

SECURITY ASSISTANCE LEGISLATION AND POLICY

The FY 1992 Security Assistance Budget Request

[The following material is extracted from the *Congressional Presentation Document for Security Assistance Programs, Fiscal Year 1992 (FY 92 CPD)*, pages 3-10, 13-15, 19, 26, 33, and 35-37. 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 1992 Security Assistance Budget Request

The Congressional Presentation Document (CPD), a joint product of the Departments of State and Defense, 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" refers to the range of U.S. Government programs through which the United States aids other nations to defend and preserve their own national security, in support of U.S. political and foreign policy objectives. Key appropriated components of this program 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;

Economic Support Fund (ESF), an all-grant program which, among other objectives, encourages 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 finances U.S. contributions to international peacekeeping operations such as 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.

REEXAMINING SECURITY ASSISTANCE IN A CHANGING WORLD

The period from mid-1989 through the first months of 1991 has witnessed extraordinary changes in world affairs. Events in Eastern Europe, Central America and the Gulf region have led us to examine how our security assistance programs should be restructured to provide continued support to United States objectives around the world. This reexamination is a process that necessarily will continue over the coming years, as the great changes underway in the world evolve

further. The United States will continue to seek new and creative means to provide security assistance to friendly and allied nations which require it, in furtherance of our long-term national security objectives in the world.

THEMES FOR THE 1990s

The dramatic events of the Gulf War are indicative of the extraordinarily rapid pace of global change which may occur in the 1990s, and the need for the United States to retain maximum flexibility to deal with the new challenges we will face. Continued unpredictability in world affairs will require that the United States follow a clear set of policy guidelines as we approach the twenty-first century. Several of these themes for the 1990s have been outlined over the past year in policy statements by senior U.S. officials:

- *Promotion of democratic values*, including support for the consolidation of democracy through the rule of law, free and fair elections and respect for human rights;
- *Advancing the cause of peace*, through arms control and non-proliferation initiatives, regional conflict resolution and strengthened UN peacekeeping capabilities;
- *Economic progress*, by fostering market forces through deregulation, privatization, development assistance and expansion of trade and investment;
- *Countering transnational dangers*, such as environmental degradation, narcotics trafficking and terrorism; and
- *Fostering global responsibility sharing*, strengthening the sense of community amongst the industrial democracies while promoting democratic, humanitarian and open market values throughout the world.

In today's rapidly-evolving world, U.S. programs of security assistance—while only one among many instruments of U.S. foreign and national security policy—remain vital to American interests. Many programs which underwrite U.S. commitments to a variety of key countries and geographic regions remain highly relevant to the uncertain environment of the 1990s. Whatever the changes that this decade will bring in world affairs, it will still be in the U.S. national interest to support the national security of other nations, as we seek to shape the new order of international relations.

In both its military and economic components, security assistance provides a vital element of continuity in American foreign policy and helps to build a network of secure and stable relationships. The United States offers Foreign Military Financing to underpin the national security of friendly nations, while supporting existing or prospective democratic institutions and market-oriented economies. In general terms, the military assistance program serves the following objectives:

- Ensuring base rights and facilities access agreements for U.S. power projection;
- Preserving Middle East peace, and stability in other regions; and
- Helping countries in this hemisphere wage the war on drugs.

Economic Support Funding assists many deserving partners with economic and political reform, as well as broader development and market economy initiatives; the program also supports

U.S. exports. These and other American assistance programs will help to build new structures of peace and development in the 1990s and beyond.

INCREASING GLOBAL CHALLENGES

Security assistance programs in the 1990s will turn increasingly to new transnational challenges already threatening international stability as much as do traditional military threats. In the 1980s, a growing percentage of funded security assistance turned to these new challenges, such as the struggle against the international traffic in narcotics. American security assistance programs currently provide critical support for Andean governments to take the initiative against narcotics trafficking. At the same time, such programs reduce the amount of direct effort required of U.S. law enforcement agencies to achieve our common objectives. It is likely that funding devoted to international peacekeeping and the war on terrorism also will need to be increased in coming years.

In the new world of the 1990s, challenges from the proliferation of missile systems and the growing threat of chemical weapons will sharpen our concern for issues of regional and global stability. The rapidity of technological change increases the potential cost of conflict, for U.S. friends and allies and for the United States itself.

In an era that may yet be characterized by declining defense budgets and reductions in the U.S. military presence overseas, the United States will rely more on friends and allies to share the common defense burden. Here, U.S. leadership in putting together such cooperative associations of free nations will be crucial. Security assistance is a valuable tool to encourage friendly nations to contribute more than in the past to the task of deterrence.

We may see increased regional instability in the near-term, post-Cold War world. As the international system evolves away from the bipolar Cold War framework, regional instability in the form of ethnic unrest, insurgency and outright conflict may erupt as states seek to assert themselves in a multipolar system. Security assistance remains one of the most important tools available for us to manage this process of change.

By bolstering alliance relationships and supporting friends and allies, we can promote regional stability and head off disputes before they erupt into armed conflict. Building relationships with these friends and allies also helps support our power projection capabilities, which range from the logistical support provided by base rights countries to the interoperability that is built through security assistance relationships.

THE GULF WAR AND U.S. SECURITY ASSISTANCE PROGRAMS

Operation Desert Storm demonstrates the continuing relevance of the central objectives of the security assistance program: deterring aggression, maintaining alliance structures and supporting friendly economies.

One often overlooked facet of the security assistance program is the cash sales component. Purchases of defense equipment on a government-to-government basis through the Foreign Military Sales system as well as commercial sales licensed by the U.S. Department of State are both invaluable foreign policy tools.

Through FMS and commercial sales, the United States has built strong security relationships with friendly countries in the Persian Gulf as well as other countries in the United Nations coalition participating in Operation Desert Storm. Moreover, many allied military personnel have experienced U.S. training under FMS or the IMET program, thereby enhancing compatibility in

language, military doctrine and technical proficiency. The fact that these countries have built inventories of U.S. equipment with the accompanying training has greatly eased the difficulties faced by our forces in fighting as part of the multinational coalition. Due in part to the security assistance program, the oft-cited goal of interoperability has been made a reality in Operation Desert Storm.

The many positive developments over the past two years hold great promise for the development of a new world order that, as President Bush has said, is "freer from the threat of terror, stronger in the pursuit of justice and more secure in the quest for peace." But even as we face the prospect of a world characterized by reduced superpower tensions and greater international cooperation, Iraq's invasion of Kuwait has reminded us that threats to our vital interests will arise even in a post-Cold War world.

Thus, the key role for U.S. programs of both military and economic assistance to Israel and Egypt will be to continue promoting stability in the Middle East, by helping Israel and moderate Arab states move further in the direction of a lasting settlement in the region. Egypt and Israel will continue to require our economic and military aid in order to maintain their ability to strengthen security, democratic institutions, and market economies. Other key U.S. friends and allies, such as Turkey, also require continued or expanded U.S. assistance. Turkey is a strategically-placed partner which plays an essential role both in NATO and as a bridge to the Middle East. A strong, stable, prosperous Turkey is essential to Western interests.

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 upon our domestic economy. For example, that part of the production of U.S. defense industry which is composed of arms sales abroad provides jobs for American workers and increases exports to help the U.S. balance of trade. 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 the quality of our technology, comprehensive and reliable system support and, for selected countries, grant-aid financing. The United States has, at best, limited influence over sales promotion efforts by other military equipment suppliers. Furthermore, the United States 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 if the U.S. refuses, depriving the U.S. of any influence over the use of these systems.

As foreign purchases decline along with our own domestic procurement, [our] research and development costs will increase and U.S. defense production will become less cost-effective: some key lines could close. 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. Indeed, the long term survival of a number of important domestic arms programs are tied to foreign sales: M1A2 Abrams Battle Tank, Blackhawk helicopter, HAWK surface to air missile, Boeing 707 aircraft, to name a few. These programs represent skilled labor and jobs in the defense industry. Our military and political influence abroad and our own national security will be diminished if we fail to maintain support for these and other critical production programs into the 1990s.

It should also be noted that security assistance programs are never undertaken solely out of concern for their domestic economic impact in the United States. Every foreign purchase is studied carefully for its regional security and arms control impact, as well as to ensure that the recipient's financial resources will not be excessively burdened by the acquisition.

RECENT DEVELOPMENTS

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

In an effort to avoid increasing the debt burden of our friends and allies, we also have moved toward greater concessionality, with ESF and FMF provided on a largely all-grant basis in recent years. FMS Credits are now offered at concessional (rather than Treasury) rates of interest.

This year, the Administration will seek legislation to introduce a trial program of EXIMBANK financing for U.S. commercial defense exports to selected credit-worthy countries. This limited program, to begin in FY 92, would be an initial effort to provide American exporters of defense articles and services with a small measure of the same financing support which many foreign governments provide to their defense industries.

While it is difficult to plan for future military and economic contingencies, one clear direction we are going in is the training of military and civilian leaders in emerging democracies. New to the International Military Education and Training Program (IMET) this year is a Congressionally mandated initiative to train civilian and military officials in managing and administering military establishments. As countries evolve toward democratic forms of government, we need to support civilian control over the military, responsible resource management and respect for human rights. We already are designing courses to meet this challenge and intend that this initiative will become a permanent part of the IMET program.

CONCLUSION

The ongoing Gulf conflict demonstrates clearly that security assistance programs do work to support the most vital U.S. national interests. U.S. forces in the Gulf enjoy the benefit of operating with allied air, naval and land forces, many of which are armed and trained with U.S. weaponry and communications equipment. Finally, in the larger strategic view, U.S. programs of security assistance to many of our Gulf war partners helped lay the foundation of relationships which now have resulted in the decision by many nations to take the courageous step of joining with us in an extraordinary multinational alliance against aggression.

Security assistance is an investment in the national security and well-being of the United States. The United States needs strong and self-reliant friends around the world to share in the burden of defending freedom and free nations. By enabling friendly countries to stand by themselves, independently defending their 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 1992 Security Assistance Programs Budget Authority
(Dollars in Thousands)

	ECONOMIC SUPPORT	FMF CONCESS.	FMF GRANT	IMET	PKO	TOTAL
AFRICA:						
AFRICA REGIONAL	10,000	0	10,000	0	0	20,000
BENIN	0	0	0	125	0	125
BOTSWANA	0	0	1,000	400	0	1,400
BURKINA FASO	0	0	0	100	0	100
BURUNDI	0	0	0	200	0	200
CAMEROON	0	0	0	325	0	325
CAPE VERDE	0	0	0	100	0	100
CENTRAL AFRICAN REPUBLIC	0	0	0	255	0	255
CHAD	0	0	2,000	380	0	2,380
COMOROS	0	0	0	75	0	75
CONGO	0	0	0	105	0	105
COTE D'IVOIRE	4,000	0	0	200	0	4,200
DJIBOUTI	3,000	0	2,000	175	0	5,175
EQUATORIAL GUINEA	0	0	0	100	0	100
GABON	0	0	0	150	0	150
GAMBIA	0	0	0	125	0	125
GHANA	0	0	0	175	0	175
GUINEA	0	0	0	175	0	175
GUINEA-BISSAU	0	0	0	150	0	150
KENYA	0	0	4,000	1,100	0	5,100
LESOTHO	0	0	0	75	0	75
LIBERIA	0	0	0	100	0	100
MADAGASCAR	0	0	0	100	0	100
MALAWI	0	0	1,000	250	0	1,250
MALI	0	0	0	175	0	175
MAURITIUS	0	0	0	100	0	100
MOZAMBIQUE	0	0	0	100	0	100
NAMIBIA	5,000	0	0	180	0	5,180
NIGER	0	0	500	300	0	800
NIGERIA	0	0	0	500	0	500
RWANDA	0	0	0	100	0	100
SAO TOME & PRINCIPE	0	0	0	125	0	125
SENEGAL	3,000	0	1,000	525	0	4,525
SEYCHELLES	3,300	0	0	100	0	3,400
SIERRA LEONE	0	0	0	200	0	200
SOMALIA	0	0	0	300	0	300
SUDAN	0	0	0	300	0	300
SWAZILAND	0	0	0	100	0	100
TANZANIA	0	0	0	150	0	150
TOGO	0	0	0	150	0	150
UGANDA	0	0	0	200	0	200
ZAIRE	0	0	3,000	300	0	3,300
ZIMBABWE	0	0	0	300	0	300
REGIONAL TOTAL	28,300	0	24,500	9,145	0	61,945
AMERICAN REPUBLICS:						
ANDEAN NARCOTICS INITVE	250,000 a/	0	0	0	0	250,000
ANTIGUA-BARBUDA*	0	0	900	100	0	1,000
ARGENTINA	0	0	1,000	200	0	1,200
BAHAMAS	0	0	0	125	0	125
BARBADOS*	0	0	1,000	100	0	1,100
BELIZE	0	0	500	125	0	625
BOLIVIA	25,000	0	40,000	900	0	65,900
BRAZIL	0	0	0	150	0	150
CHILE	0	0	1,000	150	0	1,150
COLOMBIA	0	0	58,000	2,300	0	60,300
COSTA RICA	20,000	0	2,360	230	0	22,590
DOMINICA*	0	0	400	100	0	500
DOMINICAN REPUBLIC	5,000	0	2,000	900	0	7,900
EASTERN CARIBBEAN	3,000	0	0	0	0	3,000
ECUADOR	0	0	5,000	800	0	5,800
EL SALVADOR	120,000	0	85,000	1,400	0	206,400
GRENADA*	0	0	545	100	0	645

FY 1992 Security Assistance Programs Budget Authority (Continued)
(Dollars in Thousands)

	ECONOMIC SUPPORT	FMF CONCESS.	FMF GRANT	IMET	PKO	TOTAL
AMERICAN REPUBLICS (CONT):						
GUATEMALA	30,000	0	2,000	400	0	32,400
GUYANA	2,000	0	0	50	0	2,050
HAITI	24,000	0	2,200	665	0	26,865
HONDURAS	50,000	0	19,100	1,100	0	70,200
JAMAICA	15,000	0	3,000	450	0	18,450
LATIN AMERICA REGIONAL	9,900	0	0	0	0	9,900
MEXICO	0	0	0	430	0	430
NICARAGUA	150,000	0	0	0	0	150,000
PACAMS	0	0	0	1,000	0	1,000
PANAMA	10,000	0	0	0	0	10,000
PARAGUAY	0	0	500	175	0	675
PERU	0	0	39,000	900	0	39,900
ST. KITTS AND NEVIS*	0	0	500	100	0	600
ST. LUCIA*	0	0	500	100	0	600
ST. VINCENT & GRENADINES*	0	0	400	100	0	500
TRINIDAD & TOBAGO	0	0	500	95	0	595
URUGUAY	0	0	1,000	325	0	1,325
VENEZUELA	0	0	0	175	0	175
REGIONAL TOTAL	713,900	0	266,405	13,745	0	994,050
EAST ASIA & PACIFIC:						
CAMBODIAN RESISTANCE	5,000	0	0	0	0	5,000
FIJI	300	0	300	50	0	650
INDONESIA	5,000	0	0	2,300	0	7,300
KOREA	0	0	0	800	0	800
MALAYSIA	0	0	0	1,100	0	1,100
PAPUA NEW GUINEA	0	0	0	80	0	80
PHILIPPINES	120,000	0	200,000	2,800	0	322,800
S. PACIFIC TUNA TREATY	10,000	0	0	0	0	10,000
SINGAPORE	0	0	0	15	0	15
SOLOMON ISLANDS	0	0	0	50	0	50
THAILAND	2,500	0	0	2,500	0	5,000
TONGA	0	0	0	50	0	50
VANUATU	0	0	0	50	0	50
REGIONAL TOTAL	142,800	0	200,300	9,795	0	352,895
EUROPE & CANADA:						
CYPRUS	3,000	0	0	0	0	3,000
CZECHOSLOVAKIA	0	0	0	75	0	75
GREECE	0	285,600	65,000	500	0	350,500
HUNGARY	0	0	0	75	0	75
MALTA	0	0	0	65	0	65
POLAND	0	0	0	75	0	75
PORTUGAL	40,000	22,000	103,000	2,850	0	167,850
SPAIN	0	0	0	1,200	0	1,200
TURKEY	75,000	0	625,000	3,500	0	703,500
YUGOSLAVIA	0	0	0	100	0	100
REGIONAL TOTAL	118,000	307,600	793,000	8,440	0	1,226,440
NEAR EAST & SOUTH ASIA:						
AFGHAN HUMANITARIAN	30,000	0	0	0	0	30,000
ALGERIA	0	0	0	150	0	150
BANGLADESH	0	0	0	350	0	350
EGYPT	815,000	0	1,300,000	1,800	0	2,116,800
INDIA	0	0	0	345	0	345
ISRAEL	1,200,000	0	1,800,000	0	0	3,000,000
JORDAN	30,000	0	25,000	2,000	0	57,000
LEBANON	2,000	0	0	400	0	2,400
MALDIVES	0	0	0	70	0	70

FY 1992 Security Assistance Programs Budget Authority (Continued)
(Dollars in Thousands)

	ECONOMIC SUPPORT	FMF CONCESS.	FMF GRANT	IMET	PKO	TOTAL
NEAR EAST & SOUTH ASIA (CONT):						
MIDDLE EAST REGIONAL	6,000	0	0	0	0	6,000
MOROCCO	12,000	0	40,000	1,150	0	53,150
NEPAL	0	0	500	185	0	685
OMAN	15,000	0	5,000	100	0	20,100
PAKISTAN	100,000	6,961	106,595	915	0	214,471
SRI LANKA	0	0	0	200	0	200
TUNISIA	3,000	0	10,000	1,250	0	14,250
WEST BANK/GAZA	12,000	0	0	0	0	12,000
REGIONAL TOTAL	2,225,000	6,961	3,287,095	8,915	0	5,527,971
TOTAL COUNTRY PROGRAMS	3,228,000	313,961	4,571,300	50,040	0	8,163,301
NON-REGIONAL:						
ADMINISTRATIVE COSTS	0	200	28,700	0	0	28,900
GENERAL COSTS	0	0	0	2,460	0	2,460
MULTINATL FORCE & OBSERV (MFO)	0	0	0	0	19,500	19,500
REAPPROPRIATION	12,000	0	10,000	0	0	22,000
UN FORCE IN CYPRUS	0	0	0	0	8,500	8,500
NON-REGIONAL TOTAL	12,000	200	38,700	2,460	28,000	81,360
TOTAL PROGRAM	3,240,000	314,161	4,610,000	52,500	28,000	8,244,661
ADJUSTMENT FOR NON-SUBSIDY ELEMENT OF CONCESSIONAL LOANS	0	-274,161	0	0	0	-274,161
TOTAL BUDGET AUTHORITY	3,240,000	40,000	4,610,000	52,500	28,000	7,970,500

*These countries comprise the Eastern Caribbean. See Eastern Caribbean narrative in Section III for a discussion of specific country programs.

a/ Provisional allocation as follows: Bolivia \$100 million, Colombia \$50 million, Peru \$100 million. Final allocations will depend on each country's performance in meeting drug program objectives.

Foreign Military Financing

Foreign Military Financing (FMF) is the component of Security Assistance that enables U.S. friends and allies to improve their defense capabilities by financing their acquisition of U.S. military articles, services, and training. This acquisition of U.S. military equipment enhances their national defense, promotes interoperability with U.S. forces, creates jobs in the United States and increases production efficiency.

As a grant and low-interest loan program, FMF is distinguished from Foreign Military Sales (FMS), the program under which all government-to-government sales occur. In general, FMF provides financing for FMS sales. Select countries, however, are permitted to use their FMF credits for procurement outside of FMS channels, through direct commercial contracts. These countries are: Greece, Turkey, Portugal, Jordan, Morocco, Pakistan, Tunisia and Yemen, Egypt and Israel.

To the extent that FMF increases demand for U.S. equipment, it benefits our economy in several ways. By increasing the length of production runs, FMF lowers unit costs for DOD purchases and contributes to job growth. This contributes to a strong U.S. defense industrial base, a critical component of our national defense.

Between 1974 and 1984, almost all FMF took the form of guaranteed loans provided through the Federal Financing Bank at interest rates slightly higher than the cost of money to the United States, or outright forgiven loans by DSAA. In the global recession of the early 1980s, repayment of FMF loans with high interest rates exacerbated many developing countries' debt service problems.

By mid-decade, 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 on-budget DSAA loans, either "forgiven" (i.e., non-repayable) FMF for Egypt and Israel or concessional (lower interest rate) loans for certain other countries.

In FY 1991, 91 percent (\$4.26 billion out of \$4.66 billion) of FMF was in grant form. The Administration believes that FMF countries receiving security assistance on a grant basis can devote scarce financial resources to economic development. For FY 1992, the Administration has requested an FMF program which closely matches the FY 1991 appropriation—\$4.61 billion in FMF grants and 314 million in FMF concessional interest rate loans.

Beginning in FY 1992 the Federal Credit Reform Act of 1990 (P.L. 101-508) will change the method of accounting and budgeting for all government loans, including FMF loans issued under the Arms Export Control Act. The purpose of the legislation is to more accurately portray the true cost of loan programs by providing new budget authority only for the subsidy element of the loan program. This legislation is the basis for the establishment of two new accounts and substantial changes to existing accounts within the FMF Program framework.

FOREIGN MILITARY FINANCING GRANTS (11-1082)

In the past the budget authority for both the grant and loan programs were comingled in the FMF Account 11-1082. Beginning in FY 1992, the 11-1082 account will contain only the FMF grant portion of the program and administrative costs. Outlays will consist solely of grant financing and the administrative costs.

The proposed text for appropriation legislation is as follows:

For expenses necessary for grants to enable the President to carry out the provisions of section 23 of the Arms Export Control Act, \$4,600,000,000: Provided, That funds made available under this heading shall be obligated upon apportionment in accordance with paragraph (5)(C) of title 31, United States Code, section 1501(a), and shall be nonrepayable notwithstanding any requirement in section 23 of the Arms Export Control Act: Provided further, That none of the funds made available under this heading shall be available to finance the procurement of defense articles, defense services, or design and construction services that are not sold by the United States Government under the Arms Export Control Act unless the foreign country proposing to make such procurements has first signed a grant agreement with the United States Government specifying the conditions under which such procurements may be financed with such funds. Provided further, That not more the \$300,000,000 of the funds made available under this heading shall be available for use in financing the procurement of defense articles, defense services, or design and construction services that are not sold by the United States Government under

the Arms Export Control Act to countries other than Israel and Egypt: Provided further, That only those countries for which assistance was justified for the "Foreign Military Sales Financing Program" in the fiscal year 1989 congressional presentation for security assistance programs may utilize funds made available under this heading for procurement of defense articles, defense services or design and construction services that are not sold by the United States Government under the Arms Export Control Act: Provided further, That funds appropriated under this heading shall be expended at the minimum rate necessary to make timely payment for defense articles and services: Provided further, That the Department of Defense shall conduct during the current fiscal year nonreimbursable audits of private firms whose contracts are made directly with foreign governments and are financed with funds made available under this heading (as well as subcontractors thereunder) as requested by the Defense Security Assistance Agency: Provided further, That not more than \$28,700,000 of the funds appropriated under this heading may be obligated for necessary expenses, including the purchase of passenger motor vehicles for replacement only for use outside of the United States, for the general costs of administering military assistance and sales.

FOREIGN MILITARY FINANCING PROGRAM ACCOUNT (11-1085)

The new Foreign Military Financing Program Account will provide the budget authority needed to fund the subsidy element of the proposed FY 1992 FMF concessional loan program. Budget authority provided to the 11-1085 account represents the subsidy element of the loan program and a small amount for administrative expenses. Expenditures finance the subsidy element of direct loan disbursements and will be transferred to the Foreign Military Financing Direct Loan Financing Account 11-4122 to make the required expenditures for approved sales.

The proposed text for appropriation legislation is as follows:

For the cost, as defined in section 13201 of the Budget Enforcement Act of 1990, including the cost of modifying loans, of direct loans authorized by section 23 of the Arms Export Control Act as follows: cost of direct loans, \$39,800,000: Provided, That these funds are available to subsidize gross obligations for the principal amount of direct loans of not to exceed \$313,961,000: Provided further, That the rate of interest charged on such loans shall be 5 percent per year: In addition, for administrative expenses necessary to carry out the direct loan program, \$200,000, which may be transferred to and merged with funds deposited by foreign purchasers for administrative expenses pursuant to sections 43(b) and 43(c) of the Arms Export Control Act.

FOREIGN MILITARY LOAN LIQUIDATING ACCOUNT (11-4121) (Formerly the Guaranty Reserve Fund)

Beginning in FY 1992 the Federal Credit Reform Act of 1990 (P.L. 101-508) will substantially change the accounting and budgeting for all government guaranteed or government financed loans including FMF loans issued under the Arms Export Control Act. The Foreign Military Loan Liquidating Account 11-4121, formerly titled the Guaranty Reserve Fund, will be used as the liquidating account for all FMF loans, direct or guaranteed, which were issued prior to FY 1992. This includes the disbursement of pre-FY 1992 direct or guaranteed loan funds and the payment and subsequent recoupment of guaranty claims on Federal Financing Bank or guaranteed commercial FMF loans. Account 11-4121 will be augmented if necessary by permanent borrowing authority with the Treasury. Recoupments from borrowers, of guarantee claims paid from the liquidating account, will be used to repay the permanent borrowing authority to the Treasury and to restore the liquidity of the account.

The proposed text for appropriation legislation is as follows:

For purposes of Title 5 of the Congressional Budget Act of 1974, enacted by section 13201 of the Budget Enforcement Act of 1990 relating to Federal credit reform, the Arms Export Control Act is amended—(a) in section 24(c), by striking out “Guaranty Reserve Fund” and inserting in lieu thereof “Foreign Military Loan Liquidating Account” and by striking out the third sentence thereof; and (b) in section 25(a), by striking out paragraph (7). (Foreign Operations, Export Financing, and Related Programs Appropriations Act, 1991.)

FOREIGN MILITARY FINANCING DIRECT LOAN FINANCING ACCOUNT (11-4122)

The Foreign Military Financing Direct Loan Financing Account 11-4122 is related to the FMF Program Account 11-1085 and will be used, beginning in FY 1992, as the vehicle for making disbursements of FMF loan funds for approved procurements and for the collection of debt service due under those loans. The subsidy element of concessional loan disbursements will be transferred from the appropriated amount in the 11-1085 account to the Loan Financing account 11-4122. These funds will be augmented by permanent borrowing authority from the Treasury to make the required expenditures for FMS and commercial procurements. Receipts of debt service payments from FMF borrowers will be used for repayment of the borrowing from the Treasury.

International Military Education and Training

International Military Education and Training (IMET) is a low-cost foreign policy program that is recognized to be one of the most effective components of U.S. security assistance. IMET provides military education and training on a grant basis to students from allied and friendly nations. Since 1950, IMET and its predecessor program have trained more than 500,000 foreign officers and enlisted personnel.

IMET provides training in areas ranging from professional military education to basic technical skills. This training gives U.S. friends and allies knowledge and skills to improve their military forces and to promote self-sufficiency. IMET is an important supplement to other countries' indigenous training capabilities. In addition, English language training, essential to attending courses in the United States, increases rapport between foreign students and their U.S. counterparts.

By bringing students to the United States, the IMET program exposes them to the U.S. professional military establishment and to 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. Students are also exposed to U.S. military procedures and the manner in which the U.S. military functions under civilian rule. A less formal, but nonetheless significant, part of the program exposes foreign students to the civilian community and institutions important to our way of life.

In accordance with provisions of the FY 1991 Foreign Operations Appropriations Act (P.L. 101-513), the scope and purposes of the IMET program have been expanded in order to promote military professionalism in IMET recipients. In FY 1991, not less than \$1 million of IMET funds will be used for training international civilian and military officials in managing and administering

military establishments and budgets, and in creating and maintaining effective military judicial systems and military codes of conduct. We intend to continue the effort in FY 1992.

A key part of this expanded IMET training will consist of training of foreign military and civilian government officials (including civilian personnel from ministries other than defense) in order to: contribute to responsible defense management, foster greater respect for and understanding of the principle of civilian control of the military, and improve military justice systems and procedures in accordance with internationally recognized human rights.

Economic Support Fund

The Economic Support Fund (ESF) advances U.S. economic, political and security interests by offering economic and counter-narcotics 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 accordance with the overall foreign policy guidance of the Secretary of State.

ESF primarily provides balance of payments support either directly, through cash transfers, or through the financing of commodity imports which permits the acquisition of critical raw materials and capital goods when foreign exchange is not readily available. Depending on the recipient country's economic situation, the fast-disbursing balance of payments 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 past decade, 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 for economic and political stability and have begun to implement urgently needed reforms. In the short term, however, efforts to develop more rational and efficient economic policies can often exacerbate social and political tensions, unless buffered with external assistance. The FY 1991 appropriation of \$3.141 billion in grant ESF and the Administration's FY 1992 request of \$3.228 reflects 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.

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 \$28 million in FY 1992 in support of both UNFICYP and the MFO.

UNITED NATIONS FORCE IN CYPRUS

The FY 1992 request for UNFICYP is \$8.5 million. The United States has a clear and vital interest in preserving UNFICYP. Its erosion would exacerbate regional tensions, and increase the risk of violence in Cyprus, as well as the risk of a confrontation between Greece and Turkey.

UNFICYP has 2,132 military and civilian personnel stationed in Cyprus. Six Western European countries and Canada provide troops; Australia and Sweden provide civilian police. The cost to the United Nations of maintaining UNFICYP for the latter half of 1990 has been \$13.8 million, which does not reflect the bulk of the costs absorbed by troop-contributing countries. The Force's cumulative deficit from previous years, a cost borne by countries contributing troops, reached about \$171.6 million by the end of December 1990. In the face of this funding shortfall, UNFICYP's contributors (led by Canada, the United Kingdom and Finland) have strongly pressed for a change in the means of funding the force. The Administration will actively work with all those involved, and in close consultation with Congress, to place the force on a more secure financial footing. Failure of the United States to maintain its full contribution to UNFICYP would increase the deficit and would make more difficult efforts to retain the continued support of troop-contributing countries and to increase contributions from others.

MULTINATIONAL FORCE AND OBSERVERS

The FY 1992 request for the MFO is \$19.50 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 1991, the MFO proposed a budget of \$71.5 million with a U.S. share of \$23.8 million; however, cost reduction programs reduced the MFO FY 1991 budget to \$60 million with a U.S. share of \$19.5 million. The reduction was possible due to a continued \$1.5 million annual contribution from the government of Japan and further significant reductions in MFO forces in the Sinai. There is a consensus among the three major fund contributors that savings are to be desired, but cost cutting exercises must not change the MFO's basic mission or broad governing concepts.

Special Defense Acquisition Fund

SDAF AND THE EMERGING GLOBAL DEFENSE ENVIRONMENT

The Special Defense Acquisition Fund (SDAF) is a unique instrument of our security assistance program that provides the Department of Defense (DOD) with needed flexibility in planning for the post-containment era. The principal purpose of the SDAF is to finance the acquisition of defense items for later Foreign Military Sale (FMS) to allied and friendly nations. No other funding source exists for this purpose.

SDAF is a versatile element of our overall foreign policy—permitting us to act in anticipation of the emerging defense environment, rather than merely reacting to changes. Through its unique ability to initiate procurement actions to meet foreseen requirements, the SDAF provides a mechanism which helps to promote cooperative defense planning. The SDAF can serve as a key tool of transition during a period of declining defense resources.

AUTHORITY

The SDAF is a revolving fund, authorized in 1982 under Chapter 5 of the Arms Export Control Act (AECA), and presently capitalized at \$1.07 billion. Congressional authority to obligate SDAF funds is required in the annual security assistance appropriations legislation. Beginning in FY 1989, Congress made these annual authorizations available for three years.

THE EXPANDING PURPOSES OF THE SDAF

The SDAF's primary purpose is to procure high-demand, long-leadtime defense equipment in anticipation of sales through FMS. Such acquisitions result in accelerated deliveries once FMS agreements are signed. The availability of SDAF assets reduces pressures on the DOD to meet emergency foreign requirements from U.S. Service inventories or diversions from production. Accordingly, the SDAF contributes directly to U.S. readiness.

Given the changing security assistance environment, as well as the push to reduce U.S. forces domestically, criteria for procurements have evolved to meet the new demands. SDAF has continued to emphasize procurements geared to fulfilling its traditional mission, while at the same time adapting to new economic and production-base realities. Below are some examples:

- The SDAF has bridged gaps in production lines which have arisen due to cuts in procurements by the Department of Defense. Attention has been paid to procuring items with known foreign sales bases whose production is being terminated either temporarily, by a gap in domestic contracts, or permanently, due to reduced acquisition objectives of the DOD. The weapon systems affected have been Hawk surface-to-air missiles, AIM-9M Sidewinder air-to-air missiles and TOW 2A anti-tank missiles.
- SDAF has addressed situations where equipment with a firm FMS customer base is no longer being procured into Service inventories. The SDAF has purchased and refurbished UH-1 helicopters. It has purchased needed logistics support for out-of-production aircraft such as the C-130 transport and the F-4. The SDAF has also procured engine upgrade kits for P-3 aircraft. Further programs such as the above, as well as others involving tank and vehicle chassis components, are presently under consideration.

FY 1990 ACCOMPLISHMENTS

The benefits of the SDAF are manifest in the two principal activities of the SDAF: procurement and sale of assets. SDAF procurements enhance U.S. defense production by extending production lines, achieving higher levels of production which reduce costs, and establishing favorable add-on contracts for these items from current and projected procurement. SDAF sales demonstrate how SDAF supports worldwide US foreign policy objectives to build coalition defenses and enhance regional stability.

During FY 1990, SDAF benefits were especially evident in the procurement of air-to-surface missiles, surface-to-air missiles, anti-tank missiles, counterbattery radars, aircraft engine upgrade kits, light arms and ammunition, communications security equipment and helicopters. Higher production volumes for these items resulted in lower unit prices for DOD end-users, NATO, and allied and friendly nations.

SDAF sales in FY 1990 reached a record high. The impact of SDAF sales spanned regions and technologies. The Pacific, European and Near East/South Asia regions each involved over 30% of the total sales. These regions shared equally in the procurement of many high-tech and

less sophisticated items. The American region (Latin America) absorbed the remainder of the sales, principally in lower technology, lower cost items.

In addition to the mainstream accomplishments of the SDAF, FY 1990 offered two clear examples of its continued importance:

Desert Storm: SDAF sales of small arms and ammunition, tank and howitzer ammunition, grenades and launchers, mortars, trucks, jeeps, TOW missiles and launchers, Sidewinder air-to-air missiles, Stinger missiles, laser designators, night sights, night vision goggles and tactical radios have all served the need of the many governments participating in Operation Desert Storm. The SDAF has been able to meet many of the immediate requirements and is also positioned to replenish U.S. stocks which have been diverted. The countries included are United Kingdom, Saudi Arabia, Egypt, Bahrain, Oman, United Arab Emirates and Turkey.

Narcotics Control: Pursuant to Section 51(a)(4) of the AECA, the SDAF has made a concerted effort to procure items in support of counternarcotics efforts. SDAF procurements of various types of ammunition, night vision equipment, radios and light arms (rifles, machine guns and mortars) have contributed to facilitating sales to our allies in the "War on Drugs" and reduced pressures on the Army to withdraw on-hand Service stocks for sustainment of the missions of friendly governments. Examples of these efforts are programs with Bolivia, Barbados, Belize, Ecuador and Grenada.

FY 1991 OVERVIEW

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

- Aircraft Common Support Equipment
- Howitzer, Towed
- Air-to-Air Missiles
- Patrol Boats
- Grenade Launchers
- Machine Guns, Rifles, Pistols and Support Equipment
- Communications Security Equipment
- Ship-Launched, Surface-to-Air Missile
- Ammunition and Ordnance of All Types
- Radios and Support Equipment
- Shipboard Missile Defense Systems
- Aircraft Spares Storage Support
- Ship-Launched, Surface-to-Surface Missile Components
- Tactical Decoy Flares
- Helicopter-Launched, Air-to-Ground Missiles
- Trucks
- Surface-to-Surface, Anti-Tank Missiles
- Mortar Locating Radars
- Long Range, Air-Defense Missiles
- Utility Helicopters

FY 1992 REQUEST

The obligation authority requested for FY 1992 is \$275 million; this is the program level that can be supported with the capital and receipts from expected SDAF sales.