PD-ABP-678
95382

UNCLASSIFIED

# FOREIGN INVESTMENT ADVISORY SERVICE

PROJECT PAPER
(698-0528)

Approved: September 28, 1989

UNCLASSIFIED

AGENCY FOR INTERNATIONAL DEVELOPMENT

# PROJECT DATA SHEET

1. TRANSACTION CODE: A (A = Add, C = Change, D = Delete)
Amendment Number:
DOCUMENT CODE: 3

2. COUNTRY/ENTITY: AFRICA REGIONAL

3. PROJECT NUMBER: 698-0528

4. BUREAU/OFFICE: AFR/MDI — AFR

5. PROJECT TITLE (maximum 40 characters): Foreign Investment Advisory Service

6. PROJECT ASSISTANCE COMPLETION DATE (PACD): MM 03 DD 31 YY 93

7. ESTIMATED DATE OF OBLIGATION (Under "B:" below, enter 1, 2, 3, or 4)
A. Initial FY 89 B. Quarter C. Final FY 91

8. COSTS ($000 OR EQUIVALENT $1 = )

| A. FUNDING SOURCE | FIRST FY 89 | | | LIFE OF PROJECT | | |
|---|---|---|---|---|---|---|
| | B. FX | C. L/C | D. Total | E. FX | F. L/C | G. Total |
| AID Appropriated Total | | | | | | |
| (Grant) | ( 700 ) | ( ) | ( 700 ) | ( 2,100 ) | ( ) | ( 2,100 ) |
| (Loan) | ( ) | ( ) | ( ) | ( ) | ( ) | ( ) |
| Other U.S. 1. | | | | | | |
| Other U.S. 2. | | | | | | |
| Host Country | | | | | | |
| Other Donor(s) | 2,201 | | 2,201 | 9,101 | | 9,101 |
| TOTALS | 2,901 | | 2,901 | 11,201 | | 11,201 |

9. SCHEDULE OF AID FUNDING ($000)

| A. APPROPRIATION | B. PRIMARY PURPOSE CODE | C. PRIMARY TECH. CODE 1. Grant | C. PRIMARY TECH. CODE 2. Loan | D. OBLIGATIONS TO DATE 1. Grant | D. OBLIGATIONS TO DATE 2. Loan | E. AMOUNT APPROVED THIS ACTION 1. Grant | E. AMOUNT APPROVED THIS ACTION 2. Loan | F. LIFE OF PROJECT 1. Grant | F. LIFE OF PROJECT 2. Loan |
|---|---|---|---|---|---|---|---|---|---|
| (1) DFA | 775 | 840 | | | | 2,100 | | 2,100 | |
| (2) | | | | | | | | | |
| (3) | | | | | | | | | |
| (4) | | | | | | | | | |
| TOTALS | | | | | | 2,100 | | 2,100 | |

10. SECONDARY TECHNICAL CODES (maximum 6 codes of 3 positions each): 910

11. SECONDARY PURPOSE CODE: 771

12. SPECIAL CONCERNS CODES (maximum 7 codes of 4 positions each)

| A. Code | BL | BU | | | | | |
|---|---|---|---|---|---|---|---|
| B. Amount | 2,100 | (2,100) | | | | | |

13. PROJECT PURPOSE (maximum 480 characters)

To improve the regulatory environment in selected African countries and to assist governments in planning and implementing programs to attract foreign investment.

14. SCHEDULED EVALUATIONS
Interim MM YY MM YY — Final MM 03 YY 92

15. SOURCE/ORIGIN OF GOODS AND SERVICES
☐ 000 ☐ 941 ☐ Local ☒ Other (Specify) IFC

16. AMENDMENTS/NATURE OF CHANGE PROPOSED (This is page 1 of a ______ page PP Amendment.)

17. APPROVED BY
Signature:
Title: AAA/AFR/MDI
Date Signed: MM 08 DD 31 YY 89

18. DATE DOCUMENT RECEIVED IN AID/W, OR FOR AID/W DOCUMENTS, DATE OF DISTRIBUTION: MM 08 DD 31 YY 89

AID 1330-4 (8-79)

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**Agency for International Development**
Washington, D.C. 20523

ACTION MEMORANDUM FOR THE ACTING ASSISTANT ADMINISTRATOR FOR AFRICA BUREAU

THROUGH: AFR/PD, Timothy Bork

FROM: AAA/AFR/MDI, Warren Weinstein

SUBJECT: Foreign Investment Advisory Service (FIAS) - 698-0528

Problem: Your approval is requested for a life-of-project grant of $2,100,000 to the International Finance Corporation (IFC) for use by the Foreign Investment Advisory Service (FIAS) for activities in Africa. The grant is to be disbursed in three annual tranches of $700,000, beginning in FY 1989.

Discussion: Despite considerable natural resources, Sub-Saharan Africa has experienced very slow economic development. Industrial expansion has been sluggish and much existing capacity stands idle as a consequence of scarcities of imported inputs, uncompetitive industrial structures and generally depressed market conditions. Agricultural output has not kept pace with population growth, and until recently, imports of foodstuffs have been filling an increasing proportion of the region's needs.

To cover persistent deficits in their balance of payments, most African countries have incurred substantial foreign debt. The servicing of official and commercial external obligations is absorbing an increasing proportion of export earnings and has begun to more than off-set new aid inflows. Foreign direct investment has continued to decline in real terms, and new investment inflows have been negligible for most countries, except for the oil and mining sectors. As a consequence, and in recognition of the past failures of public policy, major economic recovery and structural adjustment programs have been initiated in about 30 African countries, directed towards greater reliance on market forces and upon the private sector. The success of these reforms will ultimately hinge on a significant resumption of productive investment, especially of private investment, a major share of which must come from abroad. To be successful, African countries must be able to attract, on acceptable terms, the necessary inputs of foreign technology, through an infusion of foreign manufacturing, management and marketing know-how.

To assist in this formidable task, this project provides funding to supplement resources from a variety of donors to support FIAS's African investment advisory service program. Major objectives on behalf of client countries are to 1) streamline and reorient the regulatory environment to allow market forces to operate more effectively, and 2) expand the capability of recipient governments in the areas of investment promotion and investor services.

Brief Project Description - The grant to IFC/FIAS under this project will be part of a larger multilateral resource base which permits FIAS to undertake investment advisory missions in selected developing countries. A.I.D. funding will be used to finance FIAS missions in Africa, but will not be associated with specific countries since it constitutes only a part of FIAS's budget for these activities. However, despite the lack of specific attribution, with funding provided by A.I.D. under this project, FIAS will be able to undertake approximately 20 technical missions to countries in Sub-Saharan Africa to assist governments of the region to improve the climate for foreign and domestic private investment. By providing technical assistance and information to receptive governments and regional institutions, the project seeks to produce a more attractive investment climate and improved investment opportunities in participating Sub-Saharan countries through government policy actions aimed at attracting foreign investment.

Relation of Project to A.I.D. Strategy : A major policy of A.I.D. is to encourage developing countries to rely more on competitive markets, trade, and private enterprise to support broadly-based economic growth and meet the basic needs of their people. The Africa Bureau views this fostering of market-oriented private sector activity as a key to achievement of sustainable growth on that continent. A vigorous and growing private sector and an expanding middle class also provide the best sources of large-scale employment opportunities and offer the best hope of improving local investment climates, which will induce greater indigenous and foreign investment in African economies.

Beneficiaries: Although many segments of the economy will benefit from investment arising out of FIAS activities, the creation of jobs is perhaps the most important result of foreign investments in social terms. Those benefitting most from the activities of FIAS are the employees of the companies created directly by the investments, as well as the small local companies which almost invariably grow up around important foreign investments by providing local inputs, services, marketing, etc. In individual terms, beneficiaries include local managers, foremen, skilled technicians, clerical workers and laborers of all kinds.

Major Project Outputs: 1) Participating African governments

.l develop a capacity to analyze and assess their investment /ironment and to revise their regulatory standards, based on .:ket factors; 2) An improved policy framework will be /eloped by assisted countries through new or improved /estment codes; 3) The legal, financial and administrative ɔcess of initiating foreign investments will become more :icient, faster and less burdensome.

Implementation Arrangements: As the project will be buying to an ongoing program of a public international organization, C rules and procedures will be followed regarding ocurement, management, audits and evaluations. Since dividual FIAS country reports to governments are confidential d contain very candid assessments, they are not circulated to nors. However, continuous monitoring will be provided by R/MDI, which will receive informal feedback on country ssions and the status of action by governments on FIAS commendations. Furthermore, written quarterly and annual ports will be submitted to AFR/MDI by FIAS. In addition, a ›rmal evaluation is required under the terms of the UNDP grant FIAS, covering the overall FIAS program. The successful ›mpletion of this evaluation, to be undertaken in the first .lf of CY 1990, will be a Condition Precedent to disbursement : the second tranche of the A.I.D. grant in FY 1990.

Committee Action and Findings: The Project Committee met on ɜptember 1, 1989 under the Chairmanship of AFR/PD Deputy irector Kevin Kelly, to review the Project Paper prepared by FR/MDI. Concerns centered around 1) the lack of an evaluation : the FIAS operation to date and the resulting difficulty in ssessing how effective FIAS has been in achieving its ɔjectives; and 2) disbursement procedures and related ocumentation. Discussion and resolution of these concerns are ummarized below. Based on the straightforward nature of the roject and the absence of outstanding issues, the Chairman etermined that an ECPR review was not necessary.

. A major external evaluation of FIAS is scheduled early in CY 990 to meet requirements of the UNDP, which is a major donor. covenant to the A.I.D. grant stipulates that AFR/MDI will eview the scope of work of this evaluation to ensure that .I.D. interests are covered with respect to the African rogram. The completion of a satisfactory evaluation is a :ondition precedent to the disbursement of the second tranche ›f the A.I.D. grant. It is the view of AFR/MDI, which the :ommittee supported, that the operational accomplishments of IAS to date, summarized in Annex B of the Project Paper, justify sufficient confidence in FIAS's overall capability to

ase the initial tranche of $700,000, which is badly needed
aintain the momentum gained by FIAS already in several
can countries. An A.I.D. contribution to FIAS's Africa
ram is seen as a catalyst to encourage other donors which
expressed interest in assisting FIAS.

The disbursement mechanism proposed is the annual
ursement of each $700,000 tranche into the interest-bearing
Trust Fund, with the interest earned to be returned to
.D. This procedure is different from the arrangement for
er current A.I.D. grants to IFC, which are in the form of
asury Letters of Credit; under this mechanism, IFC requests
ds from its bank to meet immediate operational needs and
eives cash within three days through the Treasury Letter of
dit. The single annual disbursement procedure provides FIAS
greater financial flexibility and quicker access to its
ds with less paperwork. The problem of windfall interest
nings by the grantee is avoided by returning all interest
ned to A.I.D. Both the AID/FM Cash Management and Payment
ice and the IFC accounting department have concurred in the
ual disbursement mechanism. Annual disbursements would be
ggered by notification by MDI that the grantee has met all
licable conditions precedent to disbursement for that
nche.

Conditions and Covenants: Several conditions and covenants
e been introduced, aimed at assurance that FIAS will follow
annual workplan for African activities; that FIAS has made
quate budget provisions for its Africa program; and that
S's operations will be formally evaluated before the second
nche of the A.I.D. grant. Disbursement procedures and
orting requirements are also addressed. For the full text
the Conditions Precedent and Covenants, see the attached
ject Authorization or Section V.D. of the Project Paper.

Other Concerns: An Initial Environmental Examination
tegorical Exclusion) has been approved by the Bureau
ironmental Officer and concurred in by GC/AFR.

a grant to a Public International Organization, Gray
endment targets are not applicable. However, FIAS will
ort to MDI on the use of U.S. consultants and firms in
nducting its operations.

waivers are applicable to this project.

I.D. project management responsibility rests with Warren
instein, AAA/AFR/MDI, or his designee.

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Congressional Notification was submitted on September 13,
989 and will expire on September 27, 1989.

ecommendation: That you approve this project and sign the
tached Letter of Agreement.

Approve: [signature]

Disapprove:

Date: 9/28/89

I. BACKGROUND AND RATIONALE

A. Nature of the Problem

Despite considerable natural resources, Sub-Saharan Africa has experienced very slow economic growth. Even after serious development efforts by African governments and the international donor community, development in many countries has given way to stagnation or retrogression. Per capita income has been level or declining in the majority of African countries over the past decade and in many cases is, in real terms, below levels existing at independence in the 1960's. Industrial expansion has been sluggish and much existing capacity stands idle as a consequence of scarcities of imported inputs, uncompetitive industrial structures and generally depressed market conditions. Agricultural output has not kept pace with population growth, and until recently, imports of foodstuffs have been filling an increasing proportion of the region's needs.

Despite attempts to mobilize domestic resources through monetary and fiscal policies, domestic savings ratios have dropped in many countries. Exports have languished, and the region's share of world trade has shrunk. To cover persistent deficits in their balance of payments, most African countries have incurred substantial foreign debt. The servicing of official and commercial external obligations is absorbing an increasing proportion of export earnings and has begun to more than off-set new aid inflows. The overall flow of concessional external assistance has declined slightly in real terms in the 1980's after rising sharply in the 1970's. New medium- and long-term commercial credits are generally not being extended to the region, and even short-term trade credit is difficult to obtain and expensive. Foreign direct investment has continued to decline in real terms, and new investment inflows have been negligible for most countries, except for the oil and mining sectors.

As a consequence, and in recognition of the past failures of public policy, major economic recovery and structural adjustment programs have been initiated in most countries in the region. About 30 countries have begun major economic reforms directed towards greater reliance on market forces and upon the private sector. The success of these reforms will ultimately hinge on a significant resumption of productive investment, especially of private investment, from both foreign and domestic sources.

If the region's development objectives are to be achieved, an increased flow of foreign direct investment will be needed, not only to augment the dwindling pool of domestic capital, but also to attract, on acceptable terms, the necessary inputs of foreign technology, as well as an infusion of foreign manufacturing, management and marketing know-how. However, in the 1980's, foreign direct investment in the region appears to have declined in aggregate terms to well below $1.0 billion per year, and consists mainly of oil and mining investments and related reinvested earnings. Sub-Saharan Africa's share of the stock of global foreign direct investment has continued to decline, having already about halved between 1960 and 1980 to less than 2.5 percent of the global total. Sub-Sahara Africa currently accounts for less than 10 percent of both the annual flow and total stock of foreign investment in developing countries.

It is evident that the region, with its range of investment opportunities, has not taken advantage of the full potential of foreign direct investment. Although a number of countries have taken steps to strengthen their capacities to attract foreign direct investment (more than 20 countries have revised their investment codes in the past few years and others pursuing structural adjustment are also presently revising their legislation), much remains much to be done in establishing appropriate policy, regulatory and institutional frameworks and promotional mechanisms to maximize the contribution of such flows.

The governments of the region lack experience with, and understanding of, the mechanisms of the free market and the policy and regulatory frameworks needed to achieve the promise of economic development through private enterprise. Outside assistance is desirable to inventory their existing policy environment, analyze the implications of the policy regime for foreign and domestic investments, and design systems and procedures which will make their countries more attractive to external investors.

B. <u>The Bureau's Response to the Problem</u>

A major policy of A.I.D. is to encourage developing countries to rely more on competitive markets, trade, and private enterprise to support broadly-based economic growth and meet the basic needs of their people. The Africa Bureau views this fostering of market-oriented private sector activity as a key to achievement of sustainable growth on that continent.

A vigorous and growing private sector and an expanding middle class also provide the best sources of large-scale employment opportunities and offer the best hope of improving local investment climates, which will induce greater indigenous and foreign investment in African economies.

All parts of the Africa Bureau are involved in carrying out this policy through strategies, programs, and projects related to the particular situations of the recipient countries. In the forefront is the Office of Market Development and Investment (AFR/MDI), whose primary goal is the promotion of the private sector and economic growth through private investment.

The Bureau conducts traditional activities such as support to development banks and credit institutions, training programs, and private sector policy reforms linked to commodity import programs. In addition, it has also moved into new areas of private sector support, such as privatization and divestiture of parastatal companies, financial markets development, promotion of informal markets and microenterprise, venture capital, trade processing zones, debt for equity swaps and promotion of foreign investment in Africa. Activities in these new areas have been initiated by AFR/MDI and are usually undertaken in cooperation with other organizations such as the Overseas Private Investment Corporation, the Trade and Development Program, the International Finance Corporation and others. In fact, a major objective of AFR/MDI is to interest these organizations, which now direct most of their attention to Asia and Latin America, in devoting greater resources to Africa.

## C. The Objectives of FIAS

The Foreign Investment Advisory Service (FIAS), a joint program of the International Finance Corporation (IFC) and the Multilateral Investment Guarantee Agency (MIGA), assists member countries of the IFC and MIGA to improve the policy, regulatory and institutional environment for foreign private investment. FIAS shares many of the same goals and objectives as the Africa Bureau of promoting private enterprise development in Africa. The FIAS program is specifically focused on foreign investment and the mobilization of foreign inputs. Like A.I.D., FIAS's Africa Program includes particular emphasis on 1) streamlining and reorienting the regulatory environment to allow market forces to operate more effectively, and 2) building up the capabilities of cooperating governments in the areas of investment promotion and investor services.

FIAS, often working directly with host country institutions as part of a larger team including World Bank and IFC experts, examines the investment climate; evaluates foreign investment policies, regulations, procedures, and practices; and assists local institutions in improving their capabilities to attract and maintain foreign investments. Since its establishment in 1986, FIAS's operations have grown rapidly, especially in 1988, when 11 advisory projects were completed in 12 countries in Asia (China, Bangladesh, Indonesia, Malaysia, Philippines, Thailand and Papua New Guinea), and Africa (Guinea, Kenya, Madagascar, Senegal and Togo). In 1989, 16 to 18 additional projects are underway or planned in as many countries.

Cable comments requested of African USAID Missions reveal considerable support for the efforts of FIAS to supplement A.I.D. initiatives in promoting private investment in Africa. With the support and prestige of IFC, this multilateral approach is seen as a positive way to deal with sensitive issues such as tax policy and investment codes, where governments may be reluctant to accept U.S. inverventions directly.

## II. PROJECT DESCRIPTION

### A. Project Goal and Purpose

The project goal is to increase the participation of private foreign investment in the development process in Sub-Saharan Africa. The project purpose is to improve the regulatory environment in selected African countries and to assist governments in planning and implementing programs to attract foreign investment.

### B. Project Outputs

The grant to IFC/FIAS under this project will be part of a larger multilateral resource base which permits FIAS to undertake investment advisory missions in selected developing countries. A.I.D. funding will be used exclusively to finance missions in Africa, but will not be associated with specific countries, since it constitutes only a part of FIAS's budget for these activities.

However, despite the lack of specific attribution, with funding provided by A.I.D. under this project, FIAS will be able to undertake approximately 20 technical missions to countries in Sub-Saharan Africa to assist governments of the region to improve the climate for foreign and domestic private investment. By providing technical assistance and information to receptive governments and regional institutions, the project seeks to produce a more attractive investment climate and improved investment opportunities in participating Sub-Saharan countries through government policy actions aimed at attracting foreign investment.

The following outputs are expected to result from the FIAS investment advisory missions.

1. Participating African governments will develop a capacity to analyze and assess their investment environment on an ongoing basis and to revise their regulatory standards, based on market factors.

2. An improved policy framework will be developed by countries receiving assistance through the introduction or refinement of investment codes.

3. The legal, financial and administrative process of initiating foreign investments will become more efficient, faster and less burdensome than is currently the case in participating countries.

4. The understanding by assisted host government agencies of the investment objectives and operational methodologies of U.S. and other foreign investing corporations will be enhanced.

5. An improved capacity will be developed by IFC/FIAS to provide practical and effective investment advisory services to African countries.

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C. Activities Under The Project

A.I.D. funds provided under this project will be used to expand the Africa program operations of the Foreign Investment Advisory Service. FIAS, as a part of the World Bank group, assists Sub-Saharan governments with technical assistance, training and information concerning the ways and means of increasing foreign investment in their countries.

Project funds will make it possible for FIAS to increase the number and quality of its country missions and to expand its training, information-gathering and dissemination activities with key regional and national institutions. A.I.D.'s contribution would enable FIAS to undertake about 20 country missions at an average cost of roughly $100,000, plus supportive studies or conferences on issues of common interest in the Africa region. A country project typically involves an exploratory mission visit by FIAS staff, followed by a two or three-person mission to the country in question, with similar, shorter visits to present the program through workshops, etc. Variations on this concept include travel of country officials to other sites to participate in FIAS seminars and conferences or workshops tailored to the country's needs; for example, seminars to revise investment codes. Costs comprise mainly staff and consultants' time, travel, publications and communications.

Within this context, FIAS missions concentrate on a series of actions summarized as follows:

- Strengthening the composition of FIAS' consulting and technical assistance missions to cooperating countries;

- Providing active client country and regional institution follow-through, currently constrained by limited funds;

- Financing "second round" work with client countries; and

- Developing a more comprehensive regional program of workshops, round tables and issues papers on key topics of common interest to many countries as well as to sub-regional and regional institutions in Africa.

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## III. FINANCIAL PLAN

### A. The FIAS Budget

FIAS is funded by contributions from its parent agencies (IFC and MIGA), UNDP programs, client country payments and reimbursements, and contributions from donor governments. FIAS uses all of this income for support of its direct-hire staff, hiring of consultants, training programs, and related program and operational activities.

The actual and currently estimated overall FIAS budget for 1988-92 is shown in the following table. The projected budget for Sub-Sahara Africa is on the next page.

FIAS Total Budget, 1988 - 1992
(Fiscal Year July 1 - June 30)
(in 000 U.S. $)

| | Actual | Actual | - Estimates- | | |
|---|---|---|---|---|---|
| | FY88 | FY89 | FY90 | FY91 | FY92 |
| SOURCES: | | | | | |
| Contributions from IFC | 696 | 400 | 400 | 400 | 400 |
| Contributions from MIGA | - | 200 | 400 | 400 | 400 |
| World Bank | 66 | - | - | - | - |
| UNDP | 437 | 956 | 1,000 | 1,000 | 1,000 |
| Client Payments/ Reimbursements | 72 | 100 | 300 | 500 | 500 |
| A.I.D. | | 700 | 700 | 700 | |
| Trust Fund | 10 | 545 | 1,000 | 1,500 | 2,000 |
| Total | 1,281 | 2,901 | 3,800 | 4,500 | 4,300 |
| USES: | | | | | |
| Salaries, travel consultants, training, etc. | | | | | |
| Total | 1,281 | 2,901 | 3,800 | 4,500 | 4,300 |

**FIAS Budget -- Sub-Saharan Africa**
(US $ 000's, current values)

| | CY 1989 | CY 1990 | CY 1991 | CY 1992 |
|---|---|---|---|---|
| **Uses of Funds: Africa** | | | | |
| A. Country Tasks (# of projects) | (7-8) | (8-9) | (9) | (9) |
| Category 1[a] | 200[b] | 135[c] | 170[d] | 180[d] |
| Category 2[e] | 350[f] | 315[g] | 340[d] | 360[d] |
| Category 3[h] | 100[i] | 635[j] | 730[d] | 775[d] |
| Sundry[k] | 50 | 65 | 80[d] | 100[d] |
| Sub-totals | 700 | 1,150 | 1,320 | 1,415 |
| B. Regional Tasks | | | | |
| Studies | 130 | 320 | 340 | 360 |
| Conferences/workshops | 300 | 160 | 340 | 360 |
| Teleconference preparation | 300 | 4,000 | - | - |
| Sub-totals | 730 | 4,480 | 680 | 720 |
| Total Uses Africa | 1,430 | 5,630 | 2,000 | 2,135 |
| Memo: (Total FIAS Uses) | 3,000 | 8,150 | 4,750 | 5,000 |
| **Sources of Funds: Africa** | | | | |
| UNDP | 720 | 415 | - | - |
| Bilateral | 100 | - | - | - |
| FIAS Trust Fund | 310 | 515 | 500 | 500 |
| USAID | 300 | 700 | 700 | 400 |
| Unidentified | - | 4,000 | 800 | 1,235 |
| Total Sources | 1,430 | 5,630 | 2,000 | 2,135 |

a. One or two mission FIAS exercise costing about $50,000 (1989 values).
b. Includes 3 1/2 projects: Togo I, Lesotho I, Senegal I; possibly Guinea II, Uganda I, Nigeria I.
c. Unidentified (2 1/2 projects).
d. Unidentified 3 projects.
e. Two to three mission exercise costing about $100,000 (1989 values).
f. Includes 3 1/2 projects: Cameroon I, Madagascar I, Togo II, Kenya II.
g. Unidentified 3 projects: possibly Cameroon II, Togo II (cont.), Lesotho II (cont.), Uganda I (cont.), Nigeria I (cont.).
h. Larger promotional initiatives costing $150,000 or more, including the launching of new foreign investment promotion strategies.
i. Launching of Lesotho II (or Ghana II).
j. Unidentified (3 projects): possibly Kenya III, Ghana II, Senegal II.
k. General administrative expenses of communications, translations, documentation, staff training, etc.

It is important to bear in mind that A.I.D. will be only one of many supporters of FIAS and that this grant constitutes only a relatively minor part of the total FIAS budget (and a somewhat larger, but still minority, share of the Africa Budget). Nevertheless, the participation of the U.S. is seen as a positive sign in encouraging other donors to assist FIAS in expanding its operation. In fact, this project will be the first geographic earmarking accepted by FIAS for its country projects, and the precedent has prompted the U.K. and possibly others to pursue similar earmarkings for Africa. Since these contributions are intended to be additional to the regular Africa program, not a substitute for it, Africa's share of the overall FIAS program is expected to grow significantly. The A.I.D. share of the total FIAS funding represents 24 percent, 18 percent, and 15 percent for fiscal years 1989 to 1991, respectively. In contrast, the A.I.D. share of the FIAS Africa budget will be 35 percent in 1991, according to current FIAS projections, which show Africa as receiving approximately 50 percent of the total FIAS budget over the next three years.

With respect to other donors, contributions to the Trust Fund during fiscal years 1988 and 1989 came from the Netherlands and Sweden; Japan and Belgium are expected to make contributions beginning in fiscal year 1990. Other donors are at different stages of discussion with IFC regarding contributions to FIAS. Their current status is summarized below.

| STATUS | DONOR | AMOUNT IN $000 | |
|---|---|---|---|
| Signed Commitments | Belgium | 500 | |
| | Finland | 500 | |
| | Japan | 2000 | |
| | Netherlands | 500 | |
| | Sweden | 500 | |
| | Switzerland | 500 | |
| Total | | | 4500 |
| Firm Announcements | Netherlands | 500 | |
| Total | | | 500 |
| Serious Discussions | Canada | 1000 | |
| | Danmark | 500 | |
| | France | 1500 | |
| | Italy | 1000 | |
| | Norway | 500 | |
| | UK | 1500 | |
| | USA | 2100 | |
| Total | | | 8600 |
| Preliminary Discussions | Germany | 2000 | |
| | Saudi Arabia | 1000 | |
| | Kuwait | 1500 | |
| | India | 500 | |
| Total | | | 5000 |

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In addition, Australia has agreed to provide financing on a case-by-case in the Pacific/Asian area. The amounts indicated above will be provided over a 2-3 year period. Since they represent different degrees of certainty and firmness, these figures should be seen as illustrative and for planning purposes. Only the firm commitments are included in the Trust Funds amounts in the FIAS budget above.

B. Disbursement Procedures

The A.I.D. grant will be disbursed to IFC and placed in the FIAS Trust Fund, for use by FIAS in its operation for Sub-Sahara Africa. Three annual tranches of $700,000 will be disbursed in FY 1989, FY 1990 and FY 1991, subject to the satisfaction of the conditions precedent set forth in Section V.D below and the Project Authorization.

The disbursement mechanism calls for the annual disbursement of each $700,000 tranche into an interest-bearing FIAS Trust Fund account, pooled with funds from other sources. Thre will be no Special Account exclusively for A.I.D. funds. However, interest earned on any given deposits can be tracked by computer on an average daily balance basis, and interest earned from the A.I.D. deposit will be remitted to A.I.D. by IFC, either quarterly or annually.

This procedure is different from the arrangement for other current A.I.D. grants to IFC, which are in the form of Treasury Letters of Credit. Under this mechanism, IFC requests funds from its Bank to meet immediate operational needs and receives cash within three days through the Treasury Letter of Credit. This arrangement is cumbersome under the pooled Trust Fund account employed by FIAS. The single annual disbursement procedure provides FIAS with greater financial flexibility and quicker access to its funds with less administrative burden to its small staff. The problem of windfall interest earnings by the grantee is avoided by returning all interest earned to A.I.D. Both the AID/FM Cash Management and Payment Office and the IFC accounting department have concurred in the annual disbursement mechanism. Annual disbursements would be triggered by notification by MDI that the grantee has met all applicable conditions precedent to disbursement for that tranche.

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## IV. PROJECT ANALYSES

### A. Technical Analysis

This project will assist FIAS in carrying out its program of investment advisory services in Africa. A.I.D. is only one of several donors which contribute to this program, and the A.I.D. grant, while limited to African operations, will not be attributed to specific country missions. FIAS conducts a three-part program of assistance to African countries, as described below. This is undertaken in close coordination with other elements of the World Bank Group, specialized agencies of the United Nations, and bilateral aid agencies.

-- Assistance to individual countries in strengthening their policy, regulatory and institutional environments to promote worthwhile foreign private investment. Some African countries now being assisted by FIAS are Ghana, Kenya, Guinea, Madagascar, Senegal, Togo, Lesotho, and Cameroon.

-- Regional exercises to examine, from a global as well as regional perspective, issues of common interest to several countries (e.g. effective investment promotion techniques, effective regional market integration, foreign investor attitudes toward African investments); and

-- Assistance to and collaboration with African regional institutions, such as the Preferential Trade Area for Eastern and Southern African States (PTA), the Southern African Development Coordination Conference (SADCC), the Economic Community of West African States (ECOWAS), the West African Clearinghouse, the Economic Community of Central African States (CEEAC) and the African Development Bank.

In the course of assisting countries and regional organizations, FIAS helps its clients do the following:

--review other countries' experiences and relevant global situations; formulate targeted foreign investment strategies, including supportive policies and incentives;

--define the rules of the investment game clearly and realistically;

--find cost-effective ways to interest competing foreign firms in investment possibilities;

--know what to look for, and how to evaluate offers;

--deepen national gains through encouraging stronger project linkages to the domestic economy and to domestic institutions; and

--provide feedback on how well the process has worked and how it can be improved.

In selecting its client countries, FIAS gives preference to assisting governments that favor the private sector, seek increased foreign investments, and need help in devising policies and programs to attract such investments. It requires a formal written request from a government before undertaking assistance. Such requests are in fact often generated as a result of other World Bank and donor activities in countries, especially policy reform operations which frequently involve measures to attract foreign investments.

Upon receipt of a request, a FIAS officer will visit the country for preliminary discussions with pertinent government officials. If these discussions are satisfactory and FIAS is convinced that the country genuinely wants to attract foreign capital, a "first round" mission is then sent. This round involves recommendations and technical assistance for streamlining and reorienting the regulatory and institutional environment to allow market forces to operate more effectively. The second round typically involves further recommendations and the building up the capabilities of cooperating governments in the areas of investment promotion and investor services. FIAS not only makes recommendations for government action, it also helps governments carry them out by outlining logical, sequential steps to effective implementation.

FIAS also requires that the recipient government pay the local costs, e.g. hotel and food, domestic travel, etc., of the missions undertaken by FIAS personnel. This helps to ensure that the recipient is serious about the undertaking and thus more likely to follow through by implementing resulting recommendations.

Because it operates in many countries having similar problems in the foreign direct investment area, FIAS has built up a core of experience that frequently is applicable from one country to another. The solution to a particular problem is an Asian country might serve as a model for a solution a similar problem in a given African country. FIAS is innovative in applying and adapting such lessons learned to new situations.

Some examples of FIAS work follow (also see Annex B.).

- Togo: A FIAS team in 1988 reviewed the investment climate and suggested various improvements in the investment code. These changes were drafted by a joint FIAS-Togo group and are now being promulgated by the government. The team also suggested creation of free trade zones, and AFR/MDI in conjunction with OPIC is now moving ahead to assist Togo in this regard.

- Kenya: FIAS reviewed various issues of concern to the Investment Promotion Center (IPC). It recommended the preparation of an Investment Code; this is now underway. It also recommended training of IPC staff; this is underway in conjunction with the Government of Ireland.

- Guinea: A FIAS mission reviewed both investment incentives and institutional capabilities. Improvements in incentives and reorganization and training of personnel now are underway as recommended.

- China: Over three years FIAS has conducted comprehensive reviews and made numerous recommendations regarding policies, laws, and regulations. Most of these have been or are being implemented.

- Malaysia: FIAS has trained Malaysian officials on how to evaluate the economic effect and advantages of specific foreign investment projects. It is also assisting the government to design and install an investment monitoring system.

- Yugoslavia: FIAS is helping the government complete major new legislation to cover direct investments. It also is assisting with debt-equity swaps and in improvement of investment promotion programs.

Based on the record of FIAS in dealing effectively with a variety of investment issues in countries at different levels of development, we can conclude that FIAS is technically capable of successfully carrying out its mandate. It has demonstrated this capacity through numerous missions to developing countries and the formulating and implementing of appropriate recommendations to improve foreign investment climates, promotion programs, laws, codes and regulations.

## B. Economic Analysis

An important development objective of the Africa Bureau is to assist countries of the region to increase their productive investments, both through increased local savings and attraction of outside private capital. One way in which this can be promoted is through government actions, including policy changes, creation of better business and investment climates, freer markets, reduction of price controls, etc. Assistance in this area is most effectively taken in conjunction with the World Bank Group, IMF, and donor countries such as the U.K., France, Germany, etc.

Attention to the more specific problem of attracting foreign direct investment has been undertaken by a variety of donors over the years. The World Bank Group, primarily through IFC, provided occasional advice on this topic to developing countries prior to the creation of FIAS. A.I.D. has on occasion undertaken such programs in Korea, India, Turkey and through the World Trade Center in New York City for a number of countries. Currently A.I.D. is involved bilaterally in this area in Cape Verde, Cameroon, and the SADCC countries. The UNDP and some bilateral donors also have sometimes been involved in these programs.

However, such efforts by A.I.D. and other donors generally have been individual undertakings in response to ad hoc requests from selected governments. Often they have covered only one or two elements of the whole topic, and usually there has been no extended follow-through. Donors have not made an effort to build up long-term expertise in this field, nor have they accorded it priority attention. In some cases, the investment objective is only one element in a much larger program, e.g. in Cape Verde, where it is combined with the creation of free trade zones, the identification of foreign markets for goods produced in Cape Verde, etc.

FIAS has as its only function to help developing countries attract productive foreign direct investments. It has a three-year track record, and has built up a direct-hire and consultancy core of expertise in this one domain. It has extensive practical policy and operational experience in many countries of Asia and Latin America in addition to Africa. In Africa we are dealing with many countries and many different situations. The importance of foreign investment has increased remarkably and now is of general interest to most African countries. We have concluded that the best way to provide practical advice and accomplish positive results at relatively low cost in a systematic manner to a large number of countries in Africa is to utilize FIAS and assist it to strengthen and expand its operation. That is the rationale of this project.

Another advantage of utilizing FIAS is that a multilateral entity is perceived as less political than a bilateral donor, a distinct advantage when dealing with governments in the sensitive area of foreign investments, tax codes, and the regulation of commerce.

The substantial positive results of productive direct foreign investments are well established. They include:

- creation of jobs at all levels, both full-time and part-time;
- upgrading of skills and responsibilities of existing jobs;
- development of technical and managerial skills;
- reaching families through wage earners employed by the businesses supported;
- introducing people to modern credit and banking practices;
- instilling respect for private business contracts;
- creating new businesses to service or purchase from businesses created by the foreign investments;
- helping related existing businesses expand and become more productive;
- generating exports and foreign exchange earnings;
- manufacturing products to substitute for imports, thus saving foreign exchange;
- producing products meeting the essential needs of people, e.g. processed food, housing materials, etc.;
- broadening of the country's entrepreneurial base;
- increasing government revenues through taxation of successful, profitable businesses.

These positive results almost invariably are far greater than the value of the inputs involved. FIAS activities, which in many cases will produce improvements leading directly to new and increased foreign investments in Africa, will help achieve many of the above positive results.

The ultimate test of the success of this project will be how much additional direct investment and subsequent economic growth results. This cannot be calculated in the short-term, nor even probably in the long-term, given the many other factors influencing investments, such as political climate, economic management, financial markets, etc. Nevertheless, it is reasonable to conclude that this project will produce sufficient improvements in the investment environment in participating African countries, leading to more direct foreign investments in those countries over a period of several years. By any estimation, the value of these investments will be far greater than the cost of the A.I.D. inputs and those from other donors.

It is therefore our conclusion that this project will yield very favorable economic results, both at the national level and to individuals employed or upgraded as a result of investments made. This favorable outcome will be sustained, even if the investments which take place are attributable in part to other factors than the catalytic role of FIAS.

## C. Administrative Analysis

FIAS has been a joint venture of IFC and MIGA since November 1988. In the normal course of business, IFC staff for many years had provided advice to developing countries regarding how to attract foreign direct investments. Requests for such advice increased to such an extent that IFC in 1986 created FIAS as a separate unit to concentrate on a response in this area. MIGA, upon formation as a member of the World Bank Group in 1988, was made a joint manager of FIAS because of the close ties between its field of work and that of FIAS.

FIAS now is jointly managed by IFC and MIGA. The director of FIAS reports to executives in both organizations. Both provide some staff members and budget to FIAS and assist it in seeking financing from donors. FIAS administers its day-to-day operations regarding technical assistance to its client countries, but utilizes IFC staff and mechanisms for important support services such as budget, office space, etc.

Joint management of this sort is invariably somewhat cumbersome and could introduce operational problems for all three concerned entities. Yet cooperation and coordination among them seems to be satisfactory, and FIAS's day-to-day work and field missions have proceeded smoothly and on schedule without apparent adverse effect from the joint management arrangement.

Under the FIAS Director, there are three Regional Directors concerned with Africa, Asia, and Latin America, respectively. Several assistants work with these regional directors. There is an administrative/clerical staff supporting the whole operation. In addition, FIAS makes extensive use of consultants to carry out its professional activities; it has built up a core group of reliable, experienced consultants in foreign investment matters, several of whom work almost full-time for FIAS.

FIAS in 1988 and earlier this year experienced a shortage of authorized clerical and support positions relative to professional direct hire and consultant staff. However, this problem was alleviated with the authorization by IFC and MIGA of several additional support staff positions.

The United States is, of course, a prime member and supporter of both IFC and MIGA, and over the years USG agencies involved have been satisfied with their overall operations and administration.

We conclude that FIAS satisfactorily administers its program and is capable of effectively and efficiently managing A.I.D. resources provided under this grant.

## D. Social Soundness Analysis

FIAS conducts programs in many developing countries throughout the world. The general socio-cultural context within which it operates in Africa is generally African, with a heavy Western input. In most of the continent there is now a renewed appreciation of free enterprise and the role of private business. Much of the anti-business and anti-foreign atmosphere of previous years has dissipated. Most governments now realize they need private sector investments, including foreign investments. FIAS activities are strictly demand-driven and must be requested by governments, not imposed from the outside by the IFC or donors. The general social context for FIAS operations in Africa is therefore considered favorable.

Furthermore, FIAS by the very nature of its activities can work effectively only with countries that are oriented to the private sector and favorably disposed to receiving foreign investment.

Beneficiaries of FIAS operations and its goal of increased direct foreign investment are several. First, the economy as a whole will grow, which helps almost everyone. Next, those groups that work with foreign investors, such as local joint venture partners and banks, will be helped. Also benefitting from the fruits of FIAS activities are the small local companies which almost invariably grow up around important foreign investments, to provide local inputs, services, marketing, etc. Finally, there are the employees of the companies created by the investments, including local managers, foremen, skilled technicians, clerical workers and laborers of all kinds. This benefit, the creation of jobs, is perhaps the most important result of foreign investments in social terms.

Many of the beneficiaries listed above will be women, and many will be among the poor, especially via the creation of jobs for the latter group.

Productive foreign investments typically lead to further investments, both domestic and foreign. Thus the long-term effects of this project, assuming the pursuit of government policies which promote market liberalization and improved business climates, should be not only positive but should grow in cumulative fashion. The impact should continue for the indefinite future, well beyond the life of the A.I.D. project.

Our conclusion is that there are no major socio-cultural impediments to implementation of this project. Many will benefit, including the poor, especially via the creation of jobs and through general economic growth.

## E. Environmental Analysis

Recommended Environmental Threshold Decision

A categorical exclusion, as per 22 CFR, Part 216, Paragraph (c)(2)(vi), is recommended (see Annex D).

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## V. IMPLEMENTATION PLAN

### A. Implementing Agency

The Foreign Investment Advisory Service (FIAS) will be the implementing agency for this project. FIAS is a joint facility of the International Finance Corporation (IFC) and the Multilateral Investment Guarantee Agency (MIGA), both of which operate under the auspices of the World Bank. Established initially in 1986 by the Board of the IFC, and later in 1988 jointly sponsored by the IFC and MIGA, FIAS helps governments review and adjust policies, regulations, and investment promotion strategies affecting foreign investment and advise on procedures for the promotion, appraisal, approval, and monitoring of direct foreign investment activities. The three main areas of FIAS assistance to a cooperating government are: (1) formulating a general framework of policies and institutions to promote and regulate direct foreign investment; (2) establishing policies to facilitate direct investment in specific priority industries; and (3) devising foreign investment promotion strategies.

FIAS now has a staff of five direct hire professionals and a large roster of consulting specialists to cover requests for assistance from developing countries around the world. Also, staff from the World Bank, IFC, and MIGA are regularly involved in FIAS' activities. These connections with experts from the World Bank group enhance the human resource capacity of FIAS in a significant way. For example, FIAS staff members interact on a daily basis with staff of the IFC and the World Bank, as well as with staff of the IMF, on virtually all aspects of their program activities. These working relationships are mutually supportive of the respective parties' areas of interest. In effect, the small core staff of FIAS is not indicative of its programmatic capacity inasmuch as it draws heavily on the whole World Bank group and the IMF for appropriate human resources to implement its organizational objectives, which are consonant with and a part of the World Bank group/IMF 's activities. FIAS staff perform a leadership role in coordinating and focusing on the foreign investment aspects of the structural changes being recommended in a given country's economic policy framework.

The increase in demand for FIAS' services has been steady and is expected to grow at a rate such that the organization will justify a direct hire staff of twelve professionals and six to seven support staff members by 1991, plus many consultants. Refer to Annex B, pages 3-5, for individual country actions as well as regional activities of FIAS in Africa. Informed observers are uniformly favorable in their opinion of the quality and professionalism of FIAS's services. The Manager of FIAS, Mr. Dale Weigel, reports to the Economic Advisor/Director of the Economics Department of IFC and to the Vice President for Technical and Advisory Services of MIGA.

Since this is a grant to a Public International Organization for support of a program in which the U.S. is not the dominant contributor, the procurement rules of IFC as grantee will apply.

B. A.I.D. Support Requirements

The proposed project will be managed by a senior officer of the Bureau for Africa's Office of Market Development and Investment (AFR/MDI) under the guidance of the Director of AFR/MDI. Approximately ten percent of the designated Project Manager's time will be required for preparation of implementing documentation, review of FIAS's performance and coordination with FIAS and AFR Missions. No more than five percent of the Director's time will be required for guidance and direction of the project, with a similar requirement for AFR/MDI secretarial and administrative support.

C. Monitoring and Evaluation

Monitoring of this project by AFR/MDI will be continuous. The MDI Project Manager will solicit feedback from FIAS on the results of specific Africa missions as they conclude, as well as the status of government action on recommendations made by completed FIAS missions.

With respect to formal evaluations, A.I.D. will require an evaluation to be undertaken by IFC/MIGA, which is a Condition Precedent to disbursement of the second tranche of this grant. Since A.I.D. is a relatively minor donor in the context of the overall FIAS program, and since this grant is not tied to specific FIAS country missions or other activities, it is not meaningful to evaluate the A.I.D.-funded element in isolation. An evaluation of the effectiveness of the FIAS program as a whole is more appropriately the role of IFC and MIGA.

Even though FIAS has been in existence since 1986, it has not yet been evaluated by IFC/MIGA, mainly because the bulk of its operational activities has taken place this year and in 1988. However, IFC/MIGA recognizes the need for a thorough evaluation and is planning to undertake such as assessment, which is, in fact also required under the terms of the grant to FIAS from UNDP, in time to satisfy the requirements with respect the release of the second tranche under this grant. This evaluation which may be global in coverage, will include not only a review the activities of the FIAS missions to African countries, but will also assess the results of these missions in terms of how host governments responded to recommendations and the degree of actual follow-up action regarding implementation. Illustrative benchmarks to help measure specific accomplishments include:

Numbers of investment policies and investment codes prepared, revised or streamlined;

Numbers of foreign investment promotion strategies prepared;

Measurable reduction in time and cost of administration required for approval of foreign investment actions;

Numbers and types of guarantees, incentives and privileges issued;

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Regulations completed for implementing investment codes;

Identification of regulatory, policy and institutional barriers to investment and solutions to overcome them;

Numbers of relevant government officials trained on investment-related matters.

In addition to the formal evaluation prior to the second tranche, IFC/MIGA will also be encouraged to undertake future impact evaluations, designed to measure the level of investments which have actually been achieved and the degree to which they can be attributed, at least in part, to improvements in the investment climate stemming from the work of FIAS.

Despite the central role of IFC and MIGA in evaluating FIAS, this is not to say that there is no place for an independent assessment of FIAS's operation in Africa by AFR/MDI, which has evaluated other grants to IFC. The question arises as to the most appropriate timing and coverage for such an evaluation. Since this is a three-year project with an evaluation by IFC to be undertaken at approximately the mid-point, the best timing for an independent assessment by AFR/MDI would be as a final evaluation during or after the third year, when sufficient time will have elapsed to judge how effective FIAS missions have been in specific African countries. AFR/MDI would undertake and fund such an evaluation from resources outside this project.

D. Conditions and Covenants

The substance of the following conditions precedent to disbursement will be included in the Grant Agreement between A.I.D. and IFC:

(1) Prior to the disbursement of funds under each annual tranche of this project, IFC shall, except as A.I.D. may otherwise agree in writing, furnish to A.I.D., in form and substance satisfactory to A.I.D., an annual workplan covering its proposed activities in Africa for the forthcoming year, including program objectives for the year in Africa, specific country activities to the extent known, and estimated budget for Africa (sources and uses).

(2) Prior to the disbursement of funds under the second annual tranche of this project, IFC shall, except as A.I.D. may otherwise agree in writing, furnish to A.I.D., in form and substance satisfactory to A.I.D., a formal evaluation of the performance of FIAS, including an assessment of the effectiveness of its country projects in Africa.

(3) Prior to the disbursement of funds under the second and third annual tranches of this project, IFC shall, except as A.I.D. may otherwise agree in writing, furnish to A.I.D., in form and substance satisfactory to A.I.D., an annual activities

report describing the work of FIAS missions in Africa during the previous year, indicating the degree of compliance with and significant changes from the annual workplan for that year. Reporting will also include information on the involvement of U.S. consultants and firms in African operations of FIAS.

The substance of the following covenants will be included in the Grant Agreement between A.I.D. and IFC:

(1) IFC covenants that the Trust Fund Account which will receive A.I.D. project funds shall be an interest-bearing account and that all interest earned on A.I.D. funds in this account shall be repaid to A.I.D.

(2) IFC covenants that the planned formal evaluation of FIAS shall cover its activities in Sub-Saharan Africa and that the scope of work for this evaluation shall be reviewed with A.I.D. in advance to ensure that A.I.D.'s interests are addressed.

## FIAS - LOG FRAME

| Narrative Summary | Objectively Verifiable Indicators | Means of Verification | Important Assumptions |
|---|---|---|---|
| <u>Goal</u><br>- To increase the participation of private foreign investment in the development process in Sub-Saharan Africa. | <u>Measure of Goal Achievement</u><br>- Increased private investment and business activity in Sub-Saharan Africa.<br>- Increased contribution to domestic economic activity by the private sector. | - Economic indicators.<br>- Project evaluations.<br>- Data on private investment in Africa, particularly for contracts assisted by FIAS. | <u>Assumptions for Achieving Goal</u><br>- Availability of investment capital.<br>- A private enterprise system exists. |
| <u>Project Purpose</u><br>- To improve the regulatory environment in selected African countries and to assist governments in planning and implementing programs to attract foreign investment. | <u>EOPS</u><br>- Enhanced capacity of FIAS to provide technical inputs to Sub-Saharan Africa.<br>- Improved climate for foreign and domestic private investment.<br>- Improved investment opportunities in Sub-Saharan countries for foreign investors. | - Project Evaluation.<br>- FIAS activity reports.<br>- Data on foreign investment in Africa, particularly for countries assisted by FIAS. | <u>Assumptions for Achieving Purpose</u><br>- Adequate political and social stability to allow foreign private investment.<br>- Institutions and personnel of cooperating countries are able to use technical assistance and information.<br>- Positive receptivity to technical assistance, information and education by assisted governments. |

## FIAS— Log Frame (continued)

| Narrative Summary | Objectively Verifiable Indicators | Means of Verification | Important Assumptions |
|---|---|---|---|
| <u>Outputs</u><br>1. Government capacity to analyze and assess their investment environment and to revise their regulatory standards based on market factors.<br>2. Improved policy framework through introduction or refinement of investment code.<br>3. Legal, financial, and administrative process of initiating foreign investments will become more efficient, faster, and less burdensome in assisted countries.<br>4. Increased understanding by recipient governments of the investment objectives and operational methods of U.S. and other foreign investing corporations.<br>5. Improved capacity by IFC/FIAS to provide practical and effective investment advisory services to African countries. | <u>Magnitude of Outputs</u><br>- Approximately 20 technical missions to countries in Sub-Saharan Africa.<br>- FIAS Africa staff increases to support expanded program.<br>- Time to conclude investment decisions cut by half in FIAS-assisted countries.<br>- Increase in positive foreign investment decisions in FIAS- assisted countries. | - FIAS data concerning investment missions and regional workshops.<br>- Data concerning foreign investment in FIAS assisted countries.<br>- Data concerning time taken to conclude investment decisions.<br>- Project evaluations | - Technical missions scheduled, completed with necessary follow-through.<br>- Satisfactory level of receptivity for private enterprise development at country-level.<br>- Governments will seriously endeavor to implement recommendations of FIAS missions. |

FIAS— Log Frame (continued)

| Narrative Summary | Objectively Verifiable Indicators | Means of Verification | Important Assumptions |
|---|---|---|---|
| Inputs and Types of Resources<br>- A.I.D. grant of $2.1 million to support FIAS technical missions in sub-Saharan countries.<br>- AFR/MDI coordination with USAID missions in support of FIAS activities in their countries. | Level of Effort/Implementation Target<br>- $700,000 per year for 3 years. | - AID disbursement accounts.<br>- FIAS records.<br>- Project evaluations. | Assumptions for Providing Inputs<br>- Continued receptivity of cooperating countries to increased levels of foreign and domestic private investment.<br>- On-going operations, of FIAS as broker of information/technical services for national and regional institutions.<br>- Timely delivery of donor support to FIAS. |

# FIAS Activity Report to the IFC Board of Directors, December 1988

1. Activities of the Foreign Investment Advisory Service (FIAS) have expanded rapidly since the last full report of the Board of Directors in early September 1987. This report covers FY88 and the first quarter of FY89. During this period, the number of advisory projects identified and completed has increased substantially, research has been carried out, and funds have been raised to help support FIAS activities. These activities are described in more detail below. A proposal for converting FIAS to a joint facility sponsored by IFC and MIGA was structured, and approved by the Boards of both institutions in late 1988, essentially after the period covered by this report.

## A. Advisory Projects

2. During the period under review, 11 advisory projects were completed in 10 countries and in the ASEAN regional grouping. Advisory projects are now underway in seven countries and new projects are being prepared in five others. The projects that are underway or planned in six countries follow up earlier FIAS work. By maintaining such a continuing involvement, FIAS staff are able to deepen their understanding of the particular problems and potentials of the individual countries, thereby making assistance more effective. Brief summaries of projects completed or now underway are given below.

Asia

3. When FIAS was first established, it concentrated its advisory assistance in Asia, with financial support from a UNDP regional program. During the period under review, FIAS worked in seven countries: Bangladesh, China, Indonesia, Malaysia, Papua New Guinea, the Philippines, and Thailand. In addition, assistance was given to the Association of South East Asian Nations (ASEAN).

4. Bangladesh: FIAS submitted a report in January 1988 to the Ministry of Industries that recommended changes in policies and the regulatory/industrial framework for foreign direct investment in Bangladesh. The report reviewed the Government's objectives and expectations regarding foreign investment, and evaluated policies in light of these objectives. It analyzed specific problems related to project promotion, financing, implementation, and monitoring, and recommended specific policy and institutional changes to be implemented. Subsequently a number of administrative changes have been made that are consistent with FIAS recommendations.

5. China: China was the first FIAS client in 1986. FIAS assistance has included a comprehensive review of China's investment policies, and assistance to the Legal Bureau of the State Council in the preparation of a new contractual joint venture law, which was promulgated in April 1988. FIAS also participated in an IBRD mission, and wrote part of the report, on "External Trade and Capital Reform" (6680-CHA, Oct. 20, 1987). Most of the recommendations on FDI in that report are being implemented. The fourth FIAS project, which began in FY88, focused on ways in which enterprises with foreign direct investment can obtain sufficient amounts of foreign exchange, and ways in which

they can borrow both the local currency and foreign exchange from, or have such loans guaranteed by, financial enterprises in China. The final report was sent to the Government in September 1988, and the recommendations were discussed in Beijing in October 1988.

6. Indonesia: FIAS completed a review of the regulatory framework for foreign direct investment in April of 1988. The review focused on the complexity of the regulatory system and a number of specific provisions that may have a negative effect on the types of foreign direct investment that Indonesia is seeking. The FIAS findings were discussed separately with the Government, but were also an input into a larger study of the regulatory environment by the Bank, which paid for part of the cost of FIAS work. It is expected that some of the recommendations will be part of a package of regulatory changes that are expected to be announced before the end of the year. At present, FIAS is reviewing potentials and impediments for foreign direct investment in export-oriented agriculture industries. A project to help structure an investment promotion program is also being prepared.

7. Malaysia: In July 1987, FIAS provided training for two senior officials of the Ministry of Industry on methods of evaluating the impact of foreign investment projects on the economy. Assistance in designing an investment monitoring system is being considered for CY89.

8. Papua New Guinea: FIAS is providing assistance in the revision of the foreign investment law, with the objective of simplifying and streamlining screening and approval procedures for foreign direct investment, and rationalizing the related institutional framework. The first phase of this work is scheduled for completion in December 1988.

9. The Philippines: During FY88 FIAS assisted the Department of Agriculture to identify policy changes that may stimulate private investments to reduce post-harvest losses of grain. As part of this work FIAS outlined the role that foreign direct investment may play in post-harvest services, and suggested policy changes needed to encourage such investment. FIAS has subsequently drafted terms of reference of a project to help the Government design a foreign investment promotion strategy, and a data base to measure foreign direct investment inflows. The work will be funded by Government funds and will be completed in 1989. FIAS also participated in November 1988 in a joint mission with the Bank to advise the Government on ways to improve the effectiveness of its debt-equity program.

10. Thailand: In FY88 FIAS reviewed the investment promotion law and its relationship to the objectives of the sixth National Economic and Social Plan. The report made a number of specific recommendations for the revision of investment incentives to better link incentives to objectives, and to provide greater transparency to investors. Some of these recommendations have already been put into effect. A follow-up request for assistance for support in strengthening the role of Board of Investment in promoting technology and regional development is now under review.

11. Asia Regional: As the request of the ASEAN's Committee for Industry, Minerals and Energy, FIAS outlined a strategy for harmonizing investment incentives and other investment policies among ASEAN

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member states. On the basis of this first report, additional work is underway to identify specific ways in which ASEAN members are competing among themselves for foreign investment.

Africa

12. In early 1988, the UNDP provided a $1.75 million regional program to help support FIAS work in Africa. The FIAS program involves assistance to individual African countries, work with regional groups, and analysis of common investment policy issues.

13. Ghana: Following earlier diagnostic work, FIAS is helping the Ghana Investments Centre to develop an investment promotion program. The program includes assistance from the Irish Development Authority funded by the Government of Ireland and two resident advisors.

14. Guinea: A FIAS mission visited Guinea in May 1988 to review the investment climate, investment incentives, and institutional issues of special concern in investment screening and promotion. The mission report, which includes a proposal for institution-building assistance in the area of foreign investment promotion, was transmitted in September and will be discussed with the Government in early 1989.

15. Kenya: In February 1988, FIAS reviewed the investment climate and several issues of special concern to the Investment Promotion Centre (IPC). A proposal was made for follow up work covering assistance in the preparation of an Investment Code; strengthening IPC's promotional capabilities, in particular the training of IPC staff; and reviewing existing technology transfer approval arrangements and international linkages to technology information sources.

16. Madagascar: FIAS is completing a review of the investment climate, focussing on export industry investment promotion, and the possibilities for using swap transactions to help finance investment in the proposed export processing zones. The latter work will be coordinated with that of the IFC Capital Markets Department, with a FIAS report expected by the end of 1988.

17. Senegal: In October 1988, FIAS began to investigate the feasibility of formulating a foreign investment promotion strategy for agricultural and agro-industrial development of the Senegal River Valley area. This activity would complement ongoing Government and Bank efforts to formulate a Master Plan for the area's development. FIAS will review the applicable investment regime and survey relevant foreign investor attitudes to identify the policy changes required to achieve the Government's objectives. This work could lead to an IFC-supported promotional program.

18. Togo: A FIAS mission went to Togo in late September 1988 to review the investment climate, and identify needed changes in the investment code. The findings of the mission were discussed with key Government officials in December 1988, and a drafting framework for a revised code was developed jointly.

Other Countries

19. Now that advisory programs in Asia and Africa are firmly in place, FIAS is beginning to develop programs in Latin America, and

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Europe and the Middle East. The two projects that have been completed are described below.

20. Haiti: At the request of the bank, FIAS conducted a desk review of a draft new Investment Code for Haiti. The review was completed in August 1988 with recommendations for simplifying and clarifying the code.

21. Yugoslavia: The Government is presently engaged in the preparation of major new legislation to govern joint ventures and other forms of foreign investment in Yugoslavia. During the past year FIAS responded to a request from the Government to provide assistance in reviewing the policy framework for foreign direct investment in the country, and in identifying obstacles to an increased flow of such investments. At a meeting in September 1988, FIAS agreed in principle to provide further assistance to: (a) review the concepts and terminology of the new law before it is promulgated; (b) help design a debt-equity swap program that would encourage foreign investment; and (c) help improve Yugoslavia's investment promotional effects. All three elements of the program will be completed in FY89.

**B. Regional Seminars and Workshops**

22. Africa Regional: FIAS is working with the Preferential Trade Area of Eastern and Southern African States (FTA), the Southern African Development Coordination Conference (SADCC), the Economic Community of West African States (ECOWAS), the West African Clearinghouse, the Economic Community of General African States (CEEAC) and the African Development Bank to design assistance for their member countries to promote worthwhile foreign private investment. In September 1988 FIAS gave a workshop in Washington for five of these regional agencies dealing with: (a) the regional harmonization of foreign investment policies; (b) encouraging direct investment by promoting intra-regional trade and investment in Africa; and (c) IFC's investment experience in Africa and innovations in IFC's approach (a topic of particular interest to the African Development Bank and the ECOWAS Fund). FIAS has also begun to prepare a regional roundtable in Africa scheduled for September 1989 on the subject of foreign investment promotion. All countries and regional organizations participating in the FIAS Africa program will be invited together with representatives of the private sector.

23. Asia Symposium: In collaboration with the Asian Development Bank (ADB), in early 1988 FIAS organized a major symposium in Manila on trends and prospects for foreign direct investment in Asia. The Symposium was attended by senior government officials and prominent businessmen from 13 developing countries. There also were representatives from industrial country firms and governments. The symposium was funded by the UNDP and the ADB, and proceedings of the meeting were recently published.

24. Asia Workshop in Investment Promotion: A workshop to discuss alternatives and issues of foreign investment promotion was held by FIAS in Bangkok in October 1988. The workshop, part of the Asia regional program funded by UNDP, was hosted by the Board of Investment of Thailand, and attended by senior officials of seven countries in the region.

**C. Research**

25. During the period under review, FIAS initiated and completed two applied research projects to supply analysis and information essential to its advisory work. The two projects dealt with: (a) techniques for promoting foreign direct investment; and (b) the impact of debt equity swaps programs on foreign investment. Both research projects were funded in part by the World Bank Research Committee.

26. Promotion: FIAS has been asked by a large number of developing countries to help them structure effective investment promotion programs. It is the perception of FIAS staff that a lot of money and effort is wasted on promotion programs, yet not much is known about what approaches to investment promotion have been effective (if any). Therefore, FIAS commissioned Prof. Louis T. Wells of the Harvard Business School to review the promotion techniques that have been used, and identify those approaches that have been most effective. The completed research is a useful start in understanding this difficult subject. The research report was used as the basis for discussions at the Asia regional workshop on investment promotion described above. It will be used in other countries as well.

27. Debt-Equity Swaps: FIAS completed research on the effects of debt-equity swaps on foreign direct investment in September 1988. The research was done wholly by FIAS staff, and investigated swap programs in Argentina, Brazil, Chile and Mexico. The research effort explored how much additional FDI was induced by swaps, to what uses the funds were put, and how governments could better design swap programs to get more of what they want from FDI.

28. The paper has been circulated and discussed with officials of the four countries. FIAS has begun advisory work based on this research in two other countries (Peru and the Philippines), and is planning work in Yugoslavia for February 1989. There have also been preliminary discussions about work in several other countries including Ecuador and Egypt.

29. Ownership and control. FIAS has found that various restrictions on ownership and control that can be exercised by foreign investors remain a significant impediment to foreign investment in a substantial number of developing countries. Consequently, FIAS has initiated research to identify more precisely the measures that have been used to limit investors' control, the objectives host countries hope to achieve with these measures, and the effects they have on the amount and character of foreign investment. The ultimate aim of the research is to identify ways in which developing countries may achieve their basic objectives, while reducing undesirable negative side effects.

ANNEX C - BROCHURE


FIAS

# Foreign Investment Advisory Service

International
Finance Corporation
an affiliate of the
World Bank

IFC

FIAS

# IFC's Foreign Investment Advisory Service

## A Resource for Governments

Many developing country governments are interested in attracting direct foreign investment. These governments understand that maintaining a favorable climate is a prerequisite for encouraging investment of this type. At the same time, they wish to ensure that foreign investment conforms to national development priorities and objectives. They want more foreign investment, but they also want to manage the process effectively and fairly.

In some of these countries, the investment climate already is conducive to attracting direct foreign investment. In others, policies and regulations originally conceived in pursuit of different objectives may actually work against attracting the foreign investment these governments are now seeking. In these cases, there may well be a need for advice on adjusting policies, regulations and institutional arrangements in order to attract more foreign investment in priority sectors, without jeopardizing vital national interests.

IFC established the Foreign Investment Advisory Service (FIAS) to provide this kind of counsel. It is a service that provides practical advice based on three decades of experience in facilitating the successful introduction of direct foreign investment into developing countries. Indeed, it has always been IFC's objective to work towards investments that are both profitable and contribute to the essential interests of host countries.



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## The Role of FIAS

FIAS will help member governments to review and adjust policies, regulations and investment promotion strategies that affect foreign investment. It will advise on procedures for the promotion, appraisal, approval and monitoring of direct foreign investment activities. Ultimately, the purpose of FIAS is to assist requesting governments to attract additional foreign private capital, technology and management into key sectors of a nation's economy.

## How FIAS Works

The scope, timing and duration of an assignment will be determined in consultation with the requesting government, after which a team of IFC investment policy analysts with appropriate experience and skills will begin to work on the project. The team also will draw on the services of other IFC staff, whose interdisciplinary skills (economic, legal, financial and technical) will be valuable resources in the design and implementation of policy recommendations. When appropriate, outside consultants with specialized skills also may be used. It is the firm policy of FIAS to bring together the best available team to ensure the success of the project.

A multilateral trust fund has been created to help support FIAS work. The trust fund will cover a substantial portion of the cost of individual advisory projects. The remainder will be provided by the requesting government, either from its own resources or from third-party donors.

Generally, FIAS can provide assistance to member governments in four main areas:

- formulating a general framework of policies and institutions to promote and regulate direct foreign investment.
- establishing the policies that will facilitate direct investment in specific, priority industries.
- devising foreign investment promotion strategies.
- developing policies to govern technology transfer.

## The Goal of FIAS

FIAS is designed to help a country benefit fully from foreign investment, technology and knowhow. Countries typically would like: *a greater volume* of foreign investment in priority activities; *the best possible terms* of foreign participation; and *more seriously committed* foreign partners. After 30 years as an investor and adviser in the private sectors of developing countries, IFC has a strong sense of what constitutes a good deal, how a country can get it, and how to make it fair for all concerned.

FIAS uses this expertise to help governments perfect their role by specifically helping them to:

PLAN: review other countries' experiences and relevant global situations; formulate targeted foreign investment strategies, including supportive policies and incentives;

REGULATE: define the rules of the game clearly and realistically;

PROMOTE: find cost-effective ways to interest competing foreign firms in investment possibilities;

EVALUATE: know what to look for, and how to evaluate offers;

SERVICE: support investors in getting the job done and in obtaining their proper rewards;

BENEFIT: deepen national gains through encouraging stronger project linkages to the domestic economy and to domestic institutions;

MONITOR: provide feedback on how the process has worked and how it can be improved.

## A Practical Approach

FIAS provides practical advice and concrete proposals that can be implemented quickly. What's more, the service helps a member country to implement these recommendations. For example:

- FIAS can help structure cost-effective incentives for foreign investors and design a workable institutional framework for promoting, screening, monitoring and assisting foreign investment projects.

- FIAS can help develop and implement a promotion strategy for a priority sector (e.g., petrochemicals, shrimp farming, forest products, or commodity terminals and ports). Once the underlying basis for an industry's international comparative advantage has been confirmed, an appropriate promotion strategy can be determined, inclusive of the requisite changes in policies, incentives, regulations and institutional arrangements. IFC can then help to identify acceptable foreign investors and to finance specific projects.



## FIAS at Work: Some Recent Examples

1. THE PEOPLE'S REPUBLIC OF CHINA requested assistance in reviewing the policy and regulatory framework that affects foreign direct investment, with a view to identifying specific changes which would accelerate foreign investment in priority areas of the economy. The work started with identification of the main policy issues as perceived both by the country and by potential or actual foreign investors.

In the light of IFC and foreign investor experience, FIAS then reviewed the lessons learned from the experiences of other developing countries that seemed most relevant to China's situation. Topics included technology transfer, foreign exchange regulation, investment financing, investment incentives, foreign investment promotion and project evaluation. Results of this first phase were presented at a seminar given in China for central and provincial government officials.

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The second phase of FIAS work helped China to improve its own foreign investment regime. It began with a review, together with the World Bank, of China's foreign trade and investment policies. This was followed by assistance in the preparation of China's new law governing contractual joint ventures. Working to help overcome restrictions on foreign exchange allocation is the principal current focus of the continuing relationship with China.

2. GHANA requested assistance to implement its new investment code. In the first phase, FIAS drafted legal guidelines to clarify and simplify application of the code. To this end, it suggested ways to streamline and re-orient procedures, organizational arrangements and work programs for the Investment Centre responsible for code implementation. FIAS also identified problems in the investment environment that could prevent the Investment Centre from being effective in achieving the code's objectives; in key areas, solutions were suggested which reflected the comparative experience of other developing countries. Results of this phase were discussed at a workshop held in Ghana that was widely attended by Government officials, as well as by the private sector.

A second phase involves a series of tasks to help the Investment Centre carry out its work. The focus is on completing necessary environmental reforms, launching an investment promotion program and training Investment Centre staff, especially those engaged in promotional activities and in screening technology transfer agreements.

3. Other assignments in progress include:

THAILAND, where FIAS is helping the Government to review investment incentives, regulations and procedures governing project screening and promotion, as well as the role of the Board of Investments, which is responsible for these functions.

PHILIPPINES, where FIAS is examining post-harvest services for cereal crops, with a view to identifying priority investment opportunities and policies required to induce appropriate local and foreign private initiatives.

BANGLADESH, where FIAS is reviewing the policy, regulatory and institutional framework for attracting foreign direct investment.

YUGOSLAVIA, where FIAS is evaluating relevant lessons from other developing countries' experiences, in the context of Yugoslavia's renewed efforts to attract foreign investment. FIAS is focusing on investment laws and regulations, joint venture ownership and management control, technology transfer and investment promotion.

ASEAN (the Association of Southeast Asian Nations), where FIAS is helping to formulate a proposal for harmonizing investment incentives among member states.



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## International Finance Corporation

The International Finance Corporation brings a number of strengths to this advisory work. IFC, an affiliate of the World Bank, was established in 1956 to promote the economic development of its member countries through private sector investment. It is the world's largest multilateral organization providing financial assistance in the form of loan and equity to the private sector in developing countries.

Since beginning operations, IFC has been associated with more than 2,000 companies and financial institutions in supporting over 1,000 business ventures in more than 90 countries. The total capital cost of these projects has amounted to over $35 billion. More than one-fourth of IFC's projects have involved joint ventures between local investors and foreign companies that contribute capital, technology and/or management to the enterprises.



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As a result of this track record, IFC is recognized around the world as a catalyst for private sector development in the Third World. It is regarded as an "honest broker" able to mediate objectively between foreign and local investor interests. These institutional qualities make IFC uniquely qualified to assist governments in attracting foreign investment capital. Governments and investors alike can be confident that FIAS, based on its past record, will pay particularly close attention to helping member governments attract foreign investment that will be in the interests of both the domestic economy and foreign investors.

## IFC Staff Resources

IFC has a staff of more than 300 professionals with "hands-on" experience in working with local and foreign investors in the structuring of private enterprises in developing countries. These include financial officers with project appraisal skills, attorneys who structure joint venture agreements between local and foreign investors, economists who can assess a country's international comparative advantage in a particular sector, and engineers who specialize in the technical appraisal of projects, as well as sectoral capabilities and needs. No other institution in the world can deploy personnel with this depth of experience in private sector investment in developing countries.

It is on the basis of these resources that IFC is now offering foreign investment advisory services on a systematic basis to all of its member countries.

CONTACT:

Mr. Dale R. Weigel, Deputy Director
Development Department
International Finance Corporation
1818 H Street, N.W.
Washington, D.C. 20433
Telephone: 202-676-0411



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ANNEX D



# Initial Environmental Examination or Categorical Exclusion

**Project Country**: African Regional

**Project Title**: Foreign Investment Advisory Service (698-0528)

**Funding**: Fiscal Years 1989-1991, $2.1 million (LOP)

**IEE Prepared by**: Robert O. Otto

**Environmental Action Recommended**:

Positive Determination __________
Negative Determination

**Categorical Exclusion**:

This activity meets the criteria for Categorical Exclusion.

The Project will provide funds to the Foreign Investment Advisory Service (FIAS), a program of the International Finance Corporation (IFC), to finance technical assistance, information dissemination and research on topics and mechanisms related to increasing foreign and domestic investment in productive enterprises in Sub-Saharan Africa.

With AID funding, FIAS will provide technical expertise and training to national governments and regional institutions. FIAS will be engaged primarily in responding to governmental requests for investment climate surveys and the review of policies and regulations governing direct foreign and domestic investment.

Under the provisions of 22 CFR, Part 216,2 paragraph (c)(2)(vi), this activity meets the criteria for Categorical Exclusion.

**Concurrence**:
Bureau Environmental Officer
Bessie L. Boyd
AFR/TR/ANR

**Clearance**:

APPROVED x B. Boyd
DISAPPROVED
DATE SEP 11 1989

GC/AFR JK
Date 9/11/89

BEST AVAILABLE COPY

**International Finance Corporation**
**Multilateral Investment Guarantee Agency**
1818 H Street, N.W.
Washington, D.C. 20433
U.S.A.
(202) 477-1234
Cable Address: CORINTFIN

August 23, 1989

Mr. Warren Weinstein
Room 2485
State Department Building
Agency for International
Development
Washington, D.C. 20523

Dear Warren:

You will recall that staff of the Foreign Investment Advisory Service (FIAS) have had numerous conversations with you and your staff regarding FIAS operations in Africa, and a possible contribution by AID to permit FIAS to increase these operations. FIAS is now requesting that AID provide us with a total of US$2.1 million over three years to support and increase our operations in Africa.

We thank you for your support in this matter and look forward to our future cooperation.

Sincerely yours,

Dale R. Weigel

Dale R. Weigel
Manager
Foreign Investment Advisory Service
IFC/MIGA

## 5C(2) - PROJECT CHECKLIST

Listed below are statutory criteria applicable to projects. This section is divided into two parts. Part A includes criteria applicable to all projects. Part B applies to projects funded from specific sources only: B(1) applies to all projects funded with Development Assistance; B(2) applies to projects funded with Development Assistance loans; and B(3) applies to projects funded from ESF.

### A. GENERAL CRITERIA FOR PROJECT

1. <u>FY 1989 Appropriations Act Sec. 523; FAA Sec. 634A</u>. If money is sought to obligated for an activity not previously justified to Congress, or for an amount in excess of amount previously justified to Congress, has Congress been properly notified?

   YES

2. <u>FAA Sec. 611(a)(1)</u>. Prior to an obligation in excess of $500,000, will there be (a) engineering, financial or other plans necessary to carry out the assistance, and (b) a reasonably firm estimate of the cost to the U.S. of the assistance?

   YES

3. <u>FAA Sec. 611(a)(2)</u>. If legislative action is required within recipient country, what is the basis for a reasonable expectation that such action will be completed in time to permit orderly accomplishment of the purpose of the assistance?

   N/A

| | |
|---|---|
| 4. FAA Sec. 611(b); FY 1989 Appropriations Act Sec. 501. If project is for water or water-related land resource construction, have benefits and costs been computed to the extent practicable in accordance with the principles, standards, and procedures established pursuant to the Water Resources Planning Act (42 U.S.C. 1962, *et seq*.)? (See A.I.D. Handbook 3 for guidelines.) | N/A |
| 5. FAA Sec. 611(e). If project is capital assistance (*e.g.*, construction), and total U.S. assistance for it will exceed $1 million, has Mission Director certified and Regional Assistant Administrator taken into consideration the country's capability to maintain and utilize the project effectively? | N/A |
| 6. FAA Sec. 209. Is project susceptible to execution as part of regional or multilateral project? If so, why is project not so executed? Information and conclusion whether assistance will encourage regional development programs. | This is both a regional and a multilateral project. |
| 7. FAA Sec. 601(a). Information and conclusions on whether projects will encourage efforts of the country to: (a) increase the flow of international trade; (b) foster private initiative and competition; (c) encourage development and use of cooperatives, credit unions, and savings and loan associations; (d) discourage monopolistic practices; (e) improve technical efficiency of industry, agriculture and commerce; and (f) strengthen free labor unions. | This project will hel attract foreign inves ment into African countries. It will result in increased trade, foster private business, encourage t development of local institutions, and improve efficiency. |
| 8. FAA Sec. 601(b). Information and conclusions on how project will encourage U.S. private trade and investment abroad and encourage private U.S. participation in foreign assistance programs (including use of private trade channels and the services of U.S. private enterprise). | U.S. private trade an investment in Africa will be encouraged by this project. |

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9. FAA Secs. 612(b), 636(h). Describe steps taken to assure that, to the maximum extent possible, the country is contributing local currencies to meet the cost of contractual and other services, and foreign currencies owned by the U.S. are utilized in lieu of dollars.

Countries assisted b FIAS are required to meet many of the loc costs of FIAS expert

10. FAA Sec. 612(d). Does the U.S. own excess foreign currency of the country and, if so, what arrangements have been made for its release?

N/A

11. FY 1989 Appropriations Act Sec. 521. If assistance is for the production of any commodity for export, is the commodity likely to be in surplus on world markets at the time the resulting productive capacity becomes operative, and is such assistance likely to cause substantial injury to U.S. producers of the same, similar or competing commodity?

N/A

12. FY 1989 Appropriations Act Sec. 549. Will the assistance (except for programs in Caribbean Basin Initiative countries under U.S. Tariff Schedule "Section 807," which allows reduced tariffs on articles assembled abroad from U.S.-made components) be used directly to procure feasibility studies, prefeasibility studies, or project profiles of potential investment in, or to assist the establishment of facilities specifically designed for, the manufacture for export to the United States or to third country markets in direct competition with U.S. exports, of textiles, apparel, footwear, handbags, flat goods (such as wallets or coin purses worn on the person), work gloves or leather wearing apparel?

NO

13. FAA Sec. 119(g)(4)-(6) & (10). Will the assistance (a) support training and education efforts which improve the capacity of recipient countries to prevent loss of biological diversity; (b) be provided under a long-term agreement in which the recipient country agrees to protect ecosystems or other

NO

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wildlife habitats; (c) support efforts to identify and survey ecosystems in recipient countries worthy of protection; or (d) by any direct or indirect means significantly degrade national parks or similar protected areas or introduce exotic plants or animals into such areas?

14. FAA Sec. 121(d). If a Sahel project, has a determination been made that the host government has an adequate system for accounting for and controlling receipt and expenditure of project funds (either dollars or local currency generated therefrom)? N/A

15. FY 1989 Appropriations Act. If assistance is to be made to a United States PVO (other than a cooperative development organization), does it obtain at least 20 percent of its total annual funding for international activities from sources other than the United States Government? N/A

16. FY 1989 Appropriations Act Sec. 538. If assistance is being made available to a PVO, has that organization provided upon timely request any document, file, or record necessary to the auditing requirements of A.I.D., and is the PVO registered with A.I.D.? N/A

17. FY 1989 Appropriations Act Sec. 514. If funds are being obligated under an appropriation account to which they were not appropriated, has prior approval of the Appropriations Committees of Congress been obtained? N/A

18. State Authorization Sec. 139 (as interpreted by conference report). Has confirmation of the date of signing of the project agreement, including the amount involved, been cabled to State L/T and A.I.D. LEG within 60 days of the agreement's entry into force with respect to the United States, and has the full text of the agreement been pouched to those same offices? (See Handbook 3, Appendix 6G for agreements covered by this provision). N/A

B. FUNDING CRITERIA FOR PROJECT

1. Development Assistance Project Criteria

a. FY 1989 Appropriations Act Sec. 548 (as interpreted by conference report for original enactment). If assistance is for agricultural development activities (specifically, any testing or breeding feasibility study, variety improvement or introduction, consultancy, publication, conference, or training), are such activities (a) specifically and principally designed to increase agricultural exports by the host country to a country other than the United States, where the export would lead to direct competition in that third country with exports of a similar commodity grown or produced in the United States, and can the activities reasonably be expected to cause substantial injury to U.S. exporters of a similar agricultural commodity; or (b) in support of research that is intended primarily to benefit U.S. producers?

N/A

b. FAA Secs. 102(b), 111, 113, 281(a). Describe extent to which activity will (a) effectively involve the poor in development by extending access to economy at local level, increasing labor-intensive production and the use of appropriate technology, dispersing investment from cities to small towns and rural areas, and insuring wide participation of the poor in the benefits of development on a sustained basis, using appropriate U.S. institutions; (b) help develop cooperatives, especially by technical assistance, to assist rural and urban poor to help themselves toward a better life, and otherwise encourage democratic private and local governmental

Foreign investments will create jobs and promote general economic growth, thu assisting the poor a women. The project also will promote regional institutions; (c) support the self-help efforts of developing countries; (d) promote the participation of women in the national economies of developing countries and the improvement of women's status; and (e) utilize and encourage regional cooperation by developing countries.

c. FAA Secs. 103, 103A, 104, 105, 106, 120-21; FY 1989 Appropriations Act (Development Fund for Africa). Does the project fit the criteria for the source of funds (functional account) being used? — YES

d. FAA Sec. 107. Is emphasis placed on use of appropriate technology (relatively smaller, cost-saving, labor-using technologies that are generally most appropriate for the small farms, small businesses, and small incomes of the poor)? — N/A

e. FAA Secs. 110, 124(d). Will the recipient country provide at least 25 percent of the costs of the program, project, or activity with respect to which the assistance is to be furnished (or is the latter cost-sharing requirement being waived for a "relatively least developed" country)? — N/A

f. FAA Sec. 128(b). If the activity attempts to increase the institutional capabilities of private organizations or the government of the country, or if it attempts to stimulate scientific and technological research, has it been designed and will it be monitored to ensure that the ultimate beneficiaries are the poor majority? — YES

| | |
|---|---|
| g. FAA Sec. 281(b). Describe extent to which program recognizes the particular needs, desires, and capacities of the people of the country; utilizes the country's intellectual resources to encourage institutional development; and supports civil education and training in skills required for effective participation in governmental processes essential to self-government. | Foreign investments will help promote economic growth, institutional develo ment, and train workers and managers |
| h. FY 1989 Appropriations Act Sec. 536. Are any of the funds to be used for the performance of abortions as a method of family planning or to motivate or coerce any person to practice abortions? | NO |
| Are any of the funds to be used to pay for the performance of involuntary sterilization as a method of family planning or to coerce or provide any financial incentive to any person to undergo sterilizations? | NO |
| Are any of the funds to be used to pay for any biomedical research which relates, in whole or in part, to methods of, or the performance of, abortions or involuntary sterilization as a means of family planning? | NO |
| i. FY 1989 Appropriations Act. Is the assistance being made available to any organization or program which has been determined to support or participate in the management of a program of coercive abortion or involuntary sterilization? | NO |
| If assistance is from the population functional account, are any of the funds to be made available to voluntary family planning projects which do not offer, either directly or through referral to or information about access to, a broad range of family planning methods and services? | NO |

j. FAA Sec. 601(e). Will the project utilize competitive selection procedures for the awarding of contracts, except where applicable procurement rules allow otherwise? — YES

k. FY 1989 Appropriations Act. What portion of the funds will be available only for activities of economically and socially disadvantaged enterprises, historically black colleges and universities, colleges and universities having a student body in which more than 40 percent of the students are Hispanic Americans, and private and voluntary organizations which are controlled by individuals who are black Americans, Hispanic Americans, or Native Americans, or who are economically or socially disadvantaged (including women)? — N/A

l. FAA Sec. 118(c). Does the assistance comply with the environmental procedures set forth in A.I.D. Regulation 16? Does the assistance place a high priority on conservation and sustainable management of tropical forests? Specifically, does the assistance, to the fullest extent feasible: (a) stress the importance of conserving and sustainably managing forest resources; (b) support activities which offer employment and income alternatives to those who otherwise would cause destruction and loss of forests, and help countries identify and implement alternatives to colonizing forested areas; (c) support training programs, educational efforts, and the establishment or strengthening of institutions to improve forest management; (d) help end destructive slash-and-burn agriculture by supporting stable and productive farming practices; (e) help conserve forests which have not yet been degraded by helping to increase — N/A production on lands already cleared or degraded; (f) conserve forested watersheds and rehabilitate those which have been deforested; (g) support training, research, and other actions which lead to sustainable and more environmentally sound practices for timber harvesting, removal, and processing; (h) support research to expand knowledge of tropical forests and identify alternatives which will prevent forest destruction, loss, or degradation; (i) conserve biological diversity in forest areas by supporting efforts to identify, establish, and maintain a representative network of protected tropical forest ecosystems on a worldwide basis, by making the establishment of protected areas a condition of support for activities involving forest clearance or degradation, and by helping to identify tropical forest ecosystems and species in need of protection and establish and maintain appropriate protected areas; (j) seek to increase the awareness of U.S. government agencies and other donors of the immediate and long-term value of tropical forests; and (k)/utilize the resources and abilities of all relevant U.S. government agencies?

m. <u>FAA Sec. 118(c)(13)</u>. If the assistance will support a program or project significantly affecting tropical forests (including projects involving the planting of exotic plant species), will the program or project (a) be based upon careful analysis of the alternatives available to achieve the best sustainable use of the land, and (b)/take full account of the environmental impacts of the proposed activities on biological diversity? — N/A

n. FAA Sec. 118(c)(14). Will assistance be used for (a) the procurement or use of logging equipment, unless an environmental assessment indicates that all timber harvesting operations involved will be conducted in an environmentally sound manner and that the proposed activity will produce positive economic benefits and sustainable forest management systems; or (b) actions which will significantly degrade national parks or similar protected areas which contain tropical forests, or introduce exotic plants or animals into such areas?

N/A

o. FAA Sec. 118(c)(15). Will assistance be used for (a) activities which would result in the conversion of forest lands to the rearing of livestock; (b) the construction, upgrading, or maintenance of roads (including temporary haul roads for logging or other extractive industries) which pass through relatively undegraded forest lands; (c) the colonization of forest lands; or (d) the construction of dams or other water control structures which flood relatively undegraded forest lands, unless with respect to each such activity an environmental assessment indicates that the activity will contribute significantly and directly to improving the livelihood of the rural poor and will be conducted in an environmentally sound manner which supports sustainable development?

N/A

p. FY 1989 Appropriations Act. If assistance will come from the Sub-Saharan Africa DA account, is it (a) to be used to help the poor majority in Sub-Saharan Africa through a process of long-term development and economic growth that is equitable, participatory, environmentally sustainable, and self-reliant; (b) being provided in accordance with the policies contained in section 102 of the FAA;

YES

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(c) being provided, when conistent with the objectives of such assistance, through African, United States and other PVOs that have demonstrated effectiveness in the promotion of local grassroots activities on behalf of long-term development in Sub-Saharan Africa; (d) being used to help overcome shorter-term constraints to long-term development, to promote reform of sectoral economic policies, to support the critical sector priorities of agricultural production and natural resources, health, voluntary family planning services, education, and income generating opportunities, to bring about appropriate sectoral restructuring of the Sub-Saharan African economies, to support reform in public administration and finances and to establish a favorable environment for individual enterprise and self-sustaining development, and to take into account, in assisted policy reforms, the need to protect vulnerable groups; (e) being used to increase agricultural production in ways that protect and restore the natural resource base, especially food production, to maintain and improve basic transportation and communication networks, to maintain and restore the renewable natural resource base in ways that increase agricultural production, to improve health conditions with special emphasis on meeting the health needs of mothers and children, including the establishment of self-sustaining primary health care systems that give priority to preventive care, to provide increased access to voluntary family planning services, to improve basic literacy and mathematics especially to those outside the formal educational system and to improve primary education, and to develop income-generating opportunities for the unemployed and underemployed in urban and rural areas?

q. FY 1989 Appropriations Act Sec. 515. If deob/reob authority is sought to be exercised in the provision of DA assistance, are the funds being obligated for the same general purpose, and for countries within the same general region as originally obligated, and have the Appropriations Committees of both Houses of Congress been properly notified? — N/A

2. Development Assistance Project Criteria (Loans Only)

a. FAA Sec. 122(b). Information and conclusion on capacity of the country to repay the loan at a reasonable rate of interest. — N/A

b. FAA Sec. 620(d). If assistance is for any productive enterprise which will compete with U.S. enterprises, is there an agreement by the recipient country to prevent export to the U.S. of more than 20 percent of the enterprise's annual production during the life of the loan, or has the requirement to enter into such an agreement been waived by the President because of a national security interest? — N/A

c. FAA Sec. 122(b). Does the activity give reasonable promise of assisting long-range plans and programs designed to develop economic resources and increase productive capacities? — N/A

# ILLUSTRATIVE COUNTRY PROJECT BUDGET



## CAMEROON INVESTMENT CODE

### Budget

Phase I: Reconaissance Mission (2 weeks)

Purpose: To deliver detailed comments to Cameroon officials on present draft of investment code and to establish interest for a subsequent workshop.

Cost for Consultants

| | | |
|---|---|---|
| Mr. Leslie Delatour | | |
| Airfare - | 4,300.00 | |
| Hotel - | 1,500.00 | |
| Expenses - | 1,000.00 | |
| Fees - | 2,400.00 | |
| | 9,200.00 | |
| Consultants Total | | 9,200.00 |

Cost to FIAS

| | | |
|---|---|---|
| Mr. Martin Hartigan | | |
| Staff Time | 2,000.00 | |
| Mr. Wayne Edisis | | |
| Staff Time | 4,000.00 | |
| FIAS Total | | 6,000.00 |
| Phase I Total | | 15,200.00 |

Phase II: Workshop Preparation (2 weeks)

Purpose: To produce a model text of the code that will serve as a basis for workshop discussions.

Cost for Consultants

| | | |
|---|---|---|
| Mr. Leslie Delatour | | |
| Expenses - | 1,000.00 | |
| Fees - | 2,400.00 | |
| | 3,400.00 | |
| Mr. Jean-Jacques Lecat | | |
| Fees - | 2,000.00 | |
| Mr. Rafael Benvenisti | | |
| Fees - | 1,000.00 | |
| Consultants Total | | 6,400.00 |

Cost to FIAS

| | | |
|---|---|---|
| Mr. Joel Bergsman<br>Staff Time | 3,000.00 | |
| Mr. Wayne Edisis<br>Staff Time | 3,000.00 | |
| FIAS Total | | 6,000.00 |
| <u>Phase II Total</u> | | <u>12,400.00</u> |

Phase III: Paris Workshop (8 days)

Purpose: To produce a complete draft of a new investment code.

Cost per Cameroonian Participant

| | | |
|---|---|---|
| Airfare | - | 2,500.00 |
| Hotel | - | 1,200.00 |
| Expenses | - | 650.00 |
| | | 4,350.00 |

Total Assuming 4 Participants 17,400.00

Cost for Consultants

| | | | |
|---|---|---|---|
| Mr. Leslie Delatour | | | |
| Airfare | - | 2,500.00 | |
| Hotel | - | 1,200.00 | |
| Expenses | - | 650.00 | |
| Fees | - | 2,500.00 | |
| | | 6,850.00 | |
| Mr. Jean-Jacques Lecat | | | |
| Fees | - | 6,000.00 | |
| Mr. Rafael Benvenisti | | | |
| Airfare | - | 1,500.00 | |
| Hotel | - | 1,200.00 | |
| Expenses | - | 650.00 | |
| Fees | - | 5,500.00 | |
| | | 8,850.00 | |
| Consultants Total | | | 21,700.00 |

Cost of Support Services

| | | |
|---|---|---|
| Simultaneous Interpretation | 6,000.00 | |
| Refreshments | 200.00 | |
| | 6,200.00 | |
| Total Services | | 6,200.00 |

**Cost to FIAS**

| | | |
|---|---|---|
| **Mr. Joel Bergsman** | | |
| **Airfare** | - | **2,500.00** |
| **Hotel** | - | **1,200.00** |
| **Expenses** | - | **650.00** |
| **Staff Time** | - | **8,000.00** |
| | | **12,350.00** |
| **Mr. Wayne Edisis** | | |
| **Airfare** | - | **2,500.00** |
| **Hotel** | - | **1,200:00** |
| **Expenses** | - | **650.00** |
| **Staff Time** | - | **8,000.00** |
| | | **12,350.00** |

| | |
|---|---|
| FIAS Total | 24,700.00 |
| Phase III Total | 70,000.00 |
| Grand Total Phases I, II and III | 97,600.00 |
| UNDP Contribution for Phase I | 12,800.00 |
| Contribution from FIAS Trust Fund for FIAS Staff Time | 24,400.00 |
| Remaining Amount Needed from External Funding | 60,400.00 |

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