



AFGHANISTAN

ASHRAF GHANI, Finance Minister of Afghanistan

The theme of our meeting aptly captures our challenge in Afghanistan: how to strengthen state capacity for development effectiveness while enhancing the legal and institutional framework through which state action is bounded by legitimacy, commitment to inclusive development, and fairness. We inherited a difficult legacy: a decade of invasion by the Soviet Union followed by a decade of civil and proxy wars—capped by the hijacking of the country by networks of terrorism, extremism, and drug trafficking. The scale of our tragedy was revealed in the wake of our liberation after the tragedy of September 11. We began confronting the task of the rebuilding with politics. The premise of the Bonn agreement, facilitated by the UN in November 2001, that the process of political participation must become broader and more inclusive has been followed. A Loya Jirga, grand assembly, for the first time in our history elected the head of the state through a secret ballot. The constitutional Loya Jirga, held in December 2003 – January 2004, adopted a constitution that aims at creating strong state institutions and extensive civil liberties. By law, Afghan women will have one of the highest rates of participation in the world in elected institutions ranging from the district councils to the national parliament. Embracing cultural pluralism, the constitution embodies a consensus resulting debate among all shareholders. We are, therefore, confident that the constitution will be the real framework of the rules of the game. Elections scheduled for September will transform the constitution from rules on paper to practices embodied in the hearts and minds of the people.

Reduction and elimination of poverty forms the all-encompassing goal of our national development. To mobilize the energies of our people around inclusive development and an agenda of state-building, we have committed ourselves to raise our income per capita from its current low level of \$180 to \$500 in 10 years. Achieving this goal requires an annual growth of 9% a year. Our record of 30% and 23% growth, respectively, in 2002 and 2003 is an indication that the target is achievable.

The challenge of building institutions of good governance is immense; but the government has established a track record of reform. In the monetary area, a new currency was introduced in record time, inflation brought under control, a floating exchange system put in place, and the central bank assumed charge of monetary policy. Enabling legislation on central bank and banking law have been passed, making the central bank autonomous and permitting foreign and domestic private banks to operate. We are pleased with the response of the international and regional banks that have begun operating in Afghanistan and are committed to further expansion of this vital sector.

In the fiscal area, we have laid the foundations of a modern institution. The treasury has been reorganized, revenue and expenditure systems have been restructured, the tax regime is being simplified, and international standards of accounting and auditing are being established. The Government has been committed to a strict policy of no deficit financing, thereby enabling the central bank to manage the monetary policy both legally and substantially. Our most significant reforms to date, however, have been in the area of customs and budget. We have overhauled our tariff system—establishing a new regime ranging from 2.5% to a maximum of 16%. The exchange rate for customs collection, fixed at Afs4.5 to the dollar has been brought to the market exchange rate, currently at Afs50 to the dollar

The processes of valuation, decision-making, and documentation have been mapped with the participation of customers and reengineered. Implemented on March 21, the beginning of our fiscal year, the new system has yielded good results both in revenue generation and customer satisfaction. To insert and strengthen the sense of public service, a priority reform and restructuring decree has been issued, creating enhanced pay scales for departments or entire ministries on the basis of time-lines and performance-based reforms.

We see reform of the civil service as the key to accountable, transparent, and efficient delivery of public service. The creation of the enabling environment for the private sector, and the consolidation of a civil society and citizen organizations that will hold both the Government and private sector accountable to the rule of law, are critical aspects of our approach to institutions and rule of law.

National solidarity, our ambitious program of bloc grants ranging from \$20,000 to \$60,000 to community councils elected on the basis of secret ballot by men and women, is our instrument to promote grassroots democracy. Covering one-third of the villages of the country now, the program will cover the entire country in three years. Regulated by the ministry of rural development, the program brings the NGOs and communities together to build the institutional, physical, and financial capital of communities. As we have a tradition of community help, strengthening the social capital of communities is essential to social protection of vulnerable individuals. Lessons learned from the implementation of this national program will be applied to our newly drawn plan aimed at the district, provincial, and central government levels.

Promotion of a competitive private sector is central to our goal of poverty elimination through creation of wealth. The enabling legal environment is being rapidly transformed and the private sector is assuming its role as a critical partner and interlocutor of government in pursuit of economic and fiscal sustainability and good governance. A new investment law is in place and the private sector is receiving support from the Government to create the institutional network of organizers that worked to enable it to deal and negotiate with the Government and the global market.

The Government of Afghanistan is in the driver's seat in formulating and implementing our vision of development. Deepening and broadening of reform requires that the Government and the donors both must see the budget as the central instrument of policy. In March 2004, we entered into an agreement with the International Monetary Fund (IMF) on a staff-monitored plan, with both quantities and institutional targets. The Government is committed to preparing a participatory poverty reduction strategy paper,

and we will be launching the process of consultation soon. Success in this approach (and succeed we must) depends on channeling the aid through the budget.

To achieve accountability, effectiveness, and transparency in governance, we must agree to rely on the budget as the central instrument of policy.

The Asian Development Bank (ADB) has been an effective partner in our reform efforts. We completed our first program loan last year, meeting all the conditions of the two-tranche loan. The ADB board has just approved the second major program loan on agriculture sector reform. We intend to use the program loans as a major instrument of reform and restructuring in our relations with the international financial institutions (IFIs). Our performance to date makes us confident that we will be able to compete effectively in a performance-based system of allocation of funds.

I want to express our appreciation to ADB staff in general and President Tadao Chino in particular for the partnership that produced our seven-year program of public investment called securing Afghanistan's future. The vision and plan of action presented in this document resulted in pledges of \$8.2 billion, sums that will be used to deliver benefits to the people of Afghanistan and the region.

Assistance to Afghanistan is an investment and not a charity. A stable, secure and prosperous Afghanistan will be an asset to the region and the world. All subregions of the Asian continent will benefit from peace and reconstruction in Afghanistan. The 21st century will be the Asian century. We look to our Asian partners to help us stand on our own feet.

Our experience of transformation to date already highlights the need for some fundamental changes in the institutional rules governing the aid system. In particular, I would like to highlight the following: First, the shift in focus must be broadened from project and national programs to subregional and cross-regional programs. Harmonization of trade, transit, and transport policies and systems of Central Asia, and South Asia, for instance, could produce as much benefits for Afghanistan as the aid pledged in Berlin. Second, differences in procurement and reporting systems cost us dearly in time, energy, and resources. It is time to act on the demonstrated need for harmonization of procurement. Third, technical assistance needs a systematic restructuring in Afghanistan. We are suffering from the problem of two civil services created by the aid systems. The average monthly salary of Afghans working for the UN, IFIs, and bilateral donors is \$1,500 while that in the Afghan government is \$50. The lack of adequate pay is a cause of corruption. Fourth, the cultivation, trafficking, and consumption of drugs deeply threaten our program of securing the future. The international private sector must partner with the Government and people of Afghanistan, international organizations, and governments of consumer countries to contain and destroy this threat to the well being of our children.

I would like to conclude by joining the previous speakers in thanking the Government of Korea and authorities in Jeju for their excellent facilities and generous reception. Korea's success story is a beacon to all of us in our goal of poverty eradication.