

**„LUCIAN BLAGA” UNIVERSITY OF SIBIU  
FACULTY OF ECONOMICS**



**PhD THESIS**

**WAYS TO IMPROVE THE FINANCING OF THE  
DEFENSE PROCUREMENT INTEGRATED  
SYSTEM IN ROMANIA**

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During the years of activity I had to resort to various bibliographic sources for specialized training. On this occasion I found that the information coming from the specialty literature on financing the defense procurement integrated system is quite poor. Although the management and development of financing of the defense procurement integrated system as integrated defense subsystem is carried out under national law, national defense ministry orders and the provisions of central bodies, I believe it is necessary that this area be enriched by works approaching the economic field in terms of the military field.

In our opinion, transparent use of public money, along with knowledge of the objectives financed and the annual allocation of financial resources to finance the defense procurement integrated system, may lead to the fall of "curtain" between the military body and the civil society, which will lead to awareness of public opinion on the need to maintain and finance the defense procurement integrated system.

In the specialty literature some authors have termed the defense procurement integrated system as a consumer of financial resources to the detriment of civil society. Thus, D. Cosma<sup>1</sup> believes that military support by public efforts is a legalized form for misappropriating a significant amount of resources of all kinds (metals, oil, land), resources that could be used by the state to improve the quality of habitants' life. The author also believes that increasing economic instability of states due to the growth of the budget, financial and currency deficit is caused by increased military expenditure. In the absence of budgetary resources, increased military expenditure is covered either by additional issue of currency - which generates inflation, or by external loans. The consequence is decrease of funds allocated to areas of major importance in a civilized state: education, health, culture and scientific research.

In connection with the author's opinion, we do not share his point of view. It is true that the defense procurement integrated system is consuming resources, but this is not detrimental to other areas such as health, culture, education, but for their benefit.

In military literature, both military analysts and military art and science researchers have emphasized in the current socio-economic and geo-political conditions the importance of the existence of the defense procurement integrated system. Thus, in his work *Lumea 2005*, V.

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<sup>1</sup> Cosma, D., Labuneț, A., Mutașcu, M.I., *The Budget and Public Treasury*, BION Publishing House, Satu Mare, 2001, p. 38.



Arsenie<sup>2</sup> highlighted the need for the military body in the contemporary society: "*universal peace is now watched by the UN and other international bodies, the war being generally rejected as a way of solving the most important tensions and crisis. However, after 1990, conflicts have produced millions of casualties of which 90% are civilians.*"

Regarding defense spending, P. Belean<sup>3</sup> believes that this is the result of exercising the powers and functions of the state and it is generated by the need to finance the so-called "pure public goods". These were defined by Samuelson as goods whose individual consumption does not generate usually taking another individual from their consumption. This includes common indivisible goods such as community peace and security, national defense, but also public lighting, public television. As one can see, consumption of these goods is non-competitive.

We cannot deny that the acceptance of excessive investments in the military field deprives the civil society of labor and material and financial resources they need for development to increase the living standards of the population. But taking into account the current conditions in Romanian society, there is no unnecessary investment risk in the armed forces. When I make this affirmation, I consider the following aspects: on the one hand, state funding for national defense ministry are far below the limit of funds allocated by the partner states of NATO or the states contributing to the strength of the European Union, and on the other hand, Romania's armed forces are engaged in the reform process that aims to reduce the number of troops and increase the efficiency and usefulness of the regular soldiers that remain.

In an article published in the *Romanian military thinking* journal, I. Ciupei<sup>4</sup> proposes adopting a policy realistic in thinking and implementation of reform within the military field, a reform appropriate for the new international geopolitical situation and the Euro-Atlantic security, with profound implications in reorganization, modernization and equipping the armed forces in order to comply with the requirements of NATO standards.

Gh. Văduva<sup>5</sup>, another remarkable author in the military field, in his work entitled *Optimize the Romanian Armed Forces participation in collective defense actions*, considers that in order to achieve the desired total profound transformation in the army, transformation that would result in the appearance of a modern army, able to adapt to any situation on the battlefield and to successfully fulfill the tasks incumbent, a sortable financial support is required, without disrupting the state budget.

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<sup>2</sup> Frunzeti, T., Zodian, V., *Lumea 2005*, CIEA Publishing House, Bucharest, p. 2.

<sup>3</sup> Belean, P., Anghelache, G., *Romania's Public Finances*, second edition, Economică Publishing House, Bucharest, 2005, p. 192.

<sup>4</sup> Ciupei, I., *Legal, humanitarian and doctrine aspects on participation in stability operations and peace support*, in: **Romanian Military Thinking** no. 5, Bucharest, 2005.

<sup>5</sup> Văduva, Gh., *Optimize the Romanian Armed Forces participation in collective defense actions*, „Carol I” National Defense University Publishing House, Bucharest, 2006, p. 46.

As is known to all, after December 1989, the army of our country, along with civil society, went through all stages of the changes necessary to reform and become a professional army. Financial resources necessary for these mutations have been allocated from the state budget. In some years the percentage allocated to defense field was high, in others less, depending on the economic situation nationally and internationally. They expected that in 2011 the defense budget represent 2.38% of GDP. Despite financial crisis, this percentage was adopted and respected.

In our opinion, the most significant achievements of the army after the Revolution of 1989 are those related to strategic reorientation, construction of the basis for the professional fighter, operationalizing of structures, adherence to NATO and the participation with troops in theaters of operations. It is true that the restructuring and modernization of the army meant an increasing financial effort from year to year, with a peak in 2009, when it was 40% higher than in 2008. Currently, to implement and complete the procurement programs are still necessary investments of about 12 billion Euros.

State financial effort to bring the Romanian Army to the Allied armies' standards was, is and will be evident. It is clear that since Romania's adherence to NATO, the interest of foreign investments for our country increased. In the period since the adherence to NATO, foreign investments were attracted totaling 29.1 billion Euros, net amount much higher than the funds attracted in the period 1991-2002.

In terms of geo-strategic and geo-political landscape, membership in NATO and the European Union is a factor of stability and gives a high sense of security to foreign investors. According to a survey made by the European Centre for Economic Research in Germany, our country is an attractive point for foreign investors in the Central and Eastern Europe, far outstripping other states in the area. On the other hand, according to official statistics, foreign investments have profoundly changed the Romanian economy after adhering to NATO.

The distinguished Professor V. Arsenie<sup>6</sup> believes that, unlike bygone time, when ideologies grouped blocks in the East and West, the current period may notice dynamism, competition and differences between the views. Thus, the interests of the people, states, of alliances and coalitions are increasingly diversified. EU and NATO enlargement is trying to rebuild and redesign the security of systems and processes necessary for a decent living, living without conflicts in various parts of the planet.

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<sup>6</sup> Frunzeti, T., Zodian, V., *op.cit.*, p. 9.

While campaigning for peace, to settle armed conflicts in various areas in war or conflicts of any kind, we should not fall into the utopian extreme to consider wars and conflicts of the past. In my opinion, the current international conditions are not in a position to lead to a world without wars or other conflicts of any kind. Decrease in natural resources, lack of jobs and increase in unemployment, increasing world population and decreasing food resources, the global financial and economic crisis, the desire for liberation from tyrannical rulers of some states, are all a concern to human security and geo-political stability in the world. If all of these concerns will be further ignored, we can wake up in a situation where regional and area conflicts will expand globally.

The analyst Pierre M. Gallais believes that, paradoxically, although one speaks of the end of the Cold War, of the chance that mankind has to build the future existence on collaboration, cooperation and partnership, in reality we are witnessing an amplification of the inter-ethnic and inter-religious conflicts, the re-use of revisionist theories. All these maintain and amplify the insecurity and uncertainty both in the conflictual areas, and continental and globally.

The specialty military literature has emerged a new concept of modern military conflicts - "economic war", concept which means the use of economic means to compel the opponent to change its policy and behavior, and finally to arrive at undermining its authority.

In our country the basic document to develop strategies, concepts, action plans and their implementation is the *Romanian Army's modernization strategy*. Two of the reasons our country has joined the international organizations are the national security and the active participation in global peace. They are essential in the development and foundation of human values, which determined and determine the Romanian state to fund and support costs of the military forces.

NATO thinks that military transformation is a continuous process of development and integration of new concepts, strategies, doctrines and capabilities in order to improve efficiency and degree of interoperability of forces and adapt to new security context, which is constantly changing, which highlights the need for reassessment of the military factor as the main source of credibility. This requires changes in doctrines, organization and structure of forces, capabilities, information activities, training, education and procurement, personnel management and budgetary programming, which are the main areas of application of the transformation.

Army is found at the end of the restructuring process and, in this context, the Romanian Army's transformation is a natural necessity arising from the new strategic orientations and transformation of the Alliance. The process of transforming the Army established three phases for the period 2005-2025<sup>7</sup>:

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<sup>7</sup> \*\*\*, *Romanian Army Transformation Strategy*, Bucharest, 2005. [www.mapn.ro](http://www.mapn.ro)

↳ phase **2005-2007** required **basic restructuring**, which was originally established as the deadline for 2007, and later was extended. This step can be regarded as the stage of fulfillment of short-term objectives of the Army transformation process focusing on reorganization, transformation, dissolution/structural setting of headquarters and military units, continuing structures operationalizing for NATO and EU, reorganization of the logistics system and implementation of military service based on voluntary.

↳ **full operational integration phase in NATO and EU structures**, covers the period **2008-2015** and includes medium-term objectives of the Army transformation process and the period of completion of commitments assumed by fulfilling the Global Objective 2010 (HG 2010) of the EU (which is a strategic priority for the Romanian Army), operationalizing of developing units for NATO and EU; complete the restructuring of the logistics system of strategic and operational level; further procurement of new equipment and procurement programs, increasing the forces participating in NATO Response Force and the contribution of forces and capabilities for EU .

↳ During **2016-2025 strengthening integration and full harmonization in NATO and the EU stage** will come off. During this stage, long-term objectives of the Army transformation process will be completed: formation of a modern and flexible force structure, able to conduct warfare and support in any allied forces; creating conditions for disposal of large units and units in military bases with complete social facilities, accommodation, disposal of military equipment and training.

I think that during these stages the Romanian state effort will have a trend to broaden the range of objectives and processes that include structuring and preparing of forces for participation in collective defense and improvement of capabilities necessary for management multinational operations of crisis and counter terrorism.

The role and economic importance of the state for the military system are more important at this stage of transit than in a developed economy, where the economic-financial mechanism operates unhindered, freely and without hindrance. Defense system in its complexity integrates into this financial mechanism established as a link in the chain of construction, financing and use of state funds.

Starting from this issue, we specified the purpose of research, to identify ways to improve the defense procurement integrated system.

To achieve this goal, we have considered the following specific objectives:

□ identify the economic contents, the need and structure of the existing procurement system in the Romanian Army;

- ❑ highlighting the main categories of resources to finance the S.I.A.A. in Romania;
- ❑ place of different types of resources, total financing of the S.I.A.A. in Romania;
- ❑ S.I.A.A. financing mechanism;
- ❑ factors influencing the S.I.A.A.;
- ❑ S.I.A.A. improvement opportunities;
- ❑ analysis of resources used to finance the S.I.A.A.;
- ❑ effectiveness analysis of investments within the S.I.A.A. in Romania;

The research was conducted under a research plan which included: the purpose of research, the specific objectives, setting activities which must be completed to establish goals.

For carrying out the activities I used analysis methods (observation, reasoning and comparison) and synthesis methods (classification and grouping). The research results are presented as tables and charts.

Information necessary for research came from bibliographic sources and the Internet. Bibliographic sources were made up of specialized works (encyclopedias, dictionaries, books, scientific works, studies, articles) published in our country or abroad. I used the Internet to access digital libraries, scientific databases and specialty works in the financial field. I studied military reference works that approached the thesis. A special category was represented by the laws and regulations in the military field.

In the first chapter of the thesis I tried to explain the concept of "procurement" and the phrase "defense integrated system". Clarifying these issues allowed me to understand and deepen the legal basis for the defense procurement integrated system, as well as the particularity of the procurement contracts, with their peculiarities. Another issue addressed in this chapter refers to the theoretical and practical aspects of financing the defense procurement integrated system. Thus, I started from the critical approach of financing definitions, focusing on the financing as activity of receiving/allocation of funds for organizations that need additional funds to invest or procure goods. After I approached the conceptual delimitation of the terms *financing sources* and *resources*, I continued referring to the financial resources of the defense procurement integrated system: own resources, budgetary resources, resources from bank loans or from NATO. I considered taxes and duties, funds from NATO as irredeemable sources and bank loans as repayable sources. I presented the basic features of the main categories of financial resources used by the defense procurement integrated system in Romania, and at the end of the chapter I showed the place of each resource in the total financing of the defense procurement integrated system.

In the second chapter I started to explain the contents of the financing mechanism of the defense procurement integrated system, I continued with the presentation of financing methods with outlining the economic, military, political and financial factors influencing the financing of procurement within the defense system. At the end of the chapter I presented in details the financing mechanism of the procurement integrated system from irredeemable and repayable resources.

In chapter three I analyzed the resources used to finance the defense procurement integrated system in Romania. I started to clarify the semantic content of "analysis", switching to a presentation of the phrase meaning "analysis of financing resources". After clarifying the concept of "analysis" and the phrase "analysis of financial resources," I presented the analysis features of resources used to finance the defense procurement integrated system and I analyzed the level of resources used to finance the defense procurement integrated system. I made an analysis using percentage and volume indicators depending on the resources origin and destinations. The indicators used were: percentage of resources used to finance the S.I.A.A. / budget of the Ministry of National Defense, volume and percentage of resources used to finance the S.I.A.A. depending on the resources origin and destinations. After analysis, I also performed the quantitative and structural dynamics analysis of resources used to finance the defense procurement integrated system. The dynamics analysis was carried out for the period 2006-2010 by calculating the indicators mentioned above. This analysis aims to provide an overview of how financial resources were used within the Ministry of National Defense.

The fourth chapter of the thesis approaches the efficiency of investments within the defense procurement integrated system. I began by explaining the concept of investment efficiency, continuing with the presentation of the relationship between effort and effect in order to determine the efficiency of investments. The cost-benefit analysis, cost-effectiveness analysis and multi-criteria analysis were presented as assessment methods. Afterwards, I considered it appropriate to present indicators of efficiency of investments within the defense procurement integrated system.

The last chapter of this thesis is the case study on the use of financing resources of the defense procurement integrated system within the "Ground-Forces" major program 2006-2010. The research aimed to: identify the structures of the Ministry of National Defense which uses the largest amount of resources to finance major procurement programs; identify resources used to finance the defense procurement integrated system within the "Ground-Forces" Major Program depending on the origin (from the State Budget and from the Army's own resources); identify

the destination of resources used to finance the defense procurement integrated system within the “Ground-Forces” Major program for investments and procurement of goods and services.

During the research I have identified a number of shortcomings with regard to the defense procurement integrated system within the "Ground-Forces" Major Program. I mention the following: due to insufficient allocation of financial resources, qualitative and quantitative objectives could not fully be provided for the procurement of technical, communications and computer equipment, individual and collective protective equipment, etc.; due to exceeding the life cycle and exhaustion of opportunities for maintenance and repair works, the replacement technique is used, leading to a non-operative state of a growing number of these units; accumulation of arrears increasing from year to year. For procurement previously planned it creates uncertainty about the initiation of the procurement programs, which is likely to seriously compromise the operational objectives for units made available to NATO, and the time limits for the requirements and commitments assumed in relation with NATO structures for future years can not be met. Another drawback is the permanent postponement of implementation of procurement programs which will lead to differences on the provision of technical equipment, becoming larger between capabilities made and commitments assumed.

As ways to improve the efficiency of financial resources within the defense procurement integrated system I mention: sizing on a real basis of financial resources included in the requests for budget changes in relation to the objectives of Ground Forces planned; quarterly distribution of the budget allocated to the Ground Forces to finance the defense procurement integrated system to be made taking into account the volume of current expenditure for the cold season (significant increase in utility costs during the cold season); using the budget based on programs, as the main instrument of planning, monitoring and control of expenditures for use with realism and relevance of performance indicators.

Preparation of this chapter has involved a rigorous selection of relevant information from a large volume of specialty works. In some cases, information on defense procurement integrated system has been difficult to obtain, due to classification or permission to publish, and defense procurement data available are not always updated.

### **Case study on the use of financing resources of the defense procurement integrated system within the "Ground-Forces" Major Program (2006-2010)**

#### **The objectives covered in the study**

The main categories of resources (funds) to finance the S.I.A.A. in Romania are: Army's own resources; resources from the state budget; resources from NATO, bank loans.

The most important source of financing for the Defence Procurement Integrated System is the **state budget**, which is providing the core financing.

Financial resources necessary to procure, with financing from the state budget, are substantiated in order to procure equipment to fight and other material goods, which according to methodological guidelines, approved by the minister of national defense and other legal provisions, are included in the procurement plan.

In order to satisfy the domestic consumption and use, after determining the quantities of products and materials to be purchased directly or received in consolidated system, the logistics bodies prepare the project of **annual procurement program**.

To determine the level of resources used to finance the Defense Procurement Integrated System, the following indicators can be used:

1. Volume of resources used to finance the S.I.A.A.
2. Percentage of resources used to finance the S.I.A.A. depending on the origin of resources.
3. Percentage of resources used to finance the S.I.A.A. depending on destinations.

Objectives we have set are:

➤ Analysis of quantitative dynamics of resources used to finance the S.I.A.A. within the "Ground-Forces" Major Program during 2006-2010, carried out based on two indicators:

volume of resources used from the State Budget and from the Ground-Forces' own funds

percentage of resources used from the State Budget and from the Ground-Forces' own funds

➤ Analysis of structural dynamics of resources to finance the S.I.A.A., according to the economic classification within the "Ground-Forces" Major Program during 2006-2010, carried out based on two indicators:

volume of resources used for the procurement of goods and services

percentage of resources used for investments

➤ Another purpose of the analysis of resources used to finance the S.I.A.A. within the "Ground-Forces" Major Program is to identify shortcomings manifested in funding and establish ways to improve efficiency of resources allocated.

To achieve the objectives we have set, we considered the following issues:

identify the structures of the Ministry of National Defense, which uses the largest amount of financing resources on major procurement programs;



- development of the program to be conducted over a period of five years, i.e. 2006-2010;
- identify resources used to finance the S.I.A.A. within the "Ground-Forces" Major Program, according to their origin, namely:
  - From the State Budget
  - From the Army's own revenues
- identify the destination of resources used to finance the S.I.A.A. within the "Ground-Forces" Major Program, namely:
  - For procurement of goods and services
  - For investments
- documentary sources used consist of annual financial statements of the Army Staff, annual procurement plan of the Army and the own research.

**Analysis of quantitative dynamics of the resources used to finance the Defense Procurement Integrated System within the "Ground-Forces" Major Program**

During the period 2006-2010 the financial resources situation of the major program is:

- **total financial resources allocated and used** (as beneficiary): **10.246.525 thousand lei** of which:
  - 10.161.292 thousand lei from the State Budget
  - 85.233 thousand lei from the own revenues.

**Conclusions, personal opinions and contributions**

***Conclusions***

1. Analyzing *the dynamics of financial resources allocated for the "Ground-Forces" Major Program* during the period 2006-2010, we found that:

- In 2007, financing resources for the "Ground-Forces" Major Program have increased by 192.500 thousand lei, representing an increase of 10,24% compared to the resources used in 2006.
- The year 2008 presents a new increase in resources used within the "Ground-Forces" Major Program with 164.045 thousand lei, representing an increase of 7,91% compared to the volume of resources used in the previous year.
- Financing resources used in 2009, after the onset of the financial crisis, have decreased by 200.127 thousand lei, reaching 2.0237.203 thousand lei.

□ The trend of reduction in the resources allocated and used is maintained in 2010 too, so at the end of the year, the "Ground-Forces" Major Program used 2.019.032 thousand lei, with 0,89% less than in 2009.

□ resources used to finance the S.I.A.A. within the "Ground-Forces" Major Program during the period 2006-2010 is as follows: in 2007 the resources used to finance the SIAA are worth 672.608 thousand lei, showing an increase of 61.958 thousand lei compared to 2006, in 2008 their volume continues to increase, reaching at the end of 2008 the amount of 771.334 thousand lei, in 2009 the resources used to finance the SIAA begin to decline significantly, reaching at the end of 2010 to a percentage decrease of 32,495 compared to 2008, although the budget for the "Ground-Forces" Major Program presented a decreasing trend of just 9,76% on the same year, which is why we conclude that the main destination of financing resources affected was that for the procurement of goods and services, investments respectively for the "Ground-Forces" Major Program.

In conclusion, given the economic situation in Romania and the prognosis for the next period, it is necessary to identify new sources of financing beyond the resources from the state budget. Their usefulness is justified by the coverage of the deficit of resources allocated from state budget to carry out the "Ground-Forces" Major Program.

*2. Analyzing the percentage of resources used to finance the SIAA, Ground Forces total budget* during the period 2006-2010, we find that the percentage of resources used to finance the SIAA, Ground Forces total budget, remains relatively constant during the period 2006-2008, with a minimum of 32,44% in 2007 and a maximum of 34,48% in 2008, while in 2009 this percentage declines significantly, reaching to 25,79%, a value which is maintained during 2010 too.

In conclusion, because of failure to provide financing resources needed to run procurement programs without disabilities, the following activities provided in the Annual Procurement Program for 2010 were not carried out:

a) equipment delivery on time for the following programs: JDERUL, LAROM, communications system, PIRANHA armored carrier, due to rescheduling of deliveries and payment charts;

b) VAT payment in 2010 for the programs provided with imported deliveries: GEPARD, SPIKE missiles for JDERUL, PIRANHA programs. It was deferred for 2011;

c) procurement of equipment necessary for Operation Theaters: roll-off truck and metal detectors and explosives;

d) signing of all subsequent contracts for framework agreements awarded for specific equipment for special forces;

e) delivering the second batch of seven pieces of PIRANHA conveyors.

**3.** *Analyzing the structural dynamics of the resources used to finance the Defense Procurement Integrated System, according to the economic classification, under the "Ground - Forces" Major Program, we found the following:*

□ financing resources from the State Budget and used to finance procurement of goods and services within the "Ground-Forces" Major Program for the year 2007 increased by 35.027 thousand lei, rising from 343.431 thousand lei in 2006 to 378.458 thousand lei. The following year resources for procurement of goods and services are reduced by 52.574 thousand lei, reaching a value of 325.884 lei, while the total volume of resources allocated from the State Budget to finance the SIAA within the "Ground-Forces" Major Program increases significantly. The year 2009 recorded a significant reduction of resources for procurement of goods and services, the value reached 220.543 thousand lei, that value is maintained at the end of 2010;

□ during the period 2006-2007 the percentage of resources for procurement of goods and services within the "Ground-Forces" Major Program is constant, representing 57,70% of total resources to finance the SIAA from the State budget, the remaining 42,30% being directed towards investments. Since 2008, with the change in the priority objectives of the Army Staff, there is practically a reversal of the resources percentage;

□ the largest percentage of resources from their own funds and used for the SIAA within the "Ground-Forces" Major Program is allocated to investments that during studied period has a minimum of 86,51% for the year 2009 and a maximum of 92,74% in 2007.

### ***Personal opinions***

**1.** In our view, the causes that led to disruptions of essential equipment was the insufficient allocation of the financing resources in relation to the planning of the Department for Armaments, in repeated negative budget revisions, in cumbersome procedures for initiating and carrying out procurement programs.

**2.** In our opinion, the causes that led to failure to complete the procurement procedures during the period 2010-2011, are:

□ the tender for transport platforms was initiated in 2010 and completed in the first quarter of 2011 by declaring bids as non-compliant and unacceptable;

□ to carry out the procurement of the Brigade and Division command post, a specific procedure was scheduled, for which a project developed by the Government Decision was not approved within the appropriate time;

□ the procurement procedures for products financed from their own revenues were not initiated (ambulance, self-propelled gun, complete encryption, inflatable tents, different containers) due to their non-collection and distribution to the "Ground-Forces" Major Program.

To remedy the shortcomings, a report to the Financial Accounting Department on providing financial resources from its own resources has been prepared and submitted. The report was not approved because the resources needed were not identified.

### ***Personal contributions***

1. We conducted a case study where we examined the use of financing resources of the SIAA within the "Ground-Forces" Major Program during the period 2006-2010.

Objectives we have set and we have achieved are:

➤ *Analysis of the quantitative dynamics of the resources used to finance the SIAA within the "Ground-Forces" Major Program during 2006-2010, carried out based on two indicators:*

□ volume of resources used from the State Budget and from the Army's own funds

□ percentage of resources used from the State Budget and from the Army's own funds

➤ *Analysis of the structural dynamics of resources to finance the SIAA, according to the economic classification within the "Ground-Forces" Major Program during 2006-2010, carried out based on two indicators:*

□ volume of resources used for the procurement of goods and services

□ percentage of resources used for investments

➤ *Another purpose of the analysis of resources used to finance the SIAA within the "Ground-Forces" Major Program is to identify shortcomings manifested in funding and establish ways to improve efficiency of resources allocated.*

To achieve the objectives we have set, we considered the following issues:

□ identify the structures of the Ministry of National Defense, which use the largest amount of resources to finance major procurement programs

□ development of the program to be conducted over a period of five years, i.e. 2006-2010

□ identify resources used to finance the SIAA within the "Groun- Forces" Major Program depending on their origin, namely:

- From the State Budget

- From the Army' own revenues

□ identify the destination of resources used to finance the SIAA within the "Ground - Forces" Major Program, namely:

- For the procurement of goods and services
- For investments

□ documentary sources used consist of the annual financial statements of the Army Staff, the annual procurement plan of the Army and the own research.

2. We have identified the causes of deficiencies in failure of essential equipment associated with the planned requirements in most operationalized structures: dosimeters and individual and collective protection equipment, initiation of procurement of command posts division and brigade type, unmanned aircraft system and major procurement programs planned: armored and unarmoured vehicles, transport platforms.

3. We identified that the procurement procedures for positions Annual Procurement Programs of multifunctional transport platforms, the command post Division type, the command post Brigade type, ambulance, fire self-propelled gun, insulated inflatable tent, different containers, complete encryption, were not initiated.

4. We identified the main shortcomings manifested in the use of financial resources of the Defense Procurement Integrated System within the "Ground-Forces Major Program, as well as the solutions to remedy these shortcomings.

*The shortcomings identified are:*

➤ Due to insufficient allocation of financing resources, the quantitative objectives of procurement could not be achieved with the main categories of proper technique corresponding to Force Goals;

➤ Using the substitution technique, due to exceeding of life cycle and exhaustion of possibilities for repair and maintenance, increase beyond the affordability of these costs, will lead to a non-operation status of a growing number of these units.

➤ The accumulation of arrears increasing from year to year. For procurement previously planned it creates uncertainty about the initiation of the procurement programs, which is likely to seriously compromise the operational objectives for units made available to NATO;

Proposed **solutions** to improve financing of the SIAA within the "Ground-Forces" Major Program are:

□ management and efficient use of financing resources through appropriate framing and reorganization of planning, programming, budgeting and assessment structures;

□ the Manager of the "Ground-Forces" Major Program must ensure financing resources needed to carry out on time the tasks set out in the Action Plan of the Army;

❑ outsourcing some of the services that were rendered by specialized military structures until now, to the private economic agents to reduce service costs.

To improve financing of the SIAA the following measures are essential to the Army:

❑ Sizing on a real basis of financing resources included in the requests for budget changes in relation to the objectives of Ground Forces planned

❑ Develop operational procedures for public procurement to ensure the initiation and conduct of procurement procedures in due time and full use of financing resources allocated to the Defense Procurement Integrated System within the "Ground-Forces" Major Program

❑ Quarterly distribution of the budget allocated to the Ground Forces to finance the defense procurement integrated system to be made taking into account the volume of current expenditure for the cold season (significant increase in utility costs during the cold season)

❑ Establish a structure with responsibilities in identifying new sources and attracting resources for growth of own revenue

❑ Implementation of an active accounting computerized and powerful system that will provide the operational data and information necessary to other components of the financial and accounting activity and the Army leadership for making decisions.

❑ Prioritization and formulation of coherent options to be considered when developing the "Ground-Forces" Major Program to make rhythmic use of the funds approved in the budget and ensure a good management of defense spending.

❑ Use a program based budget as the main tool for planning, monitoring and control of expenditure for use with realism and relevance the performance indicators.

❑ sale of surplus equipment from Army facilities, to economic agents at affordable prices, free transfer is not allowed.

❑ initiate a draft decision on capitalization through sale of property made available by reduction of effectives using open tendering procedure to obtain funds to be used to improve financing of the SIAA.

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