Statement by

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Japan
Implementing the Monterrey Consensus

In March of this year, the Monterrey Consensus was adopted at the International Conference on Financing for Development. More recently at the World Summit on Sustainable Development in Johannesburg, the world’s leaders reaffirmed their commitment to the collective effort of the international community to achieve the Millennium Development Goals (MDGs). There is a growing need both for developing countries to strengthen their policy efforts and for developed countries and international organizations to explore more effective ways to support the self-help efforts of developing countries. Thus, it is significant that this meeting of the Joint Development Committee has given us an opportunity to discuss ways to increase development effectiveness.

The first thing I would like to emphasize is that we have passed the exciting consensus phase and are now entering the implementation phase — a phase that will require a steady, lasting effort. To put the consensus into practice, it is essential for developing countries, through the process of formulating Poverty Reduction Strategy Papers (PRSPs), to set out their own national goals tailored to country-specific circumstances which will, in turn, help achieve the progress toward the MDGs. In turn, aid agencies must demonstrate in their country strategies, such as Country Assistance Strategies (CASs) in the case of the World Bank, how they can help their clients achieve those goals. The actions required now are to utilize both PRSPs and CASs, or other country strategies of aid agencies, as the central vehicles to implement the Monterrey Consensus, as well as to improve existing frameworks and methods from the viewpoint of better measuring results. That, we believe, should deserve our focused effort, and we do not see any necessity in building yet another framework or setting a new time frame for doing so.

The case studies presented by the secretariat of the Development Committee have identified sound policies; adequate operational capacity; financial resources; and a strong focus on results as the four key factors that together increase development effectiveness.

We have learned from past experience that aid can be used efficiently and effectively and contribute to growth and poverty reduction only when sound policies and institutions and good governance are ensured in recipient countries. Therefore, in countries unequipped with these preconditions, priority should be given to establishing an effective public sector, characterized by such features as accountable and transparent budget execution and tax collection, as well as an effective, fair and impartial public service.

From this point of view, we intend to actively extend our support in these areas through our trust funds at the World Bank. That is, we plan to expand the functions of the Policy and Human Resource Development (PHRD) Fund and the Japan Social Development Fund (JSDF), in order to strengthen support for institutional and capacity building in core
areas, such as public expenditure management and financial auditing. Recognizing the particular need to train middle-class public servants in these areas, Japan, in cooperation with the World Bank and the Asian Development Bank (ADB), plans to enhance capacity building assistance, including support for localized public sector training programs.

In the long term, assistance for education is also important as it forms the foundation of a nation in every respect. Japan plans to provide assistance of about $2 billion over the next five years for education in low-income countries.

Furthermore, to make assistance even more effective, it is imperative to properly evaluate the results of the assistance provided and to learn lessons for future development strategies from these evaluation results. The World Bank has incorporated past lessons into its operations through the process of formulating and implementing the CAS, a basic document of the Bank’s country program where both what worked well and what worked less well have been properly analyzed. Building upon these existing efforts, we hope the World Bank will work further to establish an easier-to-understand, easier-to-use framework for measuring results. We also call for efforts by the Bank and other international organizations to share the outcome of their work with bilateral donors.

In addition, I would like to highlight below a few points that should be noted in aid implementation in the context of development effectiveness:

Regarding the community-driven development (CDD) approach, we all must recognize that the approach can function more effectively when accompanied by appropriate sectoral and institutional reforms at the country level. In this regard, it is essential that the impact of this approach on nationwide institutional reforms be properly evaluated.

As to financing recurrent costs in developing countries, there is a concern that this might exacerbate recipients’ dependency on aid. Therefore, we must examine under what conditions donor support for recurrent costs should be regarded as necessary. Also, when replicating a sectoral effort such as Education for All (EFA) in other sectors, assuring consistency with the overall PRSP framework should be key.

**Heavily Indebted Poor Countries (HIPC)**

We support the current HIPC Initiative in that it helps provide a sound platform for alleviating debt burdens of Heavily Indebted Poor Countries. However, the debt relief it provides is not a panacea. We would like to emphasize here again that to secure long-term sustainability of debt, it is essential for HIPC countries to make efforts in formulating sound policies in accordance with their PRSPs.
In further implementing the Initiative, the following three points should be considered:

First, it has turned out that there are additional financing requirements for the HIPC Trust Fund, a trust fund for debt relief from multilateral creditors. It is necessary to consider the way to fill the financial gap in a balanced manner, also taking into account the magnitude of bilateral contributions to the initiative of each creditor. Japan has committed $4.8 billion in total, or one-fourth of G8 contributions to the Enhanced HIPC Initiative, to the 26 countries that have reached their decision points.

Second, there are a variety of discussions on topping up at the completion point. Topping up should be exceptional, and approved only to the extent necessary in case of a change in fundamentals due to exogenous factors. It is important to maintain this principle to prevent moral hazards.

Third, participation of non-Paris Club creditors and commercial creditors is still limited, and this situation is not consistent with the spirit of fair burden sharing under the HIPC Initiative. Thus, we would like to continue the call for further efforts by the Bank and the Fund in making progress toward full creditor participation and in considering concrete measures to urge participation of those creditors.

**Poverty Reduction Strategy Papers (PRSPs)**

Over the last six months, an additional nine countries have completed full PRSP preparations, and significant progress has also been made in other countries. We welcome that the PRSP approach has been receiving broad support.

Having said that, substantial challenges still remain ahead for the PRSP approach. For example, there is a concern that the programs and projects based on the sector strategy in a PRSP might not necessarily be consistent with the medium-term fiscal constraints of the country. The Fund and the Bank need to pursue more effective involvement in this issue.

Furthermore, to achieve progress toward the Millennium Development Goals, development efforts at a country level will be pursued through the PRSP. It should be in the long-term interest of a country to set out, with ownership, realistic goals tailored to country-specific circumstances.
Harmonization of Operational Policies and Procedures

It is an important challenge to reduce the burden of recipient countries and promote their ownership through harmonization of operational policies and procedures.

With the collaboration of the World Bank and the Asian Development Bank, Japan has made meaningful progress in harmonization on such areas as procurement, financial management and reporting in a pilot country. Taking this experience into account, a realistic approach to harmonization would be to start with feasible items and countries where appropriate. With regard to safeguard policies, including environment and involuntary resettlement policies, it should be pointed out that it is essential to fully coordinate views on these matters with bilateral donors and other stakeholders prior to proceeding with harmonization of those policies, as circumstances vary by donor.

Anti-Money Laundering Action Plan And Fighting Terrorism Financing

One year has passed since the tragic September 11th terrorist attacks on the U.S. Since then, various measures to fight terrorism have been taken by the international community. We welcome the progress made by the IMF and the World Bank toward the inception of assessments using the comprehensive AML/CFT (anti-money laundering and combating the financing of terrorism) methodology covering the FATF40+8 recommendations.

Japan has made far-reaching efforts to freeze the assets of terrorist financiers, reflecting the importance that it attaches to combating the financing of terrorism. To that end, Japan has been taking a series of blocking measures against the assets of those who support terrorists, including joint actions by the G7 countries. In June, a set of laws to combat the financing of terrorism, which was required to domestically implement the international Convention for Suppression of the Financing of the Terrorism, was approved by the Japanese Diet. Thus, the Government formally accepted the Convention. In order to fight terrorism, it is essential for all countries and relevant international organizations to continue to cooperate in taking measures to combat the financing of terrorism.