

**OPERATIONS MANUAL
BANK POLICIES (BP)**

These policies were prepared for use by ADB staff and are not necessarily a complete treatment of the subject.

JAPAN FUND FOR POVERTY REDUCTION

A. Introduction

1. The Japan Fund for Poverty Reduction (JFPR), made available by the Government of Japan in May 2000, is designed to support the poverty reduction strategy of the Asian Development Bank (ADB) by financing, on a grant basis, activities that target the poor. To this end, the Government of Japan has appointed ADB as the administrator of the JFPR.

B. The Policy

2. The main objective of the JFPR is to support innovative poverty reduction and social development activities that can add substantive value to ADB-financed projects. Developing member countries (DMCs) of ADB are eligible for JFPR assistance. Accordingly, JFPR proceeds are to be used to

- (i) support well-targeted poverty reduction and social development activities that have a direct impact on the poor, and on socially or economically excluded or vulnerable groups;
- (ii) stimulate self-help capacity of the poor and broad stakeholder participation at the community level; and
- (iii) provide a systematic impact on operations and approaches of the DMCs to sustainable poverty reduction.

C. Scope of the Policy

3. The types of activities to be covered include the following:

- (i) provision of basic economic and social services to the poor, including pilot testing of activities, such as community-level water supply and sanitation, small clinics, market facilities for local product, and skills training centers;
- (ii) support for social development funds that finance small-scale programs, such as child nutrition, reproductive health, skills training, and microfinance, which are targeted to benefit the poor and communities that are excluded from access to jobs and essential services;
- (iii) support for nongovernment organization (NGO) activities for poverty reduction and social development by assisting NGOs in processing projects in a participatory manner, facilitating community involvement in project

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implementation, building capacity at the grassroots level, and monitoring project progress; and

- (iv) capacity building for local government, community-based organizations, and local NGOs for the purpose of designing, implementing, monitoring, and evaluating projects; and testing pilot activities in conjunction with ADB-financed projects.

Basis: This OM section is based on:

ADB. 2000. *Cooperation with Japan: Japan Fund for Poverty Reduction* (Doc. R105-00). 28 April. Manila.

ADB. 2000. *Establishment of a Japan Fund for Poverty Reduction* (arrangement letter between the Government of Japan and ADB). 24 May. Manila.

This OM section is to be read with OM Section E2/OP.

Compliance: This OM section is subject to compliance review.

For inquiries: Questions may be directed to the principal director, Office of Cofinancing Operations.

OPERATIONS MANUAL OPERATIONAL PROCEDURES (OP)

These procedures were prepared for use by ADB staff and are not necessarily a complete treatment of the subject.

JAPAN FUND FOR POVERTY REDUCTION

A. Introduction

1. The Government of Japan established the Japan Fund for Poverty Reduction (JFPR) in May 2000, with the Asian Development Bank (ADB) as the administrator, to support innovative poverty reduction and social development activities that will add substantive value to ADB-financed projects.

2. JFPR proposals are required to be developed and agreed upon with the recipients in the developing member country (DMC). These proposals must be discussed with other stakeholders, including national and local governments, public institutions, community groups, nongovernment organizations (NGOs), and other civil society organizations, through a participatory approach. Communities will participate in the design, implementation, monitoring, and evaluation of JFPR activities.

B. Application of the Policy

3. JFPR grants must complement ADB-financed operations and/or programs compatible with the development objectives of the long-term strategic framework 2008–2020 (Strategy 2020)¹, country partnership strategy (CPS), poverty reduction strategy program and/or national poverty reduction strategies, project performance audit, or poverty reduction elements of sector strategies. Within the general objectives, the JFPR proceeds finance pilot activities that

- (i) respond directly to the needs of the poorest and most vulnerable groups;
- (ii) support initiatives that lead to rapid, demonstrable benefits to the poor with positive prospects of developing into sustainable activities; and
- (iii) build ownership, capacity, empowerment, and participation of local communities, NGOs, and other civil society groups to facilitate the involvement of the poor in operations financed by ADB.

4. The JFPR leverages ADB resources and enhances the impact of loans through activities that normally cannot be funded under ADB loans and/or other ADB resources.

¹ ADB. 2008. *Strategy 2020: The Long-Term Strategic Framework of the Asian Development Bank (2008–2020)*. Manila.

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5. Two types of JFPR projects may be considered for grant financing:
 - (i) **Project grants.** These include activities that provide direct support for improving services and facilities for the poor, reinvigorating social safety nets, and testing new approaches that are replicable on a larger scale or lay the groundwork for future ADB operations.
 - (ii) **Capacity building grants.** These support building the capacities and improving measures to bolster local communities and NGOs; expanding the capabilities or coverage of social fund-type institutions; and promoting positive interaction among local governments, NGOs, and communities for the benefit of the poor.

6. Grant projects are approved based on the following criteria:
 - (i) rapid, demonstrable benefits to the poor and vulnerable;
 - (ii) innovative approach;
 - (iii) value added to ADB operations and rationale for grant funding (versus ADB lending);
 - (iv) recipient's ownership of the grant;
 - (v) participatory approach involving NGOs community groups, and local governments in preparation of application and/or grant implementation;
 - (vi) sustainability or exit strategy of the activities after the grant is completed;
 - (vii) disciplined budget process for the use of grant funds;
 - (viii) capacity of the grant executing agency to implement, monitor, and supervise grant activities; and
 - (ix) justified incremental ADB costs.

7. JFPR grants range from \$200,000 to \$2 million. Grants over \$2 million may be considered under exceptional circumstances.

8. Eligible expenditures include goods, small civil works, services, in-country training and workshops, and annual external audits. Goods, civil works, and services are procured in accordance with ADB's *Procurement Guidelines* (2007, as amended from time to time), and consultants are selected and engaged in accordance with ADB's *Guidelines on the Use of Consultants* (2007, as amended from time to time).

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9. Incremental costs (including staff consultant fees) of the relevant regional department of up to 5% of the total grant amount may be requested for implementation activities in projects of unusual complexity that require ADB staff resources beyond those that can be financed by the regular administration budget. To support the preparation costs of JFPR proposals, staff may apply for seed money of up to \$20,000, which can be used for activities that facilitate consultations with stakeholders, NGOs, and communities, or promote collaboration and empowerment that are necessary for a well-developed JFPR grant proposal.

10. The following activities and expenditures may not be financed under JFPR: (i) activities normally funded under ADB loans or other ADB internal administrative expense budgets, (ii) preparation of strategy papers and other normal technical assistance activities, (iii) academic research, (iv) government staff salaries, (v) foreign training or study tours, (vi) cultural heritage and tourism projects, and (vii) purchase of motor vehicles.²

11. Directors and directors general of regional departments are responsible for quality review, including the technical content of activities, inputs, and outputs. Project officers are strongly urged to vet the technical aspects of their proposals with peer reviewers outside the project team in the relevant themes and sectors before the staff review committee (SRC) meeting. Requests for funding should include the names of all reviewers and their comments, if any, to facilitate review of proposals by the Office of Cofinancing Operations (OCO).

12. Grants are approved by the Government of Japan based on a standard one-page summary of the grant proposal. The proposal contains basic data, overall development objectives of the grant, expected key performance indicators, and expenditure categories. Details of project implementation, such as the proposed components, activities, implementation and fund-flow arrangements, and detailed cost estimates will be reflected in the background information attached to the one-page grant proposal.

13. The concerned division of the regional department in ADB must support the activity, designate a project officer, and seek concurrence from the respective DMC to implement the proposed activities as anticipated. Proposals must be in line with the country partnership strategy and program objective(s), as well as with the sector approach, which are confirmed by the sector director and director general of the regional department, and are submitted to OCO after review by the SRC.

14. JFPR grant proposals are processed in the following steps:

- (i) The requesting division obtains concept clearance following regular ADB concept clearance processes for nonlending assistance.
- (ii) The regional department obtains concurrence from the DMC during appraisal through a memorandum of understanding or aide-memoire, and discusses the proposal with local Japanese embassy staff.

² An exception on the purchase of motor vehicles may be warranted subject to justification provided in the proposal.

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- (iii) The requesting division subjects the proposal to peer review, interdepartmental comments, and SRC, and then submits the proposal through the division or country director to the director general for endorsement to OCO.
- (iv) OCO reviews applications to ensure consistency with JFPR objectives and guidelines, and seeks clarifications or further explanations.
- (v) OCO recommends to the Government of Japan those applications that meet the criteria.
- (vi) The Government of Japan approves or rejects the proposal.
- (vii) The Board approves the JFPR grant proposal paper if JFPR financing exceeds \$1.0 million. The President approves the grant if JFPR financing is \$1.0 million or less.

15. After approval, ADB enters into a letter of agreement (LOA) with the grant recipient(s) of the concerned DMC, laying down the specific implementation and fund-flow arrangements, among others. This signifies grant effectiveness. When the grant recipient is an NGO, local community group, or other civil society organization, the concerned DMC must show support for the grant. This can be done through (i) a separate letter from the DMC to ADB endorsing the grant; (ii) one LOA signed by the DMC, the NGO recipient, and ADB; or (iii) two separate agreements—the LOA between ADB and the DMC, and a memorandum of agreement between the DMC and the NGO recipient. A public signing ceremony, attended by a representative of the Japanese embassy, is encouraged to increase visibility and media coverage.

16. The project officer monitors grant outputs and submits a semiannual grant status report documenting progress and agreed upon changes to meet the grant objectives. An implementation completion memorandum will be prepared documenting cumulative inputs and outputs throughout the grant implementation period.

Basis: This OM section is based on OM Section E2/BP and the documents cited therein.

Compliance: This OM section is subject to compliance review.

For inquiries: Questions may be directed to the principal director, Office of Cofinancing Operations.