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Programming and financing of development Forces - the old and new approach on the basis of Poland's experience

Original article

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Abstract

Objectives: Analysis of the increased financial effort of the state related to the intensification of the process of developing the country's defense potential, including in particular the process of programming and financing the development of the Polish Armed Forces.

Methods: Theoretical and empirical scientific methods have been used in the development of this publication. The theoretical methods are analysis and synthesis of source documents and comparative analysis. The empirical method was participant observation of the processes of planning, programming, and budgeting the development of the Polish Armed Forces.

Results: A comparative analysis of various source materials, shaping expenditures on securing the state's defense needs, allowed the author to prove the thesis that an appropriate level of these expenditures can actually improve the overall security of the country, as well as the capabilities of its Armed Forces.

Conclusions: The geopolitical situation that has arisen in recent months around the borders of Poland forces the state to significantly accelerate the process of intensifying the development of the country's defence potential, including technical modernization and development of the Armed Forces. The implementation of the tasks for the security and defence of the state has required many changes for years in relation to:

- the obligation to defend – issues related to qualification, the course of the recruitment process for military service, or the defence duty of citizens;;
- military service – issues related to broadly understood military service;
- programming and financing of the Armed Forces – issues related to obtaining new sources of financing;
- implementation of tasks by entrepreneurs for the armed forces – issues related to the change in the design, financing and competence of government administration bodies.

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Introduction

This article analyses the amount of financial outlays provided by the state over the last 20 years by Poland, for the needs related to with the implementation of defence tasks, in particular related to programming and financing the development of the Armed Forces, in relation to the size of the Gross Domestic Product or the general part of the state budget. It is assumed that the additional financing of the needs of the Polish Armed Forces, adopted in the Act of 11 March 2022 on *the Defence of the Homeland*, will contribute to a significant intensification of the process of developing the country's defence potential, including the technical modernisation of the Polish Armed Forces and increasing the number of soldiers. A comparative analysis of the state's expenditure on securing its defence needs allowed to conclude that an appropriate level of these expenditures may have a real impact on improving the overall state of the state security, as well as the modernization, development and personnel capabilities of the Polish Armed Forces.

It has been long known that the world is full of unrest and threats. Some might even say that it is heading towards self-destruction. Governments of numerous states are taking all attempts to prevent it. The United Nations Organisation is operating on multiple fronts trying to prevent conflicts of a smaller or larger scale. However, their number continues to increase. They emerge in ever-changing locations (the war in Ukraine initiated by Russia, previously in the Crimean). Some other threats, although they are located far from our state borders, might also include the Korean Peninsula, the war in Syria, regional conflicts in Africa and other parts of the world.

Some other situations that are not completely insignificant for the defence system of the state, as regards its defensive preparation, maintaining and developing the Armed Forces, might also include the claims of certain states concerning other territories (the dispute between Japan and Russia about the Kuril Islands) or some specific locations (with yet undiscovered natural resources or access to potable water).

The claim that the “*Cold War*” ended with the decline of the Soviet Union might have been true to a certain extent, but it is not any more, as the nature of the conflict changes, involving not only the rivalry between the economies of the world’s most powerful states, but also their armies that are capable of conducting military operations at large distances with the use of cutting-edge technologies and military systems.

Thus, one may notice that the era of relative peace is rather different from what it used to be even in recent past.

In such situation, the society expects their governments to make wise and sensible decisions. Nobody wants to spill blood. Everybody wants peace and order. But will the peace be maintained? This is certainly one of the most difficult tasks, first of all for the governments of those states that strongly aspire to demonstrate their greatness, power, or the conviction about their superiority. This might still be possible if they try.

In order to counteract those dangers and threats it is necessary to answer the question that is fundamental for the current state of national security, namely, what are the potential expenditures that will be allocated to the defence of the state (i.e. the tasks related to the

defensive preparation of the state, maintaining and developing the Armed Forces), in relation to: the defence budget, the whole national budget, the Gross Domestic Product (GDP).

The realisation of these tasks and objectives should be enabled by the newly adopted Act of 11 March 2022 *on the Defence of the Homeland*, which introduces some significant changes to the programming and financing of the defence tasks, including the modernisation and development of the Armed Forces. This article attempts to answer the question how significant these changes are.

1. Defence-related needs

The starting point for understanding the need to make increased expenditures on national defence, maintaining and developing the Armed Forces in the period of the existing threat from Russia, which has been even more pronounced recently, is the determination of the nature and typology of changes that have occurred with respect to the programming and financing of defence needs.

In the most general terms, the main objective of these deliberations is to assess the proportion of the results achieved (i.e. the degree of completed defence tasks in case of: peace, crisis, and war) to the financial outlays allocated to the realisation of the venture, including, in particular, public funds. Obviously, such assessment may be performed with the use of several methods that are adequate to the specificity of the particular objective.

To this end, it is necessary to define “defence needs” that may be understood as part of the needs in the area of national security, related to the expected status of: human resources, materials and energy, finance, information, service capacity - required to maintain the effectiveness of: functioning of the state, in: economic, political, and social terms, in terms of the realisation of defence tasks, in the conditions of threats to national security.

In very simplified terms, these needs may be defined as ensuring a certain state of certainty and guarantee the maintenance of the necessary statuses that offer a sense of stabilisation for: the functioning of the national economy, national security, and the Armed Forces and enable their development.

In the system of state security and defence, the needs should be defined in response to the threats caused by the possibility of occurrence of a specific type of conflict or extraordinary situation.

Obviously, there are numerous criteria for categorising potential conflicts and extraordinary situations, especially nowadays, To simplify the typology of potential conflict situations, for the purposes of this paper it will be assumed that conflicts are divided into: armed and non-armed conflicts, as well as conflicts of high and low intensity.

It may also be assumed that the economic consequences of expressing and formulating defence needs refer to the need to maintain and develop: the Armed Forces, the economic and defensive capacity of the state, the area of the economic mobilisation programme, on a specific level that guarantees both the secure functioning of the state, but also the security of its citizens during periods of emergency and destabilisation of the country.

For the purposes of this discussion, it is also worth remembering about the need to provide services for: national defence and the Armed Forces by various third party providers. It is suggested that these services should be understood widely, as public, institutional, and non-material benefits that reduce the perception of the state of actual danger or even an apparent threat. Additionally, it should be noted that, considering the existing financial, organisational, and legal solutions, the state satisfies all needs in the order of their urgency, as defined by the state and that the fulfilment of these needs is usually of a relative nature.

These preparations have a wide spectrum and are aimed at m.in preparing forces and means and methods and methods (processes) of operation of all components of the State Defence System (SDS), to ensure its efficient functioning in the event of political and military threats (Wojnarowski, Kuliczkowski, Olszewski, 2012, p. 15). This general statement should also be associated with the needs reported by the non-military state defence sub-system (organs of national and local territorial administration on various levels as well as entrepreneurs), because it also participates in the realisation of tasks for the national defence. An important property of satisfying the defence-related needs seems to be their perception by the interested entities, rather in the *ex post* than *ex ante* perspective. Due to that, the governing elites should, among others: create the adequate organisational, legal, and systemic regulations, establish and maintain the Armed Forces as well as other bodies and entities that perform tasks or provide services for national defence.

To continue the discussion of the need of defence, one may risk the statement that the Armed Forces play a fundamental role in satisfying this need, being an institutionalised entity that protects the state against external threats, as well as (in specific situations) internal ones. The Armed Forces include the forces and means allocated by the state to protect its interests and to conduct armed combat and defence, in form of an organisational framework consisting of various types of troops and services. Due to the institutional nature of their activities in the structure of the state, they are distinguished as national defence. This distinction is also noticeable in the structure of the state budget and is mainly used to carry out defence tasks. Tasks understood as "specific implemented by the Armed Forces, state authorities and other state institutions, entrepreneurs, social organizations and individual citizens, related to with the preparation of the state for efficient operation and survival in conditions of external threat to state security and war ..." (Kitler, 2006, p. 38).

Another indispensable aspect of the realisation of the objective in question is defining the notion of "outlays" on the realisation of defence tasks, including the Armed Forces. According to the commonly accepted meaning of this term, it refers to the prognosed (planned) values of: the workforce, any types of equity, knowledge and technology, managerial abilities - expressed in natural units. These (financial and non-financial) outlays may be planned or actual (incurred) and encompass an extremely wide range of goods and services in this respect. The existence of outlays depends on incurring expenditures, mainly financial ones, by specific entities that realise the related tasks. The main types of these outlays include, among others:

- the service – i.e. professional soldiers;

- labour – workers employed by military units/institutions and those who perform tasks related to national defence in public administration (on central and local self-government levels), as well as entrepreneurs;
- equipment – armaments and military equipment;
- resources – means of warfare and materials designated to perform defence tasks;
- other material equipment related to maintaining and training troops, public administration, and citizens;
- funds allocated to: military construction and the development of technology, creating war infrastructure in the national economy, civil defence and defence trainings for citizens.
- in value-based terms, the types of outlays listed above are referred to as the “costs”, divided into the following groups:
 - defence costs – related to the performance of tasks connected with national defence and incurred by various entities that are legally authorised to do so, including the Armed Forces;
 - military costs – related to maintaining the Armed Forces and the realisation of their tasks.

Understood in this way, costs refer to (in monetary units) the consumption of resources (financial, human, and material ones) in order to obtain a specific utility effect, and their economic benefits may be reduced either as a result of decreasing the value of assets or increasing the liabilities and reserves, whose settlement will result in using the existing or future assets. On the other hand, “expenditures” should be defined as any use (spending, utilising) the financial means, regardless of the aim, and it means diminishing the value of the possessed funds. Thus, expenditures refer to the outflow of funds (in cash or non-cash form) as a result of various economic transactions. In the budget sphere, this term is closely linked to the notion of budget, which is the basic financial plan that defines the income and expenses of the state and is adopted for each budget year. Thus, budgetary expenditures are public funds allocated by the state budget or local territorial self-government budgets to the realisation of various tasks performed by the public authorities (tasks related to: security, education, health, etc.).

Defence expenditures are all expenditures allocated to the functioning of the Armed Forces, research of a military nature, the development of defence structures, maintaining defence economy and infrastructure. These expenditures may also be defined as “the funds allocated to defence, i.e. one of the fields of the activity of the state connected with counteracting all types of threats”. (Płaczek, 2014, p. 100) or “all funds allocated to the defence preparations of the state during peace, warding off threats and conducting wars” (*Słownik terminów z zakresu Bezpieczeństwa Narodowego*, 2018, p. 171).

Knowing the semantic definitions of the notions mentioned above, one may, for example, analyse the statutory changes introduced to the realisation of defence tasks, in particular to the programming and financing of the Armed Forces in connection with the *Act*

on the Defence of the Homeland adopted in 2022. At the same time, it should be noted that, pursuant to the *Act on Public Finance*, public expenditures, including those on national defence, may be incurred for the purposes and in the amounts specified in: *the Budget Act*, and the financial plan of the public finance entity (Act of 2009, Art. 44, item 1). Moreover, these expenditures should be incurred in a purposeful and economic way, in compliance with the principle of obtaining the best effects from the given outlays and the optimum selection of the methods and measures to achieve the set objectives (Art. 44, item 3). Thus, the expenditures defined in the financial plans of a public finance entity that participates in the realisation of defence tasks should constitute an impassable threshold (limit) of the acceptable amount of funds, which should ensure the rational spending of these funds to a great extent. However, this does not mean that the planned amounts of public funding allocated, for example, to the realisation of costly programmes that are important from the point of view of national defence (e.g. the purchase of F-35 aircraft or the *Patriot* system), due to their nature and the scale of financial burden, are constant during the budget year. This is confirmed by the constitutional possibility to amend the Budget Act (Constitution of the Republic of Poland, 1997, Art. 221).

The leading role in the realisation of national defence tasks among the entities that perform these tasks is played by the Armed Forces that are responsible for a major part of these tasks. The participation of public administration and entrepreneurs (i.e. the non-military component) that complements and supports the realisation of these tasks, in particular in the area of defence preparation of the state, is not insignificant, either. The realisation of all those tasks is based on commonly binding legal regulations as well as the provisions of the international agreements and treaties to which Poland is a party. On the other hand, the subjective scope of the realisation of those tasks refers to an innumerable number of: units, institutions, authorities, and business entities (entrepreneurs) that receive specific amounts of funding for the realisation of the related tasks either from the state budget or from other sources (national and international, non-budgetary).

It is generally known that the state budget is a result of searching for compromise in allocating the limited funds to satisfy the needs in various areas of the functioning of the state, its institutions and organs, including the Armed Forces, and, due to understandable reasons, the growing needs related to education, health, or social issues. Thus, for the purposes of this study, the author assumed that the basis for the state's budget capacity that result from the search for the ways to satisfy the defence needs (which are one of the fundamental public needs of a very high degree of complexity and importance), in the situation of limited funds allocated to satisfying all needs, as a result of specific legal and socio-economic conditions connected to the state of national security, is the economic problem of the outlays of public funds, mainly on the programming and development of the Armed Forces.

The above may be defined as an organised sequence of actions (in the defence area) that entails, first of all, engaging the necessary public funds, which results in obtaining certain resources that ensure the ability to perform tasks related to national defence. However, resources defined in this way are not the aim of the performance of tasks, but merely a tool to achieve more important goals being the results related to the state of national security in the situation when it is threatened. Thus, the ventures being the subject of this analysis must constitute a separate (autonomous) whole and encompass all actions that are necessary to

achieve a certain (measurable) effect in form of the actual improvement of the state of security of the state and its citizens, including further development of the Armed Forces.

This analysis takes into account both the existing and new conditions and circumstances that result from the shift in priorities that were defined in the state defence area in the new *Act on the Defence of the Homeland* (Act, 2022) and those caused by the change in the international situation as a result of the war conducted by Russia in the territory of Ukraine. In the most general terms, the main aim of these deliberations is to assess the relation of the achieved results (i.e. the volume of the outlays on the realisation of defence tasks) as a result of the change or obtaining new sources of financing of the tasks related to national defence. Obviously, such assessment may be performed with the use of several methods that are adequate to the specificity of the particular objective.

As far as national defence is concerned, we are additionally dealing with another problem. It is the fact that satisfying those needs by the state entails a necessity to decide about the level of engagement of production factors in satisfying this need, whose intensity and likelihood of occurrence are undefined. This is a major challenge for the authorities due to the need to allocate the limited public funds to various needs: economic, public, and social ones that result from the traditional function of the state. Moreover, it should be noted that: the period of long-term peace in this part of Europe (where Poland is situated), the changes in the willingness to make sacrifices in democratic societies and the clear advantage of using tools other than military to achieve political goals - have resulted in the fact that the defence needs in Poland, Europe, or the world have not always been a priority. However, due to the current threats to Poland and other European countries, the governments must find other mechanisms to create a defence budget than the ones used previously, to take into account the existing and future challenges to national security and defence, including such threats as: combating terrorism, threats in cyberspace, etc. Thus, on the level of the state, the management aimed at improving its security and defence will consist in shifting the possessed and produced wealth in such a way that will enable the realisation of the defined policy including the improvement and development of the national defence system (such as the Armed Forces) without any damages to the economic and social areas.

It should be mentioned here that the defence budget is shaped differently depending on the given country and that it depends on numerous conditions. The main factors include: the geographical location (the nature and length of land and sea borders), the political and economic system, the level of economic development, the size of the country, etc.

Defence budget understood as "a separate, numbered part of the state budget called *"National Defence"* and sections *"National Defence"* in other parts of the state budget" (Falkowski, 1999, p. 12). Therefore, in the case of the state, management to improve its security and defence will consist in shifting the amount of wealth owned and produced in such a way as to implement the intended policy without harming the economic and social areas, the element of which is the improvement and development of the defence system of the state, including the Armed Forces. It should be noted that the defence budget is formed in different countries in a different way and depends on many factors. The most important of them are: geographical location (nature and length of land and sea borders), political and economic system, level of

economic development, size of the country, etc. It seems that the larger and wealthier the given state, the more funds it may spend on defence. However, this is not a rule. What plays an important role in this respect are the conditions that result, mainly, from the defence policy of the given state (i.e. the size of the army, defence goals, and the defined tasks that are connected to alliance commitments).

As a result of the accession to the North Atlantic Treaty Organization (NATO), the defence budget of Poland had already been subject to major transformations that resulted, among others, from alliance commitments or the tasks performed by the Armed Forces outside the borders of our country. One of the main duties of the state, pursuant to binding laws, is to protect and defend the state, as well as to ensure the appropriate conditions for the performance of tasks related to national defence, including by the Armed Forces.

These tasks were realised mainly based on public funding that is allocated to this activity in the “*National Defence*” section of the state budget that is created annually. At the same time, the basis for the financing and performance of substantial modernisation tasks of the Armed Forces is including them in the technical modernisation plan for the given budget year. All the planned projects (goals) related to it are fully or partly covered by the financial plan in this section of the state budget.

Here, to provide some order of thought, it is necessary to distinguish between the defence budget and the military budget. The information published in the media about the level of financing of the Armed Forces is usually based on the data from the defence budget. However, in reality these two areas refer to different components, as the defence budget is a wider category than the military budget, although the latter is a part of the first one.

The military budget includes the funds for the following expenditures:

- vegetative (on the maintenance of the Armed Forces, training, and current expenses);
- investment (purchase of armament and military equipment, technical equipment and other general-purpose equipment, research and development works, and construction as needed by the Armed Forces).

On the other hand, the defence budget includes expenses for which the holder of public funds is the Minister of National Defence, but also other members of the Council of Ministers who, within their competences, are obliged to perform certain tasks as part of the defence efforts of the state. This may refer to storing reserves: of food, sanitary materials and other critical materials and their replenishment, or maintaining so-called spare manufacturing and service capacity that is mobilised in the event of war emergency. Thus, regardless of the holder of public funds, the planned expenditures on this area of functioning of the state are totalled in the sections and parts of the state budget, as a requirement to define the total value of the outlays incurred by the state for defence.

The state budget for defence, as a separate part of the budget, is subject to all restrictions concerning planning and execution, imposed by *The Act on Public Finance*.

2. Programming and financing the development of the Armed Forces

In the light of the requirements formulated above, the main challenge consists in creating an efficient system of planning and the correlated material and financial planning based on correctly identified and well-justified, long-term viable goals defined for the Polish Armed Forces.

The starting points for this process are the decisions made as part of long-term and medium-term planning. At the same time, public funds, originating mainly from the state budget, are the basis for the realisation of those plans in the Armed Forces. The decision-making process concerning the allocation of public funds should include the appropriate programming of the tasks that are necessary to achieve the set objectives. However, apart from specifying the scope and schedule of actions, the programming must not omit the planning of the financial, informational, personal, and material resources that are necessary to perform them.

Financial planning should be the last stage of this process. Its aim should be to secure the planned tasks financially in a reliable and adequate way, in a manner that ensures that they will be completed. This is why the process of programming and financing defence tasks, including the Armed Forces, should take into account: the binding legal regulations, the competences and the organisational and financial capacity of the entities that perform specific defence tasks, civil law agreements concluded with domestic and foreign entities, entrepreneurs and sub-contractors of the tasks, the infrastructure that is foreseen and planned to be used in the process of performing the defence tasks in the defence sector and outside it - at state as of the day of approval of the main plans for this task area.

The aim of all this is to keep the plans of preparing and utilising all entities (including the Armed Forces) for the purposes of state defence real and to prevent the existing trends of planning actions that exceed the realistic capacity of the contractors as well as ad hoc decisions that are not always caused by verified situational circumstances. What is extremely important for the quality of performance of defence tasks, in particular by the Armed Forces (responsible for our external security) is the issue of cooperation in their realisation on all levels of execution. This is particularly important in cases when the performance of defence tasks requires cooperation with multiple national entities (public administration bodies, entrepreneurs) and foreign ones (in the realisation of alliance commitments). To conclude this thread, in the opinion of the author, the key module in the process of programming and financing defence expenditures, in particular in the area of the development of the Armed Forces, should be precisely defined tasks. At the same time, material and financial resources should be allocated first of all to those tasks whose realisation will contribute to the achievement of primary goals defined by the authorities for the given task area.

The intensified defence effort of the state, in particular the realisation of the programme of the reconstruction and technical modernisation of the Polish Armed Forces was formally started by the Act of May 25 2001 *on the reconstruction and technical modernization and financing of the Armed Forces of the Republic of Poland* that was adopted by the Parliament of the Republic of Poland.

In the initial period after the introduction of the Act (i.e. the years 2001-2006) this effort was realised based on:

- the increase of expenditures from the state budget (which constituted the tax and non-tax effort of the Polish society), where the dynamics of the increase of the share of expenditures of financing the defence needs of the state in the GDP increased and, already at the beginning of 2002 was not lower than 1,95% of the GDP. However, the value of these expenditures could not be lower than: 16.1 billion PLN in 2002, 17 billion PLN in 2003, 17.9 billion PLN in 2004, 19 billion PLN in 2005 and 20.2 billion PLN in 2006. (The Act, 2001, Art. 7, item 1). To be more precise, it should be added that the initial version of the Act stipulated that the state budget will allocate budget expenditures in the amount not lower than 1.95% of the GDP planned for the given year to the realisation of the programme of reconstruction and technical modernisation of the Armed Forces, taking into account the prognosed average annual index of the prices of goods and consumer services;
- new sources of financing in form of the special fund – the *Fund for the Modernisation of the Armed Forces* (FMAF), whose revenues then consisted revenues from: providing access to training grounds for foreign troops, in the part not allocated to the reduction of the incurred budget expenditures, specialist military services provided during the realisation of training tasks (Act, 2001, Art. 6);
- contributions of the Military Property Agency (MPA) paid annually in the amount of 93% of the obtained income (Act, 2001, Art. 8);
- revenues from the privatisation of the industrial defence potential.
- Other sources of financing of the *Fund* could also include:
 - donations,
 - bequests and inheritances (Act, 2001, Art. 7 item 1).

The revenues obtained in this way were kept on a separate bank account whose holder was the Minister of National Defence (MND). It should be mentioned that the Fund did not have legal personality. During over 20 years following its introduction, the Act was amended several times to address the emerging political, military, and economic challenges, as well as to meet the expectations that would enable systemic realisation of tasks for national defence, including the development of the Armed Forces.

Pursuant to the Act, as amended one year later (2002), defence expenditures included also the expenses listed in other sections of the state budget than the “*National defence*”. The Act also stipulated that the share of property expenses in this budget would amount at least to 13.3% in 2003 and at least 20% in 2006 (Act, 2002, Art. 1).

The next modification of the Act (of 2003) modified the provisions concerning the contributions of the Military Property Agency, stipulating that “at least 93% of the obtained income less the income obtained from the management of the property of organisational units supervised or managed by the competent minister for internal affairs shall be transferred

annually for the financing of the *Programme of modernisation and development of the Armed Forces*". (Act, 2003, Art. 4).

Later, in 2004, another amendment changed the title of the Act which was now the Act "*on the reconstruction and technical modernization and financing of the Armed Forces of the Republic of Poland*". The scope of revenues of the Fund was expanded to include fund obtained from the sale of movable property of the State Treasury on equipment of Polish military units and not use by those units to perform their tasks outside the borders of the country, if its value was lower than the costs of transport to the country (Act, 1996, Art. 4d).

Later, the amended version of the Act of 2005 introduced certain mechanisms to increase the flexibility in incurring expenditures for financing defence needs, in particular with respect to the financing of the *Programme*, allowing to enter into long-term agreements while at the same time refraining from the application of the *Act on Public Finance* (as regards informing the general public about the execution of the state budget by the Minister of Finance) (Act, 2009, Art. 36, item 1) and of the *Act – Public Procurement Law* (with respect to clarifications and amendment to the terms of reference) (Act, 2004, Art. 143).

The Minister of National Defence was also released from the obligation to negotiate the decision on the allocation of the property of liquidated military units with the competent minister for the State Treasury in cases when such property was transferred between budget units of the ministry in question.

In the subsequent amendment to the Act (of 2008), the revenues of the *Fund* were considered to be those due to the State Treasury:

- dividends on stock and shares owned by the MPA in companies established as a result of the transformation of enterprises of the arms industry;
- revenues from the privatisation of companies established as a result of such transformations;
- contributions from local territorial self-government units amounting to 30% of the income obtained from managing the donated military property the Act, 2008, Art. 11).

Significant changes, in particular for the process of technical modernisation and development of the Armed Forces occurred on the 1st of January 2016, when the government decided to allocate expenditures from the state budget in the amount not lower than 2% of the GDP from the preceding year to defence needs (Act, 2015, Art. 7 item 1). It should be noted that the adoption of this index in the amount of at least 2% of the GDP from the preceding year still did not mean that Poland met the requirements of NATO in this respect. According to the methodology of NATO and the decisions of the summit in Newport, Wales of 2014, confirmed in Warsaw in 2016 "not less than 2%" referred to the current year. Formally, this requirement was met by Poland on the 1st of January 2019 (the Act, 2018, Art. 7, item 1). Moreover, this amendment of the Act stipulated that, in the years 2014-2023, budget expenditures from the "*National defence*" section of the state budget in the amount of at least the total annual increase of the planned expenditures in this part of the budget, but not less than 20% of the funds

allocated to the technical modernisation in the period of realisation of the task in question would be allocated to equipping the Armed Forces in anti-missile defence measures (the Act, 2015, Art. 7, item 2a).

It also stipulated that the share of property expenditures in the said expenses would account for at least 20%, and that the Minister of National defence, while planning the expenditures on the technical modernisation of the Armed Forces, shall take into account:

- the Polish industrial defence potential (Act, 2015, Art. 7, item 3a),
- the expenditures on research and development works in the field of national defence. However, the share of these expenses in the field of national defence should account for not less than 2.5% (Act, 2015, Art. 7, item 3b).

Apart from increasing the limit of expenditures to 2% of the GDP from the preceding year and the changes mentioned above, the Act also introduced changes in calculating the expenditures on defence (starting from 2016). These changes referred to:

- the catalogue of the revenues of the Fund: it was considered that the Armed Forces cannot bear the negative consequences of projects realised as part of international cooperation, and the received reimbursements of expenses on support provided to foreign troops and providing access to training grounds should constitute a revenue of the Fund;
- the catalogue of donations for the NATO Defence Investment Division: the possibility of temporary financing of tasks from the state budget was foreseen in the event of the need to ensure the effective performance of tasks by the Division;
- specialist military services – by specifying the industry tasks to adapt them to commonly binding regulations, including with respect to the catalogue of costs of provided services that may be reimbursed;
- refraining from combining the provision of services with training tasks, which facilitated the settlements in this respect;
- the application of generally binding legal regulations with respect to granting advance payments for the realisation of contracts exempt from the Act – *Public Procurement Law*, which improved the effectiveness of the realisation of contracts of a complex nature and priority for the national defence and security.

Further amendments to the Act allowed Poland to fully meet the requirements for NATO Member States with respect to the share of expenses on financing the defence needs of the state, including on the process of technical modernisation and development of the Armed Forces in the amount not lower than 2% of the GDP of the current year (Act, 2018, Art. 7, item 1). At the same time, it was resolved that expenditures from the budget state allocated annually to the financing of those needs would be not lower than:

- 2.0% of the Gross Domestic Product – in the years 2018 and 2019;
- 2.1% of the Gross Domestic Product – in the year 2020;

- 2.2% of the Gross Domestic Product – in the years 2021-2023;
- 2.3% of the Gross Domestic Product – in the years 2024 and 2025;
- 2.4% of the Gross Domestic Product – in the years 2026-2029;
- 2.5% of the Gross Domestic Product – in the 2030 and subsequent years (the Act, 2019, Art. 7, item 1).

Additionally, the provisions on the sources of financing of the Fund constituting its revenues were modified and their scope was extended to include other sources, i.e.:

- contributions from local territorial self-government units amounting to 30% of the income obtained from managing the donated military property and airports;
- compensation or contractual penalties received in the course of execution of agreements whose source of financing are budget expenditures in the “*National Defence*” section of the state budget, concerning: the purchase of armaments and military equipment, services related to the modernisation, modification, repairs, or renovation of armaments and military equipment, research and development works related to armaments and military equipment;
- funds contributed by other Member States of the NATO, as part of the reimbursement of expenditures incurred by the Republic of Poland on tasks realised within the *Investment Programme of the North Atlantic Treaty Organisation (Program NSIP)* (the Act, 2019, Art. 11, item 1).

It was also stipulated that additionally, at least 35% of the amount of revenues obtained from the disposal of shares or stock in companies of the industrial defence potential will be allocated to the financing of the *Programme NSIP* (Act, 2019, Art. 12). At the same time, public tasks connected with the realisation of investment tasks under the *NSIP* programme in the territory of the Republic of Poland (RP) may be financed from subsidies from the state budget:

- designated subsidy on: financing the tasks related to defence investments that result from the participation of the RP in the *NSIP Programme* and on temporary financing of tasks in the part to be paid by the bodies of the North Atlantic Treaty organisation, the realisation of national investments as package-related tasks whose completion is necessary in connection with the realised projects, payments made as contribution to the common investment budget of the NATO, financing the maintenance of investments until they are handed over for use;
- specified-user subsidy for: financing national expenses on administration that result from the total participation of the RP in the value of approved investment projects under the *NSIP Programme* and the value of investment projects realised as package-related tasks financed from national funds.

At the same time, a provision was introduced that stipulates that the ordering party may grant advance payments towards the realisation of contracts concerning armament or military equipment that are exempt from the application of the Act – *Public Procurement Law*, provided that such possibility was foreseen in the documentation of the contract or if the contractor was

selected in a procedure where the ordering party negotiated the terms of the contract with selected contractor or contractors. However, the amount of a one-off advance payment must not exceed 33% of the value of the contractor's remuneration for the given contract (Act, 2019, Art. 12b).

The aforementioned actions (continuous amendments to the Act and modifications of the principles of managing public funds) demonstrate that, in spite of the accepted strict obligation to make outlays on national defence, there was a tendency to search for new solutions, including, in particular, possibilities to increase the financial burden of the state. At this point, it should be noted that at that time there was a trend to cut the expenses on national defence in many countries in Europe and throughout the world. In order to illustrate the state outlays on national defence in this period, the author has prepared, based on the existing statutory formula for calculating defence expenditures (Art. 7, item 1 of the Act) a prognosis of the planned value of these outlays in the years 2002-2022. The values of the planned defence expenditures are presented in table 1. However, it should be noted that the actual realisation of these outlays in some years diverged from the values provided in the table. This resulted mainly from changes to the binding legal regulations or the decisions on refraining from the realisation of certain tasks (e.g. the purchase of armaments and military equipment etc.).

The table below presents the distribution of those expenditures in specific years, for various values of the index linked to the GDP, i.e.:

- 1.95% of the preceding year (2002-2015);
- 2.0% of the preceding year (2016-2018);
- 2.0% of the current year (2019);
- 2.1% of the current year (2020-2021);
- 2.2% of the current year planned for 2022.

Table 1. Defence expenditures in the years 2002-2022¹

Year	Value of the GDP of Poland (bn PLN)	DEFENCE EXPENDITURES		
		Index 1.95% GDP of the preceding year (bn PLN)	Year-to-year increase in expenditures (bn PLN)	Dynamics of the year-to-year increase in expenditures (%)
2002	810.6	15.210 16.100*	-	
2003	845.9	15.807 17.000*	0.616 0.900*	103.9
2004	933.1	16.495 17.900*	0.688 0.900*	104.3
2005	990.5	18.195 19.000*	1.700 1.100*	110.3
2006	1069.8	19.315 20.200*	1.120 1.200*	106.2
2007	1187.6	20.861	1.546	108.0
2008	1286.1	23.158	2.597	111.0
2009	1372.2	25.079	1.921	108.3
2010	1445.1	26.758	1.679	106.7
2011	1566.6	28.179	1.421	195.3
2012	1629.0	30.549	2.370	108.4
2013	1656.3	31.766	1.217	104.0
2014	1719.1	32.294	0.528	101.7
2015	1789.7	33.522	1.228	103.8
Index 2.0% GDP of the preceding year				
2016	1851.2	35.794	2.272	106.8
2017	1982.1	37.024	1.230	103.4
2018	2115.2	39.642	2.618	107.1
Index 2.0% of the current year				
2019	2273.6	45.472	5.830	114.7
Index 2.1% GDP of the current year				
2020	2323.9	48.802	3.330	107.3
2021	2468.2	51.834	3.032	106.2
Index 2.2% GDP of the current year				
2022	2626.5	57.783**	5.949	111.4

Source: The own study, based on data from the Central Statistical Office and the Ministry of National Defence.

*The requirement provided in Art. 7, item 1 of the Act on Reconstruction, and Technical Modernization, and Financing of the Polish Armed Forces in the years 2001 – 2006

**Amount of the planned expenditures in the state budget.

It should be noted that, for example, the difference in calculations that occurred in the years 2002-2005 resulted from the additional provisions of Art. 7, item 1, where the legislator defined rigid amounts on the expenditures on national defence. One cannot say, either, that the increased outlays on national defence in 2015 were advised and purposeful in 2015, as the amount of the defence budget in the “National Defence” section (whose holder is the Minister of National defence) was increased by the repayment of the debt for the multi-purpose F-16 aircraft purchased in the years 2006 – 2009. This amount of the redemption of deferred payments, so-called “B vouchers”, under the long-term programme “Equipping the Armed

¹ According to the requirements provided in Art. 7, item 1 of the Act of 25 May 2001 on the reconstruction and technical modernization and financing of the Armed Forces of the Republic of Poland

Forces of the Republic of Poland in multi-purpose aircraft" was PLN 5.363 billion (Act, 2015, Art. 7, item 5). Only after it has been deducted, we may refer to the actual outlays on national defence in the year 2015.

The most valuable items among the presented outlays on national defence are the expenditures in part 29 of the state budget in Section 752 "*National defence*" of the classification of budget expenditures (i.e. the basic activity of the Armed Forces of the Republic of Poland). The above calculations also demonstrate that, in spite of the adopted strict obligation of the state to make the statutory expenditures on defence (expressed as a percentage of the GDP), there were periods when this requirement was fully met, but also those when it was not complied with as a result of the budget cuts in various ministries, including the Ministry of Defence.

To summarise the analysed years (based on the values presented in Table 1, not the actual expenditures made in those years), it should be noted that there was a constant increase in the outlays on national defence, including on property expenditures and research and development works.

3. Programming and financing the development of the Armed Forces in the Act on *The Defence of the Homeland*

As a result of the geopolitical situation around Poland, which has emerged in recent months, as a result of the situation on the Polish-Belarusian border and later the war conducted by Russia in the territory of Ukraine, the need to intensify and accelerate the process of developing the defence potential of the country, including the process of technical modernisation of the Polish Armed Forces and increasing the number of soldiers, has become vital.

This process will require many significant changes in terms of:

- the obligation to defend – issues related to: qualification, the course of the recruitment process for military service or the defence duty of citizens;
- military service – issues related to broadly understood military service;
- financing and programming of the Armed Forces – issues related to obtaining new sources of financing for defence needs;
- implementation of tasks by entrepreneurs for the armed forces – issues related to the change of financing and competences of public administration bodies.

The Act *on the Defence of the Homeland* that was adopted by the Parliament of the Republic of Poland on March 11 2022 (and became effective on April 23 2022) unified the regulations of military law that were provided in various codes, including the regulations on programming and financing the defence needs of the state and the development of the Armed Forces.

It should be emphasised that the binding (2001-2022) Act *on the reconstruction and technical modernization and financing of the Armed Forces of the Republic of Poland* that

regulates these issues, in spite of numerous amendments, still contained “archaic” provisions that were inadequate to the current defence needs of the state and of its Armed Forces. Due to the above, a rightful initiative was taken to create new regulations that would rise up to the challenges of the modern world and whose scope would encompass widely understood issues related to defence, including the provisions on the programming and financing of the Armed Forces.

The aforementioned Act regulates the whole area of the state defence and, first of all, enables to increase the financial effort of Poland with respect to securing widely understood defence needs. This increase will be realised, in particular, from two main sources:

- increasing expenditures from the state budget, by increasing the dynamics of growth of the index of share of expenditures on the defence needs in the GDP and achieving the index of 3.0% of the current year’s GDP already in 2023 (in the previous legal state, this value was to be achieved only in 2030);
- creating a new source of financing the *Programme – the Armed Forces Support Fund (AFSF)* by expanding the sources of revenues of the Fund, among others by including the revenues of the former *Armed Forces Modernisation Fund*.

Pursuant to the Act, the Council of Ministers, considering the defence needs of the Republic of Poland, will define the detailed directions of the reconstruction and modernisation of the Armed Forces every 4 years for the subsequent 15-year planning period, in compliance with the principles of defence planning of the North Atlantic Treaty Organisation, based on:

- the main directions of development of the Armed Forces and their preparation to defend the state as defined by the President of the Republic of Poland;
- the obligations of the Republic of Poland accepted as part of defence planning in the North Atlantic Treaty Organisation (Act, 2022, Art. 36).

At the same time, the Minister of National defence was obliged to develop new a *Programme of the modernisation of the Armed Forces*, which will define, in particular:

- the tasks related to the modernisation of the equipment of the Armed Forces;
- the objectives related to: the defence systems of the Armed Forces, the commitments resulting from international agreements or treaties, collecting and maintaining reserves of combat and material resources for the Armed Forces, training of the Armed Forces, deployment of the Armed Forces, development of military infrastructure, human resources and reconversion policies, training staff in the military education system;
- the size and combat formation of specific elements of the Armed Forces. (Act, 2022, Art. 37, item 2).

The adopted Act assumes that the sources of financing of this *Programme* will be funds obtained from:

- the state budget,
- *the Armed Forces Support Fund (AFSF)*,

- revenues from the disposal of stock or shares in companies of the industrial defence potential (Act, 2022, Art. 39).

At the same time, the means of the *Fund* will be allocated to:

- the realisation of the objectives of the said *Programme*;
- the redemption of bonds and payment of interest on bonds, issuing bonds on the national and international market, covering the costs of issuing these bonds and other costs directly related to these bonds;
- reimbursement of funds to Bank Gospodarstwa Krajowego (BGK) that are necessary to perform the tasks in a timely fashion in the event of their deficit on the account of the Fund, together with the fees for managing the *Fund*;
- the repayment of liabilities that result from the execution of guarantees for the issued bonds by the State Treasury.

The Act also ordered and précised the definitions of all titles constituting the revenues of the *Fund* that will originate from:

- the proceeds from: support provided to foreign troops and providing access to military training grounds, specialist military services;
- revenues charged on the gross financial result of the MPA;
- the proceeds from the sale of movable property and intangible property of the State Treasury being on equipment of Polish military units outside the borders of the country, as well as Polish military representations and Polish liaison teams to international organisations and international military commands, military positions in NATO and EU structures and defence attaches' offices at the diplomatic representations of Poland, unused by those entities, if their value is lower than the costs of transport back to the country;
- revenues due to the State Treasury for: dividends from companies established as a result of transformation of defence industry enterprises acquired by the MPA for the property of the Treasury that is subject to transfer to the competent Minister for state assets, revenues from the sales of stock and shares in those companies;
- revenues obtained from local territorial self-government units constituting 30% of their income obtained from the management of the donated military property or constituting military airports or parts thereof;
- compensations and contractual penalties, as well as returned advance payments, income from realised guarantees, securities and other collaterals received in the course of execution of agreements concluded on behalf of the Armed Forces and concerning: the purchase of military equipment, services related to the modernisation, modification, repairs, or renovation of military equipment, research and development works related to military equipment, services and construction works related to the development of military infrastructure;

- proceeds from treasury securities issued by the competent Minister responsible for the budget;
- bonds issued by BGK on the domestic and foreign markets for the benefit of this *Fund*;
- proceeds from payments or donations, including Treasury securities and bonds guaranteed or underwritten by the State Treasury;
- funds from the state budget transferred by the Minister of National Defence;
- donations, inheritances, and legacies;
- payments made by other North Atlantic Treaty Organisation member states as reimbursement of expenditure incurred by the Republic of Poland for tasks carried out under the *NSIP Programme*;
- reimbursement of value added tax (VAT) and excise tax received by military authorities for tasks performed for the benefit of the Armed Forces of the United States of America and for support provided to other foreign troops;
- proceeds from other sources (Act, 2022, Art. 41 item 4).

The new state-owned special fund (*AFMF*) is maintained by *Bank Gospodarki Krajowej*, which has the adequate competences and experience. As opposed to the former *Armed Forces Modernization Forces Fund*, the new state-owned targeted *Armed Forces Support Fund* should ensure a significant increase in the level of financing the programme of the development of the Armed Forces, considering, among others, the possibility to issue bonds.

New mechanisms have also been introduced to ensure improved flexibility in the realisation of expenditures for financing the defence needs of the Republic of Poland, as well as the optimisation of the other parameters that determine the internal structure of the budget of the Ministry of National Defence. Thus, conditions have been created for flexible allocation of financial and human resources adequately to the identified defence needs of the state. Additionally, a regulation was introduced, which allows acquiring military equipment (including under international agreements) in form of leasing. In such event, for the purposes or all procedures and proceedings that are necessary for the proper utilisation of such equipment, it is assumed that the equipment is owned by the Armed Forces. The aim of adopting this “legal fiction” is to guarantee the appropriate organisational level, concerning, among others, the registration and utilisation of vehicles. Another aim of this regulation is to strengthen the industrial defence potential of the Armed Forces and to secure the needs of the army in an optimum way, as well as to make the forms of purchasing armaments and military equipment more flexible.

Conclusion

National defence is not a free good that nature gives in excess of our current needs, and it is not enough just to take care of it (like we take care of the natural environment) so that it is not destroyed. It is a good that must be financed by society in a conscious way, as to its importance, the relation of potential to tasks, but also as to the rationality of expenditure.

The state budget is a derivative of the economic, social, foreign, and defence policies pursued by those in power. The state's defence budget is an expression of a compromise reconciling the financing of the need for security, in particular the external security of the state, with other public needs.

Amendments initiated in the Act of 25 May 2001 *on the reconstruction and technical modernization and financing of the Armed Forces of the Republic of Poland* and then included in its subsequent amendments allowed to ensure relatively stable financing of tasks for the defence of the state.

The adopted threshold guaranteeing the allocation of 20% of total military expenditure to property expenditure and 2.5% to research and development allows for the implementation of modernization and development tasks and the acquisition of new armaments and military equipment.

The financial outlays adopted in the Act of 11 March 2022 *on the Defence of the Homeland* for the implementation of defence tasks are to ensure the possibility of intensive acceleration of development directions and the financing of the Armed Forces, especially in the face of the current geopolitical situation on the eastern border of Poland and threats resulting from the war waged by Russia on the territory of Ukraine.

The creation of the *Armed Forces Support Fund*, as opposed to the current *Armed Forces Modernization Fund* – taking into account, among others, its possibility of issuing bonds – will increase the level of financing of the *Polish Armed Forces Development Program*. At the same time, mechanisms have been put in place to ensure greater flexibility in the scope of implementation of expenditures on financing the defence needs of the state, as well as optimization will be subject to other parameters determining the internal structure of the budget of the Ministry of National Defence. Thus, conditions have been created for flexible allocation of financial and personal resources adequately to the identified defence needs.

Another issue is also the limit of the minimum contribution for the defence of the state, i.e. a public good that can only be implemented by the state to meet the need for security. This phenomenon can be described as the defence security threshold.

A similar approach might be used for the issue of setting a threshold for defence security, taking into account the essential feature of this security, namely the indeterminacy of the scale and time of use of the defence potential being built and the low credibility in estimating the size of the defence potential in relation to the probability of a threat occurring and its size.

Another problem in determining the threshold of this security, in addition to the aforementioned quantitative issues, concerns the qualitative conditions. Taking into account the size of financial outlays and their effectiveness, as well as human potential in quantitative and

performance relations, which makes up the obtained defence potential of the state, it should be sought that it is at least equal to the potential threat.

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