

Artículo de investigación**Features of financing NATO's armed forces****Особенности финансирования вооруженных сил стран НАТО**

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The aim of the article is to investigate the peculiarities of financing NATO's armed forces.

The following methods were used in the study process: comparative analysis method, correlation analysis, content analysis.

The current state of defense financing in the world and in NATO countries has been clarified. Sources of funding for civilian and military budgets and NATO security investment programs are highlighted. The civilian budget covers staff costs, operational costs, capital expenditures and expenses for the International Secretariat's programs at NATO Headquarters. The military budget covers the costs of operating and maintaining the structure of NATO military management bodies.

The procedure for the payment of direct and indirect contributions to NATO content by the Allies is disclosed.

The tasks of the bodies responsible for financial control over the formation and use of NATO finances are described: the North Atlantic Council, the Resource Policy and Planning Council, the Budget Committee, the

Аннотация

Целью статьи является исследование особенностей финансирования вооруженных сил стран НАТО

В процессе исследования использовались следующие методы: метод компаративного анализа, корреляционный анализ, контент анализ.

Проанализировано современное состояние финансирования обороны в мире и в странах НАТО. Освещены источники финансирования гражданского и военного бюджетов и программ по инвестициям в обеспечение безопасности НАТО. Раскрыт порядок уплаты прямых и косвенных взносов на содержание НАТО странами-членами альянса.

Охарактеризованы задачи органов финансового контроля за формированием и использованием финансов НАТО: Североатлантического Совета, Совета по политике и планированию ресурсов, Комитета по бюджету, Комитета по инвестициям, Независимого международного совета аудиторов НАТО. Проанализированы доли финансирования гражданского и военного бюджетов, а

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Investment Committee, the NATO Independent International Audit Board.

Shares of financing of civilian and military budgets, as well as NATO programs by NATO member countries, the ratio of defense expenditures to GDP in NATO countries, the share of capital expenditures in the structure of defense expenditures of NATO countries are analyzed.

The volumes and structure of defense financing expenditures in Ukraine are compared with NATO countries. It is revealed that during 2014-2018 Ukraine significantly increased the amount of defense financing, at the same time the share of capital expenditures in the structure of defense spending in Ukraine remains insignificant. It is proposed to increase the share of expenditures on military investments and innovations, purchase of armaments and military equipment, construction of military facilities and, at the same time, limit the share of current expenditures on the maintenance of the armed forces.

Key Words: Capital expenditures military expenditures, military budget, NATO, sources of financing.

Introduction

The acceleration of globalization, together with its positive consequences, causes threats in the social and military-political spheres. Effective counteraction to the threats and minimization of these negative effects is possible as a result of the integration of countries. One of such integration forms is the North Atlantic Treaty Organization military-political alliance, the members of which are 29 countries.

The military budget of NATO member countries is the main funding source for military activities, including the purchase of weapons, the conduct of research and development in the field of military defense, the construction of military facilities, the maintenance of personnel of the armed forces. In the conditions of aggravation of the world military-political situation, the problem of financial support for military expenditures becomes especially relevant. Since March 10, 2018, Ukraine has acquired the status of a post-graduate student of the North Atlantic Treaty

также программ НАТО странами-членами альянса, соотношение расходов на оборону к ВВП в странах НАТО, доли капитальных расходов в структуре расходов на оборону стран НАТО.

Сопоставлены объемы и структура расходов на финансирование обороны в Украине со странами НАТО. Выявлено, что в течение 2014-2018 годов Украина существенно увеличила объемы финансирования обороны, одновременно доля капитальных расходов в структуре расходов на оборону в Украине остается незначительной. Предложено повышение доли расходов на военные инвестиции и инновации, закупку вооружения и военной техники, строительство военных объектов и, одновременно, ограничения доли текущих расходов на содержание вооруженных сил.

Ключевые слова: военные расходы, военный бюджет, источники финансирования, капитальные расходы, НАТО.

Organization (NATO), that is, a country that declares its aspirations to join the Alliance in the future. This necessitates an in-depth study of the peculiarities of financing NATO's military spending.

The article examines the dynamics of the share of NATO military expenditures on personnel, equipment and infrastructure from 1970 to 2008. The results of the analysis show that a reduction in the enlistment of citizens for military service did not significantly affect the total amount of NATO expenditures.

Given the dynamism of the military-political situation in the world, further studies of the financing of the armed forces of both individual countries and their groups are relevant.

The aim of the article is to investigate the peculiarities of financing NATO's armed forces.

Literature review

General Matters for NATO budgeting and finding the optimal level of defense spending among NATO member states are addressed by A. Mattelaer (2016) and L. Béraud-Sudreau & B. Giegerich (2018).

The issue of the distribution of defense spending among NATO countries is being explored by T. Weiss (2019). He analyzed the progress and results of an expert discussion of rising defense spending up to 2% of GDP in Germany and the Czech Republic. The author notes that for small countries, the decision-making process has been predominantly influenced by external factors. Instead, the more powerful countries in economic and geopolitical terms were predominantly internal factors.

The team of authors (Hartley & Sandler, 1999) addresses a wide range of issues, ranging from the problems of NATO enlargement to determining the optimal amount of defense spending. Attention is drawn to the development of a system of indicators that will allow objective determination of the contribution of each NATO member to the common budget. The authors examine the possibility of complementing the traditional scorecard with alternative ones, such as the country's contribution to UN humanitarian operations and economic assistance.

The authors (Bove & Cavatorta, 2012) note that the growing number of NATO member states has transformed approaches to the recruitment of the armed forces.

Methodology

The following methods were used in the study process. The comparative analysis method was used to compare the indicators that characterize the share of civilian and military

budgets, as well as NATO programs in Alliance countries, and the ratio of defense expenditures to GDP in NATO countries. The correlation analysis allowed us to determine the degree of correlation between the country's level of economic development and the amount of funding for NATO's forces and programs.

Interpretation of scientific information from various sources has led to its use in the Content analysis process.

The study used NATO's analytical and statistical information, data from the Stockholm Institute for Peace Studies and statistics from Allies and Ukraine.

Results and discussion

The most important indicator that characterizes the level of financing of the armed forces is the share of GDP spent to maintain military and economic potential in the country. According to the Stockholm Institute for Peace Studies (2019), an amount of \$1822 billion has been spent worldwide in 2018. (2.6% more than in 2017), representing 2.1% of world GDP, or \$239 per person.

The countries with the highest military spending in 2018 were the US, China, Saudi Arabia, India and France.

The combined military expenditures of these countries accounted for 60% of the world's military expenditures.

In this case, half of the world's military spending was made by the US and China (Stockholm International Peace Research Institute, 2019).

If we look at the military budgets of NATO member states (Fig. 1), we can see that the US spends more on arms than all other countries in the Alliance (\$684.4 million in 2018).

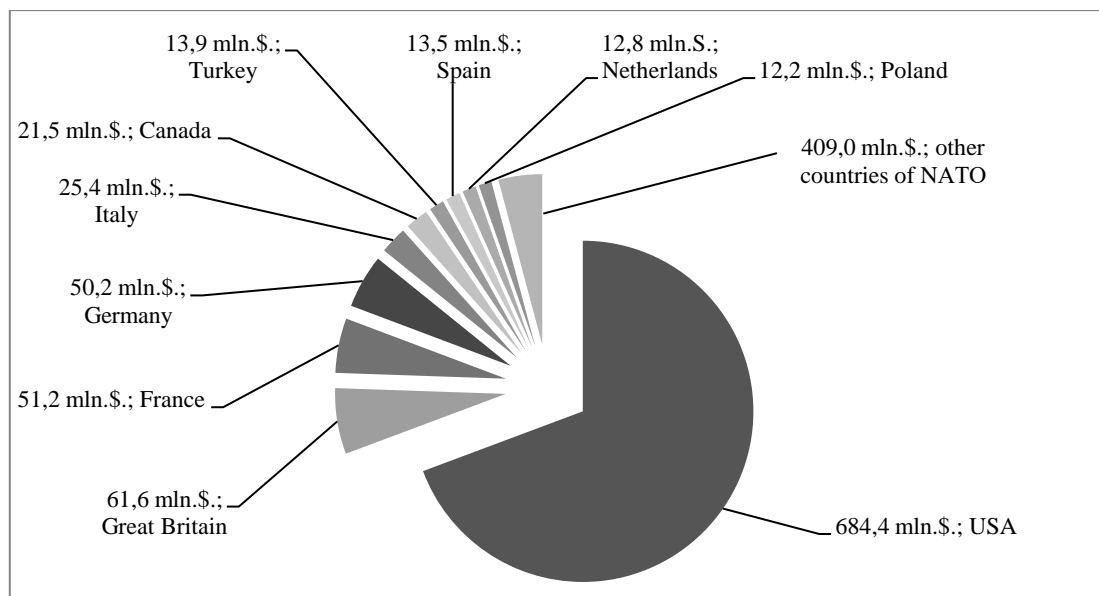


Fig. 1. NATO military spending in 2018
Source: NATO (2019a)

During 2018, US military spending has increased by 4.34%, which is explained by two reasons: the increase in military pay and the implementation of large-scale programs for the acquisition of conventional and nuclear weapons.

As shown in Fig. 1, among the countries of Western Europe that are NATO members, the countries with the highest military costs are France, the United Kingdom, Germany and Italy. The increase in military spending in Western Europe is mainly due to terrorism concerns over the fight against the Islamic State in Iraq and Syria. It also creates a tense military-political situation with armed conflicts in Africa, contributing to increased military spending in Europe.

Let's take a closer look at funding sources for NATO budgets. NATO's main budgets are civilian budgets, military budgets and security investment programs.

The civilian budget covers staff costs, operational costs, capital expenditures and expenses for the programs of the International Secretariat at NATO Headquarters. The civilian budget is financed from the budgets of national foreign ministries (in most countries), is under the control of the Budget Committee and is implemented by the NATO International Secretariat.

The military budget covers the costs of operating and maintaining the structure of NATO military management. The military budget consists of more than 35 separate budgets, funded by contributions from the defense budgets of NATO countries, in accordance with an agreed cost-sharing scheme.

From the military budget there are funds allocated for the maintenance of (Vinnitsya library, 2019):

- The Military Committee, the International Military Staff and military agencies;
- Strategic commands, military headquarters;
- Multinational NATO Aviation Operations Centers, Air Traffic Control Centers, Recognized Objects Airborne Picture Centers, Radar Systems, and Headquarters Communication Systems;
- The Joint Combat Application Center (Norway), the NATO Joint Forces Training Center (Poland), the Joint Center for Analysis and Summarization of Experience (Portugal), the NATO Defense College (Italy) and the School of Communication and Information Systems;

- NATO Bureau of Standardization, NATO Communications and Information Agency (Belgium), Allied Command Transformation Experiments Funds, NATO Science and Technology Organization (Belgium), Center for Marine Research and Experiments (Italy);
- Measures to support partnerships and, in part, military missions.

Security investment programs include funding for structures and facilities such as communication and information systems, radar stations, control stations, airfields, fuel lines, warehouses and storage facilities, ports and navigation facilities. It should be noted that these programs are funded by NATO's Ministries of Defense.

NATO countries make direct and indirect contributions to cover the costs associated with the functioning of NATO. Yes, direct contributions come from financing the needs of the North Atlantic Treaty Organization in order to meet the interests of all 29 Member States.

For example, the maintenance of NATO common air defense or command and control systems. When it comes to direct financial contributions to NATO, they come first and

foremost in two forms: general funding and joint financing. After calculating the need for military spending, countries discuss the matter in the Policy and Planning Council. Thus, the dilemma is solved: whether the application of the principle of general funding is necessary, or, in other words, whether such a need is in the interests of all the participating countries and whether such collective costs are appropriate.

A key principle behind substantiating the need for general funding is the rule of opportunity overruns. Its content is that general funding is directed primarily towards meeting needs that exceed the reasonable capacity of national resources.

Indirect contributions are the largest and occur, for example, when a Member State decides on a voluntary basis to provide equipment or troops to participate in a military operation and to bear the costs associated with such a decision.

Joint funding also goes to the implementation of NATO's civilian and military budgets, as well as NATO's Security Investment Programs. Member countries (with the exception of Iceland) contribute to NATO according to a set cost-sharing that is dependent on GDP (Table 1).

Table 1. Share of civilian and military budgets and NATO programs by Alliance member countries during 2018-2019

Countries	Financing shares, %
Albania	0.0841
Belgium	1.9506
Bulgaria	0.3390
Canada	6.3763
Croatia	0.2776
Czech Republic	0.9788
Denmark	1.2157
Estonia	0.1157
France	10.4986
Germany	14.7638
Greece	0.9801
Hungary	0.7041
Iceland	0.0597
Italy	8.1400
Latvia	0.1478
Lithuania	0.2379
Luxembourg	0.1569

Montenegro	0.0270
Netherlands	3.1985
Norway	1.6472
Poland	2.7683
Portugal	0.9725
Romania	1.1384
Slovakia	0.4784
Slovenia	0.2109
Spain	5.5534
Turkey	4.3819
UK	10.4581
United States	22.1387
Total	100.0000

Source: NATO (2019b)

It should be noted that NATO funding to NATO member countries can also be made in kind, through donations, etc.

The main bodies of financial control over the formation and use of NATO finances are:

- The North Atlantic Council, which is responsible for approving NATO budgets and investments as well as overseeing financial management;
- The Resource Policy and Planning Board, which is responsible for the management of NATO's civilian and military budgets and is the North Atlantic Council's main advisory body for financial management;
- The Budget Committee and the Investment Committee;
- An independent international board of auditors responsible for auditing the financial activities of all NATO entities.

It should be noted that the amount of money allocated by countries for the financing of the

armed forces is very sensitive to changes in the economic situation over the world. Thus, in the aftermath of the global financial crisis of 2008-2009, most countries in Western and Central Europe (except Poland, the United Kingdom, France and Germany) have put in place measures to save budgetary resources, including for military needs. Expenditures on the armed forces have been reduced, mainly due to the revision of existing contracts and programs for the weapons development, as well as the reduction in the number of the ministries of defense and military personnel employees. These measures negatively affected the military potential of the countries that implemented them. This situation has caused concern for NATO leadership.

Given that the military capabilities of each NATO member state have a significant impact on the perception of the global North Atlantic Treaty Organization, a NATO Action Plan for Improvement in Combat Readiness (NATO, 2014) was adopted in 2014, according to which all NATO member countries in the next decade (2014-2024) should provide a gradual increase in defense spending of 2% of GDP. If in 2014, only 3 NATO countries out of 29 allocated defense funding to more than 2% of GDP (US, UK, Greece), as Fig. 2 shows, in 2019, 7 (US, UK, Poland, Greece, Estonia, Latvia, Romania). Most NATO countries have national plans to increase defense funding to 2% of GDP by 2024.

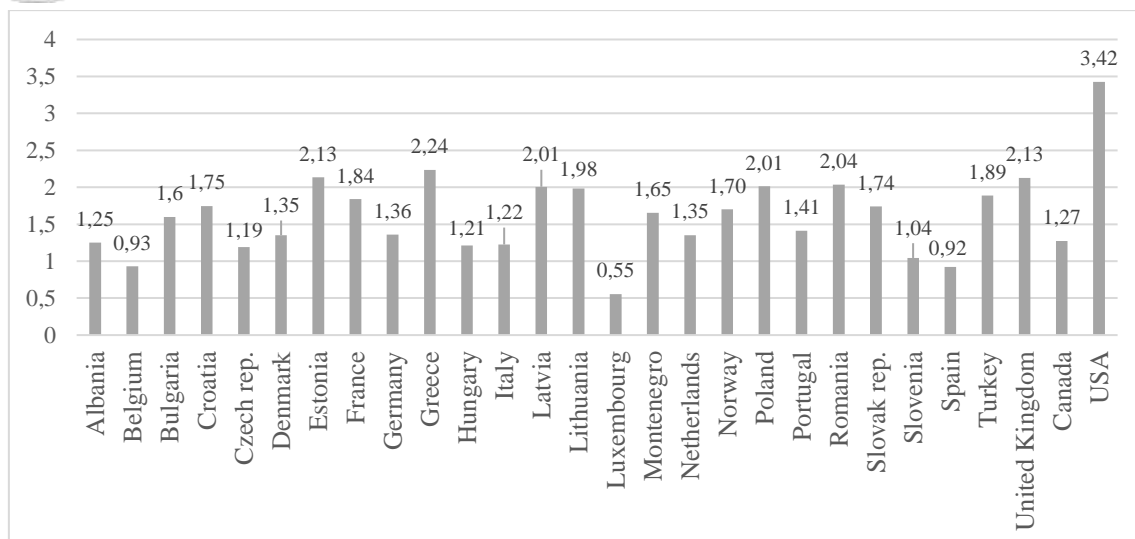


Fig. 2. Planned ratio of defense spending to GDP in NATO countries for 2019 (excluding Iceland)
Source: NATO (2019a)

In the course of the study, we tested the hypothesis of the dependence of a NATO member country economic development and its expenditures on the armed forces.

As a general indicator of the economic development level of the country, we have chosen GDP per capita (World Bank, 2018). We received statistical information about the volume of NATO funding and programs (NATO, 2019b).

The results of the correlation analysis show that there is no close correlation between the country's economic development indicators and the amount of funding for NATO's forces and programs.

Particular attention should be paid to the distribution of resources allocated to the financing of the armed forces by NATO countries. In general, national defense budgets cover three categories of expenditures: 1) personnel costs and pensions; 2) the cost of research and development work and the purchase of military equipment; 3) training and maintenance cost.

Budget allocations are known to be a national sovereign decision, but according to the NATO Action Plan on Enhancement (NATO, 2014), a minimum of 20% of defense spending should be allocated to the acquisition of new military equipment, research and development work to develop new types of weapons. To our

mind, the share of capital expenditures in the structure of defense expenditures should be seen as an important indicator of the scale and pace of modernization of military weapons. Indeed, if capital expenditures do not meet the 20% targets, the risk of obsolescence of military equipment, reduction of military capabilities, and weakening of the country's military-industrial and technological base increase.

In 2018 the level of capital expenditures on defense in NATO countries ranged from 8.22% in Slovakia to 41.77% in Luxembourg.

If we compare the volume and structure of defense financing expenditures in Ukraine with NATO countries, it can be noted that during 2014-2018 Ukraine significantly increased the amount of defense financing (from UAH 27.4 billion or 1.7% Of GDP in 2014 to UAH 97.0 billion, or 2.7% of GDP in 2018, which is quite high) (Ministry of Finance of Ukraine, 2018).

At the same time, the share of capital expenditures in the structure of defense expenditures in Ukraine is negligible - only 5.7%. Given the urgent need for modernization of military equipment in Ukraine, such a share of expenditures is clearly insufficient.

Conclusions

To summarize, it should be noted that the structure of the military budget is essential for strengthening military capabilities. The analysis revealed a significant differentiation between NATO member states in terms of the share of military expenditure in GDP. Thus, out of the 29 NATO member states (with the exception of Iceland), only 7 have complied with a standard that provides for funding of the armed forces at a level of at least 2% of GDP.

Nowadays, general funding mechanisms have been used to fund NATO's core budgets: the civilian budget (operational headquarters operating costs), the military budget (the costs of the joint military administration structure), and the security investment program (military forces and facilities). NATO projects can also be co-financed, which means that participating countries can identify needs, priorities and funding mechanisms.

In the context of a dramatic change in the nature of military conflicts, their virtualization and the intensification of the information component, the increase in spending on NATO forces is evident. This will lead to an increase in the share of expenditures on military investment and innovation, while reducing the share of spending on the maintenance of the armed forces.

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