

# JBIC TODAY

A newsletter linking JBIC with people worldwide



Hue's Thien Mu Pagoda (Vietnam)  
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# The Vietnam Initiative—Aiming for a Truly Cooperative Relationship

## An Interview with Dr. Duong Duc Ung, General Director of the Department of Foreign Economic Relations, Ministry of Planning and Investment, Vietnam

To more efficiently utilize ODA funds from a variety of donors, the Partnership Approach has been promoted in Vietnam. It began as a forum for information sharing among donors, nongovernmental organizations (NGOs), and parties from the private sector. Through working group discussions, the Partnership Approach has made positive achievements; notably, the formulation of common aid policies. In the Partnership Approach, the donors share information with NGOs and private-sector groups in order to devise the most effective and efficient development plan. Implementation of individual programs by the donors respects this grand plan. We talked to Dr. Ung, whose position provides an excellent overview of how the development support program as a whole in Vietnam is progressing. The interview covers a wide range of subjects: how the Partnership Approach evolved; what Vietnam's stance is towards its implementation; and what the role of donors such as Japan Bank for International Cooperation (JBIC) should be.

### Could you tell us how the Partnership Approach in Vietnam began?

**Ung:** As you know, in Vietnam we have been promoting a package of market-opening reforms known as the *Doi Moi* since 1986. In particular, since 1993, ODA funds from multi-lateral and bilateral donors have contributed greatly to the development of the Vietnamese economy and society. However, there are still a number of outstanding problems and matters that need to be addressed. In order to fully address these problems by using ODA assistance more effectively, partnership among us on the Vietnamese side and donors, NGOs, and the private sector is essential. At this stage, you could say that the partnership is one of the best ways of dealing with outstanding development matters.

### What has changed since the introduction of the Partnership Approach?

**Ung:** I think that the relationship between the Vietnamese side and the donors has improved—specifically, we have established four important principles. First, the viewpoint of the aid recipient should be respected. Second, the importance of a comprehensive approach—each donor tries to make a contribution in their area of expertise and in accordance with the development plans of Vietnam. Third, the people of Vietnam, who after all are the ultimate recipients of the aid, must participate in donor programs. The fourth point is closely related to the third—transparency, to be attained through a positive approach to disclosure, is vital. In other words, at every stage of a development project, the state of progress must be reported to every partner in the project team. In this respect, I think that the JBIC newsletter *JBIC Today* plays a very meaningful role in providing the people of the world with news of the state of ODA directed to Vietnam.



Dr. Duong Duc Ung, General Director of the Department of Foreign Economic Relations

### **What have the parties involved found difficult in the pursuit of the Partnership Approach?**

**Ung:** The most difficult matters were to improve the relationships between the Government of Vietnam and donors and to promote cooperation between the donors themselves. The Vietnamese side has put forward a couple of proposals to improve these relationships. The first is that the first of the four principles I mentioned earlier should be observed. Second is that there ought to be a proper exchange of opinions based on the requirements of each party involved. It is no good for Vietnam just to say to the donors, “Please contribute to our development”—we have to have constructive development plans of our own. We take a leading part in the development process, based on a positive attitude to preparatory work and in accordance with plans for individual sectors and regions. For instance, in the transport sector we have been able to formulate a plan—with the cooperation of JBIC and Japan International Cooperation Agency (JICA)—for the construction and maintenance of transport infrastructure. This plan reflects a lot of practical issues and is based on strong Vietnamese initiative.

### **How would you assess the economic assistance that Japan has offered to Vietnam?**

**Ung:** Up to now, Vietnam has received a total of US\$15.1 billion in ODA funds, out of which more than 40% was given by Japan, exceeding \$60 billion. Japan has been the largest donor by a large margin. Most of these funds have been usefully allocated in five extremely important areas for Vietnam: (1) human resource development toward a market economy; (2) transport and electricity; (3) agricultural development and construction work that serves to maintain and develop the infrastructure of rural areas; (4) education and medicine; and (5) environmental preservation. To give some concrete examples, Japanese assistance has led to the construction of several hundred schools in villages and mountainous areas and of power stations in the north and south of the country, as well as the construction of new highways and port facilities and the improvement of existing ones. Every year, more than 250 Vietnamese visit Japan for technical training and, conversely, there is a great deal of technology transfer from skilled Japanese experts who visit Vietnam. Japanese funds of capital, knowledge, and technology have been of use in the development of our economy and society in ways almost too numerous and varied to count.

### **What do you personally think about the Portfolio Review—the review of the system of development project management and operations—in which you have been deeply involved?**

**Ung:** Both the donors and the Vietnamese side shared the common view that there is a need for ODA funds to be used

more efficiently. We received a proposal from JBIC suggesting that both sides might benefit from creating a forum for exchanging opinions on the state of ongoing projects. Out of this proposal came the Portfolio Review Working Group, and I began to participate in it. The Group doesn't merely consider Japan–Vietnam bilateral projects but also benefits from the attendance of representatives of the World Bank and the Asian Development Bank (ADB), who join in the discussions. In April 2000, we held a very important meeting on the implementation of ODA projects and discussed the ways to achieve more effective use of ODA funds directed to Vietnam. As a result, the Vietnamese government and aid donors are currently making progress in creating an action plan to improve operations.

### **How does the Vietnamese side see the role of major donors?**

**Ung:** Aid from JBIC, the World Bank, and ADB comprises three-quarters of the aid that Vietnam receives. All of the aid is used on such important, large-scale projects as water supply facilities, electricity provision, and rural development. All the major donors share the awareness that they need to raise the efficiency of the support they provide for Vietnam but, especially, I would have to say that JBIC is really taking the initiative and making some very positive proposals. Looking at the situation as a whole, we are definitely building good relations with all our donor partners, giving out and receiving information and establishing close and hopefully lasting links with them.

### **Is the old way of doing things changing because of the Partnership Approach?**

**Ung:** That is correct. In fact, you could say that was one of the objectives we had in mind when we introduced the Partnership Approach. In the new framework of the Partnership Approach, for the first time Vietnam itself can really take the initiative. I think it has been the same for JBIC but the Japanese JBIC staff have been working hard to adjust their practices to the new way of doing things.

### **There will be further Portfolio Reviews in the future.**

#### **What does Vietnam expect from JBIC?**

**Ung:** JBIC is the biggest donor to Vietnam, and I hope that in the future it will play a very significant role as a partner in the development of our country. I also hope that it will continue to engage in discussions with the Vietnamese government and with the other donors and that it will greatly contribute to the Partnership Approach as one of its most important members.



# The Partnership Approach in Vietnam and Support from JBIC

**The Partnership Approach is rapidly becoming the standard approach in the development assistance arena. Vietnam is one of the pilot countries for the Comprehensive Development Framework (CDF) advocated by the World Bank. In particular, working group meetings are organized among the Vietnamese government, the donors, NGOs, and the private sector participants. JBIC has been the largest donor to Vietnam since 1997, and Japan has been playing a crucial role in assisting Vietnam's economic development. JBIC is an enthusiastic participant in the Partnership Approach and contributes to its development.**

## ◆ The Global Trend to Partnership and Vietnam's

### Direction

In June 1998, the World Bank advocated "Partnerships for Development." This approach was introduced to establish firm relations between ODA loan recipient countries and the donors, where all the involved parties share the same goal of achieving sustainable development through better coordination and a more efficient and effective cooperative framework. In this new approach, it is crucial that development strategies are made by the recipient countries. An important role for the donors is to assist the ownership of the recipient countries and raise the effectiveness of development assistance. In 1999, the World Bank further developed this vision into what is now known as the Comprehensive Development Framework (CDF). This trend to Partnership is attracting a lot of attention worldwide as it is likely to have a substantial impact on subsequent ODA programs.

Vietnam has enthusiastically embraced this Partnership Approach, and both the Vietnamese side and the donors are actively working together to share information and adjust their aid programs to reflect this new methodology. Guided by the belief that a partnership should lay due emphasis on the autonomy and independence of the country that receives the aid, the Vietnamese government, the donors, NGOs, and all those involved in development assistance to Vietnam hold working group meetings. There, they exchange opinions on all issues relevant to aid programs and adjust the programs as necessary to take account of others' views. (See concept diagram on p. 5.)

The Partnership Approach in Vietnam was originally intended to eliminate the undesirable consequences of donors implementing separate and uncoordinated development programs, which may result in undesirable project duplications. The initial exchange of information has begun to develop into a further challenge of making a common assistance policy, and this has brought about the desirable outcome that each donor is now able to contribute to Vietnam in an effective manner by concentrating their activities in their area of expertise.

## ◆ Support from JBIC for Vietnam

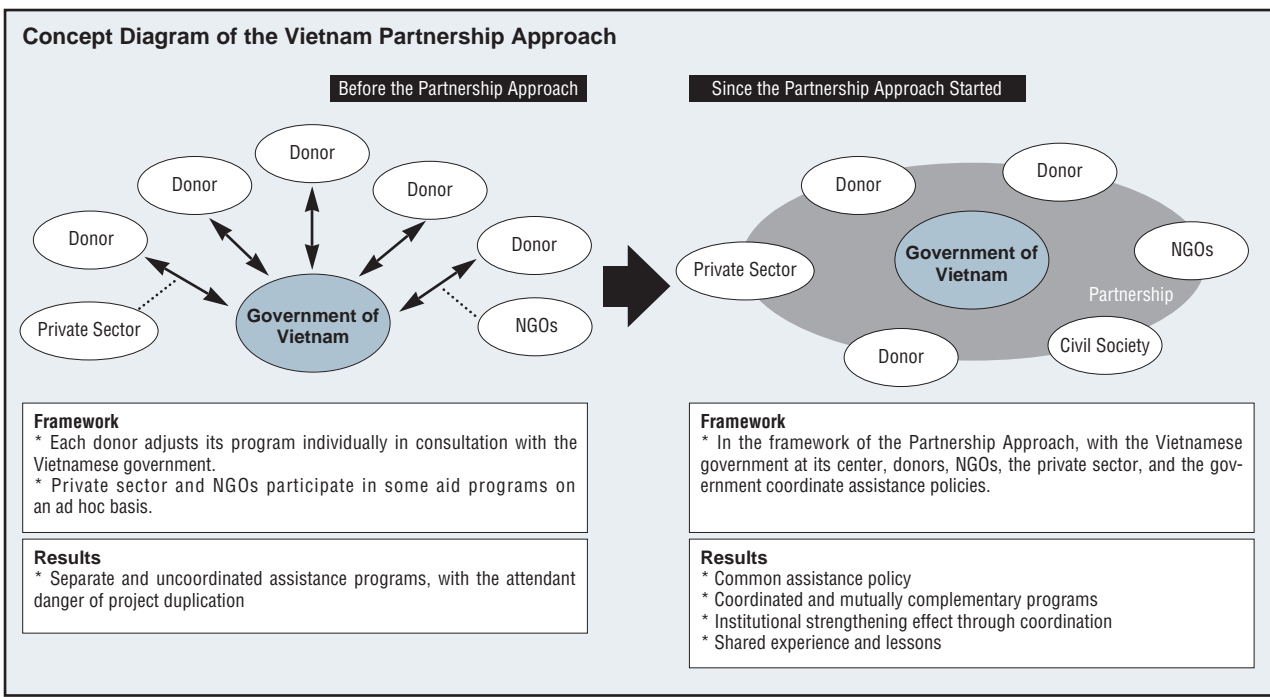
Japan is the largest aid donor to Vietnam, providing more than 40% of the total ODA that Vietnam receives, and is making every effort to contribute to forming a coherent assistance policy through Partnership. Since the Consultative Group meeting in December 1999, Japan has been participating even more actively in Partnership-related tasks by taking initiatives in working groups for transportation, small-scale enterprises, and the Ho Chi Minh City development policy coordination. Such partnership with the Vietnamese government and other donors has been producing some tangible results.

With the initiative of the Hanoi Representative Office, JBIC has been particularly actively participating in working groups for forestry, transportation, Ho Chi Minh City development policy coordination, and ODA project implementation improvement (a portfolio review of all existing projects). JBIC is playing a particularly vital role in the last two working groups.

There are several points to consider in order for JBIC to maintain its contribution in working groups. Firstly, given the limited number of staff at its disposal it is important to note that JBIC set a priority among the working groups as to need, degree of effectiveness, the involvement of the Vietnamese side, and importance to JBIC's country assistance policy and Japanese ODA loan schemes. Secondly, JBIC needs to improve its ability to give the timely and useful advice of Japanese researchers. Besides the promotion of Partnership in Vietnam, JBIC needs to broaden its networks with Japanese information resources.

It is anticipated that the importance of Partnership will continue to increase, and JBIC is going to investigate how to make its contributions in an effective and efficient way.

1. As of May 2000, there were 12 countries around the world that had been designated CDF pilot countries, a total that includes Vietnam.



# Partnership in Vietnam

## Massive Changes Ahead in the Way Aid Is Delivered to Developing Countries?

In my position as the Chief Representative at the JBIC Hanoi Representative Office and from my experiences to date in the Partnership Approach, which has been applied to aid in Vietnam, I think that it is quite possible that the Partnership Approach will induce major changes in the way that development assistance is delivered.

**Koki Hirota,**  
 Chief Representative,  
 JBIC Hanoi Representative Office



### ◆ Partnership in Vietnam—Where We Are and How We Got Here

In the Partnership Approach, the principle forums for discussions are an annual Consultative Group (CG) meeting of the donor countries and a follow-up interim CG meeting half a year later. However, what perform best in supporting the Partnership in Vietnam are the 21 working groups. Involved in every working group are the Vietnamese government, donors, NGOs, and private-sector groups, e.g. the Chamber of Commerce. The meetings are organized according to the needs, and the main activities are the exchange of information and implementation of joint surveys.

Partnership in Vietnam is something that is born spontaneously in the working group meetings—a case in point is the way that Sweden and the World Bank have taken the lead in the Health and Hygiene Working Group. In the traditional approach, by contrast, there were sometimes undesirable consequences arising from the failure to coordinate ODA

### Working Groups

- |                                       |                                    |
|---------------------------------------|------------------------------------|
| • Transport                           | • Administrative Structural Reform |
| • Small- and Medium-sized Enterprises | • Forestry                         |
| • Ho Chi Minh City Urban Development  | • Civil Society Support            |
| • Private-Sector Development          | • Fishery                          |
| • Primary Education                   | • Food Policy                      |
| • Portfolio Review                    | • Flood Prevention                 |
| • Health and Hygiene                  | • Banking Section Reform           |
| • Poverty                             | • Trade                            |
| • The 1,715 Poor Communes Program     | • State Enterprise Reform          |
| • Environment                         | • Justice System Reform            |
| • Gender                              |                                    |
- (A Total of 21 as of May 2000)

tasks properly. For example, different donors introduced mutually incompatible Geographical Information Systems (GISs) in making Ho Chi Minh City development programs. Work has begun on evolving a shared strategy for support of the implementation of Vietnam's next five-year plan, due to commence in 2001, and all participating members have set up shared goals.

In the Partnership Approach, the Vietnamese government dispatches representatives from the relevant ministry or bureau to the working group, demonstrating its positive approach as an owner of the development plan. On the other hand, the donors are cooperating with others and attempt to contribute more effectively to the particular fields in which they have expertise and experience.

#### ◆ JBIC Hanoi Representative Office—Activities

Currently, Japan's ODA loans to Vietnam amount to more than 40% of the total ODA that Vietnam receives, and JBIC is the largest single donor. However, as I described earlier, human and knowledge contributions proportionate to the size of the financial assistance are called for. The Hanoi Representative Office, where I work, is an active participant in the Partnership Approach, together with the Embassy of Japan and the Japan International Cooperation Agency (JICA). Specifically, as of May 2000 we have participated in 12 working groups and engaged in a variety of activities, such as information exchanges, capital assistance, office management, and even conducting surveys with the use of experts through our financing.

One of the issues to which the Representative Office is paying most attention is a portfolio review of all the ongoing projects in which JBIC, the World Bank, or the ADB are involved. This is especially important because the total amount of assistance by these three donors reaches approximately three-quarters of all ODA assistance to Vietnam. The three donors involved are aiming to take their cooperative relationship to new heights and promote more effective and efficient development assistance. We are trying to make the procedures for obtaining official authorization and land appropriation in Vietnam simpler, to make uniform the documentation and procedures employed by the donors, and to enhance the institutional development of the project implementation agencies. On the Vietnamese side, the Ministry of Planning and Investment is in charge of this working group and takes the initiative from as early as making the action plan and contents preparation stages. In the December 1999 CG meeting, we had a session to make an interim report on these activities and what sort of success they have had.

In the transport sector, which has traditionally been one of Japan's strongest areas, JICA has formulated a master plan with the Vietnamese Ministry of Transport. JBIC is trying to make the necessary coordination with other donors in order

to reflect the result of the master plan in the Vietnamese government's five-year plan.

Aside from these activities, the Representative Office is playing a central role in several working groups—of particular note are the Forestry, Small and Medium-sized Enterprises, and Ho Chi Minh City Urban Development Working Groups. Sometimes, there are three meetings that I personally have to attend in one day, and, as there are only three people attached to the Representative Office, I have my hands quite full.

#### ◆ Development Assistance and Partnership in the Future

I am often asked how the Partnership Approach is different from the former approach of Donor Cooperation. I think that the biggest difference lies in the fact that all parties are united in the awareness that everything should be done in partnership, whereas before only some of them were conscious of this. Therefore, there was a tremendous change in how the donors should start their activities. There has to be consultation with all partners from the very inception of a project, even at the survey and development assistance strategy planning stages. It is extremely difficult to fix one's development assistance policy on one's own, not to mention the budget required. It is vital to reveal to all interested partners the contents of a project plan from the moment it is selected.

There will be more debate in the future on the sectors in which Japan should concentrate its efforts. It has become increasingly apparent that donors need to make sure that their organizations in the field are powerful enough. This is something that the World Bank in Hanoi also realizes, and the ADB support staff are also visiting from Manila with increasing frequency. To summarize, through Partnership it is likely that the way that development assistance programs are implemented will change, and I think this is very good news indeed.

Whether or not Japan is actively participating in working groups, they will go on. However, if Japan was to not participate in them, then there would be the danger that it would be considered internationally as a country that simply provides cash. I do not think that there is any contradiction between the "assistance with a human face" position that Japan advocates and the trend toward Partnership, which from time to time is regrettably interpreted as a surrendering of nationality. We need to move beyond the interests of donors and countries and aim at bringing benefits to people in the recipient countries. More and continuing effort will be required if, through Partnership, we are to be able to deliver "assistance with a human face".

I would be delighted if the experiences we have had in Vietnam could be of use to establish Partnership in other countries and regions.



## The UNDP View on Partnership

### A Conversation with the United Nations Development Programme (UNDP) Deputy Resident Representative in Hanoi, Nicholas Rosellini

#### ◆ Principles and Framework of Partnership

Nicholas Rosellini, Deputy Resident Representative of the UNDP Hanoi office, believes that it was the sudden increase in aid to Vietnam in the mid-1990s that made it evident to both the Vietnamese government and donors that donor coordination is essential for implementing effective and efficient assistance. This was how the Partnership Approach began in Vietnam. There are three principles behind this approach: 1) the Vietnamese government takes the initiative; 2) the members should actively contribute to the discussion; and 3) the discussion needs to focus on explicit goals concerning policy and assistance programs. At the outset, the main objective among donors was to facilitate information-sharing to prevent overlapping programs, but the focus has gradually shifted towards making policies based on experience and lessons gained from the past performance.

The Partnership framework is based on the Consultative Group (CG) meeting in December, the mid-term CG meeting in June, and also the working groups for special issues, sectors, and regions. Working groups for special issues discuss such topics as poverty, gender, etc.; the working group focuses on some development areas such as transportation and electricity; and regional working groups are concerned with the development of Ho Chi Minh City, for example. The working groups are voluntarily organized among the Vietnamese government and the donors interested in some particular problems or issues. Mr. Rosellini exemplifies some UNDP involvement. For example, in the Ho Chi Minh City Urban Development working group, the Vietnamese government and the UNDP take the initiative of monitoring the state of the projects, which is reported in a newsletter and distributed among the relevant agencies. Moreover, the UNDP often joins the appraisal works of the donors and tries to accumulate information on the donors' assistance policies and the contents of discussions in appraisal works, hence facilitating information-sharing.

#### ◆ Effects and Results

The Partnership Approach clearly defines the plans and strategies for development and gives the donors an idea of their role in the context of the other programs, allowing them to recognize the priorities of their activities. The UNDP concerns itself primarily with governance, poverty alleviation, and the environment. One of the achievements through the partnership is the publication of *Attacking Poverty*, a report presented to address poverty alleviation in the CG meeting last December. In this

report, the Vietnamese government and the donors evaluated the poverty problems together and set down some assistance possibilities.

Again, another contribution of the Partnership Approach is information-sharing among the donors. In the Ho Chi Minh City Urban Development working group, the Vietnamese government and the UNDP have compiled a list of surveys for city development. This information is shared among the potential donors. It is also worth noting that through the workshops, some common donor problems are addressed. For example, the donors were able to learn from other donors' experience in resettlement in the resettlement workshop.

#### ◆ Hopes for a New Structure

"To be honest, since the start of the Partnership program the workload for the UNDP has increased, making it necessary to reconsider the organization of the office. However, if we are to have thorough discussions before the start of projects and make proper adjustments, the number of potential problems that might occur with implementation will be reduced and our total workload may not be more than it otherwise might have been." Rosellini says. Although longer discussion for planning is time consuming, the UNDP is well aware of its benefit.

Furthermore, "the partnership is not limited to benefiting the Vietnamese government—it is also a good chance for donors to measure their own abilities to make policy recommendations and to implement the projects. This means that donors must be actively involved. In order to reflect their opinions, they have to look at the debate surrounding the issues of development and make timely proposals that include concrete solutions." This leads to a change in the business structure of donors as well. Rosellini evaluates the Japan Bank for International Cooperation as the influential donor for Vietnam and says that it has made a meaningful contribution to discussions through its policy recommendations. However, Rosellini stresses the importance of carrying out the decision-making process in Vietnam: "In terms of efficiency, it seems that JBIC would benefit from transferring more authority to the Vietnam office, rather than always involving Tokyo in its decision making. One disadvantage of this is that it increases the amount of work that has to be done, so that it will be even harder to respond when discussions advance quickly. In the UNDP, the Vietnam representatives in Hanoi, are the only people responsible for the tasks in Vietnam—there's no one in New York to do it for us."

An Expert's View

## My Hopes for JBIC

**Professor Atsushi Kusano,**

Faculty of Policy Management, Keio University

It has been almost a year since JBIC was established, and its performance is something with which I am personally deeply concerned. When the cabinet of Prime Minister Tomiichi Murayama made the decision to merge the Export-Import Bank of Japan (JEXIM) and the Overseas Economic Cooperation Fund, Japan (OECF), there were concerns raised that the merger would not proceed smoothly because of the different characters of the two institutions.



However, since the merger JBIC has tried hard to overcome various problems and make the merger pay off. I personally value this effort and hope that it will continue.

In what follows, I would like to express my personal opinions about the changes in Japan's ODA assistance as exemplified by the establishment of JBIC from the standpoint of an ordinary, concerned citizen.

### ◆ Problems Confronting Japan in ODA

The problems Japan currently confronts in the field of ODA assistance can be roughly grouped into three points:

First, while expectations from developing countries remain high, Japan seems to have succumbed to a kind of "donor fatigue" and is hence finding it more and more difficult to respond in a clear-cut fashion to these expectations. It is well known that since the end of the Cold War, donors, in particular the United States, have been prioritizing the resolution of such domestic problems as budgetary reform. Cutting ODA budgets has not been a politically demanding process in most countries because interest groups concerned with foreign aid have had scant political influence. Japan began to confront these realities, common to all donor countries, about five years later than most. As I will describe in more detail later, when it became clear that the Japanese economy had entered a period of stagnation after the collapse of the bubble economy, voices that supported the bolstering of the Japanese ODA budget soon grew faint. On the other

hand, approximately a billion of the global population of some 6 billion people are still captured in extreme poverty, and thus, far from dying away, the clamor of voices calling for assistance is growing louder.

In the course of its deployment of diplomacy, Japan only has a limited number of means at its disposal, and one of these is of course ODA. Accordingly, the situation with which Japan is currently confronted is graver than one could

possibly imagine, because aid for developing countries is only truly effective when it has the full backing of the citizens of the donor country.

Second, looking at the way the aid budget is distributed, there is an unfortunate absence of strategic thinking—a tendency to scatter aid budget in all directions. Up to now, sufficient attention has not been paid to the questions of what the objectives of ODA are, how they are to be achieved, and where aid should be allocated. This luxury has been permitted up to now by the Japanese aid budget, which by any objective measure is amply financed. However, there has been a change in the situation that prevailed up until the mid-1990s, when, with a steadily growing economy, the aid budget expanded year after year. Since no one can reasonably hope that the aid budget will expand dramatically in the immediate future, priorities must be set for it. You could interpret the announcements in summer 1999 of medium-term ODA policies by the Japanese government and "Policies Concerning Overseas Economic Cooperation Operations" by JBIC as attempts to respond to this need. Then, in March 2000 the Ministry of Foreign Affairs issued two reports, one each on Thailand and Bangladesh, which marked the start of its new country-specific aid planning approach. Be that as it may, we cannot yet judge that we have reached the point where people are fully persuaded that the ODA situation is changing, as priorities have not yet been explained in an easy-to-understand fashion.



Third is the issue of how Japan can seize the initiative in the power games among the donor countries. ODA is sometimes not unrelated to the national interest, which is confusing when looking at it from a moral perspective. However, if one deliberately considers the fact that ODA is a task to allocate funds to developing countries, it is entirely understandable that clashes of interests are unavoidable due to discrepancies in ODA philosophy and methodology by country. In particular, Japan often receives envious attention from other countries because of the relative wealthiness of its ODA budget.

#### ◆ The Importance of Power Games

It may be something of an exaggeration, but it sometimes seems that the power games—over which donor or international organization will support which developing country—are just as important an element of ODA as poverty alleviation and economic development in recipient countries. What is recently observed is the intention of Britain and the Nordic countries to seize the initiative on the issue of debt cancellation for Heavily Indebted Poor Countries (HIPC) since the Cologne Summit of G8 Countries and on the discussions of untied procurement in technical cooperation projects and common fund initiatives in the Development Assistance Committee (DAC) of the Organization for Economic Co-operation and Development (OECD). On the former issue, Japan was at a disadvantage because of the large amount of official loans it has outstanding in Africa. Likewise, regarding the latter issue, when it comes to Africa, Japan has a chronic lack of manpower and experts in this area, which results in an overwhelming disadvantage in leading the discussions. The likely outcome is that Britain and other former colonial powers will seize the initiative on these issues.

As a result, we may end up with the situation that Japan will continue to cede leadership to other donor countries and, because of its relatively large ODA budget and despite its tendency to decrease that budget, Japan will be seen as a mere provider of financial support. Considering the importance of ODA as a diplomatic tool among the limited number of available options at Japan's disposal, this is a problem that is impossible to ignore.

#### ◆ Changes in Public Opinion and the Causes of "Donor Fatigue"

Of the three issues that I detailed above, there is only room here to discuss one in any depth, and the one that I particularly want to examine is the question of "donor fatigue." Its existence is confirmed by a public-opinion survey undertaken by the Prime Minister's Office in November 1998. In 1991, the year of the Gulf War, 41% of respondents said that they felt that aid programs "should be actively promoted," but by

1998 that figure had dropped to 28%. The number of respondents saying "the current level of aid is sufficient" increased only marginally in the same period, from 41.5% to 42%. In contrast, those saying aid "should be reduced as much as possible" leapt from 8% to 18.5%, and those saying aid "should stop altogether" edged up from 1.3% to 3.5% of all respondents. In other words, the pro-aid constituency has shrunk from 82.9% of the general public to 70%, while the broadly anti-aid camp has grown from 9.3% to 22%.

What are the reasons behind these changes? The first is the recession that has gripped the Japanese economy. The 1997 bankruptcies of the Hokkaido Takushoku Bank and Yamaichi Securities really brought home to the Japanese public just what dire straits that the Japanese economy was in. The protracted domestic recession gave birth to all sorts of straightforward arguments—people started asking why, when Japan was in such a dire predicament, it should be offering assistance to other countries.

The second contributing factor is the deteriorating financial position of both the central and local governments. The cabinet of Prime Minister Ryutaro Hashimoto, seeing that the economy had temporarily turned the corner under the previous Murayama administration, put together for fiscal 1998 a tight budget with the aim of rebuilding the nation's finances, targeting, in particular, the public construction expenditures. The ODA budget was a target for major cuts and in the end a reduction of 10% in its budget proved inescapable. In the course of the debate, it became apparent to the general public that certain rigidities had become implanted in the allocation of the ODA budget, which had been steadily increasing for years. For instance, several countries, such as the Philippines and Indonesia, had become accustomed to receiving an amount of annual grant aid of between ¥7 billion and ¥15 billion.

Third in the list comes the economic growth of developing countries, principally in Asia. The impressive economic development of the principal recipients of Japanese ODA, as sometimes described as the "East Asian Miracle," has led to the view among the people that aid is no longer necessary. More than 16 million Japanese people travel abroad every year, and the opportunities for them to directly witness the fruits of this growth in the towering skyscrapers that line the streets of the major cities of Thailand, Indonesia, and China are increasing. Obviously, television also plays a role in changing perceptions by daily bringing images of the development of these countries into people's homes.

The fourth factor to which I would like to draw attention is the influence that nuclear tests conducted by India and China have had on public opinion. Suspicions have been aroused in the minds of the public that in these countries there exists a possibility that Japanese aid is enabling public budgets to be

allocated more toward nuclear tests or for military buildups than economic development and welfare improvement.

Fifth comes the constant and endlessly repeated criticisms of ODA in the media. Compared with the situation that prevailed when I first became interested in aid roughly ten years ago, nowadays there is almost nobody that is prepared to automatically reject the whole concept of ODA. However, misunderstandings about government-level aid are still widespread, as is the argument that insists that only aid at the NGO level can really be called “true” aid. You can still read articles in the press which talk about donated tractors being left to deteriorate in the fields without ever being used, articles which take isolated examples and then blow them out of all proportion. The general public obtains most of its information about ODA through these kinds of reports, so it is not surprising that people are influenced by them. Quite a few of the publications on ODA that are widely read by high school and undergraduate students are also written from this kind of negative angle. I was aghast that every year students that have just entered school are getting most of their information on ODA from books and articles written more than 10 years ago.

It is probably reasonable to discuss whether we should interpret the results of the Prime Minister’s Office survey I outlined earlier in a positive or a negative light. One may see that the pro-aid majority stays at about 70% of respondents but, on the other hand, the anti-aid camp has swelled its share more than twofold in some seven years. Among the students I teach, to judge from their interests and preferred post-graduation employers, I don’t think it would be at all fair to say that there has been a falling-off in the interest they exhibit on the question of aid to developing countries. I presume the people at JBIC and other agencies have a similar impression. Certainly, there are a good number of students who participate in fixed-period volunteer activities for NGOs in developing countries. The interest in developing countries is steadily spreading and I think that the people in favor of aid programs will remain in the majority.

Nevertheless, there is a fear that the support of the general public for ODA will decline in the coming years. What I want to draw attention to is the doubling of the number of people who take a negative view of ODA. Among the factors that I outlined earlier that have led to “donor fatigue”, if we set aside the issue of Japan’s recession, none of them are transitory phenomena—and, given the protracted nature of Japan’s post-bubble recession, it’s hard to say that this is a temporary factor, either. These factors will all have a continuing effect on the shaping of public attitudes towards ODA. Above all, what is important is the likelihood that China will continue to provoke Japan over such matters as Japan’s historical consciousness. Also, if Japan’s aid continues to be

focused on the recently developed countries of Asia, which some say have already progressed to a stage where aid is unnecessary, it is likely that the number of people who take a negative line on aid—those who want to slim the total aid budget and direct it only toward certain key sectors—will increase. Of course, there are good geographical and historical reasons why Japan’s ODA has been concentrated in comparatively highly-developed Asian countries and the promotion of South-South cooperation.

#### ◆ General Public Shows a Lack of ODA Understanding

Most of the general public does not understand the value of ODA as completely as the government would like to think they do. Sometimes I am invited to deliver lectures away from Tokyo and I ask the audience who among them has ever crossed an actual physical land border. Surprisingly, very few of them ever have—perhaps 10% at most. One of the downsides of Japan being an island nation is that it does not have any land borders contiguous with other countries. It is endlessly but fairly said that this is of great importance in determining the degree of interest that Japanese people have in the affairs of other countries. This absence of land borders is a definite disadvantage in getting people to understand the importance of relationships with other countries and of Japanese diplomacy.

For instance, it is common knowledge among those who work in international bodies that much of East Asia’s natural resources and most of its oil is transported through the Strait of Malacca—if something rendered passage through it difficult then taking the alternative route through the Lombok Strait would mean at least an extra two or three days’ shipping. But because most of the general public in Japan is either ignorant of this or simply not interested, they do not fully understand the importance of providing economic assistance to the countries that about the Strait.

It is also no easy matter to get people to understand the significance of South-South cooperation, whereby relatively wealthy developing countries assist those that are not so advanced—the concept that developing countries will in due course become donors rather than recipients of aid, as Japan did, is not fully implanted in people’s minds.

In addition, the interest of the general public is focused on the gradual shift in aid provision away from governments and to NGOs. This is in line with the shift from public- to private-sector initiative which is commonly discussed in national policy argument, and if donations to NGOs are made tax-exempt then this way of thinking is likely to gain even more momentum.

### ◆ Overcoming Various Problems

The Ministry of Foreign Affairs (MoFA) and other ministries, JBIC, and the Japan International Cooperation Agency (JICA) are the organizations entrusted with Japan's ODA program. How should they attempt to overcome the problem of "donor fatigue" and respond to the changes surrounding them? Although most of the factors behind the problem of "donor fatigue" cannot be remedied by the intervention of aid organizations alone, there are still some things that can and should be done.

However, when aid organizations act it should be on the premise that government bodies only take it upon themselves to do things when it is difficult for private agencies to handle them—the same premise that appears in the debate over the ongoing government regulatory reform program. If the same discussion was applied to ODA, it would lead to more experts being appointed from private-sector companies in the field of technical cooperation and to more involvement of private business—rather than ODA loans—in some countries, sectors, and projects. In the implementation of aid programs, the role of NGOs would grow—they stand to gain more direct benefits from the provision of aid. At whatever level, there is no place for ideas that protect vested interests and defend practices on the grounds that things have always been done that way.

The first matters to be resolved are the questions of to what degree those in the aid organizations share the awareness of the aforementioned problems, and whether as individuals they are working to change public perceptions. Accordingly, what is needed is a general raising of awareness levels on the part of aid agency employees. They have probably made some efforts to counter the rising tide of anti-aid opinion but not, regrettably, enough. Many are probably too preoccupied with their daily routines to be able to spare much time to imagine how things might be different but they must actively try to explain its worth.

At the same time, the key to raising people's awareness of development issues is information, above all the gathering and reporting of information about what is happening in developing countries—naturally about projects that are already in progress but also about the policies of the governments of aid recipient countries. This kind of reporting has been sorely lacking up to now. For instance, even people in the field attached to overseas offices of aid agencies find it difficult to visit project sites due to personnel and budgetary constraints, and, hence, tend to rely for information on what is put out by the implementation agencies and the governments of the recipient countries. People in development assistance tend to think that information comes down to statistics, but statistics are not necessarily what the general public are hoping to know. What they want clearly explained

to them is why a given country has a particular need for assistance. Unfortunately, there are occasions when aid workers themselves are not very well informed about the lie of the land. This is a problem common to JICA, JBIC, and, of course, MoFA. For instance, the MoFA grassroots grant aid project, which is said to have been a real success, is hamstrung by a lack of embassy staff—who cannot possibly cover all the many ongoing projects in any depth. As a result, criticisms of the inadequacy of project management may come about.

NGOs are comparatively more alert to what kind of effect Japanese aid is having on the people of developing countries and whether it is really benefiting them. NGOs are more mobile in their responses precisely because they are NGOs, and for that reason the current government is correct to involve them right from the stage where agencies formulate projects. However, the aid-related ministries and agencies should do much more than this. MoFA and aid agency executives will be required to convince the government party and the relevant minister of the importance of foreign aid and to maintain the ODA budget.

Second, inter-agency alliances and cooperation should be promoted—if these bodies, whose functions are currently broken up in a hard-to-fathom way, present a united front to the general public, then their roles will become easier to understand. In the field of technical cooperation alone, there are a lot of ministries involved—MoFA, the Ministry of Finance, the Ministry of International Trade and Industry, and so on. This arrangement is susceptible to criticism on the grounds that it breeds inefficiencies. I wonder to what extent JBIC and JICA are collaborating together. I realized when I visited their offices overseas that there is a reasonable amount of cooperation happening in the field but there do not appear to be many dramatic changes to the established order being made in such spheres as personnel exchanges between the headquarters of the two organizations. Backing for such events as ODA festivals is of course important, but more efforts must be made to secure a collaborative relationship built in a fundamental way. For instance, why don't the governors of JBIC and JICA appear at regular intervals in the newsletters of each other's institutions to encourage a substantive exchange of opinions? It is a mystery to me why this layman's ideas cannot be realized. I would like someone to tell me what the stumbling blocks are.

The third important matter is how the general public should be involved in the policy-making process. Specifically, it would probably be most effective to increase the number of opportunities available for members of the general public to inspect ODA projects—in particular those funded by ODA loans—and then let them discuss the pros and cons of what they have seen. ODA projects are, after all, akin to public-works

projects, the difference being that they are undertaken overseas. Instituted in fiscal 1999, the ODA Civilian Monitoring System, which sends a representative from each of Japan's 47 prefectures to visit ODA sites, has been warmly received, and is on the way to achieving the goals that I have just discussed. A good thing is that representatives are recruited publicly rather than appointed behind closed doors. Regional newspapers cover monitors' activities, and the monitors themselves present reports on their inspections at lectures and research group meetings. There are more positive repercussions than one might have expected. From fiscal 2000, two representatives from each prefecture will be chosen instead of the current one but the total numbers will still be small. If there are limits to the MoFA budget for this kind of programs, then JBIC should think seriously about instituting a similar system of its own.

Linked to the points I have made above is the desirability of promoting understanding about ODA through the medium of regional newspapers, as they are very influential organs, generally commanding at least a 50% share of the total newspaper market. Metropolitan elites tend to regard Japan's three big national dailies as being the most influential, but this is a superficial observation. Together with the dispatch of lecturers to junior and senior high schools, which has been happening since the days of OECF, steady efforts to diversify the channels of information available would be sure to assist in securing a greater understanding of ODA issues among the public.

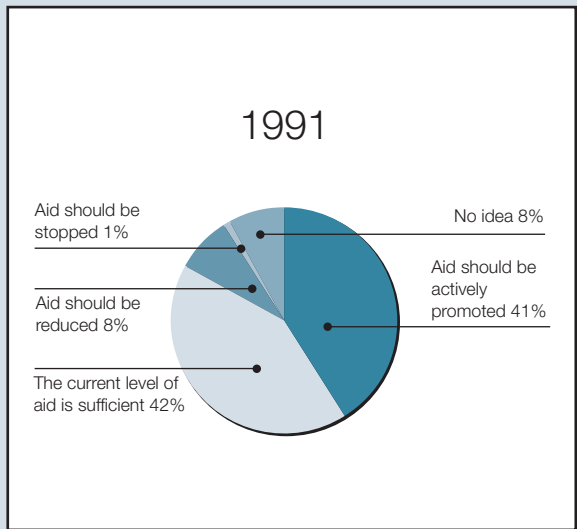
◆ **The Role Being Sought for JBIC**

OECF and JEXIM were merged with a specific purpose in mind, and JBIC now needs flexible ideas that enable it to transcend the limitations of the ODA framework and consider issues of economic cooperation in the broadest possible way. Funds which formerly would have been at the disposal of either OECF or JEXIM should be deployed strategically according to their suitability to the task, even in the same country or same field, with proper planning for the future. It hardly needs to be pointed out that this will require unstinting efforts to share information between the two departments.

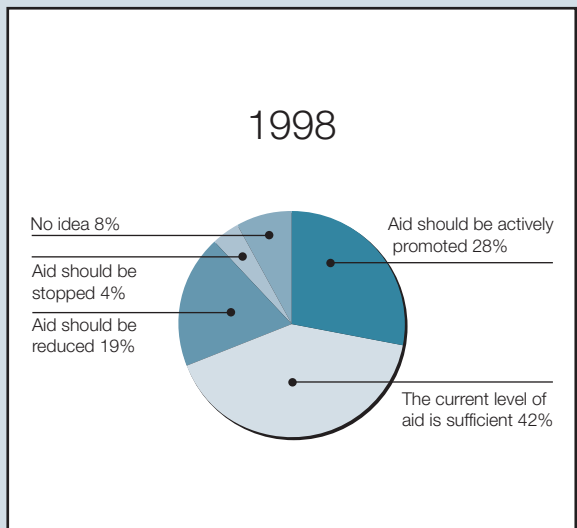
All of the potential courses of action that I have suggested here are simple enough to state but undoubtedly hard to carry through—there are no easy answers to be found. However, the reality is that JBIC and other parties concerned with development assistance are in the best position to implement them. As one of JBIC's supporters, I intend to stick to my colors while keeping a close eye on its activities over the coming months and years.

**From the Prime Minister's Office Public Opinion Survey on Diplomacy**

*"Developed countries provide developing countries with capital, technical assistance, and other forms of aid. Do you think that Japan should continue to actively promote aid programs, or not? Please choose from the following five responses the one closest to your opinion."*



Source: Public Relations Office, Minister's Secretariat, "Public Opinion Survey on Diplomacy (Survey in October 1991)," The Prime Minister's Office, 1991



Source: Public Relations Office, Minister's Secretariat, "Public Opinion Survey on Diplomacy (Survey in November 1998)," The Prime Minister's Office, 1998

Lecture in Commemoration of the Opening of JBIC's Singapore Representative Office

# The Asian Economy in the 21st Century

Eisuke Sakakibara

Professor, Global Security Research Center, Keio University

On March 10, 2000, Japan Bank for International Cooperation (JBIC) organized a special lecture meeting, "The Asian Economy in the 21st Century," in Singapore, commemorating the opening of its representative office there. Some 220 people gathered to listen to Mr. Sakakibara's speech. This included representatives of international institutions, corporations, financial institutions, mass media, and public-sector institutions in Singapore. What follows is a summary of Mr. Sakakibara's address.



made it possible to transfer vast amounts of information in real time across the world. Utilizing information in real time improves efficiency in almost every aspect of our economic activities. The impact of the IT revolution will not only affect the American economy but also many other countries in the world.

Almost every day, Japanese newspapers report that Japanese corporations are entering the information and telecommunications business. For example, Sony's Playstation II was released recently with a huge sensation, Toyota has announced that it will commence online stock trading, and Matsushita revealed that it will procure most of its materials on the Internet. Looking at developments in Europe, Vodafone AirTouch's takeover of Mannesmann may lead the German economy toward a more information-oriented one. These moves are clearly attempts on the part of European and Asian companies to catch up with the IT innovations first generated in the United States.

In the IT business, the technological change is so rapid that it is perfectly possible for the late entrants to leapfrog the incumbents. For instance, Japanese cellular phone, video game machine, and digital television technologies are more technologically advanced than those of the United States, and it may be that many more people will soon use video game machines or cellular phones to access the Internet, bypassing PCs. Of course, it is not yet certain that this will happen, but one thing is clear—the game is not yet over. It has only just begun.

## ◆ IT Revolution: Stimulus for the Economy

Alan Greenspan, the Chairman of the U.S. Federal Reserve Board, made the following comment in a speech he gave on January 13, 2000, entitled "Technology and the Economy." "When we look back at the 1990s, from the perspective of say 2010, the nature of the forces currently in trend will presumably have become clearer. We may conceivably conclude from that vantage point that, at the turn of the millennium, the American economy was experiencing a once-in-a-century acceleration of innovation which propelled forward productivity, output, corporate profits, and stock prices at a pace not seen for generations, if ever."

Although Greenspan is usually cautious in his choice of words, he left his audience with the strong impression that he was firmly convinced that Information Technology (IT) has the tractive power to bring about revolutionary changes in the United States and elsewhere. Indeed, the United States has led the IT revolution and during the last decade has pushed up productivity growth spectacularly, from less than 1% to around 3%.

I basically agree with Greenspan's perspective that the technological innovations we have been experiencing will probably change our economic and social structures in some fundamental way. The advent of microprocessors, computers, satellites, lasers, fiber-optic technology, and others have

## ◆ IT Revolution and the Instability in Global Markets

It is important to recognize that the IT revolution has a negative side too. Some people believe that the major cause of the Asian currency crisis was the failure of crisis-hit countries to properly monitor the process of transition from industrial capitalism, where the state supervised the flow of capital, to

information-financial capitalism, where the flow of capital is unregulated and moves in response to real-time information flows. The international economy has become extremely volatile and vulnerable to boom-and-bust cycles because of the virtualization and globalization of markets.

As Mervyn King, Deputy Governor of the Bank of England, has pointed out, there are two theoretically correct solutions to the instability of global markets—the creation of an international lender of last resort that can freely move capital to where it is needed or, alternatively, the reinstatement of permanent capital controls.

Unfortunately, however, neither is feasible under the current international political regime, as King himself admitted.

Allan Meltzer, professor of Political Economy at Carnegie Mellon University, defines the lender of last resort in this way: “The central bank is called the lender of last resort because it is capable of lending the vast sums necessary to prevent or end a financial panic.”

Domestically, it is the central bank that, among financial institutions, acts as the lender of last resort. However, in the current international context, even a combination of the IMF and the World Bank cannot act as the international lender of last resort. However, if the G7 countries and the IMF acted together and were able to lend in sufficient volume to prevent or end a financial panic, then they could effectively be the international lender of last resort. Thus, I think that we could create a mechanism among the G7 and the World Bank that could play this role without having to create a world government or a world central bank. Thus, we have to ask ourselves why we were not able to create a system of this sort during the Asian currency crisis.

The answer is clear—if a financial panic happens only in one country or one region, then it is not necessarily a crisis for other countries. During the Asian currency crisis, the fear of contagion only became real for the United States after the Russian crisis of August 1998. Until then, it had been a crisis confined to Asia, having no influence on the countries of Europe and North America. As long as the crisis remained country- or regionally specific, then unaffected countries felt no sense of political urgency to go out of their way to create the international lender of last resort. Moreover, a country- or regionally specific crisis may well have offered an opportunity for profit-taking on the part of financial institutions such as mutual and hedge funds.

#### ◆ Response to Globalization and Virtualization

George Soros describes the current global financial system as follows:

The global capitalistic system is purely functional in nature, and the function it serves—not surprisingly—is

economic: the production, consumption and exchange of goods and services... Despite its non-territorial nature, the system (of the financial markets) does have a center and periphery. The center is the provider of capital; the periphery is the user of capital... The rules of the game are skewed in favor of the center.

It is this bias toward the center that is the real issue for the periphery. The countries at the periphery, the users of capital, have to use their political leverage to persuade the countries of the center, the providers of capital, of the justness of their case. If they don't, or can't, then it looks like they will just have to wait for the next crisis to roll around. That is why it is necessary to create some kind of defense mechanism so that the countries at the periphery can protect themselves from the recurrence of a global market crisis and come to respond appropriately to the forces of globalization and virtualization.

Given the rapid progress and pervasive spread of information and telecommunication innovations, there are two things which countries in Asia need to do in the 21st century. First, we have to quickly start adapting our economic and social systems to the IT revolution and work to catch up with the United States to reap the positive benefits of technological innovation. Second, in order to cope with the negative side of globalization and virtualization, we need to build defensive mechanisms to shield us from crises that may occur in the future.

The recent economic crisis exposed serious structural vulnerabilities in corporate and bank management and political governance. However, the factors that the World Bank indicated in its 1993 report *The East Asian Miracle* as having contributed to the rapid rate of growth—namely the high savings rate, high educational standards, and the passionate desire to catch up technologically with more developed nations—still remain strengths of the region and will be of great use in bringing to it the benefits of the IT revolution.

#### ◆ A D-I-Y Lender of Last Resort for Asia?

Talking about the negative side of virtualization and globalization, Mervyn King has said, “Create a do-it-yourself lender of last resort with the aim of providing self-insurance against a liquidity crisis. There are several ways of providing such insurance. One is simply to build up large foreign currency reserves. Another approach that can be taken in the absence of the international lender of last resort is to create regional self-insurance funds.”

One such attempt was made by the Japanese government, which advocated the establishment of the Asian Monetary Fund (AMF) in August and September 1997. The idea was essentially that countries in the region should pool a part of their foreign reserves. However, it was strongly

opposed by the United States and European countries on the grounds that it would undermine the disciplines imposed by the IMF and could pose a serious moral hazard problem. However, if the function of the AMF is strictly and narrowly defined—so that its role is, in times of crisis, to provide necessary liquidity in official packages in which the private sector can participate—then it could complement the existing functions of the IMF. As I mentioned earlier, the amount of liquidity that countries wish to provide for the crisis may differ, depending on the degree of possible contagion. The construction of some sort of regional defense system seems absolutely necessary if we are to ward off the next crisis.

The establishment of a regional fund as a means of creating a do-it-yourself lender of last resort is likely to require other forms of regional cooperation. For example, the fund could be established alongside a mechanism for securing regional exchange-rate stabilization that could defend existing currencies within a certain band of exchange rates, as if they were a collective Asian Currency Unit. To make a regional fund function more effectively, we need to formulate a common exchange rate policy within the region and, given the heavy interdependence among countries in the region, a common policy is nothing less than essential.

As the European Union experience shows, monetary and international financial cooperation should be undertaken in tandem with cooperation in the real economy. If cooperation in trade and direct investment proceeds with the creation of a regional capital market, then the creation of a transnational fund which cooperates multilaterally on exchange-rate issues may one day develop into the creation of an independent pan-Asian currency. I am somewhat hesitant to recommend the aggressive pursuit of the creation of an Asian currency in the short term since it promises to be an extremely difficult undertaking. However, in the absence of the international lender of last resort, it is an option worthy of serious examination and debate as we look to the prospects for Asia in the 21st century.

#### ◆ Aiming for Another Asian Miracle

In conclusion, I would like to reemphasize that, here at the threshold of the 21st century, Asia is excellently placed to absorb the positive benefits of the IT revolution, and could in due course catch up with the United States. Its high savings ratio, abundant endowment of good human capital thanks to the universal provision of primary and secondary education, and enthusiasm to adapt to new technology may well combine synergistically to bring about the second “Asian Miracle,” in the 21st century.

However, the IT revolution has negative sides too—it has made the cycles of boom and bust in the world economy more intense. We have to realize that the IT revolution is

going to fundamentally change our economic and social structures in the near future. However, we should also be aware that this brave new world we are stepping into is an extremely dangerous one, too. We have to be vigilant and create, at the earliest opportunity, a regional defense mechanism so that we are ready for the crisis that might occur within the next few years.

#### Professor Eisuke Sakakibara—Profile

*Born in 1941, he entered the Ministry of Finance (MOF) in 1965 after completing studies at Tokyo University Graduate School. The following year, he attended Michigan State University and in 1969 completed his Ph.D. in Economics. At MOF, he was appointed Director of the Toyooka Tax Office and then Assistant to the Section Director of the First Insurance Section of the Banking Bureau. In 1977, he became an assistant professor at Saitama University, and in 1980 a visiting professor at Harvard University. In 1981, he returned to MOF as a Senior Planning Officer in the Minister's Secretariat. In 1985, he became Section Head of the Treasury Section in the Finance Bureau, in 1987 the Second Head of the Funds Section, in 1988 the Section Head of the Government Bonds Section, in 1990 the Head of the Tokai Finance Bureau, in 1991 a member of the Deliberative Council in the Minister's Secretariat, in 1993 Deputy Head of the International Finance Bureau, in 1994 Director of the Finance and Administration Research Center, and in 1997, after serving for a time as Head of the International Finance Bureau, he became Deputy Vice Minister for Financial Affairs. He became known as “Mr. Yen” for his proactive interventions in foreign exchange markets. He became a professor at Keio University in October 1999.*

## Statistics

## 1. Commitments

¥ Million

|   | June 2000 |           | May 2000 |         | April 2000 |          | FY2000 |           |
|---|-----------|-----------|----------|---------|------------|----------|--------|-----------|
|   | Number    | Amount    | Number   | Amount  | Number     | Amount   | Number | Amount    |
| <b>International Financial Operations</b>       |           |           |          |         |            |          |        |           |
| (1) Loans                                       | 15        | ¥209,215  | 18       | ¥21,400 | 14         | ¥ 84,498 | 47     | ¥315,113  |
| Export Loans                                    | 5         | 7,464     | 5        | 3,123   | 6          | 39,112   | 16     | 49,699    |
| Import Loans                                    | 3         | 13,100    | 11       | 8,499   | 2          | 1,282    | 16     | 22,881    |
| (Natural Resources Development)                 | (0)       | (0)       | (0)      | (0)     | (1)        | (428)    | (1)    | (428)     |
| (Manufactured Goods)                            | (3)       | (13,100)  | (11)     | (8,499) | (1)        | (854)    | (15)   | (22,454)  |
| Overseas Investment Loans                       | 7         | 188,651   | 2        | 9,778   | 5          | 38,604   | 14     | 237,033   |
| (Natural Resources)                             | (4)       | (186,290) | (0)      | (0)     | (2)        | (36,155) | (6)    | (222,445) |
| (Others)  | (3)       | (2,362)   | (2)      | (9,778) | (3)        | (2,449)  | (8)    | (14,588)  |
| Untied Direct Loans                             | 0         | 0         | 0        | 0       | 1          | 5,500    | 1      | 5,500     |
| (2) Guarantees                                  | 1         | 22,000    | 0        | 0       | 0          | 0        | 1      | 22,000    |
| (3) Equity Participations                       | 0         | 0         | 0        | 0       | 0          | 0        | 0      | 0         |
| Total   | 16        | 231,215   | 18       | 21,400  | 14         | 84,498   | 48     | 337,113   |
| <b>Overseas Economic Cooperation Operations</b> |           |           |          |         |            |          |        |           |
| (1) ODA Loans                                   | 1         | 2,462     | 0        | 0       | 3          | 39,457   | 4      | 41,919    |
| (2) Private-Sector Investment Finance           | 0         | 0         | 1        | 1,200   | 0          | 0        | 1      | 1,200     |
| Total   | 1         | 2,462     | 1        | 1,200   | 3          | 39,457   | 5      | 43,119    |
| Grand Total                                     | 17        | ¥233,677  | 19       | ¥22,600 | 17         | ¥123,955 | 53     | ¥380,232  |

- Notes: 1. All figures have been rounded in the process of calculation.  
2. Foreign bonds are included.  
3. Rescheduling is not included.

## 2. Disbursements, Collections, Loans Outstanding, and Guarantees

¥ Million

|                                 | International Financial Operations |            |            |          | Overseas Economic Cooperation Operations |            |            |         | Total      |            |            |          |
|---------------------------------|------------------------------------|------------|------------|----------|--|------------|------------|---------|------------|------------|------------|----------|
|                                 | June 2000                          | May 2000   | April 2000 | FY2000   | June 2000                                | May 2000   | April 2000 | FY2000  | June 2000  | May 2000   | April 2000 | FY2000   |
| Disbursements                   | ¥ 72,865                           | ¥ 62,403   | ¥ 32,165   | ¥167,434 | ¥ 48,718                                 | ¥ 35,868   | ¥ 27,224   | ¥63,092 | ¥ 121,584  | ¥ 98,272   | ¥ 59,389   | ¥279,244 |
| Collections                     | 183,503                            | 340,614    | 145,698    | 669,814  | 28,954                                   | 23,942     | 23,634     | 47,575  | 212,457    | 364,555    | 169,331    | 746,343  |
| Loans and Equity Participations |                                    |            |            |          |  |            |            |         |            |            |            |          |
| Outstanding                     | 10,717,699                         | 10,828,336 | 11,106,257 | —        | 10,493,994                               | 10,474,229 | 10,462,302 | —       | 21,211,692 | 21,302,565 | 21,568,559 | —        |
| Guarantees Outstanding          | 367,016                            | 345,982    | 344,387    | —        | —  | —          | —          | —       | 367,016    | 345,982    | 344,387    | —        |

- Notes: 1. All figures have been rounded in the process of calculation.  
2. Foreign bonds are included.  
3. Rescheduled amounts are not included as disbursements and repayments but are reflected in the "Outstanding" column.

## International Financial Operations Activities

**JBIC Signs Untied Loan Protocol with Brazil's Banco Nacional de Desenvolvimento Econômico e Social, Cofinancing with Inter-American Development Bank**

On March 27, 2000, in New Orleans, JBIC signed a protocol for an untied loan totaling US\$300 million in yen equivalent with the government of the Federative Republic of Brazil and Banco Nacional de Desenvolvimento Econômico e Social (BNDES). The loan is cofinanced with the Inter-American Development Bank (IDB).

The loan will promote investment and foster the financial sector in Brazil. Long-term financing will be provided to private businesses to be used for capital investment through BNDES and private financial institutions. JBIC has extended similar loans twice in the past, in September 1992 and May 1997.

The Brazilian economy was adversely affected by the credit crunch that swept across the emerging economies in the wake of the Russian financial crisis in 1998, and as a result the capital

inflow to Brazil from the international financial market declined. However, this loan is expected to improve the medium- to long-term financing situation for Brazil's private businesses and contribute to the stability and further growth of the Brazilian economy through revitalizing the private sector and increasing employment.

Under President Cardoso's strong leadership, the Brazilian government has made intensive efforts to carry out economic stabilization policies aimed at curbing inflation and recovering growth. As a result, it has been on a steady growth track since the mid-1990s. Although the economic growth in 1998 was suppressed by a series of crises overseas, the country continues to focus its efforts on economic recovery by acquiring international financial aid packages and promoting fiscal stability. Favorably evaluating these circumstances, JBIC decided to provide the untied loan to BNDES.



### Financing Small- and Medium-Sized Enterprises in Turkey —Untied Two-Step Loan for Small- and Medium-Sized Companies

On March 28, 2000, JBIC signed a loan agreement totaling ¥27.5 billion with the Republic of Turkey. The loan is cofinanced with 10 private financial institutions. JBIC assumes ¥19.25 billion, or 70% of the total.

The untied two-step loan is designed to provide financial assistance, through the Industrial Development Bank of Turkey (TSKB) and the Industrial Investment Bank (SYB), to help rehabilitate and foster the country's small- and medium-sized enterprises (SME), including Japanese affiliates that suffered a serious blow from the earthquake that devastated western Turkey last year. Separately, JBIC extended an ODA loan totaling ¥23.6 billion to the Republic of Turkey in December 1999 for the import of goods and the purchase of services needed for rehabilitation from the earthquake.

The earthquake damaged the machinery and equipment of a large number of SME in the Marmara and the neighboring regions of western Turkey, which produce some 40% of the country's GNP. Burdened by heavy fiscal outlays for rebuilding quake-hit areas, the government of Turkey has currently found it unable to provide sufficient financial support for the SME sector.

However, Japanese firms have high expectations for Turkey for the following reasons: (1) it is one of the candidates for EU membership; (2) it is situated on an export route for the energy resources produced in the Caspian nations and is regarded as one of their potential markets; and (3) it is a promising market for plant exports, with a number of large-scale projects being planned mainly to develop Turkey's infrastructure.

Taking this into consideration, JBIC decided to extend this loan to support small- and medium-sized enterprises in Turkey.

### JBIC Supports Financial and Privatization Reforms in Bulgaria —Untied Loan Cofinanced with the World Bank

On April 24, 2000, JBIC signed an untied loan totaling US\$50 million in yen equivalent with the Republic of Bulgaria to help promote wide-ranging reforms. The signing took place at the head office of JBIC, between JBIC Governor Hiroshi Yasuda and the Bulgarian Minister of Finance, Mouravei Radev.

This loan is cofinanced with the Second Financial and Enterprise Sector Adjustment Loan (FESAL II), totaling 95.5 million euros, which was signed by the World Bank and the Republic of Bulgaria in December 1999. The purpose of the present loan is to provide support for the economic reform program in Bulgaria, which focuses on pressing ahead with the privatization of state enterprises, strengthening of fiscal discipline, and reform of the banking and energy sectors.

Under the government of Prime Minister Kostov, which came into being in April 1997, the Republic of Bulgaria has been implementing a structural reform and macroeconomic stabilization program with assistance from the IMF, the World Bank, and other international financial institutions. In particular, since the country adopted the Currency Board Arrangement in July 1997, pegging the domestic currency, the lev, to the deutsche mark, inflation, which soared to 500 percent at one point in 1997, has been drastically reduced, recording a single-digit figure at the end of 1999. The economy has also posted positive growth since 1998.

In December 1998, JBIC cofinanced an untied loan to Bulgaria with FESAL I of the World Bank. The present loan is a follow-up loan providing financial support to advance the country's economic reforms and foster a favorable environment in Bulgaria for the economic activities of Japanese firms.

## Overseas Economic Cooperation Activities

### Loan Amount and Conditions (June 2000)

| Country | Project Name                    | Amount<br>(¥ Million) | Interest Rate<br>(%, p.a.) |                     | Repayment Period/<br>Grace Period (Years) |                     | Tying Status     |                     |
|---------|---------------------------------|-----------------------|----------------------------|---------------------|---|---------------------|------------------|---------------------|
|         |                                 |                       | Goods & Services           | Consulting Services | Goods & Services                          | Consulting Services | Goods & Services | Consulting Services |
| Morocco | Rural Water Supply Project (II) | 2,462                 | 1.7 <sup>1</sup>           | 0.75 <sup>2</sup>   | 30/10                                     | 40/10               | General Untied   | Bilateral Tied      |

Notes: 1. Standard environmental project 2. Special environmental project

Detailed information on individual projects is available in the News Release corner of JBIC's web site at <http://www.jbic.go.jp/english/>

### Special Yen (ODA) Loan Amount and Conditions

| Country     | Project Name  | Amount<br>(¥ Million) | Interest Rate<br>(%, p.a.) |                     | Repayment Period/<br>Grace Period (Years) |                     | Tying Status     |                     |
|-------------|---|-----------------------|----------------------------|---------------------|---|---------------------|------------------|---------------------|
|             |   |                       | Goods & Services           | Consulting Services | Goods & Services                          | Consulting Services | Goods & Services | Consulting Services |
| Philippines | LRT Line 1 Capacity Expansion Project (Phase II)                    | 22,262                | 1.0 <sup>1</sup>           | 0.75 <sup>2</sup>   | 40/10                                     | 40/10               | Tied             | Bilateral Tied      |
|             | Kamanava Area Flood Control and Drainage System Improvement Project | 8,929                 | 1.0 <sup>1</sup>           | 0.75 <sup>2</sup>   | 40/10                                     | 40/10               | Tied             | Bilateral Tied      |
|             | Mindanao Container Terminal Project                                 | 8,266                 | 1.0 <sup>1</sup>           | 0.75 <sup>2</sup>   | 40/10                                     | 40/10               | Tied             | Bilateral Tied      |

Notes: 1. Special Yen (ODA) Loan project 2. Special environmental project

Detailed information on individual projects is available in the News Release corner of JBIC's web site at <http://www.jbic.go.jp/english/>

## Special Assistance Facility

JBIC carries out Special Assistance Facility (SAF) in order to strengthen ODA loans systems that assist recipient countries—from project formation through completion and ongoing operation—and to carry out projects effectively responding to developing countries' diverse needs. SAF is a study carried out by consultants employed and dispatched by JBIC. The funds necessary for SAF are provided by JBIC as grant assistance. SAF comprises four types of facilities.

### (1) Special Assistance for Project Formation (SAPROF)

Owing to inadequate financial or technical resources, a project for which assistance is requested that is basically feasible often cannot be adequately prepared by the developing country. For such projects, JBIC performs a supplementary study known as SAPROF.

### (2) Special Assistance for Project Implementation (SAPI)

The primary purpose of SAPI is to study and identify problems that may hinder effective implementation of a particular project and to propose remedial measures to solve the problems in a timely manner.

### (3) Special Assistance for Project Sustainability (SAPS)

The primary purpose of SAPS is to study and identify problems that impede effective operation or maintenance of a particular group of projects and to propose remedies.

### (4) Special Assistance for Procurement Management

The primary purpose of this study is to ensure smooth, efficient, and transparent procurement implementation. The study assignments are carried out by consultants and experts hired by JBIC.

## The List of SAF Study Contracts Signed during January 2000

| Type of Study  | Country             | Project Name   | Summary of Project and SAF Study   | Schedule            |
|--|---------------------|--|--|---------------------|
| Special Assistance for Project Sustainability (SAPS) | Thailand, Indonesia | Study on Highway and Bridge Maintenance Systems for JBIC ODA Loan Projects | The purpose of this study is to review the status of the current maintenance system, including its methods and results, for highway and bridge projects in Thailand and Indonesia that were constructed over 10 years ago. The study will then summarize and analyze the problems faced by the agency responsible for the operation and maintenance and investigate how to build an efficient maintenance system that includes counter-measures for fatigue damages, and measures to improve the maintenance capabilities of the agency responsible for the operation and maintenance.<br>A general SAPS study was conducted last fiscal year for Thailand, and a more detailed study is being conducted this fiscal year. | June 2000–Oct. 2000 |

## JBIC Operations in FY 1999

### Loans, Guarantees, and Investments

#### Overall Operations

During FY1999, JBIC made total commitments of ¥2,546 billion and disbursed ¥2,436.4 billion. The outstanding loans and investments were ¥21,677 billion. The commitment total for FY1999 dropped sharply from the previous year's level, ¥4,648.1 billion. This is because financial assistance to Asia decreased after the quick recovery of the Asian economy, and JBIC's commitment returned to the level prior to the Asian currency crisis. By region, Asia accounted for 60% of the global total, constituting the core of JBIC operations. The results of JBIC's "International Financial Operations" and "Overseas Economic Cooperation Operations" are as follows.

#### International Financial Operations

International Financial Operations commitments totaled ¥1,491.4 billion, with 269 commitments. By loan objective, there were 57 commitments for export loans amounting to ¥152.2 billion, 37 commitments for import loans worth ¥133.2 billion, 158 commitments for overseas investment loans worth ¥544.8 billion, and 17 commitments for untied loans worth ¥661.2 billion. Disbursements totaled ¥1,646.5 billion, and the outstanding balance of International Financial Operations amounted to ¥11,218.3 billion.

By region, Asia accounted for 40% of the total International Financial Operations commitments, which is at about the same level prior to the Asian currency crisis, since the Asian economy showed a rapid recovery in the past year. Central and South America accounted for 20% of the total International Financial Operations commitments, which is a sharp increase compared to FY 1998, due to large-scale investments related to natural resource development projects.

#### Overseas Economic Cooperation Operations

Overseas Economic Cooperation Operations commitments totaled ¥1,054.6 billion. The breakdown of these commitments is 84 commitments for ODA loans worth ¥1,053.7 billion and one commitment for private-sector investment finance worth ¥0.9 billion. Disbursements were ¥789.9 billion, and the outstanding balance of Overseas Economic Cooperation Operations amounted to ¥10,458.7 billion.

By region, Asia accounted for about 80% of the total Overseas Economic Cooperation Operations commitments, continuing to hold a predominant share. The Special Yen (ODA) Loans established in FY1998 were extended to port and bridge projects in Vietnam, as well as to a power project in Malaysia.

## JBIC Operations at a Glance

(¥ Million)

|              | International<br>Financial Operations | Overseas Economic<br>Cooperation Operations | Total      |
|--------------|---------------------------------------|---|------------|
| Commitments  | 1,491,427                             | 1,054,565                                   | 2,545,992  |
| Disbursement | 1,646,522                             | 789,884                                     | 2,436,405  |
| Collections  | 1,476,121                             | 325,733                                     | 1,801,854  |
| Outstanding  | 11,218,319                            | 10,458,708                                  | 21,677,026 |

Notes: 1. All figures have been rounded in the process of calculation.  
2. Foreign bonds are included.  
3. Rescheduling not included.

## Geographical Distribution of Commitments in FY1999 (International Financial Operations)

(¥ Million)

|                                    | Export Loans | Import Loans | Overseas<br>Investment Loans | Untied Loans | Equity<br>Participations | Total (1) |
|------------------------------------|--------------|--------------|------------------------------|--------------|--------------------------|-----------|
| Asia                               | 67,462       | 1,820        | 201,384                      | 305,750      | 0                        | 576,415   |
| East Asia                          | 26,698       | 1,820        | 85,845                       | 157,850      | 0                        | 272,212   |
| Southeast Asia                     | 29,841       | 0            | 114,853                      | 147,900      | 0                        | 292,594   |
| South Asia                         | 602          | 0            | 686                          | 0            | 0                        | 1,288     |
| Central Asia and Caucasus          | 10,321       | 0            | 0                            | 0            | 0                        | 10,321    |
| Oceania                            | 0            | 4,100        | 15,690                       | 0            | 0                        | 19,790    |
| Europe                             | 7,267        | 4,813        | 44,498                       | 112,000      | 0                        | 168,578   |
| Central and Eastern Europe, Russia | 2,064        | 0            | 1,100                        | 112,000      | 0                        | 115,164   |
| Western Europe                     | 5,203        | 4,813        | 43,398                       | 0            | 0                        | 53,414    |
| Middle East                        | 42,052       | 50,706       | 1,286                        | 40,250       | 0                        | 134,295   |
| Africa                             | 3,589        | 594          | 9,782                        | 11,896       | 0                        | 25,861    |
| Northern Africa                    | 2,729        | 0            | 9,782                        | 8,400        | 0                        | 20,911    |
| Sub-Saharan Africa                 | 860          | 594          | 0                            | 3,496        | 0                        | 4,950     |
| Americas                           | 31,798       | 71,164       | 272,190                      | 74,835       | 0                        | 449,987   |
| North America                      | 0            | 71,164       | 51,838                       | 0            | 0                        | 123,002   |
| Central and South America          | 31,798       | 0            | 220,352                      | 74,835       | 0                        | 326,985   |
| International Organizations etc.   | 0            | 0            | 0                            | 116,500      | 0                        | 116,500   |
| Total                              | 152,169      | 133,197      | 544,831                      | 661,231      | 0                        | 1,491,427 |

Notes: 1. All figures have been rounded in the process of calculation.  
2. Foreign bonds are included.

## Geographical Distribution of Commitments in FY1999 (Overseas Economic Cooperation Operations)

(¥ Million)

|                                    | ODA Loans | Private-Sector<br>Investment Finance | Total (2) | Grand Total of (1)+(2) |
|------------------------------------|-----------|--------------------------------------|-----------|------------------------|
| Asia                               | 859,244   | 878                                  | 860,122   | 1,436,537              |
| East Asia                          | 192,637   | 0                                    | 192,637   | 464,849                |
| Southeast Asia                     | 590,506   | 878                                  | 591,384   | 883,978                |
| South Asia                         | 39,888    | 0                                    | 39,888    | 41,176                 |
| Central Asia and Caucasus          | 36,213    | 0                                    | 36,213    | 46,534                 |
| Oceania                            | 0         | 0                                    | 0         | 19,790                 |
| Europe                             | 0         | 0                                    | 0         | 168,578                |
| Central and Eastern Europe, Russia | 0         | 0                                    | 0         | 115,164                |
| Western Europe                     | 0         | 0                                    | 0         | 53,414                 |
| Middle East                        | 72,630    | 0                                    | 72,630    | 206,925                |
| Africa                             | 36,731    | 0                                    | 36,731    | 62,592                 |
| Northern Africa                    | 21,089    | 0                                    | 21,089    | 42,000                 |
| Sub-Saharan Africa                 | 15,642    | 0                                    | 15,642    | 20,592                 |
| Americas                           | 85,082    | 0                                    | 85,082    | 535,069                |
| North America                      | 0         | 0                                    | 0         | 123,002                |
| Central and South America          | 85,082    | 0                                    | 85,082    | 412,067                |
| International Organizations etc.   | 0         | 0                                    | 0         | 116,500                |
| Total                              | 1,053,687 | 878                                  | 1,054,565 | 2,545,992              |

Notes: 1. All figures have been rounded in the process of calculation.  
2. Rescheduling not included.

## Notification of Address Changes for Overseas Representative Offices

Our Jakarta, Mexico City, New Delhi, and Rio de Janeiro representative offices have moved. The new contact details are listed below. The current addresses of all of JBIC's representative offices are listed on the Bank's Web site at <http://www.jbic.go.jp/>

### *Jakarta Representative Office*

Summitmas II, 7th Floor,  
Jl. Jend. Sudirman, Kav. 61-62,  
Jakarta 12190, INDONESIA  
Tel: 62-21-522-0693  
Fax: 62-21-520-0975

### *New Delhi Representative Office*

3rd Floor, DLF Centre, Sansad Marg,  
New Delhi, 110001, INDIA  
Tel: 91-11-371-4362, 4363, 7090, 6200  
Fax: 91-11-371-5066, 373-8389

### *Mexico City Representative Office*

Paseo de la Reforma 265 Piso-16,  
Col. Cuauhtemoc,  
Mexico City, D.F. 06500, MEXICO  
Tel: 52-5525-67-90  
Fax: 52-5525-34-73

### *Rio de Janeiro Representative Office*

Praia de Botafogo, 228-801 B,  
Botafogo, Rio de Janeiro, RJ,  
CEP.22359-900, BRAZIL  
Tel: 55-21-553-0817  
Fax: 55-21-554-8798

## JBIC Releases New Publications

### **Evaluation Guide for Prequalification and Bidding under JBIC ODA Loans**

Goods and services (except for consulting services) necessary for implementation for JBIC ODA loans will be procured in accordance with *Guidelines for Procurement under JBIC ODA Loans*, published by JBIC. The borrowers (including executing agencies) of JBIC ODA loans are responsible for carrying out the procedure, and, in principle, International Competitive Bidding, which is one of the most economical and efficient ways of procurement, is applied.

This guide gives explanations on the evaluation organizations in accordance with the Guidelines, the expected role of consultants and the standard procedure of evaluation of prequalifications and bids. JBIC recommends the borrowers and the executing agencies of ODA loans to use them for smooth implementation of these procedures.

For further information, please contact:  
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