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# SECURITY ASSISTANCE LEGISLATION AND POLICY

## The FY 1991 Security Assistance Budget Request

[The following material is extracted from the *Congressional Presentation Document for Security Assistance Programs, Fiscal Year 1991 (FY 91 CPD)*, pages 1-10, 17, 24-25, 32, 34-36 and 39. The CPD is jointly prepared annually by the Department of State and the Defense Security Assistance Agency for presentation to Congress. It provides a highly detailed description and budget justification for the various components and activities of the U.S. Security Assistance Program which require Congressional authorizations and funding appropriations.]

### Overview: FY 1991 Security Assistance Budget Request

As in previous years, this Congressional Presentation Document (CPD) offers a general perspective on the Administration's budget request for security assistance together with specific justifications for each regional or country program.

#### WHAT IS SECURITY ASSISTANCE?

The term "security assistance" covers a range of programs through which the United States, in pursuit of its national interests, aids other nations to defend and preserve their own national security. Key appropriated components of this program in FY 1991 are:

- **Foreign Military Financing (FMF)**, a largely grant aid military assistance program which enables U.S. friends and allies to acquire American military equipment, related services, and training;
- the **Economic Support Fund (ESF)**, an all-grant program meant to encourage economic reform and development in recipient nations;
- **International Military Education and Training (IMET)**, a program which provides professional military education as well as technical skills to members of the military forces of friendly and allied nations; and
- **Peacekeeping Operations (PKO)**, a fund which currently finances U.S. contributions to the United Nations Force in Cyprus (UNFICYP) and the Multinational Force and Observers (MFO) in the Sinai.

In addition, security assistance includes all U.S. arms transfers to friendly or allied nations.

#### THE NEW GLOBAL ENVIRONMENT

Throughout 1989, a series of dramatic developments in world affairs opened up improved prospects for the achievement of such traditional American foreign policy objectives as regional stability, reduction of East-West tensions, and the spread of democratic forms of government. In Eastern Europe, as well in other regions of the world, popular desire for political and economic

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reform brought about unexpected changes in the existing political order. At the same time prospects for resolution of a number of the world's long-standing regional conflicts appeared to improve, with the highly visible exception of the struggle for democracy in Central America.

In the midst of these major positive trends in world affairs, what role can U.S. security assistance play in support of the evolutionary process of change now underway?

Today's rapidly-evolving security environment makes our security assistance program even more important. It is in our national interest to continue to support the national security of other nations, as we seek to shape the new order of international relations. In this time of change, security assistance provides a vital element of continuity in U.S. foreign policy and contributes to secure, stable relationships. We must not forget that the very positive recent developments in world affairs stem, at least in part, from the support which the U.S. has given to friends and allies around the world during the years of the Cold War. The current change in international relations is, in large measure, the payoff from long-standing U.S. policies of firmness, patience, and resolve.

### SOME BASIC POINTS

As an instrument of U.S. national security policy, security assistance supports U.S. national interests in the world arena. In advancing this overriding objective, security assistance programs:

- promote regional stability in such vital areas of the world as the Middle East;
- aid U.S. friends and allies as they seek to defend against major threats to their security interests: external aggression, internal subversion, terrorism, and the narcotics trafficking-terrorist connection;
- maintain U.S. defense alliances and related cooperative arrangements in a time of rapidly-changing security requirements;
- defend democratic values and institutions; and
- support friendly country economies as they experience the disruptions associated with the process of modernizing and liberalizing their economic policies.

For over 40 years, security assistance has proved a key component of the U.S. strategy of global deterrence and defense. While the major elements of the program are its support for the Middle East peace process and its aid to basing and access countries, in the past security assistance has helped to underwrite U.S. commitments and interest in countries throughout all geographic regions.

Underlying much of the security assistance program is the belief that aiding foreign countries to defend themselves (and to counter domestic threats from guerrillas and narcotics traffickers) will be more cost-effective than using U.S. military personnel and equipment to the same end.

In an era of declining defense budgets, and a potential future reduction in the U.S. military presence overseas, the above argument is even more persuasive. We will be relying on our friends and allies around the world even more in the future to share the common defense burden. Security assistance is a major tool for encouraging and helping our friends to contribute more to deterrence.

In addition, regional threats such as the proliferation of new missile systems and the growing threat from chemical weapons sharpen our concerns for regional stability. The rapidity of

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technological change increases the potential cost of regional conflicts for U.S. friends and allies, and for the United States itself.

## DOMESTIC ECONOMIC IMPACT

Security assistance is not a philanthropic effort, but one which produces direct domestic benefits. These assistance and sales programs have a positive net impact on our domestic economy. For example, that part of the production of the U.S. defense industry which is composed of arms sales abroad provides jobs for American workers and needed exports to help to balance U.S. trade with foreign nations. In addition, these sales provide economies of scale (e.g., longer production runs) which reduce the costs of weapons systems of continued interest to the U.S. Armed Forces.

It should be noted that foreign exporters of defense articles generally operate under fewer political and technology transfer constraints than do U.S. suppliers. Our principal advantages as a supplier are our state-of-the-art technology, comprehensive and reliable system support, and, for selected countries, grant-aid financing. The U.S. has, at best, limited influence over sales promotion efforts by other military equipment suppliers. Furthermore, the U.S. cannot control the decisions of sovereign nations on the types of defense systems purchased or the choice of supplier. The increasingly broad spectrum of alternative sources of defense equipment ensures that some other country will sell major systems when the U.S. refuses, depriving the U.S. of any influence over the use of these systems.

As foreign purchases decline at the same time as our own domestic procurement, research and development costs will increase and U.S. defense production will become less cost-effective. Unless we adjust to the challenge of an increasingly diverse international defense supply environment, the U.S. will be unable to address satisfactorily the legitimate defense needs of our friends and allies, and thereby our own, at an acceptable cost in the coming years. Our military and political influence abroad and our own national security will be diminished as a consequence.

## CURRENT STATUS

Security assistance accounts suffered progressive, deep cuts in aggregate program levels from FY 85 through FY 90. The current FY 90 budget of \$4,683 billion in military aid reflects a decline of over \$1 billion from the FY 85 level of approximately \$5.7 billion. Appropriations for the Economic Support Fund likewise have declined from \$3.826 billion in FY 85 to \$3.191 billion in FY 90. These reductions reflected budget conditions (Gramm-Rudman-Hollings and the FY 88-89 budget compact) rather than any lessening of U.S. commitments to the defense of friends and allies. Nonetheless, the reductions, when combined with pervasive earmarking, continue to jeopardize our ability to maintain a much-needed American presence and influence in many countries and regions.

## RECENT DEVELOPMENTS

To improve the effectiveness of our declining security assistance programs, the Executive Branch in recent years has presented smaller and more realistic security assistance budgets, worked with foreign nations to plan our program more carefully, and sought Congressional authority to increase the policy payoff of available funding.

Among other measures, we have moved toward greater concessionality, as many foreign governments face rising debt and repayment levels on previously-acquired loan obligations.

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Through requests for increased concessionality, we have sought to reduce the burden imposed by U.S. security assistance loans under the Foreign Military Sales Finance program. ESF, earlier a loan program as well, moved to an all-grant basis in recent years, while FMS loans are now provided at concessional (rather than Treasury) rates of interest.

In its FY 90 security assistance request, the Administration sought approval of all FMS Credits as "forgiven," as a means of further increasing the quality of U.S. assistance. While the Congress still appropriated some \$406 million in concessional loans for FY 90, it did for the first time accept the Administration's desire that military aid funding be consolidated in one account.

Other positive steps incorporated by Congress in the FY 1990 foreign operations appropriations bill included:

- new funding for anti-narcotics programs;
- exemption of narcotics-related funding for Andean nations from existing limitations on assistance to countries in default of loan repayments to the U.S.;
- authority to use Export-Import Bank loans to finance commercial sales of defense articles and services to Greece and Turkey; and
- the right to transfer excess defense articles to major illicit drug producing countries in Latin America and the Caribbean in support of anti-narcotics activities.

## CONCLUSION

Despite budget deficits and other fiscal pressures, security assistance will continue to offer significant low-cost benefits for the national security. In a likely environment of declining U.S. defense spending and increased pressure on foreign allies for "burdensharing," security assistance in all its varied forms is a leading inducement to other nations to participate fully in our common defense effort. Security assistance provides relative inexpensive, cost-effective assistance to U.S. defense needs by allowing foreign forces to stand in for more expensive U.S. military units/installations.

Furthermore, the economic arguments in favor of security assistance programs take on renewed force at a time when the U.S. foreign trade balance remains a vital indicator of the nation's economic health. Legitimate arms exports, in support of needy friends and allies, also provide real inputs to the national economy, in the form of national income earned, jobs provided, and taxes paid. Ultimately, all of these economic factors strengthen the United States as a nation and its people as individuals.

Above all, however, security assistance is an investment in the national security and well-being of the U.S. Without strong and self-reliant friends around the world, the United States itself would have to assume much more of the burden of defending freedom and free nations. By enabling such friendly countries to stand by themselves, independently defending their own national sovereignty, limited U.S. forces can be reserved for the most essential U.S. national defense missions. Thus, security assistance contributes directly to the defense of the United States, even as it aids allies and friends to share the larger burden of defending freedom against its enemies.

**FY 1991 Security Assistance Programs Budget Authority**  
(Dollars in Thousands)

	ECONOMIC SUPPORT	FHF (GRANT)	IMET (GRANT)	PKO	TOTAL
<b>AFRICA:</b>					
AFRICA CIVIC ACTION	0	4,000	0	0	4,000
BENIN	0	0	100	0	100
BOTSWANA	0	1,000	375	0	1,375
BURKINA FASO	0	0	100	0	100
BURUNDI	0	0	175	0	175
CAMEROON	0	0	275	0	275
CAPE VERDE	0	0	75	0	75
CENTRAL AFRICAN REPUBLIC	0	250	200	0	450
CHAD	6,000	2,000	300	0	8,300
COMOROS	0	0	75	0	75
CONGO	0	0	50	0	50
DJIBOUTI	4,000	2,000	175	0	6,175
EQUATORIAL GUINEA	0	0	100	0	100
GABON	0	0	100	0	100
GAMBIA	0	0	100	0	100
GHANA	0	0	175	0	175
GUINEA	0	0	150	0	150
GUINEA-BISSAU	0	0	100	0	100
IVORY COAST (COTE D'IVOIRE)	0	0	150	0	150
KENYA	7,000	8,000	1,175	0	16,175
LESOTHO	0	0	75	0	75
LIBERIA	6,000	1,000	500	0	7,500
MADAGASCAR	0	500	75	0	575
MALAWI	0	2,000	250	0	2,250
MALI	0	0	175	0	175
MAURITANIA	0	0	125	0	125
MAURITIUS	0	0	25	0	25
MAHIBIA	5,800	0	100	0	5,900
NIGER	0	1,250	275	0	1,525
NIGERIA	6,000	0	100	0	6,100
RWANDA	0	0	100	0	100
SAO TOME & PRINCIPE	0	0	125	0	125
SENEGAL	5,000	1,000	525	0	6,525
SEYCHELLES	3,300	0	100	0	3,400
SIERRA LEONE	0	0	100	0	100
SOMALIA	0	0	900	0	900
SOUTH AFRICA REPUBLIC	13,000	0	0	0	13,000
SUDAN	0	0	800	0	800
SWAZILAND	0	0	75	0	75
TANZANIA	0	0	100	0	100
TOGO	0	0	100	0	100
UGANDA	0	0	175	0	175
ZAIRE	0	3,000	1,000	0	4,000
ZIMBABWE	0	0	250	0	250
<b>REGIONAL TOTAL</b>	<b>56,100</b>	<b>26,000</b>	<b>10,000</b>	<b>0</b>	<b>92,100</b>
<b>AMERICAN REPUBLICS:</b>					
ANDEAN NARCOTICS INITIATIVE	175,000	0	0	0	175,000
ANTIGUA-BARBUDA*	0	0	100	0	100
ARGENTINA	0	1,000	150	0	1,150
BAHAMAS	0	0	125	0	125
BARBADOS*	0	0	100	0	100
BELIZE	0	500	115	0	615
BOLIVIA	30,800	40,000	900	0	71,700
BRAZIL	0	0	125	0	125
CHILE	0	500	100	0	600
COLOMBIA	0	58,000	2,500	0	60,500
COSTA RICA	40,000	0	230	0	40,230
DOMINICA*	0	0	100	0	100
DOMINICAN REPUBLIC	12,000	1,000	900	0	13,900
EASTERN CARIBBEAN	10,000	4,500	0	0	14,500
ECUADOR	9,000	2,000	800	0	11,800
EL SALVADOR	180,000	90,000	1,400	0	271,400
GRENADE*	0	0	100	0	100
GUATEMALA	60,000	5,000	400	0	65,400

**FY 1991 Security Assistance Programs Budget Authority (Continued)**  
(Dollars in Thousands)

	ECONOMIC SUPPORT	FMF (GRANT)	IMET (GRANT)	PKO	TOTAL
<u>AMERICAN REPUBLICS (CONT):</u>					
GUYANA	2,000	0	50	0	2,050
HAITI	10,000	600	200	0	10,800
HONDURAS	80,000	40,000	1,100	0	121,100
JAMAICA	17,000	1,000	400	0	18,400
LATIN AMERICA REGIONAL	23,000	0	0	0	23,000
MEXICO	0	0	400	0	400
PACAMS	0	0	1,000	0	1,000
PANAMA	0	0	75	0	75
PARAGUAY	0	0	175	0	175
PERU	3,100	39,000	900	0	43,000
ST. KITTS AND NEVIS*	0	0	100	0	100
ST. LUCIA*	0	0	100	0	100
ST. VINCENT & GRENADINES*	0	0	100	0	100
SURINAME	0	0	25	0	25
TRINIDAD & TOBAGO	0	0	95	0	95
URUGUAY	0	0	200	0	200
VENEZUELA	0	0	125	0	125
REGIONAL TOTAL	651,900	283,100	13,190	0	948,190
<u>EAST ASIA &amp; PACIFIC:</u>					
CAMBODIAN RESISTANCE	7,000	0	0	0	7,000
FIJI	300	300	50	0	650
INDONESIA	5,000	1,000	1,900	0	7,900
KOREA	0	0	1,000	0	1,000
MALAYSIA	0	0	1,000	0	1,000
PAPUA NEW GUINEA	0	0	75	0	75
PHILIPPINES	160,000	200,000	2,600	0	362,600
S. PACIFIC TUNA TREATY	10,000	0	0	0	10,000
SINGAPORE	0	0	20	0	20
SOLOMON ISLANDS	0	0	50	0	50
THAILAND	5,000	15,000	2,400	0	22,400
TONGA	0	0	50	0	50
VAHUATU	0	0	30	0	30
REGIONAL TOTAL	187,300	216,300	9,175	0	412,775
<u>EUROPE &amp; CANADA:</u>					
AUSTRIA	0	0	15	0	15
CYPRUS	3,000	0	0	0	3,000
FINLAND	0	0	15	0	15
GREECE	0	345,000	550	0	345,550
IRELAND	0	0	30	0	30
MALTA	0	0	60	0	60
PORTUGAL	45,000	125,000	2,650	0	172,650
SPAIN	0	0	1,500	0	1,500
TURKEY	50,000	545,000	3,400	0	598,400
YUGOSLAVIA	0	0	100	0	100
REGIONAL TOTAL	98,000	1,015,000	8,320	0	1,121,320
<u>NEAR EAST &amp; SOUTH ASIA:</u>					
AFGHAN HUMANITARIAN	35,000	0	0	0	35,000
ALGERIA	0	0	150	0	150
BANGLADESH	0	0	300	0	300
EGYPT	815,000	1,300,000	1,500	0	2,116,500
INDIA	0	0	300	0	300
ISRAEL	1,200,000	1,800,000	0	0	3,000,000
JORDAN	35,000	50,000	2,180	0	87,180
LEBANON	1,000	0	400	0	1,400
MALDIVES	0	0	50	0	50
MIDDLE EAST REGIONAL	5,000	0	0	0	5,000
MOROCCO	12,000	40,000	1,050	0	53,050
NEPAL	0	0	100	0	100
OMAN	15,000	0	100	0	15,100
PAKISTAN	210,000	228,000	915	0	438,915

**FY 1991 Security Assistance Programs Budget Authority (Continued)**  
(Dollars in Thousands)

	ECONOMIC SUPPORT	FMF (GRANT)	IMET (GRANT)	PKO	TOTAL
<u>NEAR EAST &amp; SOUTH ASIA (CONT):</u>					
SRI LANKA	0	0	160	0	160
TUNISIA	10,900	30,000	1,450	0	42,350
WEST BANK/GAZA	11,800	0	0	0	11,800
YEMEN (SANAA)	0	500	1,000	0	1,500
REGIONAL TOTAL	2,350,700	3,448,500	9,655	0	5,808,855
<u>NON-REGIONAL:</u>					
ADMINISTRATIVE COSTS	0	28,000	0	0	28,000
DEOB/REOB AUTHORITY	14,000	0	0	0	14,000
GENERAL COSTS	0	0	160	0	160
MULTINATL FORCE & OBSERV (MFO)	0	0	0	23,800	23,800
UN FORCE IN CYPRUS	0	0	0	9,000	9,000
NON-REGIONAL TOTAL	14,000	28,000	160	32,800	74,960
TOTAL BUDGET AUTHORITY	3,358,000	5,016,900	50,500	32,800	8,458,200

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### Foreign Military Financing

Foreign Military Financing (FMF) was previously known as Foreign Military Sales Financing (FMSF), Foreign Military Sales Credits (FMSCR), and the Military Assistance Program (MAP). It enables U.S. allies and friends to improve their self-defense capabilities through the acquisition of U.S. military articles, services, and training. The high costs of modern defense equipment make it difficult for financially-constrained countries to procure such hardware and related services on a cash basis. A credible national defense capability enhances regional stability and decreases the likelihood of conflict that can threaten U.S. interests. Thus, it is greatly to the advantage of the United States to assist friendly countries to defend themselves, by providing them financing for various defense purchases.

Because of the magnitude and complexity of its global responsibilities, the United States alone cannot safeguard the security interests of its friends and allies. FMF permits countries with common interests to share the burdens of collective security. By providing such assistance, the United States reduces the likelihood of direct U.S. military involvement during situations of instability and conflict, thereby helping to reduce demands on U.S. military resources.

FMF in its previous form was initiated in the Mutual Defense Security Act of 1954 and was continued in the Foreign Assistance Act (FAA) of 1961. In 1971, credit financing exceeded grant assistance for the first time. In 1976, the Arms Export Control Act (AECA) consolidated existing government and commercial sales legislation. Sections 23 (direct loans) and 24 (guaranteed loans) of the Act provided authorization for the program. Because of increased emphasis on cash sales in the late 1970s, the number of grant recipients and the size of the grant program decreased steadily through FY 1981.

Almost all FMF in the 1974-1984 period was in the form of guaranteed loans provided through the Federal Financing Bank at interest rates that were slightly higher than U.S. Treasury rates. In the global recession of the early 1980s, repayment of previous FMS loans with higher interest rates exacerbated many developing countries' debt service problems.

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By the early 1980s, Congress and the Executive Branch, spurred by the Bipartisan Commission on Economic and Security Assistance, expressed concern that high interest rate FMS financing was contributing to recipient country debt problems. This concern prompted the FY 1985 legislative mandate for totally "forgiven" (i.e., non-repayable) FMF for Egypt and Israel and concessional (below Treasury interest rate) loans for other selected countries.

In FY 1988, FMF was [provided] in the form of either forgiven loans or concessional interest rate loans. All of the aid for Israel and Egypt continued to be forgiven. At Congressional direction, part of the FMF for Turkey and Pakistan was also forgiven. In FY 1990, most of appropriated FMF—about \$4.3 billion out of \$4.7 billion—is in the form of grants. The Administration believes that grant FMF is fully justified because, by enhancing the economic value of U.S. military assistance, many countries are better able to devote more of their scarce financial resources to economic development activities.

The Administration is requesting all-grant military financing for FY 1991. Selected recipients will be able to apply part or all of their FMF to commercial purchases. This all-grant proposal is consistent with the trend advocated by Congress to modify the FMF program in order to ease countries' debt burden.

Established under the Mutual Defense Assistance Act of 1949, MAP originally provided for grants of military equipment, materials, and services (including training) to allied and friendly nations. Beginning in FY 1982, MAP funds were merged with recipient countries' funds and/or with FMF credits in the Foreign Military Sales (FMS) Trust Fund to pay for military cases.

In FY 1982, in response to the steady economic deterioration of several defense partners, the Administration increased its grant funding request. Congress thereafter provided gradual increases in MAP appropriations. Sustained Congressional support for MAP funding has partially compensated for reductions in overall security assistance appropriations. In FY 1989, \$467 million in MAP was appropriated for country and regional programs. In FY 1990, the Administration's MAP request was limited to funding to meet administrative expenses associated with the implementation of military assistance.

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## International Military Education and Training

International Military Education and Training (IMET) is a low-cost foreign policy instrument that is recognized as one of the most effective components of U.S. security assistance. This people program establishes valuable friendships and channels of communications with foreign governments and military forces. The training provides U.S. friends and allies with knowledge and skills that improve their military forces, contribute to their security, and promote their self-sufficiency. Since 1950, IMET and its predecessor program have trained more than 500,000 officers and enlisted personnel.

In bringing foreign students to the United States, the IMET program exposes them to the U.S. professional military establishment and the American way of life, including U.S. regard for democratic values, respect for individual and human rights, and belief in the rule of law. IMET seeks to establish military-to-military ties as foreign students train alongside the U.S. military. They are also exposed to U.S. military procedures and to the way the U.S. military functions under civilian rule.

Military training is provided in specialties from professional military education through nation building activities to basic technical skills. In addition, English language training, which is

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essential to course attendance in the continental United States, contributes directly to increased rapport. IMET funds Mobile Training Teams (MTTs) that permit U.S. military trainers to accomplish training in the host country. IMET supplements other countries' indigenous training capabilities and is often the only major alternative to Soviet-oriented programs.

In addition to teaching military skills and U.S. military doctrine, IMET provides sufficient opportunities for future access to the civilian and military leadership of other countries. Many of the foreign students, by virtue of being selected for U.S. training, are potential senior military leaders. As in the past, a significant number of IMET-trained military leaders are likely to hold future positions of prominence in their countries. In fact, over 1,500 IMET-trained personnel are now cabinet ministers, ambassadors, chiefs of military services, and commandants of senior professional military schools. As a long-term investment, IMET is a most valuable security assistance tool, one which provides numerous benefits for the United States.

In sum, IMET not only provides training for individual recipients, but also promotes a greater understanding of the U.S. military, of American culture and values, and of respect for individual freedom.

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### Economic Support Fund

The Economic Support Fund (ESF) advances U.S. economic, political, and security interests by offering economic assistance to allies and developing countries of strategic importance to the United States. By fostering economic development and reform, ESF helps to avert or alleviate the economic and political disruptions that can threaten the security and independence of key allies and friends. The Agency for International Development (AID) implements the ESF program under the direction of the Administrator of AID and in accord with the overall foreign policy guidance of the Secretary of State.

ESF is used primarily to provide balance of payment support through the provision of direct financial assistance (cash transfer) or the financing of commodity imports to ensure the acquisition of critical raw material and capital goods when foreign exchange is not readily available. Depending on the recipient country's economic situation, fast-disbursing balance of payments support or budgetary support provided through ESF creates leverage for the policy reforms required to facilitate sustainable economic growth by encouraging the adoption of more rational economic and fiscal policies. Where longer-term political and economic stability is the primary concern, ESF finances projects of direct benefit to the poor.

As has been the case throughout the 1980s, economic dislocation and political strife continue to place great strains on many countries. Many of these same countries have recognized that economic reform is essential to enhancing the chances for economic and political stability and have begun to implement urgently needed reforms. In the short term, however, measures to create more rational and efficient economic structures and practices can often exacerbate social and political tensions unless buffered by external assistance. The FY 1990 appropriation of nearly \$3.2 billion in grant ESF, and the Administration's FY 1991 request, reflect a firm U.S. commitment to economic development and growth. Funding will help safeguard important mutual security interests of the United States and its friends and allies.

Among other things, ESF encourages continued progress toward permanent peace and stability in the Middle East; promotes economic and political stability in countries with which the United States has base rights and military access arrangements; buttresses efforts by the Central American countries to promote long-term growth and strengthen democratic institutions and respect

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for human rights; helps mitigate the impact of the Afghan conflict; and supports infrastructure development and the evolution of economies in sub-Saharan Africa.

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## Peacekeeping Operations

The Foreign Assistance Act of 1961, Part II, Chapter 6, as amended, authorizes assistance to friendly countries and international organizations for peacekeeping operations which further U.S. national security interests. The United Nations Force in Cyprus (UNFICYP) and the Multinational Force and Observers (MFO) in the Sinai are two such international organizations. The Administration is requesting \$32.8 million in FY 1991 in support of both UNFICYP and the MFO.

**United Nations Force in Cyprus.** The FY 1991 request for UNFICYP is \$9 million. The United States has a clear and vital interest in preserving UNFICYP. Its erosion would exacerbate existing tensions and increase the risk of violence on Cyprus, which could seriously weaken NATO's ability to defend its vital southern flank.

UNFICYP has 2,126 military and civilian personnel stationed in Cyprus. The cost to the United Nations of maintaining UNFICYP for the first half of 1989 has been about \$13.1 million which does not reflect the bulk of the costs which have been absorbed by the troop-contributing countries. The Force's cumulative deficit from previous years, a cost borne by the troop-contributing countries, reached about \$174.6 million as of December 1989. The United States continues to try to reduce this figure in various ways, including actively seeking contributions from non-contributing U.N. members and seeking means to reduce operating costs. Failure of the United States to maintain its full contribution to UNFICYP would increase the deficit and would make more difficult efforts to increase contributions from others.

**Multinational Force and Observers.** The FY 1991 request for the MFO is \$23.8 million. The mission of the MFO, an independent international body, is to implement the security arrangements envisioned for the United Nations in the 1979 Egyptian-Israeli Peace Treaty. Congress authorized U.S. participation in Public Law 97-132. The United States has a firm political commitment to the governments of Israel and Egypt to finance one-third of annual MFO costs. In FY 1990, the MFO proposed a budget of \$73.5 million with a U.S. share of \$24.377 million. For FY 1991, due to the contribution of \$1.5 million by the Government of Japan and further cost cutting efforts, the MFO was able to reduce its budget to \$71.5 million with a U.S. share of \$23.8 million. The MFO is mindful of the financial situation of all of its major fund contributors and is continually seeking ways to cut costs that do not adversely affect its critical mission.

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## Special Defense Acquisition Fund

The Special Defense Acquisition Fund (SDAF) is a revolving fund established in FY 1982 to finance the acquisition of defense items and services in anticipation of authorized Foreign Military Sales. SDAF enhances the U.S. Government's ability to meet urgent foreign needs for military equipment while minimizing adverse impacts on the readiness of U.S. forces. SDAF is authorized by Chapter 5 of the Arms Export Control Act. The Department of Defense (DOD) is responsible for its management, and the Defense Security Assistance Agency (DSAA) is the executive agent responsible for day-to-day operation of the Fund.

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SDAF was capitalized at \$1.07 billion in prior years; however, Congressional authority to obligate SDAF funds is required in the annual appropriation legislation. SDAF now sustains itself from sales receipts. Beginning in FY 89 Congress approved three-year obligational authority for SDAF funds.

A very useful foreign policy tool, SDAF promotes cooperative planning and conventional force modernization with allied and friendly governments. SDAF procurements are viewed as useful for current efforts focused on border conflict and drug interdiction. It also contributes to economies of scale that lower unit costs for programs covered by FMF financing.

The availability of SDAF assets reduces pressure on the DOD to meet emergency assistance requirements by either withdrawals from U.S. Service inventories or diversions from production. SDAF also helps other nations to resolve planning shortfalls or unforeseen developments. When withdrawals or diversions cannot be avoided, SDAF reduces adverse impacts on U.S. readiness by accelerating replenishment using SDAF assets already in production and so avoids having to repeat the full procurement cycle.

SDAF procurements enhance U.S. defense production by extending production lines, achieving higher levels of production which reduce unit costs, and establishing favorable add-on contracts for those items from current and projected procurement. During FY 1989, SDAF benefits were especially evident in the procurement of torpedoes, air-to-surface missiles, surface-to-air missiles, counterbattery radars, night vision goggles, light arms, tactical radios, communications security equipment, and helicopters. Higher production volumes for these items resulted in lower unit prices for DOD end-users, NATO, and other allied and friendly nations.

Sales agreements for SDAF items already concluded in FY 1989 demonstrate how SDAF supports U.S. foreign policy objectives to build coalition defenses and enhance regional stability. Here are some highlights:

- SDAF sales of various types of ammunition (for rifles to howitzers), vehicles (jeeps and trucks), and light arms (rifles, machine guns, and mortars) have greatly reduced pressures on the Army to withdraw on-hand Service stocks for sustainment of the counterinsurgency and border safeguarding missions of friendly governments. Examples of these efforts are programs with Honduras, El Salvador, Peru, Pakistan, Thailand, Tunisia, and Sudan.
- SDAF has continued to support the National Security Agency (NSA) in implementing more orderly planning and management and stabilizing procurements to foster interoperability of U.S. secure communications (COMSEC) with NATO, Australia, and Japan..
- In NATO's Southern Flank, SDAF procurements and sales help force modernization planning and accelerate deliveries of selected items. The sale of Stinger missiles to Greece, the MLRS and TOW-2As to Turkey, and assorted equipment to Portugal are examples of these efforts.
- Readiness and interoperability with NATO, Australia, and Japan have also been sustained and improved by sales and deliveries of such items as TOW-2A anti-tank missiles to the Netherlands and Italy, Stinger man-portable anti-aircraft missiles to Germany, Sidewinder air-to-air missiles to the Netherlands, and varied communications equipment to Australia and Japan.

The obligation authority requested for FY 1991 is \$325 million; this is the program level that can be supported with the capital and pending receipts from expected SDAF sales.

Based upon planning within DOD and surveys of country needs, the following items are possible SDAF procurement candidates in FY 1991:

- Communications Security Equipment
- Tactical Vehicle and Personnel Radios
- Military Vehicles
- Recovery Vehicles
- Towed Howitzers
- Machine Guns and Mortars
- Infantry Equipment, Ordnance, and Support Items
- Ammunition and Ordnance of All Types
- Anti-Tank Missiles and Munitions
- Air-to-Air Missiles and Ordnance
- Air-to-Surface Missiles and Munitions
- Surface-to-Air Missiles and Gun Systems
- Tactical Radars
- Counterbattery Radars
- Utility Helicopters and ASW Platforms
- Supply Support Procurement
- Patrol Boats (Riverine, Utility, and Assault)

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### **FMS Debt Reform/Restructuring**

Key countries with whom the United States shares important security interests have been burdened with repayments of high-interest rate loans. In December 1987, the Congress authorized the FMS Debt Reform plan in the foreign assistance section of P.L. 100-202. The legislation enabled countries to refinance outstanding FMS loans falling due after September 30, 1989, and carrying an interest rate of 10 percent or above, with a partial U.S. government (DSAA) guaranty. The legislation limits the guaranty to 90 percent of the total amount refinanced and establishes a new 90-day deadline on FMS debt arrears for countries participating in the program. Countries that refinance and that have arrears in excess of 90 days face a cutoff of all U.S. assistance until they make up their arrears. The law permits countries to refinance through fiscal year 1991. A recent amendment to the FMS Debt Reform legislation lowers the interest rate floor from 10 percent to 8 percent.

Thus far, Jordan, Kenya, Morocco, Israel, Turkey, Spain, Pakistan, Tunisia, and Thailand have participated in the refinancing of over \$9 billion in principal and accrued interest. No countries have yet taken advantage of the opportunity to refinance debt with interest between 8 percent and 10 percent. Other countries may take advantage of the program. By allowing countries to take advantage of lower interest rates prevailing in capital markets, refinancing can reduce the average interest rate on outstanding debt by several percentage points, saving hundreds of millions of dollars in longer term interest costs.

Some of the poorer countries have still not been able to refinance. This is partly because they are unable to raise easily the capital necessary to purchase the collateral necessary to cover the unguaranteed portion [i.e., 10 percent] of the refinancing—which is demanded by the market. Alternatively, they may be simply viewed by the commercial financial community as having more political risk than is deemed comfortable.