



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)



SEVENTY-EIGHTH MEETING
WASHINGTON, DC – OCTOBER 12, 2008

DC/S/2008-0051

October 12, 2008

Statement by

Mr. Naoyuki Shinohara
Vice Minister of Finance for International Affairs
Japan

**Statement by
Mr. Naoyuki Shinohara
Vice Minister of Finance for International Affairs of Japan**

at the 78th Meeting of the World Bank/IMF Joint Development Committee

Washington, D.C., October 12, 2008

Responding to the current global economic conditions

This year marks the halfway point in our efforts toward achieving the Millennium Development Goals (MDGs) by 2015. While there still remain serious shortfalls in many areas such as infant mortality ratio and malnutrition, robust achievements have been observed in several areas including the reduction in global headcount of the poor. However, soaring food and fuel prices together with the global financial market turmoil triggered by subprime mortgage crises have made it difficult for developing countries to steer their economies both in terms of fiscal and financial policies. They also inflict damage to the lives of the poor who are the most vulnerable to such exogenous shocks, and threaten to destroy the achievements of years of development efforts. We have to sweep away the anxiety hanging over the global economy, and take firm steps towards poverty reduction and the realization of human security. Our resolve to this end is now being tested.

In particular, the financial market turmoil which has proven to be much more deep-rooted than initially envisaged may seriously damage the economies of developing countries. Private financial flows into developing countries, which have grown from around USD 150 billion in 2001 to over USD 1 trillion in 2007, have served as their engines for growth. This trend, however, may reverse, as global tightening of credit leads to contraction in private capital flows to developing countries. There will be shortfalls of resources necessary for infrastructure investments to support economic growth, as well as spending in education and health both of which are indispensable for developing human resources for the future. Such credit tightening will further risk resource mobilization to develop social safety nets that provide support for the lives of the poor. Should the effects of the financial market turmoil spill over to real economy, causing significant slow down in global economic growth, developing countries may experience reduction of exports, deceleration of growth, and increase in unemployment, and thus ruin their past efforts toward economic development.

To minimize such adverse effects on developing countries, we expect the Bank to actively and creatively consider various possible options, without being constrained by the existing frameworks, by asking: how can the World Bank and the Regional Development Banks compensate for the decline in private capital flows that have been the primary funding source for developing countries? What kind of catalytic roles can the World Bank Group play in bolstering withered private capital flows? Such options could include more flexible use of guarantees by the MIGA and possible enhancement of IFC's function to leverage private capital. Measures to support effective utilization of domestic financial resources of developing countries should also be reinforced, such as assistance for development of local currency bond market.

Fortunately, the IBRD has a very strong balance sheet with buffer risk-bearing capital of as much as USD 10 billion. The Bank should make the most use of this buffer capital to wade through the current difficult situation the world faces. Japan welcomes the proposal by President Zoellick to use the Bank's capital effectively. To meet various possible financing needs, it should seriously consider increasing flexibility of IBRD lending which would open up the possibility of allowing IDA-only countries to access IBRD loans. By allowing countries with strong fiscal management capability and appropriate debt sustainability to access IBRD loans to implement projects with high development impact, the Bank will be responding to our call under the current economic conditions. It goes without saying that its likely impact on debt sustainability should be reviewed thoroughly. In particular, cases involving post-MDRI countries would need to be carefully examined, in close coordination with the IMF.

Launch of New JICA and strengthening of coordination with the World Bank

Just as situations surrounding developing countries are becoming increasingly severe, on October 1st, the "New JICA" was launched by merging JICA and the overseas economic cooperation operation of the JBIC with a view to maximizing use of our resources and providing aids of higher quality. This marks a creation of one of the largest bilateral aid agencies equipped with all three aid modalities: technical cooperation, grants, and ODA loans. The new JICA is now capable of making more focused and timely cooperation tailored to the diverse needs of developing countries, from supports for large-scale infrastructure developments to community-based grass-root cooperation.

Facing the risk of shrinking financial flows to developing countries, all the development institutions including the new JICA should, to attain maximum development results within their resource constraints, coordinate and cooperate even more closely with each other, making use of their respective competitive advantages. The World Bank is expected to: mobilize necessary resources for development; further enhance its function as a provider of aid platform as well as its role as a knowledge bank to put together and disseminate best practices and experiences; and contribute to effective and efficient implementation of international aids to achieve maximum results.

The new JICA has abundant accumulation of best practices and know-how to deliver to the world. Japan expects that the Bank and the new JICA will provide more effective and efficient aids with robust results, by exchanging best practices and know-how, and through close coordination and cooperation.

In fact, at this year's TICAD IV, we have discussed aid for Africa which holds the key to achieving the MDGs, and good cooperation has already been established in broad areas of aid; from education and health to infrastructure development. We are committed to implement those projects in cooperation with the Bank, using the follow-up mechanism devised at the TICAD IV.

The outcomes of the TICAD IV had been reflected in the heads-of-state discussions at the G8 Toyako Summit in July with the participation of President Zoellick's and Managing Director of the International Monetary Fund Strauss-Kahn's. We believe that through such discussions, we have been able to

successfully indicate the future direction of the efforts to be made by the international community in addressing the challenges in health, water and sanitation, and education, as well as the soaring food price issue. On climate change issue, it was agreed at the G8 summit to seek to share and adopt the goal of achieving at least 50% reduction of global emissions by 2050.

Building on the achievements of these conferences, Japan would like to strengthen even further the cooperation with the Bank in our efforts to address, in particular, food and climate change issues.

Improving agricultural productivity

The first area of such cooperation is assistance for improving agricultural productivity in developing countries.

While having fallen back from their peaks, food prices are still hovering at a high level and are expected to continuously cause serious damages to the poor in developing countries.

As a short-term response, it is important to strengthen the safety nets to support the poor who are the most affected by the higher food prices through measures such as the Bank's Global Food Crisis Response Program. We strongly support such efforts by the Bank.

On the other hand, considering that the recent hike in food prices has been caused not only by soaring oil prices and increasing use of biofuels, but also by structural factors such as supply capacity lagging behind increased demand due to population growth and changes in dietary habits in rapidly growing emerging countries, its fundamental remedy would inevitably require improving agricultural productivity. It should also be noted that comprehensive agricultural reforms including productivity improvement are absolutely necessary for pro-poor growth, given that three out of four poor people live in agricultural villages mostly engaged in subsistence farming. Any agricultural reform would be bound to fail unless all the key factors are put together: water, better varieties fitted to the land and climate, fertilizers, people who can provide appropriate technical advice in the field, and market access for harvested products. Japan urges the Bank to further strengthen its efforts towards agricultural reforms including productivity improvements.

Japan's new JICA has accumulated experiences in employing approaches that build on abundant Japanese knowledge and experience in agricultural area, especially related to rice. Against this background, the TICAD IV in May this year had set a target of doubling rice production in Africa in the next ten years in cooperation with various countries and institutions through Coalition for African Rice Development. Japan will provide assistance so that the Bank and the new JICA will build on their respective competitive advantages and further solidify their coordination fostered since TICAD IV, and ensure improvements in agricultural productivity.

Specifically, first, in the midst of advancing global warming, Japan will support, through the CGIAR, development of rice varieties resilient to heat and low rainfall that can thrive in severe natural environment in developing countries including Africa and withstand future climate changes. Japan will

also provide assistance through the Bank to enhance the use of fertilizers, which is one of the major challenges for African agriculture. It should be noted, however, that even if these new seeds and fertilizers are made available, no tangible outcome would result unless they were actually disseminated to farmers who grew crops. To achieve the target of doubling rice production, it is critical to solve the shortage of agricultural researchers and capable extension workers, which is seriously impeding agricultural development in Africa. Japan will collaborate with the Bank and work with CGIAR to assist human resource development at various levels of agricultural technologies in these countries.

Second, Japan will support the completion of rice production assessments that will lead to the formulation of country-specific rice development plans, promoting the country-led efforts towards enhanced rice production in Africa. Such assessments are expected to cover, supply and demand trends, market access conditions, and bottlenecks in improvement of productivity.

Third, drawing on information obtained through these assessments, we will assist the implementation of pilot projects to combine factors such as seeds, fertilizers, and human resources that Japan is to extend its assistance to. It will be in selected locations where the Bank or JICA is engaged in irrigation or other promising projects. We will make sure to remove bottlenecks and bring about firm results such as improved agricultural productivity, extension of cultivated acreage, and increased per-capita income in farming villages. We will link the assistance for market access by farmers and for organizing farmers, focusing on community-level activities. In addition, through experimental studies of these results, we will also put our efforts in identifying success factors and disseminating them to other regions.

Japan is going to provide USD 100 million over the next five years, through a trust fund at the Bank, for the comprehensive assistance for African agriculture as described above.

Climate change and disaster prevention

Climate change is a pressing challenge for the international community and an important issue in the field of development as well.

Japan has provided support for the efforts by developing countries on climate change through both bilateral and multilateral means, in addition to our efforts under the UNFCCC. In January this year, Japan proposed “Cool Earth Promotion Programme” and announced to establish “Cool Earth Partnerships” with developing countries that are trying to achieve both emission reduction and economic growth, and to provide assistance of as much as USD 10 billion. We have been assisting developing countries in their adaptation and mitigation efforts through such partnerships with some 60 countries so far, including Indonesia to which we have provided a Climate Change Program Loan of USD 300 million following our pledge at the Toyako Summit.

Assisting developing countries achieve economic growth while making transition to low carbon society and adapting to climate change lies at the core of the Bank’s development mandate. We welcome the Strategic Framework on Climate Change and Development that will guide the activities of the World

Bank Group, and expect that climate change will be mainstreamed in its operations, strengthening the foundation for cooperation between developed and developing countries.

We welcome the launch of the Climate Investment Fund (CIF) and its successful mobilization of funds totaling as much as USD 6.1 billion, including our contribution of up to USD 1.2 billion. We expect the CIF to play an important role in the international community's efforts on climate change by responding to various needs of developing countries, and to achieve visible results such as reduction of green house gas through dissemination of low carbon technologies as well as accumulation and sharing of experience, knowledge and lessons on adaptation. We also strongly expect the CIF to play a pump-priming role to mobilize private capital. Given the sizable amount of resources necessary for coping with climate change, it is imperative that we mobilize private capital for investments to realize low carbon economy in addition to funding from governments and other official sources.

Large scale disasters have become more frequent in recent years, and there are growing concerns that the effects of climate change will further exacerbate the risk of natural disasters. From 1970 to 2007, on average, 160 million people became victims to natural disasters, and 95 thousand lives were lost, with economic damages amounting to USD 36.7 billion every year. The numbers of disasters and victims in the last ten years tripled compared to the 1970's. Large scale disasters, just like armed conflicts and civil wars, instantly take away the achievements of past development efforts, inflict serious damages to the weak poor, and render countries fragile. Disaster prevention is extremely important, not only as a means to adapt to climate change, but also from the viewpoint of assisting potential fragile states and protecting the poorest and the most vulnerable, making it a major challenge for sustainable development and poverty reduction. Having suffered the damages of many such disasters including typhoons, earthquakes and floods, Japan has accumulated ample knowledge and lessons which it can share with the world. Japan has been working closely with the Bank, conducting joint research by the new JICA and the Bank on the impact of climate change on major cities of developing countries. We will widely share the accumulated knowledge so that it can be used to the benefit of the world.

One of the lessons Japan has learnt is that damages of disasters can be reduced by human efforts such as establishing disaster prevention facilities and raising people's awareness of disaster prevention. It makes good economic sense for countries that are likely to experience many disasters to invest in disaster prevention. Following the Hyogo Framework for Action adopted by 168 countries at the World Conference on Disaster Reduction in Kobe in 2005, Japan will support to underscore the economic rationale of investments for disaster prevention, by evaluating the amount of social and economic damages that the major cities will suffer, if struck by disasters. We will also support mainstreaming disaster prevention and encourage poverty reduction strategies to incorporate disaster prevention perspectives, by creating hazard maps and support preparation of disaster prevention projects,

Japan is going to provide USD 50 million over the next five years, through a trust fund at the Bank, for the above-mentioned activities.

Voice and participation

The World Bank is a development institution, and it is important that the views of the developing countries are properly reflected in its policies and projects. We welcome the proposed comprehensive package of measures, presented to the Development Committee following extensive discussions at the Board. The package aims at enhancing the voice of the developing countries and includes such measures as doubling of basic votes. Japan views this package as being realistic and striking a good balance while giving due considerations to requirements of various stakeholders, and believes that its prompt implementation is critical. Japan will actively participate in the coming second phase of discussions, taking into consideration how the Bank can mobilize funding to IDA and other such endeavors so that the Bank can continue to fulfill its mission as a development financial institution.