Methodology for the comparison of military expenditures *

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Executive summary

The objective of this report is to assess the extent to which the standardized methodology developed by ECLAC for Argentina and Chile in 1999-2001 is applicable to comparisons among other countries, as well as the adaptations that may be needed for that purpose, and to develop an expanded and more general methodology for the comparison of military expenditure (or defence spending). For this purpose, the present report consists of six chapters and six annexes.

Chapter I, “Introduction: setting the stage”, seeks to place the issue of measuring military expenditures in the context of what are termed “confidence-building measures” (CBMs) at the international level, on the understanding that such measures are designed to reduce the danger of armed conflict and miscalculations of military activities that could give rise to apprehension and a variety of unpredictable reactions on the part of some States.

Chapter II, “The measurement of defence spending in Latin America and the Caribbean: considerations and initial proposals”, is the most extensive and is based on the premise that the 2001 ECLAC paper on Argentina and Chile is an acceptable starting point for the present report. Consequently, some relevant parts of “A common standardized methodology for the measurement of defence spending” are reviewed in some detail. Furthermore, the methodology related to national defence is also linked to the studies regularly prepared by the International Monetary Fund (IMF) to measure defence spending at the world level. In addition, and by way of comparison, the chapter highlights the activities carried out by the United Nations, and particularly by its Department for Disarmament Affairs, over the past 25 years on the subject of a standardized instrument for reporting military expenditures.
Subsequently, and in the same chapter, the work regularly performed by other national and international institutions that prepare defence expenditure reports, generally with broader analytical categories, is examined in parallel. In this regard, the London-based International Institute of Strategic Studies (IISS) and the Stockholm International Peace Research Institute (SIPRI) stand out. Finally, the chapter reviews some of the tasks in this area carried out by the United States Department of State, Bureau of Verification and Compliance (formerly ACDA), and, from other perspectives, for the Latin American region by the Security and Defence Network in Latin America (RESDAL) and the Latin America Faculty of Social Sciences (FLACSO).

Chapter III, “Other aspects of defence spending measurement in Latin America and the Caribbean”, is divided into three sections. The first focuses on the qualitative and quantitative linkages that exist between the IMF concept of defence spending and the category defined in the ECLAC standardized methodology as the G₁ (basic) level, which is based on the expenditures of ministries of defence. In this connection, the two approaches are reconciled, with the intention of supporting them in the future.

In the second section of the chapter, a G₂ (expanded) level of the ECLAC standardized methodology on defence spending is introduced, highlighting the importance of including and duly distinguishing cases where net pension expenditures for retired military personnel and their families are added to and included in the national defence expenditure measurement. Finally, the third section of chapter III reviews some complementary subjects. Among them, reference is made to the G₃ (total) level of the ECLAC standardized methodology for the measurement of defence spending. In addition, several conceptual indicators are proposed, with a view to improving the comparative evaluation of the military expenditures of different countries in the Latin American and Caribbean region.

Chapter IV, “Internal security and defence expenditures”, begins by emphasizing that, within the defence expenditure accounted for by individual countries, there may be some significant items of expenditure allocated to internal security. These items relate to exceptional tasks under the heading of internal security that are commonly found in some countries of the region, such as the fight against drug trafficking and against guerrilla movements, other subversive movements and terrorism.

In principle, all the global systems for reporting “military” or “defence” expenditure, including standardized reporting systems, deal only with external security expenditure to protect the country from external threats. A review of these systems’ methodology for compiling information, however, reveals no evidence that the reported data exclude the internal disbursements made by some ministries of defence and military institutions for internal security tasks. For that reason, it is asserted in this chapter that the calculation of defence expenditure net of internal security expenses should involve, first, an analysis of the units or institutions that clearly perform internal security functions and that are included in the initial defence expenditure reported under standardization processes. Second, the region’s armed forces themselves could also be performing other internal security functions that are still considered part of defence expenditure in the different national and international information systems. These expenses should be recognized and measured with the standardized measurement procedures devised for this purpose.

Chapter V, “Arms transfers: separate from but complementary to defence spending”, begins by pointing out that, even though the topic of arms transfers is not included in the terms of reference of this report on transparency in military expenditure, the conceptual and practical links between these two issues are evident.

The first section of that chapter reviews the experience of the United Nations Register of Conventional Arms, which was introduced in 1978. In this respect, it is affirmed that the Register plays an important confidence-building role by discouraging the excessive and destabilizing accumulation of arms. The second section focuses on the Inter-American Convention on Transparency in Conventional Weapons Acquisitions, which was adopted in 1999 by the Organization of American States (OAS). Regarding this matter, it is stressed that the categories of weapons in the OAS
Convention are based on the United Nations Register of Conventional Arms. Lastly, the third section examines other international and national institutions that track arms transfers, especially SIPRI and IISS, whose annual reports provide different background information that is not strictly comparable. Also, it is indicated that the United States has two public institutions devoted to the issues of arms transfers and United States foreign military sales.

Chapter VI, “Conclusions and recommendations”, indicates that the research and appraisals presented in the body of this report give rise to 14 specific recommendations. Consequently, considering the particular characteristics of the study, the chapter is organized in summary fashion to facilitate the presentation of these recommendations. This could also make it easier in the future to follow up on some of the initiatives that may be suggested by this report.

The annexes are as follows:

Annex 1, **Standardized measurement of defence spending**: this is the Argentina-Chile “non-paper” presented by the two Governments to the ECLAC secretariat on 22 December 1999.

Annex 2, **Main international sources of information on defence spending**: this reproduces chapter II of ECLAC (2001).

Annex 3, **The IMF “defense function”**: this provides details on the functional classification proposed by IMF (2001).

Annex 4, **Transparency of military expenditure**: information note on the subject prepared for this report (2004).

Annex 5, **The seven categories of conventional arms covered by the United Nations Register**: this presents details on what provisions are in force with regard to the matter (2004).

Annex 6, **Summary of basic information and topics to be considered in developing a standardized methodology for the comparison of military expenditures**: specially prepared for this report (2005).
I. Introduction: setting the stage

The Latin American and Caribbean region has experienced a remarkable period of peace and stability in the past few decades, in the absence of traditional security threats between States. However, some sources of dispute still exist. For instance, new challenges to democracy and security are constantly emerging, thus intensifying the need for transparency in the reform of the defence and security sectors, as well as for assurances of civilian control over the armed forces within a larger democratic framework. Various regional meetings under the auspices of the Organization of American States (OAS) and in bilateral fora have affirmed the importance of engaging in joint activities for the adoption of confidence- and security-building measures (CSBMs), in order to attain increased transparency and security and to promote social and economic development in the region.

Confidence-building measures (CBMs) are often defined as measures designed to reduce the “dangers of armed conflict and of misunderstanding or miscalculation of military activities which could give rise to apprehension” (OSCE, 1975). Examples of these measures, often referred to as CBM “tools”, include *communication measures* to help defuse tensions, *transparency measures* to foster openness with regard to military capabilities and activities and *verification measures* to collect data for comparison with the requirements of international treaties or agreements. These “tools” are designed to generate greater predictability in the behaviour of States by, for example, facilitating contact among them and establishing rules or patterns of behaviour for State military forces and for political and diplomatic communities.

One example of successful confidence-building measures in Latin America and the Caribbean was the 1999-2001 exercise between Argentina and Chile to account for their defence expenditures,
with the technical support of the Economic Commission for Latin America and the Caribbean (ECLAC). This initiative, known as “Standardized measurement of defence spending”, served the purpose of developing a common standardized methodology for measuring and analysing defence expenditures in the two countries, while also functioning as a tool for building confidence between these States. The initiative was proposed at a meeting held on 16 and 17 July 1998 by the two countries’ Standing Committee on Security (COMPERSEG), in the framework of which officials of both countries’ ministries of foreign affairs and defence had been meeting regularly since 8 November 1995 to strengthen cooperation on mutual security issues. The technical study conducted by ECLAC, which included a monetary analysis of public defence spending, established a tangible and politically valuable tool that is still used today by both countries to develop their relations.

The political value of CBMs was highlighted by ECLAC, which noted that the publication of the first defence white papers in Chile and Argentina (in 1997 and 1999, respectively) were “...events of enormous significance, as further steps towards establishing a framework of confidence- and transparency-building measures between the two countries” (ECLAC, 2001, p. 9), and that these publications contributed to the preparation of the methodological study.

Clearly, the Argentine/Chilean CBMs exercise, which concluded with an intergovernmental meeting in Santiago on 29 and 30 November 2001, did not take place in a political vacuum. On the contrary, it was the result of political decisions that valued CBMs as an additional tool for enhancing transparency and communication between the two States. Moreover, the practical and political utility of the ECLAC study is demonstrated by the ongoing use of this methodological tool by both Argentina and Chile in their mutual attempt to further develop and preserve positive relations between them. Moreover, in 2004 both countries requested ECLAC to take part in a second such technical exercise for the comparison of military expenditure.

In 2003, the United Nations Regional Centre for Peace, Disarmament and Development in Latin America and the Caribbean (UN-LiREC), with the support of the Department for Disarmament Affairs, initiated discussions with ECLAC for the purpose of expanding upon the Argentine/Chilean methodological study and broadening its applicability. The primary aim of this initiative was to create a standardized methodology for the comparison of military expenditures and to assess the lessons learned from such studies with regard to the political importance of CBMs. Another objective of this initiative was to enhance inter-agency coordination, cooperation and integration of activities, while at the same time avoiding duplication. The initiative was promptly incorporated into a broader United Nations Department of Political Affairs programme entitled “Strengthening Democratic Governance of the Security Sector in Latin America”, launched in early 2004.

This programme, developed by the Department of Political Affairs and carried out in cooperation with the United Nations Development Programme (UNDP), the United Nations Fund for International Partnerships (UNFIP) and the United Nations Foundation (UNF), aims at providing a comprehensive political approach to assist in the implementation of the report of the United Nations Secretary-General on the prevention of armed conflict (A/55/985-S/2001/574). This report stresses the need to address the structural causes of conflict and to develop comprehensive preventive strategies involving both short- and long-term measures. These include measures aimed at building mutual confidence, discouraging the accumulation of weapons and creating an environment conducive to arms limitation and military expenditure reduction.

The following pages contain a comprehensive analysis of what is now being proposed as a methodology for the comparison of military expenditures, along with a list of basic steps to be considered for the development of a methodology similar to the one formulated by ECLAC, as well as a set of specific recommendations to enhance this type of exercise.
II. The measurement of defence spending in Latin America and the Caribbean: considerations and initial proposals

As noted earlier, the objective of this report is to assess the extent to which the standardized methodology developed by ECLAC for Argentina and Chile is applicable to comparisons among other countries, as well as the adaptations that may be needed for that purpose, and to develop an expanded and more general methodology for the comparison of military expenditure. Since this will facilitate measurements and comparisons for interested countries, it will contribute to transparency and confidence-building within and among said countries. Progress towards this objective will provide a technical and institutional basis for the development of practices for standardized comparisons of military expenditures among the Latin American and Caribbean countries (ECLAC, 2004, annex II, p. 1).

A. The Argentina-Chile methodological initiative: some comments

The 2001 ECLAC paper for Argentina and Chile is an acceptable starting point for the present report. Some relevant parts of “A common standardized methodology for the measurement of defence spending” (ECLAC, 2001, pp. 15-17) are reproduced below:
“Basic methodological elements

“When the project was launched, the Governments of Argentina and Chile approved a clearly worded definition and orientation for the work to be undertaken, stating that ‘Defence is understood to refer to all activities whose effect is to safeguard national sovereignty. Its aim is to attain a level of external security that will enable the country to achieve its national objectives’. Accordingly, ‘defence spending’ was understood to refer to expenditures made by the country in pursuit of this objective’.1

“In view of these and other considerations discussed above, three methodological definitions can be formulated that are essential to this study. Firstly, with regard to the scope and coverage of the measurement of defence expenditures, it is clear that the fundamental agreement between Argentina and Chile refers to national defence, i.e. actions to safeguard each country’s borders against foreign threats. This concept of defence wholly excludes any and all expenses incurred in connection with internal security, which involves security-related activities inside these two countries.

“Secondly, the ‘measurement’ of defence expenditure proposed under the project is based on annual monetary flows rather than on physical or financial assets accumulated over longer periods. Nonetheless, the two Governments have made it very clear that ‘the model should be viewed in conjunction with other transparency- and confidence-building measures, such as the reports on conventional weaponry sent to international agencies, or measures adopted in fulfilment of commitments assumed under international agreements’.2

“Thirdly, the Governments of Argentina and Chile proposed that a ‘standardized methodology’ or a ‘standardized measurement’ should be used to quantify defence expenditures. In this connection, they noted that ‘the model should be designed to permit a rational comparison of expenditure in order to guarantee its usefulness as a confidence- and transparency-building measure’.3 Accordingly, the work pursued under this project has been geared towards using common criteria and procedures that will facilitate comparable calculations of defence spending in Argentina and Chile, based on budgetary and accounting procedures currently in force in the two countries. Although the latter are not always entirely similar, the project has not attempted to alter them.

“In addition to these three basic principles, the standardized measurement of the two countries’ defence expenditures has been based on certain analytical and specifically designed budgetary procedures for compiling the quantitative and qualitative data required for this report.

“Firstly, it should be noted that the institutions which are generally responsible for functional defence expenditures are the Ministry of Defence in Argentina and the Ministry of National Defence in Chile. Thus, there is some convergence between the ‘functional’ and ‘institutional’ budgetary classifications of these expenditures. There appear to be two major exceptions to this rule: (a) in Chile, the Ministry of National Defence is responsible for the uniformed police force (Carabineros de Chile), the investigative police (Policía de Investigaciones) and the Directorate General of Sports and Recreation (DIGEDER), which are institutions engaged not in defence functions as such but internal security, or social activities in the case of DIGEDER; (b) in Argentina, on the other hand, certain military institutions are attached to the Ministry of Economic Affairs rather than the Defence Ministry.4

“Secondly, although the key objective of the study is to measure defence ‘spending’, it seemed appropriate to complement the available information with quantitative and qualitative

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1 See the “non-paper”, reproduced in full in annex 1, “Standardized measurement of defence spending”, approved by the Governments of Argentina and Chile, 22 December 1999 (ECLAC, 2001).
2 See annex 1.
3 Ibid.
4 The “non-paper” (annex 1) points out the need to “identify defence-related activities and programmes under the jurisdiction of other State agencies.” The ECLAC secretariat was unable to identify any other defence activities and programmes conducted outside the institutional structure of the ministries of defence of Argentina and Chile, apart from those mentioned.
data on the ‘incomes’ used to finance such expenditures, in order to support defence spending estimates as far as possible.

“Thirdly, as a fuller understanding was gained of the budgetary and income/expenditure control systems used by the Governments of Argentina and Chile with a view to the development of a common standardized methodology for the measurement of defence spending, it was decided that the basic operational data to be used should be compiled on a cash-flow basis (the relevant terms are ‘pagado’ and ‘ingresado’ in Argentina, and ‘efectivo’ in Chile), rather than based on accruals (or budgetary allocations or commitments). In addition, 1996-1998 was chosen as the review period to be used for identifying and analysing the strengths and potential weaknesses of the standardized methodology. This represented a reasonable and relatively recent period of time, for which data is widely available and the criteria and methodologies used in the two countries are sufficiently stable.

“Cash-flow accounting was preferred for the following reasons: (a) it seemed to reflect more faithfully the true economic and strategic impacts of defence activities; (b) it allowed an acceptable level of comparability between Argentine and Chilean data, although preparing the information was more complicated in the Argentine case, because of the characteristics of that country’s budgetary system; (c) in general, this procedure facilitated verification of the quality and precision of the available data; and (d) last but not least, in terms of knowledge and international comparability of defence expenditures, IMF publishes information prepared from government statistics based on this type of accounting, and disseminates it widely throughout the world.

“Lastly, for the actual design of the common standardized methodology, it was decided to use a sequence of ascending approximations, such that different levels of defence expenditure in the two countries could be defined based on the increasing coverage of the particular category concerned. Accordingly, the ECLAC secretariat proposes that defence expenditures be calculated for three different aggregates –G 1, G 2 and G 3– representing successively broader classifications of expenditure. This approach makes it possible to tailor the proposed methodology to the desires and needs of the countries in question, and permits more relevant, valid international comparisons to be made.

“The aim of the remainder of this chapter is to prepare and apply expenditure level G 1 (Basic), and then calculate levels G 2 (Expanded) and G 3 (Total), describing the specific scope in each case. These expenditure levels are specified on the basis of a fundamental definition contained in the ‘Non-Paper’: ‘As a general criterion to be applied, the entire budget in the jurisdiction of the Ministry of Defence or the armed forces shall be considered defence expenditure, unless the country that excludes certain categories or programmes contained therein, shows that they have another function’”.5

The standardized methodology for the measurement of defence spending developed by the ECLAC secretariat on the basis of a particular research project financed by the Governments of Argentina and Chile was designed in accordance with two basic pillars. The first one was of institutional and organizational significance, because the initiative was always supported by the two Governments involved, through the active participation of both countries’ ministries of foreign affairs and defence in both the definition of the main tasks and the systematic review of the outputs obtained. This characteristic is specific to this particular case, and it will not be easy to find a similar alternative for future initiatives of a more general nature.

The second pillar of that methodology was the concept of “national defence”. On this point, the definition contained in the “non-paper” is worth mentioning: “Defence is understood to refer to all activities whose effect is to safeguard national sovereignty. Its aim is to attain a level of external security that will enable the country to achieve its national objectives”. This meant that internal security expenditures were excluded from the conceptual approach. The proposal described herein also adopts

5 See annex 1.
that basic approach because it is likely to win broad acceptance and because it facilitates systematic progress towards what we are trying to attain. Nonetheless, the issue of internal security is analysed in a separate chapter of this report.

To complement these two pillars, and as was the case in the Argentina-Chile exercise, two conditions are indispensable. On the one hand, institutional centralization is required, at least with regard to information on the three branches of the armed forces (ground forces, naval forces and air forces) and all their operational and budgetary activities. This information must be concentrated in a defence ministry, must include precise definitions of these forces’ functions and special characteristics and must be broadly disseminated to the general public. On the other hand, defence expenditures must be centralized in that ministry and not in other government institutions. Otherwise, the formulation and application of the different methodological focuses of measurement would be complicated, even though it would be possible to obtain the information appropriately and opportunely from those other government entities.

Considering that the aim is now “to develop an expanded and more general methodology for comparison of military expenditure” (ECLAC, 2004), it is proposed that other central characteristics of the Argentina-Chile common standardized methodology be maintained fully in force in the present initiative. In this connection, the following orientations pointed out previously bear repeating:

(a) The measurement of defence expenditure should be based on annual monetary flows rather than on physical or financial assets accumulated over longer periods.

(b) The work pursued under this project should promote the use of common criteria and procedures that will facilitate comparable calculations of defence spending, based on the budgetary and accounting procedures currently in force in the countries of the region.

(c) In line with the Argentina-Chile experience, the basic operational data used under the common standardized methodology for the measurement of defence spending should be compiled mainly on a cash-flow basis, rather than an accrual basis (or with reference to budgetary allocations or commitments).

(d) In the future, however, the accrual system could be used more frequently in different countries of the region; that new development must therefore be duly considered in connection with this exercise.

B. The International Monetary Fund experience

We have already identified the International Monetary Fund (IMF) as a key world-level multilateral organization in matters of defence spending measurement. However, several international organizations are actively involved in important aspects of this issue. Accordingly, chapter II of the Argentina-Chile case study, “Main international sources of information on defence spending”, is reproduced in annex 2 of this report (ECLAC, 2001, pp. 11-14). That study identified five pertinent institutions, four of which issue annual publications: (a) IMF, which publishes the Government Finance Statistics Yearbook (GFSY); (b) United Nations, which reports annually to the General Assembly, under the agenda item “Reduction of military budgets”, on information received from States in the framework of the United Nations standardized instrument for reporting military expenditures; (c) the London-based International Institute for Strategic Studies (IISS), which publishes a report entitled The Military Balance; (d) the Stockholm International Peace Research Institute (SIPRI), which issues the SIPRI Yearbook, Armaments, Disarmament and International Security; and (e) the Arms Control and Disarmament Agency (ACDA) of the United States, which, since April 1999, has been part of that country’s Department of State, Bureau of Verification and Compliance, and whose publication World Military Expenditures and Arms Transfers apparently is not released on a yearly basis.6

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6 The most recent issue available to the authors was released in June 2002, and included data up to 1999.
The information on defence expenditures compiled and published by IMF comes from country questionnaires designed by the Fund itself on the basis of the Classification of the Functions of Government (COFOG). However, the figures published by IMF in GFSY mainly cover consolidated central government expenditures and do not include the entire general government. Also, the information is only of an aggregate nature, both for consolidated central (or State) government expenditures and for some of the different government functions, including defence. Finally, pensions paid to military personnel are included in GFSY under the social security and welfare function.

Table 1 shows the IMF classification of expenses by function of government. In addition, annex 3 reproduces the detailed classification of the IMF “defense function” (IMF, 2001, pp. 82 and 83).

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<th>IMF CLASSIFICATION OF EXPENSES BY FUNCTION OF GOVERNMENT</th>
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<td>7 Total outlays</td>
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<td>701 General public services</td>
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<td>7011 Executive and legislative organs, financial and fiscal affairs, external affairs</td>
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<td>7012 Foreign economic aid</td>
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<td>7013 General services</td>
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<td>7014 Basic research</td>
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<td>7015 R&amp;D General public services</td>
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<td>7016 General public services n.e.c.**</td>
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<td>7017 Public debt transactions</td>
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<td>7018 Transfers of a general character between different levels of government</td>
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<td>702 Defense</td>
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<td>7021 Military defense</td>
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<td>7022 Civil defense</td>
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<td>7023 Foreign military aid</td>
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<td>7024 R&amp;D Defense</td>
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<td>7025 Defense n.e.c.</td>
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<td>703 Public order and safety</td>
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<td>7031 Police services</td>
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<td>7032 Fire protection services</td>
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<td>7033 Law courts</td>
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<td>7034 Prisons</td>
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<td>7035 R&amp;D Public order and safety</td>
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<td>7036 Public order and safety n.e.c.</td>
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<td>704 Economic affairs</td>
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<td>7041 General economic, commercial, and labor affairs</td>
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<td>7042 Agriculture, forestry, fishing, and hunting</td>
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<td>7043 Fuel and energy</td>
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<td>7044 Mining, manufacturing, and construction</td>
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<td>7047 Other industries</td>
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<td>7049 Economic affairs n.e.c.</td>
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<td>705 Environmental protection</td>
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<td>7051 Waste management</td>
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<td>7052 Waste water management</td>
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<td>7053 Pollution abatement</td>
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<td>7054 Protection of biodiversity and landscape</td>
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<td>7055 R&amp;D Environmental protection</td>
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<td>7056 Environmental protection n.e.c.</td>
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<td>706 Housing and community amenities</td>
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<td>7072 Outpatient services</td>
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<td>7076 Health n.e.c.</td>
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<td>708 Recreation, culture, and religion</td>
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<td>7081 Recreational and sporting services</td>
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<td>7082 Cultural services</td>
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<td>7083 Broadcasting and publishing services</td>
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<td>7084 Religious and other community services</td>
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<td>7085 R&amp;D Recreation, culture, and religion</td>
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<td>7086 Recreation, culture, and religion n.e.c.</td>
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<td>709 Education</td>
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<td>7091 Pre-primary and primary education</td>
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<td>7093 Postsecondary nontertiary education</td>
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<td>7094 Tertiary education</td>
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<td>7095 Education not definable by level</td>
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<td>7096 Subsidiary services to education</td>
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<td>7097 R&amp;D Education</td>
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<td>7098 Education n.e.c.</td>
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<td>710 Social protection</td>
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<td>7101 Sickness and disability</td>
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<td>7102 Old age</td>
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<td>7103 Survivors</td>
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<td>7104 Family and children</td>
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<td>7105 Unemployment</td>
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<td>7106 Housing</td>
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<td>7107 Social exclusion n.e.c.</td>
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<tr>
<td>7108 R&amp;D Social protection</td>
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<tr>
<td>7109 Social protection n.e.c.</td>
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</tbody>
</table>

* R&D = Research and development
** n.e.c. = not elsewhere classified

COFOG was produced by the Organisation for Economic Co-operation and Development (OECD) and was published together with three other classifications in United Nations (2000).
Also, IMF indicates that the economic and functional classifications of expenses can be cross-classified, as illustrated in table 2. The table includes a column for acquisitions of non-financial assets, in addition to columns for each type of expense.

<table>
<thead>
<tr>
<th>General public services</th>
<th>Defence</th>
<th>Public order and safety</th>
<th>Economic affairs</th>
<th>Environmental protection</th>
<th>Housing and community amenities</th>
<th>Health</th>
<th>Recreation, culture, and religion</th>
<th>Education</th>
<th>Social protection</th>
<th>Acquisition of non-financial assets</th>
</tr>
</thead>
<tbody>
<tr>
<td>Compensation of employees</td>
<td>Use of goods and services</td>
<td>Consumption of fixed capital</td>
<td>Interest</td>
<td>Subsidies</td>
<td>Grants</td>
<td>Social benefits</td>
<td>Other expenses</td>
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In its *Government Finance Statistics Yearbook*, IMF provides only aggregate figures (without subfunctional breakdowns or cross-classifications) for the whole “Defense” function, expressed in current local currency. The same is true of the “Public order and safety” function. For other functions, such as “Housing and community amenities”, “Health” and “Education”, quantitative subfunctional background data are periodically submitted. According to unofficial information provided to the ECLAC secretariat, the IMF Government Finance Division has had no real possibilities – at least until now and for various reasons – to subclassify the “Defense” and “Public order and safety” functions. The Division could, however, consider doing so in the near future if specific projects are implemented, initially for Latin America, to collect such detailed information. A concrete initiative of that sort could be developed jointly by IMF and one or more United Nations agencies (ECLAC, the United Nations Department of Political Affairs, the United Nations Department for Disarmament Affairs and the United Nations Regional Centre for Peace, Disarmament and Development in Latin America and the Caribbean).8

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8 See recommendation 1 of the recommendations put forward in chapter VI of this report.
C. The United Nations standardized instrument for reporting military expenditures

On 12 December 1980, the United Nations General Assembly adopted resolution 35/142, “Reduction of military budgets”, part B of which introduced the United Nations system for the standardized reporting of military expenditures. The resolution recommended that all Member States should make use of the reporting instrument and report annually to the Secretary-General, and requested the Secretary-General to report on the matter to the General Assembly on an annual basis. The reporting instrument covers the costs of personnel, operations and maintenance, procurement and construction, and research and development. This instrument is in the form of a matrix whose vertical axis details expenditure by resource cost element and whose horizontal axis details expenditure by force group, as illustrated in table 3.

Earlier, the Group of Experts on the Reduction of Military Budgets had observed that transparency could serve a number of different purposes: (a) to measure the domestic economic impact of changes in levels of national military outlays; (b) to trace the effects of changes in military expenditures, particularly international arms sales, on international trade flows and national payments balances; (c) to measure differences in the “burden of defence” on the national economy; or (d) to devise constraints on military expenditures in order to achieve a measure of arms control (United Nations, 1977). In other words, the scope and content of military expenditures varies significantly according to the objective sought.

The United Nations reporting system is currently intended purely for transparency purposes. The General Assembly, in the most recent of its biennial resolutions on this subject (58/28), which was adopted without a vote, states “that transparency in military matters is an essential element for building a climate of trust and confidence between States worldwide and that a better flow of objective information on military matters can help to relieve international tension and is therefore an important contribution to conflict prevention”. It also encourages “relevant international bodies and regional organizations to promote transparency of military expenditures and to enhance complementarity among reporting systems, taking into account the particular characteristics of each region, and to consider the possibility of an exchange of information with the United Nations”.

It should be noted, however, that this instrument was initially designed to serve the more ambitious objective of promoting a reduction in global defence spending. Transparency was a means as well as an essential condition for achieving this objective. These two elements are reflected in General Assembly resolution 35/142 B, which indicated that the Assembly looked upon reporting instruments “as a means to increase confidence between States by contributing to greater openness in military matters”, and also considered the systematic reporting of military expenditures to be “an important first step in the move towards agreed and balanced reductions in military expenditures”.

The objective of arms control thus shaped the development of the United Nations reporting system. Another critical factor for the definition of military expenditure was how the relationship between military capability and national security should be understood from an arms control standpoint. In this regard, the Group of Experts defined military capability as the ability to apply organized military force against an external military threat (or “an external armed enemy”, in the language of the report). In identifying and defining the parameters of the military sector to be covered under the definition of military expenditure, the experts recognized that not everything that affects military capability can be expressed in monetary terms. But from a practical standpoint, they considered it prudent to adopt a modest peacetime concept of military capability.

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9 See annex 4, “Transparency of military expenditure”, for a brief historical background note on the subject.
Table 3
UNIVERSAL NATIONS INSTRUMENT FOR STANDARDIZED INTERNATIONAL REPORTING OF MILITARY EXPENDITURES

(Actual outlays at current prices) 10

<table>
<thead>
<tr>
<th>Force groups</th>
<th>Strategic forces</th>
<th>Land forces</th>
<th>Naval forces</th>
<th>Air forces</th>
<th>Other combat forces</th>
<th>Central support and command</th>
<th>Paramilitary forces</th>
<th>Military assistance</th>
<th>Undistributed</th>
<th>Total military expenditure</th>
<th>Civil defence</th>
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<tr>
<td>Resource costs</td>
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10 The definition of military expenditure applicable to the United Nations reporting system can be found in the report of the Group of Experts on the Reduction of Military Budgets (United Nations, 1977). In that report, military expenditures are measured as the value of flows of goods and services into the military sector in the course of a full year, while the military sector is described as that group of activities whose object is the research, development, provision, assembly, maintenance and deployment of current and future force potential intended for application mainly against external forces. It involves the following core activities: (a) employment of military and civilian personnel, including reserves; (b) procurement of equipment, including acquisition and maintenance of reserve or “mothballed” arms production facilities; (c) operations and maintenance; (d) construction of military facilities, including acquisition of land and facilities; and (e) research and development. Substitute activities are also included: (a) paramilitary forces, defined as forces which, having received organized military training, could, if equipped with appropriate weapons, be used as substitutes for regular military forces; (b) civil defence (in principle civil defence is included in the military sector, though the application of this principle requires further study); (c) military assistance; and (d) such other activities as will be viewed as important substitutes for core activities of the military sector (United Nations, 1977, para. 45).
At the beginning of each year, the Department for Disarmament Affairs sends a note verbale to all Member States inviting them to participate in this instrument and to transmit the latest available data by 30 April of that year. The submissions received by the Secretariat are reproduced in the Secretary-General’s annual consolidated report to the General Assembly. As of 6 February 2005, over 115 Governments have participated in this voluntary instrument at least once since it became operational more than two decades ago. The level of participation in this instrument, despite a sharp increase since 2000, continues to fall short of the goal of universality.

Reporting from a number of regions and subregions has been markedly low and, in many cases, participating Governments have not reported regularly. The level of global participation has ranged from a low of 16 in 1981 to a high of 82 in 2002. The regional participation level for Latin America and the Caribbean has varied from a low of 1 in 1981 to a high of 15 in 2002, while 20 States in the region (out of a total of 33) have participated in this instrument at least once over the past four years.11

Since the United Nations reporting system seeks information on actual outlays, it operates on the assumption that countries reporting their military expenditures for a given fiscal year that has ended are reporting actual expenditures rather than budgetary allocations. However, in a number of cases, countries participating in the United Nations reporting system have not provided full information regarding the fiscal year for which the data have been submitted. In such cases, therefore, it is not clear whether the data provided relate to actual outlays or projected expenditure. In other cases, the data are submitted before the end of the specified fiscal year, suggesting that they refer to projected rather than actual outlays. In such cases, however, data on actual outlays for that fiscal year are usually provided the following year. The need to streamline the submission of data is one of the reasons why it has been informally proposed to some key Member States that a review of the United Nations reporting system should be considered in the near future.12

The question of such a review and possible refinement was raised shortly after the establishment of the United Nations reporting instrument. In 1982, government experts appointed by the Secretary-General to assess this newly-developed instrument observed that the “continuous use of the reporting instrument by an ever-increasing number of countries would ... later enable a better assessment of its general appropriateness and utility, as well as its possible refinement” (United Nations, 1983). A similar observation had already been made at the time of the instrument’s establishment (United Nations, 1981).

D. Comparison of some available information on defence expenditure: IMF and United Nations Department for Disarmament Affairs

To illustrate some of the initial complexities of the measurement of defence expenditures, in table 4 we attempt to establish a relatively simple comparison for two South American countries (Chile and Peru), using available figures for the triennium 2000-2002. As table 4 indicates, in both cases there are significant differences between the information furnished by IMF and that provided by the United Nations Department for Disarmament Affairs for each specific year. On the other hand, the sources from which the United Nations figures were taken include a relatively disaggregated institutional economic classification for each figure, whereas IMF provides aggregate data.

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11 Apparently, information submitted to the United Nations Department for Disarmament Affairs is also sent to the Organization of American States (OAS), as the following paragraph suggests: “20. Budget transparency constitutes a fundamental factor for cooperation in security and defense, for which it is advisable to implement methodologies to measure defense spending as the best mechanism for mutual confidence building. In this context, they commend the States that have made progress in developing common standardized methodologies to measure defense spending and those that have participated in providing the United Nations and the Organization of American States with information on military spending” (Conference of Ministers of Defense of the Americas, 2004a).

12 These considerations are reflected in recommendation 2 of this report.
In addition, with regard to Chile, it is well known that the IMF figures are taken from data supplied annually by the Budget Office of the Ministry of Finance, on a cash-flow basis, whereas the United Nations data are furnished by the Ministry of Foreign Affairs, with inputs from the Ministry of National Defence, and are apparently taken from the budget. Something similar probably occurs in Peru’s case, although this has not been properly confirmed. For several Latin American countries, clarifying these institutional and methodological issues is a very important matter.

From the foregoing analysis, it can be observed that there are differences between the respective military expenditure estimates obtained from IMF and the United Nations. It would be desirable if the estimates from these two sources of official information were more comparable, and it would also be useful to know whether the data refer to budgetary allocations or actual military expenditure. In this connection, the possibility of coordination between the two organizations may be worth considering, although this is likely to be a complex task and may not be easy for institutional or other reasons. Yet a greater degree of comparability and clarity would help to achieve a higher level of transparency and uniformity in the military expenditure data provided by Governments. This would also make it easier for interested Governments to embark on initiatives to develop a standardized methodology for measuring and comparing their military expenditures.

### Table 4

**IMF AND UNITED NATIONS: DEFENCE EXPENDITURES OF CHILE AND PERU**

*(Current prices)*

<table>
<thead>
<tr>
<th></th>
<th>CHILE (Billions of pesos)</th>
<th>PERU (Millions of nuevos soles)</th>
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<tr>
<td>IMF</td>
<td>709.07</td>
<td>746.25</td>
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<tr>
<td>United Nations*</td>
<td>N.A.</td>
<td>665.00</td>
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</table>


United Nations: information reported to the United Nations standardized instrument for reporting military expenditures, Department for Disarmament Affairs.

In addition, with regard to Chile, it is well known that the IMF figures are taken from data supplied annually by the Budget Office of the Ministry of Finance, on a cash-flow basis, whereas the United Nations data are furnished by the Ministry of Foreign Affairs, with inputs from the Ministry of National Defence, and are apparently taken from the budget. Something similar probably occurs in Peru’s case, although this has not been properly confirmed. For several Latin American countries, clarifying these institutional and methodological issues is a very important matter.

From the foregoing analysis, it can be observed that there are differences between the respective military expenditure estimates obtained from IMF and the United Nations. It would be desirable if the estimates from these two sources of official information were more comparable, and it would also be useful to know whether the data refer to budgetary allocations or actual military expenditure. In this connection, the possibility of coordination between the two organizations may be worth considering, although this is likely to be a complex task and may not be easy for institutional or other reasons. Yet a greater degree of comparability and clarity would help to achieve a higher level of transparency and uniformity in the military expenditure data provided by Governments. This would also make it easier for interested Governments to embark on initiatives to develop a standardized methodology for measuring and comparing their military expenditures.

**E. Other international (and national) institutions that report defence expenditures**

1. **International Institute of Strategic Studies (IISS)**

In part II of its annual report *The Military Balance*, IISS publishes data on defence economics for a total of 28 Latin American and Caribbean countries. In addition to some economic indicators of a general nature, the report provides quantitative records of each country’s defence expenditure and defence budget in local currency and in United States dollars, both at current prices.

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13 This is recommendation 3.
14 As an example, see IISS (2003).
As shown by the following text, IISS utilizes a comparatively broad concept of defence expenditure (IISS, 2003, pp. 10 and 11):

‘Definitions of terms

“To avoid errors in interpretation, an understanding of the definition of defence expenditure is important. Both the UN and NATO have developed standardised definitions, but in many cases countries prefer to use their own definitions (which are not in the public domain). For consistency, the IISS uses the NATO definition (which is also the most comprehensive) throughout.

“In The Military Balance, military expenditure is defined as the cash outlays of central or federal government to meet the costs of national armed forces. The term ‘armed forces’ includes strategic, land, naval, air, command, administration and support forces. It also includes paramilitary forces such as the gendarmerie, customs service and border guard if these are trained in military tactics, equipped as a military force and operate under military authority in the event of war. Defence expenditures are reported in four categories: Operating Costs, Procurement and Construction, Research and Development (R&D) and Other Expenditure. Operating Costs include: salaries and pensions for military and civilian personnel; the cost of maintaining and training units, service organisations, headquarters and support elements; and the cost of servicing and repairing military equipment and infrastructure. Procurement and Construction expenditure covers national equipment and infrastructure spending, as well as common infrastructure programmes. It also includes financial contributions to multinational military organisations, host-nation support in cash and in kind, and payments made to other countries under bilateral agreements. FMA [foreign military assistance] counts as expenditure by the donor, and not the recipient, government. R&D is defence expenditure up to the point at which new equipment can be put in service, regardless of whether new equipment is actually procured. The fact that the IISS definitions of military expenditure are generally more inclusive than those applied by national governments and the standardised UN format means that our calculated expenditure figures may be higher than national and UN equivalents.

“The issue of transparency in reporting military expenditures is a fundamental one. Only a minority of the governments of UN member-states report defence expenditures to their electorates, the UN, the International Monetary Fund (IMF) and other multilateral organisations. In the case of governments with a proven record of transparency, official figures generally conform to a standardised definition of defence expenditure, and consistency problems are not usually a major issue. Where these conditions of transparency and consistency are met, the IISS cites official defence budgets and outlays as reported by national governments, NATO, the UN, the Organisation for Security and Cooperation in Europe (OSCE) and the IMF. On the other hand, some governments do not report defence expenditures until several years have elapsed, while others understate these expenditures in their reports. Where these reporting conditions exist, The Military Balance gives IISS estimates of military expenditures for the country concerned. Official defence budgets are also shown, in order to provide a measure of the discrepancy between official figures and what the IISS estimates real defence outlays to be. In these cases The Military Balance does not cite official defence expenditures (actual outlays), as these rarely differ significantly from official budgetary data. The IISS defence-expenditure estimates are based on information from several sources, and are marked ‘_’. The most frequent instances of budgetary manipulation or falsification typically involve equipment procurement, R&D, defence industrial investment, covert weapons programmes, pensions for retired military and civilian personnel, paramilitary forces and non-budgetary sources of revenue for the military arising from ownership of industrial, property and land assets.”

To illustrate these difficulties, table 5 presents the case of Peru and attempts to compare data for 2001 to those contained in table 4, which were provided by IMF and the United Nations Department for Disarmament Affairs. It is clear that the figures published by IISS under the two
headings “Defence expenditure” and “Defence budget”, while different from each other, are both significantly higher than those furnished by IMF and the United Nations, respectively. Of course, these disparities are due mostly to the different methodological approaches used by each of these institutions. Nevertheless, what we observe is interesting, and leads to some further comments.

In addition, IISS annually calculates the total “regional defence expenditure” of Latin America and the Caribbean, in current dollars and as a proportion of gross domestic product (GDP). In this regard, the Institute states: “In 2002 regional defence spending was US$ 28.4bn, down from US$ 32.1bn in 2001, mainly as a result of the weaker Argentinean peso” (1.66% of regional GDP in 2001 and 1.69% in 2002) (IISS, 2003, p. 310).

### Table 5
**IISS: DEFENCE ECONOMICS, PERU**

<table>
<thead>
<tr>
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<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2001</th>
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</thead>
<tbody>
<tr>
<td>GDP (Current prices)</td>
<td>Nuevos soles</td>
<td>190 billion</td>
<td>199 billion</td>
<td></td>
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<tr>
<td></td>
<td>US$</td>
<td>54 billion</td>
<td>57 billion</td>
<td></td>
</tr>
<tr>
<td>Per capita</td>
<td>US$</td>
<td>2,070</td>
<td>2,145</td>
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<td>%</td>
<td>0.2</td>
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<td>%</td>
<td>-0.1</td>
<td>1.5</td>
<td></td>
</tr>
<tr>
<td>Debt</td>
<td>US$</td>
<td>27.5 billion</td>
<td>29.1 billion</td>
<td></td>
</tr>
<tr>
<td>Defence expenditure</td>
<td>US$</td>
<td>3.2 billion</td>
<td>3.2 billion</td>
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</tr>
<tr>
<td>Defence budget</td>
<td>Nuevos soles</td>
<td>3.0 billion</td>
<td>2.3 billion</td>
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</tr>
<tr>
<td></td>
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<td></td>
<td>US$</td>
<td>0.5 million</td>
<td>0.5 million</td>
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<tr>
<td>FMA</td>
<td>US$</td>
<td>3.51</td>
<td>3.5</td>
<td></td>
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<tr>
<td>US$ 1 = nuevos soles</td>
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<td>1.9 billion</td>
<td>1.6 million</td>
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<td>Men</td>
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<td>1,309,000</td>
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<td>1,356,000</td>
<td>1,300,000</td>
<td>2,304,000</td>
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</tr>
</tbody>
</table>


*IMF figure.*

**United Nations figure.**

In addition, IISS annually calculates the total “regional defence expenditure” of Latin America and the Caribbean, in current dollars and as a proportion of gross domestic product (GDP). In this regard, the Institute states: “In 2002 regional defence spending was US$ 28.4bn, down from US$ 32.1bn in 2001, mainly as a result of the weaker Argentinean peso” (1.66% of regional GDP in 2001 and 1.69% in 2002) (IISS, 2003, p. 310).

### 2. Stockholm International Peace Research Institute (SIPRI)

It seems appropriate to quote some paragraphs from the SIPRI source, since they clarify various aspects of that institution’s military expenditure information:

- “The definition of military expenditure adopted by SIPRI, based on the NATO definition, is used as a guideline. Where possible, SIPRI military expenditure data include all current and capital expenditure on: (a) the armed forces, including peacekeeping forces; (b) defence ministries and other government agencies engaged in defence projects; (c) paramilitary forces, when judged to be trained and equipped for military operations; and (d) military space activities. Such expenditure should include: (a) military and civil personnel, including retirement pensions of military personnel and social services for personnel; (b) operations and maintenance; (c) procurement; (d) military research and development; and (e) military aid (in the military expenditure of the donor country). Civil defence and current expenditure for previous military activities, such as for veterans’ benefits, demobilization, conversion and weapon destruction, are excluded.”

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• “In practice it is not possible to apply this definition for all countries, since this would require much more detailed information than is available about what is included in military budgets and off-budget military expenditure items. In many cases SIPRI is confined to using the national data provided, regardless of definition. Priority is then given to the choice of a uniform time-series for each country to achieve consistency over time, rather than to adjusting the figures for single years according to a common definition. In cases where it is impossible to use the same source and definition for all years, the percentage change between years in the deviant source is applied to the existing series in order to make the trend as correct as possible. Such figures are shown in square brackets. In the light of these difficulties, military expenditure data are not suitable for close comparison between individual countries and are more appropriately used for comparisons over time.”

• “The main problems of reliability are due to the limited and varying definitions of expenditure. The coverage of official data on defence expenditure varies significantly between countries and over time for the same country. In many countries, the official data cover only part of actual military expenditure. Important items can be hidden under non-military budget headings or can even be financed entirely outside the government budget. A multitude of such off-budget mechanisms are employed in practice. Furthermore, in some countries actual expenditure may be very different from budgeted expenditure – it is most often higher, but in some cases it may be significantly lower. These factors limit the utility of military expenditure data.”

• “Each year SIPRI sends out a questionnaire to most countries of the world – except for the very small countries which are assumed not to have any sizeable armed forces – asking them to provide official data on their military expenditure for the preceding five years. The request is sent to their embassies in Stockholm or another nearby embassy as well as to relevant ministries, central banks and national statistical offices. The SIPRI questionnaire is much less detailed than the UN reporting instrument. SIPRI disaggregates military expenditure into six categories: (a) military and civilian personnel, including retirement pensions and military personnel and social services for personnel; (b) operations and maintenance; (c) procurement; (d) military construction; (e) military research and development; and (f) paramilitary forces, when judged to be trained and equipped for military operations.”

• “Latin America is a region with little transparency in military expenditure. A reporting lag of two years or more for the majority of countries makes accurate estimates of military expenditure difficult. Of the 11 South American countries from which SIPRI has requested information, only Brazil, Chile and Colombia responded in 2002, as has been the case during previous recent years.”

As an example of the military expenditure figures reported by SIPRI, table 6 reproduces some figures for South American countries. It shows that the definition and coverage of defence expenditure in SIPRI records is comparatively broad, with the result that the data are closer to those provided by IISS and further from those provided by IMF and the United Nations Department for Disarmament Affairs.
United States Department of State, Bureau of Verification and Compliance (previously ACDA)

The United States Department of State, Bureau of Verification and Compliance, publishes a report entitled *World Military Expenditures and Arms Transfers*. The most recent available report covers 1989 to 1999 and is the twenty-eighth in the series, of which 26 were published by the former United States Arms Control and Disarmament Agency (ACDA).

The United States Department of State uses different definitions of military expenditure for different countries. For NATO countries, military expenditure figures are taken from North Atlantic Treaty Organization (NATO) publications and are based on the NATO definition. For other non-communist countries (the bulk of the countries considered), data are generally the expenditures of the ministry of defence. When these are known to include the costs of internal security, an attempt is made to remove these expenditures. A wide variety of data sources is used for these countries, including the publications and data resources of United States government agencies, standardized reporting to the United Nations by country and other international sources, such as the IMF *Government Finance Statistics Yearbook*; the Central Intelligence Agency (CIA) *World Factbook*, published annually; *The Military Balance*, issued by IISS; and the SIPRI *Yearbook: World Armaments and Disarmament*, issued by SIPRI.

If there are reasons to believe that the military expenditures reported by some countries consist mainly or entirely of recurring or operating expenditures and omit all or most capital expenditures (as in the cases of Algeria, Cuba, Ecuador, Indonesia, Libyan Arab Jamahiriya, Nigeria and Syrian Arab Republic), special note of this possibility is made. In some of these cases, the United States Department of State obtains an estimate of total military expenditures by adding the value of arms imports to nominal military expenditures.

Since the Department is a national institution of the United States Government, appraising the nature and potential uses of its reports is a complex task. In addition, information on military expenditures is furnished with a certain delay and consists of relatively aggregate figures covering lengthy periods (generally about a decade).
The most recent available report\textsuperscript{16} states the following:

“South America had the second highest annual average growth rate over the past decade, 4.3%. Its share of the world total doubled, from 1.3% to 2.6%. Brazil’s spending, by far the largest in the region, jumped 39% from 1989 to 1999. The largest spenders except Argentina had high growth rates in the latter half of the decade, and all except Venezuela grew over the full decade, with Brazil, Chile, Colombia, and Peru rising at average rates well over 5%”.

The report goes on to provide the following figures for the South American countries having the highest levels of military spending:

| SOUTH AMERICAN COUNTRIES WITH HIGHEST MILITARY EXPENDITURES |
|-----------------|-------------|-------------|-------------|
| Brazil          | 9.9         | 5.6         | 6.0         |
| Argentina       | 4.3         | 1.1         | -2.7        |
| Colombia        | 2.7         | 8.3         | 7.2         |
| Chile           | 2.0         | 9.4         | 4.9         |
| Venezuela       | 1.4         | -3.1        | 4.4         |
| Peru            | 1.2         | 6.4         | 10.1        |

\textbf{Source:} United States Department of State (2002).

In another section of this report we will comment on other interesting aspects of the publication \textit{World Military Expenditures and Arms Transfers}, which are linked to different subjects and to the utilization of some pertinent “relative indicators”.

4. Future coordination of IISS-SIPRI tasks

Apparently, IISS and SIPRI use comparatively wider and more comprehensive concepts to measure defence or military expenditures than those covered by the principal analytical categories of IMF and the United Nations Department for Disarmament Affairs. Similarly, these two non-governmental organizations use different definitions of military expenditure, as reflected by the differences between their respective military expenditure estimates. It would be beneficial if the data from these two sources were more comparable and if the estimates they provided were more disaggregated to show the amounts spent on specific categories of expenditure. Likewise, it would be useful to clarify, where this may not be evident, whether the estimates relate to budgetary allocations or actual expenditure.\textsuperscript{17}

F. Latin American organizations’ information on defence expenditure

A number of institutions in Latin America issue reports on defence spending, although they do not actually participate in measuring it.

1. Security and Defence Network in Latin America (RESDLAL)\textsuperscript{18}

The Security and Defence Network in Latin America (RESDLAL) was established to promote, in the framework of democracy in Latin America, the institutionalization of State security and defence

\textsuperscript{16} See United States Department of State (2002), p. 3.
\textsuperscript{17} Recommendation 4.
\textsuperscript{18} RESDAL was established in 2001, with headquarters in Buenos Aires, Argentina. In 2000, it began to work closely with Seguridad Estratégica Regional (SER), a non-governmental organization founded in Argentina in 1990.
functions through the strengthening of civilian capabilities. Its member countries are Argentina, Bolivarian Republic of Venezuela, Bolivia, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, El Salvador, Guatemala, Mexico, Nicaragua, Panama, Paraguay, Peru, and Uruguay.

RESDAL implements seven main programmes in the following areas: a comparative atlas of security and defence in Latin America; quality and transparency of defence budgets; national legislatures and defence; ministries of defence; the RESDAL website; a bimonthly information bulletin; and visits to countries. Especially noteworthy is the programme on the quality and transparency of defence budgets, which promotes, as key aspects of the institutionalization process, the transparency and evaluation of the political decisions reflected in public budget allotments. The RESDAL programme on security and defence in the region is carried out through case studies, the preparation of budgetary data and the design of specific tools that can be applied in various countries by civilians involved in policy formulation and oversight.

Among the research papers published by RESDAL in 2004 are studies on the quality, efficiency and transparency of defence budgets in Argentina, Nicaragua and Peru. A report on Ecuador is currently being prepared, and similar studies on Brazil, Colombia and Guatemala are to be conducted in 2005. This is therefore an interesting initiative that refers to several subjects related to the formulation of defence budgets and that should be thoroughly examined in the future.

2. Latin American Faculty of Social Sciences (FLACSO)

The Latin American Faculty of Social Sciences (FLACSO) is an autonomous international academic organization established in 1957 by the Governments of Latin America and the Caribbean. FLACSO currently has academic units in 10 countries; these units are established as headquarters in 7 countries (Argentina, Brazil, Chile, Costa Rica, Ecuador, Guatemala, and Mexico) and as programmes in 3 (Cuba, Dominican Republic, and El Salvador). The general secretariat has its headquarters in San José, Costa Rica. Some of the Faculty’s objectives are to promote research, teaching, the dissemination of scientific information and technical cooperation in the field of social sciences.

Within its research, teaching and extension programmes, FLACSO has a work plan oriented towards promoting the following strategic objectives: to contribute to peace and international cooperation; to foster citizenship-building; to promote gender equity, individual autonomy and cultural diversification; and to help combat poverty, discrimination and social inequalities. Specific activities of FLACSO include the development of a set of initiatives to strengthen cooperation links in the areas of security and defence in the Americas. For this purpose, it has instituted research programmes to facilitate debate concerning these concepts, by means of forums for dialogue and the exchange of opinions between governmental actors, diplomats, military officials and scholars.

With regard to defence, the Faculty’s International and Military Relations Area has carried out research and other actions focusing on the study of international safety in the Americas, conflict prevention, dispute settlement, consensus-building and confidence-building measures, inter alia through the follow-up of the Conferences of Ministers of Defense of the Americas. In addition, a project on regional security and defence policies in Latin America examines civilian-military relations and defence policies in Latin America, based on three central topics: the United States-Latin America relationship, regional security and Chile’s relations with its neighbours. In line with this commitment, case studies –by region and by country– have been prepared on military expenditures between the early 1980s and the mid-1990s. Nonetheless, these efforts are not intended to build a database on military expenditure, nor has a methodology been developed for that purpose, although reference has been made to the subject on several occasions and from different perspectives.
III. Other aspects of defence spending measurement in Latin America and the Caribbean

Chapter II of this report indicated that one national and several international institutions actively participate in the measurement of defence spending, at the world level and in the region. But at the same time, it is hard to find a widely accepted standardized methodology in this area. Also, it is not easy to reconcile, in either conceptual or quantitative terms, the defence spending figures that those institutions calculate and publish for each country. MAINLY for this reason, it has been suggested that an initial priority should be to coordinate the work done on the measurement of defence spending by IMF and the United Nations, on the one hand, and by IISS and SIPRI, on the other. This idea of coordinating the work of the two blocs naturally assumes that the concept of defence expenditure used by IMF and the United Nations is narrower than the one used by IISS and SIPRI, which consider a broader range of military and paramilitary activities in measuring defence expenditure.

A. From IMF “defense spending” to the $G_1$ (basic) level (ministries of defence expenditure) of the ECLAC standardized methodology

Even IMF, in its Government Finance Statistics Yearbook 2003, provides data on defence expenditure in only eight Latin American countries (Argentina, Bolivarian Republic of Venezuela, Bolivia, Brazil, Chile, Mexico, Peru and Uruguay) and one Caribbean country (Jamaica),
and indicates that Costa Rica and Panama do not incur defence expenditures because of their institutional characteristics, which are well known and specific to their military status. The available figures are recorded on a cash basis, except in the case of Bolivia (accrual basis). In all cases, these figures refer to the central government subsector and not to the general government sector, which is more extensive and also includes the State government and local government subsectors. Moreover, data for the 2001-2002 biennium are not provided for all these countries.

The limited extent of IMF data on Latin American and Caribbean countries, as indicated above, adds to the challenge of developing a standardized methodology for measuring and comparing military expenditures between those countries. Although more Latin American and Caribbean countries have submitted their military expenditure data to the United Nations reporting system, some have not reported at all, while others have not reported regularly. In order to achieve the aim described in this report, all the Latin American and Caribbean countries would have to provide data on a timely and regular basis, both to the United Nations standardized reporting instrument and to IMF under the heading “Outlays by functions of government” (at least for the central government) in the questionnaire sent to countries by the IMF Government Finance Division to gather information for the Government Finance Statistics Yearbook. For the reader’s convenience, the IMF questionnaire is given in table 7 below.

Table 7

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<th>IMF: GOVERNMENT FINANCE STATISTICS YEARBOOK QUESTIONNAIRE</th>
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<td>[country name] [code] [Enter Units of Currency / Year Ending Month Day]</td>
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<td>General Government [Enter year to which data pertain]</td>
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<th>Consolidation Column</th>
<th>Central Government</th>
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Source: International Monetary Fund (IMF), GFS Yearbook Questionnaire, Statistical Tables, document 2274573v2, Washington, D.C.

a/ Consolidation of budgetary, extrabudgetary, and social security funds (columns 1, 2, 3).
b/ Consolidation of central government, state governments, and local governments (columns 5, 6, 7).
c/ Transfers between different levels of government that are of a general character and not allocated to a particular function.

19 Recommendation 5.
An additional advantage of the IMF information on central government expenditure on the defence function is that the definition and coverage of such expenditure are clear, as is the weight of those figures as a share of the different Governments’ total annual expenditure. The reason for this is that, since data furnished by the Fund come from the countries’ budget offices and ministries of finance (or economic affairs), the classification by function of total government expenditure has to square with other information provided for the entire fiscal sector. In addition, in order to make that coherence possible, Governments prepare their basic tables in local currency at current prices so that they will be accepted and published by IMF.

Nevertheless, during the process of formulating the Argentina-Chile-ECLAC common standardized methodology, the parties concerned agreed to correct the original IMF figures in some ways, by adding and subtracting certain identified and quantified categories for the purpose of arriving at a so-called \(G_1\) (basic) level of defence expenditure, which was comparable for the two countries and accepted by them.

Largely because of this very important characteristic, the standardization of defence spending measurement systems is essentially a confidence-building measure between a limited number of countries (generally two or three). Only with a certain degree of effort could this become what has been called a unique model of hemispheric cooperation.

Hence, as a starting point, it may be noted that, depending on the functional classification used, the information furnished by IMF on the defence spending of ministries of defence seems to meet two fundamental requirements. This was clearly recognized in the process of designing the common standardized methodology for Argentina and Chile, in which it was pointed out that “these initial defence expenditure categories excluded expenses relating to internal security –in Argentina, for the obvious reason that institutions engaged in this security function, such as the police (Gendarmería and Policía Federal), have always belonged to the Ministry of the Interior. In Chile, on the other hand, obtaining this basic value involves deducting all expenditures relating to the uniformed and investigative police (Carabineros de Chile and Policía de Investigaciones, respectively), since these organizations are dedicated essentially to the country’s internal security despite being institutionally attached to the Ministry of National Defence” (ECLAC, 2001, pp. 18 and 19). Moreover, it was also evident that within the information provided by IMF, the “Public order and safety” function in its system of government finance statistics was the one that incorporated those internal security outlays, which correspond to the “Police services” subfunction.

With respect to the second requirement, the IMF information on government expenditure under the “Defense” function completely excludes, from a conceptual and practical point of view, pension benefits paid to inactive military personnel. In effect, those benefits are recorded exclusively under the “Old age” subfunction of the “Social protection” function in the IMF system of government finance statistics. That is, expenditures under this subfunction are not further subclassified.

Other methodological aspects of the Argentina-Chile exercise are also valid for developing a more generic approach to the comparison of military expenditures at the regional level, measured at the \(G_1\) (basic) level. For example, the spending of specialized bodies of the armed forces that mainly perform non-defence functions should be deducted. In fact, these are essentially public safety and/or civil security functions that help create better conditions for the countries’ economic and social development. In line with this general criterion, the following exclusions were accepted in the Argentine-Chilean case: (a) in Argentina, the military aeronautical police (Policía Aeronáutica Militar)...

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20 To reiterate what was already mentioned in chapter II above, it would be advisable for IMF to develop, in the near future, a capacity to generate subclassifications of that function.

21 Including outlays made in foreign currency, which are converted to local currency at the relevant nominal exchange rate.


23 Nonetheless, this analytical separation may be more complex in other Latin American countries. We will revisit this issue in the chapter dealing with internal security.

24 In relation to the “Police services” and “Old age” categories, see IMF (2001), pp. 79-110.
and naval prefecture (Prefectura Naval); (b) in Chile, the civil aviation board (Dirección de Aeronáutica Civil), territorial waters and merchant marine board (Dirección General del Territorio Marítimo y Marina Mercante) and specialized bodies attached to the Chilean armed forces and army support organizations (Organismos Especializados de las Fuerzas Armadas de Chile y de Apoyo del Ejército).  

The Argentina-Chile “non-paper” also included the following provisions: 26 “User-funded activities: Eliminate management expenditures relating to user-funded services in the defence sector such as health and welfare services, in order to avoid double counting. Each country can exclude from this category amounts financed out of direct user contributions, apart from those deducted through the payroll”. Considering that, in the area of health and welfare services, expenditure on such “user-funded activities” is made out of these services’ own income (ingresos propios) (which generally does not originate from military personnel in active service) or out of government expenditure already recorded under other headings (which should not be counted twice), some deductions from the IMF figures were allowed in order to bring them closer to the G1 (basic) level. These deductions were, for Argentina, payments to the Army Social Work Institute (Instituto de Obra Social del Ejército), and, for Chile, the funding of health and welfare programmes for the armed forces.

Finally, it was necessary to add some categories identified as defence spending to the common standardized methodology for Argentina and Chile in order to move from the IMF “Defense” function to the G1 (basic) level of the methodology proposed by ECLAC. Thus, “in Argentina [...] all defence ministry expenditure on ‘Education and training’ and ‘Sanitary assistance’ programmes were originally included under ‘Education’ and ‘Health’, respectively, unlike the procedure followed in Chile”. Accordingly, “the amounts calculated for ‘Education and training’ and ‘Health’ for military personnel” were added to the original values for Argentina supplied by IMF. “These include activities of instruction or training and medical care (including the family group) necessary to ensure adequate performance from military forces” (ECLAC, 2001, pp. 19 and 20).

In Chile’s case, the most important change was as follows: “Given the very special characteristics of these Reserved Laws in Chile, it is not feasible to calculate or estimate annual expenditure on the purchase and maintenance of materials and elements forming the war potential of the armed forces, financed by the annual proceeds of these laws. Nonetheless, the funds generated thereby are officially known... and... shared equally between the three branches of the armed forces. These figures are published in the annual accounts of the National Copper Corporation (CODELCO–CHILE). Accordingly, this report accepts that the full equivalent in local currency of the yield in current dollars from the Reserved Copper Laws be added to initial defence expenditures (Ministry of Finance–IMF) proposed for Chile in order to determine Level G1 (Basic). In other words, this methodological option is chosen because it is viable given the information available. It would be worth improving on this in future, however, particularly in terms of greater detail on the different expenditures carried out and how they are recorded in government accounts” (ECLAC, 2001, p. 25).

With regard to Chile’s copper reserve laws, two comments may be added. First, these are funds that go beyond budget flows as such, since they constitute income of the armed forces on a permanent basis and are kept by the military authorities even if they are not spent or committed during the annual period in which they were generated. Second, it is to be hoped that these budgetary practices, which obviously lack transparency, will not be adopted in other countries of the region.

In short, in methodological terms, by departing from IMF figures and making the adjustments proposed in the foregoing paragraphs, it is feasible to determine and quantify defence expenditure at

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25 See ECLAC (2001), pp. 19-25 and 57-58. On this matter, Chile proposed a comparatively longer list of specific institutions to be excluded. Also, this country’s defence industry organizations (Organismos de Industria Militar) are a special case, which will not be dealt with in this report.

26 Annex 1.
the $G_1$ (basic) level. Therefore, the $G_1$ (basic) defence expenditure concept could become a standardized methodology that is broadly accepted and applied in the region, to complement the one originating from IMF.\footnote{Recommendation 6.} To that end, the countries of the region involved in initiatives to standardize the measurement of defence expenditure should, upon starting their measuring processes, agree on the characteristics and contents of the methodological approaches to be applied, in terms of both the IMF “Defense function” and the $G_1$ (basic) level developed from ECLAC studies.

\section*{B. Defence expenditure at the $G_2$ (expanded) level (including net pension expenditures) of the ECLAC standardized methodology}

As discussed above, the $G_1$ (basic) level does not include military pension expenditures. These are now included in this section. The new $G_2$ (expanded) level is derived directly from the $G_1$ (basic) level, plus net pension benefit expenditures, referred to in the “non-paper” as expenditures on military personnel and retirement (Argentina) or social security (Chile).\footnote{See annex 1.}

In general terms, and also in Argentina and Chile, pension fund contributions made by the State as an employer and payroll deductions from military personnel, both of which are paid into military social service institutes, are included as personnel expenditures at the initial $G_1$ level. Moreover, institutions financed in this way are not included as items in the national budget, so no duplication problems would arise in the different definitions of defence spending, since expenditures corresponding to these institutes are not included at the $G_1$ (basic) level.

These pension expenditures are made in Argentina by the Financial Aid Institute for Military Retirement Pensions and Benefits, or IAF (Instituto de Ayuda Financiera para el Pago de Retiros y Pensiones Militares), which is attached to the Ministry of Defence, and in Chile by the National Defence Pension Fund, or CAPREDENA (Caja de Previsión de la Defensa Nacional), attached to the Ministry of Labour. “Net” pension benefit expenditures to be added to the $G_1$ (basic) level were estimated from data provided by these institutions. In other countries of the region, however, such data are not always reliable or readily available.

Clearly, defence expenditures at the $G_2$ (expanded) level need to be reported and evaluated with particular care, since, in the remainder of this document, the $G_2$ (expanded) level will always include “net” military pension expenditures, in keeping with the procedure followed by several international institutions. In other approaches, as mentioned earlier, military pension expenditures are included in the social services function (“social protection”) of total government spending. This report treats the two calculations separately; in other words, defence expenditures excluding net pension benefits (level $G_1$) and including them (level $G_2$). This enables relevant international comparisons between different countries to be made in a transparent and intelligible manner.

Therefore, at the regional level and for specific countries, it is interesting to make annual calculations of defence expenditure at the $G_2$ (expanded) level –when the different countries provide timely information on the armed forces’ net pension benefit expenditures– by adding these expenditures to the $G_1$ (basic) level calculated previously.\footnote{Recommendation 7.} Of course, public information detailing the $G_2$ level should clearly define the item “net pension benefit expenditures”, which is added to the $G_1$ (basic) level, as well as the sources of information used.

Thus far, we have indicated that an expanded and more general methodology for the comparison of military expenditure should include three different but interlinked approaches: (a) the IMF approach,
or initial information on the “Defense” function as an item of central government expenditure; (b) in line with this approach and with the methodological suggestions put forward by ECLAC, a G₁ (basic) level of defence expenditure; and (c) a G₂ (expanded) level of defence expenditure encompassing the armed forces’ net pension benefit expenditures. Under all three approaches, each country should provide the original data in local currency at current prices. Also, subfunctional classifications are advisable, if possible, to the extent that the actions suggested in this respect occur progressively.

C. Complementary subjects

In the Argentina-Chile-ECLAC common methodology, “defence expenditure at G₃ (Total) level is proposed as a final standardized measurement of defence spending in the two countries, and is calculated by adding certain specific expenditure categories to Level G₂ (Expanded), i.e. including net military pension expenditures. In principle, what needs to be added to Level G₂ (Expanded) is what the Governments of Argentina and Chile on different occasions have referred to as ‘Defence industry and research and development’; ‘Other productive activities’; ‘Defence activities undertaken by other public bodies’; and ‘Military aid’.³⁰ The ECLAC secretariat was unable to construct a dataset that was sufficiently extensive and comparable between the two countries to fully estimate all defence expenditures to be added to Level G₂ in order to calculate the new G₃ (Total) level adequately. Accordingly, this new level was estimated by adding certain available partial data to the Level G₂ (Expanded) figures” (ECLAC, 2001, p. 40).

Also, a large proportion of the sales made by autonomous government industries are financed by the army, navy and air forces themselves, and these expenditures are already accounted for within ministries of defence. Alternatively, funding may come from fiscal transfers, so including these sales increases the possibility of duplication in the calculation of defence expenditures.

Considering what is stated in the preceding two paragraphs, in general, it seems that it is not always necessary to try to calculate the G₃ (total) level of defence expenditure under the standardized methodology for measurement. Only in the case of certain countries would it be useful to have supplementary information for that purpose, particularly under the heading “Defence industry and research and development”.³¹

As the 2001 ECLAC report on a common standardized methodology for the measurement of defence spending provides information on defence expenditure in Argentina and Chile, the logical thing would have been to proceed with the study by providing figures in constant prices, calculated on the basis of nominal figures in those countries’ local currencies and in current United States dollars. But the period of analysis, which covered only three years (1996-1998), posed the difficult and controversial problem of choosing suitable price deflators for the Argentine and Chilean figures and for certain basic data for the United States. Also, the exchange-rate policies applied by Argentina and Chile during this three-year period were fundamentally different, since one of these countries had a fixed exchange rate while the other was using a flexible system.

It therefore did not seem wise to try to arrive at approximate estimates of the real value of the dollar in the two countries, which would have been required in order to estimate and compare figures for defence expenditures expressed in constant dollars. Thus, to avoid unpredictable distortions in the standardized bases of quantitative data for Argentina and Chile, the safest approach was to use series for defence expenditures and national accounts aggregates expressed in current dollars.

That is, based on the Argentina-Chile experience, which covered a rather short period, it seems that in some cases it would be preferable to use the countries’ local currencies and United States

³⁰ See annex 1.
³¹ Recommendation 8.
dollars, expressed in current terms, in measuring defence expenditure according to a common standardized methodology, so as to avoid the distortions that can arise when these measurements involve the use of different local currencies and dollars at constant prices of some undetermined year.\footnote{Recommendation 9.}

Nonetheless, for the standardized measurement of defence expenditure and comparisons between countries over longer periods, of about 10 years, for example, it might be prudent to calculate the different countries’ and groupings’ quantitative data in constant dollars. It should be noted that the figures furnished by SIPRI are presented in local currency at current prices and in constant United States dollars at 2000 prices and exchange rates for periods of up to 10 years; IISS figures are provided in local currency at current prices and in current United States dollars for a much shorter period of three years. In addition, IISS provides estimates for both the defence budget and actual defence expenditure. The United States Department of State (Bureau of Verification and Compliance) specifies that all the values given in its reports are in constant 1999 dollars. In the cases of IMF and the United Nations Department for Disarmament Affairs, basic figures on defence spending are calculated in local currency, including values converted from foreign currency, and at current prices.

The different approaches taken by intergovernmental and non-governmental sources in calculating military expenditure suggests that some flexibility should be exercised in deciding whether to use local or foreign currency, at current and/or constant prices, to measure defence expenditure and its components.\footnote{Recommendation 10.} As a corollary, the exchange rates to be used for the standardized measurement of such expenditure in different countries and groups of countries must be carefully evaluated, particularly when they are used for purposes of comparison between different countries.

The quantitative data calculated and published in line with common standardized methodologies for measuring defence expenditure can be more useful if they are complemented with some selected indicators that permit a more analytical and comparative understanding of that information.\footnote{Recommendation 11.}

One such indicator could be the ratio of defence expenditure to gross domestic product (GDP) in various countries and groups of countries (generally regions or subregions). These ratios tend to be more significant when both GDP and defence expenditure and its components are calculated on the basis of figures expressed in current values, in local currency and/or United States dollars. This methodological approach is reflected to different degrees and in different ways in publications of IMF, United Nations, IISS and SIPRI, but is used most often by SIPRI. Furthermore, in the 2001 ECLAC report on Argentina and Chile, the defence-spending-to-GDP ratio was a valuable instrument for the purposes of that initiative.

A second and seldom-used indicator is one that links annual defence spending to the total population of the different countries. Nevertheless, for various reasons, such a per capita defence spending coefficient does not provide enough information as an instrument for comparative tests and does not seem to be generally accepted by the countries of the region. However, facts about the countries’ populations and other selected demographic data are very important pieces of basic general information for the preparation of research reports on defence expenditure.

Third, priority has been given to an indicator of considerable interest: the number of military personnel in active service, subdivided, if possible, into the different branches of the armed forces, especially if subfunctional classifications of defence spending have already been provided. In addition, data on military personnel should indicate whether and how volunteer soldiers and/or conscripts are incorporated, and in what numbers, according to each country’s enlistment system. On these topics, the countries of the region should regularly supply a range of comparable data. This information should also be coherent with the information published annually by IISS in *The Military Balance*. 
“Number of military personnel in active service” is a partial and provisional explanation of the comparative magnitude of defence expenditures in different countries. But it is also true that this indicator provides an initial “physical” explanation for the relative size of defence expenditures in different countries. Additionally, quantitative data relating defence expenditure to the number of military personnel, expressed principally in current dollars, would be pertinent for comparing military expenditures between different countries of the region.

Fourth, and from another standpoint, the United States Department of State, Bureau of Verification and Compliance, utilizes an interesting concept. “The ratio of a country’s armed forces to its population provides a useful indicator of national military burden and effort. A comparison of trends in armed forces, population, and the resulting ‘force ratio’ shows some significant differences between developed and developing countries as well as between regions.”\(^\text{35}\) The Department of State adds that “cuts in armed forces combined with growth in population caused the world force ratio to decline steadily over the decade. In 1989, the ratio was 5.5 soldiers per 1,000 people. By 1995, it fell to 4.0 and in 1999, it reached its 10-year low of 3.6. The rate declined by an average 4.2% from 1989 to 1999, and an average 2.6% from 1995 to 1999.”

Finally, it is important to collect annual data from individual countries of the region regarding the number of persons receiving armed forces pensions; this figure should preferably be disaggregated into its “retirees” and “other beneficiaries” components. This information can be used to tentatively calculate the ratio of net pension benefit expenditures to the number of persons receiving military pensions, expressed in current dollars. This would make it possible to compare some of the financing characteristics of armed forces pension regimes in different countries of the region.

\(^\text{35}\) See United States Department of State (2002), p. 8. This report presents “force ratios” for different regions, including Latin America (but not for individual countries).
IV. Internal security and defence expenditures

A. Conceptual aspects

Within the defence expenditure accounted for by the countries of the region, there may be some significant items of expenditure allocated to internal security. These items relate to exceptional tasks under the heading of internal security that are commonly found in some countries of the region—such as those of the Andean Community—and that relate to problems such as drug trafficking, guerrilla movements, other subversive movements and terrorism. In these cases, in order to ensure that these expenses are accepted as such in a standardized methodology and, consequently, are deducted from total defence spending, the reporting system should include some means of accounting for such outlays. This could take the form of a subfunctional classification containing at least the relevant internal security expenses and/or a subinstitutional classification depicting the military forces that carry out such duties.

But all the global systems for reporting “military” or “defence” expenditure, including standardized reporting systems, deal only with external security expenditure to protect the country from external threats. A review of these systems’ methodology for compiling information reveals no evidence that the reported data exclude the internal security disbursements made by some ministries of defence and military institutions for tasks such as the fight against drug trafficking and against subversive movements and/or terrorism. Thus, mechanisms should be created to identify internal security expenses that are reported as part of total defence expenditure.

Not all internal security expenses included in total defence expenditure are easy to identify. For this reason, the disaggregation of these expenses should be governed by two principles: ease of
identification (accessibility) and magnitude of expenditure. The accessibility principle means that if there is an activity which is clearly identified as one of internal security, the relevant expenditure should be taken into account and excluded. The criterion regarding magnitude of expenditure refers to those activities that, because of the relative size or proportion of the expenditure they entail, must necessarily be identified.

As noted earlier, the case of Argentina and Chile offers a clear example of this division between defence expenditure and outlays that can easily be classified as internal security expenses. From the beginning, the project to develop a common standardized methodology for the measurement of defence spending in these two countries included definitions outlining the scope and coverage of the measurement of the defence function and defence spending. These definitions clearly reflected the fundamental agreement between the countries with regard to “national defence”, which was defined as the protection of each country’s geographical boundaries against foreign threats. Given that approach to the defence function, internal security expenses were to be completely excluded.

In the region, in general, defence outlays are made by ministries of defence, and the “functional” and “institutional” budget classifications of these expenses often converge. However, there is a possibility that these ministries or other institutions in charge of defence also include units, departments or institutions not exclusively devoted to defence functions, but performing other functions as well, such as internal security. Conversely, it does not always occur that this latter function is assigned exclusively to the ministry of the interior or some other institution apart from the ministry of defence.

Therefore, the calculation of defence expenditure net of internal security expenses should involve, first, an analysis of the units or institutions that clearly perform internal security functions and that are included in the initial defence expenditure reported under standardization processes. This can be an expeditious approach in the case of formal institutional structures whose expenses are easily identifiable.

Second, the region’s armed forces themselves could also be performing other internal security functions—to a significant extent in relation to their other functions— that are still considered part of defence expenditure in the different national and international information systems. Despite the difficulty of identifying these expenses, they are nonetheless part of the relevant expenditure and should be recognized and measured.

**B. Some suggestions**

Apparently, the only existing standardized data on internal security spending that allow for cross-country comparisons are the data on ‘public order and safety’ published in the IMF *Government Finance Statistics Yearbook* (Hagelin, Björn and Sköns, 2003, p. 294). As explained previously, the IMF functional classification of expenditure includes a classification of the socio-economic functions or objectives pursued in different ways by the different government units. As shown in table 1 above, a distinction is made between the “Defense” (702) and “Public order and safety” (703) functions.

According to the IMF Classification of the Functions of Government (COFOG), the “Public order and safety” function includes police services, fire protection services, law courts, prisons, and research and development on public order and safety. The police services subfunction includes the administration of police affairs and services, which, in turn, includes “alien registration, issuing work and travel documents to immigrants, maintenance of arrest records and statistics related to police work, road traffic regulation and control, prevention of smuggling and control of offshore and ocean fishing; operation of regular and auxiliary police forces, of port, border and coast guards, and of other special police forces maintained by public authorities; operation of police laboratories; operation or support of police training programs”. It also includes traffic wardens, but excludes police colleges offering general education in addition to police training; such colleges are classified under the “Education” function (IMF, 2001, pp. 83 and 84).
With regard to the IMF functional classification of expenditure and internal security expenses, two observations can be made. The first is that, as happens with expenditure classified under the “Defense” function, IMF publishes only aggregate figures for the “Public order and safety” function, despite the detail of the functional classification of expenditure, which includes a subfunctional classification. The second observation is that the definition of the “Public order and safety” function does not explicitly recognize government expenditures on internal security (beyond normal public order and safety functions), such as those on anti-drug or anti-insurgent police forces. We could assume that these are probably classified under “other special police forces”, but clarification in this regard would be useful.

Thus, it would be appropriate to include, under the IMF definition of “Public order and safety”, a subfunction corresponding to internal security expenditures, covering areas such as anti-drug and anti-insurgent activities performed by military institutions, and also to classify such expenditures by institution; that is, to separate such activities from those performed by internal safety organizations. If this is feasible, those activities would have to be identified and disaggregated by national ministries of finance and defence, in coordination with IMF. This would allow for a more accurate assessment of defence expenditure.36

Additionally, the countries themselves would have to report how much of the expenditure of the ministry of defence is used for internal security, beyond what has previously been classified under the IMF “Public order and safety” function. This assumes that the countries involved in initiatives to introduce and develop a standardized system for measuring defence expenditure should agree to apply a common methodology for identifying and quantifying the expenses incurred by ministries of defence under the heading of internal security.37

In this regard, it should be clarified that the suggestion to add a subfunction to the definition of “Public order and safety” refers to the generic scope of the IMF classification system, while the second suggestion concerns groups of countries (frequently two or three of them) that are willing and able to participate in the specific experience of developing a common standardized methodology for measuring their defence spending.

36 Recommendation 12.
37 Recommendation 13.
V. Arms transfers: separate from but complementary to defence spending

Even though the topic of arms transfers is not included in the terms of reference of this report on transparency in military expenditure, the conceptual and practical links between these two issues are evident. However, it does not seem appropriate to present a thorough examination of the subject in this report, which will only provide some background information on the matter.

A. United Nations Register of Conventional Arms

First, it may be of interest to reproduce the following information on this United Nations initiative,38 which is carried out mainly by the Organization’s Department for Disarmament Affairs:

“Transparency in International Arms Transfers

“Brief Historical Background:

“During much of the Cold War, promoting transparency in the transfer of conventional arms as a confidence building measure (CBM) was overshadowed by more disarmament-oriented concerns about reducing and restricting the trade in conventional weapons in order to contain the Cold War at the global and regional levels. Transparency as a CBM eventually

38 Specially prepared for this report by the United Nations Department for Disarmament Affairs.
emerged as an important off-shoot of the largely unsuccessful efforts to limit the conventional arms trade.

“Limiting conventional arms transfers, including making such transfers transparent, was first raised as a distinct issue in the General Assembly in the mid-1960s. However, lack of agreement on how to pursue this objective as well as fundamental differences over priorities in the field of disarmament prevented the subject from moving forward until 1978, when the General Assembly held its first Special Session on disarmament.

“Inter alia, the Special Session called for negotiations to limit international transfers of conventional weapons. Different ideas that were advocated on how to proceed on this issue included a proposal by some Member States for the international registration of arms sales and transfers under the auspices of the United Nations.

“The first Special Session on disarmament gave a major impetus to the debate on conventional arms issues, including the issue of transparency of arms transfers. Another significant development was the adoption of General Assembly resolution 43/75 I in December 1988 that focused specifically on the transparency of arms transfers.

“As a result, conventional arms transparency became the subject of study by governmental experts in 1990-91. They strongly advocated the establishment of a UN register to promote transparency in armament, which the General Assembly decided to undertake in December 1991 through its resolution 46/36 L. The General Assembly also adopted another resolution, 46/36 H, reinforcing the idea of transparency and also highlighting the problems posed by illicit arms trafficking.

“The growing importance of conventional arms transparency was reflected in the work of the Disarmament Commission. In 1996, the Commission produced an agreed set of guidelines on international arms transfers, focusing not only on curbing illicit trafficking but also on strengthening transparency in legal arms transfers at all levels.

“Established in 1992, the UN Register of Conventional Arms functions mainly as a transparency instrument for the export and import of seven categories of conventional weapons, namely, battle tanks; armoured combat vehicles; large-calibre artillery systems; combat aircraft; attack helicopters; warships (including submarines); and missiles and missile-launchers.39

“At a secondary level, the Register also encourages Member States to provide data on military holdings and arms acquired through national production as additional background information.

“Since its inception, the Register’s operation and further development have been subject to periodic review by governmental experts appointed by the Secretary-General. The last review was undertaken in 2003 and the next review is expected to take place in 2006.”

According to the data available from the United Nations Department for Disarmament Affairs, the overall participation of the Latin American and Caribbean countries has increased since the calendar year 1998, when 42% of the Organization’s Member States participated. Since then, participation in the Register has exceeded 70% each year, and reached a high of nearly 80% for the calendar year 2001. Participation in Latin America and the Caribbean has varied by subregion, as has been the case for most other regions of the world. Significant developments in the region in the area of arms transparency are likely to facilitate a higher overall level of participation.

Finally, the Secretary-General of the United Nations has made the following comments regarding the role of the Register (United Nations Department for Disarmament Affairs, 2004, p. 23):

39 For further details on these items, see annex 5.
“At a time when advances in the field of multilateral disarmament have generally been slow and difficult, it is gratifying to note that the United Nations Register of Conventional Arms has made significant progress as a voluntary arms transparency mechanism.

“The Register plays an important confidence-building role by discouraging excessive and destabilizing accumulation of arms. The transparency it provides on arms transfers can help to minimize the risk of misunderstanding or miscalculation and thereby contribute to greater trust and more stable relations among States. The data and information provided by reporting States also help to improve and strengthen bilateral and regional dialogues on security concerns.”

B. Inter-American Convention on Transparency in Conventional Weapons Acquisitions

In June 1999, the General Assembly of the Organization of American States (OAS) adopted the landmark Inter-American Convention on Transparency in Conventional Weapons Acquisitions. The Convention puts in place a legally binding mechanism for strengthening regional stability through confidence-building and transparency. It requires States parties to provide annual reports to the OAS depositary on their imports and exports of weapons covered by the Convention, which are identical to those covered by the United Nations Register. States parties are required to notify the depositary of their acquisitions of conventional weapons, whether through imports or national production, within 90 days after these weapons are incorporated into the armed forces inventory. States Parties that have not acquired any weapons are required to submit a ‘nil’ report no later than 15 June each year. The Convention entered into force in November 2002. Eight OAS member States had ratified the Convention by 1 August 2003. Additionally, in the field of small arms and light weapons, the States members of OAS signed and adopted the Inter-American Convention against the Illicit Manufacturing of and Trafficking in Firearms, Ammunition, Explosives and Other Related Materials. The Convention came into force in 1998; 20 OAS member States had ratified the Convention as of August 2003.

The categories of weapons in the OAS convention are based on the United Nations Register of Conventional Arms. As stated in its preamble, the convention reflects its member States’ commitment to “contribute more fully to openness and transparency by exchanging information on weapon systems covered by the United Nations Register of Conventional Arms”, and it reiterates “the importance of annual reporting to the United Nations Register of Conventional Arms of information on imports, exports, military holdings, and procurement through national production of major weapon systems”.

C. Other international and national institutions that monitor arms transfers

In the SIPRI Yearbook 2004, part II, the whole of chapter 12 (pp. 447-556) is devoted to the subject of international arms transfers. The chapter includes four appendices: “The volume of transfers of major conventional weapons: by recipients and suppliers, 1999-2003”; “Register of the trade in and licensed production of major conventional weapons, 2003”; “Sources and methods for arms transfers data”; and “Suppliers of ballistic missile technology”.

In that respect, it is useful to reproduce the following from the SIPRI Yearbook 2004 (SIPRI, 2004, p. 474):

“The downward trend in major arms transfers as measured by the SIPRI trend-indicator value appears to have been reversed. In both 2001 and 2003, after a consistent decline between 1998 and 2000, there were clear increases in the volumes of major weapons delivered. Russia and the USA remain the major suppliers. Their main recipients were China and India (in the case of Russia) and
Taiwan, Egypt, the UK, Greece, Turkey and Japan (in the case of the USA). A continued increase in US arms transfers will influence the global trend. However, domestic factors indicate that the level of Russian arms transfers is unlikely to remain high for much longer. The future is uncertain for the other major suppliers because of international competition and continuing uncertainty about the future potential of European development and production. Relatively small suppliers could achieve short-term importance, as illustrated by Canada and Uzbekistan in 2003."

In its “Register of the trade in and licensed production of major conventional weapons, 2003”, SIPRI gives information on nine Latin American countries (Argentina, Bolivarian Republic of Venezuela, Brazil, Chile, Colombia, Dominican Republic, Ecuador, Mexico and Paraguay). As an example, the case of Brazil is summarized in table 8, in which suppliers or licensees of major conventional weapons are identified.

**Table 8**

<table>
<thead>
<tr>
<th>Recipient or Supplier (S) or Licensee (L)</th>
<th>Nº Ordered</th>
<th>Weapon Designation</th>
<th>Weapon Description</th>
<th>Year of Order/ Licence</th>
<th>Year(s) of Deliveries</th>
<th>Nº Delivered/ Produced</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>S: Canada</td>
<td>3</td>
<td>IRIS</td>
<td>AGS radar</td>
<td>1997</td>
<td>2002-2003</td>
<td>(3)</td>
<td>Part of ‘SIVAM’ air-surveillance network; for EMB-145RS (R-99B) AGS aircraft</td>
</tr>
<tr>
<td></td>
<td>9</td>
<td>Ocean Master</td>
<td>MP aircraft radar</td>
<td>(2002)</td>
<td></td>
<td></td>
<td>Deal of part of deal worth $ 326 m for modernization of 9 P-3A ASWMP aircraft to P-3BR version; desig uncertain; delivery from 2005</td>
</tr>
<tr>
<td></td>
<td>(8)</td>
<td>MM-40 Exceto</td>
<td>Anti-ship missile</td>
<td>(1995)</td>
<td>2002</td>
<td>(1)</td>
<td>For Barroso Class frigate</td>
</tr>
<tr>
<td>Italy</td>
<td>(46)</td>
<td>Grifo</td>
<td>Combat ac radar</td>
<td>2000</td>
<td>2003</td>
<td>(1)</td>
<td>For F-5BR modernization programme worth $ 285 m of F-5E FGA aircraft to F-5EM/FM version</td>
</tr>
<tr>
<td></td>
<td>7</td>
<td>RAN-20S</td>
<td>Air/sea surv radar</td>
<td>1995</td>
<td>2001-2003</td>
<td>5</td>
<td>Deal worth $ 112 m inlc 13 RTN-30X radars and 6 Albatros SAM systems; for 1 Barroso Class frigate and modernization of 6 Nitero Class frigates</td>
</tr>
<tr>
<td></td>
<td>13</td>
<td>RTN-30X</td>
<td>Fire control radar</td>
<td>1995</td>
<td>2001-2003</td>
<td>10</td>
<td>Deal worth $ 112 m mld 7 RAN-20S radars and 6 Albatros SAM systems; for 1 Barroso Class frigate and modernization of 6 Nitero Class frigates</td>
</tr>
<tr>
<td></td>
<td>(96)</td>
<td>Aspide Mk-1</td>
<td>BVRAAM/SAM</td>
<td>1996</td>
<td>2001-2003</td>
<td>(72)</td>
<td>Deal worth $ 49 m; for 6 modernized Nitero Class frigates</td>
</tr>
<tr>
<td>Spain</td>
<td>12</td>
<td>C-295M</td>
<td>Transport aircraft</td>
<td>2002</td>
<td></td>
<td></td>
<td>&quot;CL-X&quot; programme (part of &quot;Phoenix&quot; programme) worth $ 270 m; status uncertain</td>
</tr>
<tr>
<td>Sweden</td>
<td>5</td>
<td>PS-890 Enrique</td>
<td>AEW aircraft</td>
<td>1997</td>
<td>2002-2003</td>
<td>(5)</td>
<td>Deal worth $ 143 m; part of ‘SIVAM’ programme; for EMB-145SAEW&amp; (R-99A) AEW aircraft</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Torpedo-2000</td>
<td>AS/AW torpedo</td>
<td>1999</td>
<td></td>
<td></td>
<td>Deal worth $ 60 m for Type-209/1400 (Tikun and possibly Tupi Class) submarines; status uncertain</td>
</tr>
<tr>
<td>USA</td>
<td>9</td>
<td>P-3A Orion</td>
<td>ASWMP aircraft</td>
<td>2002</td>
<td></td>
<td></td>
<td>Ex-US; P-X programme; modernized in Spain to P-3BR before delivery; 3 more for spares only</td>
</tr>
<tr>
<td></td>
<td>20</td>
<td>RGM-84 Harpoon</td>
<td>Anti-ship missile</td>
<td>(1999)</td>
<td></td>
<td></td>
<td>Deal worth $ 39 m; possibly AGM-84 version; status uncertain</td>
</tr>
<tr>
<td>L: Germany</td>
<td>1</td>
<td>Type-209/1400</td>
<td>Submarine</td>
<td>1995</td>
<td></td>
<td></td>
<td>Brazilian desig Tikuna Class; 1 more planned but cancelled; delivery 2005/2006</td>
</tr>
</tbody>
</table>


IISS, in its annual publication *The Military Balance*, supplies abundant information on arms transfers. In part II, “Defence Economics”, table 29 (pp. 318-320), “Arms orders and deliveries, Caribbean and Latin America, 1999-2003”, gives information on 19 Latin American and Caribbean countries (Argentina, Bahamas, Bolivarian Republic of Venezuela, Bolivia, Brazil, Chile, Colombia, Dominican Republic, Ecuador, El Salvador, Guatemala, Guyana, Honduras, Jamaica, Mexico, Paraguay, Peru, Suriname and Uruguay). To illustrate some characteristics of these data, table 9 below provides information on Brazil.

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Furthermore, part I, “Capabilities and Trends”, of the above-mentioned publication provides information on 28 Latin American and Caribbean countries (the 19 mentioned in the preceding paragraph, plus Antigua and Barbuda, Barbados, Belize, Costa Rica, Cuba, Haiti, Nicaragua, Panama and Trinidad and Tobago). These data appear as a complement to the information on total armed forces discussed previously.

As an example of the data that IISS supplies, table 10 below includes the information available for the Dominican Republic (IISS, 2003, pp. 187 and 188). As the table clearly shows, separate records are provided for the army, navy, air force, forces abroad and paramilitary forces; data are also provided on military personnel.

**Table 10**

**IISS: CAPABILITIES AND TRENDS**

**DOMINICAN REPUBLIC DR**

<table>
<thead>
<tr>
<th>Total Armed Forces</th>
</tr>
</thead>
<tbody>
<tr>
<td>ACTIVE 24,500</td>
</tr>
</tbody>
</table>

**Army** 15,000

3 Defence Zones -6 inf bde (with 15 inf bn) - 1 armd, 1 mtn, 1 Presidential Guard, 1SF, 1 arty, 1 engr bn

**EQUIPMENT**

- LT TK 12 M-41A1 (76mm)
- RECCCE 8 V-150 Commando
- APC 20 M-2/M-3 half-track
- TOWED ARTY 105mm: 28 M-101
- MOR 81mm: M-1; 107mm: 4 M-30; 120mm: 24 ECIA
- RCL 105MM: 14 m / 45
- ATK GUNS 37 mm: 20 M3

**Navy** 4,000

(incl marine security unit and 1 SEAL unit)

BASES Santo Domingo (HQ), Las Calderas

(Continued)
As tables 9 and 10 indicate, IISS supplies important data connected with arms transfers, although with somewhat less detail than those provided by the United Nations and SIPRI, as mentioned earlier. The figures provided by SIPRI are intended to serve as an indicator of trends and are subject to subsequent revision and refinement. They are not definitive estimates for the calendar year in question. In the case of the United Nations, however, the arms transfers reported by Governments are specific to the calendar year. If there are discrepancies in United Nations figures, this is mainly because supplier and recipient countries may have different definitions of when an arms transfer has taken place according to their legal and technical criteria.

Consequently, and if it is feasible for the region in the near future, it may be advisable to initiate some contacts and work to progressively reconcile United Nations records on arms transfers with those of SIPRI and IISS.\(^{41}\)

Lastly, it should also be noted that the United States, through its Department of State (Bureau of Verification and Compliance), publishes ample information on arms transfers, although the figures are less up to date than those available from the other sources. Additionally, the Congressional Research Service (CRS) of the United States annually publishes records of United States foreign military sales. The annual CRS reports contain estimates of global and regional arms transfers, especially involving the major suppliers and recipients, as well as arms transfers from the developed to the developing countries. CRS estimates cover the value of both actual deliveries and agreements reached for future deliveries.

\(^{41}\) Recommendation 14.
VI. Conclusions and recommendations

The research and appraisals presented in the body of this report give rise to 14 specific recommendations. Considering the particular characteristics of this study, the present chapter is organized in summary fashion to facilitate the presentation of these recommendations.42

1. As part of an agreement to develop a common methodology for reporting defence expenditure, interested countries in Latin America and the Caribbean should consider undertaking a specific project involving IMF and one or more United Nations entities to provide detailed information with a view to subclassifying the “Defense” and “Public order and safety” functions in the IMF matrix, mainly through subfunctional breakdowns.

2. The United Nations should consider undertaking a review of the standardized instrument for reporting military expenditures, in particular to examine the need for further improvement of its reporting system as well as its operation and procedures.

3. If feasible, both technically and institutionally, IMF and relevant United Nations entities should consider the possibility of coordination with the aim of achieving greater comparability of military expenditure data.

4. In addition to achieving greater comparability of the defence expenditure data compiled by SIPRI and IISS, it would also be helpful to have more detailed data on specific categories of

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42 See also annex 6 for a summary of basic information and topics to be considered in the development of a standardized methodology.
expenditures, such as operation and maintenance, procurement, etc. Likewise, it would be useful to clarify, where this may not be evident, whether the estimates relate to budgetary outlays or actual expenditure.

5. In order to facilitate the development of a common methodology for reporting military expenditures in Latin America and the Caribbean, all the countries in the region should provide data, on a timely and regular basis, to both the United Nations standardized reporting instrument and IMF.

6. The Latin American and Caribbean countries interested in developing a standardized methodology should first consider the characteristics and contents of the conceptual approaches to be applied, such as the IMF “Defense” function and the $G_1$ level of expenditure developed on the basis of ECLAC research. This could serve as a common methodology at a basic level for the region as a whole.

7. The development of a common methodology for specific countries should be considered at the $G_2$ (expanded) level, as in the ECLAC study on Argentina and Chile. This would require information on the armed forces’ net pension benefit expenditures to be added to the $G_1$ (basic) level.

8. A standardized methodology at the $G_3$ (total) level would be of limited applicability in the region. This level may be considered relevant only for those countries that possess defence industries and are engaged in defence-related research and development.

9. Under all the methodological approaches, defence expenditure data for each country should be provided originally in local currency and at current prices. In some cases, data should also be provided in United States dollars at current prices.

10. In providing data on defence expenditure, mainly for longer periods, some flexibility should be exercised in deciding whether to use local or foreign currency, at current and/or constant prices. The exchange rates to be used should be carefully evaluated, particularly when they are to be used for purposes of comparison between different countries.

11. Data on defence expenditure should be supplemented by additional information, mainly on gross domestic product (GDP), number of military personnel in active service and number of persons receiving military pensions.

12. A subfunction should be added to the IMF definition of “public order and safety” in order to identify internal-security-related activities performed by military institutions in addition to those performed by internal safety organizations, as this would allow for a more accurate assessment of defence expenditure. If this is feasible, national ministries of finance and defence would have to identify and disaggregate those activities, in coordination with IMF.

13. The countries involved in initiatives to develop a standardized system for measuring defence expenditure should agree to apply a common methodology for identifying and quantifying the expenses incurred by ministries of defence under the heading of internal security.

14. In the near future, if feasible for the region, contacts should be initiated with a view to progressively harmonizing or clarifying any differences between United Nations records on arms transfers and those of SIPRI and IISS.
Annexes
Annex 1

Standardized measurement of defence spending

“Non-Paper” Argentina-Chile
(22 December 1999)

I. Definition and objectives

The term “defence” is understood to refer to all activities whose effect is to safeguard national sovereignty. Its aim is to attain a level of external security that will enable the country to achieve its national objectives.

Accordingly, “military expenditure” refers to expenditures incurred by the country to attain the objective set out in the preceding paragraph.

The model should be designed to permit a rational comparison of expenditure in order to guarantee its usefulness as a confidence- and transparency-building measure.

The ECLAC study should ensure that public information in both countries constitutes the “minimum information” to be used in the comparative model in order to promote transparency. For that purpose the budgets of the two countries will be analysed to establish guidelines for reconciling the categories used in each country with the detail necessary for adequate standardization. This should take account of the differences in budgetary formulation and execution systems in the two countries.

The methodology to be established should indicate the categories to be considered when measuring defence expenditure in the two countries, and provide criteria for including expenditures that could be considered defence-related, despite not appearing in defence ministry or armed forces budgets; or, conversely, for subtracting expenditures that do appear in such budgets but do not really correspond to defence.

Budgetary status: In the measurement, the key criterion should be to count expenditures executed at the end of each fiscal year. It should also include all sources of funding (National Treasury, special laws, autonomous local government, and so forth) that finance defence-related expenditures.

The study should indicate the expenditure categories to be included, but not necessarily identify individual costs in each one.

The development of this methodology, which is intended to make such expenditures more transparent, does not mean investing ECLAC with defence-expenditure comptroller or audit attributions.

The study should provide a glossary indicating the equivalence of terms used in each country, and proposing a common vocabulary.

The methodology developed, being common, standardized and consistent with national accounts methodologies, could be extended to the other countries of the region.

Both countries undertake to provide the information required by ECLAC to carry out this study, on the understanding that it will not be necessary to provide details involving strategic matters that are not relevant for calculating expenditures. It will be sufficient to state programme amounts and give a general indication of their nature.

Defence expenditures may also include amounts that are subsumed in the accounts of other ministries, or which simply have not been included in government accounting.

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One of the key objectives of the study is to indicate budgetary magnitudes and trends over time and, through expenditure classification, to reveal variations in each country’s defence capacities. Accordingly, the model should be viewed in conjunction with other transparency- and confidence-building measures, such as the reports on conventional weaponry sent to international agencies, and measures adopted in fulfilment of commitments assumed under international agreements.

II. Considerations for the study

Definitions: Define the scope of defence expenditure. As a general criterion to be applied, the entire budget in the jurisdiction of the Ministry of Defence for the Armed Forces shall be considered defence expenditure, unless the country that excludes certain categories or programmes contained therein shows that they have another function.

Definition of “armed forces”: Distinguish between internal security functions and defence.

In principle, the three branches of the armed forces (navy, army and air force) should be included in this category, but police forces, such as “Gendarmería”, “Carabineros” and “Prefectura Argentina”, should be excluded as they perform internal-security functions.

Non-military activities: Eliminate expenditures relating to non-military activities undertaken by the armed forces.

In principle, although there could be exceptions, these would be items that the country concerned justifies as relating specifically to non-defence activities (e.g., assistance in situations of natural disaster or fire, and other non-defence services provided to the community).

Defence industry and research and development: Identify activities and programmes undertaken by defence industries, research and development and other decentralized bodies under Ministry of Defence jurisdiction, but which are not defence-related.

Other productive activities: Eliminate productive activities that are not defence-related. In the case of activities undertaken by organizations attached to the ministries of defence or armed forces, the inclusion criterion would be applied in principle.

Defence activities undertaken by other public bodies: Identify defence-related activities and programmes under the jurisdiction of other State agencies.

User-funded activities: Eliminate management expenditures relating to user-funded services in the defence sector, such as health and welfare services, in order to avoid double counting. Each country can exclude from this category amounts financed out of direct user contributions, apart from those deducted through the payroll.

Breakdown of information: Distinguish expenditure by level of jurisdiction and subjurisdiction. Information should discriminate in each case between the armed forces (army, navy and air force) and the political structure (Ministry of Defence, joint general staff), or at the level of Ministries and Undersecretariats for War, Navy and Aviation.

Maritime activities: Analysis of patrol activities in territorial waters. This is included as defence expenditure unless the country concerned justifies otherwise. On the other hand, activities relating to the protection of human life at sea and navigation safety should not, in principle, be counted as defence expenditures.

Air traffic control: Expenditures in respect of air traffic control to guarantee aircraft navigation safety, together with airport management and other activities carried out by the armed forces in connection with commercial aviation, are excluded from defence expenditure.

Operations relating to border control and peace: As activities in this category may or may not be defence-related, their nature should be specified in the expenditure analysis in order to decide which category to include them in.
Social service activities: Defence ministry or military budgets assigned to health, security, education, culture, science and technology activities should be considered as an integral part of the defence project, although certain specific categories can be deducted that provide services to the community at large, or if they are personally financed by the users.

Expenditures on military personnel and retirement (Argentina), or social security (Chile): This category should cover military, civil and temporary defence personnel. Military pension benefits should be analysed, to determine whether they should be considered as social expenditure properly pertaining to a Ministry other than Defence.

Tax and tariff regime: Analysis of the tax and tariff treatment of defence-related activities, to prevent bias arising from the higher expenditure resulting therefrom.

III. Methodological issues

Level of aggregation: To keep the model simple to apply to a variety of situations and countries, the degree of detail shown in the expenditure breakdown should allow for adequate standardization. Moreover, details should be given as to which expenditures are or are not included in the accounting process.

Accounting treatment of procurement: It is important to clarify the accounting treatment of long-term military procurements, problems relating to their inclusion in national accounts, and their consideration as external debt and fiscal expenditure. Given that defence expenditure partly reflects the country’s weapons potential, it is important to distinguish direct expenditure on weaponry from the financing expenses that facilitate such procurement.

Military aid: Military aid received from third parties is counted as a defence expenditure in the recipient country only to the extent of any amounts paid.

Financing of defence expenditure: Expenditure figures should include amounts transferred from the Treasury, plus funding from other sectors, describing, in particular, contributions and transfers to public and private firms, whether or not decentralized, in the defence industry, research and development fields.
Annex 2

Main international sources of information on defence spending\textsuperscript{44}

A. Worldwide

As regards public information in the international domain, there are a number of institutions engaged in measuring, collecting and disseminating data on defence expenditure and arms transfers between countries, which make it possible to carry out comparative studies based on these sources. Several studies have reviewed the methodologies used by the main international bodies dealing with this topic.\textsuperscript{45} This chapter provides a summary of conclusions reached, and, complementing them with other information, it analyses the characteristics of the different research efforts known to the ECLAC secretariat, emphasizing their relevance for measuring defence spending in Argentina and Chile.

In the first place, the International Monetary Fund (IMF) publishes the Government Finance Statistics Yearbook (GFSY) each year, containing standardized data on defence spending by consolidated central government for a large number of countries, including Argentina and Chile. This annual publication presents a variety of categories and breakdowns of government spending, including defence expenditure by consolidated central government classified on a functional basis, and it provides one of the main sources for comparison between countries using data series spanning several years.

In addition to IMF, there are four other bodies that measure defence spending: the United Nations, which reports annually to the General Assembly, under the agenda item “Reduction of military budgets”, on information received from States in the framework of the United Nations standardized instrument for reporting military expenditures; the London-based International Institute for Strategic Studies (IISS), which publishes a report entitled The Military Balance; the Stockholm International Peace Research Institute (SIPRI); and, until recently, the Arms Control and Disarmament Agency (ACDA) of the United States, which since April 1999 has been part of that country’s Department of State. The two latter institutions also collect data on arms transfers. In addition, there are two institutions that publish information on arms transfers: the Congressional Research Service (CRS) of United States, and once again the United Nations, this time through the United Nations Register of Conventional Arms.

The bulk of the reports published by these bodies use common reference frameworks, based firstly on the United Nations Classification of the Functions of Government (COFOG), and secondly on a set of methodological definitions issued by the North Atlantic Treaty Organization (NATO). Thus, the different forms of measurement cannot be seen as entirely independent of each other, but countries also provide directly or release various bits of less standardized information.

Table A summarizes the information presented so far: the seven main international sources are listed; the variables included in their databases are specified (defence expenditures and/or arms transfers); and the primary reference sources used by each institution are named. The latter may be based on COFOG of the United Nations, on NATO guidelines or a variety of information provided by the countries concerned. Thus, for example, IMF uses COFOG in consultation with the countries themselves;\textsuperscript{46} both IISS and the former ACDA use the framework established by NATO for its members, together with the budgets of non-member countries; SIPRI uses NATO as a guide; the

\textsuperscript{44} See ECLAC (2001), pp. 11-14.
\textsuperscript{45} See, for example, Lahera, 2000; Lahera and Ortúzar, 1998 and 2000.
\textsuperscript{46} Although COFOG was designed by the United Nations (see United Nations, 2000), IMF uses it exclusively as a reference framework, for which reason it is often associated with the latter institution and with its definition of defence expenditures.
two United Nations publications use information provided and classified directly by the countries themselves; and CRS confines itself to data contained in records of United States foreign military sales.

As regards the coverage and measurement of defence spending, information provided by the countries has the disadvantage of not always being standardized so as to permit suitable international comparison. Again, the only solid frameworks in this context are COFOG and the NATO guidelines, yet these are not entirely equivalent, since they include different categories under the term “defence”, and hence in the expenditures incurred by countries on defence-related activities.

For example, NATO includes pensions paid to military personnel as defence expenditures, whereas IMF includes these in GFSY under social security and welfare. The latter, unlike NATO, consolidates the internal transfers of the public accounts system in its data, including those relating to defence, thereby excluding operations carried out within central government.

<table>
<thead>
<tr>
<th>Coverage</th>
<th>Organization</th>
<th>References (worldwide, including Argentina and Chile)</th>
</tr>
</thead>
<tbody>
<tr>
<td>ARMS TRANSFERS</td>
<td>International Monetary Fund (IMF)</td>
<td>Questionnaire to countries based on COFOG</td>
</tr>
<tr>
<td></td>
<td>United Nations (Secretary-General’s reports to the General Assembly)</td>
<td>Information and classification provided by member countries</td>
</tr>
<tr>
<td></td>
<td>International Institute of Strategic Studies (IISS)</td>
<td>NATO, for member countries; budget figures for non-NATO members Use of public information</td>
</tr>
<tr>
<td></td>
<td>Stockholm International Peace Research Institute (SIPRI)</td>
<td>Guided by NATO</td>
</tr>
<tr>
<td></td>
<td>United States Arms Control and Disarmament Agency (ACDA)</td>
<td>NATO, for member countries; budget figures for non-NATO members</td>
</tr>
<tr>
<td></td>
<td>United States Congressional Research Service (CRS)</td>
<td>From records of United States foreign military sales</td>
</tr>
<tr>
<td></td>
<td>United Nations (Register of Conventional Arms)</td>
<td>Information and classification provided by member countries</td>
</tr>
</tbody>
</table>

Source: Prepared by the ECLAC secretariat on the basis of Eugenio Lahera, “Metodología estandarizada común para la medición de los gastos de defensa”, Santiago, Chile, Economic Commission for Latin America and the Caribbean (ECLAC), 2000, unpublished.

On the other hand, expenditure on police forces, border control, and auxiliary or paramilitary personnel are included within defence spending by NATO, provided they have been equipped and trained for military operations. GFSY, meanwhile, includes these items under “Public order and safety”. Civil defence is included in “Defense” by GFSY, but not by NATO.

**B. Defence expenditures and the international institutions that report them**

As mentioned above, there are four international institutions apart from IMF that measure countries’ defence spending: the United Nations, IISS, SIPRI and the former ACDA.

The United Nations has been developing a unified system of military expenditure records since 1975,\footnote{As mentioned above, this refers to the Secretary-General’s annual reports to the General Assembly on information received in the framework of the United Nations standardized instrument for reporting military expenditures.} for which it requests information from all member countries. These records are grouped
together under three headings: operating costs; procurement and construction; and research and development. The first category includes all current expenditures, such as administration and maintenance; the second covers all capital goods, such as equipment and constructions; and the third encompasses defence-related research expenses.

Although this system has been in place for a number of years, it has given poor results. Many countries have claimed not to have data available to fit the United Nations categories. Since 1992, the United Nations has been providing an additional source of information, through publication of a register of conventional arms prepared from data on arms transactions provided by each member country.

The International Institute for Strategic Studies (IISS) uses the definitions suggested by NATO, but in the case of non-NATO member countries budgetary figures and other sources in the public domain have to be consulted directly. Available data are published annually in a report entitled The Military Balance, which gives various details relating to military, reservist and paramilitary contingents and on the weaponry existing in each country.

The Stockholm International Peace Research Institute (SIPRI) also bases itself on the NATO definition of defence expenditure. Its treatment of military imports is complex, but generally speaking those financed with national funds are included within defence expenditure, while those financed externally, through grants for example, are excluded.

The former Arms Control and Disarmament Agency (ACDA) is a United States Government body that collects information on defence spending using the NATO definition for its member countries. There are three observations to be made here: firstly, it excludes Ministry of Defence civil expenditure, but includes military spending by other ministries; secondly, military aid is included in the expenditure of the respective donor countries; and thirdly, the procurement of military hardware on credit is recorded when the corresponding debt is contracted, rather than when payment is made. For non-NATO members, data released by the various defence ministries is used, but in this case the Agency does not indicate whether arms imports are included, which may affect the volume and annual variability of defence spending.

In the case of IMF, its publication Government Finance Statistics Yearbook (GFSY) is based on the United Nations Classification of the Functions of Government (COFOG). In its functional breakdown of consolidated central government expenditure, the definition it uses in calculating defence spending includes the administration, supervision and operation of military land, sea and airborne forces. It also covers special forces, together with engineering, transport, communications, intelligence, materials, personnel, other non-combat forces and commands, reservists and auxiliary defence forces. Lastly, it includes civil defence expenses, and grants or loans from abroad (in money or in kind) and defence-related scientific research.

IMF does not include expenditures for non-military purposes, even if carried out by defence ministries. In theory, therefore, much of military expenditure on education, health, research and development should be excluded, along with interest paid on military debts. Payments or services provided to retired personnel or former combatants should also be excluded.

Similarly, and maintaining consistency with the functional classification of government spending, defence expenditures do not include military pensions (included under social security and welfare) or disbursements relating to the police, coast guard or border patrol activities (included under public order and safety). Moreover, as the information relates to expenditure by the consolidated central government, any transfers made within the central government are also excluded.

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48 This covers expenditure undertaken by the Office of the President of the Republic, the National Congress, the judiciary, ministries and the entities that report to these authorities.
Original data are submitted annually to IMF by public bodies responsible for preparing and controlling the government budget in each country, based on a questionnaire designed by IMF itself. The latter merely verifies the internal consistency of the figures supplied. The information provided is calculated in the respective local currency, at current prices, with expenditures measured on a cash accounting basis for each fiscal year.

Figures published by IMF in GFSY only cover consolidated central government expenditures, so they do not include the entire public sector, and the information is only of a global nature both for consolidated central government expenditure and for the different government functions, including defence. Nonetheless, IMF has made a major contribution to knowledge and the international comparability of defence spending and of expenditure by the consolidated central government as a whole, so this major methodological effort should be duly acknowledged.
Annex 3

The IMF “defense function”49

702  DEFENSE

7021 MILITARY DEFENSE

70210 Military defense (CS)

– Administration of military defense affairs and services;

– operation of land, sea, air and space defense forces; operation of engineering, transport, communication, intelligence, personnel and other non-combat defense forces; operation or support of reserve and auxiliary forces of the defense establishment.

Includes: offices of military attachés stationed abroad; field hospitals.

Excludes: military aid missions (70230); base hospitals (7073); military schools and colleges where curricula resemble those of civilian institutions even though attendance may be limited to military personnel and their families (7091), (7092), (7093) or (7094); pension schemes for military personnel (7102).

7022 CIVIL DEFENSE

70220 Civil defense (CS)

– Administration of civil defense affairs and services; formulation of contingency plans; organization of exercises involving civilian institutions and populations;

– operation or support of civil defense forces.

Excludes: civil protection services (70320); purchase and storage of food, equipment and other supplies for emergency use in the case of peacetime disasters (71090).

7023 FOREIGN MILITARY AID

70230 Foreign military aid (CS)

– Administration of military aid and operation of military aid missions accredited to foreign governments or attached to international military organizations or alliances;

– military aid in the form of grants (in cash or in kind), loans (regardless of interest charged) or loans of equipment; contributions to international peacekeeping forces including the assignment of manpower.

7024 R&D DEFENSE

Definitions of basic research, applied research and experimental development are given under (7014) and (7015).

49 See IMF (2001), pp. 82 and 83.
70240  **R&D defense** (CS)

- Administration and operation of government agencies engaged in applied research and experimental development related to defense;
- grants, loans or subsidies to support applied research and experimental development related to defense undertaken by non-government bodies such as research institutes and universities.

*Excludes:* basic research (70140).

7025  **DEFENSE N.E.C.**

70250  **Defense n.e.c.** (CS)

- Administration, operation or support of activities such as formulation, administration, coordination and monitoring of overall policies, plans, programs and budgets relating to defense; preparation and enforcement of legislation relating to defense; production and dissemination of general information, technical documentation and statistics on defense; etc.

*Includes:* defense affairs and services that cannot be assigned to (7021), (7022), (7023) or (7024).

*Excludes:* administration of war veterans’ affairs (7102).
Annex 4

Transparency of military expenditure\textsuperscript{50}

Brief historical background

The transparency of military expenditures has been a by-product of protracted efforts in the United Nations to achieve agreement to reduce military expenditures with the aim of not only strengthening international security, but also generating more resources for social and economic development, particularly of the developing countries.

At different stages, the issue has been discussed in various United Nations bodies, such as the Economic and Social Council, the First Committee of the General Assembly and the United Nations Disarmament Commission, and at the level of technical and governmental experts appointed by the Secretary-General.

The reduction of military expenditures, though no longer a major issue in the current disarmament agenda, attracted significant attention and was the subject of considerable diplomatic activity during much of the cold war, drawing its raison d’être from Article 26 of the Charter, which calls for the least diversion of the world’s human and economic resources for the acquisition of armaments.

During this extended period, various proposals were made for freezing or reducing defence spending, sometimes by a specific percentage. The proposals for reduction of military expenditures became increasingly linked to the idea of using some of the resources thus saved to assist the economic progress of developing countries, particularly the least developed nations.

A major effort to reduce military expenditures was initiated in 1973 when the General Assembly adopted two resolutions. The first one proposed an immediate 10\% cut by the major military powers and the creation of a United Nations mechanism for using some of the saved funds for the benefit of developing countries. The other resolution called for a technical study to determine the feasibility and modalities of reducing military expenditures.

The technical study led to other studies on key issues related to military expenditure, such as its definition, a matrix for reporting data and comparability of prices and costs, as well as verification and compliance. Although agreement could not be reached on these complex issues, this exercise produced one concrete result: it contributed to the development of a standardized instrument for reporting military expenditures, which has since served the purpose of promoting transparency under the conceptual umbrella of “objective information on military matters”.\textsuperscript{51}

The standardized reporting instrument was developed in 1975 and came into operation in 1981 as a voluntary mechanism, based on General Assembly resolution 35/142 B. After initial tests, the reporting system was further refined by governmental experts and declared to be a good way of promoting transparency in military expenditures. Nevertheless, the experts advocated a review of the reporting instrument at a later stage after a significant number of countries had participated in the transparency instrument. They also indicated that further refinement or adaptation might be necessary to make the instrument more universally relevant for reporting purposes.

\textsuperscript{50} Prepared for this report by Mr. Nazir Kamal, Department for Disarmament Affairs, United Nations, New York, 2004.

\textsuperscript{51} The matrix of the standardized reporting instrument is similar to the one used by the Conference on Security and Co-operation in Europe (CSCE) for reporting by its member States.
Meanwhile, the issues of comparability and compliance, essential for an agreement to reduce military expenditures, continued to pose problems. At the same time, there was limited political support for engaging in transparency measures in order to reduce military expenditures, as reflected in the small number of countries that were prepared to report to the transparency instrument.

A final effort was made by an expert group to resolve issues of comparability and compliance in 1981-1982. The study recommended yet another study, particularly on the question of comparability, while recognizing that political issues were just as important as and no less challenging than technical matters (United Nations, 1983).

Interest in the subject of reducing military expenditures began to decline in the mid-1980s in favour of promoting transparency as a confidence-building instrument. The hope now is that the enhanced transparency achieved through the sustained progress of the United Nations standardized instrument for reporting military expenditures will encourage or facilitate restraint in military expenditures.

The average level of annual participation by States in the United Nations standardized instrument during the 1980s and 1990s was less than 30. However, in recent years, there has been a noticeable increase, even though the goal of universal participation remains distant. So far, more than 115 States have reported to the United Nations instrument at least once, while the average level of participation by States is now above 70. A majority of States with significant military expenditures report to the United Nations instrument regularly.

The United Nations Department for Disarmament Affairs in New York manages the standardized reporting instrument on military expenditures and continues to work closely with interested Governments to promote this instrument through workshops and other activities.
Annex 5

The seven categories of conventional arms covered by the United Nations register\textsuperscript{52}

Paragraph 2(a) of the annex to General Assembly resolution 46/36 L identifies the seven categories of equipment on which Member States are requested to supply data to the Register. These are: battle tanks, armoured combat vehicles, large calibre artillery systems, combat aircraft, attack helicopters, warships, and missiles or missile systems. Based on the subsequent reports of the Groups of Governmental Experts in 1994, 1997, 2000 and 2003, the categories and their definitions to be used for reporting to the Register are as follows:

I. Battle tanks

Tracked or wheeled self-propelled armoured fighting vehicles with high cross-country mobility and a high level of self-protection, weighing at least 16.5 metric tons unladen weight, with a high muzzle velocity direct fire main gun of at least 75 millimetres calibre.

II. Armoured combat vehicles

Tracked, semi-tracked or wheeled self-propelled vehicles with armoured protection and cross-country capability, either: (a) designed and equipped to transport a squad of four or more infantrymen, or (b) armed with an integral or organic weapon of at least 12.5 millimetres calibre or a missile launcher.

III. Large-calibre artillery systems

Guns, howitzers, artillery pieces combining the characteristics of a gun and a howitzer, mortars or multiple-launch rocket systems, capable of engaging surface targets by delivering primarily indirect fire, with a calibre of 75 millimetres and above.

IV. Combat aircraft

Fixed-wing or variable-geometry wing aircraft designed, equipped or modified to engage targets by employing guided missiles, unguided rockets, bombs, guns, cannons or other weapons of destruction, including versions of these aircraft which perform specialized electronic warfare, suppression of air defence or reconnaissance missions. The term “combat aircraft” does not include primary trainer aircraft, unless designed, equipped or modified as described above.

V. Attack helicopters

Rotary-wing aircraft designed, equipped or modified to engage targets by employing guided or unguided anti-armour, air-to-surface, air-to-subsurface, or air-to-air weapons and equipped with an integrated fire control and aiming system for these weapons, including versions of these aircraft which perform specialized reconnaissance or electronic warfare missions.

\textsuperscript{52} United Nations (1991b) and United Nations Department for Disarmament Affairs (2004), pp. 6 and 7.
VI. Warships

Vessels or submarines armed and equipped for military use with a standard displacement of 750 metric tons or above, and those with a standard displacement of less than 750 metric tons equipped for launching missiles with a range of at least 25 kilometres or torpedoes with similar range.

VII. Missiles and missile launchers

(a) Guided or unguided rockets, ballistic or cruise missiles capable of delivering a warhead or weapon of destruction to a range of at least 25 kilometres, and means designed or modified specifically for launching such missiles or rockets, if not covered by categories I to VI. For the purpose of the Register, this sub-category includes remotely piloted vehicles with the characteristics for missiles as defined above, but does not include ground-to-air missiles.

(b) Man-portable air defence systems.
Annex 6

Summary of basic information and topics to be considered in the development of a standardized methodology for the comparison of military expenditures

The standardized methodology for the measurement and comparison of military expenditures is designed to provide a basis for developing criteria and procedures agreed between States in order to serve as a useful transparency instrument for a confidence-building process. Therefore, participation by States in such an initiative attests to their political will and resolve to promote confidence-building through increased transparency.

The following themes are highlighted as basic information to consider in the development of a standardized methodology for the comparison of military expenditures:

1. Political issues
2. Methodological issues
3. Partners
4. Funding and time frame

A. Political issues

Political environment: it is advisable that a standardized methodology study be carried out within a political framework whereby the countries interested in developing an agreed methodology have initiated or are prepared to initiate a forum in which the methodological study can be considered.

Transparency as confidence-building measures (CBMs): it is important that the standardized methodology study clearly accept transparency as a confidence-building initiative which has political value in the relations between the countries involved and that the study be part and parcel of other confidence-building initiatives.

Political acceptance of CBMs: it should be noted that different States may have different methodological and accounting procedures and that flexibility in identifying common ground on major principles and concepts could require major decisions demonstrating the political will of States to carry out the methodological study as a CBMs exercise. The same could be said of the need to provide access to the necessary information/data in each of the countries participating in the study so as to ensure the development of an agreed methodology in a proper manner and within a mutually agreed time frame.

Terms of reference: The general direction and scope of the standardized methodology study should be agreed on by the parties prior to initiation of the study itself in order to ensure that it is realistically planned and effectively executed and managed, as well as to ensure the utility of the data generated. This entails a clear definition of the terms of reference:

For example: the term “national defence” may be defined as “the actions carried out to safeguard a country’s borders against foreign threats”. This concept of defence wholly excludes any and all expenses incurred in connection with internal security, which involves security-related activities within a country’s borders.

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53 Prepared for this report by the United Nations Department for Disarmament Affairs and its Regional Centre for Peace, Disarmament and Development in Latin America and the Caribbean (UN-LiREC), as well as the United Nations Department of Political Affairs.
It is likewise necessary to decide upon the specific items to be included in and excluded from the study in order to avoid any possible ambiguity or overlap:

*For example:* exclusion of “internal security costs” from the generic category “defence expenditures”.

It is recommended that the parties agree upon the basis for the measurement of defence expenditures (measurements may be based on either annual monetary flows or physical or financial assets accumulated over longer periods of time), as well as upon the basic operational data to be used (data may be compiled on a cash-flow or accrual basis or on the basis of budgetary allocations or commitments).

### B. Methodological issues

**Basic operational data**

**IMF figures:** useful for providing information of a global nature with respect to the defence function (without subfunctional breakdowns or cross-classifications). These figures mainly cover consolidated central government expenditures and do not include the entire general government (or the even broader “public sector”). The concept of defence expenditure is restrictive (more so than the concept utilized by IISS and SIPRI). Figures are expressed in current local currency and exclude pensions paid to military personnel under the defence function; those pensions are included under the social protection function.

**United Nations figures:** useful for providing information of a limited nature with a relatively itemized classification system. Figures cover the costs of personnel, operation and maintenance, procurement and construction, and research and development. The concept of defence expenditure is restrictive (more so than the concept utilized by IISS and SIPRI). Figures are expressed in current local currency and exclude pensions paid to military personnel.

**IISS figures:** useful when a less restrictive concept of defence expenditure is desired (resulting in a higher calculated expenditure figure than IMF and United Nations equivalents). Figures include economic indicators of a general nature. Quantitative records are provided on “defence expenditure” and “defence budget”; figures are expressed in local currency and in United States dollars, both at current prices. IISS contingency figures regarding armed forces, army, navy and volunteer soldiers are often regarded as sound figures by experts on military procurement.

**SIPRI figures:** useful when a comparatively broad coverage and definition of “defence expenditure” is desired (resulting in data closer to those provided by IISS and further from those of IMF and the United Nations). SIPRI figures are trend indicators rather than definitive estimates, but are often regarded as sound figures by experts on military procurement.

**Methodological approaches**

**Level G₁ (basic):** used to assess all government expenditures involved in the administration and management of military defence functions, specifically the administration, supervision and management of military defence forces and affairs; land, sea, airborne and space defence forces; engineering, transport, communications, information, materials, personnel and non-combatant command and other forces; reserve forces and auxiliary defence personnel; and military structures and equipment supplies. This level also includes civil defence matters; applied research and experimental defence-related activities; and administration, management and support for defence activities that cannot be allocated to other categories. This level does not include military pension expenditures.

**G₂ (expanded):** used to assess all government expenditures at the G₁ (basic) level, plus net military pension benefit expenditures.
\( G_3 \) (**total**): proposed as an additional standardized measurement of defence spending. It is calculated by adding certain specific expenditure categories to the \( G_2 \) (expanded) level; i.e., other productive activities, research and development, military aid, etc.

**C. Partners**

A wide range of partners may be included in the conduct of a methodological study. Possible partners include:

**Participating countries:** usually through representatives of ministries of defence, finance and foreign affairs;

**Ad hoc advisory group:** comprising representatives of each country involved in the study, with the aim of monitoring the execution of the study and preparing guidelines for the implementation of the various project tasks;

**Technical groups:** comprising representatives of each country, with the aim of advising and providing support in research tasks, preparing data and commenting on the outputs obtained;

**Group coordinator and national focal point:** comprising technical staff of assisting international organization(s) or other national and international entities;

**Assisting international organizations:** entities such as the Economic Commission for Latin America and the Caribbean (ECLAC), which addresses technical issues and has expertise in Latin America and the Caribbean, and United Nations disarmament entities such as the Department for Disarmament Affairs and the Regional Centre for Peace, Disarmament and Development in Latin America and the Caribbean (UN-LiREC), which address political/diplomatic issues and have experience and expertise in military expenditures and CBMs;

**Universities, research institutes and non-governmental organizations:** these entities can play a valuable role in the conduct of a study of this type. For example, in the Latin American and Caribbean region, RESDAL and FLACSO are two entities which have previous experience in methodological studies. They often have a host of experts who specialize in the field of military expenditures and are involved in similar academic work.

**D. Funding and time frame**

It is important to consider the study’s funding and time frame prior to its initiation. Experience has shown that the following budget items should be included:

- Personnel (international consultants, research assistants, national consultants);
- Travel;
- Workshops and consultation meetings;
- Conference;
- Publications; and
- Miscellaneous.

A period of one and a half to two years is a realistic time frame for the conduct of a standardized methodological study, subject to periodic review of the progress of the study.
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