

ANNUAL REPORT
ON THE
JAPAN SPECIAL FUND
FOR 1997

Office of Cofinancing Operations
Asian Development Bank

ABBREVIATIONS

AOTA	—	advisory technical assistance
EIA	—	environmental impact assessment
GMS	—	Greater Mekong Subregion
JSF	—	Japan Special Fund
PPTA	—	project preparatory technical assistance
RETA	—	regional technical assistance
TA	—	technical assistance

NOTE

In this report, “\$” refers to US dollars; and “¥” refers to Japanese yen.

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A. Background

1. The Japan Special Fund (JSF), made available on an untied grant basis by the Government of Japan, was established on 10 March 1988. Its main objective is to provide financial support for financing the Bank's technical assistance (TA) program. It aims to help the Bank's developing members (Appendix 1) restructure their economies in light of the changing global environment, broaden the scope of opportunities for new investment, and prepare loan projects, thereby facilitating the recycling of funds to members. To this end, the Government of Japan has appointed the Bank as the Administrator of the JSF.

2. Since its establishment in 1988, the JSF has become a major contributor to the Bank's development efforts through policy reforms, fiscal strengthening, good governance, capacity building, promotion of financial and capital markets, subregional economic cooperation, and environmental protection. Furthermore, in 1997, the JSF was instrumental in mitigating the impact of the Asian financial crisis by funding (i) three TA projects in Thailand to support the country's pension and provident funds reforms (Box 1), to facilitate disclosure and compliance requirements at the Securities and Exchange Commission (Box 2), and to operationalize the Government's decree on securitization (Box 3), as well as (ii) a regional TA (RETA) to help carry out reforms addressing the structural weaknesses in the financial sectors of the Asian countries affected by the recent crisis.

Box 1: Pension and Provident Funds Reform

The technical assistance (TA) will assist in promoting the development of pension and provident funds to meet the twin objectives of social security and savings mobilization.¹ Efforts to strengthen social security through improved contributory systems will be crucial to cushioning the plight of laid-off workers and other vulnerable groups, and establishing a social protection system in line with Thailand's economic development. Improved savings mobilization will reduce the external resource gap, strengthen capital market development, and secure investment-induced stable growth.

The Ministry of Finance is the Executing Agency for the TA and will oversee the work of the consultants. A team of international consultants has been recruited and is expected to commence fieldwork in January 1999. A total of 25 person-months of consulting services will be provided under the TA.

¹ TA THA 2955: *Pension and Provident Funds Reform*, for \$1,150,000, approved on 19 December 1997.

Box 2: Strengthening Information Disclosure and Compliance

The technical assistance (TA) will assist in improving the Securities and Exchange Commission's ability to effectively supervise the securities industry through the enhancement of disclosure requirements.¹ Accordingly, the TA will form part of a program of measures to support financial market restructuring that is expected to correct previous inadequacies in the system and restore investor confidence.

The Ministry of Finance of Thailand is the Executing Agency for the TA. A team of international consultants has been recruited and is expected to commence fieldwork in January 1999. A total of 12 person-months of consulting services will be provided under the TA.

¹ TA THA 2956: *Strengthening Information Disclosure and Compliance*, for \$440,000, approved on 19 December 1997.

Box 3: Asset Securitization

The technical assistance (TA) will contribute to the development of the domestic debt market in Thailand, which is critically needed at this time as funding through the banking system is constrained.¹ The TA will (i) prepare a strategic and operational plan for the Secondary Mortgage Corporation, defining its role in promoting securitization in Thailand; (ii) study measures for the credit enhancement of securitized assets; (iii) study the pricing and tax structures, and recommend appropriate assets for securitization; (iv) define the role of private sector institutions in the securitization process; and (v) consider the use of a trust as a vehicle for mortgage transfer.

The Securities and Exchange Commission is the Executing Agency for the legal and regulatory aspects of the TA, while the Secondary Mortgage Corporation is the Executing Agency for the operational aspects. A team of two international consultants and one domestic consultant will be engaged. Fieldwork is expected to commence in January 1999. A total of 11 person-months of consulting services will be provided under the TA.

¹ TA THA 2957: *Asset Securitization*, for \$410,000, approved on 19 December 1997.

B. Contributions

3. To date, the cumulative contribution by the Government of Japan to the JSF since 1988 amounts to ¥72.83 billion or \$633.9 million equivalent. Beginning with fiscal year¹ 1987, the Government of Japan made ¥4.5 billion or \$35.76 million equivalent available to the Bank.

¹ The Japanese fiscal year begins from April and ends on March the next year.

C. Approvals

1. Total Approvals for the Year/Cumulative Totals

4. About \$90.3 million in TA loans and grants were approved under the JSF for 139 projects in 1997 (Appendix 2). This total includes RETAs and represents about 56 percent of the Bank's total TA Program during 1997. From 1988 to the end of 1996, a total of \$503.9 million under the JSF was committed to finance 871 projects (Appendix 3) and one equity investment. Over half of the TA projects approved for financing under the JSF are complete.

5. An important feature of JSF assistance has been its role in supporting project preparatory TAs (PPTAs) in developing member economies. Over half of the completed PPTAs financed under the JSF have led to Bank loan projects. About \$81.1 million provided through such JSF-financed PPTAs resulted in loan project investments totaling \$20.6 billion.

2. Total Approvals, by Country

6. From 1988 until the end of 1997, a total of 30 countries benefited from TA grants from the JSF (Appendix 4). The major recipients were the People's Republic of China (Box 4) and Indonesia, two of the Bank's largest borrowers.

7. During 1997, the JSF financed 130 new grants in 24 countries for a total of \$84.3 million. The People's Republic of China was the largest recipient—receiving \$11.4 million through 19 grants—followed by Indonesia and Sri Lanka.

Box 4: Environmental Impact Assessment Training and Curriculum Development (EIA Phase III)

The Bank has financed two technical assistances (TAs) to strengthen institutional capacity for environmental impact assessment (EIA) and environmental planning. Specifically, the primary objectives of this new TA are to (i) assist the Government in building its capacity in EIA and environmental planning, with a focus on long-term efforts, through self-sustaining training and education programs; (ii) assist the Government in standardizing EIA training materials suitable for domestically and internationally funded projects; and (iii) strengthen the Government's capacity for quality control of project appraisal and EIA review, especially for large-scale projects.¹

The TA includes development of EIA training materials, formulation and piloting of EIA curricula for universities, and capacity building of the Appraisal Center for Environment and Engineering.

¹ TA PRC 2975: *Environmental Impact Assessment Training and Curriculum Development (EIA Phase III)*, for \$600,000, approved on 31 December 1997.

3. Objectives and Nature of TA Projects Supported

8. The JSF has three objectives: (i) to support economic restructuring, (ii) to broaden the scope of opportunities for new investments, and (iii) to assist with loan project formulation and design, thereby facilitating the recycling of funds to members. To carry out these objectives, JSF funding has been made available for advisory TAs (AOTAs), regional TAs (RETAs), and project preparatory TAs (PPTAs).

9. An AOTA is undertaken to support activities relating to the transfer of technology, institutional strengthening, preparation of plans and programs, and conduct of studies for a particular developing member. A RETA is provided for the benefit of an entire region (Box 5) or for more than one member, such as a conference or study on a subject of common interest in the region, (for example, urban infrastructure financing and environmental policy concerns), or a study or training provided to a group of developing members sharing the same concerns, or project preparation and advisory activities for subregional cooperation. A PPTA supports the preparation of one or more projects, or a program or sector loan in a specific member economy, for financing by the Bank and other external sources.

Box 5: Poverty Reduction and Environmental Management in Remote Greater Mekong Subregion (GMS) Watersheds

Poverty is most prevalent in the rural areas of the GMS (Cambodia, Lao People's Democratic Republic, Myanmar, Thailand, Viet Nam, and Yunnan Province of the People's Republic of China).

In December 1997, the Bank approved a regional technical assistance (TA), Poverty Reduction and Environment Management in Remote GMS Watersheds.¹ The TA focuses on improving and harmonizing the national watershed management policies of the GMS countries, developing joint or coordinated programs to combat deforestation, and preparing investment proposals for priority watersheds that will simultaneously reduce poverty and protect the environment of remote rural communities.

Phase I involves the analysis of GMS country strategies and policies related to watershed management, and drafting of a subregional policy framework for sustainable watershed management. In phase II, investment project proposals will be prepared for the top-ranked priority watershed areas identified in phase I.

The midterm review workshop under this TA is scheduled for February 1999.

¹ TA REG 5771: *Poverty Reduction and Environmental Management in Remote GMS Watersheds*, for \$1,000,000, approved on 31 December 1997.

10. Since its inception in 1988, JSF approvals of AOTAs amounted to \$257.1 million for a total of 435 projects. In 1997, 45 AOTAs for \$27.9 million were approved.

11. Cumulative approvals of PPTAs amounted to \$206.1 million for 367 projects from 1988 to 1997. During 1997, 59 projects for \$38.2 million were approved. A cumulative total of 522 TAs accompanying loan projects and amounting to \$123.4 million were also approved. In 1997, there were 26 of these TAs for a total of \$18.2 million.

12. From 1988 to 1997, 69 RETAs amounting to \$40.8 million were approved for JSF financing. In 1997, 9 RETAs for a total of \$6.0 million were approved.

4. Total Approvals, by Sector

13. The JSF can support any specific sector or subsector (Appendix 5). Since its inception in 1988, most JSF funding has supported the agriculture and natural resources sector (30% of total funding with 225 grants for \$140.5 million). Social infrastructure, and transport and communications were the second and third leading sectors (Table 1).

14. In recent years, the JSF increasingly emphasized its commitment to the environment and private sector, and support to projects associated with women in development. During 1997, social infrastructure led all the other sectors with \$21.7 million, accounting for 26 percent of JSF assistance. Agriculture and natural resources and transport and communications became the second and third leading sectors receiving JSF assistance. The JSF has also strongly supported reforms in the financial sector (para. 2), especially during the Asian financial crisis.

Table 1: Japan Special Fund Grant-Financed Technical Assistance Approvals, by Sector

Sector	1996			1997			1988-1997		
	No.	Amount (\$'000)	%	No.	Amount (\$'000)	%	No.	Amount (\$'000)	%
Agriculture and Natural Resources	30	20,522.00	30.64	26	17,519.00	20.78	225	140,454.45	30.30
Energy	14	7,538.00	11.25	16	9,552.70	11.33	93	49,018.45	10.57
Industry and Nonfuel Minerals	3	1,797.00	2.68	1	421.00	0.50	32	14,004.00	3.02
Financial	4	2,070.00	3.09	13	8,236.00	9.77	41	19,821.00	4.28
Transport and Communications	16	11,050.00	16.50	18	12,815.00	15.20	120	73,780.00	15.91
Social Infrastructure	26	15,255.00	22.78	35	21,732.00	25.78	194	105,581.00	22.77
Multisector	—	—	—	—	—	—	2	5,770.00	1.24
Others	14	8,744.00	13.06	21	14,033.30	16.65	95	55,188.30	11.90
Total	107	66,976.00	100.00	130	84,309.00	100.00	802	463,617.20	100.00

— = Not Available

Notes: Excluding regional technical assistance.

Cumulative data adjusted to exclude technical assistance grants canceled by governments.

D. Balance of Contributions Available for New Commitments

15. Total contributions from the Government of Japan from 1988-1997 amounted to ¥72.83 billion (equivalent to about \$622.86 million²). This figure includes both regular contributions amounting to ¥60.60 billion (equivalent to approximately \$519.73 million) and supplementary contributions of ¥12.23 billion (about \$103.13 million). The cumulative supplementary contributions, which were to be used for organizing symposia/training-related activities, consist of (i) ¥0.29 billion (about \$2.55 million) for symposium/training activities, (ii) ¥1.50 billion (about \$12.35 million) for women-in-development activities, (iii) ¥7.70 billion (about \$65.56 million) for environment-related activities, and (iv) ¥2.74 billion (about \$22.67 million) for activities to promote the private sector.

16. Of the total contributions received since JSF inception, about \$442 million were used to finance TAs as of 31 December 1997. In 1997, total expenditures amounted to \$73 million for services to member countries. The balance of approximately \$180 million includes active TA projects awaiting disbursement, TA projects approved by the Government of Japan and the Bank but not yet effective, and funds available for new commitments. The funds available for new commitments amounted to \$71 million as of the end of December 1997.

17. As a standard procedure, funds awaiting disbursement are invested. In 1997, income from such investments amounted to \$2.2 million. In accordance with existing JSF arrangements, part of the investment income is used to defray the Bank's direct and identifiable administrative expenses.

E. Financial Statements

18. 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.

² Due to conversion of currencies, this equivalent amount differs from \$633.9 million (para. 3). Assets, liabilities, and uncommitted balances are converted 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 year are converted at the applicable rates of the date the contribution was received.

APPENDIXES

Number	Title	Page	Cited on (page, para.)
1	Members of the Asian Development Bank	8	1,1
2	JSF Technical Assistance Grants, in 1997	9	3,4
3	JSF Technical Assistance Grants, 1988-1996	55	3,4
4	Use of the Japan Special Fund for 1988-1997		3,6
	a. Country Distribution	80	
	b. Grant-Financed Technical Assistance Approvals, by Country and Regional Activities	81	
5	Sectoral Distribution of the JSF for 1997 and for 1988-1997	82	5,13
6	Financial Statements	83	6,18