

## FINANCIAL STANDARDIZATION IN NATO

**Standardization of financial management in NATO is a unique integration process of the financial support during NATO training, educational activities and military missions (costs sharing, payments, accounting). Enlargement of NATO and new NATO activities create new requirements for integrated financial management and support of units. So the financial standardization faces new challenges. In compliance with set objectives, financial standardization should have contributed to more cost efficiency of training, education and military activities and to closer cooperation of NATO members and PfP countries experts.**

### INTRODUCTION

In January, five years passed over since the NATO Training Group (NTG) was formally transferred to the HQ SACT structure, under authority of the Joint Education and Training Division (JET) Deputy Assistant Chief of Staff (DACOS). The Financial Sub-Group (NTG/FSG) is, among others, a part of NTG. Explanation of NTG/FSG activities including elaboration of new standard – STANAG 6025: Financial Principles and Procedures for the Provision of Support and the Establishment of International Agreement - prepared by NTG/FSG and ratified by the Czech Republic on January 1st, 2009 is the aim of this article.

Standardization in NATO is the process of gradual achievement of commonality in procedures (operational, administrative, material, etc.) performed by NATO countries' Armed Forces. This commonality represents state, when group of people, organizations or countries uses a collective doctrine, procedures and armaments. Standardization of financial support and management is a part of this extensive process as well.

Standardization of financial management and support in NATO is a unique process of harmonizing of cost sharing and accounting procedure during joint provision of assets, works and services, provision of training and other facilities operation used by NATO countries in fulfillment of NATO missions, education and training. Enlargement of NATO creates, in compliance with new objectives, new requirements on financial support in all areas. Financial standardization gains new dimension and NTG/FSG faces new challenges.

### LOOKING BACK TO HISTORY

Basis of standard effort in NATO were laid in 1970, when representatives of NATO countries formed the EUROTRAIN Sub-Group within the EUROGROUP. There was also the NTG Group under command of the Military Committee responsible for coordination of NATO training activities. In 1971, the NTG and the EUROTRAIN merged and formed EURO/NATO/TRAINING GROUP (ENTG). This Group comprised NATO countries, apart from France in position of observer only, together with HQ NATO. In 1993, the EUROGROUP quit its activity. The ENTG became the NATO Training Group (NTG) and was subordinated to the International Military Staff (IMS). The NTG comprises five Sub-Groups:

- Joint Services Sub Group (JSSG),
- Army Sub Group (ASG),
- Navy Sub Group (NSG),
- Air Forces Sub Group (ASFG),
- Financial Sub Group (FSG).

The fact that financial area is at the same level indicates, that NATO political and military authorities understand it as one of the most important education and training factor.

Post the Prague Summit of 2002, the NTG was subordinated to the Allied Command Transformation (ACT), agency for NATO and Partner Nations individual and collective Joint Education and Training (JET). In 2004, the NTG was formally transferred to HQ SACT, to the DACOS structure, Joint Education and Training (JET) Division. Chairmen of the Sub-Groups report directly to the NTG Chairman (DACOS JET at HQ SACT).

#### FSG's MISSIONS AND OBJECTIVES

FSG's mission follows the main NTG's mission:

"In line with NATO Transformation and the ACT vision, the overall aim of the NTG is to enhance interoperability among Alliance forces, and additionally between the forces of Partners, through improved cooperation and standardization of individual and collective training, thus improving efficiency of training and use of available resources." To achieve this mission, following objectives have been set:

- The identification and prioritization of common training needs.
- The improvement of the quality of joint and combined individual/collective training.
- The encouragement of greater cooperation and understanding for member nations, NATO Authorities and Agencies by the exchange of information and by offering training opportunities.
- The improvement of cost effectiveness and efficiency of joint and combined training courses.
- Increase of standardization and interoperability of individual and collective training.
- Identifying and initiating of common, bilateral and multilateral funding of training facilities and projects.
- The standardization of financial principles and procedures governing provision of training and related services.

FSG is a multinational group of financial experts from NATO and partner countries. Its goal is to become the centre for advising, informing and standardizing multilateral arrangements and agreements, financial principles and procedures among NATO and partner countries (PfP, MD, ICI) and other countries to improve interoperability among those countries.

To fulfill its mission, the FSG has set following objectives:

- Developing of financial principles and procedures for all training aspects and in line with NTG's missions and objectives.
- Drafting, reviewing and revising of Standardization Agreements focused on its financial effect, cost effectiveness and other financial aspects related with bilateral or multilateral agreements and Memorandum of Understanding among NATO and partner countries.
- Drafting, reviewing and revising of financial aspects of the Standardization Agreements on matters other than training and in compliance with NATO needs.
- Within FSG's members education provision of education of other NATO and partner countries military personnel in financial matters, during semi-annual meetings and financial seminars.
- Serving as an advisory centre in financial matters to NATO, partner countries and others.

#### FSG's OBJECTIVES AND ACTIVITIES

FSG accomplishes its missions and goals under authority of the NTG Chairman. It is supported by a Secretary in the rank of Lieutenant Colonel from HQ SACT (POLAND) in administrative respect. The FSG's activity is governed by a Chairman supported by a Vice-Chairman. Both the FSG Chairman and Vice-Chairman are elected from NATO countries for a two-year term. The FSG comprises members of the NATO countries, representatives of the NATO Commands, observers from the Military International Staff (IMS), observers from partner nations and other invited persons. These are usually financial experts from the level of the Ministry of Defence or the General Staff having several years of financial experience.

Working groups/panels performed their activities within the Sub-Groups. Working groups/panels are established on ad hoc basis as needed, for example the Financial Seminar Working Group or the Centre of Excellence (COE) Working Group.

FSG's results of work arising from meetings, sessions and seminars of delegates in working groups are discussed within plenary meeting on the basis of simple majority voting. The FSG reports to the NTG Chairman through the submission of minutes after each meeting (twice a year), which provide inputs for the Overall Project List and these reports are also presented at the annual NTG Chairman's meeting.

#### RESULTS OF WORK – THE NEW STANAG 6025

During a long term functioning, i.e. almost 70 collective meetings (FSG working for 35 years), a total number of eight STANAGs was adopted, revised, amended and are in the process of ratification on different levels by NATO countries (STANAG: 6002, 6003, 6007, 6012, 6019, 6020, and 6025).

During the whole period of new existence, and in addition to technical and administrative aspects of the Sub-Group, there were various working meetings giving presentations on NATO financial system, financial system of NATO and partner countries including remuneration system, tax system, foreign missions funding system, education funding, COE etc. These financial seminars were not only in favour of FSG members but also in favour of Armed Forces personnel or attendants of career courses (e.g. General Staff Course, academic courses etc.). Funding problems, lessons learnt from NATO missions and collective trainings and others had been also discussed at these seminars.

FSG cooperates with other NTG Sub-Groups and other interested NATO facilities (for instance, military training facilities, military schools etc.). For the range of this cooperation see Picture No. 1.

One of the most important results of FSG work is elaboration of new Standardization Agreement – STANAG 6025: Financial Principles and Procedures for the Provision of Support and the Establishment of Multinational Agreement. Integration of financial procedures and principles set by different agreements into one agreement stipulating coherent financial procedures and principles for the provision of support and services among participating countries and for the establishment of multinational agreements was the aim of the FSG's efforts. All related processes were simplified and standardized.

This Agreement follows STANAG 2034: Procedures for Mutual Logistic Assistance and STANAG 3113: Provision of Support to Visiting Personnel, Aircrafts, and Vehicles. STANAG 6025 is divided into three main parts:

- A) Financial terms and definitions.
- B) NATO Standard Form for Request, Receipt and Return or Invoice (Annex A to STANAG 2034).
- C) Offices to which invoices/claims are to be sent.

This Agreement does not break terms of International Agreements. Annex to this Agreement contains terminology of commonly used terms to avoid misunderstandings and consequently complications. If needed, participating countries are entitled to submit proposal to add or specify used terms. These are listed in Annex A to this Agreement. Annex B contains forms used in compliance with STANAG 2034. Annex C lists completely Agencies, which account invoices; deal with applications and complaints about statement of payments.

Financial Principles of Direct Provision by other Country chapter of the Agreement stipulates, that implementation of this financial standard shall be regulated by individual regulation prior to provision of support and services. All principles and procedures respect following regulations:

- Status of Forces Agreement (SOFA),
- PfP – from SOFA,
- Paris Protocol, and
- Ottawa Treaty.

# HADTUDOMÁNYI SZEMLE

Budapest, 2010.  
3. évfolyam 3. szám

HORAK, Roman

A subject of costs cover is defined. These are costs<sup>1</sup> associated with supplies, provision and services. Provision of services will be recovered in compliance with agreement of parties. Recovery of provided services will be realized under parties' agreement. In compliance with will of contracting parties it will be on reciprocal basis or on the basis of statement of total or additional costs or free of charge while observing following principles:

## NTG-Building on Success

### NTG within NATO/PfP Education and Training Network



Picture 1: NTG within NATO education and training (source: <http://www-nato.int/>)

- a. In compliance with laws of participating countries, it is possible to waive related charges on the basis of fair division of provision to participating countries.
- b. Incremental costs shall be charged whenever possible.
- c. Provision of support and services shall not be profitable.
- d. In compliance with laws of participating countries, administrative, overhead and contract administration costs are not usually charged.
- e. It is recommended to not charge any duties and taxes, if legally possible.
- f. It also involves capital interests, depreciation, renting fees and other costs.
- g. As a consequence of depreciation of facilities, it is possible to demand recovery costs on renovation.
- h. If needed, medical and dental care of armed forces and civil personnel and other dependents is provided at the same level of quality and costs as for comparable personnel of the receiving state (see Article 9(5) of SOFA).

<sup>1</sup> Under term costs we understand a total amount of expenditures on purchase of asset, goods and services and cash value or overhead costs on asset and activities.

- i. Amount of catering and accommodation charges shall not exceed amount, at which members of participating countries are charged; and the same as for use of welfare facilities and services.

The second part of the Agreement: Financial Procedures for Direct Support nation to nation(s) sets out following principles:

- Estimate of costs and estimate of obligations.
- Billing and payments.
- Submission of information to make pricing process transparent.
- Comparison of costs reflecting use of facilities and services.
- Recording obligation in compliance with national regulations.
- Dealing with claims for damages, complaints and warranties.

The follow-up chapter, Support Provided under Multinational Agreements, sets out procedures for concluding Multinational Agreements on Cooperation. In such cases, it is recommended to conclude Memorandum of Understanding (MOU) and Technical Arrangement (TA) setting out details of these agreements. Accession to an agreement or program is then set out in written amendments to TA or MOU and it can be a subject for share from accession to cover capital investments already paid. Principle that none of the existing or accessing parties derive financial benefit is to be followed. Formula setting a share from accession proceeds from already occurred expenditures, inflation rate and residual value. No less important regulation is a withdrawal procedure from an agreement. Any country wishing to withdraw from an agreement or program is obliged to deliver to other countries a written decision about withdrawal one year before the date it comes into effect. In case that this decision is delivered prior to budget approval for given fiscal year, withdrawing country is to pay for financial obligations arising from the costs share only to the date the withdrawal comes into effect. In case that the written decision is delivered once the budget for fiscal year has been approved, the withdrawing party is to pay for financial obligations arising from the costs share at the amount for the whole given fiscal year. A share of agreed change, e.g. program, is to be paid by withdrawing country regardless date of withdrawal, subject to other countries decision. Changes in annual proportional cost sharing are required in case of any accession to and withdrawal from an agreement or program.

One of the most important parts is Principles of Memorandum of Understanding and Technical Arrangement. These documents shall contain following:

- Scope.
- Responsibilities.
- Control Mechanisms.
- Host Nation (if appropriate).
- Standard Operation Procedures (SOPs) (if appropriate and consistent with NATO procedures and doctrines).
- The provisions about joining and withdrawing.
- Personnel to be appointed and its legal status.
- Arbitration.
- Financial Arrangements.

Chapter Financial Arrangements of MOU lists requirements for invoicing and payment procedures, budgeting, accounting, reporting and financial audit during resolution of disputes and arbitration proceedings.

Participating countries may agree to make payment for provision of support and services, which are to be against payment, in currency stated in MOU. Payment will be reimbursed or bartered (if legal). Outstanding amounts (balances) are to be settled not later than 60 days after receiving the invoice. Delayed payments may cause interest on late payment, if it is in compliance with national laws.

## HADTUDOMÁNYI SZEMLE

HORAK, Roman

Budapest, 2010.  
3. évfolyam 3. szám

Every year, host nation draws up a justified budget of the estimated costs for the next year and an estimate for the second following year. Budget shall be verified and approved by participating countries.

Host nation or authorized financial body is responsible for accounting of all relevant costs. Financial body prepares and keeps record of all financial data over a period of at least five years, and, if required by participating countries, provides detailed explanation of financial data in budget estimate and financial accounts.

Financial audit is carried out by host country or authorized financial body in compliance with pre-agreed and adopted auditing procedures, inspections and requirements. If required by participating countries, outcomes of these financial audits will be provided on periodical basis. Requiring party is entitled to apply for overall financial statement.

In case that host nation should withdraw, remains at the position of host nation at the request of other participating countries, be it a subject of mutual approval by written arrangement. Relevant MOU may also stipulate other levels of engagement than membership, for instance associated, observer, etc.

Any disputes among participating nations relating to interpretation and implementation of agreements, will be settled by negotiation among the nations without recourse to outside jurisdiction. MOU or TA sets out procedures of arbitration proceeding in case that above mentioned article is insufficient.

Concluding provision states this STANAG is considered implemented as soon as given participating nation issues required orders/instructions, on which basis procedures in this Agreement come into effect.

## FUTURE OUTLOOK

Through the integration of financial standards into one standard the scope of Financial Standardization Sub-Group is gradually moving into the education and advisory area. Financial seminars held in two past years prove that fact. A seminar organized by the Czech Republic in cooperation with Economic Division Ministry of Defence of the Czech Republic and Defence University in Military Facility Bedřichov in 2006 was a certain milestone. A new NTG/FSG perspective is emerging, chiefly in connection with enlargement of NATO and cooperation within PfP program. Another perspective could be establishment of discussion forum of financial experts concerning future funding of NATO missions and cooperation with EU. This year, the NTG/FSG is celebrating 35th anniversary, and we wish to all current and future members of this Sub-Group best of luck in searching for possible ways of more effective use of financial means on training activities within NATO and PfP, as well as contribution to strengthen the cooperation of financial experts of NATO and PfP countries.

*Keywords: NATO Training Group, financial standards, standardization, financial management, logistic support, host nation's support, training, education, training funding, mission planning and financing, costs, expenditures, operation, STANAG, budget*

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