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**THE DIFFERENCE BETWEEN ALLOCATION AND
EXPENDITURES INSIDE THE PPBEES MODEL.**

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Abstract:

Since the 2% budget allocation for defense expenditures has been approved by NATO countries several member states have tried to reach this objective. However even though the allocation of 2% of the budget has been achieved, real expenditures of the 2% budget have had several shortfalls.

It is the aim of this paper to analyze the difference between allocations and expenditures for several countries, while also taking into consideration the impact this allocation has on the PPBEES process and some of its vital stages.

Key words: allocation, expenditures, PPBEES process, NATO commitment

1. Introduction

The PPBS tool has long been a subject of analysis. While most focus has gone into understanding the three original phases, the Planning, Programing and Budgeting Phase it is the aim of this paper to focus the Execution Phase of the Process.

Over the years the PPBS has been described as a strategic level process that has the aim of linking plans to budget and therefore create resources management system (RMS). Through the RMS the original purpose of the Department of Defense in the US was to develop analytical capabilities that would answer questions like decision making, choosing between alternatives, public auctions, tenders and offers, procurement, life cycle cost and so on.

If we were to realize a short history of the PPBS we could say that this process was first implemented at the idea of President Dwight Eisenhower, former General of the United States Army during the Second World War. It was Eisenhower who understood that because of scarce resources the DoD has a challenge in managing how this resources are spent and that the United States ran the risk of having duplicate expenditures between its own armed forces like the navy, army or air force. It was for this reason that Robert McNamara became Secretary of State and as former RAND Corporation member and a former FORD director he was asked to innovate in the field of defense resources management.

As a result Robert McNamara proposed the PPBS system as a solution to the so called “defense management challenge” and developed a tool to try and better connect planning to budgeting. That tool became the new phase inside the PPBS, the Programing Phase. A medium term planning device, it helped connect planning goals and objectives to the final outputs in terms of capabilities, equipment, personnel. [1]

The PPBS also tries to answer to another fundamental economic problem- the **tradeoffs** among multiple competing objectives or goals given constrained resources. Therefore the PPBS



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offered the possibility for the decision makers to use different instruments and tools for analysis from life-cycle cost, to cost benefit analysis or cost effectiveness analysis.

In the end the PPBS became a merger of different types of budgeting that put together offered end users a much easier platform to use. The three budgets that together built the PPBS were:

- Control Budget (input/resource focus)
- Management Budget (activity/output focus)
- Planning Budget (output/outcome focus)

As we can see by aligning this three types of budgeting together they focus on inputs and outputs of different types. [2] The PPBS brought the management science which focuses on effectiveness and efficiency in defense resources analysis.

Therefore in terms of how the DoD used PPBS we can say that the PPBS became a tool that helped in different fields like:

- Strategic Planning
- Program development
- Resources determination
- Budget justification and execution

The aim to implement this system was to help Mods in NATO member states including US to better link missions to resources and to plan and budget beyond the next fiscal year.

2. Challenges in Long term, medium term and short term planning.

The PPBS has changed the dimension of planning bases on time frames. Because of its conception, the programming phase has actually become an example of medium term planning, while budgeting has become an example of short term, yearly planning which of course leaves planning to actually mean long term planning.

This is important when we think about actual execution of the budget because we are used to identifying shortfalls when we pass from long term to short term planning, or from planning to budgeting. [3] We are used to adjust what we originally plan because in real life experience, what we are actually going to budget will be slightly different that we had originally planned. Experience and scientific models or examples tell us that in the end we budget less than we have originally planned. Why is that? We tend to consider that the errors are in our decision making matrixes and we do not fully grasp the true nature of how scarce resources really are and therefore we plan with a different level of ambition that what we can actually afford to budget. But what if the explanation stands elsewhere?

If we look at the graph below [4] we will see that defense expenditures have been going down in NATO states after the cold war. Of course, that all finished after the Crimea Crisis and the NATO Summit of Wales in 2014, when NATO countries agreed to increase their defense budget. But if for around 25 years the defense budget has been going down globally and since long term planning takes into consideration a time frame of more than 10 years while short time planning means a time frame of one year wouldn't it be natural that we are left year by year with



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smaller budget and therefore our only solution is to adjust downwards in spending because the financial ceilings become less and less than what we originally planned for?

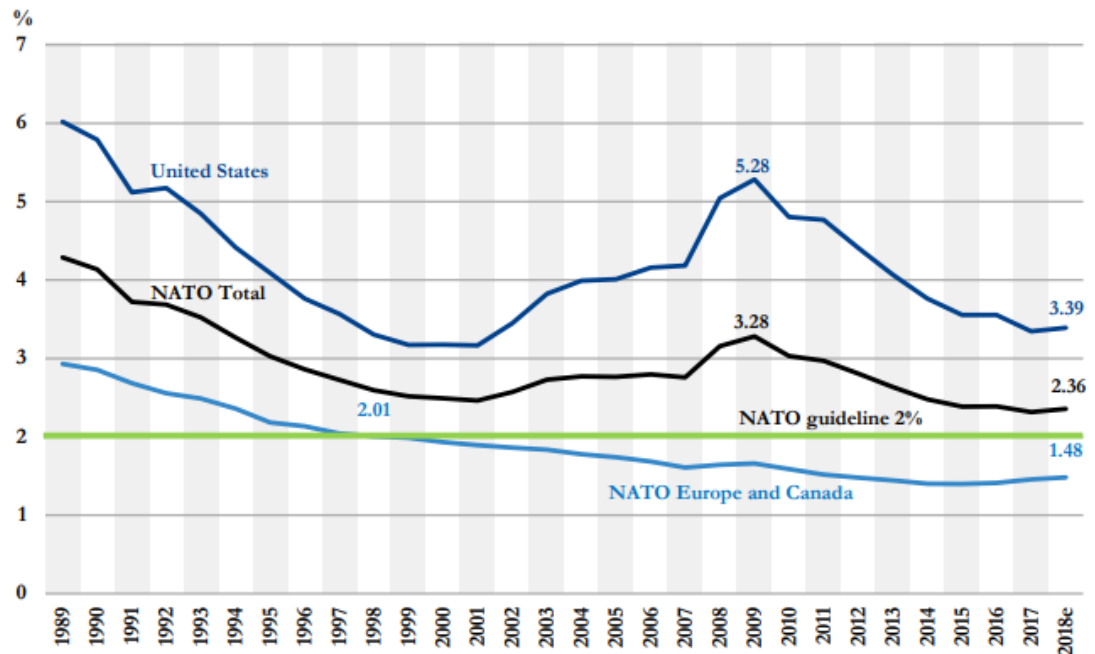


Fig 1. Defense Expenditures as a share of GDP

This dilemma has the purpose of showing us just how important the Execution phase of the PPBS actually is. And if we were used to adjust downward to regulate de expenses matched with what we have planned, will we not have difficulties now that the budget is going upwards when again we are faced with executing something that will outmatch what we can plan especially on short term?

3. The Execution Phase following the 2% of GDP expenditures commitment in NATO

To understand how countries execute the budget we first must look at a pictures of how countries that are members of NATO have managed to increase their budget when in comes down to trying to reach that 2% objective from the budget. This is will be described in the following figure, **Figure 2:**



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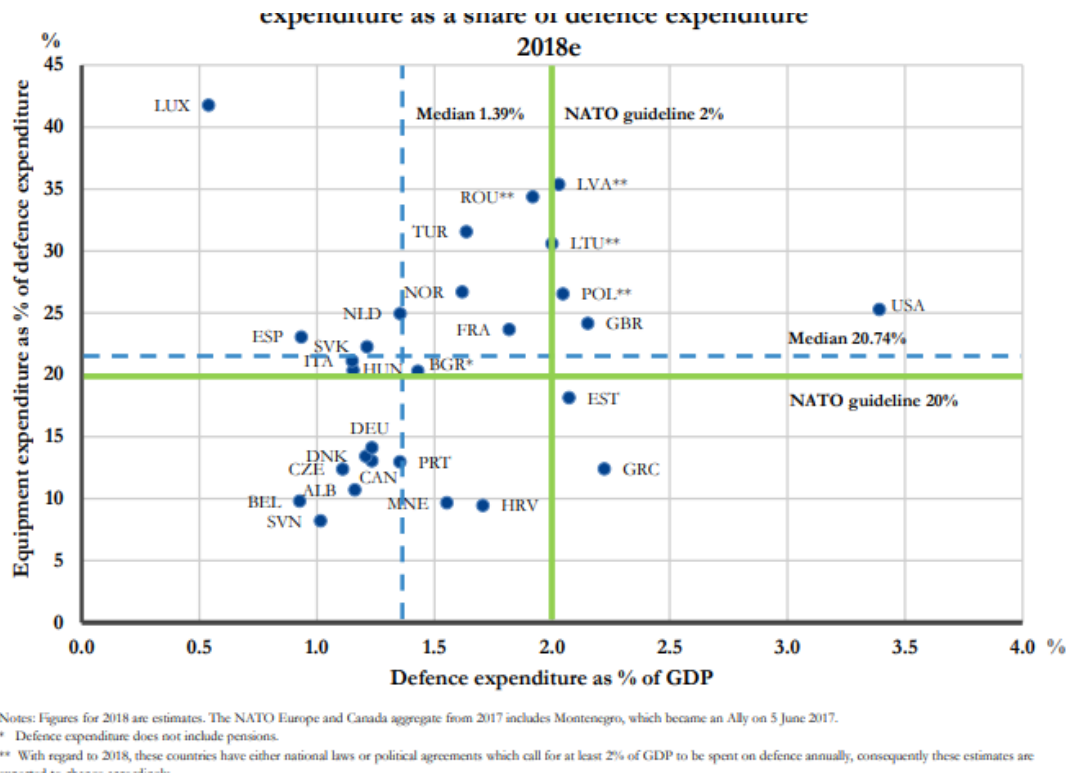


Fig 2. Defense expenditures as % of GDP 2018

As we can see in the figures above there are countries that have managed to reach the 2% in allocation like the Baltic States, Poland and Great Britain and countries that are close to the 2% like Romania who has pledged by law to allocate 2% of the Budget to Defense Expenditures.

However one must note that allocation is not the same with execution. That's why for a country like Romania even though the allocation is declared 2% as we can see in the figure above in reality expenditures only add up to 1.8%

This constitutes a challenge as countries that were used to allocate less than 1.5 to their defense budget are not used to plan their defense expenditures in order to consume yearly budgets that go to 2%. The reason for which this is difficult comes down to bureaucracy, slow public auction process, legislative burden, budget reallocation at six months and decision factors that cannot match the one year time frame.

It is for this reason that the Execution phase of the PPBS model has become more important than it used to be. There are countries that separate the budgeting or allocation part from the execution part, like the US and Canada. This approach is natural for the two states mentioned before as they work with multiannual budgets. For a country like Romania the situation is different as Romania is used to developing the budgeting and execution side of the PPBS as an integrated process not a separate one.



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The question that appears next is whether other countries that don't allocate 2% of GDP do it because they have not planned for such an expenditures or just like in the case of Romania even though they have committed to the 2% expenditures on defense they cannot physically commit to this percentage when it comes down to actually executing the budget.

To have a better look at countries that have not yet met the 2% margin on defense expenditures we will observe Figure 3:

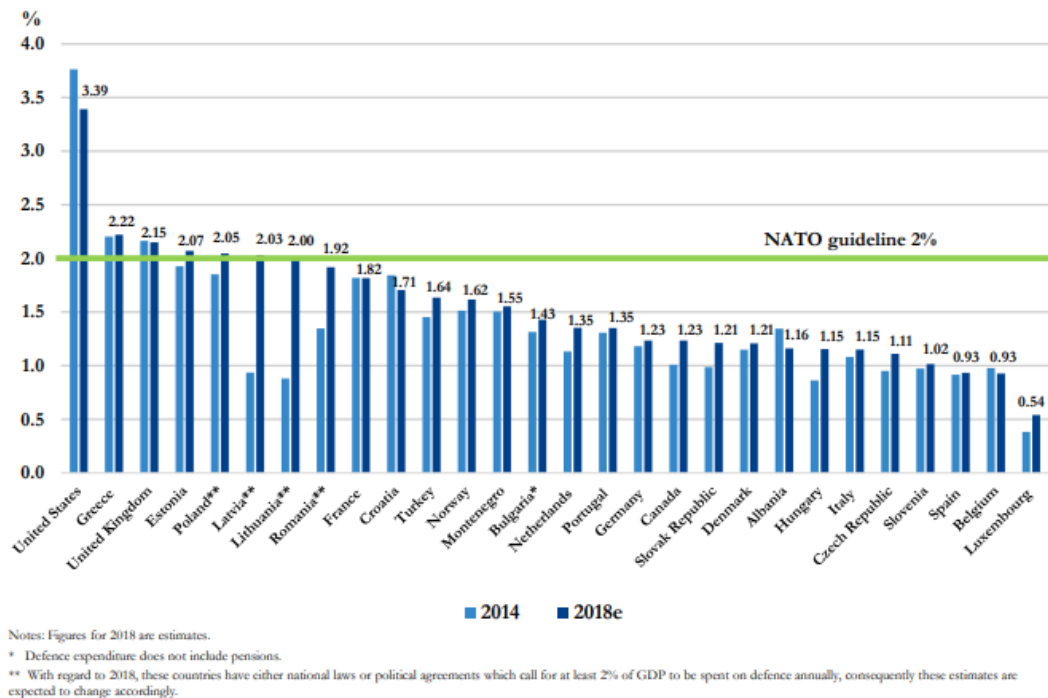


Fig.3 Defense Expenditures as a share of GDP

From the figure above we can conclude that more than two thirds of all NATO member states have not increased their budget to 2% yet. However we can see that all member states have started to increase their budget since 2014 when the Crimean Crisis take place and the NATO commitment in Wales for increased defense expenditures was approved.

So for countries that are going to be faced in the following years with increased defense expenditures it is important that they don't face the same challenge as Romania, of having a gap between what they allocate and what they are actually able to spend. The means of how this can be realized will be presented in the conclusion part of this paper.

4. Conclusions



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One of the essential steps that needs to be taken is that of adapting the legislative pillar, the law so that the defense budget is not affected by different changes in reallocation and can be blocked and kept for more than the fiscal year and overlap into the following fiscal year.

The easiest way to realize this would be to change the yearly budget into multiannual budget approach. This model that is used in the US would suit a country like Romania for example that has difficulties in tracing its defense expenditures from year to year, and would help in medium term planning as well, which is in the end one of the core PPBS request as it represents the development of the programming phase.

If this is not possible than countries having difficulties in executing the allocated budget should at least try and split de budgeting and execution phases in the PPBS process and have specialist work separately in the two phases with hope that a two dimension view of the expenditure challenge would help the process run smoother and the allocated money actually be consumed.

A final take way from this challenge is what happens if defense budget get even bigger than 2%. Because one of the discussion in the NATO Summit in Wales was that for a long term projection such expenditures should go to even 3% of the budget. If that is the case what would countries that have trouble execution 2% do when they have to execute even more than that? The previous solutions offered here might help or they might not be enough and other decision making and managerial options should be looked at.

For this reason this paper is just a step in trying to present the right direction for executing defense budgets in NATO countries. It is the authors opinion that further research on the situation at the hand is to be developed in order for a correct PPBS process to actually be developed in all NATO member states and for defense expenditures to be spend wisely and efficient.

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