



Russian Military Expenditure: Data, Analysis and Issues

Julian Cooper

FOI-R--3688--SE

SEPTEMBER 2013



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Cover: Sergei Shoigu at the parade 7 May 2013. The website of the President of Russia, www.kremlin.ru .

Titel	Russian Military Expenditure:Data, Analysis and Issues
Title	Russian Military Expenditure:Data, Analysis and Issues
Rapportnr/Report no	FOI-R--3688--SE
Månad/Month	September
Utgivningsår/Year	2013
Antal sidor/Pages	60
ISSN	1650-1942
Kund/Customer	Försvarsdepartementet/Ministry of Defence
Forskningsområde	8. Säkerhetspolitik
Projektnr/Project no	A11301
Godkänd av/Approved by	Maria Lignell Jakobsson
Ansvarig avdelning	Försvarsanalys/Defence Analysis

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Foreword

Julian Cooper is a leading international independent expert on the Russian defence budget and military expenditure. Since the beginning of the 2000s, the Russia project at FOI, RUFS, has profited from his assistance with navigating through the deceptive waters of Russian military spending in our efforts of finding, assessing and interpreting Russian budget figures. The importance of the area is linked to that military expenditure is the most general single indicator of the resources provided to the national military and it is an indicator frequently used in international comparison. In 2012, Russia was the third country in the world in volume of military spending. Therefore it is of great concern that research in this area develops and that the methodology used enhances accuracy of figures despite the remaining problems of secrecy and lack of transparency in the Russian budgetary system.

In this report Julian Cooper presents a summary of principal findings and methodology behind his longstanding research on the Russian defence budget and total military expenditure based on the Russian federal budget. Julian Cooper's work is an inspiration to all who research this area and over the years he has collected a rich knowledge and unique experience of how to produce results with reasonable accuracy. His results are used by individual researchers as well as by organizations. We asked Julian to write the report in order to make the methodology more accessible to us and to others. We find that the report is a valuable contribution to the research of Russian military spending and we are most honoured that he kindly accepted our invitation to write and publish it with FOI .

Stockholm 12 September 2013

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Preface

This report has been prepared in response to an invitation by FOI to the present author to set out his understanding of the treatment of military expenditure in the Russian federal budget. This has been a matter of interest since the final years of the USSR. More recently, data and analysis of Russian military expenditure has been provided to the Stockholm International Peace Research Institute (SIPRI) on a regular basis, with occasional contributions to its Yearbook. The author wishes to thank most warmly the staff of FOI for their interest and support, in particular Jakob Hedenskog and Susanne Oxenstierna, who has overseen the production of this report with good humoured efficiency.

Birmingham August 2013

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Sammanfattning

Ryssland är 2013 tredje största land i världen med avseende på militärutgifter, jämfört med 2010 då man var på femte plats och 2005 på nionde. Trots att dagens Ryssland är mer öppet angående sina militärutgifter än vad Sovjetunionen var så råder fortfarande brist på transparens. Detta innebär stora utmaningar för analysen av försvarsbudgetens och de totala militärutgifternas storlek liksom av militärutgifternas utveckling över tid. Rapporten beskriver budgetprocessen i Ryssland, de ingående aktörerna och stegen genom vilka en preliminär federal budget passerar, från förberedelserna fram till att budgeten kan godkännas av landets parlament och president. Militärutgifterna som ingår i budgetposten "nationella försvaret" analyseras i detalj liksom utgifter inom andra budgetposter som innehåller vissa delar av militärutgifterna och andra nationella säkerhetsutgifter. Den statliga upphandlingen för det pågående beväpningsprogrammet studeras. Trots den bristanande transparensen visar rapporten att det från tillgänglig budgetdokumentation går att fastställa militärutgifternas storlek och struktur med acceptabel säkerhet.

Rapporten tar också upp en rad specifika frågor. Den studerar det avancerade systemet för att bevara statshemligheter, som Ryssland har ärvt från Sovjetunionen, vilket hindrar tillgången till de data som behövs för att beskriva militärutgifternas storlek och sammansättning i sin helhet. Den analyserar också hur Rysslands militärutgifter beskrivs av olika internationella organisationer, däribland i FNs rapportering som bygger på ryska inrapporterade data. Rapporten utreder dessutom de problem som uppstår när man försöker fastställa tidsserier för den reala utvecklingen i militärutgifterna och analyserar utvecklingen över tid med hjälp av olika prisindex. Slutligen diskuteras den pågående processen att reformera budgetsystemet så att budgeten baseras på program, s.k. programbudget.

Nyckelord:

Ryssland, försvarsbudget, militärutgifter, federal budget, statlig upphandling, sekretess, prisindex, beväpningsprogram.

Summary

By volume of spending on the armed forces the Russian Federation is now the third country in the world, rising from fifth in 2010 and ninth in 2005. While present-day Russia is more open about military spending than the ex-USSR, there is still a lack of transparency that makes the analysis of the scale of the defence budget and of total military expenditure, and trends over time, a challenge for researchers and the policy community. This report outlines the budgetary process in Russia, its principal actors and the stages through which a draft federal budget passes, from initial preparation to eventual approval by the country's parliament and President. The place of military expenditure within the budget is analysed in detail, with consideration of the budget chapter devoted to "national defence" and also other budget chapters that contain some military and security related spending. Attention is given to spending on arms procurement under the annual state defence order. Notwithstanding the limited transparency, as the report show, the budget documentation made available permits the determination of the volume of spending on the military with an acceptable degree of accuracy.

The report then considers a number of specific issues. Firstly, it explores the inheritance from the Soviet Union of an elaborate system of state secrecy that serves to limit access to open data on the full scale and structure of budget spending on the armed forces. Secondly, it considers Russia's military expenditure within the framework of international reporting conventions, including Russia's own reports to the United Nations. Thirdly, the report addresses the problematic issue of establishing spending trends in real term, with consideration of the merits and demerits of the use of various price deflators. Finally, there is discussion of the processes of reform now underway in Russia to transfer the federal budget to a programme basis.

Keywords: Russia, defence budget, military expenditure, federal budget, procurement, state defence order, secrecy, international reporting conventions, deflators, programmes.

Acronyms

bn	billion
CPI	Consumer Price Index
FSB	Federal Security Service
FSO	Federal Guard Service
FSTEK	Federal Service for Technical and Export Control
FTsP	Federal Target Programmes (<i>federalnye tselevye programmy</i>)
GDP	Gross Domestic Product
GOZ	State Defence Order (<i>gosudarsvennyi oboronnyi zakaz</i>)
GPV	State Armament Programme (<i>gosudarstvennaya programma vooruzheniya</i>)
GUSP	Main Directorate of Special Programmes
MED	Ministry of Economic Development of the Russian Federation
MOD	Ministry of Defence of the Russian Federation
MOF	Ministry of Finance of the Russian Federation
MTI	Ministry of Trade and Industry of the Russian Federation
MVD	Ministry of Internal Affairs of the Russian Federation
NATO	North Atlantic Treaty Organization
OECD	Organization for Economic Co-operation and Development
R&D	Research and Development
Rosstat	Federal Statistical Agency of the Russian Federation
RUR	Russian Roubles
SIPRI	Stockholm International Peace Research Institute
SVR	Foreign Intelligence Service
TS VPK	TS VPK Information Agency, Moscow (<i>teleinformatsionnaya set voenno-promyshlennogo kompleksa</i>)
UN	United Nations
UN COFOG	United Nations Classification of Government Functions
US DARPA	United States Defense Advanced Research Project Agency
VVT	new armaments and military equipment (<i>vooruzhenie i voennaya tekhnika</i>)
ZATO	closed administrative territorial formation (<i>zakrytoe administrativno-territorialnoe obrazovanie</i>)

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1 Introduction

By volume of military expenditure in 2012 Russia was third in the world after the USA and China and accounted for over 5 per cent of total world spending. In 2010 Russia ranked fifth and in 2005 ninth.¹ As a major power with a significant and growing military capability the resource commitment of Russia to defence is clearly a matter of interest to the policy community. While today's Russian government is more open about spending on the military than its predecessor state the USSR, there is still a need for analysis by independent researchers in order to gain a better understanding of the defence budget and the actual scale of expenditure on the military.

This report aims to outline the budgetary process in Russia and explain how military expenditure is handled within it, with consideration of the relevant documentation and the procedures necessary to extract the data required to establish the volume of spending on the narrow defence budget and on the military as a whole, and trends over time. In recent years expenditure on the armed forces has accounted for approximately one fifth of the total spending of the Russian federal budget. But this military expenditure is not easy to identify in the budget because it is non-transparent, with much spending subject to classification. In the federal budget for 2012, more than twelve percent of total expenditure was classified, including almost half of the allocation under the budget chapter "national defence", which covers most of the outlays on the forces of the Ministry of Defence (MOD). Since the late 1990s the non-transparency of the Russian budget has become more pronounced, making the identification and analysis of military expenditure more difficult.

This report first describes the budgetary process and the principal actors involved. It then presents the structure of the Russian federal budget before turning to the treatment within it of military expenditure, most of which is included in the budget chapter "national defence", but some additional military spending the MOD and other government agencies is also found in other budget chapters. The funding of arms procurement and military-related research and development is analysed, together with the inclusion of military spending under federal targeted programmes, and the increasing resort to state guaranteed credits to fund defence programmes. An overview of the reporting of budget implementation is also provided.

¹ SIPRI (2013).

While the main focus of the report is on military expenditure, it is considered worthwhile to include some analysis of the handling of other security related spending, also subject to a high degree of classification. Given the level of non-transparency of the Russian federal budget in relation to military and security expenditure, the report offers a detailed analysis of the handling of secrecy and changing practice over time, with consideration of the perverse incentives that make difficult movement towards a more open budget regime. This lengthy discussion is considered appropriate in so far as this legacy of secrecy dating from Soviet times is not well understood outside Russia.

The difficult issue of accounting for price changes is then addressed, with consideration of the merits and demerits of the use of different price deflators. The handling of Russian military spending by a number of international organisations is explored, not least the United Nations (UN) and the Stockholm International Peace Research Institute (SIPRI). Finally, issues of budgetary reform are examined. The Russian government is now engaged in transition to a new approach to constructing the budget, with the adoption of a set of state programmes that will cover almost all federal budget spending. This change is discussed in some detail here as it will have implications for the analysis of Russian military spending in the future.

2 The Russian budgetary system

Before considering military expenditure as such it is helpful to consider the general Russian budgetary process, with an examination of the drafting, approval and implementation of budgets by agencies of the state.²

The budget system of Russia is multi-tiered. The principal budgetary document is the federal budget, the revenues and expenditures of which amount to approximately 20 per cent of gross domestic product. It covers most spending on the central structures of the state, the armed forces, security and public order, part of total national spending on education, health and social welfare, and budgetary transfers from the centre to the regions. Republics and regions, the so-called subjects of the Federation, have their own budgets, as do municipal and other lower level territorial administrations. In addition, there are extra-budgetary funds, both at the federal and territorial levels. The former are the Pension Fund, the Fund of Social Insurance and the Fund of Obligatory Medical Insurance. Total budget revenues and outlays, federal, territorial and extra-budgetary are summarised in the consolidated budget of the Russian Federation. In 2012 these totals amount to about 37 per cent of gross domestic product (GDP).³ As military expenditure is funded from the federal budget, this will be the focus of the present report, with no further consideration of the rest of the budgetary system.

2.1 Budgetary process

The process of drafting and approving the federal budget is now well-established. Since 2007 the budget has taken a three-year form, but this does not alter the basic procedure. The first stage is the elaboration by the Ministry of Economic Development (MED) of a forecast of socio-economic development for the period ahead, now normally a three-year forward look. This provides the GDP forecast, its rate of growth and the rate of inflation, required by the Ministry of Finance (MOF) to prepare a draft budget. The President's priorities are set out in a budget mission statement (*byudzhetoie poslanie*). The government discusses budget priorities, taking account of the Presidential statement. For a three-year budget, account will also be taken of the previous law on the budget which will have had a provisional version of the budget for the next year. The MOF then drafts a federal budget law, with inputs from government agencies as required, including

² For an informed overview of the Russian budgetary process as of 2008, see OECD (2008).

³ Rosstat (2013), p.40.

meetings with different interests, including the military.⁴ This is then considered by the government and amended if necessary before the draft is submitted to the State Duma, the lower house of the Federal Assembly. At the same time it is sent to the Accounting Chamber (*Schetnaya palata*), which investigates budget implementation and ensures that the draft law on the budget is in full accordance with existing legislation.

In the Duma the procedure of budget approval is led by the Committee for the Budget and Taxes. The draft budget law is accompanied by supporting materials provided by the MOF and other agencies. Most important is probably the MOF's Explanatory Notes (*Poyasnitelnye zapiski*), setting out in some detail the draft budget's basic features. For the 2013 budget, the basic text of the notes had 460 pages, but there were also fourteen appendices.⁵ The MED supplies its relevant forecast of economic development and details of the main price deflators applicable during the budget years. The first reading of the draft budget considers only its basic parameters, namely total revenues and expenditures. Prior to its discussion the Accounting Chamber provides its evaluation of the draft as do the committees of the Duma, for military spending the Committee of the State Duma for Defence and for spending on paramilitary and security agencies, the Committee for Security and Countering Corruption. It is the second reading that considers the basic structure of budget spending and amendments. Before submission to the Duma for voting, all amendments are examined by the Duma Committee for the Budget and Taxes, which recommends acceptance or rejection. This means that voting during the second hearing tends to be a formality. After the second reading a final version of the budget is prepared and presented for adoption in its entirety at the third reading. Once approved, the budget is sent to the upper house, the Soviet of the Federation, which simply approves it in a formal manner with no detailed consideration. The approved budget is then sent to the Presidential Administration to be signed into law by the head of state.

For illustrative purposes, Box 1 shows the relevant time schedule for the preparation and approval of the budget for 2013 and the planned period 2014 and 2015.

⁴ As described by finance minister Anton Siluanov at a meeting with President Putin on the 2013 draft budget *Prezident Rossii* (2012).

⁵ For the draft law on the 2013-15 budget and the Explanatory Notes, see State Duma (2013), draft law number 143344-6.

Box 1

Time schedule for the budgetary process for the federal budget 2013-2015

- Forecast of socio-economic development, Ministry of Economic Development (work began early in the year with preparation of "scenario conditions", then drafts prepared; final draft, 12 September 2012; considered by government 20 September)
- Budget mission statement of President, discussed with government, including Ministers of Finance and Defence (28 June 2012)
- Ministry of Finance drafts budget (July to September)
- Government discussion of basic priorities for next three years (social policy and budget, 17 July 2012; meeting with expert community, 3 August 2012)
- President reviews progress in drafting budget - meeting with Minister of Finance (22 August 2012)
- President discusses draft budget with Prime Minister (27 September 2012)
- Considered by government (20 September 2012 and amended)
- Submitted to State Duma and Accounting Chamber (28 September 2012)
- Consideration by relevant Duma committees (October 2012)
- First reading – basic parameters, total revenues and expenditures (19 October 2012)
- Second reading – basic structure of spending (16 November 2012)
- Third reading – approval of budget (23 November 2012)
- To Council of Federation for approval (usually a formality) (28 November 2012)
- To President for signing (3 December 2012)

Source: Law on the federal budget for 2012 and the planned period 2013 and 2014 (30 November 2011); www.kremlin.ru; www.government.ru; www.economy.gov.ru and State Duma (2013), draft law no. 143344-6, O Federalnom byudzhete na 2013 god i na planovyi period 2014 i 2015 godov.

2.2 The actors in the defence budgetary process

The principal actors in forming the defence budget are the MOD, MOF and MED, together with the President, Security Council, the State Duma and the Accounting Chamber. It is the MOD and its financial organs that formulate an initial estimate of requirements for the three years ahead. While the departmental structure of the MOD's financial service has changed over time, in recent years a deputy minister has overall responsibility, currently Tatyana Shevtsova, appointed in 2010 and prior to that deputy leader of the Federal Tax Service. She oversees a Department of Budget Planning and Social Guarantees, headed by Valentina Yashina, also a former Tax Service employee but from 2009 to April

2013 head of the MOD's department for price setting for military goods.⁶ It is the budget planning department that draws up an estimate of the resource needs of the ministry for the forthcoming budget period. It is not clear that this department has much involvement with the financing of the state armaments programme as the technical equipment of the armed forces is overseen by another deputy minister, currently Yurii Borisov. In the MOF one of the functional departments has responsibility for military questions but details of current arrangements have not been traced and it is not known which deputy minister is now responsible.⁷ The macroeconomic forecast on which the federal budget is based is drawn up by departments of the MED overseen by deputy minister Andrei Klepach, responsible for strategic planning, forecasting and budget issues.⁸

Overall policy for the military and the scale of resource provision is a matter of Presidential authority and discussed within the framework of the Security Council, chaired by the President. All the key actors, in particular the ministers of defence, finance and economic development, are members of the Council. The country's parliament, the Federal Assembly, approves the draft federal budget and in deliberations on the defence budget the lead role is played by the Committee for Defence of the State Duma. Finally, analysis of the draft budget, including its military aspects, is undertaken by the Accounting Chamber headed by Sergei Stepashin, a former prime minister. This high-level independent auditing agency provides the State Duma with its assessment of the draft budget and also conducts investigations into the use of budget funding, including its use by the MOD and the Armed Forces.

⁶ MOD (2013). Shevtsova also oversees a Department of Financial Provision, which allocates funding within the ministry.

⁷ Under the former finance minister, Aleksei Kudrin, it was Anton Siluanov, the current minister.

⁸ MED (2013).

3 The Federal Budget – general features

Until 2007 the federal budget was adopted for the single year ahead only, but for the 2008 and subsequent budgets it has taken the form of a rolling three-year budget. For the first year, the draft budget takes the same form as before, but for the second and third years spending plans are provisional and a variable proportion of total spending is made conditional on economic developments. This means that for military expenditure the allocations shown are usually incomplete. In particular, spending on pensions for servicemen is not shown for the second and third years. However, for the chapter "national defence" the coverage is usually full, allowing a projection forward of spending plans for three years.

Table 1 UN COFOG budget chapter headings and their equivalents in the Russian federal budget

UN COFOG/Russia federal budget

- 01. General public services/General state issues
 - 02. Defence/National defence
 - 03. Public order and safety/National security and law enforcement
 - 04. Economic affairs/National economy
 - 05. Environmental protection/5. Housing and utilities
 - 06. Housing and community amenities/6. Environmental conservation
 - 07. Health/ 9. Healthcare
 - 08. Recreation, culture and religion/Culture and cinematography
 - 09. Education/ 7. Education
 - 10. Social protection/Social policy
 - 11 - /Physical fitness and sports
 - 12 - /Mass media
 - 13. - /Servicing state and municipal debt
 - 14. - /Inter-budget general transfers
-

Source: United Nations (2013).

Note: The chapter designations in English given here follow the practice of the Russian Federal Treasury.

The budget is structured in terms of chapters and sub-chapters. Their designations are based on the internationally recognised United Nations Classification of Government Functions (COFOG), although over time Russian practice has diverged increasingly from the UN model as additional chapters have been introduced (Table 1).⁹

⁹ United Nations (2013).

The basic budget classification has been revised several times in recent years, the most far reaching being that for the 2005 federal budget. The structure set out above was adopted for the budget for 2011-2013; prior to that there were eleven chapters.¹⁰ The structure of the federal budget and the volume of spending under each chapter for the years 2011-2013 are shown in Table 2.

Table 2 The federal budget 2011-2013 (*bn roubles and per cent of GDP*)

	2011		2012		2013	
	Billion RUR	%GDP	Billion RUR	%GDP	Billion RUR	%GDP
01.General state issues	777 757	1.39	809 851	1.29	920 342	1.38
02. National defence	1 515 955	2.72	1 812 386	2.90	2 106 462	3.17
03.National security and law enforcement	1 259 822	2.26	1 842 979	2.94	2 038 332	3.07
04. National economy	1 790 158	3.21	1 968 497	3.15	1 750 185	2.63
05. Housing	279 799	0.50	228 840	0.37	157 212	0.24
06. Environment	17 561	0.03	22 494	0.04	24 860	0.04
07. Education	553 369	0.99	603 838	0.96	634 548	0.95
08. Culture	83 783	0.15	89 858	0.14	98 047	0.15
09. Healthcare	499 551	0.89	613 823	0.98	508 444	0.76
10. Social policy	3 128 527	5.61	3 859 726	6.17	3 962 853	5.96
11. Sport	44 210	0.08	45 721	0.07	54 002	0.08
12. Mass media	61 125	0.11	77 536	0.12	72 632	0.11
13. Debt servicing	262 744	0.47	320 001	0.51	425 343	0.64
14. Inter-budget transfers	651 256	1.17	599 437	0.96	634 076	0.95
Total expenditure	10 925 617	19.58	12 894 987	20.60	13 387 340	20.13

Source: GDP: 2011, 2012, Rosstat (2013b); 2013, MOF (2013). Budget implementation and 2013 budget as law, Federal Treasury (2013)

Note: 2011 and 2012 budget as implemented. 2013 as law on federal budget, 3 December 2012.

¹⁰ For the budget classification, MOF (2013b).

4 Military expenditure in the federal budget

In the Russian federal budget most military expenditure is under the chapter (02) “national defence” but the scope of this spending does not correspond fully to the normal NATO or SIPRI definition. It is therefore necessary to add some additional lines of spending found under other budget chapters. At the same time chapter 02 includes one or two lines of spending that should be excluded if the basic definition is to be observed. This section reviews the treatment of military expenditure in the budget beginning with the scope of the chapter “national defence”.

The budget chapter “national defence” in its present-day form was first introduced into the USSR state budget in 1989. It included MOD spending on personnel, operations and maintenance, procurement, R&D and construction, plus military pensions and the spending of the atomic energy ministry on the development and production of nuclear munitions. This structure was carried over into the federal budget of the Russian Federation until 1996, when military pensions line transferred to “social policy”. In 2000 the chapter “national defence” expanded to include mobilisation and pre-conscription reserve training, preparation and participation in collective security and peacekeeping operations, and “securing the activity of branches of the economy for national defence”. From 2005 the classification that still applies for the current 2013-15 budget was adopted, dropping the subchapter “securing the activities” and introducing two new subchapters, “mobilisation preparation of the economy” and “other questions of national defence.” The recent history of this budget chapter is summarised in the Table 3.

The scope of the subchapters can be summarised as follows:

- 02.01 Armed forces of the Russian Federation includes the funding of personnel, servicemen and civilians, operations and maintenance, including the central apparatus of the MOD and the General Staff, the procurement of new armaments and the repair-modernisation of existing arms under the annual state defence order (GOZ), and some spending under federal targeted programme, in the 2013-15 budget, “The development of Russian space centres in 2006-2015”.
- 02.02 Modernisation of the armed forces of the RF and military units was introduced in 2007 during preparation of the budget for 2008-10 but has not been used.

Table 3 “National defence” in the Russian federal budget 2000 -2013

Period 2000 -2004	2005-
04 National Defence	02 National Defence
04 01 Construction and maintenance of armed forces of the Russian Federation	02 01 Armed forces of the Russian Federation
04 02 Military programmes of Minatom	02 02 Modernisation of the armed forces of the RF and military units (not used)
04 03 Mobilisation and pre-conscription reserve training	02 03 Mobilisation and pre-conscription reserve training
04 04 Preparation and participation in collective security and peacekeeping operations	02 04 Mobilisation preparation of the economy
04 07 Securing the activity of branches of the economy for national defence	02 06 Nuclear weapons complex
	02 07 Realisation of international obligations in sphere of military-technical cooperation
	02 08 Applied R&D in field of national defence
	02 09 Other questions in the field of national defence

Source: Federal budgets of relevant years.

- 02.03 Mobilisation and pre-conscription reserve training covers the costs of mobilising personnel for the armed forces, in particular the funding of military commissariats.
- 02.04 Mobilisation preparation of the economy. This appears to take the form of a lump sum allocation which is then distributed by the Military-Industrial Commission of the government, the responsibilities of which include management of the economic mobilisation system.
- 02.05 Preparation and participation in collective security and peacekeeping operations. Some details of the scope of this subchapter are usually provided in the explanatory notes accompanying the draft budget submitted to the State Duma or in the conclusions on the draft budget of the Duma Committee for Defence. Thus for the 2012-14 budget, the latter explained that the funding related to Russian participation in peacekeeping relates to Sudan.
- 02.06 Nuclear weapons complex. This subchapter covers expenditures of Rosatom on the procurement of nuclear munitions, their maintenance and modernisation, and applied R&D for their creation.¹¹ The total is not included as part of the MOD GOZ.

¹¹ TS VPK (2012).

- 02.07 Realisation of international obligations in the sphere of military-technical cooperation. This covers the implementation of inter-state agreements, e.g. arms transfers as part of debt settlement agreements.
- 02.08 Applied R&D in the field of national defence. This subchapter is mainly the GOZ for R&D, plus R&D under some federal targeted programmes, including the utilisation of armaments withdrawn from service and the GLONASS satellite navigation system.
- 02.09 Other national defence issues, including funding for government agencies concerned with military, namely the Federal Agency for Special Construction (*Spetsstroï*), the Federal Agency for the Delivery of Armaments, Military, Special Equipment and Material Means (*Rosoboronpostavka*), the Federal Service for the Defence Order (*Rosoboronzakaz*) and the Federal Service for Military Technical Cooperation (FSVTS). For the MOD, mainly its participation in a number of federal targeted programmes relating to defence, of which perhaps the most significant in terms of the volume of resources (classified) is the federal targeted programmes, (*federalnye tselevye programmy*, generally known as FTsP) for the development of the defence industry, much of the funding of which is allocated from this budget subchapter. The subchapter also includes some subsidisation of defence industry enterprises by the Ministry of Industry and Trade.

In terms of the SIPRI definition of military expenditure, discussed below, there is one line of funding that should be excluded, namely allocations for the destruction or re-use of armaments withdrawn from service. Some spending on this activity is included under both subchapters 02.08 and 02.09 but as a share of total funding on national defence the amount is modest: in the 2013 budget it amounted to 1.2 per cent (24.7 billion RUR, all but 112 million RUR under 02.09). There is also a question mark about whether spending on the mobilisation preparation of the economy (02.04) should be included as this could be seen as a measure contributing to emergency preparation or civil defence. Again, the volume of funding is very modest, 5.7 billion RUR for 2013. The removal of these two items of funding would reduce total spending on chapter 02 by only 1.4 per cent in the budget for 2013. Table 4 shows spending under the defence budget and total military expenditure for the years 2001-2011 in monetary terms and as a share of GDP.

Table 4 Russian defence budget and military expenditure 2000-2013 (*RUR* and per cent of GDP)

Defence budget/ National Defence	2005	2006	2007	2008	2009	2010	2011	2012	2013B
1. Armed forces of RF	426.3	512.4	602.2	771.7	889.7	974.4	1 128.4	1 350.0	1 628.1
2. Mobilisation & pre-force training	3.1	3.3	3.9	4.6	3.5	2.5	5.5	6.4	6.8
3. Mobilisation preprn of economy	3.5	3.5	5.6	4.7	4.6	4.9	4.9	4.9	5.7
4. Collective security, peacekeeping	.	0.1	0.1	0.3	0.4	0.3	0.2	0.1	-
5. Nuclear weapons complex	8.7	11.4	12.1	17.1	19.1	18.8	27.0	27.5	29.3
6. Military-technical cooperation	4.8	5.2	6.4	2.7	4.0	4.0	4.4	7.7	5.8
7. Applied research and development	89.2	93.0	120.9	129.7	163.2	153.1	153.2	162.5	195.1
8. Other questions of national defence	45.5	52.9	80.7	110.1	103.7	118.5	192.3	253.3	235.7
Total, national defence	581.1	681.8	831.9	1 040.9	1 188.2	1 276.5	1 515.9	1 812.4	2 106.5
As % GDP	2.69	2.53	2.50	2.52	3.06	2.76	2.72	2.90	3.17
Total military expenditure									
'National defence' less arms recycling +mobilisation preparation of economy	576.4	677.1	827.6	1 035.9	1 183.5	1 271.2	1 508.5	1 805.6	2 098.3
Other MOD spending	107.6	141.3	155.6	219.4	289.2	333.3	347.0	478.0	413.4
Paramilitary forces:									
MVD Internal troops	27.0	38.4	46.8	54.7	57.9	63.3	75.6	122.3	129.0
FSB Border service	35.9	48.8	53.8	64.9	78.8	79.0	84.7	85.5	142.4
Support for closed cities & Baikonur	16.1	16.5	16.6	18.9	18.3	13.2	13.2	13.2	2.9
Total military expenditure	763.0	922.1	1 100.4	1 393.8	1 627.7	1 760.0	2 029.0	2 504.6	2 786.0
As % GDP	3.53	3.43	3.31	3.38	4.19	3.80	3.64	4.00	4.19

Source: Federal Treasury (2013).

Note: For 2008 and 2009 supplemented by laws on budget implementation, Prezident Rossii (2013).

4.1 The handling of the state defence order in the federal budget

A significant and growing share of total spending on “national defence” is allocated to funding the state defence order (*gosudarsvennyi oboronnyi zakaz*, generally known in Russia as the GOZ). It is important to appreciate that there are different definitions of the GOZ and that journalists and other writers in Russia are not always aware of this and present misleading data. For purposes of understanding military expenditure there is that component of the GOZ which is included under the budget chapter 02 “national defence”. The core of this is the GOZ of the MOD for the procurement of new arms and military technology, the repair of existing hardware and military-related R&D. Its volume and structure for the years 2005 to 2013 are shown in Table 5. In budget chapter 03 “national security and law enforcement” there are budget allocations to cover the equivalent GOZ of the Ministry of Internal Affairs (MVD), the MVD Internal Troops and Federal Security Service (FSB). But there is also a broader GOZ which embraces a wide range of spending of the MOD and other power agencies. This covers funding for the purchase of fuel, oil and lubricants, uniforms, food and drink for servicemen, capital construction for the military, including housing, assignments relating to mobilisation preparation and payment for arms delivered abroad in settlement of debt obligations.¹² For the MOD, much of this spending appears openly in the budget. The total value of the broad GOZ is not openly published on a regular basis but occasionally revealed by the defence minister or other senior member of the government. Thus in June 2010 Putin said that the GOZ in the budget for 2010 would be 1 174 billion RUR and in late 2011 Sergei Ivanov revealed that the broad GOZ would increase from 1 769 billion RUR in 2012 to 2 226 billion RUR in 2013 and 2 265 billion RUR in 2014.¹³

Over time the handling of the GOZ in the budget has varied. During the years 1992-97 aggregate allocations for procurement and R&D were made public but for 1998 it was classified and remained so until the budget for 2003. However, for the years 2004 and 2005 the appendix devoted to the GOZ was published openly. This showed allocations for the procurement of new armaments and military equipment (*vooruzhenie i voennaya tekhnika*, in Russian often abbreviated to VVT), the repair of existing military equipment, and military R&D for the MOD and also for the MVD and the FSB. In each case it also provided information about allocations by basic types of armaments, seven in all.

¹² Cooper (2011), p.174.

¹³ Vibory (2010) and Gruzina (2011).

But this greater openness was short-lived. For the 2006 budget this information was once again classified and has remained so ever since making the analysis of the scale of the GOZ extremely difficult.

Table 5 The GOZ of the Ministry of Defence 2005-2013 (*billion RUR, per cent GDP*)

	Procurement		Repair and modernisation		Research and development		Total GOZ	
	bn RUR	%	bn RUR	%	bn RUR	%	bn RUR	% GDP
2013	798.6	68.1	199.8	17.0	174.1	14.9	1 172.5	1.76
2012	464.8	63.4	138.9	19.0	128.9	17.6	732.8	1.17
2011	334.8	57.6	129.6	22.3	117.1	20.1	581.5	1.04
2010	297.9	61.6	75.1	15.5	110.5	22.9	483.5	1.04
2009	271.5	56.9	76.0	16.0	129.4	27.1	476.9	1.23
2008	213.4	54.7	81.6	20.9	95.3	24.4	390.3	0.95
2007	143.5	47.9	62.0	20.7	94.0	31.4	299.5	0.90
2006	114.9	48.7	48.6	20.6	72.3	30.7	235.8	0.88
2005	78.6	42.9	41.2	22.5	63.3	34.6	183.1	0.85

Source: TS VPK (2013), per cent GDP calculated from data of Rosstat (2013b), except 2013 from MOF (2013a).

Note: The GOZ data are estimates of the TS VPK Information Agency, Moscow, based on available open data. For 2005-10 GOZ as implemented; 2011-13 as budgeted.

In the absence of open data, the scale of the GOZ can be estimated. The procurement of new VVT and the repair and modernisation of the existing stock under the MOD GOZ is included under the budget subchapter 02.01 Armed Forces. Part of the allocation under this subchapter is published openly, almost all the classified component is the GOZ. A small volume of procurement, probably of secondary equipment, does appear openly in the budget for the MOD and for other forces. Here a distinction is made between procurement under the GOZ within the state armaments programme (*gosudarsvennaya programma vooruzheniya*, GPV) and procurement outside its limits. The GOZ for military R&D forms the overwhelming part of the subchapter 02.08 Applied R&D for national defence. Part of this subchapter appears openly in the budget, so the classified component can be taken to be the GOZ. Thus notwithstanding the classification of the annual GOZ it is possible to arrive at an approximation to its two main components without much difficulty. For the MVD Internal Troops, the overall scale of the GOZ is simply the difference between the total allocation to the Troops and that part openly published in the appendix showing departmental allocations, as confirmed when the GOZ was openly published in 2004 and 2005. It should be noted that no information ever appears in the federal budget on the scale of funding under the state armaments programme. As noted

above, an additional component of procurement and R&D relates to nuclear weapons, treated separately from the GOZ of the MOD.

4.2 Other military expenditure

Apart from “national defence” in chapter 02, some military-related expenditure is found in other budget chapters. In so far as some, if not all, of this spending is covered by the definition of military expenditure employed by SIPRI and NATO, here we summarise it chapter by chapter.

01. General state issues:

01.08 international relations and international cooperation – MOD,
membership fees

01.10 fundamental research - MOD fundamental research (classified item).¹⁴

03. National security and law enforcement:

03 03 MVD Interior troops.

03 06 Federal Border Service, which has a paramilitary component.

04. National economy:

04.03 research and use of space – Roskosmos (may include some defence industry support and some R&D of military relevance but this is not clear from budget as published).

04.11 applied R&D - Ministry of Industry and other agencies (may include some military relevant research).

05. Housing and utilities - MOD housing

07. Education - MOD educational facilities

08. Culture - MOD cultural activities

09. Healthcare - MOD medical services

10. Social policy:

10.01 military pensions - MOD

10.03 other social support - MOD

11. Physical fitness and sports - MOD sports activities

12. Mass media - support for MOD media outlets, including paper Krasnaya zvezda.

14. Inter-budget general transfers:

14.02 other subsidies - Ministry of Finance, support for closed cities of MOD, Rosatom and Ministry of Industry (*zakrytoe administrativno-*

¹⁴ That this sub-chapter includes MOD fundamental research has been confirmed by data released on the TS VPK website. The scale of the residual, classified, component of the allocation each year can be identified but this may also include some fundamental research relating to the security services. It is likely that budget allocations to the recently formed Fund for Advanced Research, Russia's equivalent to the US DARPA, will be made under sub-chapter 01.10.

territorialnoe obrazovanie, or ZATO)¹⁵ and Baikonur space centre, Kazakhstan.

14.03 other inter-budget transfer - MOD, programme for maintenance of war memorials.

The spending under the above chapters and sub-chapters can usually be identified without difficulty but one heading presents a problem as there is no direct evidence. The author's research over many years suggests that chapter 04 National economy includes some spending which probably has military relevance, especially under the sub-chapters concerned with space and applied R&D. There may also be similar spending, though probably of a modest scale, under sub-chapters 04.01 "general economic issues" and 04.02 fuel and energy issues, in so far as it includes funding of the nuclear industry. In the absence of direct evidence, over many years the author has adopted the assumption that one-quarter of the total allocation under 04.11 applied R&D for the national economy is military-related.

4.3 Security related spending

Before leaving this topic it is worth summarising the treatment of other security-related spending by budget chapter in the same manner, even though it is not part of the defence budget or military spending. This spending is not so easily identified as it is classified to a high degree. That some security-related expenditure is included under some chapters and sub-chapters can be established simply by the existence of a classified residual.

01. General state issues

01.09 state material reserve - Federal Agency for State Material Reserve; this sub-chapter has a substantial classified component, assumed to be that part of the reserve created and maintained as part of the mobilisation system for national emergencies or war.

01.10 fundamental research - as above for MOD, has a classified component that may include an allocation to the security services.

01.12 applied research in the area of general state issues - there is sometimes a small classified components, possibly relating to the security services or the mobilisation system.

03. National security and law enforcement

03 06 security services - almost all classified. This subchapter includes

¹⁵ In the 2013 budget (appendix 32) support was provided for 43 ZATO - 32 of MOD, 10 of Rosatom and 1 of Ministry of Industry and Trade (Raduzhnyi laser research centre, Vladimir oblast). For the details of the nuclear ZATO see Rosatom (2013).

- allocations to the FSB, Federal Guard Service (FSO), Foreign Intelligence Service (SVR) and the Federal Service for Technical and Export Control (FSTEK)
- 03.09 protection of the population and territory from natural and man-induced emergencies, civil defence - spending of the Ministry of Emergencies plus a substantial classified component, identified as the allocation to the Main Directorate of Special Programmes (GUSP)¹⁶
 - 03.13 applied R&D for national security and law enforcement - the classified component of this sub-chapter must refer to R&D relating to the security services.
 - 03.14 other national security and law enforcement issues - the classified component must refer to the security services.
 - 05. Housing and utilities - the classified component must refer to the security services (the MOD component is open)
 - 07. Education - the classified component must refer to the security services (the MOD component is open)
 - 08 Culture, cinematography - this included a classified component, presumably the security services, until 2010.
 - 09. Healthcare - the classified component must refer to the security services (the MOD component is open)
 - 10. Social policy - in some years there has been a very small classified component, presumably the security services.
 - 11. Physical fitness and sports - the classified component must refer to the security services.

The discussion above is framed within the functional structure of the federal budget but it is also worth considering military and security related spending by government department in so far as it indicates which agencies are involved and the extent of their interest in budget expenditure under these headings. The patterns of spending are relatively stable. The budget code numbers used to identify government departmental or other budget holders involved in military and security spending are shown first.

- 020 Ministry of Industry and Trade – open: 02 08 and 02 09 (utilization of arms) (but also classified spending on GOZ, 02 01 and 02 08)
- 092 Ministry of Finance – 02 09, other questions of national defence, reserve funding; 14 02 disbursed funding for ZATO and Baikonur (also funding under 03 14)
- 107 Federal Agency for Air Transport – 02 09 federal programme on monitoring and control of air space
- 139 Ministry of Economic Development – no longer any military spending

¹⁶ See Cooper (2007).

- 171 Federal Agency for State Reserves – no military spending but some classified.
- 177 Ministry for Civil Defence, Emergencies and Liquidation of the Consequences of Disasters – no military spending as such.
- 185 Federal Service for the Defence Order (Rosoboronzakaz) – funded almost entirely under 02 09
- 186 Federal Agency for the Delivery of Armaments, Military and Special Technology (Rosoboronpostavka) - funded entirely under 02 09
- 187 Ministry of Defence (MO) – as above
- 188 Ministry of Internal Affairs (MV) – internal troops funded under 03 03
- 189 Federal Security Service (FSB) – mainly funded under 03 06
- 202 Federal Guard Service (FSO) – mainly funded under 03 06
- 259 Federal Space Agency (Roskosmos) - open, some 02 08 R&D, most 02 09 other questions, mainly utilization of arms, but there probably classified spending on the GOZ under 02.01 and 02.08, plus spending on the FTsP for the development of the defence industry under 02.09. There is also spending under 04.03 "Research and use of space" that appears to be close to military spending.
- 279 Federal Agency for Special Construction (Spetsstroi) – about half spending under 02 09 (rest under 05, housing)
- 304 Main Administration of Special Programmes of President (GUSP) – spending rarely shown in federal budget and then only a small amount on non-sensitive uses.
- 319 Russian Academy of Sciences – no open military spending (note 401 Siberian Division of RAN until 2012 every year had a small open allocation under 02 08)
- 587 Federal Service for Technical and Export Control (FSTEK) – some funding under 03 06 security services.
- 721 Federal Service for Military-Technical Cooperation (FSVTS) – almost entirely funded under 02 09
- 725 State Corporation for Atomic Energy "Rosatom" – small volume of open military spending under 02 09, utilization of arms, otherwise classified.

4.4 Federal Targeted Programmes

As noted briefly above, some military-related funding is undertaken within the framework of Federal Targeted Programmes. Most of the FTsP are openly acknowledged and funding details published.¹⁷ Those with military relevance are shown in Box 2.

¹⁷ For details of the open programmes see the official website of the MED on FTsP, MED (2013a). For 2012, 43 open FTsP are listed.

Box 2
Open military-related Federal Targeted Programmes
(Title, period, lead agency)

- The state boundary of the Russian Federation (2012-2020) (MOD, FSB, Rosgranitsa)
- Presidential programme, Abolition of stocks of chemical weapons (1996-2015) (Ministry of Industry and Trade)
- Creation of a system of basing the Black Sea Fleet on the territory of the RF (2005-2020) (MOD)
- Improvement of the federal system of monitoring and control of the air space of the RF (2007-2015) (MOD)
- Development of the electronic component base and the radio-electronics industry (2008-2015) (Ministry of Industry and Trade)
- Improvement of the system of bringing up to strength the number of sergeants and soldiers serving under contract (2009-2015) (MOD)
- Securing the safety of the flight of aircraft of state aviation of RF (2011-2105) (MOD)
- Industrial utilisation of armaments and military equipment (2011-2020) (MOD)
- World ocean (1998-2013) Sub programme 'Military-strategic interests of Russia in the world ocean' (MOD)
- Maintenance, development and use of the GLONASS system (2012-2020) (Russian Space Agency; MOD also a partner)
- Development of Russian space launch centres (2006-2015) (Ministry of Science and Education, MOD, Ministry of Regional Development)

Source: MOF (2013e).

But there are also a small number of programmes that are regarded as secret and rarely mentioned in open sources, with little or no information on the scale of funding. According to the former minister for the economy, Andrei Belousov, speaking at a meeting of the government in June 2013, there were then 49 open FTsP and 6 classified programmes, including two state programmes.¹⁸ From the known number of open programmes it can be concluded that there are four classified FTsP, which corresponds to those identified by the author. Box 3 provides details of these classified programmes with an indication of where the funding appears in the federal budget.

¹⁸ Government (2013).

Box 3

Classified military-related Federal Targeted Programmes

- Development, restoration and organisation of production of strategic scarce and import-substituting materials and small volume chemicals for armaments, military and special technology (2009-2015) (Ministry of Industry and Trade) Some funding identified under 'national defence' 02.08 and 02.09, but also under 04 'national economy', including 04.11 applied R&D. Appears to involve a number of government departments, including Roskosmos and Rosatom, plus the Ministry of Science and Education and probably the Russian Academy of Sciences.
- 'Development of the defence-industrial complex of the Russian Federation (2011-2020) (Ministry of Industry and Trade) A major source of funding appears to be 02.09, 'other national defence', but also 04 national economy. Roskosmos also involved.
- Development of the nuclear weapons complex of Russian Federation during (2007-2020) (Rosatom) Probably under 02.08 and 02.09 but possibly also under 04.02 fuel and energy sector.
- Creation and development of systems of monitoring the geophysical situation on territory of Russian Federation (2008-2015) (Federal service for hydro-metrology and monitoring the environment). Appears to be funded mainly under 04, national economy, but possibly a military-related component under 02.08 or 02.09.

Source: TS VPK (2012). These FTsP are also included in MOF(2012b).

4.5 State guaranteed credits

It became apparent soon after it was approved at the end of 2010 that the current state programme of armaments to 2020 to a total value of over 20 trillion roubles would be difficult to fund from federal budget expenditure alone. The government decided to increase funding for enterprises by resort to state guaranteed credits on an increasing scale, not only for the armaments programme but also for the FTsP for the development of the defence industry. These credits form part of the budget and the total volume agreed for each specific purpose is set out in an appendix to the budget law, in the case of the 2013-15 budget, appendix 37, which set limits of state guaranteed credits for the GOZ of almost 400 billion RUR and for the development of the defence industry of 31.5 billion RUR. The allocation of credits to specific enterprises is a separate process decided later by the government, probably with the involvement of the Military-Industrial Commission, the Ministry of Industry and the MOF, and is set out in government orders listing the enterprise recipients and the volume of credit granted in each case. Thus in May 2013 Medvedev issued a order (*rasporyazhenie*) approving 40 credits for the GOZ to a value of 265 billion RUR for 26 enterprises, all to be repaid by the end of 2017. The banks granting the

state-guaranteed credits were Sberbank, VTB, Vneshekonombank and Gazprombank.¹⁹ This resort to credits indicates that for leading defence contractors budget constraints are relatively soft. But resort to sizeable state guaranteed credits is also a means of supplementing the defence budget: the real volume of military expenditure is now larger than shown by the budget alone.

State guaranteed credits add to the country's domestic debt. The burden of any defaults will fall on the federal budget and interest has to be paid on the debt. In August 2011 the Ministry of Finance, then headed by former minister, Aleksei Kudrin, expressed some concern about the potential dangers of excessive resort to such credits. They introduce additional uncertainty and significantly complicate budgetary planning.²⁰ Under the terms according to which the credits are granted to the defence industry, there is no necessity to undertake prior checks on the financial viability of the defence industry enterprises concerned. There is also an additional burden on the budget as interest rates for the guaranteed credits are subsidised from the federal budget by the MOF, payments relating to these credits being made under the budget subchapter 04.12, "other questions of the national economy".

¹⁹ Government (2013a).

²⁰ MOF (2011), pp.22-3.

5 Budget documentation

5.1 Duma website

The information made available on the website of the State Duma is now of vital importance in understanding the federal budget and military spending within it. When a draft law is submitted to the State Duma it is given a registration number, in the case of the 2013 draft budget, No.14334-6. On the Duma's database of legislation, searchable by registration number or title of document, a website is created for each new draft law and all documentation relating to it is posted, a very rapid and dependable process.²¹ These include the Ministry of Economy's economic forecast for the period, expectations for the implementation of the budget in the current year, and explanatory notes provided by the MOF. The latter, *Poyasnitelnaya zapiska k projektu federalnaya byudzheta* is especially useful as it gives all funding by chapter and subchapter with details, chapter by chapter. This document usually has a large number of appendices, which are always worth exploring as they can provide more detailed insights into spending intentions. This document together with the first paragraph of the draft law on the budget provides details of the GDP forecast on which the draft is based, plus total expenditure planned for the year(s). Always useful is the assessment of the Duma Committee for Defence. In recent years its conclusions on the budget have become less open, without details of the GOZ and its structure previously provided. In addition, there are the conclusions of the Accounting Chamber (*Zaklyuchenie Schetnoi palata RF*) on expenditure plans in the draft budget. These compare intentions in the new draft budget with earlier plans and sometimes provide useful additional information about military expenditure.

Once the budget has passed its first reading, which agrees the plan for total revenues and expenditures, it is open for amendment. The Committee for the Budget and Taxes, which leads the approval process, issues lists of amendments with recommendations for acceptance or rejection by chapter of the budget. Those published on the Duma website refer to open spending only, but analysis of these can permit a reasonably good approximation to the final structure of budget spending. Amendments are voted on at the second reading leading to a revised text of the draft law and its appendices, showing the amended structure of open expenditure. The third reading is usually formal, approving the budget as a whole and then transferring the draft to the Federation Council, which in turn gives it formal approval, usually with little debate.

²¹ For the draft law of the 2013-15 budget, see State Duma (2013), draft law no. 143344-6. All the documents mentioned can be found on this site.

The final text of the budget law and its appendices is then signed off by the president. A few days later the law is published on the presidential website, under "documents".²² Later it appears in the official register of legislation, *Sobranie zakonodatelstva Rossiiskoi Federatsii*. Unfortunately, the latter is available on the Internet on a search-only basis, not easy without a cyrillic keyboard.²³ In addition, the law is published on the website of the Ministry of Finance, in the case of the 2013-15 law as a single 4,251 page document.²⁴

5.2 Amendments

Annual budgets are quite often amended in the course of the year to which they apply, sometimes more than once. The laws on budget amendment are not easy to interpret as they normally cover only open expenditure and instead of providing a full amended budget, the law only indicates changes to the original budget. However, later in the year the Federal Treasury (*Federalnoe kaznacheistvo*), in reporting monthly budget implementation, also supplies the new spending totals for chapters/subchapters according to the amended law. Thus the 2012-14 budget was amended for 2012 according to a law of 3 December 2012.²⁵ If relevant, the law amending the budget also provides the new GDP forecast on which the amended budget is based.

5.3 Budget implementation – Federal Treasury

The funding set out in the law in the federal budget is disbursed to budget holders via the Federal Treasury under the MOF. The Treasury issues regular reports on budget implementation on a monthly, quarterly and annual basis. In the monthly reports, the approved budget totals for each functional chapter and subchapter are given plus the amount of funding actually disbursed during the given period. For analysis of military expenditure, two sections of the report are of the greatest value. Firstly, there is a summary of total spending, open plus classified, by functional chapter and subchapter, above all for chapter 2, "national defence". Secondly, there is a report on budget implementation by

²² Prezident Rosii (2013).

²³ Sobranie (2013).

²⁴ MOF (2012c).

²⁵ Prezident Rosii (2013), federal law no. 247, 3 December 2012.

government department, including the MOD, but this report covers open spending only, greatly limiting its usefulness.²⁶ Quarterly and annual reports take the same form. In addition, the Treasury issues a monthly "operational" report, which gives total funding disbursed to date under the chapters and subchapters of the budget.

In addition to the Treasury reports the MOF now also publishes provisional "operational information" on budget implementation on a month-by-month accumulative basis by functional chapter and subchapter. These reports appear on the MOF website under "official information". They are useful in so far as they present not just budget allocations on a functional basis as set out in the budget law, but the so-called *"utochennaya rospis"*, which lists the planned allocations as amended at the time of the report. After the approval of the budget law there are inevitable minor organisational and technical changes having an impact on planned spending of a nature that does not oblige a formal amendment of the law. At the end of the year in assessing the extent of budget fulfilment it is the amended listing that provides the benchmark.

Every year there is a law on budget implementation for the preceding year. This is usually submitted to the Duma in the summer of the following year and signed off by the President in the autumn. This provides totals of spending, open plus classified, by budget chapters and subchapters, but only open spending by government department.²⁷ Data of the budget implementation law are usually very close, if not identical, to those presented by the Federal Treasury in its annual report, which means that the latter can be regarded as a dependable source for actual budget implementation well in advance of the publication of the law. Aggregated data on budget implementation is also presented on an annual basis by Rosstat, but this is always based directly on the implementation laws.

Finally, it should be noted that official sources such as the MOF or Federal Treasury do not provide any information about the implementation of the GOZ. The release of data on the GOZ is a matter for the MOD or the Military-Industrial Commission and if made available it is usually with a minimum level of detail.

²⁶ See Federal Treasury (2013).

²⁷ For the law on 2011 spending, see President Rossii (2013), *Federalnyi zakon*, 2 October 2012, 'Ob ispolnenii Federalnogo byudzheta za 2011 god.'

6 Secrecy and the federal budget

Of the 44 appendices of the budget for 2013-15, only 26 were open, the remaining 18 being classified to one of two levels of secrecy: 10 secret (*sekretno*) and 8 top secret (*sovershenno sekretno*). The secret appendices provide details of expenditure relating to defence and national security considered unsuitable for open publication. Two of the appendices are central to gain an appreciation of spending plans. The first, the longest by far, provides details of spending by government ministry or other identified budget holding organisation. There are three versions of this appendix: openly published, secret and top secret. The second sets out details of planned expenditure according to function for each chapter and subchapter of the budget. This appendix has both open and secret variants. Other appendices provide details of spending on long-term FTsPs (open, secret and top secret), inter-budget transfers to subjects of the federation, financial support for closed cities of the MOD and defence industry, and an appendix devoted to the funding of the state defence order at times in the past published openly, but in recent years classified as secret.

The lack of transparency of the Russian federal budget is striking and worth exploring in some detail.²⁸ To show the extent of the issue, Table A1 provides data on the proportion of classified spending in each federal budget between 2005 and 2012. Central to the lack of transparency is the Russian state's handling of issues of secrecy, set out in the Law on the State Secret, first adopted in July 1993 but amended several times since, usually to take account of organisational changes. The law sets out broad categories of data regarded as secret but none refer explicitly to economic data concerning defence. This basic guidance is supplemented by a list of data considered to be covered by the law, approved by presidential order, in post-communist Russia for the first time in November 1995, but updated several times since.²⁹ There are three levels of secrecy: "of exceptional importance" (*osoboi vazhnost*), "top secret" (*sovershenno sekretno*) and "secret" (*sekretno*). Guidelines on determining the degree of secrecy are set out in a government decree, adopted in September 1995 and last updated in May 2008.³⁰ A basic determinant is the extent of the damage

²⁸ For issues of secrecy and civic engagement in the budgetary process for military spending, see Cooper (2006).

²⁹ See Ukaz Prezidenta RF ot 19 Marta 2013 g. N 214 "O vnesenii izmenenii v perechen' svedenii, otnesennykh k gosudarstvennoi taine, utverzhdennyi Ukazom Prezidenta Rossiiskoi Federatsii ot 30 noyabrya 1995 g. N 1203" for the latest amendment and sources for all previous editions, Prezident Rossii (2013).

³⁰ For the text, see Shchur-Trukhanovich (2010), pp.532-9.

to the country's national security by the revelation of the data. Policy is overseen by the Inter-agency commission for the protection of state secrecy, created by order of President Eltsin in 1994, which operates according to a statute approved in 2005, but amended in 2009. It is currently chaired by Sergei Grigorov, adviser to the President, but until 2011 director of the Federal Service for Technical and Export Controls (FSTEK), responsible for technical aspects of information security. Categorisation of data as "of exceptional importance" arises if it is judged that its release would harm the interests of the Russian Federation as a nation; as "top secret" if its release would damage the interests of a ministry or government department, or a sector of the economy; and "secret" if its release would harm the interests of organisations in the military, economy, science, intelligence or other sensitive sector.³¹ According to a list set out in a Presidential order (*rasporyazhenie*), only a limited range of state officials, 30 according to the current version, have the authority to decide that data be considered a state secret.³² This list includes the ministers of defence, finance, economic development, internal and foreign affairs; and the directors of the FSB, the external intelligence service and "Rosatom". In addition, it includes the leaders of the Presidential administration and the government apparatus, but not the chair of the Military-Industrial Commission of the government.

According to the list of data considered secret, in the original Presidential order of 1995 there were 87 items, rising to 117 in the version current as of early 2012.³³ Of data so considered in the field of the military, the number has risen from 22 to 28. Most of the data here are not directly relevant to budget secrecy except perhaps the number of servicemen, not only in the MOD, but in all other forces and quantitative data of any nature on nuclear munitions. More significant are some of the items in the section "economy, science and technology". In particular any data revealing indicators of the state defence order for armaments, military and special equipment and production capacities for their production, plus details of achievements in science and technology with significant potential for the development of new weapons or information revealing the content and directions of R&D programmes in the interests of defence or security. In addition anything relating to the mobilisation preparation of the economy and the scale of the country's state material reserves is also regarded as secret.³⁴ However, there is no reference in these guidelines to any secrecy in relation to the monetary value of the state defence order or any other aspect of the nation's defence. The non-transparency in relation to military expenditure therefore cannot be explained

³¹ Shchur-Trukhanovich (2010).

³² Shchur-Trukhanovich (2010) plus Presidential orders since June 2010 (Prezident (2013)).

³³ Rossiiskaya gazeta (1995) and Ukaz Prezidenta RF, 11 June 2011, No. 787, the latter being the latest amendment of the list to include 4 new items relating to countering terrorism (Prezident Rossii (2013)).

³⁴ Shchur-Trukhanovich (2010).

simply by reference to the law on the state secret or the 1995 Presidential order listing the forms of data subject to classification.

In considering the trend over time to reduced transparency of the federal budget there is another dimension of state policy towards secrecy that should not be ignored, namely the fact that government officials in Russia have a financial interest in working with data marked "secret".³⁵ This is an issue rarely discussed openly but its impact on budget transparency has been addressed by Vasilii Zatsëpin of the Gaidar Institute of Economic Policy in Moscow. As with much of Russian practice in relation to secrecy, there is a direct continuity with the Soviet past. Just as state officials in the USSR received increments to their pay depending on the level of secrecy of the information they worked with, so too in present-day Russia. It is claimed that this measure is designed to reduce the turnover of staff having regular access to state secrets.³⁶

The original document regulating supplementary payments was a decree of the government of October 1994. This specified that those having permanent access to data "of exceptional importance" were eligible for a 25 per cent supplement to the pay, if "top secret", 20 per cent, and "secret" 10 per cent. For those in "structural subdivision for the protection of state secrets, there was a supplement, from 5 to 15 per cent, depending on the period of employment in a post, the top rate for those in post for ten years or more."³⁷ In September 2006 this decree was replaced by a new one "on granting social guarantees to citizens permitted access to state secrets on a permanent basis, and to members of structural subdivision for the protection of state secrets."³⁸ This decree, signed by the then prime minister, Mikhail Fradkov, who later became director of Foreign Intelligence Service (SVR), sharply increased the supplementary payments for working with secret materials. From the beginning of 2007 access to data "of exceptional importance" merited a supplement of 50-75 per cent, "top secret" 30-50 per cent and "secret" 10-15 per cent. In determining the specific rate to be paid, account had to be taken of the volume of secret data handled and the time period over which the data was considered secret. As before, those working in structural subdivisions for the protection of state secrets received an additional supplement relating to the years of service in a post, but now the rates were from 10 to 20 per cent. These supplements are paid from the budget, presumably by increased allocations for salaries to relevant government agencies. Although no direct evidence has been found, it is difficult to believe that these extraordinarily high "social guarantees" (a curious designation) do not have the consequence, perhaps unintended, of increasing the propensity of organisations to render data secret,

³⁵ Zatsëpin (2009), slide 7 and Zatsëpin and Pestova (2010).

³⁶ Bus, M. A. and A. V. Fedorov (eds.) (2004), p. 205.

³⁷ Sobranie (1994).

³⁸ Rossiiskaya gazeta (2006).

perhaps extending even to the MOF. Certainly, the existence of these generous supplements is unlikely to promote the declassification of information currently considered secret. It may not be a coincidence that the increased degree of classification of the federal budget dates from that for 2008, the drafting of which took place in 2007, the first year of the new system of "social guarantees."

7 International reporting conventions

International organisations, national governments and independent centres of analysis do not always use the same definition of military expenditure.

7.1 SIPRI

The Stockholm International Peace Research Institute (SIPRI) employs a definition similar to that used by NATO. The definition of military expenditure attempts to include all costs incurred as a result of current military activities. It includes expenditure on following actors and activities:

- a) Armed forces, including peacekeeping forces;
- b) Defence ministries and other government agencies engaged in defence projects;
- c) Paramilitary forces, when judged to be trained and equipped for military operations;
- d) Military space activities.

It includes all current and capital expenditure on:

- a) Military and civil personnel, including retirement pensions of military personnel and social services for personnel;
- b) Operations and maintenance;
- c) Procurement;
- d) Military research and development;
- e) Military aid (in the military expenditure of the donor country).

It does not include civil defence and current expenditure for past military activities, such as veterans' benefits, demobilisation, conversion and weapon destruction.³⁹

This is similar to the Russian understanding but with a number of qualifications. The Russian definition of "national defence" includes the destruction or recycling ("utilisation" in Russian terminology) of old weapons and also some expenditure on the mobilisation preparation of the economy, which perhaps should be considered to be a component of preparation for emergencies preparation and civil defence, a separate budget subchapter in Russia. The

³⁹ SIPRI (2013).

internal troops of the MVD and the border troops of the Federal Border Service are equipped for military operations and hence outlays on them should be included under military expenditure. NATO, which has same scope of military spending as SIPRI, in 2004 amended its definition to exclude expenditure on paramilitary forces (even those with a national defence function in times of war) if they are not "realistically deployable".⁴⁰

7.2 IMF

The International Monetary Fund (IMF) reports on defence spending in its annual *Government Finance Statistics Yearbook*. The basis of these reports is the UN classification of functions of government (COFOG) which, as noted above, divides government expenditure into ten functional groups of spending, including "defence". These functions are disaggregated into sub-levels, "defence" having five: military defence, civil defence, foreign military aid, R&D defence and defence n.e.c.⁴¹ According to this classification, pensions of military personnel are included under the function "social protection" and "defence" includes civil defence, which means that the definition of military expenditure is not that used by NATO and SIPRI.⁴² Data presented in this manner are not yet available for all OECD member countries, but Russia, now in the process of accession, may eventually be included.

7.3 UN

A distinct and more problematic issue in relation to Russia is the approach of the United Nations Office of Disarmament Affairs. Russia has been submitting data on military expenditure to the United Nation for over twenty years. As part of Gorbachev's attempt to secure greater transparency in relation to the country's military effort, a report was first made available for the year 1989. While questions still remained, the data provided marked a new degree of openness as for the first time information was provided on spending by service of the armed forces and on the structure of procurement.⁴³ Russia supplied reports for most years during the 1990s and has reported on a regular basis since the year 2000. Countries report to the UN on an annual basis, usually for the previous year, and

⁴⁰ NATO (2013).

⁴¹ The scope of these sub-levels is presented in United Nations (2000), pp.42-3.

⁴² See United Nations (2005), pp.14-16 and OECD (2011) , pp.194-5.

⁴³ For an analysis of the first Soviet reports see US Central Intelligence Agency (1991).

provide data on actual military expenditure in current prices structured according to a standardised reporting matrix.⁴⁴

Table 6 The structure of military expenditure of the Russian MOD 2000-2011 as reported to the United Nations (*per cent of total*)

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2011
Personnel ^a	35.4	38.5	38.1	38.4	35.0	31.5	32.4	32.3	35.4	37.6
O&M	37.6	31.5	35.6	31.1	30.2	26.9	31.4	30.5	22.8	24.6
Procurement	11.2	12.6	10.2	12.5	16.4	24.8	17.0	17.9	23.4	20.5
R&D	9.0	9.9	8.9	10.2	10.9	10.5	9.7	10.4	9.0	9.8
Construction	6.8	7.5	7.2	7.8	7.5	6.3	9.5	8.9	9.4	7.5
	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: UN

Notes: a. Excluding the column 'undistributed' which is believed to refer to pensions of servicemen. O&M: operations and maintenance. R&D: Research and development. In the source data for 2009 and 2010 are clearly incomplete understating spending on R&D and construction so these years excluded from the table.

The data supplied by Russia to the UN raise many questions (see Table 6). The scope of the data is not defined, there are striking inconsistencies from year to year, e.g. for 2009 and 2010 expenditure on R&D and construction is clearly understated to a very significant degree, for some years allocations by service have been made to simple standard formulae, e.g. R&D by service, 2000-08, so that the data do not refer to actual allocations, and there are simple arithmetic errors, e.g. in the totals presented for the years 2008, 2009 and 2011. Over time, the quality of the reports appears to have deteriorated. But perhaps the most serious issue is the impossibility of reconciling the data presented with that available in other public sources. In particular, the total military spending reported does not correspond to that recorded in the federal budget under the chapter "national defence".

In the author's view the data submitted to the UN are not entirely devoid of meaning but need to be treated with considerable caution. Analysis of the report over many years indicates that the data presented, with the exception of the column "paramilitary forces", refer to the MOD only. This explains the divergence between expenditure on "national defence" as recorded in the budget and military expenditure shown in the reports to the UN. The former, of course, includes spending by other agencies, not least Rosatom on nuclear weapon, Roskosmos and the Ministry of Industry and Trade. For some items of spending the information presented corresponds reasonably well to that available in other sources. This applies, in particular, to spending reported under the heading

⁴⁴ For details of the form and the scope of the data presented, see United Nations (n.d.).

"personnel". In this spending line in the reports to the UN there is always a significant "undistributed" component, but this corresponds broadly to spending in reports of federal budget implementation on pensions and other social support to servicemen under chapter 10 of the federal budget, "social policy".

Data on operations and maintenance are almost impossible to check against budget data as also "construction". Clearly highly problematic are the totals presented in the UN reports of "procurement" and "R&D", which simply do not correspond to data presented in other sources. It is possible that the totals provided for "procurement" omit spending on repairs and modernisation of existing armaments but even with this adjustment the reported spending on procurement is much less than that indicated by other sources and there is a similar significant discrepancy with respect to R&D. If the reported figures are based on real MOD data then some categories of spending have been systematically excluded.

Notwithstanding these major reservations, analysis of trends over time revealed by Russia's annual reports to the UN suggests that the data does to some extent reflect reality in so far as changes over time tend to reflect known patterns. Thus, Table 6 on the structure of spending captures the priority granted to R&D in the annual GOZ in the first half of the 2000s and the later prioritisation of arms procurement. But overall it must be concluded with regret that what started in the USSR and early years of independent Russia as a serious attempt to provide more open detailed information to the outside world on the country's military expenditure has over time become an increasingly formal exercise devoid of meaningful content.

7.4 OSCE

Russia also submits annual reports on military spending to the Organisation for Security and Cooperation in Europe (OSCE). Unfortunately, these reports are not in the public domain, making it difficult to make an assessment of their scope and dependability. However, it is known that the standardised form of reporting is the same as that employed by the UN. In the author's view it would be surprising if there were any significant differences between the data supplied to the two organisations.

8 Trend of Russian military expenditure in real terms

For any country, the measurement of changes in military expenditure over time is a complex issue and this is especially true of Russia, where inflation has been a serious problem from the very beginning of the new state in 1992. During recent years the rate of inflation has moderated to 6-7 per cent a year but this is still relatively high compared with other G20 economies. No deflator has been devised specifically for military spending. In planning the state defence order (GOZ) enterprises and the MOD are obliged to use deflators issued by the Ministry of Economic Development.⁴⁵ For armaments, as set out in a MED order of April 2008, the deflator is simply the one for the "production of machines and equipment, electrical equipment and transport equipment."⁴⁶ But, as defence industry representatives frequently complain, these deflators tend to understate the actual cost changes experienced in reality by arms producers, sometimes to a very significant extent.

There is no doubt that the component of military spending most subject to price increases is the procurement of new armaments and to a lesser extent the construction of new facilities. Price changes in relation to operational costs, i.e. personnel and operations and maintenance, and perhaps also R&D, are probably captured reasonably well by the consumer price index (CPI). For domestically produced industrial goods there is an overall industrial price index which tends to increase more rapidly than the CPI but this without doubt understates price increases for military procurement.⁴⁷ There are at least two alternative deflators available. Firstly, there is the annual deflator used for measuring real changes in GDP. This reflects price changes in relation to consumption (household and government), accumulation (capital investment and changes in the value of stocks of goods), and flows of exports and imports. Alternatively, there is a deflator regularly used by the Russian specialist Vasilii Zatsepin, taken from the Russian national accounts.⁴⁸ This is the one used to measure price changes in relation to public consumption (in Russian "*kollektivnye uslugi*") expenditure of the government, i.e. the budget funded component of final consumption in the interests of society as a whole, which includes state administration, defence and security, non-market R&D, services to industry, agriculture and other sectors,

⁴⁵ For the deflators for use during 2013-15, MED (2012).

⁴⁶ MED (2008).

⁴⁷ It should be noted that the Russia statistical service, Rosstat, persists in using December-December measures of inflation, for both consumer and industrial prices, rather than the annual average measure used by many national statistical agencies and the IMF.

⁴⁸ Zatsepin (2011).

etc. For most years this deflator indicates larger annual price changes than shown by the CPI, the industrial price index or the GDP deflator, as shown in Table 7. Unfortunately, Rosstat does not make available any details of the deflator used for public consumption making it impossible to assess the weighting given to defence (see Table 7).

Table 7 Alternative measures of price changes during the years 2000 to 2012

	Consumer prices (Dec-Dec)	Consumer prices (annual average)	Industrial prices (Dec-Dec)	GDP deflator	Public consumption deflator
2012	106.6	105.1	105.1	108.5	119.0
2011	106.1	108.4	112.0	115.5	113.1
2010	108.8	106.9	116.7	114.2	106.7
2009	108.8	111.7	113.9	102.0	110.1
2008	113.3	114.1	93.0	118.0	122.7
2007	111.9	109.0	125.1	113.9	116.5
2006	109.0	109.7	110.4	115.1	123.4
2005	110.9	112.7	113.4	119.2	123.3
2004	111.7	110.9	128.8	120.3	117.2
2003	112.0	113.7	112.5	113.8	121.9
2002	115.1	115.8	117.7	115.6	117.6
2001	118.6	121.5	108.3	116.5	133.1
2000	120.2	120.8	131.9	137.6	155.2

Source: Consumer and industrial prices, Dec-Dec: Rosstat (2013c). Consumer prices annual average: IMF (2013). GDP deflator: Rosstat (2013b). Deflator for public consumption: Rosstat (2013a), various years.

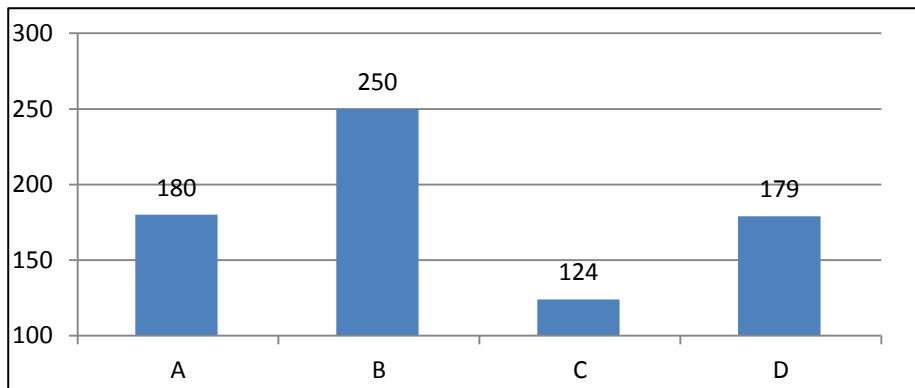
It is clear that in the absence of a specific deflator designed to capture price changes in relation to military expenditure, a proxy index must be used. However, all the available indices have their shortcomings. The CPI is not appropriate in relation to the measurement of price changes in the sphere of arms procurement, the purchase of inputs of fuel and lubricants or construction work for the armed forces. The industrial price index is probably better for these items of spending but probably understates price increases in procurement. For Russia, the GDP deflator is influenced to a quite significant degree by changes in export prices, e.g. the very modest deflator for 2009, only 2 per cent growth, is explained by the 12 per cent fall in export prices for this year of economic crisis. In the same year, the CPI increased by almost 12 per cent on an annual average basis. On the other hand, the public consumption deflator is influenced to some extent by changes in import prices, probably because in the field of state administration there are significant imports of IT, high value motor vehicles and other goods subject at times to marked price increases. This means that it may not be valid to explain the relatively elevated level of this deflator simply by cost increases in military procurement. While the public consumption deflator may be

an appropriate index to use in relation to the state defence order for the procurement of new weapons, it may not adequately reflect price changes in the sphere of operational costs and R&D, perhaps better captured by the CPI. An important issue here may be the structure of total military expenditure and the share of procurement.

The presentation of military expenditure in the Russian budget is not well-suited to arriving at an understanding of its basic structural features. Notwithstanding all the limitations of the data supplied, discussed in the next section, this can be more easily obtained by using information presented in the Russian government's annual submission to the United Nations Office of Disarmament Affairs. Taking reported MOD spending only, the overall structure of spending during the years 2000-2011 is shown in Table 6.

For two recent years, 2009 and 2010, the data are clearly incomplete and incompatible with the rest of the series. Overall, it can be seen that the share of expenditure of the most inflation prone component of spending, procurement, has risen from approximately 10 per cent of the total in the early 2000s to about 20 per cent since 2005. For this reason, the use of the CPI as a deflator of military expenditure may be less appropriate today than it was in earlier years.

Figure 1 Russian military expenditure 2000-2012 in real terms using different deflators (Index: 2000=100)



Source: Table 7.

Notes:

A. Using GDP deflator;

B. Using consumer price index;

C. Using the deflator of public consumption;

D. Using a combined deflator - annual average derived from use of B and C (50/50).

Given the problems of all the available deflators the decision to choose a particular one comes down to convenience, comparability and consistency. In constructing constant price series for military expenditure SIPRI uses national CPIs. These are usually readily available and their use permits a standard methodology applicable to all countries. The present author has preferred to use the GDP deflator, although it is recognised that its sensitivity to export price changes has rendered somewhat less reliable in recent years. Zatsepin prefers to use the public consumption deflator as used by Rosstat in its construction of national accounts. This is motivated by a keen awareness that the procurement of new armaments in Russia is an activity subject to significant price increases better captured by this index than any other. However, in the present author's view its use may somewhat understate the growth over time of total military expenditure in real terms. As shown by Figure 1, the overall increase in spending on national defence over the period 2000-2012 in real terms is substantial using the CPI but modest using the deflator of public consumption. However, a combined index based on the average annual growth in real terms derived from using both the CPI and the public consumption index (50/50) gives an outcome almost identical to that obtained from the use of the GDP deflator. This explains the author's preference for the latter.

9 Reform of the budgetary process

It is perhaps unfortunate that the timing of this report coincides with a major reform of the budgetary process in Russia with imminent transition to a so-called "programme" budget, i.e. a federal budget in which the most spending obligations will be grouped to form a set of state programmes. This change has been under consideration for some time. In June 2010 the government approved a programme for raising the effectiveness of budget expenditures during the period to 2012. This identified the state programme as an effective instrument for meeting the targets of the long-term concept of socio-economic development to 2020, each programme having a clearly identified organ of state power responsible for leading its realisation. It was considered expedient to present the 2012 budget in programme terms for illustrative purposes as an initial step before presenting a future three-year budget with a programme structure from the outset. It was recognised that this would require an amendment of the Budget Code.⁴⁹ It was also a controversial proposal as some in the government, not least in the Ministry of Economic Development, were concerned that once a state programme had been approved, spending patterns would be "frozen", limiting the scope for new policy initiatives. Nevertheless, in July 2012 the budget for 2012-2014 was presented for analytical purposes in terms of 42 draft state programmes and 10 non-programme categories of spending.⁵⁰ Programme 31, "Securing the defence capability of the Russian Federation" included 1,050 billion RUR of open spending, compared with over 1,800 billion RUR in the budget as shown in the normal manner for "national defence", but this included almost all the MOD open spending. This means that under the draft programme structure of the budget, some military-related spending had been distributed to other programmes. Spending of the security services was clearly under Programme 32, "Securing state security". But the state programmes were at this stage provisional and final decisions on the scope of the programmes had yet to be taken.

During late 2012 and early 2013 various government departments worked with the MOF to finalise the set of state programmes and these were then approved by the government on an individual basis prior to the drafting of the federal budget for 2014 and the planned period 2014 and 2016. As part of this process the MOF presented the 2013-15 budget for analytical purposes in the new programme structure. But on this occasion Programme 31 for defence spending was simply omitted altogether because it had not yet been finalised and approved. Instead, most open MOD spending was simply included in the section no.99, non-

⁴⁹ MOF (2010), pp.16-20.

⁵⁰ MOF (2012a) .

programmed budget spending. However, this presentation indicated more clearly than the earlier one how some items of military expenditure will be treated under the new approach.⁵¹

The allocation by programme is shown in Table A2. The totals by budget chapter and subchapter correspond on the whole to those shown in the appendix showing open spending by function. One slight uncertainty is whether all spending under the FTsP on the development of the defence industry is included under state programme 16, on the development of industry and increasing competition. The published version of this state programme includes a sub-programme on "acceleration of development of the defence industry" which appears to be an open element of the much larger classified FTsP, suggesting that the entire document has simply been made a component of the new Programme 16. This also seems to apply the FTsP on the development of strategic materials.⁵² If so, this decision, coupled with the transfer of spending on the disposal of old armaments to other programmes, brings the scope of spending under Programme 31 closer to the standard NATO and SIPRI definitions of military expenditure than it has been under the "national defence" chapter.

As preparation of the federal budget for 2014 and the planned period 2015 and 2016 progressed, some additional details of transition to a programme-based budget became available. Firstly, programme 32 on national security was approved by the government 4 February 2013. It is being treated as a classified state programme, not details of which are to be published apart from an extremely modest (less than 10 billion RUR a year) volume of open spending.⁵³ However, the scope of its eight sub-programmes has been revealed in a methodological document issued by MOF: 1) state security, 2) defence and protection of state borders, 3) countering the legalisation of incomes obtained by criminal means and the financing of terrorism, 4) securing the realisation of state programmes of RF, 5) realisation of measures in the field of the struggle with terrorism, 6) measures for the structuring of state boundaries, 7) measures for the technical protection of information, and 8) realisation of measures in the field of monitoring the information space.⁵⁴ Secondly, it has been revealed that programme 31 on securing the country's military capability will not be approved until the end of 2015.⁵⁵ This delay probably relates to the drafting of the new state armaments programme for the period 2016-2025, GPV-2025.

⁵¹ MOF (2013). .

⁵² The inclusion of both FTsP in Programme 16 is noted in an indirect manner in the preamble to the programme published on the website of the MTI (2013).

⁵³ MOF (2013c), pp.188 and 14 (open spending).

⁵⁴ MOF (2013d).

⁵⁵ MOF (2013c), p.85 (open spending).

It remains to be seen whether Programme 31 on the national military capability, when finalised and approved, will simply include all the spending currently shown under the non-programmed section (99) or have a different scope, with the need to change the structure of some other already approved programmes. When the transition to a programme structure of the budget has been implemented it will clearly be important for the maintenance of at least the current level of transparency that the appendix setting out spending on a functional basis be retained. From the evidence available, for the draft budget for 2014-16 this appears to be the case.

10 Conclusions

This review of military expenditure in Russia establishes the fact that, notwithstanding a regrettable loss of transparency in recent years, the scale of this budget spending can be determined with some accuracy in accordance with normal international practice. However, because of restrictions on the open publication of the federal budget the assembly of relevant data can be a time consuming process requiring familiarity with budget procedures and sources of relevant information. Secrecy with respect to military spending was a central feature of Soviet practice and this legacy lives on in present-day Russia, with incentive structures that do nothing to promote a move to greater transparency. In these circumstances it is perhaps not surprising that the documentation on military expenditure that Russia supplies to international agencies is somewhat enigmatic and prone to errors. The secrecy surrounding Russia's military economy is such that there is little incentive for the country's independent specialists to engage actively in its analysis and in public debate on the topic. Those that do, merit respect for their civic responsibility. Limited access to data also extends to the parliamentary consideration of the military budget, only a limited number of Duma deputies being aware of the full budget details, making informed discussion almost impossible.

The Russian government is now in the process of reforming its approach to formulating the federal budget, making a transition to one based on state programmes. It is too early to assess what impact this will have on budget transparency in general and on the openness of military expenditure in particular. But international considerations could play a positive role. The Russian government is very keen to be seen as acting in accordance with best international practice. There is pride in the country's rank of 10th out of 100 countries in the 2012 international survey of budget openness, only three places behind the USA.⁵⁶ Budgetary practice is also an important consideration for Russia now on the path to accession to the Organisation for Economic Cooperation and Development. Indeed, there may even be a possibility that a more open approach to military expenditure could now be in prospect.

⁵⁶ See International Budget Partnership (2012), p.7. In the author's opinion, this is a generous assessment given the lack of transparency in the publication of the law on the budget.

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Appendix

Table A1 Share of classified allocations in federal budget 2005-2012 (per cent)

	2005	2006	2007	2008	2009	2010	2011	2012
Federal budget total	11.33	11.80	10.33	11.92	10.01	10.46	12.25	12.15
<i>01.00. General state issues</i>	<i>3.67</i>	<i>6.28</i>	<i>5.52</i>	<i>8.66</i>	<i>5.05</i>	<i>4.75</i>	<i>8.66</i>	<i>10.17</i>
01.08 International relations	-	0.01	<0.01	3.66	-	-	-	-
01.09 State material reserve	82.86	89.33	92.18	90.17	85.01	85.08	88.15	85.71
01.01 Fundamental research	2.13	1.22	1.12	0.97	0.78	0.32	0.66	2.89
01.14 Other	0.05	0.72	0.28	4.42	1.56	1.05	0.95	1.11
<i>02.00 National defence</i>	<i>42.06</i>	<i>42.77</i>	<i>45.33</i>	<i>46.14</i>	<i>48.09</i>	<i>46.42</i>	<i>47.73</i>	<i>48.60</i>
02.01 Armed forces of RF	33.07	35.59	37.11	39.04	40.21	39.03	41.50	42.97
02.04 Mobilisation prepn of econ	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
02.05 Collective security	100.0	100.0	100.0	-	-	-	-	-
02.06 Nuclear weapons complex	100.0	100.9	100.0	100.0	100.0	100.0	100.0	100.0
02.07 Intl obligns mil-tech coop	45.22	46.90	50.56	100.0	100.0	100.0	100.0	100.0
02.08 Applied R&D	98.37	93.94	93.69	93.20	92.85	91.32	92.94	94.64
02.09 Other issues	2.49	8.79	24.38	29.21	34.64	42.03	36.41	44.03
<i>03.00 National security law enf.</i>	<i>28.52</i>	<i>31.64</i>	<i>31.07</i>	<i>31.84</i>	<i>30.82</i>	<i>32.12</i>	<i>32.54</i>	<i>24.86</i>
03.02 Internal affairs	4.76	6.31	5.16	4.97	3.70	4.30	6.56	3.42
03.03 Internal troops	11.76	10.31	9.80	10.25	8.19	8.28	7.89	4.77
03.06 Security agencies	97.80	95.49	97.31	99.05	99.61	97.05	99.87	99.56
03.07 Border service	100.0	98.97	97.62	100.0	99.47	98.61	99.11	99.09

03.09								
Emergencies civil def.	59.02	62.39	50.65	51.39	51.00	51.28	47.35	42.81
03.13 Applied R&D for sec l.e.	73.95	66.41	64.43	75.49	79.35	92.09	87.07	84.50
03.14 Other issues	8.26	50.71	39.95	56.32	68.37	67.94	78.29	30.41
<i>04.00 National economy</i>	<i>0.05</i>	<i>0.02</i>	<i>0.44</i>	<i>0.64</i>	<i>0.55</i>	<i>1.56</i>	<i>1.94</i>	<i>2.70</i>
04.11 Applied R&D for econ.	-	-	5.23	5.84	4.49	5.61	12.07	15.24
04.12 Other issues	0.12	0.06	<0.01	0.31	0.72	4.47	2.22	2.69
<i>05.00 Housing communal util.</i>	<i>-</i>	<i>3.42</i>	<i>0.85</i>	<i>6.96</i>	<i>10.09</i>	<i>19.26</i>	<i>19.75</i>	<i>11.22</i>
<i>07.00 Education</i>	<i>2.76</i>	<i>2.69</i>	<i>2.39</i>	<i>2.55</i>	<i>3.06</i>	<i>3.59</i>	<i>4.30</i>	<i>3.21</i>
<i>08.00 Culture cinematography</i>	<i>0.17</i>	<i>0.17</i>	<i>0.21</i>	<i>0.17</i>	<i>0.18</i>	<i>0.17</i>	-	-
<i>09.00 Healthcare</i>	<i>4.30</i>	<i>3.99</i>	<i>2.57</i>	<i>4.14</i>	<i>3.54</i>	<i>3.01</i>	-	-
<i>10.00 Social policy</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>0.01</i>	<i>0.01</i>	<i>-</i>	<i>-</i>	<i>0.06</i>
<i>11.00 Sport, physical fitness</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>0.26</i>	<i>0.20</i>
<i>12.00 Mass media</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>
<i>14.00 Inter-budget transfers</i>	<i>-</i>	<i>-</i>	<i>0.16</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>

Source: Gaidar Institute (2011).

Table A2 The distribution of open military expenditure in the presentation of the 2013 federal budget in programme form

P no.	Programme designation	Military expenditure	
		Agency type of spending	Million RUR
3	Social support for citizens	MOD social support ND 02 01 Social policy 10 03	13 887 1 441 12 446
10	Protection from emergencies	MOD chemical-bio security ND 02 08 ND 02 09	1 266 336 930
11	Development of culture & tourism	MOD war memorials Inter-budget transfers 14 03	500
14	Development of science & technology	MOD world ocean programme ND 02 09	173
16	Development of industry & increasing competition Sub-programme 5 'Acceleration of development of defence industry' Sub-programme Ch 'Abolition of stocks of chemical weapons'	Ministry of Industry ND 02 08 ND 02 09 Roskosmos ND 02 09 Ministry of industry ND 02 08 ND 02 09	2 3 567 310 30 19 260
17	Development of the aviation industry	Ministry of industry GOZ ND 02 08	5 400
21	Space activity of Russia	MOD GLONASS space centre ND 02 01 ND 02 08 ND 02 09	5 854 3 360 504
22	Development of nuclear energy complex	Rosatom utilisation of arms ND 02 09	1 283
36	Creation of conditions for effective and responsible management of regional and municipal finances	Ministry of Finances support for military closed towns (ZATO) Inter-budget transfers 14 02	11 566
41	Foreign political activity	MOD military-technical coopn. ND 02 07	1 153
71	Pension system (to become Programme 6)	MOD pensions social payments Social policy 10 01 Social policy 10 03	254 913 4 357
P no.	Programme designation	Military expenditure	
		Agency type	Million RUR
99	Non-programmed expenditure	MOD	

(Military expenditure will be transferred to Programme 31 'Securing the military capability of Russia')	ND	02 01	834 383
	ND	02 03	6 793
	ND	02 08	2 421
	ND	02 09	91 386
	General state	01 08	4
	Housing	05	28 000
	Education	07	61 553
	Culture	08	2 137
	Health	09	47 195
	Sport	11	1 824
	Social policy	10 03	2
	Rosoboronzakaz		
	ND	02 09	404
	Rosoboronpostavka		
	ND	02 09	1 031
	Federal Service for VTS		
	ND	02 09	395
	Spetsstroj		
	ND	02 09	1 675
	Roskosmos		
	ND	02 09	13
	Ministry of Finance		
	ND	02 09	5 849
Totals	Total National Defence		
	ND	02 01	841 503
	ND	02 03	6 793
	ND	02 07	1 153
	ND	02 08	11 549
	ND	02 09	117 413
	<i>Total</i>		<i>978 411</i>

Source: Calculated from MOF (2013).

Notes:

ND: Budget chapter "'National defence"

VTS: Military-technical cooperation, i.e. arms exports

MOD: Ministry of Defence

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By volume of military expenditure in 2012 Russia was third in the world after the USA and China and accounted for over 5 per cent of total world spending. In 2010 Russia ranked fifth and in 2005 ninth. As a major power with a significant and growing military capability the resource commitment of Russia to defence is clearly a matter of interest to the policy community. While today's Russian government is more open about spending on the military than its predecessor state the USSR, there is still a need for analysis by independent researchers in order to gain a better understanding of the defence budget and the actual scale of expenditure on the military.

This report outlines the budgetary process in Russia and explains how military expenditure is handled within it, with consideration of the relevant documentation and the procedures necessary to extract the data required to establish the volume of spending and trends over time.

Attention is given to spending on arms procurement under the annual state defence order. Notwithstanding the limited transparency, as the report shows, the budget documentation made available permits the determination of the volume of spending on the military with an acceptable degree of accuracy.

The report also considers a number of specific issues such as the inheritance from the Soviet Union of an elaborate system of state secrecy that serves to limit access to open data on the full scale and structure of budget spending on the armed forces. Russia's military expenditure within the framework of international reporting conventions is explored and the report addresses the problematic issue of establishing spending trends in real terms, with consideration of the merits and demerits of the use of various price deflators.

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