

Increasing efficiency within Middle East defence ministries amidst global oil demand instability

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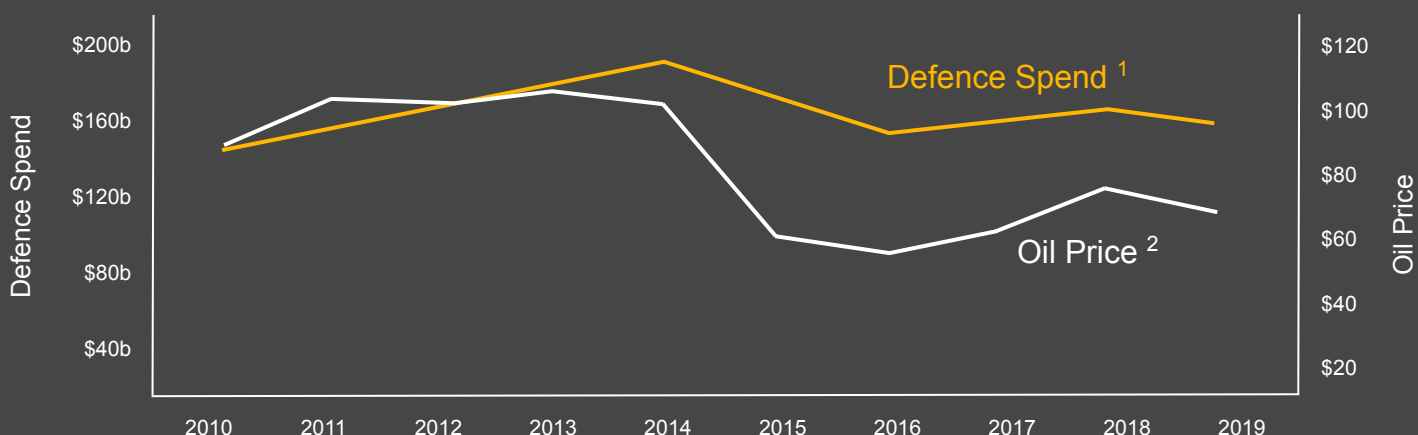


Introduction

Historically, defence spending in the MENA region has been sensitive to the ebb and flow in energy prices, however, COVID-19 may have triggered a long anticipated tipping point in oil demand. The ripple effect of this phenomenon could potentially result in Middle Eastern nations reducing defence spending to balance budgets and fulfill other priorities, such as social and healthcare programmes.

As it currently stands, these countries continue to be largely dependent on energy exports for economic growth and the price of oil has a direct impact on the ability of these countries to modernize their military forces.

Defence spending in the region is linked to oil price



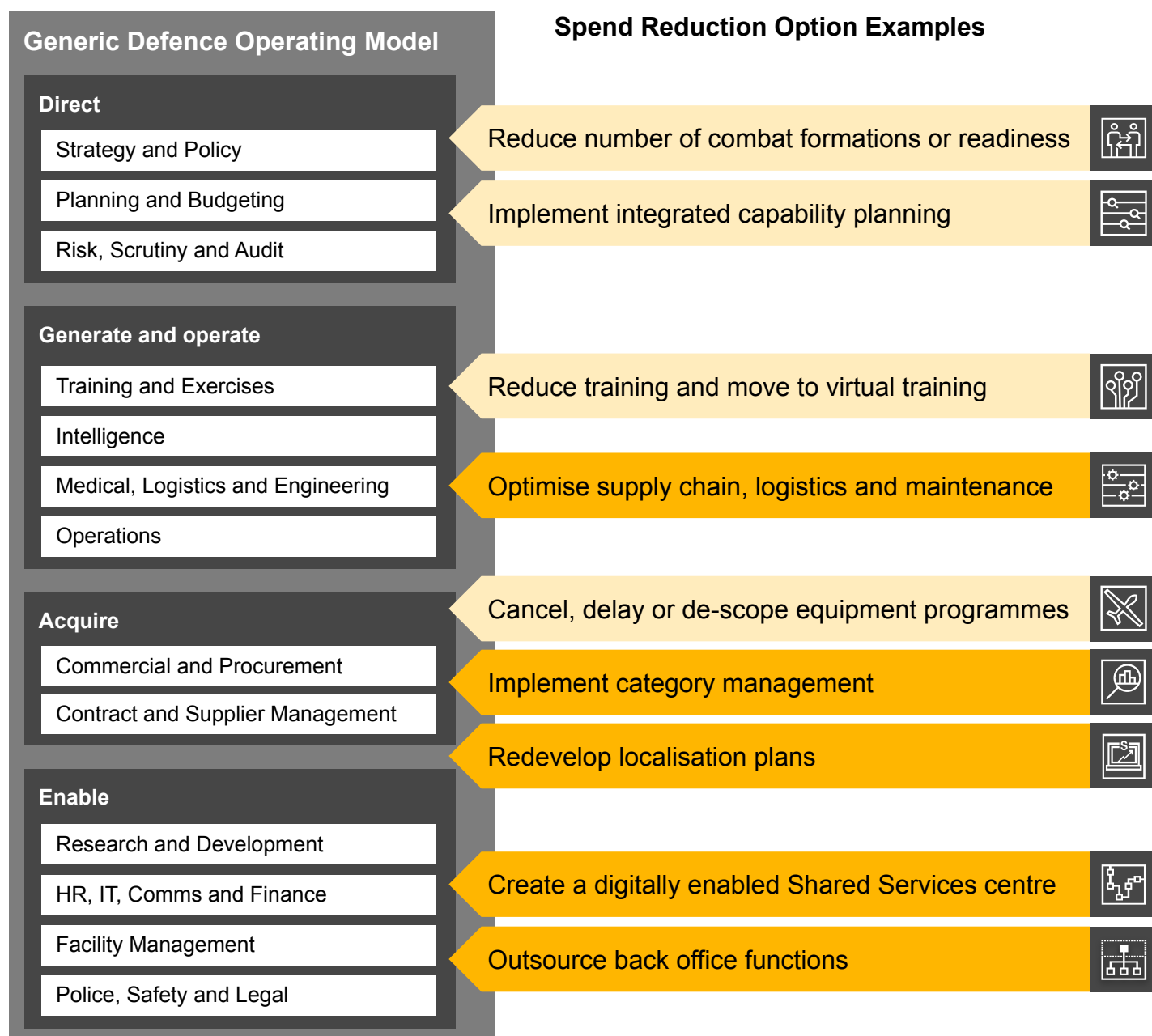
The Middle East region continues to have a high number of perceived threats from both non-state actors and assertive national powers. This instability is likely to result in less severe reductions in defence spending than other areas of public spending, which may be considered more discretionary. However, the impact of low energy prices could drive nations to slow defence spending plans and re-assess operational priorities. A critical question is - how can Middle East defence ministries achieve their strategic objectives, while also implementing budget cuts to reduce government budget deficits?

¹ Military Expenditure in the Middle East Region in US\$b at constant 2018 prices, SIPRI, 2020

² Historical Average Closing of Price West Texas Intermediate Crude Oil Prices per Barrel adjusted for inflation, Macrotrends LLC

Spend reduction options

In order to identify where efficiencies can be made, defence ministries in the region first need to analyse their current operating models. This will result in a long list of potential spend reduction options across different organisational areas within the ministry. These options can then be evaluated to determine whether they can be implemented without impacting strategic objectives. We have identified potential initiatives across a generic defence operating model.

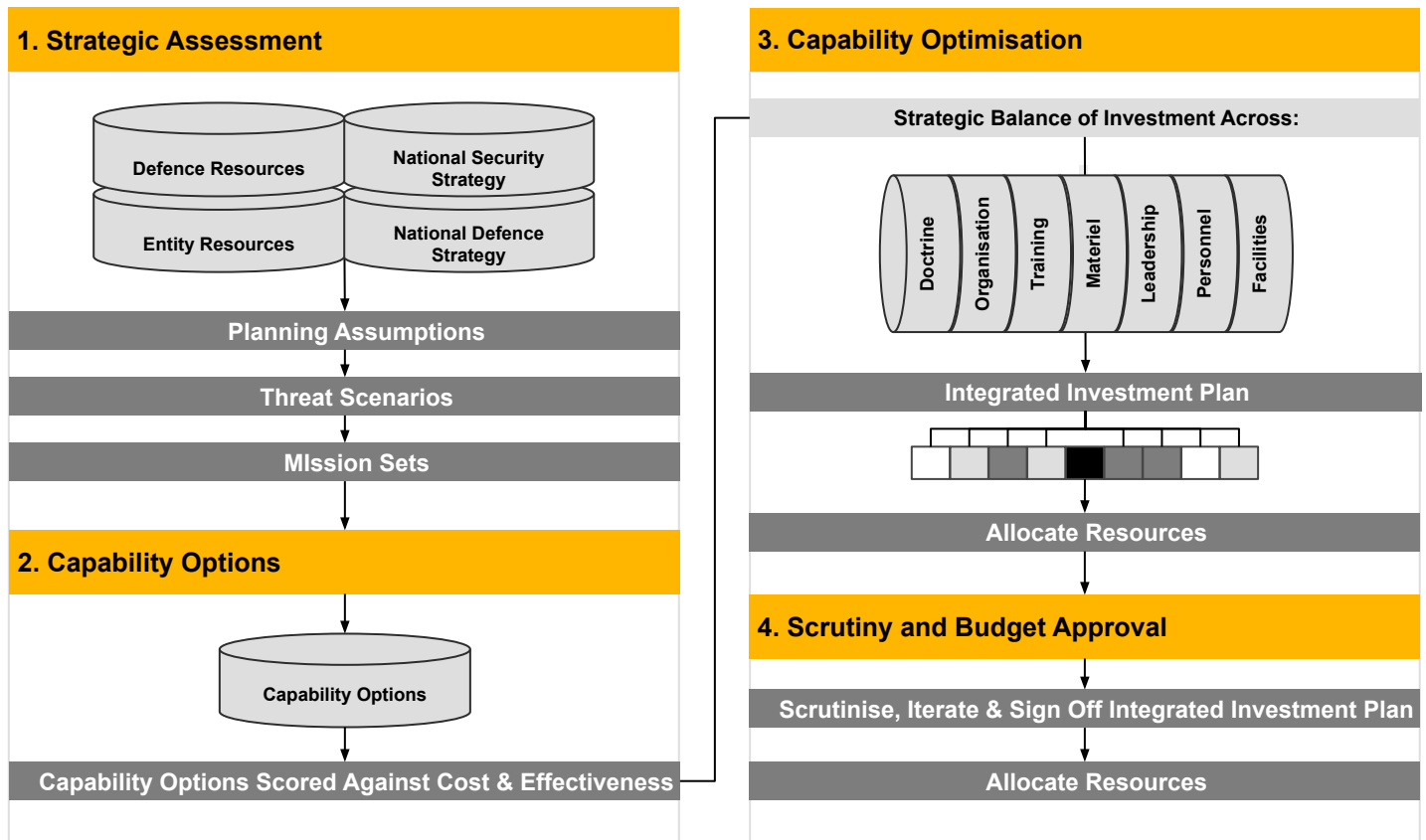


Capability focused options

Back office focused options

Direct functions

Often, Middle Eastern defence ministries make spending decisions that have not been aligned with national or other ministry strategies. This results in inefficiencies across front line equipment and personnel for potential missions. In best practice, defence ministries' national strategies are translated into missions and a strategic balance of investment is used to define the most efficient and effective mix of force elements.



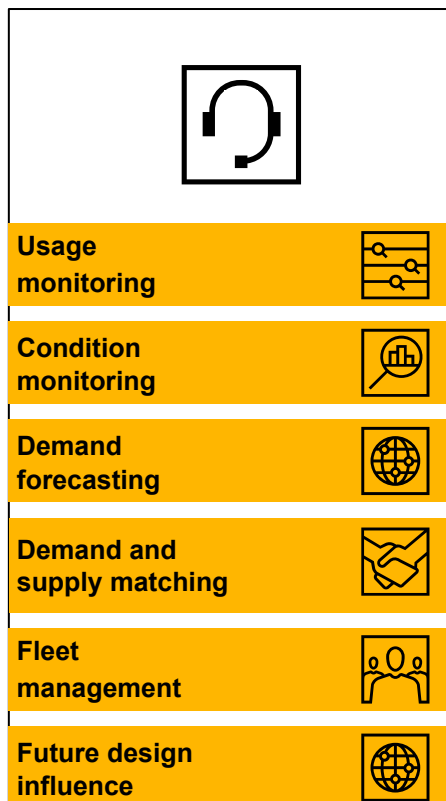
Key Success Factors

- Translate national security and defence strategies into planning assumptions, threat scenarios and missions. Ministry of defence must execute and ensure alignment with the ecosystem.
- Ensure that the missions are defined in as much detail as possible including location, scale, scope, frequency and concurrency.
- Define capability options that can be used to carry out the mission set and score the operational effectiveness of each option, using wargaming with military subject matter experts.
- Use scenario based modelling to carry out strategic balance of investment analysis across DOTMLPF and define the most efficient and effective mix of force elements to carry out the mission set.
- Develop a multi-year integrated investment plan that has been reviewed with complete accuracy and has buy in from all ministry leaders.
- Ensure this plan is thoroughly reviewed every year against spending.

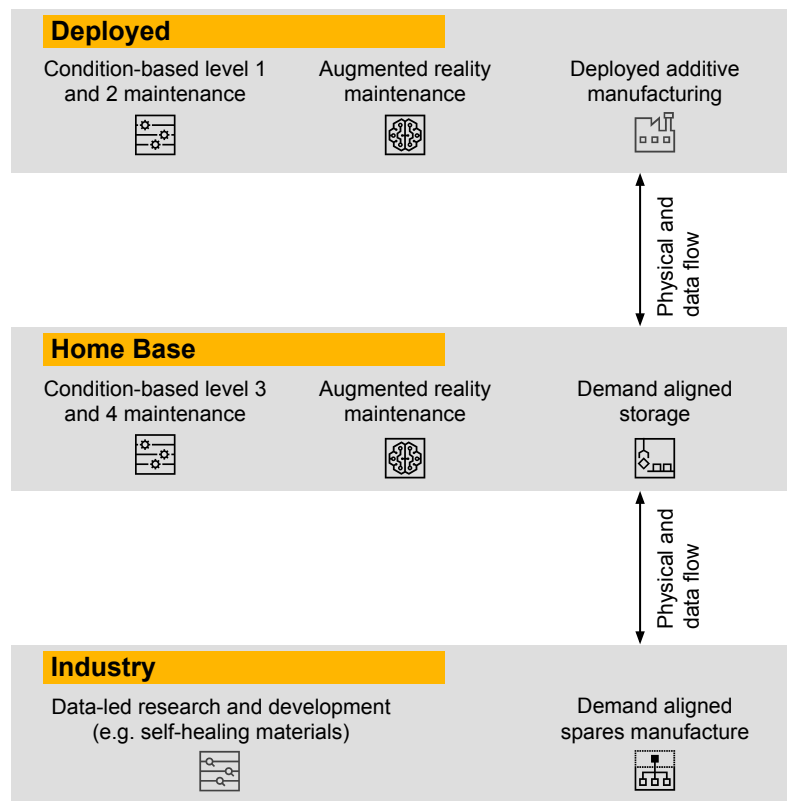
Generate and operate functions

The Generate and Operate functions create mission-ready deployable forces that are supported by a logistics chain. This supplies forces with the consumables they need and keeps equipment well-maintained. The logistics process is often inefficient, resulting in stockpiles of inoperative inventory and equipment. Digitisation of the logistics chain through the use of control towers and sensor technologies results in efficient, optimally supported and high readiness forces.

Operational Control Tower



Data Sources



Key Success Factors

- Baseline logistics and maintenance infrastructure, inventory and equipment to understand inventory and equipment readiness levels in detail.
- Optimise the logistics and maintenance ecosystem against the current and planned future mission set.
- Digitise commodities and equipment using location and condition tracking systems. Inventory, distribution and asset management systems will ensure this data can be analysed and understood.
- Establish operational control towers that can track and optimise logistics and maintenance systems, by matching demand and supply using real time data.



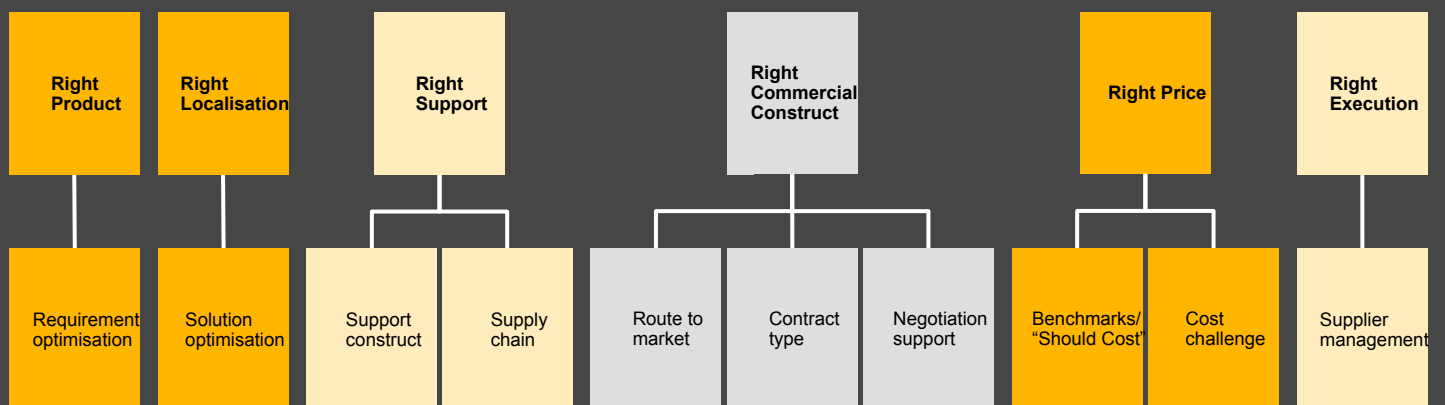
Acquire functions

The acquisition of commodities, equipment and services is vital to the deployment and sustainment of mission ready forces. Best practice defence ministries closely manage the acquisition delivery lifecycle, from the definition of detailed requirements with stakeholders, through to engaging with suppliers. They also incentivise localisation and support equipment throughout the lifecycle. If the acquisition lifecycle is not closely managed, inefficiencies can build, resulting in overspend on acquisition contracts that may be decades long and difficult to renegotiate.

Acquisition Delivery Lifecycle



Spend Reduction Levers



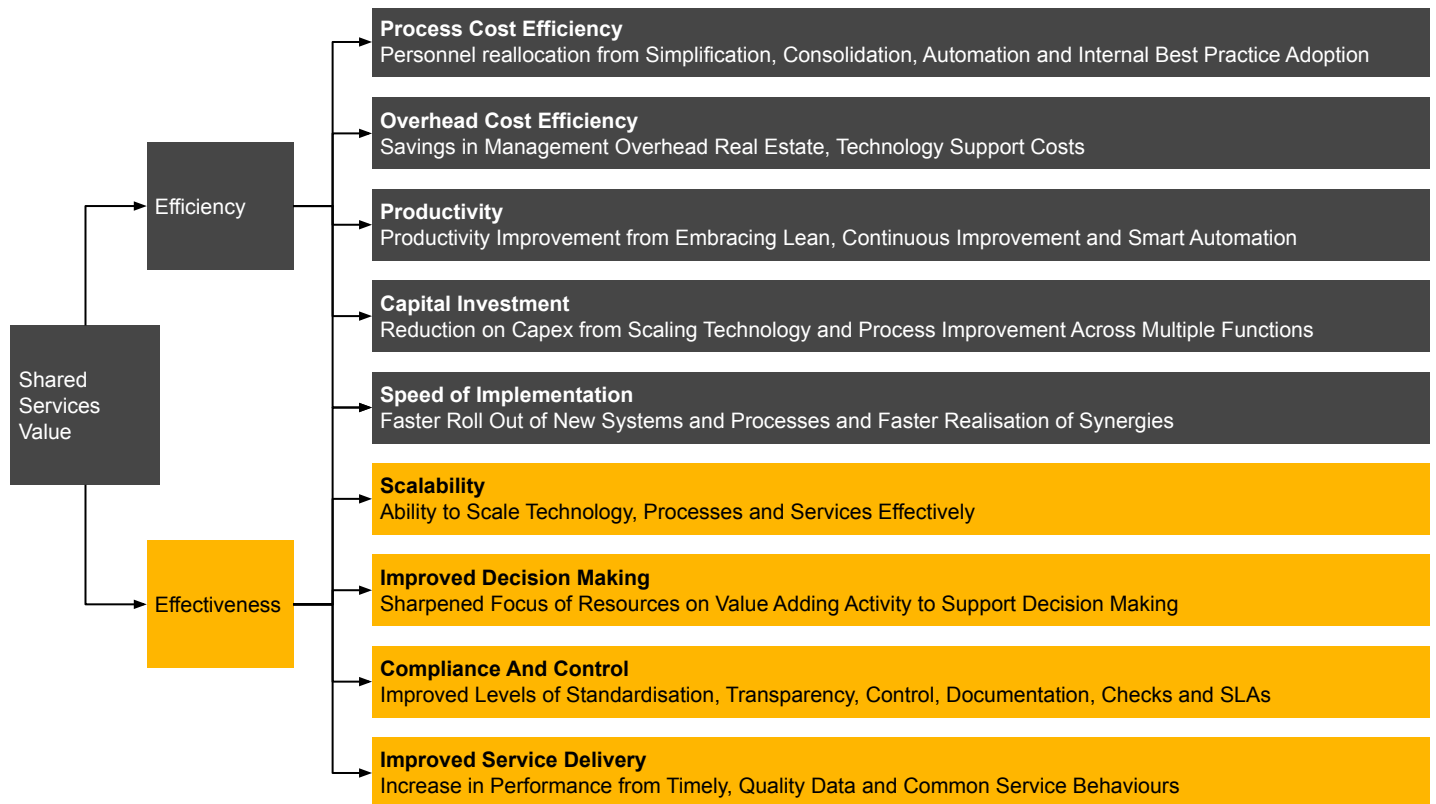
Key Success Factors

- Acquisition must be closely linked with the approved integrated investment plan that defines the balanced set of capabilities needed to meet strategic goals.
- Acquisition must work with front line users to define requirements and costs in detail through life and across DOTMLPF. There will be numerous trade offs that need be defined and agreed by stakeholders and suppliers.
- The commercial construct needs to be carefully analysed with a clear rationale for the chosen construct.
- Acquisition does not stop at delivery - suppliers must be carefully managed through life to ensure that capabilities are maintained as contracted, and any agreed localisation is achieved.



Enable functions

Increasing the efficiency of 'back office' functions (HR, IT, Finance etc.) using a centralised service centre is an effective way of reducing spend without impacting front line capability. Enable functions in Middle Eastern defence ministries are often spread across geographies and internal organisations, resulting in a deconsolidated provision of enabling services. Shared services can increase performance and potentially create localisation opportunities through outsourcing.



Key Success Factors

- Move personnel and workload into the shared services environment using a methodology that will ensure a smooth process transition, with as little disruption to the business as usual operations as possible.
- Manage stakeholders and work with leaders to get buy in and support of the shared services initiative.
- Closely manage personnel and change through engaging, retaining, motivating and supporting existing and new personnel.
- Deliver balanced communication by sending the right messages at the right time including the communication of the rationale for the transformation, and publicise success to win support for future transition activity.
- Manage risk and mitigation activities using a risk log as a living and evolving tool.

Conclusion

The recent and potentially long term reduction in oil demand will undoubtedly put defence budgets in the region under strain. However, there are clear actions that defence ministries can take to reduce spend without impacting front line capability and strategic objectives. This involves analysing the Direct, Generate and Operate, Acquire and Enable functions and identifying opportunities to improve both efficiency and effectiveness, while maintaining and even increasing military outputs. COVID may be the catalyst defence ministries need to seize opportunities highlighted and accelerate transformation efforts.

Spend reduction functions



Defence ministries in the region often base capability investment decisions on international partnerships and siloed analysis of mission requirements. In order to improve efficiency in this area, a structured capability investment process is required which links national security and defence strategies to entity planning assumptions, threat scenarios and mission sets. This results in a set of capability options that can be analysed against cost and operational effectiveness, to find an optimal balance.

Direct, generate and operate functions



The support of front line forces with commodities, equipment and services is vital to the success of missions. This logistics chain is often stretched and inefficient, resulting in mis-managed inventory and equipment at low readiness levels. The digitisation and close management of the logistics chain using operational control towers results in demand and supply decisions that can be made in real time. In addition, the home base support infrastructure can be tailored to current and future front line needs.

Acquire functions



Acquisition of commodities, equipment and services keeps a modern force mission ready. As forces in the region become more technologically advanced, the reliance on a vibrant defence industrial base becomes even more important. Acquisition must be closely linked to a structured capability investment process, and requirements must be defined in detail with stakeholders through life and across the doctrine, organisation, training, materiel, leadership, personnel and facilities. In addition, the relationships with suppliers must be seen as a long term partnership.

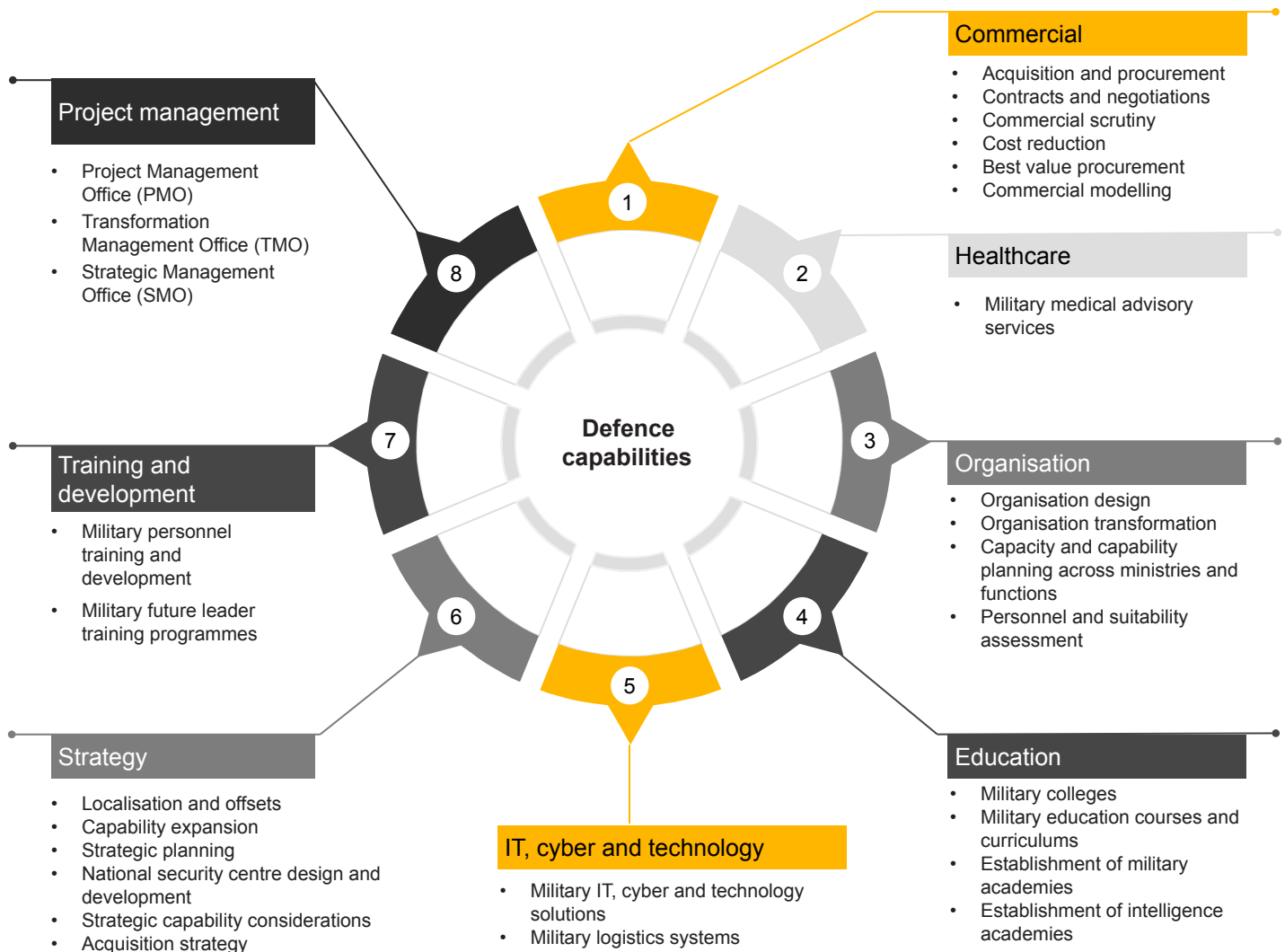
Enable functions



The back office functions (HR, IT, Finance etc.) in defence ministries are often overlooked, with the focus on front line capability. However, these functions are vital to the development of a modern efficient force that is effectively financed, recruits the best talent and is supported by modern technology. There are significant opportunities in the region to improve these functions by creating shared service centres that bring together dispersed functions into an efficient and service focused organisation.

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With over 20 years of experience, Ammar has led a number of complex transformation efforts with many government and public sector entities across the region. Ammar brings a wealth of experience and has led projects across a number of industries, including the public sector, tourism, labor, pharmaceutical, biotechnology, ICT, food, retail, and more.

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Jay has worked with defence sector clients for more than 10 years to develop supply chain and procurement operating models that deliver sustained transformation. Leveraging analytical and digital capabilities, he has designed and implemented projects to improve performance, reduce cost and manage risk.

He has delivered major transformation projects in the UK and internationally for both military and defence industry clients, including the UK Ministry of defence, NATO and BAE Systems. He has experience of working with all levels of client organisations to shape, plan and deliver critical change.



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