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ISLAMIC REPUBLIC OF AFGHANISTAN

Anwar-ul-Haq Ahady, Governor

It is my privilege and honor to address this 39th Annual Meeting of the Board of Governors of the Asian Development Bank (ADB). I thank the Government of India for hosting this event and for the hospitality they have shown us. Hyderabad is indeed a beautiful city and I am glad that we are holding our Annual Meeting in this historic city.

As you all know, almost four and a half years ago, in accordance with the Bonn Agreement, President Karzai's administration started to build a new polity, society, and economy in Afghanistan. Each year we have had a number of successes. This past year, once again, we had major achievements. In terms of macroeconomic indicators, our GDP grew by 14%, while inflation was contained at 10%; we adhered to strict fiscal discipline of no borrowing for recurrent expenditures and an increase of almost 60% in domestic revenues; we met all of the benchmarks of the IMF staff-monitored program and we accelerated the development of our macroeconomic policy-making institutions in accordance with best international practices; and there was significant progress in developing our physical, legal, and human resources infrastructure so as to create an environment conducive to private-sector-led growth.

Politically, we conducted very peaceful parliamentary elections with high participation by both men and women. We are proud of the fact that 28% of our members of Parliament are women. The rules of the democratic system are being rapidly internalized by individual citizens as well as by organized political groups. Parliament, after a two-week intensive and very open discussion of the qualifications of each nominee for various ministerial portfolios, recently approved a new cabinet. With the establishment of Parliament in December 2005, the Bonn process, which in 2001 established the framework for the foundation of a new society, polity, and economy, came to an end.

Even though we have done well in the past 4 years, our social, political and economic institutions are very young and Afghanistan needs continued international support for a number of years. It is this realization that led to the convening of the London Conference on Afghanistan on 31 January and 1 February 2006. At the London Conference, the Islamic Republic of Afghanistan and the international community adopted a document called the Afghanistan Compact. This document provides a comprehensive list of benchmarks to be achieved in social, political and economic matters. Even though the government of Afghanistan is fully committed to the Afghanistan Compact, the realization of the objectives contained in this document, which include the Millennium Development Goals, is beyond the financial capacity of the Islamic Republic of Afghanistan. To facilitate the realization of these objectives, the international community has promised to help us financially. Thus, at the London Conference all of our donors collectively pledged about US\$10.5 billion to help



Afghanistan. We believe that the London Conference was a major success for the Government of Afghanistan and we are grateful for the continued generosity of the international community to help rebuild Afghanistan.

ADB is one of Afghanistan's major donors. At the London Conference, ADB pledged to provide US\$1 billion over the next 5 years toward the reduction of poverty. In the past 4 years, ADB has committed approximately \$780 million to help our reconstruction and development. ADB is our fourth largest donor, with assistance expected to exceed \$1.1 billion by 2008, and \$1.7 billion by 2010. ADB's involvement in development projects in Afghanistan is extensive. The Government considers the development of infrastructure to be a prerequisite for the development of the private sector. The Government has asked ADB to focus its development efforts on building infrastructure. ADB is engaged in road construction, power transmission and distribution, airport construction, water resource management, and irrigation. Associated with these infrastructure sector investments, ADB is helping our Government to build capacity and establish appropriate policy and regulatory environments in these sectors.

The Government has been asking donors to provide multi-year commitments in order to improve the predictability of our public finances. ADB's willingness to commit funds to development projects on a multi-year basis, combined with the fact that ADB is one of our major financiers, has greatly helped the predictability of public finances in Afghanistan. In addition to financially supporting our poverty reduction programs, ADB is assisting in regional cooperation initiatives, and in providing support for public financial management and public administration reform. Furthermore, ADB's Private Sector Operations Division has been active in Afghanistan, with private sector investments of over \$50 million in communications and banking sectors.

We appreciate our relationship with ADB. We are very satisfied with the scope, magnitude, and quality of ADB's involvement in Afghanistan. We are looking forward to extensive collaboration with ADB on poverty reduction in Afghanistan in the next 5 years.