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**Iñigo Guevara Moyano
Latin American Defense Analyst**

November 2010

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The views expressed in this research paper are those of the author and do not necessarily reflect the official policy or position of the US Government, Department of Defense, US Southern Command or Florida International University

EXECUTIVE SUMMARY

The Andean and the Amazon, comprised of Venezuela, Colombia, Bolivia, Brazil, Peru and Ecuador, have recently undertaken significant modernization efforts ranging from equipment, logistics, doctrine, training, deployment and the re-definition of the roles and missions of their forces. In most cases, motivations to modernize have been internal, such as continuing operations against armed groups as in the case of Colombia and Peru, enhance border control and sovereignty enforcement, as in the case of Ecuador and Brazil or regime control in Venezuela. However, they are complemented by perceptions of external threats, including traditional intra-state conventional wars. The increased tensions between Colombia and Venezuela and Ecuador as well as the historic Peru-Chile tensions are the most salient examples. Although diplomacy -especially defence diplomacy- has worked to a good degree in creating and strengthening confidence building measures, the potential for inter-state conflict is higher in this region of the Americas.

This region has seen the recent emergence of long-term modernization plans, initially in Colombia followed by Venezuela and Ecuador and probably best embodied in scope and scale by the Brazilian National Defence Plan (for its long term vision). Although it has been speculated that the high allocation of funds to retirement pension systems has had an impact on delaying modernization plans, this comparative study on the allocation of pension and social funds in these particular countries concludes that there is no direct linkage between the poor funding of military modernization plans and the diversion of funds to military pension systems.

INTRODUCTION

In recent years, the governments of the Andean and Amazonian regions have all engaged in military modernization programs with varying levels of implementation and effectiveness. In most cases, funding has been an issue. Colombia, Venezuela and most recently, Brazil have been the countries least affected by it. In the case of Colombia, it has received U.S. funding as well as its own resources through imposition of special taxes and a dynamic economy. In the case of Venezuela it has been possible due to the allocation of funds coming from its oil revenues, while Brazil's financing have resulted from long-term investment, credits and policies seeking to draw foreign investment into its defense industry. In the Brazilian case, defense development is linked to national development.

In general, transparency in the procurement process has recently been somewhat improving. This has reduced the opportunities for the political opposition to use allegations of corruption as a means to destabilize governments.

An additional factor that requires greater review and that can be of important influence in military modernization efforts is the cost of military pensions. Funding for military pensions continue to draw upon a large percentage of Latin American military defense budgets. Military pension costs are directly associated with political power holders and their ensuing governmental policies. The fact that funding military pensions represents a permanent national cost that must be approved through a political process further complicates their management, budget allotment, and distribution.

This paper will thus look at the Armed Forces' allocation of funding for pensions and other administrative expenses in the Andean and Amazon regions (Colombia, Venezuela, Brazil, Ecuador, Bolivia, and Peru), and the impact of such expenses on a country-by-country basis. It will provide an

analysis of pension costs as a percentage of the overall defense budget. The comparison will enable observers to identify current trends, both in regards to budget allocation and long-term funding of force modernization.

This country-by-country study also provides an opportunity to evaluate the different outcomes of similar percentages allocated for pensions. It will outline local political and socio-economic implications of pension plans and identify long-term effects or challenges posed to the modernization efforts of specific countries.

COLOMBIA

Colombia's defense budget is one of the most complex in the region. During the past six years, its methodology has changed in various efforts to consolidate, add or re-define some concepts. For example, a Coast Guard Service was created and went into the budget as a separate entity from the Navy in 2007. Also, health services are considered as part of the active duty forces' operational costs but are listed separately in the budget in order to allow for its individual analysis.

The overall budget includes funding for state-run defense industries, more than a dozen or so parallel agencies and funds designated as benefits for members of the Armed Forces, the National Police and the Defense Ministry.

The budget assigned to the Armed Forces has increased more than 65% in real terms from 2005 to 2008. The same period (2005-2008) shows that funding for pensions has increased consistently –also in real terms- by more than 25%. This disparity reflects the focus of defense budget increases on manpower as well as new equipment. If the increased (and increasing) manpower levels continue in the long term it will eventually lead to a disproportional assignment of funds to pensions. A de-mobilization program would need to be

implemented once Colombia's internal security situation allows for a decrease in the size and composition of its military and national security forces, an inevitably costly endeavor.

Table CO1 provides us with a 6-year breakdown of Colombia's National Defense spending, including the National Police (which derives its funding from the Ministry of Defense).

TABLE CO 1: COLOMBIAN DEFENSE BUDGET

Millions of Pesos	2005	2006	2007	2008	2009	2010
Ministry of Defense	644,533	740,806	749,193	907,875	992,274	1,200,061
Joint Forces Command	38,435	43,389	58,941	73,638	64,473	68,391
Army	3,185,857	3,788,692	4,098,334	5,368,848	5,441,961	5,265,566
Navy	639,252	693,327	842,736	1,450,741	1,526,857	1,496,952
Air Force	679,960	758,166	801,604	1,650,909	1,442,404	1,233,097
National Police Commissioner	6,787	6,921	7,233	0	0	0
Health - Military Forces	364,244	408,825	477,136	534,908	621,043	649,589
DIMAR (Coast Guard)			36,168	43,531	47,458	50,134
Military Forces Total	5,559,068	6,440,126	7,071,345	10,030,450	10,136,470	9,963,790
National police	2,934,567	3,262,044	3,638,686	4,450,317	4,925,277	5,114,571
Health services - National police	322,306	368,670	412,497	470,805	578,470	584,378
Total armed forces centralized budget	8,815,941	10,070,840	11,122,528	14,951,572	15,640,217	15,662,739
Military Housing	26,567	27,452	27,390	30,238	28,217	32,219
Civil Defense	8,895	10,467	12,427	13,716	18,798	20,327
Officer Club	23,486	25,055	26,568	29,473	32,494	37,517
NCO Circle				36,737		
Gustavo				5,195		

TABLE CO 1: COLOMBIAN DEFENSE BUDGET CONTINUED...

Matamoros corporation						
Rotating fund Army	227,516	219,037				
Rotating fund Navy	100,879	71,553				
Rotating fund Air Force	67,238	40,614				
Rotating fund Nat Police	292,921	120,765	77,689	82,118	123,170	288,242
Private Security Oversight	4,741	5,136	5,313	7,440	7,780	13,835
Military Hospital	125,867	147,667	150,092	157,189	191,391	192,583
Military Logistic Agency			282,103	305,502	341,443	451,245
Decentralized units (not including pension)	878,110	667,746	581,582	667,608	743,293	1,035,968
Total Defense Spending (without pensions)	9,694,051	10,738,586	11,704,110	15,619,180	16,383,510	16,698,707
Pensions	800,295	880,794	965,576	1,123,282	1,247,841	1,409,612
Pensions Nat Police	960,256	1,073,352	1,197,076	1,345,715	1,583,756	1,783,495
Pensions Total	1,760,551	1,954,146	2,162,652	2,468,997	2,831,597	3,193,107
Decentralized defense + pensions	11,454,602	12,692,732	13,866,762	18,088,177	19,215,107	19,891,814
Defense Industries	902,991	902,991	798,144	1,075,608	974,650	994,717
Housing fund	1,448,683	1,448,683	3,205,463	3,030,850	3,727,211	2,269,414
Nueva Granada Military University				76,008		
Sub Total Associated agencies	2,351,674	2,351,674	4,003,607	4,182,466	4,701,861	3,264,131
Total Defense	13,806,276	15,044,406	17,870,369	22,270,643	23,916,968	23,155,945
% of pensions	12.75%	12.99%	12.10%	11.09%	11.84%	13.79%

Source: Elaborated by author from information contained in the Presupuesto de Defensa 2005-2010, Ministerio de Defensa Nacional for each year plus inflation average provided by IMF as a point of reference.

The overall proportion of social expenditures in Colombia's defense budget has remained constant, averaging 12.4% over the past six years. This six-year average has also remained consistent with the budget increases allocated to the armed forces as well to total defense spending.

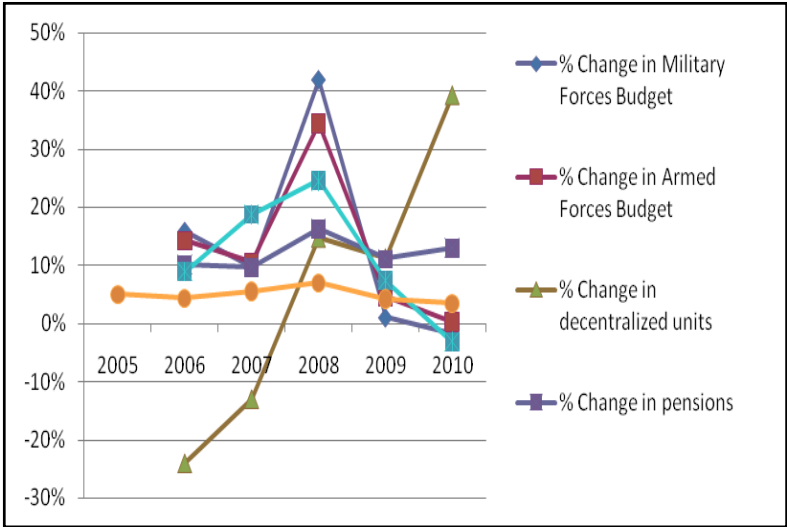
TABLE CO 2 COLOMBIA: ANNUAL CHANGES IN SPECIFIC ACCOUNTS

	2005	2006	2007	2008	2009	2010
% Change in Military Forces		15.85%	9.80%	41.85%	1.06%	-1.70%
% Change in Armed Forces		14.23%	10.44%	34.43%	4.61%	0.14%
% Change in decentralized units		-23.96%	-12.90%	14.79%	11.34%	39.38%
% Change in pensions		10.06%	9.63%	16.33%	11.09%	12.96%
% Change in Total Defense Spending		8.97%	18.78%	24.62%	7.39%	-3.18%
Inflation, average consumer prices (Percent change) (IMF)	5.05%	4.30%	5.54%	7.00%	4.20%	3.50%

Source: Elaborated by author from information contained in the Presupuesto de Defensa 2005-2010, Ministerio de Defensa Nacional for each year plus inflation average provided by IMF as a point of reference

Trends regarding funding for specific and aggregated sectors of the budget can be better appreciated by table CO3 (below), with the changes in funding of pensions the most stable among them.

TABLE CO 3: CHANGES TO THE SPECIFIC ACCOUNTS OVER THE PAST 6 YEARS.



Source: Elaborated by author from information contained in the Presupuesto de Defensa 2005-2010, Ministerio de Defensa Nacional for each year plus inflation average provided by IMF as a point of reference.

VENEZUELA

Since 2004, the Venezuelan Armed Forces have embarked upon a major military modernization program. This has translated into vast amounts of equipment being acquired primarily from Russia, China and Spain. As in the case of Colombia, it has resorted to large-scale increases in manpower strength. Unlike Colombia, its stated intentions are that of external defense and not internal security. However, its defense expenditures have funded forces and equipment for both purposes given the types of forces and units that have been established.

Venezuela’s National Budgeting systems includes social security expenses into a single account designated “transfers and donations”. This account groups pensions, retirement expenses, scholarships, year-end bonuses for pensioners,

subsidies to public and private foundations, donations to international funds and transfers to the national social security and benefit system. This last transfer constitute about 87-93% of the total account over the past six years.

The Transfers and Donations account increased considerably (over 230%) from 2005 to 2008, from 633 billion to 1.5 trillion bolivares. However, from 2009 and 2010 published figures, this expense seems to have decreased and is stable at around 1.3 trillion. With recorded inflation of close to 30% annually for 2008 to 2010, it would indicate that the 2010 expense committed to social security is comparable in real terms, if not larger than its 2005 equivalent. In proportionate terms, the 2009 and 2010 allocation to social security is smaller than that of previous years, including 2005.¹

¹ Ibid., Guevara, Iñigo, Pgs. 21 and 22

TABLE VE1: VENEZUELA DEFENSE BUDGET

M Bolivares	2005	2006	2007	2008	2009	2010
Personnel	1,855,754, 191,170	2,491,624, 313, 630	3,351,022, 486,366	4,152,199, 765	6,075,853, 577	6,074,208, 708
Material	190,683, 176,038	112,351, 418,972	217,880, 581,887	650,029, 557	722,901, 790	582,004, 123
Non-personal services	117,187, 084,122	133,287, 973,964	278,631, 456,954	496,825, 744	501,809, 728	422,228, 233
Capital investments	500,363, 485,750	598,712, 017,812	286,879, 256,753	166,307, 181	223,929, 420	136,705, 451
Defense expenses		96,936, 180,079	110,185, 771,559	134,915, 664	136,508, 638	103,962, 180
Other payments	10,000, 000	34,396,87 1,073	0	14,301, 000	10,726, 321	7,240,720
Sub Total Defense Spending	2,663,997, 937,080	3,467,308, 775, 530	4,244,599, 553,519	5,614,578, 911	7,671,729, 474	7,326,349, 415
Pensions & expenses associated	633,621, 423,317	1,007,212, 024,470	1,273,115, 973, 593	1,506,697, 045	1,306,601, 572	1,277,944, 032
Total Defense Spending	3,297,619, 360,397	4,474,520, 800, 000	5,517,715, 527,112	7,121,275, 956	8,978,331, 046	8,604,293, 447
% of social security	19.21%	22.51%	23.07%	21.16%	14.55%	14.85%

Source: Elaborated by author from information contained in the Resúmen de la Distribución General de la Ley del Presupuesto for each year.

Although published defense spending seems to have decreased in Venezuela for 2010, actual defense spending is thought to be considerably higher. The activation of a new forces and the constantly increasing size of the Bolivarian Militia in accordance with the Venezuelan government's stated long term expansion goals, would indicate a much higher proportion of investment is needed to support it. However, based on published data, the proportion of funds assigned to the social services decreased by 13% in 2009, and again by 2% for 2010. This data assumes an inflation of 27% for 2009 and close to 30% for 2010.

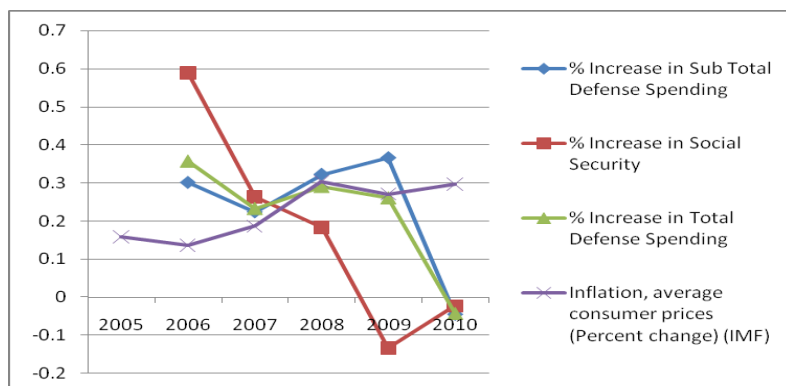
The non-social security defense budget did not decrease in 2009. It actually increased over 36% in nominal terms. This would indicate that the increase assigned to the active duty force was slightly greater to that assigned to pensions, which decreased in nominal terms by 13%.

TABLE VE2 VENEZUELA: ANNUAL CHANGES IN SPECIFIC ACCOUNTS

	2005	2006	2007	2008	2009	2010
% Increase in Sub Total Defense Spending		30.15%	22.42%	32.28%	36.64%	-4.50%
% Increase in Social Security		58.96%	26.40%	18.35%	-13.28%	-2.19%
% Increase in Total Defense Spending		35.69%	23.31%	29.06%	26.08%	-4.17%
Inflation, average consumer prices (Percent change) (IMF)	15.96%	13.65%	18.70%	30.37%	27.08%	29.68%

Source: Elaborated by author from information contained in the Resumen de la Distribución General de la Ley del Presupuesto for each year plus inflation average provided by IMF as a point of reference.

TABLE VE3 VENEZUELA: CHANGES TO THE SPECIFIC ACCOUNTS OVER THE PAST 6 YEARS



Source: Elaborated by author from information contained in the Resumen de la Distribución General de la Ley del Presupuesto for each year 2005 to 2010 plus inflation average provided by IMF as a point of reference.

ECUADOR

Beginning in 1928, Ecuador was the first Latin American country to develop a social service institution.² In 1992 the armed forces created the Instituto de Seguridad Social de las Fuerzas Armadas (ISSFA), an institution responsible for providing social services to active duty and retired military personnel. These services include administering pensions, providing credits, housing and financial savings plans and health insurance.

In 2008 there were rumors about changes in funding to the ISSFA, which generated dissent among some sectors of the Ecuadorian military.³ The issue of sustainability has been raised on several occasions, leading President Rafael Correa to announce in January 2010 that the rumors (again) to disband the ISSFA and have the larger government social security institute (IESS) absorb its responsibilities were inaccurate.⁴ According to President Correa, for every pensioner in the IESS there are 5 or 6 active employees, while in the ISSFA for every pensioner there are two soldiers. This makes the ISSFA system unsustainable; compelling the Government to provide subsidies amounting to about 60% of its total budget.

NOTE ON DATA AVAILABILITY

The Ecuadorian reporting system is complex, inconsistent and opaque. Defense budgets are broken down through a review of various sources that are available at the Ministry of Finance's transparency page. When attempting to access

² History of the Ecuadorian Social Services Institute, webpage last modified on 26 May 2010, accessed on 10 September 2010.

http://www.issfa.mil.ec/index.php?option=com_content&view=article&id=9&Itemid=63

³ FFAA debaten por reformas al Issfa, 19 December 2008 <http://www.hoy.com.ec/noticias-ecuador/ffaa-debaten-por-reformas-al-issfa-324589.html>

⁴ Presidente ecuatoriano niega eliminación de sistema de seguridad social de la fuerza pública, ANDES/GC, 25 January 2010 <http://andes.info.ec/tema-del-dia/presidente-ecuatoriano-niega-eliminacion-de-sistema-de-seguridad-social-de-la-fuerza-publica-1159.html>

them, there are “dead ends” (error 404 Not Found) or incomplete sites. The Ecuadorian Ministry of Finance’s webpage’s FAQ’s, for example, states that the budgets from 2004 are available at the following address and there is no link to provide such information.⁵ In other cases, the information is provided only for a specific month; either from January to April or from January to September, with no further information available.

The data that is available reflect inconsistent allocations. In 2007 it reports a total social services allocation of USD 216 million, for 2008 it reports USD 627 million, (a 190% increase) and while there are no figures available for 2009, the 2010 budget reports USD 852 million (a 35% increase compared to 2008).

⁵http://mef.gov.ec/portal/page?_pageid=1965,240883&_dad=portal&_schema=PORTAL
dates accessed August 17, September 12, September 25, 2010

TABLE EC1: ECUADORIAN DEFENSE BUDGET FIGURES

USD	2007	2008	2009	2010
Ministry of Defense	773,000,000	861,432,483	1,112,721,492.76	826,873,247
NSC	NA	5,468,010	1,631,910	NA
Natural Resources Sensoring	NA	27,759,521	4,496,837	NA
Military Hospital	NA	24,562,924	27,061,745	NA
National Defence Committee	NA	98,898,099	0	NA
Antarctic Institute	NA	673,448	718,035	NA
Military Justice System	NA	979,059	0	NA
Military Education	NA	45,360,569	0	NA
Panamerican Institute of History and Geography	NA	NA	292,904	NA
Military Intelligence	NA	NA	839,81.50	NA
Geographic Military Institute	NA	NA	25,043,795	NA
Army Engineer Corps	NA	NA	29,607,717.16	NA
Bolivar Port Authority	NA	NA	9,961,454.22	NA
Esmeraldas Port Authority	NA	NA	2,604,600.75	NA
Guayaquil Port Authority	NA	NA	52,691,508.08	NA
Manta Port Authority	NA	NA	4,094,539.70	NA
Special Interagency Commission of the port project to transfer	NA	NA	8,933,061.79	NA
Sub Total Defense Spending	773,000,000	1,164,603,618	1,279,859,600	1,294,206,272
Benefits including retirement, funeral, health insurance, housing, savings	81,856,160		NA	
Pensions	134,177,723		NA	352,625,992
Sub Total Social services	216,033,883	627,623,881	NA	852,661,612
Total Defense Spending	989,033,883	1,792,227,499	1,279,859,600	2,146,867,884
Proportion of pensions	13.6%	0.0%	NA	21.0%

**TABLE EC1: ECUADORIAN DEFENSE BUDGET FIGURES
CONTINUED:**

Proportion of social services	21.84%	35.02%	NA	50.77%
% Increase in Sub Total Defense Spending		81.21%	-28.59%	67.74%
% Increase in pensions		NA	NA	NA
% Increase in Total Defense Spending		81.21%	-28.59%	NA
Inflation, average consumer prices (Percent change) (IMF)	2.28%	8.40%	5.10%	4%

Source: Elaborated by author from budget statements published by the Ecuadorian Ministry of Finance, and based on average consumer prices defined by the IMF.

PERU

The Peruvian Government re-organized its accounting classification system in FY 2009. This had two effects on accounts related to healthcare and social services: 1) it grouped a series of expenses related to healthcare and education under a single Healthcare category, and 2) merged the two accounts that comprised social services provisions and pensions into a single account known as Prevision Obligations. The new accounting system also began separating the expenses caused by a reactivation of internal security operations, particularly those carried out in the Apurimac River and Ene Valley River (VRAE) region, from those related to national defense. From 2009 to 2010 these expenses almost tripled.

Healthcare expenses saw the most dramatic increase since 2009, with its budget increasing from 34 million to 157 million. The combined social services and pension obligations have accounted for an average of 25% over the past six years, with little significant variance as a proportion of the overall expense. However from 2009 it saw a nominal increase of 10%.

TABLE PE1 PERU: DEFENSE BUDGET

Nuevos Soles	2005	2006	2007	2008	2009	2010
Defense And National Security	2,520,605,166	2,543,351,977	2,706,334,321	3,001,460,311	3,058,440,277	3,694,508,669
Internal Security	0	0	0	0	159,787,120	452,394,125
Educa-tion	38,438,864	33,929,362	38,667,878	41,166,718	71,914,143	76,266,013
Public Debt	8,400,000	9,246,600		0	0	19,005,542
Sub Total Defense Spending	2,567,444,030	2,586,527,939	2,745,002,199	3,042,627,029	3,290,141,540	4,242,174,349
Social Services And pensions	955,013,719	1,001,905,416	1,045,494,597	1,080,749,284	1,069,931,000	1,073,768,784
Health care	32,039,627	34,527,969	34,273,583	34,000,560	157,519,868	171,316,471
Sub total social spending	987,053,346	1,036,433,385	1,079,768,180	1,114,749,844	1,227,450,868	1,245,085,255
Total Defense Spending	3,554,497,376	3,622,961,324	3,824,770,379	4,157,376,873	4,517,592,408	5,487,259,604
% of Social Spending	27.77%	28.61%	28.23%	26.81%	27.17%	22.69%

Source: Elaborated by author from data published by the Ministerio de Economía y Finanzas yearly from 2005 to 2010.

The expense related to healthcare, which includes the administration and operation of military hospitals, diagnosis and treatment services, basic health services, advanced medical attention and risk prevention campaigns increased by 363% for FY2009 and stabilized in 2010. None of the changes in funding seem to correlate to rates of inflation, but reflect specific government policies.

TABLE PE2 PERU: ANNUAL CHANGES IN SPECIFIC ACCOUNTS

Nuevos Soles	2005	2006	2007	2008	2009	2010
% in Sub Total Defense Spending		0.7%	6.1%	10.8%	8.1%	28.9%
% in social services and healthcare		5.00%	4.18%	3.24%	10.11%	1.44%
% in Total Defense Spending		1.93%	5.57%	8.70%	8.66%	21.46%
Inflation, average consumer prices (Percent change) (IMF)	1.62%	2.00%	1.78%	5.78%	2.94%	1.55%

In 2004, Peru announced an ambitious comprehensive military modernization program encompassing its Naval, Army and Air Force branches. Despite this, most of the proposed purchases have either failed to materialize or have been scaled back considerably. From October 2009 the Peruvian government halted the procurement of conventional weapons as a diplomatic effort to head off a regional arms race.⁶

In September 2010, the Peruvian government also announced that it intended to increase the military and national police's salaries by almost double, within the next 5 years.⁷ This would require the reform of the so-called Cedula Viva⁸ (a decree by which pensioners benefits automatically correspond to active duty increases), in order for the state to be able to sustain it. Regarding procurement for 2011, the Minister of Economy and Finance, Mercedes Araoz, announced that Peru would continue with the

⁶ EFE, Gobierno anuncia cruzada internacional contra el armamentismo en la región, El Comercio, 16 October 2009, <http://elcomercio.pe/noticia/355453/gobierno-peruano-anuncia-cruzada-internacional-contra-armamentismo-latinoamerica>

⁷ Los Andes, Presidente Garcia promete doblar sueldos a policías y militares, 06 September 2010, Los Andes, <http://www.losandes.com.pe/Nacional/20100906/40499.html>

⁸ For more on this see Law Decree 20530 <http://www.monografias.com/trabajos16/ley-cedula/ley-cedula.shtml>

acquisition of equipment approved by the National Security Council.⁹

BRAZIL

Brazil has by far the largest defense establishment in the region. This is no accident as its economy, population and territory equal that of about half of South America. During the administration of President Luíz Inácio ‘Lula’ da Silva, the armed forces embarked upon a large modernization program featuring an unprecedented procurement agenda. This modernization program has been linked to a national development policy, where possible, and has successfully translated into a number of offset agreements, foreign direct investment, technology transfers, joint ventures and license production agreements.

The real increase to defense spending in from 2005 to 2010 has been over 40%, after taking inflation into account. When analyzed comparatively, the pension and the non-pension section of the budget both share similar six-year increases, with the non-pension component slightly larger.

The proportion of the Brazilian defense budget dedicated to the payment of pensions to military and civilian personnel is one of the largest in the region with a constant of approximately 46%. Despite this commitment, Brazil has managed to fund the largest and most ambitious defense modernization program in the region.

⁹ Araújo asegura importantes aumentos a policías y militares con reforma de la Cédula viva, El Comercio, 04 September 2010 <http://elcomercio.pe/noticia/633835/araoz-asegura-considerables-aumentos-policias-militares-reforma-cedula-viva>

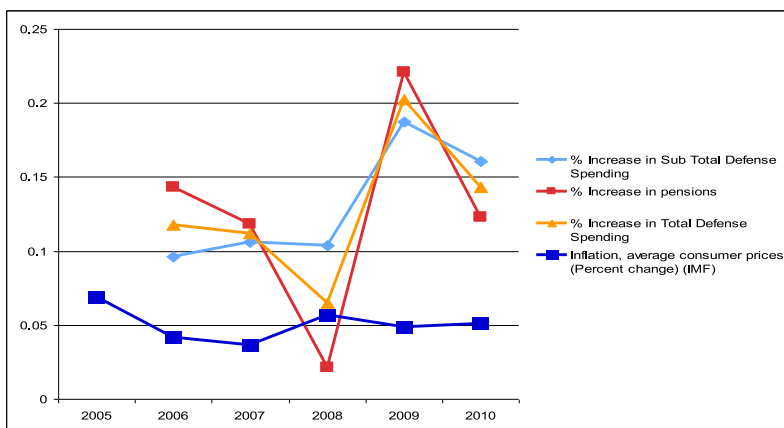
TABLE BR1 BRAZIL: DEFENSE BUDGET

\$ Reales	2005	2006	2007	2008	2009	2010
Sub Total Defense Spending	17,468,483,586	19,153,408,503	21,186,236,125	23,384,698,906	27,764,860,345	32,230,361,663
Payment of pensions	14,805,310,451	16,928,565,619		19,344,877,851	23,617,046,510	26,525,303,299
Total Defense Spending	32,273,794,037	36,081,974,122	40,122,657,557	42,729,576,757	51,381,906,855	58,755,664,962
% of pensions	45.87%	46.92%	47.20%	45.27%	45.96%	45.15%
% Increase in Sub Total Defense Spending		9.65%	10.61%	10.38%	18.73%	16.08%
% Increase in pensions		14.34%	11.86%	2.16%	22.08%	12.31%
% Increase in Total Defense Spending		11.80%	11.20%	6.50%	20.25%	14.35%
Inflation, average consumer prices (Percent change) (IMF)	6.88%	4.20%	3.64%	5.67%	4.90%	5.10%

Source: Elaborated by author from data on Annual Expenditures approved in the Brazilian Federal Senate for the years 2005 to 2010.

The non-pension budget for the armed forces has increased consistently since 2005, with a spike in growth for 2009 and 2010, as these two years have witnessed several long-term procurement projects as well as some short-term stop gap programs have been realized. Also, 2009 registered a spike in the allocation of funds for pensions and this may effectively compensate for the very low figure increase for 2008. From 2010 the proportional increase of pensions seems to have stabilized to pre-2008 levels.

TABLE BR2 BRAZIL: ANNUAL CHANGES IN SPECIFIC ACCOUNTS



Source: Elaborated by author from statistics obtained from documents consulted in government sources cited in each country section.

BOLIVIA

In the Bolivian military all social security obligations are administered by a de-centralized institution known as the Corporación de Seguro Social Militar (COSSMIL) since 1974.¹⁰ This includes healthcare coverage for all active professional troops and passive (reserve) personnel, and active duty conscripts. The most recent reform to COSSMIL has been a modification undertaken in December 2009 allowing for the election of its authorities by its affiliated

¹⁰ Decreto de Ley 11901; Ley de Seguridad Social Militar, October 1974

members.¹¹ Pensions have been administered since May 1, 1997 by Pension Fund Administrators.¹² According to the Observatorio Boliviano de Empleo y Seguridad Social, funding for military pensions comes from a 2% “voluntary” tax on active duty personnel.¹³

From Table BO1 the trends for social security expenses for the Ministry of Defense indicate an increasing commitment of an average of 18.32 % over the past 6 years with very low year-to-year variance, in proportion. This indicates that it is linked, as the nominal appropriations have varied considerably, in 2009 for up to 11%.

¹¹ Cosmil posesiona primer directorio electo después de 35 años de creación, ABI, December 14, 2009

¹² Resolution SP 001/97

¹³ Cosmil depositó en cuentas privadas Bs 12 millones, OBESS, <http://www.cedla.org/obess/node/488> , August 14, 2007

BO1 - BOLIVIA: DEFENSE BUDGET

Bolivianos (Bs)	2005	2006	2007	2008	2009	2010
Ministry of Defense	1,054,281,137	1,097,324,981	1,130,060,004	1,192,735,442	1,335,736,963	1,508,142,906
Military Engineering School	35,310,982	36,058,708	33,636,255	52,101,885	57,348,837	68,274,055
Army Engineer Command	4,230,861	4,230,861	50,042,366	75,794,913	160,052,164	140,020,667
Naval Hidrography service	486,000	486,000	100,520	363,700	4,099,000	4,012,758
Aerophotogrametry Service	3,220,000	3,505,613	2,500,917	2,500,000	2,464,617	4,005,958
Geodesic service maps	554,884	554,884	576,983	596,943	622,123	645,533
% Increase Defense Spending (no pensions)	1,098,083,864	1,142,161,047	1,216,917,045	1,324,092,883	1,560,323,704	1,725,101,877
Pensions	242,666,916	262,222,592	282,844,719	309,500,174	343,479,309	360,426,435
Total Defense Spending	1,340,750,780	1,404,383,639	1,499,761,764	1,633,593,057	1,903,803,013	2,085,528,312
Pensions as a proportion	18.10%	18.67%	18.86%	18.95%	18.04%	17.28%

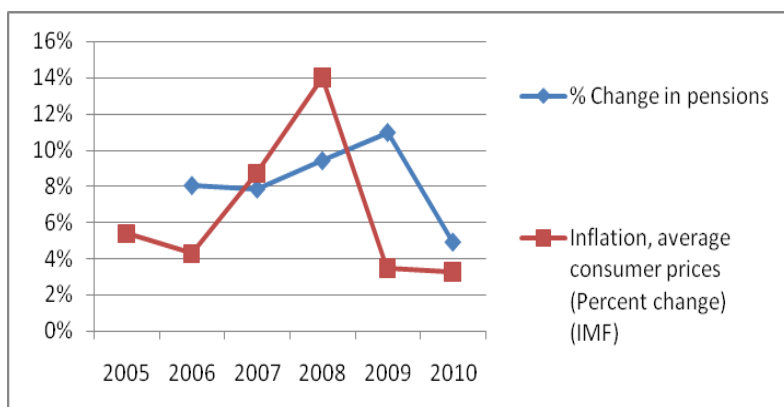
Source: Elaborated by author from data published in the Bolivian State Budgets for 2005 to 2010, Ministry of Economy and Public Finance

Overall, spending on social services has increased when compared to inflation, and this seems to be directly related to previous year variances and inflation rates. Yet this does not seem to clearly define its proportions. For instance, in 2006 and 2007 the increase in pensions was above the inflation rate of their respective prior commitments in 2005 and 2006. They seem to follow a trend that is corroborated in the 2007-2008 time period (2008 increase being above 2007's inflation), while the 2009 increase in pensions seems to continue this trend, yet falls short of the 2008 inflation rate. This may be due to the 2009 international economic crisis rather than a change in policy, as the 2010 increase seems to follow previous trends in being slightly above the recorded 2009 inflation rate. We can predict that with all other variables remaining constant, the 2011 budget allocation for pensions will be 4.5 to 5% higher than 2010.

TABLE BO2: ANNUAL CHANGES IN SPECIFIC ACCOUNTS

	2005	2006	2007	2008	2009	2010
Pensions as a proportion	18.10%	18.67%	18.86%	18.95%	18.04%	17.28%
% Increase in Sub Total Defense Spending		4.01%	6.55%	8.81%	17.84%	10.56%
% Change in pensions		8.06%	7.86%	9.42%	10.98%	4.93%
% Increase in Total Defense Spending		4.75%	6.79%	8.92%	16.54%	9.55%
Inflation, average consumer prices (Percent change) (IMF)	5.39%	4.28%	8.71%	14.01%	3.46%	3.26%

Source: Elaborated by author from data published in the Bolivian State Budgets for 2005 to 2010, Ministry of Economy and Public Finance plus Inflation, average consumer prices data available from the IMF.

TABLE B3: CHANGES TO THE SPECIFIC ACCOUNTS OVER THE PAST 6 YEARS

Source: Elaborated by author from data published in the Bolivian State Budgets for 2005 to 2010, Ministry of Economy and Public Finance plus Inflation, average consumer prices data available from the IMF.

When compared to non-social service defense expenditures, the increase in social services expenditure falls short. The Bolivian defense budget has recorded a nominal increase of 57% in the 2005-2010 timeframe. Pensions have received a boost of 48% in the same period. Inflation in the 2005-2009 period has been recorded at 35.8%, which would indicate that pensions have increased in real terms around 12.2%. Again, this has no direct relation with individual pensions, as this study seeks to identify the proportion of pensions in respect to overall defense expenditures, not the value of individual pensions.

CONCLUSION

The proportion of defense budgets dedicated to the funding of pensions in the Andean and Amazon region are considerably heterogeneous, ranging from an average of 12% in Colombia to 46% in Brazil, as identified in following table.

ANNUAL PROPORTION OF DEFENSE BUDGETS ASSIGNED TO SOCIAL PENSIONS AND OTHER RELATED SOCIAL PROGRAMS.

	2005	2006	2007	2008	2009	2010	Multi-year average
Bolivia	18.1%	18.7%	18.9%	18.9%	18.0%	17.3%	18.3%
Brazil	45.9%	46.9%	47.2%	45.3%	46.0%	45.1%	46.06%
Colombia	12.8%	13.0%	12.1%	11.1%	11.8%	13.8%	12.43%
Ecuador	NA	NA	21.8%	35.0%	NA	39.7%	32.19%
Perú	27.8%	28.6%	28.2%	26.8%	27.2%	22.7%	26.88%
Venezuela	19.2%	22.5%	23.1%	21.2%	14.6%	14.9%	19.23%

Source: Elaborated by author from data obtained from documents consulted in government sources cited in each country section.

However heterogeneous, only in the Peruvian case have modernization efforts been openly restrained due to expenses related to pensions, due to legislation linking pensions to active duty salaries, therefore making any attempt to increase funding for the Armed Forces fiscally unviable. Despite this, funding for new equipment destined to meet the requirements of its forces has eventually been obtained.

In the case of Ecuador, the Armed Forces have undergone a limited procurement process that has sought to address the degradation of its capabilities, particularly in the northern border with Colombia. This effort has not been frustrated by or directly linked to the high cost of social programs in the country's defense budget. In the Bolivian case, the modernization program has taken longer to come into effect, mainly due to lack of financial resources, but these are not necessarily related to its pension system.

In the cases of Colombia, Brazil and Venezuela, they have all initiated modernization and re-organization projects that have been successfully implemented or are in the process of doing so. Therefore, there is no direct link between the proportion of defense budgets assigned to funding pensions and funding modernization.

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