

Financing of Peacekeeping Operations

A benchmark study

Marcel de Haas and Martijn Beerthuizen

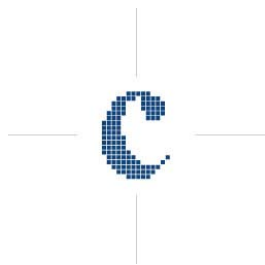
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1. Introduction

This study was initiated following a request from the Dutch Ministry of Defence to the Clingendael Institute to carry out a benchmark study into the financing of peacekeeping operations (FPO) between the Netherlands and several benchmark states. The benchmark states used in this study are the United Kingdom (UK), Canada, Germany and Denmark. The purpose of this study is to provide useful background information for the Ministry of Defence exploratory study into the level of Dutch long term defence expenditures, requested by the Dutch Parliament in November 2007.¹

In the Netherlands the FPO is provided for by the Defence budget. Additional expenditures for military operations can be charged out of a separate interdepartmental fund, the “Homogene Groep International Samenwerking” (HGIS, Homogeneous Group International Cooperation). Our study shows that every benchmark state has a different approach to the FPO. The United Kingdom, for example, has a ‘fixed’ budget line in the Defence Estimates which provides the FPO funds; however, the UK also has an interdepartmental fund comparable to HGIS; Canada finances the FPO out of the Defence budget with a clear separation of planned and additional expenditures; Denmark provides finances for the FPO out of a fixed budget line in the Defence budget; and Germany uses a fixed budget line in the Defence budget as well, but new, unforeseen, missions are covered by the general budget.

Our background study has shown that – as far as can be seen – no other comparable studies have been done concerning this subject. For this reason the available sources are mostly comprised of primary (financial) information and policy documents of the different examined states (generally written in the local language). The majority of the non-Dutch sources are obtained through the benchmark states’ defence attachés.

1 Letter to Parliament, Verkenningen naar het niveau van de defensiebestedingen, 16 November 2007.

1.1 Structure

This study will try to give an answer to the following central questions: How do the benchmark states provide for the financing of peacekeeping operations? How do these different methods relate to the Dutch practice? And do these findings give an incentive to recommend changes in the Dutch policy towards the FPO?

In order to provide answers to these questions, information will be provided of the different methods of FPO and different policy options will be shown. The Dutch approach to FPO and possible flaws in this approach are discussed in the second chapter. The third chapter consists of a survey of the FPO in the benchmark states and looks into how the decision making process with regard to the FPO is constructed, how the budgetary funds for the FPO are committed in the various Defence budgets, in what way the FPO in the benchmark states is administered (integral or by separation between planned and additional expenditures) and what functions the Ministries of Finance and Foreign Affairs and departments of Defence fulfil in the FPO decision making process. A comparison between the FPO in the Netherlands and the benchmark states is made in the fourth chapter. The fifth and final chapter gives an analysis of the differences and presents conclusions and recommendations.

2. Financing of Peacekeeping Operations in the Netherlands

In accordance with the Dutch constitution, the government decides upon the deployment of the armed forces. However, before the government deploys the military for the benefit of international stability, the Dutch parliament has to be formally informed. This obligation is written down in article 100 of the Dutch constitution and is in effect since the constitutional reform in 2000.² This ‘right of information’ does not give the Parliament a formal co-decision power; in practice, however, the Government follows their judgment. Next to this custom the Government highly values a politically broad-based parliamentary approval as a measure of public support for the decision to take part in an international military operation. A decision to deploy troops also includes a decision concerning the financing of the particular operation.

The three main tasks of the Dutch armed forces (collective defence, peacekeeping operations and supporting the civil authorities³) are partly financed out of the defence budget and partly covered by exogenous funds. The operational readiness and the maintenance of defence capabilities as well as the first main task, collective defence, are financed *endogenously* out of the defence budget. When deploying troops in relation to operations concerning the second and third main tasks, the **additional** expenditures are financed *exogenously*. This study attends to the financing of the second main task of the armed forces: peacekeeping operations.

2 RIJKSNET van 22 juni 2000, Stb. 2000, 294, tot verandering in de Grondwet van de bepalingen inzake de verdediging. Inwerkingtreding: 18 juli 2000; <http://www.st-ab.nl/1-00294.htm>

3 The official formulation of the main tasks of the Dutch forces are : “1. Protecting the integrity of national and Alliance territory, including the Netherlands Antilles and Aruba; 2. Promoting the international rule of law and international stability; 3. Supporting civil authorities in upholding the law, providing disaster relief and humanitarian assistance, both nationally and internationally.” http://www.mindef.nl/binaries/7302_Kerngegevens_Def_engels_tcm15-80022.pdf

2.1 Earmarked budget: the Homogeneous Group International Cooperation

The peacekeeping operations are financed from two different sources. Firstly, there are expenditures that cover the anticipated operational readiness costs, for example the maintenance of equipment and military training. Secondly, there are unforeseen costs which arise during the peacekeeping operations. These costs are earmarked as ‘**additional** expenditures’ and include for example the transportation costs to and from a mission theatre, extra soldier allowances and additional acquisition of mission specific equipment.⁴ The additional expenditures are not covered by the defence budget, but are instead financed out of the Homogeneous Group International Cooperation (HGIS) and by compensation payments for military deployments part of International Organizations’ missions, which are reported as ‘Revenues of UN/NATO partners’ in the defence budget. The expenditures in relation to FPO are reported under budget line ‘20’ in the Defence estimate: “deployment for peacekeeping operations”.⁵ The **additional** expenditures in relation to peacekeeping operations are estimated and accounted for as part of HGIS and do not appear in detail in the Defence budget. The expenditures are thus charged on the HGIS budget and appear as income on the general Defence budget.⁶ In order to compare the FPO with the benchmark countries it is important to gain an insight into HGIS, how additional expenditures are defined and what the pros and cons of this financial construction are.

2.1.1 HGIS (*construction*)

HGIS was set up in January 1997 as part of the policy recommendations in the memorandum ‘Recalibrating Foreign Policy’.⁷ HGIS is an independent budgetary construction within the General Budget which covers the expenditures in relation to foreign policy of several governmental departments. HGIS is therefore an important instrument for an integrated and coherent foreign policy. The size of the HGIS fund is determined every year during the general budget estimates and distinguishes between ODA (Official Development Assistance) and non-ODA expenditures. The total volume of the HGIS fund 2008 is 6.5 billion euro of which 4.9 billion euro is reserved for

4 The MOD defines additional expenditures as follows: ‘additional expenditures are all necessary expenditures which have a direct relationship with a peacekeeping operation and would not have been spent if the operation would not have been conducted. These additional expenditure form a surplus on the normal expenditures budget.’ Studie 8.23 Uitgavenstijgingen Crisisbeheersingsoperaties, DGFC/ABAR, oktober 2007, p. 4.

5 Studie naar de financieringssysteematiek voor de inzet van militairen, pp. 3, 5-6; Studie 8.23 Uitgavenstijgingen Crisisbeheersingsoperaties, p. 10.

6 Defensiebegroting (Defence Estimate) 2008, Tweede Kamer, vergaderjaar 2007–2008, 18 september 2007, 31 200, hoofdstuk X, nr. 2, p. 30.

7 Studie naar de financieringssysteematiek voor de inzet van militairen, p. 6.

development assistance (ODA) and 207.5 million euro is reserved for the financing of peacekeeping operations (non-ODA).⁸

The budget line 'peacekeeping operations' within the HGIS fund is a structural provision covering for the financial burden of **additional** expenditures in relation to the deployment of the armed forces in current and future peacekeeping operations. The Ministry of Defence (MOD) also receives a small amount of HGIS ODA funds, 13 million euro in 2008, to cover for ODA expenditures such as security sector reform (SSR) projects. Up to 2007 the MOD received compensation for the contribution to the United Nations (UN) out of the HGIS fund as well, but currently these contributions are paid for by the Ministry of Foreign Affairs (MFA). In sum, the expenditures which the MOD can charge from the HGIS fund consist of a non-ODA part to cover the **additional** expenditures for peacekeeping operations and a, small, ODA part to cover for MOD development projects.⁹

2.1.2 Additional expenditures defined

The additional expenditures have to meet the following characteristics as defined by the MOD:

- a. The expenditures have to be directly linked to the operation;
- b. The expenditures would not have been made during normal conduct of business and are therefore not covered by the general defence budget;
- c. Expenditures which comply with these criteria and are normally costs covered by the definition of personnel and equipment expenditures;
- d. Expenditures as a consequence of extra (and unforeseen) wear of equipment.

2.2 Involvement of other departments

Within the framework of HGIS the MOD cooperates with the MFA, and as part of the MFA the Department of Development Assistance, as well as with the Ministry of Finance. The MFA is the general administrator of HGIS and is therefore responsible for a balanced HGIS budget. Furthermore, the MFA is coordinator of the HGIS non-ODA part and the Department of Development Assistance is coordinator of the ODA part. The MFA proposes the initial structure of the non-ODA HGIS budget and provides advice in relation to

8 Homogene Groep Internationale Samenwerking 2008 (HGIS-nota 2008), Tweede Kamer, vergaderjaar 2007-2008, 18 september 2007, 31 203, nrs. 1-2, pp. 5-6, 24 en 35; Studie naar de financieringssysteem voor de inzet van militairen, p. 6; Studie 8.23 Uitgavenstijgingen Crisisbeheersingsoperaties, p. 11.

9 Studie 8.23 Uitgavenstijgingen Crisisbeheersingsoperaties, pp. 10-11.

existing and future projects. The Ministry of Finance decides on the total (including the non-defence-) non-ODA HGIS budget.¹⁰

2.3 Imperfections in the FPO

The current financial structure has a couple of known problem areas and imperfections which will be reviewed below.

2.3.1 Problem areas

First of all it is identified as an ongoing trend that the distinction between the three main tasks of the armed forces is blurring; terrorism, for example, is not only combated in Afghanistan but also within the national borders. It is therefore increasingly difficult to determine who is supposed to finance the **additional** costs of different military operations; assisting during a mad-cow disease outbreak, for example, is in essence assistance to the Ministry of Agriculture, but it can also be seen as a matter of national security.

Secondly, the MOD has to deal with completely new tasks in the changing international environment. Next to the recently evolved issue area of international terrorism, developments such as increased piracy, threats to energy security and digital threats need more and more attention. The most obvious budget from which to pay for these increased activities is not easily identified.

A third problem area, related to the above, is that new tasks also lead to an increased burden on existing tasks and (could) lead to increased costs for the maintenance of equipment and operational readiness of the armed forces.

2.3.2 Imperfections

The size of the structural provision FPO *within* HGIS is increasingly insufficient. The operations in which the Netherlands participates are more complex and involve a higher risk; the distance to operational theatres is increasing and there is a shift from UN based operations (partly funded by the organization) towards NATO based operations (which are wholly funded by participating nation). Each of these developments increases the operational costs of peacekeeping operations.

10 Studie naar de financieringssysteematiek voor de inzet van militairen, pp. 4, 6-7.

Another imperfection *within* HGIS involves the increasing (unforeseen) operational losses, such as the loss of armoured vehicles, fighter jets and helicopters, and increasing weariness of equipment due to the often extreme circumstances which results in increased maintenance costs and accelerated depreciations of equipment. A structural financial system to cover these costs is absent.

The FPO *outside* HGIS, usually collective funding from international organizations, falls severely short.¹¹ Since NATO and the EU, in contrast to the UN, do not follow the principle of burden sharing with regard to military operations, these international organizations do not provide collective funding for operations.

Finally, it is important to stretch the fact that the expenditures with regard to peacekeeping operations are often complex and diverse. As a consequence a gray area exists in determining expenditures as **additional** or not. The MOD is trying to define this grey area as best as possible.¹² It is inevitable, however, that determining whether expenditures are **additional** continues to be a subjective decision.

11 Studie naar de financieringssysteematiek voor de inzet van militairen, pp. 11-15.

12 Studie 8.23 Uitgavenstijgingen Crisisbeheersingsoperaties, pp. 22-23 en 26.

3. FPO in the benchmark states

The different practices of financing peacekeeping operations in several benchmark states provides for an insight into different opinions regarding the FPO. The United Kingdom (UK), Canada, Germany and Denmark are selected because of their involvement in similar operations as the Dutch military (for example the ISAF mission in Afghanistan) and because they have a ‘level of ambition’ which coincides with the Dutch foreign and security policy.

Firstly, the decision making process preceding the decision to participate in peacekeeping operations as well as the way in which the peacekeeping operations are financed of each benchmark state is examined. Secondly, how these states deal with unforeseen, **additional** expenditures of ongoing missions will be discussed. Thirdly, it will be determined whether an interdepartmental fund comparable to HGIS exists in the benchmark states. Finally, the question concerning the role of other ministries, such as Foreign Affairs or Finance, in determining the FPO is answered.

As mentioned before, the information was difficult to retrieve. Public documents are often very complicated for non-finance experts and a thorough examination of the estimation and crediting processes was therefore not possible. The scope of this research, however, was the manner of budgeting and its implications, and this did prove to be possible to document. The summary below shows that there are some major differences in the FPO by the various benchmark states.

3.1 The United Kingdom

In the United Kingdom the decision to participate in peacekeeping operations is made by the minister of Defence (MOD) with approval of the minister of the Foreign and Commonwealth Office (FCO). With larger operations more members of the Cabinet are involved in the decision making process including

the Prime Minister. The British Parliament is not requested to approve the decision to participate in peacekeeping operations.

In the Main Estimates, at the beginning of the financial year, the MOD does not provide for a budget estimation of costs for peacekeeping operations in the *Expenditure Plans*. Although the Parliament has continuously requested otherwise, the MOD argues the costs for peacekeeping operations are highly variable and are therefore difficult to estimate. The House of Commons Defence commission regards it unacceptable that the MOD is financing military operations – such as those in Iraq, Afghanistan and the Balkans – without parliamentary approval beforehand and without even providing for an estimate of expected costs.¹³ However, the *Supplementary Estimates*, usually published in winter and spring, contain an estimation of the costs on the basis of current expenditures and the short term estimated additional expenditures.¹⁴ Based on this additional information the final budget for peacekeeping operations is determined.

3.1.1 Earmarked budget: Unprogrammed Operations / Conflict Prevention Costs

The British defence estimates consist of three broad budget lines, so called *Request for Resources* (RfR):

- RfR1: *Provision of defence capability* (operational readiness, personnel and equipment costs);
- RfR2: *Conflict Prevention* (peacekeeping operations expenditures)
- RfR3: War pensions, and Allowances, etc.¹⁵

Within the budget line RfR2 *Unprogrammed Operations / Conflict Prevention Costs* of the defence budget the costs for peacekeeping operations are administered as well as the MOD's contributions to the interdepartmental Conflict Prevention Pool.¹⁶ The term '*conflict prevention*' covers all military operations in conflict areas:

13 The Government's Expenditure Plans 2007-2008, Ministry of Defence, July 2007, p. 17; Ministry of Defence Main Estimates 2007-2008, Twelfth Report of Session 2006-2007, 9-7-2007, House of Commons Defence Committee, pp. 3, 11-12.

14 Ministry of Defence Main Estimates 2007-2008, p. 11.

15 The Government's Expenditure Plans 2007-2008, p.10; Ministry of Defence Main Estimates 2007-2008, p. 5.

16 The Government's Expenditure Plans 2007-2008, p. 14.

*“The Estimates states that RfR2 covers conflict prevention, early warning, crisis management, conflict resolution, peacemaking, peacekeeping and peace building activity and... associated strengthening of international and regional systems and capacity; and other associated non-cash items”.*¹⁷

The House of Commons Defence commission is, however, of the opinion that the term ‘*Conflict Prevention*’ is misleading, because the nature of the covered military operations varies enormously: from offensive “war” operations to peacekeeping operations.¹⁸

3.1.2 Conflict Prevention Pool¹⁹: the British HGIS

The *Conflict Prevention Pool*, created in 2001, is an interdepartmental fund which is financed by the FCO, the Department for International Development (DFID) and the MOD. In a common strategy, based on shared conflict analyses, shaped by the FCO, DFID and MOD, the fund combines diplomacy, defence and development policies.²⁰

The *Conflict Prevention Pool* provides for separate budgets: a *Peacekeeping* and a *Programme Budget*. The *Peacekeeping budget*, administered by the FCO, finances the British participation in UN-operations (especially the British contribution to the UN-mission in Cyprus, UNFICYP) and the British contribution (ca. 8%) to the overall expenditures of UN-mission world wide. The *Programme Budget*, which is administered by all three departments, finances mostly conflict prevention projects, emergency development aid, Security Sector Reform projects and Light Weapons prevention projects. A predetermined percentage of the *Conflict Prevention Pool* funds are available for official development aid (ODA) projects, which usually makes these funds unavailable for military purposes.

The *Conflict Prevention Pool (CPP)* is comparable to the Dutch interdepartmental fund HGIS. Both funds combine development, diplomacy and defence policies for the benefit of international peace and stability. However, the British construction provides *only* for the financing of development projects, ODA and non-ODA. HGIS, in contrast, finances the additional costs of Dutch MOD peacekeeping operations as well, whereas the British MOD covers these costs directly within their own budget under the budget line RfR2. Moreover, the CCP funds are not originating directly from

17 The Government’s Expenditure Plans 2007-2008, pp. 10, 13-14; Ministry of Defence Main Estimates 2007-2008, p. 7.

18 Ministry of Defence Main Estimates 2007-2008, p. 7.

19 The Conflict Prevention Pool is, since April 2008, a combination of the old Global Conflict Prevention Pool and the Africa Conflict Prevention Pool.

20 The Global Conflict Prevention Pool, A joint UK Government approach to reducing conflict, Foreign & Commonwealth Office, August 2003, pp. 4-5.

the British General budget (as are the HGIS funds, which originate directly from the Dutch General budget), but are provided for by the three cooperating departments. Where HGIS pays for military development projects, the CPP receives funds from the British MOD to pay for these military development projects.²¹

3.1.3 *Involvement of other governmental departments*

The FCO and DFID are not involved in the decision making process with regard to the financing of peacekeeping operations. They do of course have an advisory role. It is possible, however, that the FCO finances several projects through the *Conflict Prevention Pool* which run parallel to MOD peacekeeping operations. The cooperation between the MOD, FCO and DFID is organized in a formal and structured way by means of the *Conflict Prevention Pool*. The three departments make a collective decision with regard to the various *Conflict Prevention Pool*-projects and the eventual coordinating responsibility is delegated to the Ministry which has the best oversight and knowledge in the matter.²²

Besides the MOD, the FCO and DFID, the Ministry of Finance is involved in the FPO as well. The minister of Defence consults directly with the minister of Finance with regard to the financing of peacekeeping operations.

3.2 **Canada**

The Canadian Cabinet generally decides upon participating in peacekeeping operations without consulting Parliament. However, when an operation has a high degree of public interest, depending on size or political impact, for example the mission in Afghanistan, Parliamentary consultation is requested. The approval process for a peacekeeping operation requires a briefing note to Cabinet which includes estimates for funding, personnel requirements, and risk assessments as well as an exit strategy. The final decision rests with the Prime Minister.

21 The Government's Expenditure Plans 2007-2008, p. 17; HGIS nota 2008.

22 Ministry of Defence Main Estimates 2007-2008, p. 8.

Canada has arranged for the FPO as follows. The Canadian government finances **unforeseen** national and international military operations by means of formal proposals to the Cabinet and the *Treasury Board*.²³ The Department of National Defence (DND) provides for the **additional** financing in support of such operations.

3.2.1 *Earmarked budget: Operations*

The Canadian Defence budget consists of three program areas:

1. Generate and Sustain Integrated Forces;
2. Conduct Operations;
3. Contribute to Canada and the International Community.

The **ongoing** missions are budgeted for in the yearly Canadian defence estimate under the general budget line 'Operations'. Expenditures resulting from costs made by the land forces, air forces and the navy in support of these **ongoing** operations are partly funded from their respective budget lines. In the budgetary year 2005-2006 the operational costs of these army divisions amounted to almost 20% of the available 'Operations' budget.²⁴ A similar construction as HGIS or CPP is not in existence in Canada.

The FPO is organized, more specifically, along three budget lines within the DND budget in support of **ongoing** operations:

- a. *Business Plans*, submitted by Force Generators and Force Employers of the three army divisions;
- b. *Deployed Operations Account* (DOA), associated with *in-theatre* expenditures, such as deployment costs, strategic movement costs, and costs of encampment (including fuel, supply chains and storage);
- c. *Support to Deployed Operations* (SDOA), to capture mission-specific *out-of-theatre* costs such as pre-deployment training. These are costs which would not have been made when troops would not have been deployed.²⁵

23 In the government of Canada the Treasury Board is the only statutory cabinet committee. The committee is composed of five of the most powerful cabinet ministers, always including the Minister of Finance. The President of the Treasury Board, a cabinet minister, carries out his responsibility for the management of the government by translating the policies and programs approved by Cabinet into operational reality and by providing departments with the resources and the administrative environment they need to do their work. The Treasury Board is responsible for accountability and ethics, financial, personnel and administrative management, comptrollership and approving regulations. Source: http://www.tbs-sct.gc.ca/common/us-nous_e.asp#TB.

24 Departmental Performance Report for the Fiscal Year ending March 31, 2006, Department of National Defence, p. 80.

25 'Funding mechanism – Support to deployed operations Canadian Forces'.

3.2.2 *Support to Deployed Operations Account*

The SDOA is a flexible financial reimbursement structure, which supports **ongoing** operations without causing pressure to any other budget line. To be considered financially reimbursable under SDOA, a funding requirement must meet the following criteria:

- expenditures are **additional** to financial allocations made in the budget (*Business Plans*) and cannot be mitigated internally;
- there must be a designated **contingency** operation, as approved by the Canadian Government and/or the CDS;
- the activity is related to the approved **contingency** operation; and
- The expenditure has to be significant relative to the size of and pressures on the original budget allocation (*Business Plan*).²⁶

SDOA expenditures are aligned into categories to which requests for funding will be assigned. The working categories are as follows:

1. Operating Budget direct expenditures (e.g. operations equipment);
2. Corporate Account direct expenditures (e.g. military pay); and
3. Indirect expenditures (e.g. backfill of positions).²⁷

A request for resources out of the SDOA budget line is evaluated internally at the DND along the above mentioned criteria and categories. Examples of reimbursements under the SDOA could be:

- The extra use of ammunition during operations;
- Mission-specific clothing and equipment;
- Medical care for personnel during repatriation; and
- Additional personnel for mission-specific trainings.

3.2.3 *Involvement of other governmental departments*

The realization of a Canadian decision to participate in a peacekeeping operation is increasingly broadening from a '3D' approach (Defence, Development, Diplomacy) towards a 'whole of government approach', which involves more departments than just the '3D's' in the final recommendations to the Cabinet. However, the Department of Foreign Affairs and International Trade (DFAIT) traditionally provides for the rationale in terms of Canadian national interests which underpins a decision to participate in a particular peacekeeping operation. The Department of Finance and the *Treasury Board* are the two government agencies which issue the final approval of the proposed financing of a peacekeeping operation.

26 'Funding mechanism – Support to deployed operations Canadian Forces' p.2.

27 'Funding mechanism – Support to deployed operations Canadian Forces' p.3.

3.3 Denmark

It is a Danish tradition that the Parliament determines the defence budget for a period up to five years as part of the Danish Defence Agreement (DDA), which is concluded between the Danish Parliament and the Ministry of Defence. The Defence Agreements are usually based on a politically broad Parliamentary majority which grants these agreements a durability that can exceed a Cabinet term. The current Danish Defence Agreement 2005-2009 was concluded 10 June 2004.²⁸

The Defence Agreement describes the Danish military and political ambition level, the main tasks of the armed forces and the available financial resources. Reforms, budgetary cuts or additional funds are also agreed upon in the DDA.²⁹

In comparison to the Dutch structure, the DDA is best compared with the Dutch defence white paper. The exception is that the Danish document does not originate from the Government, but is an agreement between Parliament and the Ministry of Defence.

3.3.1 Earmarked budget: Danish Defence's international operations

Within the Danish defence budget a provision is made for participation of the Danish armed forces in international operations: *"to finance additional expenses associated with Danish Defence's international operations"*. This budgetary provision should be sufficient for the Danish Ministry of Defence to be continuously able to deploy 2,000 soldiers for the purpose of peacekeeping operations. The funds available in the *international operations* budget line can be used for the following purposes related to international operations:

"...expenses for mission preparation activities, local expenses in the mission area, increased payroll expenses in connection with deployment of contract personnel, additional and variable payments in connection with deployment of permanent personnel, expenses for net additional consumption of fuel, spare parts, ammunition etc., expenses for deployment and redeployment as well as construction, operation and dismantling of camps".³⁰

The funds from the *international operations* budget line can only be used after a co-decision by the Danish Government and the Parliament to participate in a particular peacekeeping operation. If it would be the case that the earmarked budget for peacekeeping operations is not sufficient to cover all the

28 Danish Armed Forces International Perspectives, Danish Ministry of Defence, p. 8.

29 Danish Defence Agreement 2005-2009, Danish Ministry of Defence, 10 June 2004.

30 Memorandum consolidated implementation basis for "Danish Defence Agreement 2005-2009", Danish Ministry of Defence, 7 December 2004, pp. 1 en 4.

expenditures, the Danish Parliament will decide how and from where the requested **additional** funding is provided.³¹

3.3.2 *Involvement of other governmental departments*

The policy documents of the Danish Ministry of Defence do not mention any arrangements with or involvement of other departments in the FPO. A HGIS- or CPP-like construction is not in existence. The Defence Agreement, however, clearly shows that the Danish Parliament plays a very important role in the decision making process which assigns financial means to the Defence budget in general, and to the financing of peacekeeping operations in particular.

3.4 **Germany**

In 1994 the German Federal Constitutional Court decreed that the German armed forces, the *Bundeswehr*, can be deployed for the purpose of international peacekeeping operations in the context of the collective security system. The German government is primarily responsible for the decision to deploy the *Bundeswehr*. However, the German constitution requires Parliamentary (*Bundestag*) approval of any kind of military operation.³²

The German FPO with regard to **ongoing** and planned operations is decided upon and estimated in the yearly budget negotiations for the coming year. With regard to new and **unforeseen** sizable operations which occur during the budgetary year and are therefore not provided for within the defence budget, the financing is covered by the General budget after approval by the Federal government in cooperation/ co-decision with the *Bundestag*.

3.4.1 *Earmarked budget: embedded in the defence budget Einzelplan 14*

The financing of *Bundeswehr* peacekeeping operations is provided for out of the defence budget, 'Einzelplan 14'. The available funds cover international operations under the flags of NATO, the UN and the EU. The budget for the financial means for operations in *Einzelplan 14* is based on existing commitments and cost-estimations for the near future. Considering the experiences with international military operations, however, the Germans keep in mind that the operational expenditures almost always exceed the estimated budget. Besides, some international crises cannot be foreseen and therefore cannot be planned for. Within the *Einzelplan 14*, therefore, the possibility exists to finance **additional** costs of **ongoing** missions out of budgetary cuts elsewhere in the Defence budget. And out of extra revenues as a result of

31 Danish Defence Agreement 2005-2009, pp. 18-19.

32 Weißbuch zur Sicherheitspolitik Deutschlands und zur Zukunft der Bundeswehr 2006, Bundesministerium der Verteidigung, 25 October 2006, p. 66.

participating in international operations (UN-restitutions for example). The creation of extra available funds is only possible when the designated funds are not earmarked for other purposes or other, higher priority needs exist.

3.4.2 Redesigning the budget towards an expeditionary military force

Since a couple of years the *Bundeswehr* is transforming from an army equipped for a large scale conflict towards an expeditionary military force, designed to be deployed in international operations. This transformation is expressed in the 2008 defence budget as well: the budget is more and more reshaped into a 'deployment-budget', *Einsatzhaushalt*. This implies that the financing of the required material and personnel resources for specific operations is more and more covered out of the 'general' defence budget lines designed for equipment and personnel costs. When fully redesigned, the budget line for international operations is thus fully available for purely mission related (**additional**) expenditures. In accordance with these reforms the demand for additional equipment as a result of increasing deployment in international operations is covered by the regular equipment acquisition procedures, while the financing of urgent, mission-specific equipment demands are marked as '**additional expenditures**'.³³

3.4.3 Involvement of other governmental departments

The German Ministry of Finance plays a role in the FPO only when it concerns the financing of new, **unforeseen** operations. When this is the case the financing is not provided by the Defence budget, but by the General budget. Other departmental budgets, such as the Ministry of Foreign Affairs budget, are not used to generate extra funds to finance unforeseen operations. When additional funding is needed the Ministry of Finance usually comes to a suitable agreement with the Ministry of Defence. The German FPO is not familiar with a HGIS-/ CPP-like construction. As in Denmark, the German Parliament plays a very important and often decisive role in granting funds for any kind of military operation or deployment.

33 Erläuterungen und Verleiche zum Regierungsentwurf des Verteidigungshaushalts 2008, Bundesministerium der Verteidigung, August 2007, p. 9.

4. Comparing the different decision-making and financing processes with regard to peacekeeping operations

The data used in this chapter to compare the FPO and related policy aspects between the Netherlands and the benchmark states can be found throughout this study. At the end of this paper, however, the differences and resemblances can be easily reviewed in Table 1: ‘Comparison FPO between the Netherlands and the benchmark states’.

4.1 Actors involved in approving a new peacekeeping operation

In most benchmark states the Cabinet/ Government decides whether to participate in peacekeeping operations. A striking difference is the extent to which the various Parliaments have a (co-)decision right. In the British system the influence of Parliament is fewest. The complaints of the House of Commons, concerning the lack of resources at their disposal to monitor the Government in the FPO, support this observation. The Danish and German Parliaments, in contrast, play a decisive role in the decision making process with regard to participation as well as financing of peacekeeping operations. Canada (consultation of Parliament) and the Netherlands (information of Parliament) take a middle position in this matter.

4.2 Budget lines for the FPO in the defence estimates

Although the FPO is not explicitly mentioned in the defence estimates of all states – in contrast to the Netherlands, Canada and Germany – there generally is a general budget line within the defence estimates which covers the expenditure with regard to the FPO. This includes expenditures for the purpose of maintenance of equipment and training of troops for operational readiness.

Besides, all benchmark states have a specific budget line for the FPO. In the case of the UK and Denmark this budget line has to cover all **additional**

expenditures as well. The only budget line with regard to the FPO (and not for **additional** expenditures) in the Dutch defence estimate is the budget line ‘Reimbursements UN/NATO-partners’, but this involves a credit entry, not expenditures.

4.3 Balance additional expenditures of peacekeeping operations

With the exception of Denmark, where Parliament decides from where **additional** expenditures are financed, all other states have a provision within the defence estimate for **additional** expenditures of peacekeeping operations. The budgeting practice, however, varies widely.

The Netherlands uses HGIS; the UK does not have a separate budget line besides the total amount of expenditures with regard to the FPO; Canada has two earmarked funds; and Germany provides for the financing of **additional** expenditures by means of defence budgetary savings and the reimbursements received from international organizations for delivered German assistance.

The starting points for balancing **additional** expenditures, such as the Canadian requirements for usage of the *Deployed Operations Account* (DOA) and the *Support to Deployed Operations Account* (SDOA), mostly match the requirements used for the Dutch HGIS fund. HGIS, however, is an interdepartmental budgeting construction within the General budget, whereas the Canadian DOA and SDOA are part of the Defence budget itself.

4.4 HGIS (construction)

Only the Netherlands and the UK use a HGIS (-like) budgetary construction, which involves an interdepartmental fund out of which international cooperation activities of the three D’s (Defence, Diplomacy and Development) are financed. A similarity in these budgetary constructions is that both countries support military development programs aimed at the reconstruction of the security apparatus of developing states (e.g. the SSR-programs). Furthermore, the Dutch HGIS as well as the British *Conflict Prevention Pool* (CPP) provide for the (**additional**) expenditures of the FPO with regard to UN peacekeeping operations. However, HGIS also finances the **additional** expenditures of non-UN operations and the UN-earmarked *Peacekeeping Budget* of the CPP provides funds for *all* UN operations expenditures, not only the **additional** expenditures. Both HGIS and the CPP distinguish ODA from non-ODA expenditures.

There are several differences to be noted as well. The Dutch HGIS construction, for example, is a separate part of the General budget, whereas the

British MOD, FCO and DFID provide for the funds in the CPP out of their own departmental budgets. Another difference is that HGIS finances all peacekeeping operations out of the non-ODA budget. The UK finances the peacekeeping missions (with the exception of UN operations) out of the budget line RfR2 *Conflict Prevention* in the defence estimate.

4.5 Involvement of other departments

In the Netherlands and in the UK the Ministries of Foreign Affairs and Development Cooperation are important actors in assigning the necessary funds to HGIS and the CPP respectively. Besides, the Ministries of Foreign Affairs of both these states as well as the Canadian MFA are involved in providing the rationale for the decision to participate in new peacekeeping operations. In the UK the MFA even has to explicitly approve this decision.

The role of the Ministries of Finance varies between the different states. This department is in the Netherlands involved in decisions regarding HGIS (the non-ODA part); in the UK it consults closely with the MOD regarding the FPO; the Ministry of Finance in Canada formally approves the FPO; and in Germany it decides upon the financing of new, unforeseen operations out of the General budget.

It is conspicuous that in Germany and Denmark the role of other departments besides the MOD and Finance is less prominent or unknown. A possible explanation for this observation could be that in these benchmark states a HGIS-like budgetary construction is absent, which prevents different departments from cooperating more structurally and could provide higher commitments of the different departments towards the FPO. Canada strives to use a 'whole of government' approach in the decision making process regarding the FPO. A joint administrative structure for this approach is, however, not in place. The Canadian *Treasury Board* does dispose of an interdepartmental financial policy structure which highly influences the FPO.

5. Conclusions and Recommendations

5.1 Financing the additional expenditures of peacekeeping operations

5.1.1 *From within or outside of the defence estimate*

Compared to the benchmark states the Netherlands is the only country that structurally finances the **additional** expenditures of peacekeeping operations *outside* of the Defence estimate. It is conspicuous that *all* four benchmark states finance the **additional** expenditures from *within* their Defence estimates. The financing of **additional** expenditures in the British and Danish system is rather vague; it apparently has to be financed out of the ‘general funds’. Germany and Canada have better defined their financing option, although it remains to be seen whether the German options are sufficient for major financial setbacks concerning **additional** expenditures.

The conclusion could present itself that the Netherlands should consider the option of transferring the part of HGIS that covers the **additional** expenditures for peacekeeping operations from the ‘general’ HGIS fund to the ‘specific’ Defence estimate, because all other benchmark states prefer this option.

On the one hand, the comparison between the various financing systems shows that the financing of **additional** expenditures out of the Defence estimate is not always as transparent as creating a separate fund. It could also be argued that the Dutch MOD would lose part of its financing flexibility when enacting such a transfer, since HGIS, as an independently financed fund out of the General estimate, can act as a buffer for financial setbacks during peacekeeping operations.

On the other hand, it can also be asserted that the MOD would win flexibility since it is no longer bound by the restrictions connected to using the HGIS

fund, which often result in a grey area of expenditures that are neither covered by the Defence estimate nor the HGIS fund.³⁴ The last couple of years it is often the case that the **additional** expenditures for peacekeeping operations exceed the available HGIS budget which is in turn replenished by the General budget. A separate budget line ‘additional expenditures for peacekeeping operations’ could be created combined with a similar or ‘mix of’ buffer constructions used by the Germans, Canadians, British and Danes, which could reconstruct the perceived buffer function of HGIS within the Defence budget. This could, in theory, undercut the grey area problem (which would always exist with a HGIS-like construction) and improve finance flexibility.

5.1.2 *Defining additional expenditures*

Taking into account the fact that the complex and ‘unplannable’ nature of peacekeeping operations will probably only increase in the future – since conflicts increasingly have an irregular and therefore unpredictable character – it seems recommendable to reconsider what defines ‘**additional** expenditures’. Momentarily the ‘grey area’ (in which it is not clear whether expenditures are **additional** or not) is one of the most difficult issues to consider when planning and estimating defence expenditures. The distinction between foreseen overall maintenance costs, provided for by the Defence budget, and the **additional** expenditures with regard to the FPO, covered by HGIS, has to be better defined. The granting criteria used by the Canadians for funding requests out of the budget lines *Deployed Operations Account* and *Support to Deployed Operations Account* could provide a useful example.³⁵ Besides, it is advisable that representatives of the MOD and the MFA consult with each other on the matter of **additional** expenditures on a structural and frequent basis.

5.2 **Adjustments to the HGIS construction**

5.2.1 *Interdepartmental cooperation*

It is inaccurate to assume that the Netherlands is the only country which uses a structural provision for the financing of **additional** expenditures with regard to peacekeeping operations. A comparable construction to HGIS is the British *Conflict Prevention Pool*. The British construction, however, only finances a specific area of peacekeeping operations, namely the UN based operations.

Of the surveyed benchmark states only the Netherlands and the UK have a formal construction within which the departments of Defence, Foreign Affairs and Development Cooperation work closely together in order to achieve an integrated security and development policy. Although less explicit, the Danish,

³⁴ See 2.3.1 and 2.3.2

³⁵ See 3.2.1 and 3.2.2

German and Canadian policy documents mention a growing attention to this integrated approach of security and development policy.

The continuing interconnection between economic, social, political and military aspects of security gives all the more reason to expand the '3D' concept into a 'whole of government approach'. Based on this study it can be recommended to establish formal working relationships between, at least, the Ministries of Defence, Foreign Affairs and Development Cooperation.

5.2.2 ODA/ non-ODA

With the HGIS-construction the Netherlands chooses for an integral approach towards (international) security policy. It seems, however, that it is not always easy for both HGIS and the British *Conflict Prevention Pool* to distinguish between ODA and non-ODA expenditures. This is strongly connected to the entanglement of the 3 D's, which will probably only increase with a whole of government approach. Therefore it is recommendable not to define the distinction between ODA and non-ODA too strictly, but to incorporate some flexibility instead which ensures a decision making process on a case-to-case basis. Simultaneously such an approach could lead to difficulties in defining the means of finance. In the case of the Netherlands, however, it can be expected of the Ministry of Foreign Affairs, as administrator of HGIS, to design some clear agreements, in accordance with the other two D's, to avoid these difficulties.

5.3 Adjustments to the MOD financing

5.3.1 Adjustments to the HGIS budget

The aforementioned complexity of the present and future peacekeeping operations has several consequences for the deployment of the armed forces. Such missions demand, among other aspects, a multiple faceted deployment of military equipment and personnel, they can lead to increased wear of equipment and require extra training and more care for veterans. The last couple of years the size of the HGIS funds proved to be insufficient. The conclusion, therefore, has to be that even with the same political and military ambition level the budget of HGIS should increase. Only by such a measure will the MOD be able to live up to the politically determined ambition level without ending up in financial problems and forced budget cuts.

5.3.2 Adjustments to the Defence budget

Another possibility which can be offered on the basis of this benchmark study is a re-evaluation of the overall division of the Defence budget. This study has shown that all benchmark countries have a separate budget line 'operations' in their Defence estimate. The Netherlands is thus unique in not having such a budget line. A consequence of this budgetary policy is that it is not exactly transparent what the exact costs of peacekeeping operations are, except for the HGIS declarations. These declarations involve *all additional costs* which occur

the moment the armed forces are sent on a mission, since these operation-related expenditures are *inherently additional* to the ‘normal’ defence expenditures (when the armed forces are not deployed). This observation is at a right angle to the proclaimed – politically as well as by the MOD itself – ambition level. However, this ambition level is hard to uphold when there simply is no manoeuvring space within the Defence budget and when there are actually no funds available in the Defence budget to cover operational expenditures.

By including a budget line ‘operations’ in the Defence budget this difficulty could be solved. As suggested in 5.1.1 the HGIS funds which cover the additional expenditures could be transferred to the Defence budget. Next to providing flexibility this undercuts the problem of the unforeseen burden of non-HGIS declaration costs – e.g. accelerated depreciations, earlier equipment investments and mission specific training and equipment³⁶ – as a result of increased operational intensity. It could even lead to increased efficiency because of the centralization of budgetary responsibility. To guard governmental (and interdepartmental) oversight this budget line could be earmarked by using a combination of the Canadian, German and Danish financing of peacekeeping operations procedures, providing for clear monitoring and co-decision power between the Government, the different Ministries and Parliament. To complete this suggestion it can even be argued that the MOD could, following the British example, provide for its part of the HGIS funds used for military development projects.³⁷

This hypothetical scenario is purely suggested to broaden the current debate on Defence expenditures and to point out that budgetary structures are not fixed, but designed to be purposeful. In order to increase the effectiveness of the financing of peacekeeping operations and to increase the budgetary ability to cover for increasing additional costs, a re-evaluation of the overall Defence budget could be useful. Such a re-evaluation could even lead to a relief of the budgetary burden currently weighing heavily on the Ministry of Defence.

36 As described in the internal MOD studies: Studie naar de financieringssystematiek voor de inzet van militairen; Studie 8.23 Uitgavenstijgingen Crisisbeheersingsoperaties.

37 See chapter four for these different benchmark states’ approaches and procedure.

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7. Author biographies

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Table 1: 'Comparison FPO between the Netherlands and the benchmark states'

State / Benchmark	The Netherlands	The United Kingdom	Canada	Denmark	Germany
<ul style="list-style-type: none"> Actors in the decision making process regarding new peacekeeping ops 	<ul style="list-style-type: none"> Cabinet Parliament has to be informed (art. 100 letter) 	<ul style="list-style-type: none"> MoD with FCO approval Cabinet 	<ul style="list-style-type: none"> Cabinet Treasury Board Parliament consulted 	<ul style="list-style-type: none"> Government and Parliament 	<ul style="list-style-type: none"> Government after approval of Parliament
<ul style="list-style-type: none"> Budget lines FPO in defence estimates 	<ul style="list-style-type: none"> General Management budget lines commands 'Reimbursements UN/NATO-partners' 	<ul style="list-style-type: none"> Unprogrammed Operations/Conflict Prevention RfR2 	<ul style="list-style-type: none"> Operations <i>Business Plans</i> (Budget lines services) 	<ul style="list-style-type: none"> Danish Defence's international operations 	<ul style="list-style-type: none"> Budget line international operations General budget lines

State / Benchmark	The Netherlands	The United Kingdom	Canada	Denmark	Germany
<ul style="list-style-type: none"> ▪ Coverage additional expenditures FPO 	<ul style="list-style-type: none"> ▪ HGIS: (policy article 20 defence budget): ‘Deployment peacekeeping operations’. 	<ul style="list-style-type: none"> ▪ Defence budget does not have a special provision for additional costs: included in RfR2; <i>Supplementary Estimates</i> 	<ul style="list-style-type: none"> ▪ Defence budget (DND): ▪ DOA ▪ SDOA 	<ul style="list-style-type: none"> ▪ Parliament decides wherefrom additional financial resources are provided for. 	<ul style="list-style-type: none"> ▪ Defence budget <i>Einzelplan 14</i>: ▪ Savings out of the general defence budget ▪ Extra revenues (e.g. UN restitutions)
<ul style="list-style-type: none"> ▪ HGIS (construction) 	<ul style="list-style-type: none"> ▪ HGIS: ▪ Non-ODA: ‘Deployment peacekeeping operations’ (FPO) ▪ ODA: e.g. SSR 	<ul style="list-style-type: none"> ▪ Conflict Prevention Pool: ▪ Peacekeeping Budget (UN missions) ▪ Programme Budget (e.g. SSR; no FPO) 	<ul style="list-style-type: none"> ▪ n/a 	<ul style="list-style-type: none"> ▪ n/a 	<ul style="list-style-type: none"> ▪ n/a
<ul style="list-style-type: none"> ▪ Role Foreign Affairs in FPO 	<ul style="list-style-type: none"> ▪ Rationale decision participation in peacekeeping ops ▪ Administrator HGIS ▪ HGIS/Non-ODA: proposes initial budget and advises in policy priorities 	<ul style="list-style-type: none"> ▪ Approves peacekeeping operations ▪ FCO administers Peacekeeping Budget ▪ FCO co-administer <i>Programme Budget</i> 	<ul style="list-style-type: none"> ▪ DAFIT states rationale decision participation in peacekeeping ops based on national security interests 	<ul style="list-style-type: none"> ▪ Unknown 	<ul style="list-style-type: none"> ▪ Unknown

State / Benchmark	The Netherlands	The United Kingdom	Canada	Denmark	Germany
<ul style="list-style-type: none"> ▪ Role Finance in FPO 	<ul style="list-style-type: none"> ▪ Decides upon total amount of Non-ODA HGIS 	<ul style="list-style-type: none"> ▪ Consults with MOD regarding FPO 	<ul style="list-style-type: none"> ▪ Approves FPO together with the Treasury Board 	<ul style="list-style-type: none"> ▪ Unknown 	<ul style="list-style-type: none"> ▪ Consults with MOD regarding financing new and unforeseen mission out of the General budget