



**USAID**  
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# **Best Practice & Compliance for Investment Promotion**

# Investment Promotion

- ❖ **Objective: stimulate private (sometimes public) sector investment in a sector industry/industry/ service—without USAID itself directly funding these investments**
- ❖ **Increasingly common & important element of USAID programming in multiple sectors**
  - *Leverage scarce USAID resources*
  - *Sustained economic development not possible without self-sustaining “investment culture”*

# Investment Promotion: Many flavors

- ❖ Enhancing availability of credit via DCAs or other mechanisms
- ❖ “Matchmaking” TA in which vetted prospective investors are paired with vetted prospective investments/investees
- ❖ TA to help enterprises, early-stage or otherwise, develop business cases and loan applications
- ❖ Capitalization of revolving loan funds to support early stage businesses
- ❖ Support to policy development/reform to reduce transaction costs, uncertainty and risk of investments in given sector(s)
- ❖ Etc.

# Key issue:

- ❖ Justification for IP is that current levels of investment are inadequate to meet human or economic needs,
- ❖ Generally, USAID strives to measure IP success by the overall, attributable increase in targeted types of investments.
- ❖ By that same logic, **successful IP brings a set of indirect and cumulative environmental and social impacts for which USAID has some responsibility.**
- ❖ Most often, USAID has only very limited (or no) control over the actions of individual investors on the ground.

# Desired: good environmental and social practice in investments

Int'l good practice is evolving,  
but key standards/expectations in place; e.g.:

*large-scale focus*



(for  
Fis)

Risk management framework for determining, assessing and managing environmental and social risk in projects and is primarily intended to provide a minimum standard for due diligence to support responsible risk decision-making.

Members: 80 FIs in 35 countries covering 70% of int'l project finance debt in emerging markets



## Performance Standards

(IFC = private sector arm of WBG)  
define IFC clients' responsibilities for managing their environmental and social risks.

Inter alia: requirements for strong ESIA, compliance, resource/energy efficiency, social performance,

Adopted by MCC, Equator Principles reference to them

# Understanding IFC's Environmental and Social Due Diligence Process



## Review and Agree on Next Steps

The client receives copies of:

- IFC's Performance Standards,
- Relevant World Bank Group Environmental, Health and Safety (EHS) Guidelines, and
- Other supporting documents.

The IFC Environmental and Social (E&S) team:

- Asks the client to provide key information regarding assets and management of E&S risks and impacts.
- Assesses the project against the Performance Standards and EHS Guidelines.
- May meet with company, government, and local stakeholders to discuss E&S aspects of the project.
- Generates an E&S Review Summary (ESRS) and an E&S Action Plan (ESAP). The ESRS and ESAP are reviewed and approved by the client.



## Publicly disclose the project and consult with local community

IFC discloses its ESRS along with relevant sponsor E&S documentation on the IFC website. The client discloses project E&S assessment information locally. Projects will engage and consult with Affected Communities to ensure their awareness of the project, and provide for an ongoing constructive relationship.

For projects with potential significant adverse impacts on Affected Communities and projects involving Indigenous Peoples, IFC will make a determination of the level of community support for the project.



## Finalize the investment agreement

Once the World Bank Group Board of Directors approves the project:

- The investment agreement is mutually agreed and finalized.
- The final agreement reflects the terms of the ESAP plus any other E&S commitments.
- Funds are disbursed once the client meets disbursement conditions.



## Ongoing monitoring and disclosure

Monitoring occurs on two levels:

- Site visits from IFC staff.
- Submission of the client's Annual Monitoring Report on progress in meeting the E&S terms of the investment agreement.

Engagement between the client and Affected Communities should be ongoing. IFC will disclose the client's progress against the ESAP.

During monitoring, IFC and the client may identify opportunity for project enhancement through IFC Advisory Services.

IFC's Compliance Advisor/Ombudsman (CAO) may also provide additional oversight. The CAO is an independent office that impartially responds to E&S concerns of Affected Communities, and aims to enhance IFC accountability and outcomes.



## IFC and client agree to work together

# Measures by “IP agents” to support/assure good practices. . .

. . . are shaped and limited by nature of relationship with (1) the **investment funder** & (2) **recipient of investment funding**

## Some typical measures:

Vetting prospective funders & recipients for environmental and social track record

Screening/Assessing prospective investment projects/opportunities

Restricting the scope of investments that may be supported

Requiring beneficiary FIs to have env & social due diligence procedures in place

Strengthening host country env mgmt. capacity for the subject sector

Providing complementary env mgmt TA; requiring that Business Development Services have an environmental & social sensibility

Independent monitoring of env/social management

Among others. . .


# Measures to support/assure good practices & Reg. 216.

**Not a fully settled area of practice. However:**

**Categorical exclusions exist for TA, capitalizing financial intermediaries.**

**Most IP is within these “classes of actions”**

**But. . .**

- **Indirect impacts are real & have NEPA standing**
  - **Good practices are well-established internationally**
  - **And Reg 216 says:**
- 



# Measures to support/assure good practices & Reg. 216.

**[Categorical Exclusions do not apply]** to any project, program or activity. . or any aspect or component thereof, if at any time in the design, review or approval of the activity it is determined that the project, program or activity, or aspect or component thereof, is subject to the control of A.I.D. and may have a significant effect on the environment.



# Case 1:

## Policy implementation & institution-strengthening

### The project:

**Building gov't capability to transparently manage natural resources**

### Context:

High-level policy commitment to increased extraction to fund national (re-)development

### Components:

#### 1. Senior LT technical expert:

- advise the ministry of mining/minerals/energy on mineral concession best practice
- assist with concession negotiations as requested,
- supervise nat'l cadastre implementation and legal reform work and production of new regulations.
- Initially will have co-signature authority on concession awards.

**2. Complementary STTA for expert review of draft regulations and specific concession agreements.**

**3. Complementary training for ministry staff**

## Case 1:

# Policy implementation & institution-strengthening (cont'd)

### The IEE found:

“The significant and often irreversible adverse environmental impacts of mining expansion and the substantial influence that the project will have over the policies under which and the process by which this expansion occurs render the TA ineligible for a categorical exclusion.”

### However, the IEE noted. . .

1. the policy decision to expand and promote the mining sector comes from the highest levels of the national government not the project.
2. the project is intended to strengthen environmental safeguards as compared to mining expansion undertaken without USAID assistance.

### Result:

**ND w/ conditions intended to “maximize the project’s greening influence on mining expansion to the fullest extent practicable.”**

- Full harmonization of all products/ guidance with national env requirements (or accepted env, management good practice, where requirements are lacking)
- Systems of monitoring and enforcement to fully integrate environmental requirements pertaining to licenses, concessions and regulations
- USAID-funded outside review of concession applications and investment plans to include expert reviews of EIAs, EMMPs. Where deficient, a recommendation of remedy or rejection is required.



# Case 2:

## Policy implementation & institution-strengthening

### The project:

**Streamlining business start-up and permitting approvals for land use changes**

### Context:

**MCC Threshold project designed & implemented by USAID**

### Components:

- Put in place administrative structures/procedures needed to implement reforms already adopted by national government ; capacity-building support to gov't departments involved
- Public awareness campaigns
- Establish one-stop licensing centers and start to migrate application processes on line
- Provide business development services via one-stop centers
- Public awareness and how-to guides

## Case 2:

# Policy implementation & institution-strengthening (cont'd)

### The IEE found:

The project has the “potential for significant environmental impacts deriving from the enterprise creation, land development, construction and/or overall private sector expansion it is intended to stimulate.”

### However, the IEE noted. . .

“it is not possible to predict the particular enterprises and land development activities that will result, nor in most cases will it be possible to ascertain whether a particular enterprise would have been launched or a particular land development undertaken in the absence of the project. . . This significantly limits USAID’s direct responsibilities for these impacts and the range of feasible actions to address them.

### Result:

#### ND w/ conditions

**“The project implementer must develop for COTR and REA approval a strategy for:**

- Informing licensees/permittees of environmental compliance obligations under national law at the time of license/permit award
- Incorporate and promote cleaner production approaches in TA for enterprise efficiency and good management
- include in BDS support screening for environmental compliance and for enterprises that represent high environmental risks.

# Case 3:

## Credit enhancement/private sector support

### The project:

**Enhancing credit availability to SMEs and strengthening agro-processing**

### Vehicle:

**DCA Loan Portfolio Guarantee for \$13mn SME loan program by a commercial bank**

### Components:

- Make local currency loans available to SMEs under more favorable terms than are currently available from commercial financial institutions.
- Provide credit in rural areas to small and medium enterprises (SMEs) and for seasonal agricultural activities.

(Neither USAID nor the IP reviews or approves individual loans.)

## Case 3:

# Credit enhancement/private sector support

**The general premise** behind DCA credit enhancement is that the activities supported would not otherwise be financed. Thus, when these activities may have significant environmental impacts, categorical exclusions cannot apply.

**In this case**, the expansion of private sector activity that is the intended result of this project has potential, perhaps significant, adverse environmental impacts

**However**, USAID does not have direct control over the loan recipients but only over the general parameters and conditions of the loan-making process.

## Result:

### ND w/ conditions:

The IP and the COTR shall assure that the recipient bank will have the capacity to and shall fully implement an environmental due diligence process which:

- bars funding to activities for which funding is prohibited under the Sections 118 & 119 of the Foreign Assistance Act;
- bars funding for “classes of action normally having a significant effect on the environment (per 22 CFR 216.2.d) pending an Environmental Assessment acceptable to USAID and USAID’s approval of that assessment, and
- ascertains compliance with national environmental requirements as a condition for loan-making.