

ASIAN DEVELOPMENT BANK

TAR:OTH 36185

**TECHNICAL ASSISTANCE
FOR
PRIORITIZING STRATEGIC DIRECTIONS FOR BIMP-EAGA**

October 2002

ABBREVIATIONS

ADB	–	Asian Development Bank
AFTA	–	ASEAN Free Trade Area
ASEAN	–	Association of South East Asian Nations
BIMP-EAGA	–	Brunei Darussalam, Indonesia, Malaysia, and Philippines-East ASEAN Growth Area
TA	–	technical assistance
TOR	–	terms of reference

NOTE

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

This report was prepared by Tao Zhang, Sr. Programs Officer, SEOC.

I. INTRODUCTION

1. A Fact-Finding Mission of the Asian Development Bank (ADB) visited Brunei Darussalam, Indonesia, Malaysia, and Philippines in September 2002 to consult with government agencies and business communities in the four countries. In the course of the discussions, consensus was reached on the pressing need for technical assistance (TA) to develop a strategic blueprint to revalidate sector/project priorities of the Brunei Darussalam, Indonesia, Malaysia, and the Philippines-East ASEAN¹ Growth Area (BIMP-EAGA) in response to the changing environment of development and emerging challenges associated with globalization.² Understanding was also reached on the TA objectives, scope, terms of reference, implementation arrangements, and cost estimates. The TA is included in the Subregional Cooperation Strategy and Program for Southeast Asia.³

II. ISSUES

2. To promote subregional economic and trade activities, the governments of Brunei Darussalam, Indonesia, Malaysia, and Philippines in 1994 formally launched an economic cooperation initiative, BIMP-EAGA.⁴ The fundamental goal of BIMP-EAGA is to realize equitable and sustainable economic development based on high value-added agro-industry, natural resources-based manufacturing, and high-grade tourism.

3. BIMP-EAGA was a dynamic and active subregional initiative during the early years of its inception. ADB's early support for BIMP-EAGA was provided through a comprehensive investigative study prepared in 1995-1996.⁵ The study aimed to help mobilize the potential of subregional economic cooperation for the development of BIMP-EAGA, highlighting the EAGA profile, setting up short- and long-term development visions and strategies, and developing a framework for implementation and monitoring. Along with other important findings, the study indicated that there were "significant investment opportunities based on latent economic complementation and other forms of regional economic cooperation." It also provided a list of investment and trade project proposals.

4. However, the implementation of the proposals in the study received a setback from the Asian economic crisis that began in 1997 and the El Niño phenomenon that hit most of the subregion in 1998. There were also changes in political leaderships and growing concerns of security, peace, and order in some of the BIMP-EAGA member countries. A new international economic situation is emerging which will have important implications for the BIMP-EAGA member countries. In recent years, the Southeast Asian economies, including those of BIMP-EAGA, have witnessed a weakening of demand for their exports in major international markets. Amid growing intratrade and investment activities in Asia, the People's Republic of China has enlarged as a major regional destination for trade and investment. Production restructuring, changes in consumption pattern, and technological improvement are also occurring regionwise

¹ Association of Southeast Asian Nations (ASEAN).

² The TA first appeared in *ADB Business Opportunities* (Internet Edition) in July 2002.

³ ADB. 2002. *Subregional Cooperation Strategy and Program Status Report: Southeast Asia*. IN225-02, 19 September. Manila.

⁴ Subregion refers to a group of adjacent areas crossing national boundaries and involving full or part of national economies. The BIMP-EAGA includes Brunei Darussalam (whole area), Indonesia (the provinces of North Sulawesi, East Kalimantan, West Kalimantan, Maluku, Irian Jaya, South and Central Kalimantan, Southeast and Central Sulawesi, Southeast and South Sulawesi), Malaysia (Sabah, Sarawak, and Labuan), and Philippines (Mindanao and Palawan regions).

⁵ ADB. 1995. *Technical Assistance to Study the Brunei Darussalam, Indonesia, Malaysia, and Philippines-East ASEAN Growth Area (BIMP-EAGA)*. Manila.

amid increasing globalization and growing regional economic integration in East and Southeast Asia.⁶

5. Improved prospects for regional cooperation and the successfully managing the risks of globalization are recognized as key in reviving subregional cooperation. Concerns on how BIMP-EAGA should respond to or adapt to the new economic environment were discussed at the Senior Officials Meeting held in Manado, Indonesia, on 8–9 August 2002, which called for immediate attention to the following two aspects.

6. The first is to deepen understanding of the impact of the changing global and regional environment on BIMP-EAGA and implications for reviving the subregional cooperation initiatives. The impact and implications of these changes are multidimensional. Economically, one of the key issues is to identify the comparative advantage of BIMP-EAGA and to exploit it for tapping a larger market space. On top of the policy agenda, policy parameters and incentive schemes for trade and investment will need to be developed and encouraged to support priority sectors and projects. Institution-wise, the changing context in Asia and the world imposes challenges for both public and private institutions in establishing a more effective partnership to facilitate factor and product flows and improve investor services. The role of local authorities in developing an enabling environment for trade and investment is particularly important, considering the deepening decentralization process in Indonesia and the Philippines.⁷ An updated assessment of EAGA's strategic framework is needed based on a better understanding of constraints, prospects, and priorities in the subregion.

7. The second is how to prioritize the emerging opportunities for cross-border cooperation activities to achieve tangible results for BIMP-EAGA in a short period of time, based on the previous experiences and clearer understanding of the prospects of the subregion. The prevailing view is that the rich potential in agrobusiness, and ecotourism together with supporting infrastructure should remain the main focus, but there is no consensus as to how to make it happen and where to start. To move forward, sector assessments are needed to have a better basis for dialogue on project-specific policy parameters and regulatory incentives. To improve the enabling environment for project-based investments for promoting subregional economic cooperation, cross-border interactions among concerned public and private institutions need to be strengthened. Finally, analytical and technical inputs including identifying viable project opportunities, formulating project concepts, and preparing prefeasibility studies for selected projects or programs are also required.

8. Since the beginning, ADB has supported BIMP-EAGA through continuous engagement with the participating countries, policy dialogue, and technical assistance. In March 2002, ADB accepted the invitation of the ASEAN Secretariat to be the regional development advisor to BIMP-EAGA. The current subregional cooperation strategy and program calls for a more vigorous support to BIMP-EAGA.⁸ To begin with, advisory assistance is necessary to pave the way for concrete project interventions and to examine the need for the required policy and regulatory changes. To revive BIMP-EAGA through enhanced economic activities in the

⁶ Members of the ASEAN Free Trade Area (AFTA) in January 2002 agreed to lower the intraregional tariff rates to 0-5% among the ASEAN original six (Brunei Darussalam, Indonesia, Malaysia, Philippines, Singapore, and Thailand). Another example, at the 7th ASEAN Summit in November 2001, at Brunei Darussalam, the ASEAN leaders agreed to create an ASEAN-CHINA Free Trade Area in 10 years time.

⁷ The issue of institutional support at the local level is also relevant in Malaysia, which is under a federal administration system.

⁸ ADB. 2002. *Subregional Cooperation Strategy and Program Status Report: Southeast Asia*. IN225-02, 19 September. Manila.

subregion, there is a need to closely examine both short- and long-term development needs and make BIMP-EAGA more responsive to the changing economic environment. Such a study will provide inputs to a more realistic and pragmatic subregional development framework that can be supported by BIMP-EAGA governments, the private sector, and other stakeholders.

III. THE TECHNICAL ASSISTANCE

A. Purpose and Output

9. The TA aims to support the participating countries in preparing a development blueprint for reviving and sustaining economic cooperation in BIMP-EAGA, with refocused thrusts and priorities in response to the changing environment and emerging challenges. The TA will assist in reviewing and updating EAGA's development strategy and help identify achievable objectives, taking the investigative study (ADB. 1996. *East ASEAN Growth Area: Investigative Study*, Vol. 1, Part I, page 97 and Appendixes, Vol. 2, Part I. Manila) as a basis. The specific objectives are to (i) enhance understanding of the strengths and potentials for economic cooperation among EAGA countries by reviewing changes in their production structure and market dynamics and policy and institutional aspects of economic cooperation in the postcrisis period; (ii) prioritize potential subregional cooperation sectors/programs/projects; and (iii) support the preparation and formulation of project concepts and prefeasibility/feasibility studies for selected projects or programs.

10. The TA output will consist of two interrelated components: (i) a status report identifying the current production structures and marketing network, and exploring the potential of the subregional initiative, to help refine the strategic role to be played by BIMP-EAGA in support of economic growth and poverty reduction; and determine the modalities and milestones to achieve the short- and long-term objectives of BIMP-EAGA; and (ii) technical reports consisting of sector assessment, project conceptualization, and prefeasibility/feasibility studies for selected priority projects for subregional economic cooperation. The TA framework is in Appendix 1.

B. Methodology and Key Activities

11. The following activities and methodologies are envisaged:

- (i) Stakeholder consultation
Consult with a broad spectrum of stakeholders to obtain views on development potentials and priorities, comparative advantages, constraints, and short- to medium-term prospects of BIMP-EAGA and evolve consensus on sector and project prioritization.
- (ii) Research on prioritizing the strategic direction of BIMP-EAGA
 - (a) Assess the impact of the changing environment on BIMP-EAGA (especially the growing trends of globalization and regional economic integration);
 - (b) Evaluate production and marketing systems in EAGA countries in terms of competitiveness and capacity of the subregion, and relate them to the restructuring of production systems, changing patterns of consumption, and advances of technology in Asia and other parts of the world;
 - (c) Identify and assess changes needed in national policy and regulatory frameworks in trade and investment for promoting the private sector especially small- and medium-sized enterprises;

- (d) Assess the role and capacities of local authorities in developing an enabling environment for trade and investment and in their interactions with national governments;
 - (e) Compare and analyze the strengths and weaknesses of different groupings of BIMP-EAGA countries in terms of their economic structure to provide a conceptual basis for strengthening bilateral and multilateral economic cooperation; and
 - (f) Suggest modalities and identify milestones to achieve the short- and long-term objectives of BIMP-EAGA.
- (iii) Review and revalidate sector priorities and conceptualize investment projects
- (a) Review the past performance in project preparation and implementation for subregional projects, based primarily on the 1996 investigative study (ADB. 1996. *East ASEAN Growth Area: Investigative Study*, Appendixes, Vol. 2, Part I. Manila);
 - (b) Assess the development needs of priority sectors and formulate an approach to subregional cooperation in these sectors;
 - (c) Identify and prioritize potential subregional projects in the selected sectors, based on the updated strategic development framework of BIMP-EAGA;
 - (d) Prepare project concepts and prefeasibility/feasibility studies for selected projects or programs.
- (iv) Support implementation of the prioritized strategic plans and project proposals in selected sectors
- (a) Conduct consultative meetings with representatives of implementing agencies of BIMP-EAGA under the current institutional framework;
 - (b) Through appropriate mechanism/forums, build consensus among the participating countries on priority sectors and sector development strategies; and
 - (c) Assist in developing implementing plans for high priority project proposals.
- (v) Provide training and disseminate information
- (a) Organize training seminars involving policy makers, representatives of business communities, and research workers for awareness of the TA and required changes in policies and regulations, and to exchange views on best practice and lessons learned; and
 - (b) Disseminate the major findings and output of the TA.

12. While Brunei Darussalam is not currently an ADB member, the RETA includes Brunei Darussalam as its participation is essential for the objective of the TA to help promote BIMP-EAGA.

C. Cost and Financing

13. The TA is estimated to cost \$500,000 equivalent, of which \$400,000 is foreign exchange cost and \$100,000 equivalent is local currency cost. ADB will finance the entire foreign exchange cost on a grant basis from ADB's TA funding program. The four participating countries will share the remaining local costs of \$100,000 equivalent by providing office space, staff support, and other in-kind contributions. The TA will cover the costs of engaging consulting services (remuneration, per diem, and travel) and preparing study reports. The TA will also finance in-country seminars and workshops for capacity building and dissemination of major TA

findings and output. As currently Brunei Darussalam is not an ADB member, Brunei Darussalam's contribution will include all direct local costs related to the implementation of the TA in Brunei Darussalam, excluding the expenses related to the consulting services. Brunei Darussalam will also finance its participation in meetings and workshops. The detailed cost estimates and financing plan are in Appendix 2.

D. Implementation Arrangements

14. ADB will be the Executing Agency for the TA. With the assistance of a team of consultants, ADB staff will work with the government agencies, business communities, and research institutions in implementing the TA. The TA will be implemented over 10 months commencing January 2003, with completion in October 2003. The TA requires consulting services of 24 person-months to be provided by a consulting firm. The firm will be responsible for the overall conduct of the TA, including providing the services of 3 international (12 person-months) and 4 domestic consultants (12 person-months). The outline terms of references for consultants is in Appendix 3. The consulting firm will be recruited by ADB in accordance with its *Guidelines on the Use of Consultants* and other arrangements acceptable to ADB for engaging domestic consultants, using the simplified technical proposals procedures under ADB's quality cost based system. Policy dialogue and consultation will be carried out with public institutions, private sector, as well as other aid agencies. Concerned government agencies of BIMP-EAGA will provide logistic convenience and support including liaising with the consultant team and assisting to access required information and data. All procurement of equipment and materials, and service payments under the TA will be in accordance with ADB's requirements.

15. The consultant team will submit an inception report to ADB within 2 weeks of the start of services. The inception report will (i) focus on initial assessment and prepare a realistic plan for subsequent actions to ensure that the required TA outputs are completed on time; and (ii) make adjustments, as appropriate, in other key issues affecting the realization of the TA objectives, which are to be identified through consultation with government agencies and representatives of business communities. Draft final reports (position report and technical reports) by the consultant team will be completed in April 2003.⁹ Consultative meetings and training seminars will be conducted during TA implementation. Training materials will also be prepared as required. The final TA reports will be completed in August 2003.

IV. THE PRESIDENT'S DECISION

16. The President, acting under the authority delegated by the Board, has approved the provision of technical assistance not exceeding the equivalent of \$400,000 on a grant basis for Prioritizing Strategic Directions for BIMP-EAGA, and hereby reports this action to the Board.

⁹ The draft final report is expected to be available for discussion and consultation during the next BIMP-EAGA Senior Officials Meeting scheduled for April/May 2003.

TECHNICAL ASSISTANCE FRAMEWORK

Design Summary	Performance Targets	Monitoring Mechanisms	Assumptions and Risks
<p>Goal</p> <p>Support economic growth and foster subregional cooperation in Brunei Darussalam, Indonesia, Malaysia, Philippines-East ASEAN Growth Area (BIMP-EAGA)</p> <p>Assist to review, revalidate, and prioritize current development strategies of BIMP-EAGA in a changing global and regional context</p>	<ul style="list-style-type: none"> – Analytical insights into development prospects for the subregion – Strengthened cooperation among BIMP-EAGA countries. 	<ul style="list-style-type: none"> – Feedback from stakeholders in public and private sectors – Technical assistance (TA) review missions by Asian Development Bank (ADB) staff – Forums of BIMP-EAGA and the Association of South East Asian Nations 	<p>Subregional political and economic stabilities</p> <p>Political commitments of participating governments to reviving BIMP-EAGA</p>
<p>Purpose</p> <p>Enhance understanding of strengths and potentials for economic cooperation among EAGA countries</p> <p>Prioritize potential subregional cooperation projects/programs</p> <p>Support preparation and formulation of project concepts, and pre-feasibility/feasibility studies for selected projects or programs</p>	<p>Identified economic (production structure and market dynamics), policy, and institutional factors in the postcrisis period</p> <p>Suggested modalities and milestones to achieve short- and long-term objectives in selected priority sectors/programs</p> <p>Identified needs and completed conceptualization of projects in priority sectors/programs</p>	<p>Consultation with concerned stakeholders; field visits; and empirical analysis; ADB staff mission reviews and peer review of study reports</p>	<p>Comprehensiveness of the studies</p> <p>Positive responsiveness of stakeholders</p> <p>Plausibility and applicability of study findings</p>
<p>Outputs</p> <p>A position report to help refine the strategic direction of BIMP-EAGA and identify modalities and milestones to achieve its short- and long- term objectives</p> <p>Technical reports assessing sectoral needs and approaches to subregional cooperation, including prioritized list of projects/ programs, project concepts, and prefeasibility/feasibility studies</p>	<p>A draft position report to be submitted by 15 April 2003, and draft final position report by 30 June 2003</p> <p>Project prioritization and preparation of project concept/ prefeasibility studies to be drafted by 15 June 2003 and final report by 15 July 2003</p> <p>Final TA report consisting of the position report, technical reports for selected priority sectors to be submitted by 30 August 2003</p>	<p>Semimonthly TA progress briefings</p> <p>TA inception report</p> <p>Staff review on various draft reports</p>	<p>Availability of qualified consulting services</p> <p>Availability of data</p> <p>Coordination within the consultant team and between the consultant team and stakeholders in countries and areas under study</p> <p>Appropriate ADB staff supervision</p>

Design Summary	Performance Targets	Monitoring Mechanisms	Assumptions and Risks
<p>Inputs/Activities</p> <p>Specialist services from staff consultants, including the following:</p> <p>Literature review on regional and subregional economic cooperation, emphasizing growth areas/triangles in Asia and the Pacific region</p> <p>Preparation of an inception report highlighting approach, work plan, and schedules for field visits</p> <p>Project implementation briefing on a semimonthly basis</p> <p>Filed visits by ADB staff and staff consultants to consult with representatives of government agencies, business communities, and research institutions</p> <p>In-house research to prepare the TA reports, project concepts, prefeasibility studies as described in the Outputs Section</p> <p>Field work to conduct training seminars on awareness of trade and investment parameters</p> <p>Assistance in holding consultative meetings in accordance with the current coordination framework of BIMP-EAGA</p> <p>Dissemination of the TA findings and output</p>	<p>Consulting services: 24 person-months</p> <p>Review of economic rationale and merits of various modalities and approaches to regional and subregional cooperation</p> <p>Submission of inception report 2 weeks after the start of TA services</p> <p>Briefing through email, reporting major development in TA implementation</p> <p>Field visits to and in-country seminars</p> <p>Staff consultants' commitments to time-bound schedule based on their TORs (Appendix 3)</p> <p>Staff consultants' commitments to time-bound schedule based on their TORs (Appendix 3)</p> <p>Consensus among stakeholders on identified projects/programs in selected priority sectors.</p> <p>Dissemination seminars before October 2003</p>	<p>Work plans and terms of reference (TOR)</p> <p>Coordination with staff consultants</p> <p>Coordination with staff consultants</p> <p>Coordination with government authorities and local business representatives</p> <p>ADB staff review</p> <p>ADB staff review</p> <p>Coordination with government authorities and local business representatives</p> <p>ADB staff participation</p>	<p>Availability of qualified staff consultants</p> <p>Availability of background materials and statistical information</p> <p>Effectiveness of communication with consultants</p> <p>Effectiveness of communication with consultants</p> <p>Receptiveness of host governments and business communities and coordination with them</p> <p>Relevance of research findings</p> <p>Relevance of training materials</p> <p>Receptiveness of host governments and business communities and coordination with them</p> <p>Significance and relevance of study findings</p>

COST ESTIMATES AND FINANCING PLAN
(\$'000)

Item	Foreign Exchange	Local Currency	Total Cost
A. Asian Development Bank Financing			
1. International Consultants			
a. Remuneration and Per Diem			
i. International Consultants (12 person-months)	186	0	186
ii. Domestic Consultants (12 person-months)	30	0	30
b. International and Local Travel	44	0	44
2. Training and Conferences			
a. Consultative Meetings	30	0	30
b. Training Seminars	30	0	30
3. Miscellaneous TA Administration (e.g., communications, data collection, editing, office supplies, printing, publications, etc)	20	0	20
4. Contingencies	60	0	60
Subtotal (A)	400		400
B. Government Financing			
1. Office Support	0	20	20
2. Counterpart Staff	0	40	40
3. Others	0		
a. Communications (local)	0	5	5
b. Training (in-country)	0	15	15
c. Transport	0	5	5
d. Contingency	0	15	15
Subtotal (B)	0	100	100
Total	400	100	500

Source: Asian Development Bank estimates.

TERMS OF REFERENCE

A. Project Director/Regional Cooperation Advisor

(International consultant: 4.5 person-months, spread over 10 calendar months)

1. The project director/regional cooperation advisor will coordinate, advise on overall technical assistance (TA) implementation, and be responsible for preparing the overall TA reports. The advisor, preferably with experience in Southeast Asia, will have knowledge and expertise in regional and subregional economic cooperation matters, development economics especially trade and investment, and private sector development. Sector knowledge in either agrobusiness, infrastructure, or ecotourism is also required.
2. The responsibilities will include the following:
 - (i) Take a lead role in coordination within the TA consultant team, and between the TA consultant team and the concerned stakeholders;
 - (ii) Advise on TA-related issues;
 - (iii) Undertake field visits to participating countries to (a) lead consultative meetings assessing the opportunities, constraints, and prospects for subregional cooperation in BIMP-EAGA; and (b) conduct training seminars on awareness of trade and investment parameters;
 - (iv) Provide a literature review on regional and subregional economic cooperation, emphasizing growth areas/triangles in Asia and the Pacific region;
 - (v) Identify key factors that explain the past performance of BIMP-EAGA in terms of economic growth and economic cooperation, highlighting the salient features of BIMP-EAGA compared with other subregional cooperation initiatives (including growth triangles or areas) in the Asia and Pacific region;¹⁰
 - (vi) Based on inputs from other members of the consultant team, prepare an inception report highlighting approach, work plan, and schedules for field visits;
 - (vii) Consult with other members of the consultant team and conduct project implementation briefing on a semimonthly basis;
 - (viii) Undertake research on the impact of a changing global and regional context on BIMP-EAGA and its implications for reviving the subregional cooperation initiatives (to be delivered as a position report); and
 - (ix) Together with other members of the consultant team, prepare the final TA reports, summarizing major findings with appended technical reports, including recommendations on policy and institutional reforms and key milestones for achieving the revised BIMP-EAGA objectives.

¹⁰ This work is to be undertaken, building on the finding under the ongoing project, RSC No. C20181-INO, Empirical Assessment of Regional Economic Cooperation: Trade and Investment Linkages in IMT-GT and BIMP-EAGA, January 2002.

B. Sector Experts

(International consultants: 3 persons of 2.5 person-months each, spread over 10 calendar months)

3. Three sector experts preferably with expertise in agrobusiness, infrastructure, and ecotourism, and regional experiences in Southeast Asia will provide advisory and technical services in selected sectors. They will undertake the following activities:

- (i) Make field visits to participating countries to (a) facilitate and participate in consultative meetings and in assessing and reviewing viable investment opportunities and constraints in the selected priority sectors; and (b) conduct and participate in training seminars to build the capacity for business networking and create awareness of trade and investment parameters;
- (ii) From the field research and the findings of the position report, prepare technical reports assessing the development needs of priority sectors and formulating approaches to regional cooperation in these sectors, including a prioritized list of potential subregional projects/programs;
- (iii) Develop project profiles (prefeasibility studies) for selected high-priority projects/programs;
- (iv) Assist in developing an implementing plan for high-priority project proposals, including suggestions for appropriate mechanisms/framework for cross-border coordination in project implementation;
- (v) Prepare technical reports consisting of sector assessment, project conceptualization, and prefeasibility/feasibility studies for selected priority projects; and
- (vi) Provide technical support as required by the project director.

4. The sector experts will report to the project director and ADB's project officer of the TA, and work closely with BIMP-EAGA counterparts including private sector representatives.

C. Project Coordinators

(Domestic consultants: 4 persons at 3 person-months each, spread over 10 calendar months)

5. Four project coordinators (one project coordinator based in each of the four EAGA countries) will assume the following responsibilities:

- (i) Provide technical support as required by the project director and sector experts;
- (ii) Assist in liaising between the consultant team, ADB, the respective governments, and other stakeholders in the private sector and research institutions;

- (iii) Provide logistic support for the visiting project director and sector experts, arranging meetings and other TA-related activities;
- (iv) Help collect feedback to the project director and sector experts on TA implementation;
- (v) Assist in collecting data and background documents as the TA requires; and
- (vi) Ensure smooth flow of communications and documents during TA implementation.