



TRANSPARENCY
INTERNATIONAL
Defence & Security

THE FIFTH COLUMN

UNDERSTANDING THE
RELATIONSHIP BETWEEN
CORRUPTION AND CONFLICT

Transparency International (TI) is the world's leading non-governmental anti-corruption organisation. With more than 100 chapters worldwide, TI has extensive global expertise and understanding of corruption.

Transparency International Defence and Security (TI-DS) works to reduce corruption in defence and security worldwide.

A fifth column is any group of people who undermine a larger group from within, usually in favour of an enemy group or nation. The activities of a fifth column can be overt or clandestine.

Transparency International – Defence and Security is grateful to reviewers for their feedback on different parts of the report. Thanks are due to:

Kate Bateman, Centre for a New American Security
Sarah Chayes, Carnegie Endowment for International Peace
Laurence Cockroft, Transparency International
Åse Gilje Østensen, Christian Michelsen Institute
Nancy Hite-Rubin, Fletcher School of International Relations, Tufts University
Mara Revkin, Yale University
Susan Rose-Ackerman, Yale Law School
Stanislav Secieru
Robert Springborg, Italian Institute of International Affairs
Arne Strand, Christian Michelsen Institute
Frank Vogl, Transparency International

All remaining errors and omissions are ours.

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Published July 2017.

ISBN: 978-1-910778-71-5

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Transparency International UK's registered charity number is 1112842.

The Fifth Column

Understanding the relationship between corruption and conflict

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Corruption: what's in a name?

Transparency International defines corruption as the 'abuse of entrusted power for private gain'. This definition includes an element of subversion, or illegitimate use of resources meant for a particular purpose to further another goal. It involves a benefit that should not have been obtained, as well as harm to someone who was entitled to a benefit they did not receive. When applied to the public sector, it entails expectations and norms being flouted due to misuse of a public (usually state) system for a private (individual or group) benefit, rather than public, good. If repeated regularly, it leads to the degradation of a system meant to benefit the public into one that benefits certain groups to the detriment of others.

Corrupt practices include:

- Bribery, most readily identified as a form of corruption
- Nepotism and favouritism in hiring and promotions
- Embezzlement of (state) funds
- Extortion
- Electoral fraud

The scale of corruption

- Petty: low-level bribery and influence peddling
- Grand: affecting institutional processes such as procurement
- Kleptocracy/state capture: repurposing of entire state apparatus for personal or group enrichment.

Corruption and international security: the big picture

Corruption has been a staple of development debates and a key consideration for aid programmes since the mid-1990s.¹ Its corrosive effects are well-documented; researchers and policymakers have experimented to better understand and mitigate the impact.

But aside from some hand-wringing about unsuccessful interventions in Afghanistan and Iraq, the links between corruption and international insecurity have not secured the attention they deserve. We know now that corruption prevents inclusive economic growth, diverts aid, and weakens governance. But what of its impact on security?

At the end of the last century, the Western foreign policy consensus was that increases in global wealth, a more interconnected world, and ever greater levels of citizen participation in democratic economies would drive international politics towards a more just, open, and prosperous global order. But the assumed progress towards democratic peace has been stymied by an unexpected foe: systemic corruption.

Globalisation and the development of transnational financial services have enabled well-organised, corrupt governments to hide funds gained through corruption, and to extract resources from their populations on a grand scale. Populations that pushed for democracy in post-colonial states have been disenfranchised through the establishment of kleptocratic regimes that operate the state apparatus entirely in that regime's interest. From China and Pakistan to Egypt and Myanmar, small groups of elites have diverted state resources and controlled the institutions of the state for their personal enrichment and to retain power over their populations. This not only leads to the suffering of billions of people worldwide, but also - as these corrupt elites at the top of state institutions influence global politics and security - threatens the foundations of the rules-based global order.

The ability of individuals and narrow interest groups to extract and hide wealth and to shape state decisions also breeds grievances and resentment. Disillusionment and distrust in government institutions bolster the ranks of non-state actors, from organised crime groups to terrorist organisations, while the growth of unchecked power can be a catalyst for civil unrest and regional conflict, often with global implications. As the Arab Spring and Euro-Maidan protests have shown, corruption on a grand scale creates inherently unstable states that - even if they have the appearance of stability and wealth - run the long-term risk of conflict and violent regime change, which in turn can create regional security problems.

In countless cases, corruption has been at the root of states' failure to respond to insecurity and international actors' inability to assist them. In Kenya, former anti-corruption adviser John Githongo has highlighted the role of systematic graft in undermining Kenya's ability to react to insecurity, and in facilitating Al-Shabaab attacks in 2014.² And some policymakers are beginning to recognise that two of the longest and bloodiest wars of the 21st century - in Iraq and Afghanistan - have been lost largely due to corruption. Generals from Stanley McChrystal to David Petraeus, as well as analysts puzzled by the spectacular fall of the Iraqi city of Mosul to ISIS in 2014, have all cited corruption to explain the failure of stabilisation missions and capacity building efforts.³ Sarah Chayes, a former adviser to two commanders of the International Security Assistance Force in Afghanistan, has argued that corruption was the major culprit behind rising insecurity, creating grievances, hollowing out state institutions, and serving as fodder for extremist recruitment.⁴ Former US Secretary of State John Kerry, meanwhile, urged governments to make corruption a 'first-order, national security priority,' calling it a 'social danger', 'radicaliser', and 'opportunity destroyer.'⁵

And yet, fighting corruption is rarely on mainstream foreign and security policy agendas. Security assistance continues to flow to places like Saudi Arabia and Egypt, with few questions asked about how power and wealth are governed.⁶ Stabilisation missions continue to focus on making their partner security forces battle-ready, without considering whether those forces are acting in the public interest. John Sopko, the US Special Inspector General monitoring the use of reconstruction funds in Afghanistan, lamented last year that despite a decade and a half of experience, the United States has not yet formulated a comprehensive strategy for mitigating the impact of corruption in the country.⁷

Corruption helps create the conditions for conflict to thrive. It perpetuates poverty, inequality and injustice, wastes funds that could be spent on development and human security, and facilitates the operations of extremist groups and organised crime syndicates. The legacy of corruption can squander peace settlements, as elite networks born in conflict jostle for political and economic control. Corruption – and the secrecy that enables it – can contribute to competition between states, leading to arms races, as well as facilitating nuclear proliferation. In some cases, corruption has been used as a foreign policy weapon to undermine national sovereignty and the security of states that others wish to control. Even in those countries where corruption doesn't visibly affect day-to-day life, financial systems and interventions can enable and encourage corrupt practices, with knock-on effects to their security and internal legitimacy.

Corruption in some sectors, especially in defence and security institutions, has an especially pernicious effect on human, state, and international security. In some cases, the effects of corruption are immediately visible, with predatory security forces abusing the populations they were set up to protect. In other cases, the secretive nature of the sector hides the effects of corruption until a crisis reveals them. In either case, when military structures have been damaged by corruption, they are incapable of responding to insecurity and violence. When a military fails, it fails spectacularly: predatory, hollowed-out forces create the space for the likes of Boko Haram, ISIS, and organised crime groups to thrive. The consequences of these forces failing are too big to be ignored by either the security or the development community: if peace and security are to take hold and create conditions for development, defence and security corruption – especially in fragile and conflict-affected states – must be a priority for both.

“If we'd been able to reform the defence forces – turn them into institutions that people trusted – maybe the Houthis wouldn't have had so much success, so quickly, and been able to reverse the progress we were starting to make after the revolution. But the people didn't trust the government, it was too corrupt, and they didn't believe that the security forces were there to protect them. If we had been able to change that, Yemen wouldn't witness this crisis.”

Saif Al Hadi, TI Yemen

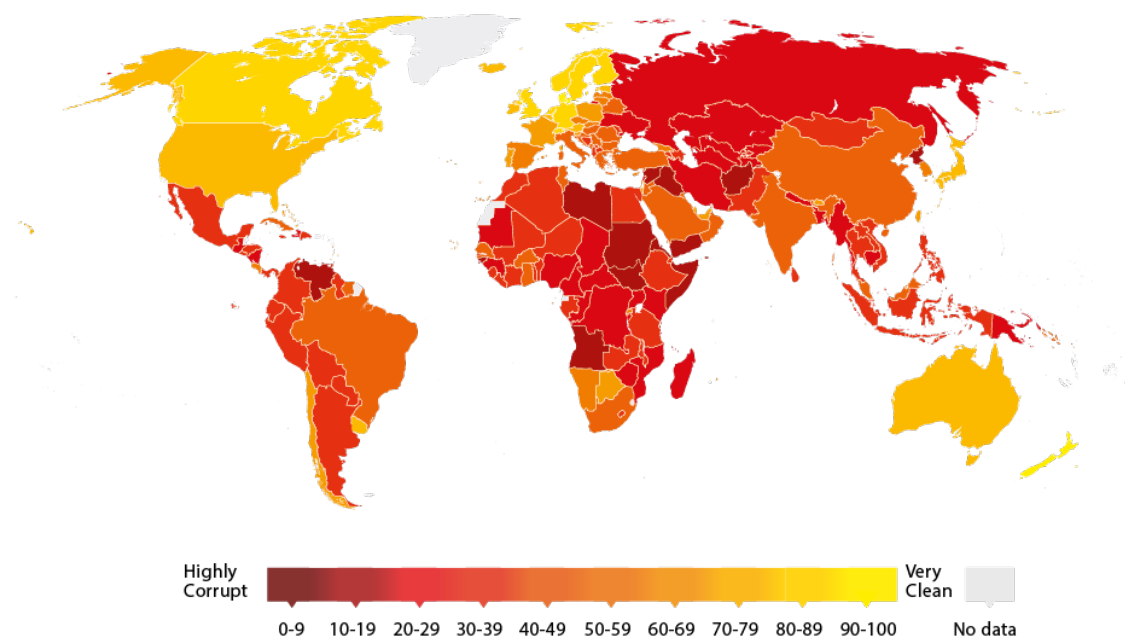
About this report

Combining an analysis of primary sources, interviews with academics and former policymakers, and an extensive literature review, this report begins to map the ways that corruption threatens international security and contributes to conflict. We review quantitative evidence supporting a linkage between corruption and conflict, but our predominant focus is on case studies and examples that illustrate specific corruption risks and pathways affecting international security.⁸ We do not, however, offer an exhaustive analysis of the factors leading to conflict in particular cases included in this report; rather, we trace the role that corruption can play in each case. Our focus is on the public rather than private sector. We analyse how corruption - especially state capture - feeds into *conflict in fragile states* by helping create environments more likely to see strife (from violent protests to civil wars) break out, and by facilitating the *operations of violent extremist groups*. We look at the impact of corruption on defence and security institutions, making them less responsive to their populations and less effective in addressing real security concerns, which can contribute to the outbreak, longer duration, and recurrence of conflict. We examine how corruption can squander the opportunities created by peace settlements and *undermine the fragile post-conflict peace*, especially in the longer term. Here, we draw attention to the nexus between corruption and organised crime, a frequent legacy of conflict. The links between corruption and organised crime can undermine human security and lead to state capture, and their reach is wider than the scope of this report.

Two sections flag less-researched aspects of the corruption-insecurity nexus which can affect any state, but especially those middle-income countries seeking to expand their influence or resist the influence of others: the intersection between *corruption, arms races, and nuclear proliferation*, and the strategic use of *corruption as a foreign policy weapon* to undermine national sovereignty and security. In these cases in particular, investment in more research and analysis is needed: available literature does not allow for a comprehensive assessment of risks that corruption can pose to, for instance, non-proliferation initiatives. Finally, the report brings together insights on the *role of international actors* – particularly developed states and their financial systems - in checking and spreading corrupt practices as they engage in fragile states or attempt to support peace processes.

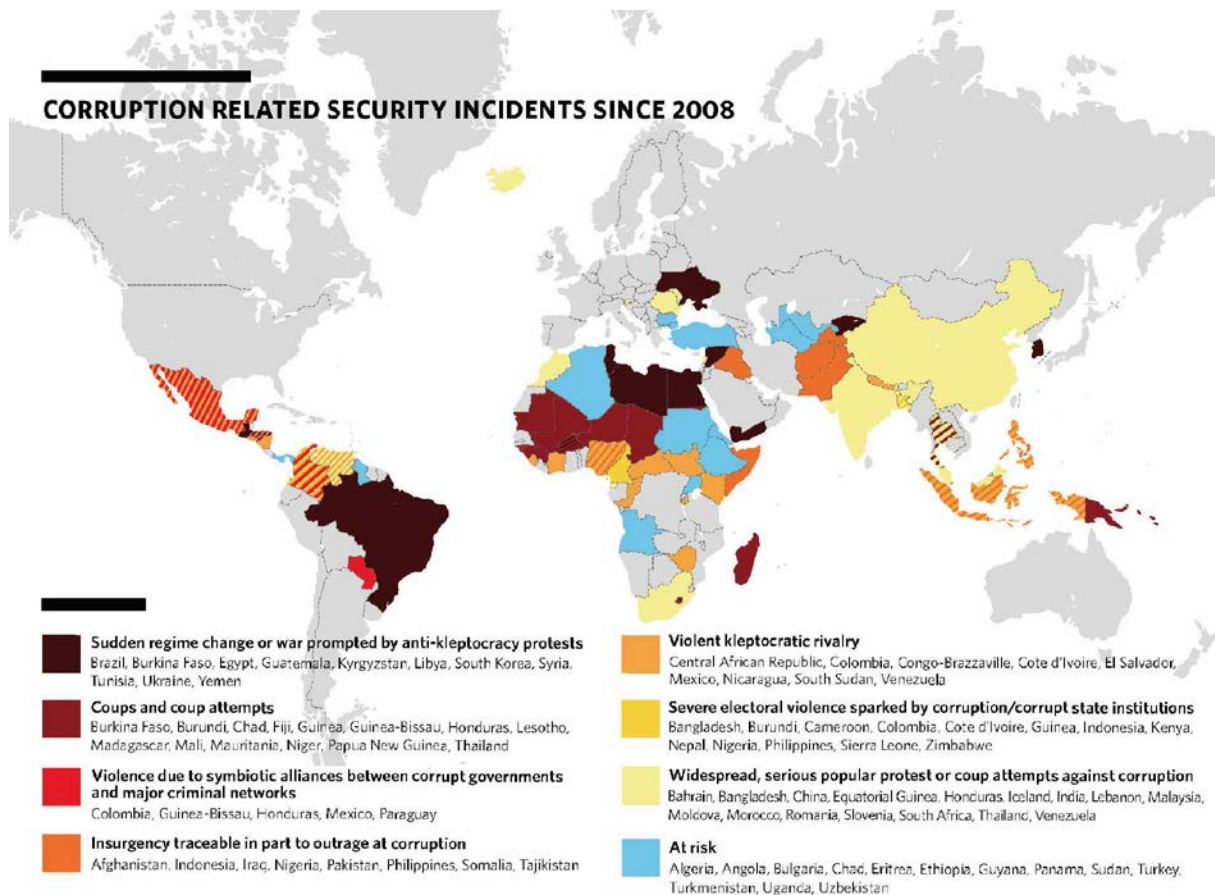
Corruption, fragility and conflict: an empirical link

Corruption affects every single country on the planet. In more than 120 of the 176 countries surveyed in the 2016 Corruption Perceptions Index (CPI), corruption is perceived to be a significant problem. In the lowest-scoring countries, citizens frequently contend with poor quality public services, with access frequently depending on bribes. Even at the opposite end of the CPI spectrum, public integrity is undermined by illicit financial flows and deep rooted conflicts of interest.⁹



Source: [Corruption Perceptions Index, Transparency International 2016](#)

Corruption and conflict are frequent bedfellows: 7 out of the 10 lowest-scoring countries in the 2016 Corruption Perceptions Index were also among 10 least peaceful countries in the 2017 Global Peace Index.¹⁰ Existing literature reflects a broad agreement that corruption and conflict tend to occur together; corruption and political instability, for instance, are correlated, and states dominated by narrow patronage systems are more susceptible to instability.¹¹ Between 2008 and 2016, corruption-related violent incidents (from demonstrations against corruption to regime change and full-blown civil wars) where corruption was at least a contributing factor-occurred in over 20 countries, including Burundi, Egypt, Honduras, Kyrgyzstan, Libya, Mexico, Nigeria, Tunisia, Ukraine, Venezuela, and Yemen.



Source: Carnegie Endowment for International Peace, 2017

But correlation is not necessarily causation: so does corruption cause conflict, or is it a legacy of conflict? Some argue that corruption and conflict are co-dependent and caused by similar factors. Others contend that increased corruption levels tend to follow conflict due to a social legacy of distrust, weakened institutions, and wartime economies.¹² But the evidence – both case study-based and statistical – suggests that the relationship runs the other way as well, with high corruption levels contributing to violent incidents and the outbreak of conflict.

Analyst Sarah Chayes has argued persuasively that corruption has been a root cause of the Arab Spring protests and regime changes, as well as the rise of violent extremist groups such as the Taliban and Boko Haram. Systemic corruption, repurposing the functions of state for the benefit of narrow elites, helped create conditions that brewed discontent, including declining economic opportunities for the many. Conspicuous displays of stolen wealth by corrupt leaders also provided the spark that eventually ignited the protests.¹³

Large-scale analysis conducted by the Institute of Economics and Peace (IEP) suggests that not only is there a relationship between corruption and conflict, but that there is a 'tipping point', beyond which any increase (even small) in perceived corruption levels results in an increased risk of internal conflict and violence. Once a country crosses the 'tipping point' – around the CPI score of 40 out of 100 points - it sees an increase in indicators of conflict, including political terror and instability, violent crime, organised conflict, and access to small arms and light weapons. The relationship between corruption and worsening indicators of peace appears to be one-directional: while levels of corruption seem to affect peace, positive changes in peace indicators do not show an equally strong impact on corruption levels.¹⁴

The World Bank has also concluded that corruption can fuel conflict. The Bank's 2011 *World Development Report* cited two factors: the way corruption adds to popular grievances (such as political and economic exclusion, human right abuses, or access to justice systems) and the diminished effectiveness and legitimacy of national institutions and social norms.¹⁵ These two factors effectively explain why high corruption levels are associated with higher levels of state fragility and lower resilience.* Out of the 15 states at the bottom of the 2016 Corruption Perception Index, a third are at 'very high alert' for fragility, with others classified at only slightly lower levels of risk. Fragility, in turn, is associated with higher risk of civil war: the World Bank's tracking of 17 states which were classified as 'fragile' between 1977 and 2009 showed that 14 of them were affected by major civil wars and two struggled with minor incidences of conflict. Highly fragile states are less able to withstand challenges, survive crises and address the factors that precipitate them.¹⁶

Institutional fragility is particularly dangerous when it affects institutions responsible for security and access to justice. In countries at or around the 'tipping point', corruption tends to affect most corners of the public and private sectors, but the IEP analysis identifies two sectors of crucial importance: the police and judiciary. Corruption in the police and the judiciary appears to have the most statistically significant relationship with indicators of peace, as the level of perceived corruption in the police and the courts is tightly correlated to incidences of political terrorism, organised conflict, access to small arms, high criminality, and violent demonstrations.¹⁷ When corruption exists in the very sectors that should ensure access to justice, it becomes difficult for citizens to gain redress of injustices through state channels, and high levels of police corruption push citizens toward alternatives.¹⁸

The 'tipping point' countries also tend to have weak controls over their defence sectors, raising corruption risk in the armed forces. According to recent Transparency International research, 23 out of 24 African countries classified as being at the tipping point in 2014 also face very high or critical levels of corruption risk in their defence sectors, caused by ineffective or absent oversight mechanisms, gaps in internal procedures, and – in some cases –the repurposing of the military to facilitate the flow of resources to elites.¹⁹ With little information available on the allocation of resources in defence institutions and a high likelihood of ineffectiveness and waste, it is unlikely that defence forces will be capable of responding to insecurity or protecting the population, should the country tip into conflict.

The research thus strongly suggests that corruption does contribute to conflict and can provide the spark needed to ignite violence. Some experts, however, have argued that corruption can also have a stabilising impact in fragile states, and either prevent or help end conflict by offering parties access to state resources.²⁰ Hanne Fjelde, for example, has concluded that higher levels of corruption have helped mitigate the potentially negative impact of oil (usually associated with higher risk of civil war), enabling-ruling elites to buy stability by using natural resource rents to consolidate patronage networks.²¹

*State fragility is defined as a higher exposure to risk combined with lower capacity to mitigate it.

The argument and evidence is convincing, but only up to a point. Rentier systems enjoy a precarious stability which only works as long as the resource rents and demand for payoffs remain constant. Changes in national or international conditions, including economic shocks, can quickly compound the risks of conflict in territories controlled by corrupt regimes – fragile institutions dependent on personal links are rarely able to absorb a big change in conditions that affect them.²² In the early years after independence in South Sudan, the ruling elite diverted oil revenues for private enrichment and to fund patronage networks through defence sector expenditures: a bloated military budget constituting almost 35% of government spending in 2012 was used to pay the salaries of 230,000 soldiers and militia members belonging to various patronage networks. For a few years, the system worked; loyalty was bought and violence kept in check. But in 2012, increasing prices of loyalty, a spat with the Sudanese government over the use of oil infrastructure, and a global decline in oil prices led to decreasing production and lower revenues, diminishing the ability of President Salva Kiir's government to buy the loyalty of its opponents. Unable to pay, Kiir resorted to dismissing his opponents; within a year civil war and a humanitarian crisis engulfed the country.²³

The following section explores in more detail how corruption can create or exacerbate the conditions leading to conflict and violence. We focus first on the links between corruption and other structural issues which have been shown to raise the risk of conflict and civil war – currently the most destructive type of conflict. We then show that corruption in the defence and security sectors can be particularly detrimental to peace and stability, and discuss the implications of conspicuous corruption for setting off violent confrontations, igniting wider conflicts, and fuelling the rise of terrorist groups.

Creating conflict environments: state capture, poverty and inequality

Of course, not every case of corruption inevitably leads to conflict and rarely is corruption the only cause. But corruption does create and exacerbate the impact of many other critical factors that contribute to a country's vulnerability to conflict and insecurity, such as poverty, weak governance over natural resources, and horizontal and vertical inequality.²⁴ In short, corruption is frequently an important ingredient of a combustible cocktail of factors that make a state conducive to violent conflict. This is especially the case where corruption is used by kleptocratic elites to extract maximum resources from the state for private benefit rather than ensuring the delivery of public services, and where perceptions of corruption, inequality and injustice run high.

Corruption, poverty and inequality

In the course of the 20th century, civil wars have become the most frequently occurring and costly violent conflicts: an average 7-year civil war reduces incomes by up to 15% and destroys social capital, hampering development and increasing instability in neighbouring states.²⁵ Many experts have identified acute poverty as a significant contributing factor. Poverty – or the failure of economic development - creates fertile ground for grievances, diminishes the capacity of individuals and communities to manage competing priorities, and fuels violent clashes based on other markers of belonging, such as ethnicity.²⁶

This relationship between poverty and conflict taken on its own makes corruption an important underlying factor. Corruption exacerbates the many and varied causes of poverty and poor development. Low incidence of corruption is associated with higher levels of human development, while increases in corruption levels are statistically correlated with lower GDP per capita and higher inequality.²⁷ Estimates point to a lowering of GDP by \$425 per capita or a dampening of growth rates by about 0.7% with every 1 point increase on the Corruption Perceptions Index scale.²⁸ The United Nations has suggested that the combined loss from corruption, theft and tax evasion in developing countries was about US \$1.26 trillion per year – an amount of money sufficient to lift those living on less than \$1.25 a day above that for a minimum of six years.²⁹

Corruption also weakens institutions crucial to providing vital services, including health and welfare. Systems hollowed out by corruption are much less able to handle crises such as epidemics, for example, which in turn exacerbates their impact on the populations: the death toll rises and in the long term, development and income levels dip further.

High levels of corruption are associated not only with increased poverty, but with its distribution in societies too: the higher the level of corruption, the higher the level of inequality.³⁰ This is particularly the case where corruption takes the form of systemic patronage and nepotism, along ethnic or religious lines, and can result in the formation of large horizontal inequalities.

Inequalities - vertical, between individuals and households, and horizontal, between particular groups - have long been associated with a higher risk of conflict.³¹ The evidence concerning vertical inequality is mixed, and research on how and under what conditions it translates into violence is incomplete. But large horizontal inequalities - systematic differences in resource distribution that align with group identity rather than merit, profession, or social position – are statistically significant.³² Horizontal inequalities can aid group mobilisation based on other markers of identification and belonging, such as culture and ethnicity.³³ Unequal resource distribution can manifest in a number of ways, including the exclusion of certain groups from the political system and economic opportunities, and privileged access for others.³⁴

“What is highly explosive is ... ‘horizontal’ inequality: when power and resources are unequally distributed between groups that are also differentiated in other ways – for instance by race, religion or language.”³⁵

Kofi Annan, former UN Secretary General

The impact of corruption-induced inequalities is particularly incendiary when accompanied by a strong perception of unfairness.³⁶ This is borne out by the analysis of the Arab Spring protests in the next section, in which perceptions of acute vertical inequality, with corruption at the source, combined with a sense of humiliation wrought by corrupt systems. Corruption in this case is more than institutional weakness, a lack of capacity, or a drag on economic growth. Rather, it is a political arrangement enabling elites to steal national wealth.

State capture, grand corruption and public spending

Kleptocracies – governments that enrich the ruling few at the expense of the many – create fundamentally unstable societies which are, over the long term, much more likely to see conflict and instability. Grand corruption and its most extreme form – state capture – occur where elites steer spending in a way that repurposes state resources for the benefit of a kleptocratic core at the expense of the broader population. Grand corruption and state capture mean that elites redirect public spending from sectors which benefit the population to those where opportunities for graft and kickbacks are greatest. They can extract natural resource rents to the detriment of the population’s well-being, turn defence and security forces into predators either by repurposing them for wealth extraction or neglecting them entirely, and steer spending towards large, but not always beneficial infrastructure projects that provide opportunities for large kickbacks.³⁷ As a result, a toxic combination of poverty, inequality (real and perceived) and conspicuous corruption only needs a spark to set off the crisis.

The harm done by kleptocratic governments goes well beyond money that may be siphoned off in kickbacks and bribes; the real loss is the public revenue that is diverted towards activities that produce these kickbacks. The consequences tend to affect the areas of public expenditure that matter most to the majority of people. The health sector, along with education, suffers the most from resource shortages precipitated by kleptocracies.³⁸ By pocketing public funds, kleptocratic governments lock countries in a cycle of low economic growth and low levels of human security, as well as driving widespread disillusionment with the state.

One sector that appears particularly attractive for kleptocrats wishing to hide kickbacks is defence, often a significant, if not the single largest, area of government expenditure in many countries that suffer high levels of corruption.³⁹ ‘National security’ justifications can enable ruling elites to steer contracts toward patronage networks, redirect kickbacks to political campaign financing, or simply pocket government budgets without scrutiny.

In South Sudan, a bloated defence force financed by an unaccountable budget was used to buy the loyalty of various factions – but at the cost of other government departments, whose budgets were raided and resources redirected to the defence sector. In 2012, when defence and security expenditure constituted 35% of South Sudan’s budget, donors funded 75% of South Sudan’s health sector.⁴⁰ South Sudan’s national security apparatus also routinely overspent its budget: in the first quarter of 2015, the Ministry of Defence overspent by 150%, and the Veterans Affairs department by 113%. This money came from other government agencies, meaning that the War Widows and Orphans Commission received only 5% of its funding, the Human Rights Commission only 29%, and the Ministry of Agriculture and Forestry 56% of promised funding.⁴¹

The opportunity cost can be huge. The global defence sector is worth just under \$1.7 trillion a year and constitutes a significant portion of most countries' national budgets, diverting resources away from other vital public spending priorities.⁴² It happens disproportionately in countries where development is most needed, or inequality is most acute; nearly half of African states spend over 5% of their budgets on defence, with 7 countries spending over 10%. In total, over a third of global military expenditure is by countries with zero meaningful budget transparency.⁴³

Militaries in the economy and politics

The impact of a corrupt and unaccountable defence and security sector does not end at wasteful budgetary appropriations; in some cases, it shapes the entire political and economic situation of the country, usually to its detriment. This is particularly the case where the armed forces become intertwined with the country's economy, either due to a privileged political position or – on the other side of the spectrum – due to the lack of accountable budgetary allocations that would secure the basic needs of defence institutions. Kleptocratic regimes tend either to rely on security forces, repurposed to extract wealth and protect political influence of the ruling elite, or hollow them out through inadequate policy, funding, or oversight. In both cases, the results are parlous. Predatory security forces left to their own devices create insecurity instead of creating conditions for increased security, while unaccountable militaries dominating the economic life of the country stymie growth and development.⁴⁴

The armed forces of the Democratic Republic of the Congo are perhaps one of the most egregious examples of the latter. Attempting to save money, while heading off potential threats to its rule, the Congolese government regularly and consciously withheld salary payments from the military. Commanders' behaviour compounded the effect. A recent study found that commanders used 'loyalty tests' - or strategic non-payments - to determine the loyalty of the specific individuals.⁴⁵ As a result, only 40% of soldiers consistently received wages over a given six-month period, on average missing 1.59 months of their salary. Those that choose not to defect have engaged in exploitation of natural resources, extortion, bribery, or violence against civilian populations as a means to survive.⁴⁶ According to one study, military actors deployed near mines have extorted approximately 50% of miners' income through illegal means.⁴⁷ The army's reported interference in at least 265 mining sites in 2013 meant handsome benefits with near total impunity.⁴⁸

“You have guns, you don't need a salary.”⁴⁹

Mobutu Sese Seko
DRC President, 1965-1997

Similarly, in Myanmar, the armed forces - which are outside of civilian control and are expected to raise their own income - have instituted informal taxes on the population, extracted natural resources, and taken over two major commercial enterprises (the Union of Myanmar Economic Holdings Ltd. and the Myanmar Economic Corporation).⁵⁰ There is evidence that the military has been involved in unpaid forced labour, conscription of children, and the use of white phosphorus to force farmers to make way for military-run extractive operations. The Army has also been accused of brutality, deliberate arson, and the indiscriminate killing of civilians belonging to the Muslim Rohingya minority, thereby exacerbating the existing ethnic conflict.⁵¹

“[W]e find the principal drivers of political violence are rooted not in poverty, but in experiences of injustice: discrimination, corruption and abuse by security forces. For many youth, narratives of grievance are animated by the shortcomings of the state itself, which is weak, venal or violent. Or all three. Young people take up the gun not because they are poor, but because they are angry.”

Mercy Corps, 2015

In some cases, however, the impact of corruption and weak governance of the defence and security sector has been less overt – though no less harmful in the long term. The Egyptian Armed Forces (EAF), for instance, have been closely intertwined with the Egyptian governments since 1956, using their position of trust and influence to become a dominant force in the country’s economy, running businesses from the Suez Canal to hotels. These businesses have been supported by tax breaks, preferential access to major government contracts, conscript labour, and secretive bank accounts.⁵²

The Pakistani Armed Forces have similarly been able to construct a veritable business empire, with companies and foundations related to the military – including the Army Welfare Trust, the Shaheen Foundation, the Fauji Foundation, and the Frontier Works Organisation – involved in manufacturing, land ownership, banking and smaller trade through 96 smaller companies.⁵³ While the stated purpose of the military’s involvement in the economy is to provide welfare and services for both soldiers and civilians, this has been difficult to confirm or quantify due to the opaque arrangements surrounding military economic activity. Writing in 2007, one researcher has found that some military commercial enterprises have had preferential access to state assets and non-transparent financing, and that overall, the involvement of the military in the Pakistani economy has created a system shaped by institutions akin to cartels and distorted by the military’s privileged access to resources and ability to funnel them into even poorly performing enterprises.

Militaries in systems like Pakistan garner significant popular support, especially when they are well-disciplined and appear to be delivering some public value, such as building visible infrastructure. But the near-monopolies these militaries hold on some sectors stifles competition and poses significant opportunity costs for their populations and Egypt and Pakistan’s development. Widespread patronage in appointments to these institutions’ governing bodies – bringing together military and political elites – has helped maintain regimes supported by diversion of public resources and geared toward extracting maximum wealth for the elite.⁵⁴ These are structural factors that can lead to public frustration, anger, and revolution.

Lighting the touch paper: conspicuous corruption

The events of the Arab Spring illustrate the significance of corruption in fueling conflict. In particular, the outbreak of the protests testifies to the importance of perceived, conspicuous corruption redirecting wealth and privilege to some and resulting in humiliation for many.⁵⁵ In Tunisia, for instance, economic growth just before the Arab Spring did not go hand-in-hand with perceptions of improving standards of living. Tunisians' satisfaction with basic services provided by the government and the ease of operation for small businesses dropped in 2009-2010.⁵⁶

Systemic corruption, which is frequently excluded from the economic indicators used to analyse countries' economic situation, underpinned the difficulties individual entrepreneurs faced.⁵⁷ Laws and procedures limited entry opportunities for new firms, especially in sectors where performance was related to government licensing and cooperation (including transport, education, and the media). As a result, profits from lucrative sectors were redirected to select companies operated by the extended family and political allies of Tunisian dictator Ben Ali. Tunisia's ruling elite also used public banks to assist selected firms; subverted public procurement procedures to favour elite-owned companies; and selectively applied tax and customs laws to disadvantage competition from companies not related to the government.⁵⁸ As a result of wholesale capture and subversion of state institutions, 10% of Tunisia's private sector profits flowed to 10 companies connected to Ben Ali and large sectors of the economy were *de facto* closed off to most of the country's population.⁵⁹

Systemic state capture came with the arbitrary enforcement of laws and regulations, resulting in unpredictability, injustice, and humiliation. A widely quoted anecdote recounts a respected private school being forced to close to free up space for a competitor owned by Leila Ben Ali, the dictator's second wife.⁶⁰ And of course it was the repeated extortion and humiliation faced by fruit vendor Mohammed Bouazizi that eventually led him to self-immolate in protest, sparking the uprising.⁶¹

Similar grievances affected Egypt, where the government of Hosni Mubarak was widely accused of subverting state structures to enrich a few top officials and their families. Mubarak's 'stationary bandits' were able to use the machinery of the state to amass vast personal and family wealth, while stifling the economic and human development of the country.⁶² The sale of much of the state-owned enterprise sector in the mid-2000s, combined with corruption on an unprecedented scale and a set of economic policies benefitting a core pro-Mubarak faction of the Egyptian elite, and exacerbated inequality between the rich and poor.⁶³ While GDP grew at an average rate of 6% between 2005 and 2008, in 2006 nearly 62% of Egyptians had to survive on less than \$2 a day and youth unemployment soared.⁶⁴

“The Mubarak era will be known as the era of thieves...his official business is the looting of public money...we find that the super-corrupt, ultra-delinquents have attained state posts.”⁶⁵

Mohammed Ghanam
Former head of an MOI investigative Unit, Egypt

Assessments of the overall amount of public resources stolen by the corrupt in the MENA region – which could otherwise have benefitted populations – is staggering, ranging from \$200 billion USD for Libyan dictator Muammar Gaddafi to \$700 billion USD for Egypt's Hosni Mubarak.⁶⁶ The systematic appropriation of wealth and the 'visible, daily contrast' between poverty experienced by most and the ostentatious wealth of a tiny elite was the spark that set off the conflagration.⁶⁷ But the Arab Spring protests also illustrate the danger of systematic involvement of unaccountable, non-transparent armed forces in the country's political and economic life.

After the collapse of the Mubarak regime during the Arab Spring protests, Egyptian state television showed people chanting 'the people and the army are one'.⁶⁸ But despite high hopes for the armed forces to protect the reform process, the Egyptian Armed Forces (EAF) instead used the ensuing political changes to cement their position as a major economic actor, protecting their influence, sources of income, and freedom of manoeuvre. Far from submitting to civilian demands for a changed social contract, the military has cemented their position as a major economic actor, protecting their influence, sources of income, and freedom of manoeuvre. In managing Egypt's political transition, the Supreme Council of the Armed Forces (SCAF) signalled to the international community that it was not only a stable economic partner during periods of political volatility but that it would – unlike the private sector – be able to secure continued immunity from government oversight.⁶⁹ As an anti-corruption and transparency researcher at an Egyptian human rights organization stated, 'The delegitimization of the neoliberal business elite and their institutions [post Mubarak] facilitated the military's task in playing a more active role in political and economic life.'⁷⁰

The military also moved quickly to secure their political position – partly as a means to protect their economic empire. In the run-up to the 2011/2012 parliamentary election, the SCAF used the competition between political parties to shop around for the best partner, eventually supporting the Muslim Brotherhood's Mohammad Morsi.⁷¹ Constitutional changes adopted in 2012-2014 exempted the armed forces from parliamentary scrutiny and granted the armed forces the right to select the Minister of Defence for the next 8 years.⁷² Economic privileges continued: an exemption from the ban on forced labour, for example, allowed the continuation of the military's conscript labour system including in the service of military owned businesses, and appointments of military officers to lucrative organisations such as the Suez Canal Authority and the Arab Organisation for Industrialisation protected the Army's privileges.

The consequences of the military's preferential position and their attempts to preserve it have been dire, especially for Egypt's political and human rights situation. Attempting to protect their economic interests during a spat with Mohammed Morsi regarding the control of the Suez Canal, the EAF staged a direct coup under General Abdel Fattah El-Sisi.⁷³ Since then El-Sisi has had a free hand to entrench military control over both the political and economic spheres.⁷⁴ With direct control of land and a monopoly on the state contracting process, the military presides over a vast corrupt system that perverts incentives towards maximising personal wealth. The defence budget, which is estimated to be around \$4.4 billion USD, is a state secret.⁷⁵ No information on it is made available to the public or legislature. Nor is there any information on the military's business empire which is believed to control a significant portion of the country's economy.⁷⁶ The EAF's position – including distortion of free competition and hard-to-quantify losses to the economy – translates into stymied development and fewer opportunities for the general population.

The point at which systemic corruption and inequality tip from instability into insecurity or conflict is difficult to determine. China, for example, has suffered some of the highest levels of both income and wealth inequality in the world over the last decade.⁷⁷ The country is polarised, with 200 of the wealthiest individuals now sharing over a quarter of the country's wealth – the majority of which have succeeded as a result of an economic system that favours relationships and patronage with the ruling elite.⁷⁸ A 2015 national survey by the Pew Research Centre found 84% thought corrupt officials were a big problem, and 44% think a very big problem – no issue tested higher. At the same time, there is evidence that the public are frustrated by corruption and that same sense of unfairness that has tipped other systems from instability into insecurity and conflict. Those left behind experience a new kind of poverty --the combination of low incomes with significant new health risks that result from environmental degradation, from which the rich and connected have profited.⁷⁹

So far the hundreds of large protests that happen in China every year – many of which are connected to corruption, forced land expropriation and pollution – have remained localised, and the government's efforts to persuade the public that they are serious about tackling corruption have been to some extent successful.⁸⁰ This is despite the impossibility of actually ridding the system of corruption given the lack of such developments as a free press or independent courts.

But it's highly questionable whether this is a sustainable peace. So far the elite have had three factors on their side: a back drop of strong economic growth and development; a growing middle class that fears system change would risk their relatively privileged position; and a reasonably strong sense of common identity among the vast majority of the population. Horizontal inequalities do exist, most notably between the urban and rural populations, but they don't map across to significant differences in for example ethnic make-up or religious beliefs.

The outbreak of street protests from Rabat to Muscat was, in contrast, at least partly a response to years of stymied economic development. But there are many parallels, particularly in the conspicuous inequalities created by years of grand corruption and systematic theft of national resources. Unaccountable militaries, either eviscerated or privileged by kleptocratic regimes, fanned the flames through their involvement in the economy and distortion of opportunities for the population, as well as by stopping reforms that may have served to avert the crisis. This should sound a warning to any country with an autocratic government, non-transparent military, significant corruption levels and extreme inequality – as well as to their backers in the international community.

Corruption and competition for rents

The extractives sectors are also likely to have a special significance in terms of the relationship between corruption and instability, particularly when the military is involved. While significant oil or mineral wealth can provide crucial income needed to kick-start national development programmes, the prevalence of corruption frequently negates the potential positive impact. In low- and middle-income countries, the presence of natural resources is associated with a higher risk of civil war – a phenomenon known as the ‘resource curse’. But an abundance of natural resources only becomes a ‘curse’ where resource rents meet institutions that facilitate appropriation and diversion of resources by a narrow elite, stoking resentment of those excluded from the benefits and potentially fuelling secessionist movements, rebellions, and civil wars.⁸¹

In Botswana, for example, strong institutions meant that the diamond trade largely fed economic development; conversely, in Sierra Leone, Nigeria and the DRC, institutions were either unable to manage a power struggle over extractive resources or were repurposed for extraction and redirection of resource rents.⁸² The 2013 report of the African Progress Panel concluded that while resource-derived rents have driven up average incomes in the 20 African states classified as resource-dependent, they have by and large not resulted in the widespread reduction of poverty. Rather, they have increased inequality and benefitted the elites at the expense of the majority of the population.

Mismanagement, corruption, predatory governance, redirection of incomes to select few, and a cloak of secrecy around the extractive sector – including transactions between governments in resource-rich countries and international companies – have reduced the potential beneficial impact of income from extractives. In Nigeria, a parliamentary task force estimated losses induced by corruption and mismanagement in the National Petroleum Corporation at USD \$6.8 billion between 2010-2012; in the DRC, opaque practices in the sales of mining concessions (and the practice of not publishing contracts) allowed for the sale of concessions at undervalued prices benefitting investors, frequently offshore shell companies.

The Panel’s assessment was that five questionable deals with offshore companies between 2010 and 2012 lost the country US \$1.36 billion, an amount sufficient to nearly double the health and education budgets in the country in 2012.⁸³ In Indonesia, exploitation of timber and minerals has been plagued by elite diversion of rents, human rights abuses, and involvement of security services in increasingly brutal practices. Illegal logging, non-transparent subsidies, and subversion of the police force to facilitate corruption have been estimated to cost the government US \$2 billion USD annually.⁸⁴ High forestry rents have led to the illegal exploitation of land, with private companies bribing government officials to allow access to land even where the impact on local communities is devastating.⁸⁵

Lost revenues and elite corruption mean that in many resource-rich countries, poverty remains acute, injustice is widespread, and human security has been compromised, increasing the likelihood of conflict and civil war. A state that is either incapable of managing dependence on primary resources or has been repurposed to divert resource wealth to a narrow elite, combined with economic decline and income inequality, creates the perfect storm for a civil war.⁸⁶

Corruption and extremism: enabling ISIS

It is tempting to see radical ideology as the sole root of violent extremism. But extremist ideologies do not operate in a vacuum. Systemic economic and political problems, including exploitative, exclusive governance arrangements, high-level corruption, and abuse at the hands of state institutions bring humiliation, cause anger, and create a sense of injustice and powerlessness which can push individuals to seek alternative, even violent, redress.⁸⁷

“I heard painful stories of suppliers who had never been paid [by government]...I have reflected on those suppliers, no doubt furious – and bitter and humiliated at their lack of recourse ...How many such episodes would it take...before one of those suppliers decided to shutter his store and pick up a gun? Or look the other way when his son did?”⁸⁸

Sarah Chayes, *Thieves of State*

Our analysis suggests that extremist groups recognise that government corruption aids recruitment, and use it heavily in their messaging. In Afghanistan, the Taliban have challenged the legitimacy of the government's corrupt judiciary and promise law and order through Sharia Courts; interviews among Taliban fighters indicated that government corruption, not religious radicalism, was what pushed most Taliban fighters to join the groups.⁸⁹ In Nigeria, the founder of Boko Haram, Mohamed Yusuf, denounced government corruption and the school system that educated civil servants who failed to act in the interest of the populations.⁹⁰ Somalia's Al-Shabab capitalised on political and economic exclusion created by decades of corruption, elite theft, and curtailed development opportunities to bolster its ranks and maintain public support. Ideology was not, research suggests, a primary factor driving recruitment: rather, economic opportunities and individual feelings of empowerment were the biggest draws for the group.⁹¹ And ISIS – the primary focus of the next three chapters - has drawn on deep public anger towards government corruption as a means to radicalise and recruit, deepen sectarian divisions, and help it function on a day-to-day basis.

Corruption in extremist messaging⁹²

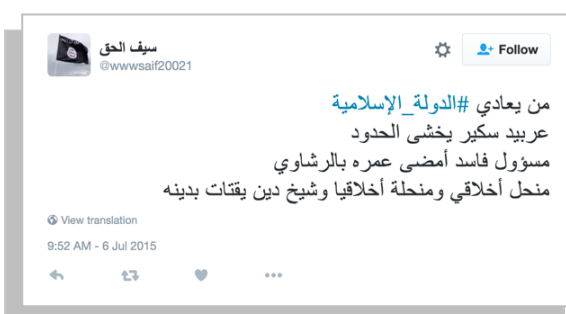
ISIS has been operating in regions that have long faced systemic, acute corruption problems. In the last decade, both Iraq and Syria have been at rock bottom in international corruption measures, including Transparency International's Corruption Perceptions Index and the World Bank's Control of Corruption Index: in 2014, just before the rise of ISIS, Iraq was placed 170th out of 174 countries, with Syria preceding it in 159th place.⁹³ Corruption has had a detrimental effect on a government's capacity to provide services, such as municipal management, electricity, healthcare and other citizen-facing services.⁹⁴ In the 2013 Global Corruption Barometer (GCB), 35% of respondents reported paying a bribe to the police; 39% to the Land Service, in addition to other government entities.⁹⁵ In Syria, corruption and a lack of accountability had led to deterioration of the country's agricultural sector, precipitating a crisis in the supply of water and food which contributed to the 2011 unrest.⁹⁶ The inner circle surrounding president Bashar al-Assad (relatives and close family friends) perpetuated corrupt practices that diverted wealth and impoverished the population.⁹⁷ In both countries, corruption was linked to sectarian discrimination: entrenched elites within Syria and Iraq exacerbated the sectarian divides within their countries in order to reap financial and social benefits at the expense of the majority of the population, including Sunni majorities and other marginalised groups.⁹⁸

ISIS has capitalised on rampant corruption, juxtaposing the image of corrupt, alien governments supported by foreign forces with that of an Islamic State regime that provides security, justice and basic services to oppressed or neglected populations. While the group has drawn attention to what they see as moral corruption and decay, political corruption and abuse of power among state officials have also featured in the discourse among ISIS members, supporters, and sympathisers. The two types of corruption appear as two sides of the same coin. By pointing to corruption in government alongside perceived moral and religious decay, ISIS attempted to legitimise its actions, boost support, and attract followers.

Translation: Religious corruption, financial corruption, political corruption, and administrative and societal moral decadence. All of this you get in countries ruled by tyrants and not in #State_of_the_Caliphate #The_Islamic_State



Translation: And who opposes the Islamic State? Drunkards who are afraid of hudood punishments⁹⁹; a corrupt official who spends his whole life living from bribes; the morally promiscuous and morally degenerative; the religious leader who scavenges his religion.



ISIS narratives also focus on the group’s ability to provide security and justice for the population, run basic services, and counteract sectarian discrimination. As it gained territory in Syria and Iraq, ISIS took over basic government functions: establishing a police and justice system, collecting taxes, running municipal and health services, building roads and providing access to water and electricity. Accounts of the swift delivery of justice, as well as the provision of safety within the Islamic State feed into the ISIS message that they are replacing the ‘despotic’ and ‘crumbling’ regimes in Iraq and Syria.¹⁰⁰ In *Dabiq*, the ISIS magazine, an article – purported to have been written by British captive John Cantlie - touts ISIS’s success in establishing security and tackling corruption:

“For the first time in years, Muslims are living in security and their businesses are doing a roaring trade... Sharī’ah courts are established in every city and are judging by the laws of Islam. Corruption, before an unavoidable fact of life in both Iraq and Syria, has been cut to virtually nil while crime rates have considerably tumbled.”¹⁰¹

The group has also attempted to demonstrate it is providing other public services, in contrast with the perceived failures of previous regimes. Reports from ISIS-controlled areas have pointed to shortages of medication, water, and electricity, but the group expends significant efforts in painting a different picture. In a video release depicting life in Raqqa, the footage opens with the statement 'Public services were established in the state of Raqqa.'¹⁰² Reports portray ISIS supporters carrying out maintenance tasks, installing power lines, and opening markets and post offices.¹⁰³

Translation: Thieves and the corrupt ran the municipality in Mosul; the workers were lazy, and there was no oversight, while drivers stole oil that was meant to be for street cleaning cars.



Similarly, overseas ISIS territories – the *wilayat* – in Libya use corruption of the regional governments to help create a sense of purpose and legitimacy. A fighter interviewed for this research, stated that fighters met to receive daily briefings at ISIS training camps in south-eastern Derna in which 'corruption' in its broad definition (political, financial and religious) was consistently raised as a key issue. ISIS commanders would describe the corrupt system of global governance that favours Western nations over Islamic ones, and point to corruption in the Egyptian armed forces as a form of oppression of Muslim societies.¹⁰⁴ Another fighter quoted his tribe's support for the 'corrupt' rule of Colonel Qaddafi as a major factor in his decision to join ISIS. ISIS recruiters stressed that by joining he could contribute to the fight against corruption and for justice. Interviewees whose stories are discussed here, as well as others interviewed for the research, barely referred to religious convictions or fundamentalist Islamic thought when explaining their affiliation with violent extremism. Instead, they focused on injustice, tyranny, and corruption – a legitimate frustration that ISIS and other extremist groups promise a solution to.¹⁰⁵

Facilitating terrorism: financial flows, smuggling, and corruption

Corrupt practices, both petty and grand, have a practical significance for the functioning of terrorist groups: they facilitate financing, the procurement of materiel and weapons, and the preparation and execution of terrorist attacks. Terrorism, corruption and organised crime have long been bedfellows: corrupt public sector officials are frequently found at the centre of networks that aid organised crime and facilitate not only particular terrorist attacks, but also enable the existence of terrorist groups.¹⁰⁶

Links between organized crime and corrupt officials enable the financial and arms flows which keep terrorist organisations afloat. In Libya and in Iraq, ISIS operatives have used smuggling, criminality (including human trafficking) and corruption to further their cause, even as they portray themselves as an alternative to the abusive, corrupt governments in power. Fighters associated with ISIS in three Libyan cities, interviewed for Transparency International's research, stated that corruption and smuggling are the primary ways in which the group procures weapons and resources – primarily drugs, which it uses to pay its fighters.¹⁰⁷

Corruption in the Egyptian military, for example, enables fighters to smuggle money, people and commodities across the border; several sources confirmed the use of middlemen, who pay bribes to low-ranking officers on both sides of Egyptian-Libyan border. One common smuggling route runs from the Siwa Oasis in Western Egypt to near the Libyan border city of Jaghbub.¹⁰⁸ Routes continue on both sides, reaching Gaza in the east and Tripoli in the west. The Washington Post has also reported a dramatic increase in the flow of arms since the start of the war with Libya: smugglers now offer shoulder-fired antiaircraft missiles, looted from the Qaddafi's regime's arsenal of 20,000 or so.¹⁰⁹ Sources interviewed stated that ISIS bought weapons using either cash or drugs, including Tramadol, hashish and cocaine.

According to interviewees, after the revolution in Libya, crossings between Egypt and Libya were either very restricted or closed for security and political reasons. Bribery became the means of transit. Libyan nationals bribe police personnel on the border crossing in order to admit them into Egyptian territories and stamp their passports so that they appear to have entered the country legally. One interviewee stated that he paid a bribe worth \$1,000 USD to Egyptian police in order to be 'legally' permitted to cross the border through the Salloum crossing. This is another opportunity for smugglers: sources stated that officials from the Egyptian intelligence services office in Siwa would take a percentage of a fee for every shipment that passes the border in exchange for turning a blind eye to smuggling.¹¹⁰

Corruption: a critical role in major terrorist attacks

- Two of the hijackers in the 9/11 attacks boarded the aircraft with fake drivers' licences, obtained from a corrupt branch of the Department of Motor Vehicles in the state of Virginia. Licenses were issued in exchange for bribes.
- Corruption among prison guards enabled members of Jemaah Islamiah (JI), the organisation responsible for the Bali nightclub bombings in 2002, to access the internet (normally prohibited) and raise funds for the attack.
- The 2004 Chechen terrorist attack at a school in Beslan, North Ossetia, which claimed the lives of 331 hostages, was paid for through organised crime activity facilitated by corruption: drug smuggling, human trafficking, and extortion. Corrupt officials within Russia security services likely facilitated the transport of equipment, weapons and explosives to the school, with police guards at checkpoints allowing passage in exchange for bribes.
- Corruption among customs officials in the Mumbai port allowed the illegal entry and delivery of explosives as well as the attackers themselves prior to the 2008 terrorist attacks.

Louise Shelley, *Dirty Entanglements*

ISIS has employed a similar mode of operation in Iraq, using corruption to exploit the country's leaky, cash-based, and corruption-prone financial system to gain access to US dollars.¹¹¹ Since the 2003 Iraq war, the country's economy has been propped up by US funding. And given the lack of a functioning financial system, the transfer of funds was done in cash, with pallets of US dollars flown into Baghdad and transferred to the Iraqi Central Bank.¹¹² Even as Iraq began to earn more hard currency through renewed oil sales, the government continued to keep resources with the US Federal Reserve and access it in the same way, i.e. by means of cash flown directly to Iraq.¹¹³ Upon receipt of the currency, the Central Bank of Iraq auctions off US dollars, exchanging them for Iraqi Dinars at fixed rates. While this has enabled legitimate trade by providing access to stable, internationally recognised currency, the arrangement can also be used to launder illicitly-gained Iraqi dinars, evade sanctions or ultimately to finance ISIS.¹¹⁴

The amounts of money conveyed to Baghdad rose steeply between 2012 and 2014 – from \$3.85 billion to \$13.66 billion. Concerns that the money was being siphoned off for illicit use prompted a tightening of the regulations, including reducing the auction amounts, raising standards for banks involved, and requiring proof of need for US dollars (an invoice confirming the existence of an international business, for example).¹¹⁵ These regulations, however, created profit-seeking opportunities for those with access to the system. Corruption and fraud – including a system of false invoicing and access trading - enabled ISIS to benefit from the exchanges. With hard currency funnelled by more and less legal operations to and from ISIS-controlled territory, the group has had opportunities to sell US dollars to the population at a higher price; to stimulate demand by selling items produced by the factories it controls in exchange for US dollars, while paying workers in Iraqi dinars; and to keep funding its activities with reliable currency.¹¹⁶

Over the past decade, it appears that the CBI's US dollar auctions have become an integral part of both the legal and illicit economy in Iraq and neighbouring countries. From facilitating sanctions circumvention in Syria and Iran to fueling local rent-seeking and profit opportunities for false-invoicing further afield, the system, critical to the survival of the local economy, is also a significant crack in the region's financial integrity; a crack from which Daesh, despite its ideological objection to the 'fraudulent US dollar note', is profiting handsomely.¹¹⁷

Tom Keatinge, 2016

Tackling corruption: cutting the extremist lifeline

It's often assumed that corrupt practices are culturally relative, but the anger that corruption provokes and its use in propaganda materials seriously contradicts this idea. Even if the desirability of patronage and practices such as gift-giving can be seen as grey areas, accepted to a different extent in different cultures, kleptocratic regimes based on dishonesty, discrimination, abuse and illegitimate appropriation of resources are highly unlikely to garner support in any culture.¹¹⁸ Petty or grand, corruption is seen as problematic even where it is widespread, and can lead to gains for groups that offer an alternative, even a spurious one, to corrupt governments.

Recent polling in Iraq, for example, saw 42% of respondents identify corruption as a top reason behind the rise of ISIS; among ISIS members polled, poor government performance and government injustice figured among the top 5 reasons for joining the group.¹¹⁹ This suggests that inclusion of corruption in ISIS messaging was not random, but rather based on a widespread and well-known grievance – and therefore, at least to some extent, effective. The breaking of norms and legitimate expectations, humiliation inflicted by corrupt public authorities on individuals, and the ineffectiveness of public institutions caused by corruption can all underpin violent protests and conflicts. With the perception of corruption being tied to government legitimacy, there is a strong argument for any country to keep a close eye on their CPI score.

Equally, curtailing the corrupt practices that ISIS needs to procure resources and weapons is a way to push it back and minimise its influence. In Iraq, cash-based systems may have been justified in the immediate aftermath of the fall of the Saddam Hussein regime. But with time, their vulnerability to widespread corruption and fraud made them into an asset for ISIS and other entities illegally accessing US dollars. Setting up functioning financial systems which are proofed against money laundering has to be a priority if the activities of terrorist or insurgent groups are to be brought to a halt in fragile environments. Finally, plugging the gaps that corruption creates in the operation of border forces is likely to pay dividends. Countering extremist ideologies is only one part of the equation: addressing the corruption that creates opportunities for ISIS needs to be the bedrock of the counter-extremist effort.

The forces of insecurity: corruption and institutions of state

In addition to creating the conditions for conflict, serving as a recruitment strategy for extremist groups, and facilitating their day-to-day operations, large-scale corrupt practices eviscerate state institutions – especially those that should be reacting to insecurity and violence. Armed forces either weakened by, or incorporated into, kleptocratic systems struggle to address crises, conflict and violence once they occur.

In Nigeria, for example, individual humiliations wrought by corrupt, brutal police officers contributed to a swell of initial support for Boko Haram, which began its activities with attacks on police stations and other symbols of power such as military bases.¹²⁰ The security forces' indiscriminate response, including the extrajudicial killing of the Boko Haram founder Mohamed Yusuf, made Nigerian citizens extremely wary of both extremist groups and state security forces.

“Civil society activists in Nigeria say that ordinary citizens fear both Boko Haram and the JTF [Joint Task Force, comprising military, police, and intelligence officers], whose abusive tactics at times strengthen the Islamist group’s narrative that it is battling government brutality. ... because community members themselves are subjected to JTF abuses they are often unwilling to cooperate with security personnel and provide information about Boko Haram, which impedes effective responses to the group’s attacks.”¹²¹

Human Rights Watch, 2012

The Congolese military, devoid of both resources and accountability, has arguably exacerbated and prolonged conflict in the country, instead of helping it abate. High levels of corruption within the Armed Forces of the Democratic Republic of Congo (FARDC) have in some cases directly benefitted the rebel groups they are designed to defeat. Former Democratic Liberation Forces of Rwanda (FDLR) combatants told the UN Group of Experts in 2011 that approximately 95% of weapons they used had been provided to them by the FARDC.¹²² The FARDC’s predatory behaviour – from predation on natural resources to their treatment of civilians – has eroded any sense of public trust, putting their ability to contribute to security entirely out of reach and contributing to continued violence in the resource-rich provinces of North and South Kivu.

DRC and the (in)security forces

- In North and South Kivu in 2011, the FARDC was ranked as the second most common source of insecurity, after banditry.
- A 2013 survey in the Eastern Congo found that only 37% of over 5,000 respondents felt safe when they came across a soldier.
- Between 1996 and 2014, around 15 civilian casualties per month were attributed to FARDC troops.

Sources: <http://www.easterncongo.org/about/publications/security-sector-reform>; Small Arms in Eastern Congo, A Survey on the Perception of Insecurity, 2011; Patrick Vinck and Pham Phuong N, ‘Searching for Lasting Peace, Population-Based Survey on Perceptions and Attitudes about Peace, Security, and Justice in the Eastern DRC,’ https://wikileaks.org/plusd/cables/09KINSHASA275_a.html

Corruption also renders security forces incapable of countering the progress of extremist groups in a crisis, often due to inadequate supplies, non-existent ghost troops, and inability to turn available funding into operational effectiveness. Again, in Nigeria, a 2013 military offensive against Boko Haram in three northern Nigerian states ground to a halt as soldiers appeared to be poorly equipped and lacking motivation to fight Boko Haram, despite an annual defence budget of up to \$6 billion USD.¹²³ Lower-ranking soldiers alleged in 2013 that 50% of their allowances for dangerous field duties were pocketed by commanders; ammunition, although it was bought and shipped, rarely reached the front lines. Money for uniforms and medical care for the wounded disappeared, leaving the force with crumbling morale. In some cases, selling weapons to Boko Haram was sometimes one of very few means that unpaid, ill-fed soldiers had to secure an income. Evidence also suggests that some unit numbers were padded by ghost soldiers – fictional soldiers existing on paper only – diminishing their fighting strength and allowing commanders to pocket even more pay.¹²⁴ The fall of Gwoza, Bama, and Mubi to insurgents in 2014 testifies to the army's inability to counter the militants.

Six days in Mosul: corruption and the hollow army¹²⁵

In Iraq, corruption was at the root of one of the most spectacular defeats of the 21st Century: 25,000 Iraqi soldiers and police were dispersed by just 1300 ISIS fighters in the northern Iraqi city of Mosul in June 2014. As the Iraqi 2nd Division retreated in disarray, they abandoned US-provided equipment which fell into ISIS hands: aircraft stationed at the Mosul International Airport; 2300 armoured HMMWVs; and in all likelihood, other types of equipment such as Abrams tanks. Much of the military equipment was put on trucks and moved to Syria, where it was later used in the Syrian civil war. ISIS suicide bombers also subsequently used captured Humvees to help them break through defences in the Iraqi city of Ramadi.¹²⁶ Corruption in the security forces in effect facilitated extremist groups' state-building drive, enabling the group to make significant territorial advances.



ISIS removes captured HMMWVs and transports them to Syria

Source: <http://www.news.com.au/world/iraqi-sunni-insurgents-seize-huge-cache-of-us-made-arms-and-equipment/news-story/4dc84c11acc516dca006104674fb47ab>

The debacle in Mosul was a result of a multitude of factors. Prioritisation of static, checkpoint-based defences and the failure to act on available intelligence both played a part in the outcome of the battle. The Iraqi parliament's report into the fall of Mosul blamed Prime Minister Maliki and over thirty other high-ranking military and civilian officials. Intelligence relating to an impending attack was apparently ignored, with troops being diverted from the Nineveh province. But that same report pointed to a deeper problem. Following the US withdrawal from Iraq in 2009-2010, Shia Prime Minister Nuri al-Maliki sought to cement his control over Iraqi political and military institutions by appointing officials loyal to him, frequently with Shia supremacist convictions. Within the security forces, this amounted to the creation of a parallel command chain: a series of province-level operational commands reporting to the Office of the Commander-in-Chief, which in turn reported directly to him. The PM also oversaw the establishment of loyal units with

sectarian loyalties within the intelligence services and special forces, and framed counter-ISIS operations as a fight between Sunni and Shia.¹²⁷

Senior officers, appointed on the basis of factional and sectarian loyalty, rather than due to their professional record, were far more focused on amassing personal fortunes through corrupt practices, including the embezzlement of public resources and extortion of those under their command, than on maintaining an effective fighting force and assessing intelligence accurately.¹²⁸ Maliki's actions, prioritising factional loyalty over professionalism and integrity, created a permissive environment enabling and supporting corrupt practices. It had rapidly become customary in the ISF to purchase senior command posts through patronage. Battalion command posts, for example, could be purchased for \$10,000 USD, and division command for \$1 million USD. The opportunity to skim salaries and support budgets, however, made it fairly simple to recoup that investment.¹²⁹ Good political connections were arguably helpful when making such a purchase, which further privileged individuals connected to the Shia-led government. They were therefore disproportionately Shia and sectarian in their outlook, alienating Sunni populations.

Al Maliki's obsession with 'coup proofing' the Army had the additional effect of limiting the numbers of competent commanders available for effective resistance to ISIS. The result was a military dominated by factionalism and widespread corruption which led to a fractured and ineffective chain of command, a false impression of the force's actual strength, exceedingly low morale, and dismal relations with Iraq's civilian population. It resulted in a depletion of capability to the point of ineffectiveness and brought about a wholesale failure of the Iraqi security forces.¹³⁰

Maliki's politicization of the army and police left their leadership corrupt, hollow, and lacking in skill or commitment. . . . This corrupt and demoralized force collapsed like a rotten outhouse as soon as ISIS gave it a solid shove.¹³¹

David Kilcullen, *Blood Year*

In December 2014, six months after the Mosul debacle, new Iraqi Prime Minister Haider al-Abadi informed the media that a simple audit-based control of the military's human resources records revealed the existence of about 50,000 ghost soldiers - individuals enrolled on paper, but never actually showing up to train or fight. The 50,000 ghost soldiers – suspected to be only the tip of the iceberg - cost the Iraqi military \$380 million USD per year, with their salaries either pocketed by senior officers or split between the shirking soldier and higher-ranking officers, with both benefitting from the scheme.¹³²

This was hardly news, either on the national or regional level. In 2013, the ghost soldier problem in Nineveh province was investigated by the MOD, but no action had been taken.¹³³ Research conducted in 2014-2015 for TI's Government Defence Anti-Corruption Index found no evidence of robust regulations which could prevent the ghost soldier phenomenon through, for example, separating the chains of command and payment systems, making troop numbers and salaries public, or auditing human resource records.¹³⁴ As a result of peacetime inaction, estimates indicate that at the crucial moment the armed forces division which on paper counted about 25,000, was in reality at best 10,000-strong. One of the brigades, supposedly comprising 2,500 men, turned out to have been 500 strong when it mattered.¹³⁵

This depleted force was not only undermanned, it was also underfed and under-equipped. For example, under the Iraqi regulations senior officers were responsible for purchasing food for soldiers and deducting the cost from their salaries. However, officers frequently pocketed that deduction, forcing soldiers to procure food and water individually from civilian markets.¹³⁶ With inadequate rations and their salaries skimmed by senior officers, Iraqi troops frequently resorted to extorting the civilian population, bringing already strained relationships to a new low. The Iraqi army extorted bribes from local communities, including at checkpoints in Mosul; forced payments for releasing civilians from arbitrary detention; and made itself a nuisance rather than a protecting force. Alienated by corruption, the civilian population could not be counted on for assistance or information.¹³⁷

“One Iraqi general is known as ‘chicken guy’ because of his reputation for selling his soldiers’ poultry provisions. Another is ‘arak guy,’ for his habit of enjoying that anise-flavored liquor on the job. A third is named after Iraq’s 10,000-dinar bills, ‘General Deftar,’ and is infamous for selling officer commissions.”¹³⁸

New York Times, 23 November 2014

Corrupt practices similarly resulted in black market sales of military fuel, ammunition, spare parts, and service tools required to keep military equipment running.¹³⁹ This was graphically illustrated by a picture of US-supplied HMMWVs captured by ISIS, perched on axle stands, likely due to the lack of spare tyres and tyre changing tools. Armoured vehicle tyres are impossible to fix on wheel rims without specialist equipment - an attractive item for any haulage company and one which has turned up in civilian markets.¹⁴⁰ It is likely that following equipment shortages, Iraqi soldiers resorted to taking whole wheels off vehicles, effectively immobilising them.



HMMWVs on axle stands as ISF did not have tyre changing equipment

Source: <http://www.news.com.au/world/iraqi-sunni-insurgents-seize-huge-cache-of-usmade-arms-and-equipment/news-story/4dc84c11acc516dca006104674fb47ab>

The Iraqi government has since regained ground from ISIS, but corruption has remained a major challenge. Bribery in police forces and the judiciary has meant that alleged ISIS fighters have been able to escape arrests and trials and evidence against them has disappeared. Corruption at police checkpoints has enabled widespread identity card fraud, creating the risk of militants gaining freedom of movement and infiltrating back into government-controlled areas.¹⁴¹ Widespread corruption is also likely to affect any aid and reconstruction funds, undermining the legitimacy the government in Baghdad sorely needs, especially in Sunni-dominated areas.¹⁴² Breaking the cycle of conflict and violence and keeping ISIS at bay will require committed, systemic anti-corruption reforms, especially in the Iraqi security sector.

Building resilient institutions –prioritising the security sector

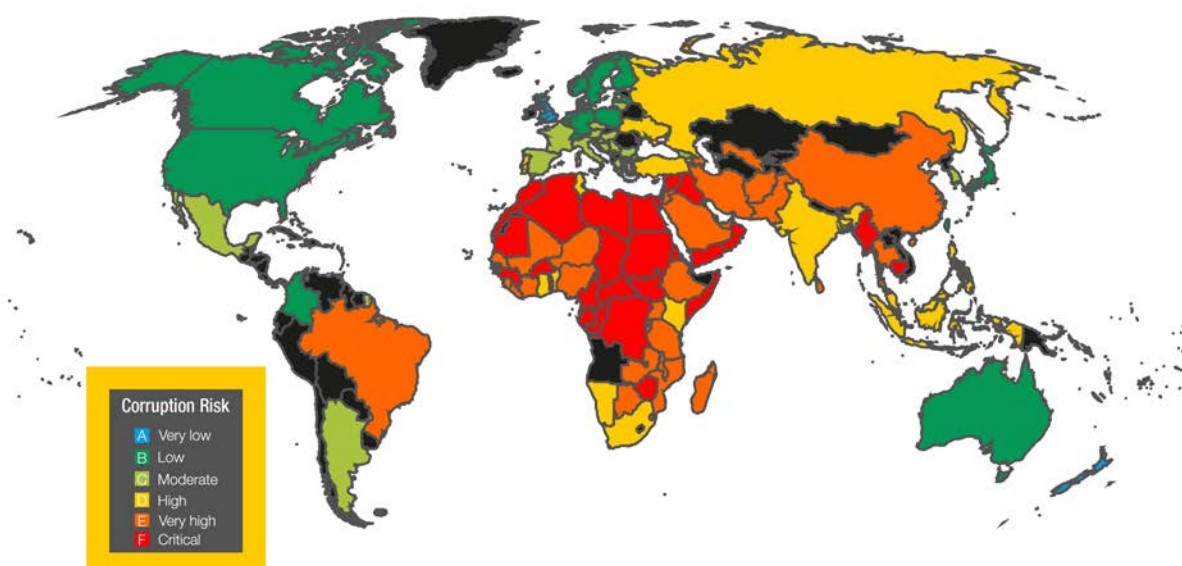
A key lesson from the implementation of the Millennium Development Goals – targets for addressing extreme poverty adopted in 2000 – was that poor governance inhibited countries' inability to spur growth, use international aid constructively, and spread improvements to the poorest in society.¹⁴³ The Sustainable Development Goals, adopted in 2016 and succeeding the MDGs, therefore contain an explicit commitment to building strong, inclusive institutions at all levels (Goal 16).¹⁴⁴ This is vital. Without strong institutions geared toward protecting the population and facilitating human and economic development, other goals such as the eradication of poverty, provision of healthcare and education, and reducing inequalities, are simply unachievable.

Institutional integrity and resilience are particularly important when it comes to the defence and security sector. Current assessments of institutional strength, such as TI's Government Defence Anti-Corruption Index (GI) and National Integrity Assessments, provide a starting point by mapping out appropriate expectations surrounding internal governance arrangements and offering a way to evaluate the capacity of institutions to tackle corruption. The GI, which focuses on the defence sector, suggests that significant shortcomings need to be addressed before defence and security institutions in many countries will become capable of providing security and managing their own resources effectively. Independent oversight of the armed forces, for instance, needs to be strengthened, and procurement processes reformed to ensure that acquisition decisions reflect national interest considerations.

The state of defence and security institutions: a snapshot

- Out of 118 countries assessed in 2014/2015, 63 have been found to have either critical or very high corruption risk in their defence sectors;
- In most African countries, the defence sector is exempt from oversight and scrutiny, which can mask all kinds of corruption, misuse, and incompetence;
- 34 out of 47 African states assessed have significant shortcomings in their payment systems, increasing the risk of diversion of salaries;
- In Asia, 13 out of 17 countries assessed do not have meaningful parliamentary oversight over their defence sectors;
- In 15 out of 17 MENA countries (except for Tunisia and the UAE), the publics believe defence institutions to be indifferent toward tackling corruption and building integrity
- Armed forces in Pakistan, India, Bangladesh, Myanmar and Indonesia possess business empires linked to exploitation of natural resources and frequently linked to human rights abuses;
- Out of 33 NATO member and partner states reviewed, only 5 allowed parliamentary committees unimpeded powers to review secret spending on defence and security.

Government Defence Anti-Corruption Index 2015/16



There is also, however, good news, with governments taking steps to prevent corruption and provide greater inclusivity in formulating defence policies.

- A number of governments across the globe have taken a strong stance against corruption and supported anti-corruption drives in the defence sector;
- 15 out of 22 NATO states analysed have put in place strong political oversight;
- In New Zealand, aspirations to grow combat capabilities by 2020 (as outlined in the Defence Capability Plan) are matched by an effective and transparent system for defence procurement. The New Zealand government has also included the public in consultations on its defence strategy, and the country's armed forces are one of few to have considered the risk that corruption can pose to military operations.
- Singapore, although it is yet to develop strong external oversight of the armed forces, has established proactive anti-corruption frameworks for the defence sector;
- The Tunisian MOD has engaged with CSOs and international institutions to work on anti-corruption reforms;
- Colombia has significantly improved its integrity systems. The Ministry of Defence published a "Plan to Ensure Integrity and Prevention of Corruption" in January 2015 and the Defence Ministry also established a secure, anonymous whistle-blower mechanism to denounce corruption or misconduct by the police, armed forces, or other bodies within the ministry.

Source: Government Defence Anti-Corruption Index 2015/2016

A barrier to peace: corruption and peace settlements

Rampant corruption is not only a cause of conflict, it is very often a legacy of wars and violence and then a stubborn barrier to long term stability. State institutions are significantly weakened in post-conflict environments, pushing the population toward alternative sources of security and ways of meeting basic needs, such as criminal patronage networks. Civil wars erode social capital and raise the levels of criminality, particularly when demobilised combatants lacking relevant peacetime skills retain access to weapons, and when networks used previously for repression are turned into organised crime syndicates. At the same time, weakened police and judicial institutions remove constraints on crime.¹⁴⁵

“Civil wars can have the effect of switching behaviour from an equilibrium in which there is an expectation of honesty to one in which there is an expectation of corruption. Once a reputation for honesty has been lost, the incentive for honest behaviour in the future is greatly weakened. . . . costs inflicted by corruption are likely to persist long after the conflict is over.”¹⁴⁶

Paul Collier et al, 2003

Corruption and the legacy of conflict

Post-conflict states dominated by exploitative, kleptocratic systems are likely to see a recurrence of conflict: over 20% of conflicts brought to an end through negotiated settlements fell back into conflict within five years.¹⁴⁷ Good governance, on the other hand, increases the likelihood of a durable peace. Researchers have found that the risk of renewed conflict can be reduced quickly in countries with strong formal and informal governance institutions, including an ability to control corruption and a limited involvement of the military in political and economic life of the country.¹⁴⁸ Moreover, peace settlements containing forward-looking formulas – such as ways to improve governance - rather than just those that deal with the past, tend to last longer. Tackling corruption early could prevent it from becoming the dominant mode of operating within the country and a predictable companion to every transaction.¹⁴⁹

But the process of securing peace is complex. Transforming the networks which thrive in wartime to peacetime conditions is not easy and, in some cases, accommodating corrupt actors may be a necessary evil if violence is to be stopped; a tacit understanding that participating in a peace agreement will enable warring sides to access resources and state institutions can encourage recalcitrant warring factions to join peace negotiations.¹⁵⁰ Addressing corruption may then be put off due to fears of recurrent violence, particularly if reforms threaten to reduce rents from those benefitting from corrupt arrangements.¹⁵¹

Such trade-offs may be perfectly justifiable in the short term, but unless peace processes lead to the adoption of corruption mitigation measures, the price of short-term stability is to reinforce exploitative, dysfunctional state structures for the longer term. Should these structures be allowed to thrive, they will perpetuate or recreate the conditions which led to conflict in the first place, including weak governance and theft of state resources creating inequalities and resentment, as the following examples demonstrate.

Corruption and power-sharing

Attempts to resolve bloody civil wars have often involved power-sharing arrangements. But these types of settlements come with risks; reducing political competition and accountability through pre-assigning slices of power and access to resources can weaken oversight, prevent strong institutions from being constructed, and provide opportunities for corruption to flourish. In the long term, this weakens the resilience and effectiveness of state institutions, which are neither capable of supporting development nor resisting attempted power grabs.

The Arusha Accords, ending the 1993-2005 civil war in Burundi, attempted to create balance between competing ethnic factions by including protections for representation by the traditionally disadvantaged Hutu population (60% of the assembly) and Tutsi (40% of the assembly). But rather than creating a unified state, the Accords removed political competition that could have forced leaders into serving the public interest.

“[P]ower-sharing incorporated into the peace accords . . . builds in a divided governmental structure in an effort to make a return to violence unappealing. As a result, the state has been unable or unwilling to create a set of clear and well-enforced rules or to limit patronage and self-dealing. Formal power sharing limits the scope for competitive politics across ethnic lines. Thus, the political compromises that helped to end the fighting make corruption particularly intractable, especially in the presence of an influx of aid.”¹⁵²

Susan Rose-Ackerman

The Accords had some of the strongest anti-corruption provisions seen in peace settlements – including a provision on public sector corruption being punished by dismissal, the establishment of an Anti-Corruption Brigade and an Anti-Corruption Court.¹⁵³ But the underlying structural division of power weakened national accountability and prevented Burundi from establishing stronger, more resilient political institutions which could have resisted attempts to use them for private and partisan gain. Accountability mechanisms disappeared as one party, the National Council for the Defense of Democracy–Forces for the Defense of Democracy (CNDD-FDD), secured dominance - drawing not only on the Hutu majority, but also on Tutsis, some of whom joined the party as it was integrated into formal government institutions.¹⁵⁴ Military leaders were given high-level political positions while opposition politicians were arrested.¹⁵⁵ Political figures interfered in public procurement and state-owned enterprises, and there was a crackdown on the press.¹⁵⁶ In 2010, opposition parties – expecting support from the international community – boycotted the elections, which further strengthened CNDD-FDD control.¹⁵⁷

With weakened oversight institutions, a lack of political will to empower anti-corruption bodies that were promising in theory, and a cabal of kleptocratic elites diverting the country's resources and international aid, Burundi became ripe for unrest. When President Pierre Nkurunziza attempted to extend his presidency for a third term in 2015, which was widely seen as unconstitutional, thousands went to the street. They were protesting not only his attempt to stay in power, but the failures of the state. Failure to tackle private dealing, patronage, and to prevent a grab at political power – all enabled by a lack of anti-corruption measures and fuelled by a lack of accountability – created conditions that threaten a return to conflict. Power sharing between ethnic groups may have been a necessary condition for ending the civil war, but it was not sufficient.

The 1995 Dayton Accords, ending the war in Bosnia and Herzegovina, set up a power-sharing structure not unlike that in Burundi, with different ethnic groups receiving their shares of political power. Similarly, this arrangement has prevented the development of strong, inclusive institutions as the two sub-entities, Republika Srpska and the Bosniak-Croat Federation, jostled for power and control of national institutions and established parallel lower-level bodies, effectively paralysing the state. Poor governance and high levels of corruption stymied development and reconciliation, with Bosnia and Herzegovina still struggling with ethnic divisions, poverty, and unemployment.¹⁵⁸ Corruption among the Bosnian political class prompted significant street protests in 2014, with government buildings set on fire and politicians' cars destroyed, feeding worries about another potential wave of discontent and conflict.¹⁵⁹

“For years, Bosnians have fumed about their politicians - whom they almost universally believe to be corrupt. ...[But] the war years left such deep traumas that anger about the way politicians have prospered while standards of living have declined has been suppressed out of fear of a return to conflict.”¹⁶⁰

Tim Judah, BBC

Legacy of conflict: organised crime and corruption

The impact of the power-sharing arrangement in Bosnia was exacerbated by another corruption-related legacy of conflict: organised crime networks. In the aftermath of the Dayton Accords, wartime networks in Bosnia and Herzegovina morphed into organised crime groups. With connections to political elites and through the use of corruption, they have maintained a strong hold over the state.¹⁶¹

With tight deadlines for the first post-war election (just one year after Dayton), there was little time for a viable opposition to form. The process advantaged wartime leaders, able to run for office using the ill-gotten gains of wartime smuggling to fund campaigns.¹⁶² The election effectively took strongmen from the battlefield and turned them into politicians.¹⁶³ Powerful organised crime networks were able to preserve links to, and corrupt, the political establishment, including the intelligence services, military establishments, and police forces.¹⁶⁴

The exploits of Naser Kelmendi, a Balkan drug smuggler accused of murder and trafficking and included in the US Kingpin Act in 2012, provide a compelling example.¹⁶⁵ According to reports from the State Investigation and Protection Agency, his associates included former military commanders and high-ranking officers in the Bosnian army.¹⁶⁶ Kelmendi had 13 complaints filed against him in the Sarajevo canton, and despite being arrested several times, he largely escaped charges.¹⁶⁷ Police officials also provided him, and his sons, with firearms licenses – even while one was under indictment for carrying an illegal weapon.¹⁶⁸

The Organized Crime and Corruption Reporting Project (OCCRP) reports indicated that Kelmendi's impunity was largely due to his links with senior politicians and businessmen.¹⁶⁹ One of his more powerful protectors was Fahrudin Radoncic, a media mogul-turned-politician who rose to power in the immediate aftermath of the war, became the Minister of Security, and founded a Bosniak political party, the Alliance for a Better Future of Bosnia and Herzegovina (BiH).¹⁷⁰ He was also, according to investigation by the SIPA, at the centre of an organised crime network in the region.¹⁷¹ Radoncic is alleged to be a close conspirator and business associate of Kelmendi; they exchanged land and property, and conducted other commercial transactions.¹⁷² Indeed, when Kelmendi was arrested in Kosovo in 2013, Radoncic called for his extradition for trial in BiH – raising questions about whether he was trying to extend further protection to Kelmendi.¹⁷³

The Dayton accords and their implementation, which prioritised ethically based power-sharing and access to resources over stronger state-wide accountability mechanisms, did not challenge existing incentives or weaken criminal networks. While putting an end to violence was a crucial achievement, subsequent delays in tackling criminal networks and reforming the judiciary and the intelligence services helped create the space for malign networks to grow.¹⁷⁴ Revenue streams for criminal groups have simply shifted from war profiteering to human trafficking, drugs and arms smuggling, and the blackmail of politicians - all of which are enabled by corruption.¹⁷⁵ The result is that Bosnia is left with ethnic divisions that are far from repaired; an ineffective government that stymies development; political representation that is used for personal enrichment; and criminal networks that can count on protection from state services meant to dismantle them.

Gunpoint security: predatory security sectors in post-conflict states

The defence and security sector can make or break peace accords. On the one hand, effective armed and police forces, focused on providing security to the population, could help the fragile peace survive. Conversely, unreformed military or militia forces left to fend for themselves after a civil war can easily turn into a predatory force and protect those who promise resources and benefits – a particularly dangerous outcome in countries where access to natural resources is one of the spoils of warfare.

This makes unreformed, predatory defence and security institutions a major risk to the long-term security and development of post-conflict states. Military spending – which rises prior to and during civil wars, from an average of 2.8% GDP to about 5% - remains relatively high after war has concluded, with post-conflict states spending about 4.5% of GDP on the military in the first 10 years after conflict.¹⁷⁶ When these post-conflict budgets are characterised by high levels of secrecy, it can make them attractive avenues for diverting and hiding state revenues, financing patronage networks, and enriching governing kleptocracies.

From Iraq to Sudan to the Democratic Republic of the Congo, an abundance of examples illustrate the severe consequences of predatory, bloated, and opaquely governed security forces. And yet, the defence and security sector is frequently omitted from peace settlements. In the Democratic Republic of the Congo, following the deadliest war in modern African history (1998-2003), the 2002 Global and All-Inclusive Agreement created a power-sharing arrangement between the former combatants, civil society and the political opposition. The agreement focused mainly on the reintegration of rebels into the state's armed forces. But it failed to implement a system of funding, managing, and overseeing the security forces. Instead, the Agreement perpetuated the role of the armed forces as a source of insecurity and instability, and failed to break the cycle of extortion and abuse of civilians that had existed since the 1960s.

A legal and procedural framework on defence accountability does exist in the DRC: the Inspector General and Military Auditor are charged with overseeing the conduct of the army, and Parliament is empowered to scrutinise all government conduct and expenditure. In practice, however, decision-making rests with President Kabila and his supporters, rendering most formal controls ineffective.¹⁷⁷ Moreover, the implementation of reforms and budgets has been subverted by political and military elites seeking private profit and using the Congolese military to guard their access to rents, especially from natural resources.

Security and justice institutions in peace settlements

The police are one of the most outward-facing institutions of government and are expected to provide public order. Inefficiency, brutality and corruption in the police force has a disproportionate impact on the population.¹⁷⁸ But the police and the armed forces tend to be neglected in peace processes, which have often omitted or put in place only partial, under-resourced plans. A failure to introduce internal controls in police forces is a particular problem, which has resulted in weak discipline, abuses, and opportunity for organised crime to infiltrate police structures.¹⁷⁹ A similar failure applies to the judiciary; even fewer judiciary reform provisions are included in peace agreements than are police reforms.¹⁸⁰ Reform in these areas are difficult and time-consuming, but are essential to a functioning post-war system.

Corruption in post-conflict states contributes to rising insecurity and, in some cases, the recurrence of conflict. While it is not realistic to expect post-conflict states to make rapid recoveries-including anti-corruption measures in peace settlements and designing them in a way that limits spoilers' access to state resources is vital. Peace settlements need to avoid the potential for creating new grievances. An element of this is ensuring that post-war policing is reoriented toward the provision of individual security and away from upholding the power of a particular group. This might be done by new doctrine, procedures, and training; inculcating new norms; recruiting new personnel; and introducing internal discipline, external review, and civilian control.¹⁸¹

Brewing trouble: corruption and arms control

It can seem counter-intuitive to advocate for transparency in the acquisition of weapons. After all, for many states, secrecy is seen as a national security imperative and transparency a privilege belonging only to the strong, who can use their arsenals as a tool of deterrence and intimidation. But a secretive defence and security sector creates more threats than it resolves. Weak governance means significant proliferation risks, while uncertainties over military intent and capability by secretive states contributes to regional instability.

Nuclear proliferation, corruption and non-state actors

Preventing the spread of weapons of mass destruction (WMDs) is a top tier priority for major powers. The nuclear Non-Proliferation Treaty and other WMD agreements, backed by ever more extensive lists of controlled items, have confounded the predictions of those that foresaw a world of spiralling nuclear capabilities. But this powerful international architecture has also been seriously undermined by corruption and low institutional capacity in the defence sector.¹⁸²

Corruption frustrates non-proliferation initiatives by facilitating unauthorised access to sensitive materials, equipment and technology. Corrupt officials safeguarding nuclear material in the former Soviet Union, for instance, were responsible for the loss of several kilograms of enriched uranium, while corrupt practices in states like Moldova and Armenia facilitated transit of materials stolen from Russia.¹⁸³ The most notorious, and strategically damaging, case of corruption facilitating proliferation was through the global A.Q. Khan network. For two decades – until Khan's arrest in 2004 – the network provided nuclear weapons capabilities, including specific designs, to Iran, North Korea, and Libya.¹⁸⁴ Corruption was a key facilitator for the network, relying on the corruption of officials and border guards, while illicit trafficking routes enabled the network to function and to obtain the material it needed.¹⁸⁵

In the mid-1970s, Dr Abdul Qadeer Khan, a metallurgical engineer with extensive experience working on centrifuges for civilian nuclear projects in Europe, gained the backing of Pakistani Prime Minister Zulfikar Ali Bhutto for the construction of a nuclear weapon for the Pakistani arsenal. The Khan nuclear laboratory, an investigative journalist found, was paid for by a secret budget from which resources could be drawn at will, and subject to little or no oversight.¹⁸⁶ Khan paid kickbacks to individuals in his European network, who provided sensitive goods in exchange. By 1982, the Khan Research Laboratory had successfully enriched uranium to weapons-grade; two years later, it was positioned to sell the know-how abroad.¹⁸⁷ Working with covert suppliers across Europe, in South Africa, and in the Middle East, Dr Khan capitalised on his international prestige to create a covert global supply chain for illegal nuclear material.

“[the Khan network was] mind-boggling. All I know is there's at least more than 30 companies in 30 countries all over the globe involved in this fantastic, sophisticated illicit trafficking network with Mr. A. Q. Khan acting as CEO.”¹⁸⁸

Mohammed El-Baradei
Head of International Atomic Energy Agency

The network facilitated the transfer of sensitive nuclear capabilities to aspiring nuclear states, while Khan and his collaborators skimmed off the profits.¹⁸⁹ Over time, Khan siphoned off 10% of government procurement contracts, buying nine houses in Pakistan and London as well a hotel in Timbuktu, where a Pakistan Air Force plane had been commissioned to deliver furniture.¹⁹⁰ One of Khan's key intermediaries reportedly pocketed 30% of the cost of centrifuge designs and components delivered to Iran, estimated to cost \$10 million USD in total.¹⁹¹

Most leading experts generally suggest that Khan's activities must have enjoyed some level of sanction by the Pakistani government. One researcher, for example has pointed to the role of General Aslam Beg, then Pakistan's Chief of Army Staff, in authorising the initial transfers of nuclear items to Iran in order to build a strategic anti-Western alliance.¹⁹² But, even so, corruption among individuals and within institutions has been the key enabler. Weak institutions create significant vulnerabilities, opening the door for nuclear-ambitious states to acquire sensitive technology, equipment, or materials by circumventing corporate compliance procedures and export controls.¹⁹³

Incidents of nuclear and radioactive theft have grown steadily since the 1990s, with cases of theft reported in the IAEA's Incident and Trafficking Database (ITDB) system including highly enriched uranium and plutonium sources.¹⁹⁴ While non-proliferation efforts should continue to focus on the strengthening of international controls, at least as much attention needs to be directed toward ensuring those controls can be adequately implemented by states plagued by corruption and weak defence governance.

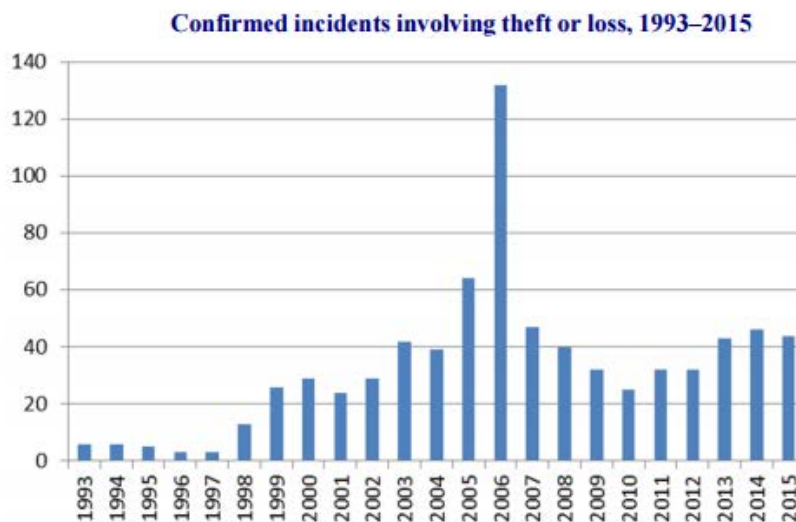


Figure 2. Incidents reported to the ITDB involving theft or loss, 1993–2015.

Corruption: fuelling arms races?

While secrecy can contribute to the weakening of oversight mechanisms and therefore to greater corruption and proliferation risks, there is plenty of evidence for transparency helping reduce inter-state tensions. During the Cold War, gradual increases in transparency through major agreements like the Nuclear Non-Proliferation Treaty, the Anti-Ballistic Missile (ABM) treaty and the Intermediate-range Nuclear Forces (INF) treaty, were used to prevent or help manage arms races.¹⁹⁵ More recently, initiatives in South America to encourage more open reporting of military expenditure are generally credited as having helped to build trust.¹⁹⁶ But greater transparency on its own is not always sufficient: more information on the defence capabilities of other states will do little to assuage neighbours unless matched by visible checks and balances on those in charge of them. It is secretive decision-making, as much as opacity around capabilities, that creates perceptions of unpredictability and confusion around underlying motives.

While greater transparency and better governance in defence almost certainly contribute to building regional trust, the evidence that corruption (as opposed to secrecy) actually results in arms races is less clear. But corruption is often the bedfellow of secrecy and it can be difficult to distinguish between a legitimate purchase of arms and a corrupt “modernisation” process driven by greed.¹⁹⁷ In either case, if the development of military capacity is coupled with a lack of transparency over decision-making, initial intentions can quickly become irrelevant.

It is likely though that corrupt practices may exacerbate or precipitate circumstances leading to arms races. The disproportionate influence of individuals can lead to sudden, unexplained purchases and create the perception of an aggressive armament policy. And it can happen when decision makers accept kick-backs for procuring armaments without a public debate or justification for why the armaments are needed; or when governments are swayed by non-transparent offset deals rather than actual defence needs. Similarly, domestic competition to retain a grip over corrupt sources of revenue through control of and investment in the security sector can lead to perceptions of hostility developing in neighbouring countries.

A lack of transparency over defence spending in Asia has been taking a toll on regional trust and cooperation. Home to some of the most dynamic emerging economies in the world, Asia has also seen an expansion in the size of military budgets: between 2005 and 2015, China, Bangladesh, Indonesia, Myanmar and Vietnam have more than doubled military expenditure.¹⁹⁸ Other states have also significantly invested in military modernisation as countries in the region have sought to outpace each other in the procurement of tanks, aircraft, naval vessels, and precision-guided munitions. In 2011-2015, six out of ten largest arms importers were Asian nations: India, China, Australia, Pakistan, Vietnam and South Korea.¹⁹⁹ But while budgets have been growing, the intentions behind this expansion of capability have been less clear. TI research for the 2015 Government Defence Anti-Corruption Index has found that only 6 out of 17 Asian countries surveyed publish their defence budgets and provide information on the allocation of resources, and only four have parliamentary committees empowered to scrutinise defence purchases.

“We have all heard the saying, ‘Sunshine is the best disinfectant.’ That is particularly true where Asian security is concerned. Indeed, I believe that a framework under which Asian governments publicly disclose their military budgets needs to be established if we are to build trust and avoid a regional arms race.”²⁰⁰

Shinzo Abe
Prime Minister of Japan, 2014

Clearly, there are several drivers behind expanding Asian defence budgets apart from any contributions that corruption can make. Studies of the region, however, pointed to at least some role for corruption in driving spending. Systematic corruption, either in the form of frequent, institutionalised patterns of kickbacks to public officials (one 1995 estimate put it at 35-40% of contract value for Thai defence officials) or senior officers using military procurement to cement their influence on the system has been identified as one possible reason for increased acquisitions.²⁰¹ Other research has also suggested that corruption can be correlated with higher military spending, with one estimate suggesting that bribes and kickbacks constituted as much as 15% of military acquisitions budgets.²⁰²

Destabilise and conquer: corruption as a foreign policy tool

Most frequently, corruption is thought of as a private activity degrading state institutions, impoverishing populations, and diminishing the quality of governance. There is, however, another aspect to the story: the possibility that states might create, encourage or use corruption within and outside their borders in order to weaken another state, exert illegitimate influence on its leaders, or deliberately foment instability.

The most striking use of corruption as a foreign policy weapon is Russia's attempt to maintain and rebuild its influence in Central and Eastern Europe.²⁰³ The 2008 Georgian War, the annexation of the Crimean Peninsula, and the support for separatists in eastern Ukraine have all demonstrated Russia's willingness to use intimidation and the threat of force in the pursuit of foreign policy objectives.²⁰⁴ Less direct, but arguably equally hostile and even more effective, has been Russia's use of coercion and corruption to shape the economic and political environment of states such as Bulgaria, Serbia, Moldova and Ukraine.²⁰⁵ Part of its strategy involves the exploitation of weak institutions and legal loopholes such as inadequate transparency of beneficial ownership to capture allies who can be either rewarded or blackmailed through corruption.

There is, admittedly, a fine line between the strategic use of corruption in foreign policy and the spread of corrupt activity as a result of private interests. This is particularly the case in states where the governing elites themselves have close links to organised crime and corrupt networks. In either case, the existence of opaque networks held together by corruption and blending the public with the private creates a major risk for weakly governed states; such networks can be easily manipulated away from private gain and toward strategic state use, especially when they span multiple countries. And once established, they are very difficult to understand, map, dismantle, and resist.

The base of the operation: government and corruption in Russia

Corrupting abroad starts with corrupt networks at home. Russia's model of state capitalism, developed under President Vladimir Putin, has been based on personal links and loyalties. Loyal allies of President Putin have been given directorships or appointed to the boards of Russia's largest companies, including aluminium producer Rusal, energy giant Gazprom (which became state property in 2005-6), and oil company Rosneft.²⁰⁶ Members of the President's party, United Russia, have also benefitted from state enterprises and contracts. This elite has controlled the companies' activities and investments abroad, with President Putin often remaining directly involved, even when the companies were traded publicly in New York and London. Over the first decade of the 21st century, these companies have displayed an increasing disregard for outside investors and an increasing focus on their domestic links. As head of Rosneft Igor Sechin put it, 'minority shareholders should not expect to be treated equally and should not expect such large dividends in the future, since Rosneft is not a charity fund.'²⁰⁷

Controlled by Russian political elites, Gazprom has proven to be a particularly useful instrument of personal enrichment and even foreign policy. Once President Putin's closest allies (some going back to the KGB) were appointed to Gazprom's board, the company's profitability declined sharply as the motivations behind investment decisions shifted away from the company's stated core business. One estimate was that in 2011, up to 70% of Gazprom's capital investments were not related to gas and could not be accurately assessed due to a lack of transparency.²⁰⁸ Another assessment suggested that in 2011 alone, the total amount of waste and corruption in Gazprom may have reached \$40 billion USD, compared to \$44.7 billion USD in profits.²⁰⁹

But corporate financial health was not the first aim of Gazprom, whose controllers (including Vladimir Putin) were willing to see the company lose out financially in favour of other objectives, such as the coercion of states dependent on Russian gas. In January 2009, for instance, Gazprom was estimated to have lost \$1 billion USD when it cut Europe's gas supply during one of its disputes with Ukraine.²¹⁰ Time and again, Gazprom made decisions that were not in the financial interests of the company, but which enabled it to funnel wealth to individuals. Aleksey Navalny, a Russian lawyer and activist, found Gazprom (among other state enterprises) making unexplained financial transfers and deals through which inflated contract payments were rerouted to questionable intermediaries. For instance, Gazprom bought gas from an independent producer, Novatek, through an intermediary, Transinvestgas. Days before the purchase, Gazprom had turned down an offer to buy gas directly from Novatek with a price tag of 30% of what it ultimately paid.²¹¹ Bill Browder, chair of Hermitage Capital and a prominent investor in Gazprom, argued in 2005 that this widespread reliance on intermediaries decreased Gazprom's effectiveness and profitability.²¹²

It's difficult to assess where individual corruption and theft ends, and a consciously designed system geared toward buying loyalty through kickbacks begins. The interlocking patronage networks have blended the political realm and organised crime, making the two difficult to tell apart.²¹³ However, what might in some instances begin as opportunistic investment designed to further business links or create personal enrichment opportunities, can easily become a mechanism to deepen Russian power and to counter what Russia perceives as US and Western encroachment upon its neighbourhood.²¹⁴ Especially if – as RusEnergy analyst Mikhail Krutikhin put it – ‘Gazprom has one manager: Putin,’²¹⁵ and the manager's strategy is to use the company as an instrument of state power and influence on neighbouring states.

Exporting networks: creating dependency abroad, protecting the system at home

The networks that dominate Russia's political and economic landscape have extended into other countries, especially the Central and Eastern European states that Russia considers part of its sphere of influence. Within this region, a lack of transparency, weak beneficial ownership regulations, and corruption are key enablers for Russian influence.²¹⁶ Russia has sought to influence political outcomes through, for instance, partnering or partially buying out large companies (especially in the oil and gas sector) which make significant donations to political parties, or by supporting and funnelling rewards to individuals with significant political or economic influence. In Serbia and Bulgaria, Russian companies financed and supported individuals who could be supportive of Russia's policies and priorities, sometimes through offshore investments and companies²¹⁷ Perhaps the most colourful example of Russian meddling was the former president of Lithuania, Rolandas Paksas, who was found to have been compromised by millions of dollars' worth of campaign financing received from Russian organised crime, raising concerns that his relationships allowed Russian intelligence services access to Lithuania's highest office. Paksas was impeached in early 2004, but the system-wide concerns remain.²¹⁸ Russia continues to attempt to try and infiltrate the Baltic states, where increasing numbers of politicians are at risk of compromise, simply by dealing with non-transparent Russian entities.²¹⁹

“...Russia has cultivated an opaque network of patronage across the region that it uses to influence and direct decision-making... [It] seeks to gain influence over...critical state institutions, bodies, and the economy and uses this influence to shape national policies and decisions. Corruption is the lubricant on which this system operates, concentrating on the exploitation of state resources to further Russia's networks of influence.”²²⁰

Center for Strategic and International Studies, 2016

The combination of increasing dependency on Russian state-owned companies in key state sectors, combined with attempts to control political parties and individuals through financial benefits, provide the means to bend whole states in the service of Russia's interest. That interest is twofold. In some ways, it is oriented outward, at enlarging Russia's sphere of influence. But in a more fundamental way, its purpose is actually internal: the creation of an international environment which helps maintain a domestic system of governance based on corrupt networks.²²¹ This issue became increasingly urgent after the wave of 'colour revolutions' in Eastern Europe and the Caucasus. Internal political changes coupled with EU and NATO ambitions were seen as threatening Russia's autocratic political system by offering a viable alternative in the region. In defence of that system, Russian elites employed a five-pronged strategy: insulating the system at home by cracking down on pro-democratic groups; bolstering other authoritarian regimes, such as that in Belarus; coordinating reactions with other authoritarian states, especially members of the Shanghai Coordination Organisation; attempting to undermine the changes through hostile rhetoric; and subverting the revolutions themselves – especially those in Georgia and Ukraine.²²²

Corrupting the revolution: Russia, Ukraine, and gas

Russia brought these methods to bear in the aftermath of Ukraine's 2004 Orange Revolution, which saw pro-European politicians displace Russian-backed coalitions at the helm of the state. Ukraine, of course, had a significant corruption problem: one assessment estimates that between 2004 and 2013, illicit financial flows removed \$116 billion USD from the country – equivalent to 64% of GDP in 2013.²²³ These outflows were, in all likelihood, connected to the activities of the Kremlin, which had used Ukraine's energy dependence and corrupted individual politicians to exert pressure over the country's policies and economic and political choices for some time.

“...Russia over the last decade or so has used another foreign policy weapon. It uses corruption as a tool of coercion to keep Ukraine vulnerable and dependent. So pursue those reforms to root out corruption. It's not just about good governance. It's about self-preservation. It's about your very national security.”²²⁴

Joe Biden
Former US Vice President

Russia's determination in both 2004, and more recently, to prevent the emergence of strong independent Ukraine has a mixed rationale. Russian national identity is tied up with its historical links to Ukraine, and key military facilities have been within Ukrainian territory, creating a perception among Russian elites that an independent Ukraine was both temporary and 'unnatural'.²²⁵ But a Ukraine which had successfully transferred to democracy and started pursuing a more European and NATO-related orientation would have also become a serious issue at home; it would have shown that a different political system is possible and can work, threatening the viability of Russia's autocracy.

“A successful, independent Ukraine means the death of Putin’s empire and his vision. If we are successful that dictatorship is over.”²²⁶

Oleh Rybachuk
Former Chief of Staff to President Viktor Yushchenko

Using gas to blackmail Ukraine following the Orange Revolution was not difficult. While Ukraine did produce some natural gas, by the late 1990s about 60% of its gas needs were supplied through Russia.²²⁷ Ukraine was a key customer for gas procured by Gazprom in Turkmenistan, which supplied about 40 billion cubic metres of gas every year. And Ukraine also acted as a conduit for gas sent from Turkmenistan to the European Union, with about 25% of the EU's gas supply needs transiting Ukraine in the early 2000s.²²⁸

As Yushchenko assumed power, gas was at the top of the agenda. After pro-Russian Leonid Kuchma was ousted in 2005, the Kremlin abruptly shifted from what James Sherr refers to as a subsidy-and-loyalty pricing model to a model based on a combination of threat and leverage.²²⁹ Gazprom's 'ask' in return for continuing the supply was a hike in price: from \$50 USD per cubic metre of gas to more than four times that amount, \$230 USD per cubic metre. While the Russian side claimed this was merely an attempt to receive a fair market price for the supply of gas, commentators billed the move as an attempt to exert political influence, as Ukraine could not, at least in the short term, meet that demand.²³⁰

Oleh Rybachuk, the newly appointed Chief of Staff to President Yushchenko, found himself at the centre of negotiations with Russia. His main memory of that period is one of bewilderment. The Russia-Ukraine gas trade did not operate directly between the countries' two state owned enterprises, Russia's Gazprom and Ukraine's Naftogaz, as might have been expected, but instead involved an intermediary, RosUkrEnergo.²³¹ Even more puzzling to Rybachuk was the apparent makeup of RosUkrEnergo. The company was a 50/50 joint venture, and on the Russian side was the powerful Gazprom, but on the other side were two Ukrainians with few real business credentials who had somehow managed to buy gas from Gazprom at prices lower than Gazprom itself had paid.²³² The company had been registered in Switzerland and the Ukrainian part of the joint venture was in fact held by CentraGas Holding AG, an Austrian company and a subsidiary of Raiffeisen Investment, on behalf of a group of Ukrainian businessmen who preferred not to be named.²³³ It was later ascertained that Ukrainian businessman with long-standing ties to the opaque Ukrainian gas business, Dmytro Firtash, was one of the owners of RosUkrEnergo. Firtash was also suspected of links with Semion Mogilevich, a long-time guest on the FBI's most-wanted list.²³⁴

Puzzled at the ability of two mysterious individuals to make a deal with Gazprom at prices lower than Gazprom had paid, Rybachuk later concluded that the company was apparently a way to channel money to Ukrainian politicians, financing election campaigns and providing kickbacks. Rybachuk left his first encounter with Moscow - including conversations with Putin's Chief of Staff and head of Gazprom's supervisory board Dmitri Medvedev - with an offer of \$2 billion

USD a year for Yushchenko's political war chest. Rybachuk advised President Yushchenko not to sign the deal; however, in January 2006, the gas crisis was resolved, giving RosUkrEnergo a leading role in the Russia-Ukraine gas trade. According to Rybachuk, Yushchenko had already done a deal with Firtash, who had connections to his brother.²³⁵

Rybachuk's story also illustrates the power of corrupt networks and the ease with which individuals with potential influence could be entrapped by them. Bearer bonds issued by Russian-Ukrainian intermediary companies –bonds allowing the bearer to draw benefits– were one mechanism Russia used to tether selected politicians to corrupt networks. Bearer bonds were used to transmit either bribes or political campaign contributions, with recipients assuming dividends could be redeemed anonymously. Shareholders, however, had made it possible to identify recipients at a later point, effectively creating a system of political blackmail.²³⁶

I said to Yushchenko, 'Now I know how they corrupt the whole country.'²³⁷

Oleh Rybachuk

Running on fumes – gas and the destruction of the state

RosUkrExport and its predecessors in the gas trade allowed the Russian government to buy the loyalty of the Ukrainian leadership, and many in Ukraine were not opposed to the arrangement.²³⁸ By 2005, when the Orange Revolution ousted some of the corrupt elites, the established networks backed by the threat of withheld gas supplies were in place and strong enough to make it difficult for newcomers to resist them. Even prior to Yushchenko taking office, leading oligarchs were priming Rybachuk for the role he was meant to play, advising him to cooperate and make a deal with Russia. 'The scheme must be working', he heard repeatedly. The opportunity to take a cut of RosUkrExport's profits was, as the oligarchs had put it, Rybachuk's 'historic chance' and 'life opportunity.' US embassy cables released through WikiLeaks painted a picture of RosUkrEnergo as a money-maker for the 'iron triangle' of corrupt businessmen, corrupt politicians, and organised crime.²³⁹

Many an external observer or even domestic voter has probably sat and listened to a highly persuasive leader expounding their commitment to clean government within a corrupt system, and wondered if they were serious about genuine reform. In the case of Yushchenko this may not be the most enlightening question to ask. RosUkrEnergo– and other companies like it – were put in place to corrupt the Ukrainian government, whoever they happened to be. There was a certain inevitability to Yushchenko's situation. The gas deal he eventually cut happened at the height of the Ukrainian winter, with a very real threat of gas shortages unless Gazprom's conditions were accepted. The lobbying of Rybachuk, the influence of Dmytro Firtash, and the ability of the Kremlin to exert pressure by switching off the gas tap all testify to the presence of a powerful system ready to entrap those who had not yet become part of it. Behind this deal and others has stood a network of interests, from security services to oligarchs, through officials, the media and the church, always operating on both sides of the Ukrainian border. The overall picture looks a lot like organised crime, with Russian security services masquerading as businesses, and, all the while, old KGB files containing a wealth of history on the Ukrainian elite remain in Moscow.²⁴⁰

With a network like this in place, the system of incentives is geared not towards integrity, but rather toward wholesale, large-scale corruption. Backed by cash, supported by security services, directed by the Kremlin, facilitated by weak governance and able to draw on the methods of organised crime, these networks pull the most important strings. Resisting them can be difficult and risky, and threats to those who try are real. As Viktor Yushchenko put it,

reflecting on his poisoning in 2004: 'Every politician in this country and neighbouring countries who turns towards the West is facing that kind of danger...My poisoning took place because I had started taking steps towards the European Union. We have a neighbour who does not want this to happen.'²⁴¹

Focusing on the role and choices of political leaders such as Yushchenko perhaps misses the point. The structure of influence that the Kremlin has been able to exert over Ukraine is extremely broad and entirely at the service the Russian interests. For many years the question in a state so weakened by corruption was not whether any particular President of Ukraine would be corrupted by the Russia state, but which corrupt individual Russia may choose to place in power.

Revolution, take 2: corruption in Ukraine after Maidan

The impact of Russia's strategy on Ukrainian security has been enormous, crippling the ability of successive governments to determine Ukraine's national interests and work toward them. In 2014, the Euro-Maidan protesters revolted against perceived Russian influence, government corruption, stagnation, and poverty; Russia's reaction was to use force. Ukrainian security forces – themselves plagued by corruption in conscription and diversion of military materiel – have been struggling to contain Russian-backed separatist movements.²⁴² Ukraine's anti-corruption crusade, initially strongly pushed by post-Maidan governments, has encountered pushback and slowed down.²⁴³ Nonetheless, there are some signs of progress. Ukrainian (as well as European) dependency on Russian gas has been reduced and, with good policy, will continue in that direction.²⁴⁴ This is no small achievement: corruption in the energy sector had led to such a wide range of vested interests that it had become almost impossible to reform.

But just as the Kremlin perhaps underestimated Ukraine's tolerance for corruption, it's quite likely that many will underestimate the Russia's resolve to control events in Kiev. In the long run, the biggest threat to Ukrainian sovereignty and security is probably not in the Donbass, but rather in the interconnected web of Russian patronage networks. Oligarchs such as Dmytro Firtash – in the process of being extradited to the US - still claim influence on Ukrainian politics, boasting of their key roles in having 'made' Petro Poroshenko President and Vitaliy Klitschko Mayor of Kiev.²⁴⁵ Institutional weakness, individual greed, and corrupting Russian influence are all still in place, threatening the country's fragile recovery, its development, and its territorial integrity.

Global influence: corrupt networks beyond the former Soviet Union

The influence of authoritarian, kleptocratic regimes extends far beyond countries with weak institutions and high levels of vulnerability to corruption. Illicit financial flows and the wealth that they help hide has made kleptocratic rulers serious players in Western countries. Dmytro Firtash, for example, donated £6m to Cambridge University to establish a centre for Ukrainian studies, and a UK-based company linked to him has donated £57,000 (as of 2008) to the British Conservative Party, including £20,000 to the then-shadow security minister.²⁴⁶ France's National Front, denied loans by French banks due to its history of racist views, was propped up by €11 million from the First Czech-Russian bank – which has links to the Kremlin.²⁴⁷ But, perhaps most importantly, the way business is done with Russian elites undermines the political norms of transparency and accountability. Major financial organisations are failing to follow up on suspicions of money laundering and all but ignoring beneficial ownership regulations, allowing large amounts of anonymously controlled money to flow through financial systems. Results of one investigation suggest that in a major financial operation dubbed the 'Global Laundromat', between \$20-\$80 billion was moved out of Russia between 2010-2014, using shell companies and benefitting from apparent failures of multiple banks to query suspect transactions.²⁴⁸

Authoritarian, kleptocratic elites use these financial backchannels – the scale of which was revealed in the Panama Papers – not only to hide and legitimise wealth, but to export their way of doing business. Unless countered, practices ranging from the illegal (bribery, hacking, tax evasion) to the unethical (such as tax avoidance through offshore banking) will weaken institutions and laws in other states.²⁴⁹

“[T]he lack of transparency, the practice of hiding the names of beneficiaries, the use of off-shore nameplate companies, and the secretive nature of Gazprom’s contracts with its clients all bode ill for the EU.”²⁵⁰

Roman Kupchinsky
Director of Radio Liberty in Ukraine

Corrupt networks operating in Russia have married personal enrichment with use of corruption as a strategy to undermine other countries, trying to prevent states that Russia sees as within its sphere of influence from further integration with the EU or NATO

While the strategy has produced some rewards and Russian elites have been able to hold on to influence in much of the former Soviet Union, it is high-risk, both at home and abroad. Within Russia, definition of national interest by a narrow elite and concentration of wealth in the hands of a tiny minority - 111 individuals own about 19% of the country’s wealth while top 10% of the population control 85% of the country’s wealth - has kept the majority of household incomes low, with the median wealth pegged at \$2,360 USD in 2015.²⁵¹ Kleptocracy on this scale, as analysis in the preceding chapters suggests, is likely to be highly unstable and vulnerable to internal upheaval as popular frustration rises. Keeping neighbours impoverished, ineffective, disenfranchised, and corrupt is also a risky strategy: it can create resentment which could well feed instability and anti-Russia activities in the region.

It is worth remembering, however, that Russia’s tactics would not be successful had it not been for Western carelessness and the failure to close off the avenues of corruption and opacity that enabled Russian actions, and which have, in the long run, weakened some of fundamental Western state institutions, including police and justice systems.²⁵²

Backing the wrong horse: international support to corrupt actors

Kleptocracies and the theft of resources are enabled by bad judgment, inadvertent facilitation, negligence, and sometimes targeted support from the international community, particularly when corrupt strongmen are perceived as important to short-term security goals. Corrupt actors rely on financial networks to hide the proceeds of grand corruption, and in some cases, on international support to foot the bill for basic public services, while spiriting away the lion's share of national resources. Political support for strongmen, especially in fragile and conflict states, can tip the scales in their favour, enabling them to build patronage networks and secure lucrative rents. At the same time, international trade and investment in countries struggling with high corruption levels is fraught with difficulties; while contracting with local actors can be a much-needed boost to the economy, large contracts coming with sweeteners for the ruling elite can perpetuate their hold on state structures and enable further diversion of resources.

But the international community can also make a difference for the better, as it did by supporting Guatemala's International Commission against Impunity (CICIG), which succeeded in dismantling corrupt networks and investigating high-profile individuals. In this case, the international community backed the right horse, showing long-term patience and readiness to offer support despite a lack of immediate results.

The making of a warlord: competing priorities in Afghanistan

The post-2001 international mission to Afghanistan illustrates the pitfalls of failing to prioritise corruption and criminal patronage networks. The 2001 Bonn agreement, which set up the framework for post-Taliban Afghanistan, placed former warlords (many with substantial records of human rights abuses) in positions of power, either as provincial governors or government ministers. The competing imperatives, immediate security considerations, and inattention to the growth of the resultant corrupt networks ended up creating strong, violent criminal patronage networks which undermined stabilisation efforts.

In Kandahar, strongman Gul Agha Sherzai used his position as provincial governor and chief US ally to build up an economic and political empire. Having facilitated the entry of US troops into Kandahar, Sherzai was seen as an important asset whose less savoury exploits could be overlooked if he could deliver security – including security for US bases. Partnering with Sherzai was part of a larger pattern for US operations; a light footprint and the priority attached to tracking down remnants of Al Qaeda and the Taliban meant that Afghan warlords, with access to militia and local clout, became indispensable partners.²⁵³

Sherzai and his approximately 1,500 men were showered with money and support. A commander in Sherzai's army claimed: 'We brought a car of cash with us...It was a Land Cruiser full of money.'²⁵⁴ But the US was not only giving Sherzai money and weapons to win the immediate peace, they also provided him with the foundations of a new patronage network.²⁵⁵ At a time of uncertainty, association with the US was a powerful lever which helped Sherzai consolidate his hold over Kandahar province. When the Taliban withdrew, they handed over control of the city to Hamid Karzai and Mullah Naquibullah, a respected tribal leader. However, US support enabled Sherzai to challenge this arrangement, and seeing US support of Sherzai, Mullah Naquibullah backed down.²⁵⁶ Sherzai's position was secured by the overt backing of powerful players and the resources they made available for him and his patronage network.²⁵⁷

On a sympathetic reading, maybe this kind of result is to be expected in the fog of war. But Gul Agha Sherzai became more than the US's gateway to Kandahar. He turned into their main base constructor, supplier, and protector, contracted to build the largest military base in Afghanistan. He exploited the international forces' need for functioning facilities by, for example, selling gravel to repair the Kandahar runway at rates more than 10 times the market price.²⁵⁸ Sherzai also provided workers, profiting from a commission while becoming the major employment gateway for Kandahar's population.²⁵⁹

Empowered by association and lucrative contracts, Sherzai was keen to preserve his privileged position and looked for other ways to provide US forces with what they wanted: intelligence on the Taliban. But by 2002, the Taliban had been largely pushed back to the border regions with Pakistan. Gul Agha Sherzai used this as opportunity to create an enemy from within the population of Kandahar, targeting potential rivals and using the impunity allowed by US backing to extort the population.²⁶⁰ Anand Gopal recounts a story of a baker in Kandahar who was repeatedly arrested and interrogated by US troops before being passed on to Sherzai's intelligence team. This man, however, was not conspiring to attack the Americans; in reality, Sherzai's force was simply extorting his family for bribes to release him.²⁶¹ Sherzai's intelligence served as a basis to imprison numerous Afghans, despite a lack of proven association with insurgent or terrorist groups. Commenting on a 2002 raid and associated arrests, a US spokesman stated: 'We don't know who we have, but we hope we've got some senior Taliban or at least some Taliban folks there...'²⁶²

Relationships with warlords such as Sherzai tarnished international forces by association, which came to be seen as complicit in corruption, extortion, and creation of insecurity.²⁶³ The behaviour of the putative security providers, more concerned with extorting bribes, overcharging for contracts, and land grabs than with helping to create security, bred resentment and support for the insurgency. Operating largely outside the law and undermining the fledgling Afghan state, these networks fuelled an insurgency and undermined the legitimate state institutions that the international community was hoping to develop.

Buying into defence exceptionalism: the international community and corrupt militaries

The development community often appears to step back where corrupt militaries are concerned. Perhaps it is the association of the sector with national security, or the perception of exclusivity in military-to-military links that make the sector subject to different rules or off limits for the development community; perhaps other considerations are seen as more important. In the DRC, for example, the predatory nature of the security forces has not yet been met with a significant international push for change. The UN peacekeeping mission in the DRC remains the largest single international mission with an annual budget of 1.5 billion USD and nearly 20,000 troops; however, security sector reform has been neither high on its agenda, nor particularly successful - only 1% of official development aid given to the DRC between 2006 and 2010 related to reform of the security system.²⁶⁴ The good news is that FADRC units have all received basic instruction in human rights and their obligations to civilians, but their exercises to increase integrity have been by-in-large pursued at the micro level, without an eye towards how longer-term institutional changes might take root.²⁶⁵

In other cases, questionable military institutions have been the targets of significant international support. The most obvious example of this has been the misplaced support for the Egyptian armed forces. As discussed in previous chapters, the high hopes of many Egyptians for a new social contract following the Arab Spring protests have effectively been subverted by the military. This happened with the tacit - but vital - support of the international community. International

legitimacy bestowed by significant amounts of security assistance and joint exercises has helped the EAF cement its privileged economic and political position.

Initially - following the anti-Morsi military coup - the US suspended delivery of major weapons systems (including F-16 fighters, Apache helicopters, missiles and tanks), only to reinstate it in March 2015.²⁶⁶ The F-16s were delivered in August of that year and the US embassy even announced them on Twitter, using President el-Sisi's campaign slogan as hashtag. The message was business as usual, with the reinstatement of military aid and joint military exercises.²⁶⁷ Meanwhile international support and financial assistance in post-Mubarak Egypt have removed any pressure to rein in the armed forces' excesses or prevent them from developing such a tight hold on the economy.

Egyptian civilians have paid a high price for the EAF's increased control over the country's political life and the coup the military orchestrated. Human rights organisations reported on civilian deaths in detention; Freedom House rated Egypt as 'not free' as censorship, with attacks on journalists and the marginalisation of the opposition parties.²⁶⁸

“...[T]he level of repression under Sissi [sic] surpasses that of Nasser... , which is something of a remarkable feat. In the first year after the 2013 coup, at least 2500 civilians were killed and 17,000 wounded. By March 2015, security forces had arrested more than 40,000 people, the majority of them on grounds of suspected support for the Muslim Brotherhood, although leftist activists, journalists, and university students were also detained. ...[A] growing number of Egyptians have 'disappeared.' ...As one prisoner recalled of his time at Azouli, a military jail that can't be seen by civilians: 'There is no documentation that says you are there. If you die at Azouli, no one would know.'²⁶⁹

Shadi Hamid
Brookings Institute, 2015

The military's economic preoccupations have also come at a cost for the EAF in the form of new internal rivalries. Under Mubarak and Morsi, the military was a business faction in its own right, angling to influence the government. Now, different military organisations compete with one another in their commercial undertakings. When el-Sisi amended the Armed Forces Land Projects Agency in 2015, for example, it permitted the organisation to engage in the development of military real estate, as opposed to just overseeing its sale.²⁷⁰ As a result, the Armed Forces Land Projects agency is competing against other military-owned companies and EAF bodies seeking to enter into joint ventures.

Perhaps most importantly, in post-revolution Egypt, the military has become a faction, rather than a national force, and has moved from enjoying public support to evoking public resentment.²⁷¹ Interviews with Egyptian civilian society leaders and academics point to a decline in public trust in the Egyptian military since the days of Mubarak – the image has shifted from that of a 'neutral entity' to a 'corrupt, autocratic entity.'²⁷² And although the military has attempted to improve their image through PR campaigns, little has been done to restore trust.²⁷³

In short, the Egyptian government is a highly questionable horse to back. The loss of public support and the military's focus on business interests, combined with popular frustration and a lack of economic opportunity is a recipe for further insecurity. With ISIS perpetrating more and more attacks on the Sinai Peninsula, the EAF is struggling to cope: border control, search and rescue operations, and counter-terrorism activities have all seen diminished effectiveness.²⁷⁴ The temptation may be for the international community to offer more unquestioning support. But it is the failure to encourage deep reform, which puts the interests of people at the heart of the government's agenda, that is the root cause of Egypt's instability. In the end, a corrupt Egyptian military will be the architect of its own security crisis.

Guatemala: the right bet

Guatemala emerged from civil war in 1996 with a military and police force accustomed to wide-ranging impunity, following a long-lasting counter-insurgency warfare conducted with scant regard for the civilian population. A militarised police force, which had been part of the counter-insurgency campaign, was implicated in human rights abuses. The judiciary – unqualified, low-paid, and under-resourced – could be easily swayed by bribes and unable to provide effective prosecution services. Military officers were exempt from prosecution in civilian courts, and military courts customarily refrained from prosecuting human rights abuses and corruption. Impunity, in turn, promoted a high incidence of criminal behaviour among the military, which was involved in kidnappings, murder for hire, smuggling, illegal land expropriation, and large-scale theft.²⁷⁵ Wartime networks, feeding off existing relationships and a lack of sanctions for criminal behaviour, morphed into organised crime groups, which were later able to expand and consolidate their influence as the conflict abated and weak state institutions left them plenty of room for manoeuvre.²⁷⁶

The Agreement on the Implementation, Compliance and Verification Timetable for the Peace Agreements (29 December 1996) included provisions on improving governance and controlling corruption. Corruption was explicitly recognised as a threat:

“...social and economic imbalances, poverty and extreme poverty, social and political discrimination and corruption, among others, are risk factors and a direct threat to democratic coexistence, social peace and, hence, to democratic constitutional order.”²⁷⁷

However, while the Accords were comprehensive, implementation lagged. The Accords lacked practical detail and failed to establish verification mechanisms. Weak government and civilian institutions, combined with few prescribed actions, meant elite groups could block reform initiatives and the constitutional amendments needed to push them through. This included democratisation, indigenous rights (and access to justice), judicial reform, and improvement of tax collection.²⁷⁸ Power remained in the hands of the narrow group of elites that sat around the negotiating table, armed forces continued to play an important role in politics, and the post-conflict government was dominated by the same parties that were in power during the conflict.²⁷⁹

It was with this backdrop that a UN-supported institution managed to marry extensive powers, local support, and international backing and expertise: the International Commission against Impunity in Guatemala (CICIG), formed in 2006. The concept of the CICIG originated with Guatemalan civil society. Pressure from human rights groups had led the authorities to ask the UN to create an international body in support of the country's justice system. In 2006, the CICIG was established as an independent, international, investigative body designed to support the Public Prosecutor's Office, the National Civil Police, and other state institutions in the investigation of crimes committed by members of illegal militant structures, and to help disband such groups.²⁸⁰

While the CICIG mandate does not explicitly mention counter- and anti-corruption activity, the organisation's legal position was nonetheless strong enough to allow investigations into high-level corruption and to target corrupt networks. The Commission's investigative achievements include filing charges against more than 160 current or former government officials, including former and sitting Presidents, Vice Presidents, and defence and interior ministers.²⁸¹ The Commission also succeeded in building up the capacity of the Guatemalan police and prosecution services, including an ability to handle evidence and build cases around physical evidence in addition to witness testimonies.²⁸² It created 'islands' of vetted, reliable police, investigators and prosecutors; a new team of 10 young Guatemalan prosecutors within the Ministerio Publico was quickly cemented through an early victory on a major case that involved multiple arrests.²⁸³ A similar approach was taken with CICIG police units whose officers were taken straight from the academy. The CICIG also pushed for the approval of new legislation that created special tribunals based in Guatemala City, to increase personnel security and circumvent the corrupt judiciary.²⁸⁴ It helped that CICIG Commissioners were skilful in building up public and civil society support for the institution, thus indirectly helping create political will for change.²⁸⁵ On the other hand, however, it appears that CICIG has not yet managed to push through sufficient judicial reform and capacity building to enable Guatemala's justice system to stand on its own two feet, and security sector reform appears to have stalled.²⁸⁶

What success the CICIG has had was rooted in its statutory authority and in the international support it received. The Commission's existence was based on an agreement between the UN and the Guatemalan government, empowering CICIG to conduct independent investigations, including the use of aggressive tools such as wiretapping.²⁸⁷ The Commission was opposed by some on national sovereignty grounds; others, however – including some government ministers and crucially the Guatemalan Ministerio Publico – supported it.²⁸⁸ Importantly, long-term international support enabled the Commission's largest successes, which did not happen until six to eight years after it was established, showing that long-term planning and patience are necessary if structures like these are to work.²⁸⁹ This was where international pressure and support made a crucial difference, ensuring mandate renewal, adequate resources, and political clout for the Commission.²⁹⁰ Despite its limitations, CICIG is an example of a successful, effective investigative and prosecutorial service which shows that justice and security reform in fragile and post-conflict states is possible and should be supported by the international community.

International negligence: financial outflows from the developing world

Illicit international financial flows are a key enabler of corruption on a grand scale, enabling kleptocrats to hide illicit income in safe destinations, usually in Western Europe or North America. Studies estimate that developing economies lost \$7.8 trillion USD through illicit financial flows between 2004 and 2013, with outflows increasing at an average rate of 6.5% per year - nearly twice as fast as global GDP. The international community has been guilty of negligence and a distinct lack of enthusiasm for either closing loopholes or penalising those who enable kleptocrats.

Nigeria, the African continent's largest economy, is suffering from the largest per annum illicit financial outflows. Former Nigerian military dictator Sani Abacha is estimated to have laundered an estimated £780 million through UK banks, with Barclays Bank alone reportedly handling more than £145 million. In 2016, 55 people—including Nigerian government ministers, military procurement staff, state governors, and bankers—were reported by a presidentially-appointed audit committee to have stolen 1.34 trillion naira (\$6.8 billion USD) over a seven year period, in the shape of inflated or phantom arms deals. A further \$2 billion USD was stolen from the National Security Budget under the watch of the National Security Advisor, Colonel Sambo Dasuki, and moved abroad. In total, audits estimate that about \$15 billion USD was stolen through opaque, fraudulent procurement of arms between 2010 and 2015.²⁹¹

Western banking systems have combined with regulatory loopholes and a shadow network of high-secrecy jurisdictions to enable theft on a massive scale. The 2016 Panama Papers investigation showed that kleptocratic rulers often exploit the anonymity of Western banking, lax corporate procedures, and patchy implementation of existing transparency standards to hide the proceeds of grand corruption. Vast sums have been wired to offshore bank accounts through shell companies and concealed in anonymous bearer bonds before being transferred with the help of the legal and banking sector, to the US, UK, and UAE. The Panama Papers and recent studies by Transparency International UK have shown that over 44,022 London real estate titles are owned by overseas companies.²⁹² Of these offshore properties, 91% are held by anonymous companies in offshore jurisdictions – predominantly in Panama.²⁹³

These illicit financial outflows negate the potential benefits of development aid. Western aid to Africa totals about \$30 billion USD per year, but illicit outflows are estimated at about \$35 billion USD.²⁹⁴ The loss of much-needed resources perpetuates poverty and inequality, creates grievances, and enable conspicuous corruption which can pit the governing against the governed, preparing the ground for conflict.

Trading with kleptocracts

Trade, a crucial component of development in many cases, is a pathway for illegal financial outflows in others, and can be problematic if international companies and governments fail to enforce standards that could help prevent corruption.²⁹⁵ In Angola, for instance, corruption has led to the formation of a kleptocratic state where, despite oil and diamond revenues, an estimated two-thirds of its 19 million citizens are living in poverty, on less than \$2 per day.²⁹⁶ Angola has one of the highest child mortality rates in the world with one in five children not surviving to the age of five, and over one million children outside the primary school system.²⁹⁷ According to the Angolan Central Bank, \$17 billion USD left the Angolan economy from 2010 to 2015 – ‘several orders of magnitude above foreign direct investment in the country’.²⁹⁸

Despite the evident systemic corruption, the international community has done little to press for change. Most of those that have engaged have done so with the intention of sharing in the profits of a kleptocratic state. There have been significant opportunities for international defence companies. Angola spent 5.2% of its GDP on defence in 2014 (and 3.2%, or \$3.6 billion USD, in 2015) – in absolute terms that’s more than Kenya, DRC and Nigeria combined.²⁹⁹ But many of the weapons systems seem of questionable utility, especially given historic examples of the military lacking even basic supplies such as food and clothing.³⁰⁰

The award of contracts in the Angolan defence sector – especially with French and Portuguese companies – has been riddled with bribery. ‘Angola Gate’ saw hundreds of millions of dollars of defence contracts—including the procurement of tanks, warships, aircraft and munitions – awarded through corruption, further feeding malignant networks. Although the resulting investigation originally saw 36 convictions in France, most of these were overturned by the appeals court because French law could not be applied to sovereign purchases by Angola. No one in Angola has ever been charged with an offence.³⁰¹ In 2011, a French court of appeals overturned the conviction of a former French Minister of the Interior, Charles Pasqua, who had initially been sentenced to one year in jail (two suspended) for receiving illicit lobbying payments to facilitate an arms transfer to Angola worth \$790 million USD in the 1990s, while the Angolan civil war was still on-going.³⁰² Reports state that the Angolan armed forces continue to pursue the acquisition of high value acquisitions such as warships, aircraft, and UAVs, although there have been no military deployments requiring anything like the volume of arms that are being purchased.³⁰³

Hedging our bets: international interventions and corruption

The international community – whether governments, civil society or international organisations – often plays a positive role in ending conflict. United Nations peacekeeping missions have contributed to ending civil wars and helped states transition out of them and UN support to CICIG was a crucial factor in the success of the organisation.³⁰⁴ But, sometimes, the international community can do more harm than good. Political support for kleptocratic leaders, a focus on short-term security goals, a failure to shape the conditions necessary for long-term development, or an irresponsible approach international trade can all add to the factors driving instability.

Many developed countries seem conflicted in their approach. On the one hand big sums are being invested into tackling the consequences of corrupt and often fragile states, be that migration flows or all-out wars. But at the same time many of the same countries are failing to pay sufficient attention to the risks of allowing large defence sales into highly corruption prone markets. Defence spending is expanding rapidly across the globe, but is rising fastest where governance and transparency are weakest; the \$120 billion spent in defence across the MENA region, is matched by an almost complete absence of independent scrutiny or accountability. The result is proportion of resources spent on defence, which may be used to sustain corrupt power structures, creating high risks of diversion or long term instability.

Similarly, despite the experience in Afghanistan and Iraq, where corruption derailed the international stabilisation missions, preparedness for handling corruption risks in military operation remains low across the globe, including in NATO countries. Among 22 NATO countries surveyed, only four prepared their forces for assessing and mitigating the impact of corruption on a mission by addressing it in military doctrine; only five monitor corruption levels on operations; and only two appear to have systematic anti-corruption training for deploying troops.³⁰⁵ Among 25 top troop contributing countries (TCCS) to UN missions, 10 are at critical risk of mishandling corruption in peacekeeping and stabilisation missions due to lack of preparation, procedures and training; the other 15 run either very high or high levels of risk on operations. Selection of troops for peacekeeping and stabilisation missions is frequently ridden with bribery; none of the top TCCs have either military doctrine, pre-deployment training, or monitoring procedures. And, while the United Nations relies on individual countries to address misconduct in missions, in at least 40% of TCCs we have found no evidence of misconduct having been punished.³⁰⁶

In particular, the international community needs to let go of the illusion that strongmen create stability. Supporting Afghan warlords and Iraqi sectarian leaders with very few strings attached undermined the longer-term goals of international interventions; unconditionally supporting the Egyptian military as it creates instability through repression, violence and corruption, is unlikely to bring better results. But there are other equally damaging, if less obvious ways in which the international community is sustaining corrupt power structures – from rolling out the international red carpet to allowing access to the best lifestyle money can buy. The international community needs to marry human security with state security and stability, and undertake interventions which build resilient institutions geared toward creating long-term security and development.

What next?

Corruption is not yet a regular feature at the top level of foreign and security policy. It should be.

When leaders steal and countries are run by predatory institutions, the door is opened for terrorism, state failure, conflict, proliferation of nuclear weapons, and interstate tensions.

Had the international community recognised the threat, it might not have empowered warlords, and allowed unaccountable defence sectors to undermine development and security. It might have invested more in ensuring that governments are run for the benefit of their populations.

It is tempting to think that corruption flourishes only where institutions and regulations are weak, and that more laws and anti-corruption institutions will address the issue. And sometimes it does, where sustained public pressure and political support for reforms exist. But laws and institutions are not always sufficient. When governments are geared toward extracting maximum public resources for their private gain and actively subvert and circumvent existing regulations, interventions have to focus on power and incentive structures, not exclusively on building the capacity of institutions.

If the international community is serious about tackling corruption, it needs to treat it as a top tier foreign and security policy challenge, central to preventing wars, limiting nuclear proliferation, and countering extremism. It needs to appreciate the consequences that corruption has for human, national, and international security. Only then will we be able to form a successful approach to dealing with governments that are malicious. Treating corruption as a political and security issue is imperative if the international community is to apply the political pressure necessary for development approaches to work.

Development: tackle the underlying causes of poverty and injustice

Address grand corruption and kleptocracy as a development issue. Development challenges are not limited to resource shortages. Corruption and weak institutions create and perpetuate acute poverty and inequality. Conspicuous corruption among elites, combined with widespread poverty and injustice, is a recipe for instability and insecurity. Pumping in more resources without addressing the underlying problems will not help.

Tackle the roadblocks, wherever they are. Too often, public spending that could go on the areas that the public most care about, such as healthcare or education, is diverted to areas where corruption opportunities are most fertile. In many countries with high levels of inequality and poverty, defence budgets are the largest areas of government spending, yet receive the least scrutiny or attention. A lack of accountability and the prevalence of knee-jerk secrecy in defence budgets can become an easy way for corrupt governments to hide money, extract kickbacks and pay for extensive patronage networks. The development community, however, tends to see this as a military problem – which is a recipe for letting it fall through the cracks.

Invest in oversight and accountability mechanisms. Anti-corruption institutions such as the CICIG in Guatemala can help post-conflict and fragile states dismantle some of the wartime legacy networks with a hold on the country's resources and access to political office. The international community can assist these institutions in developing expertise, and can provide additional empowerment where national conditions might undermine them. While they take time to be successful and their effectiveness does depend on particular contexts and conditions, these institutions are promising options in post-conflict environments.

When delivering aid, track its use and application to minimise the risk of waste and diversion and encourage political integrity. With insufficient oversight, international aid can become a secure source of income to kleptocratic elites, removing incentives for reform and better governance. Aid needs to be directed to institutions that support integrity reforms and strengthen oversight structures, and disbursed carefully to ensure funds aren't misused.

Ensure development efforts are backed by a wider diplomatic strategy to shift incentive structures. To make progress in systemically corrupt environments, donors must be prepared to take strong action to contain those in government with suspect motives and behaviours. That means increasing understanding of corrupt networks and proactively working with others in the international community to maintain political pressure to address corruption.

Security: stabilising fragile and post-conflict environments

Plan for tackling corruption. The United Nations, NATO, the African Union and other regional organisations - as well as individual countries' intervention forces - need to recognise the threat of corruption, and their own role in mitigating or entrenching it. The current picture leaves much to be desired. NATO should use its recently adopted Building Integrity policy and action plan to ensure that Alliance institutions and individual nations include counter-corruption initiatives in planning for operations, and to make corruption a mainstream element of military education. The United Nations and African Union need to recognise the problem of corruption in operations at a policy level, and put in place stronger anti-corruption mechanisms both at the headquarters level and in Troop Contributing Countries.

Focus on security sector reform. Post-conflict states, with legacies of weakened institutions, lower social trust, and pre-formed networks that can easily morph into organised crime syndicates, are especially vulnerable to structural corruption and the formation of kleptocratic networks. Police and the armed forces can become key battlegrounds for post-war networks, and can either facilitate or pull apart the post-war settlement. Security sector reform, including corruption-proofing the police and the armed forces, needs to be a key element of peace settlements and their implementation.

Avoid train-and-equip approaches. Fragile states tend to be priority targets for international support, but have the weakest institutional capacity for absorbing assistance. Security forces might be the most natural interlocutors for defence engagement and security assistance, but when they prey on the population and operate outside of civilian control, train-and-equip programmes run the risk of turning weak and predatory forces into highly capable ones. In these environments, more than any other, corruption risks need to be systematically taken into account in the design and delivery of security assistance programmes, recognising that both knowledge and equipment can be diverted or misused for factional or private gain.

Address defence exceptionalism and strengthen oversight over security institutions. Unless they are redirected toward providing security for the population, predatory defence institutions can be one of the largest sources of insecurity. Defence governance should thus not be accorded special treatment; rather, it needs to be part of institution-building and accountability-related reforms in post-conflict states. A strong focus should be placed on oversight through parliamentary defence committees, state audit offices, and civil society organisations. Investing in the empowerment and capacity of supreme audit institutions has been shown to be one of the most effective anti-corruption measures, but in many countries these audit institutions do not have the mandate or access to the information they need to oversee defence institutions. Strengthening military capability without strengthening controls on the exercise of military power is risky. Building up links between the military and civilians, on the other hand, helps ensure the security forces are ultimately controlled by the society they are tasked to protect.

Increase transparency of security assistance. No single large security assistance provider releases comprehensive and timely data on their security assistance programmes. Lack of information about international programmes increases the chances that funds will be diverted and undermines efforts to build domestic oversight.

Recognise that ideological arguments of extremist groups feed off practical concerns about legitimacy and effectiveness of institutions. While it may be tempting to put a premium on countering ideological arguments, such an approach risks overlooking the many factors that enable extremist groups to rise and to function. The authorities' failure to collect trash, provide uninterrupted access to electricity, and stamp out petty corruption in border forces might not seem like key foreign policy issues, but they can be. A lack of basic services combined with conspicuous elite corruption, cross-border smuggling, and petty bribery are the air that extremist groups breathe.

Smart diplomacy: countering kleptocracies and preventing their rise

Be more discerning in choosing allies and partners. Many leaders on whom the international community relies are not adding much to the fight against insecurity, extremism and poverty. Too many Western governments focus on trying to gain influence with corrupt autocrats because they see them as an alternative to instability. The power and influence of a charismatic warlord or an absolute monarchy can be seductive, especially if the alternative appears to be chaos. But, when allowed to grow with no oversight, no competition, and access to international assistance and recognition, such leaders can become causes of instability, not the solution. Corrupt governments are the architects of future security crises. The first step is doing away with the idea that 'access equals influence' in diplomatic relationships. By shoring up autocrats and eroding political competition, this approach undermines any pressures for accountability that a democratic system might create.

Shape sustainable peace agreements. In cases of violent conflict, ending the violence and preventing loss of life is the priority. At the same time, long-term, structural access to state resources for corrupt spoilers should not be the price of peace, and pushing for immediate electoral and political recognition can put long-term stability at risk. The importance of democratic elections is well acknowledged, but it has to be weighed against the possibility that with little time for competitive political parties to be formed, wartime networks might simply take advantage of the process to gain political legitimacy and cover for illegal activities.

Leverage international pressure to ensure basic reforms are implemented. Basic changes such as the publication of the defence budget and information on the makeup of security institutions can help reformers push for change. Security sector reform efforts are often political by nature, not just technical. To be successfully implemented, priorities for reform should be consistently relayed across diplomatic, development and defence departments.

Back the right horses. In the search for stability, plan for the trade-off: supporting autocratic strongmen in the short term is likely to create an illusion of stability. That stability will disperse or collapse in time if their actions break norms and expectations, subvert state structures, and rob populations of resources. Providing condition-free political support and aid that either strengthens venal governments or lets them get away with failing to address the basic needs of the population should no longer be an option. The international community has an array of options at its disposal that it can and should use to change the calculus, including financial sanctions, visa bans, asset recovery possibilities, security assistance, and withholding international recognition and legitimacy.

Strengthen the international consensus in favour of transparent and accountable government, especially over the defence sector. Amplify the voices of those in power who share the values of accountability and transparency, invest political and diplomatic attention in their success, and push for their efforts to encompass the defence sector, which has in many cases escaped the implementation of good governance norms. The international community needs to recognise that rising defence expenditures are not necessarily a recipe for more security if it is unclear how and for whose benefit the new military power will be governed. Defence governance standards, including transparency, accountability and inclusive formulation of policy, should be widely adopted.

Close loopholes in arms export policy. Procurement of arms is a key factor enabling extremist groups and corrupt regimes to survive and divert resources from their legitimate use. As vulnerability to corruption can cause states either to make wasteful purchases or allow weapons to be diverted and fuel conflict, implementing safeguards aimed at minimising risks in arms export is a key challenge. While institutions such as the EU already have procedures aimed at minimising the risk of diversion and fuelling of conflict, weak defence oversight and lack of transparency of recipient defence budgets make it very difficult to apply these criteria. Supplier states should use their leverage to push for adoption of more robust defence governance standards. They should also increase the transparency of their exports, to empower citizens and oversight institutions in recipient countries to conduct their own scrutiny.

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