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A. CLASSIFICATION

- [x] Meeting Material
- [ ] Trips
- [ ] Speeches
- [ ] Annual Meetings
- [ ] Corporate Management
- [ ] Communications with Staff
- [ ] Phone Logs
- [ ] Calendar
- [ ] Press Clippings/Photos
- [ ] JDW Transcripts
- [ ] Social Events
- [ ] Other

B. SUBJECT: JAPAN - OECF - PART ONE
Venue: Sheraton - 3066
In Attendance: MR. NISHIGAKI, OECF (Mr. Nishihara, Japan-ED)
Assistant: ATSUKO

DATE: 10/11/95

C. VPU

Corporate

- [ ] CTR
- [ ] EXT
- [ ] LEG
- [ ] MPS
- [ ] OED
- [ ] SEC/Board
- [ ] TRE

Regional

- [ ] AFR
- [x] EAP
- [ ] ECA
- [ ] LAC
- [ ] MNA
- [ ] SAS

Central

- [ ] CFS
- [ ] DEC
- [ ] ESD
- [ ] FPD
- [ ] FPR
- [ ] HRO

Affilliates

- [ ] GEF
- [ ] ICSID
- [ ] IFC
- [ ] Inspection Panel
- [ ] Kennedy Center
- [ ] MIGA

D. EXTERNAL PARTNER

- [ ] IMF
- [ ] UN
- [ ] MDB/Other IO
- [ ] NGO
- [ ] Private Sector

- [x] Part I
- [ ] Part II
- [ ] Other

E. COMMENTS:

ANNUAL MEETINGS BRIEF

JAPAN

Meeting with **Akira Nishigaki**, President of Overseas Economic Cooperation Fund (OECF)

Objective:

Meet President Nishigaki and let him know of our desire to further strengthen collaboration with OECF, as per your recent discussions while in Tokyo (see attached Aide Memoire on September 13th meeting). The Bank would like to strengthen our program of cooperation in low-income countries. We are looking forward to our next Annual Cofinancing consultations, the 12th, scheduled for November 8-10, 1995.

Reminder: The Japanese Government has decided to merge JEXIM and OECF into one organization by 1999. This merger came as a result of a political compromise among the leading coalition parties on how to streamline the bureaucracy under the Japanese program of financial sector deregulation. OECF is a relatively efficient institution that has forged effective partnerships with the leading multilateral financial institutions.

You should raise:

- **Semi-Annual Consultation Meetings**. You may wish to inform Mr. Nishigaki that during your recent trip to Japan your proposed, and the Japanese authorities agreed to, a semi-annual meeting to review the strategic issues facing the Bank and Japan. These meetings will be coordinated through the Japanese Executive Director's office and the first one is tentatively scheduled to take place in Washington this December.

- **Lending to Low Income Countries**. You should brief him on the prospects of a reduced IDA replenishment and explain that the Bank will look to OECF, as one of its main cofinancing partners, to increase collaboration in lower income countries. OECF is one of the largest sources of development assistance and its objectives are consistent with those of the Bank/IDA. There is scope for a larger program of cooperation.

- **Support for IDA**. OECF has no direct role in deciding Japan's contribution to IDA11. However, you should seek Mr. Nishigaki's support for IDA in his discussions with Ministry of Finance (MOF) officials. Without adequate funding for IDA , IDA's capacity to coordinate aid, prepare economic/sector studies, and prepare projects will be reduced; thereby, limiting IDA's ability to provide assistance to and cooperate with OECF.

Biographical Note

AKIRA NISHIGAKI
President, Chairman of the Board
The Overseas Economic Cooperation Fund

Date of Birth:	October 30, 1929
Education:	University of Tokyo, Faculty of Law 1953
Professional Career:	
April 1953	Entered the Ministry of Finance (MOF) Overall Coordination Division, Minister's Secretariat
June 1971- July 1972	Executive Assistance to the Prime Minister
July 1972 - July 1974	Director of Allowance Control Division, Budget Bureau
July 1974 - July 1977	Budget Examiner (Construction, Public Works) Budget Bureau
June 1977 - July 1979	Director of the Secretariat Division Minister's Secretariat
July 1979 - June 1982	Deputy Director General of Budget Bureau
June 1982-June 1983	Deputy Vice Minister, Economic Planning Agency
June 1983 - June 1984	Director General, Financial Bureau, MOF
June 1984 - June 1986	Deputy Vice Minister, MOF
June 1986 - June 1988	Director General, Budget Bureau, MOF
June 1988 - June 1989	Vice Minister for Finance
June 1989	Senior Advisor to Institute of Fiscal and Monetary Policy
May 1990- Present	President, Chairman of the Board The Overseas Economic Cooperation Fund

They may raise:

- **Support for Infrastructure Development**. Mr. Nishigaki may ask about the Bank's future lending priorities and, in particular, the expected balance between support for economic infrastructure vs. social infrastructure. He is concerned that the Bank may reduce its support for infrastructure, which the Japanese see as a critical condition for development.

  You may reply that the Bank's support for different sectors will be decided on a country by country basis according to the needs of individual countries. You may also need to assure Mr. Nishigaki that while the Bank may step up its assistance for social sector investments, we do not foresee a major decline in the level of assistance for infrastructure development.

- **Support for Private Sector Development**. Mr. Nishigaki may inquire as to how the Bank is working to support greater participation of the private sector in infrastructure development -- as OECF is also exploring options in this regard.

  You may answer that the Bank, through its lending operations, is working to support the emergence of appropriate regulatory and investment climates in developing countries to attract private investors in infrastructure development. In addition, the Bank Group, through its affiliates, is streamlining its services to make available to private sector clients a comprehensive menu of services, including among others the guarantee, insurance, debt and equity financing programs.

- **Relations with NGOs**. Mr. Nishigaki may ask how the Bank is developing its dialogue and working relationships with NGOs

  You may wish to share with him that the objectives of your meetings with NGOs are to demonstrate **your strong personal commitment** to making the Bank a more effective instrument for poverty reduction and social justice, and to explore with the NGOs how the Bank can become more effective at achieving its goals **on the ground**, through partnership with NGOs and other civil society groups which work with the poorest of the poor.

- **Structural Adjustment Loan (SAL) Disbursement Documentation**. Because the Japanese Government has expressed concern to us about the Bank's plans to simplify disbursement procedures under SALs, there is a small possibility that Mr. Nishigaki may raise this issue with you. OECF officials are concerned about the impact of new procedures on future cofinancing of SALs with the Bank. OECF would not favor any plan by the Bank to eliminate the requirement for documentary evidence on specific importations - which has been required up until now but is considered by the Bank to be an ineffective means to ensure the sound use of SAL funds. Under Japanese law, OECF requires such documentary evidence.

  You may wish to inform Mr. Nishigaki that in view of the concerns raised at the Bank's Board by the Japanese and American Executive Directors, the Bank is re-examining the proposed new policyand we hope we can find a policy which is mutually agreeable.

OECF's Operations

- OECF provides untied funds on IDA-like credit terms to the less developed countries. Its loans are denominated in yen and carry an average interest rate of 2.6% per annum with a maturity of 25-30 years including 7-10 year grace period. In addition to ODA loans (direct loans to Governments), OECF has limited operations related to private sector finance and equity investment (about 2% of total loans). Key data are shown below

  Loan and equity commitments: $9.0 billion in the year ending March 31, 1995.

  Outstanding loans and equity participation: $83.4 billion as of March 31, 1995. ODA loans to foreign governments accounted for the largest share (98%) of the portfolio and the remainder were loans and investments for the private sector. About 80% of the loans to governments were in support of projects and programs in Asia, mainly for infrastructure development. The Middle East accounts for about 9% of OECF's portfolio, followed by Africa with 7%.

  Staffing: OECF has 300 employees, including both professional and support staff. OECF is also an efficient institution which employs a hard working and competent staff. Like JEXIM, OECF has established a close working relationship with the multilateral financial institutions and utilizes cofinancing to lever its scale of operations.

  OECF Staff Secondments to the Bank: Periodically, OECF has seconded staff to work in the Bank; currently there is one in EAP and one in CFS.

Issues

- **Accelerated Cofinancing Facility (ACF) with OECF:** To facilitate and expedite the processing of smaller cofinancing operations (cofinancing amounts below $50 million), the Bank and JEXIM agreed in 1994 on a set of streamlined procedures. While the agreement with JEXIM is now fully operational – a pipeline of Bank projects with cofinancing possibilities already exists – we would like to establish a similar agreement with OECF. Implementation of an ACF with OECF, leading to greater Bank cofinancing with concessional funds, would be particularly beneficial for IDA recipient countries.

- One issue that may be raised in one of the meetings is **Arun III Hydropower Project**. OECF has expressed its concern about the lack of advanced consultation with the Japanese officials on the cancellation of this project. Just as a background, it was at the suggestion of the Bank that OECF be involved actively in the cofinancing of the project. Despite opposition from NGO groups in Japan, OECF stood behind this Bank project and agreed to cofinanced it ($142 million). Because of this show of support, OECF officials were disappointed for not being consulted prior to the announcement. Despite their concern, they would want to have closer consultation with the Bank for alternative projects for meeting electric power needs in Nepal.

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Eriko Ishikawa, External Affairs, 10-6-95

ADDITIONAL INFORMATION

Overseas Economic Cooperation Fund (OECF)

Background

- OECF was established in 1961 and began extending its Official Development Assistance Loans in 1966. Unlike JEXIM which is responsible to MOF only, OECF's operations are supervised by four Ministries; Economic Planning Agency, Ministry of Finance, Ministry of Foreign Affairs and Ministry of International Trade and Industry. There has been a long standing rivalry among these institutions, particularly between MOFA and MOF in regard to foreign aid matters. As the agency responsible for foreign relations, MOFA would like to have greater control over foreign aid including OECF and JEXIM untied loans to developing countries as well as in regard to relations with the multi-lateral lending institutions which now are within MOF's jurisdiction. During the past year, there has been some debate in Japan within the political parties and key Ministries concerning a proposal by the Liberal Democratic Party to reduce the power of the bureaucracy in general and the power of MOF in particular. This debate continues and is reflected in the ongoing discussions about the merger of OECF and JEXIM to be completed in 1999.

- OECF's main function is to provide project financial assistance for the industrial development and economic stability of developing countries, particularly to those countries which may be ineligible to receive funds from JEXIM and private financial institutions. OECF provides concessional loans to foreign governments, makes equity investments and loans to corporations engaged in operations in developing countries, and funds studies related to development projects.

- OECF's sources of funds consist of paid in capital from the Japanese government ($ 39.3 billion), borrowings from the Japanese Government ($ 45.4 billion), and internal resources ($289 million) as of March 31, 1995.

- OECF receives an annual subsidy from the Japanese Government. The amount provided is equivalent to the total deficit incurred by OECF in each fiscal year. The amount of grant funds and new equity received by OECF from the government during the past four fiscal years (ending March 31), was (FY95; grant- $471 million, equity -$3.5 billion), (FY94; grant - $348 million, equity - $2.9 billion), (FY93; grant - $242 million, equity - $2.3 billion), (FY92; grant - $364 million, equity -$2.4 billion).

- OECF is the **largest bilateral cofinancing partner of the Bank.** Over the last ten fiscal years it has cofinanced 115 Bank supported projects providing $8.8 billion in untied, concessional, long term financing. OECF cofinancing has enabled the Bank to cover a broader spectrum of activities than would have been otherwise possible.

JDW Meeting Aide Memoire

When: 14:50-15:20, Wednesday, 13 September 1995

Where: OECF Headquarters, Tokyo

With: **Mr. Akira Nishigaki, President, Overseas Economic Cooperation Fund (OECF)**
Mr. Koji Fujimoto, Special Advisor to the President
Mr. Motomichi Ikawa, Managing Director, Coordination Dept.
Mr. Koki Hirota, Advisor, Secretariat Office

Bank staff: A. Nishihara (EDS02), S. Miyamura (TOK), M. Iritani (TOK-IFC), M. Malloch-Brown (EXT), A. Horiguchi (EXC)

Main points raised:

Mr. Nishigaki

- Have enjoyed personal relationship with every Bank President, including Lew Preston. Since 1973, the OECF has been cofinancing with the Bank for 22 years. Annual consultations are improving both in quality and quantity.

- Japan's postwar development was an accelerated achievement, thanks to Bank assistance. Japan's own ODA has since gradually increased, reaching 81 countries and JPY 8 trillion in outstanding loans, which is equivalent to about half of the Bank's outstanding loans. At the peak, 1/4 of all OECF loans were cofinanced with the Bank. Now, the proportion is 10-15 percent. Structural adjustment loans account for an important portion of OECF's activities.

- The Bank and Japan need to be in agreement about strategic priorities, and OECF attaches importance to knowledge sharing with the Bank. On both strategy and knowledge, there is a need for common agreement and coordination between the Bank and OECF on countries that require our assistance.

- Grateful for JDW's personal, frank explanation about Arun (see "JDW" below); assumed that it was the case (that JDW was not aware of the history with Japan's involvement), but would not have brought it up unless JDW did.

- Need to take advantage of existing channels (of consultations) including annual consultations, ED's office and Washington headquarters. Welcome new initiatives; would like to establish relationship where "we can speak freely." Would like to "pick up the phone and call, to share 'worries' freely."

JDW

- o Hope to use the annual consultations as a forum to deepen understanding; relationship with OECF is one JDW would like to be "deeply involved in." The "Arun mistake" – JDW had no knowledge of the nine-year history with Japan – has made JDW more committed to the need for closer consultation.

- o Extremely happy to work with Mr. Nishigaki and OECF. Need a mechanism to have regular interchange of views. Beyond structural adjustment, have particular concern in certain countries vis-à-vis role of NGOs, civil society and private sector. Would like to have common understanding, policy and agenda to increase our effectiveness; could meet with you to review specific issues.

- o Not intent on displacing or replacing existing lines of communications, but as new CEO, need to understand directly, to build basis for close relationship [with Mr. Nishigaki] and would like to be able to "pick up the phone and call you." Look forward to more extensive discussions in Washington or in Tokyo, perhaps at a private dinner.

Follow-up:

- o Forward this aide memoire on 9/28/95 to Messrs./Mmes. Frank, Kaji, Sandström, Lomax, Bassinette (EXC); Fukui (CFS); Malloch-Brown (EXT); Abe (LAC).

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9/28/95

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