

## SECTOR ASSESSMENT (SUMMARY): Road Transport Sector

### Sector Road Map

#### 1. Sector Performance, Problems, and Opportunities

1. **Background.** Afghanistan has traditionally been an agricultural and pastoral economy: 76.5% of the population lives in rural areas, and agriculture provides employment for about 41% of the country's labor force, while contributing 32% of the country's gross domestic product (GDP). Accounting for 46% of GDP, the service industry dominates economic activities. The manufacturing industry creates jobs for only 7% of the labor force, but contributes about 21% to GDP. Afghanistan's heavy reliance on a small number of export commodities renders its economy vulnerable to external shocks and other abrupt variations in economic activities. The government's precarious fiscal position is another consequence of Afghanistan's narrow economic base. As of fiscal year 2015 (ended 20 December 2015), government revenues covered only 34% of the combined recurrent and capital budgets, with the recurrent budget alone being underfunded by 55%.

2. Afghanistan's geography, terrain, and the dispersion of population over a large space cause high transport costs and make internal and external trade dependent on the performance of the transport sector. Afghanistan is struggling to afford a rudimentary transport network that would enable harnessing the country's natural resources and connect scattered rural communities and urban areas. Access to basic facilities remains unsatisfactory, particularly in rural areas. An added challenge is to create the conditions for transport sector sustainability. Although donor funding for road maintenance has increased in the last 15 years, budget allocations do not match needs and a maintenance management system is still not in place.

3. Afghanistan's transportation system consists of road transport, civil aviation, railways, and inland waterways. In fiscal year 2015, road transport generated 7,344 million ton-kilometers (km), while the fledgling railway on its short 75 km line produced about 100 million ton-kilometers. The use of inland waterways is limited to the Amu Darya and Panj River, where Shirkhan Bandar, the only river port, is located. The country has 5 major airports and 39 airfields. The main road network totals about 23,000 km and consists of regional roads (3,600 km), national roads (5,640 km), and provincial roads (13,550 km). While more than 40% of the regional and national roads are paved, rapid deterioration of road conditions has rendered the pavement on many sections but invisible. Some 85% of the road network is currently in poor condition.<sup>1</sup>

4. Afghanistan's fragile and conflict-affected situation remains the overriding constraint in the transport sector. The country's vulnerability to natural disasters such as drought, earthquakes, sandstorms, and harsh winters is aggravating the situation. In addition, climate change is predicted to cause an increase in mean annual temperatures, a decrease in mean annual rainfall, and an increase in the intensity of rainfalls despite the expected overall decrease in precipitation. Climate change adaption and climate proofing have emerged as key priorities.

5. **Sustainability.** A critical sector challenge is to create the conditions for asset sustainability. The financial dimension of sustainability has been a perennial issue. While resource allocations to the transport sector have steadily increased, maintenance continues to be grossly underfunded. The amount of financial resources that can be mobilized for maintenance is

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<sup>1</sup> Asian Development Bank (ADB). 2016. *Islamic Republic of Afghanistan: Transport Sector Master Plan Update, 2017–2036*. Manila.

essentially a function of the country's economic base, which in Afghanistan is narrow. During the 5-year period from 2011 to 2015, the government has on average spent around \$23 million per year for routine maintenance. This accounts for only 5% of the total resources allocated to roads. Moreover, with \$822 per km, the amount was grossly inadequate. Expenditures for construction, reconstruction, and rehabilitation accounted for the lion's share of total resources, which in part reflects the need for reducing the sizable backlog in maintenance.

6. To enhance sustainability of road assets, the government must tackle the following three major issues:

- (i) **Weak institutional capacity of the responsible authorities.** The United States Agency for International Development (USAID) is providing assistance for capacity development to address this issue. It aims to create an autonomous road authority and road fund that will help allocate operation and maintenance (O&M) funds in a more rational way.
- (ii) **Lack of an asset management system.** Faced with limited resources, the Ministry of Public Works (MPW) must optimize its O&M budget by determining maintenance needs and scheduling O&M interventions rationally. ADB plans to support the development of a road asset management system to this effect.
- (iii) **Insufficient funding for operation and maintenance.** To offset the prevailing low level of O&M funding, sufficient and reliable funding sources must be secured. Thus, the efforts of USAID to develop a road fund will be critical.

7. **Road traffic safety.** Traffic safety on Afghanistan's roads has emerged as a serious problem. With almost 800 fatalities in 2013, Afghanistan has one of the worst road traffic safety records among Asian countries. Prerequisites for remedial action are a road safety strategy and a program for time-bound action. As a member of the Central Asia Regional Economic Cooperation (CAREC) Program, Afghanistan has participated in the process of forging a CAREC regional strategy for road safety. The government will have to adapt this regional strategy for specific application in Afghanistan.

8. **Trade logistics.** The performance of Afghanistan's transport sector is still hampered by excessive delays, inadequate logistics and supply chain management, and cargo flow imbalances leading to low capacity utilization on return hauls. Delays at border crossings not only lengthen transit times but also undermine supply-chain reliability, leading to high inventory costs. Transit traffic is constrained by poorly maintained infrastructure, high transit fees, and security concerns, which make transport costly when combined. The high cost of transport logistics reduces the country's trade competitiveness. The World Bank's Logistics Performance Index ranks Afghanistan 150th in the world out of 160 countries.<sup>2</sup> To improve this situation, the country must remove barriers to regional trade and cooperation, build efficient and integrated transport systems, and remove the backlog in sector financing and capital investment. Membership in the CAREC program is moving Afghanistan closer to integration with an increasingly prosperous region, as infrastructure lays the foundation for sustainable economic growth.

## 2. Government's Sector Strategy

9. At the London Conference in December 2014, the government presented its program for the "Transformation Decade (2015–2024)". The program aims to reduce aid dependency, improve security and political stability, eliminate the root causes of corruption, restore fiscal sustainability,

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<sup>2</sup> World Bank. 2016. *International Logistics Performance Index Ranking*. <http://lpi.worldbank.org/international/global>.

and streamline development planning and management. The drivers for achieving greater self-reliance are inclusive growth, regional integration, private sector development, and increased government efficiency. Economic growth will be export-led, relying on a transport sector with enhanced connectivity and improved infrastructure, effective logistics management, and rational tariffs.

10. Consistent with previous strategies, the government accords high priority to the rehabilitation of the transport system. This includes completion of a fully upgraded and maintained Ring Road and connector roads to neighboring countries, as well as improved transportation services, regional cooperation, and trade logistics. A specific priority area will be the completion of strategic road links, notably the still-incomplete sections of the Ring Road, the Salang tunnel and road corridor, and the expansion of the national and provincial road network.

### **3. ADB Sector Experience and Assistance Program**

11. The operational focus of the Asian Development Bank (ADB) in Afghanistan's transport sector has been aligned with government priorities. Resources mobilized by ADB have helped improve 1,725 km of regional and national roads. Technical assistance has been extended to conduct pre-feasibility and feasibility studies of major projects, such as the North–South Corridor, East–West Corridor, and Kabul Ring Road, as well as preparing and updating a Transport Sector Master Plan (footnote 1).

12.. ADB also pursued the goals defined by its corporate strategies, notably the CAREC Transport and Trade Facilitation Strategy 2020.<sup>3</sup> This strategy stresses the importance of extending and completing the six strategic multimodal corridors that are expected to handle most future transport and trade growth in the region. Thanks to Afghanistan's central location, four of the six CAREC corridors traverse the country and will involve major investment projects in the road and rail transport and logistics subsectors. The Transport and Trade Facilitation Strategy 2020 emphasizes policy and institutional reforms to maximize the impact of both past and future investments. This includes harmonizing regulations, procedures, and standards for the cross-border movement of goods and people, in addition to implementing an approach that makes border management more efficient. Significant efforts were made to improve the Afghan section of CAREC Corridors 5 and 6, including (i) the completion of the North–South Corridor Project,<sup>4</sup> (ii) ongoing construction of the Jabul Seraj–Nijrab road, (iii) ongoing construction of the Kabul–Jalalabad road, and (iv) planned construction of the approved, yet still un-rehabilitated link in the North–South Corridor between Dar-i-Suf and Yakawlang. The latter three interventions are being funded under the Transport Network Development Investment Program.<sup>5</sup>

13. Projects have often been impeded by (i) deteriorating security conditions at the project site, (ii) poor contractor performance, (iii) inadequate project management capabilities and work supervision of the implementing agency, and (iv) overreliance on the design–build procurement modality. This also resulted in high construction costs. Concrete steps were taken to rectify these deficiencies and reflect lessons learned in new projects. ADB has worked with the MPW to reorganize and strengthen the program management office, and has reviewed the procurement

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<sup>3</sup> ADB. 2014. *CAREC Transport and Trade Facilitation Strategy 2020*. Manila.

<sup>4</sup> ADB. 2013. *Completion Report: North–South Corridor Project*. Manila.

<sup>5</sup> ADB. 2011. *Report and Recommendation of the President to the Board of Directors: Proposed Multitranche Financing Facility to the Islamic Republic of Afghanistan for the Transport Network Development Investment Program*. Manila (see periodic financing requests for tranches 1, 2, and 3).

approach, including the selection of national contractors.

14. The prevailing sector issues and constraints reflect the need for ADB to remain engaged in the following priority areas:

- (i) **Road asset management.** Since O&M of roads continues to be underfunded and the prospects of a reversal of the past allocation pattern is less than promising for the medium term, donor funding for O&M will remain a high priority.
- (ii) **Regional connectivity.** Border crossings in Afghanistan remain choke points for efficient external trade. Some of the bottlenecks relate to infrastructure, while others arise from operational inefficiencies. To determine the specific impediments, it will be necessary to assess border-crossing point operations as well as the available infrastructure and equipment with a view to developing proposals to optimize the trade flows.
- (iii) **Private sector involvement.** Exploring the opportunities for public–private partnerships, especially on primary roads with high traffic volumes such as the Salang Corridor, is essential.
- (iv) **Road safety.** Road safety in Afghanistan has emerged as a serious problem. The government should tackle the complex road safety issues in a comprehensive manner and launch a national road safety strategy and action plan. Such a strategy will have to align the various, currently scattered, institutional responsibilities. A coordination mechanism between the agencies concerned with road safety will have to be established. A road safety audit and identification of road locations prone to accidents should be undertaken. Capacity development support to this end will be required.

### Problem Tree for Qaisar–Dari Bum Road Project

