

WORLD BANK HISTORY PROJECT

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Transcript of interview with

KOJI KASHIWAYA

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Interview by: John Lewis, Richard Webb and Devesh Kapur

FOREWORD

The following is a transcript of an oral interview conducted by the authors of the World Bank's fiftieth anniversary history: John P. Lewis, Richard Webb and Devesh Kapur, *The World Bank: Its First Half Century*, Washington, DC: Brookings Institution Press, 1997. It is not a formal oral history, and it is not a systematic overview of the work of the person interviewed. At times the authors discussed the planned publication itself and the sources that should be consulted; at other times they talked about persons and publications extraneous to the Bank. Some interview tapes and transcripts begin and end abruptly. Nevertheless, the World Bank Group Archives believes that this transcript may be of interest to researchers and makes it available for public use.

Koji Kashiwaya
June 4, 1991 – Final edited

Note: The transcript was reconstituted by Koji Kashiwaya in 2017 to fill in words where the original tape had small gaps and to convey the substance of the conversation.

[Begin Tape 1, Side A]¹

LEWIS: What had you done in the Bank before you joined the YP [*Young Professional*] program in 1989?

KASHIWAYA: From 1984 to 1987 I was the Head (Director) of the Tokyo office, mainly in charge of funding from the Tokyo market as well as the Euro-yen market (mainly in London) on behalf of the Bank, in addition to the normal business of the local office.

The funding business is completely different from an Operations one. I had reported to Mr. Gene [*Eugene H.*] Rotberg, Vice President, Finance Department (Treasurer), occasionally to Mr. Moeen Qureshi, Senior Vice President.

The funding business of the Tokyo Office at that time was quite exciting. Fortunately, I could develop various financial innovations. This is due to the following facts:

*First, the Tokyo market had just been expanding and pursuing diversified transactions.

*Second, in the latter half of the 1980s, the Japanese Government (Ministry of Finance, hereinafter MOF) tried to expand and liberalize the capital market in order to transfer huge reserves abroad.

*Third, the World Bank was then the most favored borrower in the Tokyo market, compared with in New York, London or Zurich, because almost all important, big infrastructure projects in Japan after the Second World War were financed by the Bank. (When I entered MOF in 1961, Japan had been the second biggest borrower of the Bank, next to India.)

*Fourth, immediately before I joined the Tokyo office, I was in charge of the primary market in Tokyo as the Director, Capital Market, MOF. At that time I had tried to change various ancient regimes in the capital market that were protected by vested interests of financial institutions, but in vain. When I joined the Bank, I realized that the status of the borrower or bond issuer with super triple A status is far stronger than that of the regulating government.

The Bank had raised from the Tokyo market since 1979 roughly JPY 200 billion. After I joined the Tokyo office, the number increased to JPY 400-500 billion, 40% of the total funding at that time. Furthermore, due to the favorable market situation, each transaction—a loan or a bond—was completed with some innovation in the better terms of conditions such as interest, fee, size, maturity, liquidity and modality.

LEWIS: What were the major financial innovations in the Tokyo office?

¹ Original transcript by Brookings Institution World Bank history project. Insertions added by World Bank Group Archives are in *italics* in [].

KASHIWAYA: Many, but typical ones as follows:

*Shogun Bond: foreign currency (USD, CAD) denominated bond for the first time in the Tokyo Market,

*Daimyo Bond (normal JPY bond but put in Euro-Clear Cedel system to enhance further liquidity),

*Negotiable 30-year yen private placement loan with one of the biggest institutional investors (with lowest interest rate and fees): this achieves disintermediation without paying any fee,

*Swap transaction for the first time with the Bank's bond (first Swap transaction had been developed two years before in 1982).

LEWIS: After your time in the Tokyo office, what did you do before joining the Bank at its headquarters?

KASHIWAYA: I came back again to MOF in 1987 in charge of development aid (multilateral and bilateral) and international capital markets for two years as Deputy Director General, International Department, MOF. In 1989 I joined the Bank at headquarters.

LEWIS: When you joined the headquarters as Vice President Co-Finance, was the Co-Financing Department the same as the old one or was it a renewed one?

KASHIWAYA: On the occasion of my joining the Co-Financing Department, Mr. Qureshi merged the Financial Advisory Group with the Co-Financing Department. Later we developed project financing, privatization, various trust funds (including environment, project preparation and others) in this Department.

Along with this expansion, the size of the staff had sharply increased from 10 persons at the beginning to over 100 persons.

LEWIS: I'm not familiar with finance, so let me raise some fundamental questions. What is co-financing? How is it related to the normal Bank lending?

KASHIWAYA: The typical formula of the Bank's co-financing is to make a loan to the project of the developing countries with commercial banks, but with "pari passu" clause. So, if a borrower makes a default on paying to a loan of a commercial bank, it is deemed as default to the Bank. Thus, co-financing can mobilize additional commercial bank lending with far better terms of conditions. Instead, the Bank has to scrutinize the creditworthiness of the project before, as the normal Bank's lending. A typical type of co-financing method is to extend the Bank's guarantee to the private loan. If this loan is a syndication loan of many commercial banks, it is called a B-loan. Co-financing with public sector financial institutions like export credit agencies is also very popular.

LEWIS: You were now in the business of upgrading the co-financing function, is that right?

KASHIWAYA: Yes. We were developing the ECO Program [*Expanding Co-financing Operations*] under which the World Bank guarantees 50% of the face value of the public offering bonds or private placements by developing countries. It is the first time for the World Bank to guarantee capital market products.

The background of the ECO program is that international capital markets have been developed for less creditworthy countries. The ECO program enhances this tendency. Now Hungary takes advantage of this ECO program.

LEWIS: Co-financing can be used by all developing countries?

KASHIWAYA: No, the Bank's co-financing is available only to the countries which have never rescheduled in the past five years (called Part II countries). In other words, they are five-year-non-rescheduling countries.

LEWIS: How many transactions do you have in the ECO program now?

KASHIWAYA: So far we have made only Hungary, but in the pipeline, for example, India or Pakistan or many countries, but we'd like to bring that one in the near future.

LEWIS: Do you think of introducing any other new co-financing program?

KASHIWAYA: When commercial banks consider to make a loan to various infrastructure projects of Part II countries, the most serious risk is the political risk of the recipient countries. For example, the project may become the target of political struggles between the new and old leader, or no compliance of policy on the project which was already agreed when launching. So we are thinking of extending the guarantee for such political risks. (Later Co-financing Department materialized this political risk guarantee to HUB power project in Pakistan.)

LEWIS: Does the Bank's co-financing require the Bank's capital in addition to the normal lending?

KASHIWAYA: Yes. This is the serious bottleneck to expand co-financing, although co-financing can mobilize and facilitate additional private lending with far better terms and conditions.

LEWIS: Do you think the Bank's co-financing will be more important in the future?

KASHIWAYA: Yes. It depends upon the general situation of financing developing countries in the 1990s, which is going to be quite different from the 1980s. In the 1980s there were abundant financial availabilities in the market. However, some highly indebted countries (like in Latin American countries) caused too much debt overhang, but commercial banks were continuing to lend to them. Then there occurred the oil shock, and the interest rate of U.S. dollar rose sharply to restrain inflation. Many highly indebted countries could not pay huge amount of debt obligation, ending

up with default. Thus, private financing to the countries had stopped suddenly. In this context, I think co-financing could play a more important role in mobilizing additional and favorable private financing to developing countries.

[End Tape 1, Side A]

[Begin Tape 1, Side B]

LEWIS: How about the future of the Bank's co-financing?

KASHIWAYA: In the future we can always take full advantage of the World Bank's advisory function when extending co-financing. In other words, we should cooperate in more closely with the Operations complex. And if the World Bank will help the commercial banks more closely in the field of policy dialogue or project appraisal with the borrowing countries, we can mobilize more co-financing. With respect to export agencies, they have so far much experience of co-financing with the Bank, so even now they easily take full advantage of the World Bank's involvement. I think it's the best way to mobilize the money from the private sector to developing countries in the 1990s. Thus it increases the role of the Bank in mobilizing additional money.

LEWIS: Could you tell us how much co-financing you have done with governments, I mean with donor governments?

KASHIWAYA: In the Bank's fiscal year 1990, the last fiscal year, we mobilized almost 12.9 billion dollars co-financing disbursement of the World Bank. Of this 12.9 billion dollars, 8 billion dollars paid co-financing with official institutions, the export credit agencies.

Of official co-financing more than half comes from Japan, Export-Import Bank of Japan (JEXIM) and Overseas Economic Development bank (OECF), because the Japanese government wishes to take full advantage of the Bank's advisory function with its financing to developing countries.

LEWIS: Is the OECF funding concessional?

KASHIWAYA: Yes, the OECF usually extends a very soft loan because the funding resources stem half from the postal savings and half from tax, ending up with softer conditions.

LEWIS: Let me ask you an interpretive question, and I'm very interested to find that a large part of this co-financing, official co-financing, is Japanese at a time when Japan's role in development finance is greatly increasing. It used to be regarded as a sort of regional lender. It was largely focused on East Asian countries, Southeast Asia and so on. You're now--Japan is now spreading out to be a global lender, but at the same time it does not have a lot of experience in places like Africa or elsewhere, and so there would be some motivation, might there not, for it to co-finance with the Bank because the Bank does have a worldwide spread and a lot of technical expertise?

KASHIWAYA: Yes, your point is a very important. Nowadays the Japanese Government has been expanding its financing to other than Asian countries, like Africa and Latin America and the Middle East. Sub-Sahara Africa countries have

historically and even at present close relations with U.S. and Europe. Although Japan also tries to finance them, the problem is that it is difficult to understand various risks, especially political risks. In this context, co-finance can help more Sub-Saharan Africa.

In addition, many developing countries, especially Sub-Sahara countries, are suffering from beginning or preparing the projects, not financing. I think the World Bank (including IDA [*International Development Association*]) can help this field and end up with a trust fund for project preparation.

LEWIS: Tell me about the latest developments of trust funds. How about an environmental trust fund?

KASHIWAYA: I am just working for it. I just came back from a meeting now for it. Nowadays everybody is excited about environment. We are now trying to create a global environment fund. We try to globalize this environmental fund.

LEWIS: Are these trust funds in which the Bank takes the initiative in organizing the fund and gets contributions from various donors, is that right?

KASHIWAYA: Yes. Sometimes the Bank takes the initiative to create a fund and contacts possible donor countries, but usually a single donor proposes to create a fund with committing a relatively small amount of grant. For example, Japan for project preparation, U.S. for privatization.

KAPUR: Why are donor countries interested in making a grant to the trust fund?

KASHIWAYA: Good question. If you analyze the psychology of this mechanism with the donors, if the Bank's group requires capital replenishment, the donor government (usually their ministry of finance) can easily handle that huge amount money, but they cannot afford to check the details of usage and how to finance. If they can use the Bank's department--like us--they are very pleased. If the purpose of the fund is acceptable to the Bank, we are pleased.

WEBB: You're essentially selling one particular project to the donor?

KASHIWAYA: Partially. Yes, but many times donors take an initiative. By the way, we rather prefer untied grants for projects preparation rather than tied, but at the initial stage, we don't care, tied or untied. We'd like to get them in the tied. Then, once the donor has committed to tied, we push them to be untied.

LEWIS: Let me clarify. You were talking about earlier, say, the human resources trust fund, a human development trust fund. That's a multi-donor one that the Bank organizes. But most of the trust funds are single-donor?

KASHIWAYA: Yes.

LEWIS: Single-donor thing, and it's aimed at very often a single recipient.

KASHIWAYA: No, usually a trust fund is delivered to many recipients. The donor prefers the Bank to handle the details of the fund including where distributed. We wish to keep a free hand as much as possible.

LEWIS: Do you take the initiative to create a trust fund?

KASHIWAYA: We have at least an annual consultation with each major donor separately; for example, England, Japan, Norway and the United States. And we ask them to consider participating in some kind of trust fund, such as environment (because the World Bank is now doing lots of things for the environment) or debt issues or East Europe. But our Department is not full-staffed--we often ask the Director of the Environment or a Country Director of East Europe, bring them to some major donors to make a presentation.

LEWIS: So all these trust funds, the single-donor as well as the multi-donor ones, are under your discretion?

KASHIWAYA: No, it's very complicated. If you talk about the grant money, there are three kinds of the grant money. One grant money, coming from market-oriented institutions like a UNDP [*United Nations Development Program*], is handled by the TRE [*Office of the Vice President and Treasurer*], I think it is, the financial complex of the Resource Mobilization Committee. We handle only the purely bilateral contributions. In addition, the more complicated history is that many donors will put a very tiny amount of their tied contribution to each region. So there are three ways. But we try to integrate this bilateral grant money under the framework of the Operations complex.

We are handling bilateral trust fund. Tiny money can be easily mobilized. So I make a rule that we should not overact in the role of the financial complex. But in the case of the global environment trust fund Mr. [*Barber B.*] Conable and Moeen asked me to start it.

LEWIS: We'll have to come back. And you do have something written up on the Tokyo office story, do you?

KASHIWAYA: Yes, I do.

LEWIS: Thank you for taking a long time.

KASHIWAYA: I also thank you for giving me a chance to explain our jobs.

[End Tape 1, Side B]

[End of interview]