

THE DEFENCE EXPENDITURE AND SPENDING OF THE REPUBLIC OF SERBIA WITH SPECIAL REFERENCE TO THE COVID-19 PANDEMIC PERIOD

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This paper presents the specifics of financing the defence expenditure and spending during the COVID-19 pandemic. The allocations for the defence system of fifteen countries in the world and five European countries that have invested the greatest funds are presented. Furthermore, the share of all categories of sources of financing the expenditure and spending of the Ministry of Defence of the Republic of Serbia has been analysed.

The objective of this paper is to emphasise the importance of providing financial resources for certain purposes and in the conditions of insufficient resources, by defining the defence function as a very important function with a high level of priority. Accordingly, the main hypothesis is that even the most developed countries in the world cannot allocate sufficient financial resources for defence. In the conditions of the COVID-19 pandemic, as a global challenge to the security of all countries in the world, the main hypothesis has been confirmed.

In addition to general scientific methods, having in mind the subject and objective of the research, a comparative method has been primarily used to analyse the financing of the expenditure and spending of the Ministry of Defence in the period from 2013 to 2021, as well as the method of content analysis, that is, the source of financing in the same period. The paper confirms the complexity of carrying out the financial plan of the defence system for the most developed countries in the conditions of the pandemic. On the basis of the implemented method, the author has come to the conclusion that the Republic of Serbia allocates increasing funds for defence, especially since 2017, with the exception of 2020 due to the negative impact of the pandemic.

Key words: expenditure, spending, sources of financing, COVID-19 pandemic

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Introduction

The attitude towards the defence financing, as a specific and very important function of each state, has changed throughout history. Nowadays it can be argued that a long time ago *education and defence were considered to be too important from a political, sociological and human point of view to undergo any economic calculation.*¹

The financing of the Ministry of Defence, as one of the state functions, is defined by the Budget System Law of the Republic of Serbia. Namely, planning, programming, developing the financial plan of the Ministry of Defence, as well as its execution, are a part of the process of developing and executing the budget of the Republic of Serbia.² The total amount of available funds for the Ministry of Defence is defined by the Budget Law of the Republic of Serbia for each year. Since the beginning of the 21st century, the way of expressing the total financial resources allocated to the Ministry of Defence has changed. These funds are used to maintain the existing and develop new capabilities. However, the allocated financial resources in the first decade of the 21st century, like in much more developed countries, were not enough to develop new capabilities. In recent years, especially in the discussed period, this situation has changed in favour of the Ministry of Defence of the Republic of Serbia, so that, in addition to efficient and effective management of available funds, new capabilities are developed in this Ministry.

In accordance with the Rulebook on the standard classification framework and the Chart of Accounts for the budget system, the classification of the state budget expenditures, according to *accounting funds*, connects sources of financing with specific spending. The funds for financing the defence expenditure of the Republic of Serbia are planned and defined, according to accounting funds³, for each budget year and include budget funds, revenues, donations from foreign countries, donations from NGOs and individuals, grants, unallocated surplus of revenues from previous years, unspent funds of donations from previous years, etc. The amount of funds for financing defence expenditure is limited for each budget year within the Budget Law of the Republic of Serbia and can be changed only by the Law on Amendments to the Budget Law, i.e. budget rebalance in parliamentary procedure.

In principle, sources for financing the defence system are classified into sources in peacetime and sources for financing war. A part of the total value of state production in current period, meaning the part that can be used for public consumption of society, is *a source of the defence funding in peacetime*. According to Nikola Čubra, PhD, *sources for financing war are* "a social product made during war, available social wealth, foreign loans, free aid and booty."⁴ The best source of financing in war and peace are internal sources of financing, i.e. public consumption.

¹ Čubra, N., *Ekonomika opštenarodne odbrane*, Vojnoizdavački zavod, Beograd, 1979, p. 112.

² Trandafilović, S. i Knežević, M., *Finansiranje sistema odbrane i programsko budžetiranje*, Medija centar Odbrana, Beograd, 2013. pp. 149-159.

³ Within the defence system, the term budgeted fund is not used, but the term source of financing is used instead.

⁴ Čubra, N., *Ekonomika opštenarodne odbrane*, Vojnoizdavački zavod, Beograd, 1979, p. 92.

Defence expenditure in many countries is a great part of total public spending. In modern theory and practice, there are conflicting opinions on how defence expenditure affects economic development.⁵

During budget adoption, different opinions and attitudes of political parties regarding the amount of financial resources for the needs of defence are presented in parliamentary procedure, regardless of the economic situation in the country. The fact that the *Budget Law* is adopted and passed in parliamentary procedure sufficiently indicates that the current relation of political forces, as well as their "mood" towards defence, as the state function, defines the amount of its budget. However, due to the lack of financial resources in developing countries, when there is not enough money for all state functions, it is expected that every dinar invested in the state defence will be reconsidered.

However, investing in defence should be viewed as investing in the future and development. For example, Manuel Castells emphasises that the military spending and technology initiatives of the US Department of Defense have played a key role during the information technology revolution because members of the US Department of Defense have worked on programmes that have led to fundamental discoveries - from the 1940s computers to optoelectronics and artificial intelligence technology.⁶

The COVID-19 pandemic has significantly affected global defence financing, although members of the defence systems in most countries have been active in countering this pandemic in support of civil authorities in planning and logistic support, infrastructure and providing sufficient medical personnel. Therefore, some defence procurement in many countries in the world has been postponed. However, this was not the case in the Republic of Serbia in 2020. Although the pandemic had a negative effect like in the rest of the world, defence funds in the Republic of Serbia are actually and nominally higher, and the procurement of military equipment and weapons was fully conducted.

Moreover, the pandemic had other implications on a global level – the fear of infection, which led to delays and cancellations of training and exercises whereas some troop deployments were delayed, and other prolonged. It negatively affected the population and economy of each country, and it was a security challenge to fight this lethal disease.

The National Security Strategy emphasises the epidemics and pandemics of infectious diseases as a challenge, risk and threat, and it says that "special attention will be paid to the prevention and suppression of infectious diseases, as well as their removal and eradication."⁷

⁵ Mladenović, P., Karović, S. i Radončić, H., *Koncept finansijskog obezbeđenja operacija Vojske Srbije Izdaci i rashodi Kopnene Vojske*, Vojno delo 03/17; pp. 254-260.

⁶ Kastels M., *Uspori umreženog društva, ekonomija, društvo i kultura*, Službeni glasnik RS, Beograd, 2018, pp. 134-146.

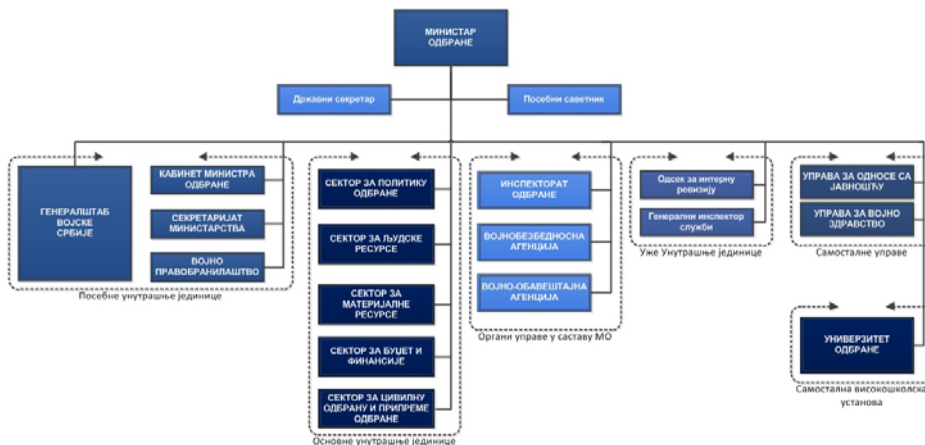
⁷ Stanojević, P., Mandić, G., *Organizaciono-upravljački aspekti logističkog odgovora na krizu izazvanu pandemijom KOVID 19 u Srbiji*, Bezbednost 03/21, pp. 77-95.

The specificity of financing the defence system

Modern business conditions view differently the allocation of financial resources for the needs of defence by state. Of course, *the specifics of financing* this state function are still taken into account, but every dinar of allocated funds is subject to strict control and discipline, both when planning funds in budget and during its execution.⁸

In compliance with the Budget System Law of the Republic of Serbia (Official Gazette of RS No. 54/09, 73/10, 101/10, 101/11, 93/12, 62/13, 142/14, 68/15, 103/15, 99/16, 113/17, 95/18, 31/19, 72/19, 149/20 and 118/21) the Ministry of Defence is a direct beneficiary of budget funds.

Since the Ministry of Defence is a direct beneficiary of budget funds, the instrument of financing the defence system is the state budget, which presents all revenues and incomes of the state, as well as its expenditures. The ratio of state revenues and expenditures within budget should always be in balance. If there is an imbalance in budget, it is necessary, when state revenues are less than its expenditures, to establish a balance by loans and vice versa.



Scheme 1 – The organization of the Ministry of Defence of the Republic of Serbia⁹

As shown in Scheme 1, the Ministry of Defence is a very complex, hierarchically structured organization. It is a specific system within a large social system and represents its subsystem. Like other large systems, it is characterized by:¹⁰

- complexity;

⁸ Knežević, M., Nikolić, S., Neševski, A., *Kontrola budžeta u funkciji civilne demokratske kontrole u Republici Srbiji*, Vojno delo 03/21; pp. 103-120.

⁹ Source: www.mod.gov.rs

¹⁰ Žugić, R., *Vodič kroz budžet, finansijski plan odbrane*, VIZ, Beograd, 2008, p. 18.

- openness;
- dynamism;
- strict hierarchical structure; and
- two-way relationship.

The complexity of the Ministry of Defence is influenced by a number of factors because it includes a great number of elements - subsystems organized into sectors, departments, units and institutions of different levels of complexity, a high level of conditionality and dependence.

Although many people are inclined to say that the defence system is closed, it can be said with certainty that it is nevertheless an open system. Bearing in mind that it is very difficult today to survive independently and without exchanging matter, energy and information, then the implication of the *openness* of the Ministry of Defence is unambiguous.

Of course, the openness of any activity of this Ministry does not mean providing information about data that are classified, but under the pretext of keeping such data even when they are not classified according to relevant regulations, must not close any part of the Ministry of Defence because this system primarily exists for the citizens who finance it.

The Ministry of Defence, as an organization, is characterized by *dynamic processes* conditioned by influences and changes in the surroundings, as well as harmonization with these changes and influences, which can be political, technical, technological, social, economic, etc. For example, under the influence of economic changes in society, there are changes in the manner, level and quality of defence financing, which in turn affects the development of capabilities of the Ministry of Defence and its parts.

The strict *hierarchical structure* is based on the principles of single seniority and subordination.¹¹ Command in the military is based on the principles of unity in terms of the engagement of forces and equipment and the obligation to execute decisions, orders and directives of superior officer. Higher levels make decisions defining the functioning of lower levels. This system does not exclude the influence of lower levels in making decisions at a higher level through proposals, considerations, remarks, suggestions, opinions, etc.

The two-way relationship is reflected in the human-human and human-technical relationship, both within the Ministry of Defence and the external surroundings. This characteristic is not specific only to the Ministries of Defence, but also exists in other systems and organizations, but it is not so pronounced. For military organizations, and thus for the Ministries of Defence, the two-way relationship is an important element of success in the preparation and conduct of combat.

From the mentioned specifics and characteristics of military organization, the specifics of financing in relation to financing of other social activities also arise. The specificity of financing defence of a country consists of the following:

- the defence tasks, and accordingly the execution of some defence activities are of an urgent character, so there has to be permanence of their financing and

¹¹ Žugić, R., *Vodič kroz budžet, finansijski plan odbrane*, VIZ, Beograd, 2008, p. 19.

– the execution of the set defence objectives in strategic and other planning documents of a country is of a non-transferable character. They clearly define the role of all members of society, especially the defence system.

The financial management of the Ministry of Defence is subject to the control of the legality of managing and using funds. The control is performed within the Ministry of Defence at several levels, starting from internal control at the level of beneficiaries through control in the Accounting Centre of the Ministry of Defence, internal audit, the Defence Inspectorate, to the Criminal Investigation Group and the Military Security Agency. The Ministry of Defence is also subject to the audit of operations by external control institutions: the Budget Inspection, the State Audit Institution and the Defence Committee of the Assembly.¹²

The financing of the defence system largely depends on the state's ability to allocate funds from gross domestic product in a certain amount to finance the defence, and also on the mood of political factors in state, as internal factors of society. The financing of a country's defence system also depends on external factors such as geopolitical environment and the like. Moreover, the amount of funds intended for defence financing depends on a number of other factors, such as the degree of state "vulnerability", and also modern understanding and the trend of defence financing in neighbouring countries.

The role of state in financing defence expenditure

The role and place of state and its bodies and institutions in financing the defence system is characterized by compromise conflict resolution: *to accomplish a defined goal with minimal financial investment*. Of course, even the most developed countries in the world cannot allocate as many financial resources as their defence requires. On the one hand, the government of each state is obliged to consider the state economic situation, and, on the other hand, to enable a stable defence system, efficiently using limited resources.

Given that the impact of the COVID-19 pandemic poses a global security risk and threat, analysing the share of financing defence expenditure of some countries can be the data of great importance because all considered countries have a common security risk in 2020 and 2021. Table 1 lists fifteen countries with the greatest allocations for defence in 2020. The United States provided the most funds for defence, and the largest percentage of gross domestic product (GDP) was allocated by China, which is also the only one with positive GDP growth in the considered period. The pandemic will also affect defence expenditure, though not immediately. Global public consumption grew in 2021, reaching \$1.83 trillion and was increased by 3.9%. The European NATO members have increased defence spending in

¹² Radanović, T., Slavković, R. i Mačak, Z., Koncept finansijskog obezbeđenja operacija Vojske Srbije, Vojno delo 03/17; pp. 343-360.

proportion to GDP. However, despite the pandemic causing 7% inflation among members in 2020, only 9 members managed to meet NATO requirements that 2% of GDP is spent on defence.

Table 1 – *Fifteen best ranked countries in 2020*¹³

State	Allocations for defence		GDP growth
	US\$bn	%GDP	
US	738.0	3.55	-4.3
China	193.3	10.6	1.9
India	64.1	3.50	-10.3
UK	61.5	2.33	-9.8
Russia	60.6	4.14	-4.1
France	55.0	2.16	-9.8
Germany	51.3	1.36	-6.0
Japan	49.7	2.70	-5.3
Saudi Arabia	48.5	2.70	-5.4
South Korea	40.4	2.20	-1.9
Australia	31.3	2.30	-4.2
Italy	29.3	1.59	-10.6
Brazil	22.1	1.60	-5.8
Canada	20.0	1.25	-7.1
Israel	19.9	4.30	-5.9

The financing of the defence system directly depends on the economic position and development of state, and also on available budget. Therefore, the greatest responsibility relies on those who are authorized to dispose of budget funds in a certain period and use them for the most important priorities of state, and also on the control of the disposal and use of those funds. The financing of the defence system of the Republic of Serbia, as a direct beneficiary of budget funds, is conducted in accordance with procedures defined by legal and other normative regulations of the country.

On the basis of the data from the Military Balance journal (2015), the European NATO members have steadily increased defence spending in proportion to GDP. The average consumption increased from 1.25% of GDP in 2014 to 1.52% in 2019

¹³ Source: IISS, [2021], The Military Balance, Chapter Four: Europe, p. 66.

and 1.64% of GDP in 2020. The consumption in Southeast Europe (Bulgaria, Romania and Turkey) increased by 4.9% in 2019, but fell by 2.4% in 2020.

Defence expenditure in the Balkans stagnated in 2020 because every country, except Albania, implemented budget reduction or dramatically decreased its GDP growth rate. The Croatian defence budget increased by 12.7% in 2019, but GDP growth was slowed down and amounted to 3.7% in 2020.

The United Kingdom allocated the most financial resources for defence in 2020, France and Germany a little less, Italy is in the fourth place in terms of allocations, and Spain is in the fifth place.

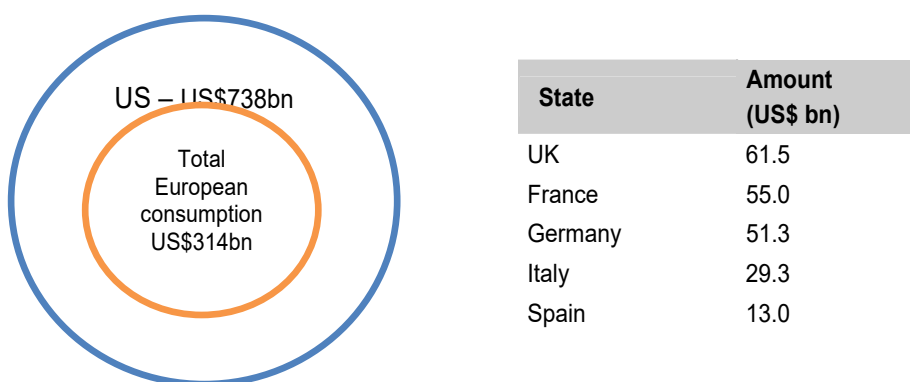


Figure 1 – The allocations of the European countries for defence in 2020 - five best ranked countries¹⁴

The comparisons of defence expenditure in nominal amounts, allocations per soldier and in percentage share in GDP, as well as the number of military personnel by categories in 2020 and 2021 are shown in Table 2.

Table 2 – The expenditure for defence and military personnel in 2020 and 2021¹⁵

	Defence expenditure (US\$m)	Defence expenditure per capita (US\$)	Defence expenditure (%GDP)	Active personnel (000)	Estimated number of reserve (000)
	2020	2020	2020	2021	2021
North America					
Canada	20.049	532	1.25	67	36
US	738.000	2.219	3.55	1.388	845
TOTAL	758.049	1.375	2.40	1.456	881

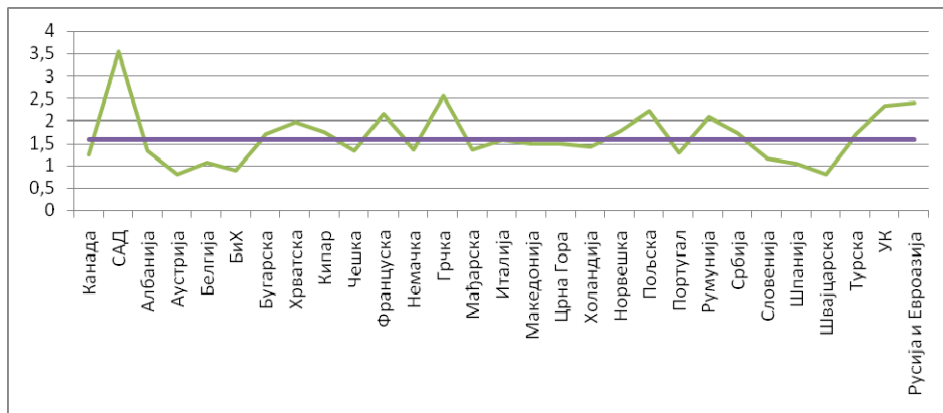
¹⁴ Izvor: IISS, [2021], *The Military Balance, Chapter Four: Europe*, page 66.

¹⁵ Izvor: IISS, [2021], *The Military Balance, Chapter: International comparisons of defence expenditure and military personnel*, page 517.

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	2020	2020	2020	2021	2021
Europe					
Albania	187	61	1.33	8	0
Austria	3.471	392	0.80	22	126
Belgium	5.453	465	1.08	26	5
B&H	169	44	0.89	11	0
Bulgaria	1.158	166	1.70	37	3
Croatia	1.121	265	1.98	15	18
Cyprus	406	320	1.75	15	50
Czech Republic	3.278	306	1.35	25	0
Denmark	4.909	836	1.45	15	44
Estonia	717	583	2.37	7	18
Finland	4.105	737	1.53	24	216
France	55.034	811	2.16	203	41
Germany	51.347	641	1.36	184	30
Greece	4.984	470	2.56	143	221
Hungary	2.041	209	1.36	28	20
Iceland	52	148	0.25	0	0
Ireland	1.189	230	0.30	9	4
Italy	29.344	470	1.59	166	18
Latvia	758	403	2.31	6	11
Lithuania	1.163	426	2.12	22	7
Luxembourg	390	621	0.57	0	0
North Macedonia	188	89	1.51	8	5
Malta	81	177	0.57	2	0
Montenegro	74	121	1.50	2	0
Netherlands	12.615	730	1.42	34	6
Norway	6.493	1.188	1.77	23	40
Poland	12.875	336	2.22	114	0
Portugal	2.857	277	1.29	27	212
Romania	5.207	244	2.09	69	53
Serbia	878	125	1.69	28	50
Slovakia	2.123	390	2.08	16	0
Slovenia	606	288	1.17	7	1
Spain	12.985	260	1.04	123	15
Sweden	7.050	691	1.33	15	10
Switzerland	5.741	683	0.81	20	123
Turkey	11.038	135	1.70	355	379
UK	61.526	936	2.33	149	79
TOTAL	313.611	413	1.50	1.955	1.805
Russia and Eurasia	52.865	117	2.40	1.435	3.758
Asia	457.588	292	2.27	9.327	13.295
Middle East and North Africa	157.420	942	5.51	2.533	1.683
Latin America and the Caribbean	52.702	116	1.21	1.534	2.152
Sub-Saharan Africa	16.978	32	1.53	1.594	213

The average allocation rate for all these countries and regions in 2020 was 1.59% of GDP, as shown in Graph 1. In the considered period, the Republic of Serbia allocated 1.89% of GDP for defence, which is above average.



Graph 1 – The comparison of defense expenditure in % of GDP for 2020¹⁶

Out of the countries that were established by the dissolution of the former Yugoslavia, only the Republic of Croatia allocated greater percentage than the Republic of Serbia – 1.98% of GDP. Other countries – Slovenia, Bosnia and Herzegovina, Montenegro and North Macedonia allocated much less percentage of GDP than our country, i.e. below average.

The sources of financing the defence system of the Republic of Serbia

Starting firstly from the fact that the defence system is a subsystem of the social system and that it is a segment of the socio-economic structure, it is logical that its financing has to come from the source of financing the overall social reproduction. Since the overall social reproduction can be financed from *internal and foreign sources*, this aspect has to be considered when discussing the sources of defence financing.¹⁷

Financing the defence system from *internal sources* is an imperative of each country's financing policy. However, the engagement of *foreign sources* is also allowed in situations where the state integrity is threatened with such intensity that the necessary financing from internal sources cannot be provided or if it is in federal and allied missions

¹⁶ Izvor: IISS, [2021], *The Military Balance, Chapter: International comparisons of defence expenditure and military personnel*, page 517.

¹⁷ Radulović, D., *Izvori i instrumenti finansiranja Vojske Jugoslavije*, magistarski rad, Ekonomski fakultet, Beograd, 1996. p. 43.

or other specific relations, which include various forms of cooperation and assistance, including financial one. It is clear that the decision on whether to use foreign sources of financing, and to what extent, is a political act, conditioned by many factors.

It is important to emphasize that the use of some sources of financing in peacetime period does not mean their exclusion in pre-war and war period, while the use of certain sources of financing in war period is separated from the use in peacetime period. In modern conditions, the sources for financing war are the following: domestic product made during war, available social wealth, foreign loans, free aid and booty.¹⁸

Table 3 – Serbian GDP and funds allocated for defence financing (billion dinars)

	2013	2014	2015	2016	2017	2018	2019	2020	2021
Amount of GDP ¹⁹	4.121,2	4.160,5	4.315,0	4.528,2	4.760,7	5.072,9	5.417,7	5.517,3	5.737,9
% share in GDP	1.39	1.45	1.36	1.53	1.44	1.71	1.90	1.89	1.79
Defence funds	57.33	60.37	58.76	69.47	68.77	86.93	103.09	104.01	102.55

The material basis of the defence system consists of the assets given to it for use and management on behalf of state, as well as a part of gross domestic product that is successively made available. Thereby, it can be concluded that the source of funds for financing the defence system in peacetime is a part of the total value of state production in current period, meaning the part that can be set aside for public consumption of society. It is logical to conclude that defence financing directly depends on the state economic capabilities, i.e. the amount of gross domestic product (GDP) and the percentage share of defence costs in it.

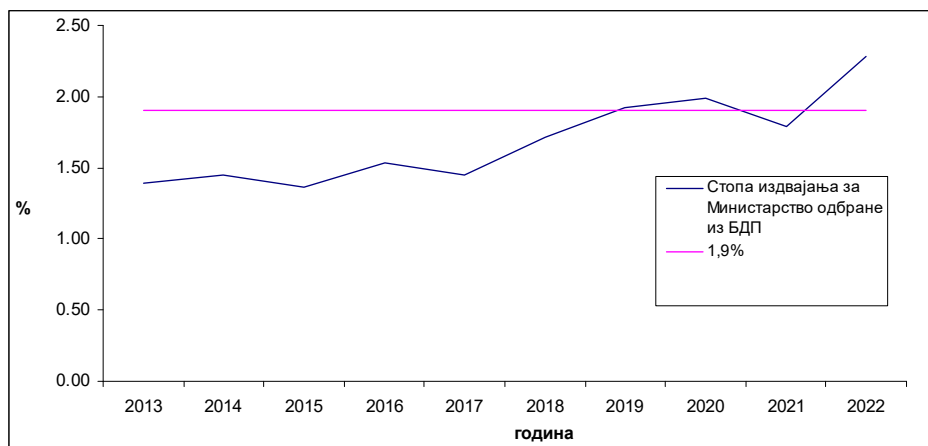
The Government proposes the share of defence costs in state expenditure. It is defined by the document issued by the Government entitled Report on Fiscal Strategy for Budget Year with projections for another two years²⁰, and is defined by the Budget Law. As shown in Table 3, the amount of gross domestic product multiplied by the percentage share of defence costs in it gives the total amount of funds intended for defence financing. The percentage share of defence expenditure in GDP in recent years has been approximately 1.9%. Graph 2, which shows the percentage share of defence expenditure in the period from 2013 to 2021, clearly shows that the percentage share of

¹⁸ Čubra, N., *Ekonomika opštenarodne odbrane*, Vojnoizdavački zavod, Beograd, 1979, p. 92

¹⁹ Source: Statistical Office of the Republic of Serbia.

²⁰ Until 2012, the projections of GDP allocations were presented in the Memorandum on Economic and Fiscal Policy instead of the current Fiscal Strategy Report.

defence expenditure in GDP had a variable growth trend until 2017, when it started to record positive growth, in accordance with the forecasts of the Government of the Republic of Serbia, at about 1.9% of state budget expenditure.



Graph 2 – The overview of the percentage share of defence expenditure in GDP

If we analyse the nominal amount of funds allocated by state for its defence in the considered period, it can be concluded that from year to year, in addition to an increase in the percentage of allocations, the nominal amount of defence allocations has also increased, as shown in Graph 2. Although the COVID-19 pandemic had a significant negative impact on the development of GDP, and thus on its distribution, our defence system continues to be financed in accordance with the missions and objectives of the Serbian Armed Forces.²¹

Having in mind that the funds for financing defence have been obtained from gross domestic product, it follows that they are limited by its growth in current year. The funds defined by the state budget are not enough for maintenance, especially for improving the capabilities of the defence system. Therefore, the Government of the Republic of Serbia drew a conclusion about adopting the Master Plan for Disposal of Real Estate in the Territory of the Republic, which is not necessary for the defence functioning, as well as for the improvement of its material position. At the same time, the revenues obtained from sale, as well as the revenues from fee for the transferred right to use military real estate, are paid into the budget account, and the Ministry of Defence, as a direct beneficiary of budget funds, disposes of these funds. The Master Plan is implemented by the Directorate for the Property of the Republic of Serbia, in cooperation with the Ministry of Defence.

²¹ Knežević, M., Nikolić, S., Neševski, A., *Kontrola budžeta u funkciji civilne demokratske kontrole u Republici Srbiji*, Vojno delo 03/21; pp. 103-120.

The greatest part of the total funds for financing the defence system consists of *budget funds*, which can be seen from Table 4. In the period from 2013 to 2021, budget funds made up 90-98% of the total funds intended for the defence system.

Defence expenditure and needs are also financed from *its revenues* obtained by the Ministry of Defence and the Serbian Armed Forces during budget year, which are the second largest source that the defence system expenditure is financed from. The defence system generates its revenues by selling surplus of goods and services, unpromising equipment, renting business premises, scientific research, as well as by the implementation of the Master Plan.

The following source in terms of the percentage of share in the total funds of the defence system is *the undistributed surplus of income from previous years*. This type of the defence budget revenue arises from the fact that the revenue generated in previous years is not spent and is transferred to "current" budget year.

The income from the sale of non-financial assets is the next source of financing the defence system expenditure. This type of income is generated by the sale of unpromising non-financial assets of the defence system.

Table 4 – *The share of accounting funds for financing defence expenditure in the period from 2013 to 2021*

FINAN- CIAL SOURCES	CURRENT APPROPRIATION FROM THE LAW ON THE FINAL BUDGET ACCOUNT BY YEARS						BUDGET LAW		
	2013	2014	2015	2016	2017	2018	2019	2020	2021
"01" General budget revenues and income	55.729.495	56.532.360	54.101.286	63.749.195	64.649.531	82.102.995	101.123.320	97.270.948	98.273.125
"04" Revenues of budget benefi- ciaries	0	283.800	476.132	582.721	500.394	486.420	278.080	331.089	462.705
"05" Donations from foreign countries	0	19.011	6.902						
"06" Donations from inter- national organiza- tions	803	170	2.433	0	1.232	46			

	2013	2014	2015	2016	2017	2018	2019	2020	2021
"08" Voluntary transfers from natural persons and legal entities	827	23.381	448.856	35.230	19.112	14.104	16.667	10.670	14.973
"09" Income from sale of non-financial assets	1.281.000	1.100.000	1.438.603	2.790.627	995.600	1.610.278	859.806	1.734.570	704.000
"10" Income from internal debt	0	0		0	0	0	0	3.000.000	3.100.000
"13" Unallocated surplus income from previous years	284.815	2.396.069	2.274.545	2.279.423	2.554.570	2.629.629	755.372	617.792	
"15" Unspent funds of donations from previous years	36.971	13.856	13.962	35.643	52.377	84.984	55.340	1.048.533	
TOTAL:	57.333.911	60.368.647	58.762.719	69.472.839	68.772.816	86.928.456	103.088.585	104.013.602	102.554.803

(Data source: final budget laws for the period from 2013 to 2018, budget laws from 2019 to 2021)

It is difficult to decide which of the last mentioned sources has a greater share in the defence budget because these are small amounts of funds that cannot be influenced by the management structures of the defence system.

Donations from foreign countries. This source for financing the defence system expenditure is negligible, but it is characteristic that the funds obtained from this source have a very high percentage of execution because they are mostly donated for an already defined purpose. Furthermore, it is important to emphasise that the payment of donations from foreign countries is made in the form of foreign currency to the defence subaccount within the Treasury Administration of the Ministry of Finance of the Republic of Serbia.

Voluntary transfers from natural persons and legal entities, like the previous type of income of the financial plan of the defence system, have a very small percentage of share in defence financing and are not predictable.

Donations from international organizations represent the accounting fund for financing the defence system expenditure, like the previous two, with a very small percentage of share in defence financing and are of uncertain predictability.

Unspent funds of donations from previous years, like the previous type of income of the financial plan of the defence system, represent the type of income that arose in previous years from donations, but was not completely spent, so it was transferred to budget year.

Since 2020, *income from internal debt* is used as a source of financing the defence system of the Republic of Serbia.

Finally, it can be concluded that the available part of gross domestic product defines how many funds the defence system will have at its disposal to finance its expenditure. Out of the sources for financing defence expenditure, the most represented ones are budget funds, followed by revenues, revenues generated from the sale of movable and immovable property given to the defence system for use. Of course, funds from other sources are used to finance defence expenditure and are a part of the state's budget procedures.

Conclusion

The COVID-19 pandemic has negatively affected the economy and population of the entire world. In a very short time, since 2020, the habits and needs of the world population, i.e. consumers (end users), have changed. However, the very beginning of the pandemic has significantly affected the reduction of economic activities in a global level, which resulted in a decrease in GDP in all countries of the world except China. Having in mind that state allocations are related to GDP, that in the considered period GDP was reduced, and that the pandemic is a security challenge and risk, the defence allocations differ from state to state. Therefore, the percentage share in GDP of defence expenditure in a great number of countries is shown, including 15 countries that, nominally and in percentage, allocated the greatest funds for defence in 2020.

The Ministry of Defence of the Republic of Serbia is also facing the pandemic. Its members actively participate in alleviation and elimination of its consequences. Security challenges and risks have changed and the defence needs of the Republic of Serbia are changing accordingly. The analysis of expenditure and spending of the Ministry of Defence of the Republic of Serbia in the last ten years shows that the state has been allocating increasing funds for defence, especially since 2017. In 2018, Serbia allocated a record of 26% more funds compared to the previous year. However, the pandemic had a negative impact on allocations in 2020, and the needs of the defence system were harmonized with the capabilities of the state. As a result of the negative impact of the 2020 pandemic, a 2% decrease in state allocations for defence was recorded.

The execution of the financial plan of the defence system is a complex, dynamic, interoperable and integrated process. The main purpose of this process is management in order to maintain and improve the capabilities of the Ministry of Defence and the Serbian Armed Forces to accomplish the defence goals of the Republic of Serbia. Finally, the purpose of the process of managing the financing of the defence system is to provide conditions for the execution of missions and tasks of the defence system.

The process of defence financing is by no means just a technical procedure, but also an important political process. In the absence of political will and consistency in terms of the sustainability of planned and projected amounts, there is a risk that personnel expenditure will be mostly financed, and that there will not be enough funds available to develop the capabilities of the defence system.

As mentioned, the funds for defence financing presented through sources of financing can be of internal and foreign origin. Of course, it is desirable that internal sources are as great as possible. The financing of defence expenditure and spending has to be deprived of the risk of uncertainty, i.e. unplanned non-provision of the defined amount of funds and their irregular inflow, not only due to the danger of threatening its development plans, but also current (peacetime) activities. In that sense, the need for long-term and medium-term planning of the development of the Armed Forces and the annual definition of the amount of funds for its financing should not be questioned. Precisely because of that, as well as for maintaining the stability of funds, the total amount of funds for defence financing should still be related to the accomplished gross domestic product.

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Summary

The financing of the expenditure and spending of the Ministry of Defence and the Serbian Armed Forces is defined by the Budget System Law. The amount of allocated funds for defence in all countries is mainly related to gross domestic product. The financing of the defence system directly depends on the economic position and development of state, and also on the available budget. Therefore, the greatest responsibility of those who are authorized is to dispose of budget funds in a certain period of use for the most important state priorities, as well as the need for the highest control over the disposal and use of these funds. The financing of the defence system of the Republic of Serbia, as a direct beneficiary of budget funds, is conducted in compliance with the procedures defined by laws and other normative regulations of the country.

The COVID-19 pandemic represents a global security risk and threat, and 2020 has been taken for consideration and analysis of defence expenditure in state budgets. Thus, the readiness of states and defence forces to resist security challenges and threats has been presented. Moreover, fifteen countries that allocated the greatest funds for defence in 2020 have been presented. China is the only country that has positive growth of gross domestic product in the considered year and at the same time the highest percentage of allocations from GDP for defence. The five European countries that allocated the most for defence have also been presented, as well as the ratio of total allocations for defence in Europe and the United States.

The average allocation rate for all countries (Table 2) in 2020 is 1.59% of GDP, which is shown in Graph 1. In the considered period, the Republic of Serbia allocated 1.89% of GDP for defence, which is above average. The percentage share of defence expenditure in GDP in recent years is approximately 1.9%. Graph 2 shows the percentage share of defence expenditure in the period from 2013 to 2021.

The specificity of financing defence expenditure and spending has been emphasised because the defence system, like other complex systems, is characterized by complexity, openness, dynamism, strict hierarchical structure and two-way relations.

Bearing in mind that the Ministry of Defence and Serbian Armed Forces are a non-profit organization, defence expenditure and spending are almost entirely financed from budget funds. The exception is certain categories of revenues, in a very small percentage in relation to the total available financial resources. In addition to its revenues, other sources of financing, such as various donations, unspent revenues and donations from previous years, income from the sale of non-financial assets and voluntary transfers are represented in financing the expenditure and spending of the Ministry of Defence and Serbian Armed Forces. It is very important to point out that since 2020, as a source of financing defence expenditure and spending, funds from the source - income from internal debt – has been used.

Key words: expenditure, spending, sources of financing, COVID-19 pandemic

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