

## UNDP Report “One Year in Review- Afghanistan since August 2021” – Takeaways

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*(Views expressed in the brief are those of the author, and do  
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**Cascading crisis and a crippled economy are the new realities of Afghanistan. The recently released report by the United Nations Development Programme (UNDP) builds a picture of Afghanistan which is nothing short of grim. The people of the country after going through decades of war and destruction are living unsettled lives in an uncertain time. The report brings into light the already-declining Afghan economy that lost almost US\$5 billion after August 2021 drastically reversing what the country had accumulated in 10 years in only 12 months.”<sup>1</sup>**

While the challenges to the ordinary Afghan are alarming there are some sectors where progress has been made. Conflict-related security incidents and civilian casualties have decreased which has infinitesimally helped in ease of trade and connectivity across the country; along with custom revenue which has steadied at AFN 43 billion.<sup>2</sup>

### ***Fundamental Challenges:***

In 2022 the macroeconomic collapse and increase in poverty have become an evil reality. The data on the Afghan economy shows a drastic drop in the overall Gross Domestic Product (GDP) of the country with 95 to 97 percent living below the poverty line. Before the Taliban came to power the

<sup>1</sup> “One Year in Review-Afghanistan since August 2021,” United Nations Development Programme, October 2022, <https://www.undp.org/afghanistan/publications/one-year-review-afghanistan-august-2021>.

<sup>2</sup> “One Year in Review-Afghanistan since August 2021,” United Nations Development Programme, October 2022, pp.4, <https://www.undp.org/afghanistan/publications/one-year-review-afghanistan-august-2021>.

economy of Afghanistan however small stood at about \$20 billion and since it has lost about \$5 billion which accumulates a loss of 10 years worth of assets and wealth in a matter of few months, in addition to the loss of 700,000 jobs with the majority in the education sector held by women.

The flow of humanitarian assistance and aid is in constant flux as the assistance alone is unable to cover the current economic shackles in addition to the constant increase in aid dependency at the local level. In just 14 months Afghanistan's humanitarian load has increased from 19 million people to 22 million people. Even before the Taliban came into power the country was plagued by disruptions and effects of the pandemic along with drought that hit many parts of the country and affected economic activity and livelihoods. The current humanitarian plight has only aided and abetted the frail socioeconomic cloth of Afghan society.

The report earmarks four fundamental challenges that outweigh any kind of progress that the country has made in the past year. There are;

1. Limited space and freedom for women and girls.
2. Absence of financial support.
3. Structural defects in the Afghan economy.
4. Lack of support for basic development needs and humanitarian aid.

Some of the key highlights of the report were as follows;

*Afghan Economy:*

- While the de facto authorities issued a decree in April 2022 prohibiting the cultivation of poppy and all types of narcotics, illicit opium cultivation continues to be a key part of the economy. In 2021 alone opiate generated \$1.8-2.7 billion of gross income.
- There have been changes in the level and structure of economic activity and a noticeable shift toward agriculture, however, the industry sector remained relatively unchanged with a decline in construction activities.
- Shares of the services sector of GDP declined to 46.5 per cent in 2021 from 54.7 per cent in 2020.

*Inflation:*

- Overall inflation has increased from 4.2 per cent in August 2021 to 17.9 per cent in June 2022, with increased prices in food articles from 2.9 per cent to 26 per cent impacting heavily on the ordinary Afghan who now spends 60 to 70 per cent of their incomes on food purchases.
- Fuel prices have doubled, exerting upward pressure on prices of both food and non-food items.

*Exchange Rate:*

- Afghan currency (AFN) depreciated sharply in the immediate weeks after August 15 due to Political Changes. The AFN depreciated by 23 per cent from AFN 81 per dollar in August 2021 to AFN 105 per dollar in January 2022. However, the exchange rate appreciated subsequently and has been holding steady since February 2022 at about AFN 89 per dollar as of July 2022.
- The freeze on Afghanistan Bank's foreign reserves by the US has practically led to financial paralysis throughout the country.
- Between December 2021 and 9 May 2022, the UN transferred \$825.6 million in cash that was distributed directly to 19 different UNO agencies, funds or programs, the world bank, and 15 international non-governmental organizations in Afghanistan to help stabilize the economic activity.

*Banking Financial Sector:*

- After the sudden stop of international aid flows and international sanctions, banks have been facing liquidity shortages and restrictions on deposit withdrawals and wire transfers
- The total number of Bank branches in the country fell from 410 to 370.
- Lending has nearly stopped due to the banks' inability to collect on outstanding loans and a lack of clarity regarding new regulations.
- To manage the Banking crisis after August 2021, DAB encouraged Banks to extend credit maturities and provide flexibility regarding loan provisioning.

- Foreign companies and banks have limited their transactions with Kabul to avoid non-compliance with international sanctions, limiting transactions for traders making way for the Hawalan market.
- After the initial shock and in the absence of basic Banking operations, the MSPs or Hawladars recovered quickly and facilitated the informal flow of money in and out of the country which also facilitated international transfers including for imports and transactions by NGOs.

#### *Microfinance Sector:*

- The microfinance sector has also faced the brunt and has been nearly halved from AFN 9.5 billion to AFN 4.4 billion since August 2021.
- The number of microfinance institutions has reduced from 10 to 6 harming the prospects for micro-enterprises.
- The proportion of women clients has dropped from 56 per cent of total clients to 29 per cent.

#### *Regional Trade:*

- Imports have fallen in 2022 resulting in corresponding improvements in the trade balance, though the reduction in total imports reflects both a contraction in aggregate demand as well as financial system bottlenecks due to the crisis.
- Total exports in the first quarter of 2022 were higher than the previous two years and the expected to surpass \$1 billion this year.
- This increase is predominated by coal exports to Pakistan which increased from \$ 9.5 to \$146 million.

#### *Food Insecurity:*

- The lingering impact of protracted conflict and forced displacement has led to nearly 11 million people on average experiencing acute food security since 2018.
- The economic shock has led to a sharp increase in high and critical levels of acute food insecurity in September and October 2021.

- The average number of people facing acute food security jumped to 18.8 million in 2021.
- The ongoing war in Ukraine has also worsened an already difficult situation with further increases in food, fuel, and fertilizer prices.
- Hospital admission of children less than five years has increased to more than 50 per cent in the period of January – June 2022.

#### *Malnutrition:*

- On the nutritional scale, Afghanistan has worsened due to the drastic decrease in the socio-economic situation and the change in the political situation.
- UNICEF estimated that 1.1 million children may suffer from severe acute malnutrition, nearly double the number in 2018 and up from just fewer than 1 million last year.

#### *Internal Displacement:*

- The economy is expected to shrink dramatically in 2022 by up to 20 per cent, which combined with food inflation and drought conditions will further give rise to poverty and result in internal displacement and movement to urban centers.
- Since 2021 there have been 6.4 million Internally Displaced People. This level of population movement is primarily driven out of food security and at the same time puts pressure on resources.
- Since 2021 more than 2.5 million Afghans have moved abroad while 1.1 million have returned.

#### *Unemployment:*

- Afghanistan has been going under a severe job crisis since August 2021 an outcome of overall macroeconomic conditions that thwart future economic recovery.
- Moreover, the decision to curb women's access to work has caused a further steep reduction in GDP of up to \$1 billion as more than half a million jobs were lost in Afghanistan between August 2021 and mid-2022.
- Urban areas were immediately affected as employment opportunities dried up as 80 per cent of Afghanistan's labor market is estimated to be in the informal sector.

- Key sectors including agriculture, the civil service, and the construction industry have been severely affected.
- There is a drastic shift to agriculture evident by the increase in the share of agriculture in GDP due to the absence of urban economic opportunities
- Women are being increasingly put out of work as opportunities are limited by the newly imposed restrictions on their economic participation.
- The move to restrict women from work has cost Afghanistan's economy up to \$1 billion or 5 percent of its GDP and is amongst the leading reasons for a harsh impact on poverty across the country.
- In the private sector, several organizations have reduced the number of female staff due to a financial crunch, indirect coercion, or as a precautionary measure to avoid controversy.
- Women-owned businesses are among the worst affected with an estimated closure of 42 per cent of women-owned businesses.

*Public Sector Employment:*

- A total of 1 million men and women workers have been heavily affected in the public administration and social services sector.
- The justice system at large has been dismantled due to the disproportionate disadvantage of women both in terms of limiting their access to justice and reducing their employment.
- The Ministry of Women's affair was abolished and replaced by the Ministry for Propagation of Virtue and the Prevention of Vice, along with abolishing the Afghanistan Independent Human Rights Commission, the oversight of the implementation of the Constitution Commission, and the Secretariat of the upper and lower houses of the Parliament.
- The previous independent Administrative Reform and Civil Service Commission was downsized and merged with the De Facto Office of Administrative Affairs.
- Secondary education of Girls continues to be severely curtailed in most provinces, and the education sector as a whole has decimated women's employment.

The report leaves little to the imagination of the plight of an ordinary Afghan as it provides a dark snapshot of the current socio-economic reality of the country. With decades of war and violence and

the current Pandora's box of problems, Afghanistan is facing challenges on all fronts; its economy is in shambles, unemployment is on a rise, food insecurity is prevalent, with depreciating space for women and girls. Afghanistan is nothing short of a humanitarian emergency that requires attention from all.