

## I. BACKGROUND

### A. Overview

1. The 2004 Annual Report of the Japan Fund for Poverty Reduction (JFPR) is the fourth such report and covers the period from 1 January to 31 December 2004. The report describes the background and rationale, implementation progress, and achievements of the JFPR.

2. The JFPR was established in May 2000<sup>1</sup> and provides direct grant assistance to the poorest and most vulnerable groups in developing member countries (DMCs) of the Asian Development Bank,<sup>2</sup> while fostering long-term social and economic development. The grants target poverty reduction initiatives with direct participation of nongovernment organizations (NGOs), community groups, and civil society.

### B. Purposes

3. The main purposes of the JFPR are to

- (i) provide direct relief to the poor and most vulnerable groups,
- (ii) use innovative methods in social development,
- (iii) apply community-driven, participatory approaches to achieve rapid results that create ownership by beneficiaries of development activities,
- (iv) support capacity-building activities to build a solid foundation for sustainable development, and
- (v) promote cooperation with NGOs.

### C. Activities

4. The JFPR grants support a distinct set of priorities to create rapid results and ensure sustainability over the long term. The JFPR provides financing for activities that have a strong relation to and enhance the effectiveness of projects financed by the Asian Development Bank (ADB). Typical activities include

- (i) provision of basic economic and social services to the poor, including pilot-testing activities such as community water supply and sanitation, small clinics, local product market facilities, and skills training centers;
- (ii) support to social development funds that channel funding to small-scale programs such as child nutrition, reproductive health, skills training, and micro-finance, which are targeted to benefit the poor and communities that are otherwise excluded from access to jobs and essential services;
- (iii) support for NGO activities for poverty reduction and social development, by carrying out projects in a participatory manner, facilitating community involvement in project implementation, building capacity at the grassroots level, and monitoring project progress; and

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<sup>1</sup> The Government of Japan established a similar facility at the World Bank called the Japan Social Development Fund (JSDF).

<sup>2</sup> See Appendix 1 for the complete list of DMCs.

- (iv) capacity building for local governments, community-based organizations, and local NGOs so they can design, implement, monitor, and evaluate projects and pilot test activities in conjunction with ADB-financed projects.

#### **D. Types of Grants**

5. There are two types of JFPR grants.

- (i) **Project grants** finance (a) relief measures, supporting improvements to services and facilities for poorer population groups, or reinforcing and reinvigorating social safety nets; or (b) innovation and testing of new approaches, particularly in the social sectors.
- (ii) **Capacity-building grants** finance capacity building and improvement measures, for example, to bolster local communities and NGOs through learning by doing, expanding the capabilities or coverage of institutions involved in social funding, or supporting local governments working with communities on ADB-funded projects and programs.

#### **E. Focus**

6. The directional guidance for 2004, agreed by the Government of Japan and ADB, stressed that JFPR grants should complement ADB-financed operations and programs and be compatible with the development objectives of the country strategy and program, national poverty reduction strategy paper or strategy, poverty partnership agreement, or the poverty reduction elements of the sector strategies. The grants should focus on activities that (i) respond directly to the needs of the poorest and most vulnerable groups, through new and innovative methods; (ii) support initiatives that lead to rapid, demonstrable benefits with positive prospects of developing into sustainable activities; and/or (iii) build ownership, capacity, empowerment, and participation of the local communities, NGOs, and other civil society groups to facilitate their involvement in operations financed by ADB.

#### **F. Japan's Contribution**

7. In May 2000, the Government of Japan made an initial contribution of ¥10 billion (approximately \$92.6 million) to the JFPR. This was followed in March 2002 by an additional contribution of ¥7.9 billion (about \$61.1 million), and \$90 million transferred by the Government of Japan from the Asian Currency Crisis Support Facility (ACCSF) to the JFPR. In March 2003, ¥7.1 billion (about \$59.9 million) was transferred to ADB, while in March 2004, an additional ¥2.6 billion (about \$23.3 million) was transferred. The total Government of Japan contribution as of 31 December 2004 was ¥39.2 billion (approximately \$326.9 million).

#### **G. Commitments and Financial Status**

8. By 31 December 2004, the JFPR had committed a total of \$146 million for 53 projects. Of this amount, \$125.9 million was outstanding, i.e., letters of agreement (LOAs) had been signed. By the end of 2004, taking into account the Fund's income from investments as well as interest earned on the bank account, about \$200.67 million was available for further commitments. Appendix 2 presents the audit report and financial statement for 2004.