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**REPORT TO THE  
HOUSE COMMITTEE ON  
INTERNATIONAL RELATIONS**

**BY THE COMPTROLLER GENERAL  
OF THE UNITED STATES**



**Issues And Observations  
On The Purposes Of  
Special Security Supporting  
Assistance Programs**

Departments of Defense and State

Agency for International Development

The Congress needs to know more about security supporting assistance. This is a category of economic assistance for countries and international organizations where economic and political stability is threatened and U.S. security interests are involved.

Security supporting assistance has presented, and will continue to present, problems to those evaluating its economic and political impact.

The Congress should consider requiring that it be provided with the rationale for this special type of assistance to clarify its objectives.

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COMPTROLLER GENERAL OF THE UNITED STATES  
WASHINGTON, D.C. 20548

B-163582

The Honorable Thomas E. Morgan  
Chairman, Committee on International  
Relations  
House of Representatives

Dear Mr. Chairman:

As you know, the current security supporting assistance program is devoted almost entirely to supporting peace in the Middle East. As you requested in your February 5, 1975, letter, we examined the purposes and forms of this assistance to individual countries and its relationship with (1) the military assistance and sales aspects of the overall security assistance program and (2) economic development programs financed by the United States and other sources.

We discussed our observations with officials of the responsible departments and their views were incorporated where appropriate.

Sincerely yours,

A handwritten signature in cursive script that reads "James B. Atchefs".

Comptroller General  
of the United States

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### ABBREVIATIONS

AID	Agency for International Development
DOD	Department of Defense
SAPRC	Security Assistance Program Review Committee

COMPTROLLER GENERAL'S  
REPORT TO THE COMMITTEE  
ON INTERNATIONAL RELATIONS  
HOUSE OF REPRESENTATIVES

ISSUES AND OBSERVATIONS ON THE  
PURPOSES OF SPECIAL SECURITY  
SUPPORTING ASSISTANCE PROGRAMS  
Department of State  
Agency for International Development  
Department of Defense

D I G E S T

Security supporting assistance is a category of economic assistance provided to foreign countries and international organizations in special situations where economic and political stability is threatened and U.S. security interests are involved.

Security supporting assistance programs generally provide resources for economic programs to countries burdened by security requirements.

The Congress needs to know more about this assistance. However, security supporting assistance will continue to present problems to those evaluating its economic and political impact.

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Secretary of State in coordination with the  
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3  
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other countries;

--the existence of formal and informal agree-  
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certain actions to promote economic and  
political stability in return for security  
supporting assistance; and

--the conditions which would lead the U.S. to  
terminate the assistance or change it to an-  
other form. (See page 18.)

Forms of this assistance vary with each recipient but include grants and loans for budget support, commodity imports, reconstruction and development projects, and technical assistance.

South Vietnam, Laos, and Cambodia received \$4.5 billion (55.4 percent) of the total security supporting assistance provided since 1962. During that period Israel, Egypt, and Jordan received 14.8 percent of the total.

In fiscal year 1975, these Middle East countries received \$653 million of the \$672 million (97 percent) provided under security supporting assistance.

Security supporting assistance is part of the U.S. security assistance program under which the U.S. may provide military equipment, services, and training.

Other elements which complete the U.S. security assistance family are ship loans, foreign military cash sales, Export-Import Bank military loans, facilities transfers, commercial military sales, and transfers of U.S. excess defense articles.

The Foreign Assistance Act of 1974 prohibits using development assistance funds in any fiscal year for any country which receives in the same fiscal year security supporting assistance.

This prohibition does not apply to funds made available under programs related to population growth, humanitarian assistance through international organizations, regional programs, or assistance authorized under other acts.

In fiscal year 1975, under the Agricultural Trade Development and Assistance Act of 1957, Israel, Egypt, and Jordan received additional economic assistance of \$11.0 million, \$120.0 million, and \$8.6 million, respectively. The U.S. also provided \$10.0 million to Jordan from the Middle East Special Requirements Fund and \$20 million to Israel for a desalting plant from prior year appropriations.

## CHAPTER 1

### INTRODUCTION

The Chairman of the House Committee on International Relations asked us to survey U.S. security supporting assistance programs and determine specifically:

- The purposes of such assistance to foreign countries.
- The additional types of financial and other assistance being furnished to recipient countries.
- The relationships between security supporting assistance and the military assistance and sales program.
- The relationship of security assistance programs financed by the United States and other sources.

Security supporting assistance is a type of U.S. economic assistance provided to foreign countries and international organizations in special situations when economic or political stability is threatened and U.S. interests are involved. Although this assistance is economic, it is considered part of the overall U.S. security assistance program, which also includes military assistance grants, foreign military sales and guaranties, and excess defense articles.

Since 1962, the United States has made about \$8.2 billion available for security supporting assistance to about 50 countries and international organizations. About \$4.5 billion, or 55 percent, of this assistance was directed to South Vietnam, Laos, and Cambodia. The \$672 million program authorized for fiscal year 1975 is almost entirely devoted to assisting Israel (\$324.5 million), Egypt (\$251 million), and Jordan (\$77.5 million).

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SCOPE OF REVIEW

We reviewed legislation, congressional hearing reports, and other documents and talked with officials at the Departments of State and Defense (DOD) and the Agency for International Development (AID) in Washington, D.C.

We discussed our observations in this report with officials of these agencies and their views were incorporated where appropriate.

## CHAPTER 2

### PURPOSES AND RECIPIENTS OF SECURITY SUPPORTING ASSISTANCE

Security supporting assistance is used in special situations to forward U.S. political and security interests and to support the economic and political stability of recipient countries. For over 2 decades, the United States has provided this assistance to foreign countries and international organizations primarily to meet their noneconomic requirements and requirements not within the scope of other major aid categories.

Although several changes in program organization, funding level, and geographical distribution of assistance have been made, the purposes of security supporting assistance have generally remained consistent since it began: economic and political stability. More specific purposes, as originally stated in a 1962 AID manual order, remain as follows.

- "A. to enable countries to make a contribution to the common defense or to internal security greater than their economies can support unaided.
- "B. to maintain access to U.S. bases and to assist the local government in dealing with economic or other problems arising out of the existence of such bases.
- "C. to maintain economic stability in countries where the absence or drastic reduction of current support would mean probable economic and political disintegration.
- "D. to provide an alternative, along with other aid sources, to Sino-Soviet bloc aid where such aid threatens a country's independence."

#### HISTORIC PERSPECTIVE

Under the Mutual Security Act of 1951, the United States provided special assistance and defense support which is comparable to what is now called security supporting assistance. During fiscal year 1953-61, over



20 developed and developing countries received almost \$9 billion in these types of U.S. assistance. The cumulative amounts received by specific countries ranged from \$25.4 million in Iceland to over \$1.8 billion in Korea.

"Defense support" and some of the principal programs carried out under "special assistance" were joined together in the Foreign Assistance Act of 1961 under the category "supporting assistance" (sec. 401). Many of the special programs, formerly authorized to be financed out of "special assistance," were transferred in the new act to development grants or contributions to international organizations.

Supporting assistance was a major form of U.S. economic assistance throughout the 1960s. The annual level of supporting assistance averaged about \$636 million since it began in fiscal year 1962 through fiscal year 1969. About 50 countries and international organizations received this assistance for such different programs as contributions to the United Nations refugee relief in the middle East and the United Nations peacekeeping forces in Cyprus; budget support in Korea; malaria eradication in Haiti; and relief, rehabilitation, and reconstruction in Nigeria. The number of countries assisted under this category, now limited by statute to not more than 12 in any fiscal year, declined from 41 to 8 in fiscal years 1962 and 1970, respectively. Within this group, South Vietnam, Laos, and Cambodia received the majority of U.S. supporting assistance funds.

In 1971 the President proposed a major restructuring of U.S. foreign assistance programs, because of their diversity. Under a proposed International Security Assistance Act, supporting assistance would have been combined with grant military assistance, foreign military credits, public safety programs, and a President's Foreign Assistance Contingency Fund. Other forms of assistance were to be authorized in an International Development and humanitarian Assistance Act.

According to administration officials, the political and security objectives of security assistance distinguished it from humanitarian assistance which supports the long-term economic development process. In the words of one administration official " \* \* \* defense and security generally must have priority over development."

The administration proposed to implement (1) the International Security Assistance Act by establishing a Coordinator for Security Assistance and (2) a Bureau for Economic Supporting Assistance within the State Department. According to congressional testimony, some 600 to 700 employees of AID, which would have been phased out under the proposed legislation, would have been transferred to the proposed State Department bureau to manage economic supporting assistance. The State Department would have had overall responsibility for all forms of security assistance, but DOD would have continued to administer the grant military aid and foreign military sales programs.

The State Department would have continued to administer development and humanitarian assistance, but with major organizational changes. Plans called for a new Assistant Secretary for Humanitarian Assistance and a Development Coordinator, who would also have been the Chairman of the Board for the Overseas Private Investment Corporation and for two new institutions--the International Development Institute, to perform technical assistance functions, and the International Development Corporation, to make development loans. The Coordinator would also have served on the board of the Inter-American Social Development Institute (to be named the Inter-American Foundation).

The proposed legislation was not passed; U.S. economic and military assistance continues to be authorized under the Foreign Assistance and Foreign Military Sales Acts. Two legislative changes in the Foreign Assistance Act of 1971, however, enhance the concept of a more unified security assistance program, which would be more clearly under the State Department's direction.

1. In the Foreign Assistance Act of 1971, supporting assistance was retitled "security supporting assistance" and transferred from part I of the act, which concerns various types of humanitarian and development assistance, to part II of the act, which authorizes military assistance to foreign countries and international organizations.

2. Section 624(e) of the act is designed to coordinate security assistance programs. Accordingly, the State Department gave the Office of the Under Secretary the responsibility to provide policy direction and coordination of: security supporting assistance;

military assistance, including excess defense articles and foreign military sales; and loan programs. These changes continue today.

MAJOR RECIPIENTS

Security supporting assistance has been concentrated in a few countries. As shown below, the 10 major recipients of this aid have accounted for about 84 percent of the total amount made available since 1962.

	Security supporting assistance FY 1962-75 <u>(note a)</u>  (millions)		<u>Country rank</u>	<u>Percent of total</u>	
Indochina:					
South Vietnam	\$3,828.4		1	46.8	
Laos	502.9		2	6.1	
Cambodia	<u>207.3</u>	4,538.6	9	<u>2.5</u>	55.4
Middle East:					
Israel	474.5		4	5.8	
Jordan	456.7		5	5.6	
Egypt	<u>280.0</u>	1,211.2	6	<u>3.4</u>	14.8
Other major recipients:					
Korea	501.1		3	6.1	
Thailand	233.4		7	2.9	
Dominican Republic	210.3		8	2.6	
Zaire	<u>187.9</u>	<u>1,132.7</u>	10	<u>2.3</u>	<u>13.9</u>
Subtotal, above countries		6,882.5			84.1
Other Countries		<u>1,300.0</u>			<u>15.9</u>
Total		<u>\$8,182.5</u>			<u>100.0</u>

a/Obligations and authorizations for fiscal years 1962-73; appropriations for fiscal years 1974 and 1975.

CURRENT PROGRAM

The fiscal year 1975 security supporting assistance program concentrates on Middle East countries; \$653 million of the \$672 million is earmarked for three countries.

(millions)

Israel:		
Commodity imports		\$324.5
Egypt:		
Commodity imports	\$150.0	
Suez Canal clearance	13.7	
reconstruction along		
Suez Canal	40.0	
Other development		
activities	<u>47.5</u>	251.2
Jordan:		
Budget support	68.5	
Capital assistance		
loans	<u>19.0</u>	<u>77.5</u>
Total		<u>\$653.2</u>

As stated in the Foreign Assistance Act of 1974, this assistance is to help countries " \* \* \* in their efforts to achieve economic progress and political stability, which are the essential foundations for a just and durable peace." The use of security supporting assistance funds in Jordan and Israel is a continuation of such programs begun in 1971 and 1972.

The remaining \$20 million of the fiscal year 1975 program, to be funded by \$8 million in new appropriations and \$12 million in recoveries from prior years' programs, is to be used for the following purposes.

(millions)

Malta:	
U.S. share of payments under North Atlantic Treaty Organization Agreement	\$ 9.5
Spain:	
Education and scientific programs under United States-Spain Agreement	3.0
U.S. share of costs of U.N. Forces in Cyprus	4.8
AID support costs	<u>2.7</u>
Total	<u>\$20.0</u>

The programs in Malta, Spain, and Cyprus are continuations of past support. In fiscal year 1976, funding of the U.S. share of costs of the U.N. Forces in Cyprus will be transferred from security assistance to "Contributions for International Peacekeeping Activities" in the State Department's appropriations.

#### RELATED PROGRAMS

Three categories of assistance funds are or have been closely related to security supporting assistance--the Middle East Special Requirements Fund, Indochina Postwar Reconstruction, and the Contingency Fund.

The \$100 million Middle East Special Requirements Fund is a contingency fund, which was justified on the basis of anticipated, but undefined, needs for additional U.S. economic assistance to support Middle East peace. In 1975 the United States provided \$83 million to Syria: a \$30 million loan for agricultural inputs and production, a \$48 million loan for the Damascus water supply project, a \$4 million grant for technical services and feasibility studies, and a \$1 million grant for general participant training. Funds were appropriated separately for these special requirements. Technically, this program differs from the security supporting assistance program, but both programs aid peace efforts in the Middle East.

The Indochina Postwar Reconstruction program to provide economic assistance to South Vietnam, Laos, and Cambodia, for which \$450 million and \$440 million were

appropriated in fiscal years 1974 and 1975, respectively, was basically comparable to the security supporting assistance previously granted to these countries. In fiscal year 1974, the administration had planned to use an estimated \$98 million of its appropriations request for a reconstruction and development program in South Vietnam. According to administration testimony, virtually all projects contemplated in this program had to be forgone because (1) less funds were made available and (2) world prices dramatically increased. In fiscal year 1975, the unstable military situation precluded development-oriented economic assistance. Subsequent events in Indochina forestalled implementing the program further.

The President's Contingency Fund has been used for security supporting assistance purposes. Congressional concern over some of the Fund's uses has led to substantially reducing appropriations to \$1.8 million for fiscal year 1975.

#### OTHER U.S. ASSISTANCE

Security supporting assistance often is part of a larger U.S. assistance package for the recipient countries. Political and military considerations, which support the decision to provide this type of assistance, appear also to underlie decisions to provide other forms of assistance to meet an aided country's economic and military needs. Each major recipient of security supporting assistance in fiscal year 1975, Israel, Egypt, and Jordan, is receiving other U.S. assistance.

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	<u>Israel</u>	<u>Egypt</u>	<u>Jordan</u>
	----- (thousands) -----		
Security assistance:			
Security supporting assistance	\$324,500	\$251,200	\$ 77,500
Military assistance program	-	-	69,900
Foreign military credit sales	300,000	-	30,000
Excess defense articles	-	-	-
	<u>624,500</u>	<u>251,200</u>	<u>177,400</u>
Economic assistance:			
Middle East special requirements fund	-	-	10,000
Public Law 480 (approved)	11,000	120,000	8,600
Mutual education and cultural exchange (proposed)	201	105	105
Foreign Assistance Appropriations Act 1970 desalting plant	<u>20,000</u>	<u>-</u>	<u>-</u>
	<u>31,201</u>	<u>120,105</u>	<u>18,705</u>
Total	<u>\$655,701</u>	<u>\$371,305</u>	<u>\$196,105</u>

CHAPTER 3

SECURITY SUPPORTING ASSISTANCE  
AND ECONOMIC DEVELOPMENT

Economic support is the basic objective of security supporting assistance. Security supporting assistance is chosen over other types of economic assistance because conditions in recipient countries usually inhibit development-oriented assistance programs. Nevertheless, security supporting assistance is expected to contribute to economic development and, in fact, some programs funded by this assistance are comparable to similar programs funded by economic development assistance.

STATUTORY RESTRICTION

The Foreign Assistance Act of 1974 (sec. 20, 22 U.S.C. 2151m) prohibits using development assistance funds in any fiscal year for any country which receives, in the same fiscal year,

- security supporting assistance;
- assistance for relief and reconstruction of South Vietnam, Cambodia, and Laos (Indochina Postwar Reconstruction); or
- assistance for Middle East peace (security supporting assistance authorized for Israel, Egypt, and Jordan and the Middle East Special Requirements Fund).

This prohibition does not apply to funds made available under programs related to population growth, humanitarian assistance through international organizations, regional programs, or assistance authorized under other acts. Although the prohibition narrows the sources of funds for economic assistance to specific countries, programs comparable to those normally financed by development assistance funds may be financed. For example, the eligible commodities and administrative procedures of commodity import programs may differ, depending on different fund categories, but the economic impact is similar: aided countries get additional resources.



This blurring of aid categories between economic development assistance and economic support assistance can be seen in recent U.S. economic assistance to Jordan.

JORDAN--TRANSITION FROM SUPPORT  
TO ECONOMIC ASSISTANCE

The current phase of U.S. economic assistance to Jordan began in 1971 after Kuwait and Libya discontinued their subsidies to Jordan to express their displeasure over Jordan's internal military action against Palestinian guerrillas. To help offset this loss of revenue, the United States granted \$150.8 million for budgetary support through fiscal year 1974. In fiscal year 1975, this support totaled \$68.5 million. The grants were justified to promote economic and political stability, and, accordingly, the payments are funded from security supporting assistance. The annual amounts are based on political judgments, not on computing the difference between Jordan's revenues, including Arab subsidies, and its expenditures. Jordan is expected to need continuing outside budget support for several years, but U.S. economic assistance is intended to produce programs which help end this dependence. The United States has, therefore, supported economic development projects including

- development in the East Ghor region of the Jordan Valley,
- wheat research and production,
- agricultural economics and planning,
- development administration training, and
- feasibility studies.

These projects have been funded from economic development assistance appropriations. However, because of new 1975 statutory restrictions, a follow-on East Ghor development project and a technical assistance program are being funded with security supporting assistance appropriations.

AID officials' opinions differ on combining economic support and development assistance in the same country. According to one official, mixing these assistance forms is difficult to justify because of the emergency nature of security supporting assistance that calls for maximum program flexibility which precludes applying standard development

AID criteria. The more prevalent view, however, is that there is no conflict and that a country needing general support for economic or military stability could also have specific development projects which deserve separate financing. One official noted that an overall U.S. assistance objective is to promote economic development and that U.S. assistance sometimes evolves through several stages. As an example, he mentioned Zaire where most of our economic assistance has changed from supporting assistance grants to supporting assistance loans to development loans.

#### CONCLUSIONS

It is difficult to generalize about continuing general economic support and development-type assistance in the same country. U.S. assistance programs, both economic and military, should be closely examined on an individual country basis, and the assistance provided should be consistent with individual countries' needs and capabilities to effectively use assistance.

However, in certain instances it might be inconsistent to simultaneously provide a country both security supporting and development assistance, regardless of the funding category for such assistance. In this respect, the 1962 AID manual order for supporting assistance, which still applies, states:

"Supporting Assistance is provided primarily to further urgent U.S. national security and foreign policy objectives in selected countries where development criteria cannot be met. However, once a decision to provide Supporting Assistance is made, the amount and specific uses of such aid should be devised so as to make the maximum feasible contribution to development.

"\* \* \* The decision to provide such aid should be based on urgent political reasons, as well as on a finding that the aid cannot be provided under development criteria."

In some countries the duration and degree of economic or political instability, which justified U.S. assistance, might preclude development-oriented projects; but in other countries combining economic support and development programs could be appropriate.

## CHAPTER 4

### RELATIONSHIP TO MILITARY ASSISTANCE AND SALES

Security supporting assistance is only part of the overall U.S. security assistance program under which the United States also provides military equipment, services, and training. Security supporting assistance is generally designed to provide resources for economic needs to governments burdened by security requirements. This concept is recognized by the Congress in authorizing legislation and by the executive branch in formulating and reviewing programs.

### TYPES OF SECURITY ASSISTANCE

Those programs authorized under the Foreign Assistance and Foreign Military Sales Acts are usually considered security assistance programs:

- Security supporting assistance grants and loans.
- Military assistance program grants.
- Foreign military sales credits and guarantees.
- Foreign military cash sales.
- Excess defense articles.

Other programs also provide resources to foreign countries, enabling them to increase their security.

- Ship loans.
- Export-Import bank military loans.
- Facilities transfer.
- Commercial military sales.

## EXECUTIVE BRANCH RESPONSIBILITIES

The Foreign Assistance and Foreign Military Sales Acts provide that the Secretary of State, under the direction of the President, be responsible for continuously supervising and generally directing economic and military assistance and military sales programs. The responsibility for military assistance and sales includes determining whether a country shall have such programs and, if so, their value.

Section 623 of the Foreign Assistance Act defines the responsibilities of the Secretary of Defense, including (1) determining military end item requirements and procuring and delivering the items to a foreign country, (2) supervising the training of foreign military personnel, and (3) establishing priorities for procuring, delivering, and allocating military equipment. By Presidential delegation, the Secretary of Defense is also responsible for administering the Foreign Military Sales Act's sales and guaranties provisions.

A DOD directive (number 5132.3 dated Dec. 20, 1972, amended May 24, 1974) defines DOD policy and responsibilities relating to security assistance. The Assistant Secretary of Defense (International Security Affairs) is designated to act for the Secretary of Defense in security assistance matters. As such, he is responsible for developing and directing all security assistance aspects relating to DOD. The Director, Defense Security Assistance Agency, is responsible for administering, within the policies established by the Assistant Secretary, approved security assistance plans and programs.

Within the Department of State, the Under Secretary for Security Assistance is responsible for directing policy (security supporting assistance; military assistance, including excess defense articles; and foreign military sales and loan programs). Various bureaus, principally the Bureau of Politico-Military Affairs, provide staff support for the Under Secretary.

The Under Secretary serves as Executive Chairman of the interagency Security Assistance Program Review Committee (SAPRC), which was established to advise and assist him in exercising his responsibilities for security assistance programs.

ROLE OF SAPRC

The SAPRC membership is as follows:

- Deputy Secretary of Defense.
- Assistant to the President for National Security Affairs.
- Director, Central Intelligence Agency.
- Chairman, Joint Chiefs of Staff.
- Under Secretary of the Treasury.
- Assistant Director, Office of Management and Budget.
- Director, U.S. Arms Control and Disarmament Agency.
- Administrator, AID.

SAPRC advises and assists the Chairman by:

- Annually reviewing country security assistance program plans and recommending approval or changes.
- Making recommendations on all outstanding policy issues involving security assistance goals and objectives, resource allocation, and proposed budgetary levels.
- Guiding such future planning efforts as required to insure effective cooperation and coordination among the participating agencies.
- Preparing recommended annual budget submissions to the Office of Management and Budget.

The Committee has no permanent staff, but it is assisted by an interagency working group, which meets on an ad hoc basis to review issues and prepare Committee meetings.

SAPRC reviews all security assistance programs funded under the Foreign Assistance and Foreign Military Sales Acts appropriations.

ROLE OF THE DEPARTMENT OF STATE IN  
SECURITY SUPPORTING ASSISTANCE PROGRAMS

Legislative changes and establishing the Under Secretary for Security Assistance and the SAPRC review process have elevated the State Department's role in security assistance programs. DOD and AID are responsible, respectively, for administering the military and economic portions of the overall security assistance program. The State Department, however, must decide to grant such assistance and its level in any country.

Security assistance is not as centralized as it might have been under the proposed International Security Assistance Act, but the State Department's role is stronger and the linkage is now closer between the economic and military components of security assistance.

In June 1975, the Commission on the Organization of the Government for the Conduct of Foreign Policy made various recommendations which if implemented would impact on these responsibilities and roles. These recommendations included (1) establishing the position of Under Secretary of State for Political and Security Affairs (as successor to the existing positions of Under Secretary for Political Affairs and Under Secretary for Security Assistance) to provide a focal point for policy integration of political and defense matters, (2) broadening the current SAPRC into a standing committee of the National Security Council to serve as the primary forum for interagency review of all issues involving arms transfers and security assistance, and (3) giving the Assistant Secretary of Defense (International Security Affairs) an increased role in shaping the defense program and budget to fit our foreign policy. We have not analyzed these proposals and their potential impact on security supporting assistance policy and programs.

NEED TO ESTABLISH CRITERIA

The current security supporting assistance program is generally intended to provide U.S. economic support for a durable peace in the Middle East. Within this general purpose, determining the political impact of the additional economic resources the United States provides is difficult. Economically, the recipient countries

need external assistance, but apparently the levels of U.S. support or criteria for measuring the contribution toward peace are not being precisely established.

According to State Department and AID officials, establishing criteria and evaluating individual projects funded by security supporting assistance are possible. They doubted, however, that specific criteria could be established to evaluate the overall economic and political impact of this assistance. We recognize this difficulty but believe that the State Department should try to advise such criteria.

MATTER FOR CONSIDERATION BY THE CONGRESS

We believe that the Congress needs to know more about this assistance. However, security supporting assistance will continue to present problems to those evaluating its economic and political impact.

The Congress should consider requiring the Secretary of State in coordination with the Secretary of Defense to provide the rationale for providing security supporting assistance, considering that the Congress has better control over the use of other forms of development assistance. Some points which need to be addressed include

- the relationship of the security supporting assistance to the recipient country's needs, defense spending, U.S. assistance programs, and assistance received from other countries,
- the existence of formal and informal agreements requiring recipient countries to take certain actions to promote economic and political stability in return for security supporting assistance, and
- the conditions which would lead the United States to terminate the assistance or change it to another form.

## CHAPTER 5

### ISSUES AND OBSERVATIONS

Security supporting assistance and its predecessors have been an important form of U.S. foreign assistance for more than two decades. The legislative and organizational framework, funding levels, and geographic emphasis have changed, but the basic purpose has remained consistent. Security supporting assistance continues to be available for use in special situations when economic or political stability, or security, is threatened. Although economic in form, this assistance is usually granted for political and military reasons, rather than for economic development. Some issues involved in providing this assistance are also unique.

#### WHEN TO PROVIDE SECURITY SUPPORTING ASSISTANCE

According to an AID staff paper, prepared several years ago for the Peterson Commission, "no precise formula can be devised to determine automatically when a country situation calls for [security] supporting assistance." Given this uncertainty, the program depends heavily on political factors and judgments; economic rationale is secondary.

The suddenness with which unstable political or military conditions might arise adds another complicating factor. Whereas a country's economic development needs can be ascertained in advance and often related to a development plan, foreseeing security supporting assistance needs, often the results of crises, is more difficult.

Flexibility and quick response to crises, therefore, appear to be important factors in providing this assistance. Governmental budgeting and legislative processes, on the other hand, are time consuming and stress established goals, rules, and procedures. How can program flexibility be combined with the need for adequate program planning?

This problem might be lessened by following the approach used in establishing the Middle East Special Requirements Fund. Specific programs and needs were not defined for this \$100 million fund at the time of its justification and subsequent authorization. Instead, it



was established on the basis of a general need for U.S. assistance, in support of Middle East peace efforts, which would be additional to that specified and separately authorized for Israel, Egypt, and Jordan. Anticipated, but undefined, requests from Syria were expected to be the major part of this need. The Foreign Assistance Act, however, specifies that the President may obligate or expend this fund only after notification and justification to the Congress.

This approach might have broader applicability to all security supporting assistance. On the other hand, almost all such U.S. assistance is now directed to the Middle East to support peace efforts. It might not be possible, in a broader request for contingency security supporting assistance funds, to have either the geographic or general purpose focus of the Middle East Special Requirements Fund.

#### FORMS AND TERMS OF ASSISTANCE

Like the decision to provide security supporting assistance, determining the most effective forms of such assistance is based on aided countries' individual circumstances.

Under the general objective of making a maximum feasible contribution to development, security supporting assistance can be in one or more forms. (1) development assistance, (2) commodity imports, and (3) cash transfers. The major recipient countries currently use all these forms. Jordan has received a cash grant for general budget support, grants for technical assistance, and loans for development projects. Israel has received grants for commodity imports. Egypt has received commodity imports and for construction of grain storage facilities, and grants for reconstruction and development purposes. Providing different forms of assistance to individual countries appears to be related both to the political judgments underlying the decision to grant assistance and to individual country capabilities to manage assistance.

For example, in fiscal year 1975, Jordan received \$67.5 million in cash grants for budget support. This assistance was justified on the basis of general economic need and was not tied to specific commodity import needs or part of the Jordanian budget. An AID official, testifying before the Senate Committee on Appropriations in June 1974, commented on this assistance as follows:

Witness:

"We have not tied our budget support to any particular part of their budget and in that sense the money is fungible. This is Supporting Assistance, this is funds provided for general political and security purposes, and in that sense the use of funds for their military establishment is not considered in any way out of line with this kind of arrangement. That military establishment is a very important part of maintaining the stability in the Middle East.\* \* \*"

Senator:

"What you are trying to tell us is that we have absolutely no control over the funds?"

Witness:

"We know what their general budget spending is for, and find that satisfactory for the purposes that we are providing this money."

Senator:

"Would you advise us as to whether the Jordanian population will directly benefit from this program other than military security."

Witness:

"They will in the sense that maintaining a stable economic situation is to the benefit of all the people. But again, I will repeat, Mr. Chairman, this is a Supporting Assistance request intended for political as well as economic purposes \* \* \*."

The AIE official also testified that the grant was not tied to specific commodity imports, because the Jordanian import system was open, without licensing, which did not lend itself to controlling imports. In contrast to the

Jordanian situation, the United States loaned Egypt \$80 million in February 1975 for various commodity imports.

The terms of security supporting assistance, like its forms, appear to be a mixture of political and economic judgments. Most of this assistance has been granted, rather than loaned, to recipient countries; but much current assistance to Middle East countries is being provided in the form of loans.

FY 1975 Security Supporting Assistance

	<u>Grants</u>	<u>Loans</u>
	(millions)	
Israel	\$324.5	\$ -
Egypt	56.9	194.3
Jordan	68.5	9.0

According to AID's loan policies, the terms for repaying loans from security supporting assistance funds are normally harder than terms for development loans.

--Security supporting assistance loans--3-1/2 percent interest, 5 to 30 years' maturity from first disbursement, including a grace period up to 5 years.

--Development loans--2 percent interest during a 10-year grace period and 3 percent thereafter, 40 years' maturity from first disbursement, including a grace period of 10 years.

Both sets of loans' terms are concessional. The lending terms for development loans, however, are the minimum permissible under the Foreign Assistance Act, whereas the terms recommended for security supporting assistance loans are established by AID policy, not by statutory requirement. In practice, though, most AID loans from security supporting assistance funds have been at the minimum permissible, development loan terms.