

## Trends in Nigeria's Defence Spending, 1986-2006

<sup>1</sup>G.D. Olowononi and <sup>2</sup>John Olu-Coris Aiyedogbon

<sup>1</sup>Department of Economics, Ahmadu Bello University, Zaria, Nigeria

<sup>2</sup>Department of Economics, Nigerian Defence Academy, Kaduna, Nigeria

**Abstract:** In this study, an attempt has been made to explain the growth of defence spendings in Nigeria from 1986-2006. The study was motivated by the under-funding of the Nigerian defence sector. There has been a strong debate on the need to reform Nigeria's defence sector. It has been said that no Nigerian institution is in greater need of reform and revitalization than the defence sector. This is because of the important role the sector plays in the Nigerian economy. The inability of the Nigerian defence sector to effectively fulfill the functions expected of it is the major reason for the call for reform. The debate is whether it is the financial constraint or mismanagement that is the main problem of the defence expenditure. Indeed, it has been alleged that financial inadequacy itself was in recent years due to gross mismanagement which in turn constituted a serious hindrance to the fulfillment of the functions assigned to the military. There were anomalies which arose from rising defence expenditure and decaying infrastructure and weapons.

**Key words:** Trends in Nigeria, defence spending, defence sector, economy

### INTRODUCTION

It is useful to examine the trends in Nigeria's defence spendings. At the level of theory, it is argued that a larger government size has adverse effects on efficiency and growth of an economy. There is no doubt that spendings aid economic growth since, large spendings help to secure an increase in productive investment. The efficiency of service delivery has, however, been weak in Nigeria and prospects for sustainability of existing services are weak. The funding problem may arise from inadequate budgetary provision and/or mismanagement. Previous studies on Nigerian defence expenditure produced conflicting results.

The government sector commonly called the public sector provides goods and services called public goods. Due and Friedlander as cited in Olowononi (2006) defined such goods as possessing the basic characteristics of "non-appropriability, non-rivalry and non-excludability in consumption". Public goods are collectively consumed and consumption by one individual does not reduce the amount available to others. These characteristics make it difficult or impossible to package public goods for sale under market conditions. An example of such goods is national defence. From 1981-1998, Nigeria experienced gross underspendings in defence sector because of the sharp fluctuations of crude oil prices in the international market.

During the review period in this study (1986-2006) the role of government in Nigeria economy was not satisfactory. The economy experienced slow growth in real output. The country regressed into the group of countries with low capital income. This had had adverse effect on the aggregate defence spending and economic growth. According to Odusola (1996), aggregate defence spending was negatively related to growth and when decomposed into recurrent and capital military expenditure, the former was more growth retarding than the later. There were calls for reduced military spendings during the lean years.

Consequently, the defence sector has been poorly funded leading to decaying infrastructures and weapons. Specifically, funds needed to refurbish/replace aged equipments and weapons have been inadequate. This adversely affected combat readiness in terms of the number of personnel that Nigeria has within the Navy, Army and Air force as well as the combat aircrafts, warships, rifles and tanks available for war. There have therefore been different opinions about defence spending in the country in recent years. While, some argued that there have been a colossal budget allocation for defence expenditure in relation to other sectors of the economy (education, health, agriculture, transport and communication); others argued that defence activities have been constrained by gross under funding.

Given the important role that an efficient and effective military could play in an economy, it becomes pertinent to undertake a study on the trends in defence spendings in Nigeria.

Data for this study were obtained from the publications by the Central Bank of Nigeria as attempts to obtain data directly from the Military Headquarters failed. For this reason data are in aggregate form. Data could not be decomposed into the Army, Navy and Air force.

**Literature review:** Research on defence expenditure have expanded rapidly since Benoit's pioneering study (1973). The author surprised the research community by concluding that military expenditure actually increased economic growth in LDCs. Until his study, it was generally assumed that military expenditure was negatively related to growth. He used a cross-sectional sampling of 44 LDCs between 1950 and 1965 to establish the relationship between military expenditure and growth rates, using correlation and regression analyses. He did not however define defence expenditure.

IMF Report of 2004 as cited by Olowononi (2006) defined a defence expenditure as comprising all expenditure whether by defence department or other departments for the maintenance of military forces including the purchase of military supplies and equipments including the stock piling of finished items, military construction, recruiting, training, equipping, moving, feeding, clothing and housing members of the arm forces and providing remuneration, medical and other services for them. Also, included are capital expenditures for the provision of quarters to families of military personnel, outlays on military schools and research and development serving foremost the purposes of defence. Military forces include paramilitary organization such as gendarmerie, constabulary, security forces, border and customs guards and other trained, equipped and available for use as military personnel. Also, falling under this category were expenditures for purposes of strengthening the public services to meet wartime emergencies, training civil defence personnel and acquiring materials and equipment for these purposes. Included also were expenditures for foreign military aid and contributions to international military organization and alliances. His definition excluded expenditures for non-military purposes, though incurred by a ministry or department of defence and any payments or services provided to war veterans and retired military personnel.

Also Stockholm International Peace Research Institute (SIPRI, 2002), cited in Olowononi (2006) defined defence expenditure to include all current and capital expenditure on: the armed forces: including peace keeping

forces, defence ministries and other government agencies engaged in defence projects; paramilitary forces trained, equipped and available for military operations and military space activities. Such expenditures according to him include all expenditures on current personnel, military and civil retirements pensions of military personnel and social services for personnel and their families; operations and maintenance; procurement; military research and development; military construction and military aid (in the military expenditures of the donor country). Excluded were military related expenditures, such as: civil defence; current expenditure for previous military activities such as veteran benefits, demobilization and conversion of arm production facilities and destruction of weapon.

According to a report by Central Bank Nigeria, Odusola (1996), the military is part of the national economy in which economic and non-economic activities are under the general direction of government. Defence expenditure is seen as expenses, which the public sector incurs for maintenance of the military for the benefit of the economy. There are several ways of classifying defence expenditure. For government budgeting purposes in Nigeria, it is broadly classified into recurrent and capital expenditures. Each class is further subdivided according to "function" or sector such as Navy, Army and Air force. Hemming *et al.* (1991) was of the view that even apparently less productive expenditure like expenditure on security essential since it provides social and political stability which is required for economic growth. He warned that reducing such spending could be counter-productive.

Odusola (1996) argued that the popular sentiment that post-civil war defence expenditure was not born out of facts, if set against threat perception analysis and the share of defence budgets in the developing world in general and sub Saharan Africa in particular. He suggested that instead of warring over the level of defence spending in Nigeria, more attention should be paid to the composition of defence spendings. He also suggested an increase in domestic production of military hardware and other military requirements to increase the defence capability of the country.

Aderinto (1990) observed that the issue of Nigeria's defence spending was not that of magnitude but rather that of balancing. He therefore, argued that the budgetary process must give consideration to economic balancing. He recommended that the expenditure planning process should be capable of exposing the trade-offs between stability and allocative objectives or stability and distributive objectives. This is very pertinent according to him because stringent economic reforms in Nigeria have further eroded the confidence of the people in the

ability of the social system to satisfy their basic needs. Hence, there is more internal security problem than the possibility of external aggression. Also, Olaniyi (1993) employs the Keynesian framework to evaluate the impact of defence spendings on key macroeconomic variables like inflation, export employment and growth in Gross Domestic Product (GDP). Bi-variate functions were used to analyze the impact of defence on these variables. No significant relationship was found except for the export sector where a strong negative relationship was revealed.

There are as yet no satisfactory theory or theories of defence expenditure. The existing theories earlier on public expenditure cannot satisfactorily explain defence expenditure. According to Teriba, parallel to the theoretical welfare approach to the study of public expenditure determinants has been an empirical approach, the first being by the German economist, Adolf Wager who formulated the "law of ever increasing state activity among progressive people". Simply put, the law says that there is a tendency for public expenditure to grow more proportionately than national out. The question can be asked: is this true of defence expenditure?

More recently, the size and pattern of growth and changes in the structure of public expenditure have been the subject matter of empirical analysis. But an interesting and provocative of the various hypotheses was formulated by Peacock and Wiseman. Their hypothesis was based on tolerable burden of taxation. According to them, people usually tend to become more tolerant of a higher tax levels during social disturbance or upheavals than peace periods. This permits higher revenues to be raised. The threshold of tax resistance to a higher level always shifts to another level wherever there is a major crisis. This explains why long term time pattern of public expenditure tends to look like a stepwise growth. This theory has been termed the displacement effect hypothesis and has attracted many criticisms. Various studies using econometric techniques have produced conflicting evidence with respect to the nature and significance of displacement. Although, there were internal conflicts, Nigeria did not experience any major crisis between 1986 and 2006. The theory is not considered as a determinant of defence expenditure.

According to Greene *et al.* (1981), Nigeria had about a quarter of a million members of armed forces in 1970. The financing of the defence sector was unduly onerous burden soon after the new-found oil wealth began to dwindle. The country found that it was spending a very high proportion of the national budget on security. Therefore, rationalization of the armed forces became an imperative task of the post-war decade. Demobilisation

became a very sensitive issue as many of the discharged soldiers became jobless resulting in serious outbreak of armed robbery. Demobilisation also threatened peace and stability in the country.

For several years, Nigeria had the biggest standing army in black Africa though its Navy and Air force was relatively small. As Danjuma (1976) puts it, Nigeria had a backlog of old and rickety vehicles which had reduced the army to a state of being completely immobile, without the right equipment and without shelter. He added that the country was left with an average equipment, out-dated weaponry and transport as well as under-trained officers. It is unfortunate that up to 2006 the military had several challenges of sizeable dimensions on its hand. As much as 70% of defence expenditure went on salaries, pensions and gratuities leaving meager resources for capital projects. The army had discharged a large body of men it did not need but the Federal Government has inherited the burden of maintaining them.

## **STRUCTURE AND TRENDS**

There is no doubt that nominal defence spending has risen considerably since 1986. The inflation rates have equally risen thereby making the growth of real expenditure mild.

Table 1 shows the structure of defence spendings during three regimes. The Babangida administration spent 22.8% of defence spendings on capital projects and 77.15% on recurrent spending. However, the Abacha administration expended 31.08% on capital projects and 68.92% on recurrent expenditure. The pattern of spending became disturbing during Obasanjo's regime whose administration devoted 82.09% on recurrent spending to recurrent spending and 17.9% to capital expenditure. Obasanjo's administration spent far more on defence than the previous regimes because of the favourable development in the international oil market which greatly raised the federally collected revenue and the capacity to fund defence sector. The crude oil prices shore up and export volume increased.

But, during the early period of the Structural Adjustment Programme (SAP) curtailment of expenditure through drastic reduction of budgetary allocation affected defence spendings. As the expenditure switching in favour of some basic social services increased, government expenditure on defence infrastructures was almost halted. Because the military was not accountable to the people, however, there was less transparency in accounting for its expenditure. There were also no effective deterrent mechanism for large scale corruption and colossal waste of public funds if any.

**Table 1: Trend and growth pattern of defence expenditure (N'Billion)**

	Capital defence expenditure		Recurrent defence expenditure		Total defence expenditure	
	Nominal	(%)	Nominal	(%)	Nominal	(%)
Babangida (1986-1992)	3,333.30	22.84	11,260.10	77.15	14,593.40	100
Abacha/Shonekan/Abdulsalam (1993-1998)	25,331.30	31.08	56,152.40	68.92	81,483.70	100
Obasanjo (1999-2006)	98,168.73	17.90	312,464.82	82.09	380,633.20	100

Source: Computed by the author from 2004 of CBN statistical bulletin and CBN annual report, 2006

**Table 2: Defence expenditure as a percentage of federal government**

Year	Total defence expenditure (N'million)	Total federal govt expenditure (N'million)	Defence expenditure as % of total expenditure
1986-1992	14,593.40	345,498.80	4.22
1993-1998	81,483.70	2,636,500.40	3.09
1999-2006	568,805.80	9,097,218.00	6.25

Source: Computer by the Author from CBN statistical bulleting, 2004 and annual report, 2006.

**Table 3: Trends in Defence expenditure in Nigeria**

Year	Nominal defence expenditure N'Million	Expenditure per capita N'million	Inflation rate (%)	Real defence expenditure N'Million	Growth rate (%)	Nigeria's population	GDP N'million
1986	825.700	10.87	5.40	152.780	-	75.996	70,806.40
1987	2,155.000	27.52	10.20	211.270	160.990	78.315	71,194.90
1988	1,720.100	21.28	56.00	44.910	(20.180)	80.839	77,733.20
1989	2,219.300	25.12	50.50	54.260	29.020	88.350	83,179.00
1990	2,285.200	26.54	7.50	304.690	2.970	86.115	92,238.50
1991	2,711.700	30.47	12.90	208.590	18.660	88.992	94,235.30
1992	2,677.100	29.24	44.50	60.160	(1.280)	91.570	97,019.90
1993	6,381.600	67.75	57.30	111.570	138.380	94.189	99,604.20
1994	6,607.700	68.20	57.00	115.920	3.540	96.883	100,936.70
1995	9,360.400	93.93	73.10	130.010	41.660	99.653	103,078.60
1996	15,686.200	152.84	29.10	535.370	67.580	102.633	106,600.60
1997	18,285.900	172.99	8.50	2,151.280	16.570	105.702	109,972.50
1998	25,161.900	231.14	10.00	2,516.190	37.600	108.862	113,509.00
1999	24,566.900	219.12	6.60	3,722.260	(2.360)	112.117	116,655.50
2000	37,490.400	323.83	6.90	5,433.390	52.610	115.772	121,207.80
2001	63,471.700	534.40	18.90	3,358.290	69.300	118.772	126,323.80
2002	108,147.600	885.23	885.23	6,888.380	70.390	122.169	131,789.80
2003	61,723.300	491.18	491.18	5,462.240	(42.930)	125.663	136,460.00
2004	85,047.400	657.97	657.97	4,383.890	37.790	129.257	145,380.00
Mean	25,080.27	214.19	130.99	12,994.96	35.81		

Source: Computed by the author from Central Bank of Nigeria (CBN), Statistical Bulletin (Several Issues)

Table 2 shows the total defence expenditure as a percentage of total Federal Government expenditure. It can be observed that defence expenditure as percentage of federal government expenditure fluctuated during the study period from 1986-1992, 4.22% of the total government expenditure was devoted to defence. Defence share declined to 3.09% from 1983-1998 and rose to over 6% from 1999-2006. Budgetary allocation to defence sector was generally low from 1986 to 2006. There is no record that it was not properly managed. There was little accountability and transparency of defence activities. The need to ensure cost-effectiveness of defence programmes and getting value for money on defence expenditure cannot be overemphasized.

The big jumps in defence spendings between 1999 and 2006 were due to big jumps in government revenues made possible by the huge export and rising prices of crude oil. With the share of the defence spendings from the total Federal Government spendings fairly rigid on the

upward side, openness of the economy was sufficiently large to explain the absolute defence spendings in recent years.

Table 3 shows that between 1986 and 2006, there were no series of steps in defence expenditure. There were no big jumps in expenditures to match crisis (war or depressions). Rather there was a fairly steady rise in defence expenditure.

### **FACTORS INFLUENCING DEFENCE EXPENDITURE**

The observed trends just analysed should be understood against the following background. The Federal Government introduced between 1987 and 1998 stabilization fund, dedication of oil lifting for the execution of national priority projects, provision for joint venture cash calls, creation of a fund to meet huge external debt service obligations and establishment of the Petroleum (special) Trust Fund, PTF. The desire to reduce fiscal

deficits or the size of the public sector led to fiscal reforms which adversely affected defence expenditure. Nobody was happy with the outcome of the annual budget from 1986-2006.

A stabilization fund was introduced in 1989 for the sterilization of excess funds from the sale of oil above the budget price. Proceeds from the fund were to be shared by the three levels of government in rainy days. Because of the coercive nature of government, the proceeds were wasted. The PTF was set up in 1994 to rehabilitate socio-economic infrastructure in the country including the military but its impact was minimal if not negative. The PTF was scrapped by Obasanjo's administration due to its poor performance. For example, many barracks were in bad shape and military uniforms were torn. A dramatic jump in public revenue was not used to the advantage of the defence sector but for the tiny powerful intercot group.

Also a large number of white elephant projects emerged for political and personal benefits. There was gross mismanagement of the fiscal resources as manifested in widespread corruption, colossal waste and abandonment of several capital projects (Aderinto, 1990). Also, there was no effective deterrent mechanism due to weak administrative and legal provisions for dealing with offenders.

Openness has been an important determinant of government revenue and expenditure. This is because the main source of tax revenue is based on the foreign trade sector. This varies from import duties and taxes on crude oil exporting companies. Other arrangements such as floating exchange rate system have helped to generate revenue. Also there has been a spill over effect of the foreign trade sector size on the ability of government to collect taxes in the rest of the economy. The greater the size of the foreign trade sector, the greater has been the degree of monetization of the economy, the size of business units and the level industrialization.

There is no doubt that the country experienced considerable difficulty in meeting in defence sector obligations because of huge external debt service burden. Because the country could not meet its scheduled external debt service obligations, accumulated arrears of debt service payments were added to the existing external debt stock. The debt service-export ratio was forcefully pegged at 30% between 1986 and 2006 while the scheduled external debt service payments averaged 44.5% during the period. The lower accrual debt service-export ratio reflected the decision of the federal government to limit external debt service payments to about 30% of the foreign exchange earnings to alleviate debt service burden. Various strategies aimed at achieving fiscal

viability during the period adversely affected defence expenditure. Apart from the high debt service burden, available resources were inadequate due to the volatile nature of the international oil market and highly fluid international environment.

There are various constraints to the size that government spends on national defence. But when it has been decided that Federal Government will undertake the territorial protection of the country, the funds for the service must be provided. Before the introduction of the Structural Adjustment Programme (SAP), defence expenditure constituted one of the largest items in the budget of the Federal Government. There was expansion of other functions however adversely affected defence expenditure.

As in the case of any economy, changing price levels affected the amount of expenditures that could be incurred by the government. As prices rose, more money was necessary, even when it was decided to curtail some activities. As a matter of fact, rising price level was major factor in Nigeria's defence spending.

One of the main causes of the growth of public expenditure is population growth. Every year, more money was required because of large number of military personnel which magnified old problems and created new ones. As population increased for example, improvement in transport system was needed. Additional drugs, electricity bills, water bills were settled. In fact, defence spending was not relatively inelastic with respect to entire population of Nigeria.

Since, public revenues increased rapidly, the tendency for government to increase the scope of its defence activities was great. Rising revenues increased the ability and the inclination of government to finance better War College, better-equipped wapons, military projects and so on.

The question is asked that was "openness" of the economy an important determinant of defence expenditure in a developing country like Nigeria? The answer is yes because more than two-third of Nigeria's tax revenue was based on the foreign trade sector. Huge revenues were generated from petroleum profit tax, customs duties and variation in Naira-dollar exchange rates. The predominance of the foreign trade sector cannot be over-emphasized.

From the foregoing, it can be seen that various variables can be used to explain the growth of defence expenditure in Nigeria.

#### **MODEL SPECIFICATION**

Flowing from the discussion in study above, the model for this study is specified as follows:

$$DEXP = a_0 + a_1GDP/N + a_2(X + M)/Y + a_3EXR + a_4INF$$

Where,

- DEXP = Defence Expenditure.
- Y = Gross Domestic Product.
- N = Nigerian projected Population Figures.
- M = Exports.
- EXR = Exchange rate.
- INF = Inflation Rate.
- GDP/N = Per Capita Income (PCI).

All these explanatory variables are expected to be positively related to defence expenditure.

### RESULTS AND DISCUSSION

This study analyses the regression results of the determinants of defence expenditure. The results show the impacts of explanatory variables on defence expenditure are significant (Table 4). The coefficients of these variables are high and statistically significant. This implies that defence expenditure heavily depend on them. The R<sup>2</sup> show that about 90% of the variation in defence expenditure is explained by the explanatory variables shown above.

Simply put, 90% of changes in defence expenditure was accounted for by the changes in per capital income, openness of the economy, exchange rate and inflation rate. The ratios show that all the explanatory variables are statistically significant which is consistent with our theoretical expectation. This study found that per capital income has a very strong effect on the defence expenditure, hence the need to make the economy grow. The revenue base has to be diversified for the effective financing of the defence sector. Although, Nigeria has been benefiting from the external sector, emphasis should shift to the other sectors of the economy for greater revenue generation.

Table 4: Empirical results

Variables	Coefficient	Std Error	t-statistic
PCI	1.361988	0.200062	1.809380
Openness	2.784961	0.126059	6.226913
EXR	4.358255	134.5914	3.238137
INF	1.0998	164.1322	-0.334248
C	922.9828	6762.652	-0.136482
R-Squared	0.889298	Mean dependent Var	31661.11
Adjusted R-squared	0.861622	S.D dependent Var	36706.90
S.E of regression	13654.65	Akaike info. Criterion	22.08580
Sum squared resid.	2.98E+09	Schwarz criterion	22.33450
Log likelihood	-226.9009	F-statistic	32.13302
Durbin-Watson stat.	20.53091	Prob. (F-statistic)	0.0000

Dependent Variables: DEXP, Method: Least Squares, Date: 10/29/07 Time: 11:05, Sample: 1986-2006, Included Observations: 21

The results show that the openness and exchange rate were the main determinants of defence expenditure in Nigeria. The DW-statistics of 2.053091 falls within the acceptance range and this confirms the absence of positive serial correlation.

The exchange rate and import controls used to be major policies for putting right external imbalances. But they had negative effect on financing the defence sector. Nigeria has adopted flexible exchange rate policies since 1986. It is now clear that administrative controls had stagflationary effect and resulted in inefficient resource allocation than a policy of flexible exchange rate.

### CONCLUSION

In broad outline, the model formulated has helped to assess the relative importance of the various factors affecting defence expenditure. The study shows that since the beginning of Obasanjo's administration in 1999, Nigeria has been blessed with exceptionally buoyant oil revenues. They have been in the nature of windfalls and accruing in a period of good world market prices for crude oil which should be best used to modernize the Nigerian defence sector. Certain important recommendations need to be made. The first is that the rate of growth of recurrent expenditure needs to be slowed down. Also, the quality of defence spending should be improved. There should be increased efficiency of each unit of outlay.

This is because the structure of federally collected revenue is not reliable. The oil revenue has been generally unstable and depended heavily on the volatile oil market. It is desirable that revenue from this source is efficiently managed.

In order to have less problems with the financing of defence spending, efforts should be made to enhance taxable capacity to generate more revenue, particularly from the non-oil sector by improving the current poor economic structure. There should be a drastic structural change in the economy shifting from primary to secondary production.

The problem of poor expenditure management should be addressed through prudent financial management. The image of the military will be enhanced if there is accountability and transparency in the ways public funds are spent. The quality of defence spending is a reflection of the extent to which the Ministry of Defence abides by internationally cherished norms and standards for purposeful use of public funds. The defence sector should allow Public Accounts Committee of the National Assembly to monitor the spending of public funds. These institutions provide checks and balances against misuse of funds.

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