

Statement by the Honorable SUZUKI Shunichi
ADB Governor for Japan
at the Fifty-sixth Annual Meeting of the Board of Governors of
the Asian Development Bank
(Incheon, Republic of Korea, 4 May 2023)

1. Introduction

Mr. Chairperson of the Board of Governors, Mr. President, Governors, Ladies and Gentlemen:

First of all, I would like to express my sincere gratitude to the Government of the Republic of Korea, the host country of this Annual Meeting, for their warm welcome. As the economy is recovering from the COVID-19 pandemic and in-person communication like this Annual Meeting is resuming, I hope communication between the Republic of Korea and Japan will be revitalized further.

After the economies of the Asia-Pacific region suffered devastating impacts from the COVID-19 pandemic, economic growth in the region is expected to accelerate this year as recovery in domestic consumption, tourism, and investment intensifies due to the easing of COVID-19 related rules, such as border and mobility restrictions. Furthermore, inflation is expected to gradually slow to pre-pandemic levels, and we can now see a slight silver lining. However, the prolonged Russian invasion of Ukraine, debt issues in developing countries, and increasing financial risks seen in the recent turmoil of the banking sector in the United States and Europe could hinder global economic recovery. In order to ensure economic stability in the region, we need to stay vigilant for these downside risks.

2. Japan's Development Priorities

First, I would like to address three policy challenges in which Japan expects ADB to play a proactive role, in order to achieve the sustainable growth and further development of the Asia-Pacific region. Since these challenges also represent part of the G7 priorities under Japan's presidency, ADB is expected to further enhance its efforts in these areas.

(1) Climate Change

The Asia-Pacific region emits almost half of the world's greenhouse gases, which means that future global trends in climate change will significantly depend on ADB's decarbonization efforts as the Climate Bank. At the same time, the Asia-Pacific region is one of the most vulnerable regions to climate change and is on the frontlines of the climate crisis. In recent years, the region has frequently suffered damage from extreme weather events and large-scale natural disasters caused by climate change. Therefore, a balanced approach to adaptation measures, in addition to mitigation measures, is also essential.

On the other hand, in order to achieve ambitious net zero emission targets while preventing or managing potential trade-offs between climate and other important development objectives such as

health and education, well-designed climate actions and the mobilization of sufficient resources for climate finance are needed.

From this perspective, Japan welcomes the agreement to create the Innovative Finance Facility for Climate in Asia and the Pacific, or IF-CAP. IF-CAP is an innovative financing mechanism that allows ADB to accelerate its climate support by enhancing ADB's lending capacity through grants and guarantee contributions from donors. IF-CAP will significantly contribute to achieving ADB's climate financing ambition as the Climate Bank. In this regard, Japan is ready to contribute US\$25 million to IF-CAP Grant Window and would like to request ADB to accelerate its work to start IF-CAP under the appropriate design. In addition, this initiative aligns with the G20 concept of "Independent Review of Multilateral Development Banks' Capital Adequacy Frameworks," and Japan appreciates the ambitious initiative to use limited financial resources effectively. I also commend President Asakawa's leadership in the ADB's response to climate change, including IF-CAP.

ADB's role as the Climate Bank is not limited to the expansion of lending. Notably, the transition to clean energy and the promotion of net zero in middle-income countries cannot be achieved solely by the financing support by MDBs and sovereign donors, and it is essential to facilitate well-functioning capital markets to mobilize private capital. In order to mobilize private climate finance in a time when there is growing interest in environment, social, and governance (ESG) finance, it is also vital to promote the implementation of impact investments based on appropriate ESG impact measurement and management. Japan expects ADB to generate new knowledge and disseminate it across the organization and the region.

(2) Debt issues/Domestic Resource Mobilization

Due to the combined crises of COVID-19 and Russia's aggression against Ukraine, the risks of debt vulnerabilities have been elevated in not only low-income countries but also in some middle-income countries. For low-income countries, it is crucial that the creditor committees swiftly implement debt restructuring under the Common Framework and increase the predictability of the process. For vulnerable middle-income countries, all creditors and donors should work together to restore debt sustainability in a coordinated manner. In this regard, Japan welcomes the launch of a coordinated debt restructuring process of official bilateral creditors of Sri Lanka. It is essential to improve debt data transparency and accuracy in order to prevent future debt crises. In this context, Japan leads the Data Sharing Exercise among creditor countries. Furthermore, Japan expects ADB to mobilize its expertise and work with the IMF and the World Bank to enhance debt management capacity and transparency in developing member countries (DMCs).

In addition, it is important to strengthen domestic resource mobilization (DRM) by expanding the tax base and improving tax administration capacity. As many multinational companies have been reactivating their operations in Asia in the recovery phase from COVID-19, it is also essential to steadily implement the international tax framework, including the two-pillar agreement, and actively enhance tax transparency. In this regard, Japan will continue to contribute to the "Asia-Pacific Tax Hub" and the

“Domestic Resource Mobilization Trust Fund (DRMTF)” through policy dialogue and knowledge sharing on tax issues as well as financial support.

(3) Global Health

Building human capital, supported by robust health systems and high-quality education, is also critical for sustainable growth in the Asia-Pacific region.

Even before COVID-19, Japan has long been advocating that strengthening “prevention,” “preparedness” for, and “response” (PPR) to future pandemics and promoting Universal Health Coverage (UHC) are essential elements not only for the perspective of public health but also for economic sustainability and development. Although the impact of COVID-19 is subsiding, we should prepare for potential future pandemics, drawing on the lessons learned. Japan will continue to support DMCs in the health sector through the “Japan Fund for Prosperous and Resilient Asia and the Pacific (JFPR)” in cooperation with ADB.

In addition to health, it is also important to encourage efforts to address food insecurity and malnutrition, as well as to further facilitate equal opportunities and high-quality in education. Japan will utilize the JFPR in these areas as well in supporting recovery from COVID-19 through ADB.

3. Organizational Review/ Capital Adequacy Framework Review

In order to appropriately respond to the evolving environment and new regional challenges in the Asia-Pacific region, it is essential for ADB to reform its organizational structure as well as revise its operational model. ADB should respond strategically to the assistance needs of DMCs, in alignment with an aim to achieve ambitious climate targets and enhance private sector operations, while also focusing on quality rather than quantity in project preparation. From this perspective, Japan welcomes the solid progress being made in the organizational review and new operation model, which has been carried out under the strong leadership of President Asakawa. Japan hopes that diversity, including the aspect of gender, will continue to be highlighted within ADB.

Furthermore, like other MDBs do, ADB needs to enhance its lending capacity in order to respond to growing and complex development needs, including climate change and food crises, while also ensuring appropriate risk management within its limited capital and maintaining its robust credit ratings through its financial soundness. From this perspective, Japan looks forward to the progress of the Capital Adequacy Framework review currently under discussion by the ADB Board of Directors. Japan hopes that ADB, as a result of these efforts, will play an even more important part not only in lending but also in mobilizing private capital and transferring development knowledge, and fulfill its role as a core financial institution in Asia-Pacific that provides regional public goods.

4. Replenishment of ADF14

As ADB plays an increasingly important role in addressing challenges in the Asia-Pacific region, the Asian Development Fund (ADF) has been contributing to poverty reduction through concessional

assistance. This year, negotiation for the 13th replenishment of ADF resources (ADF14) is going to start. For the negotiation process to be successful under the limited fiscal space of member countries, ADB needs to take a balanced approach in supporting recipient countries by taking into consideration their absorption capacity as well as the value and necessity of the support, while also making self-help efforts to maximize the use of the ADB's internal resources. Japan hopes the structure of the next ADF will be well-designed, reflecting the lessons learned from the current ADF13 appropriately.

5. Conclusion

As the environment surrounding the Asia-Pacific region and global challenges have been rapidly evolving, ADB needs to take bold actions while playing a leading role for cooperation among the relevant countries and institutions in order to realize prosperity across the entire region. I hope that the mission of ADB will continue to be fulfilled more effectively under the outstanding leadership of President Asakawa. Japan will continue to cooperate closely with ADB and contribute to the further development of the Asia-Pacific region.