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Foreign aid and its impact on Afghanistan's Economic Setup: Purposes and Implications

Maryam Stanakzai and Nassir Ul Haq Wani

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Maryam Stanakzai
Nassir Ul Haq Wani

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Abstract

The notion that foreign aid harms recipient governments' economic autonomy and undermines citizens' trust in political institutions and actors remain prevalent and paradoxical. The fact that foreign aid has come to mean development assistance has raised a series of questions that have been debated in the scholarly literature. Moreover, it is universally acknowledged that donors use aid to achieve objectives other than development and poverty reduction. This study assesses the impact of foreign aid on the economic autonomy of different regimes (2001–2021) in Afghanistan. The study opines that foreign aid supported economic growth and the longevity of the Afghan government. However, on the other hand, both on-budget and off-budget foreign aid funding had several ripple effects. This study offers a comparative analysis of foreign aid in the Karzai and Ghani era; and explores the knock-on economic implications of aid dependency in Afghanistan. The comparative analysis of regimes in the post-9/11 context illustrates that stringent conditions were attached to aid granted to the Ghani administration compared to the Karzai administration. The study has found that US aid has undermined the economic setup in Afghanistan. However, the leverage of US aid to influence decision-making is minimal. Afghanistan's strategic calculation and policy-making are determined by regional security conditions rather than US influence. Furthermore, it is pertinent to note that since 2014, a significant decrease in US aid has been witnessed due to divergence between the two states. The significance of assistance in US foreign policy towards Afghanistan is minimal. The study suggests that foreign aid projects harm institutional trust by lowering citizens' evaluations of government performance and administrative competence. Additionally, aid projects can incentivize rent-seeking behavior and hurt citizens' perceptions of political corruption. In mapping the future discourse on aid in Afghanistan, the current authorities need to be more oriented toward foreign aid. As a policy tool, support has not been confined to the roles that foreign and economic policy theorists have prescribed.

Key Words: Afghanistan, Islamic Emirate of Afghanistan (IEoA), Taliban, Foreign Aid, Economic Autonomy.

Introduction

The history of foreign aid can be traced back to the 19th century (Haas, 1992). The modern history of foreign aid began with the 1812 Act for the Relief of the Citizens of Venezuela. In 1929, Great Britain helped colonies by passing the Colonial Development Act (Asongu & Nwachukwu, 2016; Carew, 1987). Initially, efforts were only to help donor states reach their economic and political goals (Alesina & Dollar, (2000). During World War II, however, foreign aid expanded to include social and humanitarian assistance. Subsequently, international aid increased after the Second World War (Albrecht, Rude, & Stitteneder, 2021). During the Cold War, international assistance was used by the US and its allies for economic, strategic, and political objectives (Bizhan, 2017). Marshall Aid is a manifestation of the fact that foreign aid was used for the vested political interests of the US during the Cold War (Bjelica & Rutting, 2018). Since World War II, numerous debates have revolved around foreign aid's economic, political, and social implications on recipient countries (Watkins, 2019). Political analysts are bitterly divided over the impacts of foreign aid on the recipient state. According to Roger C. Riddell, "foreign aid comprises all resources, including physical goods, skills, and technical know-how, as well

as financial grants (gifts) or concessional loans, which donors transfer to recipient countries" (Riddell, 2014). Foreign aid can be divided into two broad categories, i.e., humanitarian aid and developmental aid. The former is used for crises induced by natural calamities or conflict, while the latter is used for the long-term development of recipient states (Muram and Wani, 2018). In our case, the primary manifestation is to assess the impact of foreign aid on the political economy. It is pertinent to give an overview of the concept of autonomy. The definition of political autonomy is vague; however, the general description denotes freedom from external influences (Stokke, O. (1995).). According to Macken, it is the right of the state to manage its affairs within the given framework. Though the concept of autonomy does not preclude the presence of external forces, external influences should not be viewed as a threat as long as an actor's actions are not determined by them, and states act on their political wisdom in response to external circumstances. Afghanistan is a highly aid-dependent country and maintains state functions through foreign aid (Strand et al., 2017). By aid dependency, we mean when aid comprises around 10 percent of GDP, and in the absence of aid, the state fails to perform many of its core functions (Cooper, 2018). Aid dependency has several features and consequences for Afghanistan, including; the Afghan national budget being split into an operating budget (e.g., salaries) and a development budget (Waldman, 2008).

Donors have contributed to both. International aid has been delivered on a budget (through the Afghan government's budgetary processes and national systems) and off-budget (disbursed directly by donors to NGOs who implement their projects). Donors have used off-budget aid mechanisms due to concerns about state weakness and corruption and the need to deliver quick results post-2001 (Cooper, 2018). It has been mandated in the studies that the off-budget aid has had unintended consequences on the economic and social fabric of Afghanistan, resulting in a parallel public sector, fiscally larger than the permanent public sector, unintentionally undermining the development of permanent state institutions, private sector, and in some cases, state legitimacy (Bizhan, 2022). The credit exists when dealing with Afghanistan's current account because of sizeable international aid flows (Haque, 2018). However, foreign aid has expedited the delivery of public services, thereby expanding public services, particularly in health and education. However, some of these services, for example, essential health services, are still delivered by NGOs (Bizhan, 2018).

It is unclear whether the government would be able to provide these services in the absence of international aid. Aid dependency relates to and interacts with several other challenges affecting Afghanistan's socioeconomic development. These challenges include; a weak centralized state with low capacity, which affects the delivery of public services; rising poverty and unemployment amidst a worsening security situation with civilian casualties at their highest levels since 2002. Overall, 11,418 civilians were killed or injured in 2016, up from 5,969 in 2009. In 2020, 3045 were killed 2020 followed by 5183 in 2021, more likely because of the war and conflict in Afghanistan fuelled by the displacement crisis (World Bank, 2018; Shah, 2021); persistent drought conditions; rising out-migration; eroding job growth; and pervasive corruption (Integrity Watch Afghanistan, 2014; de Toledo Gomes, 2017; Wani, 2019). Even donors have warned the Afghan government that aid levels will drop in the future due to the extensive presence of aid inflows, which has contributed to corruption (Strand et al., 2017).

By 2030, aid levels are projected to have roughly cut in half (reducing from 40 percent of GDP to 20 percent). The literature agrees that Afghanistan depends on foreign aid and is vulnerable to changes in that aid. For instance, experts concur that the slowdown in

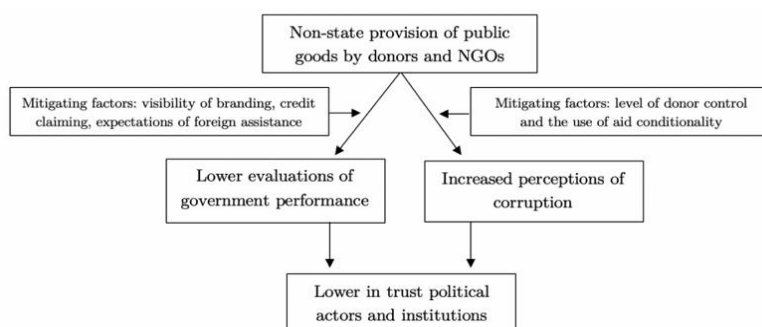
economic growth between 2013 and 2015 was caused by a combination of diminishing foreign aid, the reduction of foreign forces, and the 2014 presidential election (Byrd, 2016). According to the research for this paper, international help must continue to preserve the progress Afghanistan has made since 2002 (Cooper, 2018). This results from the Afghan state's low resilience, making its economic and political system susceptible to shocks (Bizhan, 2018). Afghanistan is in a precarious position, so specific reforms are required to make it self-sufficient (Bizhan, 2018). The minimum amount of foreign aid anticipated to maintain the state's capacity to function was not found in any literature. The current study answers to examine and understands the linkage between foreign aid dependency and economic autonomy and explores the role of self-reliance measures that can boost people's confidence in the current Afghan government. High economic reliance has always restricted the leaders of Afghanistan in terms of the exercise of their political authority from 2001-2021. In order to sustain the economy and the country at large, Afghan leaders time and again proved themselves to be 'controlled' by foreign actors. Therefore, the sown seeds of aid dependency cultivated an Afghanistan that functioned at the mercy of the international community and any reduction in this support significantly generated catastrophic results for Afghanistan's economic and political landscape as witnessed in the period after August 2021. Hence, this study offers a conducive understanding of this narration and highlights the reliance on foreign aid for Afghanistan. The aid dependency severely affected the Afghan government's credibility in the eyes of the Afghan citizens thereby complicating the conditions for the political landscape of the country. Further, this research indicates how economic self-reliance would help boost the confidence of Afghans towards the government thereby, generating a much more stable amount of credibility and legitimacy for the authorities as well as better conditions for the common people who have been bearing the brunt of conflict over decades. The rest of the study is divided into 5 sections with section 2 focusing on literature review and theoretical foundations, section 3 justifies the research methodology and research gap; section 4 focusing on the analysis of the objectives primarily highlighting the foreign aid vitality and repercussions on trust in political institutions; defines the conditions and obligation of US aid in post 9/11 context by offering a comparative analysis of the Karzai and Ghani era; and the economic implications of foreign aid dependency in Afghanistan and the future of Afghanistan and US foreign relations, and finally, section 5 presents the outcomes of the study followed by the recommendations and policy implications.

2. Literature Review and Theoretical Foundations

Two basic theoretical frameworks have been developed to analyze the factors influencing institutional trust. Cultural theories of institutional trust presuppose that interpersonal relationships, cultural values, ethnicity, and national identity serve as the foundation for institutional trust rather than being exogenous to political institutions (Almond & Verba, 1963), (Inglehart & Marita, 1997), (Putnam, 1993). Contrarily, institutional theories claim that citizens' assessments of the functionality and effectiveness of governmental institutions and actors serve as a rational foundation for trust in institutions. Citizens are more likely to trust the institutions they perceive as enhancing their well-being as governments deliver economic growth, public services, and security. Institutional theories of trust have received much support in the empirical study (Catterberg & Moreno, 2006), (Hetherington, 1998). In developing nations, institutional trust is mainly determined by satisfaction with delivering public goods and services (Godefroidt et al., 2017) (Chu & Shen, 2017). Trust and citizen assessments of the national economy are

positively correlated, according to preceding studies (Hutchison & Johnson, 2017), (Zmerli & Castillo, 2015). Much research has looked at how public sector corruption affects trust. Corruption is frequently determined to be the most vital macro-level driver of political trust and has a wide-ranging negative impact on citizens' trust in government institutions and actors (Cho & Kirwin, 2007). Aid initiatives also allow government employees to collect rent and Gyude leads to more individuals' perceptions of corruption. Several elements have been found by recent research on foreign aid and governance that can mitigate the alleged detrimental impact of aid initiatives on institutional trust. Potential mitigating factors include uncertainty over the source of development projects, citizens' expectations about the relationship between their government and donors, donor control over resources, and aid conditionality (Dietrich & Winters, 2015), (Dolan, 2020), (Willner-Reid, 2018). Figure 1 depicts a conceptual model of the hypothesized relationship between aid projects, political trust, and potential mitigating factors.

Figure 1: Conceptual model of the relationship between aid projects and political trust



Source: Adapted from Dietrich et al. 2018; Dolan 2019; Milner et al. 2016

On examining the plethora of literature, it is clear that the definition of the effect of foreign aid on state fragility has changed. The literature reviews indicate that critical topics, including economic concerns, security, and other governance issues, have been studied. However, the influence on political institutions, political autonomy, and political legitimacy still needs to be addressed. Although the literature has highlighted it as a component of governance, we have expressly specified it for additional analysis to determine the true impact of foreign aid on political autonomy relative to various regimes in Afghanistan. This study supports and illustrates how economic independence can assist Afghan authorities in fully exercising their political control. Since aid is conditional and grants donors power over the use and direction of their contributions, studies have suggested that donors, not citizens, determine the nation's future course. How foreign aid continues to strain Afghanistan's democratic system is a crucial point requiring rhetorical justification. A genuine policy discussion about these issues is necessary. As a result, it is vital to consider how the new Islamic Emirates might respond to the reduction in foreign aid. This paper also recommends how the present Afghan government should have focused on forging more dependable and helpful economic ties with its close neighbors. One of the essential steps they should take to guarantee an independent Afghan economy is to do this. Therefore, this study will highlight Afghanistan's dependence on foreign aid, its effects on the Afghan economy, how US foreign aid affected Afghanistan's political independence after September 11, 2001, by illustrating the comparative analysis of various regimes, and finally, propose a policy recommendation

regarding how the road to economic self-reliance can be a means of establishing a credible governing structure that prioritizes Afghanistan's national interests rather than those of other countries.

3. Research Methodology

The research is characterized by a realism research philosophy by primarily focusing on interpretive philosophy, as indicated by the type and breadth of the research. The dominant methodology for this research will be the pragmatic approach, referring to a mix of qualitative and quantitative methods of research. Additionally, the research utilizes secondary data obtained from various sources in order to portray and underline the extent of aid dependency in Afghanistan and its impact vis-à-vis on political autonomy from the institutional perspective. The study rationalizes the usage of the deductive research model, whereby the prior focus of the study is to condense the ideas from the existing literature and accordingly propose inferences as to how foreign aid jeopardised the political fabric in terms of autonomy and institutional set-up. The data collected for the study is included from secondary sources like the USAID website, and data from World Bank and IMF. The other secondary sources included are books, journal articles, reports, and other refereed scholarly publications.

Research Gap

Aid dependency caused major implications for a war-torn country such as Afghanistan. One such consequence of high aid flow in the country was the lack of political autonomy exercised by the governing authorities of Afghanistan. As mentioned earlier, the political landscape within Afghanistan was severely affected by economic dependency. For the governing authorities of Afghanistan from 2001-2021, it was important for them to better practice their political independence and take decisions in accordance with the country's interests and benefits, however, they were unsuccessful in understanding the extent to which high aid dependency affected their political autonomy in Afghanistan. Since the literature examining the economic dimensions are available, captivating the aid dependency of Afghanistan and its impact on the Afghan economy, however nexus between high aid dependency and its impact on political autonomy in Afghanistan from 2001-2021 is under-researched and scanty research is done so far. Hence, this research will focus predominantly on understanding the link between high aid flow and the lack of political autonomy exercised by Afghan authorities from 2001-2021. Further, this research also tries to provide arguments that will assert and encourage the current authorities in Afghanistan to understand the correlation between high aid dependency and the exercise of political autonomy within Afghanistan in order to establish an economically self-reliant Afghanistan rather than an Afghanistan which continues to remain at the mercy of the international community.

4. Analysis and Discussions

Foreign Aid: Vitality and Repercussions on Trust in Political Institutions

It is inconceivable to contemplate that nearly 40 million people in Afghanistan will not satisfy their basic needs. Up to \$8 billion in annual foreign aid will be needed to promote economic growth and pay for essential services. The importance of foreign aid in conflict-prone countries like Afghanistan is highly significant (Berrebi & Thelen, 2011). In a post-conflict situation, a country must establish a stable governing authority and economic status. Therefore, economic development is crucial for a country's post-conflict situation,

and to achieve it, international donors inject significant amounts of foreign aid into that nation's public and private sectors. Due to high corruption and insufficient efforts, Afghanistan experienced an inflated economy during the post-conflict reconstruction period beginning in 2001. The country's economy could not absorb large sums of money that international donors and players injected. It is noted that from 2001 to 2020, Afghanistan's economy received around USD 150 billion from the US and additional billions of dollars in aid from other foreign actors (Shah, 2021). A decline in living standards has accompanied slow economic growth: the proportion of Afghans living in poverty has increased from 38 percent in 2011/12 to 55 percent in 2016 to 70 percent in 2021 and 87 percent in 2022 (World Bank, 2022). Since the takeover in August 2021, Afghanistan has been at a crossroads. Afghanistan's nominal GDP is likely to contract by 20 percent within a year, from US\$20 billion in 2020 to US\$16 billion, according to a new socio-economic report by the United Nations Development Programme (UNDP) (Islam et al., 2022). Afghanistan has been in a difficult position since the Islamic Emirate takeover in August 2021. According to a recent socio-economic analysis by the United Nations Development Programme, Afghanistan's nominal GDP is anticipated to decrease by 20 percent within a year, from \$20 billion in 2020 to a value of US\$16 billion (UNDP). If immediate corrective action is not taken, the research warns that this decline might increase to 30 percent in the following years, or US\$14 billion (Omid & Noolkar-Oak, 2022). Afghanistan, already the most impoverished nation in Asia, has a 40 million-person population that cannot be sustained on its meager economic base. The annual per capita income would drop to US\$350 in the coming year, from US\$650 in 2012 and US\$500 in 2020. According to a recent socio-economic evaluation of Afghanistan, prohibiting women from working might cause an immediate economic loss of up to \$1 billion, or up to 5% of the nation's GDP (Isaksson & Kotsadam, 2018).

The country cannot afford this loss, and we urge the de facto authorities to preserve the rights of women and girls, particularly their access to education and employment. (Dost, 2016). All local resources must be deployed in response to the urgent need of the time, especially female relief workers whose deployment is severely constrained in most provinces. Even still, the UNDP and independent experts' collaborative economic modeling shows that raising the incomes of everyone living in extreme poverty to the poverty line might cost as much as US\$2 billion, given the population growth and declining incomes (Karim, 2022). According to a UNDP economic evaluation published in September, up to 97 percent of the population may be in danger of falling below the poverty line by next year if a solution to the nation's political and economic difficulties is not started immediately (Berrebi & Thelen, 2011). People's confidence in their government determines how sound governments and the international community can combat poverty, maintain security, and advance human rights (Popovski, 2010). A plethora of research reveals that aid lowers political accountability, promotes corruption, and undermines good governance (Asongu & Nwachukwu, 2016), (Bräutigam & Knack, 2004). According to the empirical findings, active aid projects are linked to declining confidence in the president, the parliament, and the local council. The findings also show that completed aid programs are linked to losses in institutional trust, even though the effect is statistically and substantively more negligible than it is for initiatives still in progress (Knutsen & Kotsadam, 2020). Additionally, it has been discovered that ongoing aid initiatives are linked to weaker ratings of the effectiveness of the government in combating corruption and higher perceptions of leaders' corruption (Briggs, 2019). Recent empirical investigations in this area reveal no proof that aid reduces trust in leaders and government legitimacy (Baldwin & Winters, 2018). The findings of this

research imply that factors such as citizens' expectations of the relationship between their government and donors, donor control over aid resources, and aid conditionality may help lessen aid programs' anticipated detrimental impact on institutional trust (Atitianti, 2022). Performance has traditionally determined political autonomy (Voogd et al., 2019). Trust in political institutions is anticipated to increase when governments in developing countries provide infrastructure such as economic growth, jobs, schools, healthcare, and other amenities. However, low-income nations frequently do not have the resources to offer all of their residents fundamental public goods and services. In these situations, funding and implementing development initiatives across various sectors, including health care, education, sanitation, transportation, energy, and agriculture, are primarily carried out by donors and non-governmental organizations. (Dietrich & Winters, 2015). Foreign assistance also lessens the recipient government's reliance on domestic taxes to cover its budgetary demands (De Mesquita & Smith, 2010). There is a long-standing claim that citizens will demand accountability from governments more readily when it comes to taxes than when it comes to non-tax money like oil or aid (de la Cuesta et al., 2019), (Ross, 2004). Governments less reliant on tax revenue would experience less public pressure for effective governance. Recent theories of donor control assert that efforts by donors to address aid fungibility may restrict the impact of foreign aid on corruption (Findley et al., 2017). The negative consequences of aid on governance may be limited by applying aid conditionality. Even though donors frequently utilize conditionality, compliance with conditionality has been poor because of plausible commitment issues in donor-recipient relationships (Montinola, 2010). Due to institutional incentives inside aid organizations and the donors' strategic interests, donors frequently need help to credibly commit to applying aid conditionality (Watkins, 2019; Byrd, 2018). Some analysts say that international aid positively changes political institutions, which means that international aid has a wide range of political effects. They argue that conditionality compels states to pursue democratic principles. Moreover, financial resources are provided to improve the election process, increase political awareness, and develop institutions. Other analysts contend with this view and argue that international aid erodes state sovereignty through conditions attached by donor states. The opponent of international aid claims that donors pursue their strategic and political interests rather than recipient welfare. Afghanistan is one of the primary recipients of US foreign aid. US foreign aid started to flow after 2001, with high fluctuations in volume during different eras (Byrd, 2018). Between 2001 and 2021, international donors disbursed 75.4 billion US dollars as Official Development Assistance (ODA) or civilian aid to support Afghanistan's reconstruction and 82.6 billion US dollars as military aid to strengthen the Afghan army in the fight against terrorism, as shown in Table 1.

Table 1: Total foreign aid disbursement to Afghanistan (2001-2021, Current Value, US\$ Bn)

Year	Net Military Aid Disbursed	Net ODA disbursed	Total aid disbursed as a percentage of GDP
2001	0.2	1.2	20
2002	0.5	1.5	29
2003	1.2	2.3	40
2004	1.8	2.9	60
2005	3.7	2.9	65
2006	6.5	5.1	68
2007	6.1	4.8	88
2008	4.8	6.2	95
2009	8.2	6.3	85
2010	7	6.8	68

2011	7.9	6.7	80
2012	4.9	5.2	78
2013	6.9	4.9	60
2014	2.7	4.4	45
2015	3.5	4.2	55
2016	4.1	3.9	36
2017	4.4	3.8	37
2018	4.7	3.6	35
2019	3.5	3.4	40
2020	0	3.2	35
2021	0	3.2	40

Source: Author's elaboration based on the data from Muram & Wani, 2020; OECD, 2022; and USAID, 2022.

Official Development Assistance (ODA) to Afghanistan

The OECD describes ODA as (i) government aid (ii) that promotes and specifically targets the economic development and welfare of developing countries (iii) and typically possesses a grant element of at least 25%. In the case of Afghanistan, more than 95 percent of the ODA came in the form of grants, which carry no obligation of repayment.

Table 2: Breakdown of US aid to Afghanistan from 2001-2022

Year	All Agencies Aid/Obligations	Disbursements	Military Assistance	Economic Assistance
2022	3.8 Bn	3.05 Bn	0	100
2021	1.38 Bn	1.04 Bn	0	100
2020	3.97 Bn	3.74 Bn	65	35
2019	4.89 Bn	4.68 Bn	71	29
2015	8.28Bn	9.3 Bn	74	26
2010	10.9 Bn	7.84 Bn	61	39
2005	1.73 Bn	1.66 Bn	43	57
2001	91.9 Mn	40.8 Mn	0	100

Source: Author's elaboration based on the data from USAID (2022)

Note: Data adapted from (Muram & Wani, 2020).

The flow of aid heavily depended on the US military, political, and strategic interests rather than the development of democratic institutions (Byrd, 2018). Several donor countries provided ODA (civilian aid). The military aid was disbursed mainly by the United States of America, and it consisted of i) the Afghanistan Security Forces Fund (ASFF); ii) Train and Equip (DOD); iii) the Afghanistan Freedom Support Act (AFSA); iv) International Military Education and Training (IMET); v) Drug Interdiction and Counter-Drug Activities (DOD-CN) (Karimi, 2020).

Table 3: Top funding donor countries for Afghanistan (2021)

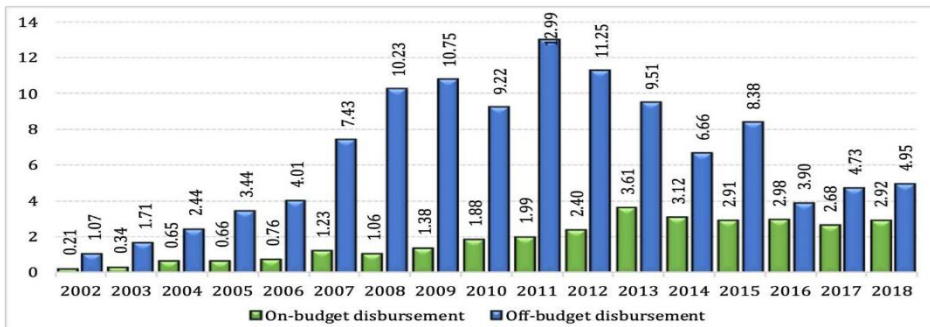
Country	Funding US\$
Government of Germany	390,062,785
USA	320,346,037
European Commission's Humanitarian Aid and Civil Protection Department	217,794,758
UK	164,701,224
Government of Denmark	95,023,982
Central Emergency Response Fund	92,322,109
Government of France	86,091,819
Government of Italy	84,131,597
Government of Japan	74,146,174
Government of Sweden	65,125,352
Government of Canada	63,385,448
European Commission	59,935,167
United Nations Children's Fund	50,228,161
Government of Switzerland	45,859,305

Government of Norway	39,634,991
Government of Australia	30,999,042
Government of Netherlands	26,552,431
Government of Austria	24,714,787
United Arab Emirates	15,827,566
Government of Finland	15,273,929
Republic of Korea	12,624,223

Source: Afghanistan 2021: Affected country funding profile for 2021
<https://fts.unocha.org/countries/1/donors/2021>

During 2002–2018, donor countries historically disbursed foreign aid grants in two ways: on-budget and off-budget. Of the total foreign aid (both civilian and military) disbursed under Afghanistan's name, donors historically spent 79 percent (113 billion US\$) themselves through off-budget funding mechanisms (Karimi, 2020). In comparison, the Afghan government merely received 21 percent (31 billion US\$) through an on-budget funding mechanism based on several bilateral and multilateral agreements, as shown in the figure (Muram & Wani, 2020).

Figure 2: On and off-budget aid disbursement in billions of US\$ (2002-2018)



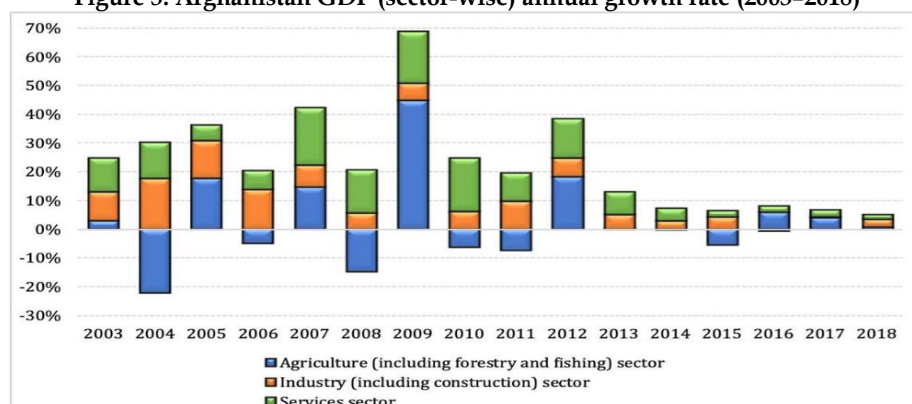
Source: Author's elaboration based on the data from ICTD/UNU-WIDER (2020); OECD (2020), and USAID (2020)

The main reasons behind foreign aid modality (off and on-budget structuring) were two. The first reason was the Afghan government's weak public financial management (PFM) system (Karim, 2022). According to the World Bank (2013) report, weak PFM refers to both structural and capacity issues (including corruption-related concerns) as well as unrealistic budget formulation mechanisms (the inability to execute the projected budget) (Nematullah, 2017). The second reason was donors' strategic interest in particular projects and programs (typically separate from the government's agenda) that can generate rapid results to "win the hearts and minds" of Afghans. Several scholars (Joya, 2011; Jalali, 2016) have argued that foreign aid in Afghanistan has historically been prescriptive (donor-driven) and is based on the short-term strategic and political interests of aid providers rather than on Afghanistan's endogenous needs and long-term strategic goals (Kanbur, 2006).

Over the past two decades, foreign aid grants and on-budget funding have undoubtedly played a vital role in expanding public service delivery. However, foreign aid grants continued availability on a large scale has inadvertently incentivized the Afghan government to make the minimum efforts to enhance domestic public resource mobilization (DPRM) (Nematullah, 2017; Byrd, 2018)). On the other hand, Afghanistan's economy grew by an average of 7% per year between 2003 and 2018. This growth was exponential, but it was also very volatile. Figure 2.2 shows that the agriculture sector's output was the main factor in this growth. Nevertheless, some studies said that much of the growth during the same period was also due to the influx of donor funds, which

boosted domestic consumption and public investment, increasing the output of the services and industry sectors (Willner-Reid, 2018).). As Afghanistan's industry sector could not meet domestic consumers' needs, stimulating domestic consumption through foreign aid grants boosted the national appetite for imported goods (Karimi, 2020; Byrd, 2018).

Figure 3: Afghanistan GDP (sector-wise) annual growth rate (2003–2018)



Source: Author's elaboration based on the data from World Bank (2020b)

As a result, Afghanistan became a net importer with a sizeable deficit in the current account. Over the past two decades, Afghanistan's current account deficit has been historically high (on average, 25 percent of the GDP) due to a high share of imports (on average, 7 billion US\$ annually) over exports (on average, close to a billion US\$ annually) (World Bank, 2021). Afghanistan's historical dependency on imports (both consumer and capital goods) and the extraction of foreign exchange through foreign aid grants (to pay for imports) correspond to the implication of aid dependency (Sinno, 2015), which has been referred to as "export lethargy (Kanbur, 2006; World Bank, 2021)."

Table 4: US Economic and Military Aid to Afghanistan, 2005-2021 (millions of \$)

Year	Military Assistance (in millions \$ US) (%)	Economic Assistance (in millions \$ US) (%)	Total Foreign Assistance (in millions \$ US)
2005	715 (43)	946 (57)	1661
2006	1846 (55)	1510 (45)	3357
2007	3675 (75)	1225 (25)	4900
2008	6501 (78)	1833 (22)	8334
2009	5992 (70)	2568 (30)	8560
2010	4783 (61)	3058 (39)	7841
2011	8128 (71)	3320 (29)	11448
2012	6974 (69)	3133 (31)	10108
2013	7870 (79)	2092 (21)	9962
2014	4882 (69)	2193 (31)	7076
2015	6920 (76)	2185 (24)	9105
2016	2746 (65)	1478 (35)	4225
2017	3570 (73)	1320 (27)	4890
2018	0 (0)	1008 (100)	1008

Source: USAID. org

Table 4 shows that the military aid given to Afghanistan during that time shows some strange patterns. In 2011, 71 percent of the total aid was military aid to combat terrorism (Muram & Wani, 2020). Afghanistan received no military aid in 2018, but it did receive US\$ 1008 million in economic aid (Shah, 2021).

Table 5: ODA to Afghanistan from Selected Countries/Organizations (millions US \$)

Donor	2005	2007	2009	2011	2013	2015	2017	2019	2021
EU Institutions	256.62	307.46	395.36	363.47	358.9	192.28	399.81	414.86	407.33
ADB total	22.85	94.27	121.75	120.05	97.92	114.54	178.59	183.11	180.85
UK	219.92	268.71	324.39	423.42	325.23	458.25	317.57	292.23	304.9
Turkey	28.56	71.61	96.46	130.89	65.23	56.78	32.69	36.52	34.6
Germany	99.23	217.15	337.34	539.3	529.39	362.07	502.84	478.43	490.63
UAE	19.73	1 000.63	46.84	38.16	81.93	56.77	41.43	29.37	35.4
KSA	30	1.21	0.34	0.77
Canada	89.47	345.39	232.58	225.15	84.19	148.08	96.33	68.46	82.39
Japan	71.05	101.01	335.93	751.43	386.67	317.2	300.83	233.69	267.26
World Bank	282.08	442.24	299.74	152.37	164.44	125.2	73.99	149.57	111.78
UNDP	7.08	11.35	19.24	14.67	10.98	8.39	8.25	7.58	7.91
United Nations	41.27	47.69	67.77	67.33	69.26	65.55	122.89	91.74	107.31
United States	1 318.30	1 514.28	1 979.93	3 054.95	1 928.08	1 631.47	1 375.76	1 215.11	1 295.43

Source: OECD, *Geographical Distribution of Financial Flows to Aid Recipients*

The numbers presented in Table 2.5 represent a drastic shift in policies. For example, in 2005, total US aid to Afghanistan was US \$1318.30 million; by 2006, the figure was US \$1430.71 million; and it was US \$1295.43 million by the end of 2018 (Muram & Wani, 2020). Similarly, aid was reduced in 2011 from US \$14.67 million to US \$7.91 million in 2018. By the end of 2018, EU institutions' contribution was US\$ 407.31 million (Ali Ahmad, 2016). The same story applies to decreasing the aid flow when talking about the rest of the donors, like the UK, World Bank, Saudi Arabia, Turkey, Canada, ADB, Japan, and UAE (Riddell & Niño-Zarazúa, 2016; Hotak & Wani, 2019).

Table 6: Total aid by the US to different countries from 2001-2022

Country	Total aid (million US \$)		
	2005-11	2012-2022	% change
Afghanistan	4610.49	5049.31	0.09
Egypt	1354.19	467.22	-0.65
Iraq	4410.26	1124	-0.74
Israel	2195.73	1966.87	-0.1
Jordan	580.55	874.55	0.5
Pakistan	925.79	6,32.66	-0.31
Turkey	16.64	32.71	0.96

Source: OECD, *Geographical Distribution of Financial Flows to Aid Recipients*

Table 6 shows that Afghanistan's economic and military aid patterns are similar and that each part of official development assistance moves together in a healthy, positive way (Crawford, 1997; Qazizada & Wani, 2020). This co-movement reflects how US policies toward Afghanistan affect the total aid flow to Afghanistan (Cordeman, 2016).

Table 7: Comparison of Military Assistance, Economic Assistance with Official Development Assistance by the US to Afghanistan

Year	Military Assistance (in millions \$ US)	Economic assistance (in millions \$ of US)	Total Foreign Aid (in millions \$ US)	ODA to Afghanistan by the US.
2005	715	946	1661	1 318.30
2006	1846	1510	3357	1 403.71
2007	3675	1225	4900	1514.28
2008	6501	1833	8334	2 111.58
2009	5992	2568	8560	2 979.93
2010	4783	3058	7841	2 938.84
2011	8128	3320	11448	3 054.95
2012	6974	3133	10108	2 714.09
2013	7870	2092	9962	1 694.07
2014	4882	2193	7076	1 928.08
2015	6920	2185	9105	1 631.47
2016	2746	1478	4225	1 375.76
2017	3570	1320	4890	1 215.11
2018	0 (0)	1008	1008	1295.43

2019	2746	1478	4225	1 375.76
2020	3570	1320	4890	1 215.11
2021	0 (0)	1008	1008	1295.43
2022	0 (0)	1028	1008	1345.43

Source: Calculations based on the data from <https://explorer.usaid.gov/data>

Conditions and obligation of U.S Aid in post 9/11 context: A Comparative Analysis of the Karzai and Ghani Era

The 9/11 attacks in the U.S. changed the political and security paradigms of the world (Clayton, 2018). Afghanistan had to choose between the devil and the deep sea. Afghanistan, which was ruled by a de facto government until 2001, joined the war on terror and became a critical ally of the United States against terrorist groups. After 9/11, U.S. aid to Afghanistan increased to an all-time high. It was a replay of the Cold War; sanctions and conditions were waived by the U.S. and generous aid was granted to Afghanistan (Hogg, Nassif, Osorio, Byrd, & Beath, 2013). In 2010 Afghanistan ranked 2nd among the recipients of US foreign aid surpassing Israel. The growth in foreign aid after 9/11 shows a stark contrast between George W. Bush and his father, it reinforces the argument that the U.S. administration both Democrats and Republicans are motivated by strategic objectives and regional development (Ali, 2016). Despite turbulence in bilateral relations between the two countries, the flow of aid continued unabated during Obama's presidency. However, it is pertinent to note that the Obama administration and Congress, unlike George W. Bush, added stringent conditions through Kerry-Lugar-Berman. The first condition attached after 9/11 was imposed in 2003. Section 706 of the Foreign Relations Authorization Act of 2003 enables the U.S. president to withhold foreign aid from countries considered major drug transit routes or producers and not adhere to international counternarcotics measures. However, the president was granted the power to waive off restrictions if he reports that it's in the interest of the U.S. or the recipient state has made efforts to adhere to international efforts and agreements for counternarcotics measures. Initially, Afghanistan was certified by the U.S. administration as adhering to provisions provided in the Foreign Relations Authorization Act of 2003; however, later on, it was included in the list through Presidential Determination No. 2008-28 in 2008 by the U.S. president. Yet the major conditions to U.S. aid were attached through the Enhanced Partnership with Afghanistan Act (EPAA) of 2009. The Obama administration changed the nature of U.S. aid by increasing non-military aid threefold and attaching strict conditions, i.e., counter-insurgency and strengthening of democracy in Afghanistan. The first session of the 111th Congress passed the Enhanced Partnership with Afghanistan Act (EPAA) of 2011. The law prohibits the transfer of aid until the secretary of state certifies to Congress that Afghanistan has: made a concerted effort to combat terrorist groups and made considerable progress on matters such as ceasing support to groups attached to military or intelligence agencies involved in attacking the U.S. or its allies in Afghanistan or neighboring countries; combating Al Qaeda and dismantling terrorist camps in FATA, Quetta, and Muridke; and strengthening anti-money laundering laws. (Cordesman, Anthony H, 2018, Ministry of Finance Afghanistan, 2020)). The Consolidated Appropriations Act of 2012 added another layer of conditions 2012. The act's section 7046(c) required the secretary of state to certify the release of assistance. The conditions included both military and non-military assistance (Cordesman, A.H., 2016). The provision of funds was subject to all conditions enumerated in Kerry-Lugar-Berman with some additions, such as: acting against the networks involved in IED production and the chemicals used in the manufacture of IEDs; issuing visas to U.S. officials, in a timely

manner, involved in counterterrorism efforts and assistance programs; and providing humanitarian organizations access to IDPs and detainees. The history of military aid suggests that the conditions attached to U.S. aid were determined by the strategic and political interests of the United States irrespective of the different administrations, i.e., Republicans or Democrats (Dostyar, 2017). Moreover, the pattern of U.S. aid suggests that restrictions and conditions were lifted by the U.S. president whenever the U.S. had a strategic interest in the region; they were imposed strictly otherwise. There is no obvious correlation between the flow of aid and particular administrations. The flow of aid was determined by the strategic interests of the U.S., i.e., to counter the Soviet Union in Afghanistan and later on to dismantle the Taliban regime. Whenever the U.S. objectives in the region were achieved, the amount of aid decreased significantly and sanctions were imposed on Afghanistan. The usage of foreign aid as a political tool is not confined to the war on terror only. Through foreign aid, either military or non-military, donor states exert their influence. For instance, the U.S. established AFRICOM in 2008, the regional military command in Africa to promote development in the region. The overt objective of AFRICOM would ensure stability, prosperity and liberty; however, the underlying efforts were to curtail Chinese expansion in Africa. The Chinese foreign aid in Africa has caused concern in the West, although there are fewer conditions attached by the Chinese to foreign aid it is not free of political objectives. Chinese aid and assistance are geared to access the market and resources of recipient states, especially in Africa. Thus it is clear that foreign aid has a significant role in international politics (Lancaster, 2008).

Foreign aid is used as a tool of foreign policy to pursue state objectives. The provision of international aid is determined by the economic, political, and strategic objectives of donor countries; similarly, alliances in the international system heavily influence the flow of foreign aid. U.S. aid to Afghanistan started pouring in after the fall of the Taliban in 2001 (Kharas, 2009). In line with these arguments, we analyze the diplomatic relations with the United States in terms of U.S. economic and military assistance to Afghanistan and trade relations between the U.S. and Afghanistan. The general pattern of U.S. aid suggests that the Karzai government received more military aid than Gani's administration. Moreover, the aid both military and non-military granted to the Karzai government had negligible restrictions and benchmarks. It is pertinent to note that the Gani administration in Afghanistan has coincided with significant events in the region which were directly linked to U.S. foreign policy (Karimi, (2020). Afghanistan witnessed a record increase in bilateral military aid; according to available data, and eventually, Afghanistan became 2nd largest recipient of foreign military aid. On the other hand, the civilian government had been at the receiving end of military and political aid. The data suggests that the Karzai government received more military as well as civilian aid than Gani's administration.

Table 8: Breakdown of US aid to Afghanistan from 2001-2022.

Year	All Agencies Aid/Obligations	Disbursements	Military Assistance	Economic Assistance
2022	3.8 Bn	3.05 Bn	0	100
2021	1.38 Bn	1.04 Bn	0	100
2020	3.97 Bn	3.74 Bn	65	35
2019	4.89 Bn	4.68 Bn	71	29
2015	8.28Bn	9.3 Bn	74	26
2010	10.9 Bn	7.84 Bn	61	39
2005	1.73 Bn	1.66 Bn	43	57
2001	91.9 Mn	40.8 Mn	0	100

Source: Data Collected from USAID

Looking at Table 2.8, the pattern of aid flow to Afghanistan strongly reinforces the notion that aid to Afghanistan was dependent on the regional event rather than the U.S. desire to enhance democracy or institutional building. The United States resumed military and civilian aid to Afghanistan; the U.S. congress passed a supplemental appropriation act. Section 304 of the act provided military and logistical support to Afghanistan in connection with operation Enduring Freedom. In the first week of November, U.S. presidential elections were held. The Democratic candidate Obama replaced George W. Bush; the changes in government both in the U.S. as well as Afghanistan changed the dynamics of aid flow. The annual flow to U.S. aid under the Obama administration increased consistently every year; in 2010 it reached a record 4.5 billion dollars. However, the Obama administration attached strict conditions to foreign aid. Through legislation, such as the Enhanced Partnership with Afghanistan Act (EPAA) and Consolidated Appropriations Act, of 2012 certain benchmarks were provided to the government. The downward trend in U.S. foreign aid started in 2011. The total aid flow decreased significantly in the subsequent years. It is pertinent to note that it was not only military aid that decreased but also developmental aid granted under the USAID head. The flow of foreign developmental aid suggests that bilateral relations played important role in aid relations between both states. 2011 witnessed a drastic reduction in U.S. foreign aid given through U.S. aid to 1.9 billion from 2.7 billion in the preceding year. The military aid given to Afghanistan in 2010 was around 2.7 billion under Obama's new strategy for Afghanistan. However, the downturn in bilateral relations led to a decrease in foreign aid in significantly the subsequent years. Since 2013 the civilian assistance granted to Afghanistan from different agencies has been less than 1 billion dollars annually except in 2015. The security aid granted to Afghanistan in 2018 was merely 23 million as the US ambassador to Pakistan announced that they are withholding security aid due to concerns of the Trump administration regarding Afghanistan's dubious role in the War on Terror as well as reluctance to eliminate the *Haqqani* network. Table 8 shows the breakdown of US aid to Afghanistan from FY2001-FY2022 as follows.

The comparative analysis of the Hamid Karzai (July 2002-September 2014) and Ashraf Gani (September 2014-August 2021) governments suggests that the U.S. imposed fewer sanctions during the Karzai regime from 2002 to 2014. However, Ashraf Gani's government faced strict conditions related to foreign aid. Furthermore, the flow of foreign aid is directly related to bilateral relations between Afghanistan and U.S.

Economic Implications of Foreign Aid Dependency in Afghanistan: Mapping the future of Afghanistan and US foreign relations

When looking at the future of Afghanistan and US foreign relations regarding foreign aid, it is safe to say that it will continue to go down. Afghanistan can survive without US aid, provided the state exercises and diversifies its revenue base the way it is now. Since the Taliban is looking for ways to collect taxes and other income, this would ensure their economy works well and reduce their need for foreign aid. Economic efficiency and self-sufficiency will not make the current authorities feel like they have to meet the obligations of the donors. It will give the government more power to rule the country as they see fit, restoring Afghanistan's political legitimacy and independence (Murtazashvili, J. (2015)). So, if Afghanistan's economy is stable and it can take care of itself, its leaders can decide what is best for Afghanistan rather than what is best for donors. In one way, this study shows and supports how economic independence can help Afghan leaders use their political power to the fullest extent. People in Afghanistan lost faith and trust in their

government because it was so dependent on foreign aid. The government made decisions based on what the international community wanted. Although foreign aid's modality was relevant to Afghanistan's context for the given reasons, on-budget and off-budget funding mechanisms had several distinct counterproductive consequences for Afghanistan (Langenkamp, 2002; Wani and Kabir, 2016). Another work argues that years of foreign aid have left an ambiguous legacy. The slowdown in economic growth in 2014 as 'almost inevitable' and states it negatively affected Afghan families by reducing incomes. Several scholars argued that a continued and massive reliance on foreign aid transformed Afghanistan into a weak and aid-dependent rentier state that, in turn, had several counterproductive consequences for the country. Based on the literature focused on Afghanistan, some of the major implications of aid dependency included: state fragmentation and upward accountability to donors; formation of a parallel public sector; encouraged rent-seeking and corruption; exposed the state to the hazards of fiscal instability.

Even though the way foreign aid was given was important to Afghanistan for the reasons given, both on-budget and off-budget funding mechanisms had several adverse effects on Afghanistan. A different piece of writing (Maley, 2016; Nazary, Wani, & Hatam, 2020) says that years of foreign aid have left a mixed legacy, primarily affecting the livelihoods of female counterparts as well. The 2014 economic slowdown was described as "almost inevitable," It hurt Afghan families by lowering incomes. Several scholars argued that a continued and massive reliance on foreign aid transformed Afghanistan into a weak and aid-dependent rentier state that, in turn, had several counterproductive consequences for the country. Based on the literature on Afghanistan, some significant implications of aid dependency included: state fragmentation and upward accountability to donors (Bizhan, 2018); the formation of a parallel public sector. Donor countries have traditionally spent four-fifths of all foreign aid outside the Afghan government's budget to help the country develop and provide public services (Yamey, Jamison, Hanssen & Soucat, 2019; Wani & Dhani, 2021.) However, significant extrabudgetary spending established a donor-run parallel public sector in Afghanistan, making it harder for the Afghan government to be trusted to do its most important jobs. Encouraged rent-seeking and corruption and exposed the state to the hazards of fiscal instability.

Afghanistan's fiscal dependency on foreign aid has the hazard of severe financial instability because aid is highly volatile and dependent on the political decisions of the donor countries. A sharp drop in on-budget foreign aid grants could destabilize Afghanistan's finances. The Afghan government needs help to seek large foreign currency loans due to its weak fiscal and monetary situation. By issuing sovereign bonds (also called Sukuk), it might be possible to pay off the debt in the country's currency – and macroeconomic instability. Any sharp decline in aid inflow could create severe macroeconomic instability that would pressure the exchange rate, the balance of payments, and the country's debt stock. Foreign aid's exogenous and volatile nature makes predicting its impact on a country's economy difficult. When looking at the future of Afghanistan and US foreign relations regarding foreign aid, it is safe to say that it will continue to go down. Afghanistan can survive without US aid, provided the state exercises and diversifies its revenue base the way it is now. Since the Taliban is looking for ways to collect taxes and other income, this would ensure their economy works well and reduce their need for foreign aid. Economic efficiency and self-sufficiency will not make the current authorities feel like they have to meet the obligations of the donors. It will give the government more power to rule the country as they see fit, restoring

Afghanistan's political legitimacy and independence. So, if Afghanistan's economy is stable and it can take care of itself, its leaders can decide what is best for Afghanistan rather than what is best for donors. In one way, this study shows and supports how economic independence can help Afghan leaders use their political power to the fullest extent. People in Afghanistan lost faith and trust in their government because it was so dependent on foreign aid. The government made decisions based on what the international community wanted.

6. Conclusion and Policy Recommendations

Foreign aid is essential in Afghanistan, and its high dependence on it has always severely limited its economic systems, hurting Afghanistan's economic independence and calling into question the credibility of the Afghan government over the years. This study examines the impact of massive amounts of foreign aid on Afghanistan's economic autonomy from the standpoint of institutional trust. The current study looks at how an economy that depends on aid, like Afghanistan's, threatens the country's economic independence and how that affects the institutions. Afghanistan and US relations are issue-based rather than sustainable. Regional events and strategic interests determine the nature of the bilateral relationship between Afghanistan and the US; foreign aid to Afghanistan heavily depends on the nature of bilateral relations. The impact of economic aid on the politics of Afghanistan is limited, which has frustrated the US administration. Instead of the US, South Asia's complicated security situation influences Afghanistan's strategic decision-making. However, it cannot be denied that the US uses foreign aid as a political tool to achieve its vested interests in the region. The minuscule amount of aid to Afghanistan shows that foreign aid in US foreign policy towards the region, particularly Afghanistan, has less significance. The role of aid is expected to decrease further in the future. The changing dynamics warrant Afghanistan to keep a delicate balance between the US and China, as the US still has significant clout in international institutions. Furthermore, Afghanistan needs to strengthen its economy rather than depend on foreign aid, especially from China; otherwise, its sovereignty would be compromised.

The pouring of money toward more foreign aid was based on an ugly equation: the poorer the country, the more aid it will receive, and this have to change. Donors should help Afghanistan based on its progress toward development and bring more development-oriented and long-term initiatives for the Afghan population, providing an incentive for Afghanistan to go forward and catch up with the rest of the developing world. Targeting aid at sustainable growth rather than at photogenic social priorities, coupled with a robust monitoring system to fight corruption, will also help aid effectiveness. The Taliban must concentrate their efforts in the early stages to gain national and international legitimacy to implement their governance in Afghanistan. It may be difficult, if possible, for the Taliban to ensure their long-term stability and existence. The Islamic Emirate of Afghanistan urgently needs to revise its policies and political road map, specifically toward the world. They need to re-examine their policies toward the rest of the world's politics, and in particular, the Taliban need to re-examine how it could be able to develop a diplomatic relationship with the region and the world.

Policy Recommendations

In this part of the study, suggestions are made for short-term, medium-term, and long-term policies that can improve Afghanistan's domestic public revenue mobilization

(DPRM). These recommendations are based on an analysis of the situation in Afghanistan and the lessons learned from other countries. The recommendations are divided into three key areas: short-term, medium-term, and long-term policy recommendations. Short-term policy recommendations focus on the administrative barriers because they are primarily under the Afghan Ministry of Finance's and the donor community's direct control and can be resolved quicker than the rest. The study recommends; increasing on-budget funding and improving recruitment processes; adjustments to Salary Scales; expansion of electronic tax management systems and enactment of electronic signature and electronic payment laws. The medium-term policy recommendations include the fight against corruption; reevaluation of the income tax and customs law; implementation; and debt financing. From the Long-term policy recommendations perspective, the study recommends; expanding the Taxable Economy (Tax-Base); increasing Regional Integration, and responsible Spending: Amid the massive economic contraction Afghanistan is suffering from, it makes no sense for the current government to be sucking money out of the economy through taxation and not then returning it to the economy through responsible spending, especially on government employees' salaries. Thus, this practice needs serious thought.

Limitations and Future Scope

Talking about the research limitations for this title, one major limitation is that while one talks about high aid dependency in Afghanistan, we are not linking it to the political fabric of the state, and thus only economic effect is not gauged. Whereas the political impact of this matter is usually not given much importance, thus, understanding the link between high aid dependency and lack of political autonomy for the Afghan government from 2001-2021 is crucial. This study limits the analysis to the economic aspect only, thus leaving room for further exploration of political domains. Conducting research regarding the economic and political effects collectively would further allow us to have more specific and effective solutions for an array of economic and political problems in the country. In terms of research regarding aid dependency in Afghanistan, there are scanty sources available (qualitative data) however, on the political dimensions the studies are almost non-existent. Further research should focus on the political and economic implications of high aid dependency from a quantitative sense. Even the linkage of foreign aid with political stability can be assessed as to how to reduce the volatility of aid to avoid political destabilization of recipient countries can be an apt source for future research.

Authors Contributions

The authors confirm their contribution to the paper as follows: study conception, data collection, model evaluation, analysis, and design: MS; interpretation of results and draft manuscript preparation: NUHW. All authors reviewed the results and approved the final version of the manuscript.

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About the Authors

Ms. Maryam Stanakzai, Alumni MIR, and Member Research Society Kardan University, Kabul, Afghanistan.
<maryamstanak@gmail.com> ORCID: 0009-0008-7911-6626

Dr. Nassir Ul Haq Wani, Head Department of Research and Development, Kardan University, Kabul Afghanistan.
<n.wani@kardan.edu.af> ORCID: 0000-0003-3871-9857
