

ASIAN DEVELOPMENT BANK

PEOPLE'S REPUBLIC OF CHINA REGIONAL COOPERATION AND POVERTY REDUCTION FUND

February 2005

ABBREVIATIONS

ADB	–	Asian Development Bank
CAREC	–	Central Asia Regional Economic Cooperation
CSP	–	country strategy and program
CSPU	–	country strategy and program update
DMC	–	developing member country
GMS	–	Greater Mekong Subregion
LTSF	–	long-term strategic framework
OCO	–	Office of Cofinancing
PRC	–	People's Republic of China
RCSP	–	regional cooperation strategies and program
RETA	-	regional technical assistance
RSDD	–	Regional and Sustainable Development Department
RSGR	–	Governance and Regional Cooperation Division
TA	–	technical assistance

NOTE

In this report, "\$" refers to US dollars.

PEOPLE'S REPUBLIC OF CHINA REGIONAL COOPERATION AND POVERTY REDUCTION FUND

I. BACKGROUND

1. ADB's charter states that it will foster economic growth and cooperation in the region and contribute to the economic development of its developing member countries (DMCs) individually and collectively. In 1994, ADB approved a policy that formalized its role as a catalyst for regional cooperation, including provision of regional public goods (public goods where the challenges can best be addressed by two or more countries working together).

2. Through the implementation of its poverty reduction strategy (PRS), adopted in 1999, a review of which was completed in July 2004, ADB, together with other development partners, helps its DMCs achieve their poverty reduction goals. These goals are now aligned with the Millennium Development Goals to halve persistent poverty by 2015. ADB's PRS and its long-term strategic framework (LTSF) for 2001–2015 formally identify regional cooperation as a core component of the agenda to reduce poverty. Regional cooperation accelerates economic growth by enlarging the market, exploiting economies of scale, and promoting a better division of labor. Regional cooperation can also spur private-sector development, promote peace and stability, and provide greater economic opportunities to people living close to the borders—who are often among the poorest population groups in many countries. Cooperation helps to provide regional public goods that address joint constraints and opportunities linked to poverty reduction, such as prevention of communicable diseases and environmental degradation.

3. ADB's five regional departments have prepared regional cooperation strategies and programs (RCSPs) which have either been approved or are in draft form. An ADB-wide strategic approach to regional cooperation is being prepared, taking note of the many regional initiatives over the last 10–20 years, and setting out ADB's vision on how cooperation and integration is likely to progress to the end of the decade. This strategic approach will outline how ADB will coordinate support among and across the five subregions to advance poverty reduction efforts in the Asia and Pacific region. The goal is to tap ADB experience, leading thinkers, and the views of ADB stakeholders to prepare innovative next steps that can feed into and be implemented through the medium-term strategy (2006–2010).

II. THE PEOPLE'S REPUBLIC OF CHINA REGIONAL COOPERATION AND POVERTY REDUCTION FUND

A. Objectives and Outputs

4. The goal of the Fund is to accelerate poverty reduction and economic and social development in ADB's DMCs with tangible results.

5. The objective of the Fund is to strengthen the capacity of DMCs to reduce poverty through, among others, regional cooperation. The Fund will finance ADB initiatives under a regional cooperation umbrella. Country-specific poverty reduction activities in ADF IX countries may also be considered.

6. The key outputs of the Fund are:

- (i) stronger ownership by DMCs of poverty reduction and development processes;

- (ii) greater sharing of knowledge and experience on regional cooperation, poverty reduction and development across DMCs;
- (iii) establishment of good practices in poverty reduction and development through regional cooperation and country-specific activities;
- (iv) greater regional cooperation aimed at poverty reduction and development; and
- (v) innovative regional cooperation and poverty reduction activities and improved management and effectiveness of ADB technical assistance (TA) funds, where applicable.

B. Scope and Activities

7. The Fund will encourage innovation and learning. It will support:

- (i) research and analytical work;
- (ii) piloting of innovative approaches;
- (iii) capacity building and institutional development in DMCs; and
- (iv) dissemination, networking and cross-learning (e.g., workshops, conferences, publications, and website development)

8. The Fund will finance TA operations and any other activities which may be agreed upon between the People's Republic of China (PRC) and ADB. The size of individual grants provided for eligible TA projects to be supported by the Fund will in principle not exceed \$500,000.

III. ELIGIBILITY AND PRIORITIES

9. **Country Eligibility.** For the regional cooperation component, while all DMCs will be eligible, priority will be given to countries that are part of the Greater Mekong Subregion (GMS) and the Central Asia Regional Economic Cooperation (CAREC). Cooperation based on other regional cooperation mechanisms supported by ADB may be also included in regional TAs supported by the Fund. The PRC will not be eligible as a direct beneficiary but may participate in regional cooperation activities supported by the Fund, such as regional conferences and strategy development. The country-specific component of the Fund will be limited to countries that are eligible for ADF IX.

10. **Basic Principles.** Proposals should, to the extent possible, be conceptually, programmatically, and procedurally aligned with RCSPs or their annual updates (RCSPUs) and/or CSPs or their annual updates (CSPUs). Discussions with the key country stakeholders on proposals should take place as early as possible.

11. The use of DMC expertise in the Asia and Pacific region is encouraged to the extent possible. Contributions, either in kind or in cash, from DMCs benefiting from activities financed under the Fund is encouraged. Utilization of the Fund should be complementary with, but distinct from, ADB's core financing sources. The Fund should be used in the most cost-effective way possible.

12. **Eligible and Non-Eligible Activities.** The Fund will finance operational expenses related to TA and other eligible initiatives agreed upon by the PRC and ADB. It will not be used for permanent staffing costs or to hire staff consultants. It will not cover activities that will involve civil works and in principle it will not be used for large-scale equipment procurement.

IV. IMPLEMENTATION ARRANGEMENTS

13. **Fund Management within ADB.** The Regional and Sustainable Development Department (RSDD) will be responsible for managing the Fund, including the preparation of progress and implementation reports, in collaboration with operational departments and resident missions. It will be the link to the PRC for technical communications. The Office of Cofinancing Operations (OCO) will be the official channel for communications on financial aspects and reporting of the Fund. RSDD will ensure harmonization of the Fund with other poverty reduction and thematic funds within ADB.

14. **Programming and Approval Process.** The PRC and ADB will meet annually to set strategic directions for the Fund. Review meetings will be held when needed. Screening and prioritization of projects will be carried out by ADB in accordance with eligibility criteria agreed by the PRC and ADB, using concept papers aligned with the ADB format. ADB will send project proposals to the PRC for information. After internal screening, ADB will submit selected concept papers to the PRC for endorsement. The PRC will give its endorsement or disapproval within 21 calendar days. Information on projects financed by the Fund will be provided to ADB's Board of Directors. There will be sufficient flexibility in programming to allow new priority projects to be funded. The approval process is outlined in Annex 1.

15. **Procurement under the Fund.** ADB will be responsible for the selection and engagement of consultants, negotiation and conclusion of contracts, procurement of equipment, supervision of projects, and disbursement of the proceeds of the Fund. All projects will follow ADB's guidelines on the use of consultants and procurement, as may be amended from time to time.

16. **Reporting and Consultation.** ADB will maintain records and accounts, in accordance with its normal procedures, to show contributions, interest and investment income, and expenditures financed by the Fund. ADB will make available to the PRC such records and accounts as it requires. ADB will furnish the PRC with the following reports: (i) annual financial and implementation reports, and (ii) semi-annual financial reports (status of grants and statement of expenditures). A report evaluating the performance of the Fund will be produced upon financial closure of the Fund.

17. At the request of the PRC, ADB will produce audit reports on the Fund. The Fund will have internal audits for the years 2005, 2006, and 2008, and external audits for the years 2007 and 2009.

18. In addition to formal reporting, ADB and the PRC will consult with each other whenever there is a need for a major change of scope in implementation arrangements of the Fund. As required, ADB and the PRC can propose consultation meetings to review progress made in terms of utilization of the Fund and implementation of activities financed by it. Among other things, such meetings may be used as an opportunity to enhance partnerships with other poverty reduction and related thematic funds.

V. FUNDING ARRANGEMENTS

19. The PRC has proposed to make a contribution to the Fund in the amount of \$20 million. Any additional amounts the PRC may decide to contribute to the Fund will be jointly agreed during the implementation of the Fund. The contribution will be made available to ADB in five

installments of \$4 million during the period 2005 to 2009. The first installment of \$4 million will be remitted when the PRC and ADB sign the Channel Financing Agreement.

20. The contribution will be deposited in a US dollar interest-bearing account to be specified by ADB. Interest accrued will be used for the Fund. The resources of the Fund may be freely exchanged by ADB into other currencies as required. The Fund will be held and administered by ADB separately from ADB's resources. ADB may use part of the Fund (and any interest income and investment and reinvestment income) to cover administrative costs in an amount not exceeding 5% of the amounts disbursed under the Fund and the costs of external audits.

VI. RECOMMENDATIONS

21. It is recommended that the Board approve (i) the establishment of the proposed Regional Cooperation and Poverty Reduction Fund and its administration in accordance with the provisions set forth in this paper; and (ii) ADB's entering into a channel financing arrangement with the Government of the People's Republic of China in relation to its grant contribution to the Fund, substantially in the form of the draft attached hereto.

APPROVAL PROCEDURE FOR PROJECTS

Who	What	Outcome	Timing (weeks)
Strategic Orientation			
ADB and the PRC	Meeting to set strategic directions	Agreed steps forward	Annually
ADB and the PRC	Consultation meetings to review progress and agree on major changes in scope	Agreed steps forward	As needed
Concept Development			
Departments, DMCs	Propose project concepts up to \$500,000. (normally at two fixed times during year)	Initial concept paper	0.2
Fund coordinator in consultation with appropriate RSDD cross-cutting specialists	Screen the initial proposal and recommend to the RC Fund committee for initial concurrence; information copy sent to the PRC	RSDD recommendation	0.2
RC Fund committee: staff from departments, RMs, chaired by RC Fund coordinator	Provide concept clearance	Initial concurrence sent to the PRC for endorsement	0.2
PRC Endorsement			
The PRC	Provide endorsement	Concept endorsed or disapproved	3
Processing			
RC Fund coordinator, originating department	Follow up with originating department or resident mission to help prepare final project paper.	RC project paper	1
ADB departments	Request comments	Interdepartmental comments	1
Originating department	Obtain concurrence and/or approval from the government(s) concerned	DMC concurrence	2
RC coordinator	Check the compliance of the RC project paper against the initial concept clearance	RSDD compliance	0.2
Originating department	Send project paper to OSEC for editing	Edited paper	1
Originating department	Forward RC paper to Director General (for proposals up to \$0.1 million), Vice-President (for proposals up to \$0.4 million), or President (for proposals up to \$1 million) for approval	Approval	1
Implementation			
Originating department	Sign any required letter of agreement; take responsibility for implementation	Letter(s) of agreement, consultant contracts, project reports	

ADB = Asian Development Bank, the PRC = People's Republic of China, DMC = developing member country, RC Fund = Regional Cooperation and Poverty Reduction Fund, RSDD = Regional Sustainable Development Department, OSEC = Office of the Secretary.

DRAFT

CHANNEL FINANCING
AGREEMENT

between the

GOVERNMENT OF THE PEOPLE'S REPUBLIC OF CHINA

and the

ASIAN DEVELOPMENT BANK

Establishing the People's Republic of China
Poverty Reduction and Regional Cooperation Fund

Dated as of _____ 2005

WHEREAS the GOVERNMENT OF THE PEOPLE'S REPUBLIC OF CHINA (hereinafter referred to as "PRC") and the ASIAN DEVELOPMENT BANK (hereinafter referred to as "ADB ") hereto wish to establish a framework of cooperation to benefit developing member countries of the ADB;

WHEREAS for that purpose, PRC wishes to establish a People's Republic of China Poverty Reduction and Regional Cooperation Fund (the "Fund");

WHEREAS PRC will make available to ADB a grant contribution for financing the program of activities described in Article 2 below (the "Program"); and

WHEREAS ADB is prepared to administer the Fund in accordance with ADB's standard procedures for technical assistance operations, on the terms and conditions hereinafter set forth or otherwise agreed upon between the parties hereto,

NOW THEREFORE PRC and ADB hereto have agreed as follows:

Article 1: The Contribution

1.01 PRC shall make available to the Fund a contribution of 20 million (US\$20,000,000) United States dollars. Such amount, together with any additional amount PRC may, at its discretion, provide for the purpose of the Program shall constitute the Fund.

1.02 ADB shall administer the Fund. ADB shall exercise the same degree of care and diligence in the discharge of its functions under this Agreement as it exercises with respect to the administration and management of its own resources. ADB may do any and all such acts as may be necessary or appropriate for the proper administration of the Fund and the carrying out of the Program.

Article 2: The Program

2.01 The Program shall consist of technical assistance operations and other activities which may be agreed upon between PRC and ADB under a regional cooperation umbrella and country-specific poverty reduction activities in ADF IX countries, regardless of regional cooperation dimensions, may also be eligible. The scope of the Program and the basic principles guiding the use of the Fund are fully described in the Annex, which shall constitute an integral part of this Agreement.

2.02 The recipients of the Fund (the "Recipients") shall be developing member countries (DMCs) of ADB.

Article 3: Approval of Projects and Implementation of the Program

3.01 For technical assistance operations, screening and prioritization of projects will be carried out by ADB in accordance with pre-agreed eligibility criteria between PRC and ADB, using the concept paper format aligned with that of ADB. ADB will send project proposals to PRC for information. After internal screening, ADB will submit the meritorious concept papers to PRC for its endorsement. PRC pledges itself to give its endorsement or disapproval within twenty-one (21) calendar days from the date of submission of project proposals by ADB. In the

absence of any information from PRC regarding its concurrence or disapproval to the proposed financing of a Project under the Program within the above time period, financing of the proposed Project with proceeds from the Fund will be deemed to have been approved by PRC. Information on projects financed by the Fund shall be provided by ADB to the ADB Board. Sufficient flexibility will be maintained in programming so that any new priority projects will not be missed under the Fund.

3.02 The recruitment of the consultants shall be the sole responsibility of ADB. It is encouraged to use DMC expertise in Asia and the Pacific region to the extent possible where applicable and available. The recruitment of consultants shall be carried out by ADB in accordance with its “*Guidelines on the Use of Consultants*” as amended from time to time. The procurement of goods and other services for technical assistance operations shall be carried out in accordance with ADB’s “*Guidelines for Procurement*” as amended from time to time.

Article 4: Administration of the Resources of the Fund

4.01 PRC shall deposit its contribution of \$20 million to the Fund into a US dollar interest bearing account specified by ADB (hereinafter referred to as the “ADB account”) in accordance with the following schedule or as otherwise agreed upon between PRC and ADB:

Upon signing of the Agreement	US\$4,000,000
on March 31, 2006	US\$4,000,000
on March 31, 2007	US\$4,000,000
on March 31, 2008	US\$4,000,000
on March 31, 2009	US\$4,000,000

4.02 ADB will make withdrawals from the ADB account as necessary to meet expenditures under the Program as agreed between PRC and ADB. The resources of the Fund may be freely exchanged by ADB into other currencies to facilitate administration of the Fund. Any fees and charges relating to the purchase of such other currencies shall be paid out of the resources of the Fund.

4.03 For the purpose of this Agreement, the funds referred to in paragraph 1 of this Article will be held, administered and invested at the discretion of ADB. Pending disbursement, ADB may invest and reinvest the proceeds of the contribution, and any income earned in respect of any investment and reinvestment, as well as any interest earned in respect to the ADB account, will be credited to the ADB account and used for the purposes of the Program.

4.04 ADB may use part of the Fund (together with any interest earned from investment and reinvestment of the Fund and interest earned in respect of the ADB account) to cover the costs incurred by ADB in the administration of the Fund and the cost of external audits in an amount not exceeding five (5) percent of the amounts disbursed under the Fund.

Article 5: Reports, Records and Accounts

5.01 ADB will maintain records and accounts, in accordance with its normal procedures, to show contributions, interest and investment income and expenditures financed by the Fund. ADB will make available to PRC such records and accounts as required by PRC.

5.02 ADB will furnish PRC the following periodical reports: (i) financial and implementation annual reports and (ii) semi-annual financial reports (status of grants and statement of expenditures). A report evaluating the performance of the Fund will be produced upon financial closure of the Fund.

5.03 ADB will provide PRC internal audit reports for 2005, 2006 and 2008 and external audit reports for 2007 and 2009. The cost of external audits will be financed by the Fund and/or income earned from investment or reinvestment of the Fund and interest earned in respect of the ADB account.

Article 6: Consultation and Exchange of Information

6.01 The parties hereto shall cooperate to ensure that the purpose of this Agreement is fully accomplished. To this end, they shall at the request of either party exchange views on the implementation of this Agreement and the performance of their respective obligations hereunder.

6.02 Representatives of PRC and ADB shall meet at least once a year to review the status of the Program and to discuss procedural arrangements and other matters arising out of this Agreement. Among other things, these consultation meetings may be used as an opportunity to enhance partnerships with other poverty reduction and related thematic funds. PRC and ADB will also consult each other whenever a major change in scope in implementation arrangements of the Fund is identified. Upon request by PRC, ADB will endeavor to facilitate visits by PRC personnel to projects financed under this Agreement.

6.03 ADB shall furnish PRC such reports and information as PRC may reasonably request concerning the use of the Fund, and inform PRC promptly of any condition which interferes, or threatens to interfere, with the performance by ADB of its obligations under this Agreement.

Article 7: Communications and Notices

7.01 Any notice under this Agreement shall be deemed to have been duly given or made when it has been delivered by hand, mail or telefax, as the case may be, by either party to the other at the appropriate address specified below or at such address as either party may hereinafter notify in writing to the other party.

(a) FOR PRC

Telefax No.: _____

Telephone No.: _____

Attention: _____

(b) For ADB

(i) General Communications and Financial Matters:

Telefax No.: (63 2) 636-2456

Telephone No.: (63 2) 632-6314

Attention: Principal Director
Office of Cofinancing Operations

(ii) Technical and Implementation Matters:

Telefax No.: (63 2) 636-2191

Telephone No.: (63 2) 632-6551

Attention: Director, Governance and Regional Cooperation Division
Regional and Sustainable Development Department

7.02. For purposes of this Agreement, the representatives of the parties shall be those indicated in paragraph 1 of this Article. Either party may, by notice in writing to the other party, designate additional representatives or substitute other representatives for those designated in this Article.

Article 8: Final Provisions

8.01 This Agreement shall enter into force on the date it is signed by the authorized representatives of the parties hereto. Unless terminated as provided for under paragraph 4 of this Article, this Agreement shall remain valid until such time as the entire resources of the Fund, including any additional contributions and income and interest referred to in Article IV, shall have been fully disbursed and accounted for by ADB in accordance with this Agreement.

8.02 Upon written agreement, the parties hereto may amend any of the provisions of this Agreement or enter into supplementary arrangements designed to extend the scope of this Agreement.

8.03 The parties shall seek to resolve any dispute over the interpretation or application of any provision herein contained through negotiation or by such other means as the parties shall mutually agree.

8.04 Either party may terminate this Agreement by giving not less than six (6) months advance notice, in writing, to the other party. Such termination shall become effective only on the date specified in the termination notice, and provided further that termination shall not effect any commitment entered into under this Agreement with a third party prior to the date of receipt by the other party of the termination notice. In the event of termination by either party, both parties shall cooperate to ensure that all arrangements made hereunder are settled in an orderly manner.

8.05 ADB shall, after termination of this Agreement, furnish PRC with a final report and a financial statement disclosing use of the Fund and any balance remaining in the Fund and shall,

unless otherwise agreed remit to PRC any amount remaining unutilized and not needed for payment according to paragraph 4 of this Article.

8.06 In administering the Fund, ADB will fully implement its Anticorruption Policy (1998) and any revision thereof.

IN WITNESS WHEREOF, the parties hereto, each acting through its representative duly authorized thereunto, have signed this Agreement.

Done in duplicate in Beijing on _____ in English and Chinese. In case of any issues or differences regarding the wording and interpretation of this Agreement, the English version will prevail.

**FOR THE GOVERNMENT OF THE
PEOPLE'S REPUBLIC OF CHINA**

FOR ASIAN DEVELOPMENT BANK
