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JCIF (Japan) Seminar 1-10 April 1992

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THE WORLD BANK / IFC / MIGA

OFFICE MEMORANDUM

Date: April 14, 1992

To: Mr. Lawrence H. Summers, VPDEC

From: D. C. Rao, IECDR DCR

Sub: Back-to-Office Report: April 1 - April 10

1. After I completed a seminar at the Reserve Bank of India, I proceeded directly to Tokyo. My visit to the Asian Development Bank had to be cancelled because Manila airport was closed during this period.

2. My time in Tokyo was productive, consisting of the seminar on debt, meetings with officials and some journalists. I was accompanied by Masood Ahmed who will prepare a more detailed back-to-office report on the content of our discussions.

3. The annual seminar on debt arranged by JCIF was highly successful. It was attended by about 200 people from business, "officialdom" and press. I attach a copy of our statement at the seminar. Judging from the questions, the themes of the statement were well received. It was noteworthy that there were a few questions concerning governance with some focus on the recently breaking news on Peru.

4. Meetings with officials in Japan were wide ranging (MOF, MITI, Foreign Affairs, Economic Planning Agency, Japan EXIM, OECF and Bank of Japan). For the most part, we were updating and seeking clarification on information relevant to our work on Development Committee papers and on resource transfers and GEP93. The importance of more analysis of foreign direct investment (and the problems therein) were widely recognized and people were helpful to us. The information on portfolio flows is still most rudimentary and a major effort will be needed at the national statistical level to improve understanding.

5. One of my objectives was to increase the level of cooperation with the EPA. Mr. Atsushi Yoshikawa, the new Director General of the Economic Research Institute was most warm and receptive. He provided information on the ongoing work program of this Institute and agreed to consider ways in which we could intensify collaboration. He expressed particular interest in receiving our papers on trade and environment, which I have since sent him. A promising area for collaboration would be research on the determinants of Japan's growth in the medium to long-term.

6. The new Head of the Economics Department of the OECD, (replacing David Henderson on May 1) is Mr. Kumiharu Shigehara, now in the Bank of Japan. I made his acquaintance and explained the

nature of our close collaboration with OECD staff. He was highly supportive of the concept that we would rely heavily on OECD work on the outlook for industrial countries and help them on the developing countries. He expressed interest in learning more about the Bank-GEM system for global economic projections.

7. The meetings with journalists were low key, strictly for background in order to avoid any conflict with the official press briefings being arranged in Washington last Friday. Journalists greatly appreciated being "walked through" the report and I do believe that this is a very effective technique to ensure indepth coverage of development issues.

8. The dominant news during that week was the collapse of the Nikkei Stock Index. There is no doubt that this will lead to a significant retrenchment in the balance sheets of the financial services industry in Japan, particularly affecting commercial banks in Japan. There is no uninanimity as to whether this will have any global impact on other financial markets (I suspect not) but it does seem fairly clear that there will be much greater selectivity in international lending, with adverse consequences for developing country financing.

9. We discussed with JCIF the timing and scope of this seminar for next year. Given the focus of GEP93 on international finance, it was agreed that the JCIF seminar would cover both WDT and GEP93. As in the past, JCIF would translate WDT into Japanese and this would continue to be a major part of the seminar. The seminar would be scheduled to come soon after the embargo date for GEP93, and possibly, JCIF could translate the summary into Japanese for the occasion. In general, JCIF seems to be very pleased with the way in which seminars are received; so are we.

10. I believe we need to make more strenuous efforts to welcome Japanese staff into IEC to ensure that our world view is not excessively US centered. This is a sensitive matter. I have made a few very preliminary soundings and, if there is a positive response, we can move through the proper channels. I have stated that we, on our side, can be quite flexible in terms of the duration of any assignment.

11. The Tokyo Office and ms. Mika Iwasaki in particular, have been most helpful in making the necessary arrangements.

Att.

c.c. Messrs. Karaosmanoglu, Shakow, Kemmochi (Tokyo Office)
Mrs. Einhorn
IEC Division Chiefs

DCRao/kg

Seminar on World Debt Tables 1991-92 – Tokyo, April 8, 1992

Opening Statement by

D.C. Rao, Director

International Economics Department, The World Bank

Overview. The overall conclusion of this year's World Debt Tables is that 1991 was a year of some progress in resolving the debt problem of developing countries, but the task is far from complete. The burden of debt obligations for developing countries taken in aggregate was broadly unchanged in 1991; some heavily indebted countries have re-established access to private capital markets; but the debt problem is far from over for some severely indebted low- and lower-middle-income countries where the overhang of external debt remains heavy. The restoration of external viability will require exceptional measures to deal with official debt. In the case of several low-income countries, this needs to go beyond the debt relief provided for under the Paris Club's Toronto terms.

Some important positive developments in debt have occurred in 1991:

- As noted by the G-7 summit in July 1991, there is wide acceptance of the need for greater official debt relief for low-income countries, and the Paris Club has agreed on more concessional actions on Nicaragua, Benin, Bolivia, and Tanzania.

- The Paris Club has extended exceptional debt relief to Poland and Egypt.

- A few middle-income countries, Chile, Mexico, and Venezuela have renewed market access, following commercial bank debt reduction packages. This renewed market access took place against the backdrop of widespread and sustained economic reforms across much of Latin America.

Problems remain, however. These problems include:

- The unfavorable international economic environment, notably the sharp slowdown in the growth of world trade. Sluggish exports make it more difficult for countries to meet their debt service obligations.

- The unsustainable levels of official debt in some low- and lower- middle-income countries.

- The protracted nature of some commercial bank debt reduction negotiations. This results from the complexity of the financial and legal issues involved as well as the problems in implementing a stronger and more sustained reform effort on the part of some developing countries.

- Let me also note the increase in the number of developing countries in which the World Bank is active. A whole new set of debt issues will need to be faced as a consequence of recent events not only in the former Soviet Union (FSU), but also in a number of other countries that have adopted economic reform programs.

Aggregate debt and flows. Despite an unfavorable external environment and weak growth performance, developing countries' debt obligations have remained static in aggregate in 1991. [FIGURE A]. Total external debt of all developing countries at end 1991 is estimated at US$1.35 trillion, unchanged from one year earlier. It is interesting to note that in real terms the stock of developing country debt is 10 percent lower than it was in 1987, the time at which the rapid buildup in external debt stocks ceased.

The unchanged level of debt stocks at end 1991 is the result of net lending flows (including flows on short-term debt) of US$38 billion being fully offset by the effects of debt conversion, debt relief, and exchange rate valuation changes. Major contributions toward debt reduction came from the Paris Club arrangements for Egypt and Poland, the cash payment of interest arrears by Brazil and Nigeria, and debt-equity swaps associated with Argentina's privatization of telephone and airline companies. Debt reduction (including conversions) in total is estimated to have contributed $22 billion to reducing debt stocks, and exchange rate adjustments led to a further reduction of $24 billion, reflecting a rising US dollar. Outstanding debt declined by the payment of $7.5 billion in interest arrears, but this was nearly offset by an increase in rescheduled interest.

Debt indicators for developing countries in aggregate in 1991 were also not much changed. The average ratio of debt-to-exports was unchanged at 176 percent; the debt-to-GNP ratio fell from 42 percent in 1990 to 38 percent in 1991; and the debt service-to-exports ratio was slightly higher at 21 percent, compared with 20 percent in 1990. Underlying these ratios are the facts that there was little change in stocks of debt and developing countries' exports performed poorly in 1991 because of the slowdown in the world economy. We estimate that the growth of export volume from developing countries was 1.1 percent in 1991 compared to 4.5 percent in 1990.

In commenting on debt indicators, however, it is important to recognise that there are significant regional differences. In East Asia, the rise in debt stocks reflects good access to private capital markets and has been balanced by strong export performance; so that both the debt-to-exports and debt service-to-exports indicators have declined slightly. In Sub-Saharan Africa, the rise in debt stocks partly reflects rescheduling of interest obligations which, with weak export performance, has increased already heavy debt burdens. In Latin America, due to commercial debt reduction operations, debt stocks have fallen slightly in 1991, while debt service is estimated to have risen, partly due to the clearing of interest arrears. Hence the indicators show a mixed picture; the debt-to-GNP ratio at 37 percent is lower than the 41 percent of a year earlier, whereas the debt service-to-exports ratio rose significantly to 30 percent from 25 percent in the preceding year. And in Europe, a large fall in exports from Eastern Europe, only partly offset by official debt relief, has increased the debt service-to-exports ratio from 16 to 18 percent.

As the report shows in Table 1.5, aggregate net resource flows in 1991 rose in nominal terms to US$84.9 billion, but fell slightly in real terms. [FIGURE B]. The figure shows that there has been a striking change in the composition of financial flows over the last decade. Net commercial bank lending now accounts for only about 5 percent of net flows, compared with 40 percent in 1981. This has been offset by a significant increase in foreign direct investment and, more recently, in portfolio investments in developing countries. There has also been an increase in grants made to the poorest countries.

Foreign direct investment (FDI) accounts for nearly one-third of aggregate net flows to developing countries. While the traditional concentration of FDI in a handful of East Asian countries continued, there

was a sharp increase by an estimated $1.6 billion in FDI flows to Latin America in 1991. Between them, East Asia and Latin America account for 82 percent of aggregate 1991 FDI flows to developing countries.

Within East Asia, more than three quarters of FDI flows were represented by flows to China, Malaysia, and Thailand. An interesting case is Thailand, where the government overhauled the implementation of its FDI regulatory framework in September 1987, streamlining the numerous administrative rules, guidelines and standards under a single government bureau, the Board of Investment. Since 1987, FDI flows have soared with a fourfold increase to US$2.4 billion in 1990.

In Latin America, Chile, Mexico, and Venezuela have been experiencing large inflows of FDI. For example, in Mexico, registered FDI inflows in 1989-90 were double those in the preceding two years. Repatriated flight capital has also been very important in several countries in Latin America. The exact magnitude is notoriously difficult to measure, but market estimates suggest that total net inflows to Chile, Mexico, and Venezuela in 1989-90 were roughly US$14 billion, compared with an estimated US$5 billion outflow in the preceding two years.

Eastern Europe has benefited from growing official support in 1991: excluding Yugoslavia, net disbursements have risen from US$800 million in 1990 to up to roughly US$6 billion in 1991, including substantial disbursements from the IMF and World Bank. The increase in official disbursements is partly offset by a drying up of private sector finance, including FDI, mainly because of the unsettled political situation in Yugoslavia.

Let me now turn briefly from the discussion of net flows (i.e. net disbursements) to the discussion of net transfers. Box 1.3 of the report explains the concept of net transfers. This figure equals net resource flows less the cost of servicing external liabilities. It is thus a measure of the cash flow supplied by nonresidents. Aggregate net transfers to all developing countries are estimated to have decreased to US$11.5 billion in 1991 from US$16.0 billion in 1990. [FIGURE D]. Again, the regional differences are very important. In Latin America, net transfers in 1991 became more negative to -US$8.6 billion, reflecting cash payments toward the clearance of arrears. In North Africa and the Middle East, net transfers increased for the second consecutive year (to US$2.5 billion in 1991) as external financing related to the Gulf crisis continued. For Eastern Europe, the net transfers position was somewhat improved in 1991, but still remained strongly negative at $3.0 billion. Not surprisingly, much of this is accounted for by Yugoslavia. Net transfers continued to be strongly positive to East and South Asia (US$5.6 billion and US$5.8 billion, respectively, in 1991), and to Sub-Saharan Africa (US$11.2 billion in 1991), reflecting strong official flows on concessional terms.

Official bilateral debt. The aggregate picture, however, masks the problems faced by severely indebted low-income countries (SILICs), which have been experiencing a rising trend of debt stocks and little or no improvement in debt ratios for the past several years. The SILICs are indebted largely to official bilateral creditors. The rising debt stock has represented a welcome flow of official external support, including debt service rescheduling, but the issue has arisen as to whether some countries can service existing debt burdens on a sustainable basis. A clear sign of the existence of a problem is that SILICs that have recently rescheduled were able to meet only half of their scheduled debt service in 1991. An underlying cause of these debt-servicing difficulties, besides low per capita income, has been structural weaknesses, including poorly diversified exports, low levels of education and health, and high rates of population growth. Consequently, several countries have been unable to cope with the current levels of external indebtedness and require some form of concessional debt relief.

An indication of the scale that additional debt relief on official bilateral debt might take was furnished by the proposed Trinidad terms. This proposal, made in September 1990 by then British

Chancellor of the Exchequer John Major, would effect a once-for-all reduction in the debt stock, with the amount determined country-by-country around a benchmark of two thirds debt reduction. Using this benchmark for illustrative purposes, Table 2.3 of this report estimates the impact on each SILIC. [FIGURE E]. The figures are complicated, but tell an important story. Note that the intermediate case of Toronto terms refers to a repeated application over 10 years. In all cases, Trinidad achieves straightaway at least as much, and for some countries substantially more, than would an application of Toronto over 10 years. The conclusion drawn is that if an expanded menu of debt relief options along the lines of the Trinidad proposals were implemented, there would be realistic prospects for many SILICs to put their debt servicing on a sustainable footing. The simulation also indicates that there are a few countries where even the application of Trinidad terms would not suffice to achieve sustainability.

Since the publication of World Debt Tables in mid-December, the Paris Club has introduced exceptional terms ("enhanced Toronto terms") in agreements with Nicaragua, Benin, Bolivia, and Tanzania. These agreements cover maturities falling due during consolidation periods ranging from 15 to 30 months, plus arrears (which were substantial for Nicaragua). In effect, the agreements offer debt reduction on consolidated amounts plus the possibility of further debt reduction affecting the remaining debt stock at the end of a 3 to 4 year period, conditional upon the debtor maintaining an IMF program. There are two creditor options that offer 50 percent debt relief in present value terms, and a third that is not concessional and is the same as option B of the Toronto terms, namely consolidation of non-ODA debt at market rates over a 25-year repayment period. ODA debt is rescheduled at concessional rates on a very long-term basis.

While representing a welcome advance on Toronto terms, the enhanced Toronto terms nevertheless fall well short of the originally proposed Trinidad terms in two respects. First, the enhanced Toronto terms do not deal with the whole debt stock at one time; instead, there is a three or four year wait before a full resolution is considered. Thus, the uncertainty surrounding expected future restructurings, which tends to undermine present investor confidence, is not fully removed. Second, as the enhanced Toronto terms also retain the old Toronto terms B option, i.e. rescheduling at market-related interest rates, this scheme does not necessarily reduce the size of the debt stock (on a present value basis).

As regards the group of lower middle-income countries, a welcome measure has been the debt restructurings for Poland and Egypt. These agreements covered US$58 billion of debt and provided for debt reduction in present value terms of up to 50 percent, conditional on compliance with an IMF program. If successfully implemented, these agreements are an effective solution of the debt problem for these two countries. However, a number of other lower-middle-income countries remain far from external viability. Heavily indebted countries with a high share of official bilateral debt include Congo, Cote d'Ivoire, Morocco, and the Philippines. Nigeria, which is not eligible for Toronto or Trinidad terms although it is a low-income country eligible for IDA credits, also has a high proportion of official debt.

Commercial bank debt. Since the May 1989 evolution of the debt strategy (the so-called "Brady Initiative"), which provided for official financial support of debt reduction, five middle-income countries (Costa Rica, Mexico, the Philippines, Uruguay, and Venezuela) have completed debt reduction packages, with substantial support from the World Bank, IMF, and other bilateral creditor countries, in particular Japan. Partly, as a consequence, Costa Rica, Uruguay and the Philippines have moved from the severely indebted to the moderately indebted category; and Mexico and Venezuela, while remaining classified as severely indebted, have seen a significant improvement in their overall indebtedness indicators. Outside of officially supported debt reduction, Chile has greatly reduced its commercial bank debt during the past few years through its debt reduction program (including debt-equity swaps and buybacks) and is now classified as moderately indebted. In recent months, Nigeria and the Philippines have also concluded debt reduction agreements. In January 1992, Nigeria completed a debt reduction package funded out of its own

resources covering US$5.3 billion of debt and comprising a cash buyback at a price of 40 cents on the dollar, a conversion of existing claims to par bonds bearing an interest rate of 5.5 percent for the first 3 years and 6.25 percent thereafter, and a restructuring option with a new money requirement of 20 percent. 62 percent of the eligible debt was bought back and 38 percent converted to par bonds. In February 1992, the Philippines reached agreement on a terms sheet for phase II of its debt reduction operation, covering US$5.2 billion of eligible debt. Other countries where commercial bank packages are under active discussion at present include those for Argentina and Brazil. Argentina has already achieved substantial progress in reducing its external debt through debt-equity swaps connected to the privatization of its state telecommunications enterprise (ENTel) and national airline (Aerolineas Argentinas). Brazil reached an agreement with its commercial banks in April 1991 to resolve accumulated arrears amounting to US$8.5 billion, through cash payments and exchange for 10-year bonds.

The experience to date suggests that negotiated commercial bank debt reduction, with official financing support where needed, can restore investor confidence and promote domestic investment. Let me stress, however, that an essential prerequisite for successful debt reduction is a sustained program of domestic economic reform. Significant challenges remain in a number of other commercial bank debt reduction negotiations, in part because some debtor countries face difficult financing situations characterized by a weak track record of policy implementation and growing arrears.

A small group of middle-income countries -- Chile, Mexico, and Venezuela -- has been able to emerge from commercial bank debt reduction with renewed access to the international capital markets, through both debt and equity flows. These three countries have been able to renew their access to the international capital markets through a range of instruments, in addition to FDI and debt-equity swaps, including bonds, equity portfolio flows, and bank lending. Specifically, borrowers in Mexico and Venezuela, both public corporations and private sector exporters, have been able to tap the bond markets for substantial amounts on increasingly improved terms in 1990 and 1991. These issues, sold primarily in the euromarkets or placed privately in the United States, totalled nearly US$2.5 billion in 1990 and exceeded US$3 billion in 1991. Many of the issues were collateralized, for example, with telephone or credit card receivables; providing security in this way may be useful to the extent that there is an underlying improvement in creditworthiness that would permit an eventual return to unsecured borrowing. Spreads over U.S. Treasuries paid by Mexican borrowers have roughly halved from 500 basis points to 250 basis points between mid-1990 and end 1991. A number of Mexican corporations (including Telmex, Cemex, Grupo Gigante, Grupo Vitro, and Femsa) completed equity placements in industrial country capital markets, raising some US$3 billion. The final phase of the Telmex offering, which was by far the largest of the transactions with a value of US$2.3 billion, was placed in several major stock markets, including those of the United States, Japan, and the United Kingdom. Mexican commercial banks have issued about US$5 billion in certificates of deposit to external creditors between mid-1990 and end 1991, and several Mexican companies have issued euro-commercial paper amounting to about US$0.5 billion over the same period.

Two other Latin American borrowers, Argentina and Brazil, have also been able to renew access to the bond markets, albeit in limited volumes at short maturities. For example, in September 1991, the Republic of Argentina raised US$300 million with a 2-year bond issue, featuring a 1-year investor put option, at a spread of about 500 basis points over comparable U.S. Treasuries. In July 1991, Petrobras, the Brazilian state-owned oil company, issued a US$250 million 2-year note at a spread exceeding 600 basis points. Subsequently, in August and September 1991, Brazilian entities made four further bond issues.

Underlying these developments in Latin America has been a sea change in policies over recent years, marked by fiscal consolidation in some (though not all) countries; substantial liberalization of

external trade regimes; restructuring of the public sector, particularly through privatization; and deregulation of domestic prices. These reforms have been crucial in restoring confidence in the economic prospects of these countries, providing the basis for renewed access to private capital markets on a global basis.

External financing in the former Soviet Union. The report presents consensus estimates of external debt and financing in the former Soviet Union (FSU) and Eastern Europe in 1991. These estimates are subject to considerable uncertainty. What is clear, however, is that the FSU is **not** severely indebted on the basis of standard debt indicators, and that the tight short-term liquidity position has been exacerbated by political uncertainties. Convertible currency external debt at end 1991 was estimated to be about US$60 billion, reflecting in part large repayments of short-term commercial bank and other debt. Recently, attention has focussed on the mechanisms of allocating debt and assets among republics. On March 13, 1992, an agreement was reached among 11 republics to assume joint responsibility for repaying foreign debt. Earlier, in January 1992, the Paris Club deferred repayment by the FSU of US$3.2 billion in principal on long- and medium-term debt contracted before January 1, 1991. Commercial bank creditors agreed to defer repayment of principal on bank debts assumed prior to January 1, 1991 and falling due for repayment by March 31, 1992. Unfortunately, there are still many grave uncertainties concerning the sustainability of the process of economic reforms and the volume of external financing that will be available to support the major structural changes that are underway. In addition, there is the issue of how to maintain the crucial trading relationships among the republics of the FSU and the prices that will be applied to this trade. As you are all aware, these issues continue to be intensively discussed in search of solutions.

Global demand for capital. In other parts of the world, some countries are actively re-entering the international economic system (for instance, Vietnam and Cambodia), and others are in the process of reconstruction (the Middle East). Given the scale of the world's capital markets, these additional demands, are comparatively modest in the perspective of aggregate global demand for investment capital. However, to the extent that the requirements are appropriately met by concessional capital, as is clearly necessary in the case of Viet Nam for example, there is a serious problem caused by the scarcity of overseas development assistance.

I would like to conclude with the following four observations.

First, countries that are heavily indebted to commercial banks can negotiate satisfactory arrangements to reduce their debt or debt service or obtain new money provided they have established a satisfactory policy framework of stabilization and structural adjustment and provided the international environment favours the growth of export earnings and a healthy balance of payments. Indeed, with a good track record of sound management, countries that were regarded as severely indebted have been able to restore gradual access to private capital markets. In other words, the present framework seems to be working for middle-income countries that have the bulk of outstanding commercial debt.

Second, despite the growing concessionality of rescheduling by the Paris Club and the substantial conversions of bilateral debt into grants, there are still some low-income countries that are unable to meet their full debt service obligations without unacceptable strain on their development goals. There is no doubt that sound macro-economic management and effective implementation of properly selected investment projects are a necessary pre-requisite for consideration of further concessionality. Provided these conditions are satisfied, it is difficult to avoid the conclusion that implementation of something like the Trinidad terms should remain a high priority for international action on debt.

Third, more needs to be done for the lower middle-income countries that are burdened by debt that is largely official and are not currently eligible for Toronto terms. Poland and Egypt are in this group and have been dealt with on an exceptional basis. But there are a few other countries that are badly in need of similar assistance.

Finally, beyond the questions of how to facilitate financial workouts for countries that are currently heavily indebted, it is not too early to consider how to avoid the re-emergence of the debt problem. The lessons of the last two decades have highlighted the importance of prudent economic management and the need to finance investments on terms that properly reflect repayment capacity.

This need will become even more imperative in the 1990's because the structure of international finance is itself becoming more complex. The growth of equity flows and other risk sharing arrangements is a welcome development in this regard. But it also implies that developing countries will need to strengthen the policy and institutional capacity for attracting and managing these newer types of financial flows. Moreover, experience shows that foreign direct investment cannot provide a net inflow of funds over the medium to long term. Thus, external financing in the form of long-term debt on appropriate terms are still a necessary component of prudent support for investment in developing countries. A reasonable balance must be found between foreign direct investment, portfolio equity, bonds and loans in support of investment projects. Sound domestic economic policies including the mobilization of domestic savings, adequate external finace on appropriate terms and a supportive international environment specially for trade remain the pillars on which the achievement of global development goals must rest.

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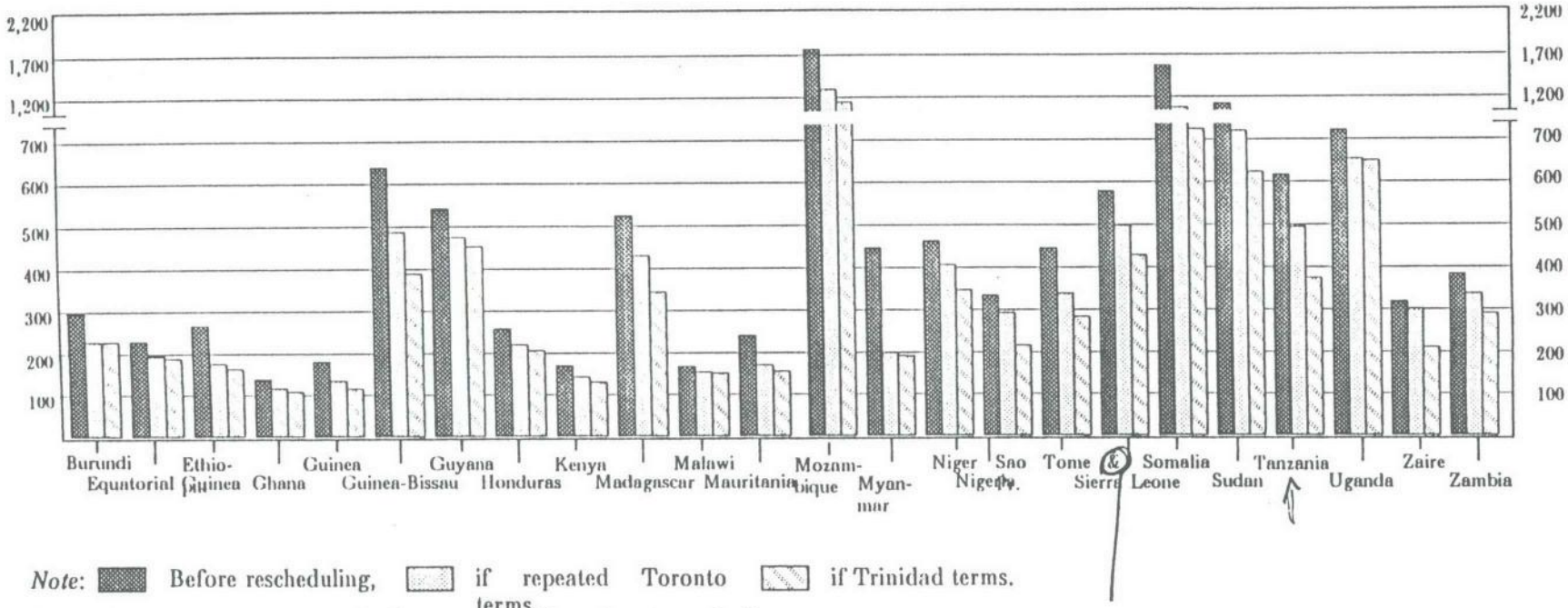
April 8, 1992
Debt and International Finance Division
International Economics Department
The World Bank.

For several severely indebted low-income countries, debt burdens would become manageable after two-thirds of their bilateral debt was reduced.

Figure E. Impact of Alternative Concessional Debt Rescheduling Options for Severely Indebted Low-Income Countries
(present value of debt service/exports)

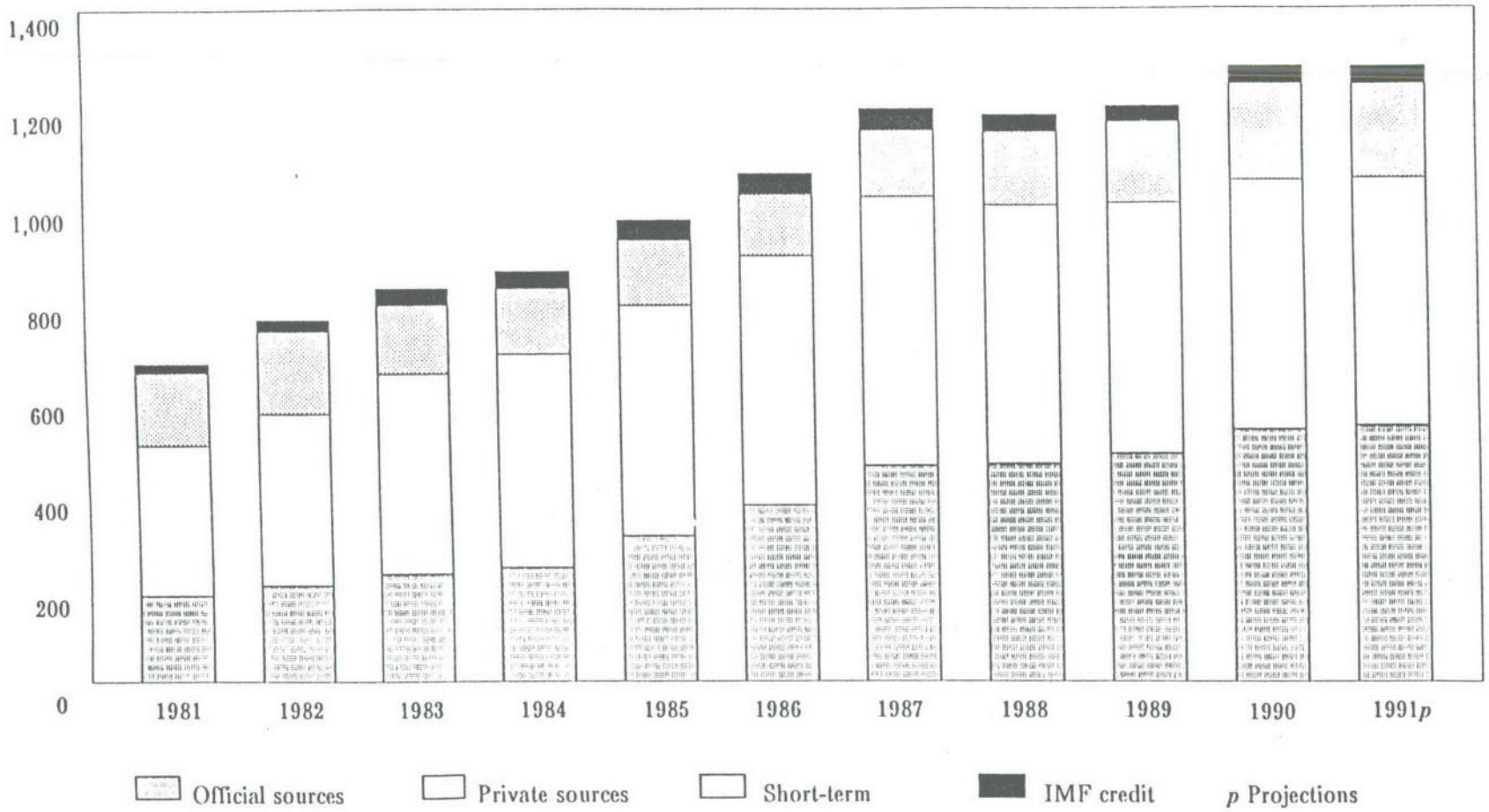


Note: Before rescheduling, if repeated Toronto terms, if Trinidad terms.

The scale on the vertical axis is broken to accomodate the range of values.

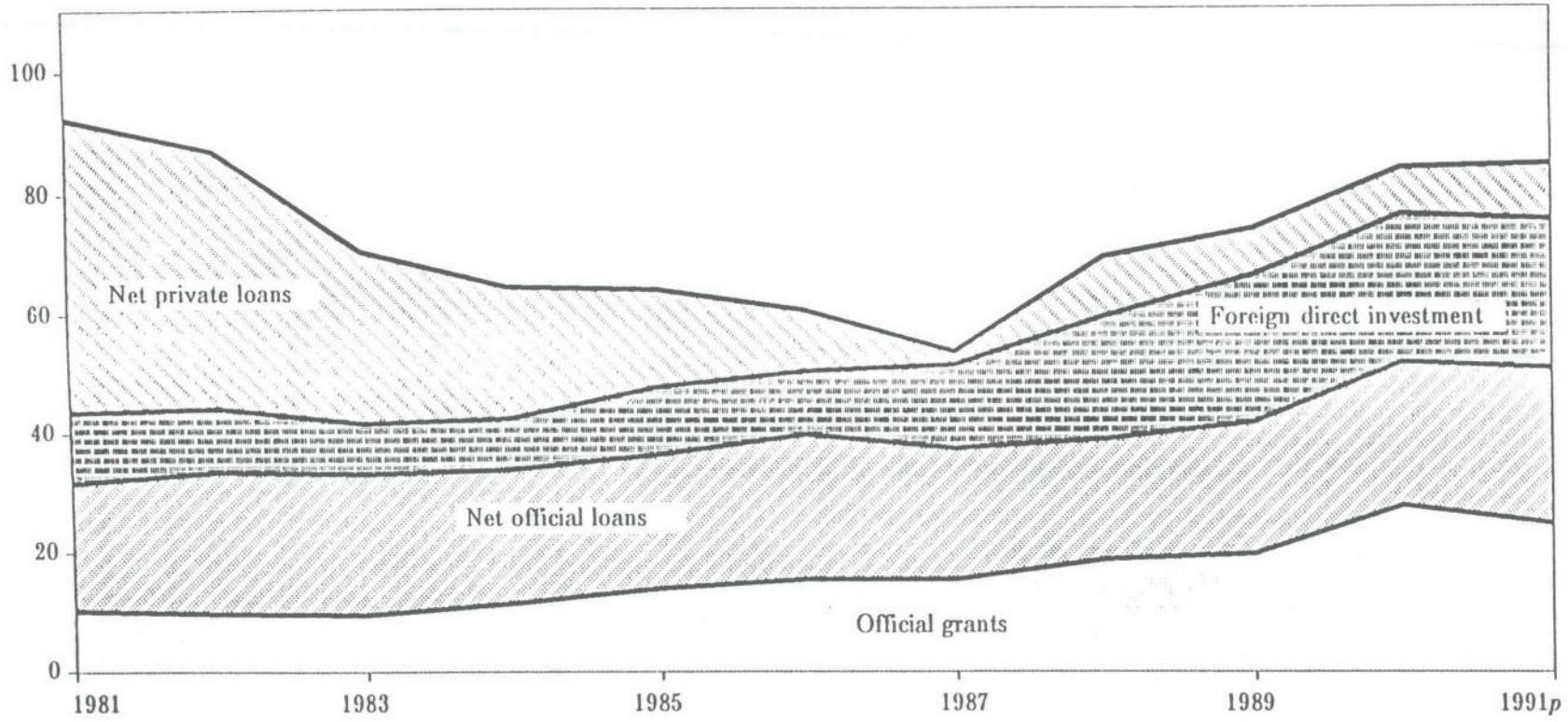
Growth in aggregate debt has leveled off since 1987.

Figure A. External Debt, 1981-91
(US$ billions)



Real flows remain well above their low point in 1987.

Figure B. Real Aggregate Net Resource Flows (Long-term) to Developing Countries, 1981-91
(US$ billions)



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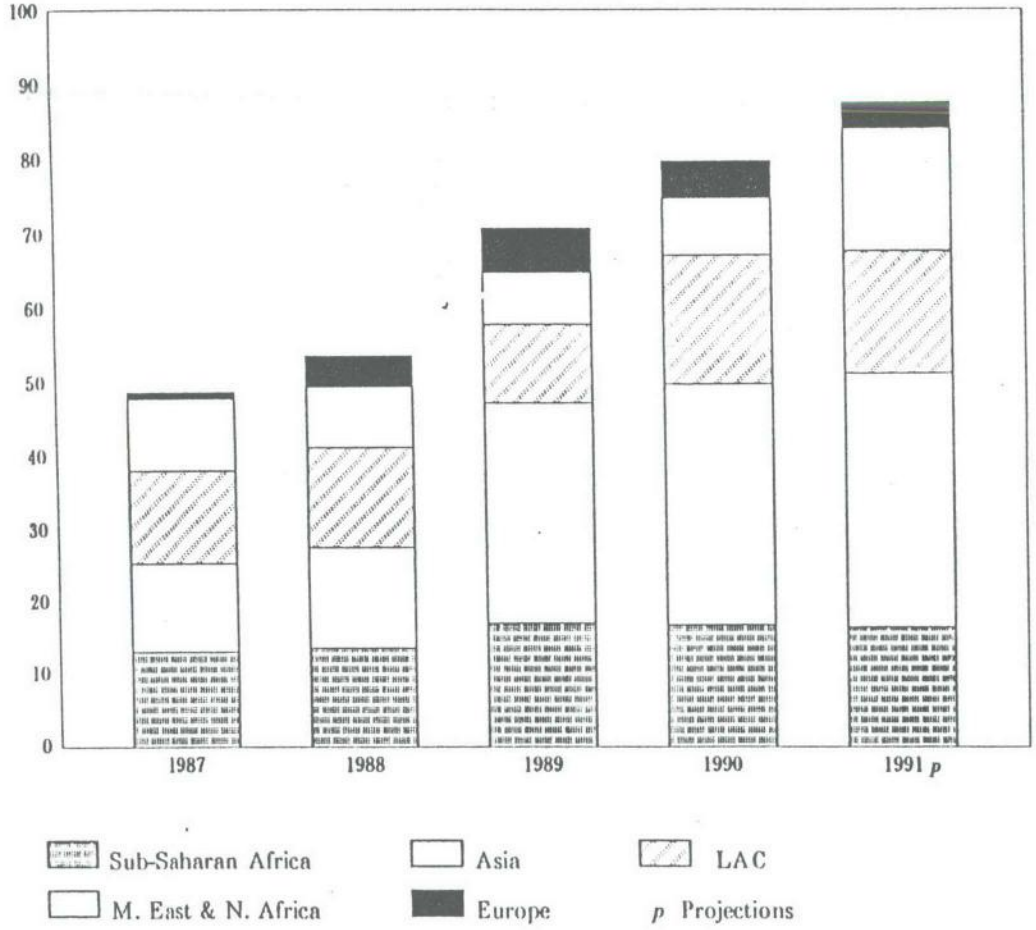
Growth in flows has varied significantly by region.

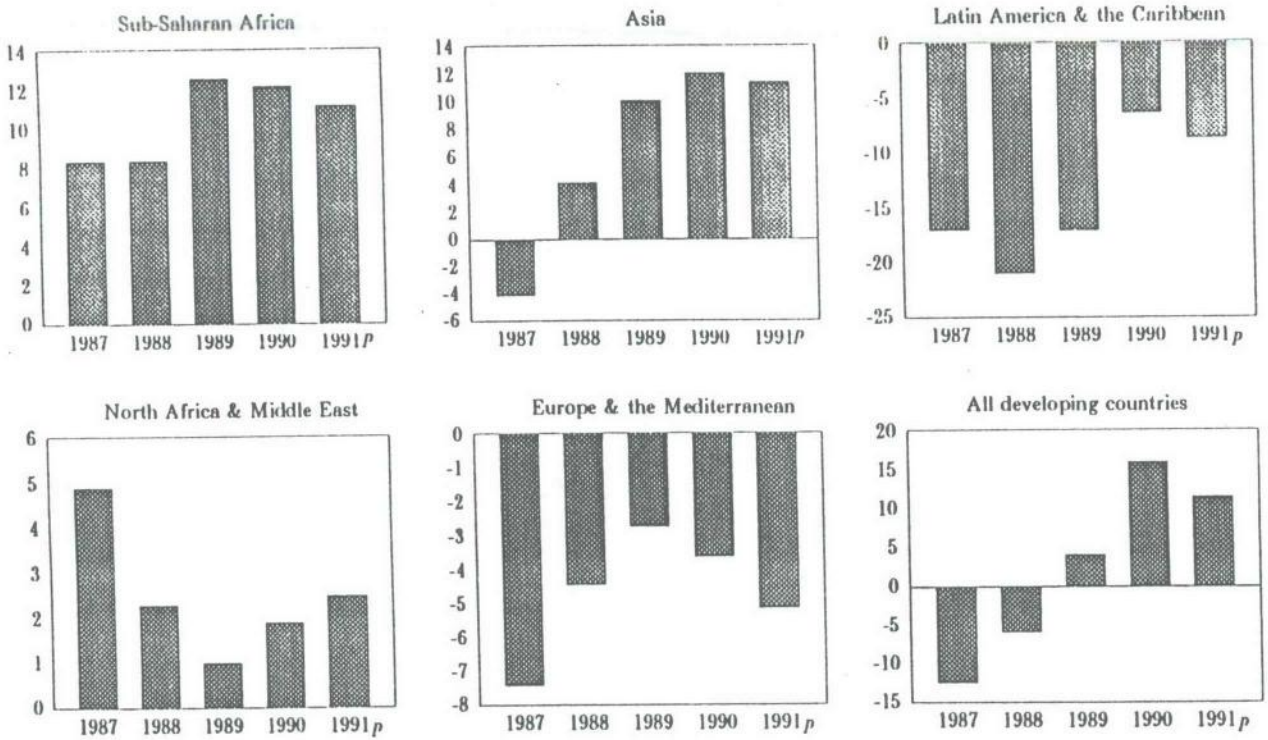
Figure C. Net Resource Flows by Region, 1987-91
(US$ billions)



From IBRD?

Net transfers are strongly positive to some regions, strongly negative to others.

Figure D. Net Transfers to Developing Countries by Region, 1987-91
(US$ billions)



p Projections

does world
or aggregate?
4. Graham

1. Agenda for Tokyo Trip
2. DCR Presentation at JCIF Seminar
3. Background Briefing Material for Tokyo meetings
4. Mexico/LAC information.
5. Copies of Masood Ahmed's presentations in Kuala Lumpur

3/27/92

THE WORLD BANK/IFC/MIGA

OFFICE MEMORANDUM

DATE: March 18, 1992

CONFIDENTIAL

TO: Mr. Masood Ahmed, IECD1

FROM: Michael Lav, Economic Adviser, DPG

EXTENSION: 81941

SUBJECT: JAPAN: Briefing on Paris Club Participation

1. This memo responds to your request for a briefing about Japan's Paris Club participation in preparation for your mission to Japan to discuss the World Debt Tables.

2. My impression is that you are unlikely to meet in Tokyo any of the members of the Japanese delegation to the Paris Club. However, a list of the members of the Japanese delegation to the February Paris Club meeting is attached. The delegation was led by Mr. Yoshiaki Shinhara, who is stationed at the Japanese Embassy in Paris. Mr. Shinhara has led the Japanese delegation to all the Paris Club meetings I have attended; in that role, he makes all the presentations and interventions for the Japanese. Other officials of the Japanese delegation actively participate only during informal discussions.

3. I'm sure that you will keep in mind that Japan plays an important and much appreciated role for many of the countries which negotiate Paris Club rescheduling as an extremely important source of new capital.

4. Concerning policies, the Japanese have frequently and forcefully stated their opposition to debt stock reduction, along the lines that it would seriously impair the creditworthiness of the debtor country. In participating in debt rescheduling with the post-Toronto terms for IDA countries, Japan has always chosen the option, along with Austria, Belgium, and a few other countries, which allows rescheduling/refinancing of debt in such a way that debt service is reduced by 50%. Note that these agreements contain a clause to the effect that the creditors would consider, after a 3 or 4 year period, a reduction in the stock of debt, provided the debtor country maintains an IMF program and adheres to Paris Club agreements in the intervening years. The delayed consideration of debt stock reduction was of course a compromise to address the concerns of Japan (and the US). At some point in the future (it's too early now) there should be discussion about how Japanese concerns about debt stock reduction could be reconciled in some manner with this commitment.

5. To my knowledge, Japan has not pursued the debt/equity swaps permitted by many of the agreements (I believe that only France has). While such swaps are not a panacea for the debt problem, it might be useful to find out more about Japanese views on their potential use.

Attachment

cc: Mr. Grilli (o/r)

JAPON

M. SHINHARA	Ambassade du Japon
M. KAWASE	Ambassade du Japon
M. ADACHI	EID / MITI
M. KATO	EID / MITI
M. HAGIWARA	EID / MITI
M. IEDA	EXIM Bank
M. KURUMI	EXIM Bank
M. IIJIMA	OECF
M. NAKAO	OECF
M. NABESHIMA	JTIO

NORVEGE

M. B. BERNTZEN	Ministère des Affaires Etrangères
M. MOWINCKEL	G.I.E.K.

PAYS-BAS

Mme VAN EE	Ministère des Finances
Mme VAN IMHOFF	NCM
M. MEYER	NCM
M. VAN DER MEY	Banque Centrale DNB

DATE: March 18, 1992

TO: Mr. Masood Ahmed

FROM: Kwang W. Jun

RE: DCR's Question on Japanese MoF Data and Issues

What have we got before?

1. The first two tables (on p.2 and 3) are extremely useful in that Japanese bank exposures are updated, by region, through the end of 1991. This is the kind of information that we wanted to get on a regular basis. In order for us to receive this data through say, JCIF, we need MoF's blessing. Our QR readers have been demanding these figures for some time. It would be even better if we can have country-specific exposure figures. Related issues are provisioning and capital adequacy requirements, prospects for Japanese bank lending to LDCs (in view of weakening bank profitability, falling stock markets, etc.), and any non-bank participation in lending to LDCs.

2. The following two tables (p.4 and 5) are on JEXIM bank loan commitment. I can see that "overseas investment loans" went up significantly in FY90, whereas "untied direct loans" fell sharply, resulting in the year's total below the FY89 level. Perhaps you may want to hear about what's behind. untied ↓.

3. The next two tables (p.6 and 7) cover OECF commitments by sector and region. A couple of changes may be noteworthy: reduction in loan and equity investment in corporations (is this reflective of policy?) and big jump in commitment to LAC (more than doubled in FY90, compared with FY89). PSD?

4. The subsequent five tables (p.8 through 12) contain detailed information on balance of payments, for which I have little to add. On p.10, line (1) covers FDI (BOP base, as opposed to usual MoF notification basis), which shows a yearly decline in FY 1990 for the time in many years. Any sense about the latest trend (i.e., is the slowdown more than short-term)? FDI ↓

5. Table on p.13 contains interesting stuff on portfolio investment. It would be quite useful to see how much of this are going to LDCs. Let me highlight the huge drops in outflows (both stocks and bonds) in 1990 and 1991.

6. Tables on p.14 through 17 report time-series and sectoral/regional distribution of Japanese FDI outflows (presumably on notification basis, albeit not stated clearly). General discussions on FDI would be in order (see para.4 also). A minor question, on p.16, what do the percentage figures for 1989 and 1990 represent? I thought they are country/regional shares, but they do not add up. FDI-related issues can be better pursued at JETRO.

7. The rest of the tables cover Japanese ODA, including its components and recipient region/country shares. Issues that you may want to explore include ODA priorities (e.g., environment, democracy, private sector which could be sensitive to them in view of growing Japanese posture on the importance of government role), flows to E. Europe and FSU, etc. A minor point is that the total ODA reported here ($9,222 million) for 1990 is greater than the comparable figure from OECD report ($9,069 million), whereas figures in the previous years match completely. Is the MoF number more updated?

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Correspondents / Participants
To: Mr. D. C. Rao, IECDR
From: Masaaki Kaizuka, EDS02

Subject / Title
Your Visit to Tokyo

Exception(s)

Additional Comments
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DATE: March 10, 1992

TO: Mr. Masood Ahmed

FROM: Kwang W. Jun

RE: Japanese Financial Flows: A Briefing for Your Tokyo Trip

1. At your request, this is to provide you with the recent flows from Japan in major flow categories, namely; ODA, FDI and commercial banks.

2. Attachment #1 summarizes aggregate Japanese financial flows to LDCs and IFIs over the last several years, as compiled in 1991 OECD DAC Chairman's report.

3. Attachment #2 is a one-page description of Japan's ODA performance in 1990, the latest information available, which was extracted from DAC report. This is followed by quite a few tables (#2.1 to #2.4) showing detailed figures and indicators. These data, while too much to digest, could be useful sources of background information on Japanese ODA.

4. Attachment #3 is a copy of my previous briefing for DCR on OECF.

5. Attachment #4 covers FDI. Please note that the figures reported in this segment are not compatible with Attachment #1. The series of Japanese FDI numbers in Attachment (#4.1 to #4.10) are based on MoF notification (as reproduced by JETRO, whereas OECD figure in Attachment #1 is cash-based. The MoF figure is the most frequently cited Japanese FDI number and is a "leading" indicator of Japanese cross-border direct investment. Attachment #4.10 is the latest information.

6. Attachment #5 is the only piece of information we have on the latest CB exposure. This data was obtained by Ishrat during his trip to Tokyo last year.

7. Let me know if you need any further assistance.

#1

Table 52. THE FLOW OF FINANCIAL RESOURCES TO DEVELOPING COUNTRIES AND MULTILATERAL ORGANISATIONS

Disbursements

	ITALY					JAPAN					NETHERLANDS		
	1979-1981 average	1987	1988	1989	1990	1979-1981 average	1987	1988	1989	1990	1979-1981 average	1987	1988
NET DISBURSEMENTS													
I. Official Development Assistance (ODA), (A + B)	**541**	**2615**	**3193**	**3613**	**3395**	**3070**	**7342**	**9134**	**8965**	**9069**	**1538**	**2094**	**2231**
ODA as % of GNP	*0.14*	*0.35*	*0.39*	*0.42*	*0.32*	*0.29*	*0.31*	*0.32*	*0.31*	*0.31*	*0.99*	*0.98*	*0.98*
A. Bilateral Official Development Assistance (1 + 2)	93	1878	2408	2189	2112	2080	5135	6422	6779	6786	1134	1419	1552
1. Grants and grant like contributions	122	1249	1604	1529	1298	707	2108	2908	3037	3014	863	1256	1393
of which: Technical assistance	58	404	286	352	397	286	740	1093	1137	1334	313	543	631
Administrative costs	7	62	82	87	117	46	214	266	269	305	54	68	72
2. Development lending and capital	-29	629	804	660	814	1373	3027	3514	3741	3772	271	162	159
of which: New development lending	-32	468	633	659	594	1115	2855	3514	3741	5166	260	139	145
B. Contributions to multilateral institutions (1 + 2 + 3)	448	737	785	1424	1283	990	2207	2712	2186	2282	404	676	679
1. Grants	233	444	599	679	793	211	391	418	541	524	283	378	411
of which: UN Agencies	41	157	213	241	261	194	359	378	501	484	161	211	229
EEC	185	240	329	407	435	–	–	–	–		119	167	182
2. Capital subscription payments and similar to	213	294	186	745	490	786	1816	2294	1646	1758	120	297	268
of which: IDA	154	234	–	508	291	470	1121	1340	778	997	103	207	208
Regional Development Banks	48	55	141	204	150	286	580	704	687	465	10	59	26
3. Concessional lending	1	–	–	–	–	-7					1	–	–
II. Other Official Flows (OOF), net (A + B)	**506**	**1299**	**473**	**1123**	**1079**	**1570**	**-1808**	**-639**	**1544**	–	**15**	**4**	**4**
A. Bilateral Other Official Flows (1 + 2)	503	1290	472	1140	1055	1643	-1761	-428	647	–	15	4	4
1. Official export credits[a]	248	480	185	403	287	666	-2047	-1839	-1245	–	–	–	–
2. Equities and other bilateral assets	256	810	287	737	768	977	287	1410	1892	–	15	4	4
B. Multilateral Institutions	3	9	1	-17	24	-73	-47	-211	897	–	–	–	–
III. Grants by Private Voluntary Agencies	**1**	**18**	**19**	**42**	–	**24**	**92**	**107**	**122**	–	**76**	**172**	**180**
IV. Private Flows at Market Terms (long term) (1 to 4)	**2878**	**-1913**	**1400**	**974**	**-1468**	**4219**	**14723**	**12822**	**13502**	–	**569**	**947**	**260**
1. Direct investment	301	375	1053	571	45	1341	7421	8190	11290	–	219	259	472
2. Bilateral portfolio investment and other	36	-91	0	149	215	1549	4357	2830	1289	–	92	845	573
3. Multilateral portfolio investment	–	–	–	–	–	853	1865	1583	236	–	16	423	-222
4. Private export credits	2541	-2198	347	254	-1729	476	1081	219	687	–	242	-580	-563
V. Total Resource Flows (long term) (I to IV)	**3926**	**2019**	**5085**	**5752**	**3005**	**8883**	**20349**	**21423**	**24133**	..	**2198**	**3217**	**2675**
Total Resource Flows as % of GNP	*0.99*	*0.27*	*1.18*	*0.67*	*0.28*	*0.84*	*0.85*	*0.75*	*0.83*	..	*1.41*	*1.50*	*1.18*
For reference													
GROSS DISBURSEMENTS													
Official Development Assistance	580	2654	3240	3761	3469	3378	8262	10350	10077	10462	1607	2197	2356
New development lending	7	507	680	801	643	1405	3776	4731	4853	5166	329	241	270
ODA debt reorganisation	9	180	172	7	246	12	116	90	105	137	80	30	27
Food aid	89	180	298	237	216	252	102	137	59	31	99	83	132
Other Official Flows	806	1698	667	1398	1639	3673	4660	4973	5343	–	19	36	37
Official export credits	520	676	311	511	600	1964	1382	1339	887	–	–	–	–
Private export credits	3748	1172	1941	3279	1486	3153	3022	2165	2770	–	584	525	514
COMMITMENTS													
Official Development Assistance, Total[b]	1229	4368	4586	3544	3607	4211	9739	13747	10229	12072	1792	2383	2531
Bilateral grants, Total	135	1953	2052	1255	1418	761	2205	3540	2980	2998	1007	1396	1461
Debt forgiveness	6	19	1	0	0	–	49	90	128	147	65	17	27
Bilateral loans, Total	92	1182	988	1054	674	2351	5137	8786	4890	7235	321	313	347
Refinancing and rescheduling	–	3	171	6	246	–	–	247	156	–	7	13	3
Multilateral	1002	1233	1546	1235	1514	1100	2396	1422	2360	1839	463	674	723
Other Official Flows	3690	3076	2485	4119	4264	4245	8819	9160	9040	–	27	51	26
MEMO ITEMS													
Interest received on ODA	15	27	28	128	-49	322	871	1096	–	–	42	77	75
Interest received on OOF	–	–	–	–	–	46	–	–	–	–	5	13	15

For footnotes see page after table 56

#2

Japan

Japan's ODA net disbursements increased in 1990 by 4 per cent in real terms to $9.1 billion with bilateral and multilateral disbursement increasing by 3 per cent and 8 per cent, respectively. The figure of $9.1 billion includes $15 million of forgiveness of export credit claims. (This amount has been omitted from total DAC ODA pending the outcome of a review by DAC Members of the treatment of forgiveness of debt generated by non-ODA lending). Loans, which make up more than 40 per cent of Japan's ODA, increased by 4 per cent while bilateral grants increased by 3 per cent. The ODA/GNP ratio remained at 0.31 per cent. This increase was in line with Japan's fourth medium-term ODA expansion plan aimed at disbursing more than $50 billion during the period 1988-92 and raising Japan's ODA/GNP ratio closer to the DAC average. During the 1980s the average annual growth of Japan's ODA net disbursements was 4.6 per cent, almost twice the DAC average.

Contributions to multilateral organisations accounted for about one-quarter of ODA in 1989/90. Asian developing countries continue to receive close to two-thirds of bilateral aid. The share of Sub-Saharan Africa in bilateral ODA virtually doubled during the 1980s to reach nearly 15 per cent by the end of the decade, but it is still about half the DAC average. Aid to the Middle East, relatively modest until 1989, is expected to increase as a result of a programme of assistance for countries affected by the Gulf crisis. The share of least developed countries in ODA is below the DAC average.

Loan aid in support of economic infrastructure projects accounts for a large part of bilateral ODA. Programme assistance, much of it in the form of co-financing with the World Bank and other regional development banks in support of structural adjustment efforts, has represented a substantial and increasing part of bilateral ODA. Technical co-operation disbursements (in grant form only) expanded rapidly during the 1980s to reach $1.3 billion in 1989. Their share in bilateral ODA (about 15 per cent in 1988/89) nonetheless remains at the level of half the DAC average. Japan launched a policy of untying development loans in 1978 and since then significant progress has been made in untying. In 1988 Japan decided gradually to untie the engineering services components of ODA loans and to allow foreign consultants to participate in Japanese grant-financed surveys. In 1989, 78 per cent of bilateral ODA commitments were untied (one of the highest ratios among DAC countries), 4 per cent were partially untied and 18 per cent were fully tied.

In April 1991, the Japanese Government announced that Japan would pay full attention in the implementation of its ODA to such factors as the trend in military expenditure of the potential recipient country, its trend in the development, production, etc. of mass destructive weapons, its trend in the export and import of weapons, and its efforts to promote democracy and to introduce a market-oriented economy and situation on securing basis human rights and freedom.

There has been no change in the formal structure for managing the Japanese aid programme. Grant aid is allocated and implemented by the Ministry of Foreign Affairs with the co-operation of the Japan International Cooperation Agency (JICA). Technical co-operation is implemented primarily by the Ministry of Foreign Affairs and JICA. Experts in technical co-operation from various ministries and agencies that are equipped with relevant skills and training are employed in this process. ODA loans are planned through consultations among the Ministry of Foreign Affairs, the Ministry of Finance, the Ministry of International Trade and Industry and the Economic Planning Agency. The Overseas Economic Cooperation Fund (OECF) is in charge of the implementation. Closer collaboration among the central government ministries and the aid implementing agencies has developed over time and better use of the expertise available in the implementing agencies is contributing to the strengthening of Japan's aid delivery system. Other efforts to strengthen the management capacities within Japan's complex administrative structure for aid (one of the goals of the current expansion plan for ODA) are underway: evaluations have been expanded, training is being stepped up, and the country analysis system is being strengthened.

Table 1. ODA PERFORMANCE OF DAC COUNTRIES IN 1990 AND RECENT YEARS

Net Disbursements

	$ million			Per cent of GNP						Per cent change 1990/89			Annual average % change in volume[a] 1984/85-1989/90
	1990 actual[a]	1989 actual[a]	1990 at 1989 prices & exchange rate	1977/81 average	1982/86 average	1989/90 average	1987	1989	1990	In national currency	In $	In volume terms[b]	
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)
Australia	955	1 020	935	0.47	0.49	0.36	0.46	0.38	0.34	-5.0	-6.3	-8.3	-2.1
Austria	394	282	327	0.25	0.29	0.24	0.24	0.23	0.25	19.8	39.4	15.7	-4.1
Belgium	889	703	732	0.55	0.55	0.46	0.39	0.46	0.45	7.2	26.4	4.0	-1.0
Canada	2 470	2 320	2 360	0.47	0.47	0.44	0.50	0.44	0.44	4.9	6.4	1.7	1.5
Denmark	1 171	937	959	0.69	0.81	0.93	0.89	0.93	0.93	5.8	25.0	2.4	4.0
Finland	846	706	717	0.21	0.37	0.63	0.59	0.63	0.64	6.8	19.8	1.5	15.1
France[c] incl. DOM/TOM	9 380	7 450	7 778	0.63	0.74	0.78	0.72	0.78	0.79	7.5	25.9	4.4	3.7
France[c] excl. DOM/TOM	6 571	5 162	5 449	0.37	0.51	0.55	0.50	0.54	0.55	8.7	27.3	5.6	4.1
Germany	6 320	4 948	5 246	0.41	0.46	0.41	0.39	0.41	0.42	9.8	27.7	6.0	0.9
Ireland	57	49	47	0.16	0.24	0.16	0.20	0.17	0.16	-0.6	17.6	-2.6	-4.1
Italy	3 395	3 613	2 768	0.13	0.28	0.35	0.39	0.42	0.32	-18.0	-6.0	-23.4	10.0
Japan[c]	9 069	8 965	9 339	0.27	0.30	0.31	0.32	0.31	0.31	6.2	1.2	4.2	4.5
Netherlands[c]	2 592	2 094	2 156	0.92	0.99	0.94	0.98	0.94	0.94	6.3	23.8	3.0	2.2
New Zealand	93	87	89	0.33	0.27	0.22	0.27	0.22	0.22	6.9	6.7	2.6	-2.2
Norway	1 205	917	1 044	0.88	1.07	1.11	1.13	1.05	1.17	19.1	31.3	13.8	4.2
Sweden[c]	2 012	1 799	1 692	0.86	0.87	0.93	0.86	0.96	0.90	2.7	11.8	-6.0	4.7
Switzerland	750	558	598	0.22	0.29	0.31	0.32	0.30	0.31	14.2	34.4	7.2	3.0
United Kingdom[c]	2 647	2 587	2 304	0.43	0.34	0.29	0.32	0.31	0.27	-6.0	2.3	-10.9	-0.2
United States[c]	11 366	7 676	10 908	0.23	0.24	0.18	0.21	0.15	0.21	48.1	48.1	42.1	-2.4
Total DAC[d]	54 077	46 712	48 567	0.35	0.36	0.35	0.36	0.34	0.35	8.6	15.8	4.0	1.6
Memo: Unweighted average	–	–	–	0.35	0.36	0.35	0.36	0.34	0.50	–	–	–	–

a) At current prices and dollar exchange rates.

b) At 1989 exchange rates and prices.

c) Includes forgiveness of non-ODA debt in 1990 as follows:

i) Export credit claims ($ million): France 166 (includes forgiveness of previously refinanced claims), Japan 15, Netherlands 12, Sweden 5, United Kingdom 8.

ii) Non-concessional structural adjustment loans: France $ 128 million.

iii) Military debt: United States $1.2 billion.

Exclusion of these amounts would change the ODA/GNP ratio for France, the Netherlands and the United States to 0.76 (0.52 excluding DOM/TOM) 0.93 and 0.19 respectively.

d) Excludes the amounts shown in note (c) pending the outcome of the review by the DAC of the recording of debt forgiveness. Including these amounts the DAC total would be $ 55 611 million (0.36 per cent of GNP).

Table 3. BURDEN SHARING INDICATORS

1989-90 average

Net disbursements

	Grant equivalent of total ODA[a] as % of GNP	Aid appropriations as % of central government budget	Multilateral ODA[b] as % of GNP	*of which:* to IDA, IFAD and UNDP as % of GNP	Aid to LICs[c]	Aid to LLDCs[d]
					as % of GNP	
Australia	0.36	1.33	0.09	0.02	0.18	0.07
Austria	0.23	0.46	0.06	0.03	0.15	0.05
Belgium	0.46	1.15	0.13 (0.20)	0.08	0.26	0.12
Canada	0.50	1.85	0.14	0.05	0.23	0.11
Denmark	0.97	2.88	0.34 (0.39)	0.13	0.60	0.36
Finland	0.63	2.57	0.25	0.07	0.41	0.21
France	0.74	1.31	0.07 (0.13)	0.03	0.28	0.14
Germany	0.45	2.41	0.08 (0.13)	0.04	0.22	0.10
Ireland	0.16	0.74	0.03 (0.10)	0.02	0.08	0.05
Italy	0.34	0.91	0.10 (0.14)	0.05	0.22	0.12
Japan	0.27	1.24	0.08	0.03	0.20	0.05
Netherlands	0.96	2.69	0.18 (0.25)	0.10	0.60	0.26
New Zealand	0.22	0.54	0.03	0.02	0.06	0.03
Norway	1.11	2.16	0.43	0.16	0.76	0.43
Sweden	0.93	3.12	0.28	0.12	0.59	0.30
Switzerland	0.31	3.26	0.08	0.02	0.19	0.11
United Kingdom	0.30	2.52	0.07 (0.13)	0.04	0.18	0.09
United States	0.19	4.50	0.04	0.01	0.09	0.03
Total DAC	0.35	1.87	0.08 (0.09)	0.03	0.19	0.08

a) Calculated on a gross disbursement basis.

b) In brackets, including EEC. Capital subscriptions are on a deposit basis.

c) Low-income countries (LICs) are those with per capita income of $750 or below in 1989. Includes imputed multilateral ODA. Capital subscriptions to multilateral agencies are on a deposit basis.

d) Least developed countries (LLDCs) are 42 countries in the 1990 United Nations list. Includes imputed multilateral ODA. Capital subscriptions to multilateral agencies are on a deposit basis.

(#2.2)

Table 2. LONG-TERM TRENDS IN AID FROM ALL SOURCES

	Volume of ODA (net) ($ million at 1989 prices & exch. rates)				Share of world ODA				ODA as per cent of GNP			
	1970-71	75-76	80-81	89-90	70-71	75-76	80-81	89-90	70-71	75-76	80-81	89-90
United States	8 618	8 608	9 128	9 292	33.7	18.2	16.5	16.6	0.30	0.26	0.23	0.18
EEC members combined[a]	11 055	12 809	16 905	22 185	43.3	27.1	30.5	39.7	0.42	0.44	0.48	0.50
of which: France[a]	3 782	4 105	5 261	7 614	14.8	8.7	9.5	13.6	0.68	0.61	0.67	0.78
Germany	2 610	3 331	4 580	5 097	10.2	7.1	8.3	9.1	0.33	0.38	0.45	0.41
Italy	695	554	1 095	3 191	2.7	1.2	2.0	5.7	0.16	0.11	0.16	0.36
Netherlands	843	1 269	1 955	2 125	3.3	2.7	3.5	3.8	0.60	0.77	1.01	0.94
United Kingdom	2 367	2 459	2 627	2 445	9.3	5.2	4.7	4.4	0.42	0.39	0.39	0.29
Denmark	285	428	631	948	1.1	0.9	1.1	1.7	0.40	0.53	0.74	0.93
Belgium	475	644	715	717	1.9	1.4	1.3	1.3	0.48	0.55	0.54	0.46
Ireland	–	20	41	48	–	0.0	0.1	0.1	–	0.10	0.16	0.16
Japan	2 871	3 285	5 863	9 152	11.2	7.0	10.6	16.4	0.22	0.21	0.30	0.31
Canada	1 144	1 742	1 720	2 340	4.5	3.7	3.1	4.2	0.41	0.49	0.43	0.44
Sweden	493	1 179	1 251	1 746	1.9	2.5	2.3	3.1	0.40	0.78	0.80	0.93
Norway	157	403	608	981	0.6	0.9	1.1	1.8	0.33	0.68	0.86	1.11
Australia	847	911	898	977	3.3	1.9	1.6	1.7	0.59	0.53	0.44	0.36
Switzerland	184	273	371	578	0.7	0.6	0.7	1.0	0.12	0.19	0.24	0.31
Finland	52	121	205	712	0.2	0.3	0.4	1.3	0.09	0.17	0.24	0.63
Austria	56	151	299	305	0.2	0.3	0.5	0.5	0.07	0.17	0.28	0.24
New Zealand	62	150	107	88	0.2	0.3	0.2	0.2	0.23	0.47	0.31	0.22
Total DAC	25 540	29 632	37 356	47 640	100.0	62.8	67.5	86.5	0.34	0.34	0.36	0.35
Spain	..	80	288	617	..	0.2	0.5	1.1	..	..	0.10	0.15
Greece	..	–	2	36	..	–	0.0	0.1	..	–	0.00	0.06
Portugal	..	–	7	117	..	–	0.0	0.2	..	–	0.02	0.25
Luxembourg	..	5	7	20	..	0.0	0.0	0.0	..	..	0.12	0.27
Iceland	..	2	3	2	..	0.0	0.0	0.0	..	..	0.06	0.05
Total non-DAC OECD	..	87	307	792	..	0.2	0.6	1.4	..	..	0.08	0.15
Saudi Arabia	..	6 065	8 016	2 235	..	12.8	14.5	4.0	..	6.66	4.05	6.08
Kuwait	..	1 789	1 650	829	..	3.8	3.0	1.5	..	5.81	3.58	5.89
UAE	..	2 161	1 400	403	..	4.6	2.5	0.7	..	9.57	3.34	3.46
Other	..	1 432	1 636	173	..	3.0	3.0	0.3	..	..	–	–
Total Arab donors	..	11 447	12 703	3 639	..	24.2	22.9	6.5	..	7.92	4.45	5.81
USRR[a]	..	2 681	3 296	2 374	..	5.7	6.0	4.2	..	..	..	..
Other	..	585	748	256	..	1.2	1.4	0.5	..	..	..	..
Central and Eastern Europe, Total	..	3 266	4 044	2 630	..	6.9	7.3	4.7	..			
China	..	749	342	160	..	1.6	0.6	0.3	..	..	0.09	0.04
India	..	146	242	104	..	0.3	0.4	0.2	..	..	0.10	0.08
Venezuela	..	155	162	44	..	0.3	0.3	0.1	..	0.24	0.18	0.10
Korea	..	–	26	60	..	–	0.0	0.1	..	..	0.03	0.03
Other	..	1 729	201	104	..	3.7	0.4	0.2	..	..	0.08	0.08
Total non-Arab LDC Donors	..	2 778	973	473	..	5.9	1.8	0.8				
TOTAL WORLD	25 540	47 210	55 383	55 174	100.0	100.0	100.0	100.0				
a) Memo: EEC members excl. DOM/TOM	9 679	11 643	14 970	19 877	37.9	[illegible]	[illegible]	35.6	[illegible]	[illegible]	[illegible]	[illegible]

Table 9. GEOGRAPHICAL DISTRIBUTION OF ODA BY INDIVIDUAL DAC DONORS AND MULTILATERAL AGENCIES

(#2.5)

Percentage of gross disbursements

	Sub-Saharan Africa			South Asia			Other Asia and Oceania			Middle East and North Africa[b]			Latin America and Caribbean		
	79/80	84/85	89/90	79/80	84/85	89/90	79/80	84/85	89/90	79/80	84/85	89/90	79/80	84/85	89/90
DAC COUNTRIES, BILATERAL															
United States	12.7	16.1	14.0	11.8	9.0	10.3	10.1	6.6	7.1	54.4	48.1	48.2	11.0	20.3	20.5
Japan	10.4	9.6	13.5	32.6	19.6	16.9	41.3	53.3	52.5	8.6	8.8	8.8	7.1	8.6	8.2
France	45.2	49.6	54.3	2.0	3.2	2.7	14.4	14.0	14.0	13.0	12.7	9.7	25.3	20.5	19.2
Germany	32.5	33.6	36.4	20.9	17.8	12.3	7.2	15.6	13.6	29.6	22.4	26.2	9.8	10.7	11.4
Nordic countries, total	51.9	58.5	58.7	26.5	23.8	19.2	13.4	9.5	7.8	4.9	2.3	5.1	3.4	5.8	9.2
of which: Denmark	55.0	58.4	61.3	30.4	31.4	22.5	8.7	5.2	5.2	4.2	2.9	7.1	1.6	2.0	3.9
Finland	65.4	64.0	59.6	5.1	14.4	14.2	23.8	7.6	9.4	3.6	6.8	9.7	2.0	7.1	7.0
Norway	50.7	62.7	64.5	30.4	25.2	20.5	7.5	5.4	3.1	8.2	1.6	1.0	3.3	5.0	10.9
Sweden	49.3	54.7	54.1	25.5	21.4	18.7	16.8	14.5	10.9	4.0	1.4	4.5	4.4	7.9	11.9
Italy	54.1	66.7	55.9	3.1	3.1	4.4	10.4	2.7	6.0	21.2	16.7	13.5	11.3	10.8	19.9
Netherlands	31.1	36.7	36.2	21.9	21.2	18.5	10.7	13.2	17.5	5.3	6.1	5.7	31.0	22.7	22.2
United Kingdom	36.3	39.5	50.5	40.7	35.9	26.7	9.4	8.2	10.5	6.8	8.7	4.5	6.8	7.7	7.8
Canada	41.1	41.6	53.4	35.3	28.9	14.1	4.9	8.6	12.0	7.6	3.4	6.7	11.1	17.5	13.9
Australia	3.8	7.1	10.1	11.1	7.2	8.0	83.7	84.4	79.3	1.2	1.0	2.5	0.1	0.3	0.1
New Zealand	2.2	1.0	1.7	3.2	0.4	0.8	92.9	98.2	96.9	0.0	0.1	0.1	1.7	0.5	0.5
Other DAC, total	52.3	49.5	49.5	11.3	8.9	9.0	15.3	7.7	17.1	13.7	24.7	14.0	7.4	9.2	10.4
of which: Austria	10.3	9.2	18.5	7.1	0.6	5.2	42.5	9.9	37.1	33.1	75.9	34.7	7.2	4.4	4.2
Belgium	64.9	72.4	75.0	7.3	5.7	3.6	11.4	8.2	6.0	11.3	7.0	5.8	5.2	6.6	9.6
Ireland	94.2	96.6	95.2	1.7	1.4	1.7	0.8	1.4	0.3	0.0	0.5	2.1	2.5	0.5	1.0
Switzerland	38.8	51.5	49.2	31.2	21.0	17.1	7.2	5.5	12.0	6.5	4.6	5.4	16.2	17.4	16.3
Total DAC	29.2	29.1	34.3	18.4	13.4	11.8	16.7	18.0	21.2	22.9	24.3	18.4	12.9	15.3	14.5
MULTILATERAL INSTITUTIONS															
EEC	63.9	63.3	64.8	10.7	12.2	10.6	5.3	3.6	5.2	14.9	10.1	7.6	5.2	10.7	11.8
IFIs[c]	25.0	26.8	43.0	44.3	44.5	35.2	6.7	8.5	12.4	6.4	4.1	1.0	17.5	16.1	8.5
UN agencies[d]	28.1	41.4	42.5	18.3	20.7	19.6	20.4	13.6	13.6	19.9	11.9	9.9	13.3	12.4	14.4
NON-DAC FLOWS, total[e]	11.9	15.3	6.7	9.0	8.7	5.5	17.1	29.5	26.6	54.5	33.0	52.5	7.5	13.6	8.7
OVERALL TOTAL	25.1	27.9	34.4	18.3	16.4	14.4	15.6	18.5	19.5	29.2	22.5	18.7	11.7	14.7	13.0

a) Excluding unspecified.
b) For the purpose of this analysis, includes small amounts to Southern Europe.
c) International financial institutions. Includes IDA, regional banks, soft windows and IFAD.
d) Includes UNDP, UNICEF, UNWRA, WFP, UNHCR and UNFPA.
e) Arab donors, CEECs and China.
Note: Percentages in lines add up to 100 per cent for regional distribution in each two-year period for each individual country/institution.

Table 10. MAJOR AID USES BY INDIVIDUAL DAC DONORS AND MULTILATERAL ORGANISATIONS[a]

Percentage of total commitments

	Social and administrative infrastructure		Economic infrastructure		Agriculture		Industry and other production		Food aid		Programme assistance		Other		*Memo.* Share of ODA through NGO's[b]
	75-76	88-89	75-76	88-89	75-76	88-89	75-76	88-89	75-76	88-89	75-76	88-89	75-76	88-89	89
Australia	17.5	27.9	7.1	12.0	4.3	10.2	1.9	2.3	9.2	4.6	43.9	34.3	16.1	8.8	1.0
Austria	7.4	24.7	31.7	44.9	3.3	2.6	56.0	15.5	–	0.7	–	0.0	1.6	11.5	0.3
Belgium	4.9	46.4	31.8	11.4	2.7	12.2	32.4	13.3	2.9	1.9	–	–	25.3	14.7	0.3
Canada	16.5	18.8	20.0	14.7	8.4	11.9	9.1	4.7	20.6	9.6	–	4.8	25.4	35.5	9.2
Denmark	14.0	14.0	7.5	18.8	11.4	25.0	17.0	17.5	3.4	–	8.2	0.2	38.5	24.6	0.3
Finland	10.9	25.4	9.0	22.9	3.6	13.6	11.0	8.3	7.3	0.2	–	7.6	58.2	22.0	2.6
France	53.7	39.6	17.4	20.8	7.0	8.4	10.9	3.4	1.1	0.6	5.0	4.9	4.9	22.3	0.2
Germany	23.4	27.6	19.2	28.6	7.5	8.6	16.2	13.2	3.1	2.8	2.6	5.4	28.0	13.6	3.1
Ireland	..	42.0	..	2.3	..	21.8	..	6.2	..	–	..	–	..	27.8	1.4
Italy	14.0	22.5	14.8	23.6	2.9	17.2	15.5	14.1	–	5.5	–	5.2	52.8	11.9	3.6
Japan	3.3	16.6	37.7	36.4	6.0	9.5	20.6	8.9	0.5	0.6	0.1	17.8	31.8	10.2	0.8
Netherlands	34.6	23.5	13.7	19.4	20.9	18.1	9.5	5.6	1.6	2.2	0.6	14.4	19.1	16.9	6.9
New Zealand	14.5	60.6	35.3	2.9	23.7	6.8	4.5	7.4	5.5	0.2	13.5	13.3	3.0	8.8	1.1
Norway	22.9	17.3	24.4	10.8	25.9	16.5	15.1	5.0	–	0.6	–	6.2	11.7	43.6	7.8
Sweden	22.2	18.6	2.6	17.8	9.0	7.9	14.5	7.1	8.4	1.3	0.9	13.0	42.4	34.2	5.1
Switzerland	12.3	22.0	21.4	8.1	17.9	21.3	13.6	4.6	10.6	4.4	–	9.7	24.2	29.9	16.2
United Kingdom	4.7	24.4	28.2	23.4	4.3	8.5	28.8	6.2	–	1.7	5.0	14.7	29.0	21.2	0.5
United States	8.1	21.0	2.6	3.7	8.1	9.0	4.5	5.3	29.5	16.2	8.8	24.6	38.4	20.2	(14.3)
Total DAC	19.9	24.2	14.4	21.6	8.2	10.4	11.5	7.7	12.7	4.8	5.8	13.3	27.5	17.9	(4.6)
World Bank	..	18.0	..	35.8	..	16.2	..	20.1	..	–	..	9.9	..	0.1	–
IDA	..	24.7	..	24.2	..	28.6	..	10.0	..	–	..	11.6	..	1.0	–
EEC	..	–	..	–	..	–	..	–	..	–	..	–	..	–	
UN agencies	..	37.7	..	7.9	..	8.8	..	5.5	..	21.4	..	–	..	18.7	–
Other agencies	..	16.9	..	40.7	..	25.9	..	13.9	..	–	..	2.2	..	0.4	
Total multilateral	..	21.8	..	30.5	..	18.8	..	15.3	..	3.0	..	7.6	..	3.0	–
OVERALL TOTAL	..	22.4	..	26.9	..	14.1	..	12.2	..	3.4	..	10.9	..	10.1	–

a) Multilateral commitments are for official development finance i.e., including non-concessional loans except IDA whose commitments are at concessional terms.
b) On a disbursements basis.

(#2.4)

Table 5. FINANCIAL TERMS OF ODA COMMITMENTS[a]

1989-90 average

Percentages

	Grant element of total ODA Norm: 86%[b]		Grant share of		Grant element of ODA loans	Grant element of ODA to LLDC's	Grant element of bilateral ODA to LLDC's
			Bilateral ODA	Total ODA			
	1981-82	1989-90	1989-90				
Australia	100.0	100.0	100.0	100.0	–	100.0	100.0
Austria	57.1	75.5	39.6	52.6	48.3	95.5	91.3
Belgium	97.7	(93.4)	87.2	(93.4)	..	100.0	100.0
Canada	97.8	(97.7)	96.6	97.7	(61.5)	100.0	100.0
Denmark	95.1	100.0	100.0	100.0	–	100.0	100.0
Finland	95.8	(98.8)	98.2	98.8	(57.4)	100.0	100.0
France	88.8	(90.2)	68.0	(68.4)	(54.3)	(89.0)	(80.2)
Germany	83.1	90.6	62.5	70.5	58.7	100.0	100.0
Ireland	100.0	100.0	100.0	100.0	–	100.0	100.0
Italy[d]	90.1	91.3	64.4	74.9	62.3	96.1	93.3
Japan	73.0	81.4	32.0	45.0	59.8	96.8	93.3
Netherlands	94.1	96.9	87.1	90.8	55.1	100.0	100.0
New Zealand	100.0	100.0	100.0	100.0	–	100.0	100.0
Norway	99.4	99.8	99.4	99.7	28.7	99.2	98.3
Sweden	99.4	100.0	100.0	100.0	–	100.0	100.0
Switzerland	95.8	100.0	100.0	100.0	–	100.0	100.0
United Kingdom	98.4	98.2	96.5	97.8	65.8	100.0	100.0
United States	92.5	98.8	94.1	94.8	63.1	98.9	98.5
TOTAL DAC	88.9	92.8	70.2	76.9	(58.6)	97.8	95.9

a) *Excluding* debt reorganisation.

b) Countries whose ODA as a percentage of GNP is significantly below the DAC average are not considered as having met the terms target. This provision disqualifies Ireland, New Zealand and the United States in 1989.

c) Including imputed multilateral grant element. Alternative norm: the grant element to each LLDC should on average be at least 86 per cent over a period of three years. In 1990, all countries with the exception of France met this provision, with respect to the period 1988-90.

Italy has not subscribed to the DAC Terms Recommendation, and the figures shown are for information only.

Table 43. MAJOR RECIPIENTS OF INDIVIDUAL DAC MEMBERS' AID

Gross disbursements — **Japan** — *Percentage of total ODA*

1970-71		1980-81		1989-90	
Indonesia	22.9	Indonesia	11.2	Indonesia	12.4
Korea	19.8	Korea	6.9	China	7.7
India	10.2	Thailand	5.9	Philippines	5.9
Pakistan	7.9	Bangladesh	5.0	Thailand	5.2
Philippines	4.4	Philippines	4.7	Bangladesh	4.1
Burma (Myanmar)	3.5	Burma (Myanmar)	4.1	Malaysia	3.2
Thailand	2.9	Pakistan	3.6	India	2.6
Taiwan	2.5	Egypt	2.7	Pakistan	2.3
Iran	1.4	Malaysia	2.3	Korea	2.3
Sri Lanka	1.3	India	2.2	Turkey	2.1
Malaysia	1.3	Sri Lanka	1.4	Sri Lanka	1.9
Singapore	1.1	Zaire	1.3	Egypt	1.4
Nigeria	1.1	Tanzania	1.1	Nigeria	1.3
Kampuchea	0.9	Turkey	0.9	Kenya	1.2
Viet Nam	0.9	Nepal	0.8	Brazil	1.1
Laos	0.9	Brazil	0.8	Bolivia	1.0
Kenya	0.3	Kenya	0.8	Jordan	0.9
Tanzania	0.2	Bolivia	0.7	Ghana	0.8
Afghanistan	0.1	Paraguay	0.6	Senegal	0.8
Peru	0.1	Peru	0.6	Zaire	0.8
Uganda	0.1	China	0.4	Burma (Myanmar)	0.7
Brazil	0.1	Zambia	0.4	Morocco	0.7
Bolivia	0.1	Madagascar	0.4	Nepal	0.7
Nepal	0.1	Tunisia	0.4	Honduras	0.6
Ethiopia	0.1	Yemen	0.4	Paraguay	0.6
Total above	84.1	Total above	59.7	Total above	62.0
Multilateral ODA	14.9	Multilateral ODA	31.5	Multilateral ODA	21.8
Unallocated	0.3	Unallocated	2.2	Unallocated	5.4
Total ODA $ million	555	Total ODA $ million	3592	Total ODA $ million	10269

#3

TO: Mr. Rao

FROM: Kwang Jun

RE: Your Questions on OECF

1. Half or All?

Latest available information (OECF 1990 Annual Report) shows that OECF provided 44% of Japan's total ODA or 58% of Japan's total bilateral ODA. OECF's share of Japan's ODA has been around this level since 1987, but old data also indicate a much larger share of OECF in the previous years (as much as over 90% in 1985-6, according to OECD figures). There are several other ODA agencies, including Japanese International Cooperation Agency (JICA), Overseas Fishery Cooperation Foundation (OFCF), and Japanese Overseas Development Cooperation (JODC). Japan's EXIM bank could, on an exceptional basis, also be a source of ODA funds.

2. Significant swings in OECF's country allocation?

Most noticeable changes (over the recent years) in the recipient country share of OECF funds are:

- Increases: Philippines (17% in 89, 8% in 88, 16% in 87, 9% for 66-89)
  Malaysia (7% in 89, 7% in 88, 0% in 87, 4% for 66-89)
  Indonesia (21% in 89, 18% in 88, 12% in 87, 19% for 66-89)
  Turkey (4% in 89, 0% in 88, 1% in 87, 2% for 66-89)
  Kenya (5% in 89, 2% in 88, 0% in 87, 1% for 66-89)

- Mixed: Thailand (8% in 89, 5% in 88, 11% in 87, 9% for 66-89)

- Decreases: Korea (1% in 89, 3% in 88, 6% in 87, 6% for 66-89)
  India (4% in 89, 9% in 88, 13% in 87, 7% for 66-89)
  Pakistan (2% in 89, 9% in 88, 5% in 87, 4% for 66-89)

So, shares of Asian LICs dropped.

3. Non-economic considerations?

Increasing attention is being paid to environment or WID. Any link with military expenditures is yet to appear in print. But, given recent press reports, this must be in their mind too. Could be a point to be clarified with the visitor.

4. Projected growth of Japanese ODA?

No solid figure is available. Best guess would be to assume a stable ODA/GNP ratio, which means a 4-5% annual growth in real term.

(#3.1)

A BRIEFING NOTE FOR MR. RAO:
VISIT[redacted] OF MR. YASUTAMI SHIMOMURA
THE OVERSEAS ECONOMIC COOPERATION FUND, JAPAN
2:30 pm, Monday, November 4, 1991

The OECF: Key Facts

- Japan's major window for ODA contributions, channelling nearly a half of Japan's ODA ($9.0 billion and $9.1 billion in calendar 1989 and 1990, respectively). Founded in 1961 under a special act;

? I thought it was all!

- Almost all of OECF funds, which are mostly untied, go to governments. Loans and equity investments to corporations account for only around 3%, and their share has been declining;

- Nearly 80% of OECF funds went to Asia in recent years, and other regions share the remainder: Africa (10%), LAC (5%), Middle East and Europe (5%);

- OECF's cofinancing with IFIs has been increasing rapidly, representing more than a quarter of its total lending in the recent years. The major share (more than 80%) of this type of lending is accounted for by its cofinancing with the Bank;

- OECF funds comprise borrowings from Japanese government (roughly 60%) and own capital (40%). Interest rate of OECF loans range 1% to 4%, with an average rate of under 3% and an average maturity of about 30 years, including a typical 10-year grace;

- For OECF's organization and the mandate of Mr. Shimomura's Economic Analysis Department, see the attached.

Points for Discussion

A. IEC-related questions: You may want to discuss various points relating to possible research collaboration, advice, and marketing for IEC products. More specifically:

- It appears that OECF's research program focuses on country and sector (refer to the organization chart p.2). If so, IEC may be well placed to fill the research gap by providing an international perspective of economic/financial development;

B. Broader questions:

- Any shift in OECF lending priorities, in terms of region (e.g. in the face of growing demand from Eastern Europe and Soviet Union), sector (e.g. growing role of private sector), type of investment (e.g. any increase in equity

(#3.2)

investment or any new product envisaged).

- The growth of overall ODA from Japan appears to slow down (Japan pulled back to the second rank in ODA contribution in 1990, from the first place in 1989). Japan's ODA/GNP ratio stands at 0.31%: while this is higher than the U.S. (0.21%), but below the OECD average (0.35%). Future prospects?

- Terms of OECF ODA --grants vs. loans-- and their trends? Differentiated by recipients?

- OECF participation at the Paris Club --opinion on proposals for more generous reschedulings for LMICs and LICs? Impact of OECF budget of concessional rescheduling?

KJun/OECF
10/31/91

K Wang

I'd like to know

(a) whether there have been any significant swings in OECF allocations by country in last few years (eg. ~~etc~~ Thailand) with reference to income level.

(b) any agreed criteria relating to "non-economic considerations" eg governance, military expenditures, etc.

(c) projected growth of ODA in coming years incl. current year.

Ted
11/1

5 The OECF: Organization and Financial Resources

(#3.3)

(1) The OECF Organization

Organization

The OECF comprises 8 departments, 2 offices, 28 divisions and 14 overseas Representative Offices (as of March 31, 1990). In response to the increase in loans to South-western Asia, in October, 1989, the Representative Office in Islamabad, Pakistan, was newly created in order to handle loans to Pakistan.

In fiscal 1989, the number of officers was increased. An information post in charge of Public Relations was created in the Planning and Administration Division of Coordination Department, in the light of the fact that the support and understanding of the Japanese people are essential, if Japan's ODA economic cooperation is to be expanded. The OECF also created a post in charge of the environmental aspects of development in the Technical Appraisal Coordination and Planning Division of Technical Appraisal Department. Another post was created in charge of co-financing with international organizations under the "Financial Recycling Scheme", in the Co-financing and Overseas Offices Administration Division of Coordination Department.

As shown in Fig. 5-1, in October, 1990, a new overseas Representative Office will be opened in Colombo, Sri Lanka. With the establishment of this office, its 15th Representative Office, the OECF will have representative offices in all the countries to which OECF extends loans every year, except Myanmar (new loans to Myanmar have been suspended in recent years).

In October 1990, Advisor for Internal Audit will be created in order to enhance the audit system in response to the increase in loan activities in the OECF.

Officers and Staff

The OECF has 6 Executive Board members, 1 auditor, and 267 officers and staff. The total strength (excluding the Auditor) was 273 as of March 31, 1990. Of that total, 44 work at OECF's 14 Representative Offices overseas and one each at the World Bank, the Asian Development Bank and the Secretariat of the Organization for Economic Cooperation and Development (OECD).

At the same time, OECF has also been strengthening overseas training since 1988, with a number of young staff members studying development economics and other relevant subjects in graduate schools abroad, 13 (in the United States, France and the United Kingdom) as of March 31, 1990.

The OECF's principal officers are shown in Table 5-1.

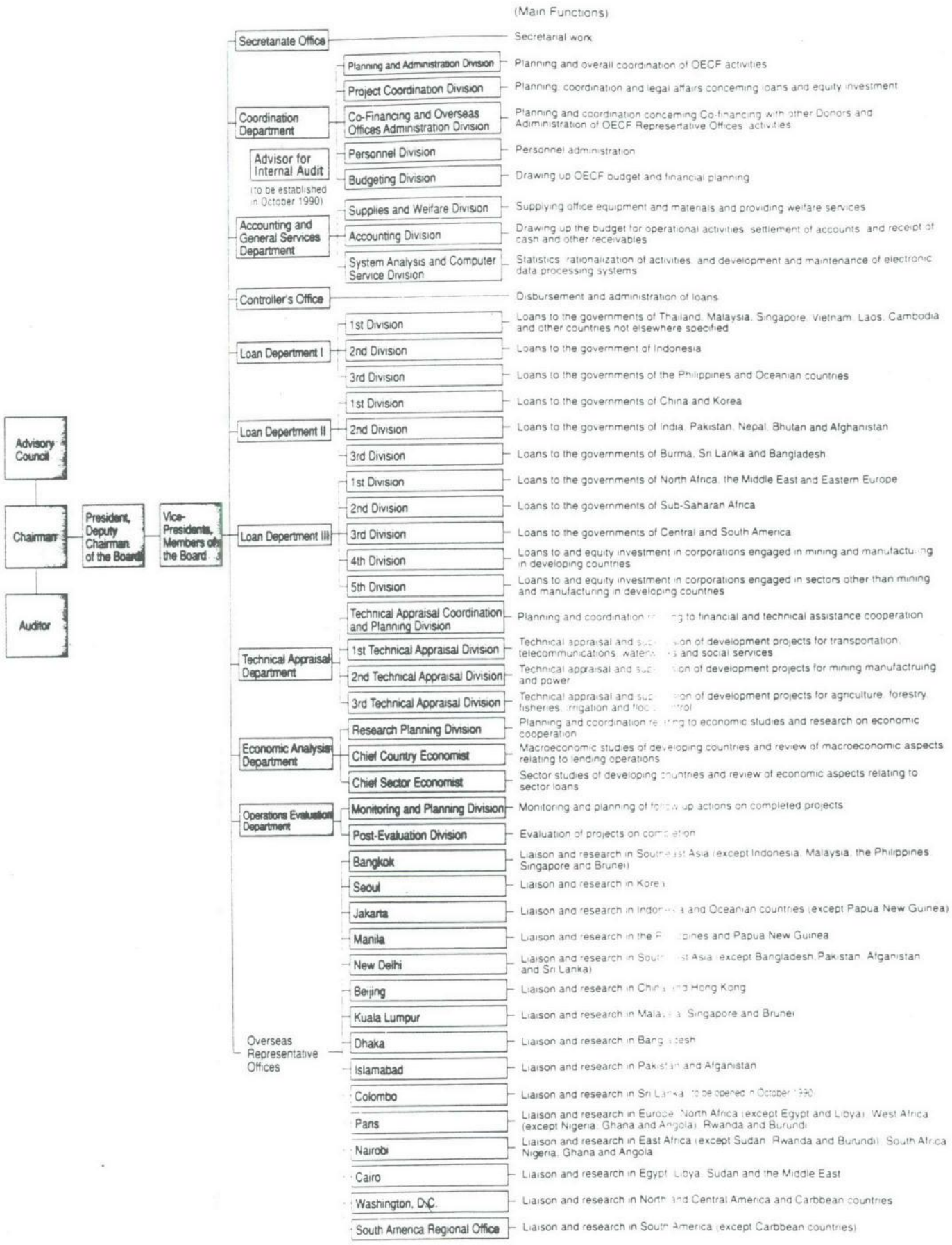
Table 5-1 Principal Officers

(as of August 31, 1990)

Akira Nishigaki	Chairman
Shoichi Tanimura	President, Deputy Chairman of the Board
Mitsuhiro Sasanuma	Vice-President, Member of the Board
Tsuneo Oyake	Vice-President, Member of the Board
Hiroshi Akakura	Vice-President, Member of the Board
Nobutaka Kengaku	Vice-President, Member of the Board
Tadaaki Ata	Auditor
Isao Kubota	Managing Director, Coordination Department
Eiichi Sato	Deputy Managing Director, Coordination Department
Toshihiro Sakurai	Managing Director, Accounting and General Services Department
Michihiro Yamaoka	Deputy Managing Director, Accounting and General Services Department
Seizaburo Komine	Controller, Controller's Office
Hiroshi Kikumoto	Managing Director, Loan Department I
	Deputy Managing Director, Loan Department I
Sadao Amano	Managing Director, Loan Department II
	Deputy Managing Director, Loan Department II
Kaitoku Yamamoto	Managing Director, Loan Department III
Yoshio Sanaka	Deputy Managing Director, Loan Department III
Kazuo Dobashi	Managing Director, Technical Appraisal Department
Koichi Kosumi	Deputy Managing Director, Technical Appraisal Department
Yasutami Shimomura	Managing Director, Economic Analysis Department
Toru Shinozuka	Managing Director, Operations Evaluation Department
Takashi Aoki	Chief Secretary
Yoichi Aki	Chief Representative in Bangkok
Toshio Oguro	Chief Representative in Seoul
Shunro Kageyama	Chief Representative in Jakarta
Hideo Tanaka	Chief Representative in Manila
Koichi Morizono	Chief Representative in New Delhi
Hiroshi Izawa	Chief Representative in Beijing
Kei Hara	Chief Representative in Kuala Lumpur
Keiichi Tango	Chief Representative in Dhaka
Yuji Morimoto	Chief Representative in Islamabad
Yoshitaro Fuwa	Chief Representative in Paris
Masakazu Ishiguro	Chief Representative in Nairobi
Shigeru Takeda	Chief Representative in Cairo
Takeo Takamatsu	Chief Representative in Washington, D.C.
Enzo Kuroda	Chief Representative in South America Region

(#3.4)

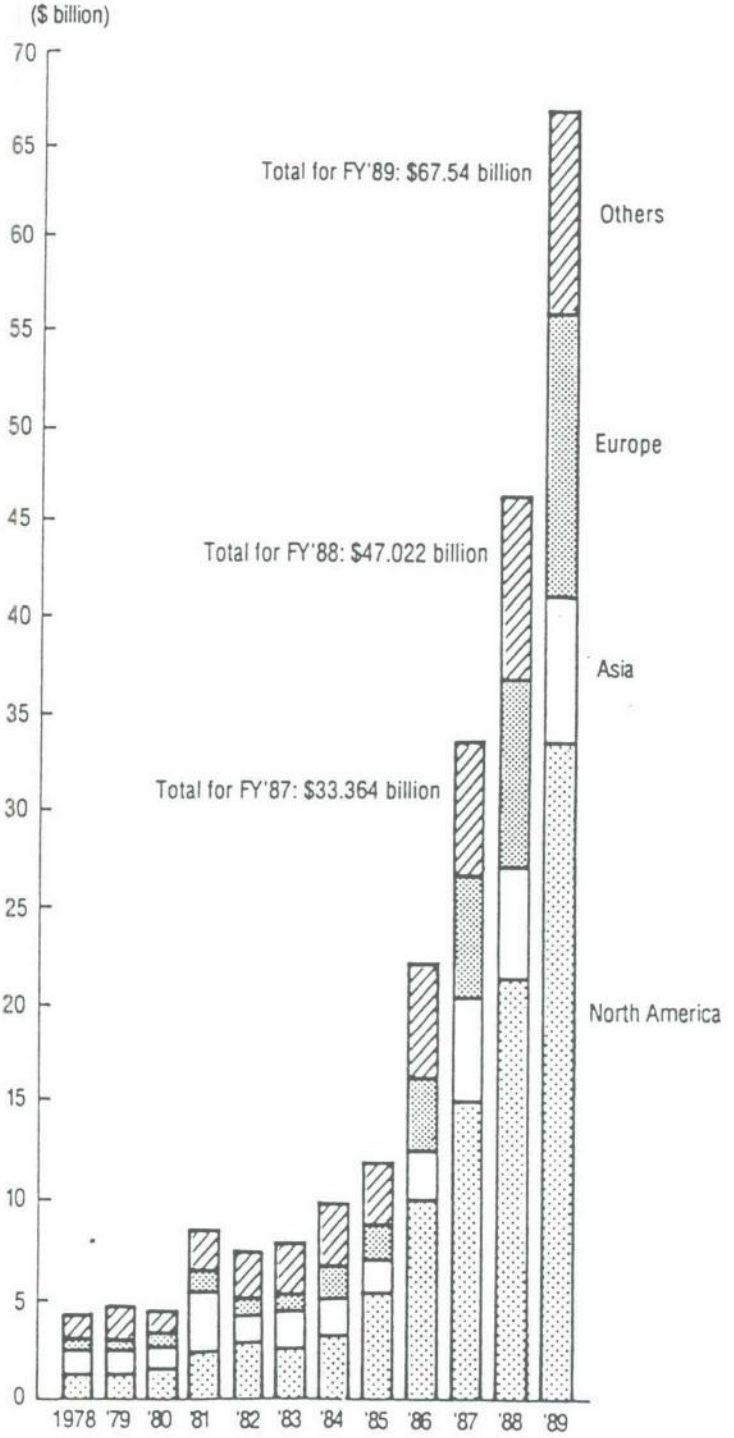
Fig. 5–1 Present Organization Chart
(As of August 31, 1990)



II. Trends in Overseas Direct Investment by Japan

- In FY1989, direct investment overseas by Japan (as notified to MOF) rose 43.6% from the previous year to $67.54 billion. However, in the first half of FY1990 it declined 10.2% from the same period of the previous year to $27.6 billion.

Chart 14. Trends in Overseas Direct Investment by Japan by Region



Source: MOF statistics on notified investments.

日本の直接投資統計表

(Japan's FDI Statistics)
Flow

日本

(Japan)

(Japanese FDI by Region/Country)

1．日本の地域別海外直接投資実績（届け出ベース）(MoF Notification Basis)

（単位：100万ドル，%）(unit: $ mil)

		87年度	88年度	89年度			51～89年度累計	
		金額	金額	金額	構成比	前年度比増減率	金額	構成比
N. America ←	北米	15,357	22,328	33,902	50.2	51.8	108,993	42.9
	米国	14,704	21,701	32,540	48.2	49.9	104,400	41.1
	カナダ	653	626	1,362	2.0	117.6	4,593	1.8
LAC ←	中南米	4,816	6,428	5,238	7.8	△ 18.5	36,855	14.5
	パナマ	2,305	1,712	2,044	3.0	19.4	14,902	5.9
	ブラジル	229	510	349	0.5	△ 31.6	5,945	2.3
	メキシコ	28	87	36	0.1	△ 58.6	1,707	0.7
	ペルー	1			0.0		696	0.3
	バミューダ	36	337	228	0.3	△ 32.3	1,219	0.5
	バハマ	734	737	620	0.9	△ 15.9	3,338	1.3
	ケイマン	1,197	2,609	1,658	2.5	△ 36.5	6,743	2.7
	アンチル	199	172	38	0.1	△ 77.9	785	0.3
	チリ	7	46	47	0.1	2.2	282	0.1
	アルゼンチン	15	24	3	0.0	△ 87.5	218	0.1
	プエルトリコ	0	0	3	0.0	—	144	0.1
	ベネズエラ	3	51	75	0.1	47.1	264	0.1
	バージン諸島	38	133	118	0.2	△ 11.3	290	0.1
	その他	23	9	19	0.0	111.1	322	0.1
Asia ←	アジア	4,868	5,569	8,238	12.2	47.9	40,465	15.9
	インドネシア	545	586	631	0.9	7.7	10,435	4.1
	香港	1,072	1,662	1,898	2.8	14.2	8,065	3.2
	シンガポール	494	747	1,902	2.8	154.6	5,714	2.3
	韓国	647	483	606	0.9	25.5	3,854	1.5
	マレーシア	163	387	673	1.0	73.9	2,507	1.0
	フィリピン	72	134	202	0.3	50.7	1,322	0.5
	台湾	367	372	494	0.7	32.8	2,285	0.9
	タイ	250	859	1,276	1.9	48.5	3,268	1.3
	中国	1,226	296	438	0.6	48.0	2,474	1.0
	ブルネイ	0	0	0	0.0		109	0.0

1．日本の地域別海外直接投資実績（つづき）

（単位：100万ドル，%）

		87年度	88年度	89年度			51～89年度累計	
		金額	金額	金額	構成比	前年度比増減率	金額	構成比
	インド	21	24	18	0.0	△ 25.0	166	0.1
	パキスタン		2	83	0.1	4050.0	83	0.0
	その他	11	15	17	0.0	13.3	183	0.1
Middle East ←	中近東	62	259	66	0.1	△ 74.5	3,404	1.3
	サウジアラビア・クウェート	54	20	32	0.0	60.0	1,415	0.6
	イラン		1	1	0.0	0.0	1,006	0.4
	サウジアラビア	0	8		0.0		369	0.1
	アラブ首長国連邦	8	194	6	0.0	△ 96.9	441	0.2
	バーレン	0	31	24	0.0	△ 22.6	129	0.1
	その他	0	4	3	0.0	△ 25.0	44	0.0
Europe	欧州	6,576	9,116	14,808	21.9	62.4	44,972	17.7
	英国	2,473	3,956	5,239	7.8	32.4	15,793	6.2
	オランダ	829	2,359	4,547	6.7	92.8	10,072	4.0
	旧西独	403	409	1,083	1.6	164.8	3,447	1.4
	ルクセンブルク	1,764	657	654	1.0	△ 0.5	5,383	2.1
	フランス	330	463	1,136	1.7	145.4	2,900	1.1
	ベルギー	70	164	326	0.5	98.8	1,353	0.5
	スイス	224	454	397	0.6	△ 12.6	1,829	0.7
	スペイン	283	161	501	0.7	211.2	1,546	0.6
	アイルランド	58	42	133	0.2	216.7	565	0.2
	ソ連	1	9	19	0.0	111.1	222	0.1
	イタリア	59	108	314	0.5	190.7	684	0.3
	トルコ	10	110	40	0.1	△ 63.6	166	0.1
	オーストリア	23	22	18	0.0	△ 18.2	127	0.1
	その他	21	202	402	0.6	99.0	656	0.3
Africa ←	アフリカ	272	653	671	1.0	2.8	5,275	2.1
	リベリア	267	648	643	1.0	△ 0.8	4,301	1.7
	ザイール				0.0		282	0.1
	ナイジェリア		0	1	0.0		158	0.1
	ザンビア				0.0		142	0.1
	その他	5	5	27	0.0	440.0	392	0.2
Oceania ←	大洋州	1,413	2,669	4,618	6.8	73.0	13,933	5.5
	オーストラリア	1,222	2,413	4,256	6.3	76.4	12,393	4.9
	ニュージーランド	121	117	101	0.1	△ 13.7	694	0.3
	パプアニューギニア	6	2	10	0.0	400.0	218	0.1
	北マリアナ	33	88	124	0.2	40.9	322	0.1
	その他	31	48	126	0.2	162.5	305	0.1
Total	合計	33,364	47,022	67,540	100.0	43.6	253,896	100.0

〔注〕国・地域については51～89年度の累計額が1億ドル以上のものを掲載
〔出所〕大蔵省届け出統計 (MoF)

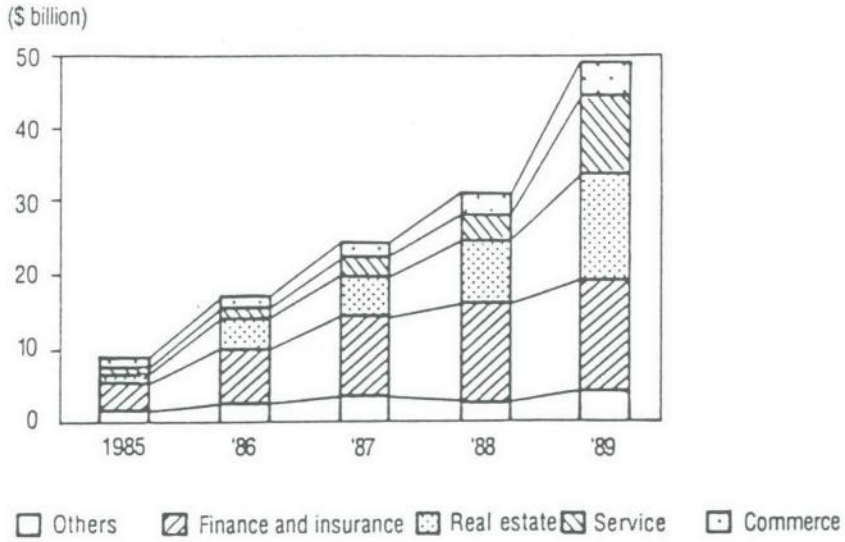
(Reprinted from JETRO White Paper 1991)

(#4.2)

- The following trends characterize the rapid increase in overseas direct investment by Japan since 1986: 1) increase in investment in the U.S. and Europe, 2) increased investment in the processing and assembly sectors of manufacturing industries, 3) rapid increase in investment in finance, insurance and real estate and 4) more than half of Japanese direct overseas investments were by small and medium-sized firms.

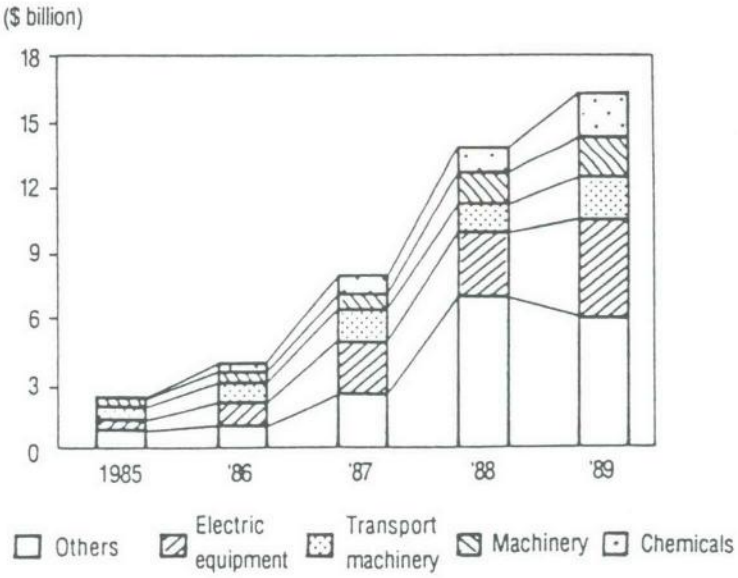
— Overseas direct investment by Japanese corporations (as notified to MOF) increased by $10.1 billion in 1986, $11 billion in 1987 and $13.6 billion in 1988. After these successive ten billion dollar-plus increases, investment soared in 1989 by $20.5 billion.

Chart 15. Trends in Direct Investment in Services



Source: MOF statistics on notified investments.

Chart 16. Trends in Direct Investment in Manufacturing



Source: MOF statistics on notified investments.

IV. Future Direct Investment: Rising Expectations and Japan's Role

[1] The Changing Global Economy and Direct Investment

(Slowdown of worldwide economic growth and progress of structural adjustments)

1) The growth of the global economy, which had been brisk for several years, slowed down somewhat in 1990. The economies of Japan and Germany, however, are expected to expand steadily, and expectations are that they will be the locomotives of global economic growth.
2) The current account imbalances among developed countries that had formed the background of trade friction are diminishing, due to currency adjustments, deregulation and cooperation in economic policies. Another important factor is the progress towards restructuring economies through expansion of direct investment.

(Rising demand for and expectations of direct investment)

1) The flow of direct investment, which had been large, into the U.S. sharply decreased in the first half of 1990. In contrast, mutual direct investment among European countries, which had been active since the end of the 1980s, markedly increased in 1990, especially inward and outward direct investment involving the U.K. and Germany.
2) Japan's share of total worldwide foreign direct investment has increased and the presence of Japanese firms overseas has become marked, thus accelerating the basic economic patterns of the 1980s.
3) The demand for and expectations of foreign direct investment to promote the restructuring of Latin American economies, transition of the Soviet Union and Eastern European economies to a free market basis, industrialization of ASEAN countries and upgrading of the industrial structures of the Asian NIEs have further strengthened.

[2] Smoother Flow of Direct Investment to Requesting Countries Necessary

- Although demand for direct investment is rising, the supply of funds, which swelled in the latter 1980s, has begun to shrink due to difficulty in raising low-cost funds, caused by the credit crunch with U.S. and Japanese banks, high interest rates and sinking stock prices. In addition, if the pattern of direct investment flow into Europe continues in the future, there could be major changes in global fund flows, creating problems in fund supply and flow.
- Because of the above-mentioned factors, it will be important to ensure that the limited amount of funds and managerial resources available efficiently and smoothly flow from countries having a surplus of these resources to those countries lacking them. UNCTAD has pointed out that the upgrading of the international financial systems has not contributed greatly toward efficiently distributing funds from a global viewpoint because the enormous surplus of funds in the 1980s went to short-term speculation and profit-taking and not to investment for long-term gain. In the 1990s, when mutual dependence among countries will deepen, it will be necessary to give higher priority to long-term considerations when planning investment, particularly in the Latin American countries into which funds and managerial resources did not sufficiently flow in the 1980s and the Soviet Union and Eastern Europe which are seeking to introduce market economies.
- Direct investment promotes fund flows that do not create debt. Through the transfer of production engineering, quality control, design development and managerial and marketing know-how, direct investment leads to increased productivity, creation of employment and acquisition of foreign currencies through export of products. As it greatly contributes toward activating the economy of the country invested in, it is vital to promote investment in those countries needing foreign investment and to provide the necessary cooperation for it.

[3] Japan's Role in Direct Investment and the Increasing Presence of Japanese Firms Overseas

- Japan's share of total worldwide foreign direct investment is likely to further increase in the 1990s, and Japan will be expected to assume a leading role as a supplier of direct investment funds. Along with this, Japanese firms are also expected to further globalize their operations. Japan's role will be first to maintain the economic development of the East Asian region, which has achieved dynamic economic growth within the global economy. Secondly, its role will be to continue promoting industrial cooperation with the U.S., European countries, and other developed countries and contribute toward revitalizing their local industries and economies. Thirdly, its role will be to promote investment in the Soviet Union, Eastern Europe and Latin America, regions which are suffering from fund shortages.

(Increased presence and responsibilities of Japanese firms overseas)

- The rapid increase in direct investment by Japan has generated a sense of caution in overseas countries regarding Japanese firms. In the U.S., concerns that are particularly strong are: 1) a sense that the heightened competitiveness of Japanese high-technology industries within a framework of increasing mutual dependence between the Japanese and U.S. economies threatens U.S. security, and 2) the conflicts that arise when foreign firms carry out activities in a society with different cultural perceptions and customs and the systemic and cultural frictions generated by cross-border exchanges.
- To cope with such misgivings about foreign investment it will be necessary for Japanese firms to 1) increase local procurement of parts and materials, develop the concept of competitive coexistence through cooperation in research and development and make efforts to hire management locally, 2) participate in corporate philanthropic activities and "Mécénat" activities aimed at the protection of sciences and arts and 3) promote harmony through community volunteer activities.

(Toward expansion of global direct investment through promotion of direct investment in Japan)

- The role to be played by Japan in developing global direct investment is not simply to unilaterally invest in foreign countries but also to activate mutual investment by promoting investment in Japan.
- While direct investment in Japan is showing signs of increase, it will be necessary to further promote it through aggressive measures such as 1) elimination of the perception, which has become a psychological barrier to investment in Japan, that the Japanese market is closed, 2) amelioration of the systemic practices pointed out in the Japan-U.S. Structural Impediments Initiative talks (e.g., exclusive transactions among affiliated firms and the distribution system), 3) promotion of joint ventures, tie-ups and cooperative agreements with Japanese firms and 4) strengthening of incentives to invest in Japan.

Section II: Regional Studies

[1] North America: Manufacturing sector leads increase of foreign direct investment

- In 1989, the U.S. net international investment position worsened by $132.7 billion, growing to a negative $663.7 billion by the year-end.
- The accumulative U.S. direct investment position abroad increased 12% ($39.9 billion) to $373.4 billion, while the foreign direct investment position in the U.S. rose 22% ($72 billion) to $400.8 billion. As a result, the foreign direct investment position in the U.S. exceeded the U.S. direct investment position abroad at the end of 1989.
- In foreign direct investment position by country, the U.K. ranked first at the end of 1989 with $119.1 billion, followed by Japan ($69.7 billion), the Netherlands ($60.5 billion), Canada ($31.5 billion) and West Germany ($28.2 billion). The order of these rankings was unchanged from that at the end of 1988. By industry, foreign direct investment in manufacturing continued to increase substantially, growing 32% over the end of the previous year. Growth was especially high in transport machinery. Consequently, foreign investment in manufacturing exceeded U.S. investment abroad for the first time.
- The U.S. Congress, after much debate, reinforced legislation concerning taxation of foreign affiliates and collection of information on foreign investments in the U.S. Concerns about foreign investment are still strong within the Congress. The U.S. administration, however, is basically adhering to the traditional U.S. policy of neutrality and openness toward foreign investment.
- Canadian assets abroad at the end of 1989 reached C$180.5 billion. With external debts of C$409.8, net external debt came to C$229.3 billion, a 12.1% rise over the previous year.
- Against the backdrop of the U.S.-Canada free trade agreement, Canadian industries are being exposed to severe competition from U.S. companies. Many Japanese firms in Canada are feeling the strategic necessity of business expansion, additional investment and reorganization.
- The main causes of the worsening U.S. net international investment position were foreign purchases of private securities and equities, and increased foreign direct investment. Foreign assets in the U.S. grew $279.6 billion, due to increased bond purchases, higher U.S. stock prices and the expansion of direct investment chiefly through large-scale acquisitions of U.S. corporations.
- Japanese direct investment in the U.S. increased $16.3 billion from the end of the previous year, largely because of increased investment in manufacturing, finance and real estate. In particular, the rate of investment growth in finance and real estate exceeded that of the previous year.
- Foreign direct investment in Canada rose 9.3% over the previous year to C$119.2 billion. Canadian direct investment abroad at the end of 1989 showed a 5.1% increase over the previous year at C$74 billion.

(#+6)

Investment by and in the U.S., by Sector

(Unit: $ million)

Sector	Investment by the U.S.			Investment in the U.S.		
	Year-end balance		Increase during 1989	Year-end balance		Increase during 1989
	1988	1989		1988	1989	
Petroleum	57,745	57,945	200	34,704	35,089	385
Manufacturing	139,584	155,704	16,120	121,434	160,216	38,782
Wholesaling	33,812	37,735	3,923	50,160	54,549	4,389
Retailing	6,376	6,724	348	14,770	16,802	2,032
Banking	19,072	19,875	803	17,453	19,581	2,128
Insurance	13,243	13,972	729	20,252	22,713	2,461
Real estate	1,859	2,745	886	31,929	35,853	3,924
All sectors	333,501	373,436	39,935	328,850	400,817	71,967

Source: Survey of Current Business, August 1990.

Direct Investment in Canada (international payments basis)

(Unit: C$ million)

		1988	1989
Sector	Manufacturing	1,516	4,591
	Petroleum and mining	2,398	Δ 2,855
	Others	886	1,665
Region	U.S.	148	1,239
	U.K.	1,357	Δ 626
	EC	859	1,502
	Japan	905	864
	Others	1,531	421
Total		4,800	3,400

Note: The figures do not add up to the total due to rounding.

Source: Canada's Balance of International Payments, Canadian Statistics Bureau, 1990, second quarter.

[2] Latin America: Progress in deregulation of foreign investment and privatization of state-run enterprises

- According to the Inter-American Development Bank (IADB), direct investment (net flow) in Latin America in 1989 declined by slightly under 30% from 1988. This was because although investment in Colombia, Chile and Venezuela increased, that in Brazil, Mexico and Argentina, substantially decreased.

  In Brazil, the causes of the decrease in foreign investment were the continued suspension of interest payments and economic confusion resulting from the failure of emergency economic policies. In Mexico, the main cause was suspension of a debt-equity swap to prevent inflation.
- In recent years, an increasing number of Latin American countries have been trying to increase the efficiency of their economies and strengthen their industries' international competitiveness by revitalizing the private sector through economic liberalization and deregulation. As part of these efforts and based on the understanding that direct investment by foreign firms is indispensable in

developing their industries, many countries are revising and deregulating their foreign investment laws to induce inward investment.

- Within this trend of economic liberalization, and in addition to the relaxation of controls on foreign investment, Latin American countries are liberalizing trade and privatizing state-run enterprises. The IMF forecasts that direct investment in Latin America will increase.
- In 1989, Japan's direct investment in Latin America dropped 18.5% from the previous year.

— Private direct investment (net flow) in Latin America (excluding some smaller countries that have not released their figures) reached $5.3 billion in 1987, $6.8 billion in 1988 and $4.9 billion in 1989.

— Examples of revision and deregulation of foreign investment laws are: Mexico's announcement of the details of the applications of its new foreign investment law (May 1989), Argentina's abolition of the requirement to obtain prior investment approval (November 1989), Venezuela's abolition of restrictions on profit remittance and reinvestment (January 1990), Colombia's liberalization of investment in finance and insurance businesses (December 1989) and its relaxation of controls on domestic sales by foreign firms in free trade zones (August 1990).

— The IMF's "World Economic Outlook" (October 1990) estimates that the flow of non-debt-producing funds, such as direct investment, to Latin America will reach $11.4 billion in 1990. (1989 total: $5.9 billion)

[3] Asia and Oceania: Rapid increase of the transfer of production bases to East and Southeast Asia

- Japanese firms are transferring production bases to the Asian NIEs and ASEAN countries, and NIEs are continuing to invest in ASEAN countries.
- Although in 1990 the growth of some countries' investment in ASEAN economies started to decline, in general investment levels were still high. In 1990, Taiwan and Korea particularly increased investment in Indonesia. Due to political instability, investment in the Philippines, however, leveled off.
- Japan and the NIEs are still the leading investors in Asia and Oceania. Particularly conspicuous has been the rapid growth of investment by the NIEs since 1988.
- Overall, investment in labor-intensive NIEs industries is declining and that in technology-intensive industries and services is increasing.
- Following the normalization of China's foreign relations, foreign firms have increased their desire to invest in China.
- As a whole, investment in southwestern Asian countries has been leveling off due to political and social instability.
- Investment in Australia is growing substantially, particularly in real estate and resort development.

— In ASEAN countries, problems facing foreign investors include a shortage of engineers, middle management staff and skilled workers, the frequency with which workers change jobs and companies, and rising wages. These countries also lack industrial parks. In Thailand and Malaysia, decentralization can be seen.

— In the NIEs, the investment environment has grown increasingly severe due to rising labor costs, manpower shortages and lack of suitable locations for production bases.

— In Australia, there is a developing sense of caution regarding torrential Japanese investment. Adelaide in South Australia has been chosen as the site of the "multi-function-polis" (MFP).

(#4.5)

[4] Europe

(1) Western Europe: M&A of German firms on the increase

- Inward and outward investment (net flow) by European countries rapidly increased after 1986, with 1989 seeing marked increases in investment.
- The continuing rise in investment is a reflection of the growing strength of the European economy since the mid-1980s. The EC market integration program which started in 1985 has also been a major factor accelerating the growth trend.
- In terms of investment amount by country for 1989, Germany (the former West Germany) marked a record high for both inward and outward investment. Investment by and in other European countries also generally increased.
- In the face of the impending EC market integration, firms are continuing to actively pursue M&A to strengthen their bases and reorganize industries.
- The increase of M&A in 1989 and 1990 was characterized by the aggressive acquisition of EC companies by Swedish companies and M&A targeting German companies.
- M&A targeting German firms is expected to increase after 1991 as part of a large-scale European strategy that includes the development of the Eastern European market.
- In 1991, however, the growth of the European economy is forecasted to decelerate, with a concomitant decrease in the amount of investment.
- According to MOF statistics (notification basis), Japanese direct investment in Europe in 1989 jumped 62.4% from the previous year.
- Reasons for the increase in Japanese investment were: the starting or bolstering of local production, large-scale acquisitions of corporations and the establishment of regional head offices.

(2) The Soviet Union and East Europe: sharp increase in joint ventures

- The Soviet Union and Eastern European countries are attempting to realize market economies through economic reforms, and are emphasizing the introduction of foreign investment through establishment of joint ventures. They have introduced laws favorable to foreign investment, such as allowing establishment of wholly owned subsidiaries and liberalizing overseas remittance of profit.
- As a result of measures to attract foreign investment, the number of joint ventures (as registered) in the Soviet Union and Eastern Europe (including Yugoslavia) reached approximately 11,200 in the fall of 1990, a four-fold increase over the previous year. Many joint ventures have been established in Yugoslavia, Hungary, Poland and the Soviet Union. Joint ventures are also rapidly increasing in Czechoslovakia and Bulgaria, where previously there have been only a few.
- Most of the joint ventures in the Soviet Union and Eastern Europe are small-scale and involve small investments. There is also the problem that many registered joint ventures are not actually operating.
- The number of joint ventures involving Japanese firms is limited, because, among other reasons, the investment environment, including the outcome of the economic reforms in these countries, is not clear. In the future, however, as these countries make progress with their economic reforms, expectations will be placed on Japanese corporations to expand their direct investment in Eastern Europe based on their global strategies.

[5] Middle East and Africa: Gulf crisis overshadowing the Middle East; momentum for political reform growing in Africa

- The Iraqi invasion of Kuwait in August has brought political and economic instability to the region with many countries suffering major economic damage. There is concern that the resultant slowing of economic readjustment and the psychological influence on foreign investors could blunt future investment in the Middle East. Since the end of the Iran-Iraq war, Middle Eastern countries had been wrestling with economic liberalization and privatization to reconstruct their economies. Even Iran, Iraq and Algeria, which had been closed to foreign investment, adopted policies more positive toward foreign investment. In contrast, foreign firms are actively investing in Turkey, which was quick to promote liberalization policies.
- Seeking to end their economic crises, many African countries are implementing measures to step up the inflow of foreign capital, privatize state-run enterprises and reorganize their industries. In 1990, some countries, the Ivory Coast for example, carried out such political reforms as changing from one-party rule to a multi-party system. How these reforms will influence sagging investment in Africa will be of great interest.

— In 1989, Japanese investment in the Middle East reached $66 million from five cases. In value, this was a 75% decline from the level of investment in the previous year. Investment in Turkey continued to be active in 1990. Japanese trading firms and electric appliance firms have successively invested in the country. Although the existing Japanese firms in other Middle Eastern countries have shown improved business performances, the vigor of new investment in the region has weakened.

— In 1989, Japanese investment in Africa reached $671 million from 88 cases. In value, this was 2.8 times the figure for previous year. By country, investment has been concentrated in Liberia, mainly due to its flag-of-convenience for shipping. In 1989, Liberia had an 81.8% share of African investments and 95.8% of the total value of investment in Africa. In 1990, Mazda started automobile production in Zimbabwe, and a group of Japanese firms has received an order for a petrochemical project in Nigeria. While these activities merit attention, investment in Africa is still sagging in general.

(#4.10)

Foreign Direct Investment (FDI) and Privatization

During the fiscal year ending in March 1991 Japanese FDI amounted to US$57 billion[1] a decline of 16 percent from the previous year. The decline, the first since 1983, was attributed to economic recession outside Japan and rising domestic interest rates.

The slowdown in Japanese overseas investment appears to have reflected other related factors, including: a general tightening of financial liquidity, globally as well as in Japan; a much higher cost of capital confronting Japanese corporations in the wake of the 1990 Tokyo stock market crash, coupled with lower profits; and the diminished ability of the Japanese banking system to provide finance for direct investments overseas because of capital constraints. Before the 40 percent fall in Japanese stock market values in 1990, Japanese companies were able to raise equity funds at an effective annual cost of 3 percent (compared with over 10 percent in the United States). This was made possible by the use of equity derivatives such as warrants which took full advantage of rising share prices. Now Japanese companies would have to pay in excess of 7 percent for new capital because warrants are far less attractive (to investors), and thus, higher nominal yields have to be offered on equity-linked securities. The cost of short- and long-term bank financing has also risen dramatically in Japan.

Most of the decline in Japanese FDI during the period resulted from a 20 percent drop in investment in North America (US$27.2 billion). But investment in other regions also declined: 14 percent in Asia (US$7 billion), and 3.5 percent in Europe (US$14.3 billion).

1/ On a notification basis as reported by the MoF.

Source: QR 6/91

#5

Table 3: Japanese Commercial Bank Claims on Developing Countries
(US$ billions)

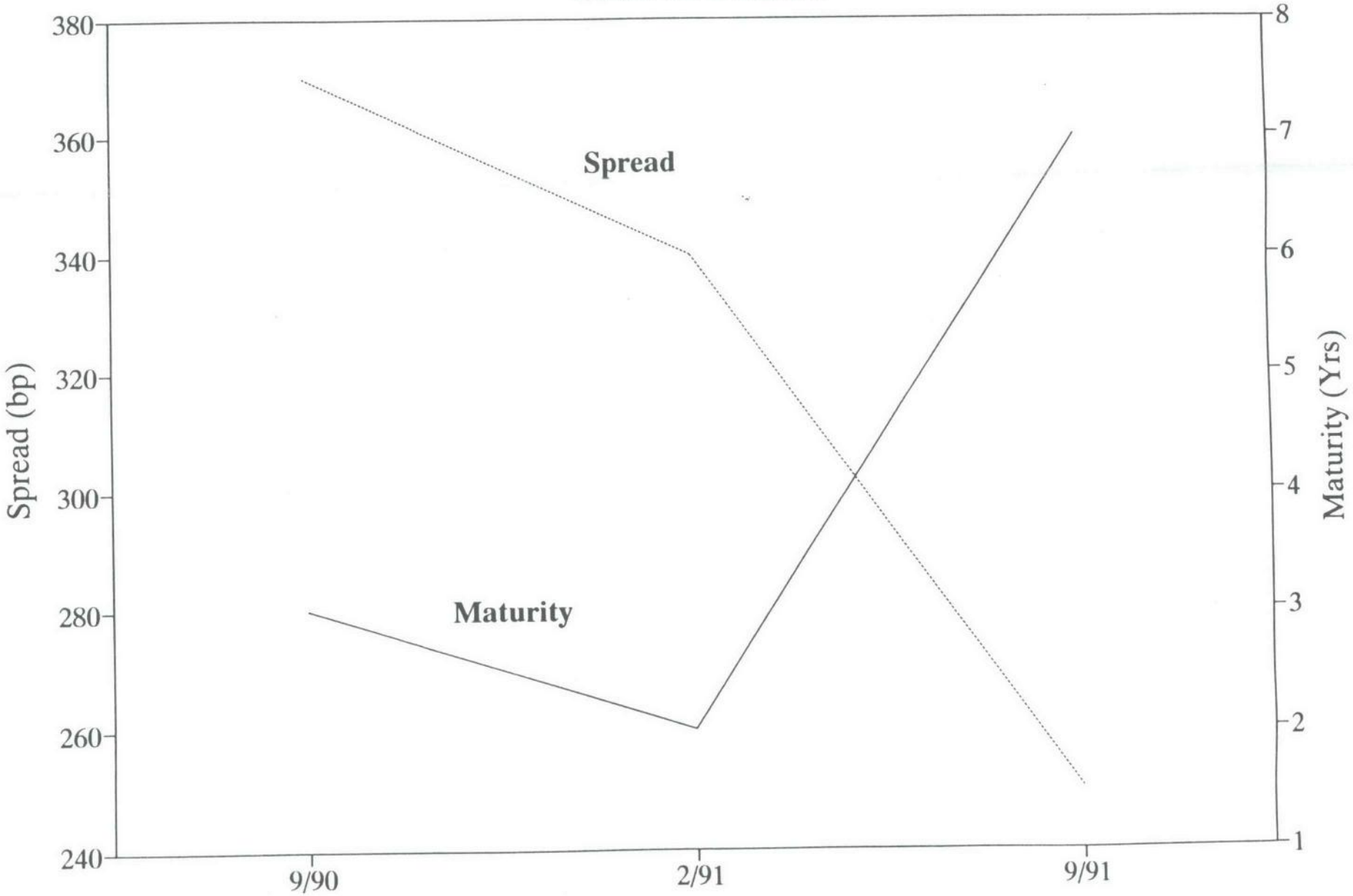
	1986	1987	1988	1989	Sept. 1990
Total	65.5	77.0	92.0	98.2	88.4
By Region:					
Latin America	36.8	40.9	45.5	44.7	33.5
Asia	22.2	28.9	38.2	45.1	47.1
Middle East	0.9	0.9	0.9	1.2	1.3
Africa	5.4	6.0	7.0	6.4	5.8
Other	0.2	0.3	0.4	0.8	0.7

Source: Ministry of Finance (MoF), Japan.

Japanese official statistics from the Ministry of Finance (MoF) show that Japanese commercial banks are now fast retreating from developing country lending, following a steady build-up of their developing country exposure until 1989 (see Table 3). For the first nine months of 1990, Japanese banks' outstanding loans to developing country borrowers declined by 10 percent to US$88.4 billion. The drop in claims was most pronounced in Latin America (25 percent). But the Japanese banks continued to be active in lending to Asian countries, increasing their outstanding claims by US$2 billion during the nine-month period. As of September 1990, 12 city banks represented 71 percent of the total Japanese bank exposure to developing countries, followed by long-term credit banks (15 percent) and trust banks (14 percent).

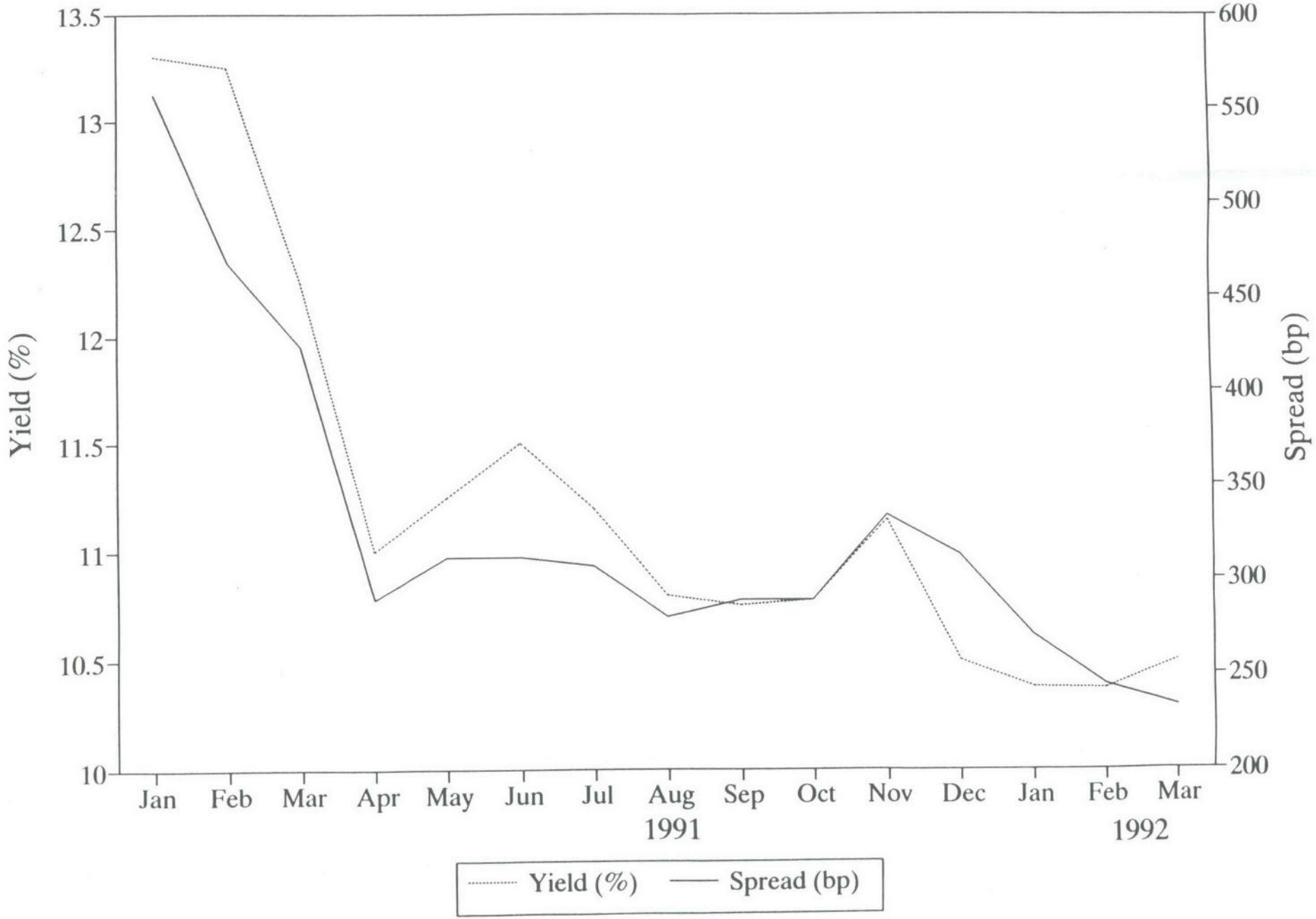
Source: QR 3/91

Mexico New Bond Issues
Case of Pemex



Sources : International Financing Review and Salomon Brothers

Mexico Par Bonds



Source: JP Morgan , Emerging Markets Research

Private Financing for Mexican Borrowers: 1991.

Borrower	Currency	Size ($m)	Maturity Date
Bonds, Private Placements & Medium-Term Notes			
Dynaworld[a]	US$	70	1/96
United Mexican States[a]	US$	40	2000
United Mexican States	DM300	197	3/96
Petroleos Mexicanos (Pemex)	US$	125	3/93
Telmex[b]	US$	570	N/A
Bancomext[b]	US$	100	4/92
Apasco	US$	50	11/97
Cemex/Tolmex[b]	US$	425	1996
Nacional Financiera, SNC	US$	125	1996
Banco Nacional de Comercio Exterior	US$	100	6/96
Tamsa	US$	50	6/97
FRN (exchange bond)	US$	1,150	7/01
Petroleos Mexicanos (Pemex)	ECU100	135	8/94
Banco Nacional de Obras y Servicios Publicos	US$	100	7/96
Nacional Financiera, SNC[b]	US$	200	N/A
Desturcar[b]	US$	25	8/93
United Mexican States	Ptas 10bn	103	8/96
Pemex	US$	150	10/98
First Mexican Acceptance Corp	US$	50	9/96
Cemex[b]	US$	50	10/93
Cemex[b]	US$	50	10/94
Cemex[b]	US$	50	10/95
Nacional Financiera, SNC	US$	150	10/01
Banco Nacional de Comercio Exterior	Can$60	52	10/96
Pemex	As500	47	11/01
United Mexican States	Stlg100	187	11/98
Apasco	US$	100	11/96
Nafin Securities	US$	100	12/96
Banca Sefrin, SNC[b]	US$	50	12/94
Sub-total		4,601	
Commercial Paper			
Hylsa SA de CV	US$	50	8/91
Hylsa SA de CV	US$	50	9/91
Cemex	US$	100	N/A
Tamsa	US$	50	N/A
Hylsa SA de CV	US$	30	11/91
Sociedad Defomento Industrial	US$	100	N/A
AeroMexico	US$	50	2/92
Transportacion Maritina Mexicana	US$	25	8/92
Quadrum	US$	50	N/A
CYDSA	US$	100	3/92
Sub-total		605	

Borrower	Currency	Size ($m)	Maturity Date
CDs			
BANCOMER	Yen3000	24	N/A
Sub-total		24	
Trade Financing			
Mexican de Cobre	US$	165	N/A
Telecomm	US$	174.9	N/A
Banamex	US$	181	N/A
Cumulative Trade Financing of under US$20 million	US$	50	
Sub-total		570.9	
Term Bank Lending			
Cedetel	US$	50	N/A
Grupo Industrial Bimbo	US$	100	N/A
Grupo Industrial Bimbo	US$	100	N/A
Sub-total		250	
Country Funds			
Mexican Horizon Investment	US$	25	N/A
Mexican Short-Term Investment Portfolio	US$	20	N/A
Mexico Premium Income Portfolio	US$	140	N/A
Sub-total		185	
ADRs			
Femsa	US$	87.5	N/A
Vitro	US$	36.5	N/A
Telmex	US$	1,900	N/A
Cemex	US$	140	N/A
Cemex	US$	50	N/A
Gigante	US$	50	N/A
Empaques Ponderosa	US$	32.7	N/A
Grupo Carso	US$	214	N/A
Gigate	US$	52	N/A
Telmex	US$	463	N/A
Tamsa	US$	41	N/A
Vitro	US$	165	N/A
Grupo Situr	US$	50.5	N/A
Grupo Televisa	US$	747	N/A
Grupo Videovisa	US$	45	N/A
Transportacion Maritina Mexicana	US$	32	N/A
Tamsa	US$	30	N/A
AeroMexico	US$	140	N/A
Cumulative ADRs of Under US$20 million	US$	15	N/A
Sub-total		4,291.2	

Borrower	Currency	Size ($m)	Maturity Date
Other Direct Foreign Investment			
San Luis Potos	US$	24	N/A
Hoechst	US$	800	N/A
Volkswagen	US$	1,000	N/A
Nissan	US$	1,000	N/A
Mercedes Benz	DM500	330	N/A
Nestle	US$	24	N/A
Ford	US$	700	N/A
Indelpro/Himont	US$	130	N/A
Pemex/Repsol	US$	500	N/A
Cumulative Other Direct Foreign Investment of Under US$20 million	US$	973	N/A
Sub-total		5,481	
Total	**US$**	**16,008**	

Sources: Salomon Brothers.

Note: a/ Private placement.
b/ Medium-term notes.

INTERNATIONAL FINANCIAL RESOURCE FLOWS TO THE DEVELOPING COUNTRIES

I. FINANCIAL RESOURCE FLOWS AND TRANSFERS TO DEVELOPING COUNTRIES (1981-1991)

A. The international economic setting

1. Economic growth
2. World trade

B. Aggregate net resource flows and transfers

1. Level of flows
2. Composition of flows
3. Net transfers

C. The regional picture

1. Net flows
2. Net transfers

D. Net resource flows and transfers to the SEACEN countries

1. Net flows
2. Net transfers

II. THE EXTERNAL DEBT OF DEVELOPING COUNTRIES

A. All developing countries as a group

B. SEACEN countries

III. OUTLOOK FOR FINANCIAL FLOWS TO THE DEVELOPING COUNTRIES DURING THE 1990S

A. The international economic setting

B. External financing in the 1990s

I. FINANCIAL RESOURCE FLOWS TO DEVELOPING COUNTRIES (1981-1991)

A. The International Economic Setting

1. Economic Growth

- Growth in GDP for both the developed and the developing countries has declined in recent years. The output growth of the industrial countries decreased from 3% in 1989 to 1% in 1991 with the growth of GDP in developing countries following a similar pattern, falling from 3.2% in 1989 to 1.9% in 1991. A notable impact of this decline has been that per capita GDP for developing countries in 1990 and 1991 has been slightly negative.

2. World Trade

- Growth in world trade has slowed substantially, from 7% in 1989 to 5% in 1990 and only 1% in 1991. The terms of trade, excluding oil, have deteriorated by about 3% during 1990-91; however, this deterioration has been mitigated somewhat by the fact that world oil prices have not risen as high as expected in 1991, due to the Gulf crisis.

B. Aggregate Net Resource Flows and Transfers

1. Level of Flows

{ TRANSPARENCY 2: REAL AGGREGATE RESOURCE FLOWS (LONG TERM) TO DEVELOPING COUNTRIES; 1981-91}

- Aggregate net resource flows are the difference between capital inflows from loan disbursements and grants, foreign direct investment and amortization payments on loans received in previous years. These flows cover both official flows from aid agencies and flows from private sources such as commercial banks.

- Aggregate net long-term resource flows amounted to $84.8 billion in 1991, a 60% increase over the low point in 1987, but still lower than the 1981 level of $101 billion.

2. Composition of Flows

- Private loans to developing countries declined dramatically from $53.3 billion in 1981 to only $2 billion in 1987; thereafter, these flows gradually increased to $ 9 billion in 1991. Reflecting this decline, the share of commercial bank lending in aggregate flows plummeted from 40% at the beginning of the decade to a mere 5% in 1991.

- Official development assistance, consisting of official loans and grants, has grown substantially. This assistance has increased by 47%, from $38 billion a decade ago to $56 billion in 1991. As a result, the share of these flows in the total has increased from 35% to 60%.

- Foreign direct investment continued its historical pattern of growth though at $24.7 billion in 1991. This level was slightly lower than in 1990.

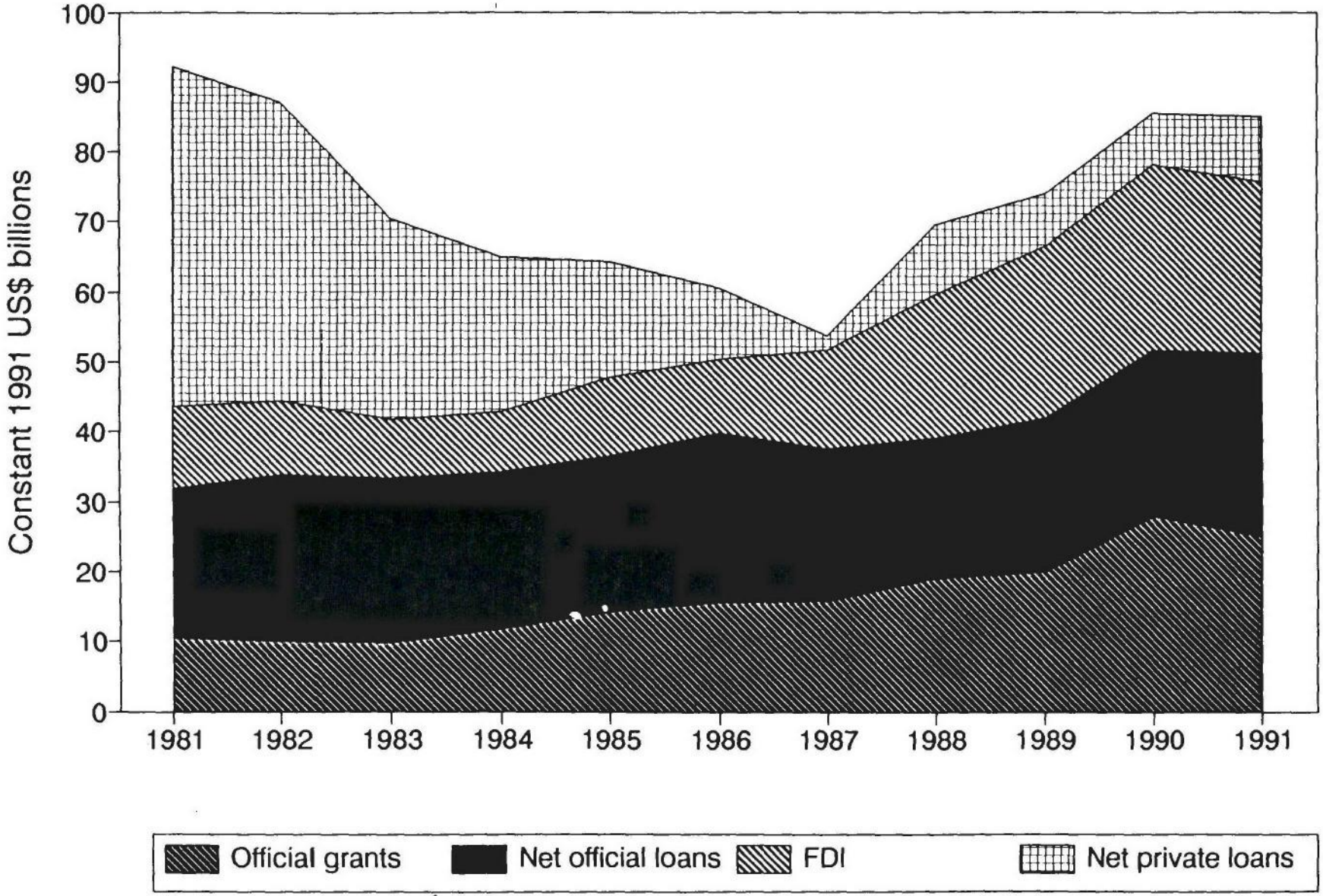
3. Net Transfers

- Net transfers are the difference between net flows and interests paid as well as profits from reinvestment.

- For developing countries as a group, net transfers were negative during 1987-88, increased substantially during 1989-90 and declined somewhat in 1991.

T2

Real Aggregate Net Resource Flows (Long-term) to Developing Countries; 1981-91



Source: World Debt Tables; 1991-92

Y Get transparency for this

C. The Regional Picture

Net Flows

{TRANSPARENCY 3: REGIONAL COMPOSITION OF RESOURCE FLOWS IN 1991}

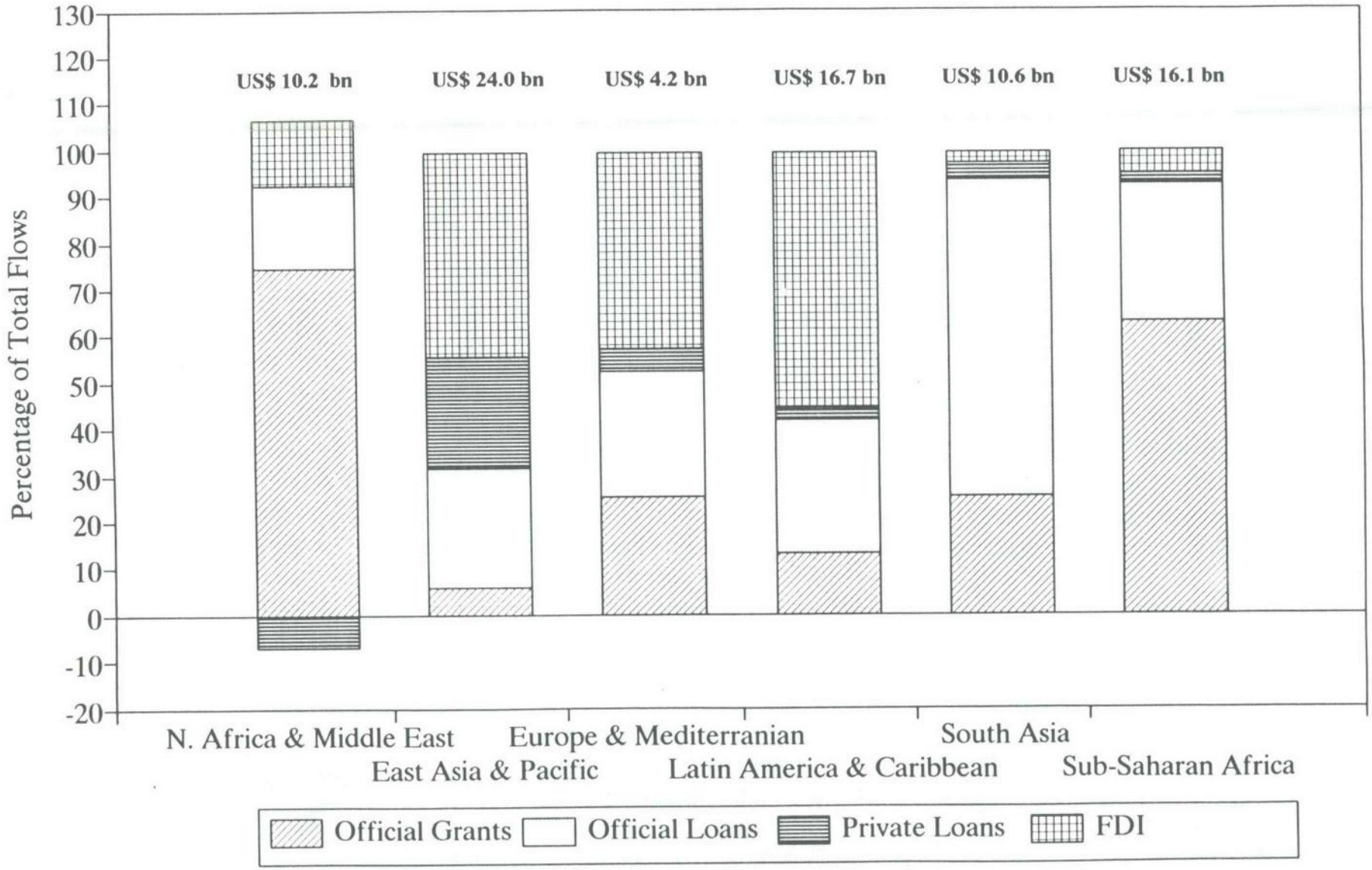
- There is considerable regional diversity in the composition of net financial flows.
- **Sub-Saharan Africa** continues to has relied heavily on grants and official financing.
- **East Asia's** financing is split almost equally between debt and equity.
- For **Latin America**, equity flows are nearly twice debt flows.
- The concentration of FDI remained in a handful of East Asian countries but there was a sharp increase of $1.6 billion in FDI flows to Latin America between 1990 and 1991.
- The regional diversity in the composition of new flows has had an important impact on the net transfers to each region.

Net Transfers

[TRANSPARENCY 4: TRANSFERS TO DEVELOPING COUNTRIES BY REGION, 1987-91}

- A high level of positive net transfers indicates the higher share of grants and concessional financing in overall financial flows.
- Net transfers remained negative for Europe, the Mediterrnean and the Latin American countries.
- In Sub-Saharan Africa, they were positive throughout the period, increasing considerably between 1988 and 1989 and declining slightly between 1989 and 1991.
- In Asia, net transfers shifted from negative to positive position during 1987-88, increased markedly in 1989 and remained at a slightly higher level during 1990-91.
- These transfer figures should be viewed with caution since some regions, such as Asia, may have positive net transfers simply because net flows are larger than interest payments plus profits in FDI.

Regional Composition of Resource Flows in 1991



Source: World Bank Debtor Reporting System

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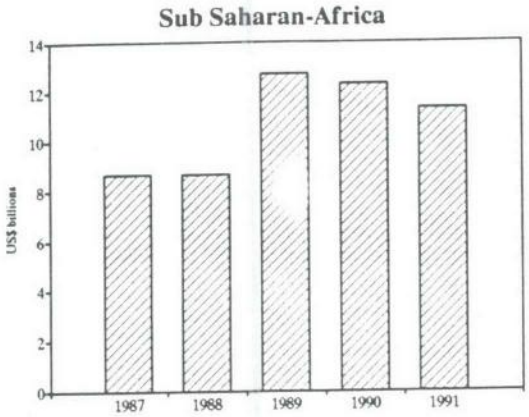
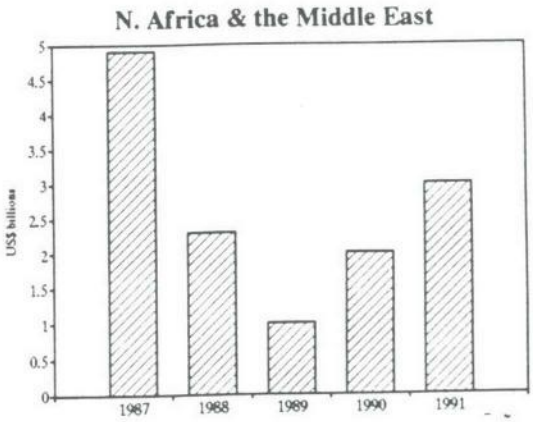
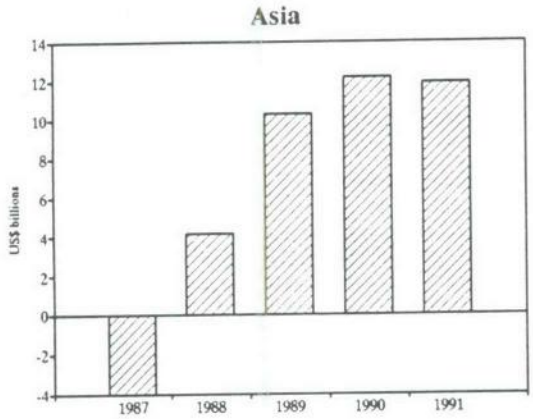
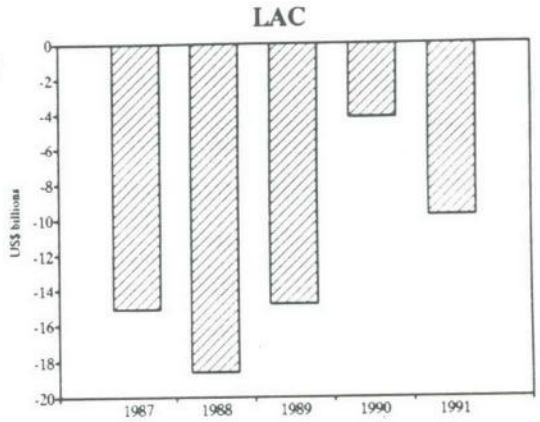
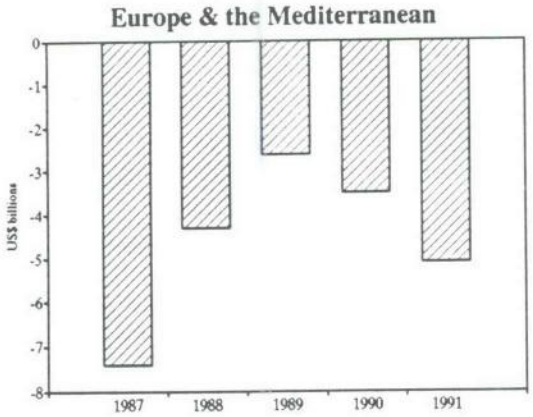
Net Transfers to Developing Countries by Region, 1987-91

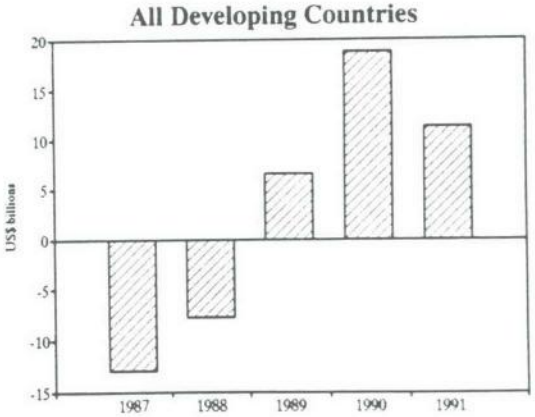












Source: World Debt Tables; 1991-92

D. Net Resource Flows and Transfers to the SEACEN Countries

Net Flows

{TRANSPARENCY 5 (GRAPH): REAL AGGREGATE NET RESOURCE FLOWS (LONG-TERM) TO SEACEN COUNTRIES}

- The pattern of resource flows to the SEACEN countries is similar to that of the East Asia Region as a whole. Overall, the flows reflect the same sharp reduction in commercial bank loans that has affected all other developing countries. As a result, net resource flows declined steadily between 1983 and 1986, from $17 billion to $4 billion and actually became negative in 1987. Since 1987, they have risen considerably, but at $17.1 billion in 1991, they have only regained their 1983 level.

- Foreign Direct Investment in SEACEN counties amounted to about $8 billion in 1991, accounting for the largest share of flows (47 %) followed by official loans and grants (37%) and private loans (16%).

Net Transfers

{TRANSPARENCY 6: NET TRANSFERS TO SEACEN COUNTRIES 1987-91}

- Net transfers declined from a positive level of $5.1 billion in 1983 to a negative level of $16 billion in 1987. They again reached a positive level in 1990 at about $0.7 billion and increased substantially to $7 billion in 1991.

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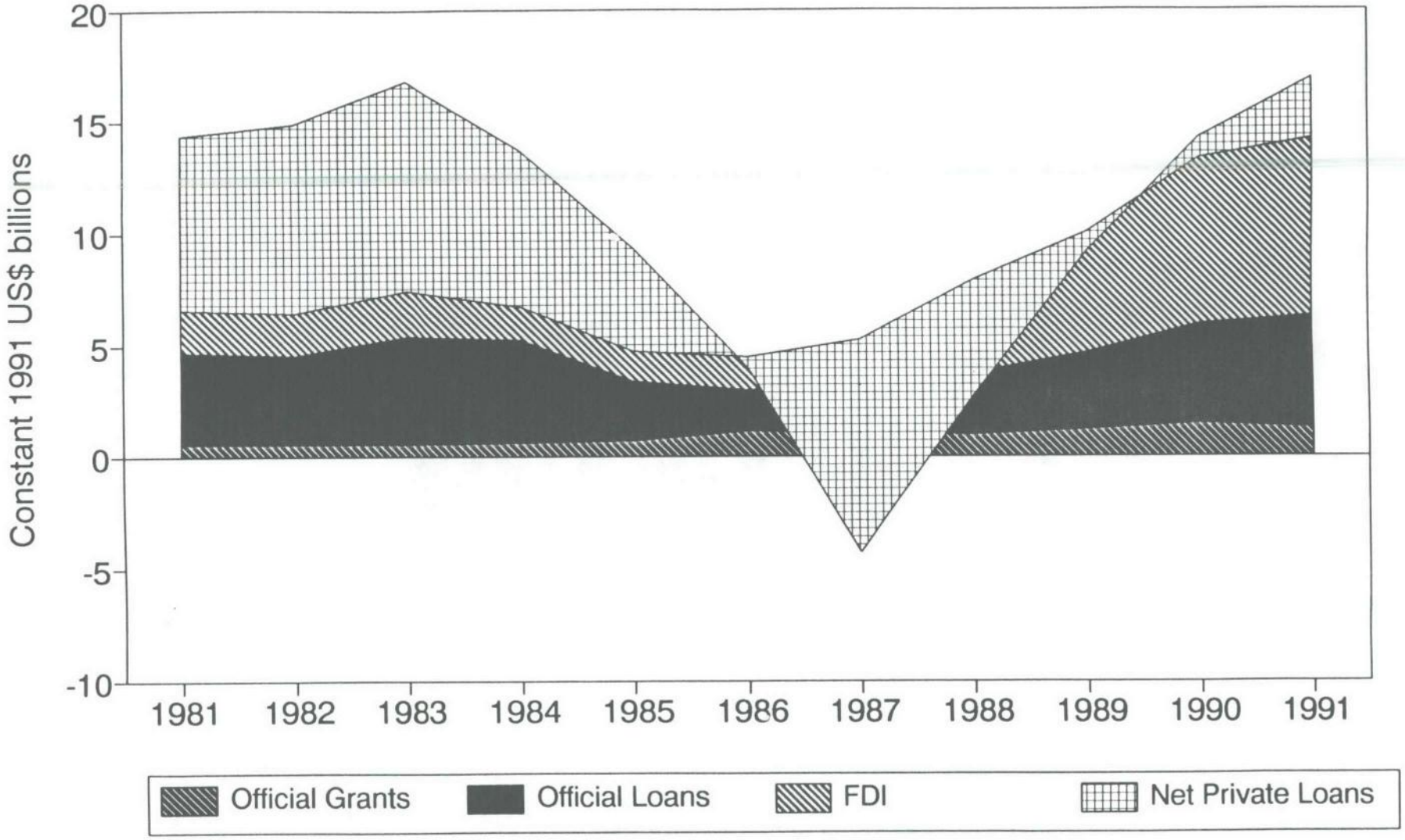
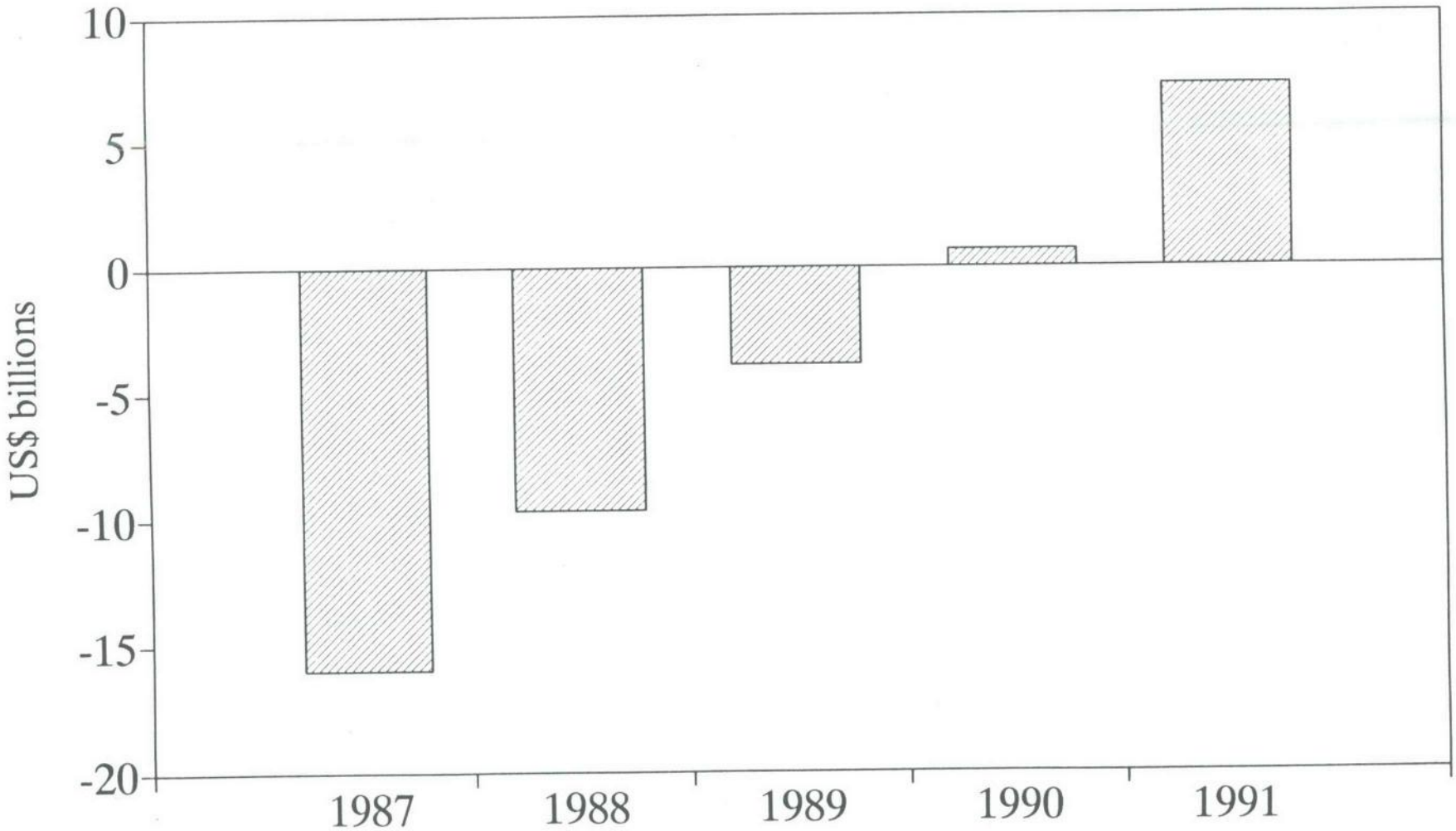
Real Aggregate Net Resource Flows (Long-term) to SEACEN Countries */



*/ Indonesia, Korea, Malaysia, Myanmar, Nepal, Philippines, Sri Lanka, Thailand (excluding Singapore)

Source : World Bank Debtor Reporting System

Net Transfers to SEACEN Countries */
1987-91



*/ Indonesia, Korea, Malaysia, Myanmar, Nepal, Philippines, Sri Lanka, Thailand (excluding Singapore)

Source: World Bank Debtor Reporting System

II. THE EXTERNAL DEBT OF THE DEVELOPING COUNTRIES

{TRANSPARENCY 7: EXTERNAL DEBT OF THE DEVELOPING COUNTRIES; 1981-91}

A. All Developing Countries as a Group

- The external debt of developing countries increased steadily between 1981 and 1987, and levelled off slightly in 1988/89. It began growing again in 1990 and remained at about the same level in 1991, which was $1,280 billion for the 114 developing countries that report under the DRS.

- In real terms, external debt in 1991 is more than double the debt level at the beginning of the 1980s.

- The change in the structure of the debt during the past decade, reflecting the trends in financial flows discussed earlier, shows a decline in the share of private debt and an increase in official debt during 1987-90. The level of the debt and the relative shares of private and official debt were virtually unchanged between 1990 and 1991.

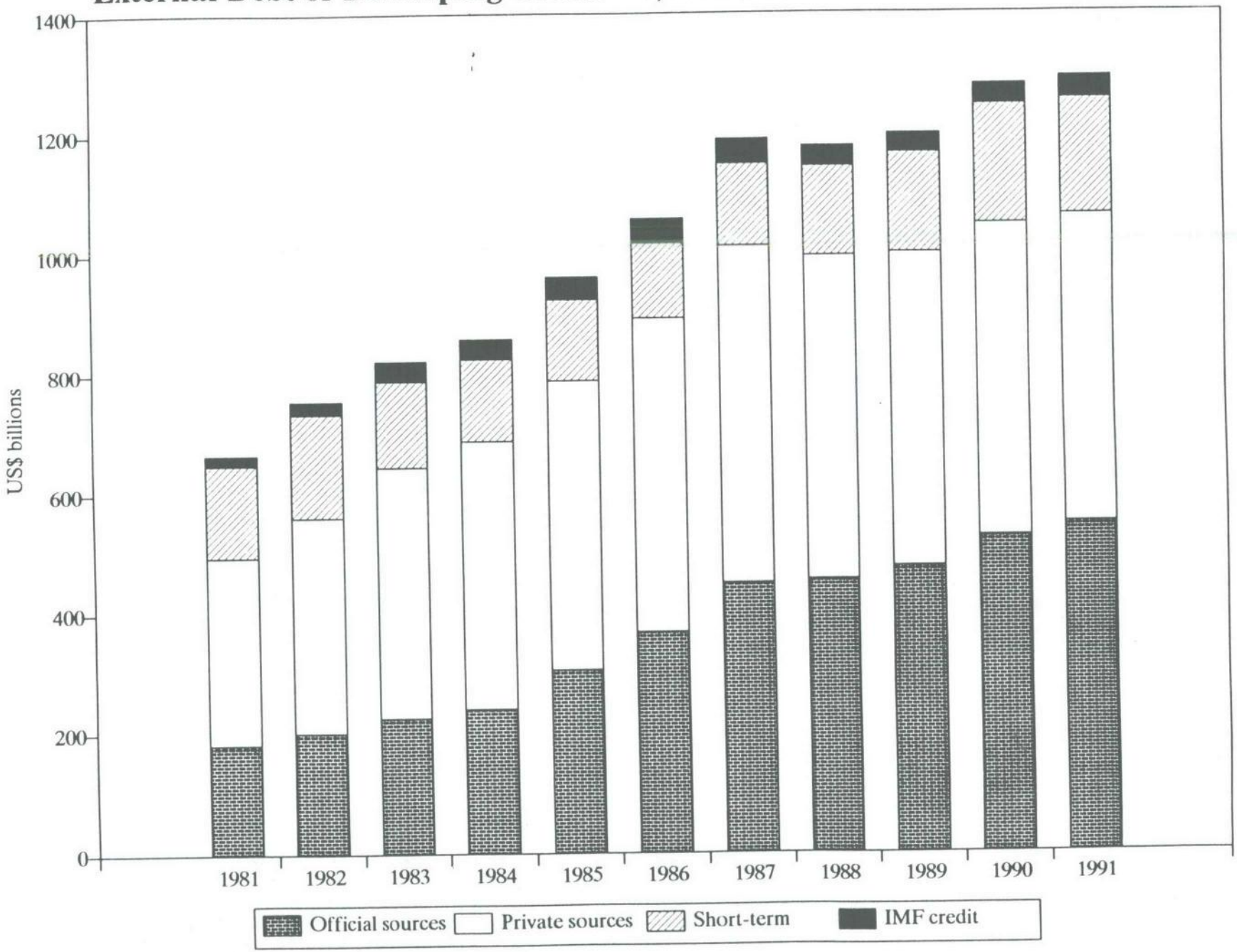
B. The SEACEN Countries

{TRANSPARENCY 8: EXTERNAL DEBT OF THE SEACEN COUNTRIES, 1983-92}

- Total external debt of the SEACEN countries increased from $128 billion in 1983 to $193 billion in 1991. The current total debt amounts to about 15% of the external debt of the 114 countries reporting to the World Bank's Debtor Reporting System.

- The share of long-term debt in the total debt increased from 73% in 1983 to 80% in 1991. This increase came from official long-term debt which rose from 60% in 1983 to 67% in 1991, while the share of short-term debt remained at about 13%.

External Debt of Developing Count s; 1981-91



Source: World Debt Tables; 1991-92

External Debt, 1983–92
(US$ billions)

Category	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992p
Total Debt, SEACEN Countries 1/	128.3	133.7	151.3	163.1	171.4	167.3	166.5	187.2	193.4	197.6
Long-term debt	94.1	101.1	119.8	136.7	147.7	140.5	136.1	148.9	154.8	160.8
Official Sources	77.4	83.1	100.3	117.9	130.4	124.0	118.4	126.5	128.8	133.3
Private Sources	16.7	18.0	19.5	18.8	17.3	16.5	17.7	22.4	26.0	27.5
Short-term debt	33.1	32.6	32.1	27.0	24.9	27.6	30.6	39.1	38.8	37.2
Use of IMF credit	1.1	0.0	(0.6)	(0.6)	(1.2)	(0.8)	(0.2)	(0.8)	(0.2)	(0.4)
Total debt, Low-Income SEACEN (excluding Indonesia)	5.7	5.8	7.2	8.6	10.1	10.8	10.7	12.1	12.9	13.8
Total debt, Middle/High-Income SEACEN	96.5	100.6	112.5	116.5	114.1	107.4	103.9	109.8	109.9	112.1
Total debt, DRS countries 2/	826.3	861.9	965.8	1,062.2	1,194.2	1,182.1	1,199.4	1,280.5	1,280.8	1,266.5

p/ Projection
1/ Includes Indonesia, Korea, Malaysia, Myanmar, Nepal, Philipiness, Sri Lanka, and Thailand.
2/ Countries reporting to World Bank Debtor Reporting System (DRS) and World Bank staff estimates.

Source: World Bank Debtor Reporting System

III. OUTLOOK FOR FINANCIAL FLOWS TO DEVELOPING COUNTRIES DURING THE 1990S.

{TRANSPARENCY 9: GROWTH PROSPECTS OF THE WORLD; 1980-2000}

A. The International Economic Setting

- **Industrial Country Growth** The economies of the industrial countries during the 1990s are projected to grow at slightly less than 3% annually, a little below their rate of growth during the past decade.

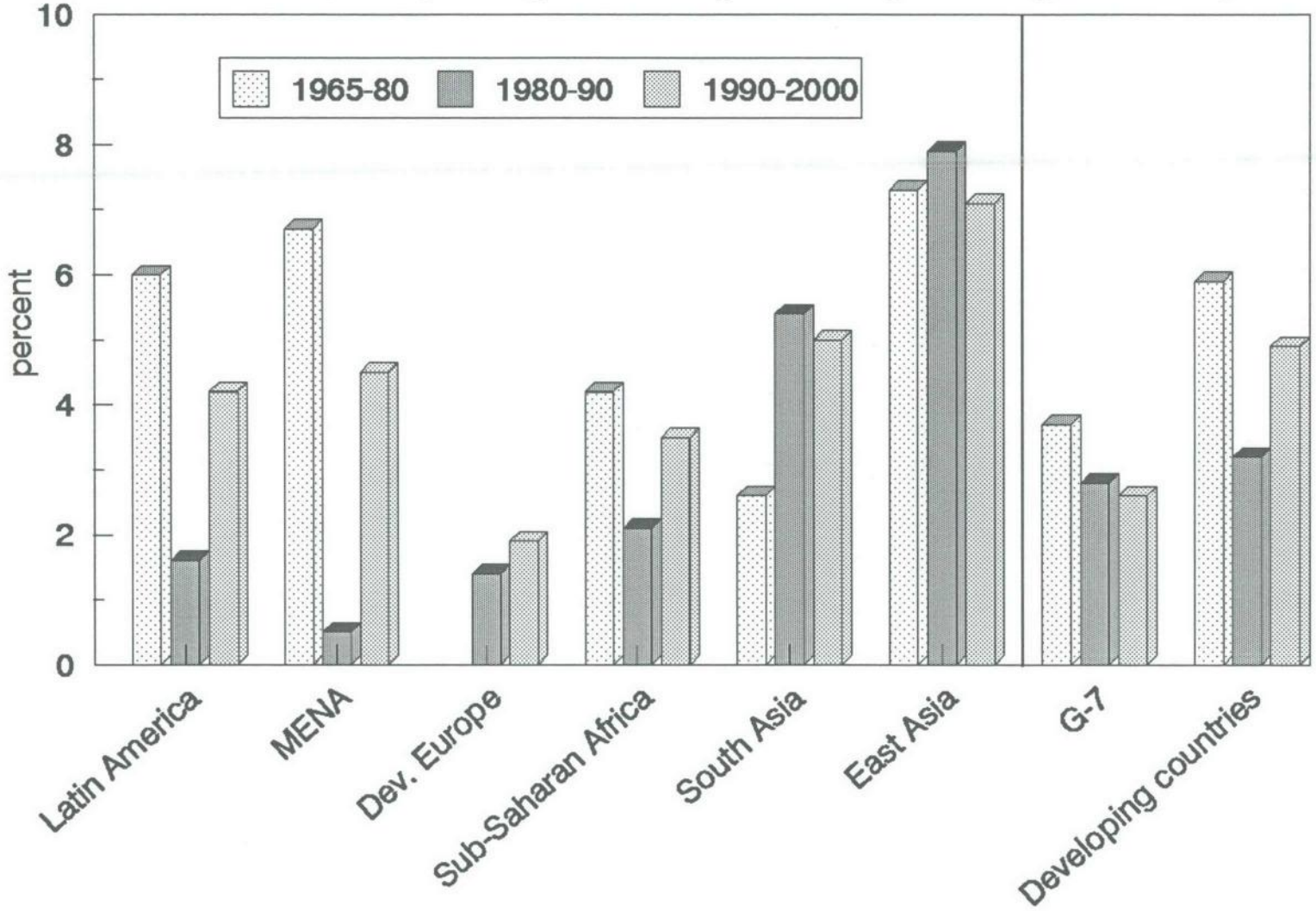
- **Developing Country Growth** The economies of the developing countries are expected to grow faster in the 1990s, at an average annual rate of 4.9% compared to 3.4% in the 1980s. A large number of developing countries have begun to implement wide ranging measures designed to stabilize their economies and restructure incentives to encourage private investment and international trade.

- **Interest Rates** Real interest rates are expected to be lower than the record levels of the 1980s.

- **Commodity Prices** Commodity prices are expected to remain close to the present low levels in the short term but increase during the second half of the 1990s.

Growth in Developing Countries, by Region, 1965-2000

(average annual percentage change of GDP)



Source: GEP, 92

B. External Financing in the 1990s

- **Competitive Financing Environment** Developing countries will face a more competitive environment for funds due to (a) the slower growth anticipated for the industrial countries during the 1990s, (b) the increased demand for capital from the Former Soviet Union, Eastern Europe, Asia and Latin America and (c) the fact that Germany, a major supplier of funds will be allocating a greater portion of its available capital to the former East Germany.

- **Additional Demand for Financial Resources** Total debt of the Former Soviet Union is estimated in the range of US$ 57-71 billion, about 5% of the external debt of all developing countries. The estimated range of effective capital demand is $25-35 billion annually.

- **Grants and Bilateral Loans** Both concessional and non-concessional bilateral loans, as well as grants, are expected to grow in line with OECD growth, roughly 4% annually over the next five years. However, competition for these funds will been keen since new demand is expected from some of the poorer republics of the FSU and other countries in Asia and in Latin America.

- **Multilateral Loans** The projected lending plans of international financial institutions indicate a fast growth of multilateral loans at an average annual rate of 9.5%.

- **Overall Impact on Developing Countries** Developing countries will have to depend increasingly on financing domestic investment from their private savings and therefore will require sound economic policies and good debt management during the 1990s.

THE WORLD BANK ROLE IN EXTERNAL DEBT MANAGEMENT

I. ASSISTANCE TO ALL MEMBER COUNTRIES

A. Supporting long-term financing needs through the lending program

1. Historical lending trends, 1981-91
2. 1991 regional lending profile
3. Highlights of 1990/91 lending policy

B. Helping member countries maintain a sustainable system for the collection, processing and analysis of external debt data: the Debtor Reporting System (DRS)

C. Providing technical assistance to meet specific needs in debt management

1. General approach
2. Categories of assistance
3. Channels of assistance

II. ASSISTANCE TO SEVERELY-INDEBTED MEMBER COUNTRIES

A. Supporting programs for official debt relief

1. Forgiveness Program for Official Development Assistance (ODA)
2. Paris Club rescheduling of developing country debt

B. Supporting programs for private debt relief

1. Background: Origins of commercial debt restructuring
2. Evolution of commercial debt rescheduling, 1976-88
3. The Brady Plan for debt relief (1989)
4. The IDA Debt Reduction Facility

I.A. SUPPORTING LONG-TERM FINANCING NEEDS THROUGH THE LENDING PROGRAM

1. Historical Lending Trends 1981-91

{TRANSPARENCY 2: DISBURSEMENTS BY IBRD AND IDA, 1981-91}

- Aggregate disbursements of IBRD and IDA funds increased from US$7.6 billion in 1981 to US$18 billion in 1991.

- IDA lending increased from $2 billion in 1981 to $5 billion in 1991 while IBRD lending rose from $5.6 billion to $13 billion during the same period.

2. 1991 Regional Lending Profile

- The regional composition of the total $18 billion disbursed in 1991 was as follows:

Sub-Saharan Africa	16%
East Asia and Pacific	20%
Latin America and Caribbean	26%
North Africa and Middle East	7%
South Asia	20%
Europe and Miditerranean	9%
Unallocated	2%

- Of the $5 billion in total IDA disbursements, $2.1 billion, or 43%, went to Sub-Saharan Africa.

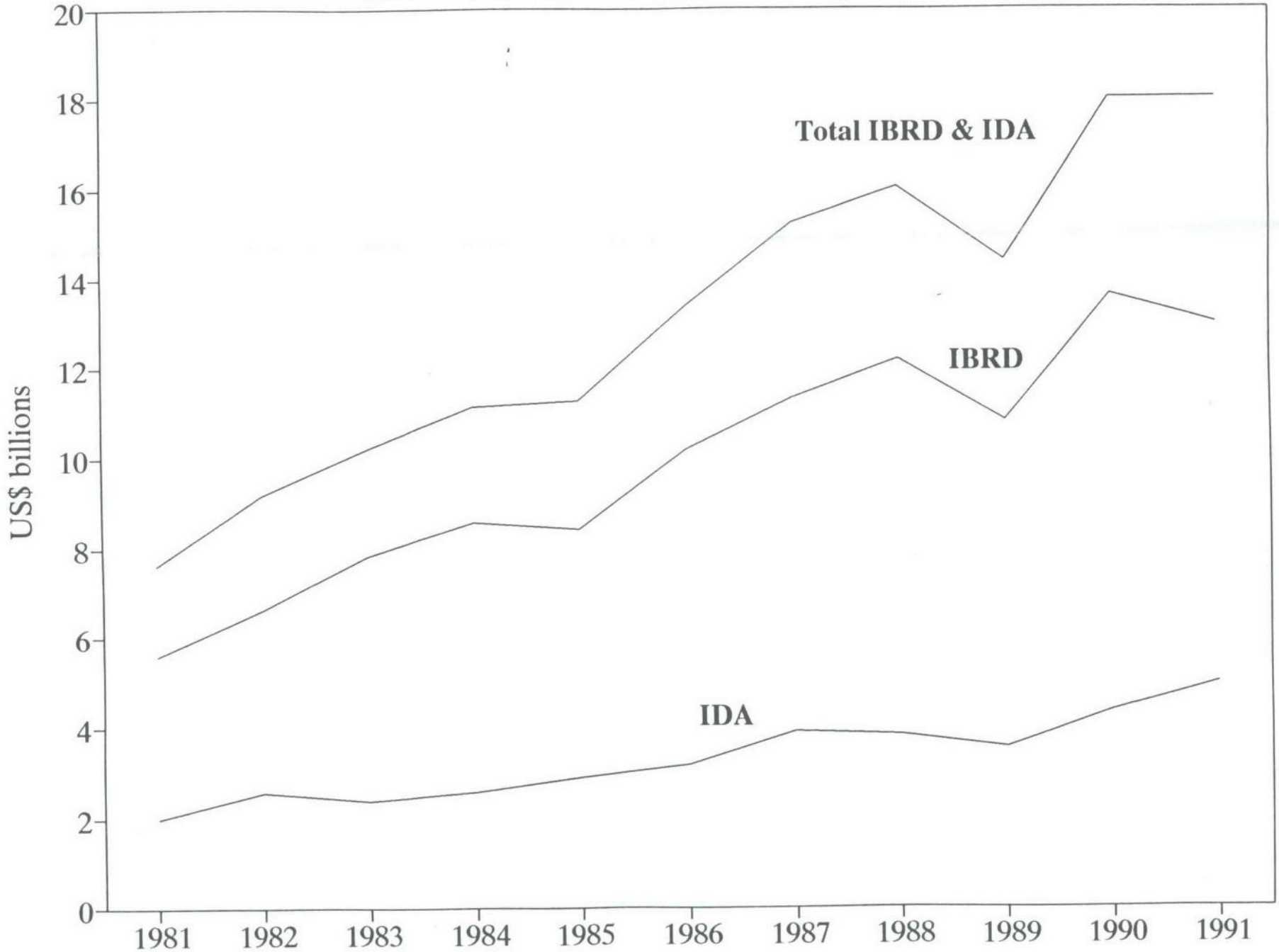
3. Highlights of 1990/91 Lending Policy

- There was an extension of concessional assistance to lower middle-income developing countries.

- There was a strengthening of support for member countries severely affected by the Gulf Crisis.

- There was a decision to provide emergency assistance to countries with notably adverse situations, i.e., the need to resettle displaced workers.

IBRD / IDA Disl rsements ; 1981-91



Source: World Bank Debtor Reporting System

I.B. HELPING MEMBER COUNTRIES MAINTAIN A SUSTAINABLE SYSTEM FOR THE COLLECTION, PROCESSING AND ANALYSIS OF EXTERNAL DEBT DATA

The Debtor Reporting System (DRS)

{TRANSPARENCY 3: THE DEBTOR REPORTING SYSTEM}

- **Objective** The requirement to provide the Bank with comprehensive external debt reports helps member countries focus on their debt problems and systematic analysis while it provides the Bank with information to assess creditworthiness for loans.

- **Country Reports** The Bank requires three reports from member countries under the DRS:

  Form 1: Description of individual loan commitments, including the loan amount,repayment terms, names of the borrower and lender, and details of the loan. This report is filed quarterly.

  Form 2: Annual report on the status of publicly-guaranteed debts, including figures on outstanding amounts, disbursements, debt service paid and any debt relief received. This report is filed quarterly.

  Form 4: Annual report on the status of private non-guaranteed debt. This is a summary report on the same indicators as Form 2. Data are not broken down by loan but aggregated by debtor.

- **Data Processing** The World Bank processes the data received in its computerized debt monitoring system known as RXD. Most countries submit the information on computer tapes or diskettes, in a format specified by the World Bank.

- **Global World Bank Reports** In addition to country analysis for its lending program, the World Bank uses information from the DRS in its global monitoring exercises and its annual statistical compendium, The World Debt Tables. The Bank's global publications on world debt provide member countries and the public with analysis and commentary on recent developments in international financial flows to developing countries and external debt.

I.C. PROVIDING TECHNICAL ASSISTANCE TO MEET SPECIFIC NEEDS IN DEBT MANAGEMENT

1. General Approach.

- Member countries often have difficulty in preparing DRS reports and even reports for their internal analysis. Therefore, the World Bank provides member countries with a variety of technical assistance programs to promote and develop efficient, comprehensive, debt-management procedures and to finance the computerization of information in government offices for debt collection and management.

2. Categories of Assistance

The World Bank provides technical assistance in three general categories:

- Advice on debt policy, such as how to avoid overborrowing.
- Assistance in debt monitoring, such as how to centralize available debt information.
- Guidance on computerization, such as helping a country choose data management techniques, financing the purchase and installation of equipment and software and training staff.

3. Channels of Assistance

The World Bank provides technical assistance through four different channels:

- **Loans and credits** to finance long-term advisory services, equipment and training.
- **Direct assistance** from specialists in the World Bank's Debt and International Finance Division through (a) field visits to individual countries on matters relating to DRS reporting and (b) seminars and courses for heads of national debt offices to discuss common problems of external debt management.
- **Financial technical assistance**, from the Treasurer's Office of the World Bank, to help countries minimize the risks of interest and exchange rate fluctuations through training in currency and interest swaps.
- **Special assistance programs** with funding from UNDP. An example of this assistance is the Joint UNCTAD/World Bank program for the development of a common computer system for use in both UNCTAD and the World Bank and technical assistance in improving the debt management capability of selected member countries.

II. ASSISTANCE TO SEVERELY-INDEBTED DEVELOPING COUNTRIES

PREFACE

{TRANSPARENCY 4: TOTAL DEBT OF DEVELOPING COUNTRIES IN THE DRS}

- The external debt of developing countries in the DRS amounted to US$1,280 billion in 1991.

- About half of all developing countries are severely indebted, defined as having three or four of the following indicators:

  (1) a ratio of debt-to-GNP greater than 50%
  (2) a debt-to-export ratio of 275%
  (3) a scheduled debt service-to-exports ratio over 35%
  (4) a scheduled interest payments-to-exports ratio over 20%.

- About 52% of all DRS countries are severely indebted, 30% are moderately indebted and 18% less indebted.

{TRANSPARENCY 5: SHARE OF IBRD AND IDA IN TOTAL DEBT STOCKS (LONG-TERM); 1981-91}

- The share of IBRD and IDA in total debt stocks increased from $40 billion (8%) in 1981 to $150 billion (14%) in 1991 for all DRS countries. For SILIC countries, the IBRD/IDA share in total debt increased from $5.6 billion (10%) in 1981 to $23 billion (16%).

TOTAL DEBT OF DEVELOPING COUNTRIES IN THE DEBT REPORTING SYSTEM */

$1,280 BILLION

STRUCTURE

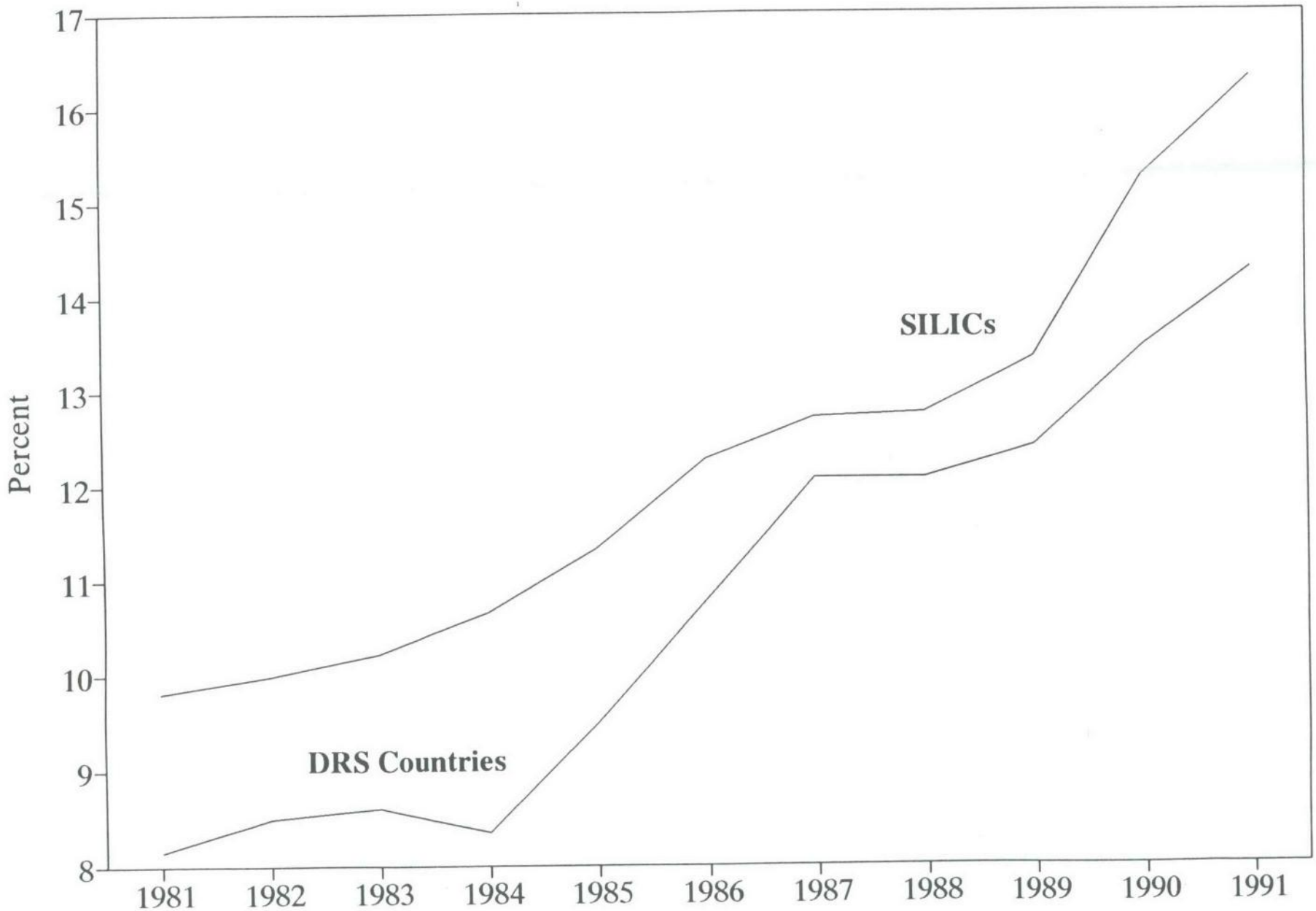
18%	Short-Term and IMF Credit $230 billion
40%	Private Long-Term Debt $516 billion
42%	Official Long-Term Debt $534 billion

DEGREE OF INDEBTEDNESS

Less Indebted 45 Countries	18.1%
Moderately Indebted 28 Countries	29.5%
Severely Indebted 41 Countries	52.4%

*/ 114 developing countries or 95% of all developing countries

Share of IBRD & IDA in Total Debt Stocks (Long-term) ; 1981-91



Source: World Bank Debtor Reporting System

II.A. SUPPORTING PROGRAMS FOR OFFICIAL DEBT RELIEF

1. Forgiveness Program for Official Development Assistance (ODA).

- Official bilateral creditors have established programs to forgive developing country debt to them. In recent years, ODA debt forgiveness has accelerated dramatically. For example, during 1989/90 alone, total debt forgiveness amounted to $7.4 billion compared to $11.6 billion for the entire period 1978-90. A summary of ODA debt forgiveness during 1978-90 is attached as Handout 1.

2. Paris Club Rescheduling of Developing Country Debt

- The Paris Club is a multilateral forum that helps developing countries restructure their debt to governments and officially guaranteed export credits. It began by helping indebted nations resolve temporary international liquidity problems through restructuring maturities falling due in one-to-three year consolidation periods.

- But over the past few years, creditor governments have realized that many developing countries, especially severely indebted, low-income nations, face intractable debt problems that demand a more flexible, long-term approach. Furthermore, reschedulings through the capitalization of interest have been a major cause of the increase in the stock of debt in some cases.

- As a result, the Paris Club has taken steps to broaden its approach and offer a greater variety of restructuring options. The recent innovations, in brief are the following:

  (a) the possibility of cancellation or restructuring of the entire stock of a country's debt.

  (b) interest rates on consolidated non-concessional debt substantially below market rates.

  (c) longer repayment periods for rescheduled non-concessional debt.

  (d) a menu approach for creditors so that each creditor's debt relief agreement would achieve an agreed net present value target.

  (e) a move toward equalizing the share of the burden among creditors so that each creditor's debt relief agreement would achieve an agreed net present value.

- The evolution of Paris Club terms is summarized in Handout 2.

II.B. SUPPORTING PROGRAMS FOR PRIVATE DEBT RELIEF

1. Background: Origins of Commercial Debt Rescheduling

- The pattern for commercial debt rescheduling originally came about with the 1970 Philippines agreement which created a steering committee to negotiate on behalf of all banks involved in the restructuring effort. The negotiation process usually involves:

  (a) agreement in principle with the Bank Advisory Committee (BAC) ratification of the agreement by all banks involved, and signature of the agreement, and

  (b) implementation of the agreement after certain preconditions are fulfilled such as a down payment, payment of interest arrears, etc.

2. Evolution of Commercial Debt Rescheduling, 1976-88

Between 1976 and 1988, the restructuring process evolved as follows:

- 1976-82 agreements. These involved the rescheduling of principal, conventional terms 7-yrs maturity 3-yrs grace, LIBOR + 1.5 to 2%.

- 1983/84 agreements. Major debtor countries were unable to pay interest, even after rescheduling. Thus the banks added concerted lending and maintenance of trade credit lines added, with the IMF playing a large role in coordination.

- 1984-86 Multiyear Rescheduling Agreements. These agreements provided longer maturities and lower spreads for countries with promising financial prospects. Banks made these agreements with Venezuela, Brazil, Mexico & others.

- 1985-87, The Baker Plan: Rescheduling agreements were to receive support from increased lending by international organizations and creditor banks. The problem was that while international organizations expanded credits and countries maintained adjustment programs, the banks, weakened by debt crisis, could not bring in new funds.

- The 1988 Brazil agreement. This agreement involved the introduction of a "menu approach" to debt relief including rescheduling, new money, exit vehicles, etc.

3. The Brady Plan for Debt Relief (1989)

- **The approach** To coordinate the actions of debtor countries, creditor commercial banks, international organizations and creditor country governments to help market-based work in debt and debt service reduction (DDSR). The relief is targeted at severely-indebted middle-income countries. The debtor country is to maintain a growth-oriented adjustmemt program and the creditor country is to agree to debt relief on official claims, maintain export credit insurance, and remove any legal impediments on DDSR.

- **Types of DDSR agreements**

  (1) **Buybacks** of debt at a discount, on terms negotiated between the debtor government and banks;

  (2) **Swaps of debt for bonds at a discount**, with the bonds often collateralized

  (3) **Swaps of debt for bonds at par**, but yielding below market interest, with interest, and sometimes bonds, collateralized.

  (4) **Extension of new money facilities**, normally accompanied by the right to convert existing debt into bonds in a fixed proportion to new money.

  (5) The quantitative impact of debt reduction agreements to date is difficult to estimate at this time because of the short period of time since their completion and inherent difficulties in isolating their impact from other factors. However, there is evidence that debt reduction operations in Chile, Mexico and Venezuela have contributed to perceived improvements in creditworthiness. Handout 3 outlines the impact of officially supported financing packages related to debt reduction in five countries: Costa Rica, Mexico, the Philippines, Uruguay and Venezuela.

- The IMF and the World Bank are to help finance DDSR along the following guidelines:

  (1) Make 25% of funds available, over a 3-year period, for policy-based lending which can be re-allocated for lending to finance buybacks and the purchase of collateral for principal on bonds.

  (2) Use additional special resources to finance collateral for interest payments on bonds issued in exchange for debt.

4. The IDA Debt Reduction Facility

- **Establishment** In 1989, the World Bank established a debt reduction facility for IDA-only countries, those World Bank member countries eligible for concessional lending.

- **Funding** The World Bank funded the Facility with a transfer of $100 million IBRD net income for grants of up to $10 million to individual member countries.

- **Eligibility Criteria** To be eligibile for support from the facility, countries have to provide (a) a medium-term adjustment program satisfactory to IDA, and (b) a debt management strategy acceptable to IDA that includes a program for resolving the commercial debt problem through funds provided by the facility, provides for substantial debt relief from official bilateral creditors (Paris Club) and enhances the country's prospects for growth. To date, one operation has been concluded for Niger and another was launched in October 1991 for Mozambique.

ODA Debt Forgiveness, 1978-90

(US$ millions)

Donor country	*1978*	*1979*	*1980*	*1981*	*1982*	*1983*	*1984*	*1985*	*1986*	*1987*	*1988*	*1989*	*1990*	*1978-90*	*1989-90*
Donor countries	725	1,936	122	89	92	68	143	196	303	258	236	1,569	5,857	11,597	7,426
Belgium	0	0	0	0	0	0	0	0	0	0	0	201	0	201	201
Canada	197	0	0	0	0	0	0	0	0	53	0	0	730	979	730
Denmark	0	87	8	0	0	0	0	17	139	80	8	51	15	406	66
Finland	37	0	0	0	33	0	0	0	0	0	0	0	0	70	0
France	0	18	0	0	0	0	0	0	0	0	0	0	3,408	3,526	3,408
Germany	49	1,695	0	30	14	6	91	91	0	3	62	1,250	730	4,021	1,980
Italy	67	0	0	0	0	1	3	4	4	0	0	0	0	79	0
Japan	0	0	28	17	13	29	25	31	42	58	92	7	0	341	7
Netherlands	98	4	6	0	2	5	1	19	9	17	26	24	114	325	138
Norway	0	0	0	0	0	0	0	0	4	4	4	0	0	11	0
Sweden	262	0	0	0	0	0	0	0	70	0	3	0	13	348	13
Switzerland	14	0	0	0	0	0	0	0	0	0	0	0	0	14	0
United Kingdom	3	32	80	43	29	28	24	34	36	44	42	36	43	473	79
United States	0	0	0	0	0	0	0	0	0	0	0	0	805	805	805

Source: World Debt Tables 1991/92.

EVOLUTION OF PARIS CLUB RESCHEDULING TERMS

A. Toronto terms (October 1988-June 1991)

Eligibility criteria

- countries designated as "IDA only borrowers"
- heavy debt service obligations
- low per capita income
- chronic balance of payments problems
- unable to service debts on conventional terms
- comprehensive adjustment programs in effect supported by IMF upper credit tranche, SAF or ESAF arrangements
- determination on a case-by-case basis

Repayment of ODA debt

- maturity: 25 years
- grace: 14 years
- interest: no higher than original rates

Repayment of non-ODA debt

*option a: (1) cancel one third of eligible maturities
(2) reschedule remaining debt with a 14-year maturity
(3) market-related moratorium on interest rates

*option b: same repayment period as for ODA debt but market-related moratorium interest rates

*option c: same repayment terms as option a but moratorium interest limited to 3.5 percentage points below market rates or 50 % of market whichever is smaller

EVOLUTION OF PARIS CLUB RESCHEDULING TERMS

B. New terms for lower middle-income countries: September 1990

Eligibility

- per capita income below $1195
- high proportion of debt to official creditors
- demonstration of heavy overall debt burden

Repayment of ODA debt

- maturity: 20 years
- grace: 10 years (maximum)
- interest: no higher than original rates

Repayment of non-ODA debt

- maturity: 15 years
- grace: 8 years maximum

Swap arrangements

- exchange of Paris Club eligible debt for local currency obligations such as debt-for-nature and debt-for-equity swaps.
- Participation on a voluntary basis
- no limits on ODA debt
- for ODA debt limited to 10 % of eligible maturities or $10 million, whichever is higher

EVOLUTION OF PARIS CLUB RESCHEDULING TERMS

C. New exceptional terms for low-income countries: December 1991

Eligibility

- same as Toronto terms

Coverage

- Agreements reschedule arrears and current maturities for 12 to 18-month periods with an understanding that the remaining stock of debt will be considered for debt relief after a three to four-year period.

Terms

- Graduated repayment schedule

ODA debt: to be rescheduled on a very long-term basis

Non-ODA debt: a menu of options

*option a:
(1) write off half of debt and reschedule remainder at market rates
(2) maturity of 23 years
(3) grace period of 6 years

*option b:
(1) consolidate at concessional rates to reduce the present value terms of payments due by 50%
(a) maturity of 23 years
(b) no grace period

(2) consolidate at market rates
(a) maturity of 25 years
(b) grace period of 14 years

The Impact of Officially Supported Financing Packages Involving Debt Reduction
(US$ billions)

	Total external debt outstanding at time of agreement (1)	Eligible debt (2)	PV debt reduction[a] (3)	Financing sources: From external sources[b] (4)	Financing sources: Net usage of reserves (5)	Financing uses: Buybacks (6)	Financing uses: Principal and interest support (7)	Commercial debt reduction including principal and interest support[a,c] (8 + 3+7)	Memo item: PV of new money[a] (9)
Mexico	100.4	48.1	12.70	5.76	1.24	-	7.00	19.70	1.02
Philippines	29.4	9.5	1.34	0.38	0.29	0.67	-	1.34	0.69
Costa Rica	4.8	1.6[d]	1.24[e]	0.19	0.04	0.19	0.04	1.28	-
Venezuela	34.8	19.5	4.31	1.98	0.40	0.64	1.74	6.05	1.12
Uruguay	3.6	1.6	0.74	0.22	0.24	0.36	0.10	0.84	0.09

Notes: Figures may not add up to totals due to rounding.

- Not applicable.

[a] PV = present value, taken at a discount rate of 10 percent. PV debt reduction takes into account the value of recapture clauses. PV of new money takes into account expected future disbursements. Principal and interest support is included in column 8 because these amounts can be considered as effective prepayments.

[b] All figures are on a commitment basis, except for Philippines. Includes official and private bridge loans and official grants.

[c] The total change in indebtedness, defined as the PV debt reduction minus the face value of official loans minus the PV of new money plus the principal and interest support equals US$17.4 billion for the five countries in aggregate.

[d] Including US$366 million of past due interest.

[e] Includes conversion of US$269 million of external debt to local currency.

Source: World Debt Tables 1991/92.