

ASIAN DEVELOPMENT BANK

COOPERATION WITH JAPAN: JAPAN FUND FOR PUBLIC POLICY TRAINING (ASIAN DEVELOPMENT BANK INSTITUTE)

February 2004

ABBREVIATIONS

ADB	–	Asian Development Bank
ADB I	–	Asian Development Bank Institute
DMC	–	developing member country
JFPPT	–	Japan Fund for Public Policy Training

NOTE

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

CONTENTS

I.	INTRODUCTION	1
II.	OBJECTIVE AND SCOPE	1
	A. Objective	1
	B. Program Approach	2
	C. Scope	3
	D. Cost Sharing	3
III.	IMPLEMENTATION ARRANGEMENTS	3
	A. Processing Procedures	3
	B. Procurement	4
	C. Monitoring, Evaluation, and Reporting	4
IV.	ADMINISTRATION AND TECHNICAL ARRANGEMENTS	4
	A. Contribution and Amendments	4
	B. Administration and Execution Costs	5
	C. Records and Accounts	5
	D. Termination and Residual Funds	5
V.	THE PRESIDENT'S RECOMMENDATION	6
	APPENDIX	7

I. INTRODUCTION

1. Over the past few decades, developing member countries (DMCs) of the Asian Development Bank (ADB), especially those with transitional economies, have been undertaking reforms aimed at promoting more market-oriented policies and preparing themselves for increased interaction with neighboring market-oriented countries and the global economy. One leading example of this has been Viet Nam's *Doi Moi* and associated public administration reform. These reforms change the role of the state and the public sector and require officials in the central and local governments to acquire a broad range of skills to address new challenges.

2. ADB has enhanced its capacity-building efforts and public policy formulation in recent years. To this end, in 1996 ADB established the Asian Development Bank Institute (ADBI) as a subsidiary body. The stated objectives of ADBI were to identify effective development strategies and to improve the capacity for sound development management of the agencies and organizations in DMCs of ADB engaged in development work¹.

3. In recognition of the above, the Japanese Government (the Government) is prepared to make available to ADBI a trust fund contribution of ¥905.362 million for the Japan Fund for Public Policy Training (JFPPT) in the Government's fiscal year 2003. The contribution will finance on a grant basis the support of DMC-based public policy training institutions and/or capacity building activities of midcareer to senior-level officials, to equip them with practical economic management skills.

4. This paper outlines the proposed cooperation arrangements for 3 years from the establishment of the JFPPT between the Government and ADBI. The arrangements concern the initial contribution of ¥905.4 million and further contribution, if any, of the Government to the JFPPT. The 3-year period may be extended by agreement between the Government and ADBI.

II. OBJECTIVE AND SCOPE

A. Objective

5. The main goal of the JFPPT is to assist DMCs and their institutions to build their capacities for public policy training, initially concentrating on economies in transition, such as Viet Nam. For this purpose, the JFPPT will support establishing country-based public policy training programs in ADB's DMCs. According to the specific situation in the DMC receiving support from the JFPPT, assistance may be provided to enhance existing public policy training centers or to establish new institutions.

6. The JFPPT will enable DMCs to acquire assistance from foreign academic institutions so that they can jointly develop and conduct training programs primarily in local languages. The training program in each country will be designed according to the specific needs of the recipient country. Each training program will be targeted primarily to midcareer to senior-level government officials who are engaged in economic management at national and subnational levels. The curriculums of the programs are expected to cover a wide range of public policy issues, with a focus on economic management. The programs could cover subjects to acquire basic analytical skills of planning and implementing public economic policy, as well as subjects

¹ Statute of the ADB Institute, Article II.

to learn specific economic issues. Providing training in primarily local languages should have a direct impact on midcareer to senior-level officials who cannot study in a foreign language.

7. The JFPPT, because of grant financing and as a dedicated fund for public policy training, will significantly enhance the effectiveness of ADBI for addressing capacity building needs in DMCs. To maximize its impact, JFPPT-financed activities will be compatible with and complementary to country operational strategies, poverty partnership agreements, public administration reform programs, and country assistance plans.

B. Program Approach

8. The role of governments in promoting growth and development has shifted as the world has changed. As trade and other barriers have dropped, it is no longer sufficient for governments to deal with domestic growth issues in a purely domestic framework. Foreign capital, technology, and knowledge are often part of reform programs. Governments must now create a supportive framework for growth. Public policy training is needed to help government officials see more clearly what needs to be done and how to do it.

9. First, a public policy institute or trainer must understand that simply working on what ought to be done will not be enough. To be effective, there must be a deeper understanding of the political economy of policy making. This understanding must be reflected in targeted teaching directly relevant to current issues. The second point is that simply teaching one type of student or official from one place or level is not sufficient. All levels need training of the right kind and in adequate numbers so that there is synergy as different levels share information and work together to do things differently. Likewise, teaching only central level officials is not likely to be effective in places where important decisions are taken at provincial or lower levels.

10. The third point is that training should not be confined to one discipline. A fundamental reform involves knowledge from many specialties—economics, law, engineering, public administration, etc. If the teaching ignores key areas, it will fail in crucial respects. The fourth point is that the provision of training in local languages has considerable advantages. Many externally-funded training programs in the Asia-Pacific region are conducted in foreign languages, primarily English. In the proposed training programs, a team teaching approach will be undertaken to facilitate teaching in local languages. An instructing group will usually consist of four resource persons: a foreign instructor, a local co-instructor, an interpreter, and a tutor. In this manner, lectures by foreign instructors can be translated into the appropriate local language.

11. The final point is that any durable impact has to build local institutions. While foreign advisers can and should work with local professionals, ultimately, strong local institutions are needed.² Priorities of donors change over time. Only local support, participation, and ownership will ensure that the research, teaching, and training have a long-term impact. However, local professionals may feel the need to be less critical of existing practices than would external professionals. This is one reason why foreign and local professionals should cooperate.

12. In addition, to help improve outreach, appropriate training materials and research outputs will be disseminated through web-based digital outreach to facilitate the dissemination and exchange of the materials in local languages. Furthermore, ADBI is currently developing

² This point is discussed in detail in Weaver, R. Kent and Paul B. Stares. 2001. *Guidance for Governance: Comparing Alternative Sources of Public Policy Advice*. Tokyo: Japan Centre for International Exchange.

the capacity to use the communication facilities of the new Global Development Learning Network Center now being established in Tokyo.

C. Scope

13. The JFPPT will finance activities related to capacity building, including the procurement of consultancy services; training equipment, goods, and services; training materials development; provision of technical assistance; and other related activities. Typical types of activities to be covered will include the following:

- (i) In-country training will be provided on public policy formulation and implementation, with a specific focus on economic management. The training will use practical case studies and an action-oriented approach and will be provided primarily in local languages.
- (ii) Case-studies and empirical research will be produced, leading to the preparation of high quality training materials not currently available in DMCs, and drawing support from foreign academic partner institutions.
- (iii) Training materials will be disseminated to local training and academic institutions using digital outreach tools such as web-based OpenCourseware, etc, and trainers will be trained to deliver high quality training programs in DMCs.
- (iv) Personnel and providers will be engaged to manage and execute the activities, including those based in the field, with appropriate cost recovery and demarcation from ADBI's internal administrative expenses budget.

D. Cost Sharing

14. Cost-sharing arrangements will be entered into with recipient institutions as appropriate. Since appropriate cost-sharing levels cannot be determined prior to implementing the JFPPT program, the cost-sharing level for individual activities will be decided on a case-by-case basis.

III. IMPLEMENTATION ARRANGEMENTS

A. Processing Procedures

15. As the Administrator of the JFPPT, ADBI will ensure that all applicable ADBI policies, as may be amended from time to time, will govern each JFPPT-financed activity. Once the JFPPT is established, guidelines for processing and executing projects will be prepared in line with ADBI practices. For this purpose, a dedicated program unit of ADBI will be set up under the direction of the ADBI Dean.

16. Activities will be prepared and proposed by ADBI's program unit. The unit will coordinate the processing of each program proposal with DMC governments, as appropriate. Proposals will be forwarded to the Dean for submission to the Government for approval. Following approval of a proposed activity, ADBI may enter into an agreement or agreements, as appropriate, with the recipient and/or the concerned local executing agency in connection with the provision of individual financial assistance from the JFPPT.

B. Procurement

17. The procurement of goods and services and recruitment of consultants under the JFPPT will be carried out in accordance with procedures and practices consistent with the ADB Charter.

C. Monitoring, Evaluation, and Reporting

18. ADBI will monitor and evaluate JFPPT-financed activities in a similar manner to other ADBI-financed projects in accord with established ADBI procedures. The oversight function of ADB will also be applicable with respect to the administration of the JFPPT.

19. ADBI will prepare an annual report on the evaluation of activities financed by the JFPPT. The report will be submitted to the Government and made available to ADB's management and Board of Directors.

IV. ADMINISTRATION AND TECHNICAL ARRANGEMENTS

A. Contribution and Amendments

20. The Government will appoint ADBI as administrator of the JFPPT. To meet the Government's requirement to use the Bank of Japan as the official depository, the grant funds will be received initially in an account controlled by ADB in the Bank of Japan on behalf of ADBI. This receiving account will be invested and managed by ADB pending remittance to the JFPPT account under the administration of ADBI. For ADBI to administer and implement the JFPPT, the Statute of the ADB Institute will be modified to empower ADBI to function as a trust fund administrator, together with certain other technical amendments, as follows:

- (i) Pursuant to Article XI of the Statute, Article V.3(h) is hereby amended by inserting the words "trust funds," immediately before the words "voluntary contributions." As amended, paragraph 3(h) will then read in its entirety:

"(h) after consultation with the Bank and subject to the provisions of Article VII below, recommend to the Board of Directors through the President of the Bank to accept on behalf of the Institute trust funds, voluntary contributions, donations and grants to the Institute for the purpose of financing the Institute's activities and developing its facilities;"

- (ii) Article VII is hereby amended by inserting as paragraph 4(a) a new paragraph, which reads in its entirety:

"Notwithstanding the provisions of paragraphs 3 and 4(b) of this Article, the Institute may accept, with the approval of the Board of Directors of the Bank, the administration of trust funds which are consistent with the functions set out in Article III or advance the objectives of the Institute. Such trust funds accepted by the Institute may be used in any manner and on any terms and conditions not inconsistent with the purposes and policies of the Institute or the Bank and with the agreement relating to such trust funds between the Institute and their respective contributors of such trust funds concerned."

The existing paragraph 4 is redesignated subparagraph (b).

- (iii) Article VIII is hereby amended by inserting the word "principal" immediately before the word "office" and adding the following phrase at the end "and may

establish, with the approval of the President of the Bank, such facilities, agencies and branches elsewhere as may be necessary”, so that it then reads:

“The Institute shall establish its principal office in Tokyo, Japan and may establish, with the approval of the President of the Bank, such facilities, agencies and branches elsewhere as may be necessary.”

21. The proposed contribution of ¥905,362,000 will be made available upon signing of the arrangement establishing the JFPPT and the amendment of the Statute contemplated herein. The arrangement is in the appendix.

22. At its discretion and, subject to the Japanese Diet’s approval, the Government may provide additional resources to the JFPPT. Interest earned on such amounts will be used for the JFPPT. These funds will not form part of ADBI’s own resources and will be kept separate from it. Other donor governments or qualified and approved entities may, with the approval of the Board of Directors, contribute to the JFPPT.

B. Administration and Execution Costs

23. The JFPPT will be administered solely by ADBI. For administering and executing the JFPPT, ADBI may use part of the JFPPT funds (together with any interest earned thereon) to cover the direct and identifiable costs³ incurred in the administration and execution of the JFPPT, including those of the program unit and monitoring, evaluation, and audit fees.

C. Records and Accounts

24. ADBI will maintain records and accounts in accordance with applicable ADBI procedures, as may be amended from time to time, to show expenditures financed by the JFPPT. ADBI will arrange to provide the Government with periodic reports on the use of the JFPPT and the activities financed by the JFPPT. Such reports will be made available to ADB’s Management and Board, and will be audited annually by independent auditors.

D. Termination and Residual Funds

25. In terms of performance and fulfillment of its purpose, the JFPPT will be reviewed 3 years after the first public policy training program has commenced. When the arrangements of the JFPPT terminate, the use of any residual funds, including investment income of such funds, will be determined in consultation among the Government, ADB, and ADBI.

³ JFPPT-financed activities have different characteristics from the modalities specified in (R68-00). ADB. 2000. *Review of Service Charges for the Administration of Grant Cofinancing from Bilateral Sources*. Manila. Accordingly, the service charge structure in the review will not apply to JFPPT which is administered by ADBI.

V. THE PRESIDENT'S RECOMMENDATION

26. The President recommends that the Board approve (i) the acceptance by ADBI of the proposed fund, to be called the Japan Fund for Public Policy Training, as a new trust fund; (ii) the administration of the fund in accordance with the provisions set forth in this paper and in the letter from the Government of Japan to the President, appended hereto; and (iii) the amendments of the Statute of the ADBI to implement these arrangements, as described in para. 20.

Tadao Chino
President

DRAFT ARRANGEMENT

__ March 2004

Mr. Tadao Chino
President
Asian Development Bank

Dear Mr. President:

I have the honor to refer to the discussions among the Government of Japan (the Government), the Asian Development Bank (ADB), and the Asian Development Bank Institute (ADBI) with regard to their mutual cooperation for the establishment of the Japan Fund for Public Policy Training (the Fund) for the purposes of supporting public policy training institutions, and enhancing the capacity for sound development management of agencies and organizations engaged in development work, in ADB's developing member countries (DMCs), initially concentrating on economies in transition, such as Viet Nam.

The proposed Fund will enable DMCs to acquire assistance from foreign academic institutions so that they can jointly develop and conduct training programs primarily in local languages. The training program in each country will be designed according to the specific needs of the recipient country. Each training program will be targeted primarily to midcareer to senior-level government officials who are engaged in economic management at national and subnational levels. The curriculums of the programs are expected to cover a wide range of public policy issues, with a focus on economic management. They could cover subjects to acquire basic analytical skills of planning and implementing public economic policy, as well as subjects to learn specific economic issues. Providing training in primarily local languages should have a direct impact on midcareer to senior-level officials who could not study in a foreign language.

In this connection, I have further the honor to inform you that the Government intends to make available to ADBI trust funds in the amount of Nine Hundred and Five Million, Three Hundred and Sixty-Two Thousand Yen (Yen 905,362,000) on a grant basis during the Government's fiscal year 2003, for the financing of public policy training activities and the setting-up of public policy training institutions in DMCs. It is expected that additional amounts may be made available by the Government as an untied grant to the Fund to continue to support public policy training activities in DMCs in the future, subject to the budgetary approvals by the Diet of Japan. Concerning the provision of the Fund, I have the honor to propose the following arrangements.

1. The Government will appoint ADBI as Administrator of the Fund. This appointment will come into effect upon the entry into force of these proposed arrangements and the amendment of the Statute of the ADB Institute. The Government will provide, in accordance with the budget and relevant laws and regulations of Japan, the above-mentioned grant funds to ADBI in its capacity as Administrator.
2. The Fund will be made available under the following terms and conditions:

- (1) The objective of the Fund is to assist DMCs and their institutions to build their capacities for public policy training, initially concentrating on economies in transition. Accordingly, the Fund will finance activities related to public policy training, including the procurement of services of experts, training equipment, goods and services, training materials development, provision of technical assistance, and other related activities. Typical types of activities to be covered will be, among others:
 - (i) In-country training will be provided on public policy formulation and implementation, with a specific focus on economic management. The training will use practical case studies and an action-oriented approach and will be provided primarily in local languages.
 - (ii) Case-studies and empirical research will be produced, leading to the preparation of high quality training materials not currently available in DMCs, and drawing support from foreign academic partner institutions.
 - (iii) Training materials will be disseminated to local training and academic institutions using digital outreach tools such as web-based Opencourseware, etc, and trainers will be trained to deliver high quality training programs in DMCs.
 - (iv) Personnel and providers will be engaged to manage and execute the activities, including those based in the field, with appropriate cost recovery and demarcation from ADBI's internal administrative expenses budget.
- (2) The ADBI shall administer the Fund in accordance with the Statute of the ADB Institute, as amended, and this letter. The funds provided under this letter shall be segregated from the Special Fund for the Asian Development Bank Institute (the Institute Special Fund) and shall be used, committed, invested, and accounted for entirely separately from the Institute Special Fund. These funds would not form part of the Institute's own resources.
- (3) In the use of the Fund, ADBI will monitor the outcomes of each activity covered by the Fund. Monitoring and evaluation of each activity's outputs and impacts will be suitably designated by ADBI.
- (4) Expenditures arising from activities financed under the Fund will be paid in accordance with ADBI's standard procedures and disbursements, as may be amended.
- (5) The Fund will be used to finance foreign exchange or local currency expenditures for goods, services, and consultants that will be procured or supplied from ADB member countries, in accordance with procedures and practices consistent with the Statute of the ADB Institute and the Charter of the ADB. ADBI will ensure that the procurement of goods and services, and the services of experts, provided under the activities to be financed under the Fund, are carried out in accordance with ADBI's guidelines, as amended from time to time. The Government shall use reasonable endeavor to make

available to ADBI information concerning available expertise, and will assist ADBI in identifying suitable individuals, firms, and institutions to help implement activities financed by the Fund.

- (6) As may be required, ADBI, as Administrator, may enter into an agreement or agreements, as appropriate, with the recipient(s) and/or the concerned local executing agencies in connection with the provision of individual financial assistance from the Fund. ADBI may also do any and all such acts and things as may be necessary or appropriate to accomplish the purposes of the Fund.
- (7) ADBI shall be responsible for the administration of each agreement referred to in paragraph 2(6) above. ADBI will carry out such administration in accordance with prudent practices and standards and with a similar degree of care as it uses in the administration of its own funds. ADBI and ADB will have no further responsibilities to the Government in respect of the exercise of care.
- (8) ADBI will be responsible for the appraisal and negotiation with the recipient(s) and/or the concerned local executing agencies of the scope and content of the activities referred to in paragraph 2(1) above.
- (9) Supervision and evaluation of the activities to be financed under the Fund will be the responsibility of, and will be carried out by, ADBI. ADBI will make available to the Government an annual report on the evaluation of activities financed by the Fund. Such reports will also be made available to the management and Board of ADB. ADBI may invite the Government to participate, at its option, and with the prior consent of the recipient concerned, in the supervision and evaluation missions as may be carried out by ADBI.
- (10) The Government will make payment of the Fund initially into a new account controlled by ADB at the Bank of Japan on behalf of ADBI. An amount of Nine Hundred and Five Million, Three Hundred and Sixty-Two Thousand Yen (Yen 905,362,000) for the Government's fiscal year 2003, will be paid promptly after the entry into force of these proposed arrangements and the amendments of the Statute of the ADB Institute. Interest earned on such amount will be used for the Fund. Other donor governments or qualified and approved entities may contribute to the Fund with the approval of the Board.
- (11) The funds may be invested and reinvested pending their disbursement. ADBI will exercise the same care in investing these funds as it does for its own account. Interest earned will be used for the purpose of the Fund.
- (12) ADBI may use part of the Fund (together with any interest earned thereon) to cover direct and identifiable costs, as the case may be, incurred in the administration, management, supervision, and execution of the Fund including, without limitation, those of the program unit, and monitoring, evaluation, and audit fees.
- (13) ADBI will (a) maintain separate records and accounts in respect of the funds deposited in and withdrawn for the Fund; (b) cause such accounts and

records to be audited by external auditors for each fiscal year of ADBI; and
(c) furnish a copy of the report of such audit to the Government.

3. The Fund will be reviewed, in terms of performance and fulfillment of its purpose, three years after the first public policy training program has commenced. These arrangements shall remain in force until terminated by the Government or ADBI upon six months prior written notice to the other party. If these arrangements are terminated,

- (1) such termination will not affect any commitment under existing activities and withdrawals may continue to be made from the Fund in respect of such activities (including withdrawals for related costs of ADBI, as the case may be) as if these arrangements had not been so terminated; and
- (2) the use of any residual funds, including investment income of the Fund, will be determined in consultation among the Government, ADB, and ADBI.

4. From time to time, at a party's request, the Government, ADB, and ADBI will consult with each other on matters arising out of the present arrangement. Moreover, ADBI will promptly inform the Government of major changes or developments affecting the activities financed out of the Fund, including, inter alia, amendments to agreements; reallocation of funds; suspension, termination or cancellation of disbursements; and of any event that interferes, or threatens to interfere, with the successful implementation of such activities.

5. The Government understands and acknowledges that such obligations and responsibilities hereunder shall be obligations and responsibilities of ADBI and not obligations and responsibilities of ADB. Moreover, ADB shall not be liable for the obligations of ADBI hereunder.

I have further the honor to propose that this letter and your confirmation of the foregoing arrangements shall be regarded as constituting an agreement among the Government, ADB, and ADBI, which will enter into force on the date of your confirmation.

Sincerely yours,

OSAMU TSUKAHARA