



April 2006

Republic of Korea
e-Asia and Knowledge Partnership Fund

Asian Development Bank

ABBREVIATIONS

ADB	–	Asian Development Bank
CSP	–	country strategy and program
CSPU	–	country strategy and program update
DMC	–	developing member country
ICT	–	information and communication technology
OCO	–	Office of Cofinancing Operations
RCSP	–	regional cooperation strategy and program
RCSPU	–	regional cooperation strategy and program update
RSDD	–	Regional and Sustainable Development Department
TA	–	technical assistance

NOTE

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

I. BACKGROUND AND RATIONALE

1. In the Asia and Pacific region, concerns are mounting over the growing “digital divide”—the difference between those developing member countries (DMCs) of the Asian Development Bank (ADB) that have the capacity and resources to access information and communication technology (ICT) and those that do not. Numerous studies and the World Summit on the Information Society¹ (WSIS) have shown that corporate and national economic performance is critically dependent on ICT, which provides developing countries with an unprecedented opportunity to meet vital development goals, including (i) poverty reduction, (ii) bridging the digital divide, and (iii) accessing e-services far more effectively than before.

2. The ICT revolution is affecting all sectors of the economy and all sections of society. ICT enables new and improved business processes to be used for the delivery of products and services. The importance of ICT will continue to grow because of (i) technological advances, (ii) increasing globalization and liberalization, and (iii) the adoption of ICT by users. As well as its positive effect on corporate and national economic performance, ICT connects people and countries beyond borders and is crucial for regional cooperation and regional economic growth.

3. The ADB strategy paper *Toward e-Development in Asia and the Pacific: A Strategic Approach for Information and Communication Technology*² recognizes that ICT is a powerful force in shaping the social and economic development of the Asia and Pacific region. ADB has an important role to play in helping its DMCs benefit from the new opportunities created by ICT. In line with (i) the Declaration and Principles of the WSIS, (ii) the regional action plan for an information society in Asia and the Pacific,³ and (iii) the strategic vision of the Asia-Pacific Telecommunity 2006–2008,⁴ ADB is committed to reducing the digital divide.

4. This can only be achieved if countries in Asia and the Pacific recognize the potential of ICT and create an enabling infrastructure to support its development. DMCs must pilot and demonstrate innovative ICT projects, and enact and share policies and regulations to encourage the widespread adoption of ICT. Creating the right knowledge sharing environment will encourage e-services in education, science and technology, ICT laws, standardization, and the creation of content applicable to local or regional situations.

5. The Government of the Republic of Korea, represented by the Ministry of Finance and Economy and by the Export-Import Bank of Korea (the Government), recognizes the value of ICT and knowledge transfer in narrowing the digital and knowledge divide for poverty reduction. It therefore proposes to establish an e-Asia and Knowledge Partnership Fund. The Fund will contribute to economic and social development in ADB’s DMCs by (i) reducing the digital divide, (ii) promoting full access to ICT, and (iii) sharing experience, information and knowledge in the Asia and Pacific region. The Fund will support DMCs in achieving the Millennium Development Goals (MDGs), especially those related to ICT, through the two programs described below.

6. This paper outlines the proposed cooperation between the Government and ADB for a period of 3 years from the establishment of the Fund with an initial contribution of \$20 million. The 3-year period may be extended as the Government and ADB may agree.

¹ International Telecommunication Union. 2003, 2005. WSIS Commitments and Declaration of Principles. Geneva.

² ADB. 2003. *Toward e-development in Asia and the Pacific: A Strategic Approach for Information and Communication Technology*. Manila.

³ WSIS. 2005. Tehran Declaration on Building the Information Society in Asia and the Pacific. Tehran.

⁴ Asia-Pacific Telecommunity. 2006. *Strategic Plan of the APT 2006–2008*. Bangkok.

II. e-ASIA PROGRAM

A. Objectives

7. The main goal of the e-Asia program is to contribute to poverty reduction and economic and social development in DMCs by reducing the digital divide. The objectives of the e-Asia program are to strengthen the capacity of DMCs, and to provide technical assistance (TA) for promoting ICT and closing the digital divide, especially through national and regional e-strategies such as e-government, e-health, e-learning, e-trade, e-commerce, e-finance, e-procurement, and e-environment.

B. Scope and Activities

8. The e-Asia program includes:

- (i) financing ICT-related activities, including TA;
- (ii) studies, research, and analytical work;
- (iii) capacity building and developing human resources through education and training;
- (iv) disseminating, networking, and cross-learning (e.g., policy consultations, seminars and workshops, conferences, publications, and websites); and
- (v) piloting innovative approaches to promote ICT.

C. Outcomes

9. The key outcomes of the e-Asia program will be:

- (i) a smaller digital divide and stronger capacity for poverty reduction;
- (ii) a fair information society and region and ICT infrastructure; and
- (iii) enhanced regional cooperation and innovation.

III. KNOWLEDGE PARTNERSHIP PROGRAM

A. Objectives

10. The main goal of the knowledge partnership program is to reduce poverty and promote economic and social development in DMCs by sharing information and knowledge. The objective of the program is to strengthen the capacity of DMCs by providing knowledge and sharing experiences, information and knowledge in the region for poverty reduction and social development. The knowledge partnership program is also expected to promote the facilitation of information and knowledge sharing and increase the effectiveness of poverty reduction activities.

B. Scope and Activities

11. The knowledge partnership program includes:
- (i) policy advice/dialogue and TA involving the use of experts on economic development and capacity building;
 - (ii) capacity building and institutional development in DMCs, including training workshops, vocational training, and long and short training and learning courses;
 - (iii) publications that will disseminate successful development knowledge to developing countries in the region;
 - (iv) studies, research, and analytical work;
 - (v) projects on reforming government, improving governance in the business and financial sectors, and privatizing state-owned enterprises; and
 - (vi) disseminating, networking, and cross-learning (e.g., policy consultations, seminars and workshops, conferences).

C. Outcomes

12. The key outcomes of the knowledge partnership program will be:
- (i) strengthened institutional and human capacity through information sharing for poverty reduction,
 - (ii) facilitation of knowledge sharing in order to increase the efficiency and productivity of DMCs' development, and
 - (iii) enhanced regional cooperation and innovation through the establishment of benchmarks in poverty reduction and social development.

IV. TYPE AND SIZE OF ACTIVITIES

13. The Fund will finance components of investment projects, stand-alone grant-financed activities, TA operations, and any other activities which may be agreed upon by the Government and ADB.

14. The maximum size of any individual grant for eligible operations to be supported by the Fund will be \$500,000. This amount may be reviewed by the Government and ADB during further consultations on the Fund and may be changed, if agreed.

V. ELIGIBILITY AND PRIORITIES

15. **Country Eligibility.** Projects from all DMCs of ADB will be eligible for funding from the Fund.

16. **Basic Principles.** Proposals for funding should be in line with the following basic principles.

- (i) The proposals will be, as far as possible, conceptually, programmatically, and procedurally aligned with the ADB country strategy and program (CSP) or its annual updates (CSPUs) and with the regional cooperation strategy and program (RCSP) or its annual updates (RCSPUs).

- (ii) The proposals will be in line with the regional action plan toward an information society in Asia and the Pacific (footnote 3) and in support of the WSIS principles (footnote 1).
- (iii) Discussions with key country stakeholders on the proposals should take place as soon as possible.
- (iv) Expertise from the Asia and Pacific region should be used to the extent possible.
- (v) Contributions, either in kind or in cash, from DMCs benefiting from activities financed under the Fund will be encouraged.
- (vi) Proposals will be encouraged to collaborate with United Nations Economic and Social Commission for Asia and the Pacific, the United Nations Development Programme, and the International Telecommunications Union.
- (vii) The Fund should be utilized in the most cost-effective way.
- (viii) It is anticipated that, if the Fund is used for preparing investment projects, there may be cofinancing opportunities with the Republic of Korea and other funding agencies.

17. **Eligible and Non-Eligible Expenditures.** The Fund will finance operational expenses related to eligible proposals agreed upon by the Government and ADB. It will not be used for (i) civil works, (ii) procurement of large-scale equipment, (iii) permanent staffing costs, or (iv) the hiring of staff consultants.

VI. FINANCING

18. The Government will make a grant contribution to the Fund in the amount of \$20 million (the contribution). The contribution will be evenly split between the two programs of the Fund, i.e., \$10 million for the e-Asia program, and \$10 million for the knowledge partnership program. This allocation may be reviewed through consultations and may be adjusted, if necessary. The contribution will be made in accordance with the following schedule unless otherwise agreed between the Government and ADB.

Upon signing of the channel financing agreement	\$6,000,000
on March 31, 2007	\$6,000,000
on March 31, 2008	\$8,000,000

19. The schedule of remittance of the balance of the Fund following the remittance of the first tranche of \$6,000,000 may be adjusted, depending on the progress of financial utilization of the Fund and its liquidity needs.

20. The contribution will be deposited into a US dollar interest-bearing account to be specified by ADB (the account). ADB will make withdrawals from the account as necessary to meet expenditures eligible under the Fund. Any additional amounts that the Government may decide to contribute will be jointly agreed during the implementation of the Fund. ADB will be paid a service charge in accordance with ADB's policy on service charges for administration of grant cofinancing from bilateral sources.⁵ ADB may use part of the Fund (and any interest income and investment and reinvestment income thereon) to cover the administrative costs of up to 5% of the expenditures incurred under the Fund, and the costs of external audits. A draft channel financing agreement is attached in the Appendix.

⁵ ADB. 2000. *Review of Service Charges for the Administration of Grant Cofinancing from Bilateral Sources*. Manila (R68-00).

VII. IMPLEMENTATION ARRANGEMENTS

21. **Fund Management within ADB.** The Regional and Sustainable Development Department (RSDD) will be responsible for managing the Fund and will be the link to the Government for technical matters. It will be responsible for ensuring that activities financed by the Fund harmonize with those financed by other poverty reduction and thematic funds within ADB. The Office of Cofinancing Operations (OCO) will be the official channel of communications for financial aspects of the Fund.

22. **Programming and Approval Process.** The Government and ADB will meet annually to set strategic directions for the Fund and to evaluate Fund performance. They will also hold review meetings when necessary. Screening and prioritization of projects will be carried out by an interdepartmental review committee in ADB, chaired by RSDD, in accordance with the guidelines and eligibility criteria agreed by the Government and ADB, using a concept paper format aligned with that of ADB.

23. After internal screening, ADB will submit selected concept papers to the Government for its endorsement. The Government will let ADB know whether or not it has approved a concept paper within 45 calendar days from the date of submission of the concept paper by ADB. In the absence of any information from the Government regarding its approval of the concept paper within the above time period, financing of the proposed project under the Program will be deemed to have been approved by the Government.

24. **Procurement under the Fund.** The selection and recruitment of consultants and the procurement of goods and services for TA will be the sole responsibility of ADB. For components of investment projects, the selection and recruitment of consultants and the procurement of goods and services will be carried out by the DMC recipients under ADB supervision. All projects to be financed by the Fund will follow ADB's *Guidelines on the Use of Consultants* and *Procurement Guidelines*, as amended from time to time.

VIII. REPORTING AND CONSULTATION

25. 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 Government such records and accounts as it requires.

26. ADB will furnish to the Government the following reports: (i) annual financial and implementation reports, and (ii) semiannual financial reports (describing the status of grants and containing a statement of expenditures). A report evaluating the performance of the Fund will be produced upon financial closure of the Fund.

27. Upon request of the Government, ADB will share any reports and outputs as produced by the financed projects with the Government. The Government may ask whether it can appoint observers to join the ADB project teams' review missions for activities financed under the Fund.

28. ADB will provide the Government with a financial statement on the Fund, audited by external auditors, upon financial closure of the Fund. The Government may also request ADB to produce financial statements audited by external auditors at any time during the life of the Fund. The fees for such audits will be funded from the Fund and/or income earned from the investment or reinvestment of the Fund or interest earned in respect of the ADB account.

29. In addition to formal reporting, ADB and the Government will consult with each other whenever a need for a major change of scope in implementation arrangements of the Fund is identified.

IX. RECOMMENDATIONS

30. It is recommended that the Board approve (i) the establishment of the proposed Republic of Korea e-Asia and Knowledge Partnership Fund and its administration in accordance with the provisions set forth in this paper; and (ii) ADB entering into the Channel Financing Agreement with the Government of the Republic of Korea in relation to its grant contribution to the Fund, substantially in the form of the draft attached hereto.

CHANNEL FINANCING
AGREEMENT

Establishing the Republic of Korea
e-Asia and Knowledge Partnership Fund

WHEREAS the GOVERNMENT OF THE REPUBLIC OF KOREA, represented by the Ministry of Finance and Economy and by the Export-Import Bank of Korea (hereinafter referred to as "the Government") and the ASIAN DEVELOPMENT BANK (hereinafter referred to as "ADB") wish to establish a framework of cooperation to benefit developing member countries of the ADB;

WHEREAS for that purpose, the Government wishes to establish a Republic of Korea e-Asia and Knowledge Partnership Fund (the "Fund");

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

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

NOW THEREFORE the Government and ADB have agreed as follows:

ARTICLE I

The Contribution

1. The Government shall contribute to the Fund an amount of twenty million United States Dollars (US\$20,000,000). Such amount, together with any additional amount the Government may, at its discretion, provide for the purpose of the Program, and interest, investment, and reinvestment income thereon, shall constitute the Fund.

2. 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 II

The Program

1. The Program shall consist of technical assistance operations, components of investment projects, stand-alone grant-financed activities, and other activities which may be agreed upon between the Government and ADB. The scope of the Program and the basic principles guiding the use of the Fund are fully described in the Board Paper which shall constitute an integral part of this Agreement.

2. The recipients of the Fund (the “Recipients”) shall be developing member countries (DMCs) of ADB.

ARTICLE III

Approval of Projects and Implementation of the Program

1. Screening and prioritization of projects will be carried out by a review committee to be established in ADB in accordance with the Fund’s guidelines to be agreed upon between the Government and ADB and in accordance with eligibility criteria as set out in the Board paper, using the concept paper format aligned with that of ADB. After internal screening, ADB will submit the meritorious concept papers to the Government for its endorsement. Endorsement or disapproval of a concept paper will be given within forty-five (45) calendar days from the date of submission of the concept paper by ADB. In the absence of any information from the Government regarding its concurrence or disapproval to the concept paper within the above time period, financing of the proposed project under the Program will be deemed to have been approved by the Government. Information on projects financed by the Fund shall be provided by ADB to the ADB Board.

ARTICLE IV

Procurement

1. The selection and engagement of consultants and the procurement of goods and services under technical assistance operations will be the sole responsibility of ADB. For components of investment projects, the selection and engagement of consultants and the procurement of goods and services will be carried out by the DMC Recipients under ADB’s supervision.

2. The selection and engagement of consultants shall be carried out in accordance with ADB’s *Guidelines on the Use of Consultants by Asian Development Bank and its Borrowers*, as amended from time to time. The procurement of goods and other services shall be carried out in accordance with ADB’s *Procurement Guidelines*, as amended from time to time. It is encouraged to use expertise in the Asian region to the extent possible where applicable and available. Given the Government’s advanced Information and Communication Technology (ICT) and experience in macroeconomic policy accumulated through the process of rapid economic development, the Government shall use reasonable endeavors to make available to ADB information concerning expertise available in Korea and will assist ADB in the identification of suitable Korean consultants, consulting firms or suppliers of consulting services.

ARTICLE V

Administration of the Resources of the Fund

1. The Government will make a grant contribution to the Fund in the amount of US\$20 million (the "Contribution") into a US dollar interest bearing account specified by ADB (the "ADB account"). The contribution will be evenly split between the two programs of the Fund, namely US\$10 million for the e-Asia program and US\$10 million for the Knowledge Partnership program. This allocation may be reviewed through consultations and can be adjusted, if necessary. The Contribution will be made in accordance with the following schedule unless otherwise agreed upon between the Government and ADB:

Upon signing of this Agreement	US\$6,000,000
on March 31, 2007	US\$6,000,000
on March 31, 2008	US\$8,000,000

2. The schedule of remittance of the balance of the Fund following the remittance of the first tranche of US\$6,000,000 may be adjusted based on the progress of financial utilization of the Fund and liquidity needs.

3. ADB will make withdrawals from the ADB account as necessary to meet expenditures under the Program as agreed between the Government 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. 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.

5. 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 in an amount not exceeding five (5) percent of the amounts disbursed under the Fund, and the cost of external audits.

ARTICLE VI

Reports, Records and Accounts

1. 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 Government such records and accounts as required by the Government.

2. ADB will furnish the Government the following periodical reports: (i) financial and implementation annual reports, (ii) semi-annual financial reports (status of grants and statement of expenditures), and (iii) upon request by the Government, reports and outputs produced under the Projects financed by the Fund. A report evaluating the performance of the Fund will be produced upon financial closure of the Fund.

3. ADB will provide the Government with financial statements audited by external auditors upon financial closure of the Fund. The Government may also request ADB to provide financial statements audited by external auditors at any time during the life span of the Fund. 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 VII

Consultation and Exchange of Information

1. The Government and ADB 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.

2. Representatives of the Government 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. The Government and ADB will also consult each other whenever a need for a major change in scope in implementation arrangements of the Fund is identified. Upon request by the Government, ADB will endeavor to facilitate visits by Government personnel and/or designated personnel to projects financed under this Agreement as observers. The cost of participation of Government representatives in these visits will be borne by the Government.

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

ARTICLE VIII

Communications and Notices

1. 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.

FOR THE GOVERNMENT

International Financial Institutions Division
International Finance Bureau
Ministry of Finance and Economy

Attention: Director

Telefax No.: (822) 5036772
Telephone No.: (822) 21102509

cc: Economic Development Cooperation Fund Planning Office
The Export-Import Bank of Korea

Attention: Director General

Telephone No.: (822) 37796603
Fax No.: (822) 37796757

FOR ADB

Asian Development Bank
P. O. Box 789
0980 Manila, Philippines

(i) General Communications and Financial Matters:

Telefax No.: (632) 636-2456
Telephone No.: (632) 632-6314

Attention: Principal Director
Office of Cofinancing Operations

(ii) Technical and Implementation Matters:

Telefax No.: (632) 636-2192

Telephone No.: (632) 632-5408

Attention: Director General
Regional and Sustainable Development Department

2. 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 IX

Final Provisions

1. This Agreement shall become effective 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 V, shall have been fully disbursed and accounted for by ADB in accordance with this Agreement.

2. 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.

3. 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.

4. 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 affect 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.

5. ADB shall, after termination of this Agreement, furnish the Government 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 the Government any amount remaining unutilized and not needed for payment according to paragraph 4 of this Article.

6. In administering the Fund, ADB will fully implement its Anticorruption Policy, as amended from time to time.

7. This Agreement will be made available to third parties upon request.

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

Signed:

FOR THE GOVERNMENT OF THE
REPUBLIC OF KOREA

FOR THE ASIAN DEVELOPMENT BANK

Authorized Representative

Authorized Representative