

Oryginalna praca badawcza

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THE DEFENCE SECTOR THROUGH THE PRISM OF EFFECTIVE RESOURCE MANAGEMENT ACCORDING TO NATO STANDARDS

SEKTOR OBRONNY PRZEZ PRYZMAT EFEKTYWNEGO ZARZĄDZANIA ZASOBAMI ZGODNIE ZE STANDARDAMI NATO

Abstract: The article examines issues related to the main current reforms in the defence sector of Ukraine. In the opinion of the author, such reforms should occur as soon as possible to ensure compliance of the legislation and functioning of the national security system of Ukraine with NATO standards and principles; creation of an effective rule of law system; strengthening national guarantees of independence; the development of effective international comprehensive cooperation, in particular through the use of inter-departmental cooperation, as well as the mandatory increase in the effectiveness of the functioning and performance of the functions assigned to them by the security bodies, as well as the speedy improvement of the tools and means of their interaction with each other and with other components of the national security and defence sector of Ukraine. In this regard, the author considers it expedient to consider the principles applied in NATO member countries and the main ways of financing NATO's defence costs. Such an analysis will not only provide an opportunity for effective international support to our country in the process of military operations, but will also be useful for the purpose

of determining the next main steps to bring Ukraine's defence sector financing system into line with international standards and principles.

Zarys treści: W artykule przeanalizowano kwestie związane z głównymi obecnymi reformami w sektorze obronnym Ukrainy. Zdaniem autora te reformy powinny zostać przeprowadzone jak najszybciej, aby zapewnić zgodność ustawodawstwa i funkcjonowania systemu bezpieczeństwa narodowego Ukrainy ze standardami i zasadami NATO; stworzenie skutecznego systemu rządów prawa; wzmocnienie krajowych gwarancji niezależności; rozwój skutecznej międzynarodowej kompleksowej współpracy, w szczególności poprzez wykorzystanie współpracy międzyresortowej, a także obowiązkowe zwiększenie efektywności funkcjonowania i wykonywania funkcji przypisanych do organów bezpieczeństwa, a także szybkie doskonalenie narzędzi i środków współdziałania organów bezpieczeństwa ze sobą oraz z innymi elementami sektora bezpieczeństwa narodowego i obrony Ukrainy. W związku z tym autor uważa za celowe rozważenie zasad stosowanych w państwach członkowskich NATO i głównych sposobów finansowania kosztów obrony NATO. Taka analiza nie tylko zapewni możliwość skutecznego międzynarodowego wsparcia naszego kraju w procesie operacji wojskowych, ale będzie również przydatna do określenia kolejnych głównych kroków w celu dostosowania systemu finansowania sektora obronnego Ukrainy do międzynarodowych standardów i zasad.

Key words: defense sector, NATO, financing, principles, functions, reforming.

Słowa kluczowe: sektor obronny, NATO, finansowanie, zasady, funkcje, reformowanie.

Introduction

In the course of hostilities on the territory of Ukraine, military structures faced challenges in their activities, primarily security challenges, which required a quick response. In addition, society has a clear demand for decisive changes after Ukraine's victory. We believe that the priority is the guarantee of human rights and freedoms, as well as the development of a new democratic state, which should be dominated by the rule of law. In addition, it is necessary to speed up digitization in the defence sector of Ukraine. This issue is relevant for the system of security agencies, which must improve their

potential for quality performance of the functions defined by the legislation of Ukraine.

The changes expected by the country should be as comprehensive as possible and relate to almost all aspects of their functioning: starting from the training and quality selection of highly professional future personnel for military service to ensuring the transparent and efficient functioning of the national system, taking into account NATO standards and other international standards, including on transparency and accountability. Corruption and other existing risks harmful to the country should continue to be eliminated, including using NATO's experience in strengthening the mechanisms of democratic public civil control over the process of making transparent administrative decisions. In addition, the general goal is not only the reform of national security by improving the guidelines of their activities, building an effective management culture, reforming the management structure following the example of NATO and legislative regulation taking into account the European integration of Ukraine, but also the general system of public administration efficiency.

Setting objectives

Today, during the full-scale invasion of Russia on the territory of Ukraine, the main current priorities of reforms, in our opinion, should be the fastest possible provision of the national system of the rule of law; strengthening national guarantees of independence; the development of effective international comprehensive cooperation, in particular through the use of interdepartmental cooperation, as well as the mandatory increase in the effectiveness of the functioning and performance of the functions assigned to them by the security bodies, as well as the speedy improvement of the tools and means of their interaction with each other and with other components of the national security and defence sector of Ukraine. In this regard, we consider it appropriate to consider the principles that have been applied in NATO member states for almost 75 years and the ways of financing NATO's defence costs regarding the possibility of not only analysing the further support of our country in the process of military operations, but also with the aim of determining the main steps for compliance of the financing system of the defence sector of Ukraine with international standards and principles.

Research results

The functions of the defence sector are a critically important part of the national security of Ukraine, which ensures the sovereignty and territorial integrity of the country. The legislation of Ukraine regarding the protection of the territory consists of a number of laws and regulations, in particular: the Constitution of Ukraine, Law of Ukraine “On National Security” and Law of Ukraine “On Defence of Ukraine” among others.¹ The key indicators of the effectiveness of the protection of the territory of Ukraine include: operational readiness of the armed forces to respond to threats and crises, response time, namely the ability to rapidly deploy and respond to security challenges, effective use of allocated resources for territory protection and transparency and accountability of funds and resources management to prevent corruption.

Funding of the defence sector in Ukraine during the period of military operations on the territory of Ukraine is of global importance and is carried out at the expense of the state budget of Ukraine.² The main source of financing is the appropriation from the state budget. Also, the national defence industrial complex contributes to the development and procurement of equipment for the defence sector. In addition, Ukraine receives financial and material assistance from international partners, including NATO member states and international organizations.

The military capabilities of the North Atlantic Treaty Organization (NATO) have long been at the core of its mission to ensure the security and defence of its member states. NATO, created after the Second World War, has constantly evolved to meet current security challenges by strengthening its military capabilities. Legislation plays a critical role in creating the framework for financing defence spending in NATO countries. The North Atlantic Treaty, the founding document of NATO, defines the obligations of member states to maintain and develop their individual and collective potential for self-defence.

As a member of NATO, the United States plays a central role in ensuring the collective defence and security of the alliance’s member states. Their historic commitment to the alliance, military capability and leadership are an integral

¹ Constitution of Ukraine Act of 1996, <https://zakon.rada.gov.ua/laws/show/254%D0%BA/96-%D0%B2%D1%80#Text>, (accessed 09.10.2020); Zakon Ukrainy: „Pro nacionalnu bezpeku” 2018, <https://zakon.rada.gov.ua/laws/show/2469-19#Text>, (accessed 12.09.2023); Zakon Ukrainy: „Pro oboronu Ukrainy” 1991.

² Budzhetnyi Kodeks Ukrainy 2010, art. 572.

part of NATO's mission to maintain peace and stability in the Euro-Atlantic region. Although challenges remain, including the evolving security landscape, resource allocation, political differences and public support, the outlook is optimistic. Adaptation, modernization, policy dialogue and public engagement provide a way forward for the alliance, ensuring the continued effectiveness of US membership in NATO. In addition, since its inception, NATO has relied on the steadfast commitment and contribution of Great Britain. Germany's membership in the North Atlantic Treaty Organization (NATO) has been a fundamental pillar of transatlantic security since the end of World War II. As the largest economy in Europe, Germany plays a key role in ensuring the collective defence and security of NATO member states, especially on the European continent. As a major European military power and a country with global influence, France's membership of the North Atlantic Treaty Organization (NATO) also plays a central role in ensuring collective defence and security for NATO member states.

Each NATO member state has its legislative process for allocating defence budgets, often governed by national laws and regulations. NATO member states also agree to make financial contributions to the organization's jointly financed budgets, which support the various activities of the alliance. Thus, defence spending must be clearly aligned with the security environment. Second, defence spending is closely related to the burden-sharing debate. The United States often rightly criticizes European Allies and Canada for not bearing their fair share of the collective defence burden. The deep deterioration of the security environment after the illegal annexation of Ukrainian Crimea by the Russian Federation in 2014 renewed the debate on the distribution of the burden among the members of the alliance. The issue has become even more acute since Russia's full-scale invasion of Ukraine in February 2022, which demonstrated that the risk of a major conflict involving a potential nuclear-armed adversary is not as remote as many had hoped.

NATO's defence spending covers several areas, in particular funds are allocated to increase the readiness and capacity of NATO forces for collective defence, investments are made in infrastructure projects that support military mobility and alliance readiness, NATO conducts training and training to improve interoperability between member states, NATO is solving the problems of cyber security and investing in means of cyber defence.

The 2014 Defence Investment Pledge (DIP), adopted by the Allies at the 2014 Wales Summit, NATO's first summit since the illegal annexation of Crimea, set an important baseline by setting a spending target of at least 2% of GDP on

defence by all members of the alliance as a political commitment agreed upon at the level of heads of state and government. As a result of the DIP, European Allies and Canada have invested an additional \$350 billion since 2014, marking eight consecutive years of increased defence spending.

However, it is important to look not only at the numbers (for example, the number of NATO member states at 2% or the amount of money added), but also at the priorities and defence capabilities that are delivered when the Allies gradually increase defence spending (which is not an end in itself, especially in times of competing budget priorities). Ahead of the alliance's 75th anniversary, which will be celebrated in Washington, DC in 2024, it is also worth re-examining the relevance of the current 2% target and trying to define a timeline for sustained and long-term efforts.

The presence of major problems in defence spending in NATO countries should be determined. Economic Constraints: Economic downturns can limit countries' ability to meet defence spending commitments. Different threat perceptions: Different threat perceptions among member states can lead to differences in defence priorities. Political Obstacles: Domestic political considerations may impede efforts to increase defence budgets. Allocation of resources: ensuring efficient allocation of budgetary resources is a constant challenge.

Over the years NATO defence spending has fluctuated under the influence of geopolitical events and national priorities. After the end of the Cold War several NATO members reduced their defence spending as the perceived threat diminished. But, in recent years, growing concern about Russia's aggressive posture and the rise of new security challenges has led to a revival in defence spending.

During the Cold War defence spending by NATO Allies (excluding the United States) typically averaged more than 3% of GDP, with some significant fluctuations over time, but rarely fell below 2%. In the post-Cold War era, there was a first significant decline in the early 1990s and a further decline of 20% approximately 20 years later (including the reduction of the NATO command structure) following the 2008 global financial crisis. This led to a significant decrease in both the size and readiness of the armed forces of most of the alliance countries. Moreover, new NATO members tended to reduce defence spending upon joining the alliance, reinforcing the perception that some Allies were free-riding at the expense of others.

In recent decades, these reductions in defence spending by NATO members have stood in stark contrast to trends elsewhere in the world. Since 2000, Russian defence spending has increased by 227%, while China's has increased by

566%. Defence spending remained fairly flat over the same period (increasing only 22%, including recent increases) in NATO countries in Europe and Canada, with the lowest in 2014. These average figures obviously do not reflect the diversity of situations from one ally to another, but the overall trend is telling, and it has managed to change, rather slowly, only since 2015.

Some NATO member countries make a significant contribution to the budget of the alliance. These countries include the United States, Germany, Great Britain and France. While many NATO member states are active contributors, some pay relatively less to the alliance's budget, including Luxembourg, Iceland and Slovenia.

After Russia's illegal annexation of Crimea, NATO members approved a defence investment commitment (paragraph 14), which to this day remains the political basis of their commitment to increase defence spending.³ It has been carefully formulated with the goal of achieving results within a decade (by 2024), making the promise demanding but realistic. Not only did it set a target of 2% of GDP for defence spending, but it also set an additional target for Allies to "spend more than 20% of their defence budgets on capital equipment, including related research and development," which is no less important because it encourages Allies to invest in new defence capabilities. Even with this additional nuance, it quickly became clear that the 2% figure is the financial and political benchmark against which the Allies' efforts will primarily be judged, particularly in the context of renewed transatlantic burden-sharing disputes under the Trump presidency .

As demonstrated in the annual report of the NATO Secretary General for 2022⁴, efforts to achieve these goals were significant. Since 2015, officially the number of countries that reached the target of 2% increased from 3 to 7, and the number of countries that exceeded the target of 20% of investments increased from 7 to 26 of the 30 members of the alliance (Finland became the 31st NATO member country in 2023, and therefore is not included in these numbers).⁵ Most Allies now have clear plans to comply with the guidance in the coming years, and in total this represents an additional \$350 billion⁶ in spending by non-US Allies

³ NATO, *Annual Report of the Secretary General for 2022*, https://www.nato.int/cps/uk/natohq/opinions_212795.htm?selectedLocale=uk, (accessed 6.05.2023).

⁴ Ibidem.

⁵ NATO, *NATO Annual Tracking Research 2022*, <https://www.nato.int/SGReport/2022/audience-insight-en.pdf>, (accessed 6.05.2023).

⁶ Ibidem.

(compared to planned spending if budgets had remained unchanged since 2015 year).

Although the vast majority of Allies have increased defence spending as a share of GDP, there is still some variation between them. Alliance members tend to fall into one of three groups, each representing about a third of the alliance: those who have already met or are close to meeting the 2% target; those who are quickly moving towards this goal and expect to achieve it in the near future; and those who plan to reach the 2% target but are still lagging behind (currently below 1.5%)⁷ and are unlikely to reach the target anytime soon.

While eight consecutive years of defence spending increases do make a difference, the additional money has not yet allowed all Allies to overcome the effects of previous cuts and years of shrinking defence budgets. Years of constant effort are needed to restore the strength that in many cases has completely vanished. From this point of view, the significant increase that is taking place today allows the members of the alliance to achieve three related and equally important goals.

First, the least visible but still critical effort is to restore forces to appropriate levels of readiness and military effectiveness. In short, it is about training and procurement of ammunition and spare parts to ensure the combat capability of NATO allied forces at short notice, under all circumstances and in sufficient quantities. The war in Ukraine publicly revealed that many Allies had difficulty finding available ammunition stocks to donate to Ukraine, or to re-equip their own forces, and could deploy only limited combat-ready forces at short notice. This line of effort is critical to the complex scenarios related to the defence of the Euro-Atlantic region and will require a sustained effort over time to ensure that Allies meet the relevant standards.

Second, Allies are addressing capability gaps in areas that were neglected during more than 20 years of crisis management and counterinsurgency focus (such as the Middle East war and ongoing conflicts in Africa) that focused on a different set of priorities and tools. NATO's defence planning process has enabled Allies to identify these key capability gaps and thus begin to restore high-end capabilities in the land, sea and air domains through the acquisition of modern platforms and mechanisms. Alliance members are also focused on rebuilding industrial potential in the alliance. Objectives and priorities may vary from member to member depending on size and location, but the priority for NATO as a whole is to rebuild military and industrial capabilities to meet the challenges of

⁷ Ibidem.

high-intensity war scenarios after years of stockpiling. Special areas include land warfare (artillery and support), integrated air and missile defence and submarine operations.

Third, increased defence spending allows alliance members to better prepare for the future. NATO's technological advantage has always been a key advantage for the alliance. Defence investments support research, develops the next generation of equipment and mechanisms and ensures NATO's competitiveness in new areas of operations such as space or cyberspace. This focus on innovation is key to NATO's future success in an environment where western technological superiority can no longer be taken for granted. This will require much closer cooperation with various actors in the private sector, academia and regulatory bodies, including the European Union.

Each of these priorities alone justifies a renewed effort in defence spending. Together, these three clearly show how important sustained efforts are, especially in the degraded security environment we live in today.

As NATO approaches its 75th anniversary in 2024, the terms of the debate are changing rapidly. A growing number of alliance members are announcing plans to significantly exceed the 2% target and make major investments in new equipment and capabilities. Some suggest upward revisions to targets, while others remain concerned about the implications of a tight fiscal environment and their ability to effectively use budgets that are expanding too quickly. In this context, it is important to recognize that 2% should be a floor, not a ceiling. It is equally important to make the case for continued efforts over the next decade and beyond, or at least until the security environment becomes more reassuring.

Unfortunately, the security environment in Europe and beyond will remain volatile for the foreseeable future. Despite the hoped-for favourable outcome of the war in Ukraine, Russia is likely to remain hostile and/or unstable, and its core military capabilities will remain largely undiminished outside of land forces. On the southern flank of Europe, an arc of instability stretches from West Africa to Afghanistan, with several half-collapsed states and possible further destabilization caused, in particular, by the actions of Russia. Strategic competition with China, including through an increased Chinese presence in the Euro-Atlantic region, creates further risks for potentially serious consequences.

Fortunately, despite the instability in the global security environment, the increase in defence spending is largely in line with the fiscal capacity of NATO members, who are among the most economically developed countries on the planet. NATO members have no intention of starting a new form of arms

race, and spending of 2% remains well below Cold War averages. In the current security environment public opinion supports defence spending, particularly in Northern and Eastern Europe, and that support is growing. According to a NATO public opinion survey, the majority of alliance citizens (74% in 2022 vs. 70% in 2021)⁸ believe that defence spending should either be kept at current levels or increased (there are some significant differences between alliance members, from 85% to 52% support, but always with majority support). Only 12% believe that it is necessary to spend less on defence. However, given the political sensitivity of defence spending among many domestic audiences, a strong and sustained effort requires a strong democratic consensus and thus a strong argument. To make these efforts acceptable, it is important to consistently explain the security rationale behind these efforts, as well as to highlight their fiscal sustainability and economic benefits to domestic industry and technology, and thus to local economies and communities.

As the alliance approaches 2024, the tenth anniversary of the defence investment commitment, all eyes will be on this initial deadline for achieving the 2% target. Thus, the 2024 Washington Summit will be an opportunity for NATO leaders to review achievements and agree on future commitments. They may include:

- A renewed commitment to achieve the 2% and 20% targets without delay or reservation, with these figures defined as minimums, not maximums, as many Allies are now well above these thresholds.
- A pledge to maintain this level of effort as long as necessary, which is critical to rebuilding our military.
- A focus on addressing capability gaps identified in NATO's defence planning process, including through joint funding where necessary or more effectively.
- Reflection on how best to align NATO's guiding principles with the EU's increasingly important activities, including through investment in capabilities and technology, to ensure that both efforts are mutually supportive.

Strengthening the military potential is the main goal in NATO's mission to ensure the security and defence of its member states. As the alliance developed, military potential adapted to modern security challenges. These capabilities serve as a deterrent to potential aggressors, a means of protection in times of conflict and a tool for crisis management and peacekeeping. While

⁸ Ibidem.

challenges such as resource allocation, interoperability, technological progress, strategic differences and public support remain, NATO is actively addressing these challenges. Continued efforts to meet defence spending commitments, promote interoperability, share technology, align strategic priorities and engage the public signal a positive future for NATO's military capabilities. As NATO continues to navigate complex security landscapes and evolving threats, strengthening military capabilities will remain central to its mission, increasing the strength of a united alliance committed to security and stability in the Euro-Atlantic region. Defence investment and budget discussions cannot and should not be divorced from the broader strategic debate among Allies as they discuss the future of the transatlantic relationship 75 years after NATO's formation. This requires Allies to be fully aware of how much the security environment has changed and how much the alliance itself has changed to meet the challenge, not just in 75 years, but especially in the last ten. Only thanks to this recognition will the members of the alliance be able to draw honest and clear conclusions for the new era of NATO's history.⁹

Conclusions

The commitment to collective defence is a cornerstone of NATO's mission to ensure the security and sovereignty of member states. Rooted in historical context, enshrined in a sound legal framework and imbued with contemporary significance, collective defence remains vital to maintaining stability and peace in the Euro-Atlantic region. Although challenges remain, including the evolving security landscape, resource allocation, political differences and public support, NATO is actively addressing these challenges. It is this experience and the high probability of Ukraine's accession to NATO that necessitates the earliest implementation of these principles in the functioning of the defence sector in particular and the national security of Ukraine in general.¹⁰

⁹ NATO, *Relations with Ukraine*, https://www.nato.int/cps/uk/natohq/topics_37750.htm, (accessed 6.05.2023).

¹⁰ Memorandum about the Agreement between the Government of Ukraine and the NATO Organization with Communication and Information Concerning Cooperation on Issues Consultations, Management, Communication, Intelligence, Surveillance and Reconnaissance within the Framework of the NATO program "Partnership for Peace": Law of Ukraine dated 11.16.2023, no. 2741-IX, <https://zakon.rada.gov.ua/laws/show/2741-IX#Text>, (accessed 11.08.2024).

Adaptation, modernization, political dialogue and public engagement provide a way forward for the alliance, ensuring continued effectiveness in its commitment to collective defence.

In 2023 the activity of a new body began, the Ukraine-NATO Council, which has already become the evolutionary successor of the previous Ukraine-NATO Commission. The change of the previous format from the existing Commission to the new Council may indicate an active strengthening of all political ties between Ukraine and NATO member countries. This also confirms the higher degree of integration of modern Ukraine into the alliance. In the new format of the Council, Ukraine sits alongside all its member states on the basis of objective equality. The meeting of the new Council can be convened not only by the Secretary General of NATO, but also by all individual participating countries, as well as by Ukraine, including if a resolution and crisis consultations are necessary. On 12 July 2023, the constituent meeting of the new Ukraine-NATO Council took place within the framework of the previous Vilnius summit.

The defence and security sector of Ukraine is critically important for ensuring the country's sovereignty and territorial integrity. Ukraine can use the experience of NATO countries to strengthen its capabilities in the defence sector. By addressing issues such as corruption, resource allocation and technology gaps Ukraine can strengthen its national security function, ensuring the protection and stability of its territory and contributing to regional and global security efforts in the world.

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Summary

In the course of hostilities on Ukrainian territory, military structures faced challenges, particularly on security issues that required a quick response. There is also a clear demand in society for decisive change after Ukraine’s victory. The priority is to guarantee human rights and freedoms and to develop a new democratic state where the rule of law should prevail. It is necessary to accelerate digitization in Ukraine’s defence sector, which is important for the system of security agencies, which must improve their capacity to perform qualitatively the functions defined by Ukraine’s legislation.

The changes expected in the country should be as comprehensive as possible and address almost all aspects of their functioning: from training and qualitative selection of highly professional future personnel for military service to ensuring the transparent and effective functioning of the national system, taking into account NATO and other international standards, especially those concerning transparency and accountability. Corruption and other existing threats detrimental to the country should continue to be eliminated, using NATO’s experience in strengthening mechanisms for democratic citizen control over transparent administrative decision-making. The main goal is not only to reform national security, streamline their operations, build an effective management culture, reform the management structure along the lines of NATO and legislative regulations taking into account the European integration of Ukraine, but also the overall system of public administration efficiency, making transparent administrative decisions.