



United States
General Accounting Office
Washington, D.C. 20548

General Government Division

B-253793

September 29, 1994

The Honorable Patrick J. Leahy
Chairman, Committee on Agriculture,
Nutrition, and Forestry
United States Senate

Dear Mr. Chairman:

This letter responds to your request for information on the export credit guarantee programs in the Department of Agriculture's (USDA) Office of the General Sales Manager (GSM). More specifically, you asked that we give you data on (1) total GSM credit guarantees provided and major country recipients of the guarantees, (2) current total exposure of these programs and principal countries that account for the exposure, and (3) claims paid by USDA's Commodity Credit Corporation (CCC) for defaults by recipient foreign banks and which recipient countries accounted for the largest share of claims paid by CCC between 1980 and August 1994. In addition, you asked that we highlight the role of the former Soviet Union (FSU) and Russia in respect to these programs.

RESULTS IN BRIEF

From January 1, 1980 through August 17, 1994, USDA issued about \$51.1 billion of GSM credit guarantees to 61 countries. Five countries--Mexico, South Korea, Iraq, Algeria, and the FSU--accounted for 63 percent of all guarantees. The FSU and Russia, combined, accounted for \$4.8 billion of the guarantees. The guarantees for these two countries were all issued in 1991 and 1992 and accounted for 9 percent of all CCC guarantees issued between 1980 and August 1994.

The total exposure from GSM guarantees on August 17, 1994, was about \$12.4 billion. This amount represented \$6.7 billion in principal amounts not yet due, \$3.5 billion in rescheduled debt, and \$2.2 billion of unrecovered claims. The FSU and Russia together accounted for 22 percent of the total exposure. Other countries that accounted for a large

share of the exposure were Mexico, Iraq, Algeria, and Poland.

Between 1980 and August 17, 1994, CCC paid claims for defaulted debt equal to \$6.5 billion. The FSU accounted for 27 percent of these claims. As of August 17, 1994, CCC had directly recovered \$554 million of the claims paid and, according to CCC, rescheduled another \$3.7 billion of the claims paid. Iraq accounted for most of the remaining \$2.2 billion in unrecovered claims.

BACKGROUND

USDA'S GSM-102 and GSM-103 programs are intended to promote the export of U.S. agricultural commodities. The programs' goals--under the 1990 Food, Agriculture, Conservation, and Trade Act (P.L. 101-624)--are to develop, expand, or maintain U.S. agricultural markets overseas by facilitating commercial export sales of U.S. agricultural commodities.¹ CCC manages the programs. Under the programs, the United States accepts a contingent liability for bank loans extended to purchasers of U.S. agricultural commodities. If a purchaser defaults on its loan, the lending bank may file a claim with CCC. CCC normally pays a claim within 1 day. CCC then becomes responsible for collecting the claimed amount and any interest that accrues on the amount at the lending bank's interest rates. If the government of the indebted entity is unable to meet its financing needs, it may request a rescheduling and CCC would participate in a rescheduling.

¹The GSM-102 Export Credit Guarantee Program allows foreign buyers to purchase U.S. agricultural commodities from private U.S. exporters, with U.S. banks providing financing with terms up to 3 years. GSM-103, the Intermediate Export Credit Guarantee Program, is similar to the GSM-102 program, except that the terms of credit generally have a repayment period exceeding 3 years, but no more than 10 years.

SCOPE AND METHODOLOGY

We obtained data from CCC on the GSM-102 and GSM-103 programs for 1980 through August 17, 1994.² We did not verify the accuracy of the data. The data combined information for the two programs. CCC provided annual country data for all years between 1980 and August 1994. The data included, among other items, information on loan guarantees issued,³ principal amounts not yet due, rescheduled debt, claims paid by CCC, claims recovered by CCC, and claims not recovered. We held discussions with CCC staff to further understand what the data represented.

TOTAL GSM GUARANTEES ISSUED, TOTAL CURRENT EXPOSURE,
TOTAL CLAIMS PAID AND CLAIMS NOT RECOVERED

USDA issued approximately \$51.1 billion of GSM export credit guarantees to 61 countries between 1980 and August 17, 1994. Fifteen countries⁴ accounted for 83 percent of the guarantees, as shown in table 1. The five largest recipients--Mexico, South Korea, Iraq, Algeria, and the FSU--accounted for 63 percent of all guarantees issued. The other 10 countries accounted for 20 percent of all guarantees issued.

²According to CCC, some of the data for Poland are for the GSM-101 program. This program has not operated since 1980. Its purpose was to cover political risk.

³An export credit guarantee is considered issued when the export is registered for sale with CCC and the exporter has paid a fee for the service. The exporter registers the dollar value of what he or she thinks will be exported. Actual shipments in total may be somewhat lower than guarantees issued.

⁴The countries listed in tables 1 and 2 were selected as follows: we rank-ordered all of the GSM recipients in terms of total guarantees received over the period, with the country that received the most guarantees ranked number one. Similarly, we rank-ordered all countries in terms of current total exposure. We then combined the two scores for each country and picked the 15 countries with the lowest combined rankings.

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Table 1: Major Recipients of GSM Export Credit Guarantees,
Current Exposure, and Claims Paid by CCC--1980-August 17, 1994

Dollars in millions

Country	GSM loan guarantees issued	Percent share of total	Total exposure as of 8/17/94	Percent share of total	Claims paid by CCC	Percent share of total
Algeria	\$4,519	9%	\$1,411	11%	\$172	3%
Brazil	1,243	2	77	1	218	3
Egypt	2,147	4	299	2	244	4
FSU	3,744	7	2,161	17	1,762	27
Iraq	4,984	10	1,654	13	1,658	25
Jordan	309	1	95	1	22	0
Mexico	11,950	23	2,299	19	384	6
Morocco	1,396	3	420	3	173	3
Pakistan	1,525	3	354	3	0	0
Peru	454	1	396	3	286	4
Poland	1,112	2	1,025	8	1,012	15
Russia	1,057	2	524	4	23	0
South Korea	6,987	14	302	2	0	0
Tunisia	486	1	84	1	0	0
Venezuela	707	1	197	2	0	0
All others	8,484	17	1,056	9	577	9
Total	\$51,103	100%	\$12,353	100%	\$6,531	100%
FSU & Russia	\$4,801	9%	\$2,685	22%	\$1,785	27%

Note: Numbers may not add up due to rounding.

Source: GAO analysis using data obtained from CCC.

Since Russia has accepted responsibility for all of the FSU's debt,⁵ we also list Russia and the FSU as a combined entry in our tables. As table 1 shows, Russia and the FSU together accounted for \$4.8 billion of issued guarantees. That amount would rank them as fourth in terms of all GSM loan guarantees issued. The high ranking of the FSU and Russia is somewhat unusual, since they received all of their guarantees during a 2-year period (i.e., 1991 and 1992). In contrast, the four other largest recipients (Mexico, South Korea, Iraq, and Algeria) received their credit guarantees over periods ranging from 8 to 15 years.

Table 1 also reports information on current (i.e., as of August 17, 1994) total exposure resulting from the GSM guarantees. Total exposure was defined as "principal amounts not yet due," "principal rescheduled debt not yet due,"⁶ and "claims paid by CCC but not recovered." Based on CCC data, we estimated CCC total exposure at about \$12.4 billion. The five countries that accounted for the largest exposure from GSM credit guarantees were, in descending order, Mexico, the FSU, Iraq, Algeria, and Poland. Together, they represented 68 percent of total exposure. The 15 countries shown in the table together accounted for 91 percent of total exposure. Russia and the FSU as a single entry accounted for 22 percent of total exposure.

⁵Before the dissolution of the Soviet Union in December 1991, Russia and seven other Soviet republics agreed with western creditor nations to accept joint and several liability for Soviet debts. The republics also agreed among themselves to divide responsibility for repaying the debt. Accordingly, Russia was to be responsible for 61.3 percent of the debt. However, after the dissolution of the Soviet Union, Russia eventually agreed with most successor states to accept complete responsibility for the FSU's debt in return for the other states forgoing claims on FSU assets. In April 1993, Russia made an agreement with foreign creditor nations to accept full responsibility for the FSU's official debts. Under the latter agreement, Russia is responsible for all of the FSU's GSM debt.

⁶Defined also to include any delinquent principal rescheduled debt.

Between 1980 and August 17, 1994, CCC paid claims (principal and interest) of \$6.5 billion to lenders for defaults by GSM recipients. As table 1 shows, three countries--the FSU, Iraq, and Poland--together accounted for 67 percent of all paid claims.⁷ Six countries together accounted for another 23 percent of the paid claims. CCC did not pay any claims to four countries reported in the table (Pakistan, South Korea, Tunisia, and Venezuela).

When CCC reschedules debt on guarantees for which it has paid a claim, it counts the rescheduling as a recovered claim--even though reschedulings typically cover many years⁸ and payment problems may develop as the debt comes due. As of August 17, 1994, CCC had recovered \$554 million of its claims paid before any debt reschedulings. Thus, USDA's recovery rate on claims paid before rescheduling was quite low (i.e., about 8 percent). According to CCC, as of August 17, 1994, CCC had rescheduled \$3.7 billion of claims paid and still had not recovered \$2.2 billion of paid claims. The latter represented about 34 percent of all claims paid.

Our analysis also found that most claims originated in recent years. USDA paid claims of \$1.4 billion between 1980 and 1984; \$1 billion between 1985 and 1989; and \$4.1 billion between 1990 and August 17, 1994. Thus, 63 percent of the claims it paid occurred within the past 5 years.⁹

⁷This percentage would change if constant dollars were used.

⁸CCC told us that a lot of GSM debt has not come due yet because of reschedulings and that many reschedulings have grace periods of 5 to 10 years.

⁹This percentage would change if constant dollars were used.

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FURTHER ANALYSIS OF CURRENT EXPOSURE FROM GSM
CREDIT GUARANTEES BY MAJOR RECIPIENT COUNTRIES

Table 2 provides a breakdown of the source of the current exposure from the GSM portfolio (i.e., principal amounts not yet due, rescheduled debt, and CCC unrecovered paid claims) and the major countries that have benefited from GSM credit guarantees.

Table 2: Sources of CCC Exposure From Major Recipients of GSM Export Credit Guarantees

Dollars in millions

Country	Total exposure as of 8/17/94	Principal amounts not yet due	Principal of rescheduled debt not yet due and unrecovered claims ^a		
			Amount	Percent share of total	Percent share of total for country
Algeria	\$1,411	\$1,239	\$172 U	3%	12%
Brazil	77	1	76 R	1	99
Egypt	299	68	231 R	4	77
FSU	2,161	815	1,346 R,U	24	62
Iraq	1,654	7	1,647 U	29	100
Jordan	95	79	16 R	0	17
Mexico	2,299	2,145	154 R	3	7
Morocco	420	284	136 R	2	32
Pakistan	354	354	0	0	0
Peru	396	0	396 R	7	100
Poland	1,025	0	1,025 R	18	100
Russia	524	524	0	0	0
South Korea	302	302	0	0	0
Tunisia	84	84	0	0	0
Venezuela	197	197	0	0	0
All others	1,056	607	449 R,U	8	43
Total	\$12,353	\$6,706	\$5,647	100%	46%
FSU & Russia	\$2,685	\$1,339	\$1,346	24%	50%

Legend: R=Principal of rescheduled debt not yet due. U=Unrecovered claims paid by CCC.

Note: Numbers may not add up due to rounding.

^aUnrecovered claims includes interest.

Source: GAO analysis using data obtained from USDA/CCC.

Debt that has been rescheduled becomes an obligation directly owed to the U.S. government. Debt for which CCC has paid claims and that CCC has not recovered is also a direct obligation to the U.S. government. We combined the dollar amounts for these two types of risky debt to simplify the presentation, as shown in table 2. To date, CCC has agreed to reschedule most of the debt on which it has paid claims. As of August 17, 1994, only 3 countries of the countries listed in the table--Algeria, the FSU, and Iraq--represented cases of CCC unrecovered claims that had not been rescheduled. A CCC official indicated to us that the Algerian and FSU unrecovered claims will be rescheduled in the near future. The FSU was the only country listed in the table characterized by both rescheduled debt and unrecovered claims. Iraq is the only country with unrecovered CCC claims that has not begun negotiations with CCC concerning the repayment of that debt.

Table 2 shows that \$5.6 billion, or nearly one-half, of the total current exposure from GSM debt is associated with rescheduled debt or unrecovered claims. Of the \$5.6 billion, \$3.45 billion represents rescheduled debt, and \$2.15 billion represents CCC unrecovered paid claims. Iraq accounted for \$1.65 billion, or about three-quarters, of the unrecovered paid claims.

Three countries accounted for most of the rescheduled debt/unrecovered claims. They were Iraq, the FSU, and Poland. Their percentage shares of this type of debt were, respectively, 29 percent, 24 percent, and 18 percent. The country with the next largest share was Peru, at 7 percent.

Table 2 also relates each country's amount of rescheduled debt/unrecovered claims to its total GSM exposure. Thus, the table shows that the FSU's rescheduled debt/unrecovered claims accounted for 62 percent of its overall GSM exposure. When Russia and the FSU were treated as a single entry, the percentage dropped to 50 percent. All or nearly all of the exposure of Brazil, Peru, and Poland was represented by rescheduled debt. Five of the countries listed in the table had no rescheduled debt nor unrecovered CCC claims. They were South Korea, Pakistan, Russia, Tunisia, and Venezuela.

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As agreed with you, unless this correspondence is released earlier, we plan no further distribution until 30 days from its issue date. At that time, we will send copies to the Secretary of Agriculture and other interested parties. Copies will be made available to others on request.

Please contact me at (202) 512-4812 if you or your staff have any questions concerning this letter. The information in this letter was developed by Phillip J. Thomas, Assistant Director; Wayne H. Ferris, Project Manager; and Gezahegne Bekele, Senior Economist.

Sincerely yours,



Allan I. Mendelowitz, Managing Director
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(483637)

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GSM Export Credit Guarantees