

1616 Rhode Island avenue NW  
Washington, DC 20036

**Anthony H. Cordesman**

**Phone:** 1.202.775.3270

**Email:** [acordesman@gmail.com](mailto:acordesman@gmail.com)

**Web version:**

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# The Challenges to Transition in Afghanistan: 2014-2015

**Anthony H. Cordesman**

**CSIS**

CENTER FOR STRATEGIC &  
INTERNATIONAL STUDIES

Burke Chair  
in Strategy

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# **The Post-Election Challenges of Transition**

- **Creating political unity and reasons to be loyal to government**
- **Creating a new structure of governance and balance between factions**
- **Effective revenue collection, budget planning and expenditure, and limits to corruption**
- **Fully replacing NATO/ISAF with the ANSF and “layered defense”**
- **Creating a new structure of security forces, advisors, and aid funds, to include addressing the presence of US and other nations’ personnel**
- **Acting on the Tokyo Conference: Creating effective flow and use of aid, economic reform, and limits to corruption and waste**
- **Stabilizing a market economy driven by military spending and moving towards development: Brain drain and capital flight**
- **Coping with weather and other challenges to agricultural structure and with pressures to increase the narco-economy**
- **Dealing with neighbors: Pakistan, Iran, Central Asian nations, India, China, and Russia**

# The Challenge of Coping with No US Leadership, Plan, Budget, or Public Support

***The first section in this report focuses on the lack of US leadership, planning, budgeting, and public support.***

**It lists the areas where the US government – as well as the Afghan government and other powers – have failed to provide leadership, planning, and transparency, and create the institutions necessary for success. (p. 5)**

**It warns that past failures to sustain successful transitions have been the rule and not the exception. (p. 6)**

**It shows the need for leadership that can win congressional and popular US support, and that goes far beyond empty rhetoric about terrorism. That provides a clear strategic justification for US action, and provides a credible path forward (pp. 7-9)**

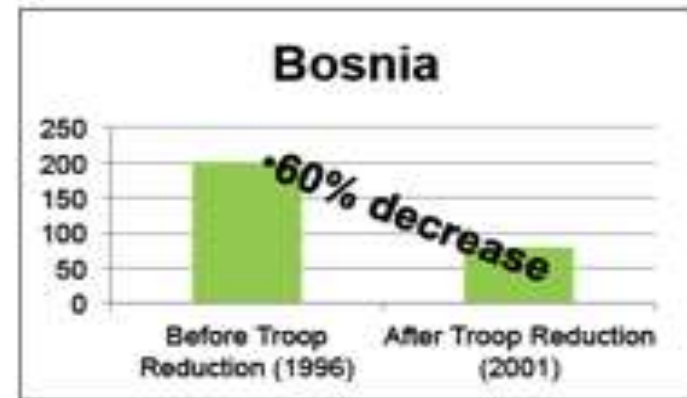
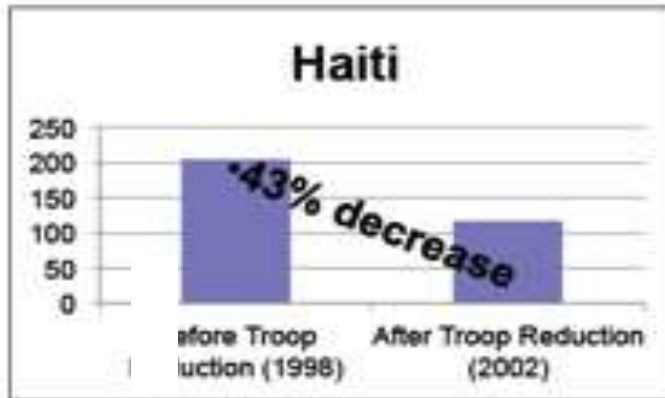
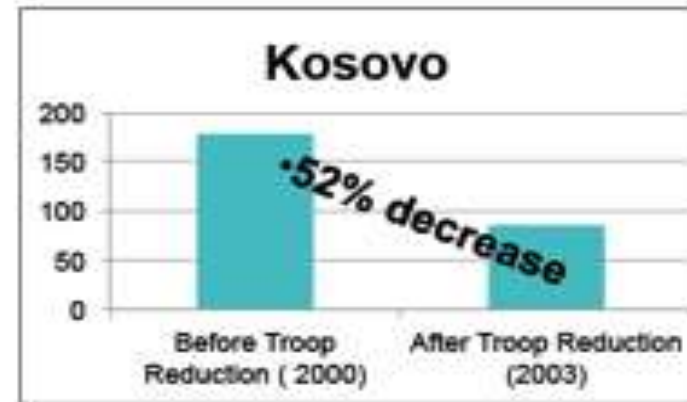
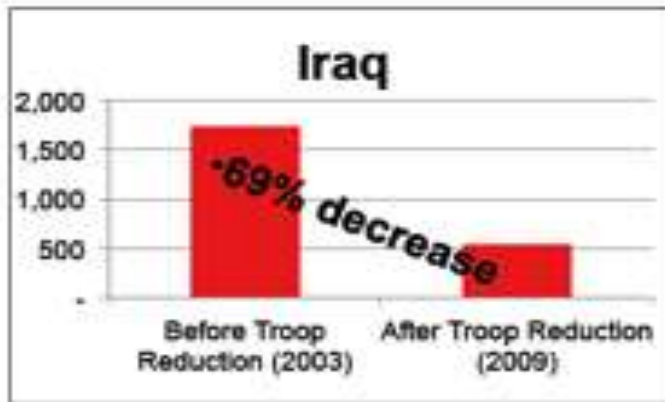
**It shows the rate at which US spending has already been cut, and the lacking of any meaningful budget panning and details in the President’s FY2015 budget request. (pp. 10-14)**

## **The BSA is Only One Aspect of Transition**

- **Leadership and transparency to win public and Congressional support**
- **Integrated civil-military plan for post-2014 US presence and aid**
  - **A clear US and allied plan for an on-going advisory presence and aid funding of ANSF**
  - **A clear US and allied plan for governance and economic assistance and aid funding.**
- **A clear plan for setting conditions for Afghan reforms and other actions**
- **A plan for US relations with – and aid to – Pakistan and Central Asia nations, as well as other key transit and neighboring states**
- **US leadership in creating replacements for ISAF, NTM-A, UNSCOM**
- **Follow-ons to Tokyo and Chicago conferences**

# History is a Warning: Declare Victory and Leave?

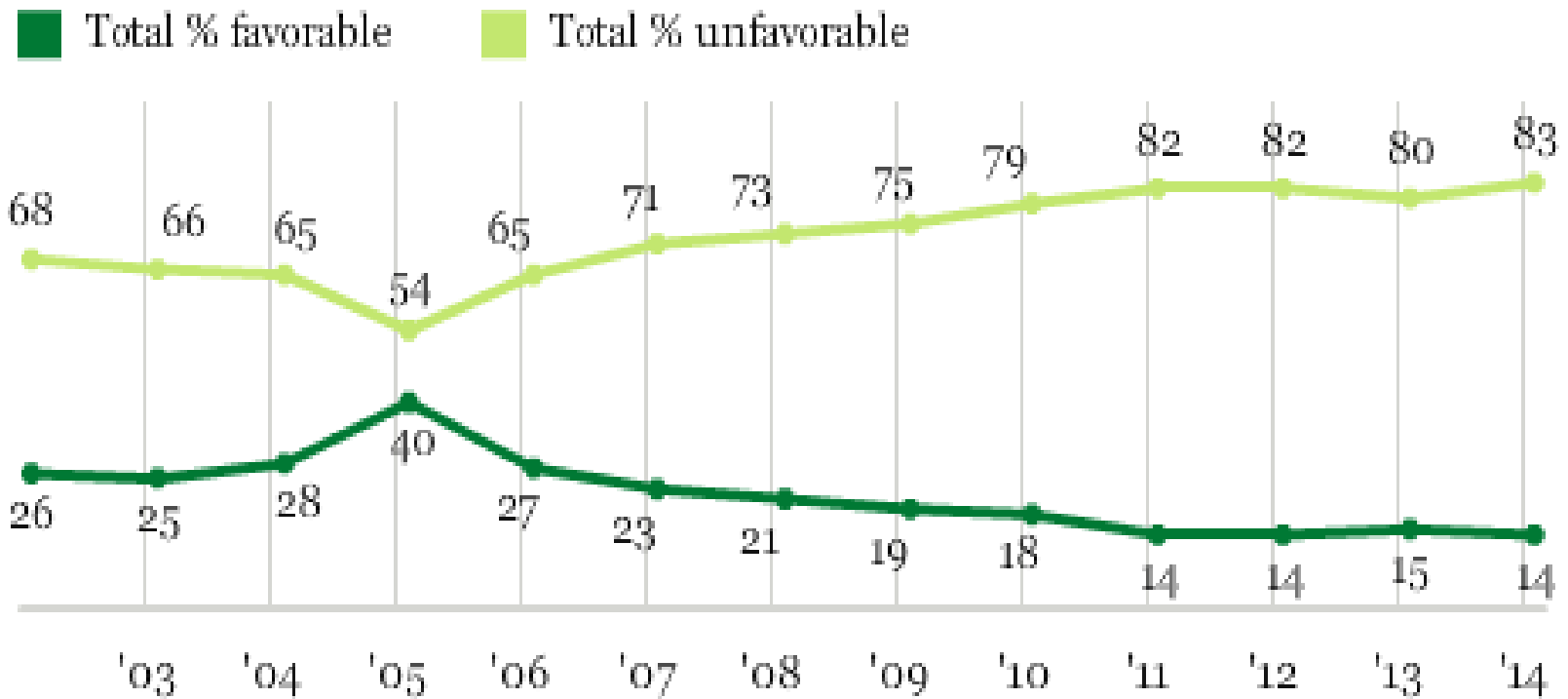
## Development Assistance Levels Before and After Troop Reductions



Following the withdrawal or significant reduction in troop levels, Iraq, Kosovo, Haiti, and Bosnia saw significant decreases in development assistance levels.

## Loss of US Public Support - I

*Next, I'd like your overall opinion of some foreign countries. What is your overall opinion of Afghanistan? Is it very favorable, mostly favorable, mostly unfavorable, or very unfavorable?*



GALLUP

## Loss of US Public Support - II

*Thinking now about U.S. military action in Afghanistan that began in October 2001, do you think the United States made a mistake in sending military forces to Afghanistan, or not?*

■ % Yes, made a mistake    ■ % No, did not



GALLUP®



# Loss of US Public Support - III

## Negative Views of U.S. Efforts in Iraq, Afghanistan

*In achieving its goals in Iraq/Afghanistan, U.S. has ...*

■ Mostly failed ■ Mostly succeeded

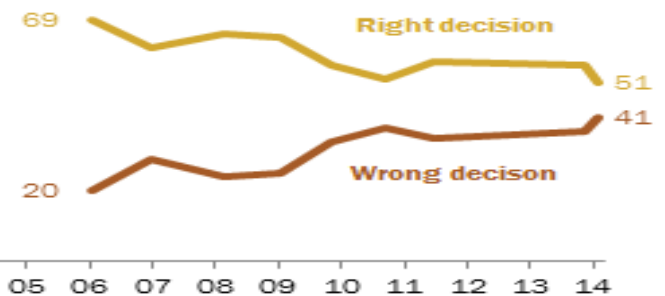


Survey conducted Jan. 15-19, 2014.  
Don't know responses not shown.

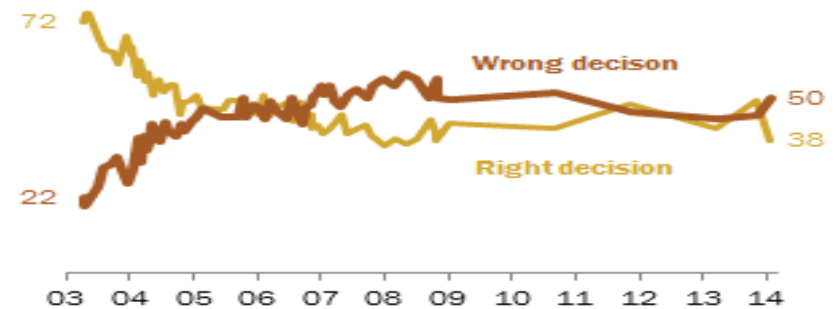
PEW RESEARCH CENTER/USA TODAY

## Views of Decisions to Use Military Force in Afghanistan, Iraq

*Decision to use military force in Afghanistan ...*



*Decision to use military force in Iraq ...*

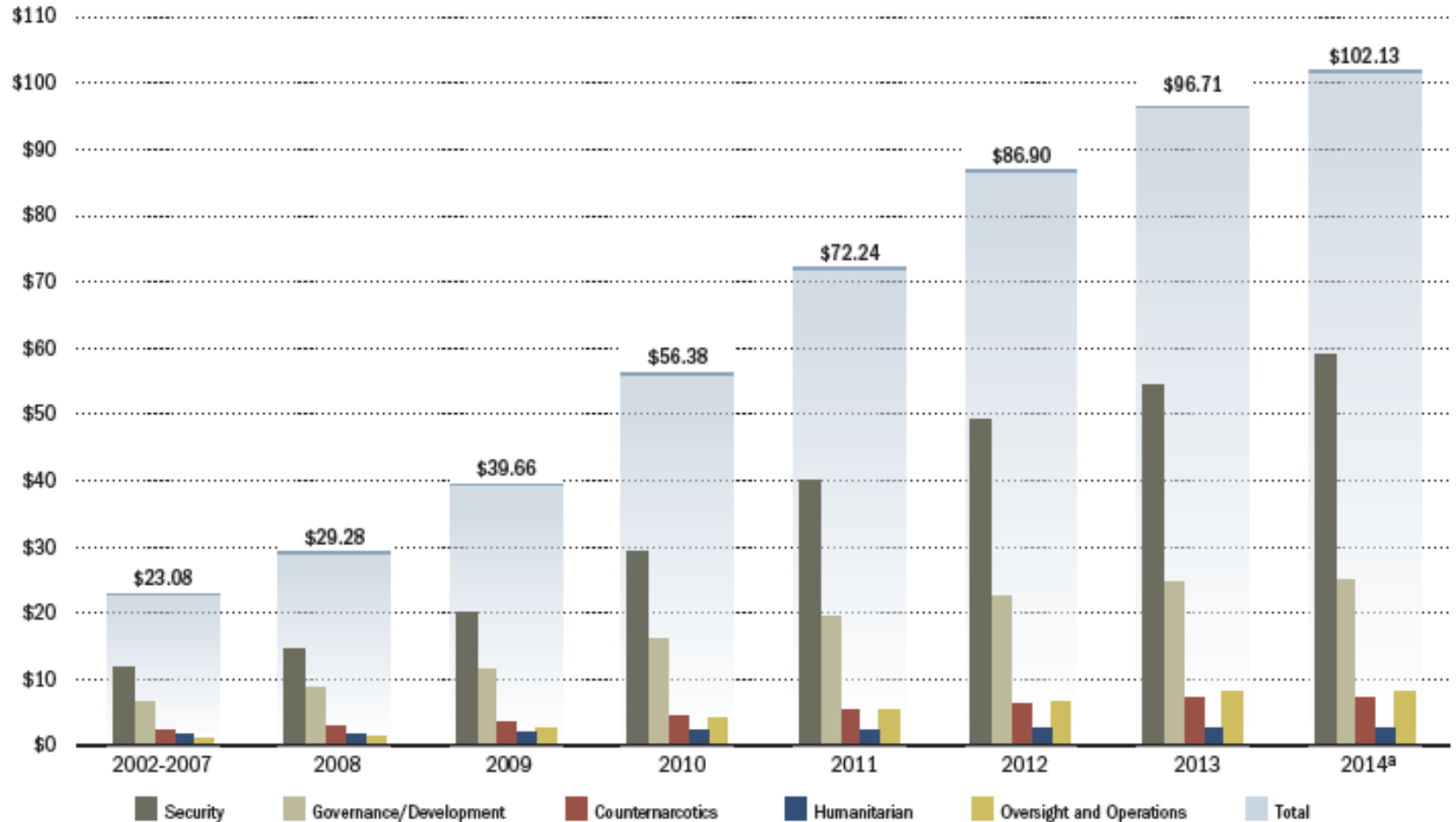


Survey conducted Jan. 15-19, 2014.

PEW RESEARCH CENTER/USA TODAY

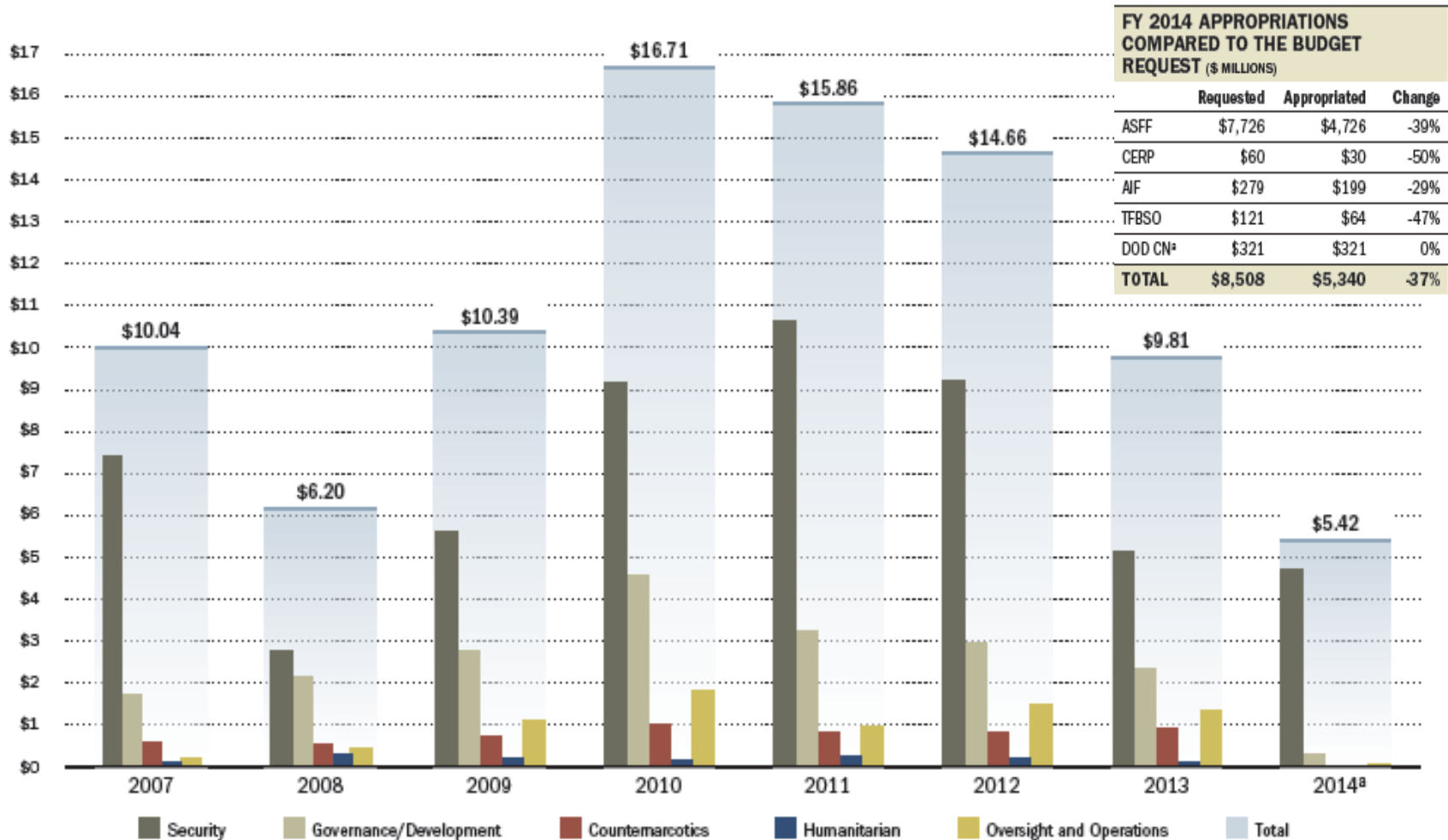
# Massive Past Impact: \$102 billion in US Aid – Largely Security Aid – as of January 17, 2014

CUMULATIVE APPROPRIATIONS BY FUNDING CATEGORY, AS OF JANUARY 17, 2014 (\$ BILLIONS)



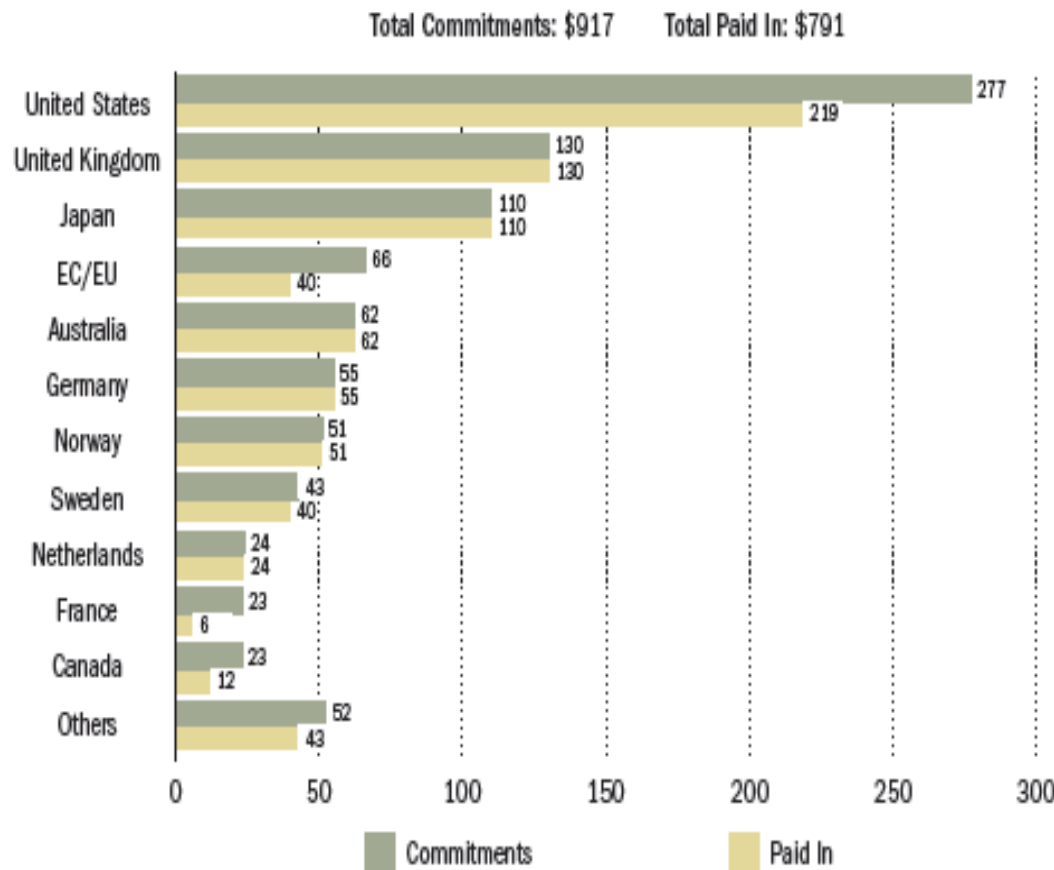
Source: Special Inspector general for Afghan Reconstruction, Quarterly Report, January 30, 2014, <http://www.sigar.mil/pdf/quarterlyreports/2014Jan30QR.pdf>, p. 70.

# Ongoing Cuts in US Aid – \$14.7B in FY2012, \$9.81B in FY2013, \$5.42B in FY2014



# Aid Needs International Coordination that UNAMA Has Not Provided

ARTF CONTRIBUTIONS FOR FY 1392 BY DONOR, AS OF DECEMBER 21, 2013 (\$ MILLIONS)



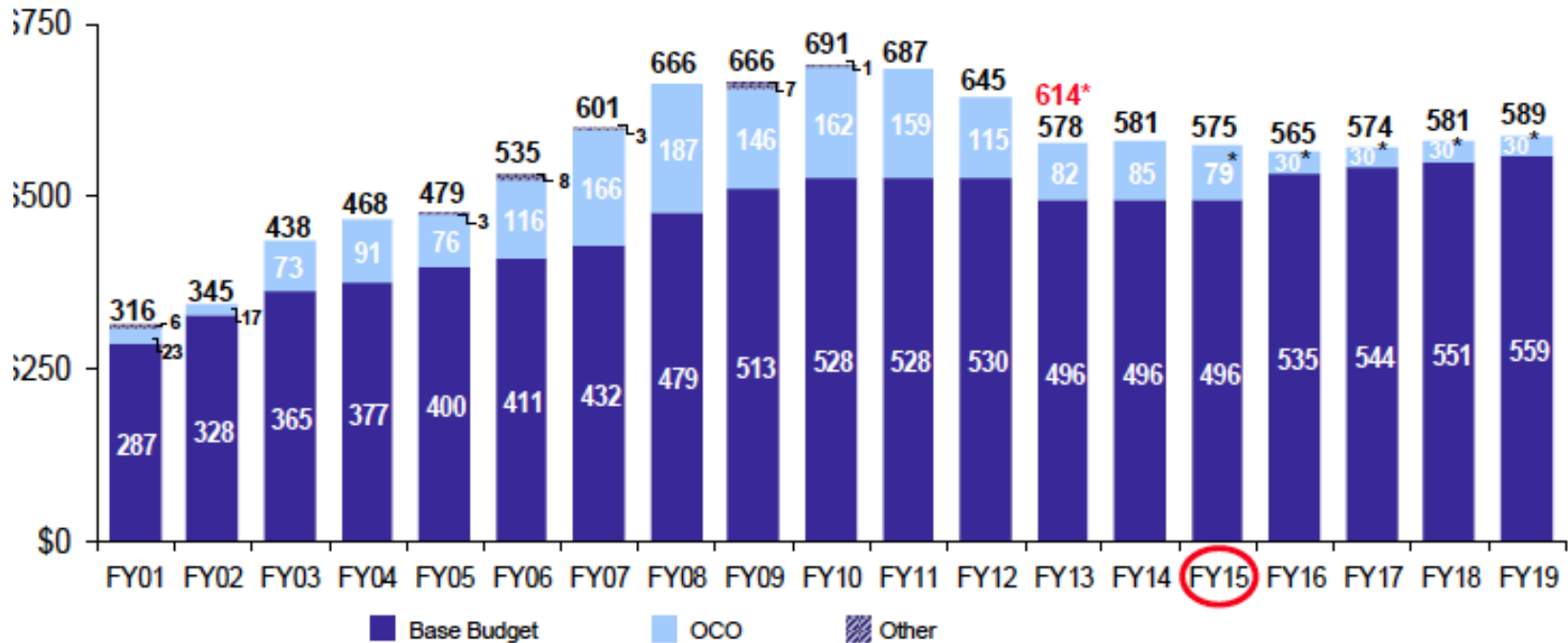
- The World Bank has reported that from 2002 to December 21, 2013, 33 donors had pledged more than \$7.03 billion, of which nearly \$6.91 billion had been paid.

- According to the World Bank, donors had pledged approximately \$916.70 million to the ARTF for Afghan fiscal year 1392, which ran from December 21, 2012 to December 20, 2013.

# No US DoD Plan and Hollow Placeholder OCO Budget

(Current Dollars in Billions)

**\$75B in FY2015 to \$30B in FY2016**



\* Reflects FY13 Enacted level excluding Sequestration  
 \* Placeholders only

**Focus Only On Base Budget For Remainder Of Briefing  
 No FY 2015 OCO Budget Yet**

# **State FY2015 Budget Request Down to \$2.1 Billion with no Clear Plan for Transition**

- **\$2.6 billion of the State Department FY2015 budget request is allocated to Afghanistan under conditions where State cautions that “the Administration has not yet determined the size and scope of any post-2014 US presence.”**
- **State indicates that the United States will sustain “our diplomatic platform and security operations in Kabul, Mazar-e-Sharif, and Herat, while assuming selective reductions in personnel in preparation for transition.”**
- **The budget prioritizes technical assistance and channels more aid through Afghan institutions, while holding the Government of Afghanistan accountable for undertaking concrete reforms and improving efficiency and sustainability.**
- **FY2015 funds will sustain gains in health and education, economic self-sufficiency through improved agricultural production, good governance, rule of law, and women’s rights as laid out in the strategic Partnership agreement.**

# The Challenge of Security

***The second section of this report focuses on the Challenge of Security and the fact that Afghanistan is still a nation at war.***

**There is some hope that an adequately resourced ANSF layered defense and US “four quarter” advisory strategy could succeed in provide the necessary security in key populated areas and for key lines of communication, even if Pakistan continues to provide Taliban sanctuaries and comes to dominate less populated areas in the east and South. (pp. 19-21)**

**Afghanistan is, however, very much a nation at war and success is uncertain. (p. 22)**

**ISAF and the US government have stopped all detailed reporting on actual success in war for more than a year. ISAF no longer reports maps or metrics, and the semi-annual Department of Defense 1230 report stopped such reporting in late 2012 and has not been updated since July 2013. (p. 22)**

**It is clear from a wide range of media reporting, however, that the transition to Afghan forces in 2013 gradually extended ANSF responsibility to many areas still dominated by the Taliban and other insurgents. (p. 23) There has been no meaningful net assessment of the success of Afghan government/ANSF efforts versus those of the Taliban and other threats.**

**The ANSF will have to cover a large country with a highly dispersed population and 18 major population clusters. Some do not face major threats, but many do face serious risks. (p. 24)**



**Protecting key lines of communication will be a major challenge – both in terms of available forces, force quality and loyalty, and the ability to maintain key routes. (p. 25) Both security and post-transition trade patterns present serious uncertainties.**

**The World Bank already ranks Afghanistan as having some of the worst challenges in terms of violence and rule of law of any country in the world. (p.27)**

**The ANSF must start with none of the internal resources Iraq had from its oil revenues, and with nothing like the success the surge in Iraq presented before Transition. (p. 27)**

**Even the ISAF’s carefully chosen metric – enemy initiated attacks – failed to reflect significant success before ISAF ceased to report all metrics on the success of the fighting. (p. 28)**

**The ANSF has, however, increased significantly in total force strength, and began to bear the brunt of enemy attacks and casualties by October 2012. (pp. 29-30)**

**Past reports show that the ANSF still faces key problems in the MoD and Mol, sustainment, and with corruption. It is also important to note that only roughly half of the 352,000 personnel often cited as the force goal are actual military and serious paramilitary forces. Force composition and force quality present far more critical problems than the issue of total manning. (p. 31)**

**The ANSF also suffers from rapidly changing force goals, rapid turnover in advisors, overambitious efforts to force it to “do it our way,” a force-rush to meet the transition deadline of end-2014, and sudden peaks and cuts in funding. (p. 32)**

**The only meaningful recent reporting on the ANSF has been by the Special Inspector General for Afghanistan (SIGAR). That reporting is too complex to summarize, but has identified many continuing weaknesses first identified in past public ISAF and DoD reporting. A key example of critical shortfalls in reliable reporting on actual manning makes this clear. (p. 33)**

**The Afghan police present critical problems in leadership, force quality, corruption, actual manning, and turnover. (p. 35)**

**Surveys do, however, indicate that the elements of the ANSF are winning far more support in most areas than the Taliban and other insurgents. (p. 35.)**

## **Layered Defense: A Concept that May Work with Adequate US and Allied support**

- **Concentrate ANSF in layered elements to defense population and key lines of communication.**
- **ANA defends, deters, defeats active Taliban and insurgent forces; ANP plays paramilitary role, with ALP forward in key sensitive areas.**
- **Accept Taliban and insurgent presence and control in less populated parts of East and South,**
- **Continued Pakistani sanctuaries unless Pakistan fundamentally changes tactics.**
- **Support with US advisory presence down to at least level of each of six Afghan corps, key enablers, limited COIN element plus drone and air support.**
- **German and Italian presence in populated but less threatened areas in the North.**
- **Support with governance and economic aid.**

## **General Dunford on “Resolute Support” and on Post-2014 Mission**

- **In anticipation of a signed BSA and NATO SOFA, ISAF continues to plan for the Resolute Support train, advise, assist mission.**
- **This mission will focus on the four capability gaps at the operational/institutional and strategic levels of the ANSF that will remain at the end of the ISAF mission: 1) Afghan security institution capacity, 2) the aviation enterprise, 3) the intelligence enterprise, and 4) special operations.**
- **In accordance with NATO guidance, ISAF is planning on a limited regional approach with 8,000 - 12,000 coalition personnel employed in Kabul and the four corners of Afghanistan.**
- **Advisors will address capability gaps at the Afghan security ministries, army corps, and police zones, before eventually transitioning to a Kabulcentric approach focused on the Afghan ministries and institutions.**
- **Due to delays in the completion of the BSA, and at the recent direction of NATO, we will begin planning for various contingencies in Afghanistan while still continuing to plan for Resolute Support.**

## **General Dunford on Key Challenges to ANSF**

**ISAF forces are in the process of re-orienting from combat advising at the unit level to functionally-based advising at the Afghan security ministries, the six army corps, and the police zones. In this new role, advisors are focusing on tasks that will build the ANSF's long-term sustainability to make the progress that has been made to date enduring.**

**At the security ministries, advisors are focusing on building ministerial capacity in planning, programming, budgeting, and acquisition. Advisors are also working to improve integration between the different security pillars– army, police, and intelligence service – at all levels.**

**In the fielded force, advisors will focus on capability gaps like the aviation, intelligence, and special operations. They will also focus on developmental shortfalls in areas like logistics, medical, and counter-IED. At all levels, our advisors will work to improve Afghan transparency and accountability of donor resources, and reduce casualties and overall attrition. In total, our shift to functionally-based advising is putting the ANSF on a path to sustainment.**

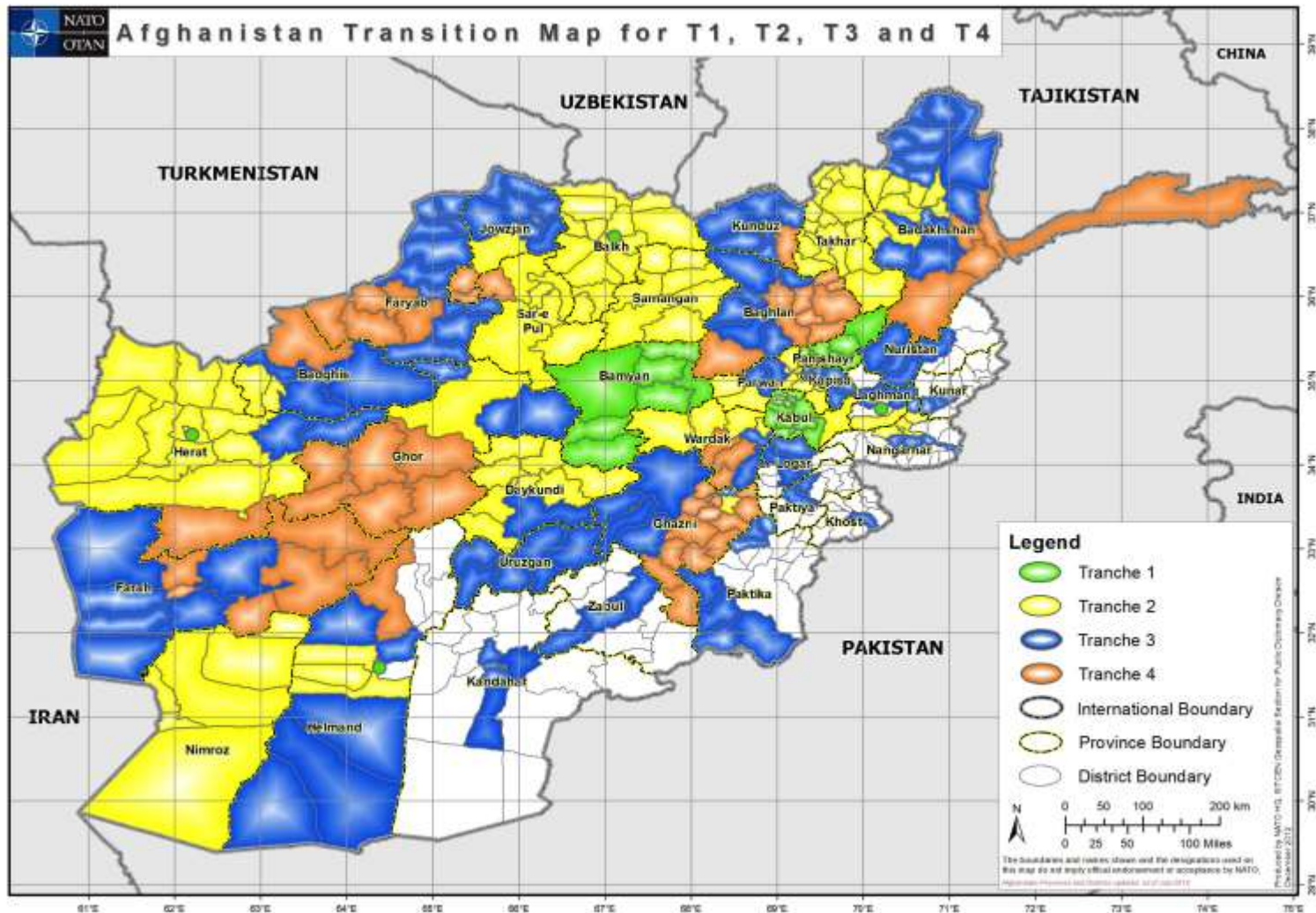
**Despite our advisory efforts in 2014, four capability gaps will remain after the ISAF mission ends. I assess that without the Resolute Support mission, the progress made to date will not be sustainable. A limited number of advisors will be required in 2015 to continue the train, advise, and assist mission. These advisors will address gaps in 1) the aviation enterprise, 2) the intelligence enterprise, 3) special operations, and 4) the security ministries' capacity to conduct tasks such as planning, programming, budgeting, acquisition, and human resource management so they can provide tactical units the support they require to function. These advisors will put the Afghans on the path to sustainment that the Afghans can further develop after Resolute Support concludes.**

## **Layered Defense: Afghanistan is Still Very Much at War**

- **Taliban not popular, but with so many Afghan government challenges, people focus on survival.**
- **No evidence that the “surge” has defeated Taliban. Won’t know the balance of power until US and ISAF military are largely gone and a new government is in place – i.e., 2015 campaign season.**
- **Pakistan sanctuaries and ISI are still in place.**
- **US and allies rushing to meet 2014 deadline – about 2-4 years before ANSF is fully ready to assume all security responsibilities.**
- **ANSF is an awkward mix of army, national police, local police. Cutting force mix early is very dangerous.**
- **Money has been the most important single aspect of transition in past cases, keeping government forces active, supplied, sustained.**
- **Next most important is proving high-level enablers and training/advisory presence in the field. 9,500-13,500 seem minimal. Costs uncertain, but transition below \$4 billion annually uncertain. May need \$6-7 billion.**



# Layered Defense May Work, But Formal Transfers of Security Do Not Mean Real ANSF Security Capability



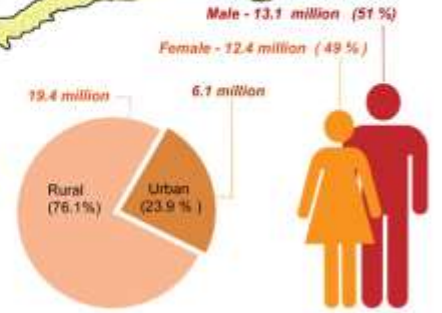
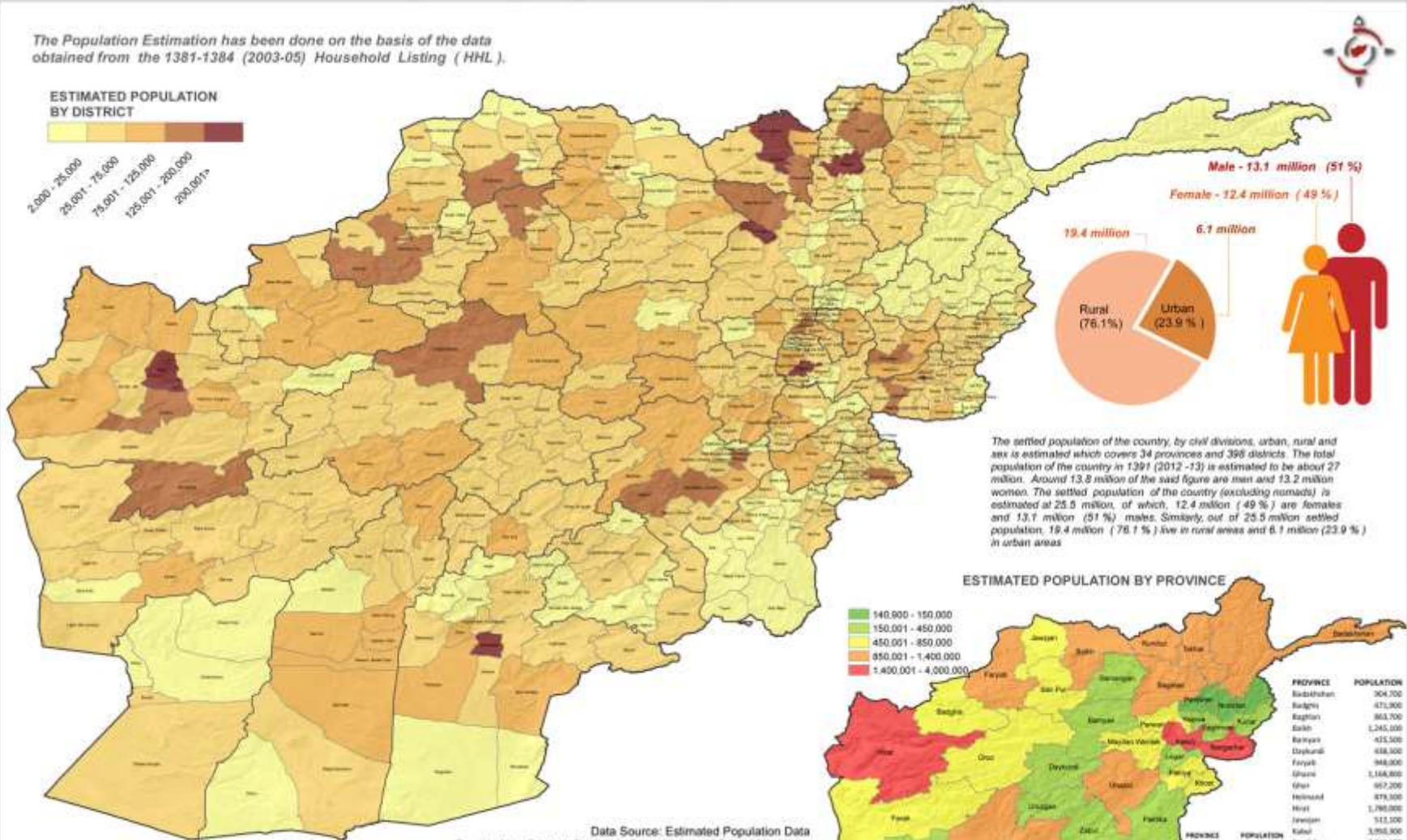
Source: ISAF, March 2013.

# “Layered Defense” – Where is the Population for the ANA, ANP, and ALP to Protect?

AFGHANISTAN Central Statistics Organization (CSO) Estimated Population 2012-2013

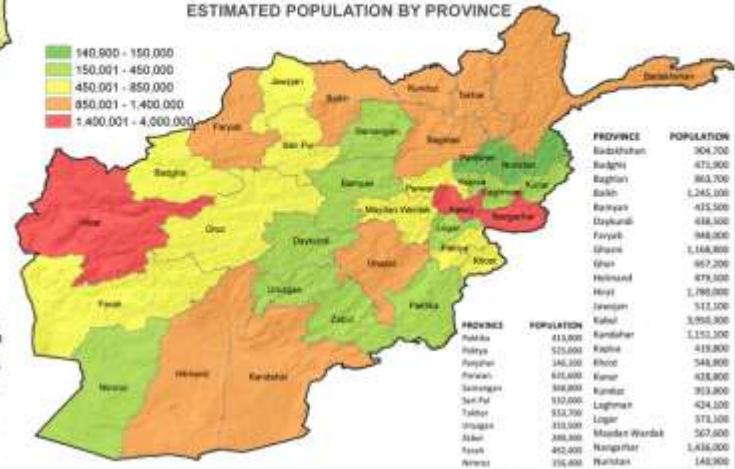
The Population Estimation has been done on the basis of the data obtained from the 1381-1384 (2003-05) Household Listing (HHL).

ESTIMATED POPULATION BY DISTRICT



The settled population of the country, by civil divisions, urban, rural and sex is estimated which covers 34 provinces and 398 districts. The total population of the country in 1391 (2012-13) is estimated to be about 27 million. Around 13.9 million of the said figure are men and 13.2 million women. The settled population of the country (excluding nomads) is estimated at 25.5 million, of which, 12.4 million (49%) are females and 13.1 million (51%) are males. Similarly, out of 25.5 million settled population, 19.4 million (76.1%) live in rural areas and 6.1 million (23.9%) in urban areas.

ESTIMATED POPULATION BY PROVINCE



Data Source: Estimated Population Data Provided by: Central Statistics Organization (CSO) Afghanistan

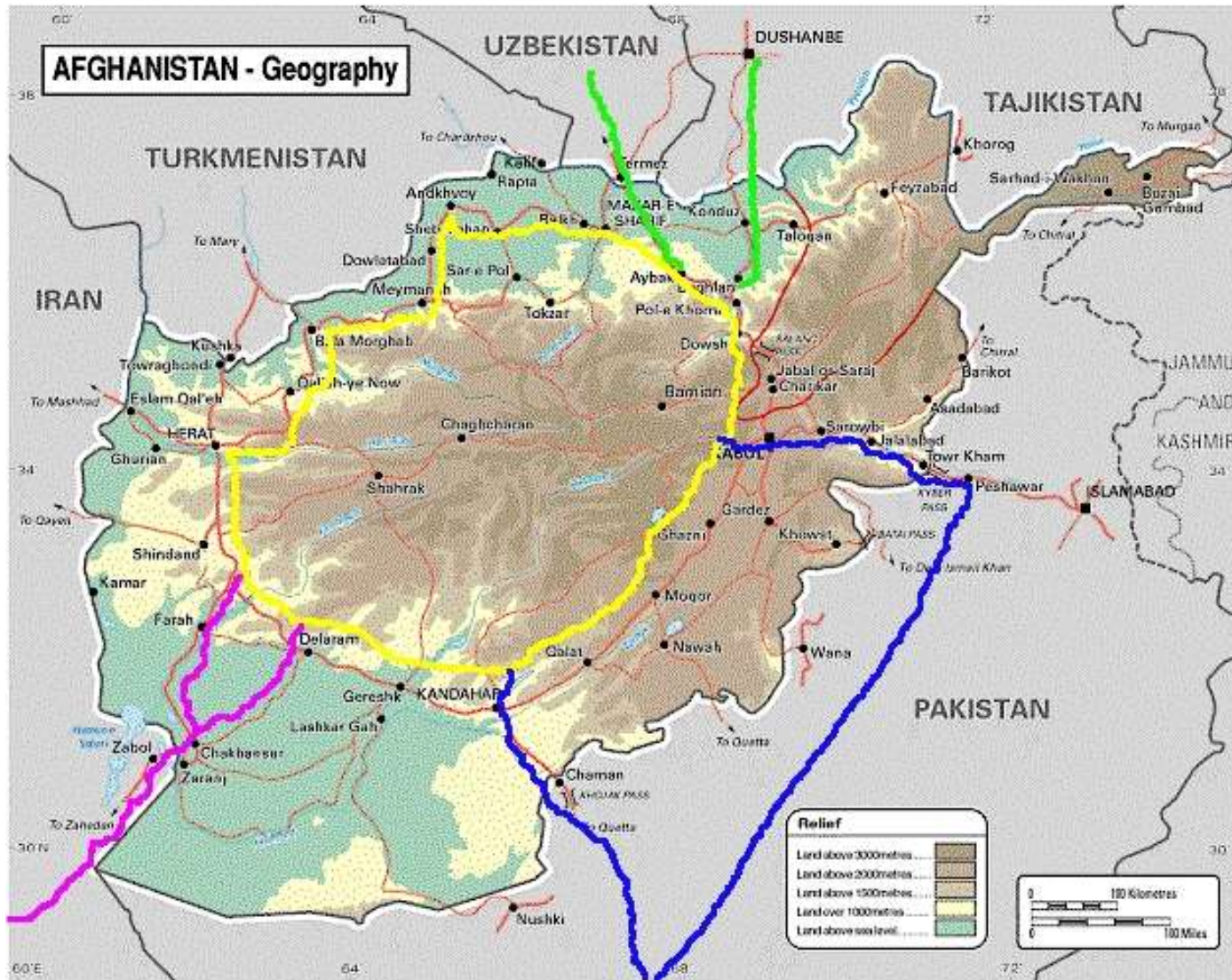
The accuracy of the data represented in this map remains solely with the source. IMMAP or USAID/DFID do not accept any responsibility for the accuracy of these figures.

The boundaries used in this map do not imply any endorsement by IMMAP or USAID/DFID. Date Created: 26 March, 2013 Datum/Projection: WGS 84/Geographic For copies or questions contact: 'afghanistan@immap.org'

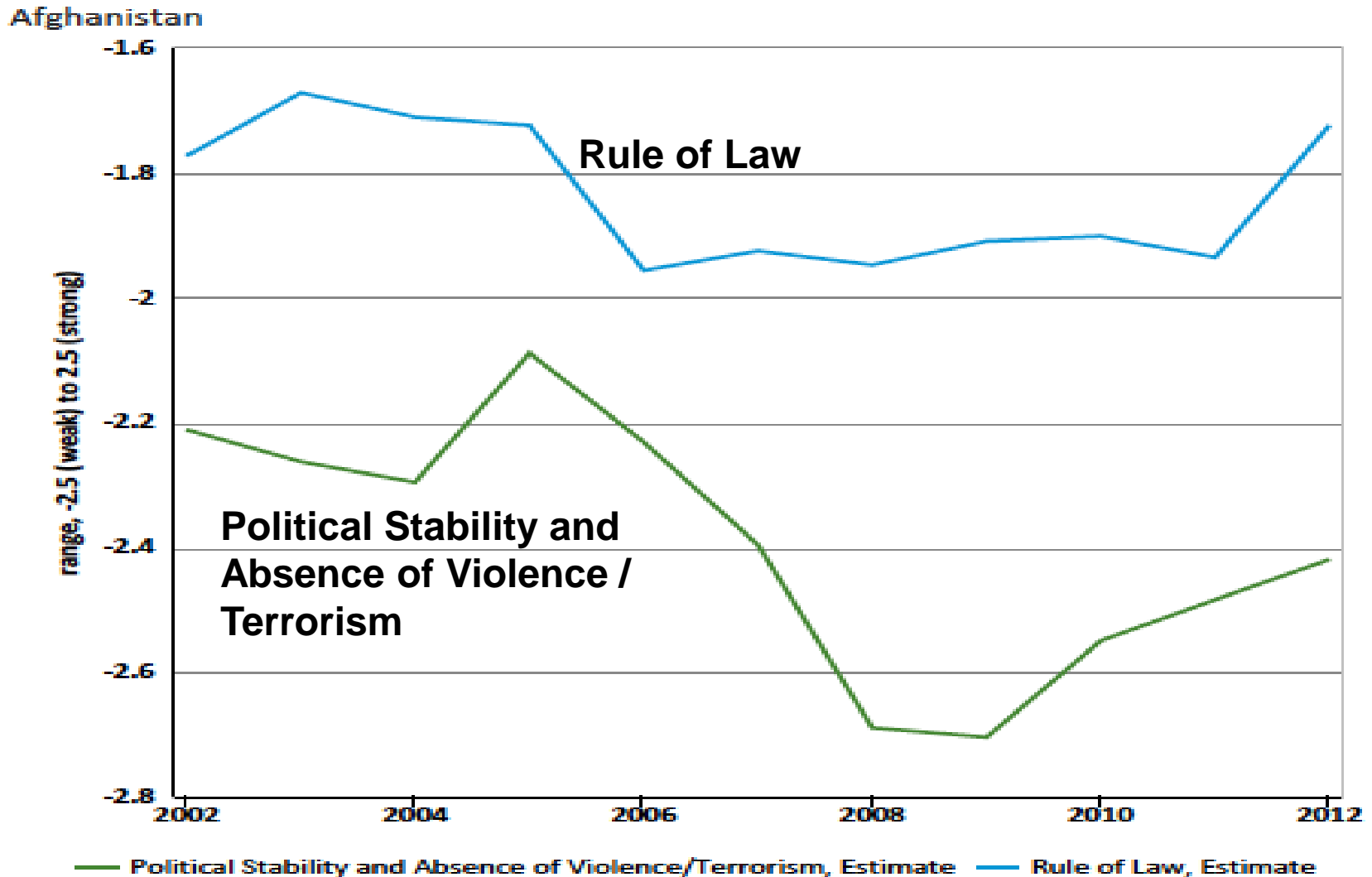




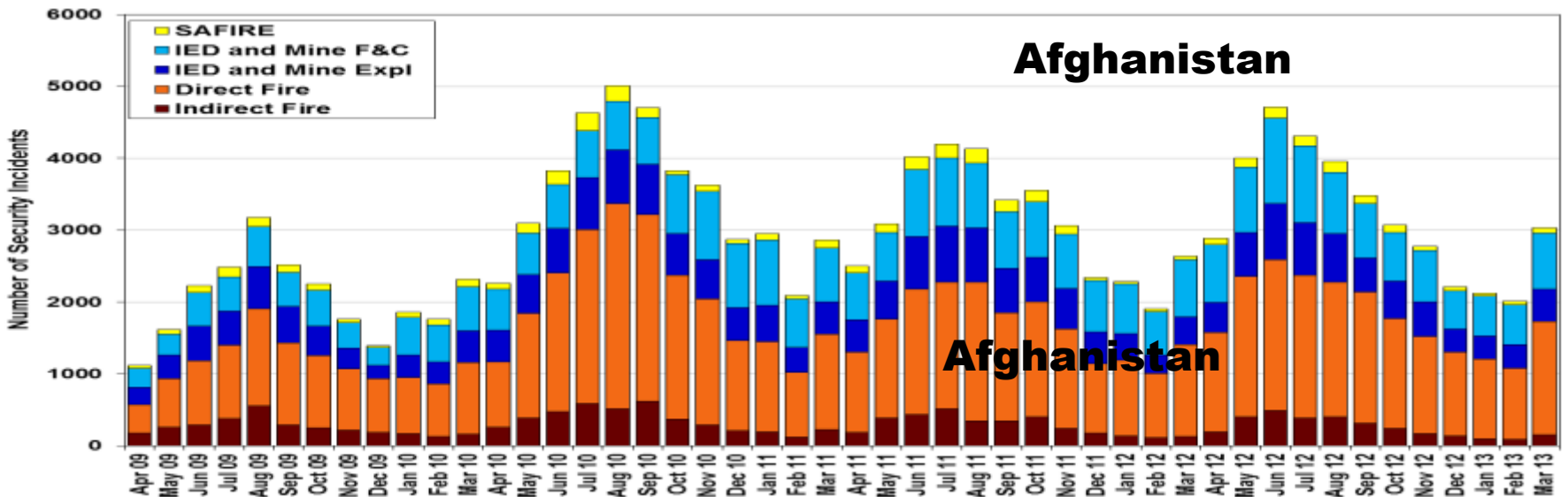
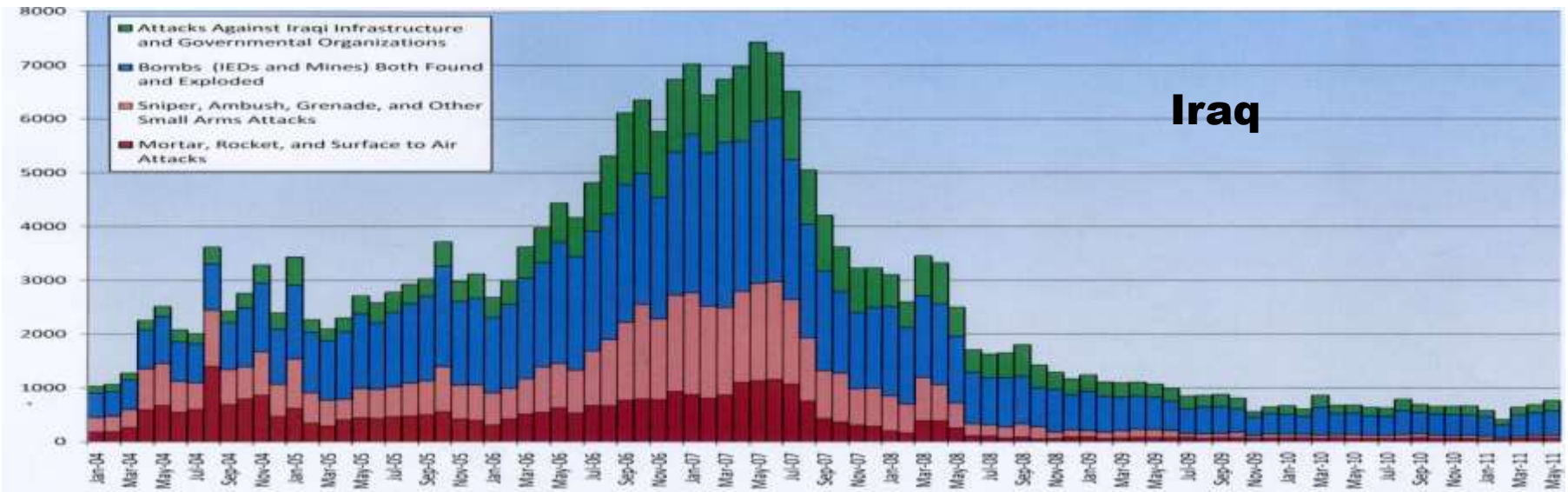
# “Layered Defense” – From “New Silk Road” to LOC Survival



# World Bank Ranking of Violence and Rule of Law Highly Negative

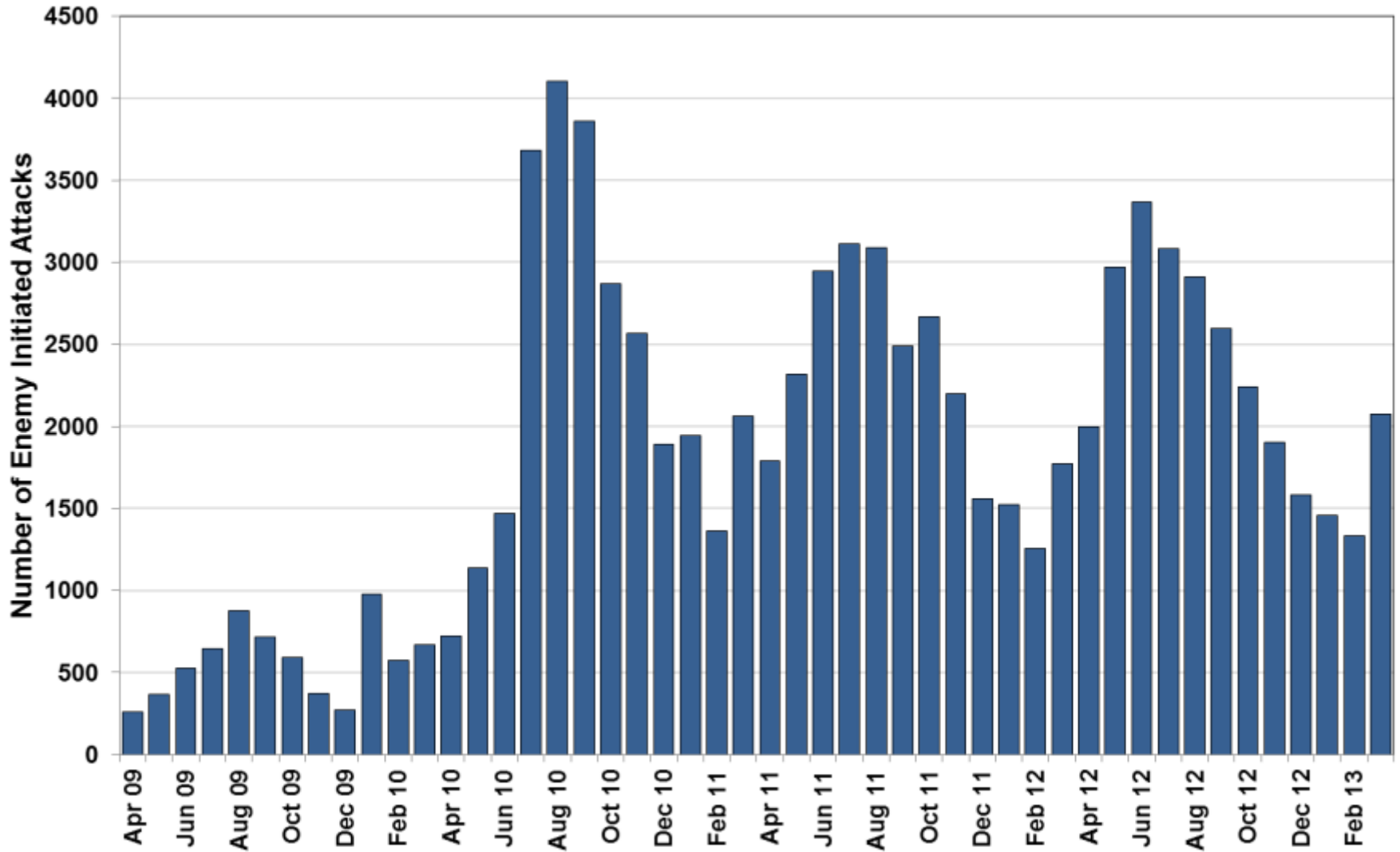


# Uncertain Surge in Afghanistan vs. Surge in Iraq



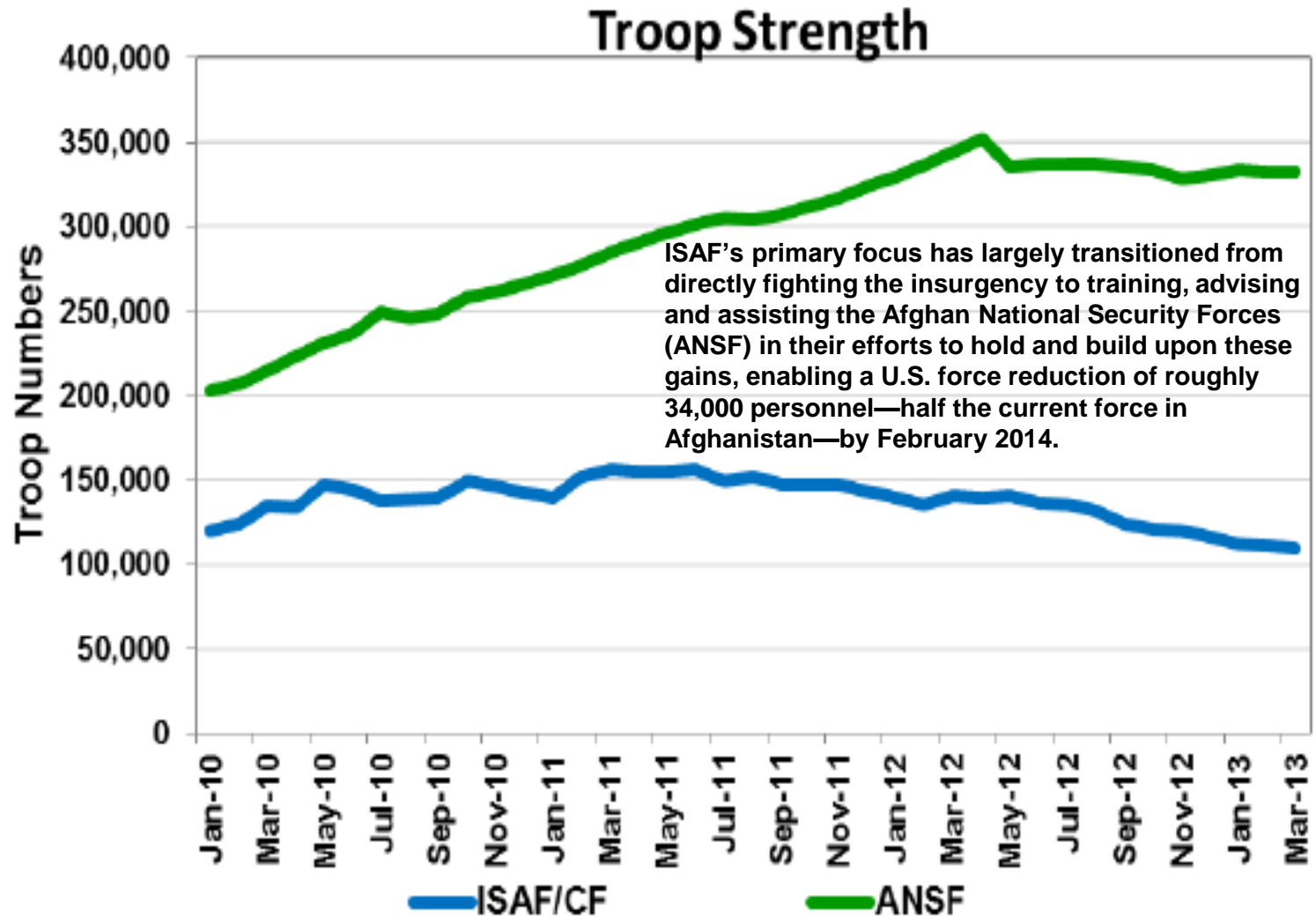
Source: Department of Defense, Report on Progress Toward Security and Stability in Afghanistan, p. A-2.

# Enemy-Initiated Attacks Recovered Before ISAF Ceased to Report

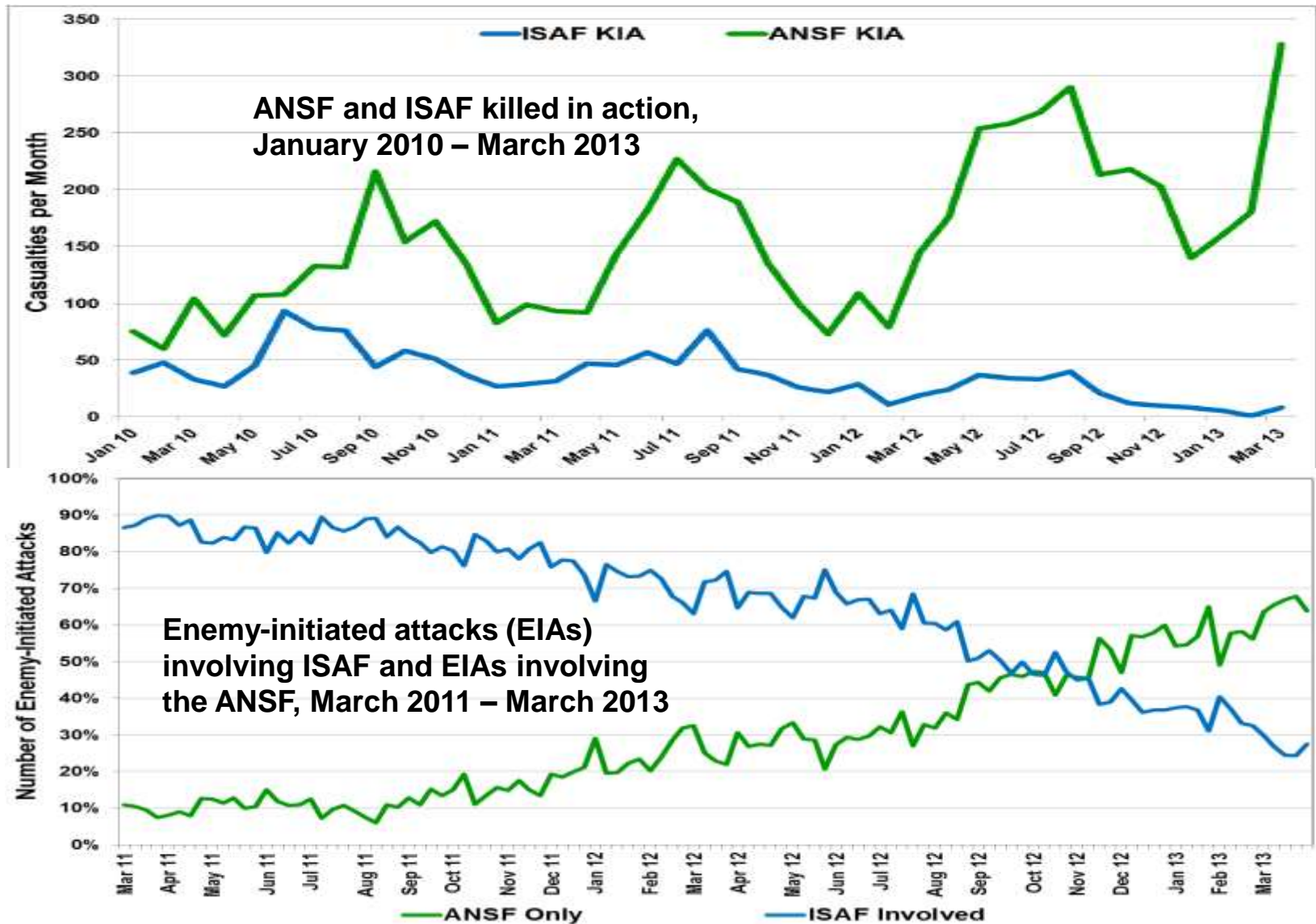




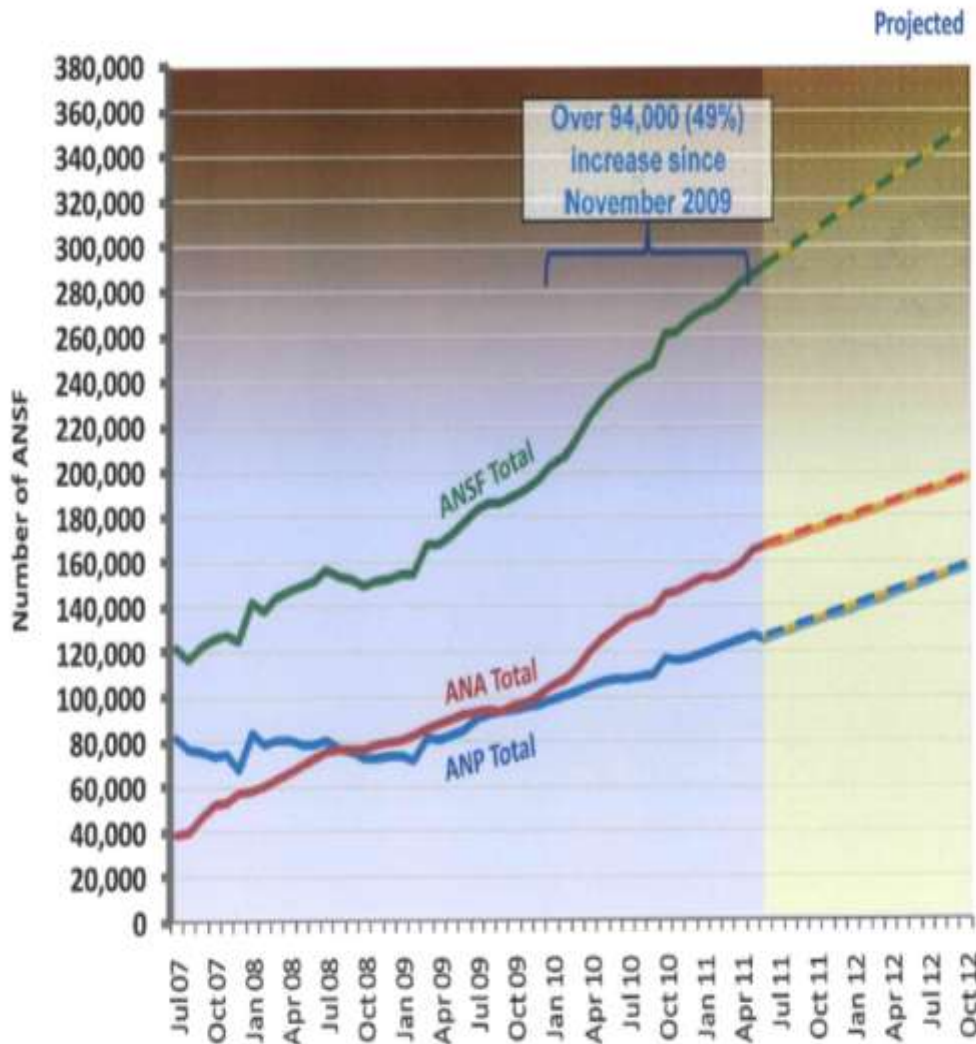
# ANSF Goes Up as US/ISAF Goes Down: Jan 2010-March 2013



# The Burden of Fighting and Casualties Has Shifted to the ANSF

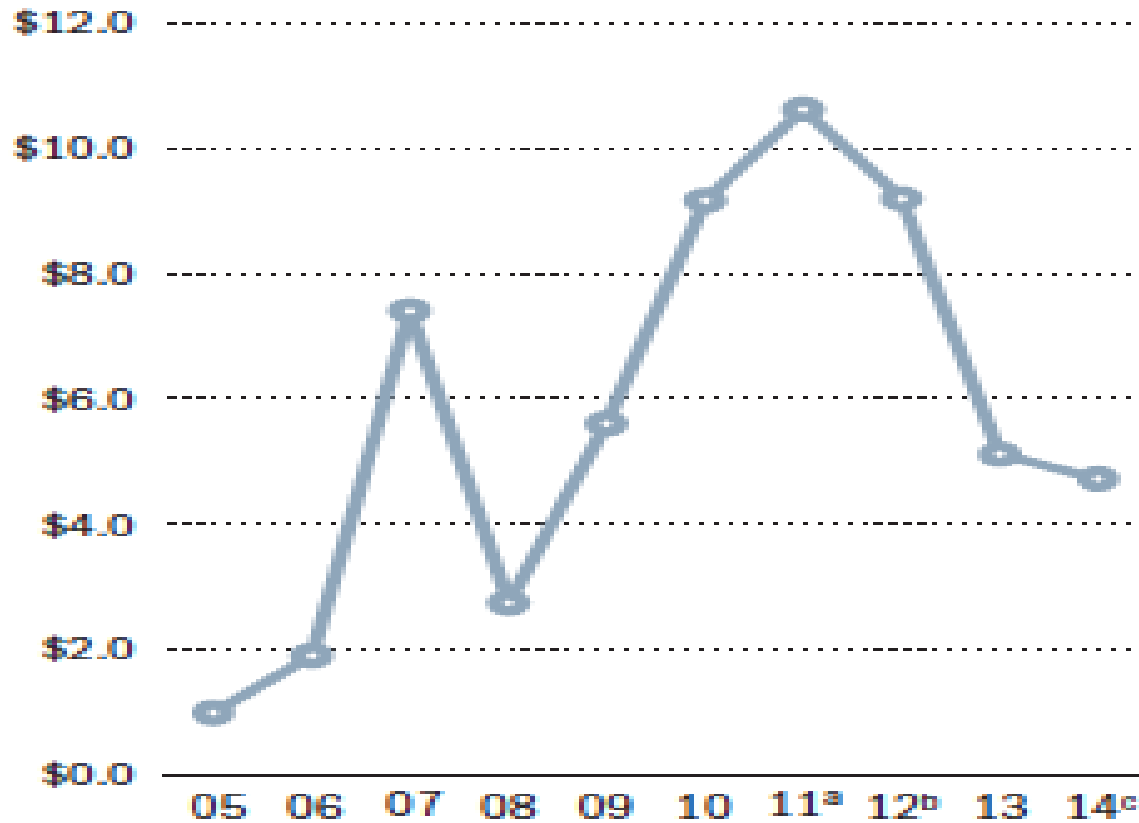


# But, Only Half of ANSF is a Fighting Force



Force Element	Manpower Goal End 2012	% of Total
MOD	NA	NA
ANA	172,055	49%
AAF	7,639	2%
<b>Subtotal</b>	<b>195,000</b>	<b>51%</b>
MOI	NA	NA
ANCOP	14,451?	4%
AUP	110,279	31%
ABP	23,090	7%
<b>Subtotal</b>	<b>157,000</b>	<b>45%</b>
CNPA	2,986?	0.8%
ALP-		
Militias	30,000-40,000	NA
APPF	11,000-23,000	NA

## Ongoing Cuts in US Aid to ANSF – No Clear Plan for FY2015 and Beyond



- The 2014 Consolidated Appropriations Act, 2014 appropriated nearly \$4.73 billion for the ASFF for FY 2014, increasing total cumulative funding to more than \$57.50 billion.

- As of December 31, 2013, more than \$47.88 billion of total ASFF funding had been obligated, of which nearly \$45.38 billion had been disbursed.



## **SIGAR and 1230 Reports Contain Key Warnings on Readiness & Sustainability**

- **CSTC-A stated that “the ANA counts those personnel ‘in the field’ or actively engaged in combat operations as unavailable, with present for duty only representing those personnel ‘in barracks.’”**
- **This explains the low present-for-duty numbers for Corps actively engaged in operations. This quarter, the percentage of ANA personnel “unavailable” ranged from 70.1% (215th Corps) to 20.5% (209th Corps). About 1.7% of the Afghan Air Force’s 6,529 personnel were unavailable.**
- **Although details to account for the 126,658 personnel assigned to the ANA’s combat forces this quarter were limited, SIGAR determined that these forces included personnel in the following categories:**
  - **Present-for-Duty or “Combat Strength”: 62,753 (50%)**
  - **Unavailable (including personnel in combat and on leave but not AWOL): 54,862 (43%)**
  - **Absent Without Official Leave (AWOL): 9,043 (7%)**

# Police Pose a Critical Challenge in Terms of Corruption and Effectiveness – As Do ALP

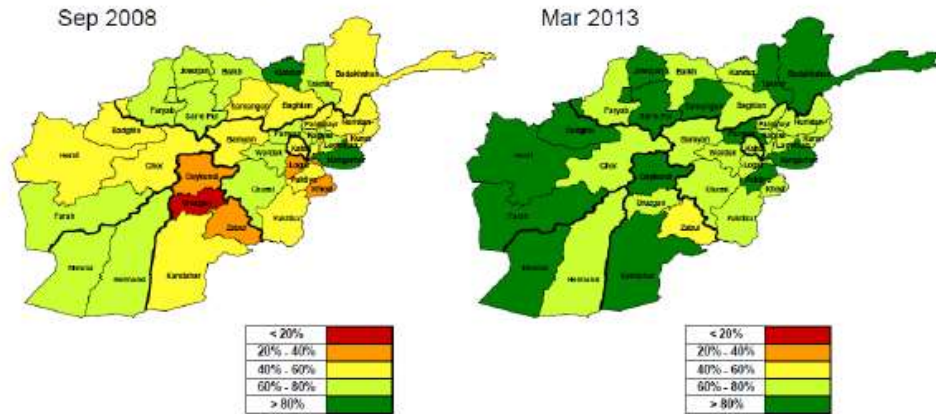
<b>ANP STRENGTH, QUARTERLY CHANGE</b>						
<b>ANP Component</b>	<b>Authorized</b>			<b>Assigned</b>		
	<b>Q3 2013</b>	<b>Q4 2013</b>	<b>Quarterly Change</b>	<b>Q3 2013</b>	<b>Q4 2013</b>	<b>Quarterly Change</b>
AUP	110,369	110,369	None	109,574	106,784	-2,294
ABP	23,090	23,090	None	21,399	20,902	-497
ANCOP	14,541	14,541	None	14,516	13,597	-919
NISTA <sup>a</sup>	6,000	6,000	None	4,905	5,333	+428
<b>ANP Total</b>	<b>154,000</b>	<b>154,000</b>	<b>None</b>	<b>150,394</b>	<b>146,616</b>	<b>-3,282</b>
CNPA	2,247	2,243	-4	2,759	2,850	+91
<b>ANP + CNPA Total</b>	<b>156,247</b>	<b>156,243</b>	<b>-4</b>	<b>153,153</b>	<b>149,466</b>	<b>-3,191</b>

According to CSTC-A, unlike the ANA, the MOI does not report ANP personnel who are on leave, AWOL, sick, or on temporary assignment in its personnel reports. For this reason, it is not known what the actual operational strength of the ANP is at any given time.

# Perceptions of ANSF Are Improving on a National Average Level

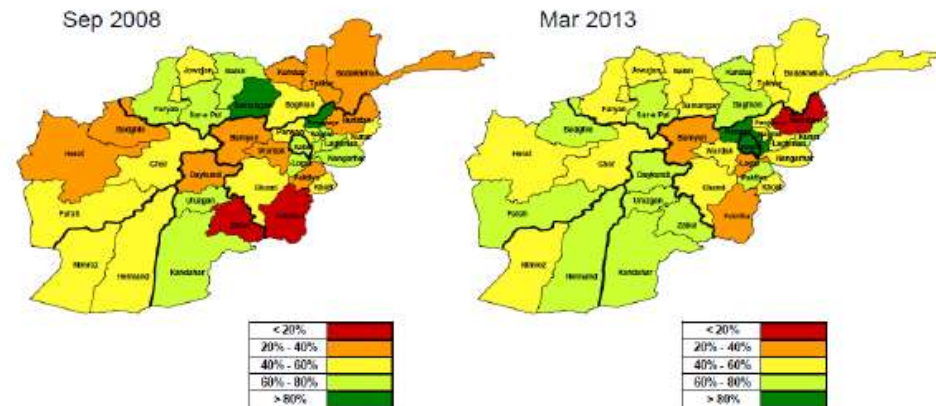
**Q: DOES THE NATIONAL ARMY NEED THE HELP OF THE FOREIGN FORCES OR IS IT CAPABLE OF OPERATING ON ITS OWN?**

**A: Capable as it is / Capable, but needs resources**



**Q: HOW OFTEN DO YOU SEE THE POLICE IN YOUR MANTAQA?**

**A: Every day / Once a week**



Note: "Mantaqa" is Pashto for "local area".

# The Challenge of Governance

***The third section of this report focuses on the critical challenges in governance that will follow even the most successful outcome of the election in producing a clear result, popular acceptance, and support by Afghanistan's key power brokers and factions.***

The post election period will be a race to establish a new pattern of effective governance, and deal with critical challenges in governance at every level, planning, budget execution, and dealing with the economy in addition to security. (p. 38)

US reporting on progress in governance and the economy has never had real credibility. As the previous budget summary shows, there is no evidence of a credible US government economic risk assessment, aid plan, effort to advance the reform goals set at the Tokyo governance, or deal with the problems of a system where the president controls most appointments and funds down to the District level.

Afghanistan is one of the most corrupt and incompetent governments in the world. (pp. 39-40)

It must now adjust to radical cuts in the outside spending that supported its budget and the market and urban sector portions of its economy. (p. 41) – problems disguised by a lack of meaningful current reporting, and dishonest modeling that ignore the impact of corruption, real-world narcotics economics, and capital flight.

Revenues may be partially protected by the carry over in aid funds, but past projections seem exaggerated, to ignore corruption and waste, sometimes be based on unrealistic forecasts of development. (p. 42)

The ability of government's to spend money has never been a measure of effectiveness in showing what that spending accomplishes, but Afghanistan lags badly even in the ability to spend at a time many NGOs are leaving, PRTs will be gone, and it is supposed to manage a far larger share of aid funds. (p. 43)

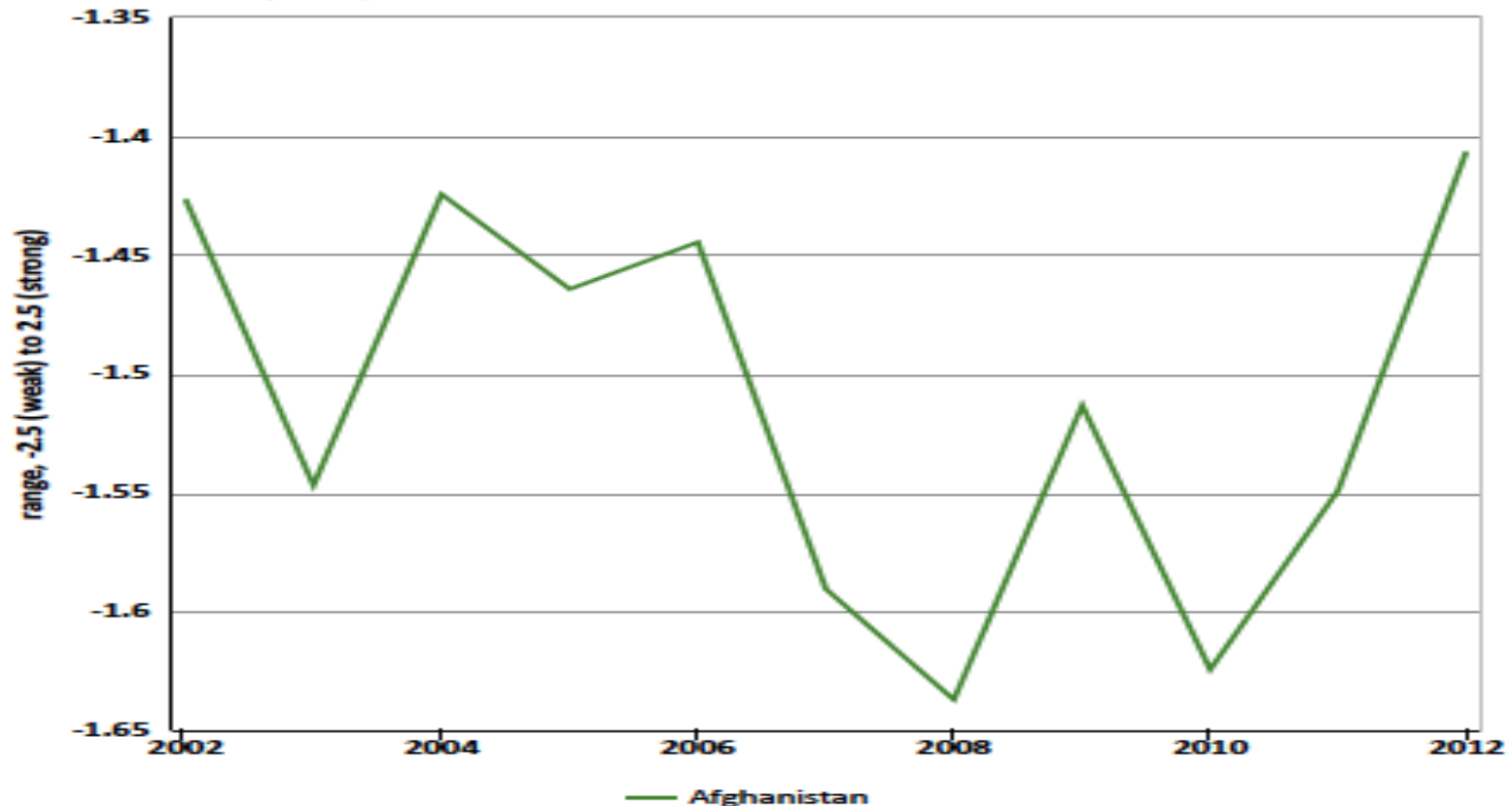
## **A Long List of Key Uncertainties**

- **When will a new President take office?**
- **Can the new President win popular support... and lead?**
- **How long will it take to form a functional government at all levels – national, provincial, district?**
- **How will the mix of power brokers change?**
- **What security challenges will emerge and when? How will the MoD and Mol function and respond?**
- **Who will take charge of budgeting, economic planning, and use of international aid?**
- **What will be mix of corruption versus relative honesty?**
- **What will be the mix of capabilities – e.g., war-fighting versus security? How will Afghan leaders reshape the rule of law?**
- **How will layered defense actually interact with governance?**
- **Accommodation? Search for peace?**
- **Role of neighboring powers?**

## The Challenge of Corruption

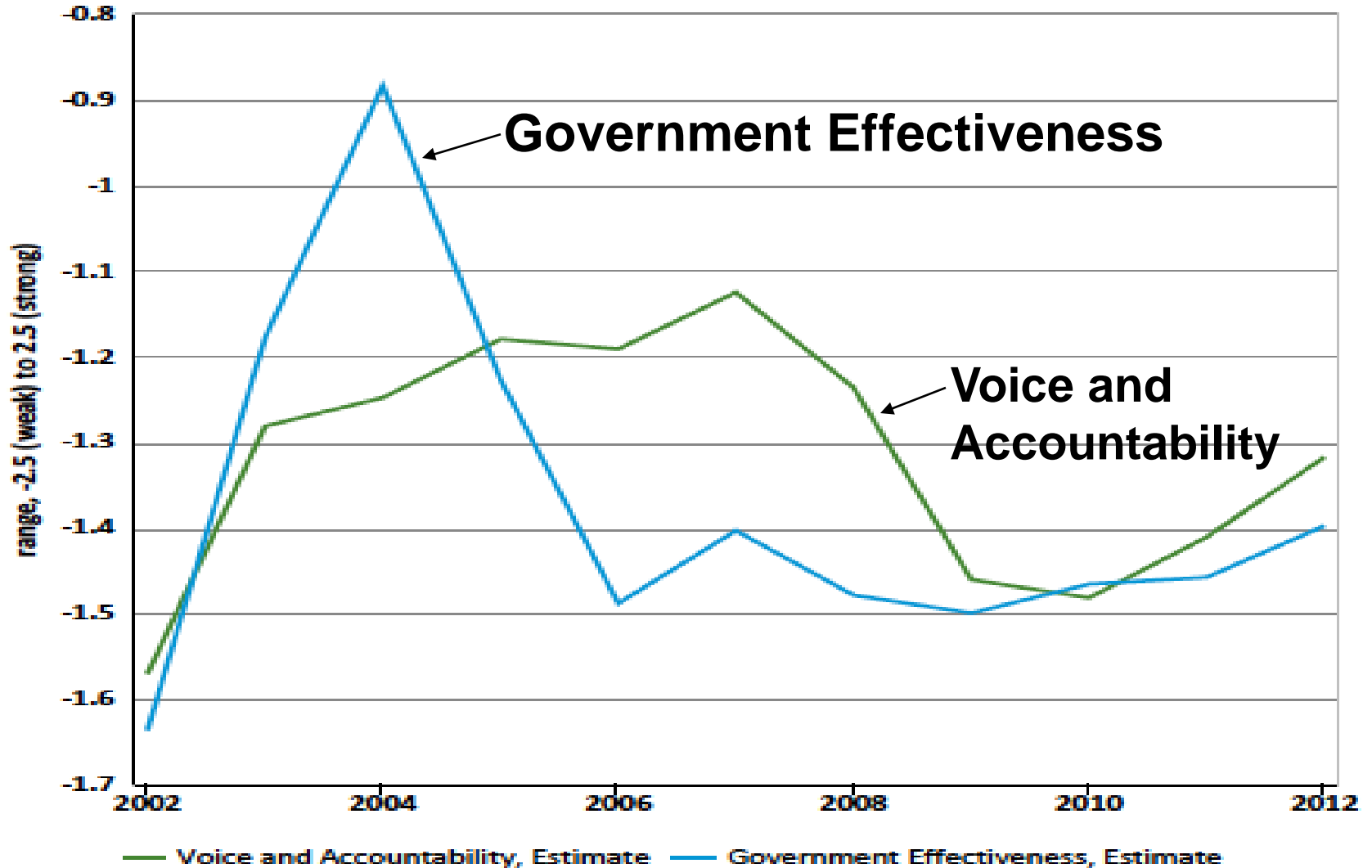
- 175<sup>th</sup> most corrupt country out of 177 ranked by Transparency International. Budget openness is minimal.
- Bad rating on World Bank’s “Control of corruption index” bad. Improvement is driven by aid donors.

Control of Corruption, Estimate



# World Bank Rankings of Governance Shows Very Uncertain Trends

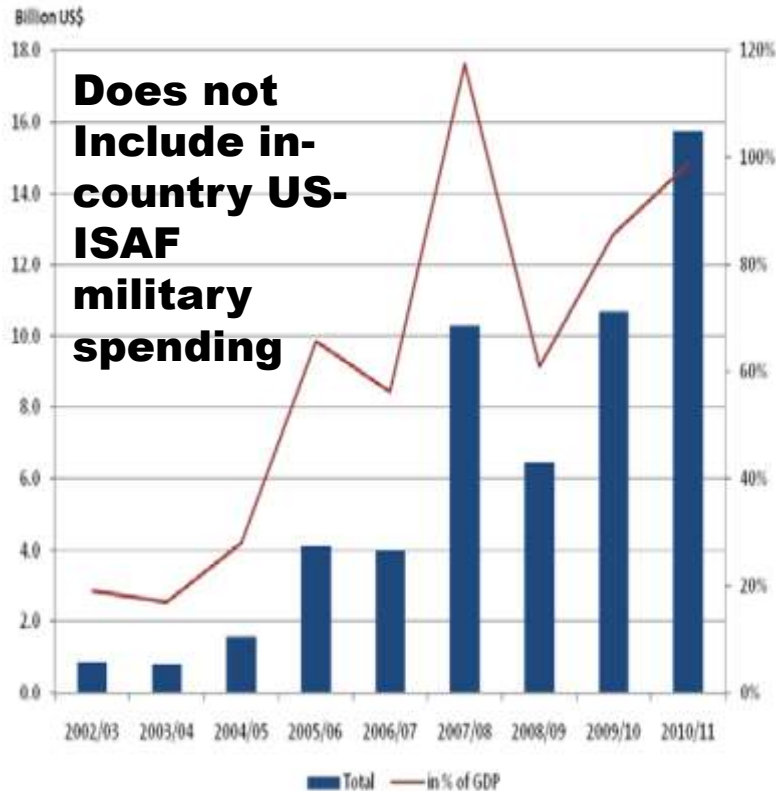
Afghanistan





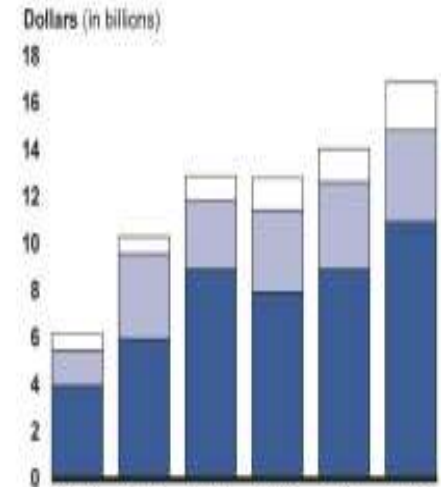
# An Economy Driven by Aid, Military Spending, and Narcotics

## Outside Aid Spending Drives GDP After 2003/2004



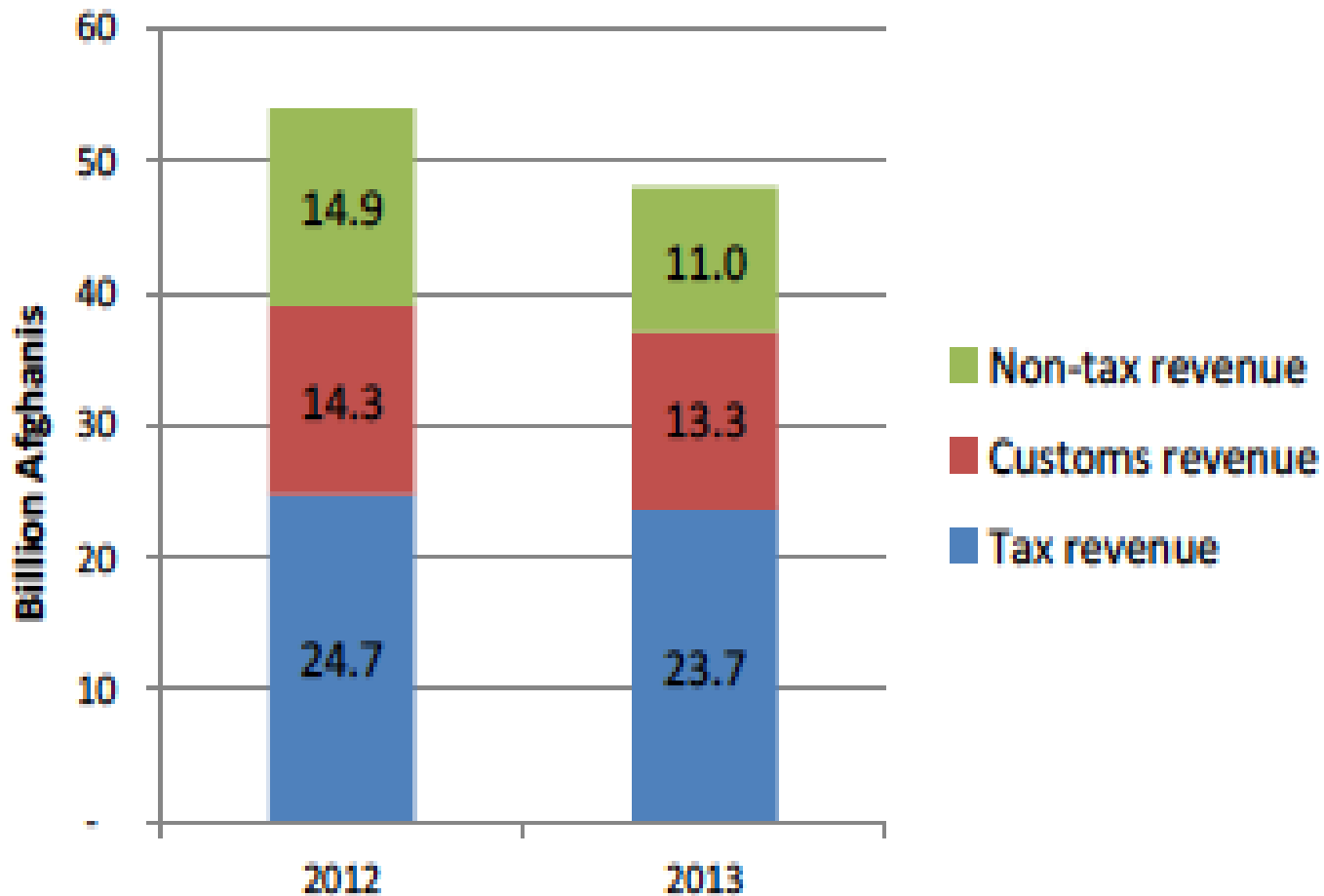
## Only 10% of Afghan Budget is Self-Funded

- 64% is US aid
- 26% is from other donors
- 10% is Afghan funded



	2006	2007	2008	2009	2010	2011
Afghan funded expenditures	\$0.71	\$0.74	\$1.04	\$1.34	\$1.45	\$2.04
Other donor funded expenditures	\$1.56	\$3.64	\$2.94	\$3.51	\$3.89	\$3.92
U.S. funded expenditures	\$3.56	\$5.76	\$8.76	\$8.07	\$8.89	\$11.49
<b>Total public expenditures</b>	<b>\$5.81</b>	<b>\$10.14</b>	<b>\$12.73</b>	<b>\$12.92</b>	<b>\$13.83</b>	<b>\$17.44</b>

# Revenues Went Down in 2013



**Total revenue collected in each month in 2013 was less than collections in the same month of 2012.**

## **Budget Execution Has Been a Major Problem**

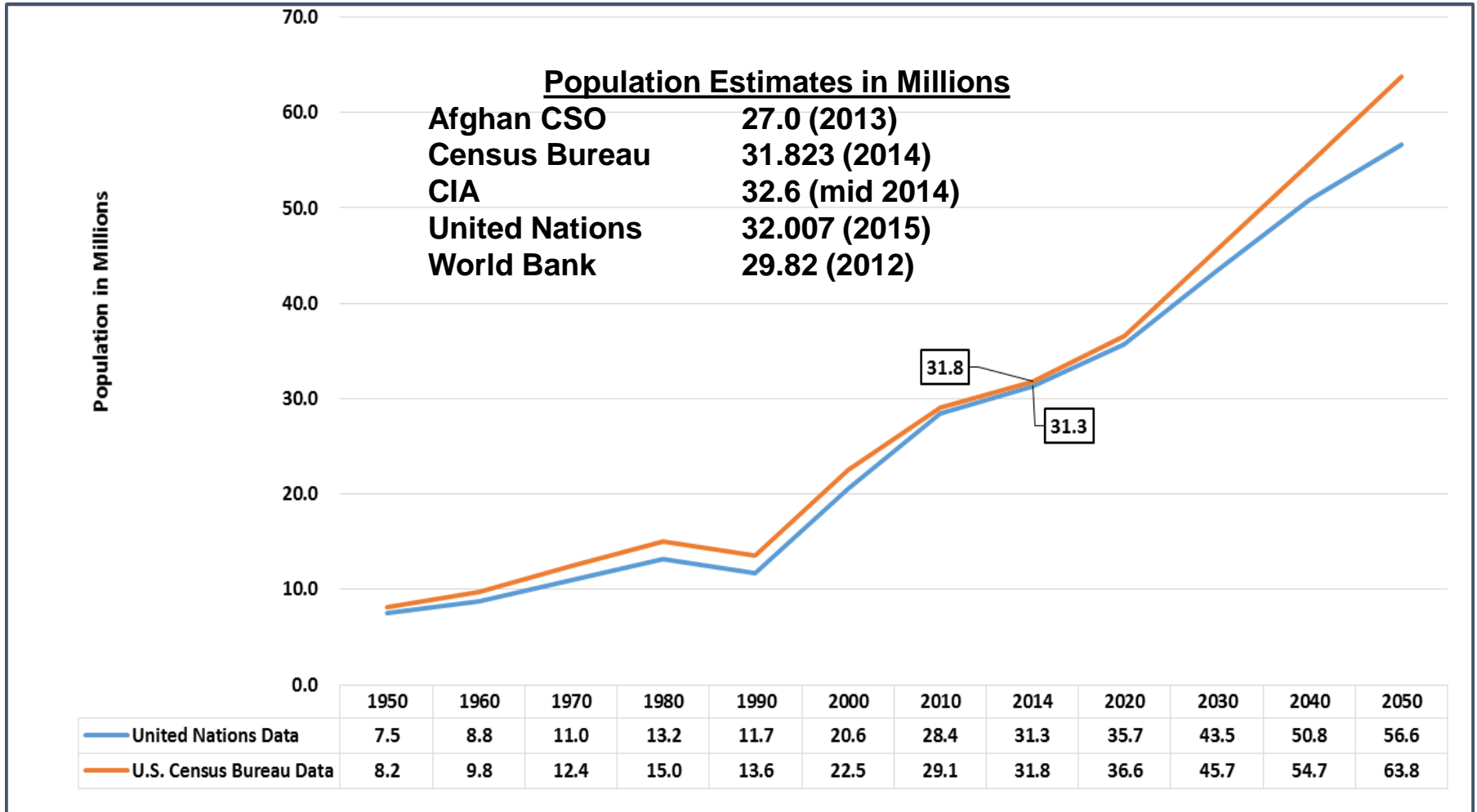
- **Operating expenditures:**
  - **Increased during the first six months of 2013, as more spending moved on-budget. Yet execution rates remain low, particularly for the development budget.**
  - **Increased to Afs 82.1 billion in the first six months in 2013, compared to Afs 75.4 billion over the same period in 2012.**
- **Development expenditures declined to Afs 23.7 billion in the first half of 2013, compared to Afs 27 billion in the first half of 2012.**
- **Low budget execution continues to be a problem in Afghanistan, particularly affecting development expenditures in 2013.**
- **Budget execution was only 36.4% of the operating budget and 17% of the development budget in the first half of 2013, compared to 50% and 24%, respectively, in the first half of 2012 .**
- **Among ministries with development budgets of more than \$50 million, only three (ministries of health, finance, and rural development) have executed more than 20% through the first half of 2013.**

# The Challenge of Demographics

***The fourth section of this report warns just how serious ethnic, regional, and sectarian divisions are among the population and shows how critical sheer population pressure is in terms of total population, pressure on the land and water, urbanization and demand for jobs.***

- Population estimates are very uncertain and many of the statistics commonly used have no reliable source or level of accuracy. (p. 46)
- The UN and US Census Bureau agree, however, that Afghanistan is under extreme population pressure for a very poor country with limited arable land and water and uncertain rainfall. (p. 46) 7.5-8.2 million in 1950 to 13.2 to 15.0 million at time of Soviet invasion to 27+ to 32+ million in 2014.
- Ethnic and sectarian differences are a problem, compounded by competition between power brokers and officials. (p. 47)
- An extremely young population creates a high dependency ratio and will put major pressure on the land, water, and job creation for at least a decade. (p. 47)
- Population pressure, water, and economic incentives have led to a sharp rise in urbanization, much uncounted or underestimated, and in the form of slums, poverty, and subsistence. (p. 47)
- The rate of young men reaching job age alone seems to exceed creation of real jobs. (p. 47)
- Agriculture employs 79% of population for only 20% of GDP? (p. 47)
- Services employ 15.7% of population for 54.4% of GDP? After Transition and coming cuts in aid and military spending? (p .47)

# Afghanistan's Demographic Pressure



## **Afghanistan's Divisive Demographics**

- **Total population: 31,822,848 (July 2014 est.)**
  - Pashtun 42%, Tajik 27%, Hazara 9%, Uzbek 9%, Aimak 4%, Turkmen 3%, Baloch 2%, other 4%
  - Sunni Muslim 80%, Shia Muslim 19%, other 1%
- **Population 0-14 years: 42% (male 6,793,832/female 6,579,388); 15-24 years: 22.2% (male 3,600,264/female 3,464,781)**
- **Urban population: 23.5% of total population (2011)**
- **Rate of urbanization: 4.41% annual rate of change (2010-15 est.)**
- **Young men and women reaching employment age annually: 392,116 males (5% of labor force), 370,295 females (2010 est.) 30-40% unemployment in 2008**
- **Agriculture employs 79% of population for only 20% of GDP?**
- **Services employ 15.7% of population for 54.4% of GDP?**



# The Challenge of Economic Stability and Development

***The final section highlights the potential seriousness of economic risk.***

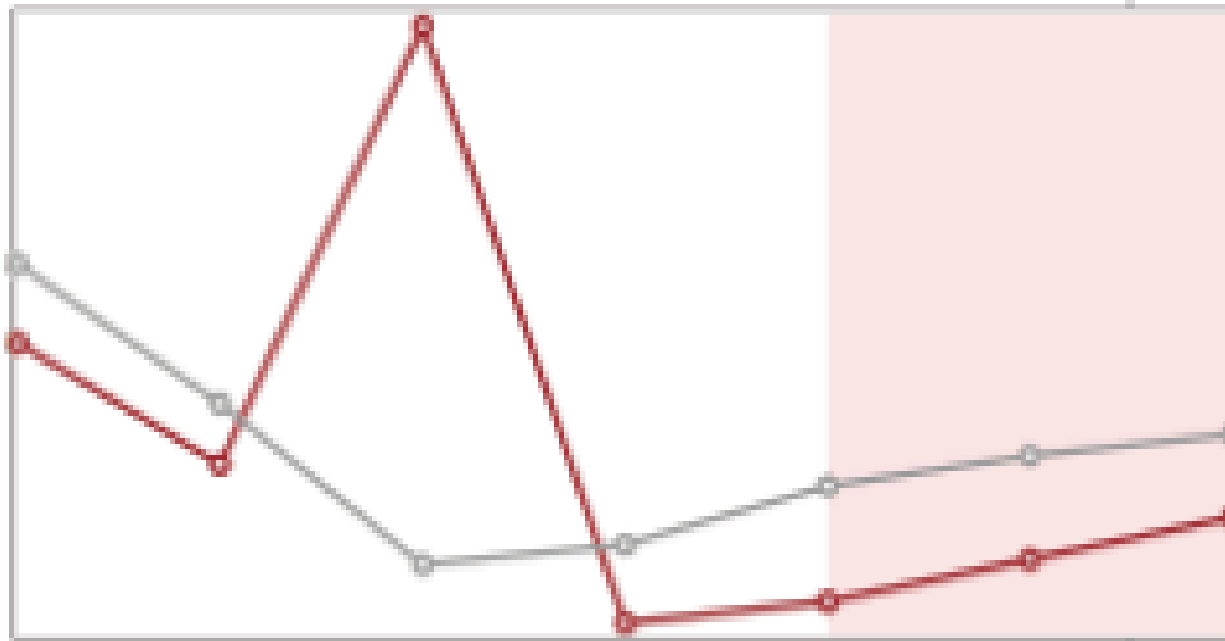
- There are at least nine major challenges that are not war related. (p. 50)
- Past reporting on GDP growth has been dishonest in that it took figures shaped by the agriculture sector, and gains determined by peak rainfall, and implied these were the result of development and aid. (p. 51)
- Transition and cuts in military and aid spending may have a critical impact on both the service and industries sector during transition. The lack of a comparable estimate of the impact of the narcotics sector is analytically absurd. (p. 52)
- In spite of these problems, there seems to have been real progress in human development in spite of gross exaggeration of improvement in medical services, and in students actually in school versus expected years of schooling. (p. 53)
- This still, however, has left Afghanistan far behind other poor Asian state like Bangladesh and Nepal.(p. 54)
- Transition will make the major barriers to doing business in Afghanistan – which ranks only 164<sup>th</sup> out of 189 countries – far more serious. (p. 55)
- There are no credible estimates of just how dependent Afghanistan has been on outside military spending and aid, but the World Bank and CIA warn that Afghan imports were 17 time exports in 2012. (p. 56)

## Economic Challenges

- **“New Silk Road” is dead, and “Ring Road” is uncertain; mineral wealth is no miracle solution to economic challenges. Very little real growth other than aid and military spending driven – cyclical impact of rainfall.**
- **Still at war and highly aid dependent.**
- **Unclear who will plan and manage aid and revenues in government.**
- **No clear aid structure, revenue flows, outside plans and focus.**
- **The goal of 50% Afghan control ignores the roll back of aid/NGO presence; government ability to use and manage is insufficient.**
- **Failure of UNAMA, uncertain role of World Bank**
- **Service sector may leave, export capital, collapse.**
- **Major barriers to private development**
- **At least some risk of major recession and collapse of the market-driven sector.**

# Challenge of Economic Impact of Transition: 12% to 3-4%

Annual GDP Growth (%)

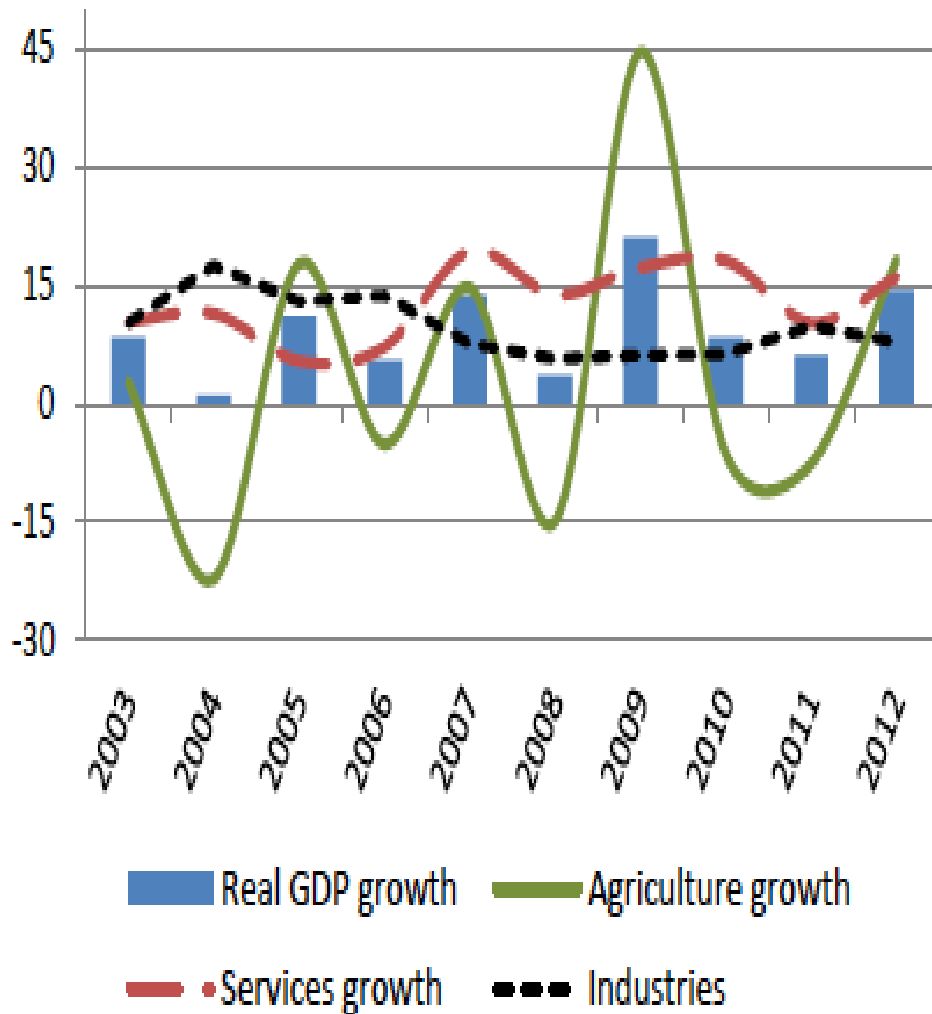


Afghanistan South Asia

Forecast (2014, 2015, 2016)

- Poverty level = 37%
- GNI per Capita = \$680
- Life expectancy = 50.5 years

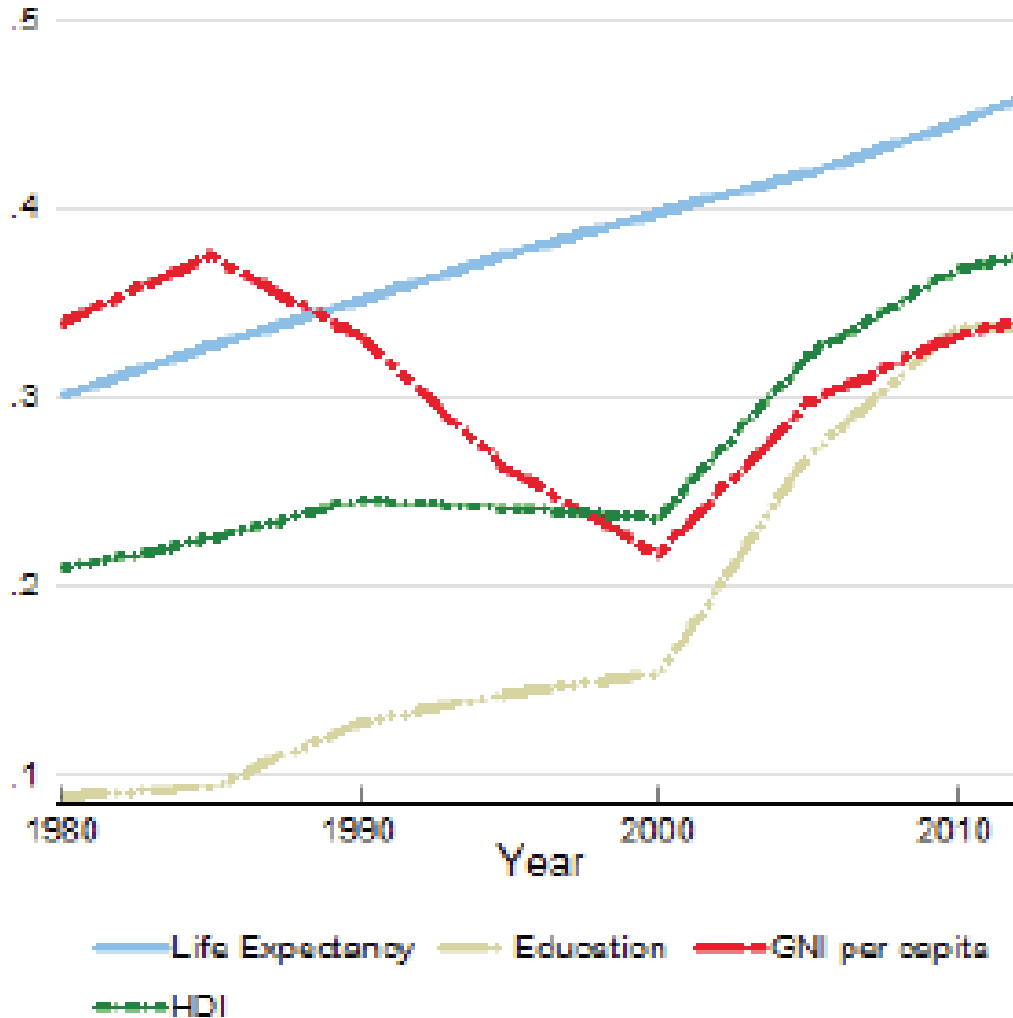
# Rainfall and Outside Spending, Not Aid or Development, Drive GDP Growth



- Uncertainty surrounding the political and security transition in Afghanistan has led to a slowdown in economic growth in 2013, despite strong growth in 2012.
- Real GDP growth (excluding opium production) was 14.4% in 2012, which represented a sharp uptick from 6.1% in 2011.
- This strong performance was in large part due to an exceptional agricultural harvest supported by favorable weather conditions.
- Agriculture accounts for about a quarter of GDP (excluding opium). As a result, economic growth is influenced heavily by the volatile agricultural sector.

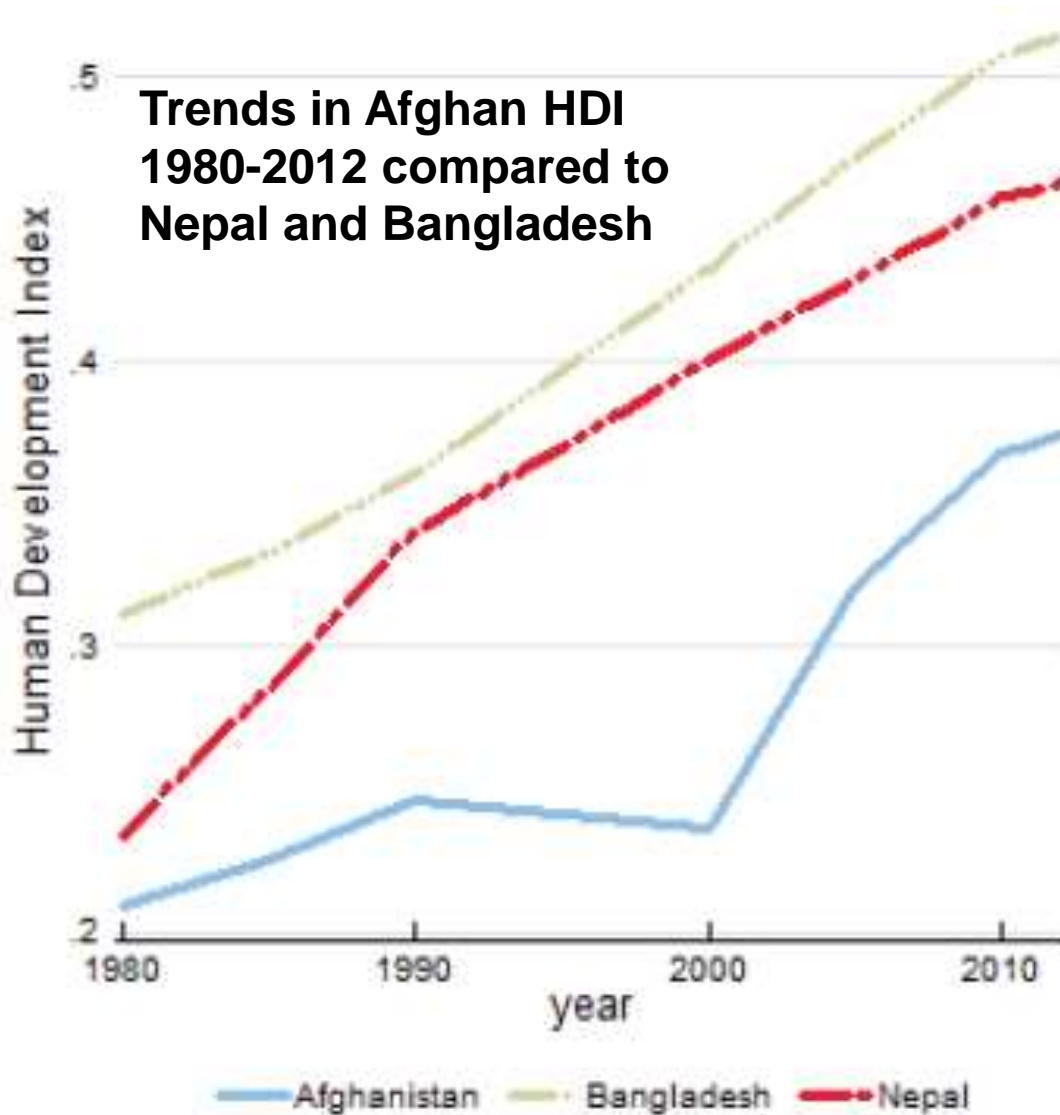
# Real Progress in Human Development

Trends in Afghanistan's HDI component indices 1980-2012



- Between 1980 and 2012, Afghan's life expectancy at birth *increased by 9.9 years*.
- Mean years of schooling *increased by 2.3 years*, and expected years of schooling *increased by 5.8 years*.
- Afghanistan's GNI per capita *decreased by about 0.20%* between 1980 and 2012.

## But... Well Below Other Poor Asian States



- Afghanistan's HDI value for 2012 is 0.374 (i.e., in the low human development category), positioning the country at 175 out of 187 countries and territories.
- Between 1980 and 2012, Afghanistan's HDI value increased from 0.209 to 0.374, an increase of 79% or average annual increase of about 1.8%.

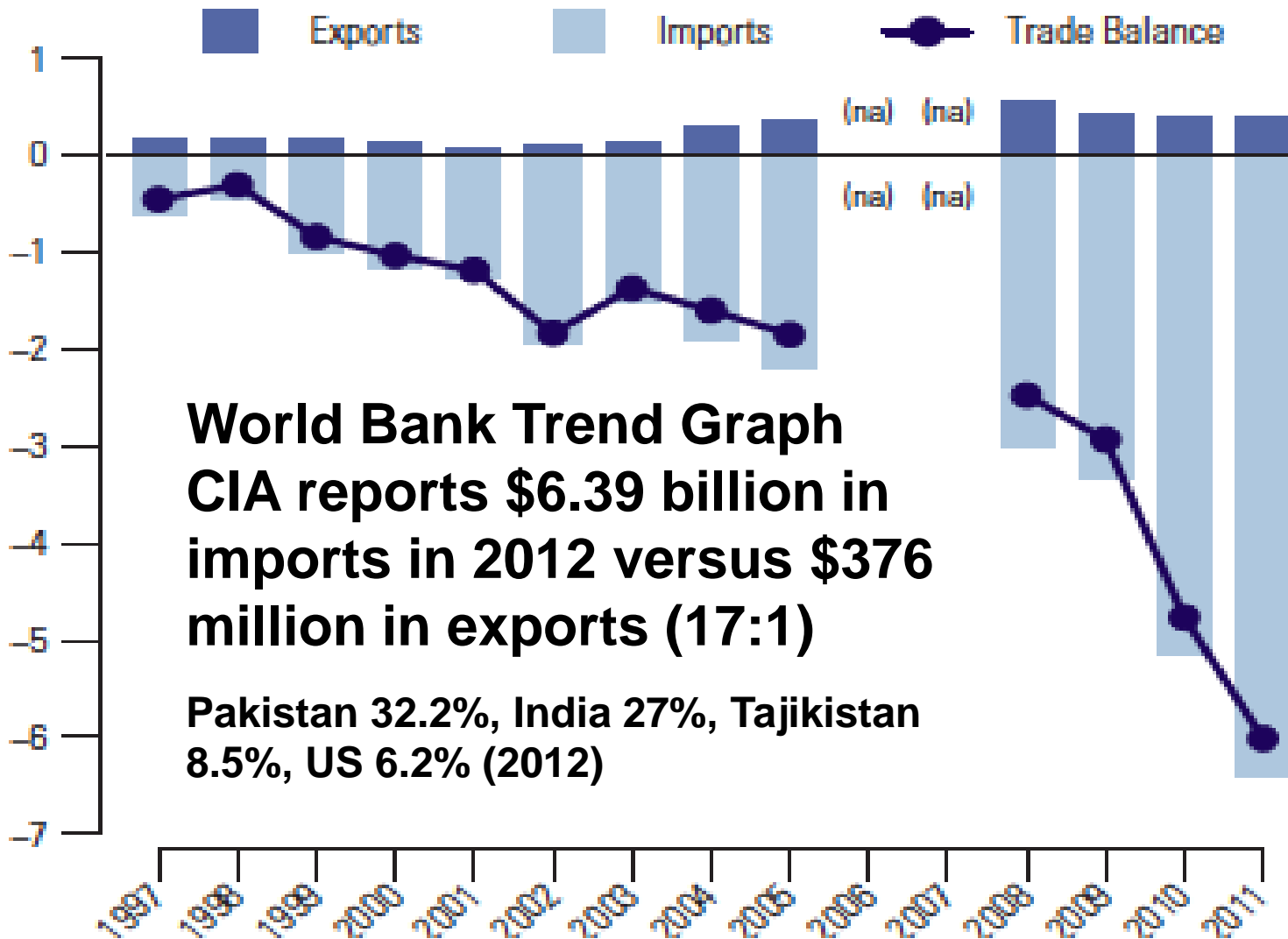


# Major Barriers to Doing Business: World Bank Ranks as 164<sup>th</sup> Out of 189 Countries

TOPICS	DB 2014 Rank	DB 2013 Rank	Change in Rank
Starting a Business ✓	24	31	↑ 7
Dealing with Construction Permits	187	170	↑ 3
Getting Electricity	104	111	↑ 7
Registering Property	175	176	↑ 1
Getting Credit ✓	130	154	↑ 24
Protecting Investors	189	189	No change
Paying Taxes	98	95	↓ -3
Trading Across Borders	184	181	↓ -3
Enforcing Contracts	168	170	↑ 2
Resolving Insolvency	115	118	↑ 3

# Challenge of Post Transition Trade Balance

(Bln US\$ by year)



**World Bank Trend Graph**  
**CIA reports \$6.39 billion in imports in 2012 versus \$376 million in exports (17:1)**

**Pakistan 32.2%, India 27%, Tajikistan 8.5%, US 6.2% (2012)**

Source: <https://www.cia.gov/library/publications/the-world-factbook/geos/af.html>, <http://data.worldbank.org/country/afghanistan>, April 7, 2014.