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INTERNATIONAL FINANCE CORPORATION
INTERNATIONAL DEVELOPMENT ASSOCIATION
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Statement by the Hon. **OMAR ZAKHILWAL**,
Governor of the Bank for the **ISLAMIC REPUBLIC OF AFGHANISTAN**,
at the Joint Annual Discussion

**Statement by the Hon. Omar Zakhilwal,
Governor of the Bank for the Islamic Republic of Afghanistan,
at the Joint Annual Discussion**

It is my distinct pleasure to address this meeting today. I would like to join others in expressing our gratitude to the Government of Turkey for its warm hospitality here in Istanbul.

I also take this opportunity to express our sincere appreciation to the World Bank (WB) and the International Monetary Fund (IMF) for their continued support for the economic development of Afghanistan, as a result of which our country has gone from decades of almost total isolation to the point today where we are gradually more engaged in the world economy.

One of our greatest challenges is to develop the capacity of the Afghan Government to manage our development. A critical step in this is increasing the amount of aid that passes through the Afghan budget.

The World Bank administers the Afghanistan Reconstruction Trust Fund (ARTF) that pools over \$3bn in donor funding through our Government systems in an efficient and transparent way, funding important projects and programs from community led development to large infrastructure to institutional reform and development.

Similarly, the Poverty Reduction and Growth Facility (PRGF) of the IMF is a key driver in economic reform, and has helped Afghanistan to implement important structural improvements.

Despite challenges, we are on track to finalise the PRGF by March 2010 and have implemented the wider social and economic reforms required to finish the Heavily Indebted Poor Countries (HIPC) Initiative. With the help of WB and IMF we are looking forward to reaching these significant milestones in the very near future.

However, the completion of our key reform programs does not mean that the Bretton Woods institutions have a lesser role to play in our country in the years to come – on the contrary.

New national programs, underpinned with clear and coherent approaches, are needed to effectively implement the Afghanistan National Development Strategy (ANDS) – our Poverty Reduction Strategy Paper (PRSP).

ANDS reflects our top national priorities, including strengthening human resource development, investing in infrastructure for a viable economy and increasing the productivity of our agriculture to improve the livelihoods of the great majority of Afghans.

Our efforts to introduce economic and social reforms will also continue. Domestic revenue collection is being set on a sustainable, long-term path.

At the same time, a strong enabling environment for the private sector needs to be put in place while state-owned enterprises are being corporatized or privatized.

Important steps are also being taken to strengthen public sector institutions in order to improve the delivery of services to the Afghan people. This requires that significant progress is made in reducing corruption.

But in turn, fighting corruption is not only about developing anti-corruption plans or setting requirements for Cabinet members to register their assets. The Government is moving to significantly reduce the incentives for any mismanagement of funds by ensuring our institutions are fit for purpose.

For example, we at the Ministry of Finance are working to build a credible internal audit capacity across all of Government, development projects and non-tax revenue collection alike.

Success in all these efforts will depend upon sustained assistance through investments, technical assistance and policy advice from the WB and IMF.

At a time when Afghanistan is moving into the next stage of its development, we must reassess how donors in general, and the WB and IMF in particular, can provide assistance more effectively, so that it contributes to the sustained economic growth and development envisioned in the ANDS.

In this context, we strongly support the G20 efforts to examine the mandate and instruments of the IFIs to ensure they are as relevant and responsive as possible. Afghanistan's experience certainly demonstrates that for aid to be effective, more ownership and increased capacity are necessary on the part of the recipient country.

A challenge that all donors face is how to give a country such as Afghanistan its own voice and a credible role in the reform and policy making process. This issue will continue to be discussed during the WB and IMF Annual Meetings:

We agree that stronger voice and participation is critical to increase the legitimacy of the IFIs, to broaden acceptance for their work, and to allow them to meet their development mandate.

Greater ownership plays an important role for Afghanistan, as we now start preparing for a successor to the PRGF program – a program that we believe can only be successful if Afghans drive the reform agenda.

Currently, 80% of aid funding in Afghanistan is delivered outside of the Government budgetary systems. It is difficult to ensure that this aid is appropriately aligned with Government priorities. The result is a system of development assistance that is not well managed or coordinated, and is certainly not reflective of Afghan ownership.

However, without a reasonable degree of ownership, accountability for our own development is not possible.

Having benefitted from several years of assistance, and supported by recent donor assessments, the Ministry of Finance believes it is now in a position to manage on budget contributions to government programs. Our immediate goal is for donors to increase the amount of on-budget aid to 40% in the coming fiscal year.

But good progress has been made in other areas to demonstrate strengthened Government ownership. Increasing domestic revenue, continuously exceeding IMF targets, has not only been a remarkable achievement, but also a critical step towards fiscal self-sustainability.

This has only been possible because the Afghan Government has been both willing and able to assume a leadership role, enabling us to find our own solutions to the challenges set out in our revenue action plan.

For example, we have implemented management changes; strengthened capacity; improved internal audit and anti-corruption functions; and importantly, made revenue collection a Government-wide priority.

But donors have also played a critical role supporting these efforts by responding directly to requests for assistance by the Afghan leadership, resulting in better coordination in aid that is more in line with our needs.

Genuine ownership also requires capacity – capacity to identify, lead and implement priorities that are complex, challenging and intertwined. We readily acknowledge that this capacity does not exist in many areas. As a result, efforts to substantially increase capacity are a priority for all of our development partners.

With this in mind, the Afghan Government has proposed a new initiative, a national program for civilian technical assistance, to ensure that technical assistance is effectively meeting our most urgent needs. Technical assistance is to be demand led and an integral part of the Government structures – not a parallel system.

In conclusion, the work of the WB and IMF is instrumental in helping Afghanistan as we seek to increase economic growth and reduce poverty.

We welcome an expanded role for the WB and IMF - but a role in close partnership with donors, and most importantly with the Afghan Government.

I encourage that the IMF, WB and relevant governments come together to discuss how they can effectively work together, particularly in more volatile and insecure environments. In this way the WB and IMF can continue to play their renewed leadership roles in assisting the world's developing economies.

Thank you.