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## 2014: THE OTHER AFGHAN WITHDRAWAL

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The international community and its Afghan partners have spent a great deal of time and effort in the past three years to dispel fears that the planned withdrawal of international troops in 2014 will plunge the country in a new phase of chaos. Internationals have pledged continuing political, security and financial support beyond the withdrawal date, while the Afghan government has promised to tackle the necessary reforms to guarantee the sustainability and stability of the Afghan state in the medium to long term. But reality on the ground, as well as the prevailing perception of what lays ahead, contradict the openly stated reassurances and projections of the different governments. This has led to a capital and human exodus triggered by the fear of renewed conflict. The withdrawal of international troops seems to have set in motion the beginning of stampede whose consequences will only be known over time. Limiting the damage of what looks like a widespread and comprehensive withdrawal at all levels from governments, companies or individuals will be crucial for the stability of Afghanistan.

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There is nothing fundamentally wrong with the withdrawal provided that the necessary assets, funding and support are put in place to fill the vacuum left by the international forces. Should this not be guaranteed, the current fears of growing insecurity could become a reality triggering or exacerbating some of the current negative trends.

The gradual decline of aid, if properly managed is not intrinsically bad. As the World Bank points out "less aid with more effective aid delivery could, in the end, lead to more positive outcomes".

The resurgence of the Taliban insurgency in 2006 started to reverse the prevailing trust and optimism of the business community. This trend has been exacerbated since the announcement of the withdrawal calendar in 2009.

The burden of, and the capacity for, changing reality on the ground for investors remains largely in the hands of the Afghan government through the implementation of the necessary reforms and actions that would guarantee a reasonable level of hard and economic security.

Both, the transition and post transition periods pose a series of great challenges. However none are really new to the country, just the means to tackle them and the division of labour.

### As troops move out will insecurity move in?

The ongoing process of withdrawal of international troops and the transfer of security to the Afghan National Security Forces (ANSF) have resurrected the ghosts of the 1989 Soviet pullout and fuelled the fear of growing instability or even a new civil war after 2014. Whist these fears, which are at the origin of the capital and human flight described below, have been largely overblown, they are far from unsubstantiated, at least when it comes to the idea of increased insecurity due to the limited capacity of the Afghan Government to retain the monopoly of violence in the country.

Successive international meetings held since 2011 and, more specifically, the 2012 NATO summit in Chicago, have identified a number of parameters and conditions that are key to a successful transition. One of the main conditions is the formation of effective ANSF capable of taking over security. A great deal of the withdrawal plan, and the hope of future security for Afghans and their neighbours, lies

Successive international meetings held since 2011 and, more specifically, the 2012 NATO summit in Chicago, have identified a number of parameters and conditions that are key to a successful transition. One of the main conditions is the formation of effective ANSF capable of taking over security. A great deal of the withdrawal plan, and the hope of future security for Afghans and their neighbours, lies

on the performance and capacity of the ANSF. Yet progress in that field has been slow –although important milestones have been achieved (in 2012 the ANSF reached the target number of nearly 352,000 and now leads nearly 90% of operations across the country). The ANSF still faces herculean challenges, and is likely to continue to face them well after 2014. It has a very limited independent operational capacity (according to the Pentagon, as of December 2012 only one of the Afghan National Army's 23 brigades was able to operate independently without air or other military support from the United States and NATO partners), the levels of attrition remain far too high (2,6% to 3,1%, far from the rate target 1,6% target), there is a severe lack of enablers and air support assets in general, to mention just a few of the problems.. The fact that the Taleban insurgency has not been completely defeated and that their safe havens remain largely intact in the Tribal areas of Pakistan coupled with the current insufficient combat power to finish the counteroffensive in the eastern part of Afghanistan after this year's US troops withdrawal also justifies the fears –national and international- of a continuing or even increasing instability. There are also concerns about the financial viability and sustainability of the current ANSF troop levels of 352,000, hence the plans to reduce the number to 228,500 to allow cutting the ANSF budget from

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current \$11Bbn per year to 4.1bn in 2017. Some wonder how a reduced force could tackle the same threats and enemies a force of 352,000 with international support could not. The planned limited US military presence of 6000 to 9000 troops concentrating on hunting down what it might remain of Al Qaeda and mentoring the ANSF are unlikely to make a significant difference in the overall security of the country.

Afghanistan will need all the help it can get during the so called "transformation phase" (2015 to 2024). NATO already announced a follow-up non combat mission to the International Security Assistance Force (ISAF) that would concentrate on training and advising the ANSF. NATO countries also made substantial pledges at the May 2012 NATO Chicago Summit, to continue funding the ANSF through an aid package of \$3.6 billion a year until 2017 (vital considering the Afghan government can only contribute \$500m a year), but as operational fatigue settles in and the economic crisis continues to hit western countries, the prospects of these pledges materialising in the future could be put in doubt. Sustained international financial support for the ANSF should also be a priority. There is nothing fundamentally wrong with the withdrawal provided that the necessary assets, funding and

support are put in place to fill the vacuum of international forces. Should this not be guaranteed, the current fears of growing insecurity could become a reality triggering or exacerbating some of the current negative trends that might hamper Afghanistan's future.

### **Pulling the aid plug?**

The announcement of the withdrawal calendar raised fears that aid might follow the same path and that any meaningful progress made in the past decade in terms of security, development and state-building could be jeopardised. In order to dispel those fears, the international community gathered in Tokyo in July 2012 to reassure Afghans and their neighbours that the planned military withdrawal did not encompass a –total- political, and assistance disengagement that would leave Afghans to their own devices. The \$16 billion in aid through 2015 pledged by the international community at the conference were meant to be the proof of it.

But this has only partly reassured Afghans and some international NGOs, mostly to their credit, as a substantial aid disengagement beyond 2015 is still a real possibility. Past

experience across the globe shows that despite international commitments and aid pledges, the withdrawal of troops leads to a considerable decrease in aid: 60% in Bosnia between 1996 and 2001, 43% in Haiti between 1998 and 2002, 69% in Iraq between 2003 and 2009 according to USAID data. Afghanistan could well be no different especially given the existing intervention fatigue amongst international

donors and their constituencies due to both the perception of limited success in the past decade and the high levels of aid loss linked to corruption. The pessimistic and disengagement-prone mood has been further exacerbated by the severe global economic crisis that has led to cuts in the national budgets of the main donor countries. For all these reasons, it would be difficult to foresee that Kabul might be able to secure the \$10 billion a year in aid through 2025 requested (and allegedly needed) by the Afghan government during the 2011 Bonn Conference (a bargaining position also maintained during the run up to July the 2012 Tokyo summit). In fact, as of today, no clear and concrete plans or pledges, beyond political statements of continued support, have been made for the post-transition period.

The World Bank warned last year about the risk of a rapid decline of aid that could lead to major macroeconomic instability and serious socioeconomic consequences. The country is and will remain highly aid dependent in the coming years (its yearly financing gap will be roughly \$7.8 billion from 2014 to 2021) and faces great challenges to overcome its high aid dependency. Fragile security, deeply engrained corruption, limited income generation capacity as well as small capacity

to absorb aid are among the main threats to progressively achieve financial independence. Tackling these challenges in an efficient and urgent fashion is also the main condition for a sustained international aid support in the coming years. It's the basis of the "Mutual Accountability Framework (MAF)" agreed in Tokyo which sets specific measurable reform goals to improve Afghan governance and development performance. What is no doubt a wise agreement -in which the international community committed on their part to channel 50% of its aid through the Afghan budget- is also the international community's main tool to withhold aid in case of non, or poor compliance with the agreed reforms by the Afghan Government (see the EU's withholding of €20 million in aid for the judicial sector in October 2012 on the grounds of lack of progress in governance and justice reforms).

For this reason, it can be affirmed that current and future aid pledges are far from a secure source of income for the Afghan government due to financial or political reasons. The prospects of aid drying out, being partly withheld or decreased dramatically are all but too real just as the risk of collapse of the country should the international community reduce aid too fast and too soon. The consolidation of a scenario similar to that of the post soviet withdrawal would have dire consequences for the country and its neighbours. Fortunately this is not yet the case, but it is up to the Afghan government to work hard on implementing the necessary reforms (especially the fight against corruption but also work towards generating revenue) to ensure transparency and efficiency in the use of foreign aid; and to the international community to ensure, through continued political and financial -budget- support beyond 2014, that progress made in the past decade is not lost. The gradual decline of aid, if properly managed is not intrinsically bad. As the World Bank points out "less aid with more effective aid delivery could, in the end, lead to more positive outcomes".

### Take the money and run

The prospects of a (further) deterioration of security after the withdrawal of International troops in 2014 and the increasing uncertainty about longer term political and economic stability has also triggered, or rather exacerbated, the human and capital exodus witnessed since the announcement of the transition calendar. This could have grim consequences for both the country and the region's economic plans in the coming years.

The flight of capitals is nothing new in Afghanistan and is closely linked to the existing limited security, corruption and illegal activities such as the drug trade (which allegedly accounts for 15% of the country's economy). The most striking and documented example of fraudulent capital flight was that of the 2010 Kabul Bank scandal, an elaborate *Ponzi*

*scheme* that illegally diverted \$900 million worth of deposits (the equivalent of 5% of national income) out of the country.

But beyond the continuing siphoning of wealth (and aid) out of the country of the past decade, circumstantial evidence exists of a capital (from licit and illicit sources) exodus of unprecedented scale in the past two years. It is hard to affirm categorically the existence of a cause-effect relationship between the withdrawal of international troops and the current capital flight. However despite the limited reliable historical data available, the currently known volume, pace and timing of current transactions seem to prove that the two phenomena could be interconnected. According to the Central Bank of Afghanistan, the officially declared amount of funds flown out of the country has reached \$4.6 billion in the first quarter of 2012 alone, that is, twice as much as the previous year. The real amount is hard to assess but Deputy Central Bank Governor Khan Afzal Hadawal, recently ventured to state that the figure could be close to \$8 billion a year, the equivalent of twice the total assets of the Central Bank or almost half the country's GDP. In order to stop the bleeding of the Afghan cash economy, the Government imposed a \$20,000 limit per passenger at airport terminals. The cash drain has proved difficult to quell not only because the Central Bank can, and

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does, make exceptions for "exceptional" cases, but also because a large proportion of the money transfers have been increasingly managed by the *hawalas*, the traditional Islamic informal transfer system whose business has grown 10% in the first quarter of 2012 according to unofficial sources. The informal nature of this traditional system makes it difficult to monitor -the *hawaladar* contacts his counterpart abroad who delivers the amount in person to the recipient without wiring the money. However the Afghan government has tried, with limited success, to control the transfers of money and curb those linked to illegal activities (mainly the drug trade) through the creation of a registry which compels the *hawaladars* to report their transactions monthly. This has unfortunately not stopped the money drain that is putting the fragile Afghan economy at risk.

### Investors feel the heat

Capital flight is just one of the many signs, albeit the most visible, of the dynamics set in motion by the international withdrawal and the ensuing steadily decreasing trust in the economic and security future that lies ahead after 2014.

Other indicators reinforce the idea of the current prevailing pessimism and the investment exodus: real estate prices in Kabul are plummeting (between 30 and 50%), construction business has stagnated and the street dollar exchange rate is soaring. National and international investors' and entrepreneurs' trust is slowly falling as they suffer the consequences of the end of the economic boom of the last decade fuelled by the pouring of vast amounts of aid and business opportunities created by the international operation in Afghanistan. During the 2003-2006 period around \$6 billion were invested by Afghan businessmen and more than 20,000 companies were created. The resurgence of the Taleban insurgency in 2006 started to reverse the prevailing trust and optimism of the business community. This trend has been exacerbated since the announcement of the withdrawal calendar in 2009. The Afghan government promises to improve the investment environment, the regulatory frameworks (i.e. the recent telecom regulations) and the enforcement mechanisms (candidacy to the Extractive Industries Transparency Initia-

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ive) have done little to reassure the business community as reforms have been slow, security fragile and corruption remains widespread and represents one of the main impediments to do business in the country. The World Bank's 2012 Doing Business Report ranks Afghanistan at 160th out of 183 economies for the ease of doing business overall, a decline of six positions in the ranking from last year's 154 position, which seems to sustain the idea of a deterioration of the business environment in the past year due among others factors to security, corruption and poor enforcement mechanisms.

Those most affected by the deterioration of the increasingly fragile investment framework would be the major regional economic powers/investors such as China who have bet on the huge mineral wealth (nearly \$1 trillion worth of copper, lithium and iron amongst others) and have invested vast amounts of money in extraction contracts (€3.5bn in the case of the Chinese Metallurgical Construction Company (MCC) to exploit the Ainak copper mine). Should security deteriorate further and prevent the development of the necessary infrastructure required to extract Afghanistan's mineral wealth, China would lose billions worth of investment. It would also be a huge blow for Afghanistan's economy that has put great hopes on the income derived from the mining industry in order to reach an average annual growth of 7% in 2011-2018. Moreover, should the security situation deteriorate further and reforms fail to be implemented to improve and consolidate a stable and secure market economy, plans for large scale regional economic projects which so far have been explored if only as a distant goal such as the New Silk Road and the TAPI project will remain a utopia at best. But

all is far from lost, regional powers such as India still believe in Afghanistan's potential and have tried to reverse the prevailing pessimism of investors and the business community by trying to integrate the country into regional economic and political structures such as the South Asian Association for Regional Cooperation or by hosting an Afghanistan Investment Summit in 2011. However, the burden of, and the capacity to change reality on the ground for investors remains largely in the hands of the Afghan government through the implementation of the necessary reforms and actions that would guarantee a reasonable level of hard and economic security.

### Afghans seek security and opportunities elsewhere

In addition to the current capital and business investment flight, there are signs that Afghanistan is also suffering a

severe human capital drain. The reasons that are pushing Afghans to leave their homes for –safer– parts of the country or abroad are manifold, and are both real and perceived. The international troops' withdrawal coupled with the protracted insecurity/conflict and the limited capacity of the ANSF to maintain control

of the areas it has taken over, is pushing people to flee their land and homes. Lack of confidence in the country's future stability, and the memory of the post soviet era also constitute a driving force of fear that pushes people of all classes to flee. It affects both Afghans from rural areas exposed to Taleban violence and qualified middle classes from the business and political elites in Kabul. According to the Norwegian Refugee Council, in 2012 alone, spreading conflict has forced more than 166 000 people to flee their homes and villages. There are 460.000 internally displaced persons (IDPs) in Afghanistan since 2001. But Afghans are also leaving the country altogether. A report by the European Asylum Support Office (EASO) showed that in 2011 28,000 Afghans applied for asylum in the EU, the highest number in the decade since the war began, and UNHCR figures show an increase of 34% in the number Afghans seeking asylum abroad mainly to the 44 most industrialised countries (35.700 in 2011 against 26.000 in 2010). All in all there were four times more Afghans applying for political asylum worldwide in 2011 than in 2007. Although these figures are far from that of a massive exodus or the migration patterns of the 1990's they are significant enough to show there is limited and dwindling faith in the current and future stability of the country. This phenomenon is of particular concern for the neighbouring countries (especially Iran and Pakistan) that have been the home for millions of Afghans in the past three decades and who could suffer the consequences of greater refugee pressure. It is also of cause of great concern for Afghanistan who could witness an increase in IDPs, an important human capital loss and the severe brain drain that accompanies.

## Conclusion

Taking into consideration the international community's past performance and the Afghan Government, as well as the evolution and current state of the security situation on the ground, it is easy to fall prey to the wave of pessimism and fear of the future that has assailed Afghanistan ahead of the completion of the planned withdrawal. Both the transition and post transition periods pose a series of great challenges but none are really new to the country, just the means to tackle them and the division of labour. It is clear that many reforms need to be implemented before the Afghan government can tackle the challenges of the economy and security effectively and independently. Security is unlikely to improve substantially in the near future. But the prospects of a comprehensive disengagement at all levels neither reassures Afghans, investors nor their neighbours. Nor does it contribute in a constructive way to the sustainability and stability of Afghanistan. The country needs continuing support (until and well after 2014) beyond the mere grand promises. Confidence should be restored through the implementation of reforms by the Afghan government. Security threats should be kept at least under control with the support of international partners. Only then will the current bleeding of assets, aid and capital triggered by the fear of collapse would be able to be stopped or even reversed.

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