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on the
Transfer of Real Resources to Developing Countries)



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Statement by

Mr. Hiroshi Watanabe
Vice-Minister of Finance for International Affairs
Japan

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Vice-Minister of Finance for International Affairs of Japan
At the 72nd Meeting of the World Bank/IMF
Development Committee**

Washington, D.C., September 25, 2005

First, I would like to extend my warmest welcome to President Wolfowitz at his first attendance of the Development Committee. Five years have passed since the Millennium Development Goals (MDGs) were agreed upon, and the international community recognizes more than ever the importance of development issues. Under these circumstances, the World Bank is expected to play an even greater role in the development community. I hope that the Bank becomes a more effective, efficient and relevant partner for developing countries under the leadership of President Wolfowitz.

In order to help the World Bank press ahead with its mandate to reduce poverty, it is crucial that IDA 14 replenishment will become effective as soon as possible. I would urge the IDA donors to make their best efforts to expedite their procedure for contribution to IDA 14.

Supporting Africa

First, on the assistance to Africa. There is no doubt that both developed and developing countries must certainly make further efforts in Africa where the progress toward the MDGs is at risk. Japan intends to double ODA to Africa in the next three years. In addition, Japan has committed to increase its ODA volume by US\$10 billion in aggregate over the next five years.

While aid to Africa is expected to increase substantially, what is required most for both donors and recipients is to capitalize on the increased resources to implement effective aid and appropriate policies, thus making steady progress toward the MDGs. To secure aid effectiveness, we all know that it is important to provide additional resources commensurate with the improvement of the absorptive capacity of developing countries. At the same time, however, we have to recognize that it takes some time for capacity building efforts to produce their expected outcomes and for these outcomes to become truly owned by developing countries.

I would like to remind you that in the 1960s, Africa used to be at the same income levels as Asia. I believe that the difference in these two regions during the subsequent decades emerged, because Africa did not internalize crucial factors that promoted Asia's fast growth. This includes political stability, efficient civil servant systems, and a framework of policies and institutions, which promoted export-oriented growth. Furthermore, we should note that past assistance to Africa has not contributed to the establishment of a sound production base nor diversification and sophistication of the industrial structure.

In this context, I welcome the Bank's Africa Action Plan that focuses on capacity building and growth. Japan also believes that to reduce poverty through sustained growth, we should deliver aid in such a way that it leads to wealth creation through private sector development. We have to

bear in mind the notion that it is more important for countries to get a hold of a fishing rod than to be given fish. From this viewpoint, Japan proposes to provide the following support to Africa.

First, we will provide more than US\$1 billion assistance over the next five years to implement the Enhanced Private-Sector Assistance for Africa (EPSA for Africa), which is a comprehensive initiative with the African Development Bank to promote private sector growth in Africa. To expedite the delivery of EPSA in the future, support from other donors is indispensable. I hope that all countries concerned will share the purpose of this initiative and participate.

Second, we will initially contribute US\$2 million to the Private Enterprise Partnership for Africa (PEP-Africa), the initiative IFC took this year to promote private sector development in Africa.

Third, we intend to make an initial contribution of US\$ 1 million to launch a new facility at MIGA. This new facility intends to promote private investment in Africa by supporting small- and medium-sized enterprises meet MIGA's environmental and social standards.

Fourth, as a major donor in the agricultural sector, we will reinforce our support toward achievement of the Green Revolution and better livelihood in rural areas through development and diffusion of NERICA (New Rice for Africa), education, and infrastructure build-up. As about 70% of Africa's population lives in rural areas, agricultural development and improvement of rural livelihood is imperative for socio-economic stability. We expect that African countries will strengthen their efforts in the agricultural sector in accordance with the "Declaration on Agriculture and Food Security in Africa" and hope that donors will reinforce support for their efforts.

Debt Relief

On debt relief for Heavily Indebted Poor Countries (HIPCs), I am pleased that the G8 debt cancellation proposal, in which Japan participated, is being discussed at this year's Development Committee. It aims to provide debt relief to HIPCs that have reached the completion point, leading to 100 percent cancellation of debt owed by them to IMF, IDA, and the African Development Fund (AfDF). I urge other members to support this proposal to reduce debt and increase resources for achieving the MDGs.

The G8 debt cancellation proposal does not stand alone in addressing the issue of debt sustainability in low-income countries. Progress has recently been made on this issue, as IDA has launched a new "traffic light" system from the beginning of the IDA 14 period. Enhanced HIPC Initiative, to which Japan has made the largest contribution as an official bilateral creditor, continues to be effective, while we have to maintain our efforts to encourage non Paris Club and private creditors to participate in the Initiative.

As a financial institution, the World Bank must fully take into account the importance of fostering a credit culture in the medium- and long-term perspective in order to achieve sustainable growth in low-income countries and prevent moral hazards associated with uncontrolled expansion of debt relief. Besides, for the debt relief that will be implemented over the next four decades to be truly effective, low-income countries must also make efforts, which

include establishment of appropriate policies and institutional environment and improvement in investment climate. In addition, so as to ensure that debt relief would further accelerate low-income countries' efforts to achieve economic growth and poverty reduction and that all the resources provided are used for those goals, I expect the World Bank and the IMF to report us on improvements on transparency and the drive against corruption in all areas. Furthermore, monitoring of non-concessional borrowing will be essential to prevent rapid debt accumulation after debt relief.

Trade

With regard to trade, a successful conclusion of the Doha Round is essential, as it will lead to the maintenance and strengthening of a multilateral trading system. To make progress towards the WTO Ministerial Conference to be held in Hong Kong at the end of this year, we will actively work on the new Round.

I share the following views on trade, expressed in the paper presented to the Development Committee. First, we need to help developing countries overcome supply-side constraints in order for them to fully benefit from the expected outcome from the Doha Round, such as balanced market access and trade rules. Second, addressing transitional adjustment costs from liberalization in some developing countries will also be essential to realize the ambitious outcome from the Doha Round.

Regarding "aid for trade," the World Bank must first make efforts to help developing countries recognize trade as an important element of the Poverty Reduction Strategy (PRS) process. The Bank should also provide useful advice to developing countries to let them address trade-related issues, including trade facilitation, with their ownership. In addition, the Bank needs to strengthen collaboration between the Bank's Regions and the Trade Department.

The two proposals, namely the strengthening of the Integrated Framework (IF) and the enhancement in regional trade-related aid, should be given careful consideration. For example, we need to specify what kind of aid will be provided through these proposals, estimate the needs of developing countries, and evaluate governance and other related costs to implement them. It is also necessary to avoid any overlap with existing mechanisms within trade-related international organizations. To address transitional adjustment costs from liberalization, our discussion must begin with how the current framework, including the World Bank's assistance, can contribute to mitigate these costs.

Climate Change and Energy

Japan has been proactively tackling global environment issues. We believe that climate change and energy efficiency have become increasingly important in the context of sustainable development. In fast growing Asia, where energy demand is expected to increase dramatically, efforts to improve energy efficiency and to utilize renewable energy are essential in order to ensure its economic growth is sustainable. We support that the World Bank and other Multilateral Development Banks would reinforce their efforts in this area. In addition, it is important to further strengthen the existing Global Environmental Facility (GEF)'s activities. For

this purpose, I believe it is essential to reach an agreement on the 4th replenishment of the GEF as early as possible.

Thank you.