

The Japan Fund for Poverty Reduction

- The **Japan Fund for Poverty Reduction** was set up in May 2000 to provide grants for innovative poverty reduction activities in ADB's **developing member countries**.
- Grants from the Fund are not for **technical assistance** but for direct relief that also builds capacity for self-help and income generation. They finance small investments linked to ADB loans to pilot-test approaches that can later be expanded into loan projects and incorporated into ADB's operations. ADB is thus to gain opportunities to work more directly with communities as well as **nongovernment organizations and civil society**.
- As of end-December 2006, 90 grants had been approved in 20 countries. How well have they fared? How can future operations deliver more?

Background

Grants from the Japan Fund for Poverty Reduction range from \$200,000 to \$2 million. (Exceptionally, grants up to \$3 million—or higher for **Afghanistan**—can be considered.) "Seed money" of up to \$20,000 can be provided to assist Asian Development Bank (ADB) staff in designing grants.

Between May 2000 and June 2006, **Japan** contributed \$360 million to the **Japan Fund for Poverty Reduction**. As of end-December 2006, it had approved 90 grants worth \$244 million. Among these were nine grants worth \$98 million for Afghanistan, and nine totaling \$20 million for **tsunami response** projects in **India, Indonesia, Maldives, and Sri Lanka**.

In 2007, the Operations Evaluation Department of ADB conducted a **Special Evaluation Study on Japan's Funds: Japan Fund for Poverty Reduction**.¹ The study checked how the Fund relates to the strategic objectives set out in ADB's **Poverty Reduction Strategy** (1999) and **Long-Term Strategic Framework, 2001–2015** as expressed in the **Medium-Term Strategy, 2001–2005** and **Medium-Term Strategy II, 2006–2008**. It focused on project design, implementation, and performance. It examined the procedures in the **Operations Manual** and the support available for fund administration.

Projects were assessed through case studies after desk reviews. Fieldwork entailed evaluation of 19 projects in **Cambodia, Indonesia, Mongolia,**

Philippines, and Tajikistan, countries that have substantial portfolios and different geopolitical systems.

Summary of Findings

Following the **criteria** commonly used for evaluating public sector operations, the program was rated relevant, efficient, effective, and sustainable.

Almost all the projects evaluated were relevant or highly relevant to both ADB and national policies at the time of design and at completion. Process efficiency was mixed, if often limited by implementation delays, but economic efficiency though not calculated is likely to have been at least adequate or even high for most projects, for an overall rating of efficient. The projects mainly achieved their intended outcomes, and most were rated effective or higher. All projects were rated sustainable or higher, except for two early slum projects in the Philippines and a social infrastructure project in Cambodia. The study concluded that:

- The Fund generally aligns with ADB's strategic objectives. Individual projects generally align with country partnership strategies and national poverty reduction strategies.
- The Fund has generally met specific objectives related to innovation. The intention to expand projects into loan projects has been met, but overall at lower levels than expected.

- All ADB staff interviewed considered the Fund a valuable program that has made ADB better able to deal in a practical way with poverty-related problems. They reported strong demand, as reflected in the substantial project pipeline.
- Of the 17 completed projects evaluated, 23% were rated highly successful, 65% successful, and 12% partly successful. The proportion of projects rated successful or higher (88%) compares well with the success rate of ADB's overall loan program (65% of completed projects).
- Evidence of a sound design was not a strong point of many of the projects evaluated. Yet most achieved their intended outcomes.
- The administration of projects does not follow standard ADB processes. The projects require approval by the Japanese embassy at the concept stage and by the Government of Japan at the final design stage, in addition to the normal ADB approvals.
- The design, monitoring, and completion report templates are based on those for the Japan Social Development Fund of the World Bank, which differ from ADB standard templates. The templates for monitoring give little information about outcomes and are not integrated with ADB's monitoring systems.
- Projects can be implemented in various ways, all of which are suitable in appropriate circumstances, but the contribution of nongovernment organizations is worthy of note, particularly the willingness of some to fund temporary deficits from own resources, adding flexibility to implementation.
- The relative success of the Fund is due mainly to (i) the small scale and manageability of projects, (ii) the relevance of projects to the real needs of poor communities, (iii) the close involvement and motivation of most project officers, (iv) implementation by nongovernment organizations that are highly motivated and close to their communities, and (v) the consequent reduction in rent seeking and bureaucratic inefficiency.
- ADB's Office of Cofinancing Operations is effective but understaffed. Focal points in ADB departments would help program development and management.

Recommendations

- Country partnership strategies should include a strategy for use of the Fund—if relevant.
- Fund systems should be moved closer to ADB's core business practices.
- Grant size restrictions should be reviewed. While the grants should remain small-scale, the possibility of increasing the maximum size to \$3 million, or even \$5 million, should be considered.
- Resident missions should be involved in project design and where appropriate have responsibility for project supervision.
- Beneficiary targeting is critical and needs detailed attention during project design and implementation. Projects should target the "enterprising poor."
- The use of grants for disaster recovery should be reviewed. The Fund may be suited to addressing localized disasters, not regional emergencies.
- The Government of Japan might reconsider its role in approval with increased input at the concept and design stages.
- Staff in the Office of Cofinancing Operations should be increased to provide more inputs in design, and more frequent monitoring in the field. Links with the Regional and Sustainable Development Department should be developed.
- Given the innovative and pilot nature of projects and potential for expansion, greater emphasis should be given to learning from projects and disseminating findings.

Feedback

At the time of preparation of these *Learning Curves*, **ADB Management's Response** and the **Chair's Summary of the Development Effectiveness Committee Discussions** were not available for disclosure to the public. The study was completed in August 2007.

¹ ADB. 2007. *Special Evaluation Study on Japan's Funds: Japan Fund for Poverty Reduction*. Manila. Available: <http://www.adb.org/Documents/SES/REG/SES-REG-2007-10/SES-REG-2007-10.pdf>