

INTERNATIONAL MONETARY FUND

WORLD BANK GROUP

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL FINANCE CORPORATION
INTERNATIONAL DEVELOPMENT ASSOCIATION
INTERNATIONAL CENTRE FOR SETTLEMENT OF INVESTMENT DISPUTES
MULTILATERAL INVESTMENT GUARANTEE AGENCY

J

Press Release No. 28

October 13, 2008

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

**Statement by the Hon. Anwar ul-Haq Ahady,
Governor of the Bank for the Islamic Republic of Afghanistan,
at the Joint Annual Discussion**

Excellencies, ladies and gentlemen;

It is a great privilege to address this forum again.

Despite deterioration in the security situation during the past year, the Government of Afghanistan has continued to implement existing restructuring programs, and has launched new major development efforts. We submitted our “Poverty Reduction Strategy Paper” to the World Bank and the IMF boards in April of 2008. Jointly with the Government of France, we convened the Afghanistan Support Conference in Paris last June whereby donors generously pledged new contributions of over US\$ 15B to help the implementation of our national development strategy. Our PRSP calls for US\$ 50B investment in five years. We had about \$14B outstanding pledges, and I am quite confident that donors will pledge additional amounts during the next few years to help finance the implementation of our PRSP. We will submit our first year PRSP implementation report next April.

Over two years ago we started our “Poverty Reduction and Growth Facility” (PRGF) program with the IMF. We plan to complete the third year of our PRGF program in Summer 2009 which is fundamental in achieving debt restructuring under the “Heavily Indebted Poor Countries” (HIPC) program; and we have successfully implemented most of the PRGF recommendations for structural reform. Like in the previous years, last year we increased our revenues by 27%; this year we expect to increase our revenues by 32%. Despite increasing challenges in the way of collecting revenues, I am happy to report that we just met our second quarter revenue target.

However, like the rest of the world, Afghanistan has suffered from the drastic increase in the prices of food and oil. Between 2002 and 2007, inflation

remained below 10% whereas last year it rose to over 20%. Increase in the food and fuel prices explains over 80% of the last year's inflation. Furthermore, this year's drought is projected to cause a decline of about 30% in the production of grain. Without major imports of grain, we anticipate major food shortages. Thus, to remedy this situation, in addition to asking donors for food assistance and expecting the private sector to import larger amount of food, the Government has allocated US\$100m to purchase grain from international markets.

Last year the economy grew by 11.5%; unfortunately this year, due to the drought, we have lowered our expected growth rate to 7.5%. Even though we anticipate our structural reforms to enable the private sector to play a much more important role in economic growth in a few years' time, for now, donor assistance continues to be the largest contributor to economic growth. Of course, we are very grateful to our donors for helping us to rebuild our economy, but as I have said in the past, without addressing the issue of aid effectiveness, we are not likely to have impressive results. With better aid effectiveness, we believe we can have much higher growth rates. We are very pleased with the results of the High Level Forum on Aid Effectiveness that was convened in Accra, Ghana, during the first week of September this year. We are thankful for donors agreeing to channel at least 50% of their assistance through the national budget by 2010. Cost effectiveness, particular in procurement, and genuine ownership of the developmental priorities by the recipients of aid are also very important factors in improving aid effectiveness. We are committed to mutual accountability, enhancing value for money, transparency and predictability of aid and urge the World Bank Group to develop plans to implement the Accra Agenda for Action. Now that donors have agreed to channel a substantial amount of their resources through the national budget, I hope that we will also promote these other critical aspects of aid effectiveness.

Ladies and gentlemen:

Of course the Bretton Woods institutions play an important role in the world economic affairs, especially in developing countries. The IMF's PRGF program in Afghanistan is a mechanism for market-oriented economic reform which is

expected to promote sustainable growth. We appreciate IDA's continued funding of some of our most essential development programs as well as rebuilding effective state institutions. Donors, including the World Bank, should support the governments of developing and post-conflict countries to develop greater capacity for responding to drastically changing external conditions. In this context, we commend President Zoellick in responding to rising global food prices. The Bank's Food Crisis Response Trust will help countries to increase food security over time; we indeed hope that the long term solutions to food insecurity will receive greater attention. However, it is also necessary for countries like Afghanistan to receive immediate assistance to respond to the short-term crisis. We also welcome the World Bank Group's collaboration with the UN High Level Task Force on Global Food Crisis.

I also appreciate the discussion at the IMFC on Saturday on concrete steps to restore financial stability and the smooth functioning of credit markets. Developing countries could indeed suffer greatly from a long global slowdown. It will be therefore crucial to maintain focus on support for sustainable growth, poverty reduction, and the achievement of the Millennium Development Goals (MDGs). We hope that the current financial crisis will not reduce the amount of assistance available for development. In this regard, we welcome the world leaders' renewed commitment to the MDGs at the recent United Nations (UN) High Level event. We also welcome the IMF's mobilization of the Poverty Reduction and Growth Facility (PRGF) in response to its members' needs, and the recent reform for easier and more rapid access to concessional assistance in response to external shocks.

We also strongly support the World Bank's continued focus on access to renewable energy, a key requirement for developing countries to achieve economic growth and make progress towards the realization of the MDGs. As discussed yesterday in the Development Committee, we recognize the importance of supporting the low income countries in adapting to the effects of climate change, but we hope that this effort will not mean redirecting financial resources from other important development priorities. Furthermore, there is an additional concern about the increasing cost of projects due to screening of climate change impact.

In conclusion, despite the increased difficulties in our environment and the complexity of our problems, the Government of Afghanistan has adhered to its economic reform agendas. Our developmental achievements are still impressive. We thank the IMF for advising us on establishing an economic system that will enhance sustainable growth and the World Bank for financing some of our essential developmental and effective state-building programs. Even though we face tremendous challenges, with your continued support I am confident we will overcome these problems.

Thank you.