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(Joint Ministerial Committee
of the
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on the
Transfer of Real Resources to Developing Countries)



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Statement by

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Japan

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Senior Vice Minister of Finance of Japan
At the 74th Meeting of the World Bank/IMF Joint Development Committee**

Singapore, September 18, 2006

Before anything else, let me welcome the first Development Committee meeting in East Asia in nine years. In 1997, when we gathered in Hong Kong, a currency crisis occurred and subsequently spread in East Asia, having a serious adverse effect on a number of countries in the region. Japan, with the Fund and the World Bank, supported the countries in coping with the crisis. Therefore, it has been a pleasure for us to witness the countries in the region have recovered in the subsequent nine years to demonstrate robust growth, making it necessary for the Development Committee to review the Bank's engagement with middle-income countries (MICs) including those in East Asia from a new perspective.

The Bank's Engagement with IBRD Partner Countries

In view of the fact that 70 percent of the world's poor live in MICs, it continues to be critical for the Bank to be actively engaged with MICs for poverty reduction. On the other hand, as suggested in the paper "Strengthening the World Bank's Engagement with IBRD Partner Countries", MICs have recently become more and more diverse. To respond appropriately to such diversity, the manner in which the Bank is engaged should be differentiated.

We have seen some MICs that have stable access to capital markets and ample domestic savings. These advanced MICs should seek to finance projects for poverty reduction and balanced growth primarily with resources they can acquire by themselves. In engaging with MICs with stable market access and a means to satisfy their own financing need, the Bank needs to bring their graduation in view and focus on non-lending services that supplement the recipient's own efforts, while lending services, if necessary, should be directed exclusively to climate change and other global public goods or to projects in a poverty area that would have a significant impact on poverty reduction.

Meanwhile, we have discussions to formulate a clearer Bank graduation policy, taking the level of market access of the recipient's country into account. It has been more than two decades since the current graduation policy has been put in place. I think it is meaningful to discuss a new policy under which graduation consultation is initiated sooner for countries with better market access.

Some MICs that have been borrowers from the Bank are now getting positioned as lenders and donors to other lower income countries. We strongly urge them to act as responsible members of the international community, by collaborating with other lenders and donors and respecting internationally agreed frameworks.

For example, we have started to implement the Multilateral Debt Relief Initiative (MDRI) in which the International Development Association (IDA) and other multilateral institutions will

cancel 100% of their debt claims on countries reaching the completion point. For this international financial support to remain effective and debt sustainability problems of developing countries not to recur, international coordination among all lenders, including emerging lenders, is essential so that no lending will be made without taking debt sustainability issues into account. Increased transparency of assistance by the emerging donors is also important.

The Bank is expected to share sufficient information with the Fund and to play an active part in ensuring that emerging lenders take debt sustainability issues into account in all lending practices, increase aid transparency, and respect other internationally agreed frameworks, through strenuous discussions for Country Partnership Strategy (CPS) and other policy dialogue.

The World Bank Group has implemented a pilot Sub-National Development Program as joint initiatives of the Bank and IFC, in which IFC assumes all financial risks. The paper refers to the possibility of risk sharing of the Bank. However, in view of the fact that it is difficult for the Bank to have leverage on sub-national entities, we need to consider cautiously the possibility that the Bank, which is not permitted under the Article to extend loans to sub-national entities, would assume financial risks of sub-national entities.

Strengthening Bank Group Engagement on Governance and Anti-Corruption

I welcome the initiatives to which the World Bank has committed to strengthening governance and anticorruption measures, based on the lessons learnt from its experience. Good governance of developing countries, which would be reinforced through the Bank's engagement, contributes to enhance effectiveness of aid and to improve the aid environment, and, thus, is in Japan's interest as a major bilateral donor. It also contributes to maintain our trust in development aid. It is apparent that in the long run good governance and anticorruption measures will have a positive impact on economic growth and poverty reduction. I hope the Bank will make these initiatives truly effective by respecting the ownership of recipient countries and promoting dialogue with broad stakeholders. In that process, there are two things I would like to draw the Bank's attention to.

First, when differentiating the Bank's engagement according to the level of governance and corruption in each country, which itself is appropriate, it is essential not to make arbitrary assessments, thus ensuring equal treatment among countries. It is also important for the Board of the Bank to engage in important policy changes, especially for changes of lending status, so that the Bank can keep its accountability. In addition, a differentiated strategy responding to each country's diversities is necessary.

Second, even if inadequate governance and severe corruption materialized in some counties, it is essential for the Bank to maintain engagement. As President Wolfowitz mentioned in Indonesia, "fighting corruption is a long-term commitment, and results will not come overnight." It is important to focus on technical assistance to improve governance.

Investment Framework for Clean Energy and Development

For decades, Japan has actively addressed global environmental issues. First, it was in response to serious environmental issues faced during the 1950s and the 1960s, then to the so-called oil shock in the 1970s. More recently, we have been trying hard to achieve the Kyoto Protocol targets.

Climate change is a global issue with an impact that transcends national boundaries, and efficient use of energy is also indispensable particularly to development. Thus, clean energy and development need to be discussed from a practical point of view and beyond national-level interests by all countries, whether developed or developing. In this respect, the Bank is expected to play a vital role both in financial and technical assistance.

That said, I would like to comment on the three pillars of the Investment Framework for Clean Energy and Development cited in the paper “An Investment Framework For Clean Energy And Development: A Progress Report.”

First, regarding the issue of energy for development and access to the poor, I welcome the approach putting an emphasis on infrastructure for poverty reduction, which Japan has been consistently advocating.

When discussing the action plan for electricity access for the poor in Sub-Saharan Africa, not only grants but also utilization of multilateral and bilateral loans and private capital needs to be elaborated, in view of its expected contribution to growth and substantial funding needs. If assistance which utilizes loans combined with proper energy sector reform consulted by donors is successful, it will contribute as well to enhancing the credit culture in this region.

Second, regarding the transition to a low-carbon economy, the paper seems to put much weight, towards a low-carbon economy, on development of new technologies that are not commercialized. Development of new technology is admittedly one of the key aspects of achieving a low-carbon economy. However, in a situation where demand for energy is projected to increase and improved energy efficiency is becoming a challenge, it is imperative for the Bank to focus on deployment of existing commercially available technology particularly for energy efficiency, so that the Bank can maximize use of its limited resources. I believe such an approach will eventually lead to a shift to a low-carbon economy. Based on this, it is necessary to have discussions focusing on how to make the most of private capital and existing financing instruments. Mainstreaming efficient use of energy in CPS and other policy dialogues while utilizing knowledge of other institutions such as International Energy Agency(IEA) is also important, particularly for emerging economies which are major gas emitting countries as well.

Furthermore, when discussing the subject from the perspective of beyond 2012 for the ultimate goal of the Framework Convention on Climate Change, it is essential not to fix the current framework, under which only certain developed countries are obliged to mandatory reductions of carbon gases. We need to have discussions leading to the establishment of a more effective future framework, which would not only facilitate maximum effort of major green house gas

emitting countries for its reduction, but also encourage all countries to contribute in line with their ability for the ultimate goal of the Framework of Convention on Climate Change.

New financing vehicles for clean energy and development, which are suggested in the paper, are based upon the approach that a substantial amount of subsidies or concessional loans as incentives is necessary for major green house gas emitting developing countries to make clean energy investments . However, emerging economies have achieved rapid growth, some of which already have stable capital market access and ample domestic savings. In addition, improved energy efficiency and transition to a low-carbon economy have become those emerging countries' own pressing policy agenda. In view of these facts, we believe that further study on feasibility and other practical aspects of a new financing vehicle should be focused on the option of blending non-concessional loans of the Bank and carbon finance.

Let me also add that Japan has the world's highest levels of expertise and experience in the field of energy saving. When measured by carbon dioxide emissions, for example, Japan's GDP per capita emissions are almost half the average of OECD countries. Japan stands ready to make the best use of such expertise and experience for the transition to a low-carbon economy, by fully cooperating with improvements in energy efficiency. In this context, intellectual right protection in the recipient countries is essential in promoting transfer of energy saving technologies. Therefore, I would like to call upon the recipient countries to enhance legal frameworks for intellectual right protection.

Third, regarding the challenges for climate change adaptation, Japan has made active contributions as a bilateral donor to help prevent disasters, such as floods and droughts. We would like to share the expertise we've accumulated through these activities with the Bank and other donors. We would also like to continue to proactively contribute in this field

At the G8 summit in 2008, which Japan is expected to host, a progress report regarding "Dialogue on Climate Change, Clean Energy and Sustainable Development" is planned. Japan would like to make a contribution to obtain a specific outcome that would lead to solving environment issues, energy issues and sustainable development issues in an integrated and consistent manner.

Education for All-Fast Track Initiative

Primary education helps individuals bring out a latent faculty, and its dissemination serves as the foundation of a nation's socioeconomic development. Since education expenditures are recurring, you need to continuously secure funds and human resources. It is also important to provide assistance which is designed with a long-range perspective to promote self-sustaining development. With this recognition, Japan places a strong emphasis on the realization of Education for All, and is considering making a contribution to the Fast Track Initiative (FTI), which among other things provides support for national education strategy formulation in developing countries that have a strong commitment to ownership in primary education reform.

Doha Development Agenda and Aid for Trade

As for trade, the successful conclusion of the Doha Round, which supports and strengthens the multilateral trading system, will be indispensable for the sustainable growth of the global economy. In light of the purpose of the Round in which developing countries' interests are emphasized, the difficulty in reaching a conclusion before the end of the year is perceived as a setback by developing countries as well. It is extremely disappointing that the Round was suspended. Japan will make its utmost efforts towards the early resumption of negotiations and the early conclusion of the Round.

Aid for trade is important for poverty reduction through growth. We welcome the orientation of the paper "Doha Development Agenda and Aid for Trade" that mainstreams trade into a national strategy such as the Poverty Reduction Strategy Paper (PRSP) and CAS, reflecting each country's needs. While having provided assistance actively in this field, Japan announced the comprehensive Development Initiative before the WTO Ministerial Meeting in Hong Kong last December. Regardless of progress in the Round, Japan will steadily implement the initiative, which includes providing duty-free and quota-free market access for substantially all the products originating from the least developed countries and extending various types of aid through ODA.

Thank you.