SECURITY ASSISTANCE PERSPECTIVES

The Special Defense Acquisition Fund at Ten Years

By

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INTRODUCTION

Since the end of World War II, military assistance programs have served as effective instruments for promoting the national security and foreign policy objectives of the United States. These objectives are many and varied, and they include deterrence, collective security, regional stability, and forward defense against aggression. In recent years, the world has witnessed the breaking down of the Cold War barriers that have separated nations and people since 1945. Prominent political leaders and academicians have observed that the reunification of Germany, together with the enfeeblement and possible political breakup of the Soviet Union, represent one of the most abrupt realignments of political, military, and economic power in modern history.

These dynamic changes in the world's political and economic environments will surely alter the context in which US security assistance programs are conducted in the years to come. Similarly, reductions in military budgets and force levels, coupled with growing concern over the proliferation of chemical, biological, and nuclear weapons and missiles, represent other factors that will alter significantly the environment for defense exports.

It is also evident that military and political questions are being driven by basic issues of trade and competitiveness. As economic questions assume a new international importance in an era of increased ambiguity, the US Military Departments and Defense Agencies will face challenges which differ from those confronted during the last forty-five years. These agencies will need creativity, versatility, and flexibility if they are to work effectively in the post-Cold War era.

THE SDAF AND A CHANGING INTERNATIONAL ENVIRONMENT

One US military program that has proven effective in adjusting to a changing defense environment has been the Special Defense Acquisition Fund (SDAF). The SDAF is a unique instrument of the US security assistance program. For the past decade it has provided the Department of Defense (DoD) with the flexibility required in planning for anticipated foreign procurements of US defense materiel. Through its ability to buy military equipment to meet future requirements, the SDAF permits the United States to act in anticipation of the emerging defense export environment, rather than merely reacting to changes. This essentially is the role the SDAF has performed since it was established in 1981.

The primary objective of the SDAF is to procure high demand, long-leadtime defense equipment in anticipation of future sales to be conducted on a government-to-government basis through the Foreign Military Sales (FMS) Program. These acquisitions result in accelerated deliveries once FMS agreements are signed. The availability of SDAF assets reduces pressures on the DoD to meet urgent foreign requirements through withdrawals from US Service inventories or through diversions from production. Thus, the SDAF contributes directly to US readiness.

The changing global defense environment has mandated that the procurement criteria of the SDAF be reviewed continually to ensure that SDAF purchases are not only prudent, but that they also accommodate new demands. Over the past decade, the SDAF has continued to emphasize procurements that fulfill its traditional mission; however, it has also adapted to new economic and production base realities. For example, the SDAF has often served to bridge gaps in production lines which occurred due to cuts in procurements by the DoD. In such cases, the Fund has been used to purchase items with known foreign sales bases when the production of these items was being suspended or terminated because of a temporary gap in domestic contracts or because of reduced DoD acquisition objectives. Examples of such defense equipment have included Hawk, AIM-9M Sidewinder, and TOW 2A missiles, among others.

Additionally, the SDAF has been used to address situations where equipment with a firm FMS customer base was no longer being added to Service inventories. As an example, the SDAF has purchased and refurbished UH-1 helicopters. It has also purchased needed logistics support for out-of-production aircraft such as the C-130 transport.

In an era in which fewer resources will be devoted to defense, the SDAF can serve as a key tool of transition.

SDAF AND OPERATIONS DESERT SHIELD/DESERT STORM

Many of the instruments of military strategy and force design that served the United States so well throughout the Cold War will remain relevant in the post-containment era. Although the international security environment is undergoing revolutionary change, military power remains a dominant feature of relations between nations. Iraq imposed its will on Kuwait and threatened to alter the international order with Iraqi army divisions. It was through military power that the international community ultimately redressed Iraq's aggression in Operation Desert Shield/Desert Storm.

The SDAF purchased and sold high demand assets to Mideast countries and other Desert Storm contributing countries prior to the beginning of hostilities and the alliance build-up. These "on the ground" assets increased the foreign countries own state of readiness in response to the Iraqi threat.

In Operation Desert Shield/Desert Storm, the SDAF was the source of a variety of necessary equipment. These items included rifles, HMMWV M998s, grenades, radios, ammunition, machine guns, jeeps, TOW 2 and 2-A missiles, COMSEC equipment, AIM-9M missiles, trucks, nightsights, night vision goggles, and Stinger missiles.

This equipment was sold to key coalition allies such as Bahrain, Egypt, Kuwait, Morocco, Oman, Turkey, United Arab Emirates, United Kingdom, and Saudi Arabia. The success of the final phase of Operation Desert Shield/Desert Storm was a powerful demonstration of the effectiveness of instruments of US military strategy, such as the Special Defense Acquisition Fund. Additionally, the Gulf War demonstrated the need to continually examine the central objectives of the US Security Assistance Program: deterring aggression, maintaining alliance structures, and supporting friendly economies.

SDAF AND COUNTERNARCOTICS

The SDAF has made an equally important contribution to the national counternarcotics strategy. Employing SDAF funds, the Administration has made a concerted effort to purchase defense articles which provide direct support for counternarcotics activities. SDAF procurements of various types of ammunition, night vision equipment, radios, rifles, machine guns, and mortars

have facilitated sales to US allies in support of their counternarcotics efforts. Such sales reduce pressures on the US Army to make withdrawals from on-hand Service stocks to support the missions of friendly governments. Some of the countries which have benefitted from this effort include Bolivia, Barbados, Belize, Ecuador, and Grenada.

A DECADE OF PLANNING, IMPLEMENTING, AND EXECUTING US SECURITY ASSISTANCE OBJECTIVES

Before the SDAF was established, urgent foreign military needs had to be supplied from DoD stocks—a situation that directly affected the readiness of US forces. The 1973 Yom Kipper war represents the most significant example of the negative impact on readiness of this kind of drawdown of US defense equipment. "Payback" to US forces was regarded as procurement lead time away. Additionally, long FMS procurement lead times caused serious delays in accomplishing critical foreign modernization programs. The SDAF was established in an effort to rectify these weaknesses in US national defense and security assistance policy.

AUTHORITY AND PURPOSE

The SDAF was authorized by the 29 December 1981 enactment of the International Security and Development Cooperation Act of 1981 (P.L. 97-113) which added a new Chapter 5 ("Special Defense Acquisition Fund") to the Arms Export Control Act. The SDAF Charter and Operating Instruction were approved by the Principal Deputy Assistant Secretary of Defense (Comptroller) on 30 December 1982. Additionally, Sec 51(a)(4)(a) of the AECA [22 USC. 2795(a)] was amended in 1989 to allow use of the SDAF for narcotics control purposes.

During Fiscal Years 1982-1986, the SDAF was incrementally capitalized with miscellaneous receipts from nonrecurring charges, asset use charges, and contractor rental payments for use of US plant and production equipment. Since that time, sales of SDAF-funded defense articles have been the principal source of its replenishment, thereby permitting the SDAF to serve as a revolving fund within the limits established by Congress. The capitalization ceiling for SDAF was set at $1.07 billion for FY 1987 and has remained at that level.

No appropriated funds are used to finance the SDAF. Rather, an obligation authorization level is provided annually to permit the use of funds which are already in the SDAF. Authority to obligate SDAF funds is provided by Congress in the annual security assistance appropriations legislation. Beginning in FY 1989, Congress made these annual obligation authorizations available for three years. Based on this obligation authority, the SDAF funds the procurement of defense articles in anticipation of their sale or transfer to foreign governments.

The basic objective of the SDAF is to deliver materiel in advance of normal procurement lead time and to establish a readily available source of selected defense items. The Fund thus enhances the US capability to satisfy urgent military requirements of allied and friendly nations, while avoiding diversions from production for US forces or withdrawals from US stocks.

MANAGEMENT AND POLICY IMPLEMENTATION

The SDAF is implemented through several components of the DoD, including the Defense Security Assistance Agency (DSAA), the Military Departments and Defense Agencies which conduct FMS programs [known collectively as Implementing Agencies (IAs)], and the Defense Finance and Accounting Service-Denver [DFAS-DE/F, formerly the Security Assistance Accounting Center (SAAC)]. DSAA has overall management responsibility for the SDAF. Preparation of the annual SDAF procurement plan, issuance of SDAF funding documents to

procure items, and preparation of SDAF annual reports are some of the tasks performed by the DSAA.

Overall responsibility for program implementation is performed by the IAs. Specific IA tasks include submissions to the annual procurement plan, program management of SDAF assets, contract management, and FMS Letter of Offer and Acceptance (LOA) management for the sell-out of SDAF equities (from LOA preparation through delivery reporting and case closure).

DFAS-DE/F provides centralized accounting and disbursing for the Fund. Functions performed by DFAS-DE/F include the following: general ledger accounting; contract accounting and disbursing; monitoring the adequacy of FMS Trust Fund deposits to meet case requirements of SDAF sell-out; and transferring such amounts to the SDAF account as required.

The principal source of policy direction for implementing the SDAF is Chapter 14 of the *Security Assistance Management Manual (DoD 5105.38-M)*) Other guidelines facilitating program execution include the SDAF Charter and Operating Instructions, *The FMS Financial Management Manual*, (DoD 7290.3-M), Standard Operating Procedures, and the Army Regulation (AR) 12-8.

OVERVIEW OF OPERATIONS

The operation of the SDAF encompasses two overlapping processes—buy-in and sales. The buy-in process involves the procurement of defense articles and services through the IAs. Conversely, the sales process entails procurement by foreign countries, through the established FMS process, of defense articles and services previously acquired by the SDAF during the buy-in phase. Operational activities related to the buy-in and sales processes include procurement planning, apportionment, procurement, Military Interdepartmental Purchase Request (MIPR) issuance, allocations, and LOAs. The following discussion summarizes these operational activities.

DSAA develops an annual procurement plan in consultation with requirements identified by the IAs, and the Commanders-In-Chief of the unified commands, and staffed with the Office of Management and Budget (OMB) and the Department of State. This Plan identifies the articles and services which the SDAF will procure in a particular year of funding. Following Congressional passage of the Foreign Operations Appropriations Act, which identifies the SDAF obligation authority level, the OMB provides an annual funding apportionment to the SDAF account. This apportionment represents the amount of obligations the SDAF can incur out of its total capitalization.

In terms of effecting SDAF procurements, DSAA coordinates with a procuring IA to define item configuration, ancillary items, and delivery schedules for a specific SDAF purchase. Following the decision to buy an item, DSAA then issues a MIPR to the appropriate IA, thereby providing the funding required to procure the item.

Finally, when a sale is pending, SDAF assets are allocated by DSAA or the IAs and reserved for the foreign purchaser. At the time of LOA implementation, the asset moves from an allocated to a sold status. Additionally, normal SDAF operation allows FMS countries to buy-out the SDAF equity from ongoing contracts prior to physical delivery of the items to the United States.

SDAF ACQUISITIONS OVER THE TEN-YEAR PERIOD, 1982-1991

Today's dynamic acquisition environment requires the continuous reassessment of criteria used in purchasing defense articles and services with SDAF funds. Similarly, changes in the

global defense environment mandate that the SDAF keep pace with the needs of our foreign allies and the changes in our own defense posture.

Defense articles and services purchased through the SDAF over the past ten years were selected on the basis of their meeting rigorous procurement criteria, as depicted in Table 1. Additionally, Sec. 51 (a)(4)(a) of the AECA states that the SDAF may be used to buy defense articles that are particularly suited for narcotics control purposes. New demands on the Fund constantly bring these criteria under review. The DSAA response has been to be a flexible as possible in approving innovative use of the fund, provided the basic criteria are met.

TABLE 1

SDAF PROCUREMENT CRITERIA

Items Selected for SDAF Procurement Should:

- Be those which, based on experience, judgement, and an analysis of the historical data and a projection of needs, are most likely to be needed to meet foreign customer requirements in less than normal procurement leadtime;
- Be those whose withdrawal from active or reserve force inventories, or diversion from production dedicated to active or reserve forces, would result in a seriously adverse impact on the combat readiness of US forces;
- Be capable of being produced from existing or expanded production lines;
- Be required to meet established acquisition objectives of US forces, if not transferred to meet foreign requirements ;
- Have significant anticipated FMS demands;
- Be those with long procurement leadtimes (particularly over 24 months).

It should be noted that there are certain defense articles and services that do not meet the SDAF procurement criteria outlined in Table 1 because of the uncertain future production of weapons. However, these items may be considered for procurement by the SDAF, or production bases may be maintained as deemed necessary by DSAA when customer requirements exist for these items. Additionally, no single criterion determines an item's eligibility for SDAF procurement.

PROCURED DEFENSE ARTICLES AND SERVICES

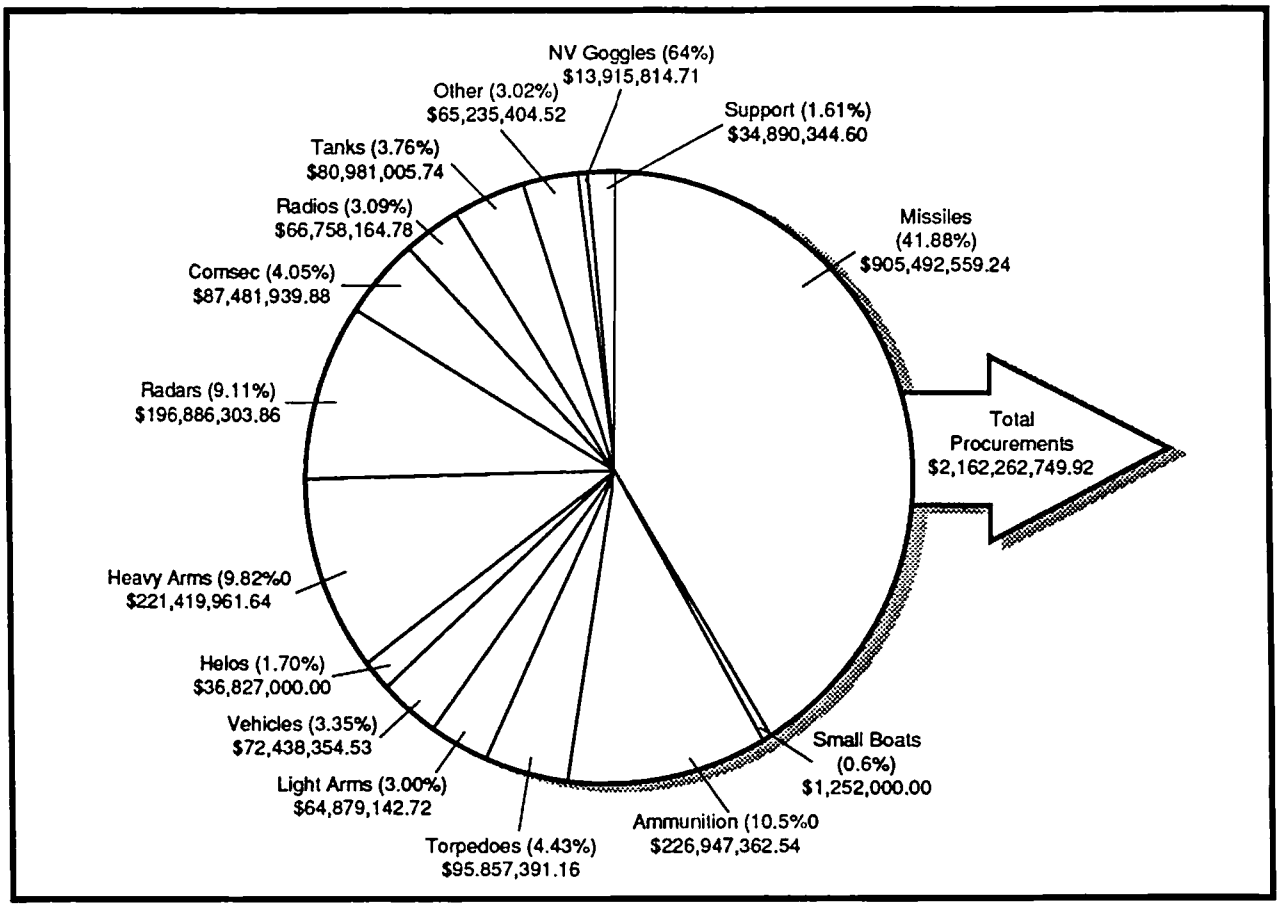
During the past ten years, there have been well in excess of 1,000 procurement actions executed by the Special Defense Acquisition Fund. Many of these procurements fulfilled the traditional mission of the SDAF, while others reflected new economic and production base realities. The SDAF procurements highlight the diverse requirements of the security assistance mission, ranging from low technology and low cost weapon systems to extremely sophisticated, high cost items. Each of the end items procured was analyzed and placed into one of the fifteen

procurement categories identified by the SDAF program managers. Figure 1 compares those 15 categories of procurements over the ten-year period, 1982-1991.

Over the ten-year period, total procurements exceeded $2.1 billion. Four of the procurement categories—missiles, ammunition, heavy arms, and radars— account for more than 70 percent of total SDAF dollar procurements. It should be noted that these items involve fairly substantial costs. Their percentages do not signify an emphasis of one type of equipment over another. Night vision goggles and small boats appear to account for slightly more than 1 percent of total SDAF dollar procurements. These two items represent relatively new initiatives on the part of the SDAF in response to counternarcotics efforts.

FIGURE 1

TOTAL SDAF PROCUREMENTS BY CATEGORY, 1982-1991



SDAF procurements were divided among several commands, demonstrating the diverse business base of the Fund. Figure 2 shows total SDAF procurements by command during the ten-year period. The US Army Missile Command (MICOM) accounts for the largest amount of SDAF procurements, while the US Army Troop Support Command (TROSCOM) accounts for less than 1 percent of total procurements. According to Figure 2, the Army Commands together account for the largest portion of SDAF purchases followed by Navy Commands.

SUB-CATEGORY ANALYSIS

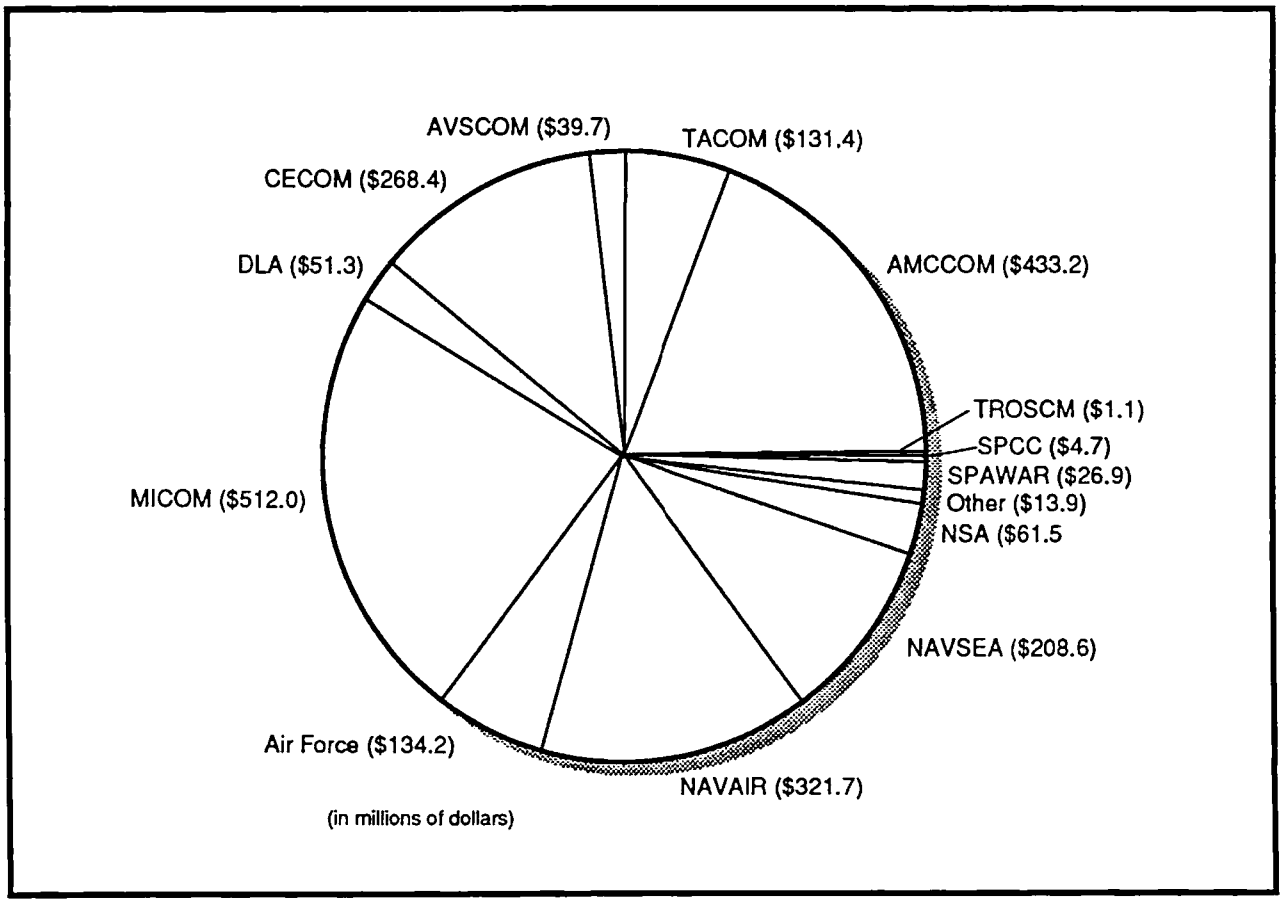
Ammunition

The type of ammunition purchased through the SDAF has been diverse, ranging from light to heavy. In addition, the purchase of ammunition has been consistent over the years, with the first SDAF buy occurring in FY 1982 and additional buys occurring each year thereafter.

The largest buy of ammunition, $32.4M, occurred in FY 1984. For each type of ammunition procured in FY 1984, the Army was significantly below its Authorized Acquisition Objective (AAO), while at the same time being required to meet high priority expedited or emergency FMS requests from countries like Lebanon, Pakistan, El Salvador, and Honduras.

SDAF's purchases of ammunition are focused toward those high demand items that experience high consumption rates in relatively short periods, e.g., artillery and rifle ammunition. Ammunition may be placed on contract with relative ease. This attribute makes the year round procurement of ammunition an attractive use for "fall-out" moneys that result from lower obligation rates on other hardware oriented programs.

FIGURE 2
TOTAL SDAF PROCUREMENTS BY COMMAND



Small Boats

The SDAF procurement of standard patrol boats into the SDAF is a relatively new and innovative effort. This effort is largely in response to the 1989 legislative authority which requires the SDAF to be used for the procurement of defense articles that are particularly suited for narcotics control.

SDAF is financing several small boat programs as part of the Navy's standard, small boat menu. These boats range in size from 22 to 145 feet and are capable of conducting patrol, riverine, utility, and assault missions.

SDAF funds were first used on this program in FY 1989 to procure 22-foot patrol craft, and to finance a Technical Data Package (TDP) for the 50-foot standard boat. Additional funds were invested to assist the Government of Ecuador meet minimum economic order quantities in the procurement of 45-foot patrol craft. The use of SDAF funding allows the Navy to speed up the procurement process by eliminating the extensive lead time required to update an old TDP or generate a new one once a customer request is received.

COMSEC

Historically, the US Military Services have repeatedly been requested to provide communications security (COMSEC) equipment on loan, either from Service assets or by a diversion of contract deliveries, to meet the requirements of foreign customers.

The first SDAF buy of COMSEC equipment occurred in FY 1984. Since then, COMSEC equipment has been purchased each year. During the period FY 1984-91, more than 12 different types of COMSEC items have been procured by the SDAF. Competition from European allies and increased availability of commercially-produced COMSEC has made this a declining category for SDAF investment.

Heavy Arms

With the exception of FY 1982 and FY 1989, end items in this category were procured by the SDAF during each of the years analyzed. Three of the items [M198 Howitzers, Phalanx and Multiple Launch Rocket Systems (MLRS)] account for more than 85 percent of total SDAF procurements for heavy arms. The SDAF purchased these items to prevent any large diversions from US production and/or withdrawals from US inventories to meet FMS demands for these weapon systems. This is particularly true for the Phalanx weapon system for sales to the U.K., Canada, and other allied nations. MLRS assets were sold to Turkey to provide a base for training and maintenance support prior to delivery of the larger main body of MLRS which were procured through normal FMS.

Helicopters

Deployed throughout the world, the UH-IH helicopter is particularly useful in areas of rough terrain where air transportation is the only feasible means. These utility aircraft ferry troops and perform air rescue, civilian support, and medical evacuation missions.

The SDAF became involved with the UH-1H program during FY 1989 because of a perceived need throughout the entire FMS community for this helicopter. Third world countries facing insurgencies or external threats, and those involved in counternarcotics efforts were viewed as the major buyers of the UH-1H. In late 1988, discussions began between DSAA and the US

Army Aviation Systems Command (AVSCOM) about developing a pool of refurbished UH-1H helicopters for FMS. Since the cost of new helicopters was too high for many foreign countries, the acquisition of used but refurbished helicopters was considered a less expensive and more practical way to meet their needs.

When the Army identified approximately 400-500 UH-1H helicopters for retirement, the DSAA/SDAF targeted 250 to be refurbished and sold at a later date to foreign countries. Although the initial refurbishment program was delayed because of contractual disputes, the program is now back on target. The role the SDAF played in absorbing these contractual setbacks is another of its contributions to the overall security assistance program. To date, the SDAF has funded 90 helicopters, 86 of which have been allocated to Bolivia, Thailand, Tunisia, Greece, the Philippines, and Singapore.

Light Arms

Light arms have been sold from the SDAF to over 40 countries. More than 3,405 SDAF-procured M60 and 1800 M2 machine guns have been allocated through FY 1991. Several of the light arms were only purchased once (M2 Machine Gun, M9 Pistol, G88l Grenade, M249 Machine Gun, SA Tool Kits, Grenade Mount, and G900 Grenade), while four end items (M60 Machine Gun, M16A2 Rifle, Grenade Launcher MK-19 and Grenade Launcher M203) were procured at least two or more times by the SDAF. These variant acquisition cycles respond to customer demand, inventory balances, and recommendations by the U. S. Military Departments.

Missiles

Missiles procured by the SDAF represent top-of-the-line weapon systems from each of the US Military Departments, and include Stinger, TOW, AIM-9M, AIM-7M, Hawk, Maverick, Harpoon, Patriot, Standard, AIM-9P4, and Hellfire. These systems perform in a variety of modes—air-to-air, air-to-ground, ground-to-air, and so forth.

SDAF's involvement with several of these missile systems came about as a result of a readiness problem which confronted the US Services. For example, the Air Force's AIM-7M inventory at the start of FY 1987 represented only 42 percent of the required inventory objective; and the US Navy AIM-9M inventory amounted to only 36 percent of its required inventory objective. In both instances, any significant foreign emergency requirement for these missiles, if met, would have had an immediate adverse effect upon US combat readiness. In addition, procurement lead times (24 months for the AIM-7M and 30 months for the AIM-9M) would have prevented the rapid replenishment of USAF/Navy inventories. Similar readiness problems have involved the TOW, Stinger, and Harpoon systems. In each case, SDAF acquisitions served to alleviate adverse impacts on readiness which would have occurred had it been necessary to withdraw substantial numbers of these missiles from US inventories or to make large diversions from US production.

SDAF provided a major assist to the US Army by financing years three and four of a previously negotiated multi-year contract. SDAF's procurement permitted the Army to continue assembly of over 150 missiles in various stages of production and saved over $20 million in contract cancellation fees that otherwise would have been due.

Night Vision Goggles

The SDAF first began funding procurements of Night Vision (NV) Goggles and Test Sets during FY 1988 after recognizing that a definite global market existed for this equipment.

Additionally, in FY 1989 night vision devices became an integral component of the US overall international counternarcotics strategy—thus adding to the increased demand for NV goggles.

Three different types of night vision devices have been procured by the SDAF, including the AN/PVS-5C, AN/AV5-6, and AN/PVS-7B, the latter considered to be the most advanced performance goggle in the world today employing an image-intensifier tube. More than 1,030 SDAF-procured NV Goggles have been allocated to date. Approximately 10 NV Goggle Test Sets have also been allocated.

Other

During Fiscal Years 1986-87 the SDAF transferred $5OM to the Defense Logistics Agency for the acquisition of a wide variety of items for the logistics support of countries which could not afford a Cooperative Logistics Supply Support Arrangement (CLSSA). CLSSAs are peacetime military logistics support arrangements designed to provide responsive and continuous supply support at the depot level for U.S.-made military materiel possessed by foreign countries and international organizations.

Radars

Three different types of radars—TPQ-37, TPQ-36, and TPS-70—were procured by the SDAF over the ten-year period. Acquisition of these systems, which had production lead times of up to 40 months, relieved FMS pressures on limited military inventories of US radar, and served most often to meet economic order quantities that result in lower unit prices to foreign and US Military Departments.

Radios

The purchase of military radios has occurred in every year of the SDAF's existence, with the exception of FY 1982 and FY 1987. The VRC-12 and PRC-77 radios account for more than 87 percent of total radio procurements over the period of this analysis. The SDAF has played a major role in providing this type of critical communications support to a host of friendly nations.

Support

This category can be viewed as a multipurpose one, in that support is *not* provided for other SDAF acquisitions; rather, individually tailored logistics packages are associated with various weapon systems. Examples of items in this category include F-4 Support, P-3 Conversion Kits, SH-2F Helos, SRBOC, CAD/PAD, MJU-8 Flare, STE-ICE-R, and A-7/P-3 Storage.

Given the changing nature of the security assistance environment, new procurement criteria have evolved to suggest new directions for the SDAF. An important example involves the provision of support for older weapon systems for which foreign customer requirements still exist.

Although the SDAF was first involved in such support in FY 1983, no such SDAF involvement with support activities occurred during the following five years. In FY 1989, funding for support items resumed, and FY 1990 represents the most significant year of such SDAF involvement, with several new efforts initiated, including P-3 Conversion Kits, CAD/PADs, and A-7/P-3 Storage.

The P-3A, the oldest version of the P-3 Orion aircraft, was retired from the Navy's inventory and sold to foreign countries. The Navy no longer supports the P-3A engines. The use of the

SDAF conversion kits will significantly help in reducing the lead time for sales of engine conversion kits for foreign-owned P-3As.

Cartridge Actuated Devices/Propellant Actuated Devices (CAD/PADs) are used on aircraft to eject canopies and crew members. To save on funding, US CAD/PAD procurement requirements are terminated when an aircraft is removed from US inventory. This creates a break and shortage of supply for CAD/PAD items in the pipeline for foreign recipients of excess US aircraft. SDAF's involvement allows the US Air Force and the US Navy to maintain an adequate supply of CAD/PAD items for foreign customers.

The A-7E is a single-engine attack aircraft designed to carry a large amount of munitions long distances. The cost of a new A-7E is too high for many foreign governments. However, the acquisition of used but refurbished attack.aircraft is less expensive and a practical way to meet the needs of foreign countries. The Navy has projected a significant FMS demand for this aircraft, but the success of the FMS program will depend on initial and follow on support costs, such as warehousing costs. The SDAF's involvement has allowed the Navy to rent warehouse space to store the in-use assets prior to their sale. Other, similarly innovative support packages are currently being considered by the SDAF. These include items for the C-130 and the F-5 aircraft.

Tanks

An SDAF buy of M60A3 tanks occurred during FY 1982 when a shortage of tanks represented the single greatest problem for US Army readiness. The Army was approximately 3,700 tanks short of its Authorized Acquisition Objective (AAO). Furthermore, the M60 production line of about 30 tanks a month was projected to be closed in December 1982. In an effort to avoid any production line diversions or withdrawals from the Army, and also to meet projected FMS requirements for these tanks, the SDAF procured a substantial number of M60A3s during FY 1982.

The SDAF also developed a small program with TACOM to rehabilitate M60 components; and SDAF funds played a role in upgrading the armor of the M1A1 tank.

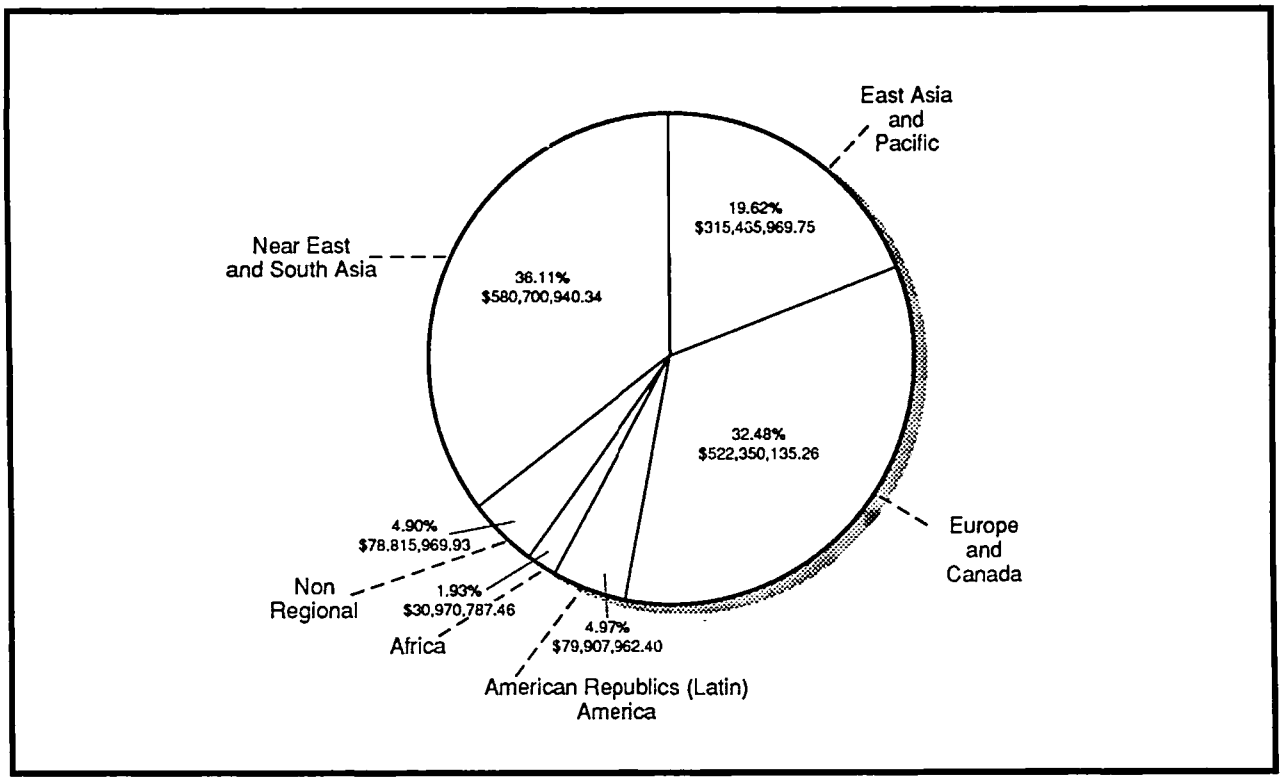
Torpedoes

Torpedoes, were purchased during four of the ten years of the SDAF's existence. The first SDAF buy did not occur until FY 1985—a very small purchase compared to those made in FY 1986 and FY 1988-1989. The largest SDAF purchase in this category occurred during FY 1988. The MK 46 MOD 5 accounted for the largest percentage of total SDAF torpedo procurement over the ten-year period.

Vehicles

The first SDAF purchase of military vehicles occurred during FY 1984 and included Jeeps and M113A2 armored personnel carriers (APCs). Moreover, FY 1984 accounted for the most significant vehicle procurement activity in the ten-year period. In addition to Jeeps and APCs, SDAF vehicle purchases have included the 1/4-ton tactical jeep, the HMMWV, trailers, the 2.5-ton truck, and the 5-ton truck.

FIGURE 3
SALES BY REGION, 1982-1991



SDAF SALES OF DEFENSE ARTICLES AND SERVICES

Sales of US defense equipment are conducted on a government-to-government basis through the Foreign Military Sales program, as well as through direct commercial sales licensed by the US Department of State. The SDAF operates under the auspices of the FMS Program, and all defense articles procured with SDAF funds are designed for future sale through FMS channels to allied and friendly foreign governments.

Since the origin of the SDAF in 1982, items procured through the Fund have been sold to more than 76 foreign countries, in six different regions of the world. The European (EUR) and Near East and South Asia (NESA) regions have each had a total of 16 countries participating in the Fund. Thirteen nations in Africa (AFR), and eleven in the East Asia and Pacific (EAP) region, also made purchases. In addition, 22 countries among the American republics have participated in the SDAF. Defense articles and services have also been sold to international organizations.

Figure 3 reflects total SDAF sales in dollars and identifies percentages of total sales by region, covering a period of ten years, 1982-1991. Two regions, the NESA and EUR each involved over 30 percent of total SDAF sales. The other four regions together accounted for the remaining 32 percent of total SDAF sales.

FINANCIAL CONTROL

Financial management of the Fund's performance is an integral element of its continued success. The Defense Security Assistance Agency (DSAA) is responsible for financial oversight of the Fund. This oversight is designed to insure that the SDAF operates on a solvent basis within the overall capitalization limits established by law.

By statutory restriction, SDAF capitalization has been limited to $1.07B since FY 1987. Congress approves an annual level of obligation authority through the annual budgeting process in appropriation acts.

Table 2, which has been extracted from the Administration's proposed *Fiscal Year 1992 Budget of the United States Government,* indicates the Fund's financial performance through the current period. The SDAF has continued to evolve within the ceiling of $1.07B set by Congress.

TABLE 2
SPECIAL DEFENSE ACQUISITION FUND FINANCIAL CONDITION
(in thousands of dollars)

Identification code 11-4116-0-3-155		1989 actual	1990 actual	1991 est	1992 est
	Assets:				
	Fund balance with Treasury cash:				
1000	Fund balance with treasury	699,156	831,549	929,287	906,665
1099	Subtotal, fund balance with Treasury and cash	699,156	831,549	929,287	906,665
	Accounts receivable:				
1110	Public	18,937	6,846	12,900	14,000
	Advances and prepayments:				
1299	Subtotal, andvances and prepayments	18,937	6,846	12,900	14,000
Identification code 11-4116-0-3-155		1989 actual	1990 actual	1991 est	1992 est
	Inventories				
1320	Stockpiled materials	351,907	231,606	127,813	149,335
1399	Subtotal, inventories	351,907	231,606	127,813	149,335
	Total assets	1,070,000	1,070,000	1,070,000	1,070,000
	Liabilities				
	Accounts Payable:				
2010	Public	11,027	15,064	13,000	15,000
2099	Subtotal, accounts payable	11,027	15,064	13,000	15,000
2999	Total liabilities	11,027	15,064	13,000	15,000
	Equity3199	Invested capital		1,058,973	1,054,936
	1,057,000	1,055,000			
3999	Total Equity	1,058,973	1,054,936	1,057,000	1,055,000

Note: Taken from the Fiscal Year 1992 Budget of the United States Government (Presidential Budget)

Several SDAF reporting requirements have been established to safeguard the financial well-being of the Fund. DSAA maintains an SDAF Management Information System which provides financial and logistic data to support the reporting requirements. As an example, monthly indicators of the Fund's performance are provided to management. The various indicators which

are measured include the latest month's obligations, sales, disbursements, receipts, cash, inventory value, cases reviewed for closure, and actual closures.

Throughout FY 1990 and 1991, the SDAF has performed intensive program management reviews with the Military Commands. These reviews emphasized the importance of overall management of the Fund. Matters discussed included procurement planning, anticipated FMS requirements, asset allocation, SDAF pricing, case preparation, diversions/withdrawals, and equipment loans.

SUMMARY

The Special Defense Acquisition Fund is considered to be a unique instrument of overall US foreign policy.

This analysis of the operations of the Special Defense Acquisition Fund over the past ten years has revealed it to have been a versatile component of the United States Security Assistance Program and, accordingly, a valued instrument of US foreign policy. Because of its flexibility in initiating procurements, the SDAF has provided a mechanism that has helped promote cooperative defense planning; and as the Desert Shield/Desert Storm operations revealed, the SDAF proved an effective means for responding to conflict inspired requirements.

In terms of SDAF procurements, this analysis showed that total SDAF acquisitions exceeded $2.1 billion over the ten-year period. These procurements highlighted the diverse requirements of the security assistance mission, ranging from low technology and low cost weapon systems to extremely sophisticated, high cost items. Four items—missiles, ammunition, heavy arms, and radars accounted for more than 70 percent of total SDAF dollar procurements.

Additionally, SDAF procurements over the ten-year period were divided among several commands, demonstrating the diverse business base of the Fund. The US Army Missile Command (MICOM) accounted for the single largest amount of SDAF procurements. Army Commands combined accounted for the largest portion of SDAF purchases, followed by Navy Commands.

SDAF sales over the ten-year period spanned regions throughout the world. SDAF procured items were sold to more than 76 foreign countries, in six different regions. Europe and the Near East and South Asia regions each had a total of 16 countries participating in the Fund. Thirteen nations in Africa and eleven in the East Asia and Pacific regions made purchases, and 22 countries among the American republics have participated in the SDAF. Two regions, the Near East and South Asia and Europe each involved over 30 percent of the total SDAF sales. The other regions combined accounted for the remaining 32 percent of total SDAF sales.

Many instruments of U. S. military strategy will undergo significant restructuring as they evaluate and appraise their role in the changing environment of the post-Cold War period. Flexibility, versatility, and creativity appear to be the critical factors that defense agencies and divisions will need to conduct business in the present defense export environment. As a unique tool for enhancing the US Security Assistance Program, the SDAF has these critical factors, and the SDAF will most assuredly continue to demonstrate its substantial value to defense policy-makers.

ABOUT THE AUTHOR

Dr. Bobby Davis prepared this report during the Summer, 1991, while working with the Special Defense Acquisition Fund Division at DSAA. This was Dr. Davis' third summer with DSAA as a participant in the Historically Black Colleges and Universities Faculty Fellows Program with the Office of the Secretary of Defense. Dr. Davis has a B.B.A. degree from Texas Southern University, and M.B.A. and Ph.D. degrees from the University of Wisconsin-Madison. He is presently an Associate Professor of Management Sciences in the School of Business and Industry at Florida A&M University in Tallahassee, Florida.