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Statement by the Hon. **ASHRAF GHANI**,
Governor of the Bank for the **ISLAMIC STATE OF AFGHANISTAN**,
at the Joint Annual Discussion

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Afghanistan has reached a fork in the road, either it will move towards becoming a polity, economy, and society that is democratic, dynamic and open, or it will descend into a narco-mafia state that perpetuates misery internally and threatens the well-being of our children globally. The choices and actions we take together in the next year will determine which road Afghanistan travels.

On October 9, the people of Afghanistan will become sovereign. Direct Presidential elections will conclude our political transition, and usher in a government with a popular mandate for a five-year term. These elections represent a critical milestone in a journey that began three years ago with the UN-Brokered Bonn Agreement, but that journey is far from over. If we are to stay on the path to lasting peace and prosperity, we must focus on three things: public finance, credible institutions, and stability.

In each of these areas, much has already been accomplished. In public finance, the Karzai Administration issued a new currency in a fraction of the usual time; promulgated a simplified tariff regime, introduced strict accountability and reporting mechanisms, established a single treasury account, and developed mechanisms for centralizing and streamlining our revenue collection. Our main challenge, however, is still to transform the budget into the central instrument of policy, a challenge that cannot be overcome without the full commitment of the donor community.

Credible institutions flow from the rule of law. We have built a national army of 18,000, and trained a national police force. We have begun the process of disarming and reintegrating our militias into civilian life. We have focused on the security sector as a central pillar of our reform process. The Afghan people, however, differentiate between security and stability. While the army and the police are becoming instruments of security, they cannot deliver stability on their own. To be stable, Afghanistan must be prosperous. Our greatest challenge, therefore, remains poverty.

There is a gap between the expectations of our people and the resources at our disposal. In our Constitutional Convention, delegates from around Afghanistan presented their urgent needs for electricity, schools, health, roads, dams, communications and so on. The costs of these requests amount to between \$80-120 billion dollars. This is not an unreasonable request. According to the World Bank, Afghanistan lost \$240 billion in destroyed infrastructure and lost opportunity between 1978 and 2001. The generous pledge of the international community in Berlin in 2004 was only \$8.2 billion. The gap between our aspirations and our means leads to three conclusions:

- First, the Public Investment Program should harness the aid system to results, both institutionally, and in terms of visible outcomes.
- Second, we must create an enabling environment for private sector investment.
- Third, we must fulfill Afghanistan's potential as a land bridge between South Asia, Central Asia and the Middle East. Reliable access to transit trade is key to our survival. We need our neighbors to join us in conceiving and implementing win-win strategies that will ensure rapid and inclusive growth of our economies.

Afghans want to partner with the international community to achieve a social and economic transformation. A lot has been achieved through a sustained multilateral engagement that recognized country leadership and insured that resources for the next three years were assured through the April 2004 Berlin Conference. In that regard, we would like to thank the World Bank and the Fund, in general, and Mr. Jim Wolfensohn, in particular, for their sustained engagement. As the aid community reviews its lessons from the sixty years of engagement, we would like to contribute some lessons we have learned ourselves.

We have seen what happens when aid is not harmonized. Flows of money outside the budget are undermining our efforts at creation of credible institutions, sound public finances, and stability. In this context, replenishment of IDA 14 and creation of financial instruments, such as the International Finance Facility, are critical for ensuring predictability and flows of resources. One dollar of IDA assistance is worth four dollars of tied aid.

We know that the contracting and consulting industry needs a major overhaul. While the advice of a select group of consultants remains indispensable, the irony of technical assistance on cost-plus contracts lecturing our government on performance-based budgeting should not be lost. The lack of a credible vetting system is also becoming a source of resentment against international engagement. Moreover, the policy of donors funding two civil services—the government bureaucracy at an average wage of \$50 per month; and a parallel bureaucracy of their own at \$500 per month—draws talented people out of government in the short term and fundamentally undermines the creation of a sustainable state in the medium to long term.

Aid has too often been an inhibitor of private-sector-led growth rather than a catalyst. The entrepreneurial spirit of Afghans must be cultivated and not crippled by the rules of the aid system. While our partners agree with us that the private sector should be our engine of growth, practice has not always matched the international consensus.

Getting Afghanistan right is a challenge for all of us. Now is the time for a new economic coalition between the international financial institutions, bilateral donors, the private

sector, the Afghan government, international and national civil society, and the Afghan people to overcome the challenge of poverty and instability.

Our aims are high. In the next seven years, we believe that with enough of the right kind of support, we can achieve the Millennium Development Goals. In one of the poorest countries of the world, this challenge will test our combined will to the core, but we must succeed.

The stakes have never been higher. Afghanistan can provide a much needed victory in the international wars on poverty and terror. Or it can once again fail the hopes of its people and threaten global security. Whatever path we take, we will take that path together. Today, we know that in Afghanistan, and that is why we want to participate in an open global economic system. We believe that our partners—the aid community and the global private sector—now see that too.