

DUPLICATE ORIGINAL



UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT
MISSION TO PAKISTAN

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Islamabad, Pakistan

10 January 1993

Mr. Boris Velic
Program Manager for Asia and the Pacific
Foreign Investment Advisory Service
International Finance Corporation
1818 H Street, N.W.
Room H-6025
Washington, D.C. 20433

Subject: Grant No. 391-0514-G-00-3315-00

Dear Mr. Velic:

Pursuant to the authority contained in the Foreign Assistance Act of 1961, as amended, the Agency for International Development (hereinafter referred to as "A.I.D.") hereby grants to the Foreign Investment Advisory Service (hereinafter referred to as the "Grantee") the sum of \$209,180 to provide support for a program in Investment Promotion Strategy for Pakistan, as described in the Schedule of this grant and in Attachment 2, entitled "Program Description".

This grant is effective and obligation is made as of the date of this letter and shall apply to expenditures made by the Grantee in furtherance of program objectives during the period beginning with the effective date and ending October 31, 1993.

This grant is made to the Grantee on condition that the funds will be administered in accordance with the terms and conditions as set forth in Attachment 1 (the Schedule); Attachment 2 (the Program Description); and Attachment 3 (the Standard Provisions), all of which have been agreed to by your organization.

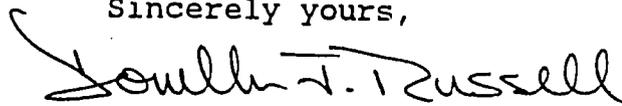
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Foreign Investment Advisory Service
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Please sign the original and all enclosed copies of this letter to acknowledge your receipt of the grant and return the original and all but one copy to me.

Sincerely yours,



Donella J. Russell
Grant Officer
Office of Contracts & Commodities
Contracts Division

Attachments:

1. Schedule
2. Program Description
3. Standard Provisions

ACKNOWLEDGEMENT

International Finance Corporation

BY: Dal R. Wajid

TITLE: General Manager - FIAS

DATE: 1/29/93

Fiscal Data

PIO/T No.:	391-0514-3-00171
Appropriation No.:	72-110/11037
Budget Plan Code:	QESO-90-27391-KG13
Total Estimated Amount:	\$209,180
Total Obligated Amount:	\$209,180
Technical Office:	O/PEN
Project Officer:	Hussain Babar, O/PEN
Paying Office:	O/FM, USAID/Pakistan, Islamabad

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SCHEDULE

A. Purpose of Grant

The purpose of this Grant is to provide support for the Investment Promotion Strategy for Pakistan as more specifically described in Attachment 2 (the Program Description) of this Grant.

B. Period of Grant

The effective date of this Grant is January 10, 1993. The expiration date of this Grant is October 31, 1993.

C. Amount of Grant and Payment

1. A.I.D. hereby obligates the amount of \$209,180 for purposes of this grant.

2. Payment shall be made to the Grantee in accordance with procedures set forth in Attachment 3 (the Standard Provisions).

D. Grant Budget

<u>Cost Element</u>	Total Estimated 1/10/93 - 10/31/93		
	<u>USAID</u>	<u>FIAS</u>	<u>Total</u>
1. PIB Organizational Structure	\$ 10,730	-	\$ 10,730
2. Developing Investor Services	39,100	\$ 28,500	67,600
3. Investment Promotion Strategy	107,100	57,000	164,100
4. Study Tour	16,050	19,000	35,050
5. Ongoing Supervision	<u>36,200</u>	<u>41,000</u>	<u>77,200</u>
Total	\$209,180	\$145,500	\$354,680

Pre-Grant Expenditures

Expenses incurred by the Grantee in furtherance of the objectives of this Grant between December 14, 1992 and the effective date of this Grant, not to exceed \$10,730, shall be reimbursed to the Grantee.

Cost Sharing

The Grantee agrees to expend from its own funds the estimated amount of \$145,500 (as shown in the Grant Budget) in support of program objectives.

E. Reporting and Evaluation

Financial Reporting

1. Financial reporting shall be in accordance with the Standard Provision entitled "Payment - Cost Reimbursement".

2. The original and two copies of all financial reports required in paragraph (a) above shall be submitted to the Controller, Office of Financial Management, USAID - Unit 62206, APO AE 09812-2206 and two copies shall be submitted to the cognizant A.I.D. technical office, USAID/Pakistan.

Program Reporting

a. The Grantee shall submit to the cognizant technical office, USAID/Pakistan, two copies of each progress report and ten copies of the final report.

b. The Grantee shall prepare and submit 2 copies of each report required by this Grant to the Bureau for Program and Policy Coordination, Center for Development Information and Evaluation, Development Information Division (PPC/CDIE/DI) All documents should be mailed to:

PPC/CDIE/DI
ACQUISITION
Room 209, SA-18
Agency for International Development
Washington, D.C. 20523

The title of all reports forwarded shall include a descriptive title, the author's name(s), grant number, the project number and title, grantee's name, name of the A.I.D. project office, and the publication or issuance date of the report.

F. Special Provisions

1. Source and Origin of Goods and Services

The authorized geographic codes for procurement of goods and services under this Grant are 000 (U.S.) and Pakistan (391).

2. Technical Office

The cognizant A.I.D. technical office is the Office of Private Enterprise and Energy (O/PEN), USAID/Islamabad. The Grant is funded under the Private Investment Expansion Program (Project No. 391-0514).

PROGRAM DESCRIPTION

INVESTMENT PROMOTION STRATEGY FOR PAKISTAN

A. Background

Pakistan has good potential to increase its exports. It has cheap labor, adequate resources, and a good geographic location. To develop this potential, Pakistan must attract increased foreign direct investment (FDI). But given the small local market and the political and economic risks involved, most foreign investors are reluctant to put up much hard cash. Foreign investors are willing, however, to provide equity in the form of technology and market access. And that, fortunately, is just what Pakistan critically needs to develop and expand its exports. Thus, in the Pakistan context, general investment promotion - with its major objective of attracting increased levels of FDI - is a critical and primary component in any program to develop and expand exports. Without increased FDI, export development will necessarily be limited.

In competing with other developing countries for limited FDI, Pakistan must continue improving its macroeconomic environment and implementing its economic reform package of privatization, deregulation, and liberalization. It must also take urgent steps to develop an institutional framework for facilitating these foreign investments.

A major deficiency in the current investment policy is that it has not been translated into a detailed investment promotion strategy. This strategy should not only lay out a blueprint for attracting FDI but also set forth objectives, priorities, annual targets, resource commitments, and evaluation measures.

In addition, Pakistan needs to develop an effective institution which can implement this strategy. The currently configured Pakistan Investment Promotion Bureau (IPB) is not an effective investment promoting agency. The government will either have to restructure and revitalize it or establish a new institution.

In Fall 1991, the Foreign Investment Advisory Service (FIAS), an affiliate of the World Bank, conducted a study on "Impediments to Foreign Direct Investment (FDI) in Pakistan". This study was jointly funded by USAID and FIAS. The report stressed the need for investor services and image building in order to attract FDI.

B. Objective

The objective of this program is to provide the necessary technical assistance to help the government of Pakistan develop an investment

promotion strategy and to design the institutional framework for implementing this strategy.

C. Activities

The Grantee plans to provide a team of specialists to advise and assist the Ministry of Industries as follows:

1. Prepare an Investment Promotion Strategy

The Grantee proposes to work closely with a small working group of concerned GOP officials to develop an investment promotion strategy. This strategy will include: an investment promotion policy framework and targets, a prioritization of activities (i.e., investor servicing, investment generation, and image building), budget and staff implications, and a set of criteria for evaluating the strategy's effectiveness.

This strategy will take into account investment opportunities in Pakistan and the evolving policy framework for foreign direct investment. A focus of this investment promotion strategy will be on the investment generation activities, i.e., what to promote, where to promote, and how to promote. In the context of the promotion strategy, the Grantee intends further work on "fine-tuning" the investment facilitation.

Priority will be given to designing and putting into place an investor facilitation function, i.e., a program of activities designed to assist investors on all aspects of the approval process related to investments in Pakistan.

2. Assist in Establishing an Investment Promotion Agency

The Grantee proposes to assist the working group in determining whether to establish a new Investment Promotion Bureau. In either case, the Grantee will assist the working group in defining the agency's structure (parastatal, direct government or private sector), its board composition, management and internal organization. The Grantee intends to assist the working group in finalizing the overall organogram of the agency, defining profiles of senior management of the agency and in preparing a detailed work plan and a timetable for execution.

The Grantee also intends to provide advice on the agency's appropriate legal foundation and, if necessary, help draft special legislation.

The Grantee plans to assist the working group in defining the

agency's major functions, responsibilities and authorities. Particular detail is needed in delineating the various promotion, facilitation and monitoring functions, as well as defining what will be the central or coordinating powers of outside agencies. In defining the structure and organization of the agency, special attention will be given to the necessary private sector linkages; for example, what will be the private sector representation on the board and among the staff and what proportion of activities and functions will be directly relevant to the private sector.

The Grantee also proposes to assist the agency in developing an effective staffing plan for carrying out its work. This will include a description of skills and other qualifications required for various positions, as well as an indication of personnel budget requirements.

The Grantee plans to develop a monitoring and evaluation plan for the agency which will include establishing basic reporting procedures for realized investments (or lack thereof), promotion activities and investor services.

3. Design a Long-Term Training Plan

Based upon the Grantee's preliminary training needs assessment, the Grantee proposes to design a long-term training program for the management and staff of the investment promotion agency. This shall be primarily for in-country (on-the-job) training, although some specialized overseas training/observation tours might be appropriate as well. Training shall be identified as to general course content, level of instruction, trainee profile, training priority and possible training institutions or training vendors.

In addition, the Grantee plans to organize a study tour in 1993 for the Investment Promotion Bureau or the new organization's senior management to selected countries in Asia. The objective of this tour is to familiarize senior officials with the structure, operating procedures and activities of investment promotion agencies in these countries and to draw relevant lessons for Pakistan.

4. Investment Promotion Alternatives

The activities described above are rather traditional in approach. The U.S. Agency for International Development Mission to Pakistan is currently exploring alternative methods of investment promotion, such as encouraging foreign investment in specific sectors of the Pakistani economy or

establishing a bilateral U.S.-Pakistani Chamber of Commerce. In developing the investment promotion strategy, the Grantee plans to consider how best the Investment Promotion Bureau might incorporate these exploratory investment promotion alternatives, should they prove feasible.

5. Monitoring Activities

As part of its overall assistance to the Investment Promotion Bureau or its successor organization, the Grantee plans to provide support and supervision of the execution of the activities mentioned above through periodic visits by FIAS senior staff.

D. Reporting

The Grantee intends to produce a final report detailing the recommended investment promotion strategy and the action plan for implementing this strategy. Prior to this final report, the Grantee proposes to submit progress reports to USAID on periodic missions undertaken by FIAS senior staff and consultants.