

# The Japan Special Fund

- The **Japan Special Fund** complements ADB's **technical assistance** program with untied grants, with ADB as administrator. It was set up in March 1988 to help ADB's **developing member countries** restructure their economies in light of the changing global environment, broaden opportunities for new investment, and prepare loan projects. In particular, it supports their efforts towards industrialization, natural resource development, human resource development, and technology transfer. It also supports ADB's efforts to promote **regional cooperation and integration** and **capacity development**.
- Between 1988 to 2006, the **Japan Special Fund** financed 1,578 technical assistance projects for \$974.8 million. In what areas did the Fund perform well? What areas need improvement? How should risk be managed more effectively? How should the Fund be administered better so that development objectives are achieved?

## Background

Through the Japan Special Fund, **Japan** has offered to finance or cofinance **technical assistance** in the public and private sectors; technical assistance components of public sector development projects or programs financed by the Asian Development Bank (ADB); and private sector development projects or programs through equity investments in private entities. The **guidelines** specify no limits but grants have averaged \$600,000. So far, the Fund has received almost \$1 billion—of which 45%, 42%, and 13% for advisory, project preparatory, and regional technical assistance, respectively. Operational highlights are **annual reports**.

In 2007, the Operations Evaluation Department of ADB conducted a **Special Evaluation Study on Japan's Funds: Japan Special Fund**.<sup>1</sup> Concurrently, the department assessed the two other Japanese grant funds administered by ADB through its **Office of Cofinancing Operations**, namely the **Japan Fund for Poverty Reduction** and the **Japan Scholarship Program**.

The study involved a desk review of the Fund—with crosschecks on the Technical Assistance Special Fund—and fieldwork in **Indonesia**, **Lao People's Democratic Republic**, **Mongolia**, and **Nepal**. These countries provided a range of geopolitical systems and supplemented prior country evaluations. In total, the study evaluated 174 technical assistance projects, 99 of them advisory and 75 project preparatory, representing 14% and 11% of all Fund projects approved to date.

## Summary of Findings

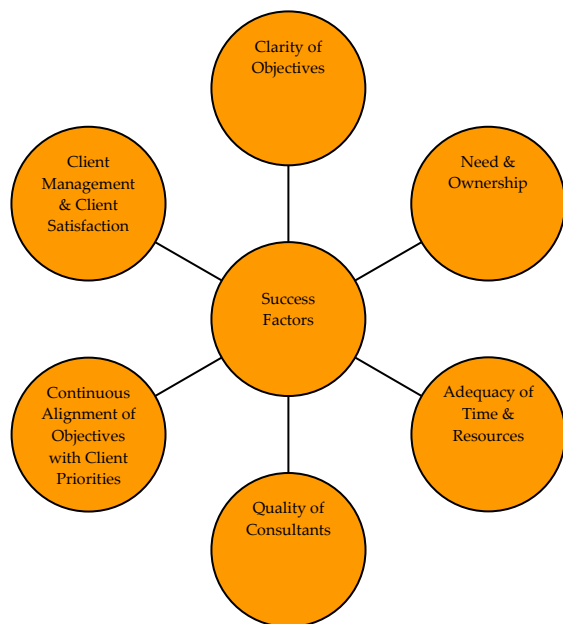
Following the **criteria** used to evaluate public sector operations, the Fund as a whole was judged relevant, effective, partly efficient, and likely to be sustainable. Its overall performance was deemed successful based on a four-point scale (highly successful, successful, partly successful, and unsuccessful), with 65% of advisory and 67% of project preparatory technical assistance rated successful. Advisory technical assistance has often addressed very complex issues in areas with a high degree of difficulty—a factor that should also be taken into account when assessing the degree of success.

Increasing relevance further suggests the need for a more strategic approach to resource allocation. Achieving even higher levels of sustainability may require longer term engagement and larger technical assistance projects, possibly in clusters. Individual projects have outperformed challenging benchmarks for effectiveness and efficiency. Although a significant minority of advisory technical assistance projects is rated partly successful, this does not mean they failed. Reasons for partial success vary. Sometimes objectives are overambitious in relation to the resources provided and the implementation period set.

There was considerable diversity in sector ratings and across countries. In general, technical assistance to **India** and **Viet Nam** has been particularly successful, but it has performed less well in Indonesia. Advisory

technical assistance has been most successful in education, health, and finance, and least successful in energy and water supply, sanitation, and waste management. Yet, project preparatory technical assistance in energy and water supply, sanitation, and waste management was among the most successful. Part of the solution to variations in performance by country and sector is for the assumptions and risk column in a **design and monitoring framework** to better assess risk (taking account of past performance), and for consideration to be explicitly given to how it will be managed.

The study identified six factors of success:



No matter what, the impact of the Fund has been significant in the following respects: (i) advisory technical assistance for policy development has had profound beneficial impacts on the legislative environments governing several sectors; (ii) advisory technical assistance for capacity development has improved the performance of sector and subnational agencies in the delivery of services, especially to the poor; and (iii) about 75% of ADB's project preparatory technical assistance are funded from the Fund and therefore design three quarters of ADB's loan program.

The study concluded that the Fund's management might be improved in several respects. First, it is not clear what value is added by the requirement to have each technical assistance approved by Japan. Second, only 40% of technical assistance projects seem to be adequately resourced. (Yet, processing times are long in relation to expected implementation periods.) Third, all advisory technical assistance projects are treated as

though they are likely to face the same levels of risk. Fourth, client satisfaction is disappointingly low. This is so for technical assistance projects in general, not just those financed by the Fund. (The reasons may be that (a) advisory technical assistance projects promise more than they deliver, (b) exit strategies are lacking, (c) clients are not sufficiently involved in design, and (d) inadequate attention is given to problem resolution during implementation.) Fifth, the one-off nature of many interventions is not conducive to enhancing awareness of Japan's role.

### Recommendations

- ADB should develop strategies for the use of the Fund, and provide clear guidelines to staff.
- The time and resources required for any technical assistance project to achieve results should be assessed more realistically — particularly in areas such as capacity development, where a longer term commitment is needed through larger, longer duration technical assistance and cluster technical assistance projects.
- The Government of Japan should be closely involved at the concept and design stages, with concomitant greater predictability of approval and a more efficient final approval step.
- The bulk of funding should continue to be given to project preparatory technical assistance and piggybacked advisory technical assistance (including capacity building), but with no specified target percentage.
- Study tours should be permitted as eligible expenditures, but on a selective basis.

### 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 September 2007.

<sup>1</sup> ADB. 2007. *Special Evaluation Study on Japan's Funds: Japan Special Fund*. Manila. Available: <http://www.adb.org/Documents/SES/REG/SES-REG-2007-12/SES-REG-2007-12.pdf>.