

AFGHANISTAN

ANWAR UL-HAQ AHADY, Governor

It is my privilege and honor to address this 41st Annual Meeting of the Board of Governors of the Asian Development Bank (ADB). I would like to take this opportunity to express my appreciation to the Government of Spain for hosting this event and for its warm hospitality.

I am pleased to provide a brief overview of recent developments in Afghanistan, and I also wish to make several points regarding the long-term strategic framework 2008–2020 (Strategy 2020).

Afghanistan has had many significant social, economic, and political achievements in recent years. Afghanistan's economy continues to perform well in the face of significant challenges, and the Government is holding firm against opponents of essential economic reforms. GDP growth for Afghan fiscal year 1386 (2007-2008) was 11.5%, and, although inflation has increased to 13%, this was mostly attributable to increasing world prices for food and fuel.

Fiscal policy remains prudent, although due to customs shortfalls we missed our most recent annual revenue target by about 6%. However, we are firmly committed to improving our revenue performance. This will be essential as we strive to reach fiscal sustainability, and reduce our dependence on donor assistance inflows. To that end, and under the auspices of our International Monetary Fund (IMF) Poverty Reduction and Growth Facility program, we have established a number of corrective measures that we will be undertaking in the next few months to put the revenue situation back on track.

As many of you already know, we recently submitted to the World Bank and IMF our Afghanistan National Development Strategy (ANDS), which is Afghanistan's poverty reduction strategy paper. The ANDS will serve as the blueprint for how the Government plans to address its key development challenges over the next 5 years, including making significant progress toward the Millennium Development Goals. In June, we will gather in Paris with our international donor partners to work to align donor assistance with Afghanistan's ambitious development goals.

However, realization of these goals will only be possible with the continued strong support of donors, and we urge our donor partners to step up their commitments at the Paris Meeting. Despite significant achievements in infrastructure development, health, education and economic reforms, poverty remains extremely high and widespread. Afghanistan is also confronting a volatile security situation in some provinces, coupled with a large illicit economy, principally driven by poppy production. The next 5 years will be critical for establishing a fully functioning state—the support of ADB and other major donors will be essential over this period.

As a measure of its significant presence and impact in Afghanistan, ADB is the fourth largest donor. It provides essential multi-year commitments in order to improve the predictability of public finances—a key feature of donor financing sought by my Government. ADB has thus far pledged significant assistance—expected to total over US\$1.7 billion by 2010.

ADB's work is instrumental in the critical areas of infrastructure development, such as roads and power, and in water resource management and irrigation. Moreover, ADB supports key capacity development efforts and is helping us to establish appropriate policy and regulatory environments in these sectors. These efforts, along with ADB's broader support for private sector development and regional economic cooperation, provide the foundations for a viable private sector and encourage much needed investment.

As the only Asian country that has been formally declared a heavily indebted poor country (HIPC) country, Afghanistan has keenly watched the progress of the Asian Development Fund (ADF) negotiations. We are pleased that the negotiations have been completed and that there will be a substantial increase in ADF resources.

With the introduction of Strategy 2020, ADB is beginning a new chapter as it works to adapt to a changing Asia. We welcome the strategy's focus on infrastructure and on increasing private sector activities, as both are essential for all developing countries. However, we join others who have raised concerns about the robustness of the results framework, and about the shift in focus more toward middle-income country operations. We hope that this focus will not negatively affect countries like Afghanistan—particularly given the provision in ADB's Charter calling for special regard for the smallest and least developed countries.

Our key concern is the small consideration given to ADB involvement in the smaller, poorer countries. As I raised in my discussion of the Eminent Persons Group report last year in Kyoto, we continue to urge ADB to pay greater attention to poorer countries, and, as part of that, to develop greater expertise in post-conflict activities. We hope that this area of operations will be placed on a sounder footing with commensurate concessional funding also being made available.

Although we commend ADB for its continuing efforts to reduce poverty wherever it exists in Asia and the Pacific, we are worried about Strategy 2020's general focus on middle-income countries. We recognize that most of the region's poor live in middle-income countries such as India and the People's Republic of China. However, whereas these more developed national governments are capable of addressing many of their internal issues, smaller poor countries such as Afghanistan are considerably more reliant on large donors such as ADB. We hope that this focus will not be detrimental to Afghanistan and other poorer developing countries.

Undoubtedly, the emphasis in Strategy 2020 on the private sector, in the case of Afghanistan, will have to be graduated and sequenced behind a vibrant program for public sector intervention and investment with ADB support. Nonetheless, infrastructure is one of the most important elements of the enabling environment for private-sector-led growth—as such, we view these two themes as complementary.

In conclusion, I take this opportunity to thank President Kuroda and the ADB team working on Afghanistan, and to express our appreciation for the strong relationship we have with the ADB. We look forward to a continued strong collaboration as we work towards poverty reduction in Afghanistan.