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THE WORLD BANK

Washington, D.C.

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The World Bank

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30357188

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THIS VOLUME CLOSED AS OF

MAY, 1961

PLEASE SEE NEXT VOLUME FOR FURTHER INFORMATION

ROUTING SLIP

Date  
June 12

OFFICE OF THE PRESIDENT

NAME	ROOM NO.
<del>Mr. Demuth</del> <i>[Signature]</i>	<del>506</del>
<del>Mr. Aldewereld</del> <i>[Signature]</i>	<del>308</del>
<del>Sir Wm. [Signature]</del>	
<del>Mr. Demuth</del> <i>[Signature]</i>	
	1212

Action	Note and File
Approval	Note and Return
Comment	Prepare Reply
Full Report	Previous Papers
Information	Recommendation
Initial	Signature

Remarks

The attached memorandum has been given to Mr. Black by Mr. Bachem. It seems to me to follow pretty closely the lines that I understand are being discussed in your Committee.

J. Burke Knapp

Fr

*Proposal of Private  
Banking Investment*  
Frankfurt-Main, May 10, 1961

M e m o r a n d u m

from: H. Erich Bachem

to : Mr. Eugene R. Black

subject: Proposal to create an "World Bank-Pre-Investment Fund".

Some time ago you asked me to give you in writing my ideas about a World Bank Fund for pre-investment studies - similar but supplementary to the UN-Special Fund. Here is my proposal:

1. I propose to create a fund for financing pre-investment studies which - under present policies - cannot be financed by World Bank loans.
2. Such World Bank-Pre-Investment Fund would probably require initially only US \$ 3-5 millions but would have to be fed with subsequent allocations as required. The funds would come out of our net profits.
3. The principal purpose of the fund would be to allow preparation and evaluation of development projects which cannot or would not be prepared or studied without the funds assistance. This includes feasibility studies of alternatives to projects sponsored or being prepared by governments or private parties.
4. The principal differences between the World Bank's and the UN-Special Fund would be the following:

- a) The World Bank Fund would not be restricted by any minimum limit regarding the total foreign exchange cost of the studies. I expect - in fact - that the great majority of studies to be financed by the World Bank Fund would be under the US \$ 250.000 foreign exchange cost limit set as a minimum for UN-Special Fund assistance.
- b) World Bank financed studies would not require any formal agreement with a government, therefore no parliamentary action, nor require granting of any immunity or diplomatic privileges. An informal communication by letter or cable exchange from the Bank's member government that it either sponsors or has at least no objection to the proposed study should be sufficient.
- c) The World Bank Fund should be able to approve financing of a study within a few weeks as compared to the 6 to 18 months period required under UN-Special Fund procedures.
- d) World Bank Fund financing could cover the entire cost of the studies although it should normally be limited to the foreign exchange component.
- e) World Bank financed studies could be undertaken regardless of whether they may benefit a government (municipality etc.) or a private party. However, if a study is likely to lead to an investment from which a private party will draw a direct financial benefit, arrangements should be made under which the cost of the study would then be regarded as an interest bearing loan repayable over a period suited to the

investment made. All other studies should be financed as a grant.

5. The advantage of creating a separate fund (though no legal entity) with a very few general regulations for its operation - as compared to the possibility to consider financing the same studies on a case-by-case basis under IBRD's technical assistance budget are the following:
  - a) The initiative for finding and proposing projects which need such studies has to come largely from our operations officers and the chiefs of our operational, technical and economic missions. Such staff members need to know in advance what can and what cannot be done by the Bank. They should follow established policies and not be expected to make a case requiring new or changing present policies.
  - b) The knowledge that the World Bank can finance such studies on a grant basis is likely to spread quickly in our member countries. It will be much easier to reject outright at the very beginning requests for financing which seem unwarranted on the grounds of established policies than to refer them already at a very initial stage to the Bank's management for consideration.
6. The objective of the World Bank Pre-Investment Fund is to help starting new development projects and to propose better alternatives to (or modifications of) unsound development projects or project-ideas.



Examples for possibilities of the first category (within my area of responsibility) are:

Malaya:           Fertilizer factory  
                  Cement factory  
                  Northern East-West Highway  
                  Industrial Estates  
                  Palm-Oil Industries

Philippines:     food processing plants  
                  nickel-iron ore mines

Examples for the second category (alternatives) are (or would have been in recent years):

Singapore:       Free-piston power plant St. James  
                  Steam power plant Pasir Pajang  
                  Water supply project

Malaya:           New Butterworth port  
                  Johore Steam Power Station  
                  PRAI Railway extension + station

Philippines:     Integrated Steel Mill  
Pan-Philippine Inter-Island Highway  
                  Manila harbor-works

7. The effectiveness of any effort to prevent wasteful investments depends in my view mainly on the possibility to propose a suitable alternative at a very early stage - before people, emotions or money have become firmly committed. A flexible and fast operating World Bank will

be a useful weapon against waste.

Post scriptum:

I cannot answer your question of how to convince Mr. Paul Hoffman of the need for a World Bank Fund because I do not know Mr. Hoffman personally. If I knew him well enough, I am sure I could give you a proposal for your consideration.



# Record Removal Notice

<b>File Title</b> Operational - Investments - Promotion and Protection of Private and Foreign Investment - Correspondence - Volume 5		<b>Barcode No.</b>  30357188		
<b>Document Date</b> April 26, 1961	<b>Document Type</b> Memorandum			
<b>Correspondents / Participants</b> To: Mr. Eugene R. Black, Sir William Iliff, Mr. J. Burke Knapp From: A. Broches				
<b>Subject / Title</b> Bank position on proposals for the protection of private foreign investment				
<b>Exception(s)</b> Attorney-Client Privilege				
<b>Additional Comments</b>		The item(s) identified above has/have been removed in accordance with The World Bank Policy on Access to Information or other disclosure policies of the World Bank Group.		
		<table border="1"><tr><td><b>Withdrawn by</b> Kim Brenner-Delp</td><td><b>Date</b> August 17, 2023</td></tr></table>	<b>Withdrawn by</b> Kim Brenner-Delp	<b>Date</b> August 17, 2023
<b>Withdrawn by</b> Kim Brenner-Delp	<b>Date</b> August 17, 2023			

January 20, 1961

Mr. Lloyd K. Heidlinger  
Executive Director  
U. S. Council of the ICG  
103 Park Avenue  
New York 17, New York

Dear Fudge:

I refer to your letter of January 12 and the enclosed copy of a letter to you from Walter Hill dated January 6, both regarding proposals for an international investment guaranty scheme.

There is only one significant difference between my proposal as put forward at the Karachi Conference and the proposal of Mr. van Eeghen, a member of the Netherlands Delegation to that Conference. Under my proposal, subscriptions to the guaranty capital of an Investment Guaranty Corporation would be subscribed by member governments on the basis of a formula similar to that used in setting up the International Finance Corporation. In other words, the subscriptions would be based on a formula related to economic capacity and financial strength, which would result in relatively large subscriptions by the major industrialized countries and relatively small subscriptions by underdeveloped countries.

Mr. van Eeghen's scheme would fix the subscription of each investor country at 50 percent of its total insured investments under the scheme and the subscription of each capital-importing country at 50 percent of its total insured investments received under the scheme.

These two approaches as regards subscriptions to capital are clearly incompatible.

I suggest that Mr. van Eeghen's proposal is impractical for several reasons. First, I think an investment guaranty corporation must start off with a fixed total guaranty capital rather than, as he would suggest, with a capital which would vary in accordance with the amount of insured investments. (Under his scheme, some provision would have to be made for starting capital, since his formula, strictly interpreted, would have the corporation begin with a zero capital). Second, I doubt that underdeveloped, capital-importing countries would be prepared or should be expected to subscribe to

Mr. Lloyd K. Neidlinger

-3-

January 20, 1961

capital to the extent of 50 percent of the insured investments made in them. This could readily result in very large subscriptions by certain developing countries and nominal subscriptions by certain industrialized countries. Furthermore, I don't believe that investors would find acceptable guarantees based upon Mr. van Eggen's allocation of subscriptions to capital. Third, it is unrealistic to divide countries into two rigid categories of capital-exporting countries, on the one hand, and capital-importing countries, on the other. Many countries are both. (I appreciate, of course, that Mr. van Eggen's formula could be applied both ways).

I hope that the above comments are useful to you and to ICC/Paris. A copy of this letter is going to Mr. van Eggen for his information.

Sincerely yours

August Maffry  
Vice President

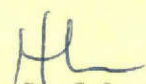
*Companion of Private &  
Foreign Investment*

January 16, 1961

Dear Mr. Darling:

On my return to Washington last week, I found your letters of December 29 and January 6. I appreciate very much your writing them and sending me the material about the Small Business Investment Company program. I shall look forward to reading this with interest.

Sincerely yours,



Henry R. Labouisse

Mr. Joseph W. Darling  
114 Fourth Street, S. E.  
Washington 3, D. C.

HRL:P

*✓X Darling, Joseph  
✓X SBIC*

UNITED STATES COUNCIL  
OF  
THE INTERNATIONAL CHAMBER OF COMMERCE, INC.

CABLE: USAINTECHAM

101 PARK AVENUE

NEW YORK 17, N. Y.

MURRAY HILL 6-3481

January 12, 1961

Dear Gus:

*See letter of Jan 6/61*

I enclose a copy of a letter from ICC headquarters asking us to explain the status of our investment guarantee plan which we circulated at the Karachi conference and whether we feel we can harmonize our plan with that of van Ee ghen.

I would welcome your suggestions for my reply to this letter and particularly your analysis of any differences between our plan and the van Ee ghen plan that it might be difficult to compromise.

It is my understanding that our Committee on Foreign Investments expressed a genuine interest in the plan Ralph Straus presented to them and raised a number of questions that he intended to investigate. At the next meeting of our committee, I would expect that this plan would again be discussed and I would appreciate it if you would report the discussions at Karachi that were relative to the need for a guarantee system. I'll appreciate your giving some thought to this.

With cordial regards,

Sincerely yours,

Lloyd K. Neidlinger  
Executive Director

Mr. August Maffry  
Vice President  
Irving Trust Company  
One Wall Street  
New York 15, New York

Chairman: RALPH T. REE

LLOYD K. NEIDLINGER, Executive Director

Vice Chairman:

WALTER L. LINGLE, JR.

LEE D. WELLS

FRANK P. SHEPARD, Treasurer

114 Fourth St., S. E.  
Washington 3, D. C.

January 6, 1961

Mr. Henry Labouisse  
Special Assistant for Africa  
International Bank for Reconstruction and Development  
1818 H Street, N. W.  
Washington 25, D. C.

*Act. Jan 10/61*

Dear Mr. Labouisse:

The enclosed "Resume" of SBIC Financial Transactions with Small Businesses as of September 30, 1960" supplements my letter dated December 29, 1960. It is vivid evidence of the working of the Small Business Investment Company program and the potential of the new financing technique for underdeveloped countries.

Most sincerely,

*Joseph W. Darling*

Joseph W. Darling

*✓x Darling, Joseph*  
*✓x SBIC*



116 Fourth St., R. B.  
Washington 2, D. C.

January 6, 1961

Mr. Henry Labouisse  
Special Assistant for Africa  
International Bank for Reconstruction and Development  
1119 H Street, N. W.  
Washington 25, D. C.

Dear Mr. Labouisse:

The enclosed "Report" of the Financial Association with  
Shell Industries as of September 30, 1960, supplements my letter  
dated December 29, 1960. It is a vital evidence of the working of the  
Shell Industries Investment Company program and the potential of the  
new financing technique for underdeveloped countries.

Most sincerely,

*Joseph W. Baring*

Joseph W. Baring

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January 6, 1961

Resume' of SBIC Financial Transactions with Small Businesses  
as of September 30, 1960

The accompanying report of "Small Business Investment Companies Loan and Industry Financing Transactions - by Industry" prepared as of September 30, 1960, should be of particular interest since it shows how effective the SBIC program has been in actually making relatively long term equity type capital available to small business firms for development purposes.

A total of 745 small business financing transactions resulted in about \$31 millions of commitments for various types of long term financing from the 124 Small Business Investment Companies included in the report. The overall number of transactions and the approximate amounts involved were as follows:

	Number of Transactions	Approx. Amt. Committed	Average Size (Approximate)	Number Industry Groupings
A.				
<u>Long Term Loans</u>	<u>538</u>	<u>\$19 million</u>	<u>\$35 thousand</u>	<u>33</u>
1. Non-manufacturing	472	\$15 million	\$32 thousand	14
2. Manufacturing	66	\$ 4 million	\$60 thousand	19
B.				
<u>Equity Financing</u>	<u>207</u>	<u>\$22 million</u>	<u>\$110 thousand</u>	<u>33</u>
1. Non-manufacturing	118	\$ 9 million	\$75 thousand	14
2. Manufacturing	89	\$13 million	\$140 thousand	19

The range in size of financial transactions was approximately as follows:

A.		
<u>Long Term Loans</u>	<u>Smallest</u>	<u>Largest</u>
1. Non-manufacturing	\$ 6 thousand	\$100 thousand
2. Manufacturing	\$19 thousand	\$110 thousand
B.		
<u>Equity Financing</u>		
1. Non-manufacturing	\$ 5 thousand	\$250 thousand
2. Manufacturing	\$ 3 thousand	\$250 thousand

Loans were as small as \$6,000 for non-manufacturing firms, and \$19,500 for manufacturing. Equity financing transactions were as small as \$5,000 for non-manufacturing firms and \$3,000 for manufacturing.

These 745 long term financing transactions were worked out with the small business firms involved by the personnel of the 124 Small Business Investment Companies doing the financing, using their own initiative and utilizing their own screening processes. The SBICs will follow up and service the financing in the future directly with the small businesses, lending such technical assistance and guidance as they feel necessary to protect their own private investment in the small business.

The technique of the SBICs searching out, screening, and finally actually making the individual long term financial transaction with the small business is a technique which, adapted to local conditions as required, could readily be utilized in underdeveloped areas abroad in conjunction with National Development Institutions and any loan funds made available through U.S. assistance.

Joseph W. Darling

CHAMBRE DE COMMERCE INTERNATIONALE  
INTERNATIONAL CHAMBER OF COMMERCE

11 COURS ALBERT I<sup>er</sup> - PARIS

Document 1

Document 1

Document 1

6.I.1961 wtp

Economic & Financial Policy

Dear Lloyd,

Commission on Foreign Investments and Economic Development

One of the recommendations of the Karachi Conference was that the IOC should study the proposals put forward for providing guarantees or insurance facilities on an international basis to cover non-commercial risks incurred by private foreign investments.

We have now had a letter from the Netherlands National Committee reminding us of this recommendation and submitting for consideration the proposal drawn up by Mr. van Eeghen and circulated by the Netherlands delegation in Karachi. For your convenience, I am enclosing a copy of this paper.

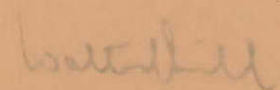
There is nothing to prevent us going ahead with this study, as the IOC's Council has already included the question in the program of the Commission on Foreign Investments and Economic Development.


We know, however, that the U.S. Council is giving the latter active consideration and we have in our hands not only the van Eeghen proposal but also the draft submitted in Karachi by the U.S. Delegation.

Before deciding on a course of action, we should therefore appreciate your letting us know whether the U.S. Council has made any further progress in its study of this subject since the Karachi Conference and in particular to what extent you feel your ideas can be combined or harmonized with those of Mr. van Eeghen. It is obviously essential that any consultation we make should be based on a single project. Any other ideas or suggestions you may wish to put forward in relation to the initiative of the Netherlands Committee and as regards the best way of handling this question within the IOC would of course also be welcome.

Looking forward to hearing from you,

Yours sincerely,

  
Walter Hill  
Secretary General

  
Richard Barton  
Director

Mr. Lloyd K. WEISLINER  
Executive Director  
U.S. Council of the IOC  
NEW YORK U.S.A.  
AIRMAIL

PAR AVION  
AIR MAIL

*Companion of Private &  
Foreign Investments*

114 Fourth St., S. E.  
Washington 3, D. C.

December 29, 1960

*Ack: Jan 16/61*

Mr. Henry Labouisse  
Special Assistant for Africa  
International Bank for Reconstruction and Development  
1818 H Street, N. W.  
Washington, D. C.

Dear Mr. Labouisse:

Congratulations on your new assignment as Special Representative for Africa, this should be one of the more challenging jobs you have undertaken, nearly equal to the German assignment. I am sure you will do a splendid job in helping the emerging nations of the dark continent solve their long term financing problems in connection with development and expansion of their production facilities.

The enclosed material is descriptive of the workings of the Small Business Investment Companies.

Wishing you a healthy and prosperous New Year.

Sincerely,

*Joseph W. Darling*

Joseph W. Darling

*X Darling, Joseph  
X SBIC*

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BANK WAH KONG  
1960 DEC 30 11 21 30

**SMALL BUSINESS ADMINISTRATION**  
**WASHINGTON 25, D. C.**

November 23, 1960

TO ALL LICENSED SMALL BUSINESS INVESTMENT COMPANIES:

From the figures reported by the licensed Small Business Investment Companies for the six months ending September 30, 1960, combined statements of the financial condition and of the income and expense have been made up. The accuracy and quality of the reports received have improved very greatly since the first ones were made in March; the majority of companies sent in their data within the stated 30-day period. This report to you, therefore is more complete, will reach you promptly and hence we trust will be of greater service than previous ones.

Figures are presented to cover three size groupings according to statutory capital and surplus; namely:

1. Small companies -- not more than \$325,000;
2. Medium companies -- from \$325,000 to \$1,000,000;
3. Large companies -- more than \$1,000,000.

Since operating experience is known to be an important factor in this financial field, separate figures are presented:

1. For all Licensees reporting on their operations for the six months ended September 30, 1960; and
2. For reporting companies licensed for six months or longer.

Blank columns have been provided in which your company may record its own comparable figures. In addition to the dollar figures, ratios are presented for all items as a percentage of total assets or of total income.

The rate of formation of Small Business Investment Companies, as measured by the Proposals that we are receiving, has shown an important increase in recent months both in comparison with 1959 and from month to month in 1960:

Receipt of Proposals - Number by Months

	<u>1960</u>	<u>1959</u>
November	32*	9
October	24	8
September	19	10
August	18	7
July	12	11
June	19	13

\* Partially estimated.

The figures currently reported by companies licensed for six months or more when compared with those derived from reports as of March 31, 1960, bring out clearly the changes that have taken place in the operations of Licensees during the six-month period:

Operating Ratios (Percentage of Total Assets or of Total Income)

	<u>Companies of All Sizes</u>		<u>Small Companies</u>	
	<u>September*</u>	<u>March**</u>	<u>September*</u>	<u>March**</u>
<u>Assets</u>				
Cash and Government Securities	67%	75%	32%	63%
Small Business Financing	32	23	66	35
Other Assets	<u>1</u>	<u>2</u>	<u>2</u>	<u>2</u>
	100	100	100	100
<u>Liabilities</u>				
Current Liabilities	1	2	2	3
Borrowings	8	7	35	18
Capital and Surplus	<u>91</u>	<u>91</u>	<u>63</u>	<u>79</u>
	100	100	100	100
<u>Income</u>				
Interest from Government Securities	36	69	16	39
Interest from Small Businesses Financed	46	21	65	44
Income from Fees	9	9	16	16
All Other Income	<u>9</u>	<u>1</u>	<u>3</u>	<u>1</u>
	100	100	100	100
<u>Expense</u>				
Financial Expense, Interest Paid, etc.	12	7	24	24
Operating Expense	<u>58</u>	<u>70</u>	<u>59</u>	<u>74</u>
Total Expense	70	77	83	98
Net Income before Tax and Loss Provisions	30	23	17	2
Provisions for Losses and Taxes	28	19	10	23
Net Income	2	4	7	loss

\* Companies licensed six months or more reporting at September 30, 1960.

\*\* All reporting Licensees at March 31, 1960.

Particularly in the case of the small companies, a strong shift has occurred; assets predominantly in the form of cash and Government securities in March, now appear as investments in and financing of small business concerns. This in turn has increased income to the investment companies paid by the small businesses financed. Expenses appear well controlled. There have been substantial increases in net income before provisions for losses and taxes. In general, a definite trend toward putting capital to work and toward earnings improvement is observed.

The figures now available will be analyzed further to bring out additional information, and from time to time such analyses will be presented. Meantime your comments and suggestions will be welcomed. We trust you will find these reports informative and helpful to you in conducting your own affairs.

Yours truly,

A handwritten signature in cursive script, appearing to read "A. D. Harvey".

A. D. Harvey  
Director  
Office of Investment



Small Business Administration  
Washington, D. C.

Licensed Small Business Investment Companies  
Combined Statement of Financial Condition  
as of September 30, 1960

Item Nos. SBA Form 468 Page 1	Assets	Companies with Licenses in Force September 30, 1960 - 130 Reporting Companies as of November 8, 1960 (136 Licenses in Force)		For Your Company	Companies Licensed for Six Months or More - 79 Reporting Companies as of November 8, 1960 (83 Licenses in Force)		For Your Company
		Amount	Percent		Amount	Percent	
1	Cash	\$ 27,726,778	22.0		\$23,466,302	29.4	
2	U. S. Government Obligations	64,711,863	51.4		29,861,767	37.4	
	Total Cash & U. S. Government Obligations	92,438,641	73.4		53,328,069	66.8	
	Loans and Investments						
7, 13	Loans to Small Businesses (Sec. 305)	16,340,427	13.0		13,041,253	16.3	
7(a), 13(a)	Less: Participation by Others	681,923	0.5		666,998	0.8	
	Net Loans	15,658,504	12.5		12,374,255	15.5	
9, 14	Convertible Debentures of SBCs (Sec. 304)	15,498,179	12.3		12,658,879	15.8	
15	Capital Stock of SBCs	892,930	0.7		556,130	0.7	
	Gross Loans & Investments	32,049,613	25.5		25,589,264	32.0	
14(c)	Less: Allowance for Losses	427,778	0.3		323,385	0.4	
	Net Loans & Investments	31,621,835	25.2		25,265,879	31.6	
	All Other Assets	1,857,801	1.4		1,254,937	1.6	
27	Total Assets	\$125,918,277	100.0		\$79,848,885	100.0	
SBA Form 468 Page 2	Liabilities, Capital Stock and Surplus						
30 thru 42	Accounts Payable, Accrued and Deferred Items	\$ 1,131,188	0.9		\$ 904,612	1.1	
	Term Liabilities						
49	Subordinated Debentures Issued to SEA (Sec. 302)	6,212,454	4.9		4,712,794	5.9	
28, 44(a)	Funds Borrowed from SEA (Sec. 303)	1,110,000	0.9		960,000	1.2	
	Total SEA Obligations	7,322,454	5.8		5,672,794	7.1	
29, 44(b)	Funds Borrowed from Others than SEA	686,851	0.6		636,851	0.8	
	Total Borrowings	8,009,305	6.4		6,309,645	7.9	
45 thru 48	All Other Liabilities	31,229	-		31,229	-	
50	Total Liabilities	9,171,722	7.3		7,245,486	9.0	
	Capital Stock and Surplus						
51(c), 54	Capital Stock	33,202,828	26.4		25,095,001	31.4	
	Surplus						
52(a)	Paid-in Surplus	83,539,127	66.3		47,468,912	59.5	
	Retained Earnings						
52(b)	Net Operating Earnings	14,403	-		50,072	0.1	
52(c)	Net Realized Gain or (Loss) on Investments	(9,803)	-		(10,586)	-	
	Total Surplus	83,543,727	66.3		47,508,398	59.6	
	Total Capital Stock and Surplus	116,746,555	92.7		72,603,399	91.0	
55	Total Liabilities, Capital Stock and Surplus	\$125,918,277	100.0		\$79,848,885	100.0	

Investment Administration Division  
Office of Investment  
November 16, 1960

Small Business Administration  
Washington, D. C.

Combined Statement of Financial Condition as of September 30, 1960  
Licensed Small Business Investment Companies  
Having Statutory Capital and Surplus of Not More Than \$325,000

Item Nos. SBA Form 468 Page 1	Assets	Companies with Licenses in Force September 30, 1960 - 99 Reporting Companies as of November 8, 1960		For Your Company	Companies Licensed for Six Months or More - 53 Reporting Companies as of November 8, 1960		For Your Company
		Amount	Percent		Amount	Percent	
1	Cash	\$ 4,110,068	17.0		\$ 1,016,891	6.8	
2	U. S. Government Obligations	5,789,773	23.9		3,759,746	25.3	
	Total Cash & U. S. Government Obligations	9,899,841	40.9		4,776,637	32.1	
	Loans and Investments						
7, 13	Loans to Small Businesses (Sec. 305)	11,558,523	47.7		8,259,349	55.6	
7(a), 13(a)	Less: Participation by Others	413,430	1.7		398,505	2.7	
	Net Loans	11,145,093	46.0		7,860,844	52.9	
9, 14	Convertible Debentures of SBCs (Sec. 304)	2,606,016	10.8		1,911,516	12.9	
15	Capital Stock of SBCs	138,940	0.6		52,140	0.4	
	Gross Loans & Investments	13,890,049	57.4		9,827,500	66.2	
14(c)	Less: Allowance for Losses	107,610	0.4		79,217	0.5	
	Net Loans & Investments	13,782,439	57.0		9,748,283	65.7	
	All Other Assets	520,802	2.1		324,485	2.2	
27	Total Assets	\$24,203,082	100.0		\$14,849,405	100.0	
	Liabilities, Capital Stock and Surplus						
A Form 468 Page 2							
30 thru 42	Accounts Payable, Accrued and Deferred Items	\$ 431,554	1.8		\$ 298,732	2.0	
	Term Liabilities						
49	Subordinated Debentures Issued to SBA (Sec. 302)	5,633,454	23.3		4,133,794	27.8	
28, 44(a)	Funds Borrowed from SBA (Sec. 303)	860,000	3.6		710,000	4.8	
	Total SBA Obligations	6,493,454	26.9		4,843,794	32.6	
29, 44(b)	Funds Borrowed from Others than SBA	386,139	1.6		336,139	2.3	
	Total Borrowings	6,879,593	28.5		5,179,933	34.9	
45 thru 48	All Other Liabilities	31,229	0.1		31,229	0.2	
50	Total Liabilities	7,342,376	30.4		5,509,894	37.1	
	Capital Stock and Surplus						
51(c), 54	Capital Stock	12,561,269	51.9		7,081,437	47.7	
	Surplus						
52(a)	Paid-in Surplus	4,390,785	18.1		2,296,508	15.5	
	Retained Earnings						
52(b)	Net Operating Earnings	(105,598)	(0.4)		(52,076)	(0.4)	
52(c)	Net Realized Gain or (Loss) on Investments	14,250	-		13,642	0.1	
	Total Surplus	4,285,187	17.7		2,258,074	15.2	
	Total Capital Stock and Surplus	16,860,706	69.6		9,339,511	62.9	
55	Total Liabilities, Capital Stock and Surplus	\$24,203,082	100.0		\$14,849,405	100.0	

Investment Administration Division  
Office of Investment  
November 16, 1960

Small Business Administration  
Washington, D. C.

Combined Statement of Financial Condition as of September 30, 1960  
Licensed Small Business Investment Companies  
Having Statutory Capital and Surplus of from \$325,000 to \$1,000,000

Item Nos. SBA Form 468 Page 1	Assets	Companies with Licenses in Force September 30, 1960 - 16 Reporting Companies as of November 8, 1960		For Your Company	Companies Licensed for Six Months or More - 14 Reporting Companies as of November 8, 1960		For Your Company
		Amount	Percent		Amount	Percent	
1	Cash	\$1,803,526	21.2		\$1,146,628	15.3	
2	U. S. Government Obligations	<u>3,046,372</u>	<u>35.8</u>		<u>2,748,270</u>	<u>36.7</u>	
	Total Cash & U. S. Government Obligations	<u>4,849,898</u>	<u>57.0</u>		<u>3,894,898</u>	<u>52.0</u>	
	Loans and Investments						
7, 13	Loans to Small Businesses (Sec. 305)	1,476,621	17.4		1,476,621	19.7	
7(a), 13(a)	Less: Participation by Others	<u>268,493</u>	<u>3.2</u>		<u>268,493</u>	<u>3.6</u>	
	Net Loans	<u>1,208,128</u>	<u>14.2</u>		<u>1,208,128</u>	<u>16.1</u>	
9, 14	Convertible Debentures of SBCs (Sec. 304)	2,110,863	25.2		2,090,863	28.0	
15	Capital Stock of SBCs	<u>138,990</u>	<u>1.6</u>		<u>138,990</u>	<u>1.8</u>	
	Gross Loans & Investments	<u>3,487,981</u>	<u>41.0</u>		<u>3,437,981</u>	<u>45.9</u>	
14(c)	Less: Allowance for Losses	<u>5,000</u>	<u>-</u>		<u>5,000</u>	<u>-</u>	
	Net Loans & Investments	<u>3,482,981</u>	<u>41.0</u>		<u>3,432,981</u>	<u>45.9</u>	
	All Other Assets	<u>168,801</u>	<u>2.0</u>		<u>158,421</u>	<u>2.1</u>	
27	Total Assets	<u>\$8,501,680</u>	<u>100.0</u>		<u>\$7,486,300</u>	<u>100.0</u>	
SA Form 468 Page 2	<u>Liabilities, Capital Stock and Surplus</u>						
30 thru 42	Accounts Payable, Accrued and Deferred Items	\$ 229,523	2.7		\$ 219,523	2.9	
	Term Liabilities						
49	Subordinated Debentures Issued to SBA (Sec.302)	442,000	5.2		442,000	5.9	
28, 44(a)	Funds Borrowed from SBA (Sec. 303)	<u>250,000</u>	<u>2.9</u>		<u>250,000</u>	<u>3.4</u>	
	Total SBA Obligations	<u>692,000</u>	<u>8.1</u>		<u>692,000</u>	<u>9.3</u>	
29, 44(b)	Funds Borrowed from Others than SBA	<u>50,000</u>	<u>0.6</u>		<u>50,000</u>	<u>0.7</u>	
	Total Borrowings	<u>742,000</u>	<u>8.7</u>		<u>742,000</u>	<u>10.0</u>	
45 thru 48	All Other Liabilities	<u>-0-</u>	<u>-</u>		<u>-0-</u>	<u>-</u>	
50	Total Liabilities	<u>971,523</u>	<u>11.4</u>		<u>961,523</u>	<u>12.9</u>	
	Capital Stock and Surplus						
51(c), 54	Capital Stock	<u>4,263,190</u>	<u>50.1</u>		<u>4,162,690</u>	<u>55.6</u>	
	Surplus						
52(a)	Paid-in Surplus	3,254,069	38.3		2,319,569	31.3	
	Retained Earnings						
52(b)	Net Operating Earnings	4,350	0.1		3,970	0.1	
52(c)	Net Realized Gain or (Loss) on Investments	<u>8,548</u>	<u>0.1</u>		<u>8,548</u>	<u>0.1</u>	
	Total Surplus	<u>3,266,967</u>	<u>38.5</u>		<u>2,362,087</u>	<u>31.5</u>	
	Total Capital Stock and Surplus	<u>7,530,157</u>	<u>88.6</u>		<u>6,524,777</u>	<u>87.1</u>	
55	Total Liabilities, Capital Stock and Surplus	<u>\$8,501,680</u>	<u>100.0</u>		<u>\$7,486,300</u>	<u>100.0</u>	

Investment Administration Division  
Office of Investment  
November 16, 1960

Small Business Administration  
Washington, D. C.

Combined Statement of Financial Condition as of September 30, 1960  
Licensed Small Business Investment Companies  
Having Statutory Capital and Surplus of More Than \$1,000,000

Item Nos. SBA Form 468 Page 1	Assets	Companies with Licenses in Force September 30, 1960 - 15 Reporting Companies as of November 8, 1960		For Your Company	Companies Licensed for Six Months or More - 12 Reporting Companies as of November 8, 1960		For Your Company
		Amount	Percent		Amount	Percent	
1	Cash	\$21,813,184	23.4		\$21,302,783	37.0	
2	U. S. Government Obligations	55,875,718	59.9		23,353,751	40.6	
	Total Cash & U. S. Government Obligations	77,688,902	83.3		44,656,534	77.6	
	Loans and Investments						
7, 13	Loans to Small Businesses (Sec. 305)	3,305,283	3.5		3,305,283	5.8	
7(a), 13(a)	Less: Participation by Others	-0-	-		-0-	-	
	Net Loans	3,305,283	3.5		3,305,283	5.8	
9, 14	Convertible Debentures of SBCs (Sec. 304)	10,751,300	11.5		8,653,500	15.1	
15	Capital Stock of SBCs	615,000	0.7		365,000	0.6	
	Gross Loans & Investments	14,671,583	15.7		12,323,783	21.5	
14(c)	Less: Allowance for Losses	315,168	0.3		239,168	0.4	
	Net Loans & Investments	14,356,415	15.4		12,084,615	21.1	
	All Other Assets	1,168,198	1.3		772,031	1.3	
27	Total Assets	\$93,213,515	100.0		\$57,513,180	100.0	
	Liabilities, Capital Stock and Surplus						
30 thru 42	Accounts Payable, Accrued and Deferred Items	\$ 470,111	0.5		\$ 386,357	0.6	
	Term Liabilities						
49	Subordinated Debentures Issued to SBA (Sec. 302)	137,000	0.1		137,000	0.2	
28, 44(a)	Funds Borrowed from SBA (Sec. 303)	-0-	-		-0-	-	
	Total SBA Obligations	137,000	0.1		137,000	0.2	
29, 44(b)	Funds Borrowed from Others than SBA	250,712	0.3		250,712	0.5	
	Total Borrowings	387,712	0.4		387,712	0.7	
45 thru 48	All Other Liabilities	-0-	-		-0-	-	
50	Total Liabilities	857,823	0.9		774,069	1.3	
	Capital Stock and Surplus						
51(c), 54	Capital Stock	16,378,369	17.6		13,850,874	24.1	
	Surplus						
52(a)	Paid-in Surplus	75,894,273	81.4		42,822,835	74.5	
	Retained Earnings						
52(b)	Net Operating Earnings	115,651	0.1		98,178	0.2	
52(c)	Net Realized Gain or (Loss) on Investments	(32,601)	-		(32,776)	(0.1)	
	Total Surplus	75,977,323	81.5		42,888,237	74.6	
	Total Capital Stock and Surplus	92,355,692	99.1		56,739,111	98.7	
55	Total Liabilities, Capital Stock and Surplus	\$93,213,515	100.0		\$57,513,180	100.0	

Investment Administration Division  
Office of Investment  
November 16, 1960

Small Business Administration  
Washington, D. C.

Licensed Small Business Investment Companies  
Combined Statement of Income and Expense  
For the Six Months Ended September 30, 1960

Item Nos. SBA Form 468 Page 3	Income	Companies with Licenses in Force September 30, 1960 - 130 Reporting Companies as of November 8, 1960 (136 Licenses in Force)		For Your Company	Companies Licensed for Six Months or More - 79 Reporting Companies as of November 8, 1960 (83 Licenses in Force)		For Your Company
		Amount	Percent		Amount	Percent	
2	Interest on Loans (Sec. 305)	\$ 465,236	24.8		\$ 413,145	26.2	
3	Interest on Convertible Debentures (Sec. 304)	333,882	17.8		306,725	19.5	
4	Interest on U. S. Government Securities	705,657	37.6		565,916	36.0	
	Total Interest Income	<u>1,504,775</u>	<u>80.2</u>		<u>1,285,786</u>	<u>81.7</u>	
11, 12	Dividends and Contingent Earnings	2,643	0.1		2,643	0.2	
8, 9, 10	Fees (Management, Counselling, etc.)	168,021	8.9		149,690	9.5	
1,5,6,7,13,14	Other Income	201,467	10.8		134,915	8.6	
	Total Fees, Other Income, Dividends, etc.	<u>372,131</u>	<u>19.8</u>		<u>287,248</u>	<u>18.3</u>	
	Total Income	<u>\$1,876,906</u>	<u>100.0</u>		<u>\$1,573,034</u>	<u>100.0</u>	
	<u>Expense</u>						
16, 17	Interest and Commitment Fees on SBA Obligations	\$ 164,900	8.8		\$ 141,327	9.0	
18	Interest and Commitment Fees on Other Obligations	11,054	0.7		10,337	0.6	
19,20,21,23,24	Other Financial Expenses	43,368	2.3		40,515	2.6	
	Total Financial Expense	<u>219,322</u>	<u>11.8</u>		<u>192,179</u>	<u>12.2</u>	
	<u>Operating Expenses</u>						
SBA Form 468 Page 5	Operating Expenses						
15	Salaries, Officers	246,314	13.1		183,714	11.7	
16	Salaries, Employees	150,716	8.0		121,909	7.8	
1	Advertising & Promotion	50,269	2.7		41,234	2.6	
5,6,7,13,14	Space Occupied & Office Expense	147,849	7.9		119,900	7.6	
3	Auditing & Examination Costs	45,181	2.4		42,485	2.7	
12	Legal Services	89,391	4.8		74,689	4.7	
2, 10	Appraisal, Consulting & Engineering Costs	32,259	1.7		26,708	1.7	
11	Investment Advisory & Supervisory Costs	136,912	7.3		121,341	7.7	
4, 18	Travel and Communications	77,730	4.1		66,615	4.2	
8,9,17,19,20,22	All Other	140,150	7.4		112,338	7.2	
30	Total Operating Expenses	<u>1,116,771</u>	<u>59.4</u>		<u>910,933</u>	<u>57.9</u>	
	Total Expenses	<u>\$1,336,093</u>	<u>71.2</u>		<u>\$1,103,112</u>	<u>70.1</u>	
SBA Form 468 Page 3	Net Income before Prov. for Losses & Inc. Taxes	\$ 540,813	28.8		\$ 469,922	29.9	
21	Estimated Provision for Losses	372,929	19.9		269,744	17.1	
27	Provision for Income Taxes	178,755	9.5		171,437	10.9	
	Total	<u>551,684</u>	<u>29.4</u>		<u>441,181</u>	<u>28.0</u>	
28	Net Income from Operations	<u>(\$ 10,871)</u>	<u>(0.6)</u>		<u>\$ 28,741</u>	<u>1.9</u>	
6	Realized Gain (Loss) from Investments	23,822			22,927		
7	Less: Provision for Income Taxes	4,647			4,534		
8	Net Realized Gain (Loss) from Investments	<u>19,175</u>			<u>18,393</u>		
	Total Net Income (Loss)	<u>\$ 8,304</u>			<u>\$ 47,134</u>		

Investment Administration Division  
Office of Investment  
November 16, 1960

Small Business Administration  
Washington, D. C.

Combined Statement of Income and Expense for the Six Months Ended September 30, 1960  
Licensed Small Business Investment Companies  
Having Statutory Capital and Surplus of Not More Than \$325,000

Item Nos. SBA Form 468 Page 3	Income	Companies with Licenses in Force September 30, 1960 - 99 Reporting Companies as of November 8, 1960		Companies Licensed for Six Months or More - 53 Reporting Companies as of November 8, 1960		For Your Company
		Amount	Percent	Amount	Percent	
2	Interest on Loans (Sec. 305)	\$317,977	55.4	\$265,886	55.8	
3	Interest on Convertible Debentures (Sec. 304)	45,526	7.9	41,240	8.7	
4	Interest on U. S. Government Securities	94,494	16.5	79,042	16.6	
	Total Interest Income	<u>457,997</u>	<u>79.8</u>	<u>386,168</u>	<u>81.1</u>	
11, 12	Dividends and Contingent Earnings	887	0.2	887	0.2	
8, 9, 10	Fees (Management, Counselling, etc.)	92,640	16.1	75,537	15.9	
1,5,6,7,13,14	Other Income	22,513	3.9	13,461	2.8	
	Total Fees, Other Income, Dividends, etc.	<u>116,040</u>	<u>20.2</u>	<u>89,885</u>	<u>18.9</u>	
15	Total Income	<u>\$574,037</u>	<u>100.0</u>	<u>\$476,053</u>	<u>100.0</u>	
	<u>Expense</u>					
16, 17	Interest and Commitment Fees on SBA Obligations	\$124,605	21.7	\$104,282	21.9	
18	Interest and Commitment Fees on Other Obligations	6,248	1.1	5,531	1.2	
19,20,21,23,24	Other Financial Expenses	7,047	1.2	4,194	0.9	
	Total Financial Expense	<u>137,900</u>	<u>24.0</u>	<u>114,007</u>	<u>24.0</u>	
SP Form 468 e 5	Operating Expenses					
15	Salaries, Officers	109,369	19.1	77,102	16.2	
16	Salaries, Employees	40,697	7.1	33,765	7.1	
1	Advertising & Promotion	16,503	2.9	13,052	2.7	
5,6,7,13,14	Space Occupied & Office Expense	50,462	8.8	39,225	8.2	
3	Auditing & Examination Costs	22,215	3.9	19,519	4.1	
12	Legal Services	33,919	5.9	20,326	4.3	
2, 10	Appraisal, Consulting & Engineering Costs	12,251	2.1	7,400	1.6	
11	Investment Advisory & Supervisory Costs	15,100	2.6	12,931	2.7	
4, 18	Travel and Communications	23,771	4.1	19,464	4.1	
8,9,17,19,20,22	All Other	55,333	9.6	39,095	8.2	
30	Total Operating Expenses	<u>379,620</u>	<u>66.1</u>	<u>281,879</u>	<u>59.2</u>	
	Total Expenses	<u>\$517,520</u>	<u>90.1</u>	<u>\$395,886</u>	<u>83.2</u>	
SBA Form 468 Page 3	Net Income before Provision for Losses and Income Taxes	\$ 56,517	9.9	\$ 80,167	16.8	
21	Estimated Provision for Losses	52,893	9.2	25,708	5.4	
27	Provision for Income Taxes	31,058	5.4	23,840	5.0	
	Total	<u>83,951</u>	<u>14.6</u>	<u>49,548</u>	<u>10.4</u>	
28	Net Income from Operations	<u>(\$ 27,434)</u>	<u>(4.7)</u>	<u>\$ 30,619</u>	<u>6.4</u>	
6	Realized Gain (Loss) from Investments	7,205		6,484		
7	Less: Provision for Income Taxes	221		108		
8	Net Realized Gain (Loss) from Investments	<u>6,984</u>		<u>6,376</u>		
	Total Net Income (Loss)	<u>(\$ 20,450)</u>		<u>\$ 36,995</u>		

Investment Administration Division  
Office of Investment  
November 16, 1960

Small Business Administration  
Washington, D. C.

Combined Statement of Income and Expense for the Six Months Ended September 30, 1960  
Licensed Small Business Investment Companies  
Having Statutory Capital and Surplus of from \$325,000 to \$1,000,000

Item Nos. SBA Form 468 Page 3	Income	Companies with Licenses in Force September 30, 1960 - 16 Reporting Companies as of November 8, 1960		For Your Company	Companies Licensed for Six Months or More - 14 Reporting Companies as of November 8, 1960		For Your Company
		Amount	Percent		Amount	Percent	
2	Interest on Loans (Sec. 305)	\$ 51,913	33.0		\$ 51,913	33.1	
3	Interest on Convertible Debentures (Sec. 304)	50,525	32.1		50,400	32.2	
4	Interest on U. S. Government Securities	44,865	28.5		44,427	28.3	
	Total Interest Income	<u>147,303</u>	<u>93.6</u>		<u>146,740</u>	<u>93.6</u>	
11, 12	Dividends and Contingent Earnings	- 0 -	-		- 0 -	-	
8, 9, 10	Fees (Management, Counselling, etc.)	4,059	2.6		4,059	2.6	
1,5,6,7,13,14	Other Income	5,977	3.8		5,977	3.8	
	Total Fees, Other Income, Dividends, etc.	<u>10,036</u>	<u>6.4</u>		<u>10,036</u>	<u>6.4</u>	
15	Total Income	\$ <u>157,339</u>	<u>100.0</u>		\$ <u>156,776</u>	<u>100.0</u>	
	<u>Expense</u>						
16, 17	Interest and Commitment Fees on SBA Obligations	\$ 15,424	9.8		\$ 15,424	9.8	
18	Interest and Commitment Fees on Other Obligations	3,149	2.0		3,149	2.0	
19,20,21,23,24	Other Financial Expenses	2,033	1.3		2,033	1.3	
	Total Financial Expense	<u>20,606</u>	<u>13.1</u>		<u>20,606</u>	<u>13.1</u>	
	<u>Operating Expenses</u>						
SBA Form 468 Page 5							
15	Salaries, Officers	14,396	9.1		14,396	9.2	
16	Salaries, Employees	8,725	5.5		8,725	5.6	
1	Advertising & Promotion	993	0.6		993	0.6	
5,6,7,13,14	Space Occupied & Office Expense	15,672	10.0		15,672	10.0	
3	Auditing & Examination Costs	4,687	3.0		4,687	3.0	
12	Legal Services	12,398	7.9		12,398	7.9	
2, 10	Appraisal, Consulting & Engineering Costs	3,409	2.2		3,409	2.2	
11	Investment Advisory & Supervisory Costs	4,643	3.0		4,643	3.0	
4, 18	Travel and Communications	4,772	3.0		4,772	3.0	
8,9,17,19,20,22	ALL Other	16,802	10.7		16,719	10.7	
30	Total Operating Expenses	<u>86,497</u>	<u>55.0</u>		<u>86,411</u>	<u>55.2</u>	
	Total Expenses	\$ <u>107,103</u>	<u>68.1</u>		\$ <u>107,020</u>	<u>68.3</u>	
SBA Form 468 Page 3							
	Net Income before Prov. for Losses & Inc. Taxes	\$ <u>50,236</u>	<u>31.9</u>		\$ <u>49,756</u>	<u>31.7</u>	
21	Estimated Provision for Losses	- 0 -	-		- 0 -	-	
27	Provision for Income Taxes	15,437	9.8		15,337	9.8	
	Total	<u>15,437</u>	<u>9.8</u>		<u>15,337</u>	<u>9.8</u>	
28	Net Income from Operations	\$ <u>34,799</u>	<u>22.1</u>		\$ <u>34,419</u>	<u>21.9</u>	
6	Realized Gain (Loss) from Investments	4,853			4,853		
7	Less: Provision for Income Taxes	- 0 -			- 0 -		
8	Net Realized Gain (Loss) from Investments	<u>4,853</u>			<u>4,853</u>		
	Total Net Income (Loss)	\$ <u>39,652</u>			\$ <u>39,272</u>		

Investment Administration Division  
Office of Investment  
November 16, 1960

Small Business Administration  
Washington, D. C.

Combined Statement of Income and Expense for the Six Months Ended September 30, 1960  
Licensed Small Business Investment Companies  
Having Statutory Capital and Surplus of more than \$1,000,000

Item Nos. SBA Form 468 Page 3	Income	Companies with Licenses in Force September 30, 1960 - 15 Reporting Companies as of November 8, 1960		Companies Licensed for Six Months or More - 12 Reporting Companies as of November 8, 1960		For Your Company
		Amount	Percent	Amount	Percent	
2	Interest on Loans (Sec. 305)	\$ 95,346	8.3	\$ 95,346	10.1	
3	Interest on Convertible Debentures (Sec. 304)	237,831	20.5	215,085	22.9	
4	Interest on U. S. Government Securities	566,298	49.7	442,447	47.1	
	Total Interest Income	<u>899,475</u>	<u>78.5</u>	<u>752,878</u>	<u>80.1</u>	
11, 12	Dividends and Contingent Earnings	1,756	0.2	1,756	0.2	
8, 9, 10	Fees (Management, Counselling, etc.)	71,322	6.2	70,094	7.5	
1,5,6,7,13,14	Other Income	172,977	15.1	115,477	12.2	
	Total Fees, Other Income, Dividends, etc.	<u>246,055</u>	<u>21.5</u>	<u>187,327</u>	<u>19.9</u>	
15	Total Income	<u>\$1,145,530</u>	<u>100.0</u>	<u>\$ 940,205</u>	<u>100.0</u>	
	<u>Expense</u>					
16, 17	Interest and Commitment Fees on SBA Obligations	\$ 24,871	2.2	\$ 21,621	2.3	
18	Interest and Commitment Fees on Other Obligations	1,657	0.1	1,657	0.2	
19,20,21,23,24	Other Financial Expenses	34,288	3.0	34,288	3.6	
	Total Financial Expense	<u>60,816</u>	<u>5.3</u>	<u>57,566</u>	<u>6.1</u>	
SBA Form 468 Page 5	Operating Expenses					
15	Salaries, Officers	122,549	10.7	92,216	9.8	
16	Salaries, Employees	101,294	8.8	79,419	8.5	
1	Advertising & Promotion	32,773	2.9	27,189	2.9	
5,6,7,13,14	Space Occupied & Office Expense	81,715	7.1	65,003	6.9	
3	Auditing & Examination Costs	18,279	1.6	18,279	1.9	
12	Legal Services	43,074	3.8	41,965	4.5	
2, 10	Appraisal, Consulting & Engineering Costs	16,599	1.4	15,899	1.7	
11	Investment Advisory & Supervisory Costs	117,169	10.2	103,767	11.0	
4, 18	Travel and Communications	49,187	4.3	42,379	4.5	
8,9,17,19,20,22	All Other	68,015	6.0	56,524	6.0	
30	Total Operating Expenses	<u>650,654</u>	<u>56.8</u>	<u>542,640</u>	<u>57.7</u>	
	Total Expenses	<u>\$ 711,470</u>	<u>62.1</u>	<u>\$ 600,206</u>	<u>63.8</u>	
SBA Form 468 Page 3	Net Income before Prov. for Losses & Inc. Taxes	\$ 434,060	37.9	\$ 339,999	36.2	
21	Estimated Provision for Losses	320,036	27.9	244,036	26.0	
27	Provision for Income Taxes	132,260	11.5	132,260	14.0	
	Total	<u>452,296</u>	<u>39.4</u>	<u>376,296</u>	<u>40.0</u>	
28	Net Income from Operations	<u>\$ (18,236)</u>	<u>(1.5)</u>	<u>\$ (36,297)</u>	<u>(3.8)</u>	
6	Realized Gain (Loss) from Investments	11,764		11,590		
7	Less: Provision for Income Taxes	4,426		4,426		
8	Net Realized Gain (Loss) from Investments	<u>7,338</u>		<u>7,164</u>		
	Total Net Income (Loss)	<u>\$ (10,898)</u>		<u>\$ (29,133)</u>		

Investment Administration Division  
Office of Investment  
November 16, 1960



December 29, 1961

### Small Business Investment Companies,

U. S. Prototype of Method of Mobilizing Private Capital and

Technical Skills to assist in Local Economic Development,  
a technique which may be applicable in Underdeveloped Countries Abroad.

One of the ways we can act positively to assist our country's foreign policy program to move at a more effective rate with greater impact to our benefit abroad, is to adopt new techniques in the financing of economic development which appear to offer solutions to baffling problems.

Economic growth is of universal interest in all underdeveloped areas, and especially those with exploding populations and near revolutionary expectations of a rapidly increasing viability of their conditions. Small businesses are in great need of long term capital funds for expansion of all types of facilities. Here in America, the Small Business Administration (SBA), through one of its functions, that of supplementing available private sources of capital to small businesses, helps small businesses with their long term capital requirements through the program to license private Small Business Investment Companies, which in turn supply long term equity type capital to private small businesses. Although the program is only about two years old, already over 138 Small Business Investment Companies have been organized by competent local private sponsors and licensed by SBA to operate. Total assets of 130 of these Small Business Investment Companies as of September 30, 1960, amounted to some 125 million dollars. About 32 millions of long term equity type funds had already been paid over to small business concerns by these new SBICs for their expansion requirements. An additional 90 millions remain in the hands of the SBICs for further long term financial assistance to small businesses. Yet, only about 7 millions of Government "seed money" has been lent by SBA to all the SBICs, a ratio of less than one dollar of Government funds for each four dollars of private funds advanced by SBICs to small businesses. The total of private funds which has been made available for long term equity type financing of small business by the Small Business Investment Company Program is about \$117 million dollars, nearly 17 times that advanced by the Government.

As you know, because of high start up costs, low initial income, etc., new business concerns nearly always operate at a considerable loss for the first few years of existence. By contrast, the 130 combined new SBICs, which, as a group, have been in existence for various lengths of time from one month to two years, on a cash basis, made a profit for the period of 28% on their gross income! After deducting a 19% provision for possible losses, and not quite 10% for income taxes, they show an overall nominal loss of less than 1%!

The technique of utilizing Small Business Investment Companies, locally owned and controlled by private business interests, to provide long term equity type funds to small businesses appears to have numerous advantages. It is local interests which seek out the small firms which require capital assistance. Private local businessmen screen out the obviously uneconomic and badly planned requests. The management of the SBICs, being local, are the most familiar with local personnel and conditions. After financing the small business concerns, local managements of the SBICs follow up and service these financial arrangements with the small business at their own expense, using whatever talents and skills are required. Since their own private capital is involved, they maintain a close personal interest in the continuing welfare of the small businesses financed.

A similar structure of small business investment companies could be organized abroad in conjunction with National Development Institutions or Banks. The National Development Institution could be substituted for our Small Business Administration. Long Term Loan Funds could be made available by the Development Institution to Small Business Investment Companies which would be set up in various industrial and commercial centers of any underdeveloped country. The SBIC in turn would be owned, controlled, and managed by local citizens, businessmen, industrialists, bankers, etc.

These Small Business Investment Companies would be local sources of investment capital which might obtain on a matching basis, additional long term loan funds from the National Development Institution. The local Small Business Investment Company could then make additional loans of an equity type capital nature to more local businesses in need of capital for expansion, etc. The great majority of these local financial arrangements would probably be in the range of \$5,000 to \$50,000 which are those most generally needed by small businesses, but which are usually passed over by the ordinary Development Institution, since they are too small to justify the normal relatively high cost of processing a loan application through the Development Bank. Technical assistance of a financial or production, etc., nature could also be made available by the Development Institution to the small business investment companies, or the small business financed, if any problems arose beyond their local capabilities of solution.

The attached "Combined Statement of Financial Condition" of 130 SBICs as of September 30, 1960, which gives some details of the U.S. Small Business Investment Company Program's financial progress to date may be of interest. The concept and preparation of this management analysis report originated in my shop. Follow up and assistance to the individual SBICs is one of our long term objectives. Actual action will only be initiated, based on a careful analysis of each individual firm's accomplishments, by comparison with various similar type industry averages, and if a deteriorating financial trend is revealed.

PL 480 funds, and other local U.S. owned funds, as well as certain limited amounts of U.S. dollars from the Development Loan Fund, the Export-Import Bank, etc., might be lent to the National Development Institution for relending to local SBICs requiring additional funds, and a certain foreign exchange component for critical machinery imports, etc. If considered politically and economically expedient, the National Development Institution could contract for any overall maintenance of value clause demanded, or be the screening agency for dollar end use under any "Buy America" requirements, of U.S. funds eventually released to Small Business Investment Companies.

Wishing you all the best for the coming holiday season.

Most sincerely,

Joseph W. Darling

Enclosure - as mentioned.

SMALL BUSINESS ADMINISTRATION  
WASHINGTON 25, D. C.

December 29, 1960

TO ALL SMALL BUSINESS INVESTMENT COMPANIES

*See by R. Labrousse of Jan 61*

The figures on your financing activity from the Activity Report, Form 477 through September 30, 1960 have been accumulated and tabulated.

We enclose reports showing the long-term loan and equity financing by (1) non-manufacturing and manufacturing industry classifications, (2) non-manufacturing companies according to sales size, (3) manufacturing companies by employment size, and (4) financing by States.

In connection with the report on non-manufacturing industries by classification, there is an entry under "Credit Agencies Other than Banks." We have investigated and find that this is not a case of financing a company for relending. You will be interested to note that an important portion of both the loan and equity financing has been to the smaller manufacturing and non-manufacturing companies. The geographic spread of the activities of the SBIC's is interesting also; transactions have taken place in all but twelve of the States and the District of Columbia.

These figures supplement the financial reports which you have already received as of the same date. We solicit your suggestions for improvement in the presentation or to make these data more useful to you.

Sincerely,



A. D. Harvey  
Acting Director  
Office of Investment

SMALL BUSINESS ADMINISTRATION

SMALL BUSINESS INVESTMENT COMPANIES LOAN AND EQUITY FINANCING TRANSACTIONS - BY INDUSTRY  
Cumulative Through September 30, 1960

(Based on SBA Form 477 reports received from 72 companies as of  
 March 31, 1960, and from 124 companies as of September 30, 1960)

INDUSTRY	LOANS - (Section 305)				EQUITY FINANCING - (Section 304)			
	LOANS APPROVED		LOANS DISBURSED		PROPOSALS APPROVED		SECURITIES PURCHASED	
	Cumulative		Cumulative		Cumulative		Cumulative	
	No.	Amount	No.	Amount	No.	Amount	No.	Amount
<u>Non-Manufacturing Industries:</u>								
Commercial farms	3	\$89,200	3	\$89,200	2	\$123,000	2	\$123,000
Agricultural services	5	173,774	5	173,774	-	-	-	-
Forestry	1	22,500	1	22,500	-	-	-	-
Metal mining	1	50,000	1	15,000	-	-	-	-
Anthracite mining	1	75,000	-	-	-	-	-	-
Crude petroleum & natural gas production or extraction	8	732,534	8	327,534	1	5,000	1	5,000
Mining & quarrying of non-metallic minerals, except fuels	1	75,000	1	75,000	1	100,000	1	100,000
General contractors - building construction	44	2,112,260	40	1,933,130	2	80,000	1	20,000
General contractors - other construction	12	549,883	12	496,183	3	200,000	1	60,000
Special trade contractors - construction	10	205,000	7	124,000	2	21,000	-	-
Motor freight transportation & warehousing	7	195,775	6	135,325	-	-	-	-
Water transportation	1	60,000	1	60,000	-	-	-	-
Air transportation & related services	2	65,000	2	65,000	-	-	-	-
Pipe line transportation	-	-	-	-	1	25,000	1	25,000
Transportation services	4	145,300	3	70,300	4	164,700	3	14,700
Communication	4	72,000	2	37,000	-	-	-	-
Electric, gas & sanitary services	10	356,533	10	356,533	3	281,696	2	221,696
<u>Retail trade:</u>								
Building materials, hardware, & farm equipment	5	73,000	5	73,000	8	128,000	8	128,000
General merchandise	2	30,625	2	30,625	1	19,540	1	19,540
Food	78	1,308,948	66	1,127,948	4	366,000	3	166,000
Automotive dealers & filling stations	8	145,200	8	145,200	1	74,000	1	74,000
Apparel & accessories	6	78,500	4	49,500	1	30,000	-	-
Furniture, home furnishings, & equipment	9	240,943	8	210,943	1	71,000	1	71,000
Eating & drinking places	19	462,800	19	347,994	1	40,000	-	-
Miscellaneous retail stores	27	570,528	27	542,043	7	356,200	4	147,500
<u>Wholesale trade:</u>								
Building materials, hardware, & farm equipment	7	216,000	6	156,000	7	286,875	7	286,875
Food	5	144,000	4	110,750	2	51,000	1	27,900
Apparel & accessories	1	52,744	1	52,744	-	-	-	-
Furniture, home furnishings, & equipment	1	60,000	1	60,000	3	170,000	2	120,000
Miscellaneous	12	523,000	12	523,000	3	155,000	3	155,000

## SMALL BUSINESS INVESTMENT COMPANIES LOAN AND EQUITY FINANCING TRANSACTIONS - BY INDUSTRY

Cumulative Through September 30, 1960

(Based on SBA Form 477 reports received from 72 companies as of March 31, 1960, and from 124 companies as of September 30, 1960)

INDUSTRY	LOANS - (Section 305)				EQUITY FINANCING - (Section 304)			
	LOANS APPROVED		LOANS DISBURSED		PROPOSALS APPROVED		SECURITIES PURCHASED	
	Cumulative		Cumulative		Cumulative		Cumulative	
	No.	Amount	No.	Amount	No.	Amount	No.	Amount
<u>Non-Manufacturing Industries (continued):</u>								
Credit agencies other than banks	2	\$47,500	2	\$47,500	1	\$12,500	1	\$12,500
Insurance agents, brokers, & services	1	15,000	1	15,000	-	-	-	-
Real estate	76	3,035,235	72	2,778,235	20	2,391,100	15	497,100
Hotels, motels, camps, & other lodging places	11	346,400	11	346,400	9	953,600	5	78,600
Personal services	11	85,409	10	75,409	-	-	-	-
Miscellaneous business services	14	370,764	11	183,964	10	1,309,964	9	1,209,964
Automobile repair, rental, & storage services	5	42,653	4	38,653	2	6,000	2	6,000
Miscellaneous repair services	1	6,000	1	6,000	-	-	-	-
Motion pictures	2	46,500	2	45,000	2	90,000	1	50,000
Amusement & recreation services, except motion pictures	10	427,500	10	424,709	9	292,500	6	185,000
Medical & other health services	17	484,111	16	419,111	1	71,500	1	71,500
Educational services	2	200,000	2	200,000	-	-	-	-
Miscellaneous services	24	904,700	20	587,700	5	1,258,000	5	1,083,000
Unclassified	2	68,500	2	68,500	1	5,750	1	5,750
Total, Non-Manufacturing	<u>472</u>	<u>\$14,966,319</u>	<u>429</u>	<u>\$12,646,407</u>	<u>118</u>	<u>\$9,138,925</u>	<u>89</u>	<u>\$4,964,625</u>
<u>Manufacturing Industries:</u>								
Ordnance & accessories	1	\$50,000	1	\$50,000	-	-	-	-
Food & kindred products	2	60,000	2	60,000	3	\$112,400	3	\$96,200
Textile mill products	-	-	-	-	1	10,000	1	10,000
Apparel & other finished products made from fabrics and similar materials	3	88,383	3	88,383	1	50,000	-	-
Lumber & wood products, except furniture	4	125,500	3	105,500	3	140,000	3	135,000
Furniture & fixtures	2	37,500	2	37,500	1	45,000	1	45,000
Paper & allied products	-	-	-	-	1	80,000	1	30,000
Printing, publishing, & allied industries	8	738,160	7	723,160	5	193,340	4	190,000
Chemicals & allied products	2	47,000	2	47,000	1	3,000	1	3,000
Petroleum refining & related industries	-	-	-	-	1	300,000	-	-
Rubber & miscellaneous plastic products	3	80,000	3	80,000	1	100,000	1	30,000
Stone, clay & glass products	1	19,500	1	19,500	-	-	-	-
Primary metal industries	1	50,000	1	50,000	1	300,000	-	-
Fabricated metal products, except ordnance, machinery, & transportation equipment	15	650,500	13	610,500	13	2,098,125	10	1,728,125

SMALL BUSINESS INVESTMENT COMPANIES LOAN AND EQUITY FINANCING TRANSACTIONS - BY INDUSTRY  
Cumulative Through September 30, 1960

(Based on SBA Form 477 reports received from 72 companies as of  
March 31, 1960, and from 124 companies as of September 30, 1960)

INDUSTRY	LOANS - (Section 305)				EQUITY FINANCING - (Section 304)			
	LOANS APPROVED		LOANS DISBURSED		PROPOSALS APPROVED		SECURITIES PURCHASED	
	Cumulative		Cumulative		Cumulative		Cumulative	
	No.	Amount	No.	Amount	No.	Amount	No.	Amount
<u>Manufacturing Industries (continued):</u>								
Machinery, except electrical	3	\$135,000	1	\$60,000	7	\$695,000	5	\$337,800
Electrical machinery, equipment, & supplies	1	50,000	1	50,000	7	767,500	5	692,500
Transportation equipment	2	525,000	2	525,000	4	265,000	3	240,000
Professional, scientific, etc., equipment	11	1,203,000	7	430,904	28	6,869,500	24	5,404,500
Miscellaneous manufacturing industries	7	223,000	5	171,000	11	568,750	9	528,750
Total, Manufacturing	<u>66</u>	<u>\$4,082,543</u>	<u>54</u>	<u>\$3,108,447</u>	<u>89</u>	<u>\$12,597,615</u>	<u>71</u>	<u>\$9,470,875</u>
<u>TOTAL - ALL INDUSTRIES</u>	<u>538</u>	<u>\$19,048,862</u>	<u>483</u>	<u>\$15,754,854</u>	<u>207</u>	<u>\$21,736,540</u>	<u>160</u>	<u>\$14,435,500</u>





SMALL BUSINESS INVESTMENT COMPANIES LOAN AND EQUITY FINANCING TRANSACTIONS - BY STATES a/  
Cumulative Through September 30, 1960

(Page 2 of 2)

(Based on SBA Form 477 reports received from 72 companies as of  
March 31, 1960, and from 124 companies as of September 30, 1960)

STATE	LOANS - (Section 305)				EQUITY FINANCING - (Section 304)			
	LOANS APPROVED		LOANS DISBURSED		PROPOSALS APPROVED		SECURITIES PURCHASED	
	Cumulative		Cumulative		Cumulative		Cumulative	
	No.	Amount	No.	Amount	No.	Amount	No.	Amount
Nevada	-	-	-	-	-	-	-	-
New Hampshire	-	-	-	-	1	\$25,000	1	\$25,000
New Jersey	4	\$132,000	4	\$132,000	4	623,000	1	3,000
New Mexico	-	-	-	-	1	25,000	1	25,000
New York	28	1,822,500	27	1,567,800	9	2,415,000	8	2,097,900
North Carolina	40	631,000	34	530,000	2	30,000	2	30,000
North Dakota	-	-	-	-	-	-	-	-
Ohio	21	639,700	21	618,473	12	3,099,000	5	1,667,800
Oklahoma	15	560,050	10	330,050	-	-	-	-
Oregon	1	60,000	1	60,000	-	-	-	-
Pennsylvania	19	562,000	14	399,000	5	320,964	4	222,264
Rhode Island	4	120,883	4	120,883	-	-	-	-
South Carolina	17	471,448	16	451,448	3	170,000	3	170,000
South Dakota	-	-	-	-	-	-	-	-
Tennessee	24	739,100	20	574,100	1	20,000	1	20,000
Texas	86	2,874,816	84	2,294,831	10	483,300	10	483,300
Utah	-	-	-	-	-	-	-	-
Vermont	-	-	-	-	-	-	-	-
Virginia	9	561,500	8	386,500	7	1,212,500	6	1,112,500
Washington	1	8,500	1	8,500	1	5,750	1	5,750
West Virginia	3	89,900	3	89,900	4	99,600	4	99,600
Wisconsin	8	234,581	8	234,581	16	989,650	15	913,450
Wyoming	1	25,000	1	25,000	-	-	-	-
<b>Total</b>	<b>538</b>	<b>\$19,048,862</b>	<b>483</b>	<b>\$15,754,854</b>	<b>207</b>	<b>\$21,736,540</b>	<b>160</b>	<b>\$14,435,500</b>

a/ Applications received from small business concerns for specific loan or equity financing:

Number of applications 7,074  
 Amount of financing applied for \$396,285,580.00

OFFICE OF CONTROLLER  
 Budget & Reports Division  
 December 16, 1960

SMALL BUSINESS ADMINISTRATION

SMALL BUSINESS INVESTMENT COMPANIES LOAN AND EQUITY FINANCING TRANSACTIONS APPROVED - BY FIRM SIZE  
Cumulative Through September 30, 1960

(Based on SBA Form 477 reports received from 72 companies as of March 31, 1960, and from 124 companies as of September 30, 1960)

SALES SIZE	NON-MANUFACTURING				EMPLOYMENT SIZE	MANUFACTURING			
	LOANS APPROVED		EQUITY FINANCING PROPOSALS APPROVED			LOANS APPROVED		EQUITY FINANCING PROPOSALS APPROVED	
	Cumulative		Cumulative			Cumulative		Cumulative	
	No.	Amount	No.	Amount		No.	Amount	No.	Amount
\$49,999 and under	116	\$2,630,261	26	\$597,550	0 to 9 Employees	16	\$450,160	15	\$655,090
50,000 - \$ 99,999	70	1,608,901	10	360,396	10 to 19 Employees	6	239,500	12	1,460,625
100,000 - 249,999	102	3,192,401	14	768,875	20 to 49 Employees	26	2,099,500	20	2,329,900
250,000 - 499,999	51	2,056,912	6	535,500	50 to 99 Employees	7	605,883	13	1,435,000
500,000 - 999,999	45	1,768,975	20	2,895,304	100 to 249 Employees	5	342,500	19	4,232,500
1,000,000 - 1,999,999	20	969,085	11	942,000	250 or more Employees	1	250,000	5	2,300,000
2,000,000 or more	5	444,000	8	2,130,000	Data not available	<u>5</u>	<u>95,000</u>	<u>5</u>	<u>184,500</u>
Data not available	<u>63</u>	<u>2,295,784</u>	<u>23</u>	<u>909,300</u>					
<b>Total: Non-Manufacturing Firms</b>	<u>472</u>	<u>\$14,966,319</u>	<u>118</u>	<u>\$9,138,925</u>	<b>Total: Manufacturing Firms</b>	<u>66</u>	<u>\$4,082,543</u>	<u>89</u>	<u>\$12,597,615</u>

OFFICE OF CONTROLLER  
 Budget & Reports Division  
 December 16, 1960

December 8, 1960

Dear Mr. Scafuro:

I am answering your letter of November 23 to Mr. Butcher since he has been transferred to another department of the Bank and I have assumed his duties.

We were very interested in your Progress Report on the proposed American Export Credit Guarantee Corporation. We have found your summary of the world's principal export credit insuring systems very useful and thank you for keeping us informed on this subject.

As to your inquiry concerning new studies prepared by us on export credit guarantees, we have not recently prepared anything on this subject. However, if we should have occasion to, I shall keep you in mind.

Sincerely yours,

Helen W. Paulson  
Chief, External Debts Section

Mr. Francis X. Scafuro, Chairman  
National Coordinating Committee  
For Export Credit Guarantees  
New York Board of Trade, Inc.  
One Liberty Street, New York 5, N. Y.

HWPaulson/eh

*Committee of Private &  
Foreign Investment  
x L.A. General*

November 8, 1960

Mr. Ross Nebolsine, President  
Hydrotechnic Corporation  
505 Park Avenue  
New York 22, New York

Dear Mr. Nebolsine:

In Mr. Demuth's absence from the office, I am writing to acknowledge receipt of your memorandum, entitled "Procedures for Facilitating Participation of Local Investment Capital in Latin American Development Programs." This arrived just after Mr. Demuth's departure on a short trip out of the country. It will be brought to his attention on his return some time after the middle of November.

Sincerely yours,



Thelma E. Falardeau  
Secretary to Mr. Demuth

## OFFICE MEMORANDUM

TO: Mr. Leonard B. Rist (through Mr. Avramovic)      DATE: October 27, 1960

FROM: Marinus van der Mel *LM*

SUBJECT: Draft Outline of Paper "Tax Incentives for Private Domestic Investment in Industries in Underdeveloped Countries".

Please find attached a provisional outline of a paper on the above-mentioned subject, drafted by Mr. Kahabka in consultation with me.

As you will see from the outline, it is intended to do two things:

1. To give a general idea of the scope and limitations of tax benefits granted in investment laws and regulations in various low income countries (section B of outline). Section B as it stands is identical to the brief paper on the subject provided to the Ghana mission. It will have to be rewritten and somewhat expanded on the basis of additional research. We intend to add an annex to the paper, summarizing country by country the most important benefits (a provisional sample covering six countries was provided to the Ghana mission). This annex, of course, will have to be limited as far as country coverage is concerned. (We have not made a definitive choice on countries yet).

2. To discuss at some length various general factors that are relevant in connection with tax incentives (section C of outline). We do not know exactly how far we can go along these lines (section C is very tentative), but it seems worthwhile to give some more thought to this problem, in the first instance by examining and summarizing available general literature on the subject. It is not intended to give an appraisal of the effectiveness of provisions in individual countries; this would be too ambitious a task and might lead to difficult problems of diplomacy.

We intend to talk with Mr. Weigel to rule out beforehand possible duplication of work with IFC and to ask his suggestions for increasing the usefulness of the paper (in particular with respect to choice of countries).

Your comments and suggestions with respect to the outline will be appreciated.

c.c. Mr. Kahabka

TAX INCENTIVES FOR PRIVATE DOMESTIC INVESTMENT  
IN INDUSTRIES IN UNDERDEVELOPED COUNTRIES

A. INTRODUCTION

1. Object: Facing the fact that tax incentives are widely used to stimulate private domestic investment, examination of existing incentives in a sample of less-developed countries, and analysis of factors which influence the degree of effectiveness.
2. Limitations of this paper proposed:
  - a. Exclusion of the special additional problem of foreign investment (apart from possibly a few references). Although these problems are highly significant in connection with the investment situation in underdeveloped countries, their inclusion would make the scope of this paper too wide and - at the present stage - would complicate the paper too much.
  - b. Industrial investment considered only;
  - c. Tax incentives (including duties, fees, etc.) only; (but some comments will be made about the limitations of effectiveness of this type of effectiveness incentives, which/seems to be sometimes over-estimated);

B. SCOPE AND LIMITATIONS OF TAXATION BENEFITS GRANTED BY INVESTMENT LAWS AND REGULATIONS.

1. Definition of Applicability of Benefits
  - a. General prerequisites and compliance with general criteria (economic development, social values, contribution to national defense, etc.);
  - b. Only new investment (Lebanon: applies only to new companies with "object different from that of any other enterprise now in the country");
  - c. Only investment in certain industrial activities or activity (Colombia,

Ghana, Jamaica);

- d. Only investment of a certain minimum amount may benefit (Jordan, Lebanon, Iraq, Ethiopia: minimum investment required during the first year); further qualifications may be added (Philippines: investment minimum as to equipment and machinery); a certain minimum share of domestic capital required (Iraq);
- e. Of the total cost of the product, a certain percentage may be required to consist of domestically incurred cost (Philippines: 60%). May be further qualified as to the kind of input (Colombia: some of the exemption legislation is related to industries complementary to the production of iron and which use as their raw material the manufactured or semi-manufactured products of Paz del Rio);
- f. Minimum capacity and minimum production (Colombia: production of engines and automotive vehicles);
- g. Minimum machinery (Iraq);
- h. As to labor: minimum number of employees (India, Ceylon); minimum wage bill (Lebanon); minimum percentage of local labor employed (Iraq);
- i. Time limits: for the validity of the law or of the provisions (e.g., Philippines, India); for the application for deriving benefits from the law (Algeria); for the beginning of construction; for the beginning of operations (Guatemala: maximum 1 year).

## 2. Guideposts for Classification

So far, limitations mentioned were absolute limitations. The relative limitations now to be enumerated determine not whether the enterprise may be eligible for benefits, but to what extent these benefits may be granted. The laws generally name maximum benefits - in some instances minimum benefits, too - and the amount of benefits allotted in the single case within the provisions of the law is determined on the merits of the

case at hand. The criteria may be:

- a. Contribution to national income and impact on income distribution (e.g., Costa Rica, Nicaragua);
- b. The attitude taken by the enterprise toward the domestic consumer; this includes friendly policy as to quantity, quality and pricing (e.g., Ecuador, Nicaragua) or ~~the impact of the~~ operations of the enterprise on the domestic market: percentage of national markets supplied (Mexico; in Costa Rica, an enterprise may qualify for new enterprise and receive top concessions, too, if it produces goods, which are produced at a rate of less than 10% locally).  
This provision points the way to the
- c. effects on the balance of payments considerations.  
(In e.g., Ecuador, an industry may qualify for benefits as A-category industry if it produces commodities to an extent of at least 1% of the f.o.b. value of total imports of these commodities during the 3 years prior to the application for this classification).  
Apart from import substitution considerations, the strengthening of exports has a positive effect on the balance of payments, too. The contribution of the enterprise to mounting exports may be, as in Ecuador, also taken into account.
- d. Use of domestic raw materials and semi-finished products is a very common **consideration** (e.g., Costa Rica, Guatemala, Mexico, Nicaragua; sometimes fixed percentages of the use of domestic raw materials are stipulated, e.g., in Ecuador, where the status of an A-industry only can be granted if no more than 15% of raw materials are imported, and the status of B-industry - which is less valuable - if no more than 40% of raw materials are imported).



- e. Use of domestically- produced equipment and machinery (e.g., Mexico, Nicaragua);
  - f. Or, broadly, percentage of domestically-produced costs (Mexico);
  - g. Use of a certain type of service (e.g., electric power in Costa Rica);
  - h. Market, which the enterprise assures for agricultural products (Costa Rica);
  - i. Effect on employment (e.g., Costa Rica, Ecuador, Guatemala, Mexico, Nicaragua);
  - j. Benefits to employees in excess of the benefits required by the laws (Ecuador, Mexico);
  - k. Training of personnel (e.g., Ecuador, Panama);
  - l. Amount of investment (Costa Rica, Ecuador, Mexico, Nicaragua);
  - m. Technical efficiency (Mexico);
  - n. Modern accounting methods (Ecuador);
  - o. Technical research (Ecuador, Panama);
  - p. Degree of participation of foreign capital (Costa Rica);
  - q. Government participation in capital (Ceylon: if government participates in capital of new company 6 years unlimited exemption from profit taxes, if government does not participate, exemption limited to 5% p.a. for 6 years of capital employed).
3. Taxes to which the exemption may refer:
- a. Import duties for imported investment goods;
  - b. Import duties for imported raw material;
  - c. Fees: registration fees, consular fees, etc;
  - d. Production and turnover tax for inputs and outputs, property tax;
  - e. Taxes on land;
  - f. Business profit tax;
  - g. Personal income tax for income received in the form of dividends, interest or rent in connection with industrial activities which

themselves are entitled to certain tax allowances.

h. Manipulation of taxable profits:

Depreciation, - forms of benefits: initial and/or special allowance or accelerated depreciation;

revaluation of assets for purposes of depreciation;

granting provisions concerning carry-over of losses (e.g.,

Guatemala: 3 years for designated existing industries; Jamaica: 6 years; India: 8 years).

4. Exemption Period. The period of exemption may be:

a. Determined beforehand; or

b. A comparatively short initial exemption period may be extended if enterprises meet certain criteria at the end of the initial period (Ecuador);

c. Constant or gradually diminishing;

d. The same for all investment covered by the law, or differentiated according to the desirability of investment;

e. Short or rather long (2 to 15 years: in Mexico, basic industries 15 years; French Equatorial Africa, 2-3 years);

f. A special case: long range protection (up to 25 years) from future changes in tax legislation (new taxes or higher rates of old taxes in French West Africa);

g. Exemption period might be cut short for later investments if the full exemption period only applies to the first investment in a designated field, and the end-point of the exemption period for the first investment applies to all later investments too.

5. Exemption Percentage:

a. May range from total exemption to a percentage exemption;

b. May be limited in profit taxation to a certain percentage of capital employed:

- India, Burma: 5 years exemption for profit tax, not exceeding 6% p.a. of capital employed; Iraq: 10%; or, a certain proportion of investment expenditures is mentioned which constitutes the upper limit for the detaxation of profits during the exemption period seen as a whole, connected with the provision that a substantial proportion of annual profits may be deducted from taxable profits. (French African Territories: 50% of annual profits are detaxed as long as the total of tax free profits does not exceed 50% of investment expenditures. These provisions expired).

- c. Exemption percentage differentiation according to desirability of investment.

## C. FACTORS INFLUENCING DEGREE OF EFFECTIVENESS OF PROVISIONS

### 1. General Remarks

- a. The psychological effect of tax incentives is often stressed ("....there is something dramatically seductive about a tax incentive which elicits immediate response in a businessman." [Roy Blough]). This raises the question of the extent to which investors in general calculate carefully before they invest. Beside the factors which influence the profit situation, other influences and circumstances frequently play a major role in arriving at investment decisions: complexity of legislation, uncertainty about extent of benefits, period between application and final decision of authorities, experience with respect to past investments. In general, the granting of special benefits is accompanied by special supervision of the authorities who want to satisfy themselves that the special concessions are not misused. This may make businessmen reluctant and involves the danger of arbitrary decisions of the authorities.

In general, all these factors may raise the degree of uncertainty in the investor's calculation and discount the benefits.

- b. The limitations and prerequisites imposed by the government on the granting of special benefits reflect the conflict between the two sets of objects: the advantages of incentive legislation, which consist in the calling forth and speeding up of economic, especially industrial development against the disadvantages being deviation from fiscal equity, automatic discrimination against activities not covered by the special provisions and possibly misuse of privileges (e.g., through black market practices).
- c. In considering the advantages and disadvantages of special investment benefits from the point of view of the government, budget considerations are to be taken into account too. Detaxation means revenue foregone for the public sector, but only for the exemption period and in accordance with the actual use made of the exemption provisions. On the other hand, an additional flow of receipts in the future can be expected. The net effect of detaxation on the budget should be examined in a broader context. Additional investment called forth by special provisions might reduce public expenditure (e.g., unemployment relief), or may add to public revenue in case of existing underutilization of available economic overhead facilities (e.g., electric power, roads, railroads) developed in anticipation of growing demand. In general, the impact of special incentives on non-eligible existing enterprises is not covered by the legislation. The influence might be positive if exempt investments make non-exempt enterprises more profitable by providing an additional market for their production or by providing their inputs at lower costs. In this case the non-exempt investments benefit from the law indirectly. But adverse economic

effects are possible too. To minimize them many investment laws contain special provisions, e.g., that the production of substitutes for already produced commodities is excluded from the benefits of the law.

- d. For over-all industrial development, the best incentives may well be relatively low tax rates without special provisions for certain industrial activities, which are an instrument of a qualitative economic policy. The selection of industrial activities eligible to benefit from the tax incentive provisions, the differentiation of these benefits, and the other provisions of the laws reflect the line of development the countries want to pursue. In some instances, the main concern is with the domestic market (e.g., Mexico), in other instances, top benefits are given to export industries, etc.
- e. The general boundaries for a sensible application of tax incentives lies between the point where investment would have been effected without tax incentives, and the point where investment would not take place even if the most complete tax exemptions are provided. Under the assumption that an acceleration of investment is considered to be of importance, special incentives may be even granted for investments which might have been effected, but at a later date.

## 2. Impact of Special Provisions

- a. The impact of tax concessions will have to be judged by comparing with the normal tax rate. If the normal rate is moderate, then even a 100% exemption will not amount to a substantial relief. Another yardstick is the profitability of non-exempt industrial operations. If the after tax returns are higher than the tax exempt returns, investment would not be attracted by tax holidays.
- b. In general, benefits may reduce cost elements of investment (initial costs and - in some instances - operating costs) or they may be linked to profits.

Cost elements detaxation has the advantage that it is not dependent on additional uncertain factors. The amount of benefit due can be fairly well determined beforehand. The total benefit derivable is limited by the percentage of investment which goes into the exempt cost elements. If total investment is 1 million, and import duty 20%, the duty free import of machinery of 500.000 means a 10% relief for total investment; if it is 800.000, the relief is 16% of total investment.

- c. Profit tax exemption has a weak and a strong side. The weak side is that in order to be able to utilize the benefits offered by the law the enterprise has to operate profitably which may be very much an issue in the first years. Provisions (provided either specially for the exempt activities or in the general tax legislation) granting the carry-over of losses may help to some extent.

The strong side lies in the fact that the return on exempt operations can be relatively moderate and even then compare favorably with high before tax profits of non-exempted activities. If the business profit tax is 40%, then the non-exempted enterprise has to earn a return of 16-2/3% gross in order to earn 10% after payment of tax on profits. From the point of view of shareholders, earnings on investment in exempt activities might even be smaller to compare favorably if these earnings are excluded from progressive income taxation.

#### D. CONCLUSION

In the provisions of the investment legislation and in the situation an investor is likely to face there are many factors tending to reduce the value of tax concessions. The effect to be expected from tax reliefs cannot be realistically evaluated by period of exemption and by tax and detaxation

rates only. Even within the limited scope of this study, a large number of factors were met which are able to influence the response to tax benefits and the degree of utilization fundamentally.

*Mr. Johnson of Gen. Files*  
(not for public use)

*Dev. Promotion of Private & Public*

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

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WBG ARCHIVES

FROM: The Acting Secretary

October 25, 1960

FINANCING OF PUBLIC INVESTMENT IN  
UNDERDEVELOPED COUNTRIES

There is attached An Analysis of Financing of Public Investment  
for Nineteen Less-Developed Countries During the 1950's.

Distribution:

- Executive Directors and Alternates
- President
- Vice Presidents
- Department Heads



RALPH I. STRAUS  
331 MADISON AVENUE  
NEW YORK 17, N. Y.

*HAI*

OCT 26 REC'D

October 21, 1960

Mr. Eugene Black  
World Bank  
Washington, D. C.

Dear Gene:

Arriving back at my desk I found the enclosed copy of a letter from Gus Maffry to Dick Demuth enlarging upon my idea for an international investment guaranty program about which we spoke on Wednesday, October 19th.

I believe that Gus has taken the original concept a step further than I had by actually detailing some of the specifics of the projected Corporation. Of course, he does not touch some of the major problems, such as, whether guaranty payments would be made in non-convertible currencies. Undoubtedly, this would happen in the case of many of the undeveloped countries. However, I am most happy to see he is carrying the idea forward. I understand that he plans to discuss it at the International Businessmen's Conference sponsored by the Commission on Asian and Far Eastern Affairs of the I.C.C. in Karachi in December.

I was so glad to see you back at work again looking hale and hearty.

Sincerely,



RIS/em

Ralph I. Straus

*Faint, illegible stamp or text at the bottom of the page.*

RALPH I STRAUS  
351 MADISON AVENUE  
NEW YORK 17, N. Y.

OCT 26 1960

October 21, 1960

Mr. Eugene Black  
World Bank  
Washington, D. C.

Dear Gene:

Arriving back at my desk I found the enclosed copy of a letter from Gus Melly to Dick Lemah asking upon my lead for an international investment guarantee program about which we spoke on Wednesday, October 19, 1960.

I believe that you have taken the original concept a step further than I had by actually detailing some of the specifics of the proposed Corporation. Of course, he does not touch some of the major problems, such as whether warranty payments would be made in non-convertible currencies. Undoubtedly, this would happen in the case of many of the undeveloped countries. However, I am sorry to see he is carrying his idea forward. I understand that he plans to discuss it at the International Businessmen's Conference sponsored by the Commission on Asia and Far Eastern Affairs of the I.C.C. in Karachi in December.

I was so glad to see you back at work again looking like an hourly.

Sincerely,

Ralph I. Straus

RIS/em

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Lead in Original

OCT 15 1960

October 15, 1960

Mr. Richard Douth  
International Bank for  
Reconstruction and Development  
1818 H Street, N.W.  
Washington, D.C.

Dear Dick:

When I saw you at the Meetings in Washington and discussed with you the idea of an international investment guaranty corporation, you suggested that you would like to have a specific proposal, which I have been able to put on paper only since I left New York enroute to Asia. I would propose:

- (1) the establishment of a corporation;
- (2) to be called the Investment Guaranty Corporation;
- (3) as an affiliate of the International Bank for Reconstruction and Development (on the model of the International Finance Corporation);
- (4) with its members drawn from the membership of the International Bank;
- (5) to be established with a capital of \$1 billions, of which, say, 15% would be payable in cash to provide the Corporation with initial operating funds and funds to meet any (unlikely) early claims, the remainder to be subject to call to meet duly validated claims of investors, this capital to be subscribed by members on the basis of a formula similar to that used in setting up the International Finance Corporation;
- (6) to enter into guaranty contracts with private investors, nationals of member governments, guaranteeing at the complete discretion of the Corporation and with full authority to fix the terms of its guarantees, with respect to new investments in the form of equity or debt, against risks of
  - (a) inconvertibility,
  - (b) expropriation without adequate or effective compensation, and
  - (c) loss resulting from war or civil commotion;
- (7) the Articles of Agreement of which should provide for raising its capital and for its management under a President responsible to a Chairman who shall be the President of the International Bank and to a board of Executive Directors constituted like the Executive Directorate of the International Finance Corporation, define its powers and immunities and provide for its liquidation if ever desired;

- (8) and among the powers of which shall be those authorizing it to enter into agreements with member governments providing inter alia for the subrogation to the Corporation of the claims of investors for fixing premia for each type of guaranty offered and for the constitution of reserves against possible losses;
- (9) but which should not by its terms attempt to define conditions of private investment in member countries or the treatment of private investors by member countries or the behavior of private investors operating in member countries or the remedies available to investors or to the Corporation in the event claims are made against the Corporation under its contracts of guaranty and validated by it, all of these prescriptions and proscriptions to be left for inclusion insofar as necessary and practicable in agreements between the Corporation and its members.

The case for the establishment of such a Corporation rests principally on the following considerations:

- (1) The urgent need for an international system of investment guaranties under experienced management of the highest prestige (i.e., the International Bank);
- (2) as a complement to the World Bank and the International Finance Corporation in furtherance of their avowed purpose of stimulating private investment;
- (3) to overcome the checks to investor confidence resulting from such developments inimicable to private investment as those in Cuba and the Congo;
- (4) to encourage and foster the establishment and maintenance of favorable conditions of private investment in member countries.

In a letter of August 19, 1960 addressed to Mr. Ralph I. Straus, Mr. Kliff offered three objections to an international guaranty corporation. One was that the availability of investment guaranties would weaken the incentive of less developed countries to improve the climate of investment. Assuming that such countries want to attract private capital, I see no reason why this should be so, especially since the guaranties of the Corporation would presumably be issued only in respect of investments in countries giving fair treatment to private investors. Indeed, for this reason among others, I believe the effect would tend to be the opposite. Another objection was that it would be difficult to define the risks involved, especially the risk of expropriation. I submit that these risks have been satisfactorily defined by the International Cooperation Administration in connection with its existing system of investment guaranties and that such definitions could be adapted by the proposed international Investment Guaranty Corporation. As a third objection, Mr. Kliff pointed to the recognized difficulties of achieving an international treaty defining the responsibilities of capital-importing and capital-exporting countries. These difficulties are indeed great, and I personally believe them to be virtually insurmountable.

Mr. Richard Danuth

- 3 -

October 15, 1960

The advantage of the approach which I have suggested in this letter is that it would not require the negotiation of such a multilateral treaty. However, the same objective would be achieved through the subscription by member governments to the Articles of Agreement of the Corporation and by whatever bilateral agreements the Corporation might find it necessary to enter into with member governments.

I shall look forward with greatest interest to the views of the International Bank. I am sending copies of this letter to other persons who have expressed an interest in the matter but I feel that only the Bank with its great prestige could, if interested, mobilize the necessary support of its members to bring an investment guaranty corporation into being.

Best regards,

Sincerely,

(August Maffry)

~~KRI~~

**INTERNATIONAL COOPERATION ADMINISTRATION**

Washington 25, D. C.

October 21, 1960

Mr. Richard Demuth  
International Bank for  
Reconstruction and Development  
1818 H Street, Northwest  
Washington, D. C.

Dear Dick:

I have had the pleasure recently of reading Ralph Straus' paper on a proposed new guaranty program and yesterday a copy of Gus Maffrey's paper was sent to me by his office.

Do you think there is any chance that the IBRD will have an interest in doing something with guaranties? Personally, I would hope so. I feel that it would tend to aid and stabilize investment.

Are there any other papers of this type in circulation that you know about? If so, I would appreciate your letting me know because we are in the market for ideas here.

To add to your collection of papers, I am passing on to you one which we wrote here several weeks ago. What I am now trying to do is to convert some of the ideas offered in that paper to a real program. It will be some weeks before we finish.

Best wishes.

Sincerely yours,



Charles B. Warden  
Chief

Investment Guaranties Division

Enclosure

INVESTMENT GUARANTIES AND LATIN AMERICA--THE NEED FOR A NEW PROGRAM

ICA's present guaranty program is based on the needs of Europe's reconstruction under the Marshall Plan. It is more than 10 years old in its thinking and in its self-appraisal. It may well be that the actions of the Castro Government in Cuba have marked a new epoch and a new generation for foreign investment. Two questions are indicated:

1. Is the present machinery of the investment guaranties adaptable to the new problems in Latin America?

2. If not, what is needed?

In projecting remedies for what may lie ahead we must make some serious and quite pessimistic assumptions. We say immediately that if these assumptions do not materialize or the final outcome is better than we visualize, no great harm will have been done. Underestimating, however, could lead to serious miscalculations and great damage. The recommendations on this paper are based on the following assumptions:

1. Investors will work on the basis that the Cuban revolution with its nationalization and harassment of foreign investment will not be confined to Cuba but will be contagious and reach into neighboring countries.

2. The violence of the events in Cuba and the great losses will cause American and European investors to drop plans for new investments, will cause old investors to withhold improvements, and decisions to not maintain or replace equipment and to actually dis-invest when possible.

3. Such conditions may continue for the better part of the next 5 years.

4. The losses of new and replacement development capital to Latin America will amount to somewhere between 100 and 500 million dollars per annum for the next several years.

5. Such special programs as the Inter-American Bank and the new \$500 million Latin American program may (tragically) do no more than make up the loss of capital flow in the private sector. Stated another way, Latin America may lose \$ 1 - 2 - 3 billions of dollar development over the next few years as a result of Cuba. Compare this with American losses of about \$1 billion directly in Cuba.

6. The USSR will apply maximum pressure on the soft spots in Latin America and the risk of further expropriation will be continuous. In December 1957 at the Afro-Asian Conference in Cairo, the Soviets avowed their aims. The New York Times January 7, 1958 stated: "Moscow steps up economic war on private investments abroad . . . Backs confiscation of assets of the West in underdeveloped lands-- chaos is declared to be Soviet aim . . . At the Asian-African meeting in Cairo last month, the Soviet Union issued an open declaration of war against all Western private investment in the underdeveloped countries. By backing confiscation of such 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."

RECOMMENDATIONS:

1. That the Department of Commerce be asked to make a direct poll of the principal Latin American investors to learn from them the extent to which they are dis-investing, withholding, or cutting back Latin American expenditures.
2. That, if this report bears out our fears of a sharp cutback, this be met with a new form of investment guaranty directed to putting a floor of confidence under old investment. This new guaranty should be limited, of course, to the underdeveloped



countries. The guaranty should probably exclude petroleum investments and perhaps be offered only to those companies who are continuing to invest and expanding their old investment. It is probable that no more than a billion dollars of new guaranties actually would be written of this type.

3. That the statute authority be modified so that the U. S. Government will not acquire title to real property if subrogated to a former U. S. investor's investment property--thus enabling the negotiation of expropriation agreements with certain Latin American republics. It is contrary to the constitution of Panama, Venezuela, Colombia and others for a foreign government to own real estate other than diplomatic property. It is recommended that this be referred to the General Counsel.

4. That the investment guaranty program be given the authority to guaranty the repayment of loans made by American financial institutions (against all risks) up to 70% of the total. The major effect of this new repayments guaranty would be to increase the authority of the guaranty program in the eyes of the Latin American countries, since it would put the guaranty program on something of a parity with the DLF, Eximbank and other institutions who currently enjoy a great deal of their authority because of their lending ability. Since the ability to guaranty loans is only one step removed from actual lending, it would place the guaranty program in an exceptionally strong position vis-a-vis Latin American governments who have so far been reluctant to undertake guaranty agreements. What is needed is a guaranty with which a company can borrow money at a bank.

5. That with the new administration in January the Investment Guaranty Program be institutionalized as an independent operation.

6. That for the continuation of the present ICA guaranty program, plus a program of guaranties to assist old investments, plus a repayments guaranty, the total guaranty issuing authority should be raised from \$1 billion to 2½ billion and the reserves raised to \$500 million from the present \$200 million.

INTERNATIONAL COOPERATION ADMINISTRATION  
Investment Guaranties Division  
Washington 25, D. C.

SEP 7 1960

SUMMARY OF THE HISTORY AND OPERATION OF THE  
INVESTMENT GUARANTY PROGRAM

1. Introduction. The Investment Guaranty Program was first set up in 1948 to encourage a larger flow of new private capital from the United States to certain countries of the free world. Both Congress in considering foreign assistance legislation and the President have consistently emphasized the importance of foreign investments as the best means of building up the economies and raising the standards of living of the world's free countries. The Investment Guaranty Program has received steady and continuous consideration by Congress and has been repeatedly and substantially broadened in philosophy, scope and coverage. It is the clearly stated intent of Congress that the Program should be administered under broad criteria and used to the maximum practicable extent to increase the participation of private American enterprise in achieving the purposes of the Mutual Security Act. The protections against certain non-business risks which the guaranties offer to the American investor, have proved over the past decade, to have been a strong inducement to American business to make investments abroad.

2. Legislation. The legislation authorizing the Investment Guaranty Program was enacted by Congress as one means of stimulating foreign investment by private American enterprise and guaranties are now available for the protection of new U.S. private investments against certain specified risks (See Par. 4 below) in underdeveloped countries with which the United States has agreed to institute the scheme. Present authorization stipulates that guaranties can be issued up to a total face value of \$1 billion.

The Investment Guaranty Program was initially authorized by Section 111(b)(3) of the Economic Cooperation Act of 1948 (P.L. 472 - 80th Congress) and was limited to providing convertibility guaranties of receipts from foreign investments. At that time, guaranty agreements for convertibility could only be negotiated with Marshall Plan countries and were incorporated as Article III of the standard Economic Cooperation Agreements between governments of the USA and the countries participating in the Marshall Plan.

Subsequent legislation expanded the guaranty authority as well as the geographic scope of the program. The Economic Cooperation Act of 1950 (P.L. 535 - 81st Congress) redefined "investment" and authorized guaranties against loss by reason of expropriation or confiscation. The 1951 authority extended the program to a far greater area.

The Mutual Security Act of 1954 (P.L. 665 - 83rd Congress), Section 413(b)(4) reaffirmed the authorization of the program and the text of this legislation as amended from time to time through the Mutual Security Act of 1959, is the present basis of operation for the program.

The 1956 legislation provided that guaranties could be issued in any country with which the USA had agreed to institute the Guaranty program. The amendments of 1956 further provided guaranties against loss by reason of war (the so-called "war risk" clause).

The Mutual Security Act of 1954, as amended by the Mutual Security Act of 1956, was not affected by the 1957 legislation and the minor changes introduced by the MSA of 1958 (P. L. 85 - 477) provided that the Program could be transferred from ICA to another agency if found desirable.

The Mutual Security Act of 1959 (P.L. 86 - 108) amended the legislation affecting the Program by limiting the issuance of U. S. Government guaranties of investments in projects approved by the Director of the ICA as furthering the development of the economic resources and productive capacities of economically underdeveloped areas. This Act also increased the issuing authority of the Program from \$500 million to \$1 billion. It has been the intent of the Congress to accentuate the Program's activities in economically underdeveloped areas which would, in general, eliminate most of Western Europe from the list of countries where guaranties would be available. No legislative changes were made in 1960.

The administration of the Guaranty Program by the International Cooperation Administration is provided for by the Mutual Security Act, as amended, Section 413(b)(4) and generally by Executive Orders No. 10575, as amended, and No. 10610, as amended, and Delegation of Authority No. 85 of June 30, 1955 by the Secretary of State, as amended. The administration of the program within the International Cooperation Administration in Washington is a function of the Investment Guaranties Division of the Office of Private Enterprise. The guaranty contract is executed on behalf of the U. S. Government by the Export-Import Bank of Washington as agent for the Director of the International Cooperation Administration in accordance with a Memorandum of Agreement of July 15, 1948 between the two agencies.

3. The Role of the U. S. Government. The role of the U. S. Government in the Guaranty Program is to encourage desirable investment and then to act solely as guarantor. The objective is to enlist American capital and the technical and managerial skills which accompany it for other free nations in the world. There is no interference in the operation of the investor's business or that of the recipient of the investment, nor are there any obligations imposed on the investor other than those necessary for the administration of the guaranty contract.

In the development and operation of the program, the Investment Guaranties Division works in close cooperation with U. S. Embassies abroad, the U. S. Operations Missions, the various elements of the International Cooperation Administration in Washington, the Department of State, and with other agencies of the Executive Branch of the U. S. Government concerned with U. S. foreign economic policy.

4. Outline of the Guaranty Program. In essence, this is an insurance program through which an American Investor may insure his new investments in foreign countries that have agreed to institute the program against:

- a) Inability to convert into dollars local currency receipts from the whole or any part of his investment.
- b) Loss of <sup>all or any part of</sup> his investment by reason of expropriation or confiscation.
- c) Loss of all or any part of his investment by reason of war.

While the program does not protect the investor against devaluation or depreciation of the external value of the foreign currency or against normal business risks, it does offer protection against inconvertibility, the risks of expropriation and against the risks of war damage or destruction to the physical plant, equipment, and facilities included in his investment property which factors, in the past, have often proved serious deterrents to the U. S. private investment in foreign countries.

Since the primary purpose of the guaranty provision of the Act is to stimulate further investment from the United States, the guaranties would not be applicable, as a rule, to an investment which has already been made. Once an application has been filed and accepted however, the investor may obtain a written assurance against prejudice to the application permitting the investor to proceed with his project.

Each contract is individually negotiated to meet the particular circumstances of the investment and any supplementary investment, proposed at a later date, must be the subject of a separate application and approval. The contracts are drafted by the ICA Investment Guaranties Div. and issued upon request of the Director of ICA by the Export-Import Bank of Washington. These contracts follow a prescribed form as a rule; but the variety of the types and terms of the investment projects, which are the subjects of guaranties, result in no two contracts being exactly alike.

5. Investment Guaranty Agreements with Foreign Countries. The Mutual Security Act of 1956 stipulated in Section 413(b)(4) that guaranties may be issued to protect new U.S. investment " . . . in any nation with which the United States has agreed to institute the guaranty program." \* Early in the development of the program, it was decided that the U.S. Government might best assure itself that the requirements of the Act could be met if arrangements were made in advance between the governments of the USA and the prospective participating country to establish the claims to which the U. S. Government would become subrogated if a guaranty contract should be invoked. These bilateral executive agreements have heretofore been concluded primarily by an exchange of notes between appropriate representatives of the USA and the country concerned. This agreement simply expresses the willingness of the two governments to cooperate in carrying out the program and establishes its general terms. Because of the chronological aspect of the legislation which authorized convertibility guaranties in 1948, expropriation guaranties in 1950, and war risk guaranties in 1956, agreements already in effect have had to be amended once and in some cases twice.

\*(The MSA of 1959 has limited the geographic scope of the Program to the "underdeveloped areas" of participating countries, which would exclude the metropolitan areas of developed countries).

Section 413(b)(4)(C) of the Act requires that the U. S. Government shall acquire the currency, credits, assets or investments of the investor to whom payment has been made under the contract and that the U. S. Government will become subrogated to the investor's claim and cause of action.

The standard agreement assures that the participating country will recognize the transfer of the investor's local currencies to the U. S. Government in return for which the American investor has received a comparable U. S. dollar payment from the U. S. Government. It further provides that the U.S. Government will have the same rights to utilize those currencies that the former owner would have had under local currency regulations. It does not stipulate that the U. S. Government will have the privilege of conversion which nationals or nationals of third countries do not have.

The expropriation clause of the agreement provides that the host country government will recognize the transfer of the U. S. Government of the former owner's claim to the expropriated investment project, or compensation therefore, that has been acquired through payment of an invoked contract. It is not to be interpreted that the agreement intends to prohibit expropriation by the host country government of any property.

The "war risk" provision does not, as yet, offer protection against damage from insurrection and civil strife.

The standard text of the draft note agreement (see Appendix) does not propose the interference by the U. S. Government in the internal affairs of the host country nor does it infringe in any way in the sovereign rights of the country government to regulate its exchange or to expropriate properties in the national interest.

Except for the assurance against prejudice, referred to in Paragraph 4, ICA will process applications for individual guaranties only after the conclusion of a guaranty agreement with the project country and after the investor has obtained the project country's approval of the proposed project and investment.

6. Foreign Government Project Approval. Beyond the requirements that a foreign government agree with the U. S. Government to institute the Guaranty Program, the legislation Section 413(b)(4)(A) requires that the individual investment project must be approved for purposes of ICA guaranty by the host country government.

Ordinarily, it is the responsibility of the guaranty applicant to request the government of the host country to express to the American Ambassador or to the Director of the U. S. Operations Mission, its approval of the proposed investment project for purposes of ICA guaranty. It should be pointed out that this approval for purposes of ICA guaranty is in addition to the approval required by some foreign countries of the investment project itself. In a few countries, where relationships between the U. S. Embassy, U. S. Operations Mission, and the foreign government warrant such a procedure, requests for guaranty approval or disapproval

are submitted to the foreign authorities on behalf of the investor by the Embassy or U. S. Operations Mission. However, in the absence of strong reasons within an Embassy or the U. S. Operations Mission for the latter course of action, it is preferable that the standard procedure of investor making his own request for approval be followed.

As soon as an agreement is concluded with a foreign country, the name and address of the appropriate official in the host country government who will be concerned with Investment Guaranty Program matters is given to the local Embassy, which transmits this information together with the name of the local U. S. field officer handling Investment Guaranty Program affairs, to the ICA Investment Guaranties Division. This information is available upon request to guaranty applicants.

While the guaranty approval request is ordinarily made by the investor, it is emphasized that a foreign government is expected to confirm formally its expression of approval or disapproval to the U. S. Ambassador or Director of the U. S. Operations Mission. It is suggested that this formal acknowledgment of the proposed project take the form of a letter, an illustrative example of which is attached as an exhibit. No uniformity has been followed heretofore with regard to form or content of these official approvals of investment projects by the host country government since the Mutual Security Act requires only that the "project" be approved. The letter may be submitted in whatever language, including English, is used officially by the host country government. The U.S. Embassy or U. S. Operations Mission is expected to examine the document and to certify its adequacy as to form and content.

Because of difficulties sometimes presented to the ICA Investment Guaranties Division by non-substantive changes in the investor's plans after foreign government approval, it is preferable to receive approvals concerned only with the "project" and not with precise details of amounts of investment and guaranty. The applicant for ICA guaranties is required to make known to the ICA Investment Guaranties Division before issuance of a guaranty contract, the exact details of foreign government's permission to invest under local exchange and/or investment regulations.

7. The Role of the U. S. Embassy and/or U. S. Operations Mission. Because of the importance of the guaranties in encouraging foreign investment in their respective countries, it is imperative that the Embassy and U. S. Operations Mission officers be kept abreast of developments in the program by the International Cooperation Administration in Washington which is, in turn, dependent on the field officers for interpretation of the program to the host country governments, to foreign businessmen, and to present and potential U. S. investors visiting their diplomatic posts. It is also important that the Investment Guaranties Division be kept advised by the Embassy and U. S. Operations Mission officers regarding any changes in laws or regulations affecting exchange rates or foreign investments which may affect the use of the program in the country or the issuance of a guaranty contract.

The first part of the report is devoted to a general survey of the situation in the country. It is followed by a detailed analysis of the economic and social conditions. The author then discusses the political and administrative aspects of the situation. The report concludes with a series of recommendations for the improvement of the country's situation.

The second part of the report is devoted to a detailed analysis of the economic and social conditions. It is followed by a discussion of the political and administrative aspects of the situation. The author then discusses the recommendations for the improvement of the country's situation.

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International Cooperation Administration  
Washington 25, D. C.

INVESTMENT GUARANTY PROGRAM  
Illustrative Foreign Government Approval Letter

[To]

The Director of the United States of America  
Operations Mission to the Philippines  
c/o American Embassy  
Manila

Excellency:

The ABC Corporation, of 1000 Main Avenue, Chicago, Illinois, U.S.A. has informed the Government of the Republic of the Philippines that, pursuant to the Mutual Security Act of 1954, as amended, it has made application to the International Cooperation Administration of the United States of America for guaranties of convertibility and against loss through expropriation or confiscation of an investment that company proposes to make in a project in the Philippines, and has requested the Philippine Government to express to you its approval of the project for purposes of such guaranties.

The proposed project would involve the manufacture, distribution and sale in the Philippines of rubber tires, tubes and related products. To carry out this project the aforesaid ABC Corporation plans to form a Philippine company and to invest cash, machinery and equipment and materials to provide it with fixed and working capital in exchange for shares of the capital stock of the Philippine company and that company's serial notes payable over a period of ten years.

I wish to inform you that the Government of the Republic of the Philippines has considered the request of the ABC Corporation and hereby approves the project for purposes of guaranties by the U. S. A. International Cooperation Administration. This expression of approval is made as required by the Mutual Security Act of 1954, as amended, and as provided for in the notes exchanged at Washington, D. C. on February 18, 1952, between the Acting Secretary of State of the United States of America and the Ambassador of the Philippines.

[Signed by Official Agent of the Government  
of the Republic of the Philippines]

ICA:PE/IGD  
Jan. 26, 1960



International Cooperation Administration  
Washington 25, D. C.

INVESTMENT GUARANTY PROGRAM

Standard  
Draft Note Agreement  
Convertibility, Expropriation and War Risk Guaranties

Text of the Exchange of Notes for the Institution of  
the Investment Guaranty Program  
in a Foreign Country  
\* \* \* \* \*

Excellency:

I have the honor to refer to conversations which have recently taken place between representatives of our two Governments relating to guaranties authorized by Section 413 (b)(4) of the Mutual Security Act of 1954, as amended. I also have the honor to confirm the following understandings reached as a result of these conversations:

1. The Governments of the United States of America and of \_\_\_\_\_ will, upon the request of either of them, consult respecting projects in \_\_\_\_\_ proposed by \_\_\_\_\_ of the United States of America with respect to which guaranties under Section 413 (b)(4) of the Mutual Security Act of 1954, as amended, have been made or are under consideration.
2. The Government of the United States of America agrees that it will issue no guaranty with respect to any project unless it is approved by the Government of \_\_\_\_\_.

With respect to such guaranties extending to projects which are approved by the Government of \_\_\_\_\_ in accordance with the provisions of the aforementioned Section 413 (b)(4), the Government of \_\_\_\_\_ agrees:

- (a) That if the Government of the United States of America makes payment in United States dollars to any person under any such guaranty, the Government of \_\_\_\_\_ will recognize the transfer to the Government of the United States of America of any currency, credits, assets, or investment on account of which such payment is made, and the subrogation of the Government of the United States of America to any right, title, claim or cause of action existing in connection therewith;
- (b) That (local currency unit) amounts acquired by the Government of the United States of America pursuant to such guaranties shall be accorded treatment not less favorable than that accorded to private

funds arising from transactions of United States nationals which are comparable to the transactions covered by such guaranties, and that such (local currency unit) amounts shall be freely available to the Government of the United States of America for administrative expenses;

- (c) That any claim against the Government of \_\_\_\_\_ to which the Government of the United States of America may be subrogated as a result of any payment under such a guaranty, shall be the subject of direct negotiations between the two Governments. If within a reasonable period, they are unable to settle the claim by agreement, it shall be referred for final and binding determination to a sole arbitrator selected by mutual agreement. If the Governments are unable, within a period of three months, to agree upon such selection, the arbitrator shall be one who may be designated by the President of the International Court of Justice at the request of either Government;
- (d) That if the Government of the United States of America issues guaranties to cover losses by reason of war with respect to investments in \_\_\_\_\_, the Government of \_\_\_\_\_ agrees that nationals of the United States of America to whom such guaranties have been issued, will be accorded by the Government of \_\_\_\_\_ treatment no less favorable than that accorded, in like circumstances, to its nationals or nationals of third countries, with reference to any reimbursement, compensation, indemnification, or any other payment, including the distribution of reparations received from enemy countries, that the Government of \_\_\_\_\_ may make or pay for losses incurred by reason of war; if the Government of the United States of America makes payment in U. S. dollars to any national of the United States of America under a guaranty for losses by reason of war, the Government of \_\_\_\_\_ will recognize the transfer to the Government of the United States of America of any right, privilege, or interest, or any part thereof, that such nationals may be granted or become entitled to as a result of the aforementioned treatment by the Government of \_\_\_\_\_;
- (e) The aforementioned subparagraph (c) with respect to the arbitration of claims shall not be applicable to the type of guaranties against losses by reason of war provided for in subparagraph (d).

Upon receipt of a note from Your Excellency indicating that the foregoing provisions are acceptable to the Government of \_\_\_\_\_, the Government of the United States of America will consider that this note and your reply thereto constitute an agreement between the two Governments on this subject, the agreement to enter into force on the date of your note in reply.

Accept, Excellency, the renewed assurances of my distinguished consideration.

/s/ \_\_\_\_\_

E.H. van Eeghen

~~HA~~  
HEERENGRACHT 464  
AMSTERDAM

18th October, 1960.

Mr. Richard Demuth  
International Bank for  
Reconstruction and Development  
1818 H Street, N.W.  
WASHINGTON. D.C.

Dear Mr. Demuth,

With reference to the conversation I had the pleasure to have with you in Washington during the World Bank Conference, I herewith enclose a memorandum which I drafted a few days later.

I discussed the contents of same with some New York bankers and in general they rather liked the tendency.

Yesterday I had an interview with the Netherlands Minister of Finance at the Hague regarding this subject, as the Netherlands Government is also studying this matter.

On the 28th inst. I will have further discussions in Bonn with some German authorities, who I met already on the 15th September 1960 for a general exchange of views.

Mr. August Maffry was so kind to send me copy of his letter to you of the 15th inst. on the same subject. According to this document our views are not very far apart, although I emphasize more on the responsibility of the receiving country (see paragraph 8). In my opinion it is of extreme importance that this should be done and I do not expect any major objection from their side.

I have also sent a copy of enclosed memorandum to Mr. R. Garner who seemed to be interested in the subject when I discussed it with him during my stay in Washington.

HERENBOECHT 484  
AMSTERDAM

van Loenen

18th October, 1960.

Mr. Richard Demuth  
International Bank for  
Reconstruction and Development  
1818 H Street, N.W.  
WASHINGTON, D.C.

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1960 OCT 28 DATE ST  
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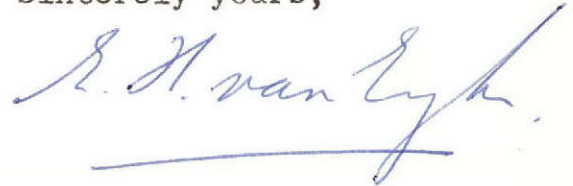
HEERENGRACHT 464

AMSTERDAM

18th October, 1960.

Especially my German friends are stressing the point that something should be done quickly, particularly in view of the development in Africa. Having lived there for the past 10 years I could not agree more. In case you have time to do so, I would very much appreciate receiving your views.

Sincerely yours,

A handwritten signature in blue ink, appearing to read "R. H. van Lyck". The signature is written in a cursive style and is underlined with a single horizontal stroke.

Encl.

P.S.

From discussions I had in the United States, Germany and Holland it became obvious that a great number of companies would immediately make use of an international guaranty institution as soon as same would come into being. They have many plans in portofolio which are only not being executed at present because of the uncovered political risk. An international guaranty institution should use the U.S. \$ as one and only currency, just as the World Bank and I.F.C..I expect that already after 1 year the total amount insured by this institution would amount to well over 1 billion \$, probably even much more. This would mean a very substancial backing of the U.S. \$ as none of the members of the guaranty institution would be interested in its eventual devaluation. A devaluation would hurt them badly.

Chicago, October 3, 1960.

1. Private investments in underdeveloped countries is declining because of the political risks.
2. The governments of the Western countries are unable, financially as well as technically, to replace same fully.
3. Private enterprise in newly self-governing or independent countries is being welcomed, because it does not carry political ties.
4. Only private enterprise is in a position to go into partnership with local firms or may give local public the chance to participate (Tanganyika Sugar Scheme) by forming a local public company. This creates much good will and gives the enterprise a stable basis.
5. Government to government loans are indispensable (unfortunately), but should never try to cover the potential scope of private enterprise, otherwise they would become an education in communism instead of developing local initiative.
6. Only by guaranteeing the political risks can private enterprise be induced to go ahead in underdeveloped countries. Political risks should include civil war, civil commotions, nationalization without full and immediate repayment in the currency of the country of origin of the investor, expropriation, blocking of transfer of reasonable profits. In general its definition should be as liberal as possible.
7. Bilateral investment guarantee agreements are undesirable. Only a multilateral guarantee institution, if possible with the same membership as the World Bank/IFC, can be expected to give real satisfaction, because :
  - a) Also the receiving countries will have to be members, giving them, therefore, at least some responsibility.
  - b) The more members the less will be the over-all risks of each member separately.
  - c) Just as has been the experience of the World Bank vis-a-vis its debtors, defaulting is unlikely as this would bring the defaulter into trouble with all members and would spoil its reputation in general. The system would, therefore, work preventively.
8. Each member country should be willing to give a guarantee up to a certain maximum. These limits should be based for the first year of operation on the basis of their World Bank subscription. After one year, the guarantee of the investor country should be fixed on 50% of the amount it has totally insured until that time, and the guarantee of the receiving country should be fixed on 50% of the total insured amount it has received up until that time. At the beginning of each year, the respective totals have to be calculated again and the limits fixed accordingly. These guarantee limits, together with the premium reserves, should give a reasonable safety. This system would be logical, applicable, and fair to both sides.

*left out of the Nov 11 statement*

*Place in broken into 7-11 in the Nov 11 statement with some minor changes -*

9. One hundred per cent of the invested capital should be insured.
10. The duration of the insurance should be, in principle, a maximum of 20 years. The economic risk remains, of course, completely with the enterpriser, but the yield of the investment up to a maximum of 15% per annum of the invested capital should also be covered. The amount guaranteed decreases gradually in the course of time, starting after eight years, so that the capital guaranteed becomes nil at the end of the period agreed upon in the beginning.
11. The guarantee premium should amount to 1% p.a. for a period of 8 years, 1-1/4% p.a. up to 15 years, and 1-1/2% p.a. up to 20 years.
12. In order to induce investors to co-operate with local capital, a deduction of 25% of the premium should be allowed in case local capital participates at least for 25% of the venture.
13. Member countries need only pay a very small contribution in order to cover the preliminary costs of administration. Very soon part of the premiums should be able to cover the administration costs.
14. Member countries should liquidate their own national investment guarantee institution, if any.

*not in the  
Mrs. II  
statement*

*not in  
the Mrs. II  
statement*

E.H. van Eeghen

Oct. 3, 1960.

*Committee of Private  
Foreign Investment*

October 18, 1960

Dear Mr. Reuss:

Thank you for your letter of September 29 in which you enclosed a report from the Congressional Record containing a copy of Mr. Scheinfeld's proposal for helping private American business contribute to the development of underdeveloped countries.

I read Mr. Scheinfeld's speech with considerable interest and I feel that his analysis of the problems and aspirations of the underdeveloped countries, particularly those of the relatively newly independent ones, is penetrating and accurate. The need to stimulate industrial development in these countries, thus building up a middle class, is certainly a great one. Although much is already being done to stimulate private enterprise within these countries and to encourage private investment from abroad, there is no doubt that much more can still be done. Mr. Scheinfeld's suggestion is an interesting one. Whether it would, in fact, be an effective and practicable solution to the problem, in my opinion, requires a good deal more study.

As Mr. Knapp, however, has already written to you on behalf of Mr. Black, we would be happy to exchange views with Mr. Scheinfeld when he is next in Washington.

Very sincerely yours,



Martin M. Rosen  
Director

Department of Operations - Far East

Hon. Henry S. Reuss  
House Office Building  
Washington 25, D. C.

M/Rosen:ms

cc Knapp, Crows



*Committee on Private &  
Foreign Investment*

October 14, 1960

Dear Mr. Reuss:

In the absence of Mr. Black, who is still convalescing from a recent illness, I should like to acknowledge your letter of September 29 enclosing a copy of a speech by Mr. Aaron Scheinfeld, and to thank you very much for calling this very interesting talk to our attention. Both the Bank and our affiliate for industrial financing, the International Finance Corporation, are very much interested in any constructive proposals for the promotion of private business investment in the underdeveloped countries, and it is clear that Mr. Scheinfeld has given a great deal of thought to this problem.

So far as India is concerned, the Bank has taken a large part in creating and financing the Industrial Credit and Investment Corporation of India Limited, a privately-owned and managed industrial development bank located in Bombay, which makes loans to small- and medium-sized industries in India. This institution is already doing a good deal to interest foreign private capital in investment in India and has recently undertaken to assist in the creation of an Indian Investment Center to be located in Delhi, and with branches to be opened in due course in New York and other leading Western centers. This project is being sponsored by the Indian Government with the active assistance of the ICA. The Board of the Center would include a large number of the Directors of the ICICI, and the Chairman of the Center will be Mr. G.L. Mehta, formerly the Ambassador of India in the United States and now serving as the Chairman of ICICI.

I refer to this activity at some length because in many respects it closely parallels the sort of thing Mr. Scheinfeld has in mind. If he were ever to be in Washington, we in the Bank, and Mr. Robert L. Garner, President of the International Finance Corporation, would be very happy to exchange ideas with him.

Sincerely yours,

J. Burke Knapp  
Vice President

The Honorable  
Henry S. Reuss  
Congress of the United States  
House of Representatives  
Washington, D.C.

cc: Messrs. Garner, Rosen, Rucinski, Graves

JBK/js *JK*

# IRVING TRUST COMPANY

ONE WALL STREET  
NEW YORK 15, N.Y.

INTERNATIONAL BANKING DIVISION

~~KRI~~  
AIR MAIL

October 15, 1960

Mr. Richard Demuth  
International Bank for  
Reconstruction and Development  
1818 H Street, N.W.  
Washington, D.C.

Dear Dick:

When I saw you at the Meetings in Washington and discussed with you the idea of an international investment guaranty corporation, you suggested that you would like to have a specific proposal, which I have been able to put on paper only since I left New York enroute to Asia. I would propose:

- (1) the establishment of a corporation;
- (2) to be called the Investment Guaranty Corporation;
- (3) as an affiliate of the International Bank for Reconstruction and Development (on the model of the International Finance Corporation);
- (4) with its members drawn from the membership of the International Bank;
- (5) to be established with a capital of \$X billions, of which, say, 1% would be payable in cash to provide the Corporation with initial operating funds and funds to meet any (unlikely) early claims, the remainder to be subject to call to meet duly validated claims of investors, this capital to be subscribed by members on the basis of a formula similar to that used in setting up the International Finance Corporation;
- (6) to enter into guaranty contracts with private investors, nationals of member governments, guaranteeing at the complete discretion of the Corporation and with full authority to fix the terms of its guaranties, with respect to new investments in the form of equity or debt, against risks of
  - (a) inconvertibility,
  - (b) expropriation without adequate or effective compensation, and
  - (c) loss resulting from war or civil commotion;
- (7) the Articles of Agreement of which should provide for raising its capital and for its management under a President responsible to a Chairman who shall be the President of the International Bank and to a board of Executive Directors constituted like the Executive Directorate of the International Finance Corporation, define its powers and immunities and provide for its liquidation if ever desired;

- (8) and among the powers of which shall be those authorizing it to enter into agreements with member governments providing inter alia for the subrogation to the Corporation of the claims of investors, for fixing premia for each type of guaranty offered and for the constitution of reserves against possible losses;
- (9) but which should not by its terms attempt to define conditions of private investment in member countries or the treatment of private investors by member countries or the behavior of private investors operating in member countries or the remedies available to investors or to the Corporation in the event claims are made against the Corporation under its contracts of guaranty and validated by it, all of these prescriptions and proscriptions to be left for inclusion insofar as necessary and practicable in agreements between the Corporation and its members.

The case for the establishment of such a Corporation rests principally on the following considerations:

- (1) The urgent need for an international system of investment guaranties under experienced management of the highest prestige (i.e. the International Bank);
- (2) as a complement to the World Bank and the International Finance Corporation in furtherance of their avowed purpose of stimulating private investment;
- (3) to overcome the shocks to investor confidence resulting from such developments inimicable to private investment as those in Cuba and the Congo;
- (4) to encourage and foster the establishment and maintenance of favorable conditions of private investment in member countries.

In a letter of August 19, 1960 addressed to Mr. Ralph I. Straus, Mr. Iliff offered three objections to an international guaranty corporation. One was that the availability of investment guaranties would weaken the incentive of less developed countries to improve the climate of investment. Assuming that such countries want to attract private capital, I see no reason why this should be so, especially since the guaranties of the Corporation would presumably be issued only in respect of investments in countries giving fair treatment to private investors. Indeed, for this reason among others, I believe the effect would tend to be the opposite. Another objection was that it would be difficult to define the risks involved, especially the risk of expropriation. I submit that these risks have been satisfactorily defined by the International Cooperation Administration in connection with its existing system of investment guaranties and that such definitions could be adapted by the proposed international Investment Guaranty Corporation. As a third objection, Mr. Iliff pointed to the recognized difficulties of achieving an international treaty defining the responsibilities of capital-importing and capital-exporting countries. These difficulties are indeed great, and I personally believe them to be virtually insurmountable.

Mr. Richard Demuth

- 3 -

October 15, 1960

The advantage of the approach which I have suggested in this letter is that it would not require the negotiation of such a multilateral treaty. However, the same objective would be achieved through the subscription by member governments to the Articles of Agreement of the Corporation and by whatever bilateral agreements the Corporation might find it necessary to enter into with member governments.

I shall look forward with greatest interest to the views of the International Bank. I am sending copies of this letter to other persons who have expressed an interest in the matter but I feel that only the Bank with its great prestige could, if interested, mobilize the necessary support of its members to bring an investment guaranty corporation into being.

Best regards,

Sincerely,



( August Maffry )

1320 021 10 11/15/60

October 13, 1960

Mr. Richard Smith

The advantage of the approach which I have suggested in this letter is that it would not require the negotiation of such a multilateral treaty. However, the same objective could be achieved through the negotiation by member governments of the Articles of Agreement of the Corporation and by whatever other arrangements the Corporation might find it necessary to enter into with member governments.

I shall look forward with great interest to the views of the International Bank. In a previous letter of this letter in other respects who have expressed an interest in the matter and I feel that only the Bank with its great prestige could, if interested, mobilize the necessary support of the members to bring an investment guarantee corporation into being.

Best regards,

Sincerely,



(August Maffey)

RECEIVED  
BANK MAIL ROOM  
1960 OCT 18 AM 10:46

*Dev. Promotion of Private Foreign Investment*

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

OFFICE MEMORANDUM

To: Files Date: October 12, 1960  
From: Badri Rao  
Subject: United States Foreign Private Investments

Following is a brief summary of the latest U.S. Department of Commerce's survey\* of recent changes in the pattern of U.S. foreign investments abroad and of its analysis of the over-all contribution of U.S. direct investment enterprises to the economy of recipient countries:

Direct Investments

U.S. firms last year added some \$2.5 billion to their investments in foreign subsidiaries and branches raising their book value to \$29.7 billion. This was financed through new capital amounting to \$1.4 billion and reinvested earnings of \$1.1 billion. Although the pace of investment in 1959 was substantially below 1957 when \$3.8 billion was invested abroad, it was some \$0.5 billion higher than in 1958.

Preliminary data for the first half of 1960 suggest a reduction in U.S. direct investment abroad; it is expected that the annual rate of new capital outflow may be around \$1 billion and that investments financed out of retained earnings may be another \$1 billion per annum.

Of the \$2.5 billion addition to direct investments in 1959, some \$0.75 billion went into European enterprises; subsidiaries and branches in Canada accounted for \$0.8 billion. Whereas enterprises in Latin America received over \$0.6 billion, the book value of assets rose by rather less than \$0.5 billion because of currency depreciation vis-a-vis the U.S. dollar. Argentina, Brazil and Chile were among the major recipients.

Manufacturing investments last year rose by more than \$1 billion, i.e., \$0.3 billion over 1958 and accounted for two-fifths of last year's investments. Almost half of the 1959 increase was in Europe with the U.K.'s share largest.

Investments in foreign mining properties amounting to some \$0.3 billion were at their highest rate since 1952-53; the bulk of the flow was into Canada.

Direct investments in the petroleum industry were at \$0.6 billion in 1959. This compares with \$1.7 billion in 1957 and \$0.7 billion in 1958. Considering the excess of world productive capacity relative to world demand, last year's reduced level of investment must be regarded as substantial; the decline was sharpest in Venezuela.

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\* Source: Survey of Current Business, U.S. Department of Commerce, September 1960, pp. 15-24.

To: Files

October 12, 1960

Portfolio Investments

U.S. purchases of foreign securities and long- and short-term loans by banks resulted in a further outflow of \$1 billion in 1959. Security issues in the U.S. were well below their 1958 peak as interest rates in 1959 were substantially higher than in 1958; the reduction was largely due to a shifting of IBRD's borrowing from the U.S. to Europe.

Preliminary 1960 data indicate an acceleration in U.S. purchases of foreign corporate stocks and in the outflow of short-term funds especially towards the U.K., because of a widening of effective yields.

Earnings

U.S. earnings from direct investment enterprises last year were \$3.25 billion; this is some quarter of a billion dollars more than in 1958 but less than the peak earnings of some \$3.6 billion in 1957. Reinvested earnings of subsidiaries in 1959 amounted to \$1.1 billion. The remaining \$2.2 billion representing payments of dividends and interest and branch profits was at about the same level as in previous years. Variations in earnings have therefore affected mainly the amount retained abroad as undistributed profits.

Impact of U.S. Direct Investment on Economies of Recipient Countries

The Office of Business Economics of the U.S. Department of Commerce recently undertook a census of U.S. held foreign investments. The data relate to 1957 and are soon to be published. Preliminary information released so far throws some interesting light on the contribution of U.S. direct investment companies to the economy of host countries.

Aggregate sales of commodities by U.S. owned enterprises, excluding intercorporate sales were \$32 billion in 1957. Over half of this, i.e., \$18 billion, was accounted for by manufacturing enterprises; sales of petroleum enterprises corresponded to some \$11 billion.

Of the \$32 billion of total sales, more than \$3.5 billion was to the U.S. (i.e., about one-fourth of total U.S. commodity imports) and consisted largely of crude and processed raw materials such as petroleum and minerals. Sales of manufactures and semimanufactures to the U.S. totalled \$1 billion.

The operations of direct investment enterprises resulted in an over-all outlay of some \$30 billion in 1957 as shown below. This amount includes production outlays and foreign taxes paid by U.S. subsidiaries and branches but excludes goods purchased by trading companies, intercorporate petroleum sales, imports from the U.S. and depreciation charges.

Wages and salaries:	\$ 7.0 billion
Purchase of materials and services:	17.0 billion
Taxes:	4.5 billion
Other operating costs:	<u>1.7 billion</u>
	\$30.2 billion

To: Files

October 12, 1960

U.S. direct investment companies contribute a substantial part of government revenues of the country of domicile. In Latin America, 20% of total revenues is derived from such enterprises; this is an average ratio and is greatly affected by Venezuela where U.S. direct investments amount to about one-third of total U.S. direct investments in Latin America. In Canada the proportion is 16% with the proportion of corporate income taxes paid by companies classified as direct investments amounting to some 50%.

The operations of U.S. direct investment companies in major regions abroad may, further, be summarized as follows:

<u>Latin America:</u>	Gross production:	\$ 8 billion
	Production for export:	\$ 3 billion*)
	Proportion of such exports to over-all exports of the region:	1/3*)
<u>Canada:</u>	Gross production of goods and services:	\$11 billion
	Production for exports:	\$ 2 billion
	Of which exports to U.S.:	\$ 1.3 billion
<u>Europe:</u>	Value of manufacturing output	\$ 6.3 billion
	Production for export:	\$ 1.4 billion
	Of which exports to U.S.:	\$ 0.2 billion

\*) Heavily influenced by oil exports from Venezuela.

Distribution: Department Heads.  
Economic Advisers.  
IFC (Mr. Weigel).



# STAFF LOAN COMMITTEE

*WSP*  
SLC/O/60-46 ✓

*Files*

*Handwritten of Private & Foreign Law Firm*

## MEMORANDUM TO THE STAFF LOAN COMMITTEE

**DECLASSIFIED**

AUG 17 2023

**WBG ARCHIVES**

### Financing of Public Investment

1. Parts I and II of Report No. EC-88 on the financing of public investment in underdeveloped countries are attached for information.
2. Mr. van der Mel, who prepared these reports, has presented Part I in a personal capacity for discussion at the Sixth Conference of Central Bank Technicians, taking place in Guatemala City in November.
3. Comments, if any, should be sent to reach Mr. Avramovic (ext. 3125) by noon on Friday, October 14.
4. Part I will then be distributed as a non-confidential Bank report, Part II has not been presented to the Conference and will be made available for staff use within the Bank only.

Herbert G. A. Woolley  
Secretary  
Staff Loan Committee

September 23, 1960

K 3571

*Committee of Senate  
& Foreign Invest*

COMMITTEES:  
BANKING AND CURRENCY  
GOVERNMENT OPERATIONS  
JOINT ECONOMIC

**Congress of the United States**  
**House of Representatives**  
Washington, D. C.

September 29, 1960

Mr. Martin Rosen  
Director  
Department of Operations, Far East  
International Bank for Reconstruction  
and Development  
1818 H St. N.W.  
Washington 25, D.C.

*Ack: Oct 18/60*

Dear Mr. Rosen:

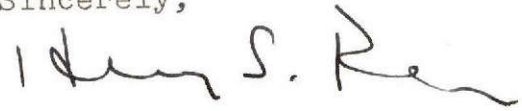
I should like to call your attention to a most exceptional message appearing in the Congressional Record recently.

Contained in the speech by Mr. Aaron Scheinfeld you will find an 11-Point Program for spurring the rate of American investment overseas, thereby enabling underdeveloped nations to speed their growth.

The plan is designed and intended to take into account not only the need for encouraging and safeguarding the investor, but also the need to insure that his enterprise will make the maximum contribution to the economy of the foreign country and the welfare of its citizens.

Your reactions to Mr. Scheinfeld's proposals will be appreciated.

Sincerely,



Henry S. Reuss  
Member of Congress

Government of the State of Illinois  
Department of Transportation  
Chicago, Illinois

Dear Sir:

Reference is made to your letter of the 10th day of October, 1960, regarding the above captioned matter.

The enclosed herewith is a copy of the report of the Illinois State Police, dated October 10, 1960, which was received from the Chicago Police Department on October 11, 1960.

The report of the Illinois State Police, dated October 10, 1960, contains the following information:

On October 10, 1960, at approximately 10:30 a.m., a Chicago Police Officer, [Name], was advised by a [Name] that a [Name] had been seen driving a [Make and Model] automobile, license plate number [Number], in the area of [Address].

The Chicago Police Officer, [Name], advised that the [Name] was driving the automobile in a southerly direction on [Street] at the time of the sighting.

The Chicago Police Officer, [Name], advised that the [Name] was driving the automobile in a southerly direction on [Street] at the time of the sighting. The Chicago Police Officer, [Name], advised that the [Name] was driving the automobile in a southerly direction on [Street] at the time of the sighting.

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RECEIVED  
BANK MAIL ROOM  
1960 OCT -3 AM 10:51

*Promotion appropriate*

*to say in words*

ROUTING SLIP

Date

*Dec 19, 1960*

NAME

ROOM NO.

~~*Mr Knapp*~~

~~*1024*~~

*Files*

*P-100*

To Handle

Note and File

Appropriate Disposition

Note and Return

Approval

Prepare Reply

Comment

Per Our Conversation

Full Report

Recommendation

Information

Signature

Initial

Send On

REMARKS

From

HENRY S. REUSS  
5TH DISTRICT, WISCONSIN

COMMITTEES:  
BANKING AND CURRENCY  
GOVERNMENT OPERATIONS  
JOINT ECONOMIC

**Congress of the United States**  
**House of Representatives**  
Washington, D. C.

September 29, 1960

Mr. Eugene Black  
Director  
World Bank  
U. S. Government  
Washington, D.C.

*Acc. Oct 14/60*

Dear Mr. Black:

I should like to call your attention to a most exceptional message appearing in the Congressional Record recently.

Contained in the speech by Mr. Aaron Scheinfeld you will find an 11-Point Program for spurring the rate of American investment overseas, thereby enabling underdeveloped nations to speed their growth.

The plan is designed and intended to take into account not only the need for encouraging and safeguarding the investor, but also the need to insure that his enterprise will make the maximum contribution to the economy of the foreign country and the welfare of its citizens.

Your reactions to Mr. Scheinfeld's proposals will be appreciated.

Sincerely,



Henry S. Reuss  
Member of Congress

HSR:ml

Department of the Interior  
Bureau of Land Management  
Washington, D.C.

October 1, 1960

Mr. [Name]  
[Address]  
[City, State, Zip]

Dear Mr. [Name]:

I am pleased to inform you that your application for [purpose] has been approved. The [details] are as follows: [details]

The [details] of the [purpose] are as follows: [details]

Very truly yours,  
[Signature]

RECEIVED  
BANKS MAIL ROOM  
1960 OCT -3 AM 10:51



United States  
of America

# Congressional Record

PROCEEDINGS AND DEBATES OF THE 86<sup>th</sup> CONGRESS, SECOND SESSION

## Aaron Scheinfeld's Constructive Proposal for Enabling American Business To Help Underdeveloped Countries

REMARKS

OF

**HON. HENRY S. REUSS**

OF WISCONSIN

IN THE HOUSE OF REPRESENTATIVES

Tuesday, August 23, 1960

Mr. REUSS. Mr. Speaker, a distinguished American businessman has recently proposed a far-reaching reexamination of the role to be played by American business in foreign economic development. Aaron Scheinfeld, board chairman of Manpower, Inc., has recently returned from a 15-week, 25,000-mile world trip. During the trip Mr. Scheinfeld spoke to business executives and government officials in Turkey, Pakistan, India, Ceylon, and Thailand.

Mr. Scheinfeld, together with Elmer Winter, of Milwaukee, founded Manpower, Inc., in 1948. Today it is by far the largest complete business service in the world, with more than 200 offices spread throughout the United States, Canada, Mexico, and eight European nations.

The purpose of Mr. Scheinfeld's trip was to increase the number of Manpower franchised offices overseas. His specific proposals for channeling American business know-how into the service of our foreign economic policy deserve the most careful consideration at all levels of government and business.

Mr. Scheinfeld's address follows:

### OUR CHOICE: POVERTY OR PEACE

Mrs. Scheinfeld and I recently completed a trip around this world of ours, traveling for three and one-half months happily, sadly and, yet, hopefully. We spent most of the time in Asia, and it would be pleasant and quite simple to give you a travel book account of the magnificent scenery, the lovely hotels, the excellent cuisine, the breathtaking Taj Mahal, the exciting shrines and

temples, and the unbelievable bargains in this tourists' paradise.

It is possible to travel in this dream world, but only if your eyes and ears pay no heed to the misery of the millions of men, women, and children of the Asiatic world and the inescapable impact of that misery upon our western civilization.

I undertook this trip, however, not as a tourist, but rather as an American businessman seeking to find out for myself just how deeply our destiny, our fate, was intertwined with the peoples of the have-not lands, and whether this terrifying problem of poverty was capable of solution. I was also motivated by the fact that I believed that our company with its offices around the world might be able to scratch the surface of this almost overwhelming challenge. I discovered much which was shocking and disturbing, and found that we were in the middle of an economic war, which was quite unlike anything that had ever happened to us before.

We, of the Western world, where free enterprise has meaning, have suddenly become aware of a new type of threatened competition in the world market from the Soviet and its satellite nations.

What essentially does this threat consist of? If you analyze it carefully, you very soon discover that the most telling fact about the Soviet marketing, or investment move, is that it has the full backing of the entire government of a large and powerful nation. There is a terrific unity about it all that gives it not only power but the appearance of a continuing stability, whether they are offering a low interest loan, dumping thousands of tons of aluminum, or sending a ship full of grain on long-term credit.

Khrushchev speaks for the Soviet and its satellites. He is the government (at least for the moment) and his commitments are final and binding so long as he is willing to respect them and carry them out. They are out to conquer the industrial and the economic souls of the have-not nations, and that will be easily and successfully followed by the conquest of the political souls of these unfortunate peoples. They are out to

wreck our economy, to divide and conquer our allies and they believe that all of this is possible without firing a shot.

I am personally convinced that what happened in Paris is part of this strategy, and it is their hope to wreck our economy by continuously keeping us off balance and forcing us to expend billions upon billions of dollars for armaments, which cost them but a fraction of this amount. I do not believe for one moment that they are interested in disarmament, and their behavior in Paris, and before the United Nations offers adequate proof of that.

Can a free world, therefore, ever approach the effectiveness of a monolithic state capitalism and meet this Russian challenge? This, devoutly-to-be-wished objective, is realizable if the free nations of the world will but work together toward one goal. Worldwide prosperity with freedom.

Free nations need economic unity as well as military unity; otherwise their military unity will not long endure. This economic war cannot be won by government alone, nor by the businessmen of the free world alone. The time has come for a coalition between the two, for a partnership between the businessmen of the free world nations, backed by their respective governments. The have-not nations and their businessmen must also be brought in as active partners in this free-world program, where human values will be mixed with money values.

I am not a visionary who is seeking either national socialism or world socialism. Nor do I seek any world government to rule the free nations, interfere with their sovereignty, or dominate their economies. The European coal and steel union, and the Euromart constitute no supergovernment, but rather the effort of freemen to work together, live together, and resolve their differences of yesterday and their tensions of today with peace and prosperity as the achievable reward which beckons them. These nations, however, today have stable economies and their people enjoy a standard of living which, like that of a few other European nations, and the nations of the

North American Continent, are shockingly low vis-a-vis the peoples of the have-not nations of the world.

Though war may be obsolescent, we cannot be certain of its end forever so long as there is the kind of poverty I have seen in Turkey, Pakistan, India, Ceylon, and Thailand. The worst of them all is India where thousands upon thousands live and sleep in the streets of Bombay, Calcutta, and Madras. Millions live in mud huts in the villages and rural areas and sleep 10 in a room. Millions of beggars; millions of hungry human beings with as much right as any one of us to a few creature comforts. There is only one kind of fuel available to these people: Dung cakes. To the women and children fall the lot of collecting the dung, shaping it into flat cakes and carrying them in huge baskets on their heads to a spot in the sun where they are dried for a week or more before using. This is their cooking fuel. What more need be said?

Added to this almost overwhelming misery is the problem of an exploding population which, by the end of this decade, will bring an additional 200 million to feed, house, and clothe. Birth control techniques will not solve this problem, not with the existing illiteracy, the religious ban, and the hunger they are suffering. It is of India that I speak, because I consider it to be the most important piece of real estate in all Asia.

As India goes, so will go all of Asia. And, as Asia goes, so may Europe go. We of the United States may find that we are living upon an island of prosperity, but for how long?

So, we must rid ourselves of our smugness and complacency and awaken to the fact that a strange and terrifying interdependence exists between the United States and the have-not nations of the world. If poverty persists, there will be no peace and there is a great danger that a worse fate may befall the free men of the still free world. There is no time to waste—there can be no delay—action must be taken now.

The problem of the poverty of the have-not nations will not be resolved by direct aid, nor by foreign investment in their industrial development, where such investment insists upon the ownership in perpetuity of these instruments of production. This type of foreign investment may be the most ideal from our point of view, but it is not a realistic one in the light of the feverish nationalism which one experiences the world over and, especially, in Africa and Asia. The governments of India and its neighboring Asiatic countries will never again permit either political or economic domination by outsiders. It will take military intervention and conquest, or infiltration by Communists, to change this. It is the thinking of the leadership of these countries that sooner or later their people must own their own instruments of production.

No degree of economic stability can ever be attained by these countries, unless they

begin to develop an all-important middle class of their own. They have no objection to a few foreign-owned industries, or joint ventures between foreign investors and their own businessmen, but as one travels through these countries and talks with their political and business leaders, it soon becomes perfectly obvious that the trend is in the direction of developing their own industries with their own people. They welcome foreign aid, but only as a means to the desired end of owning their own industries.

I would not interfere with any existing foreign-owned industries, nor prevent private negotiations in these undeveloped countries, but under a Government-sponsored plan which I am urging, encouraging inducements will be offered to American industries, which are willing to approach the problem of economic nationalism in a spirit of compromise and with an awareness that such compromise is an alternative to the growing Russian economic threat.

There are also those amongst us who are seriously disturbed by the unemployment implications of any foreign aid program and their fears are not entirely without some foundation in fact. There will be some displacement of our own people resulting from the flow of commodities back to our country, commodities which have been manufactured at substantially lower labor costs. This, however, will also follow the lowering of our tariff rates and, therefore, the only alternative or substitute for foreign aid is economic isolationism and who among us would advocate that in a world which grows smaller day by day?

Economic isolationism is no answer to any of the world's economic problems, nor an answer to the economic threat directed at the West by the Russians today and by the Chinese in the days to come. It may be a case of Hobson's choice, or the choice of the lesser of evils, but I personally would rather join with the rest of the free world in the industrial development of the have-not nations and take my chances on meeting world competition, than to leave the industrial soul and economic fate of the underdeveloped countries to Russia and its allies.

Import liberalization on the part of recipient countries, as well as expansion and research and new and better products and marketing methods, and the development of economic unions are the answers to those who fear the foreign aid program.

In traveling around the world these last few months, I have run into salesmen from every industrially developed country, except the United States, and have found that we are still trying to sell our products out of catalogs, as we were successfully able to do in the early postwar years. It is time that we begin to employ our domestic and highly developed selling techniques in the markets of the world. Our products are still the equal, if not superior to those of our competitors and even if they are at times priced a little higher, we can counteract that with

better quality, service and quicker delivery. We, however, must send salesmen into the world markets and the best we can recruit to do the job.

Ludwig Erhard, who is West Germany's economic minister, recently reported that there are 500 German salesmen operating out of Cairo alone. In three markets—Greece, Syria, and Iran—West Germany is the No. 1 trading country. The Bonn Government has given its exporters a competitive advantage over their Western rivals with a Government-sponsored insurance corporation called Hermes, offering a guarantee against default by their customers. According to Mr. Erhard, this guaranteeing agency has, to date, committed itself to more than \$800 million in underwriting Middle East credits alone. Mr. Erhard stated, and I quote: "We failed in two wars to conquer the Middle East with soldiers, but now we have done it with salesmen. What we failed to do with cannon, we accomplished with sample cases." There are, therefore, effective answers to be found for those who fear the impact of a foreign aid program upon our own economy.

Realistically, therefore, since we are without choice in the matter of foreign aid, how then can the United States and other helping free nations approach this problem? I recently wrote to the President of the United States; to our Secretary of Commerce, and to our Secretary of State suggesting and recommending a positive program which, I believe, will be palatable and acceptable to these nations in need and be fully as attractive to the foreign investors who are aware of the urgency of extending this kind of help. Using India as the example, I offer the following:

1. The American and Indian Governments will together establish an agency consisting of Government representatives, businessmen, and economists. There is, of course, to be equal representation from each country, and I would recommend that the total membership of the agency be limited to 20, and be comprised of 8 Government representatives, 8 businessmen, and 4 economists.

2. It would be the function of this agency to analyze, appraise, and determine the industrial needs of India and to, thereafter, develop and establish a long-term program within a reasonable, realistic, and realizable budget.

3. This agency, with the aid of permanent staff members and a public-relations program, will then approach American industries for the purpose of prevailing upon them to establish branches in India, with or without participation by Indian partners.

4. The industry will be offered a long-term loan at low interest rates and the amount of the loan should equal at least 75 percent of the capital needed by the American investor for such foreign branch establishment and development. I would recommend that such loans be upon a nonrecourse basis, as far as the American parent corporation is concerned.



5. In addition to the long-term loan, I would strongly urge that tax incentives be generously offered to such investors by both the American and Indian Governments.

6. All of the terms and conditions are to be set forth in a contract to which both the American and Indian Governments should be signatories, as well as the industry involved. This contract should have the force and effect of an economic treaty, so that the industry approached will have complete assurance that the terms and conditions of the contract will be fully carried out.

7. The long-term loans should be financed either through the U.S. Development Loan Fund, the Export-Import Bank, the World Bank, the International Development Loan Fund, or any other existing finance agency.

8. Upon the termination of the contract, at the end of 25 years, or sooner, at the option of the American investor, the industries so established should be sold to Indian nationals at a price to be based upon five times the annual profit before taxes, averaged over a 5-year period prior to such termination, or book value, whichever is higher. Added to this, a royalty of from 2 percent to 5 percent of the sales, depending upon the product involved, should be paid to the seller for a period of 10 years, or longer. If there are no buyers, the offer is then to be made every 5 years thereafter, or at shorter intervals at the option of the seller. There will be instances where the American industry will have acquired Indian partners from the beginning, or during the term of the contract, and in such case the first offer to sell should be made to such partners.

9. The agency originally appointed is to remain in existence and, through a subcommittee, is to supervise and direct contract terminations as well as problems which may arise from time to time during the term of the contract entered into. The membership of the committee is to remain at the recommended number of 20, and each Government is to appoint successors to fill the vacancies created by the resignation or death of any one of its representatives. The compensation, if any, for the members of the committee or its staff members is to be determined by joint action by the two Governments. The rules and regulations governing the functions of the agency are also to be determined by the two Governments.

10. This formula is also to apply to the expansion of the productive capacity of presently operating industries in India. Where they are now wholly owned by Indian nationals, American partners with know-how are to be selected and financed, as above proposed.

11. Nothing in this proposal is to affect industries presently operating in India, whether wholly owned by Americans, or partially owned through a joint venture arrangement, nor should it prevent private

joint ventures where desired and where otherwise financed.

As the result of contacts made in India and lengthy discussions with businessmen of that country, I am convinced that Mr. Nehru and other Indian leaders will accept such a plan, and be happy in their long-term plans for India, to know that these instruments of production, established under these terms, will in the not too distant future belong to Indian nationals. I believe also that in order to bring it about the Indian Government will offer encouraging inducements, including a freer flow of imports from the United States. Our American industrialists should be equally as enthusiastic since, with 75 percent of the necessary capital loaned to them by the Government on a nonrecourse basis, they will reap the profits from this venture for a period of 25 years, partially tax free, plus the benefits of a royalty arrangement for the 10 years or more thereafter.

This formula can be applied equally well to other countries in need, and can also be used wherever joint action with other helping countries is indicated.

There are details and mechanics to be worked out in the establishment and development of this plan, but time does not permit me today to dwell upon them. I am personally willing, and have so offered, to devote my own time and energy, without compensation, for the purpose of launching and implementing such a program. I do so because I sincerely believe that the freedom we may be securing through such a plan may be our own.

The free world gained a great advantage over the Russians as a result of the recent trip of President Eisenhower, last December, to 11 countries of Asia and Europe. I saw the film of this trip while in Colombo at an Embassy party, and I also witnessed the arrival of Khrushchev and his entourage in Delhi, and the parade which followed. Most of you have seen the Eisenhower films, and the tremendous excitement which greeted him everywhere. I also saw the expressionless reception which greeted Khrushchev in Delhi. There was no sound of any kind from the crowd, as the Khrushchev procession moved slowly down the street. The advantage over the Russians thus gained must now be followed up closely and quickly.

There are no hopeless situations in this world, but only sometimes men who are hopeless and who lose their freedom by default. We are still years ahead of the Russians in our creative and productive ability and capacity, and at least their equal militarily. We can beat the Russians in the economic war they have declared against us, if we will but strive to help the have-not nations help themselves to become indus-

trially independent and to make life more livable for their millions.

Paradoxical as it may sound, we must learn to cooperate with the free nations of the world, have and have-not alike, in order to protect our right and the right of every other nation to compete. We must act together in defense of our right to act independently. We need government help in order to avoid government domination, and we must learn that the road to freedom lies through unity and that through such unity, the men of the free world will remain free. We must attack and destroy poverty, perhaps at a greater cost than we have heretofore incurred, but surely not as great a cost as war itself. The businessmen of the free world, in cooperation with their respective governments, hold in their grasp the key to peace on earth and a better life for all.

### The Scheinfeld Address on Underdeveloped Countries

#### EXTENSION OF REMARKS

OF

### HON. HERMAN TOLL

OF PENNSYLVANIA

IN THE HOUSE OF REPRESENTATIVES

Wednesday, August 24, 1960

Mr. TOLL. Mr. Speaker, on Tuesday of this week the Honorable HENRY S. REUSS, of Wisconsin, presented to the House of the address of Aaron Scheinfeld, chairman of the board of Manpower, Inc., one of the Nation's thinking business leaders on the subject of "Industrial and Business Development of the Underdeveloped Countries of the World."

His suggestions may well be considered by the business leaders of the country, because they offer a method of developing free countries as friends of the United States and eventually saving the taxpayers of our country subsidies and contributions which are now needed to keep as much of the world as possible independent and free.

Congressman REUSS is to be commended for bringing to the attention of the Members a report of such great interest that their constituents may read with great profit to themselves and to their neighbors one of the most helpful solution ever offered for the problems affecting the world today.

The address can be found on pages 16157-16159 of the CONGRESSIONAL RECORD for Tuesday, August 23, 1960.



IXth CAFEA-ICC Session

The International Businessmen's Conference

Karachi - Pakistan December 5th - 9th 1960

PROPOSAL FOR AN INTERNATIONAL INVESTMENT  
GUARANTY CORPORATION

The following proposal has been placed for study before a standing committee of the United States Council of the International Chamber of Commerce. At this stage, therefore, it is in no sense an official proposal of the U. S. Council, nor does it necessarily represent the views of all the members of the United States Delegation to the International Businessmen's Conference. It is made available to other Delegates purely for discussion purposes.

The following is proposed:-

- (1) the establishment of a corporation;
- (2) to be called the Investment Guaranty Corporation;
- (3) as an affiliate of the International Bank for Reconstruction and Development (on the model of the International Finance Corporation);
- (4) with its members drawn from the membership of the International Bank;
- (5) to be established with a capital of \$X billions, of which, say, 1% would be payable in cash to provide the Corporation with initial operating funds and funds to meet any (unlikely) early claims, the remainder to be subject to call to meet duly validated claims of investors, this capital to be subscribed by members on the basis of a formula similar to that used in setting up the International Finance Corporation;
- (6) to enter into guaranty contracts with private investors, nationals of member governments, guaranteeing at the complete discretion of the Corporation and with full authority to fix the terms of its guaranties, with respect to new investments in the form of equity or debt, against risks of
  - (a) inconvertibility,
  - (b) expropriation without adequate or effective compensation, and
  - (c) loss resulting from war or civil commotion;
- (7) the Articles of Agreement of which should provide for raising its capital and for its management under a President responsible to a Chairman who shall be the President of the International Bank and to a board of Executive Directors constituted like the Executive Directorate of the International Finance Corporation, define its powers and immunities and provide for its liquidation if ever desired;

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- "(8) and among the powers of which shall be those authorizing it to enter into agreements with member governments providing inter alia for the subrogation to the Corporation of the claims of investors for fixing premia for each type of guaranty offered and for the constitution of reserves against possible losses.
- "(9) but which should not by its terms attempt to define conditions of private investment in member countries or the treatment of private investors by member countries or the behaviour of private investors operating in member countries or the remedies available to investors or to the Corporation in the event claims are made against the Corporation under its contracts of guaranty and validated by it, all of the prescriptions and proscriptions to be left for inclusion insofar as necessary and practicable in agreements between the Corporation and its members."

The following comments on the observations of Dr. Krebs at the First Plenary Session of the International Businessmen's Conference are offered also for discussion purposes.

- 1) As regards his observation that the risks and costs involved in a guaranty system might become excessive in the case of wholesale nationalization, it may be said that the proposed guaranty system is designed precisely to deal with "disaster" situations, as well as with sporadic losses resulting from the incidence of political risks. For this reason, the capital of the Corporation, which would be almost entirely guaranty capital, would have to be large, say, something of the order of \$5 billion. Furthermore, it may be pointed out that, even in disaster situations, by no means all foreign investments would be guaranteed investment.
- 2) To his comment that it may be unfair to both investor countries and to capital-importing countries to share the cost of damages inflicted by a few countries, it may be said that this is exactly the principal underlying the guaranty capital subscribed by members of the World Bank. It may also be said that an International Guaranty Corporation would be expected to exercise full discretion with respect to the countries which at any point in time would be eligible to receive guaranteed investments.
- 3) To his question as to whether capital-exporting and capital-importing countries would be prepared to set aside the large public funds required for a workable guaranty system, it may be said that they have done so in the case of the World Bank and are by other means devoting large resources to economic development which might be reduced by an increase in private investment stimulated by an international guaranty system.
- 4) It must be agreed that both the establishment of a guaranty system and its successful operation would be greatly assisted by a multilateral convention such as that proposed by Dr. Krebs. The two expedients should be regarded as complementary and not conflicting.

[Translation]

Directives Relating to the Assumption of Guarantees  
for Capital Investments Abroad

Bundesanzeiger (Federal Register) No. 194, Oct. 9, 1959

I. Authorization

Pursuant to Sec. 18, par. 1, of the Budget Act for 1959, of July 6, 1959 (Bundesgesetzbl. [Federal Law Gazette] II pp. 793 ff.), the Federal Minister for Economics in consultation with the Federal Minister of Finance and the Federal Minister of Foreign Affairs issues the following directives:

II. Purpose and conditions of the guarantees

1. Investors having their seats or domiciles in the territory of the Federal Republic of Germany may be granted guarantees for capital investments abroad to insure them against political risks in the investment countries, which they could not be reasonably expected to assume.

2. The capital investments abroad must be of a nature worthy of encouragement and preferably should contribute to strengthening the economic relations of the Federal Republic of Germany (Federal Government) with underdeveloped countries. The guarantees are primarily to be assumed with respect to capital investments in such enterprises abroad as are engaged in production, extraction or distribution of goods, or in transportation.

3. The obligee must comply with the regulations which the Federal Government and the investment country have issued for foreign investments; any permits necessary must already have been issued at the time when the guarantee is assumed. In the event that conditions which prevent the transfer of earnings or the retransfer of the equivalent of capital investments prevail at the time when the guarantee is assumed, such guarantee shall be correspondingly reduced.

4. There is no legal claim to the grant of a guarantee.

III. Objects of the guarantees

1. The objects of the guarantees shall be capital investments abroad and the earnings thereon.

2. Capital investments abroad shall be understood to mean partnerships, capitalizations of branch enterprises, and partnership-type loans.

- (a) A partnership exists when capital, goods or contributions are brought into a foreign enterprise in return for a share in the enterprise, which provides for the right of vote, audit or codetermination as well as participation in the earnings and the proceeds of liquidation.
- (b) Capitalization of a branch enterprise consists in furnishing a capital fund, similar to an original capital fund, to a branch enterprise or plant of an enterprise which has its main seat in the territory of the Federal Republic of Germany. Separate annual financial statements shall be prepared for the branch enterprise or plant, in which such capital fund shall be treated and posted in the same manner as an original capital fund.
- (c) Loans shall be regarded as being of the partnership type if in purpose and amount they have the character of partnerships. Such loans shall be related to partnerships as set forth under (a).

The guarantees are primarily intended for capital investments in the form of partnerships.

3. Earnings are the sums which are distributed to investors on account of capital investments mentioned under 2 (a) and (c) in the form of shares in earnings or interest payments for specific periods of time.

4. Capital investments toward which investors have made payments or contributions prior to filing applications for guarantees shall not be eligible for guarantees.

#### IV. Guarantee contingencies. Extent of the guarantees

1. The Federal Government shall be liable for losses from capital investments or earnings thereon if such losses are caused solely by political events or measures in the investment countries, such as the following:

- (a) Nationalization, confiscation or other measures of public authorities, which are equivalent to confiscation in their effects;
- (b) Wars or other armed conflicts, revolutions or rebellions;
- (c) Blockage of payments or moratoriums;
- (d) Prohibition of conversion or transfer of funds deposited for remittance to the Federal Republic at institutions competent for the purpose;

- (e) Deterioration of a currency after a guarantee has become operative as a result of events or measures specified under (c) and (d).

2. The Federal Government will be liable for losses from capital investments in the cases specified under 1 (a) and (b) only in case

- (a) capital investments described under III 2 (a) and (c) have as such been lost in their entirety (total loss) or partially (partial loss);
- (b) the entire assets of the enterprise, branch, or plant in which the guaranteed capital has been invested have been confiscated or destroyed. The assets shall be deemed to have been confiscated or destroyed in their entirety if the assets have been confiscated or destroyed in so substantial a proportion as to make it impossible for the enterprise, branch or plant to be operated in the long run without losses (total loss).

Compensation for the loss shall be based

- (a) in the event of total loss:  
on the current value of the capital investment in Deutsche Mark at the time the guarantee contingency occurred, but not more than the original value of the capital investment in Deutsche Mark;
- (b) in the event of partial loss:  
on the diminished value established by comparing the current value of the capital investment in Deutsche Mark at the time the guarantee contingency occurred, but not more than the original value of the capital investment in Deutsche Mark, on the one hand, and the residual value in Deutsche Mark of the capital investment resulting from the effects of the guarantee contingency, on the other. In the event that the guarantee contingency is followed by liquidation of the enterprise or sale of the residual partnership interest, the proceeds of liquidation or sale shall be considered the residual value of the capital investment, provided such liquidation or sale is directly caused by the guarantee contingency.

3. Loss of earnings shall be understood to mean the unpaid amount of earnings distributed during the effective period of a guarantee, provided such earnings are not in excess of the predetermined percentage of the capital investment (VI 1 (b)).

4. Where a partnership interest has been converted into a claim, the loss shall be understood to mean the unpaid portion of this claim, provided that failure to obtain payment is due to events or measures specified under VI 1, but in no



case shall such loss exceed the original book valuation of the capital investment. The same shall apply to proceeds of liquidations of branches or plants.

V. When the guarantee becomes operative

The guarantee shall become operative:

1. In the event of IV 1 (a) and (b), on the date on which the loss was caused by the events or measures named above;
2. In the event of IV 1 (c), on the date on which one of the measures named above affected a due claim covered by the guarantee;
3. In the event of IV 1 (d), two months from the date on which a sum covered by the guarantee was paid in for transfer at an institution competent for such a purpose.

VI. Maximum amount of the guarantee

1. The guarantee offered by the Federal Government is limited to a maximum amount in Deutsche Mark for all capital investments and the earnings thereon. Such maximum amount consists of:
  - (a) The original book valuation of the capital investment (guarantee for capital);
  - (b) Earnings not in excess of 24 percent of the original book valuation for a determined period of time, the length of which is fixed in relation to the total duration of the guarantee (guarantee for earnings).
2. The maximum amount shall be reduced following reduction of the capital invested and the occurrence of losses.
3. The capital guarantee shall be reduced at the end of each year of the guarantee by an amount to be determined in each individual case. The beginning of such reduction may be deferred; the reduction may be suspended.
4. Where the guarantee for earnings was not utilized after termination of the period specified under 1 (b), or where the Federal Government has received reimbursements on indemnities for lost earnings, the guarantee for earnings may be reinstated upon application of the obligee.

VII. Self-participation

1. The obligee shall share in the loss determined in

accordance with these directives within the limits of the maximum guarantee, at a rate of not less than 20 percent. This self-participation shall not be covered by any other guarantee.

2. The liability of the Federal Government for compensation can be set aside for relatively minor losses.

#### VIII. Payment of compensation

The compensation shall be payable three months after establishment of the amount of compensation, but in no case earlier than six months after the date on which the guarantee contingency occurred. In the event that the definitive determination of the amount of compensation is impracticable for the time being, a provisional determination shall be made.

#### IX. Duration of the guarantee

1. The duration of the guarantee shall not as a rule exceed ten years. In the case of capital investments in enterprises where the construction of production facilities requires several years, or in similar cases justifying exceptions, the duration may be extended to fifteen years.

2. The Federal Government becomes liable under the guarantee only after the notice of guarantee has been delivered to the investor.

3. The Federal Government shall have the right to revoke the guarantee for substantial reasons relating to the person of the investor.

#### X. Processing charge and fee

1. A single processing charge shall be paid in advance by the applicant for the processing of an application for a guarantee.

2. The investor shall pay a fee for the assumption of a guarantee.

3. The amounts of the processing charge and the fee shall be fixed by the interministerial committee (XI).

#### XI. Procedure

1. Action on applications for guarantees shall be the

responsibility of an interministerial committee.

2. The committee shall be composed of:

(a) voting members:

- 2 representatives of the Federal Ministry of Economic Affairs
- 1 representative of the Federal Ministry of Finance
- 1 representative of the Ministry for Foreign Affairs

(b) advisory members:

- 1 representative of the Comptroller-General's Office
- 1 representative of the Deutsche Bundesbank
- other experts, as needed.

Chairman of the committee shall be the representative of the Federal Ministry of Economic Affairs, having primary responsibility.

3. Applications for guarantees can be approved only with the consent of the representative of the Ministry of Finance.

4. The proceedings within the committee must not be divulged by any of the participants. All materials and information made available to the members of the committee are destined for their exclusive use and must not be passed on by them to outsiders.

#### XII. Conduct of business

The Federal Minister of Economic Affairs in consultation with the Federal Minister of Finance shall entrust the conduct of business to a consortium consisting of the Deutsche Revisions- und Treuhand-Aktiengesellschaft (German Auditing and Fiduciary Corporation) and the Hermes Kreditversicherungs-Aktiengesellschaft (Hermes Credit Insurance Corporation). The executive member shall be the first-named corporation. The operations of the consortium are subject to auditing by the Federal Ministry of Economic Affairs, the Federal Ministry of Finance, and the Comptroller-General.

#### XIII. Transitional provisions

1. There is no objection to approval of a guarantee pursuant to an application filed prior to promulgation of the Law named in I (July 11, 1959) if the investor was notified in writing by the competent agency that any payment

made on the capital investment subsequent to filing the application will be no obstacle to a later inclusion in the coverage.

2. Where assurance of coverage was given prior to the issuance of these directives, a guarantee may be approved in accordance with such coverage assurance.

Bonn, September 25, 1959

The Federal Minister of Economic Affairs

Ludwig Erhard

Information Bulletin

Concerning

Federal Guarantees for Capital Investments Abroad

Table of Contents

A. Purpose of the guarantees	page 9
B. Risks to which guarantees apply	page 9
C. Capital investments eligible for guarantees	page 9
D. Losses covered by the guarantees	page 10
E. Guarantee ceilings	page 12
F. Bases on which compensation is computed	page 15
G. Period within which the computed compensation is payable	page 17
H. Periods for which guarantees are offered	page 17
I. Costs of the guarantees	page 18
K. Conclusion	page 19

Appendix: Five examples of compensation computation

A. Purpose of the guarantees

Pursuant to Sec. 18, par. 1, of the Budget Act for 1959 and to the directives pertaining thereto, published in the Bundesanzeiger (Federal Register) No. 194, of Oct. 9, 1959, the Federal Government may upon application assume guarantees for capital investments by German investors abroad. The guarantees are designed to encourage capital investments particularly in underdeveloped countries so as to strengthen the economic relations of the Federal Republic of Germany with these countries. The guarantee protection is extended only to future investments. No guarantee can be assumed for already existing capital investments.

The assumption of guarantees is conditioned on the existence of an agreement between the Federal Republic and the country concerned regarding the treatment of capital investments or, where this is not the case, the assurance of adequate protection for capital investments by the legal system of the country in question or in some other way.

B. Risks to which guarantees apply

The guarantees offer protection against the following political risks:

- (a) Nationalization, confiscation; other measures by public authorities, which in their effects are equivalent to confiscation. Where loss results under these circumstances, all related factors must be weighed to determine whether and to what extent the conditions are fulfilled for establishing a claim to indemnification;
- (b) War, other armed conflicts, revolution or rebellion;
- (c) Blockage of payments, moratoriums;
- (d) Prohibition of conversion or transfer;
- (e) Deterioration of currencies, if it is subsequent to the occurrence of guarantee contingencies under (c) and (d).

The aforementioned political events or measures must have occurred in the country of investment. They may affect the capital investment as such or the assets of the foreign enterprise. No protection is offered for the economic risks connected with the capital investment.

There is no legal claim to the grant of a guarantee.

C. Capital investments eligible for guarantees

Guarantees shall be primarily assumed for capital investments in such enterprises abroad as are engaged in

production, extraction or distribution of goods, or in transportation (e.g. industrial plants, plantations or other agricultural operations, operations for the extraction of mineral resources, trading and transportation enterprises). This does not preclude the assumption of guarantees for capital investments in other economic sectors as well (e.g. service industries other than transportation).

Eligible capital investments are:

- (a) Partnerships in foreign enterprises, even if such enterprises are wholly owned by the obligee;
- (b) Capitalization of foreign branches or plants of German enterprises. A separate financial statement shall be prepared for such branches or plants, in which the capital furnished shall be treated and posted in the same manner as an original capital fund. Furnished capital is the capital placed at the disposal of the branch or the plant by the obligee on a long-term basis, which capital must be kept strictly separate from the running account between the home office in the Federal Republic and the branch or plant abroad. The guarantees shall apply only to such furnished capital.
- (c) Partnership-type loans. Guarantees can be assumed for such loans in exceptional cases, that is, when in purpose and amount such loans acquire the character of partnership interests; they should preferably be related to partnerships.

The capital investments must have the purposes specified in the introduction. Protection within the framework of these guarantees cannot be extended for accounts receivable for goods, financial credits, security deposits and the like.

Capital investments can be made in the form of cash or of material assets (goods, services, rights). Guarantees shall also apply where investments are made in instalments.

No maximum or minimum levels are prescribed for the amounts of capital investments or the percentages of partnership interests.

The guarantees shall also apply to earnings from partnerships and partnership-type loans (cf. D 2).

#### D. Losses covered by the guarantees

The guarantees of the Federal Government extend to losses affecting both invested capital and earnings.

1. The guarantees of the Federal Government for capital losses apply

(a) in the case of partnerships:

where the partnership interests are lost in their entirety or partially;

where the assets of the foreign enterprise in which a partnership exists have been confiscated or destroyed in their entirety. A situation where so substantial a portion of the assets has been confiscated or destroyed as to make it impossible for the enterprise to be operated in the long run without losses is considered equivalent to total confiscation or destruction.

A distinction must therefore be made between partnership interests as such and the assets of the enterprise to which the partnership interests relate. Where the event causing loss affects the partnership interests as such, the Federal Government provides guarantees against total as well as partial losses. However, in case the event causing loss affects the assets of the enterprises to which the partnerships relate, the Federal Government will be liable only for total losses or losses equivalent thereto. Where partnership interests have been converted into claims (e.g. dissolution of partnership), such claims are also guaranteed by the Federal Government.

(b) In the case of capital furnished to branches or plants:

Confiscation of partnership interests cannot arise in cases where capital has been furnished to branches or plants, because no legally independent assets are involved.

The case to be considered in this instance, however, is the confiscation or destruction of individual assets or the total assets of branches or plants. Where this occurs, the Federal Government will be liable only in the event of total confiscation or destruction of the assets. Confiscation or destruction of such substantial portions of the assets that the branch or plant can no longer be operated in the long run without losses is considered equivalent to total confiscation or destruction. In the event of liquidation the guarantee also applies to the proceeds of liquidation.

(c) In case of partnership-type loans:

In the case of partnership-type loans, the Federal Government provides guarantees against total or partial loss due to confiscation. Where the event causing loss affects the assets of the enterprise, however, the Federal Government will be liable for partnership-type loans only where the total assets



of the enterprise have been confiscated or destroyed, or where so substantial a portion of the assets have been confiscated or destroyed that it becomes impossible for the enterprise to be operated in the long run without losses, and as a result this claim cannot be satisfied and enforcement is also ruled out. Insolvency of the enterprise accordingly makes the compensation liability of the Federal Government operative only if it is brought into play by the total loss of the assets of the enterprise in consequence of political events or measures (see B).

2. The Federal Government is liable for losses of earnings only if provision for such losses was made in the guarantee when so requested in the application of the obligee, and then only in the case of partnership interests and partnership-type loans, but not in the case of capital furnished to branches or plants. The guarantee for earnings would in practice be invoked chiefly with respect to the risks affecting convertibility and transfer. However, the guarantee also includes the risk of confiscation, measures equivalent to such a risk, and blockages of payment or moratoriums; this holds equally for dividends declared but not yet paid out and earnings in the process of transfer. Guarantees for earnings can be applied for only at the beginning of the guarantee period. Subsequent inclusion of earnings in the guarantee coverage cannot be granted. It is possible, however, to defer the beginning of the guarantee period for earnings if no earnings are anticipated in the initial period.

3. In cases where, in addition to the guaranteed capital investment in a foreign enterprise, the obligee has a non-guaranteed capital investment of the same class and order, both capital investments shall be considered as having been affected equally in proportion to their book value in the event of losses resulting from political events or measures named under B. The same also applies to earnings from guaranteed and nonguaranteed capital investments.

#### E. Guarantee ceilings

There are two ways by which ceilings are set for the guarantees of the Federal Government; first, in the assessment of losses, by the original book valuation of the capital investment, and second, in the assessment of compensation, by the maximum amount of the guarantee. In addition, account must also be taken of the self-participation of the subject of the guarantee.

Original book valuation and maximum amount of the guarantee may undergo determinate changes during the running period of the guarantee as a result of changes in the capital investment itself or losses incurred; in addition, the maximum amount of the guarantee is decreased by yearly reductions.

The following paragraphs will deal first with the limitations in the amounts of the guarantees and their development during the running period of the guarantee. It can afterwards be seen from F how, in the assessment of losses, original book valuation and maximum amount of the guarantee are applied as ceilings for determining the compensation payable by the Federal Government, and how this is affected by the self-participation provision.

1. The original book valuation serves to limit the amount of the capital investment loss to the purchasing or production cost of the German investor (guarantee for capital). If in the course of time the capital investment has increased in value, the value in excess of the original book valuation shall not be covered by the guarantee of the Federal Government.

Reductions of the capital investment and losses, e.g. partial confiscation of the capital investment, diminish the original book valuation by amounts equivalent to the portions by which the capital investment were reduced, or which were confiscated. In the event of increases in capital, when new funds are supplied to the foreign enterprises, the obligee may at the appropriate time make application to have the amount of the increase furnished by him included in the coverage for the remainder of the running time of the guarantee contract. The original book valuation would in such cases be proportionally increased.

2: The maximum of the guarantee sets a limit for the compensation payable in the case of loss. The guarantee ceiling is composed of two maximum amounts, i.e., the maximum amount of guarantee coverage for capital, which is governing for losses of capital investment, and the maximum amount of guarantee coverage for earnings, which is governing for losses of earnings.

- (a) The maximum amount of guarantee coverage for capital is equal to the original book valuation at the beginning of the guarantee period. But at the end of each guarantee year that maximum will be reduced by a certain amount, fixed in the notice of guarantee, with due regard to the circumstances of the particular case. This continuing reduction has the purpose of making the obligee gradually, over a period of time, assume a larger portion of the risk. At the same time this serves to increase the capacity of the Federal Government for new guarantees. Fixing of the amount of the reduction is in part determined by the rate of earnings anticipated on the capital investment and the duration of the guarantee.

The beginning of this reduction can be deferred if it would not be reasonable to expect the subject of the guarantee to assume an increasing risk

himself from the very first years of the guarantee. The reduction of the maximum amount of the guarantee coverage for capital can be temporarily suspended in special cases.

Apart from the annual reductions, the maximum amount of guarantee coverage for capital is subject to changes of the same order as those affecting original book valuation. If the capital investment is partially reduced or if losses are incurred (e.g. partial confiscation of the capital investment), the maximum amount of guarantee coverage for capital at any given time will be reduced in proportion to the reduction or the confiscated portion of the capital investment.

- (b) The maximum amount of guarantee coverage for earnings is the measure for assessing the liability for earnings. Also with respect to losses on earnings from capital investments, the Federal Government is liable only up to an annual maximum rate and initially only for a limited number of years. The liability of the Federal Government for losses of earnings is limited to an overall total of 24 percent of the original book valuation of the capital investment (maximum amount of the guarantee coverage for earnings). It is not to exceed an annual rate of 8 per cent. The total coverage for earnings is fixed in the guarantee contract with due consideration of the circumstances in the particular case.

The maximum guarantee coverage for earnings diminishes over the running period of the contract, in proportion as the original book valuation is reduced, e.g. in the case of reduction of the partnership interest or its partial confiscation (see 1). With respect to earnings distributed after reduction of the original book valuation, computation of the aforementioned percentage is based on the reduced original book valuation. The maximum amount of guarantee coverage for earnings is not subject to progressive annual reduction at the end of each guarantee year, as is the case with respect to the capital guarantee (see 2(a)).

The guarantee coverage for earnings runs out at the end of the period for which it has been assumed (coverage period). Upon application by the obligee, it may, however, within the limits of the duration of the guarantee be once more assumed on the same basis for a successive coverage period, the duration of which shall be fixed from case to case, provided the guarantee has not been previously utilized for compensation, or to the extent that reimbursements have been received on earnings for which compensation was paid. If no use is made of the right to extension,

guarantee coverage for earnings cannot thereafter be assumed for the remaining duration of the guarantee.

3. The obligee participates in all losses within the limits of the aforementioned maximum amounts, at a rate of not less than 20 percent.

F. Bases on which compensation is computed

The Federal Government accordingly pays compensation within the limits of the maximum amounts of the guarantee for

losses respecting capital investment;  
losses respecting earnings;  
losses respecting claims resulting from conversion of partnership interests.

The losses for which compensation must be paid by the Federal Government are computed according to the following principles:

1. Capital investments

- (a) Where a total loss of the capital investment has occurred (see D 1), the loss will be computed on the basis of the current value of the capital investment in Deutsche Mark at the time when the guarantee contingency occurred. If the current value exceeds the original book valuation, account is taken only of the original book valuation in Deutsche Mark. An offset will be made for compensation received from third parties in connection with the confiscation or destruction, or for any other advantages accruing from the occurrence of the guarantee contingency.
- (b) In the case of partial losses of partnership interests and partnership-type loans (see D 1), the basis shall be the lessened value determined by comparing the current value of the capital investment in Deutsche Mark prior to the occurrence of the guarantee contingency, at most, however, the original book valuation, with the residual value of the capital investment in Deutsche Mark after the guarantee contingency has occurred. In this instance also an offset is made for compensations received from third parties or other accrued advantages.

Detailed instructions regarding the method for determining the valuations referred to under (a) and (b) would exceed the limits of this Information Bulletin. Here it will suffice to remark that the original book valuation, together with its subsequent changes, is set out in the notice of guarantee. Separate determination of the current value can be dispensed

with if it is evident that the current value exceeds the original book valuation. The current value and the residual value are to be determined in accordance with normal business practice. The residual value may in particular cases be set at an amount other than the respective proportion of the current value (e.g., lower, if the residual partnership interest remaining in the hand of the investor has obviously decreased in value because it is no longer a majority interest). The residual value may also be affected by sale of the residual partnership interest as a direct consequence of the event causing loss, or by subsequent liquidation of the enterprise.

If it becomes evident at the time an application is processed that it will be necessary to have regard to special circumstances and apply special standards in any subsequent assessment of value, such circumstances and standards can be specified in the letter of guarantee.

After the amount of the loss eligible for compensation has been determined in the foregoing manner, the compensation payable by the Federal Government is computed. To that end a comparison is made between the amount of the loss and the maximum amount of guarantee coverage for capital (see E 2 (a)) applicable at the time when the guarantee contingency occurred. If the loss is within the limits of this maximum amount, the loss shall be the basis of the computation of compensation. If the maximum amount is less than the loss assessed, computation of compensation is thereafter based on the maximum amount of guarantee coverage for capital rather than the loss.

Several examples of computations of compensation are shown at the end of this Information Bulletin.

## 2. Earnings

In the case of earnings, assessment of the loss shall be based on the unpaid amount of claims on account of earnings distributed during the duration of the guarantee (the interest due in the case of loans). The liability of the Federal Government is limited, however, to the maximum amount of guarantee coverage for earnings (24 percent) relating to the earnings lost during the entire running period of the guarantee, and to the annual rate (8 percent), relating to losses incurred during any single year of the guarantee (see E 2 (b)).

## 3. Partnership interests converted into claims

In the case of partnership interests which have in their entirety or partially been converted into claims, loss shall be defined as the amount of the claim which was not collected, provided this was due to political events or measures. (see B). If the loss is greater than the original book valuation of the partnership interest, only the original book valuation in Deutsche Mark is recognized as the actual loss. Also in this instance, the amount computed is compared with the maximum amount of guarantee coverage for capital; if the maximum amount is lower, that figure rather than the amount of loss is taken as the basis in computing compensation.

#### 4. Self-participation

The amount computed in conformity with 1 through 3 shows, after deduction of the self-participation of not less than 20 percent, the amount of compensation payable by the Federal Government (see E 3). The self-participation shall not be covered by any other guarantee.

#### 5. Minor losses

The liability of the Federal Government for compensation can be set aside for relatively minor losses. The amount shall be fixed in the notice of guarantee for each individual case.

#### 6. Deterioration of currencies

Deterioration of foreign currencies is covered by the guarantee of the Federal Government only in cases where such deterioration was the result of blockage of payments, moratoriums, or prohibition of conversion or transfer (see B (e)) following occurrence of a guarantee contingency.

#### G. Period within which the computed compensation is payable

Compensation shall be payable within three months after the loss account has been rendered, but not less than six months after occurrence of the guarantee contingency. The amount of compensation shall be established within a reasonable period of time after the obligee has submitted all evidence required to prove loss.

In the event that the amount of compensation cannot be immediately determined, the Federal Government may upon application of the obligee make a provisional payment of compensation, provided sufficient documents to support such application are submitted by the obligee. The amount of the provisional compensation will be decided by the Federal Government after examination of the supporting evidence submitted. Payment follows within three months after the dispatch of the computation of the provisional compensation, but not less than six months after occurrence of the guarantee contingency.

#### H. Periods for which guarantees are offered

A distinction must be drawn between duration of the guarantee and the period when coverage based on the guarantee begins.

The duration of the guarantee begins with the receipt of the notice of guarantee by the obligee. As a general rule, it shall not exceed ten years. It can be fifteen years for capital investments in enterprises where the construction of the production facilities may require several years, or in similar cases justifying exceptions. The duration is

stated in the notice of guarantee. The beginning of the effective period, if it is as yet unknown when the letter of guarantee is executed, shall be recorded in an annex thereto.

Coverage based on the guarantee begins as of the date when the contribution constituting the capital investment is made, but in no case before the letter of guarantee has been received by the investor. The beginning of the period when coverage based on the guarantee becomes effective, if the contribution is made following receipt of the notice of guarantee, shall likewise be recorded in an annex to the letter of guarantee.

I. Costs of the guarantees

1. Processing charge

A single charge is made for the processing of an application, based on the maximum amount of the guarantee proposed, at the rate of 1 per mil of the first DM 10,000,000.00, and 1/2 per mil for the balance of the maximum amount proposed in excess of DM 10,000,000.00, but not exceeding DM 20,000.00. The application charge is payable upon filing of the application.

2. Fee for guarantee

A fee is payable for the guarantee at the beginning of each contract year. On the guarantee for capital the fee is based on a percentage of the maximum amount of the guarantee coverage for capital applicable at the beginning of the respective contract year (see E 2 (a)). For the guarantee for earnings the same percentage is charged on the amount arrived at by applying the annual percentage of earnings coverage obtaining at the beginning of the contract year (see E 2 b) to the original book valuation applicable at that time (see E 1).

The fee is in the case of

a guarantee effective up to 5 years	1 per cent a year
a guarantee effective up to 10 years	1.25 per cent a year
a guarantee effective up to 15 years	1.5 per cent a year,

in each case for the entire duration of the guarantee coverage.

In cases where the contributions constituting the capital investments are made only after the guarantee has been assumed, and the coverage based on the guarantee accordingly becomes effective after the running period of the guarantee has begun, the fee for capital coverage during the period between the beginning of the running period until the still outstanding contribution is actually made, shall be reduced as follows:

- from 1 percent to 0.15 percent;
- from 1.25 percent to 0.20 percent;
- from 1.5 percent to 0.25 percent.

The fee for the guarantee for earnings in the case of delayed contributions is proportionately assessed beginning with the date when the contributions have been actually made.

The rate at which the fee is assessed, accordingly, is governed not by the effective period of the guarantee but by the period during which coverage is effective. Since coverage begins at the earliest with the payment of the contribution to the capital investment to which the obligee has been committed, it is possible for the period of coverage to be shorter than the running period of guarantee, if the contributions are made after the running period has begun. In the event that the contributions are made in instalments, the decision as to which of the rates, 1 percent, 1.25 percent, or 1.5 percent, should be applied, depends on the overall period of coverage, from the date of payment of the first contribution to the predetermined end of the running period. Whether and to what extent the full rate (1 percent, 1.25 percent, 1.5 percent) or the reduced rate (0.15 percent, 0.20 percent, 0.25 percent) should apply, however, depends entirely on whether and in what amount contributions have already been made.

#### Example

Running period of the guarantee from March 15, 1960 to March 14, 1972 (12 years); payment of first contribution amounting to one-half, on March 15, 1962; contribution of the second half, on March 15, 1963.

The total effective period of coverage accordingly is ten years, and the rate of 1.25 percent is applicable (although the running period is twelve years). During the first two years, the fee is at the rate of 0.20 percent per annum because no capital has as yet been brought in. For the third year the rate is 1.25 percent on the one-half contributed, and 0.20 percent on the other half, which has not yet been contributed. From the fourth year onward, the fee is to be assessed at the full rate of 1.25 percent because the last portion of the contribution was brought in at the beginning of the fourth year.

#### K. Conclusion

1. The object and extent of coverage are controlled solely by the notice of guarantee in each particular case, in conjunction with the

#### General Conditions for the Assumption of Guarantees for Capital Investments Abroad .

The present Information Bulletin is merely designed to furnish introductory information, which is not binding, and provide a general summary of the questions arising in relation to guarantees for capital investments abroad.



2. Management of the guarantees for capital investments abroad has been assigned to:

Deutsche Revisions- und Treuhand-Aktiengesellschaft  
(Treuarbeit), (German Auditing and Fiduciary Corporation),  
Hamburg, and

Hermes Kreditversicherungs-Aktiengesellschaft (Hermes)  
(Hermes Credit Insurance Corporation), Hamburg.

The executive functions will be performed by Treuarbeit.  
Processing of the applications will be done by

Deutsche Revisions- und Treuhand-Aktiengesellschaft  
(Treuarbeit),

Hamburg 1, Hermannstrasse 40, P.O.B. 6145  
Telephone Numbers.....  
Teletype Number.....

where information and advice is available in writing or orally.

Copies of the Information Bulletin, application forms,  
General Conditions etc. may be obtained from and applications  
may be filed with the following branch offices of the Deutsche  
Revisions- und Treuhand-Aktiengesellschaft

Berlin etc.  
Düsseldorf etc.  
Frankfurt a.M. etc.  
Hannover etc.  
Munich etc.  
Saarbrücken etc.

Appendix to Information Bulletin

Concerning Federal Government Guarantees  
for Capital Investments Abroad

Five Examples of Compensation Computation

Example 1

Situation: There is a guaranteed partnership interest  
in the investment country in the amount of 1,000,000 monetary  
units (MU) of that country. The original book valuation in  
Deutsche Mark at time of contribution, at the rate of DM  
120.00 for 100 MU, is DM 1,200,000.00. The partnership interest  
is confiscated in its entirety. The foreign government  
compensates the investor by paying 600,000 MU. At the time  
of confiscation, the MU is quoted at DM 60.00 for 100 MU.  
The maximum amount of the guarantee had been reduced by 25  
percent prior to the date when the guarantee contingency  
occurred.

<u>Current value:</u> Accurate assessment unnecessary	DM
because obviously in excess of original	
book valuation .....	----
<u>Original book valuation</u> (maximum value) .....	1,200,000.00
<u>Loss</u> (gross) .....	1,200,000.00
less compensation paid by foreign government	
600,000 MU at DM 60.00 for 100 MU .....	<u>360,000.00</u>
<u>Loss</u> (net) .....	840,000.00

Adjustments:

Maximum amount of guarantee at time when  
guarantee contingency occurred:

Original amount .....	DM 1,200,000.00
Reduction 25 percent .....	DM 300,000.00
Balance .....	<u>DM 900,000.00</u>
less 20 percent <u>self-participation</u> .....	<u>168,000.00</u>
<u>Compensation</u> .....	<u>672,000.00</u>

Example 2

Situation: Same as in Example 1, but current value at  
time of event causing loss is only 70 percent of original value  
DM

<u>Current value:</u> 1,000,000 MU, now 70 percent at	
DM 60.00 for 100 MU .....	420,000.00
<u>Original book valuation</u> (maximum value) ....	<u>1,200,000.00</u>
<u>Loss</u> (gross) .....	420,000.00
less compensation paid by foreign	
government 600,000 MU at DM 60.00	
for 100 MU .....	<u>360,000.00</u>
<u>Loss</u> (net) .....	60,000.00
(Maximum amount of guarantee as in	
Example 1: DM 900,000.00) .....	-----
less 20 percent <u>self-participation</u>	<u>12,000.00</u>
<u>Compensation</u> .....	<u>48,000.00</u>

Example 3

Situation: Same as in Example 1, but only 50 percent of the partnership interest is confiscated (partial loss). The residual value of the interest remaining in the ownership of the obligee has been assessed at 250 percent of the original value. The compensation paid by the foreign government in this case is only 300,000 MU.

	DM
<u>Current value:</u> Accurate assessment unnecessary because obviously in excess of original book valuation	----
<u>Original book valuation</u> (maximum value).....	1,200,000.00
<u>Residual value:</u> 500,000 MU, now 250 percent, at DM 60.00 for 100 MU.....	<u>750,000.00</u>
Original book valuation less residual value =	
<u>Loss</u> (gross) .....	450,000.00
less compensation paid by foreign government 300,000 MU at DM 60.00 for 100 MU .....	<u>180,000.00</u>
<u>Loss</u> (net)	270,000.00
(Maximum amount of the guarantee as in Example 1: DM 900,000.00).....	-----
less 20 percent <u>self-participation</u>	<u>54,000.00</u>
<u>Compensation</u> .....	<u>216,000.00</u>

Example 4

Situation: Same as in Example 1, but at the time of the event causing loss there exists in addition to the guaranteed partnership interest in the original value of 1,000,000 MU, another, nonguaranteed, partnership interest in the original value of 800,000 MU. Both guaranteed and nonguaranteed partnership interests are confiscated in their entirety. Compensation paid by the foreign government totals 1,080,000 MU.

<u>Current value of total partnership interest</u>	)	Accurate assessment
<u>Current value of guaranteed partnership interest</u>	)	unnecessary because
	)	current value is
	)	obviously in excess
	)	of original book
	)	valuation

DM

Original book valuation (maximum value).... 1,200,000.00

<u>Loss (gross)</u> .....	1,200,000.00
less compensation paid by foreign government, 1,080,000 MU at DM 60.00 for 100 MU = DM 648,000.00, divided up in the proportion of 180:100	<u>360,000.00</u>
<u>Loss (net)</u> .....	840,000.00
(Maximum amount of the guarantee as in Example 1: DM 900,000.00) .....	-----
less 20 percent <u>self-participation</u>	<u>168,000.00</u>
<u>Compensation</u> .....	<u>672,000.00</u>

Example 5

Situation: Same as in Example 4. Fifty percent of the total participation interest is confiscated (partial loss); the residual value of the interest remaining in the ownership of the obligee at the time of the event causing loss is 250 percent. The compensation paid by the foreign government is 540,000 MU.

Current value: Accurate assessment unnecessary DM because obviously in excess of original book valuation -----

Original book valuation (maximum value)..1,200,000.00

Residual value of the total partnership interest

900,000 MU, now 250 percent at DM 60.00 for 100 MU = DM 1,350,000

Residual value of the guaranteed partnership interest:

100/180 of DM 1,350,000.00 750,000.00

Original book valuation less residual value of guaranteed

partnership interest =

Loss (gross) .....

450,000.00

less compensation paid by foreign government

540,000 MU at DM 60.00 for 100 MU = DM 324,000.00,

divided up in the proportion of 180:100 .....

180,000.00

<u>Loss (net)</u> .....	270,000.00
(Maximum amount of the guarantee as in Example 1: DM 900,000.00) ....	-----
less 20 percent <u>self-participation</u>	<u>54,000.00</u>
<u>Compensation</u> .....	<u>216,000.00</u>

\* \* \* \* \*

General Conditions for the Assumption of Guarantees

for Capital Investments Abroad

(as Amended October, 1959)

Table of Contents

Sec. 1	Assumption of guarantees	p. 1
Sec. 2	Conditions for assuming guarantees	1
Sec. 3	Objects of guarantees	1
Sec. 4	Coverage provided by guarantees	2
Sec. 5	Guarantee contingencies	2
Sec. 6	Definition of loss	3
Sec. 7	Multiple capital investments	4
Sec. 8	Beginning and termination of guarantee coverage	4
Sec. 9	Maximum amounts of guarantee	5
Sec. 10	Self-participation. Maximum Liability	7
Sec. 11	Notice of guarantee	7
Sec. 12	General duties of the obligee	7
Sec. 13	Specific duties of the obligee	8
Sec. 14	Consequences of breach of contract, right of cancellation and revocation	8
Sec. 15	Applications for compensation	10
Sec. 16	Determination of loss and payment of compensation	10
Sec. 17	Computation of compensation	10
Sec. 18	Assignment of rights	12
Sec. 19	Legal actions	12
Sec. 20	Recoveries subsequent to compensation	12
Sec. 21	Transfer to another of claims on account of guarantees	13
Sec. 22	Sale of capital investments	13
Sec. 23	Fees	13
Sec. 24	Evidence by writing	13
Sec. 25	Place of jurisdiction. Limitation of actions	13

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## Section 1

### Assumption of Guarantees

1. The Federal Republic of Germany (Federal Government) may upon application assume for the benefit of investors having their seat or domicile in the territory of the Federal Republic of Germany guarantees for capital investments abroad in order to protect them against political risks. These guarantees are regulated by the present "General Conditions", except as otherwise provided for by the notice of guarantee.
2. The Deutsche Revisions- und Treuhand-Aktiengesellschaft (Treuarbeit), Hamburg, and the Hermes Kreditversicherungs-Aktiengesellschaft (Hermes), Hamburg, have been commissioned and authorized by the Federal Government to issue and receive on behalf of the Federal Government all statements concerning guarantees and take all legal actions except those reserved to the Federal Debt Commission. Primary jurisdiction shall rest with Treuarbeit.
3. There is no legal claim to the issuance of a guarantee.

## Section 2

### Conditions for Assuming Guarantees

Guarantees shall be assumed only in cases where

- (a) the Federal Government has an agreement with the investment country regarding the treatment of the capital investment or, if no such agreement exists, protection of capital investments is adequately assured by the legal system of the investment country or in some other way;
- (b) the capital investment particularly merits encouragement.

## Section 3

### Objects of Guarantees

1. Objects of guarantees are the following capital investments:
  - (a) Shares in foreign enterprises based on contributions of capital, goods, or other services, and providing for voting rights and control or advisory privileges, as well as participation in earnings and liquidation proceeds (share interests); the guarantees also extend to credits resulting from conversion of share interests (share interests converted into claims);
  - (b) Capital furnished to foreign branches or plants of enterprises having their principal office in the territory of the Federal Republic of Germany, in the form of capital, goods, or other services, provided separate annual financial statements are prepared for the branches or plants, in which the capital furnished is treated and posted in the same manner as an original capital fund (capitalization of branches or plants);

- (c) Loans made in connection with a share interest and which by purpose and amount have the character of a share interest (share interest loans).

2. Additional objects of guarantees are sums distributed as proportionate profits or as interest for specific periods of time, on account of share interests or loans having the character of share interests.

3. All other rights or claims (stock purchase rights, penalty interest, contract penalties, forfeit payments, indemnity claims, claims on account of sale of capital investment to third parties) cannot be objects of guarantees even though they may have been provided for by the contract under which the capital investment was made.

4. Not eligible for guarantees shall be capital investments toward which investors made contributions prior to filing applications for guarantees.

#### Section 4

##### Coverage Provided by Guarantees

1. A guarantee by the Federal Government covers losses of capital investments or the earnings thereon if such losses are caused solely by political events or measures in the investment country, as follows:

- (a) Nationalization, confiscation, or other measures by public authorities which are equivalent to confiscation in their effects (confiscation contingency);
- (b) Wars or other armed conflicts, revolutions or insurrections (war contingency);
- (c) Blockage of payments, or moratoriums (moratorium contingency);
- (d) Prohibition of conversion or transfer of funds deposited for remittance to the Federal Republic at institutions competent for this purpose (CT contingency).

2. Losses as a result of the events or measures enumerated in par. 1, above, are covered by the guarantee, provided the events or measures are of political nature. They are not covered by the guarantee if the aforementioned events or measures are the result of actions for which the enterprise in which the capital was invested, or the managerial investor of the capital may be answerable.

#### Section 5

##### Guarantee Contingencies

The guarantee becomes operative:

1. Where solely as a result of measures specified in Sec. 4 par. 1 (a) (confiscation contingency) in the investment country, a share interest proper, a share interest converted into a claim, a claim on account of a loan having share-interest character, or a claim to distribute earnings are confiscated in their entirety (total loss) or partially (partial loss);



this applies mutatis mutandis to liquidation proceeds in the event of liquidation of branches or plants;

2. Where solely as a result of events or measures specified in Sec. 4 par. 1 (a) or (b) (confiscation or war contingency) in the investment country

- (a) the entire assets of the enterprises in which the capital was invested, or of the branches or plants, are confiscated or destroyed (total loss), or
- (b) the assets of the enterprises or of the branches or plants are confiscated or destroyed in so substantial a degree that the enterprises or the branches or plants can no longer be operated without loss in the long run (total loss),

and where as a result thereof

the share interests or the original capital funds must be deemed lost, or

where claims into which share interests were converted, claims on account of loans of a share-interest character, or claims to distributed earnings cannot in any form be satisfied or enforced;

3. Where solely as a result of measures specified in Sec. 4 par. 1(c) (moratorium contingency) in the investment country claims due and arising from conversion of share interests, claims payable on account of loans having a share-interest character, or payable claims to distributed earnings cannot, in their entirety or partially, in any form be satisfied or enforced; this applies mutatis mutandis to liquidation proceeds in the event of liquidation of branches or plants;

4. Where solely as a result of events or measures specified in Sec. 4 par. 1 (d) (CT contingency) in the investment country funds cannot be converted or transferred within two months after being deposited with a competent institution for remittance to the obligees on account of claims due arising from conversion of share interests, claims payable on account of loans having a share-interest character or on account of distributed earnings, provided all existing requirements and agreements for conversion and transfer of such funds have been complied with; this applies mutatis mutandis to liquidation proceeds in the event of liquidation of branches or plants.

## Section 6

### Definitions of loss

1. Loss of capital investments

- (a) with respect to share interests in the event of total loss (Sec. 5 pars. 1 and 2 (a)), or with respect to original capital funds in the event of total loss (Sec. 5 par. 2 (a) and (b)) shall be the current value of the capital investments at the time the guarantee contingency occurred, but not exceeding their original book valuations;

- (b) with respect to share interests in the event of partial loss (Sec. 5 par. 1), the reduction in value determined by comparing the current value of the share interests at the time the guarantee contingency occurred, not however to exceed their original book valuations, with the residual value of the share interests that results from the effects of the guarantee contingency; if such contingency is followed by liquidation of the enterprise or sale of the remainder of the share interest, the proceeds of such liquidation or sale shall be deemed the residual value of the capital investment, provided such liquidation or sale was directly related to the guarantee contingency;
- (c) with respect to share interests converted into claims, and loans of a share-interest character, the unpaid portions of such claims, but not more than such aliquot portions, as may apply to the book valuation of the original capital invested.

This applies mutatis mutandis to liquidation proceeds in the event of liquidation of branches or plants.

2. Losses of earnings are the unpaid claims to earnings distributed during the effective period of the guarantee.

#### Section 7

##### Multiple capital investments

Where in addition to the capital investment covered by guarantee the obligee has invested in the same enterprise further capital of the same type (share interest or loan of share-interest character) and the same class (i.e. shares of stock or bonds of the same category), not covered by guarantee, both capital investments shall be considered to have been affected by the events or measures specified in Sec. 4 par. 1 in the same proportion to the original book valuations, even if the contingency exclusively or predominantly affects one of the two capital investments. The same applies mutatis mutandis to the earnings from both capital investments.

#### Section 8

##### Beginning and termination of guarantee coverage

1. Coverage of losses of capital investments and earnings thereon begins from the time when the obligee has made the contributions to the capital investment contracted by him, but not before delivery of the notice of guarantee. Such contribution shall be deemed to have been made only after the object of the contribution has passed into the control of the foreign enterprise or the branch or plant.

2. Where the obligee makes the contribution contracted by him in instalments, the coverage for each such partial contribution begins at the time when it has satisfied the condition set forth under 1., above.

3. If the events or measures set forth in Sec. 4 par. 1 take place or are enacted while the conditions specified in pars. 1 and 2, above, are in course of being fulfilled, there shall be no coverage for

losses resulting from such events or measures. If a measure of this sort is temporary (e.g. a temporary moratorium) and if the period is subsequently extended, or if following the temporary moratorium new measures of the same kind are put into effect, there shall be no coverage either for losses in consequence of such extension or new measures.

4. Coverage terminates on expiration of the effective period of the guarantee fixed in the notice of guarantee.

5. Notwithstanding par. 4, coverage is provided for:

- (a) losses of capital investments on account of guarantee contingencies specified in Sec. 5, pars. 1 and 2, which occurred within six months after expiration of the life of the guarantee and are the result of events or measures specified in Sec. 4 par. 1 (a) and (b) which took place or were enacted prior to expiration of this effective period;
- (b) losses with respect to claims caused by a guarantee contingency specified in Sec. 5 par. 4, occurring within two months after expiration of the life of the guarantee.

6. Where the collection and transfer of claims (share interests converted into claims, loans of share-interest character, claims to earnings) is not immediately instituted when they fall due, or is deferred, coverage will terminate unless the Federal Government has approved an extension of the coverage. The same applies mutatis mutandis to liquidation proceeds in the event of liquidation of branches or plants.

#### Section 9

##### Maximum amounts of guarantee

1. The guarantee provided by the Federal Government is limited to a maximum amount in Deutsche Mark for every capital investment and the earnings thereon. The maximum amount of the guarantee consists of the maximum amount of guarantee coverage for capital and the maximum amount of guarantee coverage for earnings.

2. The maximum amount of guarantee coverage for capital is the original book valuation of the capital investment. This is reduced:

- (a) at the end of each year of the guarantee period by an amount stipulated in the notice of guarantee; the Federal Government may upon application of the obligee defer, suspend, or abate this reduction;
- (b) on the day of repayment on account of a capital investment, by the portion of the current maximum amount of guarantee coverage for capital corresponding to the repaid amount of the capital investment; this applies mutatis mutandis also in the case of the sale of a capital investment;
- (c) upon the occurrence of a guarantee contingency affecting capital investment, by the portion of the current maximum amount of guarantee coverage for capital corresponding to the amount of the capital investment affected by the guarantee contingency.

3. (a) The maximum amount of guarantee coverage for earnings during the entire life of the guarantee is equivalent to a total of 24 percent of the original book valuation of the capital investment in Deutsche Mark. When the guarantee is first given, the guarantee for earnings does not cover the entire life of the guarantee, being initially assumed only for a number of years (coverage period) fixed in the notice of guarantee. This percentage rate is equally spread over the several guaranteed years during the coverage period but must not exceed 8 percent for any year of the guarantee; earnings on capital investment distributed in any year of guarantee are covered up to the percentage rate applicable to that year of the guarantee. If on expiration of a coverage period the guarantee for earnings has not been utilized for reason of guarantee contingencies up to the aforementioned maximum rate of 24 percent, the obligee is entitled prior to expiration of the current coverage period to request renewal of the guarantee for earnings in the amount not utilized by him. In computing the available remainder of the guarantee coverage for earnings, the amount charged as having been utilized under the guarantee is abated by any sums which the Federal Government has in the meantime received as reimbursements on account of indemnity payments.
- (b) Where the original book valuation has been reduced by repayments on the capital investment or by guarantee contingencies affecting capital investment, computation of the aforementioned percentage rates for earnings distributed subsequent to reduction of the original book valuation is based on the reduced book valuation.
- (c) Failure to apply for a guarantee coverage for earnings prior to the beginning of the guarantee precludes such a guarantee for the entire effective period of the guarantee.

4. In any given guarantee contingency the controlling maximum amount of the guarantee is the current maximum amount at the time when the guarantee contingency occurred. In the guarantee contingencies specified in Sec. 8 par. 5, the guarantee coverage for capital and/or earnings is governed by the maximum amounts applicable immediately before expiration of the effective period. Pars. 2(b) and (c) and par. 3(b) shall be applied mutatis mutandis.

5. The original book valuation entered in the notice of guarantee and extensions thereof is the amount which the obligee, after performances of the contributions or partial contributions to which he was committed, has credibly shown to the Federal Government to have been the cost to him (in accordance with normal German accounting and balance - sheet practice with respect to procurement and production costs includable as assets.). If at the time of the execution of the notice of guarantee the obligee has not yet performed all contributions on the capital investment to which he is committed, an amount shall be stipulated in the notice of guarantee which must not be exceeded by the total original book valuation underlying the guarantee.

## Section 10

### Self-Participation. Maximum Liability

1. The obligee participates in the loss determined in accordance with these "General Conditions" and within the limits of the maximum amount of the guarantee, at a rate stipulated in the notice of guarantee.
2. This self-participation shall not be covered by any other guarantee.
3. The maximum liability of the Federal Government is equivalent to the maximum amount of the guarantee less the amount of self-participation. No claims may be brought on any legal ground against the Federal Government in excess of the maximum liability in connection with the guarantee. This maximum amount of liability appears in the notice of guarantee at the time of its issuance.
4. The Federal Government shall not be held liable for relatively minor losses (trivial losses), the amount of which is fixed in each notice of guarantee.

## Section 11

### Notice of Guarantee

1. The guarantee of the Federal Government becomes effective at the time of delivery to the obligee of the notice of guarantee.
2. The notice of guarantee has legal binding force only if it bears the signature of the Federal Debt Commission.
3. Par. 2 also applies to all other notices by which the amount of the maximum liability of the Federal Government is increased.

## Section 12

### General Duties of Obligees

1. The obligee must comply with the regulations enacted by the Federal Government and by the investment country for capital investments abroad.
2. A written report on the status and the development of the capital investment and the enterprise where the capital is invested, or the branch or plant, must be submitted each year not later than six months after the close of the business year of the enterprise. This report must be accompanied by the balance sheet and the profit and loss statement with explanations, the business report and any other reports prepared by auditors or institutions performing a like function. The obligee, if requested, must at all times supply information on details of the capital investment and any transactions related thereto.
3. The obligee is required to give immediate notice:
  - (a) when the conditions for beginning coverage have been met (Sec. 8) with respect to a contribution or partial

contribution to the capital investment, and what amount shall be taken as the obligee's capital investment;

- (b) when capital investments in the form of share interests are converted into claims, or when branches or plants are liquidated;
- (c) when capital investments are sold, or repayments are made on capital investment;
- (d) when contracts relating to the capital investment are altered, supplemented or canceled; the same applies mutatis mutandis to branches or plants;
- (e) when he acquires a new capital investment not covered by guarantee in the same enterprise in which he has a guaranteed capital investment.

4. The Federal Government, the Federal Comptroller-General's Office and others appointed for the purpose by the foregoing are authorized prior and after recourse has been made to the Federal Government on account of the guarantee, to examine and verify such books, papers and other records of the obligee as may be related to the guarantee, and to prepare and request transcripts. The obligee is required, upon demand of the Federal Government, to take all reasonable measures in order to make it possible for a similar examination also to be carried out at the foreign enterprise where the capital has been invested.

#### Section 13

##### Specific Duties of the Obligee

1. In the event of imminence or occurrence of/<sup>a</sup>guarantee contingency it is the duty of the obligee to proceed with the reasonable care of the normal businessman to particularly do everything to prevent or minimize the damage; he must carry out any instruction to this end he may receive from the Federal Government.

2. The obligee must give notice without delay:

- (a) when he learns of any circumstances tending to increase the risk, especially whether events or measures as specified in Sec. 4 par. 1 are imminent;
- (b) when such events have occurred or such measures have been enacted.

#### Section 14

##### Consequences of Breach of Contract,

##### Right of Cancellation and Revocation.

1. Where the obligee has culpably contributed to causation of the loss, in particularly by culpably failing to comply with duties incumbent upon him under these "General Conditions" or terms of the notice of guarantee, the liability of the Federal Government to provide compensation and also the amount of such compensation shall be determined by the circumstances, depending especially on the extent to which the loss was caused by

the wilfully negligent conduct of the obligee. This applies in similar measure when the wilfully negligent conduct of the obligee has contributed to increasing the loss, or to preventing its limitation.

2. Where the obligee has culpably failed in a duty incumbent upon him under these "General Conditions" or the terms of the notice of guarantee, and such dereliction of duty has not been a factor in the causation and the extent of the loss, it is nevertheless in the option of the Federal Government to refuse to pay compensation or to reduce such payment in case such dereliction of duty has bearing on the determination or the extent of the compensation which the Federal Government must pay.

3. In the event that the obligee has culpably made incomplete or untrue statements when filing his application, it is in the option of the Federal Government to cancel the guarantee within two months after being informed of this. Cancellation by the Federal Government after the guarantee contingency has occurred does not extinguish its liability to compensation if the fact in respect to which the incomplete or untrue statements were made had no bearing on the occurrence of the guarantee contingency or on the amount of the compensation which the Federal Government must pay, and particularly on the act of assumption of the guarantee. The right of the Federal Government to declare the guarantee invalid on the ground of malicious deception remains unaffected.

4. When circumstances develop tending to increase the risk, the Federal Government may cancel the guarantee, or subject it to restrictions (partial cancellation), provided coverage pursuant to Sec. 8 has not yet become effective, except where the obligee is not in a position to refuse to make the contributions to the capital investment to which he is committed.

5. In the event that contracts relating to the capital investment are altered, supplemented or canceled, and the risk is materially increased thereby, it is in the option of the Federal Government to cancel the guarantee; however, the liability of the Federal Government to pay compensation in connection with guarantee contingencies which occurred prior to such alteration, supplementation or cancellation remains in effect. The same applies mutatis mutandis to branches or plants.

6. The Federal Government has the right to cancel a guarantee without notice:

- (a) in cases where the obligee grossly violates his contractual duties;
- (b) for important reasons inherent in the person of the obligee.

7. The obligee has the right to renounce the guarantee at the end of any guarantee year by giving notice in writing.

### Section 15

#### Applications for Compensation

1. Applications for compensation must be filed with Treuarbeit immediately upon occurrence of the guarantee contingency.

2. The obligee must present evidence that the conditions under which a guarantee becomes effective are present and show the reason and amount of the loss. He must also present evidence that any licenses of the Federal Government and the investment country which were required at the time the guarantee for capital investments was assumed, had been issued.

### Section 16

#### Determination of Loss and Payment of Compensation

1. Losses shall be determined within reasonable time after the obligee has submitted all records required in evidence of a loss. If this is not immediately possible owing to the circumstances in the case, the Federal Government may upon request of the obligee make a provisional compensation payment, the amount of which to be determined by the Federal Government upon examination of the available evidence.

2. Compensation is payable three months after mailing of the loss account or the statement of provisional compensation, but not earlier than six months after the occurrence of the guarantee contingency.

3. If after payment of compensation it is found that there were no grounds for such payment or for a payment in such amount, it is the duty of the obligee to reimburse the Federal Government in the appropriate amount.

### Section 17

#### Computation of Compensation

1. For the purpose of computing the compensation, the amount of the loss (cf. Sec. 6). must be arrived at. This process involves determination of

- (a) the original book valuation of the capital investment: the cost to the obligee for the capital investment in accordance with normal German accounting and balance-sheet practice (procurement and production costs includable as assets), but not more than the amount recorded as original book valuation in the notice of guarantee; in the event of repayments on the capital investment, sales and [sic] following guarantee contingencies affecting capital investment, the original book valuation is reduced by the amount repaid on capital investment or, as the case may be, the capital portion affected by the contingency.
- (b) - where necessary - the current value of the capital investment: the value at which it must be appraised at the time the guarantee contingency occurred, with due regard to accounting practice and taking into consideration the balance sheets prepared up to such time, as well as the profit and loss accounts of the enterprise;



(c) - where necessary - the residual value of the share interest: the value at which it must be appraised immediately after the occurrence of the guarantee contingency, with due regard to accounting practice and taking into consideration the balance sheets prepared up to such time, as well as the profit and loss accounts of the enterprise; in appraising the value appropriate consideration must be given to the expectable consequences of the guarantee contingency which are very likely to cause a substantial diminution of value;

(d) shortfalls in claims

1. in Deutsche Mark: the shortfall in terms of the amount in Deutsche Mark which the investor would have received through a transfer at the time when the guarantee contingency occurred; stable currency clauses are not taken into consideration;
2. in foreign currencies: the shortfall in foreign currencies converted into Deutsche Mark at the rate of exchange (including foreign exchange premiums, if any, or the like), which would have been applicable for transferring the moneys due at the time when the guarantee contingency occurred, alternately at the bid rate of exchange on the Frankfurt Exchange on the date in question or, in case there was no official quotation on the date in question, at the quotation immediately preceding or, in case the currency in question was not officially quoted in the Federal Republic, at the bid rate of exchange for conversions last published by the Deutsche Bundesbank.

2. From the amount of the loss arrived at pursuant to par. 1, deduction is made in full of the following sums as may be related to the contingencies bringing the guarantee into play, less any necessary outlays which the obligee may have had in their recovery:

- (a) all payments and/or the equivalent of all other items of value which the obligee received after occurrence of the guarantee contingency from the foreign enterprise, the foreign government, from insurance, or from other sources;
- (b) all proceeds which the obligee received from the realization of rights, goods, pledges or other securities;
- (c) the equivalent value of any liabilities from which the obligee was released through the guarantee contingency or from which he can obtain release by a set-off with a third party liable to pay indemnity by reason of the guarantee contingency;
- (d) the equivalent of any other advantages obtained by the obligee.

Sec. 7 is applicable mutatis mutandis.

3. In case the amount arrived at pursuant to pars. 1 and 2 is in excess of the maximum amount of guarantee coverage for capital and/or earnings, such amount will be reduced to the level of the maximum amount.

4. The amount computed in accordance with pars. 1 through 3, less

the amount of self-participation, represents the compensation payable by the Federal Government.

#### Section 18

##### Assignment of Rights

1. The obligee who has received compensation from the Federal Government is required to assign to the Federal Government the rights which were the objects of compensation, the claims to indemnity and any other claims deriving from insurance policies and the like, together with surety collateral, <sup>in</sup> the amount of the compensation received. Where such assignment is not feasible or waived by the Federal Government, it is incumbent upon the obligee to hold these rights in trust for the Federal Government to that extent and administer them in accordance with the instructions of the Federal Government. The Federal Government must in each case be given the same seniority as that which the obligee occupies with respect to any rights residual with him which were objects of the compensation, or with respect to the pertinent indemnity claims.

2. The Federal Government can make payment of compensation conditional upon prior assignment of the rights.

#### Section 19

##### Legal Actions

1. Irrespective of the conveyance of the rights to the Federal Government pursuant to Sec. 18, the obligee is required, upon request of the Federal Government, to take all suitable measures also on his own behalf, aimed at enforcement or realization of these rights, including the surety collateral, and to that end comply with any instructions he may receive from the Federal Government. The same applies to rights which the obligee is holding in trust for the Federal Government.

2. Justified expenditures incurred by the obligee for measures taken in connection with legal actions prosecuted upon request of the Federal Government, are shared between the Federal Government and the obligee in proportion to their respective shares in the object of such legal action.

#### Section 20

##### Recoveries Subsequent to Compensation

1. If sums are recovered subsequent to the settlement for loss, a new loss account shall be opened in which the amount received is treated as having gone to the obligee. The difference between the compensation thus computed and the higher amount of compensation paid belongs to the Federal Government; any surplus of that sum belongs to the obligee.

2. Where the loss is reduced in any other way than by recovery of money, a new loss account is prepared also in that case.

Section 21

Transfer to Another of Claims on Account of Guarantees

Any transfer of claims on account of guarantees requires prior approval in writing by the Federal Government. If the transfer is approved by the Federal Government, all obligations of the obligee with respect to the Federal Government on account of the guarantee remain intact, except as otherwise agreed upon. The Federal Government may with respect to the transferee make offsets, enter defenses, assert rights of withholding and other rights in the same way as with respect to the obligee.

Section 22

Sale of Capital Investments

The sale of the guaranteed capital investment by the obligee extinguishes the guarantee if no other arrangement was made with the Federal Government prior to the sale.

Section 23

Fees

1. A fee shall be charged for the guarantee. This fee shall be payable in advance for each effective year of the guarantee.

2. In case the fee is not paid within three weeks of the due date, the Federal Government is free to revoke the guarantee; in case the initial fee for the guarantee is not paid within three weeks of the due date, the Federal Government may cancel the guarantee.

3. In cases where the Federal Government has canceled or revoked a guarantee, or the guarantee was extinguished, the fee is payable to the date of cancellation, revocation or extinguishment of the guarantee.

Section 24

Evidence by Writing

All agreements and notices must be in writing to have validity.

Section 25

Place of Jurisdiction Limitation of Actions

1. The place of jurisdiction is Hamburg.

2. Claims against the Federal Government under a guarantee must be brought before a court of law within a preclusive period of six months after the Federal Government has dismissed the submitted claim in writing, giving notice of this legal consequence.

\* \* \* \* \*

Deutsche Revisions- und Treuhand-Aktiengesellschaft  
Wirtschaftsprüfungsgesellschaft - Steuerberatungsgesellschaft

(German Auditing and Fiduciary Corporation)

(Public Accountants - Tax Consultants)

(Treuarbeit)

(24a) Hamburg 1.

Subject: Guarantees for Capital Investments Abroad

We take pleasure in forwarding to you as requested an application form in quintuplicate, which kindly use in filing your application for a federal guarantee to cover a capital investment abroad. We also enclose with this letter the Information Bulletin and the General Conditions for the assumption of such federal guarantees.

The application is designed to present a clear picture of the foreign enterprise and the capital investment to be covered by the guarantee. To that end we would ask you to amplify and explain in detail the condensed information given under A through C of the application form on a separate attachment, and in particular give attention to the directions below in furnishing explanations on items B and C:

Re B: (Information about the foreign enterprise in which capital is to be invested)

Please indicate legal and economic status, specifically financial position, net worth, and earnings of the foreign enterprise (or branch or plant), with the appropriate supporting data (e.g. such as available information reports, financial statements for the last years, number of employees and other operational data, information on the origin of the connection and its development to date, prospectuses, if available, etc., with translations). If the enterprise in which the capital is to be invested is now in process of organization, this should be brought out by the information. You are further requested to indicate whether and, if so, in what amount you already have capital invested in this foreign enterprise.

Re C: (Information on capital investment to be covered by guarantee)

Please indicate the following:

1. Information on the proposed capital investment:

- (a) Kind, amount and date of original contributions to be made as capital investment;
- (b) Method of financing the capital investment;
- (c) Description of the proposed contract concerning the capital investment, stating the share interests and/or other equities to be acquired (specifically voting rights or control and advisory privileges, also agreements concerning repayment and provisions for terminating the relationship), advantages,

liabilities, and subsidiary covenants, documented by pertinent agreements or drafts of agreements (with translations);

2. A detailed justification of the application for a guarantee (reasons for making the capital investment, information concerning any inducements for capital investment offered by the investment country, status of negotiations, including information about licenses required for capital investments, and about any special assurances that may have been made by the investment country with respect to safeguarding the capital investment; information on regulations governing transfer of earnings and repatriation of the equivalent value of the capital investment);

3. Any other information considered important.

In conclusion we would request that the application for assumption of a guarantee for capital investment abroad, together with enclosures, be signed in due form and returned in quadruplicate.

Very truly yours

Deutsche Revisions- und Treuhand-Aktiengesellschaft

Enclosures

Application for Assumption of a Guarantee for Capital Investment Abroad

(Submit in quadruplicate)

Deutsche Revisions- und Treuhand-Aktiengesellschaft

(Treuarbeit)

Hermannstrasse 40

Hamburg 1.

Pursuant to the "General Conditions for the Assumption of Guarantees for Capital Investments Abroad" we herewith apply for a

guarantee for capital investment abroad.

A. Information about our firm

1. Name or firm:
2. Principle office and address (telephone, teletype)
3. Legal form:
4. Year of establishment and object of the enterprise:
5. In the case of single proprietorships and partnerships:
  - (a) Name of proprietors:
  - (b) Nationality of proprietors:
6. Detailed information in case a total of 25 percent or more of the capital stock is under direct or indirect foreign control:
7. Information on affiliation with a combine:

B. Information about the foreign enterprise in which capital is to be invested:

1. Name or firm:
2. Principle office and address:
3. Legal form:
4. Year of establishment and object of the enterprise:
5. Name, address, business domicile, nationality and share interests of the participants:

Book value	Percent	Amounts paid in
.....	.....	.....
.....	.....	.....
_____	_____	_____
_____	_____	_____

6. Other financial relationships of the applicant to the foreign enterprise not brought out by Item 5.

C. Information regarding capital investment to be covered by guarantee

1. Type of capital investment:
2. Amount of capital investment:
  - (a) Book value in foreign currency:
  - (b) Amount to be raised, in Deutsche Mark:
3. Projected dates for payments or contributions on capital:
4. Amount and effective period of guarantee applied for:
5. Anticipated annual earnings:
6. Is application being made to include earnings in the guarantee?  
If so, for which years and in what amount? (See Information Bulletin hereon).
7. (a) Have contracts already been entered into concerning the capital investment? If so, describe.  
(b) Have contributions already been made on the capital investment? If so, describe.

D. Special statements

1. In conformance with the transmittal letter accompanying this application form, we are supplying in an enclosure detailed explanations amplifying the condensed statements on items A. - C.

2. We declare that the statements we have made in the application and in the enclosure are true and complete to the best of our knowledge.

We are aware that incomplete or untrue statements, as indicated in the "General Conditions for Guarantees for Capital Investments Abroad" may entail invalidation of the guarantee.

3. We undertake to pay the processing fees immediately upon demand. We have noted that the processing fee is not deductible from the fee for the guarantee and that it is payable even if the capital investment or the guarantee do not materialize.

Date \_\_\_\_\_

Name of firm

Signature \_\_\_\_\_

Enclosure



## INTERNATIONAL COOPERATION ADMINISTRATION

Office for Private Enterprise

Investment Guaranties Division

Washington 25, D. C.

Quarterly Report of Investment Guaranties Issued  
 Since the Beginning of the Program in 1948 through Sept. 30,  
 1960

INVESTOR	PRODUCT	CONVERTIBILITY	EXPROPRIATION
<u>AUSTRIA:</u>			
Socony Mobil Oil Co., Inc.	Oil distribution	\$ 1,000,000	\$ 1,000,000
Syntron Company	Vibratory equipment	30,000	-
	Total . . . . .	1,030,000	1,000,000
<u>BELGIUM:</u>			
The Cowles Dissolver Co. Inc.	Grinding & mixing equipment	30,000	30,000
Morehouse Industries, Inc.	Grinding & mixing equipment	30,000	30,000
Pluswood Industries (Belgian Congo)	Lumber processing	100,000	100,000
		300,000	300,000
Ro-Search, Inc.	Footwear	300,000	-
Smith-Corona, Inc.	Typewriters	72,000	60,000
	Total . . . . .	832,000	520,000
<u>BOLIVIA:</u>			
Big Chief Internat'l Corp.	Oil exploration and drilling	500,000	2,000,000
Big Chief Internat'l Corp.	Oil exploration and drilling	-	2,000,000
Chaco Petroleum (Union Petroleum Boliviana, S.A., Monsanto Bolivia, Inc., Murphy Oil de Bolivia, S.A.)	Exploration & drilling for oil	-	10,000,000
Pan Geo Atlas Corporation	Oil well services	-	84,957
South American Placers, Inc.	Gold dredging	-	3,000,000
		500,000	17,084,957
<u>CHINA: (Republic of)</u>			
International Dairy Engr. Co. of Asia, Inc.	Recombined dairy products	120,000	120,000
		875,000	-
Internat'l Enginners, Inc.	Coke oven	200,000	200,000
Von Kohorn Internat'l Corp.	Manufacture of rayon	1,059,242	959,242
Von Kohorn Internat'l Corp.	Manufacture of rayon	72,000	100,000
Westinghouse Elec. Int'l Co.	Electric generating equipment	2,140,320	1,881,600
	Total . . . . .	4,466,562	3,260,842
<u>COSTA RICA:</u>			
American Broadcasting-Para- mount Theatres, Inc.	Television broadcasting	105,000	105,000
"	"	31,250	26,250
"	"	28,125	23,625
"	"	12,500	10,500
	Total	176,875	165,375
<u>DENMARK:</u>			
Ray-O-Vac International Inc.	Leakproof batteries	182,500	-
<u>ECUADOR:</u>			
W. R. Grace & Co.	Paints and chemicals	252,945	-

INVESTOR	PRODUCT	CONVERTIBILITY	EXAPROPRIATION
<b>FRANCE:</b>			
Wanhsung Paint & Varnish Co.	Paints and varnishes	\$ 12,000	\$ -
Chicago Molded Products	Plastics	35,000	-
Godfrey L. Cabot, Inc.	Carbon black	4,430,000	2,215,000
Godfrey L. Cabot, Inc.	Carbon black	4,400,000	2,215,000
Chrysler Corporation	Trucks and cars	920,108	-
Chrysler Corporation	Trucks and cars	6,987,310	3,493,655
Clark Equipment Co.	Materials handling equipment	479,250	-
Concrete Chemicals Co.	Concrete admixes	90,000	-
Corhart Refractories Co. Inc.	Refractories	70,000	-
Dana Corporation	Automotive parts	200,000	-
Dennis, John K.	Plastics	4,070	4,070
Dow Corning Corporation	Silicones	304,950	-
Dow Corning Corporation	Chemicals	591,450	-
Ellicott Machine Corp.	Dredging machinery	40,214	20,107
Ellicott Machine Corp.	Dredging machinery	34,132	17,066
Ellicott Machine Corp.	Dredging machinery	40,765	20,383
Ford Motor Company	Auto products	-	713,075
Foster Wheeler Corp.	Construction engineering	213,500	-
Foster Wheeler Corp.	Construction engineering	172,500	-
Frenhauf Trailer Co.	Truck trailers	437,500	-
Guthery, Frank F.	Spotwelding	15,000	15,000
Harshaw Chemical Co.	Ceramic colors	100,000	100,000
Harshaw Chemical Co.	Ceramic colors	200,000	100,000
Heyden Chemical Corp.	Streptomycin	300,000	-
Hohenstein, Walter P.	Polystyrene	56,000	-
Houdry Process Corp.	Petroleum refining	202,000	-
J. M. Huber Corp.	Silicate Pigments	50,000	-
Ruppert, Peter	Plastics	4,070	4,070
International Water Corp.	Water wells	51,000	-
Koppers Company	Styrene monomer	465,000	-
Landis Tool Co.	Cylinder grinding machines	3,000,000	3,000,000
Lee C. Moore Corp.	Oil drilling masts & equipment	42,000	21,000
Lee C. Moore Corp.	Oil drilling masts & equipment	100,000	-
Lincoln Electric Co.	Welding materials	1,072,636	-
Lincoln Electric Co.	Welding equipment	3,211,000	-
Marmon-Herrington Co., Inc.	Transportation vehicles	54,860	27,430
National Fastener Corp.	Slide fasteners	17,500	-
New Britain Machine Co.	Machine tools	1,000,000	1,000,000
Phillips Petroleum Co.	Carbon black	-	1,520,000
Phillips Petroleum Co.	Carbon black	-	250,000
Proctor & Gamble Co.	Soaps and detergents	1,050,000	-
Rohm & Haas Co.	Agriculture fungicides	441,100	-
Ronsen Corporation	Lighters and related products	400,000	400,000
Ronsen Corporation	Lighters and related products	390,000	354,000
Singer Manufacturing Co.	Sewing machines	717,000	-
Standard Oil Development Co.	Oil refinery	550,000	-
Standard Oil Development Co.	Oil refinery	504,000	-
Sundstrand Corporation	Machine tools	247,880	247,880
Toder Company	Metal-working machinery	204,500	-
Morrison-Knudsen Co., Inc.	Construction engineering	252,000	-
	<b>Total</b>	<b>34,160,295</b>	<b>15,738,536</b>

INVESTOR	PRODUCT	CONVERTIBILITY	EXPROPRIATION
<b>GERMANY:</b>			
Rostitch, Inc.	Staplers	\$ 150,000	\$ 150,000
Godfrey L. Cabot, Inc.	Carbon black	1,000,000	-
Glevite Corporation	Electronic products	37,792	37,792
Glevite Corporation	Electronic products	274,877	274,876
Deere & Company	Farm equipment	-	4,700,000
Pirestone Tire & Rubber Co.	Tires and tubes	1,841,700	1,052,400
Ford Motor Company	Trucks and automobiles	-	8,314,863
Ford Motor Company	Trucks and automobiles	-	9,593,062
Ford Motor Company	Trucks and automobiles	-	8,889,384
Gardner-Denver Company	Mine carloaders	140,000	-
W. R. Grace & Co.	Sealing compounds	203,000	-
W. R. Grace & Co.	Food preserving bags	400,000	-
Harris Intertype Corp.	Paper cutters	355,105	177,552
E. F. Houghton & Co.	Chemicals and lubricants	93,150	-
Johns-Manville Company	Asphalt tile	350,000	-
Marchant Calculators, Inc.	Business machines	95,120	95,120
Mine Safety Appliance Co.	Safety appliances	1,250,000	1,250,000
National Aluminate Corp.	Water Treating Chemicals	1,298,000	50,000
Olin Mathieson Chemical Corp.	Powder actuated tools	571,428	-
Olin Mathieson Chemical Corp.	Powder actuated tools	369,048	184,524
Olin Mathieson Chemical Corp.	Powder actuated tools	91,875	91,875
Oppenheimer Casing Company	Animal sausage casings	20,805	10,402
Oppenheimer Casing Company	Animal sausage casings	106,144	106,144
Otis Elevator Company	Elevators & Elevator equipment	-	250,831
Parkins-Elmer Corporation	High precision instruments	548,230	274,115
Raytheon Manufacturing Co.	Radar & Sonar equipment	93,500	-
Rockwell Manufacturing Co.	Power tools	-	964,000
Rockwell Manufacturing Co.	Power tools	-	2,450,000
Rockwell Manufacturing Co.	Power tools	-	58,800
Rockwell Manufacturing Co.	Small motors, valves, etc.	-	959,600
Rockwell Manufacturing Co.	Small motors, valves, etc.	-	612,500
Ronson Corporation	Lighters & related products	250,000	250,000
Ronson Corporation	Lighters & related products	214,375	198,625
Ronson Corporation	Lighters & related products	90,000	90,000
Ronson Corporation	Lighters & related products	390,308	354,280
J. Sklar Manufacturing Co.	Optical equipment	10,000	10,000
Smith-Corona Merchant, Inc.	Office machines	97,400	48,700
The Coleman Company	Space heaters	100,000	50,000
Union Twist Drill Company	Drills and other tools	1,397,204	1,397,204
Union Twist Drill Company	Drills and other tools	1,495,000	1,495,000
Union Twist Drill Company	Drills and other tools	230,230	174,790
Union Twist Drill Company	Drills and other tools	299,000	227,000
	Total . . . . .	13,863,291	11,843,439
<b>GREECE:</b>			
Dresser Industries	Barite mining	594,700	595,000

INVESTOR	PRODUCT	CONVERTIBILITY	EXPROPRIATION
<b>GUATEMALA:</b>			
Farmen & Son Logging Co.	Logging operation	\$ 177,000	\$ 177,000
Farmen, Oliver	Logging operation	70,000	70,000
The Goodyear Tire & Rubber Co.	Rubber and rubber products	-	100,000
The Goodyear Tire & Rubber Co.	Rubber and rubber products	-	1,900,000
Koppers Co., Inc.	Timber operation	-	325,000
R. J. Noble Company	Sand and gravel operation	200,000	200,000
	Totals . . . . .	447,000	2,772,000
<b>GUINEA:</b>			
Oldi Mathieson Chemical Corp.	Bauxite mining & alumina pro-	-	32,000,000
Onaf Corporation	duction ditto	-	40,000,000
	Total . . . . .		72,000,000
<b>HAITI:</b>			
Louis Scharf, et al	Chocolate & Associated products	63,000	63,000
Louis Scharf, et al	ditto	117,000	117,000
*West India Fruit & SS Co.	Production, processing and	-	1,000,000
	importing bananas Total . .	180,000	1,180,000
<b>INDIA:</b>			
American Home Products Corp.	Pharmaceuticals	84,612	42,306
American Home Products Corp.	Pharmaceuticals	134,720	134,720
Johnson & Johnson	Surgical dressings	756,000	-
Merck & Co., Inc.	Pharmaceuticals	5,040,000	-
Otis Elevator Company	Elevators	460,000	630,000
*Phillips Petroleum Corp.	Carbon black plant	787,500	787,500
	Total . . . . .	7,262,832	1,594,526
<b>IRAN:</b>			
*Dresser Industries, Inc.	Mining and processing barite ores	250,000	250,000
* Ditto	ditto	175,000	175,000
The B. F. Goodrich Co.	Rubber tubes and tires	3,080,000	3,080,000
The B. F. Goodrich Co.	Rubber tubes and tires	1,450,000	1,120,000
The B. F. Goodrich Co.	Rubber tubes and tires	6,000,000	2,000,000
*Phillip Brothers Division, Minerals and Chemicals	Chrome mining and marketing	522,666	522,666
Philipp Corporation			
Webster Publishing Co.	Book publishing	20,177	20,177
	Totals . . . . .	11,497,843	7,167,843
<b>ITALY:</b>			
American Home Products Corp.	Pharmaceuticals	288,000	288,000
American Home Products Corp.	Pharmaceuticals	1,082,350	640,572
American Home Products Corp.	Pharmaceuticals	571,000	396,000
American Home Products Corp.	Pharmaceuticals	480,000	240,000
American Home Products Corp.	Pharmaceuticals	1,152,000	576,000
American Home Products Corp.	Pharmaceuticals	240,000	200,000
American Home Products Corp.	Pharmaceuticals) War risk contracts (**	507,040	
American Home Products Corp.	Pharmaceuticals)	169,013	
		676,053	
American Motels of Italy	Motels	195,000	172,500
Associated Seed Growers, Inc.	Seed cultivation	87,500	150,000
Associated Seed Growers, Inc.	Seed cultivation	340,000	340,000

\*Issued since June 30, 1960  
 \*\*War Risk

INVESTOR	PRODUCT	CONVERTIBILITY	EXPROPRIATION
<u>ITALY (Continued)</u>			
Don Baxter	Intravenous solutions	\$ 29,190	\$ 29,190
Godfrey L. Cabot, Inc.	Carbon black	1,130,000	1,130,000
Godfrey L. Cabot, Inc.	Carbon black	4,000,000	-
Godfrey L. Cabot, Inc.	Carbon black	659,000	659,000
Godfrey L. Cabot, Inc.	Carbon black	806,000	806,000
Caltex Oil Products Co.	Oil refinery	4,630,000	-
Chicago Molded Products	Plastics	35,000	-
W. R. Grace & Co.	Food preserving bags	107,700	-
W. R. Grace & Co.	Food preserving bags	107,688	-
Houdry Process Corporation	Petroleum refining	75,000	-
E. F. Houghton & Company	Chemicals & lubricants	17,000	-
Mine Safety Appliances Co.	Safety appliances & equipment	87,750	43,875
Monsanto Chemical Company	Chemicals	42,000,000	22,000,000
Monsanto Chemical Company	Chemicals	11,400,000	5,700,000
M.S.A. Financing Corp.	Safety appliances & equipment	2,250	1,125
National Aluminate Corp.	Boiler compounds	1,331,000	271,000
National Biscuit Company	Biscuits and crackers	900,000	-
Olin Mathieson Chemical Co.	Industrial chemicals	8,551,800	4,275,900
Olin Mathieson Chemical Co.	Industrial chemicals	2,500,000	-
Otis Elevator Company	Elevators and elevator equip.	192,500	-
Joseph Pacifico	Building stone	20,000	-
Pennsalt Chemicals Corp.	Refrigerants, aerosol propellants and chemicals	375,000	375,000
Raytheon Manufacturing Co.	Electronic tubes	329,000	-
The Smyth Manufacturing Co.	Bookbinding equipment	67,440	67,440
The Smyth Manufacturing Co.	Bookbinding equipment	33,851	33,852
Socony Mobil Oil Co., Inc.	Oil refinery	5,600,000	2,800,000
Socony Mobil Oil Co., Inc.	Cracking unit	7,234,000	3,617,000
Standard Oil Co. (N.J.)	Oil refinery	14,487,500	-
Syntron Company	Vibratory equipment	36,000	-
The Torrington Co.	Steel needles	2,300,000	-
Westinghouse Air Brake Co.	Railroad equipment	60,300	-
	Totals . . . . .	113,540,819	44,812,454
<u>JAPAN:</u>			
Dow Chemical Internat'l Ltd.	Production of plastics	560,000	560,000
Dow Chemical Internat'l Ltd.	Production of plastics	812,000	812,000
Hamilton Watch Company	Watches	500,000	50,000
United Engineering & Foundry	Machinery	1,000,000	1,000,000
	Total . . . . .	2,872,000	2,422,000
<u>JORDAN</u>			
Edwin W. Pauley & Phillips Petroleum Co.	Oil exploration	-	6,000,000
Phillips Petroleum Co.	Oil exploration	-	750,000
Robert L. Parker	Oil exploration equipment	-	1,250,000
	Total . . . . .		8,000,000
<u>THE NETHERLANDS:</u>			
A-P Controls Corp.	Oil heater regulators	75,000	50,000
American Home Products Corp.	Pharmaceuticals	210,000	105,000
Dow Chemical Company	Chemicals	2,640,000	1,320,000
Henry Drake	Writing fluids	29,750	17,000
Fluor Corp., Ltd.	Designing & engineering oil and chemical plants	900,000	-

INVESTOR	PRODUCT	CONVERTIBILITY	EXPROPRIATION
<u>The Netherlands (Cont'd)</u>			
H. J. Baker Brothers	Castor oil derivatives	\$ 16,085	\$ 19,800
H. E. Sonnenberg	Venetian blinds	175,000	-
Louis E. Stahl	Chemical finishes	-	50,000
Kresno-Stamm Mfg. Co.	Oil burners	70,000	-
Kresno-Stamm Mfg. Co.	Oil burners	20,000	-
Sparkler International Ltd.	Industrial filters	16,488	-
Tokheim Oil Tank & Pump Co.	Oil tanks and pumps	350,000	200,000
United Greenfield Corp.	Drills and other tools	52,512	26,256
United Greenfield Corp.	Drills and other tools	1,590,000	795,000
United Greenfield Corp.	Drills and other tools	700,000	700,000
United Greenfield Corp.	Drills and other tools	600,000	600,000
	Total . . . . .	<u>7,444,835</u>	<u>3,883,056</u>
<u>PAKISTAN:</u>			
General Mills	Food processing	480,000	315,000
Warner Lambert	Pharmaceuticals	179,000	350,000
	Total . . . . .	<u>659,000</u>	<u>665,000</u>
<u>PARAGUAY:</u>			
Pure Oil Co. of Paraguay, Inc. (Williams Bros. Corp., Sinclair Paraguayan Oil Co., Edgewater Oil Co., and Paraguay Gulf Oil Co.)	Exploration and exploitation for oil	-	3,000,000
<u>PERU:</u>			
General Foods Corporation	Food processing	50,000	-
General Foods Corporation	Food processing	74,000	-
W. R. Grace & Co.	Caustic soda, chlorine, etc., for synthetic fertilizer	3,000,000	-
W. R. Grace & Co.	ditto	112,600	-
Kellogg Credit Corporation	Telephone service	8,220,468	-
	Total . . . . .	<u>11,457,068</u>	
<u>PHILIPPINES:</u>			
Consolidated Dairy Prod. Co.	Dairy products	660,000	-
Phelps Dodge Corporation	Metal ores and alloys	357,000	765,000
Phelps Dodge Corporation	Metal ores and alloys	-	293,250
Rheem Manufacturing Co.	Metal drums	200,000	250,000
The B. F. Goodrich Co.	Tires and tubes	1,500,000	792,000
The B. F. Goodrich Co.	Tires and tubes	1,200,000	-
The B. F. Goodrich Co.	Tires and tubes	792,000	1,200,000
	Total . . . . .	<u>4,709,000</u>	<u>3,300,250</u>
<u>THAILAND:</u>			
Harry F. R. Dolan	Tapioca rice	49,400	100,000
Harry F. R. Dolan	Tapioca rice	50,000	50,000
Internat'l Dairy Engineering Co. of Asia, Inc.	Dairy products	207,500	207,500
	Total	<u>306,900</u>	<u>357,500</u>

INVESTOR	PRODUCT	CONVERTIBILITY	EXPROPRIATION
<b>TURKEY:</b>			
* California Texas Oil Corporation	Oil refinery	\$ 9,800,000	\$ -
Bank of America	Hotel furnishings	29,357,000	-
Federal Motor Truck Co.	Trucks & vehicles parts	1,049,600	-
General Electric Co., Inc.	Electrical products	187,339	-
Goodyear Internat'l Corp.	Tires and retreading	137,500	-
Marshall Oil & Chemical Co.	Tires and retreading	40,000	-
Marshall Oil & Chemical Co.	Waste oil refinery	84,000	-
Olin Mathieson Chem. Corp.	Resin base and varnish	59,000	-
Olin Mathieson Chem. Corp.	Pharmaceuticals	96,863	-
Olin Mathieson Chem. Corp.	Pharmaceuticals	2,711,450	-
	Total . . . . .	<u>43,993,084</u>	-
<b>UNITED KINGDOM:</b>			
Automatic Switch Co.	Electrical control equipment	580,000	-
Barber-Green Company	Construction machinery	47,565	-
Brown & Sharpe Mfg. Co.	Machine tools	1,400,000	-
Brown & Sharpe Mfg. Co.	Machine tools	1,400,000	-
Brown & Sharpe Mfg. Co.	Machine tool repairs	1,120,000	-
Brown & Sharpe Mfg. Co.	Machine tools	560,000	-
Godfrey L. Cabot, Inc.	Carbon black	2,025,000	-
Chicago Molded Products	Plastics	70,000	-
Cincinnati Shaper Co.	Machine tools	1,008,000	-
Cincinnati Shaper Co.	Machine tools	985,000	-
Cone Automatic Machine Co.	Automatic screw machines	262,500	-
Cone Automatic Machine Co.	Machine tools and parts	1,675,000	-
Cooper Alloy Foundry Co.	Stainless steel valves	153,500	-
Dictaphone Corporation	Dictaphones	350,000	-
Drilling & Exploration Co.	Drilling for oil and gas	420,000	-
Euclid Road Machinery Co.	Earth moving equipment	857,500	-
General Times Instrument Corp.	Clocks and watches	1,000,000	-
W. R. Grace & Co (TRINIDAD)	Chemical fertilizer	17,729,125	-
Jacobs Mfg. Co.	Drill chucks	650,350	-
Knott Hotels Corporation	Hotel operations	1,436,100	-
Knott Hotels Corporation	Hotel operations	1,300,000	-
Kraft Foods	Food processing	1,379,514	-
Kraft Foods	Food processing	1,278,457	-
Landis Tool Co.	Precision grinding machines	4,600,000	-
Landis Tool Co.	Precision grinding machines	313,998	-
Lapointe Machine Tool Co.	Machine tools	53,365	-
Ledgehill Internat'l Inc. (J)	Paint and related products	56,000	-
Ledgehill Internat'l Inc. (JAMAICA)	Ready-mix concrete	150,000	-
Leeds & Northrup Company	Control instruments	392,000	-
Metallizing Eng. Co., Inc.	Metal spray equipment	103,750	-
McGraw-Hill Internat'l Corp.	Publishing	40,000	-
Mine Safety Appliance Co.	Miners Lamps	250,000	-
Minneapolis-Honeywell Reg. Co.	Regulating instruments	300,000	-
Parke, Davis & Company	Pharmaceuticals	735,000	-
Pocket Books, Inc.	Publishing	218,750	-
Preferred Utilities Mfg. Co.	Oil burners	60,000	-
Ro-Search, Inc.	Shoes	500,000	-
S. F. Appliances	Home appliances	49,000	-
E. R. Squibb & Sons	Pharmaceuticals	981,750	-

INVESTOR	PRODUCT	CONVERTIBILITY	EXPROPRIATION
<u>United Kingdom (Continued)</u>			
Standard Brands, Inc.	Soluble coffee	\$ 75,000	\$ -
The Haloid Company	Photocopying	3,000,000	-
Universal Oil Products	Catalyst for petroleum refining	750,000	-
	Total . . . . .	<u>50,336,224</u>	<u>-</u>
	<u>War Risk</u>		
Totals for all countries . . .	\$ <u>676,053</u>	\$310,295,441	\$234,362,778

\*Grand total for all Guaranties written: \$ 545,334,272

\*While this total represents all guaranties issued since the beginning of the Investment Guaranty Program in 1948, as of September 30, 1960, the maximum outstanding liability was \$428,489,420.



## Countries Where Investment Guaranties Are Available

As of January 1, 1960, due to a statutory amendment, guaranties may only be issued for underdeveloped countries and areas, thus precluding issuance of new guaranties for developed areas where investment guaranty inter-government agreements have been executed.

<u>Convertibility</u>	<u>Expropriation</u>	<u>War Risk</u>
Afghanistan	Afghanistan	Afghanistan
Argentina	-	-
Bolivia	Bolivia	-
Chile	-	-
China, Republic of	China, Republic of	China, Republic of
Colombia	-	-
Costa Rica	Costa Rica	-
Cuba	Cuba	-
Ecuador	Ecuador	-
El Salvador	El Salvador	-
Ghana	Ghana	-
Greece	Greece	-
Guatemala	Guatemala	-
Haiti	Haiti	-
Honduras	Honduras	-
India	India	-
Iran	Iran	-
Israel	Israel	Israel
Jordan	Jordan	Jordan
Korea	Korea	Korea
Liberia	Liberia	Liberia
Malaya, Federation of	Malaya, Federation of	-
Nepal	Nepal	Nepal
Nicaragua	Nicaragua	Nicaragua
Pakistan	Pakistan	-
Paraguay	Paraguay	-
Peru	-	-
Philippines	Philippines	-
Portugal	Portugal	-
Spain	Spain	-
Sudan	Sudan	Sudan
Thailand	Thailand	Thailand
Tunisia	Tunisia	Tunisia
Turkey	Turkey	-
Viet Nam	Viet Nam	Viet Nam
Yugoslavia	Yugoslavia	-

Although the Mutual Security Act of 1959 excluded economically developed countries for purposes of the Investment Guaranty Program, guaranties are still available for the underdeveloped overseas dependencies of the following countries:

Belgium	Belgium	-
Denmark	Denmark	-
France	France	-
Italy	Italy	Italy
Netherlands	Netherlands	-
United Kingdom	-	-

## INTERNATIONAL COOPERATION ADMINISTRATION

Office for Private Enterprise

Investment Guaranties Division

Washington 25, D. C.

Quarterly Report of Applications in Process, September 30, 1960

Country	Convertibility	Expropriation	War Risk	Totals
Afghanistan	\$ 400,000	\$ 200,000	\$ 180,000	\$ 780,000
Argentina	282,610,000	-	-	282,610,000
Bolivia	39,340,000	44,340,000	-	83,680,000
Chile	45,920,000	-	-	45,920,000
China, Republic of	5,730,000	6,030,000	5,623,500	17,383,500
Colombia	53,551,900	-	-	53,551,900
Costa Rica	18,909,555	18,707,791	-	37,617,346
Ecuador	20,673,500	10,072,500	-	30,746,000
El Salvador	753,500	681,450	-	1,434,950
French Africa	2,050,000	40,850,000	-	42,900,000
Ghana	4,700,000	4,720,000	-	9,420,000
Greece	23,895,000	21,735,000	-	45,630,000
Guatemala	25,769,000	25,609,000	-	51,378,000
Haiti	33,910,000	17,429,000	-	51,339,000
Indonesia	350,200	3,337,650	-	3,687,850
India	46,951,093	29,171,093	-	76,122,186
Iran	8,035,000	5,483,500	-	13,518,500
Israel	756,000	756,000	756,000	2,268,000
Jordan	5,000,000	5,000,000	4,500,000	14,500,000
Korea	4,025,000	4,025,000	2,922,500	10,972,500
Liberia	-	52,250,000	-	52,250,000
Malaya, Federation of	-	300,000	-	300,000
Nicaragua	24,487,707	15,492,707	3,000,000	42,980,414
Pakistan	10,067,500	5,600,275	-	15,667,775
Paraguay	1,035,000	916,800	-	1,951,800
Peru	3,936,200	-	-	3,936,200
Philippines	26,070,000	22,575,100	-	48,645,100
Portugal (and French Angola)	2,550,000	2,550,000	-	5,100,000
Spain (and Spanish Sahara)	2,555,000	11,242,500	-	13,797,500
Sudan	100,000	100,000	90,000	290,000
Taiwan	9,523,000	4,091,500	3,724,500	17,339,000
Tunisia	1,062,075	1,062,075	321,000	2,445,150
Turkey	14,718,000	13,484,000	-	28,202,000
U.K. Territories (L.A. & HongKong)	80,155,000	-	-	80,155,000
Viet Nam	6,628,000	4,729,000	3,141,100	14,498,100
Yugoslavia	2,000,000	2,000,000	-	4,000,000
<b>Totals</b>	<b>\$ 808,217,230</b>	<b>\$374,541,941</b>	<b>\$ 24,258,600</b>	<b>\$1,207,017,771</b>
<b>BY AREAS</b>				
Europe	4,605,000	3,362,500	-	7,967,500
Latin America	571,401,562	136,586,898	3,000,000	710,988,460
Africa	10,412,075	111,412,075	411,000	122,235,150
Near East	52,404,000	46,458,600	5,256,000	104,118,500
South Asia	57,418,593	34,971,368	180,000	92,569,961
Far East	111,976,000	41,750,500	15,411,600	169,138,200
<b>Totals</b>	<b>\$ 808,217,230</b>	<b>\$374,541,941</b>	<b>\$24,258,600</b>	<b>\$1,207,017,771</b>

\*Additionally, over \$750 million in applications are on hand for countries not yet in the program or for coverage not yet available.

## Government Insurers, Active 12 Years, Soon May Face First Claim

\* \* \*

### ICA's Investment Guarantees May Repay American Firms For Losses in Philippines

By ARLEN J. LARGE

Staff Reporter of THE WALL STREET JOURNAL

WASHINGTON — With every passing day, Uncle Sam is quietly chalking up an increasingly remarkable record in the annals of the insurance business.

One of his far-flung insurance agencies, after 12 years of operation, is still waiting to pay its first claim. Surprisingly, the type of coverage offered sounds hazardous indeed: Protecting U.S. business investments overseas against seizure, war damage and currency exchange losses. Some of these calamities have occurred, all right. But partly because some foreign lands are excluded and partly because over-confident investors failed to cover themselves in such trouble spots as Cuba, not one claim has even been filed.

This record soon may be blemished, however. The Government insurers have a hunch that the first claims may at long last be coming, and not from any land of fire-eating dictators. The pioneer claimants, it's believed, may be companies operating in the Philippines under policies protecting a firm's ability to convert local-money profits into dollars. In April, the Philippine government decreed that some foreign profits must be shipped home at a less favorable rate than before. Four insured American companies could be affected.

#### A Change Increases Risks

Furthermore, these foreign investment guarantees, first started to encourage private investment as aids to Europe's industrial recovery after World War II, are being slanted more and more toward "underdeveloped" nations in Asia, Latin America and Africa. Among the biggest policies now in force are two expropriation contracts, totaling \$72 million, covering Olin Mathieson Chemical Corp.'s aluminum investments in newly-independent Guinea. The general shift in emphasis admittedly poses greater insurance risks—and the possibility of multiplying claims in years ahead.

That development, in turn, could test whether the insurers' funds built up from policyholders' premiums—a \$5 billion sum so far—will be adequate to meet demands upon them. If not, the insurers would have to fall back on the Federal Treasury.

For now, though, the record remains miraculously intact. The International Cooperation Administration's investment guarantee program has been in operation ever since 1948. Since then, billions of American dollars have been invested in enterprises abroad. U.S. firms, worried about seizure of property by governments or about difficulties in getting profits back home, have signed up for nearly \$500 million of Federal investment insurance;

in some cases, officials say, businessmen would not have embarked on an overseas venture at all if this protection had not been available. Nearly \$400 million of these policies are still in force. And with eyes on Premier Castro's takeovers of U.S.-owned property in Cuba, businessmen have applied for \$1 billion more covering proposed operations in 34 so-called underdeveloped nations.

The absence of claims against the investment policies results from both careful operation and plain luck. I.C.A. investment insurance men won't even offer a policy outside the 43 nations with which they have reached general understandings on convertibility of currency into dollars and on policies with regard to expropriation. These agreements are not firm guarantees against future trouble, but they lead to "a certain indefinable moral obligation" on the part of the host countries, says Charles Warden, head of the investment guarantee program. The agreements have been concluded with such scattered nations as Nepal, Yugoslavia and Guatemala. Nations which are excluded include Iraq, Brazil and Indonesia.

In addition, companies seeking insurance first must also reach understandings with the nations in which they plan to invest. These supplementary agreements spell out the ways that the country's currency and other policies would apply to the operation of the companies.

#### Castro's Seizures

Luck has saved the Government a raft of claims from Cuba, where Fidel Castro's government has been tendering government bonds as only partial compensation for seizures; United Fruit Co. has been offered only \$6 million for land it values at \$38 million. Amazingly, none of the U.S. firms operating in Cuba is insured under the I.C.A. program. In 1957 the I.C.A. got permission from the old Batista government to open insurance protection for U.S. investments, but couldn't find any interested clients.

"Everyone thought Cuba was safe as a church," recalls one official.

Because the I.C.A. only insures new investments, it's too late for companies already in Cuba to get coverage on their established operations. With considerable understatement, I.C.A. men say, there's little enthusiasm now among U.S. businessmen to sink new money into the island. What's more, the I.C.A. isn't encouraging new applicants for Cuban coverage. A firm which asked about insurance a few weeks ago was told pointedly that it would take a long time to process the application. The company took the hint and dropped the idea.

From a diplomatic and fiscal standpoint, I.C.A. officials in charge of the investment guarantee program are glad that their 98 client firms haven't needed to file any claims. But, having collected some \$5 million in premiums from the insured companies, these Federal insurance agents are a mite defensive about the cobwebs on their claim-paying checkbook. "It's a lot of hooey to say we'll never get a claim," protests an I.C.A. private-investment booster. "That's like a life insurance policyholder expecting not to die."

(over)

## New Rules in Philippines

The anticipated claims from the Philippines, if they come, will prove the point. In a series of regulations announced in April, the Philippine government said some foreign profits must be shipped home at a less favorable rate of exchange than before. Under the old rules, a profit of, say, 4,000 pesos could be converted into \$2,000 for shipment home; the new rules make a 4,000-peso profit equal to only \$1,000.

Four firms—B. F. Goodrich Co., Phelps Dodge Corp., Rheem Manufacturing Co. and Consolidated Dairy Products Co.—currently are insured for convertibility losses in the Philippines, with policies totaling \$7.9 million. None so far has filed a claim. Should a claim come in, the I.C.A. will follow this payment system: The claim will be turned over to the Export-Import Bank, a U.S. foreign lending agency, for investigation. If it's decided the claim is valid, the bank acting as the I.C.A.'s agent, will wire the client a check. The I.C.A. has its \$5 million kitty from premiums to pay claims with, plus reserve authority to draw out nearly \$200 million from the Treasury.

If a policy covers convertibility losses, Uncle Sam guarantees to reimburse the client in dollars if "adverse" exchange controls prevent the normal shipment of funds to the U.S. for 30 days or more. Under expropriation insurance, the I.C.A. will pay a claim if a foreign government seizes the client's property without full compensation. If the client owns part or all of a foreign firm, it can file a claim if the foreign government interferes with the property's management for a year or more. Under war risk insurance, the client can get 90% coverage on its property's book value against military damage; claims must be at least \$10,000 each.

The investment guarantee program is only one of the Government's specialized insurance operations. Besides the Veterans Administration's big life insurance program for ex-G.I.'s, Federal coverage runs a gamut from protection of mortgage lenders against failure of a home owner to pay his mortgage, to protection of farmers against hail and drought damage to crops. In contrast to the I.C.A.'s claimless record, the Federal Crop Insurance Corp. has paid out \$219 million in claims since it, too, started in 1948.

## No New Policies in Britain, France

The foreign investment guarantees are not only being oriented toward underdeveloped nations in Asia, Africa and Latin America, but in 1959 Congress actually forbade the extension of new coverage in such relatively prosperous countries as Britain, France, Germany, the Netherlands and Japan. Insurance already in effect in those nations was not canceled, however; some \$239 million of investments in Western Europe and Japan are still protected. This sum exceeds the \$161 million of coverage in force in underdeveloped nations, but the balance is shifting rapidly.

Though the new emphasis on investment protection in Asia, Africa and Latin America poses greater insurance risks, no increase in premium rates is being considered so far. The switch is a key part of the Administration's efforts to coax private funds into these capital-poor areas as a supplement to Government aid money.

I.C.A. officials bristle at any suggestion that an increased outward flow of investment capital, no matter what its political and diplomatic virtues, may worsen the U.S. balance-of-payments deficit—the excess of this country's total payments to foreigners over its income from them. American investments abroad, along with Government aid outlays

and payments for imports, are entered as "minus" figures in the balance-of-payments ledgers. Last year, this total dollar exodus topped U.S. receipts from abroad by \$3.8 billion, a gap which was partly filled by sales of U.S. gold to foreigners. But Federal insurance men insist the export of investment capital can have nothing but beneficial effects on the long-run balance of payments, both as U.S. businessmen reap profits from overseas operations, and as underdeveloped nations become prosperous enough to buy more American goods.

## Nations Must Agree

Uncle Sam will write no insurance policies in countries which haven't agreed to the idea ahead of time in diplomatic negotiations. Since 1948, 43 nations have agreed to convertibility coverage for U.S. firms operating locally; of these, 39 also accept expropriation insurance, and 12 have agreed to all three types of insurance—convertibility, expropriation and war risk.

Of the 43 countries that have signed formal agreements for inclusion under the insurance program, 19 have yet to receive their first guaranteed investment. However, insurance applications by U.S. firms are pending for all these nations. Among them are Afghanistan, Colombia, Ghana, Korea and South Vietnam.

Active negotiations on insurance agreements are in progress between U.S. diplomats and the governments of several additional nations. The new prospects include the United Arab Republic, Chile, Uruguay, Morocco and Yemen. Argentina already has agreed to a convertibility insurance program, but the agreement awaits ratification by its Congress. Final action, expected any day, will open the way for approval of some \$311 million of pending applications for coverage by U.S. firms.

The \$1 billion in pending applications for insurance covers proposed operations in 34 foreign countries, all of them officially regarded as underdeveloped. Not all these applications will result in final insurance contracts, because some of the proposed operations may fall through.

Here's the way a U.S. firm buys Uncle Sam's investment insurance:

A company planning a subsidiary in, say, India, is encouraged to file (in quadruplicate, of course) a preliminary application while the deal is still in the tentative stage. This shows the I.C.A. the investment is "new," and therefore eligible for insurance. After this step, the company clears the whole plan with the foreign government, ironing out in advance such points as the standard for sending profits back home. When these preliminaries are out of the way, the I.C.A. writes an insurance contract and the client begins paying premiums at the general annual rate of  $\frac{1}{2}$  to 1% of the amount of coverage for each of the three kinds of insurance.

The prior diplomatic agreements between governments, plus the detailed negotiations between the U.S. firms and foreign officials, are mainly responsible for the lack of claims under the program so far, I.C.A. men believe.

Another reason for the lack of claims is the failure of one phase of the program—war risk insurance—to catch on with U.S. clients. This is due, officials concede, to the rules limiting war risk policies to protection against physical damage to plants damaged in formal hostilities between two armies; it doesn't cover the likelier threat of damage from rioting mobs or internal revolution. Because this specialized protection is lacking, many firms decide to protect their facilities from physical hazards through regular policies with private insurance firms.

DRAFT NOTE AGREEMENT

WHICH MAY BE USED TO INSTITUTE THE INVESTMENT GUARANTY PROGRAM  
FOR CONVERTIBILITY & EXPROPRIATION GUARANTIES

\* \* \* \* \*

Excellency:

I have the honor to refer to conversations which have recently taken place between representatives of our two Governments relating to guaranties against inconvertibility and losses due to expropriation authorized by Section 413 (b)(4) of the Mutual Security Act of 1954, as amended. I also have the honor to confirm the following understandings reached as a result of these conversations:

1. The Governments of the United States of America and of \_\_\_\_\_ will, upon the request of either of them, consult respecting projects in \_\_\_\_\_ proposed by nationals of the United States of America with respect to which guaranties under Section 413 (b)(4) of the Mutual Security Act of 1954, as amended, have been made or are under consideration.
2. The Government of the United States of America agrees that it will issue no guaranty with respect to any project unless it is approved by the Government of \_\_\_\_\_.
3. With respect to such guaranties extending to projects which are approved by the Government of \_\_\_\_\_ in accordance with the provisions of the aforementioned Section 413 (b)(4), the Government of \_\_\_\_\_ agrees:
  - (a). That if the Government of the United States of America makes payment in United States dollars to any person under any such guaranty, the Government of \_\_\_\_\_ will recognize the transfer to the Government of the United States of America of any currency, credits, assets, or investment on account of which such payment is made, and the subrogation of the Government of the United States of America to any right, title, claim or cause of action existing in connection therewith;
  - (b). That (local currency unit) amounts acquired by the Government of the United States of America pursuant to such guaranties shall be accorded treatment not less favorable than that accorded to private funds arising from transactions of United States nationals which are comparable to the transactions covered by such guaranties, and that such (local currency unit) amounts shall be freely available to the Government of the United States of America for administrative expenses;



- (c). That any claim against the Government of \_\_\_\_\_ to which the Government of the United States may be subrogated as a result of any payment under such a guaranty, shall be the subject of direct negotiations between the two Governments. If within a reasonable period, they are unable to settle the claim by agreement, it shall be referred for final and binding determination to a sole arbitrator selected by mutual agreement. If the Governments are unable, within a period of three months, to agree upon such selection, the arbitrator shall be one who may be designated by the President of the International Court of Justice at the request of either Government.

Upon receipt of a note from Your Excellency indicating that the foregoing provisions are acceptable to the Government of \_\_\_\_\_, the Government of the United States of America will consider that this note and your reply thereto constitute an agreement between the two Governments on this subject, the agreement to enter into force on the date of your note in reply.

Accept, Excellency, the renewed assurances of my distinguished consideration.

/s/ \_\_\_\_\_

ICM:FE/IGD  
January 15, 1960

GC:   
L/E:   
L/T: WEL

DRAFT NOTE AGREEMENT  
WHICH MAY BE USED TO INSTITUTE THE INVESTMENT GUARANTY PROGRAM  
FOR CONVERTIBILITY, EXPROPRIATION, & WAR RISK GUARANTIES

\* \* \* \* \*

Excellency:

I have the honor to refer to conversations which have recently taken place between representatives of our two Governments relating to guaranties authorized by Section 413 (b)(4) of the Mutual Security Act of 1954, as amended. I also have the honor to confirm the following understandings reached as a result of these conversations:

1. The Governments of the United States of America and of \_\_\_\_\_ will, upon the request of either of them, consult respecting projects in \_\_\_\_\_ proposed by ~~citizens~~ <sup>nationals</sup> of the United States of America with respect to which guaranties under Section 413 (b)(4) of the Mutual Security Act of 1954, as amended, have been made or are under consideration.
2. The Government of the United States of America agrees that it will issue no guaranty with respect to any project unless it is approved by the Government of \_\_\_\_\_.
3. With respect to such guaranties extending to projects which are approved by the Government of \_\_\_\_\_ in accordance with the provisions of the aforementioned Section 413 (b)(4), the Government of \_\_\_\_\_ agrees:
  - (a). That if the Government of the United States of America makes payment in United States dollars to any person under any such guaranty, the Government of \_\_\_\_\_ will recognize the transfer to the Government of the United States of America of any currency, credits, assets, or investment on account of which such payment is made, and the subrogation of the Government of the United States of America to any right, title, claim or cause of action existing in connection therewith;
  - (b). That (local currency unit) amounts acquired by the Government of the United States of America pursuant to such guaranties shall be accorded treatment not less favorable than that accorded to private funds arising from transactions of United States nationals which are comparable to the transactions covered by such guaranties, and that such (local currency unit) amounts shall be freely available to the Government of the United States of America for administrative expenses;

Convertibility, Expropriation, & War Risk

- 2 -




- (c). That any claim against the Government of \_\_\_\_\_ to which the Government of the United States of America may be subrogated as a result of any payment under such a guaranty, shall be the subject of direct negotiations between the two Governments. If within a reasonable period, they are unable to settle the claim by agreement, it shall be referred for final and binding determination to a sole arbitrator selected by mutual agreement. If the Governments are unable, within a period of three months, to agree upon such selection, the arbitrator shall be one who may be designated by the President of the International Court of Justice at the request of either Government;
- (d). That if the Government of the United States of America issues guaranties to cover losses by reason of war with respect to investments in \_\_\_\_\_, the Government of \_\_\_\_\_ agrees that nationals of the United States of America to whom such guaranties have been issued, will be accorded by the Government of \_\_\_\_\_ treatment no less favorable than that accorded, in like circumstances, to its nationals or nationals of third countries, with reference to any reimbursement, compensation, indemnification, or any other payment, including the distribution of reparations received from enemy countries, that the Government of \_\_\_\_\_ may make or pay for losses incurred by reason of war; if the Government of the United States of America makes payment in U.S. dollars to any national of the United States of America under a guaranty for losses by reason of war, the Government of \_\_\_\_\_ will recognize the transfer to the Government of the United States of America of any right, privilege, or interest, or any part thereof, that such nationals may be granted or become entitled to as a result of the aforementioned treatment by the Government of \_\_\_\_\_;
- (e). The aforementioned subparagraph (c) with respect to the arbitration of claims shall not be applicable to the type of guaranties against losses by reason of war provided for in subparagraph (d).

Upon receipt of a note from Your Excellency indicating that the foregoing provisions are acceptable to the Government of \_\_\_\_\_, the Government of the United States of America will consider that this note and your reply thereto constitute an agreement between the two Governments on this subject, the agreement to enter into force on the date of your note in reply.

Accept, Excellency, the renewed assurances of my distinguished consideration.

/s/ \_\_\_\_\_

ICA-PE/IGD  
January 15, 1960

CC:   
L/E:   
L/T: 





# Record Removal Notice

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<b>Document Date</b> March 3, 1948	<b>Document Type</b> Memorandum			
<b>Correspondents / Participants</b> [Legal Dept]				
<b>Subject / Title</b> Proposed Plan for Guaranteeing Foreign Private Investments against Transfer Risks and Certain Other Risks				
<b>Exception(s)</b> Attorney-Client Privilege				
<b>Additional Comments</b>		The item(s) identified above has/have been removed in accordance with The World Bank Policy on Access to Information or other disclosure policies of the World Bank Group.		
		<table border="1"><tr><td><b>Withdrawn by</b> Kim Brenner-Delp</td><td><b>Date</b> August 21, 2023</td></tr></table>	<b>Withdrawn by</b> Kim Brenner-Delp	<b>Date</b> August 21, 2023
<b>Withdrawn by</b> Kim Brenner-Delp	<b>Date</b> August 21, 2023			

UNITED STATES COUNCIL  
OF  
THE INTERNATIONAL CHAMBER OF COMMERCE, INC.

CABLE: USAINTCHAM

103 PARK AVENUE

NEW YORK 17, N. Y.

MURRAY HILL 6-3181

AN INTERNATIONAL INVESTMENT GUARANTY CORPORATION

Note: This memorandum draws heavily upon material provided by Mr. August Maffry and results also from discussions with Mr. Ralph Straus.

The purpose of this memorandum is to aid the discussion of the merits of a proposal that an international investment guaranty corporation be established. This proposal has not been made public in an official way by any organization. However, it has been discussed informally with members of the World Bank staff and with individual experts. It is expected that it will also be discussed informally at the International Businessmen's Conference sponsored by the International Chamber of Commerce in Karachi in December.

The purposes for establishing the Investment Guaranty Corporation would be twofold. First, it would aim to overcome the adverse effects on investor confidence resulting from developments like those in Cuba and the Congo.

Second, it would encourage an improvement in investment climate in member countries.

The Nature of the Corporation.

Mr. Maffry has proposed the following:

- "(1) the establishment of a corporation;
- "(2) to be called the Investment Guaranty Corporation;
- "(3) as an affiliate of the International Bank for Reconstruction and Development (on the model of the International Finance Corporation);

- "(4) with its members drawn from the membership of the International Bank;
- "(5) to be established with a capital of \$X billions, of which, say, 1% would be payable in cash to provide the Corporation with initial operating funds and funds to meet any (unlikely) early claims, the remainder to be subject to call to meet duly validated claims of investors, this capital to be subscribed by members on the basis of a formula similar to that used in setting up the International Finance Corporation;
- "(6) to enter into guaranty contracts with private investors, nationals of member governments, guaranteeing at the complete discretion of the Corporation and with full authority to fix the terms of its guaranties, with respect to new investments in the form of equity or debt, against risks of
- (a) inconvertibility,
  - (b) expropriation without adequate or effective compensation, and
  - (c) loss resulting from war or civil commotion;
- "(7) the Articles of Agreement of which should provide for raising its capital and for its management under a President responsible to a Chairman who shall be the President of the International Bank and to a board of Executive Directors constituted like the Executive Directorate of the International Finance Corporation, define its powers and immunities and provide for its liquidation if ever desired;
- "(8) and among the powers of which shall be those authorizing it to enter into agreements with member governments providing inter alia for the subrogation to the Corporation of the claims of investors for fixing premia for each type of guaranty offered and for the constitution of reserves against possible losses.
- "(9) but which should not by its terms attempt to define conditions of private investment in member countries or the treatment of private investors by member countries or the behavior of private investors operating in member countries or the remedies available to investors or to the Corporation in the event claims are made against the Corporation under its contracts of guaranty and validated by it, all of these prescriptions and proscriptions to be left for inclusion insofar as necessary and practicable in agreements between the Corporation and its members."

Benefits from establishing the Corporation.

In addition to the purposes noted above, it is held that there is an urgent need for an international system of investment guaranties under experienced management of the highest prestige. Furthermore the Corporation could complement the activities of the Bank and the International Finance Corporation in stimulating private investment.

Objections to the proposal.

Several objections have been raised during preliminary conversations.

One was that the availability of investment guaranties would weaken the incentive of less developed countries to improve the climate of investment. In reply it has been argued that there is no reason why this should be so, especially since guaranties of the Corporation would presumably be issued only in respect of investments in countries giving fair treatment to private investors. On the contrary, the effect should be to improve investment climate.

A second objection was that it would be difficult to define the risks involved, especially the risk of expropriation. In reply it is held that these risks have been satisfactorily defined by the International Cooperation Administration in connection with its existing system of investment guaranties and that such definitions could be adapted by the proposed international Investment Guaranty Corporation.

Thirdly, it has been objected that there are very fundamental difficulties in achieving an international treaty defining the responsibilities of capital-importing and capital-exporting

countries. Mr. Maffry argues that the advantage of the approach he is suggesting is that it would not require the negotiation of such a multilateral treaty. However, the same objective would be achieved through the subscription by member governments to the Articles of Agreement of the Corporation and by whatever bilateral agreements the Corporation might find it necessary to enter into with member governments.

1. Varying premiums - By class of countries - Sense of responsibility.
2. Bringing in cap. importing countries.  
    Problem Convertibility
3. Reciprocal obligations.
4. Convertibility?
5. Limited period of time 10 years.
- 6 - Internationally present schemes -  
    Mutualize the techniques.

Mr. IVERSON

22. XI. 1960 mjs

WITH THE COMPLIMENTS  
OF THE SECRETARY GENERAL OF THE  
INTERNATIONAL CHAMBER OF COMMERCE



CHAMBRE DE COMMERCE INTERNATIONALE  
INTERNATIONAL CHAMBER OF COMMERCE

38, COURS ALBERT 1<sup>er</sup> - PARIS VIII<sup>e</sup>



Economic & Financial Policy

RB

Document No.180/66

(Original)

FOR ADOPTION

COMMISSION ON TAXATION

Meeting on 20th January 1961

TAXATION POLICIES IN RELATION TO INTERNATIONAL INVESTMENT

Second Draft Report

prepared by Mr. E.B. NORTCLIFFE (UK)

Rapporteur of the Commission

on the basis of the conclusions reached

by the Commission at its meeting on 26th-27th October 1960.

N.B. Comments from National Committees should reach International Headquarters in triplicate by 2nd. January 1961 at the latest.

1. The International Chamber of Commerce has in recent years published a number of studies and statements of policy on particular aspects of taxation as it affects international trade and investment (see Appendix). The time is opportune for a general statement of policy on this subject with particular reference to the expansion of private international investment.
2. The need to accelerate the rate of economic development in the less-developed countries of the world is undeniable. In many such countries, one of the principal limiting factors is a shortage of capital, which cannot readily be made good out of savings from domestic sources. This shortage might be rapidly remedied by a genuinely favourable climate for foreign investment, and one of the main factors influencing foreign investment decisions is taxation.
3. In this statement, the International Chamber of Commerce directs attention to the taxation policies best suited to increasing and accelerating the flow of international investment and enterprise.

PART ITHE INTERNATIONAL ALLOCATION OF TAXING RIGHTSA. INTERNATIONAL DOUBLE TAXATION

4. The problem of international double taxation remains an obstacle to the international movement of capital. The dual claims to tax of the country of origin of income and the country of residence (or citizenship) of the recipient have in recent years been partially reconciled by widespread unilateral measures and by treaty. The primary right to tax of the country of origin is widely recognised, but action taken by countries of residence rarely goes far beyond allowing a credit for the tax suffered at the source or an arbitrary abatement from its tax claim.

5. In the view of the International Chamber of Commerce, the maintenance of this residual claim to tax in the country of residence is wrong in principle. It means that developing territories are unable to adopt fiscal policies which will be fully effective in relation to foreign capital and enterprise. So far as foreign investors and entrepreneurs are concerned, it is the pattern of taxation in their own country which determines the yield from activities elsewhere.

B. COUNTRY OF ORIGIN OF INCOME

6. The foundation of ICC international tax policy is that the country of origin of income has the sole right to tax that income. In order to implement this policy, all countries must accept standard rules for determining the place of origin of income for purposes of taxation.

7. The country of origin of income cannot be satisfactorily determined merely by identifying the place from which it emerges as a payment. Taken alone, such a criterion is too superficial. It is necessary to take into account also the character and situation of the activity for which the payment is made. In particular, it is necessary to determine where the related expenses are predominantly incurred.

8. On the basis of such considerations as these, the country of origin of certain types of income has been sufficiently clearly identified to command widespread adoption both unilaterally and in bilateral agreements for avoidance of double taxation :

- a) For income from real property (including interest on mortgages of real property) and income (including royalties) from the exploitation of natural resources, the country of origin is that where the property or resources are situated.
- b) For profits arising from a trade or business carried on in a permanent establishment, the country of origin is that in which the permanent establishment is situated.

"Permanent establishment" has the meaning commonly employed in bilateral agreements for the avoidance of double taxation. In recent years many refinements have been made to the concept, and the Fiscal Commission of the OEEC (in its Second Report) has evolved a definition which is a great improvement compared with the earlier forms.

It must be emphasised, however, that for the purpose of determining the territorial origin of the profits of a trade or business, a clear definition of "permanent establishment" needs to be coupled with acceptance of the principle that its situation indicates the country of origin



only of such profits as are attributable to activities carried on therein. Furthermore, no such attribution of profits can be made to the activity of mere purchase of goods.

- c) For profits from the operation internationally of ships or aircraft, the country of origin is that in which the effective place of management is situated.
- d) For income from a profession or vocation carried on at a fixed base, the country of origin is that in which the fixed base is situated.
- e) For remuneration from an employment and fees payable to a director of a company, the country of origin is that in which the duties are performed.

9. Although in principle, the tax treatment of pensions should follow that appropriate to employment income, it is generally accepted that strict adherence to the origin basis of taxation creates difficulties and inconvenience for both revenue authorities and pensioners. In bilateral agreements, therefore, it is customary for the country of origin to waive its claims in favour of the country of residence.

10. For the classes of income referred to in para.8, the country of origin is relatively easily determined, since a single country is the center of the income-earning activity and it is there that the expenses are predominantly incurred. In other cases, however, the identification of the country of origin is so difficult that it is impossible to secure universal agreement on the principle to be adopted. This is true of royalties and interest.

11. Where the income is a reward for the use in one country of knowledge or capital supplied from another, in what manner is its origin to be determined? On the one side it may be said that the creation, management and disposition of the property is a separate economic activity which earns its reward at the place where that activity is carried on. If so, the country in which the knowledge or capital is used has no great significance for tax purposes. In the country of use, the income payment is merely a cost analogous to the cost of imported goods or services. On the other hand, it may be said that the contribution of knowledge or loan-capital to a business constitutes a particular kind of participation in the activities of that business, and the origin of royalties or interest then falls to be determined in the same way as the origin of any other profit from those activities is determined.

12. The ICC regards these conflicting propositions as extreme theories which do not repay prolonged study by any prospect of reconciliation. The aim of the ICC is to suggest bases for allocation of exclusive taxing rights which are most likely to be effective in avoiding double taxation and encouraging the flow of capital and knowledge between nations. The furtherance of this aim should not be impeded or delayed by theoretical considerations if there are reasonable practical grounds for deciding that international investment and enterprise would benefit if one country or other were deemed to be the country of origin.

13. The ICC has concluded that the interests of both suppliers and users, especially those in developing territories, would best be served by allocating exclusive taxing rights over royalties to the country from which the knowledge or inspiration is derived and where the expenses connected therewith are predominantly incurred.

The term "royalties" covers all payments for the use of, or for the privilege of using, copyright, patents, designs, trade marks, secret processes and formulae, know-how and other like property.

14. Interest on debentures, loans, deposits, and other securities should preferably be taxable only in the country from which the capital is supplied. The main practical argument underlying this recommendation is that when interest is taxed in the country where the capital is invested, the potential supply of loan capital is virtually restricted to direct loans from the persons whose savings are employed.

If the immediate lender of the funds has himself borrowed them, double taxation will usually arise. By conferring exclusive rights on the country which supplies the loan capital, the borrowing country not only enjoys the benefit of transfer funds, i.e. funds dependent on the lender's credit, but is also able to tap the vast supplies of capital at the disposal of institutions, such as pension funds and charitable trusts, which, being exempt from tax on domestic investments, can scarcely be expected to tolerate less favourable treatment elsewhere.

### C. BILATERAL AGREEMENTS

15. Even when countries have rationalised the tax treatment of foreign income and of foreign residents or nationals by unilateral action which recognises exclusive taxing rights over defined classes of income, there still remain a number of points appropriately dealt with in bilateral agreements, e.g.

- a) Differences in national tax systems may need to be reconciled, especially in the matter of common definitions of terms.
- b) Taxes charged on or withheld from dividends paid by a company in one country to a resident of another may be reduced or eliminated altogether.
- c) For the convenience of both taxpayers and taxing authorities, it is desirable that taxing rights over certain kinds of income, e.g. private pensions, be allocated to the country of residence rather than the country of origin.
- d) Similarly, in order to facilitate the exchange of knowledge and skills between countries, the country in which the duties are performed may waive its right to tax :
  - da) residents of another State visiting that country for a period or periods not exceeding six months in any one year ;
  - db) professors and teachers whose stay does not exceed two years ;
  - dc) students and business apprentices from the other State .
- e) It is desirable to provide taxpayers with an effective remedy in the event of difficulties and disputes arising between the two tax jurisdictions.

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## PART II

### THE TAX TREATMENT OF DIVIDENDS

16. Model rules for the tax treatment of dividends flowing from one country to another are difficult to formulate in general terms. It is in this field that differences in national tax systems render a single solution somewhat elusive. Furthermore, economic arguments again do not point conclusively to one country or another being the country of origin to which exclusive taxing rights over dividends may properly be allocated.

17. A country where equity capital is invested may reasonably claim that it has the right to tax dividends because it is there that the investment fructifies. On the other hand, the country from which the capital is supplied may claim equally validly that the risk of loss (which is the true 'cost' of an equity investment) must be borne by its national economy. In addition, it may claim that the shareholder remains more clearly liable to taxation as a person than does the company or individual who wholly or partly severs his national connection by taking an employment or engaging in a trade outside his own country.

18. The ICC does not pretend that the theoretical arguments point clearly to one or other as the country to which exclusive taxing rights should be allocated. At the same time, it is pertinent to bear in mind that the country where the capital is invested will ordinarily have exercised its right to tax the profits out of which dividends are paid, and will therefore already be collecting a proportion of the taxes which normally impinge upon company profits and dividends.

19. ICC policy for the tax treatment of dividends is a derivative of (a) best practice, i.e. methods which have been shown empirically - by unilateral action or bilateral treaties - to involve the least interference with the international flow of capital and (b) the principle that, subject only to differences in national tax rates, the ultimate weight of taxation on dividends should not be affected by differences in the structure or situation of companies and shareholdings.

#### Inter-company dividends

20. The treatment of dividends flowing from a company incorporated, or managed and controlled, in one country to a company incorporated, or managed and controlled, in another country should be a mere extension of best practice in relation to domestic inter-company dividends.

21. In the domestic area it is accepted that profits may be taxed in the hands of the company by which they are earned and the dividends distributed by the company will be taxed in the hands of individual shareholders. Many countries recognise that the capacity of profits and dividends to sustain further taxation is not increased by the mere fact that they flow through one or more other companies en route from their source to the ultimate individual shareholders, but they frequently give effect to the principle only in relation to purely domestic dividends.

22. Corporate profits should not be taxed more than once, and the right to tax belongs exclusively to the country of origin of the profits wherever the operating company may be incorporated or managed and controlled.

23. The imposition of tax on inter-company dividends is undesirable whether the dividends flow between two companies in the same country or between two companies situated in different countries. No other single article of fiscal policy has greater importance to the international flow of capital. Its adoption should be regarded not so much as an incentive to foreign investment as a minimum standard of international fair play.

24. To a greater or lesser degree capital-exporting countries have in recent years edged their way slowly towards this conclusion, but few have gone the whole way. The following reservations are frequently encountered

- a) A company is exempt from corporate tax on dividends received only if it is an investment holding company; or, if it has a substantial interest in the paying company; or if the paying company is subject to a tax of a similar nature.
- b) The claim to corporate tax is retained but collection is deferred until the dividends are repatriated; or, until the receiving company itself distributes the profits to its own shareholders.
- c) The liability to tax is reduced by tax-credit relief; or, by imposing a lower rate of tax on foreign dividends than on domestic profits.

Measures such as these are an improvement on unrelieved double taxation of inter-company dividends, but they still involve double taxation in a wide variety of circumstances.

25. However desirable perfectionist solutions to problems of international taxation may be, they will not necessarily commend the immediate and widespread support of governments. Less complete solutions which are effective in relation to the main stream of international capital may be a more practical policy. For this

reason, the ICC commends the practice in bilateral agreements of exemption from tax for dividends paid by wholly-owned subsidiary companies, and reductions in rates for dividends paid on shares which constitute a substantial participation in the paying company. Differentiation of this kind may be justified by the fact that a substantial participation will usually be accompanied by technical, commercial and administrative assistance which makes the capital more valuable to the receiving country. At the same time, it is necessary to emphasise that relief of this kind must constitute a reduction of the overall tax burden. It has little point if the capital-exporting country takes over the tax which the capital-importing country has abandoned.

#### Individual shareholders

26. New international investment depends to a lesser extent than domestic investment on direct participation by individual shareholders. Nevertheless, an appreciable amount of capital for developing territories arises from this source and the flow might well be rapidly increased if individual investors could rely on the relative yield appropriate to the particular type of investment remaining undisturbed by double taxation or by failure of one country or the other to admit restrictions on its taxing rights.
27. The ICC does not consider that taxing rights over dividends can in principle be allocated exclusively either to the country from which the paying company derives its profits, or to the country in which the paying company is incorporated or managed and controlled, or to the country in which the shareholder resides or of which he is a citizen.
28. A reasonable division of taxing rights would be as follows :
- a) Where a company is incorporated, or managed and controlled, in Country A and derives its profits from Country B, Country B should refrain from taxing dividends declared by the company other than those received by its own residents. Furthermore, Country B should impose no tax on the profits additional to that suffered by domestic companies.
- In Country A, resident or national shareholders should be treated exactly as though the dividends were payable by a company situated in Country A, the profits of which are derived from Country A. If, in such circumstances, the shareholder would be entitled to a credit against his personal liability, a matching credit should be afforded. A direct credit to the shareholder should also be allowed in those countries where a distribution of domestic profits gives rise to a rebate to the paying company.
- b) Where the company is incorporated, or managed and controlled, in Country B and its profits are derived there, Country B may levy a low-rate proportional withholding tax on dividends paid to non-resident individuals. A rate of 10-15% would not be unreasonable, but in all cases provision should be made for the tax to be adjusted on production of evidence that the rate of tax appropriate to the shareholder's world income and personal circumstances is lower than the withholding rate.
- In Country A, where the shareholder resides or is a citizen, credit should be given not only as in (a) above but also for the tax which Country B is entitled to charge on the dividend whether it does so or not.
- c) Where the company paying the dividend is incorporated, or managed and controlled, in a Country C, i.e. other than that from which the profits are derived or that in which the shareholder resides or is a citizen, Country C should impose no tax on the dividend paid to such a shareholder.
- Country A, where the shareholder resides or is a citizen should afford a credit as in (a) above.

29. Other and more complicated situations arise in practice, but they are all capable of solution by application of the two key principles underlying these recommendations :

- i) A country may claim personal tax on dividends paid to non-resident individuals only if the paying company fulfills two conditions, viz. its profits are derived from that country and it is incorporated, or managed and controlled, there. Even so, the claim should be restricted to a low rate so that the average shareholder suffers in that country no more than about one-half of the tax he would suffer if he were resident therein.
- ii) The country where the individual shareholder is a resident or citizen has a residual right to personal tax on dividends, but the burden should be no greater than if the dividend had been derived from domestic profits of a domestic company.

### PART III

#### TAXATION POLICIES IN CAPITAL-IMPORTING COUNTRIES

30. The ICC does not pretend that there is an ideal system of taxation which all countries should adopt. Internal tax policy, i.e. the way in which residents are taxed on income arising within their own countries, is capable of innumerable variations, and it is not suggested that any one variety is especially appropriate either to all countries or to a single country at a particular stage of development.

31. It cannot be denied, however, that the internal rules for measurement of taxable income, for the tax treatment of companies and shareholders, together with local attitudes to the form and level of taxation, its administration and its use as an instrument of economic policy, have a direct bearing on the international flow of capital and enterprise. In the main, policies and rules which apply to residents and to income from domestic sources should apply without discrimination to non-residents and to income from foreign sources. It is therefore relevant to outline in this study those aspects of domestic tax policy which are likely to influence the international flow of capital and enterprise.

#### A. MEASUREMENT OF TAXABLE INCOME.

32. The country of origin of income may restrict the scope of its charge to tax in accordance with internationally accepted rules and impose relatively low rates of tax, but still discourage both foreign investment and domestic capital formation by inequitable rules for the measurement of taxable profits. Rules which involve a tax charge on a greater amount of profit than that which is shown by accounts based on accepted commercial and accounting principles constitute a surcharge on the normal rates of tax, with the additional objections that they tend to discriminate against particular operations, transactions or incidents in the life of a business and are frequently unpredictable in their effects.

33. All countries should take care to ensure that capital formation and foreign investment are not deterred by lack of attention to matters of the kind listed below.

- a) In assessing the profits of any one year, relief should always be afforded for unrelieved losses incurred in previous or subsequent years. The minimum relief should be a facility to carry forward losses for set-off against profits without time limit.
- b) Similarly, where annual abatements are allowed as a deduction from profits or there are temporary taxes such as an excess profits tax which take a higher proportion of the profits in peak years, unabsorbed reliefs due to a deficiency of profits in one year should be available against the higher profits of either preceding or succeeding years.
- c) Without prejudice to the possibility of more generous relief where appropriate, depreciation should be allowed at least in accordance with accepted commercial and accounting principles for all expenditure on

buildings, whether industrial or commercial, plant and machinery and similar assets which lose their value by wear and tear or obsolescence.

- d) Allowances should similarly be afforded for amortisation during the period of useful life of such assets as leases, concessions, patents and licences which lose their value with the expiry of time, and for capital expenditure in connection with the extraction of natural resources the value of which is diminished by depletion.
- e) Under inflationary conditions, allowances should be made for the rising cost of replacing fixed assets and maintaining stocks. Facilities should be provided for the revaluation of depreciable assets for tax purposes, and relief given for stocks either by permitting use of the LIFO method of valuation generally or by allowing the creation of tax-free reserves against the current value of base or essential stocks.
- f) Where a business bears a charge for interest on money borrowed abroad, or a charge for technical or other services provided from abroad, or is required to bear a reasonable share of the costs of a head office, research laboratories, or other technical, commercial or administrative centre, such charges should be allowed as a deduction from the profits of that business.

34. Elaboration of techniques for the measurement of taxable income is frequently a consequence of the desire of revenue authorities to combat ingenious methods of tax avoidance. Such techniques may be manageable in developed industrial countries where the administration has the capacity to apply them with discretion to remedy the mischiefs against which they are directed. In the newly developing territories of the world, however, it is doubtful whether the same mischiefs arise. The tax administration is rarely strong enough to do more than pursue a straightforward process of tax assessment and collection against a rapidly increasing number of businesses and other taxpayers. In such territories, therefore, simplicity should be the key-note of the tax system in both its form and content, and in the machinery for assessment and collections.

#### B. CAPITAL GAINS

35. In a world so much in need of development capital, the imposition of taxes on capital gains is a revenue expedient which both deters new savings and capital formation and erodes the existing supply of capital. Both in the total supply of investment capital and its willingness to move freely where most required would be greatly enhanced if both capital-importing and capital-exporting countries refrained from levying tolls each time its ownership changes or the way in which it is employed is varied.

#### C. TAX TREATMENT OF CORPORATE BODIES.

36. There are signs of a clearer understanding in many countries that heavy tax burdens cannot be imposed on corporate profits without discouraging both domestic capital formation and the inflow of foreign capital. But the tax treatment of companies is not merely a question of an appropriate rate of tax.

37. A relatively low rate of tax will not be fully effective in attracting investment if the nature of the corporate structure and its various forms are not understood. Taxes on company profits are based partly on the theory that when the capital and enterprise of many individuals is exercised by a corporate entity, the taxable capacity of the whole is greater than that of its parts. The other basis of corporate taxation rests on the assumption that so far as profits are retained undistributed, shareholders are relieved of personal liability to tax and a tax on undistributed profits is therefore tolerable without stifling the willingness of shareholders to agree to the use of the profits for expansion and development.

38. Neither of these criteria justifies the imposition of a corporate profits tax more than once. The taxable capacity of corporate profits is not increased when they pass through one or more other companies before reaching the individual shareholder. The taxable capacity of a company is not increased when its various activities are organised within the framework of subsidiary companies rather than through departments or branches. Nor is taxable capacity increased when one or more operations are hived off in a separate company in which two or more other companies are shareholders with or without public participation as well.

39. As already described in Part II, all countries which are anxious to attract private capital for development should adopt the principle of tax exemption for inter-company dividends. The effect on purely domestic savings and investment would be a sufficient justification, but the principle has even greater significance in relation to the attraction of foreign capital. By far the greater part of international investment is inter-company investment, so that taxes of any kind levied on inter-company dividends are likely seriously to diminish the appeal of the country which imposes them.

40. It is necessary to recognise also that business organisations must be adaptable to change. Technological changes, changes in products and the markets for them, and legal and financial influences of all kinds may require corresponding adaptations of company organisation and structure. Capital reconstructions, bonus issues, amalgamations and scissions, though they may vary the rights of shareholders, do not in themselves give rise to profits or result in the shareholders realising profits. They should not therefore be used as an occasion for imposing additional taxation or taxation appropriate to the sale or other realisation of property.

#### D. STABILITY AND SOUND ADMINISTRATION

41. Investors do not expect to be isolated against fiscal or any other kinds of change, but a reasonable degree of stability in the tax system of a country enables an investor to estimate yield and growth prospects with greater confidence. Other things being equal, a country which evolves and consistently maintains a liberal and well-balanced tax system will be more likely to attract foreign capital than one which indulges from year to year in extravagant forms of fiscal experimentation.

42. A competent and liberal administration is essential to the efficient working of any tax system. Ill-constructed tax laws, tax laws framed in the past for national economies based on primary production and trading operations rather than on industrial development, and tax laws which treat joint-stock companies as just another taxpayer, result in anomalies and inequities which no special incentive measures will counteract.

43. A heavy responsibility rests with the officers who must interpret and apply the tax laws. Their integrity must be without question. Their training should include a thorough appreciation of the economic consequences of fiscal policy, so that development is not impeded by rigid adherence to the word rather than the substance of the law, by undue harassment and interference with business organisation, or by addiction to litigation. In particular, they should guard against the tendency to discriminate against the foreign investor.

#### E. TAX RATE POLICY.

44. It is impossible to lay down a level of tax rates appropriate to all developing territories. Taxes levied directly upon business income must be viewed in the light of other factors influencing the net profit likely to emerge from the particular activity. The weight of customs duties on imported plant and machinery and raw materials, domestic sales, excise and turnover taxes, and export duties all affect selling prices and therefore the scale and productivity of the operations. Conversely, profit margins may be improved by the way in which governmental revenues are employed, the greater the proportion applied to education and training, medical welfare, internal communications and other services which businesses must otherwise provide for

themselves, the greater the potential profit margins.

45. In relation to company profits, however, certain indications are clear. Firstly, the rate of tax on company profits must not be so high that it discourages domestic savings and investment. It must be low enough therefore to enable most companies to both pay a reasonable dividend on the capital invested and leave a margin of undistributed profit to finance growth. Secondly, in relation to the foreign investor, the rate of tax on companies must not appear unduly high compared with that to which he has become accustomed and conditioned in his own country.

46. The aggravation of tax burdens by means of excess profits taxes - in whatever guise they may appear - deserves special mention. Equity capital accepts the risk of total loss in exchange for the prospect of high profits. The effect of excess profit taxes and similar levies is often to reduce the net reward to a level more appropriate to a gilt-edged investment. Permanent taxes of this nature are therefore an obvious deterrent to risk capital.

#### F. INDIRECT TAXATION

47. An analysis of the forms and economic effects of indirect taxation is beyond the scope of this study. In the extractive and primary producing industries, however, taxes which are described as production, turnover, or export taxes frequently impinge directly upon the profitability of the enterprises engaged therein. Capital-importing countries should clearly recognise that any tax which reduces the the yield to the investor is a potential impediment to new investment and to the growth of existing enterprises, and therefore moderation in imposing such taxes is as important as moderation in imposing direct taxes on profits and income.

#### G. THE TAX TREATMENT OF EXPATRIATE EMPLOYEES

48. Although most enterprises using foreign capital will find it in their own best interests to recruit staffs mainly from nationals of the country where the activities are carried on, it is unavoidable that senior management positions should be filled, at least for a time, by expatriates. This is not ordinarily a question of nationality. When large amounts of capital are invested in conjunction with highly specialised plants and plans for marketing and distribution of the products, the investor must be certain that the management is entrusted to individuals who have already earned his confidence and are known to have the necessary skills and experience.

49. A few countries recognise that the employment of expatriates, especially those with technical skills, is an advantage to the economy, and afford special tax reliefs to such individuals for the first year or two. In general, however, expatriates are treated no differently from locally recruited nationals for purposes of taxation.

50. The ICC considers that special consideration should be given to persons who by reason of the differences in climatic or cultural environment, or the temporary nature of their contracts, must continue to maintain a residence in their home countries whilst working abroad; must educate and maintain their children in their home countries; and suffer such additional expenses as the cost of leave passages and contributions to pension funds and State insurance schemes in their home countries. These special circumstances should be taken into account either by exempting that part of the remuneration which is paid in the expatriate's home country, or allowing all special expenses, such as those described, as a deduction from chargeable income for tax purposes.

51. The importance of action along these lines cannot be over-emphasised. In relation to some tropical territories there are signs that investment projects are already being jeopardised by the impossibility of paying gross remuneration sufficient to yield a net return to expatriate managers which will both cover their additional expenses and offer them an inducement to leave their domestic employment.



#### H. INCENTIVES TO SAVINGS AND INVESTMENT

52. A tax incentive may be defined as a relaxation of the normal taxing rules of a country, so that a particular operation or activity suffers a lower tax burden or enjoys deferment of tax payments for a time.

53. Incentives of this kind are widely employed not only by developing territories, but also to stimulate investment and enterprise in depressed or undeveloped sectors of industrialised countries and to accelerate the pace of modernisation and expansion of existing industries.

54. The following are some of the tax incentives commonly employed :

- a) The practice of offering five or more years' total exemption from tax for the profits of new industrial undertakings is now common, any dividends paid out of those profits being correspondingly exempt.

In some countries, a limit of 5 to 6 % of the capital employed is imposed on the amount of profit freed from tax in any one year. The benefits are then less certain, a deficiency of profits in one year not being compensated by any additional exemption in years when more than 5 or 6 % profit is earned.

- b) Exemption of 'an amount of profit equal to capital expenditure on buildings, plant or machinery (without prejudice to the right of depreciation allowances) affords an assured and measurable benefit provided profits of that amount are eventually earned. The same may be said of investment allowances and development rebates which in effect exempt profits equal to a stated percentage of capital expenditure.

Not infrequently, incentive schemes involving this kind of tax exemption require all or part of the profits to be retained in the business and reinvested in an approved manner. Such conditions limit the appeal of the incentive to the investor who is more interested in capital growth than immediate yield.

- c) Sometimes an incentive to capital investment is built into the corporate tax system of the country, e.g. the practice of taxing profits not exceeding a certain percentage of invested capital at rates lower than the standard rate, or allowing a deduction from taxable profits equal to a percentage of invested capital, or providing for a lower general rate of tax on that part of a company's profit which is retained and reinvested in the business.
- d) Initial allowances and other methods of accelerating the depreciation of buildings, plant and machinery for tax purposes are a financial rather than a tax incentive. The deferment of tax helps the business to finance further development out of its own resources, and to repay loan capital, whilst maintaining an appropriate return to investors.
- e) Incentives may be offered in the field of indirect taxation. Relief from import duties on building materials, plant and machinery, and reductions of the rates of production, sales and turnover taxes and export duties for a temporary period are often granted.

It is not uncommon for a country to offer incentives such as the above only to selected industries or to approved projects within such selected industries. In that case, the appeal of the incentive is much narrower.

55. The purpose of an incentive scheme is to attract capital to a particular area or a particular use. If it succeeds in stimulating new saving and investment, it will have made a worthwhile contribution to the economy of the country. The same may be said if capital is directed from less desirable to more desirable employment. But, the incentive will not usually be a sufficient inducement in itself to attract capital from a more profitable use to a use which is less profitable once the term of special tax treatment has expired.

56. In order to have any general impact on the flow of international investment, tax incentives must attract existing capital away from alternative uses. In consequence, the long-term prospects for the investment must be better, or at least no worse, than the alternatives available elsewhere. By this criterion many tax incentive schemes fail to influence the flow of foreign capital at all. The most publicised schemes are to be found in countries where normal levels of taxation are high, the tax system is heavily weighted against inter-corporate investment, and fiscal stability is uncertain. In consequence, long-term prospects may not be sufficiently attractive on the fiscal plane alone for the immediate tax reliefs to balance the possible disadvantages in the future.

57. Save perhaps in the case of certain extractive industries for which the period of maximum profitability may coincide with the period of temporary or initial tax relief, short-term tax incentives are unlikely to influence investment decisions unless the long-term prospects are at least as good as those presented by opportunities elsewhere.

58. This does not mean that tax incentives have no significant part to play in the economic development of under-developed countries. They certainly assist new businesses over early difficulties; they reduce the period during which initial capital outlay is at risk and contribute towards subsequent growth; they enable government to give a directional impetus to new investment. But, they will not be able to accomplish these ends if the investor is deterred from entry by the severity of the tax burden which his operations must eventually bear.

#### PART IV

### TAXATION POLICIES IN CAPITAL-EXPORTING COUNTRIES

#### A. EXEMPTION

59. ICC policy is based on the principle that taxing rights should be reserved exclusively to the country of origin of the income, the country of origin of income falling to be determined according to the rules suggested in Part I above.

60. It follows therefore that when income, such as income from real property, profits of a permanent establishment, or remuneration from an employment, clearly has its origin in Country A, that income should be exempt from tax in Country B, where the beneficiary resides or of which he is a citizen.

61. For direct income of this kind, it ought to be possible to afford unqualified exemption whether the beneficiary is an individual, partnership or corporate body. Individual beneficiaries will usually have suffered a progressive personal tax in the country of origin, and where they have not suffered such a tax it must be assumed that, deliberately or incidentally, the country of origin is offering a fiscal incentive to attract the particular kind of capital or skill.

62. Exemption in the country of residence or citizenship should not be made dependent upon tax being actually paid or payable in the country of origin, or on a particular kind of tax (such as a progressive tax on global income) having been suffered. Conditions of this kind are tantamount to one country imposing its own pattern of taxation on another country.

63. On the other hand, the ICC recognises that so far as individual taxpayers are concerned, progressive taxation based on total income is entrenched in the fiscal and social policy of most countries. To tax the domestic income of the individual without regard to income from other sources constitutes an advantage compared with the situation of the individual deriving income from domestic sources only. Although such an advantage may properly be afforded as an incentive to foreign enterprise and investment, it is not considered inimical to such enterprise and investment if the country of residence or citizenship continues to tax domestic income of individuals at the rate or rates appropriate to their aggregate incomes from both domestic and foreign sources.

B. ALTERNATIVE FORMS OF RELIEF

64. However desirable it may be to remedy international double taxation by allocation of exclusive taxing rights to one country or the other, the ICC recognises that the extension of the practice is likely to be a slow process. It is therefore necessary to consider the improvements which might be made to the less complete methods of relief currently employed by many capital-exporting countries. The principal method of relief is the tax-credit system under which tax suffered in the country of origin of income is treated as a payment on account of the tax due in the country of residence. Under the tax-credit system, the total tax burden is never less than that imposed upon domestic enterprise and investment. The supplement of tax which is collected has the character of a counter-vailing duty on enterprise and investment abroad.
65. Whenever the level of taxation is low in the country where the investment is made, these measures seriously interfere with the mobility of capital and therefore with its optimum use. The fact that a supplementary tax liability will be incurred in the country of residence, if the profits are distributed means that they will tend to be reinvested in the place where they are earned. They will not be withdrawn unless the profitability of an alternative use elsewhere appears to be higher by at least the percentage of supplementary tax payable in the country of residence.
66. This impediment to the mobility of capital has other consequences. Foreign companies are less willing to join forces with local capital in developing territories because to some extent they thereby lose control over dividend policy and may be compelled by local pressure for dividends to incur tax liabilities in their own countries. Investors in some countries may be able to solve this problem by interpolation of a holding company in a third country or tax "haven". Such "havens" serve a useful purpose in increasing the mobility of capital and flexibility of investment operations by companies centred in the tax credit countries. It has to be recognised, however, that holding companies in tax havens are artificial creations which involve additional costs of formation and maintenance and by breaking the direct link with the country where the capital is invested may result in failure of tax credit relief on such profits as ultimately reach the parent company.
67. There are growing indications that some capital-exporting countries recognise these difficulties. In a number of rent bilateral agreements, so-called "tax-sparing" techniques have been introduced. Where the supplementary tax payable in the country of residence would be abnormally high by reason of tax incentives afforded in the country of origin, the credit for foreign tax includes not only the tax actually paid but also the amount of tax which would have been payable in the absence of incentive laws. Selective relief measures such as this are necessarily of narrow application. Their object is no more than to avoid frustrating directional incentives in the developing territories concerned. They do nothing to avoid frustrating the general incentive to investment provided by generally low rates of tax. In consequence, the significance of a tax-sparing agreement in accelerating the international flow of capital is no greater than that of the incentives which are confirmed and approved by the agreement. As already stated, long-term industrial investment decisions will be influenced more by the nature of the long-term tax regime applicable to the profits than by temporary reliefs. It is therefore more important that capital-exporting countries should avoid frustrating the attractions of well-balanced and moderate tax systems in developing territories than that they should guarantee temporary reliefs.
68. The ICC considers that all capital-exporting countries employing the tax-credit system of relief should attempt to ameliorate its economic effects by introducing the following modifications .

....

- a) Credit should not be restricted by reason of imperfect matching of the foreign tax with the residence tax whether in relation to its nature or its basis of assessment.
- b) Credit should not be denied because the foreign tax is collected by a country other than that in which the income immediately arises, or by a local authority or other level of government different from that which collects the residence tax.
- c) Credit should be given for annual capital taxes, production or turnover taxes, which are analogous to taxes on profits.
- d) Whenever the prior right to tax clearly rests with another country (see para. 60 above) a minimum notional credit of 20-25 % should be afforded, so that the low rates of tax imposed by some developing countries are not completely frustrated. A similar notional credit should be given in respect of dividends received by companies, if the capital-exporting country has not admitted the ICC principle that such dividends should be exempt from tax.
- e) For dividends received by individuals a minimum notional credit of 10-15 % should be afforded (see Part II).

### C. DEFERMENT OF TAXES

69. There is an intermediate solution to the problem of double taxation currently under consideration in some countries, viz. that profits and dividends arising from foreign investments by a resident company should be free of tax until that company passes on the income to its own shareholders. As a contribution to the removal of fiscal obstacles to international investment, the policy of deferment of tax is probably as satisfactory as exemption. In one sense, it constitutes additional discrimination in favour of foreign investment, since - unlike total exemption - deferment imposes a penalty on foreign profits flowing back into the economy of the country whether for consumption or for domestic investment.

### CONCLUSIONS

70. The fiscal policies recommended in this study are advanced as a basis for either unilateral action or adoption in multilateral or bilateral agreements. Unilateral action is in some ways superior to the treaty method. Not only would fiscal obstacles to international investment and enterprise be removed more quickly thereby, but the effect of unilateral action by one or more governments would be to drive other governments into either adopting similar measures or intensifying the process of treaty negotiations. Nevertheless, there are many aspects of international fiscal policy which are suitable for reciprocal adoption in agreements which offer the advantages of precision and a nice adjustment of the principles to the particular systems of the contracting parties.

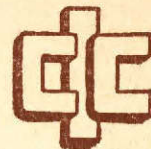
71. Treaty negotiations between the major capital-exporting countries and developing territories have made slow progress in recent years and such agreements as have emerged have often fallen far short of ideal. The reasons for this may be political, budgetary or administrative, but whatever the reasons the deadlock must be broken if developing territories are to secure now the capital and know-how which they need and if investors are to be able to take full advantage of the immense opportunities open to them throughout the world.

72. The fiscal policies which the ICC recommends for unilateral adoption by all countries are no more than a code of fair treatment. In international affairs it is perhaps not unusual for one country to extend fair treatment to another country only on a reciprocal basis, selectively, or with other reservations. Whilst this attitude persists in the field of taxation, the movement of capital and skills between nations, industrialisation and advancement of developing economies, and the expansion of world trade generally, will continue to be impeded.



CHAMBRE DE COMMERCE INTERNATIONALE  
INTERNATIONAL CHAMBER OF COMMERCE

38, COURS ALBERT I<sup>er</sup> - PARIS VIII<sup>e</sup>



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INTERNATIONAL BUSINESSMEN'S CONFERENCE

(Karachi, 5th - 8th December 1960)

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STATEMENT OF CONCLUSIONS  
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Unanimously approved by the  
International Businessmen's Conference

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1. The International Businessmen's Conference, held at Karachi (5th-8th December 1960) under the auspices of the Commission on Asian and Far-Eastern Affairs of the International Chamber of Commerce, devoted two plenary sessions to the theme of promoting economic development through a wider understanding between capital-importing and capital-exporting countries of the problems connected with private foreign investment. The Conference, which was organized to provide a forum for a frank exchange of views, amply fulfilled its purpose. Since 1946, the ICC has concerned itself with the complex problems pertaining to the flow of private capital and the need to evolve acceptable standards. The publication of a Draft Code of Fair Treatment for Foreign Investments in 1949 has been followed by continued study of the subject.
  2. The Karachi Conference was the first of its kind held in Asia to be attended by businessmen especially concerned with this subject from twenty-eight (°) countries in every stage of economic development.
  3. The Conference threw additional light on the background and the nature of the difficulties with which international investment is fraught and also on the appropriate ways of solving these and creating a more favourable climate.
  4. During the discussions it became clear that the concept of a capital exporting or developed country as contrasted with a capital-importing or developing country is relative and covers a wide range of vastly different situations. Many highly developed countries still import capital whilst developing countries are, also currently or potentially, exporters of capital and holders of assets abroad. This helped to underline the common nature of the problems connected with the international flow of private capital. It was felt that domestic and foreign investments are, to a large extent, mutually supporting and reinforcing. Either they are complementary to each other or they promote efficiency through healthy competition. And they undoubtedly have their most vital interests in common.

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(°) Australia, Austria, Belgium, Burma, Canada, Ceylon, Denmark, France, Germany, Hong-Kong, India, Iran, Italy, Japan, Korea, Netherlands, Pakistan, Portugal, Philippines, Sweden, Thailand, Tunisia, Turkey, United Arab Republic, United Kingdom, United States, Vietnam, Yugoslavia.

5. The Conference expressed great concern at arbitrary and discriminatory acts of expropriation, which undermine confidence everywhere and are as harmful to the interests of the developing countries as to those of the investor countries concerned.
6. Nationalisation - if applied at all - should be non-discriminatory and accompanied by prompt, effective and adequate compensation. Various attempts to have this principle universally accepted - such as the relevant articles of the ICC's Code and the more recent proposals for an international treaty between governments containing rules about nationalization and compulsory arbitration - were discussed. It was felt that in any case governments should observe the principles underlying such proposals of their own accord.
7. All investments, old or new, should be treated on the same footing. Nothing should be done to deter existing investors from expanding or discourage potential new investors who inevitably assess a country by reference to its treatment of existing foreign enterprise. Old established firms, however, must of course adjust themselves to changing political and social conditions if they wish to prosper or even survive.
8. At its Washington Congress in April 1959, the ICC stressed the importance of partnership. The Conference in Karachi pursued this theme further and discussed various forms and aspects of partnership, particularly joint capital ventures and partnership in management. The transfer of technical and managerial skill was mentioned as a valuable accompaniment of direct foreign investment, all the more when the investor undertook to train nationals for positions at various levels of his business. Foreign personnel of appropriate standing and experience should therefore be welcomed. Since managerial skill took, perhaps, a longer time to acquire than technical ability, it was even more important to the national economy. The training and development of a class of able managers was felt as a common task of foreign and national enterprise alike and it was considered vital for the economic future of any nation.
9. In the opinion of the Conference, it would be helpful if developing countries would clearly define any conditions they may attach to investments from abroad, simplify administrative procedures, provide the necessary basic services, and give reasonable assurances for the remittance of earnings and - if so desired - repatriation of capital. Temporary tax concessions were helpful, but a moderate general rate of taxation, coupled with a fair and efficient tax administration, was far more important.
10. On the other hand, businessmen and governments of capital-exporting countries also have to make a deliberate effort to facilitate and encourage the outward flow of investment in all its forms. The elimination of double taxation should be pursued by all governments, but a particular responsibility lies with the governments of the capital-exporting countries which should refrain from frustrating the economic development of other countries by imposing countervailing taxes on enterprise outside their own borders.
11. Businessmen engaged in enterprise abroad should study the specific situation and problems of the country of their choice. They should show their willingness to co-operate with the government and with the business community in that country and generally speaking identify themselves with the nation's aims and ideals.
12. The question of providing guarantees or insurance facilities to cover non-commercial risks was discussed, particularly in the international context. Several proposals were made, such as an international investment guarantee institution for this purpose, with a membership roughly the same as that of the

World Bank. The Conference recommended that the ICC should undertake to have these proposals studied in greater detail.

13. Speakers from developing countries pointed out that political risks were often the result of poverty and unsatisfactory social conditions. It was felt that every effort should be made to enlarge and buttress the private sector by methods which would broaden the base of ownership and stimulate the growth of an entrepreneur class.
14. The importance of stable prices and steadily rising purchasing power as a basis for further development was underlined. In this connexion Western protectionism was criticized and attention was drawn to the importance of prices of raw materials and semi-processed manufactures for the incomes of developing countries. The Conference felt that a common effort should be made to remove all unnecessary obstacles to a growth in the earnings of the developing countries, and to make them less vulnerable to the vagaries of the world market.
15. It was further agreed that the terms and conditions for foreign investments as detailed in the ICC's Draft Code should be reviewed by the ICC in the light of the opinions expressed at the Karachi Conference and by various National Committees of the ICC.
16. Great satisfaction was expressed at the improvement that had taken place in the investment climate throughout most of the Asian region.

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## Foreign investments and the problem of underdeveloped countries.

It has often been said by authoritative leaders of many nations that one of the greatest problems of these days is the dissimilarity of the national economies and levels of prosperity in the different parts of the world.

This controversy does not run concurrently with the conflict of East-West, but it is a problem where the white race is in its fully totality in an opposite, and much more favourable, position versus that of the coloured races.

It has nothing to do with the colour-bar symptom (which is an unrealistic fiction); this controversy is only born out of the great difference in prosperity. It is a fact that the white people (the Russian included) have managed to reach a much higher standard of living than the coloured races and only because the Russians present themselves for purely political reasons as the so-called protectors of the coloured people the economic issue has been confused by political purposes.

Especially de Gaulle has repeatedly pointed out that the underdeveloped countries can only be helped properly, when this aid is not based on political grounds but is given in co-operation of the West and Russia. Russia however envisages this aid as a unique opportunity to enlarge her political influence in these countries, to propagate her ideologies and to undermine the West.

Because of this reason the unfortunate "combat de générosité" has arisen, which has resulted in sometimes rather extraordinary events where the economic ratio is hardly anymore projected.

When we analyse the chances which both parties have in this combat we notice with the Russians a strong and logical organisation.

The Russian Government has been used to organise and decree things centrally and has the appropriate executive apparatus. She keeps the country's production and finances in one hand and is not hampered by a parliamentary opposition.

Summarizing, she is well equipped for the race, but is naturally handicapped by the entire lack of private initiative.



The Russian citizen does not question the fact that his government gives aid to other countries. Due to the international ideology of communism, he expects his government to care for everything and to organise all that seems necessary. The Russian hardly feels personally responsible as he is used to this course of events and as it is impossible for him to show his dissatisfaction via an opposition party.

A completely different picture prevails with the Western powers. In fact to the citizen of the West, governmental aid to other countries is an unnatural matter. He rightly considers his government an institution whose only economical task it is to look after the country's prosperity as much as possible. Since in every country there is lacking so much in this respect, because of lack of funds to fight poverty and to pay for highly necessary public works while a heavy burden for defence has to be shouldered, and all this results a.o. in a terrifying national debt, he does not understand what his government envisages in Timbuktu when there is no money available for slumclearing in New York, London, Paris or Amsterdam.

The reason why the governments of the Western countries still allocate funds for international aid, is because it is the logical consequence of their international politics, which aim at a certain balance in the world. Strictly taken however, it is from a national point of view an unnatural matter, which subsequently is being criticized by the average citizen, contrary to his Russian colleague.

As the Western Governments lack a central apparatus to substantiate their aid, a great number of national and Western-international institutions have been formed which occupy themselves with this subject. Naturally this is a considerable draw-back compared to the central organisation of the Russians.

However, it is often insufficiently being realised that Western private enterprise plays a very large but silent part in this aid in general.

The activities involved, the know-how included, are of considerable importance and can be looked upon as "natural" from a national point of view because they are beneficial to the economy of both the investing as well as the receiving country.

The total amount of these investments forms a much higher figure than the total of the international aid of the Western Governments. It is even of more importance that Russia cannot compete with this system.

However hopeful this may seem, it cannot be denied that the interest of the European and American private investor in countries which are becoming or have recently become independent, has slackened down. Existing large concerns are often still prepared to invest overseas and start new activities over there, but companies to be newly established have only a slim chance and the public is generally uninterested. One does not know what to expect and is scared of political risks, difficulties with profit- and capital-transfers, etc.

Especially in Holland this fear is very substantial since its experiences with Indonesia, unfortunately the worst example imaginable.

Fortunately one can also point out many examples where the situation after the reaching of self government has developed itself favourably.

However, when one realises that international aid by Western governments will always stay a difficult matter psychologically, rather poorly executed, whilst on the other hand the Western private enterprise is better equipped for this task, one has to conclude that it would be advisable to the Western governments to put the accent on private enterprise and only apply government help where this is absolutely indispensable and where private enterprise cannot play a part.

The best way to create the required reasonable security for private enterprise, thus enabling it to attract capital through the normal channels (Stock Exchange) can be found by creating the possibility to cover the political and transfer risk on an international basis. For this purpose an international insurance institution should be founded, of which all countries (investing as well as receiving), whose private enterprise intend to use its facilities, should be members.

Just as not a single debtor of the World Bank has ever defaulted there is little chance that a receiving member country (probably just having become independent) of this international insurance institution would disbehave, as this disbehaviour would immediately stop the flow of investments from all other member-countries.

Henceforth the importance of organising this matter on an international basis. The Board of this international insurance institution should have arbitrary powers, no appeal being possible.

Another important advantage would be that the country that has lately become independent will join a family of older (and often richer) members without having to pay a large contribution yet receiving an entirely equivalent treatment. In that way a good atmosphere is being created where possible difficulties can be discussed and problems solved in mutual consultation.

Close contact with the World Bank and the International Finance Corporation is of course logical and essential.

Finally an international insurance institution would also have a stabilising influence on young countries with often changing governments. These governments will certainly think twice before they will stop adhering to the international obligations of their predecessors when they know that herewith their part in the international economic co-operation would come to an end.

With the coming into operation of an efficient international insurance institution which will cover political and transfer risks, it may be expected that the private investor and private enterprise in the Western countries will start to show a much larger interest in the underdeveloped territories and will therefore be able to take over at least part of the unnatural present task of their respective governments.

In case this would happen, much would already be gained in the contest with the Russians; especially if Western enterprise in her new activities would seriously try to find some kind of partnership with the local population.

Amsterdam, 15th February, 1960.

E.H. van Eeghen.

*Dev. Plan Admin of Private & Foreign Investment  
original to Mr. Howell*

Files

September 20, 1960

J. Burke Knapp

Ralph Straus

Mr. Ralph Straus came in today to talk about prospects with the Bank following upon the definite decision by the United States Government not to take him on as Alternate Executive Director of the Bank.

In accordance with the discussion which I had on this matter with Mr. Black, I told Mr. Straus that we did not have anything in view at the present time. I explained the difficulty of bringing another top-level American into the Bank, in view of our policies of promotion from within and the nationality problem. I said that some kind of special and probably temporary assignment might perhaps develop in the future, but that we had no immediate plans.

Mr. Straus went on to develop his thoughts about an international guaranty system for private investment, which had been expressed in his letter to Mr. Black dated August 2. Clearly, he would like to be taken on to develop this idea, but I gave him no positive encouragement.

cc: Mr. Demuth

JBK/js

*JBR*

*Mr. Dimuth  
from JGS*      *HAT*

MEMORANDUM ON AN INTERNATIONAL GUARANTEE INSTITUTION COVERING POLITICAL  
AND CALAMITY RISKS OF PRIVATE CAPITAL IN DEVELOPMENT COUNTRIES.

1. Private investments in many development countries are declining because of the political risks involved.
2. The governments of the industrialised countries are unable, financially as well as technically to offer an alternative for private investment.
3. Private enterprise in development countries is being welcomed, because it does not carry political ties.
4. Private enterprise is in the best position to go into partnership with local firms or may give local capital the chance to participate.

This tends to create mutual understanding and to give the enterprise a stable basis.

5. Private enterprise can only be induced to go ahead on a really significant scale in development countries, provided that adequate guarantees against the political risks are obtained. Political risks include riots and civil commotions, taking without full and immediate compensation in the **currency** of the country of origin of the investors, unfair treatment and unreasonable blocking of transfers and amortisation profits.

It may be considered also to cover under the scheme calamities as "Acts of God."

In general its definition should be as broad as possible.

6. Bilateral investment-guarantee-agreements are undesirable.  
  
Only a multi-lateral-guarantee-institution, if possible with roughly the same membership as the World-Bank, can be expected to give real satisfaction, because :
  - a. Also the receiving countries will have to be members, therefore bringing about a real partnership on the highest level.
  - b. The greatest possible number of members will result in the smallest overall risks of each member separately.

c. Just as has been the experience of the World-Bank vis-a-vis its debtors, defaulting is unlikely as this would bring the defaulter into trouble with all other members and would damage its standing and credit in general.

The system would, therefore, have the same preventive function as the principle adopted by the World-Bank.

7. Each member country should be willing to give a guarantee up to a certain maximum.
8. The guarantee limit of each country investing abroad should be fixed on 50% of its totally insured investments under the scheme. Moreover, each country receiving investments insured under the scheme should be prepared to give a guarantee-limit of 50% of the total amount it received under the scheme.

At the beginning of each year, the respective totals have to be calculated and the limits of each country fixed accordingly.

9. The total of the guarantee limits of all member countries together with premiums paid (see paragraph 13) should give a reasonable security that all commitments in case of a defaulting of one or more countries can be met.

In case of claims lodged against the guarantee institution the premiums paid (premium reserve) should be called up first, and only after this fund would be exhausted the institution would require a prorata assistance under the guarantee limits provisions.

It is hoped that the premium reserve will be sufficient to cover all claims so that member countries need not be called upon.

10. It is a matter for further study whether total insurance or insurance up to a certain percentage should be made possible.
11. Also the duration of the insurance should be brought up for further study.

It is conceivable that a differentiation between various types of investment should be introduced here.

A scheme should be devised for the reduction of each investment in the course of time.

12. The economic risk remains, of course, completely with the private entrepreneur.
13. The entrepreneur of the investing member country desiring to insure under the scheme pays the full premium. The only contribution of the member countries will be in the form of the guarantee mentioned in paras 7 and 8.
14. In order to induce investors to co-operate with local capital, a reduction of the premium could be considered in case local capital participates in the venture.
15. Every new investment of a private entrepreneur registered in an investing member country can be insured under the scheme.
16. The headquarters of the guarantee institution should be located in a capital of a member development country.
17. The guarantee institution should be managed by a Board of Directors nominated by the member countries.

There should be an independent body with which appeal against decisions by the Board of Directors can be lodged by a member country or a private entrepreneur.

It would be superfluous to stress that there may be a task in this connection for the I.C.C.

18. The proposed guarantee institution should form a genuine partnership between investing and receiving countries, each taking a fair share of responsibility in direct accordance with the benefit each may expect.
19. It should be clear that the above scheme should be considered as additional to a binding understanding between capital importing and capital exporting countries on a few fundamental principles of fair treatment of foreign private investment.

E.H. van EEGHEN.

MEMORANDUM ON AN INTERNATIONAL GUARANTEE INSTITUTION COVERING POLITICAL AND CALAMITY RISKS OF PRIVATE CAPITAL IN DEVELOPMENT COUNTRIES.

Proposed by E.H. van Eeghen, member of the Netherlands Delegation.

1. Private investments in many development countries are declining because of the political risks involved.
2. The governments of the industrialised countries are unable, financially as well as technically to offer an alternative for private investment.
3. Private enterprise in development countries is being welcomed, because it does not carry political ties.
4. Private enterprise is in the best position to go into partnership with local firms or may give local capital the chance to participate.

This tends to create mutual understanding and to give the enterprise a stable basis.

- "main treatment"*
5. Private enterprise can only be induced to go ahead on a really significant scale in development countries, provided that adequate guarantees against the political risks are obtained. Political risks include riots and civil commotions, taking without full and immediate compensation in the currency of the country of origin of the investors, unfair treatment and unreasonable blocking of transfers and amortisation profits.

It may be considered also to cover under the scheme calamities as "Acts of God."

In general its definition should be as broad as possible.

6. Bilateral investment-guarantee-agreements are undesirable. Only a multi-lateral-guarantee-institution, if possible with roughly the same membership as the World-Bank, can be expected to give real satisfaction, because :
  - a. Also the receiving countries will have to be members, therefore bringing about a real partnership on the highest level.
  - b. The greatest possible number of members will result in the smallest overall risks of each member separately.



c. Just as has been the experience of the World-Bank vis-a-vis its debtors, defaulting is unlikely as this would bring the defaulter into trouble with all other members and would damage its standing and credit in general.

The system would, therefore, have the same preventive function as the principle adopted by the World-Bank.

7. Each member country should be willing to give a guarantee up to a certain maximum.
8. The guarantee limit of each country investing abroad should be fixed on 50% of its totally insured investments under the scheme. Moreover, each country receiving investments insured under the scheme should be prepared to give a guarantee-limit of 50% of the total amount it received under the scheme.

At the beginning of each year, the respective totals have to be calculated and the limits of each country fixed accordingly.

9. The total of the guarantee limits of all member countries together with premiums paid (see paragraph 13) should give a reasonable security that all commitments in case of a defaulting of one or more countries can be met.

In case of claims lodged against the guarantee institution the premiums paid (premium reserve) should be called up first, and only after this fund would be exhausted the institution would require a prorata assistance under the guarantee limits provisions. It is hoped that the premium reserve will be sufficient to cover all claims so that member countries need not be called upon.

10. It is a matter for further study whether total insurance or insurance up to a certain percentage should be made possible.
11. Also the duration of the insurance should be brought up for further study.

It is conceivable that a differentiation between various types of investment should be introduced here.

A scheme should be devised for the reduction of each investment in the course of time.

12. The economic risk remains, of course, completely with the private entrepreneur.
13. The entrepreneur of the investing member country desiring to insure under the scheme pays the full premium. The only contribution of the member countries will be in the form of the guarantee mentioned in paras 7 and 8.
14. In order to induce investors to co-operate with local capital, a reduction of the premium could be considered in case local capital participates in the venture.
15. Every new investment of a private entrepreneur registered in an investing member country can be insured under the scheme.
16. The headquarters of the guarantee institution should be located in a capital of a member development country.
17. The guarantee institution should be managed by a Board of Directors nominated by the member countries.  
There should be an independent body with which appeal against decisions by the Board of Directors can be lodged by a member country or a private entrepreneur.
- It would be superfluous to stress that there may be a task in this connection for the I.C.C.
18. The proposed guarantee institution should form a genuine partnership between investing and receiving countries, each taking a fair share of responsibility in direct accordance with the benefit each may expect.
19. It should be clear that the above scheme should be considered as additional to a binding understanding between capital importing and capital exporting countries on a few fundamental principles of fair treatment of foreign private investment.

Karachi, 5th December, 1960.

## MULTILATERAL INVESTMENT GUARANTEES

A joint effort of capital-importing and -exporting countries to foster movements of private capital to developing countries by means of a scheme covering private investments against political, transfer and calamity risks.

<u>Contents</u>	<u>Page</u>
Introduction	1
Principles	1
Risks guaranteed	3
Investments falling under the scheme	3
Eligibility	3
Period and coverage	3
Premium	5
Damage	6
Recovery	6
Guarantee-shares of member-governments	7
Institutional structure	3
Seat	9
Some points of procedure	9

## Introduction

The economic growth of the developing nations has to be speeded up; this is the great task of our generation and the next. For the coming ten years Mr. Paul Hoffman, president of the United Nations' Special Fund, has drawn up a program with a number of concrete suggestions. One of his suggestions is that the present flow of capital to the developing nations, amounting to some \$ 4 billion per year, should be increased to \$ 7 billion. One-third of this additional \$ 3 billion per year should come from private sources. Consequently the present flow of private capital that amounts to some \$ 2 billion per year should be expanded by no less than 50%. The financing via other channels now amounting to some \$ 2 to \$ 2½ billion per year would almost have to be doubled.

The reasons for the importance attached to the role of private enterprise may be summed up as follows: Foreign private enterprise has no political ties attached to it as is often the case with foreign government assistance; it can form "joint ventures" thereby mobilising local capital and skills, and the flow of private capital is mostly accompanied by a relatively large "flow" of technical and managerial know-how. This last aspect is overlooked only too often: the developing nations are as much in need of capital as they are in need of know-how. Doubling the capital flow means a necessary doubling (if not trebling) of the flow of managerial and technical know-how. Consequently it is essential that measures are taken to stimulate the flow of private investment to the developing countries.

Generally there are two reasons why the flow of private capital to the developing nations is small in comparison to the flow of that capital between industrialised nations:

- Many private investors in industrialised countries as yet have a lack of knowledge on the opportunities that the economies of the developing nations offer.
- The political and transfer risks involved are a serious obstacle to private investment in developing countries. During the last year the acuteness of this problem has come to the fore. The happenings in the Congo and Cuba have even led to capital flight from those and neighbouring countries.

The last mentioned deterrent to the flow of private investment is indeed the most serious one.

The scheme presented below is in fact a proposal to offer guarantees against such risks, the bearing of which is not a task of entrepreneurs whose task it is to take commercial risks, but of the community; in this case the international community.

## Principles

A guarantee scheme covering private investments against political, transfer and calamity risks, should be based on the following principles if it is to function properly:

- 1) Guarantees should be given by an international institution acting on behalf of the community of nations joining the scheme. In other words it should be multilateral. Consequently responsibilities should be shared by all member-nations, i.e. both by the developing and industrialised nations.
- 2) Only risks of a non-commercial character should be covered, i.e.: the risks of political instability (if any) and balance of payments troubles causing delays in transfers. The risks of calamities and "acts of God" should also be guaranteed, as far as this is not possible at reasonable premiums via existing facilities.

- 3) New private investments made by persons and private legal bodies of one member-state in another member-state are eligible for a guarantee covering a period specified in the contract.
- 4) The private investors should be free to decide whether they want to make use of the facilities of the scheme, or whether they want to take the above-mentioned risks either entirely or partially for themselves. They should however bear the full commercial risk in all cases.
- 5) The question whether projects to be guaranteed are sound from the commercial and national-economic points of view, is not to be decided by the institution. The answer to that question is - and should remain - the responsibility of the investors and of the governments of the relevant capital exporting and capital importing countries. Consequently, applications should be made by private investors and only those projects that receive permits issued by the relevant capital exporting and capital importing countries, are eligible for a guarantee given by the institution.
- 6) Private investors from the capital exporting countries should pay a yearly premium of  $1\frac{1}{2}\%$  of the value of the guaranteed assets as fixed in the contract. The premium could be lower in cases where investors prefer to take some risks for their own account. For joint ventures the premium could be reduced.
- 7) After a deduction for administrative expenses, the premiums should be reserved for indemnity in cases of damage. Only when this reserve is exhausted, the member-governments should be called upon to finance further indemnities. The reserve should be invested in fixed-interest securities expressed in convertible currencies.
- 8) All member-governments should contribute to such indemnities if those have to be made. Each member-government should contribute on a basis that is proportional to the advantage that has accrued to it as a result of the scheme. The measure for that advantage is the amount of capital imported or exported in/from a member-country (to the extent that it has been guaranteed under the scheme) in comparison to the total amount guaranteed under the scheme. As a consequence of this principle, a common interest in political and economic stability is created for the member-states. Apart from that, the scheme will have considerable advantages for the capital-exporting countries; because compared to the existing bilateral investment guarantee schemes, it results in risk-spreading and burden-sharing.
- 9) The sum of all guarantees given by member-governments will have to be equal to the total amount of capital covered by the guarantee institution, and shared on a 50/50 basis by capital-exporting and capital-importing countries. Therefore the guarantee of a member-government is called "guarantee share", in contradistinction to "guarantees" offered by the institution to private investors. Thus, in a case where \$ 10 million is exported from country A to country B for a certain project covered under the scheme, the guarantee share of each of the two countries would be increased by \$ 5 million - i.e. 50% of the capital invested by country A in country B.
- 10) Indemnity payments of the institution, and possible contributions to such payments by member-governments, will both have to be calculated on the basis of amounts guaranteed (i.e. guarantees of the institution to the private investor(s) and guarantee-shares) at the date when the claim is presented.
- 11) To manage the scheme, an institution should be set up on the basis of a treaty undersigned by the member-governments, with a legal status resembling that of the World Bank. The management should consist of expert people having acquired practical experience in the relevant specialised fields. The duties of the management should inter alia con-

- sist of: preparation of guarantee contracts (e.g. determining sums to be guaranteed), the examination of claims for indemnity and preparation of settlements, payments of indemnities together with the enforcement of rights acquired from damaged persons and firms after indemnity, and finally the collection of premiums and the administration of guarantee contributions and payments by member-countries, if any.
- 12) The scheme should be supplemented by a binding understanding between member-governments on a number of fundamental principles of fair treatment of foreign private investment.

Below the main aspects will be described in more detail.

#### Risks guaranteed

The non-commercial risks against which private investors may be covered can be defined as follows:

- Nationalisation and other cases in which investors are deprived of control, without fair compensation.
- Armed conflict, revolutions and other forms of political unrest.
- Inability to provide the currency of the creditor member-country for contracted payments (e.g. amortization instalments, interests, fees etc.) and/or income (e.g. dividends, etc.).
- Calamities and "acts of God", insofar as these cannot be covered on reasonable terms via existing channels.

#### Investments falling under the scheme

All new investments in one of the following forms should be susceptible for a guarantee under the scheme:

- Ownership and participation in business organisations, and loans over periods longer than 5 years. All these forms of investment can be the result of contributions in the form of finance, goods, services or know-how in one form or another.
- Licence contracts.
- Technical aid contracts.
- Management contracts.

In order to be guaranteed, the investments should be valued in terms of a certain sum and/or a certain yearly income. Insofar as the yearly income would consist of normal revenues, as e.g. interest, dividends, profits etc., the guarantee should only cover amounts actually coming due, but up to a maximum fixed beforehand in the guarantee contract,

#### Eligibility

Eligible for guarantees on the part of the institution are citizens of a member-country or a corporation, partnership or other association created under the laws of one of the member-countries.

#### Period and coverage

In analysing investment schedules, two phases can be distinguished.

First, prospection has to take place, sites have to be cleared, seedlings planted, factories built, personnel selected and trained, machinery installed, opening stocks to be procured etc. all depending upon the type of enterprise. In short: initial investments are made. After some time, production will start. However, it will take some time before the capital invested yields the full proceeds (including profits) expected. Investments are still being made and more personnel is being attracted and trained.

The above process leads up to a moment where the working account shows an equilibrium and then a profit: the second period has started. The enterprise has developed into a paying concern. The investments made have "matured", or in economic jargon: the "gestation period" has come to an end.

It is hoped of course that the second period will last indefinitely, and that further investments can be made for expansion in the future.

The duration of the first period will mainly depend upon three factors: (i) the nature of the enterprise to be established, (ii) the ability of those entrusted with its realisation, and (iii) good fortune or ill, caused e.g. by weather conditions, or by economic or other local circumstances.

The last two factors do not need further explanation. As to the nature of the enterprise the following examples may suffice: With modern equipment, grounds for a plantation may be cleared and the planting of seedlings completed within a few months; but it may last six, eight or more years before the growths have so far developed as to yield a full crop. On the other hand, the building and installation of a complicated factory and the training of its personnel may require several years, but once production has started, it may attain its maximum soon.

When applying for an investment guarantee under the scheme, the investor should submit a schedule showing an estimate (i) of the duration of the gestation period and (ii) of the investments to be made in that period.

The guarantee contract should state the dates when the gestation period starts and when it ends, and the sums to be invested year by year. As a rule this period should not be considered as to last longer than 10 years.

In some cases - e.g. mining ventures - it will be impossible to estimate the duration of the gestation period in advance, especially if prospecting for natural resources is taken to be part of the gestation period. In those cases a special treatment will be unavoidable. Thus it may be conceivable that a first contract is concluded covering an initial period of - say - 5 years and the funds to be spent on prospecting etc. during those five years. If prospecting proves to open hopeful perspectives, a second guarantee contract could be concluded if possible along the lines described above: i.e. with a definite gestation period and covering the investments made during the period of the first contract and those planned for the gestation period of the second contract.

If the guarantee is granted by the institution, the sum covered during the gestation period will be determined by the value of investments effectively made. It will not, however, exceed the maximum determined in the contract; any sums invested above this limit are left outside the guarantee.

From the end of the gestation period onwards, i.e. as from the time when the investment is expected to give a normal yield, the coverage should expire twenty years after said date. It does not seem practical to maintain the coverage granted under the investment guarantee at its original level during the entire period of twenty years. From the very outset it should be clear to investors, that in the long run their investments so guaranteed should be integrated in the local economic system, so that the enterprise does not run more risks than any other local enterprise. Of course, this does not preclude that additional investments made for expansion during the guarantee period or thereafter, may be guaranteed under a new contract for a full guarantee period.

The coverage granted during the twenty years elapsing after the expected date of full operation should therefore provide for the risks

covered to pass over gradually to the investor. This may be done at an even rate of 5% per annum. The coverage may also remain 100% initially, though not longer than 10 years after the end of the gestation period; afterwards it is to be reduced at an even rate per annum.

So far the guarantee for assets has been discussed. Another object of guarantee contracts can be that concerning the transfers of profits, fees, interest and amortization. Those payments will also show a certain schedule that depends upon the periods mentioned above. During the gestation period, finance is being provided by the investor from the capital exporting country, to build up facilities and to cover initial losses. Out of those funds, interest and amortization payments and fees and in some cases dividend payments will have to be made to the suppliers of capital and services. There will consequently be no transfer problems from the country where the investment is made to the country of the investor, because a surplus of payments is flowing in the direction of the developing country.

However, once the gestation period has come to an end, payments of dividends, fees, amortization and interest will be flowing in the direction of the country that exported the capital, while the flow of capital is coming to an end or diminishes. Then a reverse situation exists. There will be a transfer problem and a risk of delays in transfers. From that moment onwards guarantees may have to be provided for that risk, and the contract will have to contain the relevant clauses and figures. Here a guarantee coverage that remains constant over the period of the contract, is the most logical solution.

Again in such cases as mining ventures mentioned above, it may be practically impossible to make a reliable estimate of the approximate date at which the transfer risk of the amounts involved starts. Then exceptions to the general rule will have to be made, and special contracts drawn up.

#### Premium

It is only natural that investors desiring to avail themselves of the guarantee facilities provided by a scheme like this one, should be required to pay a certain insurance premium. In fixing the rate of the premium, the following points of view should be considered:

- it should not be so high as to jeopardize the earning capacity of young enterprises, nor as low as to be negligible;
- it should neither be so high as to discourage applications for guarantees, and thereby prospective investors, but high enough to build up a strong premium reserve.

On account of these considerations it is suggested to put the premium at the rate of  $1\frac{1}{2}\%$  of the total sum invested - as far as guaranteed - per annum.

Existing schemes of international credit insurance usually discriminate between debtor countries on account of past experience and expectations on future performance. There are several reasons to do away with any such discrimination in the present scheme. The main reason is that the system proposed here would bring about a common responsibility of the Governments of countries receiving investments, which they are supposed not to take lightly. A more practical reason is, that existing schemes of credit insurance are all working along principles set out autonomously and handled unilaterally; in such systems discrimination may be made quite easily, but also unjustly perhaps. The present system being based on multilateral cooperation and equal membership, its very essence precludes the idea of discriminating among member-countries. Finally, the guarantees are given over such long periods that predictions on future developments determining risks are practically impossible.



It may be worth while, to consider other criteria which might justify a certain reduction of the premium rate. Perhaps investment schemes envisaging a joint venture with local investors of the receiving country might come into consideration for a reduction of say 25%. Another reason for reducing the premium might be given, if the investor forgoes certain cases of indemnity, e.g. if he would want a guarantee for revenues only (leaving principal sums aside) or would be prepared to take certain risks mentioned above for his own account.

#### Damage

From the very outset it should be made clear that the mere occurrence of any of the adversities summed up above does not in itself entitle an investor to indemnity. On the contrary, only losses really incurred should be indemnified to the extent that they have been caused by any of the aforesaid political, transfer and calamity risks.

Such losses may be defined e.g. in the following categories:

- when the local assets of the enterprise suffer physical damage,
- when all or part of the activities of the enterprise are paralysed,
- when the investor's legitimate control over the enterprise is affected adversely,
- when planned amortization instalments of the sums invested are not transferred to the investors abroad,
- when such revenues as would normally come available to investors are not transferred.

In order that a case for indemnity be accepted, it is to be proved therefore:

- (1) that a loss has occurred falling in the terms of any of the above definitions;
- (2) that such loss is caused by political, transfer and/or calamity risks as defined above;
- (3) what the amount of the loss suffered is.

The order of proceedings by which these factors have to be determined should be as informal as possible. It is no use, indeed, to establish elaborate and strict procedures for that purpose as they would inevitably discourage prospective investors. The procedure to be followed should be such as to give investors a feeling that they will be treated in a fair way, should losses really occur.

In general, no case should be admitted unless a certain time fixed in the contract has lapsed since the occurrence of the loss. This period may be determined at six months.

On the other hand, the various instances of the procedures to determine the loss should be limited in order to avoid long proceedings.

Payments will have to be based on the amount guaranteed at the date when the claim is presented. If the investment is lost, compensation for revenues forgone will not exceed a percentage of the value actually invested as determined in the contract.

Indemnities awarded should be paid up within one month after the decision or award has become irrevocable.

#### Recovery

When receiving indemnification the investor should assign to the guarantee institution all legal rights and claims he might be able to exert for indemnification purposes. This procedure should have the legal effect to subrogate the institution as fully as possible in the investor's rights, and to enable it to recover the indemnity paid out to the investor from such government or other entity that will legally be responsible for the damage done.

In order to reach a strong legal position for recovery purposes, the above mentioned treaty between the participating governments should contain a few provisions to entitle it to juridical proceedings. In general it may be advisable to endow the institution with a status, immunities and privileges similar to those defined in article VII of the Articles of Agreement of the World Bank.

#### Guarantee-shares of member-governments

It is clear that large calamities or large scale political unrest can cause losses the indemnities for which cannot be financed out of the premium reserve. Under those circumstances the member-governments will have to provide a "second line of defence" on the basis of guarantees given by them. A guarantee given by a member-government may be defined as follows: a conditional commitment to pay sums in a certain year up to a certain maximum. That maximum figure can be called the "guarantee-share" or briefly the "share". All guarantees given by member-governments should be expressed in a freely convertible international currency, for instance the U.S. Dollar, which is the working currency of the World Bank.

In this context three questions are fundamental:

- How large should be the sum of all guarantee-shares to be provided by the member-governments?
- How should the share of each member-government be determined?
- In case the premium reserve were to be exhausted, how should the contribution of each of the member-governments be determined when additional indemnities have to be made?

With regard to the first question, it is essential that the sum of all guarantee-shares be equal to the sum of guarantees offered to investors. Strictly speaking the sum of these guarantees should be equal to that total sum minus the premium reserve. However, as the premium reserve will vary from one day to another, it seems much more practical to keep the total sum of guarantee-shares equal to the total sum of guarantees offered to private investors, in order to avoid labourious calculations and continuous corrections of government guarantee shares.

With regard to the second question, the guarantee-share of each member-government should be equal to 50% of the sum for which capital imports and/or exports in/from its country have been covered under the scheme. The other 50% of the sum will consequently have been covered by the guarantee-share of the other member-state involved, so that the total of shares is equal to the total of sums covered. Thus, if a private investor from country A starts a project in country B and has it guaranteed under the scheme for, say, \$ 10 million, country A will have to increase its guarantee by \$ 5 million after having given a permit (for permits, see Some points on procedure below). The same will be done by country B. Consequently, the guarantee-share of a member-government only increases by amounts representing new investments in/by its country and brought under the scheme. Conversely reductions are made for all projects that are in the stage during which the guaranteed sum declines year by year.

Now the third question can be answered.

The guarantee-shares are a measure for the share member-governments will have to take in the financing of indemnities, if that may become necessary. If damage to an amount of \$ 100 million has to be compensated by the member-governments after exhaustion of the premium reserve, each government pays an amount proportional to its share in the sum of guarantee-shares of all member-governments. Thus, if country A's total share is equal to \$ 150 million, while the sum of all countries' shares amounts to \$ 1000 million, country A will have to contribute  $\frac{150}{1000} \times 100\% = 15\%$  of the above-mentioned damage of \$ 100 million, i.e. \$ 15 million.

The date on which the calculation is based, will be that on which a claim has been presented by the private investor. In other words, the membership and the level of the shares at that date, determines whether a government will have to contribute and what the amount will be.

Thanks to the above-mentioned formulas, according to which all member-governments contribute in all cases where indemnities have to be made and when they do so proportionally to their share in the advantage brought about by the scheme, the risk is spread, while at the same time a common interest is created in the prevention of damage. Therefore the scheme not only provides coverage against political, transfer and calamity risks to stimulate the flow of private investment to developing countries, but it also results in a preventive tendency with regard to the forces at work that cause political and transfer risks.

It is conceivable that one or more member-governments are unable to pay their part in case of damage, due to budgetary or balance of payments difficulties. In such case international lending facilities could be provided on the basis of ad-hoc decisions of the capital-exporting member-countries and/or international financial institutions. If no practical solution along such lines appears possible, a temporary relieve from obligations seems reasonable. When pleading this exception the government in question should provide a statement issued by the International Monetary Fund and giving evidence of the alleged shortage as well as an estimate of the time when the country will probably be able to resume its obligations.

In order to strengthen the position of the institution it may be useful that participating countries are required to pay a certain sum in advance as a deposit which would serve as a second line reserve behind the premium reserve.

#### Institutional structure

In order to secure an effective management of the guarantee system, some form of institutional organization should be set up. Its legal basis should be provided by a treaty undersigned by the governments of countries participating in the guarantee system. Its legal status should resemble that of the World Bank, i.e. it should provide for an independent management and, on the other hand, a direction whose control is effective.

For that purpose, the management should be entrusted to generally respected experts having acquired their experience in the insurance business, and preferably in the fields of indemnity, revenue and credit insurance. There will be no need for a large staff, especially if the institution strictly adheres to the principle that it is not up to them to judge the economic merits of the investment project submitted. The duties of the management will essentially be the following:

- (i) preparation and execution of guarantee contracts,
- (ii) registration of investments made under guarantees,
- (iii) Examination of claims presented and preparation of proposals for settlement,
- (iv) administration of the premium reserve and registration of guarantee shares of member-governments, and
- (v) collection of sums due to the institution, and settlements of indemnities.

It is recommendable that the management be presided by a managing director appointed by the board of directors. The directors themselves should be appointed for a period sufficient to enable them to

gather ample experience in the domain. It may be advisable to provide for deputy directors who have the opportunity to acquaint themselves with the business and in this way, are better prepared to succeed the sitting directors.

The directors should be representatives of member-countries holding their appointments directly from the respective governments. The board of directors is, apart from exercising its normal advisory and supervisory functions, to act as an arbitration tribunal in either of the three following cases:

- if an investor does not accept the proposal for settlement of indemnity made by the management;
- if a member-government objects to any such proposal in regard to losses suffered allegedly in its country;
- if a member-government objects to its guarantee-share the management is registering.

These functions are of a critical - and it is to be hoped exceptional - nature, because the prestige of the entire guarantee system is at stake, when the contributions are not collected and when investors feel disappointed.

It is necessary therefore that, especially in cases of appeal brought against indemnities proposed, the order of proceedings should be as informal as possible. Therefore, if an appeal is instituted against a proposal for settlement made by the management, the case should immediately be brought before the board of directors. In order to examine the case, a standing group within the board might be entrusted with preparing the award; this group had, for each case, to be extended by two assistant members appointed by the Governments of the countries involved as investing and receiving investment respectively.

With regard to cases of disagreement between the institution and any of its members a form of procedure may be adopted similar to that provided in Article IX of the Articles of Agreement of the World Bank. This may be applied especially in respect of disputes on indemnity contributions to be made by member-governments and with regard to actions for recovery of indemnities paid out to investors from member-governments who are responsible for damage inflicted.

For the latter purpose, it may well be advisable that the treaty should contain a number of Fundamental principles of fair treatment of foreign private investment, which will have to be formulated in common agreement between member countries and should provide the legal basis for actions for recovery to be brought by the institution. It is open to question to what extent such principles should be elaborated at the time the treaty is concluded. In any case suitable proceedings should be laid down so as to ensure that the rules that appear to underlie decisions in specific cases be incorporated into the body of law for fair treatment of foreign private investment.

#### Seat of the institution

The main office of the institution should be located in the capital of a developing member-country.

#### Some points of procedure

It will be clear from the above that a member-government can only increase its commitments (i.e. its total share), if it has given a license to a private investor seeking a guarantee with the institution. In other words the governments are free not only in keeping their guarantee-shares within certain limits deemed advisable by them or the parliaments,

but they are also free to refuse permits to certain projects considered unsound on grounds of the national-economic interest. All this holds true both for the capital exporting-industrialised countries and the capital-importing countries. Once a permit has been given, however, there should be no possibility of canceling or withdrawing it.

It follows that a private investor envisaging coverage for its investment will have to apply to three institutions:

1. the guarantee institution to draw up a contract and to determine the sum(s) of the guarantee(s) for this project;
2. his own government: for a guarantee permit;
3. the government of the developing country in which he plans to make the investment: for a guarantee permit.

It will be clear that there is considerable risk of red tape and long-drawn procedures. Whereas the developing countries are in a hurry, and whereas private investors shrink away from red tape, the institution and the governments should avoid red tape to the utmost if the scheme is to become a success. Therefore, the amount of the sum to be guaranteed and the guarantee contract should be the full responsibility of the international institution. It will of course have to call in the assistance of specialists in order to determine what the sum of the guarantee should be, and whether the proposal made by the prospective private investor is realistic.

The governments should not have the power to change contracts drawn up by the institution and agreed to by the prospective investor. The governments should only have the power to give or refuse permits. Once both governments have given a permit, the contract should automatically become valid.

Although the above procedure may seem to lay considerable influence in the hands of the institution, it should be kept in mind that the governments have the last say in the matter. Moreover it is the only procedure that (a) makes avoidance of long-drawn procedures possible, and (b) guarantees uniform contracts and principles of valuation. Clearly, if private investors were to come to an agreement about the contents of the contract and the value of the sum guaranteed with two governments plus an international institution, procedures would be endless and contracts drawn up and valuations made according to principles differing from one state to another.

Mr. Wolfgang Weigel

August 23, 1960

Leonard B. Rist

U.S. Private Investment Abroad.-

Herewith please find a few figures concerning U.S. private investment abroad. I hope they can be of some use to you.

I would confess, however, that in view of the recent events in Cuba and in Africa, I would feel somewhat reluctant to play up the role of private foreign investment at precisely this time. The press has publicly announced that out of a billion dollar investment in Cuba, some \$850 million have been either nationalized or placed under government administration. As for the news from Africa, no comment is necessary.

I shall be pleased to discuss this matter further with you if you wish.

1 att.

August 19, 1960

Dear Mr. Straus:

In Mr. Black's absence, I am replying to your letter of August 2, with which you enclosed an outline of your idea for an international investment guaranty scheme to be administered by the Bank.

Proposals of this kind have come up, in one form or another, from time to time. Most recently, at least to my knowledge, Xenophon Zolotas, Governor of the Bank of Greece and one of the "Four Wise Men," put forward a plan for an international guarantee or insurance unit to be established within the new Organization for Economic Cooperation and Development. It differed in detail from your plan, but the objective was much the same. I believe the proposal is being studied by the OECD Council; our impression at the time was that there was no great enthusiasm for it.

The Bank's general comment on Mr. Zolotas' proposal and on those which have preceded it is applicable to your suggestion. We are sympathetic to the objective, but we are skeptical of the technique. We question whether over the long run the availability of investment guarantees or insurance would really increase the flow of private capital to the less developed countries. This doubt arises from our belief that the principal deterrent to a greater flow of capital into most under-developed countries is the relatively unfavorable investment climate of those countries, and on our fear that the availability of insurance or guarantee protection for individual investors or exporters might actually serve to weaken the incentive of the less developed countries to take affirmative action to improve the climate and attract foreign capital.

I might also point out that there would surely be great difficulty in arriving at any acceptable definition of expropriation, probably the principal political risk, in such a treaty as you contemplate. You know, I am sure, that a number of proposals for an international investment code have foundered on that particular rock. National sensitivities in this area also account for the fact that a number of the countries which participate in the United States guaranty program have limited their participation to convertibility guarantees.

I can see various practical difficulties in having the Bank operate any such scheme, even through an affiliate, as Mr. Maffry has suggested. But because of my broad doubts of the wisdom and effectiveness of this method of tackling what I agree is a perplexing problem, I shall not elaborate on these other points.

- 2 -

I was interested to read your paper, and I am sorry I cannot be more enthusiastic. Since Mr. Maffry sent Mr. Black a copy of his reply to you, I am sending him a copy of this letter.

Sincerely yours,

W. A. B. Iliff  
Vice President

Mr. Ralph I. Straus  
331 Madison Avenue  
New York 17, N.Y.

SEB  
SEB:em



*Consideration of Private & Foreign  
Investment*

August 19, 1960

Dear Gus:

I enclose a copy of my letter to Ralph Straus,  
commenting on his plan for an international investment  
guarantee scheme, in exchange for the copy of your com-  
ments which you kindly sent to Gene.

*✓ dated Aug 19*

Sincerely yours,

W. A. B. Iliff  
Vice President

Mr. August Maffry  
Vice President  
Irving Trust Company  
One Wall Street  
New York 15, N.Y.

Enclosure

*SEB*

SEB:em

*Continuation of Private & Foreign Investment*

AUG 4 REC'D

# IRVING TRUST COMPANY

ONE WALL STREET

NEW YORK 15, N. Y.

INTERNATIONAL BANKING DIVISION

AUGUST MAFFRY  
VICE PRESIDENT

August 3, 1960

Mr. Eugene R. Black, President  
International Bank for Reconstruction  
and Development  
1818 H Street, N. W.  
Washington 25, D. C.

*Mr. DeLoach*

*File: Aug 1960*

Dear Gene:

Ralph Straus has sent me a copy of "A Draft Plan for  
an International Investment Guaranty Treaty Corporation"  
and I am sending to you for your information a copy of  
my letter to him commenting on it.

*See letter to  
Mr. Black of Aug 2*

Sincerely yours

*Aug*

August Maffry  
Vice President

IRVING TRUST COMPANY  
NEW YORK

August 3, 1960

Mr. Ralph I. Straus  
331 Madison Avenue  
New York, New York

Dear Ralph:

Thank you for sending me a copy of "A Draft Plan for an International Investment Guaranty Treaty Corporation".

As I said to you when we lunched together last week, I think the idea of an international investment guaranty scheme under the administration of the World Bank is a very timely and promising idea. However, I do not agree with the approach outlined in your draft and offer my comments as follows:

1. The basic idea should be an International Investment Guaranty Corporation, an affiliate of the World Bank, with guaranty capital subscribed by the members of the World Bank.
2. It would be unnecessary and almost certainly self-defeating to seek a multilateral treaty as a basis or prerequisite for the establishment of the Corporation. Experience has shown that it would be difficult if not impossible to achieve the kind of multilateral treaty which would encourage rather than discourage international investment.
3. The Corporation might require, either by statute or in practice agreements with countries investments in which it would undertake to guarantee, but these would be agreements between the Corporation and individual governments rather than multilateral treaties. Incidentally, the agreements with foreign governments required under the ICA guaranty program are bilateral executive agreements.

**IRVING TRUST COMPANY**  
NEW YORK

Mr. Ralph I. Straus

-2-

August 3, 1960

4. Whether or not guaranties would be issued by the Corporation covering investments in a particular country, and to what extent, should be left entirely to the discretion of the Corporation free of any arbitrary stipulations or limitations.

I am sending a copy of this letter to Gene Black.

Sincerely yours

Attended to by  
**A. MAFFRY**

August Maffry  
Vice President

COPY

RALPH I. STRAUS  
331 MADISON AVENUE  
NEW YORK 17, N. Y.

*Continuation of Private & Foreign Investment*

AUG 3 1960

August 2, 1960

*Ack. Aug 19/60  
Mrs. Berkeley  
No prepare  
reply for ERB  
MJD*

Mr. Eugene R. Black, President  
International Bank for Reconstruction and Development  
1818 H Street, N.W.  
Washington 25, D.C.

Dear Gene:

The Journal of Commerce of July 20th carried the headline, "Ask Latin, Africa, Guarantees, Investors Seek U.S. Aid, ICA Swamped by Rash of Bids for Insurance."

I had been wondering whether the Cuban and Congo situation had had an effect on "Expanding Private Investment for Free World Economic Growth" - the title of my report to the State Department. Limited inquiry revealed that it had, and this prompted me to consider whether an international guaranty plan might not be more effective in bolstering the confidence of international private capital investors than a single national guaranty similar to those of the ICA and Ex-Im. The IBRD seemed to be the logical organization to undertake such a scheme, both because of its size and reputation, and because a violation of such a treaty would have more far reaching effects than the violation of a similar treaty with the U.S. alone.

I discussed the idea with a few individuals in order to find out whether such an idea was under study, and whether it appealed to them as a constructive course of action. The persons I talked with, I believe you know; Gus Maffry of the Irving Trust Co., Victor Rockhill, head of Chase International, Roy Stinebower of SONJ, and Fred von Klemperer, Grady Upton's Special Assistant in the Treasury. All said they did not know of any serious study being given to the subject, encouraged me to pursue the idea, and each thought the IBRD was the logical organization to undertake such a scheme.

In the attached paper I have outlined my ideas more fully, in a preliminary form. I am sending it on to you now because I think the timing is urgent, and if the idea appeals to you, you may want to discuss it in general at the IBRD Annual Meeting in September. Furthermore, if it does appeal to you, your very able and competent staff could whip the idea into practical form faster, probably, than any other organization.

With kind personal regards.

Sincerely,

*Ralph*

Ralph I. Straus

RIS/mc  
enc.

A DRAFT PLAN FOR  
AN INTERNATIONAL INVESTMENT GUARANTY TREATY ORGANIZATION

- \* Cuba and the Belgian Congo have shaken the confidence of the private international investors.
  
- \* There is some evidence that new international financial commitments are being deferred and some in the planning stage are being abandoned for investment generally in Asia, Africa and South America.
  
- \* There is general agreement that a massive increase in private capital investment is essential to the stability and survival of the undeveloped or newly developing areas.
  
- \* A major effort of the U.S. Government through the Export-Import Bank, the Development Loan Fund and the ICA, as well as the IBRD, is to provide the infra-structure and the conditions in which American and foreign capital can together and cooperatively - with each other and with the governments involved - accelerate economic development.
  
- \* The U.S. Government has established guarantees issued by the ICA and the Export-Import Bank in order to protect private investment against political risks, so that decisions as to whether to risk private capital in the undeveloped countries can be based as nearly as possible on the business risks involved, balanced against projected profits.

The U.S. Government will only extend the ICA guaranty to investments in those countries with which a treaty has been written. The ICA guaranty covers expropriation, non-convertibility of earnings and capital, and war damage. These treaties provide that the claim of a private company will be subrogated to the U.S. Government in case insurance is to be collected, and that the foreign government will have to deal with the U.S. Government and not a

private company, if a situation arises under which insurance has to be collected.

\* When the U.S. Government was the principal source of foreign aid funds, this provision undoubtedly was a deterrent for a country to deliberately incur the displeasure of the U.S. Government by transgressing the treaty. Other countries are now entering the foreign aid and investment picture, however, and so the leverage that the U.S. originally had is not now as great as it was. Germany and other Western European countries are becoming increasingly influential factors, but much more importantly, so are the offerings in foreign aid and barter agreements from the Soviet Union and its satellites, and to a lesser degree, Communist China.

\* This suggests that a multilateral Treaty, similar to the ICA guaranty treaties, would be a more effective instrument for insulating private capital investment against major political risks. The willful violation of such a Treaty would automatically preclude the offending country from future access to sources of international capital and credit.

It is suggested that the IBRD would be the logical institution to establish and administer such a Treaty. The treaty organization would be separate from the Bank but under its overall policy control. Its capital drawing powers would be in addition to the capital drawing powers of the Bank, so as not to impair in any way, the existing capital and credit of the Bank.

The reasons and mechanism for such a step are as follows:

1. The IBRD was founded for the purpose of increasing the international flow of private capital. In achieving this goal it has been singularly successful. Although its capital comes from governments and all of its loans must be guaranteed by governments, its basic purpose is to provide the base and the

structure on which private capital will move on its own without governmental intervention.

2. The IBRD is the only instrument in the field of international finance with the credit strength and the international reputation to develop and uphold forward looking policies, and with the ability to enforce such a guaranty Treaty.

3. The Treaty would operate somewhat as follows:

The Treaty itself would bind the contracting nations not to expropriate without fair and proper compensation, to assist in the convertibility of its currencies with due safeguards to its balance of payments position, and to treat foreign and domestic private capital on equal terms, but with allowances for certain national management, control, and employment provisions.

4. Each contracting nation would agree to give the IBRD the right to call on its currency up to an agreed upon amount, to cover its share of insurance. This would be similar to the present ability of the IBRD to call on capital for the Bank, as its operations require, up to an agreed upon sum. In this way the capital requirements of the insurance Treaty would be kept separate from the present Bank capital, but would be complementary thereto. No country has so far defaulted on its IBRD guaranty. It is hoped that the insurance Treaty would develop an equally enviable record. A default on either account would automatically cut off the offending nation from further international capital and credit, and so in a sense would be self-policing.

5. It is realized, of course, that the insurance Treaty would be ineffective if a country decided it wanted to throw in its lot completely with the Communist bloc. In such a case, however, the combined insurance of the other nations would protect private investors.



RECEIVED  
BANK OF AMERICA  
1960 AUG - 3 10 10 AM

6. The amount of insurance required from any country should bear a relation to the amount of private foreign capital in that country, and provision should be made for adjustment periodically, based on the ebb and flow of such foreign private capital.

Ralph I. Straus  
New York, New York  
August 1, 1960

RECEIVED  
BANK MAIL ROOM  
1960 AUG -3 AM 10:44

The amount of insurance required from any country should bear a  
relation to the amount of private foreign capital in that country, and provision  
should be made for adjustment periodically, based on the rise and fall of such  
foreign private capital.

Ralph I. Brown  
New York, New York  
August 1, 1960

*Private & Sensitive Material*

June 13, 1960

My dear Governor:

I greatly appreciated receiving your letter of June 7 with its further very interesting comments regarding your proposal for an international export guarantee unit. I hope we may have a chance to exchange views on this matter further upon the occasion of our Annual Meeting in September.


With best regards,

Sincerely yours,

J. Burke Knapp  
Vice President

The Honorable  
Zenophon Zolotas  
Governor  
Bank of Greece  
Athens  
Greece

cc: & incoming to Messrs. Demuth, Cope

JBK/js 

*Private & Foreign Investment*

Mr. Alexander Stevenson

June 8, 1960

G. Stewart Mason

In view of the Bank's interest in inducing Western Europe to make capital available to under-developed countries on more generous terms than hitherto, I think that the Review of Sir George Bolton given to the shareholders of the Bank of London and South America Limited is very interesting.

Naturally he slants his statements toward Latin America, but he also makes some very definitive pronouncements on the need for Europe to increase its overseas investments and for some agreement on comprehensive policies in this respect.

I am attaching a copy of the Review and you may think it worth while sending it on to Burke Knapp in case he has not already seen it.

GSM:mtc

*P.S.M.*

ROUTING SLIP

Date

June 13/60

OFFICE OF THE PRESIDENT

NAME

ROOM NO.

~~Mr. Demuth~~ *Mrs. Rosberg*

~~506~~

Mr. Cope *[Signature]*

813

Action

Note and File

Approval

Note and Return

Comment

Prepare Reply

Full Report

Previous Papers

Information

Recommendation

Initial

Signature

Remarks

From

J. Burke Knapp

BANK OF GREECE  
THE GOVERNOR

Athens, June 7, 1960

*Ack: June 13/60*

Dear Mr. Knapp,

Thank you for your letter of May 9 and your interesting comments on the proposal for the establishment of an international export credit guarantee unit.

The basic idea behind the proposal stems from the fact that under existing arrangements the means of financing available for directly productive investment by domestic entrepreneurs in less developed countries carry with them conditions which are either discouraging such investment or may seriously compromise the sound growth of private enterprise and the financial position of the borrowing countries.

The proposal is also based on the principle that three mutually complementary types of finance are required in order to ensure rapid and sound development in less developed countries: First, loans on exceptionally favourable conditions as to interest rates and repayment periods for the finance of basic infrastructure projects (such as those granted by the DLF and envisaged by the IDA). Second, long term, i.e. about 15year, loans on market terms such as the loans granted by the IBRD for the finance of big self-liquidating projects and Third, credits of about 10 years for the finance mostly of equipment purchases on ordinary commercial terms for directly productive private investment. This last type of finance has been developing in recent years by means of the various national export credit insurance schemes, under the stimulus of competition between exporting countries and in a manner which is both onerous for less developed countries and dangerous for the future sound growth of private enterprise in these countries. These aspects are particularly important because they are directly related to the encouragement of private enterprise in the developing countries which constitutes the declared objective of western governments and international organisations.

A scheme such as the one proposed would have the major advantage of correcting some major defects of an already functioning system and thereby reducing the dangers inherent in the present situation - to which reference is made in your recent letter. The proposal can thus contribute substantially to the mobilisation of private resources for the finance of investment in less developed countries since export credits for equipment are as a rule and would continue to be financed through ordinary banking channels. The soundness of the projects to be financed under these arrangements, depends on an adequate screening procedure which can well be provided for in co-operation with the national institutions already in the field. The finance of equipment purchases under these arrangements and procedures is not likely to cause additional balance of payments difficulties. On the contrary such difficulties would probably be reduced since in most cases the projects to be financed would lead to increased production with foreign exchange gaining or foreign exchange saving results.

As regards the estimate of defaults in excess of premiums it is felt that \$ 50 million annually would not be an inadequate provision even if commercial risks were included. By way of example it could be mentioned that Hermes (Germany) which has so far developed the greatest activity in this field does not charge more than 1,5% and its returns show that within the period 1949-57 the percentage of total claim payments to insurance contracts amounted on the average to 1,8% of which 0,07% only can be considered as irrevocable losses.

The note on my proposal does not deal with certain administrative and legal problems of an ancillary character the solution of which should not present insuperable difficulties. Generally speaking in case of default the procedures developed by national institutions could probably be adopted with the necessary modifications on account of the international character of the proposed unit.

Thanking you once again,

Yours sincerely



Xenophon Zolotas

Mr. J. Burke Knapp  
Vice President  
I.B.R.D.  
Washington 25, D.C.  
U. S. A.

May 9, 1960

Dear Mr. Zolotas:

Mr. Black unfortunately did not have an opportunity, before leaving on an extended trip, to give careful consideration to the note on your proposal for an international export credit guarantee (or insurance) unit within the new OECD, enclosed with your letter of March 12. However, he asked that I reply to you in his absence.

We have had some staff discussion of your interesting proposal, and I think I can comment most usefully by indicating some of the questions which the proposal suggested to us.

The Bank has had little direct experience in the guarantee field, as you know, although its Articles authorize it to guarantee loans made by other investors. However, we have from time to time been asked to express a view on various international credit guarantee proposals, and in each case we have questioned, as we do in the case of your proposal, whether over the long run the availability of investment guarantees or insurance would really increase the flow of private capital to the less developed countries. Our doubt is based on the conviction that the principal deterrent to a greater flow of capital into most underdeveloped nations is the relatively unfavorable investment climate of these countries, and on our fear that the availability of credit or insurance for individual exporters or investors might serve to weaken the incentive of the less developed countries to take affirmative action to improve the climate and attract foreign capital. For this reason, while we have been sympathetic to the objective of these proposals, we have been inclined to be skeptical of the technique as a means to an admittedly desirable end.

Coming now to the specifics of your proposal, we note it is estimated that if loans and credits were insured up to a total of \$5,000 million, defaults in excess of premiums probably would not exceed \$50 million annually. In view of the fact that coverage is to extend to commercial risks - the insolvency of the borrower for any reason - we wonder whether this is a realistic estimate. In particular, should there be a widespread depression, causing borrowers in many countries to default all at once, we doubt that the Unit's resources would be sufficient on the basis you propose. It may be relevant to point out that the United States International Cooperation Administration guarantee program began with a fund of \$200 million, and it does not offer protection against commercial risks (although it does extend to equity investments as well as to loans and credits).



Quite apart from the question whether a \$240 million capitalization would be sufficient for a program of the scope you contemplate, we wonder whether commercial risks should be covered at all. Should investors or exporters be protected by an international institution against normal business risks - in contrast to protection against arbitrary government action or an adverse change in exchange controls?

The problem of government action presents a further difficulty. You are perhaps aware that a number of proposals for an international investment code have foundered on the difficulty of arriving at an acceptable definition of expropriation. National sensitivities in this field account for the fact that many of the countries which now participate in the U.S. ICA program which I have mentioned have confined their participation to convertibility guarantees. This problem may not be insurmountable, but it has proved an obstacle in the past.

One further question which has occurred to us concerns the rights which would accrue to the Unit after a claim had been paid, a point with which your proposal does not deal. Do you have in mind that the Unit might proceed against the defaulting importer or borrower, or against a government whose official action had caused the default? The latter could be a source of some embarrassment to the OECD in its other relationships with the government concerned.

These are the principal questions which have occurred to us. I understand the Council of the OECD is to give consideration to the proposal. We shall follow the result of that consideration with interest.

I look forward to seeing you at the Annual Meeting, if not before.

Sincerely yours,

J. Burke Knapp  
Vice President

Mr. Xenophon Zolotas  
The Governor  
Bank of Greece  
Athens, Greece

RHD:SEB:em



Export Credits Guarantee Department,  
c/o British Consulate-General,  
Room 753,  
99 Park Avenue, New York 16.

26th April, 1960.

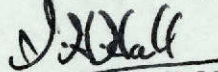
Dear Mr. Prasad,

Many thanks for your letter of April  
the 20th.

I am writing to tell my colleagues to  
call at your room at 10:00 AM on the 13th of May. I  
am quite sure that my colleagues will be happy to  
accept Mr. Perry's kind invitation to lunch with him  
on that day.

I am most grateful to you for your co-  
operation in this matter.

Yours sincerely,



J. H. Hall,

Assistant Representative  
for

Export Credits Guarantee Department.

Mr. P.S.N. Prasad,  
Assistant Director,  
Economic Staff,  
International Bank for  
Reconstruction and Development,  
1818 H. St., N.W.,  
Washington, D.C.

*Mr. Neil Perry:  
I shall bring them  
over to you around  
10-15. if  
any*

RECEIVED  
BANK MAIL ROOM

1960 APR 27 PM 2:53

*[Faint, illegible text, possibly a header or address block]*

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*[Faint, illegible text, possibly a signature or footer]*

*[Faint, illegible text, possibly a second body paragraph or notes]*

ROUTING SLIP		Date
		April 21, 1960
NAME		ROOM NO.
Mr. Schmidt		
<del>Mr. Sandelin</del>		
<del>Mr. Iverson</del>		511
<del>Mr. Perry</del>		
Mrs. Steck		P-100
Action		Note and File
Appropriate Disposition		Note and Return
Approval		Prepare Reply
Comment		Per Our Conversation
Full Report		Recommendation
Information		Signature
Initial		To Handle
REMARKS		
From <del>G. Neil Perry</del> D.E. Alexander		

for  
Yellow  
Copy

- 1. ~~Mr. Schmidt~~
- 2. ~~Mr. Sandelin~~
- 3. ~~Mr. Treason~~
- 4. Perry

April 20, 1960

Mr. J. H. Hall, Assistant Representative  
Export Credits Guarantee Department  
c/o British Consulate-General  
Room 753  
99 Park Avenue  
New York 16, New York

Dear Mr. Hall:

13th ✓

Your letter of 14th April 1960 to Mr. Rist has been received by us. Mr. Rist is now away on a vacation, which is the reason why I am writing to you on this subject.

We shall be very happy to receive your colleagues, Messrs. Cotterill and Gill, on the 13th of May. Mr. Neil Perry of the Western Hemisphere Department has agreed to make arrangements to receive them and put them in touch with area specialists with whom they might find it useful to have discussions. Mr. Perry would also be happy to have your two colleagues stay and have lunch with him that day, if this is convenient.

Ten a.m. will be convenient and they may please come in either to my room, No. 716, or go directly to Mr. Perry in Room 513.

We shall look forward to their visit.

Yours sincerely,

P. S. N. Prasad  
Assistant Director, Economic Staff

cc Mr. Perry

Export Credits Guarantee Department,  
c/o British Consulate-General,  
Room 753,  
99 Park Avenue,  
New York 16, N.Y.

13th April, 1960.

*Ack: April 20/60*

Dear Mr. Rist,

Two of my London based colleagues, K. W. Cotterill and J. Gill, are at present making a short Tour of a number of South American Countries - Brazil, Uruguay, Argentina, Chile and Peru, - and will be returning to London via Washington and New York. They would like to take the opportunity presented by their short stop-over in Washington, to call at the Bank and exchange views with you and your colleagues on the economic situation and prospects of the Countries included in their Tour and various others in the Central/South American areas in which they are interested.

They would like to call at the Bank on Friday, the 13th of May, and if this date is convenient to you, may I suggest 10:00 AM as a suitable time.

I recall with some pleasure a visit I made to the Bank in 1957, when returning with Ronald Kinsey from a Tour of various Countries in South East Asia and the Far East, and I am quite sure that my colleagues will derive similar benefit from their visit to the Bank.

Yours sincerely,

(Signed) J. H. Hall  
J. H. Hall  
Assistant Representative for

Export Credits Guarantee Department.

Mr. Leonard Rist,  
International Bank for  
Reconstruction and Development,  
1818 H. Street, N.W.,  
Washington 25, D.C.

May 12, 1960

Dear Ben:

*recovered files*

When I replied, on April 8, to your letter of April 5, I said I would be writing you again on one of the matters you had mentioned, guarantees for private investment in under-developed countries.

*March 12/60*

As you probably know, one of the "Four Wise Men," Xenophon Zolotas, Governor of the Bank of Greece, has put forward a proposal for an international export credit guarantee or insurance unit to be established within the new Organization for Economic Cooperation and Development. The report of the Four Wise Men recommended that this proposal be studied by the OECD Council, although it is my understanding that there is no great enthusiasm for the project, at least at this stage. Our own reaction to it is evidenced by the enclosed copy of a letter to Mr. Zolotas; as you will see, the doubt we express goes to the concept of such a program, not merely to the particular proposal advanced by Mr. Zolotas. We would not now be inclined to take any initiative in this field, and I think we might well wait to see what, if anything, comes out of the OECD study.

With best regards,

Sincerely yours,

J. Burke Knapp  
Vice President

Mr. Ben T. Moore  
The Twentieth Century Fund  
41 E. 70th St.  
New York 21, N.Y.

*EB*  
RHD:SEB:em

*JK*

ROUTING SLIP

Date

April 8

OFFICE OF THE PRESIDENT

NAME

ROOM NO.

~~Mr. Fowler (see 1st para. of Mr. Moore's letter)~~

200-A

Mr. Demuth (May I discuss with you the latter paragraphs of Mr. Moore's letter)

506

Action

Note and File

Approval

Note and Return

Comment

Prepare Reply

Full Report

Previous Papers


Information

Recommendation

Initial

Signature

Remarks

  
JBKnapp



EXTRACT FROM LETTER FROM  
THE TWENTIETH CENTURY FUND  
41 East Seventieth Street, New York 21, N.Y.

Ben T. Moore, Associate Director

April 5, 1960

Mr. J. Burke Knapp  
Vice President  
International Bank for  
Reconstruction and Development  
1818 H Street, N.W.  
Washington 25, D.C.

Dear Burke:

.....On another subject, you will recall that last summer I had some discussions with Dave Sommers concerning the problem of guarantees for private investment in the less developed countries. These talks arose out of an interest of Senator Javits in the subject. Although there was some interest within the Bank and the possibility of a small working party to go into the technical aspects of the problem was considered, the subject was dropped because of the pressure of other work, notably the IDA, and a feeling on both sides that it was somewhat premature at that time.

The Senator has asked me to inquire concerning the current thinking of the Bank with respect to this problem. He has a feeling which I share that we should not overlook any possibility which would encourage an increase in the volume and scope of private investment in the less developed countries, particularly if Western Europe can be included in the arrangements. We are not, however, committed at this point to any particular method or approach.

If you feel that it would be useful to review the situation, I would be glad to come to Washington for this purpose.

I should like to take this time to express my appreciation for the opportunity of working with Dave Gordon, John Adler and Gerald Alter on our Latin American study. They have all been extremely helpful inspite of their other heavy commitments.

With best wishes.

Sincerely yours,

(signed) Ben

Ben T. Moore

*Original incoming letter in Personnel Files*

BTM:hg

Mr. P. S. N. Prasad

March 31, 1960

Leslie G. Butcher

Governor Zolotas' Proposal for an International Export Credit Guarantee Unit

Mr. Rist asked for a short analysis of the proposal and some comments.

1. Purpose: In a paper dated March 1960, Governor Zolotas proposes that there should be established within the expanded OEEC a Unit "to mobilize to a much greater extent private capital resources for investment in the underdeveloped countries of the world" and to stimulate exports from the exporting countries particularly during periods of recession. The Unit would provide collective guarantees by the participants ("all advanced countries participating in the expanded OEEC") to exporters or their financial institutions or to importers of credits for purchases of capital goods from any participant to any underdeveloped country. The guarantees could be either in the form of direct guarantees or of reinsurance of risks underwritten by the existing national export credit insurance organizations.

2. Defects in Existing Facilities: Governor Zolotas mentions the following defects in the existing national export credit insurance schemes and his proposed remedies:

- a. The Berns Union's present maximum permissible term of credit of five years from shipment is sometimes inadequate for the projects which are being financed or for the repayment capacity of the borrowing countries. The Unit would have authority to guarantee credits for longer periods.
- b. Insurance now generally covers the political, transfer and catastrophe risks to the extent of about 75% of the value of the exported goods. The proposal suggests that this coverage should be extended to 90% and should include the risk of the buyer's insolvency.
- c. At present premiums vary widely. The proposal suggests that they should be made uniform and lower.
- d. Exporting countries sometimes invite orders by showing their willingness to guarantee export credits to a particular country, generally for political reasons. Guarantees by the Unit would eliminate the suspicion that suppliers' credits were influenced by political consideration.

3. Other Benefits. Two incidental benefits mentioned in the proposal are:

- a. Coordination of loans to underdeveloped countries which would be possible if the Unit worked closely with other departments of OEEC and other international lending agencies.

- b. The developed countries could concentrate on grants or soft loans to meet permanent gaps in the balance of payments of underdeveloped countries and to finance infrastructure works, leaving the Unit to make credits for longer terms than there are now available to underdeveloped countries.

h. Organization and Administration. There would be a small executive committee "in which less developed European countries would also participate" and a wider governing body consisting of representatives of all members of the expanded OEEC. OEEC would bear the administrative expenses. Governor Solotas estimates that if the Unit's guarantee power were limited to \$5 billion defaults in excess of premiums would probably not exceed \$50 million a year and the initial cost to the participants would be only \$80 million. This is based on authorized capital of \$240 million with one-third paid up. The Unit would allot quotas for participants' subscriptions and for any payments on defaults in excess of the Unit's resources. Each participant would have a quota of exports eligible for the Unit's guarantee which could be exceeded by a maximum limit of, say, 50% beyond which any further guarantees of exports from that participant would have to be covered wholly by the participant.

5. Premiums. No detailed estimates have been worked out but the proposal states that for reinsurance of existing policies against political and catastrophe risks the premiums might be 1/2 of 1%. For reinsurance of commercial risks, the premiums might be an additional 1/2 of 1%. For direct insurance premiums would be higher.

- 
- Comments:
- a. As each of the exporting countries already has its own export credit insurance scheme subsidized in one way or another by its government and adapted to its own manner of doing business and to the types of goods it exports, a cooperative scheme might mean that each participant would have to sacrifice some of its preferences. The proposal might be resisted on that score.
  - b. If the exporting countries were willing to enter into such a scheme, difficulties would arise out of their desire to keep their operations secret. They have repeatedly made this desire clear in the operation of the Bank's plan for the Exchange of Information on Medium-Term International Indebtedness.
  - c. The proposal says nothing about the availability of any new funds to finance exports.

- d. The estimates of the capital required to operate the Unit and the premiums to be charged are not substantiated. If, as Governor Zolotas proposes, the Unit were to have power to issue guarantees totalling over sixty times the paid-up capital, the participants would have to be ready to make additional contributions.

*LSB*

IGButcher/ns

cc: Mr. Rist (2)

*Export Credit Guarantee Unit*  
*Files*

# OFFICE MEMORANDUM

TO: Mr. Martin M. Rosen

DATE: March 21, 1960

FROM: W. M. Gilmartin *W.M.G.*

SUBJECT: Proposal for an International Export Credit Guarantee Unit

## I Summary

Multilateral guarantee of export credits is suggested as a function which might well be taken on by the OEEC in the course of its proposed extension and reconstitution. This suggestion is set forth in a paper received from Xenophon Zolotas, Governor of the Bank of Greece.

Governor Zolotas envisages a unit, participated in by the European countries and the U.S. and Canada, which would guarantee or insure (or re-guarantee or reinsure) credit for the export of capital goods to the underdeveloped countries. Guarantees would cover risks of default by the ultimate borrower, transfer risks and risks of force majeure. Subscribed capital requirements are estimated at about \$240 million, with about a third initially paid, to do an outstanding guarantee business up to about \$5,000 million. Financial requirements would be shared among the industrialized countries, and each would have a maximum limit of guarantees for its exports which would be related to its financial contribution. This limitation, together with the re-guarantee and reinsurance functions of the proposed unit, would allow scope for the continued operation of existing bilateral export credit guarantee arrangements.

It appears preferable to Governor Zolotas (although not essential) that the proposed unit be an independent legal entity. Its governing body should include all members of the extended OEEC, with a smaller executive committee, again including representation of the less developed European countries.

Benefits foreseen by the Governor from the proposed unit would include:

1. Stimulation of the flow of private credit to underdeveloped countries through such advantages over present national credit guarantee arrangements as:
  - a. Adjustment of repayment period to nature of the project and capacity of the borrower rather than to an arbitrary maximum term such as the 5 year limit of the Bern Union;
  - b. Increase of the percentage of guarantee (up to 90%) and widening of its coverage;
  - c. Reduced and more uniform insurance premiums.

2. Strengthening of international price and quality competition;
3. Freedom from political (and presumably promotional) considerations in the guarantee of export credits;
4. More systematic coordination of guarantees in conjunction with other financing agencies and in relation to development plans and requirements of recipients;
5. A better distribution of different forms of international financing according to the situation of the recipient countries, with export credits increasingly related to capital requirements of self-liquidating projects on appropriate terms and with grants and soft loans concentrated on meeting permanent payment gaps and infrastructure investments of very long duration.

## II Comment

Governor Zolotas' proposal deserves serious consideration as a means of injecting order into the international field of export credits and credit guarantees. Whether it will receive such consideration from countries interested in the competitive and promotional possibilities of national export credit arrangements remains to be seen. It is encouraging in this connection, however, to note some awareness of the self-defeating nature of competitive changes in credit terms among the exporting countries, especially now that the U.S. is threatening more intensive export credit activity. This may mean real interest in a plan such as proposed by Governor Zolotas, and an effort in persuasion would seem justified by the realistic and impressive list of benefits which the Governor expects.

It is too much to expect that all of these benefits would be realized at once from the proposed multilateral guarantee arrangements. The Governor does not specify the administrative means for applying the standards of the proposed unit to individual export credit transactions. The problems will be particularly difficult in assessing the merit of proposals and the risks of commercial default among a large number of ultimate borrowers. Presumably the unit would have to be guided to a considerable extent, and perhaps misguided, by national credit agencies. Initially, therefore, the immediate aims may have to be more modest than the ultimate objectives. Not all compromises with multilateral standards could be concealed, however, and before very long it should be possible for the proposed unit to win conformance to an effective credit code along the lines suggested by Governor Zolotas.

The Bank would undoubtedly be able to establish close liaison with such a unit and to provide guidance to the unit on appropriate credit terms for particular recipient countries and perhaps also on the advisability of particular export credits in important cases. Presumably such a unit would not be in competition with the Bank and would not undertake financing in which the Bank or other international lending agencies might be interested.

Mr. Leonard B. Rist

March 18, 1960

Leslie G. Butcher

Scafuro Plan for American Export Credit  
Guarantee Corporation

Mr. Callander of the NAC Secretariat told me today over the telephone that the hearings on Mr. Scafuro's plan by the Senate Interstate and Foreign Commerce Committee under the chairmanship of Senator Magnuson which were to have started on March 15 had been postponed owing to the continuation of the debate in Civil Rights. Mr. Cope seemed to think Mr. Scafuro's plan had some merit but he did not know how it might conflict with the plan for export credit guarantees announced yesterday by the President. (As this plan seems to relate to contracts of less than one year it should not conflict with the American Export Credit Guarantee Corporation, as Mr. Scafuro sees it.)

*LSB*

LGButcher/bb

Mr. J. Burke Knapp

March 16, 1960

Martin M. Rosen

Multilateral Credit Institution

Attached is a copy of the proposal for the establishment of an International Credit Guarantee Institution prepared by Governor Zolotas of Greece.

He is, as you know, one of the Four Wisemen and this is presumably one of the proposals he is putting before the group in connection with the proposed reorganization of OEEC.

Attachment

MMRosen:ms



BANK OF GREECE  
THE GOVERNOR

Athens, March 12, 1960 MAR 15 REC'D

*1-12-60*

*Dear Mr Black,*

I enclose three copies of the note on my proposal for the establishment of an International Export Credit Guarantee (or Insurance) Unit which I have promised you during our meeting in Paris. I believe that the proposed arrangements could become complementary to the activities of the World Bank and IDA and strengthen your efforts for a more effective coordination of policies in the problem of economic development.

I was very pleased seeing you again and I always much value your precious advice on matters of common concern.

*Yours sincerely*

*Act: May 9/60*

Xenophon Zolotas

Eugene Black Esq.,  
President  
International Bank for  
Reconstruction and Development  
Washington 25, D.C.  
U. S. A.

*Mr. Demuth;*  
*Any*  
*Comments?*  
*ERS*

*Study*  
*World Bank*  
*Journal of Commerce*

Athens, March 12, 1960 MAR 15 REC'D

*Dear Mr. Pless*

I enclose three copies of the note on my proposal for the establishment of an International Export Credit Guarantee (or Insurance) Unit which I have promised you during our meeting in Paris. I believe that the proposed arrangements could become complementary to the activities of the World Bank and IDA and strengthen your efforts for a more effective coordination of policies in the problem of economic development.

I was very pleased seeing you again and I always much value your previous advice on matters of common concern.

*Yours sincerely*

*[Signature]*

Kemphor Solotas

Eugene Black Esq.,  
President  
International Bank for  
Reconstruction and Development  
Washington 25, D.C.  
U. S. A.

1960 MAR 15 PM 12:40

RECEIVED

*Mr. Pless*  
*Mr. Solotas*

A PROPOSAL FOR THE ESTABLISHMENT OF AN  
INTERNATIONAL EXPORT CREDIT GUARANTEE UNIT

By Xenophon Zolotas  
Governor of the Bank of Greece

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The proposed extension and reconstitution of OEEC to an Organisation of Economic Cooperation and Development including all OEEC countries, as well as the United States of America and Canada, should, in accordance with the 20-country Resolution of January 14th, 1960, provide methods of assistance to the economic growth of less developed countries. It is believed that the proposal outlined in this note could substantially contribute to the achievement of the above objective.

The establishment is being proposed, within the new economic organisation, of an International Export Credit Guarantee (or Insurance) Unit - hereafter called the "Unit" - to fulfill the following main objectives: First, to mobilise to a much greater extent private capital resources for investment in the underdeveloped countries of the world, and, Second, to create a mechanism which in periods of reduced economic activity would support demand in the advanced countries, through the expansion of exports of capital goods, thereby making also possible the continuation of development investment in the underdeveloped countries during periods of recession. These general objectives could be achieved by providing collective guarantees (or insurances) by all advanced countries participating to the proposed new organisation, either directly to interested private or public firms and financial institutions in underdeveloped countries and to financial institutions and exporters in the advanced countries, or by indirect coverage of such guarantees (or insurances) extended through corresponding national institutions, against risks attached to the repayment of loans on credits for exports of capital goods to underdeveloped countries, on a wider scale and on easier and more uniform terms than the case has been hitherto.

I. Specific Objectives of the Proposed International Export Credit Guarantee Unit.

The following specific objectives can be fulfilled by the proposed Unit:

I. There is a powerful tendency of capital resources being directed to and employed in the already advanced and stronger, as opposed to the weaker countries in process of development. It is accordingly necessary to provide strong and effective mechanisms which could divert private capital resources to the weaker, developing countries and this can be achieved to a considerable extent by the proposed organisation which would fill an essential gap in the existing organisations which are typically public in character.

2. The conditions under which suppliers' credits are now being extended, under the present national guarantee or insurance mechanisms, are restrictive and frequently inadequate to meet the problems of the developing countries. More particularly,

(a) the maximum period of the suppliers' credits under the Bern Union is 5 years, although in many instances a longer period of repayment would have been more appropriate given the nature of the projects and the capacity of the borrowing country.

(b) the percentage guarantee or insurance in most cases covers about 75% of the value of the exported capital goods and covers usually the political, transfer and catastrophe risks. There is scope in increasing the percentage of guarantee or insurance up to 90% and widening its coverage so as to include the credit-worthiness of the borrower.

(c) the insurance premiums on suppliers' credits vary considerably and there is scope in reducing them to lower and more uniform levels.

3. The proposed Unit constitutes a step towards multilateralisation of guarantees or insurances on suppliers' credits for exports to underdeveloped countries, thus contributing to the general efforts for multilateralisation of trade and payments. One of the principal disadvantages of the system now in force is that the guarantee or insurance facilities are usually provided under the initiative of the supplier. To the extent that the guarantee or insurance could be tied to the credit extended to a particular importer in an underdeveloped country the mobilisation of the necessary credit facilities could be effected on a multilateral basis, thereby strengthening and making more effective competition with respect to quality and price. Such developments would be consistent with the general efforts to promote multilateral trade and payments. The additional important advantage of multilateralisation of export credit guarantee (or insurance) would be the elimination of any suspicion that suppliers' credits extended on a bi-lateral basis by particular countries are influenced by political considerations.

4. A more systematic follow-up and coordination of loans and credits or other resources made available to particular underdeveloped countries by a central agency - such as the proposed Unit in the framework of a reconstituted OEEC - could be made possible by the systematic follow-up and assessment of the guarantee or insurance facilities to be extended to such countries. This could be made in close co-operation with other departments of the new OEEC or other international agencies extending aid or loans and in conjunction with the development plans of the less developed countries.

5. Economic and financial assistance extended by the advanced to the less developed countries should necessarily range from very long term to medium and shorter term loans and credits. To the extent that intermediate term loans and credits could be provided by the co-responding mobilisation of private capital resources, the proposed system of international collective guarantees would entail two important results: (a) longer term export credits, instead of short or medium-term facilities, which would be more consistent with respect

to certain types of projects and, at the same time, safer for the lending country or countries. (b) To the extent that longer term credit through the proposed Unit would be made possible, grants in aid and soft loans by the advanced countries could be concentrated on meeting permanent gaps in the balance of payments and the requirements of infrastructure investments of a very long duration, while intermediate term suppliers' credits on easier terms to private enterprise could gradually to an increasing extent cover capital good exports for self-liquidating projects. (c) Private initiative and enterprise could be assisted in the underdeveloped countries by direct contacts with firms in the advanced countries which in addition to their capital good exports would provide advice on technological know-how and organisation.

## II. General Principles of Organisation and Functioning of the Proposed International Export Credit Guarantee (or Insurance) Unit.

The formation of a wider economic organisation including all countries of Western Europe and North America, i.e. most industrially advanced countries outside Eastern Europe, provides an opportunity and underlines the necessity for a coordinated agency on the principles outlined above. It appears that it would be useful for such an agency to constitute an independent legal entity, although this may not be absolutely essential. In addition to the preceding considerations, the following principles of organisation and administration could be suggested:

### I. Organisation and Administration.

The best solution perhaps would be to include a general provision for the establishment of the proposed Unit in the Convention extending and reorganising the OEEC. The more detailed provisions could be included in a special agreement to which member Governments would be authorised to enter by the basic convention. It would appear appropriate that the administration of such a Unit be entrusted to a small executive committee in which less developed European countries would also participate, but the wider governing body should be composed of all countries members of the extended and reorganised OEEC. Guarantees (or insurance) would be extended in support of capital good exports from any participating country to all underdeveloped countries of the world - including European less developed countries.

### 2. Estimated Requirements in Authorised Capital Resources.

In addition to the administrative expenses of the Unit, which could be covered in the framework of the reorganised OEEC, the main burden on public funds would result out of possible defaults on guaranteed or insured credits. According to some general estimates, if the Unit were authorised to guarantee or

insure loans and credits up to a total amount of \$5,000 million, the estimated risks of defaults in excess of premiums would probably not exceed \$50 million annually. A further extension of the proposed \$5,000 million ceiling of guarantees or insurance would accordingly necessitate a bigger provision for annual risks. If against these estimates an authorised capital of the order of \$240 million were approved out of which 1/3 were immediately withdrawable upon the opening of business by the new Unit, the immediate burden to the budgets of the participating countries would be about \$80 million to be shared between the industrially advanced countries on the basis of percentage contributions to be agreed upon between themselves.

*Open and* These percentages would be also applied in case defaults of guaranteed loans lead in any particular year to payments in excess of the resources available to the Unit. On these same percentages, quotas would also result with respect to the total value of exports from each particular industrial country to be guaranteed by the Unit. The quota of any particular country within the total permissible guarantees, could be exceeded by a maximum limit, say 50%, beyond which any further guarantees of exports from that particular country would have to be covered wholly by the country concerned.

### 3. Risks to be Covered by Guarantees or Insurance.

For the purpose of ensuring the greatest possible mobilisation of private resources, the widest possible coverage of risks would be essential. Such coverage should include:

(a) Commercial risks with respect to the insolvability of the particular borrower. It is essential that the arrangements include risks of default directly against the lending institution and not only against the exporter, as it is now usually the case with the existing national export insurance arrangements.

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### 4. Premiums and the Relationship with Existing National Export Insurance Arrangements.

It is advisable to allow the proposed Unit to provide directly to financial institutions of the advanced or of the under-developed countries or to particular exporters or importers their guarantee or insurance facilities. In the case of guarantees provided directly to an importer, the issue of a promissory note could be envisaged as a first step leading to a complete export credit guarantee operation.

The Unit could exercise an influence towards uniformity and lower charges in the facilities of the various national export credit insurance mechanisms. The possibility would also remain for reguaranteeing or reinsuring particular operations presented by national export credit insurance agencies. In this latter case, the premia would be distinctly lower than in the case of direct guarantee. Although detailed estimates would not be worked out, it appears reasonable to argue that reinsurance coverage against political and catastrophe risks should not exceed .5% annually, while coverage for the above risks plus commercial risks could reach up to 1%. In the case of direct insurance higher premia could be charged allowing a reasonable margin to the national export credit insurance agencies.

March 1960.

A PROPOSAL FOR THE ESTABLISHMENT OF AN  
INTERNATIONAL EXPORT CREDIT GUARANTEE UNIT

By Xenophon Zolotas  
Governor of the Bank of Greece

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The proposed extension and reconstitution of OEEC to an Organisation of Economic Cooperation and Development including all OEEC countries, as well as the United States of America and Canada, should, in accordance with the 20-country Resolution of January 14th, 1960, provide methods of assistance to the economic growth of less developed countries. It is believed that the proposal outlined in this note could substantially contribute to the achievement of the above objective.

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2. The conditions under which suppliers' credits are now being extended, under the present national guarantee or insurance mechanisms, are restrictive and frequently inadequate to meet the problems of the developing countries. More particularly,

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(b) the percentage guarantee or insurance in most cases covers about 75% of the value of the exported capital goods and covers usually the political, transfer and catastrophe risks. There is scope in increasing the percentage of guarantee or insurance up to 90% and widening its coverage so as to include the credit-worthiness of the borrower.

(c) the insurance premiums on suppliers' credits vary considerably and there is scope in reducing them to lower and more uniform levels.

3. The proposed Unit constitutes a step towards multilateralisation of guarantees or insurances on suppliers' credits for exports to underdeveloped countries, thus contributing to the general efforts for multilateralisation of trade and payments. One of the principal disadvantages of the system now in force is that the guarantee or insurance facilities are usually provided under the initiative of the supplier. To the extent that the guarantee or insurance could be tied to the credit extended to a particular importer in an underdeveloped country the mobilisation of the necessary credit facilities could be effected on a multilateral basis, thereby strengthening and making more effective competition with respect to quality and price. Such developments would be consistent with the general efforts to promote multilateral trade and payments. The additional important advantage of multilateralisation of export credit guarantee (or insurance) would be the elimination of any suspicion that suppliers' credits extended on a bi-lateral basis by particular countries are influenced by political considerations.

4. A more systematic follow-up and coordination of loans and credits or other resources made available to particular underdeveloped countries by a central agency - such as the proposed Unit in the framework of a reconstituted OEEC - could be made possible by the systematic follow-up and assessment of the guarantee or insurance facilities to be extended to such countries. This could be made in close co-operation with other departments of the new OEEC or other international agencies extending aid or loans and in conjunction with the development plans of the less developed countries.

5. Economic and financial assistance extended by the advanced to the less developed countries should necessarily range from very long term to medium and shorter term loans and credits. To the extent that intermediate term loans and credits could be provided by the co-responding mobilisation of private capital resources, the proposed system of international collective guarantees would entail two important results: (a) longer term export credits, instead of short or medium-term facilities, which would be more consistent with respect

to certain types of projects and, at the same time, safer for the lending country or countries. (b) To the extent that longer term credit through the proposed Unit would be made possible, grants in aid and soft loans by the advanced countries could be concentrated on meeting permanent gaps in the balance of payments and the requirements of infrastructure investments of a very long duration, while intermediate term suppliers' credits on easier terms to private enterprise could gradually to an increasing extent cover capital good exports for self-liquidating projects. (c) Private initiative and enterprise could be assisted in the underdeveloped countries by direct contacts with firms in the advanced countries which in addition to their capital good exports would provide advice on technological know-how and organisation.

## II. General Principles of Organisation and Functioning of the Proposed International Export Credit Guarantee (or Insurance) Unit.

The formation of a wider economic organisation including all countries of Western Europe and North America, i.e. most industrially advanced countries outside Eastern Europe, provides an opportunity and underlines the necessity for a coordinated agency on the principles outlined above. It appears that it would be useful for such an agency to constitute an independent legal entity, although this may not be absolutely essential. In addition to the preceding considerations, the following principles of organisation and administration could be suggested:

### I. Organisation and Administration.

The best solution perhaps would be to include a general provision for the establishment of the proposed Unit in the Convention extending and reorganising the OEEC. The more detailed provisions could be included in a special agreement to which member Governments would be authorised to enter by the basic convention. It would appear appropriate that the administration of such a Unit be entrusted to a small executive committee in which less developed European countries would also participate, but the wider governing body should be composed of all countries members of the extended and reorganised OEEC. Guarantees (or insurance) would be extended in support of capital good exports from any participating country to all underdeveloped countries of the world - including European less developed countries.

### 2. Estimated Requirements in Authorised Capital Resources.

In addition to the administrative expenses of the Unit, which could be covered in the framework of the reorganised OEEC, the main burden on public funds would result out of possible defaults on guaranteed or insured credits. According to some general estimates, if the Unit were authorised to guarantee or

insure loans and credits up to a total amount of \$5,000 million, the estimated risks of defaults in excess of premiums would probably not exceed \$50 million annually. A further extension of the proposed \$5,000 million ceiling of guarantees or insurance would accordingly necessitate a bigger provision for annual risks. If against these estimates an authorised capital of the order of \$240 million were approved out of which 1/3 were immediately withdrawable upon the opening of business by the new Unit, the immediate burden to the budgets of the participating countries would be about \$80 million to be shared between the industrially advanced countries on the basis of percentage contributions to be agreed upon between themselves.

These percentages would be also applied in case defaults of guaranteed loans lead in any particular year to payments in excess of the resources available to the Unit. On these same percentages, quotas would also result with respect to the total value of exports from each particular industrial country to be guaranteed by the Unit. The quota of any particular country within the total permissible guarantees, could be exceeded by a maximum limit, say 50%, beyond which any further guarantees of exports from that particular country would have to be covered wholly by the country concerned.

### 3. Risks to be Covered by Guarantees or Insurance.

For the purpose of ensuring the greatest possible mobilisation of private resources, the widest possible coverage of risks would be essential. Such coverage should include:

(a) Commercial risks with respect to the insolvability of the particular borrower. It is essential that the arrangements include risks of default directly against the lending institution and not only against the exporter, as it is now usually the case with the existing national export insurance arrangements.

(b) Political and transfer risks including any causes resulting from political action, as well as from general moratorium and related measures of import and foreign exchange restrictions.

(c) Catastrophe risks out of events or action of force majeure including war, floods, earthquakes, as well as civil war or revolution.

### 4. Premiums and the Relationship with Existing National Export Insurance Arrangements.

It is advisable to allow the proposed Unit to provide directly to financial institutions of the advanced or of the under-developed countries or to particular exporters or importers their guarantee or insurance facilities. In the case of guarantees provided directly to an importer, the issue of a promissory note could be envisaged as a first step leading to a complete export credit guarantee operation.

The Unit could exercise an influence towards uniformity and lower charges in the facilities of the various national export credit insurance mechanisms. The possibility would also remain for reguaranteeing or reinsuring particular operations presented by national export credit insurance agencies. In this latter case, the premia would be distinctly lower than in the case of direct guarantee. Although detailed estimates would not be worked out, it appears reasonable to argue that reinsurance coverage against political and catastrophe risks should not exceed .5% annually, while coverage for the above risks plus commercial risks could reach up to 1%. In the case of direct insurance higher premia could be charged allowing a reasonable margin to the national export credit insurance agencies.

March 1960.

*American Export Credit  
Guarantee Corp.*

## OFFICE MEMORANDUM

TO: Files

DATE: February 16, 1960

FROM: Leslie G. Butcher

SUBJECT: Proposal for American Export Credit  
Guarantee Corporation

1. Mr. Francis X. Scafuro is a Vice-President of the Bank of America National Trust and Savings Association stationed in New York. He is also Chairman Pro-tem of the National Coordinating Committee for Export Credit Guarantees, International Section, New York Board of Trade, Inc., and it is in this capacity that he is now promoting an organization to guarantee export credits.

### PURPOSE:

2. The purpose of the organization would be to provide U.S. exporters and institutions which finance exports with facilities comparable to those existing abroad for obtaining guarantees against the risks involved in export credits.

### ORGANIZATION:

3. Mr. Scafuro proposes the establishment of an institution to be known as American Export Credit Guarantee Corporation. It would have its head office in New York City and branches elsewhere in the United States. It would offer to U.S. exporters and their overseas subsidiaries guarantees to protect their receivables against losses arising from commercial and political risks including prolonged delays in exchange transfers. The corporation would pay from its own funds claims arising from purely commercial risks. Mr. Scafuro hopes to have the support of the U.S. Government to ensure payment of claims arising from political risks. (See paragraph 5 below). The corporation would be expected to provide a fair return on invested capital.

4. The corporation would have on its staff foreign trade analysts and economists who would examine the credit status of the insured debtors and the political and economic conditions in the customer countries. Sources of information about customer countries which Mr. Scafuro mentions include the U.S. Departments of State and Commerce, the International Bank for Reconstruction and Development, the International Monetary Fund, the Export-Import Bank, the export credit guarantee organizations of other countries, and the Berne Union.

SUPPORT OF U.S. Government:

5. The proposal calls for enactment of federal legislation to provide that the corporation be federally chartered and authorized to borrow within specified limits from a government agency to be designated by the U.S. Treasury. The purpose of borrowing would be limited to payment of claims arising from political risks if they should exceed the corporation's reserves.

ELIGIBILITY FOR COVER, PERCENTAGE OF COVER AND TERMS:

6. U.S. exporters and their overseas subsidiaries, banks and other finance agencies would be eligible for policies covering goods and services of all types produced and exported by U.S. firms and their overseas subsidiaries. The corporation's guarantees would cover up to 90% of the value of contracts after down payments by the importers. For consumer goods policies would normally run up to 6 months; for capital goods up to 5 years from delivery.

PREMIUMS:

7. Premiums would amount to about 1% for comprehensive cover (commercial and political risks) on short-term transactions; for capital goods calling for cover for longer terms premiums would be proportionately higher.

CAPITALIZATION:

8. At the start of operations the capitalization would be:

Authorized Capital: \$150 million

Initial Subscribed Capital: \$50 million

Initial Paid-In Capital: \$5 million

An initial surplus of \$500,000 is mentioned but there is no explanation of it.

LIMITS ON LIABILITIES:

9. The corporation would have authority to issue guarantees totalling fifteen times its paid-in capital. At the start of business its limit would thus be \$75 million. The corporation would call for the paying-in of additional capital as the volume of business showed the need for it. If the authorized capital figure of \$150 million were fully subscribed and paid-in there would be a base for maximum liabilities of \$2.25 billion. Mr. Scafuro considers this maximum adequate because the experience of two comparable export credit guarantee organizations - the British and the German - has been that only about 15 per cent of the total annual exports of their countries is insured under their policies. He mentions also that a large part of U.S. commercial exports are financed by methods which eliminate the need for credit guarantees.

February 16, 1960

STOCK OWNERSHIP:

10. At least 51% of the capital stock should be held by U.S. insurance interests, preferably those already engaged in casualty insurance, and banks and finance institutions active in international trade. The rest of the capital stock would be held by other organizations in export trade with perhaps some shares being offered to the public.

STATUS OF THE PROPOSAL:

11. Starting in November 1959 Mr. Scafuro sent letters to over 1,000 U.S. manufacturers, exporters and others interested in international trade outlining his proposal. Of 170 replies received by the end of January, 139 indicated that they favored the plan in principle and would support it.

12. As a first step Mr. Scafuro suggests a pilot corporation to serve primarily as a demonstration of good faith. He will invite one hundred or more American firms to subscribe a nominal capital sum (say \$1,000 each) on the understanding that this capital will remain intact and that anyone rendering services to the pilot corporation shall do so without charge. He proposes also to invite the subscribers to the capital stock of the pilot corporation and others active in U.S. international trade to contribute \$100 each to a working fund. If the response to these invitations is favorable he will ask lawyers to prepare the documents necessary for incorporation. After incorporation a committee of the incorporators will be appointed. It will be the task of the committee to obtain the support of the U.S. Treasury and other Government agencies for the corporation to receive a Federal charter as outlined in paragraph 5 above and to start operations.

13. An article in The Journal of Commerce, International Edition of February 6, 1960, states that the Senate Interstate and Foreign Commerce Committee will begin hearings on March 15 on problems involving U.S. foreign trade, and that Senator Magnuson, the Chairman of the Committee, has said that the Committee will gather views on existing export difficulties, including credit facilities. Another article in the same newspaper states that the Administration is studying a proposal for an export credit insurance scheme but the article does not mention the Scafuro proposal.

*Leslie J. Butcher*

30  
NOV 03 REC'D

FROM THE RIGHT HON<sup>BLE</sup> LORD SHAWCROSS.

TELEPHONE:  
AVENUE 4321.

File  
12/17/59

ST. HELEN'S COURT,  
GREAT ST. HELEN'S,  
LONDON, E.C. 3.

27th November, 1959.

Dear Mr Black:

Thank you very much for your letter of the 23rd November about the proposed Entity to represent foreign investors. The Geneva Study Group will certainly give a lot of thought to this and I know it is also being carefully considered by my friends in the I.C.C. I will keep you informed of any developments.

✓  
- filed P.R.  
in Black's Jan

I confirm having sent you the following telegram:

"Thank you for your letter. Is there any possibility of your lunching on December 1st, 2nd or 3rd, or dining on December 3rd."

I hope that it may be possible for you to lunch or dine on one of the dates mentioned.

*Eugene R. Black*  
*International Bank for Reconstruction and Development*

Eugene R. Black, Esq.,  
International Bank for Reconstruction and Development,  
Washington 25, D.C.  
U.S.A.



ST HELENS COURT  
GREAT ST HELENS  
LONDON E.C.2

THE HONORABLE JUDGE CHAWWORTH  
AT THE BAR

*Dear Sir,*

I have the honor to acknowledge the receipt of your letter of the 11th inst. in relation to the above matter. I am sorry to hear that you are unable to attend the hearing on the 15th inst. but I will try to arrange for my lawyer to attend on your behalf.

I am sorry to hear that you are unable to attend the hearing on the 15th inst. but I will try to arrange for my lawyer to attend on your behalf.

I am sorry to hear that you are unable to attend the hearing on the 15th inst. but I will try to arrange for my lawyer to attend on your behalf.

*Yours faithfully,  
[Signature]*

1959 NOV 30 PM 2:10

RECEIVED  
BANK MAIL ROOM

November 23, 1959

Dear Lord Shascross:

Thank you for your letter of November 4, 1959, which arrived while I was away from Washington on a trip to Latin America.

I am familiar with the study group which you mention and I would be gratified if it could pursue the suggestion I made at our September meeting. I have no specific proposal about how my remarks could be implemented. What I had in mind was that the case of a private investor whose interest has been affected by nationalization or discrimination is often not put forward or brought before the public as effectively as it might be since statements by the affected investor are often regarded as biased and other investors are often inclined to remain quiet lest their own interests be involved.

I shall be very much interested in hearing the views of your group on this subject.

With warm regards,

Yours sincerely,

(Signed) Eugene R. Black

Eugene R. Black

The Rt. Hon. Lord Shascross  
St. Helen's Court  
Great St. Helen's  
London, E.C.3  
ENGLAND

(Mr. Black added the following in his handwriting:

cc: Mr. Rist

"P.S. Will be in London  
Dec. 1 - 3. Maybe  
we could get together -  
E.R.B. " )

DS/ga

November 23, 1959

Dear Mr. Reinhardt:

Thank you for your letter of November 3, 1959, which arrived while I was away from Washington on a trip to Latin America.

In making the remarks in my address to our Annual Meeting in September, to which you refer, I had no concrete proposal in mind. It occurred to me that the case of a private investor whose interest has been affected by nationalization or discrimination is often not put forward or brought before the public as effectively as it might be since statements by the affected investor are often regarded as biased and other investors are often inclined to remain quiet lest their own interests be involved. This seemed to me to create a need to which I should draw attention, but I had no specific solution to offer.

I am glad to know that you think the International Study Group may concern itself with this general idea and I will be very pleased to know if anything concrete develops from their consideration of the subject.

I am making a short trip to England in December but doubt that I would have a chance to come to Switzerland, such as I always like to do so.

With personal regards,

Yours sincerely,

(Signed) Eugene R. Black

Eugene R. Black

Mr. E. Reinhardt  
Swiss Credit Bank  
Zurich, Switzerland

*cc Mr. Rish*

DS/km

FROM THE RIGHT HON<sup>BLE</sup> LORD SHAWCROSS.

TELEPHONE:  
AVENUE 4321.

NOV 9 1959

ST. HELEN'S COURT,  
GREAT ST. HELEN'S,  
LONDON, E. C. 3.

4th November, 1959.

*Ask: Nov 23/59*  
*W.S.*

*Dear Mr Black:*

You may possibly remember the talks that we have had on proposals for the protection of foreign investment, including the idea of a multi-lateral convention, a draft of which is currently before the O.E.E.C.

My colleagues and I were very interested indeed in the proposal which you made at the Washington meeting of the World Bank that some new entity should be established which should represent the interests of foreign investors. I had the opportunity of discussing the matter in some detail with Leo Welch while I was in New York recently, and I had indeed discussed the general problem of the protection of foreign investment with him when he was over here earlier in the year.

As you may know, I am a member - and was partly responsible for the foundation - of a study group with offices in Geneva which goes under the rather grandiose title of the "Association Internationale d'Etude s pour la Promotion et le Protection des Investissements Prives en Territoires Etrangers". Amongst the members of this Group, which is quite small, are M. Smets, M. Reyre, Herr Abs, M. Massigli, M. Carli, Sir Jeremy Raisman, "Chuk" Spofford and Arthur Dean. This group is studying the various methods which might be pursued in order to improve the climate for foreign investment, and I am arranging to send you a copy of its prospectus in a day or two.

I feel sure that the group will wish to consider how best to implement the suggestion which you made, and I wondered whether you would feel it possible to tell me whether you had any special views as to the steps which might be taken to get such an entity established. There is, of course, the possibility that the I.C.C. might take the matter up, and indeed I understand that Mr. Philip Cortney is proposing to suggest at the next Council Meeting of that body that the I.C.C. should indeed establish a new entity of the kind contemplated under its own aegis. Leo Welch and I felt, on the other hand, that the new body should be one of a rather different kind. The I.C.C. primarily represents trading and commercial interests rather than those of the private investor, and our own view was that if a new entity were established it should be one consisting of a few individuals of recognised standing who would be able to act quickly and informally without prior reference or subsequent reporting back to any other body.

I should be most grateful for any opinion that you may feel able to make and which, I need hardly say, I should treat as entirely confidential. I really want to make up my own mind as to what action it would be most useful to take at this stage in order to implement your ideas.

With kind regards  
from  
Harry Shannon

Eugene Black, Esq.,  
International Bank for Reconstruction  
and Development,  
1818, H Street, N.W.,  
WASHINGTON 25, D.C.

Faint, illegible text at the top of the page, possibly bleed-through from the reverse side.

*Handwritten notes in cursive script, mostly illegible due to fading and bleed-through.*

Faint, illegible text in the middle-right section of the page.

RECEIVED  
BANK MAIL ROOM  
1959 NOV-9 AM 11:46

SWISS CREDIT BANK  
CRÉDIT SUISSE · SCHWEIZERISCHE KREDITANSTALT · CREDITO SVIZZERO  
ZURICH

NOV 9 REC'D

GENERAL MANAGEMENT

Zurich, November 3, 1959

ack: Nov 23rd/59  
ETS

Mr. Eugene Black, President  
International Bank for  
Reconstruction and Development  
1818 H Street, N.W.  
Washington 25, D.C.

Dear Mr. Black,

Yesterday I had the visit of Mr. Ventimiglia who brought me greetings from you, for which I thank you very much. We were discussing the problems of developing countries which were in the foreground of the talks of your last General Meeting and which, after all, led to the decision to found the IDA.

As I informed Mr. Ventimiglia, I have been appointed Chairman of the International Study Group for the Promotion and Protection of Private Foreign Investments domiciled in Geneva, 92, Rue du Rhône. At his desire, I have also given him a copy of the speech which I have delivered on October 27, 1959, at the meeting of the Association of Swiss Holding and Finance Societies, in which I dealt with the protection of the investments abroad. Unfortunately, this review exists only in German language.

I feel sure that the above International Study Group founded on December 8, 1958, will at least in some ways follow the intentions which you expressed in your address to the General Meeting of September 29, 1959, in the terms as hereafter: "... that an entity made up exclusively of private investors from all countries ... might help in finding solutions to differences which have actually arisen between governments and foreign investors".

However, I should be very interested to learn whether you planned a concrete organization. Perhaps you will be good enough to let me know what, in your mind, would be the object and purpose of such an association. I should, in fact, be most pleased if we could do something in the way of your intentions.

Amongst the members of the Study Group figure a number of personalities who are prominent in the field of the further development of international law for the protection of foreign

investments, such as Lord Shawcross and Mr. Abs, but also Mr. Dean, Mr. Spofford, Minister Carli and Ambassador Massigli as well as Mr. Reyre from the Banque de Paris et des Pays-Bas and Mr. Puissant-Baeyens of the Banque de la Société Générale de Belgique.

Even if the danger of a general crisis of the balance of payments, which has overshadowed the European currencies in the past, has meanwhile disappeared, I still have the impression that in the next few years problems of this nature will become more and more important with a number of developing countries and that it will by all means be essential to fix in the minds of all parties concerned the four principles mentioned in my above stated speech, namely the "pacta sunt servanda", immediate and full remuneration in case of direct or indirect expropriation, the avoidance of discrimination of foreigners and the settlement of conflicts by a neutral court of arbitration, which do not merely serve for the protection of foreign property but also form the basis of a fully functioning, diversified and closely collaborating universal economy.

I heard that you intend coming to Europe at the beginning of December and I should naturally be most pleased to have an opportunity of seeing you on that occasion.

With best personal wishes,

Very truly yours,

  
E. Reinhardt

BY AIR MAIL



111

RECEIVED  
BANK MAIL ROOM  
1959 NOV -9 AM 10:10

Promotion of Foreign & Private Investment

110 EAST 57<sup>TH</sup> STREET  
NEW YORK 22

NOV 5 REC'D

Nov. 3rd, 1959.

PLAZA 1-4100

Files  
12/1/59

Dear Mr. Black,

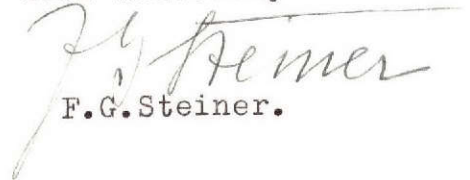
I planned to use the occasion of meeting with you to take up the problem of the protection of private international investments, which you discussed in your address to the Washington meeting.

I have negotiated quite an important number of international investments on which defaults have subsequently occurred and I have been much occupied with negotiations on the settlement of such defaults. In many cases I have watched helplessly the misery of the investors left without effective assistance forthcoming from those who had encouraged these investments before.

I thought, that I might be able to make some contribution to your project in its organising and policy-establishing stage and I wanted to submit this thought to you.

Kindest regards

Your sincerely

  
F.G. Steiner.

President Eugene Black,  
Int. Bank for R. and D.  
Washington, D.C.

1959 NOV-5 AM 9:47

RECEIVED  
ENK MAIL ROOM

Op file Private Inventor.

X M Black Jan

November 3, 1959

Dear Mr. Abs:

Please accept my thanks for your letter of October 20th on the interesting points you raised. I had hoped to see you at our Annual Meeting and was disappointed that you couldn't come, although I enjoyed very much a visit from Dr. Krebs.

I am going to London and will be there from November 30th to December 3rd. I am then going to Brussels for a couple of days before returning to Washington. Is there any chance of your being in London while I am there as I cannot possibly go to Germany on this particular trip?

Best regards.

Very sincerely yours,

(Signed) Eugene R. Black

Eugene R. Black

Mr. Hermann J. Abs  
Junghofstrasse 5-11  
Frankfurt (Main)  
Federal Republic of Germany

ERB:mel

Alpha-Loupart O.M.E.

November 3, 1959

Dear Mr. Loupart:

641

It was nice to hear from you and I apologize for not answering your letter sooner but, unfortunately, I have been out of town.

I am glad to learn that, in the event an international organization of private investors along the lines suggested in my speech is set up, you might be available to help. I know of no one who could be more valuable and if something develops I will communicate with you.

I certainly will make a point, the next time I am in Holland, to pay you a visit at "Wilgenakker".

Best regards.

(Signed) Eugene R. Black

Mr. O. M. E. Loupart  
Huize "Wilgenakker"  
Kanaalduik 2. 7  
Eindhoven, Holland

ERB:mel

November 3, 1959

Dear Mr. Hoxter:

Please accept my thanks for your two recent letters and my appreciation for the sentiments which you expressed. I would be very glad to see you and discuss further the point raised in my speech at our Annual Meeting. Please let me know when next you expect to be in Washington.

warning OCT 26 ✓

Very sincerely yours,

(Signed) Eugene R. Black

Eugene R. Black

Mr. Curtis J. Hoxter  
527 Madison Avenue  
New York 22, N. Y.

ERB:mel

Private Investment  
Account

November 2, 1959

604

Dear Dr. Quint:

Thank you for your letter informing me of the existence of the Shareholders Protective Society in the Netherlands.

The reference contained in my address at our Annual Meeting to the formation of an international organization of private investors was a suggestion for a step which seemed to me advisable. I do not know whether this suggestion will be followed up by action on the part of private investors, but if any action is taken, you will undoubtedly hear of it through the press. I am sure that the views of your organization would be regarded as most valuable at that stage.

I greatly appreciate the interest you have shown in this matter.

Yours sincerely,

(Signed) Eugene R. Black

Eugene R. Black

Dr. A.W. Quint  
Trompenbergerweg 1  
Hilversum  
Holland

*Private Investment*

November 30, 1959

Mr. Norman D. Lees  
C/O Mr. E. W. Johnson  
Deloitte Plender Griffiths & Co.  
Av. R. S. Pena  
Buenos Aires  
Argentina

Dear Mr. Lees:

In accordance with my earlier letter I enclose the  
documentary material on Puerto Rico.

I hope it will prove useful to you.

Sincerely yours,



Richard H. Demuth  
Director  
Technical Assistance and Liaison Staff

Enclosures

RHD:SEB:em



*x private investors*

CROSS REFERENCE SHEET

COMMUNICATION: Collection of correspondence to and from Mr. Haight and Sommers

DATED: November 4th, 9th, and 12th and October 26th and 30th

TO:

FROM:

FILED UNDER:

Arbitration

Crossed to : Private Investment

Contractors General

SUMMARY:

To arrange a meeting to discuss settlement of disputes  
between governments and private investors and contractors.

*Private Investment  
& Development General  
\* Alpha - Lees, ND  
\* Puerto Rico Logistics*

November 18, 1959

Mr. Norman D. Lees  
Longstone  
Thurlestone  
S. Devon  
England

Dear Mr. Lees:

I am replying to your letter of November 1, asking for material on Puerto Rico pertaining to the cooperation between government and private enterprise in fostering industrial development, for use in your work as a member of the mission to Mauritius.

*retained  
by M.M.  
Boskey for  
the time being  
E.M.*

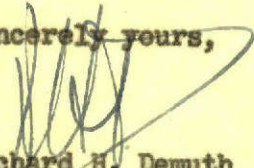
I have gathered together two studies done a few years ago by a member of my staff on the Puerto Rico Industrial Development Company and the Government Development Bank for Puerto Rico, and a brief paper on entrepreneurial activities of the Puerto Rican government prepared by one of the Puerto Rican officials most concerned with those activities. All three are somewhat out of date as far as their figures are concerned, but I think they will nevertheless serve your purpose. I have also ordered for you a fairly recent book on Puerto Rico which I believe will be useful. When the book arrives, I will have it sent with the other material to the Buenos Aires address you gave me.

You said you had seen Bank reports dealing with the problem of government/private enterprise cooperation in general terms. I am not sure what reports you have in mind, other than our general survey mission reports which usually deal briefly with this aspect of development problems. I doubt that these would be particularly useful to you.

If I come across other relevant material I will have it sent on to you. The proposed mission should be most interesting, and I hope it proves so to you.

With all good wishes,

Sincerely yours,



Richard H. Demuth  
Director

RHD:SEB:em

Technical Assistance and Liaison Staff

Nov. 1, 1959

Longstone  
Thurleston  
S. Brown

Dear Mr. Donath,

Eric Bachem may have told you that after my forthcoming visit to the Argentine, I am joining an Economic Survey Mission which the British Colonial Office is sending out to Mauritius. All this will take me up to the middle of April, when I expect to return to England.

Last week I had my first meeting with my future colleagues on the mission, and there was a discussion about the ~~best~~ best form of co-operation between governments and private enterprise in fostering industries in under-developed countries. I drew attention to the Puerto Rico organization, amongst others, and was asked if I could procure documents describing it. In Bangkok I remember reading reports on this subject, so I am now wondering if the Bank could send me copies, or else tell me when they can be obtained.

I also seem to remember one or two Bank reports dealing with this problem in general terms. If you

think there is anything of this nature that might be useful, and if it is in order for me to have copies, I should be most grateful if you could have them sent to me in Buenos Aires. My address there (between Dec. 10 and the end of January) will be

c/o Mr. E. W. Johnson  
Deloitte Plender Griffiths & Co  
Av. R. S. Peña  
Buenos Aires  
Argentina.

The Mauritius mission promises to be very interesting. Although it is only a tiny country, it is evidently bristling with problems, the most formidable being a population far too big for its resources. In this it may have some resemblance to Puerto Rico - hence my interest in refreshing my memory about progress there.

With kind regards, and many thanks in advance

Yours sincerely  
Norman D. Lees

BY AIR MAIL  
PAR AVION  
AIR LETTER  
AEROGRAMME



M. Richard Dornith  
International Bank  
1818 H Street N.W.  
Washington 25 D.C.  
U.S.A.

First fold here

Second fold here

Sender's name and address:

N. D. Jones  
Longstone, Thurston  
S. Devon

AN AIR LETTER SHOULD NOT CONTAIN ANY  
ENCLOSURE ; IF IT DOES IT WILL BE SURCHARGED  
OR SENT BY ORDINARY MAIL.

To open cut here