2012-09

Private Financing of the Military: A Local Political Economy Approach

Jaskoski, Maiah

þÿSt Comp Int Dev (2013) 48:172 195
http://hdl.handle.net/10945/45113

St Comp Int Dev (2013) 48:172–195
DOI 10.1007/s12116-012-9119-2

Private Financing of the Military: A Local Political Economy Approach

Maiah Jaskoski

Published online: 2 September 2012

Abstract In developing countries that are democratizing after military rule, and undergoing liberalizing economic reforms that encourage a shrinking of the state, what missions are the armed forces performing, who funds those missions, who benefits from military services, and why? This article analyzes security provision by the armed forces for paying clients—especially private companies in extractive industries—in accordance with negotiations between clients and commanders of the local military units that directly provide the security. The analysis identifies two paths toward local military–client relations. First, weak state capacity may mean that government control of military finances brought by democratization and economic reform remains limited to the national level, promoting local military–client exchanges. Second, amid minimal government control of military finances, even in the capital city, demand from companies in the powerful extractive industries and from recently endowed subnational governments can encourage local military–client contracting.

Keywords Civil–military relations · Resource conflict · Security privatization · State capture · Subnational politics

Introduction

In developing countries that are democratizing after military rule, and undergoing liberalizing economic reforms that encourage a shrinking of the state, what missions are the armed forces performing, who funds those missions, who benefits from military services, and why? This article analyzes security provision by the armed forces for paying clients—especially private companies in extractive industries—in accordance with negotiations between clients and commanders of the local military

M. Jaskoski (✉)
Department of National Security Affairs, Naval Postgraduate School, Glasgow Room 396, 1411 Cunningham Road, Monterey, CA 93943, USA
e-mail: majaskos@nps.edu

units that directly provide the security. The analysis identifies and resolves a tension in the literature. On one hand, economic liberalism and democratization should chip away at the military's existing revenues and broaden (and enrich) its private client base, making entrepreneurship more attractive to the armed forces. However, on the other hand and complicating military–client relations, enhanced oversight of public finances is also predicted to accompany liberal economic reform and democracy.

This study takes a local political economy perspective of the Ecuadorian and Peruvian cases, examining army–client deals on the ground within a larger context that includes both interactions between local commanders and army leaders, and political and economic pressures on the armies at the national level. The article shows that weak state capacity may mean that government control of military finances brought by democratization and economic reform remains limited to the national level, promoting *local* military–client exchanges. The study's final section applies this framework to Indonesia and Nigeria. The two short case studies help test the article's central argument, and they point to an alternative path leading to local client influence, enabling us to construct a more comprehensive model of military entrepreneurship in the developing world.

A Local Political Economy Approach to Third-Party Financing

This analysis bridges three disparate research traditions that have observed private financing of the armed forces: work on civil–military relations, security privatization, and natural resource conflict. Specifically, the article addresses discord in the literature regarding whether or not the current democratic, neoliberal environment fosters third-party financing of militaries in Latin America, a region that has seen dramatic economic opening and sweeping democratization in recent decades.

One hypothesis derived from existing research is that neoliberal reforms and democratization push militaries to look for private clients, by cutting national defense budgets and expanding the private sector. With regard to the role of neoliberalism, liberal reforms should increase the power of private companies to purchase military services, influence that the security privatization literature has underscored. Employing the logic of the "rentier state," Avant (2005, pp. 180–181) argues that governments at the helm of weak states invite private international investors to subsidize state security forces and, in that way, avoid heavily taxing the public to pay for security. For their part, private corporations provide the subsidies in the interest of protecting company operations. While this model is problematic in that it takes for granted that militaries respond fully to national government decisions when in fact Latin American armed forces exhibit autonomy in security matters (Pion-Berlin and Trinkunas 2007), it does draw attention to private transnational companies' power, which should be exceptional in Latin America, given the region's widespread privatization of state-owned enterprises.[1] Indeed, Richani (2005) argues that neoliberalism has fed Colombia's internal conflict by bringing progressively more profits to private

[1] Between 1990 and 1997, proceeds generated from privatization in Latin America and the Caribbean amounted to over $116.5 billion, or 52.4 % of total privatization revenues of all developing countries (Corrales 2003, p. 90).

transnational companies operating in natural resource extraction because, from those profits, companies have compensated actors on all sides of the conflict, including the armed forces, for security.

If studies about security privatization and work on resource conflict bring to the fore how privatization as a component of neoliberalism transfers wealth and thus power to the private sector, research on Latin American civil–military relations has described the other side of the same coin: reduced defense spending as part of state cutbacks that come with liberal economic reforms (Marcella 1994, pp. 14–15; Cruz and Diamint 1998). Particularly germane to the present analysis, Cruz and Diamint (1998, see especially 118–119) argue that state downsizing has driven budget-hungry militaries to market their security services to private companies. The civil–military relations literature has also brought in democratization as a factor that encourages military budget cuts over time. Hunter (1997) finds that, following military rule, politicians seeking election have lowered defense spending relative to more popular investments, including social programs.

Though perhaps neoliberalism and democratization deplete national defense spending and lead the newly impoverished Latin American militaries to court the growing private sector for alternative funding, those same two phenomena could also advance government control of military finances, which would seem to interfere with contracts between the military and third parties. By definition, when militaries left government they formally handed civilians control of state, including military, finances. Furthermore, it is necessary to monitor military (and more broadly, state) resources in order to achieve the above-mentioned popular budget allocations and fiscal discipline supposedly brought on by democratization and economic opening. As discussed below, the International Monetary Fund (IMF)—the loan terms of which have encouraged and helped define neoliberal policies in the developing world—has reviewed and induced changes to the Ecuadorian government's formula for calculating the national budget. In Peru, we will see that a major part of democratization from the corrupt, militarized government of the 1990s was that elected policymakers improved budget transparency, including in the defense sector. Independent of any transparency brought on by democracy and neoliberalism in general, democratization *following military rule* encourages civilians in government to examine military budgets for another reason, as part of the effort to control the armed forces in post-transition civil–military power struggles (Stepan 1988, p. 95; Hunter 1997). In short, each of the two transitions, one, to a market economy, and the other, to democracy, logically should encourage Latin American armed forces to obtain third-party funding while also creating roadblocks to such behavior.

To resolve this tension, the following analysis treats the army as a complex organization in which commanders of local units make decisions. The article posits that the government will not necessarily be able to monitor those officers or their units. Whereas classifying countries as having strong or weak states serves Avant's analytic purposes, it does not capture how in Latin America the state can be strong in the capital city and weak elsewhere (O'Donnell 1993). Military units might operate autonomously vis-à-vis the central government especially in remote areas facing major security threats and known for little or no state presence. Ferreyra and Segura (2000) find, for instance, that the armed forces in Colombia and Mexico have became so deeply entrenched in local political and economic realities that local military action affected national regime type. The Ecuadorian and Peruvian cases suggest that a lack of government supervision of local military behavior has created an escape valve from the opposing pressures on the armed forces that neoliberal reform and democratization have caused, such that control of military finances has merely pushed military–client interactions to the local level.

Case Selection and Data Sources

The Ecuador–Peru pairing provides similarities and differences valuable for a comparative analysis of third-party financing of Latin American armed forces. First, consistent with regional trends, the two countries have experienced democratic transition and economic opening. Ecuador's transition from military rule occurred in 1979, though, as discussed below, major government efforts to achieve civilian control were ongoing over two decades later. The Peruvian military left power in 1980, and the post-2000 period has also been treated as a period of democratization with the conclusion of the elected but corrupt, repressive, and militarized government of Alberto Fujimori (1990–2000).[2] In both countries, the 1990s were the most intense period of liberal economic reform, including in the extractive industries.[3]

Second, in contrast to military institutions occupied mainly by on-base training, the Ecuadorian and Peruvian armies actively perform security work, making army interactions with clients more likely. Third, because much of the armies' overall activities take place in specific regions—northern Ecuador and insurgent zones in Peru's southern highlands—the cases permit close-up analysis of local army–client agreements while also making it possible to arrive at conclusions about the larger armies.

Fourth and finally, the armies' varied missions allow us to assess the influence of paying third parties in different ways. The Ecuadorian army performs various policing assignments, for example, crime fighting and control of popular unrest, in Ecuador's north. Clients there should thus compete for different army services, helping us identify which clients wield more power than others. In contrast, the Peruvian army's single mission in guerrilla zones is counterinsurgency.[4] Because Latin American militaries widely view combat against armed insurgents as a highly professional mission (e.g., Stepan 1973; Perelli and Rial 1996, p. 72), it is expected that third parties would find it difficult to hire an army to orient its counterinsurgency

[2] On the Fujimori government's authoritarian practices, see Rospigliosi (2000) and Carrión (2007).

[3] Peru's decisive turn toward a liberal economic model is well-known among experts on political economy in Latin America (e.g., Stokes 2001; Weyland 2002). Guasti (1983, pp. 187–192), Kay (1996), and Bury (2005) analyze private-sector involvement in Peru's extractive industries across time. Ecuador's most radical reforms were enacted under President Sixto Durán Ballén (1992–1996). Hey and Klak (1999) analyze the uneven nature of neoliberal reform in Ecuador from the 1980s through the 1990s. On the trajectory of private involvement in Ecuador's oil sector since oil was discovered in 1967, see Conaghan (1988, p. 85), Sawyer (2004, pp. 94–97), and Benton (2008).

[4] The author has analyzed the two armies' varied performance of police missions elsewhere (Jaskoski 2008).

services around their specific needs, making the Peruvian case a hard test of client influence.[5]

This article is based mainly on data collected during 2005 and 2006. The author conducted semistructured interviews with officers and civilians in multiple locations in the two countries. The sample of army officers consisted of 152 officers of all ranks. Ecuadorian army officers were interviewed in the capital city of Quito and on seven army bases from all four of the army's regional commands. In Peru, most army officers interviewed in the capital city of Lima were instructors and students from the army war college and from seven different service (e.g., cavalry, communications, infantry) schools. Interviews were also conducted on a key army base in a Peruvian insurgency zone. Outside of the two armies, the author interviewed over 170 journalists; academics; representatives of nongovernmental organizations; private-sector actors; navy, air force, and police officers; elected and appointed local and regional political officials; and officials from the US defense and state departments. Interview data were supplemented with information collected from newspaper and government archives, army doctrinal materials, and secondary sources. Follow-up research was carried out in the two countries in early 2009.

Assessments of army behavior are based on interviews with officers who had served in the units analyzed, as well as non-army actors familiar with the local settings. Where possible, the article triangulates across subjects, subject groups, and data sources. In order to protect the privacy of study subjects, this article does not identify them by name or interview date or location. (Mention of a specific army unit does not imply that the author visited it. During interviews, officers spoke of their current and prior assignments.)

Local Third-Party Financing of the Ecuadorian and Peruvian Armies

Local army commanders in the areas of Ecuador and Peru in which the armies are most active have decided when and where to provide security in response to resource transfers from clients, especially private hydrocarbon and mining companies. As summarized in Table 1, clients generally have reimbursed army units with in-kind payments, ensuring that army work has benefited them directly, thereby diverting the units from serving the public.

Ecuador: Policing for Hire

Since Ecuador's transition to democracy, northern Ecuador has faced two main kinds of insecurity. First, popular unrest over oil policies (e.g., Gerlach 2003; Sawyer 2004)

[5] As proof of the strong commitment of the Peruvian military in particular to counterinsurgency, in the 1980s and 1990s the military (primarily the army) was responsible for approximately 32 % of the nearly 70,000 deaths and disappearances resulting from Peru's internal conflict (Comisión de la Verdad y Reconciliación 2003, Compendio estadístico, 86). Of the 50 Peruvian army officers interviewed for this study who were asked to identify the most important activities of Peru's army, 34 mentioned counterinsurgency and/or external defense in their first three responses: 12 mentioned counterinsurgency, 12 others mentioned external defense, and 10 mentioned both.

Table 1 Local army–client deals in Peru and Ecuador

Case	Mission	Client	Payment
Northern Ecuador	Protest control	Private oil companies	Base improvements, communications equipment, food, fuel, lodging, vehicles
	Antinarcotics	US military	Communications equipment, patrol supplies, vehicles
	Rural security	Wealthy landowners; provincial prefects	Food, fuel, lodging, tires
	Urban security	Local mayors; provincial prefects	Base improvements, fuel
Peru's insurgency zones	Counterinsurgency	Private hydrocarbon and mining companies	Base improvements, communications equipment, food, lodging, patrol supplies

manifests itself in protests, mainly in the oil-rich northeast. Second, Colombian insurgents, primarily the Fuerzas Armadas Revolucionarias de Colombia, have used northern Ecuador to rest, resupply, and train for their fight against the Colombian state security forces and paramilitaries back home. The guerrillas do not carry out military attacks in Ecuador. Nonetheless, they have brought to the north insecurity—for example, contributing to the illegal drug trade, weapons trafficking, and kidnappings—which rose with the 2000 implementation of the Colombia–US Plan Colombia, a major military offensive against insurgents.[6] The Ecuadorian army reacted to this insecurity by sending more personnel to the north for the purpose of patrolling the border and fighting drug trafficking and general crime.[7]

Analysis of the behavior of all Ecuadorian army battalions stationed in the three northern border provinces (Sucumbíos, Carchi, and Esmeraldas), as well as the work of other key army units with security responsibilities in the north, reveals that local clients have helped to determine which missions Ecuadorian army brigade and battalion commanders in the north have performed. For instance, one local client has been US military personnel. To encourage the Ecuadorian army to perform antinarcotics and defend the northern border, shortly after the start of Plan Colombia, the US military began supplementing its relations with Ecuadorian military leadership in Quito with local, northern efforts. Ecuadorian army commanders in the north have ordered antinarcotics operations in response to urging by US military personnel and regularly have sought more material support from them. Army patrols have also provided security for wealthy landowners facing threats of crop and livestock theft, extortion, and kidnapping. (Those patrols have not been "public," as they have

[6] Andrade (2002), Montúfar (2003), and International Crisis Group (2004) also examine insecurity in northern Ecuador due to Plan Colombia.

[7] In 2001, the command center of the army's division responsible for army security in the northeast moved north to the city of Francisco de Orellana, in the northeastern province of Orellana. The army had added 7,000 personnel to the north as of September 2003 (*El Comercio* [Quito] 2003).

not provided security for the impoverished people who live within the same cantons as the paying, wealthy landowners.) Mayors and prefects have used local and provincial state resources, respectively, to pay local army units for anticrime patrols.

Oil companies have been the Ecuadorian army's most influential client in the north. Army commanders have negotiated with companies the terms by which their units provide security for wells, refineries, and pipelines in the face of popular protest and possible sabotage by protesters. More than 2,000 army personnel in the army's fourth division, which is tasked with providing security in the northeast, have concentrated continuously on oil security (*El Comercio* [Quito] 2007).[8] Within that division, the 19th brigade stands out for its oil work. The brigade is based in the province of Orellana, just south of Sucumbíos. All of the brigade's battalions have provided oil companies security, which fully occupies one of the brigade's remaining five combat forces and, at times, the other four combat units. In the province of Sucumbíos, which borders the war-torn Colombian department of Putumayo and thus is the province most affected by Colombia's conflict, oil takes priority. All battalions in the province (some belonging to the 19th brigade) have protected oil interests, and one of those units, in Shushufindi, has focused mainly on the mission. Adding to work by army personnel permanently stationed in the north, special forces units housed farther south in the highland city of Latacunga have set aside other assignments in order to rush to manage oil protests in the northeast. Importantly, *private* oil companies have influenced the army; where the state oil company Petroecuador remains active, local army units have tended to negotiate with Petroecuador's private contractors.[9]

Oil companies have been sufficiently influential to win out over other clients in competition for army services. For example, during protests in Dayuma, Orellana, in late 2007, US military representatives gave supplies to a local school. Their goal was to help satisfy local needs in order to quell the protests and thus free up the Ecuadorian army to turn to US priorities, antinarcotics and border defense efforts farther north. Oil companies' power is also greater than landowners' influence. The Esmeraldas unit provides considerable security for the private oil pipeline (of OCP Ecuador S.A.) but has done relatively little to protect landowners. In contrast, security deals with landowners have been vital to the battalion in Carchi, a province that lacks oil and associated infrastructure.

Peru: Counterinsurgency for Hire

Different from the Ecuadorian case, Peru's army has sold its security services to clients that demand protection against an internal guerrilla movement. In the 1980s and 1990s, Peru saw a major period of violent insurrection from the Maoist Shining

[8] This number represents a relatively large proportion of one division, as the four-division army is made up of approximately 34,000 personnel, according to a journalist with extensive experience reporting on Ecuador's military.

[9] Not all of the army's oil work has been arranged locally. During major protests, the national government has declared a state of emergency, bringing more military force to the northeast. Furthermore, for a period, military leaders contracted with oil companies (see below), though those national contracts left much to be negotiated at the local level.

Path (Sendero Luminoso). State security forces eliminated much of the armed threat by the mid-1990s, although Sendero has continued sporadically engaging in kidnapping and ambushing national military and police patrols in the Upper Huallaga Valley zone in the central highlands and, in the southern highlands, in the Valley of the Apurímac and Ene Rivers (VRAE), where the army most actively performs security operations.

Local representatives from private companies in the critical hydrocarbon and mining sectors have reimbursed Peruvian army personnel for their counterinsurgency services in the VRAE. In the 1980s and 1990s, army units were assigned to all of Peru's main mines.[10] Local contracts have diverted patrols to protect private company infrastructure. For instance, in the Huanta province of the southern highland department of Ayacucho, one of the counterinsurgency bases belonging to the local army battalion provided regular patrols in and around a community named Ocros for a period during the late 1990s. When an official working for a nearby private mining company asked the battalion commander to protect the company infrastructure, all patrols leaving from the counterinsurgency base began patrolling the company's installations and mine, and not Ocros. Days after the mining official requested the security, the battalion began receiving gifts, including several televisions.

An example of more recent client influence on Peru's army is the case of the private natural gas conglomerate Camisea. The Camisea pipeline crosses the VRAE on its way to the coast, and as of 2005, the army had small units near each of Camisea's 14 installations along the pipeline. The brigade in Ayacucho assigned all of its counterinsurgency bases—numbering over ten—to pipeline security, work also performed by bases in the department of Cusco. Camisea security has represented a sizeable proportion of the army's total efforts in the VRAE, considering that counterinsurgency bases there in recent years have numbered between 27 and 35.[11] Services for Camisea have sidetracked the Ayacucho brigade from what otherwise might have been more effective counterinsurgency operations. Army patrols from Camisea infrastructure have been daytime patrols that have not ventured into common Sendero training or operational spaces. In contrast, some patrols leaving from the brigade's larger battalion bases spent a night at a time away from the base, thus covering more remote areas, including possibly terrain frequented by Sendero. The Camisea security has resulted from contracting between local army commanders and Camisea representatives. For example, the head of the Ayacucho brigade has negotiated with Transportadora de Gas del Perú (TGP), the Camisea consortium that operates the pipeline. TGP constructed and stocked the brigade's pipeline bases and funded their patrols.[12]

[10] A senior officer estimated that in the departments of Junín and Huancavelica alone, there were approximately 30 or 35 such units.

[11] This estimate is based on interviews with army officers and private-sector officials in 2005 and 2006 and on research conducted by Peruvian security expert Ricardo Soberón Garrido (2006).

[12] Although in Peru most army–company contracting has occurred locally, military leaders have participated in cases in which major army equipment is involved, most notably, army helicopter rentals.

Private Versus State Security Interests

Because this analysis emphasizes the influence of private companies in extractive industries, it is essential to acknowledge the overlap between those private client interests, on one hand, and (public) national security interests in each country, on the other. Security for the important hydrocarbon and, in Peru, mining sectors is in the interest of national security according to political and military leaders. Yet that overlap cannot account for the extent to which local army units have responded to payments from mining and hydrocarbon companies. In neither country have the government or army leadership put security for the extractive industries first, generally speaking or in the specific regions of focus.

Ecuador's 1979 National Security Law (in effect at the time research for this study was conducted) assigns the military to protect oil and other "strategic" interests. More recently, a June 2007 decree defined oil installations as "strategic objectives vital to the nation" and committed the military to provide security for "all installations, equipment, and components of the national hydrocarbon system" (*El Comercio* [Quito] 2007). However, government and military leaders have not regarded oil security as the army's main priority. In fact, a 2001 directive from the commander of the army's fourth division states that the division would provide security to oil companies "without neglecting its fundamental missions and assignments" (Jarrín Roman 2001, section D). As for the Ecuadorian army officers interviewed for this study, of the 46 officers asked to name the army's most important missions, in their first three responses, 33 officers mentioned border defense and/or reducing Colombian insurgent activities in Ecuador, and only 4 mentioned oil security.

Similar to the Ecuadorian case, Peru's army has been assigned to protect mining and hydrocarbon interests. During interviews, military leaders and civilian security experts sought to justify this work by referencing the constitutional mandate that the military "participate in the country's social and economic development" (1979 Peruvian Const. art. 280; 1993 Peruvian Const. art. 171). In a 2000 agreement between Camisea and the Peruvian government, the armed forces (and national police) were to provide "the necessary security measures" when possible (Comité Especial del Proyecto Camisea, Comisión de Promoción de la Inversión Privada [COPRI], República del Perú 2000, clause 17.4). Nonetheless, security for the extractive industries has not been characterized as the army's primary mission overall or in Sendero zones, where, according to military and nonmilitary security experts interviewed, the army's central mission instead has been counterinsurgency. Of the 50 Peruvian army officers asked to name the army's most important missions, no officer mentioned security for natural resources or resource extraction.

The Local Level as Escape Valve

Though without testing rigorously this paper's framework, the analysis to come does illustrate how the proposed causal story may be at work in Ecuador and Peru: neoliberal reform, democratization, and weak state capacity to oversee military affairs together seem to have encouraged local army self-financing.

Step 1: Expanded Private Client Base and Dwindling Funds

If it is true that neoliberal reforms add to the military's possible client list by privatizing state-owned enterprises, then prior to reforms in Ecuador and Peru, presumably, the army would have supplied security for the (few) private oil and mining companies that were active in exchange for resources. Examples presented here reveal exactly that dynamic.

Before Ecuador's government promoted private investment in the oil sector in the 1990s, the army worked for private oil companies, which financed those army services. A retired army helicopter pilot recounted in an interview the work he had done for oil companies beginning in the mid-1980s. He and other pilots had helped make seismic evaluations from the air—in the northeast and on the coast. The officer also had transported exploration materials to mining company encampments. Contracts for those projects were signed by the companies and either the army aviation commander or the head of the army.

Similarly, the Peruvian army conducted security operations paid for by the private mining sector before privatization. The US Southern Peru Copper Corporation, unique for surviving Peru's nationalization of mining in the 1970s,[13] was the only company that Peruvian officers named when describing the army's mining security work in the 1980s. For example, an officer said the following about army security contracts in the 1980s and 1990s:

> During the worst conflicts with Sendero, we had much of the country under a state of emergency. If a mining company was in an emergency zone, then the military was responsible for protecting it…So for Southern, a small army unit was sent to provide security for the copper company.
>
> *What did the army unit get in return for this work?*
>
> It got housing, food, transportation, to carry out this work, from the company.

Moving from client demand to the issue of whether, by reducing the army's budget, neoliberalism and/or democratization have encouraged the army to pursue private clients, the scenario becomes more complicated. Neoliberal economic reforms as well as democratization have diminished each army's resource base, making self-financing even more attractive. However, resource cuts mainly have affected not the national budget but rather off-budget revenue due to heightened scrutiny of military finances.

As predicted by scholars of civil–military relations who expect that, in young democracies, governments cut defense spending and instead invest in more popular programs (Hunter 1997), defense spending has decreased as a proportion of the national budget in both countries.[14] Yet trends in *actual* defense budgets challenge

[13] On the history of Southern's investment in Peru, see Kuramoto (1999).

[14] In Peru, this figure fell from 14.4 % in 1989 to 8 % in 2006. In Ecuador, the defense budget went from 10.9 to 7.3 % of national spending between 1995 and 2006, though security experts interviewed overwhelmingly attributed the drop to the conclusion of the longstanding Peru–Ecuador border conflict rather than to economic reforms or democratization. Budget information in this section is drawn from Palomino Milla (2004, p. 131), Ministerio de Economía y Finanzas, Perú (2006), and Ministerio de Economía y Finanzas, Ecuador (2007).

the idea that, under neoliberalism, military budgets are slashed. After the 1998 Peru–Ecuador peace agreement (an event distinct from both democratization and neoliberal reform), in 1999 Ecuador's defense budget contracted by 33 %, but military spending recovered such that in 2002 it was 26 % larger than it had been in 1998. The Peruvian military budget, too, has been steady and growing since the end of the 1990s. It fell in 2002, when it was 14 and 20 % smaller than in 2000 and 2001, respectively, and yet by 2004, national defense spending had surpassed the 2000 budget, and in 2005, it was higher than it had been in 2001.[15]

Though the national defense budgets have not shrunk, in each country, the army's off-budget revenue has been reduced due to democratization and neoliberalism. In Ecuador, both developments have interfered with military business ventures, which have included, for instance, the army's investments in the shrimp, flower, textile, and hotel industries (Fitch 1998, p. 122). One key democratizing moment in Ecuador was the 1998 constitutional assembly to replace the former military regime's 1978 constitution (amended in 1996). During the deliberations, politicians unsuccessfully sought to lessen the military's presence in the national economy in nondefense sectors, which at the time was quite important for the armed forces: as of 1998, military companies' revenue constituted approximately 40 % of the military budget (*El Comercio* [Quito] 1998b). If democratization created space to examine Ecuadorian military finances, the country's turn toward a liberal economic model also proved crucial. Based on newspaper reports, the debate over military involvement in nondefense sectors centered mainly on the question of whether or not the armed forces should compete with the private sector (e.g., *El Comercio* [Quito] 1998a).

The logic of democratization again directly challenged the Ecuadorian military's alternative sources of income several years later. During a period in which the executive was taking various measures to augment civilian control of the armed forces, a 2007 defense law and the executive-initiated 2008 constitution outlawed military participation in any private industries not related to national defense. The military was subsequently stripped of many of its investments (Fundación Democracia, Seguridad y Defensa 2007; Observatorio Político de Defensa, Seguridad y Relaciones Civil-Militares 2007–2008; *Latin American Herald Tribune* 2009).

In Peru, democratization brought with it civilian control of military finances and thus an end to major illegal revenue sources that previously had been possible. A congressional commission created to investigate economic and financial crimes between 1990 and 2001 found that the military had been involved in various financial criminal activities. For instance, Fujimori had used supreme decrees and secret "urgency decrees" to channel monies from government privatization contracts and the external debt to the defense sector. The majority of the urgency decrees were not

[15] Currencies were converted to US dollars to calculate defense spending. The Ecuadorian and Peruvian cases illustrate a more general dynamic in Latin America, where defense spending has lost importance relative to other sectors but without contracting. On average, South American defense spending as a percentage of GDP dropped from 2.17 to 1.89 % but rose by 49 % in real terms between 1989 and 2007 (Stockholm International Peace Research Institute). For Peru and Venezuela, these calculations use 1991, the first year for which the source provides data, in place of 1989.

approved by the Council of Ministers as constitutionally mandated (Hernández Breña 2003, pp. 85–86).[16]

Step 2: Local Entrepreneurship to Escape Oversight in the Capital

At the same time that neoliberal reforms and democratization appear to have expanded the private client base of the Ecuadorian and Peruvian armies and encouraged the armies to work for those clients to make up for lost revenues, the government oversight of military financial activities that has come with neoliberalism and democracy has introduced barriers to army dealings with third parties.

The IMF has scrutinized Ecuadorian state, including military, financial practices. For example, according to an Ecuadorian finance ministry official, because of IMF guidelines, in 2001, Ecuador's government began deriving the national budget from debt and contracts to avoid underestimating government spending. (Prior to that point the budget had been based only on actual purchases.) Regarding the military budget in particular, a retired senior finance ministry official said that the government produced two statistics specifically for the IMF regarding public finances and that one statistic included the National Defense Junta (JDN), which purchased and maintained military equipment. Previously, JDN's budget and expenditures had been less transparent.[17] Turning from the influence of neoliberal reform to that of democratization, amid executive efforts to decrease military autonomy, the 2007 defense law (discussed above) outlawed resource exchanges between the military and the private sector.[18]

The Peruvian government also improved state transparency, as part of the post-Fujimori democratic transition. For example, Congress passed the 2002 Law of Transparency and Access to Public Information. That same year, a national oversight system was created, assigning every government sector—including the defense ministry and each military branch—an institutional control office that reports to the national audit office (Robles Montoya 2005, pp. 139–140). Military budget information is now available to the public in a format comparable to other ministerial budgets for purposes of congressional analysis (Hernández Breña 2003, p. 34). Of particular interest here, greater transparency has also been introduced into military–private sector exchanges. The Peruvian armed forces are permitted legally to rent out their equipment, infrastructure, and services to other state, as well as private, actors in return for "resources directly collected" (*recursos directamente recaudados* [RDR]),

[16] Another funding source under Fujimori that no longer fuels the army is drug money, though this shift is not explained by democratization or liberal economic reforms. After the army began drug interdiction in the 1990s, corruption from the cocaine trade consolidated throughout the hierarchy (Dreyfus 1999, pp. 388–389; Rospigliosi 2000, p. 219). Military corruption was reinforced by practices of Peru's intelligence forces under Fujimori's reign: Fujimori's intelligence advisor, Vladimiro Montesinos, and the national intelligence service were heavily involved in the cocaine trade (Comisión de la Verdad y Reconciliación 2003; Tomo II, pp. 242–243; Rojas 2005, pp. 208–209). When corruption contributed to the army's poor performance in the 1995 Peru–Ecuador Cenepa War, the army withdrew from antinarcotics (Rospigliosi 2000, pp. 163–164).

[17] Prior to that point, a budget law in the early 1990s had increased the transparency of spending practices of certain public entities, including the JDN, according to an Ecuadorian Central Bank official.

[18] Demand to end military–private sector contracting emerged strongly in 2005, immediately after the national press reported on a 2001 5-year contract between the armed forces and 16 private oil companies (Ministerio de Defensa Nacional del Ecuador 2001; *Hoy* [Quito] 2001; *El Comercio* [Quito] 2005a, b). The focus of debate over the contract was the extent to which the military's oil services were in the interests of "national patrimony" as opposed to serving the private sector (*El Comercio* [Quito] 2005a, b).

which are reported as part of the defense budget.[19] The military has more diligently reported this income since Fujimori left office because of the government's emphasis on state accountability, as explained by army officers interviewed.

How have the armies dealt with this reality, in which transitions to democracy and the liberal economic model have encouraged them to contract with third-party clients while also interfering with that endeavor? Increasingly, the armies seem to engage in entrepreneurship at the local level, unchecked by civilians. Research for this study uncovered no indication that local commanders underwent civilian auditing. Ecuador's 2007 law that outlaws army–private sector contracts did halt national-level deals. However, local agreements between army unit commanders and private oil companies continued as of early 2009, according to a journalist knowledgeable about the army and its operations in the north. In Peru, in addition to RDR, army brigades and battalions have also earned unreported income, which has committed local units to providing their clients services.

The strongest evidence that local client influence could be growing in the two countries is that army leaders have pressed unit commanders to raise more revenue through entrepreneurship.[20] For instance, an Ecuadorian army officer familiar with the finances of the army's special forces' brigade in Latacunga said in an interview that, not counting salaries and food, the army provided only approximately 20 % of the unit's operating expenses and that the colonel in charge of the brigade had to find a way to pay for the work that army leaders expected of the brigade.

The Nueva Loja battalion, believed to be the army's most active unit in Sucumbíos and the north, received only $200 from the army each year to maintain its 30 vehicles. An officer who had managed finances for that unit emphasized the high-stress nature of the job, explaining that the battalion was continually late on vender payments. Beyond the north, the army provided the brigade in the southern coastal city of Machala approximately one tenth of its diesel and one sixth of its gasoline. Ecuadorian army units have been sufficiently desperate to rely on their microenterprises as well as their security contracts. The Nueva Loja battalion earned $6,000–7,000 each year from its fish and chicken farms to put toward fuel purchases. The Latacunga brigade covered nearly 20 % of its operating expenses (omitting salaries and food) with earnings from its dairy and other farm products. Based on his experience as the finance officer for over ten units throughout Ecuador, one officer said that, since the mid-1990s, army leaders had placed more demands on local commanders to obtain outside support.

Peruvian army leaders also have pushed local commanders to raise funds. As one army officer said, "The army has its priorities, which include rations for the troops, ammunition, and fuel. But what is not prioritized by the army is electricity, water… paper for the office…So the units have to come up with this, to make up the difference."

[19] From 2003 through 2005, between approximately 8 and 11 % of the annual national defense budget came from RDR (Robles Montoya 2003, pp. 159–161; 2005, p. 145). The armed forces earned over one half of those resources by charging for services, including air and sea transportation and medical assistance (Palomino Milla 2004, pp. 144–145).

[20] The following discussion of army unit finances is based on information provided by local army commanders and other officers with direct knowledge about the referenced units' finances, gained through their work on those bases.

To help make ends meet, army unit commanders have rented out their base infrastructure, and throughout the country—e.g., the southern departments of Puno and Tacna, the northern department of Tumbes, and the eastern city of Iquitos—units have sold goods from their plantations to surrounding communities. Engineering battalions have contracted out their construction services, reporting only some of the income to army leaders in Lima in the form of RDR, as explained by a retired officer from the army corps of engineers: "[W]e need resources to fix the equipment, for maintenance…So the units might work for twelve hours, rent the equipment and men out for that period of time, but then report to Lima that they worked for only three hours." The proportion of base operating expenses covered by these various activities has ranged from 15–20 % in Tumbes to 20–30 % for one base in the southern department of Arequipa to 50 % in Tacna.

Paralleling the Ecuadorian case, pressures on Peruvian army commanders to self-finance have intensified, as a midranking officer described, referencing his own past assignments:

> …Based on this information, the next year's budget is calculated. For instance, I tell the general that we raised 80,000 *soles* last year, and I say that to run the [unit] I need 300,000 *soles* for…this year. He gives me 200,000 and tells me to work harder this year to come up with the extra 100,000 *soles*.

Indonesia and Nigeria: Demand-Induced Local Entrepreneurship

The Indonesian and Nigerian cases prove rich for applying this study's framework to countries beyond Latin America. Economically, the two countries have opened substantially in recent years, and they have a long history of heavy military involvement in politics, followed by democratization in 1999.[21] Furthermore, the countries' economies rely heavily on extractive industries, and private companies in those sectors have reimbursed the military for security services.

Relative to Ecuador and Peru, Indonesia and Nigeria provide variation in government supervision of military resources. As studies of democratization and neoliberalism predict, governments in the two countries have sought to control military financial practices, and yet negligible progress on that front has meant that neither military has resorted to local security contracting to avoid scrutiny in the capital. Nonetheless, the Indonesian and Nigerian armed forces still have turned their attention toward local security markets, by a different logic. Strong demand-side forces, due partly to deep fiscal decentralization, have pulled the military to the local level.

[21] Nigeria's 1999 elections heralded in democracy—or at least "a pluralistic and largely credible set of outcomes" (Diamond 2008, p. 71). Despite subsequent irregularities ranging from stuffing ballot boxes to politically targeted assassinations (Diamond 2008, p. 71) that have pushed the regime outside the democratic category, this analysis assumes that the country has opened politically enough such that we would expect some degree of government oversight of the armed forces and their financial practices.

Indonesia

The Indonesian armed forces (Tentara Nasional Indonesia [TNI]) engage in extensive self-financing, which was institutionalized starting in the 1950s when military units were required to establish their own businesses and cooperatives to support their operations (Mietzner 2008, pp. 227–229). Under the military-backed Suharto dictatorship (1967–1998), the president's foundations, along with companies belonging to his cronies, served as added, steady revenue streams for the TNI. Regional military commanders were also compensated by companies for helping to obtain business licenses, resolve land disputes, navigate bureaucratic processes, and control labor unrest (Mietzner 2008, pp. 229–230; Crouch 2010, pp. 164–165).

In terms of the TNI's work for extractive industries, to illustrate this type of "informal" entrepreneurial work, the US company Freeport-McMoRan Copper & Gold's mine in Papua is more militarized than any other zone in Indonesia (Leith 2003, p. 233). The company has paid TNI personnel throughout the hierarchy in the form of varied material support (*New York Times* 2005; Rieffel and Pramodhawardani 2007, pp. 43–44; Mietzner 2008, p. 231; Crouch 2010, pp. 165–166). Another example is ExxonMobil's natural gas project, which has operated in Aceh province since the 1970s. On an ongoing basis, the company has reimbursed the TNI for security there (Rieffel and Pramodhawardani 2007, p. 44). In both the Freeport and ExxonMobil cases, the military pitched its security services to the companies by emphasizing dangers posed by armed separatist movements in Aceh and Papua (Crouch 2010, p. 166).

Since 1999, the TNI has continued its self-financing practices, which account for between 30 and 60 % of defense spending (Mietzner 2008, p. 236; Crouch 2010, p 162). Local military entrepreneurship is so rampant that military commanders in the capital of Jakarta and even regional commanders have had difficulty controlling their subordinates (Crouch 2010, p. 169). During this period, subnational governments have become important clients of the armed forces (Crouch 2010, p. 165), and the military has expanded its informal entrepreneurial activities, especially security for private actors (Mietzner 2008, pp. 230–231).

Neoliberal reform and democratization have created added incentives for the TNI to sell security to clients, by enhancing the power of the private sector and diminishing the military's revenue. Private-sector expansion under neoliberalism is noteworthy. As of the late 1990s, the private sector was already powerful in mining—which was privately controlled (Wicaksono 2008, p. 153)—and hydrocarbons. Further economic opening produced more potential clients for the armed forces: a 2001 oil and gas law privatized upstream and downstream activities, stimulating major new private investment in hydrocarbons (Steele 2008, p. 94).

As for any threats to the TNI's funds that encourage it to look for third-party clients, as in Ecuador and Peru, challenges to off-budget military revenue are salient, whereas national defense budget cuts are not. Indonesian defense spending has risen in real terms and has remained steady as a percentage of gross domestic product (GDP) (Stockholm International Peace Research Institute; Crouch 2010, p. 162), in spite of the fact that democratization did unleash popular support to reduce the military budget (Rieffel and Pramodhawardani 2007, p. 2).[22]

The process toward military financial reform, which ultimately affected the TNI's off-budget revenue, began in 2000, when IMF and World Bank pressures led Indonesia's national audit board to investigate military institutions, an audit that was reported back to the national parliament (Crouch 2010, p. 168).[23] Members of parliament from several parties prioritized the military financing issue (Mietzner 2008, p. 233), and following a parliamentary review of TNI's financing, the government relieved the TNI of its companies between 2004 and 2009 (Mietzner 2008, p. 233; Crouch 2010, p. 168).[24] The military's bigger financial loss was that democratization eliminated its monopoly of political patronage.[25] "With TNI no longer the decisive force in Indonesian politics, patronage-seeking investors increasingly turned to new actors in the post-authoritarian polity: political parties, parliamentarians, bureaucrats and influential socio-religious leaders" (Mietzner 2008, p. 230).

Government monitoring does not extend to the TNI's illegal revenue, as the state has not found the means to finance security for the critical mining and oil sectors or for major manufacturing and infrastructure projects (Rieffel and Pramodhawardani 2007, pp. 68–69; Mietzner 2008, pp. 231, 235–236). Therefore, the military has not used the local level to escape government control in the capital. Nonetheless, demand from subnational political actors pulls TNI entrepreneurship to the local level. Indonesia's fiscal decentralization came with democratization: the same individuals who developed the legal framework for democratic elections in 1999 also drafted two major decentralization laws that were passed the same year. Within that structure, the share of government spending on regions rose from approximately 15 to 30 %, and regions gained significant discretion over spending (Malley 2009, pp. 140–141). Regional and district governments' newfound wealth has made them an attractive target for entrepreneurial officers commanding local military units (Crouch 2010, p. 165).

Nigeria

Similar to the Indonesian case, client demand for Nigerian military services is powerful at the local level, especially in the oil-rich Niger Delta region. Conflict in the Delta escalated from peaceful protest in the 1980s to violent ethnic conflict and oil protests beginning in the 1990s. This change has been attributed to oil companies' detrimental environmental practices; successive military governments' centralized control of oil rents, which they did not invest back into the poor, underdeveloped

[22] Simultaneously, there has also been a drive toward *boosting* defense spending, to lessen TNI's reliance on third-party resources (Crouch 2010, p. 162).

[23] In a context in which Indonesian law did not allow the audit board to investigate private companies controlled by public agencies, the Indonesian army assigned Price Waterhouse Coopers and Ernst & Young that task (Crouch 2010, p. 168).

[24] It took several years for parliament to act because, immediately following the transition to democracy, financing the TNI without its independently acquired, off-budget resources was almost unthinkable, especially in the aftermath of major economic crisis during 1997 and 1998 (Mietzner 2008, p. 233).

[25] Economic crisis in 1997 and 1998 and the TNI's poor management of its enterprises meant that, by the time the military lost its businesses, they were of minor economic value (Mietzner 2008, pp. 230, 235–236; Crouch 2010, pp. 162–164). In addition, whereas the TNI no longer has its companies, it has successfully fought to retain its foundations and cooperatives (Mietzner 2008, pp. 234–235).

Delta; and ethnic conflict deepened both by the unequal distribution of resources that did reach the region and by selective government repression (Frynas 2001, pp. 29–36; Ukeje 2001, pp. 15–16, 20). In a context in which 80 % of Nigerian government revenue comes from oil (Ukeje 2001, p. 19), oil companies and the state have responded to conflict in the Delta by investing in security.[26]

Beyond national oil policy, the Nigerian armed forces maintain their own strong interest in oil, which funds them in the forms of central government defense spending, private companies' payments to the military for security, and revenue from the illegal theft and export of oil. Examples of relations between oil companies and the military are numerous. Nigerian army representatives have assisted with Shell's public relations strategies in at least one international setting (Frynas 2001, p. 45). Shell Nigeria created the military–police Rivers State Internal Security Task Force in 1994, and the military administrator of Rivers State served as the contact point between the head of the Task Force and Shell (Frynas 2001, pp. 49–50). Shell Petroleum Development Company of Nigeria has paid Nigerian military units, and Chevron Nigeria Limited and Shell have provided transportation for soldiers leading up to and during military operations (Pegg 1999, pp. 475–478).

The private sector has played a long-standing role in Nigerian oil production.[27] Recent economic opening has brought more, diverse investment to the oil sector, potentially creating added opportunities for the military to work for private clients. Amid pressure from international financial institutions, President Obasanjo's government (1999–2007) privatized oil marketing companies and brought new investment into upstream and downstream activities (Ariyo and Jerome 2004, pp. 336–338; Obi 2007, pp. 19–21).

Neoliberalism and democratization in Nigeria have triggered efforts to gain civilian control of military finances, though with highly limited results. Like in Indonesia, the Nigerian national defense budget has not faced cuts. Democratization set loose some popular demand within Nigeria to trim the military budget (Fayemi and Olonisakin 2008, p. 254). However, since 1999, defense spending has grown in real terms and has followed only a rough downward trajectory as a percentage of GDP (Stockholm International Peace Research Institute).

Moving to the military's off-budget income, oversight of military finances in Nigeria has been weak even relative to the Indonesian case. The overwhelming task of tracking Nigerian oil revenue has made it unlikely that either the military's current off-budget earnings or possible future deals with oil companies would face government constraints. As part of Nigeria's second wave of liberal economic reforms—the first wave being structural adjustment policies in the 1980s (Lewis 1996)—the government adopted policies to introduce transparency into the notoriously corrupt oil sector,[28] yet with modest success (Omeje 2006, p. 29; Okpanachi 2011, pp. 37–39). Further complicating the situation is oil theft. In the 1980s and 1990s, hundreds of millions of dollars were lost

[26] For analysis of the different dimensions of company and state responses to conflict in the Delta, including repressive security measures, see Frynas (2001).

[27] Shell d'Arcy discovered oil in the Niger Delta in the 1950s (Obi 2007, p. 16), and the consortium between the Nigeria National Petroleum Corporation and Shell produced approximately 50 % of Nigerian crude oil as of 2001 (Ukeje 2001, p. 19).

[28] Between 1960 and 1999, governments skimmed approximately $400 billion in oil revenues (Okpanachi 2011, p. 28), and in the early 1990s, oil revenues lost because of corruption totaled up to one tenth of Nigerian GDP (Bratton and van de Walle 1997, p. 67).

through petroleum smuggling, an activity controlled mainly by senior military officers (Lewis 1996, p. 90). More recently, it has been estimated that between 10 and 15 % of Nigeria's total production is stolen daily, and the military has continued profiting from illegal oil exports, even as the Nigerian navy has stepped up its work to reduce the theft and despite government efforts to contain military corruption (Ikelegbe 2005, pp. 222–224; Eberlein 2006, p. 585; Fayemi and Olonisakin 2008, pp. 250, 261).

Due to the lack of government control of military resources, the Nigerian armed forces have been unrestricted in their dealings with paying clients, who increasingly have hired security through local arrangements. Subnational governments now have considerable wealth, partly because of fiscal decentralization. Oil-producing states received 26 % of federally collected revenues in 1999 and 44 % in 2003 (Okpanachi 2011, p. 34). Subnational political offices also receive support from international aid organizations and illicit oil exports (Eberlein 2006, pp. 584–586). The empowerment of subnational politicians has been so dramatic that in the words of one expert on Nigeria, "governors and their political machines in the Niger Delta stand at the centre of powerful politico-economic complexes" (Eberlein 2006, p. 584).

For their part, oil companies have also turned attention outside the capital. The "petro-military alliance" of the 1970s–1990s ensured security for private international oil companies operating in Nigeria via centralized military decisions. Democratization removed that automatic military security guarantee while also enabling different actors to sell their security services, thereby diversifying companies' options in terms of security providers (Eberlein 2006, pp 580–581). Facing escalating social conflict, oil companies and subnational political officials have hired different armed actors to provide security and influence political, including electoral, outcomes through on-the-ground arrangements (Eberlein 2006, pp. 580–582, 586–588; Human Rights Watch 2005, pp. 4–7). Military personnel look to be operating within this incentive structure, in that soldiers are "now free to offer their services to anybody capable of paying" (Eberlein 2006, p. 581).

Paths toward Third-Party Financing of Militaries in the Developing World

This examination of the Nigerian and Indonesian cases alongside the Ecuador–Peru analysis reveals two paths toward local military–client relations where opening economies have increased the importance and diversity of private-sector actors—i.e., possible clients for the armed forces. If the government only weakly monitors the military, client demand may *pull* the armed forces toward local entrepreneurship. As we saw in Indonesia and Nigeria, unchecked by the government, the military has responded to demand from subnational political officials and, in Nigeria, by a private sector now permitted to hire different security forces to confront escalating regional violence. In contrast, if the government gains some traction in controlling military financial practices, then weak state capacity to extend supervision beyond the capital can mean that military entrepreneurship continues but is *pushed* to the local level, as in Ecuador and Peru.

Figure 1 depicts these two paths, in addition to two other possible outcomes: minimal (or no) third-party influence on the armed forces in cases in which the government has constrained military finances and has the capacity to monitor the behavior of military units, and substantial third-party financing of the military where

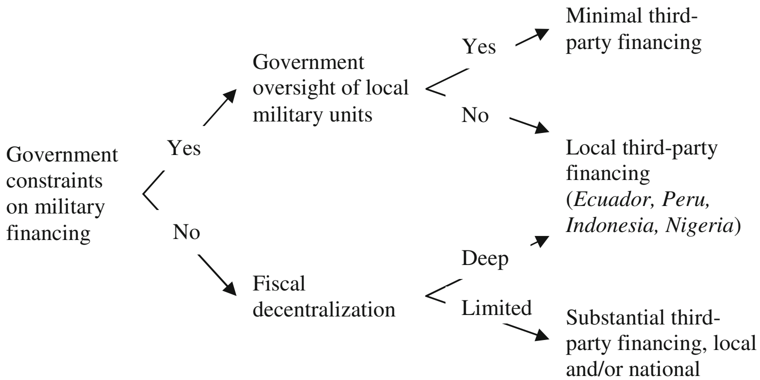

Fig. 1 Local third-party financing of armed forces in post-transition, neoliberal settings

the government has not constrained military financing and fiscal decentralization has not been noteworthy. In this final scenario, the degree to which military–client relations takes place at the local as opposed to the national level could depend on the location of client demand and centralization of military power—whereby more centralization would hinder local entrepreneurship.

It is noteworthy that, in the two Latin American cases, only minute demand-side pull complements the escape-valve mechanism. With the region's recent move toward political and fiscal decentralization—which is somewhat correlated with two central factors of interest here, neoliberalism and democratization[29]—subnational governments have the potential to exercise important demand. Indeed, we saw that one client group of the Ecuadorian army has been subnational political officials. However, fiscal decentralization, and therefore, such subnational demand for security, has been weak in Ecuador and Peru.

In Ecuador, a 1997 law and the 1998 constitution required the transfer of 15 % of the national budget to subnational governments (O'Neill 2003, p. 1072). That structure was implemented fully by the end of 2003 (after army leaders had already begun pressing local commanders to earn more through self-financing). Thereafter, subnational government spending rose to approximately 22 % of total public expenditures (Frank 2008, pp. 374–375). Subnational governments' budgets have come mainly in the form of transfers and thus have been unpredictable in terms of size and timing, i.e., when over the course of the year funds arrive. Conditions also greatly restrict spending options for the transferred revenues (Frank 2008, pp. 374, 378–380). Trivial amounts of Ecuadorian oil royalties are distributed to subnational governments (Energy Sector Management Assistance Program 2005, chap. 4).

Decentralization in Peru has taken place since Fujimori's departure from office. In 2003, regional and local governments received 29 % of the national budget, and in 2006, the amount jumped to 35 %. However, as in Ecuador, subnational budgets are based on transfers that come with strong national restrictions on their use (Proyecto

[29] Scholars have linked recent decentralization to neoliberalism and democratization, for instance, expecting that neoliberals prefer decentralization as a means of reducing the size of the central state and that under democracy voters who want decentralization will push for it (Eaton 2004, see especially 11 and 14–15). However, Eaton's (2004) systematic analysis of decentralization in Latin America challenges these generalizations.

USAID/Perú Prodescentralización 2011, pp. 93–94). On top of those transfers, Peru's "canon" system assigns hydrocarbon- and mineral-rich subnational political units 50 % of the tax revenue from investments in the hydrocarbon and mining sectors (Kuramoto 2008, p. 16; Arellano Yanguas 2011, p. 41), but those transfers are earmarked for capital spending (Ahmad and García-Escribano 2008, p. 7).

Conclusion

This article contributes to our understanding of state accountability, including state capture, in resource-rich regions that confront neoliberal economic reforms and struggles to democratize. The analysis of the Peruvian and Ecuadorian armies suggests that, as predicted by research on security privatization, civil–military relations, and natural resource conflict, democratization and neoliberal reform have pressed militaries to sell their security services to private clients while also interfering with that entrepreneurship. The article has resolved this tension by highlighting weak government control of army behavior in remote areas, where local army–client contracting has continued being pervasive.

The detailed examination of the Ecuadorian and Peruvian cases demonstrates vividly private-sector capture of the military, distracting the latter from its public duties. That clients exercise local influence on each army shows us that, ultimately, army priorities have been alarmingly far-removed from policy goals set in the capital city, painting a grim picture for state accountability in the region. This capture constitutes a particular instance of a phenomenon theorized by Guillermo O'Donnell in his work on the "spirals" by which Latin American state bureaucracies lose effectiveness and legitimacy in countries experiencing neoliberal reform. Part of this story is "a perverse kind of privatization," whereby local private powers capture the public sector in Latin America's "brown areas" (O'Donnell 1993, pp. 1359, 1363–1367).

The Indonesia–Nigeria analysis moves us toward a more inclusive theory of local military entrepreneurship. As expected, based on the Latin American cases, a lack of government control of military financial practices at all levels has meant that the TNI and Nigeria's armed forces have not used local deals to escape national-level control. However, demand from companies in the powerful extractive industries and from recently endowed subnational governments have encouraged local military–client contracting.

This research puts forth evidence that, from Latin America to Africa to Asia, armed forces have participated in local security markets that have grown in salience and that revolve in important ways around private hydrocarbon and mining companies. Those actors, historically powerful in the developing world, have only gained influence; the predominant shift toward liberal economic models has increased countries' reliance on their extractive industries. Future scholarship on security in countries rich in natural resources therefore should take seriously military behavior at the local level and more generally local interactions among security providers and financiers. One crucial future avenue of research would be to examine in more detail the competition among different state and nonstate security forces that vie for contracts, to describe and explain the rise of these local security markets, and to explore their implications for violence, development, resource production, and public as opposed to private security.

Acknowledgments I thank Candelaria Garay, Stephanie McNulty, Arturo Sotomayor, Harold Trinkunas, and two anonymous *SCID* reviewers for their helpful feedback on earlier versions of this paper. Letitia Lawson and Michael Malley provided invaluable guidance on the Nigerian and Indonesian cases, respectively. The study would not have been possible without the generosity of many individuals in Ecuador and Peru who shared with me their time and views, and for their help, I am deeply grateful. Fieldwork was supported by a National Security Education Program David L. Boren Graduate Fellowship and the Naval Postgraduate School Research Initiation Program. The findings presented here are those of the author and do not represent positions of the US navy, defense department, or government.

References

Ahmad E, García-Escribano M. Constraints to effective fiscal decentralization in Peru. International Studies Program Working Paper 08-24. Atlanta: Georgia State University; 2008.
Andrade P. Diagnóstico de la frontera Ecuador-Colombia. Comentario Int. 2002;4:189–240.
Arellano Yanguas J. ¿Minería sin fronteras? Conflicto y desarrollo en regions mineras del Perú. Lima: IEP; 2011.
Ariyo A, Jerome A. Privatisation in Africa: lessons from the Ghanaian and Nigerian experience. In: Wohlmuth K, Gutowski A, Kneduk T, Meyn M, Ngogang S, editors. Private and public sectors: towards a balance. Münster: LIT Verlag Münster; 2004. p. 325–48.
Avant DD. Market for force: the consequences of privatizing security. New York: Cambridge University Press; 2005.
Benton A. Political institutions, hydrocarbons resources, and economic policy divergence in Latin America. Paper presented at the annual meeting of the American Political Science Association, Boston, MA, 28–31 August 2008.
Bratton M, van de Walle N. Democratic experiments in Africa: regime transitions in comparative perspective. Cambridge: Cambridge University Press; 1997.
Bury J. Mining mountains: neoliberalism, land tenure, livelihoods, and the new Peruvian mining industry in Cajamarca. Environ Plan. 2005;37:221–39.
Carrión J, editor. Fujimori legacy: the rise of electoral authoritarianism in Peru. University Park: Pennsylvania State University Press; 2007.
Comité Especial del Proyecto Camisea, Comisión de Promoción de la Inversión Privada (COPRI), República del Perú. Contrato de licencia para la explotación de hidrocarburos en el Lote 88. Lima; November 28, 2000. http://www.minem.gob.pe/minem/archivos/contratogas.pdf Accessed 19 Dec 2011.
Conaghan CM. Restructuring domination: industrialists and the state in Ecuador. Pittsburgh: University of Pittsburgh Press; 1988.
Comisión de la Verdad y Reconciliación. Informe final. Lima: CVR; 2003.
Corrales J. Market reforms. In: Domínguez JI, Shifter M, editors. Constructing democratic governance in Latin America. 2nd ed. Baltimore: Johns Hopkins University Press; 2003. p. 74–99.
Crouch H. Political reform in Indonesia after Soeharto. Pasir Panjang Singapore: Institute of Southeast Asian Studies; 2010.
Cruz C, Diamint R. The new military autonomy in Latin America. J Democr. 1998;9:115–27.
Diamond L. The spirit of democracy: the struggle to build free societies throughout the world. New York: Times Books; 2008.
Dreyfus PG. When all the evils come together: cocaine, corruption, and shining path in Peru's Upper Huallaga Valley, 1980 to 1995. J Contemp Crim Justice. 1999;15:370–96.
Eaton K. Politics beyond the capital: the design of subnational institutions in South America. Stanford: Stanford University Press; 2004.
Eberlein R. On the road to the state's perdition? Authority and sovereignty in the Niger Delta, Nigeria. J Mod Afr Stud. 2006;44:573–96.
El Comercio (Quito). Las FF.AA. se dedicarían a lo suyo. March 5, 1998a.
El Comercio (Quito). Las FF.AA. se quedarán con las empresas. March 13, 1998b.
El Comercio (Quito). Entrevista Grab. Luis Aguas: 5000 armados están frente a Ecuador. September 21, 2003.
El Comercio (Quito). 2000 militares vigilarán el sistema petrolero. December 19, 2005a.
El Comercio (Quito). Siete meses más para el convenio del 2001. December 19, 2005b.
El Comercio (Quito). Las FF.AA. ofrecen tres tipos de seguridad a las petroleras. December 28, 2007.
Energy Sector Management Assistance Program. Comparative study on the distribution of oil rents in Bolivia, Colombia, Ecuador, and Peru. Washington, DC: World Bank; 2005.

Fayemi J'K, Olonisakin F. Nigeria. In: Bryden A, N'Diaye B, Olonisakin F, editors. Challenges of security sector governance in West Africa. Wein: LIT Verlag; 2008. p. 243–67.
Ferreyra A, Segura R. Examining the military in the local sphere: Colombia and Mexico. Lat Am Perspect. 2000;27:18–35.
Fitch JS. The armed forces and democracy in Latin America. Baltimore: Johns Hopkins University Press; 1998.
Frank J. Decentralization. In: Fretes-Cibils V, Giugale M, Somensatto E, editors. Revisiting Ecuador's economic and social agenda in an evolving landscape. Washington, DC: World Bank; 2008. p. 373–400.
Frynas JG. Corporate and state responses to anti-oil protests in the Niger Delta. Afr Aff. 2001;100:27–54.
Fundación Democracia, Seguridad y Defensa, Pontificia Universidad Católica del Ecuador. Democracia, seguridad y defensa. Bol Bimestral. 2007;3(21).
Gerlach A. Indians, oil, and politics: a recent history of Ecuador. Wilmington: Scholarly Resources Inc.; 2003.
Guasti L. Peruvian military government and the international corporations. In: McClintock C, Lowenthal AF, editors. Peruvian experiment reconsidered. Princeton: Princeton University Press; 1983. p. 181–205.
Hernández Breña W. El presupuesto del sector defensa en el Perú: gastos de 'cuartel' y gasto en armamentos. In: Suárez G, Hernández W, Robles J, editors. Transparencia y eficiencia en gastos para la defensa, Serie Democracia y Fuerza Armada. Lima: Instituto de Defensa Legal; 2003. p. 85–97.
Hey JAK, Klak T. From protectionism towards neoliberalism: Ecuador across four administrations (1981–1996). Stud Comp Int Dev. 1999;34:66–97.
Hoy (Quito). FFAA acuerdan con empresas petroleras. August 1, 2001.
Human Rights Watch. Rivers and blood: guns, oil and power in Nigeria's Rivers State. New York: Human Rights Watch; 2005.
Hunter W. Eroding military influence in Brazil: politicians against soldiers. Chapel Hill: University of North Carolina Press; 1997.
Ikelegbe A. The economy of conflict in the oil rich Niger Delta region of Nigeria. Nord J Afr Stud. 2005;14:208–34.
International Crisis Group. Colombia's borders: the weak link in Uribe's security policy. ICG Latin America Report 9. Quito/Brussels: ICG; 2004.
Jarrín Roman O. Directiva No. 2001–13 para el cumplimiento del convenio de cooperación de seguridad militar entre el Ministerio de Defensa Nacional y las empresas petroleras que operan en la región amazónica. Quito; 2001.
Jaskoski M. Mission impossible? Military politics in Peru and Ecuador. Ph.D. dissertation, University of California, Berkeley; 2008.
Kay BH. Fujipopulism and the liberal state in Peru, 1990–1995. J Interam Stud World. 1996;38:55–98.
Kuramoto JR. The hydrocarbons industry in Peru. Lima: Estudios Superiores de Administración; 2008.
Kuramoto JR. Las aglomeraciones productivas alrededor de la mineria: el caso de minera Yanacocha S.A. Documento de Trabajo 27. Lima: Grupo de Análisis para el Desarrollo (GRADE); 1999.
Latin American Herald Tribune. Ecuador military to shed stakes. January 6, 2009.
Leith D. The politics of power: freeport in Suharto's Indonesia. Honolulu: University of Hawai'i Press; 2003.
Lewis P. From prebendalism to predation: the political economy of decline in Nigeria. J Mod Afr Stud. 1996;34:79–103.
Malley MS. Decentralization and democratic transition in Indonesia. In: Bland G, Arnson CJ, editors. Democratic deficits: addressing challenges to sustainability and consolidation around the world. Washington, DC: Woodrow Wilson International Center for Scholars; 2009. p. 135–45.
Marcella G, editor. Warriors in peacetime: the military and democracy in Latin America—new directions for U.S. policy. Portland: Frank Cass; 1994.
Mietzner M. Soldiers, parties and bureaucrats: illicit fund-raising in contemporary Indonesia. SE Asia Res. 2008;16:225–54.
Ministerio de Defensa Nacional del Ecuador. Convenio de cooperación de seguridad militar entre el Ministerio de Defensa Nacional y las empresas petroleras que operan en el Ecuador. Quito; 2001.
Ministerio de Economía y Finanzas, Ecuador. 2007. Budget statistics. http://mef.gov.ec/stgcPortal/inicio.jsp?page=/faces/common/resumenEjecutivoPresupuesto.jsp&id=99. Accessed 10 July.
Ministerio de Economía y Finanzas, Perú. 2006. Budget statistics. http://ofi.mef.gob.pe/transparencia/default.aspx. Accessed 17 October.
Montúfar C. El Ecuador entre el Plan Colombia y la Iniciativa Andina: del enfoque de los 'efectos' a una perspectiva de regionalización. In: Montúfar C, Whitfield T, editors. Turbulencia en los Andes y Plan Colombia. Quito: Centro Andino de Estudios Internacionales, Universidad Andina Simón Bolívar Ecuador; 2003. p. 205–34.
New York Times. Indonesia admits "support" by U.S. Gold company to the military. December 30, 2005.

Obi CI. Oil and development in Africa: some lessons from the oil factor in Nigeria for the Sudan. In: Patey L, editor. Oil development in Africa: lessons for Sudan after the Comprehensive Peace Agreement. DIIS Report 8. Copenhagen: Danish Institute for International Studies, DIIS; 2007. p. 9–34.

Observatorio Político de Defensa, Seguridad y Relaciones Civil-Militares. Resumen de noticias. Quito: Programa para la Administración Democrática de la Defensa, Pontificia Universidad Católica del Ecuador, Proyecto Relaciones Civil-Militares PUCE/Democracia Seguridad y Defensa, and Fundación Honrad Adenauer Stiftung. Quito; June 1007, January 2008, June 2008.

O'Donnell G. On the state, democratization and some conceptual problems: a Latin American view. World Dev. 1993;21:1355–69.

Okpanachi E. Confronting the governance challenges of developing Nigeria's extractive industry: policy and performance in the oil and gas sector. Rev Policy Res. 2011;28:25–47.

Omeje K. High stakes and stakeholders: oil conflict and security in Nigeria. Burlington: Ashgate; 2006.

O'Neill K. Decentralization as an electoral strategy. Comp Polit Stud. 2003;36:1068–91.

Palomino Milla F. Economía de la defensa nacional: una aproximación al caso peruano. Serie Democracia 10. Lima: Comisión Andina de Juristas; 2004.

Pegg S. The cost of doing business: transnational corporations and violence in Nigeria. Secur Dialogue. 1999;30:473–84.

Perelli C, Rial J. Changing military world views: the armed forces of South America in the 1990s. In: Millett RL, Gold-Biss M, editors. Beyond praetorianism: the Latin American military in transition. Miami: North-South Center Press, University of Miami; 1996. p. 59–82.

Pion-Berlin D, Trinkunas HA. Attention deficits: why politicians ignore defense policy in Latin America. Lat Am Res Rev. 2007;42:76–100.

Proyecto USAID/Perú Prodescentralización. Proceso de descentralización: balance y agenda a julio de 2011. Lima: Proyecto USAID/Perú Prodescentralización; 2011.

Richani N. Multinational corporations, rentier capitalism, and the war system in Colombia. Lat Am Polit Soc. 2005;47:113–44.

Rieffel L, Pramodhawardani J. Out of business and on budget. Washington, DC: The Brookings Institution; 2007.

Robles Montoya J. Metodología de análisis para la asignación de recursos de la defensa: presupuestos y adquisiciones. In: Suárez G, Hernández W, Robles J, editors. Transparencia y eficiencia en gastos para la defensa. Lima: Instituto de Defensa Legal; 2003. p. 121–89.

Robles Montoya J, et al. Transparencia y control en la asignación de recursos para la defensa: discurso y realidad. In: Hurtado L, Florez JM, San Martín C, Salazar RL, Robles J, Sibilla G, editors. Los nudos de la defensa: enredos y desenredos para una política pública en democracia. Lima: Instituto de Defensa Legal; 2005. p. 123–52.

Rojas I. Peru: drug control policy, human rights, and democracy. In: Youngers CA, Rosin E, editors. Drugs and democracy in Latin America: the impact of U.S. policy. Boulder: Lynne Reinner Publishers, Inc.; 2005. p. 185–230.

Rospigliosi F. Montesinos y las fuerzas armadas: cómo controló durante una década las instituciones militares. Lima: Instituto de Estudios Peruanos; 2000.

Sawyer S. Crude chronicles: indigenous politics, multinational oil, and neoliberalism in Ecuador. Durham: Duke University Press; 2004.

Soberón Garrido R. Listado de bases antisubversivas en el Perú. Lima; 2006.

Steele A. Refining the future: oil and gas in Indonesia. Glob Asia. 2008;3:90–7.

Stepan A. The new professionalism of internal warfare and military role expansion. In: Stepan A, editor. Authoritarian Brazil: origins, policies, and future. New Haven: Yale University Press; 1973. p. 47–65.

Stepan A. Rethinking military politics: Brazil and the Southern Cone. Princeton: Princeton University Press; 1988.

Stockholm International Peace Research Institute. The military expenditures database. http://www.sipri.org/databases/milex. Accessed 3 Jan 2009.

Stokes SC. Mandates and democracy: neoliberalism by surprise in Latin America. Cambridge: Cambridge University Press; 2001.

Ukeje C. Oil communities and political violence: the case of ethnic Ijaws in Nigeria's Delta region. Terror Polit Violenc. 2001;13:15–36.

Weyland K. Politics of market reform in fragile democracies: Argentina, Brazil, Peru, and Venezuela. Princeton: Princeton University Press; 2002.

Wicaksono A. Indonesian state-owned enterprises: the challenge of reform. Southeast Asian Affairs 2008. p. 146–67.

Maiah Jaskoski is Assistant Professor in the Department of National Security Affairs at the Naval Postgraduate School in Monterey, California. She specializes in state-society relations in Latin America, including civil–military relations, military roles, and natural resource conflict. Her book, *Military Politics and Democracy in the Andes* (forthcoming with The Johns Hopkins University Press), examines why militaries vary in the missions they perform and neglect. Her research has been published in *Latin American Research Review, Latin American Politics and Society*, and *Armed Forces & Society*. Jaskoski received her Ph.D. in Political Science from the University of California, Berkeley.