



## **AFGHANISTAN**

**ANWAR UL HAQ AHADY**, Governor

It is a pleasure to be here today. I want to join my fellow Governors in stating how I am proud of how the ADB has responded to the Tsumani disaster. Because my own country has recently emerged from the ashes of conflict with the support of the ADB and others, I know both intellectually and emotionally how important is the support of the ADB in this region. In the last few years, Afghanistan has sought to rebuild its relations with the international community. We want to be fully engaged in both regional and global concerns. We hope one day to provide the kind of help to others that our country has so gratefully received these past years. Unfortunately, the severity of our reconstruction challenge is such that we have to focus our primary attention today on Afghanistan's needs.

For that reason, I will confine my comments today on the partnership between Afghanistan and the Asian Development Bank and share some thoughts on Afghanistan's reconstruction priorities.

We are proud to have been a partner of the ADB since its foundation. The ADB has played a significant role in Afghanistan since its inception. From 1969 to 1979, the ADB was one of our major donors, disbursing almost \$100 million dollars in aid at a time when Afghanistan had difficulty garnering global attention. Following the fall of the Taliban, the ADB was the first international financial institution in twenty-three years to loan funding to Afghanistan. In December 2002, ADB initiated its post conflict multi-sector program with a \$150 million dollar loan which helped us to begin the modernization of our financial, transport and energy sectors. In response to our strategic initiative of 2004, "Securing Afghanistan's Future", the ADB committed more than \$1 billion dollars of multi-year assistance, making it one of Afghanistan's top three donors.

We are very pleased not only with the scale of ADB's support in recent years, but also with the quality of that assistance. ADB's programmatic approach and willingness to put the Afghan government in the driver's seat has set an example that other donors should follow. The vast majority of ADB support has come to Afghanistan in the form of loans over which the Afghan Government exercises significant authority.

We have achieved a lot together, but much remains to be done. In 2002, we emerged from 23 years of war that, by the World Bank's estimate, caused Afghanistan to lose more than \$240 billion dollars in destroyed infrastructure and lost opportunity. Today, we are highly aid dependant, with foreign assistance totaling more than 90% of our national budget. At current rates of growth, our domestic revenues will not even cover our public wage bill for the next seven years, and our debt sustainability levels remain less than \$1 billion dollars.

Our task is clear: we must accelerate our economic growth, and to do that we need infrastructure. If our homes and factories do not have power, and our farmers do not have water or cannot get more fresh goods to markets domestically and abroad, if entrepreneurs do not see basic infrastructure in Afghanistan and invest as a result, our economy will not grow. Without that growth, we will become a dependent ward of the international community at best, and an impoverished, insecure, and potentially destabilizing state at worst.

While donors and government agree in principle that more than half of our aid should go towards infrastructure, we have had huge difficulties garnering that support. Understandably, donors are hesitant to support infrastructural investments that are costly and take many years to complete. Therefore, we are asked to borrow to rebuild our infrastructure. However,

rebuilding our infrastructure largely with borrowed funds will force us to mortgage our future with debts that we will have huge difficulty sustaining.

Therefore, we urge donors to consider the long term benefits of infrastructural investment, and the risks of continuing to ignore our infrastructural needs. The ADB understands both the risks and the great potential of infrastructural investment in Afghanistan and has played a leadership role in this regard. In 2003, it loaned Afghanistan \$150 million for rebuilding our power and road networks. Late last year, it approved two additional loans to rehabilitate our airports and rebuild a major road link in the North-West of Afghanistan. We expect to reach agreement on more infrastructural loans with the ADB in the years to come. However, our unmet infrastructural needs remain huge, and we need other donors to make similar investments, and to do so in the form of grants that free us from the encumbrance of unmanageable debts.

Donor grants for infrastructural investment are necessary but they are not sufficient for Afghanistan's reconstruction. As the ADB's investment portfolio demonstrates, we also need massive institutional reform in Afghanistan, and we are committed to that reform agenda. We are determined to build a capable and efficient government that is clean, effective and service oriented. We are eager to develop an institutional and policy framework that is coherent, equitable and attractive to business. The ADB's program loans and technical assistance grants have helped us move towards these goals, and we look forward to working with the ADB in developing both our financial management systems and a modern public administration.

We urge donors to follow the ADB's example in deciding how your money is spent in Afghanistan. We believe we can best achieve our shared aims if more donor funding goes through government. At present, about two thirds of our national budget falls outside government coordination. The government of Afghanistan wants the opportunity to prove that it can be cost effective, transparent and accountable. The ADB gives us this opportunity when it lends funds to government and then negotiates tranche conditions with us which lay out objective indicators of success or failure. If we meet those conditions, more ADB funding is released. By lending in this way, the ADB helps us to lead responsibly, which is the only way to guarantee Afghanistan's success in the long term. I ask the ADB, together with the World Bank and the IMF, to urge Afghanistan's donors to give us the chance to lead. It is time that the international community holds Afghans responsible for their own development.

Our government sees institutional reform and infrastructural development as interdependent. We believe that our poverty alleviation and economic growth strategies must be symbiotic. We know that we cannot postpone our political maturation into a free, just and representative democracy while we address our economic priorities. Afghanistan's challenge, therefore, is to address all these priorities concurrently and synergistically. That challenge is the theme of our *National Development Framework* of 2002, and *Securing Afghanistan's Future*, developed in 2004. In the coming months, the government plans to take the next strategic step forward by putting together a National Development Strategy for the coming years.

Building upon past documents, we will lay out a medium term fiscal framework that will order our priorities and therefore aim to discipline both government expenditures and donor contributions in the years to come. Beyond identifying our developmental needs, that strategy should help us to prioritize and sequence the allocation of precious resources, a huge challenge which will require the understanding and support of all our stakeholders. We will be asking the ADB, the World Bank and the IMF and all our development partners to work with us in developing that strategy and implementing its conclusions.

We are deeply grateful to the ADB for its vision, its generosity and its unwavering support for Afghanistan's reconstruction efforts these past years. We look forward to continuing this partnership as Afghanistan's journey towards peace, stability and prosperity continues. Thank-you.