South Africa's Defense Budget 2015 – *and beyond*

South African defense spending has been under much scrutiny of late with defense experts calling for a radical transformation of the procurement process followed by a robust increase in the defense budgets for the coming years. AgileIntel's Dev Mehta takes a closer look at this year's defense budget and the dynamics expected to be played out over the next decade.

South Africa's Defense Budget 2015

The current dismal state of the South African defense industry is the result of years of neglect and abuse. A defense review conducted by the government in March 2014 highlights the country's capability gaps in the areas of ammunition, critical infrastructure, skilled personnel, combat vehicles, transport aircraft and the overall structuring of the procurement process. The South African National Defense Force (SANDF) is deemed to be in a 'critical state of decline', with the current budget allocations, both capital and revenue, not considered to be adequate to meet the ever-growing needs of restoring the country's military effectiveness. In fact, according to the findings of the review, "even with an immediate intervention, it could take at least five years to arrest the decline and another five years to develop a limited and sustainable defense capability."

The consensus on South Africa's defense budget for 2015 is that it is too low for any radical transformation to begin. Even though this year's budget marks a XX% increase over 2014, it continues to shrink in real terms owing to inflation and currency fluctuations. South Africa's commitment to border safeguarding and regional security has resulted in US$XX million and US$XX million being allocated for related missions till 2017. However, budget constraints have resulted in only 13 army companies being deployed for border security, as opposed to the proposed 22. Another area to benefit is 'special operations' which will receive funding of US$XX million in 2017-2018, up from US$54 million in 2014. Other highlights of the budget include immediate procurements of a medium and light transport aircraft and land based and airborne C4ISR systems. Common services have received the highest allocation of US$XX billion, followed by the Army – US$XX billion, Air Force – US$XX billion and the Navy – US$XX billion. According to AgileIntel estimates, Army allocations are expected to increase from an estimated US$XX billion in 2016, to US$XX billion in 2020 at a CAGR of XX%, with the increases for the Air Force. Navy and Common Services pegged at XX%, XX% and XX% respectively. The budget for the Ministry of Interior has also increased in terms of local currency but has dipped in terms of buying power, to value US$XX billion in 2015 (2014 – US$XX billion).

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> – 2014 South Africa Defense Review

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Is South Africa spending enough on defense?

South Africa's defense industry is still reeling from the policies of suppression of its armed forces during the apartheid era. The undermining of black resistance during white rule, wars in Namibia and Angola and the support of the regime in Zimbabwe, all contributed to divide public opinion, which along with the increased focus on economic development, has contributed to the military being neglected.

According to a recent report released by AgileIntel, South Africa's defense spending declined from US$XX billion in 2011 to US$XX billion in 2015 and all this in spite of the industry facing critical shortages in many areas. The 2014 defense review however is expected to catalyze the South African defense market over the next few years, with budget allocations expected to increase to US$XX billion by 2020. Even though this increase is substantial when compared to the inertia the market experienced over the last decade and more, it is not considered to be enough to galvanize the country's armed forces into a powerful regional force. One of the main reasons this is so is that the country harbors military ambitions beyond just its own territory as is evident from its strong military contingents in Congo and Darfur. The armed forces also lend support to anti-piracy operations off the Mozambique coast, while positioning itself as the leader in all Southern Africa. In the words of Helmoed Heitman, a South African military expert who was involved in making the 2014 defense review, "of the 25 countries involved in peacekeeping operations in Africa, we are the ninth largest in terms of troop contributions."

Developing countries usually spend about XX% of their GDP on defense and more if the country needs urgent military modernization, with India being a good example. AgileIntel estimates Indian defense spending to average about XX% of their GDP during the period 2015-2019 and this is despite having to combat the perennial problems of a third world nation. South Africa however, has been consistently spending below this figure, with the numbers totalling an average of only XX% over the last five years; like countries such as New Zealand which faces virtually no external threats nor has any serious military ambitions. The country also ranks below Algeria, Angola, Libya, Kenya, Morocco and Egypt in terms of defense budget allotments as a percentage of GDP. Further, if guidance is sought from comparisons with other countries in the region, South Africa fares poorly with other major countries such as Angola and Algeria having spent a total of US$24.2 billion and US$45.1 billion respectively during the period 2010-2014, as compared to South Africa's US$XX billion.

> There is a severe disconnect between South Africa's military ambitions and the annual budgetary allocations

These numbers assume far greater meaning when looked at considering South Africa's desire to establish itself as the major African power in the region and the world. Further with regional powers now expected to possess stronger defense capabilities than others, South Africa needs to take another look at the strategic direction of its defense spending over the next decade. According to the findings of the defense review, "even if South Africa were to double its defense budget overnight, it would not be able to plug the African military capacity gap that results in French, US and other interventions on the continent."

There is also a severe disconnect between the missions given to the SANDF and the resources available to carry them out. For example, in March 2013, the rebels carried out an attack on a contingent of South African soldiers in Central African Republic (known now as the Battle of Bangui), and almost took over their positions, due to shortages in ammunition and support services.

Market Opportunities

Land Based C4ISR: South Africa's military C4ISR assets have found increased usage over the last five years, with the country's renewed focus on executing reconnaissance and surveillance missions. The country's spending on ground based systems can be attributed to the investments in upgrades and replacement of the communications infrastructure. Cyber security is one of the primary areas of investment, as the DoD's budget aims to dispel fears about recent reports released by expert analysts from the consulting firm Wolfpack Information Risk, stating that it would not be hard to shut down major South African governmental websites and information networks, considering the minimal cybersecurity measures in place. Expenditure on this segment is expected to increase at a strong CAGR of XX% till 2025.

Naval Vessels: South Africa is expected to play an increasingly significant role in maintaining regional stability in the African Union, with a growing need to address several maritime issues such as illegal fishing, piracy, and an increasingly active drug trafficking cartel. These countermeasure operations are expected to entail the use of amphibious platforms to rapidly insert troops at flashpoints. In addition to such regional security operations, the Navy is also involved in several peacekeeping operations that require amphibious ships to land infantry troops in troubled regions. As per AgileIntel estimates, spending on this sector is expected to increase at a robust CAGR of XX% till 2025.

Transport Aircraft: With the need to replace its fleet of Douglas C47 Dakotas, South Africa is actively looking for maritime surveillance aircraft options. However, AgileIntel predicts the eventual purchase of multi-mission aircraft, such as the Airbus C-295, which is a light transport aircraft with maritime patrolling capabilities. With the country's defense budget currently under scrutiny, such procurement will provide a more suitable alternative, to address multiple requirements at affordable costs. The SAAF also continues to operate its fleet of C130BZ Hercules as its primary airlift and transport aircraft. With an average age of over 50 years, these aircraft are now approaching the end of their serviceable lives. Options to replace this fleet of transport aircraft include Airbus's A400 and Lockheed Martin's C130BZ Hercules.

UAVs: The next decade is expected to witness significant spending on UAV platforms for use in a wide variety of roles within the South African military, as well as civilian areas. Most of the UAVs being inducted are expected to be surveillance and reconnaissance platforms, with the Bataleur and Seeker 400 being the most likely choice. These platforms will be used for will be used for peacekeeping missions and non-military applications, such as crime prevention, border patrol, disaster management, election monitoring, as well as search and rescue.