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Debt Owed to the United States by Foreign Countries: Recent Rescheduling and Forgiveness

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DEBT OWED TO THE UNITED STATES BY FOREIGN COUNTRIES: RECENT RESCHEDULING AND FORGIVENESS

SUMMARY

Foreign countries owed the U.S. Government $56.2 billion at the end of fiscal year 1992 (excluding unresolved debt owed as a result of World War I). All but about 1% of this was owed by the governments of the borrower countries. Long-term loans accounted for 96% (about $54.16 billion) of the total owed. Some 62% of this had been lent on concessional repayment terms through U.S. foreign programs, while the remaining 38% was lent on market-rate terms by U.S. agencies financing the sale of U.S. exports. Developing countries account for about 90% of the debt owed by foreign countries to the U.S. Government.

Between the end of fiscal year 1989 and the end of fiscal year 1992, the total amount owed the U.S. Government by foreign countries declined 14%. The total debt would have exceeded the $65.249 billion owed at the end of fiscal year 1989, however, if the U.S. Government had not forgiven foreign debt totalling $11.239 billion during this three-year period. (An additional $342 million was forgiven in fiscal year 1993, bringing the total to $11.582 billion.)

Through the Paris Club, the U.S. Government rescheduled $14.341 billion in debt owed by 43 countries (20 of them low-income countries). All of these countries were unable to manage their pre-rescheduling debt load and were in danger of imminent default. Despite the fact that a substantial amount of overdue payments were rescheduled through the Paris Club during this three-year period, the total debt payment arrears owed to the U.S. Government by foreign countries grew from $3.7 billion at the end of fiscal year 1989 to nearly $5.2 billion at the end of fiscal year 1992.

In 1989, Congress passed legislation (Sec. 572 of the fiscal 1990 foreign operations appropriation act) authorizing the Administration to forgive foreign aid debt owed to the U.S. Government by sub-Saharan African countries and other low-income countries. In 1991, Congress initiated additional legislation (renewing the authority of Sec. 411 of the P.L. 480 Act) empowering the Administration to forgive foreign aid debt for low-income countries attributable to old food aid loans. Between these two programs, $2.7 billion in debt was forgiven between fiscal years 1990 and 1992. In 1990, President Bush proposed that additional debt be forgiven through the Enterprise for the Americas Initiative (EAI). Through the EAI legislation enacted in 1990 and 1992, the U.S. Government forgave $605.3 million in Latin American foreign aid debt.

Meanwhile, for more traditional foreign policy reasons, President Bush proposed in 1990 and Congress approved debt forgiveness totalling $1.6 billion in debt owed by Poland and $6.7 billion in debt owed by Egypt. All but a small portion of the debt forgiven was market-rate export finance loans.

In fiscal year 1992, the Federal Credit Reform Act of 1990 went into effect, altering the accounting and budgetary treatment of debt forgiveness. This may make it less likely that legislators and agency officials will wish to use debt forgiveness in the future as a major vehicle for assisting debtor countries.

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I

DEBT OWED TO THE UNITED STATES BY FOREIGN COUNTRIES: RECENT RESCHEDULING AND FORGIVENESS

OVERVIEW

This paper examines the amounts of money owed to the U.S. Government by other countries as a result of U.S. foreign loan programs and other activities. It identifies the regions and countries with the largest debt. It describes U.S. procedures for rescheduling debt owed by countries unable to meet their current obligations. It also discusses recent instances where the U.S. Government forgave debt owed to it by developing countries and countries of key importance to U.S. foreign policy. Consistent with the procedure used by the U.S. Treasury Department, the amounts reported here exclude unresolved debt owed as a consequence of World War I.

Historically, the U.S. Government has rarely forgiven debts owed to it by foreign governments and individuals.[1] It has been willing to adjust the repayment schedule, when the borrowers found they were unable to meet the original repayment terms for U.S. loans. Generally, however, the rescheduling process has been effected on a businesslike basis. Any foreign assistance effect of U.S. loans was provided up front, through the activity financed by the loan and any concessions or discounts in the payment terms. The debt collection procedure was not treated as an additional avenue for providing aid.

During the 1980s, many developing countries found that the burden of servicing their foreign debt had become a serious impediment to their economic development. Growth rates declined, as a larger share of their national income had to be channeled towards paying foreign debt. Social and political tensions within the debtor countries were exacerbated. The debtor countries' purchases of new goods and services from their creditor countries also declined.

Between 1989 and 1991, the United States and other creditor countries agreed to reschedule more debt owed by developing countries (an average $33.33

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[1] In 1953, the U.S. Government forgave $2 billion of the $3 billion the United States had lent to West Germany through the Marshall Plan and other post-war economic aid programs. The remaining $1 billion was scheduled for payment over 35 years at an interest rate of 2.5%. This put Germany on the same basis as other European countries, who had received most of their post-war assistance in the form of grants rather than loans. In 1973, Congress endorsed a plan whereby India prepaid existing rupee-denominated debts to the U.S. Government. In turn, the United States granted back $2.2 billion worth of rupees to finance mutually agreed economic development activities in India. This resolved problems caused by large U.S.-owned local currency balances accumulating as a result of repayments for U.S. food aid loans. These rupees, which could be spent only for limited purposes, were a source of strain between the two countries. The U.S. Government has also written-off some non-guaranteed loans to foreign firms or individuals after the borrowers defaulted and legal remedies through foreign courts had been exhausted.

billion annually) than they had during any comparable three-year period. The creditor countries were also more flexible and generous in the terms on which they rescheduled debt owed them by the most heavily indebted low- and middle-income countries. In 1991, largely for foreign policy reasons, the United States took the lead in urging creditor countries to reschedule on favorable terms debt owed to them by Poland and Egypt. Between fiscal years 1990 and 1992, the U.S. Government rescheduled $14.341 billion in principal and interest owed it by foreign countries. Poland and Egypt accounted for 66% of this rescheduled debt.

During this three year period, for a mixture of humanitarian and foreign policy reasons, the U.S. Government also forgave $11.239 billion owed it by foreign countries. It forgave another $342 million in fiscal year 1993, raising the total to $11.582 billion. Often, the U.S. Government both rescheduled and forgave debt for individual countries. It forgave some of the debt owed by 24 of the 43 countries for which it rescheduled debt payments between 1990 and 1992. Likewise, the U.S. Government rescheduled debt owed by 25 of the 33 countries where it forgave debt during this period. For Egypt and Poland, the U.S. debt forgiveness was closely linked to the rescheduling of debt those countries owed to the United States and other countries.

The movement towards debt forgiveness began with an initiative by Congress in 1989, augmented by subsequent legislation in 1991, authorizing the Administration to forgive foreign aid debts owed by countries in Africa and other very poor countries. As a result, the Administration wrote off $2.7 billion in low-income country debt. In 1990, President Bush proposed, in the Enterprise for the Americas Initiative, that debt be written off for Latin America in order to encourage democratization and economic policy reform. Following the adoption of legislation in 1990 and 1992, $605 million in foreign aid debt was forgiven through this program. President Bush also recommended in 1990 that debt owed by Egypt should be forgiven in order to assist and demonstrate U.S. support for that country. Congress concurred and added a similar debt write-off for Poland. As a result of legislation approved in 1990, $8.3 billion owed by these countries (most of it market-rate debt) was forgiven in fiscal year 1991.

AMOUNTS OWED TO THE U.S. GOVERNMENT

SIZE AND COMPOSITION OF DEBT

Foreign countries owed the U.S. Government $56.2 billion at the end of fiscal year 1992, largely as a result of loans provided by the U.S. foreign aid and export finance programs.[2] (See table 1.) Overall, about 99% of this was owed

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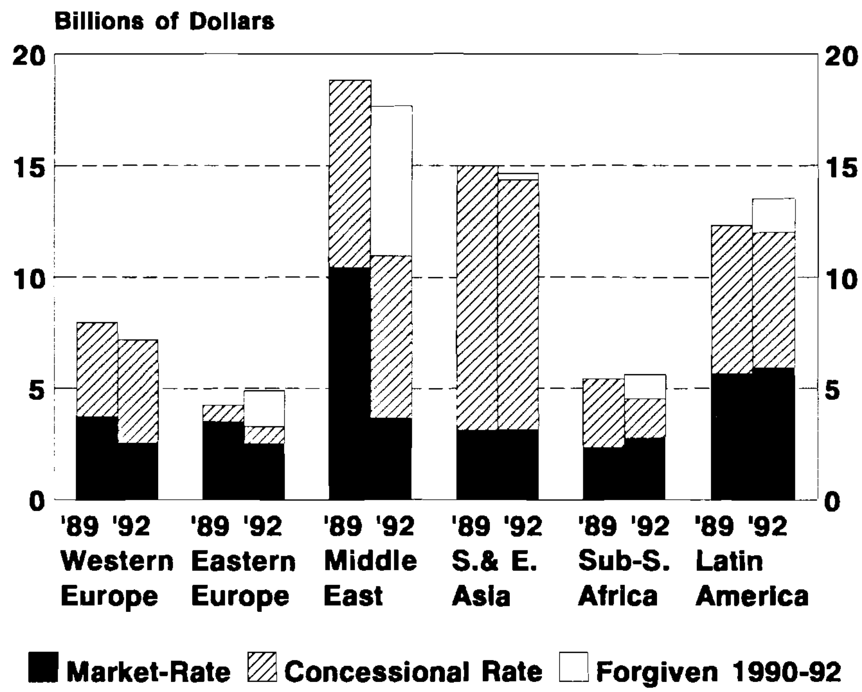
[2] These data are published three times a year by the U.S. Treasury Department. The cited numbers are drawn from the publication, *Status of Active Foreign Credits of the United States Government*, for the issues September 30, 1989 and 1992 and December 31, 1992. It also provides data on debt arrears for each U.S. program and borrower. More detail is provided in the Treasury

Table 1. Foreign Debt Owed to the U.S. Government
(at the end of fiscal years 1989 and 1992 and calendar year 1992)

Millions of Dollars	Sept. 1989 Total Debt	Sept. 1992 Total Debt	Dec. 1992 Total Debt
Bilateral Economic Aid	$19,104.0	$16,576.4	$16,199.6
*Military Aid	16,177.2	9,590.2	9,653.0
Food Aid (P.L. 480)	12,505.1	12,049.9	12,092.2
*Commodity Credit Corp.	4,197.7	5,063.5	5,160.8
*Export-Import Bank	10,439.6	10,459.7	9,969.6
W.W. II Acct Settlements/U.K. Loan	2,543.2	2,216.8	2,148.7
Other Miscellaneous	281.5	242.6	245.8
Total, U.S. Foreign Loans	$65,248.9	$56,200.7	$55,469.7

* Market-rate loans. (Military aid total includes $2.7 billion in concessional rate loans.)
Source: *Status of Active Foreign Credits of the United States....* for dates shown.

Figure 1. Long-Term Debts Owed to the U.S. Government by Foreign Countries, End of Fiscal Years 1989 and 1992, and Amounts Forgiven, 1990-92



See regional definitions, footnote 8.

publication, *Amounts Due and Unpaid 90 Days or More on Foreign Credits of the United States Government.* For a discussion of laws concerning debts owed to the U.S. Government, see CRS Report 91-381 A, *Statutory Authorities Related to Official Foreign Debt* (April 30, 1991.)

or guaranteed by governments. The amount owed to the U.S. Government by foreign countries has decreased by 14% since the end of fiscal year 1989.

The foreign debt owed to the U.S. Government consists of three items: long-term loans, short-term loans, and accounts receivable.[3] At the end of fiscal year 1992, long-term loans accounted about 96% and accounts receivable 4% of the total. Short-term debt was negligible. Of the $54.17 billion in long-term debt, about 61% ($32.86 billion) was lent on concessional terms[4] for development and foreign policy purposes through U.S. foreign aid programs.[5] Another 13% ($7.26 billion) was lent on market-rate terms for similar purposes by U.S. foreign aid agencies.[6] The remaining 26% ($14.06 billion) was lent on market-rate terms by U.S. export finance agencies to facilitate the sale of U.S. agricultural or manufactured products to other countries.

PRINCIPAL DEBTOR COUNTRIES AND REGIONS

Developing countries account for most of the debt owed to the U.S. Government by foreign nations. At the end of fiscal year 1992, low- and middle-

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[3] Besides direct loans, the U.S. Government also guarantees or insures some kinds of commercial loans and investments. Information on these is provided in the Treasury publication, *Contingent Foreign Liabilities of the United States Government*. At the end of fiscal 1992, these contingent liabilities totalled $39.3 billion. They included: $6.86 billion for OPIC insurance and $2.05 billion for housing guarantees, provided for developmental purposes; $7.4 billion in Defense Department guarantees for commercial loans financing foreign military sales in connection with the U.S. foreign aid program; $10.74 billion in C.C.C guarantees for commercial loans financing U.S. agricultural exports; and $12.25 billion in Eximbank guarantees for commercial loans financing other U.S. exports. Some of the debt owed to the U.S. Government (Table 1) became U.S. claims against a foreign government after that government defaulted on a guaranteed loan and a U.S. agency paid off the original lender. Subrogated claims restructured as government-to-government debt are included in the total for long-term debt. Unrestructured claims are included in the total for debt owed the U.S. Government but not in the total for long-term debt. In September 1992, the C.C.C. and military aid program held $1.62 billion in such claims. The Eximbank does not report its subrogated claims. These are not included in the total owed the U.S. Government by other countries.

[4] With a few exceptions, most U.S. foreign aid is now provided on a grant basis. Previously, however, U.S. development aid loans were lent for amortization periods of 25 to 40 years (usually the latter) at 2.5% to 3% interest. P.L. 480 Title I food aid loans are still lent at 40 years amortization and 3% interest. Since 1985, the Defense Department has made concessional direct loans to selected countries for amortization periods of 12 years, generally at an interest rate of 5%.

[5] This includes $2.7 billion in concessional military aid lent to selected countries since 1985 as well as the balance remaining from the 1945 loan to Great Britain and the postwar agreements settling the cost of Lend-Lease and other wartime programs. It also includes the balance from the 1971 Indonesian debt settlement. For more on the U.S. programs, see CRS Report 93-361 F, *Foreign Assistance: an Overview of U.S. Aid Agencies and Programs* (March 26, 1993.)

[6] This includes $6.89 billion in market-rate military aid loans from the Defense Security Assistance Agency and Federal Financing Bank and $366 million in market-rate credit provided for activities authorized by the Foreign Assistance Act of 1961, such as the Housing Investment Guarantee (HIG) Program and the Overseas Private Investment Corporation (OPIC).

income countries owed the U.S. Government $49.75 billion, about 89% of the total debt. High-income countries owed the U.S. Government $6.45 billion, about 11% of the total. Ten countries accounted for 52% of the total debt.[7]

The Middle East[8] was the region with the largest long-term debt to the U.S. Government at the end of fiscal year 1989, as figure 1 shows. By the end of fiscal 1992, however, due to the forgiveness of debts owed by Egypt (discussed below), the amount owed by countries in this region had fallen substantially. The amounts owed by Asia and Latin America also declined. Nevertheless, because the Middle Eastern debt declined more, Asia and Latin America became the regions with the largest and second-largest long-term debts to the U.S. Government, respectively, by the end of fiscal year 1992. Sub-Saharan Africa and Eastern Europe had the smallest debt to the United States. As figure 1 indicates, Latin America, sub-Saharan Africa, and Eastern Europe would have owed the U.S. Government more at the end of fiscal 1992 than they did at the end of 1989 if the United States had not forgiven a major portion of their debt.

Table 2. Repayment Terms for Debt Owed the U.S. Government by Six Regions, 1989 and 1992

	Market-Rate		*Concessional*	
	1989	1992	1989	1992
West Europe	46%	35%	54%	65%
East Europe	82%	76%	18%	24%
Middle East	55%	33%	45%	67%
Asia	21%	22%	79%	78%
Africa	43%	61%	57%	39%
Latin America	46%	49%	54%	51%

Figure 1 also shows that several regions owed a large share of their debt on market-rate terms. The amounts are shown in table 2. The Middle East saw the market-rate share of its debt to the U.S. Government fall from 55% in fiscal year 1989 to 33% in fiscal year 1992. Africa, by contrast, saw the market-rate share of its debt increase from 43% in 1989 to 61% in 1992. Three regions (Africa, Eastern Europe, and Latin America) were paying market-rate terms on approximately half or more of their debt to the U.S. Government at the end of fiscal year 1992.[9]

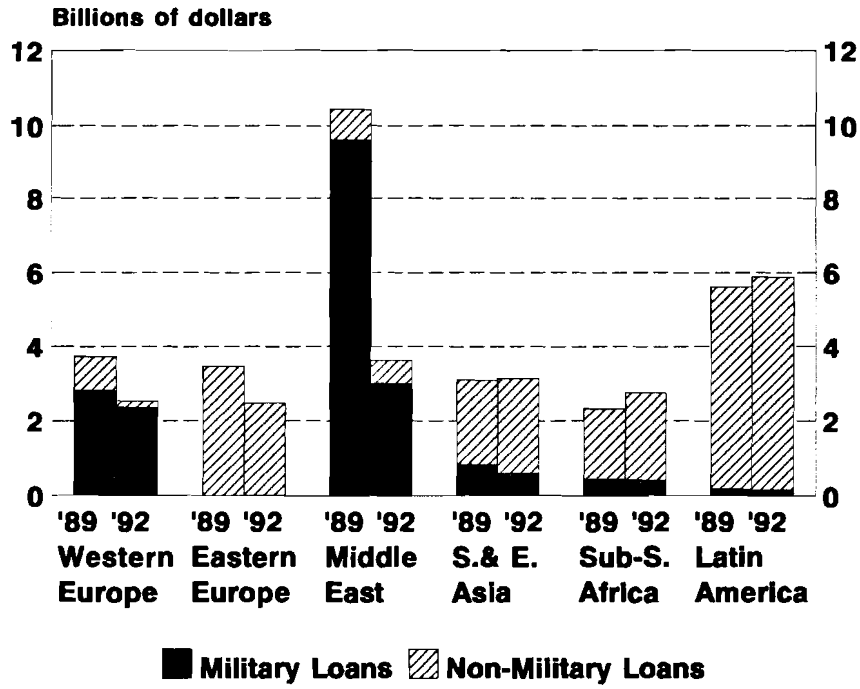
[7] As of September 30, 1992, the ten foreign governments owing the largest amount were (billions of dollars): (1) Egypt $6.006, (2) Israel $3.961, (3) Pakistan $3.371 (4) Brazil $2.657, (5) Turkey $2.611, (6) India $2.492, (7) Indonesia $2.447, (8) Poland $2.119, (9) Greece $2.035, and (10) the Philippines $1.656. This is net of debt forgiveness through 1992. The total increases by $63 million, if debt owed by private debtors is included, but the order does not change.

[8] For the purpose of this analysis, the Middle East includes North Africa and Iran. Western Europe includes Canada, Greece, and Turkey (NATO countries) and Scandinavia. Eastern Europe includes the successor countries to the former Soviet Union.

[9] This overstates the relative "hardness" of U.S. assistance, as it does not include U.S. grant aid. In fiscal 1992, the U.S. foreign aid program obligated $693 million in grants for Western Europe (mostly military aid for Turkey, Portugal, and Greece), $719 million for Eastern Europe, $5.399 billion for the Middle East (mostly military aid for Israel and Egypt), $937 million for Asia, $1.812 billion for Africa, and $$1.369 billion for Latin America. The share of market-rate debt will be strongly affected by the amount of new market-rate debt a country acquires and the speed with which it retires old obligations. Concessional debt is repaid over a much longer period. The total tends to reflect the volume of foreign aid loans countries received in prior decades.

Countries owe market-rate debt to the United States for a variety of reasons. As figure 2 shows, most of this type of debt owed by countries in the Middle East and Western Europe is due to market-rate military aid loans. Foreign policy considerations were the principal motivation for these loans -- to improve the military capabilities of Portugal, Greece, Turkey, and Spain in order to further the goals of the NATO alliance and to strengthen Israel and Egypt in order to further U.S. policy goals in the Middle East. By contrast, all market-rate debt owed by countries in Eastern Europe and almost all that owed by countries in other parts of the world is due to loans made by the Eximbank and C.C.C. programs to finance U.S. commercial exports. Foreign policy concerns were sometimes be an important factor in these loan decisions as well.

Figure 2. Military Loans as a Share of Regions' Market-Rate Debt to U.S. Government, (fiscal years 1989 and 1992)



See regional definitions, footnote 8.

DEBT RESCHEDULED, FISCAL YEARS 1990-92

The repayment picture for debt owed to the U.S. Government by foreign countries is mixed. Most of the 148 countries, 17 foreign dependencies, and 9 international organizations that owe the U.S. Government money have made their debts payments more or less on time. Several dozen have had serious difficulty, however, staying current on their payments. Table 3 shows that foreign countries were $3.744 billion in arrears in their payments to the U.S. Government at the end of fiscal year 1989. Total arrears grew to $5.156 billion by the end of fiscal year 1992, even though many arrears were rescheduled during this period.[10] Despite considerable loan forgiveness for both programs (see below), arrears for P.L. 480 Title I food aid loans grew 58% and arrears for C.C.C. agricultural export loans grew 335% between 1990 and 1992. Overdue payments from Iraq ($1.3 billion) account for virtually all the growth in C.C.C. arrears. The total for C.C.C. arrears does not include any payments from Russia or other former Soviet republics which were overdue in fiscal year 1993.

PARIS CLUB RESCHEDULING AGREEMENTS

Between fiscal 1990 and 1992, the U.S. Government rescheduled $11.644 billion in principal and $2.697 billion in interest owed by 43 countries. (See table 4.) Of these, 23 were middle-income and 20 were low-income countries, according to the World Bank's categorizations and data. None were high-income countries. Egypt and Poland accounted for 83% of the total. Figure 4 shows that the Middle East and Eastern Europe were the regions where the U.S. Government rescheduled the most debt during this period. Over 55% of that debt was repayable on market-rate terms. For most regions, market-rate debt accounted for most (in some cases, over 90%) of the debt to the U.S. Government rescheduled during these years. Only in the Middle East was market-rate debt a minor share of the total, reflecting the rescheduling of $2.24 billion in P.L. 480 food aid debt effected in fiscal year 1991.

Figure 3. Debt Rescheduled, Fiscal Years 1990-2

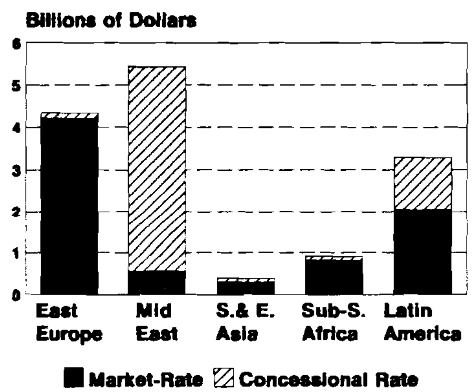


Table 3. Foreign Debt Arrears, 1989 and 1992

$ Millions	Sept. 1989	Sept. 1992	Dec. 1992
Economic Aid	$569	$467	$187
Military Aid	787	565	579
Food Aid	314	498	520
C.C.C. Loans	369	1,606	1,710
Eximbank	1,465	1,835	982
Postwar Loans	118	125	125
Other Misc.	122	70	70
Total Arrears	$3,744	$5,156	$4,173

[10] No data are available on the amount of arrears that ceased to be overdue when they were rescheduled. The Treasury Department and Office of Management and Budget report that more than half the arrears owed at the end of fiscal 1992 would cease to be overdue in 1993 when recently signed Paris Club agreements went into effect. For more information, see their submission to Congress, *Report on Debt and Scheduled Debt Service Owed to the U.S. Government by Foreign Official Obligors as of September 30, 1992*, dated September 1993. The Executive Branch changed the way it gathers data on arrears in 1991 and the 1989 number fell by $54 million. Thus, the growth in arrears is actually $54 million greater than the amount shown here.

Table 4. Debts Rescheduled, Fiscal Years 1990-92
(Millions of Dollars)

Sub-Saharan Africa	***$905.9***	***Middle East***	***$5,449.3***
Angola	1.0	Jordan	155.1
Cameroon	119.0	Morocco	197.1
Central African Republic	4.2	Egypt	5,097.2
Gabon	6.2		
Ghana	.6	***Latin America***	***$3,259.4***
Guinea	16.9	Argentina	474.6
Ivory Coast	103.3	Bolivia	131.4
Kenya	.7	Brazil	1,115.6
Madagascar	3.2	Chile	39.4
Mali	.6	Costa Rica	38.2
Mauritania	1.7	Dominican Republic	.2
Mozambique	35.2	Ecuador	67.8
Niger	4.8	El Salvador	93.3
Nigeria	308.2	Guatemala	1.3
Senegal	11.0	Guyana	37.0
Tanzania	20.6	Honduras	55.0
Uganda	.5	Jamaica	406.2
Zaire	272.8	Mexico	375.0
Zambia	37.7	Nicaragua	52.6
Zimbabwe	57.6	Panama	103.0
		Peru	251.7
Other Countries	***$4,721.8***	Trinidad and Tobago	17.1
Indonesia	1.2		
Philippines	378.3		
Poland	4,342.3	**TOTAL**	**$14,3410.0**

The Administration has the authority to reschedule debts owed the United States if it finds this is necessary to facilitate repayment. On this basis, it enhances the prospects for collection of the outstanding debt. Rescheduling does not forgive debt. Rather, it changes the payment schedule so a country can better meet its obligations. The overall size of a country's official debt to the United States may increase if the interest due as a result of the original loan is rescheduled (i.e., capitalized) in order to reduce the country's annual payments.

The Paris Club is the main forum where the United States and other countries reschedule medium- and long-term debts owed to them by foreign governments.[11] (A similar informal forum, the so-called "London Club," also reschedules debt owed to commercial banks.) The debtor country begins the process by asking its creditors for help rescheduling its debts. Representatives of the debtor country and its creditors then meet to work out a new payment

[11] For a further discussion of the Paris Club and debts rescheduled between 1980 and 1992, see: World Bank. *World Debt Tables, 1992-93*. Vol. 1. *Analysis and Summary Tables.*

schedule that treats all the creditors equitably. Through the Paris Club, countries may reschedule both the payments in arrears and the payments falling due in the near future (the consolidation period), generally the 12 to 18 months following signature of the rescheduling agreement. (The average consolidation period during U.S. fiscal years 1990, 1991, and 1992 was 18.3 months.) Both principal and interest may be rescheduled. Short-term debt and debt due as a result of agreements signed after a specified date (the contract cutoff date) may not. Likewise, debt payments due after the consolidation period (that is, a country's total stock of debt) are also not eligible for inclusion in the "agreed minute" embodying the Paris Club's rescheduling plan. Interest must be paid on all rescheduled debt, generally on the same basis (market-rate or concessional) as it was originally lent.

To qualify for Paris Club debt relief, countries must be in imminent default and have in place an economic stabilization program approved by the International Monetary Fund (IMF). Having an IMF program in place generally shows that the government of the borrower country is trying to correct the problems which put the country in a condition of imminent default.

During the 1980s, because of changes in the world economy, slow growth in their national economy, and other factors that made their current burden of debt payments insupportable, an increasing number of countries applied through the Paris Club for debt relief. In 1980, three agreements were signed, rescheduling $2.66 billion. In 1985, 22 agreements were signed, rescheduling $17.41 billion. In 1991, 16 agreements were signed, rescheduling $65.86 billion. Altogether, between January 1980 and November 1992, 192 debt agreements were negotiated, rescheduling $192.19 billion. Many countries returned to the Paris Club several times during this period to negotiate a series of agreements rescheduling or restructuring their foreign debts.

The problems of the low-income countries were particularly serious. Of the 58 countries rescheduling their debts through the Paris Club from 1980 to 1992, 30 were sub-Saharan African and 25 were low-income countries (per capita income below $650 in 1991). In many cases, their debt servicing problems were so severe that they could not be resolved within the normal consolidation period and they had to be rescheduled several times. African and low-income countries accounted for 62% of the Paris Club agreements signed between 1980 and 1992. In 1983, the Paris Club agreed to let poor countries reschedule previously rescheduled debt. (This practice has since become common for medium-income countries as well.) In 1987, the Paris Club agreed that low-income countries with heavy debt loads and weak balance of payments prospects should be allowed to reschedule debt over an extended repayment period at the lowest possible interest rate. In 1988 and 1991, the Paris Club decided (see below) that creditors could forgive some of the debt owed to them by low-income countries.

In September 1990, the Paris Club also agreed, implementing a decision reached in Houston by the leaders of the seven largest industrial countries (the "G-7"), that severely indebted lower middle-income countries should also be allowed to reschedule debt over an extended term. "Houston Terms" let debtors repay foreign aid debt over 20 years and market-rate debt 15 years (including 8 to 10 years grace.) They can also retire all their concessional debt and up to 10% of their market-rate debt through various debt-swap plans.[12]

FMS DEBT REFORM

On a few occasions, the U.S. Government has allowed favored countries to restructure debt owed to the United States on favorable terms outside the Paris Club process. A notable case was the Foreign Military Sales (FMS) "debt reform" program enacted in 1987.[13] This program had two components.

The first allowed countries to replace old military aid loans carrying interest rates of 10% or more (later 8%) and falling due after the start of fiscal year 1990 with new FMS guaranteed loans carrying the lower current interest rate.[14] No pre-payment penalty was required. Most military aid loans borrowed from the Federal Financing Bank (FFB) in the late 1970s and early 1980s to finance purchases of U.S. military aid had interest rates well over 10%.[15] The new arrangement reduced the borrower's debt service costs considerably. The 1987 law said the President could rewrite countries' military aid loans on this basis any time between fiscal years 1988 and 1991. Most

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[12] For a further discussion, see CRS Report 93-227 ENR, *Debt for Nature Initiatives* (February 16, 1993.)

[13] Initiated by Congress, the 1987 legislation built on similar initiatives approved earlier by President Reagan. For a discussion of these and the Administration's suggestions in connection with the 1987 legislation, see the testimony of Assistant Secretary of State Doug McMinn, March 6, 1987, printed in U.S. House. Committee on Appropriations. *Foreign Assistance and Related Programs Appropriations for 1988* [hearings], Part 3, 776-781. McMinn notes that, with the encouragement of the Reagan Administration, three countries (Korea, Spain, and Oman) were considering prepayment of $1.4 billion in high-cost FMS debt. Spain later chose to refinance its debt. DOD said in its fiscal 1988 budget justification statement, however, that Korea, Oman, and Thailand had prepaid some or all of their FMS debt in 1987. No legislation was required. Rather, according to an executive agency specialist, the Administration encouraged the countries to let their payments get at least one day overdue. This triggered the provision in the loan agreements requiring full payment of the balance in case of arrears. No prepayment penalty was required. The Administration does not normally require debtors to pay off their outstanding balances when they fall behind on their debt service obligations. This was reportedly a convenient way, however, for the three countries to relieve themselves of high cost FMS debt without penalty.

[14] The FMS guarantee assures a commercial lender that the Department of Defense will repay 90% of the amount it lends to finance an approved U.S. military aid purchase. Due to U.S. Government backing, the interest rate for such guaranteed loans is significantly less than the borrower would pay for a regular commercial loan.

[15] The Foreign Operations, Export Financing, and Related Programs Appropriations Act, 1988 (P.L. 100-202), Title III, approved December 22, 1987. The President was authorized to issue new FMS guarantees for the principal amount of FFB loans carrying interest rates of 10% or more that matured after the start of fiscal year 1990. The fiscal 1988 law said no country could receive U.S. military aid in the future if it fell more than 90 days behind in its payments of principal and interest for any refinanced loan or any other military aid loan outstanding at the date of enactment of the law.

countries took advantage of the opportunity to restructure their FMS debt by the end of fiscal year 1990.[16]

The second component specified that countries unable to qualify for the first option could ask to have the charge for their existing FFB loans reduced to 10%. The 1987 law said this could be done starting in fiscal year 1989. A later law reduced the interest rate for eligibility to 8% and postponed the start of the debt "buy down" program until after the beginning of fiscal year 1991.[17]

The Department of Defense (DOD) reports that 13 countries refinanced $9.639 billion in high- cost FMS debt (including $638 million in accrued interest) by September 30, 1991. This was about two-thirds of the $15.2 billion in principal and interest eligible for refinancing under the 1987 law. No country used the option to "buy down" its FMS interest rate. Israel accounted for $5.501 billion of the FMS debt refinanced. The country amounts are shown on table 5.[18] Egypt sought to refinance its FMS debt under this program but was unable to get its debt service payments sufficiently up to date to qualify.

Table 5. Countries Refinancing FMS Debt, Fiscal Years 1988-1991 (Millions of Dollars)

	Principal	Interest	Total
Israel	$5,365.7	$135.6	$5,501.3
Turkey	1,894.9	41.5	1,906.5
Pakistan	618.2	10.6	628.7
Greece	447.6	9.5	457.1
Spain	315.5	-.-	315.5
Jordan	219.0	3.4	222.5
Tunisia	196.2	-.-	196.2
Morocco	155.0	3.7	158.7
Thailand	83.9	-.-	83.9
Philippines	63.4	-.-	63.4
El Salvador	47.3	1.7	49.0
Honduras	29.3	.8	30.1
Kenya	25.8	.7	26.5
TOTAL	$9,431.7	$207.6	$9,639.3

The purpose of FMS debt reform was to lower the debt servicing costs for borrower countries. Israel, according to DOD figures, saves an estimated $150 million annually in

[16] The Defense Department said, in its fiscal 1991 congressional submission on security assistance, that nine countries (Israel, Turkey, Spain, Pakistan, Tunisia, Jordan, Morocco, Kenya, and Thailand) refinanced debt in this manner through 1990. Three countries (Korea, Oman, and Thailand) paid off some or all of their outstanding FFB debt without refinancing.

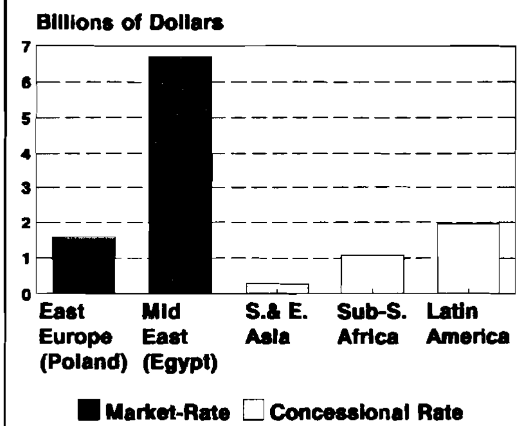
[17] Foreign Operations, Export Financing, and Related Programs Appropriations Act, 1990 (P.L. 101-167), Title III. The fiscal 1988 appropriation act provided that up to $270 million would be available after the start of fiscal 1989 to finance such "buy downs" of FFB interest rates. Those funds would be available, however, only if the President made a budget request for them. Borrower countries must also promise the President that, within two years of getting such reductions in the interest costs of their military aid loans, they will be no more than 90 days in arrears in their payments of principal and interest for all loans where the interest rate was reduced and they must promise to remain this current in their loan payments for the remaining life of the loan. The law says countries cannot get further military aid from the United States if they fail to comply with such commitments.

[18] Memorandum from the Defense Security Assistance Agency, November 19, 1993. DSAA says the countries also paid off another $12.3 million in arrears when their debt was refinanced.

debt service costs by refinancing of its high-cost FMS debt. Complete data on the amount saved by other countries are not available. The Defense Department estimated in March 1989, however, that the six countries which had refinanced $7.48 billion in FMS debt by that date had saved about $1.2 billion in debt service costs over the life of the refinanced loan.[19] Final data on the amount the FMS refinancing program cost the U.S. Government are also not available. The Defense Department told Congress in its March 1989 report, however, that the Federal Financing Bank had lost about $1.4 billion as a result of the FMS refinancing agreements benefitting the six countries.[20] Some of those costs were incurred during the three-year period covered by this paper.

DEBT FORGIVEN, FISCAL YEARS 1990-93

Figure 4. Debt Forgiven, 1990-93



Between fiscal years 1990 and 1993, the U.S. Government forgave $11.582 billion in debts owed by foreign countries. (All but $342 million of this was forgiven between fiscal years 1990 and 1992.) Loans to finance military sales comprised 58%, commercial export loans 13%, and concessional foreign aid loans 29% of the total. Egypt and Poland accounted for 71% of all forgiveness. Figure 4 shows that market-rate debt accounted for almost all the debt the U.S. Government forgave Egypt and Poland. By contrast, all the debt forgiven Asia, Africa, and Latin America was concessional foreign aid debt. Market-rate debt is repaid over a shorter period and at a higher rate of interest. Thus, the forgiveness of such debt offers larger and more immediate balance-of-payment benefits for the recipient than does the forgiveness of concessional debt.

Before 1992, various provisions of law required that an amount equal to the face value of a debt must be appropriated before the debt could be forgiven.

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[19] Letter to Hon. Jamie L. Whitten, Chairman, House Appropriations Committee, from Lt. Gen. Charles W. Brown, U.S.A., Director, Defense Security Assistance Agency, dated March 1, 1989. See House Foreign Operations Appropriations Committee hearings, *Foreign Operations , Export Financing, and Related Programs Appropriation for 1990*, Part 5, pp. 543-52. Certain figures in this letter were revised by Gen. Brown in his testimony. For a discussion of Israel's savings under the program, see CRS Report 93-513 F, *Israel: An Overview of U.S. Foreign Assistance* (May 20, 1993).

[20] The GAO later estimated that the cost to the U.S. Government was about $1.8 billion. U.S. General Accounting Office. *Security Assistance: Foreign Military Sales Debt Refinancing*. Report to the Chairman, Subcommittee on Europe and the Middle East, Committee on Foreign Affairs, House of Representatives. GAO Report GAO/NSIAD-89-175 (August 1989).

Most of the debt forgiveness discussed in this paper was effected, however, through laws that waived the requirement for appropriation. In 1992, the rules for the Federal budget process changed in ways that make it more difficult, in a budgetary sense, to forgive debt through such special means in the future.

The Federal Credit Reform Act of 1990, which went into effect in fiscal year 1992, requires U.S. agencies to value debts on the basis of the net present value of the expected payments, adjusted for the likelihood of default. On this basis, debts owed by countries with weak credit records may be worth much less than their face value. The amount appropriated for any debt forgiveness would be based on this lower value. The new law also required, however, that the cost of that appropriation must be charged against the foreign operations budget category. Before, since debt payments are treated as a miscellaneous receipt of the U.S. Treasury, the cost of debt forgiveness was charged against that account. In the future, from the point of view of legislators and agency officials, debt forgiveness will no longer be a costless way of helping other countries. Rather, the cost of doing it will be deducted from the funds available for their programs.

Between 1989 and 1991, Congress enacted three kinds of debt forgiveness programs. The first sought to lessen the debt burden of heavily indebted low-income countries (most of them located in Africa). The second sought, as a part of the Enterprise for the Americas Initiative, to ease the debt burden of the Latin American countries and to encourage democratic and economic reform. The third forgave large amounts of debt owed by Egypt and Poland, two countries of key foreign policy significance to the United States.

DEBT OWED BY LOW INCOME COUNTRIES

In 1988, following a G-7 meeting in Toronto, the Paris Club approved a menu of options ("Toronto Terms") by which creditor countries could forgive one-third of the debts eligible for rescheduling owed by low-income countries. Three years later, the leaders of the G-7 countries decided that additional steps should be taken to alleviate the debt burden of the poorest countries. In December 1991, they approved a new menu of options for the Paris Club ("Enhanced Toronto Terms") which allowed lenders to forgive up to half the debt eligible for rescheduling that was owed them by low-income countries. The two plans acknowledged, in effect, that the low-income countries could not repay all their debt, that the process of rescheduling unpayable debt was ultimately futile, and that steps should be taken to better match the poor countries' debt burden with their ability to pay.

To qualify for debt relief under these plans, countries had to be so poor that they received all their loans from the World Bank on concessional terms (i.e., per capita annual incomes of $765 or less.) The Paris Club rescheduled $5.9 billion for 20 countries on Toronto Terms and $3.8 billion for 16 countries on Enhanced Toronto Terms between 1988 and 1992.

Table 6. Foreign Debt Forgiven, Fiscal Years 1990-93
(Millions of Dollars)

	Sec. 572	Sec. 411	Enterprise for the Americas Initiative	Total
Sub-Saharan Africa	***720.7***	***416.2***	---	***1,136.9***
Benin	29.8	---	---	29.8
Burkino Faso	2.4	---	---	2.4
Cameroon	61.9	---	---	61.9
Côte d'Ivoire	18.0	---	---	18.0
Ghana	83.6	95.8	---	179.4
Guinea	4.5	---	---	4.5
Kenya[a]	85.6	102.0	---	187.6
Madagascar	5.8	53.4	---	59.2
Malawi	29.0	2.2	---	31.2
Mali	5.1	---	---	5.1
Mozambique	---	52.9	---	52.9
Niger	6.9	---	---	6.9
Nigeria	65.5	---	---	65.5
Senegal	---	34.5	---	34.5
Tanzania	79.6	59.1	---	138.7
Togo	7.4	---	---	7.4
Uganda	8.8	16.3	---	25.1
Zaire[a]	54.0	---	---	54.0
Zambia[a]	172.8	---	---	172.8
Latin America	***1,009.3***	***269.6***	***605.3***[a]	***1,884.3***
Argentina	---	---	3.8	3.8
Bolivia	339.6	---	30.3	369.9
Chile	---	---	30.6	30.6
Colombia	---	---	31.0	31.0
El Salvador	---	---	195.4	195.4
Guyana	76.4	37.1	---	113.5
Haiti	---	98.8	---	98.8
Honduras	333.9	108.9	---	442.8
Jamaica	---	---	310.9	310.9
Nicaragua	259.4	24.8	---	284.2
Uruguay	---	---	3.3	3.3
Other Countries	***$289.0***	---	---	***$8,561.0***
Bangladesh	289.0	---	---	289.0
Poland[a]	---	---	---	1,605.0
Egypt[a]	---	---	---	6,667.0
Total Forgiven	**$2,019.0**	**$685.8**	**$605.3**	**$11,582.2**

Source: Data supplied by the Agency for International Development, Department of Defense and Department of Agriculture.

[a] See footnote 22 in text for explanation.

The United States did not forgive any debt via these plans. The two Paris Club plans included an option allowing lenders to reschedule debt over a very long period, thus lowering a borrower's annual debt payments, without actually forgiving any debt. The Administration chose to use this option when it rescheduled $920 million in low-income country debt through the Paris Club between 1988 and 1992.

In May 1989, the House Appropriations Committee proposed and Congress subsequently passed legislation authorizing the President to forgive foreign aid debts owed to the United States by the poorest countries in fiscal years 1990 and 1991. The requirement for appropriation was waived. In 1991, Congress approved similar legislation authorizing the Administration to forgive debt owed by poor countries as a consequence of earlier P.L. 480 food loans.[21] As a result of these two laws, the United States forgave over $2.7 billion in debt owed by 25 countries. (See table 6.[22]) In some cases, the amount forgiven was greater than the debt forgiveness that was possible through the Paris Club process. Because it was a bilateral action, however, the U.S. debt forgiveness was not included in the Paris Club statistics.

In April 1993, the Clinton Administration proposed that the United States should also forgive non-concessional debt owed by low-income countries on Extended Toronto Terms. Because of the way this debt is now valued, appropriations of $14 million in the first two years of the three-year plan would cancel $228 million in debt owed by 18 countries. In September 1993, in the FY1994 Foreign Operations Appropriations Act (P.L. 103-87), Congress provided the $7 million requested to fund the first year of the plan. Congress said

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[21] Sec. 572 of the Fiscal 1990 Foreign Operations Appropriations Act (P.L. 100-461) authorized the President to forgive bilateral economic aid debts owed by sub-Saharan African or other "relatively least developed" countries during fiscal 1990 and 1991. Sec. 572 allowed the President to use the authority in Sec. 124(c)(1) of the Foreign Assistance Act of 1961 to forgive debt owed to the U.S. Government and waived the requirement of Sec. 124(c)(2) that funds had to be appropriated to effect such debt forgiveness. In 1991, the Dire Emergency Supplemental Appropriations Act (P.L. 102-27) empowered the President to use previously lapsed authority in Sec. 411 of the Agricultural Trade Development and Assistance Act of 1954 (P.L. 480) to reschedule or forgive debt owed by any "least developed country" for food aid loans. It also waived the requirement for appropriation. To qualify for Sec. 572 and Sec. 411 debt relief, countries had to have an IMF standby or a World Bank structural adjustment agreement in place. For more information on African bilateral and multilateral debt, see CRS Report 93-646 F, *African Debt: Recent Initiatives and Policy Options for Multilateral Bank Debt* (July 9, 1993.)

[22] On table 6, the total for Zambia includes $53.6 million forgiven in fiscal 1992 as a result of an agreement signed in 1990. The total for Zaire does not include $101.8 million, originally scheduled under terms of an agreement signed in fiscal 1990 for forgiveness in fiscal 1991 and 1992. The total for Kenya likewise excludes $38.7 million scheduled for 1992 under terms of a similar agreement. Both countries lost their eligibility for this debt forgiveness when they failed to comply with the requirement for economic policy reform. The debt forgiveness for Poland includes $46.8 million in foreign aid debt and $1.558 billion in export finance. The debt forgiveness for Egypt is all military sales loans. The total on table 6 for EAI forgiveness includes $342.3 million forgiven in fiscal 1993: Colombia $31.0 million, Chile $14.7 million, Argentina $3.8 million, El Salvador $195.4 million, Uruguay $3.3 million, and Jamaica $94.1 million.

countries will not be eligible if they fail to meet certain policy criteria.[23] Congress also said the United States should take the lead in proposing more Paris Club debt relief for low-income countries.[24]

ENTERPRISE FOR THE AMERICAS DEBT REDUCTION

The Enterprise for the Americas Initiative (EAI), announced by President Bush in June 1990, seeks to strengthen the process of democratic and economic reform in Latin America and the Caribbean.[25] Among other things, it authorizes the President to forgive up to 80% of the debt these countries owe the U.S. Government, as a result of bilateral economic or food aid loans, in order to encourage the adoption of market-based economic reforms.[26] The Administration may let borrowers to pay the interest due for the remaining debt in their own currency, to fund environmental programs (P.L. 480 debt) or child development programs (economic aid debt) in their countries. In 1992, Congress authorized a similar cancellation of debt owed to U.S. export finance agencies.[27]

Through the EAI plan, the Administration forgave $263 million in P.L. 480 debt owed by three countries in fiscal year 1991. (See table 6.) Congress appropriated $90 million in fiscal year 1993 to reduce EAI countries' foreign aid debt to the United States. As noted earlier, the Federal Credit Reform Act said

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[23] Sec. 570 says countries are eligible for such forgiveness only if they do not evidence excessive levels of military expenditures, have not repeatedly supported international terrorism, are not failing to cooperate in the international control of illegal drugs, and have not engaged in a consistent pattern of gross violations of internationally recognized human rights.

[24] Sec. 570 includes a "sense of the Congress" statement that "the President should seriously consider requesting debt reduction funds [in future years] sufficient to provide debt reduction to eligible countries in accordance with the so-called 'Trinidad Terms.'" John Major (then British Chancellor of the Exchequer) proposed, in 1990 in Trinidad, that Paris Club creditors should forgive two-thirds of the total debt owed them by a low-income country before they negotiate a new rescheduling agreement. No creditors have announced support for this plan, though it influenced the formulation of the Enhanced Toronto Terms. In June 1993, the House Banking Committee approved an amendment by Rep. Maxine Waters (to H.R. 3063) proposing that Trinidad Terms should be the basis for future U.S. debt forgiveness through the Paris Club.

[25] For further information, see CRS Report 93-715 F, *Enterprise for the Americas Initiative: Background, Congressional Action, and Future Prospects* (July 23, 1993.)

[26] The EAI debt forgiveness was enacted by Sec. 1512 of the 1990 farm bill (P.L. 101-624) and by the 1992 EAI Act (P.L. 102-549). To qualify, countries must have democratically elected governments, not repeatedly provide support for international terrorism, not fail to cooperate on international drug control, and not engage in consistent patterns of gross violations of internationally recognized human rights. They generally must have in place (or be near agreement on) an IMF or World Bank adjustment agreement, be making reforms in their investment laws, and have reached a satisfactory debt agreement with their commercial creditors.

[27] The Export Enhancement Act of 1992 (P.L. 102-429) authorizes cancellation of Eximbank loans owed by eligible hemispheric countries. The 1992 EAI Act (P.L. 102-532) authorizes the C.C.C. to eliminate up to 40% of the debt owed to it by eligible countries if the borrower allocates a substantial portion of the canceled debt (in local currency) to fund environmental activities.

these debts must be valued on the U.S. agencies' books at their estimated market value rather than at their face value. Consequently, the fiscal year 1993 appropriation enabled the U.S. Government to forgive an additional $342.3 million in principal and accrued interest that six countries owed for previous economic aid loans. The beneficiary countries committed $154 million in local currency for environmental and child development activities. The Administration requested, but Congress did not appropriate, funds to cancel attributable to previous U.S. concessional food aid loans and market-rate debt owed to the C.C.C. and Eximbank in fiscal years 1993 and 1994.

FORGIVENESS OF EGYPTIAN AND POLISH DEBT

Egyptian Debt

In 1990, the Administration proposed and Congress agreed that the United States should forgive Egypt's military aid debts to the United States.[28] This was in recognition of Egypt's role in the Gulf War and its importance for U.S. policy in the Middle East. Sec. 592 of the FY 1991 Foreign Operations Appropriations Act set the groundrules for this forgiveness. It required the Defense Department to carry Egypt's Foreign Military Sales (FMS) Program loans on its books at their real value. (The method used was similar to that mandated later by the Federal Credit Reform Act.) The law authorized the President to forgive this debt if (1) other major holders of Egyptian military debt agreed to forgive similar debts owed to them, or (2) he found that it was in the U.S. national interest to forgive this debt unilaterally. The provisions of law requiring appropriations to effect such forgiveness were waived.

The Defense Department subsequently reduced its valuation of Egypt's FMS debt from $6.7 billion to $997 million. On December 27, 1990, President Bush reduced Egypt's FMS debt to zero.[29] On May 25, 1991, the Paris Club rescheduled $28.16 billion in Egyptian debt, putting into effect a phased reduction in the country's foreign debt. The United States rescheduled $5.1 billion in Egyptian non-military debt in this agreement. It forgave no more Egyptian debt through the Paris Club. It did, however, stretch out Egypt's payments for earlier U.S. foreign aid and export loans, under Houston Terms, over an extended (16 to 23 year) period.

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[28] For additional information on this, see CRS Issue Brief 90137, *Egyptian Military Debt Forgiveness: Cost, Implications and the Role of Congress*, archived December 6, 1991.

[29] At various times, three numbers have been used to report the amount of Egyptian debt forgiven in 1990. First, the outstanding principal in December 1990 was $5.871 billion. Second, if the $673 million in subrogated claims paid by the Defense Department to the Federal Financing Bank and the $123 million in interest arrears are added to that figure, the total could be said to be $6.667 billion. Third, if the $161 million in accrued interest and $966 million in arrears (principal and interest) are added to the outstanding principal, the total could be said to be $6.998 billion. The second number is cited by the State Department in its reports to Congress and is used here. It may not include all the accrued interest. The third number seems to count the overdue principal payments both in the outstanding balance and in the arrears.

Polish Debt

In 1990, while considering the President's proposal for the forgiveness of debt owed by Egypt, Congress enacted a similar broad forgiveness of debt owed to the U.S. Government by Poland. This was done to signal strong U.S. support for Poland's post-Cold War program of political and economic reform and, by easing that country's debt burden, to facilitate further implementation of those reforms.[30] Sec. 599(G) of the FY1991 Foreign Operations Appropriations Act (P.L 101-513) urged the Administration and other creditors to take a comprehensive approach to the resolution of Poland's debt problems.[31] In Sec. 579, Congress also authorized the President adjust--multilaterally if possible and unilaterally if necessary--Poland's debt to the United States in ways that accurately reflect its "real collectability."[32] The President's authority to adjust Poland's debt in this manner was granted "notwithstanding any other provision of law." Among other things, this meant that no offsetting appropriation of funds was required.

The Paris Club agreed in April 1991 to reschedule $29.87 billion in Polish official debt on terms allowing a minimum 50% forgiveness of that debt. The reduction would be implemented in two three-year phases and could be greater than 50% if the creditor so chose. The United States announced plans to cut Poland's debt to the U.S. Government by 70%. The first phase, begun with the U.S.-Polish agreement of September 1991, forgave 50% ($1.605 billion) of this immediately. (This included $1.328 billion owed to the C.C.C., $230 million owed to the Eximbank, and $47 million owed to foreign aid agencies.) Poland contributed an amount in local currency equal to 20% of the forgiven debt to a new Polish environmental foundation. The second phase, scheduled for 1994, will cancel another $800 million in debt, most of it owed to the C.C.C. and Eximbank, and will raise the total forgiveness to 70% of the original balance. The 1994 round of debt forgiveness can occur only if Poland has remains in compliance with its IMF adjustment agreement and it receives debt relief from its commercial creditors comparable to that received from the Paris Club.

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[30] For further information, see CRS Report 91-474 E, *The Polish Official Debt Accord: A Problem of Containment* (May 17, 1991.)

[31] It said "any solution of [Poland's] debt problem should entail a broad range of approaches," including debt reduction, rescheduling, and infusions of new capital. It also said the President should work through the Paris Club to effect a reduction in Poland's debt.

[32] To help overcome any reluctance the executive branch might have about pursuing Polish debt forgiveness, Sec. 579 of the 1990 Act said that none of the funds appropriated for the European Bank for Reconstruction and Development could be obligated until the Poland's foreign creditors approved a multilateral debt reduction. (U.S. participation in the EBRD was a priority concern of the Administration.) The President was authorized to act unilaterally, however, if he found this would encourage similar action by Poland's other creditors. Congress also stipulated the conditions Poland had to meet to qualify for this aid. It had to conclude a loan agreement with the IMF and remain in clear compliance with its terms. It had to remain a democracy. It also had to be seeking comparable treatment for both public and private external debt.

CONCLUSION

Several conclusions might be drawn from the forgoing discussion. First, it appears that humanitarian and developmental motives were the initial reason the U.S. Government decided, in the late 1980s and early 1990s, to ease the terms on which it would reschedule debt and to forgive debt owed it by poor countries. As the requisite legislation was being passed and policy was being implemented, however, opportunities arose to use forgiveness and rescheduling as means for bolstering U.S. foreign policy in Eastern Europe and the Middle East. Thus, both sets of motives (humanitarian-developmental and diplomatic-strategic) may be cited as reasons why the U.S. Government relaxed its usual approach to debt collection during this period. In terms of the money, however, Poland and Egypt accounted for 66% of the debt the U.S. Government rescheduled and 71% of the debt it forgave during the period under examination. This underscores the important role that foreign policy and strategic concerns play in the direction of the U.S. foreign aid and U.S. export finance programs.

Second, the new U.S. policies on debt rescheduling and debt forgiveness seem to have reinforced, not diminished, the long-standing U.S. position favoring sound economic policy and economic reform in developing countries. All of the debt rescheduled during the 1990 to 1992 period was negotiated through the Paris Club. Countries must have an IMF adjustment loan agreement in place before the Paris Club will help them reschedule debt. Likewise, as regard debt forgiveness, all but one of the U.S. laws authorizing the forgiveness of debt required debtor countries to have an IMF or World Bank adjustment loan agreement in effect before the Administration could forgive any debt. Two African countries lost the opportunity for substantial debt forgiveness because they did not comply with the terms of their adjustment agreements.

The exception was Egypt. The fiscal 1990 appropriation act did not require Egypt to adopt any economic reforms as a condition for loan forgiveness. The forgiveness of Egypt's military debt to the United States was implemented, however, in connection with a major renegotiation of Egypt's foreign debt. President Bush forgave Egypt's debt before those negotiations were completed. Egypt signed a standby loan agreement with the IMF on May 1, 1991, though, several weeks before the Paris Club completed on May 25 its restructuring of the country's foreign debt.

Third, some of the U.S. debt forgiveness programs reduced the amount foreign countries owed to the U.S. Government but they did not necessarily reduce the borrower countries' total debt. The EAI and Polish debt forgiveness plans required countries to make payments in local currency (equal in value to all or part of what the United States forgave) in order to help finance environmental or child development programs in their countries. In effect, the agreement with the United States converted foreign debt into domestic debt. Obligations that previously had to be met with dollars could now be serviced with more readily available local funds. In most cases, the new situation is advantageous to the debtor country government. The economic effect will ultimately depend, however, on the way the debtor country government manages the change, the size of its pre-existing internal debt and the source from which it derives the funds to meet its increased domestic obligations.

Fourth, debt forgiveness became, in effect, another form of foreign aid. The amount of immediate financial assistance this provided to the debtor countries was often much less, however, than the amount of debt forgiven. Only a portion of the debt was generally due and payable at the time it was forgiven. In addition, many of the borrower countries were behind on their payments, so it is not clear how much their actual debt payments were reduced by the debt forgiveness. In February 1992, the Treasury and State Departments estimated[33] that all the debt forgiveness provided to low-income and EAI countries had reduced future U.S. Government receipts by $31.9 million in fiscal year 1992, $35.9 million in fiscal year 1993, and $37.6 million in fiscal year 1994. The two departments also estimated that the lost income resulting from the forgiveness of debt owed by Egypt and Poland totalled $129 million in fiscal year 1992, $167 million in fiscal year 1993, and $211 million in fiscal year 1994. The stream of benefits to the debtor country resulting from the U.S. debt forgiveness will run many years further into the future. Nevertheless, on an annual basis, the benefit that can be transferred via from debt forgiveness is about the same as that which can be provided through a modest increase in the allocation of U.S. grant foreign aid to the recipient country in any particular year.

Fifth, Congress has sometimes attached broader political or economic conditions to a debtor country's receipt of this type of foreign aid. In the 1990 legislation concerning Polish debt, for instance, Congress said that Poland had to remain a democracy, it had to continue implementing economic reforms, and it had to seek comparable debt concessions from its foreign private creditors in order for it to be eligible for the forgiveness of debts it owed to the United States. Latin American countries, to be eligible for debt forgiveness under the EAI program, must have democratic governments, not violate the human rights of their citizens, and generally cooperate with the United States as regards opposition to international drug trafficking and international terrorism.

Congress did not attach such conditions to its 1989 and 1991 legislation authorizing the forgiveness of debts owed by low-income countries or the 1990 law authorizing the forgiveness of Egyptian debt. In 1993, however, Congress said that, to be eligible for the forgiveness of Eximbank debt, low-income countries must not spend excessive amounts on their military, violate the human rights of their citizens or fail to generally support U.S. policy concerning international drug trafficking and international terrorism.

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[33] Letter from Janet G. Mullins, Assistant Secretary for Legislative Affairs, State Department, and Mary C. Sophos, Assistant Secretary for Legislative Affairs, Treasury Department, to the Honorable Dante B. Fascell, Chairman, Committee on Foreign Affairs, House of Representatives. (Identical letters were also sent to the chairmen and ranking members of the other relevant House and Senate committees and subcommittees.) Submitting the Report on the Budget Impact of Fiscal 1991 Debt-Related Agreements. Dated February 7, 1992.

Sixth, the U.S. Government has demonstrated, through its subsequent action, that the forgiveness or rescheduling of debt need not be a barrier to the continued provision of assistance to the countries receiving such relief. Some spokesmen for international agencies have said that their organizations cannot reschedule or forgive debt owed them by developing countries because it would prejudice the creditworthiness of those countries and prevent them from getting assistance in the future. The U.S. experience shows that official lending agencies provide credit to other countries, not only on the basis of commercial calculations, but also to effect foreign policy decisions by their governments.

Every one of the countries where the United States forgave debt between 1990 and 1992 had a U.S. foreign aid program in effect in fiscal year 1992. In the 32 countries where non-military foreign aid debt was forgiven during that period, the U.S. Government provided $2.094 billion in new foreign aid during year fiscal year 1992. (This included $101 million in new food aid loans.) The U.S. export finance agencies also provided new credit to the countries where U.S. debt was written off. The Eximbank and Commodity Credit Corporation have not lent or guaranteed loans to many low-income countries for years, on account of their poverty and their lack of creditworthiness. The Eximbank made $874 million in new credit available, in fiscal year 1992, though, to 10 of the countries where the U.S. Government forgave debt in the previous three years. This included $279 million for Poland, a country where the Eximbank had written off $230 million of its own funds the previous year. The Commodity Credit Corporation made new loan guarantees totalling $154.5 million in fiscal year 1992 to seven of the countries where the U.S. Government had recently forgiven debt.

Seventh, it may be that the debt forgiveness provided by the United States in fiscal years 1990, 1991, and 1992 will not be as easily repeated in the future. For one thing, much of the foreign aid debt owed by the neediest countries has already been forgiven. More importantly, however, the new rules governing the budgetary treatment of foreign debt forgiveness may inhibit legislators and administrators from using this device to the same degree in the future.

In retrospect, it seems that the requirement for appropriations may not have been the major barrier against the forgiveness of foreign debt. All the laws enacted between 1989 and 1991 authorizing the forgiveness of debt waived the requirement for appropriation, notwithstanding any other provision of law. No funds were appropriated by Congress to effect the $11.24 billion in debt relief for foreign countries provided between fiscal years 1990 and 1992.

The new Federal Credit Reform Act requires agencies to value debts owed to them more on the basis of their actual value than on their face value. In one sense, this makes it easier for debt to be forgiven, as much of it will be valued at deep discount. Thus, for fiscal year 1993, Congress appropriated $90 million to facilitate $342.3 million in EAI debt forgiveness for Latin America that year.

The new law also requires, however, that agencies include the cost of any new forgiveness of foreign debt in their own budgets. The cost of forgiving debt is likewise charged, under the congressional budget scorekeeping system, against the total spending authority available to a committee. Thus, for legislators and agency administrators, the discounted value of any new debt forgiveness will be deducted from the amount they can appropriate or spend for foreign aid. It is no longer available as a supplemental form of foreign assistance whose costs were charged to the Federal treasury and not to the agencies or committees involved. For fiscal year 1994, Congress appropriated $7 million requested by the Administration to facilitate forgiveness of debt owed to the Eximbank by the poorest countries. Congress rejected, however, a similar request for $71 million to allow additional EAI debt forgiveness for Latin America in fiscal year 1994.