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SECURITY
ASSISTANCE

State and DOD Need
to Assess How the
Foreign Military
Financing Program for
Egypt Achieves U.S.
Foreign Policy and
Security Goals



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Highlights

Highlights of [GAO-06-437](#), a report to the Committee on International Relations, House of Representatives

Why GAO Did This Study

Since 1979, Egypt has received about \$60 billion in military and economic assistance with about \$34 billion in the form of foreign military financing (FMF) grants that enable Egypt to purchase U.S.-manufactured military goods and services. In this report, GAO (1) describes the types and amounts of FMF assistance provided to Egypt; (2) assesses the financing arrangements used to provide FMF assistance to Egypt; and (3) evaluates how the U.S. assesses the program's contribution to U.S. foreign policy and security goals.

What GAO Recommends

We recommend that the Secretaries of State and Defense conduct: (1) an assessment of the impact of potential shifts in appropriations on the Egypt FMF program; and (2) periodic program-level evaluations of the program. Specifically, the agencies should define the current and desired levels of modernization and interoperability the U.S. would like to achieve.

DOD concurred with our recommendations. State said that steps to mitigate risks are in place. GAO responded that additional factors should be included. State agreed to try to measure Egypt's modernization goals but defining interoperability would be speculative. Some level of capabilities, such as contributions to peacekeeping, can be measured.

www.gao.gov/cgi-bin/getrpt?GAO-06-437.

To view the full product, including the scope and methodology, click on the link above. For more information, contact Joseph Christoff at (202) 512-8979 or christoffj@gao.gov.

SECURITY ASSISTANCE

State and DOD Need to Assess How the Foreign Military Financing Program for Egypt Achieves U.S. Foreign Policy and Security Goals

What GAO Found

Egypt is currently among the largest recipients of U.S. foreign assistance, along with Israel, Afghanistan, and Iraq. Egypt has received about \$1.3 billion annually in U.S. foreign military financing (FMF) assistance and has purchased a variety of U.S.-manufactured military goods and services such as Apache helicopters, F-16 aircraft, and M1A1 tanks, as well as the training and maintenance to support these systems.

The United States has provided Egypt with FMF assistance through a statutory cash flow financing arrangement that permits flexibility in how Egypt acquires defense goods and services from the United States. In the past, the Defense Security Cooperation Agency (DSCA) accumulated large undisbursed balances in this program. Because the flexibilities of cash flow financing permit Egypt to pay for its purchases over time, Egypt currently has agreements for U.S. defense articles and services worth over \$2 billion—some of which are not due for full payment until 2011. The Departments of State (State) and Defense (DOD) have not conducted an assessment to identify the risks and impacts of a potential shift in FMF funding.

Officials and many experts assert that the FMF program to Egypt supports U.S. foreign policy and security goals; however, State and DOD do not assess how the program specifically contributes to these goals. U.S. and Egyptian officials cited examples of Egypt's support for U.S. interests, such as maintaining Egyptian-Israeli peace and providing access to the Suez Canal and Egyptian airspace. DOD has not determined how it will measure progress in achieving key goals such as interoperability and modernizing Egypt's military. For example, the U.S. Central Command, the responsible military authority, defines modernization as the ratio of U.S.-to-Soviet equipment in Egypt's inventory and does not include other potentially relevant factors, such as readiness or military capabilities. Achieving interoperability in Egypt is complicated by the lack of a common definition of interoperability and limitations on some types of sensitive equipment transfers. Given the longevity and magnitude of FMF assistance to Egypt, evaluating the degree to which the program meets its goals would be important information for congressional oversight, particularly as Congress assesses the balance between economic and military assistance to Egypt as well as the impact on U.S. foreign policy interests.

Egypt FMF Funds Are Used to Purchase Items Such as F-16 Aircraft, Apache Helicopters, and M1A1 Tanks



Source: DOD.

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Abbreviations

CENTCOM	U.S. Central Command
DSCA	Defense Security Cooperation Agency
FMF	Foreign Military Financing
GPRA	The Government Performance and Results Act
LOA	Letter of Offer and Acceptance
LOR	Letter of Request
OMC	Office of Military Cooperation
PART	Performance Assessment Rating Tool

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United States Government Accountability Office
Washington, D.C. 20548

April 11, 2006

The Honorable Henry J. Hyde
Chairman
The Honorable Tom Lantos
Ranking Minority Member
Committee on International Relations
House of Representatives

After signing the Camp David Peace Accords, Egypt emerged as the second largest recipient of U.S. military aid in the world. Since 1979, Egypt has received about \$60 billion in military and economic assistance overall with about \$34 billion in the form of foreign military financing (FMF) grants and loans that enable Egypt to purchase U.S.-manufactured military goods and services. To fund this program, approximately \$1.3 billion has been appropriated annually and disbursed through a cash flow financing arrangement that allows Egypt to spread the payments over several years. Specifically, the United States uses FMF funds set aside for Egypt to purchase military equipment, services, and training from U.S. contractors on Egypt's behalf. These defense articles and services are to modernize Egypt's armed forces and enhance Egypt's military interoperability with the United States. According to Department of State (State) and Department of Defense (DOD) officials, FMF funds also contribute to the U.S. goal of maintaining regional stability and supporting Egypt as a partner in the Middle East. Recently, congressional committees have sought to alter the balance of economic and military assistance provided to Egypt and to review the results of the assistance.

At your request, we reviewed selected aspects of the FMF program for Egypt including the composition and funding of the program and the U.S. government's assessment of its contributions. Specifically, we (1) describe the types and amounts of FMF assistance provided to Egypt, (2) assess the financing arrangements used to provide FMF assistance to Egypt, and (3) evaluate how the United States assesses FMF assistance to Egypt and its contribution to the advancement of U.S. foreign policy and security goals.

To meet these objectives, we reviewed documentation and interviewed officials from State, DOD, and the Defense Security Cooperation Agency (DSCA.) We traveled to Cairo, Egypt, to meet with Egyptian officials at the Ministry of Defense and U.S. officials at the U.S. Embassy and at the Office of Military Cooperation (OMC). We also interviewed officials at U.S. Central Command (CENTCOM) in Tampa, Florida, to discuss their roles

and responsibilities in the FMF program for Egypt. In addition, we interviewed senior Egyptian officials in Washington, D.C., and several political and military experts from academic and policy institutions in Washington, D.C. We examined DOD data collected from 1999 to 2005 to determine the composition of foreign military financing assistance provided to Egypt. This report examines FMF for Egypt and does not assess economic assistance to Egypt. We performed our work from June 2005 through March 2006 in accordance with generally accepted government auditing standards. A detailed description of our scope and methodology is included in appendix I of this report.

Results in Brief

Since 1979, Egypt received more than \$60 billion in military and economic assistance from the United States and is currently among the largest recipients of U.S. assistance worldwide, along with Israel, Afghanistan and Iraq. In fiscal year 2005, Egypt received nearly \$1.3 billion in FMF grants, which comprises about 80 percent of Egypt's military procurement budget and more than 25 percent of the total amount of FMF assistance provided worldwide. Over the life of the program, Egypt has acquired 36 Apache helicopters, 220 F-16 aircraft, and 880 M1A1 tanks—among other items—as well as the training and maintenance to support these systems. According to DOD, the FMF program has helped Egypt replace its Soviet-era equipment with modern weaponry and equipment. In the past 6 years, almost \$8 billion has been provided in the form of FMF grants that enable Egypt to acquire U.S.-manufactured military goods and services.

The United States has provided Egypt with FMF assistance through a statutory cash flow financing arrangement that gives Egypt the flexibility to plan for and acquire defense goods and services that can be paid for over time, similar to installment payments. The arrangement allows for flexibility in the management of payments and significant commitments that will need to be paid for in the future. As of 2005, Israel and Egypt are the only countries permitted to use cash flow financing. According to DSCA officials, from 1986 to 1998, DSCA managed the cash flow financing program by limiting new commitments, and by 1998, the Egyptian program accumulated large undisbursed balances¹ of about \$2 billion. DSCA and

¹Undisbursed balances, as defined by DSCA, are funds that are apportioned, obligated to the FMF program for Egypt, and committed against LOAs that have not yet been paid to a contractor or U.S. government activity for defense articles and services being provided to Egypt.

Egyptian military officials then began planning to eliminate these balances by 2007. Because the flexibility of cash flow financing permits Egypt to pay for its purchases over time, some purchases are not due for full payment until 2011. Egypt currently has letters of offer and acceptance² (LOA) agreements for U.S. defense articles and services that are worth about \$2 billion more than available FMF appropriations to date. Egypt is financially liable to the U.S. government under the LOAs. However, the U.S. government awards the contracts that procure the defense articles and services to be delivered to Egypt and is liable for the payments due on those contracts.³ DSCA officials stated that, if there were a reduction in anticipated appropriations, the United States would first look to Egypt to provide funding consistent with its promise to pay under the LOAs; however if Egyptian funding were not forthcoming, the U.S. government would have to continue to meet its contractual obligations and make payments as they become due. DSCA officials stated that a reduction in funding would require reducing the scope of existing contracts, among other things. This may affect the achievement of FMF program goals in Egypt and some aspects of U.S. relations with Egypt.

Although officials and several experts assert that the FMF program to Egypt supports U.S. foreign policy and security goals, State and DOD do not assess how the program specifically contributes to these goals. U.S. and Egyptian officials cited examples of Egypt's support for U.S. interests, such as maintaining Egyptian-Israeli peace and providing access to the Suez Canal and Egyptian airspace. However, DOD has not determined how it will measure progress in achieving key goals such as interoperability and modernizing Egypt's military. For example, CENTCOM, the responsible military command, measures modernization as the ratio of U.S. to Soviet-era equipment in Egypt's inventory and does not include other potentially relevant factors, such as readiness or military capability. Achieving interoperability with Egypt is complicated by both the lack of a common definition of interoperability and limitations on some types of equipment transfers. Although it may be difficult to measure how FMF assistance to

²In this context, Letters of Offer and Acceptance (LOAs) are agreements signed between foreign governments and the United States governing the terms and conditions of the procurement of U.S. defense articles and services.

³22 U.S.C. § 2762 provides authority to the President to enter into a contract for the procurement of defense articles and services for sale to any foreign country or international organization in advance of or in excess of an appropriation as long as the foreign country provides assurances to pay the full amount of the contract and any costs or damages due to cancellation.

Egypt achieves strategic goals such as maintaining peace, operational goals such as modernization and interoperability lend themselves to measurement. Given the longevity and magnitude of the FMF assistance to Egypt, assessing the degree to which the program meets its goals would provide objective and useful performance information for executive decision makers and overseers. Legislation such as the Government Performance and Results Act (GPRA)⁴ and administration initiatives such as the Office of Management and Budget Performance Assessment Rating Tool (PART) establish the expectation that federal programs will be evaluated to provide such important information.⁵

To help Congress assess the balance of economic and military assistance to Egypt, we recommend that the Secretaries of State and Defense conduct (1) an assessment of the impact of potential shifts in future appropriations on the Egypt FMF program and (2) periodic program-level evaluations of the program. The latter would require the United States to define specific objectives for the goals and identify appropriate indicators to demonstrate progress toward achieving those objectives. Specifically, we recommend that the agencies define the current and desired levels of modernization and interoperability with Egypt, including the establishment of benchmarks and targets for these and other goals.

DOD concurred with our recommendations but stated that we should direct the recommendations primarily to the Secretary of State. However, DOD and State are joint partners in the FMF program for Egypt—State sets the broad goals for the program while DOD works closely with Egypt's military to implement the program. Therefore, the recommendations are appropriately addressed to both State and DOD. State did not indicate whether it concurred with our recommendations. In regard to our first recommendation, State emphasized that steps to mitigate risks are already in place, such as maintaining reserves to pay costs associated with terminating contracts. However, contract termination reserves are last-resort measures that do not represent a comprehensive assessment for

⁴Pub. L. No. 103-62, 107 Stat. 285 (1993).

⁵GPRA instituted a governmentwide requirement for agencies to, among other things, report on their results in achieving their agency and program goals. According to OMB, the PART initiative builds on GPRA by providing more credible outcome-based performance information to foster debate among decision makers. To date, OMB has not conducted a review of the FMF program in the Middle East region. State officials expect a PART review of security assistance to the Middle East and North African countries in August 2006.

reducing risk associated with possible fluctuations in Egypt's FMF resources. A risk assessment should include other measures such as reducing the scope of existing contracts, stopping new orders, or selling undelivered defense goods.

On our second recommendation, State noted that it would work with DOD to better define measures for assessing Egypt's modernization goals, but stated that defining a level of interoperability would be speculative. However, improving Egypt's ability to operate with the U.S. and coalition partners has been a critical, yet unmeasured goal of the program. At a minimum, DOD and State can begin to measure Egyptian forces' capabilities to operate with allied countries in military exercises or peacekeeping operations. DOD and State provided technical comments that we incorporated as appropriate. Comments on a draft of this report are provided in appendixes V and VI.

Background

Egypt is currently among the largest recipients of U.S. foreign assistance, along with Israel, Afghanistan, and Iraq. Since 1979, Egypt has received an annual average of more than \$2 billion in economic and military aid. Egypt has generally received about \$1.3 billion each year in foreign military financing assistance in the form of grants and loans. From 1982 to 1988, the United States forgave Egypt's FMF debt to the United States and began providing military assistance in 1989 solely in the form of grants with no repayment requirement.⁶

State and DOD planning documents describe FMF as one of several U.S. security assistance programs⁷ which are a subset of U.S. security cooperation efforts designed to build relationships that support specified U.S. government interests. These interests include building friendly nations' capabilities for self-defense and coalition operations, strengthening military support for containing transnational threats, protecting democratically elected governments, and fostering closer

⁶FMF is authorized under Sections 23 and 24 of the Arms Export Control Act.

⁷According to DSCA, the five major U.S. security assistance programs are: direct commercial contracts, peacekeeping operations, foreign military sales, foreign military financing, and international military education and training. DSCA has also identified excess defense articles, draw-downs, and other programs as security assistance.

military ties between U.S. and recipient nations.⁸ According to State, the objectives of the FMF program worldwide include:

- assisting friendly foreign militaries in procuring U.S. defense articles and services for their countries' self defense and other security needs;
- promoting coalition efforts in regional conflicts and the global war on terrorism;
- improving capabilities of friendly foreign militaries to assist in international crisis response operations;
- contributing to the professionalism of military forces;
- enhancing rationalization, standardization, and interoperability of friendly foreign military forces;
- maintaining support for democratically elected governments; and
- supporting the U.S. industrial base by promoting the export of U.S. defense-related goods and services.

Generally, FMF provides financial assistance in the form of credits or guarantees to U.S. allies to purchase military equipment, services, and training from the United States. Recipient countries can use the assistance to purchase items from the U.S. military departments through the Foreign Military Sales (FMS) process or directly from private U.S. companies through direct commercial sales. State is responsible for the continuous supervision and general direction of security assistance programs, including FMF, in coordination with DOD. DSCA leads the day-to-day program implementation for each FMF recipient country in coordination with other DOD entities at the unified combatant commands⁹ and in the recipient countries. CENTCOM's responsibilities include developing and implementing security cooperation plans for Egypt and other countries in the Middle East, as well as coordinating with other government entities on

⁸Other State and DOD classified or sensitive planning documents describe the global, regional and country-level goals and objectives for security cooperation and assistance programs.

⁹A unified combatant command has operational control of U.S. combat forces from two or more military departments and is normally organized on a geographic basis.

major Egyptian equipment requests. (See appendix II for a description of the FMS process for purchasing FMF-funded cases and appendix III for a description of the roles and responsibilities of the entities involved in the program.)

Members of Congress have periodically sought to alter the balance of economic and military assistance to Egypt. In 1998, the United States and Egypt agreed to a 10-year assistance phase-down in conjunction with a similar package for Israel. The package for Egypt reduced economic assistance by \$40 million each year but did not increase FMF assistance to Egypt. U.S. economic assistance to Israel was reduced by \$120 million each year, and the amount of U.S. military assistance was increased by \$60 million per year. In 2004 and 2005, amendments to the Consolidated Appropriations bill¹⁰ for fiscal year 2005 and the Foreign Relations Authorization bill¹¹ for fiscal years 2006 and 2007 proposed converting some military assistance to economic assistance to Egypt. The 2004 amendment was not adopted and did not become law. Furthermore, as of March 2006, the 2005 amendment has not been enacted. Additionally, a conference report attached to the fiscal year 2006 Foreign Operations Appropriations bill requires State to report to Congress on the balance between economic and military assistance provided to Egypt, including whether maintaining the current level of military assistance in relation to economic assistance is appropriate in light of the political and economic conditions in Egypt and in the region.¹² Although this requirement was not stipulated in law, it conveys congressional intent to have this information provided to the Congress.

Over the past decade, Congress and the executive branch laid out a statutory and managerial framework that provides the foundation for strengthening government performance and accountability, with GPRA as its centerpiece.¹³ GPRA is designed to inform congressional and executive decision making by providing objective information on the relative effectiveness and efficiency of federal programs and spending. A key purpose of the act is to create closer and clearer links between the process

¹⁰H.R. 4818, 108th Cong. (2004).

¹¹H.R. 2601, 109th Cong. (2005).

¹²H.R. Rep. No. 109-265, at 88 (2005).

¹³Pub. L. No. 103-62, 107 Stat. 285 (1993).

of allocating resources and the results expected to be achieved with those resources. Program evaluations are objective studies that answer questions about program performance and results, and explore ways to improve them. In 2002, OMB implemented the Performance Assessment Rating Tool (PART) method of assessing federal programs. PART assesses federal programs in four areas: purpose and design, strategic planning, management, and results and accountability. Another assessment tool, which we have discussed in previous reports, is a logic model.¹⁴ This tool can be used to describe a program's components and desired results, while explaining the strategy by which the program is expected to achieve its goals. A logic model is a representation of the relationship between the various components of a program, typically including at a minimum, inputs, activities, outputs and outcomes. By specifying the program's theory of what is expected at each step, a logic model can help evaluators define measures of the program's progress toward its ultimate goals. (See appendix IV for details on the logic model.)

The United States Has Provided \$1.3 Billion in Military Assistance to Egypt Annually to Purchase Defense Articles and Services

Since 1979, Egypt has received about \$34 billion in FMF assistance which the United States has generally appropriated in annual amounts of approximately \$1.3 billion. In fiscal year 2005, Egypt received nearly \$1.3 billion in FMF grants, more than 25 percent of the total amount of FMF assistance provided worldwide. FMF assistance to Egypt accounts for 80 percent of Egypt's military procurement budget and has served to replace some of Egypt's Soviet-supplied equipment with modern U.S. equipment. Egyptian officials stated that 52 percent of their military inventory is U.S. equipment as of August 2005.

Over the life of the FMF program, Egypt has purchased 36 Apache helicopters, 220 F-16 aircraft, 880 M1A1 tanks, and the accompanying training and maintenance to support these systems, among other items (see fig. 1). According to U.S. and Egyptian officials, the Egyptian military is better equipped to defend its territory and participate in operations in the region. For example, the Egyptian military has participated in peacekeeping missions in East Timor, Bosnia, and Somalia. In addition, the

¹⁴GAO, *Program Evaluation: Strategies for Assessing How Information Dissemination Contributes to Agency Goals*, GAO-02-923 (Washington, D.C.: Sept. 2002); and *Federal Motor Carrier Safety Administration: Education and Outreach Programs Target Safety and Consumer Issues, but Gaps in Planning and Evaluation Remain*, GAO-06-103 (Washington, D.C.: Dec. 2005).

Egyptian military participates with the United States in Operation Bright Star, a biannual military exercise involving forces from other coalition countries, including Germany, Jordan, Kuwait, and the United Kingdom. The purpose of the exercise is to conduct field training to enhance military cooperation among U.S. and coalition partners and strengthen relationships between the United States and Egypt, as well as other participating partners.

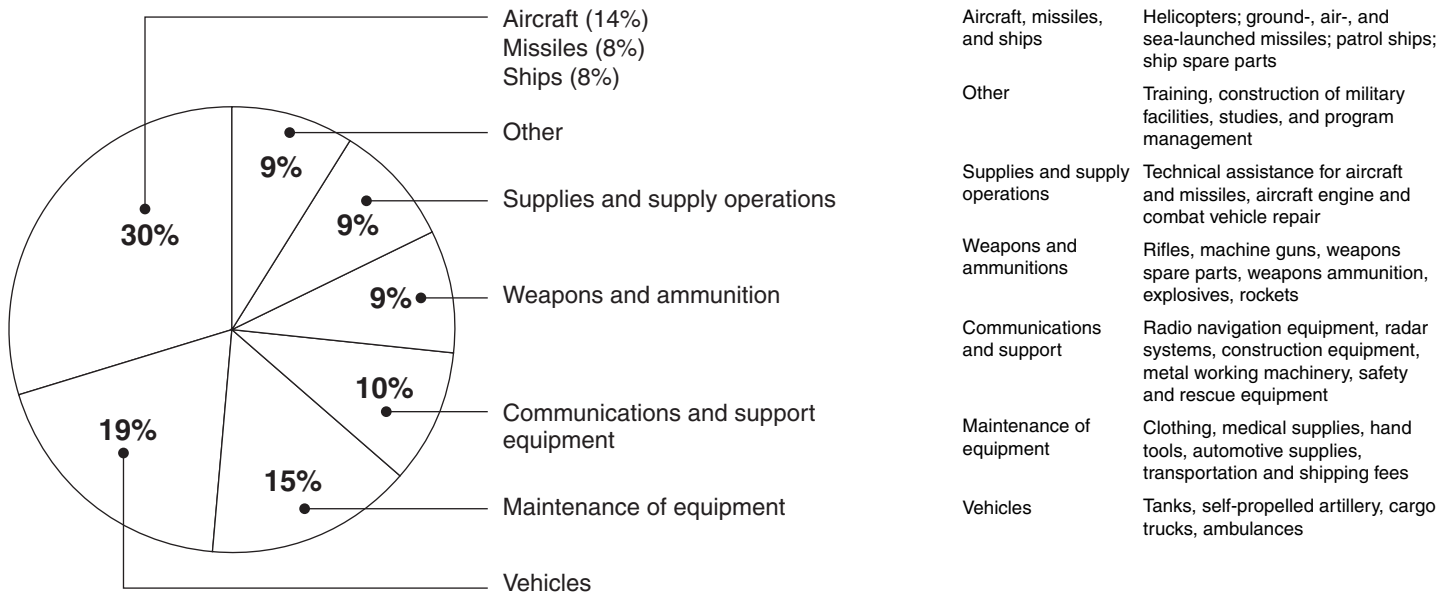
Figure 1: Key FMF-Financed Systems Purchased by Egypt Include F-16 Aircraft, Apache Helicopters, and M1A1 Tanks



Source: DOD.

From 1999 to 2005, the United States provided a total of about \$7.8 billion to Egypt in FMF funds. Egypt spent almost half of its FMF funds from 1999 to 2005 (about \$3.8 billion) on major equipment such as aircraft, missiles, ships, and vehicles (see fig. 2). For example, Egypt spent 8 percent of its FMF funds on missiles, including 822 ground-launched Stinger missiles, 459 air-launched Hellfire missiles, and 33 sea-launched Harpoon missiles. Egypt also spent 14 percent on aircraft, including 3 cargo airplanes; 10 percent on communications and support equipment, including 42 radar systems and 8 switchboards; and 9 percent on supplies and supply operations, including 1,452 masks to protect against chemical and biological agents.

Figure 2: FMF Purchases for Egypt Total \$7.8 billion (1999-2005)



Sources: DOD; GAO.

Note: Numbers may not add due to rounding.

Egypt spent the remaining amount of its FMF funds—about \$2.5 billion—on maintenance, weapons and ammunition, and other requirements. DSCA adheres to a total package approach when working with Egypt to procure items through the FMF program, which ensures that the costs of support articles and services for new equipment are included in the total price of the item. In addition to the equipment, support items include training, technical assistance, initial support, and follow-on support. Egyptian officials stated that approximately one-third of their FMF funds are dedicated to follow-on support; one-third to upgrade U.S.-supplied equipment; and nearly one-third to new procurements.

Cash Flow Financing Flexibility Allows Egypt to Pay for Defense Goods over Multiple Years

The United States permits Egypt to finance its military purchases using a statutory cash flow financing arrangement that allows Egypt to make purchases in one year and pay for them over succeeding years using grants made from future FMF appropriations. The arrangement allows the United States to enter into contracts in advance of—and in excess of—current FMF appropriations for Egypt. Specifically, Egypt is not required to pay the full amount of the LOA¹⁵ up front. Cash flow financing allows Egypt to pay only the amount that signed LOAs require in a given year for specified defense articles and services. The cash flow financing arrangement benefits Egypt in that it can receive more defense goods and services than it can under other financing arrangements. However, the program accumulated undisbursed funds because the agency refrained from making as many new commitments for goods and services as the annual appropriation would have allowed, according to DSCA officials. The cash flow financing arrangement allows for significant commitments to be made based on anticipated appropriations.

Cash Flow Financing Allows for Flexibility

Unlike other countries that receive FMF assistance, Egypt and Israel are currently the only countries that may receive defense goods worth more than the annual FMF appropriation and pay for them over multiple years. Cash flow financing enables Egypt to purchase more defense goods and services than under other financing arrangements and to better plan its military purchases over a number of years. For example, Egypt may begin the process of purchasing an F-16 in one year and make installment payments for the item over the life of the contract. Traditional financing options for FMF programs permit countries to make purchases equal to the amount of the particular appropriation in any given year or save appropriations over multiple years. For example, a country using traditional financing would have to plan its purchases by saving its FMF funds over a period of years to accumulate sufficient funds to make the full payment for the item. All other countries that receive FMF assistance, except Israel and Egypt, are required to make their FMF purchases in this manner.

¹⁵In this context, letters of offer and acceptance (LOA) are agreements signed between foreign governments and the United States governing the terms and conditions of the procurement of U.S. defense articles and services.

In the Past, DSCA Limited the Number of New Commitments to Less than the Appropriated Amounts, Allowing Funds to Accumulate

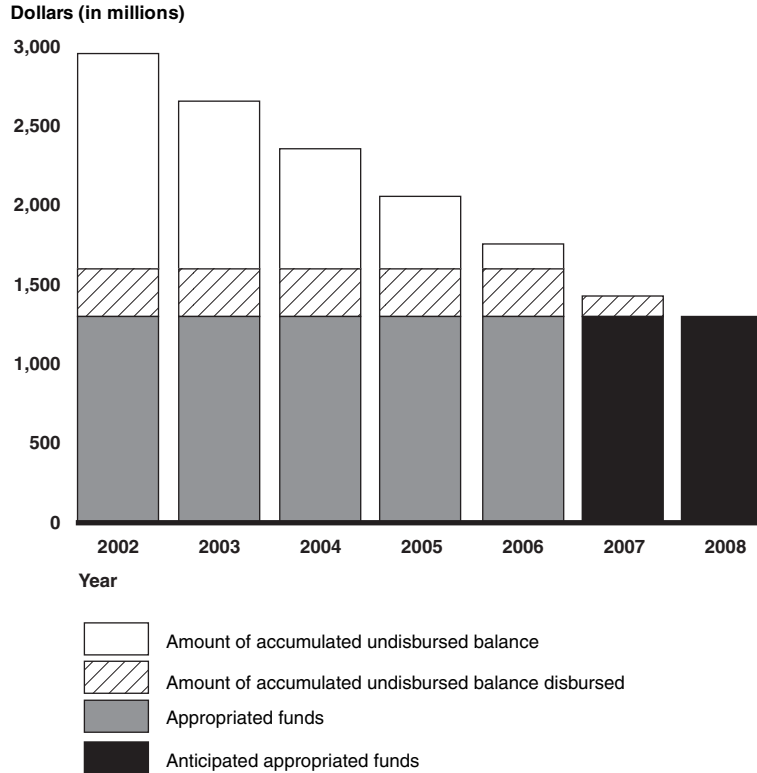
By 1998, more than \$2 billion in undisbursed funds accumulated in Egypt's FMF account because DSCA did not have a high enough level of commitments to require disbursements in an amount equal to Egypt's entire annual FMF appropriation. DSCA officials stated that previous FMF program managers did not have adequate tools to track Egypt's FMF current commitments against future FMF disbursement requirements. In August 1998, DSCA established a system to project estimated commitments and payments by fiscal year to obtain better control over the cash flow financing process.

DSCA developed and is now implementing a plan to disburse the accumulated funds by fiscal year 2007. According to DSCA, OMB officials, and congressional staff, in 1998, members of Congress and OMB became concerned about the large balance in Egypt's FMF account and consulted with DSCA to eliminate it.¹⁶ As a result, DSCA coordinated with OMB and subsequently developed and implemented a plan in 2002, to disburse \$300 million of the undisbursed balances every year, in addition to the amounts appropriated annually for Egypt's FMF program, until the undisbursed balances are eliminated in 2007 (see fig. 3).¹⁷

¹⁶According to DSCA officials, this balance is committed to specific LOAs.

¹⁷According to DSCA, an estimated \$130 million of the undisbursed balances will be held in reserve to cover unexpected costs.

Figure 3: DSCA Plan to Disburse Egypt's Accumulated FMF Funds



Sources: DSCA; GAO.

According to DSCA officials, because tracking mechanisms were not in place before 1998, program managers did not adequately track FMF commitments against disbursement requirements and available appropriations. As a result, DSCA's commitments for Egypt's FMF program were held at a low enough level such that disbursements were less than the yearly appropriations. This ensured sufficient funds were available to cover future payments to contractors, according to DSCA.

DSCA developed three databases to track Egypt's FMF expenditures that, according to DOD officials, address the undisbursed balance problem. First, one database tracks the amount of FMF funds required for each project for which an LOA was signed and the amount of funds needed in each year to make the annual payments. Second, another tracking database determines the length of time between the U.S. military's receipt of a signed

request to undertake a project for Egypt and its receipt of a signed LOA to implement the project. This database also tracks the total amount of funds committed to LOAs in each fiscal year. Finally, DSCA and the Egyptian Ministry of Defense maintain a spreadsheet known as the Five Year Defense Plan that lists the items Egypt plans to buy in the next 5 years, their expected prices, the year in which Egypt plans to purchase each item, and the total amount of money available each year for purchases. When an LOA is signed for an item listed in the Five Year Defense plan, it is entered into the database and the funds needed to purchase it are subtracted from the total amount of funds available.

Cash Flow Financing Allows for Significant Commitments that Anticipate Future Appropriations

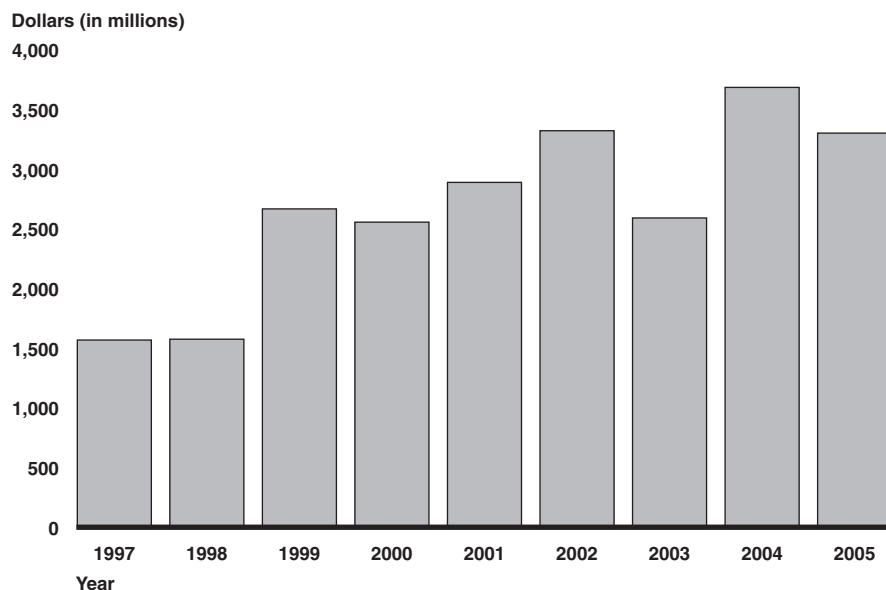
Cash flow financing also permits Egypt to order defense articles and services that may be paid for with future appropriations or country funds. As of March 22, 2006, the value of LOAs anticipating future funding totaled approximately \$2 billion, some of which are not due for full payment until 2011. Due to the nature of cash flow financing, this number can vary daily because contracts are signed, completed, or modified daily. For example, from 1997 to 2005, the dollar value of these commitments at the end of each fiscal year has varied from \$1.3 billion to \$3.6 billion, whereas the average amount was \$2.6 billion (see fig. 4). These commitments are expected to be paid for with future appropriations. If future appropriations are not available, Egypt will be responsible under the LOA to pay these commitments with other sources.

DSCA officials stated that, if there were a change in the anticipated appropriations, the United States would seek funding from Egypt to satisfy the LOAs. If Egypt is unable to pay for the LOAs with its own funds, the U.S. government would be liable for the payments due on the underlying contracts executed on Egypt's behalf. To manage payment if expected funding is reduced, DSCA officials stated that DOD would consider a range of steps including reducing the scope of the existing contracts, and stopping new orders, among other things. Additionally, defense articles and services that have not been delivered would not be provided to Egypt, if payment had not been received. As a result, DOD also may use FMF funds held in reserve to pay companies' costs associated with closing down their

production lines and terminating the contracts.¹⁸ However, DSCA officials stated that contract termination would be considered as a last resort.

Absent the availability of U.S. funds to pay the entire balance of existing contracts, important implications for the achievement of the program goals and U.S. relations with Egypt may arise. For example, if the United States had to terminate multiple contracts on Egypt's behalf because of a reduction in FMF program funding and Egypt's inability to provide funding, the U.S. ability to achieve FMF goals such as military modernization would be affected. In addition, U.S. and Egyptian officials stated that a shift in funding may affect some elements of the U.S.-Egyptian relationship.

Figure 4: Value of Egypt's Future FMF Commitments at the End of Each Fiscal Year



Sources: DCSA; GAO.

State and DOD have not conducted an assessment to identify the impacts of a potential reduction in FMF funding below the levels that are planned to

¹⁸DOD officials stated that contracts signed by DSCA on Egypt's behalf for the FMF program include termination liability fees that they hold in reserve if Egypt needs to terminate a contract for any reason.

be requested. According to applicable internal control standards for the federal government, an organization should identify risks—such as a reduction in funding—and decide upon the internal control activities required to mitigate those risks and achieve efficient and effective operations, reliable financial reporting, and compliance with laws and regulations.¹⁹ Management should then plan a course of action for mitigating risks, developing mechanisms to anticipate, identify, and react to change.

Officials Assert that FMF Assistance to Egypt Supports U.S. Goals, but State and DOD Do Not Evaluate the Program’s Contributions to Key Goals

U.S. officials and several experts we consulted assert that FMF assistance to Egypt has supported U.S. strategic goals such as regional stability, the war on terrorism, and Egyptian-Israeli peace. Furthermore, U.S. and Egyptian officials state that FMF has promoted a modern Egyptian military by replacing 52 percent of its aging Soviet-era military equipment with U.S. equipment, and improved U.S.-Egyptian interoperability through joint military exercises. U.S. officials also stated that the U.S.-Egyptian relationship resulted in expedited access through the Suez Canal and the right to fly over Egyptian territory. Although DOD and State can describe the qualitative benefits the United States receives from Egypt, the departments have conducted no systematic, outcome-based assessment of how the FMF program furthers U.S. goals. GPRA and PART establish the expectation that federal programs determine whether they are meeting agency and program goals—annual and long-term—and how performance can be improved to achieve better results.

Officials and Experts Cite Examples of Egypt’s Support for U.S. Goals

Officials and several experts assert that Egypt supports the U.S. goals of the FMF program, which are found in State’s annual Mission Performance Plan for Egypt and its Congressional Budget Justification. Specific goals include (1) modernizing and training Egypt’s military; (2) facilitating Egypt’s participation as a coalition partner; (3) providing force protection to the U.S. military in the region; and (4) helping guarantee U.S. access to the Suez Canal and overflight routes. Another key goal of the program is to enhance Egypt’s interoperability with U.S. forces. DOD officials stated that

¹⁹Internal control standards also include: (1) control environment, (2) control activities, (3) information and communication, and (4) monitoring. See GAO, *Standards for Internal Control in the Federal Government*, [GAO/AIMD-00-21.3.1](#) (Washington, D.C.: Nov. 1999); and *Internal Control Management and Evaluation Tool*, [GAO-01-1008G](#) (Washington, D.C.: Aug. 2001).

broader security cooperation and assistance goals found in DOD's regional Theater Security Cooperation Plan also apply to Egypt's FMF program, which we found to be consistent with State's goals for the program.

Egyptian and U.S. officials cited several examples of Egypt's support for U.S. goals. For example, Egypt:

- deployed about 800 military personnel to the Darfur region of the Sudan in 2004;
- trained 250 Iraqi police and 25 Iraqi diplomats in 2004;
- deployed a military hospital and medical staff to Bagram Air Base in Afghanistan from 2003 to 2005, where nearly 100,000 patients received treatment;
- provided over-flight permission to 36,553 U.S. military aircraft through Egyptian airspace from 2001 to 2005; and
- granted expedited transit of 861 U.S. naval ships through the Suez Canal during the same period and provided all security support for those ship transits.

State and DOD Do Not Evaluate How FMF Assistance to Egypt Achieves U.S. Goals

State and DOD have not systematically evaluated how the FMF program specifically contributes to achieving U.S. goals, particularly modernization and interoperability. DOD currently conducts assessments of security assistance activities in the region and regularly reviews selected FMF-funded purchases at the country level. However, these assessments do not provide information on specific FMF goals for Egypt or progress made in achieving them.

DOD rates the collective effectiveness of a mix of programs on a regional basis,²⁰ including FMF, International Military Education and Training, military-to-military contacts, and others. At the country level, DOD and Egyptian officials regularly review the status of selected FMF-funded purchases through financial management, program management, and in-progress reviews. In addition, a Military Coordination Committee,

²⁰U.S. Central Command's region—or theater—includes Egypt and 27 countries in the Horn of Africa, South Asia, and the Middle East.

comprised of senior DOD and Egyptian military officials, meets annually to discuss specific FMF purchases and types of equipment that have been or may be procured. These efforts reflect DOD's attention to assessing broad activities and certain financial and management aspects of FMF to Egypt, but they do not provide a comprehensive assessment of how FMF contributes to achieving U.S. goals.

We have reported that, although it can be difficult to isolate one program's effect from another's or to assess a program's impact or benefit, such assessments can help decision makers make more informed choices when faced with limited resources and competing priorities.²¹ While some U.S. foreign policy and security goals, such as regional stability or maintaining a strong U.S.-Egyptian relationship, may be difficult to measure quantitatively, key FMF program goals—such as interoperability and modernization—better lend themselves to measurement.

- DOD has not defined the degree of **interoperability** that it seeks to achieve with the Egyptian military, nor has it determined how to measure progress towards this goal. According to DOD doctrine,²² interoperability is the ability of communications and other systems, units, or forces to provide services to each other so that forces can operate effectively together and information can be exchanged directly and satisfactorily. The doctrine also states that the degree of interoperability should be defined in specific cases.

Achieving interoperability in Egypt is complicated by both the lack of a common definition of interoperability and limitations on some types of sensitive equipment transfers. CENTCOM officials also stated that they would prefer to operate with Egyptian forces according to the interoperability standard used by the United States. They noted, however, that the Egyptian military's definition of interoperability is limited to participation in joint exercises, such as Operation Bright Star. Additionally, Egypt and the U.S. use interim short-term solutions to minimize limitations with respect to interoperability. For example, U.S.

²¹GAO, *Program Evaluation: Strategies for Assessing How Information Dissemination Contributes to Agency Goals*, [GAO-02-923](#) (Washington, D.C.: Sept. 2002); and GAO, *Performance Budgeting: Opportunities and Challenges*, [GAO-02-1106T](#) (Washington, D.C.: Sept. 19, 2002).

²²Department of Defense, *Dictionary of Military and Associated Terms*, April 12, 2001, amended August 31, 2005.

officials stated they have established temporary communications installations on certain equipment and have flown alongside Egyptian C-130s to facilitate Egypt's participation in a joint exercise. Egypt lacks specific equipment that limits its interoperability with U.S. forces, but DOD has not formally assessed this limitation and its implications on interoperability.

According to DOD policy,²³ the desired level of interoperability cannot be ascertained within a general statement of policy but is dependent on factors unique to certain areas—such as compatible doctrine, tactics, techniques, and procedures. U.S. CENTCOM officials acknowledged that measuring interoperability in Egypt would vary greatly depending on the operation conducted, the type and size of systems used, and the timing of events. State officials acknowledged that it is possible to measure levels of interoperability through specific capabilities demonstrated by Egyptian forces participating in specific operations. For example, it would be possible to measure the capabilities of Egyptian forces participating in peacekeeping operations.

- DOD has similarly not defined how it will determine the extent to which FMF assistance contributes to the **modernization** of Egypt's armed forces. Currently, the Egyptian benchmark is based on a percentage of U.S.-versus-Soviet equipment in Egypt's inventory, as reported by the Egyptian military. According to Egyptian military officials, 52 percent of its current military inventory is U.S. equipment. By 2020, Egypt's goal is to increase this amount to 66 percent. DOD officials stated that they believe Egypt's ratio of U.S.-to-Soviet equipment is accurate but acknowledged that they do not maintain their own data to support the statistics.

Nonetheless, other factors may be useful indicators to measure progress toward modernization, such as the technical sophistication of Egypt's units, weapons systems, and equipment to provide humanitarian assistance; the readiness of Egyptian troops to deploy to a peacekeeping mission; or the degree to which Egypt's troops are capable of maintaining a desired level of operational activity during Operation Bright Star. Developing these and other indicators would help DOD measure the degree of modernization and, in turn, be better positioned to determine whether Egypt's goals are reasonable.

²³Chairman of the Joint Chiefs of Staff Instruction, CJCSI 2700.01B, January 12, 2006.

While measuring goals in these areas presents some difficulties, legislation and administration initiatives have recognized the need to do so. GPRA emphasized the importance of evaluating federal programs. Program evaluations help policy makers address whether program activities contributed to their stated goals and can help improve programs and target resources more effectively.

In addition, OMB recently implemented PART to assess and improve program performance so that federal agencies can achieve better results. A PART review is intended to assess aspects of the program in order to form conclusions about program benefits by looking at the program's purpose and design, strategic planning, management, and results—that is, whether the program is meeting its annual and long-term goals. To date, OMB has not conducted a review of the FMF program in the Middle East region.

Conclusion

For the past 27 years, the United States has provided Egypt with more than \$34 billion in FMF assistance to support U.S. strategic goals in the Middle East. Most of the FMF assistance has been in the form of cash grants that Egypt has used to purchase U.S. military goods and services. Like Israel, and unlike all other recipients of U.S. FMF assistance, Egypt can use the prospects of future congressional appropriations to contract for defense goods and services that it wants to procure in a given year through the FMF program. Until 1998, DSCA limited the number of new commitments to less than the annual appropriation thereby allowing more than \$2 billion in undisbursed funds to accumulate. If the plan to eliminate the undisbursed funds for the Egypt FMF program is realized, these funds will be depleted by the end of fiscal year 2007. As Congress debates the appropriate mix between military and economic assistance to Egypt, the inherent risks of such flexible financing warrant careful attention and assessment by State and DOD.

Similarly, both State and DOD could do a better job assessing and documenting the achievement of goals as a result of the \$34 billion in past U.S. FMF assistance and the \$1.3 billion in annual appropriations planned to be requested. Periodic program assessments that are documented and based on established benchmarks and targets for goals would help Congress and key decision makers make informed decisions. We agree that expedited transit in the Suez Canal; support for humanitarian efforts in Darfur, Sudan, and elsewhere; and continuing offers to train Iraqi security forces are important benefits that the United States derives from its strategic relationship with Egypt. However, without a common definition of

interoperability for systems, units, or forces, it is difficult to measure the extent of current and desired levels of interoperability, nor is it clear how the Egyptian military has been or could be transformed into the modern, interoperable force articulated in the U.S. goals for the Egypt FMF program.

Recommendations for Executive Action

Given the longevity of the FMF program, its relatively high appropriation levels, the strategic importance of Egypt in the Middle East, and congressional interest in assessing the balance between economic and military assistance provided to Egypt, we recommend that the Secretaries of State and Defense take the following two actions:

- conduct an assessment of the impact of potential shifts in future appropriations on the Egypt FMF program. This would include identifying risks, planning a course of action for mitigating those risks, and developing mechanisms to anticipate, identify, and react to change; and
- conduct periodic program-level evaluations of the FMF program to Egypt. The United States should define specific objectives for the goals, and identify appropriate indicators that would demonstrate progress toward achieving those objectives. Specifically, we recommend that the agencies define the current and desired levels of modernization and interoperability the United States would like to achieve. This should include establishing benchmarks and targets for these and other goals.

Agency Comments and our Evaluation

We provided a draft of this report to the Secretaries of Defense and State for their review and comment. DOD and State provided written responses that are reprinted in appendixes V and VI. Both departments also provided us with technical comments which we incorporated in the report as appropriate.

In commenting on our draft report, DOD concurred with our recommendations but stated that we should direct the recommendations primarily to the Secretary of State. DOD and State are joint partners in the FMF program for Egypt—State sets the broad goals for the program while DOD works closely with Egypt’s military to implement the program. Therefore, the recommendations are appropriately addressed to both departments.

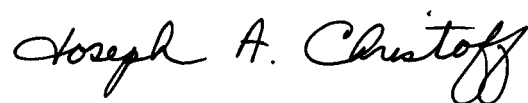
State did not indicate whether it concurred with our recommendations. With regard to our first recommendation, State emphasized that steps to mitigate risks are already in place, such as maintaining reserves to pay costs associated with terminating FMF contracts. However, contract termination reserves are last-resort measures that do not represent a comprehensive assessment for reducing risk associated with possible fluctuations in the resources of the FMF program for Egypt. As we specify in the report, a risk assessment should include other measures such as reducing the scope of existing contracts, stopping new orders, or selling undelivered defense goods. An assessment that identifies the risks, including a plan to mitigate and anticipate these risks, would be appropriate and consistent with federal government internal control standards.

On our second recommendation, State noted that it will work with DOD to better define measures for assessing Egypt's modernization goals but stated that defining a level of interoperability would be speculative. Improving Egypt's ability to operate with the U.S. and coalition partners has been a critical, yet unmeasured goal of the program. At a minimum, DOD and State can begin to measure Egyptian forces' capabilities to operate with allied countries in military exercises or peacekeeping operations. Evaluating the degree to which the program meets its goals would be important information for congressional oversight, particularly as Congress assesses the balance between economic and military assistance to Egypt, as well as the impact on U.S. foreign policy interests.

State commented that our report found that cash flow financing caused the accumulation of undisbursed balances in the FMF program for Egypt. DOD made the same comment in their technical comments. We modified the language in our report to clarify that the flexibilities of cash flow financing as managed by DSCA in the past allowed for the accumulation of large undisbursed balances.

As agreed with your office, unless you publicly announce the contents of this report earlier, we plan no further distribution until 30 days from the report date. At that time, we will send copies of this report to the appropriate congressional committees, and to the Secretaries of Defense and State and other interested parties. We will also make copies available to others upon request. In addition, the report will be available at no charge on the GAO Web site, <http://www.gao.gov>.

If you or your staff have questions about this report, please contact me at (202) 512-8979 or christoffj@gao.gov. Contact points for our offices of Congressional Relations and Public Affairs may be found on the last page of this report. Key contributors to this report are listed in appendix VII.

A handwritten signature in black ink that reads "Joseph A. Christoff". The signature is written in a cursive style with a large, stylized 'J' and 'C'.

Joseph A. Christoff
Director, International Affairs and Trade

Objectives, Scope, and Methodology

To describe the types and amounts of Foreign Military Financing (FMF) assistance to Egypt, we examined government and private sector documents, databases, and reports; we also interviewed U.S. government officials. Specifically, we interviewed U.S. Department of Defense (DOD), and Defense Security Cooperation Agency (DSCA) officials. We examined DSCA data from the Defense Security Assistance Management System (DSAMS) database for the period 1999 to 2005. We sorted and categorized this data by type of procurement, year, military service, and cost to determine the composition of purchases made by funds provided under the Egypt FMF program. The broad categories of equipment and services were then examined for specific content and type of equipment, training, support, or service. In addition, we conducted multiple interviews with database administrators and information technology specialists to assess the reliability of the data in this system. We determined that the DSAMS database is reliable for the purposes of this report. We also interviewed officials and reviewed documentation from the U.S. Office of Military Cooperation in Cairo (OMC), along with U.S. Embassy officials, to better understand the nature of the program and the types of equipment and services procured through this program. In addition, we interviewed Egyptian military officials in Cairo and Ministry of Foreign Affairs officials at the Egyptian embassy in Washington, D.C.

To assess the financing arrangements used to provide FMF assistance to Egypt, and determine how undisbursed balances accumulated in the Egypt FMF program accounts, we examined data from DSCA's Credit System Database and interviewed officials from the DSCA Middle East and South Asia Division and Comptroller's Office, as well as the Defense Finance and Accounting Service. To identify the amounts of accumulated undisbursed balances, we examined fiscal data by annual appropriation, total amount of accumulated undisbursed balances, and amount of funds that had been disbursed by fiscal year. We analyzed this data by fiscal year and interviewed the database administrator and information technology specialists responsible for this database. We determined that the Credit System Database is reliable for the purposes of this report. To assess the manner in which the undisbursed balances were being eliminated, we also examined three DSCA databases used to manage the financing arrangement for the Egypt FMF program: (1) a cash-flow tracking database that monitors letters of offer and acceptance (LOA) and the amount of funds needed in each fiscal year, (2) a fiscal year data base that monitors the time needed to execute a procurement request, and (3) Egypt's Five Year Defense Plan. We interviewed the custodians of these databases in DSCA's Middle East and South Asia Division to develop an understanding of

how they are used to manage the cash flow financing arrangement and the program more generally. We also met with the Office of Management and Budget (OMB) to gain an understanding of the plan to eliminate the accumulated undisbursed balances. We did not examine or assess U.S. economic assistance to Egypt.

To evaluate how the United States assesses FMF assistance to Egypt and its contribution to the advancement of U.S. foreign policy and security goals, we examined multiple U.S. and Egyptian government documents, and interviewed U.S. and Egyptian government officials and foreign policy specialists. Specifically, we obtained and analyzed the State Department's mission and bureau performance plans to understand U.S. foreign policy and security goals and priorities, and how the executive branch evaluates those goals. Similarly, we obtained DOD theater and country security cooperation plans and compared their goals and priorities to understand how DOD would measure results against them. We then examined U.S. Central Command's (CENTCOM) evaluation tools to understand what metrics it used to evaluate program results. In addition to U.S. and Egyptian government officials, we spoke with foreign policy experts from the Center for Strategic and International Studies, Georgetown University, the Council on Foreign Relations, the Heritage Foundation, the U.S. Institute for Peace, the Middle East Institute, the National Defense University, the Carnegie Endowment for International Peace and the Brookings Institute. To assess DOD's evaluations of security assistance goals, we reviewed various assessments and identified key components that are inherent in all of these assessments. We also researched other potential models that may assist in program evaluation. We interviewed officials from State and DOD in Washington, D.C., who are responsible for administering and implementing the FMF program to Egypt. We also met with Egyptian government officials in Washington, D.C. We traveled to Cairo and met with State and DOD officials at the U.S. Embassy and the OMC. In addition, we interviewed CENTCOM officials responsible for the FMF program to Egypt as well as Egyptian Ministry of Defense officials in Cairo.

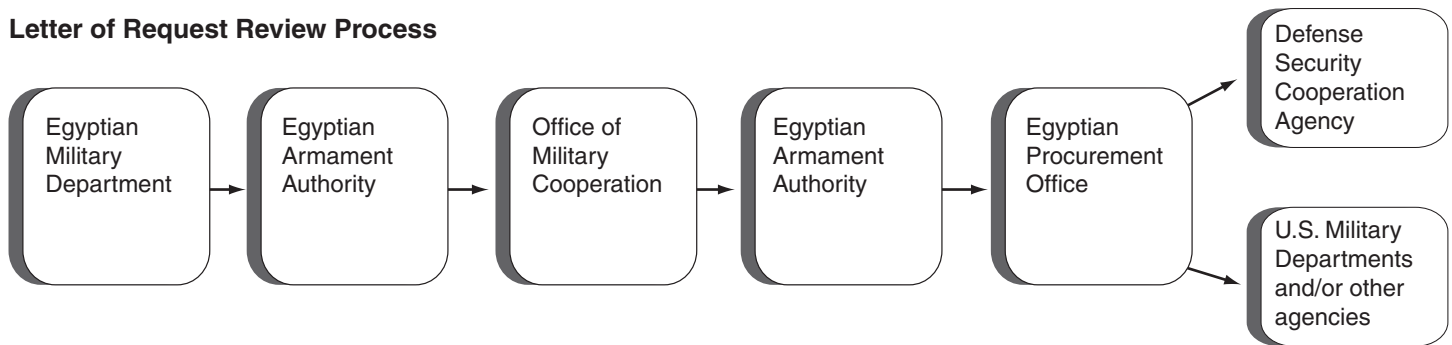
We performed our work from May 2005 through March 2006 in accordance with generally accepted government auditing standards.

Letter of Request and Letter of Offer and Acceptance Process

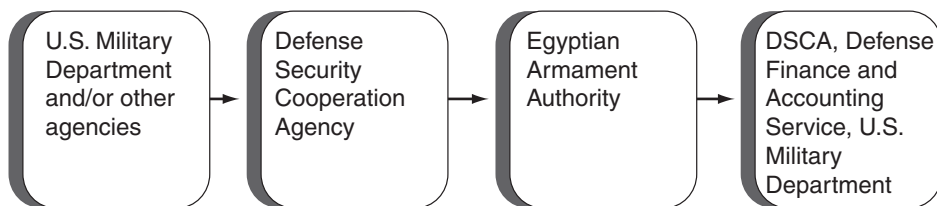
The review and approval process for FMF-funded purchases begins with the Egyptian military requesting the purchase of certain defense articles or services, and ends with a signed letter of offer and acceptance for those goods or services. Figure 5 depicts the review and approval process below.

Figure 5: Letter of Request and Letter of Offer and Acceptance Review Process

Letter of Request Review Process



Letter of Offer and Acceptance Review Process



Source: GAO.

The relevant Egyptian military department sends a letter of request (LOR) to the Egyptian Armament Authority, which then forwards it to the U.S. OMC in Cairo to be processed. If approved, the LOR is sent back to the Egyptian Armament Authority and then to the Egyptian Procurement Office, which forwards it to the DSCA and the appropriate U.S. military department.

The relevant U.S. military department and agencies—including the Army, Navy, Air Force, the National Security Agency, and the Defense Logistics Agency—generate a Letter of Offer and Acceptance (LOA) and send it to DSCA to coordinate with the State Department and notify Congress, if

Appendix II
Letter of Request and Letter of Offer and
Acceptance Process

required. Once endorsed by DSCA or the relevant military department or agency, the LOA is sent to Egypt for acceptance and signature. After acceptance, LOAs are sent to DSCA, DFAS, and the relevant military department or agency. The country program director for Egypt registers the LOA into various databases that track the program.

Agency and Organizational Roles and Responsibilities

The principal U.S. entities responsible for administering and implementing the FMF program are State and DOD. The table below further describes their roles and responsibilities.

Table 1: Agency and Organizational Roles and Responsibilities

Department or organization		Roles and responsibilities
State	Pol-Mil	Supervises and directs security assistance programs.
DOD	OSD	Supervises security assistance programs and integrates departmental plans and policies with overall national security objectives.
	CENTCOM	Responsible for: <ul style="list-style-type: none"> • exercising all unified command responsibilities for security cooperation programs; • developing and implementing security cooperation plan for Egypt and other countries in the Middle East area of responsibility; • commenting on major Egyptian equipment requests; and • coordinating with the Secretary of Defense, Joint Chiefs of Staff, military departments, and U.S. embassy officials in Cairo.
	DSCA	Administers and supervises FMF planning and programs, develops FMF guidance, and approves requests for the financing of individual projects and contracts.
	OMC	Plans and manages in-country aspects of the FMF program to Egypt and reports directly to CENTCOM and to the U.S. ambassador to Egypt. OMC assists in: <ul style="list-style-type: none"> • managing foreign military sales (FMS) case management; • training and other support for specific FMS cases; • monitoring end-use of equipment and training; • advising on disposal and transfer of weapons and equipment; and • evaluating Egyptian strategic and operational capabilities and requirements.
	MILDEPS and other agencies	Responsible for: <ul style="list-style-type: none"> • preparing, executing, and managing individual FMF-funded cases; • developing letters of offer and acceptance; • soliciting bids and negotiating and awarding contracts; and • overseeing delivery of defense articles and services.
	DFAS	Ensures sufficient funds are available in Egypt's FMF account and provides spending authority approvals to the U.S. military departments to pay for goods and services on Egypt's behalf.
Egyptian Ministry of Defense	EAA	Egyptian entity that manages the FMF program.
	Egyptian Procurement Office	Directorate of the EAA responsible for reviewing and approving procurement of military goods and services through the FMF program.

Legend:

- CENTCOM – U.S. Central Command
- DFAS – Defense Finance and Accounting Service
- DOD – Department of Defense
- DSCA – Defense Security Cooperation Agency
- EAA – Egyptian Armament Authority
- EPO – Egyptian Procurement Office
- MILDEPS and other agencies – Military Departments (Army, Navy, Air Force, and Marines), Defense Logistics Agency, National Security Agency
- OMC – Office of Military Cooperation (Cairo, Egypt)
- OSD – Office of the Secretary of Defense

**Appendix III
Agency and Organizational Roles and
Responsibilities**

POL-MIL – Bureau of Political-Military Affairs
State – U.S. Department of State

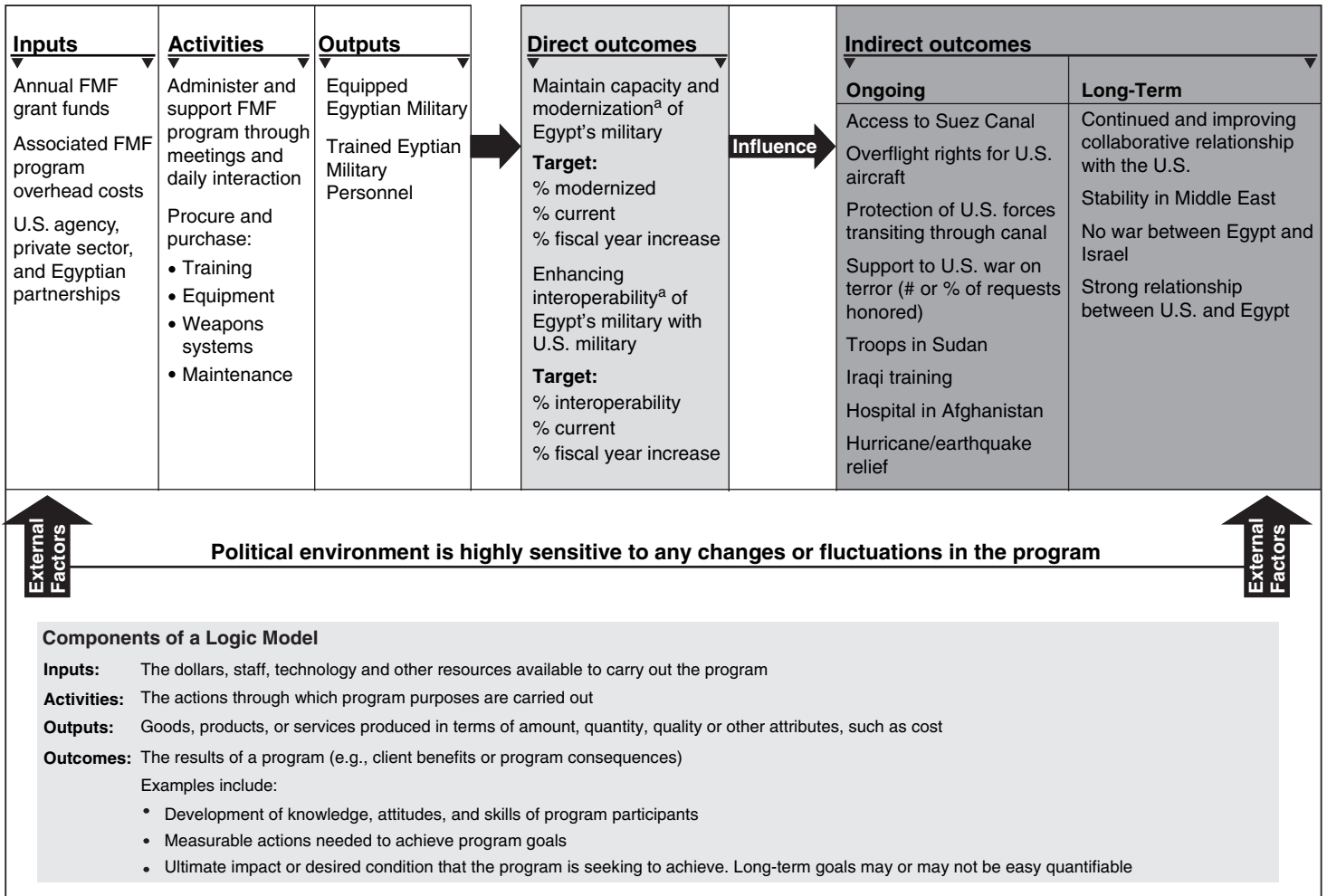
Source: GAO analysis of agency data.

Example of an Evaluation Framework

The logic model we provide below is a foundation and first step for organizing the elements of a program. It is a tool that may help program managers identify the necessary elements for an evaluation—but it is not a complete evaluation itself. This model can also be used to communicate how program funds are used to achieve program goals. Figure 5 depicts how FMF dollars (inputs), training and procurement (activities), and the resulting equipped and trained military (outputs) can be linked to enhanced modernization and interoperability (outcomes). We are not prescribing this or any other specific model, and the figure below provides a high-level example in aggregate that is meant to be illustrative and does not define all of the exact inputs, activities, and outputs of the FMF program for Egypt. A program evaluation would typically include a breakdown of these aggregated elements in further detail and would include definitions of standards, benchmarks, and targets for each program goal.

**Appendix IV
Example of an Evaluation Framework**

Figure 6: Using a Logic Model to Link Inputs, Activities, and Outputs to Outcomes



Source: GAO.

^aDOD will need to define standards and desired levels for these terms.

Comments from the Department of State



United States Department of State

Assistant Secretary and Chief Financial Officer

Washington, D.C. 20520

MAR 22 2006

Ms. Jacquelyn Williams-Bridgers
Managing Director
International Affairs and Trade
Government Accountability Office
441 G Street, N.W.
Washington, D.C. 20548-0001

Dear Ms. Williams-Bridgers:

We appreciate the opportunity to review your draft report, "SECURITY ASSISTANCE: State and DoD Need to Assess How the Foreign Military Financing Program for Egypt Achieves U.S. Foreign Policy and Security Goals," GAO Job Code 320342.

The enclosed Department of State comments are provided for incorporation with this letter as an appendix to the final report.

If you have any questions concerning this response, please contact Amy Coletta, Program Analyst, Bureau of Political and Military Affairs, at (202) 736-4266.

Sincerely,

A handwritten signature in black ink, appearing to read "Bradford R. Higgins".

Bradford R. Higgins

cc: GAO – Muriel Forster
PM – Michael Coulter
State/OIG – Mark Duda

Department of State Comments on GAO Draft Report

**SECURITY ASSISTANCE: State and DoD Need to Assess
How the Foreign Military Financing Program for Egypt Achieves
U.S. Foreign Policy and Security Goals**
(GAO-06-437 GAO Code 320342)

The State Department appreciates the opportunity to review and comment on the draft Report "SECURITY ASSISTANCE: State and DoD Need to Assess How the Foreign Military Financing Program for Egypt Achieves U.S. Foreign Policy and Security Goals." The Foreign Military Financing (FMF) program for Egypt is a key foreign assistance program. The Department is committed to executing the program in an efficient manner that complies with the law and enhances U.S. national security and foreign policy goals.

As the report indicates, the FMF program for Egypt is a critical tool in maintaining regional stability and supporting Egypt, an important partner in the Middle East. The Department confirms the accuracy of the GAO's description of the types and amounts of FMF assistance provided to Egypt.

With regard to the assessment of the financial arrangements used to provide FMF assistance to Egypt, the Department would like to note that the large reserves of unspent balances accumulated in the Egyptian FMF program by 1998 were not a result of the cash-flow financing process. As the report itself notes, countries not accorded access to cash flow financing have also accumulated reserves, in their case often in anticipation of large purchases. As far as Egypt is concerned, FMF is reserved in the year in which it will be used for a payment. Currently, the accumulated balances have been reduced to almost zero. The Department recommends correcting this inaccuracy and hopes the final report will note that the accumulated balances have been nearly eliminated.

Recommendation #1 – Assessment of the impact of potential shifts in future appropriations on the Egypt FMF program

The Department agrees that any shift in future appropriations of the Egypt FMF program will have a significant impact on Egypt and our bilateral relationship – financially, militarily, and strategically. For this reason, the Department has consistently advocated full appropriation of the FMF request for Egypt in annual appropriations' acts. We note in this context that the Department is currently

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compiling the report recommended in the conference report attached to the FY 2006 Foreign Operations, Export Financing, and Related Programs Appropriation, (P.L. 109-102) (FOAA), to address the question of the balance between economic and military assistance for Egypt. We expect that report will reflect the continuing importance of maintaining the current balance.

The Department would like to emphasize that steps to mitigate the risk noted in the GAO report relating to out-year purchases are already in place. Sufficient termination liability reserves are maintained to pay costs associated with terminating contracts, should Egypt's FMF level be decreased in the future.

Recommendation #2 – Periodic program-level evaluations of the FMF program to Egypt

With regard to the recommendation for periodic program-level evaluations of the FMF program to Egypt based on benchmarks for certain defined goals, such as modernization or interoperability, the Department notes, as does the report, the difficulty of using quantifiable benchmarks to evaluate the success or effectiveness of the FMF program in light of its broader strategic aspects.

Trying to define and measure interoperability is a case in point. Interoperability definitions will vary by “operation,” for example. Moreover, any definition would need to take into consideration a range of associated factors, including the experience of the participation, the scale of the operation, and the political dynamics that may affect the Government of Egypt’s willingness and ability to interoperate effectively. Defining a desired level of interoperability would be speculative and may suggest goals that are not attainable politically or financially.

Regarding modernization, the Department will work with our colleagues at the Department of Defense to examine ways “modernization” can be better measured, including looking at factors suggested in the report, such as readiness and capabilities. Indeed, it may be more useful and meaningful to focus on specific capabilities we would like the Egyptian military to develop using FMF grant funds rather than try to measure broad concepts like modernization or interoperability. For example, certain capabilities are required prior to participation in such peacekeeping operations as Sudan, East Timor, Bosnia and Somalia, in which Egypt has participated. By measuring the capabilities of Egyptian forces participating in specific operations (vice measuring the level of

- 3 -

interoperability which would theoretically allow Egypt to participate in an operation), it may be possible to isolate some of the more strategic and political aspects.

While quantitative measurements are important to consider, the qualitative benefits of the FMF program are perhaps more critical. Ultimately, the program has a number of regional and national security-related goals, many of which cannot be reduced to a simple qualitative measurement as a definition of "success". The Department notes that, at combatant command's theater security cooperation conferences, State and DoD policy makers specifically focus on the way FMF is used to achieve U.S. national security goals. This is just one way that the U.S. Government strives to ensure that Egypt's FMF program is integrated with and makes a contribution towards achieving broader goals.

The draft report recommends using OMB's Performance Assessment Rating Tool (PART) in order to conduct such an evaluation. The NEA bureau, which includes Egypt's FMF program, is scheduled in fact for a PART review in August 2006.

Comments from the Department of Defense



DEFENSE SECURITY COOPERATION AGENCY
WASHINGTON, DC 20301-2800

MAR 29 2006

In reply refer to:
I-06/003157-MSA

Mr. Joseph A. Christoff
Director, International Affairs and Trade
U.S. Government Accountability Office
441 G Street, N.W.
Washington, D.C. 20548

Dear Mr. Christoff:

Attached is the Department of Defense (DoD) response to the GAO Draft Report, GAO 06-437, "SECURITY ASSISTANCE: State and DOD Need to Assess How the Foreign Military Financing Program for Egypt Achieves U.S. Foreign Policy and Security Goals, February 24, 2006 (GAO Code 320342)."

Representatives from the Defense Security Cooperation Agency (DSCA) and GAO met March 21, 2006, to review technical changes identified by DSCA, which the GAO agreed to incorporate in its draft report. The attachment provides a response to the recommendations, which DSCA concurs with comment.

My POC for this action is Bill Ellis, 703-604-6627.

Sincerely,

Attachment:
As stated


JEFFREY B. KOHLER
LIEUTENANT GENERAL, USAF
DIRECTOR

GAO DRAFT REPORT DATED FEBRUARY 24,
2006
GAO-06-437 (GAO CODES 320342)

"SECURITY ASSISTANCE: STATE AND DOD NEED TO
ASSESS HOW THE FOREIGN MILITARY FINANCING
PROGRAM FOR EGYPT ACHIEVES U.S. FOREIGN POLICY
AND SECURITY GOALS"

DEPARTMENT OF DEFENSE COMMENTS
TO THE GAO RECOMMENDATION

RECOMMENDATION 1: The GAO recommended that the Secretary of Defense conduct an assessment of the impact of potential shifts in future appropriations on the Egypt foreign military financing program, including identifying risks, planning a course of action for mitigating those risks, and developing mechanisms to anticipate, identify, and react to change. (p. 21/GAO Draft Report)

DOD RESPONSE: Concur. We agree that a shift in future appropriation of the Egyptian FMF program would have significant impacts some of which can be quantified and some of which perhaps cannot. DOD consistently advocates full appropriation of the \$1.3B annual FMF request for Egypt. The FMF budget request is prepared by the Department of State, and submitted to the President by the Secretary of State. Therefore, the recommendation should be to the Secretary of State, with assistance by the Secretary of Defense.

RECOMMENDATION 2: The GAO recommended that the Secretary of Defense conduct periodic program-level evaluations of the foreign military financing program to Egypt by defining the specific objectives for each goal, including defining current and desired levels of modernization and interoperability, and identifying appropriate indicators that would demonstrate progress toward achieving those objectives. (p. 21/GAO Draft Report)

DOD RESPONSE: Concur with comment. Under the Arms Export Control Act, the Secretary of State is responsible for the continuous supervision and general direction of sales, financing and exports (22 U.S.C. § 2752). Thus, the recommendation should be to the Secretary of State, with the assistance of the Secretary of Defense. The DOD, specifically Defense Security Cooperation Agency implements policies through the security assistance program for Egypt.

GAO Contact and Staff Acknowledgments

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Staff Acknowledgments

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