AN EVALUATION OF THE INVESTMENT GUARANTY PROGRAM

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INTRODUCTION

The Investment Guaranty Program, as its title suggests, is a program sponsored by the United States Government to encourage the flow of United States private investment into certain underdeveloped countries by providing, at a nominal fee, insurance against certain non-business or political risks to such investment. A child of the Marshall Program, born in 1948, the Investment Guaranty Program has the altruistic purpose of fostering economic growth in those countries and the practical purpose, rarely discussed, of making them attractive as markets for United States capital. The Program offers insurance against three sorts of risk: war damage, expropriation, and currency restrictions. The Program is administered by the Investment Guaranties Division of the Agency for International Development, which in turn is that branch of the State Department charged with carrying out our massive foreign assistance program.

This article analyzes three particular aspects of the Investment Guaranty Program (hereinafter referred to as the "IGP".) Part I considers the question of how much choice each investor ought to be given in the selection of his guaranties; Part II considers the desirability of introducing deductible insurance into the IGP; Part III considers some alternatives to the present fee policy. Each Part is built upon more or less the same structure: a preliminary survey of the presently existing situation; the suggestion of one or more alternatives to the present situation; an examination of the merits of the suggested alternatives; and finally an attempt to resolve the issues raised in the discussion.†

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† The Investment Guaranties Division of the Agency for International Development will be found most cooperative and helpful in providing practical information on the Investment Guaranty Program.

PART I: RANGE OF CHOICE IN SELECTION OF INSURANCE COVERAGE

To what extent should the investor who uses the IGP be free to select the insurance which he desires, and to what extent should he be obliged to accept a fixed package of insurance? Should he be permitted to select only those coverages in which he is interested, which would inevitably be against the "bad risks" only, or should he be required to take a larger unit which includes the "good" with the "bad"? Before considering the question of what the degree of selectivity should be, let us survey the presently existing situation.

The Present Situation

At present, the IGP affords the investor a measure of both freedom and restriction in his choice of risk-coverage. First, he is free to select from among three basic categories of insurance:

1) insurance against inability to convert into U. S. dollars currencies received as earning on, or as repayment of, his investment;

2) insurance against loss of the investment due to expropriation or confiscation; and

3) insurance against loss due to war, revolution, or insurrection.[1] There is no question about the investor's complete freedom of selection from these three categories,[2] and most investors do in fact choose fewer than all of the coverages offered.[3]

On the other hand, the investor's choice is restricted in that he must take and pay for all the coverage offered in whichever category he selects, whether he desires all such coverage or only a part thereof. For example, if an investor takes a convertibility guaranty, he receives coverage both against direct currency controls and against the imposition of unfavorable exchange rates.[4] An expropriation guaranty automatically includes protection against expropriation, against confiscation,

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[1] Foreign Assistance Act of 1961, § 221(b)(1), 75 Stat. 429 (1961), 22 U.S.C. § 2181(b) (Supp. III, 1962)

[2] See *Hearings on the Mutual Security Act of 1958 Before the House Committee on Foreign Affairs*, 85th Cong., 2d Sess., vol. 2, pt. IX, at 1125 (1958). In addition, the investor, if qualified, may possibly be able to obtain one of the "all-risk guaranties," which are discussed in footnote 24 *infra*.

[3] See the ICA QUARTERLY REPORT OF ALL INVESTMENT GUARANTIES ISSUED THROUGH JUNE 30, 1961 (1961). The totals there given are:

Convertibility guaranties	$335,647,826
Expropriation guaranties	269,761,593
War Guaranties	1,786,053

The use of the war guaranty is certain to increase rapidly as a result of last year's extension of that guaranty to include losses due to revolution or insurrection. Foreign Assistance Act of 1961, § 221(b)(1)(C), 75 Stat. 424 (1961), 22 U.S.C. § 2181(b)(1)(C) (Supp. III, 1962).

[4] Specimen A.I.D. Contract of Guaranty (Convertibility-Equity) pp. 11, 12.

against certain war and revolution risks (namely, the risk of expropriation or confiscation by a conquering power[5] or by a successful revolutionary movement[6]) and, finally, against breach of contract by the foreign government.[7] The war guaranty includes protection against loss due to war, revolution, or insurrection.

Thus the investor is at present offered freedom of selection but only from among these three limited "bundles" of coverage. Would any changes in this present arrangement be desirable? Consideration of the question leads to the conclusion that no change is needed at present.

Whether Investor's Choice Should Be Widened

It would be unwise to give the investor a *greater* degree of selectivity than presently exists. On the one hand, a fracturing of the present three categories to permit greater selectivity would impair the relative simplicity which now exists in the IGP, thereby destroying the substantial administrative advantages of this simplicity. The small staff of the Investment Guaranties Division has been able to handle, with carefully evolved "boiler-plate" contracts, an enormous volume[8] of guaranties quickly, efficiently, and at a minimal expense.[9] On the other hand, the advantages to investors of increased selectivity are likely to be insubstantial, since the logical groupings of related risks within each of the present categories already gives the investor an appropriate and satisfactory degree of selectivity. The writer is not aware of a complaint by any investor against the present limitations upon his choice under the IGP. Thus, until more persuasive considerations than are now apparent should arise, the present simplicity of the Program should not be sacrificed in order to increase the range of possibilities for selection among risk coverages.

Whether Investor's Choice Should Be Narrowed

Reduction of the investor's freedom of choice, through consolidation of the three fixed categories presently offered, seems equally undesirable in the light of the basic purpose of the IGP, "... to facilitate and in-

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[5] See Representative Vorys' statement, *Hearings on the Mutual Security Act of 1956 Before the House Committee on Foreign Affairs*, 84th Cong., 2d Sess., at 693 (1956). See Rivkin, *Investment Guaranties and Private Investment*, 19 FED. B.J. 357, 358 (1959).

[6] ICA, INVESTMENT GUARANTY HANDBOOK 17 (rev. ed. 1960) [hereinafter cited as HANDBOOK].

[7] Foreign Assistance Act of 1961, § 223(b), 75 Stat. 432 (1961), 22 U.S.C. § 2183(b) (Supp. III, 1962).

[8] See Appendix, Document I.

[9] Strauss *et al.*, *The Investment Guaranty Program* 81, 82 (April 25, 1958) (on file in Gen. Doriot's office, Harvard Business School, Cambridge, Mass.).

crease the participation of private enterprise in furthering the development of the economic resources and productive capacities of less developed friendly countries and areas. . . ." [10] Although it might be to the Government's immediate financial advantage to require that the investor take more "good" risks with the "bad," this advantage would be a false economy to the extent that, by impairing the attractiveness of the Program to investors, it would reduce the Program's effectiveness in stimulating the flow of private capital and enterprise abroad to unstable underdeveloped countries. Although the various considerations cannot be measured with any precision, the advantages involved in narrowing the investor's present freedom of choice appear to be heavily outweighed by the disadvantages.

What are the advantages involved? By requiring the insured to take insurance against more of the good risks with the bad, the Government might improve its financial position in several ways: (1) given a fixed premium for each category,[11] the insurer is obviously better off the more good risks it underwrites; (2) the more insurance it can "sell," the further the Government can spread the total risk undertaken, thereby stabilizing[12] and to a certain extent reducing its probable ultimate liability; (3) since the risk coverages under the IGP tend to "overlap" in certain situations (*i.e.*, once one of the insured losses has occurred, certain others cannot or probably cannot also occur), an increase in the number of different coverages sold to each investor increases the revenue in fees to the Government without a commensurate increase in its liability as insurer.[13] In weighing these possible advantages, one should bear in mind that the arguments are valid only if one assumes that the fees charged for investment guaranties equal their real, actuarial value, which is indeed a doubtful assumption.[14]

In view of the repeatedly stressed purpose of Congress to maximize

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[10] Foreign Assistance Act of 1961, § 221(a), 75 Stat. 429 (1961), 22 U.S.C. § 2181 (a) (Supp. III, 1962).

[11] As has long been the practice under the IGP. See text at footnote 47 *infra*.

[12] Although an insurer normally stabilizes his position by selling an increased volume of insurance, this generalization may not apply to the IGP because of the possibility that the losses guarantied under the IGP (unlike most subjects of ordinary insurance, which occur in statistically predictable numbers, as in life insurance) may well occur cumulatively (as in the case of a mushrooming financial crisis or of a wide-spread eruption of nationalist sentiment.) This question will be further discussed below.

[13] To illustrate, once an insured loss due to confiscation has occurred and a claim has been brought thereon, the investor obviously cannot bring an additional claim based on either a convertibility or war guaranty. Thus the Government is better off when it can sell three different types of guaranty all to one investor rather than to three separate investors.

[14] This issue is considered in Part III *infra*.

the effectiveness of the IGP as a stimulus to private capital exportation, the negative, deterrent effect of an increased minimum package upon the investor's use of the Program through an increased minimum cost to the investor, would appear to outweigh greatly the possible advantages of such a change. The firm purpose of Congress that the Program should achieve maximum use and effectiveness is demonstrated in the following explanation of the mandate in the Foreign Assistance Act that "The guaranty program . . . shall be administered under broad criteria . . ." [15]

> The committee is not satisfied that "broad criteria" have been applied by the executive branch to the guarantee provisions nor that the participation of private enterprise is being facilitated or increased to the maximum extent practicable. . . . The committee, which originally drafted these provisions, states that it has always been its intent and is now its intent that the executive branch exercise the utmost imagination and effort to expand the investment guaranty program beyond this narrow and unintended concept. . . .
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> The committee expects this program to be administered effectively and with the principle firmly in mind that private enterprise is an important and permanent arm of . . . the mutual security program.[16]

The policy behind the IGP, a policy which deliberately places the goal of maximum capital exportation ahead of sound banking principles, has been articulated by Representative Judd, a leading proponent of the Program:

> I think this operation ought to be in the ICA [rather than in the Export-Import Bank] because it isn't primarily a banking operation; it is primarily a matter of helping these countries get a maximum of industrialization and economic improvement through the use of private capital and private management. . . .
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> I worked on a case in Turkey where I think the bankers were wrong. They turned something down because it was not a good bankable loan. I grant you that. But it was of enormous value to an ally that is of enormous value to us.[17]

It is clear that the Investment Guaranties Staff, which has considerable discretionary power in administering the Program, has wholeheartedly adopted a similar attitude and in recent years has administered the Program accordingly. Thus, the Chief of that Staff has said:

> Ours then must be the art of risk taking. We cannot ever take refuge in the more simple and the safer tests of the banker. . . .
>
> After all, our job is to get investment out. It is not to . . . make a fancy

[15] Foreign Assistance Act of 1961, § 221(a), 75 Stat. 429 (1961), 22 U.S.C. § 2181(a) (Supp. III, 1962).

[16] *U.S. Code Cong. & Ad. News*, 84th Cong., 1st Sess., II, p. 2369 (1955).

[17] *Hearings on H.R. 10082 Before the House Committee on Foreign Affairs*, 84th Cong., 2d Sess., 691, 692 (1956).

> [financial] record here, before this committee, as much as we would like to. Investment is the thing we want.[18]

In view of the determination of Congress to maximize the effectiveness of the Program as a stimulus to foreign investment, it appears that the possible financial advantages to be obtained cannot justify any increased restriction of the investor's present freedom of selection among guaranties. In conclusion, no change in the present balance between administrative simplicity and attractiveness to investors would seem desirable.

Two Alternative Suggestions

Having reached that conclusion, however, one might consider two alternative solutions for the problem of investors' choosing guaranties against bad risks only. One alternative is to offer a reduced fee to the investor who takes all three types of insurance. Such a discount would encourage investors to insure against both good and bad risks, yet would not deter the investor who wanted only one or two guaranties from using the Program. This alternative is considered a "reasonable possibility" by the Staff of the Investment Guaranties Division,[19] but it is not available to investors at present. Another alternative solution would be to price the fees for each guarantee according to the risk involved. This might encourage investors to take guaranties against good risks as well as bad, since the former would be relatively less expensive. In any case, it would eliminate the present inequity to the Government, as insurer, where an investor chooses protection against bad risks only. The Investment Guaranties Staff is not presently considering this alternative.[20] Nevertheless, these two alternative solutions to the problem of investors who insure only against bad risks seem preferable to increased limitation upon the investor's freedom to select his guaranties, in view of the Program's basic purpose of inducing a maximum of private capital to go abroad.

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[18] Testimony of Charles Warden, Chief of the Investment Guaranties Staff, *Hearings on the Mutual Security Act of 1958 Before the House Committee on Foreign Affairs*, 85th Cong., 2d Sess., vol. 2, pt. IX, at 1105 (1958).

[19] Letter from member of Investment Guaranties Staff, February 6, 1962. It has also been suggested that the 1.5% fee for complete coverage is comparatively high. Report of the Committee on Foreign Law on the Guaranty Program of the International Cooperation Administration, 14 RECORD OF THE ASSOCIATION OF THE BAR OF THE CITY OF NEW YORK 269, 271 (1959).

[20] Letter from member of Investment Guaranties Staff, February 6, 1962. The matter of variable fees is further discussed in the text at footnote 65 *infra*.

PART II: DEDUCTIBLE INSURANCE

Should the IGP institute the device of deductible insurance? [21] Apparently this possibility has never been discussed at the legislative level, probably because questions of this sort have generally been left to the broad discretion of the administrative staff under the IGP.[22] The staff has considered deductible insurance and presumably rejected it for the time being.[23] Nevertheless, although no use is made of deductible insurance at present, there are three measures already in effect which achieve some of the purposes of a deductibility feature.

[21] Under deductible insurance, the insured agrees to bear the first X dollars of any insured loss which may occur, while the insurer agrees to bear only the amount of such loss which exceeds X dollars. "X dollars" may be either a fixed dollar figure or a percentage of the face amount of the insurance policy.

Maximum Limitation upon Coverage

One such measure is a dollar-amount limitation upon the maximum insurance available. This measure forces the insured to coinsure himself to the extent of losses in excess of the maximum. There is such a limitation upon coverage for each of the three guaranties previously considered as well as for the "all-risk" guaranties.[24] Those limitations are are follows:

(a) The convertibility guaranty has a double limitation: (I) The maximum protection for an equity investment is an amount equal to 200 per cent of the dollar value of the investment, absent special circumstances,[25] and, (II) when an investor invokes his guaranty, he can ob-

[22] See WHITMAN, THE UNITED STATES INVESTMENT GUARANTY PROGRAM AND PRIVATE FOREIGN INVESTMENT 22 (Princeton Studies in International Finance No. 9, 1959). The broad scope of the Staff's discretion includes such matters as the power to define the vital word "expropriation" and the power to initiate measures such as the "minimum claim requirement" (to be discussed in text accompanying notes 31 and 32 *infra*). Thus the Staff would clearly have at least provisional authority to institute deductible insurance if it should decide to do so.

[23] Letter from member of Investment Guaranties Staff, February 6, 1962.

[24] The Foreign Assistance Act of 1961 authorizes the President or his delegate to insure certain high priority investments in an amount not to exceed (1) 75% respectively of each investment guarantied, or (2) a total of $90,000,000 for all such guaranties, against *all* losses, business or non-business, whatever the cause (absent fraud or misconduct). §§ 221(b)(2), 224(b), 75 Stat. 430, 432 (1961), 22 U.S.C. §§ 2181(b)(2), 2184(b) (Supp. III, 1962). These "all-risk guaranties" are considered "frankly experimental," and are intended to be used strategically for very high priority projects and in return for substantial (though as yet undetermined) fees. Enclosure in letter received from member of Investment Guaranties Staff, February 6, 1962. Because they are so experimental, formless (as yet), and new (to the IGP), these "all-risk guaranties" will be given less discussion here than the ordinary guaranties against specified non-business risks, the primary subject of this paper.

tain only 95 per cent of the total amount to be converted, with the result that he must bear the loss of the remaining 5 per cent himself.[26]

(b) The expropriation guaranty is limited to an amount equal to the investment plus a reasonable amount for future earnings.[27]

(c) The war-revolution guaranty is limited to a maximum of 90 per cent of the value of the physical, depreciable property.[28]

(d) "All-risk guaranties" are limited by the statute to 75 per cent of the investment[29] and will more commonly be limited to 50 per cent thereof.[30]

Thus under all investment guaranties the investor must coinsure his investment to a certain extent.

Minimum Limitation upon Presentable Claims

A second measure now in effect and similar in nature to deductible insurance is the "minimum claim requirement," which requires that

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[25] See HANDBOOK 15. There are parallel limitations upon guaranties of loan investments and of royalty agreements. "[The Staff's] thinking here has been that if over a period of time the investor has earned 100% on his investment we would not be required to add any further incentives." Letter from member of Investment Guaranties Staff, February 6, 1962. The investor's coverage is not reduced when he remits earnings or capital by ordinary methods but is reduced only when he invokes the guaranty. Specimen A.I.D. Contract of Guaranty (Convertibility-Equity) 3. Thus the maximum coverage on a convertibility guaranty is really an amount equal to (1) whatever the investor is able to repatriate without invoking the guaranty, *plus* (2) an amount equal to 200% of the original investment.

[26] See HANDBOOK 13. This measure approaches percentage deductible insurance: the only difference is that under this measure the investor bears a loss of a percentage of the amount to be converted immediately, whereas with percentage deductible the investor would bear a loss of a percentage of the total "face amount" of his guaranty.

[27] See HANDBOOK 18. See the quotation in note 25 *supra* for an indication of the meaning of "reasonable."

[28] HANDBOOK 22. This limitation is supplemented by a further limitation of the war-risk guaranty to "*direct* damage to the *depreciable physical* property . . ." (HANDBOOK 21) (emphasis supplied), which means that all other, "consequential" damages, which would probably constitute a major portion of any war or revolution loss, are not within the guaranty. Thus the investor is forced to coinsure himself to a substantial extent under the war-risk guaranty—a much greater extent than the 90% figure alone would at first indicate.

[29] Foreign Assistance Act of 1961, § 221 (b)(2), 75 Stat. 430(1961), 22 U.S.C. 2184(b) (Supp. III, 1962). The § 224 "all-risk guaranties," which are limited to certain housing projects in Latin America and are limited in total amount to $10,000,000 are not subject to this 75% limitation, which applies only to the § 221(b)(2) "all-risk guaranties."

[30] Enclosure in letter from member of Investment Guaranties Staff, February 6, 1962.

the investor's loss exceed a certain amount before he may bring a claim under his guaranty. It applies to only two types of guaranty:

(a) The convertibility guaranty requires that the investor's potential loss upon conversion exceed 5 per cent of the total before he may invoke the guaranty.[31]

(b) Under the war-risk guaranty, only claims which exceed the lesser of $10,000 or one per cent of the face amount of the guaranty, may be filed.[32]

Minimum Period Limitation

A third measure under the IGP, which is distantly related to deductible insurance in that it tends to limit the investor to filing substantial claims, is the requirement that he wait a certain amount of time before filing his claim. This measure, also, applies to two types of guaranty only:

(a) Claimants under the convertibility guaranty usually have to show that their adverse exchange situation has existed for thirty consecutive days before payments will be made.[33]

(b) Claimants under the expropriation guaranty must wait one year after expropriation has occurred in order to invoke the guaranty.[34]

To summarize, three measures now in effect under the IGP limit recovery on investment guaranties:

(1) a *maximum limitation* upon dollar coverage, which may force an investor to coinsure himself as to part of the risk;

(2) a *minimum limitation* upon presentable claims, which eliminates all claims for losses of less than a certain amount; and

(3) a *minimum period* during which an insured event must have taken place before the investor may invoke his guaranty. These three measures should be kept in mind during the following discussion of the merits and defects of deductible insurance.

The Merits of Deductible Insurance

What advantages and disadvantages does deductible insurance offer the IGP? Deductible differs from ordinary insurance in two ways: it eliminates all claims below a certain amount entirely; and it forces the insured to coinsure himself to a certain extent.[35] What advantages flow from these two characteristics?

Probably the main advantage of deductible insurance lies in its

[31] HANDBOOK 14. This requirement is another facet of the 95% limitation noted in text at footnote 26 *supra*.

[32] HANDBOOK 22.

[33] HANDBOOK 15.

[34] HANDBOOK 17. The one-year period is part of the definition of "expropriation."

[35] See explanation in footnote 21 *supra*.

elimination of the relatively great cost of administering small claims. Since claim adjustment expenses generally constitute a substantial portion of the cost of providing insurance,[36] and since the cost of administering claims does not vary with the size of the claim, the elimination of small claims permits insurance to be provided at a substantially lower cost per dollar of insurance underwritten. This economy is likely to be particularly great in the case of the IGP, because barriers of distance, language, and bureaucracy should make the administration of guaranty claims more expensive than is the case in a domestic insurance business. It seems, therefore, that the elimination of small claims would be a substantial benefit of introducing deductible insurance into the IGP, which would enable the Government to reduce costs and offer the investor insurance at a lower fee.

Another important advantage offered by deductible insurance is that, by requiring the insured to coinsure for a part of the risk, it leaves him with a substantial incentive to avoid the occurrence of the insured loss. Because the insured is left with a personal stake in avoiding the loss, he is likely to take greater precautions against its occurrence and is deterred from engaging in fraudulent claims. This advantage of deductible insurance would be of benefit to investment guaranties in several ways.

Although there is almost no possibility that claims on *convertibility* guaranties will arise out of losses involving an investor's carelessness or fraud, the coinsurance feature of deductible insurance would be of use in a convertibility guaranty in the following way: In the normal case of repatriation of earnings or capital, the investor's cash is diminished a certain amount by ordinary expenses; *e.g.*, transfer commissions, mail or cable transfer charges, and transaction stamp taxes.[37] Accordingly, the investor would be in a better position if the guaranty were invoked than if not, unless he were forced to coinsure to the approximate extent of these ordinary expenses. It is in order to avoid such an anomaly that the 95 per cent limitation previously mentioned[38] is already imposed upon the convertibility guaranty.[39]

Where an expropriation guaranty is involved, it is possible that an investor whose investment was failing for business reasons would encourage his "host" government to expropriate his guarantied investment,

[36] "Loss Adjustment Expense Incurred" varies greatly according to the particular line of insurance, but it is estimated that the average figure for the entire insurance industry is 9.5% of premiums earned. Interview with officer of claims department of a major insurance company (name withheld by request), March 7, 1962.

[37] HANDBOOK 13, 14.

[38] See text at footnote 26 *supra*.

[39] HANDBOOK 13.

perhaps by clandestine chicanery or deliberately allowing relations with the host government to deteriorate.[40] The coinsurance feature of deductible insurance would reduce the attractiveness of this fraudulent means of liquidating a poor investment. As for honest investors, coinsurance would be useful in deflating any complacency which total insurance might encourage; although most investors undoubtedly prefer to continue to own and operate their investments rather than to collect insurance on them, coinsurance would give them an additional stimulus to maintain the best relations possible with their host governments and populaces. It is similarly possible that dishonest investors with failing enterprises might organize or help to organize an insurrection or revolution in order to liquidate their venture by collecting on a war-risk guaranty.[41] Here again, coinsurance would tend to reduce the attractiveness of such fraud.

In the case of all-risk guaranties, it is of course imperative that there be a substantial degree of coinsurance; otherwise the investor would have too little incentive to avoid a loss. Accordingly a 25 per cent coinsurance minimum has already been written into the Act itself.[42]

A third potential advantage to the IGP of deductible insurance is that it comes closer to carrying out the basic purpose of the Program than does total insurance. The purpose of the Program is to encourage the flow of private capital from the United States into underdeveloped countries by neutralizing the major non-business hazards which otherwise make such investment too dangerous. The investors probably do not wish more help from the government than is necessary for this purpose, and, in any case, assistance that went beyond this purpose would not be justifiable from the taxpayers' point of view. Accordingly

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40 Representative O'Hara voiced his concern during the 1961 Hearings over the possibility of fraudulent claims under war and revolution-risk guaranties: "It might be a company intent on instituting a riot to get its money out by collecting on the insurance.

"In a small country it easily might organize a group called a political group. It could rig up a civil strife and collect insurance. We have to protect against this." *Hearings on H.R. 7372 Before the House Committee on Foreign Affairs,* 87th Cong., 1st Sess., pt. III, 960 (1961). A company willing to organize an insurrection to "get its money out" would probably be equally willing to encourage an *expropriation* for the same purpose; in fact the latter route might be preferable to such a company: the fraud is easier to arrange, harder for the United States Government to see through, and might be the basis for a larger maximum claim on an expropriation guaranty.

The Government would undoubtedly have a great deal of difficulty in detecting such fraud and especially in distinguishing the bona fide claims from the fraudulent.

41 See discussion in note 40 *supra.*

42 See text at notes 29 and 30 *supra.*

the Program should be designed to reduce only the *substantial* political obstacles to foreign investment. [43] Deductible insurance, which leaves the investor with a manageable and more or less predictable residue of political risks while eliminating enough of such risks to shield him from disaster, places the investor in a position closely approximating his situation in a domestic investment. Total insurance would seem to provide more protection than is necessary to induce capital to go abroad.

Disadvantages of Deductible Insurance

The possible disadvantages of deductible insurance appear insubstantial. One criticism, that deductible would operate to the prejudice of the small investor, errs in its assumption that the amount deductible must be an absolute figure; the obvious answer to the criticism is percentage deduction. A second criticism is that deductible insurance, by denying insurance under the expropriation guaranties for small losses, would encourage the host governments to "nibble" at investments, never taking enough to permit a claim to arise. A similar criticism was once raised with regard to the IGP as a whole, the argument being that the United States Government's assumption of the political risks would cause the foreign governments to act irresponsibly. A thorough study of the question reached the conclusion that this criticism was unjustified;[44] and the fact that only two guaranties have been invoked in the entire history of the Program—only one successfully[45]—tends to confirm this conclusion. Thus, the investor's coverage or non-coverage under an expropriation guaranty seems to have little or no adverse effect upon the behavior of the host government.

Conclusion

Having considered the substantial advantages and negligible disadvantages of deductible insurance, we return to the question posed at the beginning of this disucssion: should the IGP adopt deductible insurance? The advantages mentioned would lead almost unavoidably to an affirmative answer to this question, were it not for one consideration: the three measures considered initially, which are already in effect under the Program, are capable of producing almost the same advantages as deductible insurance offers. The "minimum claim requirement" offers the benefits of the elimination of small claims;[46] and the "maximum coverage

[43] See generally Miller, *The ECA Guaranties and the Protection and Stimulation of Foreign Private Investment*, 39 GEO. L.J. 1 (1950).

[44] Strauss et al., *The Investment Guaranty Program* 83 (April 25, 1958) (on file in Gen. Doriot's office, Harvard Business School, Cambridge, Mass.).

[45] Letter from member of Investment Guaranties Staff, February 6, 1962.

[46] The "minimum period limitation," also, tends to weed out insubstantial claims, thereby eliminating unnecessary costs of claim adjudication.

limitation" offers the benefits of minimum coinsurance. Deductible insurance differs from the latter measure (maximum coverage limitation) in one respect, however, in that, under the former, the investor's share of any loss comes "off the bottom," while under the latter, it comes "off the top" of any loss. Accordingly, the coinsurance feature of deductible insurance is a stronger and hence more effective deterrent to carelessness and fraud than is the maximum coverage limitation. In view of this one advantage of deductible, it may be advisable for the Investment Guaranties Staff to give further consideration to the initiation of deductible insurance. Meanwhile, however, the measures now in effect offer most of the benefits which deductible insurance can give and perhaps more effectively, since the three *separate* measures are capable of more delicate experimentation and application than a blanket deductible insurance provision.

Therefore, although deductible insurance offers one advantage (that discussed in the preceding paragraph) which deserves the further consideration by the Investment Guaranties Staff, there is no pressing need for deductible insurance, despite its substantial benefits, since measures presently existing in the IGP already produce most of these benefits.

PART III: FEE POLICY

What is the present system of fees under the IGP? Do the fees charged approximate the commercial value of the insurance provided, or does each guaranty amount in reality to a partial subsidy to the investor? If the latter is the case, should the situation be changed or left alone? And if it should be changed, should such change take the form of an increase in or readjustment of the fees themselves, or should it take the form of some increase in the Government's participation in or control over the investments? The following discussion will attempt to answer or at least to throw some light on these questions.

The Present Policy: Deliberate Subsidy Via Nominal Fees

At present the Government charges a uniform fee of one-half of one per cent per annum for each of the three guaranties.[47] However, under the "stand-by fee arrangement," the real cost of a convertibility guaranty is only slightly more than one quarter of one per cent.[48] A moment's consideration of the enormity of the risk assumed by the Government in

[47] Letter from member of Investment Guaranties Staff, February 6, 1962. No change is planned at present. The fee-policy for "all-risk guaranties" has not yet been determined except for the decision that the fees are to be substantial. *Ibid.*

[48] Under the "stand-by fee arrangement," the investor pays a fee of:

(1) ½% of the "face amount" of the coverage which he wants in a particular year, plus

return for these nominal fees suggests that investors using the IGP are paying far less in fees than the dollar value of the insurance they receive. As of June 30, 1961, the Government's "maximum outstanding liability" on these guaranties totaled over $482,000,000.[49] Although the Government has collected more than $7,000,000 in fees since the Program began[50] and has had to pay a claim on only one ($10,000 convertibility) guaranty in all this time,[51] the past lull is no assurance against a future storm: one country's confiscation of one investment alone could immediately turn the IGP's $7,000,000 surplus into as much as a $65,000,000 deficit.[52] Furthermore, there is a substantial likelihood that if the storm comes, it will sweep over much of the world in cumulative torrents: "... [I]t should be borne in mind that ... the risks insured against are likely to be of a catastrophe order. If certain things happen in the world, there is likely to be a considerable run on outstanding guaranties." [53]

The fact that private insurance companies apparently have never attempted to compete with the IGP[54] again indicates that investors pay

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(2) ¼% of the *difference* between that amount and the "maximum face amount" of the contract. Payment of this ¼% stand-by fee entitles the investor to increase his coverage in future years up to the "maximum face amount" (which he could not do otherwise). *Ibid.*

Under this system, an investor who wishes to minimize the fee for a convertibility guaranty reduces his "face amount" to zero, and thus pays a fee of only ¼% of the "maximum face amount"; if he is ever unable to convert his currency, he can increase his "face amount" to the desired amount in the following year (paying a fee of ½% on that amount) and then invoke the guaranty. Thus the real fee for this slightly delayed protection is only somewhat in excess of ¼% of the total coverage. The "stand-by fee arrangement" is "very much in use." *Ibid.*

49 ICA QUARTERLY REPORT OF ALL INVESTMENT GUARANTIES ISSUED THROUGH JUNE 30, 1961, p. 8. The figure has grown since then and promises to grow still further: applications for new guaranties, as of September 30, 1961, totaled approximately $2.5 billion. See Appendix, Document II.

50 ICA QUARTERLY REPORT OF ALL INVESTMENT GUARANTIES ISSUED THROUGH JUNE 30, 1961, p. 8.

51 Letter from member of Investment Guaranties Staff, February 6, 1962.

52 Olin Matheison has a $72,000,000 expropriation guaranty on its mining and processing investment in Guinea. ICA QUARTERLY REPORT OF ALL INVESTMENT GUARANTIES ISSUED THROUGH JUNE 30, 1961, p. 4.

53 Testimony of Steuart Pittman, Assistant General Counsel, Foreign Operations Administration, *Hearings on the Mutual Security Act of 1954 Before the House Committee on Foreign Affairs,* 83d Cong., 2d Sess., 1038 (1954).

54 When asked whether private insurance companies were interested in competing with the IGP, Staff Chief Charles Warden stated: "They occasionally talk about it but when they find we are running a half billion dollars or better type of operation with nine people, they get pretty discouraged. ... I don't think there is any private company anywhere in the world ... that [is] even touching this sort of thing." *Hearings on the Mutual Security Act of 1958 Before the*

far less in fees than the actuarial or commercial value of the insurance which the IGP offers them in return. And this conclusion finds support in the fact that the Government has for some time estimated[55] the "probable ultimate net cost" of the Program as a whole to be twenty-five per cent of the total outstanding liability.[56] On the basis of the above considerations, it seems clear beyond a doubt that the nominal fees presently charged investors under the IGP amount to a subsidy which, although not subject to easy measurement, is substantial.

Although it thus appears that the investor receives insurance worth far more than the consideration which he pays for it, it also appears that this subsidy costs the Government less than it benefits the investor; that is, the Government's loss in the "bargain" is considerably less than the investor's gain. Why might this be so?

As has already been observed, there is a considerable overlap among the three guaranties.[57] Accordingly, the Government's potential liability on investment guaranties is in reality far less than the $482,000,000 figure previously cited.[58] Moreover, the tremendous volume and the world-wide dispersal of the guaranties which the Government, because of its financial position, is able to underwrite result in a lower and less variable risk to it than a smaller, private insurer could achieve. However, the previously noted possibility that the guaranteed losses will sweep across large areas of the world (*e.g.*, in cumulative finaicial crises or waves of expropriations) when they begin to occur is a significant qualification to the preceding sentence.[59]

The Government's ultimate liability on investment guaranties will be further reduced to the extent that it is able to recoup investors' losses through subrogation to their rights.[60] That right of subrogation is of greatest value in the convertibility guaranty: the Government will frequently be able to get full use out of the investor's currency locally wherever he left it, in payment of its embassy, military, foreign aid, or other local disbursements. Furthermore, the Government can afford to wait indefinitely until exchange controls are lifted or until it can find

House Committee on Foreign Affairs, 85th Cong., 2d Sess., pt. IX, at 1105 (1958).

55 That estimate is made for purposes of deciding how much of the total liability should be considered as an obligation of the Government for budget-accounting purposes.

56 Enclosure in letter from member of Investment Guaranties Staff, February 6, 1962.

57 See text at note 13 *supra.*

58 See text at note 49 *supra.*

59 See note 12, and text at note 53 *supra.*

60 Whenever any claim on a guaranty has been paid by the Government, the Government is subrogated to the investor's rights in the assets on account of which the claim was paid. HANDBOOK 4.

a local use for the currency. Thus, because of its peculiar situation, the Government's risk of ultimate loss on convertibility guaranties is very small. While the right of subrogation in expropriation guaranties is of significant value to the Government, it has less value and is less predictable in value than the right of subrogation in convertibility guaranties, since the chances of getting full or even partial compensation for an expropriation are highly uncertain.[61] For obvious reasons, the right of subrogation under the war-risk guaranties is practically worthless.

Finally, the Government's losses on investment guaranties will not in reality be losses to the extent that the insured investments may ligitimately be viewed as substitutes for direct grants or soft loans (*e.g.*, at low interest or without adequate security) which the Government would otherwise have made. "To the extent that private capital and enterprise can be encouraged to participate in productive ventures [abroad], the burden of foreign aid now carried by Government funds and financed by the American taxpayers will be correspondingly reduced." [62]

The factors discussed above strongly support the conclusion that, while the IGP constitutes a substantial subsidy to the investor, the subsidy costs the Government much less than it benefits the investor; it is even possible that the Government will lose nothing on the IGP. One may ask, how can something (*i.e.*, the commercial value of a guaranty in excess of the fee) come from nothing (if it is assumed that the Government has no loss, or loses less than the investor gains)? The answer lies in the fact that the Government is here passing to the investor some of the incidental benefits which are inherent in its unique position: its almost unlimited credit backing, its ability to make use of currency almost anywhere in the world, its capacity for waiting indefinitely, its fundamental commitment to the exportation of capital, whether public or private, to underdeveloped countries whatever the risks, and, finally, its tremendous and multiform power, which may enable it to prevent some of the risks it insures from materializing.

Thus it appears that, largely because of its unique position, the Government is not losing as much on the IGP as the guaranties' "bargain" value to the investor would seem at first to indicate. Although the Government may not be losing much or any money on the guaranties, however, the question remains, should the Government take advantage of the bargaining power which it possesses over the investor? It has been stated, "Everyone agrees that our foreign aid should not be a mere giveaway program; that we should plan to get *value received in one way or another,* for what-

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[61] See generally Tidd, *The Investment Guaranty Program and the Problem of Expropriation*, 26 GEO. WASH. L. REV. 710 (1958).

[62] *U.S. Code Cong. & Ad. News*, 84th Cong., 2d Sess., II, 3236 (1956).

ever we do." [63] Assuming that the above states a basic premise of our national policy, is the Government getting full value received in the IGP?

It may be that the increase in private foreign investment which the IGP stimulates is adequate value received for the subsidy to the investors; such increase is, after all, the express goal of the IGP. Nevertheless, if the Government possesses in the IGP a reservoir of bargaining power which it can use to further any national interests without unduly frustrating other such interests, it should do so.

Whether Fees Should Be Increased

One obvious use of the Government's bargaining power would be to increase its revenues by making a flat, across-the-board increase in the uniform fee, which is at present one half of one per cent. Such an increase would run directly contrary, however, to the basic purpose of the Program, which is not to make money or even to avoid a net loss, but to offer maximum encouragement to private investment in underdeveloped countries.[64] Accordingly, although the feasibility of raising the fees without frustrating this basic purpose should be subject to continuous review by the Investment Guaranties Staff, further discussion here of the possibility would be fruitless.

Another possible change in the present fee policy would be to charge a higher fee for the higher risks, thus requiring each investor to pay fees more closely in accordance with the actuarial value of his guaranty. This policy has already been tried and, as one might anticipate, abandoned by the Staff:

> [Variable fees were found to be] contrary to the purpose of the program. That is, it meant charging higher rates in risky countries, which are the very countries into which one is trying to encourage a flow of capital. Also it was confessed that there was no basis for determining what the differential in the rates should be.[65]

[63] *U.S. Code Cong. & Ad. News*, 84th Cong., 1st Sess., II, 2369 (1955). (Emphasis added.)

[64] "We set the annual [war-risk] fee, after much searching, at one-half of 1 percent on the premise that a low and nominal rate would be the only kind of rate which could assist the movement of investment to the danger areas." Testimony of Staff Chief Charles Warden, *Hearings on the Mutual Security Program for Fiscal Year 1958 Before the Senate Foreign Relations Committee*, 85th Cong., 1st Sess., 568 (1957).

"Again I say we would not do this [broaden the war-risk guaranty to include damage from revolutions or insurrections] as a commercially profitable operation. We would do it because we think that it is an important thing for the United States to involve private interests over a large part of the world." Testimony of Frank Coffin, *Hearings on H.R. 7372 Before the House Committee on Foreign Affairs*, 87th Cong., 1st Sess., pt. III, 959 (1961).

[65] Warden, The Investment Guaranty Program 12 (1960) (on file, Littauer Library, Harvard University). See also WHITMAN, THE UNITED STATES INVEST-

While the economic appeal of such a variable fee system may entitle the system to continued consideration by the IGP Staff, it will be assumed for purposes of this discussion to be incompatible with the basic aims of the IGP.

A Third Alternative: Increased Regulation of Investors

A third alternative to the present fee policy would be to impose increased regulation[66] upon the investor as a condition to the issuance of a guaranty, a *quid pro quo* for the value of the guaranty in excess of the fee. This alternative involves the same serious drawback as the two alternatives previously considered since it conflicts with the Program's basic goal of increasing foreign investment by attracting investors to use the guaranties. However, this alternative should be explored thoroughly before a decision is made on its desirability. Before considering the merits of imposing increased regulation upon guarantied investors, let us examine briefly some of the possible, constructive forms which such regulation might take.

Disclosure: At present a guarantied investor is required to disclose, during the period of the guaranty, only his financial books and records.[67] As will be discussed below, it might be of considerable value to the Government to know more of the inner workings of the investor's business than is revealed by his naked annual reports and financial records. The Government could gain a more intimate knowledge of the investor's activities by requiring as a condition to the issuance of his guaranty that the investor agree: (a) to submit more detailed annual reports; (b) to answer any relevant questions posed at any time by Government representatives in accordance with some reasonable procedure to be established; (c) to permit the Government to send an observer to any meetings of the investor's board of directors, or its equivalent; or, (d) to take some other appropriate measure.

Limited Control: At present the Government has no control under the IGP over a guarantied investor's policies abroad. A member of the Investment Guaranties Staff states that the Government can sometimes exercise "moral suasion" over the investor.[68] But since the Government

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MENT GUARANTY PROGRAM AND PRIVATE FOREIGN INVESTMENT 70 (Princeton Studies in International Finance No. 9, 1959).

[66] At present no obligations are imposed upon the guarantied investor other than "those necessary to the administration of the guaranties." HANDBOOK 1. Among such "necessary" obligations, perhaps the most substantial is the obligation to present to the Government a financial report each year and to give the Government access to the investor's books and records at any time. See Specimen A.I.D. Contract of Guaranty (Expropriation-Equity) # 13.

[67] See note 66 *supra*.

[68] Letter from member of Investment Guaranties Staff, February 6, 1962.

is bound to continue to provide its guaranty for the life of the contract, usually twenty years, at the unilateral option of the investor,[69] its bargaining power over the investor evaporates the moment the contract is signed. One method of giving the Government some effective and useful control over the investor would be to give it an option to refuse to continue the guaranty if, a reasonable time after being requested to do so, the investor refused to alter policies found to be seriously detrimental to our national interests. A more direct measure would be to require that the Government be given a limited voting or veto power over the investor's policies, to be exercised, with restraint, in the national interest.[70] Another possibility worth considering would be to give a limited voting or veto power to the local, host government, in order to promote harmony between the investor's activities and the basic interests of the host country. Another route to this end would be to require, as a condition to the issuance of a guaranty, that a certain minimum percentage of the equity in the investor's enterprise be held by local investors.

Profit Limitation: At present, the investor is free under the IGP to retain all his profits and to repatriate them at any time;[71] in fact, the convertibility guaranty is expressly designed to enable him to do this. If, for reasons to be discussed below, it were found desirable to limit the investor's profits, such limitation might take one of the following forms:

(a) a maximum limitation upon the amount of profits which could be repatriated each year, with excess profits to be reinvested in the local country;

(b) a requirement that profits in excess of a certain amount be given to the host country or used for its benefit;[72]

(c) an escalated fee, in place of the present fixed fee of one half of one per cent, to vary according to the investor's profits.[73]

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[69] See, *e.g.*, HANDBOOK 16.

[70] If this suggestion seems farfetched, it may be recalled that in some of the more risky situations the Government, and through it the American taxpayer, is bearing well over half the total risk involved in some guaranteed investments. If the investor prefers to go it alone, he may terminate his guaranty at any time and with it the Government's power to interfere in controlling his investment. See generally Morray, *Aid Without Tears Opportunism in Foreign Development Policy,* 46 CALIF L. REV. 665 (1958).

[71] There is, however, a limitation upon the repatriation of capital in that no investment is initially eligible for a guaranty unless it then appears that the investment is intended to have a life of at least five years (three years for investment in the form of loans.) HANDBOOK 6.

[72] It appears that such a requirement might be attached to the new "all-risk guaranties." See statement by Frank Coffin, *Hearings on S. 1983 Before the Senate Foreign Relations Committee,* 87th Cong., 1st Sess., pt. I, 263 (1961).

[73] Such a "fee" amounts in reality to an *equity*-type interest in the profits of

The suggestions made above for expanding the Government's control over guarantied investments would obviously be unpalatable to most investors.[74] Therefore, rather than continue to explore various other possible forms of increased, constructive regulation, it is appropriate at this point to turn to a consideration of the reasons that might justify increased regulation along the lines already suggested.

Reasons for Increased Regulation

Probably the primary justification for increased regulation stems from the basic fact that the United States is engaged in a life-and-death struggle with the Soviet Union for world economic power. Just as in pre-Civil War America, the North and South were engaged in a continuously more bitter competition to extend their respective economic and social systems into the new Territories, so today the forces of capitalism and communism are engaged in an increasingly hostile struggle to extend their respective systems and influence into the "new," underdeveloped areas of the world.[75] One of the major battlefields in this "cold war" is that of capital assistance. The Soviet Union, because it owns all its nation's capital, is able to offer capital assistance to an underdeveloped country on very favorable terms, without regard to "profits," whenever such action serves its ultimate goal of increased influence in the underdeveloped country. At present the Soviets are offering long-term, low-interest (2.5 per cent) loans to strategically important underdeveloped countries. The recipient governments are allowed full control over the investment, and they may make repayments in local currency or com-

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the investment. But this is justifiable where the Government is assuming an equity-type share of the risk of the investment. Such a fee should be more attractive to investors than a higher *fixed* fee since the former would "hurt" in prosperous times only and would not be a burden during hard times.

74 As early as 1949, when the IGP was just getting started and was offering only one type of guaranty (convertibility), businessmen's deep and vocal hostility to regulation was already aroused by the Program. See samples of opinion in WHITMAN, THE UNITED STATES INVESTMENT GUARANTY PROGRAM AND PRIVATE FOREIGN INVESTMENT 60 (Princeton Studies in International Finance No. 9, 1959).

75 The Staff's view of this struggle is expressed in the following statement by Chief Charles Warden in which he quotes a newspaper article approvingly: "[By encouraging the governments of underdeveloped countries to confiscate existing investment,] Moscow obviously hopes to block any substantial future private investment in these countries. * * * A major spread of this pattern would torpedo economic cooperation between the major Western nations and the non-Communist underdeveloped countries. In resultant chaos and economic hardship, the Soviet Union is apparently confident it can make great gains and bring more countries under Communist rule." *Hearings on the Mutual Security Act of 1958 Before the House Committee on Foreign Affairs,* 85th Cong., 2d Sess., vol. 2, pt. IX, at 1092 (1958).

modities.[76] Can the United States, the capital of which is held primarily in myriad private hands, hope to compete effectively in this arena against the Soviets' favorable terms?

The IGP, by giving private investors a shield against the substantial political risks of foreign investment, has already improved the United States' competitive position here in two ways: it has encouraged much private capital to go abroad which would otherwise have been frightened into staying at home,[77] and it has enabled private capital to go abroad at the prospect of more modest gains than would have to be demanded if the political risks were still a threat.[78] However, if we are to compete successfully here with the Soviet bloc, further steps must be taken: in particular, some means of limiting the personal profit motive of the private investor, and of controlling to some extent his activities in the national interests of the United States and of the host country may be necessary.

Another reason for imposing some regulation upon investors abroad is to avoid unhealthy, unbalanced situations which might otherwise exist. Large corporations which are restrained by a healthy "opposition" within the United States in the form, for example, of labor unions, competitors, and the federal and state governments, may find that their power is relatively unbridled in certain underdeveloped countries, where their assets and organization enable them, alone or in conjunction with other interests, to ignore or even dominate the local governments and unions.[79] In order to avoid the unhealthy effects of such excessive power, some regulation, in one or more of the three forms suggested, may be desirable.

An increase in the degree of disclosure required of foreign investors may be desirable for at least two reasons: first, it would facilitate the enforcement of our various other national laws and policies; *e.g.*, tax and antitrust laws; second, it appears that disclosure by itself can have a substantial beneficial effect upon the behavior of the person required to make disclosure as the SEC's experience has shown.[80] Presumbly investors in foreign countries would have more consideration for the

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[76] See generally Morray, *Aid Without Tears: Opportunism in Foreign Development Policy*, 46 CALIF. L. REV. 665 (1958).

[77] Strauss et al., *The Investment Guaranty Program* 45 (April 25, 1958) (on file in Gen. Doriot's office, Harvard Business School, Cambridge, Mass.).

[78] "The more we use the guaranties, the lower the interest rates these people [investors] can charge." Testimony of Charles Warden, Chief of Investment Guaranties Staff, *Hearings on the Mutual Security Act of 1958 Before the House Committee on Foreign Affairs*, 85th Cong., 2d Sess., vol. 2, pt. IX, at 1127 (1958).

[79] Union Minière in Katanga might be an illustration of this phenomenon.

[80] LOSS, SECURITIES REGULATION 185 (temp. student ed. 1961).

interests both of the United States and of their host country if they knew that their activities would be disclosed to the public view.

Finally, regulation in all the three forms suggested earlier, although it would frustrate their immediate desires, might prove to be in the enlightened self-interest of the investors themselves. By putting the spotlight of disclosure upon his activities, by forcing, within limits, his activities to conform to United States or host country interests, and by limiting his profits, increased regulation would impede the foreign investor to some extent; but it would also tend to avert the type of unhealthy, unbalanced, and unstable condition that existed in Cuba before the *déluge* in which foreign investors lost all.

Disadvantages of Increased Regulation

The arguments outlined above in favor of increased regulation of investors under the IGP, though persuasive, may be outweighed by the possible disadvantages of such an innovation. Probably the most serious criticism against the proposal is that, like increased fees, increased regulation would make the guaranties less attractive to investors and therefore a less effective stimulus to increased foreign investment. Another criticism is that increased regulation would be a fertile source of friction and recriminations between the investor and the Government, particularly where regulation takes the form of control over the investor. Still another serious question which the proposal of increased regulation raises is whether such regulation could be administered effectively, fairly, and without undue complexity and expense.

In view of these and other possible drawbacks of increased regulation under the IGP, it seems clear that substantial further study must precede the introduction of such a change. A useful "laboratory" for further study might be established in the following way: a tentative system of regulation could first be drafted, and then voluntary submission to this system might be made a substitute consideration (in place of the cash fee) for the issue of guaranties. The avoidance of the fee should prove a sufficient inducement to attract a number of subjects for the experiment, and yet the optional nature of the arrangement should preserve the IGP's present attractiveness to the many investors who would be repelled by the prospect of regulation. Under such an arrangement, the Investment Guaranties Staff could study and improve the tentative system of regulation in the light of actual experience, and in the meanwhile, the Program's effectiveness in stimulating investment would not be impaired.

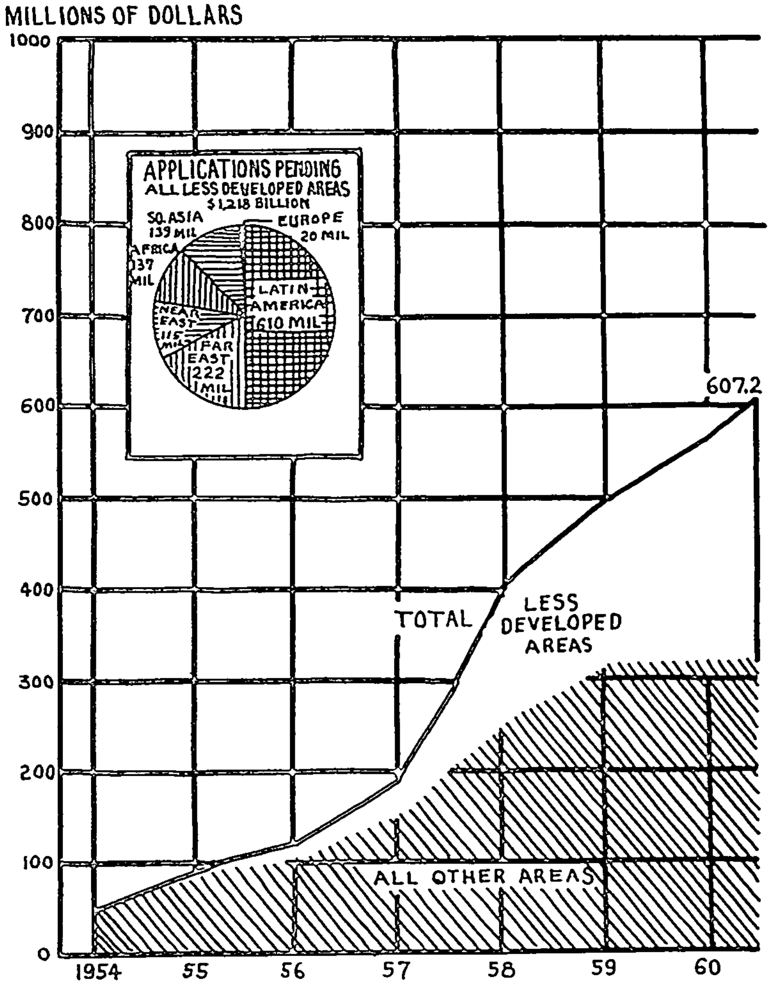
Conclusion on Fee Policy

In conclusion, it appears that in view of the IGP's basic goal of offering maximum encouragement to private investment in underdeveloped countries, the substantial subsidy to investors which exists under the present system of fees should be continued unchanged. However the desirability of future changes should be constantly reviewed, and in particular, the desirability of imposing increased regulation upon guarantied investors is a subject which merits further study and experimentation.

APPENDIX

DOCUMENT I

INVESTMENT GUARANTIES ISSUED AND APPLICATIONS PENDING JUNE 30, 1961



DOCUMENT II

INTERNATIONAL COOPERATION ADMINISTRATION
Office for Private Enterprise—Investment Guaranties Division
Washington 25, D. C.
Quarterly Report of Applications in Process, September 30, 1961

Country	Convertibility	Expropriation	War Risk	Totals
Argentina	$ 293,586,768	$	$	$ 293,586,768
Bolivia	8,662,537	9,175,000		17,837,537
Chile	46,520,000			46,520,000
China, Republic of	14,918,500	16,168,500	16,008,150	47,095,150
Colombia	54,537,500			54,537,500
Costa Rica	17,965,000	16,765,000		34,730,000
Ecuador	6,290,331	7,283,330		13,573,661
El Salvador	798,500	726,450		1,524,950
Finland	4,000,000	4,000,000		8,000,000
France (dependencies)	16,155,000	36,442,500		52,597,500
Ghana	10,700,000	10,720,000		21,420,000
Greece	23,225,000	21,575,000		44,800,000
Guatemala	28,160,000	28,000,000		56,160,000
Haiti	50,260,500	33,571,500		83,832,000
Honduras	6,450,000	7,425,000		13,875,000
India	96,135,093	78,993,293		175,128,386
Iran	8,659,000	7,892,500		16,551,500
Israel	12,931,000	17,756,000	10,331,000	41,018,000
Jordan	5,000,000	5,000,000	4,500,000	14,500,000
Korea	2,025,000	2,025,000	922,500	4,972,500
Liberia	9,500,000	8,500,000	4,275,000	22,275,000
Malaya	—	29,000	—	29,000
Morocco	1,480,000	776,000	1,280,000	3,536,000
Netherlands (New Guinea)	1,500,000	1,500,000		3,000,000
Nicaragua	10,341,707	10,326,707	1,900,000	22,568,414
Pakistan	20,742,500	16,650,275	9,351,275	46,744,050
Panama	610,000	610,000	472,000	1,692,000
Paraguay	400,000	309,800		709,800
Peru	5,650,000			5,650,000
Philippines	25,845,000	22,440,000		48,285,000
Portugal	14,102,500	14,112,500		28,215,000
Sierra Leone	1,900,000	1,900,000	1,900,000	5,700,000
Spain	8,168,000	15,050,500		23,218,500
Sudan	620,000	620,000	540,000	1,780,000
Thailand	40,793,340	36,811,840	33,499,506	111,104,686
Tunisia	700,000	4,600,000	2,600,000	7,900,000
Turkey	48,170,063	44,918,250		93,088,313
U.K. (dependencies)	12,392,693			12,392,693
Viet Nam	3,845,500	1,697,500	1,553,000	7,096,000
Yugoslavia	500,000	500,000		1,000,000
TOTALS	914,241,032	484,871,445	89,132,431	1,488,244,908
By Areas				
Latin America	532,580,536	114,285,287	2,372,000	649,237,823
Africa	43,650,000	75,956,000	10,595,000	130,201,000
Far East	98,927,340	80,671,840	51,983,156	231,582,336
Near East	97,985,063	97,141,750	14,831,000	209,957,813
South Asia	127,877,593	106,643,568	9,351,275	243,872,436
Europe	13,220,500	10,173,000	—	23,393,500
TOTALS	914,241,032	484,871,445	89,132,431	1,488,244,908*

* Additionally, approximately $1 billion in applications await country agreements.