

TROJAN HORSE TACTICS

UNMASKING THE IMPERATIVE FOR TRANSPARENCY IN MILITARY SPENDING



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HEADLINE MESSAGES



Increased global insecurity has driven a sharp rise in militarisation and defence spending. This paper presents clear evidence that there is strong relationship between defence spending and corruption risk in the defence sector. Even though further evidence would be necessary to confirm and evaluate causality, there is a strong indication that the relationship could go both ways. On one side militarisation increases the relative power of military establishments over civilian oversight actors, enabling corrupt actors to benefit even more from insecurity, while on the other - corruption in the sector is likely itself to be a driver of increased spending. Long-standing institutional weaknesses to corruption in the defence sector must, therefore, be urgently addressed in this context of rapid militarisation.



Estimates from the Stockholm International Peace Research Institute (SIPRI) show a 3.7% real term rise in defence spending in 2022. Russia's full-scale invasion of Ukraine, conflicts in the Middle East and the Sahel, and heightened tensions in the Asia-Pacific region have all contributed to higher overall global spending. It can be expected that the trend of high defence spending will continue into 2023 and beyond.



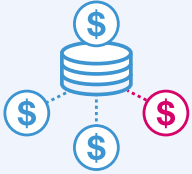
While a link between higher defence spending and corruption is often assumed, the existing evidence base to confirm this is limited. This paper aims to change this by focusing on corruption risk in the defence sector. Transparency International Defence and Security's Government Defence Integrity Index (GDI) provides granular information on different dimensions of corruption risk in defence institutions. By bringing together data from the GDI and SIPRI, this paper provides a methodical analysis of recent trends in defence spending and corruption risk in the defence sector.



Results from the GDI show that many defence institutions in countries around the world are ill-equipped to manage the higher corruption risks militarisation brings. One third of the top 40 highest military spenders in the world are threatened by high to critical corruption risks in their defence sectors. Even if some high spenders may have stronger domestic controls, they often export arms to countries facing much greater corruption risks.



Even though further studies would be necessary to validate this, some of the findings suggest that it is worth exploring the potential of a bidirectional link in some jurisdictions. In countries where the defence sector has been captured by elites, there are strong incentives to raise spending. This increases the scope for illicit enrichment and further cements the control of these actors to the detriment of independent oversight of the sector.



With the aim of testing the strength of the established relationship, the paper focuses on two key areas of risk most closely associated with defence spending: budgeting and expenditure risks. Levels of transparency globally around defence budgeting and expenditure are weak. Just under half of 86 countries reviewed in the GDI publish either only highly aggregated spending figures or no data whatsoever. This includes 16 of the top 40 military spenders in the world.



Different factors are behind weaknesses in standards, including weak oversight of the sector; lack of effective policy and planning; and misplaced norms around 'defence exceptionalism': the idea that because of national security considerations the sector should be exempt from transparency norms. Rapid militarisation adds to these concerns. Scrutiny of decisions may be reduced, high influxes of funds create new opportunities for corruption, and the influence of military actors increases.



Risks related to spending have adverse knock-on effects on multiple aspects of defence governance. The paper provides illustrative examples of how defence spending can be lost to corruption, highlighting examples around procurement and salary structures. Using cases from Nigeria and Ukraine, the paper shows how corruption in spending has adverse consequences for operational effectiveness, thereby increasing insecurity.

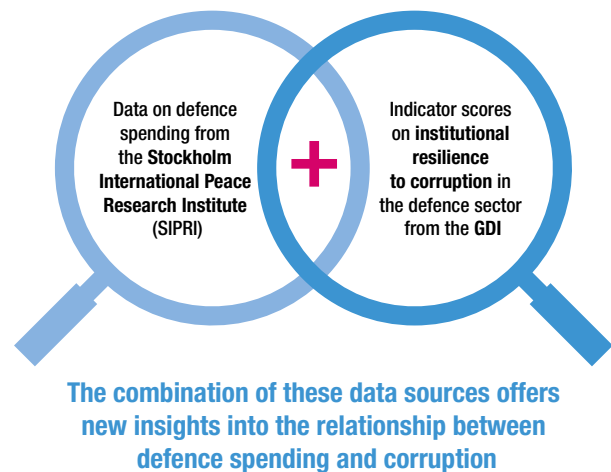
The paper concludes with high-level recommendations for countries on how to manage corruption risks associated with defence spending. These cover three areas:

- 1 Transparency and appropriate oversight of defence budgets to ensure that the public has as comprehensive a picture as possible of spending plans.
- 2 Controls to reduce risks of funds being lost to corruption as budgets are spent.
- 3 Integration of anti-corruption measures into arms exports controls. This is to prevent exporting countries providing arms to countries which cannot demonstrate their will and capacity to manage corruption risks.

1. INTRODUCTION

Militarisation is back on the agenda. Since the start of Russia's full-scale invasion of Ukraine, and amidst rising tensions in East Asia, the Middle East and the Sahel, governments around the world have been ramping up their defence spending. Where budgets increase, so does corruption risk, especially when sectors are lacking functioning transparency, accountability, and oversight. Evidence from Transparency International Defence & Security's (TI-DS) Government Defence Integrity Index 2020 (GDI) clearly shows that most defence institutions around the world do not have the necessary resilience to withstand these risks.¹

This paper provides an overview of the nexus between corruption and increased defence spending. Studies that have looked into the link between corruption and military expenditure often relied on measures of corruption that were not specific to the sector. This paper aims to change that by utilising data from a tool that captures sector-specific knowledge on corruption risk. It combines data on defence spending from the Stockholm International Peace Research Institute (SIPRI) with indicator scores on institutional resilience to corruption in the defence sector from the GDI. The combination of these data sources offers new insights into the relationship between defence spending and corruption. The findings are of critical importance for all concerned about the implications of rising militarisation.



The paper is structured into four parts:

- 1** A high-level overview of the global security context and geopolitical drivers of increased defence spending.
- 2** Summary statistics on the relationship between defence spending and corruption risk.
- 3** Presentation of key standards of financial management in the defence sector with a focus on budgeting and management of expenditure risks. The paper examines country performance on the GDI in these two areas. It further identifies root causes of problems and explores why increased spending adds risk.
- 4** Illustration of the consequences of corruption in defence spending. This analysis is based on case study examples related to procurement and salary payment systems in Ukraine and Nigeria respectively.

Corruption risks related to defence spending have implications for all aspects of defence governance. Opacity around defence budgets has knock-on implications for other areas such as strategic planning, defence acquisitions, and civilian oversight of the sector. We however largely limit this discussion to defence budgeting and expenditure risk to focus the analysis. To assess the strength of the previously established relationship between corruption and defence spending from a new angle without diluting the subject further, the data analysis is limited to examining summary statistics. This paper provides the basis for future, more granular studies which could probe the link more closely, utilising sector-specific knowledge to explore the possibility of bidirectional relationship. As this paper will show, there is value in using sector-specific tools such as the GDI when discussing the link between defence spending and corruption risk in the sector.

The paper concludes with high-level recommendations for policy-makers in the areas of defence budgeting, expenditure management, and arms exports controls.

¹ Transparency International Defence and Security (2020), Government Defence Integrity Index (GDI). Available at: <https://ti-defence.org/gdi/>

2. THE NEW ERA OF MILITARISATION AND DEFENCE SPENDING

It has been almost two years since Russia's unprovoked full-scale invasion of Ukraine. Practically overnight, the attack forced NATO members and other affected countries to urgently reassess their list of joint priorities. Rapid rearmament and commitments to increased spending quickly followed. The course of the joint European Union (EU) Defence and Security Strategy also changed there and then. Russia's aggression was a wake-up call to many Members of the European Parliament (MEPs), who revived talks on a joint EU defence programme and procurement system. By May 2022 EU member states had announced an additional €200bn in defence spending for the coming years.²

Countries across the globe have pledged support to Ukraine ranging from 0.05% to 1.4% as a share of their GDP.³ Some of the largest commitments include the US with €42.1bn, Germany (€17.1bn), UK (€6.6bn), Norway (€3.7bn), Denmark (€3.5bn), Poland (€3bn) and the Netherlands (€2.5bn). At the NATO Summit in Vilnius in June 2023, allies agreed on ever more ambitious outlays for overall spending. The summit culminated in a historic pledge by NATO members to make defence spending a *minimum* of 2% of GDP as opposed to this figure representing a spending ceiling.⁴

While the full-scale invasion of Ukraine can be seen as a turning point, increased militarisation has been an ongoing theme across the globe for the last two decades. Accumulating tensions and increased insecurity have culminated in confrontation and impact on people's lives at several pressure points. In Yemen, an eight-year long conflict has resulted in a humanitarian disaster affecting more than 21.6 million people.⁵ In the Sahel region in Africa, the rise of extremist groups and a series of mutinies by soldiers have contributed to conflicts which have seen more than 7 million people displaced.⁶ The Hamas-led militant attacks on Israel on

7 October 2023 and Israel's subsequent invasion of Gaza have led to an appalling number of civilian casualties.⁷ In other parts of the world, tensions between states are a driver of militarisation. Confrontation between China and other countries in the Pacific has notably led countries to increase their military presence across the region.

These tensions are reflected in military spending trends. In 2022 SIPRI revealed a new record high in world military expenditure, with an increase of 3.7% in real terms from the previous year, the equivalent of over USD 2,240 billion.⁸ Figure 1 shows data compiled by SIPRI on the highest military spenders in 2022.

SOME OF THE LARGEST COMMITMENTS TO SUPPORT UKRAINE INCLUDE

- ▶ **US €42.1 bn**
- ▶ **Germany €17.1bn**
- ▶ **UK €6.6bn**
- ▶ **Norway €3.7bn**
- ▶ **Denmark €3.5bn**
- ▶ **Poland €3bn**
- ▶ **Netherlands €2.5bn**



2 European Commission (May 2022), "EU steps up action to strengthen EU defence capabilities, industrial and technological base: towards an EU framework for Joint defence procurement".

3 The Kiel Institute for the World Economy, Ukraine Support Tracker, last data update: 7 September 2023. Data from 24 January 2022 and through 31 July 2023.

4 NATO Press Release (July 2023), "Vilnius Summit Communiqué".

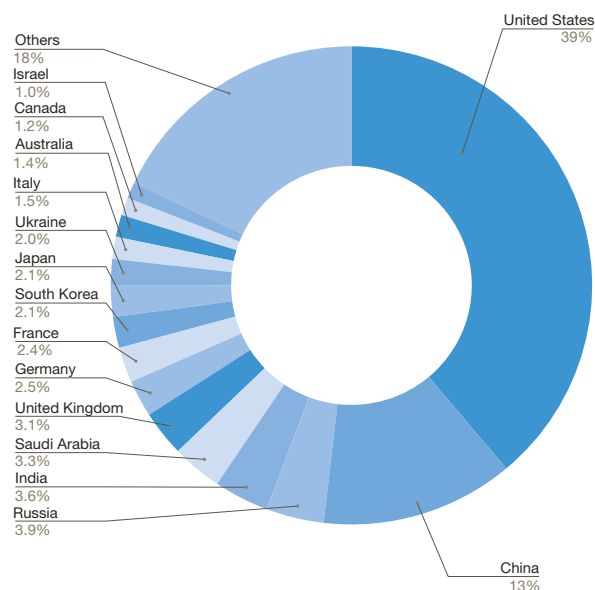
5 Relief Web (December 2023), "Yemen Fact Sheet, January - October 2023".

6 Africa Center for Strategic Studies (August 2023), "African conflicts displace over 40 million people".

7 Lauren Leatherby (November 2023), "Gaza civilians, under Israeli barrage, are being killed at historic pace". New York Times.

8 Some experts have made the argument that increases in defence spending may simply be driven by inflation as opposed to insecurity. Studies by the International Institute for Strategic Studies (2022) and Wang (2022) show that various factors, including conflict, can lead to accelerated spending. This argument can therefore be refuted. SIPRI's own figures are adjusted for inflation. Source: The International Institute for Strategic Studies (December 2022), "Military expenditure: transparency, defence inflation and purchasing power parity"; Yu Wang (January 2022), "Defense budget growth and inflation: a wavelet-based study of the US and Britain". Political Studies Review, Vol.21 (2).

Figure 1: 15 countries globally with the highest defence spending in 2022



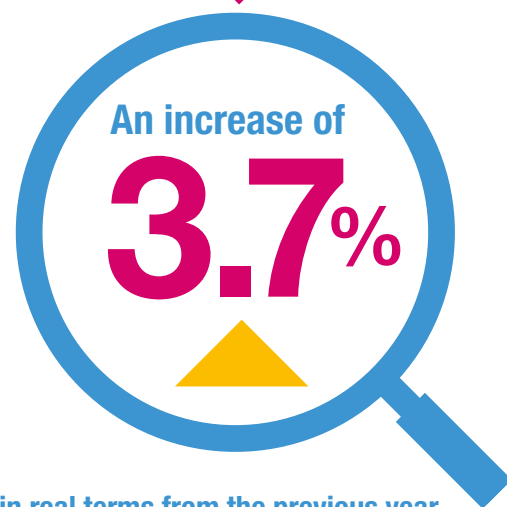
Source: SIPRI Military Expenditure Database (April 2023).

Some of the leading spenders in different regions include⁹:

- The United States, which remains by far the largest global spender, increased its outlays to an estimated USD 877 billion in 2022, the equivalent to a 0.7% boost on the previous year.
- Triggered by the full-scale invasion of Ukraine, military spending in Central and Western Europe skyrocketed to USD 345 billion. Some of the countries with the highest increases in spending included Finland (36% increase), Lithuania (27%), Sweden (12%) and Poland (11%).
- In Asia, Japan bolstered its military expenditure by 5.9% in 2022 to reach USD 46 billion. Continuing the focus on Asia, India's military spending of USD 81.4 billion was the fourth highest in the world, an increase of 6% from 2021.
- In the Middle East, SIPRI ranked Saudi Arabia at fifth place in its global list of military spenders. Data is limited but the institute estimated a total spend of \$75 billion in 2022, equating roughly to a 16% increase on the previous year.

In 2022 SIPRI revealed

A NEW RECORD HIGH IN WORLD MILITARY EXPENDITURE



in real terms from the previous year, the equivalent of over

USD 2,240 billion

- In Sub-Saharan Africa overall regional spending declined on account of the largest spenders (Nigeria and South Africa) diverting funds amid economic pressures. Some countries however dramatically increased spending. For example, Burkina Faso immediately increased its defence expenditure by 20% following a coup d'état in January 2022. Its military budget is also expected to rise by a further 50% in 2023.¹⁰

Altogether the figures presented suggest this a new era of insecurity and, as military tensions continue to grow, the trend of increased spending looks here to stay.

⁹ Data from the SIPRI Military Spending Database (April 2023).

¹⁰ North Africa Post (April 2023), "Burkina Faso increases defense budget by nearly 50% for 2023".

3. THE RELATIONSHIP BETWEEN DEFENCE SPENDING AND CORRUPTION RISK

The rise in defence spending presents a real concern on account of the well-known and wide-ranging problems with corruption in this sector. In this section, we use SIPRI and GDI data to test further the relationship between higher defence spending and corruption risk in the sector. This relationship has often been assumed but has been difficult to prove. By combining spending data with the evidence on corruption risk from the Government Defence Integrity Index (GDI) 2020, we demonstrate why the increase in spending must equally be accompanied by attention to corruption risk.

Existing analysis on the relationship between defence spending and corruption is limited. A paper from 2001 analysed the link focusing on defence expenditure as the dependent variable to show that higher country corruption risk was associated with higher military spending as a share of GDP and total government expenditure.¹¹ Another paper from 2008 recognised the potential for a bidirectional relationship and examined the nexus between defence spending and corruption further by assessing the significance of other processes in the sector, including arms imports, number of military personnel, conditions of service and payments to soldiers.¹² Moreover, cuts in military spending were also found to indirectly reduce the risk of corruption.¹³ A more recent study from 2020 reached similar conclusions after confirming a positive correlation between corruption and military expenditure.¹⁴ However, similar to other studies, the data used to capture corruption did not relate directly to the defence sector. As a cross-cutting

theme, studies that have looked into the link between corruption and military expenditure have often relied on measures of corruption that are not sector specific. A few examples include using tools that evaluate wider risk of political corruption, and indices such as Transparency International's Corruption Perceptions Index (CPI) - which offers a broader measure of perceptions of corruption.

Data in the GDI can contribute new evidence on this relationship. The GDI measures institutional resilience to corruption by focusing on both policymaking and public sector governance in national defence institutions. The index is organised into five main risk areas:

- 1 Policymaking and political affairs**
- 2 Finances**
- 3 Personnel management**
- 4 Military operations**
- 5 Procurement.**

Each indicator is scored based on five levels from 0-100 (0, 25, 50, 75, 100) and indicator scores are aggregated (no weighting) to determine the overall scores. Scores are then assigned a band from A – F, which reflects the overall level of corruption risk (see Figure 2 below).

Within these risk areas, the GDI identifies 29 corruption risks specific to the defence and security sector. The index is organised into 77 main questions, which are

Figure 2: GDI overall ranking bands

| Range of Scores | | | | Corruption Risk | |
|-----------------|----|---|-----|--|-----------|
| A | 83 | – | 100 | Very robust institutional resilience to corruption | Very low |
| B | 67 | – | 82 | Robust institutional resilience to corruption | Low |
| C | 50 | – | 66 | Modest institutional resilience to corruption | Moderate |
| D | 33 | – | 49 | Weak institutional resilience to corruption | High |
| E | 17 | – | 32 | Very weak institutional resilience to corruption | Very high |
| F | 0 | – | 16 | Limited to no institutional resilience to corruption | Critical |

11 Gupta, Sanjeev, Luiz De Mello, and Raju Sharan (2001), "Corruption and military spending". *European Journal of Political Economy*, Vol.17 (4), pp.749-777.

12 Hudson, John and Philip Jones (2008). Corruption and military expenditure: At 'no cost to the king'. *Defence and Peace Economics*, 19(6), 387-403.

13 d'Agostino, Giorgio, John Paul Dunne, and Luca Pieroni. "Corruption, military spending and growth." *Defence and Peace Economics* 23.6 (2012): 591-604.

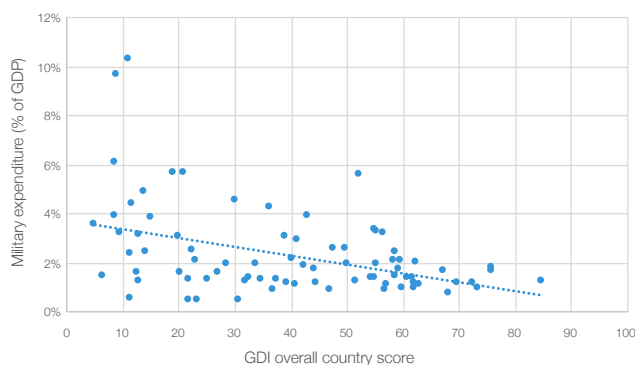
14 Ali, Hamid E., and Sakiru Adebola Solarin (2020), "Military spending, corruption, and the welfare consequences". *Defence and Peace Economics*, Vol.31, No.6, pp.677-691.

broken down into 212 indicators. In order to provide a comprehensive reflection of these risk areas, the index assesses both legal frameworks (de jure) and their implementation (de facto). The 2020 index covers 86 countries. The data was published between October 2019 and November 2021.

The overall findings of the GDI are highly concerning: 54 of the countries (62% of the total) fall into Bands D – F, meaning they exhibit weak, very weak, or limited to no institutional resilience to corruption. A further 23 countries (27% of the total) are in Band C with moderate institutional resilience to corruption. The data shows that only 8 countries (9% of the total) fall into Band B with robust institutional resilience to corruption. Only one country - New Zealand, demonstrated strong evidence of highly robust mechanisms to corruption risk. It is already clear then that high volumes of funds are flowing into a sector which faces significant corruption risks.

The existence of the GDI data further allows us to draw stronger conclusions on the question of whether increased defence spending actually increases corruption risk. As shown in Figure 3, analysis combining the GDI scores with SIPRI 2020 spending data shows that higher military expenditure as a percentage of GDP is associated with a lower score on the GDI.

Figure 3: Negative correlation between military expenditures (% of GDP) and GDI country scores



When examined more closely, the results for defence spending in 2022 further support this statement (see Figures 4, 5 and 6). It is important to note that two countries stood out as outliers – Saudi Arabia and Qatar. The two outliers have significantly higher spending than other countries that are also in the ‘critical’ bracket for corruption risk as evaluated by the GDI, and therefore to test statistical significance of the current results these countries had to be excluded. After analysing the SIPRI

data for 2022 with GDI 2020 without the outliers, the results confirmed the strength of the relationship.¹⁵

Figure 4: Military expenditure (data from SIPRI 2022) and GDI 2020 overall score

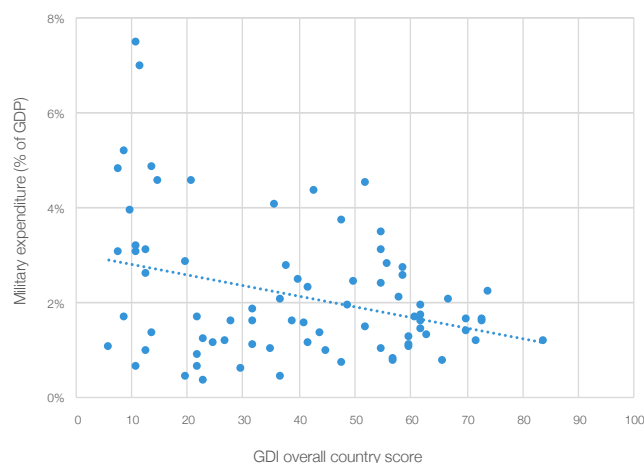
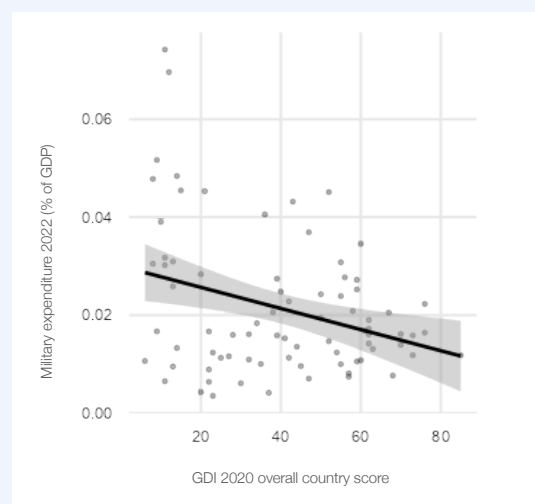


Figure 5: Military expenditure (data from SIPRI 2022) and GDI 2020 overall score, statistical significance test

Correlation Matrix

Correlation Matrix

| | | Scores | GDP |
|--------|-------------|--------|-----|
| Scores | Pearson's r | – | |
| | p-value | – | |
| GDP | Pearson's r | -0.319 | – |
| | p value | 0.004 | – |



¹⁵ P-value = 0.033 after excluding the outliers for the updated data from SIPRI 2022.



As countries increase their defence spending, we can consequently expect this to be accompanied by higher levels of corruption risk. There is some indication in the wider literature that the relationship could go in two directions. In countries experiencing strong levels of state capture – “a type of systematic corruption whereby narrow interest groups take control of the institutions and processes through which public policy is made” – elites are more likely to prioritise military spending over other forms of public spending.^{16,17} Control of the military is often one of the main targets for state capture and military personnel can be key instigators of these processes.¹⁸

There are typically strong gendered logics underpinning state capture processes. In captured states, elites are usually male and seek to use military spending to promote their own interests and power. The seven countries which have the highest military expenditure as a percentage of GDP (Saudi Arabia, Qatar, Oman, Jordan, Algeria, Azerbaijan and Kuwait) are all classified as authoritarian in the Economist Intelligence Unit (EIU)’s 2023 Democracy Index.¹⁹ These are also all countries which perform poorly in the World Economic Forum’s country rankings of gender parity.²⁰ In some jurisdictions, corruption as well as gender and power dynamics behind it are therefore likely to be drivers of higher military spending.

16 Elizabeth Dávid-Barrett (2023), “State capture and development: a conceptual framework”. *Journal of International Relations and Development*, Vol.26, pp.224 – 244.

17 Jennifer Brauner (2015) “Military spending and democracy”. *Defence and Peace Economics*, 26(4), 409-423.

18 Martin Hala (2020) “A New Invisible Hand: Authoritarian Corrosive Capital and the Repurposing of Democracy”, National Endowment for Democracy.

19 Economist Intelligence Unit (2023) “Democracy Index 2023: Age of Conflict”.

20 World Economic Forum (2023), “Gender gap report”. The report assesses gender parity across four dimensions: Economic participation and opportunity, educational attainment, health and survival, and political empowerment.

4. PUBLIC FINANCIAL MANAGEMENT IN THE DEFENCE SECTOR

4.1 Overview

Strong standards of public financial management (PFM) are critical to mitigating corruption risk. PFM refers to the set of laws, rules, systems, and processes used by governments to mobilise revenue, allocate funds, undertake public spending, account for funds, and audit results. It is commonly understood as a cycle of six phases beginning with policy design, moving to budget formulation, approval, execution and accounting, and ending with external audit.²¹ A well-established PFM system can ensure strong levels of transparency and accountability when handling government finances.

While these issues are often overstated (see discussion in Section 4.3. below), spending in the defence and security sector presents some challenges for PFM systems. Defence spending involves large financial outlays for acquisitions of highly technical equipment. This makes it harder for non-experts to scrutinise whether the public is getting value for money. Although again exemptions are often applied too broadly, there may also be some financial data which it is necessary to classify as confidential.²²

The GDI scores country approaches to managing defence spending and the associated corruption risks across several indicators.²³ While corruption risks related to defence spending are relevant to many issues across the index, the most relevant indicators can be put into two groups: defence budgeting and financial expenditure risks (as shown in Box 1).

Box 1 Defence budgeting

In general, governments have three broad categories of budget documents:

- 1** the initial budget adopted prior to the start of the fiscal year;
- 2** a revised budget, released during the fiscal year that shows changes in priorities;
- 3** and finally, the key document on actual expenditure, published at the end of the fiscal year that shows how much was actually spent in comparison to the budget.

Among other questions, the GDI assesses whether:

- budgets are transparent and made available to the legislature for review and then the wider public once approved;
- scrutiny of the defence budget by the legislature (or an appropriate legislative committee) is effective;
- internal and external auditing processes for military and defence ministry expenditure are effective.

In these reviews, assessing both actual and budgeted expenditure is critical. The variance between the two can be significant. This is often an indicator of poor financial planning but in some circumstances can suggest misuse of resources, including potentially corruption.

Continued on next page

21 Public Expenditure and Financial Accountability (PEFA) (2016), "Framework for assessing public financial management".

22 For more discussion see TI-DS (March 2023), "Access to information".

23 TI-DS (2020), "GDI questionnaire: questions, indicators, and scoring rubric". Available at: https://ti-defence.org/gdi/wp-content/uploads/sites/3/2020/04/2020-GDI-Questionnaire-and-Scoring-Rubric_291119.pdf

Defence budgeting (continued)

Expenditure risks

Outside of the formal budgeting process, secrecy (where unjustified) around different aspects of financial expenditure creates corruption risk. The GDI examines different aspects of this problem, in particular:

- Expenditure on secret items by national security and the intelligence services and whether this is subject to legislative scrutiny;
- Rules around off-budget and extra-budget expenditure and whether in practice this could be linked to illicit activity;
- Controls and levels of transparency around the disposal of assets;
- The roles of military-owned businesses and the extent to which their finances are transparent.

The GDI finally has specific indicators relating to access to information mechanisms, the route by which the public might obtain information on defence spending. These indicators cover the strength of the legal framework; systems for classification of information; and whether mechanisms for access to information are functioning effectively in practice.

A well-established PFM system can ensure strong levels of transparency and accountability when handling government finances.

4.2 Country performance on the GDI

The results of the GDI show that across these areas, countries with high levels of defence spending often have significant weaknesses in their institutional controls. Figure 6 below covers the top 40 military spenders based on SIPRI expenditure data from 2020 and looks broadly at their PFM practices in defence. Over one third (35%) of the top spenders with combined outlays of over USD 536bn in 2020 are threatened by high to critical risk of corruption in financial management.



Figure 6: Corruption risk in defence finances

TOP 40 MILITARY SPENDERS

CORRUPTION RISK IN DEFENCE FINANCES

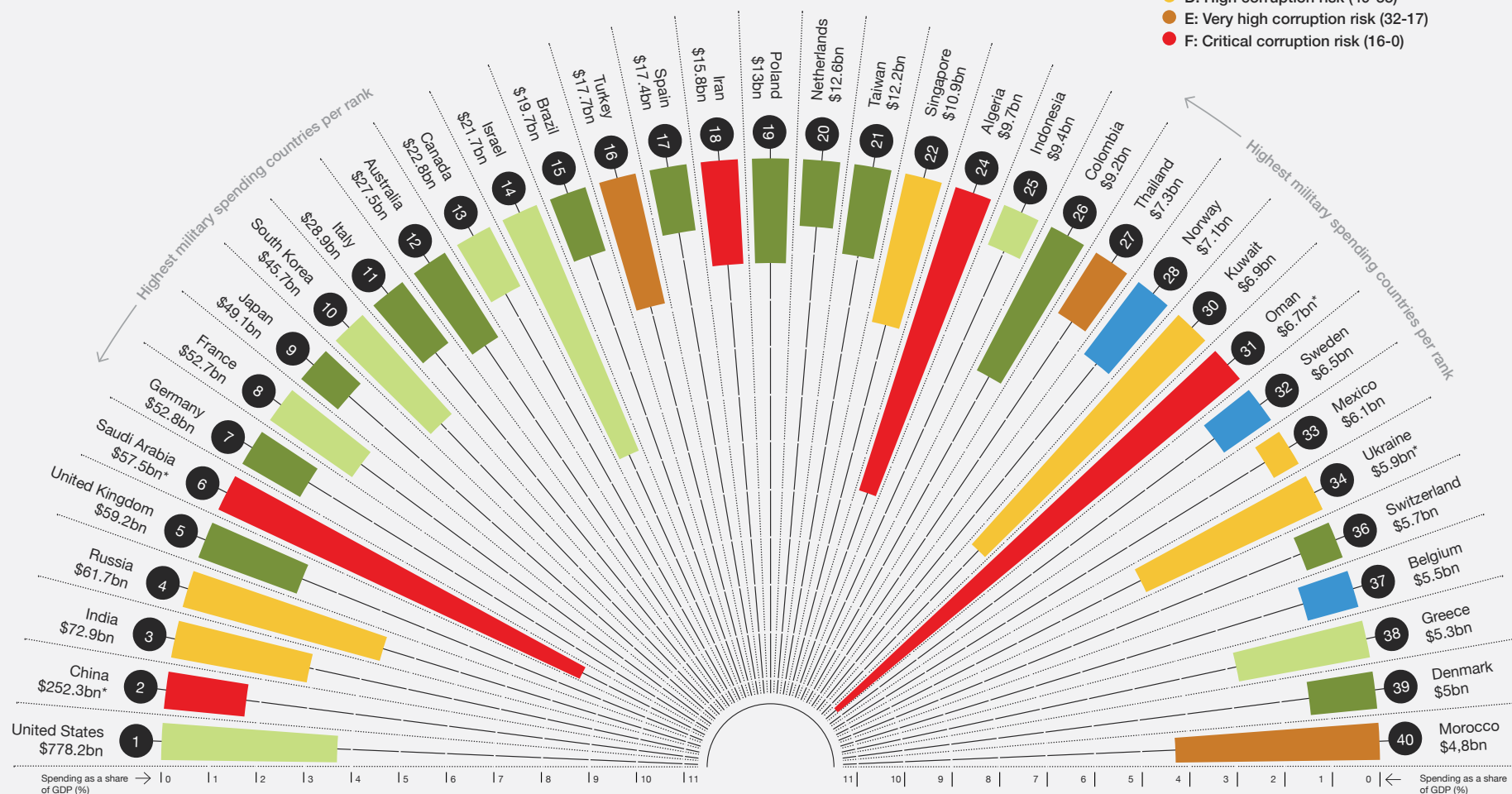
2020 GOVERNMENT DEFENCE INTEGRITY INDEX (GDI)

Level of corruption risk in defence finances for Top 40 Military Spenders. Arms expenditures determined by SIPRI, 2020 (Stockholm International Peace Research Institute).

DEFENCE FINANCES

Does public financial management in the defence sector include sound management of assets, timely and efficient accounting systems, proactive publication of information, and appropriate levels of oversight?

- A: Very low corruption risk (100-83)
- B: Low corruption risk (82-67)
- C: Moderate corruption risk (66-50)
- D: High corruption risk (49-33)
- E: Very high corruption risk (32-17)
- F: Critical corruption risk (16-0)



*SIPRI estimates. Pakistan (Rank 23) and Romania (Rank 35) are not included because they are not part of the GDI. Iraq (Rank 29) has been excluded because military expenditure figures are highly uncertain.
Source: Transparency International, Defence & Security; SIPRI Military Expenditure Database, 2020.

Unpicking some of the different elements of financial management covered in the GDI points to several critical issues (see Figure 7 below). Across all 86 countries in the index, only 52% of the countries assessed publish disaggregated data on actual defence spending versus budgeted spending; few give explanations on variances between the two.

The implication is that just under half of all countries reviewed publish only highly aggregated figures. This includes 16 of the top 40 military spenders in the world.

As noted, it is also important to examine access to information provisions as part of understanding institutional exposure to financial corruption risks. Budgetary information should be readily available

to access through agreed mechanisms. Any confidential information should be retained based on transparent classification criteria. However, nearly **70% of the countries in the index score in the bottom half on this indicator**. In other words, in more than two-thirds of countries there are regularly refusals to share requested budgetary information, information is frequently redacted, or it is simply impossible to access through existing mechanisms.

If we turn the spotlight on the top ten highest spenders in 2022, China, India, Russia and Saudi Arabia have significant weaknesses in their safeguards for controlling financial risks (see Figure 7). Even some of the stronger performing countries shown in Figure 7 below tend to have gaps in their controls in this area.

Figure 7: World's highest spenders (2020) and GDI 2020 overall score

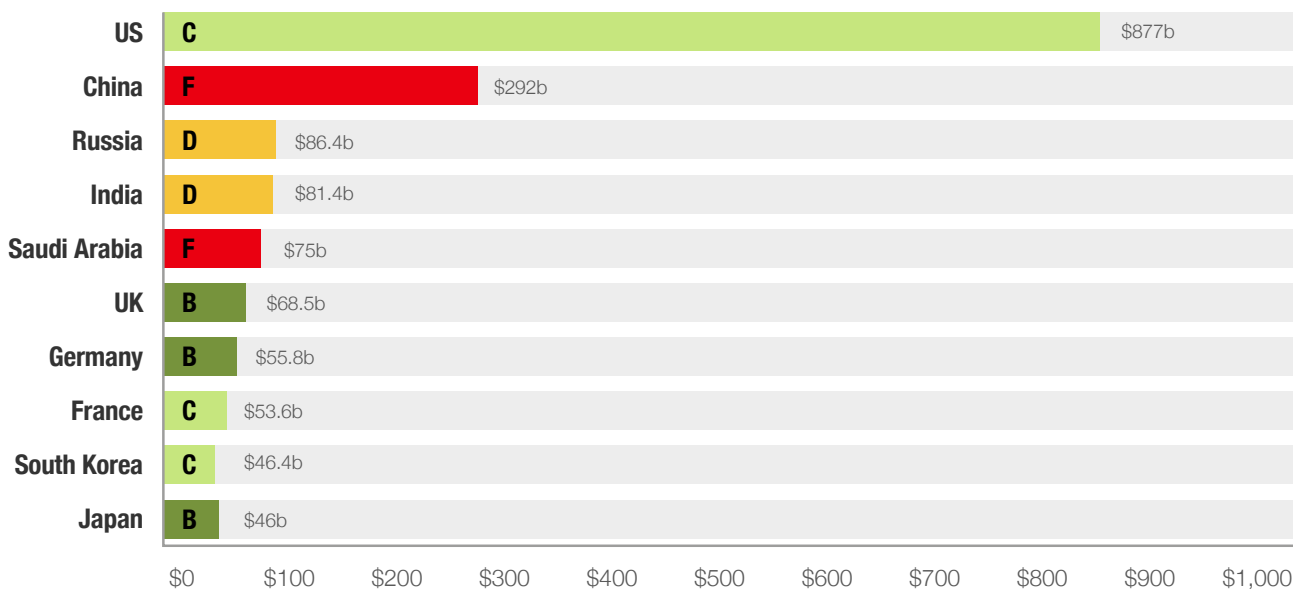


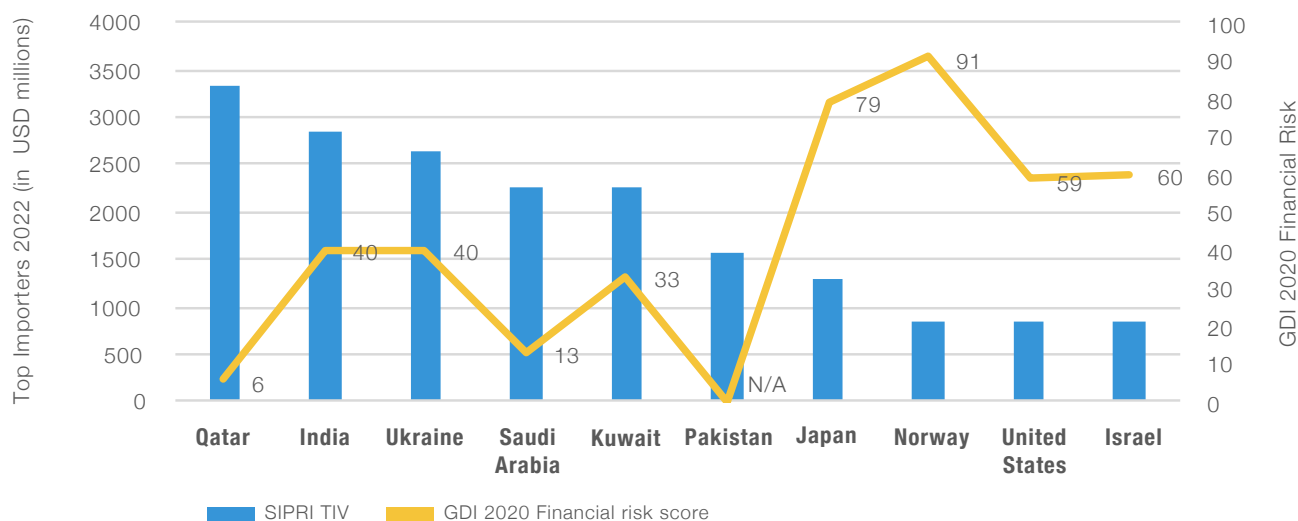
Figure 8: Exports to higher risk countries



It is also important to recognise that while some high spenders may have stronger domestic controls, they often export arms to countries facing much higher corruption risks. Figure 8 illustrates this relationship based on 2020 data.

Figure 9: GDI financial risk at top arms importers

SIPRI Top 10 Importers 2022 vs. GDI 2020 Financial Risk



* TIV or trend-indicator value is based on the known unit production costs of a core set of weapons and is intended to represent the transfer of military resources rather than the financial value of the transfer. SIPRI TIV figures do not represent sales prices for arms transfers. Please find more information on TIV here: <https://www.sipri.org/databases/armstransfers/sources-and-methods#TIV-tables>

Figure 9 adds further detail by showing levels of financial risk at the top ten countries importing arms in 2022. Leading recipients of arms, including India, Pakistan, Qatar, Saudi Arabia, and Ukraine, face high levels of financial risk.

These are all countries where there has been media coverage alleging corruption in the defence sector.²⁸ An emblematic example relating to arms exports to India is provided in Box 2 below.

Box 2 Exports of training aircraft to India

In 2019 the Central Bureau of Investigation (CBI) in India filed a criminal case against the Swiss aircraft manufacturer Pilatus for alleged corruption. The complaint concerns a 2012 contract won by Pilatus to supply 75 training aircraft to the Indian Air Force for a reported \$437.5 million. The CBI accused Pilatus of “entering into a criminal consultancy” with an intermediary firm, Offset India Solutions Private Limited (“Offset India”), to pay around USD 51 million in kickbacks to defense officials to secure the deal.²⁴

Media reports indicate that some of the allegations of misconduct against Pilatus concerned offsets arrangements for the deal. These are side deals agreed between the seller and importing government which are offered as incentives to win a tender. In 2012 a competitor on the training aircraft contract, Korea Aerospace Industries (KAI), alleged that Pilatus had failed to include in its bid the cost of “maintenance transfer of technology”.²⁵ This appears to relate to the costs to establish offsets with local partners to maintain the trainer aircraft, as required in Indian procurement regulations. By omitting these costs from its bid, Pilatus allegedly ensured it was the lowest bidder on paper.

The intermediary firm involved in the deal, Offset India, is owned by the arms dealer, Sanjay Bhandari. He has been linked in the media to other corruption investigations in the Indian defense sector but has sought refuge in the UK.²⁶ In November 2022 UK courts approved Bhandari’s extradition to India to face criminal charges.²⁷

24 Anand Chandrasekhar (June 2019), “Pilatus accused of paying millions to secure Indian defence contract”. Swissinfo.ch.

25 Korea Herald (January 2012), “Korean company objects to India’s basic trainer bidding process”.

26 Reuters (May 2023), “France’s financial prosecution office probing Thales”.

27 Aditi Khanna (November 2022), “UK court approves extradition of arms dealer Sanjay Bhandari to India”. Mint

28 Pakistan: Reuters (July 2014), “Smith & Wesson settles SEC bribery case over firearm sales”; Qatar: Corruption Tracker (August 2023), “Raytheon’s dirty business in Qatar”; Saudi Arabia (March 2010), “BAE Systems Plc pleads guilty and ordered to pay \$400 million criminal fine”; Ukraine: See Section 5.1.1.



4.3 Root causes: explaining weak standards

The types of institutional weaknesses countries face in these areas vary. There are nonetheless some underlying issues across the sector which help explain the bleak picture outlined. Three cross-cutting factors are:²⁹

- **Widely prevalent norms and rules around ‘defence sector exceptionalism’:** The term is frequently used in relation to defence spending and procurement processes. It refers to the positioning of the sector as exceptional - that is being exempt from standard regulations on transparency and public access to information due to national security reasons. Too often national security is vaguely defined. It is used as an excuse to block access to information and sometimes conceal malpractice. It is an idea that is nonetheless strongly rooted in many countries worldwide. The technical specialisms needed to make spending plans further mean that these decisions are less open to scrutiny.
- **Lack of effective policy and planning:** In many countries worldwide defence spending is not linked to clear policies and planning despite long-standing guidance on this theme.³⁰ As assessed by the GDI 2020, in nearly two-thirds of countries (64%), connections between the national defence strategy and defence procurement requirements are extremely weak or non-existent. 41% countries score 0, meaning there is no formal procedure in place

for justifying purchases based on the strategy. This includes the top three most significant importers of arms in the world: Saudi Arabia, India and Egypt.

- **Weak democratic control of the whole sector:** weak standards around defence budgeting and expenditure can be one feature of a lack of democratic control of the whole sector. In many countries, controlling the defence sector is part of a wider intention to capture state institutions led by military and political elites.³¹ The volume of funds and the opportunity to control the use of force make the sector a particularly attractive prize. A way to control the sector entails pushing out oversight institutions, such as the legislature and audit bodies, as well as limiting and suppressing civil society engagement.³² The result is minimal independent scrutiny of budgeting and spending decisions.

As noted in Section 4.2, while some countries may be less affected by these risks in their domestic context, many export arms to countries are deeply afflicted by these types of corruption risks. A lack of thorough scrutiny around external sales is common and can be seen as a root cause of this problem. Only three countries (South Korea, the United Kingdom and United States) have anything more than what can be categorised as limited parliamentary debate on this topic. It is also rare for corruption risk to be a factor explicitly considered in arms export decisions. This is a critical oversight as corruption reduces the likelihood of exports meeting goals, and increases risks to human security in the long-run.

²⁹ Transparency International Defence and Security, Government Defence Integrity Index (GDI) (2020) “Global Report: Disruption, Democratic Governance, and Corruption Risk in Defence Institutions”.

³⁰ See for example “Chapter 6: defence budgeting and financial management” in DCAF/ NATO (2010) “Building integrity and reducing corruption in defence: a compendium of good practices”.

³¹ Diego Lopes da Silva (2023) “Political Accountability and Military Spending. Defence and Peace Economics”, 34(5), 563–580.

³² Elizabeth Dávid-Barrett (March 2023), “State capture and development: a conceptual framework”. *Journal of International Relations and Development*. Vol.26, pp.224-244; Justin Conrad and Mark Souva (October 2020), “Interests, institutions, and defence spending”.

4.4 Why does higher defence spending increase corruption risk?

The paper has examined the relationship between higher defence spending and corruption risk from a defence governance angle. However, one unanswered question in existing analysis is why that might be the case. From TI-DS' experience in the sector we suggest there are several key reasons:

- Rapid militarisation can mean that decision-making processes, such as those around acquisitions, arms transfers and asset disposals, are quicker and subject to less rigorous review. Relatedly, countries frequently resort to emergency measures during conflict and periods of heightened insecurity (see Ukraine case study as an example, Section 5.1.1).
- High turnover of materials and assets creates new opportunities for fraud and makes detection more difficult.
- Increased availability of funds can encourage a wasteful mentality. Often, military spending is portrayed to have an intangible value to the public good. When this happens, other essential sectors tend to be neglected. This inevitably leads to inefficient or wasteful spending in the long-term.
- Militarisation increases the relative power of military establishments over civilian oversight actors. In systems already facing critical corruption risk, corrupt actors are best placed to benefit from influxes of funds. **This creates a self-reinforcing circle in which these actors then seek to increase spending as a means to accumulate illicit wealth.** As noted in Section 3, these power dynamics are typically underpinned by strong gendered differences.

In summary, high defence spending adds layers of risk and can cement the relationship between corruption and spending in the sector.





5. HOW DOES DEFENCE SPENDING TYPICALLY GET LOST TO CORRUPTION? WHAT IS THE IMPACT?

There are various forms of corruption which take place in the defence sector including but not limited to: bribery, conflicts of interest, embezzlement, nepotism, sextortion, and undue influence. The two sections which follow focus on two areas where funds are frequently lost: procurement (i.e. the acquisitions of equipment, materials and supplies) and salary payment structures.

5.1 Focus area one: procurement

Procurement in the defence sector has long been characterised by opacity and, given the high value of funds involved, has proven time and again to be a key domain where corruption takes place. This is reflected in relevant indicators in the GDI, where countries score poorly on controls related to procurement. 66% of the 86 countries reviewed in the GDI face high, very high or critical corruption risk related to procurement. Some of the key areas of weakness concern over-

reliance on non-competitive procurement procedures; levels of clarity and transparency around procurement mechanisms, particularly tendering procedures; and failure to publish sufficient detail on defence purchases.

This is also the area where transnational dimensions to corruption are particularly pertinent. Exporting countries may have stronger domestic procurement systems but these issues are often overlooked when they transfer arms to partner countries. Figure 10 illustrates relationships between exporters and leading importers of arms. A country like the US, for instance, has strong exporting relationships with several countries which score poorly in managing corruption risks in procurement, including Qatar, Saudi Arabia and the United Arab Emirates.

The consequences of corruption in procurement are severe: huge volumes of funds are wasted and the equipment purchased may be unnecessary, impacting operational effectiveness. The Ukraine case study which follows shows the seriousness of the issues.

Figure 10: procurement risks at defence importers

CORRUPTION RISK IN DEFENCE PROCUREMENT

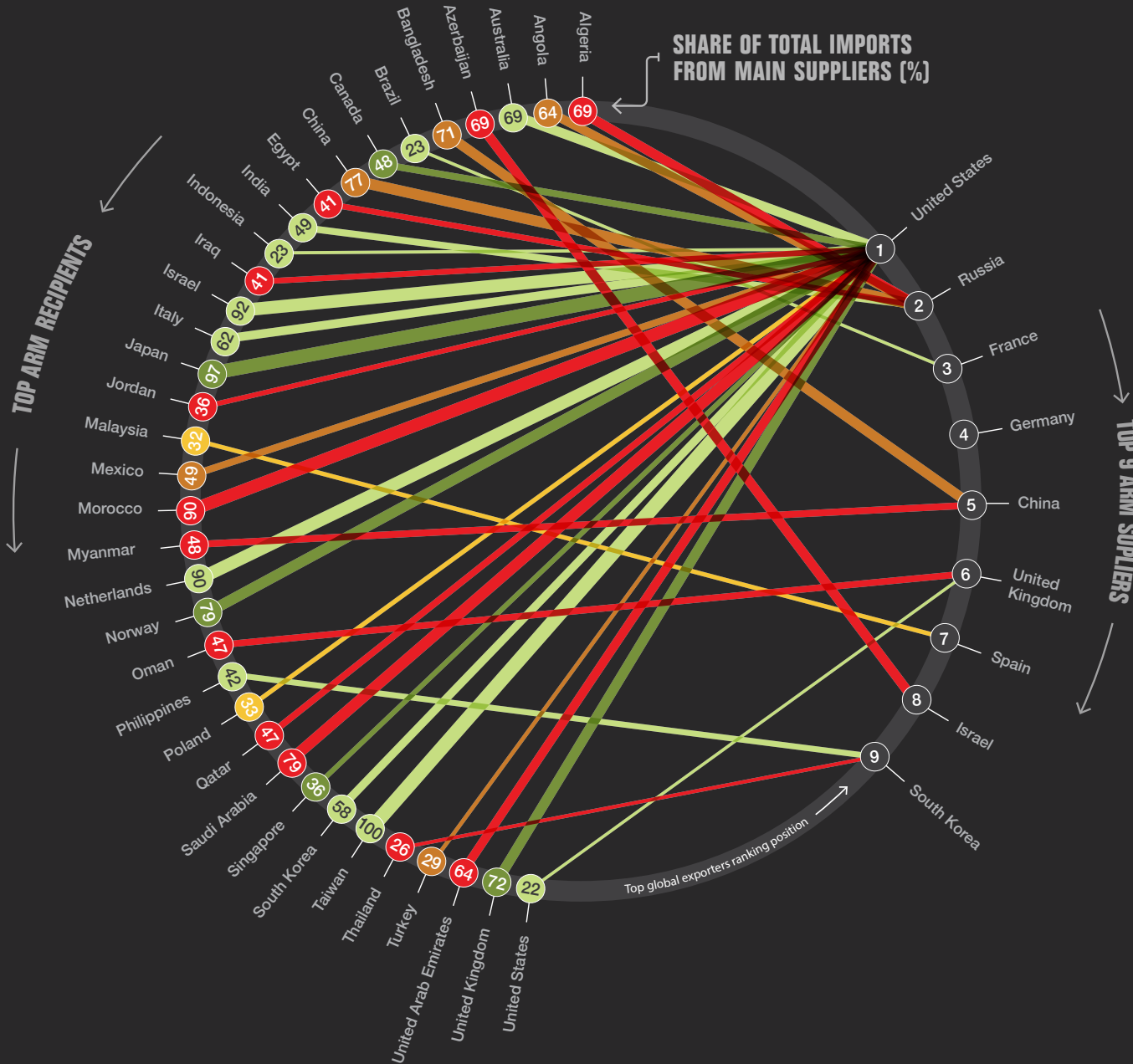
2020 GOVERNMENT DEFENCE INTEGRITY INDEX (GDI)

Level of corruption risk in defence procurement for Top Arms Importers, indicating main supplier and % share of imports from that supplier. Arms transfers rankings and shares determined by SIPRI based on analysis of averages in arms transfers for the 5-year period 2016-2020 (Stockholm International Peace Research Institute).

DEFENCE PROCUREMENT

Is procurement in the defence sector subject to proper controls over complex components of the procurement cycle, such as purchases, subcontractors, brokers, financing packages, and offsets programmes? Does the system exhibit appropriate levels of transparency and oversight, especially regarding procurement requirements, tender boards, and anti-collusion controls?

- A: Very low corruption risk
- B: Low corruption risk
- C: Moderate corruption risk
- D: High corruption risk
- E: Very high corruption risk
- F: Critical corruption risk



Case Study

5.1.1 Ukraine case study



Ukraine has been engaged in a long struggle to control corruption risks in its procurement processes which has critical implications for countering the illegal Russian invasion. In 2018 the Independent Defence Anti-Corruption Committee (NAKO) in Ukraine, TI-DS and TI-Ukraine published “Six Red Flags: The Most Frequent Corruption Risks in Ukraine’s Defence Procurement”.³³ The analysis was developed from cases indicating potential corruption in the procurement of various forms of armaments and equipment.

One example cited in the report concerned the Bogdan Corporation, a major supplier in the defence sector linked to Oleg Hladkovsky, then the First Secretary of the National Security and Defence Council of Ukraine. The report described how this represented a conflict of interest in that Hladkovsky controlled the government body responsible for overseeing defence governance while simultaneously having a financial interest in a firm receiving defence contracts.

This had major operational consequences. In 2017 the Ukrainian Ministry of Defence purchased 100 ambulances from Bogdan Corporation through a non-competitive tender. This was at a high cost of USD 32,000 per vehicle. In the first year of operation 50% of the vehicles broke down. It later emerged that the ambulances had not been properly tested for operational conditions. This was one of several scandals involving the Bogdan Corporation. In March 2019 Hladkovsky was removed from his position after an investigative journalist group alleged that his son, Ihor Hladkovsky, had used his father’s influence to smuggle spare military parts from Russia. These were then sold at inflated prices to Ukrainian state buyers.³⁴



In the wake of political changes Ukraine has also implemented various reforms to overhaul its procurement systems. The introduction of an e-procurement system known as Prozorro and professionalisation of tender procedures brought much greater transparency to supplier selection procedures. In 2021 Ukrainian authorities estimated the reforms had saved the state defence company Ukroboronprom USD 40 million over a two-year period.³⁵

Procurement reforms have since been put on hold following Russia’s full-scale military invasion. Although the vast majority of assistance received by Ukraine has been in the form of direct military aid, in its own

procurement systems Ukraine has reverted to emergency measures. In April 2023 NAKO proposed a series of solutions for returning transparency to the system adapted to the current situation of martial law.³⁶

³³ Eva Anderson, NAKO (2018), “Six red flags: The most frequent corruption risks in Ukraine’s defence procurement”.

³⁴ Roman Olearchyk (March 2019), “Ukraine president Poroshenko fires ally over arms trade claims”. Financial Times.

³⁵ Open Contracting (December 2021), “Armed with open data: How Ukraine saved billions on defence procurement”.














³⁶ NAKO (April 2023), “Defence procurement procedures under martial law: challenges and solutions”.

5.2 Focus area two: salary payment systems

Diversion of funds at the operational level often takes place within salary payment systems. The risks are particularly high in cases where chains of command are not separated from chains of payment. When there is no centralised system taking care of soldier payments, and instead commanders are responsible for disbursing payments to their subordinates, the risk of embezzlement increases significantly. In the majority of countries in the Global South, including some fragile states, personnel expenditure is the largest spending category in the military budget.³⁷

GDI findings show that militaries in 19% of countries in the index still do not fully separate chains of command and payment. The problem is especially pertinent in the Middle East and North Africa as well as Latin America, where half of countries have no separation of command and payment chains. In addition, in West and Central Africa, Mali, Angola, and Niger continue to disburse payments through the command structure.

Figure 37: GDI scores on quality of payment systems for fragile and conflict-affected countries

| Country | Total armed forces personnel* | GDI Score on payment systems | Corruption risk level |
|-------------|-------------------------------|--|-----------------------|
| Armenia | 9,000 |  92 | Very low risk |
| Lebanon | 80,000 |  92 | Very low risk |
| Kosovo | ... |  83 | Very low risk |
| Azerbaijan | 81,950 |  50 | Moderate risk |
| Niger | 10,300 |  50 | Moderate risk |
| Palestine | 56,000 |  50 | Moderate risk |
| Myanmar | 513,000 |  42 | High risk |
| Cameroon | 34,400 |  25 | Very high risk |
| Mali | 21,000 |  25 | Very high risk |
| Iraq | 336,000 |  17 | Very high risk |
| Sudan | 124,300 |  17 | Very high risk |
| South Sudan | 185,000 |  8 | Critical risk |
| Nigeria | 223,000 |  0 | Critical risk |

*World Bank DataBank, based on International Institute for Strategic Studies, The Military Balance.

37 UN Databases, Military Expenditures: National Reports (data since 1981).

Ghost soldiers are a related issue which stem from poor financial management and lack of transparency. The term “ghost soldiers” refers to fictitious troops that allow commanders to collect additional salaries. Weak oversight of recruitment processes and payrolls allow ghost soldiers to proliferate. Data collected through the GDI shows 19% of the 86 countries reviewed face critical risk in their management of ghost soldiers. This includes 10 out of 16 Sub-Saharan African states,

including seven of eight in West and Central Africa, where ghost soldiers are regularly reported, as well as Iraq and three countries in Asia-Pacific: Myanmar, the Philippines, and Thailand. It is telling that 11 of these 16 countries are engaged in counter-insurgency and counter-terror operations where ghost soldiers could significantly undermine efforts to address insecurity. Nigeria is a country which illustrates the high impact of these types of issues.

Case Study

5.1.2 Nigeria case study



Nigeria has long suffered from corruption in military payment structures. These issues have contributed to prolonging conflict against armed groups in different parts of the country. In 2013, a high point for Boko Haram’s insurgency in Northeastern Nigeria, media reports suggested that up to 50% of the allowances paid to troops for dangerous field duties had been stolen. This had a major impact on morale and also reportedly led some soldiers to sell equipment to insurgents as a means of generating income.³⁸ Similar issues re-emerged in 2020 following reports that military commanders had been withholding the payment of combat duty allowances to soldiers.³⁹ It was only following media coverage and pressure from campaigning groups that these allowances were eventually paid in 2020.

Previous analysis by the Civil Society Legislative Advocacy Centre (CISLAC) and TI-DS established that there are three main pillars to capture of the defence sector by kleptocratic actors in Nigeria: capture of defence budgets and income, capture of defence spending and procurement, and capture of senior military posts.⁴⁰ The operational issues described are one aspect of wider weaknesses in controls around defence spending. In December 2015, Nigeria’s Economic and Financial Crimes Commission (EFCC) arrested a former National Security Advisor, Sambo Dasuki, over allegations that he had embezzled USD 2 billion from the defence budget. This allegedly involved setting up fictitious contracts for purchases of helicopters, fighter jets and ammunition intended for counter-insurgency operations.⁴¹

At the time of writing (February 2024), the criminal trial against Dasuki had yet to be concluded, with over eight years having passed since he was first arrested.⁴² This illustrates the difficulties Nigeria faces in ensuring accountability for wrongdoing related to corruption in defence spending. Notwithstanding these scandals, Nigeria remains a key security partner to the US and other Western countries because of its strategic importance in the region. Back in 2021 the US approved major sales of military aircraft to Nigeria despite the high levels of opacity in defence budgeting and spending.⁴³ More recently, there have been discussions on halting some of these deals, but action is yet to be confirmed.

38 TI-DS (February 2021), “The common denominator: how corruption in the security sector fuels insecurity in West Africa”.

39 Senator Iroegbu and Godsgift Onyedinefu (September 2022), “Corruption: Presidency urged to investigate military welfare, salary”. Global Sentinel.

40 Eva Anderson, Matthew Page (2017), “Weaponising transparency. Defence procurement reform as a counterterrorism strategy in Nigeria”. TI-DS.

41 BBC (December 2015), “Nigeria’s Dasuki arrested over \$2bn arms fraud”.

42 Eniola Akinkuotu (May 2022), “N23.3bn fraud: Dasuki’s case begins afresh after seven years”. Punch Newspapers.

43 Murtala Abdullahi (September 2021), “Nigeria’s opaque military budget culture increases risks of corruption”. HumAngle. Reuters (February 2023), ‘U.S. Congress members seek halt to \$1 billion Nigeria weapons deal’

6. CONCLUSION

In this ongoing era of militarisation, addressing long-standing institutional weaknesses to corruption must be high on the agenda. There is evidence that increased spending brings greater corruption risk. If militarisation is to achieve the aim of upholding national and human security, these are issues which can no longer be overlooked. Failing to do so will increase insecurity and ultimately put populations at further risk of harm.

The GDI highlights important areas of weakness related to defence spending which are relevant to all countries. In addition to analysing current performance, it sets benchmarks for standards to which all countries can aspire.⁴⁴ TI-DS calls on all countries to make transparency and accountability around defence spending a core aspect of the response to increased global insecurity.

If militarisation is to achieve the aim of upholding national and human security, these are issues which can no longer be overlooked. Failing to do so will increase insecurity and ultimately put populations at further risk of harm.

44 TI-DS (2020), "GDI questionnaire: questions, indicators, and scoring rubric". Available at: https://ti-defence.org/gdi/wp-content/uploads/sites/3/2020/04/2020-GDI-Questionnaire-and-Scoring-Rubric_291119.pdf



7. RECOMMENDATIONS

Corruption issues related to defence spending are relevant to all aspects of defence governance. Countries should consequently address risks related to finance as part of an all-encompassing approach to strengthening governance. The following recommendations cover key practical steps countries can take to reduce risk related to defence budgeting and expenditure specifically. On account of the risks highlighted around arms exports, we make two further recommendations to exporting countries.



Defence budgets

Countries should ensure that:

- The defence budget contains comprehensive and disaggregated information on expenditure across functions. These functions should include personnel (salaries, allowances), military R&D, training, construction, procurement/acquisitions, maintenance of equipment, disposal of assets, and administrative expenses.
- Parliament (or a parliamentary defence committee) should have extensive formal rights to scrutinise any aspect of budgetary and expenditure information and proactively exercise these rights.
- The approved defence budget is published for the public in disaggregated form. It should be accompanied by an explanation of the budget intended for experts, as well as a concise summary with clear language for non-experts.
- Any aspects of the defence budget withheld from the public should be based on well-founded and clear criteria. Maintaining secrecy around budgeting should be the exception, not the rule.
- Information requested by citizens, media, and civil society about the defence budget should be provided in a timely fashion, without systematic and unjustifiable delays.

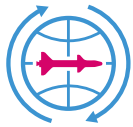


Managing expenditure risk

Countries should ensure that:

- In addition to budgets, details of actual spending on defence and security are proactively published in disaggregated form.
- Internal audit units in defence institutions should engage in ongoing reviews of defence ministry expenditures. An external audit unit should have the mandate to review the defence sector, and regularly audit military defence spending in a formal, in-depth process.
- Expenditure on secret items should be avoided and only be a rare exception. The appropriate legislative committee or members of the legislature should be provided with extensive information on all spending on secret items, which includes detailed, line-item descriptions of all expenditures, and disaggregated data.
- Off-budget expenditures should not be permitted by law in the first instance. If these do take place, off-budget expenditures should be recorded in the respective budgets.

Continued on next page



Arms exports

Countries exporting arms should ensure that:

- They have a well-scrutinised process for arms export decisions that aligns with Articles 7.1.iv, 11.5, and 15.6 of the Arms Trade Treaty (ATT).
- Arms exports decisions require a holistic assessment of corruption risks in the importing country. This review should either lead to mitigants being required of the importing country to reduce corruption risk around the transaction, or, exports should not be permitted when corruption risks cannot reasonably be managed.

Further information and guidance on these issues can be found at the TI-DS website: <https://ti-defence.org/>

**Arms exports
decisions require a
holistic assessment
of corruption risks in
the importing country**



