



Technical Assistance Report

Project Number: 47110-002
Policy and Advisory Technical Assistance (PATA)
July 2015

Republic of Kazakhstan: Joint Government of Kazakhstan and the Asian Development Bank Knowledge and Experience Exchange Program, Phase 2

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Asian Development Bank

CURRENCY EQUIVALENTS

(as of 31 May 2015)

| | | |
|---------------|---|-----------|
| Currency unit | – | tenge (T) |
| T1.00 | = | \$0.00538 |
| \$1.00 | = | T185.8 |

ABBREVIATIONS

| | | |
|------|---|--|
| ADB | – | Asian Development Bank |
| GDP | – | gross domestic product |
| KCC | – | Knowledge and Experience Exchange Program Coordinating Committee |
| KEEP | – | Knowledge and Experience Exchange Program |
| MNE | – | Ministry of National Economy |
| MOU | – | memorandum of understanding |
| SMEs | – | small and medium-sized enterprises |
| TA | – | technical assistance |
| TOR | – | terms of reference |
| PFA | – | Partnership Framework Arrangement |

NOTE

In this report, “\$” refers to US dollars.

| | |
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POLICY AND ADVISORY TECHNICAL ASSISTANCE AT A GLANCE

| Policy and Advisory Technical Assistance at a Glance | | | Project Number: 47110-002 | |
|---|--|--------------------------------------|--|------|
| 1. Basic Data | | | | |
| Project Name | Joint Government of Kazakhstan and the Asian Development Bank Knowledge and Experience Exchange Program, Phase 2 | Department /Division | CWRD/KARM | |
| Country Borrower | Kazakhstan Ministry of National Economy | Executing Agency | Department for Budget Investments and PPP Development under the Ministry of National Economy | |
| 2. Sector | Subsector(s) | ADB Financing (\$ million) | | |
| ✓ Public sector management | Economic affairs management | | | 0.50 |
| | Public administration | | | 0.50 |
| | | Total | | 1.00 |
| 3. Strategic Agenda | Subcomponents | Climate Change Information | | |
| Inclusive economic growth (IEG) | Pillar 1: Economic opportunities, including jobs, created and expanded | Climate Change impact on the Project | | Low |
| Regional integration (RCI) | Pillar 2: Trade and investment | | | |
| 4. Drivers of Change | Components | Gender Equity and Mainstreaming | | |
| Governance and capacity development (GCD) | Institutional development | No gender elements (NGE) | | ✓ |
| Private sector development (PSD) | Public sector goods and services essential for private sector development | | | |
| 5. Poverty Targeting | | Location Impact | | |
| Project directly targets poverty | No | Nation-wide | | High |
| 6. TA Category: | B | | | |
| 7. Safeguard Categorization | Not Applicable | | | |
| 8. Financing | | | | |
| Modality and Sources | | Amount (\$ million) | | |
| ADB | | 1.00 | | |
| Policy and advisory technical assistance: Technical Assistance Special Fund | | 1.00 | | |
| Cofinancing | | 0.00 | | |
| None | | 0.00 | | |
| Counterpart | | 0.00 | | |
| None | | 0.00 | | |
| Total | | 1.00 | | |
| 9. Effective Development Cooperation | | | | |
| Use of country procurement systems | | No | | |
| Use of country public financial management systems | | No | | |

I. INTRODUCTION

1. The country partnership strategy, 2012–2016 of the Asian Development Bank (ADB) for Kazakhstan highlights the need to apply knowledge solutions effectively and adopt global best practices to become a more diversified, competitive, and inclusive economy, and to go beyond the middle-income country stage.¹ In 2013, the government and ADB agreed to establish the joint Knowledge and Experience Exchange Program (KEEP) aimed at facilitating various cutting-edge strategic knowledge options and global best practices to equip Kazakhstan to respond to the current and emerging development opportunities and challenges in a well-informed and timely manner. The KEEP framework (outlining the objective and scope, areas of focus, implementation arrangements, and monitoring and evaluation measures) is defined in a memorandum of understanding (MOU) between the government and ADB signed in June 2013. The MOU commits the parties to share the cost of activities during the implementation of the program's three phases; total financing amounts to \$2,500,000, and the government will finance 50% of the cost.² The MOU is in Supplementary Appendix A.

2. The implementation of the first phase of KEEP began with a technical assistance (TA) project approved in July 2013.³ The policy and advisory TA proposed now will finance the second phase of KEEP in 2015–2018. It is included in ADB's country operations business plan, 2015–2017 for Kazakhstan.⁴ Details of the TA were discussed with the government in several meetings throughout 2015 in line with the TA design and monitoring framework in Appendix 1.⁵

II. ISSUES

3. Since its independence in 1991, Kazakhstan has transitioned rapidly from a low-income country to an upper middle-income country and has rated highly in many socioeconomic indicators. Over the last two decades, Kazakhstan's gross domestic product (GDP) increased dramatically from \$24.9 billion to \$231.9 billion, making Kazakhstan the largest economy in Central Asia and the second largest in the Commonwealth of Independent States. Accordingly, GDP per capita increased ninefold from \$1,512 to \$13,611.⁶ This impressive economic performance was primarily supported by expanding oil production and high oil prices. Kazakhstan also made significant progress in maintaining a stable macroeconomic environment, being ranked particularly high on economic environment indicators such as government budget balance, gross national savings, inflation, government debt, and country credit rating.⁷

4. Despite the economic performance, Kazakhstan still faces development challenges and vulnerabilities which, if not resolved in an efficient and timely manner, may undermine the country's socioeconomic development and expose it to external shocks. These challenges include (i) the economy's high dependence on extractive industries, which is mainly expressed

¹ ADB. 2012. *Country Partnership Strategy: Kazakhstan, 2012–2016*. Manila.

² According to the MOU, the estimated budget for the pilot phase amounts to \$500,000; this will increase up to \$1,000,000 per phase during implementation of the subsequent two phases.

³ ADB. 2013. *Technical Assistance to the Republic of Kazakhstan for Joint Government of Kazakhstan and the Asian Development Bank Knowledge and Experience Exchange Program, Phase 1*. Manila (TA 8414-KAZ, ongoing).

⁴ ADB. 2014. *Country Operations Business Plan: Kazakhstan, 2015–2017*. Manila.

⁵ The TA first appeared in the business opportunities section of ADB's website on 5 May 2015.

⁶ World Bank. World Development Indicators database. <http://data.worldbank.org/data-catalog/world-development-indicators> (accessed 15 December 2014).

Government of Kazakhstan, Statistics Committee of the Ministry of National Economy. Official statistical information. <http://www.stat.gov.kz> (accessed 15 December 2014).

⁷ World Economic Forum. *The Global Competitiveness Report 2014–2015*. http://www3.weforum.org/docs/WEF_GlobalCompetitivenessReport_2014-15.pdf

in a growing share of oil and mineral exports, high dependence of the government budget on oil revenues, high concentration of foreign direct investments in the oil and gas sector, and manufacturing's low share of employment; (ii) an aging and limited infrastructure network as well as poor quality of soft infrastructure (e.g., logistics, customs clearance), which require major improvements; (iii) a vulnerable finance sector and the need for innovative approaches to reform it; and (iv) limited competition in the economy, which restrains private sector development, productivity improvement, and an overall increase in the economy's competitiveness. Moreover, the ongoing regional and global integration processes, such as Kazakhstan's anticipated accession to the World Trade Organization and membership in the Eurasian Economic Union, call for better-informed policy decisions.

5. Recognizing these challenges, the Government of Kazakhstan has formulated national strategic plans—the *Kazakhstan–2030 Strategy* and the *Strategic Development Plan of the Republic of Kazakhstan till 2020*.⁸ In 2012, President Nursultan Nazarbayev announced a new long-term vision, *Kazakhstan–2050*, of turning the country into one of the top 30 developed nations by 2050.⁹ It emphasizes the importance of developing not only traditional sectors (extractive industries, manufacturing, services, and agriculture) but also new, innovative areas to help transform Kazakhstan into a knowledge-based economy. Key milestones are: (i) the share of non-oil exports in the country's total exports to double by 2025, and to triple by 2040; (ii) the share of agricultural production in GDP to increase fivefold by 2050; and (iii) renewable energy to account for up to 50% of domestic energy consumption by 2050. Particular attention is paid to the development of small and medium-sized enterprises (SMEs) as an engine of economic growth, diversification, and inclusion—their share in the domestic economy is to double by 2030.

6. Against the backdrop of difficult external conditions (i.e., slowing world economic growth, falling oil prices, and an economic slowdown in the Russian Federation), the government has taken stimulus measures to prevent negative consequences on the domestic economy. Additional funds have been allocated from the National Fund of the Republic of Kazakhstan in 2014 to finance the development of SMEs, new economic zones, and infrastructure, and the resolution of nonperforming loans. In addition, a new economic policy—*Nurly Zhol*—has been launched to support key structural reforms to the economy, further infrastructure and SME development, and to stimulate the transformation to a knowledge-based economy. Further emphasis is given to the development of the service sector as a mean to enable economic diversification and inclusive growth; the aim is to increase the share of services in GDP from the current 54% to 70%.

7. Achieving these ambitious goals would require not only strong commitment and coordination within the government, but also substantial human resources development through knowledge and experience exchange and effective policy advice. The government signed the Partnership Framework Arrangement (PFA) with ADB during the 47th Annual Meeting in Astana in 2014. The PFA aims to help accelerate the diversification of the economy and increase the competitiveness of exports and the ability to achieve sustainable and inclusive growth. Through the PFA, ADB will assist the government in implementing its development program by providing effective stewardship of the resources of the National Fund of the Republic of Kazakhstan.

⁸ Government of Kazakhstan. 1997. *Kazakhstan–2030 Strategy*. Astana.

⁹ Government of Kazakhstan. 2012. *Kazakhstan–2050 Strategy*. Astana;
Government of Kazakhstan. 2014. *Concept of the Republic of Kazakhstan's Entry into the Top 30 Developed Countries*. Astana.

8. In this context, KEEP has become an important vehicle for supplementing the analytical work under the PFA: it supports just-in-time knowledge requests prioritized by the government but not financed through longer-term TA funds. Phase 1 of KEEP has helped the government with studies in six areas: (i) market concentration and competition, (ii) economic diversification with a focus on the services sector, (iii) support for the development of the government's new economic policy, (iv) economic costs of road traffic accidents in Kazakhstan, (v) procurement of performance-based road maintenance services, and (vi) capacity building for SME financing. The government highly appreciates this TA modality, which helps meet emerging policy and advisory, and capacity development requirements, bringing best global practices and knowledge and tailoring them to Kazakhstan's context. The government and ADB have defined new potential areas for support—e.g., public management, audit, and finance—for which funding will be required in 2015–2018.

III. THE POLICY AND ADVISORY TECHNICAL ASSISTANCE

A. Impact and Outcome

9. The impact is aligned with the government's objectives of achieving a more competitive and inclusive economy, developing human capital, and enhancing institutions and governance.¹⁰ The outcome will be the strengthened government capacity and awareness of best practices in selected areas.

B. Methodology and Key Activities

10. The TA will follow the implementation approach used for the first phase of KEEP (footnote 3). The scope of the TA covers the following main themes: (i) inclusive growth and economic diversification, (ii) institutional and policy development, (iii) regional cooperation and integration, and (iv) competitiveness and efficiency enhancement. The TA will support macro, sector, and thematic subprojects that enable or promote knowledge solutions, capacity development, and exchange of best practices. Due to the dynamic nature of government demand for advisory and other knowledge products and services, the selection of subprojects and the implementation approach will be flexible so as to respond to the knowledge requests quickly and effectively.

11. The subprojects to be financed will therefore remain tentative to provide the scope for adjustment and allow for quick responses. While some subprojects have been discussed with the government during TA processing, other subprojects will be firmed up during implementation. A list of potential subprojects will be finalized within 1 month after the TA is approved and will be reviewed as necessary. A tentative list of proposed subprojects is in Supplementary Appendix B.

12. The criteria for selecting subprojects would be that the subproject (i) supports priority government policy reforms and is consistent with the country partnership strategy; (ii) is supporting the implementation of the government development strategy; (iii) is considered an emerging, urgent, and high-priority area where ADB can add the greatest value; (iv) shows evidence of strong government ownership; and (v) complements or synergizes the knowledge support of other development partners.

¹⁰ Government of Kazakhstan. 2014. *Concept of the Republic of Kazakhstan's Entry into the Top 30 Developed Countries*. Astana.

13. The main outputs of the TA will fall under the categories of (i) policy and advisory and (ii) capacity development, and include analytical reports that will serve as background materials for the government's policymaking and the capacity-building and learning events.

14. Effective coordination of the executing agency with stakeholders is important for a successful implementation of the TA. The related potential risks are (i) ineffective use of policy recommendations because of frequent turnover of officials, (ii) weak collaboration and support from all stakeholders, and (iii) unavailability of reliable and accurate data and information.

C. Cost and Financing

15. The TA is estimated to cost \$1,000,000, which ADB will initially allocate on a grant basis from ADB's Technical Assistance Special Fund (TASF—other sources). The government will reimburse 50% of the total TA cost by transferring \$500,000 to ADB's TASF account after ADB's approval of the TA. The cost estimates and financing plan are in Appendix 2.

D. Implementation Arrangements

16. The Ministry of National Economy (MNE), through its Department for Investment Policy and Public–Private Partnership Development, will be the executing agency responsible for supervising and monitoring the TA activities. The ministries or agencies responsible for initiating the specific subprojects will be the implementing agencies. ADB, through its Kazakhstan Resident Mission, will administer the TA. Counterpart staff at ADB headquarters will contribute to the management of subprojects, where necessary.

17. The KEEP Coordinating Committee (KCC), comprising representatives of the MNE and ADB, was set up to oversee KEEP implementation. Since the implementation of phase 1 of KEEP began, the KCC has had several meetings to discuss and update the list of subprojects, and the main implementation issues. All agreements reached by the MNE and ADB during the meetings were recorded, and the subproject list was updated accordingly. Selected subprojects and proposed working plans with cost estimates were approved by the vice-minister of the MNE and the country director of ADB's Kazakhstan Resident Mission. The policy and advisory TA will follow the same pattern. The KCC Secretariat supports the KCC by smoothing its functioning, supervising and coordinating day-to-day KEEP activities, monitoring the implementation progress, resolving issues, if any, arranging meetings, and liaising with ministries and agencies. An overview of the KCC and its secretariat is in Supplementary Appendix C.

18. Monitoring of the TA will be results-oriented. A main measurement for subproject outcome is to see if recommendations emanating from the TA are used by the government. Monitoring will be done by the KCC through its secretariat. The KCC Secretariat will coordinate closely with all agencies carrying out the subprojects and make sure that issues are dealt with as they arise. Under the overall direction and guidance of the KCC, the KCC Secretariat shall prepare quarterly progress reports and a TA completion report. The final evaluation of the TA will be based on performance indicators outlined in the design and monitoring framework.

19. The KCC will disseminate good practices and lessons learned through reports and workshops, as well as ADB and government websites. The KCC will see to it that these good practices and lessons are adequately reflected in subsequent KEEP subprojects, and relevant government and ADB projects.

20. The TA will be implemented over 32 months, from July 2015 to March 2018. Engagements of consultants under KEEP will be in line with ADB's *Guidelines on the Use of Consultants* (2013, as amended from time to time). Disbursements will be in accordance with ADB's *Technical Assistance Disbursement Handbook* (2010, as amended from time to time).

21. The TA will use an estimated 24 person-months of national and 18 person-months of international consulting inputs to support research, workshops, and other agreed subproject activities. The nature of the needed expertise and inputs will be determined case by case for each activity or subproject determined and approved jointly by the MNE and ADB. The inputs of consultants as well as short-term resource persons will serve to introduce international best practices; provide in-depth local knowledge; and advise on policy options, challenges, and the implications of various courses of action. The selection method for consultants will be chosen during implementation depending on what is best suited to the respective terms of reference (TOR). If the TA requires the services of a consulting firm, the firm will be recruited in accordance with ADB's *Guidelines on the Use of Consultants*. All consultants and experts will be engaged based on their expertise and proven experience in the subproject areas.

22. The detailed TOR, including duration and expected results, will be discussed and prepared as soon as the proposed subprojects are finalized and cleared by ADB and the government. KCC will also coordinate with ADB departments to engage the most experienced ADB staff in the implementation of subprojects. The generic outline of the scope of work to be carried out by consultants is 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 \$1,000,000 on a reimbursable basis, as discussed in para. 15, to the Government of Kazakhstan for the Joint Government of Kazakhstan and the Asian Development Bank Knowledge and Experience Exchange Program, Phase 2, and hereby reports this action to the Board.

DESIGN AND MONITORING FRAMEWORK

Impact the technical assistance is aligned with:

Achieving a more competitive and inclusive economy, developing human capital, and enhancing institutions and governance (Concept of the Republic of Kazakhstan's Entry into the Top 30 Developed Countries, 2014)^a

| Results Chain | Performance Indicators with Targets and Baselines | Data Sources or Reporting Mechanisms | Risks |
|---|--|--|--|
| Outcome Government capacity and awareness of best practices in selected areas strengthened | By 2018, recommendations emanating from the technical assistance are reflected or referenced in national plans or policy actions (2015 baseline: 0) By 2018, at least 70% of trained beneficiaries are able to use acquired knowledge and skills in formulating and implementing key development strategy or policy measures (2015 baseline: 0) | a. Government documents and statements on policy directions b. Minutes and other documentation on meetings with executing and/or implementing and other agencies c. Feedback from executing and/or implementing and other agencies | As a result of frequent turnover of officials, policy recommendations are utilized ineffectively. |
| Outputs 1. Analytical reports serving as background materials for the government's policymaking | 1a. About eight bilingual research reports completed in 2015–2017 (2015 baseline: 0) 1b. Four dissemination workshops to discuss main research results convened in 2015–2017 (2015 baseline: 0) | a. Activity reports from the Knowledge and Experience Exchange Program Coordinating Committee b. Country partnership strategy midterm review report | Collaboration and support from all stakeholders is weak. Reliable and accurate data and information is unavailable. |
| 2. Capacity development for government officials | 2. At least four capacity-building and learning events conducted in 2015–2017 (2015 baseline: 0) | c. Country portfolio review reports | |

Key Activities with Milestones

Output 1. Analytical reports serving as background materials for the government's policymaking

- 1.1 Confirm a list of analytical subprojects with MNE (Q3 2015).
- 1.2 Prepare TOR for consultants for the first four analytical studies and process recruitment of consultants (Q4 2015).
- 1.3 Field consultants for the first four analytical studies (Q1 2016–Q2 2016).
- 1.4 Prepare TOR for consultants for the remaining analytical studies and process recruitment of consultants (Q1 2016).
- 1.5 Field consultants for the remaining analytical studies (Q2 2016–Q2 2017).
- 1.6 Conduct four results dissemination workshops (Q4 2017).

Output 2. Capacity development for government officials

- 2.1 Confirm the capacity-building subprojects with MNE (Q4 2015).
- 2.2 Prepare TOR for consultants for the first two capacity-building subprojects (Q4 2015).
- 2.3 Implement the first two capacity-building subprojects (Q1 2016).
- 2.4 Prepare TOR for consultants for the remaining capacity-building subprojects (Q4 2016).
- 2.5 Implement the remaining capacity-building subprojects (Q1 2017–Q3 2017).

Inputs

ADB: \$1,000,000—financed initially from ADB's Technical Assistance Special Fund (TASF-other sources), of which 50% (\$500,000) will be reimbursed by the Government of Kazakhstan.

ADB = Asian Development Bank, MNE = Ministry of National Economy, Q = quarter, TOR = terms of reference.

^a Government of Kazakhstan. 2014. *Concept of the Republic of Kazakhstan's Entry into the Top 30 Developed Countries*. Astana.

Source: Asian Development Bank.

COST ESTIMATES AND FINANCING PLAN
(\$'000)

| Item | Amount |
|--|--------------|
| Asian Development Bank^a | |
| 1. Consultants | |
| a. Remuneration and per diem | |
| i. International consultants or resource persons | 400 |
| ii. National consultants or resource persons | 200 |
| b. International and local travel | 100 |
| 2. Training, seminars, conferences, and workshops ^b | 120 |
| 3. Reports, publications and communications, translations ^c | 60 |
| 4. Contingencies | 120 |
| Total | 1,000 |

Note: The technical assistance (TA) proceeds shall be used only for procurement of goods and services in member countries of the Asian Development Bank (ADB).

^a Financed by ADB's Technical Assistance Special Fund (TASF—other sources). ADB's financing will be 50% of the total TA cost of \$1,000,000. The government will reimburse 50% of the total TA cost by transferring \$500,000 to ADB's TASF-other sources account after ADB's approval of the TA and under the reimbursable arrangement.

^b Includes travel costs of government officials acting as resource persons and study tours.

^c Includes the cost of engaging manuscript and copy editors.

Source: Asian Development Bank estimates.

OUTLINE TERMS OF REFERENCE FOR CONSULTANTS

1. The technical assistance (TA) will use an estimated 24 person-months of national and 18 person-months of international consulting services to support research, workshops, and other agreed subproject activities. The inputs will be provided by consultants and short-term resource persons and will serve to introduce international best practices; provide in-depth local knowledge; and advise on policy options, challenges, and the implications of various courses of action.
2. The nature of the needed expertise and inputs will be determined case by case for each activity or subproject determined and approved jointly by the Ministry of National Economy (MNE) and the Asian Development Bank (ADB). ADB will recruit consultants as individuals and/or firms in accordance with ADB's *Guidelines on the Use of Consultants* (2013, as amended from time to time). The individual experts may be independent consultants, or recruited from consulting firms, research institutes, think tanks, academic institutions, and government research bodies.¹
3. Given the flexible nature of the Knowledge and Experience Exchange Program, specific terms of reference for the required experts will be developed based on the requirements of each subproject after approval of the subproject by the Knowledge and Experience Exchange Program Coordinating Committee.

A. Indicative Terms of Reference for Consultants

4. The indicative tasks of consultants engaged for policy advice subprojects are:
 - (i) undertaking specific research, as required in the specific terms of reference prepared by implementing agencies and endorsed by MNE and ADB;
 - (ii) providing practical recommendations on the government's immediate policy options to overcome development constraints, taking into consideration information from experience-sharing and best-practice-dissemination activities;
 - (iii) generating study reports and policy briefs (e.g., policy research studies, policy notes, project implementation assessments, good practice studies, and sector and thematic reports);
 - (iv) preparing background information and documents for the meetings between ADB and MNE, and providing assistance to implementing agencies and subproject task coordinators, as requested; and
 - (v) supervising the administrative functions of research support personnel—such as compiling information and collecting data for the research studies—and providing other support to MNE and ADB staff.
5. The indicative tasks of consultants engaged for capacity development subprojects are:
 - (i) proposing to MNE and the implementing agencies a capacity development framework to make sure that programs include active learning, case studies and follow-up tasks, and useful tools;
 - (ii) designing and conducting a training for trainers to support capacity development for government officials, as well as beneficiaries as required;

¹ To reduce the administrative burden and improve economy, efficiency, and value for money, consulting services under the TA will be engaged under an output-based (lump-sum) contract wherever possible. Single-source recruitment may be done for short-term individual consultancies to carry out well-defined tasks, if it presents a clear advantage over competition.

- (iii) proposing and organizing conferences, seminars, workshops, focus groups, training, and other knowledge-sharing meetings; and
- (iv) leading (a) the dissemination of findings of studies or best-practice cases, (b) the establishment of an effective policy dialogue among stakeholders, (c) the consultation on the policy directions and development strategy to support the implementation of the five-year plan, and (d) the training and capacity development of government agencies that may assume executing agency responsibilities for future ADB TA projects.

B. Short-Term Resource Persons or Experts

6. The responsibilities of short-term resource persons or experts are:
- (i) facilitating workshops (including conferences or training seminars);
 - (ii) acting as discussants or panelists on related policy issues;
 - (iii) presenting research results;
 - (iv) reviewing reports and/or comment on others' research; and
 - (v) preparing studies on specific fields (e.g., public–private partnerships).