



ANNUAL MEETING OF THE BOARDS OF GOVERNORS

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**ADDRESS BY THE GOVERNOR FOR JAPAN
AT THE SECOND PLENARY SESSION**

Kiyoshi Kodera

I. Introduction

1. It is a great pleasure for me to address the 43rd Annual Meeting of the Inter-American Development Bank and the 17th Annual Meeting of the Inter-American Investment Corporation in Fortaleza — a city with positive signs of growth as the development center for the Northeast of Brazil. On behalf of the Government of Japan, I would like to express our gratitude to our hosts, the Government of Brazil and the people of Fortaleza, for their generous hospitality.

The Japanese economy

2. The Japanese economy is in a difficult situation. To restore its vitality, it is essential to implement fundamental structural reform, and to bring out its potential to the fullest. That's why our government has made it a rule to leave no stone unturned in reviewing our expenditure, and to implement the reform with no reservations.

3. At the same time, we must also address the immediate economic challenges, the most important of which is to counter deflation. It is in this context that our government announced emergency measures to fight deflation two weeks ago. While respecting the overarching policy goal of creating sustainable private demand as early as possible, the latest initiative is designed to promote the disposal of non-performing loans, and to stabilize the financial system.

II. IDB and the Development Issues in the Region

The regional economy in 2001 and poverty reduction

4. In 2001 a series of adverse external shocks had a negative impact on Latin America and the Caribbean: a serious drought in Central America, declines in tourism due to the

events of September 11, a sharp drop in coffee prices, and the Argentine crisis. These difficulties the region faced have revealed the structural vulnerability of the regional economy.

5. The most vulnerable to such external shocks in particular are those who live in poverty. Indeed, in Latin America and the Caribbean, the fight against poverty and social inequity is far from over. This is due to insufficient investments in the social sector and the weak social safety nets.

6. The crisis that started to unfold in Argentina last year is a source of concern in Japan, too, as there are a number of Argentine bondholders. While collaborating with the IMF and other international organizations, the government of Argentina needs to quickly come up with macroeconomic stabilization measures including the fiscal and foreign exchange policies to restore international confidence. International financial institutions should make their utmost efforts to prevent the contagion of the crisis to other emerging economies.

7. The Argentine crisis has also revealed the fact that, in the medium term, macroeconomic stabilization and liberalization of the economy per se did not lead to greater competitiveness of domestic industries. Macroeconomic stabilization and liberalization of the economy are no doubt necessary but not sufficient to achieve economic development. It is imperative to build the environment that helps strengthen competitiveness. In fact, without going through institutional reforms, no country can make progress in economic development. These institutional reforms include building a financial system that allows for efficient use of private capital, and establishing a flexible labor market that efficiently links demand and supply of the labor force, fostering innovative entrepreneurship and creating more credible and transparent government.

8. This applies to many countries in the region, not just to Argentina alone. For sustainable growth of the economies in the region, it is imperative to promote structural reform from a medium- to long-term viewpoint, while building upon the progress already made in macroeconomic stabilization, trade liberalization of the economy, and poverty reduction.

9. In this context, it is timely that the latest edition of the Report on Economic and Social Progress in Latin America has made a proposal to strengthen competitiveness in such areas as the financial sector, human capital, and science and technology.

Japan's contribution to IDB

10. Whether to make organizational and institutional improvements, to fight against poverty, or to increase institutional capacity for foreign exchange and fiscal management, the key lies in human resource development and institutional capacity building. For its part, Japan has continued to help develop human resources in the region via the Japan-IDB Scholarship Program. While our extremely severe fiscal situation forces us to reduce the ODA budget, we will remain committed to providing intellectual contribution, for example, via the Japan Program, which promotes the exchange of knowledge regarding development between Asia and the Latin American and Caribbean region.

III. Reform for future activities of IDB

11. International financial institutions have long played instrumental roles in economic and social development. Take the financial roles that range from providing funds for development to catalyzing private capital inflows. Or, the non-financial roles, such as having policy dialogue with each government and designing development strategies. Nowadays, however, these institutions are required more than ever to focus on operational efficiency and development effectiveness. The Inter-American Development Bank is no exception. It must increase its development effectiveness even further. In this regard, I would like to draw your attention particularly to the following three points.

12. First, as the regional multilateral development bank, it is essential for the IDB to operate more selectively based on its comparative advantages. For that, the Bank has to identify those areas where it can apply greater leverage than the World Bank or other institutions, and target its limited human and financial resources to these areas. Regional integration would be certainly one such area.

13. Second, in order to increase the effectiveness of development, the Bank should clearly set objectives and establish measurable monitoring and evaluation indicators in its operations. We strongly urge the borrowing countries to internalize monitoring and evaluation systems together with proper financial management systems so that they can demonstrate their use of development aid in an accountable and transparent manner.

14. Third, the Bank should review these operations, while strengthening harmonization and coordination with other institutions. Closer coordination among the institutions in designing individual country assistance strategies and formulating new lending policies will indeed be indispensable for effective aid and alleviation of the borrowers' burden.

15. In this context, I welcome the new lending framework established recently after a series of discussions since the Santiago meeting. We hope that the new measures to improve quality at entry and the portfolio quality will be promptly put into practice. In this respect, it is particularly essential that the Board of Executive Directors and Management quickly materialize the recommendations in the latest OVE (Office of Evaluation and Oversight) report.

16. As to the proposals made by the External Advisory Group, our government will take an active part in discussion with other Members.

IV. Okinawa as a Candidate for the Host of the Meetings

17. Japan stands ready to serve as a bridge between Asia and the Latin American and Caribbean region, to help achieve the progress of the regional economy on both financial and non-financial fronts. In this context, I would like to announce again our intention to host the 2005 Annual Meetings in Okinawa. Located at the southwestern tip of Japan, Okinawa is a subtropical prefecture that consists of over 160 islands.

18. Many in Okinawa emigrated to various corners of the world, including the Latin American and Caribbean region, to become an integral part of each community. It is a place that successfully hosted the 2000 G-7 Summit.

19. Combined with the islands' spectacular natural environment, the heritage of crossroads of different cultures, people, and goods, should make Okinawa the ideal place for us to exchange our views on development. With your support, I hope that the IDB meeting in Okinawa would be a great success.