



## **The action of foreign aids in economic developments of Afghanistan**

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### **Abstract**

This paper aims to evaluate the impact of foreign aids in Afghanistan post 2002. The empirical analysis of aid effectiveness relies on the data from 2002 up to 2010 which is reported by ministry of finance of Afghanistan. The finding of this paper concludes that during the mentioned period, foreign aids have had positive impact on development of infrastructure, education and health care sectors while it has strengthened corruption, governance crisis and so on. Also in the security sector, no meaningful and positive correlation between aid and security can be found.

**Keywords:** foreign aids, economic developments, Afghanistan

### **Introduction**

Foreign aid and its importance for economic development has been and extensively debated issue in the recent decades. Post 19 century, large amounts of foreign aid flowed to back-warded and underdeveloped countries. The main claims of lender countries for aid transfer have been the improvement of institutional reform, poverty and unemployment reduction and so on.

Likewise, the flow of large amount of foreign aid motivated scholars to investigate and conduct researches on the impacts and contributions of foreign aid on economic development of aid-recipient countries. Therefore, a large body of academic writing and empirical findings goes for investigation of aid effectiveness and economic development. Unfortunately, despite the plenty of discussions on this regard, on-unifying conclusion on causal relationship of foreign aid and economic development exists. In other word, both theory and empirical finding brings reasons and evidences for positive, negative and ambiguous impacts of foreign aid in aid-recipient countries. The no-unifying conclusion of previous literature invite question that whether the influxes of plenty amount of foreign aid has had positive impacts in development of Afghanistan, especially in the last recent years? Given this question, the main objective of this paper is to evaluate aid effectiveness in Afghanistan during the last recent years.

### **Methods and Materials**

The reminder of this research paper is allocated for debates on aid effectiveness and economic development such that: in part two we have a glance on theoretical background of the topic and previous empirical findings. In part three, the history of foreign aid in Afghanistan is discussed. Part four discusses foreign aid post the fall of Taliban regime and its contributions to economic development. Finally this paper closes with a brief conclusion and list of references.

In July 2019, data were collected on the differ aspect about the action foreign aids in economic development of Afghanistan were confined to internet searches using search engines provided by Google throughout the world. The data and literature review found some published & some

unpublished like reports of the action foreign aids in economic development of Afghanistan, research papers and thesis within the past 80 years.

### **Theory and Empirical Findings**

Theoretically, the importance and role of foreign aid can be explained in Harod-Domar, Big push and two gap growth models. Harod (1939) [5] & Domar (1946) [4] count improvement of saving as main driver of economic growth. They argue that under developed countries face with shortage of investment resulting from low per capita income and domestic saving. Based on Harod-Domar's framework, under developed countries can reach higher economic growth if the government increase the rate of saving and investment. Of cures improvement of saving and investment for a poor government of under developed countries is possible only through foreign aid influxes. According to this theory, underdeveloped countries are dominated by vicious circle of poverty in which the income per capita is low, saving and consumption are low, investment rate is low and therefore productivity and market size are very small. To break down the vicious circle of poverty, a big push of government in terms of boosting aggregate demand and income is needed, so that further saving and investment take place and the economy leads to a batter condition. However this theory do not directly point the importance of foreign aid, but it is clear that this big push of aggregate demand and income for a poor government requires external financial funds. Finally, two Gap model directly points the importance of foreign aid for development of and economy. This theory is the extension of Harod-Domar model that counts shortage of foreign saving as a second gap in front of economic growth process. His theory argues that a one dollar increase in foreign saving leads to a one dollar increase in domestic investment.

On the other hand, based on new growth theories which rely on technological changes and institutions, institutional reforms, batter management & governance, and technological changes are the Main drivers of economic growth. In these frameworks, the impact of foreign aid on economic growth will be negligible or even negative if there

is not a good institutional reform and good governance in aid-recipient countries.

Abuzeid, F. (2009) <sup>[1]</sup> explains the mechanism of negative impacts of foreign aid on economic growth. Base on his claim, casualty goes from foreign aid to strengthening corruption and delaying pressure for better institutional and policy reforms. Since donors do not pay attention for corruption consideration during aid allocation. Corruption environment is strengthened by foreign aid because most of aid is allocated in the so called “white elephant” projects that may only increase the income of some specific political parties which in turn contributes corruption. Also foreign aid increases the size of government and lead to a misallocation of resources, because an increase in the number of government’s unnecessary employees for job creation due to political reason will not boost economic performances, rather it will lead the economy to waste resources.

Empirically, the impact of foreign aids on economic growth is mixed. Some literature report positive, some of them find negative while other ambiguous impacts for foreign aid influxes. Kara’s (2007) conducted panel estimation for 71 aid-receiving countries and he concludes that foreign aid positively correlated with growth. Also Addison and Mc Gillivray (2005) <sup>[2]</sup> conduct a wide study for the period of (1960-2002) for most of sub-Saharan Africa. They conclude that a reduction of aids influx in these countries accompanied with improvement of poverty and reduction of growth. On the other hand, Burnside & Dollar (2000) <sup>[3]</sup> find negative impact for foreign aid & economic growth. However they acknowledge that if a country has good macroeconomic policy, foreign aid can have positive impact on economic growth. Padma (2009) found positive but not significant (zero) relationship for aid and growth.

### History of foreign aids in Afghanistan

Historically, the inflow of foreign aid in Afghanistan can be discussed under three different time periods namely, before the cold war, during the cold war and after the fall of Taliban regime. The history of foreign aid before the cold war goes back to 1919, the government of king Amanullah Khan. In line with the internal government revenue, king Amanullah Khan shifted focus on attracting foreign aid to finance government expenditures. However the exact records of foreign aid during this period is hard looking, but it seems that most of foreign aids have been spent in education and infrastructure improvement. Establishment of Malalai & Esteqlal schools by France, Amani School by Germany a Habibia school by USA are example of foreign aid in that period.

During the cold war, USA and Russia was the major contributors of foreign aids in Afghanistan. For example, during 1950-1970 a sum of \$160 million was borrowed by afghan government from Russia and USA. It seems that this amount of money has been spent for construction of slang tunnel and 1200 km road. After the invasion of Russia in Afghanistan, the volume of foreign aid to this country dramatically increases. For example, during 1950 to 1970, Afghanistan received \$11 billion loan from Russia which has had important role in economic development of Afghanistan. It is worth mentioning that during the mentioned time, USA has had some financial and military support to Mujahedeen, exact records of these assistances

are not available however. After the fall of Dr. Najib’s Government, the huge inflow of foreign aid to Afghanistan stopped and very small amounts of financial assistant by NGOs continued until 2000.

Post the fall of Taliban regime, large amounts of foreign aid injected to Afghanistan economy. Most of financial assistances for Afghanistan were committed in Tokyo, Berlin, London, Roma and Paris conferences.

### Aids effectiveness in Afghanistan in the recent years

Comparing the large volume of aid influxes in the country, it seems that foreign aid has been less effective in Afghanistan and it had negligible contribution in economic development of the country. The report released by ministry of finance of Afghanistan shows that out of \$57 billion foreign aid during 2002-2010, only 18% of it has been spent through afghan government budget and the rest 82% has been spent by donor countries. About 51% of total aid has been allocated for security purposes and 49% for economic development. foreign aid in security sector includes all national army and national police expenditures plus expenditure for campaign against production and distribution of poppy and drag.

The major achievements resulting from foreign aid in Afghanistan go to education, health care and infrastructure sectors. For example, in education sector about 7 million children enrolled to primary schools, near 3500 new schools were built and the number of teachers increase by seven fold during 2002-2010. In health care sector broad achievements are access to the basic health care services, reduction of mothers and child mortality at birth. For example, from 2002 up to 2010 almost 85% of afghan people accessed to basic health care services, child and mother mortality declined by 85000 and 40000 each year, respectively. There are also some achievements in the infrastructure sector such as roads construction, telecommunication services and electricity provision. By the end of 2010, almost 4000 kilo meter asphalt road was available in the country 75% of people have access to telecommunication service and large number of population enjoyed from electricity. (Ministry of finance Report 2010)

Also, the income per capita has been increased from \$192 in 2002 up \$633 in 2014. But the improvement of per capita income do not necessarily mean that everybody has better off and welfare of all people has equally increased in the country.

Despite the dramatically rise of income, around 37% of afghan population live under poverty line.

In the security sector, despite the large amount of foreign aid outpouring, there is not a visible improvement in the delivery of security services in the country and nor there is any hopefulness for elimination of poppy and drag in the world. Although 51% of all foreign aids were spent in security sector, people of Afghanistan still suffer from insecurity and even the extent of insecurity has been widening post 2008.

The negative impact of foreign aid can be discussed in terms of corruption and governance in Afghanistan. Unfortunately, Afghanistan is labelled as one of the most corrupted governments in the world. Foreign aid even has strengthened corruption making the government to be a non-accountable government for its people. After the recent 14 years, large amount of foreign aids were allocated in “white

elephant” projects such as better government, capacity building, human rights, fighting against drug cultivation, process and its distribution.

### **Conclusion**

The impacts and role of foreign aid on economic development and poverty reduction in aid-recipient countries is a topic of more debated in the recent years. A large body of literature focuses on this topic and both positive and negative impacts of foreign aids are reported by previous studies. Post 2002, massive amounts of foreign aid flowed to Afghanistan and people of Afghanistan have been hopeful for a good positive transition and changes expecting the level of their welfare to be improved. This issue attracted this paper to have short glance on positive and negative outcomes of foreign aid in infrastructure, education and health care sectors; we conclude that big part of aid has been spent ineffectively in projects that have had negative impact on economic development and wellbeing of people in Afghanistan.

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