

## Ex-Ante Evaluation (for Japanese ODA Loan)

### 1. Name of the Program

Country: India  
Program: Gujarat Investment Promotion Program  
Loan Agreement: September 15, 2017  
Loan Amount: 16,825 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

The Indian economy, which was once rather closed due to control of the entry of foreign capital and the policy of import-substituting industrialization, began to pick up in 1991, when the deregulation and liberation policy was introduced. The policy began to bear full fruit in FY2000. Since then, the economy has been prosperous, growing at an average annual rate of more than 7 percent. The Indian economy is expected to expand even further. The Three-Year Action Agenda (2017-2019) of NITI Aayog (the National Institution for Transforming India Aayog (Aayog means “Commission”)) projects a growth rate of 11-15 percent for FY2019 in nominal gross value added, surpassing the growth rate of 10.4 percent for FY2016. In response to a drop in the inflation rate, fueled by plunging oil prices, the Reserve Bank of India reduced the interest rate in stages starting in 2014. The Indian economy grew by 7.6 percent in FY2015, supported by robust personal consumption and industrial expansion.

Annual inflows of foreign direct investment, which averaged around 25 billion US dollars from FY2007 to FY 2013, with the peak year of FY 2011 with 35.1 billion US dollars, topped 40 billion US dollars in FY 2015. They are expected to grow further. The FY2014 (the 26th) Survey Report on Overseas Business Operations by Japanese Manufacturing Companies, released by the Japan Bank for International Cooperation, put India on top of the list of “Promising Countries/Regions for Overseas Business over the Medium-term (next 3 yrs. or so) Prospects” for the first time, leaving Indonesia behind. The report cites the sheer scale and growth potential of the Indian market as well as cheap labor. India was No. 1 for FY2015 and FY2016 as well. (The country has remained on the top of the “Promising Countries/Regions for Overseas Operations over the Long-term (next 10 yrs. or so) Prospects” since the FY2010 Survey).

Yet the FY2014 Survey identified underdeveloped infrastructure, unclear execution of the legal system, and the complicated tax systems as some of the issues to be addressed in the eyes of Japanese companies in the context of making new or additional investment in India. These and other issues need to be addressed if India is to lure more foreign direct investment (FDI).

The country’s manufacturing industry is weak, as compared with some 30 percent for China and Thailand, and about 20 percent for Indonesia. It accounts for only 16.6 percent of real GDP in FY2015. The promotion of the manufacturing industry is increasingly called for in recent years in the context of job creation that absorbs redundant labor force from rural areas as well as export creation that banks on cheap and abundant labor.

Gujarat is a state in West Central India. Situated in a strategic node that connects with the Middle East, Gujarat State is an engine for the economic

development of India, accounting for 19 percent of total exports and 41 percent of the total port cargo volume in FY2015. The state is also valued from the perspective of industrial advancement as one of the states covered by the Delhi-Mumbai Industrial Corridor (DMIC) initiative, a regional development program that was agreed on in 2006 between the Government of India and the Government of Japan. The Government of Japan is considering extending financial assistance to priority infrastructure development projects that will help to improve the investment climate in DMIC.

Gujarat is in the process of ensuring a better business climate than many other states in India. In 2016, the state was placed third among the 36 states and union territories according to Assessment of State Implementation of Business Reforms, which was jointly conducted by the World Bank and the Ministry of Commerce and Industry (MCI).

Still, foreign companies doing business in the state are calling for further improvements in the local investment climate. Among the major challenges they cite are the qualities of training concerning industrial skill development, firmly projected deficiencies in infrastructure over the mid- to long-term amid an expected surge in business operations in India by Japanese auto manufacturers and related businesses, and delays in processing various kinds of investment clearance.

## (2) Development Policies for Improving the Investment Climate in India and the Priority of the Program

The Government of India is promoting economic growth and job creation through the promotion of investment from domestic and foreign businesses based on two policies that Indian Prime Minister Narendra Modi recently announced. The “Make in India” policy, announced in September 2014, is designed to create 100 million jobs by developing the manufacturing industry. The “Skill India” policy, released in July 2015, is aimed at providing vocational training and increasing the employment rate.

As part of its efforts to successfully implement these two policies, the MCI improved the 98-point action plan for business improvement it established in December 2014 to come up with a 340-point action plan in October 2015. The MCI recommended the new business improvement plan to the regional governments of states and union territories. Among other points in the action plan, points concerning protection of the interests of small investors were highly welcomed. This appreciation, together with other efforts, pushed the ranking in the World Bank’s Ease of Doing Business index from 142nd among the 189 economies in 2015 to 130th in 2016. Still, the complex procedures of tax payments for obtaining investment/construction permits and tax remain unresolved. In order for the Government of India to achieve its target of gaining a place in the top 50, the MCI and regional governments need to further improve the investment climate by streamlining various regulations. Apart from complexities in the procedures for investment permits and the tax system, inadequate industrial infrastructure constitutes a bottleneck for foreign businesses to do business in India. Thus, there remains a great demand for funds to finance infrastructure development in the regions.

In its development plan “BIG 2020” (August 2009), Gujarat State states that it aims to triple real GDP from 2.1 trillion rupees to 6.46 trillion rupees by 2020 and quadruple per capita income (adjusted by purchasing power parity) from 3,019 US dollars to 12,615 US dollars during the same period, among other economic

indicators. The plan envisions a total of 1,119.2 billion rupees in investment for urban development (2008-2020).

The Gujarat Investment Promotion Program (the “Program”) is designed to relieve the bottlenecks for foreign businesses wishing to do business in India such as inadequate industrial human resources, insufficient infrastructure, and inefficient administrative procedures. The Program can be considered one of the undertakings for achieving the BIG 2020.

(3) Japan and JICA’s Policy and Operations for Improving the Investment Environment

Japan’s Country Assistance Policy for India (March 2016) states that Japan will provide assistance for de-bottlenecking the constraints to investment and growth. It also states that “under the programme-based approach, policy matrices are mutually agreed through close and continuous policy dialogue; monitoring and review are conducted; and assistance is guided by its progress” and “Japan will gradually promote the programme-based approach, as appropriate.” JICA Country Analysis Paper for India (March 2012) identifies the development of industrial and urban infrastructure as one of the priority areas. It states that priority is given to the development of infrastructure that underpins the entire regional industry, most notably infrastructure related to DMIC and the Chennai Bengaluru Industrial Corridor (roads, railways, electricity, water, etc.), and institutional improvement that may contribute to a better investment climate. JICA’s activities in this particular area include two ODA loan programs--the Tamil Nadu Investment Promotion Program (L/A signed in November 2013), and the Tamil Nadu Investment Promotion Program (Phase 2) (L/A signed in March 2017), as well as the technical cooperation activity entitled “Adviser on Investment Promotion” (2015).

(4) Other Donors’ Activity

The World Bank has provided technical cooperation to the MCI to improve the investment environment (investment climate survey in each state in September 2015). The Asian Development Bank has supported the development of renewable energy in Gujarat State.

(5) Necessity of the Program

The Program is consistent with India’s development policies and Japan’s Country Assistance Policy for India. It will contribute to improving the investment climate in Gujarat State through policy and institutional improvement and infrastructure development. The Program is also expected to contribute to achieving two SDGs: Goal 8 (“Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all”) and Goal 9 (“Build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation”). Therefore, JICA’s support for the implementation of the Program is much needed.

### **3. Program Description**

(1) Program Objective

The objective of the Program is to encourage policy and institutional improvement in Gujarat State in West Central India through financial support with regard to private investment promotion including FDI, industrial advancement and skill development, as well as to improve the investment climate for the

development of infrastructure in the state, including roads, electric power, and water, thereby contributing to increased private investment such as FDI in the state.

(2) Program Site/Target Area: Gujarat State

(3) Program Component

In view of the plans of operation of the competent departments of the state government as well as the requests from the private sector with regard to private investment promotion, industrial advancement, and skill development, the Program has sorted out policy actions to be accomplished in each fiscal year in a policy matrix and will support the achievement of these policy actions, with the state government and JICA monitoring the performance.

In consultation with the state government, eight policy items have been identified, as shown in the policy matrix below, based on the three pillars of reform--(i) the promotion of private investment and industry, (ii) skill development, and (iii) infrastructure development--because they are considered effective and feasible policy actions. The eighth policy item concerns small infrastructure development that foreign investors have strongly requested--most notably the widening and resurfacing of roads in and around industrial parks. As specific policy actions for this policy item, the Small Infrastructure Project Empowered Committee to be organized within the state government will prepare a project monitoring matrix and supervise and promote the progress using such a matrix for timely infrastructure development.

Policy Items	Goals
	Major Policy Actions
1. Enabling GIDC's capacity to develop world class industrial estates	<ul style="list-style-type: none"> <li>• Develop world-class industrial estates across the state</li> <li>• Promote sustainability and green initiatives in Industrial development</li> <li>• Enable ease of doing business by providing quality support and last mile infrastructure</li> <li>• Companies in GIDC estate can consult various matters with GIDC's satellite office near the area in a timely manner</li> </ul>
	<ul style="list-style-type: none"> <li>• Development of a Business Plan for next 5 years for GIDC</li> <li>• Create a task force group responsible for developing plans that align with the needs of industry etc.</li> <li>• Promote sustainable industrial park measures to reduce water, and power intensity in Industrial estates.</li> <li>• Appointment of relevant officers to the satellite office</li> </ul>
2. Single window system for GIDC industrial estates	<ul style="list-style-type: none"> <li>• Enhance Ease of Doing Business in Gujarat by enabling 100% online approvals for set up/ operations/ expansion in GIDC estates</li> </ul>
	<ul style="list-style-type: none"> <li>• Integrate application and payment for common user facilities into the online system</li> </ul>
	<ul style="list-style-type: none"> <li>• Adopt an online process for disposal of files and</li> </ul>

	other correspondence
3. Strengthening the Single Window for new investments in Gujarat	<ul style="list-style-type: none"> <li>• Set up and operationalize a comprehensive single window system</li> <li>• Create an investment monitoring framework</li> <li>• Update and integrate applications on the new single window portal; developing security and online payment capabilities at the same time</li> <li>• Create an investment monitoring framework to measure the approval timeline</li> </ul>
4. Strengthening of iNDEXTb	<ul style="list-style-type: none"> <li>• Create a comprehensive database with project profiles, sector reports, country reports etc.</li> <li>• Facilitate grounding of investments in the state</li> <li>• Create a policy research cell in iNDEXTb. Research on industrial climate and recommend improvement areas/sectors. The cell will provide policy/incentive inputs</li> </ul>
5. Capacity building of the PPP cell	<ul style="list-style-type: none"> <li>• Enable private sector participation in infrastructure projects within the State by developing capability to implement PPP projects</li> <li>• Conduct training sessions/trains for nominated people to improve skills for structuring and implementation of PPP projects</li> <li>• Develop a project monitoring matrix for monitoring of 5 selected projects</li> <li>• Monitor the selected projects in accordance with the project monitoring matrix</li> </ul>
6. Apex Training Institute and Training of Trainers (ToT) for Skill Development	<ul style="list-style-type: none"> <li>• Enhance quality of training institutions in the state, by creating Gujarat Apex Training Institute (GATI)</li> <li>• Create a roadmap for an apex training institution in PPP Mode agreeable amongst all stakeholders including private players.</li> <li>• Prepare benchmarking standards for trainers and trainees based on international affiliations</li> </ul>
7. Strengthening of Gujarat Skill Development Mission & Skill Gap Study	<ul style="list-style-type: none"> <li>• Perform a state level skill gap analysis &amp; district level skill gap analysis</li> <li>• Identify and implement new models of industry participation in vocational training</li> <li>• Skill certification program – Recognition of Prior Learning</li> <li>• Perform a state level skill gap analysis &amp; district level skill gap analysis</li> <li>• Introduce new training trades. Modify existing course curriculums for removal of obsolete training trades.</li> </ul>
8. Acceleration of infrastructure development	<ul style="list-style-type: none"> <li>• Small infrastructure Project Empowered Committee will select the priority projects and allocate budget properly</li> <li>• The administrative departments and implementing</li> </ul>

	agencies will appropriately monitor and facilitate the priority projects
	<ul style="list-style-type: none"> <li>• Small infrastructure Project Empowered Committee will select priority small infrastructure projects</li> <li>• Facilitate implementation of the priority small infrastructure projects in accordance with the established Project Monitoring Matrix</li> </ul>

(4) Estimated Program Cost (Loan Amount)

ODA loan amount: 16,825 million yen

(5) Schedule

The commencement of financial support under the Program is scheduled for April 2016. The targets of the policy actions are set for March 2017, March 2018 and March 2019. The program monitoring committee assesses the performance the following fiscal year. Loans will be provided after the attainment of the targets is confirmed. The Program is considered completed when the last loan is provided (scheduled for June 2019).

(6) Program Implementation Structure

- 1) Borrower: The President of India
- 2) Executing Agency: Finance Department, Government of Gujarat

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

- 1) Environmental and Social Consideration
  - (i) Category: C
  - (ii) Reason for Categorization: The Program is deemed to have the minimum adverse impact on the environment as defined by the JICA Guidelines for Environmental and Social Considerations, promulgated in April 2010.
- 2) Promotion of Poverty Reduction: None in particular
- 3) Promotion of Social Development: Consultation with the state government has acknowledged the importance of vocational training and employment support for women in the process of improving the investment climate.

(8) Other Important Issues: The Program will also support promotion of the implementation of small infrastructure projects (such as the widening and resurfacing of roads in and in/around industrial parks) that will benefit industrial areas including the Mandal-Becharaji Special Investment Region (SIR).

**4. Targeted Outcomes**

(1) Quantitative Effects

1) Outcomes (Operation and Effect Indicators))

Program objectives	Indicator	Baseline (Actual value in FY2015)	Target (FY2019) [Expected value at program completion]

Policy and institution improvement that will contribute to private investment promotion and industrial advancement	Application processing within the target period at the single window portal site for investors (%/year)	N/A	85% of the applications have been processed.
	Cumulative total of cases where the investment promotion bureau has disseminated new project proposals or other information to potential investors	N/A	30
	Cumulative total of cases where iNDEXTb has supported grounding of 2 industrial projects	0	2
	Cumulative total of PPP project monitoring matrix	0	5
Policy and institution improvement that will contribute to skill development	Cumulative total of participants in training courses for trainers and youths at the state apex training institute	0 (The training institute has yet to be established.)	200 trainers 500 youths
	Rate of increase in number/registrations of youth interested in skilling (from FY2017 to 18) (%)	N/A	10
	Annual percentage of placement and self-employment of the skilled trainees	N/A	50 (employed) 20(self-employed (farmers, etc.))
Improvement of the investment climate for infrastructure such as roads, electricity, and water	Cumulative total of priority small infrastructure projects involving roads, electricity, water, or others, prioritized and facilitated during the program period	0	5

Note: The Program aims to attain the goals for each policy item by the time of the Program completion. Therefore, the operation and effect indicators will be measured at program completion. For reference, the Program will also monitor the annual number of investment-related applications submitted to be processed in the single window clearance system for investors.

## (2) Qualitative Effects

Promotion of socioeconomic development in the state through investment climate improvement, not least the development of the capacity of the state government to implement infrastructure projects, as well as an increase in FDI to the state

(3) Internal Rate of Return

Not calculated.

## **5. External Factors and Risk Control**

None in particular

## **6. Lessons Learned from Past Programs**

(1) Results of Evaluation of Similar Past Programs

The ex-post evaluation in FY2011 of the “Development Policy Support Program (II) (III),” an ODA loan program for the Republic of the Philippines, notes that although some reforms were achieved, including streamlined administrative procedures and integration of the points of contact for import permits at harbors into a single clearance window, Japanese companies in the Philippines were not much aware of these achievements. The 2011 evaluation suggests that information dissemination and sharing with such Japanese firms are important in translating these institutional improvements into attracting more business operations.

The Tamil Nadu Investment Promotion Program involved policy monitoring through ODA loan account technical assistance as well as coordination among the stakeholders. These activities proved the effectiveness of technical assistance in facilitating progress monitoring and program implementation.

(2) Lessons for the Program

In the processes of drawing up the policy matrix and considering small infrastructure projects, the Program has made arrangements for the State Government of Gujarat to take the lead in exchanging views with Japan’s Ministry of Economy, Trade and Industry and local Japanese stakeholders (including JETRO’s Ahmedabad project office and local Japanese firms). The Program thus takes the requests from these different entities into account. In monitoring progress in policy actions, the Program will work with the JETRO office and local Indian firms as necessary to facilitate the sharing of information on the program progress with the private sector as well as collaboration with it. The Program will also consider technical assistance in implementing and monitoring a wide range of policy actions and sharing information with the stakeholders, as in the case of the Tamil Nadu Investment Promotion Program.

## **7. Plan for Future Evaluation**

(1) Indicators to be Used

- 1) Application processing within the target period at the single window portal site for investors (%/year)
- 2) Cumulative total of cases where the investment promotion bureau has disseminated new project proposals or other information to potential investors
- 3) Cumulative total of cases where iNDEXTb has supported grounding of 2 industrial projects



- 4) Cumulative total of PPP project monitoring matrix
- 5) Cumulative total of participants in training courses for trainers and youths at the state apex training institute
- 6) Rate of increase in number/registrations of youth interested in skilling (from FY2017 to 18) (%)
- 7) Annual percentage of placement and self-employment of the skilled trainees
- 8) Cumulative total of priority small infrastructure projects involving roads, electricity, water, or others, prioritized and facilitated during the program period

(2) Timing

At the time of program completion