

## **A. Background**

1. The Japan Special Fund (JSF), established in March 1988, has proved to be an effective instrument in supporting the efforts of the Asian Development Bank (ADB) to promote the social and economic progress of the Asian and Pacific Region. The JSF's main role is to contribute to the financing of the ADB's technical assistance (TA) program in its developing member countries (Appendix 1). This role became even more important during 1999 when ADB refocused its goals on poverty reduction. While the region is now beginning to recover from the recent currency crisis, the weakened social infrastructure has increased the need for additional TA to empower the governments of the region to plan, control, and sustain development projects and programs. The JSF has supported ADB's efforts in this regard.

2. As administrator of the JSF, ADB processes TA proposals for JSF funding in six batches a year. Critical TA proposals needing urgent attention will be processed on a case by case basis. The JSF has a two-step approval: initial and final. After careful screening of suitable TAs by the Office of Cofinancing Operations, an initial approval is sought from the JSF authorities in the Government of Japan. The JSF authorities undertake a thorough review of the proposals and seek clarification, as necessary, to gain a complete understanding of the TA proposal and maintain project quality \*. The JSF authorities then advise ADB of the proposals receiving their initial approval. Once the proposal is reviewed and approved by an interdepartmental staff review committee, final approval for JSF financing is sought from the JSF authorities.

## **B. Overview of Operations in 1999**

3. Since its establishment in 1988, the JSF has become a major contributor to ADB's development efforts by supporting policy reform, fiscal strengthening, good governance initiatives, capacity building, promotion of financial and capital markets, subregional economic cooperation, and environmental protection.

4. In 1999, ADB announced that poverty reduction would be its overarching objective. Accordingly, JSF resources have also been focused on reducing poverty. In 1999, the JSF financed \$60,963,000 of TA to ADB's poorer developing member countries.

5. In Cambodia, for example, where 90 percent of the poor population live in rural areas, agricultural growth and rural development are prerequisites for achieving the country's poverty reduction goal. In October 1999, ADB approved a JSF-financed TA for \$1,450,000 to support rural financial services (Box 1). The TA, which is in line with ADB's operational strategy for Cambodia, will contribute to the Government's market-oriented policy for rural development, which is based on the initiatives and experience of the private sector in rural finance.

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\* New procedures are under consideration.

**Box 1: Capacity Building for Effective Rural Financial Services**

The technical assistance (TA) is to help financial institutions involved in rural credit and savings build their capacity to establish effective and sustainable rural financial services. The TA will contribute to the country's ultimate goal of poverty reduction.

The TA will assist (i) the National Bank of Cambodia (NBC) in establishing procedures for licensing and supervising microfinance institutions (MFIs) and in strengthening its capacity for monitoring MFIs; (ii) the Rural Development Bank (RDB) and MFIs in strengthening their capability in financial management and banking; and (iii) MFIs in savings promotion and product development. The TA will (i) assess the current situation of rural credit and savings in Cambodia; (ii) assess the capacity of financial institutions involved in rural credit and savings, including NBC, RDB, and the prospective MFIs; (iii) assist NBC to implement the newly introduced legislation for financial institutions and MFIs; (iv) provide the staff of NBC, RDB, and the prospective MFIs with training and seminars; (v) help establish a microfinance resource center within NBC for compiling and disseminating data and information on microfinance activities in Cambodia, and for facilitating interactions between MFIs and between MFIs and commercial banks; and (vi) develop and institutionalize appropriate environmental screening procedures within RDB and the prospective MFIs.

TA 3270-CAM: *Capacity Building for Rural Financial Services*, for \$1,450,000, approved on 5 October 1999.

6. The Indonesian economic crisis resulted in a significant increase in the number of persons living below the poverty line. The Government budget is severely constrained, even as the need for essential services and the prices of basic supplies, such as drugs, vaccines, and contraceptives, have risen. As a result, the Government may be forced to limit its support for essential health, nutrition, and family planning services, and many persons will be unable to afford the services that are available. A TA for monitoring and evaluating ADB's Health and Nutrition Sector Development Program will support a monitoring system that will involve nongovernment organizations and community-based organizations in collecting data, at the community level, on how quickly and effectively resources under the Program are reaching the intended beneficiaries (Box 2). The JSF-financed TA also provides for training in monitoring and evaluation, with particular emphasis on capacity building at the local level.

**Box 2: Monitoring and Evaluating the Health and Nutrition Sector Development Program**

The technical assistance (TA) will develop a monitoring system to enable the Government and ADB to assess progress, identify constraints, and adjust delivery mechanisms to improve the efficiency of the Health and Nutrition Sector Development Program; and will evaluate the effectiveness of program strategies with the intent to subsequently refine and institutionalize them.

TA 3175-INO: *Monitoring and Evaluating the Health and Nutrition Sector Development Program*, for \$1,000,000, approved on 25 March 1999.

7. To encourage greater economic cooperation and integration in the Greater Mekong Subregion, in July 1999 ADB approved regional TA of \$950,000 financed by the JSF to help prepare agreements, annexes, and protocols for the cross-border movement of goods and people in the subregion (Box 3).

**Box 3: Facilitating the Cross-Border Movement of Goods and People in the Greater Mekong Subregion**

The technical assistance (TA) will assist countries in the Greater Mekong Subregion (GMS) to address major transport-related cross-border issues, thus enhancing trade and investment, and ensuring that economic returns from investments in subregional transport projects are maximized. Specifically, the objectives are to (i) maintain the momentum of cooperation within the GMS and reinforce the subregional consultative process; and (ii) promote the formulation and implementation of agreements that will allow the freer flow of goods and people, and further the development of subregional transport. The TA involves provinces in Cambodia, the People's Republic of China, Lao People's Democratic Republic, Myanmar, Thailand, and Viet Nam.

TA 5850-REG: *Facilitating the Cross-Border Movement of Goods and People in the Greater Mekong Subregion*, \$950,000, approved on 16 July 1999.

8. In Nepal, effective access to basic education remains far from universal or equitable. A significant gap exists in educational participation between the poor and the nonpoor. The main problem with the basic education system is poor quality, evidenced by high levels of dropout and repetition. Girls' learning outcomes are poorer, resulting from inequitable access to quality education, a poor learning environment, inadequately trained and motivated teachers, and the lack of quality textbooks and learning materials. ADB has therefore agreed to provide project preparatory TA financed by the JSF for a basic education project. The project will be formulated in accordance with ADB's education and teacher assistance strategies in Nepal with a goal of reducing poverty in the region.

**C. Evaluation of JSF-Financed Technical Assistance Projects**

9. ADB postevaluates its TA operations to provide feedback to improve future TA activities. Following a two-step evaluation system, a TA completion report (TCR) is first prepared by the division or office in charge of TA implementation. The TCR is prepared within six months to one year after TA completion.

10. The second step is the preparation of a TA performance audit report (TPAR) by the Operations Evaluation Office (OEO) within six months to one year after completion of the TCR. TPARs are prepared on a highly selective basis, generally based on ADB-wide priorities, and the relevance and appropriateness of lessons learned for design and implementation of TAs in a particular sector or country. The TPAR assesses implementation performance, evaluates the achievement and impact of the TA, and draws lessons from the experience to improve ADB's TA activities. Postevaluated projects, programs, and TA operations are classified as generally successful, partly successful, or unsuccessful. TPARs from 1995 onward are available on-line by accessing OEO's website at <http://o eo.asiandevbank.org>.

## **D. Contributions from the Government of Japan**

11. In 1999, the Government of Japan provided a total of ¥5.8 billion to the JSF—its eleventh annual contribution. This included ¥2.0 billion in regular contributions and ¥3.8 billion in supplementary contributions. This brings Japan's cumulative contributions to the JSF, since its inception in March 1988, to ¥86.5 billion or \$745.0 million at historical exchange rates. The cumulative total includes regular contributions of ¥68.4 billion and supplementary contributions of ¥18.1 billion.

## **E. Balance of Contributions Available for New Commitments**

12. Of the total contribution received by the JSF, as of 31 December 1999 \$593.5 million had been used for TA. As of 31 December 1999, TA totaling \$32.9 million had been approved by both the Government of Japan and ADB, but had not yet become effective, and further TA totaling \$18.6 million had been approved by the Government of Japan and was being processed by ADB. At the end of 1999, the uncommitted balance available for new commitments was \$69.9 million.

## **F. Operational Highlights**

### **1. Total Approvals for the Year and Cumulative Totals**

13. In 1999, the JSF provided about \$60.96 million for 91 TAs (including both country-specific TAs and regional TAs) (Appendix 2), compared with \$89.16 million the previous year. This total represents about 35 percent of ADB's total TA Program during 1999. From 1988 to the end of 1999, a total of \$651.82 million under the JSF was committed to finance 1,070 projects (Appendix 3).

### **2. Total Approvals, by Country**

14. During 1999, the JSF financed 73 new country-specific TA projects in 18 countries for a total of \$53.45 million. The People's Republic of China was the largest recipient, receiving \$14.59 million through 18 grants, followed by Viet Nam and the Lao People's Democratic Republic.

15. Since its establishment, 31 countries have been supported by the JSF (Appendix 4). The People's Republic of China and Indonesia are the major recipients.

### **3. Nature and Type of TA Projects Supported**

16. The JSF has made untied funds available for advisory, project preparatory, and regional TAs.

17. In 1999, 38 JSF-supported advisory TAs for \$29.58 million were approved. Since its inception in 1988, JSF-financed advisory TAs have amounted to \$323.54 million for a total of 517 projects.

18. During 1999, 35 JSF-supported project preparatory TAs for \$23.87 million were approved. Cumulative approvals of project preparatory TAs amounted to \$259.06 million for 440 projects from 1988 to 1999. A cumulative total of 227 TAs (\$146.50 million) accompanying loan

projects have been approved since 1988. In 1999, 9 of project preparatory TAs were approved for a total of \$7.50 million.

19. In 1999, 18 JSF-supported regional TAs were approved for a total of \$7.51 million. From 1988 to 1999, 113 regional TAs totaling \$69.21 million were approved for JSF financing.

#### 4. Total Approvals, by Sector

20. The JSF can support a wide range of sectors and subsectors (Appendix 5). Since its inception in 1988, most JSF funding has supported the agriculture and natural resources sector (29 percent of total funding with 257 grants for \$166.16 million). Social infrastructure and transport and communications were the second and third leading sectors (Table 1).

**Table 1: Japan Special Fund  
Technical Assistance, by Sector, 1988-1999**  
(\$'000)

Sector	1998			1999			1988-1999		
	No. of Projects	Amount	%	No of Projects	Amount	%	No. of Projects	Amount	%
Agriculture and Natural Resources	16	12,200.0	18	17	13,343.0	25	257	166,167.5	29
Energy	14	9,907.0	15	9	7,034.0	13	115	65,659.4	11
Finance	6	6,280.0	9	5	4,500.0	8	50	29,701.0	5
Industry and Nonfuel Minerals	0	0	0	2	2,600.0	5	38	19,071.0	3
Social Infrastructure	23	15,218.0	22	15	8,530.0	16	230	128,294.0	22
Transport and Communications	13	10,650.0	16	15	10,221.0	19	150	95,946.0	17
Multisector	2	2,134.0	3	1	900.0	2	4	7,234.0	1
Others	12	11,820.5	17	9	6,325.0	12	113	70,536.8	12
Subtotal	86	68,209.5	100	73	53,453.0	100	957	582,609.7	100
Regional TAs	26	20,953.0		18	7,510.0		113	69,217.4	
<b>Total</b>	<b>112</b>	<b>89,162.5</b>		<b>91</b>	<b>60,963.0</b>		<b>1,070</b>	<b>651,827.1</b>	

TA = technical assistance.

Note: Excludes Asian Currency Crisis Support Facility.

## G. Asian Currency Crisis Support Facility

### 1. Review of Activities

21. The Asian Currency Crisis Support Facility (ACCSF) was established in March 1999 as an independent component of the JSF. The ACCSF is entirely funded by the Government of Japan as part of its financial assistance under the New Miyazawa Initiative to ADB developing member countries most affected by the recent financial crisis. The ACCSF provides assistance by helping to augment and enhance the financial support extended by ADB. ADB administers

ACCSF. The beneficiary countries presently include Indonesia, Republic of Korea,<sup>1</sup> Malaysia, Philippines, and Thailand. The ACCSF modalities comprise (i) interest payment assistance (IPA) and TA grants, and (ii) guarantees. Assistance with ACCSF financing must be approved during the three years following the establishment of the ACCSF or during such extended period as the Government of Japan and ADB may agree if the beneficiary countries are not fully out of the crisis.

22. In 1999, the Government of Japan contributed ¥12.5 billion (\$104.4 million equivalent) for the IPA and TA component of the ACCSF. The uncommitted balance of funds for new approvals of IPA and TA was \$19.3 million as of 31 December 1999.<sup>2</sup>

23. In 1999, ADB approved \$99.5 million of ACCSF funding, comprising \$89 million for two IPA operations and \$10.5 million for 11 TAs. IPA was approved for the Health and Nutrition Sector Development Program (\$44 million) and the Community and Local Government Support Sector Development Program (\$45 million), both in Indonesia, to alleviate the adverse financial conditions faced by the country and effectively reduce the interest cost for funding of critical social safety nets during the period of economic difficulties.

24. The ACCSF financing is targeted at activities that support policy dialogue, human resource development, institutional strengthening, and other relevant efforts focusing on bank restructuring and corporate debt restructuring; creation or development of sound financial monitoring, supervision, and regulation; enhancement of public sector and corporate governance; development of social safety nets; and protection of the environment. During 1999, the ACCSF financed eight advisory TAs as part of ADB's response to the financial crisis. This included advisory services to implement social safety net programs in Indonesia, to restructure public sector services in Indonesia and financial institutions in Thailand, and to support capacity building for decentralization of the environmental impact assessment process in Indonesia. The ACCSF also financed three important project preparatory TA operations to prepare a sound natural resources and environment sector project in Indonesia, to formulate a project aimed at the development of poor urban communities in the Philippines, and to develop community-based resource management in the Philippines.

25. The Government of Japan also deposited a promissory note for ¥360.0 billion (\$3.5 billion equivalent) in the ACCSF custodian account; this note may be encashed at any time to meet a call on any guarantees issued under the ACCSF. During 1999, although opportunities for using ACCSF guarantees in relation to ADB operations in the countries eligible for ACCSF financing were identified, no ACCSF guarantee operations were concluded.

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<sup>1</sup> Although the Republic of Korea was severely affected at the onset of the crisis, the country has made significant progress in macroeconomic stabilization and overall economic recovery. Given these improvements, the Republic of Korea will not receive assistance under the ACCSF as long as the present situation continues.

<sup>2</sup> This amount takes into account a foreign exchange gain of \$17.4 million and four TA proposals totaling \$3.0 million approved for ACCSF funding by the Government of Japan; these had not yet been approved by the ADB.

## 2. Sectoral Activities

26. In 1999, the ACCSF financed 6 percent of the total value of TA approved by ADB. The breakdown of ACCSF TA approvals by sector is shown in Table 2.

**Table 2: Asian Currency Crisis Support Facility  
Technical Assistance by Sector, 1999**

<b>Sector</b>	<b>\$ million</b>	<b>%</b>
Agriculture and Natural Resources	1.2	11.6
Finance	3.0	28.6
Social Infrastructure	5.4	51.1
Others	0.9	8.7
<b>Total</b>	<b>10.5</b>	<b>100.0</b>

## H. Financial Statements

27. As of 1997, explanatory notes to the JSF financial statements are included in the Bank's Annual Report to show the actual and realistic balances available to finance new TA proposals under the JSF (Appendix 6). In this way, readers will have a clear picture of the uncommitted JSF balances to date.

**APPENDIXES**

<b>Number</b>	<b>Title</b>	<b>Page</b>	<b>Cited on (page, para.)</b>
1	Members of the Asian Development Bank	9	1, 1
2	JSF Grants in 1999 and Implementation Status Report	10	4, 13
3	Implementation Progress Report on JSF Grants, 1988-1999	31	4, 13
4	Use of the Japan Special Fund for 1988-1999	80	4,15
5	Sectoral Distribution of JSF Grants for 1999 and 1988-1999	82	5, 20
6	Financial Statements	83	7, 27

## MEMBERS OF THE ASIAN DEVELOPMENT BANK

Regional	Year of Membership	Nonregional	Year of Membership
Afghanistan*	1966	Austria	1966
Australia	1966	Belgium	1966
Azerbaijan*	1999	Canada	1966
Bangladesh*	1973	Denmark	1966
Bhutan*	1982	Finland	1966
Cambodia*	1966	France	1970
China, People's Republic of*	1986	Germany	1966
Cook Islands*	1976	Italy	1966
Fiji Islands*	1970	Netherlands	1966
Hong Kong, China*	1969	Norway	1966
India*	1966	Spain	1986
Indonesia*	1966	Sweden	1966
Japan	1966	Switzerland	1967
Kazakhstan*	1994	Turkey	1991
Kiribati*	1974	United Kingdom	1966
Korea, Republic of*	1966	United States	1966
Kyrgyz Republic*	1994		
Lao People's Democratic Republic*	1966		
Malaysia*	1966		
Maldives*	1978		
Marshall Islands*	1990		
Micronesia, Federated States of*	1990		
Mongolia*	1991		
Myanmar*	1973		
Nauru*	1991		
Nepal*	1966		
New Zealand	1966		
Pakistan*	1966		
Papua New Guinea*	1971		
Philippines*	1966		
Samoa*	1966		
Singapore*	1966		
Solomon Islands*	1973		
Sri Lanka*	1966		
Taipei, China*	1966		
Tajikistan*	1998		
Thailand*	1966		
Tonga*	1972		
Tuvalu*	1993		
Uzbekistan*	1995		
Vanuatu*	1981		
Viet Nam*	1966		

\*developing member country