



Technical Assistance Report

Project Number: 55174-001
Knowledge and Support Technical Assistance (KSTA)
October 2021

Program to Enhance Commercialization and Financial Sustainability of State-Owned Enterprises in the Central and West Asia Region

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Asian Development Bank

ABBREVIATIONS

ADB	–	Asian Development Bank
CST	–	Client Solutions Team
CWA	–	Central and West Asia
CWRD	–	Central and West Asia Department
SOE	–	state-owned enterprise
TA	–	technical assistance

GLOSSARY

360° review	–	A comprehensive diagnostic of a state-owned enterprise's current position in the commercialization process.
Commercialization	–	The transformation of government-related entities into enterprises which operate as profit-making commercial entities that, on a standalone basis, are able to sustainably attract finance at fully market-based terms.
State-owned enterprise	–	A legal entity established to undertake commercial activities and owned fully or largely by the sovereign.

NOTE

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

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CONTENTS

	Page
KNOWLEDGE AND SUPPORT TECHNICAL ASSISTANCE AT A GLANCE	
I. INTRODUCTION	1
II. ISSUES	1
III. THE TECHNICAL ASSISTANCE	2
A. Impact and Outcome	2
B. Outputs, Methods, and Activities	3
C. Cost and Financing	4
D. Implementation Arrangements	4
IV. THE PRESIDENT'S DECISION	6
APPENDIXES	
1. Design and Monitoring Framework	7
2. Cost Estimates and Financing Plan	10
3. List of Linked Documents	11

KNOWLEDGE AND SUPPORT TECHNICAL ASSISTANCE AT A GLANCE

1. Basic Data		Project Number: 55174-001
Project Name	Program to Enhance Commercialization and Financial Sustainability of State-Owned Enterprises in the Central and West Asia Region	Department/Division CWRD/CWOD
Nature of Activity	Capacity Development, Research and Development	Executing Agency Asian Development Bank
Modality	Regular	
Country	REG (ARM, AZE, GEO, KAZ, KGZ, PAK, UZB)	
2. Sector	Subsector(s)	ADB Financing (\$ million)
✓ Public sector management	Reforms of state owned enterprises	1.75
	Total	1.75
3. Operational Priorities		Climate Change Information
✓ Accelerating progress in gender equality		GHG Reductions (tons per annum) 0.000
✓ Strengthening governance and institutional capacity		Climate Change impact on the Project Low
		ADB Financing
		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 8.10		Some gender elements (SGE) ✓
SDG 16.6		
		Poverty Targeting
		General Intervention on Poverty ✓
4. Risk Categorization	Complex	
5. Safeguard Categorization	Safeguard Policy Statement does not apply	
6. Financing		
Modality and Sources		Amount (\$ million)
ADB		1.75
Knowledge and Support technical assistance: Technical Assistance Special Fund		1.75
Cofinancing		0.00
None		0.00
Counterpart		0.00
None		0.00
Total		1.75
Currency of ADB Financing: US Dollar		

I. INTRODUCTION

1. The regional technical assistance (TA) program will support research and development to achieve a greater understanding of the commercialization and bankability of state-owned enterprises (SOEs), across key markets in the Central and West Asia (CWA) region; and enhance SOEs' institutional capacity to access commercial financing from the Asian Development Bank (ADB) and cofinanciers. The TA will focus on positioning ADB as a partner in driving forward the financial sustainability and commercialization of strategic SOEs, and in doing so enable more SOE-related commercially oriented investment opportunities in the region. This approach will pilot new approaches such as credit mapping and innovative SOE 360° reviews, as well as build the tools, techniques, and teams to establish and implement comprehensive individual SOE transformation programs to support new and deeper engagements with SOEs.

2. The TA is aligned with ADB's Strategy 2030 and its operational priority of strengthening governance and institutional capacity. It will promote greater commercial orientation of SOEs and help improve their access to financing on commercial terms and conditions by improving their governance and institutional capacity for service delivery through SOE reforms.¹ The TA also responds directly to Strategy 2030's target of expanding private sector operations, including preparing SOEs for accessing commercial financing under the One ADB approach, bringing together knowledge and expertise for the benefit of ADB's clients. In line with another operational priority of Strategy 2030—accelerating progress in gender equality—the TA incorporates some gender elements in the analysis and program design so that SOEs will contribute to the advancement of gender equality. The TA is part of the approved 2021 TA pipeline of ADB's Central and West Asia Department (CWRD).²

3. The TA supports Sustainable Development Goal 16.6 (develop effective, accountable, and transparent institutions at all levels) and Sustainable Development Goal 8.10 (strengthen the capacity of domestic financial institutions to encourage and expand access to banking, insurance, and financial services for all) by promoting the financial sustainability and commercialization of SOEs, including (but not limited to) state-owned banks.

II. ISSUES

4. SOEs in the CWA region have a substantial presence in delivering public services and implementing public policies, and play a crucial role in economic development across a range of sectors. Even though they are the most dominant potential partners in various sectors, from transport and energy to finance and health, many are financially and operationally unsustainable and must rely on their government's continuous financial support to maintain their regular business operations. A lack of competition and insufficient commercial, performance-related incentives—coupled with competing commercial objectives and policy mandates, poor corporate governance, and diffuse and opaque state ownership structures—often result in low operational efficiency and productivity of SOEs. Their limited capacity also means that they have less access to commercial financing than private enterprises. This all translates into a vicious circle that hampers the financial sustainability of SOEs, and ultimately the long-term competitiveness and growth of the overall economy. Underperforming SOEs have created an increasing fiscal burden for developing member countries, and the continued financing of unprofitable SOEs may cause contingent liabilities and significant risks to a stable financial system and the overall economy.

¹ ADB. 2018. [Strategy 2030: Achieving a Prosperous, Inclusive, Resilient, and Sustainable Asia and the Pacific](#). Manila.

² The TA first appeared in the business opportunities section of ADB's website on 10 August 2021.

5. CWRD has long worked with governments and SOEs to support reforms in public sector management, governance, and institutional capacity for service delivery. Recent initiatives include ADB's policy-based loan to Uzbekistan for subprogram 2 of the Economic Management Improvement Program, which helps SOEs implement corporate governance rules; creates a centralized special fund for SOEs' restructuring, divestment, and privatization; and facilitates the revaluation of SOE assets, the sale of non-core assets, and the preparation of financial statements.³ Another example is ADB's Sustainable Water Supply and Sanitation Sector Development Program in Georgia, which will transform water supply and sanitation governance and institutions by creating a cohesive sector policy and legal basis, and initiating reforms of poorly performing SOEs.⁴ The ADB SOE working group recently published a study, "The Bankable SOE: Commercial Financing for SOEs," which discusses the reforms that are most effective in making SOEs bankable.⁵

6. The CWRD operations have strengthened the enabling environment for SOE and sector reforms by helping (i) establish national development strategies for SOEs, (ii) adapt legal and regulatory frameworks, (iii) formulate sector-based development strategies and policy, (iv) set up central committees to guide SOEs' transformation and governance, and (v) facilitate government investment and divestment strategies, and related sovereign support.

7. In its thematic evaluation report on State-Owned Enterprise Engagement and Reform,⁶ ADB's Independent Evaluation Department found that SOE reforms had not been the primary focus of most sovereign, nonsovereign, and TA operations. However, it highlighted that well-coordinated operations under upstream sovereign investments that leverage SOE reforms and nonsovereign support to SOE clients can improve ADB's effectiveness in supporting SOE reforms and ultimately ensure the efficient use of public resources.

8. The TA will build on the work of the CWRD sector divisions, resident missions, and the Sustainable Development and Climate Change Department's governance thematic group by engaging with a group of efficient and capable SOEs that have the potential for commercial financing. The TA will thus connect ADB's public and private sector operations to deliver a comprehensive package of integrated solutions directly to SOE clients, and thereby strengthen ADB's partnership with SOEs and, ultimately, the respective national governments.

9. The TA support provided directly to SOE clients can be a useful instrument to deepen discussions on a variety of integrated solutions such as sector reforms and SOE transformations, and to create opportunities to gradually migrate SOE clients to the domain of commercial financing.

III. THE TECHNICAL ASSISTANCE

A. Impact and Outcome

10. The TA is aligned with the following impact: governance and institutional capacity of SOEs strengthened and private sector operations expanded (footnote 1). The TA will have the following outcome: commercial orientation of SOEs in the CWA region enhanced.⁷

³ ADB. [Uzbekistan: Economic Management Improvement Program, Subprogram 2.](#)

⁴ ADB. [Georgia: Sustainable Water Supply and Sanitation Sector Development Program.](#)

⁵ ADB. 2021. [The Bankable SOE: Commercial Financing for State-Owned-Enterprises.](#) Manila.

⁶ Independent Evaluation Department. 2018. [Thematic Evaluation Study: State-Owned Enterprise Engagement and Reform.](#) Manila: ADB.

⁷ The design and monitoring framework is in Appendix 1.

B. Outputs, Methods, and Activities

11. **Output 1: Categorization and credit mapping of state-owned enterprises conducted.**

The TA team will prepare a long list of SOEs in ADB's priority sectors and segments—energy, transport, telecommunications, postal service, urban and water services, finance, agriculture, health, and education—and group the SOEs into categories.⁸ It will then prepare a short list of SOEs which, based on their financial viability and credit rating, can likely improve within 2–3 years to a level that is acceptable to commercial financiers; this will include a brief justification for each. Output 1 will apply to developing member countries where such an SOE categorization and credit mapping has not yet been carried out,⁹ and to the preliminary SOE list that emerges from requests by governments¹⁰ and consultations with CWRD resident missions, sector divisions, and ADB's Private Sector Operations Department. The findings will provide a high-level understanding of SOEs' financial performance and will feed into output 2.

12. **Output 2: 360° reviews of selected state-owned enterprises' readiness for commercialization conducted.**

Based on the findings of the SOE categorization and credit mapping exercise under output 1, or based on the results from studies already carried out by ADB and other development partners on SOEs that have approached ADB, the TA will target those SOEs with the greatest commitment and readiness to access financing on commercial terms and conditions. A new 360° review framework of SOE bankability will be piloted, which will include (i) strategic dialogues in workshops to understand selected SOEs' needs and to share knowledge on best practice; and (ii) a comprehensive and in-depth analysis to understand and define the scope of each SOE's transformation, covering topics such as strategy, credit and financial assessment, business and operational management, corporate governance, gender inclusiveness, risk management, digital and information technology transformation, organizational transformation, and business process transformation. The TA team will also look at how the state makes major decisions with regard to the SOE, to what extent the SOE is financially dependent on the state or is cross-subsidized by other SOEs, and to what extent other SOEs are financially dependent on it. Finally, the TA team will assess SOEs' climate change adaptation and mitigation strategies depending on the sectors selected.

13. **Output 3: Commercialization program for state-owned enterprises designed and capacity built.**

The TA team will design a program to commercialize SOEs' operations, boost their financial sustainability, and build institutional capacity. This involves:

- (i) presenting the results from the 360° reviews and a high-level business case for change to the SOEs' boards of directors, including the respective government shareholders and other relevant stakeholders;
- (ii) developing a portfolio of transformation initiatives in key areas such as
 - (a) governance and structure (independence of the SOE management, investor discipline, sustainability);
 - (b) core operational capacity (risk, finance, information technology, accounting, training);

⁸ A detailed categorization will be defined during implementation.

⁹ Either by ADB or other development partners such as the International Monetary Fund, the World Bank, and the European Bank for Reconstruction and Development. Developing member countries that have SOE categorization and/or credit mapping include Kazakhstan, Pakistan, and Uzbekistan.

¹⁰ CWRD was approached by several governments to support SOE transformation and thus reduce SOEs' dependence on government support. These SOEs are included in the preliminary SOE list so that an initial high-level assessment can be conducted.

- (c) SOEs' strategies (markets, clients, products, channels) and measurable objectives and goals;
 - (d) performance management (key performance indicators, public expenditure tracking surveys for service-oriented SOEs, talent, gender inclusiveness, incentives);
 - (e) change and program management (change, cultural reform); and
 - (f) strategy and plan for public and private sector financing and investment (debt, equity, hybrid instruments); and
- (iii) conducting workshops and training sessions on transformation-related change management and technical best practice, where SOE management teams will establish a phased road map and agreed terms of implementation.

14. A key fundamental assumption of the TA is that the governments and the SOEs have a clear interest in and commitment to SOE commercialization. To mitigate the TA implementation risks and optimize TA resource utilization, the TA targets those SOEs that are willing, and are taking respective actions, to work toward commercialization and access to finance on quasi- or fully commercial terms. SOEs that are not organized as commercial entities and SOEs that keep making losses will require more reform support at policy, sector, and institutional levels before being ready for commercialization, which may take longer than the implementation period of the pilot TA; hence, they would not be eligible to receive support under this TA.

15. The TA program aims to develop a pilot approach that is scalable and replicable, and that deepens the commercial orientation of SOEs in the region by supporting "enterprise-level" financial sustainability and commercialization. The TA also takes a new strategic approach overall by focusing on the more commercially oriented SOEs in the CWA region under a program. Previous ADB projects have taken a more ad-hoc approach by trying to make one or two particular SOEs more financially sustainable.

16. **ADB's value addition.** ADB's value addition is to deliver a comprehensive package of integrated solutions to SOE clients through the One ADB approach. The TA activities complement well, and enable synergies with, ADB's existing work on sector and SOE reforms. The TA also demonstrates to potential commercial financiers the feasibility of more commercial financing for and private sector participation in SOE operations.

C. Cost and Financing

17. The TA is estimated to cost \$1,750,000, which will be financed on a grant basis by ADB's Technical Assistance Special Fund (\$900,000 from TASF-7; \$850,000 from TASF-other sources). The key expenditure items are listed in Appendix 2.

D. Implementation Arrangements

18. ADB will administer the TA through CWRD's Client Solutions Team (CST) and the Public Management, Financial Sector, and Trade Division; in close coordination and collaboration with CWRD sector divisions and resident missions, and the Private Sector Operations Department. The One ADB approach will also extend the consultations with other ADB departments, and sector and thematic groups where needed, to create synergies with ongoing development efforts.

19. ADB will work with government authorities involved in managing and/or supervising SOEs to make sure that their governments have no objection to an SOE being supported under the TA.

Each SOE must also indicate its clear interest and willingness to engage in this process with ADB, and provide available counterpart resources.

20. The TA will be implemented over 42 months, from October 2021 to March 2025. CST and CWRD's Public Management, Financial Sector, and Trade Division will select, supervise, and evaluate the consultants. Given the diverse requirements and activities that the TA is expected to involve, ADB will consider recruiting both individual (national and international) consultants and firms.

21. The implementation arrangements are summarized in the table.

Implementation Arrangements			
Aspects	Arrangements		
Indicative implementation period	October 2021–March 2025		
Executing agency	ADB		
Implementing agencies	CWRD through the Client Solutions Team in its Office of the Director General and through its Public Management, Financial Sector, and Trade Division		
Consultants	To be selected and engaged by ADB		
	Firm: quality- and cost-based selection (90:10) or direct contracting ^a	Consulting package (as may be needed): international expertise (person-months TBD); national expertise (person-months TBD)	TBD
	Individual: individual consultant selection	International consultants (56 person-months)	\$1,245,900
		National consultants (15 person-months)	\$90,000
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, CWRD = Central and West Asia Department, TBD = to be determined.

^a Quality- and cost-based selection (90:10) will be used to ensure high-level quality outputs for the assignment. Direct contracting will be explored in cases where only one firm or individual is qualified, available, or has exceptional experience to provide the tailored solution needed under this TA. Procedures in the ADB Procurement Policy (2017, as amended from time to time) and its associated staff instructions will be followed for procurement under direct contracting or in contracting a firm.

Source: Asian Development Bank.

22. **Consulting services.** ADB will engage the consultants following the ADB Procurement Policy (2017, as amended from time to time) and its associated staff instructions.¹¹ ADB will take into consideration the prevailing situation with the coronavirus disease (COVID-19) and the related travel restrictions for the delivery of TA outputs and consultant recruitment, including arrangements for international or national travel, use of online meetings, and a mix of consultants based locally or abroad, during implementation.

¹¹ Terms of Reference for Consultants (accessible from the list of linked documents in Appendix 3).

IV. THE PRESIDENT'S DECISION

23. 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 on a grant basis for the Program to Enhance Commercialization and Financial Sustainability of State-Owned Enterprises in the Central and West Asia Region, and hereby reports this action to the Board.

DESIGN AND MONITORING FRAMEWORK

Impact(s) the TA is Aligned with			
Governance and institutional capacity of state-owned enterprises strengthened and private sector operations expanded ^a			
Results Chain	Performance Indicators	Data Sources and Reporting Mechanisms	Risks and Critical Assumptions
Outcome Commercial orientation of SOEs in the CWA region enhanced	By 2025: At least two commercially oriented SOE development, investment, or advisory plans in the CWA region formed (2020 baseline: 0) (OP 6.1, OP6.2)	Investment plans prepared by SOEs, project pipeline of ADB, other development partners or commercial financiers, ADB concept notes for potential investment	R: Governments or SOEs change their stance on commercialization R: Economic deterioration worsens SOEs' risk profile
Outputs 1. Categorization and credit mapping of SOEs conducted	By March 2025: 1a. An SOE categorization and credit mapping report prepared (2020 baseline: 0) (OP 6.1.2)	1a. Final report on SOE categorization and credit mapping, including SOE pipeline, approved by ADB	R: Change in interest and commitment of governments or SOEs for commercialization and related support
2. 360° reviews of selected SOEs' readiness for commercialization conducted	2a. At least three 360° reviews of SOE commercialization readiness conducted (2020 baseline: 0) (OP 6.1; OP 6.2.1, OP6.2.2, OP6.2.3) 2b. Gender-segregated analysis included in all 360° reviews (2020 baseline: NA) (OP 2.3.2) 2c. Commercialization implications on women assessed in all commercialization 360 reviews (2020 baseline: NA) (OP 2.3.2)	2a, 2c. Final reports on the 360° review of SOEs' commercialization readiness approved by ADB 2b. Templates for gender data reporting under the 360° reviews of SOEs' commercialization readiness reviewed by ADB	R: SOEs delay the provision of required information R: COVID-19 continues to impact and disrupt business continuity
3. Commercialization program for SOEs designed and capacity built	3a. Findings of at least two 360° reviews presented to respective SOEs' boards of directors (2020 baseline: 0) (OP 6.1; OP 6.2.1, OP6.2.2, OP6.2.3)	3a-3b. List of participants and presentation materials by ADB with the support of consultants	R: Governments and/or SOEs lose interest in, or no longer support or prioritize, further transformation initiatives

	<p>3b. A portfolio of transformation initiatives developed for at least 2 SOEs (2020 baseline: 0) (OP 6.1; OP 6.2.1, OP6.2.2, OP6.2.3)</p> <p>3c. Prioritization workshop on commercialization attended and found useful by the management teams of at least two SOEs (2020 baseline: NA) (OP 6.1.2; OP 6.2.2)</p> <p>3d. Plans for continued or additional employment of women, especially in technical and managerial positions, incorporated in all SOE commercialization program designs (2020 baseline: NA) (OP 2.1)</p> <p>3e. Capacity building training around change management delivered to at least two SOEs (2020 baseline: NA) (OP 6.1.1,6.2.3)</p>	<p>3c. Prioritization workshop methodology and workshop materials reviewed by ADB</p> <p>3d. Gender action plans and dashboards for SOE commercialization program reviewed by ADB</p> <p>3e. Training materials reviewed by ADB</p>	<p>R: SOEs found to be still unbankable by commercial financiers</p> <p>R: COVID-19 continues to impact and disrupt business continuity</p>
Key Activities with Milestones			
<p>1. Output 1: Categorization and credit mapping of SOEs conducted</p> <p>1.1 Conduct an initial screening of a long list of SOEs to evaluate their willingness, needs, readiness, and suitability for the proposed TA activities, in consultation with sector divisions and resident missions of CWRD, PSOD, OP PP, and DMCs' authorities. (Q2 2022)</p> <p>1.2 Discuss with CWRD resident missions whether any SOE needs to be included, and obtain related no-objection assurance from the respective government. (Q2 2022)</p> <p>1.3 Share SOE categorization and credit mapping results with stakeholders. (Q2 2023)</p> <p>2. Output 2: 360° reviews of selected SOEs' readiness for commercialization conducted</p> <p>2.1 Assess suitability of identified SOEs in consultation with sector divisions and resident missions of CWRD, PSOD, and DMCs' authorities. (Q4 2023)</p> <p>2.2 Obtain no-objection assurance from the respective DMC governments. (Q4 2023)</p> <p>2.3 Conduct strategic dialogue workshops on 360° reviews of SOEs. (Q1 2024)</p> <p>3. Output 3: Commercialization program for SOEs designed and capacity built</p> <p>3.1 Present the findings of the 360° reviews of SOEs with SOE boards and stakeholders. (Q2 2024)</p> <p>3.2 Develop a portfolio of transformation initiatives in key areas critical to improving the viability of commercial financing. (Q1 2025)</p> <p>3.3 Conduct prioritization workshops with SOE management teams and establish a phased road map for implementation. (Q1 2025).</p> <p>3.4 SOEs demonstrate their enhanced capacity to prepare commercially oriented investment plans. (Q1 2025).</p>			

3.5 Conduct capacity-building and change management training to prepare SOE clients for transformation. (Q1 2025)

TA Management Activities

Recruit individual consultants and firms.

Monitor and manage consultants' performance through review of completed tasks, quality of outputs, and review and approval of timesheets and expenses.

Manage contracts for consulting services in cooperation with PPFD.

Conduct annual TA reviews to monitor the utilization of TA funds and progress on TA performance indicators, and assess consultants' performance.

Inputs

ADB: \$1,750,000 from Technical Assistance Special Fund (\$900,000: TASF 7; and \$850,000: TASF-other sources).

ADB = Asian Development Bank; COVID-19 = coronavirus disease; CWA = Central and West Asia; CWRD = Central and West Asia Department; DMC = developing member country; NA = not applicable; OP = operational priority; OP PP = Office of Public-Private Partnership; PPF = Procurement, Portfolio and Financial Management Department; PSOD = Private Sector Operations Department; Q = quarter; R = risk; SOE = state-owned enterprise; TA = technical assistance.

^a ADB. 2018. [Strategy 2030: Achieving a Prosperous, Inclusive, Resilient, and Sustainable Asia and the Pacific](#). 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).

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	1,246.0
ii. National consultants	90.0
b. Out-of-pocket expenditures	
i. International and local travel	119.0
ii. Reports and communications	15.0
iii. Miscellaneous administration and support costs ^b	15.0
2. Training, seminars, workshops, forum, and conferences ^c	96.0
3. Miscellaneous technical assistance administration costs ^d	10.0
4. Contingencies	159.0
Total	1,750.0

Note: The technical assistance (TA) is estimated to cost \$1,750,000, of which contributions from the Asian Development Bank are presented in the table.

^a Financed by the Asian Development Bank's Technical Assistance Special Fund (\$900,000: TASF 7; \$850,000: TASF-other sources).

^b Includes translation or interpretation fees and office support costs, which may be incurred.

^c Includes (i) consultation meetings with and presentations to SOE authorities, SOE stakeholders, and public sector agencies; and (ii) knowledge events and presentations. Includes honoraria, airfare, per diems, and miscellaneous travel expense allowances of resource persons to and from ADB member countries and, possibly, non-member countries. This may also include venue and equipment rental, collaterals, catering, translation and interpretation services, and other event- or meeting-related expenses.

^d Includes editing, printing, and translation costs.

Source: Asian Development Bank estimates.

LIST OF LINKED DOCUMENTS

<http://www.adb.org/Documents/LinkedDocs/?id=55174-001-TARreport>

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

Supplementary Documents

3. Preliminary SOE List
4. SOE Selection Principles and Basic Requirements
5. SOE Overview