

# **ASIAN DEVELOPMENT BANK**

## **COOPERATION FUND FOR REGIONAL TRADE AND FINANCIAL SECURITY INITIATIVE**

**June 2004**

## ABBREVIATIONS

ADB	–	Asian Development Bank
AML	–	anti-money laundering
APEC	–	Asia-Pacific Economic Cooperation
CFA	–	channel financing arrangement
CFT	–	combating the financing of terrorism
DMC	–	developing member country
FRTFSI	–	Cooperation Fund for Regional Trade and Financial Security Initiative
RSDD	–	Regional and Sustainable Development Department
TA	–	technical assistance

## NOTE

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

## I. INTRODUCTION

1. Increasing terrorist attacks, for example the Bali bombing contributed to a decline in tourist receipts equal to about 1% of Indonesian gross domestic product, revealed the potential threat that terrorism can pose to economic development and ultimately poverty reduction efforts. Such events emphasize the need for enhanced global efforts to (i) prevent financial institutions from being abused as channels for the financing of terrorism and for money laundering and (ii) introduce measures that enhance transport and port security and prevent the movement of dangerous cargo and goods that could be used for terrorist attacks.

2. The Asia-Pacific Economic Cooperation (APEC)<sup>1</sup> forum, in recognition of the danger that terrorist acts pose to security and sustainable economic growth and development, has announced on several occasions its determination to combat terrorism. Subsequent to the *Leaders' Statement on Fighting Terrorism and Promoting Growth* issued in October 2002 in Los Cabos, Mexico, APEC leaders met and discussed the issue of terrorism again in October 2003, during their last meeting in Bangkok. There the leaders supported a proposal by the United States (US) to establish the Regional Trade and Financial Security Initiative with the aim of strengthening the efforts of the Asian Development Bank (ADB) and developing member countries (DMC) for anti-money laundering (AML), combating the financing of terrorism (CFT), and enhancing port security. The Initiative will be supported through targeted cash and in-kind contributions, including an ADB administered trust fund to finance related technical assistance (TA) activities; the provision of technical advisers to ADB and selected APEC countries to advise on AML, CFT, and port security; and a TA facility to support the identification and preparation of ADB investment projects in the areas of trade security and related customs modernization. The Governments of Australia, Japan, and the US announced that they will make financial contributions to the Cooperation Fund for Regional Trade and Financial Security Initiative (FRTFSI). The FRTFSI is open for contributions by other countries and organizations.

## II. ISSUES

3. In the areas of AML and CFT, the international community has accelerated global and regional efforts during the past 2 years. Many international and regional organizations, including ADB, play active roles depending on each organization's mandate and expertise.

4. In response to growing concerns about money laundering and terrorist financing, the ADB's Board of Directors, on 1 April 2003, adopted a policy on *Enhancing The Asian Development Bank's Role in Combating Money Laundering and the Financing of Terrorism*<sup>2</sup> to enable ADB to respond effectively to DMCs' TA needs related to the establishment of appropriate AML-CTF regimes. The four main components of the policy are (i) assisting DMCs in establishing and implementing effective legal and institutional systems for AML-CFT, (ii) increasing collaboration with other international organizations, (iii) strengthening internal controls to safeguard ADB funds, and (iv) upgrading ADB's staff capacity. Since December 2000, ADB has provided direct assistance to a number of DMCs through regional and country-specific TA activities, which have included country-specific research on AML regimes, training for officials involved in AML operations, assistance in the drafting of AML legislation, and

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<sup>1</sup> APEC is an international organization composed of 21 member economies, majority of which are ADB's member countries. These economies represent one third of the world's populations (2.5 billion people), over 50% of world gross domestic product (US\$19.293 trillion), and in excess of 47% of world trade.

<sup>2</sup> ADB. 2003. *Enhancing The Asian Development Bank's Role in Combating Money Laundering and the Financing of Terrorism*. Manila.

technical advice on the establishment of financial intelligence units. Much of ADB's assistance to DMCs to combat money laundering has been undertaken within the broader context of ADB programs and projects to promote good governance, reduce corruption, and strengthen national financial systems. Policy dialogue on the preparation and/or enactment of AML legislation and the establishment of effective AML regimes has been conducted in conjunction with 9 policy-based lending operations of ADB in eight DMCs.<sup>3</sup> Experience gained indicates a significant need for capacity building in the design and implementation of AML-CFT regimes to ensure that related legislation takes into consideration country specific-conditions and that effective enforcement mechanisms and systems are in place.

5. Concerns about terrorism have led to the introduction of enhanced trade security requirements by major developed trading partners of DMCs. Compliance costs for export-oriented DMCs are likely going to be high, particularly for countries with inefficient customs operations and outdated transport infrastructure and technology. At least in the short run, the new security measures will likely affect DMCs' trade and associated revenues. Significant financial and technical assistance will be needed to help implement new security measures in DMCs in line with international standards and requirements. In the long-run, efficiency gains associated with many of the new security systems and procedures and improvements in customs administration and infrastructure will actually facilitate trade and generate economic benefits for DMCs.

6. APEC member countries have been working together to secure the flow of goods and people under the Secure Trade in the APEC Region (STAR) Initiative, which focuses on measures to protect cargo, ships engaged in international voyages, international aviation, and people in transit. The twin goals of the STAR Initiative are to strengthen security and promote more efficient flows of goods, services, and people across borders. Inefficient port and airport processing procedures not only impose costs on exporters and travelers through delays and lost opportunities, but also hinder the implementation of effective security regimes. Priority issues to be addressed include (i) the adoption of standard collection and transmission of advance cargo and passenger details; (ii) a program to assure container security while in transit and the identification of high-risk containers through the use of appropriate risk assessment, management, and targeting techniques; (iii) screening of arriving ships; (iv) port and ship security; (v) airport and aircraft security; (vi) the introduction of effective baggage screening equipment and procedures; (vii) integrity of all officials involved in border operations; and (viii) necessary private sector efforts to help ensure high standards of supply chain security from the point of manufacture to the port of final destination. APEC economies have also been drawing up counter-terrorism action plans, which include identifying capacity building needs in the areas of secure trade, shipping and aviation security, and CFT.

### **III. RATIONALE FOR ESTABLISHING THE COOPERATION FUND**

7. In line with its policy on AML and CFT, ADB seeks to strengthen its assistance for DMCs in establishing effective regimes for AML and CFT. DMCs also need support for strengthening their trade security regimes in line with international requirements. The establishment of the FRTSFI will allow ADB a more active role in regional AML-CFT capacity building activities and facilitate the implementation of APEC's secure trade agenda by providing a dedicated source of grant financing for this purpose. Through appropriate linkages with ADB's financial and transport sector operations, the outcome of FRTSFI activities will be sustained by influencing future ADB policy dialogue, and project identification, design, and implementation.

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<sup>3</sup> Cambodia, Indonesia, Lao People's Democratic Republic, Nepal, Philippines, Samoa, Vanuatu, Viet Nam.

#### IV. OBJECTIVES AND SCOPE

8. The FRTFSI is a multi-donor umbrella facility that will support ADB TA to DMCs for enhancing port security (including airports, cargo ports, and containers) and combating money laundering and terrorist financing. The activities to be financed by the FRTFSI may cover a range of interventions, including projects that

- (i) strengthen DMCs' capacity to address AML-CFT, in particular through assistance in the establishment of financial intelligence units and effective legal and supervisory regimes for AML;
- (ii) promote customs modernization measures facilitating (a) the detection and monitoring of cross-border movements of cash and monetary instruments, as well as goods and conveyances that may pose a security risk; (b) security-enhancing seaport and airport upgrades; (c) supply chain security; and (d) adherence to International Civil Aviation Organization, International Maritime Organization, World Customs Organization, and other international safety and security transportation standards; or
- (iii) complement the APEC STAR Initiative goals and help developing economies implement related action plans.

9. The funds can be used for conducting feasibility studies, capacity building, and the development of policies, legislation, systems, and procedures.

10. In allocating FRTFSI resources, priority will be given to high-impact projects that (i) can catalyze investments and further policy reforms in these areas, and (ii) have a good chance of local or regional replication. The FRTFSI will be open to all eligible DMCs. However, emphasis will be placed on assisting DMCs that are also APEC economies and are most at risk with regard to money laundering, terrorist financing, or port and airport security.

#### V. IMPLEMENTATION ARRANGEMENTS

11. The initial period of the FRTFSI is 3 years. The TAs and any other activities to be financed by the FRTFSI will be designed, processed, approved, and implemented according to ADB's procedures and guidelines. However, ADB will ensure that projects financed under the FRTFSI do not contravene any restrictions of donors to the FRTFSI on the allocation of funds. Project concepts may be developed by staff in ADB's regional departments, the Regional and Sustainable Development Department (RSDD), and the Office of the General Counsel (OGC), at the request of DMCs and participating donors (for regional TA). In any case, proposals will be formulated in close consultation with DMC governments and relevant donor coordination mechanisms at country and regional levels. As soon as the project concept has been identified, the processing department will prepare a project concept paper and submit it to an internal peer review committee<sup>4</sup> that will be established by RSDD. The committee will ensure that the project concept is in line with the objectives of the FRTFSI, and, for AML-CFT-related activities, is in accordance with the relevant ADB policy. Project proposals will be submitted to the donors in the form of these concept papers. Donor clearance will be sought on a project-by-project basis. To facilitate the incorporation of FRTFSI-funded TA projects in ADB's country and regional operational strategies, RSDD, in consultation with relevant departments, will, during the first

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<sup>4</sup> The internal review committee will comprise representatives from the various regional departments, OGC, Operations Evaluation Department, Office of Cofinancing Operations (OCO), and RSDD.

quarter of 2005 and 2006, report and discuss each year's potential project pipeline with the participating donors to ensure that their views are properly reflected.

12. The TA activities will be processed and implemented by the departments that submitted the concept papers, in consultation with RSDD and other concerned staff. Within ADB, RSDD will be responsible for coordinating departments concerned in the identification, processing, and implementation of activities financed from the FRTFSI.

13. To be consistent with the untied nature of the FRTFSI, ADB's *Guidelines on the Use of Consultants by Asian Development Bank and Its Borrowers*, dated April 2002, as amended from time to time, will be applied in the selection and engagement of the consultants to be financed under the FRTFSI, and any procurement of goods and other services under the FRTFSI will be in accordance with ADB's *Guidelines for Procurement under Asian Development Bank Loans*, dated February 1999, as amended from time to time.

14. RSDD will be responsible for technical and implementation matters relating to the FRTFSI, including the preparation of annual implementation progress reports in collaboration with concerned departments. OCO will monitor the financial performance of the FRTFSI and will act as the focal point regarding the submission of the annual implementation progress reports and separate semiannual financial statements to each of the participating donors.

15. In the implementation of the TAs, ADB will consult as necessary with external organizations and institutions that are engaged in related activities, including the APEC Counter Terrorism Task Force, Asia Pacific Group on Money Laundering, and G8 Counter-Terrorism Action Group. Donors will be consulted on the design, implementation, and monitoring of TA programs sponsored by the FRTFSI.

## **VI. FUNDING ARRANGEMENTS**

16. The Government of Australia will contribute A\$1.5 million to the FRTFSI between 2004 and 2006.<sup>5</sup> The Government of Japan will contribute US\$1 million. The Government of the US will make an initial contribution of US\$1 million during 2004. The amount of contributions for 2005 and 2006 will be provided to ADB when available. The initial contributions for the FRTFSI will be remitted when ADB and Australia, Japan, and the US sign the channel financing arrangements (CFAs) for the FRTFSI.

17. Contributions to the FRTFSI will be made under the terms of the CFAs between the individual donors and ADB. Any new CFAs established for the FRTFSI will be approved by ADB's Management and sent to ADB's Board of Directors for information. Following establishment of the FRTFSI and initial contributions from the original donors, ADB and the original donors will jointly pursue contributions from other donors through similar CFAs, or parallel or joint financing of relevant activities.

18. Contributions from participating donors under the FRTFSI will be deposited into separate US dollar interest-bearing accounts to be specified by ADB. Interest accrued on such amount will be used for the FRTFSI except where it is specifically prohibited by the participating donors. The resources of the FRTFSI may be freely exchanged by ADB into other currencies as required for meeting disbursements. Any fees, including the service charge for administering the

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<sup>5</sup> The initial Australian contribution will be A\$1 million during 2004, followed by contributions of A\$0.25 million during 2005 and 2006.

FRTFSI in accordance with the following paragraph and charges relating to the purchase of such other currencies, will be paid out of the FRTFSI.

19. The FRTFSI will be held by ADB on behalf of the participating donors and will be administered separately from ADB's own resources. For administering the FRTFSI, ADB will be paid a service charge in accordance with ADB's policy on service charges for administration of grant cofinancing from bilateral sources.<sup>6</sup> ADB may use part of the FRTFSI (and any interest thereon) to cover the service charge.

20. ADB will maintain records and accounts in accordance with its normal procedures to show expenditures financed by the FRTFSI. ADB will provide the participating donors with periodic reports on the use of the FRTFSI and the activities financed thereunder. The reports will be made available to ADB's Board of Directors. ADB and the participating donors will periodically review the administration and operation of the FRTFSI.

21. ADB will contribute to the program of activities to be financed from the FRTFSI in the form of (i) services provided by ADB headquarters, resident missions, and country office staff for project design, preparation, implementation, oversight, evaluation, and accounting; and (ii) office, secretarial, and other equipment support.

## **VII. RECOMMENDATION**

22. It is recommended that the Board approve (i) the establishment of the proposed Cooperation Fund for Regional Trade and Financial Security Initiative and its administration under the provisions set forth in this paper; and (ii) ADB entering into channel financing arrangements with the Government of Australia, the Government of Japan, and the Government of the United States in relation to their contribution to the Fund, substantially in the form of the draft agreements attached hereto.

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<sup>6</sup> ADB. 2000. *Review of Service Charges for the Administration of Grant Cofinancing from Bilateral Sources*. Manila.

MEMORANDUM OF UNDERSTANDING  
ON  
CHANNEL FINANCING

between

GOVERNMENT OF THE COMMONWEALTH OF AUSTRALIA

and

ASIAN DEVELOPMENT BANK

In regard to a Grant to the Cooperation Fund for  
Regional Trade and Financial Security Initiative

Dated as of \_\_\_\_\_

MEMORANDUM OF UNDERSTANDING between the GOVERNMENT OF THE COMMONWEALTH OF AUSTRALIA (hereinafter referred to as the Government) and the ASIAN DEVELOPMENT BANK (hereinafter referred to as ADB).

WHEREAS the Government has indicated the intention to make available a grant (hereinafter called the Grant) to the Cooperation Fund for Regional Trade and Financial Security Initiative established in accordance with the arrangements described in the ADB Board Paper attached hereto as Annex 1 (hereinafter called the Fund) for the purpose of financing all or part of the program of activities described in Article 3 of this Memorandum (hereinafter referred to as the Program) and has requested the assistance of the ADB to administer the Grant; and

WHEREAS ADB has agreed to assist the Government in the administration of the Grant upon the terms and conditions hereinafter set forth.

THE GOVERNMENT AND ADB UNDERTAKE AS FOLLOWS:

**Article 1: Amount of the Grant**

During the period 2004-2006, the Government will make available to ADB the amount of one million five hundred thousand Australian Dollars (A\$1,500,000) to finance projects and activities of the Program subject to the Government's approval. Such amount together with any additional amounts the Government may contribute from time to time for the purpose of the Program will constitute the Grant.

**Article 2: Recipients of the Grant**

The recipients of the Grant (hereinafter called the Recipients) will be all developing member countries of ADB (DMCs) and regional institutions located in such countries (together referred to as the Recipients). Priority however, will be given to those DMCs that are also APEC economies most at risk in terms of money laundering/financing of terrorism, or port and airport security.

**Article 3: The Program**

The Program consists of the carrying out of technical assistance projects aimed at establishing and/or strengthening DMCs' systems in: (i) anti money laundering and combating the financing of terrorism, and (ii) port and airport security, and (iii) other activities which may be agreed upon between the Government and ADB. The eligible activities of the Program are more fully described in Annex 1.

**Article 4: Implementation of the Program**

- (a) The ADB will submit to the Government proposals for individual technical assistance projects to be financed from the Grant. Such proposals will be provided by ADB in the form of project concept papers. The Government will make every effort to respond within twenty days concerning its approval or otherwise of the proposal. The Government will only approve projects that are consistent with Australian law and ADB will segregate funds to that end.

- (b) ADB agrees to use such funds only for the purposes for which provided, and not to transfer to a third party the funds granted hereunder unless the Government were to provide advance written consent to an alternative related use or to a retransfer.

Technical and Administrative Terms:

- (c) The ADB will be responsible for the selection and engagement of experts and consulting firms, negotiation and conclusion of contracts, procurement of equipment, supervision of projects and disbursement of the proceeds of the Grant.
- (d) The ADB will discharge its responsibility as administrator of the Grant in accordance with the ADB's normal procedures for technical assistance projects.

**Article 5: Procurement of Goods and Services**

The selection and engagement of consultants shall follow ADB's *Guidelines on the Use of Consultants by Asian Development Bank and Its Borrowers dated April 2002*, as amended from time to time, and the procurement of goods and services shall be in accordance with ADB's *Guidelines for Procurement under Asian Development Bank loans dated February 1999*, as amended from time to time.

**Article 6: Disbursement of the Grant**

- (a) Within two weeks from the signing of this Memorandum, the Government will deposit the amount of the Grant of A\$1,000,000 equivalent into a US dollar account specified by ADB (hereinafter called the ADB account). ADB will provide the Government a letter concerning the Grant, referring to this Memorandum a letter including the bank branch name, address, account name, ABA or BSB number and account number of the account where the Grant is to be deposited. Upon request from ADB, subsequent deposits of A\$250,000 each will be made by the Government on or before 30 June 2005 and 30 June 2006 into the ADB account.
- (b) ADB will make withdrawals from the ADB account as necessary to meet expenditures on Projects under the Program as agreed between the Government and ADB. If other currencies are required for payment to meet any eligible expenditure, ADB may purchase the required currencies with the proceeds of the Grant. Any fees and charges relating to such purchase will be paid out of the Grant.
- (c) For the purposes of this Memorandum, the funds referred to in Article 6 (a) above will be held, administered and invested at the discretion of ADB. Pending disbursements, ADB may invest and reinvest the proceeds of the Grant, and any income earned in respect of such investment and reinvestment, as well as any interest earned in respect of the ADB account, will be credited to the ADB account and used for the purposes of

the Program or to defray all or part of the administration costs and audit fees referred to in Articles 7 and 9 of this Memorandum.

**Article 7: Administration Costs**

To cover ADB's fee for the administration of the Grant, ADB may use part of the Grant (together with any income and interest earned thereon pursuant to Article 6 (c) of this Arrangement), equivalent to five percent (5%) of the total amounts otherwise disbursed under the Grant for programmatic purposes.

**Article 8: Exchange of Information**

- (a) ADB will furnish to the Government such reports and information as the Government may reasonably request concerning the progress of the Program; and
- (b) ADB will inform the Government promptly of any condition which interferes, or threatens to interfere, with the ADB's administration of the Grant.

**Article 9: Records and Accounts**

- (a) The ADB will maintain records and accounts, in accordance with its normal procedures, to show expenditures financed by the Grant, and will provide them to the Government on an annual basis.
- (b) The ADB will furnish to the Government periodic reports, on an annual basis, on the execution of the Program and the utilization of the Grant.
- (c) At the Government's request, ADB will produce audited financial statements on the utilization of the Grant with the cost of the latter to be borne by the Grant and/or income earned from investment or reinvestment of the Grant or interest earned in respect of the ADB account.

**Article 10: Consultation**

The Government and ADB will consult each other, in particular whenever either party proposes:

- (a) to modify materially any arrangement entered into for the implementation of the Program; or
- (b) to suspend or terminate, in whole or in part, disbursements under the Grant.

**Article 11: Termination of ADB’s Responsibility**

- (a) Subject to Article 12, the responsibility of the ADB under this Memorandum will be deemed to have terminated on the date of the final disbursement by the ADB of the Grant.
- (b) Termination of the ADB’s responsibility will not affect the general arrangements for cooperation and exchange of information under the Program between the Government and the ADB.

**Article 12: Taking Effect, Modification and Termination**

The arrangements described in this Memorandum will take effect on the date this Memorandum is signed by the parties hereto and will remain in effect until terminated by either party upon three months’ prior written notice to the other party. Any funds advanced to but not expended by ADB before termination of the Grant must be refunded to the Government, except for funds committed by ADB to a legally binding transaction applicable to this Grant. Any modification of the arrangements contemplated hereunder will require the written confirmation of both parties. Any remaining balance of the Grant, including accrued interest, will be returned to the Government or used for mutually agreed purposes.

**Article 13: Addresses**

Correspondence relating to the implementation of the arrangements contemplated hereunder will be addressed to the following:

- (a) for the Government:

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

Facsimile Number: \_\_\_\_\_

Attention: \_\_\_\_\_

- (b) for the ADB:

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

- (i) General Communications and Financial Matters:

Facsimile Numbers: (63-2) 636-2456 (Direct)  
(63-2) 636-2444 (Central)  
Attention: Principal Director, Office of Cofinancing Operations

(ii) Implementation and Technical Matters:

Facsimile Numbers: (63-2) 636-2198 (Direct)  
(63-2) 636-2444 (Central)

Attention: Director, Finance and Infrastructure Division,  
Regional and Sustainable Development Department

**Article 14: Settlement of Disputes**

The Government and ADB will seek amicably to settle any differences and disputes arising out of or in connection with implementation of this Memorandum.

Signed in Canberra  
this \_\_\_\_\_ of \_\_\_\_\_ 2004

Signed in Manila  
this \_\_\_\_\_ of \_\_\_\_\_ 2004

FOR THE GOVERNMENT OF THE  
COMMONWEALTH OF AUSTRALIA

FOR THE ASIAN DEVELOPMENT BANK

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Tadao Chino  
President

(date)

Mr. Tadao Chino  
President  
Asian Development Bank

Dear Mr. President:

I have the honor to refer to the discussions among the Government of Japan (hereinafter referred to as the Government) and the Asian Development Bank (hereinafter referred to as ADB) with regard to their mutual cooperation for the establishment of the Cooperation Fund for Regional Trade and Financial Security Initiative.

I have further the honor to inform you that the Government intends to make available a grant (hereinafter called the Grant) to the Cooperation Fund for Regional Trade and Financial Security Initiative (hereinafter called the Fund) established in accordance with the arrangements described in the ADB Board Paper attached hereto as Annex 1 (hereinafter called the Fund) for the purpose of financing all or part of the program of activities described in "3: The Program" of this arrangement (hereinafter referred to as the Program) and has requested the assistance of ADB to administer the Grant. Concerning the provision of the Fund, I have honor to propose the following arrangements.

**1: Amount of the Grant**

Upon the execution of this Grant agreement by both parties, the Government will make available to ADB the amount of one million United States Dollars (US\$1,000,000) to finance projects and activities of the Program subject to the Government's approval. Such amount together with any additional amounts the Government may contribute from time to time for the purpose of the Program will constitute the Grant.

**2: Beneficiaries of the Grant**

The recipients of the Grant (hereinafter called the Beneficiaries) will be all developing member countries of ADB (DMCs) and regional institutions located in such countries (together referred to as the Beneficiaries). Priority however, will be given to those DMCs that are most at risk in terms of money laundering/financing of terrorism, or port and airport security.

**3: The Program**

The Program consists of the carrying out of technical assistance projects and activities aimed at establishing and/or strengthening DMCs' systems in: (i) anti money laundering and combating the financing of terrorism, and (ii) port and airport security, and (iii) other activities which may be agreed upon from time to time between the Government and ADB. The eligible activities of the Program are more fully described in Annex 1.

#### **4: Implementation of the Program**

- (a) ADB will submit to the Government proposals for individual technical assistance projects and activities to be financed from the Grant. Such proposals will be provided by ADB in the form of project concept papers. The Government will make every effort to respond within twenty days concerning its approval or otherwise of the proposal. The Government will only approve projects that are consistent with Japan's law and ADB will segregate funds to that end.
- (b) ADB agrees to use such funds only for the purposes for which provided, and not to transfer to a third party the funds granted hereunder unless the Government were to provide advance written consent to an alternative related use or to a retransfer.

Technical and Administrative Terms:

- (c) ADB will be responsible for the selection and engagement of experts and consulting firms, negotiation and conclusion of contracts, procurement of equipment, supervision of projects and disbursement of the proceeds of the Grant.
- (d) ADB will discharge its responsibility as administrator of the Grant in accordance with ADB's normal procedures for technical assistance projects.

#### **5: Procurement of Goods and Services**

The selection and engagement of consultants shall follow ADB's *Guidelines on the Use of Consultants by Asian Development Bank and Its Borrowers dated April 2002*, as amended from time to time, and the procurement of goods and services shall be in accordance with ADB's *Guidelines for Procurement under Asian Development Bank Loans dated February 1999*, as amended from time to time.

#### **6: Disbursement of the Grant**

- (a) Within two weeks from the signing of this arrangement, the Government will deposit the full amount of the Grant of US\$1,000,000 equivalent into an account specified by ADB (hereinafter called the ADB account).
- (b) ADB will make withdrawals from the ADB account as necessary to meet expenditures on projects under the Program as agreed between the Government and ADB. If other currencies are required for payment to meet any eligible expenditure, ADB may purchase the required currencies with the proceeds of the Grant. Any fees and charges relating to such purchase will be paid out of the Grant.
- (c) For the purposes of this arrangement, the funds referred to in "6: Disbursement of the Grant" (a) above will be held and administered at the discretion of ADB. Pending disbursements, ADB may invest and reinvest the proceeds of the Grant, and any income earned in respect of such

investment and reinvestment, as well as any interest earned in respect of the ADB account, will be credited to the ADB account and used for the purposes of the Program or to defray all or part of the administration costs and audit fees referred to in “7: Administration Costs” and “9: Records and Accounts” of this Arrangement.

**7: Administration Costs**

To cover ADB’s fee for the administration of the Grant, ADB may use part of the Grant (together with any income and interest earned thereon pursuant to “6: Disbursement of the Grant” (c) of this arrangement), an amount equivalent to five percent (5%) of the total amounts otherwise disbursed under the Grant for programmatic purposes.

**8: Exchange of Information**

- (a) ADB will furnish to the Government such reports and information as the Government may reasonably request concerning the progress of the Program; and
- (b) ADB will inform the Government promptly of any condition which interferes, or threatens to interfere, with ADB’s administration of the Grant.

**9: Records and Accounts**

- (a) ADB will maintain records and accounts, in accordance with its normal procedures, to show expenditures financed by the Grant, and will provide them to the Government on an annual basis.
- (b) ADB will furnish to the Government periodic reports, on an annual basis, on the execution of the Program and the utilization of the Grant.
- (c) At the Government’s request, ADB will produce audited financial statements on the utilization of the Grant with the costs of the latter to be borne by the Grant and/or income earned from investment or reinvestment of the Grant or interest earned in respect of the ADB account.

**10: Consultation**

The Government and ADB will consult each other, in particular whenever either party proposes:

- (a) To modify materially any arrangement entered into for the implementation of the Program; or
- (b) To suspend or terminate, in whole or in part, disbursements under the Grant.

**11: Termination of ADB's Responsibility**

- (a) Subject to "12: Taking effect, Modification and Termination", the responsibility of ADB under this arrangement will be deemed to have terminated on the date of the final disbursement by ADB of the Grant.
- (b) Termination of ADB's responsibility will not affect the general arrangements for cooperation and exchange of information under the Program between the Government and ADB.

**12: Taking Effect, Modification and Termination**

These arrangements, including the appointment of ADB as Administrator, will take effect on the date this letter is signed by the parties hereto and will remain in effect until terminated by either party upon three months' prior written notice to the other party. The use of any residual funds, including income and interest earned thereon pursuant to "6: Disbursement of the Grant" (c) under this arrangement, will be determined in consultation between the Government and ADB. Any modification of the arrangements contemplated hereunder will require the written confirmation of both parties.

**13: Addresses**

Correspondence relating to the implementation of the arrangements contemplated hereunder will be addressed to the following:

- (a) For the Government:

\_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_

Facsimile Number: \_\_\_\_\_  
 Attention: \_\_\_\_\_

- (b) For the ADB:

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

- (i) General Communications and Financial Matters:

Facsimile Numbers: (63-2) 636-2456 (Direct)  
 (63-2) 636-2444 (Central)  
 Attention: Principal Director, Office of Cofinancing Operations

- (ii) Implementation and Technical Matters:

Facsimile Numbers: (63-2) 636-2198 (Direct)  
 (63-2) 636-2444 (Central)  
 Attention: Director, Finance and Infrastructure Division,  
 Regional and Sustainable Development Department

**14: Settlement of Disputes**

The Government and ADB will seek amicably to settle any differences and disputes arising out of or in connection with implementation of this Arrangement.

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

Sincerely yours,

Osamu Tsukahara  
Executive Director for Japan

Confirmed:

On behalf of the Asian Development Bank

Name:  
Position:  
Date

GRANT AGREEMENT  
ON  
CHANNEL FINANCING

between

THE U.S. DEPARTMENT OF STATE

and

ASIAN DEVELOPMENT BANK

In regard to a Grant to the Cooperation Fund for  
Regional Trade and Financial Security Initiative

Dated as of \_\_\_\_\_

Grant Agreement between the UNITED STATES DEPARTMENT OF STATE (hereinafter referred to as the Department of State) and the ASIAN DEVELOPMENT BANK (hereinafter referred to as ADB).

WHEREAS the Department of State has indicated the intention to make available a grant (hereinafter called the Grant) to the Cooperation Fund for Regional Trade and Financial Security Initiative established in accordance with the arrangements described in the ADB Board Paper attached hereto as Annex 1 (hereinafter called the Fund) for the purpose of financing all or part of the program of activities described in Article 3 of this grant agreement (hereinafter referred to as the Program) and has requested the assistance of ADB to administer the Grant; and

WHEREAS ADB has agreed to assist the Department of State in the administration of the Grant upon the terms and conditions hereinafter set forth.

THE DEPARTMENT OF STATE AND ADB UNDERTAKE THE FOLLOWING COMMITMENTS:

**Article 1: Amount of the Grant**

Upon the execution of this grant agreement by both parties, the Department of State will make available to ADB the amount of one million United States Dollars (US\$1,000,000) to finance projects and activities of the Program subject to the Department of State's approval. Such amount together with any additional amounts the Department of State may contribute from time to time for the purpose of the Program will constitute the Grant.

**Article 2: Beneficiaries of the Grant**

The recipients of the Grant (hereinafter called the Beneficiaries) will be all developing member countries of ADB (DMCs) and regional institutions located in such countries (together referred to as the Beneficiaries). Priority however, will be given to those DMCs that are also APEC economies most at risk in terms of money laundering/financing of terrorism, or port and airport security.

**Article 3: The Program**

The Program consists of the carrying out of technical assistance projects and activities aimed at establishing and/or strengthening DMCs' systems in: (i) anti money laundering and combating the financing of terrorism, and (ii) port and airport security, and (iii) other activities which may be agreed upon from time to time between the Department of State and ADB. The eligible activities of the Program are more fully described in Annex 1.

**Article 4: Implementation of the Program**

- (a) ADB will submit to the Department of State proposals for individual technical assistance projects and activities to be financed from the Grant. Such proposals will be provided by ADB in the form of project concept papers. The Department of State will make every effort to respond within twenty days concerning its approval or otherwise of the proposal. The Department of State will only approve projects that are consistent with U.S. law and ADB will segregate funds to that end.

- (b) ADB agrees to use such funds only for the purposes for which provided, and not to transfer to a third party the funds granted hereunder unless the Department of State were to provide advance written consent to an alternative related use or to a retransfer.

Technical and Administrative Terms:

- (c) ADB will be responsible for the selection and engagement of experts and consulting firms, negotiation and conclusion of contracts, procurement of equipment, supervision of projects and disbursement of the proceeds of the Grant.
- (d) ADB will discharge its responsibility as administrator of the Grant in accordance with ADB's normal procedures for technical assistance projects.

**Article 5: Procurement of Goods and Services**

The selection and engagement of consultants shall follow ADB's *Guidelines on the Use of Consultants by Asian Development Bank and Its Borrowers dated April 2002*, as amended from time to time, and the procurement of goods and services shall be in accordance with ADB's *Guidelines for Procurement under Asian Development Bank Loans dated February 1999*, as amended from time to time.

**Article 6: Disbursement of the Grant**

- (a) Within two weeks from the signing of this grant agreement, the Department of State will deposit the full amount of the Grant of US\$1,000,000 equivalent into an account specified by ADB (hereinafter called the ADB account). ADB will provide to the Department of State a letter concerning the Grant, referring to this Grant Agreement, and including the bank branch name, address, account name, ABA or BSB number and account number of the account where the Grant is to be deposited. No interest may be accrued on any part of the Grant. Were any interest to be accrued, ADB agrees to return any such interest annually to the Department of State.
- (b) ADB will make withdrawals from the ADB account as necessary to meet expenditures on projects under the Program as agreed between the Department of State and ADB. If other currencies are required for payment to meet any eligible expenditure, ADB may purchase the required currencies with the proceeds of the Grant. Any fees and charges relating to such purchase will be paid out of the Grant.
- (c) For the purposes of this agreement, the funds referred to in Article 6 (a) above will be held and administered at the discretion of ADB.

**Article 7: Administration Costs**

To cover ADB's fee for the administration of the Grant, ADB may use an amount equivalent to five percent (5%) of the total amounts otherwise disbursed under the Grant for programmatic purposes.

**Article 8: Exchange of Information**

- (a) ADB will furnish to the Department of State such reports and information as the Department of State may reasonably request concerning the progress of the Program; and
- (b) ADB will inform the Department of State promptly of any condition which interferes, or threatens to interfere, with ADB's administration of the Grant.

**Article 9: Records and Accounts**

- (a) ADB will maintain records and accounts, in accordance with its normal procedures, to show expenditures financed by the Grant, and will provide them to the Department of State on an annual basis.
- (b) ADB will furnish to the Department of State periodic reports, on an annual basis, on the execution of the Program and the utilization of the Grant.
- (c) At the Department of State's request, ADB will produce audited financial statements on the utilization of the Grant with the costs of the latter to be borne by the Grant.

**Article 10: Consultation**

The Department of State and ADB will consult each other, in particular whenever either party proposes:

- (a) To modify materially any arrangement entered into for the implementation of the Program; or
- (b) To suspend or terminate, in whole or in part, disbursements under the Grant.

**Article 11: Termination of ADB's Responsibility**

- (a) Subject to Article 12, the responsibility of ADB under this grant agreement will be deemed to have terminated on the date of the final disbursement by ADB of the Grant.
- (b) Termination of ADB's responsibility will not affect the general arrangements for cooperation and exchange of information under the Program between the Department of State and ADB.

**Article 12: Taking Effect, Modification and Termination**

The arrangements described in this grant agreement will take effect on the date it is signed by the parties hereto and will remain in effect until terminated by either party upon three months' prior written notice to the other party. Any funds advanced to but not expended by ADB before termination of the grant must be refunded to the Department of State, except for funds committed by ADB to a legally binding transaction applicable to this grant. Any modification of the arrangements contemplated hereunder will require the written confirmation of both parties. Any remaining balance of the Grant will be returned to the Department of State or used for mutually agreed related purposes.

**Article 13: Addresses**

Correspondence relating to the implementation of the arrangements contemplated hereunder will be addressed to the following:

- (a) For the Department of State:

Office of Economic Policy  
Bureau of East Asian and Pacific Affairs, Room 5317  
U.S. Department of State  
Washington, D.C. 20520-5317

Facsimile Number: 202-647-0136  
Attention: Director

- (b) For the ADB:

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

- (i) General Communications and Financial Matters:

Facsimile Numbers: (63-2) 636-2456 (Direct)  
(63-2) 636-2444 (Central)  
Attention: Principal Director, Office of Cofinancing Operations

- (ii) Implementation and Technical Matters:

Facsimile Numbers: (63-2) 636-2198 (Direct)  
(63-2) 636-2444 (Central)  
Attention: Director, Finance and Infrastructure Division,  
Regional and Sustainable Development Department

**Article 14: Settlement of Disputes**

The Department of State and ADB will seek amicably to settle any differences and disputes arising out of or in connection with implementation of this Arrangement

Signed in Washington, D.C.  
this \_\_\_\_\_ of \_\_\_\_\_ 2004

Signed in Manila  
this \_\_\_\_\_ of \_\_\_\_\_ 2004

FOR THE DEPARTMENT OF STATE

FOR THE ASIAN DEVELOPMENT BANK

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William Todd  
Executive Director  
Bureau of International Narcotics  
and Law Enforcement Affairs

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Tadao Chino  
President