

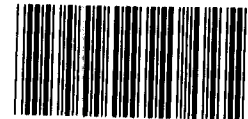
GAO

Report to the Honorable
Bill Alexander, House of
Representatives

August 1991

SOUTHWEST ASIA

Cost of Protecting U.S. Interests



144832

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National Security and
International Affairs Division

B-244511

August 14, 1991

The Honorable Bill Alexander
House of Representatives

Dear Mr. Alexander:

As you requested, we obtained information on the cost of activities related to the protection of U.S. interests in the Southwest Asia area.¹ Specifically, this report provides cost information on (1) U.S. military programs and activities in the region, (2) bilateral military and economic assistance to countries of strategic importance in the area, (3) multilateral economic assistance to countries in the Middle East, and (4) bilateral and multilateral nonmilitary assistance to any petroleum-producing country for activities related to petroleum exploration, production, and distribution. Cost data in this report cover fiscal years 1980 through 1990 to the extent such figures were available.

Background

In January 1980, following the Shah of Iran's fall from power and subsequent turmoil in the region, President Carter announced that the United States would use military force, if necessary, to protect its vital interests in the Persian Gulf against outside influence. In February 1981, President Reagan reaffirmed this commitment and expanded it to include indirect threats, such as those resulting from intraregional conflicts like the Iran-Iraq war. The U.S. Central Command is the military command responsible for protecting U.S. interests in Southwest Asia. The Command's peacetime strategy relies on maintaining a presence in the area, providing security assistance, and conducting combined military exercises.

Results in Brief

The Department of Defense (DOD) estimates that it spent \$21.4 billion during fiscal years 1980 through 1990 for military programs and activities directly related to Southwest Asia-specific missions. These programs and activities include such items as military construction, equipment prepositioning, and Central Command headquarters. In addition, DOD estimates it spent \$5.8 billion for other programs and activities

¹For purposes of this report, only those countries in Southwest Asia that throughout the 1980s and early 1990s were considered of strategic importance to the United States are included. These are oil-producing countries in the Middle East, particularly those located in the Persian Gulf area, as well as non-oil producers bordering strategic transiting points and key regional allies.

that were primarily Southwest Asia-oriented. Besides these expenditures, DOD estimates it invested about \$272.6 billion in programs that, although motivated by requirements outside of Southwest Asia, have proven to be useful in meeting contingencies in this region. These costs are mostly related to forces available to the U.S. Central Command. All these areas exclude the incremental costs² incurred during specific military operations such as Operation Earnest Will—reflagging of the Kuwaiti oil tankers—and Operations Desert Shield and Desert Storm. DOD estimated the incremental cost of Operation Earnest Will at \$240 million.³ For Operations Desert Shield and Desert Storm, the Office of Management and Budget estimated the incremental cost to be about \$61 billion.⁴ However, the United States is still receiving contributions from its allies, which it expects will cover most of the incremental cost to the United States. Appendix I provides more detailed information on military costs.

During fiscal years 1980 through 1990, the United States provided \$30.8 billion in foreign military assistance and \$28 billion under its economic assistance programs to countries of strategic importance in Southwest Asia.⁵ About 91 percent of this assistance was provided to Israel and Egypt to support long-standing U.S. objectives in the region. Appendix II provides more detailed information on the levels of bilateral military and economic assistance.

International organizations and multilateral development banks provided about \$6.6 billion in loans and grants from 1980 through 1990 to countries in the Middle East. Although the United States has provided a significant amount of bilateral energy assistance to the region, principally Egypt, it has not provided bilateral assistance for activities related to petroleum exploration, production, and distribution. Assistance for

²Incremental costs are over and above the costs of normal military operations.

³Burden Sharing: Allied Protection of Ships in the Persian Gulf in 1987 and 1988 (GAO/NSIAD-90-282BR, Sept. 6, 1990).

⁴We are, however, questioning this estimate and are currently examining the cost and funding requirements of Operations Desert Shield and Desert Storm and allied contributions. We have also testified on these issues. See Cost and Financing of Operation Desert Shield (GAO/T-NSIAD-91-03, Jan. 4, 1991), The Administration's Proposal for Financing Operations Desert Shield and Desert Storm (GAO-T-NSIAD-91-09, Feb. 27, 1991), and Cost of Operation Desert Shield and Desert Storm and Allied Contributions (GAO/T-NSIAD-91-34, May 15, 1991).

⁵U.S. foreign military and economic assistance refer to the range of U.S. government programs through which the United States aids other nations to defend and preserve their own national security and encourage economic development and reform. These programs are undertaken in support of U.S. political and foreign policy objectives.

petroleum exploration, production, and distribution has been provided by multilateral development banks, mostly by the World Bank Group. During fiscal years 1980 through 1990, the World Bank provided about \$3.8 billion in loans and financing throughout the world for this purpose. Appendixes III and IV provide more information on the levels of multilateral assistance and for petroleum exploration, production, and distribution.

Scope and Methodology

We interviewed officials, reviewed records, and obtained cost information at the Departments of Defense, State, and the Treasury and the Agency for International Development. We also received information from the U.S. Central Command in Tampa, Florida.

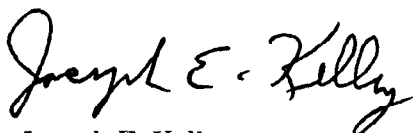
To determine the levels of bilateral military and economic assistance, we discussed with DOD and State officials the relative importance of each country in Southwest Asia in relation to the protection of U.S. interests in the region. As a result, levels of bilateral assistance are provided, where applicable, only for those countries that throughout the 1980s and early 1990s were considered important to U.S. security strategy. In addition, several East African countries are also included because of their strategic location and importance to the United States for regional contingency planning. (See app. V for map.) Figures for multilateral assistance, on the other hand, are provided for countries in the Middle East only, since this type of assistance is normally provided based on economic considerations and not strategic importance. Data for activities related to petroleum exploration, production, and distribution include loans extended by multilateral development banks for this purpose to any country regardless of its geographical location or petroleum-producing capability. We conducted our review from January through May 1991 in accordance with generally accepted government auditing standards.

We did not obtain formal written agency comments. We did, however, discuss the information in the report with cognizant officials in the Departments of Defense, State, and the Treasury and the Agency for International Development and have incorporated their comments where appropriate.

Unless you publicly announce the contents of this report earlier, we plan no further distribution until 30 days from its issue date. At that time, we will send copies to the Secretaries of Defense, State, and the Treasury; the Administrator, Agency for International Development; and appropriate congressional committees and Members of Congress. We will also make copies available to other interested parties upon request.

Please call me on (202) 275-4128 if you or your staff have any questions. The major contributors to this report were Stewart L. Tomlinson, Assistant Director, and Elena L. Boshier, Evaluator-in-Charge.

Sincerely yours,



Joseph E. Kelley
Director, Security and International
Relations Issues

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Abbreviations

AID Agency for International Development
DOD Department of Defense

Cost of U.S. Military Activities

Following the Shah of Iran's downfall in January 1979, the hostage crisis in Iran, the Soviet invasion of Afghanistan, and other politically destabilizing events in the Middle East, the United States reassessed its policies in Southwest Asia. In January 1980, President Carter announced the so-called "Carter doctrine," stating that the United States would use military force, if necessary, to protect its vital interests in the Persian Gulf against outside influence.

To develop an adequate capability to respond to contingencies in Southwest Asia, the administration established the Rapid Deployment Force in March 1980, later called the Rapid Deployment Joint Task Force. The Joint Task Force was to be a pool of rapidly deployable, U.S.-based forces that would give the United States the ability to respond to contingencies throughout the world. The focus of these forces became the Southwest Asia region. In January 1983, the Joint Task Force was redesignated the U.S. Central Command, which assumed U.S. operational military command responsibility for 18 countries in Southwest Asia. When required, approximately 400,000 personnel from the operating forces may be made available to the Central Command to carry out its responsibilities. Four service component commands and one subordinate unified command¹ report to the Command. Additional operating forces may be provided, if required, from other commands.

Throughout the years, U.S. interests and objectives in the region have included maintaining the uninterrupted flow of Persian Gulf oil, ensuring the security of Israel, and promoting a comprehensive resolution of the Arab-Israeli conflict. The United States has aimed at maintaining a presence and ensuring the stability and security of friendly governments in the region so that its interests would not be threatened by either direct Soviet intervention or regional turmoil. Because of the continued improvement in U.S.-Soviet relations, the U.S. Central Command now believes that the potential for direct conflict with the Soviets in this region has been significantly reduced. Instead, as demonstrated by Iraq's recent aggression, the most probable near-term threat to U.S. interests would likely originate from a regional conflict.

¹The Commander, Middle East Force, on-board the command's flagship stationed in the Arabian Gulf, is an operational commander under the control of the Commander, U.S. Naval Forces Central.

Military Programs and Activities

The United States has maintained a primarily naval presence in the Persian Gulf area since 1949. Throughout this period, the level of forces has varied depending upon the level of instability in the region. During the early 1980s, the United States committed itself to accelerate efforts to improve the capabilities of its forces, primarily those tasked to deploy to Southwest Asia. For example, it designated—from the existing force structure—units to be allocated to Southwest Asia contingencies, funded the procurement of maritime prepositioning ships as well as equipment, augmented its fast sealift capabilities, increased the number of naval battle group deployments, obtained emergency access to airfield and port facilities, and prepositioned military equipment and materiel ashore. As a result of these efforts, U.S. military capabilities in Southwest Asia have increased considerably over the years.

The Department of Defense (DOD) estimates that during fiscal years 1980 through 1990, it spent about \$21.4 billion for military programs and activities directly related to Southwest Asia-specific missions. In addition, it spent \$5.8 billion for other programs that were primarily Southwest Asia-oriented. Table I.1 provides a detailed breakdown of these costs.

Appendix I
Cost of U.S. Military Activities

Table I.1: Defense Expenditures Related to Southwest Asia (Fiscal Years 1980 Through 1990)

Dollars in fiscal year 1990 billions	
Southwest Asia-dedicated programs	
Military construction ^a	\$0.4
Maritime prepositioned squadron at Diego Garcia ^b	0.8
Afloat prepositioned ships	1.6
Air Force prepositioning and bare-base support	1.0
Central Command headquarters	0.6
Aircraft carrier battle group in Indian Ocean	16.1
Training	0.6
Joint combined exercises	0.3
Total Southwest Asia-dedicated programs	\$21.4
Southwest Asia-oriented programs	
Military construction ^c	\$0.7
Fast sealift ships	1.2
Ready Reserve Force	1.0
Flat racks and sea sheds ^d	0.4
Logistics over the shore ^e	0.8
Maritime prepositioned squadron (Atlantic and Pacific)	1.7
Total Southwest Asia-oriented programs	\$5.8

^aConstruction for facilities in Bahrain, Kenya, Oman, and Somalia.

^bDiego Garcia is a British island located in the Indian Ocean. The United States leases the island from the British government at no cost.

^cMilitary construction for facilities in Diego Garcia, the Azores (Lajes), and Morocco.

^dShipping containers.

^eLogistics over the shore refers to the capability of discharging ships and bringing their cargo across the beach.

Source: Department of Defense.

Southwest Asia-Dedicated Programs

According to DOD officials, Southwest Asia-dedicated programs, such as military construction, prepositioning, operation of the U.S. Central Command, and military exercises, were motivated by the need to defend and support U.S. interests in this region. If DOD were to be relieved of this mission, most of these programs would not continue to be funded.

DOD, however, points to two potential exceptions: (1) the maritime prepositioned squadron at Diego Garcia and (2) the carrier battle group operations in the Indian Ocean. The squadron at Diego Garcia would almost certainly continue to be funded primarily because Diego Garcia is used to support not only Southwest Asia but also the Pacific region.

Carrier battle group operations would probably continue to be funded because, according to DOD, it is unlikely that the level of these operations would have been lower had the United States not wished to keep a presence in Southwest Asia.

Southwest Asia-Oriented Programs

Southwest Asia-oriented programs received impetus from the need to be able to defend U.S. interests in this region, but they were also motivated by requirements in other regions. According to DOD, requirements in other regions might have taken precedence had Southwest Asia not been emphasized in the early 1980s. These programs would continue to be funded even if DOD were to be relieved of its Southwest Asia mission because they are needed for contingencies in other regions.

Other Contingencies and Mobility Programs

Besides expenditures for programs directly related and oriented to Southwest Asia-specific missions, DOD estimates that it invested about \$272.6 billion in other programs that were motivated by the need to develop capabilities that would enable the United States to defend its interests not only in Southwest Asia but also in other regions. Table I.2 provides a detailed breakdown of these costs.

Table I.2: Defense Expenditures for Other Contingency and Mobility Programs (Fiscal Years 1980 Through 1990)

Dollars in billions	
Marine Corps aviation support ships	\$0.1
Hospital ships	0.7
Strategic airlift	49.5
Conventional B-52s	2.0
Forces available to the U.S. Central Command	220.3
Total other contingencies and mobility programs	\$272.6

Source: Department of Defense.

According to DOD, although all of these programs were motivated by requirements outside of Southwest Asia, they have proven to be useful in meeting contingencies in this region as well as in other regions of the world. For example, forces available to the U.S. Central Command—the largest area of cost under this category—already existed when the Command was created in 1983. These forces were assigned to the U.S. Central Command for planning purposes only. Generally speaking, these forces are available to respond to contingencies anywhere, since for the most part, U.S. conventional forces serve multiple missions and theaters. This was demonstrated by the recent deployment to the Persian Gulf of

forces based in Europe. According to DOD, even if the Southwest Asia mission were to be eliminated, these programs would continue to be funded by DOD since they are needed for other regions as well.

Incremental Cost of Other Military Operations

In the late 1980s and early 1990s, the United States undertook two military operations in the Persian Gulf area: one designed to sustain open navigation in the Gulf and the other to defend key regional allies against invasion from Iraq. The incremental costs of these operations, however, do not reflect the investment the United States has made over the years in preparation for contingencies in Southwest Asia.

Under Operation Earnest Will, the United States reflagged and escorted Kuwaiti oil tankers through the Persian Gulf from May 1987 to August 1988 to protect them from Iranian attacks. DOD reported that the incremental cost to the United States of this operation was about \$240 million.

Under Operations Desert Shield and Desert Storm, U.S. and allied forces representing 31 countries engaged in combat and combat support missions during 1990 and 1991 to defend key regional allies against invasion from Iraq. The Office of Management and Budget estimated the incremental cost to be about \$61 billion. However, the United States is still receiving contributions from its allies and expects these contributions to cover most of the incremental costs.

Bilateral Military and Economic Assistance

The United States provides military and economic assistance to friendly nations and allies for a variety of purposes and objectives, reflecting near- and long-term U.S. national interests. Throughout the 1980s, military assistance to countries in Southwest Asia was generally designed to promote conditions that would (1) ensure facilities access agreements, (2) preserve Middle East peace and stability, and (3) reassure allies in the region of the U.S. commitment to assist them in developing and maintaining a capability to respond to threats to their security. During fiscal years 1980 through 1990, the United States provided about \$30.8 billion to countries of strategic importance in Southwest Asia under the Foreign Military Financing Program, the Military Assistance Program, and the International Military and Education Training Program, and about \$28 billion under its economic assistance programs.

Foreign Military Financing Program

The Foreign Military Financing Program enables U.S. allies to improve their self-defense capabilities through the acquisition of U.S. military articles, services, and training. Funding for the Foreign Military Financing Program has evolved over time from a loan to a predominantly grant program. Throughout the years, the program provided funding through two types of loans, direct and guaranteed. Under direct loans, DOD financed the procurement of defense articles from funds that were specifically appropriated for this purpose. Guaranteed loans, on the other hand, were financed through the Federal Financing Bank at interest rates slightly higher than U.S. Treasury rates.

Direct loans were used until the mid-1970s. From 1974 to 1984, almost all foreign military financing was in the form of guaranteed loans, with the exception of continued direct loans to Israel and Egypt. However, Congress was concerned about the effects of high interest rate financing on many developing countries debt service problems. As a result, in fiscal year 1985, it mandated totally forgiven (nonrepayable) assistance for Israel and Egypt and concessional (below Treasury interest rate) loans for other selected countries (P.L. 99-83, sections 101 and 102). In fiscal year 1990, most of the foreign military financing provided was in the form of grants.

During fiscal years 1980 through 1990, the United States provided about \$30.3 billion in financing to Djibouti, Egypt, Israel, Jordan, Kenya, Oman, Somalia, Sudan, and Yemen. Table II.1 shows the assistance provided under the Foreign Military Financing Program to these countries.

Appendix II
Bilateral Military and Economic Assistance

Table II.1: Foreign Military Financing Program Expenditures (Fiscal Years 1980 Through 1990)

Dollars in millions	
Fiscal year	Amount
1980	\$1,140.0
1981	2,073.0
1982	2,516.9
1983	3,126.3
1984	3,230.0
1985	2,673.0
1986	3,057.2
1987	3,103.0
1988	3,100.0
1989	3,110.0
1990	3,167.0
Total^a	\$30,296.4

^aTotal reflects forgiven, canceled, and concessional loans as well as grant funds.
Source: Defense Security Assistance Agency.

In Southwest Asia, Israel and Egypt have been the largest recipients of funds provided under the military financing program. Together, they received about \$29.3 billion, or 97 percent of the funding provided. According to DOD and State Department officials, assistance to these two countries, and to a lesser extent Jordan, has been provided in support of long-standing U.S. objectives in the region.

Since 1989, assistance to several countries in the region has been curtailed or suspended for a variety of reasons, ranging from human rights violations to lack of support for the United States during Operations Desert Shield and Desert Storm. These countries include Jordan, Kenya, Somalia, Sudan, and Yemen.

The Military Assistance Program

The Military Assistance Program, established under the Mutual Defense Assistance Act of 1949, originally provided for the granting of military equipment, materials, and services to allied and friendly nations. In recent years, assistance provided under the original program has been limited to funding for meeting administrative expenses associated with the implementation of military assistance. Starting in fiscal year 1982, Military Assistance Program funds were merged with recipient countries' foreign military financing credits and financing to pay for purchases by the recipient military cases (P.L. 96-533, section 112(a)).

**Appendix II
Bilateral Military and Economic Assistance**

During fiscal years 1980 through 1990, the United States provided about \$472 million to Djibouti, Jordan, Kenya, Somalia, Sudan, and Yemen under this program. Table II.2 shows the amount of assistance.

Table II.2: Military Assistance Program Expenditures (Fiscal Years 1980 Through 1990)

Dollars in millions	
Fiscal year	Amount
1980	\$0
1981	0
1982	26.0
1983	69.0
1984	95.0
1985	105.5
1986	58.2
1987	62.6
1988	39.2
1989	16.1
1990	0
Total	\$471.6

Source: Defense Security Assistance Agency.

International Military and Education Training Program

The International Military and Education Training Program provides instruction and training in military skills and U.S. military doctrine to foreign military and related civilian personnel on a grant basis. This training and education complement various national security and foreign policy objectives, including improved readiness, standardization of weapons, and better access to key military personnel and policymakers in foreign countries. During fiscal years 1980 through 1990, the United States provided about \$78 million to Djibouti, Egypt, Jordan, Kenya, Oman, Somalia, Sudan, and Yemen under this program. Table II.3 shows the amount of assistance.

Table II.3: International Military and Education Training Program Expenditures (Fiscal Years 1980 Through 1990)

Dollars in millions	
Fiscal year	Amount
1980	\$3.3
1981	4.1
1982	8.4
1983	8.0
1984	8.8
1985	9.5
1986	8.4
1987	8.2
1988	7.3
1989	6.5
1990	5.3
Total	\$77.8

Source: Defense Security Assistance Agency.

Bilateral Economic Assistance

The United States provides economic assistance mainly through three forms:

- The Economic Support Fund is aid to promote economic or political stability where the United States has special strategic interests. It is used primarily to provide balance of payments support through the provision of direct financial assistance or the financing of commodity imports. The State Department is responsible for policy direction and program justification, while the Agency for International Development (AID) administers the program.
- Development Assistance generally finances specific activities in agriculture, population, health, education, energy, and other development sectors. AID is responsible for program direction.
- Food assistance is provided under the Agricultural Trade Development and Assistance Act of 1954, as amended, commonly known as Public Law 480. The food programs subsidize food sales under title I of the legislation and provide donations under title II. The Departments of Agriculture, the Treasury, and State and AID participate in formulating program direction.

During fiscal years 1980 through 1990, the United States provided about \$28 billion under these programs to Djibouti, Egypt, Israel, Jordan, Kenya, Oman, Somalia, Sudan, Syria, and Yemen. Table II.4 shows the amount of assistance.

Appendix II
Bilateral Military and Economic Assistance

Table II.4: Economic Assistance Expenditures (Fiscal Years 1980 Through 1990)

Dollars in millions	
Fiscal year	Amount
1980	\$2,265.3
1981	2,147.6
1982	2,206.2
1983	2,166.1
1984	2,436.4
1985	3,868.6
1986	3,551.4
1987	2,536.1
1988	2,290.7
1989	2,386.4
1990	2,430.3
Total	\$28,285.1

Source: Agency for International Development.

Of the \$28 billion provided to these countries, about \$24 billion, or 84 percent of the funds, were provided under the Economic Support Fund program. The Economic Support Fund is the most flexible type of economic assistance and can be given under diverse circumstances to support U.S. economic, political, and security goals. As with foreign military assistance, Israel and Egypt have been the major recipients of Economic Support Fund assistance.

Multilateral Assistance

During fiscal years 1980 through 1990, major international organizations and multilateral development banks provided about \$6.6 billion in grants and loans to countries in the Middle East.¹ Multilateral assistance is normally provided based on need.

The United Nations and multilateral development banks, in particular the World Bank, are the major providers of multilateral assistance to countries in the Middle East. The United States contributes, on an assessed and voluntary basis, to most United Nations programs. As of September 30, 1989, it also held more votes in the World Bank than any other country. According to Treasury officials, the United States considers its participation, especially in the multilateral development banks, extremely cost-effective in contributing to the achievement of its global economic and financial objectives. Table III.1 provides a breakdown of the assistance provided by the major international organizations and multilateral development banks to countries in the Middle East.

Table III.1: Multilateral Assistance to Countries in the Middle East (Fiscal Years 1980 Through 1990)

Dollars in millions	
Fiscal year	Amount ^a
1980	\$703.5
1981	463.6
1982	737.9
1983	616.4
1984	809.6
1985	702.7
1986	549.0
1987	463.6
1988	491.7
1989	535.1
1990	552.7
Total	\$6,625.8

^aData represent assistance from all sources available to the various organizations, including contributions, subscriptions, and bond issues.

Source: Agency for International Development.

¹These countries were Bahrain, Egypt, Iran, Iraq, Israel, Jordan, Kuwait, Lebanon, Oman, Qatar, Saudi Arabia, Syria, and the Republic of Yemen.

Assistance for Activities Related to Petroleum Exploration, Production, and Distribution

The United States has not provided any bilateral economic assistance to petroleum-producing countries for activities related to petroleum exploration, production, and distribution. According to AID officials, these activities are normally undertaken by private U.S. oil companies. AID, however, has provided assistance in several other areas related to oil. Multilateral development banks, in particular the World Bank, have provided loans to eligible countries for activities related to petroleum exploration, production, and distribution. During fiscal years 1980 through 1990, the World Bank provided about \$3.8 billion in loans and financing for this purpose.

U.S. Assistance

AID provides some assistance to developing countries for energy purposes, but its energy projects focus on efficiency and conservation rather than promoting export capabilities. AID missions under the jurisdiction of the Bureau for Europe and the Near East accounted for about 78 percent of the agency's energy-related obligations in fiscal year 1990. Most of these funds were obligated for Egypt (\$121.5 million) and used for energy infrastructure projects. AID, however, has provided assistance to train oil professionals in a number of petroleum areas and funded a few programs related to oil in general.

Under its training program, AID has provided assistance in areas such as (1) applied petroleum exploration and production technologies, (2) management of petroleum enterprises, and (3) petroleum management. AID estimates that it spent about \$5 million from fiscal year 1982 through 1990 for these training programs.

Under its Conventional Energy Technical Assistance project, AID has funded a few programs in recent years related to oil in general. The purpose of this project is to (1) assist countries to identify, evaluate, and develop their conventional energy resources, (2) utilize these resources more efficiently, and (3) reduce dependence on imported oil while improving efficiency and environmentally clean performance. Fiscal year 1990 was the last year of the Conventional Energy Technical Assistance project. Efforts funded under this project related to oil include:

- a \$1 million management information system for Egypt's General Petroleum Corporation,
- a \$30,000 oil shale assessment project in Egypt, and
- a \$350,000 oil shale direct combustion electricity generation program in Jordan.

Multilateral Assistance

Multilateral development banks, in particular the World Bank, have provided some assistance to petroleum-producing countries for petroleum exploration, production, and distribution. According to Treasury officials, lending for petroleum by regional multilateral banks has been minimal.¹

The World Bank is a multilateral lending institution composed of three separate legal entities: the International Bank for Reconstruction and Development, the International Development Association, and the International Finance Corporation.² The International Bank for Reconstruction and Development provides the bulk of World Bank loans. It finances lending operations primarily from its borrowings in international capital markets. The interest rate charged is adjusted every 6 months to provide a margin over the cost of World Bank borrowing. These loans are repayable over 15 to 20 years and must be made to a government or have a governmental guarantee. The International Development Association provides similar assistance, but provides it primarily to the poorest developing countries on concessional terms. The International Finance Corporation supports economic development by directly promoting growth in the private sector and by helping to mobilize domestic and foreign capital for this purpose.

During fiscal years 1980 through 1990, the World Bank provided about \$3.8 billion in loans and financing for petroleum exploration, production, and distribution throughout the world. Table IV.1 provides a breakdown of this assistance.

¹The banks are the Inter-American Development Bank, the Asian Development Bank, and the African Development Bank Group.

²A fourth entity, the Multilateral Investment Guarantee Agency, encourages foreign investment in developing countries by providing guarantees against loss caused by noncommercial risks. It is not a lending agency.

**Appendix IV
Assistance for Activities Related to
Petroleum Exploration, Production,
and Distribution**

Table IV.1: World Bank Loans and Financing for Activities Related to Petroleum Exploration, Production, and Distribution (Fiscal Years 1980 Through 1990)

Dollars in millions	
Fiscal year	Amount^a
1980	\$148.0
1981	764.5
1982	352.7
1983	504.7
1984	432.5
1985	290.2
1986	252.5
1987	269.0
1988	81.0
1989	639.8
1990	109.5
Total	\$3,844.4

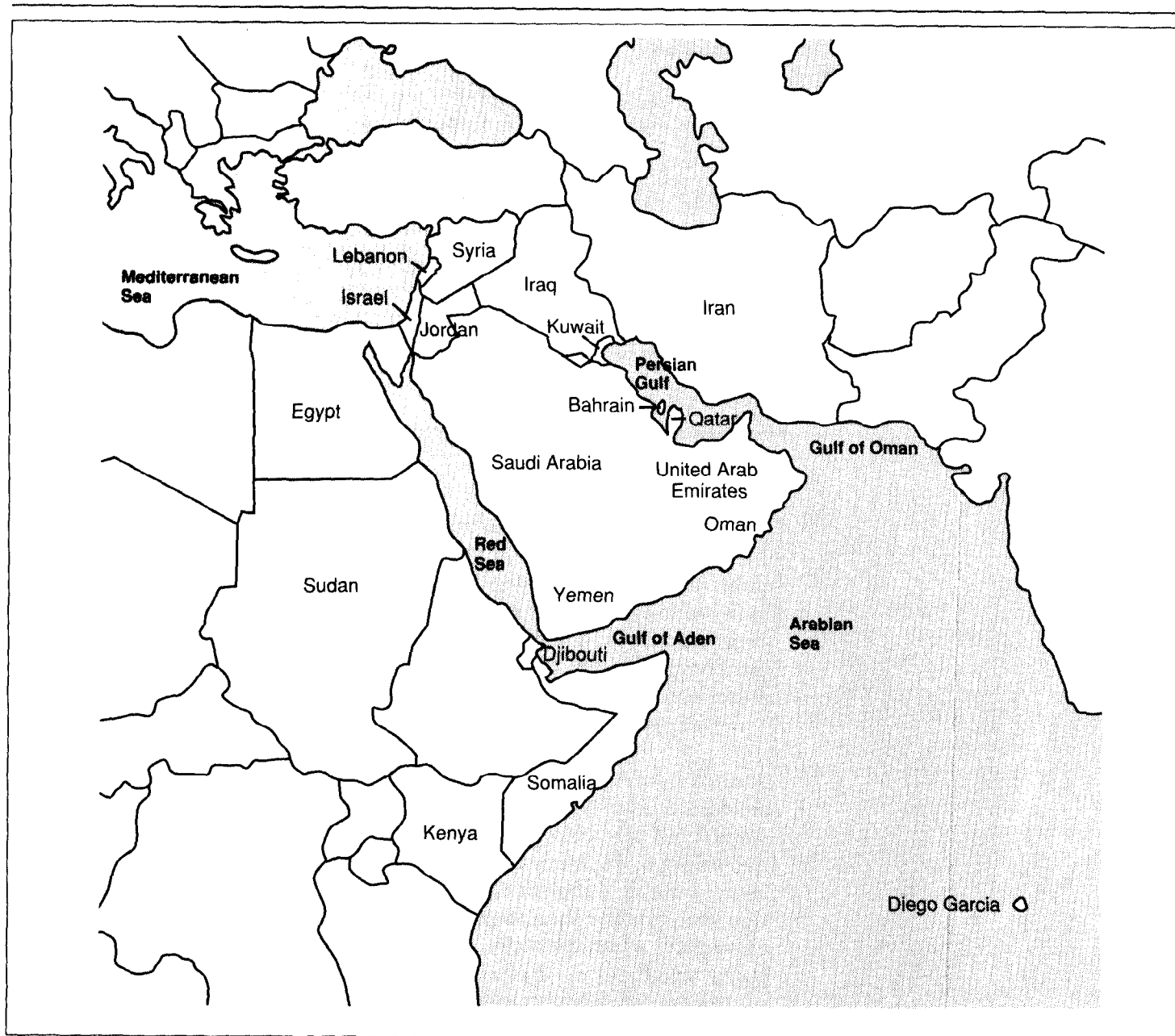
^aAmount includes principal only.

Source: The World Bank.

According to Department of the Treasury officials, petroleum-related loans have fluctuated over the years and are expected to decrease as other sectors receive more attention. During recent years, sectors that have received the most significant shares of World Bank lending are electrical power, development finance companies, and agricultural and rural development. According to the Treasury officials, the United States has succeeded in significantly reducing the level of World Bank Group support for petroleum exploration in recent years.

Most of the recipients of World Bank loans for petroleum exploration, production, and distribution are not oil producers. Similarly, the majority of the recipients do not have a petroleum exporting capability. According to Treasury officials, the purpose of most of these loans has been to enable recipient countries to meet their local energy consumption needs rather than assisting them to develop a significant export capability. Asian countries, particularly India and China, have been the major beneficiaries of petroleum loans, followed by Latin American countries. Asian countries received about \$1.7 billion or 45 percent of the loans. Middle East countries, on the other hand, received only about \$466 million or 12 percent of the loans.

Southwest Asia and Adjacent Areas



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