



Report and Recommendation of the President to the Board of Directors

Project Numbers: 48434-002 and 48434-005
August 2016

Proposed Multitranche Financing Facility, Policy- Based Loan, Technical Assistance Grant, and Administration of Grant India: Visakhapatnam–Chennai Industrial Corridor Development Program

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Asian Development Bank

CURRENCY EQUIVALENTS

(as of 3 August 2016)

Currency unit	–	Indian rupee/s (Re/Rs)
\$1.00	=	Rs66.7025
Re1.00	=	\$0.01499

ABBREVIATIONS

ADB	–	Asian Development Bank
APRDC	–	Andhra Pradesh Road Development Corporation
DOIC	–	Department of Industries and Commerce
ECEC	–	East Coast Economic Corridor
FAM	–	facility administration manual
GDP	–	gross domestic product
GoAP	–	Government of Andhra Pradesh
GVMC	–	Greater Visakhapatnam Municipal Corporation
km	–	kilometer
LIBOR	–	London interbank offered rate
MFF	–	multitranches financing facility
OCR	–	ordinary capital resources
PBL	–	policy-based loan
PIU	–	project implementation unit
PMU	–	program management unit
TA	–	technical assistance
TASF	–	Technical Assistance Special Fund
UCCRTF	–	Urban Climate Change Resilience Trust Fund
VCIC	–	Visakhapatnam–Chennai Industrial Corridor
VCICDP	–	Visakhapatnam–Chennai Industrial Corridor Development Program

NOTES

- (i) The fiscal year (FY) of the Government of India and its agencies ends on 31 March. FY before a calendar year denotes the year in which the fiscal year ends, e.g., FY2015 ends on 31 March 2015.
- (ii) In this report, “\$” refers to US dollars.

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INVESTMENT PROGRAM^a AT A GLANCE

1. Basic Data		Project Number: 48434-002 / 48434-005	
Project Name	Visakhapatnam–Chennai Industrial Corridor Development Program	Department /Division	SARD/SAUW
Country Borrower	India	Executing Agency	Department of Industries & Commerce, Government of Andhra Pradesh
2. Sector	Subsector(s)	ADB Financing (\$ million)	
✓ Industry and trade	Large and medium industries		240.00
Energy	Electricity transmission and distribution		162.00
Transport	Road transport (non-urban)		134.00
Water and other urban infrastructure and services	Urban water supply		90.00
		Total	626.00
3. Strategic Agenda	Subcomponents	Climate Change Information	
Inclusive economic growth (IEG)	Pillar 2: Access to economic opportunities, including jobs, made more inclusive	Adaptation (\$ million)	45.00
Environmentally sustainable growth (ESG)	Global and regional transboundary environmental concerns	Climate Change impact on the Project	High
Regional integration (RCI)	Urban environmental improvement Pillar 1: Cross-border infrastructure Pillar 2: Trade and investment		
4. Drivers of Change	Components	Gender Equity and Mainstreaming	
Governance and capacity development (GCD)	Institutional development	Effective gender mainstreaming (EGM)	✓
Partnerships (PAR)	Civil society organizations Implementation International finance institutions (IFI) Private Sector		
Private sector development (PSD)	Conducive policy and institutional environment Public sector goods and services essential for private sector development		
5. Poverty Targeting		Location Impact	
Project directly targets poverty	No	Urban	High
6. Risk Categorization:	Complex		
7. Safeguards Categorization [Tranche 1]			
Modality	Environment	Involuntary Resettlement	Indigenous Peoples
A. Tranche I	B	A	C
B. PBL	B	C	C
8. Financing			
A. Multitranche Financing Facility			
Modality and Sources	Indicative Tranches (\$million)		Amount (\$million)
	I	II	
ADB			500.00
Sovereign MFF-Tranche (Loan): Ordinary capital resources	245.00	255.00	500.00
Cofinancing			5.00
Urban Climate Change Resilience Trust Fund under the Urban Financing Partnership Facility - Grant	5.00	0.00	5.00
Counterpart			215.00
Government	108.00	107.00	215.00
Total	358.00	362.00	720.00

INVESTMENT PROGRAM^a AT A GLANCE

B. Policy-Based Loan

Modality and Sources	Amount (\$ million)
ADB	126.00
Sovereign Capacity development technical assistance: Technical Assistance Special Fund	1.00
Sovereign Program loan: Ordinary capital resources	125.00
Cofinancing	0.00
None	0.00
Counterpart	0.00
None	0.00
Total	126.00

9. Effective Development Cooperation

Use of country procurement systems	Yes
Use of country public financial management systems	Yes

10. Country Operations Business Plan

CPS	http://www.adb.org/documents/india-country-partnership-strategy-2013-2017?ref=countries/india/strategy
COBP	http://www.adb.org/documents/india-country-operations-business-plan-2016-2018

11. Investment Program Summary

The Visakhapatnam-Chennai Industrial Corridor Development Program (VCICDP) will complement the ongoing efforts of the Government of Andhra Pradesh (GoAP) to enhance industrial growth and create high quality jobs. The multitranche financing facility (MFF) and grant will support priority infrastructure investments in the Visakhapatnam-Chennai Industrial Corridor (VCIC) and the policy-based loan (PBL) will support policy reforms and institutional development in the state.

Impact: Contribution of the manufacturing sector to the gross domestic product, trade and employment of GoAP increased.

Outcome: Growth and competitiveness of the VCIC enhanced.

Outputs: (i) Corridor management strengthened and ease of doing business improved, (ii) Visakhapatnam-Chennai Industrial Corridor infrastructure strengthened and more resilient, and (iii) Institutional capacities, human resources, and program management strengthened

Implementation Arrangements: Department of Industries & Commerce, Government of Andhra Pradesh will be the executing agency.

Project Readiness: Project readiness is high. The government has prepared detailed project reports and bidding documents from its own resources to enhance readiness for project implementation. Advance contracting will be taken up to kick start implementation.

12. Milestones

Modality	Estimated Approval	Estimated Completion ^b
A. Multitranche financing facility	20 September 2016	31 December 2024
Tranche I	20 September 2016	31 December 2022
Tranche II	18 March 2018	31 December 2024
B. Policy-Based Loan	20 September 2016	31 December 2019

13. Project Data Sheet (PDS)

A. MFF PDS ^c	http://www.adb.org/projects/48434-002/main
B. PBL PDS ^c	http://www.adb.org/projects/48434-005/main#projects-pds

^a Multitranche Financing Facility (MFF) with Policy-Based Loan (PBL).

^b For MFF, this refers to the end of the availability period; for tranches, this refers to the tranche closing date.

^c Safeguard documents can be viewed by clicking the Document's hyperlink in the Project Data Sheet (PDS) page.

I. THE PROPOSAL

1. I submit for your approval the following report and recommendation on (i) a proposed multitranche financing facility (MFF), and (ii) a proposed policy-based loan (PBL), both to India for the Visakhapatnam–Chennai Industrial Corridor Development Program (VCICDP).¹ The report also describes the proposed (i) administration of a grant to be provided by the Urban Climate Change Resilience Trust Fund² (UCCRTF) under the Urban Financing Partnership Facility, and (ii) technical assistance (TA) for Capacity Development for Industrial Corridor Management in Andhra Pradesh, and if the Board approves the proposed MFF and PBL, I, acting under the authority delegated to me by the Board, approve the administration of the grant and the TA.

2. The VCICDP will complement the ongoing efforts of the Government of Andhra Pradesh (GoAP) to enhance industrial growth and create high-quality jobs.³ The MFF and the grant will support priority infrastructure investments in the Visakhapatnam–Chennai Industrial Corridor (VCIC), and the PBL will support policy reforms and institutional development in the state.

II. THE PROGRAM

A. Rationale

3. **India's manufacturing sector.** While India has seen a rapid structural transformation and achieved strong economic growth since 1991, it must continue to create economic opportunities for its large labor force, which is increasing by about 12 million a year, to sustain its economic growth and realize its demographic dividend.⁴ With limited prospects for job creation in agriculture, one of the most pressing policy challenges is to create more productive and well-paying jobs in manufacturing and services. Although India's services sector has grown significantly since 1991,⁵ manufacturing, which has higher untapped potential, has lagged with a contribution of about 15% to gross domestic product (GDP) and 12% to employment each year over this period.⁶ India's National Manufacturing Policy (2011) calls for increasing the manufacturing sector's contribution to at least 25% of GDP and enhancing job creation in manufacturing to create 100 million additional jobs by 2022.⁷

4. **India's industrial corridors and policies to stimulate manufacturing.** India has adopted an industrial corridor approach to stimulate manufacturing and an Act East policy to integrate the Indian economy with Asia's dynamic global production networks.⁸ The industrial corridor approach involves the creation of an efficient multimodal transport network supported by quality infrastructure and logistics within a defined geography, and a policy framework that

¹ The design and monitoring framework is in Appendix 1.

² Financing partners: the Rockefeller Foundation and the governments of Switzerland, the United Kingdom, and the United States.

³ Asian Development Bank (ADB). 2010. *Technical Assistance for Support for South Asia Regional Economic Cooperation*. Manila (TA 7491-REG); and ADB. 2012. *Technical Assistance for Enhancing Economic Analysis and South–South Learning*. Manila (TA 8254-REG). These TA projects supported preparation of the VCICDP.

⁴ Government of India, Planning Commission. 2011. *Report of the Working Group on Employment, Planning and Policy for the Twelfth Five Year Plan (2012–2017)*. Delhi. The current total labor force is about 530 million.

⁵ The share of the services in India's GDP increased from 30% in the 1950s to 45% in FY1991 and 53% in FY2013.

⁶ Manufacturing in the People's Republic of China, Malaysia, and Viet Nam contributes 25% or more to their GDPs.

⁷ Government of India, Ministry of Commerce and Industry. 2011. *National Manufacturing Policy, 2011*. Delhi.

⁸ Details on the industrial corridor approach are available at <http://www.makeinindia.com/live-projects-industrial-corridor>. The government launched five industrial corridors in its FY2015 budget. Under the Act East policy, India plans to have greater strategic role for broader economic and diplomatic engagement across Asia and the Pacific.

facilitates business operations for integration with global production networks. Industrial corridors are central to India's Make in India initiative, which encourages investments in the manufacturing sector to stimulate growth and create high-quality jobs. In line with these policies, the government and the Asian Development Bank (ADB) identified the East Coast Economic Corridor (ECEC)—India's first coastal corridor—extending over 2,500 kilometers (km) from Kolkata in West Bengal to Tuticorin in Tamil Nadu. The ECEC aims to stimulate growth through network externalities, linkage with urban and industrial clusters, and by integrating with regional value chains in Southeast and East Asia.⁹ The VCIC, which covers more than 800 km of coastline in Andhra Pradesh, is proposed to be developed as the first phase of the ECEC.¹⁰

5. Challenges to sustaining industrial growth in Andhra Pradesh. In the state of Andhra Pradesh, which has 49.4 million people making it the 10th most populous state in India, the manufacturing sector contributes 12% to the state's GDP—lagging the national average of 15%. The GDP of combined Andhra Pradesh, for which data are available, grew by 7.1% per year from FY2003 to FY2013, but only contributed about 4% to national industrial output.¹¹ There is a pertinent need to usher in greater degree of industrialization in the state by addressing challenges such as low industrial diversification, and concentration of manufacturing sector employment in small, labor-intensive, informal enterprises with low skills, productivity, and earnings. Key infrastructure in industrial clusters remains inadequate to support the burgeoning demand for efficient industrial infrastructure and robust skills inventory. In a recent survey, Andhra Pradesh was ranked second among all states in India for ease of doing business.¹² However, it needs to further improve its procedures for doing business, labor-related laws, land management, and taxation laws if it is to enhance its competitiveness and benchmark itself with other countries in the region such as Singapore, the Republic of Korea, and Malaysia.¹³

6. Policy framework, sector road map, and investment plan for the state. The Andhra Pradesh Industrial Development Policy (2015) aims to establish state-of-the-art infrastructure, promote manufacturing, enhance inclusivity, foster innovation, and create employment opportunities across sectors.¹⁴ The GoAP has prepared a comprehensive industrial sector road map, strategic context, policy framework and investment plan to enhance industrial growth and create high-quality jobs.¹⁵ With support from ADB, the GoAP has also prepared a conceptual development plan and a regional perspective plan for the VCIC, which include an infrastructure

⁹ Asian Development Bank Institute. 2015. *Connecting South Asia and Southeast Asia, 2015*. Tokyo. <http://www.adb.org/publications/connecting-south-asia-and-southeast-asia>

¹⁰ ADB. 2016. *Scaling New Heights: Vizag-Chennai Industrial Corridor, India's First Coastal Corridor*. Manila. <http://www.adb.org/publications/scaling-new-heights-vizag-chennai-industrial-corridor>

¹¹ Government of India. 2015. *Annual Survey of Industries, 2012–2013*. Delhi. In 2014, the combined state of Andhra Pradesh was divided into Telangana and Andhra Pradesh. The State of Gujarat contributed 18.8% to national industrial output, while the State of Maharashtra 16.7% and the State of Tamil Nadu 11.7%.

¹² World Bank. 2015. *Assessment of State Implementation of Business Reforms, September 2015*. Delhi. http://dipp.nic.in/English/Investor/Ease_DoingBusiness/StateAssessmentReport_14September2015.pdf. India was ranked 142 among 189 nations in a recent survey on the ease of doing business (World Bank. 2016. *Doing Business 2016*. Washington, DC).

¹³ An important indicator of competitiveness is the time required to start a business: 21.0 days in Andhra Pradesh and 29.0 days in India, compared with 2.5 days in Singapore and 4.0 days in the Republic of Korea and Malaysia. World Bank. World Development Indicators. Business environment. Doing Business indicators. <http://wdi.worldbank.org/table/5.3>.

¹⁴ Government of Andhra Pradesh, Department of Industry and Commerce. 2015. *Andhra Pradesh Industrial Development Policy, 2015-2020*. Hyderabad.

¹⁵ The industrial sector road map, strategic context, policy framework, and investment plan are discussed in Facility Administration Manual (accessible from the list of linked documents in Appendix 2).

strategy to drive economic growth and the identification of nodes¹⁶ for industrial development, high-potential industrial sectors, and a set of priority projects.¹⁷ The conceptual development plan indicates that the VCIC, with its long coastline and strategically located ports, provides multiple international gateways to connect India with vibrant global production networks and to facilitate regional integration. The regional perspective plan has identified the VCIC's high potential for generating additional employment and industrial output, which can be achieved from 2015 to 2045.¹⁸ ADB is continuing its support to the GoAP for policy reforms, improving ease of doing business, master planning of the identified industrial nodes, and adopting good practices for management of economic corridors. The VCICDP, which combines an MFF and a PBL, will build on the existing concentration of industries and increase the density and flow of economic activities along the VCIC in a business-induced scenario against a business-as-usual scenario.

7. The MFF is an appropriate modality because (i) the GoAP has a policy framework and a sector road map for infrastructure investments and reforms; (ii) the investments are significant but sequenced, allowing the GoAP to use a phased approach with a well-defined financial envelope; (iii) it allows ADB to have long-term engagement and continuous policy dialogue; and (iv) it enhances project readiness, reduces transaction costs, and supports capacity building. The PBL will complement the MFF through comprehensive state-wide reforms and institutional development to help the VCIC realize its full potential for growth and competitiveness.¹⁹ The PBL is justified based on (i) the financial support required to prepare, implement, and monitor the proposed policy actions; (ii) assessment of the GoAP's overall financial resources; (iii) development financing needs in the industrial sector; (iv) the GoAP's absorptive capacity; and (v) the requirement for capacity building of institutions in the industrial sector. The VCICDP is in line with ADB's country partnership strategy for India.²⁰

B. Impact and Outcome

8. The impact of the VCICDP will be an increased contribution of the manufacturing sector to the state's GDP, trade, and employment.²¹ The outcome will be enhanced growth and competitiveness of the VCIC.

C. Outputs

9. The VCICDP will have three outputs. The PBL will support output 1, and the MFF and the grant will support outputs 2 and 3. The PBL will have two tranches each with 12 policy actions.

¹⁶ A node refers to a geographical area along the industrial corridor with high growth potential and encompassing a production enclave, an urban center, and a port along with a logistics and distribution network. Four nodes have been identified in the VCIC: Visakhapatnam, Kakinada, Amaravati region, and Yerpedu–Srikalahasti. An industrial cluster refers to an identified geographical area of industrial units within a node.

¹⁷ The conceptual development plan is available on the GoAP website. https://www.apindustries.gov.in/APIndus/Data/Vizag-Chennai_Industrial_Corridor_Full_Report.pdf. Visakhapatnam–Chennai Industrial Corridor: Summary of Conceptual Development Plan (accessible from the list of linked documents in Appendix 2).

¹⁸ Visakhapatnam–Chennai Industrial Corridor: Summary of Regional Perspective Plan (accessible from the list of linked documents in Appendix 2). By 2045, industrial output in the VCIC is expected to rise to about \$295 billion in the business-induced scenario and about \$117 billion in the business-as-usual scenario from about \$16 billion in 2015. The business-induced scenario envisages an investment of \$31 billion by 2045 and \$7 billion by 2020.

¹⁹ Comparison of the Financing Modalities (accessible from the list of linked documents in Appendix 2).

²⁰ ADB. 2013. *Country Partnership Strategy: India, 2013–2017*. Manila.

²¹ Government of India, Ministry of Commerce and Industry. 2011. *National Manufacturing Policy*. Delhi; ADB. 2015. *India's First Coastal Corridor: Vizag-Chennai Industrial Corridor Conceptual Development Plan* (footnote 17); and Government of India, Ministry of Commerce and Industry, Department of Commerce. 2015. *Foreign Trade Policy, 2015–2020*. Delhi.

10. **Output 1: Corridor management strengthened and ease of doing business improved.** This will include (i) capacity development of institutions engaged in corridor management; (ii) support to enhance the ease of doing business, including the establishment of an e-portal and a single-desk system, with incentives for women entrepreneurs; (iii) industrial and sector policies to stimulate industrial development, with special incentives for women; and (iv) improvement in investor promotion, trade facilitation, and logistics.

11. **Output 2: Visakhapatnam–Chennai Industrial Corridor infrastructure strengthened and more resilient.** This will include the development of (i) internal roads, water supply, drainage, logistics, and industrial effluent treatment in selected industrial clusters; (ii) roads for connectivity between industrial nodes, ports, and urban areas, and road safety measures; (iii) power transmission and distribution system in the industrial corridor; and (iv) smart cities planning with climate change resilience and continuous water supply in Visakhapatnam.²²

12. Project 1, which is representative of subprojects to be financed under the MFF,²³ will primarily focus on two of the four VCIC nodes.²⁴ The industrial area investments reflect the need for high-quality internal infrastructure within the industrial clusters. Project 1 will finance the common industrial effluent treatment facility in Atchutapuram and Naidupeta clusters, and strengthen services (drainage, internal connectivity, internal water supply, and the service center) in Naidupeta cluster. Project 1 includes strengthening and widening of the Samarlakota–Rajanagaram section (29.6 km) of the state highway to four lanes to improve connectivity from Kakinada Port to National Highway 16. It will also upgrade seven power substations to supply high-quality and reliable power to Visakhapatnam, Naidupeta, and Yerpedu–Srikalahasti industrial clusters. Project 1 will support investments in smart water management in the northwest sector of Visakhapatnam to reduce nonrevenue water and provide continuous water supply. The UCCRTF grant, which is part of Project 1, will finance innovative approaches to climate change resilient urban infrastructure in Visakhapatnam under output 2.²⁵ A tentative list of Project 2 subprojects, which are similar to those in Project 1, has been included in the facility administration manual (FAM).²⁶ Project 2 will be processed upon achieving substantive progress under Project 1, satisfactory compliance with the conditions and undertakings under the MFF, and adequate readiness for implementation. More details of criteria for Project 2 processing and subprojects selection are in the FAM (footnote 26).

13. **Output 3: Institutional capacities, human resources, and program management strengthened.** This will include (i) the establishment of a project development mechanism; (ii) skills enhancement of workers and entrepreneurs, especially women; (iii) support for project management; and (iv) support for investor promotion.

D. Development Financing Needs, and Investment and Financing Plans

14. The PBL will provide budget support to the GoAP to finance the policy reforms as outlined in the Government of India's development policy letter and policy matrix (Appendixes 3 and 4). The government has requested a loan of \$125 million, which will be relented to the GoAP

²² Visakhapatnam and Kakinada, which are in the VCIC, are in the government list of the first 100 smart cities.

²³ Project 1 corresponds to tranche 1 of the MFF and Project 2 corresponds to tranche 2 of the MFF.

²⁴ Priority nodes in Project 1 are Visakhapatnam, a major industrial hub and a port, and Yerpedu–Srikalahasti, an important node with linkages with the Chennai–Bangalore Industrial Corridor and with ports in Krishnapatnam and Chennai. Both nodes are on the arterial spine of the corridor, a national highway, and are also on a rail corridor.

²⁵ Grant under the Urban Climate Change Resilience Trust Fund: Strengthening Urban Climate Change Resilience of Visakhapatnam (accessible from the list of linked documents in Appendix 2).

²⁶ Facility Administration Manual (accessible from the list of linked documents in Appendix 2).

under the same terms as the original loan, from ADB's ordinary capital resources (OCR) to help finance the reforms program. The loan will have a 15-year term, including a grace period of 3 years, an annual interest rate determined in accordance with ADB's London interbank offered rate (LIBOR)-based lending facility, a commitment charge of 0.15% per year, and such other terms and conditions set forth in the draft loan and program agreements. The two tranches of \$62.5 million each will be released upon full compliance with the respective tranche conditions, which is expected in March 2017 and December 2019.

15. The MFF and the grant are estimated to cost \$720 million (Table 1). Detailed cost estimates are in the FAM (footnote 26).

Table 1: Investment Program
(\$ million)

Item	Amount ^a		Total
	Project 1	Project 2	
A. Base Cost^b			
1. Internal infrastructure in industrial clusters	73.29	63.51	136.80
2. Urban water supply and climate change resilience	61.51	49.23	110.74
3. Roads and road safety measures	40.92	133.82	174.74
4. Power transmission and distribution	126.90	57.17	184.07
Subtotal (A)	302.62	303.73	606.35
B. Contingencies^c	38.14	41.40	79.54
C. Financing Charges During Implementation^d	17.24	16.87	34.11
Total (A+B+C)	358.00	362.00	720.00

^a In end of 2015 prices; exchange rate of \$1 = Rs66 is used.

^b Includes taxes and duties of \$48.4 million to be financed in cash from government resource. The Asian Development Bank (ADB) may finance local transportation, insurance costs, and bank charges.

^c Physical contingencies are computed at 7.0% for civil works and equipment (5% of project costs); include provision for uncertainty associated with quantities, and time of implementation. Price contingencies are computed at 1.4%–1.5% on foreign exchange costs and 5.5% on local currency costs; include provision for potential fluctuation of inflation and exchange rates under the assumption of a purchasing power parity exchange rate.

^d Includes interest and commitment charges. Interest during construction for the ADB loan has been computed at the 5-year forward London interbank offered rate plus a spread of 0.5% as of December 2015. Commitment charges for an ADB loan are 0.15% per year to be charged on the undisbursed loan amount.

Source: Asian Development Bank estimates.

16. The government has requested an MFF of up to \$500 million from ADB's OCR and parallel grant cofinancing of \$5 million from the UCCRTF, which will be made available to the GoAP under the same terms as the original loan and grant, to help finance the infrastructure investments under the VCICDP.²⁷ The GoAP will contribute \$215 million to the investment cost of the MFF to finance taxes and duties, resettlement costs, part of the incremental cost, financing charges during implementation, and part of the civil works, equipment, and consulting services; and will provide the loan and grant proceeds and counterpart funds to the implementing agencies as a mix of loan and grant. The MFF is expected to be drawn in two tranches, subject to the government's submission of related periodic financing requests, execution of the related legal agreements for each tranche, and fulfillment of terms and conditions set forth in the framework financing agreement.²⁸ Approval for the second tranche is scheduled in 2018. Project 1 of \$358 million will be financed by a loan of \$245 million from ADB's OCR, and will have a 25-year term, including a grace period of 5 years, a 20-year straight line repayment method, an annual interest rate determined in accordance with ADB's LIBOR-based lending facility, a commitment charge of 0.15% per year, and such other terms and conditions set forth in the draft loan and project

²⁷ The UCCRTF grant will be fully administered by ADB.

²⁸ Framework Financing Agreement (accessible from the list of linked documents in Appendix 2).

agreements.²⁹ The financing plan of the MFF and the grant is in Table 2.

Table 2: Financing Plan

Source	Project 1 Amount (\$ million)	Project 2 Amount (\$ million)	Total Amount (\$ million)	Share of Total (%)
Asian Development Bank				
Ordinary capital resources (loan)	245.0	255.0	500.0	69.4
Urban Climate Change Resilience Trust Fund under the Urban Financing Partnership Facility ^a (grant)	5.0		5.0	0.6
Government	108.0	107.0	215.0	30.0
Total	358.0	362.0	720.0	100.0

^a Financing partners: the Rockefeller Foundation and the governments of Switzerland, the United Kingdom, and the United States.

Source: Asian Development Bank estimates.

E. Implementation Arrangements

17. The implementation arrangements are summarized in Table 3 and described in detail in the FAM (footnote 26). The Department of Industries and Commerce (DOIC) will be the executing agency. A program management unit (PMU) will be established within the Directorate of Industries for planning, implementation, monitoring and supervision, and coordination for the PBL and MFF. Project implementation units (PIUs)—established in Andhra Pradesh Industrial Infrastructure Corporation, Greater Visakhapatnam Municipal Corporation (GVMC), Andhra Pradesh Road Development Corporation (APRDC), and the Transmission Corporation of Andhra Pradesh—will be responsible for implementing the MFF. The PMU will recruit consultants in accordance with ADB’s Guidelines on the Use of Consultants (2013, as amended from time to time). Procurement of civil works and goods will be carried out in accordance with ADB’s Procurement Guidelines (2015, as amended from time to time).

Table 3: Implementation Arrangements

Aspects	Arrangements		
Implementation period with estimated completion date	October 2016–31 December 2024 (MFF); October 2016–31 December 2022 (Project 1); and October 2016–31 December 2019 (PBL)		
Loan closing date	30 June 2025 (MFF); 30 June 2023 (Project 1); and 31 December 2019 (PBL)		
Project management			
(i) Oversight body	A program steering committee, chaired by the chief secretary with representatives of key collaborative agencies, will provide policy direction and oversee implementation.		
(ii) Executing agency	Department of Industries and Commerce		
(iii) Implementing units	APIIC, GVMC, APRDC, and APTransco		
Procurement	International competitive bidding	7 contracts (works)	\$380.29 million
	National competitive bidding	10 contracts (works)	\$180.81 million
Consulting services	QCBS (80:20): Project management and supervision consultant	International: 60 person-months; National: 1,182 person-months	\$14.31 million
	Government selection procedures: project development mechanism ^a	3 packages	\$10.00 million
	QCBS: Road Safety Awareness	2 packages; 84 person-months	\$2.00 million
	QCBS: Resettlement Monitoring Agency	1 package; 104 person-months	\$1.10 million
Advance contracting and Retroactive financing	Advance contracting will be allowed. Retroactive financing will be allowed up to 20% of the ADB loan amount for eligible expenditures incurred prior to loan effectiveness but not earlier than 12 months prior to the signing of the loan agreement.		

²⁹ Based on these loan terms, the maturity premium payable to ADB is 0.10% per annum.

Aspects	Arrangements
Disbursement	The loan and grant proceeds will be disbursed in accordance with ADB's <i>Loan Disbursement Handbook</i> (2015, as amended from time to time) and detailed arrangements agreed upon between the government and ADB. The \$125 million PBL will be disbursed in two tranches, \$62.5 million each.

ADB = Asian Development Bank, APIIC = Andhra Pradesh Industrial Infrastructure Corporation, APRDC = Andhra Pradesh Road Development Corporation, APTransco = Transmission Corporation of Andhra Pradesh, GVMC = Greater Visakhapatnam Municipal Corporation, MFF = multitranches financing facility, PBL = policy-based loan, QBS = quality-based selection, QCBS = quality- and cost-based selection.

^a The Government of Andhra Pradesh will fully finance the project development mechanism and comply with ADB's guidelines (details are in the facility administration manual).

Source: Asian Development Bank.

III. TECHNICAL ASSISTANCE

18. The proposed TA for Capacity Development for Industrial Corridor Management in Andhra Pradesh will support the implementation of policy reforms, including those under the PBL. It will have three outputs: (i) institutions for corridor management strengthened, (ii) ease of doing business improved, and (iii) capacity building support provided. The TA is estimated to cost \$1,000,000, which will be financed on a grant basis by ADB's Technical Assistance Special Fund (TASF-others). The GoAP will provide counterpart staff, office space, venues, and other in-kind contributions. The DOIC will be the executing agency for the TA. It will be implemented over 3 years during the PBL implementation.³⁰

IV. DUE DILIGENCE

A. Technical

19. Technical due diligence included a comprehensive review of the subprojects' feasibility studies, detailed engineering designs and cost estimates, and surveys and site investigations. For Project 1 subprojects, technical aspects were examined on, among others: (i) specific components in terms of relevance, benefits, ease of implementation, and operations; (ii) technical alternatives; (iii) the life cycle costs and achievable cost savings; (iv) maximizing beneficiaries; and (v) minimizing adverse environmental and social impacts. To enhance the readiness of future investment projects, a project development mechanism will be established.³¹

20. In the industries sector, the designs of the common effluent treatment facilities comply with marine and inland discharge standards, and have been optimized for expansion of industrial units. The new power substations and transmission lines are optimally planned to meet the increase in electricity demand expected in the identified industrial clusters. For the road subprojects, the designs have been optimized to minimize the resettlement impacts. Reflecting the GoAP's priorities of reducing road crash incidents, a road safety improvement program focusing on education, enforcement, engineering, and emergency has been included in the MFF. For the urban sector, investments have been prioritized in Visakhapatnam based on the city's development plan, which includes smart city and climate-resilient planning. Andhra Pradesh State Skill Development Corporation, the nodal agency for skills development, will facilitate capacity building and skills enhancement of workers, entrepreneurs, and students.³²

³⁰ Attached Technical Assistance (accessible from the list of linked documents in Appendix 2).

³¹ Details are in the Facility Administration Manual (accessible from the list of linked documents in Appendix 2).

³² A policy action under the PBL is the preparation and implementation of a road map for skills development.

B. Economic and Financial

21. **Economic analysis.** The estimated economic internal rates of return of four sample Project 1 subprojects, one in each sector, range from 15.2% to 37.0%, higher than the economic opportunity cost of capital, estimated at 12.0%, indicating sufficient economic return.³³ The results are satisfactory against downside risks, including a 20% increase in capital expenditure, a 20% increase in operating costs, a 20% decrease in benefits, and a 1-year delay.

22. **Financial analysis.** The financial internal rates of return for the sample Project 1 subprojects in the industrial infrastructure and power sector range from 5.6% to 5.9%, higher than the weighted average cost of capital, indicating sufficient financial return.³⁴ The results of the sensitivity analysis for these sectors are satisfactory against downside risks including increases in capital expenditure and operation and maintenance costs, and construction delay. For the urban and road sector subprojects, user charges are not expected to recover operation and maintenance costs. A cash flow analysis, including own revenues and institutionalized transfers from the GoAP to the GVMC and APRDC, is more relevant and confirms that both the APRDC and GVMC have the financial capacity to sustain the services.

C. Governance

23. A financial management assessment of the DOIC, PMU, and PIUs shows that they have adequate capacity and expertise to implement the MFF, and the overall risk is moderate. A financial management action plan has been prepared to guide the PMU and PIUs on financial management. ADB's Anticorruption Policy (1998, as amended to date) was explained to and discussed with the Government of India and the GoAP. The specific policy requirements and supplementary measures are described in the FAM. Based on the risk assessments, some of the mitigation measures in the VCICDP design aim to (i) enhance capacity of PMU and PIU staff in program accounting, reporting, and policies and procedures of ADB; (ii) improve audit processes of PIUs; and (iii) establish a mechanism, including a website, for regular voluntary disclosure of relevant information to enhance transparency in project implementation.

D. Poverty and Social

24. Poverty in the state is estimated at 13.7%.³⁵ The VCICDP will contribute to poverty reduction through infrastructure development, and policy and institutional reforms to stimulate economic growth and employment generation.³⁶ It will provide vulnerable groups, including women, enhanced access to skills development and employment opportunities. Project 1 of the MFF and the PBL are classified as *effective gender mainstreaming*. A gender equality and social inclusion action plan³⁷ and a consultation and participation plan³⁸ have been prepared with targets, responsibilities, and resource allocation for widespread, ongoing, and meaningful participation. The GoAP will implement these plans, with support from the project management and supervision consultant, and nongovernment and civil society organizations.

³³ Details are in Economic Analysis: Project 1 of the Multitranches Financing Facility (accessible from the list of linked documents in Appendix 2).

³⁴ Details are in Financial Analysis: Project 1 of the Multitranches Financing Facility (accessible from the list of linked documents in Appendix 2).

³⁵ Government of India, Planning Commission. 2014. *Poverty Estimates (2011–2012)*. Delhi.

³⁶ Summary Poverty Reduction and Social Strategy (accessible from the list of linked documents in Appendix 2).

³⁷ Gender Action Plan: Gender Equality and Social Inclusion Action Plan (accessible from the list of linked documents in Appendix 2).

³⁸ Consultation and Participation Plan (accessible from the list of linked documents in Appendix 2).

E. Safeguards

25. **Social safeguards.** Project 1 of the MFF is categorized as A for involuntary resettlement and C for indigenous peoples. A resettlement framework³⁹ and indigenous peoples planning framework⁴⁰ have been prepared in accordance with ADB's Safeguard Policy Statement (2009) and applicable laws. Four resettlement plans and two due diligence reports for Project 1 have been prepared in line with the Safeguard Policy Statement, and will be updated after detailed designs.⁴¹ Project 1 resettlement impacts comprise 2,632 affected persons, including 1,182 significantly affected, the acquisition of 14.5 hectares of private land, and impact on 367 structures. The proposed mitigation measures, including capacity building of the PMU and PIUs, are adequate to address the assessed risks. The safeguard documents are disclosed on the ADB website, and relevant information will be shared with the affected persons. The PBL is categorized as C for involuntary resettlement and indigenous peoples, as it is not anticipated to have any impacts.⁴²

26. **Environmental safeguards.** Project 1 of the MFF is categorized as B for environment in accordance with the Safeguard Policy Statement. An environmental assessment and review framework has been prepared for the MFF in line with the Safeguard Policy Statement and applicable laws.⁴³ Four initial environmental examination reports prepared for Project 1 subprojects show that the subprojects are not likely to cause any significant adverse environmental impacts, and any impacts during construction and operation can be mitigated through appropriate design and good practices. Public consultations were conducted for all Project 1 subprojects during preparation of the MFF. The initial environmental examinations, including the environmental management plan, are considered sufficient to meet the environmental assessment requirements of ADB and the government. The PBL is categorized as B for environment, and measures will be taken for the assessment and mitigation of likely induced impacts resulting from the expected increase in industrialization (footnote 42).

27. **Disasters caused by natural hazards and climate change.** Andhra Pradesh coastal areas are prone to tropical cyclones, which can lead to significant losses. Climate change projections indicate an increase in temperature of 2.24^o Celsius and an increase in mean annual precipitation of 81 millimeters by 2050 in Andhra Pradesh.⁴⁴ The key risk factors are sea level rise, rising temperatures, and increased frequency of flooding and tropical cyclones. The VCICDP will incorporate appropriate measures for risks related to earthquakes, landslides, floods, tsunamis, storm surges, and climate change.

F. Risks and Mitigating Measures

28. Major risks and mitigating measures are summarized in Table 4 and described in detail in the risk assessment and risk management plan.⁴⁵ The fiduciary risk for the PBL is medium; the state government's public financial management systems are adequate to mitigate such risks.

³⁹ Resettlement Framework (accessible from the list of linked documents in Appendix 2).

⁴⁰ Indigenous Peoples Planning Framework (accessible from the list of linked documents in Appendix 2).

⁴¹ Resettlement Plans (accessible from the list of linked documents in Appendix 2).

⁴² Environmental and Social Assessment of the Policy Matrix and Management Plan (accessible from the list of linked documents in Appendix 2).

⁴³ Environmental Assessment and Review Framework (accessible from the list of linked documents in Appendix 2).

⁴⁴ Climate Change Risk Screening– Climate Change Project Adaptation Action Report (accessible from the list of linked documents in Appendix 2).

⁴⁵ Risk Assessment and Risk Management Plan (accessible from the list of linked documents in Appendix 2).

The integrated project benefits and impacts are expected to outweigh the costs.

Table 4: Summary of Risks and Mitigating Measures

Risks	Mitigating Measures
Delays in project implementation, including availability of lands, may result in cost and time overruns.	GoAP will assign qualified staff to PMU and PIUs, and minimize staff turnover. The project management and supervision consultant will provide training to PMU and PIUs on project management and safeguards. Large contracts will be designed to attract competent bidders. GoAP will ensure timely acquisition of lands.
Lack of coordination among various agencies may result in suboptimal outcomes.	The project steering committee will provide guidance for coordination. The roles, responsibilities, and functions of the PMU and PIUs and the proposed corridor management authorities will be clearly delineated.
Inadequate structure and systems of corridor management institutions.	GoAP will establish appropriate structures with competent staff for corridor management institutions. Capacity-building technical assistance will help establish efficient systems.

GoAP = Government of Andhra Pradesh, PIU = project implementation unit, PMU = program management unit.
Source: Asian Development Bank.

V. ASSURANCES

29. The Government of India and GoAP have assured ADB that implementation of the VCICDP shall conform to all applicable ADB policies including those concerning anticorruption measures, safeguards, gender, procurement, consulting services, and disbursement as described in the FAM (footnote 26) and loan documents. The Government of India and GoAP have given ADB certain undertakings for the MFF, which are set forth in the framework financing agreement. Specific covenants agreed by the Government of India and GoAP with respect to individual tranches under the MFF are set forth in the loan agreement and project agreement for the respective tranches.

VI. RECOMMENDATION

30. I am satisfied that the proposed multitranche financing facility and the proposed policy-based loan would comply with the Articles of Agreement of the Asian Development Bank (ADB) and recommend that the Board approve

- (i) the multitranche financing facility to India for the Visakhapatnam–Chennai Industrial Corridor Development Program in an aggregate principal amount not exceeding the equivalent of \$500,000,000, which comprises the provision of loans from ADB's ordinary capital resources, with interest and other terms to be determined in accordance with ADB's London interbank offered rate (LIBOR)-based lending facility; and is subject to such other terms and conditions as are substantially in accordance with those set forth in the framework financing agreement presented to the Board; and
- (ii) the policy-based loan of \$125,000,000 to India for the Visakhapatnam–Chennai Industrial Corridor Development Program, from ADB's ordinary capital resources, with interest to be determined in accordance with ADB's London interbank offered rate (LIBOR)-based lending facility; for a term of 15 years, including a grace period of 3 years; and such other terms and conditions as are substantially in accordance with those set forth in the draft loan and program agreements presented to the Board.

Takehiko Nakao
President

29 August 2016

DESIGN AND MONITORING FRAMEWORK

Impacts the Program is aligned with:			
Contribution of the manufacturing sector to the gross domestic product, trade and employment of the state of Andhra Pradesh increased (Government of India National Manufacturing Policy [2011]; ^a the VCIC's conceptual development plan; ^b and the Government of India Trade Policy [2015–2020]) ^c			
Results Chain	Performance Indicators with Targets and Baselines	Data Sources and Reporting	Risks
Outcome Growth and competitiveness of the VCIC enhanced	By 2025: a. Manufacturing sector output in Andhra Pradesh increased to Rs4.2 trillion (\$64 billion) (2015 baseline: Rs1.1 trillion [\$16 billion]) b. Gross value added per person engaged in the manufacturing sector increased to Rs1.0 million (2013 baseline: Rs0.483 million per person engaged) ^d c. Average daily employment of women in factories in Andhra Pradesh increased to 18% (2010 baseline for former Andhra Pradesh: 13.4%) ^e d. 24-hour power supply available for all manufacturing firms in the VCIC and interruption duration not to normally exceed 1 hour a month for feeders in at least 2 VCIC industrial clusters (2016 baseline: 24-hour power supply not available for all manufacturing firms in the VCIC and interruption duration exceeds 5 hours a month) e. 24-hour drinking water supply provided to 64,800 households and nonrevenue water reduced to less than 15% in project area in Visakhapatnam (2015 baseline: 0 for 24-hour supply and 50% for nonrevenue water) f. Traffic in VCIC increased to 21,000 PCU (2015: baseline: 15,000 PCU)	a. Annual survey of industries by Directorate of Economics & Statistics, GoAP b. Annual survey of industries by Ministry of Statistics and Programme Implementation, Government of India c. Statistical Profile on Women Labour by Labour Bureau, Ministry of Labour and Employment, Government of India d–f. Annual reports of the GoAP, DOIC, and PIUs; QPRs of VCICDP	Inadequate investments by the government in critical projects (ports and shipping, national highways, telecommunications, railways) in the VCIC Increased competition from other states in attracting investors
Outputs 1. Corridor management strengthened and ease of doing business improved	By 2024: 1a. Corridor management institutions established and operational (2015 baseline: not applicable) 1b. State's rating remains in top five on Ease of Doing Business (2015 baseline: ranked 2nd according to Ease of Doing Business report commissioned by Government of India) 1c. New e-portal and single-desk system operational for issuing business-related licenses to more than 90% of the applicants (2015 baseline: 0) 1d. New industrial and sector policies	1a. Annual reports of the GoAP and DOIC; QPRs of VCICDP 1b. Reports of Department of Industrial Policy and Promotion, Government of India 1c–1d. Annual reports of the GoAP and DOIC; QPRs of VCICDP	Lack of political will to continue reforms Inadequate structure and systems of corridor management institutions. Delays in legal processes for enforcement of contracts

Results Chain	Performance Indicators with Targets and Baselines	Data Sources and Reporting	Risks
	notified and implemented with fiscal incentives and special packages for women entrepreneurs (2015 baseline: not applicable)		
2. Visakhapatnam–Chennai Industrial Corridor infrastructure strengthened and more resilient	<p>By 2024:</p> <p>2a. 45 km of internal roads improved, with gender-responsive design features^f and 47 km of storm water drains constructed in industrial clusters (2015 baseline: 0)</p> <p>2b. Four MLD common effluent treatment plants constructed in industrial clusters (2015 baseline: 0)</p> <p>2c. 123 km of pipelines, 27 MLD water treatment plants, and 9,100 million liters of storage tanks constructed in industrial clusters (2015 baseline: 0)</p> <p>2d. 93.6 km of state highways widened, with gender-responsive design features^f (2015 baseline: 0)</p> <p>2e. One 400 by 220 kV, five 220 by 132 kV and four 132 by 33 kV new substations with a capacity of about 3,170 MVA and related transmission network comprising about 240 km of overhead and 41 km of underground transmission and distribution lines of 400, 220, and 132 kV installed for industrial clusters (2015 baseline: 0)</p> <p>2f. 365 km of new drinking water pipelines constructed or rehabilitated and 64,800 water meters installed in Visakhapatnam (2015 baseline: 0)</p> <p>2g. Climate change resilience plan for Visakhapatnam prepared and adopted for integrated water management solution (2015 baseline: not applicable)</p>	2a–2g. Annual reports of the DOIC and PIUs; QPRs of VCICDP	<p>Inadequate allocation of power and water to meet industrial and urban demand</p> <p>Severe and extreme weather and climate events</p>
3. Institutional capacities, human resources, and program management strengthened	<p>By 2024:</p> <p>3a. Project development mechanism with time-bound action plan established</p> <p>3b. Skill enhancement programs conducted for at least 25,000 persons (at least 20% women), including workers, entrepreneurs, and students</p> <p>3c. Capacity development programs, including training on gender and monitoring of gender-disaggregated data, conducted for more than 500 staff of executing and/or implementing agencies (100% women staff participate)</p>	3a–3e. Annual reports of the DOIC and PIUs; QPRs of VCICDP	High turnover of DOIC and PIU staff

Results Chain	Performance Indicators with Targets and Baselines	Data Sources and Reporting	Risks
	3d. Investor promotion plan developed and implemented on time 3e. Satisfactory QPRs and audit reports submitted on time (gender-disaggregated data collected)		
Key Activities with Milestones 1. Corridor management strengthened and ease of doing business improved 1.1 Comply with tranche 1 policy-based loan conditions (March 2017) 1.2 Comply with tranche 2 policy-based loan conditions (December 2019) 2. Visakhapatnam–Chennai Industrial Corridor infrastructure strengthened and more resilient 2.1 Award first civil works contracts (March 2017) 2.2 Award all civil works contracts of Project 1 (March 2018) 2.3 Acquire land and implement resettlement plan for Project 1 (December 2018) 2.4 Award all civil works contracts of Project 2 (December 2020) 2.5 Complete all construction and commission all facilities of Project 1 (December 2021) 2.6 Complete all construction and commission all facilities of Project 2 (December 2024) 3. Institutional capacities, human resources, and program management strengthened 3.1 Initiate support to APSSDC in preparation and implementation of action plan for training of workers, entrepreneurs, and students (January 2017) 3.2 Initiate capacity-building activities of executing and/or implementing agency staff (January 2017) Program Management Activities Establish project management unit with full staff (September 2016) Mobilize project management and supervision consultant (March 2017) Start implementation of gender equality and social inclusion action plan (Q2 2017)			
Inputs ADB: \$625 million (MFF of \$500 million, policy-based loan of \$125 million) Urban Climate Change Resilience Trust Fund under the Urban Financing Partnership Facility: \$5 million Government: \$215 million Technical Assistance Grant (TASF-others): \$1 million			
Assumptions for Partner Financing: Not applicable			

ADB = Asian Development Bank, APSSDC = Andhra Pradesh State Skill Development Corporation, DOIC = Department of Industries and Commerce, GoAP = Government of Andhra Pradesh, km = kilometer, kV = kilovolt, MFF = multitranches financing facility, MLD = million liters per day, MVA = mega volt ampere, PCU = passenger car unit, PIU = project implementing unit, QPR = quarterly progress report, VCIC = Visakhapatnam–Chennai Industrial Corridor, VCICDP = Visakhapatnam–Chennai Industrial Corridor Development Program.

^a Government of India, Ministry of Commerce and Industry, Department of Industrial Policy and Promotion. 2011. *National Manufacturing Policy*. Delhi.

^b ADB. 2015. *India's First Coastal Corridor: Vizag-Chennai Industrial Corridor Conceptual Development Plan*. [https://www.apindustries.gov.in/APIndus/Data/Vizag-Chennai Industrial Corridor Full Report.pdf](https://www.apindustries.gov.in/APIndus/Data/Vizag-Chennai%20Industrial%20Corridor_Full_Report.pdf)

^c Government of India, Ministry of Commerce and Industry, Department of Commerce. 2015. *Foreign Trade Policy, 2015–2020*. Delhi.

^d Government of India, Ministry of Statistics and Programme Implementation. 2015. *Annual Survey of Industries, 2012–2013*. Kolkata (Statement 9B, sections 5-8).

^e Government of India, Ministry of Labour and Employment. 2014. *Statistical Profile on Women Labour, 2012–2013*. Chandigarh/Shimla (Table 2.2, page 28).

^f Gender-responsive design features for roads include walking paths, separate toilets for women, telephone helplines, adequate lighting, signage, demarcated road crossings, and safe public spaces.

Source: Asian Development Bank.

LIST OF LINKED DOCUMENTS

<http://www.adb.org/Documents/RRPs/?id=48434-002-3>

1. Loan Agreement: Visakhapatnam–Chennai Industrial Corridor Development Program
2. Loan Agreement: Visakhapatnam–Chennai Industrial Corridor Development Program–Project 1
3. Grant Agreement
4. Program Agreement
5. Project Agreement
6. Framework Financing Agreement
7. Periodic Financing Request for Project 1
8. Sector Assessment (Summary): Industry and Trade
9. Facility Administration Manual
10. Contribution to the ADB Results Framework
11. Development Coordination
12. Attached Technical Assistance
13. Financial Analysis: Project 1 of the Multitranches Financing Facility
14. Economic Analysis: Project 1 of the Multitranches Financing Facility
15. Country Economic Indicators
16. International Monetary Fund Assessment Letter
17. Summary Poverty Reduction and Social Strategy
18. Gender Action Plan: Gender Equality and Social Inclusion Action Plan
19. Initial Environmental Examination: Samarlakota–Rajanagaram Road
20. Initial Environmental Examination: Power Transmission and Distribution System
21. Initial Environmental Examination: Urban Water Supply in Visakhapatnam City
22. Initial Environmental Examination: Internal Infrastructure in Naidupeta Industrial Cluster
23. Environmental Assessment and Review Framework
24. Resettlement Plan: Power Transmission Infrastructure in Visakhapatnam Node
25. Resettlement Plan: Power Transmission Infrastructure in Yerpedu–Srikalahasti Node
26. Resettlement Plan: Urban Water Supply in Greater Visakhapatnam Municipal Corporation Area
27. Resettlement Plan: Samarlakota–Rajanagaram Road
28. Resettlement Framework
29. Indigenous Peoples Planning Framework
30. Risk Assessment and Risk Management Plan
31. List of Ineligible Items

Supplementary Documents

32. Visakhapatnam–Chennai Industrial Corridor: Summary of Conceptual Development Plan
33. Visakhapatnam–Chennai Industrial Corridor: Summary of Regional Perspective Plan
34. Grant under the Urban Climate Change Resilience Trust Fund: Strengthening Urban Climate Change Resilience of Visakhapatnam
35. Consultation and Participation Plan
36. Economic Analysis: Policy-Based Loan
37. Environmental and Social Assessment of the Policy Matrix and Management Plan
38. Financial Management Assessment Report
39. Sector Assessment: Transport
40. Sector Assessment: Energy
41. Sector Assessment: Water and Other Urban Infrastructure and Services
42. Visakhapatnam–Chennai Industrial Corridor: Enhancing Regional Cooperation
43. Climate Change Risk Screening–Climate Change: Project Adaptation Action Report
44. Resettlement Due Diligence: Construction of Common Effluent Treatment Plants
45. Resettlement Due Diligence: Internal Infrastructure in Naidupeta Industrial Cluster
46. Comparison of Financing Modalities
47. Supplementary Appendix of the Economic Analysis: Project 1 of the Multitranches Financing Facility

DEVELOPMENT POLICY LETTER

दिवेश शर्मा, भा.प्र.से.
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D.O.No. 7/6/2013-ADB.I

भारत सरकार
वित्त मंत्रालय
आर्थिक कार्य विभाग
नॉर्थ ब्लॉक, नई दिल्ली-110001
Government of India
Ministry of Finance
Department of Economic Affairs
North Block, New Delhi-110001

25th July 2016

Dear Shri Nakao,

I am writing this in context of the "Vizag-Chennai Industrial Corridor (VCIC) Development Program" Loan.

2. A copy of the letter dated 5th May 2016 from the Government of Andhra Pradesh to the Government of India, expressing the unequivocal commitment to implement the Vizag-Chennai Industrial Corridor Development Program (VCIC), is enclosed. Negotiations for a Policy Based Loan of US \$ 125 million for this purpose were held on 5th July, 2016 in New Delhi.
3. I am pleased to convey the full support of the Government of India to the Government of Andhra Pradesh in implementing the Program, and request ADB to lend US \$ 125 million from its Ordinary Capital Resources so as to enable the Government of India to on-lend these funds to the Government of Andhra Pradesh.
4. I assure you of the highest consideration of the Government of India.

Yours sincerely,


(Dinesh Sharma)

Encl: As above

Mr. Takehiko Nakao
President
Asian Development Bank
6 ADB Avenue, Mandaluyong City
1550 Metro Manila
Philippines

S.P. TUCKER, I.A.S.



**CHIEF SECRETARY
GOVERNMENT OF ANDHRA PRADESH**

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D.O.Lr.No.15/1/2014/11427/VCICDP/Dt.05.05.2016

Dear *Shri Das,*

Subject:- Development Policy Letter – ADB MFF Loan for Vizag Chennai Industrial Corridor Development Program (VCIC-DP) – Regarding

Vizag Chennai Industrial Corridor (VCIC), is the first coastal economic corridor in the country, Aligned with the golden quadrilateral and covering more than 800 km of Andhra Pradesh's coastline, VCIC is poised to play a critical role in driving India's and Andhra Pradesh's economy and to further integrate the Indian economy with the dynamic global production network of East and Southeast Asia.

The state government appreciates technical and financial support from ADB which include an infrastructure strategy to drive economic growth and the identification of nodes for industrial development, high-potential industrial sectors, and a set of priority projects. The VCIC Development Program (VCICDP), which is a combination of a Multi-tranche Financing Facility (MFF) and a Policy Based Loan (PBL), will build on the existing concentration of industries and increase the density and flow of economic activities along the VCIC. The policy-based loan of the VCICDP is supported by the Asian Development Bank (ADB), wherein the infrastructure, investments will be underpinned by a policy framework that attracts and facilitates private sector operations. The VCICDP envisages three main outputs.

- Output 1: Corridor management strengthened and ease of doing business improved.
- Output 2: VCIC infrastructure more resilient and strengthened.
- Output-3: Institutional capacities, human resources, and program management strengthened.

The policy loan is geared towards Output 1. This will include (i) capacity development of institutions engaged in corridor management; (ii) support to enhance the ease of doing business including establishment of an e-portal and a single-desk system, with incentives for women entrepreneurs; (iii) industrial and sector policies to stimulate industrial development, with special incentives for women; and (iv) improvement in investor promotion, trade facilitation and logistics. The agreed policy actions for tranche release under the policy-based loan

(contd....2)

are detailed out in the policy matrix enclosed herewith. We are committed to the implementation of VCIC. We also confirm that the policy actions that accompany this Program are reflective of and fully in consonance with the development agenda of the State Government.

Yours sincerely,
Sd/-
(S.P.TUCKER)

Encl: Policy Matrix

Shri Shaktikanta Das, IAS
Secretary,
Department of Economic Affairs (DEA),
Ministry of Finance,
Room No.40-B, North Block
New Delhi – 110 001 (India)

1. Joint Secretary (MI), Department of Economic Affairs, Ministry of Finance, Government of India, Room No.40-B, North Block, New Delhi – 110 001.
2. Principal Finance Secretary, Government of Andhra Pradesh, North 'H' Block – 1st Floor, Andhra Pradesh Secretariat, NTR Marg, Khairatabad, Hyderabad – 500 004.
3. Secretary, Department of Industries and Commerce, North 'H' Block – 3rd Floor, Andhra Pradesh Secretariat, NTR Marg, Khairatabad, Hyderabad – 500 004.
4. Director, Department of Industries, Chirag Ali Lane, Abids , Hyderabad – 500 001.


(S.P.TUCKER)

POLICY MATRIX

Policy Areas/ Objectives	Actions Prior to First Tranche Release (March 2017)	Actions Prior to Second Tranche Release (December 2019)	Verification Document and Responsible Agency (RA) for First Tranche	Verification Document and Responsible Agency (RA) for Second Tranche
Corridor Management	1. A State Industrial Corridor Management Authority or equivalent notified for providing strategic directions and policies for development of industrial corridors, nodes and institutions; investor promotion; and development, financing and implementation of relevant infrastructure projects.	1. State Industrial Corridor Management Authority or equivalent operationalized, which will have adopted organizational structure, human resources plan and business plan that should include, among others, streamlined decision-making, and strategy for industrial growth.	Government order/notification. RA: DOIC	The business plan and the human resource development plan documents of the said organization. RA: DOIC
	2. Node-specific SPVs notified with mandate for development and implementation of relevant infrastructure projects.	2. At least two node-specific SPVs along with project management units established.	Government order/notification. RA: DOIC	Documents of two SPVs and project management units. RA: DOIC
	3. Roadmap prepared for a project development mechanism and its management, for planning and preparing infrastructure projects in industrial corridors.	3. Project development mechanism established to enhance readiness for development and implementation of infrastructure projects in the State.	Draft roadmap. RA: DOIC	Approved roadmap; Project development fund documents. RA: DOIC
	4. An investor promotion cell in Directorate of Industries expanded to a dedicated investor promotion agency notified to attract investments; and one global investment promotion event held in the State.	4. A dedicated investor promotion agency notified and operational, and a second global investment promotion event held in the state.	Agency documents Promotion events reports RA: DOIC	Promotion events reports. RA: DOIC
	5. The road safety policy framework enhanced, published and under implementation.	5. State level Road safety policy framework or action plan implemented in at least two industrial estates of APIIC.	Approved plan on the website. RA: TR&B, APRDC	Road crash incident reports. RA: TR&B, APRDC
	6. A state level roadmap to provide electricity supply as per standards prescribed by the State Electricity Regulatory Commission approved.	6. State level Roadmap for electricity supply implemented in at least two industrial estates of APIIC.	Approved plan on the website. RA: DOE	Energy department reports RA: DOE
Ease of Doing	7. New industrial and sector level policies including fiscal incentives for	7. New industrial and sector policies implemented in all the four nodes of	Notifications of new policies.	Annual reports of and certification from DOIC

Policy Areas/ Objectives	Actions Prior to First Tranche Release (March 2017)	Actions Prior to Second Tranche Release (December 2019)	Verification Document and Responsible Agency (RA) for First Tranche	Verification Document and Responsible Agency (RA) for Second Tranche
Business	investments and providing special incentives for women, notified and under implementation.	VCIC.	RA: DOIC	RA: DOIC
	8. Updated state-wide single-desk policy notified to streamline approval processes for doing business.	8. State-wide single desk policy operationalized.	Approved single-desk policy. RA: DOIC	DOI report on single-desk policy. RA: DOIC
	9. An e-portal operational for online applications for doing business and related government incentives.	9. The e-portal for doing business becomes the main system for industrial licensing in relevant state departments.	Operational e-portal system RA: DOIC	DOI report on e-portal operations RA: DOIC
	10. A reform plan approved for DICs, which includes, among others, rationalized organizational structure, staffing, office infrastructure, streamlined processes for single-point contact and linkages with the state-level single desk and e-portal systems.	10. At least two model DICs established.	Approved reform plan to establish model DICs. RA: DOI	DOI report on the model DICs. RA: DOI
	11. A roadmap or a policy document approved for skill development.	11. From the first global investment promotion event, at least 25,000 persons (at least 20% women), including workers, entrepreneurs and students, trained for skill development.	Approved roadmap/policy on the website. RA: APSSDC	APSSDC report on number of persons trained. RA: APSSDC
	12. Lands for industrial use identified in at least two nodes.	12. Computerized database of lands for industrial nodes made available to investors on website.	Survey reports on the website. RA: APIIC	Computerized database on the website. RA: APIIC

APIIC = Andhra Pradesh Industrial Infrastructure Corporation, APRDC = Andhra Pradesh Road Development Corporation, APSSDC = Andhra Pradesh State Skills Development Corporation, APTransco = Transmission Corporation of Andhra Pradesh, DIC = district industries centers, DOI = Directorate of Industries, DOE = Department of Energy, DOIC = Department of Industries and Commerce, FY = fiscal year, RA = responsible agency, SPV = special purpose vehicle, and TR&B = Transport, Roads and Bridges Department.

Source: Asian Development Bank.