
SECURITY ASSISTANCE LEGISLATION AND POLICY

The FY 1993 Security Assistance Budget Request

[The following material is extracted from the *Congressional Presentation Document for Security Assistance Programs, Fiscal Year 1993 (FY 93 CPD)*, pages 3-11, 15-17, 22-23, 30, 37, and 40-42. 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 1993 Security Assistance Budget

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.

SECURITY ASSISTANCE IN A CHANGING WORLD

Extraordinary changes are taking place in world affairs. The Gulf War and events in the former Soviet Republics highlight the international system's transformation from the bipolar, Cold War era. Such events are themselves products of even broader, and often conflicting currents of change. Continuing, widespread aspirations for democratic institutions, for example, are balanced by regional tensions exacerbated by increased ethnic unrest and the assertiveness of certain smaller states. In economic matters, while new centers of wealth and commercial activity have emerged, transitions from central planning to market-based systems have created temporary dislocations. Against this backdrop, prospects for proliferation of weapons of mass destruction, terrorism, narcotics trafficking and environmental degradation remain serious threats to international stability, and demonstrate the need for continued U.S. leadership in international security matters.

The pace and unpredictability of change require clear objectives for the provision of U.S. assistance resources, which senior U.S. officials have articulated over the past two years.

- **Promoting and consolidating democratic values** through free and fair elections, respect for human rights, the rule of law and economic opportunity.
- **Promoting market principles and strengthening U.S. competitiveness** by fostering free and open markets and sustainable economic growth through strategies of trade liberalization, deregulation, privatization, and market-based structural adjustment.
- **Promoting peace** through timely security assistance, verifiable arms control, non-proliferation of weapons of mass destruction, resolution of regional conflicts, increased U.N. peacekeeping capabilities, and sustained peaceful development and rapid reconstruction.

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- **Protecting the world community against the transnational dangers** of environmental degradation, narcotics trafficking, terrorism, and other criminal actions by means of cooperation with allies, friends, and wherever possible, traditional adversaries.
 - **Meeting urgent humanitarian needs** by expanding private and governmental efforts, and by promoting economic reform, democratization, and resolution of local conflicts.

WHAT IS SECURITY ASSISTANCE?

The term "security assistance" refers to the range of U.S. programs and other authorities for the provision of defense assistance and economic support, and the transfer or sale of defense items. Key appropriated components of this program are:

Foreign Military Financing (FMF), a largely grant 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 democratization as well as economic reform and development in recipient nations;

International Military Education and Training (IMET), a program which exposes military and civilian officials of friendly and allied countries to democratic values and institutions through professional military education and technical training; and

Peacekeeping Operations (PKO), a fund which finances voluntary 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.

Sales of U.S. defense articles and services financed with foreign national funds play a significant part in our security assistance relationships. Such sales may be conducted either on a government-to-government basis through the Foreign Military Sales (FMS) system or via direct commercial purchases. The Special Defense Acquisition Fund (SDAF) supplements the FMS system by financing the acquisition of defense items for later sales to allied and friendly nations.

THE ROLE OF SECURITY ASSISTANCE

Our security assistance programs promote the full range of U.S. national interests by serving the following objectives:

- Increasing the ability of U.S. security partners to deter and defend against aggression, and to shoulder more of the common defense burden.
- Helping to maintain strong and cohesive defense arrangements with friends and allies, and to secure access to important military facilities throughout the world;
- Promoting regional stability by arms transfer controls on the volume and types of weaponry provided to security assistance recipients;
- Strengthening the economies of countries with which the U.S. has a security relationship and, when necessary, helping those government move toward market-oriented economic policies; and
- Fostering human rights, democratic values and institutions.

Security assistance is not a philanthropic effort. The United States offers security assistance to strengthen the national security of friendly nations, and to support existing or prospective democratic institutions and market-oriented economies. In both its military and economic components, security assistance provides vital continuity in American foreign policy and helps to build security and stable relationships. ESF also assists many deserving partners with economic and political reform, institution building, as well as broader development and market economy initiatives. These and other assistance programs will help to build the new structures of peace and development in the 1990s and beyond.

THE FUTURE OF SECURITY ASSISTANCE

U.S. security assistance will remain a vital instrument of policy to shape the emerging new order in international relations. As the great changes underway evolve further, supporting the security of our friends and allies will remain in our national interest. With defense budgets and the U.S. overseas military presence declining, security assistance will play a critical role in encouraging friends and allies to shoulder more of the common defense burden. Additionally, long-standing problems will still require substantial security assistance resources. For example, U.S. military and economic assistance to the Middle East will remain central to helping Israel and moderate Arab states move further in the direction of a lasting settlement.

This era of both new and enduring challenges has led us to examine how our security assistance programs should be structured to provide continued support for United States objectives around the world, while taking into account emerging political, economic, and social realities which are "changing the rules" in so many areas. This reexamination is a process that necessarily will continue over the coming years. 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.

THE GULF WAR AND U.S. SECURITY ASSISTANCE PROGRAMS

As we face the possibility of a world characterized by reduced tensions and increased international cooperation, Iraq's invasion of Kuwait reminds us that threats to our vital interests will inevitably arise. Experience since the Second World War shows that such threats most often stem from actions by smaller states acting independently or at the instigation of others, and do not normally result in direct U.S. confrontations with other major powers.

The victory in Operation Desert Storm clearly demonstrated the continuing importance of the security assistance program, and its central objectives of deterring aggression and supporting the economies of friendly countries. Through FMS and commercial sales components of the security assistance program, the United States built strong relationships with Persian Gulf nations, as well as other countries in the coalition. Moreover, many allied military personnel had received training under FMS or the IMET program, thereby enhancing compatibility in language, military doctrine and technical proficiency. The fact that these countries had built inventories of U.S. equipment with the accompanying training eased the difficulties of our forces fighting as part of a coalition. Finally, U.S. security assistance laid the foundation of relationships which resulted in many nations taking the courageous decision to join an extraordinary multinational alliance against aggression.

DOMESTIC ECONOMIC IMPACT

Security assistance programs also have direct and positive impact upon our domestic economy. With the exception of funds earmarked by Congress for expenditure in Israel, almost all FMF is spent on procurement in the United States. Based on several studies of the benefits of military assistance and sales, we estimate that each \$1 billion spent on new procurement in the United States for foreign military sales, whether FMF or foreign national funds, directly creates or preserves over 20,000 man years of employment. This \$1 billion generates in excess of \$1.8 billion of income as well as significant exports to help balance U.S. trade with foreign nations. That \$1.8 billion of income, in turn, produces over \$400 million of tax revenue for the U.S. Government.

These sales also result in economies of scale (e.g., longer production runs) which reduce the costs of weapon systems of continued interest to our armed forces. Moreover, the continuation of a number of DOD production lines depends on foreign sales. These production lines constitute part of DoD's mobilization base in the event the USG must respond quickly to a military conflict. As these production lines close, our ability to mount or sustain a rapid response will decrease.

ARMS CONTROL CONSIDERATIONS

The increasingly broad spectrum of alternative sources of defense equipment makes it highly likely that some other country will sell major systems if the U.S. refuses, depriving the U.S. of any influence over how these systems will be used. The U.S. has at best limited influence over sales promotion efforts by other arms suppliers, and cannot control the decisions of sovereign nations on what types of weapons to purchase or choice of supplier. Nonetheless, the Administration has achieved greater international cooperation in arms transfer restraint and nonproliferation. This includes the adoption in October 1991 of agreed guidelines governing conventional weapons exports by the five major arms suppliers (the United States, the United Kingdom, France, the former Soviet Union and China).

While we will continue to strengthen multilateral controls over weapons of mass destruction and conventional arms, foreign exporters of defense articles still face fewer political and technology transfer restraints than do U.S. suppliers. We must adjust to the challenge of an increasingly diverse global defense supply environment, or 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 coming years. At the same time, we must continue to act unilaterally and multilaterally to prevent destabilizing arms transfers.

GLOBAL CHALLENGES

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, both for friends and allies and for the United States itself.

Security assistance programs in the 1990s are turning increasingly to address transnational challenges which already pose as great a danger to international stability as traditional military threats. A significant percentage of security assistance funding is provided for such challenges as the struggle against the international traffic in narcotics. American security assistance programs currently provide critical support for Andean and other countries to take the initiative against the drug traffickers. At the same time, these programs reduce the financial expenditures and direct effort required of U.S. law enforcement agencies to achieve our common objectives.

In the near-term, post-Cold War world, prospects for increased regional instability have increased. By bolstering alliance relationships, supporting friends and allies, and funding international peacekeeping efforts, we can help to promote regional stability and head off disputes before they erupt into conflict. Such efforts also strengthen our power projection and coalition warfare capabilities, which range from logistical support provided by base rights countries to interoperability built through security assistance programs.

PROGRAM DEVELOPMENTS

To improve the effectiveness of our security assistance programs, the Executive Branch in recent years has worked with foreign nations to plan our programs more carefully, and sought Congressional authority to maximize the policy payoff from available funding. In order to maximize scarce assistance resources, we once again propose to offer some financing as credits at concessional rates of interest to countries able to repay them.

While planning for military and economic contingencies, we have pursued the Congressionally-mandated, Expanded IMET initiative to train civilians and military officials in administering and managing military establishments. As countries evolve toward democratic systems, this training will help to foster civilian control over the military, responsible resource management, and respect for human rights. We have designed courses to meet this challenge and intend that this initiative become a permanent fixture of the IMET program.

CONCLUSION

Security assistance is an investment in the national security and well-being of the United States. We must not forget that the very positive developments in world affairs stem, at least in part, from the support which the U.S. has given to friends and allies during the years of the Cold War. Had we not supported and encouraged the efforts of allied and friendly countries to protect themselves and develop their economies, the complexion of the globe might be dangerously different today, and the international climate far more hostile.

The U.S. will continue to need strong and self-reliant friends to share in 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 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 1993 Security Assistance Programs Budget Authority
(Dollars in Thousands)

	ECONOMIC SUPPORT	FMF CONCESS.	FMF GRANT	INET	PKO	TOTAL
AFRICA:						
AFRICA REGIONAL a/	14,000	0	11,225	0	0	25,225
ANGOLA	0	0	0	75	0	75
BENIN	0	0	0	120	0	120
BOTSWANA	0	0	0	450	0	450
BURUNDI	0	0	0	250	0	250
CAMEROON	0	0	0	400	0	400
CAPE VERDE	0	0	0	150	0	150
CENTRAL AFRICAN REPUBLIC	0	0	0	200	0	200
CHAD	0	0	1,000	400	0	1,400
COMOROS	0	0	0	100	0	100
CONGO	0	0	0	150	0	150
COTE D'IVOIRE	0	0	0	225	0	225
DJIBOUTI	2,000	0	0	250	0	2,250
EQUATORIAL GUINEA	0	0	0	130	0	130
ETHIOPIA	0	0	0	75	0	75
GABON	0	0	0	135	0	135
GAMBIA	0	0	0	120	0	120
GHANA	0	0	0	250	0	250
GUINEA	0	0	0	150	0	150
GUINEA-BISSAU	0	0	0	125	0	125
KENYA	0	0	0	1,000	0	1,000
LESOTHO	0	0	0	100	0	100
MADAGASCAR	0	0	0	150	0	150
MALAWI	0	0	0	250	0	250
MALI	0	0	0	180	0	180
MAURITIUS	0	0	0	75	0	75
MOZAMBIQUE	0	0	0	150	0	150
NAMIBIA	0	0	0	250	0	250
NIGER	0	0	0	300	0	300
NIGERIA	0	0	0	500	0	500
RWANDA	0	0	0	120	0	120
SAO TOME & PRINCIPE	0	0	0	125	0	125
SENEGAL	0	0	500	605	0	1,105
SEYCHELLES	3,300	0	0	100	0	3,400
SIERRA LEONE	0	0	0	300	0	300
SWAZILAND	0	0	0	120	0	120
TANZANIA	0	0	0	150	0	150
TOGO	0	0	0	150	0	150
UGANDA	0	0	0	200	0	200
ZAMBIA	0	0	0	100	0	100
ZIMBABWE	0	0	0	300	0	300
REGIONAL TOTAL	19,300	0	12,725	8,980	0	41,005
AMERICAN REPUBLICS:						
ANDEAN NARCOTICS	250,000 b/	0	0	0	0	250,000
ANTIGUA-BARBUDA*	0	0	550	30	0	580
ARGENTINA	0	0	1,000	200	0	1,200
BAHAMAS	0	0	0	125	0	125
BARBADOS*	0	0	950	70	0	1,020
BELIZE	0	0	500	125	0	625
BOLIVIA	0	0	40,000	900	0	40,900
BRAZIL	0	0	0	150	0	150
CHILE	0	0	0	200	0	200
COLOMBIA	0	0	58,000	2,200	0	60,200
COSTA RICA	10,000	0	1,000	230	0	11,230
DOMINICA*	0	0	300	35	0	335
DOMINICAN REPUBLIC	5,000	0	500	700	0	6,200
EASTERN CARIBBEAN	4,400	0	0	0	0	4,400
ECUADOR	0	0	5,000	800	0	5,800
EL SALVADOR	160,000	0	40,000	1,400	0	201,400
GRENADA*	0	0	300	150	0	450
GUATEMALA	10,000	0	0	400	0	10,400

FY 1993 Security Assistance Programs Budget Authority (Continued)
(Dollars in Thousands)

	ECONOMIC SUPPORT	FHF CONCESS.	FHF GRANT	IMET	PKO	TOTAL
AMERICAN REPUBLICS (CONT):						
GUYANA	0	0	0	50	0	50
HAITI	15,000	0	0	430	0	15,430
HONDURAS	30,000	0	8,000	1,100	0	39,100
JAMAICA	15,000	0	3,000	450	0	18,450
LATIN AMERICA REGIONAL	17,000	0	0	0	0	17,000
MEXICO	0	0	0	530	0	530
NICARAGUA	125,000	0	0	0	0	125,000
PACAMS	0	0	0	750	0	750
PANAMA	10,000	0	0	0	0	10,000
PARAGUAY	0	0	500	175	0	675
PERU	0	0	34,000	740	0	34,740
ST. KITTS AND NEVIS*	0	0	300	125	0	425
ST. LUCIA*	0	0	300	65	0	365
ST. VINCENT & GRENADINES*	0	0	300	115	0	415
SURINAME	0	0	0	50	0	50
TRINIDAD & TOBAGO	0	0	500	75	0	575
URUGUAY	0	0	500	330	0	830
VENEZUELA	0	0	0	175	0	175
REGIONAL TOTAL	651,400	0	195,500	12,875	0	859,775
EAST ASIA & PACIFIC:						
FIJI	300	0	0	50	0	350
INDONESIA	0	0	0	2,300	0	2,300
KOREA	0	0	0	300	0	300
LAOS	0	0	0	50	0	50
MALAYSIA	0	0	0	800	0	800
MONGOLIA	15,000	0	0	75	0	15,075
PAPUA NEW GUINEA	0	0	0	125	0	125
PHILIPPINES	45,000	0	45,000	2,450	0	92,450
S. PACIFIC TUNA TREATY	10,000	0	0	0	0	10,000
S.E. ASIA REGIONAL	50,000	0	0	0	0	50,000
SINGAPORE	0	0	0	20	0	20
SOLOMON ISLANDS	0	0	0	50	0	50
THAILAND	0	0	0	2,250	0	2,250
TONGA	0	0	0	50	0	50
VANUATU	0	0	0	50	0	50
WESTERN SAMOA	0	0	0	50	0	50
REGIONAL TOTAL	120,300	0	45,000	8,620	0	173,920
EUROPE & CANADA:						
ALBANIA	0	0	0	75	0	75
BULGARIA	0	0	0	100	0	100
CYPRUS	3,000	0	0	0	0	3,000
CZECH & SLOVAK FED. REP.	0	0	0	600	0	600
ESTONIA	0	0	0	50	0	50
FORMER SOVIET REPUBLICS	100,000	0	0	0	0	100,000
GREECE	0	315,094	30,000	300	0	345,394
HUNGARY	0	0	0	600	0	600
LATVIA	0	0	0	50	0	50
LITHUANIA	0	0	0	50	0	50
MALTA	0	0	0	65	0	65
POLAND	0	0	0	600	0	600
PORTUGAL	0	0	100,000	1,200	0	101,200
ROMANIA	0	0	0	75	0	75
SPAIN	0	0	0	300	0	300
TURKEY	75,000	43,000	500,000	3,500	0	621,500
REGIONAL TOTAL	178,000	358,094	630,000	7,565	0	1,173,659

FY 1993 Security Assistance Programs Budget Authority (Continued)
(Dollars in Thousands)

	ECONOMIC SUPPORT	FMF CONCESS.	FMF GRANT	IMET	PKO	TOTAL
NEAR EAST & SOUTH ASIA:						
AFGHAN HUMANITARIAN	25,000	0	0	0	0	25,000
ALGERIA	0	0	0	150	0	150
BAHRAIN	0	0	1,000	100	0	1,100
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	5,000	0	0	400	0	5,400
MALDIVES	0	0	0	70	0	70
MOROCCO	12,000	0	40,000	1,150	0	53,150
NEAR EAST REGIONAL	6,000	0	0	0	0	6,000
NEPAL	0	0	0	200	0	200
OMAN	15,000	0	1,000	110	0	16,110
SRI LANKA	0	0	0	250	0	250
TUNISIA	10,000	0	10,000	1,250	0	21,250
WEST BANK/GAZA	25,000	0	0	0	0	25,000
REGIONAL TOTAL	2,143,000	0	3,177,000	8,175	0	5,328,175
TOTAL COUNTRY PROGRAMS	3,112,000	358,094	4,060,225	46,215	0	7,576,534
NON-REGIONAL:						
ADMINISTRATIVE COSTS	0	200	29,000	0	0	29,200
GENERAL COSTS	0	0	0	1,285	0	1,285
MULTINATL FORCE & OBSERV.	0	0	0	0	18,166	18,166
REOBLIGATIONS	11,000	0	10,000	0	0	21,000
UN FORCE IN CYPRUS	0	0	0	0	9,000	9,000
NON-REGIONAL TOTAL	11,000	200	39,000	1,285	27,166	78,651
TOTAL PROGRAM	3,123,000	358,294	4,099,225	47,500	27,166	7,655,185
ADJUSTMENT FOR NON-SUBSIDY ELEMENT OF CONCESSIONAL LOANS	0	-294,962	0	0	0	-294,962
TOTAL BUDGET AUTHORITY	3,123,000	63,332	4,099,225	47,500	27,166	7,360,223

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

a/ This comprises the Africa Democracy Support and the Africa Regional Military Assistance Program.

b/ Provisional allocation of \$250 million for Bolivia, Colombia, and Peru. Final allocations will depend on each country's performance in meeting drug program objectives.

Foreign Military Financing

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

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, supports preservation and growth in skilled and technical jobs, and contributes to a strong defense industrial base—a critical element in the national defense. Indeed, the longer term survival of a number of important domestic arms production programs, and related jobs, depend on foreign sales—the M1A2 Abrams battle tank, Blackhawk helicopter, and Hawk surface to air missile to name a few.

As a grant and concessional interest loan program, FMF is distinguished from Foreign Military Sales (FMS), the system through which all government-to-government sales occur. In general, FMF provides financing for FMS sales. Select countries, however, are eligible by law to use FMF for procurement outside of FMS channels through direct commercial contracts. The relevant legislation provides that the eligible countries are Greece, Turkey, Portugal, Morocco, Pakistan, Tunisia, Egypt, Israel, Jordan and Yemen.

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 U.S. Treasury. In the global recession of the early 1980s, repayment of FMF loans with such high interest rates compounded many developing countries' debt service problems. Concern about this problem in Congress and the Executive Branch prompted the FY 1985 legislation for totally "forgiven" (i.e., non-repayable) FMF for Egypt and Israel, and concessional (lower interest rate) loans for other selected countries. This legislation started the process which has resulted in security assistance now being offered primarily on a grant basis, thus enabling recipient countries to devote scarce financial resources to economic development.

By FY 1991, approximately \$4.26 billion out of \$4.71 billion in FMF took the form of grants. The Administration has requested \$4.61 billion in grant and \$314 million in FMF concessional loans for FY 1992, and is proposing a total of \$4.1 billion in grants for FY 1993. At the same time, in order to maximize our resources, we are proposing a total of \$358 million in concessional loans (given currently prevailing loan subsidy factors) for selected countries. The amount of loans available for country programs may vary according to the subsidy rating of recipient countries and cost of money to the U.S. Treasury when loan agreements are obligated.

Beginning in FY 1992, the Federal Credit Reform Act of 1990 changed the accounting and budgeting of all government loans, including FMF loans issued under the authority of the Arms Export Control Act. The purpose of the legislation is to portray more accurately 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 in existing accounts within the FMF program, as discussed below.

FOREIGN MILITARY FINANCING GRANTS (11-1082)

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

FOREIGN MILITARY FINANCING PROGRAM ACCOUNT (11-1085)

The Foreign Military Financing Program Account provides the budget authority needed to fund the subsidy element of the proposed 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. The subsidy is defined in the Federal Credit Reform Act of

1990 as the difference between the net present value (PV) of the principal and interest payments made by recipient countries and the PV of payments by the U.S. Government over the life of the loan. OMB chaired an interagency group that determined country creditations. These credit ratings, combined with the terms of the loans and the cost of the money to the U.S. Government, determined the amount of subsidy for each credit program. (A separate document will be submitted [to Congress] explaining the methodology of the interagency group.) Expenditures finance the subsidy element of direct loan disbursements and are transferred to the Foreign Military Financing Direct Loan Financing Account 11-4122 to make the required expenditures for approved sales. In the FY 1993 Budget, the Administration has proposed an amendment to the Foreign Military Financing Program Account. The amendment would add \$17.49 million in FY 1992 to cover the additional subsidy amount as now estimated to support the loan program as requested last year.

FOREIGN MILITARY LOAN LIQUIDATING ACCOUNT (11-4121)

Beginning in FY 1992, the Federal Credit Reform Act of 1990 (P.L. 101-508) substantially changed 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, is now 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 and guaranteed loan funds and the payment and subsequent recoupment of guaranty claims on Federal Financing Bank or guaranteed commercial FMF loans. Funds to cover guarantee claim payments in Account 11-4121 will be augmented, if necessary, by appropriations based on a permanent, indefinite appropriation authority provided in the Federal Credit Reform Act of 1990. Recoupments from borrowers of guaranty claims paid from the liquidating account will be used to pay new guaranty claims. Excess collections will be returned to the Treasury at the end of the year.

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

The Foreign Military Financing Direct Loan Financing Account 11-4122 contains the financial transactions related to the FMF direct loans. It displays disbursement of FMF loan funds, collection of debt service due under those loans, and transactions with Treasury on interest and borrowing. The subsidy element of loans is transferred from the FMS Program Account 11-1085 to the Loan Financing Account 11-4122. These funds are 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 are used for repayment of the borrowing from the Treasury.

International Military Education and Training

The International Military Education and Training (IMET) program provides military education and training on a grant basis to students from allied and friendly nations. It is recognized as one of the most effective components of U.S. security assistance. Since 1950, IMET and its predecessor program have trained more than 500,000 foreign officers and enlisted personnel in areas ranging from professional military education to basic technical and nation building skills. This training has enabled U.S. friends and allies to improve and promote self-sufficiency in their military forces, as well as to strengthen their own training capabilities.

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. defense 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. In addition, English language training, essential to attending courses in the United States, increases rapport between foreign students and their U.S. counterparts.

Significant numbers of IMET students go on to hold prominent military and civilian positions in their own countries. The rapport established with U.S. counterparts while IMET students, and the favorable impressions they received of the United States, frequently create opportunities for future access to these leaders. The valuable friendships and improved channels of communication between foreign and U.S. defense personnel are two of the major, long-term benefits of the IMET program.

The Foreign Operations, Export Financing and Related Programs Appropriations Act, 1991, expanded the scope and purposes of IMET to promote professionalism and civilian oversight of the military among training recipients. In addition to training Ministry of Defense personnel, Expanded IMET encompasses the training of foreign military and civilian officials from ministries other than Defense, such as the Foreign Ministry and equivalents to the Department of the Treasury and Office of Management and Budget. The initiative's principal objectives are: fostering greater respect for, and understanding of, the principle of civilian control of the military; improving military justice systems and procedures in accordance with internationally accepted standards of human rights, and increasing professionalism and responsibility in defense management and resource allocation.

The U.S. Government spent over \$1.5 million in IMET funds in FY 1991 to develop and provide training to carry out the objectives of the Expanded IMET program. The Administration proposes expenditures of at least \$2.0 million and \$2.5 million in FY 1992 and FY 1993 respectively to continue this effort. These projections are based on several factors. The first is the level of participation in Expanded IMET discussed under the individual country programs. We also plan further course development and Mobile Education Teams. Finally, as we continue to develop and promote the Expanded IMET initiative, we expect additional countries to request participation. Officials in the initial target areas for the training—including the emerging democracies of Central Europe—have responded enthusiastically to the program.

Economic Support Fund

The Economic Support Fund (ESF) provides economic, and counter-narcotics assistance to allies and developing countries. The Agency for International Development (AID) implements the ESF program under the direction of the Administrator of AID with overall foreign policy guidance from the Secretary of State.

ESF provides balance of payments support 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. Where longer-term political and economic stability is the primary concern, ESF finances projects of direct benefit to the poor.

Economic dislocation and political strife continue to place great strains on many countries. Depending on the recipient country's economic situation, ESF's fast-disbursing balance of payments or budgetary support may create leverage to bring about the adoption of more rational economic and fiscal policies required for sustainable economic growth.. In the short term, however, measures to create more rational and efficient structures and practices often exacerbate social and political tensions, unless buffered by external assistance. In these circumstances, ESF can help to prevent or diminish economic and political dislocation that may threaten the security and independence of key allies and friends.

The Administration's FY 1993 request for \$3.12 billion reflects a firm U.S. commitment to assist other to achieve economic growth and development. Funding will help safeguard important mutual security interest 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 \$27.166 million in FY 1993 for their support.

UNITED NATIONS FORCE IN CYPRUS

The FY 1993 request for UNFICYP is \$9.0 million, a \$500 thousand increase from FY 92. The United States has a clear and vital interest in preserving UNFICYP. Erosion of its effectiveness could risk renewed violence on the island, derail any possibility of a settlement, and increase tensions between Greece and Turkey.

UNFICYP has 2,141 military and civilian personnel stationed in Cyprus. Six Western European countries and Canada provide troops, and Australia and Sweden provide civilian police. The cost to the United Nations of maintaining UNFICYP for the latter half of 1991 has been \$15.4 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 troop-contributing countries, reached about \$186.6 million by the end of December 1991. UNFICYP's contributors, led by Canada, the United Kingdom, Denmark and Austria, have pressed strongly for a change in the means of funding the force. The Administration has actively worked 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 provide its full contribution to UNFICYP would increase the deficit and would make more difficult efforts to retain the support of troop-contributing countries and to increase contributions from others.

MULTINATIONAL FORCE AND OBSERVERS

The FY 1993 request for the MFO is \$18.166 million. An independent international body, MFO implements the security arrangements envisioned for the United Nations in the 1979 Egyptian-Israeli Peace Treaty. The United States has a firm political commitment to the governments of Israel and Egypt to finance one-third of annual MFO costs, and Congress authorized U.S. participation in Public Law 97-132. In FY 1992, the MFO originally proposed a budget of \$60 million with a U.S. share of \$19.5 million. However, accelerated achievement of cost reduction goals has reduced this budget to \$56.0 million, and the U.S. share to \$18.166 million. We project the same totals for FY 93. (The U.S. share also reflects MFO's anticipation

of continued annual contributions of \$1.5 million from the Government of Japan, which would be deducted from the total budget.).

Note: In the FY 1993 President's Budget, the Administration has proposed an amendment to the Peacekeeping Operations Account. The amendment would add \$350 million in FY 1992 to provide the United States' share of the expenses to initiate peacekeeping activities by the United Nations in El Salvador and in Cambodia, and for other contingency peacekeeping requirements. FY 1993 funding to continue these activities is requested in the Contributions for International Peacekeeping Activities account of the Department of State.

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-Cold War 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.

The SDAF helps promote cooperative defense planning by advanced procurements for anticipated foreign military requirements. It also permits immediate or near-term delivery of high priority items for emergencies, such as Desert Storm. As U.S. overseas military presence declines, SDAF's ability to deliver equipment promptly in a crisis offers a cost effective and tangible sign of our commitment to regional security. Additionally, through its unique ability to initiate procurement actions to meet foreseen requirements, SDAF provides a mechanism which helps to promote cooperative defense planning. In this way, SDAF serves as a tool of transition during a period when DoD procurement is declining.

AUTHORITY

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

THE PURPOSES OF THE SDAF

The SDAF's primary purpose is to procure high-demand, long-leadtime defense equipment in anticipation of sales through FMS. SDAF sales have contributed to U.S. foreign policy objectives of building coalition defense partnerships and protecting regional stability.

SDAF's procurement and sale of assets to meet foreign requirements directly benefit the U.S. defense industrial base. SDAF procurements enhance U.S. defense production by extending production lines, achieving higher levels of production, and maintaining essential production skills. SDAF has bridged gaps in production lines for the following weapon systems: Hellfire air-to-ground missiles, Hawk surface-to-air missiles, AIM-9M Sidewinder air-to-air missiles, TOW 2A anti-tank missiles, and Standard SM-1 surface-to-air missiles.

SDAF sales have spanned regions and technologies. Sales to East Asia and the Pacific, Near East and South Asia, and Europe and Canada make up over 80 percent of the total receipts. These regions shared equally in the procurement of many high technology and less sophisticated items. The inter-American region and Africa absorb the remainder of the sales, principally in lower technology/lower cost items. In an environment characterized by declining force structures, budget, and defense procurement spending, 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.

FY 1991 ACCOMPLISHMENTS

During FY 1991, SDAF contributed to higher production volumes for selected defense items that resulted in lower unit prices for DoD end-users, NATO, and allied and friendly nations. Such benefits were especially evident in the procurements of air-to-air missiles, air-to-surface missiles, surface-to-air missiles, anti-tank missiles, counterbattery radars, aircraft engine upgrade kits, small boats, light arms and ammunition, communications security equipment, and refurbishing UH-1H helicopters.

In addition to its mainstream accomplishments, FY 1991 offered two clear examples of SDAF's continued importance:

- **Desert Storm:** Availability of SDAF assets for coalition forces reduced the demand on the U.S. Services to meet urgent requirements through withdrawals from inventories or through diversions from production. Use of the SDAF demonstrated our ability to anticipate and plan for contingencies which contributed to the confidence of coalition partners. Through SDAF, the coalition was able to acquire Stinger missiles, TOW 2A anti-tank missiles, night vision goggles, ammunition and rifles. Additionally, SDAF helped the U.S. Army meet an Economic Order Quantity purchase of Hellfire missiles to replace those expended during Desert Storm.
- **Narcotics Control:** Pursuant to Section 51(a)(4) of the AECA, DoD through the SDAF has made a concerted effort to procure items in support of counter-narcotics efforts. Bolivia, Colombia, and Peru have used SDAF items. Sales of SDAF items including ammunition, night vision equipment, radios, and light arms (rifles, machine guns, and grenade launchers) have contributed to our allies' ability to fight the drug war and have reduced pressure on the Army to divert stocks to support the missions of friendly governments.

FY 1992 OVERVIEW

Based upon planning within DOD and surveys of country needs, the following items are SDAF procurement candidates in FY 1992:

- Aircraft Common Support Equipment
- Air-to-Ground Missiles
- Air-to-Ground Rockets
- Patrol Boats and Technical Data Packages
- Machine Guns, Rifles, Pistols and Support Equipment
- Communications Security Equipment
- Ship-Launched, Surface-to-Air Missile
- Ammunition and Ordnance of Various Types
- Radios and Support Equipment
- Anti-Ship Weapon Systems
- Surface-to-Surface, Anti-Tank Missiles

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- Utility Helicopters (overhaul)
 - Aircraft Engine Conversion Kits
 - Utility Trucks
 - Tactical Generators

FY 1993 REQUEST

The obligation authority requested for FY 1993 is \$275 million. This program level can be supported with the capital and pending receipts from expected SDAF sales.