



# **ANNUAL REPORT 2006**

**THE JAPANESE TRUST FUNDS  
AT THE INTER-AMERICAN DEVELOPMENT BANK**

## INTRODUCTION

The year 2006 was an outstanding period for the Japanese Trust Funds (JTF) to meet the high volume of various development needs in the Latin America and Caribbean (LAC) Region. These successful results arose from continuous collaboration between the Japanese Government and the Inter-American Development Bank (IDB) toward a mutual objective of promoting economic development and social progress.

Since their establishment, the Japanese Trust Funds have been recognized and appreciated in the IDB for their relevance to the Bank's core activities. The funds are rigorously managed to ensure the efficient allocation of resources, optimal technical cooperation, and a strong development impact.

The Japanese Trust Funds include five separate programs:

- The Japan Special Fund (JSF) is the largest active trust fund at the IDB and the single most significant source of flexible, untied, external funding for IDB technical cooperation activities. Since its establishment in 1988, the Japan Special Fund has helped support the Bank's efforts to improve the infrastructure stock of the borrowing member countries, protect the natural environment, and promote the productive sectors.
- The Japanese Trust Fund for Consultancy Services (JCF), established in 1995, is another strong instrument for applying Japanese know-how and development experience to the challenges facing the developing countries of the Americas.
- The JSF Poverty Reduction Program (JPO) was founded in 2001. Its forceful promotion by the JTF management team during 2006 resulted in a significant amount of project approval.
- The IDB/Japan Program (IJP) was created in 1999, in response to the significant—and increasing—interest of the Latin American and Caribbean countries in learning about the economic and social development experience of Japan and other East Asian countries.
- The Japan-IDB Scholarship Program (JSP) was established in 1991 with the financial support of the Government of Japan. The JSP reflects the importance Japan attaches to human resource development in Latin America and the Caribbean.

Through the Japanese Trust Funds, the IDB and Japan have continuously shared a common goal and long-term vision of supporting social and economic progress in Latin America and the Caribbean.

## Abbreviations

|      |  |
|------|--|
| CBP  | Community Based Program                      |
| IDB  | Inter-American Development Bank              |
| IJP  | IDB/Japan Program                            |
| JCF  | Japanese Trust Fund for Consultancy Services |
| JICA | Japan International Cooperation Agency       |
| JPO  | JSF Poverty Reduction Program                |
| JSF  | Japan Special Fund                           |
| JSP  | Japan-IDB Scholarship Program                |
| JTF  | Japanese Trust Funds                         |
| LAC  | Latin America and the Caribbean              |
| LEP  | Loan Enhancement Program                     |
| NGO  | Non-governmental organization                |
| TC   | Technical cooperation                        |

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# 1. Japan Special Fund, Japanese Trust Fund for Consultancy Services, Japan Special Fund Poverty Reduction Program

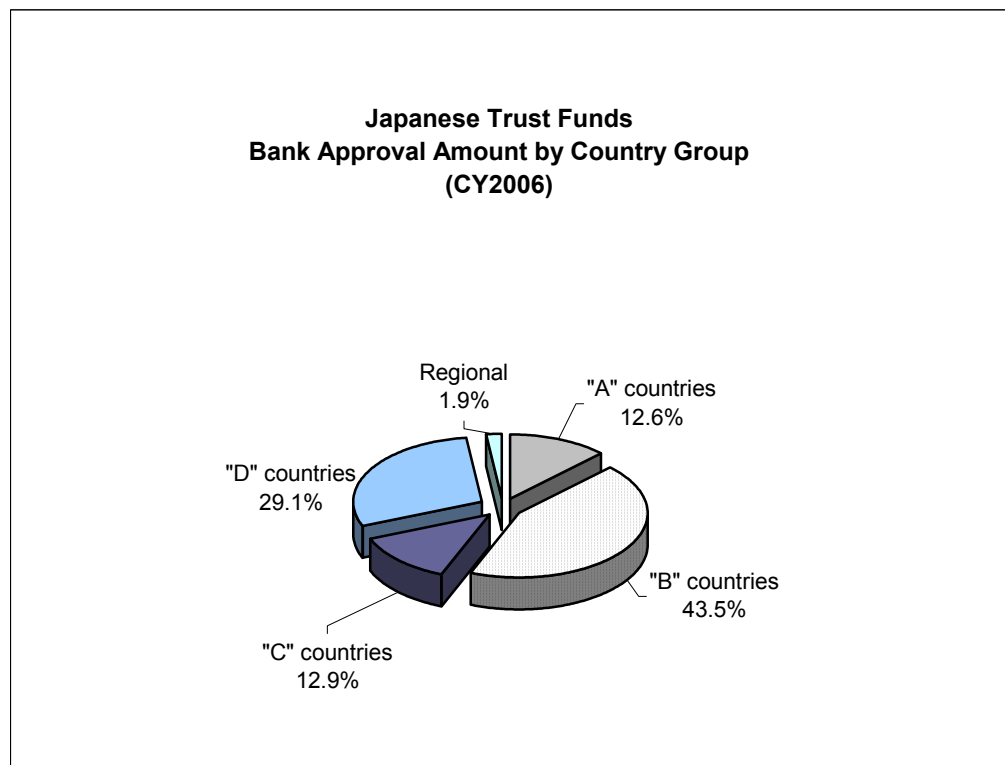
## 1.1. Overview

In 2006, the Bank approved 58 projects for a total of US\$17.6 million, financed by all subprograms of the Japanese Trust Funds (JSF, JCF, and JPO).

### 1.1.1. Country Distribution

In 2006, 56.1% of Japanese Trust Fund resources were allocated to A and B countries, and 42.0% went to C and D countries (see Figure 1)<sup>1</sup>. The remaining 1.9% of the funds financed regional projects. In terms of the regional distribution, resources of the Japanese Trust Funds were mostly allocated to South America, which received 70.9% of total funding, followed by Central America with 22.1% and the Caribbean region with 5.2%.

Figure 1



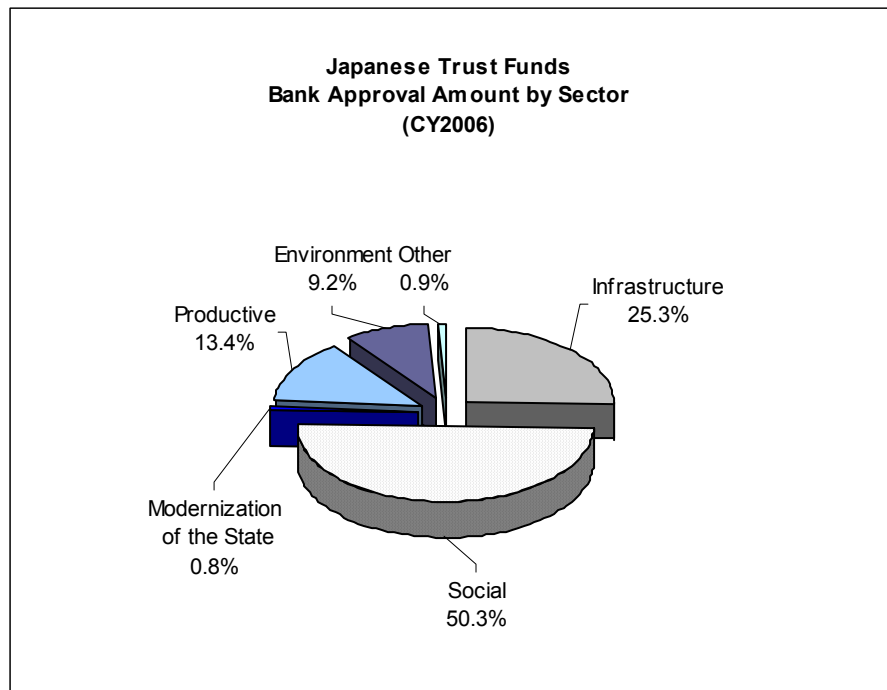
Colombia was the beneficiary country that received the most from the Japanese Trust Funds in 2006—US\$4.3 million (24.4% of total approvals). Following were Peru (US\$3.1 million, 17.4%), Brazil (US\$1.3 million, 7.4%), and Ecuador (US\$1.3 million, 7.4%).

<sup>1</sup> A Countries: Argentina, Brazil, Mexico, and Venezuela.  
B Countries: Chile, Colombia, and Peru.  
C Countries: Bahamas, Barbados, Costa Rica, Jamaica, Panama, Suriname, Trinidad & Tobago, and Uruguay.  
D Countries: Belize, Bolivia, Dominican Republic, Ecuador, El Salvador, Guatemala, Guyana, Haiti, Honduras, Nicaragua, and Paraguay.

### 1.1.2. Sectoral Distribution

In 2006, the Japanese Trust Funds supported the social sector most heavily, with US\$8.9 million (50.3% of total operations) allocated to social investment, education, health, support of indigenous groups, and other subsectors (see Figure 2). Another large share of Japanese Trust Fund resources supported the infrastructure sector, with funding amounting to US\$4.5 million (25.3% of total operations).

**Figure 2**



### 1.1.3. Resources

In 2006, the Government of Japan contributed JPY661 million (approximately US\$6 million) to the JSF. Consequently, the Japanese government's overall contribution since 1988 amounted to JPY26,762.4 million (approximately US\$221.7 million). The government also replenished the JCF by JPY495.4 million (approximately US\$4.2 million), bringing the total contribution to the JCF to JPY4.3 billion (approximately US\$37.6 million).

## 1.2. Program Highlights

### Japan Special Fund (JSF)

In 1988, the Government of Japan established the Japan Special Fund (JSF) to foster social and economic growth in the IDB's borrowing member countries. The JSF is the largest active trust fund administered by the IDB, and it is fully untied. Since its establishment, the JSF has financed technical cooperation (TC) activities totaling US\$195.1 million.

As an essential resource for the IDB's operations, the JSF provides the flexible financing for technical cooperation in such sectors as education, social development, rural development, water and sanitation, environmental protection, natural disaster prevention, transportation, energy, and capital markets.

Since the establishment of the JSF in 1988, more resources have been allocated to C and D countries than to A and B countries. D countries have received the largest portion—30.8%.

During 2006, 16 JSF-financed TC projects were approved, for a total of US\$8.4 million. While the dollar amount of approvals was almost the same as that in 2005, the total number of approved projects decreased from 23 to 16. A representative project is described below.

**Implementation of the Mandatory Health Care Quality Assurance System (JSF)**

**Country: Colombia**

**Amount: US\$750,000**

**Sector: Health**

**Executing Agency: Ministry of Social Protection (MPS)**

**IDB approval date: June 30, 2006**

The objective of this technical cooperation operation is to design and test tools and models to strengthen the mandatory health care quality assurance system (SOGCAS) that has been established in Colombia. This technical cooperation operation will support the preparation of phase two of the program for the reorganization, redesign, and modernization of health service networks (CO-L1017), which will support the implementation of new tools and components of the SOGCAS on a larger scale.

**Japanese Trust Fund for Consultancy Services (JCF)**

The Government of Japan established the Japanese Trust Fund for Consultancy Services (JCF) in 1995.

The JCF provides financial assistance for non-reimbursable technical cooperation activities that promote knowledge transfer through Japanese technical expertise. Since 1995, the JCF has supported TC activities totaling US\$29.9 million.

The JCF resources are partially tied funds that finance the consulting services of Japanese nationals or firms. Japanese consulting firms may engage firms and/or individual consultants who are nationals of the IDB's borrowing member countries to perform services under their supervision.

In 2006, the JCF financed three technical cooperation projects amounting to US\$2.8 million, up from a single project worth US\$0.75 million in 2005. The largest one of these projects is in Brazil.

**Sustainable Development Plan for the Rio**

**Uruguay Watershed (JCF)**

**Country: Brazil**

**Amount: US\$1,200,000**

*"The JCF facility has been a very useful and effective instrument to support the preparation of infrastructure projects in the Region. The funds and the technical expertise of Japanese consulting firms brought by the JCF have contributed substantially to the quality and efficiency of IDB operations. The JCF has also contributed to the institutional strengthening of beneficiary agencies through direct technical assistance. In 2006, the JCF approved a technical-cooperation project for the preparation of Montevideo's Urban Transportation Program to be financed by the Bank (UR-L1025). The execution of this project has improved the transportation planning capacity of the Municipality by developing travel demand and traffic simulation models and through a direct training on these models for local officials. The technical-cooperation project will also ensure the technical, financial, institutional, social and economic feasibility and sustainability of the Program components."*

- Infrastructure Specialist

**Sector: Environment and Natural Disasters**  
**Executing Agency: Inter-American Development Bank**  
**IDB approval date: August 9, 2006**

The objective of this technical cooperation is to contribute to improve environmental management and protection of the Uruguay Watershed, in view of its importance in recharging the Guarani Aquifer. The purpose of this TC is to develop the Master Plan for the Sustainable Development of the Uruguay watershed. Technical consulting services will be needed to complete the following outputs: (i) a watershed diagnosis; (ii) the Master Plan; (iii) a monitoring and evaluation system; and (iv) an institutional framework proposal for Plan implementation.

## **Japan Special Fund Poverty Reduction Program (JPO)**

The Government of Japan established the JSF Poverty Reduction Program (JPO) in 2001 with US\$30 million. The JPO offers non-reimbursable resources to finance technical cooperation operations that support poverty alleviation activities and have a direct impact on low-income and vulnerable populations in borrowing member countries.

The JPO has two financing schemes: the Community Based Program (CBP) and the Loan Enhancement Program (LEP).

### **The Community Based Program (CBP)**

The CBP finances community-based activities that have a direct impact on low-income and vulnerable groups. The projects are designed and implemented by non-governmental organizations (NGOs), civil society organizations, or local governments, which provide services to low-income and vulnerable groups in IDB borrowing member countries.

### **The Loan Enhancement Program (LEP)**

The LEP finances activities that are a complementary part of an IDB loan operation whose objective is to benefit low-income and vulnerable groups in IDB borrowing member countries. Such activities may include (1) capacity building and training of local governments or organizations that provide social services to poor and vulnerable groups, and (2) poverty reduction activities that are similar in scope to the loan operation that the LEP is to complement.

*“The JPO Poverty Reduction Program, Community Based facility has been a vehicle for the most vulnerable groups (indigenous, disabled, scavengers, youth and women) of the country to get support for their poverty-reduction initiatives. The projects have covered a very wide extension of activities: from promotion of indigenous culture micro enterprises through youth cultural and professional capacity building, from educational and health support to local economic development. NGO’s, foundations, local governments, communities and producers associations have been our partners on these initiatives along these two years of working together with Japanese authorities, of the country, to provide coordinated support for the marginalized communities.”*

- Sectorial Specialist, El Salvador Country Office

Technical cooperation projects financed by the JPO jumped from 11 projects totaling US\$2.3 million in 2005 to 33 projects totaling US\$6.4 million in 2006. In particular, CBPs tripled in the total number of approved projects. A few examples of JPO projects follow.

#### **Creation of Micro-Businesses for the Integration of the Indigenous Population of Sonsonate into Local Economic Development (JPO-CBP)**

**Country: El Salvador**

**Amount: US\$148,300**

**Sector: Social Investment**



**Executing Agency: Asociación Coordinadora de Comunidades Indígenas de El Salvador (ACCIES)**

**IDB approval date: August 8, 2006**

The objective of this project is to promote the productive training of the indigenous communities in the Department of Sonsonate, to improve the productive opportunities and the income of the indigenous participants in the project through training, and to support the creation of productive micro-businesses and commercialization in the domestic market.

**Rural Supply Chain Development Program (JPO-LEP)**

**Country: Haiti**

**Amount: US\$500,000**

**Sector: Agriculture and Rural Development**

**Executing Agency: Ministry of Agriculture, Natural Resources and Rural Development (MARNDR)**

**IDB approval date: November 29, 2006**

The objective of this TC is to assist the public in building profitable business ventures between producers and buyers along the chains. The assistance will focus primarily on delivering these services through rural supply chain associations.

### 1.3. Monitoring and Supervision

The Bank conducted a monitoring mission to Colombia and Uruguay in June 2006 to assess the achievement of TC project objectives.

**Table 1. Projects Reviewed by the Monitoring Mission in 2006**

| COUNTRY  | PROJECT NAME   | FUND | AMOUNT    |
|----------|--|------|-----------|
| Colombia | Reorganization of Health Services Networks in Colombia   | JPO  | \$209,000 |
| Colombia | Analysis of Housing Market and Initial Development of Financing Mechanisms for Low-income Households | JSF  | \$390,574 |
| Colombia | Urban Crime and Impunity in Colombia   | JSF  | \$424,343 |
| Colombia | Studies on Waste Water Treatment Plants for Pereira  | JSF  | \$750,000 |
| Colombia | Socio-environmental Pilot Program in an Area of Extreme Poverty                                      | JSF  | \$350,000 |
| Uruguay  | Spatial Information for National Infrastructure Management and Planning                              | JSF  | \$750,000 |
| Uruguay  | Integration of INE and Cadastral Data Base to Support Rural Infrastructure Planning and Management   | JCF  | \$350,000 |
| Uruguay  | Comprehensive Project for At-Risk Infants and Adolescents of the Uruguayan Family                    | JSF  | \$500,000 |
| Uruguay  | Pilot Project for the Educational Connectivity Program and Preparation of an Expansion Strategy      | JCF  | \$748,200 |

The main purpose of the mission was to review various aspects of completed technical cooperation projects, such as operational and environmental outputs and outcomes, the impact on financial beneficiaries, and the sustainability and visibility of the projects. In addition, the mission focused on analyzing the effectiveness of TC in preparing and implementing the loan as well as in ensuring the development effectiveness of pilot projects.

The mission participants also had meetings with representatives and specialists from the Japan International Cooperation Agency (JICA) and the Embassy of Japan (including the Ambassador) to establish collaboration. The purpose was to seek a firm mutual goal of developing various projects through grant facilities as well as human capacities (see Table 1).



Colombia: Socio-environmental pilot program in an area of extreme poverty (ATN/JF-6116-CO)

The mission concluded that the reviewed TCs have been well executed and successfully implemented, achieving most of the objectives to support beneficiaries. This conclusion was based not only on the comments of officers at the executing agencies, but also, more importantly, on evidence from project site visits and interviews with beneficiaries.

The mission also noted the strong participation and close coordination of NGOs and civil society groups. The mission confirmed that active support by such local stakeholders contributes to the effective execution of projects and the achievement of objectives. The NGOs and civil society groups can provide significant input on local demands and assure the sustainability of locally driven projects.

#### **1.4. Evaluation**

The Government of Japan and the management of the Japanese Trust Funds (JTF) at the IDB are committed to being held accountable for the use of public funds and to demonstrating the results obtained to date. In this context, the Office of Evaluation and Oversight has been asked to conduct an independent evaluation of the JTF grants completed between January 2000 and December 2005, amounting to 129 projects (approximately US\$75 million).

The JTF management team seeks to utilize the results of the evaluation to uncover and implement opportunities for future improvement in the application of existing and future resources. Furthermore, it has now become an accepted standard within the donor community that evaluation of results is an important component of developmental work and that specific resources need to be allocated to it.

## 2. IDB/Japan Program

### 2.1. Overview

The countries of Latin America and the Caribbean have shown significant—and increasing—interest in learning about the economic and social development experience of Japan and other countries in East Asia.<sup>2</sup> As a result, the IDB created the IDB/Japan Program (IJP) in 1999, with funds mainly from the Government of Japan (US\$29.7 million plus interest). The IJP is a focal point for planning, executing, and following up activities that strengthen the links between both regions.

To share expertise, knowledge, and best practices between the two regions, the IJP promotes partnerships in support of economic and social development. As of the end of 2006, the IJP had provided US\$17.8 million for TC activities approved by the IDB.

### 2.2. Program Highlights

In 2006, the IDB approved a total of US\$1.27 million for six projects (one in Bolivia, one in Panama, two regional projects, and two projects to pay consultants who directly manage other projects). The project in Bolivia is described below.

#### **Capacity Building of Civil Society for Poverty Reduction in Bolivia (Japan Program)**

**Country: Bolivia**

**Amount: US\$289,000**

**Sector: Social**

**Executing Agency: Inter-American Development Bank**

**IDB approval date: July 11, 2006**

The objective of this project is to transfer knowledge to address the nutritional and income generation needs of vulnerable groups in Bolivia by providing expertise and training in the use of rice and its by-products. It will allow them to build their capacity to start small businesses and integrate themselves as productive elements in society. This support will be carried out through sharing the “best practices” of Japan and Thailand, which will be adapted to the needs and context of Bolivia.

Meanwhile, several missions were conducted for follow-up activities. Some preparatory meetings for new projects were also held in collaboration with counterparts and other interested parties, including the Japanese embassies in Argentina, Brazil, Costa Rica, and Paraguay.

#### **“Boshi Techo” Initiative in Dominican Republic**

The Maternal and Child Health Handbooks (“Boshi Techo”) initiative, implemented jointly by the IJP and the Secretary of Health in Dominican Republic, was completed in 2006. The initiative improved the nutrition and health conditions of children under three, pregnant women, and nursing women.

The experience of this pilot project has been shared with the Japan International Cooperation Agency (JICA). In 2006, a mission supported by the IJP (composed of three nurses, a technical coordinator, and a consultant) visited Samana province to assist with a JICA project for health. Meanwhile, two JICA

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<sup>2</sup> "East Asia" here includes Brunei Darussalam, Cambodia, Timor-Leste, Indonesia, Japan, Lao People's Democratic Republic, Malaysia, Mongolia, Myanmar, People's Republic of China, Philippines, Republic of Korea, Singapore, Taipei China, Thailand, and Vietnam. Use of the phrase "Taipei China" does not in any way reflect a position by the Bank or any of its member countries regarding issues of national sovereignty or diplomatic recognition.

missions (composed of four volunteers and three experts who work for the JICA health project in Samana province) came to observe how the “Boshi Techo” system functioned at the clinics of Dajabon province.

### Empowering Youth Leadership in São Paulo, Brazil

São Paulo is home to more than 2 million people of Asian descent. Recognizing the importance of this Asian community, the Japanese Consulate-General in São Paulo and the IJP have made close contacts to establish a partnership for preparing future IJP projects.

The Consulate General of Japan in São Paulo gave a reception for young people who hope to deepen knowledge in specific areas (economics, environment, technology information, etc.) by studying East Asia, particularly Japan.

*Source: São Paulo Shimbun (newspaper)*



### Total Quality Management as a Tool for Efficiency in the Public Sector in El Salvador

Total quality management (TQM) is a management tool designed to improve performance in all areas of an organization by creating a “culture of quality.” Its objective is to increase customer satisfaction while achieving corporate goals

relating to quality, cost, scheduling, professional development, and new product development. The common use of TQM is one of the factors that made Japanese manufactures competitive in the world market.



To improve the public services in El Salvador, an ongoing project there aims to promote efficiency and quality in public institutions by transferring relevant Japanese best practices in quality control. These practices, which include concepts such as Kaizen, 5S, and Hoshin Kanri, originated in Japan but have been applied in LAC through Japanese immigrants and their descendants. Another benefit of the TQM project is establishing partnerships between Japanese and Salvadorian institutions.

The IJP-funded TQM project helps CEPA (the Autonomous Executive Port Commission) enhance efficiency in El Salvador. *Source: Nacional (newspaper)*



Dominican Republic: Explaining the use of the Maternal and Child Health Handbooks, “Boshi Techo”.

### 3. Japan-IDB Scholarship Program

#### 3.1. Overview

Because of the importance Japan attaches to human resource development in Latin America and the Caribbean, the Japan-IDB Scholarship Program (JSP) was established in the Inter-American Development Bank in 1991 with financial support from the Government of Japan. The program was launched by means of a letter of agreement between the Bank and Japan's Ministry of Finance, with initial Japanese funding of JPY60,928,000 (US\$448,000).

The Scholarship Program supports master's degree studies in development-related fields for students from IDB borrowing member countries. Scholarships are awarded through a competitive selection process on the basis of merit. Awards are made on a one-year basis. Students in programs that require two years of study may apply for a renewal of their scholarship award provided they demonstrate excellence in their first year of studies. Scholarship recipients must agree to return to their countries after graduation to work in promoting economic and social development.

Overall, according to surveys of scholarship recipients, the program has a strong impact on the realization of personal career goals. Scholarship recipients also rate the knowledge they acquire as highly applicable to their own context. They perceive the contribution to the social and economic development of their countries as fairly high and the contribution to the modernization of the state as above average. The outstanding response rate (72% of potential survey subjects respond) is viewed as a sign of continued interest and appreciation on the part of the beneficiaries.

**Table 2.**  
**Study Destinations**  
**1991 - 2006**

| Country                    | # of students |
|----------------------------|---------------|
| Argentina                  | 6             |
| Belgium                    | 2             |
| Brazil                     | 8             |
| Canada                     | 19            |
| Chile                      | 125           |
| Costa Rica                 | 8             |
| Denmark                    | 1             |
| France                     | 5             |
| Germany                    | 2             |
| Italy                      | 2             |
| Japan                      | 83            |
| Mexico                     | 5             |
| The Netherlands            | 12            |
| Spain                      | 16            |
| Sweden                     | 1             |
| United Kingdom             | 62            |
| United States <sup>1</sup> | 212           |
| <b>Total</b>               | <b>569</b>    |

<sup>1</sup> The figure includes one student who studied at a university in Puerto Rico.

The Japan-IDB Scholarship Program consists of three subprograms, based on the location of the university attended and its academic calendar. The Northern Hemisphere Program targets students interested in matriculating from graduate programs in universities in the Northern Hemisphere. While the majority of applicants to this program study in the United States, many also choose to study in Canada, Spain, France, Great Britain, Mexico, or countries of Central America. The typical academic program in these countries extends from early autumn to late spring of the following year. The Northern Hemisphere Program typically accepts applications until early May and completes the selection process in mid-June, with students commencing classes in September.

The Southern Hemisphere Program targets students interested in undertaking graduate studies in universities in South America, where the standard academic year runs from March

through December. The majority of scholarship recipients in this program choose to study in Chile, whose graduate programs are renowned throughout Latin America for their excellence. Brazil and Argentina have also received many students.

The Special Program for Study in Japan, as the name suggests, supports students who pursue graduate studies in Japanese universities. Established within the JSP in 1994, the Special Program funds graduate studies in Japanese-based English-language programs of relevance to Latin American and Caribbean development. Scholarship recipients may enter these programs in April or September.

### **3.2. Program Highlights**

In 2006, the Japan-IDB Scholarship Program recorded another busy year. A total of 44 scholarships were awarded overall, bringing the number of awards made to the students in the LAC region since the program was established to 569. Applicants from the Bank's low-income borrowing member countries (Group C and D countries) received 20 scholarships, accounting for 44% of the total.

The Special Program for Study in Japan made grants to a total of eight students. One is from a C country (Costa Rica); the others are from Brazil, Colombia, and Peru. The students began master's degree programs at International University (international development), Shimane University (geoscience, environmental ecology, and engineering), Waseda University (telecommunications and information systems), and Tokyo University (geotechnical engineering and civil engineering).

In the Southern Hemisphere Program, scholarships were awarded to 11 students from nine countries. Of this total, seven scholarship recipients (64%) are from Group C and D countries. Recipients were selected from among 102 applicants, of whom 53 were from Group C and D countries.

Scholarship recipients matriculated at Pontificia Universidad Catolica de Chile, Universidad de Chile, Universidad Tecnica Federica Santa Maria, and Instituto Latinoamericano de Doctinas y Estudios Sociales. Students undertook master's degree studies in fields as diverse as public policy, economics, natural resources, and social science. Bolivia and Colombia each had two students chosen as new scholarship recipients in the Southern Hemisphere Program, while Dominican Republic, El Salvador, Mexico, Nicaragua, Panama, Peru, and Uruguay each had one.

The Northern Hemisphere Program continued to experience the greatest demand of the three JSP subprograms. In 2006, the JSP awarded scholarships to 25 candidates from among 441 applicants. Twelve of the recipients (48%) are from C and D countries. Colombia was the largest source country, with three scholarship recipients. Argentina, Brazil, Chile, Dominican Republic, Haiti, Mexico, Nicaragua, Peru, and Uruguay had two scholarship recipients each. One applicant from each of the following countries was also awarded a scholarship: Guyana, Honduras, Jamaica, and Paraguay. Of the 25 Northern Hemisphere awardees, 10 are studying in the United States, 8 in the United Kingdom, 2 each in Canada, France, and Spain, and 1 in the Netherlands.

Students are pursuing degrees in academic programs that include international development, economics, public policy, public administration, sociology and education, food quality management, city planning, and environmental change and management.

## Alumni Meeting - Mexico

In response to suggestions from numerous former scholarship recipients, an alumni gathering is organized every year. The Fifth Alumni Meeting was held on August 4th, 2006, in Mexico City, with the cooperation of the IDB Office there. After Colombia and Peru, Mexico has received the most scholarships since the JSP was established.

The guests included about 18 former scholars, as well as special invitees such as representatives from the Japanese Embassy in Mexico. All the former scholarship recipients made a short presentation about themselves, and many voiced their thanks for the opportunity to undertake graduate studies. They credited the JSP with having a strong impact on their professional careers and helping them establish themselves in managerial positions.



*Alumni Meeting in Mexico (August 2006)*

## Japan Trip

Each year the Scholarship Program invites scholarship recipients studying in the Northern and Southern Hemisphere programs to apply to participate in a one-week trip to Japan. The selection committee considers it very meaningful to provide some scholarship recipients, to the extent resources allow, the opportunity to visit Japan and learn about Japanese society and culture.

A limited number of scholarship recipients are selected for this award, based on superior academic performance during their master's degree studies.

In 2006, 10 students from eight countries participated in the Japan Trip. Seven students were awarded trips after a competitive selection process. They were joined in Japan by three scholarship recipients studying at Japanese universities. All participated in a three-day program of lectures, site visits, and cultural activities organized by the IDB Office in Japan. The schedule included an introduction to the IDB; a lecture at the Asian Development Bank Institute; a lecture on Japanese society and culture by a professor at Kyorin University; tours of the Mitsubishi Corporation, Panasonic Center, and Edo Warp Station; a visit to the Ministry of Finance and Tsukuba University for lunch with university students.

*"I want to express my deep gratitude to the Japanese Scholarship Program for making this possible. The knowledge and personal growth acquired in the two years of studies will always enhance my disposition to contribute to better development in our region."*

- Scholarship recipient from Mexico

## JSF Projects with Bank Approval by Country (CY1988-2006)

(USD thousand)

| Country         | 1988-1995     | 1996          | 1997         | 1998          | 1999          | 2000          | 2001          | 2002          | 2003         | 2004         | 2005          | 2006          | Total          | %             |
|-----------------|---------------|---------------|--------------|---------------|---------------|---------------|---------------|---------------|--------------|--------------|---------------|---------------|----------------|---------------|
| <b>Group A</b>  | <b>2,849</b>  | <b>480</b>    | <b>282</b>   | <b>4,203</b>  | <b>2,207</b>  | <b>1,495</b>  | <b>2,968</b>  | <b>2,099</b>  | <b>827</b>   | <b>465</b>   | <b>915</b>    | <b>1,017</b>  | <b>19,807</b>  | <b>9.3%</b>   |
| Argentina       |               |               |              | 1,100         |               |               | 750           |               |              |              |               | 299           | 2,149          | 1.0%          |
| Brazil          | 2,250         | 480           |              | 916           | 2,207         | 1,495         | 1,649         |               | 450          | 465          | 291           | 147           | 10,350         | 4.9%          |
| Mexico          | 599           |               | 282          | 1,437         |               |               | 569           | 2,099         | 377          |              | 534           | 571           | 6,468          | 3.0%          |
| Venezuela       |               |               |              | 750           |               |               |               |               |              |              | 90            |               | 840            | 0.4%          |
| <b>Group B</b>  | <b>18,777</b> | <b>4,290</b>  | <b>123</b>   | <b>2,498</b>  | <b>549</b>    | <b>4,244</b>  | <b>3,426</b>  | <b>2,406</b>  | <b>2,389</b> | <b>-</b>     | <b>2,296</b>  | <b>7,075</b>  | <b>48,073</b>  | <b>22.5%</b>  |
| Chile           | 620           | 650           | 123          | 725           |               | 555           |               | 1,245         |              |              | 251           | 296           | 4,465          | 2.1%          |
| Colombia        | 4,857         | 1,100         |              | 1,173         | 15            | 1,285         | 2,247         | 541           | 1,641        |              | 600           | 3,708         | 17,167         | 8.1%          |
| Peru            | 13,300        | 2,540         |              | 600           | 534           | 2,404         | 1,179         | 620           | 748          |              | 1,445         | 3,071         | 26,441         | 12.4%         |
| <b>Group C</b>  | <b>31,853</b> | <b>3,649</b>  | <b>749</b>   | <b>5,529</b>  | <b>750</b>    | <b>2,451</b>  | <b>2,297</b>  | <b>403</b>    | <b>2,295</b> | <b>-</b>     | <b>2,690</b>  | <b>1,559</b>  | <b>54,225</b>  | <b>25.4%</b>  |
| Bahamas         | 5,051         |               |              |               |               |               |               |               |              |              |               |               | 5,051          | 2.4%          |
| Barbados        | 4,405         | 750           |              |               |               |               |               |               |              |              |               |               | 5,155          | 2.4%          |
| Costa Rica      | 8,037         |               | 749          | 175           |               |               |               |               | 1,895        |              | 250           | 448           | 11,554         | 5.4%          |
| Jamaica         | 7,200         | 750           |              |               | 750           | 338           |               | 403           |              |              | 120           | 120           | 9,681          | 4.5%          |
| Panama          | 380           | 1,400         |              | 1,936         |               | 1,963         | 450           |               | 400          |              | 800           | 542           | 7,871          | 3.7%          |
| Suriname        |               |               |              | 2,158         |               | 150           |               |               |              |              | 750           | 149           | 3,207          | 1.5%          |
| T & T           | 2,880         |               |              | 1,260         |               |               |               |               |              |              | 630           |               | 4,770          | 2.2%          |
| Uruguay         | 3,900         | 749           |              |               |               |               | 1,847         |               |              |              | 140           | 300           | 6,936          | 3.3%          |
| <b>Group D</b>  | <b>30,380</b> | <b>3,132</b>  | <b>500</b>   | <b>5,414</b>  | <b>5,303</b>  | <b>2,447</b>  | <b>6,454</b>  | <b>2,506</b>  | <b>1,975</b> | <b>846</b>   | <b>3,876</b>  | <b>5,136</b>  | <b>67,969</b>  | <b>31.9%</b>  |
| Belize          | 650           | 567           |              |               |               |               |               |               | 300          |              |               |               | 1,517          | 0.7%          |
| Bolivia         | 9,132         |               |              | 720           |               |               |               |               | 750          |              |               | 149           | 10,751         | 5.0%          |
| Dom.Rep         | 772           |               |              | 1,425         | 1,173         | 450           | 1,357         | 200           |              | 453          | 567           | 300           | 6,697          | 3.1%          |
| Ecuador         | 2,449         |               |              | 100           | 2,325         |               | 1,300         |               |              | 270          | 739           | 1,307         | 8,490          | 4.0%          |
| El Salvador     |               | 1,090         |              |               |               |               | 1,049         | 1,099         |              |              | 274           | 447           | 3,959          | 1.9%          |
| Guatemala       | 2,372         |               |              | 1,100         | 500           | 595           | 1,500         | 380           |              |              | 1,058         | 906           | 8,411          | 3.9%          |
| Guyana          | 4,431         | 750           |              | 345           | 525           |               |               |               |              |              | 750           |               | 6,801          | 3.2%          |
| Haiti           | 3,390         |               |              |               |               |               |               |               |              |              | 488           | 500           | 4,378          | 2.1%          |
| Honduras        | 1,150         |               | 500          | 1,243         |               | 1,402         | 598           | 499           | 625          | 123          |               | 149           | 6,289          | 2.9%          |
| Nicaragua       | 3,545         |               |              | 481           | 780           |               | 650           | 328           | 300          |              |               | 840           | 6,924          | 3.2%          |
| Paraguay        | 2,489         | 725           |              |               |               |               |               |               |              |              |               | 538           | 3,752          | 1.8%          |
| <b>Regional</b> | <b>2,111</b>  | <b>3,108</b>  | <b>-</b>     | <b>2,544</b>  | <b>3,517</b>  | <b>910</b>    | <b>1,445</b>  | <b>5,260</b>  | <b>2,100</b> | <b>795</b>   | <b>1,310</b>  | <b>29</b>     | <b>23,129</b>  | <b>10.8%</b>  |
| <b>Total</b>    | <b>85,970</b> | <b>14,659</b> | <b>1,654</b> | <b>20,188</b> | <b>12,326</b> | <b>11,547</b> | <b>16,590</b> | <b>12,674</b> | <b>9,586</b> | <b>2,106</b> | <b>11,087</b> | <b>14,816</b> | <b>213,203</b> | <b>100.0%</b> |

Note: After the year 2001, the figures also include the JPO project approval.



## Annex II

**JCF Projects with Bank Approval by Country (CY1995-2006)**

(USD thousand)

| Country         | 1995       | 1996       | 1997         | 1998         | 1999         | 2000         | 2001         | 2002         | 2003         | 2004         | 2005       | 2006         | Total         | %             |
|-----------------|------------|------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|------------|--------------|---------------|---------------|
| <b>Group A</b>  | -          | -          | -            | 960          | -            | 750          | -            | 750          | -            | 750          | 750        | 1,200        | <b>5,160</b>  | <b>17.3%</b>  |
| Argentina       |            |            |              |              |              |              |              |              |              |              |            |              |               |               |
| Brazil          |            |            |              |              |              | 750          |              | 750          |              | 750          | 750        | 1,200        | 4,200         | 14.1%         |
| Mexico          |            |            |              | 960          |              |              |              |              |              |              |            |              | 960           | 3.2%          |
| Venezuela       |            |            |              |              |              |              |              |              |              |              |            |              |               |               |
| <b>Group B</b>  | -          | -          | 6            | 12           | 150          | 1,500        | 1,200        | 1,200        | -            | -            | -          | 600          | <b>4,668</b>  | <b>15.6%</b>  |
| Chile           |            |            | 6            |              |              |              | 200          | 1,200        |              |              |            |              | 1,406         | 4.7%          |
| Colombia        |            |            |              | 12           |              | 1,500        |              |              |              |              |            | 600          | 2,112         | 7.1%          |
| Peru            |            |            |              |              | 150          |              | 1,000        |              |              |              |            |              | 1,150         | 3.8%          |
| <b>Group C</b>  | -          | 40         | 992          | 1,991        | -            | -            | 1,098        | 400          | -            | 1,500        | -          | 720          | <b>6,741</b>  | <b>22.6%</b>  |
| Bahamas         |            | 40         | 992          | 1,241        |              |              |              |              |              |              |            |              | 2,273         | 7.6%          |
| Barbados        |            |            |              |              |              |              |              |              |              |              |            |              |               |               |
| Costa Rica      |            |            |              |              |              |              |              |              |              |              |            |              |               |               |
| Jamaica         |            |            |              |              |              |              |              | 400          |              |              |            |              | 400           | 1.3%          |
| Panama          |            |            |              | 750          |              |              |              |              |              | 1,500        |            |              | 2,250         | 7.5%          |
| Suriname        |            |            |              |              |              |              |              |              |              |              |            |              |               |               |
| T & T           |            |            |              |              |              |              |              |              |              |              |            |              |               |               |
| Uruguay         |            |            |              |              |              |              | 1,098        |              |              |              |            | 720          | 1,818         | 6.1%          |
| <b>Group D</b>  | 2          | 81         | 204          | -            | 1,649        | 986          | 640          | 400          | 2,250        | 600          | -          | -            | <b>6,812</b>  | <b>22.8%</b>  |
| Belize          |            |            |              |              |              | 195          |              |              |              |              |            |              | 195           | 0.7%          |
| Bolivia         |            |            | 135          |              |              |              |              |              | 1,500        |              |            |              | 1,635         | 5.5%          |
| Dom.Rep         |            |            |              |              |              |              |              |              |              |              |            |              |               |               |
| Ecuador         |            |            |              |              | 750          | 750          |              |              |              |              |            |              | 1,500         | 5.0%          |
| El Salvador     |            |            |              |              |              |              |              |              |              | 600          |            |              | 600           | 2.0%          |
| Guatemala       | 2          | 81         | 69           |              | 149          |              | 640          |              |              |              |            |              | 941           | 3.1%          |
| Guyana          |            |            |              |              |              |              |              | 400          |              |              |            |              | 400           | 1.3%          |
| Haiti           |            |            |              |              | 750          |              |              |              |              |              |            |              | 750           | 2.5%          |
| Honduras        |            |            |              |              |              | 41           |              |              |              |              |            |              | 41            | 0.1%          |
| Nicaragua       |            |            |              |              |              |              |              |              |              |              |            |              |               |               |
| Paraguay        |            |            |              |              |              |              |              |              | 750          |              |            |              | 750           | 2.5%          |
| <b>Regional</b> | <b>567</b> | <b>449</b> | <b>558</b>   | <b>714</b>   | <b>992</b>   | <b>1,344</b> | <b>106</b>   | <b>901</b>   | <b>276</b>   | <b>133</b>   | <b>157</b> | <b>313</b>   | <b>6,510</b>  | <b>21.8%</b>  |
| <b>Total</b>    | <b>569</b> | <b>570</b> | <b>1,760</b> | <b>3,677</b> | <b>2,791</b> | <b>4,580</b> | <b>3,044</b> | <b>3,651</b> | <b>2,526</b> | <b>2,983</b> | <b>907</b> | <b>2,833</b> | <b>29,891</b> | <b>100.0%</b> |

### Scholarship by Subprogram and Nationality of Students from the LAC Region

| Nationality of Students | Northern Hem Sub-total | Southern Hem Sub-total | Japanese Univ. Sub-total | # of Students | %           |
|-------------------------|------------------------|------------------------|--------------------------|---------------|-------------|
| Argentina               | 37                     | 9                      | 1                        | 47            | 8.3%        |
| Bahamas                 | 2                      | 0                      | 0                        | 2             | 0.4%        |
| Barbados                | 5                      | 0                      | 0                        | 5             | 0.9%        |
| Belize                  | 2                      | 0                      | 1                        | 3             | 0.5%        |
| Bolivia                 | 13                     | 17                     | 2                        | 32            | 5.6%        |
| Brazil                  | 13                     | 2                      | 6                        | 21            | 3.7%        |
| Chile                   | 31                     | 3                      | 2                        | 36            | 6.3%        |
| Colombia                | 39                     | 16                     | 38                       | 93            | 16.3%       |
| Costa Rica              | 17                     | 12                     | 2                        | 31            | 5.4%        |
| Dominican R.            | 12                     | 13                     | 0                        | 25            | 4.4%        |
| Ecuador                 | 12                     | 4                      | 5                        | 21            | 3.7%        |
| El Salvador             | 7                      | 4                      | 1                        | 12            | 2.1%        |
| Guatemala               | 10                     | 3                      | 1                        | 14            | 2.5%        |
| Guyana                  | 5                      | 0                      | 1                        | 6             | 1.1%        |
| Haiti                   | 15                     | 0                      | 0                        | 15            | 2.6%        |
| Honduras                | 8                      | 5                      | 1                        | 14            | 2.5%        |
| Jamaica                 | 8                      | 0                      | 0                        | 8             | 1.4%        |
| Mexico                  | 36                     | 7                      | 5                        | 48            | 8.4%        |
| Nicaragua               | 10                     | 9                      | 1                        | 20            | 3.5%        |
| Panama                  | 3                      | 2                      | 1                        | 6             | 1.1%        |
| Paraguay                | 9                      | 4                      | 0                        | 13            | 2.3%        |
| Peru                    | 27                     | 20                     | 10                       | 57            | 10.0%       |
| Suriname                | 1                      | 0                      | 0                        | 1             | 0.2%        |
| Trin. & Tobago          | 5                      | 0                      | 1                        | 6             | 1.1%        |
| Uruguay                 | 12                     | 6                      | 0                        | 18            | 3.2%        |
| Venezuela               | 9                      | 2                      | 4                        | 15            | 2.6%        |
| <b>Total</b>            | <b>348</b>             | <b>138</b>             | <b>83</b>                | <b>569</b>    | <b>100%</b> |



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**REPORT OF INDEPENDENT AUDITORS**

To the Inter-American Development Bank,  
Administrator of the Japan Special Fund  
Established by the Government of Japan:

We have audited the accompanying balance sheet of the Japan Special Fund Established by the Government of Japan (the Fund), administered by the Inter-American Development Bank (the Bank), as of December 31, 2006 and 2005, and the related statements of changes in fund balance and cash flows for the years then ended. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Fund's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Fund at December 31, 2006 and 2005, and the changes in its fund balance and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States.

*Ernst & Young LLP*

Washington, D.C.  
March 22, 2007

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Annex IV

**JAPAN SPECIAL FUND**  
**ESTABLISHED BY THE GOVERNMENT OF JAPAN**  
 (Administered by the Inter-American Development Bank)

**BALANCE SHEET**

|   | December 31,  |               |
|---|---------------|---------------|
|   | 2006          | 2005          |
| <b>ASSETS</b>                           |               |               |
| Cash                                    | \$ 43,897     | \$ 402,545    |
| Investments                             | 92,581,605    | 90,303,775    |
| Total assets                            | \$ 92,625,502 | \$ 90,706,320 |
| <br><b>LIABILITIES AND FUND BALANCE</b> |               |               |
| Due to Administrator                    | \$ 532,484    | \$ 523,330    |
| Undisbursed grants                      | 32,835,048    | 27,106,646    |
| Fund balance                            | 59,257,970    | 63,076,344    |
| Total liabilities and fund balance      | \$ 92,625,502 | \$ 90,706,320 |

**STATEMENT OF CHANGES IN FUND BALANCE**

|  | For the years ended December 31, |               |
|--|----------------------------------|---------------|
|  | 2006                             | 2005          |
| <b>ADDITIONS</b>   |                                  |               |
| Contributions  | \$ 5,599,407                     | \$ 4,965,874  |
| Income on cash and investments                               | 4,811,483                        | 3,127,335     |
| Total additions  | 10,410,890                       | 8,093,209     |
| <br><b>DEDUCTIONS</b>  |                                  |               |
| Grants, net  | 13,932,528                       | 11,430,183    |
| Direct and indirect expenses                                 | 198,746                          | 194,123       |
| Administrative commissions                                   | 97,990                           | 86,903        |
| Total deductions   | 14,229,264                       | 11,711,209    |
| <b>Change in Fund balance before translation adjustments</b> | (3,818,374)                      | (3,618,000)   |
| Translation adjustments                                      | -                                | 77,788        |
| <b>Change in Fund balance after translation adjustments</b>  | (3,818,374)                      | (3,540,212)   |
| <b>Fund balance, beginning of year</b>                       | 63,076,344                       | 66,616,556    |
| <b>Fund balance, end of year</b>                             | \$ 59,257,970                    | \$ 63,076,344 |

*The accompanying notes are an integral part of these financial statements.*

Annex IV

**JAPAN SPECIAL FUND**  
**ESTABLISHED BY THE GOVERNMENT OF JAPAN**  
 (Administered by the Inter-American Development Bank)

**STATEMENT OF CASH FLOWS**

|  | For the years ended |                    |
|--|---------------------|--------------------|
|  | December 31,        |                    |
|  | <u>2006</u>         | <u>2005</u>        |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>  |                     |                    |
| Change in Fund balance before translation adjustments  | \$ (3,818,374)      | \$ (3,618,000)     |
| Adjustments to reconcile Change in Fund balance before translation adjustments to Net cash used in operating activities: |                     |                    |
| Net unrealized gains on investments  | (3,818,160)         | (2,425,980)        |
| Increase (decrease) in Due to Administrator  | 9,154               | (348,337)          |
| Increase in Undisbursed grants   | <u>5,728,402</u>    | <u>2,852,070</u>   |
| <b>Net cash used in operating activities</b>   | <u>(1,898,978)</u>  | <u>(3,540,247)</u> |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>  |                     |                    |
| Net decrease in Investments  | <u>1,540,330</u>    | <u>3,033,411</u>   |
| <b>Net cash provided by investing activities</b>   | <u>1,540,330</u>    | <u>3,033,411</u>   |
| <b>Net decrease in Cash</b>  | (358,648)           | (506,836)          |
| <b>Cash, beginning of year</b>   | <u>402,545</u>      | <u>909,381</u>     |
| <b>Cash, end of year</b>   | <u>\$ 43,897</u>    | <u>\$ 402,545</u>  |
| <b>Supplemental disclosure of noncash activities</b>   |                     |                    |
| Decrease resulting from exchange rate fluctuations:  |                     |                    |
| Undisbursed grants   | \$ -                | \$ 77,788          |

*The accompanying notes are an integral part of these financial statements.*

**JAPAN SPECIAL FUND**  
**ESTABLISHED BY THE GOVERNMENT OF JAPAN**  
(Administered by the Inter-American Development Bank)

**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2006

**NOTE A - NATURE OF THE FUND**

On April 26, 1988, the Government of Japan (the Government) and the Inter-American Development Bank (the Bank) signed an agreement (the Agreement) to establish the Japan Special Fund (the Fund), which is funded by the Government and administered by the Bank.

The purpose of the Fund is to provide grants to help developing member countries of the Bank accelerate the process of economic and social development.

Resources are contributed by the Government to the Fund in Japanese yen and are immediately converted into United States dollars. As of December 31, 2006, the Government has contributed ¥26,762,353,000 (equivalent to approximately \$221,711,856).

In 1998, the Bank approved the establishment of the Japan Program. The objectives of the Japan Program are to create opportunities for providing expertise, knowledge, and best practices of Asia to the countries of Latin America and the Caribbean and vice-versa, and to the Bank in the formulation of economic and social development strategies, priorities, and policies. The Japan Program also promotes partnerships and supports comparative studies between entities interested and involved in economic and social development in Latin America, the Caribbean and those in Japan and the rest of Asia, such as public agencies, universities, non-governmental organizations, and research institutes.

The Japan Program serves as an umbrella for activities funded in accordance with the above-mentioned objectives. In order to finance the Japan Program, a special window of the Fund was established in 1999, for which the amount of \$29.7 million was transferred from the Japan Special Main Account to cover approximately \$2.0 million per year in non-reimbursable grants.

In 2001, the Government approved the establishment of the Japan Poverty Reduction Program (JPO Program) under the framework of the Fund and set aside \$30 million for this purpose. The JPO Program was established in order to increase the focus of the Fund towards the financing of poverty reduction initiatives to support the Bank's initiatives in this respect.

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The specific objectives of the JPO Program are to: (a) support well-targeted poverty reduction and social development activities that would have a direct impact on the population affected by poverty and those vulnerable groups that are socially and/or economically disadvantaged; (b) stimulate the capacity of the poor to help themselves; (c) stimulate widespread stakeholder participation at the community level; and (d) provide a systematic impact on operations and programs in the Bank's borrowing member countries towards sustainable poverty reduction. Pursuant to the agreement establishing the JPO Program, as amended, funding will be provided for grants approved over the period from 2001 to 2010.

The accompanying Appendixes I and II present separately the operations of the Japan Program and the JPO Program from the remaining operations of the Fund, which are reflected in the Japan Special Main Account.

Pursuant to the Agreement, as amended in 1991, the Bank is authorized to charge an administrative commission of 1.75% of funds contributed by the Government during each year. During 2006, administrative commissions were charged to the Fund in the amount of \$97,990 (2005 - \$86,903).

Audit costs of the Fund are paid by the Bank. During 2006, the Bank paid audit fees in the amount of \$13,470 (2005 - \$12,832).

**NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of the Fund are prepared in conformity with accounting principles generally accepted in the United States. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of additions to and deductions from the fund balance during the reporting period. Actual results could differ from these estimates.

***Investments***

Investments are carried and reported at fair value. Realized and unrealized gains and losses are included in Income on cash and investments in the Statement of Changes in Fund Balance.

***Grants***

Technical cooperation grants are recorded as deductions from the fund balance when approved. Cancellations of the undisbursed portion of grants approved are recorded as an offset to Grants in the period in which they occur.

***Translation of currencies***

The United States dollar is the functional currency of the Fund. Assets and liabilities denominated in Japanese yen, if any, are translated to United States dollars at market rates of exchange prevailing at the Balance Sheet dates. The adjustments resulting from the translation of assets and liabilities into United States dollars are shown in the Statement of Changes in Fund Balance as Translation adjustments.

***Fair values of financial instruments***

The following methods and assumptions were used in estimating the fair value of financial instruments:

***Cash:*** The carrying amount reported in the Balance Sheet for cash approximates fair value.

***Investments:*** Fair values for investments are based on quoted market prices, where available; otherwise they are based on quoted market prices of comparable instruments.

**NOTE C - INVESTMENTS**

The Bank invests the Fund's resources in the same type of securities in which it invests its own funds under its investment authority. The Fund's resources are invested in high quality securities through an investment pool managed by the Bank. Investments may include government, agency, corporate and bank obligations, and asset- and mortgage-backed securities with credit quality equivalent to ratings ranging from AAA to A+.

The Bank limits the Fund's activities of investing in securities to a list of authorized dealers and counterparties. Credit limits have been established for each counterparty and the Bank, as the Administrator of the Fund, does not anticipate non-performance by any of its counterparties.

Net unrealized gains on investments, held at December 31, 2006, in the amount of \$3,818,160 (2005 – \$2,425,980) were included in Income on cash and investments. The average return on investments, including realized and unrealized gains and losses, during 2006 and 2005 was 5.15% and 3.38%, respectively.

**NOTE D - UNDISBURSED GRANTS**

The following is a summary of changes in Undisbursed grants for the years ended December 31, 2006 and 2005:



Annex IV

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|   | <u>2006</u>          | <u>2005</u>          |
|---|----------------------|----------------------|
| Undisbursed grants as of January 1 . . . . .  | \$ 27,106,646        | \$ 24,332,364        |
| Grants approved. . . . .                      | 16,084,600           | 13,486,699           |
| Cancellations. . . . .                        | <u>(2,152,072)</u>   | <u>(2,056,516)</u>   |
| Grants, net. . . . .                          | 13,932,528           | 11,430,183           |
| Disbursements. . . . .                        | (8,204,126)          | (8,578,114)          |
| Translation adjustments. . . . .              | <u>-</u>             | <u>(77,788)</u>      |
| Undisbursed grants as of December 31. . . . . | <u>\$ 32,835,048</u> | <u>\$ 27,106,646</u> |

**NOTE E - CONCENTRATION OF CREDIT RISK**

Credit risk represents the accounting loss that would be recognized at the reporting date if counterparties fail completely to perform as contracted. At December 31, 2006 and 2005, the Fund had cash in one financial institution in the United States in the amount of \$43,897 and \$402,545, respectively. The Bank, as the Administrator of the Fund, does not anticipate nonperformance by any of its counterparties. The amount of credit risk shown, therefore, does not represent expected losses.

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Annex IV

Appendix I

**JAPAN SPECIAL FUND  
ESTABLISHED BY THE GOVERNMENT OF JAPAN**  
(Administered by the Inter-American Development Bank)

**SUPPLEMENTARY BALANCE SHEET BY PROGRAM**

|                                     | December 31,                  |                  |                                 |               |                               |                  |                                 |               |
|-------------------------------------|-------------------------------|------------------|---------------------------------|---------------|-------------------------------|------------------|---------------------------------|---------------|
|                                     | 2006                          |                  |                                 |               | 2005                          |                  |                                 |               |
|                                     | Japan Special<br>Main Account | Japan<br>Program | Poverty<br>Reduction<br>Program | Total         | Japan Special<br>Main Account | Japan<br>Program | Poverty<br>Reduction<br>Program | Total         |
| <b>ASSETS</b>                       |                               |                  |                                 |               |                               |                  |                                 |               |
| Cash                                | \$ 14,365                     | \$ 15,900        | \$ 13,632                       | \$ 43,897     | \$ 158,802                    | \$ 114,879       | \$ 128,864                      | \$ 402,545    |
| Investments                         | 40,671,198                    | 25,052,363       | 26,858,044                      | 92,581,605    | 37,995,412                    | 25,015,511       | 27,292,852                      | 90,303,775    |
| Total assets                        | \$ 40,685,563                 | \$ 25,068,263    | \$ 26,871,676                   | \$ 92,625,502 | \$ 38,154,214                 | \$ 25,130,390    | \$ 27,421,716                   | \$ 90,706,320 |
| <b>LIABILITIES AND FUND BALANCE</b> |                               |                  |                                 |               |                               |                  |                                 |               |
| <b>Liabilities</b>                  |                               |                  |                                 |               |                               |                  |                                 |               |
| Due to Administrator                | \$ 337,410                    | \$ 119,924       | \$ 75,150                       | \$ 532,484    | \$ 347,770                    | \$ 119,061       | \$ 56,499                       | \$ 523,330    |
| Un disbursed grants                 | 19,176,853                    | 3,288,788        | 10,369,407                      | 32,835,048    | 17,444,669                    | 3,739,120        | 5,922,857                       | 27,106,646    |
|                                     | 19,514,263                    | 3,408,712        | 10,444,557                      | 33,367,532    | 17,792,439                    | 3,858,181        | 5,979,356                       | 27,629,976    |
| <b>Fund balance</b>                 | 21,171,300                    | 21,659,551       | 16,427,119                      | 59,257,970    | 20,361,775                    | 21,272,209       | 21,442,360                      | 63,076,344    |
| Total liabilities and fund balance  | \$ 40,685,563                 | \$ 25,068,263    | \$ 26,871,676                   | \$ 92,625,502 | \$ 38,154,214                 | \$ 25,130,390    | \$ 27,421,716                   | \$ 90,706,320 |

Appendix II

**JAPAN SPECIAL FUND  
ESTABLISHED BY THE GOVERNMENT OF JAPAN**  
(Administered by the Inter-American Development Bank)

**SUPPLEMENTARY STATEMENT OF CHANGES  
IN FUND BALANCE BY PROGRAM**

|  | For the years ended December 31, |                  |                                 |               |                               |                  |                                 |               |
|--|----------------------------------|------------------|---------------------------------|---------------|-------------------------------|------------------|---------------------------------|---------------|
|  | 2006                             |                  |                                 |               | 2005                          |                  |                                 |               |
|  | Japan Special<br>Main Account    | Japan<br>Program | Poverty<br>Reduction<br>Program | Total         | Japan Special<br>Main Account | Japan<br>Program | Poverty<br>Reduction<br>Program | Total         |
| <b>ADDITIONS</b>   |                                  |                  |                                 |               |                               |                  |                                 |               |
| Contributions  | \$ 5,599,407                     | \$ -             | \$ -                            | \$ 5,599,407  | \$ 4,965,874                  | \$ -             | \$ -                            | \$ 4,965,874  |
| Income on cash and investments                               | 2,123,382                        | 1,286,996        | 1,401,105                       | 4,811,483     | 1,336,229                     | 861,028          | 930,078                         | 3,127,335     |
| Total additions  | 7,722,789                        | 1,286,996        | 1,401,105                       | 10,410,890    | 6,302,103                     | 861,028          | 930,078                         | 8,093,209     |
| <b>DEDUCTIONS</b>  |                                  |                  |                                 |               |                               |                  |                                 |               |
| Grants, net  | 6,616,528                        | 899,654          | 6,416,346                       | 13,932,528    | 7,325,680                     | 1,271,773        | 2,832,730                       | 11,430,183    |
| Direct and indirect expenses                                 | 198,746                          | -                | -                               | 198,746       | 194,123                       | -                | -                               | 194,123       |
| Administrative commissions                                   | 97,990                           | -                | -                               | 97,990        | 86,903                        | -                | -                               | 86,903        |
| Total deductions   | 6,913,264                        | 899,654          | 6,416,346                       | 14,229,264    | 7,606,706                     | 1,271,773        | 2,832,730                       | 11,711,209    |
| <b>Change in Fund balance before translation adjustments</b> | 809,525                          | 387,342          | (5,015,241)                     | (3,818,374)   | (1,304,603)                   | (410,745)        | (1,902,652)                     | (3,618,000)   |
| Translation adjustments                                      | -                                | -                | -                               | -             | 77,788                        | -                | -                               | 77,788        |
| <b>Change in Fund balance after translation adjustments</b>  | 809,525                          | 387,342          | (5,015,241)                     | (3,818,374)   | (1,226,815)                   | (410,745)        | (1,902,652)                     | (3,540,212)   |
| <b>Fund balance, beginning of year</b>                       | 20,361,775                       | 21,272,209       | 21,442,360                      | 63,076,344    | 21,588,590                    | 21,682,954       | 23,345,012                      | 66,616,556    |
| <b>Fund balance, end of year</b>                             | \$ 21,171,300                    | \$ 21,659,551    | \$ 16,427,119                   | \$ 59,257,970 | \$ 20,361,775                 | \$ 21,272,209    | \$ 21,442,360                   | \$ 63,076,344 |



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## REPORT OF INDEPENDENT AUDITORS

To the Inter-American Development Bank,  
Administrator of the Japanese Consultants Fund  
Established by the Government of Japan:

We have audited the accompanying balance sheet of the Japanese Consultants Fund Established by the Government of Japan (the Fund), administered by the Inter-American Development Bank (the Bank), as of December 31, 2006 and 2005, and the related statements of changes in fund balance and cash flows for the years then ended. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Fund's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Fund at December 31, 2006 and 2005, and the changes in its fund balance and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States.

*Ernst & Young LLP*

Washington, D.C.  
March 22, 2007

Annex V

**JAPANESE CONSULTANTS FUND**  
**ESTABLISHED BY THE GOVERNMENT OF JAPAN**  
 (Administered by the Inter-American Development Bank)

**BALANCE SHEET**

|                                     | <u>December 31,</u>  |                      |
|-------------------------------------|----------------------|----------------------|
|                                     | <u>2006</u>          | <u>2005</u>          |
| <b>ASSETS</b>                       |                      |                      |
| Cash                                | \$ 10,435            | \$ 135,672           |
| Investments                         | 18,345,264           | 15,829,084           |
| Due from Administrator              | -                    | 681                  |
| Total assets                        | <u>\$ 18,355,699</u> | <u>\$ 15,965,437</u> |
| <b>LIABILITIES AND FUND BALANCE</b> |                      |                      |
| Accrued expenses                    | \$ 13,470            | \$ 12,832            |
| Undisbursed grants                  | 5,538,933            | 5,480,105            |
| Fund balance                        | <u>12,803,296</u>    | <u>10,472,500</u>    |
| Total liabilities and fund balance  | <u>\$ 18,355,699</u> | <u>\$ 15,965,437</u> |

**STATEMENT OF CHANGES IN FUND BALANCE**

|  | <u>For the years ended December 31,</u> |                      |
|--|---|----------------------|
|  | <u>2006</u>                             | <u>2005</u>          |
| <b>ADDITIONS</b>                       |   |                      |
| Contributions                          | \$ 4,198,873                            | \$ 3,184,855         |
| Income on cash and investments         | 968,443                                 | 547,617              |
| Total additions                        | <u>5,167,316</u>                        | <u>3,732,472</u>     |
| <b>DEDUCTIONS</b>                      |   |                      |
| Grants, net                            | 2,739,073                               | 480,193              |
| Administrative commissions             | 83,977                                  | 63,697               |
| Accountant fees                        | 13,470                                  | 24,545               |
| Total deductions                       | <u>2,836,520</u>                        | <u>568,435</u>       |
| <b>Change in Fund balance</b>          | 2,330,796                               | 3,164,037            |
| <b>Fund balance, beginning of year</b> | <u>10,472,500</u>                       | <u>7,308,463</u>     |
| <b>Fund balance, end of year</b>       | <u>\$ 12,803,296</u>                    | <u>\$ 10,472,500</u> |

*The accompanying notes are an integral part of these financial statements.*

Annex V

**JAPANESE CONSULTANTS FUND**  
**ESTABLISHED BY THE GOVERNMENT OF JAPAN**  
 (Administered by the Inter-American Development Bank)

**STATEMENT OF CASH FLOWS**

|  | <u>For the years ended December 31,</u> |                    |
|--|---|--------------------|
|  | <u>2006</u>                             | <u>2005</u>        |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>  |   |                    |
| Change in Fund balance   | \$ 2,330,796                            | \$ 3,164,037       |
| Adjustments to reconcile Change in Fund balance<br>to Net cash provided by operating activities: |   |                    |
| Net unrealized gains on investments  | (654,912)                               | (369,047)          |
| Decrease (increase) in Due from Administrator  | 681                                     | (681)              |
| Decrease in Due to Administrator   | -                                       | (977)              |
| Increase in Accounts payable   | 638                                     | 12,832             |
| Increase (Decrease) in Undisbursed grants  | <u>58,828</u>                           | <u>(2,184,163)</u> |
| <b>Net cash provided by operating activities</b>   | <u>1,736,031</u>                        | <u>622,001</u>     |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>  |   |                    |
| Net increase in Investments  | <u>(1,861,268)</u>                      | <u>(768,308)</u>   |
| <b>Net cash used in investing activities</b>   | <u>(1,861,268)</u>                      | <u>(768,308)</u>   |
| <b>Net decrease in Cash</b>  | (125,237)                               | (146,307)          |
| <b>Cash, beginning of year</b>   | <u>135,672</u>                          | <u>281,979</u>     |
| <b>Cash, end of year</b>   | <u>\$ 10,435</u>                        | <u>\$ 135,672</u>  |

*The accompanying notes are an integral part of these financial statements.*

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**JAPANESE CONSULTANTS FUND**  
**ESTABLISHED BY THE GOVERNMENT OF JAPAN**  
(Administered by the Inter-American Development Bank)

**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2006

**NOTE A - NATURE OF THE FUND**

On February 15, 1995, the Government of Japan (the Government) and the Inter-American Development Bank (the Bank) signed an agreement (the Agreement) to establish the Japanese Consultants Fund (the Fund), which is funded by the Government and administered by the Bank.

The purpose of the Fund is to finance: (i) the fees and related travel expenses of individual Japanese consultants performing medium-term assignments (up to one year, with a possibility of further extension) in support of the Bank's activities; and (ii) the professional fees and related travel expenses for short-term consulting services performed at Bank headquarters or in the Bank's borrowing member countries by Japanese nationals, acting as individual consultants, or on behalf of specialized institutions and consulting firms (all such consulting services referred to collectively as the Consultancy Services).

Resources are contributed by the Government to the Fund in Japanese yen and are immediately converted into United States dollars. As of December 31, 2006, the Government has contributed ¥4,322,544,000 (equivalent to approximately \$37,648,000).

Pursuant to the Agreement, the Bank is authorized to charge an administrative commission of 2% of funds contributed by the Government during each year. During 2006, administrative commissions were charged to the Fund in the amount of \$83,977 (2005 - \$63,697).

**NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of the Fund are prepared in conformity with accounting principles generally accepted in the United States. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of additions to and deductions from the fund balance during the reporting period. Actual results could differ from these estimates.

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***Investments***

Investments are carried and reported at fair value. Realized and unrealized gains and losses are included in Income on cash and investments in the Statement of Changes in Fund Balance.

***Grants***

Technical cooperation grants are recorded as deductions from the fund balance when approved. Cancellations of the undisbursed portion of grants approved are recorded as an offset to Grants in the period in which they occur.

***Foreign currencies***

The financial statements are expressed in United States dollars, which is the functional and reporting currency of the Fund.

***Fair values of financial instruments***

The following methods and assumptions were used in estimating the fair value of financial instruments:

***Cash:*** The carrying amount reported in the Balance Sheet for cash approximates fair value.

***Investments:*** Fair values for investments are based on quoted market prices, where available; otherwise they are based on quoted market prices of comparable instruments.

**NOTE C - INVESTMENTS**

The Bank invests the Fund's resources in the same type of securities in which it invests its own funds under its investment authority. The Fund's resources are invested in high quality securities through an investment pool managed by the Bank. Investments may include government, agency, corporate, and bank obligations, and asset- and mortgage-backed securities with credit quality equivalent to ratings ranging from AAA to A+.

The Bank limits the Fund's activities of investing to a list of authorized dealers and counterparties. Credit limits have been established for each counterparty and the Bank, as Administrator of the Fund, does not anticipate non-performance by any of its counterparties.

Net unrealized gains on investments, held at December 31, 2006, in the amount of \$654,912 (2005 - \$369,047) were included in Income on cash and investments. The average return on

investments, including realized and unrealized gains, during 2006 and 2005 was 5.21% and 3.44%, respectively.

**NOTE D - UNDISBURSED GRANTS**

The following is a summary of changes in Undisbursed grants for the years ended December 31, 2006 and 2005:

|   | <u>2006</u>         | <u>2005</u>         |
|---|---------------------|---------------------|
| Undisbursed grants as of January 1. . . . .   | \$ 5,480,105        | \$ 7,664,268        |
| Grants approved. . . . .                      | 2,832,520           | 907,260             |
| Cancellations. . . . .                        | <u>(93,447)</u>     | <u>(427,067)</u>    |
| Grants, net. . . . .                          | 2,739,073           | 480,193             |
| Disbursements. . . . .                        | <u>(2,680,245)</u>  | <u>(2,664,356)</u>  |
| Undisbursed grants as of December 31. . . . . | <u>\$ 5,538,933</u> | <u>\$ 5,480,105</u> |

**NOTE E - CONCENTRATION OF CREDIT RISK**

Credit risk represents the accounting loss that would be recognized at the reporting date if counterparties fail completely to perform as contracted. At December 31, 2006 and 2005, the Fund had cash in one financial institution in the United States in the amount of \$10,435 and \$135,672, respectively. The Bank, as the Administrator of the Fund, does not anticipate nonperformance by any of its counterparties. The amount of credit risk shown, therefore, does not represent expected losses.





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**REPORT OF INDEPENDENT AUDITORS**

To the Inter-American Development Bank,  
Administrator of the Japanese Scholarship Fund  
Established by the Government of Japan:

We have audited the accompanying balance sheet of the Japanese Scholarship Fund Established by the Government of Japan (the Fund), administered by the Inter-American Development Bank (the Bank), as of December 31, 2006 and 2005, and the related statements of changes in fund balance and cash flows for the years then ended. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Fund's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Fund at December 31, 2006 and 2005, and the changes in its fund balance and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States.

Washington, D.C.  
March 22, 2007

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**JAPANESE SCHOLARSHIP FUND**  
**ESTABLISHED BY THE GOVERNMENT OF JAPAN**  
 (Administered by the Inter-American Development Bank)

**BALANCE SHEET**

|                                       | December 31, |              |
|---------------------------------------|--------------|--------------|
|                                       | 2006         | 2005         |
| <b>ASSETS</b>                         |              |              |
| Cash                                  | \$ 800,945   | \$ 1,318,094 |
| Investments                           | 7,108,584    | 6,171,283    |
| Total assets                          | \$ 7,909,529 | \$ 7,489,377 |
| <b>LIABILITIES AND FUND BALANCE</b>   |              |              |
| Due to Administrator                  | \$ 123,579   | \$ 174,739   |
| Accounts payable and accrued expenses | 22,666       | 42,411       |
| Undisbursed scholarships              | 4,221,661    | 3,829,507    |
| Fund balance                          | 3,541,623    | 3,442,720    |
| Total liabilities and fund balance    | \$ 7,909,529 | \$ 7,489,377 |

**STATEMENT OF CHANGES IN FUND BALANCE**

|   | For the years ended December 31, |              |
|---|----------------------------------|--------------|
|   | 2006                             | 2005         |
| <b>ADDITIONS</b>  |                                  |              |
| Contributions   | \$ 2,368,054                     | \$ 2,657,418 |
| Income on cash and investments                                  | 386,458                          | 225,244      |
| Total additions   | 2,754,512                        | 2,882,662    |
| <b>DEDUCTIONS</b>   |                                  |              |
| Scholarships, net   | 2,563,205                        | 3,015,171    |
| Administrative expenses   | 103,583                          | 176,194      |
| Total deductions  | 2,666,788                        | 3,191,365    |
| <b>Change in Fund balance before translation adjustments</b>    | 87,724                           | (308,703)    |
| Translation adjustments   | 11,179                           | 32,576       |
| <b>Net change in Fund balance after translation adjustments</b> | 98,903                           | (276,127)    |
| <b>Fund balance, beginning of year</b>                          | 3,442,720                        | 3,718,847    |
| <b>Fund balance, end of year</b>                                | \$ 3,541,623                     | \$ 3,442,720 |

*The accompanying notes are an integral part of these financial statements.*

**JAPANESE SCHOLARSHIP FUND**  
**ESTABLISHED BY THE GOVERNMENT OF JAPAN**  
 (Administered by the Inter-American Development Bank)

**STATEMENT OF CASH FLOWS**

|  | For the years ended |                     |
|--|---------------------|---------------------|
|  | December 31,        |                     |
|  | <u>2006</u>         | <u>2005</u>         |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>   |                     |                     |
| Change in Fund balance before translation adjustments  | \$ 87,724           | \$ (308,703)        |
| Adjustments to reconcile Change in Fund balance before translation adjustments to Net cash provided by operating activities: |                     |                     |
| Net unrealized losses (gains) on investments   | 86,221              | (136,855)           |
| Decrease in Accounts payable and accrued expenses  | (19,939)            | (485)               |
| Increase in Undisbursed scholarships   | 404,101             | 768,393             |
| (Decrease) increase in Due to Administrator  | <u>(51,066)</u>     | <u>21,978</u>       |
| <b>Net cash provided by operating activities</b>   | <u>507,041</u>      | <u>344,328</u>      |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>   |                     |                     |
| Net increase in Investments  | <u>(1,023,522)</u>  | <u>(150,544)</u>    |
| <b>Net cash used in investing activities</b>   | <u>(1,023,522)</u>  | <u>(150,544)</u>    |
| Effect of exchange rate fluctuations on Cash   | <u>(668)</u>        | <u>(178,364)</u>    |
| <b>Net (decrease) increase in Cash</b>   | <u>(517,149)</u>    | <u>15,420</u>       |
| <b>Cash, beginning of year</b>   | <u>1,318,094</u>    | <u>1,302,674</u>    |
| <b>Cash, end of year</b>   | <u>\$ 800,945</u>   | <u>\$ 1,318,094</u> |
| <b>Supplemental disclosure of noncash activities:</b>  |                     |                     |
| (Decrease) increase resulting from exchange rate fluctuations:   |                     |                     |
| Undisbursed scholarships   | \$ (11,947)         | \$ (207,433)        |
| Accounts payable and accrued expenses  | 194                 | (1,858)             |
| Due to Administrator   | (94)                | (1,649)             |

*The accompanying notes are an integral part of these financial statements.*

**JAPANESE SCHOLARSHIP FUND**  
**ESTABLISHED BY THE GOVERNMENT OF JAPAN**  
(Administered by the Inter-American Development Bank)

**NOTES TO FINANCIAL STATEMENTS**

December 31, 2006

**NOTE A - NATURE OF THE FUND**

On February 18, 1991, the Government of Japan (the Government) and the Inter-American Development Bank (the Bank) signed an agreement (the Agreement) to establish the Japanese Scholarship Fund (the Fund) which is funded by the Government and administered by the Bank.

The purpose of the Fund is to offer a Scholarship Program which affords the opportunity to selected individuals, essentially from developing member countries of the Bank, with a public or private sector background, to pursue further studies at national or international institutions renowned for their programs in development-related fields. The scholars trained under the Scholarship Program are required to return to their countries to apply their enhanced knowledge and skills to help accelerate economic and social development.

Resources are contributed by the Government to the Fund in Japanese yen, and are immediately converted into United States dollars, to the extent not needed to fund yen operations. As of December 31, 2006, the Government has contributed ¥3,645,953,000 (equivalent to approximately \$31,710,857).

Pursuant to the Agreement, the Bank is authorized to charge the Fund direct costs of administration. During 2006, \$103,583 was charged to the Fund for direct administrative costs (2005 - \$176,194).

The Bank, as Administrator, makes disbursements during the year on behalf of the Fund for scholarships and direct administrative costs. At December 31, 2006, amounts Due to Administrator were \$123,579 (2005 - \$174,739).

**NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of the Fund are prepared in conformity with accounting principles generally accepted in the United States. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the

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reported amounts of additions to and deductions from the fund balance during the reporting period. Actual results could differ from these estimates.

***Investments***

Investments are carried and reported at fair value. Realized and unrealized gains and losses are included in Income on cash and investments in the Statement of Changes in Fund Balance.

***Scholarships***

The amounts approved under scholarships are recorded as deductions from the fund balance when approved. Cancellations of the undisbursed portion of scholarships approved for students who have completed their participation in the Scholarship Program, are recorded as an offset to scholarships in the period in which they occur. Repayments of scholarships from students who have selected not to return to their home country, are recorded as an offset to scholarships in the period in which they are made.

***Translation of currencies***

The United States dollar is the functional currency of the Fund. The Fund approves and disburses a portion of its scholarships and administration expenses in Japanese yen. Assets and liabilities denominated in Japanese yen, if any, are translated to United States dollars at market rates of exchange prevailing at the Balance Sheet dates. The adjustments resulting from the translation of assets and liabilities into United States dollars are shown in the Statement of Changes in Fund Balance as Translation adjustments.

***Fair values of financial instruments***

The following methods and assumptions were used in estimating the fair value of financial instruments:

***Cash:*** The carrying amount reported in the Balance Sheet for cash approximates fair value.

***Investments:*** Fair values for investments are based on quoted market prices, where available; otherwise they are based on quoted market prices of comparable instruments.

**NOTE C - INVESTMENTS**

The Bank invests the Fund's resources in the same type of securities in which it invests its own funds under its investment authority. As of December 31, 2006, the Fund's resources were invested in high quality securities through an investment pool managed by the Bank. Net unrealized losses on investments, held at December 31, 2006, in the amount of \$86,221 (2005 - gains of \$136,855) were included in Income on cash and investments. The average return on investments, including realized and unrealized gains and losses, during 2006 and 2005 was 5.31% and 3.44%, respectively.

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**NOTE D - UNDISBURSED SCHOLARSHIPS**

The following is a summary of changes in Undisbursed scholarships for the years ended December 31, 2006 and 2005:

|   | <u>2006</u>         | <u>2005</u>         |
|---|---------------------|---------------------|
| Undisbursed scholarships as of January 1. . . . .   | \$ 3,829,507        | \$ 3,268,547        |
| Scholarships approved. . . . .                      | 2,876,380           | 3,230,296           |
| Cancellations. . . . .                              | (233,504)           | (139,483)           |
| Disbursements. . . . .                              | (2,238,775)         | (2,322,420)         |
| Translation adjustments. . . . .                    | (11,947)            | (207,433)           |
| Undisbursed scholarships as of December 31. . . . . | <u>\$ 4,221,661</u> | <u>\$ 3,829,507</u> |

**NOTE E - SCHOLARSHIPS, NET**

Scholarships, net for the years ended December 31, 2006 and 2005 consist of the following components:

|                                | <u>2006</u>         | <u>2005</u>         |
|--------------------------------|---------------------|---------------------|
| Scholarships approved. . . . . | \$ 2,876,380        | \$ 3,230,296        |
| Cancellations. . . . .         | (233,504)           | (139,483)           |
| Recuperations. . . . .         | <u>(79,671)</u>     | <u>(75,642)</u>     |
| Scholarships, net. . . . .     | <u>\$ 2,563,205</u> | <u>\$ 3,015,171</u> |

**NOTE F - CONCENTRATION OF CREDIT RISK**

Credit risk represents the accounting loss that would be recognized at the reporting date if counterparties fail completely to perform as contracted. At December 31, 2006 and 2005, the Fund had cash in two financial institutions, one in the United States and one in Japan. The total cash balance of both accounts as of December 31, 2006 and 2005 was \$800,945 and \$1,318,094, respectively. The Bank, as the Administrator of the Fund, does not anticipate nonperformance by any of its counterparties. The amount of credit risk shown, therefore, does not represent expected losses.

**INTER-AMERICAN DEVELOPMENT BANK  
FINANCIAL SUPPORT SERVICES SUBDEPARTMENT**

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