

INTEGRATED DEFENSE PLANNING SYSTEM OPTIMIZATION: COSTS DIRECTIVE – INSTRUMENT FOR INSURRING THE CONNECTION BETWEEN THE COSTS OF THE PROGRAMMING PHASE WITH THAT OF BUDGETING

*Colonel Ovidiu-Mihai COCENESCU**

Abstract: *In order to modernize the military, defense transformation efforts through the introduction of modern resource management systems for defense are embedded in a broader context, of adopting more efficient management practices / procedures for improving the financial, strategic planning and budgeting systems and for making a better correlation between performance and results.*

Defense planning in most NATO countries is done through the PPBES system similar with the one developed and implemented in Romania. The implementation of PPBES in Romania ensures interoperability with Euro-Atlantic structures, facilitating Romania's performance evaluation process in the field of national security and its actual ability to participate in the Alliance specific tasks.

Then 12 years after the resources management for the Ministry of Defense was set up, based on the PPBES, some elements for its improvement are needed.

Keywords: *challenges for the military, expenditure estimation, types of budget, cost-effectiveness.*

This article will examine the need and requirements of defense transformation process from the point of view of both the demands imposed by the national security environment and the operational requirements imposed by the NATO and EU membership on the integrated management of defense.

1. Integrated Defense Planning System

1.1. Current state

The main challenges of the military body, which greatly influences the activity of the military activity, are:

* Romanian Intelligence Service.

I. Globalization → mainly as an effect on the technical-military environment;

II. Industrial production reconfiguration → implies a new conception of military procurement and a widespread use, within the military, of the civilian commercial practices;

III. Financial crisis → the competition for resources, especially financial ones, is fierce. Taking into account the fact that the budget is not a constant but active tool of the national fiscal policy, which reflects and shapes the economic life of the country, within the budget for defense, the financial resources should be allocated and spent effectively. The resources for ministry are found between the fiscal and military ones; these resources ensure only partly the achievement of objectives, so it is imperative to start a process of analysis / review of resource management system for defense.

1.1.1. The requirements of the integrated defense planning system

As one of the main objectives of defense transformation, namely the introduction of modern resource management systems for defense are embedded in a broader context, of adopting more efficient management practices / procedures for improving the financial, strategic planning and budgeting systems and for making a better correlation between performance and results.

Thus, taking into account the experience of countries which have a tradition in the field, a viable defense resource management system entails the following **requirements**¹:

1. A **National Security Strategy**;
2. A **Military Strategy**;
3. **Realistic plans** for achieving these military capabilities;
4. **Outlook / forecasts** of potentially available **resources** for defense;
5. **Defense Planning Directive** which helps in establishing within a multi-annual planning cycle, the objectives, priorities and institutional constraints;
6. **Working within Defense Programs and Projects** having a structure which takes into account all potential resources available;
7. **Develop scenarios / alternatives for planning**, involving all the structures responsible;
8. A **budget process** which allows a correct calculation of costs;
9. An **auditing system** which ensures both to the Ministry of Defense, Government and citizens, transparency of public spending.

¹ Although they are not specific to a particular country, the items listed are adopted by several NATO countries, including the United States.

1.1.2. Methods for estimating public expenditure

1.1.2.1. Classical methods

Classical methods of sizing expenditures are based on a limited amount of information. They do not aim to achieve actions efficiency with budgetary means and to link costs at the level of all institutions which help to achieve an objective using financial resources.

The classical methods are: the automatic method, the increase (decrease) method and the method of direct assessment of revenues and expenditures.

Automatic method → the drafting the budget for the next year (t+1) is based on the income and expenses of the previous year (t-1), whose budgetary exercise was completed.

Increase (decrease) method² → the results of the fiscal years during a period of five or more consecutive years proceeding the year during which the draft budget is developed are taken into account. Based on these data the average annual increase (or decrease) of revenues and expenditures is determined. The income and expenditures for the next year is determined by applying this rate to the income and expenditure of the current budget year.

The automatic and increase (decrease) method do not correspond to modern budgetary practice, whose primary requirement is the realistic assessment of the needs and opportunities of procuring public resources.

Direct evaluation method → involves performing calculations for each source of income and each expense category. For this purpose, the preliminary implementation of the budget for the current year and projected economic and social fields for the next budget year is taken into consideration. The revenue estimate for next year's budget takes into account the level set for the current year, adjusted by any changes which may occur in the legislation on taxes and other revenues, the influence of economic, social and political factors, as well as international circumstances.

However, the direct valuation method, although considered more accurate, does not provide a rigorous sizing of budgetary indicators, some corrections being necessary during the execution of public revenues and expenditures.

1.1.2.2. Modern methods

In a number of countries like USA, the Netherlands, Norway, Israel etc. new budgetary regulations based on performance or programs were developed and implemented, respectively:

² Roman C., *Gestiunea financiară a instituțiilor publice*, Economic Publishing, Bucharest, 2000, pp. 96-107.

I. Planning, Programming, Budgeting Methods (P.P.B.) → allocation of budget appropriations on yield or net benefits posed by various categories of expenses³.

P.P.B.S. Method: involves identifying long-term objectives, quantification (based on, specific calculations) the costs and benefits of different programs which can be financed from the budget and establish their ranking based on effectiveness indicators.

II. Management Based on Objectives Method (M.B.O.) → sizing budgetary indicators in accordance with real needs of the economy at a point in time. This method is based on mathematical calculations in order to express the quantification of the obtained effect and undergone effort.

MBO method: involves a decentralization of decision, a real determination of objectives, and their correlation with national objectives of the state budget.

III. Zero Base Budget Method (Z.B.B.) → choosing a certain combination of programs which minimizes costs of achieving a particular objective and at a certain level of resources which can be obtained.

Z.B.B. method: requires the justification of alternative programs based on different cost, including a zero base, or the lowest level of cost which is necessary in achieving the objective. After highlighting and assessing both costs and appropriate benefits, the future net benefits are updated. The legislative body systematically reviews the budget on regular bases, as if they would start each time from scratch.

IV. Rationalization of Budgetary Choices Method (R.B.C.) → identify and study objectives, comparing alternative solutions, decision-making based on the cost-benefit analysis and continuous monitoring of resource spending.

R.C.B. method: requires consistent in budgeting (defining objectives, the means possible to use), in execution (programming and management), and its control (compare the results with those expected and making predictions for the future). The originality of the method lies in the ability of adaptability and the reformulation of options. Given the iterative nature, the method allows the objectives analysis and dragging them through the so-called „plan-revolving’⁴.

Despite the advantages arising from the determination of budget options based on economic criteria neither the home countries nor the countries which have adopted

³ Ștefura G., *Procesul bugetar în România*, Iași, 2004, pp. 159-166.

⁴ Văcărel I., *Finanțe publice*, Didactică și Pedagogică Publishing, Bucharest, 2001, p. 156.

and adapted them managed to generalize the modern methods of drafting budgetary indicators.

1.2. Linking Performance Management - type of budget. Determining the needs of the performance management system

Institutional performance requires setting/monitoring/evaluation of staff performance indicators, processes, systems, institution's performance. Overall, it is stated that *performance represents the capacity/ability of an institution to procure resources in an economical manner and to use these resources in an effective manner in order to achieve the desired result*⁵.

*"If you do not measure results, you cannot distinguish success from failure, and if you see success you cannot reward it and respectively, if you do not recognize failure you cannot correct it"*⁶. Studies in this area emphasizes that the adoption of a coherent system of performance measurement requires a clear definition of what is quantifiable, of the measurement systems and how we use the performance measurement systems. The need for a system of measuring performance may be justified, inter alia, by the fact that decisions about resource allocation should be made on clear, grounded bases, using the so-called **performance management system**.

Developing a performance management system implies implementing a system which absorbs activities, their costs, measure performance, develop specific standards and compare costs and performance levels achieved with the ones already established.

The great challenge of this approach is to correlate information on performance with budget execution and resource allocation. International experience shows that before this connection was made, the performance was regarded as a regular reporting requirement without making a direct connection with the daily management of the organization's activities. Based on these considerations, this article focuses on the link between performance and different ways of construction and execution of an institutional public budget.

In order to understand different types of budget, the difference between "outputs" and "outcomes" should be made. Outputs designate things or services created/provided by a ministry, institution, department or person, requiring a serious control over them. Outcomes represent what actually happens as a result of outputs.

⁵ Organizația pentru Cooperare și Dezvoltare Economică (OECD) - *Journal of Budgeting*, vol. 2/2, p. 45.

⁶ Osborne G., *Reinventing Government*, 1992, p. 147.

Sometimes external factors have an impact on the results and therefore the outcomes are less predictable than outputs. In this respect RIA (Regulatory Impact Assessment) proved an effective tool in forecasting more accurate outcomes.

It is important to notice the differences between these types of budgeting in terms of their orientation towards inputs (resources), outputs (what is produced) or outcomes (the impact of outputs). Thus, there are three major types of budgeting:

- traditional budgeting oriented towards inputs;
- budgeting oriented towards outputs;
- budgeting oriented towards outcomes.

Unlike traditional budgets which do not specify the cost of activities/ programs which are envisaged to take place, do not specify priorities, ignore most of the medium and long term planning, outputs and / or outcomes oriented budgets are based on plans / programs / projects for establishing clear objectives and measuring results, taking into account the efficiency and performance of such activities.

If the budgeting system is a traditional one, the performance will be defined by the extent to which budget allocations are in accordance with existing rules and standards in the budgetary system. If the budgetary system is oriented towards outputs / outcomes and evaluates success based on the impact's outputs on the society, then performance will be defined as the effectiveness of outputs (an example of the link between performance and the budgeting system is shown in figure below).

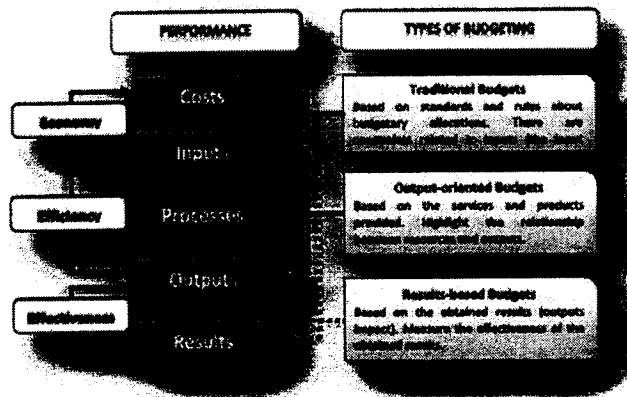


Figure 1 – Relations between performance and the budgeting system⁷

⁷ Source: IMF Working Paper, Establishing a Performance Management Framework for Government, Jack Diamond.

1.3. Using cost-effectiveness analysis for resource allocation optimization

*Performance Triangle
In terms of financial and institutional mechanism, cost-effectiveness analysis is based on the cost-benefit analysis and efficiency as well as effectiveness in the public sector.*

The cost-benefit analysis is the most commonly known technique for rational resource allocation. This method of evaluating the expenditure programs is an attempt to measure the costs and gains of a community as a result of developing an evaluated program. It is not a direct procedure for decision-making, but one that leads to a better oriented decision, when this decision is respected.

Scope → determine whether a certain level of public spending can produce a greater benefit other than when the respective funds were used in an alternative public program or if they were kept in the private sector.

Process → consists of a set of techniques which are designed to ensure that scarce resources are allocated efficiently between the private and public sector, and subsequently between alternative projects within each sector.

Using the cost-benefit analysis in the public sector has some particular features due to the difference between the objectives pursued by the two sectors. Essentially, the characteristics of the cost-benefit analysis of the public sector's specific objectives are reflected by the following aspects:

- ✓ including some different costs and benefits in calculating net present value in the analysis conducted with reference to the public sector other than in the private sector (private costs and benefits, social costs and benefits in the public sector);
- ✓ using different principles for assessing the costs and benefits in the public sector other than those used in the private sector (market prices in the private sector, the so-called shadow prices in the public sector);
- ✓ application of different discount rates.

Analyzing an organization's performance involves establishing a relationship between results, means and objectives, thus there is a need for an approach regarding effectiveness, efficiency and budgeting⁸.

⁸ Profiroiu M., *Managementul organizațiilor publice*, Bucharest, Economică Publishing, 2001, p. 8.

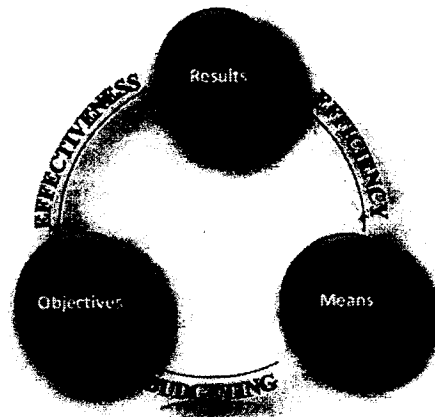


Figure 2 - The triangle of performance.

In this context, an important distinction must be made: efficacy is not the same as effectiveness. In short, although within the Romanian Dictionary (DEX) the two words appear to be synonymous, there is a minor but crucial difference within the strategic management. The definitions of the two terms are: efficiency = doing things right, effectiveness = doing the right things. Often in developing a strategy, a clearer analysis of the notion of efficiency is looked, passing straight to the work of achieving efficiency. The two terms are often used as having the same meaning, but they refer to two different concepts: while efficiency is mainly focused on minimizing costs, effectiveness refers to the use of resources to maximize effects.

Efficiency of public spending expresses an optimum size of a proportional basis between financial effort (public financial resources) and measurable or estimated effects which can be obtained based on the objectives funded by the state⁹.

*Efficiency vs. effectiveness
,It is more important to accomplish
well your goals – effectiveness – than
to achieve better something else –
efficiency'*

In assessing the effectiveness of public sector, managers take into account the fact that efforts necessary to meet social needs are measurable, usually quantified (material, human, informational cost) while social effects are difficult to determine and cannot be totally foreseen.

⁹ I. Văcărel, coord., *Finanțe publice*, Bucharest, Didactică și Pedagogică R.A Publishing., 1999, p.175.

An organization's efficiency is influenced by its staff efficiency, which requires public managers to shift the focus on human resources since the human factor alone can make a more efficient and sustainable system in terms of economic, financial and management viability.

In order to analyze a mission's effectiveness there is a need for a system of relevant indicators by which we measure actions, including during their development. Thus, a set of performance indicators significantly facilitates quantitative and qualitative analysis of activities. In analyzing effectiveness, it is very important to follow the same principle as for cost analysis, which is establishing the scope, objectives and alternative missions in a clear, concise and relevant manner. Set of performance indicators includes several categories: *input*, *output*, *outcomes* and *impact (environmental indicators)*.

Regarding the need to assess performance Peter Drucker said: "*We know we have to measure results. We also know that except for businesses we do not know how to measure results in most organizations*"¹⁰.

Increasing social needs combined with decreased revenues require an increase in efficiency and effectiveness in the public sector. Furthermore, it became clear that neglecting efficiency leads to waste and lack of performance in the public sector.

Effectiveness – regards the relationship between the result obtained and the objective to be achieved. Within an organization, effectiveness entails achieving standards, objectives, which determines a preliminary definition of objectives and subsequent measurement results. It thus brought again to the forefront the need of measuring results as well as the importance of setting up relevant objectives which for public bodies must consider both the „macro“ and the „micro“ level effects.

1.4. The European approach to evaluation

The European Commission has advanced five relevant criteria of assessment: relevance, efficiency, effectiveness, sustainability and impact. Having this starting point, **assessment** = the process by which, with the help of specific elements and instruments, one can measure the degree to which projects have relevant objectives and results, resources are economically spent in order to achieve the objectives, whether projects have the chance to continue after the

¹⁰ Drucker P., *Eficiența factorului decizional*, Bucharest, Destin Publishing, 2001, p. 147.

financing is over, the degree to which activities reach the target group and whether there is a long-term impact.

Relevance refers to degree to which the program under analysis manages to answer the real needs of the actors involved. Furthermore, this criterion takes into consideration changes which may affect the type of needs which the program addresses or change in their ranking. A program is relevant if during its implementation it takes these changes into consideration and has the flexibility which allows for change whenever necessary. A program becomes irrelevant when it meets only a part of the needs or fails to address them.

Effectiveness refers to the degree to which programs meet their objectives. Moreover, the degree to which the project's results are in line with the needs identified in the initial phase is also an indicator of effectiveness of a program.

Efficiency takes into account an additional criterion – the financial one, which is essential for projects and programs. Furthermore, efficiency takes into consideration other aspects (Can the same results be obtained with less resources? Are the unitary costs too high? Even though the objectives were reached is the project/program too expensive to be carried on?).

Impact represents the net effect produced by the program. Due to external variables, the impact of a project is hard to calculate. It is difficult to observe the effect of a program in a complex socio-economic environment. However, using appropriate measures, it is possible to measure impact, by answering the following questions: What were the changes resulted after the program was implemented? Are there any other benefits of the program other than the envisaged ones? Another definition of impact is that it represents the long-term effects of a program.

Sustainability refers to the program's continuity after its financing was interrupted (Do the effect of programs or programs themselves continue after implementation? Can alternative financing sources be identified? Sustainability offers, along with the other criteria, the measure of performance of a project of program.

Along with these criteria, others, equally important, can be specified in order to assess the performance of a program such as equity (access to services provided by the project regardless of age, sex, social and material conditions, projects which discourage discrimination of any type being usually promoted) and community involvement.

These criteria, along with others which are equally important, are used in the evaluation process. However, depending on the evaluated program or project just a

few of them can be used. Besides taking into account as many of the criteria listed as possible, the evaluation should be analytical, systematic, reliable, user /problems-oriented, depending on the assessment model used.

1.5. Cost-effectiveness analysis from military perspective – Main instrument of developing alternative variants for the Programming stage

Cost-effectiveness analysis plays an essential role in the programming phase, presenting two essential components interdependent when decision-making is necessary: estimating and cost analysis on one hand and the identification and analysis of potential benefits (capabilities), while maximizing the capabilities and minimize costs on the other.

Cost-effectiveness analysis is a type of economic analysis which aims at correlating all the costs of a course of action with effects. Decision-makers can use this analysis to compare various alternatives for resource allocation using the same criteria. A common preconceived opinion is that there is a reliable way of identifying the cheapest alternative for achieving a goal.

In reality, the cost-effectiveness analysis is a comparison tool, which is used in the singular decision-making; this tool will not always supply a clear answer, allowing only a relatively objective and quantitative assessment based on a predefined model. The starting point for cost-effectiveness analysis is to identify, with high accuracy, all types of costs associated with the mission.

Depending on the available data and time for making a cost-effectiveness analysis, the following techniques for cost estimation can be applied:

- ✓ **direct method** (identifying all available costs, where enough information are available);
- ✓ **parametric method** (developing and using quantitative relations between 'historical' costs and system' performance characteristics);
- ✓ **analog method** (analogy with the costs involved in other existing systems or the new system results from combining existing sub-systems);
- ✓ **industrial engineering method**, (accounting scientific estimates of reliability, maintenance and cost characteristics, resulting 'bottom-up' assessments of each component);
- ✓ **Delphi method** (consulting specialists, used when there is a lack of data or they are unavailable).

The second component of the cost-effectiveness analysis refers to the manner in which the results of the mission were used to carry perceived benefits - in other words, if the mission was achieved. From this point of view, effectiveness is the extent to which an activity satisfies a requirement, a goal or fulfills a function.

The cost-effectiveness analysis brings together the two components, costs and effectiveness, both addressing the same issues: the mission to be accomplished. As shown so far, the two components have opposite direction of evolution for the analysis: costs must be as small as possible and effectiveness must be as high as possible. Note, however, that the best alternative is not always the lowest cost or the highest effectiveness (capability). Also, do not forget that the cost-effectiveness analysis is only a tool that facilitates decision-making.

1.6. Implementation of defense planning systems within MoND

Programs / projects management related to defense are totally different from those carried out by other institutions, because they involve investments which require an extensive period of production/ acquisition. Thus, for the development / completion of such a program, realistic forecasts/financial projections of future budgets for the entire period of program implementation and an insurance mechanism for accurate values should be made.

Thus, a modern system of integrated management of resources for defense requires the following characteristics:

- A stage in which the Parliament/Government/MoND should „fix“ a line of **multiannual budgeting for defense** (at least 4 years) → this line, after being approved, will be used in setting/finalizing the Romanian Army program/projects;
- **Political management** → identify needs, analyze options, select programs, allocate resources
- **Defense Planning Directive** → taking strategic decisions, ensuring the implementation of strategic objectives based on priorities and institutional constraints;
- **Resource management** → establishing an efficient support logistics system, in conjunction with improving financial management
- **Program management / Performance control** → developing and implementing an **information management** subsystem capable of supplying managers with periodic performance reports which enable execution tracing and detection / correction of deficiencies;
- **Training of involved structures and staff.**

Presenting the above characteristics requires the setting / compliance with the following systemic objectives:

- a) defining and comparing different government objectives in terms of contribution to national objectives;
- b) determine the number of objectives which can be achieved with the allocated resources;
- c) design activities with an appropriate time horizon;
- d) comparing the private and private sector with regard to the contribution to national objectives;
- e) reviewing objectives, programs and budgets in line with the acquired experience and new circumstances.

At the level of the Ministry of Defense an integrated planning system based on Planning, Programming and Budgeting Evaluation – PPBS¹¹ has been developed and implemented since 1999, with the support of American experts from the Institute for Defense Studies, Washington DC. In 2002, the system became operational¹².

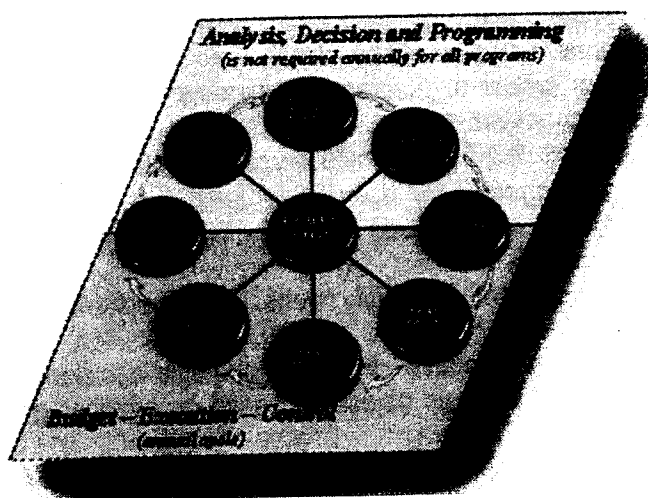


Figure 3 – The phases of the Planning, Programming, Budgeting & Execution System i.e: USA (Planning, Programming, Budgeting & Execution System)

¹¹ American inspired – P.P.B.S. = Planning, Programming and Budgeting System – Eng.

¹² Adopting this system was assumed through the Accession Action Plan (MoND/cycle IV), being Objective 8 / chapter II – Defense/ military issues.

The main aim of the system is to ensure an integration of activities of the Ministry of National Defense structures with the most efficient use of available resources in order to achieve the planned objectives, ensuring the resource management needs for national defense and drafting the planning documents required by NATO.

Along Romania's 'road' to Euro-Atlantic accession, starting with 1998, the Ministry of Defense has become one of the 'pioneers' of the implementation of modern resource planning systems. The first step was completed by developing a concept on defense planning, followed by its enactment by the Government Ordinance no. 52/1998, Law no. 63/2000, and Law no. 473/2004 on defense planning.

Chronologically, the integrated defense planning had the following key points:

a) From the **structure** point of view, the following bodies were set up:

1997	The Group of Defense Planning (at the ministry level) whose role was to coordinate the development and implementation of the P.P.B.E.S.
2000	The Integrated Planning of Defense Department (by merging the Group of Defense Planning with the Planning of the Defense Policy Section) The Council for Defense Planning → central level decision body within the system of integrated management of MoND activities
2001	Programs and Budget Section (General Staff/J8) was changed into Budget Service and was integrated into the Integrated Planning for Defense Department → the main MoND body responsible with activities in the field of integrated planning of defense
2006	Budget Service from within the Integrated Planning for Defense Department was transferred to the Financial Department
2007	It was reestablished J8/General Staff – Directorate for structure and acquisitions planning

b) From the *legal* point of view:

1998	Government Ordinance no. 52 on defense planning
1999	Romania's first National Security Strategy (June)
	Romania's Armed Forces 2000-2007/2010 (approved by the Supreme Council of National Defense)
	The first White Book of Government (November)
2000	Law no. 63 on defense planning
	Romania's first Military Strategy (March)
	The first Defense Planning Directive ¹³ (September)
2001	Romania's second National Security Strategy
2003	The first process of Strategic Review of Defense (not completed)
	Romania's new Constitution
2004	The second White Book of Government
	Law no. 473 regarding defense planning
2006	Romania's third National Security Strategy
2008	The first National Defense Strategy
2010	The second National Defense Strategy (project)

With the admission of Romania as a full member of NATO and the EU, national defense policy has acquired a more pronounced proactive character. Accordingly, Romania's responsibilities was no longer limited to policies which defend the national territory, or defense diplomacy but extended towards policies which offensively promote Romania's interests and which support global stability in any region in which NATO and EU missions exist.

Defense planning in most NATO countries is done through a system similar with PPBES developed and implemented in Romania. The implementation of PPBES in Romania ensures interoperability with Euro-Atlantic structures, facilitating Romania's performance evaluation process in the field of national security and its actual ability to participate in the Alliance specific tasks.

¹³ Consistent with Ministry of Defense Disposition regarding the Manual on the PPBES, the Defense Planning Directive is reviewed annually.

One of the main features of the PPBS is the multi-annual planning of resources, the use of multi-annual programs and the emphasis on finding alternative solutions for achieving assumed objectives, the best alternative is made based on cost-effectiveness criteria. The Forces objectives (FG) assumed by Romania in relation to NATO are spread over eight major programs, their financing being the first priority of each program, in order to ensure fulfillment of obligations towards NATO and the EU¹⁴.

This sometimes involves achieving these priorities at the expense of other sub-programs or elements of sub-programs of lower priority, for which funding is reduced or delayed.

2. Integrated Defense Planning System optimization: Costs Directive – instrument for insuring the connection between the costs of the programming phase with that of budgeting

Ten years after the resources management for MoND based on P.P.B.E.S was startup some improvement elements of the process are necessary:

A. Strategic level:

- ✓ The **start-up process of Strategic Defense Review**. The result of this effort will lead to a recalibration of the Romanian Army transformation.
- ✓ The starting of designing the National Level of Ambition for national security assurance. For the Ministry of National Defense, this document will be of the essence in the process of developing military capabilities, and in the negotiation of national commitment at the NATO and EU level (especially for general capabilities).

B. Department level:

- ✓ Optimization of integrated management for defense, especially for the **Military Capability Development System** will provide an improved development capacity of the military system, leading directly to a higher level of compliance with the commitments undertaken by Romania in the field.
- ✓ The optimization of the process of **drafting public policy** in order to improve its presence in the public agenda of the Romanian Army strategic issues such as staffing, new strategic equipment, connection to the national economy, and

¹⁴ The EU commitment is correlate with NATO one ("separable" not "separate" force package).

so on, are just a few items, which through an offensive public policy can improve the economic and financial situation of the Ministry of National Defense.

✓Reconceptualization, **within PPBS, of the resource categories**, as follows:

- Human Resources; (existing)
- Material resources; (remodeling - refers only to those necessary for the operation and maintenance / procedural feature: Supply)
- Technological resources; (new category - refers to the procurement of complex/ procedural feature military technique /: Multiannual procurement)
- Information resource; (new category - refers to all sources of information which the military needs)
- Infrastructure (existing)
- Time resource (remodeling – its mentioning in the annual documents, detailing the need to manage time)

✓Startup process of transition, into the Planning, Programming, Budgeting and Evaluation System, from major programs having the functional basis to capabilities groundwork (action basis). The process is complex and time-consuming because there has to be a change in the current strategic major program directors, but once implemented, it will provide a much better management than the current one.

✓Starting the process of substantiating, development and implementation of the **Costs Directive**, strategic coordination document which is missing from the PPBES. This document is very useful in the early stages of Programming and Budgeting as it provides a unified image on both costs and their calculation formulas.

A significant problem, still unsolved, is the need for and the use of a single system of costs in defense planning. Since the beginning of implementation of the new system of integrated defense planning it was well acknowledge that within the PPBES in addition to the Planning Directive, there is also a Costs Directive. However, within the Integrated Planning for Defense Department, where the programming and budgeting stages were developed, there was no need for the second strategic document.

It should also be noted that there were no information about the Costs Directive. All efforts were directed towards developing the Defense Planning Directive. Thus, given the state of development and performance of the Planning,

Programming, Budgeting and Evaluation system one can now proceed to the foundation and development of the 'missing document'. Moreover, to ensure correlation between the Programming and Budgeting phases, including transitioning between them, this problem is achieved, in defense planning systems of some NATO countries, by the Costs Directive.

Thus, we hereby present a draft regarding the structure and content of such a document which should be developed and implemented as soon as possible within the defense planning system.

The Costs Directive will be the basis for calculating costs within the Ministry of Defense, including for integrated defense planning, especially in the Programming and Budgeting stages.

The Costs Directive will be published annually, coupled with updating / issuing the Defense planning Directive, and will be employed as a tool for integrated planning of defense, specifically in the Programming and Budgeting phases.

It will comprise two basic chapters:

- Chapter I: Calculation procedures, standards and values for defense planning;
- Chapter II: Standards and benchmarks for detailed plan (used in programming).

The Cost Directive will include the total annual costs related to specific items of expenditure classified as follows:

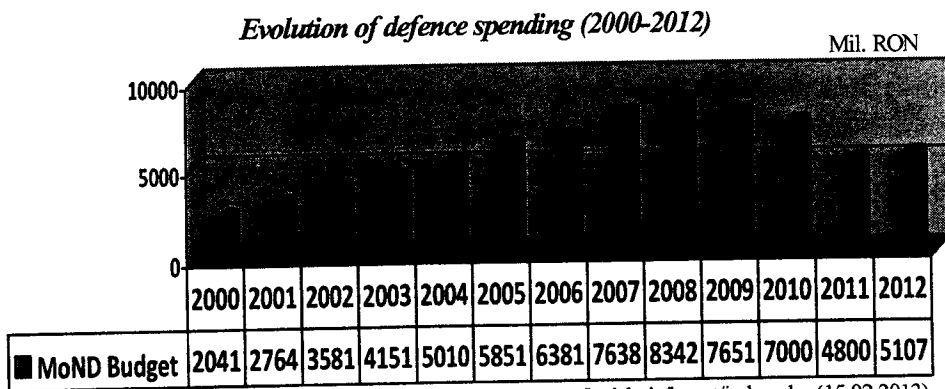
1. Personnel expenses;
2. Utilities and administrative expenses;
3. Contributions and dues;
4. Representatives in international bodies;
5. Loan repayments, interest, commissions;
6. Commitment appropriations for contracts awarded;
7. Theaters of operations;
8. Force Objectives Implementation;
9. Operating and maintenance expenses;
10. Dangerous munitions destruction;
11. Other investments;
12. Infrastructure investment.

Conclusions

Integrated defense planning system implemented in the Ministry of Defense has reached its institutional maturity level. From this point onwards certain interventions without creating dysfunction in the coordination / execution of specific activities or introducing new elements designed to optimize / streamline the whole process can be performed. During the next period attention should be paid to optimizing the management tools available to military and civilian leaders at the highest level as well as directors of major programs since they are the ones responsible for the efficiency and effectiveness of the entire system.

One of the goals of the MoND transformation is the consolidation / optimization of the PPBES. In this respect, the reconceptualization of the MoND major programs for the purposes of making the transition to capabilities management will bring a whole new breath to the integrated defense planning process.

Furthermore, the financial crisis should also be considered. Thus the competition for financial resources allocation will tighten, national defense being usually disadvantaged. This aspect is confirmed by the budgetary allocation from the previous years, namely:



Source: <http://www.mapn.ro/legislatie/buget/index.php> (15.02.2013)

Figure 4 – MoND budget evolution¹⁵ (2000-2012)

¹⁵ Starting with 2011, the military pensions (according with Law no. 164/2001 regarding military pensions) are paid from the State Social Insurance Budget.

By developing and implementing the Costs Directive the set of documents corresponding to the Planning, Budgeting and Evaluation System will be completed. This document will help unify all cost estimation element which will contribute to the optimization of activities during the Programming stage, leading to a more rigorous allocation of financial resources and having an impact on all types of resources.



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