

AOS sa

[Type the author name]

[HOW WE PAY FOR NATO]

Very short description of the main financing process for NATO survival.

CONTENTS

Paying for NATO.....	2
Country contributions.....	2
Different forms of direct funding.....	3
Principle and practices of common funding at NATO.....	4
The principle of common funding.....	4
Joint funding.....	5
Other forms of funding.....	6
Management and control.....	6
Financial management of the civil and military budgets.....	6
Financial management of the NATO Security Investment Programme	7
Financial control	7
The International Board of Auditors	7
Bodies involved.....	8
The Resource Policy and Planning Board	8
The Budget Committee	8
The Investment Committee.....	8

PAYING FOR NATO

Member countries make direct and indirect contributions to the costs of running NATO and implementing its policies and activities.

The greater part of these contributions comes through participation in NATO-led operations and in efforts to ensure that national armed forces are interoperable with those of other member countries. Member countries incur the deployment costs involved whenever they volunteer forces to participate in NATO-led operations. With a few exceptions, they also cover the procurement of military forces and military assets such as ships, submarines, aircraft, tanks, artillery or weapons systems.

Direct contributions to budgets managed by NATO are made by members in accordance with an agreed cost-sharing formula based on relative Gross National Income. These contributions represent a very small percentage of each member's overall defence budget and, generally, finance the expenditures of NATO's integrated structures.

Direct contributions generally follow the principle of common funding, that is to say, member countries pool resources within a NATO framework. There are three budgets that come under the common funding arrangements:

- the civil budget;
- the military budget; and
- the NATO Security Investment Programme.

Common funding covers collective requirements such as the NATO command structure, NATO-wide air defence, command and control systems or Alliance-wide communications systems, which are not the responsibility of one single member.

Projects can also be jointly funded, which means that the participating countries can identify the requirements, the priorities and the funding arrangements, but NATO provides political and financial oversight.

Financial management of these different types of contributions is structured to ensure that the ultimate control of expenditure rests with the member countries supporting the cost of a defined activity, and is subject to consensus among them. The main body involved in these financial matters is the Resource Policy and Planning Board, to which the Budget Committee and the Investment Committee report.

COUNTRY CONTRIBUTIONS

As explained above, member countries make direct contributions to NATO in accordance with an agreed cost-sharing formula based on Gross National Income. The largest direct contributors to NATO in absolute

terms are the United States, Germany, the United Kingdom and France.

NATO COMMON-FUNDED BUDGETS & PROGRAMMES			
COST SHARE ARRANGEMENTS VALID FROM 1/1/2010 to 31/12/2011			
Nation	Civil Budget	Military Budget	NSIP
	at "28"	at "28"	at "28"
Albania	0.0763	0.0763	0.0763
Belgium	2.1413	2.2904	2.2904
Bulgaria	0.3055	0.3055	0.3055
Canada	5.9532	5.5000	5.5000
Croatia	0.2686	0.2686	0.2686
Czech Republic	0.9010	0.9010	0.9010
Denmark	1.2619	1.5020	1.5020
Estonia	0.1014	0.1014	0.1014
France	11.9201	11.6200	11.6200
Germany	14.8411	15.5360	15.5360
Greece	0.8000	0.8000	1.1029
Hungary	0.6850	0.6850	0.6850
Iceland	0.0658	0.0658	0.0450
Italy	8.5000	8.6467	9.0189
Latvia	0.1367	0.1367	0.1367
Lithuania	0.2048	0.2048	0.2048
Luxembourg	0.1534	0.1534	0.1534
Netherlands	3.3271	3.3516	3.3516
Norway	1.4282	1.5180	1.5180
Poland	2.3284	2.3284	2.3284
Portugal	0.9000	0.7500	0.7500
Romania	0.9651	0.9651	0.9651
Slovakia	0.4068	0.4068	0.4068
Slovenia	0.2376	0.2376	0.2376
Spain	4.6195	4.5595	4.5595
Turkey	3.1374	3.1374	3.1374
United Kingdom	12.5944	11.5478	11.5478
United States	21.7394	22.4042	21.7499
	100.0000	100.0000	100.0000

DIFFERENT FORMS OF DIRECT FUNDING

As mentioned in the introduction, direct contributions to NATO come principally in two different forms: common funding and joint funding. They can also come in the form of trust funds, contributions in kind, ad hoc sharing arrangements and donations.

There are no fixed, pre-set rules on whether national, multinational, joint or common funding should be used to address a given problem. In general, however, the following factors will influence the choices made by countries: the required level of integration or interoperability, the affordability at the national level, the

complexity of the system involved, and the potential for economies of scale. Often, a combination of funding sources is used.

NATO crisis response operations and missions are resourced along the same lines as capability projects.

PRINCIPLE AND PRACTICES OF COMMON FUNDING AT NATO

THE PRINCIPLE OF COMMON FUNDING

When a need for expenditure has been identified, countries in the Resource Policy and Planning Board discuss whether the principle of common funding should be applied – in other words whether the requirement serves the interests of all the contributing countries and therefore should be borne collectively. The criteria for common funding are held under constant review and changes may be introduced as a result of new contingencies, for instance the need to support critical requirements in support of Alliance operations and missions.

Common funding arrangements principally include the NATO civil and military budgets, as well as the NATO Security Investment Programme (NSIP). These are the only funds where NATO authorities identify the requirements and set the priorities in line with overarching Alliance objectives and priorities.

Where military common funding is concerned - the military budget and the NATO Security Investment Programme – the guiding principle for eligibility is the “over and above” rule:

"common funding will focus on the provision of requirements which are over and above those which could reasonably be expected to be made available from national resources."

- The civil budget

The civil budget provides funds for personnel expenses, operating costs, and capital and programme expenditure of the International Staff at NATO HQ. It is financed from national foreign ministry budgets (in most countries), supervised by the Budget Committee and implemented by the International Staff.

The civil budget is formulated on an objective-based framework, which establishes clear links between NATO's strategic objectives and the resources required to achieve them. There are four front-line objectives and four support objectives.

The four frontline objectives

- Active operations: provide effective policy and planning in support of NATO operations and missions;
- Alliance capabilities: conduct necessary policy and planning work to promote and support improved Alliance capabilities;
- Consultation and cooperation with partners: conduct effective consultations and cooperation activities with partners to strengthen security and respond to new security challenges and threats to the Euro-Atlantic region;
- Public relations: build awareness of, and support for, NATO, its operations and its role in promoting security through a comprehensive public diplomacy action plan.

The four support objectives

- Consultation and support: support the North Atlantic Council (NAC), its subordinate committees, the Military Committee Structure and the International Staff in the consultation process with Allies;
- HQ Operational Environment: operate and maintain the NATO HQ facility and site, including through the development of a viable and tested Business Continuity Plan and continue to provide effective support to the new NATO HQ project;
- Gouvernance and Regulation: develop, implement, control and monitor NATO HQ-wide business policies, processes and procedures;

- HQ security: ensure compliance NATO-wide with NATO security policy and provide a safe and secure environment for all HQ staff and operations.

○ THE MILITARY BUDGET

This budget covers the operating and maintenance costs of the international military structure. It is composed of over 50 separate budgets, which are financed from national defence budgets (in most countries). It is supervised by the Budget Committee and implemented by the individual budget holders. In all cases, the provision of military staff remains a nationally funded responsibility.

The military budget effectively provides funds for the International Military Staff, the strategic commanders and the NATO Airborne Early Warning and Control (NAEW&C) Force and, more specifically for:

- The Military Committee, the International Military Staff and military agencies;
- The two strategic commands and associated command, control and information systems;
- Theatre headquarters for deployed operations and support of critical theatre-level enabling capabilities such as theatre medical capabilities or theatre engineering capabilities;
- The NATO Standardization Agency, the NATO ACCS Management Agency, the NATO Command and Control Agency and the NATO CIS Services Agency;
- The NATO static and deployable Combined Air Operations Centres, deployable ARS and radar systems, and deployable HQ communication systems;
- The Joint Warfare Centre (Norway), the Joint Force Training Centre (Poland), the Joint Analysis & Lessons Learned Centre (Portugal), the NATO Defense College (Italy), the Communications and Information Systems School (Italy), the NATO Programming Centre (Belgium), the Multi-Service Electronic Warfare Support Group (United Kingdom);
- The Scientific Programme of Work of the NC3A, Allied Command Transformation experimentation funds, the Research and Technology Agency (France) and the Undersea Research Centre (Italy);
- Some limited partnership support activities and part of the Military Liaison Offices in Moscow and Kyiv.

○ THE NATO SECURITY INVESTMENT PROGRAMME (NSIP)

This programme covers major construction and command and control system investments, which are beyond the national defence requirements of individual member countries. It supports the roles of the NATO strategic commands by providing installations and facilities such as air defence communication and information systems, military headquarters for the integrated structure and for deployed operations, and critical airfield, fuel systems and harbour facilities needed in support of deployed forces.

The NSIP is financed by the ministries of defence of each member country and is supervised by the Investment Committee. Projects are implemented either by individual host countries or by different NATO agencies and strategic commands, according to their area of expertise.

JOINT FUNDING

Joint funding arrangements are structured forms of multinational funding within the terms of an agreed NATO Charter. The participating countries still identify the requirements, the priorities and the funding arrangements, but NATO has visibility and provides political and financial oversight.

Joint funding arrangements typically lead to the setting-up of a management organization and an implementation agency. There are currently 14 NATO Agencies with activities ranging from the development and production of fighter aircraft or helicopters to the provision of logistic support or air defence communication and information systems. Other agencies coordinate Research and Development activities or are active in the fields of standardization and intelligence-sharing.

Jointly funded Agencies vary in the number of participating countries, cost-share arrangements and management structures. Work is underway, however, to streamline their activities around procurement, logistic support and air defence and communication capabilities. The introduction of shared service arrangements, also with the NATO Command Structure, in areas such as human resources, financial management and IT services should allow for more efficient operations at lower cost.

Other forms of funding

In addition to common funding and joint funding, some projects can take the form of trust fund arrangements, contributions in kind, *ad hoc* sharing arrangements and donations. The most important trust fund is the one supporting the sustainment of the Afghan National Security Forces.

MANAGEMENT AND CONTROL

Financial management within NATO is structured to ensure that the ultimate control of expenditure rests with the member countries supporting the cost of a defined activity, and is subject to consensus among them. No single body exercises direct managerial control over all four of the principal elements of the Organization's financial structure:

- the International Staff, financed by the civil budget;
- the international military structure, financed by the military budget;
- the Security Investment Programme; and
- specialized Production and Logistics Organizations.

When cooperative activities do not involve all member countries, they are, for the most part, managed by NATO Production and Logistics Organizations. The Production and Logistics Organizations fall into two groups: those which are financed under arrangements applying to the international military structure and are subject to the general financial and audit regulations of NATO; and those which operate under charters granted by the NAC. These have their own Boards of Directors and finance committees and distinct sources of financing within national treasuries, which means that they operate in virtual autonomy.

Financial regulations applied at NATO provide basic unifying principles around which the overall financial structure is articulated. They are approved by the NAC and are complemented by rules and procedures adapting them to specific NATO bodies and programmes.

FINANCIAL MANAGEMENT OF THE CIVIL AND MILITARY BUDGETS

The civil and military budgets are annual, coinciding with the calendar year. Each one is prepared under the authority of the head of the respective NATO body, reviewed and recommended for approval on the basis of consensus by the Budget Committee composed of representatives of contributing member countries, and approved for execution by the NAC.

Failure to achieve consensus before the start of the financial year entails non-approval of the budget and the financing of operations, under the supervision of the Budget Committee, through provisional allocations limited to the level of the budget approved for the preceding year. This regime may last for six months, after which the Council is required to decide either to approve the budget or to authorize continuation of interim financing.

When the budget has been approved, the head of the NATO body has discretion to execute it through the commitment and expenditure of funds for the purposes authorized. This discretion is limited by different levels of constraint prescribed by the Financial Regulations regarding such matters as recourse to competitive bidding for contracts for the supply of goods and services, or transfers of credits to correct over

or under-estimates of the funding required. Discretionary authority to execute a budget may be further limited by particular obligations to seek prior approval for commitments and expenditure. These may occasionally be imposed by the Budget Committee in the interests of ensuring strict application of new policies or of monitoring the implementation of complex initiatives such as organizational restructuring.

FINANCIAL MANAGEMENT OF THE NATO SECURITY INVESTMENT PROGRAMME

Implementation of the NATO Security Investment Programme starts from capability packages. These packages identify the assets available to and required by NATO military commanders to fulfill specified tasks. They assess common-funded supplements (in terms of capital investment and recurrent operating and maintenance costs) as well as the civilian and military manpower required to accomplish the task. They are reviewed by the Resource Policy and Planning Board then approved by the NAC.

Once they are approved, authorization for individual projects can move forward under the responsibility of the Investment Committee. The Host Nation (understood as either the country on whose territory the project is to be implemented, a NATO agency or a strategic command) prepares an authorization request. Once the Committee has agreed to the project, the Host Nation can proceed with its final design, contract award and implementation. Unless otherwise agreed by the Investment Committee, the bidding process is conducted among firms from those countries contributing to the project.

The financial management system which applies to the NSIP is based on an international financial clearing process. Host nations report on the expenditure foreseen on authorized projects within their responsibility. Following agreement of the forecasts by the Investment Committee, the International Staff calculates the amounts to be paid by each country and to be received by each host nation. Further calculations determine the payment amounts, currencies and which country or NATO agency will receive the funds.

Once a project has been completed, it is subject to a Joint Final Acceptance Inspection to ensure that the work undertaken is in accordance with the scope of work authorized. As soon as this report is accepted by the Investment Committee, it is added to the NATO inventory.

FINANCIAL CONTROL

With respect to the military and civil budgets, the head of the NATO body is ultimately responsible for the correct preparation and execution of the budget, the administrative support for this task is largely entrusted to his Financial Controller. The appointment of this official is the prerogative of the NAC, although the latter may delegate this task to the Budget Committee.

Each Financial Controller has final recourse to the Budget Committee in the case of persistent disagreement with the head of the respective NATO body regarding an intended transaction. The Financial Controller is charged with ensuring that all aspects of execution of the budget conform to expenditure authorizations, to any special controls imposed by the Budget Committee and to the Financial Regulations and their associated implementing rules and procedures. He may also, in response to internal auditing, install such additional controls and procedures as he deems necessary for maintaining accountability.

THE INTERNATIONAL BOARD OF AUDITORS

An independent International Board of Auditors for NATO is responsible for auditing the accounts of the different NATO bodies. Its principal task is to provide the NAC and member governments with the assurance that joint and common funds are properly used for the settlement of authorized expenditure and that expenditure is within the physical and financial authorizations granted.

The Board's mandate includes not only financial but also performance audits, therefore extending its role beyond safeguarding accountability to the review of management practices in general. It is composed of officials normally drawn from the national audit bodies of member countries. These officials are appointed by and responsible to the NAC.

BODIES INVOLVED

The civil budget and the military budget are supervised by the Budget Committee and the NATO Security Investment Programme by the Investment Committee. Overall military resource policy issues are handled in the Resource Policy and Planning Board (RPPB).

THE RESOURCE POLICY AND PLANNING BOARD

The Resource Policy and Planning Board (RPPB) is the senior advisory body to the NAC on the management of all NATO resources. It has responsibility for the overall management of NATO's civil and military budgets, as well as the NATO Security Investment Programme (NSIP) and manpower. Both the Budget Committee and the Investment Committee report to the RPPB.

THE BUDGET COMMITTEE

The Budget Committee is responsible to the Resource Policy and Planning Board for NATO's civil and military budgets. The civil budget covers all costs related to NATO's International Staff at NATO HQ in Brussels; the military budget covers all costs related to the International Military Staff at NATO HQ, the strategic commands and the NATO Airborne Early Warning and Control (NAEW&C) Force.

THE INVESTMENT COMMITTEE

The Investment Committee is responsible to the Resource Policy and Planning Board for the implementation of the NATO Security and Investment Programme (NSIP).
The NATO Security and Investment Programme finances the provision of the installations and facilities needed to support the roles of the two strategic commands – Allied Command, Europe and Allied Command Transformation - recognized as exceeding the national defence requirements of individual member countries.