

**Statement by H. E. Sadakazu Tanigaki, Minister of Finance of Japan,
At The Forty-sixth Annual Meeting of the Inter-American
Development Bank and Twentieth Annual Meeting of
The Inter-American Investment Corporation**

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I. Introduction

Your Imperial Highness the Crown Prince,
Your Excellencies,
the Presidents of the Republic of Honduras, the Republic of Colombia, and
the Republic of Bolivia,
President Iglesias,
Distinguished Governors,
Ladies and Gentlemen:

It is a great honor to hold this 46th Annual Meeting of the Inter-American Development Bank and the 20th Annual Meeting of the Inter-American Investment Corporation in the presence of His Imperial Highness the Crown Prince. On behalf of the other Governors and participants, I would like to express my deep appreciation to His Imperial Highness for his presence today.

I would also like sincerely to thank all the Governors for electing me Chairman of the Annual Meeting and would like to take this opportunity to recognize the Governor for Peru for his capable leadership over the past year.

It has been 14 years since Japan last hosted the Annual Meeting of the Bank Group in Nagoya. Since then, the Latin American and Caribbean region has scaled up its relations with Asia. Therefore, at this time, I believe it is most appropriate for us to gather here in Okinawa—the islands, which have thrived as a crossroad of Asian trade, and have shared over a hundred years of emigration experience with Latin America and the Caribbean.

As the Governor of the host country, I would like to extend a warm welcome to all of you. In particular, I would like to happily welcome the Governor for Korea.

II. Economic Situation and Challenges for the Region

Ladies and Gentlemen,

The decade and a half since the Nagoya Meeting can be characterized as a period of advancing globalization.

Since 1991, the world economy has increased its interdependence along with long and sustainable growth that has benefited from innovations in information technology. In Asia, more recently, the regional economy has recovered from the currency crisis of 1997. Dramatic growth in China and other East Asian economies has also generated growth momentum in South Asia.

In Japan, after a long period of post-bubble adjustment, efforts to overcome deflation and revitalize the economy through fiscal and structural reforms have started to pay off. Economic recovery led by domestic private demand is continuing.

I would now like to turn to Latin America and the Caribbean during this period. A series of currency and financial crises in Mexico, Brazil, and Argentina had a considerable impact on the regional economies. Yet, compared with the “lost decade” of the 1980s, the region demonstrated more positive growth in the 1990s and succeeded in curbing inflation. While the rate of growth declined in 2001 and 2002, the regional economy achieved almost 5% growth in 2004. This development reflects strong growth of the world economy and increased exports backed by buoyant international commodities markets. Another factor is low inflation that has helped increase domestic demand.

I should also point out that the expansion of trade is backed by the free trade agreements such as the NAFTA (the North American Free Trade Agreement) and the MERCOSUR (the Common Market of the South). In this regard, I would like to highlight that the Economic Partnership

Agreement between Mexico and Japan took effect on the first of this month. Furthermore, the region is strengthening its economic ties with Asia through expanding trade with China, Korea and ASEAN countries.

Despite this progress, however, and although many countries in the region enjoy middle-income levels, domestic income disparity has not improved. In September, progress towards the Millennium Development Goals (MDGs) will be reviewed at the UN General Assembly. In this context, much remains to be done.

For example, while the Latin American and Caribbean region has made relatively steady progress in the issues of gender equality and universal primary education, the fight against poverty is still continuing. While the poverty rate in the region decreased from 11.3% in 1990 to 9.5% in 2000, this reduction is not satisfactory. To achieve the poverty reduction target, I believe it is essential to strengthen the social safety net and develop SMEs to generate employment, while at the same time improving living conditions for the poor.

As I myself pointed out at the Annual Meeting back in 1999, environmental protection is another key issue. The Kyoto Protocol entered into force last February, and we must act quickly. For its part, the Latin American and Caribbean region needs to address the depletion of rain forests and air pollution that have had an enormous impact on global climate change.

Furthermore, for the Latin American and Caribbean countries to achieve sustainable economic growth, it is essential for the governments to pursue disciplined management in fiscal spending, increased fiscal transparency, and improved tax revenue management. Policy makers in the region also need to build a favorable environment for investment—in particular improved regulatory frameworks—and to implement financial sector reform. These actions will promote capital inflows and foreign direct investments. Strong leadership is required for these actions.

III. The Roles and Tasks of the Bank Group

Ladies and Gentlemen,

Let me turn to the roles and tasks of the Bank Group.

Under the strong leadership of President Iglesias, the Bank has continued to meet the region's development needs through the Seventh and Eighth General Capital Increases, organizational reforms including the establishment of the Private Sector Department, and the creation of the Multilateral Investment Fund (MIF). More recently, the Bank has also enhanced coordination and partnerships with the World Bank and other development organizations. The Bank has strengthened regional integration initiatives, such as the Plan Puebla Panama and the IIRSA (The Initiative for the Integration of Regional Infrastructure in South America). All of these achievements are certainly commendable.

However, in addressing regional challenges in the future, I believe it is essential for the Bank Group to operate even more efficiently and effectively, by taking into account the following four main points.

The *first* point is an appropriate mix of lending instruments.

We welcome a recent agreement on a New Lending Framework, which will serve as the roadmap for the Bank's operation. Japan strongly believes that the primary form of lending by the Bank is Investment Loans. Thus, we are pleased that greater flexibility will be introduced in terms of lending procedures and eligibility of expenditures.

On the other hand, there is a growing need for Policy Based Loans (PBLs) among the borrowers based on the recognition of importance of policy reform efforts for sustainable economic growth. However, Japan has consistently emphasized that, before increasing PBLs, it is essential: (1) to formulate guidelines and eligibility in order to ensure its development effectiveness, and (2) to deepen cooperation with the IMF and the World Bank to assure its linkage to the borrower's macroeconomic stability. We welcome that our views were fully shared by all the Board members, including borrowers.

The *second* point concerns private sector development.

As I have already mentioned, Latin America and the Caribbean has a number of middle-income countries that enjoy relatively upper middle income levels compared to other regions. So, in the long run, it seems

appropriate for the Bank Group to shift its focus to the private sector. However, the regulatory framework and financial sector in the region still need improvement. Therefore, efforts should be stepped up to improve the investment climate by leveraging the Bank's in-depth knowledge of countries in the region and good relations with borrower governments, rather than simply filling the gap caused by insufficient private capital inflows.

In this context, we welcome the new proposal regarding the reorganization of the private sector arms in the Bank Group. For many years, Japan has emphasized that private sector development is not a monopoly of the Private Sector Department of the Bank or the IIC. Rather, the whole IDB Group, including the public sector departments, should promote departmental collaboration based on comprehensive strategies, focusing on the strengthening of competitiveness and improvement of business environments. From this viewpoint, we strongly endorse the new proposal and we look forward to seeing this proposal translated into specific actions.

The *third* point concerns the replenishment of the MIF.

Since its inception in 1993, the MIF has steadily achieved tangible results in supporting micro and small business, and in improving business environment. Its activities are highly appreciated by recipient countries, and many of them are considered most innovative. A good example is a project named "Dekassegui Entrepreneurs"—or Migrant Workers from Latin America, a program to provide those migrant workers with the tools to start new businesses upon returning home.

So, it gives us great pleasure that a larger number of members signed the MIF II here in Okinawa. As for Japan, we will contribute 70 million dollars to the replenishment.

The *fourth* point is the emphasis on development effectiveness.

It is essential to identify the result-chain, specifically the link between the Bank's inputs and its results in recipient countries at every stage of the lending operation—from design to implementation and evaluation. The Bank also needs to strengthen its result-based management including introduction of measurable monitoring indicators. To achieve this

objective, efforts must be made to ensure that borrowers' development plans are shared with other multilateral development banks and donors.

IV. Japan's Contribution to IDB

Ladies and Gentlemen,

For almost three decades, as the largest non-regional shareholder, Japan has remained committed to the Bank Group, its policies, and activities. And, until last month, when the Republic of Korea joined the Bank Group, Japan was the only Asian member.

In addition to its contribution to the MIF that I referred to earlier, Japan also provides support through trust funds. The Japan Special Fund (JSF) is the largest bilateral trust fund in the Bank. To date, we have made some 26 billion yen in contributions through the JSF, to support the preparation and implementation of the Bank projects. There is also the JSF Poverty Reduction Program, a window to support grassroots-poverty alleviation activities in the region. In addition, Japan has also launched the Japan Program to strengthen links between Latin America and the Caribbean and Asia, by promoting the exchange of knowledge, experiences and best practices in development.

I understand that the Bank will undertake various initiatives aimed at improved disaster management. Having recently eye-witnessed the enormous disaster caused by tsunami in the Indian Ocean, Japan decided to give the JSF support for these initiatives based on our accumulated knowledge and experience of disaster prevention.

V. Conclusion

In concluding my remarks, I sincerely hope that this Okinawa Meeting will provide us with an opportunity to promote economic links between the two regions—Latin America and the Caribbean and Asia.

The both regions need to strengthen their competitiveness in the world of globalization. At the same time, we should also keep in mind we can be a partner to achieve mutual prosperity. Japan has long established

stable economic relationships with Latin America and the Caribbean by importing goods and raw materials with long term contracts, and by extending stable capital flow to the region. As Asian countries are rapidly emerging as major economic counterparties for the region, I strongly believe that Japan's role as a reliable and stable economic partner for the region as well as a liaison between the region and Asia is now becoming more and more important.

Thank you, "Muchas gracias."