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)

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I. Introduction

First of all, I welcome the successful conclusion of MIGA's (Multilateral Investment Guarantee Agency) capital increase and the agreement of IDA's (International Development Association) 12th replenishment. For Japan, both MIGA's capital increase and IDA's 12th replenishment have recently been authorized by the Diet, and we would continue to provide active support for the activities of the World Bank Group.

II. The Comprehensive Development Framework

The development agenda today includes a greater variety of issues than before. Our challenge includes emergency response to the economic crises of emerging economies which originated in Asia, the safety measures for vulnerable groups affected by the abrupt economic and social structural changes after the crisis, and the efforts towards the better governance. Under these circumstances, we welcome that the World Bank is re-examining its activities and achievements, and proposing the Comprehensive Development Framework (CDF) as a new development framework enhancing collaboration with other development partners.

What is critical to this comprehensive approach is a question of how to ensure stronger ownership and incentives of the countries to incorporate good policies in designing and implementing development strategies. These points should be kept in mind as we address specific development issues such as heavily indebted poor countries, good practice in social policies, and assistance for post-conflict countries. While partnership among the players in development, including NGOs and civil society, is a critical message of the CDF, it will also be important to always set the focus upon the commitment of the recipient countries. In order to make effective and efficient use of limited financial and intellectual resources, the importance of collaboration among bilateral and multilateral donors cannot be overemphasized. In particular, close collaboration between the World Bank and regional development banks is one of the most important elements in designing development strategies under the CDF. It is most desirable to make further effort to facilitate dialogue among the MDBs.

III. HIPC Initiative

The implementation of the HIPC Initiative, since its inception in 1996, has steadily proceeded towards alleviating debt problems of heavily indebted poor countries, and Uganda and Bolivia have reached the completion point. We appreciate the effectiveness of the framework.

To date, under the framework of the Paris Club, Japan has actively supported efforts to alleviate debt burden of those countries suffering from particularly severe debt overhang. Under such efforts, Japan has rescheduled 940 billion yen, and has forgiven 340 billion yen of its ODA claims for 27 poor countries in the past two decades. To address the multilateral debt under the HIPC Initiative, Japan has contributed 1.3 billion yen to the HIPC Trust Fund and 7.1 billion yen to the ESAF-HIPC Trust.

Given the fact that the debt burden of heavily indebted poor countries remains severe, there is a need for the international community to further strengthen the effort to address the debt problem. In examining measures to reduce the debt burden to a sustainable level that enables countries to regain capacity to pursue social and economic development, the international community should take well into account the following principles:

(1) The Initiative should be based on the "ownership" of the heavily indebted poor countries. It is particularly important for these countries to continue their efforts toward sound economic management and economic reform.

(2) Financial resources made available as a result of debt relief initiative should be used effectively for development objectives, such as education, health and other social services, and employment.

(3) Fair burden sharing among bilateral creditors and between bilateral and multilateral creditors should be ensured.

(4) Attention should be paid to minimize "moral hazard."

(5) After the debt reduction under the Initiative, it would be difficult to extend new loans to those countries, thereby making future assistance be provided in grant in principle.

Based on these principles, Japan has made the following proposals to improve and enhance the current framework of the HIPC Initiative, noting the fairness of burden sharing among creditors;

(1) Current debt relief ceiling of bilateral ODA claims of 67% will be increased to 100% (Japan would opt for equivalent measures to debt forgiveness, such as grant assistance for debt service).

(2) Current debt relief ceiling of bilateral non-ODA claims of 80% will also be increased, as necessary.

(3) The international financial institutions shall enhance their relief measures, paying due consideration to fair burden sharing with bilateral donors. Donor countries are requested to make equitable contributions to the trust funds established by the IMF and the World Bank for the Initiative, ensuring that their respective total contributions to the Initiative be fairly shared. The IMF will sell its gold to finance the Initiative.

(4) Flexibility would be given under the Initiative to those debtor countries which have made long strides in achieving reform and those to which urgent assistance needs to be provided.

With these proposals we would like to continue to participate actively in the discussion regarding the assistance for heavily indebted poor countries.

IV. Principles of Good Social Policy

Sudden large scale macroeconomic adjustments in response to the recent Asian currency crisis have had more serious impact on vulnerable groups than had been anticipated. There is a danger in which the achievements of poverty reduction to date are to be lost.

Drawing lessons from this experience, efforts should be made to ensure that the development strategies adequately reflect principles of "good social policy" in order to minimize the impact of economic turmoil on the vulnerable groups. In this regard, it is timely for the World Bank to distill generally agreed social principles from its experience, and respect them as a part of the guiding principles for its operations.

The World Bank should make sure that these principles not be applied uniformly. It is important to recognize the unique values as well as the complex and diverse structures of the societies of individual developing countries. To facilitate these societies to accept various measures that promote "good social policy ", we should fully examine the sequencing and pace of implementation, and formulate strategies carefully considering people's awareness, social structure, and implementation capacity including financial constraints.

An essential premise to such efforts is that the developing countries themselves recognize the necessity for social reform, and demonstrate ownership in implementation. To this end, individual societies need considerable time and effort for building consensus to support social reform. We hope that in the discussions with recipient countries for designing development strategy, the World Bank will encourage them to deepen their understanding on the importance of these principles of "good social policy", and will adopt a realistic approach to support them.

V. The Roles of the Development committee and Interim Committee

As part of the wider effort to consolidate the international financial architecture, it is important to strengthen the Development Committee and the Interim Committee so that they reflect political will more appropriately, and to enhance the efficiency of the Bretton Woods Institutions in their operation.

There are a number of alternative proposals to strengthen the two committees. Whatever options we select, a clear reformulation of the two committees' mandates will be required. This does not mean the two committees, or the World Bank and the IMF, should be hampered from approaching a certain theme from the independent perspective.

As the first step towards strengthening the two committees and deepening timely and effective collaboration between the two, the President of the World Bank should participate in the Interim Committee and be given the right to speak, as in the case of the Managing Director of the IMF at the Development Committee. In addition, we support the idea that the Management of the World Bank should be fully involved in the preparatory processes of the Interim Committee.