

# AFGHANISTAN FROM AID DEPENDENCE TO ECONOMIC INDEPENDENCE

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## Abstract

*Afghanistan's journey from aid dependence to economic independence is pivotal for its long-term stability and prosperity. The country has long relied on international aid for its development and basic services. However, sustainable growth requires transitioning to a self-reliant economy. This article delves into the history of aid in Afghanistan, the challenges and opportunities for achieving economic independence, and the strategies necessary for this transformation.*

*By transitioning to economic independence, Afghanistan can harness its resources, talent, and strategic location to achieve long-term prosperity and stability.*

**Keywords:** Challenges, Opportunities, economic independence and strategies for transformation

## 1. INTRODUCTION

The recent political change on August 15, 2021, led to a significant contraction and restructuring of Afghanistan's economy and international aid strategies. The reduction in aid caused a sharp decline in aggregate demand and major disruptions to public services. Afghanistan lost access to the international banking system and offshore foreign exchange reserves as the central bank's assets were frozen. This disruption, combined with uncertainty, resulted in a dramatic decrease in investment confidence, prompting tens of thousands of highly skilled Afghans to flee the country.

Following a severe 20.7 percent GDP contraction in 2021, the Afghan economy contracted further by 6.2 percent in 2022. Although Afghanistan's agricultural and subsistence economy, including illicit opium production, provided some resilience in rural areas, higher prices, reduced demand, lower employment, and service disruptions severely impacted the country. The proportion of households who was unable to meet basic food needs more than doubled from 16 percent to 36 percent during this period.

Restrictions on women to work and the ban on education for girls, the international community, including the World Bank, adjusted its support approach only on focusing humanitarian assistance, basic services and livelihoods.

The rapid deterioration of economic conditions began to slow by the summer of 2022. This was due to the end of active conflict and the resumption of international humanitarian and basic service aid in December 2021. The off-budget aid helped some recovery in private sector activity by cushioning the decline in aggregate demand amidst relative political stability and reduced corruption. The government worked to restore domestic revenues, reaching \$2.2 billion or 15 percent of GDP in 2022, although this was still lower than the on-budget \$5.2 billion available in 2019. However, overall economic activity remained depressed, unemployment stayed high, and the banking sector was dysfunctional due to constraints on international transfers and concerns about liquidity and solvency.

Currently, Afghanistan's economic outlook remains uncertain, and it is estimated to continue until at least 2025. The lack of GDP growth, combined with declining external financing for off-budget expenditures, paints a bleak picture of the country's economic prospects. Structural deficiencies in the private sector and decreasing international support for essential services are expected to hinder any substantial economic progress. This stagnation will likely exacerbate poverty and unemployment, with job opportunities diminishing and food insecurity increasing.

Afghanistan's long-term growth prospects depend on a major shift from reliance on international aid and consumption-driven growth to a more resilient, private sector-led economy that leverages the country's inherent strengths. For a sustainable future, Afghanistan needs to focus on its comparative advantages, particularly in the agricultural and extractive sectors. Agriculture could be a key driver of growth and poverty reduction, with the potential to create jobs. To realize this potential, strategic investments are needed in

irrigation infrastructure, land tenure security, research, and market access to enhance agricultural productivity and resilience. These efforts should be supported by investments to strengthen human capital and create the institutional frameworks needed for a conducive business environment.

## 2. THE LEGACY OF AID DEPENDENCE

International aid has been vital for Afghanistan, especially post-2001 when the international community pledged substantial financial support for reconstruction and development. According to the World Bank, Afghanistan received over \$78 billion in aid between 2002 and 2020, supporting everything from infrastructure projects to humanitarian relief efforts. This influx of aid has been critical in rebuilding the war-torn country but has also created a dependency that is challenging to overcome.

## 3. CHALLENGES TO ECONOMIC INDEPENDENCE

Several significant challenges hinder Afghanistan's progress towards economic independence:

1. **Security Issues:** Ongoing conflict and political instability continue to disrupt economic activities and deter both domestic and foreign investment also poses a constant threat to development projects and overall economic stability.
2. **Institutional Weaknesses:** Corruption, lack of transparency, and inefficiency within government institutions undermine efforts to create a robust economic environment. These weaknesses lead to poor implementation of policies and misallocation of resources.
3. **Infrastructure Deficits:** Afghanistan's infrastructure, particularly in transportation, energy, and telecommunications, is underdeveloped. This limits connectivity, increases costs for businesses, and hampers economic activities.
4. **Human Capital Deficiency:** The country faces a significant skills gap. Limited access to quality education and vocational training programs restricts the development of a skilled workforce necessary for driving economic growth.

## 4. OPPORTUNITIES FOR SUSTAINABLE GROWTH

Despite these challenges, Afghanistan has considerable potential for sustainable economic growth:

1. **Natural Resources:** Afghanistan is rich in untapped mineral resources, including copper, iron ore, lithium, and rare earth elements. Properly managed, these resources could generate significant revenue and drive industrial growth.
2. **Agricultural Potential:** Agriculture has the potential to be a major catalyst for growth and poverty alleviation, capable of creating jobs and improving income distribution. To achieve this potential, it is essential to make strategic investments in irrigation infrastructure, land tenure security, and market access to enhance agricultural productivity and resilience, with investments in modern agricultural techniques and infrastructure, Afghanistan's agriculture sector can be a cornerstone of economic development. The country has fertile land suitable for diverse crops and livestock, offering opportunities for both domestic consumption and export.
3. **Strategic Location:** Afghanistan's geographical position makes it a natural trade and transit hub connecting Central Asia, South Asia, and the Middle East. Leveraging this strategic location could enhance trade and economic integration in the region.
4. **Renewable Energy:** Afghanistan has significant potential for renewable energy sources such as solar and wind. Investing in these areas can address energy shortages and promote sustainable development.

## 5. STRATEGIES FOR ACHIEVING ECONOMIC INDEPENDENCE

To transition from aid dependence to economic independence, Afghanistan must implement several strategic initiatives:

1. **Strengthening Governance and Rule of Law:** Improving governance through anti-corruption measures, enhancing transparency, and strengthening the rule of law are essential for creating a stable economic environment. Effective governance will attract investment and ensure the efficient use of resources.
2. **Investing in Infrastructure:** Developing critical infrastructure in transportation, energy, and telecommunications is vital for economic growth. Improved infrastructure will facilitate trade, reduce costs, and enhance productivity.
3. **Enhancing Education and Skills:** Investing in education and vocational training will build human capital. A skilled workforce is crucial for innovation, productivity, and competitiveness in the global market.
4. **Promoting Private Sector Development:** Encouraging entrepreneurship and supporting small and medium-sized enterprises (SMEs) can stimulate economic activity and create jobs. Policies that reduce regulatory barriers and provide access to finance are essential for private sector growth.

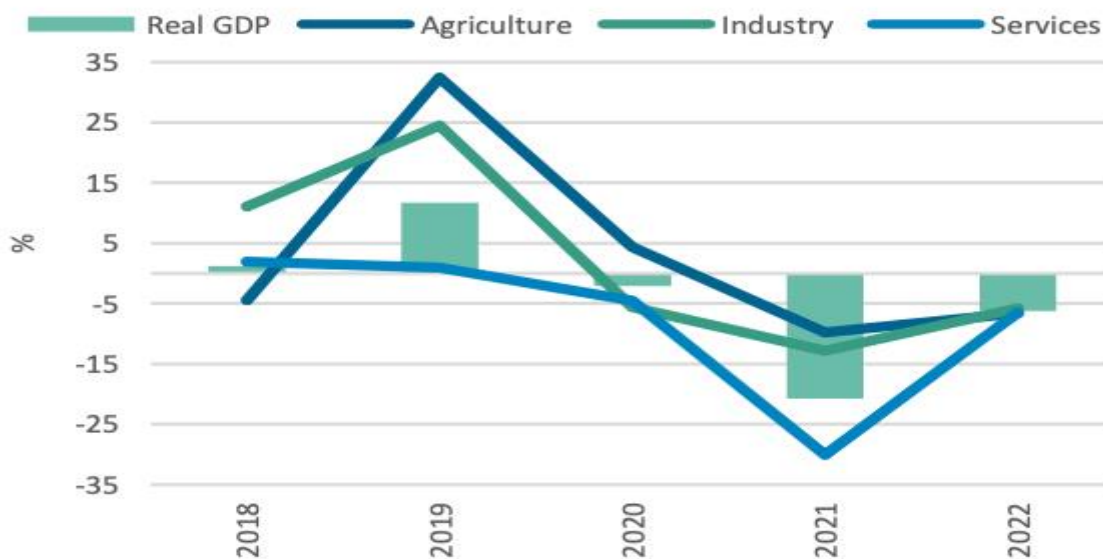
5. Diversifying the Economy: Reducing reliance on a few sectors, particularly aid and agriculture, and promoting diversification into industries such as mining, manufacturing, and services will make the economy more resilient to shocks.
6. Leveraging International Partnerships: Engaging with regional and international partners for trade, investment, and technology transfer can accelerate economic development. These partnerships can provide access to markets, capital, and expertise.

## 6. AFGHANISTAN GDP ANNUAL GROWTH RATE

The Gross Domestic Product (GDP) in Afghanistan contracted 6.20 percent in the fourth quarter of 2022 over the same quarter of the previous year. GDP Annual Growth Rate in Afghanistan averaged 3.03 percent from 2007 until 2022, reaching an all-time high of 17.20 percent in 2009 and a record low of -20.70 percent in 2021.<sup>1</sup>

Related	Last	Previous	Unit	Reference
<b>GDP Annual Growth Rate</b>	-6.20	-20.70	percent	Dec 2022
<b>GDP Constant Prices</b>	1032712.00	1101444.00	AFN Million	Dec 2022
<b>GDP from Agriculture</b>	373056.00	399264.00	AFN Million	Dec 2022
<b>GDP from Construction</b>	21297.00	21459.00	AFN Million	Dec 2022
<b>GDP from Manufacturing</b>	82304.00	91431.00	AFN Million	Dec 2022
<b>GDP from Mining</b>	22704.00	21804.00	AFN Million	Dec 2022
<b>GDP from Services</b>	460482.00	492398.00	AFN Million	Dec 2022
<b>GDP from Transport</b>	42382.00	42540.00	AFN Million	Dec 2022
<b>GDP from Utilities</b>	23723.00	24444.00	AFN Million	Dec 2022
<b>Gross Fixed Capital Formation</b>	196521.00	152155.00	AFN Million	Dec 2022

### The Afghan Economy Contracted by 6.2% in 2022, Following a 20.7% Contraction in 2021.



**Source:** World Bank 'Afghanistan Development Update: Uncertainty After Fleeting Stability', October 2023

Afghanistan's economy, as measured by Gross Domestic Product (GDP)—the total value of all goods and services produced annually—has contracted significantly since the political change in 2021. The World Bank reports that GDP shrank by 20.7 percent in 2021 and continued to decline by another 6.2 percent in 2022, though at a slower rate. The services sector, which accounts for 45 percent of GDP, decreased by 6.5 percent, with notable declines in wholesale trade (-8.9 percent), health (-5.9 percent), finance and insurance (-6.6 percent), real estate (-5.2 percent), dining and lodging (-4.2 percent), and telecommunications (-4.7 percent).

<sup>1</sup> National Statistics and Information Authority (NSIA)

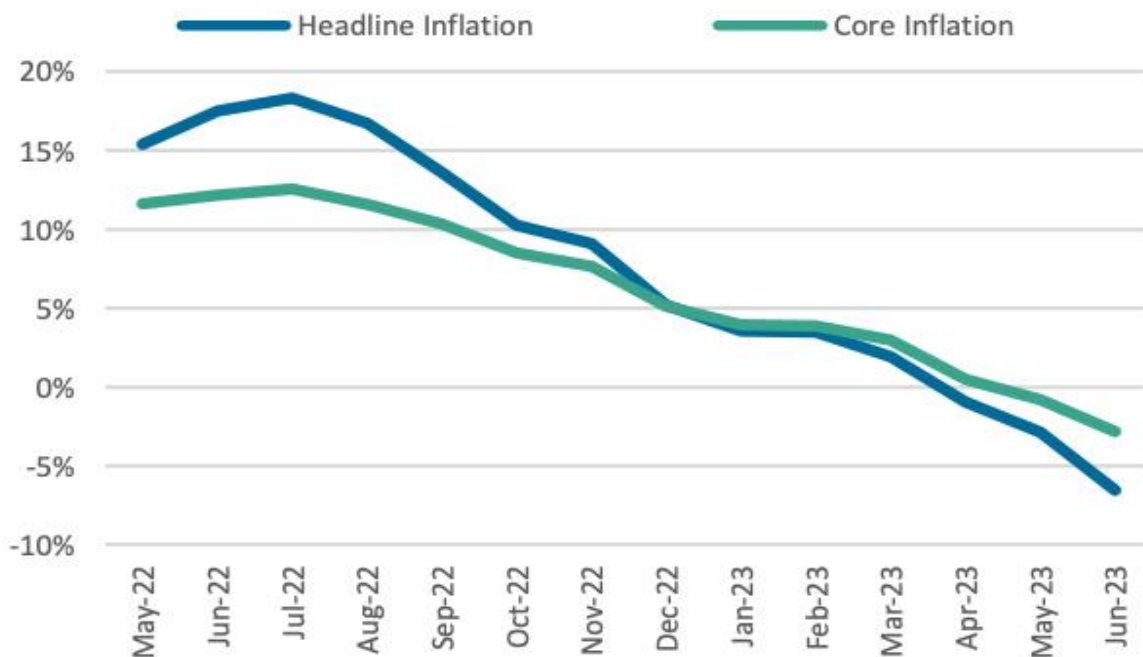
Agriculture, contributing 36 percent of GDP, contracted by 6.6 percent due to adverse weather conditions affecting crops and livestock. Although the drought persisted into 2023, improved rainfall and snowfall are predicted for the winter and spring, offering hope for better agricultural outcomes in 2024.

The industry sector experienced an overall decline of 5.7 percent in 2022, with significant variations among sub-sectors. Manufacturing, including food and beverages and non-food items, fell by 10 percent, construction dropped by 0.8 percent, while mining and quarrying grew by 4.1 percent. The World Bank identified dampened demand, future uncertainty, and limited banking system functionality as major business constraints.

## 7. AFGHANISTAN 2024 ESTIMATED GDP

GDP in Afghanistan is estimated to be \$58 billion international dollars at the end of 2024. The economy of Afghanistan has grown at an average annual growth rate of -1.1% in the last four years and is ranked the 38th largest economy in Asia-Pacific, ahead of Tajikistan.<sup>2</sup>

### After Peaking in July 2022, Inflation Dropped Sharply, Resulting in Deflation Since April 2023



Source: World Bank 'Afghanistan Development Update: Uncertainty After Fleeting Stability', October 2023

Inflation reached its peak in July 2022 at 18.3 percent, but prices have since decreased by 9.1 percent overall. According to the World Bank, year-on-year since July 2022, food prices have dropped by 12.6 percent and non-food items by 5 percent. Core inflation, which excludes food and fuel, is at -4.7 percent. The Bank attributes some of the falling prices to an improved supply of goods and the strengthening of the domestic currency, the Afghani, which lowers import costs. However, it cautions that the price decreases are also likely due to the economy adjusting to a structurally lower aggregate demand. This means the total demand for all goods and services produced by the economy has decreased. Household spending and business investment have both declined.

## 8. CONCLUSION

Afghanistan's path from aid dependence to economic independence is fraught with challenges but also filled with immense potential. By addressing security issues, strengthening institutions, and investing in key sectors, Afghanistan can build a resilient and self-reliant economy. Sustainable economic growth will not only enhance the quality of life for the citizens but also contribute to regional stability and prosperity.

<sup>2</sup> Source: World Economics

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