

August 2021

## Change the Japan Fund for Poverty Reduction to the Japan Fund for Prosperous and Resilient Asia and the Pacific

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## ABBREVIATIONS

ADB	–	Asian Development Bank
COVID-19	–	coronavirus disease
CSO	–	civil society organization
DMC	–	developing member country
JFPR	–	Japan Fund for Prosperous and Resilient Asia and the Pacific
original JFPR	–	Japan Fund for Poverty Reduction
SDCC	–	Sustainable Development and Climate Change Department
TA	–	technical assistance

## NOTES

In this report, “\$” refers to United States dollars.

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## I. THE PROPOSAL

1. This paper requests Board approval to (i) rename the Japan Fund for Poverty Reduction (original JFPR) the Japan Fund for Prosperous and Resilient Asia and the Pacific (JFPR); and (ii) focus the JFPR operating framework on poverty reduction, universal health coverage, climate change and disaster risk management, quality infrastructure investment, and public finance management, to be in line with Japan's development priorities and consistent with the long-term corporate strategy of the Asian Development Bank (ADB). The provisions outlined in this paper will supersede the Revised Operating Framework for the Japan Fund for Poverty Reduction<sup>1</sup> established under the Cooperation with Japan: Japan Fund for Poverty Reduction policy paper.<sup>2</sup>

## II. BACKGROUND AND RATIONALE

2. On 23 May 2000, ADB's Board of Directors approved the establishment of the original JFPR as an ADB-managed trust fund in response to the devastating impact of the 1997 Asian financial crisis on vulnerable groups. The original JFPR is ADB's largest single-donor trust fund and has received \$966 million to date from the Government of Japan.<sup>3</sup> It aimed to support innovative poverty reduction and related social development activities through project grants that can add substantive value to ADB-financed projects. In 2009, the original JFPR underwent a major change and included technical assistance (TA) as an eligible financing modality. Combining the government's project grant and TA support under one umbrella paved the way for a more comprehensive approach to addressing poverty, building human resources, and empowering institutions and communities in the recipient developing member countries (DMCs). Since its establishment, the original JFPR has provided 200 project grants and 294 TA grants totaling more than \$969 million to 36 DMCs.<sup>4</sup> According to the 2007 special evaluation study<sup>5</sup> of the Operations Evaluation Department, which is now known as the Independent Evaluation Department, the financing program was relevant, efficient, effective, and sustainable. It strongly supported ADB's Poverty Reduction Strategy and has had substantial socioeconomic impacts. This was further validated in the 2017 JFPR special evaluation study,<sup>6</sup> which concluded that the original JFPR successfully met its objectives and added significant value and development impact to ADB assistance, in line with ADB's long-term strategic framework, Strategy 2020.<sup>7</sup>

3. Since 1990, the number of people living in extreme poverty (on less than \$1.90 a day) in Asia and the Pacific has declined from 1.5 billion to 264 million (0.264 billion).<sup>8</sup> The original JFPR helped alleviate poverty for the region's most vulnerable groups—including women, children, older persons, people with disability, and victims of domestic violence—through innovative and demonstrative projects. Much was achieved through the original JFPR in terms of poverty reduction in the region, and lessons from its 20 years of experience have been incorporated into ADB strategies, programs, and projects, including much-needed capacity building for DMCs, communities, civil society organizations (CSOs), and other key stakeholders.

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<sup>1</sup> ADB. 2009. *Revised Operating Framework for the Japan Fund for Poverty Reduction*. Manila (R165-09).

<sup>2</sup> ADB. 2000. *Cooperation with Japan: Japan Fund for Poverty Reduction*. Manila (R105-00, amended on 14 February 2002).

<sup>3</sup> ADB. Cofinance Management System. <https://lnadbg6.adb.org/ocs0309p.nsf/index.xsp> (data as of 30 June 2021).

<sup>4</sup> Based on commitments as of 30 June 2021 and includes two projects approved under the original JFPR's COVID-19 window. The difference from the government contribution was derived from interest income and investments.

<sup>5</sup> Operations Evaluation Department. 2007. *Special Evaluation Study: ADB's Japan Funds: Japan Fund for Poverty Reduction*. ADB: Manila (SES: REG 2007-10).

<sup>6</sup> ADB. *Special Evaluation Study: Japan Fund for Poverty Reduction*. Unpublished.

<sup>7</sup> ADB. 2008. *Strategy 2020: The Long-Term Strategic Framework of the Asian Development Bank 2008-2020*. Manila.

<sup>8</sup> ADB. 2020. *ADB Annual Report 2019*. Manila.

4. However, the coronavirus disease (COVID-19) pandemic has negated some of these gains and more work needs to be done to protect vulnerable groups from shocks brought about by illness, natural calamities, and economic downturns. The COVID-19 outbreak underscored the vulnerability not only of populations close to the poverty line but of entire populations and economies. Besides the loss of millions of lives, it caused economic contraction that pushed an additional 162.0 million people below the poverty line of \$3.20 per day and 78.3 million people to extreme poverty.<sup>9</sup> The pandemic is threatening to reverse the region's development gains. COVID-19's impacts are felt hardest by the poor and vulnerable groups: older persons lack access to health care, children are unable to attend school, informal workers and low-income groups lost their livelihoods, and women fell victim to domestic violence, among others. Overcoming and preventing similar crises require a renewed focus on inclusive economic growth that emphasizes preventive measures to achieve a resilient and sustainable recovery.

5. In a statement delivered at ADB's 54th Annual Meeting in May 2021, the Government of Japan underscored the need to overcome the crisis and achieve a resilient recovery by enhancing preparedness for future shocks and building a strong and sustainable foundation for future growth. The government intends to keep supporting ADB's COVID-19 response efforts to achieve a resilient and sustainable recovery, and highlighted the following important policy areas:

- (i) **Universal health coverage.** Promoting universal health coverage contributes not only to strengthening health systems for prevention, preparedness, and response to the next pandemic but also to ensuring inclusive and sustainable growth.
- (ii) **Climate change and disaster risk management.** Tackling global warming is important to achieve sustainable economic growth. It is critical to support not only mitigation but also adaptation measures, including enhancing resilience to natural disasters.
- (iii) **Quality infrastructure investment.** To achieve robust growth in DMCs that are now recovering from the pandemic, it is necessary to promote investments in quality infrastructure that serves as the foundation for growth, such as digital and green infrastructure, while considering the economic and social changes caused by the spread of COVID-19.
- (iv) **Domestic resource mobilization, international tax cooperation, and debt transparency and sustainability.** DMCs are facing a further deterioration of their financial situation because of increasing fiscal spending and decreasing tax revenues caused by the COVID-19 pandemic. To support investments in a resilient and sustainable recovery, it is important to strengthen domestic resource mobilization by expanding the tax base, enhancing tax compliance, improving tax administration capacity, and modernizing tax systems in response to the digital economy. Given the exacerbated debt situation in DMCs, securing debt transparency and sustainability is also critical.

6. The government also stressed the importance of giving vulnerable groups sufficient support through inclusive development. To this end, the government will be enhancing its support through ADB by renaming the original JFPR the Japan Fund for Prosperous and Resilient Asia and the Pacific and including the four policy areas discussed in para. 5 as additional priority areas. Enhancing and renaming the original JFPR is positioned as the next-level work that will help lift remaining populations above the poverty threshold and bring others a sustainable path to prosperity and resilience, building on the achievement and the momentum of the past 2 decades and further increasing the JFPR's development impact.

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<sup>9</sup> ADB. 2021. *Asian Development Outlook 2021: Financing a Green and Inclusive Recovery*. Manila.

7. This paper outlines and provides the general administration and operationalization arrangements for the enhanced JFPR. Specific guidelines and detailed procedures will be drawn from the basic principles of the current JFPR operating framework and will be incorporated in the new JFPR implementation guidelines, which may be amended from time to time, under the management of the Sustainable Development and Climate Change Department (SDCC). The JFPR implementation guidelines will be prepared after this Board paper is approved, will become effective in 2022, and will replace the JFPR's Policy Guidelines for Project Grant and Policy Guidelines for Technical Assistance Grant in line with efforts to streamline ADB's policy documentation structure for trust funds.

### **III. OBJECTIVES AND SCOPE**

#### **A. Objective**

8. The JFPR is augmented by setting new priority areas in the scope and objective of the original JFPR and seeks to help ADB's DMCs achieve resilient recovery from the crisis by enhancing preparedness for the next crisis and building a sustainable society and the foundation for a prosperous future while bolstering vulnerable groups. Besides aligning with the government's development priorities, the JFPR aims to contribute to major global commitments, such as the Sustainable Development Goals, the Financing for Sustainable Development agenda, the Paris Agreement on climate change, and the Sendai Framework for Disaster Risk Reduction. More importantly, it aims to complement ADB's long-term corporate strategy to sustain its efforts to eradicate extreme poverty, and expand its vision to achieve a prosperous, inclusive, resilient, and sustainable Asia and the Pacific.<sup>10</sup> The JFPR-financed projects will complement and follow each DMC's country partnership strategy.

#### **B. Scope and Priority Areas**

9. To achieve the overall objective, the JFPR will be enhanced and emphasize prosperity and resilience. It will prioritize sovereign project grants and TA and include new priority areas to increase its development impact. In addition to poverty reduction, the projects will focus on universal health coverage, climate change and disaster risk management, quality infrastructure investment, and public finance management, unless otherwise agreed between ADB and the government. Future changes in the scope and priority areas under these overall objectives may be made under and reflected in the JFPR implementation guidelines in consultation with the government. All projects to be approved under the fund will be subject to the criteria set forth for each priority area as outlined in the JFPR implementation guidelines.

#### **C. Eligible Countries**

10. All ADB DMCs will be eligible for the JFPR.

#### **D. Modalities, Eligible Sectors, and Activities**

11. The JFPR support will be provided as a project grant or TA, depending on the nature of the support and activities. All sectors aligned with the priority areas may be eligible. Eligible activities under each priority area will be defined in the JFPR implementation guidelines.

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<sup>10</sup> ADB. 2018. *Strategy 2030: Achieving a Prosperous, Inclusive, Resilient, and Sustainable Asia and the Pacific*. Manila.

#### IV. PROCESSING AND IMPLEMENTATION ARRANGEMENTS

12. As the JFPR administrator, ADB will ensure that all applicable ADB policies and the JFPR implementation guidelines govern each JFPR-financed project.<sup>11</sup>

##### A. Executing Agency

13. The recipient DMCs' national or local governments, public institutions, international or local CSOs, or local community groups will execute JFPR project grants. TA projects will be executed by the recipient DMCs' national or local governments, except for regional TA where ADB is generally the executing agency. ADB will administer all TA unless delegated fully or partly to the recipient DMC government following the conditions under delegation of TA.

##### B. Size and Cost Sharing

14. JFPR-financed projects are small-scale project grants. Beneficiary cost sharing is expected to be limited and, in most cases, will be in the form of in-kind contributions. Therefore, cost sharing for individual activities will be determined case by case.

15. For TA, JFPR financing will follow ADB's cost sharing arrangements.<sup>12</sup>

##### C. Processing Procedures

16. Project grants and TA will be prepared and proposed by the concerned departments, in cooperation with the DMCs' national or local governments, public institutions, beneficiary communities, CSOs, or other organizations, as relevant. The regional departments will coordinate the no-objection procedures and the processing of each proposal with the DMC governments. The business process and detailed procedures for approving the JFPR-financed projects will follow the agreement between ADB and the government, as reflected in the JFPR implementation guidelines.

##### D. Project Implementation

17. The implementation of JFPR projects will follow ADB's policies and procedures. Specific implementation provisions for the JFPR will be stipulated in the JFPR implementation guidelines.

##### E. Procurement and Disbursement

18. ADB policies and guidelines governing procurement, recruitment of consulting services, and disbursements for project grants and TA (as applicable for each modality) at the time of the JFPR project implementation will apply.

19. The JFPR will maintain ADB's member country procurement eligibility restrictions in all its projects unless otherwise agreed with the government.<sup>13</sup>

<sup>11</sup> To ensure consistency with ADB policies, further changes to relevant *Operations Manual* sections, staff instructions, and project administration instructions covering projects and TA will be reviewed and reflected in the JFPR implementation guidelines.

<sup>12</sup> ADB. 2017. Cost Sharing and Eligibility of Expenditures for ADB Financing. *Operations Manual*. OM H3. Manila; and ADB. 2017. *Staff Instruction on Business Processes for Cost Sharing and Eligibility of Expenditures for ADB Financing*. Manila.

<sup>13</sup> ADB. 2013. *Blanket Waiver of Member Country Procurement Eligibility Restrictions in Cases of Cofinancing for Operations Financed from Asian Development Fund Resources*. Manila (R29-13); and ADB. 2015. *Enhancing Operational Efficiency of the Asian Development Bank*. Manila (para. 25).

## F. Monitoring and Evaluation

20. ADB will monitor and evaluate the JFPR-financed projects and TA in the same manner as all ADB-financed projects and TA, following established ADB procedures. To make the JFPR-financed projects and TA more effective, JFPR activities will be closely monitored to ensure that the intended project outcome is achieved. The detailed implementation arrangements and methods for monitoring and evaluating the JFPR projects will be reflected in the JFPR Implementation Guidelines.

## V. ADMINISTRATION ARRANGEMENTS

21. **Contribution and bank account.** The arrangement of the original JFPR for the contribution from the government will be retained. All funds of the original JFPR, comprising government contributions and investment income, make up the JFPR's core funds. At its discretion, the government may, after signing the Arrangement on the Operating Framework for the Japan Fund for Prosperous and Resilient Asia and the Pacific (the arrangement letter),<sup>14</sup> provide additional resources to the JFPR into an account with the Bank of Japan in the name of ADB, or any other accounts agreed between ADB and the government. Interest and investment income earned from the contributions will be used for the JFPR.

22. **Governance structure.** SDCC's Partners Fund Division will manage the administration of the JFPR with the director of the Partners Fund Division as the fund manager. The JFPR administration will be governed by the JFPR implementation guidelines as prepared and amended by the fund manager, in consultation with the government through the Executive Director's Office of Japan and approved by SDCC's director general.

23. ADB may, from time to time, adopt additional rules for managing and administering the JFPR, based substantially on the terms and conditions of this paper. ADB will promptly inform the government of any condition that interferes, or threatens to interfere, with ADB's management and administration of the JFPR.

24. **Administration costs.** The existing administration cost arrangements will apply to the new JFPR. ADB may use part of the JFPR, together with any interest earned, to cover the direct and identifiable costs<sup>15</sup> incurred in the JFPR administration, including monitoring and evaluation. The details will be given in the JFPR implementation guidelines.

25. **Reporting requirements.** The fund manager, in consultation with related departments, will submit the following reports to the government:

- (i) annual reports on the fund's performance,
- (ii) financial statements,<sup>16</sup> and
- (iii) progress reports as requested by the government.

26. ADB will maintain the records and accounts in line with its standard procedures, i.e., it will identify the contributions made, the commitments to be financed from the available funds, eligible activities, and administration expenses. ADB will provide the government with audited annual financial statements on these records and accounts. External financial audits will be undertaken annually by ADB's external auditor; the cost of the audits is to be borne by the JFPR.

<sup>14</sup> The arrangement letter is in Appendix 1.

<sup>15</sup> ADB. 2009. *Review of the Asian Development Bank's Service Charges for the Administration of Grant Cofinancing from External Sources*. Manila (R189-09). This service charge structure does not apply to the JFPR.

<sup>16</sup> The Controller's Department prepares financial statements in its standard format.

27. The fund manager will also provide to the government, if required, additional reports and information about the progress of the JFPR-financed projects and activities. The content of such additional reports and information will be agreed in advance between the government and the fund manager.

28. **Independent evaluation.** ADB will conduct independent evaluation studies<sup>17</sup> of the JFPR's overall portfolio performance to determine its relevance, effectiveness, efficiency, and sustainability. The timing will be determined in consultation with the government.

29. **Visibility requirement.** The fund manager will be responsible for compliance with the requirements for Japanese visibility and promotion hereof in all JFPR projects. Project teams must promote the visibility and local awareness of the JFPR in recipient countries, as stated in the implementation guidelines.

30. **Termination and residual funds.** The arrangement of the original JFPR for the fund's termination and the handling of its residual funds will remain in place. When the JFPR's purpose is considered to have been fulfilled and the JFPR arrangements terminate, the use of any residual funds (including the investment income of such funds) will be determined jointly by the government and ADB.

31. **Rationale of the request for Board approval.** Under the policy paper on Enhancing Operational Efficiency of the Asian Development Bank,<sup>18</sup> the Board delegated to the President the authority to approve the establishment of trust funds, except when they involve contributions of more than \$200 million, or require an exception to an ADB policy, or present a novel design or complexity. Consequently, changes to the trust funds established under the authority of the President will be approved by the President. However, since the original JFPR was established in 2000 through Board approval and the proposed changes are not minor in nature, the approval authority for the proposed changes set out in this paper remains with the Board.

## VI. THE PRESIDENT'S RECOMMENDATION

32. The President recommends that the Board approve:

- (i) renaming the Japan Fund for Poverty Reduction the Japan Fund for Prosperous and Resilient Asia and the Pacific as described in para. 6;
- (ii) setting new priority areas in the operating framework for the Japan Fund for Prosperous and Resilient Asia and the Pacific as set forth in this paper, superseding the Revised Operating Framework for the Japan Fund for Poverty Reduction established pursuant to the Cooperation with Japan: Japan Fund for Poverty Reduction; and
- (iii) administering the Japan Fund for Prosperous and Resilient Asia and the Pacific following the provisions set forth in this paper and in the Arrangement on the Operating Framework for the Japan Fund for Prosperous and Resilient Asia and the Pacific (Appendix 1).

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<sup>17</sup> Special evaluation studies conducted in coordination with ADB's Independent Evaluation Department.

<sup>18</sup> ADB. 2015. *Enhancing Operational Efficiency of the Asian Development Bank*. Manila.

## ARRANGEMENT LETTER

\_\_\_\_ September 2021

Mr. Masatsugu Asakawa  
President  
Asian Development Bank

Dear Mr. President:

I have the honor to refer to the discussion between the Government of Japan (the government) and the Asian Development Bank (ADB) about the updated cooperation between them in the process of promoting poverty reduction and further increasing its development impacts in developing member countries (DMCs) of ADB.

On 23 May 2000, the government establishment the Japan Fund for Poverty Reduction (JFPR) as an ADB-managed trust fund, in response to the devastating impact of the 1997 Asian financial crisis on vulnerable groups. The original JFPR is ADB's largest single-donor trust fund and has received \$966 million to date from the Government of Japan.<sup>1</sup> It aimed to support innovative poverty reduction and related social development activities through project grants that can add substantive value to ADB-financed projects. In 2009, the original JFPR underwent a major change and included technical assistance (TA) as an eligible financing modality. Combining the government's project grant and TA support under one umbrella paved the way for a more comprehensive approach to addressing poverty, building human resources, and empowering institutions and communities in the recipient DMCs. Since its establishment, the original JFPR has provided 200 project grants and 294 TA grants totaling more than \$969 million to 36 DMCs.<sup>2</sup> According to the 2007 special evaluation study<sup>3</sup> of the Operations Evaluation Department, which is now known as the Independent Evaluation Department, the financing program was relevant, efficient, effective, and sustainable. It strongly supported ADB's Poverty Reduction Strategy and has had substantial socioeconomic impacts. This was further validated in the 2017 JFPR special evaluation study<sup>4</sup> which concluded that the original JFPR successfully met its objectives and added significant value and development impact to ADB assistance, in line with its long-term strategic framework.

Since 1990, the number of people living in extreme poverty (on less than \$1.90 a day) in Asia and the Pacific has declined from 1.5 billion to 264 million.<sup>5</sup> The original JFPR helped alleviate poverty for the region's most vulnerable groups— including women, children, older persons, people with disability, and victims of domestic violence—through innovative and demonstrative projects. Much was achieved through the original JFPR in terms of poverty reduction in the region, and lessons from its 20 years of experience have been incorporated into

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<sup>1</sup> ADB. Cofinance Management System. <https://lnadbg6.adb.org/ocs0309p.nsf/index.xsp> (data as of 30 June 2021).

<sup>2</sup> Based on commitments as of 30 June 2021 and includes two projects approved under the original JFPR's COVID-19 window.

<sup>3</sup> Operations Evaluation Department. 2007. *Special Evaluation Study: ADB' Japan Funds: Japan Fund for Poverty Reduction*. ADB: Manila (SES: REG 2007-10).

<sup>4</sup> ADB. Special Evaluation Study: Japan Fund for Poverty Reduction. Unpublished.

<sup>5</sup> ADB. 2020. *ADB Annual Report 2019*. Manila.

ADB strategies, programs, and projects, including much-needed capacity building for DMCs, communities, civil society organizations (CSOs), and other key stakeholders.

However, the coronavirus disease (COVID-19) pandemic has negated some of these gains and more work needs to be done to protect vulnerable groups from shocks brought about by illness, natural calamities, and economic downturns. The COVID-19 outbreak underscored the vulnerability not only of populations close to the poverty line but of entire populations and economies. Besides the loss of millions of lives, it caused economic contraction that pushed an additional 162 million people below the poverty line of \$3.20 per day and 78.3 million people to extreme poverty.<sup>6</sup> The pandemic is threatening to reverse the region's development gains. COVID-19's impacts are felt hardest by the poor and vulnerable groups: older persons lack access to health care, children are unable to attend school, informal workers and low-income groups lost their livelihoods, and women fell victim to domestic violence, among others. Overcoming and preventing similar crises requires a renewed focus on inclusive economic growth that emphasizes preventive measures to achieve resilient and sustainable recovery.

In a statement delivered at ADB's 54th Annual Meeting in May 2021, the Government of Japan underscored the need to overcome the crisis and achieve resilient recovery by enhancing preparedness for future shocks and building a strong and sustainable foundation for future growth. The government intends to keep supporting ADB's COVID-19 response efforts to achieve a resilient and sustainable recovery, and highlighted the following important policy areas:

- (i) Universal health coverage. Promoting universal health coverage contributes not only to strengthening health systems for prevention, preparedness, and response to the next pandemic but also to ensuring inclusive and sustainable growth.
- (ii) Climate change and disaster risk management. Tackling global warming is important to achieve sustainable economic growth. It is critical to support not only mitigation but also adaptation measures including enhancing resilience to natural disasters.
- (iii) Quality infrastructure investment. To achieve robust growth in DMCs that are now recovering from the pandemic, it is necessary to promote investments in quality infrastructure that serves as the foundation for growth, such as digital and green infrastructure, while considering the economic and social changes caused by the spread of COVID-19.
- (iv) Domestic resource mobilization, international tax cooperation, debt transparency and sustainability. DMCs are now facing further deterioration of their financial situation because of increasing fiscal spending and decreasing tax revenues caused by the COVID-19 pandemic. To support investments in a resilient and sustainable recovery, it is important to strengthen domestic resource mobilization by expanding the tax base, enhancing tax compliance, improving tax administration capacity, and modernizing tax system in response to the digital economy. Given the exacerbated debt situation in DMCs, securing debt transparency and sustainability is also critical.

The government also stressed the importance of giving vulnerable groups sufficient support through inclusive development. To this end, the government will be enhancing its support through ADB by renaming the original JFPR the Japan Fund for Prosperous and Resilient Asia and the Pacific and including the four policy areas discussed above as additional priority areas. Enhancing and renaming the original JFPR is positioned as the next-level work that will help lift remaining populations above the poverty threshold and bring others a sustainable path to

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<sup>6</sup> ADB. 2021. *Asian Development Outlook 2021: Financing a Green and Inclusive Recovery*. Manila.

prosperity and resilience, building on the achievement and the momentum of the past 2 decades and further increasing the JFPR's development impact.

Accordingly, the arrangements governing the original JFPR as agreed between the government and ADB need to be updated. I have the honor to propose the following updated arrangements:

1. ADB will continue to be the administrator of JFPR. The JFPR will be made available under the following terms and conditions:

(1) The objective of the JFPR is to **“support ADB’s DMCs achieve resilient recovery from the crisis, by enhancing preparedness for the next crisis, and building a sustainable society and the foundation for prosperous future, while bolstering vulnerable groups”**.

(2) To achieve the over-all objective, the JFPR will be enhanced and emphasize prosperity and resilience. It will prioritize sovereign project grants and TA and include new priority areas to increase its development impact. In addition to poverty reduction, the projects will focus on **(i) universal health coverage, (ii) climate change and disaster risk management, (iii) quality infrastructure investment, and (iv) public finance management**, unless otherwise agreed between ADB and the government. Future changes in the scope and priority areas under these overall objectives may be made under and reflected in the JFPR implementation guidelines in consultation with the government. All projects to be approved under the fund will be subject to the criteria set forth for each priority area as outlined in the JFPR implementation guidelines.

(3) Accordingly, all DMCs will be eligible under the JFPR. It will be provided either as a (i) project grant, or (ii) TA depending on the nature of the support and activities. All sectors aligned with the priority areas. may be eligible. Eligible activities under each priority area will be defined in the JFPR implementation guidelines.

(4) For processing and implementation arrangements, ADB will ensure that all applicable ADB policies and the JFPR implementation guidelines (as amended from time to time) govern each JFPR-financed project.<sup>7</sup>

(a) Project Processing:

- (i) For project grants, it will be executed by recipient DMC's national or local governments, public institutions, international or local CSOs, or local community groups, while TA will be executed by the recipient DMCs' national or local governments, except for regional TA where ADB is generally the executing agency. ADB will administer all TA unless delegated fully or partly to the recipient DMC government following the conditions under delegation of TA.
- (ii) In terms of cost-sharing, as JFPR-financed projects are small-scale project grants, beneficiary cost sharing is expected to be limited and,

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<sup>7</sup> To ensure consistency with ADB policies, further changes to relevant Operations Manual sections, staff instructions and project administration instructions covering projects and TA will be reviewed and reflected in the JFPR implementation guidelines.

in most cases will be in the form of in-kind contributions. Therefore, cost-sharing for individual activities will be determined case-by-case. For TA, financing from the JFPR will follow ADB's cost-sharing arrangements.

- (iii) Project grants and TA will be prepared and proposed by the departments concerned, in cooperation with DMCs' national or local governments, public institutions, beneficiary communities, CSOs, or other organizations, as relevant. The regional departments will coordinate the no objection procedures and the processing of each proposal with the DMC governments. The business process and detailed procedures for approving the JFPR-financed projects will follow the agreement between ADB and the government, as reflected in the JFPR implementation guidelines.

(b) Project Implementation

- (i) ADB policies and guidelines governing procurement, recruitment of consulting services, and disbursements for project grants and TAs (as applicable for each modality) at the time of the JFPR project implementation shall apply.
- (ii) The JFPR will maintain ADB's member country procurement eligibility restrictions in all its projects unless otherwise agreed with the government.<sup>8</sup>
- (iii) ADB will monitor and evaluate the JFPR-financed projects and TA in the same manner as all ADB-financed projects and TA, following established ADB procedures. To make the JFPR-financed projects and TA more effective, JFPR activities will be closely monitored to ensure that the intended project outcome is achieved. The detailed implementation arrangements and methods for monitoring and evaluating the JFPR projects will be reflected in the JFPR Implementation Guidelines.

(5) The arrangement of the original JFPR for the contribution from the government will be retained. All funds of the original JFPR, comprising government contributions and investment income, make up the JFPR's core funds. At its discretion, the government may, after signing this Arrangement Letter, provide additional resources to the JFPR into an account with the Bank of Japan in the name of ADB, or any other accounts agreed between ADB and the government. Interest and investment income earned from the contributions will be used for the JFPR.

(6) The Partners Fund Division of the Sustainable Development and Climate Change Department (SDCC) of ADB will manage the administration of the JFPR with its director as the fund manager. The JFPR administration will be governed by the JFPR implementation guidelines as prepared and amended by the fund manager, in consultation with the government through the Executive Director's Office of Japan and approved by SDCC's Director General.

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<sup>8</sup> ADB. 2013. *Blanket Waiver of Member Country Procurement Eligibility Restrictions in Cases of Cofinancing for Operations Financed from Asian Development Fund Resources*. Manila (R29-13); and ADB. 2015. *Enhancing Operational Efficiency of the Asian Development Bank*. Manila (para. 25).

- (7) ADB may, from time to time, adopt additional rules for managing and administering the JFPR, based substantially on the terms and conditions of this Arrangement Letter. ADB will promptly inform the government of any condition that interferes, or threatens to interfere, with ADB's management and administration of the JFPR.
- (8) The existing administration cost arrangements will apply to the new JFPR. ADB may use part of the JFPR, together with any interest earned, to cover the direct and identifiable costs incurred in JFPR administration, including monitoring and evaluation. The details will be given in the JFPR implementation guidelines.
- (9) On the Reporting Requirements: ADB will submit the following reports to the government: (i) annual reports on the fund's performance, (ii) financial statements, and (iii) progress report as requested by the government. ADB will maintain the records and accounts, in line with its standard procedures, i.e. it will identify the contributions made, the commitments to be financed from the available funds, eligible activities, and administration expenses. ADB will provide the government with audited annual financial statements on these records and accounts. External financial audit will be undertaken annually by ADB's external auditor; the cost of the audits to be borne by JFPR. ADB will also provide to the government, if required, additional reports and information about the progress of the JFPR-financed projects and activities. The content of such additional reports and information will be agreed between the government and the fund manager.
- (10) ADB will conduct independent evaluation studies of the JFPR's overall portfolio performance to determine its relevance, effectiveness, efficiency, and sustainability. The timing will be determined in consultation with the government.
- (11) ADB will promote Japanese visibility in all its projects. The fund manager will be responsible for the compliance with the requirements for Japanese visibility and promotion hereof in all JFPR projects. Project teams must promote the visibility and local awareness of JFPR in recipient countries, as stated in the implementation guidelines.
2. These arrangements shall remain in force until terminated by either the government or ADB upon three months prior written notice to the other party. If these arrangements are terminated,
- (1) such termination will not affect any commitment under existing activities and ADB may continue to make withdrawals from the JFPR account in respect of such activities (including withdrawals for related costs of ADB) as if these arrangements had not been so terminated; and
- (2) the use of any residual funds, including investment income of the JFPR, will be determined in consultation between the government and ADB.
3. From time to time, at the request of either party, the government and ADB will consult with each other on matters arising out of the present arrangements. Moreover, ADB will promptly inform the government of major changes or developments affecting the activities financed out of the JFPR, including, inter alia, amendments to agreements; reallocation of funds; suspension, termination or cancellation of disbursements; and of any event which interferes, or threatens to interfere, with the successful implementation of such activities.

I have further the honor to propose that the present note and your confirmation of the foregoing arrangements shall be regarded as constituting an agreement between the government and ADB, which will enter into force on the date of your confirmation.

Sincerely yours,

Takahiro Yasui  
Executive Director for Japan