

The Funding of The North Atlantic Treaty Organization

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ABSTRACTS

This study examines the financing system of the budgets of the North Atlantic Treaty Organization (N.A.T.O.). The NATO is not a supranational organization, with partly exception of the military coordination by SHAPE, but an intergovernmental organization. So far, it's the only existing military institution at present worldwide. This 2023 study concerns only the three internal NATO budgets. Therefore, this article is based at the only reference material available, namely the primary budgetary sources of the NATO. It must also be pointed out that NATO does prepare an annual report concerning the political and military situation. But there is no equivalent concerning an overview of its finances and administrative functioning. The aspects to be investigated are as follows:

- **who is funding the NATO budgets and how?**
- **what happens with the money given to NATO?**
- **how is NATO's budget prepared and approved?**

This article doesn't treat the military budgets of the member states or the financing of the Parliamentary Assembly of the NATO.

Keywords: public budget, NATO funding

INTRODUCTION

The NATO (North Atlantic Treaty Organization) was established in 1949 during the first years of the Cold War and the tensions with the former Soviet Union in Eastern Europe. The treaty was signed in Washington DC at 4 April 1949. What means that the NATO exists already nearly 75 years, what will the fact in 2024!

By the start twelve countries signed up for the new political and military alliance. These were the five signatory countries of the Treaty of Brussels of 1948 and the creation of the WEU (West European Union), namely: Belgium, the Netherlands, Luxembourg, France and the United Kingdom. The other seven started members are the United States, Canada, Iceland, Portugal, Norway, Denmark, and Italy. Remarkable was the presence of Portugal and Italy related with their position in the second WW. But Portugal was geopolitically too important and as a non-democracy neutral during the war years. Italy turned in the final period of WW II to the allied side. In 1952 Greece and Turkey entered the alliance and the Federal Republic of West Germany in the year 1955. Membership then remained the same for almost quarter of a century until Spain joined, as a democracy, the NATO in 1982. The next expansion of the membership came with the end of the Soviet Union's grip and the accession of Hungary, Poland, and Czech Republic (1999) followed by the three Baltic States (Estonia, Latvia and Lithuania) together with Slovakia, Slovenia and Romania in 2004. The next members were Albania and Croatia in 2009. The last two member states are also situated in the Balkan area, namely: Montenegro in

2017 and North Macedonia in 2020. Therethrough the NATO has all the territories on both sides of the Adriatic Sea. At the present NATO has 30 member states. It's waiting for the official entry of Finland and Sweden.

To be accepted the candidacy of a potential new member must be unanimously approved by all the existing member states during a state-government leaders council. (f.e. summer 2022 in Madrid for Finland and Sweden). Also, the ratification of the treaty concerning the new members must be approved by the Parliaments of the member states.

This study concerns the budget system and the financial system of the three NATO budgets, namely:

- The civil budget,
- The military budget,
- the NSIP budget.

The official unclassified documents of the NATO only exist in the two official languages of the military alliance: English and French. (OTAN: Organisation du Traité Atlantique du Nord).

THE BUDGET CYCLE

NATO's budgets are prepared by the administration at Brussels headquarters. NATO's officials are classed as international civilian staff and there were roughly 380 civil servants of them in 2022, They do have a specific tax system and have an international statute. But most of the staff are employees seconded of the national administrations as well the armies of the member states. (NATO, 2019a)

The budget is approved by a consensus of the 30 member states in the Council. This is yet another indication that the North Atlantic Treaty Organization is an intergovernmental institution.

All decisions of the NAC (North Atlantic Council), which have budgetary implications are submitted to the RPPB (Resource Policy and Planning Board) for an opinion. In the NATO hierarchy the Budget Committee (BC), and the Investment Committee (IC) are subordinate to this Board. The Budget Committee advises on all budgetary matters relating to the civil and the military budget of the NATO. The Investment Committee by contrast is responsible for implementing the NATO Security Investment Programme, which is authorized for the financing of the installation and facilities required by the strategic command centre of SACEUR (Supreme Allied Commander EUROpe). All the member states are represented in the RPPB and this Board is chaired by a rotating Presidency. Other members are: the military staff, the chairman of the budget committee and the chairman of the investment committee. The RPPB was established in 2010 and is the only financial committee that reports to the NAC. Examples of these reports are listed in the references. (NATO: 2018, NATO: 2019a , NATO : 2021b)

The Board is also supported by NOR (NATO Office of Resources). The body is chiefly concerned with NATO's military budget. NOR also advises the BC and the IC in this respect.

The RPPB works with the policy guidelines of the NAC. The main task of the Resource Policy and Planning Board is to work out a policy regarding resources. To do this the RPPB examines the affordability of choices, makes performance assessments, and determines the planning and resource implications of new initiatives. (Matthijs, 2015)

Every year the Resource Policy and Planning Board prepares an all-inclusive Medium Term Resource Plan for the forthcoming budget year including a projection of the planned figures for the next four years. The result is an overview of the projected budget for the next five years. This proposal by the RPPB is then submitted to the approval of the North Atlantic Council.

The budgetary rules governing NATO are always first approved by the NAC. These rules however may be specific to a single or several institutions, namely,

- international staff funded from the civil budget,
- international military structure funded from the military budget,
- the NATO Security Investment Programme (NSIP),
- the NATO agencies.

The civil and military budgets run concurrently with the calendar year, that means from January 1st until December 31.

It the Secretary General who presents the draft budget to the NAC and it is the Council that approves the drafts. There is no role here for the NATO Parliamentary Assembly and NATO does not have anything like the EU's public financial regulations that set out the budget process in detail. But the last published report from the RPPB dates from the year 2017! (NATO, 2018) Here is more than a normal delay!

It should be remembered that a consensus is required for agreement and if the NATO budget is not approved in due time by the NAC - NATO must rely on a system of provisional credits, which is supervised the Budget Committee But there are not so much examples of the use of this budget system.

The head of each NATO organization, e.g., the Secretary General where the civil budget is concerned, has a degree of freedom when deciding how the budget is implemented as long as he takes account of the relevant financial regulations. An example of this are the rules regarding the transfers between budget items and the rules on the award of purchase tenders.

A number of specific rules apply regarding the NSIP. Here the point of departure is the available assets. These are then supplemented to arrive at the requested goods.

They are then reviewed and drawn up by the RPPB and approved by the Council. Once they have been approved, the implementation and management are the responsibility of the Investment Committee.

AUDITING

The International Board of Auditors for NATO (IBAN) is responsible for auditing NATO expenditure. The board monitors the efficient and effective use of the disbursements.

IBAN has six members, who are designated by the NAC for a period of four years. The Council appoints one of them to act as Chairman for a period of two years. The appointments to the Board are not renewable. At present spring 2023 Italy has the presidency and the other members are coming from: Belgium, Canada, Czech Republic, Denmark and Greece. The board members are assisted by one principal auditor and 19 auditors and six administrative staff with NATO international staff status. (NATO, IBAN 2023a)

In practice the members of IBAN are people who are members of a national auditing agency (e.g. the “Cour des Comptes” France, “Rekenhof” in Belgium or the “Rekenkamer “ in the Netherlands, National Audit Office in the UK etc.) or persons with a budget knowledge from the armed forces.

They have special independent status in NATO and report directly to the Council.

IBAN is responsible for the budget audits. The yearly budget if IBAN is prepared by the board and is included in the annual budget of the NATO staff.

The three types of audits carried out by IBAN are as follows (NATO: IBAN, 2023a):

- financial audits of NATO bodies and reporting entities: audits of financial statements, performance and cash flows etc. These are the subject of the yearly reports of the IBAN (NATO: 2022a),
- performance audits of the various components of NATO, with the emphasis on the so-called three “E’s” (Economy, Efficiency and Effectiveness) (NATO: 2023b),
- financial audits of the NSIP (NATO: 2021b and NATO: 2022f).

IBAN works at base of a strategic plan for several years (at the moment 2022-26) with actual topics. This plan was approved by the NAC after an advice of the RPPB. (NATO: 2021c) The IBAN boards presents a annual activity report to this publication is reviewed by the RPPB with comments and recommendations. In fine it’s up to the NAC to give the approval and then the Secretary-General of the NATO makes this report publicly available by a note of him. (NATO: 2022b) The last published report is the one of the years 2021 (NATO, 2022a)

The common funding

First of all, the common funding. This part of NATO’s funding is used for the mentioned three budgets, namely (NATO: 2023c):

- the civilian budget,
- the military budget,
- the NATO Security and Investment Programme (NSIP).

NATO is not a supranational institution, rather a multinational organization, and this is to be seen from the way it is financed. The organization has no own resources à la the European Union which can be used for the financing of the budget. (Matthijs: 2015)

All NATO members are expected to contribute to all three NATO budgets. The payments are made annually from the budgets of the various states to the three components of NATO. The

level of each country's contributions was determined by NATO leaders during the Brussels summit 2021. The NATO political member leaders agreed to increase NATO resourcing, including as necessary common funding, taking into account sustainability, affordability and accountability. (NATO: 2023c)

Until 2017 there was a different share between the civil budget (f.e. period 2014-2015 for Belgium 2,0137%, UK 10,9773% etc.) versus the military and NSIP budgets (f.e. Belgium 2,0368%, UK 10,4790%). In the period 2018-2020 the alliance started with a global percentage for all the three budgets (f.e. Belgium 1,9506%, UK 10,4581% etc.).

The main five contributors were in the old system:

- civil: USA (21,7394%, FRG: 14,5053%, France: 11,1421%, UK: 10,9773%, and Italy: 8,7250%);
- military & NSIP: USA 22,2000%, FRG: 14,6439%, France: 10,9682%, UK: 10,4790%, Italy: 8,8720%)

Since 2018 the global percentage is as follow for the five big contributors: USA: 22,1387%; FRG: 14,7639, France: 10,4986%, UK: 10,4581, Italy: 8,1400%.

I the old systems the United States was always the main financier, but since the present share agreement (period 2021-2024) the proportions were changed in favour of the USA.

The next table gives the shares for all the three budgets, financed by 30 member states, for the period 2021-2024.

TABLE: I NATO Common fund

Nation	Adjusted cost share further to accession of North Macedonia "at 30"
Applicable	as from 1 January 2021 to 31 December 2024
Albania	0.0908
Belgium	2.1043
Bulgaria	0.3656
Canada	6.8789
Croatia	0.2995
Czech Rep.	1.0558
Denmark	1.3116
Estonia	0.1248
France	10.4913
Germany	16.3444
Greece	1.0573
Hungary	0.7595
Iceland	0.0642
Italy	8.7812
Latvia	0.1595
Lithuania	0.2566
Luxembourg	0.1693
Montenegro	0.0291
Netherlands	3.4506
North Macedonia	0.0778
Norway	1.7771
Poland	2.9861
Portugal	1.0491
Romania	1.2279
Slovakia	0.516
Slovenia	0.2276
Spain	5.9908
Turkey	4.7266
United Kingdom	11.2823
United States	16.3444
TOTAL NATO	100.0000

SOURCE: NATO, Cost Sharing Arrangements period 2021-2024.

As a result of the downwards revision of the US share the European members have to pay more. The Federal Republic of Germany pays the same share as the USA. In fact, all the other members, with exception of the mini states and Canada, pay more for the decrease in favour of the US

contributions. The political agreement is that the US has already an important military budget and pays for the European military security and as compensation the US has to pay less for these three NATO budgets. The main ten financiers are at present:

- USA & FRG: 16,3444%
- UK: 11,2823%
- France: 10,4913%
- Italy: 8,7812%
- Canada: 6,8789%
- Spain: 5,9908%
- Turkey: 4,7266%
- Netherlands: 3,4506%
- Poland: 2,9861%

The United States, Germany and the United Kingdom are paying together 43,9711% of the NATO budgets with France they reach 54,4624%. All the ten main contributors are financing for 87,3298% the studied budgets. This means that all the other 20 member states are the equivalent of nearly 13% of the financing.

Ten members are paying each more than 2%. Eight countries do have a share between 1% and 2%, what means that 18 members are contributing more than 1%. So, 12 members have a share less than 1%. In the near future with the accession of Finland and Sweden, the NATO council has to modify these present shares. Normally Sweden will have a share around 2% and Finland in the neighbourhood of 1,7%. These accessions will result in a decrease of all the members in share percentage!

Civil Budget of the NATO

The civil budget is supported by allocations from the Foreign Affairs budgets of the 30 member states. This budget is monitored by the budget commission. These resources are used to pay the international civil servants who work for NATO (about 380), their pensions, operating expenses and the maintenance of the buildings in Brussels. The Secretary General of the alliance is the budget holder of the civil budget. The construction of the new HQ of the NATO in Brussels was financed largely from funds external to this civil budget. The next table gives an overview of the 2023 budget. (NATO: 2022c)

TABLE: II THE 2023 CIVIL BUDGET OF NATO (in euro)

Personnel & maintenance	303.489.089
IBAN budget	5.215.238
Pensions schemes	62.079.670
TOTAL	370.783.997
Income & mitigation	20.175.726
TOTAL contribution	350.608.271

SOURCE: NATO

Compared with the year 2022 this civil budget increases from 290 million too 370 million euro. At the 2022 Madrid summit the NATO state or government leaders committed to increase common funding year-on-year, in real terms, by 10% annually starting in 2023. (NATO: 2022c)

The main reason for this increase is off course the east European tensions with the Russian federation. This budget was fixed at 217 million euro in 2014.

The programmes relate to the support given by NATO to projects involving cooperation between member states. NATO's civil budget has four "frontline" objectives and four "support" objectives. The frontline objectives have to do with the financial and administrative logistic support to active operations, the ability to strengthen the alliance, improving cooperation between member states and public relations. The four support objectives are the maintenance of headquarters, the security of the site, consultations with member states and the general administration of the alliance. Allies' contributions will be reduced by the projected level of income tot this budget and mitigation measures from the budget committee. (NATO: 2022c)

The Military Budget

NATO's military budget concerns the SHAPE component. The member states pay their share (percentage) by means of an allocation from the national defence budget. The budget is supervised by the budget commission referred to above. The budget holders are SACEUR (Supreme Allied Commander Europe), SACT (Supreme Allied Commander Transformation) and DGIMS (Director General of the International Military Staff). The chapter parts of this budget are: SHAPE site in Mons, Belgium (NCS: NATO command structure), AOM (Alliance Operations & Missions), the NATO Defence College, the NATO Airborne Early Warning and Control Force (NAEW), pensions, communication information system (NCS-A) and the national armament goals ((NAGSF). (NATO: 2022d)

The third table gives an overview about the military budget 2023.

In 2014 spending under this budget totalled € 1,3 billion euro and 1,5 billion in the year 2020.

TABLE: III THE MILITARY BUDGET 2023 of NATO (in euro)

NCS	1.084.746.000
pensions	143.550.000
AOM	4.884.402
NCS-A	30.777.000
NAEW	324.707.000
NAGSF	234.267.000
TOTAL	1.822.931.401

SOURCE: NATO

Also, in this NATO budget the study concludes an important increase of the budget resources. As result of the Brussels 2021 and the Madrid 2022 summits the NATO decided to turn the alliance in a higher level of ambitions and priorities. The most important part of this budget is the working of SHAPE and his command centre. At a second place in this list of expenditures the AWACS system concerning the airborne early warning system.

The NSIP budget

The “NATO Security Investment Programme” (NSIP) concerns the financial resources needed for the construction and administration of strategically important military installations and supports to deterrence, defence and security. These are usually too expensive for the smaller member states, which makes a joint NATO approach the favoured option. The NSIP budget provides the funds needed for logistic support (including fuel supplies), port facilities for troop transport by sea and air, military command structures for operations, air defence communication and information systems, the NATO Programming Centre in Glons in Belgium, which is itself a part of the NATO Communication and Information Agency (NCIA) and the administration of NATO CB (the NATO Consultation, Command and Control Board). This is a NATO agency that advises on cyber defence, data protection and intelligence.

The budget is funded from allocations from the defence budgets of the member states. A ceiling of 650 million euro had been set on the joint contribution of the member states for the budget year 2014, which upgraded to 710 million in the year 2020. For the year 2023 this NSIP budget concerns 1 billion euro. (NATO, 2023c) It's overseen by the investment committee of the NATO.

The Total

When all three budgets are counted together the sum gives a next evolution form the year 2014 over 2020 until the present in 2023, namely:

2014 = 2.237 million euro
 2020 = 2,516 million euro
 2023 = 3.172 million euro

The civil budget increases over the years 2014-2023 with X 1,61, for the military budget it's X 1,33 and the NSIP budget X 1,54. The global amount grows from 2,2 billion euro to 3,1 billion at present or X 1,42.

The impact of the three budgets in the global amount evolved as follows:

2014: civil 9,7% -- military -- 61,2% -- NSIP 29,1%
 2020: civil 10,2% -- military -- 61,6% -- NSIP 28,2%
 2024: civil 11% -- military -- 57,4% -- NSIP 31,6%

The most important evolution in this shares are the modest upgrade of the civil budget in the global total and the increase of the NSIP budget. But over all these years the military budget is still the most important part.

CONCLUSION

NATO has been in existence since 1949 and is an organization that has become militarily active primarily after the end of the Cold War in Europe (with actions for example in Afghanistan, and former Yugoslavia). It is not an international cooperative body, rather it is a multinational one or intergovernmental. NATO is therefore a consensual organization and this is apparent from its budget procedures.

This study examines the budget procedures of the three NATO budgets: civil, military and NSIP. Several bodies and stakeholders are involved in the preparations, the approvals and the execution of the budgets: the North Atlantic Council, the Secretary-General, the IBAN (International Board of Auditors), the RPPB (Resource Policy and Planning Board), the NATO office of resources, the budget committee, the investment committee and the member states of this military alliance.

From the democratic point of view, it is striking that the NATO Parliament does not have any role to play in the budget procedure. Contrary to what one might expect in a normal public budget system, there is no annual financial report, or financial regulations such as used by the EU. There is thus still much to be done if transparency is to be improved.

The core of the funding of the North Atlantic Treaty Organization is a system that is based on the Gross National Income of the member states. But in the last planning the contributions of the greatest payer, the USA, went down as compensation for the US military support for the defence of Europe. As calculated in this study a lot of members do have a very little share in the financing system of the NATO budgets.

Over the last ten years and certainly in the last years, with the Russian tensions, the level of the budgets went up.

The intention of this study is to bring a recent view at the internal budgets of the most important military alliance of the world: NATO.

References

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