

## FUNDING FOR POST-CONFLICT OPERATIONS: NATO AND THE EU

### NATO

NATO's long history as an international security alliance has allowed it to form relatively transparent, straightforward budgetary mechanisms. Most funding for NATO post-conflict operations comes directly from individual Member States' national budgets. The organization operates according to the principle of "costs lie where they fall," in which Member States pay for the support of their own forces in the field whenever possible. The training, equipment, transport, lodging, food and salary for US troops participating in NATO's SFOR operation in Bosnia and Herzegovina, for example, are all covered by the US government, according to its own accounting practices.

Nevertheless, there are certain types of expenses that cannot reasonably be allocated to particular Member States, and which are therefore shared as NATO "common costs." These common costs are divided into three main accounts: the civil budget, the military budget and the NATO Security Investment Programme (NSIP). Each member state is responsible for contributing a specific percentage of the funds for these budgets according to a cost-sharing formula, loosely linked to Member States' relative Gross Domestic Product. The cost-sharing formula is decided upon unanimously.

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. According to the *NATO Handbook*, the civil budget covers "the operating costs of the International Staff at the NATO Headquarters in Brussels; the execution of approved civilian programmes and activities; and the construction, running and maintenance costs of facilities including the Personnel costs associated with providing conference services for all meetings of NATO committees and subordinate groups, security services, etc." The civil budget is also used for public relations, civil emergency planning, the work of the NATO science committee, and non-military aspects of the Partnership for Peace program and the Euro-Atlantic Partnership Council.<sup>1</sup> The civil budget does not pay for the salaries of member state diplomats stationed at NATO headquarters. The total civil budget for 2002 amounted to € 124.7 million, most of which was funded from the appropriations of Member States' ministries of foreign affairs.<sup>2</sup> Expenses for the NATO civil budget are split among all 19 Member States.

The military budget covers all expenses related to operating and maintaining NATO military headquarters around the globe. These include the costs attached to NATO's international

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<sup>1</sup> Ek, Carl W., "NATO Common Funds Burdensharing: Background and Current Issues," CRS Report for Congress, April 27, 1999, pg. 2.

<sup>2</sup> This figure, along with subsequent figures on NATO spending, represents the most recent information available online. *NATO Handbook*, NATO Office of Information and Press, Brussels, updated 15 May 2003. Online at [www.nato.int/docu/handbook/2001/index.htm#CH9](http://www.nato.int/docu/handbook/2001/index.htm#CH9).

headquarters in Mons, Belgium, and the command structure for NATO peacekeeping activities in Bosnia and Herzegovina and Kosovo.<sup>3</sup> In addition, the military budget covers NATO research and development agencies, procurement and logistics agencies, and any jointly-owned defense programs, such as the Airborne Early Warning and Control System's (AWACS) fleet operations. The cost of supporting Member States' military personnel is borne by individual Member States, and is not included in the military budget. Because a number of states do not participate in the AWACS program, and France does not participate in all military activities, costs included in the NATO military budget can be split among 13, 14, 18, or all 19 Member States. The total military budget for 2001 was € 746 million, most of which was funded through Member States' ministries of defense.<sup>4</sup>

The NATO Security and Investment Programme (NSIP) is designed to improve the security infrastructure in NATO Member States and to help fulfill NATO's strategic vision of broad military readiness. The program funds a variety of military infrastructure projects including the construction of information systems, radar, military headquarters, airfields, fuel pipelines and storage, harbors, navigational aids, transportation and storage facilities, and command, control and communications facilities. NSIP also funds infrastructure projects in Bosnia and Herzegovina and Kosovo in support of SFOR and KFOR, and funds projects in non-Member States through Partnership for Peace. Expenses for the NSIP are split among 18 or 19 Member States, depending on French participation. The NSIP budget for 2001 was \$624 million.<sup>5</sup>

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 benefits that the construction of NSIP projects will bring to a country, and the amount that each country is contributing to overall NATO security.<sup>6</sup> Like all NATO decisions, percentage contributions to NATO budgets must be agreed on by consensus.

### **The European Union**<sup>7</sup>

As the EU expands its role in post-conflict security and rule of law work, its funding mechanisms continue to evolve. With the increased complexity of recent missions, the EU has been forced to invent new funding mechanisms on a mostly ad hoc basis. The resulting system is both complex and confusing, and lacks a certain degree of cohesion and transparency. The following is a step-by-step guide for understanding the nature of and reasoning behind the current funding structure.

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<sup>3</sup> Ek, 2

<sup>4</sup> *NATO Handbook*

<sup>5</sup> Ek., 3, and *NATO Handbook*

<sup>6</sup> Ek, 6

<sup>7</sup> For a comprehensive treatment of issues surrounding EU post-conflict operation financing, see Missiroli, Antonio, "Euros for ESDP: financing EU operations," European Union Institute for Security Studies, Occasional Papers No. 45, June 2003. Online at [www.iss-eu.org/occasion/occ45.pdf](http://www.iss-eu.org/occasion/occ45.pdf). Unless otherwise noted, information in this fact sheet that deals with EU financing originates from this source.

### *The Funding structure*

Costs incurred during EU crisis management and post-conflict operations can be funded in four different ways. Depending on the nature of the operation in question and decisions made by the European Council, funding for a particular program could appear in the EU Communities budget under the Common Foreign and Security Policy (CFSP) heading (Budget Subsection B-8) or under the External Relations heading (Budget Subsection B-7). It could appear in the budgets of individual Member States according to the principle of “costs lie where they fall” or, if it is a military operation, costs could be divided among participating states according to a GNP-linked “key.”

A number of factors affect how costs are allocated among these funding options. First, the Council must determine if the operation has “military or defence implications.” Article 28 of the Treaty of the European Union (TEU) dictates that “expenditure 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 words, 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 EU 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.

Article 28 of the TEU still does not tell the whole story for EU military costs. With the advent of the European Security and Defense Policy (ESDP), launched in the spring of 2002, the EU needed to refine its budgetary mechanisms even further. In June 2002, recognizing the imminent reality of complex, potentially costly EU military operations, the European Council created a distinction between “common” and “individual” military costs. “Common costs” would be funded through a GNP-based “key,” as outlined in Article 28 of the TEU, while “individual” costs such as personnel, arms and equipment would be accrued by individual Member States according to the principle of “costs lie where they fall.” In another words, just as in NATO, EU states would pay their own way if they wanted to send troops to a military operation. “Common costs,” would include support for EU headquarters, as well as infrastructure, additional equipment, identification marking and medical support for the forces as a whole. In practice, the specific selection of “common costs” and the specific nature of the GNP-based “key” would be negotiated on an operation-by-operation basis. The European Council also stipulated that this general agreement be reviewed by June 2004.<sup>8</sup>

In addition to military operations, the EU funds a number of large 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

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<sup>8</sup> Presidency Conclusions at the European Council, Seville, 21-22 June 2002 (SN 200/1/02 REV 1). Online at [ue.eu.int/newsroom/makeFrame.asp?MAX=&BID=76&DID=71212&LANG=1&File=/pressData/en/ec/71212.pdf&Picture=0](http://ue.eu.int/newsroom/makeFrame.asp?MAX=&BID=76&DID=71212&LANG=1&File=/pressData/en/ec/71212.pdf&Picture=0).

key distinction for civilian missions is whether the costs in question are “administrative” or “operational.”

According to Article 28 of the TEU, “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...fall” basis, with each state paying for its own police. Importantly, when the costs of such civilian CFSP missions *are* covered within the budget of the European Communities, they normally appear within Budget Subsection B-8, under a heading for CFSP.<sup>9</sup>

Although it might seem logical to include all post-conflict expenses under the B-8 “CFSP” budget line, many non-military post-conflict operations are included under a completely separate budget heading, the Community budgetary line for External Relations (Budget Subsection B-7). Over the years, such “External Relations” operations have included Disarmament, Demobilization and Reintegration programs, de-mining, election monitoring, democracy consolidation and rule of law work—all activities that could easily be described as “CFSP.” In many cases, the assignment of such costs has less to do with the nature of the operation than with internal power struggles between the European Council and the European Parliament. The European Parliament has more oversight over the B-8 budget line, which has led to frequent delays and shortages of funds. As a result, the Council often tries to include as many costs as possible within the B-7 line.

### ***Funding ESDP missions<sup>10</sup>***

In practice, the budgetary mechanisms for EU post-conflict operations have yet to be truly tested. The first ESDP mission, EUPM in Bosnia and Herzegovina, began in January 2003 with a three year mandate to assist in training local police. With around 900 staff, EUPM has an annual price tag of € 38 million, of which € 20 million is funded through the B-7 “External Relations” budget line. Mission startup costs included € 14 million, financed through the various chapters of the 2002 European Community budget. The personnel and equipment costs for EUPM, such as police salaries, allowances and travel expenses, are borne by Member States on a “costs...fall” basis. These “individual costs” total € 18 million annually.<sup>11</sup>

Operation *Concordia* in FYROM, which took over from NATO’s *Allied Harmony* on 31 March 2003, was the EU’s first explicitly military operation, with common costs amounting to € 6.2 million. These costs, which included lodging and barracks for the troops as a whole,

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<sup>9</sup> European Union, “The Treaty of Amsterdam,” 2 October 1997. Online at [www.eurotreaties.com/amsterdamtreaty.pdf](http://www.eurotreaties.com/amsterdamtreaty.pdf).

<sup>10</sup> For more details on recent EU post-conflict missions, see Stimson Fact Sheet “Review of European Union Field Operations,” March 2004.

<sup>11</sup> “Council Joint Action of 11 March 2002 on the European Union Police Mission,” Official Journal of the European Communities, 13 March 2002 (2002/210/CFSP). Online at [www.eupm.org/mission/bt/council1.pdf](http://www.eupm.org/mission/bt/council1.pdf).

were divided among contributing states along adjusted GDP lines, such that no state paid more than 25 percent, or less than 2 percent, of the total.<sup>12</sup> The personnel and equipment costs for Operation Concordia were on a “costs...fall” basis.

Operation *Artemis* in the Democratic Republic of Congo (DRC) included 1,800 mostly French soldiers, and common costs were estimated at € 7 million.<sup>13</sup> As stipulated under Article 28(3) of the TEU, common costs were charged to Member States through a financial mechanism separate from the main Community budget, while individual personnel and equipment costs were on a “costs...fall” basis.

Finally, Operation *Proxima*, the EU Police Mission in FYROM, consists of 200 staff and will cost € 15 million for the first year, including a startup cost of € 7.3 million. Because *Proxima* is a civilian operation, common funds will be allocated to the European Community budget.<sup>14</sup> As in EUPM, each member state will bear the costs of the police officers seconded by it, including salaries, medical coverage, allowances, and travel expenses.<sup>15</sup>

### ***An evolving structure***

For these early ESDP missions, the EU has been able to get by with ad hoc, constantly evolving budgetary mechanisms. But with potentially complex military missions on the horizon, such as a proposed military “handoff” to the EU from NATO’s SFOR in Bosnia, many within and outside the EU have been calling for reform. On 23 February, 2004, the European Council agreed on a new mechanism, “Athena,” designed to streamline the budgetary mechanisms for EU-led military operations. 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.”<sup>16</sup> Instead of bringing budgetary concerns to the European Council each time a new military mission is proposed, Athena will oversee the “common cost” decision-making process on its own. Ideally, this will improve the transparency, speed and effectiveness of the EU funding process for military operations.

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<sup>12</sup> Missiroli cites a “GDP” scale for Concordia, while Article 28(3) of the TEU dictates that Member States use a “GNP” scale. Although there is a slight discrepancy between states’ GDP and GNP, for the purposes of this Fact Sheet the difference is negligible.

<sup>13</sup> “EU-led Military Operation in the Democratic Republic of Congo: Operation ‘Artemis,’” EU Fact Sheet, July 2003. Online at [ue.eu.int/pesd/congo/docs/fact\\_sheet\\_congo\\_rev.pdf](http://ue.eu.int/pesd/congo/docs/fact_sheet_congo_rev.pdf).

<sup>14</sup> Press Release, “EU launches Police Mission in the Former Yugoslav Republic of Macedonia,” 15 December 2003 (IP/03/1727). Online at [europa.eu.int/comm/external\\_relations/sec/news/ip03\\_1727.htm](http://europa.eu.int/comm/external_relations/sec/news/ip03_1727.htm).

<sup>15</sup> Council of the European Union, “Council Joint Action 2003/681/CFSP of 29 September 2003 on the European Union Police Mission in the Former Yugoslav Republic of Macedonia (EUPOL ‘Proxima’)” Official Journal of the European Union, 1 October 2003. Online at [ue.eu.int/pesd/proxima/pdf/Joint%20Action%20Proxima%202003-681.pdf](http://ue.eu.int/pesd/proxima/pdf/Joint%20Action%20Proxima%202003-681.pdf).

<sup>16</sup> The United Kingdom Parliament, “13 Financing the common costs of EU military or defence operations,” Select Committee on European Scrutiny, *Third Report*. Online at [www.parliament.the-stationery-office.co.uk/pa/cm200304/cmselect/cmeuleg/42-iii/4215.htm](http://www.parliament.the-stationery-office.co.uk/pa/cm200304/cmselect/cmeuleg/42-iii/4215.htm).

### Funding EU crisis management and post-conflict operations

