

**BALANCING DEFENCE AND SECURITY EFFORTS
WITH A PERMANENTLY STRUCTURED SCORECARD**

EGMONT PAPER 23

**BALANCING DEFENCE AND
SECURITY EFFORTS WITH
A PERMANENTLY STRUCTURED
SCORECARD**

PATRICK WOUTERS



June 2008



ACADEMIA PRESS

The Egmont Papers are published by Academia Press for Egmont - The Royal Institute for International Relations. Founded in 1947 by eminent Belgian political leaders, Egmont is an independent think-tank based in Brussels. Its interdisciplinary research is conducted in a spirit of total academic freedom. A platform of quality information, a forum for debate and analysis, a melting pot of ideas in the field of international politics, Egmont's ambition - through its publications, seminars and recommendations - is to make a useful contribution to the decision-making process.

* * *

President: Viscount Etienne DAVIGNON
Director-General: Claude MISSON
Series Editor: Prof. Dr. Sven BISCOP

* * *

Egmont - The Royal Institute for International Relations

Address Naamsestraat / Rue de Namur 69, 1000 Brussels, Belgium
Phone 00-32-(0)2.223.41.14
Fax 00-32-(0)2.223.41.16
E-mail info@egmontinstitute.be
Website: www.egmontinstitute.be

© Academia Press
Eekhout 2
9000 Gent
Tel. 09/233 80 88 Fax 09/233 14 09
Info@academiapress.be www.academiapress.be

J. Story-Scientia bvba Wetenschappelijke Boekhandel
Sint-Kwintensberg 87
B-9000 Gent
Tel. 09/225 57 57 Fax 09/233 14 09
Info@story.be www.story.be

Lay-out: proxxess.be

ISBN 978 90 382 1291 3
D/2008/4804/102
U 1129
NURI 754

All rights reserved. No part of this publication may be reproduced, stored in a retrieval system, or transmitted in any form or by any means, electronic, mechanical, photocopying, recording or otherwise without the permission of the publishers.

Table of Contents

1. Introduction	3
2. How to Operationalize the Commitments of <i>PermStrucCoop</i>	5
3. Building a Defence Key Performance Indicator List	9
4. Concrete Criteria for Participation in <i>PermStrucCoop</i>	13
5. The Other Problem: Force Generation	15
6. Military Statements of Requirements: Corollary of Political Decisions (or Lack Thereof)	17
7. Developing More Equitable Burden-Sharing Procedures	21
8. The Conundrum: “Costs-Lie-Where-They-Fall” vs. “Commun Funding”	23
9. Conclusion	27
Annex A: Combined Defence & Security Index for the European Union and NATO	29
Annex B: List of Abbreviations	30

1. Introduction

Two major developments are set to change defence and security landscapes in the coming decade: the Lisbon treaty will affect in a significant way the European Union's 'external action' and at Bucharest, NATO's Heads of State & Government decided to overhaul Defence Planning to make it more integrated and harmonised across all disciplines, which should in turn provide a blueprint for leaner and more efficient structures. At least, that's the plan. And it had better be a good one, since defence planning for both organisations accounts for approximately 780 billion dollar per annum, on average 2,8% of the GDP their member states produce (i.e. 2/3 of the wealth produced across the globe).

The Treaty of Lisbon (ToL) – when implemented¹ – will endow its re-baptised Common Defence and Security Policy (ESDP in the actual EU treaty) with two new instruments, the Enhanced Cooperation and the Permanent Structured Cooperation (*PermStrucCoop*). By granting the Union a legal personality² and limited new decision opportunities, the High Representative for Foreign Affairs and Security Policy or a group of Member States that are 'willing and have the necessary capability' for a special task should be able to take it on (at their own expense, unless decided otherwise³). *PermStrucCoop*, second in the rearranged EU-toolbox, should tailor for longer term capability-building by a strongly motivated 'core' that fulfils 'higher criteria and which have made more binding commitments to one another in this area with a view to the most demanding missions'. Although Art 42§3 explicitly will incite *all* Member States to 'undertake progressively to improve their military capabilities', it remains to be seen whether governments and parliaments ratifying the ToL will put their money where their mouth is.

PermStrucCoop is understood to be 'inclusive',⁴ even for those countries that would consider spending 2% of their GDP for security and defence entirely out of reach. But unless it is to be a "zero-growth-doing-more-with-less" exercise – a distinct possibility in times of austere government spending and competing budget priorities – a steady decline in national defence budgets will have to be reversed to meet even the most modest admission standards. Arguably however,

1. The Treaty of Lisbon amends the existing EU-treaty which will be 'consolidated' once all ratification instruments have been deposited. The referendum in Ireland will undoubtedly have an effect on the intended date of 1 Jan 2009.

The consolidated version of the new EU-treaty will be used as reference and can be consulted on the website of the EU-council at www.consilium.europa.eu.

2. Art. 47 of the future consolidated EU-treaty.

3. Art. 332 of the future consolidated EU-treaty.

4. Sven Biscop, *Permanent Structured Cooperation and the Future of ESDP* (Egmont Paper 20). Brussels, Egmont, 2008.

combining efficiency & efficacy with the magic trilogy of ‘specialisation – cooperation – pooling’ should bring *PermStrucCoop* within reach of most Member States. Thus, a two-tier “defence community” – considered undesirable by some for CSDP, unavoidable in NATO by others – would be averted.

This paper will explore how ‘theological’ criteria could be translated to key performance indicators of a pragmatic and balanced scorecard for defence and security efforts, both in the NATO and EU framework. Whether they are then also used as discriminators towards *PermStrucCoop* is a matter of political debate, but tailoring targets to the different profiles of possible contenders by checking and balancing the scorecard indicators should provide a positive, yet challenging roadmap for convergence. Concerning the other major challenge brought to the fore by *PermStrucCoop* – generating forces and capabilities for NATO or EU-led operations – it can be argued that current burden and risk-sharing mechanisms (or the lack thereof) are to be reviewed and rethought: food for those thoughts will be presented.

Patrick WOUTERS⁵

5. Patrick Wouters is a Colonel in the Belgian Air Force. The views expressed by the author are strictly his own and do not necessarily coincide with the policy of Belgian Defence or any of the organisations cited.

2. How to Operationalize the Commitments of *PermStrucCoop*

In Egmont Paper 20, Biscop develops some lines of force, while further defining the challenge: “to reconcile inclusiveness and commitment, to agree on criteria that allow all Member States to participate, each at his own level of means, but that do imply a substantial commitment to make available more usable capabilities”.

Criteria judged unsuitable or unrealistic would be of general budgetary nature (e.g. the previously mentioned 2% of GDP) and those specifically seeking a sound balance between personnel costs, operational costs and investments.⁶ Usability criteria of 40% deployability and 8% sustainability ‘seem equally laudable’ but have allegedly not yielded substantial improvements.

If it is correct that these uni-dimensional figures in themselves are either unrealistic in the short term or fail to secure assured availability for operations, they were intended as ‘simple’ parameters for Heads of State and Government to approve and commit to when preparing national budget proposals. It is also true that these unembellished political target figures validate – or invalidate – true defence investments, that should yield usable capabilities, provided the budgets can be appropriated along strictly military lines of effort, void of political interference. Furthermore, it is a matter of public knowledge that imbalances in personnel costs are in most cases the consequence of political constraints and interferences with base closure plans or restructurings of defence establishments. Indeed, given the incompressibility of personnel costs, zero growth budgets (not even compensating for inflation) inevitably result in cuts in operations, maintenance and equipment.

Which criteria then would qualify to operationalize the commitments of *PermStrucCoop*?

Before seeking answers to that question, it is helpful to highlight the guiding principles of the intended *PermStrucCoop*. They can be found in the special protocol on *PermStrucCoop*, which in its Article 2 entices Member States to (author’s emphasis):

- a) *cooperate*, as from the entry into force of the Treaty of Lisbon, with a view to *achieving approved objectives concerning the level of investment expendi-*

6. A balance 50%-25%-25% is used in management theories for profit organisations, but is not necessarily valid for non-profit organisations or defence matters: NATO has adopted 20% for equipment expenditures as threshold figure.

- ture on defence equipment*, and regularly review these objectives, in the light of the security environment and of the Union's international responsibilities;
- b) bring their defence apparatus into line with each other as far as possible, particularly by *harmonising the identification of their military needs*, by *pooling* and, where appropriate, *specialising* their defence means and capabilities, and by encouraging *cooperation in the fields of training and logistics*;
 - c) take concrete measures to *enhance the availability, interoperability, flexibility and deployability* of their forces, in particular by identifying *common objectives* regarding the *commitment of forces*, including possibly reviewing their national decision-making procedures;
 - d) work together to ensure that they take the necessary measures to *make good*, including through multinational approaches, and without prejudice to undertakings in this regard within the North Atlantic Treaty Organisation, the *shortfalls* perceived in the framework of the “*Capability Development Mechanism*”;
 - e) *take part*, where appropriate, in the *development of major joint or European equipment programmes* in the framework of the European Defence Agency.

Mutadis mutandis, several elements of this recipe could serve as guideline to recent NATO initiatives aimed at re-invigorating defence planning, which will endeavour to integrate logistics, C³, resource and – most importantly – armaments planning with traditional force planning. This integration of force planning with other disciplines should avoid that shortfalls are being identified by Chiefs of Defence (CHODs) and NATO, but subsequently do not necessarily coincide with the priorities of National Armaments Directors (NAD). Given the independent course that NADs are allowed to steer in some countries from their CHODs and – as a matter of course, from their national industries– it is clear that this will be the most difficult, but also the most rewarding harmonisation effort of the NATO's new Integrated Defence Planning Processes (IDPP). While this independence is cherished by some, its influence on inadequacies between weapon systems available (or coming in line) and military requirements of the instant indicate the interest of integrating, if not merging the two processes. Along the same lines, logistics, C³ and resource⁷ planning should be closely tied to force planning.

In the case of the EU, embedding the very same processes in one agency by entrusting the European Defence Agency (EDA) with counsel and support for *PermStrucCoop* therefore, should also help overcome tacit barriers and align

7. 'Resource planning' in this context encompasses the NATO Structural Improvement Programme (NSIP) and NATO owned assets (e.g. AWACS).

defence investment with capability-based planning.⁸ Not all member states are likely to agree however about the level of ‘supra-national’ authority that should be granted to the EDA.

In trying to derive concrete criteria for participation from the highlights of the *PermStrucCoop* protocol, some key characteristics have been opined (with precious little practical detail, however) in different fora:

- they have to be quantifiable and verifiable;
- they should indicate precise qualitative objectives, aimed at the precise targets rather than at the total of their armed forces;
- they should present a reasonable challenge whilst tending toward a fair burden-sharing;
- they should be result-oriented, seeking out which capabilities are necessary and how to use them;
- they can be spread on a timetable (cfr. convergence criteria for the Eurozone), as long as implementation is monitored.

If these ‘key performance indicators’ (KPI) do not seem controversial at first glance,⁹ finding criteria that fulfil them and can be tailored to member states with different profiles, while avoiding the appearance of manipulation, could prove very difficult and divisive.

Ultimately though, more important than finding and agreeing on criteria, will be to pursue innovative and pragmatic ways to align national with collective security interests and funnel government spending more efficiently to support them. This inherent tension between spending budgets as part of a multilateral effort versus national projects and operations will be discussed further.

8. ‘Capability-based’ planning is replacing the ‘threat-based’ approach: nations are asked to provide ‘capability’, not necessarily platforms (ships/aircraft or vehicles). A tangible example is the current shortfall of in-theatre airlift in Afghanistan: the capability can also be delivered with GPS-aided precision airdrop systems instead of (expensive) helicopters.

9. When identifying KPIs, management theory often uses the acronym SMART: Specific– Measurable– Achievable – Result-oriented or Relevant – Time-bound.

3. Building a Defence Key Performance Indicator List

Three ‘strategic objectives’ tied to broad categories of criteria seem to be part of any sensible approach:

- building military capabilities
- ensuring operational commitment
- governing defence investment

Attempting to measure both efficiency & effectiveness¹⁰ – while aggregating quantifiable and verifiable

parameters expressed in different (often incomparable) units of measure – is bound to be controversial and will prove difficult to reach consensus upon. Furthermore, taking any of these parameters in isolation and suggesting a member state would need to make good on it, would be construed as ‘biased and unifocal’: the usability debate in NATO is challenging this very approach, since some nations question the need to spend their scarce budgets on making troops ‘deployable’ and/or ‘sustainable’ in the face of primary needs they consider more immediate and crucial for their security (e.g. Turkey in relation to what it qualifies as terrorism requiring troops to deploy within or just beyond its borders). Others, unsurprisingly with the USA in the lead, believe that transformed military forces can only be deployable and consider ‘homeland’ (i.e. non-deployable) defence as non-military. These differences in (historic) perspective obviously complicate agreement on which yardstick to measure performance with. The influence of these different perspectives can be mitigated by considering several indicators and scaling them to the size of a country’s economy by using an adequate denominator. This denominator can be ‘per capita’ or ‘as % of active population’, thus expressing effort and efficiency of a defence establishment or government. It can also focus more on a desired effect, c.q. ‘per military’ or ‘as % of land strength’, thus expressing the efficacy of either organisation. The table below presents a tentative list of indicators, that can be expanded at will (given consensus) and weighted, if deemed necessary.

10. Defined respectively as ‘the ratio of the effective or useful output to the total input in any system’ and ‘capacity or power to produce a desired effect’. Efficacy will further be used as synonym for effectiveness.

DEFENCE & SECURITY KEY PERFORMANCE INDICATORS		Remarks (applying to annex A)	Efficiency	Efficacy
MILITARY CAPABILITIES				
1	Deployable Forces as % of Land Forces strength	Target = 40% or as agreed		x
2	Sustainable Forces as % of Land Forces strength	Target = 8% or as agreed		x
3	Committed troops in any OPS as % of MIL in active duty	In the framework of a SecO, not for national ops (e.g. Iraq)		x
4	Operations & Maintenance Expenditures per MIL	in K\$, current prices 2006		x
OPERATIONAL COMMITMENT				
5	Deployable MIL as % of Active Population	Act Population age 18-49	x	
6	Committed troops as % of Active Population	idem	x	
7	RISK SHARE per MIL in operation	(1)		x
8	Operations & Maintenance Expenditure per capita	in K\$, current prices 2006	x	
DEFENCE INVESTMENT				
9	Defence Expenditure as % of GNI	Purchasing Power Parity (2)	x	
10	Defence Expenditure as % of Individual & Collective Government Spending	in \$, current prices 2005	x	
11	Personnel Expenditures per MIL	Purchasing Power Parity (2)		x
12	Equip/Infra Expenditures per MIL	in K\$, current prices 2006		x
(1) Personnel deployment 'risk premium' expressed in real or virtual \$ per manday deployment, taking into account risk factors associated to deployment area (e.g. Afghanistan RC(S) carries higher risk factor than RC(N))				
(2) Prices are equalised by applying 1/2 of Purchasing Power Parity correction factor (PPP correction factors take into account differences in the relative prices of goods and services)				

As mentioned, trying to aggregate these parameters in different frameworks (EU, NATO etc.) without skewing the results is the next problem: this can be addressed by 'ranking' member states for each indicator in one of the three categories through calculating its percentile¹¹ value. By way of example, the proposed method provides thresholds for each indicator at a certain moment (e.g. the intended implementation date of the ToL): referring to the partial result table below, one can deduce that in 40% of the member states, defence accounts for less than 6,72% of total government spending (for collective and individual benefits); half of the states spend an average of 53.020\$ per military on active duty.

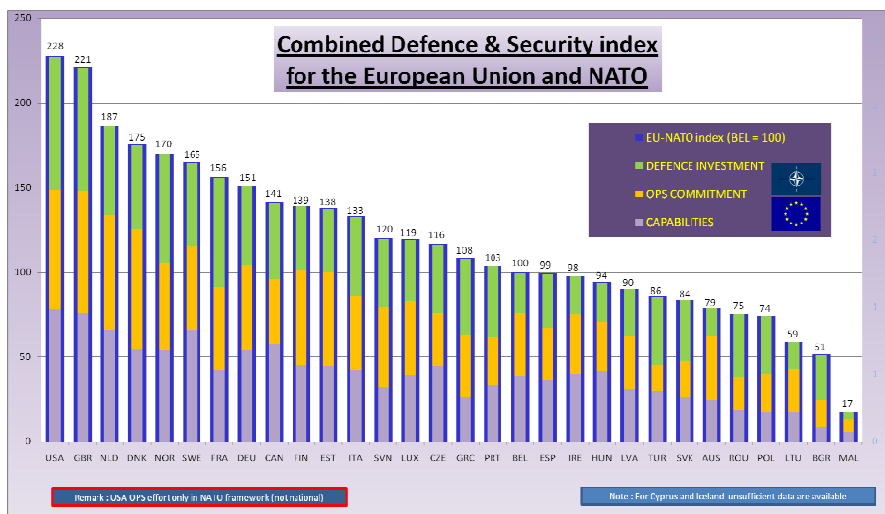
Interestingly, the threshold to take a state (close to the median on KPI n°12) to 'the next level', can also be determined: the amount of dollars spent on equipment per military in active duty would have to increase to 20.890\$, if it wanted to do better than 60% of the other members for this indicator.

11. The percentile of a given value is determined by the percentage of the values that are smaller than that figure. For example, a test score that is higher than 95 percent of the other scores is in the 95th percentile.

Indicator serial >>> (See 1 st column above)	10	11	12
Percentile 40% > x	6,72%	32,16 K\$	10,94 K\$
Median 50% > x	7,40%	53,02 K\$	12,83 K\$
Best 60% > x	8,05%	81,36 K\$	20,89 K\$

An indicative table of results based on open sources such as EDA reports,¹² the World Bank,¹³ SIPRI¹⁴ and NATO's Defence Policy and Planning Division¹⁵ is shown in Annex A (which the scope of this paper does not allow to provide full detail on).

An indexed list of defence efforts can then be made based on the average rankings of the states member of a particular organisation, either the EU or NATO. But the method perfectly allows to index the ranking across both organisations toward a chosen reference (e.g. Belgium) and present the results graphically.



12. European defence Agency, 2006 National Breakdowns of European Defence Expenditure, <http://www.eda.europa.eu/documents.aspx>.

13. World Bank, 2005 International Comparison Program, <http://web.worldbank.org/WBSITE/EXTERNAL/DATASTATISTICS>.

14. Stockholm International Peace Research Institute, Projects on Military Expenditure and Arms Production, <http://www.sipri.org/contents/milap/>.

15. NATO IS, Defence Policy and Planning Division, NATO-Russia Compendium of Financial and Economic Data Relating to Defence, http://www.nato.int/docu/pr/2005/p_050609e.htm.

4. Concrete Criteria for Participation in *PermStrucCoop*

Analysis of the table in Annex A subsequently informs the translation of defence indicators of member states into commitments: allocating ‘improvement targets’ becomes a matter of designating those that can be ‘brought to the next level’ (i.e. reach the threshold for the next higher percentile level) in a particular time-frame. The strength (but at the same time the political problem) of this approach is that the effort can be ‘quantified’, most often in budgetary terms or troop levels.

Indicator >>> (See 1 st column table Par 3)	Defence Expenditure as % of Individual & Collective Government Spending	Equip/Infra Expenditures per MIL
Median 50% > x	7,40%	12,83 K\$
Percentile 40% > x	6,72%	10,94 K\$
Delta	0,68%	1,89 K\$

Referring back to the table of the previous paragraph, it is apparent that 0,68% (7,40% minus 6,72%) more government spending should be allocated to defence if a member state wanted to reach the median for this indicator (i.e. to spend as much as 50% of its peers). Equally, adding 1.890\$ (12.830 minus 10940\$) to its equipment expenditure per soldier would bring it in the middle of the group.

Reading across the results table (Annex A) for Belgium e.g., reveals percentiles below 30 (colour-coded in solid red) for defence expenditure as percentage of government spending (on individual and collective requirements) as well as GDP. Risk share and equipment expenditure per military will also qualify as areas for most needed improvement. A second level of effort (percentile 40, colour-coded in orange) would need to target operations with potential gains in the areas of O&M expenditures and number of troops committed.

Quick reference to the colour-codes on the balanced scorecard shows other revealing indicators: this last criterion (number of troops committed) is the only one lagging for Norway, while the first one (defence expenditure as percentage of government spending) is the only ‘green’ one for Bulgaria.

Some indicators would seem rather ‘volatile’ (e.g. ‘troops committed’ typically has to be seen over longer periods of time, since it can change with surges or withdrawals of contingents), others take time to affect (e.g. deployability is tied to transformation, a complex process stretched over time). Overall though, it

seems obvious that traction for most key performance indicators will have to be gained through the allocation of more government funding to defence and security efforts.

5. The Other Problem: Force Generation

The founding fathers of *PermStrucCoop* also had another recurring problem in mind when they asked candidate Member States to undertake, from the date of entry into force of the ToL, to “proceed more intensively to develop [their] defence capacities through the development of national contributions and participation, where appropriate, in multinational forces”. Battlegroups could be commissioned at short notice,¹⁶ in particular in response to requests from the UN, with their support elements including transport and logistics. These combat formations should be capable of carrying out tasks outside the Union for peace-keeping, conflict prevention and strengthening international security¹⁷ as well as joint disarmament operations, humanitarian and rescue tasks, military advice and assistance, tasks of combat forces in crisis management, peace-making and post-conflict stabilisation. All these tasks¹⁸ may contribute to the fight against terrorism, including by supporting third countries in combating terrorism in their territories.

Lacunae in force generation are obviously not new nor confined to the EU, since NATO and the UN are faced with the same recurring problem: under-resourced operations. Persistent shortfalls in filling the various Combined Joint Statements of Requirements (CJSORs) increase the strategic risk to operations as the Supreme Allied Commander for Operations (SACEUR) recently noted, arguing that NATO’s most significant shortfall may simply be a lack of national will. The challenge therefore is to ensure the fulfilment of the Minimum Military Requirement (MMR) for the execution of an OPLAN and/or the sustainment of an ongoing operation. The negative impact of typical shortfalls such as the number of Operational Mentoring & Liaison Teams (OMLT) for Afghanistan on the likely duration of the operation and the success of our exit strategy should be brought more prominently to the attention of the political and public opinions: each fielded OMLT subsequently brings an Afghan Army Battalion on line, thus relieving an ISAF unit.

16. Within a period of five to 30 days and which can be sustained for an initial period of 30 days and be extended up to at least 120 days.

17. Art. 42 of the consolidated EU treaty.

18. Tasks added in Art. 43 of the consolidated EU treaty, captured as “the most demanding missions”.

6. Military Statements of Requirements: Corollary of Political Decisions (or Lack Thereof)

Stating that NATO should not commence an operation if it is not resourced from the outset, CHODs have asked to improve the alignment between the political decision-making process and assured force generation. Political authorities do require sound military advice¹⁹ on the implications of each task they proffer. This advice should – to the extent possible – be expressed in required capabilities and associated cost,²⁰ not in vague promises of troop commitments. Conversely, in some cases, a revision of the CJSOR can be the result of non-decisions: failure to reach consensus on the roles of UNMIK and EULEX in Kosovo could put KFOR de facto in the position of becoming the first responder for tasks, which would undoubtedly require more troops or increase the risk of losing control of the situation.

A revised approach to burden-sharing, more oriented to the support of long-term expeditionary operations is widely seen as part of the necessary effort. Through the ‘periodic mission review’, CJSORs should also be more closely kept in tune with the changing needs and circumstances of the theatre to avoid mission creep (i.e. changed missions without changed means). Another example where this mechanism is crucial would occur if the current mandate of ISAF were to be amended, for instance to include counter-narcotics or counter-terrorism as key military tasks.

Both in the EU and NATO, the crux of SOR-fulfilment problems has a name: ‘costs lie where they fall’, financial controllers speak to indicate that nations have to finance their own expenses when committing troops, air or maritime assets to an operation. The system is different for UN-sponsored troop contributions: they are indeed – sponsored, an important nuance which will be further elaborated upon.

For the start up of an operation and the commitment of NATO-owned assets (e.g. AWACS, theatre-wide capabilities,²¹ initial transport towards the theatre etc.) a system of common funding has been approved by nations, albeit reluctantly. The reason is that most defence establishments see all budget-posts des-

19. This is the main role and responsibility of the Military Committee, both in NATO and the EU.

20. Hence, the need for instruments to translate military requirements in cost (see further).

21. Such as Communication and Information Systems for Command & Control for the NATO Response Force.

ignated as ‘eligible for common funding’ as competition to their national transformation efforts: bluntly said, it’s money they won’t be able to spend at home...

A comparable system in the EU is ‘ATHENA-funding’, a mechanism deliberately kept separate from common Union spending. It is important to note that under the consolidated treaty, provisions have been added to ‘facilitate’ the start-up of an operation by providing an opt-out for funding²² and an exception to the consensus rule, normally applicable for defence matters: preparatory activities for missions outside the Union for peace-keeping, conflict prevention and strengthening international security, which are not charged to the Union budget, shall be financed by a start-up fund made up of Member States’ contributions.

The special *PermStrucCoop* protocol adds another incentive to force generation by privileging the notion of ‘pooling’ and ‘specialisation’, albeit in a somewhat ambiguous way: some will interpret it as a rationale to cut forces that are perceived as redundant in national inventories. Without this redundancy however, sustainability of operations – which political or societal evolutions²³ have protracted – would be even more compromised. If pooling is to be interpreted strictly from the dictionary,²⁴ then the nations that are willing to pool specialised units (mostly providing ‘enabling’ capabilities) will continuously be called upon to field them – to support others; and pay for it from national funds ...

Hence, it seem obvious that specialised, enabling or otherwise supporting forces need to be either commonly funded or compensated, when they are pooled for the benefit of third or allied nations. Despite the usual intellectual and diplomatic lip service, two other issues cloud the practicality of pooling and specialisation however: interoperability and the (national) will to exchange classified and/or costly information. Just one example of the latter: several nations pool Helios satellite capabilities, but as a matter of principle, the imagery is analysed on a strictly national basis and *not* automatically pooled. Examples of national and industrial interests that have overcome the former are so abundant, that any KPI addressing interoperability would predominantly be colour-coded in red.

22. Article 41 §2 states: “As for expenditure arising from operations having military or defence implications, Member States whose representatives in the Council have made a formal declaration under Article 31(1), second subparagraph, shall not be obliged to contribute to the financing thereof”.

23. KFOR in the first case, ISAF in the second.

24. Webster’s Revised Dictionary: “To put together; to contribute to a common fund, on the basis of a mutual division of profits or losses; to make a common interest of”.

Faced with the incapacitating consequences of CJSOR-shortfalls, NATO and the EU are left with very few options: increase political pressure on capitals (e.g. Canadian peer-pressure by threatening to withdraw their contributions), seeking partners (e.g. Russian strategic transport for EUFOR Chad, non-NATO troop contributions for KFOR) or outsourcing the effort (e.g. in-theatre airlift for ISAF). For previously mentioned reasons though, expanding the scope of eligibility for common funding meets with very limited appetite from nations.

7. Developing More Equitable Burden-Sharing Procedures

Filling CJSOR shortfalls has been problematic for ISAF and KFOR as well as EUFOR Chad. Because of the high operational tempo and the high costs associated with a possible activation, filling the 6-month-duty-roster for the NATO Response Force and EU Battlegroups has also become a problem.⁽²⁵⁾ Sensing a threat to the very concept of the NRF, which had just been declared operational, the Strategic Commanders (SC) reacted to the problem by proposing the interim option of graduated Force Generation⁽²⁶⁾ of the NRF.

To put the recurring problem of CJSOR-shortfalls Revised Funding Policy for Non-Article 5 NATO-’ was agreed by the nations in the NATO Atlantic Council in October 2005.⁽²⁷⁾ The revised policy was established with a view to achieve a more equitable distribution of the financial cost of key theatre-level enablers by providing common funding, e.g. for Theatre Capability Statements of Requirement (TCSOR), i.e. critical theatre-level enabling capabilities not attributable to a specific nation (‘pooled’, in other words). They are listed a priori in the OPLAN and put under the operational or logistic control of the theatre commander. These requirements should be provided by lead nations that take responsibility for assembling and maintaining the required capability from their own and other nations’ forces, but with common funding paying for the deployment, the installation and the running of the provided capability.

As a corollary to an effort to harmonise cost-sharing arrangements, a rather complex burden-sharing mechanism was also set up to take account of the ‘boots-on-the-ground’ committed by a nation to all NATO operations. Previously, all nations²⁸ had accepted a convergence mechanism of their cost shares for common funding toward their prospective GNI²⁹ in 2016. The burden-sharing arrangement was temporarily suspended because of an unfortunate coincidence: the benefit that nations such as Canada, the UK and the Netherlands

25. Spain has incurred considerable cost when the Spain-led Land Component of NRF was deployed to Pakistan for a Disaster Relief operation in January 2005, <http://www.nato.int/SHAPE/news/2006/01/060129a.htm>.

26. 2007 Chiefs of Transformation Conference, Norfolk, 11-13 December 2007, <http://transnet.act.nato.int/WISE/TNCC/07COTC/2007COTCBR/11DecAMpar>.

27. See also Resolution 337 on Enhanced Common Funding of NATO Operations, NATO Parliamentary Assembly, <http://www.naa.be/default.Asp?SHORTCUT=829>.

28. Except the USA that insisted on keeping the cost share it had with NATO at 16.

29. Global National Income (GNI) takes into account all production in the domestic economy (i.e. GDP) plus the net flows of factor income (such as rents, profits, and labour income) from abroad. The World Bank Atlas method smoothes exchange rate fluctuations by using a three year moving average, price-adjusted conversion factor and takes purchasing power parities (PPP) into account. NATO takes half of this PPP-correction into account.

should have obtained through their increased effort in Afghanistan was totally offset by the ‘automatic’ cost share rise tied to their GNI. In the absence of any risk-sharing considerations, which would have given more weight to these ‘boots-in-danger’, this unintended consequence was deemed inappropriate, which triggered an impending review of the mechanism.

Arguably though, none of these mechanisms provided enough incentives for nations to commit enough troops, both in terms of financial effort and risk. It can be further contended that seeking yet another political commitment by Heads of State and Government, be it in EU- or NATO-formats, will not change much to the systemic impasse. Indeed, ultimately, only individual nations can determine whether political will, availability of capabilities at the national level, or competition with other national requirements and priorities stand in the way of committing capabilities. Undoubtedly, the simple but unavowed rationale is that they don’t wish to spend money on somebody else’s perceived security interests. Conversely, if useful enablers of force generation could be provided through the incentives of the revised policies, it would be disparaging to presume that the current fill rate of the TCSOR is exclusively the result of the availability of funding, as this would suggest that nations would only contribute capabilities and assets if common funding were available. In any event, it is safe to say that a middle ground needs to be found between ‘costs-lie-where-they-fall’ and ‘common funding’ schemes, perceived to short-change national transformational efforts.

8. The Conundrum: “Costs-Lie-Where-They-Fall” vs. “Commun Funding”

Given the complex and dynamic nature of the force generation process, taking any of these factors in isolation and contending that the final provision of capabilities should be reduced to the single problem of funding, would be to oversimplify the issue and fail to recognise the impact of other national constraints. On the other hand, regularly or systematically allowing conflicting national priorities – financial or other – to take precedence on providing critical capabilities as a member of NATO, the EU or another organisation is bound to result in a confronting discussion over solidarity debit and credit.

Another dimension of generating forces resides undoubtedly in true or perceived competition between organisations. While national political will and sovereign policy decisions prepared in a transparent manner – sanctioned by legislative oversight – are beyond reproach, the perception of defaulting on long-term and persistent commitment to a particular organisation can result in considerable political tension around burden-sharing.

A possible middle ground could be found by considering each commitment in troops, air or maritime assets that fulfil criteria such as those defined in Article 2 of the special protocol on *PermStrucCoop* as a contribution in kind to the objectives of the organisation. In other words, instead of translating below-average-burden-sharing (boots-on-the-ground) into a financial penalty, as the mechanisms described earlier intended, above-average contributions would be usable as virtual vouchers when the bills are being parcelled out.

Least situations would occur in which countries offer ill-equipped troops providing little capability and even less motivation to an operation, optimising allocated funds would entail:

- that all contributions are well trained and equipped for the mission and have been evaluated through ‘Force Integration Training’, following a normal ‘stand-down’ period after the previous operational commitment (to avoid battle-stress or over-commitment);
- that troop contributions meet CJSOR definition (i.e. fulfil a Minimum Military Requirement, not a national add-on);³⁰
- equally, that offers for ‘Enabling capabilities’ respond to TCSOR requirements;

30. Cfr an unsolicited CAN tank unit in ISAF or BEL Force Protection unit in UNIFIL

- that funding arrangements are pre-financed by the Troop Contributing Nation (TCN) and compensations be taken ‘in kind’ as replacement for ‘common funding contributions’ for a pre-planned amount per manday (combatant or support personnel), flying hour or sailing day.

Although the mechanism would undoubtedly require careful consideration and staffing before being accepted by nations, it would present a ‘natural incentive’ to offer troop contributions, which are currently withheld for previously mentioned reasons or simply because forces allocated to the NRF or an EU Battle-group leave associated funds unused, in the event that these ‘stand-by forces’ are not activated.

Beside the fact that the perception would be avoided of paying twice (once under ‘cost-lie-where-they-fall’ and a second time through CRO or ATHENA ‘common funding’ mechanisms), nations would also be naturally inclined to invest in the right capabilities, those that can be ‘leased’ to an organisation for operations (i.e. deemed ‘usable’ and appropriate against abovementioned criteria).

Incidentally, ‘dry & wet lease’ are the exact terminologies used by the UN General Assembly in the implementation document³¹ of Resolution 50/222, when it approved a new “method of reimbursement to troop/police-contributing countries for the utilization of major equipment of Contingent-Owned Equipment (COE)”, and for the reimbursement of self-sustainment based on the authorized contingent strength while participating in peacekeeping missions.

Under these provisions, the UN responsibility is to ensure that the peacekeeping mission has the personnel and equipment required to fulfil its mandate, that the troop/police contributors provide personnel, equipment and services as detailed in the specific MOU, and that the contingents perform according to the established standards. The instrumentation it creates for the standardization of reimbursement rates on an equitable basis and common standards to be applied to equipment and services provided, could perfectly be adopted by and adapted to the EU or NATO. So-called ‘Mission factors’ are also determined: they are intended to take into account specific conditions prevailing in the area of responsibility that cause unusual wear and tear, shorter life of equipment, increase maintenance costs and/or risk of damage and loss to the equipment.

31. Manual on Policies and Procedures Concerning the Reimbursement and Control of Contingent-Owned Equipment of Troop/Police Contributors Participating in Peacekeeping Missions (COE Manual), United Nations A/C.5/60/26 – General Assembly, 11 January 2006.

An evaluation grid is used factoring in 3 specific mission circumstances that form the basis for increments to the reimbursement rates for major equipment and self-sustainment (minor equipment and consumables):

- an extreme environmental condition factor
- an intensified operational conditions factor
- a hostile action/forced abandonment factor

This approach is very similar to the system several nations use to allocate 'risk' premiums to their troops and could be adapted to factor in a degree of 'risk-sharing' between nations.³²

32. It was also used as the basis for the KPI mentioned in serial 7 of the table in §3 and in Annex A.

9. Conclusion

If finding and agreeing on key performance indicators for accession (and continued participation) to *PermStrucCoop* will be difficult enough, funnelling government spending more efficiently to support them will undoubtedly be *the* critical success factor – assuming finance ministers will agree to apply some of the fiscal recipes used for similar permanent structured cooperation around the euro to defence needs.

The fact of the matter remains that harmonisation and convergence of European defence efforts almost inescapably point to more financial investments – unless one persists with the assertion that efficiency and efficacy gains are to be made without them, not exactly a vote of confidence in the past generations of Ministers and Chiefs of Defence.

If European governments are to accept the idea of enhanced – or permanently structured– security and defence cooperation and agree to put more money into it, defence establishments have to come with a candid roadmap on how to spend it and offer SMART performance indicators: Specific – Measurable – Achievable – Result-oriented – Time-bound.

The method described in this paper leading to a balanced scorecard can be tailored and improved³³ to become a valuable tool to research and refine these performance indicators – or discriminators – for those member states that join, stay or leave a group of enhanced or permanently structured cooperators.

The other key to improve defence capabilities is to offer ‘natural incentives’ for force generation: in the framework of *PermStrucCoop* or NATO’s new IDPP, capabilities explicitly designated as shortfalls could be deemed ‘acceptable as compensation in kind’ when offered against a requirement line of the CJSOR/ TCSOR.

Since there is a direct link between political decisions and military requirements, an instrument to provide resource implications of those decisions (or failure to reach them) should be at hand. The UN procedures on Troop/Police Contributors Participating in Peacekeeping Missions provide such a tool and can be easily adapted to EU and/or NATO needs. Rather than governing a system of reimbursements – the current practice in the UN – these contributions in kind could

33. E.g. metrics would need to be designed, agreed and operationalized to reflect collaborative procurement, interoperability, multi-nationality of operational commitments, recognising that the most controversial and difficult KPI to measure remains ‘capability’.

be considered as a ‘credit’ to the account of nations against the Military Budget (NATO) or ATHENA-fund (EU). National bills would then be reduced by an amount estimated to (at least partially) compensate for the incremental costs incurred by offering troops, aircraft or ships to a NATO- or EU-led operation.

It is interesting to note that ‘contributions of the willing’ are made possible under the Treaty of Lisbon, since provisions have been adopted to ‘facilitate’ the start-up of an operation by providing an opt-out for funding,³⁴ while the High Representative of the Union for Foreign Affairs and Security Policy can propose a start-up fund for operations, which can be created with a *qualified majority*. While this mechanism should facilitate an initial force generation, it will also put due emphasis on the political decision to intervene militarily: those that decide not to provide troops or assets will pay for those who do (or be seen to default on burden sharing)! Investments in the development of national capabilities, would put member states in a better position to ‘lease’ them to the EU/ NATO, thus relieving them of other burden-sharing obligations, the win-win situation we need. Whether these natural incentives for ‘leasing troops to an organisation’ would also be favourable towards pooling and specialisation of forces is left to the readers for reflection.

34. Cfr. the unilateral declaration of Spain on its refusal to contribute to any funding for new tasks for KFOR after the declaration of independence of Kosovo, thus effectively opting-out without breaking consensus at 26, heretofore uncharted terrain for NATO.

Annex A: Combined Defence & Security Index for the European Union and NATO

Country	MILITARY CAPABILITIES				OPERATIONAL COMMITMENT				DEFENCE INVESTMENT				EU		NATO		SecO		R S a e n g O	
	Dep For as % For Tgt=40%	Sust For as % For Tgt=58%	Committed in any OPS per # MIL	O&M Exp (\$K in 2006)	SecO Best Rank CAP	Deployed as % of Act Popul (age 16- 49)	Committed as % of Act Popul (age 18-49)	RISK SHAPE per # MIL (Jan 2008)	O&M Exp per capita (\$K in 2006)	SecO Best Rank CAP	Def Exp as % of H-C Gov Sp(2005) Tgt > x%	Pers Exp(PPP/2) (\$K in 2006)	Equip/Infra Exp(\$ MIL (2006))	SecO Best Rank CAP	EU Best Rank Overall	NATO Best Rank Overall	R a n g O U	R a n g O U		SecO Best Rank Overall
ISL	No significant data available	No significant data available	13.6%	161 K\$	98%	No significant data available	No significant data available	450	731 K\$	103 K\$	25.57%	135 K\$	103 K\$	99%	No significant data available	No significant data available	No significant data available	No significant data available	95%	1
USA	64.3%	10.3%	2.7%	88 K\$	72%	0.178%	0.037%	1339	173 K\$	36 K\$	4.29%	111 K\$	36 K\$	57%	100%	1	8	58%	9	
CAN	76.0%	10.3%	2.7%	88 K\$	72%	0.191%	0.026%	659	234 K\$	8 K\$	6.08%	128 K\$	8 K\$	81%	57%	1	8	59%	9	
TUR	46.0%	10.0%	0.5%	3 K\$	37%	0.44%	0.065%	89	234 K\$	20%	2.14%	21.54%	8 K\$	51%	34%	20	36%	23	3	
NOR	45.6%	11.2%	2.7%	66 K\$	68%	0.43%	0.025%	445	234 K\$	65%	1.80%	8.07%	71 K\$	81%	70%	5	71%	5	71%	5
DNK	44.2%	8.1%	5.7%	59 K\$	69%	0.65%	0.126%	1333	227 K\$	89%	1.62%	5.18%	105 K\$	63%	3	72%	4	74%	4	
BEL	41.7%	7.5%	3.5%	20 K\$	48%	0.35%	0.068%	289	33 K\$	47%	1.15%	4.95%	90 K\$	30%	45%	15	40%	16	42%	18
GER	14.5%	3.5%	0.8%	6 K\$	10%	0.24%	0.028%	466	33 K\$	21%	1.32%	13.60%	5 K\$	34%	22%	25	19%	25	22%	29
CZE	42.8%	9.4%	3.0%	27 K\$	56%	0.23%	0.040%	289	70 K\$	40%	1.39%	8.04%	31 K\$	51%	52%	12	47%	13	49%	15
DEU	45.2%	8.6%	4.5%	39 K\$	68%	0.42%	0.072%	466	115 K\$	65%	1.34%	7.29%	94 K\$	59%	69%	6	61%	7	65%	8
ESP	51.9%	8.2%	1.8%	14 K\$	85%	0.52%	0.042%	135	67 K\$	39%	1.19%	6.41%	37 K\$	40%	44%	16	40%	17	42%	19
EST	20.4%	9.8%	7.8%	42 K\$	95%	0.28%	0.094%	1865	76 K\$	70%	1.22%	8.44%	20 K\$	47%	61%	8	55%	9	58%	11
FIN	54.0%	7.4%	4.9%	23 K\$	53%	0.38%	0.155%	233	147 K\$	61%	2.50%	10.42%	91 K\$	62%	70%	5	65%	6	65%	7
FRG	46.7%	7.4%	0.1%	3 K\$	33%	1.10%	0.069%	37	94 K\$	46%	2.27%	16.17%	23 K\$	57%	47%	13	64%	14	45%	16
GRC	18.2%	10.6%	7.3%	16 K\$	80%	0.42%	0.150%	160	310 K\$	30%	0.90%	6.45%	39 K\$	29%	43%	18	37%	16	38%	21
HUN	25.2%	10.6%	7.3%	16 K\$	80%	0.42%	0.150%	160	310 K\$	30%	0.90%	6.45%	39 K\$	29%	43%	18	37%	16	38%	21
ITA	44.7%	12.2%	2.8%	10 K\$	53%	0.40%	0.058%	366	50 K\$	45%	1.67%	9.25%	84 K\$	46%	58%	9	54%	10	56%	12
LIT	23.9%	5.4%	2.3%	8 K\$	22%	0.18%	0.043%	689	50 K\$	32%	0.90%	6.45%	19 K\$	20%	25%	24	21%	24	25%	28
LUX	27.0%	4.4%	5.3%	37 K\$	49%	0.34%	0.043%	748	71 K\$	55%	1.17%	7.23%	229 K\$	46%	53%	11	48%	11	50%	14
LVA	27.5%	4.9%	3.1%	23 K\$	40%	0.30%	0.051%	440	53 K\$	39%	1.47%	6.32%	104 K\$	35%	40%	19	35%	19	38%	22
NLD	59.3%	10.2%	7.1%	62 K\$	83%	0.62%	0.127%	1181	185 K\$	86%	1.51%	6.32%	104 K\$	65%	63%	2	77%	3	78%	3
PRY	39.7%	8.4%	3.1%	8 K\$	42%	0.48%	0.060%	178	27 K\$	35%	1.47%	7.90%	57 K\$	53%	45%	14	42%	15	43%	17
POL	27.4%	4.1%	1.8%	10 K\$	22%	0.31%	0.030%	283	40 K\$	28%	1.42%	10.07%	18 K\$	43%	32%	23	29%	23	31%	27
ROU	7.7%	6.0%	4.2%	5 K\$	23%	0.09%	0.072%	303	15 K\$	24%	1.49%	10.95%	14 K\$	47%	32%	22	31%	22	32%	26
SVK	7.9%	7.2%	3.8%	19 K\$	33%	0.06%	0.054%	314	54 K\$	27%	1.28%	9.36%	29 K\$	46%	37%	20	34%	21	35%	24
SVN	18.1%	4.7%	4.5%	25 K\$	30%	0.28%	0.075%	622	87 K\$	59%	1.47%	7.55%	49 K\$	51%	53%	10	48%	12	50%	13
FIN	10.1%	4.2%	4.1%	22 K\$	31%	0.13%	0.082%	374	84 K\$	47%	0.85%	4.88%	63 K\$	21%	35%	21	48%	21	50%	13
AUS	39.2%	13.1%	2.4%	30 K\$	57%	0.66%	0.092%	295	200 K\$	71%	1.43%	6.34%	33 K\$	47%	53%	10	48%	12	50%	13
IRL	10.0%	10.0%	7.7%	16 K\$	50%	0.10%	0.099%	559	40 K\$	4%	0.67%	3.58%	99 K\$	26%	62%	7	7	7	58%	10
MAL	14.3%	2.9%	0.0%	6 K\$	7%	0.20%	0.000%	0	33 K\$	45%	0.77%	3.45%	10 K\$	8%	43%	17	17	17	41%	20
SWE	42.1%	4.2%	5.3%	128 K\$	83%	0.21%	0.061%	767	255 K\$	63%	1.51%	5.69%	80 K\$	62%	7%	26	7	7	30	30
CYP	No significant data available	No significant data available	No significant data available	No significant data available	No significant data available	No significant data available	No significant data available	No significant data available	No significant data available	No significant data available	No significant data available	No significant data available	No significant data available	No significant data available	No significant data available	No significant data available	No significant data available	No significant data available	69%	6
Percentile 90% > x	26.2%	6.6%	2.7%	13 K\$	48 K\$	0.22%	0.053%	295	48 K\$	35%	1.21%	6.33%	220 K\$	91 K\$	11%	7%	4	7%	7%	30
Percentile 40% > x	27.5%	7.4%	3.1%	18 K\$	54 K\$	0.28%	0.059%	350	54 K\$	35%	1.11%	6.72%	32 K\$	10.94 K\$	13%	7%	4	7%	7%	30
Median	39.5%	8.2%	3.7%	23 K\$	63 K\$	0.33%	0.064%	443	70 K\$	45%	1.40%	7.40%	530 K\$	12.83 K\$	15%	7%	4	7%	7%	30
Best	60% > x	42.4%	8.9%	43 K\$	26 K\$	0.40%	0.072%	487	79 K\$	63%	1.47%	8.05%	81 K\$	20.89 K\$	17%	7%	4	7%	7%	30
EU(ESPP+DEN)	32.1%	8.1%	3.9%	27 K\$	93 K\$	0.37%	0.071%	548	93 K\$	41%	1.38%	7.87%	61 K\$	21 K\$	18%	7%	4	7%	7%	30
NATO	37.9%	8.6%	4.1%	35 K\$	120 K\$	0.44%	0.078%	595	120 K\$	48%	1.59%	9.59%	65 K\$	26 K\$	20%	7%	4	7%	7%	30
EU(ESDP+DEN)	39.42%	10.05%	3.66%	31 K\$	93 K\$	0.43%	0.083%	662	129 K\$	48%	1.73%	8.63%	70 K\$	25 K\$	22%	7%	4	7%	7%	30
NATO	60.76%	12.37%	6.68%	63 K\$	235 K\$	0.85%	0.161%	994.9	235 K\$	86%	2.82%	15.55%	114 K\$	50 K\$	25%	7%	4	7%	7%	30

EU(ESDP+DEN) < Arithmetic average per indicator
NATO < Weighted average per indicator

Annex B: List of Abbreviations

BotG	Boots on the Ground	AUS	Austria
C ³	Command, Control & Communications	BEL	Belgium
CHOD	CHiefs of Defence	BGR	Bulgaria
CJSOR	Combined Joint Statement of Requirements	CAN	Canada
COE	Contingent-Owned Equipment = UN term for leased equipment	CYP	Cyprus
CRO	Crisis Response Operations	CZE	Czech Republic
EDA	European Defence Agency	DEU	Germany
ESDP > CSDP	European > Common Defence and Security Policy (after ToL)	DNK	Denmark
EULEX	EU mission in Kosovo (Police, Customs and Legal officials)	ESP	Spain
GDP	Gross Domestic Product	EST	Estonia
GNI	Global National Income (GNI = GDP plus income abroad)	FIN	Finland
IDPP	Integrated Defence Planning Processes (NATO's reviewed DPP)	GBR	Great Britain
ISAF	International Security Force (NATO in Afghanistan)	GRC	Greece
KFOR	Kosovo Forces (NATO in Kosovo)	HUN	Hungary
KPI	Key Performance Indicators	IRE	Ireland
MMR	Minimum Military Requirement	ITA	Italy
MOU	Memorandum of Understanding	LTU	Lithuania
NAD	National Armament Director(s)	LUX	Luxembourg
NRF	NATO Response Force	LVA	Latvia
NSIP	NATO Security Improvement Programme	MAL	Malta
OPLAN	Operational Plan	NLD	the Netherlands
O&M	Operations & Maintenance	NOR	Norway

PermStrucCoop	Permanent Structured Cooperation			
PPP	Purchasing Power Parity (correction factor to equalise GDP/GNI)		POL	Poland
SecO	Security Organisation (e.g. EU, NATO, UNO, ...)		PRT	Portugal
TCN	Troop Contributing Nation		ROU	Romania
TCSOR	Theatre Capability Statements of Requirement		SVK	Slovakia
ToL	Treaty of Lisbon		SVN	Slovenia
UNIFIL	UN Interim Forces In Lebanon		SWE	Sweden
UNMIK	UN Mission in Kosovo		TUR	Turkey
			USA	United States