

Ex-Ante Evaluation (for Japanese ODA Loan)

1. Name of the Project

Country: India

Project: Tamil Nadu Investment Promotion Program (Phase 2)

Loan Agreement: March 31, 2017

Loan Amount: 22,145 million yen

Borrower: The President of India

2. Background and Necessity of the Project

(1) Current State and Issues of the Investment Climate in India

Prime Minister Modi launched the “Make in India” initiative in September 2014 to promote economic growth and job creation by stimulating investment from private-sector companies both inside and outside India. In implementing the initiative, the Ministry of Commerce and Industry recommended a 98-point action plan to individual state and Union territory governments and published the results of assessment of their implementation of the plan in September 2015. Consequently, India, which was placed 142nd among 189 economies in the World Bank's Ease of Doing Business report in 2015, was ranked 130th among 190 economies in 2017. However, while the country was highly rated in areas like protecting minority investors, other areas such as dealing with investment/construction permits and paying taxes still left quite a bit of room for improvement. As such, there is pressure on the Ministry of Commerce and Industry and local governments to further accelerate their investment environment optimization efforts through improvement of systems, so as to help the Indian Government achieve its target of gaining a place in the top 50. Besides the complex procedure involved in obtaining investment permits and the tax system, another bottleneck in corporate business expansion into the country is its weak industrial infrastructure. India's 12th Five-Year Plan (April 2012 to March 2017) includes an infrastructure investment package worth one trillion US dollars, and there continues to be high demand for funds for infrastructure development among regional governments.

Furthermore, the Indian Government launched the Skill India campaign in July 2015, aiming to train over 400 million young people in the country in different vocational skills by 2022. At the same time, however, the government is faced with challenges such as providing training programs that meet the real needs of industries and private-sector companies and increasing the employment rate among those who have completed their training.

The state of Tamil Nadu in southern India is located on the southeast coast line of India. Its abundant labor, consistent foreign capital-luring policy, and other measures have attracted many Japanese companies, particularly those in the car and scooter

industries. In fact, the number of Japanese companies that have their bases in the state has been on the increase, from 77 companies in January 2008 to 344 companies in October 2012, and 577 companies in October 2015. Moreover, being part of the Chennai-Bangalore Industrial Corridor (CBIC), for which the Japanese and Indian Governments adopted the Comprehensive Regional Perspective Planning and Master Planning in July 2015, the state is recognized as an important region for India's economic development. Financial cooperation from the Japanese Government is under consideration for priority infrastructure projects contributing to improving the investment environment of the CBIC.

The state of Tamil Nadu was ranked 12th among the 36 states and Union territories in terms of business environment in 2015 and 18th in 2016, while the capital of the state Chennai was placed 15th among the 17 major cities of India in a 2016 assessment by the World Bank. This reveals that the region's investment environment needs to be further improved in terms of both systems and infrastructure. In more specific terms, while the state is rated more highly than other states in terms of the procedure involved in obtaining environmental permits, its challenge lies in ensuring transparency and simplicity for the procedure involved in obtaining investment permits, procuring land, and so on. Furthermore, although the state government shows a high interest in attracting not only large-scale investors but also micro, small & medium enterprises (MSMEs), there are still obstacles such as poor access to information about the local business environment and labor market. There is also demand among industries for infrastructure improvements, such as mitigation of congestion on the main roads leading to the major ports and stable supply of water and electricity to the industrial complexes.

(2) Development Policies for the Investment Climate in India and the Priority of the Project

In response to the above challenges, the development plan of the state "Vision Tamil Nadu 2023" (March 2012) aims to significantly improve its economic indicator performance in various way such as setting a target GDP growth rate of 11% and a goal of increasing the state's per capita income six-fold compared to 2012 to 450,000 rupees by 2023. It also declares that such a policy makes it imperative to accelerate private investments and aggressively attract investments, while promoting improvement of the investment environment of the state. For infrastructure development, the state allocates an annual average budget of 1.35 trillion rupees (about 10% of the state's GDP), while planning and implementing a variety of measures to make effective use of private-sector funds, like establishing investment funds. The Tamil Nadu Investment Promotion Program (Phase 2) (hereinafter referred to as "the Project") aims to make improvements to the complex administrative procedures and weak industrial infrastructure, which can be bottlenecks in business expansion, and is organized as one of the initiatives the state government is carrying

out to improve its investment climate.

(3) Japan and JICA's Policies and Operations for Investment Promotion

Japan's Country Assistance Policy for India (March 2016) sets "enhancement of regional connectivity" as one of its priority areas, designates "Regional Corridor Development Programs" as cooperative programs in this priority area, and states that due attention should be paid to gradual implementation of support based on the approach of the programs. In addition, JICA Country Analysis Paper for India (March 2012) also regards the development and improvement of the investment climate as an urgent task essential for further promoting economic growth and development led by private-sector companies. In line with this, JICA implemented the ODA loan-based Tamil Nadu Investment Promotion Program (2013), dispatched Investment Promotion Advisors (2015) as technical assistance, and took several other actions. The Project is consistent with the Policy and Analysis.

(4) Other Donors' Activities

The World Bank provided technical cooperation to the Ministry of Commerce and Industry (investment climate survey in each state in September 2015). The Asian Development Bank is examining the possibility of providing technical cooperation to Tamil Nadu Infrastructure Fund Management Corporation Limited, which the Project also supports, in the area of developing and screening public-private collaborative infrastructure projects, in addition to assisting with the establishment of measures related to the Visakhapatnam-Chennai Industrial Corridor.

(5) Necessity of the Project

The Project, designed to improve the investment environment of Tamil Nadu through infrastructural development and the improvement of policies and institutions, satisfies the Indian government's development policy and the assistance policy of Japan. Furthermore, the Project is expected to contribute to achieving Sustainable Development Goal (SDG) 8 (Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all). Therefore, it is highly necessary and appropriate for JICA to provide assistance in implementing the Project.

3. Project Description

(1) Project Objective

The objective of the Project is to facilitate the improvement of policies and systems related to private-sector investment and industrial growth in the southeastern Indian state of Tamil Nadu, while at the same time promoting early implementation of the development and improvement of urban infrastructure in the state, mainly of roads, power, waterworks, sewerage, and other infrastructure facilities, thereby attempting to increase foreign direct investments in the state by enhancing its investment climate.

(2) Project Site/Target Area: State of Tamil Nadu

(3) Project Components

Following the Tamil Nadu Investment Promotion Program, the Project first organizes the Policy Actions to be accomplished in each fiscal year from 2016 to 2018 into a Policy Matrix. The Policy Actions are mainly regarding (1) the improvement of policies, institutions, and procedures contributing to development of the investment climate, 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”, etc. The Government of Tamil Nadu and JICA will 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 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 Actions
Acceleration of Infrastructure Development	<ul style="list-style-type: none"> ▪ Develop Tamil Nadu Infrastructure Fund (TNIF) through Tamil Nadu Infrastructure Fund Management Corporation Ltd. (TNIFMC), with both public and private financing for funding various large scale and social infrastructure projects ▪ Fund critical large scale and social infrastructure projects of high priority under TNIF and TNIFMC scheme ▪ Small Infrastructure Project Empowered Committee (SIPEC) will select the priority projects and allocate budget properly. The administrative departments and implementing agencies will appropriately monitor and facilitate the priority projects. 	<ul style="list-style-type: none"> ▪ At least one project is selected and facilitated by GoTN and TNIFMC, which the new funding model for social infrastructure development shall be applied. ▪ The priority small infrastructure projects are selected and their implementation is facilitated in accordance with the established Project Monitoring Matrix.

Policy	Goal	Major Policy Actions
Skill Development for Employment	<ul style="list-style-type: none"> ▪ Improve employment rate of fresh graduates from polytech, engineering colleges and industrial training institutes by providing a short-term and industry-oriented training courses ▪ Enhance quality of training institutions in the whole state, by creation of an Apex level training institution which would act as a training institution for trainers 	<ul style="list-style-type: none"> ▪ Tamil Nadu Skill Development Corporation develops a training framework model (a two tier model at district and state levels) for skilling the professionals as per the needs of the industry with its participation. ▪ Skill registry database under Skill Development Interactive Portal is strengthened by making it available online as a one stop repository of skilled manpower in the state ▪ An action plan to improve placement services for trainees onto Multi-National Companies and MSMEs is implemented
Strengthening of Guidance Bureau	<ul style="list-style-type: none"> ▪ Investment application process is streamlined by development of a fully-functional Online Single Window Clearance System with the empowered responsible agency. ▪ More foreign investments are invited by the new Industrial Policy and incentives. 	<ul style="list-style-type: none"> ▪ The fully-functional Online Single Window Clearance System is launched with all the relevant departments and agencies, by hosting digitalized application procedures and materials. ▪ The action plan of upgrading Guidance Bureau is developed and budgeted in terms of its staffing, office space, PR materials, etc. ▪ The new Industrial Policy is drafted and finalized to tackle with introduction of the Goods and Service Tax
Strengthening of Single Window for MSME	<ul style="list-style-type: none"> ▪ The Single Window Portal and comprehensive investment guidebook and/or website for improving access to investment information and simplifying application procedures are developed. ▪ Investment application procedures are streamlined so as to achieve a shorter period toward the statutory clearances 	<ul style="list-style-type: none"> ▪ The Single Window Portal for MSMEs is launched ▪ Comprehensive investment guide for MSME investors is developed and launched ▪ District Industrial Committees (DIC) information aggregation system is developed.

(4) Estimated Project Cost (Loan Amount)

22,145 million yen

(5) Schedule

The commencement of the financial support by the Project is scheduled for April 2016. The Project aims to accomplish each of the Policy Actions by March 2017, March 2018 or March 2019, respectively, and will provide loans after the results of the Policy Actions for each year are confirmed by the Program Monitoring Committee in the following year. The Project will be completed when the last loan is provided (June 2019).

(6) Project Implementation Structure

1) Borrower: The President of India

2) Executing Agency: Finance Department, Government of Tamil Nadu

(7) Environmental and Social Considerations/Poverty Reduction/Social Development

1) Environmental and Social Considerations

① Category: C

② Reason for Categorization: According to the "JICA Guidelines for Consideration of Environmental and Social Considerations" (April 2010), the Project is likely to have only minimal adverse impact on the environment.

2) Promotion of Poverty Reduction: Although the Policy Actions of the Project are not aimed at poverty reduction, it is classified as a Poverty Reduction Project, as some loaned money is planned to be used for housing for poor workers.

3) Promotion of Social Development (e.g., Gender Perspectives, Measures for Infectious Diseases including HIV/AIDS, Participatory Development, Consideration for People with Disabilities, etc.): The importance of vocational training and employment support for women, which will contribute to gender equality, in the improvement of the investment climate, has been confirmed through consultation with the state government. This is why the Project is classified as a Gender Mainstreaming Needs Assessment and Analysis Project.

(8) Collaboration with Other Donors: N/A

(9) Other Important Issues:

Measures and projects should be implemented through cooperation with the JETRO Chennai Office, local Japanese chamber of commerce, and the Ministry of Economy, Trade and Industry in a way that reflects the needs of Japanese companies.

4. Targeted Outcomes

(1) Quantitative Effects

1) Operation and Effect Indicators

Indicator	Baseline (recorded in 2015)	Target (FY2019) [when the Project is completed]
Number of projects facilitated by Tamil Nadu Infrastructure Fund Management Corporation (cumulative total)	0	4
Number of projects facilitated by the Small Infrastructure Project Empowered Committee (cumulative total)	0	25
Number of trainees trained by the state's Tamil Nadu Skill Development Corporation scheme and PPP mode institutions (persons/year)	150,000	250,000
Number of trainers of government training institutes trained (persons/year)	0	100
Number of days required to gain an Single Window Clearances through Guidance Bureau and the online system (at most)	—	≤30
Number of page views to the Single Window Portal (monthly)	0	500
Number of MSME investors utilizing the Single Window Portal for application (yearly)	0	40

2) Internal Rate of Return: Not calculated

(2) Qualitative Effects

The expected qualitative effects of the Project include increasing the business satisfaction of foreign companies, including Japanese ones, and creating jobs by improving the investment climate.

5. External Factors and Risk Control

(1) Precondition: N/A

(2) External Factors: N/A

6. Lessons Learned from Past Projects

(1) Results of Evaluation of Similar Past Projects

The ex-post evaluation of the “Development Policy Support Program” for the Republic of the Philippines reveals that while the program has helped implemented reforms, such as simplifying administrative procedures and integrating contact points for import permits at ports, these achievements are not really recognized among Japanese companies operating in the country. A lesson has been learned that to

produce actual business benefits from system improvements and measures it is essential to spread and share information with Japanese companies that are doing business in the target area and other related parties.

The “Tamil Nadu Investment Promotion Program” has also made it possible to monitor progress in the implementation of Policy Actions and promote implementation of them more smoothly by conducting policy monitoring through paid account technical assistance and coordinating between related parties, including Japanese companies.

(2) Lessons for the Project

The Project examines the possibility of providing Japanese companies operating in the state with information about progress in the implementation of Policy Actions monitored by the Program Monitoring Committee for each quarter. In addition, it examines similar technical assistance aimed at implementing and monitoring a wide variety of Policy Actions and sharing information with related parties.

7. Plans for Future Evaluation

(1) Indicators to be Used

- 1) Number of projects facilitated by Tamil Nadu Infrastructure Fund Management Corporation (cumulative total)
- 2) Number of projects facilitated by the Small Infrastructure Project Empowered Committee (cumulative total)
- 3) Number of trainees trained by the state’s Tamil Nadu Skill Development Corporation scheme and PPP mode institutions (persons/year)
- 4) Number of trainers of government training institutes trained (persons/year)
- 5) Number of days required to gain an Single Window Clearances through Guidance Bureau and the online system (at most)
- 6) Number of page views to the Single Window Portal (monthly)
- 7) Number of MSME investors utilizing the Single Window Portal for application (yearly)

(2) Timing of the next evaluation

When the Project is completed

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