NATO, Common Funding and Peace Support Operations: A comparative perspective

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Introduction

NATO is into the transformation process from a static defence organization to a more flexible, deployable mechanism for operations in and out of Europe. The NATO Response Force (NRF) concept and its inherent structures illustrate how NATO is transforming into a more responsive joint and combined force. However, as the command structure and strategic and operational concepts have rapidly evolved to meet changing threats, financial support mechanisms have not adapted.

NATO Secretary General, Jaap de Hoop Scheffer, remarked at the 'Munich Conference on Security Policy' earlier this year: "Right now, participation in the NRF is something like a reverse lottery: If your numbers come up, you actually lose money. If the NRF deploys while you happen to be in the rotation, you pay the full costs of the deployment of your forces. This can be a disincentive to countries to commit to participation in the NRF. And that is something that the alliance can't afford.

At present, NATO operates a 'costs lie where they fall' system, which means that if one country sends two soldiers to a conflict zone, it only pays for two; while if it sends 700 it pays for 700. Most alliance members, particularly the larger ones, believe the system is not only unfair and inefficient but makes nonsense of any notion of solidarity by allowing some countries to ride in the slipstream of others".[1]

In following article I'll first make some observations on the financing of peace support operations in general. I'll continue with discussing the financing mechanisms of the

[1] Jaap de Hoop Scheffer, Secretary General NATO, Speech at the 42nd Munich Conference on Security Policy, 4 February 2006.

United Nations and the European Union. Then I'll focus on the way NATO is funding its non-article 5 operations. At the end I'll make some final remarks.

General observations

So first of all, some general observations. Peace operations which are conducted within the framework of international organisations, such as the United Nations, NATO, the EU and the AU are funded by two basic mechanisms of financing: through the budget of the respective organisation and through direct contributions from national resources. Furthermore, there are two types of direct national contributions: physical resources (in-kind contributions) and financial resources (monetary payments). [2]

A common feature of all four systems is that the organisations do not have any significant capabilities (personnel, equipment, etc.) of their own but rely on the national capabilities of member states. Capabilities are built up in different ways. The UN invites member states to contribute forces to operations when a mandate has been decided. NATO and the EU have gone one step further in that member states have agreed to capability targets on the organisational level, whereupon individual member states have made national commitments to develop personnel and equipment capabilities to meet these targets. Common organisational capabilities are limited and consist primarily of assets, which can not be reasonably charged to any individual member state.

The systems of financing peace operations within the UN, NATO and the EU are shaped by their historical roots and institutional settings. The UN system is the oldest. It was developed after the Second World War entirely for traditional peacekeeping. Current requirements are much broader: the NATO system originated in a system for collective defence, to which peace support operations were added with the adoption in 1999 of a new NATO Strategic Concept. The EU system for crisis management has developed gradually since 1997, when the so-called Petersberg tasks were incorporated into EU's

[2] Elisabeth Sköns, *International financing of peace operations,* Paper prepared for the International Task Force on Global Public Goods, SIPRI, Stockholm, 22 March 2005.

CFSP – within the initial constraints of an organization without competence in areas with military or defence implications.

United Nations

Focusing now on the UN, this organisation has a separate agency for the management of peacekeeping operations (PKOs), established thirteen years ago notably to meet the growing demand for such missions. The UN system of financing and provision of PKOs has the following main characteristics:

A. Peacekeeping operations are financed separately from the regular UN budget through a system of so-called *assessments accounts*. UN member states are required to pay fixed shares of the annual budget for peacekeeping operations. The rationale for a separate financing system for peace missions is that it provides a more permanent and reliable source of funding. This has been interpreted as recognition of the risk of free riding, a problem common to public goods.

Financial contributions of UN member states are determined according to their ability to pay. The ability to pay is assessed based on income levels (GDP per capita) and for small states, their level of external debt. All this is translated into a graded scale with four groups: A, B, C, and D. This means that nearly all the costs of UN-led peacekeeping are met by the countries in group A (the five permanent members of the Security Council: 63,15 %) and B (most EU and OECD members: 34,78 %).

B. Financial contributions begin when the mandate for the mission is approved and are thus independent of the budget cycles of the contributing states. In addition to the standing budget for peace missions, additional contributions are requested from member states when there is a mandate for a new operation. This introduces an element of unpredictability of payment, since contributing countries are requested to make payments at unexpected times throughout their domestic budget cycle, which causes them significant problems. They may also withhold peacekeeping contributions for a variety of political reasons, such as specific objections to particular missions.

C. Payments to the personnel in UN peace operations are made according to a common scale. This reportedly contributes to a good and co-operative atmosphere in the missions.

There is a great divergence between the pattern of financial contributions and the provision of personnel for the missions. The USA and the EU countries, which provide a major share of financial contributions, account for only a minor share of PKO personnel. Out of a total of the 18 current peacekeeping missions world-wide, involving some 63,000 military personnel, only some 2,500 personnel come from EU countries and less than 10 from the USA. [3] Most of the military personnel in UN peace missions come from developing countries. It provides a very high income for personnel from poor countries in relation to their standard of living back home. This is why there are so many military for UN peace operations from countries such as Fiji. In essence, the system therefore translates into a North-South financial transfer.

Still, the UN continues to face financial challenges because some nations are not paying their assessed contributions. When payment of assessed contributions is delayed the UN can no longer afford to authorize new missions and the success of ongoing missions is jeopardized. It is also worth recalling, that the UN foresees at least two distinct methods of financing peacekeeping operations.

The first was used e.g. for the UN force in Cyprus, which is paid for the government of Cyprus, the troop-contributing countries and voluntary donations. The second relates to so-called 'multinational forces' (MNFs) which, although authorised by the Security Council, are not actual UN-led forces: they are rather coalitions made up of and financed by willing states, such as the Australian-led force initially deployed to East Timor in late

[3] www.un.org/Depts/dpko/dpko/index

1999 and, in particular, the NATO-led forces in place in Bosnia and Herzegovina till 2003 and still in place in Kosovo. The advantage of these types of operations is that they are not dependent on lengthy procedures for securing funds and can be deployed quickly.

The European Union

Continuing with the EU, pursuant to Article 28 of the Treaty on European Union, military operations are financed by the member states outside the Community budget.[4] Article28 dictates that "expenditures arising from operations having military or defence implications" be charged "to the member states in accordance with the gross national product scale, unless the Council acting unanimously decides otherwise". In other word, the costs incurred by the EU for a military operation are not funded through the regular EU budget. Instead, participating states agree on a "key", based on GNP, which dictates the percentage of the costs each is to contribute. By excluding military operations from the regular budget, this article ensures greater autonomy for states over their participation in potentially controversial missions. Those states opting out of an operation, as outlined in Article 23(1) of the Treaty, do not incur any of the costs. But the operations conducted in FYROM and the Congo have made clear, that it would be very much in the Union's interest to have a permanent financial mechanism for such purposes.

The Athena mechanism

The issue of financing took a big step forward on 22 September 2003, when the Council decided that the EU needed a mechanism for managing the common costs of military operations of any scale, complexity or urgency. The aim was to set up a permanent mechanism which would be activated for a military mission and not establish a standing pool of funds. As of 1 March 2004, the EU has a permanent mechanism, the so-called 'Athena' mechanism, for handling the common costs of the EU's missions. Athena has been designed to streamline the budgetary mechanisms for every mission. The

[4] Antonio Missiroli, *€uros for ESDP: financing EU operations*, Occasional Papers no 45, The European Union Institute for Security Studies, Paris, June 2003.

mechanism reduces the bureaucratic burden on the Council at the time of launching a mission.[5]

In other words, Athena aims to "improve the speed at which [the EU] can launch operations, by removing the need to adopt a Council Decision establishing a mechanism for every mission". Instead of bringing budgetary concerns to the European Council each time a new military mission is proposed, Athena oversees the "common cost" decision-making process on its own.

Athena is managed by a Special Committee composed of representatives from each of the participating member states (all EU members except Denmark). This Special Committee approves all budgets to finance the common costs of an operation. Its decisions are binding and have to be unanimous. Among the costs to be covered by Athena are:

- incremental costs for deployable or fixed headquarters for EU-led operations;
- transport costs to and from theatres of operation; transport costs within are of operations with the exception of *per diems*;
- administrative costs, including communications; locally hired personnel, maintenance costs, public information, representation and hospitality;
- accommodation and infrastructure costs;
- incremental costs incurred to support the force as a whole; and
- incremental costs associated with the use of NATO common assets and capabilities made available for EU-led operations.[6]

Other costs associated with an operation – such as common costs relative to the preparatory phase of an operation – may also be borne by Athena, which will be financed primarily from contributions payable by the participating and contributing states. When appropriate, funds could also come from contributing third states. A

[5] Gustav Lindstrom, On the ground: ESDP operations, in: Nicole Gnesotto (ed), *EU Security and Defence Policy, The first five years (1999-2004)*, EU Institute for Security studies, Paris 2004, pp. 124-127.
[6] *Council Decision* 2004/197/CFSP of 23 February 2004 establishing a mechanism to administer the financing of the common costs of European Union operations having military or defence implications.

smaller revenue stream will come from other sources such as interest revenue. The contributions by member states are calculated in accordance with a GNP scale.
While Athena provides an improvement over the former ad hoc system, it may still have some shortcomings. The unanimous decision-making process within the Special Committee may slow or hinder the financing process should a participating state decide to block a decision. From a different angle, if the allotted deployment time for troops is gradually reduced, the call for contributions at a later stage of the operation may prove inappropriate. This latter may be mitigated by Athena's requirement that the force commander produces pre-mission estimates of mission costs.

In addition to military operations, the EU funds a number of civilian post-conflict operations, such as the European Union Police Mission (EUPM) in Bosnia and Herzegovina. Funds for such civilian missions can come through a variety of channels. The key distinction for civilian missions is whether the costs are 'administrative' or 'operational'. Administrative expenditure for civilian missions is to be charged to the European Communities budget. Although operational expenditure is also normally charged to the European Communities budget, the European Council has the option of delegating operational costs to member states according to a GNP-based scale, or other scale of its unanimous choosing. In practice, large-scale civilian missions such as EUPM have not resorted to GNP-based scales to handle operational costs such as police officers' salaries and travel expenses. Instead member states have borne these expenses on a 'costs lie where they fall' basis. Importantly, when the costs of such civilian CFSP mission are covered within the budget of the European Communities, they normally appear within Budget Subsection B-8, under a heading for CFSP.

NATO

I'll now address the way NATO is funding its non-article 5 operations.[7] In essence, NATO pays both ways – through common funding or a member's own purse. There are certain types of expenses that cannot reasonably be allocated to particular Member

[7] *NATO Handbook*, Chapter 9: Common –funded Resources: NATO Budgets and Financial Management, Brussels, 19 October 2002.

States, and which are therefore shared as NATO "common costs". These common costs are divided into three main accounts:[8]

- the civil budget;
- the military budget; and
- the NATO Security Investment Programme (NSIP)

The civil budget supports NATO headquarters in Brussels, and deals with all the diplomatic, non-military costs associated with maintaining a large, multilateral political organization. This budget is funded primarily from the appropriations of ministries of foreign affairs of member states. The military budget covers all expenses related to operating and maintaining NATO military headquarters around the globe. The military budget is financed mainly by the defence ministries of member states. The NATO Security and Investment Programme (NSIP) is designed to improve the security infrastructure in NATO Member States and to help fulfil NATO's strategic vision of broad military readiness. Expenses for the NSIP are split among 25 or 26 member states, depending on French participation.

The percentage contribution that each member state makes to the various NATO budgets is based partly on GDP, but also represents the product of a political bargaining process. The division of the NSIP budget for example, takes into account each country's "ability to pay", along with other factors such as the potential economic benefit that the construction of NSIP projects will bring to a country, and the amount that each country is contributing to overall NATO security. Like all NATO decisions, percentage contributions to NATO budgets must be agreed on by consensus.

Focusing now on peace support operations, the current principle of "costs lie where they fall" is, as Mr. De Hoop Scheffer remarked, problematic because it leaves virtually the entire financial burden of participating in NRF operations on the member countries that are on-call at the time of deployment. This is not a fair system as the decision to

[8] 'Funding for Post-Conflict Operations: NATO and the EU', *Peace Operations Factsheet Series*, The Henry Stimson Center, Washington, March 2004.

deploy is taken by all 26 members of the Alliance. Such a financial impact might further discourage participation in the NRF and other on-call forces. It has been recognized within the Alliance that failure to address this issue will negatively affect NATO out-of-area operations in the future, thus undermining one of the key strategic purposes of the Alliance.

In stabilisation operations, daunting upfront costs (for example, setting up runways in remote areas or creating a logistical infrastructure on the ground) discourage nations from being the first to volunteer. Instead, countries tend to wait to see what others commit. An easy, affordable and cost-effective way to surmount this "pay if you play" problem is to create an expanded NATO common fund for operations. This would ensure that there are no "free riders" in the Alliance, sharing the operations burden equitably between those who contribute forces and those who do not.

NATO's revised funding policy

Nevertheless, important progress was recently made in common financing when NATO revised its funding policy for non-article 5 NATO-led operations on 21 October 2005. [9] This revised funding policy lays down generic principles providing the outer framework within which the guidelines for a specific operation can be developed. Still, the primary funding mechanism for NATO-led operations remains that nations absorb any and all costs associated with their participation in such operations (costs lie where they fall). NATO common funding should not be a default solution for shortfalls in the force generation process and extended common funding should not lead to a further erosion of that process. This principle of nationally incurred costs "lying where they fall" will equally apply to non-NATO troop contributing nations but does not preclude bilateral or multilateral support arrangements.

Only those costs not attributable to a specific nation and agreed as eligible for common funding will be assumed by NATO. Such costs will be limited to minimum military

[9] *Revised Funding Policy for Non-Article 5 NATO-led Operations*, PO(2005)0098, North Atlantic Council, Brussels, 18 October 2005.

requirements in direct support of the military aspects of the operation. NATO common funding will not be used for nation building purposes. In the revised funding policy, the notion of costs not attributable to a specific nation has been enlarged to cover a number of critical theatre-level enabling capabilities previously considered as a national responsibility. These capabilities, to be put under the operational control or logistic control of the theatre commander, will be listed in the OPLAN for an operation as part of a Theatre Capability Statement of Requirements (TCSOR). These requirements should, in preference, be provided by lead nations, such nations taking responsibility for assembling and maintaining the required capability from their own and other nations' forces, but with common funding paying for the deployment, the installation and the running of the provided capability.

NATO costs agreed as eligible for common funding will be borne by the Military Budget and the NATO Security Investment Programme and shared by all member nations, using the corresponding cost sharing formula of the Military Budget and the NSIP. Examples of critical theatre-level enabling capabilities for a NATO-led operation, under the operational control or the logistic control of the theatre commander, which are eligible for common funding now are:

- Role 3 Medical Facilities;
- CBRN Elements;
- Airports/Seaports/Railports of Disembarkation;
- Intelligence, Surveillance and Reconnaissance (ISR) and Air-to-Ground Surveillance;
- Engineering support;
- Fuel Storage and Supply;
- Financial settlements of claims;
- The destruction of weapons and ammunitions collected in the area of operations;
- NATO medals fir Crisis Response Operations;
- The construction of temporary weapon and ammunition storage sites;
- Repair or upgrade of critical strategic theatre infrastructure; and

- Improvement and repair of critical airfield infrastructure.

Although the agreed revised funding policy was welcomed for instance by NATO's Parliamentary Assembly, its members were concerned that it still leaves virtually the entire financial burden of participating NRF operations on the member countries that are on-call at the time of deployment. [10] The revised funding policy does not, as yet, cover the provision of strategic lift for short-notice deployments.

Short-Notice Deployments of the NRF

The concerns expressed by the Assembly could be partly addressed by the current discussion within NATO on short-notice deployments of the NRF. The new policy under discussion could be a temporary solution, operating for two years, and foresees in the reimbursing of airlift. The use of airlift should be certified by the NMAs as necessary. Sealift might also be eligible on the recommendation by the NMAs, when doing so is both sensible and cheaper, for example, to redeploy forces from an operation. However, until now there is no consensus on such a policy.

Summary

I end with some final remarks. Funding is perhaps the most powerful disincentive to nations participating militarily in a NATO operation. [11] The system of 'costs lie where they fall' makes many nations reluctant to contribute. It is a system under which those nations who make the biggest and most sustained investments in modernizing their military capabilities are, as a result, the nations who are consistently asked to make the biggest operational commitments and, by implication, the biggest financial contributions. The shift towards expeditionary operations conducted over progressively greater distances has increased costs in, for example, strategic transport and in-theatre logistics. Much of the inertia in generating forces for ISAF can be credited directly to a refusal amongst certain key nations to continue to bear what they perceive to be a disproportional share of these increased operational costs.

[10] *Resolution 337 on enhanced common funding of NATO*, NATO Parliamentary Assembly, Copenhagen, Denmark, 15 November 2005.
[11] *Reforming NATO Force Generation, Progress, Problems and Outstanding Challenges*, Royal United Services Institute, London, October 2005, p. 22.

Although NATO has made progress in the common funding of peace support operations, in my opinion, by analogy with the UN system, it should also proceed establishing a separate common fund for non-article 5 operations based on a distribution code involving the costs of peace support operations to be borne by the member states. [12] After all, it is clear that NATO's main task today is no longer the collective defence of the Alliance's territory, but rather to contribute to global collective security. The current 'common funding' system consequently needs further to be revised. The fact that NATO has developed from a regional to a global player entails consequences for funding military operations. By maintaining the still dominant principle – that is, only participant countries foot the bill – runs the risks of dealing with gradually diminishing willingness among countries, small countries in particular, to participate in military operations.

It has also to be recognized that high running costs usually lead to lower investments. There are only a few countries that are prepared to increase their defence budget. A common fund will enhance a proportional distribution of the financial burden, while – assuming that budget levels remain constant – other items of expenditure, such as investments, will not suffer. A system based on obligatory rather than voluntary national contributions is essential to ensure sustainability and predictability. Such an approach underscores collective solidarity, which is the necessary cement, as it were, for international security organizations, such as NATO, to realize their objectives.

[12] The report *European Defense Integration, Bridging the Gap Between Strategy and Capabilities*, by Michèle A. Flournoy and Julianne Smith (Lead Investigators), CSIS Washington, October 2005, recommends that all NATO countries should be asked to provide .17 percent of GDP annually to a common fund for operations, so that enough money could be raised to reimburse those states that absorb front-end costs, p. 51.