, Implications*. (Boston, MA: Institute for Fraud Prevention / Northeastern University, 2007), 9-13, [http://www.theifp.org/research%20grants/procurement\\_final\\_edited.pdf](http://www.theifp.org/research%20grants/procurement_final_edited.pdf) (accessed 20 August 2008).

<sup>35</sup> Pyman and Scott

stories included, “the South African multi billion dollar defence procurement of 1999, the India Bofors scandal, the Taiwanese French frigates affair and the Saudi Arabia Al Yamamah deal.”

Perhaps the most famous contemporary example of military procurement corruption is the BAE Systems-Al Yamamah scandal in the U.K. This scandal was widely covered in the British press, partly for the vast sums of money involved and partly because some of the highest offices of the U.K. Government were implicated. Briefly, in the early 1980s, British Aerospace (later BAE Systems) and Margaret Thatcher’s government entered into negotiations to sell fighter jets to Saudi Arabia as part of a major deal for 40 billion pounds sterling over twenty years. Rumours and leaked reports circulated of large sums of money paid out as bribes, and public officials were evasive. Lord Gilmour, former Secretary of State for Defence, later acknowledged, “You either got the business and bribed or you didn’t bribe and didn’t get the business.”<sup>36</sup> In 1992, the National Audit Office undertook an investigation, but the report was never published. Negotiations began again in the late 1990s to renew the agreement, and once again the press and public took notice. By 2003, newspapers were reporting on a secret slush fund used for BAE Systems to pay bribes to members of the Saudi royal family. In one programme, for example, a travel agent for BAE talked about channelling over £7 million per year to Prince Turki bin Nasser of Saudi Arabia. The funds were used to provide Prince Turki’s wife with a £170,000 Rolls-Royce birthday present, a £99,000 skiing trip for the Prince and his friends, and a £200,000 wedding for the Prince’s daughter<sup>37</sup>. Alleged cash payments to others, such as Prince Bandar Bin Sultan, continued throughout the 1990s and into the 2000s. The stakes were different this time. In 2002, the U.K. Parliament revised the law on bribery and corruption to make it compliant with the OECD Convention on Bribery which Britain had signed in 1999. The Serious Fraud Office launched a formal investigation, but in 2006, the Attorney General, under the authority of the Prime Minister, forced the investigation to be dropped. Widespread public outcry raised to a new pitch; the issue had already been highly politically charged. Shortly thereafter, in 2007, Saudi Arabia agreed to purchase additional fighter jets totalling some £4.3 billion, following a piece of political theatre whereby the Saudis considered purchasing from French manufacturers instead. The case was renewed once more by the British

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<sup>36</sup> Urban

<sup>37</sup> Michael Robinson, “BBC lifts the lid on secret BAE slush fund,” *BBC Money Programme* (5 October 2004), <http://news.bbc.co.uk/1/hi/business/3712770.stm> (accessed 23 December 2008).

High Court in April 2008, only to be dismissed again, probably for good, by the House of Lords<sup>38</sup>. The “Al Yamamah” case, however, has changed the political landscape surrounding defence sales to some degree, and remains perhaps the best known and largest example of corruption in defence procurement.

Of course, not all procurement scandals are so politically charged. Procurement mechanisms and systems vary widely across countries. Nevertheless, in the U.S. alone, thirty to seventy percent of the value of all defence procurements is estimated to be exchanged non-competitively. Globally, including in many NATO member states such as Czech Republic or Japan, the figure extends well over three quarters of the all procurement funds<sup>39</sup>. By contrast, in recent years, China, under the “Sunshine” policy has made considerable headway in increasing the transparency and security of its procurement bids generally, and it may prove to be a model for other countries<sup>40</sup>.

Many representatives of industry, government and civil society are now calling for the adoption of an industry standard which specifically tackles the issue of corruption.

### *DEFENCE PERSONNEL*

The oft-discussed (though often fuzzy) notion of “integrity” is perhaps most pertinent to discussion of corruption at the level of personnel and organizational behaviour. From small bribes to nepotism in hiring and management, petty corruption among soldiers and staff can arise from a mix of factors.

One notable area for abuse is in contracting personnel. The use of “sales consultants” and other intermediaries allow officials to plead ignorance in cases of corruption, reducing the risk of detection and threat of penalty. Intermediaries allow officials to hide bribes in legitimate expense reports, and also make it more difficult to detect red flags in the first place<sup>41</sup>. In economic terms, this aspect can be understood partly as an “agent-principal” problem, but it more essentially a legal arrangement, similar to offshore tax havens or other forms of corporate ‘veiling,’ designed to evade

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<sup>38</sup> Barry Wigmore, “Britain seen as ‘More Corrupt’ since Blair’s Decision to Halt SFO Probe into Arms Deal with Saudi Arabia,” *Daily Mail*, 23 September 2008, <http://www.dailymail.co.uk/news/worldnews/article-1060429/Britain-seen-corrupt-Blairs-decision-halt-SFO-probe-arms-deal-Saudi-Arabia.html> (accessed 18 October 2008).

<sup>39</sup> Data from Transparency International (UK) Defence Against Corruption Team, RCDS seminar March 18, 2008

<sup>40</sup> Lieselotte Beck, “Anti-Corruption in Public Procurement: A Study on China’s Tangible Construction Market,” Unpublished Paper. (Universitat Passau: Passau, 2008). Email the author at [Lieselotte.Beck@uni-passau.de](mailto:Lieselotte.Beck@uni-passau.de) for more information.

<sup>41</sup> Courtney, 24. See “The Ostrich Effect”

anti-corruption enforcement mechanisms. In other words, even if the writ of the law is upheld, the spirit of the law is not. In most cases, of course, these schemes are illegal by all accounts.

Although most militaries have formal codes of conduct and official commitments to high ideals of behaviour, low morale or a culture of impunity may lead to corrupt behaviour among some and lax enforcement from others<sup>42</sup>. In developing countries, low pay or forced conscription can quickly undermine the integrity standards of the armed forces<sup>43</sup>.

In the “cold” conflicts of the South Caucasus, for example, the conflict dynamics have created a negative war economy in most of the countries. In some cases, families regularly bribe officials in order to protect their sons from conscription<sup>44</sup>. Conversely, in Armenia and Nagorny Karabakh war veterans and ex-combatants have the right to certain benefits from the state. Therefore, officers extract bribes from recruits eager to go to the front, where they can gain access to state resources. Meanwhile, in Kosovo following the 1999 war, members of the Kosovo Liberation Army (KLA) were often able to use bribery and political connections to avoid prosecution for atrocities or theft<sup>45</sup>. Corruption has distorted the system so that many actual veterans receive no compensation, while others who have avoided service enjoy regular state payments<sup>46</sup>. In Iraq, finally, poor vetting of political appointees and hires led to a “revolving door” arrangement where investigators, procurement officers and contractors colluded to steer funds and limit investigations<sup>47</sup>. In each of these cases, systemic issues such as lax oversight, perverse incentives and a lack of political or high-level leadership have created a sense of impunity and selfishness among personnel. Needless to say, these arrangements undermined the effectiveness of the forces, and likely contributed to reduced public respect for the military and war effort.

While bureaucratic mechanisms, such as whistleblower arrangements, may make an impact here, reducing corruption among personnel may be equally a matter of restructuring overall governance

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<sup>42</sup> Pyman and Scott of TI (UK) note that Transparency International UK is developing a best practice code of conduct for defence officials for release in late 2008.

<sup>43</sup> *Global Corruption Report 2008*. Berlin: Transparency International, 2008, <http://www.transparency.org/publications/gcr> (accessed 3 January 2009).

<sup>44</sup> Natalia Mirimanova and Diana Klein, *Corruption and Conflict in the South Caucasus*, Report, (London: International Alert, 2006), 28-9, [http://www.international-alert.org/pdf/Corruption\\_Conflict\\_inSC-SouthCauc-Russian.pdf](http://www.international-alert.org/pdf/Corruption_Conflict_inSC-SouthCauc-Russian.pdf) (30 January 2009).

<sup>45</sup> Zaum

<sup>46</sup> Mirimanova and Klein, 30-31

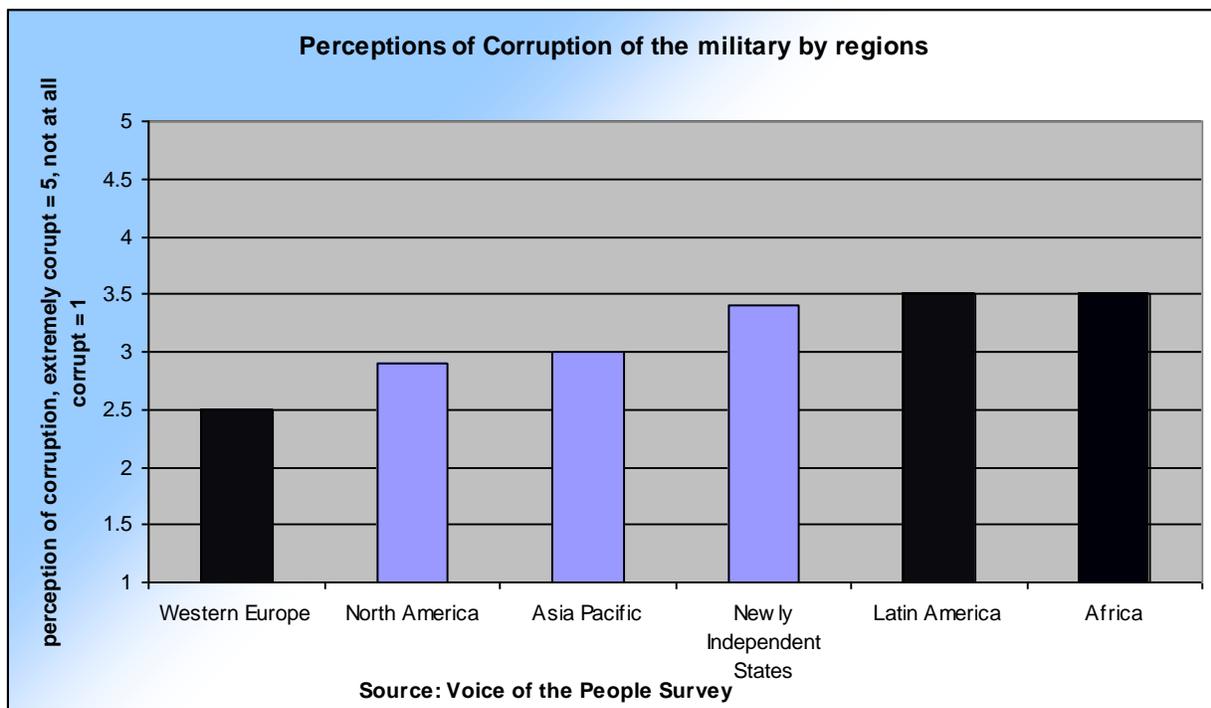
<sup>47</sup> T. Christian Miller, “The Scrutinizer Finds Himself Under Scrutiny,” *The Los Angeles Times*, 25 September 2005. Available at <http://articles.latimes.com/2005/sep/25/nation/na-schmitz25>

and macroeconomic conditions, or providing adequate training and motivation (financial and otherwise) to incentivize good behaviour.

*CONTEXT OF CORRUPTION: NATIONAL AND REGIONAL DYNAMICS*

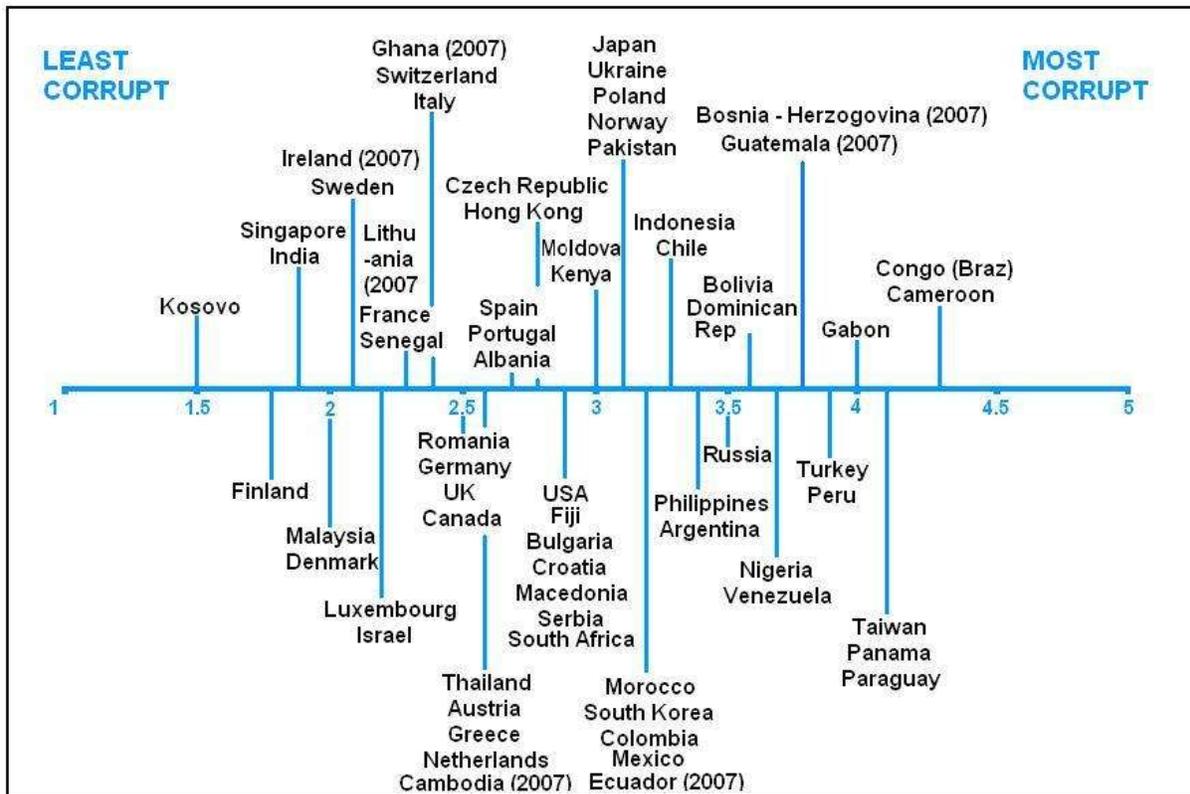
National and regional corruption contexts matter, particularly insofar as context shapes individuals' perceptions, which in turn can influence attitudes and behaviours. Regime structures and the presence or absence of conflict may also be critical contextual factors shaping corruption outcomes for defence.

On the global level, the Voice of the People Survey 2006 shows that perceptions do vary across regions, as represented in the following graph.



The data here does not include all countries, however, and in some cases significant outliers can throw off aggregate readings (particularly for countries such as Kosovo and Israel, where the military is held in significantly higher regard than in neighbouring states, probably for reasons unrelated to actual corruption levels).

The Bribe Payer's Index (described in more depth on page 54) asked in particular about perceptions of corruption within the military. The results (presented in the graph below) show considerable variation between countries.



When considering corruption among defence personnel or on the political level, therefore, it may be useful to take account of the regional dimensions of perceptions. Leaders and soldiers alike, if they perceive themselves to be in a situation where “everyone else is doing it anyway,” may be willing to engage in behaviours which they would otherwise deem unacceptable. A full report on this topic of perceptions is available from TI (UK)<sup>48</sup>.

On a deeper level, other national contextual factors which may affect dimensions of defence corruption include the regime characteristics, level of economic development, and cultural or religious attitudes. Formal and informal socio-political arrangements differ in the degree of accountability of government to the people, as well as to international laws and norms. For example, even in representative democracies, elites are sometimes able to create an environment

<sup>48</sup> Pyman and Scott. The subsequent graphs are drawn from this report, and are based on the Voice of the People 2006 survey and TI Bribe Payer's Index 2006.

where engaging in massive fraud and corruption not only carries a low risk of detection or prosecution, but actually advances their political power<sup>49</sup>. The context, of course, is not stagnant. A resource-rich rentier state which can afford to ignore international donors while commodity prices are high may find itself more constrained by aid conditionality when those resources run out or global prices plummet. Coups, revolutions, popular movements, even media scandals can all shift the balance of power for or against greater public accountability.

The conditions contributing to corruption feasibility are typically increased dramatically in situations of war or violent conflict. During wartime, the threat to national security is most pronounced. Secrecy and speed become paramount concerns, trumping those of accountability and transparency. In times of war, competitive bidding processes, thorough audits, and other mechanisms for accountability can be seen as burdensome red tape by officials. Following the 2003 invasion of Iraq, for example, the U.S. Coalitional Provisional Authority (CPA) fell into this line of thinking and, as Nikos Passas alleges, acting “in the same way small time-money launderers seek to avoid reporting laws.” For example, it would structure large contracts through many smaller ones in order to avoid the necessary reviews required for large-scale (\$500,000+) expenditures<sup>50</sup>. Ultimately, few governments balancing war against integrity would choose to initiate investigations into active militaries, precisely when it is most important to ensure loyalty, clear lines of control and morale.

In fact, even the perceived threat of violent conflict tends to drive up military expenditures, causing more money to go through the system and increasing the opportunities and incentives for corrupt behaviour. In the worst case scenario, political corruption and so-called war profiteering may cause some cynical elites in the military establishment to manipulate perceptions of threat levels in order to profit from increased expenditures. Such a strategy may ultimately result in war, as increased expenditures set off arms races and heightened tension<sup>51</sup>.

Many countries that threaten or undergo violent conflict end up facing sanctions from the international community in the form of trade restrictions. Unfortunately, arms embargoes tend to increase black market premiums for defence products, making deals more profitable, while

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<sup>49</sup> Passas, 2

<sup>50</sup> Passas, 17

<sup>51</sup> Paul Collier, "War and Military Expenditure in Developing Countries and their Consequences for Development," *The Economics of Peace and Security Journal* 1, no. 1 (2006). [http://www.epsjournal.org.uk/pdfs/eps\\_v1n1\\_collier.pdf](http://www.epsjournal.org.uk/pdfs/eps_v1n1_collier.pdf) (accessed 20 August 2008).

simultaneously driving the dealings underground and outside the sanctions regime. Embargo-busting sellers can demand higher commissions and prices, while the purchasing officials, who are performing their role in semi-secrecy, can inflate prices over the actual amounts, pocketing the difference. An example of this phenomenon was Apartheid South Africa, where in 1977 the UN restricted sales of arms and oil to the country. Throughout the 1980s, South Africa pursued a dual strategy of subsidizing a massive domestic arms industry while paying off middlemen and friendly governments to continue trade in illegal weapons materials<sup>52</sup>. The country's largest exporter of weapons in the 1980s, Armscor, used approximately 1,500 private sector sub-contractors, many of whom were playing critical roles in upholding apartheid; in other words, funds channelled through Armscor were not only siphoned off for private gain, but they also contributed to a strengthening of the entire political system of Apartheid<sup>53</sup>. Unfortunately, the indirect result of embargoes and political conflict is often growth and inter-linking of bureaucratic and political corruption.

Sustained violent conflict, failed states and the overthrow of regimes can dramatically increase corruption and pilfering. Again in the South African context, Apartheid's power holders became increasingly cynical and brazen in their corrupt tactics as political change grew to seem inevitable<sup>54</sup>. This was essentially a reduction in the penalty for corruption, since the leaders expected to be penalized no matter their behaviour. More generally, in today's complex "new wars," marked by sub-state actors like terrorist groups or gangs on the one hand and criminalised or opportunistic states on the other, corruption in the security sector becomes endemic.

In the post-conflict context, new challenges arise in the form of disarmament, demobilization and reintegration (DDR) programs. With the end of the war, soldiers often find themselves without a job enjoying access to weapons and military assets which may be sold off, confiscated for private use, or, worst of all, transferred to a different contingent to continue the war. International aid agencies and major donors can become involved in assisting transition for these soldiers, and DDR programs often involve initiatives for weapons buy-backs, cash payments or job support to demobilized soldiers, or other forms of assistance. These resources in turn become fuel for fraud

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<sup>52</sup> Hennie van Vuuren, *Apartheid Grand Corruption: Assessing the Scale of Crimes of Profit in South Africa from 1976 to 1994*, (Cape Town: Institute for Security Studies, 2006), 46, <http://www.ipocafrika.org/pubs/reports/apartheidgrandc.pdf> (accessed 20 August 2008).

<sup>53</sup> Ibid., 47

<sup>54</sup> Ibid., 2

and abuse<sup>55</sup>. A full overview of DDR's corruption (and conflict sensitivity) risks is beyond the scope of this report, but it is a critical element to consider in reviewing defence integrity for post-conflict contexts.

In sum, national context is a vague but important facet of analysis. Indeed, the relevance of cultural and historical specifics to shaping the social transaction costs of corruption, or for determining legal institutions of accountability, cannot be understated. Yet, the importance of national context also underscores the need for more systemic methods for analyzing corruption in defence.

Most of the claims advanced in the preceding pages are based on contextual analysis historical case studies; no worldwide indicators of defence corruption exist to facilitate cross-country comparison. Contributing to the resolution of these problems is an aim of this paper, which, after all, seeks to provide a framework for developing corruption measurement tools for defence. The following section, therefore, turns its attention away from defence in particular, and instead explores how and why measurement might be integrated into an overarching strategy for anti-corruption. After that, a number of examples of corruption measurement outside of defence are discussed in the third section. Finally, the report links the second and third section back to the issues presented so far, offering suggestions for next steps in defence corruption measurement.

## II. TOWARDS A STRATEGY FOR REFORM

Despite the explosion of anti-corruption initiatives in the 1990s and 2000s, international civil society and development agencies have paid the defence sector relatively scant attention. Reform for anti-corruption within defence can best be understood as a confluence of two movements. On the one hand, it is an outgrowth of the burgeoning movement for good governance and anti-corruption worldwide, which is now turning towards a sector-based approach for the next stage in its growth. Defence spending usually commands a significant portion of the government's budget, and therefore is of interest to reformers (although political barriers have slowed progress). On the other hand, the rise of security sector reform (SSR) as a nexus of the development and security worlds seeking to manage fragile states in the post-9/11 context has also crystallized the

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<sup>55</sup> *Stockholm Initiative on Disarmament Demobilisation Reintegration: Final Report*. Stockholm: Ministry for Foreign Affairs, Sweden, 2006. [http://www.cidr.org/documentos/19\\_Stockholm\\_Initiative\\_on\\_DDR.pdf](http://www.cidr.org/documentos/19_Stockholm_Initiative_on_DDR.pdf) (accessed 10 March 2009).

importance of anti-corruption to military personnel<sup>56</sup>. From Afghanistan to Haiti, peacekeepers and military intervention forces have realized their own security goals depend on the establishment of a professional, non-corrupt local military.

The tasks confronting NATO/ISAF in Afghanistan have helped raise a keen interest in anti-corruption among member forces, as has the addition of new members from Eastern European countries. Integrity training modules, such as those offered by the UK Defence Academy (in coordination with NATO), as well as a Defence Integrity Self-Assessment questionnaire (developed in partnership with TI (UK)), are increasing NATO's involvement in anti-corruption for defence<sup>57</sup>. The new U.S. administration has also signalled a renewed interest in transparency overall, pushing for more openness in procurements for all agencies, including defence<sup>58</sup>. In short, the world community is mobilizing around this problem.

In civil society, TI (UK)'s 'Defence Against Corruption' team has been highly active in promoting awareness of and action on corruption in defence. In addition to publishing a number of influential reports, TI (UK) has played an important role coordinating meetings and partnerships between industry, governments and intergovernmental organizations, such as NATO<sup>59</sup>. TI (UK) maintains an excellent online library of news clippings, academic papers and public announcements related to defence corruption<sup>60</sup>.

One example of a partnership and reform effort comes from Poland's Ministry of Defence, which initiated a reform effort following 2005 elections where corruption was a major issue of the campaign. Drawing on work by TI (UK), Poland's MoD began using Defence Integrity Pacts, which

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<sup>56</sup> For more on SSR, refer to OECD, *The OECD DAC Handbook on SSR*, Paris, OECD, 2007. See also Nicole Ball et al., *Promoting Conflict Prevention through Security Sector Reform: Review of Spending on Security Sector Reform through the Global Conflict Prevention Pool*, London, DfID, 2008.

<sup>57</sup> "Defence Academy Leads NATO Anti-Corruption Course in Kabul." Defence Academy of the United Kingdom, 2009, <http://www.da.mod.uk/da-news/defence-academy-leads-nato-anti-corruption-course-in-kabul> (accessed 1 March 2009).

<sup>58</sup> *Memorandum for the Heads of Executive Departments and Agencies on Government Contracting*. White House memo on 4 March. Washington DC: White House, 2009. [http://www.whitehouse.gov/the\\_press\\_office/Memorandum-for-the-Heads-of-Executive-Departments-and-Agencies-Subject-Government-Contracting/](http://www.whitehouse.gov/the_press_office/Memorandum-for-the-Heads-of-Executive-Departments-and-Agencies-Subject-Government-Contracting/) (20 March 2009).

<sup>59</sup> Defence Against Corruption website, Transparency International (UK), <http://www.defenceagainstdcorruption.org/> (accessed 7 September 2008); Tools and Techniques, [http://www.defenceagainstdcorruption.org/index.php?option=com\\_content&task=view&id=94&Itemid=190](http://www.defenceagainstdcorruption.org/index.php?option=com_content&task=view&id=94&Itemid=190). Civil Society, [http://www.defenceagainstdcorruption.org/index.php?option=com\\_content&task=view&id=227&Itemid=272](http://www.defenceagainstdcorruption.org/index.php?option=com_content&task=view&id=227&Itemid=272)

<sup>60</sup> *ibid.*

are contractual agreements among bidders to adhere to increased standards of transparency and oversight during procurement. The following slide from a presentation on the process by the Polish MoD outlines some of the accomplishments and experiences<sup>61</sup>:

**Anticorruption Reforms in the Polish Ministry of Defence**

**Implementation of TI Defence Integrity Pact**

Pilot programme: acquisition of VIP jets

Implemented tools:

1. More transparency - important tender documentation on the internet
2. Independent Monitors - access to meetings and documentation.
3. Clear process of consultation on tender documentation:
  - with bidders
  - with public
  - directly or through IM

Expected challenge: pressure from lobbyists through the media

Unexpected result: the committee closed the tender under pressure

Lessons learned: disclosure of agents is an important tool

clear determination of real needs is important

Certain other TI national chapters have been active in this regard, most notably TI-Korea, TI-Georgia and TI-Bulgaria. In the wake of a scandal and kickback scheme involving the South Korean president, the government created a new body called the Defence Acquisition Programme Administration (DAPA) in 2006, with civilians in oversight roles—a novel arrangement in the Korean context. DAPA then worked cooperatively with TI-Korea to establish an official Ombudsman, as well as procedures for civil society oversight of defence procurement<sup>62</sup>.

Another civil society organization which has been active in this effort is the Geneva Centre for the Democratic Control of the Armed Forces (DCAF)<sup>63</sup>. Whereas TI (UK) comes out of the good

<sup>61</sup> Maciej Wnuk, "Poland's Anticorruption Reforms," Presented at Shrivenham defence practitioners workshop, 2007, [http://www.defenceagainstcorruption.org/index.php?option=com\\_docman&task=doc\\_download&gid=48](http://www.defenceagainstcorruption.org/index.php?option=com_docman&task=doc_download&gid=48) (accessed 3 March 2009).

<sup>62</sup> Sung-Goo Kang, "Interview with Sung-Goo Kang, Representative Ombudsman at Defence Programme Administration, Korea," Defence Against Corruption web newsletter. (London: Transparency International UK, 2009), [http://www.defenceagainstcorruption.org/index.php?option=com\\_content&task=view&id=270&Itemid=111](http://www.defenceagainstcorruption.org/index.php?option=com_content&task=view&id=270&Itemid=111) (accessed 13 April 2009).

<sup>63</sup> Geneva Centre for Democratic Control of the Armed Forces website, <http://www.dcaf.ch/>

governance movement and places particular emphasis on building civil-military-industry partnerships, DCAF's engagement comes from the SSR realm. A new handbook on *Civil Society Oversight of the Security Sector*, for instance, includes substantial information on increasing transparency, integrity and accountability of armed forces.

### *WHY MEASURE?*

Academics and policy researchers have approached the problem from a variety of disciplines. Defence economists, development economists and political scientists, have all established different paradigms for understanding the issue. Yet, whereas in the area of general corruption analysis, some of the most interesting work has been econometric studies of corruption correlations or comparative legal approaches, analysis of corruption in defence suffers from the lack of easily comparable quantitative data or systematic analytical frameworks on a global scale. Empirical questions could include:

- How much money is lost each year to defence corruption? Is it increasing or decreasing?
- What are the most highly correlated macroeconomic or policy conditions
- Which countries have the most corrupt defence establishments?
- Is defence corruption increasing or decreasing on a global level? At the level of individual nations?

“What you see is what you get. And what you don't see gets you,” or so the saying goes<sup>64</sup>. While work to date has been innovative and ambitious, the lack of comparable data leaves many fundamental questions unanswerable in social scientific terms.

At the level of anti-corruption programs, such as those which might be implemented by a civil society organization or, for that matter, an international development or military force, corruption measurement could feed into different typologies of programs. Some may aim to collect research information for learning purposes. In these knowledge-building programs, technical or economic data would likely be helpful for building and refining theories about corruption. Other programs, meanwhile, may undertake advocacy projects, pushing governments for reform. In these cases, the quality of any particular measurements could be less important than the fact of measuring at all.

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<sup>64</sup> Huguette LaBelle, probably quoting IG Vice Chairman Jacob Frenkel

Where corruption is taboo, the act of discussing it at all can be a political act. Finally, still other programs will be more pragmatically oriented, involving different partners actively seeking to produce a change in policy or behaviour. In these situations, technical or highly specified indicators of corruption, transparency, or accountability at a sub-national level (or even regarding a single institution) may be more helpful than country-level data about corruption overall.

All anti-corruption programs, meanwhile, will need to operate according to best practices of design, monitoring and evaluation. Thus, corruption measurement may fit into all stages of the programme. In the design phase, information about corruption may inform the assessment of the problems to be addressed, and therefore influence goals. As a monitoring mechanism, corruption measurement tools which can track precise changes in some timely fashion could help staff determine whether progress is being made. Finally, as an evaluation tool, corruption indicators could not only provide insight into whether a particular programme is reducing corruption, they could also be incorporated into strategic goals for teams themselves. “What gets measured gets achieved,” they say.

However, there remain a number of more abstract questions which remain to be asked. For example, how would the programme evaluators select the indicators? How would they know those indicators actually correspond to the goal? Supposing the particular programme goal is achieved, how would staff know if this made an impact on the overall level of corruption? Thus, corruption measurement is intimately linked to both theory and strategy.

Anti-corruption and defence integrity programmes, both at the governmental and civil society levels, are based on implicit working theories and assumptions about how and why corruption occurs—and how it can be stopped. The larger aid and development communities (including peacebuilding practitioners) have developed a robust body of thought with regard to monitoring and evaluation rooted in logical framework models which emphasize clear examination of assumptions and programme logic<sup>65</sup>. The movement for good governance has also been fuelled by emphasis on technical indicators for tracking success<sup>66</sup>.

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<sup>65</sup> The literature is extensive here. A good place to start: Cheyanne Church and Mark M. Rogers, *Designing for Results: Integrating Monitoring and Evaluation in Conflict Transformation Programs*. (Washington, DC: Search for Common Ground, 2006), [http://www.sfcg.org/programmes/ilr/ilt\\_manualpage.html](http://www.sfcg.org/programmes/ilr/ilt_manualpage.html) (accessed 9 September 2008).

<sup>66</sup> *Governance Indicators: A User's Guide*. 2<sup>nd</sup> Edition. New York: UNDP, 2006, [http://www.undp.org/oslocentre/docs07/undp\\_users\\_guide\\_online\\_version.pdf](http://www.undp.org/oslocentre/docs07/undp_users_guide_online_version.pdf) (accessed 30 January 2009).

While corruption is usually included within the blanket of governance, defence corruption presents a somewhat special case insofar as defence institutions are often beyond the reach of more routine reform efforts led by traditional aid donors. What's more, as noted, defence corruption often touches on issues of peacebuilding more generally, such as DDR and SSR. Finally, corruption in general may not be as simple as technocratic conceptualizations sometimes suggest. In other words, typical governance indicators, might capture "bureaucratic" corruption while failing to address "political" corruption, even though the latter can be as important—or more so—within a particular national context.

In brief, the quality and quantity of useful data or measures on defence corruption is inadequate for informing either macro-level research or micro-level programme evaluation. Furthermore, anti-corruption reformers need better developed conceptual tools to shape their programme designs. After all, learning for organizations is more than a mere transfer of information; it implies additional analysis and judgment to translate the knowledge into practice<sup>67</sup>.

Despite the need for additional indicators of defence corruption, these alone are not sufficient. If indicators are actually going to *mean* something, they must tell a story about the world, and they must be collected with some end, some purpose, in mind. Discussion of programme design often hinges on what a particular programme is trying to achieve, and indicators are then selected to provide information about progress towards that goal<sup>68</sup>. Indeed, programme-level indicators of corruption in defence would be useful to have, particularly for military establishments, in undertaking reform. The application of Socio-Legal Indicators to defence, as outlined later in this report in pages 63-76 and 90-92, would largely exemplify of this type.

Yet, international financial and development institutions are increasingly relying on standardised worldwide indicators for monitoring aspects of the world which are considered to be of general interest. The Human Development Indicators, the Corruption Perceptions Index, or even the classic economic indicators like Gross Domestic Product (GDP) are all collected and published not towards any particular programme end (although many programs may in turn rely upon them to for monitoring and evaluation purposes). Rather, they seek to provide some measurement 'anchor' for collectively assessing national or worldwide changes over time. These standardised indicators are

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<sup>67</sup> Katherine Pasteur, *Learning for development: a literature review*, Lessons for change in policy and organizations No.6, (Brighton: Institute of Development Studies, 2004), 5

<sup>68</sup> Carol Weiss, *Evaluation: Methods for Studying Programs and Policies*, (Saddle River, NJ: Prentice Hall, 1998), 53-55

often desirable instruments to create because they provide an easily-reference mechanism for tracking long-term change, and they can double as programme indicators.

Institutions which are establishing or creating an indicator or index basket of indicators must understand two fundamental points. First, programme indicators and standardised measurement indicators *are not the same thing*. What works as a quick-and-reliable measure of national level performance compared across all countries may not be precise or detailed enough to provide useful information to civil society groups, for example, running a one- or two-year defence anti-corruption programme in a single country. However, standardised measures may double as programme indicators.

The second fundamental point is that establishing a standardised measurement indicator (e.g. GDP) is *itself* a programme. For groups like the Transparency International, Global Integrity, the Open Budget Index, the World Bank, and others, the purpose and the design of these standardised measures is predicated on assumptions—sometimes acknowledged, sometimes not—about what corruption is (modality), why it occurs (cause), and what it changes about the world (consequence).

The last ten years have witnessed an explosion of measures, indicators, and indexes of every sort. UNDP's report *Governance Indicators: A User's Guide* profiles 33 well-known indicators and lists several dozen more which are employed by private firms or on a regional basis. In fact, hundreds of standardized indicators and rankings more exist for a whole range of social phenomena. How do the organisations administering these indexes (and fronting the bill often for data collection) justify the effort? What are they hoping to achieve? This information may be interesting—but is it useful<sup>69</sup>?

To summarize, some of the potential programme models for anti-corruption include the following:

- Knowledge-building, building and refining theoretical models or strategies;
- Advocacy, pressuring governments or institutions to reform;
- Informational, sharing information about corruption and anti-corruption ;
- Technical assistance, assisting ministries of defence to undertake reforms.

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<sup>69</sup> Cheyanne Church, in conversation

These programmes may use measurement indicators, which the UNDP's *Governance Indicators: A User's Guide*, define as "a measure that points to something about the state of corruption (or some other related phenomena)," for a variety of (overlapping) reasons, including,

- Furthering research on an academic basis;
- Informing programme design and practical problem analysis;
- Providing programme-level indicators for monitoring and evaluation;
- Generating content to use for advocacy purposes.

The following pages lays out important, albeit subtle, conceptual distinctions regarding corruption analysis and anti-corruption programming. It draws on the development and peacebuilding literature on evaluation to structure thinking about corruption. For more information about these concepts, begin by referring to Cheyanne Church and Julie Shouldice's two part report on *The Evaluation of Conflict Resolution Interventions*<sup>70</sup>.

After explanation of corruption models and theories of change, the report proceeds to suggest a framework for selecting and identifying corruption measurement indicators for defence. This report does not focus specifically on either programme indicators or standardised indicators (although the nature of the field at the moment suggests that standard indicators are far more common for corruption and governance generally, and more appropriate for defence). However, although the report deals with assessing defence corruption at both the standard macro and programme micro levels, anti-corruption reformers must be aware of which type of indicator they are designing, and why.

### *CORRUPTION MODELS*

Corruption models are theoretical constructs for trying to grasp corruption in terms of its causes, consequences, or modalities. These models can seek to explain both corruption at the societal (macro) level, or at the level of organisations, firms and sectors. Scholars and practitioners have different and sometimes competing ideas about what the causes of corruption are, and what it will take to change the situation.

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<sup>70</sup> Cheyanne Church and Julie Shouldice, *The Evaluation of Conflict Resolution Interventions; Part II: Emerging Theory and Practice*, (Ulster: INCORE, 2003), <http://se1.isn.ch/serviceengine/FileContent?serviceID=47&fileid=5C9065C6-F70D-18F9-211C-3233EABAA41D&lng=en> (accessed 9 September 2008).

For example, on the theoretical level, scholars such as Johann Graf-Lambsdorff or Robert Klitgaard, drawing on the work of other economists like Gary Becker, have established models of crime and corrupt behaviour. According to Lambsdorff, for individuals to engage in corruption, the benefits must exceed the costs. Transaction costs (such as enforcing corrupt contracts or avoiding law enforcement) are usually what explains why corruption doesn't occur more often<sup>71</sup>. Klitgaard, meanwhile, argues that monopoly power (including that of the state), plus discretion for individual decision-makers is likely to lead to corruption in the absence of accountability mechanisms. This accountability depends not just on effective sanctions, but even more on transparency and information<sup>72</sup>. Others, meanwhile, adopt a cultural-attitudinal view of corruption as primarily caused by national attitudes and norms<sup>73</sup>.

At the level of the defence sector, the description in Section I of this report is an example of a less formal theory of defence corruption causes and consequences. TI (UK) has advanced a number of convincing explanations for existence of defence corruption. The 2002 Report on Corruption in the Official Arms trade identified several facets of the sector, such as secrecy, a "revolving door" among personnel, and enforcement difficulties stemming from agents and technical complexity, as causes of corruption in the industry<sup>74</sup>. Other political explanations of war economies, such as those of William Reno, Carolyn Nordstrom, or Van Vuuren, instead embed explanations of defence corruption into narratives about war economies overall. In short, the literature on corruption models is vast<sup>75</sup>.

The particular corruption model one adopts affects anti-corruption programming. The underlying theories and assumptions suggest subtly different approaches to anti-corruption work. For instance, if one follows' Lambsdorff's logic, better whistle blowing procedures or corruption plea bargaining schemes are attractive, since they would raise transaction costs. For Klitgaard, by comparison, improved oversight mechanisms and punishment for abuse is likely the best way to reduce corruption.

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<sup>71</sup> Johann Graf Lambsdorff, "Measuring Corruption." Presented at Economics of Corruption 2008 Conference. Passau, Germany, 2008.

<sup>72</sup> Robert Klitgaard, *Controlling Corruption*, (Los Angeles: University of California Press, 1988).

<sup>73</sup> Ray Fisman and Eduard Miguel toy with this argument, but find it insufficient by itself: Fisman and Miguel, *Economic Gangsters: Corruption, Violence, and the Poverty of Nations*, Princeton, NJ: Princeton University Press, 2009.

<sup>74</sup> Courtney, 1-10

<sup>75</sup> Jens Christopher Andvig and Odd-Helge Fjeldstad, *Research on Corruption: A policy-oriented survey*, (NORAD. 2000), 91-102.

More generally, most governance and anti-corruption institutions emphasize a set of principles understood to be related to corruption, such as *transparency, integrity, accountability* and so forth. For instance, USAID's manual *Tools for Assessing Corruption and Integrity in Institutions* employs a "TAPEE" theory of anti-corruption which breaks down institutional standards into transparency, accountability, prevention, enforcement and education<sup>76</sup>. Some notion of "political will" is also present in many conversations of practitioners, as well as scholarly publications<sup>77</sup>.

This report adopts a model of defence corruption taken mostly from TI (UK), working from a set of root assumptions linked to those outlined in the first half of the paper<sup>78</sup>. It attempts to forego adopting any permanent theory of change, and instead explores how measurements can fit into different ideas about how change can be achieved. That said, a key assumption of this paper is that measurement, monitoring and evaluation is possible and can contribute to improved learning about defence corruption.

### *THEORY OF CHANGE*

Distinct from the corruption models, a theory of change is a proposed process, a set of mechanisms, for producing a change in the world which, in this case, would reduce corruption. As evaluation expert Carol Weiss explains,

*"By theory, I don't mean anything highbrow or multi-syllabic. I mean the set of beliefs that underlie action. The theory doesn't have to be uniformly accepted. It doesn't have to be right. It is a set of hypotheses upon which people build their programme plans. It is an explanation of the causal links that tie programme inputs to expected programme outputs."*<sup>79</sup>

A variety of anti-corruption theories of change exist. According to TI (UK)'s framework for understanding defence corruption, if reducing secrecy in the defence industry is important, then one significant reform to target might be the release of public defence policies and public defence

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<sup>76</sup> Anthony Lanyi and Omar Azfar, *Tools for Assessing Corruption and Integrity in Institutions: A Handbook*, Report for USAID, (College Park, MD: IRIS, 1996), 13-14, [http://www.irisprojects.umd.edu/anticorruption/Files/IRIS\\_Assessment\\_Handbook.pdf](http://www.irisprojects.umd.edu/anticorruption/Files/IRIS_Assessment_Handbook.pdf) (accessed 18 October 2008).

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<sup>78</sup> Courtney 2002. Addressing corruption and building integrity in defence establishments. Working Paper No. 2. (London: Transparency International, 2007), [http://www.transparency.org/publications/publications/working\\_papers/working\\_paper\\_no\\_2\\_defence](http://www.transparency.org/publications/publications/working_papers/working_paper_no_2_defence) (accessed 20 August 2008).

<sup>79</sup> Weiss, 55

budgets. How can this change be achieved? One strategy is to offer useful tools (such as self-assessment questionnaires) for use by ministries of defence. This strategy relies on governments self-initiating reform. Perhaps, as with Poland or South Korea, the government will respond to a public scandal to push through new changes during an electoral season. Perhaps the government will undertake reform in response to requirements levied by an multinational body like the European Union or NATO, which the reforming state wishes to join, or according to conditionality provisions on corruption by an international donor like the Millennium Challenge Corporation, which the reforming state wishes to ask for money. In any case, this theory uses a partnership-based, technocratic model for pushing through small gains piece by piece.

A related but distinct theory of change, employed sometimes by TI national chapters or other civil society organizations, as well as minority parties in government, is to “name and shame” governments, using media or reports to create scandal, which in turn lends negotiating leverage to reformers. For example, the U.S. media played a key role in fuelling public scandal over a bribery story involving Lockheed Martin and other defence companies in the 1970s. This drove congress to pass the Foreign Corrupt Practices Act (FCPA) of 1977, which outlawed bribery of foreign officials, serving as a forerunner to the OECD Anti-Bribery Convention of 1997<sup>80</sup>. TI’s Corruption Perception Index outlined on page 51 of this report has been instrumental in assisting reformers by embarrassing low-scoring governments and mobilizing upset stakeholders. For example, at a recent conference on building integrity in defence establishments, one Norwegian Member of Parliament cited Norway’s ranking of #14 on the TI-CPI as a motivation for further anti-corruption reform, since Norway would like to rank higher<sup>81</sup>. Similarly, Cameroon, which has consistently scored very low on the CPI (#141 in 2008), has been active in passing legislation in attempt to change its score, while also lobbying internationally to raise public perceptions of their country<sup>82</sup>.

Yet another strategy adopted by civil society and media groups is to play an oversight and accountability role on their own, reasoning that corruption occurs because of secrecy maintained by the lack of advocacy or investigation on the part of the public. Indeed, along these lines, there is

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<sup>80</sup> Stephen Wrage, "The Defense Industry and the Prevalence of Bribery," *Perspectives on Global Issues* 2, no. 1 (Autumn2007), 2, <http://www.pgi-issues.com/0201/articles0201/DefenseIndustryBribery.pdf> (accessed 20 August 2008).

<sup>81</sup> Petersen, Jan. Remarks at NATO/Naval Post Graduate School Conference, Monterey, CA. 26 February 2009.

<sup>82</sup> Conversation with Deputy Minister of Finance, Cameroon, Economics of Corruption 2008 conference, Passau, Germany, October 2008.

some evidence to suggest that civil society 'corporate social responsibility' platforms have been the most effective at pressuring companies to declare their arms sales<sup>83</sup>.

One recent example of an innovative and widely-admired civil society-led anti-corruption effort is the Publish What You Pay coalition, which advocates for transparency in extractive industries like oil, gas and mining. The movement's model of corruption was that the technical complexity and a collective action problem among firms negotiating with governments was leading to abuse.

Therefore, the coalition focused on generating transparent, hard data about contract agreements for resources as a way of increasing accountability. It has gained the participation of several nongovernmental organizations, private sector companies and governments<sup>84</sup>. The Publish What You Pay coalition operated on a theory of change which emphasized collective action by different societal stakeholders towards greater transparency.

Ultimately, clarifying theories of practice and change are essential to organizational success. Tied to organizational strategy, they help guide reformers' decisions in planning and implementation stages. Furthermore, these theories of change should inform the development of indicators to judge success within programs—and theories should be abandoned if evidence shows they do not produce long-run changes in the level of corruption.

In sum, the process for integrating measurement into corruption measurement begins with the identification of a broad goal or issue needing attention. Programme staff should then undertake an assessment by researching the problem more, collecting existing information and finally articulating a coherent explanation of corruption (the model), as well as a plan for strategically changing the situation to reduce corruption (theory of change). Corruption indicators can then be selected to align with the programme, based on the corruption drivers identified. The purpose of the programme might be to use measurements as a programme activity, or the indicators could simply serve as monitoring and evaluation mechanisms. Next, the staff should integrate the measurement process into a larger strategy for achieving anti-corruption aims, for matching the

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<sup>83</sup> Eamon Surry, *Transparency in the Arms Industry*. (Stockholm: Stockholm International Peace Research Institute (SIRPI), 2006), 13, [http://books.sipri.org/product\\_info?c\\_product\\_id=188](http://books.sipri.org/product_info?c_product_id=188) (accessed 20 August 2008).

<sup>84</sup> *Promoting Revenue Transparency: 2008 Report on Revenue Transparency of Oil and Gas Companies*, (Berlin: Transparency International, 2008), 7, [http://www.transparency.org/news\\_room/in\\_focus/2008/promoting\\_revenue\\_transparency](http://www.transparency.org/news_room/in_focus/2008/promoting_revenue_transparency) (accessed 13 September 2008).

measure to practical changes, and for addressing conflict sensitivity concerns (addressed in the next section).

### CROSS-CUTTING DESIGN CONCEPTS

In addition to thinking through assumptions about corruption and change, there are at least two criteria which should be considered in reviewing any overall measurement project. First, a *conflict sensitivity* paradigm tasks development practitioners, including corruption reformers, with ensuring they do not (even inadvertently) undertake actions which contribute to the outbreak or continuation of violence. This requires researchers, in considering a measurement project, to analyze a society's *connectors* and *dividers*, or those issues which bring the community together or pull it apart. Second, a *research-practice gap* analysis recognizes that research and information often fails to produce a change in behaviour on the part of practitioners and policy-makers. This criteria tasks those who engage in measurement with analyzing how it will actually make a difference.

### CONFLICT SENSITIVITY

*Primum non nocere* is a Latin phrase which means, "First, do no harm." It describes a principal taught to all medical students and health care providers, reminding them to consider the possible harm that any intervention might do. In the 1990s after observing militia groups use aid to sustain violent conflict, Mary Anderson and a number of humanitarian and conflict resolution professionals began calling for the application of a similar principle for NGOs operating in conflict zones<sup>85</sup>.

For researchers and civil society groups engaged in anti-corruption for defence, a "do no harm," attitude may also be useful. In many countries, especially those undergoing conflict or with little respect for human rights, anti-corruption work can be dangerous for activists and researchers as it may pose a threat to elites and criminal groups. In early 2009, for instance, Sri Lankan investigative journalist and winner of TI's 2000 Integrity Award Lasantha Wickramatunga was assassinated in response to his inquiry into political corruption in the country<sup>86</sup>.

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<sup>85</sup> Mary Anderson, *Do No Harm: How Aid can Support Peace—Or War*, (London: Lynne Rienner Publishers, 1999).

<sup>86</sup> "Transparency International Condemns Killing of Lasantha Wickramatunga," Berlin: Transparency International, 9 January 2009, [http://www.transparency.org/news\\_room/latest\\_news/press\\_releases/2009/2009\\_01\\_09\\_sri\\_lanka\\_assassination](http://www.transparency.org/news_room/latest_news/press_releases/2009/2009_01_09_sri_lanka_assassination) (accessed 30 January 2009).

For measurement tools, conflict sensitivity principles should be applied both to the staff collecting information, as well as in consideration of the distribution and publication of the information. On the collection side, many corruption measurement tools rely on surveys of individuals and consultant researchers to collect data on the given indicators. Proper care must be taken to ensure the safety of individuals involved in data collection throughout the process, from the early stages of the research through to well after the publication of results. In some countries, even open discussion of corruption in the armed forces is outlawed. Therefore, the confidentiality of in-country researchers must be protected in these situations. For this part of the “do no harm” attitude, reference to other measurements and assessments of human rights, media rights and general transparency and integrity frameworks is a good place to refer to for research<sup>87</sup>.

On the output side, publication of results in some cases could create perverse incentives to governments and militaries. For example, results which scandalize a particular country’s defence establishment, may lead the country to become *less* rather than more transparent. As Mary Anderson has pointed, the familiar “name and shame” campaigns of human rights activists have in some cases inadvertently encouraged human rights violators to adopt a bunker mentality, maintaining or increasing abuses since they are already vilified<sup>88</sup>. Meanwhile, unbalanced or unprofessional application of bureaucratic checks and balances, e.g. to fulfil anti-corruption “best practices,” can disrupt otherwise functional systems if applied without training and support<sup>89</sup>. When calling for reform, civil society groups and others must remember that the proposed solutions to corruption should, on the whole, *save* resources and empower more individuals to be effective in their roles. Excessive red tape or demeaning oversight can easily cause more harm than good<sup>90</sup>. Ultimately, a thorough analysis of conflict sensitivities and political lines of power should be undertaken before action.

### *RESEARCH-PRACTICE GAP*

Contemporary research from the conflict resolution and peacebuilding field, most notably a report entitled “Mind the Gap” published by Cheyanne Church of INCORE in Ulster, has shown that there

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<sup>87</sup> Global Integrity’s “Civil Society, Public Information, and Media” indicators may be a good place to start.

<sup>88</sup> Mary Anderson, “Thought Piece: Anti Corruption Measures Causing Conflict?” presented at The Fletcher School, Medford, MA, 2007, <http://fletcher.tufts.edu/corruptionconf/pdf/anderson.pdf> (accessed 13 April 2009).

<sup>89</sup> A considerable body of research exists on unexpected negative outcomes of well-meaning development projects. For example, Scott.

<sup>90</sup> Ample research has demonstrated a negative correlation between high levels of bureaucratic procedures and low levels of economic growth and citizen satisfaction. The World Bank’s “Doing Business” Indicators collect data pertinent to this topic.

are a number of differences between the research and policy worlds which can serve as impediments to effective utilization of research findings by policy makers<sup>91</sup>. To the extent that corruption measurement is pertinent research, these same findings are likely to be applicable for connecting with policy makers in defence and governance.

Policy makers are typically stretched for time and occasionally wedded to particular policies or programs. Lack of a sense of ownership or relevance can also be an inhibitor, such as the urge to say, "It's not my problem." At the same time, the research findings themselves can put off policy makers. Lack of quality and poor presentation can be two major obstacles. Timing problems or lack of contextual understanding are also cited by policy makers as reasons for research to not be applied.

Therefore, for researchers producing corruption measurement tools, there are a number of key principles to keep in mind. First, the measurement itself should be sufficient quality to warrant attention. In practice, this means the measurements should be well-designed as diagnostic tools, driven by reliable, precise, valid and useful indicators, as detailed below. Furthermore, the approach to measurement and publication should be selected strategically, with an eye on a desired policy change<sup>92</sup>.

Second, the presentation itself should be professional and savvy. This requires in part developing a good understanding of the target audience, which in some cases will be military officials, in other cases bureaucrats, and still in other cases civil society or journalists. In either case, the decision should be made in alignment with the operative theory of change. Findings, even from technical or sophisticated measurements, should be presented in a manner which is clear to non-experts. To the extent that anti-corruption advocates target journalists with their measurement results, the findings should be present with a cogent media frame<sup>93</sup>. If possible, publication or presentation of findings should capitalize on windows of opportunity, for instance through strategic partnerships,

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<sup>91</sup> Cheyanne Church, *Mind the Gap: Policy Development and Research on Conflict Issues*. Ulster: INCORE, 2005, <http://www.incore.ulst.ac.uk/policy/rip/RIP.pdf> (accessed 9 September 2008).

<sup>92</sup> June et al

<sup>93</sup> A *frame* is a mental structure which suggests a problem, assigns blame, and constrains the possible solutions. See George Lakoff, *Thinking Points: Communicating our American Values and Vision*, (Farrar, Strauss and Giroux: New York, 2006), 32; Robert Entman, "Framing: Toward Clarification of a Fractured Paradigm," *Journal of Communication* 43, no. 4 (December 2003): 51-58, <http://www3.interscience.wiley.com/journal/119293052/abstract?CRETRY=1&SRETRY=0> (accessed 20 September 2008).

in view of upcoming donor conferences, or in coordination with military-related activities of NATO or defence training academies.

### III. COMPARING AND INTERPRETING CORRUPTION MEASUREMENT APPROACHES

This section of the report compares several corruption measurement approaches. It begins by explaining a set of criteria for comparing one indicator to the next. Then, it categorizes the indicators into four types, and offers detailed examples of each. In the fourth and final section after this one, the report applies the criteria and results, asking how the different approaches might be adapted for the defence sector.

The idea of measuring corruption is still relatively new, and sector-specific measurement remains rare. To date, most measurements of corruption have been performed with the goal of either providing foreign investors with a country-wide risk assessment of corruption, or to supply the international development aid community with information. As a result, the convention has been to focus on national governments and business environments as whole rather than on a sector-level or industry-by-industry basis.

However, the state of the anti-corruption and governance field is now at the point where sector-level measurements have become more viable politically and practically. New, innovative tools have been developed in the past twenty years. Thanks to the gains in awareness and political momentum, many reformers have gained important political concessions to go ahead with reform of particular ministries or sectors, such as reducing corruption in public education in Uganda or exposing the link to transnational crime in timber or diamonds. And while corruption measurement is only one way of approaching the problem of corruption, it has been an important part of the design, monitoring and evaluation of these new programmes<sup>94</sup>.

#### CRITERIA FOR COMPARING CORRUPTION INDICATORS

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<sup>94</sup> June et al.

Measuring corruption presents a host of problems to researchers, beginning with clarifying what corruption even is. The most common definition, employed by the World Bank, Transparency International and a whole host of other major institutions, is “abuse of public power for private gain” (or some close variation thereof). Even this loose definition, however, is not terribly clear.

Furthermore, there remains a question of comparability across contexts. A bribe of U.S. \$1,000 carries a greater impact in a poor country like Chad than in a rich country like Switzerland. Is it the same or different in these two countries? In other words, should a bribe be measured by the absolute financial amount, by the amount relative to the purchase or good exchanged, by the importance of the transaction to the public, in other words the severity of the violation, or by the frequency? These dilemmas should and do present difficulties for evaluators and reformers alike.

Even if a fixed definition of corruption were adopted, it remains virtually impossible to measure corruption directly, short of a sting operation, because it corrupt transactions are purposefully secret. Corrupt actors themselves purposely construct barriers to the detection and prosecution of their crimes. Extortion, blackmail and threats of violence or sanction can all deter investigators from discovering corruption. Secrecy, consequently, presents a major challenge to measurement and corruption assessment.

Finally, as discussed in Sections I and II of this report, corruption indicators will necessarily be embedded within larger programme strategies for reform. This means that different indicators will appear relatively better or worse, i.e. more or less appropriate, for measuring different phenomena in different situations.

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*“One way of getting a ‘real’ measure of corruption is to arm yourself with a hidden camera, pose as a shady arms dealer, and see if you can catch politicians red-handed on tape. The FBI actually did this in the late 1970s, creating a phony company called Abdul Enterprises to solicit favors—including assistance in laundering money—for a fictitious wealthy Middle Eastern oil sheik... This so-called ‘Abscam Operation’ resulted in convictions of five congressmen, a senator, and numerous local officials, and caused a public uproar over apparently rampant corruption in the U.S. government.”*

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Source: Raymond Fisman and Edward Miguel, *Economic Gangsters: Corruption, Violence, and the Poverty of Nations*. Princeton: Princeton University Press, 2008.

Thus, in exploring indicators, it is useful to think about different criteria along which to compare the different approaches. This report identifies six criteria as helpful for considering corruption measurement tools, although the list is not definitive<sup>95</sup>. The first three—reliability, validity, and precision—generally relate to “diagnostic” criteria for assessing the empirical quality of the measurement. The second three—robustness, appropriateness, and usefulness—refer to the larger assessment or understanding drawn from the sum of indicators as it relates to other measurements empirically, as well as the purpose of the assessment within a strategic programme model.

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**Measurement Indicator Comparison Criteria**

<i>Diagnostic Criteria</i>	<i>Assessment Criteria</i>
<b>1. Reliability: the indicator returns consistent results when the same methodology is applied to the same set of data.</b>	<b>4. Robustness:</b> the measurement returns results which are consistent with other studies and methodologies looking at the same phenomenon.
<b>2. Validity: the indicator actually measures what it purports to measure.</b>	<b>5. Appropriateness:</b> the approach is appropriate to the overall theoretical framework.
<b>3. Precision: the indicator produces results which are detailed and specific in some practical sense.</b>	<b>6. Usefulness:</b> the results are actionable; the indicators have measured something that can be changed.

**Reliability**

Can the measurement be repeated, *ceteris paribus*, and return consistent values? Because corruption refers to a socially complex phenomenon, it is difficult to speak of “objectivity” of measurements in any meaningful sense. After all, many corruption measures, as we see, track

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<sup>95</sup> Drawing on Church and Rogers, 44; Michael Johnston, *Components of Integrity: Data and Benchmarks for Tracking Trends in Government*, Château de la Muette, (France: Organisation for Economic Cooperation and Development, 2008), 8-14, <http://people.colgate.edu/mjohnston/Methodologies%20for%20assessment%20--%20Fall%202008.pdf> (accessed 30 January 2009).

“subjective” perceptions of corruption. Instead, the concept of *reliability* is the next best thing. Setting aside the issue of objectivity or subjectivity, reliability asks how consistent the measure is. Some indicators track phenomena which are more observable (and reliable) than others. The existence or non-existence of an anti-bribery law, for example, is a definitive answer, and therefore an indicator referring to this law will yield reliably consistent results. An indicator which tasks an expert with ranking a country’s “overall level of corruption” on a one to ten scale, meanwhile, would not be as reliable, since different experts might interpret the question and the country context differently, producing different scores.

### **Validity**

Does the indicator actually correspond to the concept it purports to measure? It is impossible to measure corruption directly. Like other complex social phenomena, corruption is not a single observable event, but rather a conflux of different factors. Furthermore, corruption is often secret, so indirect and instrumental methods of measurement must be developed. A measurement which purports to measure bribery, but actually measures the number of court convictions of individuals on bribery charges is not a particularly valid measure of bribery per se. Combined with other indicators of different, related phenomena, however, this indicator may still be useful and valid towards measuring other phenomena, such as the quality of justice systems with regard to corruption.

A further, sub-component question for validity asks: does the indicator capture *de jure* or *de facto* data<sup>96</sup>? *De jure* refers to the facts as they exist in writing, law, or principle, whereas *de facto* refers to reality as it is in practice. This is a key distinction to make when considering corruption, since often corruption is illegal and un-tolerated in law, but not in practice.

Validity ultimately refers to the strength of the causal line of reasoning between the specific indicator selected and the end object being measured. For example, a researcher might propose that soldiers tend to be corrupt, while officers are not. This researcher could then craft an indicator which suggests that countries with more soldiers relative to officer will score more poorly on corruption indicators. However, without solid information to support the initial inference, this indicator could hardly be said to be valid, since the thing being measured (proportion of soldiers to officers) has not clear relationship to corruption.

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<sup>96</sup> *De jure* indicators gauge official rules or policies (“on paper”), while *de facto* indicators judge reality as it actually is (“in practice”).

## **Precision**

Precision refers to an indicator's ability to capture information which is detailed and specific in some meaningful sense. For example, a survey-based indicator which returned a figure on the percentage of "people who had experienced corruption," is less precise than one which can identify, "the number of soldiers who have demanded a bribe." Precision is depends on units, error terms, sample sizes, time frames and methodologies. In particular, a key question for many composite corruption and governance measurements is whether the indicator can be compared over time?<sup>97</sup>

Even at the definitional level, what, after all, do the terms "public" and "private" actually mean? Like other complex social phenomenon (e.g. *democracy* or *peace*), the concept of corruption is not precise<sup>98</sup>. These are concepts which are embedded in culturally and politically specific frameworks of governance. For many developing countries, especially those with fragile states, such neat distinctions may not be truly meaningful. Different cultures may also have different notions of public and private, both in terms of "where" the line between the two spheres lies, as well as how important such a division is. Therefore, comparing political corruption in a fragile state like Afghanistan to France may not be really capturing the same phenomenon with any sort of clarity. Different societies perceive different types of transactions as "corrupt." The best approach to assessing bureaucratic or process-based corruption may not be the same as for political corruption, according to most analysts.

In some cases, such loose equivalence might be acceptable; in others, it may obfuscate more than it illuminates. This relates back to the purpose of the measure and the concept of *usefulness*, to which precision is tied in some way.

## **Robustness**

Robustness refers to whether an indicator or set of indicators returns results which are similar to other measurements of the same underlying phenomena. For example, the TI CPI is a robust indicator of overall corruption insofar as it correlates well with the World Bank Institute's "Control of Corruption" indicator from the World Governance Indicators Dataset. Robustness is similar to reliability but distinct. The Economist Intelligence Unit (EIU)'s corruption ranking score (1 to 5) which feeds into the composite CPI and WGI scores is an expert-scored ranking, and conceivably different experts would rank the same country differently, thereby reducing reliability, even though

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<sup>97</sup> Church and Rogers, 44; Johnston

<sup>98</sup> Dininio, 235.

the overall EIU results may continue to be robust in relation to other corruption measures. It may not always be important for a measure to be robust, depending on its purpose.

### **Appropriateness**

The appropriateness criteria asks, “is the measurement appropriate given to the political context and anti-corruption strategy?” According to the *User’s Guide to Measuring Corruption* by UNDP and Global, there are several “good practices” which anti-corruption reformers can adhere to in designing and implementing corruption measurement tools. Conceptual clarity and strategic thinking will make corruption tools more effective by increasing their *appropriateness* and *relevance* to a given context. Is the indicator “the right tool for the job?” On-going monitoring and evaluation of anti-corruption programs will allow civil society groups and government officials alike to modify the tools at their disposal. **Feasibility** considerations are key. Different diagnostic and impact *outputs* require different *inputs* of resources in the form of staff time and energy, expertise, technical analysis and institutional commitment. Therefore, organizations must take account of the feasibility of each particular methodology given their resources for the corruption measurement project. There is no “right” answer as to which method to apply; instead, that decision should be made strategically with a given outcome in mind, and then working backwards to figure out the most appropriate and feasible approach.

Furthermore, there is no single tool which is appropriate in all contexts everywhere. Corruption is a complex issue, and there are flaws of omission and obfuscation in all general corruption measures. Therefore, we must embrace the need for multiple assessments and complementarity. The most complete picture of corruption situations combines quantitative data and qualitative assessments in a contextually-aware manner<sup>99</sup>.

### **Usefulness**

Usefulness is a broad concept related to both “precision” as well as the “Research-Practice” gap. It refers to whether a specific indicator or measurement result is *actionable*; that is, whether it measures something which can be changed. For example, an indicator basket producing an overall corruption measurement score may include an indicator reflecting a country’s distance from the equator. The rationale may be that countries closer to the equator tend to grapple more with poverty, disease and colonial pasts, and therefore face higher levels of corruption. Whether or not

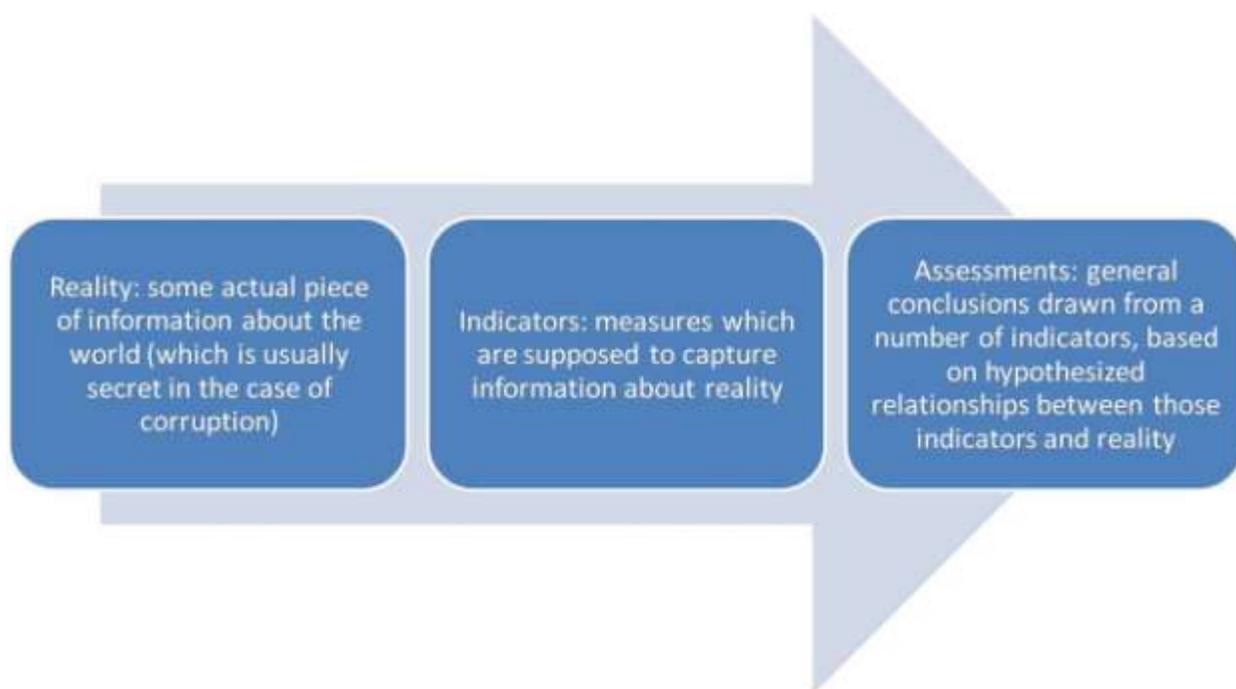
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<sup>99</sup> Raymond June, Afroza Chowdhury, Nathaniel Heller, and Jonathan Werve. *A User’s Guide to Measuring Corruption*. (Oslo: UNDP / Global Integrity, 2008), 43-47, [http://www.undp.org/oslocentre/docs08/users\\_guide\\_measuring\\_corruption.pdf](http://www.undp.org/oslocentre/docs08/users_guide_measuring_corruption.pdf) (accessed 30 January 2009).

this is true—and indeed it may be—the distance from the equator is not terribly actionable. No one can do much to change the situation. Use, however, depends on the purpose of the research and issues of appropriateness as well. If the purpose of the measure is to assess corruption risk, then measuring unchangeably phenomenon such as geographic location or colonial past may be helpful.

## CORRUPTION MEASUREMENT INDICATORS

The end result of any corruption measurement undertaking will be an *assessment*; that is, “a broader contextual analysis of the state and drivers of corruption, often relying on multiple indicators of corruption... A balanced assessment will draw from a mix of qualitative and quantitative corruption indicators.”<sup>100</sup> An indicator is “a measure that points out something about the state of governance or about a particular aspect of corruption in a country.”<sup>101</sup> In other words, the chain of reasoning in measurement follows the small chart below, where assumptions about the causes, forms and consequences of corruption inform the design of indicators, feeding into general assessments about reality:



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<sup>100</sup> June et al., 5

<sup>101</sup> Ibid; Church and Rogers define an indicator as “a quantitative or qualitative factor or variable that provides a simple and reliable means to reflect the changes connected to an intervention,” 44.

A variety of approaches and assumptions have led to a number of different corruption measurement approaches. These different techniques for generating indicators generally fall into one of the following four categories identified in this report<sup>102</sup>:

1. **Perceptions indicators** collect surveys on peoples' opinions of or experiences with corruption, often using typical statistical methods for sampling and inference.
2. **Technical Indicators** take an in-depth look at agency integrity through processes similar to financial audits, often on a case-by-case basis, using a mix of quantitative and qualitative methods.
3. **Socio-Legal Indicators** rely on checklists and scorecards completed and reviewed by experts, and drawing on publicly available information, to make systematic comparisons of different integrity systems.
4. **Non-traditional indicators** are creative or unconventional approaches to corruption assessment which cannot easily be classified as perceptions-based, technical, or socio-legal.

In the following pages, these four categories of measurement are considered at length. Each approach is considered broadly according to the criteria of indicators. There are several cases example selected to illustrate various applications of the different approaches. There was no hard-and-fast process for selecting which measurement tools to highlight as case examples, but generally speaking the cases are representative of their type, widely known and/or particularly impressive in terms of methodology or action resulting from their publication. The cases are as follows:

1. Perceptions Indicators: TI Corruption Perceptions Index (CPI), TI Bribe Payers Index (BPI), World Governance Indicators (WGIs)
2. Technical Indicators: World Bank Quantitative Service Delivery Surveys, World Bank Public Expenditure Tracking Surveys, Citizen Report Cards
3. Socio-Legal Indicators: Global Integrity Index, Open Budget Index, Promoting Revenue Transparency Index, EIRIS

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<sup>102</sup> A variety of taxonomies exist in the field, some with more or fewer categories. These four categories are specific to this report.

#### 4. Non-traditional Indicators: the Diplomat Parking Ticket study and the Political Connections studies

However, while taxonomies of methodologies are useful for comparing various approaches to measuring corruption, there are no hard-and-fast boundaries between one approach and another. Therefore, elements of one approach often appear in another. Categories like those employed in this paper exist purely for instrumental reasons, in order to help us structure our thinking in comparing one approach to the next.

##### *PERCEPTIONS-BASED INDICATORS*

There are actually two tiers of assessment for perceptions-based approaches. The first tier refers to surveys of peoples' perceptions of experiences of corruption. These are usually conducted by risks analysis or consulting firms, such as the Economist Intelligence Unit or PriceWaterhouse Coopers. The surveys ask general questions about peoples' experiences with corruption in their countries or with particular businesses, or their general perceptions (not tied to any particular experience). The second tier of perceptions indicators are composite measures which combine the results of several first-tier surveys in hopes of increasing reliability, minimizing error and broadening coverage (since many first-tier surveys cover only a limited set of countries).

Perceptions-based indicators are the most common form of corruption measurements. Indeed, the most widely cited corruption indicators, Transparency International's Corruption Perceptions Index and World Bank Governance Indicators, both rely on perceptions surveys by groups like the Economist Intelligence Unit and major development banks to drive their scores.

There are both strengths and weaknesses to the perceptions-based measurement approach. The most notable strengths are that perception surveys are difficult to rig or game (so long as the underlying statistical methodology is sound). Perception surveys also generally work across contexts, accounting for different expressions and interpretations of corruption. As such, they may be the best means for obtaining *de facto* information about corruption levels. When conducted properly, perceptions surveys also benefit from statistical methodology and robustness; they can be scientifically compared against other indicators to check for correlation, allowing them to test broad hypotheses about causes, consequences and occurrences of corruption.

The key weakness to perceptions-based indicators is that perceptions are subjective. They may not reflect underlying reality and may leave room for bias. Although it is possible to repeat the survey methodologically to test for robustness and reliability, it is harder to test the underlying truth of widely held opinions. “Common sense” is not always true. In Nigeria, for example, a corruption perceptions survey showed high levels of the populace reporting corruption in the justice system and judiciary. A second survey asked how many people had been asked for or paid a bribe in the course of their exchanges with the justice system. Very few had. A separate reform introduced new procedures to speed up case turn-around, and when a second corruption perceptions survey was administered, the score for the judges was much lower<sup>103</sup>. The clearest explanation for this story is that the population assumed the inefficiency in the justice system was due corruption, or they labelled their delays “corruption,” but their exchanges were not corrupt according to standard (Western) definitions of corruption. In short, widespread opinion, no matter how firmly held, is not a reliable indicator of social phenomena.

Today, countries and firms regularly complain that corruption perceptions surveys unfairly label them as corrupt. Despite the best intentions of researchers, the complaints may be valid. Poll data is notoriously open to distortion through errors in sample size, phrasing of questions and perceptions surveys alone cannot reveal everything. Subjectivity is not the only problem, either. Not only do perceptions-based indicators leave room for errors of subjectivity or selection bias, they do not do a very good job of explaining why or how a country is corrupt. As such, perceptions-based measures are not especially useful. “So what if Company X is perceived to be corrupt?” one might ask. The data may be interesting—but is it useful?

The following paragraphs will offer case examples of three major Perceptions-based Corruption Measurements: the Corruption Perceptions Index and Bribe Payers Index of Transparency International, as well as the World Governance Indicators by Daniel Kaufmann and the World Bank Institute.

## **Corruption Perceptions Index**

Perhaps no measurement tool is more established than the **Corruption Perceptions Index** (CPI) produced by Transparency International. It is probably the best known measure of corruption in

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<sup>103</sup> “Nigeria’s Corruption Busters,” UNODC Website, (New York: UN Office on Drugs and Crime (UNODC)), <http://www.unodc.org/unodc/en/frontpage/nigerias-corruption-busters.html> (accessed 3 March 2009).

the world. The CPI compiles data from surveys of independent organizations based on the perceptions of overall levels of corruption of experts, citizens, resident business leaders and non-residents<sup>104</sup>. In 2008, the CPI covered 180 countries and looked at 14 different surveys (although not every country is necessarily covered by all the different sources). The CPI, therefore, is a basket measurement of other measurements and questions. One source, the Political and Economic Risk Consultancy asks approximately 1,400 expatriate business executives, “How serious do you consider the problem of corruption to be in the public sector?” The Economist Intelligence Unit is another source which employs an expert panel to evaluate the level of “misuse of public office for private (or political party) gain.” Statistical techniques are used to standardize and combine the various metrics into a single number and ranking.

In terms of the strength of measurement methodology, the CPI is attractive in several ways. As a composite index, rather than a single perceptions survey, is able to reduce the impact of possible sample size and question language biases which threaten smaller scale measures. Indeed, the CPI correlates well with other measures of corruption, such as the World Governance Indicators and even the New York Diplomat Parking Tickets study detailed later on page 76. These high levels of correlation suggest that the CPI is a *valid* measure of general corruption in a country.

Another major source of strength for the CPI, as well as other perception-based indicators, is its responsiveness to real-time events and *de facto* information. The recent BAE Systems scandal is a case in point. For several years up to 2007, the U.K. had maintained a high score of about 8.4 (in 2007) on the CPI. In the wake of the BAE scandal in the 2008 spring and summer, the U.K.’s score dropped a full 0.7 points to 7.7 in 2008. Of course, a number of questions could be raised here about what the CPI is actually measuring and whether that relates to underlying reality, but at least the CPI was responsive to new information.

The BAE Systems scandal, however, is also a good example of some of the CPI’s failings. Did Britain suddenly ‘become’ more corrupt in 2008? In fact, the bribery scheme dated back to the 1980s. What if there are worse scandals in other, higher-ranked countries which simply haven’t gotten the

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<sup>104</sup> In the CPI 2008, this consists of the following sources: Asian Development Bank, African Development Bank, Bertelsmann Transformation Index, Country Policy and Institutional Assessment, Economist Intelligence Unit, Freedom House, Global Insight and Merchant International Group, IMD, Political and Economic Risk Consultancy, and the World Economic Forum. See Johann Graf Lambsdorff, *Transparency International Corruption Perceptions Index: A Short Methodological Note*, Berlin: Transparency International, 2002. <http://www.transparency.org/content/download/36189/568652> (accessed 18 October 2008).

same public media attention as BAE? How much of an impact do the media have, and how does this affect countries with a robust free press differently from ones with limited media freedom?

The CPI and its component surveys may ultimately reflect incorrect or biased perceptions. Because the majority of respondents are businesspersons, some scholars and officials have alleged that the CPI misinterprets moral and cultural norms, recreating global stereotypes and biases. As with most perceptions surveys, the CPI’s results are not objective, detailed, actionable, or easily understandable<sup>105</sup>. Nor is clear how CPI scores are weighed, nor why they move up or down. In fact, although they are generally responsive, the scores for each country sometimes include data which is several years old or based on relatively sparse surveys. Due to these and similar constraints of the methodology, the CPI scores are not “absolute” numbers and cannot be compared year to year. It is therefore hard to measure progress. This in turn makes it less useful to donors and other external actors seek to chart a reform agenda.

Yet, the discussion over the specifics of the CPI’s methodology may be beside the point. When the CPI was introduced to the media in the mid-1990s, it captured the attention of the media, civil society and governments. In the dozen years since, the CPI has been a critical part of setting the agenda for anti-corruption work by providing reformers and government officials alike with a focal point for strategizing. Low scores on the CPI have given countries incentives to assent to reform, while researchers upset with its methodology have been provoked into crafting new tools of their own. In other words, the CPI may be a more effective catalyst vehicle than oversight tool. The following chart provides a summary of some of the strengths and drawbacks of the CPI.

<b>Strengths</b>	<b>Criticisms</b>
The CPI correlates with other measures of corruption, suggesting high levels of <i>reliability</i> .	Changes in CPI scoring cannot be directly traced back to specific causes. Scoring is not <i>actionable</i> or easily understandable.
The CPI is responsive to new <i>de facto</i> information, such as the BAE scandal, suggesting reasonable degrees of <i>validity</i> .	The CPI may be reproducing its own findings or “common sense” (assumptions) which is not grounded in fact and therefore

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<sup>105</sup> Johnston

	not <i>valid</i> .
Rankings are a powerful media frame which have motivated governments into action and provided reformers with a powerful piece of information for negotiating leverage	Year-to-year comparisons of scores are not meaningful, given the methodology, so the CPI suffers as an overall diagnostic of change.

**Bribe Payers Index**

Aside from the CPI, Transparency International has regularly developed other measures of corruption, such as widely-known Bribe Payer’s Index (BPI)<sup>106</sup>. This measure arose in response to some of the growing criticisms of the CPI and as a complement to the OECD Convention on Combating Bribery. The BPI is not an annual measurement diagnostic—Transparency International has published results in 1999, 2002, 2006 and 2008. For each, researchers interviewed several hundred individuals, mostly senior executives in business, as well as representatives from legal and financial institutions. The BPI asked respondents about which international companies were most likely to pay bribes, as well as about effects in their legal and institutional frameworks (as noted elsewhere, “Arms and Defence” ranked second in the scoring).

The key questions of the BPI regarded countries and sectors paying bribes<sup>107</sup>:

- **Bribe Payer’s Index.** “In the business sectors with which you are most familiar, please indicate how likely companies from the following countries are to pay or offer bribes to win or retain business in this country?”
- **Bribe Sector and Size.** “How likely is it that senior public officials in this country would demand or accept bribes, e.g. for public tenders, regulations, licensing in the following business sectors?” and “Among the business sectors mentioned previously, which are the two sectors where the biggest bribes are likely to be paid?”

Follow-up questions included the following:

<sup>106</sup> Bribe Payers Index, [http://www.transparency.org/policy\\_research/surveys\\_indices/bpi](http://www.transparency.org/policy_research/surveys_indices/bpi)

<sup>107</sup> *Bribe Payers Index 2002: Explanatory Notes and Comparative Tables*. Berlin: Transparency International, 2002, <http://www.transparency.org/content/download/2863/17759> (accessed 20 August 2008).

- **OECD Anti-Bribery Convention.** “Which of the following [likert scale] best describes how much you know about the convention?” and “Do you know how your organization is responding to this OECD Convention”
- **Solutions to corruption.** “If you had a magic wand and you could eliminate corruption from one of the following institutions, what would your first choice be?”
- **Sources of respondents’ information.** “Please describe where your knowledge about this subject comes from?”
- **[Change in] Levels of corruption.** “Overall, has there been a change in the level of corruption by foreign companies of senior public officials in this country?” and “Have changes and developments in any of the following factors contributed significantly to an *increase* in the level of corruption by foreign companies of senior public officials in the past 5 years?” and the same for a *decrease*.”
- **Other means of gaining unfair advantage.** “In the business sectors with which you are familiar, are there other means by which some governments gain unfair business advantage for companies from their countries? What means do these governments use?”
- **Countries using other unfair means to gain or retain business.** “Which three governments do you principally associate with practices such as those mentioned above, e.g. means besides bribery for gaining unfair advantage in international trade and investment.”

One advantage of the BPI is that it evaluates corruption in a disaggregated fashion, breaking down the analysis across various sectors and attempting to assess macro-level concerns such as the impact of the OECD Convention. Because of the BPI’s focus on briber, its results are more valid and precise than those of the CPI. Furthermore, with its questions regarding the legal and institutional frameworks of a country, the BPI also presents a slightly more useful approach for policy makers and government officials. However, the BPI’s findings have varied considerably from year to year

and do not correlate with other measures of corruption, which raises some questions about the methodology's reliability and robustness<sup>108</sup>.

## World Governance Indicators

The World Bank's **Worldwide Governance Indicators** (WGI) follow a survey-of-surveys approach similar to the CPI, but they expand their evaluation to cover "governance" more broadly. Developed by researchers Daniel Kaufmann, Aart Kray and Massimo Mastruzzi, the WGIs (and the accompanying *Governance Matters* report, now in its 6<sup>th</sup> edition) rely heavily on perceptions-based approaches according to a specific rationale. First, argue the researchers, "perceptions matter because agents base their actions on their perceptions, impression, and views." Whether perceptions reflect reality or no, the consequences of those perceptions are real—and therefore relevant. Second, given the secrecy of corruption and the lack of good data on other elements of governance, "there are few alternatives to relying on perceptions data." Third, the researchers are aware of the problem of *de facto* versus *de jure* validity, and prefer a perceptions-based approach which better captures the former<sup>109</sup>.

The WGIs cover six "dimensions" of governance: Voice and Accountability, Political Stability and Absence of Violence, Government Effectiveness, Regulatory Quality, Rule of Law and Control of Corruption<sup>110</sup>. The approach for each dimension, including Control of Corruption, is to amass large numbers of data sources and first-tier surveys. The researchers use statistical approaches to synthesize and average the data to produce a final score comparable across countries and over time<sup>111</sup>.

For the Control of Corruption score, some 25 different corruption assessments are pooled, including information from the major development banks and several private risk consultancy firms<sup>112</sup>. Notably, this list does not include the TI-CPI, since the CPI draws on many of the same raw

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<sup>108</sup> Lamdsorff 2008

<sup>109</sup> Daniel Kaufmann, Aart Kraay, and Massimo Mastruzzi, *Governance Matters VII: Aggregate and Individual Governance Indicators, 1996-2007*, World Bank Policy Research Working Paper No. 4654, (Washington, DC: The World Bank Institute, 2008), 3, [http://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=1148386](http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1148386) (accessed 20 August 2008).

<sup>110</sup> "Governance Matters 2008: Worldwide Governance Indicators 1996-2007." World Bank Institute. <http://info.worldbank.org/governance/wgi/index.asp> (accessed August 2008, 2008).

<sup>111</sup> Kaufmann, Kraay, and Mastruzzi, 10

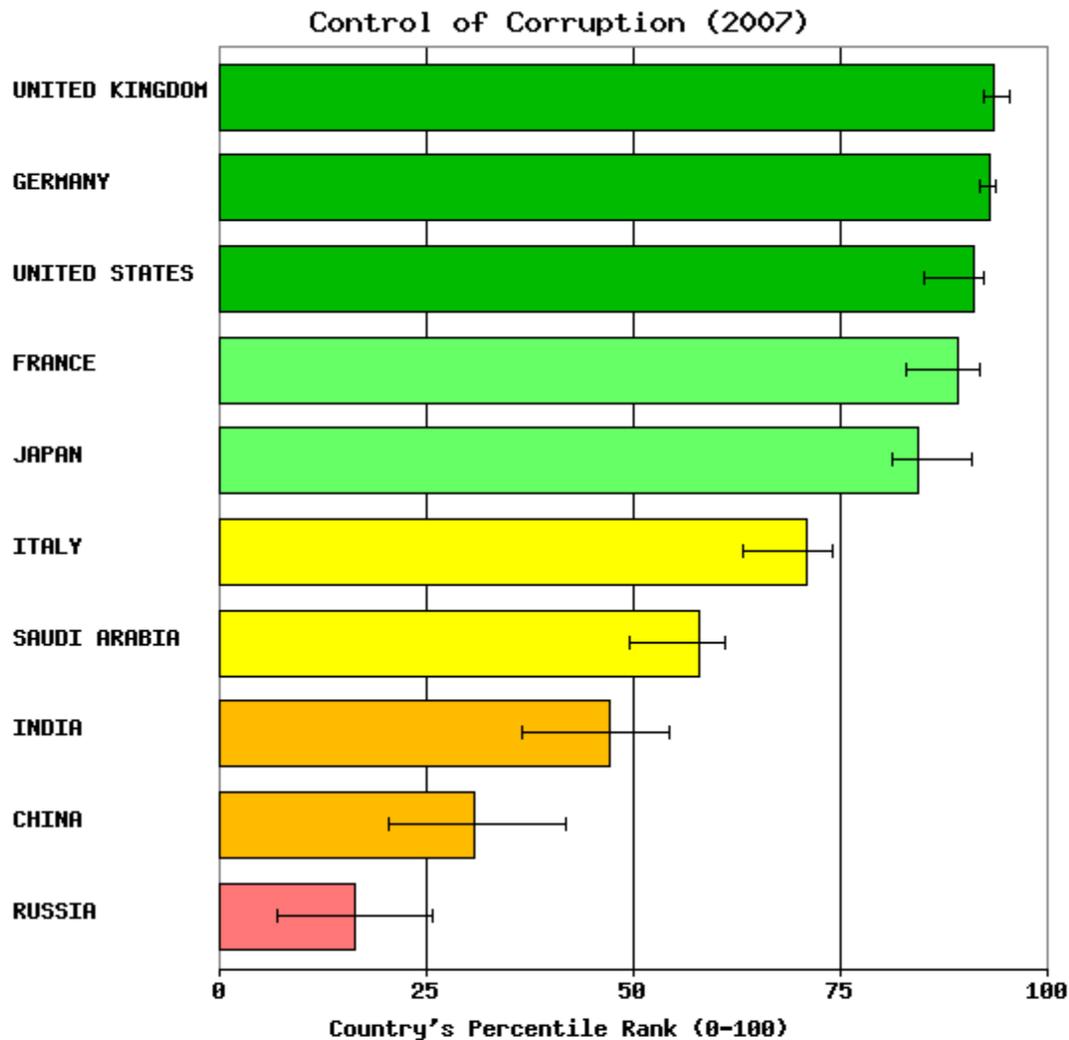
<sup>112</sup> To name a few, the Gallup World Poll, Merchant International Group's Gray Area Dynamics, the Business Environment Risk Intelligence Financial Ethics Index, and the Economist Intelligence Unit. A full list is available on page 78 of *Governance Matters VII*.

data sources for its own index and would therefore merely skew the data (the end results of the two indexes are consequently similar).

The World Bank Institute also maintains an online database capable of producing illustrative queries comparing countries by score, time, etc. The following chart, for example, shows ranks the 10 countries with the highest military expenditures according to their nation-wide WGI Control of Corruption scores<sup>113</sup>:

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<sup>113</sup> SIPRI Yearbook 2008 Data, 11. Database query at [http://info.worldbank.org/governance/wgi/mc\\_chart.asp#](http://info.worldbank.org/governance/wgi/mc_chart.asp#) on 29 March 2009.



Source: Kaufmann D., A. Kraay, and M. Mastruzzi 2008: Governance Matters VII: Governance Indicators for 1996-2007

Note: The governance indicators presented here aggregate the views on the quality of governance provided by a large number of enterprise, citizen and expert survey respondents in industrial and developing countries. These data are gathered from a number of survey institutes, think tanks, non-governmental organizations, and international organizations. The aggregate indicators do not reflect the official views of the World Bank, its Executive Directors, or the countries they represent. The WGI are not used by the World Bank Group to allocate resources or for any other official purpose.

As many commentators have noted, the WGIs offer an apparently sophisticated methodology and quantitative reliability. Yet, many of the same problems which confront the CPI also apply to the WGIs. There is some question about the true comparability of the data across countries or over time (although Kaufmann et al argue the methodology allows for the latter). The “echo chamber” problem is also a serious one—after all, many of the indicators feeding into the WGIs are scores

assigned by experts, who in turn are influenced by perceptions surveys like the CPI and WGI. According to some critics, it is not even completely clear what exactly the WGIs actually measure or whether there are meaningful differences between the different indicators<sup>114</sup>. The findings for the different governance dimensions tend to move together—a result which could underscore the inter-related nature of governance and rule of law generally, or which, alternatively, could imply the “Control of Corruption” does not measure anything more than some overall impression of governance indistinct from the other component parts.

In terms of defence, meanwhile, the technical complexity of the WGIs, coupled with the lack of defence-specific data which could produce a comparable ranking, make this approach an unattractive model for defence corruption measurement at present. Nevertheless, in spite of these criticisms, the WGIs and the work of the researchers Kaufmann, Kray and Mastruzzi overall are at the center of corruption analysis and research, and continue to produce some of the most innovative mainstream work on the topic.

### *TECHNICAL INDICATORS*

Technical Indicators take an in-depth look at institutional integrity through processes similar to financial audits, often on a case-by-case basis, using a mix of quantitative and qualitative methods. Public Expenditure Tracking Surveys (PETS), Quantitative Service Delivery Surveys (QSDSs) and Public Expenditure Management (PEM) reviews all rely on accessing budgetary information from within governmental systems, and performing checks against pre-determined guidelines (or baselines set by initial measures against which future results are compared). They generally require the participation of highly sophisticated researchers working with the cooperation and permission of the government and agency being reviewed. This usually means the World Bank working through experiential surveys and direct observation to collect data about bureaucratic processes within an agency. The results are precise measures of some phenomenon which may by

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<sup>114</sup> Melissa Thomas, *What do the Worldwide Governance Indicators Measure?* Report, (Washington, DC: The Johns Hopkins University (SAIS), 2007), [http://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=1007527](http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1007527) (accessed 18 October 2008); Christiane Arndt and Charles Oman, *Uses and Abuses of Governance Indicators*, (Paris: Organisation for Economic Cooperation and Development (OECD), 2006), Chapter 4, [http://www.oecd.org/document/25/0,2340,en\\_2649\\_33935\\_37081881\\_1\\_1\\_1\\_1,00.html](http://www.oecd.org/document/25/0,2340,en_2649_33935_37081881_1_1_1_1,00.html) (accessed 13 April 2009); Odd-Helge Fjeldstad and Jan Isaksen, *Anti-Corruption Reforms: Challenges, Effects and Limitations of World Bank Support*, (Washington, DC: World Bank Independent Evaluation Group (IEG), 2008), <http://www.cmi.no/publications/file/23134=anti-corruption-reforms-challenges> (accessed 30 January 2009).

only indirectly related to corruption. Technical Indicators derive their usefulness from this quantitative precision, which is usually high on *de facto* validity (though the connection to corruption per se may require some untested assumptions about causality or correlation).

Compared to Perceptions Indicators and Socio-Legal Indicators, Technical approaches can provide the most detailed, reliable, valid and useful diagnostic tools for grounding analysis and monitoring performance. This is their great strength. However, technical measurements are also the most time- and resource-intensive approach, as they are usually customized for a particular agency or bureaucracy; they usually require the input (and agreement) of the organization being reviewed; they may be difficult to communicate simply to non-experts, limiting their research-practice-policy effectiveness; and, as with other specialized endeavours, highly quantitative approaches run the risk of “missing the forest for the trees.” As a result, technical indicators are less likely to be effective at providing civil society groups with negotiating leverage in the form of “name and shame” data, particularly for situations (such as defence) where corruption is not yet openly recognized as a problem. Indeed, the international financial institutions which usually administer technical indicator studies tend to prefer quiet intervention from a technocratic approach. If defence ministries do not invite these financial institutions to undertaking a corruption assessment, the institutions are unlikely (oftentimes forbidden) to intervene. However, once the barrier to entry is overcome, technical indicators can help sustain and incentivize reform down to the individual and procedural level.

The next few case examples will look at the experiences of three different applications of technical governance measures: the Public Affairs Center’s report cards in Bangalore, India; the World Bank’s Public Expenditure Tracking Surveys in Uganda and the World Bank’s Quantitative Service Delivery Surveys. Rather than spelling out the specifics of the methodology of the cases, which could not be easily reproduced for defence, the following descriptions will instead attempt to narrate the impact of the various studies under the assumption that comparable studies might strive for similar ends, albeit through differing diagnostic means.

### **World Bank Quantitative Service Delivery Surveys**

Spearheaded by Ritva Reinikka at the World Bank, Quantitative Service Delivery Surveys (QSIDS) have been applied in Chad, Madagascar, Mozambique, Nigeria and Uganda, among others<sup>115</sup>. These

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<sup>115</sup> Azfar, 204-6

studies aim to capture *de facto* information about lower-level management practices at the service-delivery level within public institutions. The study then links the findings to upper management issues of policy and administrative structure. The data is then used to estimate the corruption risks and losses which affect management practices and the quality of service delivery<sup>116</sup>. Often, the QSDS data is merged with other data from other researchers and studies, including perceptions indicators, to paint pictures around areas of interest such as the causes of bureaucratic corruption and so on. According to corruption scholar Omar Azfar,

*“Reinikka and colleagues also hope to compare management practices in the public, private and not-for-profit sectors. This is a welcome step and could allow comparisons of management practices and misgovernance across sectors. Perhaps subsequent to the study, policy prescriptions on privatization and other policy approaches will be made based on (admittedly imperfect) evidence rather than on presumptive beliefs.”<sup>117</sup>*

Azfar points out, however, that the QSDSs suffer from some of the same drawbacks of other perceptions-based measures, and may lack *de facto* validity.

### **Public Expenditure Tracking Surveys**

Ritva Reinikka, who led the QSDSs, also worked with Jakob Svensson and the World Bank in Uganda on the Public Expenditure Tracking Surveys (PETS), which have become a relatively well-known success story in the anti-corruption community.

PETS track fund transfers at each level in the chain of government from the national level down to the delivery point. At each stage in the process, the government level reports the level of funds that it receives and distributes. When gaps unaccounted-for gaps emerge, these may be “leakages” to corruption, although corruption is not explicitly addressed as part of the PETS approach<sup>118</sup>.

In a study in the mid 1990s in Uganda, Reinikka and Svensson determined that the rate of unexplained “leakage” for public school funding was 87 percent—a shocking figure. In fact, the

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<sup>116</sup> Ibid.

<sup>117</sup> Ibid.

<sup>118</sup> “PETS - Public Expenditure Tracking Surveys.” U4. <http://www.u4.no/themes/pets/main.cfm> (accessed 30 January 2009).

number may have been even higher due to “wage leakages,” where officials are paid according to the budget, but they do not actually show up at work—essentially a form of fraud<sup>119</sup>.

In terms of impact, the PETS study was interesting on several accounts. First, it revealed that the accounting data for Uganda’s Ministry of Education was being manipulated, underscoring the importance of auditing and anti-corruption task forces. More interesting, however, was the use the results were put to once discovered: reformers posted notices on district schools listing the official amount of money (as well as the number of books and other supplies) which was allocated to the school. Angry mothers were able to take this data to demand increased accountability up the chain from teachers and principals. As a result, the level of “leakage” in Uganda schools was substantially reduced<sup>120</sup>.

### **Citizen Report Cards**

The Public Affaires Centre in Bangalore, India, began producing citizen report cards in 1994 and since then, the approach has been repeated in a variety of geographic areas and public sectors. The methodology is based on stratified random sample surveys using experiential (rather than opinion or perceptions-based) surveys distributed to users of various municipal services, such as water supply, telecommunications and electricity. These questionnaires ask respondents to report observable phenomena about their interactions with public officials, such as length of time for the encounter, as well as experiences of abuse. Statistical methods are used by researchers upon collecting the results to try to minimize sample bias<sup>121</sup>.

Initial report cards for Bangalore were overwhelmingly negative, with generally low scores for all public service providers. The results and the format of the scores caught media attention, breaking the silence and eventually catalyzing public awareness and will for reform. Over time, due to sustained attention by civil society and expanded scoring across agencies, scores in Bangalore began to improve in response to the report cards<sup>122</sup>.

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<sup>119</sup> Azfar, 207-8

<sup>120</sup> “PETS - Public Expenditure Tracking Surveys,” U4; Bertram Spector, ed, *Fighting Corruption in Developing Countries: strategies and analysis*, (Bloomfield, CT: Kumarian Press, 2005).

<sup>121</sup> Samuel Paul and Thampi, Gopakumar K., “Citizen Report Cards Score in India,” Capacity.org, [http://www.capacity.org/en/journal/tools\\_and\\_methods/citizen\\_report\\_cards\\_score\\_in\\_india](http://www.capacity.org/en/journal/tools_and_methods/citizen_report_cards_score_in_india) (accessed 30 January 2009).

<sup>122</sup> Ibid.

The World Bank, in discussing the Bangalore example, as well as application of a similar tool in the Gambia, also emphasized the link between the report cards as a diagnostic tool and a mechanism for creating political impact:

*Citizen Report Cards are participatory surveys that provide quantitative feedback on user perceptions on the quality, adequacy and efficiency of public services. They go beyond just being a data collection exercise to being an instrument to exact public accountability through the extensive media coverage and civil society advocacy that accompanies the process. Community Score Cards [a similar mechanism] are qualitative monitoring tools that are used for local level monitoring and performance evaluation of services, projects and even government administrative units by the communities themselves. The community score card (CSC) process is a hybrid of the techniques of social audit, community monitoring and citizen report cards. Like the citizen report card, the CSC process is an instrument to exact social and public accountability and responsiveness from service providers. However, by including an interface meeting between service providers and the community that allows for immediate feedback, the process is also a strong instrument for empowerment<sup>123</sup>.*

These tools are similar to both Perceptions-based and Socio-Legal Indicators. However, the emphasis on capturing not just opinions, but experiential data on service performance, means report cards are probably best classified as technical indicators.

### *SOCIO-LEGAL INDICATORS*

Socio-Legal Indicators are primarily linguistic rather than quantitative in style. They typically take the form of a questionnaire-based comparison of some target country or company to an externally-established set of standards, researched and compiled by a local researcher working alone or with an international organization. They do not usually require the cooperation or permission of the group being evaluated, but the answers to the questions may require investigation into legal rules, official and unofficial government practices, or bureaucratic policies of companies or public institutions.

If Perceptions Indicators are currently the most popular form of corruption measurement, it will likely not be long before Socio-Legal Indicators replace them in this regard. Simply put, Socio-Legal

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<sup>123</sup> "Citizen Report Card and Community Score Card," World Bank, <http://go.worldbank.org/QEAVL64790> (accessed 18 October 2008).

Indicators can produce results which are substantially more precise and consequently more useful to reformers than is possible for Perceptions Indicators. At the same time, they are more feasible and easily understandable than Technical Indicators, and can often be performed and published by a relatively small team of researchers with or without approval of the government. The potential for Socio-Legal indicators to be developed *en masse* by different reformers, and in frameworks aligned with coherent theories of corruption and change, makes Socio-Legal Indicators perhaps the most useful and appropriate of the measurement tools for civil society organizations.

There are two chief drawbacks to Socio-Legal Indicators. First, as a class, Socio-Legal Indicators can have trouble with validity insofar as they may confuse *de facto* and *de jure* data. These measures are overwhelmingly language-based, so when actors say one thing and do another, it is easy for the reality to slip through the cracks unless the corruption assessment is bolstered with additional mechanisms to capture this information—supplementary journalists or technical indicators, for instance. Indeed, each of the case examples listed below is aware of the *de jure/de facto* problem and has taken measures to try to limit it.

The language-based nature of these indicators also accounts for the second drawback—the room for cultural and linguistic ambiguity. Whereas perceptions surveys may conflate many different types of corruption into a single approximation, standards-based checklists and questions could miss important, culturally-specific expressions of corruption by working on too precise a level. Thus, assessment procedures must be precise enough to be useful while remaining general enough to apply across many contexts. This is a significant challenge to the reliability of the data, and the best Socio-Legal indicators supply researchers with “rubrics” to increase the clarity of the standards being discussed. Nevertheless, language and laws being as diverse as they are, the room for error remains.

The next several paragraphs will offer greater detail in case examples of four Socio-Legal based measurement tools related to corruption: the Global Integrity Index, the Open Budget Index, the Promoting Revenue Transparency project and EIRIS.

*Refer to [Appendix IV](#) of this report for a more in-depth review of the Open Budget Index and Global Integrity methodologies on a question-by-question basis. This additional report explores how these two Frameworks could be combined with the work of Transparency International (UK) and the NATO Integrity Self-Assessment Questionnaire.*

## Global Integrity Index

Global Integrity, based in Washington DC and loosely affiliated with the Center for Public Integrity, began producing its Global Integrity Index (GII) in 2004. The GII measures 76 countries along approximately 300 indicators of transparency, oversight and enforcement. The GII tasks in-country experts with completing a questionnaire which is then peer reviewed by other experts to produce a score (Global Integrity emphasizes that the score is not “assigned”). This is the country’s “Integrity Scorecard.” Each Scorecard is accompanied by a collection of facts about the country, culled from the World Bank and UNDP, and a Corruption Timeline. Finally, a “Reporter’s Notebook,” offers a narrative description of the corruption situation in the country prepared by a Global Integrity staff journalist.

The Integrity Scorecard seeks to examine each country’s integrity mechanisms along three lines, which the methodology describes as follows<sup>124</sup>:

1. The **existence** of public integrity mechanisms, including laws and institutions, which promote public accountability and limit corruption.
2. The **effectiveness** of those mechanisms.
3. The **access** that citizens have to those mechanisms.

In other words, the report looks at countries’ governance policy, governance performance and *de facto* transparency.

There are six main governance categories: Civil Society, Public Information and Media; Elections; Government Accountability; Administration and Civil Service; Oversight and Regulation; and Anti-Corruption and Rule of Law. These large categories have 23 sub-categories, which in turn are broken down into roughly 300 indicators and “sub-indicators”.

Indicators themselves are scored as “yes/no” or along a five-point Likert scale (0, 25, 50, 75, or 100). There is a rubric guiding reviewers’ scoring. Each indicator must be supported by a reference and may also include comments by the “Lead Researcher” and/or reviewers.

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<sup>124</sup> *Global Integrity Report 2008: Methodology White Paper*, (Washington, DC: Global Integrity, 2008), 5, <http://report.globalintegrity.org/methodology/whitepaper.cfm> (accessed 7 September 2008).

For example, under “Government Accountability,” there are four sub-indicators: Executive Accountability, Legislative Accountability, Judicial Accountability and Budget Processes. These in turn are broken down into 37 sub-indicators spread over 85 questions. Each of the 85 questions is presented with a rubric guide, for instance as follows. (Note that 37b and 37c appear blank due to space constraints; the full rubric to 37b is provided as an example below this table)<sup>125</sup>:

#	Indicator	Coding YES	Coding NO
<b>III-4</b>	<b>Budget Processes</b>		
<b>37</b>	Can the legislature provide input to the national budget?		
<b>37a</b>	In law, the legislature can amend the budget.	A YES score is earned if the legislature has the power to add or remove items to the national government budget.	A NO score is earned if the legislature can only approve but not change details of the budget. A NO score is earned if the legislature has no input into the budget process.
<b>37b</b>	In practice, significant public expenditures require legislative approval.		
<b>37c</b>	In practice, the legislature has sufficient capacity to monitor the budget process and provide input or changes.		

Here is the full rubric to Question 37b:

<sup>125</sup> Global Integrity Indicators 2007, Questions 37-37c, <http://www.globalintegrity.org/documents/Integrity%20Indicators%202007.xls> (accessed 7 November 2008).

#	Indicator	Coding 100	Coding 050	Coding 000	Required Reference
37b	In practice, significant public expenditures require legislative approval.	All significant government expenditures (defined as any project costing more than 1% of the total national budget), must be approved by the legislature. This includes defence and secret programs, which may be debated in closed hearings.	Most significant government expenditures (as defined) are approved by the legislature, but some exceptions to this rule exist. This may include defence programs, an executive's personal budget, or other expenses.	The legislature does not have the power to approve or disapprove large portions of the government budget, or the legislature does not exercise this power in a meaningful way.	IN PRACTICE

This level of detail spread over close to 300 questions makes the GII a far more *precise* and consequently more *useful* measurement tool than Perceptions Indicators like the CPI or BPI.

While the scale of the endeavor alone is impressive, perhaps the most interesting part of Global Integrity's recent work is their foray into measuring governance at the local level. Whereas the vast majority of corruption measurement tools, from the WGI to the CPI to the BPI, all measure corruption on a macro state-by-state basis, Global Integrity recently partnered with the Center for International Private Enterprise and the Liberian Anti-Corruption group CENTAL to produce the *Liberia Local Governance Toolkit*, the first of Global Integrity's attempts to measure local governance. The Toolkit evaluates each of Liberia's 15 counties along similar lines to the six

national-level governance categories mentioned above, except for “Elections.” There are 15 sub-categories overall and approximately 250 indicators and sub-indicators<sup>126</sup>.

In the group’s own words, Global Integrity’s methodology is,

*based on a simple yet powerful concept. Rather than trying to measure actual corruption, considered virtually impossible by experts, Global Integrity quantitatively assesses the opposite of corruption, that is, the access that citizens and businesses have to a country’s provincial, regional or state government; their ability to monitor its behavior; and their ability to seek redress and advocate for improved governance*<sup>127</sup>.

In fact, this is a bit disingenuous. As mentioned above, aside from reports on sting operations, all corruption measurements are indirect. Furthermore, the process of measuring transparency institutions and anti-corruption controls is hardly revolutionary; it is a standard process of internal auditors and investigators worldwide, and an approach shared with many other Socio-Legal measurements, including the others detailed in this report.

That said, Global Integrity is quickly and rightfully gaining acclaim. In addition to their innovative work in Liberia, they recently partnered with UNDP to produce *A User’s Guide to Measuring Corruption*. There are now three ways for Global Integrity to expand. First, they can expand geographically as they have so far, adding new countries to their list under review. This process is relatively straightforward. Second, they can delve down further within countries with more local governance measures, a process which will no doubt require partnership with other local actors (for the Liberia Toolkit, Global Integrity relied on its partners for actual data collection). Finally, perhaps most ambitiously, Global Integrity may chose to expand its list of questions to include not just total governance, but sector-by-sector evaluations. If they chose this latter route, this is the most promising avenue for incorporating defence into their methodology.

## **Open Budget Index**

The Open Budget Index (OBI) is not technically a corruption measure, though it does assess levels of transparency related to national budgets. The methods it employs, however, justify its inclusion in this list of socio-legal indicators. Indeed, the OBI offers a good example of how socio-legal

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<sup>126</sup> Global Integrity. Liberia Local Governance Toolkit. 2008 Data. Available at [http://www.globalintegrity.org/documents/liberia\\_toolkits.xls](http://www.globalintegrity.org/documents/liberia_toolkits.xls)

<sup>127</sup> Multiple instances. Refer to Global Integrity Report 2007 Methodology White Paper, 1

indicators can be used to assess transparency not just in budgets, but in all areas of governance, including defence.

Produced by the Center for Budget and Policy Priorities, a non-profit based in Washington DC, In its 2006 edition, the only one published today (another is under development presently), 59 countries are assessed. The OBI evaluates countries on a national level according to a set of 122 detailed questions covering three areas of the budget process:

1. Dissemination of Budget Information
2. Executive's Annual Budget Proposal to the Legislature
3. Four Phases of the Budget Process

The 122 questions themselves cover the “performance and design” of the legislature’s budget-setting process, as well as the auditing body. The questions themselves are multiple choice in format, varying from two to five possible answers, with each answer referring to a specific objective, easily observable standard. Standards employed are based on “generally accepted good practices” established by documents like the IMF’s Fiscal Transparency Code or the Lima Declaration. Each of the answers is itself a “rubric,” offering not just simple descriptions of *High*, *Medium*, *Low*, but additional information to help the respondent determine exactly where the country in question falls. For example, question 47 in the 2006 Questionnaire asks,

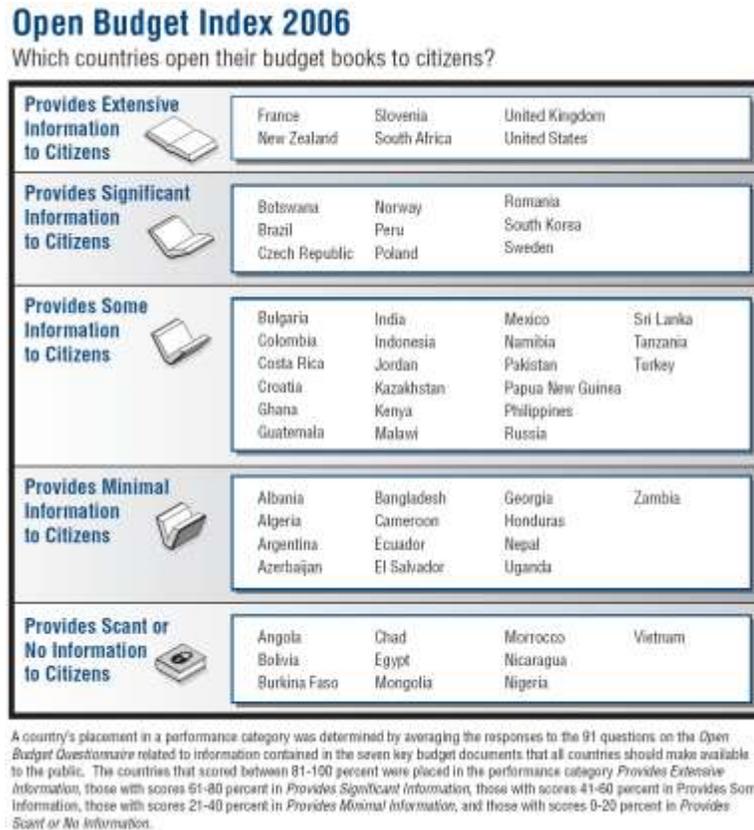
*“What percentage of expenditure in the budget year is dedicated to spending on secret items relating to, for instance, national security and military intelligence? A) One percent or less of expenditure is dedicated to secret items; B) Three percent or less, but more than one percent, of expenditure is dedicated to secret items; C) Eight percent or less, but more than three Percent, of expenditure is dedicated to secret items; D) More than eight percent of expenditure is dedicated to secret items, or the percentage is not available to the public; E) Not applicable/other.”<sup>128</sup>*

Supporting information for each question must be cited, with space for comments. The OBI researchers compile and review the completed questionnaires. Countries are not given individual

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<sup>128</sup> Open Budget Initiative, *Open Budget Index 2006: More Public Information Needed to Hold Governments to Account*, Washington, DC: International Budget Project, 2006. <http://openbudgetindex.org/files/SummaryReport.pdf> (accessed 20 August 2008).

rankings. Instead, there are five banded categories ranging from “Provides Extensive Information to Citizens” to “Provides Scant or No Information to Citizens.” Refer to the chart below for a copy of the OBI 2006.



The OBI methodology is attractive on several levels. In its own words, the OBI “...is intended to provide citizens, legislators and civil society advocates with the comprehensive and practical information needed to gauge a government’s commitment to budget transparency and accountability.” The rationale is that this information can be used to identify areas for anti-corruption and governance reform<sup>129</sup>. In terms of *reliability*, the OBI’s rubric approach to questions increases the overall objectivity of the assessment, and the specificity of each possible response also increases the measure’s level of *precision*. Anyone looking at the component parts of the score knows what each grade means. The OBI is strong in terms of *validity* insofar as it sets out to measure budget transparency as defined by objective standards like the IMF Fiscal Transparency Code. This reliance on outside objective standards helps the OBI get around problems of definition

<sup>129</sup> Ibid.

which might affect other socio-legal indicators. All these factors help ensure that the OBI is *useful*. For a reformer seeking to lay out a plan for improving his or her country's score, the methodology and supporting objective standards would make this task relatively easy.

### **Promoting Revenue Transparency Project**

Transparency International's *2008 Report on Revenue Transparency of Oil and Gas Companies*, issued as part of its Promoting Revenue Transparency (PRT) project, aims "to provide solid information to the multi-stakeholder movement—including companies, investors, governments and civil society advocating for greater transparency—that can be used to create opportunities for increased accountability of natural resource wealth."<sup>130</sup>

The PRT methodology is based on an approach developed by Agulhas Development Consultants Ltd and Save the Children UK for the latter's *2005 Beyond the Rhetoric* report. However, while the general concept is the same, the PRT is a modified version.

It looks at revenue transparency along four areas:

- Payments (of companies to host governments),
- Operations (for policies and contract disclosure),
- Anti-corruption programs; and,
- Regulatory and Procurement Issues.

Each area was then assessed in terms of *implementation* along three lines:

- Policy, or whether the company has policies, commitments, or rules for revenue transparency;
- Management Systems, or whether the company has allocated resources and created the systems needed to achieve revenue transparency; and,

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<sup>130</sup> The PRT is TI's attempt to complement the Extractive Industries Transparency Initiative and Publish What You Pay movement. See *Promoting Revenue Transparency: 2008 Report on Revenue Transparency of Oil and Gas Companies*. Berlin: Transparency International, 2008, [http://www.transparency.org/news\\_room/in\\_focus/2008/promoting\\_revenue\\_transparency](http://www.transparency.org/news_room/in_focus/2008/promoting_revenue_transparency) (accessed 13 September 2008).

- Performance, or whether the company is disclosing information on payments, operations and its anti-corruption programs, disregarding whether the information is accurate<sup>131</sup>.

The PRT team distributed a questionnaire of 129 weighted indicators which award points on an incremental basis. For example, one question under “Anti-corruption” asks “Does the company have a publicly available global policy covering corrupt activities? (1pt maximum) Does the policy address... bribery (1pt), political contributions (1pt), gifts (1pt), lobbying (1pt), and/or facilitation payments (1pt)?”<sup>132</sup> The questionnaire is slightly different, depending on whether the company being evaluated is a foreign company operating in a “host government,” or a national company working in a “home government.”

Scores for each area of transparency are tallied and grouped into high, medium and low groups. The result is a framework which allows each company to be assessed along separate lines of inquiry, where a company might score, for instance, “High” on Payments, “Low” on Operations, and “Medium” on Anti-corruption Programs, and “High” again in Regulatory and Procurement Issues, as in the example chart below.

<b>Group</b>	<b>Payments</b>	<b>Operations</b>	<b>Anti-corruption Programs</b>	<b>Regulatory and Procurement Issues (national oil companies only)</b>
High	X			X
Middle			X	
Low		X		

Thus, as a pure measurement tool, the PRT’s approach is strongest in terms of its precision and usefulness. The matrix layout allows the PRT report to break down “transparency” into several component parts. In their methodology report and its annexes, they offer detailed rationales for their choices of questions, companies and approaches.

<sup>131</sup> Ibid., 14

<sup>132</sup> Ibid., Annex 4, Questions N11-N17.

The questionnaire offers a number of definitions and clarifications for its terminology, but one may reasonably question the overall reliability of the data—would another approach and set of questions be just as valid, yet also produce different results? We won't know until more replicas are produced. Nevertheless, as a measurement tool, it offers enough precision and supporting documentation to make users feel comfortable relying on its assessments and to make companies feel that efforts to improve their performance will be recognized and reflected in the score. As with other socio-legal indicators, the PRT assessment references outside objective criteria towards this end, such as the EITI Principles and Validation Grid, the IMF Guidelines for Revenue Transparency, the UN Convention Against Corruption, the UN Global Compact, the UN Global Reporting Initiative and, finally, the TI Business Principles for Countering Bribery<sup>133</sup>.

Indeed, the PRT is innovative for how it deals with the *de jure / de facto* issue present to many corruption indicators. The Performance / Management Systems / Policy distinction makes the scores more meaningful by distinguishing companies which fail to actually adhere to their standards for transparency in performance, or whether they undermine these efforts by management tools of underfunding or understaffing transparency policies. This increases the data's validity, but there more fundamental question of whether those reported figures are true is left unanswered.

The PRT methodology is unique and innovative in several regards, and it offers an impressive example of how socio-legal indicators can be applied for diagnostic purpose, as well as to facilitate reform by suggesting areas of focus. In terms of feasibility, however, the PRT methodology could not be easily replicated without sufficient resources. The scoring is relatively complicated, and completing the form requires the participation of the companies which are under evaluation. That said, the report itself is well-structured in terms of offering guidance to policymakers and corporate audiences. The executive summary is explicit in helping readings draw conclusions and recommendations from the measurement, underscoring how the data can become *useful*. The following chart offers a summary of the PRT methodology's diagnostic strengths and weaknesses, with additional information on feasibility and impact.

	<b>Strengths</b>	<b>Weaknesses</b>
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<sup>133</sup> Ibid., Annex 2, 32.

<b>Reliability</b>	Objective standards and clarifying notes ground the questions in objective terms.	Ambiguity may remain at the “fringes,” for example what qualifies as a “disclosure of the number and nature of complaints received for corrupt activities”?
<b>Validity</b>	The questions themselves measure discreet areas and indicators of transparency. The areas of implementation of Policy, Management Systems and Performance clarify <i>de facto</i> and <i>de jure</i> measures to some degree.	The accuracy of reported figures is not checked in implementation transparency.
<b>Precision</b>	The questions are specific and detailed.	See weaknesses for reliability.
<b>Robustness</b>	This criteria is difficult to apply here, as there are not clearly comparable measures in existence.	
<b>Appropriateness</b>	The methodology is detailed, giving researchers and understanding of how all the scores were arrived at and why the questionnaire was produced in the way it was.	The methodology itself is complicated and takes time to analyze and understand, limiting its ability to be replicated and checked by others in civil society. Furthermore, it requires the participation of the companies being measured.
<b>Usefulness</b>	The high levels of precision and validity, coupled with the clear presentation of results, help convey strengths and weaknesses quickly and with substance.	
<b>Conflict</b>	Depends on specific country.	

<b>Sensitivity</b>	
<b>Research-Practice</b>	The PRT Report builds on other initiatives, namely EITI, to help increase its impact. The structure of the report is clear and professional, with accessible language for readers in policy, academia, or the private sector.

## **EIRIS**

One last example of a Socio-Legal indicator is the London-based research firm EIRIS<sup>134</sup>. EIRIS differs from many other corruption measurers in that it evaluates companies rather than governments, and although it is non-profit, EIRIS generates revenue by selling its research to investors.

The group evaluates companies according to several “ethical” areas of concern such as environmental practices and sale of certain products like tobacco. Corruption and bribery are key elements to EIRIS’s evaluation of firms. EIRIS offers a handful of different categories of analysis, each of which are multi-step processes. The most common form is their Portfolio Manager Service, where EIRIS sorts and selects companies for review, comparing each against asset of several Socio-Legal indicators, including about a dozen pertaining to bribery and corruption-related affairs. There are 30 defence firms under analysis in this pool. EIRIS checks the companies’ scores against news reports as a way of increasing *de facto* validity. If companies appear in several news articles raising serious questions about their performance on—for instance, serious bribe allegations—then the company may be listed on EIRIS’s “Convention Watch” service. This is a more thorough investigation into a company’s performance, including more extensive reference to reports in the press and with a more detailed and thorough questionnaire.

The specifics of EIRIS’s methodology are not public, but the overall system resembles other Socio-Legal indicators. EIRIS is both similar to and unique from Global Integrity, the Open Budget Index and the Promoting Revenue Transparency Project. EIRIS focuses on companies, rather than countries. Its purpose is essentially to provide risk analysis information to investors. Insofar as EIRIS aims to improve corporate behaviour, it operates according to a market-based approach:

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<sup>134</sup> Pronounced like *iris*. Ethical Investment Research Services (EIRIS) Website. EIRIS. <http://www.eiris.org/> (accessed 18 October 2008).

more corrupt companies should receive less investment, which should provide an incentive for reform.

Though not entirely unique (Global Integrity researchers this material to produce its qualitative “Reporter’s Notebook”), EIRIS’s operationalisation of journalism is perhaps more forward-looking than other approaches. The “Convention Watch” approach of allowing red flags to trigger more in-depth analysis is novel. Each of these distinctive features of EIRIS’s analysis of firms might be applied to governments as well.

Finally, it is refreshing to note that EIRIS does specifically cover arms and defence companies in their portfolio of industries. Their key analyst for the sector, Helen Close, is a former staffer of the NGO Saferworld, which deals with arms proliferation. This is a marked change, of course, from many corruption measurement tools of governments, for which defence is less frequently measured.

#### *NON-TRADITIONAL INDICATORS*

The label of ‘Non-Traditional Indicators’ here applies to the hard-to-categorize set of corruption measurement efforts. These are innovative approaches, usually undertaken by a single researcher or NGO, often employing a methodology which is relatively untested or which is based on assumptions about causality, correlation, or the general state of the world which have been thrown into question.

The following paragraphs outline two innovative studies by the economist Raymond Fisman and others. The first was a widely-reported study on the parking tickets of diplomats at the United Nations in New York. The second is a lesser-known methodology which has now produced several similar studies looking for correlations between political events and stock market indexes.

#### **Diplomat Parking ticket study**

A creative and entertaining example of a non-traditional indicator making an impact on real world policies comes from a widely publicized study from 2006 which tracked the number of unpaid parking tickets for diplomats assigned to the United Nations headquarters in New York<sup>135</sup>. The unique circumstances of the diplomatic world present the economist researchers with a possibility

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<sup>135</sup> Ray Fisman and Edward Miguel, “Corruption Norms and Legal Enforcement: Evidence from Diplomatic Parking Tickets,” *Journal of Political Economy* 115, no. 6 (2007), [http://www2.gsb.columbia.edu/faculty/rfisman/parking\\_16sep07.pdf](http://www2.gsb.columbia.edu/faculty/rfisman/parking_16sep07.pdf) (accessed 7 November 2008).

to test a hypothesis that corruption is culturally embedded. Because of the principle of diplomatic immunity, embassy staff and ambassadors are not required by law to pay their tickets. The researchers culled data on the parking records of the diplomats (not staff) working at the UN. They found that some countries such as Norway and Switzerland received few tickets and promptly paid any they did incur. Other countries like Chad and Kuwait amassed hundreds of parking tickets in just a few months' time, sometimes under auspicious circumstance outside nightclubs or fancy restaurants. These tickets went unpaid, much to the chagrin of New York's traffic police. The researchers inferred that the differences in behavior among diplomats were at least partially caused by cultural attitudes towards corruption. They compared their results to other measures of general corruption—namely the CPI—and found that the two datasets were in correlation.

*“Not that the events we are concerned with aren't important, in some cases matters of life and death... As it turns out, however, to make sense of new and strange phenomena, one must be prepared to play with ideas. And I use the word “play” advisedly: dignified people, without a whimsical streak, almost never offer fresh insights” – Paul Krugman, Nobel Laureate in*

Needless to say, this example would be difficult to replicate (although a few follow-up attempts were made overseas in attempt to test the data, generally finding that the findings were robust to repeated tests)<sup>136</sup>. Likewise, as a pure diagnostic tool, the study, though methodologically sound, lacks precision. While multiple regressions and re-testing of the data has confirmed its reliability and an overall validity—that is, that the variance among countries is not due to any number of other possible causes—the question of *what* exactly it is measuring remains ambiguous<sup>137</sup>.

Instead, the real importance of Fisman and Miguel's parking ticket study is its impact. The approach was so creative, surprising and timely, it caught the attention of *The New York Times*, *CNN*, *The Economist* and many others<sup>138</sup>. The increased press attention in turn sparked responses from the United Nations and several embassies. The scandal ultimately gave New York's Mayor

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<sup>136</sup> Fisman and Miguel 2008, Contact Ray Fisman at rf250@columbia.edu for more information.

<sup>137</sup> Fisman and Miguel 2007

<sup>138</sup> An internet search query of “parking tickets diplomats” will produce many examples.

Bloomberg the leverage to negotiate a new system for holding diplomats accountable to the City's parking laws<sup>139</sup>. Today, as a result, diplomats are much better behaved in their parking habits.

On diagnostic levels alone, this study offered little that wouldn't be available from a well-conducted perceptions survey. But by being creative, whimsical even and a little bit inflammatory, the researchers were able to capture the public attention. The format and framing of the measurement allowed the results to have a massive societal impact.

### **The Value of Cheney's Health: Using Stocks to Measure Political Ties**

A new, relatively unknown approach, has been used for corruption measurement by a number of young economists, including the authors of the diplomat parking tickets study. This methodology looks at stock prices of firms in relation to unexpected political events, such as an election outcome or the sudden change in the health of a leader. If one assumes that market valuations of stocks reflect all the public information available about the firm (and perhaps some insider information too), then a firm's stock price reaction to a sudden political change should be a close approximation of the value of the firm's political ties. Economist Mara Faccio looked at firms where influential politicians and their families own substantial amounts of stock. She found the lower the quality of governance in a country, the more the firms were able to leverage their ties for benefits in taxation and market power<sup>140</sup>. In 2005, another group of researchers sought to measure the value of connections to then-Vice President Cheney by looking at the market reaction of connected companies vis-à-vis reports of Cheney's heart attacks, the Bush-Cheney electoral victory in 2000, and in correlation to the impending war in Iraq<sup>141</sup>. Although this latter study estimated the value of the connections as \$0 in this case, the same methodology might be applied elsewhere for different results. For example, journalist Joshua Holland applied the same tactic, albeit in a less methodologically rigorous way, for discussing possible corruption in the U.S. House of Representatives following a plunge in auto stocks after Rep. Henry Waxman gained control of the

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<sup>139</sup> F, "Chapter 4: Nature or Nurtuer? Understanding the Culture of Corruption"

<sup>140</sup> Mara Faccio, "Politically Connected Firms," *American Economic Review* 96, no. 1 (March 2006),

<http://ideas.repec.org/a/aea/aecrev/v96y2006i1p369-386.html#provider> (accessed 5 December 2008).

<sup>141</sup> David Fisman, Ray Fisman, Julia Galef, and Rakesh Khurana1, "Estimating the Value of Connections to Vice-President Cheney," NBER Working paper. Cambridge, MA: National Bureau of Economic Research, 2005, <https://nber15.nber.org/c/2006/ENSs06/fisman.pdf> (accessed 5 December 2008).

House Energy and Commerce Committee from Rep. John Dingell, who was widely seen to be engaged unduly tied to the auto industry<sup>142</sup>.

## SUMMARY OF FINDINGS

The following chart summarizes the preceding pages' overall conclusions about the diagnostic strengths and weaknesses of the three 'traditional' types (Perceptions, Technical and Socio-Legal) along dimensions of reliability, validity, precision, usefulness. The table does not include generalized comparisons along lines of robustness, appropriateness, or usefulness, nor conflict sensitivity or research-practice gaps, as these criteria apply entirely at the level of individual programmes. The cells are colour-coded to reflect the assessment of the indicator. Green indicates "good," yellow "good enough," and red "lacking."

Indicator type:	Perceptions	Technical	Socio-Legal	Non-Traditional
<b>Examples:</b>	<i>Corruption Perceptions Index, Bribe Payers Index, World Governance Indicators</i>	<i>Quantitative Service Delivery Surveys, Public Expenditure Tracking Surveys, Citizen Report Cards</i>	<i>Global Integrity Index, Open Budget Index, Promoting Revenue Transparency Project</i>	<i>Diplomat Parking Study, Political Connectedness Study</i>
<b>Reliability</b>	Perceptions indicators as produced by major organizations are usually based on sound statistical research methods and can be repeated and checked for correlation with other measures. However, they cannot be compared meaningfully over time.	Technical indicators can be designed to follow good statistical measurement procedures, and can be repeated over time	Socio-legal indicators cannot be quantitatively measured to the same degree as technical and perceptions indicators. They may suffer from imperfect definitions of terms or sparse, confusing rubrics for classification.	Non-Traditional Indicators vary on a case-by-case basis. However, they might be customized for defence if a set of media-savvy or highly informative proxy indicators could be identified.
<b>Validity</b>	Perception indicators leave room for sampling bias, and they may lump together several different forms of corruption, raising comparability concerns.	Technical measures are usually explicit about what they measure, and in this sense are highly valid. However, they may lack compelling logic for drawing general assessments from the sum of indicators.	Socio-legal indicators may lose validity due to imperfect or overly loose definitions. They may also confuse <i>de facto</i> and <i>de jure</i> data.	
<b>Precision</b>	Perception indicators offer little detail regarding the types and extent of corruption measured.	Technical indicators can be customized for any level of detail or specificity.	Socio-legal indicators can be customized for any level of detail or specificity.	
<b>Diagnostic Criteria (Summary)</b>	On the whole, perception indicators can offer decent <i>de facto</i> information to	On the whole, technical indicators offer excellent diagnostic tools for	On the whole, socio-legal indicators offer data which is generally	

<sup>142</sup> Joshua Holland, "Dingell Loses to Waxman, and Auto Stocks Dive -- Call it what it is: Corruption," Alternet.org.

[http://www.alternet.org/election08/107974/dingell\\_loses\\_to\\_waxman\\_and\\_auto\\_stocks\\_dive\\_--\\_call\\_it\\_what\\_it\\_is:\\_corruption/](http://www.alternet.org/election08/107974/dingell_loses_to_waxman_and_auto_stocks_dive_--_call_it_what_it_is:_corruption/)

(accessed 19 December 2008).

	check other studies, but they lack detailed or actionable data.	assessing corruption and integrity.	reasonably detailed and valid for diagnostic purposes, but they may have trouble distinguishing <i>de facto</i> and <i>de jure</i> results,	
<b>General concerns:</b>	<p><i>Robustness</i>, or whether the measurement tool returns consistent results, depends in each case on what other tools are identified as measuring a similar phenomenon. The CPI and WGIS, for example, both measure national level corruptions perceptions, and are have robust findings with one another.</p> <p><i>Appropriateness</i> is determined on a case-by-case basis by what the underlying theory of corruption and theory of change are for the measurement practice.</p> <p><i>Usefulness</i> depends on <i>who</i> is using the measure, and why. In defence, a perceptions survey may not be particularly useful to the MoD seeking to plan reform efforts, but it could be useful to civil society advocates seeking to put corruption “on the agenda.”</p> <p><i>Conflict sensitivity</i> analysis must be undertaken on a project-by-project basis, at the outset of a programme as well as during it.</p> <p><i>Research-Practice Gap</i> is related to both usefulness and appropriateness, and strategies for overcoming the gap must be devised for each measurement programme or initiative.</p>			

#### IV. APPLYING THE INDICATORS TO DEFENCE

Having spent considerable time surveying current attempts to measure corruption *in general*, this report now returns its focus to defence. Specifically, the purpose of the following pages is to connect in a practical way the learning on defence corruption from the first section of the paper with the analysis of corruption diagnostic tools from the second to produce actionable recommendations for measuring corruption in the defence sector. It begins with a general methodology for measurement design, and concludes with several suggestions for specific corruption measurements which could be undertaken. The intended primary audience includes aid agencies and civil society groups undertaking anti-corruption reform programmes, but the remarks may also be useful to academics or military personnel as well, of course.

The following discussion assumes that reformers are following generally accepted practices for overall programme design and implementation, and that one of the overall goals of the undertaking is to reduce corruption in the defence sector, perhaps as part of the movement for good governance or as a component of a security sector reform (SSR) undertaking. Assume that, through

brainstorming or staff discussions, the question has been raised of whether attempting to measure corruption in defence would be a good idea, and, if so, what such a programme might look like.

Given the concepts discussed thus far, there are a number of questions which should be explored when considering a corruption measurement endeavour for defence.

1. What are the underlying theories and assumptions informing the measurement endeavour?
2. Which drivers or signs of corruption are most important according to the theory employed?
3. How will measurement and reform effort take account of conflict sensitivity concerns and research-practice gaps?
4. What are the most appropriate corruption measurement tools available for the given situation?
5. What role is the of sequencing?

### **First, what are the underlying theories and assumptions informing the measurement programme?**

According to one view, defence corruption is rife largely because of structural features of the sector—from the technical complexity of defence contracts and the procurement process to the large number of intermediaries operating between two relatively small sets of buyers and sellers<sup>143</sup>. The solution to a structural problem is to build new institutions and procedures which increase controls at those areas where the risk of corrupt behaviour is highest. This view may be particularly tenable for those seeking to constructively engage defence companies and defence ministries as partners.

Another theory of defence corruption emphasizes the political dimensions of the problem, notably the secrecy, which exist because national security truly is central to the power and legitimacy of the state. This view points to the lack of transparency in defence policy as a whole: the taboos surrounding the topic, the lack of access afforded to oversight bodies (including even members of parliament in some countries), and the reluctance of the international community to engage with the problem over concerns of national sovereignty. This is deeply tied to more general concerns about democratic governance, regime structure (levels of democracy, political accountability, etc.) and media freedom.

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<sup>143</sup> Page 19-22 of this report; Courtney, 5

A third attitude towards defence corruption understands the problem as a consequence of a country's particular trajectory of socio-economic development, tied of course to both liberal institutions and governance, but also determined by other "development" issues of capacity, culture and context. Here, levels of corruption may be determined as largely by national attitudes and cultural contexts, including public perceptions or degrees of societal conflict<sup>144</sup>.

Needless to say, these three are all just abstract sketches, although they are reflective of attitudes that particular individuals and agencies have expressed. In practice, most people would interpret corruption drawing on elements of each of these arguments, as well as others. Still, the sketches are illustrative of the way in which different theories of corruption can carry different implications for "what matters" in determining corruption levels, and therefore how measurement or reform efforts should be structured.

### **Second, which drivers or signs of corruption are most important according to the theory employed?**

The working theories and assumptions which guide the measurement programme are, essentially, social scientific models. Causes and consequences (or just correlations) are implied by each corruption model and theory of change. Measurement attempts to attach values to indicators tied to the variables identified as important according to each model.

Thinking in terms of causal relationships is a helpful intermediary step for clarifying one's working theories and assumptions. The process helps suggest useful measurement indicators or target areas for reform. In other words, if we believe that corruption can be reduced by improving internal controls or introducing new mechanisms (such as TI (UK)'s Defence Integrity Pacts) to facilitate more transparent, "clean" transactions, then these are natural areas for indicators and activities in the programme design, monitoring and evaluation.

### **Third, how will the measurement and reform effort take account of conflict sensitivity concerns and research-practice gaps?**

Embedded within the process of moving from corruption assumptions to a model to indicators, with an overall programme informed by a theory of change, should be a parallel concern for conflict

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<sup>144</sup> Page 24 of this report.

sensitivity and research-to-practice. These concerns cannot be easily generalized or categorized; they exist on a case-by-case basis<sup>145</sup>.

In some frameworks, conflict, or for that matter, degree of economic development, may be seen to be closely tied to corruption levels. In others, it may be an after thought. In either case, however, an anti-corruption campaign focused on the military is likely to carry with it political implications which could fuel a process of politicisation among armed forces or factionalisation among different political constituencies—both of which could increase a country’s risk of violent conflict.

Similarly, strategies for tying measurement findings to learning within an organisation, or to changes in the real world, depend again on the underlying assumptions about why corruption exists and how it can be changed. Decisions on this topic must take place at the programme or project level.

#### **Fourth, what are the most appropriate corruption measurement tools available for the given situation?**

Appropriate measurements are those which track real world variables tied to defence sector corruption. For example, World Bank Institute researchers Kaufmann, Kray and Mastruzzi argue that public perceptions of corruption (and more generally governance) inform behaviour (including decisions of investment or at the ballot box), regardless of whether these perceptions are grounded in accurate assessments of fact. Ergo, their Governance Indicators largely track indicators of perceptions (especially of expert analysts and risk consultancies)<sup>146</sup>. Global Integrity, meanwhile, understands anti-corruption as a function of the “existence and effectiveness public integrity mechanisms, including laws and institutions, which promote public accountability and limit corruption,” as well as the public’s access to those mechanisms<sup>147</sup>. In both cases, as with all the measures profiled earlier in this paper, the specific measurement approach can be derived from a particular “reading” of corruption causes and consequences.

It cannot go without mentioning that the specific measures not only derive their indicators from understandings of corruption, but these indexes and rankings are anti-corruption programmes in themselves, working along different assumptions about driving change<sup>148</sup>. As discussed, the TI-CPI

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<sup>145</sup> Pages 39-42 of this report.

<sup>146</sup> Governance Matters VII

<sup>147</sup> Global Integrity Methodology

<sup>148</sup> Page 34 of this report.

was created in response to a perceived dearth of information or discussion about the menace of corruption in society. Transparency International believed that corruption needed to be put on the agenda of the international community. Details of the assessment or reform (the “why” and “how”) were secondary concerns behind the overriding goal of creating a splash, providing some incentives to states, and establishing a common, objective framework for discussion. The methodologically sound CPI, although it lacked precision, served these objectives well. The purpose of the Global Integrity Index, by contrast, has not been to stir overall discussion and ‘awareness’, but rather to provide more in-depth, actionable detail on a country-by-country basis for civil society groups and reformers.

Thus, when it comes to defence, the overall approach to corruption measurement depends on a host of factors. The broad categories of measurement approaches could conceivably be tied to different notions about defence sector corruption. Perception indicators, which collect *de facto* aggregate data on corruption, may be best for cross-country analytic purposes, where the objective is to paint broad brush stroke pictures about the integrity systems and corruption risks of different defence establishments worldwide. One can conceive easily of a “Defence Corruptions Perceptions Index” or “Defence Bribe Payers Index,” which would look and function a good deal like those measures already in existence. It would require a central organization (or group of organizations) to administer statistically sound surveys of key individuals, and to publish the results on a regular basis. Perceptions indicators, along with non-traditional indicators, would be the most appropriate style for collecting data tied to heavily political notions of corruption.

Technical and Socio-Legal indicators, meanwhile, align more closely to bureaucratic corruption in defence processes. These can be designed to capture information about procurement procedures protecting against bribery or kickback schemes. Diversion of salary funds, property appropriation, or slush funds can all be exposed through technical audit-like approaches, although perceptions surveys could also be used to explore whether such abuses were present. An expert-scored rubric, such as that employed by the Open Budget Institute, or a more general questionnaire like the TI-BPI, would be a good means for capturing comparing countries’ degrees of openness and accountability for defence policy and defence budgeting (the OBI, of course, would offer more precise information).

Similarly, if the objective of the measurement process is to “make a splash” or put defence corruption on the press agenda, the operative concern may be to collect information quickly and

cheaply, whereas if the idea is to assist defence ministries embarking on internal reform projects, then a more exhaustive approach would be more appropriate. If a specific, non-traditional set of variables (such as regime type and military spending levels) are thought to be closely related to defence corruption levels, then these indicators could be quickly compiled and tested on their own accord.

<b>Matching Measuring Approaches with Theories of Practice</b>				
<b><i>Indicator Type</i></b>	<b>Perceptions</b>	<b>Technical</b>	<b>Socio-Legal</b>	<b>Non-Traditional</b>
<i>Corruption Model Tendency</i>	Enforcement approach (views corruption as a given condition, largely in terms of crime and discreet actions)	Bureaucracy approach (views corruption in terms of processes and control risks)	Policy approach (views corruption as the result of laws and institutional arrangements within society and the state)	Research approach (views corruption as a social science phenomena to explore)
<i>Implications for Theory of Change</i>	Suggests areas for macro-level action: new strategies, areas of focus	Suggests areas for micro-level action: new policies and procedures to put in place	Suggests areas for mezzo-level action: new laws to pass, offices to create, institutions to build	Suggests areas for criticism: new ways to think about problems or approaches
<i>Suggestions for Appropriate Programme Styles</i>	Global or regional-level advocacy	Technical Assistance monitoring and evaluation for a specific institution	Country or programme level advocacy, informing public	Theoretical model refinement, unconventional country-level advocacy

### **Fifth, what is the role for sequencing?**

Sequencing, or ordering reform activities in a particular fashion, is the area where the strategy for linking measurement to reform really becomes solidified. Sequencing grows out of the decisions about conflict sensitivity, connecting findings with real world changes, and selections of measurement approaches. In some instances, as a country first begins to transition into reform status, corruption measurement tools can help them go about selecting the strategy by highlighting areas where the defence establishment performs relatively well and where it is relatively weak<sup>149</sup>.

Rolling out a measurement tool to be used across *all* countries is different from the process for one targeting *all NATO* countries, for instance. The political dynamics and circumstances of non-NATO countries are so widely divergent, that assumptions which may hold for the first measure would not be tenable for the latter.

In particular, the presence of conflict or severe political repression may make a corruption measurement undertaking impossible. For defence in particular, where the armed forces and defence ministries might be able to actively and successfully resist increased scrutiny, it may be that *none* of the corruption measurement tools are appropriate (except perhaps for an as yet unimagined non-traditional indicator). In these countries, then, the first stage to an anti-corruption reform strategy may be to make use of investigative journalism into military matters, or to rely on other tools of public advocacy such as demonstrations demanding greater accountability.

On a more general level, organisations such as TI (UK) or DCAF which are working to advance defence governance as a cause in itself (rather than targeting any specific country), it may make sense to follow a model like that which the world community has laid out for corruption reform overall: begin by gaining attention and making a splash through a media campaign and measurement approach like the TI-CPI. Next, follow up by encouraging increased coverage by journalists and academics of the problem. Finally, go on to develop more nuanced measures of corruption which can assist reformers with useful tips or to assist researchers with more finely-tuned, precise distinctions.

One important element of corruption reform efforts which has not yet been discussed is partnerships. Civil society groups, aid agencies, military forces and individuals rely heavily on partnerships for affecting change. If this is so, then an organisation planning a measurement or

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<sup>149</sup> Johnston, 25-32

reform initiative may choose to form partnerships based on reducing the gap between findings and actual practice or policy. This could be through reducing redundant work (on a diagnostic level), or by using several different organizations as a means of creating political leverage (according to a working theory based on politics and political advocacy). Partnerships may also be an effective way to reduce tensions produced as a result of the reform effort; by linking the corruption measurement to different segments of society—such as between NGOs, military forces, defence companies and some international aid donor—the effort will be perceived to be less the product of any single sector or faction of society.

Ultimately, the introduction of a measurement tool, and then its on-going application for monitoring, evaluation and programme purposes lends itself to a sort of macro-level sequencing consideration: programme staff should return to the measure to refine it in light of findings and test it against alternate approaches relying on criteria of robustness, appropriateness and usefulness.

#### *SUGGESTIONS FOR DEFENCE-SPECIFIC MEASUREMENT TOOLS*

It is beyond the ability of any single individual, and certainly beyond the scope of this paper, to identify all the various indicators our measurement projects which might be undertaken with regard to corruption in the security sector or defence. Indeed, the individuals who are in the best place to brainstorm or design good indicators at the programme level—particularly of the technical or non-traditional sort—are those officers, policy-makers, or civil society organizers who are best versed in the intimate details of their national and regional systems. These are the people who know where loopholes and points of leverage exist.

The following pages offer some preliminary suggestions, based on the ideas discussed in this paper, for measurement projects which could be applied to defence corruption. They include:

1. Defence Corruption Perceptions Surveys – Civil Society Organizations and Industry
2. Technical Assessments – Defence Ministries and International Bodies
3. Socio-Legal Assessments and Measurement Partnerships – Civil Society Organizations on Ministries
4. Other Indicators and Potential Empirical Models – Academics and other researchers

The details of each idea—what it is, why it would be useful, how it might be performed, by whom, to whom, and when—are explored. In particular, the “why” of each idea includes strategic consideration drawn from the previous section of this paper on measurements overall.

### **Defence Corruption Perceptions Surveys**

For the many of the same reasons that Perceptions Indicators are so popular among analytical groups like the Economist Intelligence Unit, the international development banks, and NGOs like Transparency International measuring corruption overall, so too might Perceptions Indicators be useful a decent choice for measuring corruption in the defence sector.

Perceptions indicators are useful for capturing reliable, *de facto* information about generalized corruption contexts, particularly when it is the behavioural consequences of the situation which matter most. If one’s purpose in undertaking the measurement is to establish evidence for advocacy, or to change behaviour among donor agencies, ministries, or firms, then the specific details of the findings may be less important than the “big picture.” For example, a civil society organization may find itself asked to produce evidence—any evidence—that defence integrity is a recognized problem in a country before it can credibly request funding. Alternatively, a risk analysis firm such as EIRIS may wish to provide overall information about corruption in the sector to investors without needing particular details on the matter. In these cases, a survey may be highly appropriate both in terms of measurement and for connecting strategically with the project’s goals.

Transparency International already administers perceptions surveys related to corruption via its Global Corruption Barometer and Bribe Payer’s Index. These tools, or comparable surveys, could be administered to policy makers and representatives of industry asking questions such as:

- Which national ministries of defence pay the most bribes? Or, which national security sectors have the highest commitments to integrity?
- Which companies are most likely to pay a bribe to win a contract? Or, which companies display the greatest commitment to integrity?
- Which phase of the procurement process is most vulnerable to corruption?

- Corruption in defence generally (or within a national country) is: a big problem / unfortunate, but not widespread / not a problem.

Because of the potential for embarrassment or resistance, tracking *positive* perceptions of companies or establishments might be a creative way to gain political acceptance. A ranking of the “best” companies or establishments would also provide a list of good role models.

The list of which companies and individuals to survey might be generated in cooperation with the Defence Industry Initiative on Business Ethics and Conduct<sup>150</sup>. At the very least, their list of members might be a good starting point, as would arms industry data from SIRPI’s most recent yearbook. These are both industry standards for review of military information. One last source would be The Military Balance reports issued by the International Institute for Strategic Studies<sup>151</sup>.

Moreover, Perceptions Indicators are a relatively low-cost operation. They require a centralized organization to distribute and collect the surveys, but so long as there is a competent statistical researcher available to the team, even as an external consultant, scoring and ranking responses is straight-forward. Questionnaires do not tend to be more than a handful of items (as opposed to Socio-Legal and Technical indicators whose questions can number in the hundreds). The methodology itself does not require extensive explanatory documentation so long as it follows well-established procedures for survey-based social research. Publishing the results, therefore, can be accomplished with something as simple and powerful as a table or chart, plus ten pages or so of supporting literature. Therefore, as a low-cost, high-feasibility option for producing generalized diagnostic information and a high-impact chart, Perceptions indicators are a good choice for civil society groups on a budget.

Notably, a perception-based metric typically lacks precision in results, and could (re-)produce bias through hearsay and “echo chamber” problems. In terms of sequencing, a perceptions survey may be likely to precede a more in-depth study.

### **“Technocratic” reform**

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<sup>150</sup> *Defense Industry Initiative on Business Ethics and Conduct: 2007 Public Accountability Report*, (Washington, DC: Defence Industry Initiative, 2007), <http://www.dii.org/> (accessed 20 September 2008).

<sup>151</sup> *The Military Balance*, 2009 Edition, London: The International Institute for Strategic Studies, 2009.

Technical indicators would be most appropriate for those defence establishments undertaking serious reform on their own or with the assistance of a major outside institution, such as a development organization or international financial institution.

If a particular country's ministry of finance and ministry of defence were in support of a reform initiative, these ministries could invite an international financial institutions such as the World Bank or IMF to develop a Public Expenditure Management (PEM) or PETS-like system for tracking and improving financial integrity within the military institutions. Civil society groups may be able to encourage states to actively involve international financial institutions in military administration, budgeting and financial oversight. These checklists of institutional controls, budgeting and accounting standards, and related integrity measures is a comprehensive reform and review process which can be undertaken within ministries. Again, a PEM approach for a state ministry of defence would require government invitation, though no country at present has requested such a review<sup>152</sup>.

NATO in particular is in a good position to assist with technical oversight. The NATO Self-Assessment Integrity Questionnaire, which asks general questions about institutional arrangements could be modified with qualitative and Likert scale components to include more *de facto* measures of service and performance routines to produce technical scores.

For sequencing purposes, therefore, a technical approach is unlikely to find widespread use in the near future. However, emerging market or political ambitious countries could choose to invite a technical measurement and reform effort as a means of gaining greater acceptance with established NATO and OECD countries<sup>153</sup>. Similarly, countries like Liberia or Afghanistan, coming out of conflict, could have an incentive to invite reform in defence as a means of asserting governmental legitimacy, pleasing donors, building internal capacity or for other internal reasons.

### **Socio-Legal Assessments and Partnerships**

As with corruption measurement overall, socio-legal indicators and assessments represent somewhat of a “middle ground” between other approaches. Most the well-known governance and corruption indexes of this sort—the Global Integrity Index, the Open Budget Index, the Promoting

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<sup>152</sup> Barry Potter and Jack Diamond, *Guidelines for Public Expenditure Management*, (Washington, DC: International Monetary Fund, 1999), <http://www.imf.org/external/pubs/ft/expend/index.htm> (accessed 12 January 2009).

<sup>153</sup> Examples might include Morocco, Jordan, Estonia, Bulgaria, Turkey, Mexico, or others.

Revenue Transparency reports, the Bertelsmann Transformation Index, Afrobarometer and so on—all blend various questions into a basket of indicators leading to an overall governance assessment. Indeed, this approach to corruption measurement is probably the most appropriate for those who focus on political roots of corruption, or believe that structural-institutional arrangements within societies and governance regimes are ultimately what lead to situations of widespread corruption. If this rationale in general hesitates to divorce corruption from other elements of governance, then it would also be reluctant to make profound distinctions between defence and governance more generally.

Socio-legal indicators are most reliable when there are clear objective standards against which to measure performance. For other areas of governance, such as a process like budgeting, there are usually clearly established rules. The OBI and PRT project were both able to base their indicators on well-known standards like the IMF Code of Good Practice and Fiscal Transparency and the recommendations emanating from the Extractive Industries Transparency Initiative. Not so with defence. For many of the areas which matter most, such as national security and classified materials, there are no international guidelines. After all, one of the problems for defence corruption is precisely that defence policies are not even published, let alone set against some international standard. It will be difficult to use socio-legal indicators alone to evaluate, for instance, defence transparency until there are objective standards to determine what is or isn't legitimately secret. This question, however, is fundamentally political and more than merely an issue of anti-corruption.

Keeping this fundamental problem in mind, it is possible, however, to take a few pragmatic steps forward. For example, it would be a success for defence transparency merely to have other international standards related to budgeting, auditing, or auditing to be explicitly applied to defence. Whereas now there are many off-budget or "black" expenditures in defence, including projects which are themselves secret, having publicly-known programmes routinely submitted to the same standards as other sectors might be an attainable goal.

In spite of these problems, an approach to measurement could be a powerful way to leverage the work of various civil society organizations, particularly if applied through partnerships. Ideally, these tools might be applied in order to induce ministries of defence to invite the creation of technical indicators through partnerships with civil society groups like TI (UK) and international organizations like NATO or the World Bank.

Specific and detailed recommendations for this tactic are outlined in the appendixes.

### **Other Indicators and Potential Empirical Models**

As the extensive discussion of different theories of corruption underscores, the debate is still open regarding overall understandings of corruption. If one's aim in a measurement endeavour is less to produce a specific course of action than to simply build knowledge or public awareness of the issue, then a variety of studies could be conducted. For example, a particularly politically-minded corruption study could draw on Mara Faccio's work measuring corruption via "political connectedness" (similar to the Dick Cheney health measure discussed in the Non-Traditional Indicators section of this report, page 78). A stock basket, similar to an exchange-traded fund (ETF) could be developed of defence industry firms operating in a particular country. This portfolio's performance would then be compared against different variables, such as unexpected political events involving high-profile leaders or via comparison of "politically connected" firms against relatively un-connected firms<sup>154</sup>.

More generally, one could produce rankings based on compiling various instrumental indicators which may reasonably be connected to defence corruption. The results of these rankings could then be compared for robustness (according to various compilations), or simply by a "smell test" with knowledgeable individuals. They might include:

- *A personnel "turnover" ratio of the number of employees in the defence ministry who have previously worked for a private firm.* This indicator is based on the "revolving door" problem whereby defence ministry personnel move in and out of private arms industry. Data would be difficult to collect, but could be tracked over time and across countries.
- *A list of the official salaries of officials (e.g. in procurement), or, if available, a list of cars, houses, luxury items, etc. owned by key official.* Based on the idea that public information on private individuals' earnings would lead to an increased sense of oversight and accountability on officials by the public, this list could be compiled by a private researcher or journalist, but depends on access to information.

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<sup>154</sup> In Mara Faccio's study, "a company is connected to a politician if (at least) one of the company's large shareholders (i.e., anybody directly or indirectly controlling at least 10% of votes 2) or top directors (i.e., the CEO, president, vice-president or secretary) is a member of the parliament, a minister (including the Prime Minister), or the Chief of the State (i.e., dictator, president, King or Queen), or is "closely-related" to a top politician.)," p. 5

- *Existence of trade embargoes against a country.* Trade embargoes reduce supply, leaving demand constant, and therefore may raise premiums for smugglers, increasing the supply of bribes, kickbacks, etc.
- *Conflict Levels for target country and neighbouring countries, e.g. score on Global Peace Index or Failed State Index<sup>155</sup>.* Anecdotal experience suggests that conflict may increase levels of corruption, especially in defence, by increasing defence spending and reducing levels of accountability and transparency.
- *Proportion of defence spending to GDP for target country and neighbouring countries.* Economic studies have shown that increases in defence spending in one country tend to produce increases in spending by that country's neighbours as well. Overall, increases in defence spending (in absolute or relative terms) may increase overall levels of corruption as well, and presumably in defence.
- *Number of prosecutions for defence corruption.* This measure particularly set against other measures of overall numbers of prosecutions and estimates of overall corruption, may give evidence of the proportion in defence. However, the validity of this measure remains questionable, since it reflects several aspects of rule of law.
- *Overall levels of corruption in a country.* If general corruption measures, such as the TI-CPI, Global Integrity Index and other reports, tend to indicate a country has high levels of corruption overall, then it may be likely corruption in defence specifically is high as well. However, it would not necessarily follow that low levels of general corruption therefore mean defence is clean.

Various other indicators could be included or excluded and tested for empirical correlations using statistical methods or basic compare-and-contrast methods.

The chief drawback to these and many other possible measures of corruption for defence is the lack of data. Simply put, it would be extremely difficult in most countries to craft any sort of indicator related to issues of defence spending, policies or practices. It is hard enough in most countries to

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<sup>155</sup> Global Peace Index, <http://www.visionofhumanity.org/gpi/results/rankings.php>. Failed State Index, [http://www.fundforpeace.org/web/index.php?option=com\\_content&task=view&id=99&Itemid=140](http://www.fundforpeace.org/web/index.php?option=com_content&task=view&id=99&Itemid=140). There is considerable debate, however, over the validity of the methodologies of these and similar indexes. None should be taken uncritically.

find out what the defence budget *is*, let alone determine how much of it is misspent or applied to questionable behaviours.

## SUMMARY CONCLUSION

This report began with an exposition on the threat of corruption facing defence establishments and populaces worldwide. Corruption, it was argued, operates at several levels, from the individual personnel to institutional processes to political structures. It wastes public money and thwarts democracy, undermining legitimate spending towards national security needs by reducing the security impact of each dollar spent. Feeding on conflict and secrecy, easily spreading to other areas of governance, defence corruption thrives in an environment where many intermediaries strike huge deals between a relatively small number of private firms and ministries marked by high level of staff recycling between private and public sectors.

Global anti-corruption reform, and more broadly good governance programming, has produced a number of different approaches to corruption assessment and measurement which fall into different categories: perceptions-based, technical, socio-legal, and non-traditional. The most appropriate tool for measurement depends on the working theories and assumptions about corruption and change underlying the initiative. Furthermore, the best tool for a particular context is the one which contributes to the strategic aims of the organization undertaking the measurement. These ends range from public awareness campaigns to bureaucratic reforms to policy proposals to reflective learning. No matter the purpose or particular findings, the process of improving corruption measurement assessment, and more particularly anti-corruption design, monitoring and evaluation, should contribute to an overall long-term goal of increasing transparency, integrity and accountability in a conflict sensitive fashion.

Insofar as this report is process-oriented more than substance-oriented—it produces no new, major research findings—the contribution to the field is hopefully to clarify and distil the wide body of corruption and governance literature into a manageable, useable unit of thought. The interdisciplinary approach employed has produced a method for organizing our thinking and approach surrounding defence corruption assessment—a step which in due course, as more knowledge is accumulated, will inform practice as well.

Needless to say, in this dauntingly large topic, there are a number of areas, from programme needs to conceptual concerns, which have not been explored or discussed herein as much as they could be. In particular, dealing with corruption as a component of conflict-ridden or post-conflict societies has been identified as an important concern, but further exploration into the topic must wait for a later day. Similarly, a set of “best practices” for aligning measurement methodology with corruption and change theory has been suggested, but the details of such a list could be developed at far greater length, drawing on the monitoring and evaluation literature as well as the various schools of political theory and political economy. Finally, specific case studies of defence and defence-related corruption abound, and many deserve treatment in a targeted piece of history or journalism (to say nothing of other areas for improvement or development).

That said, the report has offered a number of actionable suggestions for applying findings in a defence corruption programme. The last section supplies practitioners with a learning framework for linking long-term goals and assumptions about change in corruption with specific measurement activities (and possibly other programme actions). Two such tools are included in the appendix: a Socio-Legal Matrix Questionnaire inspired by the Promoting Revenue Transparency project’s methodology, as well as a longer-form review of the methodologies (and defence-related indicators) of the Open Budget Index and Global Integrity with suggestions for partnership. The thinking here is for a civil society organization—most particularly Transparency International (UK)’s Defence Against Corruption team—to establish a partnership for measurement with the Open Budget Index and/or Global Integrity to produce an adapted measurement tool and report on defence. Finally, with sufficient resources, a team of researchers could also collect data to build and test economic models of defence corruption, making such datasets public. Unfortunately, it was not within the scope of this thesis paper to conduct such a study, given the demands of data collection and synthesis, combined with the lack of clear best practices for corruption measurement overall (hopefully this paper has alleviated some of the latter concern).

The next steps forward for corruption measurement in defence, building on this report, are to undertake a measurement project (or preferably several), employing the various strategies suggested herein, and sharing data across programmes. Initial steps in programme design for any would be to articulate the working theories, identify indicators, assess those indicators along the lines of reliability, validity, precision, etc., outlined herein, and pay due attention to conflict sensitivity, minding the gap between research and practice. To echo the late philosopher Richard

Rorty, we may never know about all fraud and abuse of systems, nor whether what we are doing is truly “helping,” but we can always aim for more justification to our actions and beliefs, the assuagement of ever more doubt. Thereby will we establish a more complete, reflective practice of reform.

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