



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)



SIXTY-THIRD MEETING
WASHINGTON, D.C. – APRIL 30, 2001

DC/S/2001-0007

April 28, 2001

Statement by H.E. Haruhiko Kuroda
Vice Minister of Finance for International Affairs
Japan

Support for Middle-Income Countries

In our fight against global poverty, it is absolutely essential to increase the effectiveness of development assistance to middle-income countries where a large number of the world's poor live. While the World Bank has led the fight against global poverty by drawing upon its outstanding expertise, it is expected to play an even greater role in reducing poverty in middle-income countries.

To attain sustainable growth in developing countries, it is essential to address structural and institutional problems, while promoting country ownership based on the medium- and long-term comprehensive strategies of each developing country. The programmatic approach is expected to translate such a perspective into the Bank's operations. In this context, we welcome the Bank's renewed commitment to supporting the reform efforts of developing countries through such an approach. However, I must point out that the building of economic and social infrastructure is also essential to reduce poverty, and that we need to effectively utilize the intellectual, human, and institutional resources that have supported the project lending to date.

It should be noted that focusing on structural and institutional problems in developing countries could lead to an increase in the ratio of program lending vis-à-vis investment lending. The increasing volume of program lending requires the Bank to be highly competent in public sector management and financial risk management. Such a strategic response, however, will have an inevitable impact on the appropriate skill mix required of the Bank staff. This cannot, and should not, be addressed simply by increasing the staff. Rather, the Bank must take an appropriate scrap-and-build process, while fully drawing upon the intellectual and human resources it has accumulated.

Turning to the Bank's specific proposals on support for middle-income countries, I would like to emphasize the following points.

- First, the Letter of Development Strategy (LDS). LDS is expected to serve as a cornerstone of a constructive development partnership since it will be, like PRSP, a comprehensive development strategy prepared by developing countries themselves and presented to the international community. LDS is also expected to increase development impact of the Bank's assistance through strong linkage with CAS. I would like to request clear and effective guidelines regarding LDS's framework so that it will be widely recognized as a cornerstone of international development assistance.
- Second, the Economic and Sector Work (ESW). ESW is expected to serve as a guidepost for the Bank in addressing structural and institutional problems. Responding to the need to make program lending more effective, the Bank should focus ESW on such areas as governance, fiduciary assessments, and public expenditure reviews. Also,

appropriate consideration should be given to the cost of doing business of the Bank and with the Bank which is caused by strengthening ESW. Furthermore, to enhance the qualities of ESW, it is essential for the Bank to collaborate with the Fund and multilateral development banks in formulating ESW and to consult with other stakeholders.

- Third, the Development Policy Review (DPR). DPR is proposed to systemize the Bank's analytical work on borrowers. DPR should play a complementary role with Article Four consultation of the Fund. DPR should be introduced based on appropriate consideration for the cost of doing business of the Bank and with the Bank.
- Fourth, the Programmatic Structural Adjustment Loan (PSAL) linked to the budget cycles of recipient countries. Here we should remind ourselves that to date the use of PSAL has remained limited, and that a concern has also been expressed over the possibility of providing fiscal support each year as an entitlement without effectively tracking fulfillment of conditionality. Considering all this, I believe that shareholders need to discuss elaborated modalities of this instrument, and introduce it on a gradual basis. The Bank is expected to improve the quality of the scheme by reviewing the implementation process.
- Fifth, the Deferred Drawdown Option (DDO). As we all know, the Bank is an institution that serves as a financial intermediary between markets and developing countries for the purpose of development assistance. As such, it is expected to play a significant role in the international framework of assistance to developing countries in case they face difficulty in market access. In this context, DDO is worth considering as an instrument to provide developing countries with strength against financing difficulties, while promoting their reforms and debt management flexibility. However, I must point out that modalities, including terms and triggers, of this instrument need to be elaborated, and that the relationship with Special Structural Adjustment Loan (SSAL) must also be clarified.

When considering the Bank's support strategy for middle-income countries, we need to make sure not to crowd out private capital, which plays an increasingly significant role in those countries. For that, selectivity of Bank activities must be strengthened even further. One way to do that is to concentrate the Bank's support of middle-income countries in the social sector and other priority fields. I would also like to ask the Bank for a comprehensive review of its pricing policy.

In addition to these measures, I would like to stress three other points essential to enhance the effectiveness development assistance by the Bank. First is to promote collaboration with regional development banks (RDBs), while giving due consideration to the advantage and uniqueness of RDBs. Second is to increase transparency and accountability of the Bank itself. Third is to respect ownership and governance of developing countries.

HIPCs, PRSP, and Post-Conflict Countries

Since 1999 when the international community endorsed the PRSP framework, significant progress has been made in its implementation — 32 Interim-PRSPs and four full PRSPs. I would like to commend developing countries, the Bank and Fund for their efforts behind such progress. High quality PRSP is essential to poverty reduction, and we welcome the progress being made in formulating the guidelines for Joint Staff Assessment, as it will help improve the quality of PRSPs.

To improve the quality of PRSPs even further, it is essential to strengthen ESW and other analytical work, to promote capacity building of developing countries, and to strengthen the participatory process. For our part, Japan has already committed firmly to providing support with a particular focus on the participatory process for PRSPs.

The PRSP process is to be improved by sharing experiences. The secretariat at both the Bank and Fund are thus required to provide feedback of the lessons they learn from their PRSP support, so that the international community will benefit from it.

With regard to the enhanced HIPC Initiative, as many as 22 countries have so far reached decision points. It is expected that these countries will demonstrate their ability to reduce poverty, and will reach completion points at the earliest possible time to make significant progress in their fight against poverty. In further implementing the enhanced HIPC Initiative, our challenge is how to embrace countries in, or emerging from, conflict under the Initiative. For that, it is essential to fully consider the special circumstances of these countries, and to take a case-by-case approach, while maintaining the Initiative's core framework that links debt relief with poverty reduction. In this respect, strengthening support for governments' capacity building, including public sector management, should be effective. In addressing the issues of post-conflict countries, I must point out that collaboration with other partners will be extremely important. Collaborating with the United Nation agencies' peace process and humanitarian assistance would be one such example.

For the heavily indebted poor countries to free themselves from unsustainable debt burdens and to achieve poverty reduction, it is mandatory that they build an economy with adequate levels of efficiency and productivity, thus making sustainable growth a reality. While developing countries' own initiative based on the sense of ownership is the most important factor in accomplishing reforms, we need to support such efforts by providing them with concessional loans and better access to markets in developed countries. Other essential measures include appropriate debt management by HIPCs, monitoring of debt sustainability by the international community, in particular the Bank and Fund, and better environment to attract private capital inflows.

Harmonization of Operational Policies and Procedures

Promoting harmonization of operational policies and procedures among donors will help reduce the burden of developing countries and will also lead to more efficient use of aid resources. In this respect, multilateral development banks are expected to further harmonization particularly in three areas — procurement, financial management, and environmental assessment. Throughout the discussions to achieve this, I request that they undertake adequate consultation with developing countries and other stakeholders. Regarding the harmonization in the area of bilateral assistance, on the other hand, constructive discussions are underway at the OECD-DAC Task Force. Such an effort certainly deserves our attention.

Addressing Global Issues

In the wake of rapid globalization, addressing issues in the area of global public goods is a task more urgent than ever. In this context, we welcome the Bank's contribution in such areas as communicable diseases, the environment, trade, and information and communication technology. Other global agendas the Bank is expected to tackle include participation in building the framework for international standards and codes; participation in the initiative against money laundering; and formulation of guidelines for effective insolvency systems. In dealing with global public goods and global issues, the Bank is expected to build appropriate partnerships. It is also essential for the Bank to take a selective approach by making sure it has a comparative advantage in that particular area, and by taking into account such factors as the balance of resource allocation and consistency with overall assistance strategies.

* * *