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## Observations on Dr Taylor's Presentation

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### Defence and the South African Economy : The Necessity to Look Through a Wider Lens

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# Aim

To reflect on Dr Taylor's Presentation and suggest possible alternative approaches to defence budget dilemma in the DOD



# Scope

- 1. Introduction**
- 2. Key highlights and observations**
- 3. Points to ponder as part of the solution set**
- 4. Conclusion**



# Introduction

## Indisputable facts about defence budget:

- a. Defence is **competing with other priorities**, especially those pertaining to socio-economic development – education, social security, crime prevention and health. Dr Taylor’ presentation has shown this in terms of Government Expenditure
- b. Defence deployments and other **operational requirements will always exceed** available financial resources. Therefore defence will always have to reprioritise on a continuous basis.
- c. Sympathy and **support** for increased budget is **compromised** by a perception of **wastage, ineffective leadership** and **lack of corporate governance** as evidenced by persistent **qualified audit reports** from Auditor General
- d. Defence **budgets** across the world tend to **decline in peacetime** until a **catastrophic event** takes place or change in threat scenarios. South Africa is not the only country that has experienced consecutive declines in budget allocation. Only **China** has been able to sustain **increases in defence spending for 26 years**, but most countries have experienced fluctuations
- e. Defence budget was already **declining in real terms even prior to the outbreak of Covid-19** pandemic



# Key Highlights and Observations

## Problems Highlighted

### 1. Decline in economic growth and increase in debt-to-GDP ratio

- **Good economic performance** provides government with **more scope** for increased allocation to defence and security
- However, **defence spending is not always necessarily linked to economic growth**. Security is needed even during hard times
- According to SIPRI Report (26 Apr 2021): Despite contraction in the global GDP by 4,4%, defence spending increased in real terms by 2,6% (US\$2 trillion in 2020), including Sub-Saharan Africa which increased by 3,4% (US\$ 18,5bn)

### 2. Credit-rating

- This impacted **government's ability to raise capital** but the impact is even more accentuated on **defence-related SOEs** that rely on state guarantees like Denel; this cascades to the defence value chain;
- Cost of raising capital for **defence R&D, asset acquisition and strategic partnerships** is very high;
- Performance in **project delivery** has declined while government support in export initiatives has slowed down
- Ability of the **local defence industry** to support the **SANDF's capability requirements** is hampered by lack of access to funding



# Points to Ponder

## 1. South Africa to decide on whether to:

- a. **Reduce** operational deployments in line with the declining budget allocation
- b. **Repurpose** the national defence force to focus primarily on border protection and developmental duties
- c. **Reconfigure** the defence force to retain absolute minimum of core capabilities and capacity with a reduced ambition for power projection

## 2. Work smarter with limited resources for bigger impact:

- a. **Value extraction** from defence immovable assets i.e. **land**
- b. Increased utilisation of **military reserves** as a proportion of total armed forces

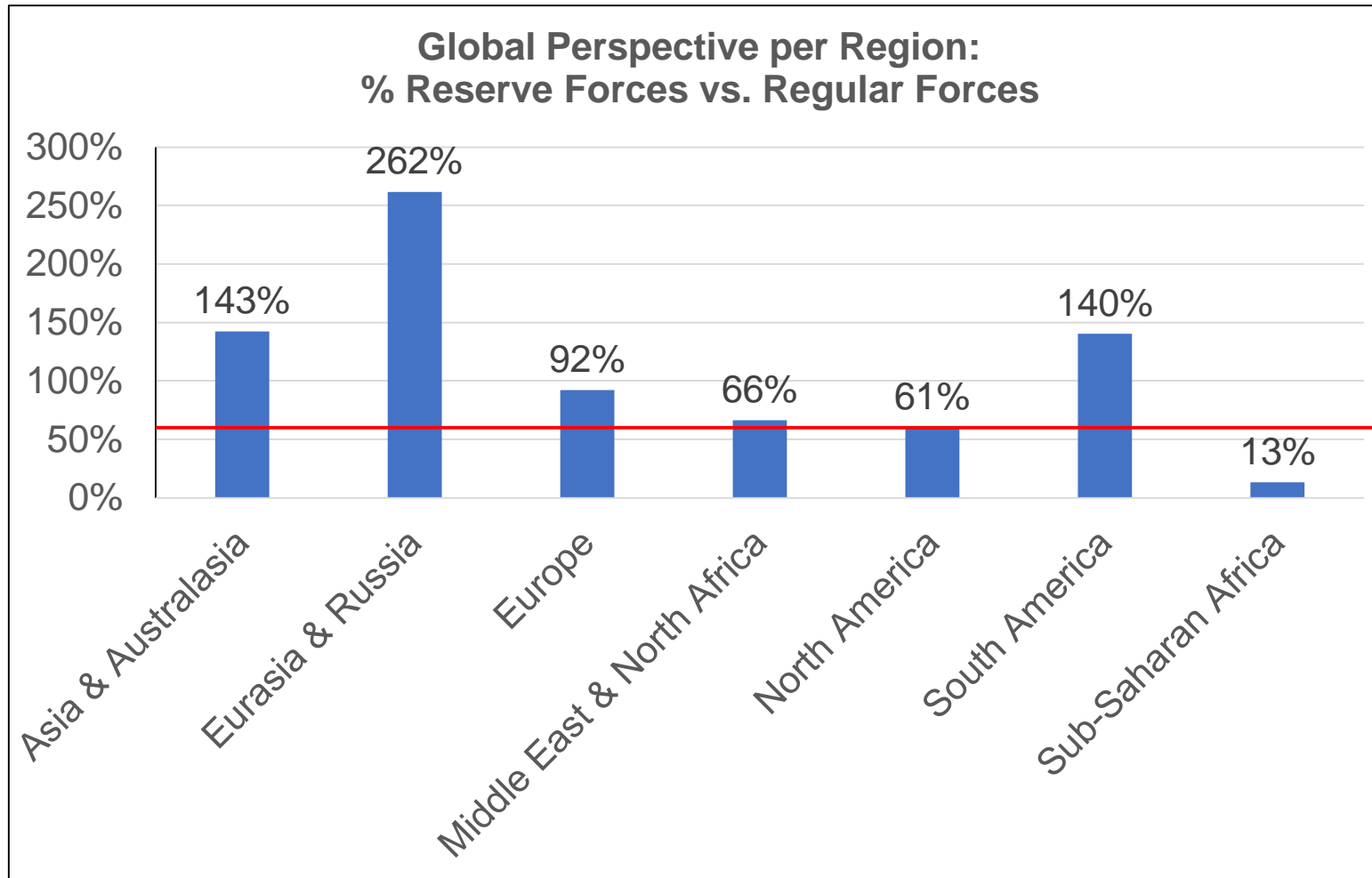


# Value Extraction of Defence Immovable Assets (Land)

## Observations

- Defence land holdings are modest by world standards: 0,34% of territorial size
- Inherited in terms of Endowment Property Act of 1922 and the amalgamation of the former SADF and TBVC states
- Located in far-flung areas and in prime areas
- Need for comprehensive realignment of military bases
- Strategic offloading of land assets for value extraction

# Global Perspective on Defence Reserves per Region



Adapted from: *The Military Balance*, February 2021

## Observations

- Military reserves constitute more than **60%** of total forces, except in Sub-Saharan Africa
- Reserves are four (4) times cheaper compared to regulars
- Access to complex skills set not readily available in the regular forces
- Relies on a constant feeder system such as the Military Skills Development System (MSDS) and retired regular forces
- 'One-force' or 'Total Force' concept



# Conclusion

1. The rate of **decline** of defence budget is **unsustainable** if national security remains a constitutional imperative
2. The **depletion of capital acquisition budget** in particular will result in prime mission equipment of the defence force being rendered unoperational and obsolete, without R&D, retention of skills and industrial capacity
3. It is hoped that the upcoming Defence Budget Vote will demonstrate the DOD's commitment to:
  - **Reprioritisation** within the limited budgetary envelope its resource allocation and utilisation
  - **Rejuvenation** of defence personnel and effective utilisation of military reserves
  - Addressing the Auditor-General's concerns around **corporate governance**
4. **Support the defence industry** which is facing massive challenges in the face of reduced capital acquisition budget



**Thank You**

