

**MANAGING THE MILITARY BUDGETING PROCESS:
Integrating the Defense Sector into Government-Wide Processes**

Nicole Ball
Center for International Policy, Washington, DC
Center for International Development and Conflict Management, University of Maryland

Prepared for the Workshop on The Military Expenditure Budgeting Process

Accra, February 25-26, 2002

Sound fiscal management of the entire security sector is essential if a country is to have effective, efficient and professional security forces that are capable of protecting the state and its population against internal and external threats. Highly autonomous security forces that are able to act with impunity in the economic and political spheres are invariably professionally weak and highly cost-*ineffective*. Because the armed forces generally absorb the majority of resources allocated to the security sector and tend to have a high degree of political autonomy, this project focuses on the process by which military budgets are developed, implemented and monitored.

A central premise of this paper is that, from a public policy and process perspective, the military sector shares many of the characteristics of other sectors and that the citizens of any country will benefit from a military sector that is subject to the same broad set of rules and procedures of other sectors. As such, gives high priority to principles such as transparency, accountability to elected civil authorities, and comprehensiveness of budget coverage. Section I briefly discusses the differences between the need for confidentiality in the defense sector, on the one hand, and a lack of public scrutiny of the military sector, on the other hand. Section II outlines the relevance of good practice. Section III summarizes the process of integrating the military sector into the planning, policy-making, and budgeting systems and procedures of a country in a manner consistent with democratic, civil control of the defense forces.

I. Confidentiality versus Lack of Scrutiny

Failure to follow sound financial management procedures in the military sector is often justified by the need for secrecy to protect national security. It is clear that some degree of confidentiality is necessary in the area of national security. However, there appears to be a tendency to conflate the concepts of “sensitivity” and “confidentiality” and to use the need for confidentiality in some areas of the military sector to reduce opportunities for scrutiny by appropriate management and oversight bodies in government and by civil society.

Military-related issues – in particular, those relating to military intelligence - are sensitive in all societies. Even long-established democracies retain varying degrees of

confidentiality in the realm of national security. It is important to be clear, however, about the distinction between confidentiality and the lack of public scrutiny. It is possible to retain a high degree of confidentiality in highly sensitive areas without compromising the principle of public accountability.

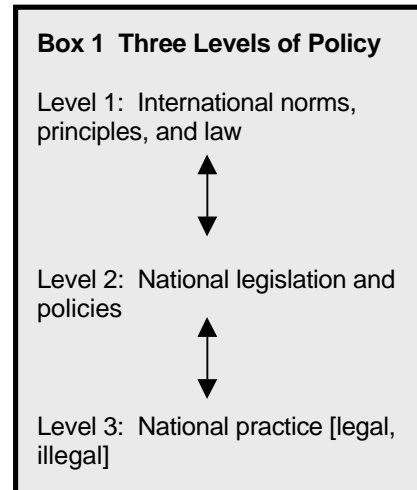
It is also important to be clear about what is being held in confidence and why it is considered sensitive. War plans should be held in confidence. That the armed forces are regularly exceeding their budget allocations, are purchasing expensive military equipment with scant attention to need or ability to maintain this equipment, or are engaged in illegal, off-budget activities are clearly sensitive matters, but should not be held in confidence.

A highly non-transparent military sector provides the perfect cover for off-budget transactions. [It also provides the perfect cover for the diversion of resources into private hands (or pockets).] The issue of off-budget military spending is addressed in more detail in a companion article (“Off-Budget Military Expenditure and Revenue”). The point to be made here is that when a significant portion of a country’s military expenditure occurs off-budget and is fed by off-budget revenues, not only are core principals of fiscal responsibility in the public sector violated. It is also highly likely that the operational capacity of the armed forces will suffer and that the military will not receive value for money. Therefore, an important component of the Sipri/ASDR project on military budgeting will be to determine the extent and nature of off-budget financing and expenditure.

II. The Relevance of Good Practice

This paper focuses on good practice and identifies key principles of democratic governance in the security sector and of sound budgeting and financial management. One might well question the relevance of dwelling on good practice when dealing with an issue like military spending where actual practice diverges significantly from good practice.

Governance in the military sector (indeed any portion of the security sector) should be approached as a three-level process. The first level consists of relevant international law, norms and principles. The second level consists of national legislation and policies. It is desirable for these to reflect international law, norms and principles to the greatest degree possible. In developing national laws and policies, however, it is important to recognize that there is a wide range of ways to structure national law and policies and that there is no one-size-fits-all approach.



The third level is that of national practice. National practice may or may not reflect the two preceding levels. Some of the deviations may constitute illegal practice but much will not. Every country develops methods of addressing issues that reflect the spirit of the laws and policies of that country but which may not follow exactly the procedures specified in those laws and policies. That is true for OECD countries as well as for non-OECD countries. This is what makes it challenging to decide exactly how to affect policy in a given area and why a contextual approach is so important.

The point about starting with good practice is that it provides a clear vision of the objectives of policy reform – in this case, a democratically governed military sector under civilian leadership. Without such a vision, it is impossible to develop either a strategy for reaching the ultimate objective or benchmarks to measure progress along the way. It is also impossible to determine where the problems lie with existing policy and practice. Section III accordingly describes an ideal-type process for managing and overseeing the military budgeting process by democratic, civilian governments in order to provide a point of reference against which actual practice can be measured.

III. Incorporating the Military Sector into Government-Wide Fiscal Management Processes

There are four crucial, inter-related components to managing military expenditure: 1) strategic planning; 2) a firm resource envelope for the entire public

sector; 3) sectoral allocation processes (both between the military sector and other sectors and within the military sector); and 4) the efficient and effective use of resources within the military sector. For these processes to be effective, the military sector needs to follow good practices internally and needs to link with the broader government-wide fiscal management and oversight process. All of this must occur within the framework of democratic governance and the principles of sound budgeting and financial management. (Annex 1 lists the key principles of democratic governance in the security sector. Annex 2 defines ten widely accepted principles of sound budgeting and financial management.) This paper discusses the linkages with the government-wide process, as portrayed in the flowchart on linking defense policy, planning and budgeting on the following page.

Strategic planning process

As in any other part of the public sector, military budgets should be prepared against a sectoral strategy. In order for governments to be able to identify the needs and key objectives of the security sector as a whole and the specific missions that the military forces will be asked to undertake, they need to carry out assessments of the security environment and, based on that, develop a formal defense policy framework.

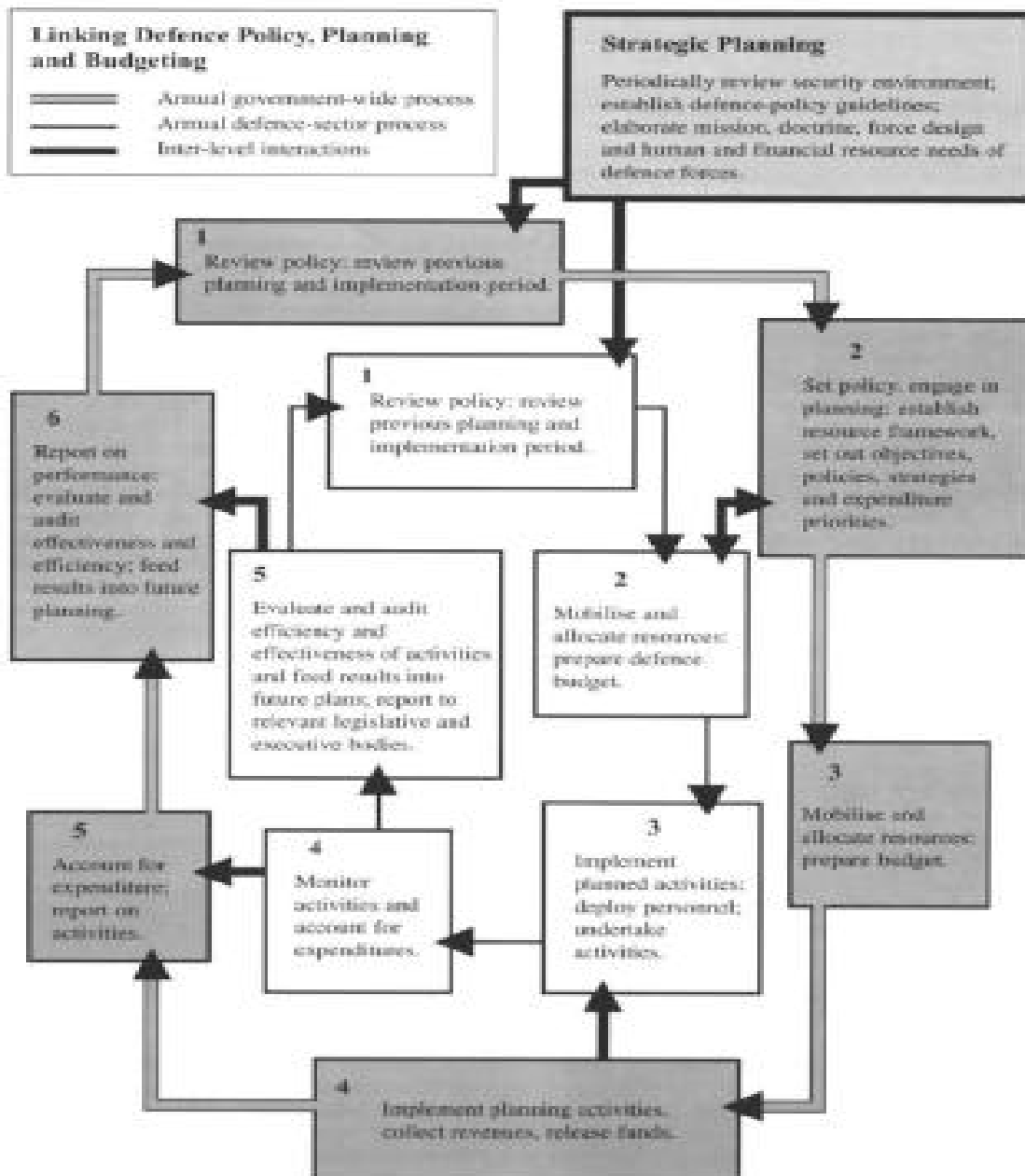
Few governments in Africa have undertaken thoroughgoing, participatory strategic review processes of the sort outlined in the flowchart on page 7. Furthermore, as Box 2 indicates, military personnel tend to dominate policy formulation, policy execution, and financial management in the SADC region and the situation is little different in other parts of the continent.

Box 2. Civil-Military Balance in Military Decision-Making in the SADC Region

“Comparative studies of the organizational structures of the ministries responsible for defence in the [SADC] region show that some of them still have inadequate institutional arrangements for stable civil-military relations. In some defence ministries the military dominate and civilians hardly make any meaningful contributions to defence policy formulation and financial control. The military principals, the chiefs of defence forces or force commanders, do not have civilian counterparts or Principal Secretaries to jointly plan, coordinate, and execute policy.”

Source: Erastus I. Negona [Defence Permanent Secretary, Namibia], “Namibian Civil-Military Relations in the New Millennium: Prospects and Challenges,” August 15, 2001.

LINKING DEFENCE POLICY, PLANNING AND BUDGETING



Source: UK Department for International Development, "Discussion Paper No. 1. Security Sector Reform and the Management of Defence Expenditure. A Conceptual Framework," Annex 3 in *Security Sector Reform and the Management of Military Expenditure: High Risks for Donors, High Returns for Development*, Report on an International Symposium Sponsored by the UK Department for International Development, London, February 15-17, 2000.

What is more, defense policies and planning processes are rarely, if ever, based on a broad evaluation of a country's security environment and a detailed assessment of the specific tasks that should be undertaken by the country's different security forces. Defense planning should not occur in a vacuum, but should be linked with planning for the police, paramilitary forces, civilian intelligence and any other state security forces, as well as with the country's economic and developmental objectives.

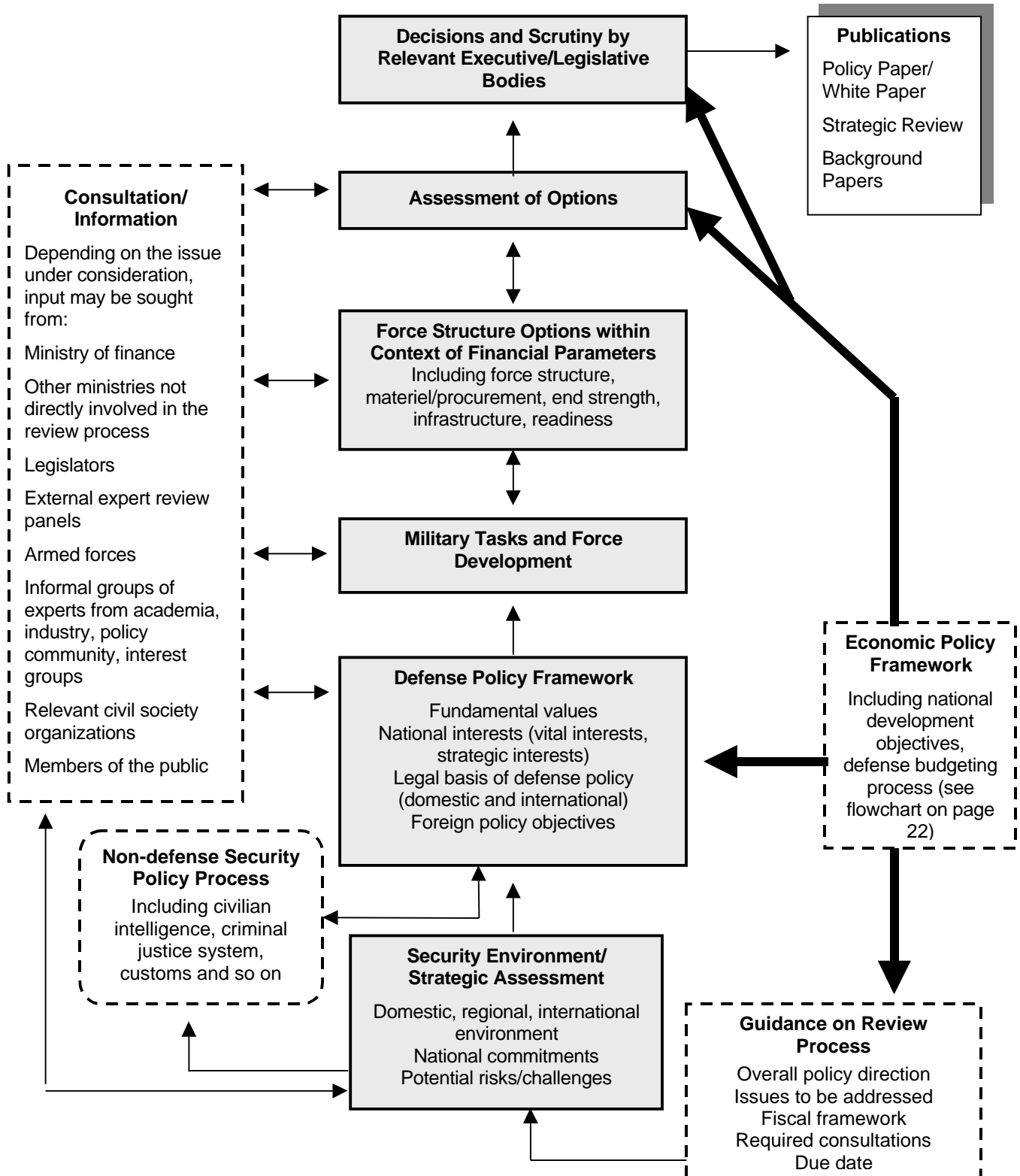
While it is true that "policy is what government does, not what it says it wants to do," formal policies are important. In the absence of well thought-out and clearly articulated policies, it is impossible to manage the finances of the military sector in a rational manner. Budgeting becomes *ad hoc*. In the absence of a clear definition of which activities undertaken by the armed forces are included in the "defense" function, it is impossible to develop adequate functional breakdowns of expenditure and to understand how much it costs to provide adequate military security. Additionally, it is difficult to develop performance benchmarks and thus to assess the efficiency and effectiveness of expenditure in the defense sector. Countries risk not obtaining a level of military security commensurate with their financial outlays.

Government-wide resource envelope

Government policies, whether in defense or any other sector, must be affordable. Affordable policies require a sustainable macroeconomic balance, which is critical to the long-term economic health of a country. To attain a sustainable macroeconomic balance, governments must give high priority to exercising discipline over public expenditure.

Overall fiscal discipline is also critical because an easily expanded resource envelope allows governments to avoid firm decisions on priorities. At the other end of the spectrum, without a solid floor to the expenditure envelope, resources are not predictable and operational performance will suffer. It is therefore extremely important to have in place institutions that can achieve long-term macroeconomic stability, determine the overall resource envelope for public expenditure, and enforce government decisions on expenditure priorities and levels.

PROCESS FOR CONDUCTING STRATEGIC DEFENSE REVIEWS AND DEVELOPING DEFENSE POLICY FRAMEWORKS



Fiscal discipline is weak in many African countries. While the military is by no means the only body responsible for the expansion of the resource envelope in the course of the fiscal year, it frequently enjoys a privileged position. Government officials, military officers and heads of state and government have intervened in the resource allocation process with flagrant disregard for established procedures and pre-determined spending priorities. Military officers have presented the treasury with invoices for expenses incurred outside the budget framework. Defense ministers have refused to share the details of defense spending with finance ministers and parliament. The full fiscal implications of arms procurement decisions, including debt incurred for military purposes, are more frequently than not reflected in budgets, which may eventually destabilize fiscal policy.

As far as the failure to respect lower limits on expenditures, the armed forces are less likely to have their allocations reduced during the course of the fiscal year than other security forces such as the police or the gendarmerie. Nonetheless, it is important to develop clear rules for any reallocation of resources during the fiscal year – including those occasioned by shortfalls in revenue – and to apply them across-the-board.

For all these reasons, it is extremely important that the principle that fiscal discipline applies to all sectors is adopted and adhered to. In this regard, Medium Term Expenditure Frameworks (MTEF) can help reduce incentives to evade fiscal discipline. Interestingly, a few armed forces in Africa have embraced the MTEF concept in an effort to obtain consistent financing, especially for capital expenditures.

Sectoral allocation of resources

Once the overall resource envelope is agreed, resources must be allocated according to priorities both within the military sector and between the military sector and other sectors. Sectoral strategies and information on performance (outputs and outcomes) are critical components of the allocative process. It is important that assessments of past performance be fed into planning for the coming year (or years in the case of multi-year budgeting cycles). The key financial and economic managers plus the legislature must have the capacity to be fully involved in the resource allocation process and the process must include all relevant actors. The central budget office

should assess the appropriateness of the defense ministry's budget. The armed forces must compete fully with other sectors for funding. The legislature must have adequate time before the beginning of the fiscal year to review and comment on the proposed defense budget. Methods of incorporating public input into the allocation process can help build public support for the eventual budget.

In many African countries, these conditions do not hold. Human and institutional capacity for military budgeting is weak in both the executive and legislative branches of government. Financial management and oversight within the armed forces is correspondingly inadequate. The military sector holds a highly privileged position vis-à-vis other sectors when the overall resource envelope is divided among sectors. Procurement requests are neither justified nor fully costed. The legislature receives even less information on the military budget than on budgets for non-security activities, and input from the public on spending priorities is actively discouraged or ignored.

While the military often enjoys a privileged position in terms of resource allocation, resource constraints have led some African governments to fail to provide the armed forces with adequate resources to carry out their assigned missions. This

Box 3. Proposed Tanzanian Air Traffic Control System Purchase

In late 2001, the United Kingdom approved an export license for the purchase of a \$40 million BAE military air traffic control system by Tanzania. This deal received considerable international attention because the UK Secretary of State for International Development, Clare Short, and the Chancellor of the Exchequer, Gordon Brown, opposed the sale and because the license specified that the World Bank must be satisfied that the system can be used both for military and for civil aviation purposes before the deal can be finalized.

Although the Bank will only make a decision when it discusses Tanzanian debt relief in early 2002, it expressed concern about the sale in December 2001. A technical evaluation by the Bank concluded that additional expensive equipment would be required to make the BAE system functional for civil purposes. The World Bank stated on December 20, 2001 that it opposed the sale because "a civilian system more suited to a country with only eight military aircraft would cost a quarter of the price" of the proposed BAE contract. The Bank has been particularly concerned about the debt implications of the purchase.

According to press reports, the deal was negotiated without parliamentary consultation. Ibrahim Lipumba, head of the Civic United Front was reported to have commented: "Only reports in the UK press have informed Tanzanians as to what is happening. The issue was not presented in parliament in a way that delegates knew what was going on and the issue never came up in the public expenditure review, which was meant to take in the views of all civil society."

Source: World Bank Development News, "World Bank Could Bar \$40 Million Tanzania Air Traffic Deal," December 21, 2001, www.worldbank.org/developmentnews. Search Development News Archives under December 21, 2001.

not only places at risk the safe and secure environment that is necessary for both economic and political development. It also creates frustration and resentment among the armed forces. Participants at a workshop on democratic governance in the security sector in Dakar, Senegal in October 2001, argued that adequate transparency in the defense sector is critical so that the serious underfunding that afflicts armed forces throughout the region is clear for all to see. They suggested that there is both disdain for the military and a belief that military security is a comparatively low priority among those who control their countries' financial resources. In their view, this not only leads to inadequate military budgets and thus inadequate external security; it also can heighten internal insecurity through a threat of coups.

Efficient and effective use of resources

Once a budget has been approved by the legislature and monies appropriated, the goal is to ensure the efficient and effective use of resources to implement sectoral priorities. This requires careful monitoring and evaluation of operational performance both within the armed forces and by civil servants. Funds appropriated should be spent for the purposes and in the amounts intended.

Well functioning financial management information systems (FMIS) are critical if decision makers and public-sector managers are to obtain the financial data they require for controlling aggregate expenditure, prioritizing among and within sectors and operating in a cost-effective manner. Additionally, it is extremely important that irregularities identified in the course of monitoring are addressed, lest a climate of non-compliance be created or reinforced. Particular attention should be given to ensuring the transparency of procurement processes and their conformity to good procurement practices.

Accounting standards in the military sector should not deviate from those in non-security sectors. Defense ministries should have their own internal audit offices and the government's auditor general should audit defense accounts on a regular basis. The results of the auditor general's audits should be reported to the legislature in a timely fashion and irregularities addressed expeditiously. Cash flow and expenditures should be monitored closely. Methods of verifying the number of individuals employed in the

armed forces and the ministry of defense and of linking salary and wage payments to individual employees facilitate this monitoring process.

Expenditure tracking studies can help determine whether resources are being spent as intended.

Value-for-money audits by the auditor general or other oversight bodies will help determine if resources are being spent efficiently. As in any other sector, the results of monitoring and evaluation work needs to be fed back into strategic planning.

Box 4. Tracking Expenditure in Sierra Leone

In 2001, the Sierra Leone government undertook a six-sector expenditure tracking survey. Defense was one of the sectors included.

In part, the capacity for financial management in the military sector is weak in Africa because overall financial management capacity is weak. At the same time, different standards are frequently applied to the military sector. The degree of transparency and accountability is often considerably lower in the military sector than in the government as a whole. Efforts are rarely made to identify deviations between approved and actual resource use, but where these are identified, problems are rarely corrected.

Box 5. Tracking Defense Spending in Zimbabwe

In Zimbabwe, notwithstanding its involvement in the Democratic Republic of Congo, defense expenditure has often not been used efficiently and effectively, with negative effects on the basic needs of service personnel and readiness of the force as a whole. The Parliamentary committee responsible for security sector oversight has issued reports highlighting specific problems. Some of the shortcomings identified include overcrowded, deteriorated troop living facilities, overcrowded military medical facilities which also had no medicines available, and grossly underfunded rations allowances that forced commanders to send troops on protracted home leave to assure they were fed. Conditions described in the committee's 1998 report also affected armed forces capability. For example, military units surveyed lacked most or all of the vehicles necessary for effective functioning while the vehicles actually on hand tended to be very old, dilapidated, or unusable for lack of spare parts. Similar deficiencies were noted for aircraft.

The government has shown no interest in addressing the problems identified by these reports. The intervention in the Democratic Republic of the Congo has demonstrated where its priorities lie. An alternative approach, which may be difficult to implement in the current political environment in Zimbabwe, would be to encourage the Zimbabwean Defence Forces themselves to conduct their own tracking surveys as part of a post-conflict reassessment process.

Source: Martin Rupiya and Dan Henk, "Funding Defence: Challenges of Buying Military Capability in Sub-Saharan Africa," unpublished working paper, ca. 2001, p. 29.

Annex 1. Key Principles of Democratic Governance in the Security Sector

- Accountability of security forces to elected civil authorities and civil society.
- Adherence of security forces to international law and domestic constitutional law.
- Transparency security-related matters;
- Adherence of security sector to same principles of public-expenditure management as non-security sectors.
- Acceptance of clear hierarchy of authority between civil authorities and security forces, clear statement of mutual rights and obligations between civil authorities and security forces.
- Capacity among civil authorities to exercise political control and constitutional oversight of security sector.
- Capacity within civil society to monitor security sector and provide constructive input into political debate on security policies.
- Political environment conducive to an active role on the part of civil society.
- Access of security forces to professional training consistent with requirements of democratic societies.
- High priority accorded to regional and sub-regional peace and security by policy makers.

Annex 2. Key Principles of Sound Budgeting and Financial Management

- **Comprehensiveness:** The budget must encompass all fiscal operations of government.
- **Discipline:** Decision making must be restrained by resource realities over the medium term; the budget should absorb only those resources necessary to implement government policies; and budget allocations should be adhered to.
- **Legitimacy:** Policy makers who can change policies during implementation must take part in and agree to the original policy.
- **Flexibility:** Decisions should be pushed to the point where all relevant information is available.
- **Predictability:** There must be stability in macro and strategic policy and in funding of existing policy.
- **Contestability:** All sectors must compete on an equal footing for funding during budget planning and formulation.
- **Honesty:** The budget must be derived from unbiased projections of revenue and expenditure.
- **Information:** A medium-term aggregate expenditure baseline against which the budgetary impact of policy changes can be measured and accurate information on costs, outputs and outcomes should be available.
- **Transparency:** Decision makers should have all relevant issues and information before them when they make decisions and these decisions and their basis should be communicated to the public.
- **Accountability:** Decision makers are responsible for the exercise of the authority provided to them.

Source: Poverty Reduction and Economic Management Network, *Public Expenditure Management Handbook*, Washington, DC: The World Bank, 1998, www1.worldbank.org/pe/English.htm.