

Main Expenditures of NATO through NSIP in Romania

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Abstract

Over the years, ensuring the necessary resources to meet the performance standards imposed by international organizations to which Romania belongs, namely NATO, has held a very important place among the main objectives and activities of the state. The extensive process of transformation and continuous adaptation undergone by various bodies and structures of the country has led to a harmonization of resources, with studies conducted on the unfolding phenomena and measures implemented to adapt to the requirements of today's society regarding their management. The objective of this study is to outline a general overview of how NATO investment projects are carried out in Romania through public institutions under the Ministry of National Defense, using financial and accounting information, in compliance with national and international legislation, to ensure the continuous fulfillment of objectives and standards set by the North Atlantic Alliance.

Key words: NATO; NSIP; defense; public finance; expenses

J.E.L. classification: H83

1. Introduction

The North Atlantic Treaty Organization (NATO) is the military and political alliance established in 1949, currently consisting of 31 countries from North America and Europe. The main objectives of the Alliance are to protect the territories and populations of each member state by supporting an effective defense system and ensuring the security of its members. To ensure economic transparency, NATO publishes its entire civil and military budget each year, as well as the budget of the NATO Security Investment Program (NSIP).

The entire civil budget of NATO (including operating costs for NATO headquarters), the military budget (costs of the entire command structure), and the NATO Security Investment Program (NSIP) for military capabilities are collectively funded to cover all Alliance requirements, with no single member being solely responsible. The total costs are shared among the current 31 members based on an agreed and unanimously accepted formula, taking into account the national Gross Domestic Product of each member and a certain percentage of the defense budget. The cost-sharing mechanism of NATO is published annually. Although NATO ensures continuous oversight and financial and political responsibility, all projects managed by NATO can also be collectively funded by member countries, identifying priorities and funding requirements. The entire system of planning, budgeting, and financial evaluation is an integrated part of the management process for all NATO entities.

2. Literature review

The distribution mechanism of funds based on gross national income for common military funding aims to equip member states with various resources that might not be feasible to finance individually. Therefore, all eligibility criteria for common funding are continuously assessed, incorporating specific adjustments based on needs and the security context within the zone of member states (Cotiga, 2019).

Romania's commitment to allocating a minimum of 2% of national income or Gross Domestic Product (GDP) in accordance with NATO requirements has led to a constant transformation and resizing of the defense budget (Cordesman, A. H., 2019). This transformation adheres to different rules of utilization and legal norms than those of national legislation (Techau, J., 2015). It encompasses specific funding sources and functional or economic classifications. The expense segments resulting from assuming the status of a partner in international alliances and the strategies established through political agreements are justified as long as they reflect both the goals in the governance program and the provisions set in international summits regarding the armament of the armed forces (Harper, J., 2015).

3. Research methodology

The research used in this study included two methods: descriptive research and quantitative research. Descriptive research allowed us to analyze various terms, starting from the general, such as the generic term NATO, down to specific aspects like aggregated budgets and funds. Additionally, various research methodologies were employed, including economic analysis, observation of information and phenomena over time, as well as methods such as empirical analysis and literature review.

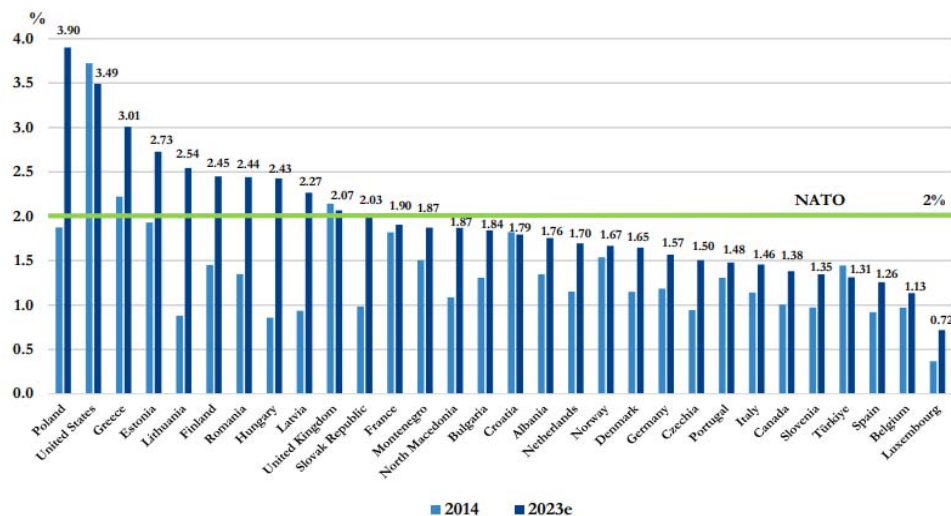
4. Findings

Common funding involves the contributions of NATO member states to civil, military budgets, and the NATO Security Investment Program. This aims to achieve major capabilities within the Alliance, maintaining an optimal and efficient level of security globally. NATO structures define their needs based on imposed objectives and priorities, along with the required funds to achieve them.

In 2006, NATO Defense Ministers agreed to allocate a minimum of 2% of the Gross Domestic Product for common defense expenditures, ensuring the Alliance's continuous military preparedness. This represented an indicator of the political will of each country contributing to NATO's joint defense efforts (Cordesman, A. H., 2019).

In 2014, representatives of the defense investment department urged NATO member countries to meet the 2% GDP for defense and allocate 20% of defense spending to the acquisition or development of significant new capabilities by the year 2024.

Figure no. 1. The main categories of defense expenditures (estimated percentage of the total expenditures for 2023)



Source: NATO statistics

At the NATO member states' level, the evolution of each country's general public expenditures for defense can be observed, including the difference between 2014 and the estimated figures for 2023. Romania is projecting defense spending at 2.44% of its GDP, compared to 2014 when it allocated less than 1.5% for defense.

The projects funded through the NATO Security Investment Program in Romania are carried out exclusively within the Ministry of National Defense. This involves the signing and approval of documents by the Minister of Defense. The implementation is managed by the ministry's subordinate structures responsible for investment project management, maintaining close correspondence and connection with NATO's specialized structures. All requirements and legal standards, both at the national and international levels, are adhered to in the financial, legal, technical, and administrative domains, as dictated by NATO legislation.

The projects funded through the NATO Security Investment Program (NSIP) in Romania are financed through various channels:

1. The direct funding of NSIP projects

- *National Contribution* - each country contributes funds nationally to support the NSIP);
- *Financial Contribution to NSIP* - the funds for NSIP projects are directly contributed to the specific account "Disponibil pentru proiecte NSIP" (Available for NSIP Projects). This account is managed by the Ministry of National Defense and is opened by the State Treasury;
- *Funds Transferred by NATO Member States* - Member states transfer funds directly to support NSIP projects, contributing financially to these endeavors;
- *Other Financial Funds* - Additional financial resources may be used to support NSIP projects.

To receive and utilize NSIP funds, the Ministry of National Defense must use a dedicated account, specifically classified as "50.48 Available for NSIP projects." This account remains open in the name of the public institution under the Ministry of National Defense after completing all budget regularization operations, as per the Order of the Minister of Public Finance No. 720 of 2014. All payments made through this account must be justified, align with NSIP project requirements, and adhere to national norms and legislation.

Figure no. 2. Treasury Account where no revenues are collected and from which no expenditures are made

| | |
|-------|-------------------------------------------------------------------------------------|
| 50.42 | Available from sums collected by administrative-territorial units for other budgets |
| 50.48 | Available for NSIP projects |

Source: List of accounts of the Ministry of Public Finance

The available funds for NSIP projects, remaining at the end of the budget year, are carried over to the next year without changing their intended purpose, as approved and funded for the investment project. If the transfer of funds and contributions from NATO member states for NSIP projects cannot be made within the specified deadlines, the Ministry of National Defense makes the due payments from its own budget. Subsequently, it replenishes its funds during the same budget year. If the fund replenishment occurs after the end of the financial year, the payments made will be considered revenues for the state budget.

2. Co-Financing of NSIP Projects

Co-financing involves funds dedicated to paying invoices resulting from public procurement processes for NSIP projects. These funds are reflected in the main credit holder's budgets under the economic classification of expenses at item 55.02.06, "Co-Financing for the NATO Security Investment Program" .

Figure no. 3. Economic Classification of Expenditures

| Annex I | | | 2023 |
|---------------------------------------------|---------|-----------|---------------------------------------------------------------------|
| CLASSIFICATION OF PUBLIC FINANCE INDICATORS | | | |
| EXPENDITURES ECONOMIC CLASSIFICATION | | | |
| Title | Article | Paragraph | NAME OF THE INDICATORS |
| | 55.02 | | B. Current transfers abroad (to international organizations) |
| | | 55.02.01 | Contributions and dues to international bodies |
| | | 55.02.02 | International economic cooperation |
| | | 55.02.03 | Development assistance allocated abroad |
| | | 55.02.04 | Other current transfers abroad |
| | | 55.02.05 | Romania's contribution to the European Development Fund |
| | | 55.02.06 | Co-Financing for the NATO Security Investment Program |

Source: Annex of Expenses of the Ministry of Public Finance

Unlike the direct funding of NSIP projects through "50.48 Available for NSIP projects", co-financing projects require a shorter period for utilizing the funds and making payments for procurement contracts established between the contracting authority and the contractor. Additionally, co-financing involves a simpler procedure for the contracting authority responsible for the NSIP project, as the main credit holder is responsible for transferring the funds directly into the authority's budget, following the established economic classification of expenses.

5. Conclusions

The current political and economic context significantly influences the organization and functioning of the defense, public order, and national security system, impacting the overall expenditures of the country. These expenditures aim to achieve the objectives and standards set by the North Atlantic Alliance for all member states.

Economic transparency within NATO relies on the annual publication of military and civilian budgets, as well as NSIP funds, illustrating the distribution of agreed-upon funds for each member state. This is achieved through common military funding, ensuring states are equipped with diverse resources.

The aspects mentioned throughout this study provide arguments justifying the importance of understanding the financing and allocation of NATO funds and budgets. This understanding is crucial for the judicious implementation and execution at the national level, ensuring the efficiency of the entire process in aligning with imposed standards and equipping the public sector of the state with goods, materials, or services.

The execution of investment projects in Romania under NATO must follow an upward trajectory for maximum efficiency, minimizing identified deficits to correspond between civil and military endowments through NATO funds. The goods resulting from these projects enter the public domain of the state.

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