



Security through knowledge.

Euro-View: Jan Wind on Security Funding

Innovation in security and defence funding: a new approach is needed



Innovation in security and defence usually involves new technologies or capabilities, though sometimes it concerns improvements to an organisation or its leadership. However, funding itself is almost never the subject of innovation – and yet it needs more attention in view of the continuing

decline in government budgets, which affects technology and capability development programmes.

Could alternative players in the economy contribute? And if so, how?

Alternative sourcing is not unknown in other public or semi-public sectors such as infrastructure and healthcare. In instances where there budgets have been cut, these sectors have turned to alternative financing options to help them overcome their constraints. For example, many motorways and tunnels across Europe are now funded by banks and other investors. To make this possible, a number of highway toll-systems and methods for repayment by government are in use.

Indeed, the ties between the healthcare, technology and pharmaceutical industries and government often are almost as strong as those in the defence sector. The difference, however, is that product development in the healthcare sector is invariably funded by private investors.

Naturally, these examples cannot simply be transferred to the security and defence sector. Private investors require a financial return on their investment, which is how they carry out their role in the economy. Yet when governments and private investors cooperate effectively it is possible to find smart solutions with minor risks and, hence, reasonable profit levels.

Defence and security investments and their related capability developments could be turned into a service similar to those mentioned above. National security forces do not need to actually own the satellites and training systems they use, or any 'ordinary' means of transportation.

What they require is unrestricted access to these services when needed. That is not synonymous with ownership of the assets, however.

Here's an idea: why not allow privately-funded services and assets provided to defence and security to be temporarily used by third parties when not needed by military forces? The conditions under which this took place would have to be strict and specific, of course, but this could offer a number of benefits for all concerned.

The services would be paid on the basis of actual use and drawing rights. This would be conceivable for both the ground and space segments of satellite communications, for example. It could also apply to advanced simulation and training systems, various means of transportation and many other dual-use systems.

Security and defence technology is rightly perceived as an important source of innovation for the broader economy, i.e., the best of high-tech! When presented with a solid business case, investors would certainly be interested in investing in clever defence and security technology ideas that offer dual-use applications or export opportunities. This would be attractive to investors even when more money might be needed to develop additional dual use applications.

In addition to partly solving the decline in government funding, private investment could also stimulate the cross-border cooperation and involvement of small and medium-sized enterprises (SMEs) throughout Europe. Private funds are not as strictly bound to national borders as government money is. Thus funding would likely flow to those companies providing the highest quality products for a reasonable price and risk – regardless of their location in the EU. This would obviously help the sectors jump over the fragmented structure of these two sectors in Europe, which are boxed in by national borders across the EU.

There is an incredible amount of money in the marketplace. Given our current economic conditions in Europe, private equity investment funds would seem to be the most suitable for

financing security and defence investment. The managers of more than 1,200 private equity funds in Europe are continuously searching for favourable investments. Many are interested in investing in services linked to the two sectors.

Some investors will worry about the impact on their image of investing in defence-related activities – and this also applies to the security sector. This could be mitigated by a strict code of conduct against investment in controversial weapons.

From an investor's perspective, there are six important factors for successful private funding:

- * clear dual-use and/or export applications
- * a reasonable potential to gain profit and limit risks
- * sound contracts that balance responsibilities, risks and profit opportunities between the government, entrepreneur and investors
- * an effective combination of investors that spreads risk and best exploits the particular investment strategy of each investor
- * a clear code of conduct against controversial

- weapons to avert unethical investments
- * financial guarantees such as the new European Fund for Strategic Investments
- * the participation of end-user organisations to define, support, test, prove and support the results

I conclude by reiterating that private investors are definitely interested in funding in defence and security related projects, just as they do in other sectors of the economy. However, privately funded projects would have to be directly useful for the military or security forces, profitable for the investor and offer opportunities for the entrepreneur.

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