

NEW TRENDS OF LENDING AND FUNDING OPERATIONS AT DEVELOPMENT BANK OF JAPAN (DBJ)

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Thank you very much for your kind introduction Chairman. My name is Eishi Yasunaga, it is a great honor to be here and to make the presentation about the experience of the Development Bank of Japan in front of the distinguished participants. But, due to time constraint I will skip some of the slides, so please kindly understand it in advance.

This is the overview of the Development Bank of Japan (DBJ), originally DBJ was established in 1951 as a special public corporation, at that time the name of the bank was JDB (Japan Development Bank). In 1999 JDB merged with other development finance corporations in response to the requests from the Government to reform special finance corporations, since then the name of the bank has been changed from JDB to DBJ. DBJ is owned by the Central Government and supervised by the Ministry of Finance in Japan. The main mission of DBJ is to provide long-term loans for the private projects in Japan for the purpose of contributing to the Japanese economy, eligible projects including capital business investment and the research and development costs carried out by private companies.

This chart shows the Financial Institutions in Japan. Financial institutions in Japan are classified into three categories as you see: Central Banks and Private Banks and Policy-based Financial Institutions, so DBJ belongs to the Policy-based Financial Institutions.

Policy-based financial institutions in Japan consist of two Government Banks and six Finance Corporations. Two Government Banks: DBJ and JBIC (Japan Bank for International Cooperation), all of you know very well about the JBIC. DBJ is in charge of providing loans for the projects inside of Japan. On the other hand, JBIC is responsible for extending loans for overseas projects. Although, there are differences between the two banks we have a good relationship each other.

This chart shows the changes in major areas of DBJ loans, DBJ has been constantly changing its focus in the time or manner in response to needs of the society in Japan, as you can see in this slide. In 1950s and 1960s DBJ put priority on the ocean shipping, electric power projects and coal mining projects. However in 1970s and 1980s DBJ emphasized a regional development, abroad development as well as social infrastructural projects.

In 2004 DBJ lending activities focused on three priority areas. First, Revitalization of Local Economies, in particular DBJ is providing infrastructure-finance through the PFI (Private Finance Initiative), or PPP (Private Public Partnership). The second, Restructuring and Economic Revitalization, DBJ provides funds to create new industries built on technology in order to revitalize the Japanese economy. And the third one is Environmental Measures and Infrastructure, so DBJ contributes to achieving environmentally sustainable societies. I will introduce examples of the environmental measures later.

This is the general information about DBJ Loan Conditions. Concerning Loan Amount, DBJ can provide maximum 50% of the total amount of project costs, others should be covered by private banks or a set of capital of private companies. The Maturity is 5 to 25 years possible but this is determined based on the profitability or credibility of the projects. Interest Rate is fixed at the time of disbursement, the actual level of the interest rate depends on the consistency with the Government pursued objective as well as lending period and the credit risks. As at first credit risk is constant DBJ introduced internal credit rating system in 1999.

Now, I will attach upon the funding aspects of DBJ, the DBJ funds consist of three sources: Equity, Borrowings and the Bond Issuance. DBJ capital is now at 11 billion U. S. Dollars owned by the Government and the major source of DBJ fund is borrowing from the Government through a special program called the Fiscal Investment Loan Program (FILP).

This slide shows the flowchart of the Fiscal Investment and Loan Program, which is a valuable and unique special system in Japan. In Japan as you know there are a lot of public funds such as the Postal Savings deposited at post offices and the Pensions Funds collected by the Ministry of Welfare, so most of these public funds are going to a Fiscal Loan Fund Special Account and Government-Guaranteed Bonds through Financial Markets. The Policy-based Financial Institutions including DBJ and JBIC borrows the necessary funds from the Government. The maturity of borrowing is up to 15 years. This slide shows the ratings of DBJ bonds according to Moody's and Standard & Poor's, both DBJ Guaranteed Bonds and Non-Guaranteed Bonds at the same rating as the country of Japan, either foreign bonds or domestic bonds.

DBJ is making an effort to implement the Risk Management for Sound Operations, effective operations based on the principle of Ensuring Sound Finance.

This chart describes the summary of the Financial Condition of DBJ based on the corporate accounting standards. This is the total assets amount at US\$140 billion, and regarding liabilities the share borrowings is 70% and bond issuance is around the 10%. According to the balance sheets of the end of the fiscal 2003, so called BIS capital ratio is around 13% and the ratio to non-performing loans to total loans amounts around 3%.

This is the chart of the New Directions of DBJ in Financial Services, frankly speaking the DBJ has so far carried out to the traditional scope of finance which has been a large-scale projects and relatively lowest projects. However, in light of the reform of principle bases of financial institutions in Japan, DBJ must work towards new directions and that is the new function of investment funds or venture capital, especially DBJ is focusing much more on investment to funds for priority areas.

So, I would like to introduce the activities of Japan Carbon Finance focusing on the clean development mechanisms as good examples of environmental measures in which you are interested.

This is the state has called Japan's Greenhouse Gas (GHG) Emissions, in 2003 Japan produced 1.3 billion tons which is the 8% about the base year, since as you know the Kyoto Protocol said the target of 6% belongs to base year and Japan's Greenhouse Gas Emission figures amounts to 15% above the target.

In this chart the horizontal axis represents the Greenhouse Gas Emission reductions and the vertical axis shows the marginal costs for reducing Greenhouse Gases, actually Japan has experienced the energy crisis twice over, since then Japan has already put lot of investment into energy savings, so as you can see the marginal cost of reducing the Greenhouse Gas is quite high in comparison with other advanced countries, so in order to reduce the emissions of Greenhouse Gas it is very important for Japan to use a framework of Kyoto Mechanism.

This chart shows the framework called Clean Development Mechanism as you know, which is a part of the Kyoto Protocol, it is an effective way for Japan to keep the Greenhouse Gas Emissions down economically by reducing emissions in countries with low marginal costs. Greenhouse Gas reduction projects are carried out in developing countries with relatively low marginal costs, so these countries called Non-Annex Party and that is the Kyoto Protocol, examples such as projects including metals recovering from the landfill, power generation and the renewal energy such as wind power and the biomass. Annex Party countries provide the technology and investment to contribute to achieving sustainable development in developing countries on the condition that Annex I

countries receives the so called Certified Emission Reductions, the amount of reduction is allocated to advanced countries and added to the allowed emissions, in this way Japan can minimize the reduction costs on the whole.

With the purpose of reducing the Green House Gas Japan established the so called JGRF (Japan Greenhouse Gas Reduction Fund) by DBJ and JBIC as well as the Japanese private companies and the Japan Carbon Finance was created as implementing agency to purchase certified emissions reductions (CERs) generated from CDM (Clean Development Mechanism). The size of the fund is as you see US\$ 141.5 million on the committed amount basis, as I mentioned that both DBJ and JBIC have committed to contributing US\$10 million for a total of US\$20 million, both institutions have allocated employees to Japan Carbon Finance and principally responsible for its operation.

This chart shows the procedures needed for the issuance credits from CDM projects, from left to right the process start with design and continues until certify the emissions reductions issued, so due to time constraint I am not going to the details but there are two points: first called the PDD (Projects Design Documents) must be prepared, so that it is designated to operational entities, can determine whether projects meet the requirements of the Kyoto Protocol and the second the CDM projects must be approved by the Government of both investment country it means Japan and the host country.

I like to comment on some of the advantages for projects to use this fund. First is Additional Cash Flow can be fixed. The second is Development Function, Japan Carbon Finance provides assistance and orientation to develop CDM projects. The third, fund providers for JGRF main purchase, a part or all of the remaining emission reductions. The last is Collaboration with and Support from JBIC and DBJ will be expected, both banks will be important pieces to bridge the gap between the Government and the private companies.

This is the operational flowchart. Concerning this flowchart as well as CDM procedures, Mr. Kudo of JBIC will introduce with more details tomorrow. So, for more information please contact to Japan Carbon Finance (JCF), and the Development Bank of Japan (DBJ), as well as Japan Bank for International Cooperation (JBIC), JBIC has representative offices in South America. So thank you very much for your attention.