

**Statement by Hon. Hiroshi Moriyama,  
Senior Vice Minister of Finance of Japan  
at The Forty-ninth Annual Meeting of The Inter-American Development Bank  
and The Twenty-Third Annual Meeting of The Inter-American Investment  
Corporation,  
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1. Introduction

I am honored to have this opportunity to address the 49th Inter-American Development Bank (IDB) and the 23rd Inter-American Investment Corporation (IIC) Annual Meetings as a representative of the Japanese Government.

I would like to begin by expressing my heartfelt gratitude to our hosts, the United States Government and people of Miami, for their warm welcome and excellent hospitality.

2. Challenges Facing the IDB

Overview of the Latin American and Caribbean Region

Countries in the Latin American and Caribbean (LAC) region have enjoyed an average annual growth rate of 5.3 percent since 2004, owing in part to favorable global economy and rise in international commodity prices. In the LAC region, the current account has been in surplus since 2003, foreign reserves have continued to increase steadily, and the unemployment rate is expected to remain at single digit figures for three consecutive years from 2005. Major borrowing countries have become capable of raising funds for their development from the capital markets.

Poverty and Income Disparities

With the LAC region going through such rapid changes, what should be the role of the IDB? First of all, the IDB must address the issue of widespread poverty and prevalent income disparity. While high economic growth benefited the haves by increasing their income, it did not necessarily benefit the have-nots. Thus, the resulting gap in income between the rich and poor is now a serious social problem. Before World War II, the Gini coefficient in Japan used to be either equal to or higher than that of the current LAC region, but through farmland reform and tax reform, increasing property tax and introducing progressive taxation, Japan was able to amend income disparities in a relatively short span of time, which led to the social stability and prosperity of our nation.

As the development bank of the LAC region, alleviating poverty and overcoming income disparities in the region should come at the top of IDB's priority. With a greater focus on poor people, the IDB should, for instance, work more intensively on the introduction and provision of know-how for the reform of delayed social security programs, such as medical services and pension systems, the improvement of the basic infrastructure required to promote economic activities and a better life in rural and poor areas, and also other various reforms that strives to amend income disparities. In addition, in the area of private sector development, the IDB should enhance its support for small- and medium-sized enterprises and microfinance, expanding employment opportunities for the poor. In this respect, Japan appreciates the

Opportunities for the Majority Initiative, established under the leadership of President Moreno, and expects its effective implementation.

## Climate Change

Climate change is another area where the IDB must take the lead. The LAC region has recently suffered from many natural disasters whose cause may be climate change. Countries in the region now widely recognize climate change as a major risk for their economic development.

Japan will host the Hokkaido Toyako G8 Summit, this July, and climate change will be one of its major topics. Japan is working towards establishing a framework in which all major emitting countries take part, and setting fair targets. We have also announced to set up a new financing mechanism (the Cool Earth Partnership) with a contribution in the order of US\$10 billion, aimed at supporting developing countries to reduce green house gas emission through energy conservation, and help adapt to serious damages caused by climate change. Furthermore, Japan is working with the United States, the United Kingdom, and Multilateral Development Banks (MDBs) to establish a new multilateral fund to address the mitigation and adaptation agenda, and is calling for the participation of other donors. We expect that this fund will not only contribute to the reduction of green house gas emission, by taking advantage of the resources and know-how of the MDBs, but also help promote international cooperation towards establishing the post-Kyoto framework on climate change.

Last year the IDB introduced the Sustainable Energy and Climate Change Initiative (SECCI). I believe that this will have significant implications for the sustainable development of the LAC region. One of the pillars of the SECCI is biofuels, where LAC region has a comparative advantage. My home prefecture Kagoshima is also working on the development of biofuels that are less taxing on environment and experiments are being conducted to produce methane gas from pig farm waste.

I am pleased to announce that the Government of Japan has decided to contribute a maximum of US\$5 million to the SECCI Multi-Donor Fund, expecting the IDB to play a leading role in the promotion of environment-related investment and technical cooperation.

## Structural Reorganization

Increase in lending volume should not be the goal of the IDB. Instead, we expect IDB to tackle the two issues mentioned above and respond flexibly to the needs of the region's borrowing member countries. To this end, the IDB should enhance its flexibility and effectiveness as an organization, paying due respect to its regional diversity of staffs.

## Excess Capital and Net Income Allocation

From the perspective of its capital base, I must conclude that IDB holds excess capital with the Total Equity to Loans Ratio (TELR) being over 38 percent. The External Advisory Group submitted a report on this issue this January. We do not think that it is appropriate to further accumulate the reserves from net income. Instead, the net income should be used more effectively for capacity building and technical cooperation to deal with income disparities and climate change issues. Increase in transfers to the Fund for Special Operations should also be considered.

This year, we will start our discussion on the New Operational Framework, which sets the medium-term operational policy for 2009 onward. I expect that the discussion will focus on specifying priority sectors based on the needs of the borrowing countries and IDB's core competencies. We should find ways to improve the quality of the projects and maximize their development impacts rather than pursuing mere increase in lending volume.

### 3. Conclusion

Japan has maintained a long and stable relationship of trust with the LAC region through many years of exchanges via immigration, as well as through trade and investment. This year we are celebrating the 100 years of immigration of the Japanese people to Brazil and Uruguay, as well as the 100th anniversary of Japan's establishment of diplomatic ties with Colombia, the host of next year's annual meeting.

Moreover, both the Asian region and LAC region have achieved remarkable economic growth in recent years. The trade volume between the two regions has increased more than 150 percent in the past five years. I am convinced that continuing to create mutually complementary relations through trade and investment between the two regions is in our common interest. I hope that the IDB's Office in Asia will further strengthen its role it has played.

Japan is the largest supporter from outside the region, and serves as a stable economic partner, as well as a "bridge" between the LAC region and other Asian countries, and we remain committed to continue contributing to the development of the LAC region.

Thank you for your kind attention.