

THE FUNDING UNDER IN THE NORTH ATLANTIC ALLIANCE

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Abstract: *In this article, I set out to present the importance of allocating financial resources within the North Atlantic Alliance, as well as the costs of operating and implementing Alliance policies, which are funded by direct and indirect contributions from Member States. Thus, direct financial contributions to NATO are common funding and joint funding and indirect financial contributions come in different forms. Indirect financial contributions are by far the largest type of contribution and include Allied participation in NATO-led operations and missions. The North Atlantic Alliance regularly collects data on Allied defense spending and presents aggregates and subsets of this information. The Ministry of Defense of each Ally reports the estimated current and future defense expenditures according to an agreed definition of defense expenditures. Allocated amounts are payments currently made by allied nations or to be made during the fiscal year. The essence of the article consists that NATO funding is found in the defense budgets of Alliance member countries. Of these, the majority are national expenditures, which are practically a form of indirect contribution to NATO funding. At the same time, it can be seen that NATO is an intergovernmental organization. The Member States allocate the necessary financial resources for day-to-day operations. The Member States shall provide the necessary and available facilities for consultation, decision-making, and implementation of policies established by consensus. NATO is a political alliance backed by a military structure. It provides for the common defense of member countries, cooperation with partner countries, and the implementation of Alliance policies, mainly for peacekeeping. Therefore, the novelty of this approach lies in the fact that it highlights the problems facing NATO funding today, the funding mechanism, and the construction of the common budgets of the Alliance.*

Keywords: *military budget; civilian budget; direct and indirect contributions; joint funding.*

Introduction

Through this article, I intend to draw attention to one of the important chapters in the construction of the North Atlantic Alliance, namely the budget of the Alliance. The budget is for any organization that something that usually does not appear in the first line, does not enjoy applause in case of success being considered the background component. The budget, however, is vital to the functioning of the organization, has the right of life and death over the North Atlantic Alliance, and each time, is shown to be responsible for any failure, if not the sole culprit.

Thus, I consider that the issue of the NATO budget is inextricably linked to the sources and methods of financing. We also found that the phrase *NATO budget* itself should be treated extensively, given that there is no actual NATO budget, but a sum of financial resources, of which only a minor part is made directly available to NATO, the rest, indirectly, forming a financial capability that serves NATO interests. Consequently, I structured the article on a much more general framework, bringing to attention the issue of NATO funding, in order to outline an overview that reflects the reality, doctrinal landmark and vein of development of constructive ideas on the issue. If on the strict side of the figures, there is in the open sources, a sufficient transparency of the money that irrigates the body of the Alliance and how they are spent, as the details of the formation of the financial resources made available to NATO penetrate, information becomes increasingly scarce. If the amounts in NATO's joint budgets are easy to find, how these budgets work, the reasons behind the formulas that set out the responsibilities of the various contributors, are often unclear. They are sometimes hidden under arguments that cannot be further dissected, such as ability to pay, one of the criteria for setting quotas for participation in NATO joint budgets, or other political reasons another criterion for participation fees.

The topicality of the research topic is given by the problems facing NATO funding today and by the funding mechanism and the construction of NATO joint budgets.

The purpose of the article is to arouse interest in this issue, to highlight certain aspects that may be relevant to the problems facing NATO today on the funding pillar and to call for more in-depth research.

1. The sources of funding

The North Atlantic Treaty Organization (NATO) is one of the world's leading international organizations. This is a political and military alliance of 30 member countries in Europe and North America, in which they contribute directly and indirectly to the costs of the Alliance, to the operation and implementation of its policies, and to various other activities.

The costs of operating and implementing the Alliance's policies shall be financed by direct and indirect contributions from the Member States (NATO WEB SITE, 2022).

From the observation of the sources, it can be pointed out that most of the contributions are indirect contributions. These materialize through participation in NATO-led operations and missions. The main concern of the Member States is that the participating armed forces be interoperable with those of the other Member States. With few exceptions, member countries pay for their own military strength and capabilities.

The direct contributions are payments from the national budgets of the Alliance member countries, in the common budgets at the exclusive disposal of the NATO organisms. Unlike indirect contributions, where the power to decide on their expenditure rests entirely with the government of the country, in the case of direct contributions, from the moment they are paid, they are "depersonalized" and the decision on their use rests with NATO, organisms where all countries have representation, and decisions are made by consensus.

Direct contributions to NATO budgets are made by member countries in accordance with a cost-sharing formula agreed by all members and based on GDP. It is generally to be affirmed that these contributions do not in fact exceed 0.5% of Member States' military expenditure.

Therefore, direct contributions are made to fund the requirements of the Alliance that serve the interests of all 30 members - and are not the responsibility of any member - such as air defense or NATO command and control systems. Costs are borne collectively, often using the principle of joint financing.

Within the principle of common funding, all 30 members contribute according to an agreed cost-share formula, based on Gross National Income, which represents a small percentage of each member's defence budget. "Common funding arrangements are used to finance NATO's principal budgets: the civil budget (NATO HQ running costs), the military budget (costs of the integrated Command Structure) and the NATO Security Investment Programme (military capabilities). 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. The funding process is overseen by the North Atlantic Council, managed by the Resource Policy and Planning Board, and implemented by the Budget Committee and the Investment Committee." (NATO WEB SITE, 2022)

"The civil and military budgets are annual, coinciding with the calendar year. Each budget is prepared under the authority of the head of the respective NATO body and is reviewed by the Budget Committee composed of representatives of contributing member countries, and approved for execution by the North Atlantic Council (NAC)." (NATO WEB SITE, 2022)

These are the main features of NATO's budget, so the details of each of the alliance's sources of revenue will be followed.

2. Indirect funding of NATO

Indirect – or national – contributions are the largest and are made, for example, when a member voluntarily sends equipment or troops to carry out a military operation for the benefit of the Alliance and bears the costs of supporting these capabilities in theaters of operations.

Thus, when the North Atlantic Council (NAC) decides to engage in an operation, there is no obligation for each member to contribute to the operation. The exception consists of the Article 5 collective defence operation. In all cases, contributions are voluntary and vary in form and scale.

The contribution consists of troops, vehicles, naval vessels, or air capabilities to all forms of equipment or support. These voluntary contributions are offered by individual members. All in all, the contributions are taken from their overall defence capability to form a combined NATO capability. (NATO WEB SITE, 2022)

In 2006, NATO Defence Ministers agreed to commit a minimum of two per cent of their Gross Domestic Product (GDP) to spending on defence. "This guideline principally serves as an indicator of a country's political will to contribute to the Alliance's common defence efforts. Some Allies may need to spend more than this to develop the capabilities that the Alliance asks of them. Additionally, the defence capacity of each member country has an important impact on the overall perception of the Alliance's credibility as a politico-military organisation." (NATO WEB SITE, 2022)

At the 2014 Wales Summit, NATO leaders agreed to halt declining trend in defense budgets and decided to:

- The Allies who currently meet the condition to allocate for 2% for defense spending they will maintain this process in continuation,even if desired for this percentage to increase;
- The Allies whose share of GDP for defense spending is below 2%: they will stop this decline; i follow to groth defense spending in real terms as GDP grows; and aim to move towards the 2% target in a decade, in order to fulfill objectives capabilityss NATO and for to complete capabilitytyss deficiencies NATO.

Also it was agreed that in tha last 10 years, "allies spending less than 20% of their annual defense budgets on major equipment will aim to increase their annual investment to 20% or more total of defense spending." (NATO WEB SITE, 2022) In my opion it is a important step in NATO financial stability.

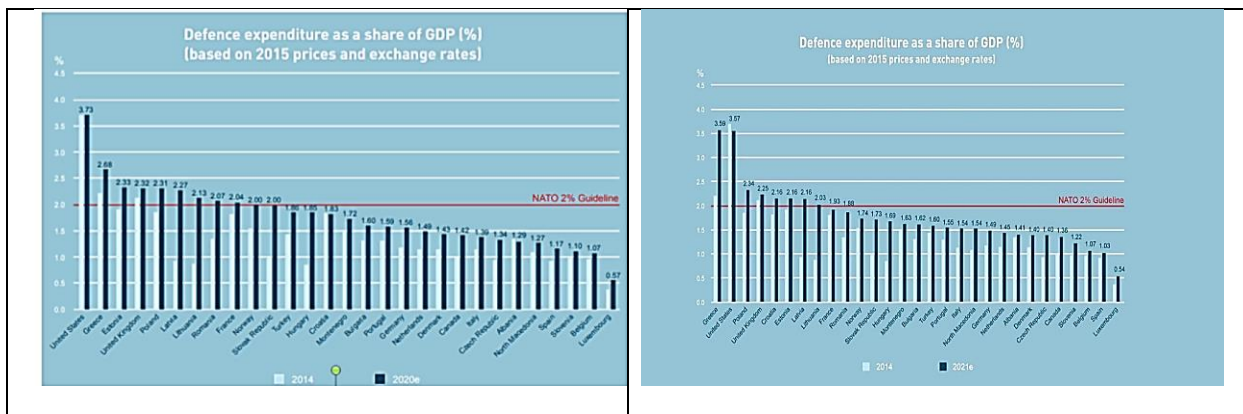


Figure no 1. The GDP for Member States' defense spending for 2014, 2020 and 2021 (Matthijs, 2021)

According to this chart, it can be seen that Romania is on the tenth position, with 1.88%, after France (1.93%), the first country below the 2% threshold. Belgium (1.07%) and Denmark (1.40%) recently decided to significantly increase military spending. Italy (1.54%) wants to reach 2% in 2028, said Prime Minister Mario Draghi, considering that the 2024 horizon is understood by member countries more "as like a indication, than as a purpose". And Germany, which has allocated only 1.49% of GDP in defense in 2021, has announced record investments for its military since 2022, with the ambition of reaching 2% of GDP "in the years coming " (G4Media).

Thus, in 2021, the eight countries that have reached or exceeded the 2% target are: Greece (3.59%), USA (3.57%), Poland (2.34%), United Kingdom (2.25 %), Croatia, Estonia, Latvia (2.16% each) and Lithuania (2.03%).

The United States, which were represente for 51 percent of Allied GDP in 2021, accounted for 69 percent of NATO's military spending. NATO's total military spending was estimated last year at more than 1.000 billions of dollars (898 million euros).

Thus, national defence budgets cover three categories of expenditures: personnel expenses and pensions; research, development and procurement of defence equipment; and, lastly, operations, exercises and maintenance, but the budget allocation is a national decision.

Forwards is presented the graph with the situation of the Alliance member countries, with the allocated expenditures for military equipment. World defense spending has pased for the first time in history 2.000 billions in 2021, and is set to continue to rise as European states expand their military in response to Russia's invading of Ukraine.

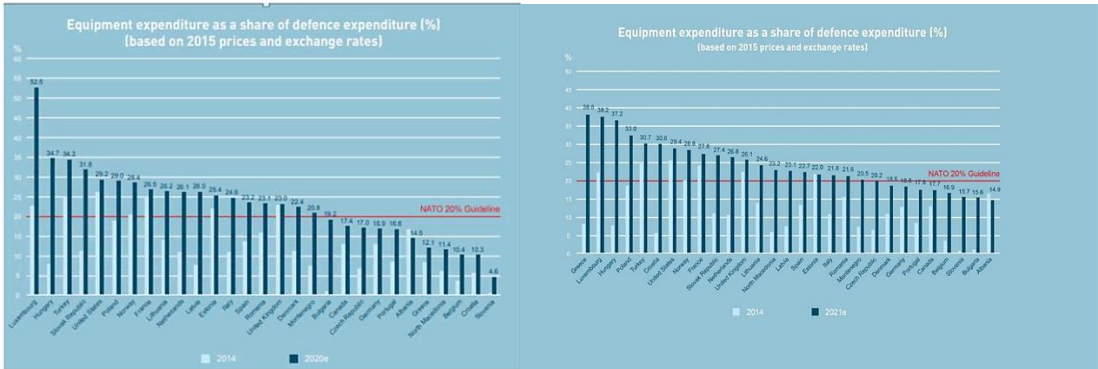


Figure no 2. Equipment expenditure for Member States' for 2014, 2020 and 2021 (Matthijs, 2021)

It can be seen that there are states that have spent and invested in defense equipment, which gives them a status in the common security equation, such as Greece, Luxembourg, Romania is on the 19th place in this ranking.

In 2021, countries around the world spent a total of \$ 2.113 billion on defense, 0.7% more than in 2020. However, defense spending accounted for 2.2% of the mondial's Gross Domestic Product, 0.1 percentage points less than in 2020, grace to the rapid recovery of the world economy from the pandemic. (DIGI-24)

Therefore, the NATO Members will ensure that their land, air and maritime forces meet NATO-agreed guidelines for deployability and sustainability. The NATO Members will ensure that Allied armed forces can operate together. Even though all Allies may not contribute to an operation, they have agreed that the joint operation would be commonly funded.

3. Direct funding of NATO

”Direct financial 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. Several factors influence the choice of funding source to address a given priority. These include the required level of integration or interoperability, 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 WEB SITE, 2022)

Thus, when a need for expenditure has been identified, the countries in the Resource Policy and Planning Council discuss whether the principle of common funding should be applied.

The Common Funding Criteria are constantly being reviewed and changes may be made as a result of changing circumstances.

One example is the need to support the critical demands of the Alliance's operations and missions.

Co-financing arrangements include both NATO civilian and military budgets.

Co-financing arrangements also include the NATO Security Investment Program (NSIP). These are NATO funds that support the Alliance's overall objectives and priorities.

Therefore the civil budget provides funds for personnel expenses, operating costs, and capital and programme expenditure of the International Staff at NATO Headquarters. 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 for 2022 is € 289,1 million (NATO WEB SITE) 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 frontline objectives and four support objectives. The frontline objectives comprise support for: active operations; Alliance capabilities; consultation and cooperation with partners; and public relations.” (NATO WEB SITE, 2022)

The four support objectives consist in: ”providing support to the consultation process with Allies; maintaining the facilities and site of NATO Headquarters (Headquarters operational environment); governance and regulation through the monitoring of business policies, processes and procedures; and Headquarters security.” (NATO WEB SITE, 2022)

The military budget for 2022 is € 1.56 billion (NATO WEB SITE) provides funds for ”the International Military Staff, the Strategic Commanders, the NATO Airborne Early Warning and Control (NAEW&C) Force, the common-funded portions of the Alliance’s operations and missions.” (NATO WEB SITE, 2022)

NATO Security Investment Programme (NSIP) is a long-term program designed ”to build new infrastructure assets or improve existing infrastructure elements on member states or partner countries territory and is jointly funded by all member states. Since its establishment until now, this program has been a symbol for member countries for the effective sharing of obligations and benefits, and for those outside the Alliance a demonstration of the permanent involvement of its members in the joint defense of NATO populations and territories.” (COTIGA, 2019, pp. 72-76)

”The NATO Security Investment Programme (NSIP), 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.” (COTIGA, 2019)

The 2022 ceiling for the NSIP is € 790 million. (COTIGA, 2019) ”In the spirit of transparency, each year NATO publishes the civilian and military budget totals, as well as the NATO Security Investment Programme (NSIP) budget. It also publishes an annual compendium of financial, personnel and economic data for all member countries. Since 1963, the latter has formed a consistent basis of comparison of the defence effort of Alliance members based on a common definition of defence expenditure.” (NATO WEB SITE, 2021)

NATO’s civilian budget (running costs for NATO Headquarters), ”military budget (costs of the integrated Command Structure) and NSIP (military capabilities) are commonly funded, i.e., they cover requirements which are not the responsibility of any single member, such as NATO-wide air defence or the command structure.” (NATO WEB SITE, 2021)

All 30 members contribute according to an agreed cost-share formula, based on Gross National Income. This contribution represents a small percentage of each country’s military defence budget. This cost-share formula is published every year. ”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. In September 2014, NATO leaders decided to, inter alia, reform governance, transparency and accountability, especially in the management of NATO’s financial resources. This new drive for transparency and accountability aims to improve insight into how NATO manages, spends and reports on the use of taxpayer funds.” (NATO WEB SITE, 2021)

Joint (partnership) financings are structural forms of international financing. ”Some multinational activities cooperation related to research, development, production and logistical support do not involve all members, in some cases they could involve only a small number of member countries.” (ALBU, 2011) Also there are projects that do not offer benefits all members of the Alliance or are not considered necessary by all members, in which case they may have joint funding only from the some members side. They also establish the common funding formula. In this case, NATO is only politically and financially overseeing. Usually, the management of joint funding is entrusted to a NATO agency. NATO agency activities range from the development and production of fighter aircraft or helicopters to the provision of logistics support or air defence communication and information systems.

Conclusions

The Member States contribute directly and indirectly to covering the expenditure generated by functioning of NATO's common policies and activities. Direct contributions to the NATO joint budget are made by Member States according to a cost-sharing formula that takes into account national GDP.

NATO members make direct and indirect contributions to the costs of running Allies operations. It can be seen that funding for the functioning and implementation of the Alliance's policies is provided through direct and indirect contributions. Indirect contributions account for most of the Alliance's contributions.

The direct contributions are payments from the national budgets of the Alliance member countries, in the common budgets at the exclusive disposal of the NATO bodies.

Direct contributions are made by Member States in accordance with a cost-sharing formula, agreed by all members and based mainly on the allocated annual budget (percentage of GDP). Members who spend less on defense budgets are directed to invest in defense to exceed the recommended 20%.

All members of the Alliance contribute to the NATO budget according to an agreed cost-sharing formula, based on Gross National Income, which represents a small percentage of each country's defense budget. Romania has proposed a percentage of 2.5%, a very important aspect in the politico-military decision, which indicates an active participation in the security of the Alliance. The Alliance's financing arrangements include civilian and military budgets. To this is added the NATO Security Investment Program (NSIP). These are secure funds through which NATO authorities identify requirements and set priorities in line with the Alliance's overall objectives and objectives.

Therefore the NATO budget has strong governance and oversight mechanisms, the Allies decide together what is eligible for joint funding, decide how much to spend each year, and set medium-term planning figures.

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