

Ex-Ante Evaluation (for Japanese ODA Loan)

1. Name of the Program

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| Country: | India |
| Project: | Tamil Nadu Investment Promotion Program |
| Loan Agreement: | November 12, 2013 |
| Loan Amount: | 13,000 million yen |
| Borrower: | The President of India |

2. Background and Necessity of the Program**(1) Current State and Issues of the investment climate in India**

Since India introduced its full-scale liberalization policy in 1991, its economy has maintained steady growth. India's 11th Five-Year Plan (April 2007 to March 2012) set the annual average GDP growth target for the duration of the plan to 9%, with actual average growth exceeding 8%. The per capita GDP based on purchasing power parity topped 3,600 dollars in 2011. The number of middle class population has increased and the domestic consumption is likely to grow. By the year 2025, total consumer spending is expected to rise to a level three times higher than the 2005 level, exceeding that of Germany and becoming the world's fifth highest. To achieve these levels of expansion of domestic consumption and potential demand, foreign direct investments in India are growing. As a result, foreign direct investments (inflow) in fiscal 2011 increased 34 percent to 46.9 billion dollars over the last year, thereby contributing to growth of the Indian economy.

Meanwhile, a challenge that must be addressed in order to promote more foreign direct investments in India is the investment in infrastructures, both physical and institutional. For example, the suggestions for the Government of India submitted in February 2012 by the Japan Chamber of Commerce and Industry in India contains issues and reform approaches in area like taxation, development of transportation infrastructure, social welfare program for workers, workers' visas and financial deregulation. Doing Business 2013, a report in which the World Bank assesses the investment climate in every country, ranks India 132nd among 185 countries. Particularly notable is the fact that India is ranked 173rd in terms of "Starting a business" based on the number of investment procedures, the number of days required, and the cost incurred. India was ranked 182nd in terms of "Dealing with construction permits" based on the number of construction permit procedures, the number of days required, and the cost incurred. Such rankings suggest that the country is facing a challenge particularly in its investment environment as pertaining to business startup procedures in order to further attract overseas investors.

(2) Development Policies for the investment climate in India and the Priority of the Program

The Government of India intends to address the infrastructure bottleneck that may inhibit its economy in an attempt to further enhance the investment environment. This led the country's share in infrastructure investments in GDP during the 11th Five-Year Plan to grow from 5.7 percent to 8 percent. The 12th Five-Year Plan (April 2012 to March 2017), in turn, proposes an investment of 1 trillion dollars over a five-year period, as well as other programs, in order to further speed up infrastructure investment. Moreover, as an industrial corridor following the Delhi Mumbai Industrial Corridor (DMIC), the Government of India is planning to set up the Chennai-Bangalore Industrial Corridor (CBIC), designed to integrally promote the economic development of Bangalore (the state of Karnataka), Chennai (the state of Tamil Nadu), and surrounding regions. Tamil Nadu is thus recognized as an important region for India's economic development.

"Vision Tamil Nadu 2023" (March 2012), which presented the goals that Tamil Nadu aims to achieve by 2023, set the target GDP growth rate of the state over the next 11 years to 11% a year and aims to increase the state's per capita income six-fold from today to 450,000 rupees in 2023, along with other measures, thus significantly improving the country's economic indicators. It also declares that such a policy makes it imperative to accelerate private investments and aggressively attract investments, while promoting development of the investment environment. This program is

to support the efforts to attract investors and develop the investment environment aligned with the state's political principles set forth in "Vision Tamil Nadu 2023".

(3) Japan and JICA's Policy and Operations for investment promotion

The "Promotion of Economic Growth" is one of the prioritized areas in the Japan's Country Assistance Program for India by the Government of Japan. The Assistance Program states that efforts will be made to help develop infrastructure for key railways and roads, major airports and ports, and other infrastructural facilities in order to promote development of the regional economy, increase physical distribution, and expand investments by foreign investors mainly in the designated economic zones, economic corridors, and other industrial complexes located in India's big six urban areas (Delhi, Mumbai, Kolkata, Chennai, Bangalore, and Hyderabad) and in DMIC. The Assistance Program also declares the intention to help provide assistance consisting of an organic collaboration of hardware and software, including the improvement of policies and institutions to increase the impacts of infrastructural development projects.

Furthermore, Japan's Ministry of Economy, Trade and Industry (METI) and the Government of Tamil Nadu have signed a Memorandum of Understanding in infrastructural development for the state of Tamil Nadu in January 2011, thereby agreeing to jointly attract investments by Japanese companies and enhance the state's investment environment, in order to boost the CBIC initiative. In response to that agreement, this program was brought up at the second Working Group held in November the same year on infrastructural development by METI and the Government of Tamil Nadu. The program is thus of high priority under the Japan-India cooperation relations.

(4) Other Donors' Activity

The World Bank regards India's urban infrastructure and skill of labors as challenges that inhibit the country's economic growth; therefore, it positions the development of power, roads, and other parts of urban infrastructure as an important sector, and provides technical cooperation and other assistance intended to develop PPP projects.

(5) Necessity of the Program

The state of Tamil Nadu in southern India is located on the southeast cost line of India. Its abundant labor, consistent foreign capital-luring policy, and other measures have attracted car manufacturers, electronic suppliers, and other industrial entities. Moreover, the state has developed CBIC being promoted by the India-Japan Initiative, and is receiving more Japanese investors (meaning is not clear). Consequently, steady economic growth is projected, centering on the state capital of Chennai. The number of Japanese companies, mainly automotive-related companies such as Nissan, has increased. 344 Japanese companies are based in the state of Tamil Nadu in October 2012 marking more than a four-fold increase in less than five years (77 companies in January 2008).

Meanwhile, Japanese investors in the state of Tamil Nadu submitted suggestions on October 4, 2011 calling for development of infrastructure such as roads, power, waterworks and sewerage. "Doing Business in India 2009," a report in which the World Bank analyzes India's investment environment, positions the investment environment of Chennai as 15th out of the 17 cities surveyed, and points out that deficiencies in the infrastructure environment, institutions, and procedures in the Chennai metropolitan area further deter foreign direct investments.

Development of the investment environment entails promoting the development of physical infrastructure and the enhancement of institutions. This program provides assistance along with efforts to attract investments and develop the investment environment in line with the state's political principles set forth in "Vision Tamil Nadu 2023," thereby supporting realization of the CBIC that is being initiated by the Government of India and the Government of Japan.

The "Urgent Economic Measures for Reviving the Japanese Economy" approved at a Cabinet meeting on January 11, 2013, also present a plan to provide assistance in the overseas deployment of Japanese companies through ODA as a concrete approach for that purpose. Chennai is expected to see a greater presence of Japanese companies including small and medium companies. This

program is designed to resolve the bottlenecks for investment in order to accelerate the overseas deployment of Japanese companies in a sense.

In view of the above, this program—designed to improve the investment environment of the area through infrastructural development and the improvement of policies and institutions—satisfies the Indian government’s development policy and the assistance policies of Japan and JICA. Therefore, it is highly necessary and appropriate for JICA to provide assistance in implementing this program.

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| 3. Program Description |
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(1) Program Objective

The objective of this program is to further improve the investment climate through strengthening the policy framework and enhancing the quality of urban infrastructure mainly of roads, power, waterworks, sewerage, and other infrastructure facilities thereby attempting to increase foreign direct investments in the state.

(2) Program Site/Target Area

The Chennai metropolitan area in the state of Tamil Nadu

(3) Program Components

This program first organizes as a Policy Matrix the Policy Actions to be accomplished in each fiscal year from 2012 to 2014 mainly regarding (1) the improvement of policies, institutions, and procedures contributing to development of the investment environment, and (2) the development of roads, power, water supply, sewerage, and other infrastructure facilities, in line with the principles set forth in “Vision Tamil Nadu 2023.” Disbursement of the each tranche of the loan is linked to the achievement of the Policy Actions. The Government of Tamil Nadu and JICA shall monitor progress of the Policy Actions, thereby promoting accomplishment of the Policy Matrix.

Particularly for small infrastructure projects that are the object of high demand from Japanese companies and other foreign investors, the Small Infrastructure Project Empowered Committee (SIPEC) prepares a Project Monitoring Matrix and sets the management and facilitation of such actions as its Policy Actions, so that prompt action can be taken to develop the projects.

| Policy | Goal | Major Policy Action |
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| Infrastructure Project Coordination and Prioritization | * Tamil Nadu Infrastructure Development Board (TNIDB), in which the Secretaries of the related regulatory departments are participated, will undertake prioritization of the projects and coordination between the departments, thus accelerating the projects implementation. | * Tamil Nadu Infrastructure Development Act is established |
| | * Small Infrastructure Project Empowered Committee will be established. The Committee will allocate budget properly to the priority projects selected by the Committee. The Committee will appropriately monitor and facilitate the priority projects. | * Priority small infrastructure projects are facilitated in accordance with the established Monitoring Matrix |
| Investment application process | * Investment application process, related regulations, and its operational system will be improved comprehensively, according to an overall Business Process Re-engineering (BPR) study. | * Action plan for the implementation of the BPR recommendation is established |
| System Integration for investors | * Tracking system for investors will bring more transparency to the investment | * System specification of Tracking System is |

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| | application process, and investor confidence would improve. | prepared through necessary consultations with relevant departments |
| Promotion of business environment for MSMEs | * The function of Directorate of Industries and Commerce will be enhanced as single windows for MSMEs according to the result of comprehensive study. | * Overall study for the issues for MSME investments is executed |
| | * Preparing web based single window application system and Investment Guidebook for MSMEs can streamline investment procedures. * Information dissemination and workshop for attracting foreign MSMEs will be conducted. | * Investment Guidebook is published on the web site |
| Human Resource Development | * Comprehensive skill development action plan will be undertaken and it will help meeting the investors' demand of labor force. | * The Overall long-term action plan for Skill Development in TN is announced |
| Land Pooling System | * Highway department would be able to acquire land, and compensate land owners through the land allocation by utilizing the land pooling system. Through this scheme, infrastructure development would be accelerated. | * Final approval of Highway Act amendment is issued |
| Master Planning/Land-Use Conversion | * A better master-planning process would be able to cut the necessary time significantly. By earmarking areas for future industrial development, the time required for land-use conversion will be shorter, thus enhancing the investment activity for industries. | * Master Plan for Phase 1 is finalized and officially announced in the Gazette |

(4) Estimated Project Cost (Loan Amount)

13,000 million yen

(5) Schedule

April 2012 – March 2015 (36 months in total); the Program will be completed when the last tranche is disbursed (June 2015).

(6) Project Implementation Structure

- 1) Borrower: The President of India
- 2) Executing Agency: Finance Department, Government of Tamil Nadu
- 3) Operation and Maintenance System: Finance Department, Government of Tamil Nadu
- 4) Fund management system: The loan proceeds are to be sub-lent to the consolidated fund of the Government of Tamil Nadu through the Reserve Bank of India account of the Government of India. The loan proceeds will be controlled as a general budget of the Government of Tamil Nadu. Usage of the loan proceeds are to be confirmed by vouchers for each fiscal year and by account auditing by the Comptroller and Auditor General of India, and then reported to JICA.

(7) Environmental and Social Consideration

- 1) Environmental and Social Considerations

- (1) Category: C
- (2) Reason for the Categorization: In accordance with the “JICA Guidelines for Consideration of Environmental and Social Considerations” (April 2010), the Program is likely to have minimal adverse impact on the environment.

(8) Collaboration with Other schemes, Other Donors

Technical assistance is to be provided in order to promote achievement of the Policy Actions by dispatching experts and/or other measures.

(9) Other Important Issues

The progress of this program is to be reported and deliberated at Joint Working Committee headed by the Consulate-General of Japan in Chennai and at periodic Working Group held between the Government of Japan (METI) and the Government of Tamil Nadu.

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| 4. Targeted Outcomes |
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(1) Quantitative Effects

1) Performance Indicators (Operation and Effect Indicator)

| Indicator | Baseline (Actual Value in FY2012) | Target (FY2014) [when the Program is completed] |
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| Number of projects prioritized by the Tamil Nadu Infrastructure Development Board | — | 10 |
| Number of projects facilitated by the Small Infrastructure Project Empowered Committee | — | 10 |
| Percentage of investors satisfied with functions of the Guidance Bureau(%) | — | 50 |
| Number of Micro, Small, and Medium companies using the functions of a new single window | — | 40 |
| Frequency of workshop sessions designed to attract investments by foreign Micro, Small, and Medium companies | — | 2 |
| Number of trainees through the Tamil Nadu Skill Development Mission | 50,000 | 72,500 |
| Number of projects based on the land pooling system | — | 1 |
| Range where a land-use master plan exists(km ²) | 7,444 | 8,447 (including updates of the existing master plan) |

- 2) Internal Rates of Return
Not calculated.

(2) Qualitative Effects

Promotion of the economic development of the Chennai metropolitan region, improvement for the urban environment such as comfort in road traffic and alleviation of traffic jams, improvement of convenience by securing the timeliness of transportation, simplification of investment procedures, improvement of efficiency in administrative practices concerning investments, and improvement of coordination capabilities for infrastructural projects

6. Lessons Learned from Past Projects

(1) Evaluation results of similar projects

A ex-post evaluation of “Development Policy Support Program (II) (III)” for Philippine (??) indicates that the dissemination and sharing of information (especially with Japanese companies and other private sector in the local community) are expected to enhance the usefulness and effects of program loans focused on the development of the investment environment and infrastructure.

(2) Lessons learned for this project

Based on the lessons learned from the above, this program involved an exchange of views with Japanese companies and related organizations in establishing a Policy Matrix. In monitoring the achievement of Policy Actions, JICA will disseminate related information to, and share it with the private sector in collaboration with the JETRO Chennai office as necessary.

7. Plan for Future Evaluation

(1) Indicators to be Used

- 1) Number of projects prioritized by the Tamil Nadu Infrastructure Development Board
- 2) Number of projects facilitated by the Small Infrastructure Project Empowered Committee
- 3) Percentage of investors satisfied with functions of the Guidance Bureau (investment single window)
- 4) Number of micro, small, and medium enterprises using the functions of a new single window
- 5) Frequency of workshop sessions designed to attract investments by micro, small, and medium enterprises overseas
- 6) Number of trainees trained by the Tamil Nadu Skill Development Mission
- 7) Number of projects based on the land pooling system
- 8) Range where a land-use master plan exists

(2) Timing

When the program is completed

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