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INSTRUMENTS FOR IMPROVING THE EFFECTIVENESS OF THE FINANCING OF THE DEFENCE AND SECURITY SYSTEM OF THE REPUBLIC OF SERBIA

Nikola Vidovic[1a], Hatidza Berisa[2b]
[1] University of Defence in Belgrade, National Defense School, Veljka Lukica-Kurjaka 33, Belgrade, Republic of Serbia, vidovicnikola.finance@gmail.com
[2]University of Defence in Belgrade, National Defense School, Veljka Lukica-Kurjaka 33, Belgrade, Republic of Serbia, berisa.hatidza@gmail.com

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Review paper

Abstract: *Financing the defence system determines the size of the gross domestic product, as a product of total socio-economic activity. This conclusion logically concludes, having in mind the fact that the defence system is part of the social system and that it forms a segment of the socio-economic structure, and hence the source of its financing must be stimulated from the source of financing the overall social reproduction. The aim of the paper is to determine the aspects of budgetary funds treatment in the Ministry of Defence and the Serbian Armed Forces through systematic analysis of the financing of the Ministry of Defence and the Army of Serbia, as well as the realized revenues from the activities of the defence system, as well as the degree of economy, efficiency and effectiveness of disposal of funds. In an integral sense, the determination of the needs relation and the ability to finance tasks and activities that are being put before the Ministry of Defence and the Serbian Armed Forces is also expressed through the economic aspect of the research. By identifying the treatment of financial resources in the Ministry of Defence and the Army of Serbia and by examining the impact on the sustainability of financing of the Ministry of Defence and the Army of Serbia through budget instruments, the possible economically feasible conditions for realization of certain activities and activities and models for improving defence financing have been demonstrated. On the basis of an analysis of the current state of financing of the expenses of the defence system of the Republic of Serbia, the paper highlights the previous theoretical knowledge and experience of the budget as an instrument for financing defence expenditures, defining the advantages and disadvantages that existed and existing, but also highlighting the improvements that*

[a] ORCID: 0009-0000-8148-9271
[b] ORCID: 0000-0002-9432-5273

arose by introducing a program budget in the Ministry of Defence. By implementing new theoretical knowledge on innovative allocative mechanisms for financing the defence system and improving the efficiency of the budget in practice, much more efficient and effective financing of defence expenditures would be achieved. A purposeful distribution of limited financial resources and the transparency of using available resources for the purpose of sustainability of the required level of readiness and capabilities of the entities of the defence system would result in a high degree of operationality and significant progress in the functioning of the Ministry of Defence. For the purpose of more systematic approach to defence financing issues, a comparison of the Serbian defence system with the defence systems of the surrounding countries was performed.

Key words: *Defence system, Financing, Budget, Republic of Serbia, Financial analysis*

1. INTRODUCTION

The defence system as an analytical entity through research in paper, is seen as a whole, with a focus on its integral segment relating to the Ministry of Defence with the associated organizational units and parts, with a special focus on funds as allocative financing mechanisms that provide some additional opportunities on which it will be said in the second chapter of the paper. The scope and volume of funding for defence system needs are one of the key conditions for its functioning (Misovic & Kovac, 2006). The functioning of the defence system is conditioned by the volume and quality of financing of its needs. Depending on the available financial resources of the state budget for financing defence needs, the level of development of defensive capabilities will grow, stagnate or decline (Đorđevic, 1999). An adequate structure of expenditures and expenditures for defence needs will directly affect the quality of financing, as well as the sustainability and development of defence capabilities. Timeliness of the availability of funds to the defence system is one of the characteristics of their quality (Knezevic, 2016).

The basic resources of the defence of the Republic of Serbia are human and material resources. They are based on the demographic and economic possibilities of the society. Defence resources significantly influence the functioning of the defence system and its ability to respond to challenges, risks and threats to security and is in the function of protecting defence interests of the Republic of Serbia. The human resources of the defence make the demographic potential of the Republic of Serbia subject to the obligation of the defence and who is capable and trained for inclusion in the defence system. The material resources of the defence include the natural, economic, financial, information, technical, technological and other potentials of the Republic of Serbia engaged in defence. Engaging human and material resources for the defence system is regulated by law. Reserve reserves are planned and planned. The competent state authorities and institutions are obliged to provide effective support to the defence system for its continuous development. In accordance with its national interests, the Republic of Serbia maintains and develops the capabilities and potentials of the dedicated industry, independently and in cooperation with other countries. The state of the defence resource that is adequate to the requirements of the defence system is vital and requires their continuous development, maintenance and improvement to the level of certainty that will guarantee the fulfillment of their functions. Defence resources are built for defence and protection of the defence interests of the Republic of Serbia, conflict prevention and crisis, and the preservation of peace and stability in the region and the world (Offical Gazzete, No. 38/2009).

Defence financing is carried out annually from the budget of the Republic of Serbia. As an additional way of financing, the funds from own revenues and other revenues envisaged by the Budget Law of the Republic of Serbia can be used. In accordance with the Instructions for the Preparation of the Budget of the Republic of Serbia, the Ministry of Defence makes a proposal for a financial defence plan for each budget year, especially taking into account that the plan is in line with plans and programs for the development and functioning of the defence system. Transparency in the planning and financing of the defence is realized through the budget procedure of drafting, passing, executing, controlling and auditing the budget.

The planning, drafting, adoption and execution of the defence budget plan is based on a single budget classification. The Ministry of Defence is responsible for the budget accounting of its own transactions and reporting, according to the methodology of the Ministry of Finance. Also, the Ministry of Defence submits reports on military expenditures to the OSCE and other specialized international organizations on the basis of accepted international obligations based on ratified international conventions. Control and audit are carried out at all stages of defence planning and financing, both internal and external. Internal control and audit are carried out by the competent authorities of the Ministry of Defence. The external control and audit is carried out by the authorized bodies of the Republic of Serbia (Offical Gazzete, No. 38/2009).

The bulk of funding for the defence system consists of funds from the budget. Expenditure and defence needs were financed by September 2012 from own revenues generated by the defence system during the budget year and representing the second largest source from which defence expenditure was financed. Own revenues of the defence system are realized as before September 2012 of the budget year, the sale of surplus goods and services, unsuitable equipment, renting of business premises and other similar activities. However, most of the collected revenues are used by the users of the funds to pay to the budget of the Republic of Serbia, Only a small number of institutions of the Ministry of Defence and the Wax of Serbia dealing with specific activities have their use, in accordance with the legal provisions (the Official Gazette of the Republic of Serbia, No. 93/2012).
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2. ANALYSIS OF FINANCING THE NEEDS OF THE DEFENCE OF THE REPUBLIC OF SERBIA

Based on the analysis of data on funds for defence financing, the conclusion is that the financing and structure of defence expenditures, ie the allocation from the defence budget, is a serious problem for the functioning and further development of the Ministry of Defence of the Republic of Serbia. The long-term plan for the development of the defence system of the Republic of Serbia for the regular functioning and development of the defence system envisages allocation in the amount of 2% of GDP.

Also, comparative analysis was compared with the countries from the region, the countries of the Western Balkans and the Republic of Serbia, based on the funds allocated for the defence system. Analyzing the period in which the Ministry of Defence of the Republic of Serbia disposed of funds allocated in the defence budget, in the time interval from 2012, ending with the 2016 budget year, it can be concluded that the funds in the mentioned period were almost constant in nominal value.

Table 1 shows the chronology of growth, that is, the downward trend in the allocation of funds for defence financing in the previous ten budget years, beginning with the 2006 budget year, ending with the year 2022. A sample of ten countries was taken for the analysis, and the budget of the Ministry of Defence of the Republic of Serbia with the budgets of the countries in the region was compared.

The negative contribution caused a further reduction in the introduction of a wage tax, that is, a reduction in public sector wages and reflected on assets in 2015 and 2016. Observing the structure of funds approved by the budget of the Ministry of Defence of the Republic of Serbia, sectoral allocation of funds in 2012 and 2013 is noticeable, in order to allocate funds in 2014 centralized. It is important here to mention that the internal acts (rules, guidelines) were used to allocate funds by programs, subprograms, program elements, projects, activities and further operationalization, all in an attempt to arrive at the correct data as to how much each activity really costs and which are effects in the disposal of funds.

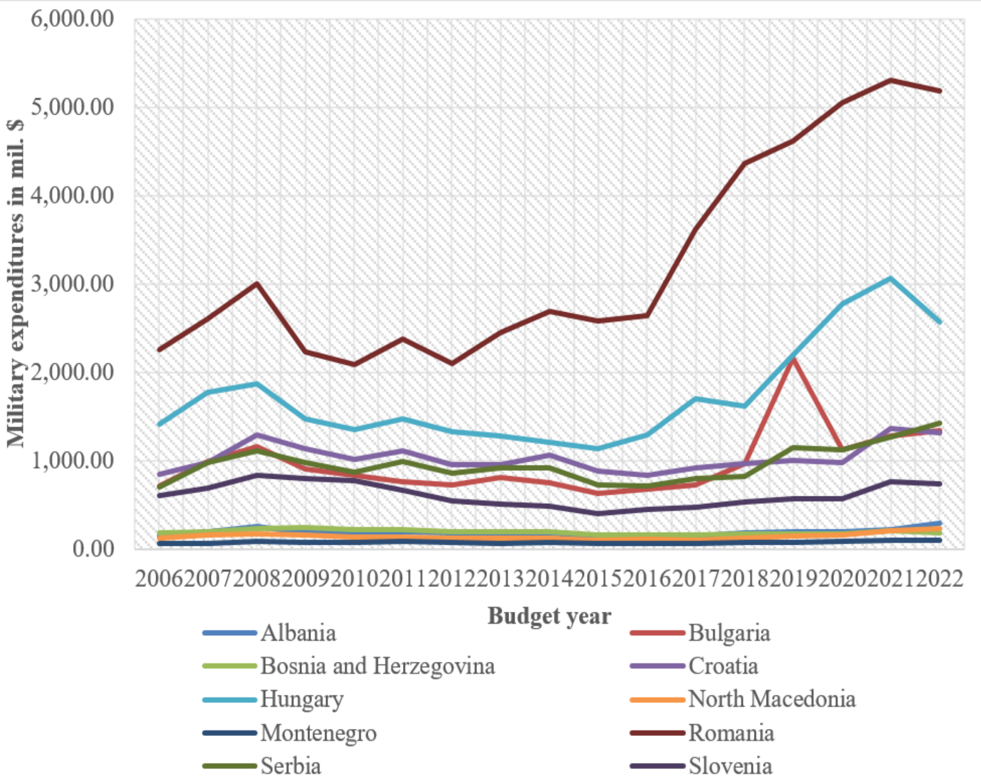
Since 2015, the program budget of the Ministry of Defence of the Republic of Serbia shows the internal structure of funds through established program activities and projects that are realized through defined two programs. In 2016, centralized funds allocated by the Ministry of Defence of the Republic of Serbia to the budget are coming, which from the aspect of the implementation of the program budget does not give an optimistic view of the execution of funds. The funds for personal expenditures in 2015 will be allocated to four beneficiaries (Ministry of Defence, Military Health, Army and Peace Operations) in order to be centralized into one program element in 2016.

Table 1. Comparative analysis of sum of gross value added by all resident producers in the economy plus any product taxes and minus any subsidies not included in the value of the products, Republic of Serbia with surrounding countries in the period 2006-2022 budget year (in million $) *(Source: Authors' calculation based on World Bank and SIPRI data)*

Country		Albania	Bulgaria	Bosnia and Herzegovina	Croatia	Hungary
Budget year	**2006**	8,896.08	34,380.54	12,864.84	49,601.65	115,715.62
	2007	10,677.32	44,432.81	15,778.73	59,320.10	140,186.72
	2008	12,881.35	54,480.68	19,112.80	68,526.33	158,325.61
	2009	12,044.21	52,023.80	17,613.95	62,093.28	131,069.26
	2010	11,926.93	50,760.93	17,176.32	58,836.41	132,175.35
	2011	12,890.76	57,737.04	18,644.23	62,772.62	141,942.26
	2012	12,319.83	54,288.14	17,226.74	57,411.35	128,814.28
	2013	12,776.22	55,852.12	18,179.11	59,589.17	135,684.32
	2014	13,228.15	57,157.78	18,558.73	59,489.43	141,033.84
	2015	11,386.85	50,812.00	16,404.35	51,011.17	125,174.17
	2016	11,861.20	53,964.25	17,116.93	52,740.06	128,609.82
	2017	13,019.73	59,309.75	18,326.37	56,322.45	143,112.20
	2018	15,156.42	66,370.13	20,484.05	61,861.15	160,565.64
	2019	15,401.83	68,881.01	20,482.61	61,867.16	164,020.46
	2020	15,162.73	70,368.76	20,226.04	58,221.30	157,288.96
	2021	17,930.57	84,041.49	23,672.71	69,602.17	182,110.00
	2022	18,916.38	90,346.17	24,534.66	71,997.07	177,006.13
Country		North Macedonia	Montenegro	Romania	**Serbia**	Slovenia
	2006	6,861.23	2,721.90	122,023.74	**32,482.07**	39,481.05
	2007	8,336.47	3,680.71	174,588.78	**43,170.99**	48,067.40
	2008	9,909.55	4,545.67	214,317.20	**52,194.22**	55,779.43
	2009	9,401.74	4,159.33	174,102.27	**45,162.89**	50,567.73
	2010	9,407.17	4,142.98	170,029.36	**41,819.47**	48,208.24
	2011	10,494.63	4,544.43	192,613.58	**49,258.14**	51,583.87
	2012	9,745.26	4,087.53	179,132.89	**43,309.25**	46,577.79
	2013	10,817.70	4,465.77	189,789.26	**48,394.24**	48,415.66
	2014	11,362.27	4,593.85	199,713.78	**47,062.20**	49,997.19
	2015	10,064.52	4,054.73	177,883.88	**39,655.95**	43,107.51
	2016	10,672.47	4,376.93	185,287.63	**40,692.66**	44,766.72
	2017	11,307.07	4,856.60	210,147.16	**44,179.08**	48,589.10
	2018	12,683.07	5,506.94	243,316.03	**50,640.66**	54,177.88
	2019	12,606.34	5,542.05	251,017.80	**51,514.24**	54,386.65
	2020	12,361.04	4,770.00	251,362.51	**53,356.48**	53,734.53
	2021	14,000.28	5,861.43	285,810.24	**63,101.04**	61,832.20
	2022	13,711.47	6,229.80	298,891.52	**63,563.41**	60,063.48

Instead of moving towards the decentralization and planning of all costs, including earnings, program activities and projects, which is the essence of program budgeting, in this way, there is unnecessary centralization, which in cases of lack of funds can not recognize the real needs and priority projects , but most often leads to a linear cost reduction. Given that the material basis of the defence system is the property (craft and immovable property) provided to it and part of the gross domestic product, it is logical to conclude that financing of defence depends directly on the economic possibilities of the state, or the percentage share of defence costs in the gross domestic product.

Graph 1. Comparative analysis of allocation of funds from gross domestic product for defence financing, Republic of Serbia with countries in the environment in the period 2006-2022 budget year (in million $)



Based on the analysis of data from the funds approved in the budgets in the previous period, it is evident that the percentage of gross domestic product allocation for the Ministry of Defence of the Republic of Serbia is in constant decline, as can be seen on the table view. From the presented, there is a clear trend of decreasing the percentage share of defence expenditures in GDP and deviation from the forecasted allocation of 2% of GDP for defence (Forca, 2011).

Table 2. Percentage share of budget funds of the Ministry of Defence of the Western Balkans, the region and the Republic of Serbia in GDP in the period 2006-2022. years *(Source: Authors for research, based on European Commission Statistical Data)*

Budget year	Country									
	Albania	Bulgaria	Bosnia and Herzegovina	Croatia	Hungary	North Macedonia	Montenegro	Romania	**Serbia**	Slovenia
2006	1.57	2.08	1.39	1.67	1.22	1.84	2.29	1.85	**2.17**	1.54
2007	1.82	2.23	1.24	1.62	1.27	1.95	1.74	1.49	**2.25**	1.44
2008	1.98	2.13	1.22	1.83	1.18	1.74	1.87	1.40	**2.13**	1.49
2009	1.52	1.74	1.38	1.79	1.13	1.69	1.84	1.28	**2.16**	1.59
2010	1.56	1.64	1.28	1.68	1.02	1.38	1.81	1.23	**2.09**	1.60
2011	1.53	1.31	1.14	1.75	1.04	1.26	1.75	1.24	**2.00**	1.29
2012	1.49	1.33	1.15	1.67	1.03	1.23	1.66	1.17	**1.97**	1.17
2013	1.41	1.45	1.09	1.63	0.94	1.17	1.45	1.29	**1.90**	1.05
2014	1.35	1.31	1.03	1.82	0.86	1.09	1.47	1.35	**1.94**	0.97
2015	1.16	1.25	1.00	1.76	0.90	0.99	1.40	1.45	**1.83**	0.93
2016	1.10	1.24	0.93	1.60	1.00	0.97	1.41	1.43	**1.75**	1.00
2017	1.11	1.22	0.86	1.64	1.19	0.90	1.36	1.73	**1.84**	0.98
2018	1.16	1.45	0.85	1.55	1.01	0.94	1.37	1.79	**1.61**	0.98
2019	1.28	3.13	0.82	1.61	1.34	1.16	1.33	1.84	**2.21**	1.05
2020	1.30	1.59	0.84	1.71	1.76	1.27	1.74	2.01	**2.10**	1.06
2021	1.22	1.52	0.93	2.01	1.68	1.47	1.56	1.86	**2.01**	1.24
2022	1.58	1.51	0.81	2.17	1.53	1.61	1.61	1.73	**2.28**	1.19

It is pointed out that this is an analysis of the financial resources established at the beginning of the budget years - the Budget Law for a specific year. In addition to the fact that the constant reduction of funds for financing the MoD of the Republic of Serbia globally adversely affects the defence system, the negative effect is implicated in the cost structure. The share of personnel expenditures in total funding for the Ministry of Defence of the Republic of Serbia is continuously increasing (except in the years when salaries are administratively reduced), and investments are low-level allocations (except in 2015 and 2016, where the percentage share is rising, but due to of the reduced amount of total assets is nominally still below the required level), which in the long run leads to serious consequences for the defence system.

3. MANAGEMENT PROCESS OF FINANCIAL MEANS OF DEFENCE

Managing financial resources of the defence is a complex and dynamic process that significantly influences the functioning of the defence in the future. This is also a major challenge for decision-makers in the Ministry of Defence, but also for the Government of the Republic of Serbia. The purpose of introducing program budgeting as a mechanism for managing financial resources positively influences: ensuring continuous improvement of the quality level of defence capabilities, increasing the efficiency of execution of defence tasks, rational use of available resources, ensuring adaptability and flexibility of the defence performance process and harmonizing the development of defence system components with the total development of the state (Knezevic & Joksimovic, 2010). However, further continuity in the development of the implemented model of program budgeting for defence needs and the purpose of its development can best be seen in the efficient and rational planning and use of available financial resources and harmonization of the development of defence system components with the overall development of the state. Therefore, it is the real task of the management structures of the defence system to rationally and efficiently manage the financial resources, successfully realizing the defined goals of the development of the defence system. The task of effective missions is to determine the boundary between what is possible and what is impossible. Determining the mission is the responsibility of the top management. The mission can not be delegated to anyone who is ultimately responsible for it (Welch & Welch, 2005).

Table 3. Analysis of approved and spent funds for financing the Ministry of Defence of the Republic of Serbia in the period 2016 - 2018 of the budget year (*Source: Authors for research, based on data from Budget Administration of Ministry of defence of Republic of Serbia)*

Budget year		2016		2017		2018
Economic classification		Total		Total		Total
Account	Name	Approved funds	Spent funds	Approved funds	Spent funds	Approved funds
1	2	3	4	5	6	7
411	Salaries, allowances and employee benefits	22,877,717,000	22,777,443,755	23,919,589,000	23,918,606,373	25,847,646,000
412	Social contributions at the expense of the eployer	5,092,400,000	5,082,475,232	5,341,895,000	5,340,311,458	5,760,063,000
413	Fees in kind	8,216,000	4,465,817	102,966,000	98,036,871	11,466,000
414	Social benefits for employees	163,846,000	132,936,148	164,000,000	161,174,268	148,350,000
415	Employee reimburment	4,512,500,000	4,484,730,705	4,618,601,000	4,611,100,558	4,573,817,000
416	Employee benefits and the other special explenses	186,071,000	170,424,140	190,624,000	170,145,980	171,100,000
421	Standing costs	3,769,949,000	3,756,434,705	4,187,146,000	4,165,685,671	4,374,620,000
422	Travel costs	1,129,207,000	1,104,765,076	1,350,349,000	1,345,195,005	1,191,778,000
423	Services under contract	1,005,886,000	901,308,406	1,001,820,000	966,635,716	1,104,351,000
424	Specialized services	6,767,776,000	6,617,438,607	3,939,771,000	3,865,405,735	2,525,239,000
425	Current repairs and maintenance	3,995,287,000	3,834,742,817	2,878,749,000	2,779,907,796	2,704,553,000
426	Material	4,916,023,000	4,810,160,359	7,406,440,000	7,299,517,034	5,584,093,000
462	Grants to international organizations	5,603,000	5,278,996	5,353,000	5,306,352	5,603,000
464	Grants to organizations of compulsory social insurance	439,175,000	439,134,554	439,175,000	436,856,413	440,000,000

Budget year		2016		2017		2018
Economic classification		Total		Total		Total
Account	Name	Approved funds	Spent funds	Approved funds	Spent funds	Approved funds
1	2	3	4	5	6	7
472	Social security benefits from the budget	243,014,000	217,314,344	224,664,000	207,283,434	290,323,000
481	Grants to NGO	4,750,000	4,747,664	14,500,000	4,463,928	4,500,000
482	Taxes, mandatory fees and fines	12,655,000	10,102,685	18,524,000	12,181,318	12,324,000
485	Compenstion for injury or damage caused by state authorities	1,170,174,000	1,137,898,148	1,119,341,000	1,113,575,131	750,000,000
512	Machines and equipment	10,776,128,000	8,711,429,090	8,672,726,000	7,552,410,883	13,231,243,000
513	Other real estate and equipment	0	0	318,000,000	303,974,635	321,527,000
515	Intangible assets	28,500,000	25,713,516	69,701,000	42,165,696	31,000,000
541	Land	1,000	0	1,000	0	1,000
551	Non-financial assets	10,163,996	1,160,592	9,003,404	0	0
621	Purchase of domestic financial assets	612,000,000	540,419,110	612,000,000	442,598,117	300,000,000
MINISTRY OF DEFENCE (□)		**69,472,838,996**	**66,092,570,554**	**68,772,816,404**	**66,193,623,528**	**70,484,263,000**

The public finance system in which the defence functions is a mechanism of merged courts. Because, how much economic situation in the country allows with so much resources, the defence system is available. However, the global financial crisis has destroyed both the weakened economy of our country, so expectations regarding the available funds can not be great, but there are possibilities of efficient management of these. In order to overcome the problems of limited financial resources, and at the same time to enable the defence system to function efficiently and effectively, and under such conditions, the implementation of the PPBI system has been implemented.

Different organizational solutions, methods and procedures in the planning, budgeting and execution of public, ie state needs and expenditures and, within them, the need and defence expenditures applied in certain periods of our country (SFRY, FRY, Serbia & Montenegro) corresponded to the needs of given times. This difference was dictated by changes in the budget system, which were primarily conditioned by solutions in the political and economic system of the country, as is the case today (Knezevic & Joksimovic, 2010). These solutions, however, were largely characterized by certain specifics of our state, as compared to countries that applied the classical system of state planning, budgeting and budget execution, as well as in relation to the developed countries in which it functioned, or to implement these tasks, the PPBI system was gradually introduced. In all of this, there certainly were solutions that coexisted with the solutions of developed countries, but at the same time there were many unknowns in the world, as a rule of irrational solutions, of which, unfortunately, they still exist.

Program budgeting, as part of the PPBI system, represents the process of selecting the best programs, defining priorities among them, funding only quality defence systems with a focus on breaking up annual budgets and fiscal constraints through the adoption of multi-annual programs in the Parliamentary procedure (Knezevic, 2008). In this way, the process of modernization and equipping of the Serbian Armed Forces, which has become elusive due to already created problems in financing, is becoming possible and realistic. In our region, this form of financial planning dates back to the 1970s (Knezevic & Joksimovic, 2010). It's only ten years after the US and we had a similar system of planning, programming and budgeting with the intention of continually improving and developing it. For the sake of ideological prejudices, the then JNA called this defence resource management system defence defence plan.

There were stages: planning, programming and budgeting with execution. Within the planning phase, there were all documents that provided continuity from long-term to short-term planning at all levels. Even programs with all the elements that characterize it at that time existed. The budgeting was in line with the legal and normative reagent, and it was regulated at a very high level, with all the norms and criteria, which today are missing. The paradigm that management structures can be effective only in the conditions of sufficient financial resources to meet needs, otherwise, their attention and time will be directed to securing financial resources to meet the regular needs of the defence system, in terms of application of program budgeting, it loses its significance. Because, even under conditions of insufficiency, the management structures can effectively make decisions by defining the defined criteria and priorities within the planned activities, projects and programs of the defence system. Also in the conditions of changing financial resources by increasing the available funds, even by reducing, by the competent state institutions, the management structures can effectively make decisions and also successfully manage the defence system. Today, we are in a position to develop an implemented program budgeting model, as mechanisms for efficient management not only of financial resources, but also in general of the defence system (Knezevic, 2008).

The Republic of Serbia has introduced Program Budgeting on 1 January 2015 as a new way of managing public finances and has not yet fully defined the criteria, constraints and other normative regulations for planning purposes, except the structure of the program. The program budget puts emphasis on planning, ie on expected results, as well as monitoring what has been achieved in previous periods using appropriated funds (Joksimovic, et al, 2009). Additionally, the program budget clearly introduces a component of responsibility for program delivery and consequently improves program management. In particular, program budgeting means the introduction of an effective mechanism for monitoring the achievement of defined goals. The link between the PPBI system in the defence system and the program budget in the state administration is direct and permanent throughout the cycle (Joksimovic, et al, 2009).

The functioning of the defence system takes place under the strong influence of the security and economic environment. This has resulted in numerous specificities in individual countries. Under modern conditions, the defence system as the carrier of the state's defence function is under the influence of changing the source of danger and threatening the state's security. The situation is further complicated and complicated by the fact that the global economic crisis has had a powerful impact on the economy and finances of the state, and therefore on the development of the defence system's ability to respond to challenges and threats from the environment. The breakdown of economic trends in the Republic of Serbia began in the second half of 2008 with the overlapping of the negative effects of the global financial and economic crisis on its economy and finances. The crisis, after high rates of economic growth in the period 2001-2008. caused the slowdown and deterioration of economic activity and foreign trade as a result of the decline in foreign and domestic demand and the reduction of capital inflows from abroad due to investors' prudence and deterioration of conditions on the global financial markets. Such a trend of GDP growth has had a major impact on the financing of the defence system in a given period, as now. Namely, the funds that are allocated for defence from the state budget are directly dependent on GDP.

The most favorable situation for the governance structures and the defence system would be a more realistic forecast with a high GDP, with a tendency of growth. Naturally, a high percentage of defence allocations, as in the case of the management structure, sufficient funds would be available to finance the maintenance of existing capacities, but also the development of new capabilities. The most unfavorable situation for the financing of the defence system is when GDP is low, as we had in previous years and when the allocation for defence is also low.

Today, the defence system of the Republic of Serbia faces the problem that the defence systems of the countries in the region face, as well as the developed countries of the world, some in larger, some to a lesser extent, the financial crisis of world proportions did not bypass the Republic of Serbia. What is the result of this is that the possibilities for financing the defence system of the Republic of Serbia have been reduced. Accordingly, the needs of the Republic of Serbia in terms of defence are changing. On the other hand, the reform of the defence system inevitably requires an adequate improvement of equipment quality and modernization of the same - which requires adequate financial resources. A country that is facing the problem of lack of financial resources is unable to adequately respond to this challenge. In this way, it is necessary to have extremely rational and efficient management of financial resources that are made available to the Ministry of Defence as an integral segment of the defence system. The defence financing process is by no means only a technical procedure, but an important political process. In the absence of political will and consistency with regard to the sustainability of the planned and anticipated sizes, there is a risk that most personal expenditures will be funded, and that there is not enough available resources to develop the capabilities of the defence system.

There are a number of world-wide experiences that point to the conclusion that, in the structure of public spending, the defence can not have treatment with other users of budgetary resources. It must be stripped of the risk of uncertainty, that is, unplanned non-disclosure of the fixed amount of funds and their irregular inflow, not only because of the danger of endangering its development plans, but also of ongoing (peacetime) activities. In this regard, the need for long-term and mid-term planning for the development of the Army and the annual determination of the amount of funds for its financing should not be called into question. For this reason, as well as for preserving the existing capabilities of the defence system, the total amount of funds for its financing should still be linked to the gross domestic product achieved.

In the first decade of the twenty-first century in the Republic of Serbia, preparations for introducing multi-annual budgeting were modeled on the majority of developed countries both in the world and in the surrounding. Namely, the creation of multi-annual budgets in the world began in the 1960s and early 70s of the 20th century, and to date, this approach has become more or less universally accepted.

Program budgeting today is a modern strategic form of budgeting in a large number of countries around the world. It is very important to emphasize that in some countries with centrally planned economies, the budget was presented through the program, which was in line with the central planning approach and the preparation of budgetary allocations based on norms, but also the tradition that is still retained in many of these countries. In many other countries with an emphasized market economy, what is considered a "traditional budget" is in fact a "budget line item", presented by functional and economic categories. The program budget improves and rounds up the targeted planning process and significantly contributes to the effectiveness and rationality of budget revenue and expenditure planning. It represents the operationalization of the strategic planning process, ie the allocation of the necessary resources to the realization of concrete short-term (to medium-term) goals set in the operational planning process. With the development of a new model of program budgeting of expenditures and defense expenditures, it is necessary to take into account positive experiences in the application of the existing model of program budgeting, but also the specificities of modern business conditions (Radivojevic, 2023). What is characteristic of all existing models of program budgeting around the world are its phases. They are generally accepted and as such should not be changed. However, the processes and the structure of the phases themselves should be changed and some novelties should be introduced in order to improve the process of program budgeting of defense expenditures of the Republic of Serbia.

Table 4. Overview of the value and percentage share of the sources of financing of the Ministry of Defence of the Republic of Serbia in the period 2014-2018 (*Source: Authors' calculation)*

Source of financing	**Account**	**01**	**04**	**08**	**09**	**13**	
	Name	Incomes from the budget	Own incomes	Voluntary transfers from natural and legal persons	Proceeds from the sale of non-financial assets	Undistributed surplus income from previous years	**Total**
Budget year	2014	57,292,253,000	191,580,000	0	1,300,000,000	1,623,511,000	**60,407,344,000**
	%	94.8432	0.3171	0.0000	2.1521	2.6876	**100**
	2015	52,829,121,000	476,132,000	29,304,000	620,000,000	1,174,693,000	**55,129,250,000**
	%	95.8278	0.8637	0.0532	1.1246	2.1308	**100**
	2016	52,555,881,000	582,721,000	0	1,400,000,000	1,250,000,000	**55,788,602,000**
	%	94.2054	1.0445	0.0000	2.5095	2.2406	**100**
	2017	56,982,502,000	500,394,000	250,000	550,000,000	834,390,000	**58,867,536,000**
	%	96.7978	0.8500	0.0004	0.9343	1.4174	**100**
	2018	67,363,739,000	486,420,000	14,104,000	1,000,000,000	1,620,000,000	**70,484,263,000**
	%	95.5727	0.6901	0.0200	1.4188	2.2984	**100**

4. CONCLUSION

Financing defence expenditures, viewed as a system, includes sources and methods of collecting funds to meet the needs of the country's defence, as well as holders of the collection and use of those funds. Starting from the fact that the country's defence makes up a segment of the overall socio-economic structure, the inevitability is that the source of defence expenditure financing must be the same source as the financing of total public spending.

In relation to the current method of budget planning, whose main focus is on appropriations by economic classification, i.e. budget planning for expenditure items, in the program budget focus are the results that are being achieved, ie the goals that are achieved by engaging all the resources envisaged (material and human). Thus, the program budget is an approach, that is, a process, the purpose of which is to establish a link between the engaged resources and the proposed or achieved results. The program budget puts emphasis on planning, that is, to the expected results, as well as tracking what has been achieved in previous periods using appropriated funds. Also, the program budget clearly introduces a liability component (for direct budget users) to program the program and, therefore, improve program management. In accordance with the aforementioned, the financial plan of the defence system, in modern conditions, should serve to establish a link between the engaged funds and the proposed or achieved results.

As one of the instruments for improving the functioning and development of the defense system is the program budget, which, in addition to the already developed system that includes four functions: planning, programming, budgeting and execution (PPBI) in the Ministry of Defence of the Republic of Serbia, gives a chance to enable the approved element of increase basic needs of the entire defense system. Of course, all of this requires significant human and material effort, which has been significantly engaged so far, that is, the engagement of internal reserves in the Ministry of Defence and the Serbian Army. Instruments such as the Budget Funds, as allocative funding mechanisms, in the function of additional and innovative budget instruments, would remove the observed deficiencies in the financing of the system of defense needs of the Republic of Serbia. Budget funds offer a controlled, transparent and nominal engagement of funds for a wide range of business activities and tasks of the Ministry of Defence as an integral segment of the defense system. One, the funds as financial institutions ensure integrity in the financing of the Ministry of Defence as a user of budget funds, which fully fulfills the assumption of completeness, comprehensiveness and compactness of the financing system of the integrated segment. Also, through instruments that would enable the proper automation of the four PPBI functions and through adequate forms of digitalization, and above all modernization, the efficiency of budget operations would be increased many times and thus the overall financing of the security and defense system would be improved.

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