



DEVELOPMENT COMMITTEE  
(Joint Ministerial Committee  
of the  
Boards of Governors of the Bank and the Fund  
on the  
Transfer of Real Resources to Developing Countries)



**SEVENTIETH MEETING  
WASHINGTON, DC – OCTOBER 2, 2004**

DC/S/2004-0036

October 2, 2004

Statement by

**The Honorable Sadakazu Tanigaki  
Minister of Finance  
Japan**

This year marks the 50th anniversary of Japan's Official Development Assistance (ODA). We believe that Japan's ODA has made a significant contribution to support the self-help efforts of developing countries. We are particularly pleased to see that many countries in Asia - the focal region for Japan's ODA- have achieved substantial economic growth mainly through their own policy efforts, utilizing both official aid and private resources, without being overly dependent on aid.

## **I. Aid Effectiveness and Financing Modalities**

Next year, there will be the UN mid-term review of the progress in meeting the Millennium Development Goals (MDGs) by 2015. We believe that increasing aid volume will not automatically lead to achieving these goals. To improve aid effectiveness and realize sustainable poverty reduction, it is essential that with strong ownership each developing country uses its Poverty Reduction Strategy Paper (PRSP) to localize the MDGs according to each country's circumstances. On the other hand, donor countries should endeavor to align their support with national development strategies embodied in the PRSPs. Furthermore, in order to secure aid effectiveness, developing countries are required to increase their absorptive capacity. Therefore, we attach high priority to building capacities, for public sector management in particular. Measuring the results of aid is also an urgent task to improve aid effectiveness. To accomplish this task, it is inevitable to start with introducing simple indicators, and then to elaborate a refined measuring system, while building statistics capacity in developing countries.

As for the International Finance Facility (IFF), a concept of frontloading aid funds, while some believe that this is a feasible option and that we should further our work on this concept, we are afraid that delving into this matter and having further discussions might not reach productive outcomes. To begin with, it is difficult for Japan to join this facility because our legal and budgetary systems do not allow our government to make long-term political commitments. Besides, once aid funds are frontloaded, the aid flows in the future will decline drastically. There will be overlaps with existing international organizations. Instead, we should focus our efforts to reach agreements on replenishment negotiations for the existing international organizations as scheduled. In this regard, we welcome the successful conclusion of AsDF9 in May of this year. The on-going negotiations on IDA14 and AfDF10 are extremely important, and we encourage donor countries to make serious efforts to finish these negotiations by the end of this year.

Regarding global taxes, as the Management paper points out, these instruments require careful examination with a particular focus on their effects on efficient resource allocation, the way to secure compliance, the effective collection mechanism, and its political acceptability. Thus, we have various concerns on the feasibility of this proposal. While the proposal itself is of interest, a number of basic problems remain to be solved, such as the rationale for taxation, taxation methods, and implementation organizations. We also have to consider who would make decision on the allocation and use of collected funds.

## **II. Investment Climate and Infrastructure Development**

The key to poverty reduction is sustainable economic growth. As seen in China, India, and Vietnam, high economic growth and poverty reduction are closely correlated. "Getting a job" is regarded the top priority as a means for the poor to break out of poverty. To achieve this sustainable growth, improvements in the investment climate and infrastructure development are of particular importance. We welcome that our long-held position on the importance of these issues has recently come to be shared among the donor community.

Improvement in the investment climate is essential to secure stable inflows of foreign direct investment and foster Small and Medium Enterprises (SMEs). In this regard, strengthening the financial sector is an indispensable part. Japan has been actively promoting monetary and financial cooperation among the East Asian countries, and has put forth the Asian Bond Market Initiative (ABMI) to utilize domestic savings in Asian countries in regional investments. Furthermore, in November, we will co-host with the World Bank and other organizations the Tokyo International Conference on African Development (TICAD), Asia-Africa Trade and Investment Conference. At this conference we plan to deepen our discussions on the region's development through the promotion of trade and private investments in Africa, as well as private-sector business exchanges between Asia and Africa.

We also welcome that the IMF and the World Bank will further explore the issue of fiscal space for infrastructure projects to properly treat these expenditures within developing countries' budgets, recognizing that infrastructure projects could generate further return.

In addition, when supporting infrastructure development, it is essential to take into account the progress in sector reforms of developing countries. We would also like to point out that further study must be conducted on how to recover the cost of infrastructure projects, taking into consideration its effect on the poor, and how to use subsidies to promote private sector participation without risking fiscal sustainability.

With regard to public-private partnerships, it is essential that developing countries establish adequate regulatory frameworks. Although we experienced a number of difficulties at operational level to promote these partnerships, we have to make our best efforts to overcome them. It is necessary to deepen our discussion on delivery of infrastructure service, financing for these services, and promotion of the discussion among policy makers, operators, and users. In this context, we welcome the work of the World Bank Group to explore new tools of support on this issue, such as support at the sub-sovereign level and local currency-denominated loans. We would also like to mention that the World Bank, the Asian Development Bank, and the Japan Bank for International Cooperation are now carrying out a joint flagship study on infrastructure development in East Asia. We hope that this research's findings could also contribute to future discussions on infrastructure development support.

### **III. Voice and Participation of Developing Countries**

To enhance aid effectiveness, ownership of developing countries is no less essential than improvements in efficiency of donors' support. In this respect, it is important for both the IMF and the World Bank to pay due attention to the voice of developing countries, and to implement the feasible options step by step, thus accumulating meaningful results. It is commendable that, as the first step, the World Bank has achieved decentralization, resulting in the improved quality of policy dialogue in developing countries' PRSP process. We also welcome that the World Bank has enhanced the capacity of the Executive Directors' offices with 20 or more member countries in their constituencies by appointing one senior advisor and two advisors additionally. However, as to the structural issues related to the World Bank governance, we firmly believe that the World Bank should discuss these issues, in parallel with the quota review of the IMF.

### **IV. Debt Sustainability in Low-Income Countries**

We welcome that the IMF and the World Bank have started serious discussions on how the IMF and the World Bank would assist the debt vulnerable countries to avoid further debt distress caused by future fund flows into these countries.

In this context, Japan appreciates the ongoing discussion about the framework for the debt sustainability analysis, which is jointly elaborated by the IMF and the World Bank. In operationalizing this framework, we call for a prompt deliberation on specific indicators for policies and institutional environment and debt burden thresholds and look forward to taking an active part in such a deliberation.

When reviewing the lending policies of the Multilateral Development Banks (MDBs) for low-income countries, our decisions have to reflect the debt sustainability analysis. At the same time, we have to be prudent in increasing the volume of grants for the following reasons. First, the MDBs are established as lending institutions. Second, we cannot underestimate the need to maintain financial strength of the MDBs and the concern about donors' future contributions. Third, the increased grant might cause a moral hazard in low-income countries.

Under the Enhanced Heavily Indebted Poor Countries (HIPC) Initiative, Japan has committed, as a bilateral sovereign creditor, to a total of 5.4 billion US dollars- approximately one fourth of the total contribution made by the G7 countries.

While some argue that we must reduce debt for HIPCs beyond the current level required in the Enhanced HIPC Initiative, we believe that it is essential to implement debt relief under the existing framework on a country-by-country basis, based on country-specific debt sustainability analyses.

The sunset clause for the Enhanced HIPC Initiative will be extended in this year. We are afraid that the possible moral hazard could happen, if the HIPC Initiative becomes a permanent measure, because heavily indebted countries might be inclined to increase their debt even further. Thus, Japan has serious concerns about the extension of the sunset clause and the enlargement of the number of eligible countries. And we believe we should avoid leaving room for another expansion of the eligible countries in the future, by fixing the number of countries at the end of 2004.

## **V. IRAQ**

Reconstruction and the restoration of security in Iraq are extremely important for its people, and also for the peace and stability of the international community, including the Middle East and Japan. Later this month, Tokyo will host the third donor meeting of the International Reconstruction Fund Facility for Iraq (IRFFI). As a host, Japan will make utmost efforts to steadily implement our assistance that we have already committed. We welcome that the IMF Board approved a credit in emergency post-conflict assistance for Iraq this week, and look forward to an early project implementation through the World Bank-administered trust fund. Japan will also expedite consultations on the Iraqi debt issue with other countries concerned so that we can reach a conclusion in the Paris Club by the end of this year.

## **VI. Closing**

This year, we're celebrating the 60th anniversary of the IMF and the World Bank. Since the establishment of these institutions, development paradigm have changed considerably: poverty reduction has become the global agenda, and comprehensive approaches, represented by the MDGs, are now widely shared. Adapting to these changes, both the IMF and the World Bank must redefine their roles and vigorously undertake reviews in various fields, such as crisis prevention and resolution or support to low-income countries. While it is important for these institutions to contribute to meet the MDGs, we strongly hope that the IMF and the World Bank, as financial institutions, continue to provide sustainable assistance to developing countries based on economic rationale as a guiding principle.

Thank you.