



Course: Financing and economic management

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Financing sector policies – defense financing

1 Financing (Financial Management), Ministry of Defense

In this chapter we will discuss the basic concepts in finance with a focus on financial flows, which are, among others governed by Act no. 218/2000 Coll., on budgetary rules.

The activities, which are carried out within the organization (company, public sector) have two basic aspects:

- material (property includes machinery, equipment, materials, etc.),
- financial (cash, consisting primarily of cash flow).

Synek provides a definition of financing as obtaining funds, general capital in all its forms, and their use for the measures needed goods and the payment of expenditure to the business.¹

Implementation of military expenditure and income for an organization whose founder is the Ministry of Defense of the Czech Republic (as a state organizational unit) is affected by constant changes of external and internal factors.

Financial flows are applied through the following main elements:

- The Ministry of Defense (MoD, General Staff of the Army of the Czech Republic),
- The rank regiment / brigade / base,
- The rank of military unit / device.

Systems in the process of financing and financial management:

- System Planning, Programming and Budgeting (2010),
- System planning by objectives (PO) and

¹ SYNEK, Miroslav. *Manažerská ekonomika*. 4. vyd. Praha: Grada, 2009. s. 452. ISBN 978-80-247-1992-4. s. 320.

- Budgeting by objectives (BO).

The state organizational unit, state contributory organization, state company

In the Czech Republic, public services (goods) provided to the population through the public sector. This is especially the so-called state organizational units (SOU), state contributory organizations (SCO) and public benefit corporations (PBC). A State may establish different ministries within their competence so-called state companies (SC), which are legal entities engaged in business activities.

The above also applies to the MoD. SOU, SCO and SC established by the State, the Ministry of Defense are as follows:

1. The state organization units:

- Budget Chapter 307 - Ministry of Defense,
- Military siding office;

2. Contributory organizations:

- Managing military housing Praha,
- Military spa and leisure facilities Praha,
- Central Military Hospital Praha,
- Institute of Aviation Medicine, Praha,
- Military Hospital Brno,
- Military Hospital Olomouc,
- Scientific and Service Departments of Physical Education and Sport (CASRI)
- Association of Defense and Security Industry of the Czech Republic;

3. State companies:

- VOP-026 Šternberk, SC,
- LOM Praha, SC,
- Military Forests and Farms Czech Republic, SC.

2 Financing and management of state organizational units (SOU)

SOU manages budgetary resources to be budgeted in its chapter of the state budget and sets its founder as its organizational unit. Generally SOU operate according to their budget, which may contain only income and expenditure broken down by mandatory to the budget structure (valid for the fiscal period) related activities for the provision of this organization was founded / created, but its incomes and expenditures are also part of the state budget (or the relevant chapters of the state budget).²

The amount of the expenditure is influenced by the binding indicators of the State Budget Act (for each budget year is issued a new law on the state budget) or by decision of its founder as chapter administrator. At the same time, these financial means should spend on its activities as efficiently as it is in the concept of allocative efficiency.

Founder as administrator of the state budget determines the SOU financial limits on draw funds, on mandatory expenditures on specific intended use of funds, other current expenditure and development expenditure (capital expenditure).

These organizations manage the funds entrusted by its founder on the basis of the approved budget. Without the consent of its founder would not (for the relevant financial year) exceed their spending. Income and expenditure SOU are concentrated on relevant budgetary income and expenditure accounts. The balances of these accounts Czech National Bank liquidates always on 31 December of the current year, so that the balances are always zero.

SOU can manage with extra budgetary sources of funds within the SOU. This is eg. the reserve fund and fund cultural and social needs for which SOU establishes separate accounts. State organizational unit in accordance with the law on budgetary rules may establish other funds accounts, such as:

- account of foreign funds,
- Account pooled resources,
- accounts for its internal organizational units,
- accounts, as laid down by special legislation.

At the end of the budget year may exceed the SOU final budget expenditure of funds transferred to the field of so-called "Entitlements from unused expenses" (EUE). To EUE is transferred the difference between final and actual budget expenditures for the past year period increased by EUE for the period to 31 December last year.

² Rozpočtová skladba vychází z vyhlášky MF č. 323/2002 Sb., o rozpočtové skladbě.

The creation and use of the reserve fund SOU precisely regulated by the Act on budget rules in Section 48.³ Financial means from the reserve fund may be used for a specified purpose.

SOU can receive or provide loans, borrow, give donations, etc. only if it is permitted under law. Advances to suppliers can provide only in relation to benefits in kind for a maximum period of one quarter. Advances are settled at the end of the current financial year; it does not apply to advance the supply of electricity, gas, heat, water, mobile operators, etc.

If you are created within the SOU internal organizational units, providing them a month to cover their operating expenditure deposit, which must be cleared no later than 31 December of the financial year. Any income that these internal organizational units are selected, they must pay the income budget bill SOU always later than the end of the month. Budget incomes collected by the state budget should not be used to cover their expenditures.

Management SOU subject in spending of allocated funds financial control by the founder.⁴ State organizational units and their management are also subject to audit and inspect the Supreme Audit Office.

3 Financing and management of contributory organizations (CO)

The main activity contributory organizations are determined by the founder. Management of allocated funds and financial relations with the founders takes place at the CO in accordance with the law on budgetary rules, Chapter XIII. CO manages the funds, which acquires its own activities and funds received from state organizational units (founder).

CO is governed and managed during the financial year its budget, which must be designed to be balanced. In the framework of its management should perform set tasks in the most economical way to honor financial links to the state budget.

Financial relationships are specified by the founder:

- contribution to the operation of the state budget or removal from service to the state budget,
- individual and systemic subsidies to finance programs and actions,

³ Česká republika. Zákon č. 218/2000 Sb., o rozpočtových pravidlech a o změně některých souvisejících zákonů, ve znění pozdějších předpisů. In: Praha: PS PČR, 2000.

⁴ Česká republika. Zákon č. 320/2001 Sb., o finanční kontrole ve veřejné správě a o změně některých zákonů (zákon o finanční kontrole), ve znění pozdějších předpisů. In: Praha: PS PČR, 2001.

- repayable financial assistance,
- removal of depreciation,
- subsidies to cover operating expenditures which are or are intended to be covered by the budget of the European Union, including a specified proportion of the state budget to finance these expenditures,
- subsidies to cover operating expenditures under international treaties, under which the Czech Republic entrusted funds from the financial mechanisms.

Unused funds are to be transferred to the end of the so-called reserve fund / EUE. These funds are then measured separately and may be used to finance needs in the coming years only for its intended purpose.

Contributory organization creates the following funds:

- reserve fund,
- reproduction fund of property,
- bonus fund,
- fund cultural and social needs.

Within the Ministry of Defense of the Czech Republic is also of contributory and similar organizations designed using internal standards and regulations.

4 Financing and management of state enterprises (SE)

In the Czech Republic worked at the beginning of 2011, about six dozen state enterprises. Management and operation of SE is governed by a special law. SE is based founder, is the state. His name may fulfill the function of founder ministry in question (e.g. The Ministry of Defense of the Czech Republic), which in the charter of fundamental rights define the obligations created SE. SE is a legal entity and has the right to manage state assets, but does not own the property. Liable for the obligations of the state and on the contrary state fundamentally liable for the obligations of the state enterprise, but may take such a guarantee.

The basic organs of the state enterprise that is important in the management and financing of the director, who is appointed by the founder, and the Supervisory Board.

Subsidies to the state enterprise provided in accordance with § 14 and § 45 para. 2 of the Act on budget rule the decision to grant subsidies for management. This subsidy is provided under application for a subsidy submitted by the applicant fulfilling the conditions laid down for different types of subsidies. The total amount of subsidies is limited budgetary resources allocated for this purpose in the budget of the Ministry of Defense for the relevant financial year. Provided subsidies are part of a financial settlement from the state budget according to § 14 and § 75 of the Act on budgetary rules.⁵

State enterprises establish two types of funds:

- reserve fund,
- fund cultural and social needs.

State enterprises are obliged to carry out accounting and founder provides information on management.⁶ The subsidy provider may in the course of the financial year to carry out at the state enterprise control the use of cash subsidies.⁷

5 Financing of Foreign Missions

Financial security units deployed outside the territory of the Czech Republic includes a summary of activities and measures aimed at ensuring the funds, the efficient allocation of funding and security tasks performed at the base, using the principles of economy, efficiency and effectiveness of expenditure and ensuring the financial stability of the unit.

The beginnings of peace operations can be dated back to about 1945, when it was the end of WW2 need to think about preventing the recurrence of a similar conflict. The actual first peacekeeping operation was in 1948 UNTSO operation. Peacekeeping operations have gone through over the last fifty years, a great development. The biggest influence on the current nature of peacekeeping operations was the end of the Cold War and today still intense increase in the threat of international terrorism.

⁵ Česká republika. Zákon č. 218/2000 Sb., o rozpočtových pravidlech a o změně některých souvisejících zákonů, ve znění pozdějších předpisů. In: Praha: PS PČR, 2000.

⁶ Česká republika. Zákon č. 563/1991 Sb., o účetnictví, ve znění pozdějších předpisů. In: Praha: PS PČR, 2000.

⁷ Česká republika. Zákon č. 320/2001 Sb., o finanční kontrole ve veřejné správě a o změně některých zákonů (zákon o finanční kontrole), ve znění pozdějších předpisů. In: Praha: PS PČR, 2001.

Types of foreign operations according to the method of financing

The first and largest group operations are controlled by NATO. Participate in such operations of the Alliance Member States and the countries participating in the Partnership for Peace program (Partnership for Peace - PfP). The financing of these activities are purely national issues. Funding units involved in operations conducted by NATO usually takes place directly from the MoD budget of the Czech Republic and in terms of their financial burden is highest.

The second group consists of peacekeeping operations organized and managed by the United Nations. Participate in such operations UN Member States and are funded by the United Nations. The primary source of funding for these operations is the United Nations budget indoor Member contributions and other activities of the United Nations. This system of financing assumes responsibility approach by Member States to pay their membership dues so that the UN was able to make payments of compensation in monthly installments, rather than collectively and with a considerable time lag after the completion of the mission, as so often in the past has been.

The last group is the involvement of military units in the peacekeeping operation at the request of the host country. In the case of participation units in the peacekeeping operation at the request of the host state funding is ultimately solely a matter for the host country. Usually clearing costs thereby incurred governed by arrangements or agreement in which the general government sending country undertakes to provide participation in the peacekeeping operation in favor of the host country and it is committed to pay for this service. The financial burden on the budget of the sending country is ultimately zero (or minimal) and all costs associated with the effects of the operation borne by the host country.

Enduring Freedom is a special group of operations. This is an anti-terrorist campaign of the United States that have addressed and asked the Czech Republic (as well as other allies) to send a specific unit within global operations to combat international terrorism.

Table 1 shows the total expenditure on security missions in the years 2002 - 2011.

Table 1 Expenditure on foreign missions in the years 2002 - 2011

YEAR	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Expenditure billion CZK	1,63	1,84	1,12	1,21	1,57	1,41	2,45	2,63	1,32	1,81

Source: Adapted from data from the Standing Operational Center of Ministry of Defense.

List of tasks for students:

- 1) Explain the financing and management of state organizational units' defense.
- 2) Financing (Financial management), Ministry of Defense - explain.
- 3) Explain the financing and management of contributory organizations defense.
- 4) Try to define the financing and management of state enterprises defense.
- 5) Explain the financing of foreign missions.