Session 1: Scope and Sources of Security Sector Resources in Southern Africa

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Military expenditure in Africa: building security or squandering resources?

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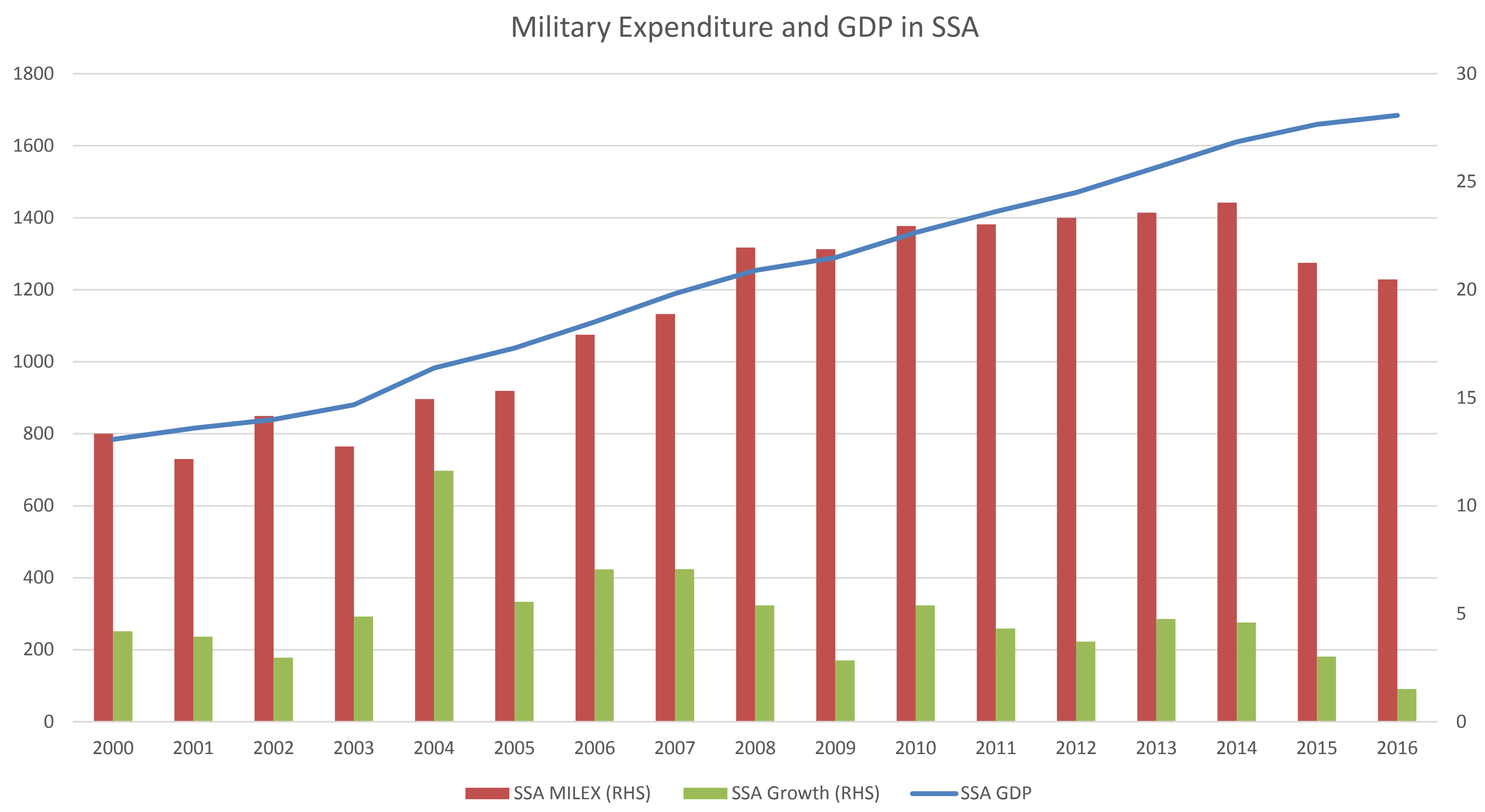
Economic and Military Expenditure Trends in Sub-Saharan Africa: 2000-2016

- Military expenditure in SSA has increased by 80% - 2000-2014.
- Sustained increase in MILEX – 2000-2014, despite global economic downturn in 2008-09.
- Spending peaked in 2014 - $24 billion, notable high spenders: Angola, South Africa and Nigeria.
    - Angola's spending has more than doubled since 2000, while Chad's spending has rose by over 700%.
- Much of the military spending since 2000 has been funded on the back of commodity price driven economic growth.
    - Increased revenues, reserves, debt – increased national budgets (including defence).
    - Economic growth 2000-14 averaged 5% (AfDB, 2014).
    - Intra-Africa trade increased 4x to $130 billion (AfDB, 2014).

Military Expenditure and Economic Growth in SSA: 2000-2016



Economic and Military Expenditure Trends in Sub-Saharan Africa: 2000-2016

- Since oil price crash in late 2014, economic growth, revenue and military spending have all decreased.
- Military expenditure in SSA decreased by 14% since 2014.
- Substantial decreases in major oil-exporters: Angola (-48%), South Sudan (-63%) since 2014 peak.
    - Hyperinflation, exchange rate depreciation, rising debts and lower revenue.
- Commodity price funded military/security spending has ended.
- Back to basics – military spending are driven by genuine and perceived security needs:
    - Rebels, insurgents, piracy
    - Emerging regional arms races

Mismatch in Military/Security Sector Financing

- Inherent mismatch in the way much of the military or security sector has been financed in SSA.
- Military spending is made up of arms procurement, salaries, infrastructure costs, pensions – long term costs spanning many years.
- Commodity prices are very volatile (e.g. oil prices), but arms procurement often 5-10 year plans.
    - Prices set in beginning with repayment in installments.
    - Changes in commodity prices will impact ability to repay installments (additional debt may be needed).
- Spending plan is long-term vs. short-term funding.
- In SSA and many other countries – clear correlation between commodity prices and military spending.

Domestic Financing of Security Sector

- Source: Government Revenue (Taxes, oil income, investment etc.)
- Most common type of financing – based on economic health of a country.
- Merits:
    1. Full information on security needs, affordability, budgeting process, outputs to make the most effective and efficient spending decisions.
    2. Security financing based on long-term and strategic defence plan.
    3. Public and civil society can hold government officials accountable to financing decisions.
- Demerits:
    1. Lack of financial discipline – enjoys privileged position where officials/heads of state intervene in resource allocation processes (e.g. Nigeria, South Africa).
    2. Nature of the sector (national security) – limited information on spending decisions.
    3. Poor transparency and accountability – Corruption.

Foreign Financing of Security Sector

- Source: Foreign donors – mainly other governments (e.g. USA and China)
- Funding often in the form of military aid, either through financing (grants, loans) or equipment for arms transfers.
- Merits:
  1. Alleviates the stress of finding domestic financing.
  2. Able to acquire key equipment/expertise and other operations which normally might be unaffordable.
  3. External support in stabilization operations and security sector reform.
  4. Transparency
- Demerits:
  1. Subject to unfavorable terms and conditionality (e.g. unnecessary arms purchases)
  2. Lack of accountability due to nature of the fund being foreign – corruption.
  3. Comprising countries own geopolitical, economic and military interests.

Debt Financing of Security Sector

- Source: External financing through loans, equities, multinationals, governments, ODA, debt.
- The continent has long history of indebted countries – development projects (infrastructure and social services) impossible without ODA or borrowings.
- Recently, economic growth and commodity price surge helped SSA countries to acquire loans to pursue development, industrialisation and arms imports.
    - Supply of "petroldollars" made external loans an attractive means to finance public sector deficits.
    - As commodity prices fell in 2014, some SSA countries (e.g. Angola, South Sudan) could no longer maintain debt repayments.
    - Decrease in commodity revenue – increase in fiscal deficit, public debt.

Implications of High debt

- Servicing external debt has been major problem:
  - Low savings, impede economic growth, failed renegotiations.
  - As of late 2010, of the 26 of 33 severely indebted are in SSA.
  - Burden of debt on tax payers, inherent debt from past regimes.
- SSA highest external debts, spends more than 50% of export revenue to service international debt (World Bank, WDI).
  - Hamper social-economic development (e.g. Burundi, Cameroon, Tanzania).
  - Strong link between debt and military burden – borrowings utilized in unproductive ways.
- Need a right balance between security, defence and affordable types of financing for the security sector.

Consequences of Over-investing in Security Sector

- Trade-off between development spending and security spending.
- Poorest region, worst performing in MDG's, but region has 2nd highest military burden behind Middle East.
- World average (excluding Middle East) 1.67% vs. Africa 1.99% of GDP.
- Very high variations between military burdens, not always related to security differences.
- Highest military burden (Latest 2016 figures):
  - Congo Republic: 7.0%
  - Botswana: 4.08%
  - Mauritania: 4.06%
  - South Sudan: 3.71%
  - Angola: 3.68%
- The same military burden usually represents a higher share of government expenditure in Africa than in e.g. Europe.

Consequences of Over-investing in Security Sector

- Opportunity Cost in spending on military or security sector – crowing out commercial and development investment.
- Often overspend and decisions are not related to security needs.
- Skills are difficult to transfer between military (highly specialized) and civilian.
- Limited spillover from security sector to civilian – resources can be spent better on development.
- Issues of accountability and transparency – corruption.
- Over investment lead to national and neighbouring actors misperceptions in capability, miscalulations in risk and suspicions.
- Uncertainty of how to interpret signals sent by the over spending.
- Lead to arms races or conflict.

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