CAREC Institute Assessment

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I.   BACKGROUND

1.   Cognizant of the growing importance of the role knowledge plays in strengthening regional economic cooperation, CAREC countries established CAREC Institute (CI) in 2006 as an integral component of the CAREC program. CI began its operation in 2009.

2.   In 2011, CAREC ministers endorsed *CAREC 2020*, a long-term strategic vision to guide economic cooperation in the region through 2020. CI is identified as one of the seven priority operation areas of *CAREC 2020* and this highlights once again the significance accorded to the role of knowledge in CAREC program.

3.   The Strategic Knowledge Framework (SKF) for CI 2013–2017, endorsed by the Senior Officials' Meeting (SOM) held in June 2012 (Attachment 1), lays out a knowledge framework in support of the achievement of *CAREC 2020* objectives of (i) trade expansion, and (ii) improved countries' competitiveness. In so doing, the CI aspires to become a knowledge power house on regional economic cooperation in general and for the CAREC program, in particular.

4.   For moving forward, the June SOM requested ADB as CAREC Secretariat to conduct an assessment of CI for implementing the SKF, and that the assessment should include recommendations on the physical versus virtual modality, including possible establishment of a network of resource and training centers; associated governance structure; and estimated cost and funding sources. The assessment will be submitted to the 11th Ministerial Conference to be held in November 2012 as the basis for decision making by the ministers. Meantime, the SOM also endorsed basing the CI at ADB headquarters but only temporarily to allow the start of implementation of the SKF.

II.   ENHANCING CAREC INSTITUTE IN THE CONTEXT OF *CAREC 2020*

5.   The SKF emphasizes (i) a strategic focus on regional, multi-sectoral, and common sectoral issues pertinent to economic cooperation in the CAREC region; (ii) the integration of knowledge generation, services and management to drive the knowledge solutions more effectively; and (iii) a strategic need to form alliances with other regional and non-regional institutions. To implement the SKF, CI will need to be significantly enhanced so that it can be fully effective in supporting the efforts of *CAREC 2020,* as discussed below.

6.   **Knowledge generation**. Research activities should be guided by the principles of clarity and specificity of focus on regional, multi-sectoral, and common sectoral issues. Specifically, the CI would need to undertake the following tasks:

   (i)   formulating a research agenda, and with close consultations with CAREC sector coordinating committees, and other key stakeholders. This would ensure that the research agenda thus formulated would reflect the current and pertinent needs of economic cooperation in the region;
   (ii)   matching requirements of the research agenda with capacities and expertise of relevant institutions in CAREC countries and potential collaborating non-regional institutions;
   (iii) monitoring not only the progress, but also the quality of research through its various phases of implementation. Strengthened monitoring is a key to ensuring research quality, thus enhancing its effectiveness; and

    (iv)   wide dissemination of research outputs. This is another effectiveness enhancing measure so that research outputs, as public goods, would impart maximum benefits to all stakeholders in regional economic cooperation.

7.   **Knowledge services.** CI must define its niche and add value as a regional capacity building provider, as distinguished from national capacity building institutions that focus on purely national concerns. This unique value-proposition has important implications for the design and delivery of its knowledge services program. First, the design of learning programs should be customized. Second, careful selection of providers must be conducted, to the extent capacity building activities are outsourced, to ensure that they possess adequate knowledge of, and/or experience in the region. Third, CI must endeavor to link its focus on regional learning programs to relevant national training programs to create maximum synergy. More specifically,

    (i)   learning programs must be categorized as strategic, managerial or operational. This would ensure that learning programs are designed and implemented appropriately in terms of course materials and skills in accordance with the participants who have various levels of responsibilities and thus skills required;

    (ii)   learning programs must apply appropriate pedagogical tools based on the principles of adult learning. This would require that learners be engaged actively in the learning process, in contrast to passive learning in typical class room settings; and

    (iii)   each learning program must include effective assessment tools. These tools would measure a) the extent to which learning objectives are met; and b) overall effectiveness of the program in terms of content, pedagogy and process, learning materials, quality of capacity building providers, and logistical arrangements.

8.   **Knowledge management.** Building up CI as a knowledge hub for economic cooperation in CAREC region is central to the SKF. In particular, CI must provide the mechanisms by which relevant knowledge distilled from multiple sources is harnessed, organized and transferred to aid decision making and implementation of regional economic cooperation. Key measures in this regard would include:

    (i)   developing databases by themes and/or sectors which could be accessed easily and provide systematic information to the users. While initially, developing such databases may be outsourced, CI will eventually need to acquire the in-house capacity to manage, maintain and develop databases;

    (ii)   setting up electronic knowledge (e-knowledge) platforms. Such platforms would be greatly beneficial to a variety of stakeholders from government to private sector, and from organizations to individuals, in exchanging information and experiences, engaging in on-line discussions on policies and issues, and generating new ideas and knowledge; and

    (iii)   such e-knowledge platforms can first be set up for CAREC's four priority areas, leveraging on expertise of institutions and individuals from both the CAREC countries and outside the region.

III.   DELIVERING THE SKF: VIRTUAL VERSUS PHYSICAL MODALITY

9.   CI was established in 2006 as a regional institution within the CAREC program. As such, it should be located in the region. Out of practical considerations, member countries agreed that in its first three years CI would operate by outsourcing the delivery of its program, and that they would reconsider the issue of institutional modality of CI at a later stage when CI evolved. Following the request of the June SOM, this section discusses advantages, disadvantages and

risks of a virtual modality versus a physical modality. The discussion is intended to assist consideration of which modality is preferred when moving CI into the region.

A. A Virtual Modality

10.   A virtual modality places a heavy reliance on outsourcing but has many business applications. The world's first university of the air in the UK, which pioneered distance learning, for example, started with a staff of about 80 people and was located in a "new town" near London. It had and still has a physical presence even though its products were delivered "virtually".

11.   If CI is to move to the region in a virtual modality, it would rely on outsourcing for delivery of its program. In particular, its knowledge generation would be outsourced to regional and non-regional institutions and individuals; its knowledge services would be carried out by both international and regional providers; and its knowledge management would be done by institutions in CAREC countries, even though eventually CI might have to manage its own databases. CI operating in such a virtual modality would have the following features:

(i)   establishing itself as a legal entity such as a non-profit organization;
(ii)   establishing a governance structure such as an advisory board (AB) or board of directors (BOD) to provide overall guidance, directions, and supervision;
(iii)   appointing a director to be responsible for day-to-day management and accountable to the AB or BOD;
(iv)   minimal space for housing the director and his office, and for basic IT equipment such as servers;
(v)   no need for core staff of expertise by sector, issues or themes; and
(vi)   no need for space for in-house delivery of any CI products.

12.   Such a virtual modality has advantages, especially in situations where, (i) CI does not possess the expertise to supply a particular capacity building activity (as it would in a physical modality); (ii) specialized technical knowledge or an international perspective of CAREC issues is required; (iii) speed of delivery is important and appropriate international and national experts are readily available; and (iv) there is a reluctance to incur a large fixed investment at the beginning.

13.   However, for CI as an institution engaged in the acquisition and dissemination of knowledge, a virtual modality would have the following weaknesses:

(i)   CI would have no core business and would not be able to add value to products and services. Outsourcing in business models generally is done for ancillary areas of a business, not for a core area;
(ii)   ensuring quality of services and thus building up a brand name and good reputation would be difficult. This is because quality control mechanisms may be less effective as CI would not have a direct managerial/administrative relationship with its service providers. This could put CI's reputation at substantial risk;
(iii)   over the long run, relying on outsourcing for core business would become costlier as fixed costs remain constant but not decreasing if the program expands; and
(iv)   finally, a virtual modality as such would have high requirements of IT connectivity and infrastructure in all CAREC countries. This would add considerable costs and take time to develop in the region.

B.   A Physical Modality

14.   A physical modality for CI would result in the establishment of a physical base in a location in the region, housing it in a physical infrastructure, and having its own staff establishment to carry out operations and administration. It would plan and manage its programs in-house as well as space for in-house delivery of program. The main features of this modality would include:

(i)   a legal entity, an AB or BOD, and a director, similar to the virtual modality;
(ii)   a staff establishment including managerial, technical, supporting and administrative staff;
(iii)   clear lines of responsibilities and accountability; and
(iv)   physical space for in-house delivery of its program and to house knowledge management databases and other equipment.

15.   This modality would require larger upfront expense including for acquiring a physical structure for CI. However, there are advantages of such a modality, including:

(i)   strategically, establishing a significant presence for CI in the region would make a powerful statement, demonstrating the resolve and determination of CAREC countries to build up CI as the knowledge powerhouse for regional economic cooperation. This strong image and clear message may bring large and concrete advantages to CI in addition to the symbolic and reputational significance, including enhanced country ownership, facilitating securing financing, better institutional building and overall improved performance. This may be the single most important reason for permanently basing CI in the region;
(ii)   having a physical base with its own dedicated and accountable staff would be necessary for the significant capacity building required of CI under the SKF. In fact, it would be unthinkable to implement the measures discussed in Section II above without a core staff. In particular, staff working together in a common physical structure would be essential to implementing the integrated approach to CI's work which requires that staff working in different knowledge areas interact and collaborate with each other on a constant basis;
(iii)   the clear lines of responsibility and accountability, and being able to deliver services in-house would facilitate monitoring and quality assurance of CI products. This would help CI to develop its brand and reputation; and
(iv)   there would be economies of scale. As the program grows, unit costs of delivery would reduce as overheads are spread over greater volumes of outputs.

C.   A Comparison of the Two Modalities

16.   Table 1 compares the two modalities in terms of advantages, disadvantages and risks along several key aspects.

Table 1: Comparison of the Virtual Versus the Physical Modality

Aspects/Characteristics	Physical modality (PM)	Virtual modality (VM)	Risks and Remarks
Governance structure and lines of responsibility	Responsibilities and accountability clearly defined	Responsibility and accountability of contracted experts ambiguous	VM has higher risk
Staff capacity	Possible to build capacity with own staff	No staff capacity and reliant on outside experts with no loyalty to CI	No staff for core business under VM would constitute a risk
Quality delivery and control	Better control of quality of product and delivery as quality control of own staff is exercised in-house	Quality dependent on outside service providers. There would be no prior quality control	More difficult for VM to control quality, thus higher risk of poor quality
Delivery modes	Both options of in-house delivery and outsourcing available	Only outsourcing available	VM is more restricted in its choice of delivery mode
Costs	Initially high but increasingly competitive as business expands and overheads distributed over larger volumes of output	No large upfront expenses needed, but increasingly expensive when business expands as contracted courses have a fixed rate provided to cover overheads	PM unit cost will decrease, while VM unit cost keeps constant, as business expands
Fund raising capacity	Strong capacity based on the quality it achieves	More uncertain capacity as it has less control of quality	PM is likely to be stronger than VM
Country ownership	Strong ownership of outputs as each country deals predominantly with CI staff. Ownership of management directions is a function of the governing body which is appointed by the Ministerial Conference.	More ambiguous ownership of outputs as each country deals with contracted staff from outside organizationas Ownership of management directions is a function of the governing body which is appointed by the Ministerial Conference.	Maintaining good links with each member country a critical success factor under each modality
Objectivity	There would be no constraints on objectivity assuming that adequate controls are in place to ensure it.	There would be no constraints on objectivity assuming that adequate controls are in place to ensure it, though they might be more difficult to exercise as projects would be outsourced to contractors and it would be difficult for CI to	

		ensure that there were no outside influences placed on them.	
Capacity to implement the SKF	Strong because core business under direct control of CI	Less strong because core business is dependent on the competencies and disposition of contracted personnel	

IV. MOVING CI TO THE REGION

17.   This section discusses what would need to be done to move CI to the region in the virtual versus the physical modality. The three sets of factors for moving CI to the region discussed below would also serve as a measure of readiness for moving. This could help in the consideration of the question of when to move CI in the region. It is useful to qualify at this point that even if a decision is taken to locate CI in the region in the physical modality, it does not mean that CI would do everything in-house. Quite the contrary, a key feature of the SKF is its emphasis on strategic alliances with regional and international institutions. What it does mean is that building up the core capacity of CI would be a precondition for it to effectively work with its future alliances and partners.

18.   There are three sets of factors which are critical to ensuring long term effectiveness and sustainability of CI in the region, although they apply in varying degrees to a virtual modality versus a physical modality. These include: a) basic factors; b) business factors; and c) costs and financing factors.

A.   Basic factors

19.   The following are factors which need to be addressed before moving CI in a physical modality from its temporary base in ADB to the region:

(i)   Regionality–It is central to maintaining the regional nature of CI. . Short and long term measures should be devised and agreed upon to enhance CI's regional characteristics. One important measure is to ensure that the constitution of a governing body fully reflects regional representation in its appointments. Similar mechanisms should be designed and implemented with regard to CI management and staff appointment. One mechanism would be the principle of rotation, whereby representatives of CAREC countries would be serving in CI management in rotating order. Similarly, staff appointment should entail mechanisms whereby staff from CAREC countries would work at CI for a fixed period of time on a rotating basis (secondment). A mentoring program could accompany such secondment, so that the staff would not only serve to preserve the regional nature of CI, but also enjoy the full benefit of a knowledge institution. Other possible means of preserving the regional nature of CI could involve establishing partnerships and alliances with other relevant institutions in the region.

(ii)   Easy accessibility–the location chosen for CI should be easily accessible, with convenient flight and other transport connections. This is particularly important as the region is geographically large. In addition, visas into and permits to live in the host country should be easy to obtain and renew. These are components of key requirements for CI to function as a regional institution.

(iii)   Acquiring a building and other key infrastructure–owning a building is more economical than leasing in the long run. Ownership would require larger upfront capital expense. In addition, basic ICT infrastructure at the location would need to be of high standard, and competitive in prices. Living conditions for staff must be acceptable and affordable.

20.   In the case of moving CI to the region in a virtual modality, the above factors would have no or little relevance. In this respect, a virtual modality would have advantages. However, for a virtual modality to be effective, it would require high standards on connectivity and related ICT infrastructure in all CAREC countries, a more stringent requirement than for a physical modality.

B.   Institutional Building Factors

21.   To move CI in a physical modality to the region, the following institutional building factors will be required so that CI becomes a tangible and effective center of knowledge.

(i)   Legal incorporation–CI needs to be incorporated as a legal entity, the precise form of which would depend in part on the legal framework of the host country. A non-profit, tax exempt entity would be preferable.

(ii)   Governing body–a governing body needs to be established. It will be important for the governing body to be representative of all CAREC countries equally. This would ensure that CI remains an institution of all of its owners. The governing body would be accountable to the Ministerial Conference. Its primary responsibilities will be to set strategies and policies and to monitor the performance of CI. The body should work by consensus. Members should be committed to the best interests of CI which in turn is committed to the best interests of the region and each individual member country. Most importantly, the governing body should be clear about the responsibilities it delegates to the CI management. It should ensure that good reporting and internal control systems are established so that it can monitor operational and financial performances.

(iii)   Appointment of Management–the appointment of CI management which would be responsible for the day-to-day operations of CI would be critical, and particularly so during the early stages when reputation needs to be built up and consolidated. Members of the management would be appointed by the governing body.

(iv)   Staffing–recruiting a core staff is central to institutional building of CI. Engaging competent staff should be a first priority. Given the regional nature of CI, staffing should be based on merit and would be drawn from international, regional bases as well as from the host country.

22.   For the case of moving CI in a virtual modality to the region, i)-iii) above would be needed, although the content and responsibilities of the governing body and the director may be simpler than in a physical modality. Key difference between the two modalities lies in the staffing factor. Having own staff who are accountable and devoted is necessary for ensuring quality, building up reputation, and strengthening the institution, thus for the better implementation of the SKF.

C.   Costs and financing factors

23.   Table 2 gives indicative cost estimates of CI in a physical modality.

Table 2: Indicative Cost Estimates of a Physical Modality

	Scenario 1 (based on the present CI program)	Scenario 2 (assuming a 50% increase of the present program)
Capital costs (acquiring physical infrastructure; outfitting; and equipment)	$ 3 million - $ 8 million	$ 3 million - $ 8 million
Operating costs, including		
Program costs	$ 4.85 million	$ 7.00 million
Administrative costs	$ 2.00 million	$ 2.50 million
Total annual operating costs	$ 6.85 million	$ 9.50 million

24.   Key assumptions used in the estimates above include:

(i)   scenario 1 as the base scenario is based on the draft CI work plan 2013–2014, with 2 research outputs, 12 capacity building courses, and 2 outputs in knowledge management;

(ii)   capital costs are treated as a one-time expense; actual costs of acquiring physical infrastructure would depend on the location chosen; hence the large range in the estimates. Similarly, outfitting and equipment costs can vary significantly by location;

(iii)   program costs are derived from the sum of the following: average annual ADB technical assistance for CI program (RETA's for CI; CBTA; EARD RETA); MI financing calculated as 10% of total ADB financing; and government in-kind contribution to the program, calculated as 15% of all program costs from the above sources;

(iv)   administrative costs are estimated as overhead of the total program costs using 40% as the scaling factor;

(v)   some economies of scale is assumed as cost increase of Scenario 2 is less than the proportional expansion of the program from Scenario 1; and

(vi)   imbedded in the above cost estimates are staffing costs, covering costs for both internationally and/or regionally hired staff, and locally engaged staff.

25.   In the case of a virtual modality, costs would depend crucially on how "virtually" CI would operate. Broadly, the following can be said about its costs:

(i)   it would not incur any capital costs at the start for acquiring a building, outfitting, and equipment. However, it would incur annual rental and leasing expenses, thus adding to its annual administrative costs;

(ii)   outsourcing for delivery of its program is likely to cost a virtual modality more, as remuneration for consultants is usually higher than costs of regular staff;

(iii)   while a physical modality would enjoy economies of scale as the program expands, the same cannot be said about a virtual modality. This is because under a virtual modality increases in its total costs will be proportional to the increase in program size, in contrast to the physical modality where incurred overheads are distributed across an increased volume of activity; and

(iv)   as mentioned before, a virtual modality would place higher requirements on IT infrastructure in all CAREC countries, indicating higher costs.

26.   CI financing–In principle, as a regional institution located in the region, whether it is established in a virtual or physical modality, CAREC countries should shoulder all costs related to the CI. This is a key aspect of country ownership. The CAREC countries would need to agree among themselves on a financing model to ensure long term financial sustainability of CI. While details of the plan need to be worked out, a country's ownership of and representation on CI should not be determined by the amount of financial contribution it makes to CI. Some countries may have budget regulations which prevent them from being able to make financial contributions to entities established beyond their borders. This and similar consideration such as a country's achieved level of development would also need to be taken into account when determining countries' contribution to CI's long-term financing. In addition, a host country may contribute more financially, although ownership of CI remains equal among CAREC countries. Potential sources of financing would include, in addition to the CAREC country governments: i) MI's as CAREC multilateral institutional partners; ii) other donors including bilateral donors; iii) the private sector; and iv) other sources.

27.   ADB reaffirms its commitment to CI and intends to continue its financial and other support to CI, especially before CI has fully established itself as an independent and reputable regional entity. These important issues would need to be discussed and agreed upon as CI moves forward in the context of *CAREC 2020.*