



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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Statement by

Mr. Koji Omi
Minister of Finance
Japan

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**The Hon. Koji Omi
Minister of Finance of Japan**

At the 75th Meeting of the World Bank/IMF Joint Development Committee

Washington, D.C., April 15, 2007

At the outset, I would like to extend my warmest welcome to Mr. Carstens at his first chair of the Development Committee. With his profound knowledge on development, I am confident that this Committee will become a more important and useful forum.

International Aid Architecture

Total aid volume is projected to increase toward 2015, to achieve the MDGs, whereas donor coordination has become more challenging. We have seen increased transaction costs of development assistance that undermine aid effectiveness as a result of a proliferation of aid channels and ODA fragmentation which includes increasing numbers of so called vertical funds. Against these backdrops, I would like to highlight the following four points.

First, the proactive development activities of emerging donors and others which have contributed to increasing total aid volume are welcomed. At the same time, however, their activities need to be aligned with internationally agreed upon frameworks in which the development support is integrated into the national poverty reduction strategy that is formulated by recipient countries with their strong ownership. We should emphasize that in order to maintain total aid effectiveness, responsible lending that takes debt sustainability of recipient countries into account should be secured by all donors. Transparency of aid of all donors is imperative as a precondition for donor harmonization.

Second, debt relief initiatives have increased the fiscal space of recipient countries. Debt relief in general is a straightforward budget support to recipient countries, provided that their repayment obligations have been fulfilled and their public financial management capacity is sufficient enough for the freed up resources to be used properly. Therefore, we are seriously concerned about the discussions which underestimate the development impact of debt relief. In order for debt relief to be truly effective, it is imperative for recipient countries to strengthen their own efforts to enhance their public financial management capacity with the World Bank Group supporting those efforts through technical assistance.

Third, while financing terms should be decided based on the Debt Sustainability Framework to avoid having the debt-forgiveness cycle repeated, we have heard increasing voice of recipient countries on stronger financing needs for growth. In light of

such recipient countries' needs and the comparative advantage of IDA, we should reiterate that the core business of IDA is providing loans and underscore the importance of keeping the grant share of IDA, currently around 20 percent, at an appropriate level over the middle term.

Fourth, the World Bank Group whose shareholders cover most of the donor countries and with its field offices in most countries is well positioned to promote donor coordination through board discussions and harmonization efforts on the ground. The World Bank Group should play a more proactive role in maintaining overall aid effectiveness through donor coordination.

Global Monitoring Report

We highly appreciate the Global Monitoring Report focusing on gender equality and fragile states, as these two issues should be addressed in the context of "Human Security". This aims to promote social development by protecting individuals from pervasive threats to human lives and enhancing the capacity of individuals to protect themselves, while emphasizing a human-centered perspective as Japan has been advocating.

We fully agree with the need to mainstream gender equality in development. In our view, gender mainstreaming should be implemented both at the policy level and at the community level in an inseparable manner.

Regarding fragile states, we welcome the World Bank Group strengthening its support. In future discussions on this issue, we believe that the following four points should be kept in mind.

First, the World Bank Group should tailor its engagement to each state so that underlying causes of poor performance can be addressed properly. Fragility is a broad concept and the underlying causes of which are wide-ranging from long-lasting conflict to weak governance.

Second, the discussions should be made with a global perspective which includes the Asia Pacific region, not just the Africa region.

Third, the core principle of the current resource allocation system of IFIs, which is an incentive for recipient countries pursuing better performance, should be maintained.

Fourth, close cooperation with other agencies such as the United Nations and identifying the role of the World Bank Group based on its comparative advantage should be fully elaborated to enhance development effectiveness.

We welcome continuous poverty reduction through robust economic growth which is highlighted in the report. On the other hand, it has raised serious concerns that the current growth in many developing countries has been achieved at the expense of depleted

natural assets and environmental pollution. The environmental sustainability relates to stable access to safe water and food, which is a foundation for the continuous existence of humankind. In light of its urgency, we would like to propose that the Global Monitoring Report next year focus MDG7 on environmental sustainability.

Africa Action Plan

We welcome the first revision of the Africa Action Plan which was initiated in September 2005 and is now revised to select eight flagships such as private sector development based on recipient countries' demand for the World Bank Group and its comparative advantage. Recognizing the importance to achieve poverty reduction through sustainable economic growth under this action plan, we would like to highlight three points for its successful implementation.

First, we highly appreciate the action plan placing a strong focus on the private sector which is vital to sustainable growth. In our view, private sector development assistance should be provided in a comprehensive manner, including investment climate improvement, infrastructure development, and MSMEs development. For such comprehensive support, two years ago we set up the joint initiative with the African Development Bank, EPSA for Africa, providing more than US\$1.2 billion in assistance over five years. We expect that the World Bank Group as a whole would exert synergies through IDA, IFC and MIGA each playing a role. We support IFC to further scale up its already increasing activities in Africa.

Second, we welcome the action plan focusing on raising agricultural productivity as one of the eight main business lines, which is key to poverty reduction in Africa. While increasing productivity can be achieved by comprehensive measures which include irrigation, proper water and land management, and adoption of better seeds, this would play a key role based on the experience such as the green revolutions in Asia in the 1960's and the successful development of New Rice for Africa, which is also known as NERICA, in the 1990's. We think further efforts to improve agricultural technology are necessary. We will continue our proactive support in this area as part of our agriculture and rural development support.

Third, we fully recognize the importance of infrastructure such as roads, water, and energy and Japan will continue its support for infrastructure development in Africa. In scaling up infrastructure development support, we need to keep in mind the capacity building of the RECs (Regional Economic Communities) as the strong ownership of African countries is key for smooth preparations and implementation of regional projects. Most of the infrastructure projects need to be implemented with technical assistance such as administration and maintenance capacity building and a related reform of the tariff system in case of road network and transit corridor projects. We also need to emphasize the importance of community level projects, along with large scale ones, such as small off grid generation and solar power generation.

Japan is now preparing to host the Tokyo International Conference for African Development, TICAD IV, next year, recognizing that both developed countries and developing countries must make greater efforts in Africa toward the MDGs. We will make our utmost effort to gather cutting edge knowledge, expertise and resources for Africa, underscoring the importance of ownership of African countries and global partnerships, and prioritizing the promotion of human security and south-south cooperation. We will closely collaborate with joint hosts such as the United Nations, the UNDP, and the World Bank Group.

Clean Energy for Development Investment Framework

Regarding the climate change issue, it is critically important for the developing countries themselves to take strong ownership to ensure that environmental sustainability is mainstreamed into their development strategy. In this respect, we expect that ongoing country case studies by the World Bank Group for Brazil, China, India, Mexico and South Africa will facilitate the efforts of these countries to formulate a comprehensive strategy backed by their strong commitment.

Going forward, the World Bank Group should play two important roles to help recipient countries tackle climate change. First on analytic work, policy measures that are consistent with reducing green house gas emissions should be proposed. This includes promoting energy efficiency through regulations and facilitating technology transfer through strengthening the institutional framework for intellectual property rights protections. Second, on the financing instrument, various innovative schemes to mobilize private capital are strongly expected, which include guarantees and are not limited to carbon finance related ones.

Voice and Participation

We welcome the continuous discussions over governance reform of the World Bank Group to maintain momentum for this important issue. For the World Bank Group as a multilateral development institution to continue serving recipient countries' needs, the following two points are critical.

First, we fully agree with the importance of greater voice for developing countries. For this purpose, increasing the opportunity to express their frank opinions in the decision making process is considered to be effective. We should start introducing measures such as inviting representatives of recipient countries to participate in board discussions on their country assistance strategy. In this respect, we need a very cautious discussion on increasing the total number of Executive Directors, as the efficiency and effectiveness of board discussions and decision making, as well as budget implications, need to be closely examined.

Second, long-term contributions to development aid activities should be properly rewarded and reflected in IBRD capital shares. There is an argument for IBRD capital shares to be reviewed based on the most recent contributions to IDA, in order to assess

the readiness for future contributions. It should be noted, however, that nearly half of the current IDA operations are financed by reflows, which are backed by the cumulative past donor contributions. We should appreciate the past contributions that have not yet been considered in the capital increase.

Closing

Finally, I would like to underscore the important role that science and technology could play in sustainable growth and poverty reduction.

Innovation in science and technology will enhance our efforts in addressing important challenges such as environment and infectious diseases. Joint research between developed and developing countries and capacity building of developing countries will make a crucial long-term contribution to the prosperity of humankind.

I am convinced that such an approach will provide a “win-win” solution to both developed and developing countries. For this purpose, it may be worthwhile to direct a portion of official development aid (ODA) to co-operation in research activity and capacity building in the science and technology area. In order to develop this idea in more specific form, Japan intends to give it further thought in the coming months.