



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)



**SEVENTY-THIRD MEETING
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Statement by

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Vice-Minister of Finance for International Affairs of Japan,
At the 73rd Meeting of the Development Committee**

Washington, D.C., April 23, 2006

First, I would like to extend my warm welcome to the new Chairman, Minister Alberto Carrasquilla, and the new Executive Secretary, Mr. Kiyoshi Kodera. With their profound knowledge on development issues, I am confident that this Committee will become an even more important and useful forum.

Clean Energy and Development

I appreciate that the World Bank prepared a paper of “Clean Energy and Development” in response to the requests by the Gleneagles Summit and the September 2005 Development Committee. I would like to see the Bank continue to closely coordinate its work on the Investment Framework with the Regional Development Banks (RDBs), International Energy Agency (IEA), and the Asia-Pacific Partnership for Clean Development and Climate. Because climate change could have its impact well beyond the country boundaries, both developed and developing countries are required to have realistic discussions, pursuing a global interest.

The oil crises in the 1970s forced Japan to seek more efficient use of energy, which also promoted the technological advancement in this area. Today, Japan’s energy efficiency is among the highest in the world in terms of carbon dioxide emission. For example, Japan’s carbon dioxide emission per unit of GDP is 0.25kg, which is about half of the average of OECD countries and at the lowest level in the world. As the host country of the COP3 meeting in 1997, we are trying to further improving the efficiency towards meeting the target of the Kyoto Protocol.

In elaborating further this issue, Japan expects the Bank to focus on the following three points.

First, in order to improve access to energy in the developing countries, the Bank needs to stimulate private investments in clean and efficient energy. It is a serious obstacle to achieve the MDGs that nearly 1.6 billion people still lack access to electricity. In this regard, we ask the Bank to enhance its work on dissolving bottlenecks for private investments, promoting R&D activities, and playing a catalytic role to promote private sector involvements. The Export Credit Agencies (ECAs) can also play an important role in mobilizing private investments.

Second, the Bank has to strengthen the policy dialogue with developing countries on climate change. Through the discussions for the Poverty Reduction Strategy (PRS) or the Country Assistance Strategy (CAS), energy efficiency and clean energy development should be integrated into the development strategies of each country as one of the serious challenges. We also call for the Bank to assist developing countries to reform energy prices or regulatory policies and utilize Clean Development Mechanism (CDM).

Third, the Bank needs to review thoroughly the existing financial instruments. We need to find any gaps in mission and function between the existing financial instruments and the proposed financial mechanism to achieve our goals.

In this context, it is particularly important to successfully conclude the ongoing replenishment negotiation of the Global Environment Facility (GEF). Only seventy days are left before the start of its next replenishment period (GEF-4). GEF is focusing on climate change and works under a unique scheme to entrust the project implementation with the existing institutions in order to seek the dual purpose of development and climate change. We would be hesitant to start the discussion on the new possible financing mechanism without agreeing on the GEF-4.

Lastly, we welcome that the report takes up the issue of adaptation to climate change. Climate change requires the developing countries' adaptation in various fronts, from the prevention of droughts and floods to the shift of agricultural production. While agriculture has not necessarily drawn much attention in the Bank recently, we believe that the Bank should re-focus this sector from the view point of assisting the developing countries' adaptation. As a major donor in water, agriculture, and disaster prevention, Japan stands ready to cooperate with the Bank in strengthening the adaptation initiatives.

Progress Toward Meeting the MDGs

Since economic growth is essential to achieve poverty reduction, it is appropriate that this year's Global Monitoring Report (GMR) focuses on investment climate and infrastructure. Japan will host the Annual Bank Conference on Development Economics (ABCDE) in Tokyo at the end of May. In this conference, with the theme of "Rethinking Infrastructure for Development", we intend to shed a new light on the role of infrastructure in development.

According to this year's GMR, the progress in reducing income poverty is generally on-track, and most of this progress has been made through Asian countries' economic growth. Looking at the human development indicators of the MDGs, however, many Asian countries are currently lagging behind. In the context of increasing our efforts to meet the MDGs, we must recognize again that, even in Asia, much more needs to be done.

It has been argued that more aid should be extended to cover recurrent costs in health and education and that it needs to be more predictable. However, developing countries cannot rely on donor resources forever. They need to continue the discussion with donors on how they can increase their own revenues to establish self-sustainable systems.

Mutual Accountability

The GMR emphasizes the need of mutual accountability both of developed and developing countries.

In terms of the developed countries' accountability, we welcome the progress in implementing the Multilateral Debt Relief Initiative (MDRI) with the developed countries' firm financial support to the initiative. The IMF already initiated debt relief last January and the IDA also reached agreement on the MDRI implementation. The MDRI is a large, long-term initiative that will last for over four decades. In addition to meet their financial commitments, the developed countries must assist the HIPC's to improve their public expenditure management and make sure that the freed resources are appropriately allocated to reduce poverty.

We also welcome that the IMF and the Bank began discussion on the issue of "free-riding" and the review of the Debt Sustainability Framework. We need to prevent the HIPC's from re-accumulating unsustainable debt after the MDRI. The new measures are necessary to control debt situation in these countries and they should involve all creditors, not just the members of the OECD DAC or the Paris Club.

This year's GMR also refers to the increasing number of global vertical funds, such as for AIDS and Avian Influenza. These vertical funds made significant contributions to flexibly respond to the development needs and to mobilize resources from a variety of groups, including the private sectors. We need to make more efforts to harmonize these fund activities with each country's strategy and assistance program.

Since last fall, aid coordination between Japan and the Bank has made significant progress. We held policy dialogues on East Asia, South Asia, Central Asia, and Africa. We jointly formulated a new CAS for Bangladesh with the Bank, ADB, and DfID. In several countries, such as Vietnam and Indonesia, Japan plans or provided co-financing on the Bank's Development Policy Lending (DPL). In Africa, we are exploring ways to scale up Japanese aid agencies' projects under the Bank's own operations. As such, we are strengthening coordination with the Bank both in strategy and project basis.

Governance and Development Effectiveness

In terms of the developing countries' accountability, we welcome the GMR's focus on governance. Tackling governance issue by the multilateral institutions is quite important to us, since improved governance could also provide a favorable platform for bilateral aid. On how to monitor the governance, we support the report's view that it is more useful to track progress of each actionable governance indicator rather than to aggregate these indicators into one index.

As President Wolfowitz mentioned in Indonesia, when facing the governance deterioration, "suspending loans on problem projects by itself does not deliver results for the poor." We all need to explore effective measures for each of the President's three approaches, namely at a

country level, at the Bank-funded project level, and at the partnerships with the private sectors and MDBs.

Trade

Finally on trade, the WTO Doha Round, which supports and strengthens the multilateral trading system, is indispensable for the sustainable growth of the global economy. Currently, extensive discussions are being held to reach an agreement on the modalities including the tariff reduction formulas, and Japan is committed to actively participate in these negotiations.

At the Hong Kong Ministerial Conference last December, Japan announced the “Development Initiative” as a proposal of aid for trade, which is a comprehensive initiative to help developing countries fully benefit from the liberalized trading system. Under the initiative, Japan is determined to provide duty-free and quota-free market access for substantially all the products originating from the least developing countries. Furthermore, Japan set out the target to allocate no less than 10 billion US dollars over the next three years for infrastructure development related to trade, production, and distribution to improve the supply-side capacities of developing countries.

Thank you.