

The Okinawa Development Finance Corporation

1. Summary of operations implemented using FILP funds

With the purpose of promoting the development of industries in Okinawa, the Okinawa Development Finance Corporation (ODFC) provides long-term funds to supplement and encourage financing from private financial institutions and private investment. In addition to business funds, the ODFC provides funds to all sectors, including education, housing, and medical treatment, that are rarely provided by private financial institutions.

Note: Operations not eligible for FILP include some of the infrastructure improvement funds (known as "NTT-C"), etc.

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
187.0	1,577.2

3. Outcome and social and economic benefits of operations

- 1) Investment and loan performance
 - i. Financing (FY 2000)

9,000 cases	¥184.7 billion
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 - ii. Financing
(aggregate amount from FY 1972-2000)

350,000 cases	¥4,380.2 billion
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Breakdown

• Industrial development:	¥1,097.9 billion
• Small business, etc.:	¥1,218.9 billion
• Housing:	¥1,740.7 billion
• Agriculture, forestry and fisheries:	¥169.3 billion
• Other items:	¥153.4 billion
 - iii. Outstanding balance of loans (end of FY 2000)

	¥1,721.2 billion
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 - iv. Capital investment (FY 2000)

1 case	¥0.2 billion
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 - v. Capital investment
(aggregate amount from FY 1978-2000)

19 cases	¥2.1 billion
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- 2) Support for companies
Term of the loans for business funds (end of FY 2000)

<div style="display: inline-block; vertical-align: middle;"> { ODFC: 13.9 years Okinawa: 5.1 years </div> <div style="display: inline-block; vertical-align: middle; margin-left: 10px;"> Average figure for regional banks in </div>

In Okinawa Prefecture, lending conditions for private financial institutions are stricter than on average in Japan. Therefore, long-term loans with lower interest rates provided by the ODFC are contributing to the development of industries in Okinawa.
- 3) Support for house acquiring, etc.
In housing funds, by lowering the minimum annual income eligible for housing loans, the ODFC has contributed to the improvement of citizens' ability to acquire a home and has helped them to acquire their homes, etc., in the prefecture. (Of the newly built houses owned privately or by developers, about 60% was financed by the ODFC in 2000.)

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

Outline of estimate

- 1) An estimate is made for all capital investment and lending projects except for lending based on specified resources other than some of the FILP infrastructure improvements funds known as "NTT-C".
- 2) An estimate is made for the outstanding balance of past capital investments and loans (¥1,677.7 billion at the end of FY 2001) and those under the FY 2002 plan (¥217.5 billion).
- 3) An analysis is made for the 37-year period during which repayment of outstanding loans and the loans under FY 2002 plan will be completed.
- 4) Based on these assumptions, the financial assistance needed for the implementation of projects has been calculated.

Policy (subsidy) cost

(Unit : billion yen)

Category	FY2001	FY2002	Increase/Decrease
1. Subsidies from the national treasury	14.4	17.0	2.6
2. Opportunity cost of capital investment from the national treasury	45.8	46.8	1.0
Subtotal (1+2)	60.2	63.8	3.6
3. Money transfer to the national treasury	- 55.2	- 51.3	3.9
Total (1+2+3=policy cost)	5.0	12.4	7.4
Analysis period (years)	37	37	

Compared with FY2001, the policy cost for FY2002 increased. The reason for this is that the extent of decrease in interest for borrowings associated with a decline in interest rates exceeded the extent of decrease in interest for loans. On the other hand, the loan redemption cost increased due to a rise in the loans charge off rate (assumed value after FY2003: the FY2000 results). In addition, cost increased due to a reduction in the application of surplus cash due to equalization between collection of loans and redemption of borrowings.

The case if assumption is changed

(Unit : billion yen)

Changed assumption and extent of change	Increase / decrease in policy cost
Loaning (※) and interest rate on borrowings + 1%	23.1

(※) Housing funds + 0.38% (+0.13% after the 11th year)

(Reference)

Budgeted amount of subsidies and capital investment in FY 2002

Subsidies:	¥5.3 billion
Capital investment:	¥0.3 billion

5. Projections in the analysis

- 1) Payment of the ODFC loans of ¥217.1 billion in FY 2002 is to be completed in 37 years.
- 2) The interest rate of the ODFC loans for housing funds in FY 2002 starts with 2.81% ,and through the phased interest syatem, it will be 3.61% after the 11th year; for other funds, it is a fixed interest of 1.70% – 2.54% (depending on the loan period) in FY 2002.
- 3) The advanced redemption rates are assumed to be the weighted averages for the past five years (housing funds 7.04%, others 3.41%) of the outstanding balance at the beginning of each fiscal year. The loans charged off rates: the actual figures for FY 2000 (housing funds 0.04%, others 0.25%) are assumed for the outstanding balance at the beginning of each fiscal year.

		Result				Estimated	Trial assumption
FY		1997	1998	1999	2000	2001	2003 ~ 2032
Advanced redemption rate	Housing funds	6.91%	5.32%	6.14%	8.57%	8.59%	2003 and on: average 7.04%
	Others	3.67%	3.05%	3.04%	3.16%	2.87%	2003 and on: average 3.41%
Loans charged off rate	Housing funds	0.00%	0.00%	0.00%	0.04%	—	2003 – 2032 cumulative rate: 0.04%
	Others	0.14%	0.07%	0.23%	0.25%	0.26%	2003 – 2032 cumulative rate: 0.25%

- 4) The aggregate amount of loans written off as estimated in this analysis (FY 2002 - FY 2038) is ¥15.5 billion, which is smaller than the allowance for bad debts of ¥21.6 billion calculated based on the accounting standards for private enterprises (end of FY 2000; formula: Allowance for bad debts / Loans = 1.28%). However, taking into account the estimated loans written off for 2001 (¥4.2 billion), the amount of loans written off as estimated in this analysis is believed to be a realistic figure.

The outstanding balance of the risk management loans was ¥156.1 billion at the end of FY 2000.

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

For the purpose of contributing to the development of the Okinawan economy, the ODFC receives financial assistance from the general and special accounts of the national treasury as compensation, etc., for expenses needed to provide long-term funds with low interest rates that are rarely provided by general financial institutions.

- (1) Main subsidies include, 1) ‘compensation for difference in balance’ that receives amounts of shortage in loss and gain balance calculated on the basis of the ODFC project plans, etc., in the fiscal year from the general account to contribute to the smooth management of operations, 2) ‘subsidy’ received from the special account for electric power development acceleration measures to supplement the difference of interest rate in case of loans with low interest rates for promoting companies to be located in electric power areas (No. 30, Clause 1, Article 1 of Cabinet Order, Law on Special Accounts for Electric Power Development Acceleration Measures: “subsidy related to expenses needed for measures which are intended to promote companies to be located in the areas of municipalities where specific power generation facilities are already established or planned to be established, or in the areas of municipalities neighboring the said municipalities, ... implemented by ... the Okinawa Development Finance Corporation ...”) and so on.
- (2) Investments include 1) ‘investments’ received from the general account to enhance the management foundation of the ODFC , or to finance business that promote the creation of new business and contribute to the promotion of industries in Okinawa (Clause 2, Article 4 of the Okinawa Development Finance Corporation Law: “The Government may make additional investments in the ODFC as long as they do not exceed the budgeted amounts.”) and 2) ‘investments’ received original capital for investment to private companies from the special account for industrial investments to invest in those private companies that contribute to the development of local industries (Clause 2, Article 4 of the Okinawa Development Finance Corporation Law: same as the above).
- (3) Payment to the national treasury is stipulated in the Okinawa Development Finance Corporation Law.
 Clause 1, Article 25 of the Okinawa Development Finance Corporation Law:
 When any profit occurs in the loss and gain calculation in each accounting year, the ODFC shall pay it to the national treasury by May 31 of the next accounting year.

7. Special remarks

- 1) Most of the policy (subsidy) costs of the ODFC are incurred due to the government policy of maintaining low interest rates. The stable provision of long-term funds with low interest rates to enterprises and the general public who want to acquire houses by the ODFC is contributing to the promotion of industries and social development in Okinawa.
- 2) Conducting a sensitivity analysis of +10% showed the following. As for the loans charged off rate, if the housing funds increase by 0.00 (0.004) point and other funds increase by 0.03 point, the policy cost increases by ¥1.4 billion. As for the advanced redemption rate, if the housing funds increase by 0.70 point and other funds increase by 0.34 point, the policy cost increases by ¥4.3 billion.
- 3) Based on the Reorganization and Rationalization Plan for Special Public Corporations, the Council on Economic and Fiscal Policy is to conduct a thorough examination from early 2002. On this basis, the target fields, scale and organization of public financing are to be reviewed. However, at the present point in time, the detailed contents of the Plan have not been determined, so that the analysis is conducted by assuming the present form of corporations.

(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)			
Loans	1,721,242	1,681,868	1,692,081	Borrowings	1,631,498	1,588,352	1,583,187
Industrial development funds	465,752	470,852	478,381	FILP funds	1,411,510	1,404,158	1,432,410
Small businesses funds	275,801	279,934	297,790	Postal life insurance reserve	206,573	167,865	131,585
Housing funds	885,056	839,895	821,005	Industrial investment	5,958	7,059	8,121
Agriculture, forestry & fisheries fund	44,920	42,726	45,458	Consolidation of farm management infrastructure	295	618	842
Medical services funds	29,641	27,280	26,928	Employment and Human Resources Development Organization of Japan	7,161	8,652	10,228
Environmental/Sanitary Funds	19,601	20,722	22,069	Bonds	13	608	12,055
Loans by Succession	471	460	449	Okinawa Development Finance Corporation bonds			10,000
Equity Financing	2,020	2,460	2,860	Housing and building bond	13	608	2,055
Cash and deposits	7,029	547	569	Deposits	600	557	515
Securities	2,999	6,569	7,057	Organization for Promoting Urban Development	600	547	495
Agency accounts	2,870	2,870	2,870	Agriculture, Forestry and Fisheries Credit Fund		10	20
Uncollected revenue	5,685	5,258	4,845	Loans received	32,076	35,078	42,500
Uncollected interest on loans	5,599	5,174	4,768	Accrued expenses	10,359	9,151	8,086
Consignment commission receivable	86	82	74	Accrued interests on borrowing	10,088	8,865	7,689
Uncollected interest on securities		2	3	Accrued interests on bonds	0	0	105
Miscellaneous account				Accrued interests on deposits	4	4	4
Temporary payment	74	74	74	Accrued expenses for entrusting business	267	282	288
20 Fixed assets	8,635	8,438	8,256	Miscellaneous account	1,244	1,246	1,246
Deferred account				Temporary receipts	1,242	1,242	1,242
Bond issue difference		12	87	Accrued liabilities	2	3	4
Customers' liabilities on guaranties	48,092	46,897	45,630	Liabilities for guarantee	48,092	46,897	45,630
Allowance for bad debts	- 9,997	- 2,724	- 414	(Total liabilities)	1,723,882	1,681,890	1,693,219
General account	- 9,996	- 2,722	- 411	Capital	63,192	68,782	69,082
Rice Fund and New Business Creation Special Account	- 1	- 2	- 3	General account subscription	36,878	42,068	42,068
				Subscription taken over	21,556	21,556	21,556
				Industrial investment subscription	4,758	5,158	5,458
				Reserve fund			
				Rice fund and new business creation fund	1,541	1,575	1,596
				Net profit	34	22	16
				(Total capital)	64,767	70,378	70,694
Total assets	1,788,649	1,752,268	1,763,913	Total liabilities and capital	1,788,649	1,752,268	1,763,913

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	75,304	62,264	53,526	Ordinary profits	75,361	62,285	53,541
Interests on borrowing	57,240	51,262	46,701	Interests on loans	59,322	46,169	45,092
Interests on bonds	0	0	105	Interest on loans for industrial development fund	15,415	12,556	12,013
Interests on deposits	17	15	14	Interest on loans for small business fund	7,041	5,421	5,322
Interest payable on trust money		1	1	Interest on loans for housing fund	34,006	25,992	25,747
Expenses for entrusting business	799	874	854	Interest on loans for Agriculture, Forestry and Fisheries fund	1,395	1,120	1,037
Administrative expenses	4,472	4,849	4,937	Interest on loans for medical services fund	920	664	550
Bond issuing expenses	3	9	126	Interest on loans for Environmental/Sanitary Funds	502	392	402
Amortization cost	2,755	2,380	224	Interest on Loans by Succession	41	22	22
Loan amortization	2,535	2,156		Dividend received	2	2	2
20 Fixed assets depreciation expense	220	224	223	Commissions for housing loans & other income	193	167	189
Bond issue difference amortization		0	0	Consignment commission	199	185	170
Allowance for bad debts transfer	9,997	2,724	414	Received from general account	5,575	5,701	5,262
General account	9,996	2,722	411	ODFC subsidies	5,575	5,701	5,262
Rice Fund and New Business Creation Special Account	1	2	3	Subsidies for employees' savings interests		0	0
Miscellaneous losses	21			Received from Special Accounts for Electric Power Development Acceleration Measures	17	16	24
Reserve fund		150	150	Received from Special Account for Supply and Demand Improvements in Petroleum and Energy		1	2
Special loss				Interest on deposits		2	7
Fixed assets disposal loss	23			Security income	11	4	26
Net profit	34	22	16	Interest on securities	11	2	19
				Security income		2	7
				Miscellaneous receipts	61	42	43
				Allowance for bad debts return	9,982	9,997	2,724
				General account	9,980	9,996	2,722
				Rice Fund and New Business Creation Special Account	2	1	2
Total	75,361	62,285	53,541	Total	75,361	62,285	53,541

Note: Figures are rounded off; the sum of each account does not necessarily agree with the total.