

ASIAN DEVELOPMENT BANK

FIRST ANNUAL REPORT

OF THE

JAPAN FUND FOR POVERTY REDUCTION

JUNE 2000 - MAY 2001

July 2001

ABBREVIATIONS

DMC	-	developing member country
JFPR	-	Japan Fund for Poverty Reduction
NGO	-	non-governmental organization
SPD	-	Strategy and Policy Department

NOTE

In this report, "\$" refers to US dollar and ¥ refers to Japanese yen.

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I. INTRODUCTION

1. The first Annual Report on the Japan Fund for Poverty Reduction (JFPR) covers the period from 1 June 2000 to 31 May 2001. The report addresses the background and rationale of the JFPR, implementation progress and achievements, and the objectives for the next year.

2. Effective January 2002, the reporting on the JFPR will coincide with the ADB's financial year. As such, a more detailed report covering JFPR activities over the ADB financial year January 2001 to December 2001 will be submitted, and made available for public distribution as well at the 2002 Annual Meeting.

II. BACKGROUND

3. The JFPR is a new and valuable tool to help implement ADB's Poverty Reduction Strategy. In November 1999, the ADB adopted poverty reduction as the overarching goal of all its operations. The new *Poverty Reduction Strategy*¹ envisages a substantial shift in the way ADB operates. Addressing entrenched poverty in the Asian region calls for a broad range of approaches, projects and development initiatives, some of which are still being developed. The JFPR provides not only additional money to address poverty directly. It also gives a unique opportunity to pilot-test new approaches which directly target the poor; approaches that can later be scaled up for use in mainstream ADB operations. JFPR also provides more opportunities to work directly with non-governmental organizations (NGOs) and community-based organizations in their efforts to alleviate poverty.

¹ R179-99: Fighting Poverty in Asia and the Pacific: The Poverty Reduction Strategy of the Asian Development Bank, 19 October.

4. The JFPR reflects the support of the Government of Japan for ADB's poverty reduction thrust. Japan is one of the two largest shareholders of ADB. It is the largest contributor (about one third) to ADB's concessional lending window, the Asian Development Fund. In addition, the Japan Special Fund and the Japan Scholarship Program support technical assistance and training activities of ADB. The JFPR signifies a support of the Government of Japan for the ADB to become innovative and aggressive in its fight against poverty. On 23 May 2000, ADB's Board of Directors approved the setting up of the JFPR and unanimously lauded the Government of Japan for its generous gesture. An initial contribution of ¥10 billion (approximately \$90 million) was made available for JFPR by the Government of Japan, followed later by an additional commitment of ¥7.9 billion (approximately \$65 million) in 2001.

5. The JFPR supports innovative poverty reduction and related social development activities that will add substantive value to ADB-financed projects targeted at sustainable poverty reduction.

6. JFPR finances projects which directly target poverty reduction that have a strong relation and clear conceptual link to the regular ADB financed activities. It is also expected that JFPR projects will enhance the quality and impact of the ADB financed projects that they support. Priority is given to activities that have an innovative and demonstrative character.

7. Project proposals must meet all of the following eligibility criteria: (i) directly target the poor; (ii) a clear conceptual link to an ADB loan²; (iii) demonstrably sustainable in impact on poverty reduction; (iv) maximum community and NGO involvement; and (v) not a substitute for traditional ADB loan and technical assistance, or for typical Government financing.

² The requirement to link JFPR projects to existing or future ADB loans also results in a different timing for approving JFPR projects through the Government of Japan and through the ADB.

8. One of the eligibility criteria for JFPR projects is maximum community involvement, and - if possible - JFPR project implementation through NGOs. Unlike typical ADB loans, the JFPR allows direct disbursement to NGOs as implementing agencies, although the executing agency will be the Government. Fund flows from ADB to the implementing agency are not necessarily channeled through the executing agency. This is a new opportunity to work more directly with NGOs. Most current JFPR projects directly support NGOs as implementing agencies.

III. OVERVIEW OF THE FIRST YEAR OF OPERATIONS (JUNE 2000-MAY 2001)

A. APPROVAL STATUS

9. By 31 May 2001, eight JFPR projects (equivalent to \$22.34 million) have been approved by ADB. In addition, many more JFPR projects are being conceptualized and processed for implementation in 2001 and 2002. Table 1 provides a summary of the approved JFPR projects and Appendix 1 gives an audited account for 2000, pursuant to JFPR Agreement (para 16).

10. ADB's partners in implementing the JFPR (i.e. the governments of the developing member countries, the implementing NGOs, and the poor as JFPR beneficiaries) are appreciative of this fund because of (i) its flexibility in use for project design, (ii) its support for piloting new approaches for poverty reduction that can be replicated under future ADB loans; (iii) its direct poor people targeting and its emphasis on making a visible and sustainable change in their poverty situation; and (iv) the opportunity it provides to implement projects directly through community based organizations and NGOs.

11. Some creditable examples of approved JFPR funded projects which have been particularly appreciated by stakeholders include, for example:

(a) During the JFPR Letter of Agreement signing for the Payatas JFPR project in Manila, Philippines, President Gloria Macapagal-Arroyo and ADB President Tadao Chino highlighted the importance of the JFPR project for supporting self-help activities in the slums of Payatas through a shelter and housing component; (b) In Uzbekistan, a JFPR project on innovative poverty reduction in Karakalpakstan stimulated an urgent request from the Government for an ADB loan for another region (Khorezem) in the Aral Sea basin using the JFPR approach; (c) In Indonesia, a JFPR project on girl street children at risk of sexual abuse received very favorable publicity by the Indonesian and foreign (including Japanese) press; (d) In the Greater Mekong Subregion various governments and the poor are highly appreciative with the regional JFPR project that helps fight against HIV/AIDs. The project received strong press coverage particularly in Cambodia and Viet Nam; (e) Five countries in Central Asia, in cooperation with the private sector and NGOs, welcomed the support by JFPR for improving nutrition of poor children and mothers through iodized salt and fortified wheat. (f) Furthermore, JFPR projects have received wide and positive media coverage locally as well as internationally. In addition, ADB Board members have also expressed their appreciation of JFPR fund as a new tool for ADB to promote on a pilot basis innovative and sustainable approaches to fight poverty in Asia.

Table 1. JFPR Projects approved by Government of Japan and ADB

Region	Country	JFPR Projects Approved by the Government of Japan	Final Approval by ADB (date)	Amount (million \$)
South-East Asia	Indonesia	Assisting Girl Street Children at Risk of Sexual Abuse	20 October 2000	1.0
	Philippines	Sustainable Livelihood Project for the Poor in Southern Philippines	31 October 2000	2.8
	Philippines	On-site Integrated Urban Upgrading for Vulnerable Slum Communities – Payatas	13 December 2000	1.0
	Philippines	Off-site Relocation, Shelter, and Urban Services for Vulnerable Slum Communities – Muntinlupa	21 December 2000	1.0
Greater Mekong Subregion	Regional (Viet Nam, Lao PDR, Cambodia)	Community Action for Prevention of HIV/AIDS	9 May 2001	8.0
	South Asia	Bangladesh	Livelihood Improvement for the Poor with capacity Development of Water Management Cooperation Associations	0.9
	India	Slum Networking		0.5
Central Asia	Nepal	Support for Poor and Disadvantaged Farmers through Civil Society Organizations	15 May 2001	0.8
	Uzbekistan	Innovative Poverty reduction in Karakalpakstan		2.53
	Tajikistan	Rural Poverty Reduction		2.9
	Regional (Kazakhstan, Kyrgyz Republic, Mongolia, Tajikistan, Uzbekistan)	Improving Nutrition for Poor Mothers and Children in Central Asia	26 April 2001	6.0
Pacific	Papua New Guinea	Low-cost Sanitation & Community Awareness & Health Education Program	14 December 2000	1.74
Total Approved by the Government of Japan				29.17
Total Approved by ADB (as of 30 May 2001)				22.34³

³ The gap represents papers under preparation for Board/President approval.

B. INITIAL IMPLEMENTATION EMPHASIS

12. JFPR emphasizes the piloting of innovative approaches to direct poverty reduction. Developing such project concepts is often new for many DMC partners and ADB staff. Against this background, for the first year of JFPR implementation, the contribution of JFPR to actually changing the way ADB designs targeted poverty interventions has been more important than physical achievements and the rate of disbursement. Emphasis was placed on intense screening and redesigning of initial concept ideas through a team approach between staff and DMC/stakeholder representatives. The result has been various innovative JFPR project proposals currently under preparation.

C. IMPLEMENTATION-SUPPORT ACTIVITIES

13. To strengthen JFPR implementation, various initiatives have been undertaken:

- (i) A JFPR flyer and various JFPR articles (e.g. ADB Review of May 2001) and press releases were prepared and released, including for the ADB's Annual Meeting in May 2001 in Hawaii.
- (ii) Initiatives were taken to strengthen the cooperation with NGOs through meetings and email communications. The secondment of a JFPR-NGO facilitator was recently offered by one of the major Asian NGO networks.
- (iii) Two video clips on JFPR were prepared, featuring particularly the Philippines Payatas and the Indonesia Street Children projects.
- (iv) The first annual JFPR and Japan Social Development Fund (JSDF) Review Meeting was held on 18-19 June 2001 in Tokyo with the Japanese Ministry of Finance and NGOs.

- (v) A JFPR Website (<http://adb.org/jfpr>), in the English and Japanese Version (http://adb.org/Documents/Translations/Japanese/JFPR_2001_JP.pdf), was launched in June 2001 explaining more about the implementation arrangements, eligibility criteria and project examples of JFPR.

IV. OBJECTIVES FOR THE COMING YEAR

14. The major objectives for the coming year are to: (i) accelerate JFPR project processing and approvals; (ii) focus on support for effective implementation and demonstrate in-field impact; (iii) enhance the communication and outreach of JFPR; and (iv) increase cooperation with NGOs.

**ASIAN DEVELOPMENT BANK -
JAPAN FUND FOR POVERTY REDUCTION**

**FINANCIAL STATEMENTS
31 DECEMBER 2000**



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REPORT OF INDEPENDENT AUDITORS

Asian Development Bank

In our opinion, the accompanying Statement of Financial Position and the related Statements of Activities and Changes in Net Assets and of Cash Flows present fairly, in all material respects, in terms of United States dollars, the financial position of the Asian Development Bank - Japan Fund for Poverty Reduction at 31 December 2000, and the results of its activities and changes in net assets and its cash flows for the period from 23 May 2000 (establishment of the Fund) to 31 December 2000, in conformity with generally accepted accounting principles in the United States. These financial statements are the responsibility of the management of the Asian Development Bank; our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit of these statements in accordance with generally accepted auditing standards in the United States which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for the opinion expressed above.

PricewaterhouseCoopers LLP

Boston, Massachusetts
15 June 2001

JFPR - 1

ASIAN DEVELOPMENT BANK - JAPAN FUND FOR POVERTY REDUCTION
STATEMENT OF FINANCIAL POSITION
31 December 2000
Expressed in United States Dollars (Note B)

ASSETS

DUE FROM BANKS (Note B)		26,838
INVESTMENTS (Notes A, B, and C)		
Time deposits	36,432,244	
Corporate bonds	38,579,990	
Other securities	<u>21,458,441</u>	96,470,675
ACCRUED REVENUE		<u>882,998</u>
TOTAL ASSETS		<u>97,380,511</u>

LIABILITIES AND NET ASSETS

PAYABLE TO ORDINARY CAPITAL RESOURCES		20,301
NET ASSETS (JFPR - 2) (Note B), represented by:		
Uncommitted balances (Note D)		<u>97,360,210</u>
TOTAL LIABILITIES AND NET ASSETS		<u>97,380,511</u>

See notes to financial statements (JFPR - 4).

JFPR - 2

ASIAN DEVELOPMENT BANK - JAPAN FUND FOR POVERTY REDUCTION
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
For the Period from 23 May 2000 to 31 December 2000
Expressed in United States Dollars (Note B)

CONTRIBUTIONS (Note B)		92,648,353
REVENUE (Note B)		
Interest income from investments (Note A)	3,162,173	
Unrealized holding loss on investments	(56,759)	
Interest income from bank accounts	<u>11,208</u>	<u>3,116,622</u>
TOTAL CONTRIBUTIONS AND REVENUE		<u>95,764,975</u>
EXPENSES (Note B)		
Administrative expenses		20,301
Financial expenses		<u>21</u>
TOTAL EXPENSES		<u>20,322</u>
CONTRIBUTIONS AND REVENUE IN EXCESS OF EXPENSES		95,744,653
EXCHANGE GAINS, NET (Note B)		<u>1,615,557</u>
NET ASSETS AT END OF PERIOD		<u>97,360,210</u>

See notes to financial statements (JFPR - 4).

JFPR - 3

ASIAN DEVELOPMENT BANK - JAPAN FUND FOR POVERTY REDUCTION
STATEMENT OF CASH FLOWS
For the Period from 23 May 2000 to 31 December 2000
Expressed in United States Dollars (Note B)

CASH FLOWS FROM OPERATING ACTIVITIES	
Contributions received	92,648,353
Interest income from investments received	2,280,733
Interest earned from bank accounts	11,208
Financial expenses paid	(21)
Others – net	<u>(590,272)</u>
Net Cash Provided by Operating Activities	<u>94,350,001</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchases of investment securities	(601,400,733)
Maturities of investment securities	<u>507,077,570</u>
Net Cash Used in Investing Activities	<u>(94,323,163)</u>
Due from Banks at End of Period	<u>26,838</u>
RECONCILIATION OF NET ASSETS AT END OF PERIOD TO NET CASH PROVIDED BY OPERATING ACTIVITIES:	
Net assets at end of period (JFPR - 2)	97,360,210
Adjustments to reconcile net assets at end of period to net cash provided by operating activities:	
Exchange gains on investment maturities	(2,205,829)
Accrued revenue	(882,998)
Unrealized holding loss on investments	56,759
Amortization of discounts/premiums	1,558
Payable to Ordinary Capital Resources	<u>20,301</u>
Net Cash Provided by Operating Activities	<u>94,350,001</u>

See notes to financial statements (JFPR - 4).

**ASIAN DEVELOPMENT BANK
NOTES TO FINANCIAL STATEMENTS
31 December 2000**

NOTE A - NATURE OF OPERATIONS

The Japan Fund for Poverty Reduction (JFPR) was established on 23 May 2000 when Japan and the Asian Development Bank (ADB) entered into a financial arrangement whereby Japan agreed to make an initial contribution and ADB became the administrator. Its primary objective is to foster sustainable poverty reduction and social development in the developing member countries of the Asian and Pacific Region. While JFPR resources are used mainly to finance poverty reduction assistance operations, these resources may also be used for investment operations. Under the agreement between ADB and Japan, ADB may invest the proceeds of JFPR pending disbursement. The revenue from such investments may be used to cover the direct and identifiable costs incurred in the administration of JFPR.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Investments

All investment securities held by JFPR are reported at estimated fair value, with realized and unrealized gains and losses included in revenue. Estimated fair value generally represents market value. Cost or amortized cost is used to approximate fair value for certain short-term investments not traded in the market (time deposits, etc.)

Contributions

Contributions by Japan are included in the financial statements from the date indicated by Japan that funds are expected to be made available. Such contributions and the net assets of JFPR are to be used for the disbursement of approved grants and direct and identifiable costs incurred by the ADB in the administration of the fund.

Functional and Reporting Currency

The functional currency of JFPR is the Japanese yen, while the reporting currency is the United States dollar. The financial statements are expressed in current United States dollar.

Translation of Currencies

Assets, liabilities, and uncommitted balances are translated from the functional currency to the reporting currency at the applicable rates of exchange at the end of a reporting period. Contributions included in the financial statements during the period are translated at the applicable exchange rates as of the date of commitment. Revenue and expense amounts in Japanese yen are translated for each semimonthly period at the applicable rates of exchange at the beginning of each period; such practice approximates the application of average rates in effect during the period. Exchange gains or losses on currency transactions arise on translation differences between the date a transaction is committed and the timing of disbursements. Exchange gains or losses are charged or credited to operations.

Statement of Cash Flows

For the purposes of the statement of cash flows, the JFPR considers that its cash and cash equivalents are limited to "DUE FROM BANKS."

NOTE C - INVESTMENTS

The investment portfolio as of 31 December 2000 is denominated in United States dollar.

The estimated fair value and amortized cost of the investments by contractual maturity at 31 December 2000 were as follows:

	Estimated fair value	Amortized cost
Due in one year or less	\$67,914,244	\$67,936,499
Due after one year through five years	28,556,431	28,590,935
	\$96,470,675	\$96,527,434

The annualized rate of return on the average investment held under JFPR during the period, based on the portfolio held at the beginning and end of each month was 6.55%.

Investments are governed by the Investment Authority approved by the Board of Directors. The main investment management objective is to maintain security and liquidity. Subject to these parameters, ADB seeks the highest possible return on JFPR's investments.

NOTE D - UNCOMMITTED BALANCES

Uncommitted balances are composed of amounts which have not been committed by ADB as at 31 December 2000. These balances include poverty reduction assistance projects/programs that had been approved but which had not yet become effective.

As of 31 December 2000 these balances were as follows:

Uncommitted balances	\$ 97,360,210
PRA projects/programs approved by Japan and ADB but not yet effective	<u>(7,540,000)</u>
Uncommitted balances available for new commitments	<u>\$ 89,820,210</u>

NOTE E - FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value of a financial instrument is defined as the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

The fair value of financial instruments that are short-term approximates their carrying amounts.

If available, quoted market values are used to determine fair values. Financial instruments for which market quotations are not readily available are valued using methodologies and assumptions which necessarily require the use of subjective judgments. Accordingly, the actual value at which such financial instruments could be exchanged in a current transaction or whether they are actually exchangeable is not determinable.

JFPR's statement of financial position carrying amounts are considered to approximate fair values for all significant financial instruments. See Note B for discussion with respect to investments.