

**JAPAN STRUGGLES TO USE ADB TO RECYCLE SURPLUSES.**By **Chaitanya Kalbag**

606 words

20 April 1988

Reuters News

English

(c) 1988 Reuters Limited

MANILA, April 20, Reuter - Japan's attempt to use the Asian Development Bank (ADB) to recycle part of its 30 billion dollar private-sector surplus is not meeting with much success, banking officials and diplomats said.

Japan, with 15 pct of the 47-member ADB's 22.8 billion dollar total subscribed capital, ranks on a par with the U.S. as a donor to the Bank's ordinary capital resources (OCR).

But the rising yen and a continuing slide in interest rates last year thwarted efforts to channel Japanese private sector funds to Asian developing countries, analysts said.

ADB figures show the bank borrowed 30 billion yen with a 5.3 pct 15-year bond issue last year in the Tokyo capital market, but prepaid 50 billion yen of costlier loans.

"That means between ADB and Japan there was a reverse flow of capital," Japan's director on the ADB board Shoji Mori told Reuters. "It's just against the recycling plan. That's funny."

ADB President Masao Fujioka said in an interview that the prepayments of Japanese loans reflected prepayments by traditional OCR borrowers. "That (reverse flow) is a ticklish point," he said. "That is not good at a time when people want more money."

The bankers and diplomats said the situation was better on the official assistance side, with Tokyo committing an additional 1.98 billion dollars in 1987 for the ADB's soft-loan window, the Asian Development Fund.

Japan's total commitments amount to 7.15 billion dollars of the facility's overall commitments of 12.83 billion.

In an attempt to speed up the recycling process, Japan last month committed 4.5 billion yen to the ADB to set up a Japan Special Fund to co-finance the bank's technical assistance grants and provide seed money for equity investments in private sector projects, Mori said.

Mori added that Tokyo was likely to contribute identical sums in 1988 and 1989.

"The Japan Special Fund will double our technical assistance budget, help members restructure their economies and broaden our scope and range of operations," Fujioka said.

Mori said the ADB could also use the fund as a springboard to borrow more money from the Tokyo capital markets.

The fund was a catalyst.

"We want to see huge (sums of) money flow through multilateral banks like the ADB to developing member countries," he said.

Mori said co-financing for ADB loans was another recycling tool and could take place mainly through Japan's Export-Import Bank and Overseas Economic Cooperation Fund (OECF).

Untied Eximbank loans were also co-financed with private Japanese banks on a 60-40 basis, widening the recycling net.

A start was made in 1987, when Eximbank co-financed 110 million dollars of a 190 million dollar Bank loan to an Indian railway project and 40 million dollars with Japanese commercial banks for a 96 million dollar ADB power loan to Indonesia.

The ADB's 1987 report shows the OECF provided 11.6 million dollars in co-financing for a Thai water project.

Private sector co-financing was secured from Mitsui Finance Asia Ltd and Yasuda Trust and Banking Co for two ADB loans to Pakistan.





Mori said a decision by the ADB's board to offer its guarantee for loans from other lenders was likely to spur a flow of capital from Japanese life insurance companies or long-term investment banks.

Fujioka said the ADB Equity Fund, launched in December as part of the recycling process, had been oversubscribed.

"There could be a second fund," he said.

Document Iba0000020011203dk4k01eu7

