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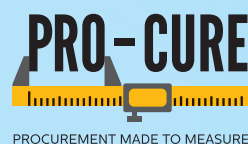
Katarina Djokic

SUPER GALEB'S FLIGHT INTO THE BLUE

Performance analysis of Serbian Ministry of Defence
expenditures with a case study of the Super Galeb
G-4 modernization project



European Union Programme
"Civil Society Facility Serbia 2013"



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Summary

This paper presents a performance analysis of the G-4 Super Galeb military trainer aircraft modernization project. The analysis shows that the Ministry of Defense has to review the need for this project as soon as possible, in view of the announced equipping of the Serbian Armed Forces with MiG-29 fighter planes, several-year delay of the beginning of the project and Super Galeb maintenance difficulties. The paper also shows that the Ministry of Defense and the Serbian Armed Forces cannot effectively plan modernization and equipping projects without a top-level political decision on what type of army Serbia needs, and without a more decisive fiscal policy, which would ensure funds for priority projects on a medium-term level.

SUPER GALEB'S FLIGHT INTO THE BLUE

The text analyzes expenditure performance of Serbian Ministry of Defense (MoD)¹ through the case study on the project of modernization of the G-4 Super Galeb military trainer aircraft into G4-MD. This project was selected for several reasons.

In the first place, this is a capital project, the funds for which are allocated in the 2017 Serbian budget, and the most valuable of three capital projects financed in 2015-2016. Moreover, the modernization of military trainer aircraft represents a strategic long-term decision aimed at preserving the Serbian Armed Forces fighter-bomber fleet, whose future has for years been the object of different speculations in view of the lack of funds for the purchase of planes. Finally, this project should improve the capacity of the Moma Stanojlović Aeronautical Plant, one of the defense institutions that earn a profit by providing services on the market, which means that the project also has a prominent socio-economic aspect.

The Ministry of Defense is a good choice for a performance analysis. The defense sector started linking financial management to strategic goals before this was done by other beneficiaries of the Serbian budget. The 2009 Defense Strategy recognized the importance of financial planning for building of an efficient defense system.² Also in 2009, the MoD introduced the system of planning, programming, budgeting and execution (PPBE), which ensures a stronger relation between expenditures and defense policy goals.³ In that respect, analysing performance of the MoD's expenditures may be valuable for other institutions, which are still introducing program budgeting and learning to base financial planning on their strategic goals.

The MoD's idea on modernizing the G-4 Super Galeb military trainer aircraft is presented at the beginning of the text. After that, the project performance and the influence of external factors on the modernization of the military trainer aircraft are analysed. At the end, recom-

1 For more information about expenditure performance, please refer to: Petrovic, P, K. Djokic, V. Erceg and A.Djan. Toolkit for Civil Assessment of Public Expenditure Performance in the Security Sector. (Belgrade: BCSP, 2016). <http://www.bezbednost.org/All-publications/6287/Toolkit-for-Civil-Assessment-of-Public.shtml>

2 Defense Strategy: 14.

3 The first Rulebook on the Planning, Programming, Budgeting and Execution was adopted in 2008 (published in the Official Military Journal No. 31/2008). For more information on the PPBE system, see: Stojković, D. Programiranje funkcionisanja and razvoja sistema odbrane. Vojno delo, No. 60/2 (2008): 93-107.

mendations that can affect the future position of the Super Galeb in the defense system are provided.

Modernization of the Super Galeb

The G-4 Super Galeb is a military jet trainer for advanced flight and air combat training. It can also be used for air support.⁴ Super Galeb jets provided air support during the latest large-scale military exercise Morava 2016,⁵ which shows that the Army counts on them in combat operations.

Information can be found in the media that the Serbian Armed Forces (SAF) currently has 22 Super Galeb planes, up to 10 of which were active in the past few years.⁶ The Ministry of Defense plans to modernize up to one squadron (10-12) of aircraft.⁷ Rather than being decommissioned, the other planes will, most likely, be used as a reserve and serve as a source of parts for active planes.

The purpose of the G4 modernization project is its technical and technological improvement through installing of new electronic equipment, whereby the modernized version will be marked G4-MD (modernized-digitalized). The equipment should be installed at the Serbian aeronautical plant, and delivered by a foreign partner.

As early as in 2011, the Ministry of Defense collected bids from potential partners in the project,⁸ and a tender procedure was to be officially called in 2015. The tender was not held and the partner was not selected until the end of 2016 (see: Table 1). The implementation plan, length and final costs of the project are, therefore, still unknown, because they depend on a precise agreement with the future partner.

4 For more information, see: goo.gl/ojq95N

5 Live fire tactical exercise at Pasuljanske Livade training ground. Ministry of Defense News, May 28, 2016. <http://www.mod.gov.rs/cir/9662/takticka-vezba-s-bojevim-gadjanjem-na-pasuljanskim-livadama-9662>

6 Banković, Ž. Ponovo u centru pažnje: Istorija planova modernizacije aviona Super Galeb G-4. Tangosix, 26.04.2016. <http://tangosix.rs/2016/26/04/istorija-modernizacije-aviona-g-4-super-galeb/>

7 Ministry of Defense. Response to the BCBP questionnaire. Number 621-12/16. Belgrade, Oct. 6, 2016

8 Ministry of Defense. Response to the BCBP questionnaire. Number 621-12/16. Belgrade, Oct. 6, 2016

Table 1: Chronology of utilization and modernization of the Super Galeb⁹

1978	First prototype flight.
1983	Beginning of serial production at the Soko factory in Mostar.
1987	Beginning of drafting of modernization plans.
1999	End of modernization of the G4-M prototype, the only modernized model.
early 2000s	Military Technical Institute starts defining elements for another modernization of the G4 plane.
2007	Adoption of the tactical study for this modernization.
2008	Preliminary analysis made.
2011	MoD sends an official request for information for participation in the G4 aircraft modernization project to 11 foreign companies. Ten companies responded and sent suggested technical solutions for modernization, while one sent an offer for a new military trainer aircraft.
2013	The project is included in the overview of the Ministry of Defense capital expenditure in the RS budget. ^a
2014	Previous analysis revised.
2015	Tender on a strategic partner was to be implemented in the first quarter. ^b Prime Minister Aleksandar Vučić and Defense Minister Bratislav Gašić repeatedly said during the summer that negotiations with Airbus on the modernization of the G4 aircraft and investment in the Moma Stanojlović Aeronautical Plant were underway. ^c
October 7, 2016	The Ministry of Defense signs a high-level Memorandum of Understanding with the Airbus Group. ^d The question remains whether this will result in the establishment of cooperation in the modernization of the G4 aircraft.

a Law on the Budget of the Republic of Serbia for 2013: Art. 5.

b Ministry of Defense. Response to the BCBP questionnaire. Number 621-12/16. Belgrade, Oct. 6, 2016

c Vojinović, P. Preokret u nabavci helikoptera za RV and PVO – Rusi preterali sa cenom za Mi-171. Tangosix, 1.07.2015 <http://tangosix.rs/2015/01/07/preokret-u-nabavci-helikoptera-za-rv-i-pvo-rusi-preterali-sa-cenom-za-mi-171/>. Gašić: Moramo da kupimo još helikoptera. B92 info, July 30, 2016. goo.gl/W6yxam.

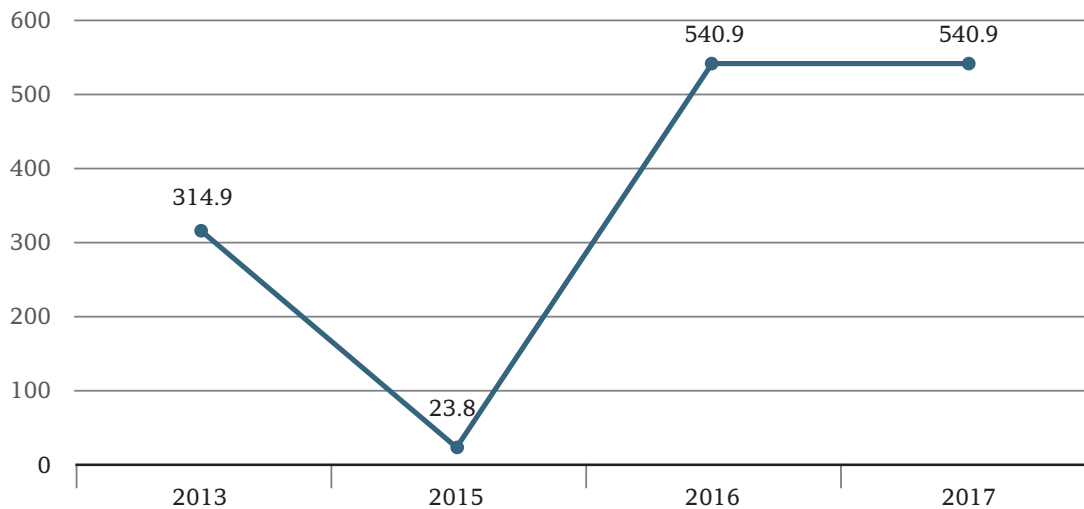
d Memorandum of Understanding on cooperation with the Airbus group signed. Ministry of Defense, Oct. 7, 2016. <http://www.mod.gov.rs/lat/10094/potpisan-memorandum-o-saradnji-sa-kompanijom-erbas-grup-10094>

The Ministry of Defense explained that the tender had not been held because the project had not formally commenced yet. Namely, the Serbian Government has still not adopted a conclusion approving the capital project, since the Ministry of Finance has not approved additional funds for the project.¹⁰ It is paradoxical that certain amounts (see: Graph 1) have been allocated from the Serbian budget for the G4 modernization project at least since 2013, when the Serbian budgets started to contain an overview of capital expenditure. So far, or between 2013 and 2016, 879,653,000 RSD or about 7.4 million euros were allocated for this project.

9 Sources for lines 1-5: Banković, Ž. Ponovo u centru pažnje: Istorija planova modernizacije aviona Supergaleb G-4. Tangosix, 26.04.2016. <http://tangosix.rs/2016/26/04/istorija-modernizacije-aviona-g-4-super-galeb/> i Supergaleb G-4, vazduhoplovnetradicije-srbije, July 2, 2015 <http://www.vazduhoplovnetradicije-srbije.rs/index.php/clanak/70-g4-super-galeb>. Source for lines 6-8 and 10: Ministry of Defense. Response to the BCBP questionnaire. Number 621-12/16. Belgrade, Oct. 6, 2016

10 Ministry of Defense. Response to the BCBP questionnaire. Number 621-12/16. Belgrade, October 6, 2016

Graph1: Funds allocated for the project (million RSD)¹¹



Performance Assessment

The performance of investments in the Super Galeb is assessed in the text by providing answers to five questions: Is there a need for modernization? What is the purpose of the modernization project and how can we know whether it has been achieved? Will investment in the Super Galeb be sustainable? Is aircraft modernization more economic in the long run than purchase of a new military trainer aircraft? Are the allocated funds realistic?

Is there a need for modernization?

Investments in military trainer aircraft make sense only if the state is prepared to invest in combat aviation; otherwise pilots are trained in vain. The Serbian Armed Forces currently has four operable MiG-29 fighter jets in urgent need of overhaul, three MiG-21 jets and four J-22 Orao bombers.¹² The takeover has also been announced of six MiG-29 jets, which should arrive from Russia in March 2017 and be modernized before their utilization begins¹³, and the latest MoD announcements indicate that additional MiG-29 jets might be taken over from Belarus.¹⁴

¹¹ Own overview, based on data from the Law on the Budget, Art. 5, for the years 2013, 2015, 2016 and 2017. The Law on the 2014 Budget of the Republic of Serbia presents the MoD capital expenditure only as the «equipping of the Serbian Army» and «construction and «capital maintenance of Serbian Army facilities.»

¹² The number of MiG-29 and MiG-21 jets was presented by Assistant Minister in charge of material resources Nenad Miloradović in a statement for the RTS 1, available at <http://www.mod.gov.rs/cir/video/10426/rts1-pomocnik-ministra-nenad-miloradovic-o-nabavci-aviona-iz-rusije-10426>. The number of J-22 Orao planes has been taken from: Banković, Ž. Ima li optimizma za RV i PVO Vojske Srbije? Tangosix, August 8. 2016. <http://tangosix.rs/2016/08/08/dolaze-li-bolji-dani-za-rv-pvo-vojske-srbije/>

¹³ According to the latest MoD information, this is a donation, rather than purchase, where Serbia will pay the overhaul and modernization expenses. See: Đorđević: Remont 10 Migova koštaće 185 miliona N1 News, December 23, 2016. <http://rs.n1info.com/a216644/Vesti/Vesti/Djordjevic-o-ceni-remonta-Migova.html> and Assistant Minister Miloradović's statement for the RTS at <http://www.mod.gov.rs/cir/video/10426/rts1-pomocnik-ministra-nenad-miloradovic-o-nabavci-aviona-iz-rusije-10426>.

¹⁴ Galović, M. Đorđević: Srbija od Belorusije dobija sistem PVO buk. Politika online, January 27, 2017. <http://www.politika.rs/scc/clanak/372999/Dordevic-Srbija-od-Belorusije-dobija-sistem-PVO-buk> Please note that the story appeared at the time of conclusion of the final version of the text.

The issue here is that the whole point of modernization of the Super Galeb is to ensure that pilots are trained to operate modern fighter jets with more sophisticated electronic devices; however, it seems that the Serbian Air Force will, until further notice, continue to have planes made in the 1980s with mostly analogue devices in the cockpit. In that context, the modernization of the military trainer aircraft is unnecessary and could even prove to be counterproductive, because modernized Super Galeb planes would be used for training pilots to fly a fighter jet they would not operate in real life.¹⁵

Assessment: New developments bring into question the need for the envisioned modernization of the Super Galeb.

What is the purpose of the modernization project and how can we know whether it has been achieved?

Since the tactical study and preliminary analysis for this project have been adopted, the assumption is that the MoD knows what the purpose of the project is and what modernization should include. Information on the scope of modernization was published in the media over the past few years.¹⁶

The explanation of the budget offers, however, a highly imprecise formulation of the purpose of the project: “modern military trainer aircraft.” This leaves an impression that, in the absence of project funds and a foreign partner, the published objective has been defined in the widest possible way.

Vaguely formulated success indicators in the explanation of the Serbian budget pose another issue. Even if MoD and SAF experts and decision-makers know how to calculate the modernization percentage (and how to ascertain whether 0.1% has been achieved in 2017), this indicator is completely perplexing for citizens, as well as for parliamentarians, who adopt the budget and conduct the external overview of the defense sector.

Assessment: The vaguely formulated objective and project indicators prevent the public from monitoring its (future) implementation. This results in a risk to the general effectiveness, efficiency and cost-effectiveness of the project.

Will investment in the Super Galeb be sustainable?

Regardless of the purpose of the training – which is certainly the key factor in the determination of effectiveness of modernization of the military trainer aircraft – the question is if it pays to invest in the Super Galeb in view of its lifespan and maintenance possibility. The program documents of the modernization project were made in 2007 and 2008, when the period in which the planes could be used was still much longer. According to available information, the G-4 Super Galeb should remain in use until 2030 - 2035.¹⁷ The Military Technical Institute

15 An interview with an interlocutor informed about developments at the SA who wished to remain anonymous. Belgrade, November 2016.

16 <http://www.mod.gov.rs/cir/9662/takticka-vezba-s-bojevim-gadjanjem-na-pasuljanskim-livadama-9662>

17 Banković, Ž. Ima li optimizma za RV i PVO Vojske Srbije? Tangosix, August 8, 2016. <http://tangosix.rs/2016/08/08/dolaze-li-bolji-dani-za-rv-pvo-vojske-srbije/>

might extend its lifespan once again¹⁸, but it is debatable whether we should continue to rely on a plane whose engine was designed in the 1950s.¹⁹

As for maintenance, a favorable aspect is that the Super Galeb is overhauled in the local Moma Stanojlović Aeronautical Plant. On the other hand, the overhaul of an aircraft may last for a long time, even up to two years. This is mainly because spare parts are extremely difficult to find, especially since many factories that produced original parts and expendable materials have gone out of business or changed their production lines.²⁰ The purchase of parts from producers who are currently present on the market is somewhat more complex, because their product portfolios do not necessarily suit the aircraft specifications, and all this can additionally raise the overhaul price.²¹

Another factor that brings into question the profitability of the project is its several-year delay at the start. Since the money allocated in the Serbian budget for the next three years of modernization is insufficient for the implementation of the project,²² there is a high risk that the project will not begin any time soon. And even when it does begin, it is questionable whether it will be completed in the shortest possible amount of time.

Assessment: Super Galeb jets are increasingly difficult and expensive to maintain. The future project performance will not benefit from a delayed beginning.

Is the modernization of the aircraft more economic in the long run than the purchase of a new military trainer aircraft?

The preliminary analysis²³ of the modernization project was revised in 2014 and it should contain arguments indicating that the modernization of existing military trainer jets is more desirable than the purchase of new ones. It is certain that, in the short run, the purchase of a new military trainer aircraft would be very demanding in terms of finance: apart from the price of the aircraft,²⁴ the purchase costs would have to include the delivery, additional training of pilots and mechanics, and spare parts. The overhaul should either be mastered or entrusted to a foreign institute that would have to be paid for its services. On the other hand, a new military trainer aircraft would remain in operation longer than the existing. A well-chosen

18 An interview with an interlocutor informed about developments at the SA who wished to remain anonymous. Belgrade, November 2016.

19 According to Sava Pustinja, former director of the Aeronautical Technical Institute, who was involved in the development of the Super Galeb, the selected engine model has limited Super Galeb's performances, cost-effectiveness and total value. (Supergaleb G-4, Portal vazduhoplovnetradicijesrbije, July 2, 2015 <http://www.vazduhoplovnetradicijesrbije.rs/index.php/clanak/70-g4-super-galeb>). The description of the Viper engine is available at goo.gl/qHfhpo.

20 Banković, Ž. Ponovo u centru pažnje: Istorija planova modernizacije aviona Supergaleb G-4. Tangosix, April 26, 2016. <http://tangosix.rs/2016/26/04/istorija-modernizacije-aviona-g-4-super-galeb/>.

21 An interview with an interlocutor informed about developments at the SA who wished to remain anonymous. Belgrade, November 2016.

22 According to the assessment of the Ministry of Defense itself. (Ministry of Defense. Response to the BCBP questionnaire. Number 621-12/16. Belgrade, October 6, 2016)

23 The preliminary analysis is an initial document on the basis of which a decision is made on the programming and financing of tasks. It contains a comparative overview of different solutions for the implementation of a particular task (e.g. equipping the Army), explanation why a particular solution should be chosen, analysis of the possibility to secure staff and keep the equipment, cost assessment. (See: Rules on peacetime equipping of the Yugoslav Army with weapons and military equipment: Art. 34 and Attachment 4).

24 E.g., Bangladesh in 2014 ordered 16 Yak-130 military training jets from Russia, and according to SIPRI, the value of the contract is 800 million dollars. What the contract encompasses is not known. Data available at: <https://www.sipri.org/databases/armstransfers>.

aircraft could also replace the Orao jets, which, according to the media, are also experiencing operability maintenance issues.²⁵

Assessment: This question cannot be answered without a comparison between the modernization and purchase costs. Still, it should be given more attention.

Are the allocated funds realistic?

The scarcity of budgeted funds is said to be the main reason that prevents the project from starting. According to MoD information, the planned budget funds for 2017 and 2018 are significantly lower than the estimated costs of the project.²⁶ However, the Ministry of Defense has not published the estimated costs of the project. On the other hand, some media reported that about 10 million euros²⁷ were planned for the beginning of the project in the period between 2013 and 2015, while so far (in the period between 2013 and 2016) a total of 7.4 million euros were allocated for this purpose.

Since the Ministry of Finance could not approve additional funds, the Serbian Government has still not adopted a conclusion authorizing the beginning of this capital project.²⁸ Nonetheless, the modernization of the G-4 Super Galeb aircraft is explicitly listed as a capital expenditure in the Serbian budgets for the years 2013, 2015, 2016 and 2017.

The consequences are multifold:

- The beginning of modernization is postponed *ad infinitum*;
- Money is allocated on paper for a purpose for which it is not being spent and for a purpose for which the MoD knows it cannot be spent;
- In practice, money is spent for other purposes. According to the MoD, money allocated for the project has so far been used for equipping laboratory capacities of the Military Technical Institute, Moma Stanojlović Aeronautical Plant, and the Technical Test Center, as well as for the maintenance of SAF aircrafts.²⁹ Although the needs for these expenses may be justified, it would be important to plan them in a timely manner and to clearly mark them in the budget, rather than to use an unopened project as a source of funding.

Assessment: The allocated funds are not realistic. As a result, they are used arbitrarily and for purposes other than designated, without producing the desired effect, which is how the state potentially wastes more money than it would if it paid the actual price of modernization of the Super Galeb.

25 Banković, Ž. Ima li optimizma za RV i PVO Vojske Srbije? Tangosix, August 8, 2016. <http://tangosix.rs/2016/08/08/dolaze-li-bolji-dani-za-rv-pvo-vojske-srbije/>.

26 Ministry of Defense. Response to the BCBP questionnaire. Number 621-12/16. Belgrade, October 6, 2016.

27 Banković, Ž. Ponovo u centru pažnje: Istorija planova modernizacije aviona Supergaleb G-4. Tangosix, 26.04.2016. <http://tangosix.rs/2016/26/04/istorija-modernizacije-aviona-g-4-super-galeb/>.

28 Ministry of Defense. Response to the BCBP questionnaire. Number 621-12/16. Belgrade, October 6, 2016

29 Ministry of Defense. Response to the BCBP questionnaire. Number 621-12/16. Belgrade, October 6, 2016

External Factors

The effectiveness of MoD expenditure is affected by bad practices in the defense system and by factors at the state level which the MoD cannot always influence. The most important of these factors are:

- Lack of clear and transparent commitment at the highest political level regarding the type of army or air force which Serbia should have;
- Loopholes that have been making it possible for years to legalize the allocation of money for capital projects that are not formally approved;
- Weaknesses of the state fiscal policy thwarting the efforts of some budgetary beneficiaries to plan their necessary costs in a timely and realistic manner.

Political and Strategic Commitment

The most important political, strategic and development documents for the modernization of the Super Galeb are the Defense Strategy, the Strategic Overview of Defense of the Republic of Serbia, the 2011-2020 Long-Term Defense System Development Plan, the 2014-2019 Medium-Term Plan and Defense System Development Plan and the Tactical Study of Air Force Development in 2010-2020. Only the first of the documents is publicly available, while the other four are classified.

The applicable Defense Strategy, adopted in 2009, provides for the following vital defense interests of the Republic of Serbia³⁰:

- Preservation of sovereignty, independence and territorial integrity of the Republic of Serbia and protection of its citizens and their safety;
- Building of trust, enhancement of security and stability in the region; and
- Cooperation and partnership with international security organizations and institutions of the democratic states.

The maintenance and development of the fighter-bomber fleet, including the relevant training of pilots, can be brought in line with the first interest. One of the three fundamental defense policy goals - an effective defense system - and the first Serbian Armed Forces mission - defense from armed threats from the outside³¹ - correspond to this interest. In this respect, the Defense Strategy remains at a very general level, failing to present guidelines on the way in which an effective defense system is built and what it should encompass: e.g. what kind of air capabilities Serbia needs. The answer to this question should be contained in the Strategic Defense Review, but in Serbia, unlike some countries of the region³², this document is classified.

According to MoD information, the Long-Term Development Plan of the Defense System and the Tactical Air Force Development Study envision the purchase of a multirole combat aircraft.³³ The idea was to coordinate the modernization of the Super Galeb with this purchase in

30 Defense Strategy of the Republic of Serbia. Belgrade, October 2009: 9-10. goo.gl/1rFUey

31 Ibid: 12 and 15.

32 E.g., the Strategic Defense Review and the Long-Term Development Plan of the Defense System of Montenegro are available on the webpage of the Montenegrin Ministry of Defense <http://www.mod.gov.me/Rubrike/strateska-dokumenta->.

33 The Ministry of Defense. Response to the BCBP questionnaire. No. 621-12/16. Belgrade, Oct. 6, 2016

order to ensure relevant training for pilots. In view of the fact that the Serbian Armed Forces will continue to use the MiG-29 jets even after 2020, this idea needs to be revised.

The process of drafting of new strategic documents³⁴ (National Defense Strategy, Defense Strategy), as well as the Defense White Book, which might represent a publicly available version of the Strategic Defense Review, officially started in November 2016.

New long-term and medium-term defense system development plans should be drafted in accordance with these documents. This process represents an important opportunity for the adoption of decisions which will ensure the most effective expenditure of funds for defense needs. The definition of security threats has the crucial influence on the determination of the type of army - and air force - which is needed by Serbia. A thorough analysis of the security environment would prevent the arbitrary planning or copying plans that do not suit Serbia's current security needs. Thereby planning should overcome two major issues that have been noted so far:

- Long-term planning insufficiently takes into account some economic limitations. From the current perspective, the decision to purchase a modern multirole combat aircraft was unrealistic and it unnecessarily led to the multiannual allocation of funds for the modernization of the military trainer aircraft, although, eventually, the funds were not spent.
- The Strategic Defense Review and Long-Term Development Plan are completely classified, so that the public does not have any insight into the defense system development priorities and time frames for the realization of some tasks or projects. For example, the original date when the modernization of the Super Galeb was supposed to be completed is currently unclear. The lack of publicly available information reduces the accountability of decision-makers at the Serbian Government and the Ministry of Defense and makes opportunistic behavior possible under the pretext of a lack of money or redirection of funds, which can all be detrimental and prevent the preservation of Serbia's defense capacity.

Legal Framework

The legal framework on financial planning at the Ministry of Defense is very precisely developed, which especially applies to internal MoD documents (Rulebook on Planning, Programming, Budgeting and Execution, Rulebook on Peacetime Equipping and Arming of the Yugoslav Army, Rulebook on the Public Procurement Procedure at the Ministry of Defense and the Serbian Armed Forces).

On the other hand, the curious case of the of the G4 aircraft capital project indicates that there is a loophole enabling unjustified allocation of budget funds to non-approved projects, whose implementation in the next budget year is neither feasible nor likely. Since capital projects involve high costs, there is a strong risk that considerable amounts of budget funds might be spent during the budget year for purposes other than designated or that they might remain "locked", although the money could be used for other needs.

The issue of capital projects was to be regulated in 2016 through the adoption of a regulation on the content, methods of preparation, evaluation, prioritization, as well as monitoring and

³⁴ Development of strategic documents in the defense system. The Ministry of Defense, November 28, 2016. <http://www.mod.gov.rs/lat/10329/izrada-strategijskih-dokumenata-u-sistemu-odbrane-10329>

reporting on the implementation of capital projects.³⁵ It is unclear whether the regulation, which was still not adopted by the end of the year, will also regulate the conditions for launching and financing of capital projects.

Another loophole that proved to be important in the case of the project of modernization of the G-4 into the G-4MD is reflected in the fact that, when they submit draft annual and medium-term plans, beneficiaries of the budget are not required to present to the Ministry of Finance an explanation for significant changes of expenditure in some economic classifications in comparison with medium-term projections from the previous years. Thus, the 2015 budget envisioned the allocation of 23,800,000 RSD for the G4 modernization project in 2016, while the 2016 budget allocated nearly 541 million dinars for this purpose. This inconsistency undermines the importance of medium-term financial plans, and thus also the possibility to achieve policy (program, project) objectives within the set time frame, since nobody really knows how much money will be available when. The consistency of budgeting also represents one of the indicators of the international Public Expenditure and Financial Accountability (PEFA³⁶) methodology, under which countries are evaluated in the field of public finance. In order for a country to get the top evaluation for this indicator, the budget documents need to explain all changes to expenditure estimates between the last medium-term budget and the current medium-term budget.

Fiscal Framework

The needs of the state, including the defense sector, exceed its objective economic limits. Insufficient funds, however, cannot serve as an excuse for the failure to implement activities, which is why the task of the fiscal policy is to ensure the most expedient management of the state's actual revenues. The most important documents within the fiscal framework are the following:

- Fiscal strategy: the document which sets out fiscal policy goals, defines priority fields of finance and imposes medium-term limits for budgetary expenditure, and
- Instructions for the preparation of next year's budget, prepared by the Ministry of Finance.

Still, even in this area, we can note several trends that affect the abilities of the Ministry of Defense and the Serbian Armed Forces to plan their projects in a timely, realistic and consistent manner.

Delays in the budget process are a regular occurrence. As a result, beneficiaries of the budget have very little time to adjust their estimated budgets, which are colloquially also referred to as "wish lists," to the limitations imposed by the Ministry of Finance. In this situation, in lieu of planning priorities for the expenditure of funds, there is a strong risk that some budget items (economic classifications) might be hastily removed or that necessary activities might be abandoned.

35 It should have been adopted in the first quarter of 2016 under the 2016-2018 Economic Reform Program. (Serbian Government. 2016-2018 Economic Reform Program: 128. http://mfin.gov.rs/UserFiles/File/dokumenti/2016/ERP-2016_sr.pdf). According to the Ministry of Finance, the regulation was drafted and sent to state administration bodies for review, and «its adoption is expected to take place very soon» (Ministry of Finance. Response to the BCBP questionnaire. Belgrade, August 29, 2016).

36 PEFA is a World Bank, European Commission and International Monetary Fund project, in which Great Britain, France, Switzerland and Norway also participate. For more information on the PEFA methodology, visit <https://pefa.org/content/pefa-framework>.

Table 2: Statutory time frames and practice of a budget cycle in Serbia

Activity	Statutory time frame ^a	Date of realization in 2015	Date of realization in 2016
Government adopts the fiscal strategy and sends it to the National Assembly to be reviewed	June 15	November 28 ^b	December 1 ^c
National Assembly sends comments and recommendations on the fiscal strategy to the Government	June 30	National Assembly did not review the fiscal strategy.	National Assembly did not review the fiscal strategy.
The minister sends instructions for the preparation of the draft budget of the Republic of Serbia	July 5	November 18	November 17
At the minister's proposal, the Government adopts the revised fiscal strategy	October 1	November 28	December 1
The Government approves the bill on the budget of the Republic of Serbia and submits it to the National Assembly	November 1	December 2 ^d	December 1 ^e

a As listed in Serbian Budget System Law: Art. 31.

b „Vlada usvojila Fiskalnu strategiju”. RTS, 28.11.2015.<http://www.rts.rs/page/stories/sr/story/9/politika/2120477/vlada-usvojilafiskalnu-strategiju-.html>. According to the information from the Ministry of Finance, neither in 2015 nor in 2016 did the Government separately adopt the first version and the revised version of the Fiscal Strategy. Namely, the Ministry of Finance submitted draft Fiscal Strategy for 2016 with projections for 2017 and 2018 to the Government on November 26, 2015. The draft Fiscal Strategy for 2017 with projections for 2018 and 2019 was submitted to the Government on November 28, 2016. (Ministry of Finance. Response to BCSP's questionnaire. No. 4-00-3/2017. Belgrade, January 20 2017)

c Vlada usvojila Predlog budžeta za 2017. godinu”. RTS, 1.12.2016. <http://www.rts.rs/page/stories/sr/story/9/politika/2546171/vlada-usvojila-predlog-budzeta-za-2017-godinu.html>

d Ministry of Finance. Response to BCSP's questionnaire. No. 4-00-3/2017. Belgrade, January 20 2017.

e Ministry of Finance. Response to BCSP's questionnaire. No. 4-00-3/2017. Belgrade, January 20 2017.

In practice, the fiscal strategy represents a formality, rather than the central document on which financial planning is based. Although the budget should be based on objectives, priorities and limitations referred to in the fiscal strategy, this is difficult to achieve, since the Government adopts the fiscal strategy at the same time as the draft budget. According to available information, the National Assembly has never discussed or sent comments to the Government regarding any of the fiscal strategies, which can partly be justified by short time frames between the adoption of fiscal strategies at Government sessions and the vote on the budget at Assembly sessions. This is especially unfavorable for the planning of capital projects, like the modernization of the G-4 plane, because without comprehensive medium-term fiscal planning, one cannot decide whether sufficient funds for the project exist or not.

A more decisive state approach to the planning of capital expenditure is absent. The Fiscal Council said in the past that the Government did not plan an appropriate increase of capital expenditure, although such opportunity existed.³⁷ Instructions for drafting of the 2016 and 2017 budgets contained the following provisions: “In view of significant budget limitations and the degree of execution of capital expenditure in the previous years, capital projects should be planned for each individual year at the value which is achievable and responsible from the

37 This, however, primarily referred to public infrastructure investments. Fiscal Council. Evaluation of the 2016 Fiscal Strategy and Issues in the Implementation of Structural Reforms. Belgrade, March 2, 2016: 77. http://www.fiskalnisavet.rs/doc/ocene-i-misljenja/2016/Ocena_Fiskalne%20strategije_strukturne_reforme.pdf

fiscal and economic points of view.³⁸ The case of the Super Galeb modernization project shows that too much fiscal “responsibility” results in a devastatingly low level of execution of capital expenditure: if the budgeted funds for the implementation of a project are insufficient, the project will not be implemented, and, in this case, not even the budgeted amount will be spent. On the other hand, if this is not a priority investment, fiscal responsibility would dictate that the project not be planned at all, and that funds be redirected to necessary projects.

Future

After four or five years of financing, the G-4 Super Galeb modernization project has not even started yet. The allocated funds have been used for purposes other than designated ones and have not contributed at all to the realization of the budgeted goal. It is especially worrying that this is not the only such case in the capital expenditure of the Republic of Serbia.³⁹ While the beginning of modernization of the Super Galeb was delayed, it became increasingly clear that Serbia would not purchase modern fighter jets for which pilots should be trained on a modernized military trainer aircraft. The backbone of the Serbian Armed Forces’s fighter jet fleet in the next 14 years will be MiG-29 jets, for which pilots can be trained on the Super Galeb planes as they are.

In view of all this, we can draw the conclusion that the MoD and the SAF have to revise the need for the modernization project as soon as possible. If it turns out that the need for modernization still exists (e.g., if there is a plan to modernize MiG-29 jets to meet the appropriate digital standards), then a decision should be made at the highest political level whether the modernization of the Super Galeb represents a priority need of the defense system or not. If it does, the Serbian Government will have to secure funds for this project through appropriate medium-term planning, at the expense of giving up other expenditure. If it does not, the project should be abandoned, and funds transparently redirected in order to finance other defense system needs, or the public sector as a whole. Any interim solution based on planning by inertia and simple copying from previous years’ budgets will be irresponsible, expensive and potentially damaging to the defense system.

In addition to this, in order to reduce the risk from misspending in the MoD and SAF, the National Assembly, independent regulatory bodies and the public have to step up their engagement in the oversight of the defense sector. In order to enable the oversight, the MoD should publish priority projects and tasks for maintenance and development of Serbian Armed Forces capabilities. The Ministry of Defense should also publish time frames for the completion of some priority projects, as well as the evaluation of their implementation costs. There should be awareness that the publication of such data is a much lower national security threat than their concealment, which can result in a waste of money and silent undermining of military capabilities “while nobody’s watching.”

38 Ministry of Finance. Instructions for the Preparation of the 2017 Budget of the Republic of Serbia and Projections for 2018 and 2019. goo.gl/OA0K4G

39 The Ministry of Interior, for example, in 2015 did not effect a single payment within the projects entitled: Purchase of Necessary Equipment (Patrol Vehicles) with the Aim of Expanding the Necessary Financial and Technical Capacity of the Police (code 5001) and Video Surveillance in Traffic - Phase I (code 5003). That year, 30 million RSD was budgeted for the first project and another 388 million RSD for the other. (Ministry of Interior. Overview of expenditures in 2015 as of December 31 2015. Available in Serbian at goo.gl/r77493).

Key legal regulations and strategic documents

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- Rulebook on Planning, Programming, Budgeting and Execution at the Ministry of Defense and the Serbian Armed Forces. Official Military Journal No. 36 of December 18, 2015
- Defense Strategy of the Republic of Serbia. Beograd, October 2009: 9-10. goo.gl/1rFUey
- Government of the Republic of Serbia. 2016-2018 Economic Reform Program. http://mfin.gov.rs/UserFiles/File/dokumenti/2016/ERP-2016_sr.pdf
- Budget System Law. Official Gazette of the Republic of Serbia, No. 54/2009, 73/2010, 101/2010, 101/2011, 93/2012, 62/2013, 63/2013 - correct., 108/2013, 142/2014, 68/2015 – other law, 103/2015 and 99/2016.
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