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Statement by the Hon. **ANWAR UL-HAQ AHADY**,
Governor of the Bank for the **ISLAMIC REPUBLIC OF AFGHANISTAN**,
at the Joint Annual Discussion



**Islamic Republic of Afghanistan
Ministry of Finance**

**Speech for the Plenary Session of the
Annual Meetings of the World Bank and International Monetary Fund
October 22, 2007**

**Anwar Ul-Haq Ahady, Minister of Finance
Governor for the Islamic Republic of Afghanistan**

Excellencies, Ladies and Gentlemen:

It is a pleasure to address this forum again.

As you know, since 2002, President Karzai's administration has been trying to establish a democratic polity, a pluralist society, and a market-based economy. With great help from the international community, we have made impressive progress in all three areas; however, in the interest of time, I will briefly report on our achievements in economic matters in this past year and will express my government's views on some issues that require decisions from the Bretton Woods financial institutions and that affect Afghanistan as well.

I am pleased to report that economic growth remained strong at about 13%, and inflation was contained at a relatively low level of 5.4%. As we have made significant progress in rebuilding our infrastructure, and as we are rather confident that international assistance will continue at the current level for the next few years, I expect that we will continue to benefit from high growth for the next few years. Similarly, last year we increased government's domestic revenues by over 30% and expect an additional increase of about 30% this year. In close cooperation with the IMF, the World Bank, the Asian Development Bank, and bilateral donors, we are restructuring our economy. In June 2006, we launched our IMF program – the Poverty Reduction and Growth Facility – and I am pleased to report that thus far we have met the benchmarks specified by the program.

Under the auspices of the Paris Club, we have had very successful negotiations with our major bilateral creditors. I would like to thank our Paris Club creditors – namely the Russian Federation, the United States, and Germany – for agreeing to write off about \$10.4 billion of our debt, and for promising this past June to forgive 100% of our remaining debt upon our completion of the Heavily Indebted Poor Countries (HIPC) program. We expect to successfully complete our HIPC program in 2009. We have also made significant progress in preparing our Poverty Reduction Strategy Paper (PRSP). We expect to complete and submit our PRSP by March 2008.

However, our polity, society, and economy suffer from corruption and narcotics. We have asked the World Bank to prepare a comprehensive analysis of the causes of corruption and to prepare recommendations for fighting corruption in Afghanistan. We have already implemented recommendations from the World Bank for fighting corruption in the management of public finances, and we are now confident in the transparency of our public financial management – a position with which I believe the International Financial Institutions (IFIs) agree.

Our people suffer the most from corruption in delivery of public services. We are waiting for the World Bank's recommendations in this regard, and I can assure you that my government will fully implement those recommendations.

Similarly, we consider fighting narcotics as a joint task for my government and the international community. In collaboration with some of our donors, soon we will be developing a counter narcotics strategy encompassing not only eradication and interdiction efforts, but also a focus on better development of alternative livelihoods for rural residents.

However, despite these challenges and recent deteriorations in security, we are confident that with continued international support, we can build and strengthen the institutions and policies that will facilitate the functioning of a market-based economy.

Let me turn to some issues that require World Bank and IMF decisions and which affect us too.

First, we agree with the conclusions drawn in the Development Committee paper on “Scaling Up Aid”, that predictability of aid is crucial to its effectiveness, and we share the concern that the average level of aid predictability remains very low. Afghanistan is a good case for the argument that more predictable aid is better aid – particularly when aid volumes are such a large percentage of the overall budget, sensible budgetary planning can only occur when donors and the Government are well-coordinated, and aid flows are communicated in advance.

Second, on the issue of IDA's evolving role, Afghanistan is in a particularly good position to witness the benefits of IDA's support through its “platform role”. We hope that the IDA-15 negotiations will result in much higher financing so that IDA achieves the “critical mass” necessary to achieve its many goals and continue to help guide other donors.

Third, we support the aid-for-trade initiative, particularly the proposal to undertake regional initiatives. With some of the lowest tariffs in the region, and membership in regional economic and trade groups, and given its location, Afghanistan is eager to become the bridge between Central Asia, South Asia, and the Middle East, and help the expansion of trade in the region.

And, finally, we are supportive of the recommendations of the HIPC Implementation Report. We hope that the Bank and Fund will continue to encourage other multilateral institutions to participate in the HIPC initiative. And we hope that non-Paris Club creditors will also increase their participation in the HIPC initiative. Along these lines, we agree that a public “scorecard” identifying the debt relief granted by each bilateral creditor would be a productive endeavor.

In conclusion, Afghanistan has made significant progress in the past year, but we need your support to continue our reconstruction efforts and to address the challenges of security, corruption, and the “growing pains” of moving towards a market economy. Despite these challenges, and with the support of the international community, we are confident that we will be able to build a democratic polity, a pluralist society, and a market-based economy in Afghanistan. Thank you.