



# Technical Assistance Report

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Project Number: 54078-001  
Transaction Technical Assistance (TRTA)  
August 2021

## Republic of Kazakhstan: Preparing the Central Asia Regional Economic Cooperation Corridors 1, 2, and 6 Connector Road (Kyzylorda–Zhezkazgan) Reconstruction Project

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Asian Development Bank

## **CURRENCY EQUIVALENTS**

(as of 1 July 2021)

Currency unit	–	tenge (T)
T1.00	=	\$0.00234
\$1.00	=	T426.83

## **ABBREVIATIONS**

ADB	–	Asian Development Bank
CAREC	–	Central Asia Regional Economic Cooperation
COR	–	Committee of Roads
GDP	–	gross domestic product
km	–	kilometer
MIID	–	Ministry of Investment and Infrastructural Development
TA	–	technical assistance

## **NOTE**

In this report, "\$" refers to United States dollars.

<b>Vice-President</b>	Shixin Chen, Operations 1
<b>Director General</b>	Eugene Zhukov, Central and West Asia Department (CWRD)
<b>Deputy Director General</b>	Nianshan Zhang, CWRD
<b>Director</b>	Hideaki Iwasaki, Transport and Communications Division (CWTC), CWRD
<b>Team leader</b>	Johan Georget, Transport Specialist, CWTC, CWRD
<b>Team members</b>	Asem Chakenova, Senior Project Officer, Kazakhstan Resident Mission (KARM), CWRD
	Luke Fochtman, Procurement Specialist, Procurement Division 1, Procurement, Portfolio and Financial Management Department
	Gladys Franco, Social Development Officer (Gender), Portfolio, Results, Safeguards and Gender Unit (CWOD-PSG), CWRD
	Almazbek Galiev, Principal Public-Private Partnership Specialist, Office of the Director General, CWRD
	Mirzo Iskandar Gulamov, Country Specialist, KARM, CWRD
	Glenda Jurado, Project Analyst, CWTC, CWRD
	Pawan Karki, Senior Transport Specialist, CWTC, CWRD <sup>a</sup>
	Marianne Macabingkil, Senior Operations Assistant, CWTC, CWRD
	Jose Tiburcio Nicolas, Senior Social Development Specialist (Safeguards), CWOD-PSG, CWRD
	Jiangbo Ning, Principal Transport Specialist, CWTC, CWRD
	Nathan Rive, Senior Climate Change Specialist, Environment, Natural Resources & Agriculture Division, CWRD
	Hugh McGregor, Counsel, Office of the General Counsel
	Yi Xu, Senior Financial Management Specialist, CWOD-PSG, CWRD
	Armine Yedigaryan, Environment Specialist, CWOD-PSG, CWRD
<b>Peer reviewer</b>	Yang Lu, Transport Specialist, Transport and Communications Division, South Asia Department

<sup>a</sup> Outposted to the Uzbekistan Resident Mission.

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## CONTENTS

	<b>Page</b>
TRANSACTION TECHNICAL ASSISTANCE AT A GLANCE	
I. THE ENSUING PROJECT	1
II. THE TECHNICAL ASSISTANCE	1
A. Justification	1
B. Outputs and Activities	4
C. Cost and Financing	5
D. Implementation Arrangements	5
 APPENDIXES	
1. Cost Estimates and Financing Plan	7
2. List of Linked Documents	8

## TRANSACTION TECHNICAL ASSISTANCE AT A GLANCE

<b>1. Basic Data</b>		<b>Project Number:</b> 54078-001	
<b>Project Name</b>	Preparing the Central Asia Regional Economic Cooperation Corridors 1, 2, and 6 Connector Road (Kyzylorda–Zhezkazgan) Reconstruction Project	<b>Department/Division</b>	CWRD/CWTC
<b>Nature of Activity Modality</b>	Project Preparation, Policy Advice Regular	<b>Executing Agency</b>	Ministry of Industry and Infrastructure Development formerly "Ministry of Investments and Developments"
<b>Country</b>	Kazakhstan		
<b>2. Sector</b>		<b>ADB Financing (\$ million)</b>	
✓ Transport	Road transport (non-urban)		0.50
		<b>Total</b>	<b>0.50</b>
<b>3. Operational Priorities</b>		<b>Climate Change Information</b>	
✓ Addressing remaining poverty and reducing inequalities		GHG Reductions (tons per annum)	0.000
✓ Accelerating progress in gender equality		Climate Change impact on the Project	Low
✓ Tackling climate change, building climate and disaster resilience, and enhancing environmental sustainability		<b>ADB Financing</b>	
✓ Strengthening governance and institutional capacity		Adaptation (\$ million)	0.00
✓ Fostering regional cooperation and integration		Mitigation (\$ million)	0.00
		<b>Cofinancing</b>	
		Adaptation (\$ million)	0.00
		Mitigation (\$ million)	0.00
<b>Sustainable Development Goals</b>		<b>Gender Equity and Mainstreaming</b>	
SDG 1.5		Effective gender mainstreaming (EGM)	✓
SDG 9.1		<b>Poverty Targeting</b>	
		General Intervention on Poverty	✓
<b>4. Risk Categorization</b> Complex			
<b>5. Safeguard Categorization</b> Safeguard Policy Statement does not apply			
<b>6. Financing</b>			
<b>Modality and Sources</b>		<b>Amount (\$ million)</b>	
<b>ADB</b>		<b>0.50</b>	
Transaction technical assistance: Technical Assistance Special Fund		0.50	
<b>Cofinancing</b>		<b>0.00</b>	
None		0.00	
<b>Counterpart</b>		<b>0.00</b>	
None		0.00	
<b>Total</b>		<b>0.50</b>	
<b>Currency of ADB Financing:</b> US Dollar			

## I. THE ENSUING PROJECT

1. The transaction technical assistance (TA) will provide project preparation and capacity building support for the proposed Central Asia Regional Economic Cooperation (CAREC) Corridors 1, 2, and 6 Connector Road (Kyzylorda–Zhezkazgan) Reconstruction Project.<sup>1</sup> The ensuing project will require a loan of about \$200 million, with KazAvtoZhol as the Borrower. The project will be aligned with the following impacts: (i) transport and logistics infrastructure expanded to promote global integration, export competitiveness, and economic growth;<sup>2</sup> and (ii) regional and national transport networks developed to meet growing social, economic, and trade connectivity needs.<sup>3</sup> The project outcome is the improvement of the road network efficiency, safety and sustainability, which will be achieved through two solutions: a 208 km section of the project road will be reconstructed and upgraded; and the capacity of KazAvtoZhol in road safety, procurement, contract management, and environmental management will be strengthened. The TA and project are included in the draft indicative country pipeline and monitoring report for 2022–2024, following the request of the government to prioritize the project in February 2021.<sup>4</sup>

## II. THE TECHNICAL ASSISTANCE

### A. Justification

2. **Context.** Kazakhstan is landlocked and bordered to the west and north by the Russian Federation, to the east by the People’s Republic of China (PRC), and to the south by the Kyrgyz Republic, Turkmenistan, and Uzbekistan. Kazakhstan’s economy is characterized by the country’s vast land area of 2.75 million square kilometers (km), by the availability of and reliance on natural resources, and by its geostrategic location at the crossroads of international trade routes linking the markets of Europe, the Russian Federation, the People’s Republic of China, and South Asia. Kazakhstan has a significant transit potential in linking these by road and rail, and four of the six CAREC corridors pass through its territory, with corridors 1 and 2 supporting east–west flows, and corridors 3 and 6 providing north–south connections, both by road and rail.<sup>5</sup> Despite a limited population of 18.7 million inhabitants, resulting in a density of 6.8 people per km<sup>2</sup>, Kazakhstan is an economic leader which accounts for 59.8% of the subregional economy.

3. **Road infrastructure.** Transport networks are a core asset for the development of Kazakhstan’s economy, and the country’s high freight intensity and poor logistic performance index highlight the potential of increasing productivity, and diversifying supply chains through improved infrastructure networks.<sup>6</sup> The importance of the road network in supporting the competitiveness of the supply chains is growing: as evidenced by the growth of road freight, which

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<sup>1</sup> The European Bank for Reconstruction and Development cofinances the Kyzylorda–Zhezkazgan project and approved a \$240 million loan to KazAvtoZhol on 21 July 2021. Due diligence under the TA focuses on the section to be financed by the Asian Development Bank. Project teams coordinate, notably on climate change, biodiversity, road safety, procurement, or financial management. European Bank for Reconstruction and Development. 2020. [Kyzylorda-Zhezkazgan Road Reconstruction](#). London.

<sup>2</sup> Government of Kazakhstan. 2012. [Address by the President of Kazakhstan, Leader of the Nation, N. Nazarbayev: “Strategy Kazakhstan–2050: New Political Course of the Established State.”](#) (14 December). Nur-Sultan.

<sup>3</sup> ADB. 2020. [CAREC Transport Strategy 2030](#). Manila.

<sup>4</sup> ADB. 2021. [Indicative Country Pipeline and Monitoring Report: Kazakhstan, 2022–2024](#) (Draft, 24 April 2021). Manila.

<sup>5</sup> CAREC includes Afghanistan, Azerbaijan, the People’s Republic of China, Georgia, Kazakhstan, the Kyrgyz Republic, Mongolia, Pakistan, Tajikistan, Turkmenistan, and Uzbekistan.

<sup>6</sup> Kazakhstan’s freight intensity is \$0.3 of gross domestic product (GDP) per ton-km of freight transported; in comparison to \$4.0 of GDP per ton-km in the European Union and \$4.4 of GDP per ton-km in the United States. The logistics performance index for Kazakhstan stands at 2.6 (on a scale from 1 to 5), compared to 2.8 for the Russian Federation, 3.2 for Turkey, and 3.7 for the PRC.

grew by 8.9% annually during 2010–2019, compared to only 3.3% for railway freight in the same period. In 2019, Kazakhstan’s public road network extended over 95,600 km of public roads; however, the road density remains low at 50 km of road per 1,000 square km and 7.4 km per 1,000 inhabitants. About 24,700 km of the public road network is classified as republican (national) roads, with the remainder consisting of oblast (provincial) roads and district roads. In 2019, 51% of republican roads and 21% of regional roads were in good or satisfactory condition. Despite improvements in road asset condition and project delivery mechanisms, and an average annual real increase of the maintenance budget of republican roads of 8.7% during 2001–2017, Kazakhstan continues to require improvements in road asset management, cost recovery, and project sustainability to help reduce the country’s freight intensity.

4. **Institutional framework.** The Ministry of Industry and Infrastructure Development (MIID) is the asset owner of the republican road network, while the Committee of Roads (COR), under MIID, defines and implements road policies and strategies. KazAvtoZhol, a national joint stock company established in 2013 and wholly owned by MIID, is the operator of the republican road network and is responsible for project implementation, procurement and supervision of periodic maintenance and reconstruction, and operation and maintenance of toll roads. KazAvtoZhol has signed sovereign-guaranteed loans for road construction and rehabilitation with multilateral and bilateral partners, including ADB, and is the borrower for the Kyzylorda–Zhezkazgan project.<sup>7</sup> KazDorNii is COR’s design and research institute and carries out survey, design and research works, and prepares technical regulations and standards for the roads sector. The National Quality Centre for Road Assets was established in 2019 to provide an independent entity outside of the contractual relationships between engineering organizations and contractors, and acts as a center of excellence in road asset management and road safety.

5. **National strategic directions.** Kazakhstan’s 2050 Strategy provides a long-term framework for the development of the country, and notably prioritizes the development of transport and logistics infrastructure to promote global integration, export competitiveness, and economic growth (footnote 2). The *Nurly Zhol* (“bright path”) program for 2020–2025, which MIID is tasked to implement, prioritizes the development of transport, industry, energy, public utility, housing, and social sector infrastructure; and the finance sector.<sup>8</sup> In the transport sector, *Nurly Zhol* aims to develop domestic networks, multimodal connectivity, and private sector participation; and promote exports through the development of efficient transit, export and logistics infrastructure.

6. **Tolling and maintenance arrangements.** As of March 2021, four roads were tolled for a total of 683 km. KazAvtoZhol signed an 11-year contract in December 2019 with an international consortium to implement a comprehensive program aiming to toll about 11,000 km of the republican network by 2025. KazAvtoZhol has budget and implementation responsibilities for the maintenance of toll roads. The budget for the routine maintenance of toll roads is allocated from toll revenues accruing to a ring-fenced fund managed by KazAvtoZhol. All major rehabilitation works financed from the state budget are awarded to contractors by KazAvtoZhol following open bidding. COR has budgetary responsibilities for the maintenance of non-tolled republican and local roads, and the budget is mainly funded from the general republican budget.<sup>9</sup> The routine maintenance of non-toll roads is carried out by Kazakhavtodor—a limited liability partnership setup by COR privatized in 2019 and in charge of maintenance works and routine repairs.

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<sup>7</sup> Sector Assessment (accessible from the list of linked documents of the proposed ensuing project concept).

<sup>8</sup> Government of Kazakhstan. 2019. [“Nurly Zhol” Infrastructure Development State Program for 2020–2025](#). Nur-Sultan.

<sup>9</sup> The national welfare fund is a sovereign wealth fund and is only used in exceptional circumstances for road works.

7. **Private sector development.** Kazakhstan has made notable progress in increasing the role of the private sector in infrastructure development, including construction, maintenance, and asset management. The creation of the KazAvtoZhol, the privatization of Kazakhavtodor, and the tolling of strategic republican roads contribute to the objectives of *Nurly Zhol* and of ADB's country partnership strategy to increase private sector participation and strengthen sustainability.<sup>10</sup> In 2020, MIID also signed a 20-year concession agreement for the construction of the Big Almaty Ring Road, a \$600 million project supported by multilateral and bilateral partners. While the government aims to transfer part of project risks and responsibilities to the private sector for financially viable projects, the need for public sector involvement remains to provide support for infrastructure projects that are not financially viable, and for institutional improvements.

8. **TA rationale.** The government, through COR and KazAvtoZhol, has the capacity to prepare technical feasibility and detailed design studies, as already prepared for Kyzylorda–Zhezkazgan. However, limited resources and expertise in non-technical areas result in project deficiencies that remain to be addressed to deliver a high-quality infrastructure project. Kyzylorda–Zhezkazgan road does not have sufficient traffic levels to substantiate a public-private partnership transaction that would recover capital costs and leverage the expertise of the private sector. The TA will support due diligence of engineering designs, costs, procurement, contract management, financial management, economic and financial viability, climate change, and social, gender, and environmental safeguards. The TA will also prepare assessments to support the transition of project preparation and delivery modalities towards cost-recovery approaches; and expand and share knowledge on tolling, road sustainability, and environment. Five areas were identified as key focus points to improve project design, institutional arrangements, and institutional capacity: (i) financial sustainability, particularly tolling, asset management, and network planning; (ii) social and environmental safeguards management, particularly biodiversity conservation, climate change, and disaster resilience; (iii) gender mainstreaming; (iv) road safety at infrastructure, institutional, and road user levels; and (v) regional cooperation and integration. The TA will attract international and national expertise to strengthen the identified focus areas.

9. **Value addition for ensuing project.** The TA was designed to add value during project preparation and implementation and help ensuring strong project design, and increasing expertise and capacity in the sector. The TA will (i) assist KazAvtoZhol in defining a methodology to determine toll rates and assess subsidies that may be required from the government to cover maintenance needs at the country level;<sup>11</sup> (ii) contribute to improved regional connectivity along CAREC corridors 1, 2 and 6, with the ensuing project promoting Kazakhstan's role as a transit hub for improved trade and transit in the CAREC region, and strengthening trade and logistics initiatives in Zhezkazgan;<sup>12</sup> (iii) provide gender expertise for infrastructure and institutions and ensure that the ensuing project fully benefits to women and girls; (iv) conduct environmental and biodiversity studies, particularly to assess the potential impacts of road reconstruction on Saiga antelopes, steppe eagles, and other protected species; and (v) carry out a survey of road user's behavior and attitudes towards road safety, in consultation with road user and road safety civil society organizations, which will be used to design road safety awareness campaigns. The TA will support other areas of expertise, notably in procurement and contract management.

<sup>10</sup> ADB. 2017. [Country Partnership Strategy: Kazakhstan, 2017–2021—Promoting Economic Diversification, Inclusive Development, and Sustainable Growth](#). Manila.

<sup>11</sup> The analysis will be carried out both at the project road level, and at the national and provincial levels. For Kyzylorda–Zhezkazgan, toll revenues are estimated at about 235% of operations and maintenance costs, and no subsidies will be required. Other national highways with lower traffic levels could require subsidies or tolling income redistribution.

<sup>12</sup> This complements the leading initiative to strengthen trade between Kazakhstan, Uzbekistan, and Tajikistan. ADB. 2020. [A Road Map for Shymkent–Tashkent–Khujand Economic Corridor Development](#). Manila.



10. **Value addition for regional cooperation and knowledge exchange.** To complement value addition initiatives targeting sectoral issues in Kazakhstan, the TA will strengthen regional dialogue and knowledge exchange in Central Asia by establishing a regional working group with Kazakhstan and Uzbekistan.<sup>13</sup> The first objective of the working group will be to share experience and prepare guidelines for biodiversity conservation of migratory species in linear infrastructure projects, particularly for the Saiga antelopes, a critically endangered species on the IUCN Red List of Threatened Species.<sup>14</sup> The second objective of the working group will be to review best practices in resource management, climate change, and disaster risk management; and prepare recommendations for the afforestation along roads and at rest areas, creation of oases in desert and semi-desert regions, and efficient use of melt and rainwater, in similar biotopes and environmental areas as found in Kyzylorda–Zhezkazgan. In addition to environmental dialogue, the TA will also add value by preparing knowledge documents on (i) the evaluation of regional transit and trade economic benefits for road projects, and (ii) a case study of Kazakhstan’s tolling experience, as Kazakhstan is the regional leader for the implementation of toll roads, with ambitious plans and state-of-the-art equipment which other countries may draw from.

11. **Value addition for private sector participation.** The TA will pursue the strategic objective of the government and ADB of increasing private sector participation, by strengthening the policy dialogue on the financial sustainability of the project and of KazAvtoZhol as an entity. The underlying objective of the TA is to support the transition of ADB’s engagement towards non-sovereign transactions and high value addition projects, including the identification of potential public–private partnerships for financially viable road sections, and of innovative approaches such as regional network performance-based maintenance contracts, and concession for weighbridges or intelligent transport systems. In addition to the toll rates, maintenance and subsidies assessment (para. 9), the TA will (i) identify a project pipeline and define an engagement strategy for ADB based on considerations of financial viability, cost recovery, project and contract structures, private sector involvement, and financing modality and funding sources for project preparation and implementation; and (ii) support the definition of the strategy, rationale and scope for a small-scale expenditure facility, included in the draft indicative country pipeline and monitoring report for 2022–2024, which is likely to consider financing regional network performance-based maintenance contracts.

## B. Outputs and Activities

12. The major outputs and activities are summarized in Table 1.

**Table 1: Summary of Major Outputs and Activities**

Major Outputs	Delivery Dates	Key Activities with Milestones
1. Due diligence and preparation for Central Asia Regional Economic Cooperation Corridors 1, 2, and 6 Kyzylorda–Zhezkazgan Road Reconstruction Project completed	December 2021	1.1 Technical due diligence completed by October 2021 1.2 Strategic procurement planning completed by September 2021 1.3 Bidding documentation and support provided by October 2021 1.4 Environmental impact assessment completed by October 2021 1.5 Social safeguards and indigenous peoples due diligence completed by October 2021 1.6 Gender assessment completed by October 2021 1.7 Governance assessment and integrity due diligence completed by October 2021 1.8 Economic and financial analysis completed by October 2021 1.9 Financial management assessment completed by October 2021

<sup>13</sup> Other CAREC countries that face similar environmental issues, notably with migratory species and environmental resource management challenges in semi-desert and desert areas, will be invited to join the working group.

<sup>14</sup> Saiga antelopes are also encountered in other ADB-financed projects. ADB. 2020. [Uzbekistan: Central Asia Regional Economic Cooperation Corridor 2 Karakalpakstan Road \(A380 Kungrad to Daut-Ata Section\)](#). Manila.

Major Outputs	Delivery Dates	Key Activities with Milestones
		1.10 Road safety audit completed by October 2021
2. Regional working group operationalized	March 2023	2.1 Regional working group on biodiversity conservation, climate change, and disaster risk management measures for linear infrastructure projects established by June 2022, involving Kazakhstan, Uzbekistan, and other interested countries. 2.2 Guidelines on biodiversity conservation and mitigation measures for migratory species prepared by March 2023 2.3 Guidance note on best practices on environmental resources management, climate change, disaster risk management in Central Asia prepared by March 2023, particularly on afforestation along roads and at rest areas, creation of oases in desert and semi-desert regions, and use of melt and rainwater.
3. Financial sustainability and project preparation strategy developed	December 2022	3.1 Tolling revenue and maintenance allocation plans reviewed by December 2021 3.2 Tolling rates and subsidy pricing methodology defined by December 2021 3.3 Long-term sector engagement strategy and project pipeline defined by December 2022
4. Knowledge expanded and disseminated	March 2023	4.1 Sector assessment updated by March 2023 4.2 Assessment of linkages between regional economic benefits and infrastructure network improvements conducted by March 2023 4.3 Case study on Kazakhstan's tolling experience prepared by March 2023

Source: Asian Development Bank.

### C. Cost and Financing

13. The TA is estimated to cost \$550,000, of which \$500,000 will be financed on a grant basis by ADB's Technical Assistance Special Fund (TASF-other sources).<sup>15</sup> The key expenditure items are listed in Appendix 1. The government will provide counterpart support in the form of counterpart staff, data, maps, and other in-kind contributions. The value of government contribution is estimated to account for 9.1% of the total cost of the technical assistance.

14. The government was informed that approval of the TA does not commit ADB to finance any ensuing project.

### D. Implementation Arrangements

15. The TA activities for an ensuing project will start only after ADB approves the project concept paper on the ensuing project.

16. ADB will administer the TA, and the Transport and Communications Division of ADB's Central and West Asia Department will select, administer, and evaluate consultants under the TA. MIID will be the executing agency of the TA, and will mainly supervise project pipeline and preparation strategy discussions, for which COR will be the implementing agency. KazAvtoZhol, as the proposed borrower for Kyzylorda–Zhezkazgan, will be the primary implementing agency of the TA, and will provide staff to support and monitor project preparation under the TA for the Kyzylorda–Zhezkazgan project.

17. The implementation arrangements are summarized in Table 2.

<sup>15</sup> Partner funds are sought for other projects in the road sector. The Republic of Korea e-Asia and Knowledge Partnership Fund has notably approved a technical assistance grant of \$500,000 to help conduct due diligence for the proposed CAREC Corridors 3 and 6 Construction and Operation of Turkistan Oblast Highway (Saryagash Bypass) Project, and help strengthen capacity in design-build projects.

**Table 2: Implementation Arrangements**

<b>Aspects</b>	<b>Arrangements</b>		
Indicative implementation period	July 2021–December 2023		
Executing agency	Ministry of Industry and Infrastructural Development		
Implementing agencies	KazAvtoZhol Committee of Roads		
Consultants	To be selected and engaged by ADB		
	Firm: single-source selection	Environmental Assessment (5.5 person-months)	\$136,000
	Individual: individual consultant selection	International (12.5 person-months) and national expertise (19.0 person-months)	\$295,000
Procurement	To be procured by consultants		
	Shopping for office and surveying equipment	1–5 contracts	\$3,000
Advance contracting	Advance contracting will be undertaken for the selection of consultants following ADB's project administration instructions.		
Disbursement	The TA resources will be disbursed following ADB's <i>Technical Assistance Disbursement Handbook</i> (2020, as amended from time to time).		
Asset turnover or disposal arrangement upon TA completion	All assets and equipment procured under the TA will be handed over to the executing agency after completion of TA activities.		

ADB = Asian Development Bank, TA = technical assistance.

Source: Asian Development Bank.

18. **Consulting services.** ADB will engage the consultants following the ADB Procurement Policy (2017, as amended from time to time) and its associated project administration instructions and/or staff instructions.<sup>16</sup> The consultants will procure goods necessary for contract execution, such as office and surveying equipment. About 18.0 person-months of international consultants and 19.0 person-months of national consultants will be required under the TA. The consultants will provide expertise in engineering, planning, climate change, road safety, procurement, and economic and financial assessments. A firm with unique experience in the environmental impact and critical habitat assessments of roads in similar environmental areas, with potential impacts on the Saiga antelopes that are critically endangered, is proposed to be recruited on a single-source basis. The firm will also support the establishment of a regional working group, primarily for Kazakhstan and Uzbekistan, in biodiversity and environmental resources management for linear infrastructure projects.

19. **ADB's procurement.** Procurement will follow the ADB Procurement Policy (2017, as amended from time to time) and its associated project administration instructions and/or staff instructions.

<sup>16</sup> Terms of Reference for Consultants (accessible from the list of linked documents in Appendix 2).

**COST ESTIMATES AND FINANCING PLAN**  
(\$'000)

<b>Item</b>	<b>Amount Asian Development Bank<sup>a</sup></b>
A. Consultants	
1. Remuneration and per diem	
a. International consultants	341.0
b. National consultants	75.7
2. Out-of-pocket expenditures	
a. International and local travel	29.6
b. Goods or equipment (rental and/or purchase) <sup>b</sup>	3.0
B. Miscellaneous administration and support cost <sup>c</sup>	15.2
C. Surveys	15.0
D. Contingencies	20.5
<b>Total</b>	<b>500.0</b>

Note: The technical assistance is estimated to cost \$550,000, of which contributions from the Asian Development Bank are presented in the table. The government will provide counterpart support in the form of counterpart staff, information materials, data, maps, and other in-kind contributions. The value of government contribution is estimated to account for 9.1% of the total cost of the technical assistance.

<sup>a</sup> Financed by the Asian Development Bank's Technical Assistance Special Fund (TASF-other sources).

<sup>b</sup> Includes office and surveying equipment. Procurement will follow the ADB Procurement Policy (2017, as amended from time to time) and its associated project administration instructions and/or staff instructions. All assets and equipment procured under the TA will be handed over to the executing agency after completion of TA activities.

<sup>c</sup> Includes mainly translation and interpretation services, and printing of knowledge materials and other relevant costs.

Source: Asian Development Bank estimates.

**LIST OF LINKED DOCUMENTS**

<http://www.adb.org/Documents/LinkedDocs/?id=54078-001-TARreport>

1. Terms of Reference for Consultants