

MODIFICATION OF GRANT

PD-ABI-534

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1. Amendment No. 01	2. Effective Date As in Block 12b	3. Grant Number 391-0514-G-00-3315-00	4. Effective Date 01/10/93
5. Grantee: Foreign Investment Advisory Service International Finance Corporation 1818 H, Street, N.W. Room H-6025 Washington, D.C. 20433		6. Administered by: Grant Officer USAID/Pakistan 18-6th Avenue Ramna-5, Islamabad	
7. PIO/T No.: 391-0514-3-00171A1 Previous Obligation: \$209,180 Amount Obligated This Action: \$120,000 Total Obligated Amount: \$329,180		8. Previous PIO/T's: 391-0514-3-00171 72-110/11037 QESO-90-27391-KG13 M514024 DUPLICATE ORIGINAL	

9. The purposes of this Modification 01 to Grant No. 391-0514-G-00-3315-00 are to: (1) revise the Program Description; (2) increase the total estimated cost and obligated amount of the Grant; and (3) extend the Grant expiration date to December 30, 1993. Accordingly, the subject Grant is modified as follows:

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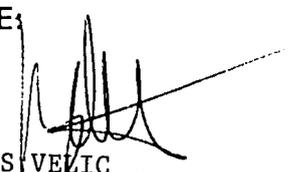
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AID TECHNICAL OFFICE: O/PEN

10. This modification is entered into pursuant to the authority of the Foreign Assistance Act of 1961, as amended, and the Federal Grant and Cooperative Agreement Act of 1977. Except as herein provided, all terms and conditions of the grant referenced in Block No. 3 remain unchanged and in full force and effect.

11. Grantee is required to sign this document and return the original and 4 copies to the issuing office.

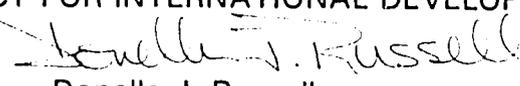
12. GRANTEE:

BY: BORIS VEVIC 

TITLE: ACTING GENERAL MANAGER

DATE: 10/28/93

THE UNITED STATES OF AMERICA
AGENCY FOR INTERNATIONAL DEVELOPMENT

BY: Donella J. Russell 

TITLE: Grant Officer

DATE: 10/25/93

I. Grant Cover Sheet:

- (a) Delete the amount "\$209,180" and substitute "\$329,180" in lieu thereof.
- (b) Delete the date "October 30, 1993" and substitute "December 31, 1993" in lieu thereof.
- (c) (i) Fiscal Data against PIO/T No. add "Amendment 01"; and
 (ii) Delete Total Estimated Cost and Total Obligated Amount of "\$209,180" and substitute "\$329,180" in lieu thereof.

II. Schedule - Attachment 1:

(a) Paragraph B. Grant Period

Delete the expiration date of "October 31, 1993" and substitute "December 30, 1993" in lieu thereof.

(b) Amount of Grant and Grant Budget:

Delete paragraphs "C." and "D." in their entirety and substitute in lieu thereof:

"C. Amount of Grant and Payment

- 1. A.I.D. hereby obligates the amount of \$329,180 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>	<u>Total Estimated</u>		
	<u>1/10/1993</u>	<u>-</u>	<u>12/30/93</u>
	<u>USAID</u>	<u>FIAS</u>	<u>TOTAL</u>
1. PIB Organizational Structure	\$10,730	-	\$10,730
2. Developing Investor Services	61,150	35,150	96,300
3. Establishing Investment Library	4,900	-0-	4,900
4. Investment Promotion Strategy	128,700	66,350	195,050
5. Study Tour	16,050	19,000	35,050
6. Ongoing Supervision	36,200	41,000	77,200

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7.	Seminar, Investment Promotion Strategy	31,400	16,000	47,400
8.	Assessment of Industrial Estate and Export Processing Zone	<u>40,050</u>	<u>31,200</u>	<u>71,250</u>
	Total:	<u>329,180</u>	<u>208,700</u>	<u>537,880</u>

Cost Sharing

The Grantee agrees to expend from its own funds the estimated amount of \$208,700 (as shown in the Grant Budget) in support of program objectives."

III. Program Description - Attachment II

Attachment I to this modification, "Program Description - Phase II" is hereby added to the Program Description in Attachment II of the Grant.

Unless herein specifically modified all other terms and conditions of the Grant remain in full force and effect.

PROGRAM DESCRIPTION - PHASE II

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. 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 Pakistan Investment Promotion Bureau (IPB) is not an effective investment promoting agency. The government was therefore advised to restructure and revitalize it or establish a new institution.

In Fall 1991, 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 through the PIE program. The PIE office was actively involved in the preparation of this report and later in presentations to the GOP by FIAS. FIAS in its report stressed the need for investor services and image building in order to attract FDI. In a subsequent meeting with high GOP officials including the Minister for Finance Mr. Sartaj Aziz, FIAS was requested to provide a strategic framework to attract FDI. Limited funding, and that too mostly in kind is available to FIAS. A meeting was held between FIAS officials and PIE program officials. In this meeting due to similarity of objectives it was decided that PIE would fund the FIAS mission to carry out the scope of work detailed below. FIAS will cover all home office and backstopping costs while the Ministry of Industries will provide office space etc. for the FIAS team members while in Pakistan.

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B. OBJECTIVE

USAID's objective in assisting the GOP in regard to investment promotion is to eventually set forth an export strategy. An investment promotion strategy, however, as pointed out above, is a necessary prerequisite. Therefore, the objective of the program is to provide the necessary technical assistance to help the Government of Pakistan develop an investment promotion strategy and design the institutional framework for implementing this strategy. This work will be carried out by FIAS a World Bank affiliate. USAID will provide a grant to FIAS, to cover partly the costs incurred in providing this technical assistance.

C. PROGRAM

The general finding of the earlier FIAS study was that the Investment Promotion Bureau (IPB) needs to be greatly strengthened in order to attract FDI. The study found the IPB weak in image building, investment promotion, and investor servicing. Based on their study funded by USAID, FIAS recommended a competent investment promotion body and subsequently GOP decided to set up a separate organization, the Pakistan Investment Board (PIB) to promote investment. This Chief Executive of this agency is from the private sector and the agency operates as part of the Prime Minister's secretariat.

FIAS is conducting a follow-up to the above-mentioned study, with USAID financing. There are three phases of assistance involved in this study: organization structure, investor facilitation function and a new investment promotion strategy.

In addition to the above, PIB has suggested a few modifications to the project which would sufficiently enhance its overall effectiveness. The proposed revisions and additions are as follows:

The first of the proposed modifications concerns the expiration date of the USAID grant. The expiration date specified in the letter agreement of January 10, 1993 between USAID and FIAS is October 31, 1993. This date should be extended to December 31, 1993, to give FIAS more time to work with PIB in overseeing the implementation of various proposals and recommendation that would be emerging from the project.

On the basis of work done so far, the scope of the original project needs to be expanded in some areas. In particular it would be desirable to add some new elements to phases 2 and 3 and to introduce a new phase 5 to "assess the policies and operating procedures of industrial estates and export processing zones (EPZs)".

The proposed changes are described below:

A. Proposed revisions and additions

Revision phase 2: As a follow-up to the report, by FIAS, on the facilitation functions of PIB, the following two elements should be added, to complement the work under this phase:

- FIAS to design and undertake an initial training program for PIB officials in core function areas (e.g., investment servicing and generation, image building, internal management systems and control, staffing, etc). This would require three weeks work: ten days to develop training modules in consultation with PIB and a similar period to implement the program;

- assist in the establishment of an investment promotion library FIAS would identify all relevant materials (business publications, magazines, etc.) and privileged data systems that PIB would need to obtain access to critical investment information. USAID will assist PIB to procure relevant material such as SIC coding list, trade directories and make advanced subscriptions to trade journals, information guides etc. for three to five years. This would entail about two weeks work by FIAS.

Revision phase 3: This phase has been envisaged to include a 3-day seminar to be conducted by FIAS in order to generate consensus on institutional development and a new investment promotion strategy for Pakistan. To enhance its effectiveness, we would propose some changes in the seminar component by (a) introducing a more targeted two-part approach; and (b) substantially broadening the seminar's scope to incorporate international and sectoral dimensions into the discussion. This would mean that instead of organizing one week-long seminar, FIAS would:

- to start with, conduct a series of workshops focussing on major issues in institutional development, including organizational structure, role and functions of PIB. The workshops would be spread over the first three days of the week and would include senior officials from PIB and other relevant government bodies with decision-making powers;

- this would be followed by a three day seminar on a review of the investment promotion strategy for Pakistan developed by USAID consultants. A broad group of participants and experts; from PIB,

other relevant government bodies, the private sector (domestic and foreign) and major law and accounting firms (who generally have a very good grasp of the issues). The scope and coverage of the seminar would also be broader than originally envisaged and would include: (a) review of PIB services and of the GOP industrialization policy. Comparison with successful country-cases in investment promotion; (b) discussion on the competitive advantage of Pakistan as perceived by Pakistani businessmen. Targeting by sectors and markets as well as image-building and marketing; and (c) development of consensus behind a new investment promotion strategy for Pakistan, including PIB's role in this area. Invitee speakers will be selected in consultation with AID, PIB, FIAS and private sector managers. The date of this seminar is expected to be early November.

The project is currently divided in the following four phases: Phase 1, PIB Institutional framework, Phase 2, Development of investor facilitation functions; Phase 3, Investment promotion strategy and institutional development; and Phase 4, Study tour.

Additional phase A new component is added to the project, namely, "Assessment of policies and operating procedures for Industrial Estates (IEs) and Export Processing Zones (EPZs)". Such an assessment (which would take about 2 months work) would be highly relevant and would form an integral part of FIAS' ongoing work on promotion strategy and institutional development. The terms of reference for this work would include:

- Examination of, among other factors, the following issues:

- the role of IEs and EPZs in the promotion of foreign investment in export-oriented activities;
- development of operational policies for estates and EPZs. including concessions, if any, that should be provided;
- involvement of PIB in the establishment and operations of estates and EPZs and the role that private sector can play in this process.

- This would be followed by the formulation of detailed recommendations for the government, with particular emphasis on enhancing private sector's role in the development and management of estates and zones.

LEVEL OF EFFORT:

This work should begin in September with a view to submitting recommendations for consideration by the government by mid-December 1993.

DELIVERABLES:

Progress reports as given in the original SOW as well as a final report will be submitted by FIAS.

MONITORING:

Periodic visits as per the original SOW will be undertaken by FIAS consultants. In addition, FIAS consultants will make sure that USAID project staff and the team of DAI consultants working with PIB are actively involved in all activities. The DAI consultants have been hired by USAID to assist the PIB in developing its investor service, promotional and other infrastructure capabilities. They are already closely coordinating with FIAS to avoid duplication and complement each other's work in order to enable PIB become a world class investment promotion agency."

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