1. **Objective.** To Cofinance capacity building components of World Bank funded operations (IBRD loans, IDA credits or IDA grants) in eligible countries (see below, paragraph 3).

2. **Program Allocation.** The Government of Japan, through its World Bank-administered PHRD Fund, is making available an allocation of **US$35 million**, to provide Cofinancing Grants to eligible countries.

3. **Focus.** The Grants would support Cofinancing technical assistance in qualifying countries to strengthen institutional capacity needs of operations funded by the World Bank. This facility would meet the technical assistance needs of qualifying countries where borrowing for such activities may be unaffordable due to limited budgetary constraints and borrowing limitations. By building local capacity, the Grants are expected to facilitate implementation of agreed key policy reforms and good governance initiatives which may lack financial resources for reforms and innovations to be successful.

4. **Country Eligibility and Poverty and Regional Focus.** To maintain a poverty focus, only IDA countries, including IDA/IBRD blend countries would be eligible.

5. **Amount.** The maximum amount for a Grant would be limited to **US$5 million**. Eligibility to receive such a Grant would require that about **25 percent** of the cost of the capacity building activities of the operations would be financed by the World Bank and/or the Recipient country. Regional Vice Presidential units of the World Bank and borrowing countries would identify potential operations for co-financing by PHRD early in the project cycle.

6. **Funding Proposal.** The Bank will provide to the Government of Japan (GoJ) three times a year, the proposals for operations to be co-financed from PHRD\(^1\). For each operation identified for co-financing, a one-page Funding Proposal would be submitted which includes the objectives of the operation and the tentative amounts of the proposed financial assistance requested.

7. **Background Information.** Attached to the Funding Proposal would be supplementary information (as background information) which would describe the operation’s components and respective lending and grant amounts. The Project Information Document (PID) would also be made available to the GoJ at the time of submission of the Funding Proposal.

8. **Eligible Expenditures.** The grant would finance consulting services and training.

9. **Ineligible Expenditures.** Expenditures on the following activities are ineligible: implementation of pilot programs, purchase of vehicles, salaries for civil servants in recipient countries, Extended Term Consultants, and Bank staff (open-ended, term, and seconded staff) salaries or travel expenses.

10. **Grant Execution Arrangements.** Grants would be, without exception, recipient executed by the designated implementing agency of the operation. For each approved grant, the Bank and the recipient would enter into a Grant agreement. For the purposes of monitoring the achievement of development objectives, the Grant Agreement would be binding between the recipient and the Bank.

\(^1\) On exceptional basis, CFP can accept requests throughout the year for cases where the timing of the appraisal mission does not match the proposal submission dates provided in the schedule for PHRD (see FY06 Annual Policy Document).
11. **Selection Criteria.** The recipient must take full ownership in implementing the Grant to achieve its objectives and milestones just as it would for the Bank Loan/Credit. The Grant Funding Proposals must conform with the following criteria:

(i) Grants would finance technical assistance for institutional capacity building of IDA/IDA blend operations. The operation’s components supported by the Grant would be co-financed by the Bank and the Recipient country as described above.

(ii) Evidence of strong country ownership of the operation activities would be essential.

(iii) The closing date of the Grant must not be set beyond the closing date of the operation.

(iv) Funding proposals may be submitted where the Project Concept Note (or the Project Concept Document) is approved.

(v) Grant proposals must be submitted to Concessional Finance and Global Partnerships Vice Presidency (CFP) no less than four months before the expected Project Appraisal Date.

(vi) Japan’s PHRD cofinancing contribution must be incorporated in the Project Financing Plan during the appraisal mission and must be included in the Project Appraisal Document.

12. **Approval Process.** The Grant approval process would be as follows:

(i) The Government of Japan would confirm its approval of the grants within eight weeks from submission of the proposal.

(ii) For the grants approved by the GoJ, the Project Appraisal Package would be distributed at least one week before the formal Project Appraisal Review Meeting, chaired by the Country Director or representative. A cover memorandum summarizing the funding request, cross referenced to the Project Appraisal Document (PAD) would also be submitted.

(iii) The PAD would describe and cost in sufficient detail the technical assistance proposed for co-financing by GoJ.

(iv) CFP would reconfirm that the Grant funding, as described in the PAD, meets the criteria for the facility set out in the preceding paragraphs and is in line with the one-page Funding Proposal approved by GoJ.

(v) The amount and activities agreed for cofinancing would be re-confirmed in the minutes of the Appraisal Review Meeting, signed by the Country Director or representative.

(vi) The GoJ, or its representative, and the World Bank would sign the Grant Approval Letter immediately after the proposed Loan/Credit is negotiated with the grant recipient.

13. **Bank Fiduciary Responsibility as Grant Administrator.** All grants will be supervised in conjunction with the operations to ensure compliance with the Bank’s fiduciary responsibilities, with due diligence to economy and efficiency, and compliance with Procurement and Financial Management Guidelines (as for Bank Lending Operations).

14. **Japanese Visibility and Engagement of Local Japanese Officials.** It is highly recommended that the task team inform the Japanese embassy accredited to the recipient country about a PHRD application under preparation. Prior information sharing by task teams will help expedite the decision making process. Staff in operational units should also encourage grant signing ceremonies in the field, with the inclusion of Japanese embassy officials, inviting local and international press to these ceremonies. Task teams should aim to inform the Japanese embassy as well as CFP – which will alert the Japanese authorities in Tokyo – at least 10 days in advance of the signing ceremony. Decisions on any future PHRD grant proposals for a country would take into consideration the Bank and recipient’s efforts to hold signing ceremonies to comply with the above. In addition, CFP may
promote visibility of PHRD by: (i) informing Country Directors of the importance of signing ceremonies to Japanese officials and the public to ensure recognition and support for PHRD funding; and (ii) continuing widespread distribution of the PHRD Annual Report, inclusion of PHRD information in relevant Bank documents, and occasional information sessions for Japanese organizations.

15. **Reallocation/Restructuring of Grant Activities.** Bank policies and procedures would apply to reallocation or restructuring of the grants.

16. **Progress Reporting.** Bank task team leaders would be responsible for grant supervision and reporting on progress using the standard Project Status Report (PSR) required for Bank-funded operations. Furthermore, the donor would be informed regularly of supervision missions and will be invited to participate.