Statement by

The Honorable Sadakazu Tanigaki
Minister of Finance
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First, I would like to express my sincere appreciation to President Wolfensohn for guiding the World Bank Group over the past ten years with truly outstanding leadership. During his presidency the Bank Group has strengthened its strategies to fight against poverty. His initiative has inspired more developing countries to formulate their poverty reduction strategies under their ownership, and to share their strategies with development partners, so that they can align their assistance. Now, our focus shifts from formulation to implementation of these strategies.

I also welcome the Executive Directors having unanimously selected Mr. Wolfowitz on March 31 to succeed Mr. Wolfensohn. Japan is well prepared to make an active contribution to ensure that the Bank Group continues to implement relevant, efficient, and effective support under the leadership of the new president.

I believe that the conclusion of the Fourteenth Replenishment of IDA (IDA14) is one of the most important and concrete steps taken recently to help make progress toward the Millennium Development Goals (MDGs). We must continue to do our utmost to make this replenishment come into effect as early as possible. In this regard, I am pleased to report that prior to this meeting the bill for IDA14 was approved in our Parliament and Japan is now ready to deposit an Instrument of Commitment upon the request of the management.

**Efforts to Achieve the MDGs**

I support the balanced approach of this year’s Global Monitoring Report, which stresses a five-point agenda to accelerate progress toward the MDGs, namely, (i) country-led development strategies; (ii) improvement of the environment for private sector-led economic growth; (iii) scaled-up delivery of human development services; (iv) trade; and (v) enhanced level and effectiveness of official development assistance.

Developing countries vary on many fronts, such as natural endowment and administrative capacity. Thus, it is essential for each country to set practical goals under its ownership toward achieving the MDGs in its Poverty Reduction Strategy Paper (PRSP) and to steadily implement the measures in it. In formulating a PRSP, it is also necessary to ensure its consistency with a mid-term fiscal framework, paying attention to the macroeconomic balance and public debt sustainability.

The key to poverty reduction is sustainable economic growth. Improving investment climate and strengthening infrastructure is crucial for sustainable growth. In this regard, I would like to mention that a joint study on infrastructure development in East Asia by the World Bank, the Asian Development Bank, and the Japan Bank for International Cooperation was released in March. This study points out a number of important issues related to infrastructure development:
• The public sector cannot cover all financing needs for infrastructure development. To attract private financing, government should play a key role in improving investment climate.

• To strengthen accountability, it is important to involve civil society in infrastructure projects and introduce infrastructure service competition.

I hope that future infrastructure projects by the World Bank will be guided by these findings.

Progress toward the MDGs is particularly at risk in the area of human development such as health and education. Thus, it has been argued that more aid should be extended to cover recurrent costs in this area. However, this opinion must be carefully examined in the context of whether the aid might not hamper the incentive for recipient countries to increase their fiscal revenues, or whether they have a long-term plan to achieve a fiscal structure that will allow them to cover their own recurrent costs.

Multilateral trade liberalization through the Doha Round will be indispensable for the development of the world economy and will benefit all countries. As we look toward the sixth WTO Ministerial Meeting in Hong Kong in December, Japan is committed to making efforts to forge an agreement that would be acceptable by all member states and regions.

The importance of aid harmonization and alignment has been stressed as the vehicle to increase aid effectiveness and reduce transaction costs for developing countries. At the Paris High Level Forum on Aid Effectiveness, Japan announced its own action plan to improve aid effectiveness, and some Asian countries, as well as other countries, introduced their good practices to participants. I believe that these good practices could be shared with other regions, and that the World Bank Group, which established close working relationship at the country level, should play a central role to implement the “Paris Declaration”.

Importance of supporting Africa

In Sub-Saharan Africa, almost half the population lives on less than a dollar a day and the incidence of poverty rose between 1990 and 2001.

To deliver poverty reduction in Sub-Saharan Africa, broad-based economic growth accompanied by private-sector development is necessary, as we have witnessed in Asia. This requires improvement of the investment climate and infrastructure development, and we should bear in mind that Asian countries utilized loans for these purposes. To meet financing needs for infrastructure development in particular, we have to effectively use not only grants but also loans, giving deliberate consideration to debt sustainability, thus steadily fostering a credit culture.

In this context, Japan made a new proposal to strengthen the role of International Financial Institutions in promoting private sector development in Africa. For example, we
proposed that a multi-donor special trust fund be established in the African Development Bank Group with the target size of about 200 million USD for the next five years. This fund will aim to provide technical assistance to foster small and medium-sized enterprises’ development, strengthen financial institutions’ capacities, and improve public-sector governance. We also proposed that concessional ODA loans of up to 1 billion USD be provided over the next five years in partnership with the African Development Bank Group to support private-sector development and investment-climate improvement in Africa.

Furthermore, Japan will participate in the Asia-Africa Summit to be held from April 22 to 24, in conjunction with the fiftieth anniversary of the Bandung Conference. Furthermore, through the TICAD process we are determined to promote trade and investment between Asia and Africa with the assistance from international institutions, including the World Bank.

Sub-Saharan Africa is not on track to achieve such the MDGs as child mortality and primary education. Nearly two-thirds of all people with HIV/AIDS live in this region. The international community, in intensifying its effort to help achieve MDGs, should place greater emphasis on timely and appropriate delivery of public services, while ensuring effective use of aid. To improve public service delivery, we need to strengthen capacity building in Sub-Saharan Africa.

As for Japan, in the area of fighting communicable diseases, we have already announced that it will provide a total of 10 million bed nets by 2007. This initiative will help to protect approximately 40 million people against malaria.

**Debt relief**

In addressing the debt issue, we believe it essential to make specific progress in the Enhanced HIPC Initiative, whose sunset date was extended to December 2006. In this regard, we welcome the fact that four countries have reached their completion point since the last Development Committee meeting. To deal with debt issues hereafter, we should make good use of the Fund and the Bank framework for debt sustainability analysis to assess a debt level of each country and to provide assistance with an appropriate mix of loans and grants, thus avoiding further debt distress.

We recognize the need for further action to address the debt issues of the Multilateral Development Banks (MDBs). In deliberating specific actions, we have to adopt a case-by-case approach, taking into account the debt sustainability analysis, and policies and institutional environment in each country. To promote developing countries’ self-sustainable economic growth, we should not overlook the importance of fostering credit culture even for low-income countries, which means effective utilization of external resources and good external debt management.

In this regard, I would like to emphasize that uniform 100% debt relief of MDB debts could invite moral hazards on the part of borrowers, as it may reduce the debt well beyond the level needed to ensure debt sustainability. As for eligibility, further debt relief of MDB debts
should be limited to post-Completion Point HIPCs, because, in principle, non-HIPC countries’
debt issues should be addressed first within the traditional Paris Club arrangement.

Instead, Japan made a new proposal regarding debt reduction. We proposed that debt be
lowered to a sustainable level, based on the debt sustainability analysis by the Fund and the
Bank. In addition, the proposal allows for further debt reduction in countries with good policies
and institutional environment, to create a room for future borrowing so that they can continue to
make effective use of loans yet remain capable of making steady debt payments.

Additional financing mechanism

Regarding the International Finance Facility (IFF), we share the point described in the
Bank’s paper that financing through bond issuance will be more costly than traditional aid
financing. In addition, I am concerned that the creation of new institutions will lead to overlaps
with existing organizations and increases in administrative costs. Moreover, the impact of
decrease in aid flows post-2015 has not yet been clearly overcome. Japan finds it difficult to
take part in this facility due to constraints related to our budgetary systems.

For the same reasons, we also find it difficult to take part in the IFFIm—the IFF for
Immunization. However, Japan have been addressing health issues with particular interest in
expanding provision of vaccines for children and will continue our support in this area in tandem
with the IFFIm.

Regarding global taxes, we are concerned that establishing taxes earmarked for
development expenditures would create fiscal rigidity. Also, it would be hard to identify taxable
objects that clearly have close link to ODA, thus making it difficult to justify them as taxes
earmarked to development expenditure. Moreover, because we still have to overcome many
difficult issues, such as how to establish a global taxation authority and how to coordinate
specific tax schemes among participant countries, the feasibility of global taxes seems to be
rather low. We also have to carefully consider who would make decisions to use and allocate
these tax revenues and how those decisions would be made.

Voice and participation of developing countries

It is important for both the Fund and the Bank to pay due attention to the voice of
developing countries and to implement options step by step, wherever politically feasible.
Regarding the structural issues related to the governance of the World Bank, we firmly believe
that the Bank should discuss these issues, in parallel with the quota review of the IMF.

Tsunami support

In closing, I would like to extend my sincerest condolences to those who lost loved ones
in the recent earthquake and the unprecedented tsunami in the Indian Ocean last December and
another earthquake in March. As an Asian neighbor, Japan provided assistance to the maximum
extent possible in three ways—financial resources, human resources, and knowledge and
expertise—while drawing upon our experience in disaster prevention.
Hereafter, it is vital for us to provide medium- to long-term assistance for rehabilitation and reconstruction in the affected countries. We expect the Bank to play an important role in this regard, while fully collaborating with other donors.

Thank you.