

PD-ABC-939

MAY 17 1991

BA 72214

Mr. Guy Pfeffermann
Director Economics Department and Economic Advisor
International Finance Corporation
1818 H. Street, N.W.
Washington D.C. 20433

Subject: Grant No. 522-0207-G-00-1001-00

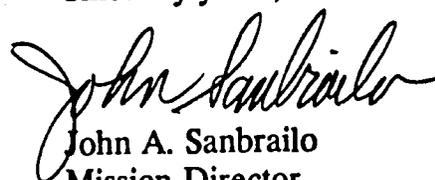
Pursuant to the authority contained in the Foreign Assistance Act of 1961, as amended, the Agency for International Development (hereinafter referred to as "A.I.D.") hereby grants to the International Finance Corporation (hereinafter referred to as the "Grantee"), the sum of \$28,091 to provide support for a program in Honduras, as described in the Schedule of this grant and in Attachment 2, entitled "Program Description."

This grant is made effective as of April 1, 1991 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 June 30, 1991.

This grant is made to the Grantee on the 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.

Please sign the original and all the 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,



John A. Sanbrailo
Mission Director
USAID Honduras

Attachments:

1. Schedule
2. Program Description
3. Standard Provisions

ACKNOWLEDGED:

CONFIRMED COPY

ACKNOWLEDGED:

(IFC)

BY:



TITLE: Acting Director, Economics Dept.

DATE: June 20, 1991

Government of Honduras

BY:



TITLE: Ministro de Economía y Comercio

DATE: _____

.8'

**ATTACHMENT 1
SCHEDULE**

A. Purpose of Grant

The purpose of this Grant is to perform a diagnostic study of the foreign direct investment (FDI) environment in Honduras, with emphasis on the legal and regulatory environment but seeking also to identify other important impediments, if any, to attracting more FDI to Honduras.

B. Period of the Grant

1. The effective date of this Grant is April 1, 1991. The expiration date of this Grant is June 30, 1991.

C. Amount of Grant and Payment

1. A.I.D. hereby obligates the amount of \$28,091 for purposes of this Grant.
2. A.I.D. shall make payment to the Grantee on a cost reimbursement basis in accordance with procedures set forth in Attachment 3 (the Standard Provisions).

D. Grant Budget

1. Table 1 contains the Financial Plan for this Grant. Adjustments among line items must be made in accordance with the Standard Provision No. 3 entitled "Revision of Grant Budget."
2. Per Table 1, A.I.D.'S contribution will be \$28,091 and the grantee's contribution will be \$52,559.
3. A.I.D. funds under this grant will only be used for A.I.D. eligible costs. Specifically, A.I.D. funds may only be used to pay compensation which does not exceed the Foreign Service Personnel System's FS-1 rate. This rate is currently \$307 per day. Similarly, A.I.D. funds used for per diem costs must be within the USG limit set for the locality. In both cases, the grantee will cover any differential.

Table 1.
Financial Plan

TOTAL ESTIMATED			
From April 1 to June 30, 1991			
Cost Element	<u>AID</u>	<u>IFC/FIAS</u>	<u>TOTAL</u>
Personnel	\$19,341	\$50,559	\$69,900
Travel and Subsistence	\$7,750	\$2,000	\$9,750
Translation of Report	\$1,000		\$1,000
TOTAL	\$28,091	\$52,559	\$80,650

Assumptions:

1. Personnel Costs were estimated to include a team leader at \$1,300 per day for 30 days, a legal expert at \$1,300 per day for 18 days, and a foreign investment/Honduras expert at \$500 per day for 18 days.
2. Travel and subsistence costs were estimated on the basis of five trips at \$750 per trip and per diem in Tegucigalpa for forty days at \$150 per day.

E. Reporting and Evaluation

1. The FIAS team will prior to its departure from Honduras deliver an oral briefing to the Minister of Economy and other members of the GOH Economic Team. Prior to June 24, 1990, FIAS will submit via international courier two Spanish copies of the Final Report to the Minister of Economy and two copies to the USAID Honduras Mission Director, one in English and one in Spanish. The FIAS Team leader (or designee) may return to Honduras and meet with the Minister of Economy, the Economic cabinet and A.I.D. to discuss this report, clarify any points and discuss details of implementation if desired prior to the Expiration Date of this Grant specified in Paragraph B of this Schedule.

- a. All documents for the Minister of Economy should be sent to the following address:

Lic. Ramon MEDINA LUNA
Ministro de Economía
Ministerio de Economía
5 Avenida, 4 Calle
Edificio Salamé
Tegucigalpa, D.C.
Honduras, C.A.

- b. All documents for A.I.D. should be sent to the following address:

Mr. Reese Moyers
Agencia Para el Desarrollo Internacional
(USAID/Honduras)
Apartado 3453
Avenida La Paz
Tegucigalpa, Honduras

or via U.S. mail to

Mr. Reese Moyers
USAID/Honduras
APO Miami, Fl 34022

ATTACHMENT 2
PROGRAM DESCRIPTION
Honduras: Legal Framework for Foreign Direct Investment

I. BACKGROUND

A. The Honduran Ministry of Economy and Commerce has requested that the IFC provide them, through the Foreign Investment Advisory Service (FIAS), with an analysis and recommendations for improving the legislative framework for foreign direct investment (FDI) in Honduras. Some problematic aspects of the environment that have already been identified are (a) an FDI law which may be too restrictive and regulatory in nature; (b) some constitutional provisions, with similar characteristics; and (c) other laws and regulations which refer to specific sectors or products (e.g., tourism) and which may also be too restrictive.

II. PURPOSE OF THE GRANT

A. The purpose of this grant is to assist the FIAS of the IFC to perform a diagnostic study of the FDI climate which the GOH could use as a blueprint for deciding on the structure of a new investment law. The study will emphasize the legal and regulatory environment but also seek to identify other important impediments, if any, to attracting more FDI to Honduras. Among the many specific aspects of the environment mentioned below, FIAS will identify the most important changes that are needed.

III. LEGAL FRAMEWORK

A. At the request of the Minister of Economy and Commerce, the Constitution and the existing investment legislation will be reviewed, with attention paid to provisions regarding private ownership and private economic initiative. Aspects of the legal framework will be reviewed such as:

1. commercial legislation (company law, contract law, and bankruptcy law);
2. the legal provisions and registration system securing the long-term use of land and the ownership of buildings, and the system regulating these rights;
3. the domestic Court and economic arbitration system;
4. accounting regulations and auditing principles; and
5. other legislation and implementing regulations on taxes applicable to enterprises and employees.

B. FIAS will analyze the ability of the legal system to enforce the legal statutes required to do business in Honduras. Conclusions will be drawn on the legal impediments to investment, and the major areas for reform will be identified.

C. FIAS will also examine whether the domestic and the foreign private sector are distinct in the existing investment legislation. Suggestions might be made to make cross-fertilization as easy as possible between foreign and domestic investors. In all likelihood, a unified and coherent legal framework applicable to the formation and functioning of all enterprises participating in the development of the economic system as well as to the transactions taking place between them will be recommended.

IV. Administrative and Regulatory Environment

A. The key administrative and regulatory activities that may affect the ability of investors to establish and operate a business in Honduras will be examined, particularly regarding: a) The rules and regulations on ownership (e.g., sole proprietorship, partnership, corporation); b) permits regarding foreign investment for operating a business; c) pricing regulations; d) reporting requirements; e) regulations regarding local purchase of goods and services; f) quantitative restrictions on certain imports; g) special entitlement to small or medium scale enterprises; and h) other administrative regulations which restrict the flow of investment. Conclusions regarding administrative and regulatory impediments to investors will be drawn, and major areas for reforms will be identified.

B. An inventory of government agencies and offices involved in approving and monitoring business activities (including permits/licenses required, time involved, etc.) will be made. The benefits of the MOE one-stop export documentation center will be examined as a model for implementing a "one-stop shop" for investment approvals and permits, with a view to reducing red tape.

V. Other Issues

- A. Other issues of concern to investors in Honduras will be examined, such as:
1. access to credit and/or foreign exchange;
 2. ability to transfer profits, dividends and capital abroad;
 3. ease (or lack thereof) of entry into Honduras; and
 4. incentives.

VI. Staffing and Methodology

A. The FIAS team will consist of a team leader, a legal expert on FDI, and a third person familiar with the history and present state of FDI in Honduras. This team will gather data on the legal/regulatory framework, and the other aspects of the FDI climate described above.

B. The Team will interview government officials, bankers and other businessmen, both local and foreign, in Honduras, as well as some business executives in other countries who have invested or have decided not to invest in Honduras. It will produce a written report, with analyses and recommendations which set forth the general concepts of a proposed investment law, what types of items should or should not be included, and helps resolve important issues or questions. The team leader and/or the legal expert would return to Honduras after transmission of the report, to discuss it further, clarify any points if necessary, and discuss details of implementation if desired.