



Technical Assistance Report

Project Number: 51254-001
Knowledge and Support Technical Assistance (KSTA)
December 2017

Almaty–Bishkek Economic Corridor Support

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Asian Development Bank

ABBREVIATIONS

| | | |
|-------|---|--|
| ABEC | – | Almaty–Bishkek Economic Corridor |
| ADB | – | Asian Development Bank |
| CAREC | – | Central Asia Regional Economic Cooperation Program |
| TA | – | technical assistance |

NOTE

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

| | |
|-------------------------|---|
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KNOWLEDGE AND SUPPORT TECHNICAL ASSISTANCE AT A GLANCE

| 1. Basic Data | | Project Number: 51254-001 | |
|--|---|--------------------------------------|------------------------|
| Project Name | Almaty–Bishkek Economic Corridor Support | Department /Division | CWRD/CWRC |
| Country | REG (KAZ, KGZ) | Executing Agency | Asian Development Bank |
| 2. Sector | Subsector(s) | ADB Financing (\$ million) | |
| ✓ Agriculture, natural resources and rural development | Agricultural policy, institutional and capacity development | | 0.30 |
| | Agro-industry, marketing, and trade | | 0.30 |
| Education | Technical and vocational education and training | | 0.20 |
| Health | Health system development | | 0.10 |
| Industry and trade | Trade and services | | 0.23 |
| Information and communication technology | ICT industries and ICT-enabled services | | 0.10 |
| Public sector management | Economic affairs management | | 0.33 |
| Transport | Multimodal logistics | | 0.10 |
| Water and other urban infrastructure and services | Other urban services | | 0.10 |
| | Total | | 1.75 |
| 3. Strategic Agenda | Subcomponents | Climate Change Information | |
| Inclusive economic growth (IEG) | Pillar 2: Access to economic opportunities, including jobs, made more inclusive | Climate Change impact on the Project | Low |
| Environmentally sustainable growth (ESG) | Global and regional transboundary environmental concerns | | |
| Regional integration (RCI) | Pillar 1: Cross-border infrastructure Pillar 2: Trade and investment Pillar 4: Other regional public goods | | |
| 4. Drivers of Change | Components | Gender Equity and Mainstreaming | |
| Governance and capacity development (GCD) | Client relations, network, and partnership development to partnership driver of change Institutional development Institutional systems and political economy | No gender elements (NGE) | ✓ |
| Knowledge solutions (KNS) | Application and use of new knowledge solutions in key operational areas Knowledge sharing activities Pilot-testing innovation and learning | | |
| Partnerships (PAR) | Implementation Private Sector | | |
| Private sector development (PSD) | Conducive policy and institutional environment Promotion of private sector investment Public sector goods and services essential for private sector development | | |
| 5. Poverty and SDG Targeting | | Location Impact | |
| Geographic Targeting | Yes | Rural | High |
| Household Targeting | No | Urban | Medium |
| SDG Targeting | Yes | | |
| SDG Goals | SDG2, SDG8, SDG10, SDG11 | | |
| 6. TA Category: | | | |
| 7. Safeguard Categorization | | | |
| Not Applicable | | | |

KNOWLEDGE AND SUPPORT TECHNICAL ASSISTANCE AT A GLANCE

8. Financing

| Modality and Sources | Amount (\$ million) |
|---|---------------------|
| ADB | 1.75 |
| Knowledge and Support technical assistance: Regional Cooperation and Integration Fund | 0.75 |
| Knowledge and Support technical assistance: Technical Assistance Special Fund | 1.00 |
| Cofinancing | 0.00 |
| None | 0.00 |
| Counterpart | 0.00 |
| None | 0.00 |
| Total | 1.75 |

9. Effective Development Cooperation

| | |
|--|----|
| Use of country procurement systems | No |
| Use of country public financial management systems | No |

I. INTRODUCTION

1. The regional knowledge and support technical assistance (TA) will support implementation of a pilot cross-border economic corridor around Almaty and Bishkek under the Central Asia Regional Economic Cooperation (CAREC) program. The Almaty–Bishkek Economic Corridor (ABEC) aims to further integrate the relatively dense economic area in Central Asia and create one economic space without barriers, following a multisector approach. ABEC will allow businesses to specialize more, operate at a larger scale, and achieve greater economic diversification and competitiveness with the purpose of exporting goods and services outside the region.

2. ABEC enjoys strong political support from the governments of Kazakhstan and the Kyrgyz Republic. In 2017, the two governments created the ABEC subcommittee—chaired by the vice-ministers of economy—under the Kazakhstan–Kyrgyz Republic Intergovernmental Council, which is headed by both countries’ prime ministers.

3. This TA builds on analytical and conceptual work completed under *Technical Assistance for Assisting the Central Asia Regional Economic Cooperation Institute Knowledge Program (Phase 1)*, which facilitated the preparation of ABEC development reports covering agricultural value chains, tourism, urban development, education, health, disaster risk management, information and communication technology applications, and connectivity.¹ A joint working group of government and private sector representatives performed this work with support from Asian Development Bank (ADB) consultants. A steering committee approved an investment framework for ABEC in September 2016 to mark the end of the analytical phase and the start of the implementation phase.²

4. The TA will identify investment projects for ADB, the governments, the private sector, and other development partners through the platform of the corridor.³ The TA will also actively promote private sector investments in the corridor, support the further institutionalization of ABEC, and assist the ABEC subcommittee in identifying, prioritizing, and sequencing ABEC projects and reform initiatives.

I. ISSUES

5. ABEC is a pilot cross-border economic corridor and a flagship of regional integration under the CAREC program. Despite their proximity, the travel time between Almaty and Bishkek often takes more than four hours because of the cumbersome border crossing. Markets for services and agricultural products are separated, which limits their scale, specialization, and hence curbs the region’s potential for exports. ABEC will address these bottlenecks through setting up cross-border agricultural value chains, integrating tourism markets, improving coordination in social sectors, and shortening travel times for commuters. ABEC interventions are expected to boost agricultural productivity, certification and exports, create new income opportunities through attracting international tourists, allow for specialized health services and vocational education, and further improve the export competitiveness of Almaty, Bishkek, and the surrounding regions.

¹ ADB. 2012. *Technical Assistance for Assisting the Central Asia Regional Economic Cooperation Institute Knowledge Program (Phase 1)*. Manila (TA 8259-REG).

² ADB. 2016. *Growing Together—Almaty–Bishkek Corridor Initiative Investment Framework*. Manila

³ The TA first appeared in the business opportunities section of ADB’s website on 11 September 2017.

6. The governments of Kazakhstan and the Kyrgyz Republic, primarily represented by their respective ministries of economy, the city administrations of Almaty and Bishkek, and the regional governments of Almaty, Zhambyl, Chui, and Issyk-Kul, have together with ADB developed the concept for creating an economic corridor through investment projects, regulatory reforms, and knowledge exchange.⁴ This work has drawn on the international experience of the most successful economic corridors.

7. The two governments envision the corridor as an integrated economic space between the cities of Almaty and Bishkek and their surroundings to foster trade, enhance free movement of labor and capital, and modernize infrastructure. The cross-border corridor will promote greater diversification and competitiveness, allowing businesses to specialize more, operate at a larger scale, and experience agglomeration benefits. The two cities and four regions can achieve far more together than either can achieve alone.

8. The ABEC subcommittee, which consists of senior government officials from different ministries and senior professionals, will oversee the implementation and further development of the corridor with the support of this TA. The private sector will drive most investments to the corridor. Transformative public investments, public–private partnerships, the integrated market, skilled human capital, and high-quality infrastructure and services will attract these investments. These investments will require reforms to improve public policy and the regulatory environment,⁵ as well as project preparatory analytical work to showcase the feasibility of the projects and their regional impacts. Further to that, this TA will support cooperation between the two governments to develop a common regulatory environment that is consistent with agreements under the Eurasian Economic Union.

II. THE TECHNICAL ASSISTANCE

A. Impact and Outcome

9. The TA is aligned with the following impact: strengthened regional economic cooperation in the CAREC region.⁶ The TA will have the following outcome: ABEC is an integrated economic space and serves as a pilot economic corridor under the CAREC program.⁷ The outcome will lead to additional benefits, including (i) forging a coordinated approach to developing agriculture and services in the corridor and making both cities more attractive targets for skilled labor and investments, (ii) maximizing regional benefits from investment projects and reforms across sectors, (iii) increasing the scale and specialization of products and services, and (iv) enhancing export competitiveness. Selected projects will be environmentally sustainable.

B. Outputs, Methods, and Activities

10. **Output 1: Projects and reforms with regional impacts identified and prepared in the Almaty–Bishkek Economic Corridor.** The TA will identify and prepare ABEC projects for implementation during 2018–2020. Benefits will align with national priorities and maximize

⁴ The TA is relevant to ADB's Operational Plan for Regional Cooperation and Integration—particularly operational direction 1 ("strengthening connectivity between economies") and operational direction 2 ("raising competitiveness in connected markets"). ADB. 2016. *Operational plan for regional cooperation and integration, 2016–2020: Promoting connectivity, competitiveness, regional public goods, and collective action for Asia and the Pacific*. Manila.

⁵ This TA benefits from the work under ADB. 2014. *Supporting Industrial Park Development in Central Asia Regional Economic Cooperation Region*. Manila (TA 8782-REG).

⁶ ADB. 2012. *CAREC 2020: A Strategic Framework for the Central Asia Regional Economic Cooperation Program 2011–2020*. Manila.

⁷ The design and monitoring framework is in Appendix 1.

regional development impacts and spillovers. The TA will support the development of a 3-year rolling pipeline of regional projects and policy reforms under ABEC. They will be prioritized based on (i) value for money, (ii) potential to spin off exports of services or products, (iii) bankability and potential to attract private investments, and (iv) positive externalities across sectors. The projects will support national and regional strategies and will be aligned with international commitments. A pool of international and national experts will help identify and prepare projects. Representatives from the two governments have identified a set of initial projects for advanced implementation in agriculture and tourism that will showcase the advantages of economic and logistical integration made possible by the corridor approach. Work has already begun on first ADB ABEC agribusiness project, which will establish cross-border value chains for food products.⁸ Tourism facilitation projects are also being conceptualized.

11. **Output 2: Implementation plans are finalized.** For the corridor to generate shared benefits in both countries and become replicable, the 3-year rolling project pipeline will be outlined in annual implementation plans. The implementation plans will help prioritize and sequence investment projects and integrate existing public, private, and development partner projects. The implementation plans will outline the necessary reforms and regulatory adjustments to maximize value for money and attract private investments. Such adjustments will require high-level political commitment and consensus among the stakeholders.

12. **Output 3: Almaty–Bishkek Economic Corridor is institutionalized.** The TA will support work of the ABEC subcommittee, support secretariat functions for the ABEC subcommittee meetings, and facilitate the work of sector working groups. This will require maintaining close coordination between the countries and across different levels of government. The TA will also support outreach activities of the corridor to attract public and private investments. The TA will also suggest different ways to further institutionalize the corridor, including through generated revenues from services for the design and implementation of projects.

C. Cost and Financing

13. The TA is estimated to cost \$1,800,000, of which \$1,000,000 will be financed on a grant basis by ADB's Technical Assistance Special Fund (TASF-6), and \$750,000 will be financed on a grant basis by the Regional Cooperation and Integration Fund.⁹ The in-kind contributions of the governments are estimated to amount to \$50,000. The key expenditure items, to be financed on parallel basis, are listed in Appendix 2.

14. The governments of Kazakhstan and the Kyrgyz Republic will provide counterpart support in the form of counterpart staff, office, office supplies, all required materials, information, data, and other in-kind contributions.

D. Implementation Arrangements

15. ADB will administer the TA.¹⁰ In particular, the Central and West Asia Department will select, supervise, and evaluate consultants; procure goods and services; organize workshops; and provide staff to act as resource persons in meetings and workshops.

⁸ ADB. 2017. *Country Operations Business Plan: Kazakhstan, 2018–2020*. Manila.

⁹ Established by ADB. Financing partner: the Government of Japan.

¹⁰ ADB will obtain a no-objection in writing from the governments of the Republic of Kazakhstan and the Kyrgyz Republic prior to conducting or financing any TA activity in the territory of said countries.

Implementation Arrangements

| Aspects | Arrangements | | |
|----------------------------------|--|--|-----------|
| Indicative implementation period | November 2017–April 2020 | | |
| Executing agency | ADB | | |
| Consultants | To be selected and engaged by ADB | | |
| | QCBS with 90:10 quality-cost ratio for consulting firms; and individual consultant recruitment | Pool of Experts (up to 12 international experts with up to 26 person-months and up to 10 national experts) up to 28 person-months) and additional resource persons as needed | \$450,000 |
| | | Up to 2 Development Economists (international), up to 18 person-months | \$280,000 |
| | | Up to 4 Institutional Development and Regional Cooperation Experts (national), up to 46 person-months | \$130,000 |
| Procurement | Request for quotations | Workshops, Conferences, small office supplies, and outreach media (video) | ADB |
| Disbursement | Disbursements will be made in accordance with ADB's Technical Assistance Disbursement Handbook (2010, as amended from time to time); and arrangements will be on parallel financing basis. | | |

ADB = Asian Development Bank, QCBS = quality- and cost-based selection

Source: Asian Development Bank.

16. **Consulting services.** The TA will require the services of international and national experts. A consulting firm and individual consultants will be recruited in accordance with ADB's Guidelines on the Use of Consultants (2013, as amended from time to time), and the associated project administration instructions and/or TA staff instructions as outlined in the table. The TA will finance approximately 44 person-months of international consulting and 74 person-months of national consulting services using both input-based contracts and, where appropriate, output-based or lumpsum contracts.¹¹ A pool of international and national consultants will support the preparation of investment projects and related policy reforms to accelerate the implementation of the ABEC.¹² The terms of reference for the consultants will be finalized in consultation with the ABEC subcommittee once specific ABEC projects and reform initiatives have been agreed upon, and depending on the recruitment of a firm or individual consultants, whichever is more appropriate for the selected ABEC initiatives. The consulting firms will be selected using the quality and cost-based selection method with a quality–cost ratio of 90:10.

17. **ADB's procurement.** All TA financed goods and services will be procured in accordance with ADB Procurement Policy (2017, as amended from time to time) and the associated PAIs/TA

¹¹ ADB. 2014. *Midterm Review of Strategy 2020 Action Plan*. Manila.

¹² Terms of Reference for Consultants (accessible from the list of linked documents in Appendix 3).

Staff Instructions. The TA equipment budget includes computers and small office equipment. Assets, including fixed assets, will be turned over to the governments or disposed after TA completion in line with ADB rules and regulations, specifically Administrative Order No. 4.02. Disbursements under the TA will be made in accordance with ADB's *Technical Assistance Disbursement Handbook* (2010, as amended from time to time).

III. THE PRESIDENT'S DECISION

18. The President, acting under the authority delegated by the Board, has approved the provision of technical assistance not exceeding the equivalent of \$1,750,000 (aggregated amount) on a grant basis for the Almaty–Bishkek Economic Corridor Support, and hereby reports this action to the Board.

DESIGN AND MONITORING FRAMEWORK

| Impact of the TA is aligned with Regional economic cooperation in the CAREC region strengthened (CAREC Strategy, 2011–2020) ^a | | | |
|---|--|---|---|
| Results Chain | Performance Indicators with Targets and Baselines | Data Sources and Reporting | Risks |
| <p>Outcome ABEC is an integrated economic space and serves as a pilot economic corridor under the CAREC program</p> | <p>a. Number of border crossings between Kazakhstan and Kyrgyz Republic increased to more than 40,000 per day in 2020 (2015 Baseline: below 30,000 per day)</p> <p>b. Merchandise exports from Kazakhstan to Kyrgyz Republic increase by 10% by 2020 (2016 Baseline: \$376.1 million) and from Kyrgyz Republic to Kazakhstan by 10% by 2020 (2016 Baseline: \$151.2 million)</p> | <p>a. Kazakhstan and Kyrgyz Republic border authorities upon request</p> <p>b. UN Comtrade database^b</p> | <p>Major geopolitical, domestic, or regional crises or disruptions occur affecting Kazakhstan or Kyrgyz Republic during TA implementation</p> |
| <p>Outputs</p> <p>1. Projects and reforms with regional impacts identified and prepared in the Almaty–Bishkek Economic Corridor</p> <p>2. Implementation plans are finalized</p> <p>3. Almaty–Bishkek Economic Corridor is institutionalized</p> | <p>1a. Number of private sector projects approved under the ABEC framework increased to 2 by 2019 (2016 Baseline: 0)</p> <p>1b. Number of public sector investment projects approved within the ABEC framework increased to 3 by 2019 (2016 Baseline: 0)</p> <p>1c. At least 1 cross-border agricultural value chain supported through ABEC subcommittee by 2019 (2017 Baseline: 0)</p> <p>1d. At least 1 regulatory adjustment made to improve cross-border movements by 2019. (2017 Baseline: 0)</p> <p>2. Implementation plans published in 2018 and 2019 (2017 Baseline: not published)</p> <p>3a. At least 2 sector working groups constituted by 2018 (2017 Baseline: 0)</p> | <p>1. Protocols of ABEC subcommittee meetings (at least once a year)</p> <p>2. CAREC website^c</p> <p>3. Protocols of ABEC subcommittee meetings (at least once a year)</p> | <p>Cooling political relations, major economic crisis in the region, stalling Eurasian Economic Union implementation</p> |

| | | | |
|--|---|--|--|
| | 3b. At least 1 annual ABEC subcommittee meeting in 2018 and 2019 (2017 Baseline: 1) | | |
| <p>Key Activities with Milestones</p> <p>1. Projects and reforms with regional impacts identified and prepared in the Almaty–Bishkek Economic Corridor</p> <p>1.1 Mobilize consultants (November 2017–December 2019).</p> <p>1.2 Identify projects in priority agriculture and tourism sectors, other ABEC sectors (November 2017–December 2019).</p> <p>1.3 Assess projects based on distribution of costs and benefits between the countries, regions, and cities (October 2017–March 2020).</p> <p>1.4 Attract private investments through dialogue with the private sector, including outreach activities such as investment forums; through regulatory reforms that increase the viability of projects; and through integrated financing approaches such as public–private partnerships (February 2018–March 2020).</p> <p>2. Implementation plans are finalized</p> <p>2.1 Mobilize consultants (January 2018–December 2019).</p> <p>2.2 Conceptualize approaches to assess public and private investment projects in terms of distribution of costs and benefits (February 2018–February 2019).</p> <p>2.3 Integrate sector work to show agglomeration benefits (February 2018–February 2019).</p> <p>3. Almaty–Bishkek Economic Corridor is institutionalized</p> <p>3.1 Mobilize consultants (November 2017–December 2019).</p> <p>3.2 Lend the ABEC subcommittee administrative support and expertise through a pool of sector experts (November 2017–March 2020).</p> <p>3.3 Develop a branding concept for the corridor to facilitate private investments (January 2018–September 2019).</p> <p>3.4 Develop a set of standards and regulatory reforms to increase the competitiveness of the corridor (September 2018–March 2020).</p> | | | |
| <p>Inputs</p> <p>ADB: \$1,000,000</p> <p>Regional Cooperation and Integration Fund: \$750,000</p> <p>Note: The governments of Kazakhstan and the Kyrgyz Republic will provide counterpart support in the form of counterpart staff, office, office supplies, all required materials, information, data, and other in-kind contributions.</p> | | | |
| <p>Assumptions for Partner Financing</p> <p>Additional cofinancing will be considered during implementation.</p> | | | |

ABEC = Almaty–Bishkek Economic Corridor, ADB = Asian Development Bank, CAREC = Central Asia Regional Economic Cooperation Program, TA = technical assistance.

^a ADB. 2012. *CAREC 2020: A Strategic Framework for the Central Asia Regional Economic Cooperation Program 2011–2020*. Manila.

^b UN Comtrade. <https://comtrade.un.org/data>.

^c CAREC. Economic Corridor Development. <http://www.carecprogram.org/index.php?page=economic-corridor-development>.

Source: Asian Development Bank.

COST ESTIMATES AND FINANCING PLAN
(\$'000)

| Item | Amount |
|---|----------------|
| A. Asian Development Bank^a | |
| 1. Consultants | 570.0 |
| a. Remuneration and per diem | 390.0 |
| i. International consultants | 240.0 |
| ii. National consultants | 150.0 |
| b. Out-of-pocket expenditures | 180.0 |
| i. International and local travel | 120.0 |
| ii. Reports and communications | 20.0 |
| iii. Surveys | 20.0 |
| iv. Miscellaneous administration and support costs | 20.0 |
| 2. Equipment ^b | 20.0 |
| 3. Training, seminars, and conferences ^c | 200.0 |
| 4. Surveys | 60.0 |
| 5. Contingency | 150.0 |
| Subtotal (A) | 1,000.0 |
| B. Regional Cooperation and Integration Fund^d | |
| 1. Consultants | 330.0 |
| a. Remuneration and per diem | 230.0 |
| i. International consultants | 230.0 |
| b. Out-of-pocket expenditures | 100.0 |
| i. International and local travel | 100.0 |
| 2. Training, seminars, and conferences | 250.0 |
| 3. Outreach activities and printed external publications ^e | 150.0 |
| 4. Miscellaneous administration and support costs | 20.0 |
| Subtotal (B) | 750.0 |
| Total | 1,750.0 |

Note: The technical assistance (TA) is estimated to cost \$1.8 million, of which contributions from the Asian Development Bank and the Regional Cooperation and Integration Fund are presented in the table above. The governments of Kazakhstan and the Kyrgyz Republic will provide counterpart support in the form of counterpart staff, office and housing accommodation, office supplies, secretarial assistance, domestic transportation, and other in-kind contributions. The key expenditure items will be financed on a parallel basis. The value of government contribution is estimated to account for 2.8% of the total TA cost.

^a Financed by the Asian Development Bank's Technical Assistance Special Fund (TASF 6).

^b Includes computers, software, and small office equipment to be procured in accordance with ADB's Procurement Guidelines (2015, as amended from time to time). Equipment will be turned over to the governments or disposed after TA completion in line with ADB rules and regulations.

^c Including travel costs of ADB staff acting as resource persons.

^d Established by the Asian Development Bank. Financing partner: the Government of Japan.

^e Printed external publications necessary to achieve output 3: Almaty–Bishkek Economic Corridor (ABEC) is institutionalized. The printed publications will help facilitate private sector involvement in ABEC investments and reforms and support branding of the corridor and its initiatives. The number of copies will not exceed 10,000 and the costs will remain below \$50,000.

Source: Asian Development Bank estimates.

LIST OF LINKED DOCUMENTS

<http://www.adb.org/Documents/LinkedDocs/?id=51254-001-TARreport>

1. Terms of Reference for Consultants