

ASIAN DEVELOPMENT BANK

TAR: IND 37407

TECHNICAL ASSISTANCE

TO

INDIA

FOR PREPARING THE

NORTHEASTERN STATES TRADE AND INVESTMENT CREATION

INITIATIVE

October 2004

CURRENCY EQUIVALENTS

(as of 6 September 2004)

Currency Unit	–	Indian rupee/s (Re/Rs)
Re1.00	=	\$0.0216
\$1.00	=	Rs46.375

For calculations in this report, the exchange used is Rs45.46, the rate prevailing at fact-finding.

ABBREVIATIONS

ADB	–	Asian Development Bank
DONER	–	Department of Development of Northeastern States
FDI	–	foreign direct investment
ICICI	–	Industrial Credit and Investment Corporation of India
SASEC	–	South Asia Subregional Economic Cooperation
TA	–	technical assistance
WTO	–	World Trade Organization
Poverty Classification	–	Other
Sector	–	Industry and trade
Subsector	–	Small and medium scale enterprise and trade
Themes	–	Regional cooperation and private sector development

NOTE

- (i) The fiscal year (FY) of the Government ends on 31 March.
- (ii) In this report, "\$" refers to US dollars.

This report was prepared by H.P. Brunner.

I. INTRODUCTION

1. Enhanced trade and investment requires effective market access. Market access and trade creation falls under the Millennium Development Goals. Trade and investment creation in the northeast is seen as substantially increasing India's returns from investment in transport infrastructure investments undertaken by the Asian Development Bank (ADB) and others. Moreover, substantial economic benefits arise from increased subregional trade creations with Bangladesh, Bhutan, and Nepal, as subregional trade through northeastern India is at a very low level by international standards. Thus, the Government of India (the Government) requested ADB for assistance in evaluating the feasibility of trade and investment creation for the private sector and, based on the feasibility, to outline possible design for project assistance. The technical assistance (TA) Fact-Finding Mission in April 2004 received strong support for a trade and investment creation initiative for the northeastern states of India. The Mission reached an understanding with the Government on the objectives, scope, costs, financing, implementation arrangements, and terms of reference for consulting services under the TA.¹ The TA framework is in Appendix 1.

II. ISSUES

2. With globalization more pervasive than ever before, countries and business sectors are increasingly connected via markets, trade, finance, transport, information, and communication. Bangladesh, Bhutan, India, and Nepal ("the subregion") face a unique opportunity to participate competitively in this global production and trading system. This opportunity will be thwarted when imperfect markets, barriers to trade in various forms, malfunctioning financial systems, serious transport and logistics impediments, and incomplete information and communication all significantly raise the cost of doing business. Availing of global opportunities for employment and income and productivity growth requires addressing domestic and cross-border obstacles, such as trade-related standards and standards accreditation, for private sector development in the subregion.

3. India's 10th Five Year Plan (2002–2007) recognizes the importance of reduction in transaction and communication costs for increased interaction with the world economy. Moreover, increases in efficiency and improvements in quality, productivity, and technology are crucial for attaining greater international competitiveness. The northeastern states in India have lagged behind other parts of the country in terms of integration into the world economy and competitiveness. Institutional weaknesses, remoteness from markets, and difficult access have taken their toll, and left the core of the subregion without substantial agglomerations of commercial and industrial activities. India's northeastern states could play a pivotal role for subregional integration as a key bridge and centralizing function for economic exchange. The bridge function can be extended to include Southeast Asia and the Greater Mekong Subregion. Hence with a view of the subregion's bridge function, the 10th Five Year Plan includes a "growth centers scheme" to promote economic corridors and agglomerations in hilly, remote, and inaccessible regions. Within the South Asia Association for Regional Cooperation (SAARC), India is now keen to establish special economic zones for trade creation.

4. Recognizing the importance of subregional integration, specialization, and agglomeration in a globally connected economy, Bangladesh, Bhutan, India, and Nepal established the South Asia Growth Quadrangle. Within India, Assam and West Bengal play an important role for the subregion, and ADB has planned or undertaken investments in these important states. The India

¹ The TA first appeared in *ADB Business Opportunities* (Internet edition) on 9 January 2004.

Country Strategy and Program 2003–2006² includes an Assam governance and public resource management program as well as a power sector development program, and northeastern states roads and northeastern region urban development projects. TA for the North-South Corridor Development Project in West Bengal,³ completed in 2000, analyzed the trade and transportation flows and costs along subregional transport corridors linking Assam, Bihar, Orissa, and the neighboring countries Bangladesh, Bhutan, and Nepal (water, rail, and roadlinks) in West Bengal. The regional TA analyzed financial, institutional, and legal issues of subregional trade and transport, including transport regulation and institutions, international trade and transit agreements and legal framework for public-private-partnerships. The TA also explored the viability of an “economic corridor” concept. The concept was found to be viable for substantial public and private financing. The government of West Bengal has been very supportive of the concept, which is now also underlying the design of transport connections from West Bengal to Bangladesh, Bhutan, and Nepal under an ADB-financed TA in 2003.⁴

5. At the request of the participating countries, ADB initiated a series of TAs to support development through ADB’s South Asia Subregional Economic Cooperation (SASEC) Program. In December 2002, ADB approved a small-scale TA to examine nontariff-barriers that are being maintained by SASEC countries.⁵ The idea of a subregional standards accreditation has been put forward. Another TA approved in 2003 examines the operational efficiency of subregional transport corridors.⁶ The proposed TA fits into the TA series, as trade and investment development with private sector involvement is one of the five SASEC priority sectors. The regional cooperation strategy and program currently being drafted includes a prospective private sector development loan for 2005 in the ADB lending program for India to facilitate private sector participation in the northeastern economy and to enhance the market environment for competition and productivity critical for higher economic growth and reduction of poverty along an economic corridor.

6. A missing and crucial element for trade creation in the SASEC region, and from it, is the development of the public-private sector infrastructure, particularly the market, trade, finance, and information infrastructure along the prospective physical corridors, to catalyze the economic corridors that could be riding successfully on the transport and communication corridors. The economic corridor concept finds strong support from the private sector, and the government has expressed strong interest in implementing this concept for investment.

7. While pervasive globalization connects and integrates markets and thus builds comparative advantage, it also enables greater specialization, decentralization, and agglomeration of specialized services, production, and distribution. Specialization in a global chain of inputs and markets leads to tremendous gains, with economic opportunities for employment and income growth in a subregion. Outsourcing to reduce the cost of production and service centers helps global firms improve their competitiveness, and at the same time induces subregional firms to contribute their strength. Concentration of low-cost activities in low-cost locations leads to agglomeration gains (so called “localization economies”) and allows firms to reap economies of scale. When many firms are close together, benefits include exchange of knowledge and local buyer-supplier networks. Employees with specific skills will be attracted to firm clusters and economic corridors giving access to a specialized labor pool. These gains can

² ADB. 2003. *Country Strategy and Program (2003-2006): India*. Manila.

³ ADB. 1998. *Technical Assistance to India for Preparing the North-South Corridor Development Project in West Bengal*. Manila.

⁴ ADB. 2003. *Technical Assistance to India for Preparing the Subregional Transport Connectivity Project*. Manila.

⁵ ADB. 2002. *Technical Assistance for Private Sector Cooperation in the SASEC Subregion*. Manila.

⁶ ADB. 2003. *Technical Assistance for Subregional Transport Facilitation*. Manila.

only be realized when the institutions are in place to solve coordination and information problems.

8. ADB's trade and investment creation initiative for the northeast is timely and necessary to improve the market environment for trade and investment in the northeastern states and to provide some comfort needed for potential private sector investments. For instance, Industrial Credit and Investment Corporation of India (ICICI) has, over the last year or so, invested about \$400 million in innovative agro-businesses in India, but none of these investments took place in the northeast. This confirms a recent ADB study that in fiscal year 2002, Assam concluded no foreign direct investment (FDI) approvals, whereas Delhi alone concluded about 1,300. ADB-supported trade and investment creation efforts should focus on specific sectors that have high growth potential and would exploit complementarities in the subregion. Some parts of Assam and the more remote states in the east have unexploited natural resources, the band linking Nepal with Bhutan through part of West Bengal and through Sikkim has high agro-business potential, and services sectors are also prevalent. West Bengal's south provides information, communication, and transport linkage to the rest of the world.

III. THE TECHNICAL ASSISTANCE

A. Purpose and Output

9. The TA will aim to increase the capacity of the private sector in northeastern India to successfully transform itself in response to the challenges and issues facing the subregion in international markets. The TA is to help realize a vision in which the SASEC economies are more closely integrated economically, and are characterized by intensified global and intra-regional transport, communication and information, trade, and investment activities. The purpose of the TA is to develop an investment framework that will enable northeastern India to better position itself to participate in global and regional markets, and reap the considerable gains from specialization, decentralization, and agglomeration economies. Thus the private sector will increase its productivity, while the northeast of India can increasingly serve as an important land bridge for trade between South Asia and Southeast Asia and the Greater Mekong Subregion. The action plan will help the private sector set up the collective institutions that maintain low transaction costs, which identify new economic opportunities, and enhance the transparency of the factor, service (including financial), and labor markets. These in turn provide employment and attract domestic and foreign investments. The action plan will enhance the conditions of private-sector-led growth by responding to the need of a competition-enhancing policy framework, and an institutional set-up that provides an open and competitive field, and (as much as possible) equal opportunities among sectors and types of firms. A plan for a subregional standards accreditation will be detailed by the TA. The plan will also propose an export support facility for private sector development.

B. Methodology and Key Activities

10. The TA will have four components, which will be implemented in sequence.

11. **Component 1: Identifying an Emerging Comparative Advantage for Northeastern States' Industry and Services Sectors.** The consultants will analyze geographic economic activity of firms in northeast India. This will be analyzed in the context of SASEC countries. Then, firm-based trade volumes and values, degree of export diversification, and related trends (among others) will be analyzed. New export opportunities that may emerge from trends will be linked to specific international market networks (Asia, Europe, and North America). Export

opportunities will be seen in view of World Trade Organization (WTO) standards and norms that have come, or will come into force with completion of India's WTO accession.

12. Component 2: Identifying Policy, Legal and Regulatory, and Institutional Constraints to the Private Sector for Northeastern India. The consultants will, among others, review and analyze India's trade and investment policies, including those on FDI, and assess their relevance and adequacy for northeastern states. The consultants will establish FDI complementarities among the SASEC countries. The review will also focus on state policies. A factor market (input) analysis and action plan of northeast India will be undertaken including an institutional-legal analysis for trade and investment enhancement (e.g., simplification of business registration, and improvement of financing channels).

13. Component 3: Designing an Export Support Facility for Private Sector Development. The consultants will survey the facilities available to or lacking in businesses operating in promising sectors (e.g., debt financing and its terms, maturities, mezzanine, equity financing, insurance, credit enhancements, etc.). To fill any gaps, a support mechanism could be catalyzed to overcome identified obstacles to increased competitiveness for northeast India's private sector. Consultants will develop the institutional, management, market, financing, legal, and regulatory aspects in a business plan for the export support facility. The possible role of the North Eastern Development Finance Corporation in the export support facility will be examined and specified. The consultants will determine ADB's role in any support mechanisms and help reach agreement on the participation of stakeholders, including the private sector and international technology and knowledge partners.

14. Component 4: Developing Project Concepts in Response to Private Sector Constraints. Based on the preceding analysis, the consultants will develop detailed concepts for specific project components that may be prepared for ADB financing. Viable concepts have to be accompanied by economic impact analysis including summary poverty, social (Appendix 2), and environment impact assessment. The analysis must clearly identify and measure public goods emanating from public sector support of private sector development along economic corridors, networks, and zones, due to, for instance, improved factor supplies, lowered information barriers, stronger market linkages, and private sector networks (e.g., imitation of successful exporters, improvements of product quality, and spread of technology in the northeastern economy). The setting-up of a subregional standard accreditation body and calibration service will be examined.

C. Cost and Financing

15. The total cost of the TA is estimated at \$625,000 equivalent, comprising \$394,000 in foreign exchange and \$231,000 equivalent in local currency. The TA will be financed on a grant basis from ADB's TA funding program. ADB will provide \$500,000 to cover the entire foreign exchange cost of \$394,000 and \$106,000 equivalent of the local currency cost. The Government will provide the remaining \$125,000 of the local currency cost in kind. Details of the cost estimates are in Appendix 3. The Government has been informed that approval of the TA does not commit ADB to financing any ensuing project.

D. Implementation Arrangements

16. The Executing Agency for the TA will be the Department of Development of Northeastern States (DONER), Government of India. The North Eastern Council will be a consultative body to the TA. A business consultative group comprising representatives from the

private sector and select government ministries will be set up. Coordination among various areas of the Government will be facilitated through a steering committee including representation from the Ministry of Commerce, Ministry of External Affairs, Ministry of Finance, and DONER.

17. An international consulting team in association with a domestic team will be engaged to implement the TA. The consultants will be selected and engaged in accordance with ADB's *Guidelines on the Use of Consultants* and other arrangements satisfactory to ADB for engaging domestic consultants. Consultant selection will be based on the quality and cost-based selection method using the simplified technical proposal. The TA will require about 13 person-months of service from international consultants with expertise in (i) supply chain analysis, with a background in subregional connectivity projects; (ii) trade and industrial organization economics; (iii) impact evaluation (including direct-indirect poverty, social aspects, and environment); (iv) a legal expert with speciality in competition law and anti trust, and private sector regulation; (v) a management and/or institutional expert for establishing export support mechanisms; and (vi) marketing support and international supply chain and market access and export zone development. An additional 16 person-months of domestic consulting services will be required in the same disciplines. The consulting services will be carried out over 8 months from October 2004 to June 2005. The outline terms of reference are in Appendix 4.

IV. THE PRESIDENT'S DECISION

18. The President, acting under the authority delegated by the Board, has approved the provision of technical assistance not exceeding the equivalent of \$500,000 on a grant basis to the Government of India for preparing the Northeastern States Trade and Investment Creation Initiative, and hereby reports this action to the Board.

PRELIMINARY PROJECT FRAMEWORK

Design Summary	Performance Indicators	Monitoring Mechanisms	Assumptions And Risks
<p>Goal</p> <p>Increased private sector ability (domestic and foreign) to transform and respond to export potential and promising markets that are opening up within the new international trade regime.</p>	<p>Comparative advantage of key sectors in the subregion (e.g., northeastern states, Bangladesh, Bhutan, Nepal).</p> <p>Speed of reallocation of resources among sectors (toward labor-intensive, or natural resource-intensive ones, and the ones with higher value added) and within sectors, for more productive providers.</p>	<p>Labor and capital market analysis, giving estimates of labor and resource intensities and value added.</p> <p>Export unit cost developments when compared to those of competitors.</p>	
<p>Purpose</p> <p>Enhance and intensify the competitive environment for the private sector.</p> <p>Remove supply constraints, market access barriers, and disincentives so as to avail of economies of scale, scope, networks, and agglomeration in promising markets.</p> <p>Catalyze economic corridors and export zones.</p>	<p>Lower transaction costs (including information and coordination costs) from improved legal and institutional environment.</p> <p>Productivity indicators.</p> <p>Measures of market access for particular producers in key sectors and along supply chains.</p>	<p>Transaction cost estimates for key, representative transactions.</p> <p>Productivity indicators of key sectors.</p> <p>Indexes of labor productivity (unit labor costs).</p> <p>Estimates of productivity gains from outsourcing, agglomeration of specialized services and corridor and zonal synergies, and supply chain integration.</p>	<p>Capacity of institutions to maintain monitoring mechanism and to meet project targets.</p> <p>Private sector willingness to respond constructively to increased competitive pressure and to cooperate for the public good.</p>
<p>Outputs</p> <p>Legal and institutional analysis with respect to competitive environment in the private sector, leading to the design of a possible program component.</p> <p>Factor market analysis (particularly labor market, but also capital and technology markets).</p> <p>Analysis of market structure and dynamics linked to geography, economic corridors, market networks, and cluster and zone analysis.</p> <p>Competitiveness analysis, with export diversification, export unit values; and</p>	<p>Action plan supported by key stakeholders and the Asian Development Bank</p> <p>Reform costing, timing, and sequencing.</p> <p>Competitiveness analysis.</p> <p>Market structure analysis.</p> <p>Factor market analysis</p> <p>Impact analysis (poverty, social, environment, economic).</p> <p>Export support facility business plan.</p> <p>Institutional framework and implementation plan.</p> <p>Technical assistance (TA) framework for learning and</p>	<p>Draft model legislation and regulations, focusing at the state level.</p> <p>State level frameworks for public-private partnerships.</p> <p>TA outlines and terms of reference.</p> <p>Baseline data available for clear post-impact measurement.</p> <p>Workshop materials and participant feedback, based on the business plan.</p> <p>Identification of sources of funds for the investment components.</p>	<p>Captured cross-border and subregional effects.</p> <p>Availability and accessibility of required information.</p> <p>Cooperation among key ministries, and states.</p> <p>Private sector willingness to contribute.</p> <p>Preconditions being put in place for follow-up investment.</p>

Design Summary	Performance Indicators	Monitoring Mechanisms	Assumptions And Risks
<p>promising market niches identified for domestic and foreign investment operations.</p> <p>Risk mitigation analysis.</p> <p>Design of TA component and funding mechanism.</p> <p>Impact analysis (indirect/direct poverty, social impact, environmental impact).</p> <p>Design of export support mechanism (matching fund could be backed by credit enhancements).</p> <p>Preparation of a business plan for export support facility covering inter alia institutional, financing, legal, and regulatory aspects with the plan, including, in particular, details on governance, management, contractual relationships of the facility, and incentive systems.</p>	<p>institutional strengthening.</p> <p>Clear cause-effect analysis leading to assessment of alternatives.</p>		
<p>Activities</p> <p>Review relevant sector, market, and trade studies by other aid agencies; laws and regulations; institutions; and databases.</p> <p>Extract relevant information and data for analysis.</p> <p>Survey suppliers, buyers, producers, and service providers.</p> <p>Accumulate geographic and supply chain data and information; use of image maps and data sets from across the subregion.</p> <p>Identify economic and financial benefits of public sector interventions in private sector development.</p>	<p>Benchmarks for supply costs, factor costs, and transaction costs in relevant trade sectors.</p> <p>Best-practice examples of market access mechanisms and enhanced productivity of private sector in other relevant Indian states and in other countries.</p> <p>Clear differentiation of private versus social (public) benefits arising from proposed sector interventions.</p>	<p>Inception, interim, and final reports.</p> <p>Review missions.</p> <p>Stakeholder meetings.</p> <p>Progress reports.</p>	

INITIAL POVERTY AND SOCIAL ANALYSIS

A. Linkages to the Country Poverty Analysis

Is the sector identified as a national priority in country poverty analysis?	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No	Is the sector identified as a national priority in country poverty partnership agreement?	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No
Contribution of the sector or subsector to reduce poverty in India: Positive employment effects of private sector growth and higher productivity will be specified during project preparatory technical assistance (TA) investigation.			

B. Poverty Analysis

Proposed Poverty Classification

What type of poverty analysis is needed? Impact analysis will emphasize indirect poverty reduction effects of project.	
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C. Participation Process

Is there a stakeholder analysis?	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No	Is there a participation strategy?	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No
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D. Gender Development

Strategy to maximize impacts on women: No; will be considered if any impact should become apparent from TA investigation.	
Has an output been prepared?	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No

E. Social Safeguards and other Social Risks

Item	Significant/ Not Significant/ None	Strategy to Address Issues	Plan Required
Resettlement	<input type="checkbox"/> Significant <input type="checkbox"/> Not significant <input checked="" type="checkbox"/> None		<input type="checkbox"/> Full <input type="checkbox"/> Short <input checked="" type="checkbox"/> None
Affordability	<input type="checkbox"/> Significant <input type="checkbox"/> Not significant <input checked="" type="checkbox"/> None		<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
Labor	<input checked="" type="checkbox"/> Significant <input type="checkbox"/> Not significant <input type="checkbox"/> None	Expected to be positive through productivity growth effect and new employment in formal sector.	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
Indigenous Peoples	<input type="checkbox"/> Significant <input type="checkbox"/> Not significant <input checked="" type="checkbox"/> None		<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
Other Risks and/or Vulnerabilities	<input type="checkbox"/> Significant <input type="checkbox"/> Not significant <input checked="" type="checkbox"/> None		<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No

COST ESTIMATES AND FINANCING PLAN
(\$'000)

Item	Foreign Exchange	Local Currency	Total Cost
A. Asian Development Bank (ADB) Financing^a			
1. Consultants			
a. Remuneration and Per Diem			
i. International	286	0	286
ii. Domestic Consultants	0	72	72
b. International and Local Travel	50	10	60
2. Government Representative for Meetings in Manila ^b	5	0	5
3. Miscellaneous			
a. Workshops, Study Tour, GIS Material ^c	18	9	27
b. Administrative Support	7	5	12
4. Contingencies	28	10	38
Subtotal (A)	394	106	500
B. Government Financing			
1. Counterpart Staff and Office Accommodation, Office, Utilities, Transport, and Secretarial Support, Maps, Data, and Documents	0	125	125
Subtotal (B)	0	125	125
Total	394	231	625

GIS = geographic information system.

^a Financed by ADB's technical assistance funding program.

^b Including visit to ADB headquarters for contract negotiations and meetings with consultants and ADB staff.

^c Study tour approximately \$16,000; workshop, \$8,000; and GIS material, \$3,000.

Source: ADB estimates.

OUTLINE TERMS OF REFERENCE FOR CONSULTANTS

1. The team of consultants will include (i) a supply chain expert with a background in subregional projects; (ii) a trade and industrial organization economist; (iii) an impact evaluation specialist (including direct-indirect poverty, social aspects, and environment); (iv) a legal expert with speciality in competition law and antitrust and private sector regulation; (v) a management and/or institutional expert for establishing export support mechanisms; and (vi) marketing support and international supply chain and market access experts with expertise on trade corridors and special trade zones. The international experts will be supported by domestic consultants. Table A4 shows the consultants' roles in each component of the technical assistance (TA).

2. The TA will comprise four components; for which the consultants will (i) analyze a recent developments in the competitiveness of the northeastern states' industry and services sectors, and how this compares to Bangladesh, Bhutan, and Nepal, and the integration of these sectors with key international markets; (ii) identify policy, legal and regulatory, and institutional constraints on the private sector's ability to respond effectively to market opportunities; (iii) select the key factors causing the present restrained response to emerging comparative advantage in market niches, such as supply constraints in factor markets; information barriers and asymmetries between markets; severed market linkages preventing the private sector from availing of economies of scale, scope, networks, and agglomeration; barriers to coordination and collective action among key private sector players, which prevent pooling of resources and organizational capabilities; and barriers to competition linked possibly to adverse incentive regimes; and (iv) develop and institute effective mechanisms to help the private sector respond to the issues and obstacles to sector development in the emerging market environment. Based on these results, a project framework will be devised, using the sector development project format of the Asian Development Bank (ADB), including a policy matrix, sector analysis, and cause-effect analysis.

Table A4: Consultants' Roles in the Components

Expert	Component 1		Component 2	Component 3	Component 4	
	Sub-component	Sub-component			Sub-component	Sub-component
Supply Chain: 1 international, 1 domestic	Support 2(v) and (ix)				Lead 4 (i) – (iv)	
Trade and Industrial Organization: 1 international, 2 domestic	Lead 2 (i) – (xiii)					
Impact Evaluation: 1 international	Support 2(xiii)					Lead 4 (v) – (viii)
Legal and Private Sector Regulation: 1 international, 1 domestic	Support 2 (xi)		Lead 1(i) – (vii)	Support 3 (xiii)		
Management for Support Vehicles: 1 international, 1 domestic		Support 2 (xvii)		Lead 3 (i) – (xii)		
Market Access and Export Zones 2 international, 1 domestic		Lead 2 (xiv) – (xvii)		Support 3 (iv)		

3. The team will prepare an inception report within 6 weeks of the start of consulting services. This report will assess the investment feasibility, and then detail the field services

required for assessing economic impact (including direct and indirect poverty impact). The inception report will also contain an initial business plan with operating budget for the planned export support facility. The inception report will be discussed at a stakeholders meeting that will be organized by the consultant team. An interim (midterm) report will be submitted about 3.5 months after the start of services. The report will contain a draft project framework. Any study tour will be detailed and implemented by the team. The interim report will be peer-reviewed by ADB staff, possibly in conjunction with a visit of the team leader to headquarters. A draft final report, to be submitted about 7 months into the consultancy, will coincide with another workshop, or a similar event as necessary, to present and facilitate the dissemination of the findings and recommendations of the TA to private sector interests and Government officials. Throughout the work, the team will cooperatively and iteratively assess investment feasibility and detail the prospective project. A final report in both hard copy and electronic form will incorporate the comments of the Government and ADB. As deemed necessary, the team leader will present key findings at ADB headquarters in Manila at midterm or at the final stage of the TA.

A. Identifying an Emerging Comparative Advantage for Northeastern States' Industry and Services Sectors (Component 1)

4. The trade and industrial-organization economists (1 international and 2 domestic; 2.0 and 6.0 person-months, respectively) will review and analyze the studies on the northeastern states' competitive situation, and in comparison with Bhutan and Nepal. The analysis will help identify a possible emerging comparative advantage for the emerging private sector in the subregional context. The market access experts will ensure that comparative advantage is translated into market access for Nepal. The legal experts (para. 5) will support the identification and analysis of institutions that promote or hinder the development of factor markets, and will evaluate institutional capabilities. The specific tasks of the consultants are as follows: (i) Be familiar with the findings of the ongoing and completed World Bank and other aid agencies' studies on the subregion's competitiveness. (ii) Analyze, among others, trade volumes in value and quantity by target countries and markets, imports, and exports, by sector. (iii) Quantify the overall export diversification of the northeastern states on a three and/or four-digit Institutional Standard Industry Code (ISIC) sector level. (iv) Calculate subregional unit export values over a period of time at a sufficient sector level. Relate the values to standards of international export competitiveness. Discern trends to identify strengths and weaknesses in export development. (v) With the supply chain specialists and based on a focused business survey, analyze and benchmark typical business transactions and their transaction costs. (vi) View export opportunities from the perspective of World Trade Organization (WTO) norms that will come into force in People's Republic of China and India in 2005. (vii) The focused business survey will identify key exporters, their specialization and their location, among others, and use survey inputs from exporters for a detailed demand analysis of proposed project interventions. (viii) Analyze the structure of firm sizes, output (i.e., production and value added), and employment and compare this in the subregion for eventual complementarities. (ix) With the help of the supply chain specialist, determine the geographic concentration of economic activity along supply and logistics chains, and economic corridors. (x) Review and analyze, also geographically, the employment situation and labor markets, associated collective institutions (specifically employer and labor representative groups involved in consultative and compliance institutions), and the resulting labor market dynamics. (xi) Analyze institutions, including the enforcement and implementation capabilities of key collective labor market institutions. (xii) Analyze factor markets other than labor, including the key economic sectors. (xiii) Make a summary poverty (direct and indirect) impact analysis, following ADB's advanced standards of

economic analysis including policy-based operations. This leads to a cause-effect analysis, supported by the work of the impact evaluation specialists.

5. In addition, market access specialists (2 international and 1 domestic; 3.0 and 2.0 person-months respectively) will undertake the following tasks: (i) Link export opportunities to specific international market networks in Asia, Europe, and North America. (ii) Analyze key supplier-buyer relationships, and communication and information structures in the subregion. (iii) Conduct an economic risk analysis and risk mitigation along the supply and value chains. (iv) Help develop a strategy to develop economic corridors and export zones for the northeastern states, and relate it to neighboring countries, such as Bhutan and Nepal. (v) Review the availability of modern trade finance mechanisms (bank credit instruments and their electronic transmission, and related payment risk transfer).

B. Identifying Policy, Legal and Regulatory, and Institutional Constraints to the Private Sector for Northeastern India (Component 2)

6. The legal experts (international and domestic; 1.0 and 4.0 person-months, respectively) will, among others, review and analyze India's and the relevant Indian states' competition policies, including those for foreign direct investment, and evaluate the institutional setup and capabilities for an open and competitive private sector economy. This review will be complemented by the trade and industrial organization economists' analysis of industry and service sector organizations (firm sizes, production, value added, employment, entry and exit dynamics, geographic location, economic corridors, trade zones and sector networks, factor market analysis, risk mitigation mechanisms for the private sector). A subregional comparison with Bhutan and Nepal will be undertaken to reveal eventual trade complementarities. Specific tasks of the consultants are as follows: (i) List and review private sector development and regulation (regulatory bodies), and industry sector and investment regulation in India and the states. (ii) Establish what antitrust legislation and capabilities should be in place. Examine accounting and disclosure, double taxation issues, build-operate-transfer policy, public-private partnership laws, etc; (iii) Investigate the start-up hurdles (e.g., business registration), including property right issues that prevent the private sector from obtaining a critical mass in promising market niches. (iv) Investigate the legal instrumentation or regimes available to India and to the northeastern states to develop economic corridors and export zones. (v) Describe the experiences of other Indian states and other countries with successful private sector development. (vi) Outline terms of reference for a TA for a competition framework under a possible loan. (vii) Design a program component (key policy conditionalities) under the proposed ADB intervention.

C. Designing an Export Support Facility for Private Sector Development (Component 3)

7. The management expert for finance vehicles (international and domestic; 2.5 and 1.0 person-months, respectively) will (i) design an export support facility to overcome identified private sector hurdles on the way to increased competitiveness; (ii) examine and specify the possible role of the Northeastern Development Finance Corporation, or a similar organization, in any support mechanism; and (iii) develop the institutional, management, market, financing, legal and regulatory aspects in a business plan for the mechanism. The legal and market access experts will support this work. The consultants will undertake the following specific tasks: (i) Survey the support mechanisms currently available (or lacking) for businesses operating in promising sectors. (ii) Consider appropriate funding sources and mechanisms (other than ADB and the Government). Possible sources include common service and business infrastructure

levy on sectors that benefit from network and agglomeration impacts, or mechanisms to access financial markets (both dollars and rupees). (iii) Develop the institutional (including management and expertise) requirements and financing, legal, and regulatory aspects for the business plan of an export support facility for private sector key trade and business corridors and chains that exhibit public goods aspects. (iv) Take a value chain or network perspective, as determined by the market access specialist. (v) Recommend, under the export support facility, a support mechanism for engaging SMEs in feasibility studies (and up to the point of invitations for tender). The experience of India's export marketing funds and the Productivity Fund with Industrial Credit and Investment Corporation of India (ICICI) is applicable. (vi) Give particular attention to the link between support of preinvestment services (for instance legal assistance for setting up sector-specific research and development units, proposals for setting up new production processes and for launching new products), and established financing mechanisms. The experience of India's Program for the Advancement of Commercial Technology (PACT) with ICICI is applicable. (vii) Determine (a) ADB's role in the export mechanism, and help reach agreement on the participation of stakeholders, including the private sector and international technology and knowledge partners; and (b) the role of the central and state governments: states in the northeast face strong fiscal constraints. (viii) Set out licensing requirements, governance, management, contractual relationships, and functions of contracting parties under an export support facility. Include drafting of organizational documents, standard operating procedures with selection criteria for accessing the facility, and a conflict of interest policy. (ix) Develop and update as needed a draft prospectus setting out the business plan, including the approach to selection of target markets and market potential in addressing, for instance, the information, and agglomeration network and constraints to private sector development. (x) Clarify the relationship of the various private sector development facilities. (xi) Propose and draft documents for the organizational setup and introduction of services of an export support facility. (xii) Determine (a) how to recruit and train professionals and advisers, (b) performance management and staff incentives and (c) performance benchmarks. (xiii) For the legal experts, draft the documents of incorporation, articles of association and conflict of interest policy, in collaboration with the prospective board of directors.

D. Developing Project Concepts in Response to Private Sector Constraints (Component 4)

8. Detailed concepts for specific project components and programs for possible ADB financing (such as setting up a subregional standards accreditation mechanism and calibration service) should be prepared, including associated impact analysis as the concepts may be identified by other experts of the team (leading to, if applicable, implementation arrangements). Viable concepts have to be accompanied by an economic impact analysis that clearly identifies and measures public goods emanating from public sector support of private sector development, due to, for instance, improved factor supplies, lowered information barriers, stronger market linkages, private sector networks, etc. An impact evaluation specialist will primarily undertake impact analysis.

9. The supply chain experts (international and domestic; 2.0 and 3.0 person-months, respectively) will undertake these tasks: (i) Assemble the data that traces enterprise linkages (hard, soft, and information), including, subregional linkages through logistics chains; and coordinate with ADB subregional-corridor study. This should be done at least for the top three export sector opportunities identified. (ii) Build a logistics model, including estimation of trade impacts from logistics improvements. (iii) Analyze logistics chains to establish enterprise savings from chain improvements and potential investments. (iv) Analyze container traffic by box size and major origin and destination pairs, also relating to neighboring landlocked

countries. Examine the rail transit routes linking the northeast and landlocked countries to Kolkata and Haldia ports, or other port outlets. Identify improvements for coordinating container movements across the subregion including minimizing dry ports and empty containers.

10. The impact evaluation specialist (international, 2.5 person-months) will undertake the following tasks: (i) Analyze employment by income levels and geographic location (poor, medium people and rich households). (ii) In the light of identified project and program interventions, provide a geographic analysis with a network model of economic activities and clusters, economic corridors and trade zones, and their interrelationship and interactions. Assess gains from greater market specialization, decentralization along a supply chain, and agglomeration of specialized services, production, and distribution. (iii) Undertake a summary environment and social impact analysis (in conjunction with poverty impact analysis). The environmental assessment will follow ADB's *Guidelines on Environmental Assessment*. It will include environmental safeguards for any matching fund component and will review the environmental implications of a policy matrix. (iv) For the impact analysis, take into account ADB's *Guidelines for the Economic Analysis of Projects*, and adhere to ADB's standards and procedures on social and environmental impact analysis.