



In This Volume

Volume: 07

June 2023

The Impact of the Political Shift on the Afghan Economy: An Analysis of The Current State of Economic Activities, Foreign Aid, and Potential Prospects for Economic Growth

Elham Kabir

Former Director General of Markets
Management at Kabul Municipality



Summary

The political shift of 2021 in Afghanistan has created a climate of uncertainty, fear, and instability. The economic crisis has led to a severe deterioration of living conditions, while the humanitarian crisis has left millions of people at risk of starvation, displacement, and violence. International aid is critical to supporting Afghanistan's recovery, but it is also crucial to ensure that aid is channeled effectively to reach those who need it most. A comprehensive approach, based on the perspectives of local stakeholders, international organizations and the current regime, is needed to address the multifaceted challenges facing Afghanistan, in order to create a path towards a more stable, prosperous, and peaceful future.

Contact Us



@AISS_Afg



@aiss_afg



/AISSAfghanistan



contact@aissonline.org



www.aissonline.org



Introduction

The Taliban's swift takeover of Afghanistan on August 15, 2021, has had a profound impact on the country's economy. The situation on the ground is precarious, with uncertainty and instability making it difficult to predict the future. The political shift has had a significant impact on the country's economy. With foreign aid frozen, economic activity stalled, and international sanctions imposed, the country is facing severe economic challenges. In this article, the challenges facing the country's economic activities, foreign aid, and prospects for growth, as well as the social and humanitarian implications of the economic crisis, will be analyzed. It will also provide an in-depth analysis of the political and security situation in Afghanistan and how it impacts the economy. Additionally, it explores the perspectives of local stakeholders, including business owners, civil society organizations, and the Afghan government, as well as the views of international organizations and donor countries. Finally, it will provide practical recommendations for addressing the economic crisis in Afghanistan.

The Current State of the Afghan Economy:

The Afghan economy was already struggling before the Taliban takeover due to years of conflict, political instability, and corruption. The COVID-19 pandemic also had a significant impact on the country's economy, with Gross domestic product (GDP) contracting by 2% in 2020. Since the Taliban takeover, the economy has further deteriorated due to the withdrawal of foreign aid, sanctions, and a decline in economic activity. The World Bank estimated that Afghanistan's GDP contracted by 30.5% in 2021, with inflation soaring to over 50%. The country is also facing a severe food and humanitarian crisis, with more than half of the population in need of urgent assistance. Furthermore, the poverty rate in Afghanistan is expected to increase from 72% to 97% by mid-2023. The decline in economic activity is due to a variety of factors, including the disruption to supply chains, the closure of businesses, and the halt of foreign aid. (For more information refer to Table 1.)

Table 1: Key Economic Indicators in Afghanistan (2020-2021)

INDICATOR	2020	2021
GDP growth (annual %)	-2.0	-30.5
Inflation, consumer prices (annual %)	5.8	13.5
Current account balance (% of GDP)	-8.5	-7.3
External debt stocks, total (DOD, current US\$)	3.3 billion	3.8 billion
Gross official reserves (US\$)	7.2 billion	6.2 billion

Source: World Bank

A number of additional reasons, such as political unpredictability, security hazards, and poor governance, have exacerbated the drop-in economic activity. The Taliban takeover has raised concerns about the future of human rights and democratic governance in

Afghanistan and has led to the suspension of most foreign aid and financial support. This has further constrained the government's ability to address the economic crisis and provide basic services to the population. (For more information refer to Table 2.)

Table 2:Economic Challenges in Afghanistan

CHALLENGE	DESCRIPTION
Weak economic institutions	The country's economic institutions are underdeveloped and lack capacity, making it difficult to attract investment and implement reforms.
Limited diversification	The economy is heavily reliant on agriculture, which employs over 60% of the population and accounts for more than a third of GDP. The lack of diversification leaves the economy vulnerable to external shocks and natural disasters.
Inadequate infrastructure	Afghanistan has inadequate infrastructure, including roads, energy, and telecommunications, which hinders economic development and trade.
Corruption	Corruption is endemic in Afghanistan and undermines economic growth and development. The lack of transparency and accountability hinders foreign investment and aid flows.
Security risks	The country faces ongoing security risks, including the threat of terrorism, insurgency, and conflict. These risks deter foreign investment and lead to displacement and disruption of economic activity.

Source: USIP

The Taliban's economic policies and governance model remain unclear, and their statements about the economy have been vague. However, they have made some efforts to re-start economic activities. For example, the Taliban have reopened banks and allowed businesses to resume operations. Still, the lack of clarity about their policies has caused a significant decline in investment, making it difficult for businesses to operate in Afghanistan.

According to a recent report by Foreign Policy, Afghanistan is facing an economic crisis, with poverty rates soaring and basic necessities like food and fuel becoming increasingly scarce. The Taliban's seizure of power has caused many foreign aid organizations to withdraw, leading to a significant reduction in aid and support for the country's most vulnerable communities.

One of the consequences of the Taliban's policies has been the denial of secondary education to girls. According to The United Nations Children's Fund (UNICEF), this could translate into a loss of at least \$500 million (US Dollar) in potential future earnings for the country. This loss is due to the reduced economic output resulting from the lack of education and opportunities for girls. This is just one example of how the political shift has affected the current economic situation while also hampering future prospects for growth.

Despite the current regime's inability to reverse Afghanistan's economic decline in the time since taking over, the country still faces many challenges. The Economist reports

that Afghanistan is now poorer and more malnourished than a year ago, with many Afghans struggling to access basic needs like food and medicine. The country's dependence on foreign aid makes it even more vulnerable to global economic trends and political instability. The political and security situation in Afghanistan also poses significant risks to economic stability and development. To address these challenges, a comprehensive approach is needed, which includes investment in infrastructure, economic institutions, and human development.

Impact of the Current Political Shift on Foreign Aid:

Foreign aid has been a crucial source of revenue for Afghanistan, accounting for approximately 40% of the country's GDP. However, following the Taliban takeover, several countries and international organizations have suspended or frozen aid. For example, the World Bank and the International Monetary Fund (IMF) have suspended all aid to Afghanistan, while the United States has frozen over \$9 billion in Afghan assets. The suspension of foreign aid has had a severe impact on Afghanistan's economy, particularly on vulnerable groups such as women and children. Furthermore, according to the United Nations Office for the Coordination of Humanitarian Affairs (OCHA), prior to the Taliban takeover, over 18 million people in Afghanistan were already in need of humanitarian assistance, with more than half of them being children. The humanitarian crisis has worsened since the current political shift, and foreign aid has become increasingly important in assisting those in need.

Following the August 15, 2021 takeover, many international aid organizations and donor countries suspended their aid to Afghanistan. The World Bank, IMF, and Asian Development Bank (ADB) have all suspended their financial assistance to Afghanistan. The United States, which had been the largest donor to Afghanistan, has also suspended its aid to the country. (To see the top 10 donors to Afghanistan in 2020 refer to Table 3.)

Table 3: Top 10 Donors to Afghanistan in 2020

RANK	DONOR	AMOUNT (USD)
1	USA	4,056,315,127
2	EU	1,273,039,183
3	Germany	650,641,052
4	Japan	616,822,418
5	UK	610,104,120
6	Norway	326,432,903
7	Canada	237,860,567
8	Denmark	237,550,033

9	Netherlands	220,584,300
10	Sweden	217,526,570

Source: Organization for Economic Co-operation and Development (OECD).

The suspension of foreign aid has had a significant impact on the Afghan economy, as it has resulted in the loss of millions of dollars in aid that was previously used to fund various development projects, as well as providing basic services such as healthcare, education, and food aid. Moreover, the suspension of foreign aid has also led to the loss of jobs for thousands of Afghans who were employed by various international aid organizations and donor agencies. This has worsened the unemployment rate in the country, which was already high prior to the Taliban takeover. Aid levels dropped from a peak of \$7.8 billion in 2010 to \$3.3 billion in 2020. The suspension of foreign aid by international organizations and donor countries following the Taliban takeover will result in a further decline in aid levels in the coming years.

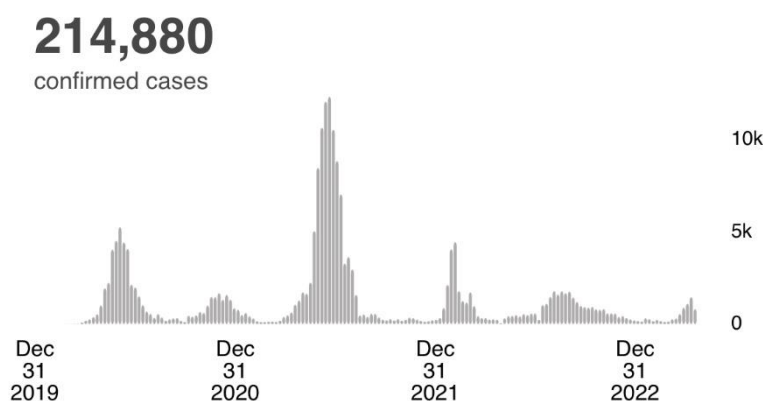
The Social and Humanitarian Implications:

Afghanistan has been plagued by conflict and instability for decades, resulting in the displacement of millions of people. According to the UN Office for the Coordination of Humanitarian Affairs, as of April 2022, there were an estimated 3.5 million internally displaced persons (IDPs) in Afghanistan. This figure is expected to rise in the coming months as the humanitarian situation in the country continues to deteriorate.

The conflict has also had a significant impact on women and girls in Afghanistan. The Taliban's oppressive policies towards women and girls have been well documented, and their return to power has raised concerns about the erosion of the gains made by Afghan women in the past two decades. UNICEF has reported that the Taliban takeover has deprived girls of their right to education, with an estimated 4.2 million girls out of school in Afghanistan. This translates to a loss of at least \$500 million in potential future earnings for these girls.

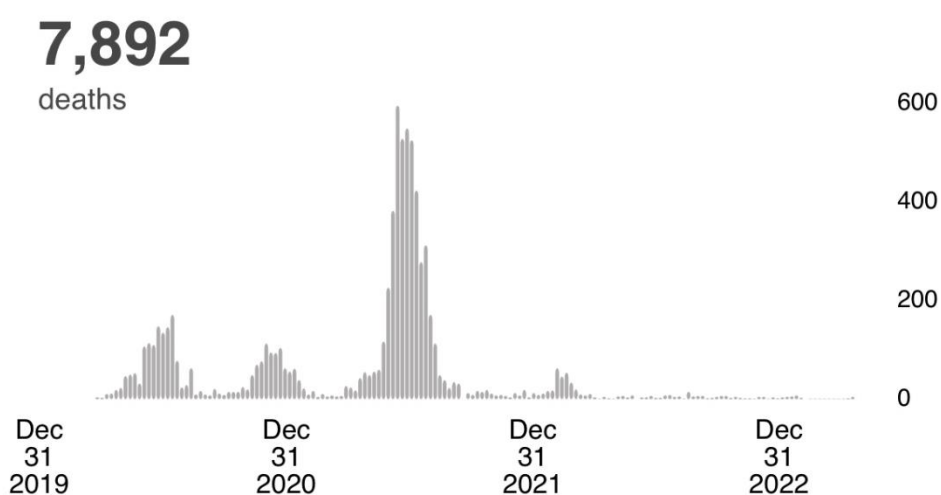
The humanitarian situation in Afghanistan has been further exacerbated by the COVID-19 pandemic. The country has a weak healthcare system, and the pandemic has overwhelmed its capacity to respond effectively. The World Health Organization (WHO) has reported that from January 2020 to May 2023, there were over 214,880 confirmed cases of COVID-19 in Afghanistan, with over 7,892 deaths. (For more information refer to Figures 1 and 2.)

Figure 1: Figure 1: Number of confirmed cases Y2020 - Y2022



Source: WHO

Figure 2: Number of confirmed death cases of COVID-19 Y2020 - Y2022



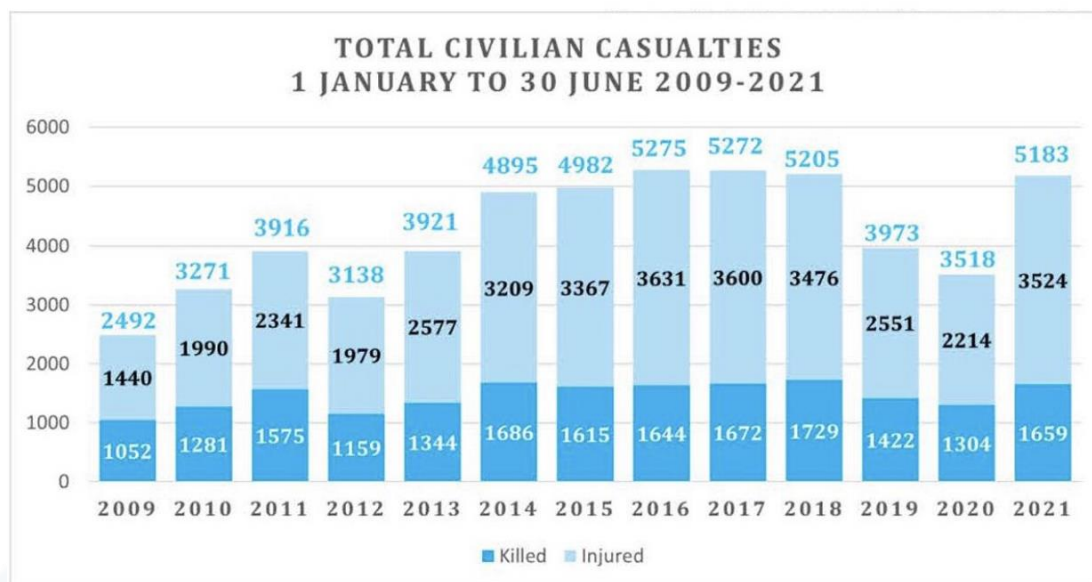
Source: WHO

The social and humanitarian implications of the conflict in Afghanistan are complex and multifaceted, and addressing them will require a concerted effort from the Afghan government, the international community, and civil society organizations. The protection and empowerment of women and girls, the provision of basic services such as healthcare and education, and the alleviation of the suffering of IDPs must be key priorities for any policy aimed at addressing the humanitarian crisis in Afghanistan.

The Political and Security Situation:

The UN reported that there has been a significant increase in the number of human rights violations, including arbitrary arrests, torture, and executions, since the Taliban takeover. These security concerns have led to a decrease in foreign investments and have negatively impacted the economy.

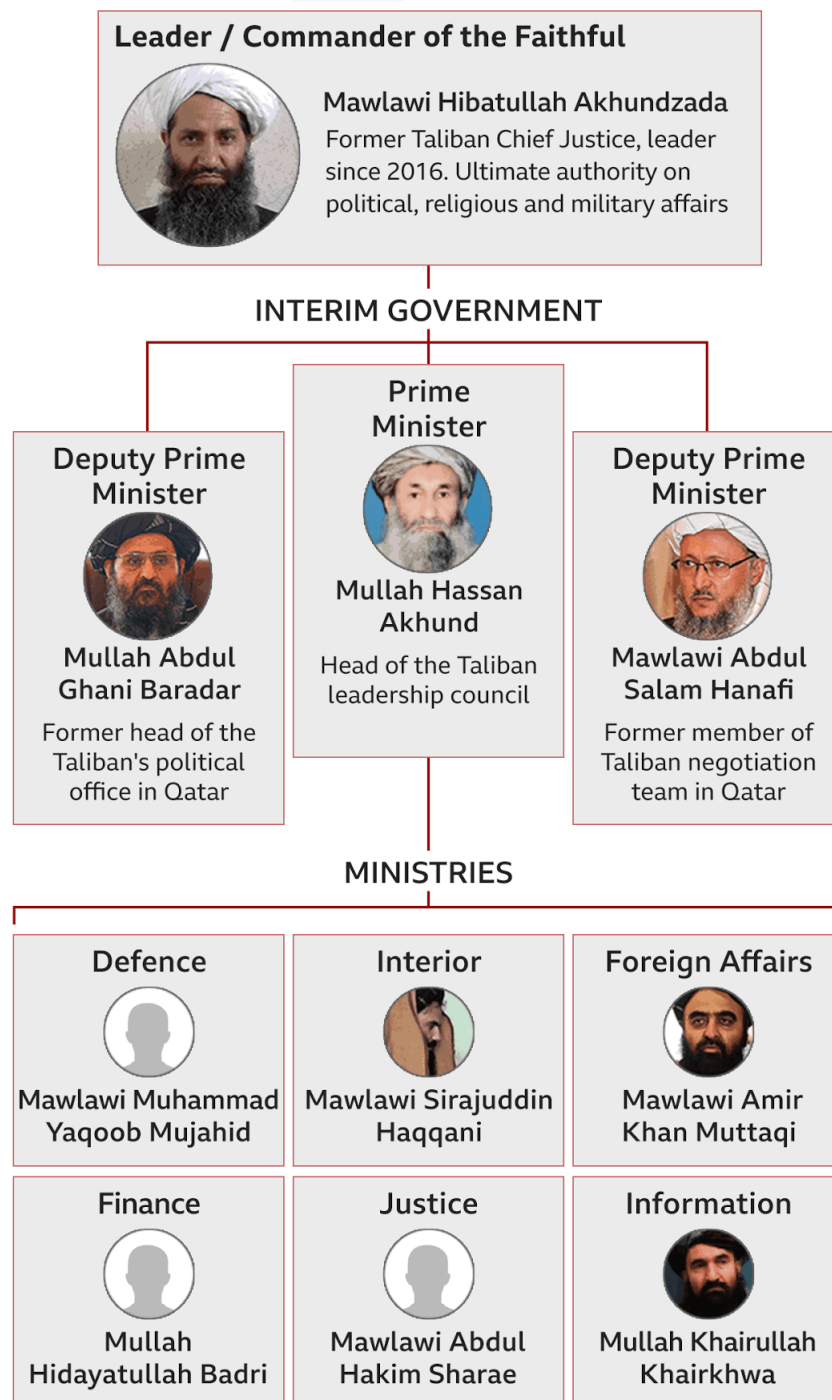
Figure 3: Number of civilian casualties in Afghanistan from 2009-2021



Source: UNAMA

The political situation in Afghanistan has also been unstable. The Taliban have formed a new government, but it lacks diversity and inclusion, with no women or representatives from minority ethnic groups. The international community has expressed concerns about the legitimacy of the government and its commitment to upholding human rights.

Table 4: Composition of the Taliban government



Images: Getty Images, Taliban, US government handout

BBC

Source: BBC News

The lack of legitimacy and inclusivity in the government has resulted in a decrease in foreign aid and investment, which has further impacted the economy. Furthermore, the security and political situation in Afghanistan have created challenges for aid organizations and NGOs to operate in the country, who are critical in providing humanitarian assistance and development aid. The current regime has placed restrictions on the operations of these organizations, leading to concerns about their ability to deliver aid to those in need.

Table 5: Number of attacks on aid workers in Afghanistan from 2000-2021

Afghanistan	594	25	11
-------------	-----	----	----

Source: Aid Worker Security Database

The challenges in the political and security situation in Afghanistan require a comprehensive approach to address the underlying issues. A stable and inclusive government that upholds human rights and provides security is essential to attracting foreign investments and aid. Additionally, measures to address security concerns and protect citizens and aid organizations are critical to ensuring the delivery of aid and promoting economic growth.

The political and security situation in Afghanistan is a significant challenge that impacts the country's economy and overall stability. It is crucial to address the underlying issues to promoting economic growth and providing humanitarian assistance. Measures to address security concerns, promote inclusivity and diversity in the government, and protect aid organizations and citizens are essential to overcoming the challenges and create a stable and prosperous future for Afghanistan. Additionally, the political shift has also led to a brain drain, with many educated Afghans leaving the country, further exacerbating the economic crisis.

The Perspectives of Local Stakeholders and International

Organizations:

Local stakeholders, including business owners and civil society organizations, are struggling to operate in the current economic and political environment. The government is also facing significant challenges in providing basic services to the population and addressing the economic crisis. International organizations and donor countries are providing humanitarian assistance to Afghanistan but are hesitant to provide economic aid until a functioning government is established. The US and EU have imposed sanctions on the Taliban, further exacerbating the economic crisis. Overall, the perspectives of local stakeholders and international organizations should be considered in any policy paper that aims to address the economic crisis in Afghanistan. Their insights

and experience can help identify practical solutions that are grounded in the realities on the ground and consider the political, security, and social context of the country.

Potential Prospects for Economic Growth:

A potential area for economic growth in Afghanistan is its natural resources. Afghanistan is known to have significant reserves of minerals, including iron, copper, gold, and lithium. However, exploitation of these resources has been limited due to a lack of investment, infrastructure, and security concerns. According to a report by the Afghanistan Research and Evaluation Unit (AREU) titled "Vulnerability in Afghanistan before and during the Shift in Power" a major obstacle to unlocking the potential of these resources is the lack of institutional capacity to manage mining contracts and revenue distribution.

Figure 4 Estimated Reserves of Selected Minerals in Afghanistan:



Source: Al-Jazeera

Another potential area for economic growth is the agriculture sector. Agriculture is the backbone of Afghanistan's economy, accounting for more than 25% of GDP and providing livelihoods for around 60% of the population. However, the sector has been plagued by challenges such as insecurity, limited access to credit, and poor infrastructure. According to the United Nations Development Programme (UNDP), agricultural productivity can be increased by promoting modern farming techniques and investing in irrigation systems.

Moreover, expanding export markets for high-value crops such as fruits and nuts can help increase revenues for farmers and boost economic growth.

Infrastructure development is another key area for potential economic growth in Afghanistan. Focusing on infrastructure development will help bring about long-term growth in Afghanistan and address persistent issues aside from security, including poor connectivity, poor access to the limited energy supply, and low agriculture productivity, as per an Asian Development Bank (ADB) report.¹ Improved infrastructure can support economic growth by facilitating trade, attracting investment, and improving access to markets and services. According to a report by the World Bank, investing in infrastructure such as energy, transport, water, and sanitation can help create jobs and boost economic growth. The report estimates that investing \$1 billion in infrastructure can create around 50,000 jobs and generate up to \$1.6 billion in economic activity.

Overall, unlocking the potential of Afghanistan's natural resources, promoting modern farming techniques, expanding export markets, and investing in infrastructure development are key areas for potential economic growth in the country. However, these areas require significant investment and policy reforms to overcome the challenges and barriers that currently hinder economic development.

Practical Policy Recommendations:

To address the economic crisis in Afghanistan, practical recommendations should be based on current realities on the ground and the perspectives of local stakeholders. The following are actionable, specific, and feasible recommendations:

1. International organizations and donor countries should provide economic aid to Afghanistan to support the country's economic recovery, but this aid should be conditional on the establishment of a functioning government that respects human rights and the rule of law.
2. The current establishment should prioritize the provision of basic services, including food, shelter, and healthcare, to the population.
3. The Taliban should allow women to participate in the economy and education and provide a safe and secure environment for businesses to operate.
4. The international community should work together to address the humanitarian crisis in Afghanistan and ensure that aid reaches those who need it the most.
5. Support small and medium-sized enterprises (SMEs): The Taliban regime should support the growth of SMEs, which can play a significant role in job creation and economic development. This can be achieved by providing access to finance, developing business incubators, and offering technical assistance to entrepreneurs.

¹ For more you can visit ADB report at the available link: <https://www.adb.org/news/infrastructure-development-key-afghanistan-growth-adb>

6. Address corruption: The Taliban regime should take concrete steps to address corruption in the country, which has been a major barrier to economic development. This can be achieved by strengthening anti-corruption laws, establishing an independent anti-corruption agency, and implementing transparent procurement processes.
7. Encourage foreign investment: The Taliban regime should take steps to encourage foreign investment in the country, particularly in the extractive industries, agriculture, and infrastructure development. This can be achieved by improving the investment climate, offering incentives to investors, and providing security guarantees.
8. Strengthening Infrastructure: The lack of basic infrastructure, such as roads, electricity, and water supply, has hampered economic growth in Afghanistan. The government needs to invest in infrastructure development to facilitate economic activities and attract investment.

Conclusion:

The political shift of 2021 in Afghanistan has created a climate of uncertainty, fear, and instability. The economic crisis has led to a severe deterioration of living conditions, while the humanitarian crisis has left millions of people at risk of starvation, displacement, and violence. International aid is critical to supporting Afghanistan's recovery, but it is also crucial to ensure that aid is channeled effectively to reach those who need it most. A comprehensive approach, based on the perspectives of local stakeholders, international organizations and the current regime, is needed to address the multifaceted challenges facing Afghanistan, in order to create a path towards a more stable, prosperous, and peaceful future.

References

- Civilian casualties set to hit unprecedented highs in 2021 unless urgent action to stem violence – UN report (2022) UNAMA. Available at: <https://unama.unmissions.org/civilian-casualties-set-hit-unprecedented-highs-2021-unless-urgent-action-stem-violence-%E2%80%93-un-report> (Accessed: 01 May 2023).
- Diwakar, V., Ghafoori, I. and Nemat, O. (2022) *VULNERABILITY IN AFGHANISTAN before and during the shift in power*, Afghanistan research and evaluation unit. Available at: <https://areu.org.af/wp-content/uploads/2022/12/Vulnerability-in-Afghanistan-before-and-during-the-shift-in-power-English-version.pdf/> (Accessed: 02 May 2023).
- 2022 UN Afghanistan annual results report in Afghanistan (2022) United Nations. Available at: <https://afghanistan.un.org/en/227956-2022-un-afghanistan-annual-results-report> (Accessed: 03 May 2023).
- Afghanistan is poorer and hungrier than a year ago (2022) The Economist. Available at: <https://www.economist.com/asia/2022/08/11/afghanistan-is-poorer-and-hungrier-than-a-year-ago> (Accessed: 04 May 2023).
- How the Taliban Weakened America (2021) The Economist. Available at: <https://www.economist.com/afghanistan> (Accessed: 05 May 2023).
- Byrd, W. (2022) One year later, Taliban unable to reverse Afghanistan's economic decline, United States Institute of Peace. Available at: <https://www.usip.org/publications/2022/08/one-year-later-taliban-unable-reverse-afghanistans-economic-decline> (Accessed: 06 May 2023).
- Byrd, W.A. (2016) What can be done to revive Afghanistan's economy?, UNITED STATES INSTITUTE OF PEACE . Available at: <https://www.usip.org/sites/default/files/SR387-What-Can-Be-Done-to-Revive-Afghanistans-Economy.pdf> (Accessed: 07 May 2023).
- Depriving girls of secondary education translates to a loss of at least US\$500 million for Afghan economy in last 12 months (2022) UNICEF. Available at: <https://www.unicef.org/press-releases/depriving-girls-secondary-education-translates-loss-least-us500-million-afghan> (Accessed: 08 May 2023).
- Glinski, S. (2021) Afghanistan's Economic Freefall, Foreign Policy. Available at: <https://foreignpolicy.com/2021/10/05/afghanistan-economy-poverty-crisis-taliban/> (Accessed: 09 May 2023).

About the Author:

Elham Kabir has a professional experience of over 10 years, both in governmental and non-governmental entities, and in executive positions in Afghanistan. He has a master's degree in international relations. Mr. Kabir has also written research papers and articles about political and economic issues that has been published in Hasht-e sub, Afghanistan daily, Kabul times, Afghanistan times and many others publications.

LinkedIn profile: [/theelhamkabir](#)



Mehr Brief

مهرنامه Mehr Brief

The Mehr Brief series aim to bring scholarly articles and journals from prominent Afghan and International authors. It provides opinions, critiques, and expert views, from scholarly perspectives on the conflict in Afghanistan. The roots of the term 'Mehr' is the Indo-Iranian. The term 'Mehr' was taken from the root of "Mithra", which is one of the oldest gods in the ancient Persia. Mehr or Mithra means "light, lightening, friendship, unity, connectivity and affection" in Persian language. Mehr is against falsehood, mendacity, perjury and unkindness. 'Mehr' is a word that links to God and is the best divine gift. 'Mehr', is the beacon for a brighter tomorrow and brighter horizon. In Persian cultures, 'Mehr' is translated as angels of kindness, friendship and wisdom that bring goodness, joy and peace.

Please submit your Mehr Briefs at: contact@aissonline.org

Mehr Brief Previous Issues



Contact Us



@AISS_Afg



@aiss_afg



/AISSAfghanistan



contact@aissonline.org



www.aissonline.org