



Economic Brief

Afghanistan – Economic realpolitik needs to address the acute food and health crises and preserve chances to achieve economic and social progress

By Hans Holzhacker
Chief Economist, CAREC Institute

14 October 2021

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Central Asia Regional Economic Cooperation (CAREC) Institute
No. 376 Nanchang Road, Urumqi, Xinjiang, the PRC
f: +86-991-8891151

[LinkedIn](#)

km@carecinstitute.org

www.carecinstitute.org

Afghanistan – Economic realpolitik needs to address the acute food and health crises and preserve chances to achieve economic and social progress

The taking over of power by the Taliban has fundamentally changed the political, social, and economic circumstances in Afghanistan and in the CAREC region. This Economic Brief provides data on demography, employment, GDP, and the external sector that show that without international support Afghanistan is likely to suffer severe shortages in all spheres. Imports are set to contract because grants and foreign exchange reserves are frozen, and even if resumed, unlikely to reach previous levels. While the crisis of legitimacy and concerns over rights of ethnicities and women occupied most of media and policy space, dimensions of a related and far larger emerging humanitarian crisis are becoming clear, which can have grave consequences for the country and the region.

To avoid an economic meltdown, soaring unemployment, a possible famine, and a dramatic deepening of the health crisis brought about by COVID-19, the new de-facto authorities of the country and the international community need to come to solutions that secure the basic needs of the population. International organizations such as the UN, the SCO, perhaps also the CAREC program, and international non-government organizations should play a major role in this¹.

“Job losses, lack of cash and soaring prices are creating a new class of hungry in Afghanistan. 14 million Afghans – or one in three – were already facing severe hunger, and now 95% of families are not consuming enough food....Acute malnutrition is above emergency thresholds in 27 out of 34 provinces, and is expected to worsen, with almost half of children under 5 and a quarter of pregnant and breastfeeding women needing life-saving nutrition support in the next 12 months”, the World Food Programme has warned².

Longer term, to preserve Afghanistan’s chances to lift people out of poverty, ways need to be found for bolstering production in the country and for developing exports that could pay for imports. This will require protection of FDI, improved connectivity, and the full resumption of the education system so that a sufficiently educated work force is available for the economy and for the administration of the country.

¹ The international community has already begun to act. While overall EU development aid to Afghanistan remains frozen, the EU announced a support package of EUR 1 billion “for the Afghan people and neighboring countries, addressing the urgent needs in the country and the region” during the G20 meeting on Afghanistan.

https://ec.europa.eu/commission/presscorner/detail/en/ip_21_5208. Prime Minister Kishida Fumio said Japan will provide Afghanistan with humanitarian aid worth about USD 190 million until the end of 2021 through international organizations. https://www3.nhk.or.jp/nhkworld/en/news/20211013_04/

The PRC pledged RMB 200 million (USD 31 million) worth of grains, winter supplies, vaccines and medicines, including 3 million doses of COVID-19 vaccines, and promised to continue to provide more material and technical support. <https://www.globaltimes.cn/page/202109/1233737.shtml>.

The United States is providing nearly USD 64 million in new humanitarian assistance to the people affected by the ongoing humanitarian crisis in Afghanistan, mostly via UN organizations such as UNHCR.

<https://www.state.gov/the-united-states-announces-additional-humanitarian-assistance-for-the-people-of-afghanistan/>.

International organization such as UNHCR, the World Food Programme, and others are also intensifying their aid campaigns.

² <https://www.wfp.org/emergencies/afghanistan-emergency>

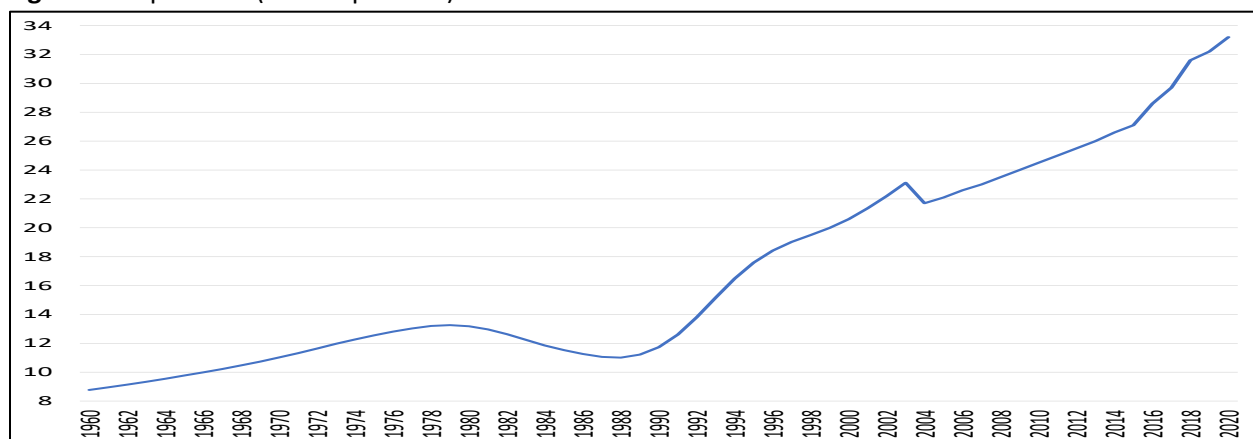
Employment was low even before the current turbulences, especially among women, and unemployment high, especially among the youth. Agriculture is plagued by draughts, while still 75% of the population live in rural areas. Successful urbanization, providing employment opportunities, and adequate schooling is paramount for developing the economy and for offering prospects for a better life.

The building of a stable new administration that can successfully serve the economic and social development of Afghanistan is a difficult task. Statehood must secure a minimum of centralization while the role of regions, local communities and different ethnicities have also to be taken into account. The governance of the state, but also of large national or international projects must be structured accordingly. Conflicts within the country, within the new elite, and between the Taliban and the international community are to be expected. However, economic realpolitik³ both by Afghanistan's new de-facto authorities and the international community is needed to address the acute food and health crises as priorities. Main issues requiring long term attention to overcome the pressing challenges and to preserve chances to achieve economic and social progress are insufficient schooling, especially of girls, low productivity, climate change and water scarcity, low digitalization, and poor connectivity.

Population: young and mostly rural

Afghanistan's population has been growing fast and is very young. The population tripled from 11 million to 33 million between 1988 and 2020 (Figure 1). Before, during the period of 1980 to 1988, the population had shrunk due to high mortality and emigration caused by the Soviet–Afghan war. Due to high birth rates and the fast rise of the population since, almost one-half of the population is under 15 years old now (Table 1). This young population is in urgent need for better schooling, opportunities for higher education, and for brighter employment prospects.

Figure 1: Population (million persons)



Source: TradingEconomics, chart by the author

³ "Realpolitik ... is politics or diplomacy based primarily on considerations of given circumstances and factors, rather than explicit ideological notions or moral and ethical premises. In this respect, it shares aspects of its philosophical approach with those of realism and pragmatism." <https://en.wikipedia.org/wiki/Realpolitik>

Table 1: Under 15 years old Population (%)

	2018	2019	2020
Total	47.8	47.7	47.2
Urban	42.9	42.9	42.9
Rural	49.0	49.0	48.5
Nomadic	53.7	52.2	51.5

Source: The National Statistics and Information Authority of Afghanistan (NSIA)

Table 2: Population (%)

	2018	2019	2020
Total	100.0	100.0	100.0
Male	50.6	50.9	51.1
Female	49.1	49.1	48.9
Urban	23.7	24.2	24.3
Rural	71.5	71.4	71.1
Nomadic	4.7	4.7	4.6

Source: The National Statistics and Information Authority of Afghanistan (NSIA)

The share of rural population is still very high in Afghanistan. More than 70% of the population live officially in rural areas, and about 5% are nomads (Table 2). Only about one-quarter of the population are urban residents. Kabul, the capital and largest city, had about 4.2 million inhabitants in 2019, according to NSIA data. The number of inhabitants of other major cities is below one million: Kandahar (614,300), Herat (556,200), Mazar-i-Sharif (469,200), Jalalabad (356,500), Kunduz (263,200), Taloqan (253,700), Puli Khumri (237,900), Ghazni (183,000), and Khost (153,300). However, official data might underestimate the urban population. Accelerated migration to urban areas because of deteriorating living conditions in rural areas and the civil war might have resulted in large numbers of unregistered persons in the cities.

Living in a substantial share of rural areas has become even more challenging than before. And remedies – often with good intentions – such as solar power equipment, for example, are not always as straight forward as one might think. “More recently farmers have taken to combining both diesel and solar powered technology in order that they can pump water 24 hours a day, further raising concerns about the unregulated nature of the settlement of these desert areas and the use of the groundwater.... Farmers in the desert are the first to express their fears for the future. Conscious of the falling groundwater many talk of the risks solar technology poses to the livelihoods of those currently living in the desert. As one farmer deep in the deserts of Bakwa exclaimed ‘the solar will finish the water and our lives here’, and there are already signs of growing levels of internal migration within the desert areas.... The impact of the loss of livelihood of the 1.5 million people who currently live in these former desert areas will be felt far beyond the southwest. The spillover effects are likely to effect the cities of Afghanistan, as well...”⁴

To be able to feed the large number of young and still growing population the productivity of agriculture has to be enhanced. However, in the last two decades, Afghanistan has experienced many droughts, and 2021 is no exception. Half of Afghanistan’s agricultural land depends on spring rainfall, which has become less reliable because of climate change. Since 1950 Afghanistan’s mean annual temperature has increased

⁴ <https://areu.org.af/when-the-water-runs-dry/>

by 1.8°C⁵. Investments in water economy and higher draught resilience are urgently needed. At the same time the need for successful urbanization and providing urban employment opportunities is pressing and will become even more so in future.

Afghanistan is a multiethnic society, and multiethnicity strongly affects administrative structures and political loyalties and dynamics in the country. Ethnicities include Pashtuns, Tajiks, Hazara, Uzbeks, Aimaks, Turkmen, Balochs, Pashai, Nuristani, Arab, Brahui, Pamiri, Gujjar, Qizilbash, and others. No ethnic group accounts for more than 50% of the population. Both the Taliban back in the year 2001 and the Ashraf Ghani government in 2021 lost power not least because they were not able to successfully combine the centralization of the state with the inclusion of local community leaders and preserving an inter-ethnic balance. Finding a balance that all ethnicities regard as acceptable is a precondition for achieving political and social stability in Afghanistan.

Emigration: living conditions and regulations in Afghanistan and abroad have caused and might continue to cause periods of high emigration and periods of substantial repatriation

Emigration has had a significant impact on Afghanistan's population dynamics. Between 1975 and 1990, during the Soviet war, net emigration surged, with a peak in 1980-1985 (Figure 2). In the 1990-1995 period a substantial number of emigrants returned to Afghanistan, there was a net migrant inflow of 3.1 million persons, according to UN DESA data⁶. The number of Afghans living outside of Afghanistan fell to 4.3 million persons in 1995 from 7.7 million in 1990, subsequently re-increasing to 5.9 million by 2020 with some volatility in-between. Emigration has been predominantly to Pakistan and Iran. As of December 2020, Pakistan hosted 1.4 million registered Afghan refugees and Iran hosted 780,000. Estimates suggest that on top of these figures another 1 million unregistered Afghans live in Pakistan and more than 2 million in Iran⁷. Europe has been a significant destination for Afghan migrants as well, but the approval of asylum claims has become very restrictive since 2002. Turkey is an important transit country for migration of Afghans to Europe, often irregular, but Turkey is also a host country itself.

Repatriation of emigrants back to Afghanistan was substantial in some periods, depending on the political and economic situation in Afghanistan, and on the policies of the host countries. Data from the National Statistics and Information Authority of Afghanistan (NSIA) show a total of 734 thousand documented repatriated persons during 2011-2020, of which 675 thousand came back from Pakistan, and 58 thousand from Iran (Table 3).

Future migration flows and the role the diaspora can play for the development of Afghanistan will depend on the conditions both in Afghanistan and in host countries. Living conditions and regulations in Afghanistan and abroad have strongly influenced migration streams. It remains to be seen what policies in and outside Afghanistan will be applied now. The diaspora could contribute to Afghanistan's development and be a source of international cooperation, but much will depend on the willingness of

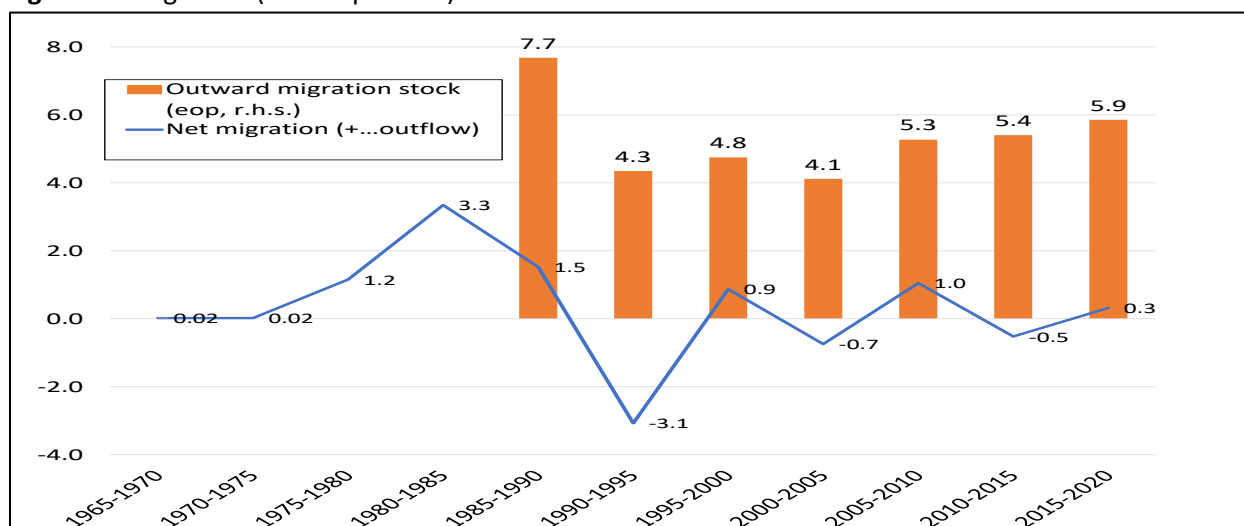
⁵ https://climate-security-expert-network.org/sites/climate-security-expert-network.com/files/documents/csen_climate_fragility_factsheet_-_afghanistan.pdf

⁶ <https://www.un.org/development/desa/pd/data/international-migration-flows>

⁷ <https://www.migrationpolicy.org/article/taliban-takeover-new-refugee-crisis-afghanistan>

Afghanistan's new de-facto authorities and those of the host countries to exploit this potential by offering conducive conditions.

Figure 2: Emigration (million persons)



Source: United Nations Department of Economic and Social Affairs (UN DESA), chart by the author

Table 3: Repatriation of Documented Migrants by Countries (persons)

	Total			Pakistan			Iran			Other Countries		
	Both Sexes	Female	Male	Both Sexes	Female	Male	Both Sexes	Female	Male	Both Sexes	Female	Male
Total	734,058	369,245	364,813	674,751	339,564	335,187	57,860	28,927	28,933	1,447	754	693
2011	67,962	34,074	33,888	48,998	24,618	24,380	18,851	9,406	9,445	113	50	63
2012	94,556	47,457	47,099	79,435	39,770	39,665	15,035	7,647	7,388	86	40	46
2013	38,766	19,781	18,985	30,388	15,668	14,720	8,247	4,052	4,195	131	61	70
2014	16,995	8,752	8,243	12,257	6,546	5,711	4,512	2,093	2,419	226	113	113
2015	58,460	30,152	28,308	55,422	28,720	26,702	2,881	1,344	1,537	157	88	69
2016	372,577	185,088	187,489	370,102	183,782	186,320	2,290	1,207	1,083	185	99	86
2017	58,817	30,237	28,580	57,411	29,470	27,941	1,202	647	555	204	120	84
2018	15,699	8,278	7,421	13,584	7,166	6,418	1,964	1,027	937	151	85	66
2019	8,079	4,384	3,695	6,062	3,307	2,755	1,939	1,038	901	78	39	39
2020	2,147	1,042	1,105	1,092	517	575	939	466	473	116	59	57

Source: The National Statistics and Information Authority of Afghanistan (NSIA)

Employment: low participation rates, high youth unemployment

Employment participation rates⁸ are very low in Afghanistan, especially among women, while youth unemployment is very high. At 7.0 million the share of employed persons⁹ in the labor force was 41.9% in 2019-20 (Table 4). The ratio of employed persons to the population was only 34.1%, and in urban areas

⁸ Persons over 14 years old who were economically active (employed, unemployed, or underemployed) one week before the survey

⁹ Persons over 14 years old who were in paid employment or self-employed and who worked at least eight hours one week before the survey.

a mere 27.6%. Out of Afghanistan's female population of 16.1 million, only 1.4 million were employed, of which 232 thousand in urban areas. Only 5.6% of the urban female population was thus employed, even before the Taliban took over. Not only are participation rates low, but 21.8% of the employed persons were estimated to be underemployed¹⁰. Youth unemployment was 23.7% in 2019-2020¹¹. As many as 25.0% of the male and 54.6% of the female young urban labor force was unemployed.

Table 4: Employment Indicators (%)

	2016 - 17			2019 - 20		
	Total	Male	Female	Total	Male	Female
Labor Force Participation Rate						
	53.9	80.6	26.8	41.9	68.4	41.9
	48.0	75.9	20.5	34.9	60.2	34.9
	54.9	81.5	27.6	43.9	71.0	43.9
	72.4	93.2	50.5	53.6	78.6	53.6
Employment - to Population Ratio						
<i>Total</i>	41.0	65.8	15.8	34.1	58.0	11.2
Urban	35.3	61.9	8.9	27.6	50.1	5.6
Rural	41.7	66.0	16.8	35.8	60.2	12.6
Nomad	63.5	85.4	40.3	47.5	71.7	22.9
Underemployed as Percentage of the Employed						
<i>Total</i>	20.5	19.7	23.9	21.8	20.6	27.4
Urban	11.9	23.2	10.3	10.7	9.3	23.1
Rural	22.6	22.8	22.0	25.8	25.1	29.0
Nomad	26.3	21.5	37.0	13.3	11.5	19.1
Youth Unemployment Rate						
<i>Total</i>	30.9	24.3	47.4	23.7	19.4	36.3
Urban	39.1	30.2	62.3	31.3	25.0	54.6
Rural	29.6	23.9	45.8	22.3	18.3	33.7
Nomad	13.3	10.0	22.5	15.2	12.9	20.8

Source: The National Statistics and Information Authority of Afghanistan (NSIA), Afghanistan Living Conditions Survey 2016 - 17 and Income and Expenditure & Labor force Surveys 2019 - 20

Table 5: Employed Population by Sector (%)

Sector	2016 - 17	2019 - 20
Total	100.0	100.0
Agriculture	44.6	45.7
Public, Social and personal Services	19.7	16.7
Wholesale and Retail Business, Restaurants and Hotels	11.0	10.8
Construction	9.7	9.5
Industry	8.0	8.2
Transport, Warehouse, Communications and Information	5.7	7.0
Finance, Insurance, Property Dealing and Business Services	1.0	1.2
Mining	0.2	0.8
Electricity, Gas and Water	0.1	0.1

Source: The National Statistics and Information Authority of Afghanistan (NSIA)

Agriculture still accounts for the largest share of employment. It employs 45% of the labor force (Table 5). Public, social and personal services come in second with almost 17%, trade and restaurants third with 11%. Agriculture, personal services, trade and restaurants have a high share of small businesses (with

¹⁰ The national standard for underemployment in Afghanistan is to work less than 40 hours a week.

¹¹ Persons over 14 years old who were without work or working less than eight hours and were seeking work.

often poor work conditions). To develop these businesses, provide new employment opportunities, including for women, and increase productivity, they would need various kinds of support, including support for basic technological upgrading, e-commerce etc. They would also need better financing options, not least via micro-finance and fintech, under Taliban rule probably under Islamic-banking regulations. Permission by the Taliban and international support to develop these types of financing would help to develop Afghanistan's micro- and small enterprises with strong positive social implications.

Especially government workers might be strongly affected by the drying up of foreign grants. According to NSIA data, there was a total of 415 thousand government workers employed or contracted in 2020, of which 107 thousand were females. Somewhat more than one-quarter, 119 thousand, worked in Kabul, the rest in provinces.

Education: low school attendance and literacy rates, especially among the rural and nomadic population

School attendance is low and falling in Afghanistan. At a gross secondary school enrollment ratio of 53.6%, Afghanistan ranked 133rd among 157 countries with data availability for 2016-19, according to World Bank data ¹². Actual attendance was at 39.9% for both sexes and 29.5% for women in 2020 even lower (Table 6). The attendance ratio in tertiary education was 7.7% for both sexes and 4.9% for women in 2020. Afghanistan ranked 109th among 117 countries with data availability for the attendance ratio in tertiary education in 2018. The number of students in higher education institutions, both governmental and private, was 388 thousand, of which 279 thousand were males and 109 thousand females.

Table 6: Education Indicators (%)

	2016			2020		
	Both Sexes	Male	Female	Both Sexes	Male	Female
Gross Attendance Ratio* in Secondary Education						
<i>Total</i>	48.0	63.0	32.2	39.9	50.4	29.5
Urban	69.2	79.5	58.8	56.9	62.3	51.3
Rural	42.5	60.7	23.2	35.4	48.5	22.6
Nomadic	2.6	4.6	0.0	1.7	3.0	0.4
Gross Attendance Ratio in Tertiary Education*						
<i>Total</i>	14.1	20.6	8.0	7.7	10.9	4.9
Urban	27.3	34.9	20.4	13.2	16.3	10.4
Rural	9.6	16.1	3.3	5.8	9.1	2.8
Nomadic	0.2	0.5	0.0	0.7	1.4	0.0

* Number of students attending a given level of education at any time during the reference academic year, regardless of age, expressed as a percentage of the official school-age population corresponding to the same level of education. For the tertiary level, the population used is the 5-year age group starting from the official secondary school graduation age.

Source: Living Conditions Survey & Income and Expenditure and Labor Force Surveys, The National Statistics and Information Authority of Afghanistan (NSIA)

¹² <https://data.worldbank.org/indicator/SE.SEC.ENRR> "Gross enrollment ratio is the ratio of total enrollment, regardless of age, to the population of the age group that officially corresponds to the level of education shown. Secondary education completes the provision of basic education that began at the primary level, and aims at laying the foundations for lifelong learning and human development, by offering more subject- or skill-oriented instruction using more specialized teachers."

As result of low school attendance, literacy is also low. Despite some gains, literacy rate remains low, with a pronounced bias disfavoring females, rural and nomad populations. The adult literacy rate reached only 36.1%, of which 50.4% for men and 21.7 for women in 2020 (Table 7). Among the nomadic population the overall rate was 6.5% and for women 0.9%. Youth literacy was higher, but still only 54.0% for both sexes, and 40.1% for women.

Table 7: Literacy Indicators (%)

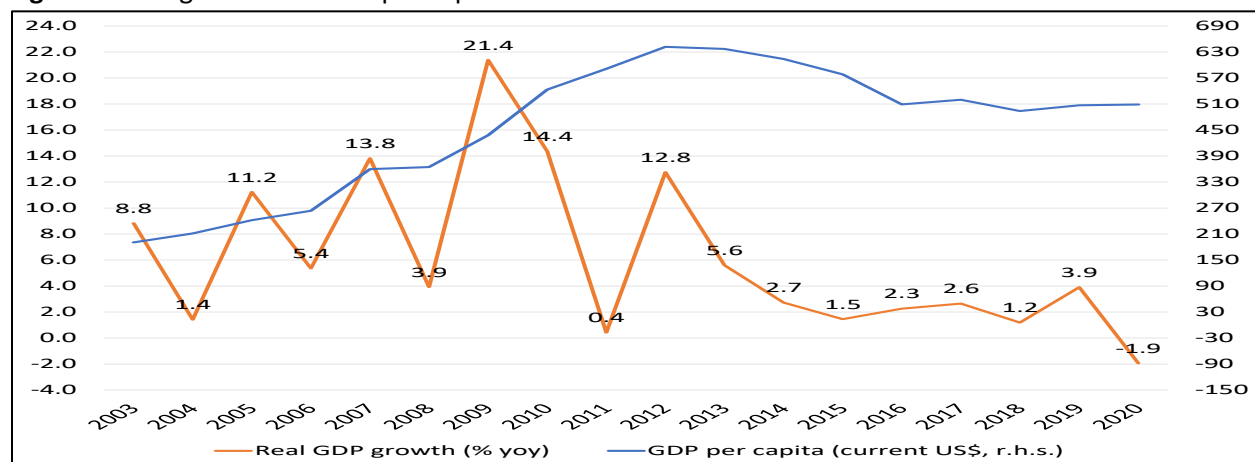
	2016			2020		
	Both Sexes	Male	Female	Both Sexes	Male	Female
Adult literacy Rate (15 years of age and over)						
<i>Total</i>	34.8	49.4	19.9	36.1	50.4	21.7
Urban	53.7	66.8	40.8	53.6	67.2	40.1
Rural	29.6	45.6	13.1	30.9	46.1	15.8
Nomadic	5.8	10.6	0.7	6.5	11.8	0.9
Youth literacy Rate (15-24 years of age)						
<i>Total</i>	53.6	68.2	38.7	54.0	68.8	40.1
Urban	75.1	83.0	67.3	74.3	83.7	65.3
Rural	47.9	66.1	29.2	48.1	65.9	31.7
Nomadic	7.0	12.2	1.2	5.4	9.6	1.3

Source: Living Conditions Survey & Income and Expenditure and Labor Force Surveys, The National Statistics and Information Authority of Afghanistan (NSIA)

GDP: growing slowly during the last ten years, net imports are very high, GDP per capita is very low

Limited gains in productivity as the real exchange rate slightly weakened kept GDP in current USD little changed during the last decade, and GDP per capita among the lowest globally. Real GDP growth was high though very volatile until 2012 but leveled off then and turned negative in 2020 (Figure 3). GDP at current USD stood at 19.8 billion in 2020, a bit less than the USD 20.0 billion of 2012. GDP per capita declined from a peak of USD 630 in 2012 to even lower USD 509 in 2020, making Afghanistan rank 201st among 207 countries and international territories, according to World Bank data.

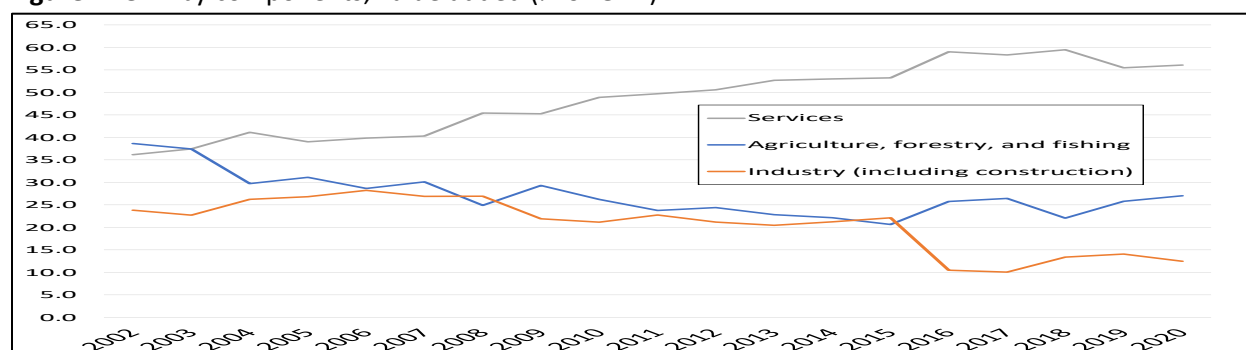
Figure 3: GDP growth and GDP per capita



Source: World Bank, World Development Indicators, chart by the author

GDP generation shifted towards services until 2016 as agriculture and industry were on a downward trend, with little change since; the contribution of mining has remained below 2%. Value added in services accounts for as much as 56% of GDP now (Figure 4). Within services, “other services” and trade are the largest subsectors (Table 8). Value added in agriculture accounted for 39% of GDP in 2002, fell to a low of 21% of GDP until 2015. It re-rose to 27% of GDP in 2020 (compared to 75% rural population and 45% of employment in agriculture), but water scarcity and draughts will make sustained growth difficult. Within agriculture, growing of cereals is most important, followed by fruits and livestock. The share of industry showed a tendency to fall since 2006 and accounted for 12.5% of GDP in 2020. Manufacturing is the largest subsector of industry, producing 6% of GDP in 2020. Although Afghanistan is rich in natural endowments, mining generates less than 2% of GDP.

Figure 4: GDP by components, value added (% of GDP)



Source: World Bank, World Development Indicators, chart by the author

Table 8: Sectoral Contribution to GDP (current prices, %)

	2018	2019	2020
GDP at Market Prices	100	100	100
Agriculture	22.04	25.77	27.01
Cereals	7.96	9.43	9.92
Fruits	4.02	4.96	5.22
Livestock	3.32	2.89	3.04
Others	6.74	8.49	8.84
Industry	13.39	14.06	12.47
Mining & Quarrying	1.91	1.89	1.56
Manufacturing	6.16	7.04	5.96
Food and Beverages	4.21	5.08	4.04
Non-Food Manufacturing	1.95	1.97	1.92
Electricity, Gas and Water	1.71	2.04	1.79
Construction	3.60	3.09	3.16
Services	59.48	55.47	56.07
Wholesale & retail trade	7.47	7.44	7.16
Transport, Repair of Motor Vehicles & Storage	5.74	5.34	6.83
Restaurants & hotels	3.46	3.12	2.52
Post and telecommunications	3.55	3.03	3.70
Finance and Insurance	1.89	1.85	1.46
Real Estate	7.61	6.43	6.24
Education	3.46	2.52	2.10
Health and Social Services	6.25	6.24	6.82
Other Services	20.06	19.51	19.23
Import Duties	5.09	4.70	4.45

Source: The National Statistics and Information Authority of Afghanistan (NSIA)

A substantial part of consumption and investment is made possible by imports, the value of which significantly exceeds the value of exports. In 2020, household consumption absorbed 86.6% of GDP, and government and non-profit organization consumption 18.0% and 2.5% of GDP, respectively, summing up to total final consumption equivalent to 107.1% of GDP (Table 9). Investment accounted for another 11.9% of GDP, of which only 6.7% was non-government. Total domestic absorption was thus 119% of GDP. Net imports equivalent to as much as 19.0% of GDP had to cover the difference between domestic production and absorption. Net imports covered an even larger share of domestic absorption, more than 30%, in 2019.

Table 9: Gross Domestic Product by Expenditures (current prices, % of GDP)

Category	2018	2019	2020
Gross Domestic Product	100.0	100.0	100.0
Final Consumption	108.4	119.9	107.1
Household Consumption	85.9	91.3	86.6
Government Consumption	19.9	24.2	18.0
NPISH Consumption	2.6	4.3	2.5
Gross Capital Formation (GCF)	15.1	11.6	11.9
GCF General Government	6.0	5.2	5.2
GCF non-government	9.1	6.4	6.7
Net exports	-23.5	-31.5	-19.0
Exports free on board	16.7	12.2	13.4
Imports free on board	40.2	43.6	32.5

Source: The National Statistics and Information Authority of Afghanistan (NSIA)

Table 10: Poverty Indicators (%)

	2012	2016	2020
Poverty Rate (Cost of Basic Needs Approach)			
<i>Total</i>	38.3	54.5	47.3
Urban	24.6	41.6	46.9
Rural	41.6	58.2	46.7
Nomadic	52.3	64.1	57.7
Total Food Insecurity Rate			
<i>Total</i>	32.8	44.6	36.9
Urban	35.2	42.1	46.2
Rural	32.4	46.2	33.8
Nomadic	27.8	32.3	35.2
Very Severe Food Insecurity			
<i>Total</i>	9.5	13.4	14.0
Urban	9.3	12.9	21.7
Rural	9.6	14.0	11.5
Nomadic	7.8	8.1	11.6

Source: ALCS 2012, 2016 and IE & LFS 2020, The National Statistics and Information Authority of Afghanistan (NSIA)

High poverty and food insecurity rates

As the result of extremely low GDP per capita, poverty is very common in Afghanistan. With an average poverty rate¹³ of 54% in 2016-19, Afghanistan was the 5th poorest country among the 103 countries with

¹³ The percentage of population for which the food and nonfood expenditure is under the officially poverty line. The poverty line at the national level according to the IE&LFS 2020 was 2268 Afghani per person per month.

data availability for this period, according to World Bank data¹⁴. The poverty rate slightly declined in 2020, but at 47.3% still almost one-half of the population was living below the national poverty line (Table 10). More than one-third of the population, 36.9%, experienced food insecurity, and as much as 46.2% of the urban population. Very severe food insecurity experienced 14% of the population. As mentioned above, food insecurity has soared to even much higher percentages in recent weeks.

Government finances: strong dependency on foreign funding

Domestic revenues were able to finance only one-third to one-half of Afghanistan's budget in recent years. Afghanistan's National Budget is divided into an operating budget and a development budget. The operating budget was equivalent to about 20% of GDP and the development budget to about 10% of GDP in 2020 (Table 11). Domestic revenues were sufficient to finance about one-half of the national budget in 2019, and about one-third in 2020. The rest was financed by external grants and by deficits of 0.9% of GDP in 2019 and 3.4% of GDP in 2020, paid from government accounts with the central bank. Due to the economic contraction since, the domestic tax basis has certainly shrunk substantially further.

Table 11: National Budget (% of GDP)

	2018	2019	2020
Total National Budget	30.5	28.9	30.2
Operating budget*	21.4	20.2	19.6
Wages and salaries	13.3	13.7	13.5
Development budget**	9.1	8.6	10.6
Domestic revenues	12.4	14.2	11.7
External financing***	17.6	13.8	15.1
Total national budget balance	-0.5	-0.9	-3.4

* For wages and salaries, purchases of goods and services, transfers, subsidies, pensions, capital expenditures, interest payments

** For infrastructure and natural resources development, education, health, agriculture and rural development

*** Grants from the Afghanistan Reconstruction Trust Fund, Law and Order Trust Fund for Afghanistan, NATO Training Mission – Afghanistan, and others

Source: The National Statistics and Information Authority of Afghanistan (NSIA)

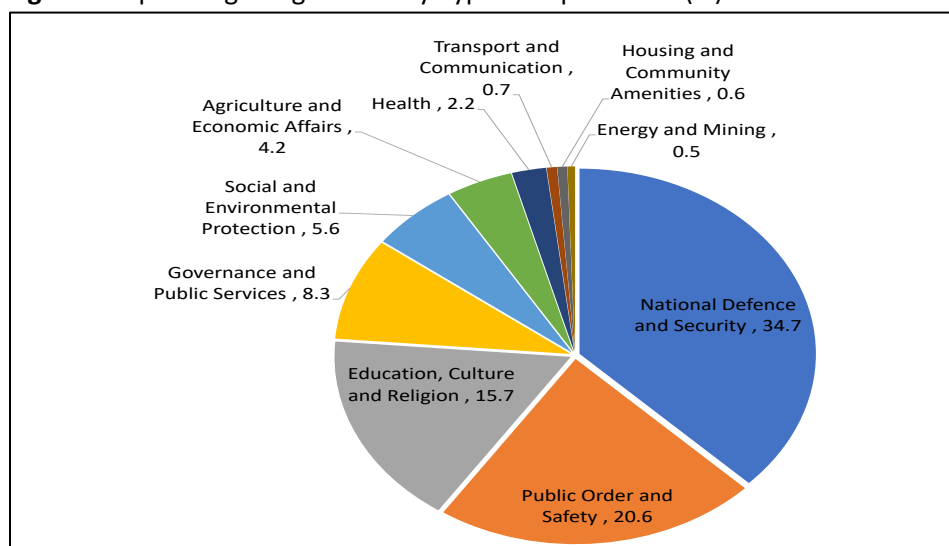
More than one-half of operating budget expenditures were dedicated to security. In 2020, 35% of operating budget spending went to “defense and security”, and 21% to “public order and safety” (Figure 5). Only slightly over 2% went to the health care sector, despite COVID-19 with 156 thousand officially registered infection cases since the beginning of the pandemic, some 7 thousand deaths, and a vaccination rate of only 5.95 administered doses per 100 people as of 8 October 2021.

Fiscal contraction due to the lack of external financing would further undermine health spending and social spending needed to mitigate hardship and food insecurity. Even if defense and security expenditures were substantially cut, the loss of external funding in the amount of about 50% of the national budget, and in some years more, will be felt. Resorting to central bank money printing to finance public services could help to some degree but bears the danger of additionally weakening the exchange rate (or the unofficial rate in case the official rate gets fixed) and fueling inflation, given the lack of foreign exchange and the huge trade deficit. The public services sector provided employment to 0.4 million civilian

¹⁴ https://data.worldbank.org/indicator/SI.POV.NAHC?locations=CO&view=map&year_high_desc=true

civil servants financed by the government and aid agencies. Cancelling of their employment will additionally increase unemployment.

Figure 5: Operating Budget 2020 by Type of Expenditure (%)



Source: The National Statistics and Information Authority of Afghanistan (NSIA), chart by the author

External sector: high trade deficit, strong dependence on official grants, large unexplained flows

Afghanistan's balance of payments is characterized by a very high trade deficit financed by official grants, remittances, and inflows from unexplained sources. In 2020, the balance of trade in goods and services was by USD 5.5 billion in deficit (Table 12), equivalent to about 28% of GDP. The deficit was paid by USD 1.8 billion in official grants, USD 0.5 billion in remittances, USD 0.8 billion in capital transfers, and an USD 0.3 billion inflow from other investment (loans, largely from the IMF). There was an additional foreign exchange inflow of USD 3.0 billion, which is not explained (errors and omissions). Part of this might be related to drug trafficking and other non-recorded activities. In sum the inflows not only financed the trade deficit, but also allowed for an increase in international reserves by USD 0.8 billion in 2020.

Afghanistan's external debt is relatively low compared to its international reserves, but the future funding of imports remains an open question. Largely as result of the incurrence of other investment liabilities (Table 12) Afghanistan's external debt rose from USD 2.0 billion to USD 2.3 billion in 2020. While this is equivalent to 154% of 2020 exports of goods and services (Table 13), the debt does not look very high compared to the USD 8.4 billion in net international reserves (Table 14). Reserves would be sufficient to pay for 14.4 months of imports of goods and services, if not frozen. However, about 95% of reserves are held offshore, mostly in the USA and in multilateral institutions and are frozen. And even if they were not, 14.4 months is only somewhat longer than one year, and exports can finance only a small part of imports as official transfers and capital transfers are likely to dry up. If no new sources of import financing are found, Afghanistan will experience a sharp import contraction with extremely adverse effects for the economy and the lives of the population.

Table 12: Balance of Payments, USD million

	2016	2017	2018	2019	2020
Current Account	-2,708	-3,555	-3,897	-3,792	-3,136
Credit	4,946	4,722	4,544	3,953	4,237
Debit	7,654	8,277	8,441	7,745	7,373
Goods and Services Account	-6,191	-6,804	-6,374	-5,855	-5,507
Credit	1,136	1,153	1,609	1,516	1,476
Debit	7,327	7,956	7,984	7,371	6,983
<i>Goods Account</i>	<i>-5,595</i>	<i>-5,932</i>	<i>-5,721</i>	<i>-5,294</i>	<i>-5,103</i>
Credit	614	784	875	864	777
Debit	6,209	6,716	6,596	6,158	5,880
<i>Services Account</i>	<i>-596</i>	<i>-871</i>	<i>-654</i>	<i>-561</i>	<i>-404</i>
Credit	522	369	734	652	700
Debit	1,118	1,240	1,388	1,213	1,103
Primary Income Account*	180	248	191	307	189
Credit	240	300	289	353	240
Debit	60	51	99	46	51
Secondary Income Account	3,303	3,000	2,287	1,756	2,182
Credit	3,570	3,270	2,645	2,085	2,521
Debit	266	270	358	328	339
Current transfers (Official grants)	3,033	2,614	1,950	1,331	1,798
Credit	3,033	2,614	1,950	1,331	1,798
Debit	0	0	0	0	0
Personal transfers (remittances)	422	555	501	570	531
Credit	537	656	694	753	722
Debit	115	101	193	184	191
Capital account	1,293	1,306	1,314	1,194	752
Credit	1,293	1,306	1,314	1,194	752
Debit	0	0	0	0	0
Capital transfers	1,293	1,306	1,314	1,194	752
Credit	1,293	1,306	1,314	1,194	752
Debit	0	0	0	0	0
Financial account**	693	472	520	60	584
Direct investment	-80	-40	-81	3	24
Net acquisition of financial assets	14	11	39	26	37
Net incurrence of liabilities	94	52	119	23	13
Portfolio investment	99	-30	143	-15	63
Net acquisition of financial assets	99	-30	143	-15	63
Net incurrence of liabilities	0	0	0	0	0
Other investment	30	-50	254	-29	-334
Net acquisition of financial assets	36	18	159	-37	-35
Net incurrence of liabilities	6	68	-95	-8	299
Change in reserve assets***	643	592	204	101	830
Net errors and omissions****	2,108	2,722	3,103	2,658	2,967

* Compensation of employees, investment income, ** +...outflow, -...inflow (for liabilities other way round),

+...increase, *+...inflow

Source: NSIA and DAB staff calculations, in line with IMF figures

Without sufficient external financing, the import contraction will affect basic products that are critical for running the economy and for feeding people, not to speak about medical supplies or investment goods. Goods exports have almost trippled between 2011 and 2019, largely thanks to higher exports of agricultural products, especially edible fruit and nuts (Figure 6). However, imports have remained about seven times higher (Figure 7). Imports are much more diversified than exports and reach from machinery over vehicles to pharmaceuticals, medical equipment to cereals and sugar, but imports of mineral fuels alone exceeded total exports in 2019 and most of the other years. Imports of milling products together with animal or vegetable fats did the same in many years as well. Foreign aid is thus indispensable in the

short term to provide basic necessities for avoiding a drastic further spike in poverty and food insecurity in Afghanistan.

Table 13: External debt, USD million

	2019	2020	% share
Total external debt	1,956.6	2,273.6	100.0
Bilateral	924.4	949.6	41.8
Paris Club	785.1	796.0	35.0
Russian Federation	785.1	796.0	35.0
Non-Paris Club	139.3	153.6	6.8
Multilateral	1,032.2	1,324.0	58.2
of which: IDA (World Bank)	337.1	345.5	15.2
Asian Development Bank	563.3	576.9	25.4
International Monetary Fund	87.7	359.6	15.8
Islamic Development Bank	42.7	40.5	1.8
OPEC Fund	1.5	1.5	0.1

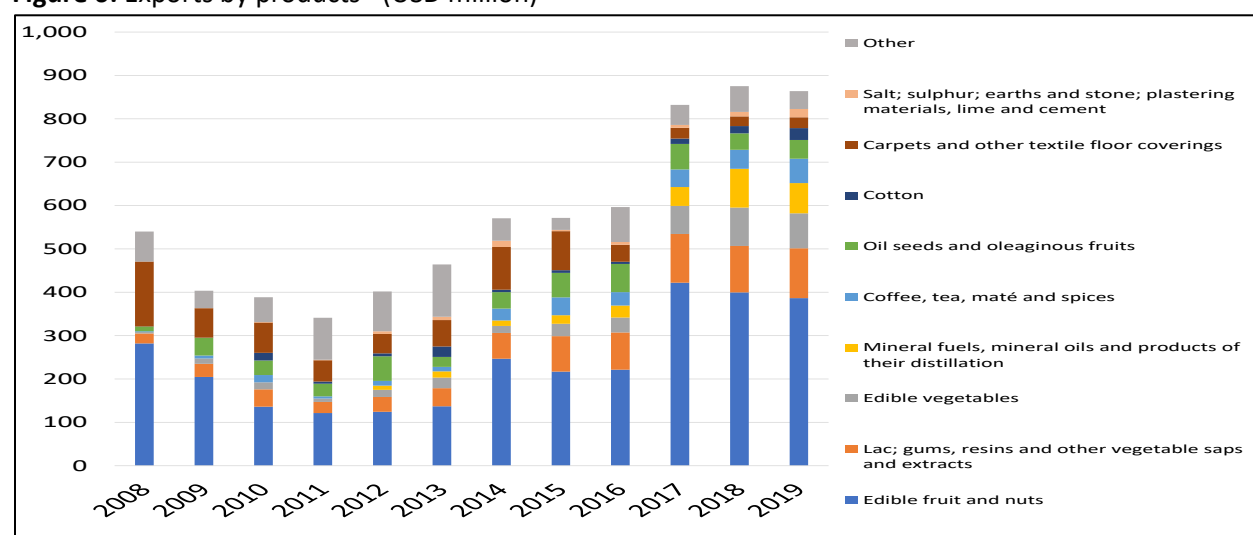
Source: MOF and DAB staff calculations

Table 14: International reserves, USD million

	2019	2020
Net international Reserves	7,846	8,399
<i>Net Intl. Reserves (in months of import of goods and services)</i>	<i>12.8</i>	<i>14.4</i>
Reserve Assets	8,502	9,478
Reserve Liabilities	656	1,079
Commercial bank deposits in foreign currency	600	694
Use of Fund resources	56	386
Gross Intl. Reserves	8,502	9,478
<i>Gross Intl. Reserves (in months of import of goods and services)</i>	<i>13.8</i>	<i>16.3</i>

Source: DAB staff calculations

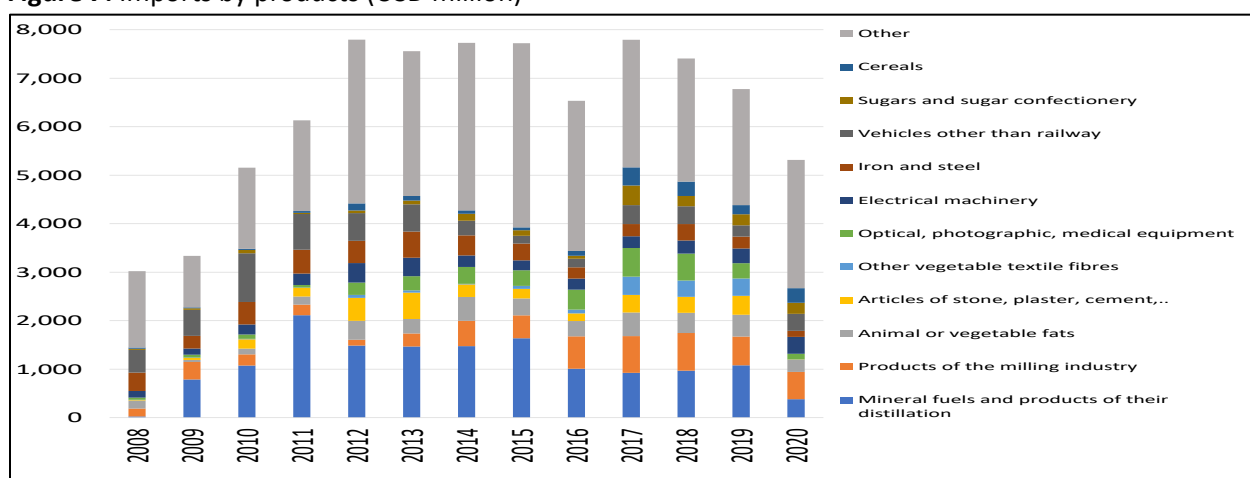
Figure 6: Exports by products* (USD million)



* Mirror statistic data for 2020 look unreliable and were omitted, chart by the author

Source: TradeMap, author's calculations

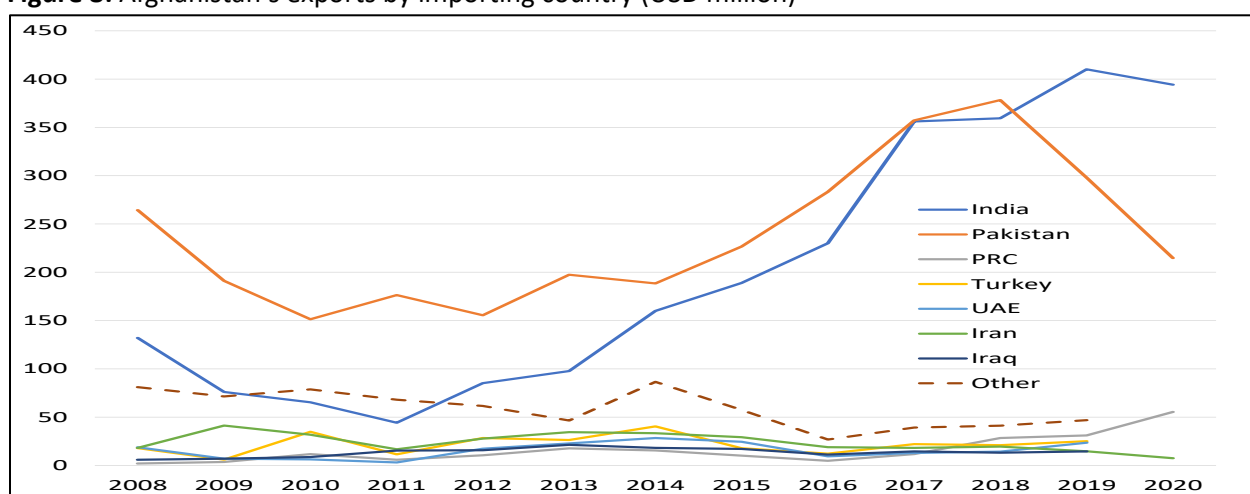
Figure 7: Imports by products (USD million)



Source: TradeMap, author's calculations, chart by the author

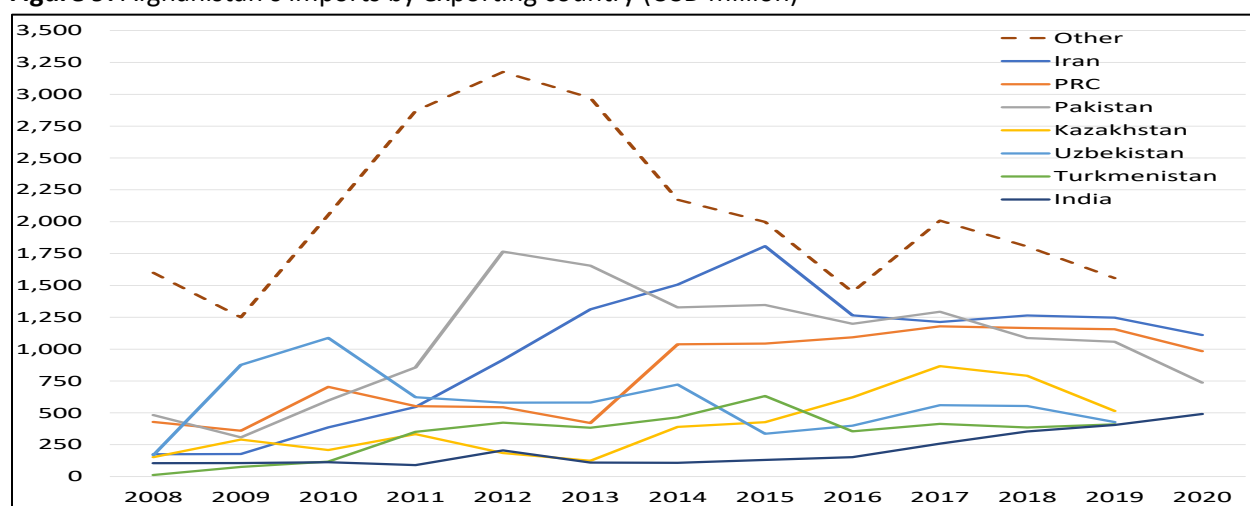
Afghanistan's trade is highly concentrated towards its neighbors and India. India and Pakistan accounted together for as much as 89% of Afghanistan's exports in 2019 and the increase in exports between 2011 and 2019 was owed particularly to higher exports to India and Pakistan (Figure 8). Seven countries, India, Pakistan, the PRC, Turkey, UAE, Iran, and Iraq accounted for 95% the country's exports in 2019. Imports are not only more diversified by product than exports, but also by countries of origin (Figure 9). Nevertheless, also for imports only three countries, Iran, the PRC, and Pakistan provided more than 50%, and seven countries, including also Kazakhstan, Uzbekistan, Turkmenistan, and India provided 77% of imports in 2019. To increase trade resilience, Afghanistan must more diversify its trade partners in the longer run, especially on the export side.

Figure 8: Afghanistan's exports by importing country (USD million)



Source: TradeMap, author's calculations, chart by the author

Figure 9: Afghanistan's imports by exporting country (USD million)



Source: TradeMap, author's calculations, chart by the author

Export potential: Rich natural endowments

Afghanistan has highly promising primary metal deposits. Gold deposits are estimated to be about 2.7 tons, iron ore deposits to contain 2 billion tons of 63-69%, 178 million tons of 47-68% iron ore, and deposits of another 35 million tons are under exploration. There are 12.3 million tons of known copper deposits and 16.9 million tons of probable reserves. Copper deposits contain also related metals, such as an estimated 7.7 billion tons of silver and 0.6 billion tons of cobalt. Afghanistan possesses also significant amounts of lead, zinc, tin, tungsten, and mercury¹⁵.

Afghanistan is also rich in nonmetallic nonfuel minerals. Deposits include gemstones, rare-earth minerals, uranium, chromite, sulfur, and talc. Prior to 1979, precious and semiprecious gemstones were a major industry in Afghanistan. There are an estimated 1.4 million tons of rare-earth minerals and an estimated 1 billion tons of chromium oxide with proven resources reaching 0.2 billion tons. Estimates of sulfur put deposits in the Afghan- Tajik basin to 6 million tons. The Achin metamorphic talc deposit south of Jalalabad contains of 1.25 million tons of talc and 31,200 tons of magnesite. Afghanistan has also deposits of asbestos (13.4 million tons), barite (150 million tons), celestite (1 million tons), clay (2.2 cm of brick clay), pegamites (3.8 million tons of lithium oxide), and potash (27.5 million tons).

¹⁵ https://momp.gov.af/sites/default/files/2019-06/02%20-%20MoMP%20Roadmap%20%2B%20Reform%20Strategy_reduce_0.pdf

EXPLANATION

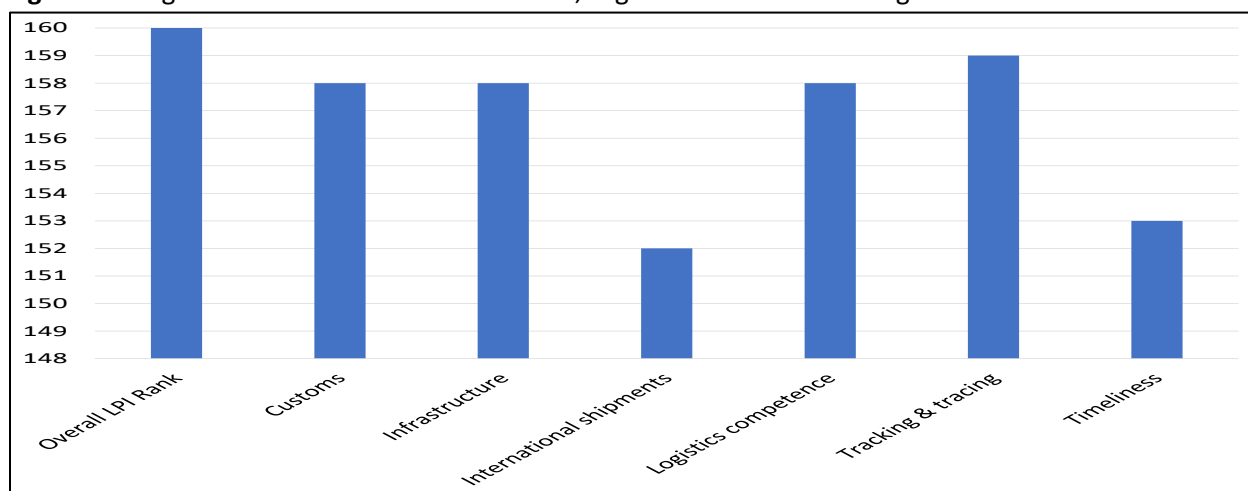
- Airborne geophysics and compilation
- AGS active project and compilation
- USGS special project and compilation
- Lithuanian project area
- Inactive projects (compilation only)
- Industrial mineral project area
- Oil and gas project area
- Cement plants and quarries

While there are rich mineral deposits, there are also substantial constraints for quarrying. Constraints include transportation, availability of power, water, and human capital. Perhaps even more important are institutional constraints such as insufficient security, rule of law and contract sanctity, little developed procurement practices, lack of community engagement frameworks to mitigate adverse social impacts, lack of impact assessment frameworks in line with international environmental standards. Despite these constraints a large number of projects have been considered or planned (Figure 10). However, it is not clear to what stage they have been developed, and how many need to be renegotiated with the new de-facto authorities. It is therefore premature to assess how much the exploitation of natural resources can contribute to Afghanistan's exports and over which period, but the potential looks substantial.

Afghanistan's connectivity infrastructure and logistics performance indicators rank among the lowest globally. The country ranked 160th among 160 countries in the World Bank's Logistics Performance Indicator 2018, and very low also in the sub-indicators (Figure 11). Reasons include hard infrastructure as well as soft infrastructure related to border and logistic procedures. To increase Afghanistan's export and

transit potential, substantial improvements in the country's transportation and logistics capabilities are needed along with infrastructure investments and progress in digitalization.

Figure 11: Logistics Performance Indicator 2018, Afghanistan's ranks among 160 countries

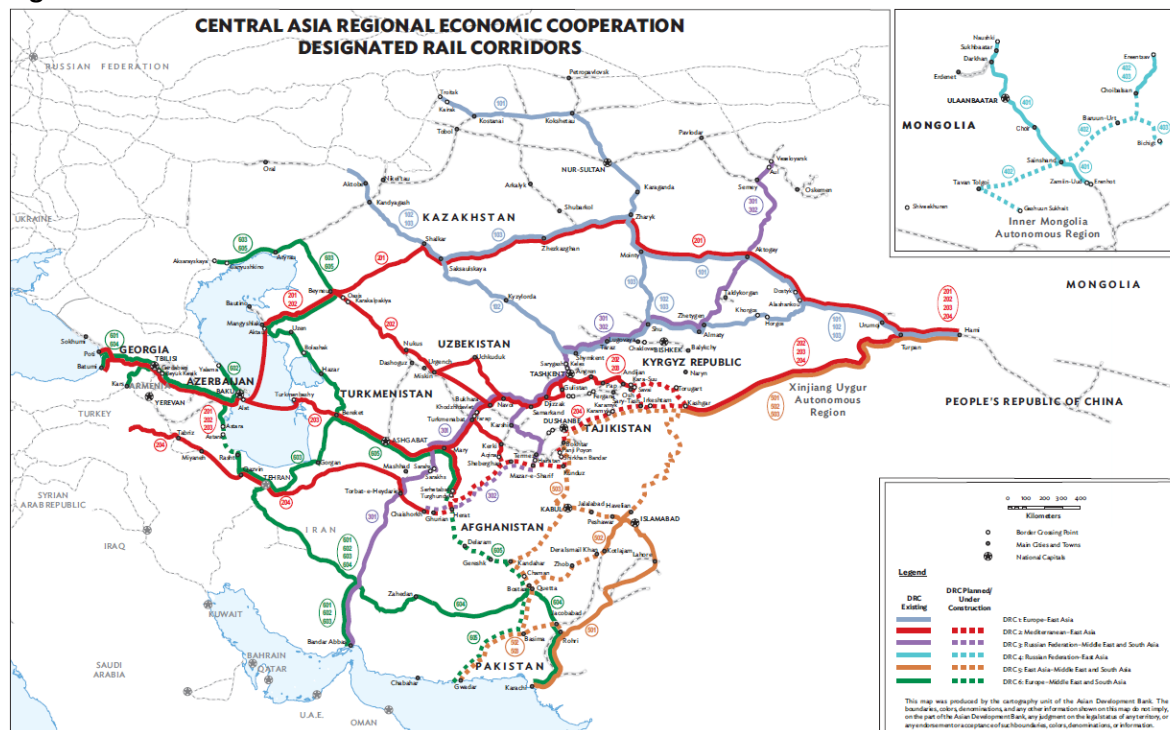


Source: <https://lpi.worldbank.org/international/global?sort=asc&order=Country#datatable> , chart by the author

CAREC corridors could play a crucial role for helping Afghanistan realize its foreign trade potential and its potential as a transit hub. Four out of six CAREC corridors¹⁶ traverse Afghanistan (Figure 12). Trade flows along these corridors include: i. Containerized shipments from Karachi seaport to Jalalabad entering Afghanistan through Peshawar–Torkham consisting of consumer and industrial goods; ii. Containerized shipments from the Karachi seaport to Kandahar consisting of consumer and industrial goods; iii. Transit shipments from Peshawar to Dushanbe, Tajikistan; iv. Transit shipments from Peshawar to Tashkent, Uzbekistan; v. Shipments of fruits and vegetables from Quetta (PAK) to Ashgabat (TKM), crossing Chaman–Spin Buldak and Torghondi–Serkhet Abad (AFG-TKM); vi. Transit shipments from the PRC to Afghanistan, crossing Karamyk (TAJ); vii. PRC exports of industrial and consumer goods to Tajikistan and Afghanistan, crossing the Kulma Pass (this route is not officially along CAREC corridors, but a popular one among forwarders); viii. Rail shipments including multimodal transit shipments from Quetta, Pakistan, to Ashgabat, Turkmenistan, or Tashkent, Uzbekistan.

¹⁶ The six CAREC corridors link the region's key economic hubs to each other and connect the landlocked CAREC countries to other Eurasian and global markets. The six CAREC corridors are: Corridor 1: Europe–East Asia, Corridor 2: Europe–Mediterranean–East Asia, Corridor 3: Russian Federation–Middle East and South Asia, Corridor 4: Russian Federation–East Asia, Corridor 5: East Asia–Middle East and South Asia, Corridor 6: Europe–Middle East and South Asia; https://www.carecprogram.org/?page_id=20

Figure 12: CAREC corridors



Source: https://www.carecprogram.org/uploads/CAREC_DRC_map_February_2021.pdf

However, challenging terrain and complicated procedures, e.g. for vehicle permit and drivers visa, make transport and trade often difficult and slow. Restrictions require frequent transloading of cargo adding to time and cost of shipment. For instance, Pakistan export shipments of tropical fruits to Tajikistan must transit Afghanistan, yet the shipment has to be transloaded twice at the borders (an estimated 5-6 hours exercise at each border), first at the Jalalabad inland customs depot in Afghanistan, and then at the Shirkhan Bandar border crossing point (AFG) at the Afghanistan-Tajikistan border, onto a Tajik truck¹⁷. Long shipment times and high costs are the result. Further investments in the infrastructure and handling equipment, and especially simplifying and automatization of procedures could save time and costs.

The PRC and Pakistan are about to further increase their footprint in the region and to play an even bigger role for Afghanistan's connectivity and international trade. In 2015, the PRC began granting tax-free regimes for Afghani exports to the PRC. In 2018, a pine nuts shipping cargo flight inaugurated a PRC-Afghanistan air corridor. Chinese companies received several infrastructure contracts such as repairing the Bamyan-Samangan highway. Projects have nevertheless remained complicated. The PRC has suspended its oil and gas project in northern Afghanistan as a result. Little progress has been made toward developing the Mes Aynak mine project that was signed in 2007, because of concerns arising from the lack of a security guarantees and supply chain and energy concerns¹⁸. However, meanwhile Pakistan has discussed with the Taliban-led new government Afghanistan's joining of the China-Pakistan Economic Corridor (CPEC) with the target to provide better infrastructure and energy connectivity between

¹⁷ <https://www.adb.org/publications/carec-cpmm-annual-report-2019>

¹⁸ <https://jamestown.org/program/expanding-chinas-central-asia-playbook-to-afghanistan/>

Afghanistan and Pakistan and more generally between South and Central Asia¹⁹. If the inclusion of Afghanistan in the CPEC materializes, and major projects are realized, this could substantially advance Afghanistan's integration into the CAREC region and its role as a transit country.

Connectivity: TAPI, CASA 1000, and the Mazar-i-Sharif-Kabul-Peshawar railway projects are under way

The Turkmenistan–Afghanistan–Pakistan–India pipeline (TAPI), a major project to connect Turkmenistan's gas fields with customers in South Asia, is one of the major projects in focus for quite some time and now again. Taliban spokesman Suhail Shaheen said that one of the group's main priorities is to push ahead with the TAPI gas pipeline²⁰. The pipeline shall transport natural gas from the Galkynysh gas fields in Turkmenistan and run through Afghanistan into Pakistan and then to India. Construction started in Turkmenistan on 13 December 2015, work on the Afghanistan section began in February 2018, and work on the Pakistani section was planned to commence in December 2018 but has been delayed, in part due to problems with Covid-19. India has already completed its part of the pipeline.

Another major undertaking is the Central Asia-South Asia power project (CASA-1000). CASA-1000 aims at linking the energy systems of the Kyrgyz Republic and Tajikistan with those of Afghanistan and Pakistan and develop mechanisms for electricity trading that would allow the Kyrgyz Republic and Tajikistan to export electricity in the summer to Pakistan and Afghanistan. The project envisages the modernization of grids, and the construction of 1.4 thousand kilometers of power lines and converter substations in Tajikistan and Pakistan. Negotiations on the project began in 2007, when a memorandum of understanding was signed in Kabul. In 2008, the first intergovernmental council of the four countries was held in Islamabad, and feasibility studies were initiated. The final document was signed in 2011²¹. The Tajik section of CASA-1000 is scheduled to be completed by the end of 2021. The Kyrgyz Republic announced its readiness to start construction in February 2021. The planned expense for the project totals over USD 1 billion. Of this, Tajikistan is obliged to pay USD 314 million, the Kyrgyz Republic USD 209 million, Afghanistan USD 354 million, and Pakistan USD 209 million. International financial institutions - the World Bank (WB), the European Bank for Reconstruction and Development (EBRD), the Islamic Development Bank (IDB), the UK government and others - act as investors in Tajikistan. The WB committed to allocate USD 45 million, the IDB USD 70 million, and the EBRD USD 110 million.²² The CASA-1000 project might have further significance for the CAREC region. Tajikistan is considering the possibility of exporting electricity to the PRC via a 500 kV power transmission line to the Xinjiang Uygur Autonomous Region. The connection of the energy system of Tajikistan to the energy systems of Uzbekistan and the Kyrgyz Republic as part of a single energy ring of Central Asia and the construction of a 500 kV Rogun-Peshawar transmission line is also under discussion²³.

¹⁹ <https://www.dawn.com/news/1648845/pakistan-discussing-expansion-of-cpec-to-afghanistan-envoy>

²⁰ <https://www.silkroadbriefing.com/news/2021/08/25/taliban-says-ok-for-afghanistan-tapi-gas-pipeline-work-to-continue-as-kabul-banks-reopen/>

²¹ <https://casa-1000.kg/about-casa-1000>

²² <https://eenergy.media/2020/07/16/raboty-po-proektu-casa-1000-v-tadzhikistane-zavershatsya-do-kontsa-2021-goda/>

²³ <https://eenergy.media/2019/03/28/elektroenergiya-iz-tadzhikistana-budet-postavlyatsya-v-kitaj/>

In February 2021, Uzbekistan, Afghanistan, and Pakistan signed a roadmap for the Mazar-i-Sharif-Kabul-Peshawar railway project. The construction of the railway with a length of 600 km may require 5 years. According to the road map, feasibility studies shall explore the geodetic, geological, hydrogeological, and topographic conditions in Afghanistan and provide information about potential cargo-forming and cargo-absorbing regions related to minerals deposits in Afghanistan. The potential for export-import cargo along the route South Asia - Central Asia - Russian Federation - Eastern Europe, with Afghanistan as transit country, shall also be studied. The Asian Development Bank had offered to act as coordinator of a pre-project study, via the CAREC program. The World Bank earlier proposed to develop a model for financing of the project and to take on a coordinating role for promoting it. The full implementation of the project might reduce the time for transporting goods from Uzbekistan to Pakistan from 30-35 to 10-15 days, and transport costs between the countries of Central Asia with Pakistan by 30-35%, according to Uzbekistan's Ministry of Investment and Foreign Trade²⁴.

Digitalization: Mobile phones could provide a basis for digitalization progress

There is scarce broadband connectivity, but substantial use of mobile phones in Afghanistan. At 0.05 broadband subscriptions per 100 people, Afghanistan ranked only 155th among 163 countries in 2019²⁵. Afghanistan ranks also only at low 160th among 172 economies with data availability in 2019 in terms of mobile cellular subscriptions per capita. At 59.4 mobile cellular subscriptions per 100 people in 2019 and 58.3 in 2020, subscriptions were less than at the peak of 65.9 in 2017. However, 58.3 means that on average still more than every second Afghani had a mobile phone. No development is likely to make mobile phones to disappear from public life again. Mobile phones could thus provide a basis for some progress in the digitalization of Afghanistan's economy and society, including for e-commerce and micro-finance purposes, and for remote education. This would have a great impact on productivity, commerce, qualification opportunities, and relations to the outside world. A better broadband endowment of the country would help, of course.

Conclusions: realpolitik is needed from all sides to address the most pressing issues

After the takeover of power by the Taliban in Afghanistan, both the Taliban and the international community urgently need to resort to realpolitik to avoid a long-lasting further surge in poverty and severe social tensions. Main areas where realpolitik must come up with solutions are:

- Measures to immediately counteract the food and health crises by organizing aid in the amount needed and via channels acceptable to all sides.
- Securing the resumption of financial flows by providing refinancing and cash to banks in the economy which is largely cash-based and in which only 15% of the population have access to traditional banking services.
- More long term: facilitating and micro-financing and., including through initiatives from specialized international microfinance organizations and through fintech solutions, possibly under Islamic-banking regulations.

²⁴ <https://tashkenttimes.uz/national/6372-uzbekistan-afghanistan-and-pakistan-signed-roadmap-for-mazar-i-sharif-kabul-peshawar-railway-project>

²⁵ <https://ourworldindata.org/grapher/broadband-penetration-by-country>

- Providing opportunities for better education, including for girls/women, by partnering for the delivery of technical and vocational education and training (TVET), with international organizations or organizations from specific partner countries that are able to help in this respect. Partnering with foreign academic institutions and governments for providing tertiary education opportunities in Afghanistan or abroad.
- Improving CAREC corridors and advancing regional infrastructure projects such as TAPI, CASA-1000, and the Mazar-i-Sharif-Kabul-Peshawar railway in order to enhance Afghanistan's export capabilities, especially for mining products, and opportunities for transit earnings. However, infrastructure and mining projects should live up to minimum safety, social and environmental standards.
- Promoting digitalization as an important mean to increase productivity in production and services, to advance fintech and e-commerce, and to provide remote training and education opportunities. Better broadband connectivity would help.
- Achieving better water management and higher water efficiency, including by ways to restore community-based irrigation systems that have been strongly adversely affected by neglect and destruction during the long period of conflict and instability.
- Building a new administration in Afghanistan will be difficult, and there will be inevitably disagreements and conflicts within the country, within the new elite, and between the new administration and international partners. Viable mechanisms need to be found to deal with these disagreements and conflicts in pragmatic and acceptable ways in order to make large national or international projects possible.