



Economic Instability and Uncertainty in Afghanistan after August 15

A Rapid Appraisal

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UNDP AFGHANISTAN

A UNDP Rapid Appraisal of Projected Outcomes

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Abbreviations

A-GTAP	Afghanistan Global Trade Analysis Project
CGE	Computable General Equilibrium
COVID-19	Corona Virus Disease 2019
DAB	Afghanistan Central Bank
GDP	Gross Domestic Product
HAG	Humanitarian Access Group
HCT	Humanitarian Country Team
HDI	Human Development Index
HRP	Humanitarian Response Plan
IDP	Internally Displaced Person
IMF	International Monetary Fund
LTA	Long Term Agreement
LVG	Low value Direct Grant
SDGs	Sustainable Development Goals
SME	Small and Medium-sized Enterprise
TBI	Temporary Basic Income
UNDP	United Nations Development Programme
WASH	Water, sanitation, hygiene

Executive summary

The current political uncertainty clouds the future macroeconomic pathways for Afghanistan. With limited data and the national economic policy in a state of flux, it is a challenge to provide full scale economic modeling and projections. Some assumptions are clear – such as the freeze on Afghanistan’s foreign reserves held in Western countries; a burgeoning trade imbalance; stagnant private economic initiatives; and a debt overhang that cannot be serviced.

However, working with what we have, a rapid economic appraisal has been captured in this analysis. Depending on how the conflict evolves, the country could add economic losses of up to 13 percent to its unfolding tragedy by the middle of 2022. That percentage may seem modest given the scale of the country’s crisis, but not when it translates into real poverty.² A 10-13 percent reduction in GDP could, in the worst-case scenario, bring Afghanistan to the precipice of near universal poverty – a 97 percent poverty rate by mid-2022 – despite the difficult but real progress achieved over the last 20 years.

With skyrocketing food prices and an interruption in economic activities and essential services, food insecurity is rising precipitously. The health status of much of the population, already compounded by COVID-19, is also of immediate concern. These ‘life shocks’ are felt hardest in poor urban and rural communities, where the most vulnerable are facing the unenviable choice of either finding a way to sustain their livelihoods while remaining in place or joining the large numbers already displaced. It is estimated that half a million people have already been displaced in the months leading up to the Aug 15th take over.

The development investments made in the country show that Afghanistan has made considerable progress in the last 20 years. Per capita incomes have more than doubled since the early 2000s. Life expectancy at birth has been extended by nine years. Years of schooling have increased from six to 10. As the number of students has increased from 800,000 to over 8 million, more than 3 million girls have entered the education system.

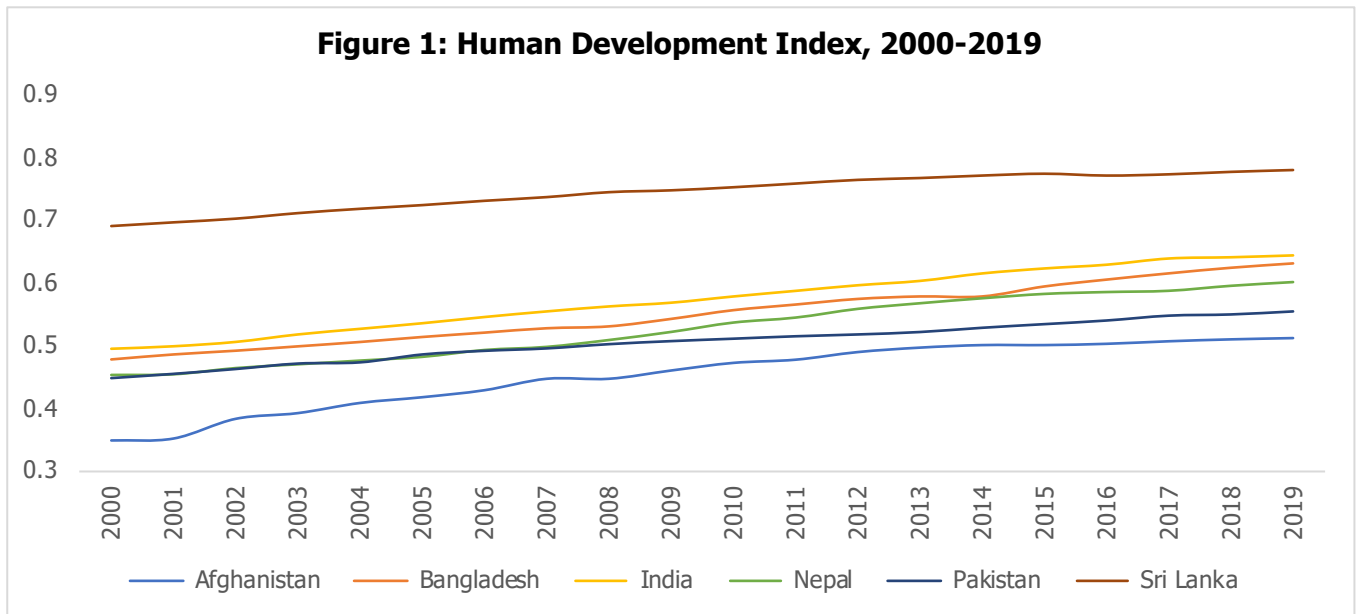
This rapid appraisal points to local livelihoods and small businesses, climate-resilient infrastructure, social protection and essential services as the backbone of local economies, keeping communities alive and resilient. A national economic implosion must be averted at all costs. Through responsible monetary and fiscal policy, we can prevent the imminent freefall of the most vulnerable households into near universal poverty. This appraisal advocates an approach embedded in and specific to each local geographic, social and economic reality, one in which the UN development system works together with local stakeholders and international partners to avert such a development emergency.

2. National Poverty Line (AFN 2064 as per ALCS 2016-17).

An evolving socio-economic context

The post-August 15 power shift in Afghanistan has resulted in severe economic instability across multiple channels in a climate of heightened uncertainty. The rupture in connectivity with domestic and international markets has damaged productive activity, led to higher production costs and limited access to value chains at home and abroad. Overseas accounts of the Afghan government are blocked; foreign aid, trade and investment into the country have effectively ceased, portending a ruinous financial state in a country where external aid has accounted for 75 percent of public expenditures in recent years.²

Afghanistan accrued many human development gains over the past two decades, but they are now at risk of being reversed. Between 2000 and 2019, its HDI value increased by nearly 50 percent, from 0.350 to 0.511. In each of the HDI indicators, there was notable progress despite being a laggard in South Asia (Figure 1). Afghanistan’s life expectancy at birth increased by 9 years, mean years of schooling increased by 1.7 years and expected years of schooling increased by 7.6 years over the past two decades. Afghanistan’s GNI per capita (2017 PPP \$) more than doubled between 2000 and 2019.³ However, the pace of development did slow after 2012 because of increasing insecurity, instability, and declining international support: Average annual economic growth between 2002 and 2012 was 9 percent per year in contrast to 2 percent after 2014.⁴ Afghanistan remains the poorest country in the Asia-Pacific region in terms of average income per capita.



Source: UNDP (2020)

Health remains a paramount concern in a country with one of the world’s highest rates of acute malnutrition and stunting in children under five years of age.⁵ UNICEF has announced that 10 million children across Afghanistan require humanitarian assistance to survive; one million children are projected to suffer from acute severe malnutrition; and 4.2 million children are out of school, with the majority (2.2 million) being girls. Since January 2021, the UN has documented over 2,000 grave violations of children’s rights.⁶

3. Al Jazeera English: <https://www.youtube.com/watch?v=eOBm8735bRE>

4. UNDP (2020): <http://hdr.undp.org/sites/default/files/Country-Profiles/AFG.pdf>

5. World Bank (2020): <https://thedocs.worldbank.org/en/doc/8033eefca38ca8af7b653869a3469087-0310012021/original/Policy-Notes-report-Jan-12-2021-Final-version-2.pdf>

6. UNICEF. <https://www.unicef.org/afghanistan/nutrition>; One in three adolescent girls in Afghanistan suffer from anaemia; only half of Afghan babies are breastfed for six months, and only 12 percent of Afghan children aged 6-24 months receive the right variety and quantity of food as per their nutritional requirements

7. UNICEF. <https://www.unicef.org/press-releases/statement-unicef-executive-director-henrietta-fore-children-afghanistan>

Afghanistan remains one of the two countries in the world where wild polio virus transmission is increasing in intensity and geographical coverage. Even prior to the outbreak of the coronavirus, preventable diseases such as measles were on the rise. The likely stalling of vaccination efforts will be a grave setback. The UN has reported a massive drop in Covid-19 vaccinations, for example, after the Taliban takeover.⁸

A recent survey⁹ supported by OCHA showed that around 10.9 million people (35 percent of the analyzed population) were estimated to be facing high levels of acute food insecurity as of May 2021. This includes around 7.8 million people experiencing food “crisis” and 3.2 million people in “emergency” need. The situation is now likely to worsen owing to declining food production and imports, as well as skyrocketing food prices if adequate and timely measures are not put into place. And the scope for a positive supply response to the higher food prices is constrained by the absence of imported inputs and fuel.

The position of Afghan women under the Taliban regime is precarious, with their political and financial freedoms increasingly at risk. Women have been ordered to stay home, with the Taliban spokesperson stating that their security forces are “not trained in how to deal with women.”¹⁰ Though their leadership have said that they respect women’s rights under Islam,¹¹ and UN authorities have emphasized that the treatment of women is a “red line,” there is little accountability on the ground, as recent developments suggest.¹² Eyewitness accounts report that women have been turned away from educational institutions, been ordered not to travel without a male chaperone, and been flogged for breaching Taliban-imposed rules. Other concerns on the horizon include forced marriages and targeted attacks against women.¹³

On the economic front, there has been a severe disruption in financial and banking services. The Biden administration has frozen the assets of Afghanistan’s Central Bank (DAB)—including most of the central bank reserves of over US\$9 billion—which are held in the US. The national currency, Afghani, fell as much as 6.6 percent to 86.14 per dollar on August 17th, remaining steady until end-August.

An IMF allocation of SDRs equivalent to about US\$450 million is out of reach since the US Federal Reserve has shut access to dollar liquidity for the Central Bank of Afghanistan. The World Bank has also suspended financial support and financial aid pledged earlier by most donors is being reconsidered. Since external aid accounts for three-quarters of the government’s budget, these developments are likely to result in a severe squeeze on financial liquidity—and if sustained, on solvency—for Afghanistan.¹⁴

Agriculture is the main source of income for most Afghans and the country’s main export. There is a large structural trade deficit with a heavy reliance on imports of oil, food and machinery. Due to the suspension of access to the Central Bank’s assets, accessible foreign reserves now cover just one week of imports compared with 18 months earlier.

A fall in domestic production and rising prices are being reported in the media due to compromised supply chains for raw materials and intermediate outputs. Constraints on firms’ access to external suppliers have reduced intra-country and external trade. The Taliban reportedly had not issued orders to reopen government offices, and ever since their seizure of power, banks, passport offices, schools and universities have largely

8. <https://www.reuters.com/world/asia-pacific/un-sees-massive-drop-covid-vaccinations-afghanistan-after-taliban-takeover-2021-08-25/>

9. IPC Acute Food Security Analysis (2021) conducted under the patronage of the former Ministry of Agriculture, Irrigation and Livestock (MAIL) and Food Security and Agriculture Cluster (FASC) Afghanistan with technical and financial support of OCHA Afghanistan (www.ipcinfo.org).

10. <https://www.bbc.com/news/world-asia-58315413>

11. <https://www.theguardian.com/world/2020/sep/10/afghan-government-to-start-peace-talks-with-taliban>

12. <https://www.aljazeera.com/news/2021/8/24/taliban-treatment-of-women-will-mark-red-line-un-rights-chief>

13. Brechenmacher, S. (2021). What will happen to women and girls in Afghanistan? Carnegie Endowment for International Peace.

14. Some of these steps have a parallel with recent events in Myanmar. On February 11, 2021, the United States declared sanctions against the military leaders of Myanmar, freezing US\$1 billion of Myanmar government funds held in the United States. Limitations on cash dispensed by banks resulted in increased demand for black-market operations. Electricity and internet outages made online transactions difficult. In April 2021, UNDP predicted a potential economic collapse due to the combined effect of the new coronavirus and the coup, which in the worst-case scenario could put nearly half the country’s 54 million people into poverty, compared to about a quarter in 2017.

remained closed. There is uncertainty about whether employees, civil or otherwise, will be able to resume their positions and make a sustained living.¹⁵

Recent power disruptions have adversely affected the 33.5 percent of households connected to the national grid and raised questions about the financial viability of DABS, the national electric supply utility. Access to electricity for hospitals or other essential services is at risk. Afghanistan's per capita electricity consumption of 100 kWh is less than a tenth of the levels in neighboring countries. While solar panels have provided an opportunity for off-grid access to electricity for close to 60 percent of households, the country generates just around 600 megawatt (MW) locally, and over 80 percent is imported from neighboring countries.¹⁶

There is a considerable share of the population, most notably in rural areas, that welcomes the observed cessation of hostilities. But large problems remain since socio-demographically and economically, Afghanistan has changed. The hollowing out of public institutions, depletion of human capital, stagnant economy and the 'sudden stop'¹⁷ of inward cross-border flows present a unique set of governance challenges for the new administration. In the interest of the millions of vulnerable Afghans and regional stability, it is incumbent upon the international community to help it adhere to a course of peace and shared prosperity based on universally agreed principles of human rights and good governance.

Forecasting the potential impacts on growth and income: CGE model assessment

This section presents simulation results from a Computable General Equilibrium (CGE) model developed by the UNDP Afghanistan Country Office (Afghanistan Global Trade Analysis Project). The analysis is based on historical data using an economy-wide model for Afghanistan and its main trading partners. The reference point is growth and poverty levels in recent years. GDP grew by 3.9 percent in 2019, declined by 1.9 percent in 2020, and the Government had forecast 4 percent growth for 2021, assuming the security situation remained unchanged.

Four scenarios were simulated using the A-GTAP CGE model. Below are preliminary estimates¹⁸ on the change in GDP from the baseline growth projection of 4 percent, and on poverty levels, which stood at 72 percent of the population in 2020 according to the World Bank, for the next fiscal year (June 2021-June 2022).

Scenario 1. Low-intensity crisis (non-fragmented economy; interruption to trade with Pakistan): Assuming trade with Pakistan is interrupted for 2 to 4 months, capital spending efficiency declines by 2% while connectivity within Afghanistan is secured: **3.6% to 8% decrease in Real GDP**. Poverty impact: around 7 to 15 percentage point increase from 2020.

Scenario 2. High-intensity crisis (non-fragmented economy; interruption to international trade with all partners): Assuming trade with all major partners is interrupted for 2 months, efficiency of capital spending decreases by 4% while connectivity within Afghanistan is secured: **12% decrease in Real GDP**. Poverty impact: around 23 percentage point increase from 2020.

Scenario 3. Low-intensity crisis (fragmented economy; interruption to international trade with Pakistan only): Assuming trade with Pakistan is interrupted for 2 to 4 months, capital spending efficiency declines by 2%, higher costs for factors of production (scarce capital and costly intermediate inputs), and connectivity is disrupted: **5.5% to 11% decrease in Real GDP**. Poverty impact: around 10 to 20 percentage point increase from 2020.

15. France 24. Taliban turn back Afghan govt employees returning to work. <https://www.france24.com/en/live-news/20210821-taliban-turn-back-afghan-govt-employees-returning-to-work>

16. https://sustainabledevelopment.un.org/content/documents/280392021_VNR_Report_Afghanistan.pdf

17. <https://ideas.repec.org/a/cem/jaecon/v1y1998n1p35-54.html>

18. Using a Social Accounting Matrix for 2018 and assuming a poverty elasticity of GDP of 1.9.

Scenario 4. High intensity crisis (fragmented economy; interruption to international trade with all partners):

Assuming trade with all major partners is interrupted for 2 months, efficiency of capital spending decreases by 4% and connectivity is interrupted: **13.2 % decrease in the Real GDP**. Poverty impact: around 25 percentage point increase from 2020. This scenario, in other words, raises the specter of near-universal poverty (97% of the population).

In summary, this analysis predicts for the next fiscal year (June 2021-2022) GDP growth lower by 3.6 to 13.2 percentage points than the 4 percent growth predicted before the fall of the government in August.

The current crisis is likely to negatively impact Afghanistan's path toward achieving SDGs. Linking the GDP changes estimated using the A-GTAP CGE model to near-term SDG indicators point to an expected deterioration in the path toward achieving the SDGs.

A-GTAP CGE Simulations	Impact on Real GDP (deviation from the 4% growth projected pre-August 15)	(compared to 2020 level) Poverty Impact
Scenario 1. Low-intensity crisis; non-fragmented economy (interruption to trade with Pakistan)	3.6% or 8% decrease	7 to 15 percentage point increase
Scenario 2. High-intensity crisis; non-fragmented economy (interruption to international trade with all partners)	12% decrease	23 percentage point increase
Scenario 3. Low-intensity crisis; fragmented economy (interruption to international trade with Pakistan only)	5.5% to 11% decrease	10 to 20 percentage point increase
Scenario 4. High intensity crisis; fragmented economy (interruption to international trade with all partners)	13.2% decrease	25 percentage point increase

Overall poverty impact estimates range between an increase of 7 and 25 percentage points from a baseline poverty rate of 72 percent in 2020 (SDG1). This, in turn implies a deterioration in food security (SDG2) by between 4 and 19 percentage points; and in health and well-being (SDG3) by between 6 and 21 points compared to their levels in 2020 (considering the COVID-19 impact). These estimates vary in terms of the intensity of the instability and disruption in international trade. The supply of basic goods such as food items and of public services such as health care are also affected.

All scenarios show a markedly negative impact on all SDGs, with the exception of SDG12, where the positive sign possibly comes from lower activity bringing less environmental pollution. The magnitude of the impact on SDG 10 (inequality) is also projected to be high.

Looking ahead to a medium-term economic forecast – the big ‘ifs’

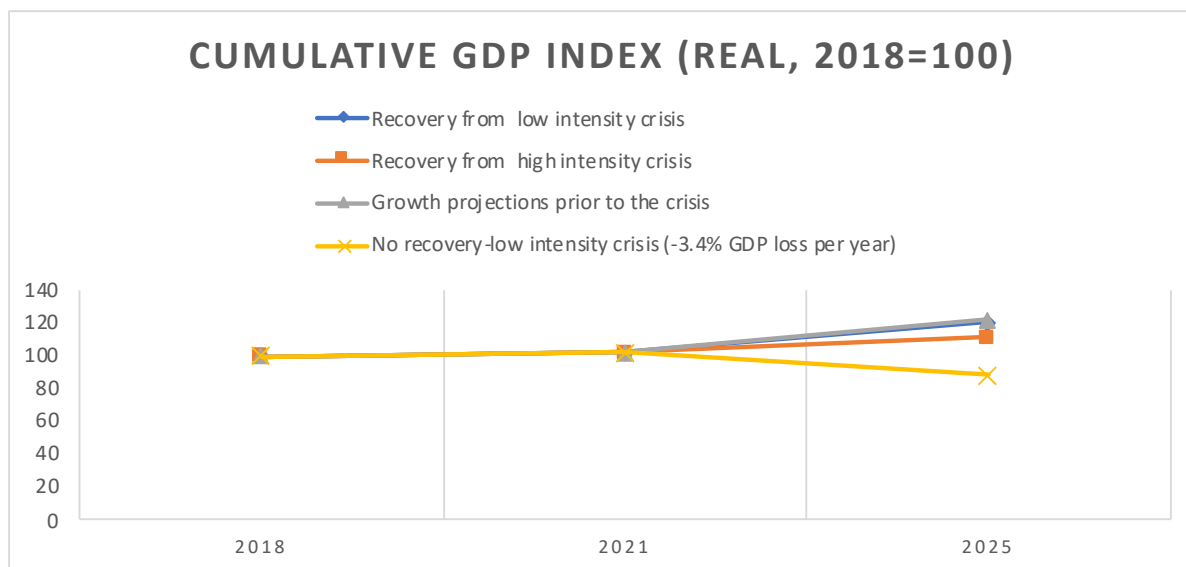
In simulating the economic performance of Afghanistan for the next three years (beyond 2021), historic data were used to infer the speed of recovery from the two years during the past two decades with lowest GDP growth (2004 and 2011). If coherence and cooperation is assured domestically and internationally, the Afghan economy's recovery can be as fast as in these two periods. Average annual growth rates for 2004-2007 and 2011-2014 are used as reference in this analysis.

Data show that following these two economic downturns, the economy grew in the subsequent two years on average by 11 percent and 5.5 percent, respectively. In addition to the potential GDP loss analyzed in the section above, an economic baseline is prepared up to 2025 by adding historic average GDP growth and investment rates. Figure 2 displays projections for GDP growth developed prior to the fall of the previous government as well as various instability and recovery scenarios (see annex for details).

GDP per capita growth (average)	2018-2020 (%)	2021-2025 (%)
Recovery from low intensity crisis	-2.6	7.2
Recovery from high intensity crisis	-2.6	-2.4
Growth projections prior to the crisis	-2.6	8.8
No recovery-low intensity crisis	-2.6	-25.6

Source: UNDP Single Country CGE model results

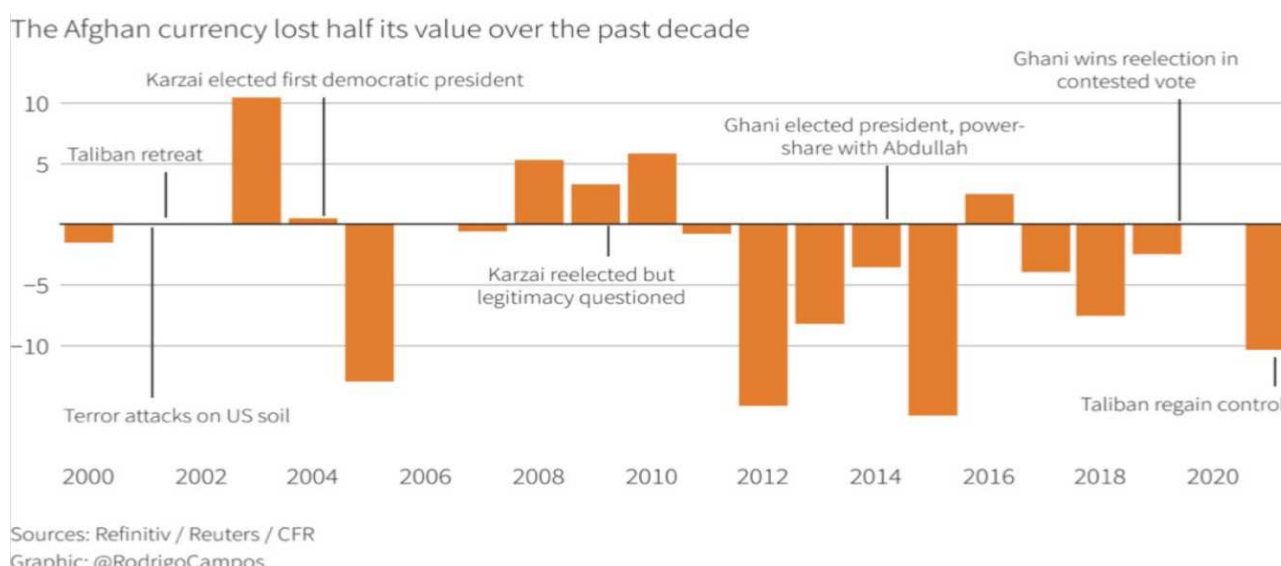
Figure 2 - GDP projections prior to the crisis under various recovery assumptions (2018-2025)



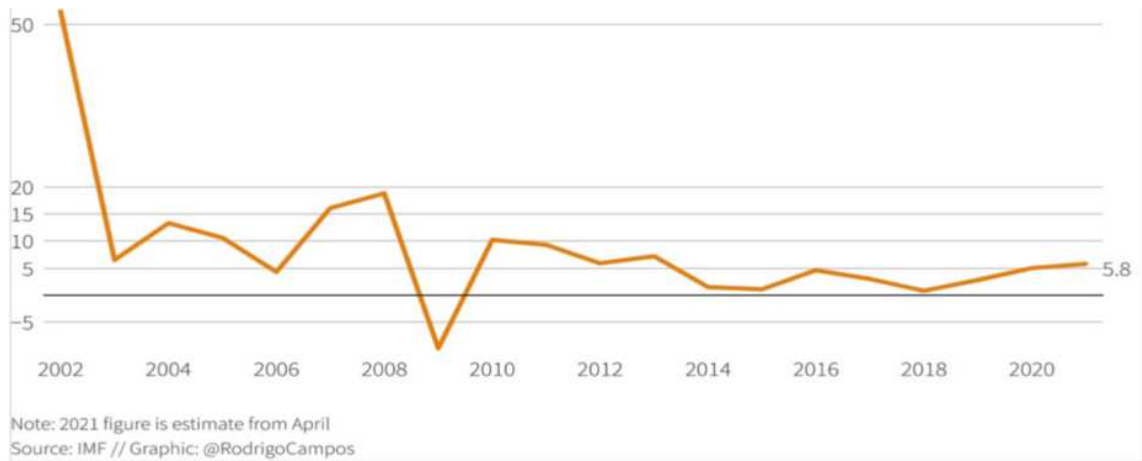
Inflation had been tamed following a big spike in food prices in April 2020, but a subsequent recovery in demand as well as a weak harvest could push prices higher. Further weakening in the exchange rate is likely to hamper economic growth. As Figure 3 shows, currency depreciation is closely linked to political turbulence in Afghanistan. High inflation, unless contained soon, will likewise exert pressure on the exchange rate.

Figure 4 shows the long-term trends in inflation: a drastic fall from 50 percent in 2002 to single digits in 2013. The IMF expected inflation to increase to 5.8 percent following the COVID-19 crisis. However, with the weakening in the Afghani and likely trade and supply chain disruptions after August 15, it could rise above the 8 percent upper band limit targeted by the Central Bank.

Figure 3 - Annual percentage change in exchange rate (AFG v USD) in 2000-2021



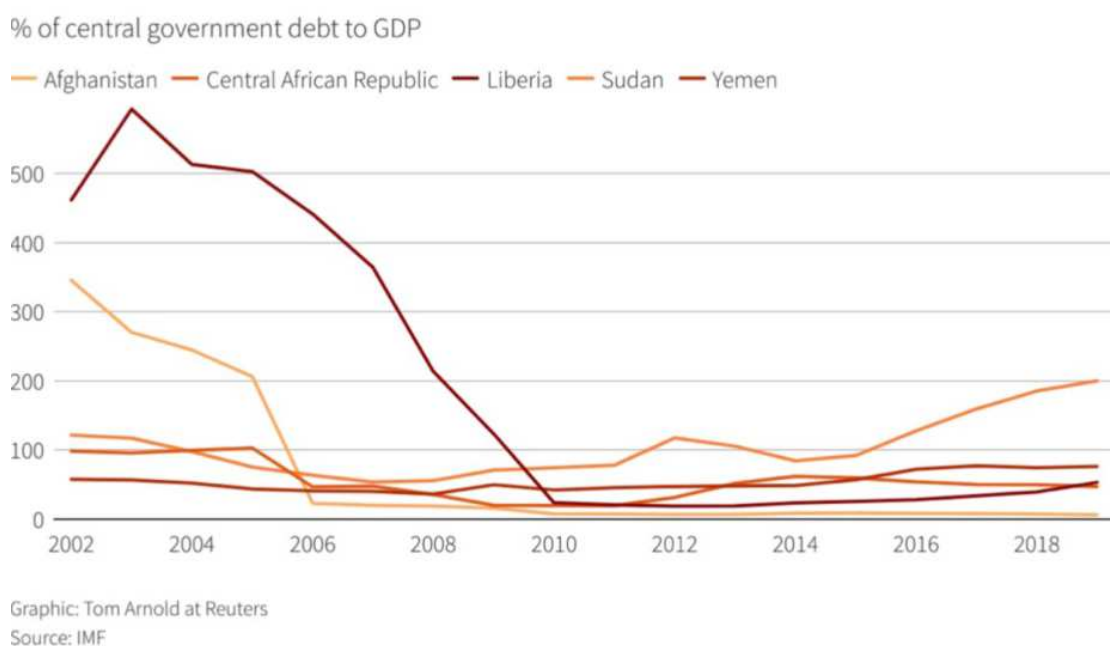
Sources: Refinitiv / Reuters / CFR
Graphic: @RodrigoCampos

Figure 4 - Inflation (%), 2002-2021

To ease Afghanistan's recovery from the COVID-19 pandemic, the IMF was preparing to approve US\$370 million via its extended credit facility in November 2020, in tandem with international donor pledges of US\$12 billion in civilian aid. On August 25th the IMF paused Afghanistan's access to its resources, including a new allocation of Special Drawing Rights. Afghanistan's official external debt stock was projected to reach US\$1.7 billion in 2021, around 8.6 percent of GDP.

Authorities expect the Taliban to implement tighter capital controls. Continued currency depreciation could fuel inflation, reducing the purchasing power and welfare of the poor as food prices rise. This would imply an increase in the number of people below the poverty line and push those already below it further down. Furthermore, it would limit the Taliban's plans to kickstart Afghan debt markets and tap domestic savings. According to the IMF, officials in the previous government had been looking to issue an inaugural sukuk in early 2022.

Despite having one of the world's lowest levels of debt relative to GDP (Figure 5), Afghanistan was deemed to be at high risk of default even before the current turmoil, given its heavy dependency on grants.

Figure 5 - Afghanistan's debt to GDP ratio

UNDP's forthcoming **Economic Outlook Series on Afghanistan** will take a deeper dive into some of these specific macro-economic, fiscal, monetary, and external trade issues.

An uncertain fiscal framework

Even before the regime change, Afghan public finances were precarious and strained: In 2020, domestic revenue fell by 16 percent compared to the previous year whereas spending rose to respond to Covid-19. The deficit was well within the target (2.3 percent of GDP); excluding grants, however, the deficit in 2020 was 17 percent of GDP—underscoring the importance of external funding. The 2021 situation is likely to be bleak. Revenue ambitions for 2021 were already revised downward; with the added uncertainty and international stalemate, customs-based revenue is expected to fall sharply. Both current and development spending are also likely to collapse—with adverse impact on growth prospects in 2021 and beyond.

The previous government relied heavily on donor support that funded more than three-quarters of its expenditures. Mainly off-budget donor support was dedicated to security and counter-terrorism activities. Moreover, international aid was associated with corruption, rents and appropriation by local strongmen undermining state legitimacy. Despite some progress toward raising and better managing revenues, attempts to build accountable public finance and civil service institutions largely proved inadequate to offset the impact of broader political economy drivers and patronage-based governance.

Aid administration has generally been fragmented consisting of high numbers of weakly coordinated, and often duplicative and wasteful civilian projects. Domestic fiscal revenues were minimal at below 15 percent of GDP equivalent to US\$2.7 billion in 2019 (compared to total government expenditure of US\$11 billion and the GDP of around \$20 billion).

Table 2 shows that in 2021, domestic revenue was expected to be 12.3 percent of GDP whereas on-budget grants were expected to account for 13.4 percent of GDP. Projected expenditures stood at 28.2 percent of GDP, and the budget imbalance (2.5 percent of GDP) would have been filled by external borrowing. Over the 2021-2025 horizon, the IMF projected that, with a substantial ramping up of the Afghan revenue administration, including the adoption of the value-added tax (VAT) in 2022, the country's revenue-to-GDP ratio would cross 15 percent and the share of grants would diminish to approximately 12 percent of GDP.¹⁹

This framework is now in limbo with foreign grants on hold and domestic revenue collection stalled (at least the part reaching the Treasury account), leading to a funding shortfall that renders day-to-day governance untenable. It is too early to predict how much of international flows will resume by when and what the Taliban would do to compensate for the glaring fiscal gap. But a sharp contraction in domestic demand, imports, and public procurement is inevitable for the foreseeable future.

What do we know about the sources of finance for Taliban before August? According to a recent UN report, most of the revenues come from illegitimate activity²⁰. The revenue basis of the Taliban has been foreign donations, charitable donations, opium and looted minerals, money laundering, illicit import and export of consumer goods and spare parts, Islamic taxes (the 10 percent “ushr” on a farmer’s harvest and the 2.5 percent “zakat,” tax on wealth tax), real estate operations and reported extortions. Though difficult to assess, published estimates bring their level to \$1.6 billion in 2019.²¹ This before the Taliban took control of the borders that can in the future enable to collect custom and related duties that have been a significant source of public revenue accounting for around 25 percent of total revenues (excluding grants).

As stated above, with the Central Bank assets abroad frozen (over US\$9 billion in the US alone) and a ‘sudden stop’ to most international inflows (pledged at the Geneva Conference of November 2021), Afghanistan is likely to face an acute and immediate liquidity constraint. The timing of future inflows of funds remains uncertain until a new Government is formed and the dialogue with international partners resumes. Against this fiscal squeeze, humanitarian needs are already elevated.

19. UNDP’s National Human Development Report 2020 estimates that around US\$120 million could be additionally collected in royalties and export duties by taxing illegal mining activities. Similarly, IMF has estimated that approx. US\$770 million can be collected from VAT at the borders.

20. <https://www.undocs.org/S/2021/486>

21. <https://theconversation.com/the-taliban-are-megarich-heres-where-they-get-the-money-they-use-to-wage-war-in-afghanistan-147411>

Table 2: Medium-term public finance framework, 2020-2025 (% of GDP)

	2020	2021	2022	2023	2024	2025
	Est.	Projected				
Domestic revenue and grants	26.2	25.7	25.9	26.1	27.0	25.2
Revenue	11.4	12.3	13.4	14.2	15.7	16
On-budget grants	14.8	13.4	12.5	11.9	11.3	9.2
Expenditures	28.4	28.2	27.1	26.8	27.7	26.0
Operating	18.8	18.9	18.2	17.8	17.8	17.1
Development	9.7	9.3	8.9	8.9	9.9	9.0
Overall budget balance	-2.3	-2.5	-1.2	-0.7	-0.7	-1.0

Source: IMF (2021)

It will be critical for the international community to coordinate aid better than in the past. This would require improved planning and coordination that may not be easily achieved due to (a) unpredictability of future budgets, (b) competing geopolitical considerations for accepting compromises with the Taliban, (c) adopting hard or soft lines on issues such as human rights, women's rights, and democratic values; and (d) negative perceptions of continued involvement in Afghanistan from political constituents in donor countries.

A key task for the donor community will be to create and maintain critical capacities for aid disbursement as well as program supervision and oversight. In the interim, as international financial institutions analyze what it would take to buttress a viable macro-fiscal framework at the central level, other development agencies (such as UNDP) are designing bottom-up, community-driven initiatives in the grassroots that support basic livelihoods and meet humanitarian imperatives.

Regional trade amidst instability

Afghanistan belatedly joined the South Asian Association for Regional Co-operation (SAARC) in 2007, originally formed by Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan, and Sri Lanka in 1985. The agreement on South Asian Free Trade Area (SAFTA), signed in 2004, intends to ease restrictions and enable a smooth flow of trade among member states through negotiated tariff concessions and reduction of non-tariff barriers. SAFTA remains a potential economic instrument in the context of post-pandemic economic recovery, subject to revitalized regional cooperation.

Agreements with neighboring countries in Central Asia also hold promise. While physical trade routes such as the Silk Road have long been viable avenues for connectivity, e-trade is critical for a landlocked country seeking to mitigate its disadvantages in shipping-dependent bulk trade. However, digitalization requires a range of complementary services to be in place, including a reliable electricity supply. Power generation projects such as CASA-1000 could, therefore, be transformative by providing 1000 transmission lines across the Kyrgyz Republic, Tajikistan, Afghanistan, and Pakistan.²¹

Afghanistan's main export destinations are Pakistan and India. In the context of COVID-19, new restrictions have been placed on product movements, causing delays and disruptions in trade, sharply affecting shipments of perishable produce like vegetables and fruits. Afghanistan predominantly imports from neighboring nations such as Iran, China, and Pakistan. Whether and how countries cooperate is crucial for Afghanistan's recovery from COVID-19 as well as for its transition to peace and stability.

To develop a forward-looking trade assessment in the CGE model, a clearer causal link between trade and instability needs to be identified. On the one hand, trade can promote transition to stability by forging cooperative behavior among economic actors across borders; on the other hand, asymmetric trading relationships, particularly in the extractives sector, can themselves become a source of conflict.

In Afghanistan, the state of the rule of law has often increased illicit trade of opium and other drugs. Infrastructure that is crucial to the production of alternative crops has been destroyed and needs rebuilding. Persistent conflict has severely limited the potential of trade to become an engine for broad-based economic growth in Afghanistan, which suffers from a chronic structural trade deficit in goods and services (expected to exceed US\$6 billion by the end of 2021).

Table 3 - Illicit trade volume

	Gross value (US\$)	Value (as % GDP)
Gross income from opiates (domestic consumption and exports)	\$1.2 – \$2.2 billion	6 – 11%
Value of opiates potentially available for export	\$1.1 – \$2.1 billion	5 – 10%
Value of domestic use market	\$90 million	0.5%
Value of imported precursor substances	\$90 – \$190 million	0.5 – 1%
Farm-gate value of opium	\$604 million	3%
Value of production and trafficking from farm-gate to the border (net)	\$0.5 – \$1.3 billion	2 – 7%

Source: Zeiler et al. (2018)

Note: Ranges are calculated based on different assumptions on the conversion of opium to morphine/heroin within Afghanistan and on the purity of the exported products.

21. <https://blogs.worldbank.org/endpovertyinsouthasia/afghan-communities-reap-benefits-cross-regional-energy-project>

During the period 2001-2020, the illegal trade of opium increased considerably compared to legal trade. Since 2001, the production of opiates represents Afghanistan's largest illegal economic activity, making the country the largest producer of illicit opiates in the world. It is estimated that the illicit gross output of opium in Afghanistan is between 6 and 11 percent of GDP. In 2017, it was estimated to be between US\$4.1 billion and US\$6.6 billion, surpassing the value of its officially recorded licit exports of goods and services (estimated at 4.3 percent of GDP). Table 3 shows the range of incomes generated from the export of illicit opiates during the conflict.

Protecting human development gains to prevent free-fall

This section makes the case for bottom-up community-based interventions. On August 31, foreshadowing a UN Flash Appeal, the Secretary-General of the United Nations expressed grave concern at the “deepening humanitarian and economic crisis” in Afghanistan and the threat of “basic services collapsing completely.” Since the August 15 power shift, the needs of the Afghan people, including emerging needs for food and income support, have only increased. More than 18 million of Afghanistan's 39 million people were estimated to be in urgent need of humanitarian aid before recent developments; this number has since spiraled due to skyrocketing food prices and interruption in economic activities.

The need for balanced humanitarian and developmental support is urgent. Engaging the new government based on sound principles and clear milestones is more likely to create a conducive environment to pursue sustainable development. These principles flow from human rights, effective economic management principles, and common interests. A peaceful and sustainably developing Afghanistan that is connected to the rest of the world is in the interest of all countries, and so is lowering the threat to security with neighboring countries. It is imperative to tackle the humanitarian–development–peace nexus in unison, and to address the drivers of displacement.

In view of the evolving situation, pre-August development programmes need to be re-adjusted towards creating opportunities for people to stay safe in their communities and live with dignity, while helping to stem the flow of refugees and the displaced. These programs must respond to the emerging needs in essential services, livelihoods and community resilience, recognizing the overwhelming gaps at the provincial levels as people, especially women, are being exposed to hunger and insecurity, further compounded by impacts of climate change such as droughts and water stress. The priority of the international development community at this time is to ensure basic income, support micro enterprises and livelihoods, address extreme poverty, and lessen insecurity of access to food and energy.

Integrated programmes that focus on community resilience, tailored to the regions

An immediate programme priority is to take a decentralized area-based project approach that allows direct work with beneficiary communities through civil society and micro and small enterprises. This targets mainly vulnerable groups – women, youth, children and displaced persons – in their communities, in line with the principle of leaving no one behind.

The value proposition of the new and innovative Local Area-based Programme designed by UNDP lies in its contribution to preserving human, social and institutional capital – saving lives while also saving livelihoods - in the context of an unfolding crisis, bridging short-term humanitarian life-saving assistance and lasting recovery.

Such programming would represent a paradigmatic shift in the way development resources are used, focusing on preventing economic, social and environmental implosions at sub-national level, ensuring an integrated approach between sectors, and innovating to ensure flexibility and responsiveness with geographic specificity. The successful implementation of this pivot requires effective management of elevated risks, engaging the new authorities at local level, as well as NGOs, small businesses and community stakeholders active in each region. This would require the resources and political support of the development partners.

The area-based programme concept integrates the response to multiple needs and aims to focus on poverty, remoteness, and geographical coverage. It delivers services and targeted support at the community level, engaging with the local population using a mix of approaches that are a blend of both on-site as well as remote services and tightly monitored cash-based support.

Targeted means for protecting and promoting community resilience and recovery include differentiated offers of temporary basic income (TBI) in high poverty, high insecurity areas; employment generation for the vulnerable, with priority to women, youth and IDPs (Cash for Work); and support to women-led businesses, social enterprises and SMEs (Cash for Markets) focused in areas of high displacement.

Conceptually, such a Local Area-based Programme fits within the broader humanitarian–development–peace nexus. A key linkage with the Humanitarian Response Plan (HRP) is articulated through a targeting methodology, which is based on key humanitarian indicators, including severity of food insecurity, emergency needs, and presence of IDPs. At the level of strategic outcomes, the Area-based Programme is broadly coherent with the HRP, contributing to efforts to reduce vulnerability and enhance short-term resilience by augmenting the capabilities of individuals, communities, and institutions to cope with instability.

For the UN development system, this affords an opportunity to put the nexus into practice.

Core elements of the Local Area-Based Programme

Provision of essential services and infrastructure

Sustaining public service delivery is key to rehabilitating living conditions in vulnerable areas. Targeted support includes social infrastructure for the delivery of essential education; health services; electricity and water supply; productive infrastructures such as greenhouses and the rehabilitation of barren lands; economic infrastructure such as local roads, bridges, and boreholes; and productive infrastructure such as greenhouses, irrigation channels, marketplaces and rehabilitation of barren lands. Eligibility for support would be based on citizenship and level of need, not political or tribal affiliation.

Disaster and climate resilient response

Development partners should support innovative interventions in renewable energy, sustainable food production, and waste management in order to bolster disaster recovery and resilience at the community level. Programmes could directly support access to essential services in energy, water, food production, health and shelter for poor and marginalized communities, with a focus on women and youth.

Community-based livelihoods and local economies

Development partners must prioritize working directly with communities to rebuild the social and economic fabric through an integrated approach that includes infrastructure building and support to the local private sector – particularly SMEs, women-led micro-enterprises and social enterprises. Community-led projects must promote access to innovative financial services and products for both private entrepreneurs – including agricultural and non-agricultural business owners – and SMEs, in partnership with local financial networks and institutions, leveraging digital and innovative delivery mechanisms. Through the revitalization of the local economy, communities can better cope with vulnerabilities brought on by the current situation. This will also promote peace and security at the community level and foster social cohesion (Figure 6).

Figure 6 – Elements of a Local Area-Based Programme

1 Provision of essential services	2 Community based livelihoods and local economies	3 Disaster and climate resilient response	4 Social cohesion and inclusive participatory processes
<p>ESSENTIAL SERVICES</p> <ol style="list-style-type: none"> 1. Health & essential services supported and sustained with particular focus on containing, controlling and management of COVID-19. 2. Essential Food Security & Agro-Business Infrastructure and Services supported. 3. Renewable Energy services supported. 	<p>ECONOMIC RECOVERY & PRIVATE SECTOR</p> <ol style="list-style-type: none"> 1. Households in high poverty, high insecurity areas provided with basic income (TBI) 2. Local level livelihoods and economies sustained through Cash for Work (CfW) & Cash for Market (CfM) - <i>Green, agro and non-agro inclusive value chains.</i> 3. Local Private Sector Development (Support to women-led informal businesses, technical and financial support to SMEs expanding to new market areas and community-led social enterprises) 4. Cross Border Trade and Regional Market Access 	<p>ENVIRONMENT & CLIMATE CHANGE</p> <ol style="list-style-type: none"> 1. Community preparedness for human and natural disasters 2. Climate risk resilient infrastructure in place. 3. Community resilience built through regenerative agriculture, agroforestry, irrigation support/water access and nature-based solutions. 4. Improved productivity and sustainable livelihood opportunities provided. 	<p>COMMUNITY-LED ACTIVITIES</p> <ol style="list-style-type: none"> 1. Communities empowered for peace and social cohesion (women and youth) 2. Gender inequality and empowerment promoted 3. Access to justice and community security fostered 4. Alternative dispute resolution mechanisms involving traditional/customary, tribal, religious leaders linking formal and informal actors 5. Community led needs-based stabilization plans identified (promote reconciliation, prevent conflict) 6. Community-managed interventions promoted – social protection, economic recovery, service delivery

The main components of this Programme would be delivered through technical assistance and direct cash-based payments, benefiting close to 9 million people, in three ways:

- **Temporary basic income.** Assistance could be provided to the vulnerable in high-poverty/high-insecurity areas and targeted households with children, the elderly and people living with disabilities.
- **Cash for work.** Can be mobilized to create employment opportunities, mostly linked to infrastructure building and management, and social protection.
- **Cash for markets.** Will ensure access to goods, employment, and markets, targeting specifically women-led businesses in the informal sector and community-led social enterprises.

The area-based programme approach is designed to be developed and implemented in a participatory manner, to ensure that activities are responsive to local needs and priorities. This can contribute to social cohesion and local peacebuilding while empowering local stakeholders. A ‘bottom-up’ and ‘local first’ approach to addressing needs, strengthening resilience and tackling structural drivers of vulnerability and conflict is used, with special attention given to the needs of women and youth who constitute the majority of the population.

Partnerships and implementation arrangements

At a time when government institutions are not fully functioning, the implementation of the above interventions must use existing NGO networks, local procurement and contractors, and draw on UN entity Long-Term Agreements (LTAs) with telcos and money service providers, through direct contracting implementation.

Low-value direct grants would be used to support micro and small enterprises in particular (with priority given to those that are women-headed) and informal local networks with the primary aim to build area-specific local level capacities. The relevant groups under the Humanitarian Country Team and the UN Country Team (UNCT) could ensure that humanitarian efforts inform area-based programming, risk mitigation, implementation modalities and identification of partnering needs.

Indeed, this approach is premised on collaborative design and implementation, under the leadership of the UN Resident Coordinator and the UNCT, bringing together the operational entities of the UN development system with local networks and partners in place to deliver, such as FAO, ILO, IOM, UNDP, UNFPA, UN Habitat, UNHCR, UNICEF, UNODC, UN Women and WFP, with DPPA and OCHA. Some initiatives will be single-agency initiatives; others could use existing or new programme platforms to work together. Either way, it would follow a common strategic approach, use shared data, and frame contributions in an agreed UN engagement strategy and goals. Support structures and surge capacities from the concerned agencies at regional and global level will further strengthen the UN development system efforts.

As this effort grows and brings in collaboration and partnerships, the scope and areas of focus will expand accordingly.

Annex

Flow chart for the A-GTAP model

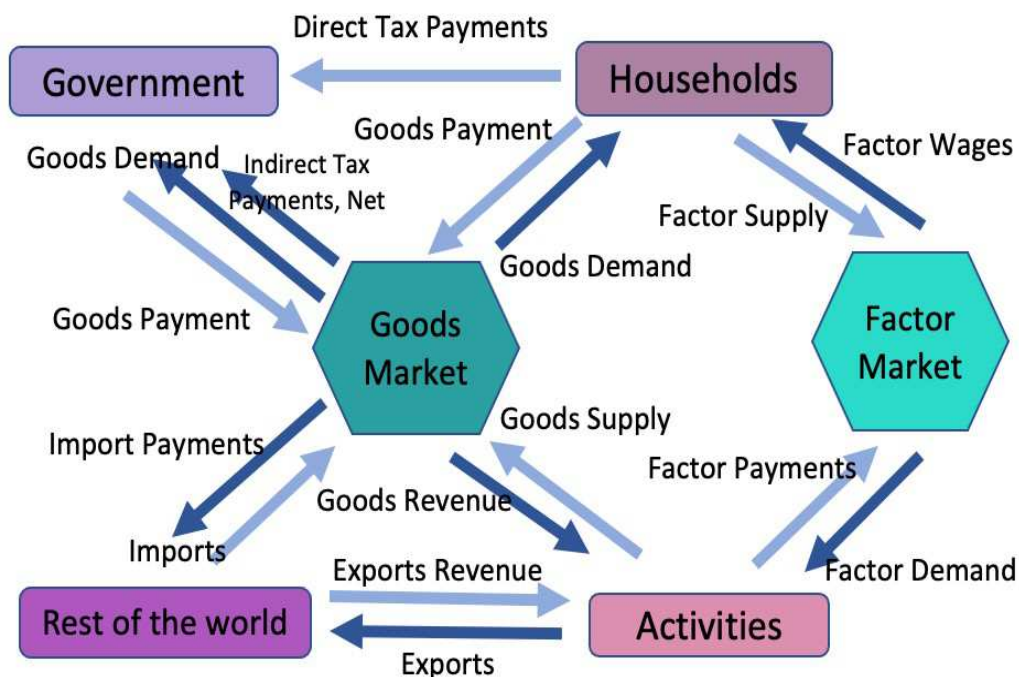


Table 4. A-GTAP CGE simulation assumptions and results

Afghanistan	2018-2020 (%)	2021-2025 (%)
Cumulative Real GDP Growth (recovery from low intensity crisis)	2.4	18.4
Cumulative Real GDP Growth (recovery from high intensity crisis)	2.4	8.8
Cumulative Real GDP Growth projections prior to the crisis	2.4	20.0
Cumulative Real GDP Growth (no recovery-low intensity crisis (-3.4% GDP loss per year))	2.4	-14.4
Cumulative population growth (%)	4.9	11.2

GDP per capita growth (average)	2018-2020 (%)	2021-2025 (%)
Recovery from low intensity crisis	-2.6	7.2
Recovery from high intensity crisis	-2.6	-2.4
Growth projections prior to the crisis	-2.6	8.8
No recovery-low intensity crisis (-3.4% GDP loss per year)	-2.6	-25.6

Source: UNDP staff estimates

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