

IV. Transparency in military expenditure

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Government transparency in military expenditure fulfils a number of functions. At the international level it is a tool for confidence building in the area of security. At the national level it is a key element of good governance, adequate management of military expenditure and government accountability.¹

This section first describes the declining participation in 2019 in two international transparency mechanisms: the United Nations Report on Military Expenditures and reporting to the Organization for Security and Co-operation in Europe (OSCE). The apparent end of a third international mechanism, the South American Defense Expenditure Registry of the Union of South American Nations (Unión de Naciones Suramericanas, UNASUR), is also briefly described. The section then looks, at the national level, at how many governments publish data on their military expenditure and how that data varies. As a case study, it examines Myanmar and the role of income from military-controlled businesses in providing off-budget military expenditure. The section also highlights the difficulties in not only identifying that such practices exist but also changing or ending them.

Reporting at the international level

Reporting to two international instruments that aim for transparency in military expenditure—the UN Report on Military Expenditures and the OSCE Vienna Document 2011 on Confidence- and Security-Building Measures—continued in 2019. These instruments aim to build confidence among states in the political-military sphere and to reduce the level of suspicion between states regarding each other's intentions and military capabilities.

In 1980 the UN General Assembly agreed to establish an annual report in which all UN member states could voluntarily provide data on their military expenditure in the previous year.² The report specifically aims to enhance transparency in military matters, increase predictability of military activities, reduce risk of military conflict and raise public awareness of disarmament

¹ E.g. Bromley, M. and Solmirano, C., *Transparency in Military Spending and Arms Acquisition in Latin America and the Caribbean*, SIPRI Policy Paper no. 31 (SIPRI: Stockholm, Jan. 2012), pp. 1–5; and Tian, N., Wezeman, P. D. and Yun, Y., *Military Expenditure Transparency in Sub-Saharan Africa*, SIPRI Policy Paper no. 48 (SIPRI: Stockholm, Nov. 2018), pp. 1–3.

² UN General Assembly Resolution 35/142 B, 'Reduction of military budgets', A/RES/35/142, 12 Dec. 1980; and United Nations, General Assembly, Report of the Group of Governmental Experts to Review the Operation and Further Development of the United Nations Report on Military Expenditures, A/72/293, 4 Aug. 2017, p. 8.

matters.³ Interest in the report, which is now known as the UN Report on Military Expenditures, has waned over the years.

Participation in the report was at its highest in 2002, when 81 states participated, but has since declined to a low level.⁴ In 2018 only 36 of the 193 UN member states submitted information on their military spending in 2017, and in 2019 the number that reported on spending in 2018 declined to 30 states.⁵ Of these 30, 3 are in Asia and Oceania, 1 in the Americas, 2 in the Middle East, 24 in Europe and 0 in Africa. Of the five largest military spenders in the world—the United States, China, India, Russia and Saudi Arabia—only India submitted a report in 2019. However, the USA and China did submit national reports in 2015 and 2017, respectively. Seven of the top 15 largest military spenders in the world in 2019 submitted information: Australia, Canada, France, Germany, India, Italy and Japan. Based on SIPRI military expenditure figures, the 30 countries that reported in 2019 accounted for 19 per cent of total world spending in 2018.⁶

The UN General Assembly adopts every second year a resolution that calls on member states to provide the secretary-general with a report on their military expenditure. The most recent such resolution was adopted in December 2019.⁷ In the previous resolution, of December 2017, the General Assembly tasked the UN Office for Disarmament Affairs with sending a questionnaire to states aimed at identifying their priorities regarding transparency in military expenditure, the reasons for non-reporting to the UN report and ways to improve reporting.⁸ By July 2019, 13 countries had replied to the questionnaire.⁹ However, the content of the replies has not been published and there is no public report that indicates whether the answers have provided the substantial insight that is needed to revive the UN military spending report.

The Vienna Document 2011 requires the OSCE participating states to annually exchange information on military budgets and expenditure in

³ United Nations, A/72/293 (note 2), para. 2.

⁴ United Nations, General Assembly, Report of the Group of Governmental Experts on the Operation and Further Development of the United Nations Standardized Instrument for Reporting Military Expenditures, A/66/89, 14 June 2011, p. 26.

⁵ Tian, N., Lopes da Silva, D. and Wezeman, P. D., 'Transparency in military expenditure data', *SIPRI Yearbook 2019*, pp. 214–15; and United Nations, General Assembly, 'Objective information on military matters, including transparency of military expenditures', Report of the Secretary-General, A/74/155, 12 July 2019. This report lists 28 submissions. In addition 2 reports that had been submitted after the deadline for inclusion in this annual report are included in the UNARM database.

⁶ SIPRI Military Expenditure Database, Apr. 2020.

⁷ UN General Assembly Resolution 74/24, 'Objective information on military matters, including transparency of military expenditures', 12 Dec. 2019, A/RES/74/24, 18 Dec. 2019.

⁸ UN General Assembly Resolution 72/20, 'Objective information on military matters, including transparency of military expenditures', 4 Dec. 2017, A/RES/72/20, 11 Dec. 2017, para. 8(c). The questionnaire was taken from United Nations, A/72/293 (note 2), annex I.

⁹ United Nations, A/74/155 (note 5), para. 7.

the preceding year, using the categories of the UN Report on Military Expenditures.¹⁰ However, these reports are not made publicly available. Of the 57 OSCE participating states, 41 states reported in 2019, down from 46 in 2018.¹¹

UNASUR established the South American Defense Expenditure Registry in 2011 as a confidence- and security-building measure.¹² The latest year for which data from the registry has been published was 2015.¹³ During 2019 a majority of UNASUR's member states either left the organization or started the withdrawal process.¹⁴

Transparency at the national level

At the national level, transparency in military spending is usually achieved through the publication of national budgets or expenditure reports and is connected to wider domestic concerns about achieving budgetary transparency and the effective use of resources.¹⁵ This disclosure of information to civil society helps to strengthen good governance, acts as a means of assessing expenditure management and makes accountability possible. Moreover, the military sector has been shown to be prone to corruption, and information transparency is a tool to help to identify possible cases of corruption.¹⁶

Of the 169 countries for which SIPRI attempted to estimate military expenditure in 2019, relevant data was found for 150.¹⁷ For 147 of these, the data came from official government documents. For the three countries for which official government reports could not be found, data was obtained

¹⁰ Vienna Document 2011, paras 15.3–15.4, as updated by OSCE, Forum for Security Cooperation, Decision no. 2/13, 3 Mar. 2013. On the Vienna Document see annex A, section II, in this volume; and OSCE, 'Ensuring military transparency—the Vienna Document', [n.d.]. For a brief description and list of participating states of the OSCE see annex B, section II, in this volume.

¹¹ OSCE, Communication with author, 11 Feb. 2020.

¹² Bromley and Solmirano (note 1), p. 18. For a brief description and list of member states of UNASUR see annex B, section II, in this volume.

¹³ Vega, J. M. and Comini, N., *Registro Suramericano de Gastos de Defensa: El legado de UNASUR* [South American Defense Expenditure Registry: The legacy of UNASUR], Instituto Español de Estudios Estratégicos (IEEE) Documento Opinión no. 129/2017 (IEEE: Madrid, 22 Dec 2017), p. 15.

¹⁴ Deutsche Welle, 'South America leaders form Prosur to replace defunct Unasur bloc', 23 Mar. 2019.

¹⁵ Perlo-Freeman, S., 'Measuring transparency in military expenditure: The case of China', University of California San Diego, Defense Transparency Project, Policy Brief no. 2011-4, Oct. 2011.

¹⁶ Perlo-Freeman, S., 'Transparency and accountability in military spending', SIPRI Commentary, 3 Aug. 2016.

¹⁷ The 19 states for which SIPRI could not find information on military spending in 2019 are Cuba, Djibouti, Equatorial Guinea, Eritrea, Guinea-Bissau, North Korea, Laos, Libya, Myanmar, Qatar, Somalia (partial), Syria, Tajikistan, Turkmenistan, the United Arab Emirates, Uzbekistan, Venezuela, Viet Nam and Yemen. Among the 150 countries with data, 3 had no military spending: Costa Rica, Iceland and Panama. For practical reasons, SIPRI does not collect military expenditure data for some of the smallest states.

from other sources such as reports by the International Monetary Fund (IMF) or media reports that quote government information.¹⁸

For the 169 countries for which SIPRI collects military expenditure information, the level of transparency varies widely. In particular, in some states military expenditure is funded outside the government budget or has been in the past. Most of this off-budget funding comes from business activities of the armed force. It may not be common, but in the past it has been identified for several states (e.g. Chile, China and Indonesia) and suspected in some others (e.g. Egypt and Viet Nam).¹⁹ Often these states are or have been ruled by military regimes, with weak parliamentary oversight of the armed forces. While democracy has been known to improve levels of transparency, transparency in military spending may take a long time to fully develop.²⁰ For example, in the case of Myanmar, despite a transition to a democratically elected government, transparency and accountability in the military sector remain a concern.

Myanmar

Between 1962 and 2016 Myanmar was ruled by military regimes. Until 2012 there was either no official or semi-official publication or statement on the budget of the Ministry of Defence (MOD), or inconsistent information. Starting in 2012, when internal protests and external pressure forced the armed forces (known as the Tatmadaw) into a political reform process, Myanmar has published the budget of the MOD in official budget documents and statements. However, four elements of Myanmar's military spending have been omitted from the published government budgets. Two of these are funded from government revenue. The 2011 Special Fund Law allows the Tatmadaw to draw on additional government funds outside the normal budget and parliamentary oversight.²¹ Similar funding specifically for arms procurement has also been reported.²² The two other elements are completely outside government revenue streams or government oversight. The largest is income from trade and industries owned or controlled by the

¹⁸ These 3 countries are Brunei Darussalam, Cambodia and Ethiopia.

¹⁹ Lopes da Silva, D. and Tian, N., 'Ending off-budget military funding: Lessons from Chile', SIPRI Commentary, 16 Dec. 2019; Human Rights Watch (HRW), *Too High a Price: The Human Rights Cost of the Indonesian Military's Economic Activities* (HRW: New York, June 2006); Marpaung, J. V., 'TNI's gold mine: Corruption and military-owned businesses in Indonesia', Global Anticorruption Blog, 17 June 2016; and Abuza, Z. and Nhat Anh, N., 'Vietnam's military modernization', *The Diplomat*, 28 Oct. 2016. On Egypt see also section I in this chapter.

²⁰ Hollyer, J. R., Rosendorff, B. P. and Vreeland, J. R., 'Democracy and transparency', *Journal of Politics*, vol. 73, no. 4 (Oct. 2011), pp. 1191–205.

²¹ The Special Fund Relating to Necessary Expenditures for Perpetuation of the State Sovereignty Law, State Peace and Development Council Law No. 10/2011, 27 Jan. 2011.

²² Grevatt, J., 'Myanmar proposes a 2017 defence budget of \$2.1 billion', *Jane's Defence Industry*, 2 Mar. 2017.

Tatmadaw. The other is ‘donations’ solicited by the Tatmadaw from private companies. While these second two elements had been reported by media and researchers for many years, in 2019 they were extensively documented in a report by the UN’s Independent International Fact-finding Mission on Myanmar (IIFMM), an independent group of experts established in 2017 by the UN General Assembly’s Human Rights Council.²³

The IIFMM found two Tatmadaw-owned holding companies, Myanmar Economic Holding Limited (MEHL) and Myanmar Economic Corporation (MEC), through which the military controls or owns at least 106 companies and 27 ‘affiliated’ companies in almost all sectors of production and services.²⁴ While neither holding company publishes financial reports, the IIFMM concluded that the two companies and their subsidiaries ‘generate revenue that dwarfs that of any civilian-owned company’ in Myanmar.²⁵

MEHL officially has largely non-military objectives: welfare of military and veteran families, the welfare of the general public, and general economic development.²⁶ Evidence found by the IIFMM ‘suggests’ that its income is properly declared in military budgets, but the IIFMM’s report does not reach a final conclusion on that.²⁷ MEC, in contrast, is more secretive and its goals are much more military, including ‘reducing defence spending’ and ‘fulfilling the needs of the Tatmadaw’.²⁸ Its income is not declared in the budget and ‘reducing defence spending’ seems to mean reducing the official military budget, not total military spending.

The IIFMM could not determine the total size of the off-budget income from the Tatmadaw-owned companies. However, it estimates that the profit of the businesses may total billions of US dollars each year.²⁹ Tax data, although found to be inconsistent, indicates that the two holding companies and some of their subsidiaries are among the largest taxpayers in Myanmar, but the report notes that more company revenue goes to the Tatmadaw than is paid in tax and that it seems to be directly funding the Tatmadaw’s operations.³⁰ The income from the solicited donations—intended for Tatmadaw operations against the Rohingya minority—is even more hidden but is likely

²³ United Nations, General Assembly, Human Rights Council, Independent International Fact-finding Mission on Myanmar, ‘The economic interests of the Myanmar military’, 5 Aug. 2019, A/HRC/42/CRP.3. The IIFMM was established in 2017 to investigate human rights violations by the Tatmadaw, especially against the Rohingya minority. Its original report was submitted in 2018 and published on 5 Aug. 2019. A few updates were published in ‘Update from the UN Independent International Fact-finding Mission on Myanmar on its report on “The economic interests of Myanmar’s military”’, 9 Aug. 2019. For the earlier reporting see e.g. Fullbrook, D., ‘Burma’s generals on a buying spree’, *Asia Sentinel*, 18 Dec. 2006.

²⁴ United Nations, A/HRC/42/CRP.3 (note 23), para. 6(a).

²⁵ United Nations, A/HRC/42/CRP.3 (note 23), para. 48.

²⁶ United Nations, A/HRC/42/CRP.3 (note 23), para. 50.

²⁷ United Nations, A/HRC/42/CRP.3 (note 23), para. 46fn.

²⁸ United Nations, A/HRC/42/CRP.3 (note 23), para. 51.

²⁹ United Nations, A/HRC/42/CRP.3 (note 23), para. 56.

³⁰ United Nations, A/HRC/42/CRP.3 (note 23), para. 58.

to be much smaller. For one month in 2017, the IIFFMM found that these donations totalled US\$6.15 million.³¹

The lack of information makes assessing the importance of hidden spending difficult. Together, the four types of off-budget military spending probably formed a substantial part, possibly the majority, of Myanmar's total military spending until at least 2018. A possible indication of the size of the two non-regular government funds—the Special Fund and the fund for procurement—could be given by the MOD budget request for the 2017/18 financial year. This was the first budget request that was to be determined by a government and a parliament (the Assembly of the Union) in which the armed forces were in a minority. The MOD requested 3.90 trillion kyats (\$2.8 billion), significantly more than the official budget in 2016/17. However, the military budget proposed in the Assembly was only 2.9 trillion kyats (\$2.1 billion) and the final approved budget was 3.0 trillion kyats (\$2.2 billion).³² There are two possible explanations for the high request by the MOD. It could have been due to a perceived need for significantly more funds to deal with new developments such as the increased operations against the Rohingya and rebel groups in other parts of the country or to fund large arms-procurement programmes that were underway or planned.³³ But the high request could also have been a way to normalize one or both of the two non-regular government funds by including them in the regular budget.

The IIFFMM's report notes that the independent income of the Tatmadaw has contributed to its ability to operate without civilian oversight and to continue its operations against the Rohingya and other minorities.³⁴ After 2018 the Tatmadaw seems to have continued its operations and arms acquisitions at the same level as before and has not been drastically reduced in size. At the same time, the official military budget for 2018/19 was 3.3 trillion kyats (\$2.2 billion) and the requested budget for 2019/20 was 3.4 trillion kyats (\$2.2 billion)—both in absolute value and as a share of government spending, these are not much higher than in earlier years and in real terms are probably a decrease.³⁵ This

³¹ United Nations, A/HRC/42/CRP.3 (note 23), para. 6(c).

³² Grevatt (note 22); and Parameswaran, P., 'What does Myanmar's new defense budget mean?', *The Diplomat*, 3 Mar. 2017. Until 2017/18 Myanmar's financial year ran from 1 Apr. to 31 Mar. Since 2018/19 it has run from 1 Oct. to 30 Sep. Because of the uncertain but probably large hidden military spending, SIPRI does not use the official defence budget of Myanmar or an estimate of total military spending by Myanmar in regional and subregional military spending estimates.

³³ On the arms-procurement plans see Wezeman, S. T., *Arms Flows to South East Asia* (SIPRI: Stockholm, Dec. 2019); and SIPRI Arms Transfers Database, Mar 2020.

³⁴ United Nations, A/HRC/42/CRP.3 (note 23), paras 1–2, 60. On the armed conflict in Myanmar, see also chapter 4, section III, in this volume.

³⁵ Thura, M., 'Bigger budget request is due to inflation: Tatmadaw', *Myanmar Times*, 24 July 2019; Lwin, N., 'Myanmar military proposes larger budget for "stronger" armed forces', *The Irrawaddy*, 22 July 2019; and Lwin, N., 'Tracking the Myanmar Govt's income sources and spending', *The Irrawaddy*, 22 Oct. 2019.

strongly suggests that the size of the undisclosed military spending has not diminished.

As in several other cases where democratically elected civilian governments have come to power after a long period of military rule, dealing with the lack of transparency and oversight may be a difficult and long process for the government.³⁶ In Myanmar, non-military parties, led by the National League for Democracy (NLD), gained a majority in the Assembly in 2015 for the first time since 1962, and since April 2016 they have formed a largely non-military government. However, under the 2008 Constitution, the Tatmadaw retains 25 per cent of the seats in the Assembly and control of the three security ministries: the MOD, the Ministry of Home Affairs and the Ministry of Border Affairs.³⁷ The Constitution also gives the Assembly almost no control over the Tatmadaw or its budget.³⁸

The NLD-led government considers improving budget transparency and efficiency to be priorities.³⁹ However, it will have to tackle a culture of secrecy and an uncontrolled military resulting from more than 50 years of military rule. While a parliament existed during some of those years, it did not have full insight into the military budget or any other control and oversight of the Tatmadaw. This has not yet completely changed.

Conclusions

The trend in international transparency in military expenditure differs significantly from the trend at the national level. At the international level reporting to the UN has dropped to a low point and the South American Defense Expenditure Registry has come to a de facto end. In Europe, while participation in the OSCE mechanism remains high, there was a marked decline in 2019. In contrast, at the national level most governments actively report their military budgets in official public documents. However, there remain cases where a country's lack of transparency can have implications that reach far beyond accountability, civilian control and the effective use of resources.

In Myanmar the opacity of the military budget and its off-budget funding system enable the persecution of the Rohingya and other minorities. The Tatmadaw has relied on off-budget allocations to secure a large degree of financial autonomy. Despite the political reforms introduced since 2015, the military still maintains control over its budget. The NLD-led government has proposed improvements to transparency and efficiency in public expendi-

³⁶ Similar cases include Chile and Indonesia. Lopes da Silva and Tian (note 19); Human Rights Watch (note 19); and Marpaung (note 19).

³⁷ United Nations, A/HRC/42/CRP.3 (note 23), para. 4.

³⁸ United Nations, A/HRC/42/CRP.3 (note 23), para. 4.

³⁹ Lwin, 'Tracking the Myanmar Govt's income sources and spending' (note 35).

ture; yet, it is still unclear whether it will be successful. The IIFFMM's report highlights the extent to which Myanmar's reported military spending is underestimated. The case of Myanmar underscores how opacity in military expenditure, as well as off-budget funding mechanisms, can contribute to the military perpetrating crimes against minorities and acting unchecked.

