

ASIAN DEVELOPMENT BANK

TAR: OTH 35131

TECHNICAL ASSISTANCE

FOR

SOUTH ASIA SUBREGIONAL ECONOMIC COOPERATION

II

December 2001

ABBREVIATIONS

ADB	-	Asian Development Bank
BBIN	-	Bangladesh, Bhutan, India, and Nepal
ENVD	-	Environment Division
GMS	-	Greater Mekong Subregion
JBIC	-	Japan Bank for International Cooperation
ICT	-	information and communications technology
SAARC	-	South Asian Association for Regional Cooperation
SAGQ	-	South Asia Growth Quadrangle
SASEC	-	South Asia Subregional Economic Cooperation
TA	-	technical assistance
TIPWG	-	Trade, Investment, and Private Sector Cooperation Working Group

NOTE

In this report, "\$" refers to US dollars.

I. INTRODUCTION

1. Since the 1997 launching of the South Asia Growth Quadrangle (SAGQ) — a subregional cooperation initiative of Bangladesh, Bhutan, India, and Nepal (hereinafter referred to as BBIN) — the Asian Development Bank (ADB) has exerted considerable effort to promote subregional cooperation in South Asia through the South Asia Subregional Economic Cooperation (SASEC) Program. The Program was launched at the request of BBIN and is designed to support their cooperation. These efforts have now gained considerable momentum with the full participation of India in technical assistance (TA) 5936-REG: Identification and Prioritization of Subregional Projects in South Asia,¹ the lead activity under the SASEC Program. Activities under TA 5936-REG will be completed in March 2002. Preparations for the next phase need to be undertaken now to allow a seamless transition from the ongoing TA 5936-REG to the phase II TA in April 2002 without breaking the momentum that has been built up. The phase II TA will consolidate and further develop the results of the ongoing TA. A Fact-Finding Mission visited BBIN on 19-26 July 2001 to discuss and reach an understanding on the objective, scope, cost estimates, financing, and implementation arrangements of the TA with the respective governments.

II. BACKGROUND AND RATIONALE

2. ADB's mandate to promote regional cooperation was translated into policy in 1994.² ADB has supported several subregional cooperation programs in Southeast and Central Asia, including the Greater Mekong Subregion (GMS) Cooperation, Central Asian Regional Economic Cooperation (CAREC), Indonesia-Malaysia-Thailand Growth Triangle, and Brunei, Indonesia, Malaysia, Philippines — East ASEAN Growth Area programs. ADB's engagement in promoting subregional cooperation in Southeast and Central Asia has covered the whole range of activities from technical studies and workshops in support of cooperative dialogue, to physical investments in cross-border projects, to, where appropriate, assistance for cross-border agreements like the Framework Agreement on Movement of Goods and People recently signed by Lao People's Democratic Republic, Thailand, and Viet Nam. In a study of the GMS program, ADB's Operations Evaluation Department summarized the key lessons learned, recommended that subregional cooperation programs should remain sharply focused on realistic goals, and emphasized the constraints of an ad hoc approach to subregional cooperation and the importance of appropriate institutional arrangements.³ The experience of the CAREC program also underlines the effectiveness of promoting cooperation around specific projects, and the importance of institutional arrangements.

3. ADB's efforts to support subregional cooperation in eastern South Asia originated from the constitution of SAGQ. Initiated in December 1996, SAGQ was formally launched by the BBIN foreign ministers in April 1997. It was subsequently endorsed by the Ninth Summit of the South Asian Association for Regional Cooperation (SAARC), held in Male in May 1997 as a subregional initiative within SAARC. The establishment of SAGQ was aimed at identifying and implementing subregional projects involving two or more countries of eastern South Asia. BBIN identified five priority sectors for cooperation under SAGQ, established action committees for each sector, and assigned coordinating responsibilities among its members as follows: Bangladesh for Energy; Bhutan for Environment; India for Trade and Investment; and Nepal for

¹ For \$785,000, approved on 22 September 2000.

² R60-94: *Bank Support for Regional Cooperation*, 11 April 1994.

³ ADB. 1999. *Impact Evaluation Study of the Asian Development Bank's Program of Subregional Economic Cooperation in the Greater Mekong Subregion*. Manila.

Transport and Tourism. ADB's SASEC Program was subsequently launched at the request of the participating countries to help develop the SAGQ initiative in each of these sectors. The finance secretaries of BBIN very strongly supported and welcomed the program at the Country Advisors Inception Meeting in March, 2001, and BBIN delegates have reiterated their request for continuing ADB support at every Working Group Meeting.

4. ADB attaches very high priority to the SASEC program in the context of ADB's central operational objective of poverty reduction. This is because BBIN accounts for the largest concentration of the world's poor. About 500 million of the estimated 900 million of Asia's poor people are found within this region. At the same time, the region has vast potential for cross-border investment and trade that could transform it into a high growth area, with consequent rapid reduction of poverty.

5. ADB provides very substantial loans and TAs to each of the four BBIN countries individually. It has also been financing several loan projects at the national level and related TAs that have subregional implications. ADB is also implementing four regional cooperation TAs involving two or more BBIN countries: (i) TA 5736-REG: India-Bangladesh Electricity Exchange Project;⁴ (ii) TA 5890-REG: First Private Sector Forum on South Asia Subregional Economic Cooperation;⁵ (iii) TA 5971-REG: Regional Round Table on Information and Communications Technology;⁶ and (iv) TA 5936-REG: Identification and Prioritization of Subregional Projects in South Asia (footnote 1), the last being the lead activity under the SASEC Program.

6. The main purpose of the ongoing TA 5936-REG is to identify and prioritize subregional investment projects or programs in the five identified sectors under the overall guidance of the sector working groups, consisting of senior officials from the relevant departments of participating governments, and business leaders where appropriate. The Country Advisors Inception Meeting of the ongoing TA, held in Manila on 22-23 March 2001, determined the broad criteria for shortlisting subregional projects. Subsequently, the Tourism Working Group met in Kathmandu on 15-16 May 2001, followed by a meeting of the Environment Working Group in Thimphu on 17-18 July 2001, the Transport Working Group in Kathmandu on 15-17 October 2001, and the Energy/Power Working Group in Dhaka on 18-19 November 2001. The Trade, Investment, and Private Sector Cooperation Working Group (TIPWG) meeting will be held on 21-22 December 2001 in Kolkata, India.

7. Based on the terms of reference developed at the sector working group inception meetings, the sector working group reports are now under preparation.⁷ They will apply the criteria laid down by the working groups to prioritize projects to be taken up in the next phase of the SASEC Program, after endorsement by the respective working groups. It is expected that all sector reports will be completed by the end of March 2002, giving a list of prioritized investments and TAs in each selected sector.

8. The next phase of the SASEC Program should help to carry forward the cooperative dialogue initiated under the ongoing TA by supporting review meetings of all the sector working

⁴ For \$120,000, approved on 19 May 1997.

⁵ For \$60,000, approved on 23 December 1999.

⁶ For \$90,000, approved on 21 December 2000.

⁷ The TIPWG report will be initiated after the TIPWG Inception Meeting in Kolkata on 21-22 December 2001. However, background papers have already been drafted for the meeting, including some possible priority projects for consideration and endorsement by TIPWG.

groups. It will also be necessary to aggregate the priority projects/programs within individual sectors identified under the ongoing TA into a consolidated prioritization across sectors, develop project/program concepts, and prepare prefeasibility/feasibility studies for a subset of the highest priority projects/programs within the available resources envisaged. This will have to be undertaken along two routes. For the projects/programs that are already well defined in the ongoing TA 5936-REG, it may be possible to proceed to the preparation of prefeasibility/feasibility studies, each involving a fairly high cost. These can be taken up under separate stand-alone project preparatory TAs, eventually leading to loans. For other projects/programs where relatively low-cost concept studies are required, these can be taken up under the second phase of the SASEC Program, along with the organization of the Senior Officials Meeting and working group meetings. The extent to which the SASEC Program moves forward along the two routes will of course vary from one sector to another.

III. THE TECHNICAL ASSISTANCE

A. Objectives

9. One objective of the TA is to institutionalize sector working groups and the participation of senior officials to help further develop the BBIN subregional cooperative dialogue. The TA will also support the preparation of concept studies for selected projects/programs identified and prioritized under TA 5936-REG if they are not taken up as separate stand-alone TAs (para. 8). The TA framework is given in Appendix 1.

B. Scope

10. It is intended to make a seamless transition from the ongoing TA 5936-REG to this TA. Based on consultations with the participating countries and the concerned projects divisions in ADB, the following activities are to be included in the TA:

- (i) Review and assess the results achieved under the ongoing TA, to provide feedback for future ADB assistance for regional cooperation in South Asia.
- (ii) **Tourism:** Design products around identified “jewels,” or prime tourist attractions, in eastern South Asia for joint marketing by the BBIN countries; and hold an industry-led SASEC Tourism Forum, which should evolve into a self-financing annual event.
- (iii) **Transport:** Review the existing bilateral transit arrangements and other policy/institutional impediments, and develop new arrangements either by modifying the existing transit arrangements or by developing a framework agreement to facilitate the movement of goods and people across BBIN. Such an agreement could address such issues as standardizing documentation, streamlining customs inspections, and the possible introduction of electronic data interface among participating countries.
- (iv) **Trade, Investment, and Private Sector Cooperation:** Hold the Second South Asia Business Forum, to follow the Private Sector Forum held under TA 5890-REG in November 2000 in Calcutta and the South Asia Business Forum, which is scheduled to be held under TA 5936-REG in 2001 or early 2002. This forum serves as a private sector advocacy platform to promote official regional

cooperation arrangements and to facilitate private sector cooperation in selected activities, particularly relating to trade and investment in the subregion.

- (v) **Energy/Power:** Prepare concept reports, as required, for energy/power projects identified in the ongoing TA 5936-REG report of the Energy/Power Working Group, and assess the overall regional cooperation program in energy/power in the subregion, including both bilaterally and multilaterally supported projects.
- (vi) In addition to the above sectors, make provision for meetings relating to the **environment** and **information and communication technology (ICT)** sectors,⁸ and coordinate with other development partners and with unanticipated meetings that may have to be taken up in the course of TA implementation to carry forward the objectives of this TA.

11. The finalization meetings scheduled for each sector working group under the ongoing TA will determine the detailed scope of work to be undertaken for each of the sectors. Discussions regarding cofinancing are ongoing with the Japan Bank International Cooperation (JBIC), which has indicated interest in principle. However, JBIC needs further internal consultations on whether or not to cofinance the TA. If JBIC cofinancing is made available, the scope of the TA will be revised accordingly.

C. Cost Estimates and Financing Plan

12. The TA is estimated to cost \$500,000 and will be financed on a grant basis from the ADB-funded TA program. The detailed cost estimates and financing plan are shown in Appendix 2.

D. Implementation Arrangements

13. The TA will be implemented after the proposed reorganization of ADB, over a 12-month period ending on 31 March 2003. ADB will be the Executing Agency for the TA. Within ADB, the TA will be implemented by a multidivision team drawn from concerned divisions and resident missions of the proposed South Asia Department.⁹ The TA will be implemented by ADB in close collaboration with BBIN.

14. Overall supervision and coordination of the TA will be undertaken jointly by a senior officials group. The secretaries of the ministries of finance, assisted by their directors-general or joint secretaries, will constitute the senior officials group. Sector level coordination will be undertaken by ADB and the sector working groups. Each sector working group will consist of senior officials from the relevant line agencies in the participating countries, plus private sector

⁸ For the environment sector the implementing division, ENVD, has indicated that the TA should only provide for a working group meeting. Individual prefeasibility/feasibility studies will be taken up under separate regional TAs. Regarding ICT, this was not included in the ongoing TA 5936-REG. However, the Country Advisors Inception Meeting of TA 5936-REG and subsequently the participating countries have requested inclusion of cooperation on ICT. A separate small-scale TA was processed and a very successful Regional Roundtable on Information and Technology was organized in Bangalore on 28-30 August 2001. Several follow-up activities were proposed. It would be difficult to support these activities under the TA at present, other than a working group meeting, because of budgetary constraints. However, if cofinancing is made available, some of the activities could be initiated under the TA.

⁹ Under the proposed new organization structure of ADB, which is scheduled to be in place by 1 January 2002.

representatives where required. The standing members of the working groups will be of the level of secretary, and the alternate members will be at the level of director-general or joint secretary. Based on the experience of the ongoing TA 5936-REG, the size of the Transport Working Group; Energy and Power Working Group; and Trade, Investment, and Private Sector Working Group will be expanded to accommodate the multiple ministries involved in these sectors. As in TA 5936-REG, chairmanship of the working groups will be as follows: Bangladesh for Energy and Power; Bhutan for Environment; India for Trade, Investment, and Private Sector Cooperation; and Nepal for Transport and Tourism. An organization chart demonstrating the implementation arrangements is presented in Appendix 3.

15. To ensure consistency of the sector programs with national priorities, a representative of each ministry of finance and ministry of external affairs will attend all sector working group meetings. To ensure efficient communications, sector working group communications will be addressed to the standing members of the relevant working groups with a copy to the ministries of finance. It is also important to integrate ADB-supported regional cooperation efforts with official intergovernmental efforts in South Asia. Toward this end, it has been agreed with the SAARC Secretariat that ADB will provide for one representative of the SAARC Secretariat to attend all SASEC meetings.

16. The technical work will be undertaken by sector advisors (international consultants) specializing in the South Asia region; domestic consultants from the participating countries; and, where required, premier nonprofit research organizations from the subregion with specialized knowledge of and experience with their respective sectors. These institutions will be selected by the South Asia Department of ADB in accordance with predetermined criteria and based on the advice of the sector working groups. The consultants will be engaged as individuals in accordance with ADB's *Guidelines on the Use of Consultants* and other arrangements for the selection of domestic consultants acceptable to ADB. The outline terms of reference of the consultants are given in Appendix 4.

IV. THE PRESIDENT'S DECISION

17. The President, acting under the authority delegated by the Board, has approved the provision of technical assistance, on a grant basis, in an amount not exceeding the equivalent of \$500,000 for the purpose of South Asia Subregional Economic Cooperation II and hereby reports such action to the Board.

TECHNICAL ASSISTANCE FRAMEWORK

Design Summary	Performance Indicators	Monitoring Mechanisms	Assumptions and Risks
<p>Goal</p> <p>Facilitate and support project-specific economic cooperation among Bangladesh, Bhutan, India, and Nepal.</p>	<p>Review and assessment of the results under technical assistance (TA) 5936-REG</p> <p>Preparation of project concept reports for each sector identified and prioritized under TA 5936-REG</p> <p>Organization of meetings of the sector working groups to review progress of subregional cooperation activities in each sector and to assess the overall regional cooperation program</p>	<p>Reports of consultants</p> <p>Project concept reports for the selected projects</p> <p>Sector working group meetings and sector forum</p> <p>Back-to-office reports of Asian Development Bank (ADB) consultation missions</p>	<p>Macroeconomic policies and conditions, level of commitment and support to the South Asia Subregional Economic Cooperation (SASEC) Program, and institutional capacities will determine the success of regional cooperation in the region.</p>
<p>Purpose</p> <p>1. Institutionalize the sector working groups in order to assist the SASEC countries in further developing subregional cooperation dialogue.</p> <p>2. Support the preparation of concept studies for selected projects under phase I.</p>	<p>Organization of meetings of the sector working groups and sector forums to monitor progress of implementing action programs</p> <p>Preparation of project concept reports for the priority projects</p> <p>Initiation of a framework agreement on movement of goods and people</p>	<p>Reports of consultants</p> <p>Sector working group meetings and sector forums</p> <p>Back-to-office reports of ADB consultation missions</p>	<p>Commitment and support of the participating countries to the SASEC program</p> <p>Capacity constraints in participating countries to provide support for timely completion of TA components</p> <p>Mutual interest and initiatives of participating countries on formulating a framework agreement on transport and trade</p>
<p>Components and Outputs</p> <p>Further development of subregional cooperation dialogue among the participating countries</p> <p>Project concept reports of priority loans and TAs</p> <p>Three-year rolling work plan</p>	<p>Successful completion of working group meetings</p> <p>Completion of project concept reports for priority projects</p>	<p>Reports of consultants</p> <p>Proceedings of sector working group meetings</p> <p>Back-to-office reports of ADB consultation missions</p>	<p>Institutional capacity constraints in the participating countries could affect timely completion of prefeasibility studies of priority projects.</p> <p>Differences in participating countries' perspectives and priorities could affect further development of dialogue among the countries.</p>

(Reference in text: page 3, para. 9)

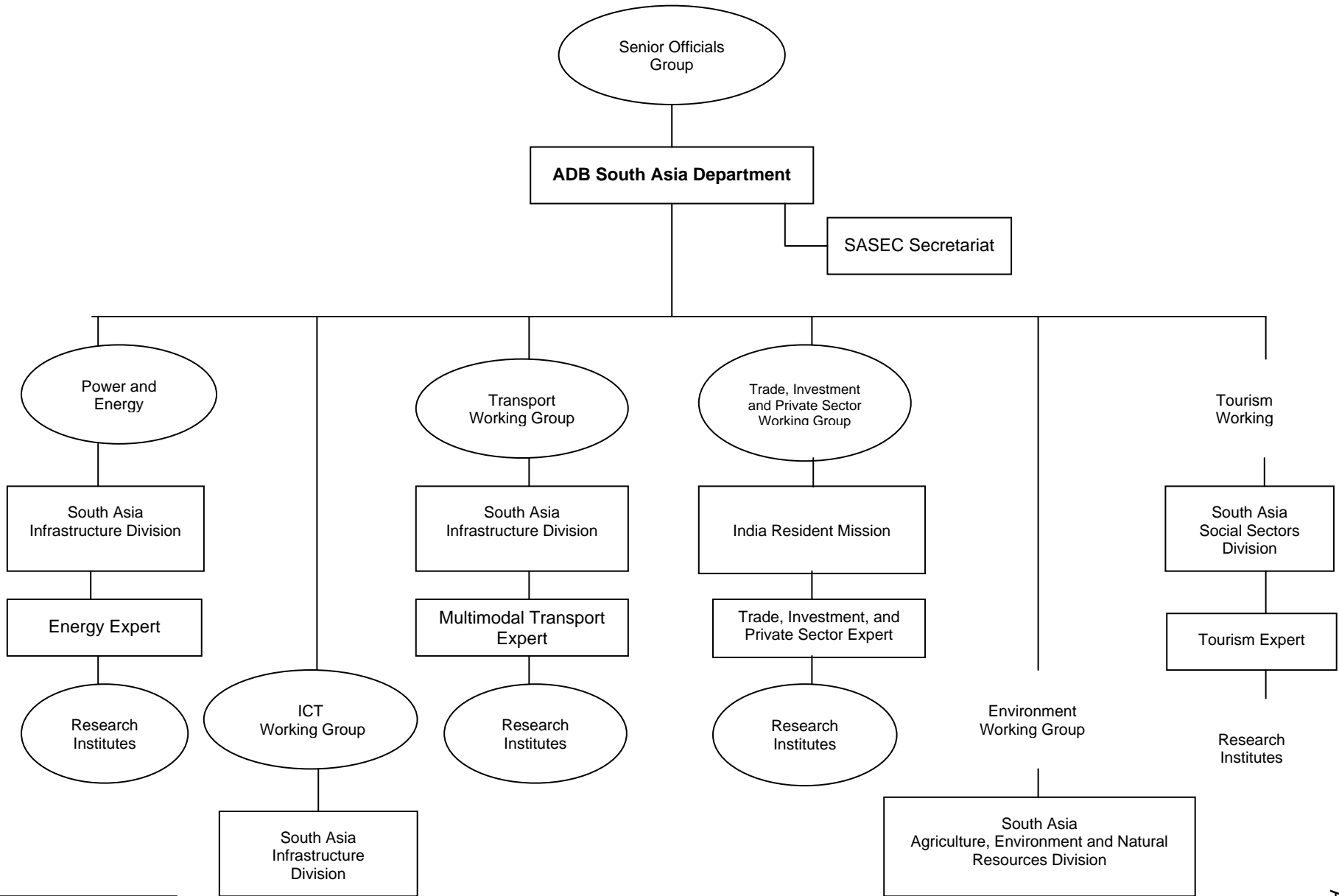
Design Summary	Performance Indicators	Monitoring Mechanisms	Assumptions and Risks
	Review and update of the three-year rolling work plan		
Inputs Sector advisors Senior project assistants ADB TA budget (\$500,000) Government counterpart		Consultants' reports and work plans Consultants' periodic progress reports	Timely deployment of consultants The level of familiarity of the consultants with subregional activities

COST ESTIMATES AND FINANCING PLAN
(\$'000)

Item	Total Cost
1. Consultants	
a. Remuneration and Per Diem	
i. Sector Advisors (International)	72
ii. Senior Project Assistants (Domestic)	60
b. International Travel	40
c. Local Travel	5
2. Background Papers	50
3. Subregional Conferences and Meetings	
a. Working Group Meetings	125
b. Senior Officials Meetings	35
c. Other Meetings and Participatory Workshops	30
4. Technical and Administrative Support	
a. Publications	4
b. Administrative Expense	14
5. Equipment	5
Subtotal	440
6. Contingency	60
Total Financed by Asian Development Bank	500

(Reference in text: page 4, para. 12)

ORGANIZATION CHART



Reference in text: page 4, para. 14)

Legend:



ADB Entities

DMC Participating Countries

ADB = Asian Development Bank, DMC = Developing Member Countries, ICT = Informations and Communications Technology, SASEC = South Asia Subregional Economic Cooperation.

TERMS OF REFERENCE FOR CONSULTANTS

A. Sector Advisors (International) - 6 person-months

1. Sector advisors (individual international consultants) will be persons with extensive experience in the South Asia region. They will be engaged as required to provide advisory and technical services in undertaking the various technical assistance (TA) activities. Their expertise will include regional cooperation; transportation (multimodal); tourism; energy and power; environment; and trade, investment, and private sector.

2. The sector advisors will

- (i) conduct field visits to participating countries and meet with concerned officials as well as private sector representatives and others to analyze the requirements in pursuing the prioritized subregional projects and programs in their respective sectors;
- (ii) determine the terms of reference for the required prefeasibility studies of the prioritized subregional projects;
- (iii) identify subregional research institutions to prepare background papers as required, and coordinate the preparation of these background papers;
- (iv) revise and finalize the draft report based on review and comments of the participating countries and the Asian Development Bank (ADB);
- (v) maintain a consolidated information database for the sector, covering all the participating countries; and
- (vi) facilitate and organize the consultation/participatory meetings of the respective sector working groups.

3. The consultants will report to the mission leader for the TA through the concerned projects division(s) or resident mission(s), and work in close cooperation with the respective sector working groups and government counterparts.

B. Senior Project Assistants (Domestic) - 77 person-months

4. Two domestic consultants, based in Manila, Philippines, will

- (i) prepare a checklist of logistical requirements/assignments for the conduct of TA meetings and related events,
- (ii) provide logistic and administrative support for the conduct of TA meetings and implementation,
- (iii) prepare budget estimates for TA meetings,
- (iv) prepare a comprehensive filing system for the TA, and maintain orderly and up-to-date files,

(Reference in text: page 5, para.16)

- (v) ensure the smooth flow of documents and communications for the TA,
- (vi) assist in compiling and editing draft and final reports produced by the consultants,
- (vii) help draft routine communications, and
- (viii) participate in ADB missions as required.

5. One domestic consultant based in each of the four countries at the Bangladesh Resident Mission, Dhaka, Bangladesh; the India Resident Mission, New Delhi, India; the Nepal Resident Mission, Kathmandu, Nepal; and in Thimphu, Bhutan will

- (i) assist in the liaison between ADB and the respective governments relating to the implementation of this TA;
- (ii) assist the respective governments in preparing documents, arranging meetings, and other activities related to the role of the governments in chairing sector groups under the South Asia Growth Quadrangle (SAGQ) and as overall coordinator in SAGQ for the Government of Nepal;
- (iii) prepare and maintain an orderly and up-to-date filing system related to the activities under (i) and (ii) above;
- (iv) ensure smooth flow of documents and communications for the TA;
- (v) help draft routine communications; and
- (vi) participate and assist in ADB missions as required.

6. One domestic consultant for the tourism sector, based in Kathmandu, Nepal, will

- (i) coordinate between the chair country (Nepal) and the sector advisor,
- (ii) provide support as requested by the sector advisor,
- (iii) provide feedback to the sector advisor on the sector initiatives being prepared by the chair country, and
- (iv) assist in compiling future projects for subregional cooperation in association with the sector advisor.