



Technical Assistance Report

Project Number: 55118-001
Knowledge and Support Technical Assistance (KSTA)
October 2021

South Caucasus Gateways

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Asian Development Bank

ABBREVIATIONS

ADB	–	Asian Development Bank
CAREC	–	Central Asia Regional Economic Cooperation
COVID-19	–	coronavirus disease
SCRCA	–	South Caucasus Regional Cooperation Approach
TA	–	technical assistance
TASF	–	Technical Assistance Special Fund

NOTE

In this report, “\$” refers to United States dollars unless otherwise stated.

Vice-President	Shixin Chen, Operations 1
Director General	Eugene Zhukov, Central and West Asia Department (CWRD)
Deputy Director General	Nianshan Zhang, CWRD
Director	Alain Borghijs, Officer-In-Charge, Regional Cooperation and Operations Coordination Division (CWRC), CWRD
Team leaders	Carmela Espina, Senior Economics Officer, CWRC, CWRD Kristian Rosbach, Economist (Regional Cooperation), CWRC, CWRD
Team members	Lilia Aleksanyan, Economist, CWRC, CWRD Grigor Gyurjyan, Senior Economics Officer, Armenia Resident Mission, CWRD Thomas Herz, Senior Transport Specialist, Transport and Communications Division, CWRD George Kiziria, Senior Project Officer, Georgia Resident Mission, CWRD George Luarsabishvili, Economics Officer, Georgia Resident Mission, CWRD Guntur Sugiyarto, Principal Economist, CWRC, CWRD Nail Valiyev, Senior Economics Officer, Azerbaijan Resident Mission, CWRD

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KNOWLEDGE AND SUPPORT TECHNICAL ASSISTANCE AT A GLANCE

1. Basic Data		Project Number: 55118-001
Project Name	South Caucasus Gateways	Department/Division CWRD/CWRC
Nature of Activity	Policy Advice	Executing Agency Asian Development Bank
Modality	Regular	
Country	REG (ARM, AZE, GEO)	
2. Sector	Subsector(s)	ADB Financing (\$ million)
✓ Transport	Multimodal logistics	0.15
	Transport policies and institutional development	0.15
Agriculture, natural resources and rural development	Agro-industry, marketing, and trade	0.15
Industry and trade	Industry and trade sector development	0.15
	Trade and services	0.15
	Total	0.75
3. Operational Priorities		Climate Change Information
✓ Accelerating progress in gender equality		GHG Reductions (tons per annum) 0.000
✓ Promoting rural development and food security		Climate Change impact on the Project Low
✓ Strengthening governance and institutional capacity		ADB Financing
✓ Fostering regional cooperation and integration		Adaptation (\$ million) 0.00
		Mitigation (\$ million) 0.00
		Cofinancing
		Adaptation (\$ million) 0.00
		Mitigation (\$ million) 0.00
Sustainable Development Goals		Gender Equity and Mainstreaming
SDG 1.a		Some gender elements (SGE) ✓
SDG 5.c		
SDG 8.2, 8.9		
SDG 9.1, 9.3		
SDG 11.6		
4. Risk Categorization Low		Poverty Targeting
5. Safeguard Categorization Safeguard Policy Statement does not apply		General Intervention on Poverty ✓
6. Financing		
Modality and Sources		Amount (\$ million)
ADB		0.75
Knowledge and Support technical assistance: Technical Assistance		0.75
Special Fund		
Cofinancing		0.00
None		0.00
Counterpart		0.00
None		0.00
Total		0.75
Currency of ADB Financing: US Dollar		

I. INTRODUCTION

1. The regional knowledge and support technical assistance (TA) facilitates the development of a regional cooperation approach to unleash the economic potential of the South Caucasus region—comprising Armenia, Azerbaijan, and Georgia—by reopening gateways following the 2020 Armenia–Azerbaijan ceasefire.¹ The South Caucasus Regional Cooperation Approach (SCRCA) will assess the benefits of economic cooperation within and beyond the region, amidst political uncertainties. The approach will provide options to identify and optimize international and domestic gateways and provide a roadmap for the region to regain its historical significance in trade and transit. Historical transport routes have been blocked because of divided land and closed border crossing points resulting in high costs for trade and reducing the competitiveness of the region’s exports.² New gateways can yield considerable economic benefits for the region and hence support the political peacebuilding process.

2. The TA is aligned with the Strategy 2030 of the Asian Development Bank’s (ADB),³ as well as with the Operational Plan for Regional Cooperation and Integration 2019–2024.⁴ The TA⁵ is also aligned with ADB’s country partnership strategies for Armenia, Azerbaijan, and Georgia.⁶

II. ISSUES

3. The South Caucasus region can serve as a transport hub between Asia and Europe, but cooperation between the countries is a precondition for realizing this potential. South Caucasus gateways compete with other transport routes and only the fastest and least expensive routes will attract significant transport flows. All three countries have made considerable efforts to improve soft and hard trade infrastructure—including investments to reduce travel time and facilitate trade—and to align with international integration initiatives. However, the region would benefit from improved connections. Armenia could benefit from reopened road and rail connections from its southern territories to Yerevan and Iran, through Azerbaijan’s exclave Nakhichevan. Azerbaijan would benefit from direct road or rail connections to Nakhichevan—through southern Armenia—and further to Turkey and Iran. Open transport gateways could improve the region’s tourism potential.

4. The SCRCA will leverage the region’s investments, trade facilitation efforts, and interregional transport gateways to provide trade, transit, and value-added manufacturing development for Armenia, Azerbaijan, and Georgia. The approach will be sensitive to political realities, consider the status of existing transport infrastructure, help maximize benefits from trade agreements, support the diversification of exports through lower transport costs, and enhance

¹ Following the ceasefire between Armenia and Azerbaijan signed on 9 November 2020, the two countries have committed to unblocking all transport and economic links in the region and to reviving the transport link from Baku, through southern Armenia, to Azerbaijan’s exclave Nakhichevan.

² Unresolved conflicts in the region leave borders between Armenia and Azerbaijan and Armenia and Turkey closed. This divides Azerbaijan from its exclave Nakhichevan and requires that trade, travel, and transit between Turkey and the South Caucasus region take place only through Georgia or by air.

³ ADB. 2018. [Strategy 2030: Achieving a Prosperous, Inclusive, Resilient, and Sustainable Asia and the Pacific](#). Manila. The four Operational Priorities that the TA is aligned with are: accelerating progress in gender equality, promoting rural development and food security, strengthening governance and institutional capacity, and fostering regional cooperation and integration.

⁴ ADB. 2019. [Operational Priority 7: Fostering Regional Cooperation and Integration 2019–2024](#). Manila.

⁵ The TA first appeared in the business opportunities section of ADB’s website on 29 June 2021.

⁶ ADB. 2019. [Country Partnership Strategy: Armenia, 2019–2023—Fostering Inclusive, Diversified, and Transformative Growth](#). Manila. ADB. 2019. [Country Partnership Strategy: Azerbaijan, 2019–2023—Promoting Diversified and Inclusive Growth](#). Manila. ADB. 2019. [Country Partnership Strategy: Georgia, 2019–2023—Developing Caucasus’s Gateway to the World](#). Manila.

value addition in the region.⁷ The approach will also assess new tourism opportunities through reopened routes within the region and connections with neighboring countries.

5. The TA will be aligned with and built upon completed or ongoing work under ADB's TA projects for (i) Analysis of Economic Opportunities Associated with Armenia's New Trade Regime which analyzes tariff policy changes in Armenia,⁸ (ii) Transport and Trade Facilitation Strategy, 2020–2024 which supports the preparation and initial implementation of the strategy,⁹ (iii) Partnership with the Private Sector for Sustainable Trade Facilitation Results in the Central Asia Regional Economic Cooperation Program (CAREC), which aims to strengthen partnerships between private and public stakeholders in CAREC countries,¹⁰ (iv) Supporting Economic Corridor Development in Armenia and Georgia to Enhance Trade and Competitiveness which assesses options to implement an economic corridor between Armenia and Georgia,¹¹ and (v) Facilitation of Regional Transit Trade in CAREC, which piloted the CAREC Advanced Transit System in Azerbaijan and Georgia, as well as other CAREC TA projects.¹² The TA will provide the economic framework to discover and develop regional manufacturing value chains that are being developed under ADB's TA for Supporting Economic Corridor Development in Armenia and Georgia (footnote 11) and complement its work by conceptualizing regional food value chains. The TA will also benefit from the work under ADB's TA for Transport and Trade Facilitation Strategy (footnote 9) which assesses the feasibility of opening previously closed transport routes.

6. The coronavirus disease (COVID-19) pandemic has hit the region hard with sickness, loss of life, and economic contraction. The pandemic has been an unprecedented shock and has had a significant impact on global and regional supply chains, trade, tourism, remittances, and other financial flows. The pandemic has highlighted the importance of regional cooperation, including through financial assistance, sharing of best practices and joint actions to contain the spread of the virus. Vaccines are gradually becoming available in 2021 to support the economic recovery. Stronger regional cooperation in South Caucasus is critical to sustain this recovery and put the countries on a higher growth path.

III. THE TECHNICAL ASSISTANCE

A. Impact and Outcome

7. This regional TA supports Armenia, Azerbaijan, and Georgia to develop the SCRCA to maximize the benefits of economic cooperation and leverage the region's geostrategic importance by opening transit and trade routes and developing value-added exports through regional value chains. The new gateways will allow higher trade turnover that will reduce unit costs of both exports (improving their price competitiveness) and imports (reducing overall price levels for the

⁷ The region is also an important energy hub because of the South Caucasus Pipeline, which transports natural gas from Baku (Shah Deniz gas field), through Georgia to Turkey, and runs parallel to the Baku–Tbilisi–Ceyhan oil pipeline.

⁸ ADB. 2018. *Technical Assistance to Armenia for Analysis of Economic Opportunities Associated with Armenia's New Trade Regime*. Manila (TA 9698-ARM).

⁹ ADB. 2019. *Technical Assistance to Armenia for Transport and Trade Facilitation Strategy, 2020–2040*. Manila (TA 9793-ARM).

¹⁰ ADB. 2019. *Technical Assistance for Partnership with the Private Sector for Sustainable Trade Facilitation Results in the Central Asia Regional Economic Cooperation Program*. Manila (TA 9832-REG). The CAREC member countries are Afghanistan, Azerbaijan, People's Republic of China, Georgia, Kazakhstan, Kyrgyz Republic, Mongolia, *Pakistan*, Tajikistan, Turkmenistan, and Uzbekistan.

¹¹ ADB. 2020. *Technical Assistance for Supporting Economic Corridor Development in Armenia and Georgia to Enhance Trade and Competitiveness*. Manila (TA 6589-REG).

¹² ADB. 2013. *Technical Assistance for Facilitation of Regional Transit Trade in Central Asia Regional Economic Cooperation*. Manila (TA 8586-REG).

countries in the region). New trade routes will help reduce trade risks in the region and increase the feasibility of transformative infrastructure investments. The benefits of increased regional integration will also reduce political risks by increasing the costs of segregation.

8. The TA is focused on (i) assessments of the regional potential for developing agro-food value chains, joint tourism initiatives, multi-modal transport routes, and the comparative advantage of exports prepared within political economy considerations; and (ii) the formulation of an SCRCA to assess the benefits of economic cooperation within and across the region amid political uncertainties.

9. The TA is aligned with the following impact: understanding and commitment of Caucasus countries with a shared vision for the South Caucasus Gateway improved.¹³ The TA will have the following outcome: trade among Armenia, Azerbaijan, Georgia, and their neighbors increased.¹⁴

B. Outputs, Methods, and Activities

10. **Output 1: Potential for trade, transit, regional value chains and free trade agreements assessed within political economy considerations.** Assessments on the regional potential for developing agro-food value chains, joint tourism initiatives, multimodal transport routes, and the comparative advantage of exports will be prepared to gauge the trade and transit potential for relevant commodities, including food and agricultural goods, corresponding multimodal transport options, and the opportunity for establishing regional value chains and free trade agreements. Opening transport corridors promises significant economic gains for the South Caucasus region by reducing the cost of transit trade thus improving export price-competitiveness and lowering the costs of imports. Advancing regional agro-food value chains in South Caucasus aims to promote food security, increase value addition to export products, and expand productive capabilities to support structural transformation. The assessments will also scope the tourism potential of newly opened gateways, while also considering reopening gateways, changed preferences resulting from COVID-19, and national tourism strategies in Armenia, Azerbaijan, and Georgia. The outputs will consider political economy, environment, climate change adaptation and mitigation, and gender.

11. **Output 2: South Caucasus Regional Cooperation Approach developed.** Based on output 1, the SCRCA 2022–2026 will be developed to help unleash the economic potential of the South Caucasus region. The approach will provide options to identify and optimize international and domestic gateways and provide a roadmap for the region to regain its historical significance in trade and transit. The SCRCA will scope options for regional cooperation, new transport routes within and across the region, and opportunities for joint participation in regional cooperation programs and customs or trade agreements. The approach will include an investment plan to help prioritize investments that will attract regional transit trade, in cooperation with development partners. The SCRCA's design and implementation will be prepared in dialogue with private and civil society representatives to ensure the engagement and ownership of stakeholders.

¹³ The TA impact is defined in line with ADB's country partnership strategies for Armenia, Azerbaijan, and Georgia.

¹⁴ The design and monitoring framework is in Appendix 1.

C. Cost and Financing

12. The TA is estimated to cost \$750,000, which will be financed on a grant basis by ADB's Technical Assistance Special Fund (TASF-other sources). The key expenditure items are listed in Appendix 2.

13. The governments of Armenia, Azerbaijan, and Georgia will provide counterpart support in the form of counterpart staff, office space and supplies, required study materials, information, data, and other in-kind contributions.

D. Implementation Arrangements

14. ADB will administer the TA. The Regional Cooperation and Operations Coordination Division of ADB's Central and West Asia Department will implement the TA in close coordination with the Armenia Resident Mission, the Azerbaijan Resident Mission, and the Georgia Resident Mission, and other operations and knowledge departments. Throughout the implementation period of the TA, the project team will prioritize sensitive and careful communication with all counterparts and stakeholders, guided by a communication plan. The TA will be implemented over 27 months (October 2021–December 2023). The TA is categorized *low risk* as none of the criteria for a complex rating apply, as defined in para. 11 of the staff instructions on business processes for knowledge and support TA. Implementation arrangements are summarized in the table.

Implementation Arrangements

Aspects	Arrangements		
Indicative implementation period	October 2021–December 2023		
Executing agency	ADB		
Implementing agencies	CWRC; Armenia, Azerbaijan, and Georgia resident missions		
Consultants	To be engaged and selected by ADB to work in Armenia, Azerbaijan, and Georgia		
	Firm: Single source selection	Revealed comparative advantage assessment	\$98,000
	Individual selection	International expertise (32 person-months)	\$370,000
	Individual selection	National expertise (18 person-months)	\$122,000
Disbursement	Disbursement of TA resources will follow ADB's <i>Technical Assistance Disbursement Handbook</i> (2020, as amended from time to time).		

ADB = Asian Development Bank, CWRC = Regional Cooperation and Operations Coordination Division, CWRD = Central and West Asia Department, TA = technical assistance.

Source: Asian Development Bank.

15. **Consulting services.** A total of 50 person-months of individual consulting services (9 international consultants for 32 person-months and 6 national consultants for 18 person-months) will be provided using mostly lumpsum or output-based contracts. A firm will be engaged through single source selection, given the limited availability of expertise on revealed comparative advantage assessments and access to the respective databases and methodology. Resource persons may be contracted to support the assessments. Given the uncertain regional geo-political context, it is important that the TA be implemented flexibly and in close cooperation with the participating governments. Therefore, the engagement of consultants (individual or firm), terms of reference, duration, and schedule of TA inputs will be adjusted as necessary over the implementation period to meet capacity building needs and to ensure TA funds are used in a cost-

effective manner. ADB will engage the consultants (individual and firm) following the ADB Procurement Policy (2017, as amended from time to time) and its associated project administration instructions and/or staff instructions.¹⁵

IV. THE PRESIDENT'S DECISION

16. The President, acting under the authority delegated by the Board, has approved the provision of technical assistance not exceeding the equivalent of \$750,000 on a grant basis for South Caucasus Gateways, and hereby reports this action to the Board.

¹⁵ Terms of Reference for Consultants (accessible from the list of linked documents in Appendix 3).

DESIGN AND MONITORING FRAMEWORK

Impact the TA is Aligned with Understanding and commitment of Caucasus countries with a shared vision for the South Caucasus Gateway improved ^a			
Results Chain	Performance Indicators	Data Sources and Reporting Mechanisms	Risks and Critical Assumptions
<p>Outcome</p> <p>Trade among Armenia, Azerbaijan, Georgia, and their neighbors increased</p>	<p>By 2024:</p> <p>a. Cumulative re-exports of goods from Armenia, Azerbaijan, and Georgia increased by 5%. (2020 baseline: \$164 million) (OP 7.2.1)</p>	<p>a. UN Comtrade database (https://comtrade.un.org/)</p>	<p>R: Lack of commitment to adopt suggested actions from the TA</p> <p>R: Geo-political uncertainties or outbreak of fresh hostilities derail the processing and implementation of the TA.</p> <p>R: Security risks hamper trade growth</p>
<p>Outputs</p> <p>1. Potential for trade, transit, regional value chains and free trade agreements within political economy considerations assessed</p>	<p>By 2023:</p> <p>1a. Assessment on regional agro-food value chains prepared and submitted to government counterparts. (2021 baseline: 0) (OP 7.2.1, OP 6.1.3)</p> <p>1b. Assessment on joint tourism initiatives and their potential employment impact for women, prepared and submitted to government counterparts. (2021 baseline: 0) (OP 7.1.4)</p> <p>1c. Assessment on multimodal transport routes prepared and submitted to government counterparts. (2021 baseline: 0) (OP 7.1.4, OP 6.1.3)</p> <p>1d. Assessment on the comparative advantage of exports prepared and submitted to government counterparts. (2021 baseline: 0) (OP 7.2.1, OP 6.1.3)</p>	<p>1a–1d. Cover letter for submission of final assessments to government counterparts.</p>	<p>R: Political risk of changed government priorities.</p>

Results Chain	Performance Indicators	Data Sources and Reporting Mechanisms	Risks and Critical Assumptions
2. South Caucasus Regional Cooperation Approach developed	2. South Caucasus Regional Cooperation Approach report, including specific opportunities for women and other vulnerable groups, submitted to government counterparts. (2021 baseline: 0) (OP 7.1.4 and 7.2.4)	2. Cover letter to the governments	R: Political risk of changed government priorities
<p>Key Activities with Milestones</p> <p>1. Potential for trade, transit, regional value chains and free trade agreements within political economy considerations assessed.</p> <p>1.1 Recruit and mobilize consultants (Q3 2021–Q2 2022)</p> <p>1.2 Prepare a communication plan (Q3 2021)</p> <p>1.3 Prepare the assessments in close consultations with the private sector and representative civil society organizations (Q3 2021–Q4 2022)</p> <p>1.4 Review and conduct consultation workshops to finalize the assessments (Q1 2023)</p> <p>1.5 Conduct dissemination seminar (Q2 2023)</p> <p>2. South Caucasus Regional Cooperation Approach developed.</p> <p>2.1 Recruit and mobilize consultants (Q1 2023)</p> <p>2.2 Review output 1 for incorporation into the cooperation approach (Q1–Q2 2023)</p> <p>2.3 Prepare the approach in close cooperation with government counterparts (Q2–Q3 2023)</p> <p>2.4 Conduct dissemination seminar (Q4 2023)</p>			
<p>Inputs</p> <p>ADB: \$750,000 (TASF-other sources)</p> <p>Note: The governments of Armenia, Azerbaijan, and Georgia will provide counterpart support in the form of counterpart staff, office space and supplies, required study materials, information, data, and other in-kind contributions.</p>			

ADB = Asian Development Bank, OP = operational priority, Q = quarter, RCIF = Regional Cooperation and Integration Fund, TA = technical assistance, TASF = Technical Assistance Special Fund, UN Comtrade = United Nations International Trade Statistics Database.

^a TA defined in line with ADB. 2019. [Country Partnership Strategy: Armenia, 2019–2023—Fostering Inclusive, Diversified, and Transformative Growth](#). Manila; ADB. 2019. [Country Partnership Strategy: Azerbaijan, 2019–2023—Promoting Diversified and Inclusive Growth](#). Manila; and ADB. 2019. [Country Partnership Strategy: Georgia, 2019–2023—Developing Caucasus's Gateway to the World](#). Manila.

Contribution to Strategy 2030 Operational Priorities:

The expected values and methodological details for all OP indicators to which this TA will contribute results are detailed in Contribution to Strategy 2030 Operational Priorities (accessible from the list of linked documents in Appendix 3). In addition to the OP indicators tagged in the DMF, this TA will contribute results for (i) OP 2.1 Skilled jobs for women generated, and (ii) OP 5.2.3 Agribusinesses integrating farmers in efficient value chains.

Source: Asian Development Bank.

COST ESTIMATES AND FINANCING PLAN
(\$'000)

Item	Amount
A. Asian Development Bank^a	
1. Consultants	
a. Remuneration and per diem	
i. International consultants	380.0
ii. National consultants	100.0
b. Out-of-pocket expenditures	
i. International and local travel	90.0
ii. Reports and communications	10.0
iii. Miscellaneous administration and support costs	10.0
2. Printed external publications ^b	25.0
3. Training, seminars, workshops, forum, and conferences ^c	75.0
4. Miscellaneous technical assistance administration costs ^d	20.0
5. Contingencies	40.0
Total	750.0

Note: The technical assistance (TA) is estimated to cost \$750,000 from the Asian Development Bank.

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

^b Printed external publications necessary to achieve outputs 2 and 3. The printed publications will help facilitate discussions and buy-in from the governments of the South Caucasus Regional Approach. The number of copies will not exceed 10,000.

^c Including costs for resource person, facilitators, venue rentals, travel costs of ADB staff acting as resource persons, and participants costs, both in-country and out-of-the-country conferences.

^d Including costs for translation, interpretation, Office 365 licenses, and administrative support staff.

Source: Asian Development Bank estimates.

LIST OF LINKED DOCUMENTS

<http://www.adb.org/Documents/LinkedDocs/?id=55118-001-TARreport>

1. Terms of Reference for Consultants
2. Contribution to Strategy 2030 Operational Priorities