

**MANAGEMENT RESPONSE TO THE SPECIAL EVALUATION OF ADB'S JAPAN FUNDS:
JAPAN FUND FOR POVERTY REDUCTION, JAPAN SPECIAL FUND,
AND JAPAN SCHOLARSHIP PROGRAM**

On 7 February 2008, the Officer-in-Charge, Operations Evaluation Department, received the following response from the Managing Director General on behalf of Management:

I. General Comments

1. We welcome OED's Special Evaluation Study (SES) on the three Japan Funds, which was conducted upon the request from the Government of Japan (GOJ). The report provides the first independent evaluation of the Japan Fund for Poverty Reduction (JFPR) and the Japan Special Fund (JSF) and the second one for the Japan Scholarship Program (JSP).
2. We are pleased to note the evaluation's conclusion that "the performance of all three funds has been successful and worth continuing." We agree with the ratings for the three Funds, and are in general agreement with the rationale and the premise for most of the recommendations.
3. Some findings of the SES are consistent with related assessments of the Technical Assistance (TA) Reform Task Force which pointed to a need for standardization and simplification of administrative procedures of all Trust Funds. We agree with the key finding of the SESs that administrative procedures of these funds, particularly the approval process, should be further refined.
4. This response focuses on the strategic recommendations addressed to ADB.

II. Comments on Specific Recommendations on the JFPR

5. The SES suggests nine recommendations on JFPR. We will respond to all these recommendations, except Recommendation 7, as follows. Recommendation 7 is addressed to the GOJ.

Recommendation 1. Country Partnership Strategies (CPSs) should include a strategy for the use of JFPR.

6. We agree that the JFPR program needs to be better aligned with the CPSs and regional cooperation strategies and programs (RCSPs). However, we disagree with the recommendation that specific strategies for the use of JFPR should be developed. In order to ensure synergies and better integration of JFPR in ADB operations, JFPR activities should be programmed to the extent possible through the CPS and RCSP, to support or complement other ADB operations like loans, grants, and TA.

Recommendation 2. JFPR systems should be moved closer to ADB's core business practices.

7. We agree in principle with the recommendation and a number of changes have already been proposed for incorporation in the 2008 JFPR Guidelines. However, we note that JFPR is a specialized grant fund which is designed to pilot innovative poverty reduction approaches and therefore some differentiation may be inevitable and justified.

Recommendation 3. Grant size restrictions should be reviewed—while the grants should remain of modest size, the possibility of increasing the maximum grant to \$3 million, or even \$5 million, with adequate justification, should be considered.

8. In principle, we agree with the recommendation to increase the maximum size allowable of the JFPR grants provided that the grants will continue to target the poorest and most vulnerable groups. However, considering the pilot-testing nature of JFPR, it should be carefully considered and discussed with the GOJ.

Recommendation 4. Resident mission (RM) staff should be involved in JFPR project design, and where appropriate, have responsibility for project supervision.

9. We fully support this recommendation. In fact, RM staff have been actively involved in design and implementation of many JFPR projects. On several occasions project proposals have been submitted by RM staff and a number of ongoing JFPR projects have been delegated and are managed by RMs.

Recommendation 5: JFPR projects should target mainly the enterprising poor.

10. We disagree with the recommendation. JFPR was specifically established to target the needs of the poorest and most vulnerable groups through new and innovative methods, and we believe that this focus should continue.

Recommendation 6. The approach of the use of the JFPR grants for disaster recovery should be reviewed. JFPR may be best suited to addressing localized emergencies rather than larger regional emergencies.

11. We disagree with the recommendation for the review. We believe that JFPR assistance for either localized or larger regional emergencies should be considered on a case by case basis. We acknowledge the challenges faced by affected developing member countries in undertaking rapid needs assessment, and subsequently, in coordinating aid of multiple donors; but these are challenges that ADB, together with the recipient, will need to look at, assess, and plan for in any case.

Recommendation 8. OCO's staffing resources should be increased to allow greater input in design, and more frequent monitoring in the field. Closer links with RSDD should be sought.

12. We agree with the SES recommendation. However, the issue of OCO's staffing resources for greater involvement in project design and portfolio monitoring has to be reviewed at an ADB-wide level, taking into account the current staff requirements for JFPR. We also note that RSDD participates in reviewing the design of JFPR projects through peer and interdepartmental reviews and at the staff review committee stage.

Recommendation 9. Given the innovative and pilot nature of JFPR projects and their potential for expansion, greater emphasis should be given to learning from JFPR projects and disseminating the findings.

13. We support the recommendation. We agree that it is desirable to have independent monitoring and evaluation of specific grants and/or TAs, and look forward to having them

included in thematic or geographic clusters in OED's evaluation program. Sharing of lessons learned from projects is already being done through dissemination meetings in-country as well as at headquarters. A publication series documenting successful JFPR projects will be launched in 2008.

III. Comments on Specific Recommendations on the JSF

14. SES suggests five recommendations. Since Recommendations 4 and 5 require further consultations with the GOJ, we will focus our response to Recommendations 1-3 only.

Recommendation 1. ADB needs to develop strategies for the use of JSF funds and to provide clear guidelines to staff.

15. We disagree with the recommendation that specific strategies for the use of JSF should be developed. In order to ensure synergies and better integration of JSF in ADB operations, we believe that it is crucial to align JSF resources better with other TA and loan operations within the CPS/RCSP. We would like to emphasize that JSF guidelines are prepared annually following consultation with the GOJ. Staff are fully-apprised of these guidelines, which are uploaded on the JSF intranet website in ADB Portal.

Recommendation 2. Realistic assessment needs to be made of time and resources required for any TA to achieve results.

16. We agree with the recommendation. However, we note that this recommendation is not particular to JSF-financed TAs. ADB will need to assess this in the context of the ongoing TA reforms that include, among others, reviving the cluster TA approach, which will allow operations to propose activities over a multi-year planning horizon.

Recommendation 3. Greater Government of Japan involvement is needed at the concept and design stage.

17. We note the recommendation, but we already have a well-established coordination mechanism with the GOJ in place. The current guidelines already require that JSF-financed TA proposals be discussed with the local Japanese embassies at the early stage (preferably at the concept stage) prior to formal submission to the GOJ.

IV. Comments on Specific Recommendations on the JSP

18. We generally agree with the SES recommendations on the JSP. Since all recommendations, except recommendation 2, are administrative in nature, we will focus our response to recommendation 2 only. We would like to note that most of these recommendations are either already being implemented or will be implemented in 2008.

Recommendation 2. Extension of assistance from two to three years

19. We agree in principle with the recommendation. We note that in the past, ADB has approved three-year programs on a case-by-case basis, but the GOJ has made clear that it would support only up to two years, consistent with similar assistance that it is couring through other international development institutions, such as World Bank. ADB will need to discuss this further with the GOJ.