

Corruption, insecurity and terrorism

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Ladies and Gentlemen, good morning. This part of the conference is about how corruption plays into insecurity, terrorism and piracy; and how you can be doing something about it.

Let me start with Ukraine, which is typical of many countries where your firms may be operating. Corruption is endemic throughout the society: corruption is not some sort of deviant behaviour from the normal: Ukraine can be seen as a functioning mechanism for extracting money and power from the country to the benefit of a small elite.

At the same time, their armed forces, who are no more or less corrupt than the rest of the state, are trying to fight a war against the separatists in the East. They are failing, in significant measure because they are crippled by this corruption.



So for those of you who have roles in fragile states, like Ukraine, the issue of corruption is not just a marginal nuisance problem – it is absolutely at the heart of state insecurity and incapacity, and all security solutions have to start from this understanding.

The quote on this slide “Corruption can be just as deadly as bullets,” comes from Sasha Lapko, a 32-year-old Ukrainian who worked for the NATO Liaison Office in Kiev. He was seconded to us in Transparency International in London for 3 months last year, to develop a deeper understanding about defence and security corruption-prevention. He received his call-up papers during this time, and immediately faced a dilemma. He could either pay \$2,000 to get a medical certificate saying that he was unfit to fight. Or he could pay \$2,000 to buy a functioning AK47, body armour, night sights and a first aid kit. He needed to do this because all the money for such equipment had been stolen by the Ukrainian military hierarchy. Hence his dilemma and his quote¹.

International companies do not prosper in these environments by ignoring such corruption, or by taking the colonial view that this is just ‘how such countries operate’. You need to analyse the corruption, to understand the dynamics, and know how to overcome it so that you can achieve your goals, whilst also giving hope to the host nation, your local staff and your customers that you are not just another foreign group perpetuating the problem.

And that is what this talk is about. How to go up that learning curve, to turn corruption understanding and corruption-prevention into a natural part of your business strategy.

¹ <http://www.nytimes.com/2014/10/08/opinion/in-war-time-corruption-in-ukraine-can-be-deadly.html?ref=international&r=0>

I'm going to talk you through three topics. The first is an overview of the subject of corruption: it is one of those simple sounding subjects that's not so simple when you look deeper. On the other hand, we now know quite a lot about it and increasingly how to take action to mitigate the threat. The second is about how corruption is both cause and consequence of insecurity, terrorism and conflict. The third topic is about practicalities: corruption is a subject that you should be intensely interested in. Partly because you need to make sure you don't fall on the wrong side of the law and the Bribery Act; partly because it is a fundamental driver of insecurity and terrorism, so you need to understand it as a key factor in your operating environment. And, perhaps most of all, because I think that corruption-prevention, or countering corruption, is a growing market that needs experts and much greater market supply, to which you and your firms may want to contribute.

1. Corruption 101

Let me first provide some perspective on corruption. It's a very expensive problem. The World Bank estimates that \$1tn is lost to corruption every year worldwide

Whilst corruption is as old as humanity - and is quoted in ancient Egyptian, Phoenician and Aramaic texts - corruption as a modern economic and developmental evil did not exist as a topic for serious study until the early 1990s. At that time, there was still a debate on whether corruption was a bad thing or a good thing – whether money could 'grease the wheels' of commerce. That debate is over – the evidence is overwhelming that, except in some specific circumstances, corruption is a negative: along with poor governance and weak

accountability, it strangles economies and societies. On this slide, you see a listing of the negative impact of corruption at a societal level and in the economy.



\$1 trillion is lost to corruption every year worldwide (World Bank info) 

- Traps millions in poverty
- Undermines democracy, rule of law
- Breeds social and political crises
- Threatens domestic and international security
- Allows elites to maintain power
- Retards economic development
- Feeds shadow economy
- Threatens natural resources
- Distorts fair competition and misallocates resources
- Scares away investments
- Stalls investments in public goods
- Reduces innovation
- Contributes to budget deficit
- Harms competitiveness
- Jeopardises sound governance in the private sector

Corruption is the abuse of entrusted power for private gain

People always get excited about definitions. The World Bank and we in TI have a very simple definition: *Corruption is the abuse of entrusted power for private gain*. There are lots of variants, but what we find in just about every country in the world, is that those in the country have a pretty clear view of what corruption is, and it doesn't vary much from one country to another. But...be aware that the bribe that you and I mostly recognise – money or 'back-scratching' - is a much nicer variant than the corruption that a Nigerian or a Yemeni sees, which is humiliation, or sexual favours: your legal case may not get put before the judge unless you offer him sex with your virgin sister.

TI is often asked if corruption is 'cultural', and whether we in the west are superimposing a western view of corruption onto the rest of the world. The quick answer is no. TI is in over 100 countries, and all those countries have a remarkably similar understanding of corruption. Our experience is that citizens from many countries rightly get angry when they hear western policy makers talking about how 'they do not wish to impose their views about corruption' on them. Such reverse colonialism is deeply patronising.

TI was the first to create a metric that compared countries. The Corruption Perceptions Index ranks countries from those perceived to be the least corrupt, such as Denmark and New Zealand, down to those perceived as the most corrupt, currently North Korea and Somalia.

Police and security forces are often among the most corrupt

Notice in the chart above how the police are regarded as one of the most corrupt parts of society.

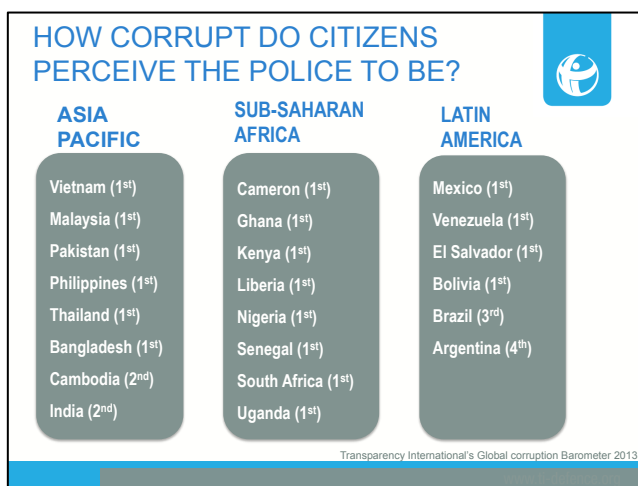
This more detailed extract opposite - from the same TI survey - shows that this is true almost everywhere, with the police viewed as **the** number one corruption issue, except in Western Europe.

The scale is huge: we are not talking about phone hacking and MP’s expenses here. To take just one country example, Mexico:

- Over 90% of crimes go unreported (2012)
- 68% of households believe the police to be ‘extremely corrupt’
- 3600 federal police officers dismissed after vetting
- Entire police force of Veracruz dismissed
- On average, a bribe costs \$12
- Corruption costs 14% of the income of an average Mexican household
- Cost of corruption in 2010 was \$2.5 billion

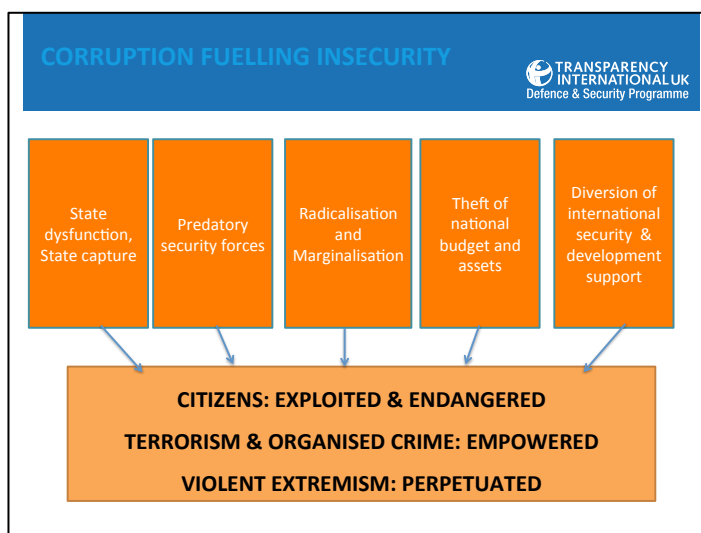
There is a similar narrative in West Africa, where both Interior Ministries and Defence Ministries have been infiltrated by organised crime, so that they can protect the cocaine transshipment routes from Latin America.

Understanding where and how you can/cannot work with local police and security forces is thus essential knowledge.



2. Corruption & insecurity

There are different political environments in which corruption plays a major part in fuelling insecurity. Five common ones are: state dysfunction and/or state capture, predatory security forces, marginalisation and radicalisation through local, elite and ethnic corruption, environments where national budgets are routinely stolen and finally, environments where international support is largely



diverted, subverted or stolen.

Before I talk about terrorism, let me speak to corruption and security assistance. Such defence assistance is a core element of the security policy of numerous countries and organisations. What is not generally appreciated is that such assistance is easily diverted or stolen on the ground.

**CORRUPTION FUELLING INSECURITY:
MALI DIVERSION OF ASSISTANCE**

TRANSPARENCY INTERNATIONAL UK
Defence & Security Programme

“The weakness of the Malian army...came as little surprise to anyone who had been watching the steady erosion of state institutions, largely as a result of widespread corruption.”
Andrew Lebovich, Foreign Policy, March 2013.

“We were focusing our training almost exclusively on tactical or technical matters...We didn't spend probably the requisite time focusing on values, ethics and a military ethos.”
General Carter Ham, Commander AFRICOM, 2013

Mali received US and French defence assistance between 2001 and 2011. As you can see from these two quotes, people on the ground knew full well the weakness of the Malian army, whilst those providing the assistance, despite good intentions, were absolutely not focussed on the corruption threat. We recently finished a study of security assistance to Mali, interviewing the US trainers, the French trainers, the Malian military and Malian civilians. The international trainers were no match for those wishing to divert - and indeed subvert - the assistance, and use it in part to support the

2012 coup. Yet the corruption in Mali has been of concern to counter-terrorist agencies for years, as the Malian leaders cut deals with Al Qaeda in the Mahgreb (AQIM); allowing AQIM to create a safe haven for itself in a large part of Mali.²

This connection between corruption and insecurity is increasingly on the agenda of international security policy-makers. Here for example is a quote from Sarah Sewell, US Under Secretary of State, in December 2014: “The challenge of corruption cuts deeply across the security sector. Countless police turn the other way at checkpoints, and customs officials turn the other way at borders – all in exchange for bribes. This paves the way for drug cartels, terrorists, and other security threats. In the wake of the Westgate attack in Kenya, police arrested and detained suspected Al Shabab terrorists. But according to Human Rights Watch, suspects could quickly buy their release for a bribe of approximately \$100. In this way, corruption can enable local threats that have grave, cross border implications for others around the globe.”³

Unpacking corruption

You cannot do anything useful to prevent counter corruption until you have got a detailed analysis of what you mean by corruption. In our work we have spent years developing exactly such a detailed understanding of corruption in the defence sector, in security forces, in peacekeeping forces, and in conflict environments. This diagram illustrates the 33 specific corruption issues that we think are relevant for police forces, for example.

| SECURITY FORCES – CORRUPTION RISK AREAS | | |
|---|--|--------------------------------------|
| POLITICAL | PERSONNEL | BEHAVIOUR & OPERATIONS |
| DOMESTIC POLICING STRATEGY | LEADERSHIP BEHAVIOUR | EVIDENCE TAMPERING & THEFT |
| ALLOCATION & DISTRIBUTION OF FUNDS | PAYROLL, PROMOTIONS, APPOINTMENTS, REWARDS | SMALL BRIBES |
| POLITICAL INTERFERENCE | SALARY CHAINS | DEGREE OF OPERATION INDEPENDENCE |
| INFLUENCE OF INTEREST GROUPS | VALUES & STANDARDS | 'NOBLE CAUSE' |
| ORGANISED CRIME | CRIMINAL ACTIVITIES | ILLEGAL FINES |
| REACHING PERFORMANCE TARGETS | PERSONAL PROBLEMS (E.G. DRUGS, GAMBLING) | DISCLOSURE OF PRIVILEGED INFORMATION |
| WEAK INDEPENDENT OVERSIGHT | PERSONAL ASSET DECLARATION | INFORMANTS |
| FINANCE | ROTATIONS | DISCRIMINATING BEHAVIOUR |
| ASSET DISPOSALS | PROCUREMENT | EXTORTION |
| INTERNAL AUDIT CONTROL | TECHNICAL REQUIREMENTS/SPECIFICATIONS | OFFICER IDENTIFICATION |
| PRIVATE SECURITY | CONTRACT AWARD, DELIVERY | 'BONDS OF LOYALTY' |
| FACILITATION PAYMENTS | CONFIDENTIAL TENDER | |

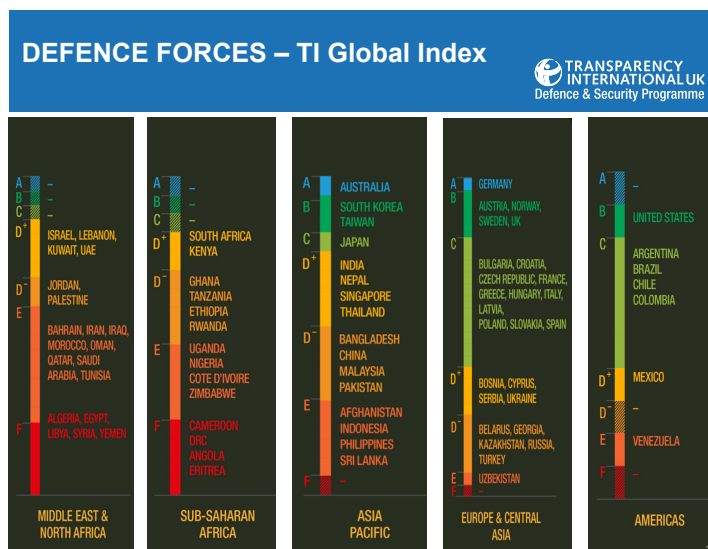
or

² Professor Louise Shelley, “Dirty Entanglements: Corruption, crime and terrorism”, Cambridge University press, 2014; p3.

³ Sarah Sewell, US Undersecretary of State, Speech at Carnegie Endowment for Peace, December 2014.

<http://carnegieendowment.org/2014/12/09/corruption-invisible-enemy>

We have used such typologies regularly in discussions with military and security forces leadership groups. The top risks are always revealing. In Botswana, for example, at the top of their list was organised crime penetration of their military and civilian intelligence services.



Whilst I was at TI, we took this methodology a big step further in 2013, to analyse and publish the evidence for anti-corruption capability in national defence establishments. We compared the material available for 82 countries, using a typology of 29 defence corruption risks and 77 detailed questions. The country results were shown in bands, A for those with extensive evidence for corruption prevention measures, F for those with little or no evidence. Only two countries scored in band A: Australia and Germany. The results are shown opposite. TI is currently updating the analysis, this time for 132 countries, and the results are due towards the end of this year.

Corruption and terrorism

Terrorism flourishes in the environments created by corruption. Not only that, terrorist acts are almost invariably facilitated by corrupt services, from paying to get terrorist groups through checkpoints, to getting terrorist suspects out of prison, to getting western passports for terrorists. This was, for example, the case in the Mumbai attacks of 2008, where two of the Pakistani attackers had US passports, gained from corrupt Liberian police officers.

If you look at the terrorism incidents of the last decade - New York, Madrid, Beslan in Russia, Sao Paulo, Mumbai, and so forth – every one of them was operationally facilitated through corruption.

Increasingly it is common to see the CT and OC agencies working closely together, as they do in the UK and the US. They recognise that the two problems form a continuum.

Yet, so far, corruption is hardly taken into account by the state agencies responsible for counter-terrorism and fighting organised crime. There is only one serious book on this topic to

**CORRUPTION FUELLING INSECURITY
RADICALISATION & TERRORISM**

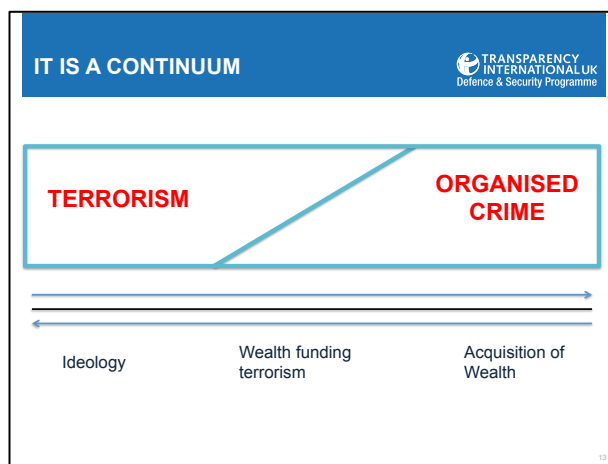
MUMBAI 2008

RECRUITMENT & RADICALISATION

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

CORRUPT SERVICES

Bribes: checkpoints, borders, Licenses, Western Passports



date – Professor Louise Shelley came out in 2014 with “Dirty entanglements: corruption, crime and terrorism”.⁴

There is huge scope for working with CT and OC organisations to strengthen their capabilities in this area; and to work with others who understand how corruption is entangled with terrorism and crime.

3. Corruption – threats and opportunities

Let me now turn to the final part of my talk. I don’t know your businesses, but it seems to me that there are both threats and opportunities:

- i. corruption as a legal and reputational risk for your companies
- ii. corruption as a key dynamic in your operational environment
- iii. corruption expertise as a opportunity

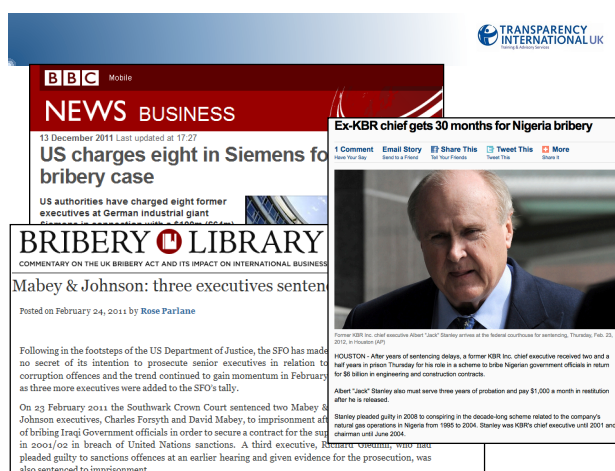
Corruption as a legal and reputational risk

Companies are much more alert than they used to be to these risks. The US has long had the Foreign and Corrupt Practices Act, which can catch any act overseas if the company has any US operations, and the US Dept of Justice has an active prosecution agenda, including of non-domestic companies. The UK now has had good legislation in place, in the form of the Bribery Act, since 2011.

Your lawyers can give you chapter and verse on what the Act requires of you, but, in a nutshell, there are 8 things you need to know about it:

- Applies to any British citizen or “person with a close connection with” the UK
- Covers bribe-paying anywhere in the world
- Covers bribes of any size
- Applies to your company if it has commercial operations in the UK
- Extends to ‘associated persons’
- Personal liability
- Corporate liability
- Director & Officer liability

The heart of it is that you have a good defence if you can show that you have ‘Adequate procedures’ in place. These comprise the following: High-level commitment; Risk assessment; Policies and



⁴ Louise I Shelley, Cambridge University Press, 2014

Procedures; Implementation (e.g. training, communication); Due diligence assessment of partners, agents and contractors; and Monitoring and evaluation.

The part that takes the most time, and therefore money, is the training, as your employees are both the best protection and the greatest vulnerability to corruption. It is they who will uncover and report corruption. It may be they who are the unwitting participants in corruption. Conversely, they may be the colluding or instigating participants in corruption. Your training will set them up to be able to recognise and resist the demands they will receive, or at the least to have the confidence to report them.

You can get help and guidance with developing training and adequate procedures. You can go to your lawyers, or to Transparency international UK, who produce huge amounts of very practical material and who run corporate support groups here in the UK and in many other countries.

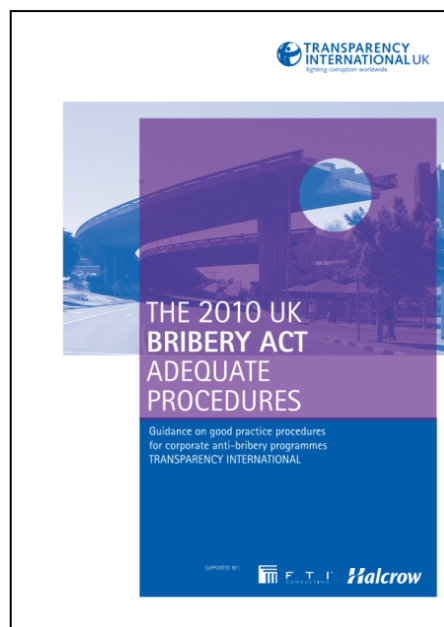
No-one is saying this is easy, or that there won't be times when you have to give in and pay up. The reality is that in some countries your staff are being routinely asked for bribes, but with forethought and planning, you can deflect many of the demands. If you get together with other companies, you can have a more concerted impact. And if you get together both with other companies and the local authorities – who are often surprisingly supportive – then you can protect yourself and your staff even better and develop more long-term solutions.

In many countries, networks of companies have got together to collaborate or to share anti-corruption measures. You may, for example, be familiar with the ‘Maritime Anti-Corruption

Network’⁵, a collective action initiative of some 40 shipping companies, started by Maersk in 2011, which has been working to reduce the bribes required in Nigeria’s ports.

Developing and implementing a company culture of resisting bribes and corruption demands is demanding, but it is not as hard as you might think. I have personally been in the position of receiving and deflecting many bribery requests, ranging from multi-million dollar demands through to end-of-the-month roadblock checks. I have led negotiations with corrupt high-level government officials. But I have also led efforts to resist such demands, and with TI I have led the training of hundreds of such officials in corruption prevention.

And – some good news: among global defence companies, UK defence companies are now getting to be better than many of their competitors in their anti-corruption measures. TI does a comparison of all the world’s defence companies on this topic, and the UK companies come out well.

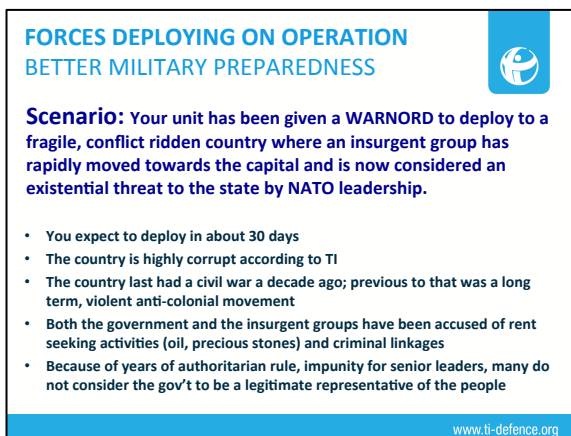


⁵ <http://www.maritime-acn.org/#about>

Corruption in the operating environment

Understanding the corruption dynamics is core to your business; just like you would understand maritime logistics or political risk.

For example, military and peacekeeping forces have recently started to introduce corruption scenarios into their operations exercises. This slide outlines a scenario for US military for a US training operation. NATO has also started to introduce corruption elements into its scenarios, as, for example, in the recent ARCADE FUSION exercises.



**FORCES DEPLOYING ON OPERATION
BETTER MILITARY PREPAREDNESS**

Scenario: Your unit has been given a WARNORD to deploy to a fragile, conflict ridden country where an insurgent group has rapidly moved towards the capital and is now considered an existential threat to the state by NATO leadership.

- You expect to deploy in about 30 days
- The country is highly corrupt according to TI
- The country last had a civil war a decade ago; previous to that was a long term, violent anti-colonial movement
- Both the government and the insurgent groups have been accused of rent seeking activities (oil, precious stones) and criminal linkages
- Because of years of authoritarian rule, impunity for senior leaders, many do not consider the gov't to be a legitimate representative of the people

www.ti-defence.org

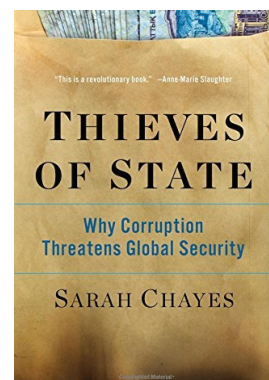
Sitting behind such scenarios are the beginnings of guidance on how you might want to reshape your force structure in order to be better prepared for entering into a highly corrupt environment.



The TI programme has produced various guidance documents for similar groups, like peacekeeping missions and military missions. I encourage you to explore this topic, either in your own interest or possibly as an industry effort at providing guidance for this difficult business environment. The UK defence industry association, ADS, has produced guidance for its members on addressing corruption issues in its normal business environment.⁶

The subject of corruption as a key factor in global insecurity and in terrorism is increasingly becoming mainstream. This book by Sarah Chayes, a senior adviser to Admiral Mike Mullen, the former US Chairman of the Joint Chiefs of Staff, takes you through corruption as a security factor in Afghanistan, Egypt, Nigeria and Tunisia, for example.

This book by Professor Louise Shelley that I have already referred to does something similar for corruption and terrorism, such as the entanglement of Al Shabaab with corrupt country bases and with piracy.⁷



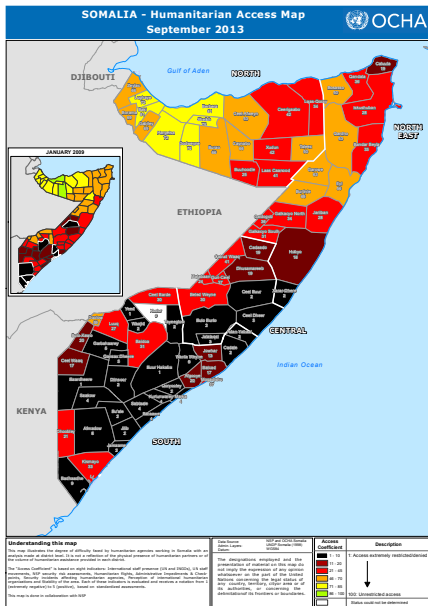
Corruption, terrorism and piracy

The cocktail of corruption, terrorism and piracy is acute in several parts of the world. In the Horn of Africa, 'corruption' is almost the wrong word, as there has been no functioning government for 40 years. There is a new transitional government that is massively corrupt, to the great disappointment of the donors. The networks of patronage had just shifted; new faces but same way of doing business. But, whatever it's called, you still need to work around it and counter it:

- 8 out of every 10 dollars of foreign aid was unaccounted for, 1.75 of them reportedly went into the President's offices.

⁶ <https://www.adsgroup.org.uk/community/dms/docdetails.asp?txtDocPK=5421&m=1&hidedetails=1>

⁷ Jonathan Masters, "al Shabaab," June 23, 2013, <http://www.cfr.org/somalia/al-shabab/p18650>. Quoted in Shelley, *ibid*.



- Piracy is a network reportedly linked to the President. The President set up a counter piracy network which received aid, and in part served as his protection
- UN AMISOM: Reported to be buying protection by warlords from attack and involved corruptly in the charcoal trade to Kenya
- As funding for Somalia increased at the end of 2012 to €2.5 billion and upwards, the number of NGOs increased from 470 to 1700 over the first three months of 2013. Almost all were fake NGOs, set up by sophisticated groups to siphon off the aid money.

On the plus side: UNODC set up its Risk Management Unit in Somalia in 2012...a good example of a multilateral organisation taking an institutional response to corruption risks.

Counter Corruption as an opportunity

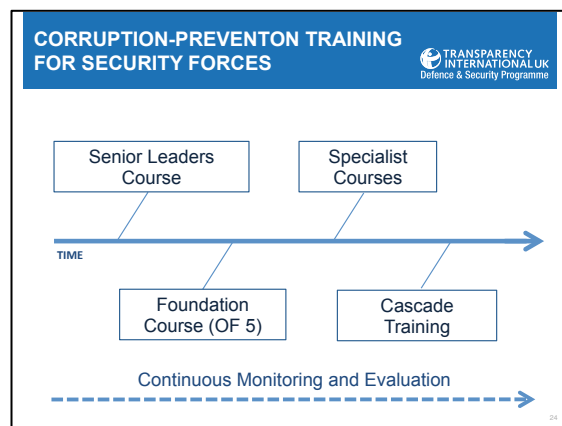
For me, it is a very frustrating fact that there are so few experts worldwide on corruption and corruption prevention in the security space.

The converse is therefore also true, that it has many of the hallmarks of a potential business opportunity: there is scarce expertise. There is huge need, many lives at risk and large sums of money at risk; no known methodologies nor modus operandi for addressing the risks.

Let me give you a partial analogy: forty years ago, the subject of industrial safety was in its infancy. Chief executives, or Managing Directors as they were called then, talked about how important it was; but there was no theory, no process, no training, no deep understanding of how to design a safe offshore platform, or how to operate a safe worksite or how to run a safe logistic supply chain. Now it is a well-recognised business sub-sector and sub-discipline. I recognise it's only a partial analogy – corruption is also about politics, power and hardware such as anti-piracy vessels – as well as about professional competences; but nonetheless, private sector companies can be offering a lot.

To take one small example: At TI we pioneered training courses for security officers and officials in fragile nations. The courses are good, popular, and in demand with nations and donors. They could be hugely expanded, if there was trainer capability to do so.

To quote US Under Secretary Sarah Sewell again: "We are working to deepen our partnerships, inside and outside government.....as we work to boost anti- corruption programming funds at State and USAID, we are exploring how to increase collaboration with the private sector and multilateral development banks to expand our impact."



I encourage you to build your capability in the analysis of corruption dynamics, expertise in illicit maritime funds flows, in understanding corruption in security and border forces in those nations you

are working with, in understanding how prosecution and prisons can be affected by corruption⁸, in developing ways to work with civil society in the region, and on ways in which local civil society themselves may be able to monitor piracy activity.

Last words

Ladies and Gentlemen, corruption and corruption prevention is a funny subject. It crosses all sorts of professional and functional boundaries. It seems to range incomprehensibly from the trivial - \$20 to get your phone connected a little quicker - to massive state-sanctioned larceny of Nigeria's oil riches. However, once you see corruption working in some detail, and you see how the small corruption is often just part of a chain through to the larger corruption, your concept of how your operating environment works changes almost overnight.

The people you are working with, in tough countries like Somalia or Lebanon or Burundi, are likely to be corrupt, because they cannot survive otherwise; but they do not like the system that they have to live by, and will go quite some distance with you to help individual parts of it work better. They are very sensitive as to whether you are coming with that quasi-colonial attitude, or with something more constructive.

Similarly, there is good evidence for optimism that progress against corruption can be made at both the macro and the micro level. There are many good examples of success: whole countries that have hugely reduced corruption, starting from a low base – like Poland, Georgia and Botswana – and also examples of small parts of highly corrupt countries where they manage to operate a largely corruption-free micro-environment – like the Pakistani traffic police, and some Russian towns. There are businesses that have been able to develop relatively clean business environments through collective action or strong anti-corruption programmes, like the extractive industries.

Finally, a few last words, that I hope will show that this subject is much bigger than just this talk from me today:

From John Githingo, the former Permanent Secretary for Governance in Kenya, whose discoveries of the deep and continuing corruption of the Kenyan government forced him to flee the country in 2009: **"Corruption – systemic graft – is at the heart of the state's inability to respond to insecurity in general."**

From an Afghan Brigadier General, participating in counter-corruption training for the Afghan National Army leadership in Kabul, organised by Transparency International: **" At last, a chance to heal this terrible wound".**

And from the Interpol Counter Terrorism Director for Central and South Asia: **"Yes, yes, yes! Understanding corruption is central to countering terrorism."**

Thank you very much.

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⁸ <https://www.gov.uk/government/speeches/international-action-against-piracy>