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## Financing the post-Kabul Alliance: the challenges of the reform of NATO's common funding

The burden sharing debate between the European allies and the United States has existed for 40 years and will remain a prominent item on NATO's agenda. As the bulk of defense-related expenditures by member states is linked primarily to their own armed forces' activities – even outside the NATO framework –, this debate is mostly about national capabilities: the political focus remains on the implementation of the Wales 2014 Summit pledge by each ally to devote 2 percent of its GDP to its national defense budget, with a 20 percent share going to investments.

Much less political attention, with some exceptions<sup>1</sup>, has been focused on those collective expenditures of NATO which fall into the category of common funding. They involve the support of a variety of collective tasks, like managing the headquarters, infrastructure, civilian staffing, communications, air defense, storage of fuel and munitions, etc. They do not include activities organized between groups of like-minded allies, like tactical air transportation or dedicated "trust funds" benefiting NATO partners.

Those expenses which are eligible for common funding are managed through three budgets: the civilian, the military, and the investment program. So far, common funding issues have been dealt mostly at the national NATO delegation level.

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<sup>1</sup>In 2009, due to a combination of bad financial management, excess of spending on operations in Afghanistan through the Investment Fund and lack of adequate budget control, NATO was facing a non-anticipated financial deficit of 600 M€ at the end of the year. The defense ministers had to meet urgently to fill the gap of such unanticipated expenses to avoid Alliance bankruptcy. A reform of the financial management of NATO was decided at a special meeting in Bratislava in October, together with a consolidation of the 14 NATO agencies. In 2012, at the Chicago Summit, there were also serious debates about the financing of common funding for the ALTBMD anti-missile system.

The Secretary General surprised the allies on the eve of the NATO Summit to be held in Brussels on June 14, 2021 by seeking to make the issue of a substantial increase of the common funding one of the “*deliverables*” of the meeting. During the preliminary negotiation, the financial figures of the proposed increase changed: a doubling of the sums allocated to the common funding up to 20 billion €, then to 16 billion € in the next ten years starting in 2023. What is more, the Secretary General himself was unable or unwilling to give any clear indication on the use of those new collective resources.

One should note that the “NATO 30/30” report by the “wise men”, presented in November 2020 as the blueprint for the future evolution of NATO and as a guideline for the Brussels Summit, had not even highlighted the issue, except by routinely mentioning the need to increase the personnel and human resources available directly to the NATO Secretary General through the civilian budget. This plea has been repeated in the past by all previous SGs and has been well known as a “hardy perennial” of the budgetary discussions within NATO.

This time, however, Jens Stoltenberg’s financial demands went much beyond the requirements of the bureaucratic expansion of his staff and were linked to a new ambition “*for a more political and global NATO*”.

Given the American and German support to the Secretary General’s proposal, the opposition of France, joined by a few allies, and the undecided stance of most other NATO members, the Summit’s final declaration (para. 7) represented a cautious compromise in view of the next Madrid Summit in 2022: “... *based on these requirements we agree to increase such resourcing, including as necessarily NATO common funding in 2023, taking into account sustainability, affordability and accountability. When we meet in 2022, we will agree, alongside the Strategic Concept, the specific requirements for additional funding up to 2030 and the resource implications across the Military budget, the NATO Security Investment Programme and the Civil budget, as well as identify potential efficiency measures*”.

To find out how the issue of common funding could impact the plans for financing a “post-Kabul” NATO, which will probably be even less keen than in the past to be involved in out-of-area military operations, one must clarify three items: the purposes and current limitations of the common funding; the challenges for NATO regarding new financial needs; the way ahead for the next summit in Madrid.

## **Purpose and limitations of the common funding**

### **Unequal contributions for a common purpose**

While quite small compared to the national defense budgets of many allies, which in most cases cover other priorities than the Alliance’s ones, the yearly amount of the common funding is not insignificant, reaching 2.581 M€ in 2021. This sum is divided among NATO members through a cost-sharing quota system, revised every two years through a process which is not devoid of political aspects. It is therefore misleading to reduce the issue of the common funding to the fact that it is just 0.3 percent of the current total allied defense spending. The key element is that this spending is not equally spread amongst all the allies.

The quota share for each nation has evolved over time. In the 1960S, the quota for the United States was 36 percent of the global common funding. It has now decreased by more than half,

reaching only 16.34 percent, *i.e.*, the same level as Germany, while the GNP and population of the two countries are quite different. In 2020, Berlin took the initiative of seeking such parity as a political gesture in the context of the burden sharing dispute, but the move, involving a realignment of the national quotas of other allies, was hardly noticed in Washington.

Beyond the United States and Germany, the other main contributors to the common funding grid are the United Kingdom (11.28 percent), France (10.49 percent), and Italy (8.78 percent)<sup>2</sup>. In 2021 Germany and those three European countries are contributing to almost half of the common funding of NATO. The other main contributors are Canada (6.87 percent), Spain (5.99 percent), Turkey (4.72 percent), the Netherlands (3.45 percent), Poland (2.98 percent), Belgium (2.10 percent), Norway (1.77 percent), Denmark (1.31 percent), Romania (1.22 percent), Greece (1.05 percent), the Czech Republic (1.05 percent), and Portugal (1,04 percent). The other 13 allies are contributing less than 1 percent each (between 0.09 and 0.75 percent).

One should note that EU members in NATO represent more than 60 percent of the common funding shares, thus constituting already a kind of “financial European pillar” within NATO.

As the rule in NATO remains the consensus, those quotas do not translate proportionally in the decision-making process. But it is difficult, given this obvious unbalance between nations, to agree with Secretary General Stoltenberg’s words implying that “*common funding is an image of Alliance solidarity*”: it is rather a stark picture of the unequal financial contributions amongst allies for those common funding expenditures.

## **An evolving mix bag of expenditures**

Defining the extent of the eligibility of expenditures to common funding is a key issue.

It is important to bear in mind that the Washington Treaty places the primary responsibility of NATO costs on member states<sup>3</sup>. It has been agreed since the origins of NATO that expenditures are allocated under the first principle of “*cost lies where they fall*”, meaning, for example, that each country must pay directly through its national defense budget for the cost of the troops and equipment used in NATO-sponsored operations. The only collective costs which are to be eligible to common funding are those which correspond to a verifiable collective need, and which cannot be supported by a single nation, hence the second principle of “*over and above*”.

In the NATO current financial set up, common funding is therefore more the exception than the rule, something that the Secretary General’s proposal is apparently meant as an attempt to change, with different consequences within the three separate budgets used for the common funding:

- the **civil budget**, in 2021, amounts to 258.87 M€, covering the running costs of the Secretary General office and associated expenditures, including salaries and pensions for the staff as well as the headquarters expenditures, including a growing share for C3 (12 percent). The expected benefit of moving to a new modern building in Evere has not materialized yet in terms of savings and surprisingly the maintenance expenditures have increased (+ 39 percent). As salaries and

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<sup>2</sup> The cost sharing formula for common funding as for January 2021 to December 2024 is to be found in this NATO document: [Funding NATO](#).

<sup>3</sup> Article 3 of the Washington Treaty says that member states should “...*separately and jointly ... maintain and develop their individual and collective capacity to resist armed attack*”.

pensions (rather generous in Brussels) represent 70 percent of the civil budget, the margin of flexibility is small (outside the contracting of outside services which, however, still represent 3.8 M€).

Another problem regarding the NATO civilian budget is that member states contribute individually to it through their foreign ministries' national budgets, which in most allied countries are usually much smaller as compared to defense budgets, and, therefore, retain much less flexibility.

As in all bureaucratic organizations, especially those under international management, NATO headquarters are prone to a natural expansion of their tasks and an inflation of their staff. Nations are fully aware of those risks of financial drift and are therefore reticent to let a free hand to the Secretary General, especially in the field of human resources management. In turn, the latter complains he is not given the possibility to play his role of "C.E.O" of NATO, at least regarding the civilian side of the organization, especially for managing human resources. The military staffing (8,200 military personnel, including a thousand civilians) is *de facto* beyond his authority and remains a preserve of SACEUR; the same is true of the practically autonomous NATO agencies, which tend to escape any financial and managerial control since they are "customer-funded". For the time being, and despite various reports and attempts to propose a horizontal reform in an organization which is still plagued by vertical "stove pipe" bureaucratic patterns, immobilism has largely prevailed<sup>4</sup>.

- the **military budget**, amounting to 1.612 M€ (62 percent of NATO expenditures, outside NATO agencies), includes the support of the integrated military structures, *i.e.*, the various headquarters, commands and centers of excellence, intelligence and warning capabilities and several research and formation centers (including the NATO Defense College). The NATO Command Structure (NCS) staff increased in 2018 (as a reaction to the Ukraine crisis) from 6,800 to 8,200 (including 7,200 staff of military origin). In 2021, the two main military commands, SHAPE (ACO) and ACT (Norfolk), include respectively 6,840 and 1,173 posts.

Outside the military command structure, one also finds 11,500 employees, the bulk belonging to the NATO Communications and Information Agency (NCIA). The salaries of the military staff are in most cases paid directly by the nations, which are detaching them for a while to NATO, except in the case of the agencies.

The larger part of the military budget is devoted to military operations, for example that in Afghanistan (around 700 M€ per year in common funds). In principle, the end of those operations should lead to substantial savings, but past experiences are not encouraging from this point of view.

- the **NATO Security Investment Program** (NSIP) represents collective expenditures managed by the host countries, NATO agencies and NATO partners, which should be agreed by a special committee under a fixed yearly ceiling of 710 M€. At the origins, the NSIP was financing basic infrastructures allowing the interoperability of the Alliance such as military bases, airstrips, pipelines, etc.

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<sup>4</sup> See Benoit d'Aboville, « [Les réformes inachevées de l'OTAN](#) », *Commentaire*, n° 139, 2012, pp. 711-718.

The enlargement of NATO in the 1990s and 2000s brought new requirements. At that time, the NSIP benefited mostly to the new Alliance members for equipment and brick-and-mortar projects, and corresponding initiatives were often plagued by local administrative inefficiency and corruption.

Simultaneously, the operations in Afghanistan began to impact the NSIP increasingly. In the mid-1990s, almost 70 percent of the NSIP were used in operations (AOM), mostly to compensate the lack of national contributions in the NATO generation of forces process – too often meetings looking like a public auction without bidders – and to cover various needs associated to NATO’s presence on the theater.

In Afghanistan, the common funding has been used mostly to provide for theater level enabling capacities like medical facilities, basic infrastructure for rotating forces, air-to-ground air surveillance, engineering support, fuel storage and supply, communications throughout Afghanistan and with contributing countries, transportation, energy installations and the use, not only by the United States but also by NATO, of civil/military private companies and other contractors.

But what will happen now after the withdrawal?

### **The challenges for NATO regarding new financial needs**

As the prospects of new out-of-area military operations by NATO are fading after the Kabul withdrawal, the question will be to whom and to which NATO missions it could benefit financially. An increase in the personal staffing of the civilian headquarters and an extension of the common funding for developing relations with official “NATO partners”, which are now run on voluntary “trust funds”, are likely candidates. But, as seen by the current Secretary General, the motive for most of the new financing will probably rest on a need to build a new “global and political NATO”, as already advocated by the “NATO 30/30” report.

*A priori*, it raised several questions.

### **Some implications of significantly raising the common funding**

The Summit communiqué is linking the issue of common funding to the new Strategic Concept of NATO, which is a logical step: more money perhaps, but how much? and for what purpose? A key issue to be discussed during the preparation of the new Defense Concept is whether NATO’s role should be increasingly “political”, even at the risk of appearing less military-oriented.

For the Secretary General and many nations, there is the hope that a more political Alliance will find a new “*raison d’être*” in such areas as global international presence, climate change, resiliency, cyber defense, new defense technologies, management of the implications of disinformation, etc., as those issues are attuned to the current public expectations (which, however, may well change in the future)

This choice is not very convincing: in most of those areas, NATO does not have either the competencies, or the resources which would allow it to offer a distinct added value compared to what is already done in specialized multilateral processes and to what is already developed within the European Union. Through an ironic historic reversal of situation, NATO could commit the sin of “*duplication*” that State Secretary Madeleine Albright used to see in the EU’s activities.

Pretending to be present at the center of everything important in international relations and in competition with the EU is not a sufficient justification for such endeavors and cannot be the source of a credible post-Kabul legitimacy for NATO. After all, other, quite performing channels exist in the transatlantic sphere and at the level of bilateral relations.

Beyond the general political debate, attributing more resources to common funding may also challenge the cohesion and the efficiency of the Alliance. First, a shift to more global funding would represent a powerful disincentive for the smaller allies, especially the 13 members of “the club of the less of 1 percent quota”, to maintain and develop their own military resources, still needed for collective defense. Is a “two-speed” Alliance a healthy option for the future of NATO? Are we facing an even more challenging option, *i.e.*, an evolution towards a “mercenary” NATO, where the biggest contributors would “sell” their capabilities instead of maintaining the reality, if not the principle, of collective defense? One can guess that the biggest contributors to NATO would not easily accept the transfer to them of the expenditures of the smaller allies in another burden sharing dispute, this time not between the United States and the Europeans but within the ranks of all the allies and to the detriment of the Alliance’s cohesion.

Second, in budgetary terms, the common funding in NATO will continue to remain outside any parliamentary control and to be quite opaque given the complexity and mix of measures included within its scope. Therefore, it may be tempting to circumvent, through common funding, parliamentary and the opinion’s scrutiny of the national defense burden: in some countries, sheltering it behind the screen of NATO contributions through an expanded common funding may look as a politically convenient opportunity. But it cannot be democratically sustained for long.

Third, so far, contributions to common funding have appeared to be marginal compared with most of the allies’ national defense budgets. But opening the door to a big increase for common funding and a potential change of the balance between national and collective contributions is not without political implications for the Alliance as a whole: it means, in political terms, a move towards less national responsibility for individual allies for collective defense and a distortion of each member’s commitment to it.

Fourth, even if the numbers are now small, an increase in the common funding will create an eviction effect within the national defense budgets, especially for the smallest members at a time when the economic effects of the Covid-19 pandemic are not yet fully known. For example, shifting 1.6 billion € from the current French military budget to increase common funding (taking as a hypothesis for calculation the Secretary General’s proposal of adding 16 billion € to NATO common funding) cannot be without consequences. As usual, what will be seen as the less immediate needs will be the first hit by cuts, especially when they deal with future technologies. Such a reaction will be the same and even worse in other European countries.

The paradox is that the “wise men” report, and the Secretary General himself, present the investment in future technologies as a priority for NATO. They are even proposing to fund them through a *NATO Innovation Fund* and a *Defence Innovation Accelerator (DIANA)*, a kind of a “NATO *Darpa*” with a mix of NATO funds and private financing. Are those proposals linked or not with the increase in common funding? Should they be financed separately and on a voluntary basis? The whole issue will have to be discussed, but at that stage it betrays a degree of improvisation, not to point to a not so discreet attempt to compete with the already existing *European Defense Fund*.

- Last, antimissile defense and surveillance technologies, whose cost are rising exponentially due to their use of space assets and AI, will probably be the next big budgetary tickets facing NATO in the coming years. They cannot fit into the current system of common funding. Some new budgetary approaches should be therefore devised.

## The way ahead for the next summit in Madrid

The Alliance communiqué of last June established a strong link between the examination of an increase of the common funding and the negotiation of the new updated Strategic Concept, thus confirming that raising the common funding cannot be considered in isolation of the Alliance's political choices in 2022. Two interrogations should be mentioned in that regard:

- As in the past, the new NATO Strategic Concept will be heavily influenced by the new American Strategic Review, expected to be published by the end of the year or the beginning of 2022. It will indeed focus on the challenges of China and the Indo-Pacific. While the NATO Strategic Concept will underline the importance of maintaining a balanced transatlantic relationship, it should also be directly relevant to the security concerns of the European region and its surroundings. The geopolitical differences between those two theaters require different ranges of capacities and tactics. Therefore, it will be difficult for NATO to implement and finance a Strategic Concept which would mainly deal with a global NATO, rather than first considering the specificity of the European military theater.

- The resources available to NATO will be critical for the credibility of the new Strategic Concept. It would be unwise to put into question the 2-percent Wales commitment of 2014. However, one cannot totally ignore the limits of the use of this political target. They have already been pointed by many experts<sup>5</sup>: *it does not represent a real measure of the NATO capacities and ignores the extent to which a nation provides the right forces to deter and defend, which cannot be resumed only by the percentage of defense expenditures*. No discussion of the common funding increase should be carried out without considering the whole picture of the defense needs in the next 15 years and assessing the evolution of the correlation of forces between NATO and its opponents.

## Some conclusions

There is obviously a need to keep the military strength of the Alliance as the central objective, and an expanded political role of NATO cannot serve as an alibi for changing the Alliance's core business. NATO should remain a "kinetic" Alliance, not a "global talking shop".

The rule of consensus within the Alliance and the need for upholding Alliance cohesion are averse to the use of the (undiplomatic) principle of "you talk as you pay", but the gaping disparities among the nations' contribution quotas nonetheless call for a reexamination of the criteria used for establishing them. With some imagination and diplomacy, one could try to limit the negative effects of an increase of common funding (disincentive for smaller countries to invest in hard military capabilities, eviction effects on medium-size budgets, undemocratic procedures, and burden sharing dispute across the whole Alliance). Therefore, it would be financially unrealistic and politically unsustainable to foresee a doubling of the existing commitments.

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<sup>5</sup> See, in particular, Anthony H. Cordesman, [NATO: Going From the 2% Non-Solution to Meaningful Planning](#), CSIS, 26 June 2019.

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