

2022

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# Humanitarian Aid Prolongs the Humanitarian Crisis in Afghanistan – Allow the Afghan Economy to Breathe

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## **SYNOPSIS**

After the disastrous withdrawal of US troops from Afghanistan and the Taliban's subsequent takeover of Kabul in August of 2021, Afghanistan's economy was hit hard with sanctions by the United States. Afghanistan's Central Bank assets were frozen and commercial banks were cut off from the international financial system. Development aid was suspended overnight which consequently deprived hundreds of thousands of people of their livelihood, now unable to access critical savings due to the liquidity crunch.

This Working Paper was funded by the Defence and Security Foresight Group which receives funding from the Mobilizing Insights in Defence and Security (MINDS) program designed to facilitate collaboration and mobilize knowledge between the Department of National Defence, the Canadian Armed Forces, and academia and other experts on defence and security issues. Through its Targeted Engagement Grants, collaborative networks, scholarships, and expert briefings, MINDS works and collaborates with key partners to strengthen the foundation of evidence-based defence policy making. These partnerships drive innovation by encouraging new analyses of emerging global events, opportunities, and crises, while supporting a stronger defence and security dialogue with Canadians.

## About the Authors



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Mohsin is a policy analyst and researcher. He worked for over 12 years in the infrastructure sector of Afghanistan. He advised the Inter-ministerial Commission for Energy and international development partners like the Asian Development Bank, USAID, and the World Bank on energy policy formulation and institutional restructuring. His research focuses on aid effectiveness in post-conflict regions, energy security of developing countries, and local governance in Central and South Asia.

He was awarded the Fulbright scholarship and obtained his Master's degree in Public Policy at Oregon State University. He did his bachelor's degree in electrical engineering from Kabul Polytechnic University. He has published more than ten academic papers, policy reports, and op-eds. His articles on Afghanistan's economy and the energy sector were published by the Washington Post, Foreign Policy, and Aljazeera. He speaks Pashto, Farsi, Arabic, Urdu, and English.

## **Problem**

The United Nations stated in its Transitional Engagement Framework (TEF) that Afghanistan is facing an unprecedented humanitarian crisis with a real risk of systemic collapse and human catastrophe. In addition to the unimaginable human costs, this crisis threatens to undo many of the development gains of the last twenty years. The TEF further added that Afghanistan's economy has gone into free-fall due to the disruption to markets and financial and trade mechanisms, on account of the freezing of its US\$9.5 billion in central bank reserves, the cessation of loans, and the sudden drop in direct international development assistance.

The international community miscalculated the solution to averting the crisis in Afghanistan and swiftly suspended development aid and imposed sanctions on the economy, especially targeting the banking sector. The imposition of sanctions and freezing of the Central Bank assets throttled the Afghan economy and threatened the livelihood of millions of Afghans. Nine months after the US withdrawal and the previous government's rapid collapse, the country is on the brink of famine, with 3.2 million malnourished children. Breastfeeding mothers are starving and are facing lactation insufficiency. The World Food Programme said 23 million Afghans do not know where their next meal will come from. So, the question before us is how can the humanitarian crisis be averted in Afghanistan?

## **Essential Background**

According to the Special Inspector for Afghanistan's Reconstruction (SIGAR) latest quarterly report to the US Congress, Afghanistan's economy suffered severe contraction in 2021 and a further possible 20–30% drop in GDP<sup>1</sup>. In addition, a UNDP report estimated that Afghanistan's nominal GDP could fall from \$20 billion in 2020 to \$16 billion in the months following the Taliban takeover in August of 2021. The report further states that the annual per capita income fell from \$650 in 2012 to \$500 in 2020, and was expected to drop to \$350 in 2022. Before the collapse of the previous government, international aid contributed to around 40% of Afghanistan's GDP and 75% of public expenditures.

Just one day before President Biden decided to split the frozen reserves of the Central Bank of Afghanistan, the President of the International Rescue Committee (IRC) told the US Senate Foreign Relations Subcommittee, "Sanctions, which are meant to be on the Taliban, have, in fact, chilled almost all economic activity. While those in power in Afghanistan have much to answer for, it is these policy choices of the international community that are the proximate cause of the crisis we face today." He added, "Business as usual will mean that a starvation crisis kills more Afghans than the past 20 years of war."<sup>2</sup>

Before the fall of Kabul, 50 – 60 % of the population already lived below the poverty line, and hunger was extreme in rural areas. On 15th August 2021, development partners abruptly halted their projects across the country. This left hundreds of thousands of employees, workers, technicians, and laborers, some of whom were not paid for months, without an income and without access to their savings.

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1 <https://www.sigar.mil/pdf/quarterlyreports/2022-01-30qr.pdf>

2 <https://www.rescue.org/press-release/david-milibands-testimony-senate-foreign-relations-committee-sub-committee-afghanistan>

Furthermore, the US imposed sanctions hampered general humanitarian operations. Many foreign banks that aid organizations rely on to transfer funds into Afghanistan have cut ties to Afghan banks. Moreover, the liquidity crisis severely restrains the amount that organizations can withdraw to pay vendors or aid workers. The bizarre logic of the international community – in suspending nearly-completed development projects, placing thousands of Afghans out of work, and then turning around to pledge hundreds of millions on humanitarian aid to alleviate poverty – is puzzling for many Afghans.

## **Strategies and Solutions**

The humanitarian crisis in Afghanistan can be averted by allowing the economy to recover and getting people back to work. The first step toward economic recovery is to resume unfinished development projects, lift sanctions, recapitalize the central bank of Afghanistan, and let traders carry out commerce through formal banking. With regards to the recapitalization of the central bank, the US and the international community expressed concerns that the funds would be misused by the Taliban. To address this, members of the Supreme Council of the central bank have suggested<sup>3</sup> several mitigation strategies with monitored, limited, and conditional access to \$150 million per month from the frozen reserves held in the US and Europe. The transactions can be verified electronically and through one of the international auditing firms currently operating in Afghanistan.

The international community should not repurpose development funds for humanitarian assistance; instead, development projects must be implemented under their previously designed portfolios, so that Afghans may earn their livelihood instead of waiting in their residence to receive a weekly sack of flour and beans provided by humanitarian organizations.

Afghanistan's economic revival necessitates the resumption of existing portfolios of development partners and supporting the private sector to spearhead market led recovery. These efforts will not require additional financing from the international community. It is money they have pledged previously to the people of Afghanistan. This will put an end to the cycle of pledging humanitarian assistance.

The UN Secretary-General told the Security Council in January this year, "We must pull the economy of Afghanistan back from the brink. This means finding ways to free-up frozen currency reserves and re-engage Afghanistan's Central Bank. International funding must be allowed to pay the salaries of public-sector workers."<sup>4</sup> As the president of IRC explained, "There are no sustainable workarounds that try to bypass the Central Bank and create parallel, shadow systems. No private bank could effectively take on this role."<sup>5</sup>

## **Recommendation for Canada**

Since 2001, Canada's engagement has evolved with changing circumstances in Afghanistan. 40,000 Canadians served as part of the NATO mission from 2001 to 2014. Canada provided \$3.6 billion in international assistance to Afghanistan since 2001, supporting the security sector, education, health, as well as human rights, and the rights of Afghan women and girls. Canada also pledged \$270

3 <https://www.aljazeera.com/opinions/2022/1/29/afghanistans-economy-is-collapsing-the-us-can-help-stop-it>

4 <https://www.un.org/sg/en/node/261605>

5 <https://www.rescue.org/press-release/david-milibands-testimony-senate-foreign-relations-committee-sub-committee-afghanistan>

million in development assistance from 2021 to 2024 to support Afghanistan's plan for self-reliance, the Transformation Decade (2015-2024), at the November 2020 Afghanistan Conference.

Previously, Canada channeled its development funds in two ways: through the Afghanistan Reconstruction Trust Fund (ARTF) and direct funding of projects led by Canadian non-governmental organizations (NGOs), international NGOs, and multilateral organizations. At the UN donor conference for Afghanistan, Canada pledged \$112.91 million toward the humanitarian response plan for 2022.

First and foremost, Canadian policymakers should ask the steering committee of ARTF to resume women's empowerment projects that were suspended abruptly in August last year, which impacted the livelihood of thousands of Afghan women, and further exacerbated conditions of extreme poverty. Second, Global Affairs Canada should ask the World Bank and ADB to propose a mechanism on completing unfinished development projects with a progress rate of more than 60%. Third, leaving large infrastructure projects abandoned – despite more than 80% of the work already completed – does nothing but deprive ordinary Afghans of their livelihoods. Suspending irrigation, transport, and energy projects, on the contrary, perpetuates and prolongs the humanitarian crisis.

In the past, the Afghan people have been dependent on development aid coming from Canada and other western countries. The current trajectory dooms them to forever rely on humanitarian aid from those same nations. The wiser and more pragmatic approach is to allow and assist the Afghan economy to sustain itself.