MINISTRY
OF FINANCE
OF THE SLOVAK REPUBLIC

MINISTRY
OF DEFENCE
OF THE SLOVAK REPUBLIC

Defence Spending Review

Final Report

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Introduction and Summary

This spending review is a part of the Value for Money project which aims to reform rules, set up processes and reinforce institutions that will support the adoption of sound decisions in the public interest and significantly increase the value for money in Slovakia's public sector.

The spending reviews will cover most of public expenditure for the electoral term. The proposed measures will enable fiscal savings, improved public service delivery to citizens and/or reallocation of funding to support the Government's priorities. The review provides measures that are sustainable over the long term.

In developed countries, spending reviews are a standard tool helping Governments to identify room in public policies for a more effective use of public funds and for the savings necessary to honour fiscal obligations at national and European level.

The fifth year of spending reviews focuses on expenditure which has an impact on the social inclusion of groups at risk of poverty and social exclusion, the public wage bill, defence expenditure, Ministry of Interior expenditure (public administration and security) and expenditure on culture. The Final Reports from the spending reviews identify areas with the largest room for improvement in the effectiveness of spending and propose measures with deadlines.

In order for those goals to be achieved, recommendations must be based on extensive and high-quality data. Despite the official tasking as per Government Decree No 188/2019 and repeated requests for cooperation, the Ministry of Defence of the Slovak Republic provided only partial data to the Ministry of Finance, which limits the depth of analysis on some topics. The Value for Money Division collected and analysed data until March 2020 and made the best possible use of the available data. Strategic documents and objectives developed thereafter are not included in this material. After the finalisation of the strategic documents, including the 2021 NATO Capability Targets, it will be possible, in cooperation with the Ministry of Defence of the Slovak Republic, to prepare a more detailed analysis and propose additional measures.

This review aims to contribute to the meeting of objectives in defence by putting greater emphasis on the effectiveness of spending, and to improve defence performance focusing on the priority objectives in defence. The review is based on the approved proportion of GDP devoted to defence and on the commitments made by NATO member countries.

Slovakia's defence expenditure has been comparable over the long term to the reference countries[1], and lower than the EU NATO member countries. Based on NATO methodology, defence expenditure in 2019 reached EUR 1.67 billion (1.74% of GDP). NATO member countries in the EU spent an average of 1.35% of GDP in 2012-2018; the average for the F3 countries was 1.11% of GDP. The average for Slovakia and the C3 reference countries for the same period was 1.09% of GDP.

The growth of Slovakia's defence spending between 2012 and 2019 was among the four highest of all NATO members. The historically highest year-on-year increase, from EUR 1.11 billion to EUR 1.62 billion[2], was recorded in 2019; most of the increase was attributable to the purchase of F-16 fighter jets. The growth of expenditure on defence reflects a NATO-wide trend.

The crisis caused by the coronavirus pandemic has substantially reduced the performance of the economy. Should the planned level of nominal expenditure in the general government budget be maintained, Slovakia's defence expenditure would reach 2% of GDP in 2022.

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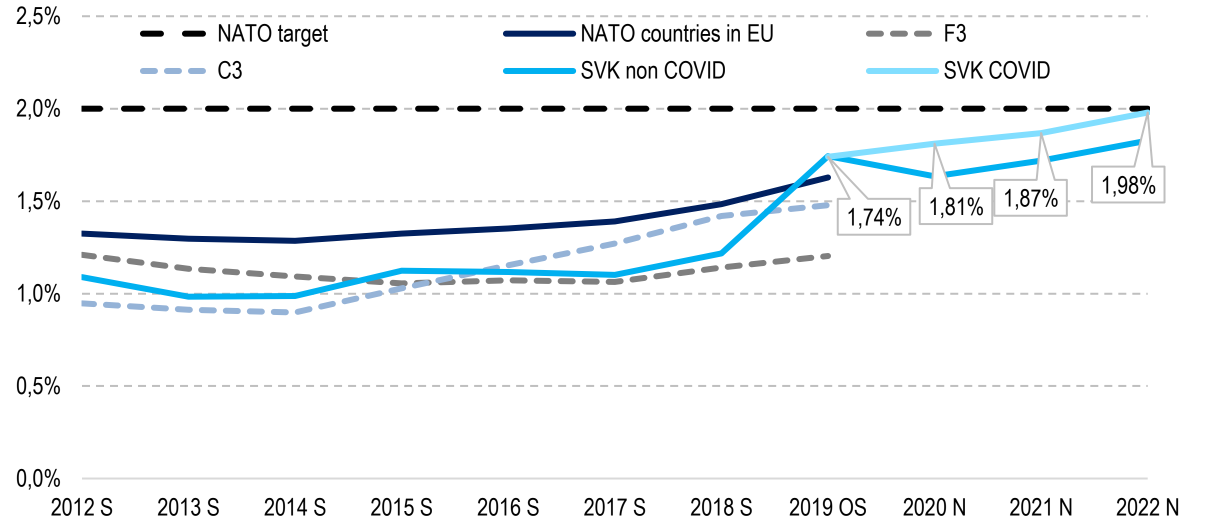
[1] To provide more relevant international comparisons, a group of reference countries was identified. The reference group includes Central and Eastern European countries with a similar baseline position (Czech Republic, Hungary, Lithuania: C3), and a group of selected Allies which may serve as models for Slovakia's defence ambitions and objectives (Denmark, Belgium, the Netherlands: F3).

[2] According to the drawing of the programme budget 2019.

Defence expenditure overview (% of GDP, NATO methodology)

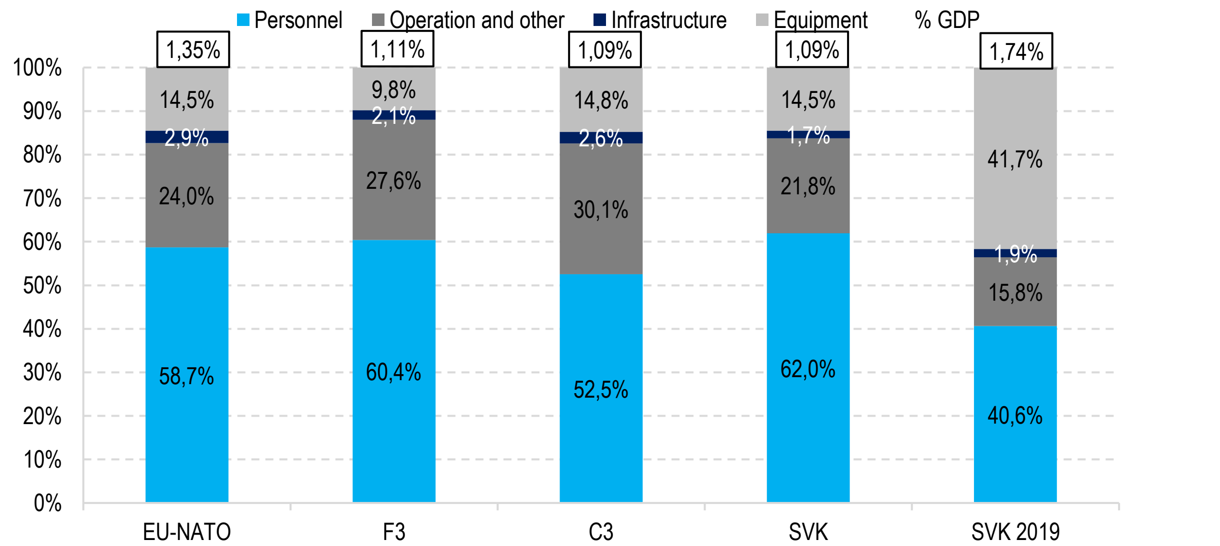


Note: SVK non-COVID according to pre-crisis GDP estimates. SVK COVID relates the expenditure initially planned for 2020-22 (according to the MOD report to NATO) to the current GDP estimate (IFP, April 2020). Averages are calculated as arithmetical averages; data may differ from NATO graphs which use weighted average.
S = Actual; OS = Expected; N = Draft Budget

Source: NATO, 2019fg, (constant prices 2015); data of MOD 2019, IFP 2020. Analysis: VfMD

In 2012-2018, Slovakia had above-average expenditure on personnel and below-average expenditure on operations and infrastructure. Expenditure on modernisation is average when compared to the reference groups, although the 20% share of the defence budget that NATO recommends to spend on major equipment and associated research and development has only been spent in the last two years. An important change occurred in 2019 when the acquisition of F-16 fighter jets almost tripled the previous average equipment expenditure, substantially exceeding that of all reference groups. Reflecting a long-term problem, expenses on operations and infrastructure remained below average.

Defence expenditure: structure and GDP share (average for 2012-2018, SVK 2019)



**2019 is NATO estimate*

Source: NATO, 2019fg. Analysis and calculations: VfMD

Slovakia does not meet the strategic objectives and outcomes that it expects from the defence effort, nor does it meet those to which it has committed as a NATO member. The key objective of defence is to protect the security of Slovakia and its Allies with the use of its own armed forces and the means of collective defence.

Furthermore, the objective of defence is to contribute to peace, stability and security through the deployment of armed forces in operations and missions outside Slovakia's territory and to support public authorities in domestic crisis management. Slovakia has long been unable to deliver on the NATO Capability Targets, representing its agreed national contribution to collective defence, in the required quantity, quality and on time. Not only do the Armed Forces of the Slovak Republic (AFSR) provide only 80% of the requested units but deliver them in sub-standard quality. In 2019, Slovakia fulfilled only 39% of the qualitative Capability Targets. The worst performing military branch are the land forces, Slovakia's key contribution to NATO and the core of its armed forces. Until 2018, operational readiness had also declined. The third indicator, measuring performance in international operations, shows that while Slovakia is able to deploy the required number of land force (but not air force) personnel outside its territory, it takes more effort than would be desirable.

Given the absence of publicly available information, informed expert debate on defence performance is lacking in Slovakia. The reason is a reluctance to disclose key documents and data that are publicly accessible in other countries. The quality of discussion and the meeting of defence objectives could be improved if input and outcome indicators were assessed in the general government budget.

To support long-term capability development and the execution of an appropriate investment strategy, this review demands the development of a capability requirements catalogue, a new Generic Force Structure (2035) and a new Long-Term Capability Development Plan for defence. The new documents should respect the value-for-money principles and support the fulfilment of the Slovak Republic's strategic goals and defence commitments. The achievement of better outcomes in defence is challenged not only by the availability of funding, but also by a preference for consumption costs over maintenance and modernisation, as well as by the implementation of investment projects that make a low contribution to the achievement of objectives.

This review demands that until the new Generic Force Structure (2035) has been defined, Slovakia should invest in projects that are relevant to all possible alternatives of the yet to be agreed 2021 NATO Capability Targets and in the basic infrastructure of the AFSR. Investments should prioritise combat support, combat service support and the preservation of the existing combat potential of the combat units of the AFSR.

This review demands that both suspended and planned armaments projects should be reconsidered in light of the new Long-Term Capability Development Plan. Optimizing projects in accordance with the 2017 Capability Targets would make it possible to reallocate EUR 2.0 to 2.3 billion toward the most important priority projects in the near term. However, the new strategic documents will also assess projects against national requirements. A part of the costs associated with the 2017 Capability Targets is yet to be quantified. **This review demands that all future capabilities and tasks of the new F-16 aircraft squadron are identified and that all acquired platforms are used in the most efficient way in military, economic and political terms.**

Overview of investments of the Ministry of Defence by 2017 Capability Targets

Known-priority projects	EUR million	Other planned projects	EUR million
New IFV	871 – 1 500	8x8 APC	411
New tank	258+	Non-priority part of 4x4 AMPV	612
Priority part of 4x4 AMPV	170	Upgrade of the S-300 system	605 – 708
Priority part of radars	102	Replacement of 2K12 KUB systems	360 – 470
Other heavy brigade equipment	332+	Non-priority part of radars	53
Total	**1,733 – 2,362+**	**Total**	**2,041 – 2,254**

Source: NATO, 2017; MOD, 2017d; GS AFSR, 2018b. Analysis: VfMD

In comparison to the average wage in the economy, Slovak professional soldiers are paid higher than the median of their counterparts in the reference countries. In 2019 and 2020, military pay grew faster than the pay of most employees in the public service. Based on new legislation, another increase of at least 20% is envisaged in 2020. The number of employees in the command structure and their wages exceed the median in the reference countries; the command structure also employs more soldiers than civilians.

Optimizing personnel expenses could bring annual savings of over EUR 114 million. Personnel expenses will be the major limitation on how much funding can be allocated for investment and modernisation, particularly should the number of military personnel increase. This review proposes to conduct a detailed optimisation audit of the Ministry of Defence and the Armed Forces with the aim of identifying options for saving at least 10% on personnel. International comparisons, lessons from other organisations and existing yet unimplemented cost saving projects indicate that this target is realistic.

Further savings are achievable on operating expenses, which this review has not mapped out in detail. Better procurement of goods and services is one of possible options; this review analysed in detail only 5% of such expenditure. This review demands that the potential for savings in other areas should be quantified.