

Japan Finance Corporation for Municipal Enterprises

1. Summary of operations implemented using FILP funds

Funds with a low interest rate are supplied in a stable manner for projects undertaken by local governments are indispensable to the lives of inhabitants, such as projects for water supply, sewerage system, and traffic systems. Lending is composed of general loans to local government, public corporation loans to regional road corporations and real estate development corporations, and commissioned loans made upon the request of the Agriculture, Forestry, and Fisheries Finance Corporation of Japan.

Note: Consigned loans, which are provided upon consignment from the Japan Finance Corporation for Municipal Enterprises, are excluded from the FILP.

2. Amount of lending under FY 2002 FILP

(Unit : billion yen)

FY 2002 FILP	Estimated outstanding amount of FILP lending at end of FY 2001
1,532.0	17,665.0

3. Outcome and social and economic benefits of operations

1) Financing

- Financing from FY 1957 to FY 2000 (aggregate amount)
 - General loans: 235,520 cases ¥34,297.7 billion
 - Public corporation loans: 1,735 cases ¥441.6 billion
 - Commissioned loans: 49,973 cases ¥539.5 billion
- Financing in FY 2000
 - General loans: 21,933 cases ¥1,947.9 billion
 - Public corporation loans: 41 cases ¥22.7 billion
 - Commissioned loans: 592 cases ¥17.6 billion
- Outstanding balance of financing at the end of FY 2000
 - General loans: 184,354 cases ¥23,148.8 billion
 - Public corporation loans: 785 cases ¥228.3 billion
 - Commissioned loans: 36,576 cases ¥437.4 billion

2) Effects of loans from Japan Finance Corporation for Municipal Enterprises (JFCME)

In municipal bond programs, JFCME funds are deemed to be public funds as in the case of government funds. Funds are procured in domestic and overseas markets through the issuance of bonds. Long-term funds with low interest rates are provided to local governments. Thus, JFCME funds have been contributing to the development of public corporations and the stabilization of their business management, playing an important role in improving the welfare of the inhabitants, reducing financial burdens, and limiting the burdening of inhabitants with public utility charges.

- JFCME funds in FY 2002 municipal bond programs

(Unit : billion yen)

	Government funds	JFCME funds	Private funds	Total
Amount of municipal bond programs	7,600.0 (46.0%)	1,900.0 (11.5%)	7,023.9 (42.5%)	16,523.9 (100.0%)
Amount of funds raised by public corporation bond	1,780.8 (44.9%)	1,354.4 (34.1%)	831.3 (21.0%)	3,966.5 (100.0%)

- Conditions of low-interest loans

The amount of loans provided with special interest rates that are lower than standard interest rates corresponding to procurement costs accounts for 94.6% (FY 2002 budget) of all of the JFCME funds (commissioned loans are excluded).

- Conditions of funding

The JFCME procures most of the resources for lending through the issue of public corporation bonds. Thus, the JFCME is serving to procure funds from markets on behalf of local governments, working to diversify funding that includes the issuance of foreign-currency-denominated bonds and reducing procurement costs.

3) Conditions of main projects for which funds are provided (FY 1970–FY 2000)

- Rate of diffusion of water supply systems: 78.0% → 95.5%
- Rate of diffusion of public sewerage systems: 16% → 62%
- Number of passengers transported by public subway systems: 1,022 mil. → 2,621 mil.

4. Estimated policy (subsidy) cost analysis of the project

Outline of estimate

- An estimate is made for all of the JFCME's lending projects, except for commissioned lending.
- An estimate is made for the outstanding balance of past loans (¥24,647.5 billion at the end of FY2001) and the loans under the lending plan based on FY 2002 municipal bond programs (¥1,952.9 billion in FY 2002 and ¥686.8 billion in FY 2003), with the assumption that no new loans will be granted after this period.
- An analysis is made for the 30-year period during which repayment of outstanding loans and loans under FY2002 municipal bond programs will be completed (30-year period for FY2001).
- A funding shortfall is remedied by issuing public corporation bonds.
- In and after FY 2001, it is assumed that there will be no financial assistance from the national treasury. It is assumed that there will be no new capital investment from the national treasury (the outstanding balance of capital investment as of the end of FY 2001 is ¥16.6 billion).
- Based on above assumptions, policy (subsidy) cost for the implementation of projects have been calculated.

Policy (subsidy) cost

(Unit : billion yen)

Category	FY2001	FY2002	Increase/Decrease
1. Subsidies from the national treasury	—	—	—
2. Opportunity cost of capital investment from the national treasury	9.3	9.1	− 0.2
Subtotal (1+2)	9.3	9.1	− 0.2
3. Money transfer to the national treasury	—	—	—
Total (1+2+3=policy cost)	9.3	9.1	− 0.2
Analysis period (years)	30	30	—

Compared with the policy cost for FY2001 (¥9.3 billion), the policy cost for FY2002 declined. The reason for this is that assumed interest in calculating the present value of capital investment from the national treasury (discount rate increased) declined.

The case if assumption is changed

(Unit : billion yen)

Changed assumption and extent of change	Increase / decrease in policy cost
Interest rate on funds raised +1%	—

(Reference)

Budgeted amount of subsidies and capital investment in FY 2002
No applicable data

5. Projections in the analysis

- 1) Repayments of outstanding loans under the FY 2002 local government bond plan (¥1,952.9 billion) and that under the FY 2003 loan plan (¥686.8 billion) are to be completed within 28 years each.
- 2) Since the borrowers of the JFCME loans are municipalities, no credit losses have accrued in the past. Accordingly, no credit losses are expected to accrue in the future. For this reason, the FY 2000 administrative cost statement has not booked any bad debt reserves for municipalities.
- 3) The measure of advanced redemption is taken in cases that the borrowing organization diverts the loan. Its amount depends on the year, which makes its estimation difficult. Therefore, taking past performance into account, the advanced redemption amount is assumed to be ¥25 billion (same as FY 2002) in FY 2003 and on.
- 4) Similarly, taking past performance into account, the contributions from proceeds of public races amount is assumed to be ¥18 billion (same as FY 2002) in FY 2003 and on.

(Unit : billion yen)

	Result				Estimated	Planned	Trial assumption
FY	1997	1998	1999	2000	2001	2002	2003~
Advanced redemption	49.4	24.6	41.4	10.0	25.0	25.0	Same as left
Contributions from proceeds of public races	39.8	34.0	26.4	22.4	18.0	18.0	Same as left
Subsidies	4.2	2.9	2.0	1.4	—	—	Same as left
Capital investment from the national treasury	—	—	—	—	—	—	Same as left

- 5) There is no outstanding balance of risk management loans at the end of FY 2000.

6. Reasons for granting of subsidies, mechanism and underlying laws

- Subsidies had provided from the general account in order to provide financial resource for interest rate differential compensation. Since FY 2001, however, JFCME has not been receiving such subsidies.
- For the purpose of reinforcing the management infrastructure of JFCME, the government had provided subsidies, from the Industrial Investment Special Account to JFCME, if necessary. Since FY 1989, however, JFCME has not been receiving such subsidies. (As of the end of FY 2001, the outstanding amount was ¥16.6 billion.)

(Underlying laws and regulations)

Japan Finance Corporation for Municipal Enterprises Law

Article 5. JFCME is established with the capital of ¥2.4 billion, fully financed from the Industrial Investment Special Account by the government.

2. The Government may, when deemed necessary, add to JFCME, and invest within the limits of the budget.

3. JFCME shall, when such investment is made by the government as mentioned above, increase its capital fund based on the amount of investment.

- Payment to the national treasury is stipulated in the Japan Finance Corporation for Municipal Enterprises Law.

(Underlying laws and regulations)

Clause 1 in Article 29 of the Japan Finance Corporation for Municipal Enterprises Law:

In the case where profit is generated in income in an accounting year, JFCME shall pay such profit to the national treasury by the 31st of May of the following accounting year.

7. Special remarks

- 1) No subsidies from the national treasury for FY 2001 and afterwards are received because these subsidies will be gradually abolished over a period of three years according to a Cabinet decision of September 24, 1997 (“Consolidation of Government Corporations”)
- 2) The analysis assumes the present form of corporations, as the detailed contents of the Reorganization and Rationalization Plan for Special Public Corporations have not been determined.

(Reference) Financial Statements**Balance Sheet**

(Unit : million yen)

Item	End of FY 2000 (Result)	End of FY 2001 (Estimated)	End of FY 2002 (Planned)	Item	End of FY 2000 (Result)	End of FY 2001 (Estimated)	End of FY 2002 (Planned)
(Assets)				(Liabilities and capital)			
Long-term loans	23,377,079	24,647,469	25,339,793	Bonds outstanding	22,362,802	22,936,509	23,353,634
Entrusted loans	437,431	433,034	432,529	Funds for entrusted loans	437,431	433,034	432,529
Cash and deposits	1,119,731	680,057	683,958	Accrued expenses payable	17,797	16,735	15,238
Securities	4,935	0	0	Other liabilities	13,551	11,152	8,928
Accrued earnings receivable	28,228	27,388	27,011	Fund for the improvement of operations of municipal enterprises	843,152	853,271	863,874
Other assets	13	0	0	Reserves under special laws	1,278,606	1,523,522	1,795,206
Fixed assets	2,523	2,875	2,717	Reserves for interest losses	—	51,445	115,977
				Loss reserves for renewal of bonds	1,278,606	1,472,077	1,679,229
				(Total liabilities)	24,953,339	25,774,224	26,469,409
				Industrial investments	16,600	16,600	16,600
				(Total capital)	16,600	16,600	16,600
Total assets	24,969,939	25,790,824	26,486,009	Total liabilities and capital	24,969,939	25,790,824	26,486,009

Income Statement

(Unit : million yen)

Item	FY 2000 (Result)	FY 2001 (Estimated)	FY 2002 (Planned)	Item	FY 2000 (Result)	FY 2001 (Estimated)	FY 2002 (Planned)
(Losses)				(Profits)			
Ordinary expenses	779,108	704,470	665,881	Ordinary profits	974,918	949,387	937,635
Interest on bonds	752,438	680,028	642,907	Interest on loans	971,005	939,197	929,780
Office expenses	1,709	1,805	1,929	Fees for entrusted loans	283	280	202
Bond-issuing expenses	5,096	4,819	4,927	Government subsidies	1,400	0	0
Amortization	19,865	17,767	15,990	Interest on deposits	1,838	1,673	197
Miscellaneous losses	0	0	76	Interest on securities	379	345	41
Reserve funds	0	51	51	Miscellaneous earnings	13	11	19
Extraordinary losses	195,809	244,916	296,629	Transfer from the funds for improvement of public corporations	0	7,880	7,397
Fixed assets disposal losses	0	0	71	Special profits			
Provision for reserves for interest losses	—	51,445	89,407	Interest loss reserves refunded	—	—	24,875
Provision for loss reserves for renewal of bonds	195,809	193,472	207,151				
Profits for the term	0	0	0				
Total	974,918	949,387	962,510	Total	974,918	949,387	962,510

Note: Since the numbers of each items are rounded-off, the total may not represent the total of the figures in the table.