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COMPARATIVE ANALYSIS OF FINANCIAL SUPPORT MODELS IN THE FORMER SOVIET AND NATO ARMED FORCES: LESSONS FOR UZBEKISTAN'S DEFENCE REFORMS

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Abstract: This article provides a comparative-analytical examination of the financial support models for military personnel in the Former Soviet Union (characterized by centralized, in-kind provision) and NATO armed forces (based on professionalism and differential pay) [1]. The analysis focuses on key aspects such as budget transparency, the incentive system, and social guarantees, thoroughly investigating NATO's accountability and merit-based payment structures. The Soviet system prioritized the economic stability of service members through non-monetary, in-kind social guarantees (e.g., free housing, medical services), which, despite ensuring basic needs were met, often resulted in low monetary motivation for skill development due to a lack of differentiation in pay for specific skills or operational risks. Conversely, the NATO model, adapted to the requirements of a professional army, emphasizes high budget transparency and differential monetary compensation, which includes an "X Factor" for the inconveniences of military life and Hostile Fire/Imminent Danger Pay (HFP/IDP) for operational risk. Furthermore, NATO countries utilize sophisticated strategic financial management processes like Planning, Programming, Budgeting, and Execution (PPBE) and regular independent audits to ensure high accountability and alignment of budget resources with military strategy [3], [8]. The insights derived from this study are designed to formulate practical recommendations aimed at modernizing and enhancing the social protection of the Armed Forces of the Republic of Uzbekistan [4], proposing a Hybrid Model that integrates the best features of both systems: maintaining Soviet-era social stability while adopting NATO's transparency and performance-based monetary incentives. The ultimate goal is to optimize defence economics and stabilize the highly-skilled personnel flow.

Keywords: Military Finance, NATO, Soviet Union, Financial Support, Social Guarantees, Budget, Transparency, Differential Pay.

1. Introduction

Rapid shifts in the global security architecture, including the rise of hybrid warfare and the transition to high-technology defence systems, are increasing the demand for highly motivated, professional military personnel. Against a backdrop of rising defence expenditures, the efficiency, transparency, and motivational impact of military financial management remain an integral part of a country's defence capability. The quality of the financial support system is crucial not only for a service member's economic stability but also as a primary factor in sustaining their loyalty and combat readiness.

The large-scale reforms underway in the Armed Forces of the Republic of Uzbekistan, particularly Presidential and Government decrees in 2025 aimed at strengthening the social protection of military personnel [4], necessitate a profound study of international experiences in this domain. This research aims to conduct a comparative analysis of the centralized, in-kind-based Former Soviet financial model with the professional, market-principle-based NATO model. The core objective of the analysis is to develop a Hybrid Financial Support Model that integrates the strengths of both systems to optimize defence economics and stabilize the flow of professional military talent.

2. Materials and Methods

This study employs a comparative-analytical methodology to systematically examine the distinct financial support structures of the former Soviet military and the armed forces of NATO member states. The primary materials consist of academic literature, governmental reports (e.g., GAO, DoD), international audit documents (e.g., NATO IBAN reports), and relevant legislative acts of the Republic of Uzbekistan [3], [4], [5], [6], [7], [8]. The analysis proceeds in three stages:

1. Descriptive Analysis: Detailed exposition of the operational principles, core components, and historical context of the Soviet (centralized, in-kind) and NATO (professional, differential pay) financial models.

2. Comparative Analysis: Evaluation of the two models across five key metrics: Budget Transparency, Compensation Differentiation, Social Security Mechanism, Accountability, and Personnel Retention.

3. Synthesis and Recommendation: Formulation of a Hybrid Model and specific policy recommendations for Uzbekistan, ensuring their compatibility with the country's existing legal framework [5] and current economic conditions.

The research maintains an academic and non-judgemental tone, strictly adhering to a scientific style and avoiding direct translation from the Uzbek to maintain high-quality academic English. Ethical clearance is not applicable as the study involves secondary data from public domain sources.

3. Results

A. The Financial Support Model in the Former Soviet Armed Forces

The Soviet military financial support system was fully based on centralized planning, with absolute control exerted by central bodies such as the State Planning Committee (Gosplan) and the Ministry of Defence. Budget execution was opaque and non-transparent. The core principle was to ensure economic stability not primarily through cash payments but through In-Kind Provision (non-monetary social guarantees). Key incentives consisted of material provisions such as free housing, medical services, sanatorium-resort treatment, and educational privileges. Consequently, while the basic monetary salaries for officers and enlisted personnel were often lower than those for civilian specialists, essential life needs were met. However, this system lacked sufficient differentiation in pay for service conditions, unique qualifications, or specialization, which suppressed individual monetary motivation for skill enhancement. Due to centralized, closed management, budget transparency was virtually nonexistent [3], increasing the risk of fund misallocation and corruption.

B. The Financial Support Model in NATO Countries: Professionalism and Accountability

The military financial support system in NATO member states is tailored to the needs of a professional army, built upon market economy principles and high budget transparency. This model generally consists of two main components: a Basic Component determined by rank, position, and tenure, and Additional Pay awarded for skills, service conditions, and operational risk [1].

A crucial element of the NATO model is the monetary compensation for the hardships of military life. For example, countries like the UK and Australia utilize an "X Factor" pay element to compensate for the inherent inconveniences of a military career (e.g., frequent relocation, family constraints) [6]. This is a primary monetary mechanism for incentivizing professional service over civilian employment. Compensation for risk is also paramount. In countries like the United States, service members in combat zones receive Hostile Fire/Imminent Danger Pay (HFP/IDP), often compensated at a fixed rate (e.g., $225), which is frequently coupled with Combat Zone Tax Exclusion (CZTE) benefits [7].

The financial management system demands a high degree of accountability. The U.S. Department of Defence (DoD) employs the PPBE (Planning, Programming, Budgeting, and Execution) process to ensure budget resources are strategically aligned with military objectives

[8]. Most importantly, financial transparency is ensured through annual audits of NATO budgets. Independent audit results, such as the IBAN (International Board of Auditors for NATO) reports, publicly disclose the financial status of defence organizations [3]. This systemic transparency aids in controlling the effective use of funds and provides swift reporting via automated systems [9].

C. Comparative Analysis: Strengths and Weaknesses

The comparative analysis reveals that the differences between the NATO and Former Soviet financial models lie not only in economic mechanisms but also in the philosophical approach to military personnel.

The Soviet system sought to protect the service member from external economic volatility through In-Kind social guarantees. While this approach ensured long-term stability and security, it also diminished the market adaptability of personnel and increased their economic dependence on the system. In the NATO model, monetary compensation is paramount. Compensating the hardships of military service (the X Factor) in cash gives the service member the freedom to manage their financial resources, facilitating their integration into civilian life after service.

From a financial management perspective, the NATO system views finance as a strategic resource. The use of the PPBE process and Business Intelligence (BI) tools [8] allows financial data to be utilized not just for accountability but as a rapid analytical tool for strategic decision-making. The closed and bureaucratic structure of the Soviet system could not provide such speed and transparency. Furthermore, while the NATO system features high-risk compensation, the distribution of these payments (HFP/IDP) has, in some areas, become decoupled from actual risk exposure [7], potentially negatively impacting fairness and motivation.

Financial Support Model	Key Feature	Advantages	Disadvantages
Former Soviet Model	Centralized provision, low cash salary, in-kind social protection.	High social stability, guaranteed fulfilment of basic needs.	Low budget transparency, weak incentive for skill development, non-market adaptable.

Financial Support Model	Key Feature	Advantages	Disadvantages
NATO / Professional Army Model	Differential pay, transparent budget, cash compensation, "X Factor" [2].	High incentive for professionalism, clear compensation for service risk [7], high accountability [3].	Higher operational costs, pay reliance on market conditions and political decisions.

4. Discussion

D. Proposed Integration and Reform Recommendations

Uzbekistan must continue reforms aimed at strengthening the social and financial protection of its military personnel [4]. The creation of a Hybrid Model, which integrates the best features of both systems, represents the key strategic solution in this process.

Financial Management Transparency and Automation

Based on NATO experience, financial management processes must be fundamentally improved in transparency. The introduction of PPBE principles is vital to ensure budget resources are allocated in line with military strategy [8]. Integrating ERP systems and Business Intelligence (BI) tools will enhance the speed and accuracy of financial reporting [10]. This automation is particularly necessary to address critical deficiencies in inventory and material support [8].

Monetary Incentives for Professionalism

A service member's salary should be linked not only to rank and tenure but directly to their skills (Skill Pay), specialization, and risk level [2]. Compensation for combat risk (analogous to the NATO HFP/IDP model) must be introduced based on strict criteria [7]. Furthermore, adapting a monetary compensation mechanism like the "X Factor" to Uzbek conditions, covering the life restrictions of military service, will help retain high-quality professional personnel long-term [6].

Modernization and Monetization of Social Guarantees

The centralized, in-kind housing provision of the Soviet system should be replaced by a modern system of housing subsidies and preferential mortgage loans. Leveraging Uzbekistan's legal basis in this regard [5] grants service members financial freedom, ensuring their future social integration. Establishing a Severance Pay system for highly qualified personnel with long service will also enhance the prestige of the career [6].

Comparative Analysis Outcome	NATO Experience (Lessons Learned)	Soviet Experience (Retained Strengths)	Applicability for Uzbekistan
Financial Management / Audit	PPBE process and independent audit reports (e.g., IBAN) [3].	High-level central control and financial discipline.	Implementation of ERP and BI tools; increasing transparency [11].
Compensation System	Highly differentiated pay based on service and risk conditions [1].	High level of overall social care for basic necessities.	Monetization of military skills; adapting risk compensation and X-Factor elements.
Social Protection	Housing rental coverage, high pensions, and insurance packages. Monetary benefits [6].	State provision (housing, medical care, educational privileges).	Strengthening the monetary component of social protection (targeted subsidies) based on 2025 legal framework [5].

5. Conclusion

The comparative analysis has shown that the financial support models of the Former Soviet Union (focused on social guarantees) and NATO (focused on professionalism and monetary compensation) each possess distinct strengths and weaknesses. While the Soviet system offered stability to the service member, the NATO system ensures efficiency and accountability.

The optimal path for the Armed Forces of Uzbekistan today is the creation of a Hybrid Model that adopts the positive elements of both systems. This model should retain the social guarantees of the Soviet era while integrating NATO standards of financial transparency, highly differentiated pay, and skill-based incentives [2]. Future reforms must focus on the strategic automation of Financial Management (FM) and strengthening the social protection of military personnel through monetary compensation [5]. This comprehensive approach will stabilize the flow of professional personnel and allow for the maximum efficiency in the use of the defence budget.

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