

Justice Africa

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Draft Report

‘Defence Procurement, Corruption and Illicit Financial Flows’

for

The TANA High-Level Forum on Security in Africa

February 2014

Introduction

The following report attempts to examine the linkages between defence spending, corruption and illicit financial flows. The content of the research is guided by the TANA Forum Terms of Reference, dated 16 December 2013, and the research proposal submitted by Justice Africa to the TANA Forum in November 2013.

This report is structured in three. In the first section, the report discusses the global experience of defence spending and its connection to corruption, often facilitated by illicit financial flows. This section emphasises that corruption in defence procurement is a global phenomenon. The reasons for this are unpacked, with a focus on the manner in which defence procurement is unique in all government expenditure due to its connection to national security concerns.

The second section addresses the experience of defence procurement and corruption on the African continent. Included in this section are an analysis of formal defence procurement mechanisms on the continent and their susceptibility to corruption; a discussion of the scale, content and form of formal government defence purchases on the continent in the previous 20 years; and indicative case studies that illustrate the connections between government defence procurement, corruption and illicit financial flows.

The third section concludes with recommendations based on the foregoing.

Before moving onto the body of the report, it should be noted that this report draws on the Transparency International definition of corruption¹, which reads:

‘Corruption is operationally defined as the abuse of entrusted power for private gain. Transparency International further differentiates between ‘according to rule’ corruption and “against the rule” corruption. Facilitation payments, where a bribe is paid to receive preferential treatment for something the bribe receiver is required to do by law, constitute the former. The latter, on the other hand, is a bribe paid to obtain services the bribe receiver is prohibited from providing.’²

The report modifies this reading to include the act of corrupting (be it successful or not), that is defined as the act of offering any inducement that may result in an undue advantage.

¹ It should be noted that the African Union, in its Convention Against Corruption, does not provide a single definition of corruption. Rather, it provides a list of 9 acts that are considered as falling under the rubric of corruption. We have adopted the Transparency International definition for ease of operational use, but recommend that the African Union Convention, in particular Article 4, be consulted for a list of activities we additionally conceive to be considered as corrupt. See: African Union Convention on Preventing and Combating Corruption, Adopted by the 2nd Ordinary Session of the Assembly of the Union, Maputo, 11 July 2003. http://www.africa-union.org/Official_documents/Treaties_%20Conventions_%20Protocols/Convention%20on%20Combating%20Corruption.pdf

² Transparency International: Frequently Asked Questions, www.transparency.org/news_room/faq/corruption_faq

Part One

Defence Procurement, Corruption and Illicit Financial Flows: The Global Context, Typology and Causes

Defence procurement is intimately linked to corruption. Indeed, the defence sector is widely acknowledged as one of the most corrupt – if not the most corrupt – in the international arena. One study conducted by the analyst Joe Roeber, using international treasury and intelligence databases, found that 40% of all corruption in global trade occurred in the defence sector.³ This estimate is surpassed by an admittedly more impressionistic estimate provided by the 2000 US National Export Strategy Report. Between 1994 and 1999, the Report notes, the US became aware of ‘significant allegations of bribery of foreign firms in 294 international contract competitions valued at \$145 billion... About half of the bribe offers are for defense contracts.’⁴ More conservatively, Transparency International estimates that \$20bn in defence spending per year is inflected with corruption.⁵

As this suggests the more that a state spends on defence, the greater the risk of corruption. This is borne out by a groundbreaking 2000 study by Gupta, de Mello and Sharan of the International Monetary Fund.⁶ After conducting a cross-study of corruption perceptions and defence procurement in 120 countries, the paper reported that ‘corruption is associated with higher military spending as a share of GDP and total government expenditures, and with larger procurement outlays in relation to both GDP and government spending... countries perceived as being more corrupt tend to spend more on the military.’⁷ It should be noted that the paper highlighted large procurement outlays, rather than other forms of military spending⁸, as indicative of greater levels of corruption: countries perceived to be corrupt were more likely to undertake large defence purchases.

It is difficult to provide a fully informed estimate of the total amount paid in bribes, commissions or other inducements. One estimate is provided by the corruption specialist, Vito Tanzi. Tanzi, in an influential 1997 study, reported that an estimated ‘15 percent of the total money spent for weapons acquisitions may be “commissions” which fill somebody’s pockets.’⁹

Methods of Corruption

There are a plethora of methods by which corrupt conspiracies are enacted in the defence sector, of which this report only details the most frequently used. The most common form of corruption is bribery, in which payments in cash or kind are solicited or paid to ensure a

³ Roeber, J. 2005. ‘Hard Wired for Corruption: The Arms Trade and Corruption’, *Prospect*, 28 August 2005

⁴ *National Export Strategy: Working for America*, Trade Promotion Coordinating Committee, March 2000, p. 11

⁵ ‘Government Defence Anti-Corruption Index 2013’, Transparency International,

<http://government.defenceindex.org/sites/default/files/documents/GI-main-report.pdf>

⁶ Gupta, S., de Mello, L. & Sharan, R. 2000. ‘Corruption and Military Spending’, International Monetary Fund, Working Paper, WP/00/23

⁷ *Ibid.*, p.

⁸ Such as the costs of reproduction: wages, rations, construction and housing

⁹ Tanzi, V. 1998. ‘Corruption Around the World: Causes, Consequences, Scope and Cures’, International Monetary Fund, Working Paper, WP/98/63, p. 7

specific outcome (whether ‘with the rule’ or ‘against the rule’). The payment typically takes the form of cash or electronic transfers, although it is also not uncommon for payments to take the form of moveable commodities with international markets such as diamonds, jewellery and other luxury items. It should be noted, here, that it is extremely rare for payments to be made directly from an equipment supplier to an official. Instead, these transactions are usually conducted via a third party – an agent, broker or marketing advisor – so as to create a distance between the corruptor and the corrupted.¹⁰ It should also be noted that many of these payments are made via complicit banks located in secrecy jurisdictions. This makes money trails purposefully opaque and limits the ability of investigators to trace the purchasing of influence. Illicit financial flows are thus vital to the successful operation of many bribery schemes in the defence sector.

That this form of corruption – and the employment of agents in such schemes - is commonplace is confirmed by a 2011 international investigation into the activities of the German arms manufacturer Ferrostaal by the US law firm Debevoise & Plimpton. The report found that the firm had paid €1.18bn in suspicious payments for contracts between 1999 and 2010. The report tracked numerous payments to ‘agents’ in Portugal, Greece, Egypt, South Africa, Turkey, Korea, Pakistan, Indonesia and Libya.¹¹ The report also described the creation of a London-based company, Marine Force International, which was suspected of being a front for bribe payments. Notably, this company was a joint venture between Ferrostaal and fellow German arms producer ThyssenKrupp, suggesting the pervasiveness of corrupt intent amongst major global arms suppliers.

The second method is via the creation of an unstated conflict of interest. In this instance, a figure of influence, usually a procurement official or a politician with input into a transaction, is granted a share or directorship in a company that will profit from a particular arms transaction. This is usually actively hidden and unstated, allowing the official to manipulate procurement processes without needing to disclose a conflict of interest.

The third method is post-employment, in which officials or persons of influence who have had oversight over a defence transaction are employed, either directly or via subsidiary, by a participant in a defence procurement competition. This is known as the ‘revolving door.’ This problem is particularly acute in the United States. In 2010 the *Boston Globe* reported that 80% of all retiring three and four star generals had taken employment with US arms manufacturers between 2004 and 2008.¹²

The final method is via insider trading or preferential business access. This usually becomes a concern when a defence procurement includes an ‘offset’, ‘countertrade’ or compelled industrial participation component. Under these circumstances, arms selling companies are

¹⁰ For numerous examples, see: Feinstein, A. 2011. *The Shadow World*, Farrar, Straus and Giroux: London and Sampson, A. 1991. *The Arms Bazaar in the Nineties: From Krupp to Saddam*, Coronet Books: Philadelphia

¹¹ ‘Ferrostaal Internal Probe Finds Questionable Payments’, *Wall Street Journal*, 10 October 2011. A full copy of the Debevoise & Plimpton Report can be downloaded from <https://www.google.co.uk/url?sa=t&rct=j&q=&esrc=s&source=web&cd=1&cad=rja&ved=0CCsQFjAA&url=http%3A%2F%2Fkassios.files.wordpress.com%2F2012%2F10%2Fconfidential-secret-report-findings-re-ferrostaal-greek-gov-case-pribes1.pdf&ei=6q4EU67XD-i47Abng4GgCQ&usg=AFQjCNEJpSGFONzBmH9rq9PETaPkQqYnNw&sig2=BGywdKNCF78qg7IPmxyOGA&bvm=bv.61535280.d.ZGU>

¹² ‘From the Pentagon to the Private Sector’, *Boston Globe*, 26 December 2010

obligated to invest in the economy of the buyer. Unscrupulous officials and arms suppliers can enter into post-contract business partnerships via this route.¹³

Defence Corruption: Structural Causes

The defence sector, and defence procurement in particular, is particularly susceptible to corruption for a number of reasons. First, the trade in defence articles is intimately linked to national security and proclaimed commercial confidentiality in a manner that is unique to this sector.¹⁴ The result is that defence transactions are often opaque and highly secretive, protected from scrutiny by national security legislation. Such secrecy provides ample opportunity for corruption due to lack of oversight. It may also prevent meaningful and successful investigations by police and other anti-corruption agents.

One example of how uniquely the defence trade is treated in relation to national security is provided by Article XXIII of the World Trade Organization's Agreement on Public Procurement (WTO-AGP), which allows for a national security exception: 'Nothing in this agreement shall be construed to prevent any Party from taking any action or not disclosing any information which it considers necessary for the protection of its essential security interests relating to the procurement of arms, ammunition or war materials, or to procurement indispensable for national security or for national defence purposes.'¹⁵ It is notable that the defence sector is the only sector explicitly excluded from the WTO-AGP considering that the WTO's mandate is to both remove barriers to trade and optimize the spread of trade information.

The second feature of the defence sector that lends itself to corruption is the unusually deep connection between arms producers, middlemen, dealers and high-profile political establishments.¹⁶ This is especially true of government agencies and defence companies, the boundaries between whom are often notoriously blurred. It is common for government employees, especially in the defence bureaucracy, to take employment with arms manufacturers, and vice versa; the 'revolving door' mentioned above. This not only creates potential conflicts of interest, it also gives arms producers an 'inside track' on government thinking; a space that might also be used to shape the agendas of governments.

Unfortunately, corruption at this level can lead to a damaging feedback loop. As politicians become embroiled in corruption, they can use their powers to apply pressure to prevent investigations and prosecutions, which, in turn, cannot be exposed. National security secrecy provides the opportunity for corruption, while the corruption that takes place introduces the need for further secrecy.

The third feature of the defence sector, and the arms trade in particular, that creates a susceptibility to corruption is its global nature. Global defence production involves incredibly complicated and lengthy lines of order, delivery and supply. Deals are frequently constructed in a complex and opaque manner, involving numerous subsidiaries, subcontractors and

¹³ Feinstein, A., Holden, P. & Pace, B. 2011. 'Corruption and the Arms Trade: Sins of Commission', *SIPRI Yearbook 2011*, SIPRI: Stockholm

¹⁴ Feinstein, A., Holden, P. & Pace, B. 2011. 'Corruption and the Arms Trade: Sins of Commission', *SIPRI Yearbook 2011*, SIPRI: Stockholm

¹⁵ Article XXIII, Agreement on Public Procurement (Uruguay Round), World Trade Organisation, http://www.wto.org/english/docs_e/legal_e/gpr-94_02_e.htm

¹⁶ Feinstein, A., Holden, P. & Pace, B. 2011.

agents. This allows the for the ‘insertion’ of questionable middlemen who, either through direct payments or rent seeking behaviour, can siphon fund flows towards corrupt ends. It also means that investigations into corrupt behaviour have to negotiate numerous jurisdictions and a plethora of subsidiaries, many located in secrecy jurisdictions. The extent of this complicated network is illustrated by the investigation into bribery on the part of the British manufacturer, BAE Systems, by UK and US authorities. Their investigations tracked fund flows across more than 15 separate jurisdictions and involved examining linkages between over 100 agents and middlemen employed by BAE Systems, government officials and other persons of influence.¹⁷

The fourth feature that makes the defence sector peculiarly vulnerable to corruption is the technical specificity and complexity of much of the defence equipment to be purchased.¹⁸ This leads to procurement decisions being taken by a small number of technically competent individuals, and can preclude effective oversight by agencies that may not be able to effectively decode a jargon-heavy industry. It also places a particularly heavy burden on the competency of defence planners and those who exercise oversight over them¹⁹; without sufficient skills, it is possible that defence planners and other bureaucrats who wish to pursue a non-corrupt procurement or defence strategy may not be equipped to resist the lobbying and pressure of an industry that has powerful connections to diplomatic and financial levers. It also means that rigorous defence planning and sufficient skills are required within national defence establishments to protect the state from wasteful, frivolous and corrupt expenditure.

The final feature of defence expenditure that makes it prone to corruption is that it is the one form of government expenditure that takes on additional importance during times of active or imminent conflict. This leads to rapid decision-making, blurred lines of accountability and decision-making, and less rigorous focus on value-for-money and procedural niceties. It also creates an even wider space within government decision making bodies for the introduction of a multitude of defence equipment suppliers, brokers and middlemen, many of whom merely seek to ensure a quick profit from the conflict and may be willing to bend the rules accordingly.

Military Expenditure, Corruption and Illicit Financial Flows

Illicit financial flows (IFFs), as defined and explored by Baker’s path-breaking 2005 study²⁰, involve primarily the systematic manipulation of pricing mechanisms and the misuse of secrecy jurisdictions to reduce taxes paid on the part of multinational companies in a hidden manner. These transactions may be legal, according to prevailing laws, but involve a deceptive approach and adverse long-term impact (removing income from States to which income is due) that suggests they can be considered illicit. Many IFFs also include an illegal

¹⁷ See: ‘Statement of Offence’ in the Matter of the United States of America v. BAE Systems plc, Violation: Title 18, United States Code, Section 371 (conspiracy), United States District Court for the District of Columbia and ‘Proposed Charging Letter re: Investigation of BAE Systems plc Regarding Violations of the Arms Export Control Act and the International Traffic in Arms Regulations’, May 2011, available from www.pmddtc.state.gov/compliance/consent_agreements/baes.html

¹⁸ Feinstein, A., Holden, P. & Pace, B. 2011.

¹⁹ For a discussion of the impact of lack of technical capacity on susceptibility to corruption, see: Omitoogun, W. & Hutchful, E. (ed.) 2006. *Budgeting for the Military Sector in Africa: The Process and Mechanisms of Control*, Stockholm International Peace Research Institute: Stockholm

²⁰ Baker, R.W. 2005. *Capitalism’s Achilles Heel: Dirty Money and how to Renew the Free Market System*, Wiley: London

dimension, in that they also involve various actors – within and without the state - making use of secrecy jurisdictions to move and launder illicitly gained income (earned through various criminal activities).

Despite the increased focus of the international community on IFFs, there has, unfortunately, been no systematic analysis of the scale of the problem in the defence sector. We thus rely on anecdotal evidence and our own research of the global trade to generate the following insights.

First, it is abundantly clear that the defence sector, as noted above, is prone to the use of agents, middlemen and brokers who are often utilised to make corrupt payments to government officials and other individuals of influence. These payments are almost always transferred via secrecy jurisdictions to evade detection, and may include payments in the hundreds of millions of dollars. One such example of this is provided by the creation of Marine Force International, a joint-venture between German arms manufacturers Ferrostaal and ThyssenKrupp, as discussed above. Investigators probing the creation of the company, used to employ ‘agents’ across the world, discovered that it was created specifically to insulate Ferrostaal and ThyssenKrupp from German investigations, while also allowing for the creation of a network of payment systems based in UK-administered secrecy jurisdictions to pay agents secretly.²¹

Second, the cost of bribe payments is almost always included in the prevailing contract price, placing the burden of cost on the purchasing state rather than on the winning bidder. One example of this is the infamous Al Yamamah deal between British Aerospace and Saudi Arabia. According to numerous revelations, the contract price was ‘padded’ and inflated so as to provide the funds available for payment of corrupt inducements.²² Although it remains speculative, it is estimated that at least 20% of the total contract price was spent on corrupt payments and slush-funds. This implies that, where corruption is present in defence procurement, it is likely to involve the collusive manipulation of pricing mechanisms to create an undeclared income stream that can be diverted towards decision-making elites, usually via secrecy jurisdictions or the creation of front-companies and slush-funds. This is a form of IFF.

Third, the potential for IFFs is heightened where defence contracts are paid for in mineral resources, particularly in lifting rights for oil and gas. As discussed later, this method of payment has been typical for countries, such as Angola, with considerable resource extraction potential but limited cash-on-hand. The use of such mechanisms provides additional space for the manipulation of prices and the generation of illicit income.

Fourth, the defence sector has many features that could make it prone to systematic mis-invoicing of transactions within the component entities of MNCs. Large defence manufacturers are large global entities with long and complicated lines of supply, and often

²¹ A full copy of the Debevoise & Plimpton Report can be downloaded from <https://www.google.co.uk/url?sa=t&rct=j&q=&esrc=s&source=web&cd=1&cad=rja&ved=0CCsQFjAA&url=http%3A%2F%2Fkassios.files.wordpress.com%2F2012%2F10%2Fconfidential-secret-report-findings-re-ferrostaal-greek-gov-case-pribes1.pdf&ei=6q4EU67XD-i47Abng4GgCQ&usq=AFQjCNEJpSGFONzBmH9rq9PETaPkQqYnNw&sig2=BGywdKNCF78qg7IPmxyOGA&bvm=bv.61535280.d.ZGU>

²² Webb, T. 2007. ‘Bribing for Britain: Government Collusion in Arms Sale Corruption’, Goodwin Papers No. 5, October, p. 19

make use of jurisdictions such as Luxembourg and Liechtenstein as their de facto tax homes. This provides ample opportunity for manipulating the global tax system to minimize liabilities. Unfortunately, it is impossible, at this point, to estimate the extent to which defence companies globally are doing this. However, Africa is a minor player in defence manufacture and is therefore less impacted by these malpractices than other continents.

Lastly, it should be noted that defence procurements involve more than a single purchase contract; they are supplemented by additional long-term maintenance contracts and, in certain instances, offset agreements.²³ In the latter instance, the involvement of defence contractors in the economy of the buying country, usually under a veil of commercial confidentiality, creates the space in which corrupt and illicit funds are directed towards individuals of influence. In the former instance, defence companies can, and sometimes do, inflate the cost of their maintenance contracts, in order to earn additional funds and generate an income stream that can be used for corrupt ends. Defence companies can do this easily as the purchasing country becomes heavily dependent on the selling company for spare parts and other technical assistance as the equipment is used: defence companies have purchasing governments 'over the barrel', as it were. Such tactics may be used to reduce the cost to the selling company of offset agreements entered into as part of the primary contract.

That this is a concern was confirmed, in a somewhat back-handed manner, during the appearance of the former Minister of Trade and Industry of South Africa, Alec Erwin, before the South African Commission of Inquiry into the country's 1999 Strategic Defence Procurement. During his testimony Erwin confirmed that the country did not hold defence companies strictly to the letter of their offset agreements due to a fear that those countries would recoup their expenses by increasing life-cycle costs. Erwin explained the logic as follows:

'... NIP is essentially a form of commercial partnership where the obligor and the DTI (on behalf of the buyer) are attempting to achieve differing objectives. The obligor wants to maximise the 'credit dollar' with the minimum of money it has to put forward and the DTI is trying to maximise the investment with no real interest in who supplied the investment. In theory, for the obligor the maximum amount of money that it would be prepared to pay is in what it values as the economic rent of being the equipment supplier. For the DTI it wants to maximise investment (and other objectives I will deal with later) but it cannot push this too far otherwise the obligor will seek redress in finding the means to increase price over the life-cycle of the equipment in order to secure its required profit level.'²⁴

²³ Offset agreements, which are hugely controversial, involve a commitment on the part of the selling company to invest, or facilitate investment, in the economy of the purchasing country. They have been identified as posing a severe corruption risk due commercial confidentiality agreements usually applied to business activity undertaken as a result of offset agreements.

²⁴ Erwin, A. 2014. Statement before the Commission of Inquiry into Allegations of Fraud, Corruption, Impropriety or Irregularity in the Strategic Defence Procurement Packages (SDPP), Paragraph 76. Available for download from www.armscomm.org.za

Part One: Key Points and Statistics

- The defence sector is particularly prone to corruption
 - Estimates suggest that between 40% and 50% of all corruption in global trade relates to defence purchases
 - Studies by the International Monetary Fund confirm a positive correlation between the amount a state spends on defence and its likelihood of being perceived as corrupt
 - 15% of the total money spent on weapons transactions may be diverted for corrupt purposes
- Corruption in the defence sector takes numerous forms, the four most common of which are:
 - Bribery (often facilitated by the use of illicit financial flows into secrecy jurisdictions)
 - Active facilitation of conflicts of interest and their disguise
 - Post-Employment
 - Post-Contract preferential business access
- Corruption in the defence sector has numerous structural causes, the five of the most powerful of which are:
 - The secrecy afforded to the defence sector by virtue of its connection to national security concerns
 - The historical closeness between arms producers, governments and middlemen
 - The global nature of the arms trade, which leads to long and complex lines of supply
 - The technical specificity of the defence trade, which means that procurement decisions are often made by a small coterie of defence officials and politicians
 - The fact that many arms transactions are undertaken during periods of imminent or active conflict, when concerns regarding accountability and good governance may be supplanted by security needs
- While there has been little systemic analysis of illicit financial flows (IFFs) and their relationship to the defence sector, five factors suggest that the industry may be susceptible to their use. These are:
 - The widespread use of middlemen and agents in the defence sector, as well as industrialised mechanisms for conducting covert payments via secrecy jurisdictions
 - The fact that bribes are often included in the contract price, suggesting price rigging in order to create corrupt income streams
 - That the risk for corruption and IFFs is increased when defence purchases are paid for with mineral resources, in particular oil and gas. This has been the case with multiple arms transactions in Africa
 - The defence sector frequently uses long lines of supply in multiple jurisdictions, with tax homes in tax-reduced countries such as Liechtenstein and Luxembourg, providing ample opportunity for IFFs

That defence purchases often entail long-term follow-on contracts for the delivery of maintenance and offsets, both of which provide additional space for price rigging and other infractions

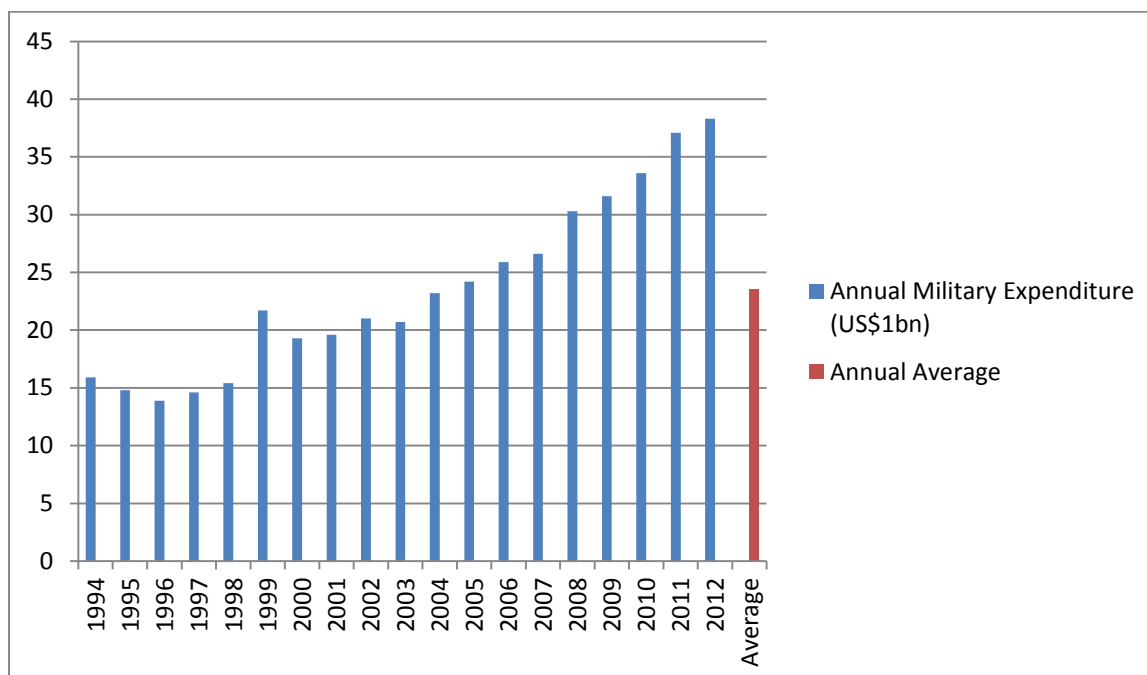
Part Two

Defence Procurement, Corruption and Illicit Financial Flows in Africa

Estimating exact defence expenditure in Africa, in particular on procurement, is difficult. This is largely due to systemic under-reporting or misreporting (discussed in further detail below), a lack of disclosure and, in many states, a lack of sufficient bureaucratic capacity to audit and oversee defence budgets. As such, the figures provided hereafter (sourced from both UN trade data and SIPRI's international military expenditure and procurement databases) should be treated as indicative, rather than definitive. Full datasets are provided as Annexure A to this document.

African military expenditure has, in absolute terms, exhibited an upward trend over the past half decade, as the graph below shows. Between 1994 and 2012, \$447.7bn has been spent in Africa on military expenditure (in 2012 constant prices). Over the same period of time, the average annual expenditure across the continent was \$23.56bn.²⁵

Graph 1: Annual Military Expenditure, 1994 to 2012 (Africa excluding Egypt)



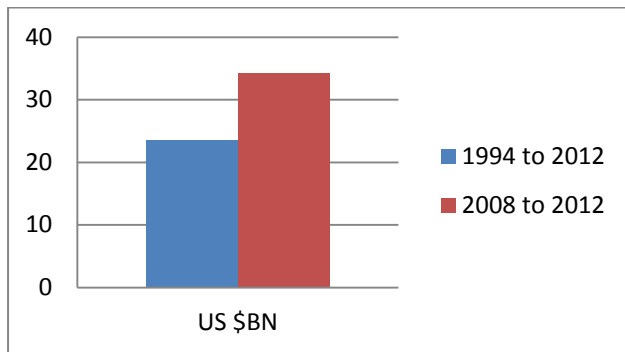
However, since 2008, military expenditure has increased year-on-year, and outstrips the continental average for the period from 1994 to 2012. The annual average for the period from 2008 to 2012 was \$34.18bn, or \$11.38bn more than the average from 1994 to 2012.²⁶ 2012, at \$38.3bn is the year in which the most amount of money was spent on the military.²⁷

²⁵ SIPRI Military Expenditure Database. Please refer to Table 2 for full historical detail.

²⁶ *Ibid*

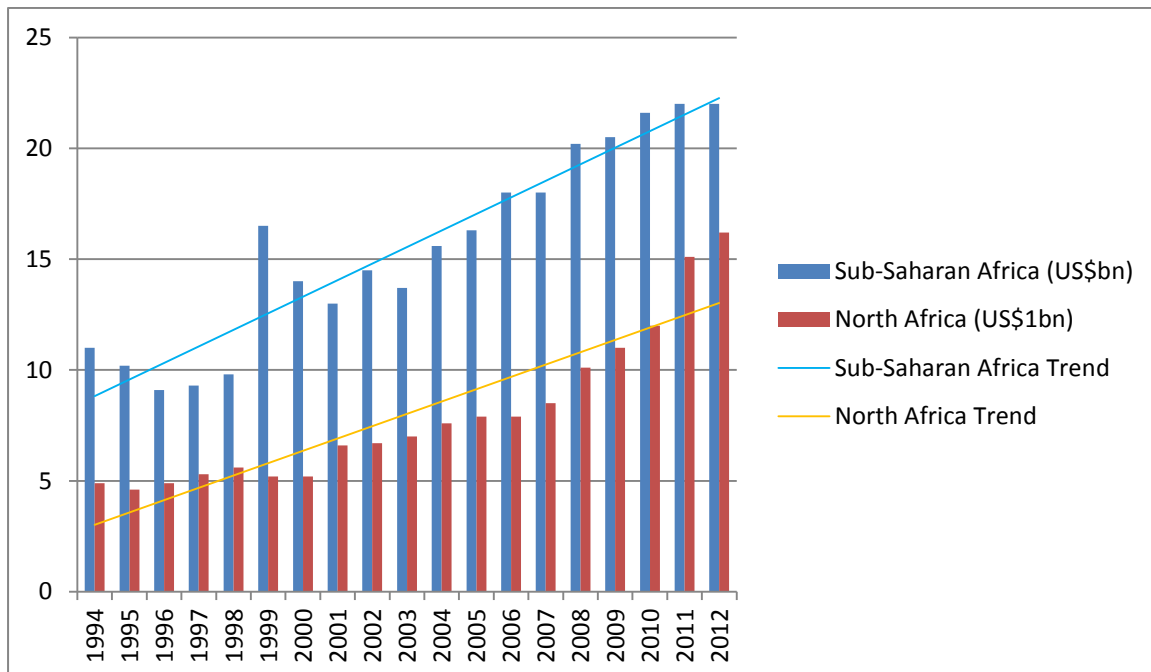
²⁷ *Ibid*

Graph 2: Annual Military Expenditure Comparison: 1994 to 2012 versus 2008 to 2012 (Africa excluding Egypt)



This trend towards increased defence expenditure is seen in both sub-Saharan and North Africa (excluding Egypt), although it is more pronounced in North Africa, as the graph below shows. The increase in military expenditure over this period has increased Africa's portion of global military expenditure from 1.4% to 2.21%.²⁸

Graph 3: Annual Military Expenditure, 1994 to 2012 (Sub-Saharan Africa and North Africa excluding Egypt)²⁹



The increase in military expenditure in absolute terms, however, should not be confused with military expenditure absorbing ever larger portions of the national budget. Indeed, military expenditure has decreased as a percentage of GDP across the continent, after spiking notably in the late 1990s. The spike in the late 1990s is largely explained by the onset of conflict between Ethiopia and Eritrea and the onset of a higher level of engagement by various parties in the DRC conflict. This suggests that, outside of times of active conflict, military expenditure has either remained stable or decreased as a proportion of GDP.

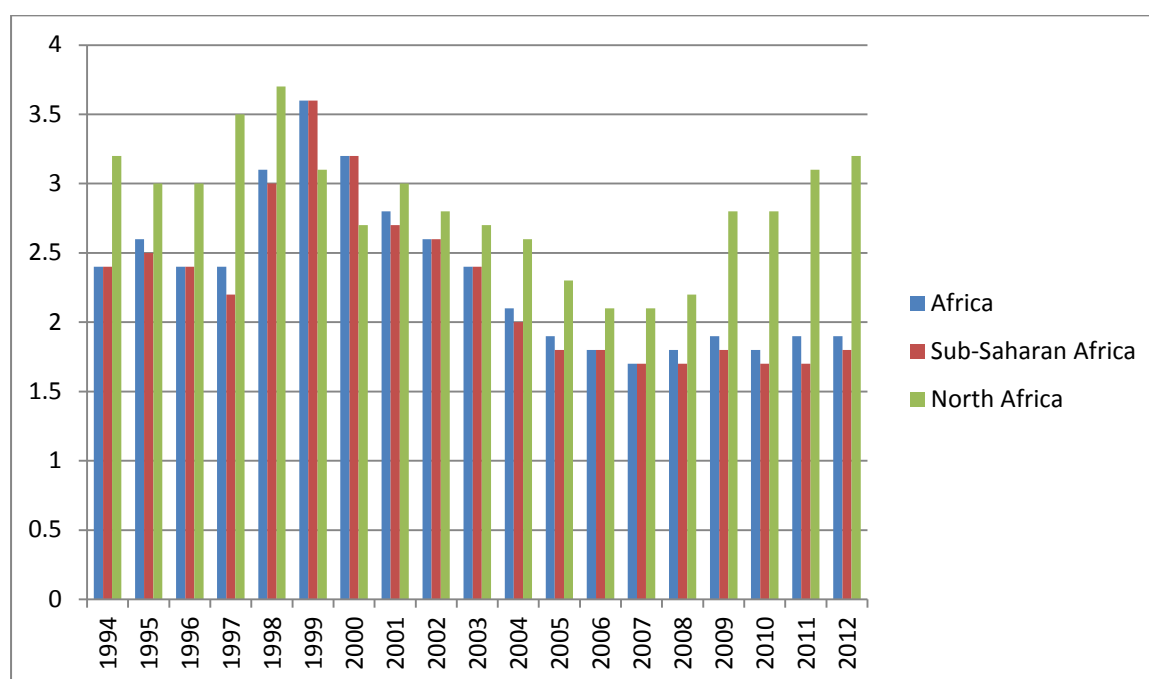
²⁸ SIPRI Military Expenditure Database. Please refer to Table 4 for full historical detail.

²⁹ SIPRI Military Expenditure Database. Please refer to Table 3 for full historical detail.

It should be noted that there is a marked difference between North and sub-Saharan Africa. While sub-Saharan expenditure as a percentage of GDP decreased between 1994 and 2012, military expenditure in North Africa as a percentage of GDP remained fairly constant in the same period, despite a dip between 2006 and 2009, as the graph below indicates. In 1994, the percentage in North Africa was 3.2%, the exact same number in 2012. This is just under 0.4% higher than the North African average of 2.83% for the period from 1994 to 2012. This can partially be explained by the different security dynamics at play in North Africa compared to Sub-Saharan Africa, in particular the wider-regional ripple effects of Middle Eastern politics. In addition, long-term conflict in Sudan and the sclerotic nature of Somalian government has either induced larger players (such as Muammar Gaddafi) to enter into regional conflicts, or generally created a sense of instability that has implied greater security spend.

Equally important has been the up-tick in military spending in Algeria since the beginning of the Arab Spring. Algeria, with one of the largest defence budgets in Africa, has undertaken a massive amount of procurement, largely backed by oil and gas revenues. The increased spending can be explained both by local regional factors (such as the seizure of Northern Mali following the fall of Gaddafi's regime) and broader regional trends, in particular, fear on the part of Algeria's ruling elite of an expansion of Arab Spring politics onto their turf.³⁰ However, corrupt intent, which is heightened in the case of procurements paid for with natural resource revenues, cannot be ignored, and it would be churlish to deny that the possibilities for self-enrichment amongst Algeria's ruling elite does not have an impact.

Graph 4: Military Expenditure as Percentage of GDP (Africa excluding Egypt)³¹



Beyond regional difference, there is a wide variation between countries on the continent, as one would expect of such a large area encompassing a vast array of national peculiarities and dynamics. At least 10 countries in Africa have spent more than 3% of their GDP on military

³⁰ 'Algeria's Military Goes on an Arms Spree', *UPI*, 11 March 2013

³¹ SIPRI Military Expenditure Database. Please refer to Table 5 for full historical detail.

expenditure, in excess of the continental average. Of this, by far the largest spender is Eritrea, which averaged 22.8% of GDP as military expenditure over the period from 1994 to 2012, largely due to active conflict with Ethiopia.³²

Table A

Top Ten Military Spenders (As Percentage of GDP): Africa, 1994 - 2012³³

Country	Annual Average as Percentage of GDP
Eritrea	22.8%
Burundi	5.5%
Djibouti	5.5%
South Sudan [2012 only]	5.3%
Angola	5%
Morocco	3.6%
Algeria	3.4%
Mauritania	3.3%
Zimbabwe	3.2%
Lesotho	3%

It should also be noted that a handful of countries account for large portions of the absolute amount spent on the military. The top 6 countries – South Africa, Algeria, Morocco, Angola, Nigeria and Libya – have spent \$283bn between them between 1994 and 2012.³⁴ This is over half of the \$447bn continent-wide spend in that entire period. Two countries, in particular, dominate military spend: South Africa, which has spent \$78bn from 1994 to 2012; and Algeria, which has spent \$75bn over the same period.³⁵ That is equal to 16% and 15% respectively.³⁶ It should be borne in mind that both South Africa and Algeria provide relatively comprehensive reports of their defence spending – in comparison to other states in the region. This may push this percentage figure higher, but the general trend – of a handful of countries dominating regional spend – would most likely remain unaffected.

Table B: Top Ten Military Spenders in Absolute Terms, 1994 to 2012 (Africa Excluding Egypt)³⁷

Country	Total Spent	Annual Average	As Percentage of Continental Spend
South Africa	78162	4131	16%
Algeria	75085	3951	15%
Morocco	47124	2480	9.8%
Angola	45596	2533	9.5%
Nigeria	23984	1262	5%
Libya	12377	952	2.5%
Tunisia	9777	514	2%

³² UN GDP data and SIPRI Military Expenditure Database. Please refer to Table 7 for full historical detail.

³³ SIPRI Military Expenditure Database

³⁴ UN GDP data and SIPRI Military Expenditure Database. Please refer to Table 6 for full historical detail.

³⁵ *Ibid*

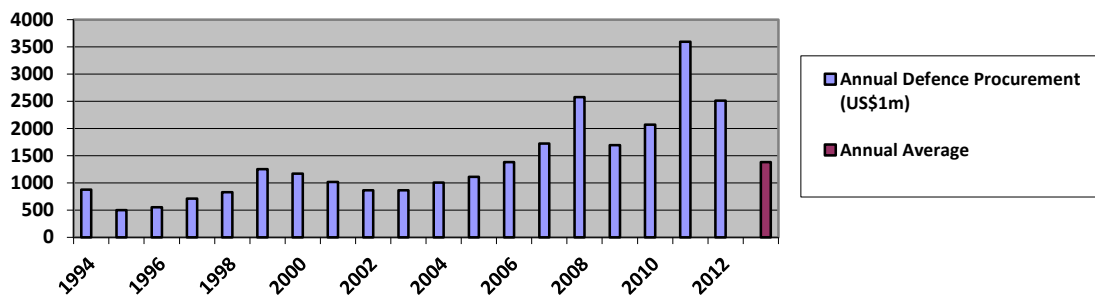
³⁶ *Ibid*

³⁷ SIPRI Military Expenditure Database

Tanzania	3326	175	0.69%
Zambia	3045	217	0.63%
DRC	2768	184	0.57%

It is extremely difficult to report reliable figures regarding the proportion of military spending that is dedicated specifically to procurement. This is due to non-reporting and much procurement, especially in conflict zones, being undertaken off-budget. The most comprehensive figures available are from the Stockholm International Peace Research Institute (SIPRI). SIPRI data suggests that a total of \$26.3bn was spent on procurement (excluding small and light weapons) in Africa between 1994 and 2012, with an annual average of \$1.384bn per year.³⁸ This appears to be somewhat low, as it only counts towards 5% of total military spend on the continent. This strongly suggests that the amount spent on procurement has been repeatedly understated. SIPRI’s arms transfer database, for example, is able to track 860 procurements on the continent between 1994 and 2012. When cross-referenced to reported procurement spend, this suggests an average cost of \$30m per weapon system procurement, which appears to be too low to be credible. It is even less when one takes into account the nearly \$10bn spent by South Africa on its 1999 Strategic Defence Procurement Package, which constituted only a handful of transactions recorded by SIPRI.

Graph 6: Annual Defence Procurement Expenditure (Africa)



Understanding the Figures

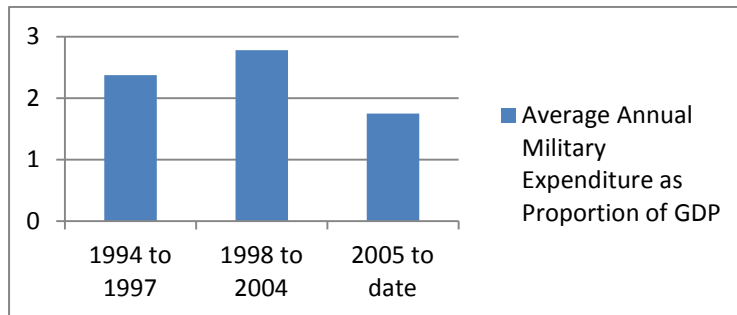
The above data helps to paint an overall picture of defence expenditure on the African continent. Nevertheless, it is useful to draw out and emphasise some central points for means of analysis.

First, it is clear that military expenditure increases in times of active conflict. While this should be an obvious truism, the implication is that military expenditure reduces as conflict abates. This is a positive sign, considering that there are numerous dynamics that could push for such increases to remain permanent, not least the demands by soldiers and the military hierarchy to protect their stream of government resources. By factoring out the periods of most intense conflict – the Ethiopia-Eritrea war and the ‘high-point’ of conflict in the DRC – it becomes clear that there has been a relatively stable level of military expenditure as a proportion of GDP. Moreover, defence expenditure as a percentage of GDP for the years from 2005 onwards have been consistently lower as a proportion of GDP for any period prior to this in the 20 years considered in Sub-Saharan Africa. These trends can be seen in the following graph, which groups military spend as a percentage of GDP into three phases: the

³⁸ SIPRI Arms Transfer Database. Please refer to Table 1 for full historical detail.

period from 1994 to 1997; the period from 1998 to 2004, which witnessed the highest level of conflict in the region; and the period thereafter.

Graph 7: Period Analysis of Military Expenditure as Proportion of GDP (Sub-Saharan Africa)



Second, while expenditure as proportion of GDP has decreased since 2005, it must be must be emphasised that military expenditure has increased in absolute terms. That suggests that, following the conflicts of the late 1990s and early 2000s, Africa experienced significant economic growth, the benefits of which were seen in increases in absolute expenditure. Thus, a decrease in expenditure as a proportion of GDP, while encouraging as a sign of constrained and strategic expenditure, should not be correlated with a decrease in the actual size of defence budgets. Such increases in absolute terms heightens the dollar cost of corruption, and suggests increased opportunity costs as increased military expenditure is not directed towards other human security needs.

It is, unfortunately, difficult to provide an accurate estimate of the opportunity cost of corruption in defence procurement: corruption is, by its nature, covert and hidden, and details regarding opportunity cost are therefore difficult to either apprehend or estimate. However, it is clear that, considering the above points, that the opportunity cost is likely to be substantial. One indication of this is provided by a 2011 study of the South African Strategic Defence Packages ('Arms Deal') by Holden & Van Vuuren. The authors of the study provide an indication of what social goods could have been procured for the same money spent on the Arms Deal. While the figures are enlightening, it must be emphasised that Holden & Van Vuuren do not explicitly suggest that this is the opportunity cost of corruption, per se, but rather the opportunity cost of a large, import-heavy defence procurement.

Holden & Van Vuuren provide figures based on an estimate that the Arms Deal cost the South African state R70bn. They state that if money from the Arms Deal had been spent on other areas, one of the the following could have been achieved:

1. The payment of the annual salary of 1 753 976 maintenance workers at R25 400 per year, or 159 452 salaries per year from 2000 to 2011
2. Paid for the building and stocking of 128 281 school libraries, and the salaries of all librarians for 21 years
3. Fully vaccinated 52 765 321 children, or 4 397 110 children per year for 12 years
4. Provided full medical treatment for 1 844 305 individuals with HIV for 12 years
5. Purchased 60.7m acres of land for redistribution to previously disadvantaged individuals, or just under 30% of all land belonging to historically advantaged individuals

6. Reduced the national average of children without adequate nutrition from 12.2% to 3.5% every year for 11 years by provision of a 2053 kcal daily food basket³⁹

Third, there has been a marked increase in the amount spent on defence procurement, or, at the very least, an increased amount reported to have been spent on defence procurement. While we question the exact figures, it is clear that defence procurement has occurred at its highest rate for the past two decades since 2008, when it first exceeded \$1.5bn. Much of this increase in procurement has been driven, in particular, by a virtual spending spree on the parts of Angola and Algeria, which we find greatly concerning. Both Angola and Algeria are rated as exhibiting critical levels of defence corruption risk by Transparency International, and both are funding their increased spending via oil and gas revenue. As noted above, the use of natural resource extraction to pay for defence items provides ample space for both corruption and the large-scale use of IFFs. We are concerned that high-price items are being purchased with little strategic need in a context of wide-spread poverty and inequality, as we will discuss below. These issues are discussed in further detail below.

Finally, it needs to be reiterated that the data relied on above is still insufficient to gain a comprehensive and error-free insight into defence procurement in Africa. The data can provide an insight into indicative trends, but cannot be relied upon as a completely accurate depiction of actual defence expenditure on the continent. This is deeply worrying and needs to be addressed urgently: it is impossible to making substantive changes to corruption in defence procurement without such expenditure being made available for interrogation and scrutiny.

Defence Corruption Risk in Africa

The steady increase in levels of military expenditure, combined with relatively opaque figures regarding amounts spent on procurement, indicates an urgent need to get to grips with potential and actual corruption in defence procurement in Africa. Unfortunately, providing hard data on the amount of corruption experienced in the defence sector is difficult, not least due to the fact that corrupt schemes require secrecy for their execution. Instead, we identify vulnerabilities in African defence expenditure that creates the spaces for corruption. This is complemented with data source from Transparency International's Government Defence Anti-Corruption Index.⁴⁰ Finally, a brief discussion of examples of corruption scandals, and the means in which they were undertaken, concludes this section, so as to provide at least anecdotal indication of the prevalence of corruption in defence expenditure on the continent.

The first and primary concerns regarding corruption in defence procurement are poor budgeting and incomplete defence expenditure disclosure. Without full disclosure of the amounts spent on defence procurement, it is impossible for citizens, civil society or state functionaries to assess the rectitude of military expenditure, both in terms of strategic need and value for money: a lack of transparency creates the perfect opportunity for corruption. As discussed in the previous section, a lack of budgetary transparency is often provided for by inappropriately censorious national security legislation.

³⁹ Holden, P. & Van Vuuren, H. 2011. *The Devil in the Detail: How the Arms Deal Changed Everything*, Jonathan Ball: Jeppestown. See, in particular, infographics appearing as insert.

⁴⁰ *Government Defence Anti-Corruption Index 2013*, Transparency International. Available for download from <http://government.defenceindex.org>

A lack of defence budget transparency and scrutiny is a major problem on the continent. There are strong indications that many African countries exhibit a major disparity between amounts budgeted for defence and the actual amount spent. In one study by security expert Professor Hartley, it was reported that there were numerous examples of substantial deviation between planned and actual expenditure.⁴¹ The level of deviation, of course, ranged, but all suggested poor budgetary control and scrutiny. In Ghana, Kenya, Mali and Nigeria, for example, it was noted that there was a 20% deviation between planned and actual expenditure.⁴² South Africa and Mozambique were the only countries on the continent, according to Hartley's analysis, that illustrated minimal deviation. Little was done to hold those who overspent to account.

Hartley's account amplifies points made by Omitoogun and Hutchful in their 2006 investigation and analysis of the defence procurement mechanisms used by eight selected countries (Ethiopia, Ghana, Kenya, Mali, Mozambique, Nigeria, Sierra Leone and South Africa).⁴³ Omitoogun and Hutchful found that there was a dire lack of comprehensiveness and clarity in all the defence budgets reviewed, with the exception of South Africa. This included, crucially, a failure to declare defence procurements within the defence budget and to pursue procurements on an ad-hoc basis. Omitoogun and Hutchful suggest a number of underlying reasons for this:

'... the military budgets in all sample countries, with the exception of South Africa, also lack comprehensiveness in terms of their coverage and the level of resources expected to be available to the military during the year.

The main reasons for a lack of comprehensiveness in military budgets in the countries include a lack of comprehensive regulatory laws for government revenues and how they should be dispensed; the absence of a definition of the scope of the military budget; the creation of special accounts by the state to deal with special situations; the non-inclusion of external military assistance in budget preparation; deliberate attempts by the executive to divert state resources for specific purposes; a lack of honesty in revenue and expenditure estimation; and the regular resort to supplementary appropriations...

One reason for this lack of comprehensiveness is the lack of any definition of the scope of the military budget: what should it include and what should it exclude? Arms procurement, which is a major part of the military budget and the most capital-intensive part of the budget, is seldom included in the military budgets of the sample countries, apart from South Africa. Yet they all buy military hardware, however infrequently.'⁴⁴

Of particular concern on the African continent, as the above suggests, is widespread spending off-budget. Professor Susan Willet argues that large portions of Sub-Saharan Africa's defence spending, particularly on acquisitions, are either unreported or subject to 'creative

⁴¹ Hartley, K. 2007. 'Military Expenditure Data for Sub-Saharan African Nations', Centre for Defence Economics, University of York

⁴² *Ibid*

⁴³ Omitoogun, W. & Hutchful, E. (eds). 2006. *Budgeting for the Military Sector in Africa: The Processes and Mechanisms of Control*, SIPRI & Oxford University Press: Oxford

⁴⁴ *Ibid*, p. 232

accounting' that places the expenditure in other departments.⁴⁵ This has become a particular problem, Willett suggests, since Western donors placed sanctions on countries whose military expenditure exceeded an 'acceptable' 2% of GDP. This led many countries to hide actual military expenditure, either through outright non-disclosure or by shifting budget line items.⁴⁶

One example of this is provided by Uganda, which faced sanction from donors after exceeding the 2% expenditure limit. President Museveni resorted to diverting resources from other departments into the military, without declaring as much, as well as failing to declare expenditure incurred during active operations in the DRC. In 2001, Museveni requested the 2% limit be lifted, which donors acceded to. As Willett notes, 'the request was merely an attempt to gain permission to officially spend what was already being allocated to the military.'⁴⁷

According to a 2002 paper by Hendrickson and Ball, off-budget military expenditure is more likely to occur in specific environments, many of which are present across the African continent. They identify five of the most significant issues, which are:

- 'the prevalence of strong executive decision-making cultures which can limit transparency and open debate on how public resources are used;
- The integral role played by the military establishments in the social and economic fabric of many countries, often as a key component of elite-dominated political systems;
- The prevalence of security problems, including internal and external threats, which provide a strong rationale for elevated levels of military spending;
- Institutional fragility – particularly in countries emerging from war – characterised by low levels of human resources and weak institutional capacity to manage public resources and regulate economic activity;
- The availability of lucrative natural resources and the direct involvement of the military in either protecting or extracting and selling these resources.'⁴⁸

One point has not been emphasized in writing regarding off-budget transactions, namely, that off-budget transactions can be considered a form of illicit financial flow. This is especially true in those instances where revenues from military activity – such as control over mineral resources – is not disclosed in public budgets. In these instances, money flows into secret military accounts, with large streams diverted into the personal accounts of military officials. Such diversion not only robs the state of much needed funds, it can provide a corrupt reason to continue conflict for personal and private gain. It should also be noted, as we will discuss in Part 3 below, that the conversion of off-budget military resources into private gain often relies on collusive international banks and networks of money launderers. This is often performed by all-in-one arms dealers, who provide arms, logistics and money handling.

The second major area of concern with regards to corruption risk in defence procurement is a lack of poor forward planning. A failure to plan ahead, in particular to develop holistic defence strategies guided by a rigorous threat assessment, gives corrupt officials the

⁴⁵ Willett, S. 2009. 'Defence Expenditures, Arms Procurement and Corruption in Sub-Saharan Africa', *Review of African Political Economy*, Vol. 36, No. 121

⁴⁶ *Ibid*, p. 340

⁴⁷ *Ibid*, p. 340 - 341

⁴⁸ Hendrickson, D. & Ball, N. 2002. 'Off-Budget Military Expenditure and Revenue: Issues and Policy Perspectives for Donors', Conflict, Security and Development Group, Occasional Paper 1, p. 3

opportunity to undertake ad-hoc and inappropriate defence expenditure rather than being forced to spend limited state resources on pre-identified and democratically approved items. Omitoogun and Hutchful, in their 2006 survey of eight African states, found a distinct lack of defence strategic planning in all countries excepting South Africa and Sierra Leone (from 2000 onwards). This lack of planning comes at great cost to the state both in terms of providing ample opportunities for corruption and mechanistic, inappropriate expenditure:

‘With a comprehensive budget and defence plan and programme, the cost of major acquisitions can be divided between several annual budgets, depending on the type of system. Instead, they rush to purchase weapons where there is a perception of an urgent security need for them. This often has a negative impact on their finances and represents the greatest inducement for either off-budget spending on defence or diversion of resources from other sectors of the military. This has happened repeatedly in Ethiopia (and also Rwanda and Uganda) since the late 1990s and in Nigeria since the early 1990s.’⁴⁹

The final area of concern regarding corruption risk is a failure to institute proper procurement mechanisms to handle small and large-scale purchases. A poor procurement architecture would, amongst other things, include a failure to properly advertise the intent of the government to purchase arms; a failure to develop a rational decision-making hierarchy and scoring system; an insufficient system of vetting officials for conflict of interests; the use of sole-source contracts instead of a competitive bidding process; and a failure to conduct post-contract auditing to assure quality of delivery. Numerous examples of sclerotic procurement systems are discussed in detail later in this report.

While Omitoogun and Hutchful’s 2006 study provides a uniquely in-depth account of defence procurement mechanisms on the continent, it suffers both from being somewhat dated and limited in scope. To assess the extent to which African countries exhibit serious corruption risks in defence procurement, we thus rely on the findings of Transparency International’s Government Defence Anti-Corruption Index for 2013. The index examines vulnerabilities in government defence procurement. To do so, Transparency International engages local security sector experts to answer a 77 question questionnaire that provides a ‘snapshot’ of the country’s defence corruption risk.⁵⁰ The inquiries focus on a range of risks, over and above the three primary concerns listed above.⁵¹ Once the questionnaires were processed, participant countries were placed on a scale, with a score of ‘A’ being considered to suggest minimal corruption risk and ‘F’ indicating critical levels of corruption risk.

The results of the survey were disheartening for the continent. In total, 14 countries were assessed from Sub-Saharan Africa. Of these, only two – South Africa and Kenya, were placed in upper half of band D. Four countries – Ghana, Tanzania, Ethiopia and Rwanda – were placed in the bottom half of band D. Four countries were placed in band E: Uganda, Nigeria, Cote D’Ivoire and Zimbabwe. A further four countries were placed in the last category: Angola, the DRC, Cameroon and Eritrea. North African countries also performed badly. The highest rated countries – Tunisia and Morocco – were placed in band E. Three countries – Algeria, Egypt and Libya – were placed in band F.⁵² The full country summaries

⁴⁹ Omitoogun, W. & Hutchful, E. (eds). 2006. *Budgeting for the Military Sector in Africa: The Processes and Mechanisms of Control*, p. 232 - 233

⁵⁰ *Government Defence Anti-Corruption Index 2013*, p. 5

⁵¹ *Ibid*

⁵² *Ibid*, p. 33

– available from the Transparency International website – make for uniformly sobering reading, suggesting that the countries with the highest absolute level of defence spending on the continent present severe corruption risk.

Corruption in State Defence Procurement: Examples and Assessment

There is considerable anecdotal evidence that corruption in defence procurement is widespread in Africa. However, there are only a handful of cases that have been sufficiently investigated – and covered in the public domain. The focus here is on two of the most notorious examples: the Tanzanian radar deal and the scandal known as Angolagate. We conclude with a discussion of what we see as the ongoing transactions that exhibit the largest corruption risk and deserve to be carefully monitored.

In 1992, Siemens Plessey Systems (SPS), began negotiating with the Tanzanian government regarding the purchase of aircraft radar to be installed at Dar Es Salaam airport. The aim of the radar was to monitor civilian airspace, as Tanzania only had eight largely unused and dysfunctional military aircraft. In 1997, British Aerospace bought SPS, retaining SPS' agent, Sailesh Vithlani. However, due to the estimated cost of the deal it was blocked by the World Bank and the UK's Overseas Development Administration.⁵³ In 2000, British Aerospace (now BAE Systems) resubmitted the deal, splitting it into two sections to appear more affordable.

In 2001, the deal was concluded, with BAE selling Tanzania a £28m (\$40m) Watchman air traffic control system.⁵⁴ Almost immediately thereafter, the purchase was shown to be a massive folly, as the UN's International Civil Aviation Organisation reported on the shortfalls in the system purchased:

'The system as contracted is primarily a military system and can provide limited support to civil air traffic control purposes. The purchase of additional equipment... would be required to render it useful for civil air traffic control. However, if it is to be used primarily for civil air traffic control purposes, the proposed system is not adequate and too expensive.'⁵⁵

This view was echoed by a World Bank spokesman, who pointed out that the purchase was an enormous outlay for a country with major socio-economic difficulties. 'We are concerned that such a large expenditure is going to purposes who's justification is not clear to us,' the spokesman commented. 'To put it in context, \$40m is about one third of basic national education expenditure in Tanzania. So it really is a large amount of money and it is competing with priority programmes such as education and health.'⁵⁶

The financing of the transaction was somewhat controversial: Tanzania received a \$39.5m loan from UK's Barclays Bank.⁵⁷ However, Tanzania had recently received \$2bn in debt

⁵³ "Tanzania", Guardian, 7 June 2007, <http://www.guardian.co.uk/world/2007/jun/07/BAe9>

⁵⁴ Rob Evans & Paul Lewis, "BAE deal with Tanzania: Military air traffic control – for country with no airforce", Guardian, 6 February 2010, <http://www.guardian.co.uk/world/2010/feb/06/BAe-tanzania-arms-deal>

⁵⁵ "BAE: The Tanzanian connection", BBC Radio 4 Today Programme, 1 October 2009,

http://news.bbc.co.uk/today/hi/today/newsid_8284000/8284510.stm

⁵⁶ "Tanzania 'needs costly radar system'" BBC, 21 December 2001, http://news.bbc.co.uk/1/hi/uk_politics/1723728.stm

⁵⁷ "Tanzania responds to air traffic furore", BBC, 29 January 2002, <http://news.bbc.co.uk/1/hi/world/africa/1788922.stm>

relief from various international creditors, which stipulated that Tanzania could not take out any further loans except if they were on concessional rates from development banks. Barclays claimed that the loan was offered at concessionary prices. But Clare Short, UK's foreign development chief, questioned this logic. She argued that it was most likely that the bank had inflated the cost of the deal and then dropped it a small amount so that it could be considered concessional.⁵⁸

Due to the deal's controversial and questionable nature, it was quickly investigated by UK authorities and UK media outlets. It soon emerged that BAe had, in order to secure the deal, made use of the services of two 'agents': Tamil Somaiya and Sailesh Vithlani. Together, the two agents ran a company by the name of Merlin International. Investigations soon uncovered that BAe had established two sets of consultancy agreements with Merlin and Vithlani. According to the first, official, consultancy, Merlin International would receive 1% commission on the deal. But a second, secret, agreement was signed in parallel with Vithlani. Under the terms of this agreement, BAe's secret offshore company, Red Diamond Trading, would pay £6.2m into a bank account controlled by Vithlani in Switzerland.⁵⁹ Red Diamond Trading, it was revealed by investigators from the SFO, had been established by BAe in the late 1990s in the British Virgin Islands to provide a means of entering into secret 'agency' agreements with brokers and dealers around the world. They later acknowledged that the payments made under this system were likely to have been made with the intention of influencing government decisions.⁶⁰

It was widely alleged that Vithlani had used the £6.2m to pay off senior government officials to get the contract awarded to BAe. This suspicion was heightened when it was discovered that Vithlani and Somaiya had established a secret company based in Panama – Envers Trading Corporation – that acted as a consultant to BAe on the deal. A legal power of attorney allowed Vithlani and Somaiya to have full control of Enver's funds, making it their own covert 'dirty' company.⁶¹

In April 2008, Tanzania's Infrastructure Minister, Andrew Chenge, who was Attorney General at the time of the radar deal, resigned following allegations that £500,000 in a Jersey bank account belonged to him. Chenge did not dispute the money's existence, but denied it came from BAe. As Attorney General he gave advice on key aspects of the transaction, which ultimately led the Tanzanian Cabinet to approve the deal. In particular, he advised that the commercial financing of the purchase was compatible with Tanzania's application for debt relief.⁶² It was alleged that Sailesh Vithlani even sent a copy of Chenge's legal opinion to Barclays. A payment to Chenge's account coincided exactly with the delivery of his opinion in favour of the deal.⁶³

According to a draft SFO report Chenge received six credit transfers totalling \$1.5 million between June 1997 and April 1998 from a Barclays Bank branch in Frankfurt. They were

⁵⁸ Clare Short, "BAE's government-backed rip-off", Guardian, Comment Is Free, 1 October 2009,

⁵⁹ "Military radar probe: The key suspects...And the case against them", This Day, 15 February 2010, <http://www.thisday.co.tz/?l=10648>

⁶⁰ See: Holden, P. & Van Vuuren, H. 2011. *The Devil in the Detail*, Jonathan Ball: Jeppestown, Chapter Four

⁶¹ *Ibid*

⁶² "Military radar probe: The key suspects...And the case against them", This Day, 15 February 2010, <http://www.thisday.co.tz/?l=10648>; and "Tanzanian minister quits over BAE investigation", Guardian, 22 April 2008, <http://www.guardian.co.uk/politics/2008/apr/22/defence.BAe>

⁶³ *Ibid*.

paid into a Barclays account in Jersey,⁶⁴ owned by Franton Investment Limited, a company owned by Chenge for the sole purpose of transferring the money.⁶⁵ In May 1998, he authorised the transfer of \$600,000 to an account owned by Langley Investments Ltd. which was operated by former Tanzanian Central Bank Governor, Dr. Idrissa Rashidi. Rashidi was responsible for approving the financing arrangements of the radar deal, in terms of which the Bank of Tanzania pledged its gold reserves to secure the Barclays loan. Rashidi was also responsible for Tanzania agreeing that English law, and not Tanzanian law, would prevail in the event of any litigation arising out of a possible default on the loan. On 20th September 1999, Chenge personally authorised the transfer of \$1.2 million from the Franton account to Royal Bank of Scotland International in Jersey.⁶⁶

As it stands, no person has been successfully prosecuted for the transaction. In 2011, BAE Systems entered into plea bargain agreements in the UK and the US relating to the use of Red Diamond Trading. In return for agreeing to pay hundreds of millions of dollars in fines to the US authorities, BAE was allowed to admit guilt only relating to ‘accounting irregularities’, rather than the more serious charge of corruption which they had been investigated for.

The Tanzanian radar deal is perhaps the archetypal ‘dirty deal’ in the defence industry. First, it was pursued despite better and technically more suited options being available. Second, it massively increased the price of acquiring a civilian radar system, diverting funds from development into defence. Third, it relied for its success on a complex web of agents and middlemen who were employed to funnel funds to decision-makers and people of influence. Fourth, it was made possible via the use of illegal financial flows hidden in Tanzania and abroad via the use of offshore vehicles and secrecy jurisdictions. Finally, despite considerable evidence of wrong-doing, not a single person has been successfully prosecuted, sending the message that corruption in Tanzania will be tolerated as long as it benefits the ‘right’ people.

The second corruption case that has dominated news cycles on the continent was the scandal known as Angolagate. In 1993, Angola’s MPLA government, then engaged in a civil war with UNITA, decided to purchase a massive range of weapons. The purchase was pursued with unseemly haste due to pressing security concerns: following the signing of the Bicesse Accords, signifying a ceasefire between MPLA and UNITA, MPLA demobilized most of its troops. However, UNITA reneged on the agreement, leading a sweep through huge swathes of Angolan territory.⁶⁷

MPLA’s president, and current president of Angola, Jose Eduardo Dos Santos, made a direct appeal to France to help procure a range of weapons to help push UNITA back. This was despite the presence of a UN arms embargo that disallowed the importation of weapons into Angola at the time. The key point man in France was Jean-Bernard Curial, a former Southern Africa expert for the French Socialist Party. Curial approached Jean-Christophe Mitterrand – the French president’s son – who suggested that Curial and Angola make contact with the fixer Pierre Falcone.⁶⁸

⁶⁴ Account Number: 59662999; Bank Code Number: 204505

⁶⁵ “Dr Edward Hosea corners SFO”, Guardian, 14 February 2010, <http://www.jamiiforums.com/habari-na-hoja-mchanganyiko/52982-dr-edward-hosea-corners-sfo.html>

⁶⁶ “Military radar probe: The key suspects...And the case against them”, This Day, 15 February 2010, <http://www.thisday.co.tz/?l=10648>

⁶⁷ *All the Presidents Men*, Global Witness, March 2002, p. 11

⁶⁸ *Ibid*

In November 1993, Falcone helped to negotiate a deal worth \$47m for ammunition, mortars and artillery. By 1994, the deal had grown hugely: its final value was \$663m. For this, Angola received 6 warships, 12 helicopters, 420 tanks, 150,000 shells, 170,000 landmines, millions of rounds of ammunition and a horde of small and light weapons.⁶⁹ It was to be paid via oil concessions – 20 000 barrels a day worth was to be lifted and the proceeds used to repay loans to the French bank BNP Paribas. The arms themselves were purchased from various producers in Russia. These arms were to be brokered by a Slovakian company by the name of ZTS-Osos, and, in order to negotiate with them, Falcone turned to his Russian business partner Arkady Gaydamak.⁷⁰ Gaydamak is a controversial figure, accused of corruption, money laundering and other crimes relating to his business activities in Angola, Israel, Switzerland and Cyprus. In 1997, pressure on ZTS-Osos meant that the company pulled out of the deal as a broker. To ensure it continued, Gaydamak and Falcone established a new brokering company, Vast Impex, that bought the weapons from Russia on Angola's behalf.⁷¹

In 2009, the transaction became a national scandal in France. Over 42 individuals were prosecuted in the case in which, amongst other things, it was claimed that Gaydamak and Falcone (the latter via his Brenco group of companies), had bought influence and favours from French politicians to support and facilitate the deal. A number of individuals were successfully prosecuted, including Falcone and Gaydamak. Falcone turned himself over to French officials for a four year jail term. Gaydamak refused to return and has never served his sentence. The trial proved that considerable sums of money had flown from Gaydamak and Falcone to ensure French complicity in violating the UN arms embargo.

The investigation into the deal in France uncovered a massive web of companies linked to Gaydamak, Falcone and Angolan politicians, suggesting that some of the proceeds from the arms contract had been returned to Angolan politicians for their own benefit. In 2008, the Inter Press Agency reported that Portuguese banks had discovered more than \$21m in bank accounts in Portugal belonging to senior Angolan politicians. This was only a portion of the estimated \$54m that was allegedly paid in kickbacks to Angolan officials in over 70 transactions.⁷² The payments were made to accounts in a wide range of countries, including the notorious secrecy jurisdiction, Switzerland. Jose Eduardo Dos Santos was alleged to have received \$10m, the largest amount paid. As with the Tanzanian radar deal, no local politician has ever faced a proper investigation. Moreover, Falcone in particular, has been able to establish a considerable business network in Angola following his release from prison, becoming a central player in the notoriously corrupt Angolan mineral sector.

The Angolagate scandal is different from the Tanzanian example inasmuch as it was pursued with what seemed like legitimate security concerns. The corruption, in this instance, was parasitic: it occurred on the sidelines of a deal that was being pursued in any event. This suggests the transaction may have occurred without corruption. However, the corruption undoubtedly increased the cost of the deal and probably led to the purchase of levels of equipment in excess of that needed. Such parasitic corruption is common in global defence transactions, increasing costs and undermining effective decision making, and is made

⁶⁹ Allen, E. And Intalan, N. 2010. 'Anatomy of a Scandal', *World Policy Journal*, Vol. 27, No. 1, p. 14 – 15

⁷⁰ *Ibid* and *All the Presidents Men*, Global Witness, March 2002, p. 11.

⁷¹ World Bank Stolen Asset Recovery: Pierre Falcone/Angolagate, <http://star.worldbank.org/corruption-cases/node/18627>

⁷² 'Portugal: "Angolagate" Bribes in Local Banks,' *Inter Press Service*, 3 November 2008, <http://www.ipsnews.net/2008/11/portugal-quotangolagatequot-bribes-in-local-banks/>

possible by the levels of secrecy that surrounds the arms business. This secrecy is maintained, as with the Tanzanian radar deal, by the use of mechanisms to hide and disguise money flows. In other words, corruption is facilitated and pursued by the use of illicit financial flows, without which, corrupt schemes would struggle to be executed. In addition, the use of lifting rights to pay for the procurement, large portions of which were diverted to political players in Angola, France and elsewhere, suggests that defence procurement can be used as a useful means of ‘laundering’ funds from mineral riches into corrupt income streams; a textbook example of the synchronicity between corruption and illicit financial flows.

What is often lost in both accounts, however, is the complicity of major multinational defence production companies, their home governments and their diplomatic mechanisms. It is an obvious truism that corruption is a conspiracy between at least two actors. In the above instances, corruption took place because of proactive attempts on the part of corrupters to enact the conspiracy. Corruption in African defence procurement is thus not just an African problem: it speaks to global problems in the defence industry and the manner in which corruption is treated as normal and inevitable. Any attempt to deal with corruption on the African continent will need to include an engagement with the best means to disincentivise global firms from using their substantial financial and political resources to corrupt procurement, and punishing those on a continent-wide basis who fail to abide by the law.

Unfortunately, while these two examples occurred in the past, we remain concerned about the possibility for corruption in two contemporaneous transactions taking place in Angola and Algeria respectively.

In October 2013, it was reported by Russia’s media that the Angolan government had agreed to a \$1bn arms deal with the Russian state arms manufacturer, Rosoboronexport. The announcement followed a visit by the Russian deputy Prime Minister Dmitri Rogizin.⁷³ The largest portion of the sale, which also included provision for the manufacture of an ammunition factory and transport helicopters, consisted of 18 Su-30 fighter jets.⁷⁴ The wisdom of the purchase of these jets is unclear. The jets were originally sold to the Indian defence force, but were mothballed as the Indian air force claimed that they were outdated and under-equipped.⁷⁵ They were recently returned as part of an exchange deal for updated and technologically advanced Su-30MKIs, and have been languishing in a Russian repair yard.⁷⁶ The fact that Angola purchased aircraft considered to be largely out of date and of limited operational capacity, and without outlining the strategic need that would require such firepower, has raised questions as to the reasoning behind the purchase.

It is impossible, at this point, to indicate that this transaction has been undertaken purely for corrupt intent. But there are notable warning signs. First, Angola, as pointed out above, is considered to exhibit critical corruption risk, which indicates that few processes are in place to prevent wasteful and corrupt expenditure. Russia, too, scores very poorly on defence corruption perception indices, and is anecdotally linked to numerous bribe-heavy deals.⁷⁷

⁷³ ‘Angola “Biggest Buyer of Russian Arms” After \$1bn Deal’, *Africa Review*, 18 October 2013

⁷⁴ ‘Russia’s Renewed Arms Deal with Angola Raising Questions’, *The Atlantic Post*, 11 November 2013

⁷⁵ *Ibid* and ‘We Buy Any Jet: Why Is Angola Buying Hand-Me-Down Military Equipment from Russia?’, *Think Africa Press*, 1 November 2013

⁷⁶ *Ibid*

⁷⁷ Russia was placed at 136 out of 175 countries by Transparency International’s Corruption Perception Index in 2013, with 1 being the least corrupt and 175 being the most corrupt. See: www.cpi.transparency.org/cpi2013/results

Secondly, there is a rich history of corrupt and large-scale transactions between Angola and Russia, not least the Angolagate transaction described above, as well as an allegedly corrupt \$1.5bn debt settlement deal from the late 1990s and early 2000s. Third, many of the individuals involved in earlier alleged defence corruption remain part of the Angolan establishment, including President Jose Eduardo Dos Santos and General Manuel Helder Vieira Dias Junior, also known by his nickname ‘Kopelipa’. ‘Kopelipa’, in particular, has been linked to corrupt deals that run the gamut from diamond trafficking to the embezzlement of oil funds. He is widely considered to be the member of the Angolan establishment most closely linked to defence procurement decisions.⁷⁸ In the light of these warning signs, we believe it is necessary to monitor the transaction, and, if possible, place pressure on the Angolan establishment to provide unfettered access to information on the deal.

Another country whose recent transactions are worth mentioning is Algeria. Algeria’s military expenditure has rocketed over the previous decade, making it the second largest spender on the military in Africa in absolute terms, second by only \$3bn to South Africa. Algeria is likely to surpass South Africa’s military expenditure based on the rapid increases in the defence budget over the previous five years, as well as public announcements.⁷⁹ It is estimated that Algeria’s defence spending will reach at least \$10.3bn for 2013, of which an estimated \$1.5bn to \$2bn is to be directed specifically to procurement.⁸⁰ As a result, Algeria is now ranked as the 9th largest weapons importer in the world.⁸¹

The scale of procurements undertaken over the previous 8 years have been significant, the most notable of which was a \$7bn defence package signed with Russia in 2006. The purchase delivered MiG jet fighters, SU-30 fighters (the same as Angola in 2013), missile systems, tanks and attack helicopters.⁸² More recently, Algeria has purchased a sea-based landing platform from Italian manufacturer Fincantieri⁸³, and corvettes (ocean-going attack vessels slightly smaller than frigates) from Germany and China, orders for which were placed in 2012.⁸⁴ Further substantial deals are hotly anticipated in the trade media.

Despite Algeria’s arms purchases being cast as part of a Moroccan-Algerian regional arms race, we remain concerned that corruption is potentially a driver of the type and quantity of defence materiel purchased. As with Angola, Algeria performs poorly on all corruption metrics, rated as exhibiting severe corruption risk by Transparency International. Algeria fails to report all of its defence spending, while, according to Transparency International, highly influential military figures play a direct and material role in procurement, often in violation of national legislation. In addition, there exists no body tasked with auditing the defence sector specifically, nor is there any task-force or investigative agency with defence as its purview.⁸⁵

⁷⁸ Rafael Marques de Morais, 2010. ‘The Angolan Presidency: The Epicentre of Corruption’, *Maka Angola*. www.makaangola.org

⁷⁹ ‘Algeria Increasing Military Spending’, *DefenceWeb*, 14 November 2012

⁸⁰ ‘Algeria Prepares to Receive LPD Amid Defense Spending Boost’, *Defence News*, 31 January 2014, <http://www.defensenews.com/article/20140131/DEFREG04/301310036/Algeria-Prepares-Receive-LPD-Amid-Defense-Spending-Boost>

⁸¹ ‘Algeria: on a military spending spree’, *Financial Times*, 15 November 2012

⁸² ‘Algeria Increasing Military Spending’, *DefenceWeb*, 14 November 2012

⁸³ ‘Algeria Prepares to Receive LPD Amid Defense Spending Boost’, *Defence News*, 31 January 2014, <http://www.defensenews.com/article/20140131/DEFREG04/301310036/Algeria-Prepares-Receive-LPD-Amid-Defense-Spending-Boost>

⁸⁴ ‘Algeria Buying Chinese Frigates’, *DefenceWeb*, 9 May 2012

⁸⁵ ‘Country Summary – Algeria’, *Transparency International*, May 2012. Available from <http://government.defenceindex.org>

There are also indications of a worryingly close connection between German defence companies, in particular, and the oil industry. Ferrostaal, the partner of ThyssenKrupp – responsible for corvettes for the Algerian navy – was mentioned in connection to the recent Sonatrach scandal that has rocked the Algerian oil industry.⁸⁶ Ferrostaal was applying for rights to establish facilities for downstream beneficiation of petro-chemicals. According to internal audits, Ferrostaal was potentially making use of ethically questionable agents, as well as bid rigging. Partially responsible for these activities was ThyssenKrupp Marine Systems (TKMS) International (Singapore), which was also the agency responsible for soliciting the corvette contract.⁸⁷ The French media has also highlighted the fact that the corvettes purchased from TKMS were purchased at a price considerably in excess – nearly double – than that afforded to other buyers.⁸⁸ This could indicate either the front-loading of future defence sales, or, more worryingly, incorrect and questionable pricing. These facts indicate a need for consistent monitoring of Algerian defence procurement and possible further investigation.

Corruption in State Defence Procurement: Impact and Consequences

Corruption in defence procurement has a wide-ranging set of impacts and consequences, as the examples above attest. This is true of both developed and less developed states, although the impacts on human security and social cohesion may be more severe in those countries with extremely limited state resources and serious levels of poverty. The eight primary impacts are as follows:

1. *Diversion of scarce state resources*: corruption in defence procurement diverts resources away from other social priorities. This is especially true in instances where procurement is pursued specifically for corrupt ends. Even in ‘legitimate’ transactions that are inflected with corruption, corruption can have the effect of increasing sales prices, reducing quality control and the non-selection of contractors who may be better suited to the country’s technical and military needs. The selection of inappropriate contractors can also have long-term impacts in terms of equipment life-cycle costs, as inappropriately purchased equipment may need additional maintenance. These maintenance contracts are also vulnerable to corruption, further diverting state resources.
2. *Increased Defence Spending*: Corruption can lead elites within the military to increase the level of defence spending so as to pursue personal profit. It may also lead to the selection of equipment that is more expensive than other alternatives. This was clearly seen in the case of the Tanzanian radar sale noted above.
3. *Reducing Growth and Foreign Direct Investment*: Numerous academic studies have shown that corruption has an overall negative impact on economic growth and development. This has multiple dimensions above and beyond the wasting of scarce resources: one key issue is that investors may believe that corruption reduces the desirability of a state as an investment destination, especially where such corruption can impact on basic property rights.
4. *Reducing Military Competence and Legitimacy*: Many militaries in Africa operate on tight budgets yet employ large numbers of soldiers. If resources are diverted to corrupt defence procurement, this can reduce the funds available to pay soldiers

⁸⁶ ‘Ferrostaal Probes Deals’, *Africa Energy Intelligence*, No. 662, 3 November 2011

⁸⁷ ‘TKMS International Forges Ahead’, *Intelligence Online*, No. 662, 5 April 2012

⁸⁸ ‘Aremement: le groupe allemande TKMS remporte un (trop?) joli contrat en Algerie’, *La Tribune*, 27 March 2012

promptly. Poorly paid soldiers present a threat to the state and its citizens, as soldiers may be encouraged to engage in petty crime or other activities to supplement meagre salaries. Corruption can also prevent the proper equipping of soldiers, leaving them vulnerable in conflict situations and reducing their military effectiveness. Broader public acceptance of the military's role in society can also be eroded, reducing trust and collaboration between citizens and security forces

5. *Prolonging Conflict and Reducing Human Security:* Where conflict involves the seizing of resources, or provides the space for the pursuit of corrupt procurement for personal gain, conflicts can be extended beyond their military necessity. This is a major concern particularly in conflict zones featuring rich mineral deposits. In the DRC, for example, personal gain amongst soldiers and generals has led to the seizure of mineral fields and the long-term engagement of the military in operations. Without such dynamics, it is possible that the conflict in the DRC may have been curtailed. This obviously reduces human security in conflict zones and in the countries from where troops are sent, as resources are diverted from socio-economic upliftment to military activity
6. *Poor Weapon Control and Proliferation:* The diversion of resources away from operating costs and towards procurement can lead to the poor retention and safekeeping of dangerous military materiel. This is especially true when equipment is purchased that has limited military necessity and remains mothballed for long periods of time. Unguarded stockpiles are easy targets for looters, corrupt officials and non-state actors, which can lead to enormous illegal proliferation. Such concerns have been seen most clearly in Libya, where the Gaddafi regime purchased enormous amounts of weapons, partially for corrupt ends. The quantity of weapons exceeded the ability of the state to make use of them. Since the fall of Gaddafi's regime, the weapons have entered into the black market, and have been central to instability in Mali as soldiers have made use of looted materiel in an attempt to overthrow the Malian government. It is reported that the weapons have also been distributed into Sudan and Somalia, further fuelling instability
7. *Weakening Democratic Practice and Law Enforcement:* Corruption can have a devastating impact on democratic practice. Corrupt politicians and officials can exert considerable pressure on mechanisms of oversight and law enforcement to prevent unfettered investigations into corruption scandals. Sustained pressure can lead to a reduction in the competency of these agencies. In those cases where oversight employees fail to relent, there is a danger that politicians can use their power to restructure oversight mechanisms through legislative and other means. If successful, these actions produce even greater spaces for continued corruption. Critics of South Africa's 1999 Arms Deal argue that investigations into the transaction were hamstrung by political interference, leading to a restructuring of mechanisms of oversight and a reduction in effective democracy.
8. *Perpetuating Weak Governance:* Beyond undermining mechanisms of oversight, defence corruption can perpetuate corrupt and ineffective governance. Such concerns are particularly acute when corrupt funds are funnelled into the operational funds of political parties; a major source of defence corruption globally. In these instances, having a larger 'war chest' to fight for electoral dominance can allow corrupt parties to remain in power, additionally generating additional incentives to pursue corruption in future

As should be clear from the above, corruption in the defence sector has profound impacts on governance, development and human security. The multivariate negative impact of corruption

has a primary consequence: corruption should be seen as a threat to national and human security, rather than simply an issue of good governance. This implies an urgent need to engage with decision makers in both the military and civilian government regarding corruption.

Part Two: Key Points and Statistics

- Defence expenditure in Africa has increased markedly over the last two decades
 - Between 1994 and 2012, \$447bn has been spent on military expenditure on the African continent (excluding Egypt)
 - The annual average expenditure for the continent was \$34.18bn between 2008 and 2012, which is \$11.38bn more than the \$23.56bn average spent on the continent between 1994 and 2012
 - Military expenditure has largely increased in line with GDP growth, as illustrated by the fact that 2012 was the year the most was spent in absolute terms but, at 1.9% of GDP, less than the two decade average of 2.33%
 - These figures exclude small and light weapons and off-budget expenditure, which is commonly assumed to be very substantial
- There are a number of severe corruption risks present in a wide-range of countries on the continent that create substantial spaces for corruption:
 - Poor budgeting and defence expenditure disclosure
 - Substantial off-budget spending
 - Insufficient procurement mechanisms
 - Executive-mindedness and a lack of effective democracy
 - Reviews by Transparency International in 2013 confirmed that the majority of African states reviewed exhibited severe or critical corruption risks due to the above factors. Of 14 African countries reviewed, only two received moderate corruption risk scores. Four countries were considered severe ('E' rating) and four considered critical ('F' rating).
- The examples of the Tanzanian radar deal and Angolagate illustrate the following lessons:
 - Corruption can lead to military expenditure that would not have happened without corrupt intent, diverting resources away from socio-economic development
 - Corruption markedly increased costs of procurement to the State
 - The corruption relied on a complex set of agents and intermediaries, who are almost always the conduit for corruption in the global arms trade
 - The corruption was facilitated by illicit financial flows funnelled via international secrecy jurisdictions
- Corruption in defence procurement has a number of impacts, which include:
 - Diverting state resources away from development
 - Increasing defence spending
 - Reducing growth and foreign direct investment
 - Reducing military competency and legitimacy
 - Prolonging conflicts and reducing human security
 - Heightening risks of proliferation
 - Weakening democratic practice and law enforcement agencies
 - Perpetuating weak governance

The above suggest that corruption in defence procurement is a major issue on the African continent, and should be treated urgently as threat to national security, in addition to being a betrayal of citizen's rights and needs.

Part Three

Conclusion and Recommendations

Corruption in defence procurement is a major concern on the African continent, diverting substantial resources away from much needed development and eroding initiatives towards good governance.

Admittedly, corruption in defence procurement is not unique to Africa, being a global concern. The defence sector is particularly prone to corruption, largely due to the secrecy afforded to procurement transactions due to national security, the large sums involved and the technical specificity of the transactions. These features of the defence trade globally interact with a number of corruption risks that are widely exhibited on the African continent. These risks include poor budgeting and transparency, a lack of strategic planning and insufficiently rigorous procurement mechanisms.

However, it should also be noted that corruption in Africa is not simply an African concern. Africa lacks an indigenous arms production capacity beyond that operative in South Africa. Thus, when weapons are procured, they are generally sourced from a handful of ‘big players’, mostly located in Europe. When bribery occurs in these procurements, the European suppliers are equally complicit. Action should be taken to punish those found guilty of being party to corrupt schemes, while African countries should seek to proactively close down the traditional avenues used by arms production companies to undertake corruption.

Recommendations

The above suggest a series of recommendations tackling a number of key areas of concern. We believe that the Tana Forum should use all means and methods at its disposal to affect these reforms on a continent wide basis.

For the African Union and Regional Economic Communities

- 1. Establish a continent-wide task team that is competent to audit defence expenditure on the continent.**

This would assist countries who seek to achieve transparency in defence budget reporting but lack the technical skills necessary for this to take place.

- 2. Establish a continent-wide registry of defence purchases, possibly via the African Union, similar to the UN Comtrade Database for small and light weapons.**

This will provide clarity to defence planners, civil society and the citizenry about purchases.

- 3. Establish a continent-wide blacklist of defence companies proven to be guilty of corruption. Entry onto the blacklist would make companies ineligible for procurement contracts for a period of not less than five years.**

This would discourage defence contractors from using corruption to win contracts

- 4. Establish a continent-wide money laundering alert initiative, possibly via the African Union, to track and report on suspicious inward and outward transfer of funds**

This would provide a mechanism to track illicit financial flows and detect corrupt and questionable activity

- 5. Establish a continent-wide quick-sharing initiative that would allow prosecutors investigating corruption in defence procurement to quickly share information regarding questionable procurement**

This would assist prosecutors in investigating cross-border and multinational crimes speedily

- 6. Establish a continent wide law enforcement task force, possibly via the African Union, that can provide specialist assistance in investigating and prosecuting corruption in defence procurement**

This would help tackle corruption cases that may be complicated or cross multiple jurisdictions

For African Governments

- 1. Establish common accounting mechanisms and reporting formats in defence budgets in all countries.**

This will make it easier to standardise defence reporting and make off-budget expenditure harder to disguise

- 2. Governments should review national security legislation. Lawmakers/legislatures should initiate action to amend laws that reduce or prevent exemptions on the basis of national security; they should focus on reducing the ability to apply blanket secrecy over defence activities, particularly procurement. Legislation should also make it a criminal offence to classify material in order to disguise criminal activity.**

This would increase transparency in defence procurement and prevent the abuse of national security legislation to enable corruption

- 3. All countries should undertake a strategic defence review. They should collaborate on a continent-wide, or regional, defence review.**

This would generate formal defence plans that would preclude ad-hoc defence expenditure. A thorough review of the actual security and defence risks facing countries would limit ad-hoc defence expenditure, and allow civil society and legislatures monitoring defence procurement to assess whether purchases are in line with needs.

- 4. Establish standardised procurement hierarchies and document control priorities for use by all defence procurement agencies across the continent, drawing on best practice in international procurement systems**

This would reduce the space available for corruption and procurement irregularities and generate a continent-wide system that could be easily audited

- 5. Require officials involved in defence procurement to declare any bank accounts or assets held in any outside jurisdiction. Make failure to declare a criminal offence**

This will make it harder for corrupt officials to hide funds in secrecy jurisdictions as any attempt to disguise assets would incur criminal charges

- 6. Enact legislation that requires a ‘cooling off’ period of at least two years before an official overseeing defence procurement takes employment, or enters into a business relationship with, defence contractors**

This would reduce incidents of post-employment corruption, and shut down the revolving door between companies and defence procurement officials.

- 7. Establish procurement contracting guidelines that discourage the use of brokers or agents in transaction negotiations**

This would reduce the scope for use of agents and middlemen who are the primary means of effecting corrupt schemes

For the United Nations and Other International Parties

- 1. Investigate the creation of a fund, or alternatively a skills transfer scheme, to provide auditors to African governments unable to conduct defence budget reviews due to a lack of skilled capacity**

This would assist African governments that want to achieve rigorous defence budgeting but lack the skills to do so

- 2. The World Trade Organisation and its member countries should review the exclusion of the defence sector and other procurements undertaken under the rubric of national security from the WTO Agreement on Government Procurement (WTO-AGP).**

This would make procurements in the defence sector subject to the same rules as the rest of world trade, reducing corruption amongst buyers and sellers.

For African and International Non-state Actors

- 1. Require defence companies to enter into integrity pacts with purchasing countries that includes the appointment of independent monitors and provides breakage clauses in instances of prima facie corruption**

This would discourage contractors from the use of corruption to win contracts, make cancelling contract negotiations easier and limit the cost implications of failed negotiations

- 2. Require all defence companies to register agents or brokers used in any jurisdiction with the appropriate defence procurement oversight agency. This information must be made publicly available.**

This would reduce the scope for the use of covert agents who are a primary means of effecting corrupt schemes

- 3. Suggest that African civil society organisations should seek to establish, or investigate the establishment of, a continent-wide information sharing and advocacy task group to advocate for transparency and accountability in defence expenditure**

This would broaden participation in defence accountability to civil society and provide a means of pressurising non-compliant defence establishments into transparency

Annexure A

Supporting Data: Procurement and Military Expenditure

Table 1
African Defence Procurement (weapons systems excluding small arms): 1994 to 2012
\$million (constant 2012 prices)⁸⁹

Year	Amount (\$m)
1994	874
1995	500
1996	550
1997	713
1998	828
1999	1252
2000	1167
2001	1018
2002	863
2003	862
2004	1003
2005	1113
2006	1381
2007	1722
2008	2578
2009	1696
2010	2073
2011	3595
2012	2514
TOTAL	26302
Annual Average	1384

⁸⁹ SIPRI Arms Transfer Database

Table 2
African Military Expenditure: 1994 to 2012⁹⁰
\$bn (constant 2012 prices)

Year	Amount (\$bn)
1994	15.9
1995	14.8
1996	13.9
1997	14.6
1998	15.4
1999	21.7
2000	19.3
2001	19.6
2002	21
2003	20.7
2004	23.2
2005	24.2
2006	25.9
2007	26.6
2008	30.3
2009	31.6
2010	33.6
2011	37.1
2012	38.3
TOTAL	447.7
Annual Average	23.56

⁹⁰ SIPRI Military Expenditure Database

Table 3
Military Expenditure (Sub-Saharan and North Africa): 1994 to 2012⁹¹
\$bn (constant 2012 prices)

Year	Sub-Saharan Africa	North Africa
1994	11	4.9
1995	10.2	4.6
1996	9.1	4.9
1997	9.3	5.3
1998	9.8	5.6
1999	16.5	5.2
2000	14	5.2
2001	13	6.6
2002	14.5	6.7
2003	13.7	7
2004	15.6	7.6
2005	16.3	7.9
2006	18	7.9
2007	18	8.5
2008	20.2	10.1
2009	20.5	11
2010	21.6	12
2011	22	15.1
2012	22	16.2
TOTAL	295.3	152.3
Annual Average	15.54	8.015

⁹¹ SIPRI Military Expenditure Database

Table 4
Military Expenditure: Africa vs. The World: 1994 to 2012⁹²
\$bn (constant 2012 prices)

Year	Africa	World	African Percentage of Global Expenditure
1994	15.9	1136	1.4%
1995	14.8	1075	1.37%
1996	13.9	1052	1.32%
1997	14.6	1063	1.37%
1998	15.4	1053	1.46%
1999	21.7	1078	2.01%
2000	19.3	1120	1.72%
2001	19.6	1146	1.71%
2002	21	1215	1.72%
2003	20.7	1289	1.61%
2004	23.2	1362	1.7%
2005	24.2	1420	1.7%
2006	25.9	1468	1.76%
2007	26.6	1525	1.74%
2008	30.3	1605	1.88%
2009	31.6	1711	1.84%
2010	33.6	1739	1.93%
2011	37.1	1741	2.13%
2012	38.3	1733	2.21%
TOTAL	447.7	25531	n/a
Annual Average	23.56	1343	1.71%

⁹² SIPRI Military Expenditure Database

Table 5
Military Expenditure as Percentage of GDP (Africa, Sub-Saharan Africa and North Africa): 1994 to 2012⁹³

Year	Percentage of GDP Africa (Excluding Egypt)	Percentage of GDP Sub-Saharan Africa	Percentage of GDP North Africa⁹⁴ (excluding Egypt)
1994	2.4	2.4	3.2
1995	2.6	2.5	3
1996	2.4	2.4	3
1997	2.4	2.2	3.5
1998	3.1	3	3.7
1999	3.6	3.6	3.1
2000	3.2	3.2	2.7
2001	2.8	2.7	3
2002	2.6	2.6	2.8
2003	2.4	2.4	2.7
2004	2.1	2	2.6
2005	1.9	1.8	2.3
2006	1.8	1.8	2.1
2007	1.7	1.7	2.1
2008	1.8	1.7	2.2
2009	1.9	1.8	2.8
2010	1.8	1.7	2.8
2011	1.9	1.7	3.1
2012	1.9	1.8	3.2
Annual Average	2.33	2.26	2.83

⁹³ SIPRI Military Expenditure Database

⁹⁴ Algeria, Libya, Morocco and Tunisia

Table 6
Top Ten Military Spenders (Absolute): Africa, 1994 – 2012⁹⁵
\$m (constant 2012 prices)

Country	Total Spent	Annual Average	As Percentage of Continental Spend
South Africa	78162	4131	16%
Algeria	75085	3951	15%
Morocco	47124	2480	9.8%
Angola	45596	2533	9.5%
Nigeria	23984	1262	5%
Libya	12377	952	2.5%
Tunisia	9777	514	2%
Tanzania	3326	175	0.69%
Zambia	3045	217	0.63%
DRC	2768	184	0.57%

477.77

⁹⁵ SIPRI Military Expenditure Database

Table 7
Top Ten Military Spenders (As Percentage of GDP): Africa, 1994 - 2012⁹⁶

Country	Annual Average as Percentage of GDP
Eritrea	22.8%
Burundi	5.5%
Djibouti	5.5%
South Sudan [2012 only]	5.3%
Angola	5%
Morocco	3.6%
Algeria	3.4%
Mauritania	3.3%
Zimbabwe	3.2%
Lesotho	3%

⁹⁶ SIPRI Military Expenditure Database