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AFGHANISTAN CORONAVIRUS IMPACT: COUNTRY NOTE

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UNDP AFGHANISTAN

Foreword

This note examines the likely effects of the corona virus outbreak using the UNDP-GTAP model that has been developed specially for Afghanistan. Along with their fiscal implications, the note simulates changes mainly for the short-run (2020-22) arising from disruptions in the global and regional trade, the health response required to contain the spread of the virus, and the need to introduce policies to mitigate the social impact of the pandemic. The simulations are performed for a Medium Transmission scenario developed by the Ministry of Public Health. For completeness, results for 2023 and beyond are also included but, given the extraordinary degree of ongoing uncertainties, domestically and internationally, they are most likely subject to significant forecast errors.

The results suggest that Afghanistan faces multiple and serious challenges. The decline in GDP from global and regional economic effects on Afghanistan may reach 17% by 2023 compared to its end-2019 level. Assuming that the virus does not spread very fast (Medium Infection Transmission rate) the costs for addressing the pandemic for additional beds, equipment and personnel are estimated by the Government to reach almost \$250 million. And this ignores that these additional requirements can hardly be implemented in weeks, even in months, amidst the small and weak base of the health system and limited outreach across the country that is still ridden by security issues and a political impasse.

To ameliorate even part of the impact on the social sectors would require funds far beyond the reach of the government budget. For example, to compensate citizens for even a small loss in consumption (e.g. equal to one-third of the poverty line) across the population for a much shorter period than the impact of the pandemic can be reasonably expected to last (only six months) would require a fiscal outlay of nearly 10% of GDP. And this already high figure is much higher as a percentage of current non-military government expenditure.

Even assuming that the security situation improves, the political impasse is solved and there is capacity to quickly implement the required health response and need for social protection, Afghanistan is not in a position to fund policies of reasonable size from domestic revenues. For example, funding the \$250 million required for the health response from domestic revenues through expenditure switching so to preserve budget neutrality, would further compromise growth (an additional decline in GDP by 1.3% also 2023). This would not happen if the additional health expenditure is funded through grants. However, increased trade (by 1.2%) can add significantly to the GDP (more than 2%). Thus, the importance of adopting the right fiscal, monetary, financial, trade and private sector development policies cannot be overrated. An increasing and more generous support from donors would also help, but donors themselves face similar fiscal pressures from the spread of the virus and tightening budgets in their own countries.

Given these challenges, UNDP can continue its support to Afghanistan through a reorientation of its current programs and the introduction of new ones in cooperation with other organizations in close dialogue with the Government.

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Abdallah Al Dardari
Resident Representative
UNDP Afghanistan

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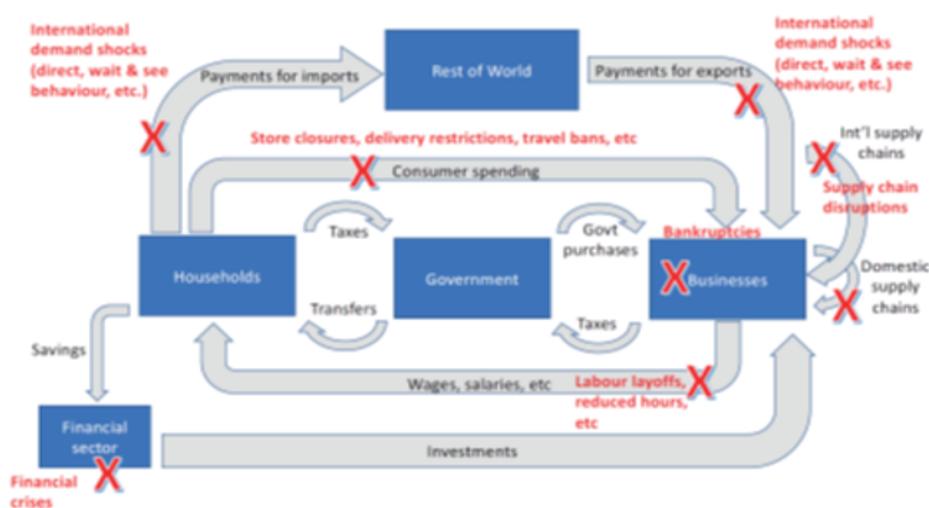
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1. Country context

1. The first COVID-19 case in Afghanistan was identified on 22 February 2020 in Herat City, bordering Iran, in an Afghan returnee from Iran. The Afghan Ministry of Public Health considers the large inflow of returnees with exposure to COVID-19 to be the main risk factor affecting the spread of the virus. Afghanistan had already started its efforts to contain the spread of the virus as early as January by controlling travelers at airports and other international entry points.
2. Within a month, the virus spread to Balkh, Samangan, Kandahar and Kabul provinces. On 14 March, the Government of Afghanistan closed all schools for an initial period of 4 weeks. Herat Provincial Governor announced a restriction of movement due to COVID-19 from 25 March 2020 until the situation improves.
3. The Ministry of Public Health reckons, within a wide range, the spread of the virus can reach¹:
 - In the High Transmission scenario: Total cases around 190,000²
 - In the Medium Transmission scenario: Total cases around 110,000
 - In the Low Transmission scenario: Total cases around 46,000.

Figure 1. Economic Impact of COVID-19



Source: Based on Baldwin (2020b).

4. Early assessments of COVID-19 impact on developed countries in 2020 (e.g. in Germany, USA and China) indicate a fall of 5% to 10% of GDP due to interruption of businesses, supply chain disruptions, labor layoffs as illustrated in (Figure 1)³. Global growth is projected to be reduced by 4.5 percentage points in 2020 (minus 2.2% instead of an earlier projected rate of 2.3%)³. International demand and supply shocks can be transmitted via upstream and downstream linkages, falling consumer demand and investment owing to falling incomes and worsening expectations.
5. If the spread of the virus cannot be contained, given the low economic growth that prevailed recently (annual average GDP growth around 2% and even lower, in fact negative in terms of per capita income) the social impact may be higher than that elsewhere also aggravated by the fragile security situation. The prospects for the Afghanistan's recovery may further be weakened given the limited available fiscal space, uncertain donor support and a weak health sector (Textbox 1).

1. National Emergency Response Plan for Corona Virus 2020, MoPH (2020).

2. This can be the case in the absence of effective health policy responses such as strict (and strictly enforced) social distancing; protecting health workers and supplying them with necessary materials, drugs, equipment; internationally coordinated action and lack of domestic political consensus leading to an immediate truce/ceasefire that would allow all stakeholders to on the virus, the common enemy and enable the foregoing.

3. The Economist, March 27, 2020.

6. The Afghan Minister of Public Health, H.E. Dr. Ferozuddin Feroz declared COVID-19 as a threat for entire world especially for Afghanistan. Due to potential rapid spread of the virus he called for more international cooperation⁴. Lacking a coordinated international response to the virus makes the need for a cooperative domestic scenario, where conflict can be reduced as a result of all sides uniting against a common enemy, even more pressing.
7. Subsequent sections provide some ballpark estimates on the impact of COVID-19 in Afghanistan and recommend emergency and early recovery policy measures in areas where UNDP stands ready to assist⁵.
8. It should be borne in mind that at the time of writing, Afghanistan may already be at the initial surge phase of COVID-19 pandemic compared to the so far detected cases of 370. This will affect Afghanistan's economy and the people's livelihoods that are likely to suffer from substantial jobs losses arising from the high rates of informality and seasonality of employment as well as internal and external trade interruption, and the diversion of scarce resources to confront the health consequences of the pandemic. COVID-19 comes to an already fragile economy with high levels of poverty, serious threats to security and safety, and an unclear political future.

2. Economic impact

9. Afghanistan has been hit by the pandemic at a critical point in the peace process. The year-on-year forecasts (around 5%) made before the emergence of the virus last year that might have already appeared to be optimistic last year, may well turn negative due to lower investment, net exports, consumption and constrained aid inflows.
10. A significant part of the policy response should immediately focus on the containment of the virus. Among such policies the most promising and the one with lowest fiscal implications is social distancing. If this fails, it would lead to the High Transmission scenario as developed by MoPH. The risk of spreading the virus may be higher in rural areas where health facilities are scarce and the knowledge about the pandemic may be low⁶.
11. This section aims to provide ballpark estimates on the short-term impact of COVID-19 and short-term funding requirements for interventions.
12. With the aid of Afghanistan-GTAP CGE model (A-GTAP-CGE), this note simulates the economic impact of the separate shocks arising from disruption of trade with its partners and also globally compared to the state of the economy before the pandemic⁷:
 - If global supply chains were disrupted and international trade flows were weakened.
 - If Afghanistan's borders with Pakistan and Iran were closed either partially or fully thus leading to shortages in essential products (food, medicine, etc.)
 - If Kazakhstan stopped its flour exports to Afghanistan.

4. <https://moph.gov.af/en/moph-held-emergency-meeting-international-health-partners-fight-against-spread-and-control-covid-19>

5. This note deals with the impact of the corona virus. How this will affect the path towards achieving the SDG is to be followed in a subsequent note taking into account Afghanistan's policy responses to the corona virus and their outcomes in conjunction with likely globally coordinated and sufficiently effective policies conditional on donor support in terms of funds and technical assistance to Afghanistan. It is expected that the corona virus may have a significant adverse impact in areas covered by essentially all SDGs. This impact will emerge over the coming weeks, months, and perhaps years. Since the horizon of SDGs is a decade, it will be important to focus on those impacts that are unlikely to be reversed by 2030, even if others loom large today.

6. The government has instructed the Administrative Unit (Districts) to initial robust public information campaigns regarding the benefits of hygiene and social distancing. <https://menafn.com/1099896387/Afghanistan-Corona-Virus-Strategy-Comes-into-Effect-to-Facilitate-Government-Employees>

7. The current state of the economy is generally assumed to be that in the late 2010s depending on the availability of most recent data.

13. The A-GTAP-CGE model for Afghanistan was used to develop a Baseline with COVID-19 under Medium Transmission scenario developed by MoPH. The Business as Usual Case scenario refers to a simulated growth path for Afghan economy under COVID-19 without any policy interventions (Table 1).
14. Column 2 of the table shows the assumptions underpinning the model’s Medium Transmission Case scenario separately for the crisis period 2020-22 and expected recovery in 2023-25 assuming medical progress, such as the development of vaccines. Column 3 summarizes model simulations on the socio-economic impact assessment for a business as usual scenario (i.e., when no interventions are made).

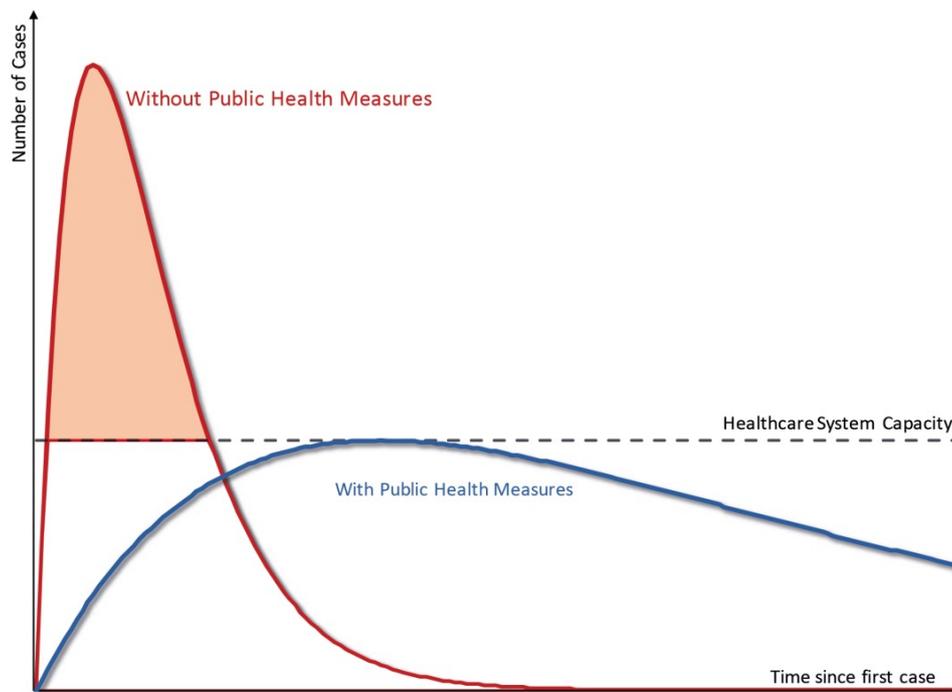
Table 1: Impact of Covid-19 on Afghanistan due to Global and Regional Economic Effects Change from GDP without COVID19 - No Policy Response (Business as Usual) -		
Time horizon	Initial Conditions	Cumulative Change in Real GDP (% points)
2020-22 No policies are introduced	Estimated number of returnees from Iran remain at the current level (400,000) World prices for crude oil and gas decline by 40% compared to their average level in 2019	<ul style="list-style-type: none"> • 7.8% of GDP assuming global markets shrink due to the slowdown of the Chinese economy that leads to a reduction in global trade • 13.7% of GDP assuming reduction in global trade similar to the 2008 Global Financial Crisis) • 5.4% to -17.3% of GDP assuming Afghanistan’s exports to and imports from its main partners (Pakistan, Iran, India and Kazakhstan) decrease respectively by 8% and 25%
2023-25 No lasting COVID effects	Technological change (TFP growth) as in IMF (2019) Projections (2019) Population growth as in UN-STAT Estimated number of returnees from Iran remain at the current level (400,000)	+5% growth of GDP *
* A sizeable growth rebound post-crises is not uncommon though it can be compromised in Afghanistan for (a) structural reasons that were already present before the corona virus resulting in economic growth being only around 2% per annum since the middle 2010s, and (b) uncertainties arising from security issues, the political impasse and volatile donor support. Source: UNDP own estimates based on A-GTAP-CGE		

3. Policy Objectives and Main Options

On the Health Side

15. The first policy objective should be to initially contain and then reduce the spread of the virus. The building the A-GTAP-CGE model differentiates between the two cases shown in Figure 2. The first one assumes the spread of the virus takes place at a Medium infection Rate with and without public health measures (Table 1). The second case assumes that adequate public health measures are introduced (Tables 2 and 3).
16. Public health policies aim to contain the rapid spread of the virus and “flatten the caseload curve”. As the is already known and also included in the National Emergency Response Plan for Corona Virus 2020 (MoPH, 2020) this can be achieved by introducing and enforcing social distancing measures while in parallel expanding health services through additional hospital beds (and hospitals) and intensive care provisions, equipment and personnel. The “flattened case load curve” would reduce the spreading of the virus over time and enabling more people to receive proper health treatment (Figure 2). This will obviously also reduce the number of deaths though it will extend the length in time of the pandemic⁸.

Figure 2. Flattening the Caseload Curve to Enable a Health System Response



17. The Afghan Government’s Emergency Response Plan for Corona Virus 2020, MoPH (2020) aims to increase the Healthcare System Capacity by building hospitals, strengthening of health personnel and providing additional equipment at an estimated total cost of around \$250 million. If successful, this will shift upwards the Health System Capacity line in Figure 2⁹.
18. Still, it should be borne in mind that this cost assumes that the course of pandemic is unimodal, that is, once it subsides it does not come back. This is not generally the case. In fact, though the future course of COVID-19 is unknown given that it is a previously unknown virus, the consensus is that it will keep recurring, although it is hoped that this will be in less severe forms.

8. Ed. Baldwin and Weder di Mauro (2020). Mitigating the COVID Economic Crisis: Act Fast and Do Whatever it Takes. CEPR Press.

9. In contrast with the curves shown in the graph, it is very likely that the capacity of the health system in Afghanistan will be overwhelmed under any scenario, at least in some regions as the case has been in many high income countries.

On the Fiscal Side

19. The National Emergency Response Plan for Corona Virus (MoPH, 2020) envisages three scenarios. In the low case scenario, there will be 46,000 infections that would require an additional health expenditure of \$122 million. The corresponding numbers for the other two scenarios are respectively 110,000 cases at a cost of \$225 million and 190,000 cases at \$390,000 million¹⁰.
20. The effects of the pandemic in Afghanistan, like elsewhere, will not be confined to the health sector. As Table 1 showed, there are bound to be severe economic and social effects from the slowdown of the world economy as well as global and regional trade. Countries around the world are taking measures to minimize the adverse effects on production by supporting industries and firms with them to remain afloat and avoid closing down. They do so through credits and loans, tax relief and exemptions, simplifying procedures and so on. They also provide various social benefits to mitigate the social impact of the crisis that can include wage subsidies, unemployment benefits, direct transfers, introducing and expanding income support and so on¹¹. As Textbox 1, indicated the direct and indirect budgetary costs of a combined health, economic and social response in countries that have taken measures and the virus has spread widely can reach 10% to 30% of annual GDP; and could be much more in case a full-blown recession takes foot.
21. Even assuming that Afghanistan has the capacity to implement quickly the required health service responses, the fiscal response is unlikely to be adequate without external support. However, fiscal space is stretched to the limits in all donor countries as they also battle the same virus and have limited appetite to pour large amounts of money in any case and likely more so for Afghanistan that political differences result in spending almost one-third of its budget on security. International assistance may eventually be forthcoming to support a global public good, like avoiding the effects of a worldwide pandemic, but this would require complementary and bold adjustments from the Afghan side.

Table 2: Medium Case Scenario for the Change in GDP under Different Funding Options for the Expected Costs for Combatting the Impact of Covid-19 (\$250 million), 2020-23 (percentage change compared to end-2019 GDP level)
<ul style="list-style-type: none"> • -1.32% of GDP assuming expenditure switching from other public services (neutral deficit impact) • 0.03% of GDP assuming grants (not loans) from donors • 2.11% of GDP assuming greater regional cooperation (Pakistan, Iran, India and Kazakhstan) leading to a reduction in trade costs by 2.8% (e.g. due to economies of scale).
<i>Notes and Sources: See Table 1</i>

22. As illustrated in Table 2, simulations of the A-GTAP-CGE model show that the emergency health response by cutting other public spending, the effect on GDP will be negative (row 1). This is not the case of such funding from donor funds, albeit the effect will be small (row 2). In contrast, an improved trade environment can boost GDP significantly, thus releasing the additional funds required for health and also allow more spending on other public services (row 3). This underscores the importance of rebooting the economy and indicates the limits that continuing reliance predominantly on donor support have.

10. In the model simulations 1% administration cost was added to these estimates.

11. So far, economic support policies support policies have been introduced mainly in advanced countries with relatively large formal sectors. Some of these policies are less relevant for low income countries (e.g. unemployment insurance) and are substituted by more appropriate measures when employment in agricultural and informal sector production and employment are large (e.g. public works).

23. Political considerations aside for now, Table 3 simulates the costs of a single intervention as an illustration of the fiscal challenge facing Afghanistan. The type of the intervention does not matter as any budgetary allocation can be spread across different policy interventions. However, let us assume that the specific intervention is an income transfer to citizens for only 6 months at a level well below the poverty line (2,064 Afghanis per person per month or \$31 at 2016 prices)¹². The income can be paid to all citizens, or only adults or only senior citizens in the form of a “social pension” (not contributory). It is assumed that children and elderly are paid half the amount given to adults (in equivalence terms in terms of needed consumption). The results are presented in Table 3.

Table 3: Estimated Budgetary Costs of Different Income Support for 6 Months				
	Population		Benefit level (% of poverty line = \$31.02/month)	
	Share (%)	N (million)	1/2*	1/3**
Universal Basic Income				
Population <15 (% population)	47.7	16,5	25.0%	16.5%
Population >65 (% population)	2.7	0.9	25.0%	16.5%
Adults	49.6	17,2	50.0%	33.0%
Total	100	34,7		
Budgetary cost (millions)		1,655	2,411	1,591
Budgetary cost (% of GDP)	8.71		12.7%	8.4%
If only adults receive ...				
Budgetary cost (\$ millions)			1,599	1,055
Budgetary cost (% of GDP)			8.4%	5.6%
If only elderly receive (65+) ...				
Budgetary cost (\$ millions)			43,5	28,7
Budgetary cost (% of GDP)			0.23%	0.15%
* Half for adults only (\$15.51/month) and half of that for children and the elderly (\$7.76/month)				
** One-third for adults only (\$10.24/month) and half of that for children and the elderly ((\$5.12/month)				
Source: UNDP Estimates				

24. Income support measures of universal or more target kind are being introduced or expanded in several countries following the pandemic with additional ones that expand health services, provide support a lifeline to companies and so on. However, Table 3 suggests that even a measure (of any kind) that would cost on average only around 1,000 Afghanis (\$15) per adult equivalent per month are beyond of the current reach of the government. This conclusion holds even though the income support intervention in this example is foreseen to last for only six months while the effects of the crisis may last for two years or even more.

25. Having said that, there may be room for the most modest kind of income support, that is, the introduction of a social pension. Social pensions have been found to have low leakages as they are categorically targeted. Even though explicitly designed to protect the elderly poor, they have been found to have significant effects not only on family consumption but also on increasing the human capital of children¹³. This is so because most old persons in developing countries live with their children and grandchildren, thus they spend their incomes within the family. Naturally, unlike other income support measures, social pensions do not have a significant adverse effect on labor supply as older people usually do not or cannot work.

12. Source: Afghanistan Living Conditions Survey 2016-17, NSIA (2017).

13. Carvalho, I. E. (2000). “Elderly Women and Their Living Arrangements in Brazil.” Cambridge, MA: Massachusetts Institute of Technology; Dufo, E. (2003). “Grandmothers and Granddaughters: Old Age Pension and Intrahousehold Allocation in South Africa.” World Bank Economic Review 17 (1): 1–25.

Conclusions and General Policy Directions

26. Moving ahead, policies will have to take into account:

- The magnitude of the challenge that is conflated by Afghanistan being a low income fragile country with limited capacity for the timely introduction of effective measures and limited outreach in all parts of its territory that has borders with Iran that extend to nearly 1,000 km (and those for Pakistan are 2,400 km)
- The already limited fiscal space that is partly the result of the ongoing conflict and the uncertain political situation that in turn may give rise to reluctance of Afghanistan's donors to maintain their support – even if donors do not, as the case seems at present, plan to reduce their aid budgets
- The priority that health services should be given for (a) the containment and reduction of what is likely to become a relentless spreading of the virus; (b) the mitigation of the social effects of the crisis arising directly from the pandemic and indirectly from the adverse economic impact; and (c) minimizing the adverse economic impact in the short and medium run.
- The administrative and institution capacity for expanding existing policies or introducing new policies as well as implementing them, including the limited direct outreach of government in certain districts
- And the extent to which international agencies, including UNDP, can provide support in a coordinated and timely way.

27. Finally, in addition to the problems that other countries are facing, with security spending reaching around 30 percent of GDP, there is already limited fiscal space for emergency health interventions. If the virus cannot be contained successfully, given the capacity limitations of the health sector, humanitarian aid and international donors may be necessary to overcome the COVID-19 crisis.

Summary of Policy Recommendations

- The first policy objective should be to initially contain and then reduce the spread of the virus.
- Second, the health sector should be prepared in case the virus reappears in a second wave hopefully with a lower peak than this.
- Third, the lack of fiscal space to fight COVID19 can be dealt with domestic revenue mobilization. This will be hard to achieve in the short term through additional revenues therefore the government should explore expenditures switching measures from other sectors ideally through reduction in security spending. In parallel, government can generate revenues through promoting openness in trade and regional cooperation.
- Fourth, given the domestic revenue mobilization is unlikely to fill the gap, the government should aggressively seek additional donor money. With security spending reaching around 30 percent of GDP, there is already limited fiscal space for emergency health interventions.
- Fifth, there will be a need to increasing social protection, given the tight fiscal situation and institutional constraints and limited effectiveness of targeting. There are limited options for Afghanistan, a country that is under fiscal constraint and 55% of its population lives below the poverty line and perhaps half of the remaining are vulnerable or about to become vulnerable. Under this condition, the most promising universal benefit can be to grant a social pension to the elderly. In terms of more targeting measures, a promising measure may be public works for poor households in poor regions.

28. The role of UNDP in this respect is discussed next.

4. UNDP's role

29. In view of the crisis UNDP has adjusted its thinking and operations compared to those before the outbreak of the virus. It now plans to provide additional support for the pandemic within its longer-term engagement aligned with the Sustainable Development Goals, the achievement of which is now threatened.
30. In Afghanistan, making longer term planning (including for the SDGs) is harder than in other countries. In addition to other challenges mentioned earlier, it is difficult to address the pandemic and the extent of the derailment of the economy in a conflict economy where the government's control of the territory is limited, and people's movements are unpredictable. Across the globe, countries have abandoned long term plans as predictions amidst the current uncharted conditions are no more reliable than "shots in the dark". But they have not abandoned forward-looking thinking, turning to analyzing a small set of plausible scenarios, as done by the government of Afghanistan, and also in this note.
31. UNDP stands firm in its support to Afghanistan. In close dialogue and consultations with the government and UNCT, it is examining ways to develop stronger partnerships with other international organizations such as the Global Fund and World Bank. It is currently reprogramming existing resources in line with the identification of critical measures that would strengthen the health system, contain the economic impact and provide social support to mitigate the adverse health and economic effect on citizens. Assisting the government in devising a cash transfer or other income support program is a distinct possibility.
32. Additionally, UNDP plans to conduct a rapid socioeconomic impact assessment of the situation starting with the border areas with Pakistan and Iran.
33. In parallel, UNDP will develop a set of complementary analytical tools that can help:
- Expand and adapt an already ongoing filed surveys to collect information on price spikes and supply shortages of goods in COVID affected provinces including around border areas
 - Update of UNDP's CGE models to generate:
 - a. a rapid socioeconomic impact analysis of a COVID 19
 - b. estimation of the poverty impact
 - c. assessment of desirability and likely costs of alternative instruments to support the most impacted households
 - Identify, in collaboration with the World Bank, other IFIs and Global Funds, resources that can be mobilized immediately. Possible focus areas include offering mass testing for the virus, protecting workers' health, expanding medical facilities and contributing to economic recovery.
34. Act fast by adopting fund raising instruments that uses advanced technology such Crowdfunding. UNDP can use an existing Crowdfunding Platform to raise donations such as Youcaring.com, Causes, Give-Forward, Crowdrise, GoFundme, FundRazr, Indiegogo, Kickstarter etc. UNDP can also have its own UNDP Crowdfunding Platform that can be used also for SDGs project financing. Think out of the box to come up with new blended financial instruments to fund commercial enterprises that support critical prevention and mitigation activities required by the pandemic. As example: structuring a blended finance instrument to finance a project to modulate empty containers to be turned into mobile intensive care units.
35. Benefit from the existing Philanthropists that are also pitching in the fight against COVID-19. The foundation, created by Jack Ma, a United Nations advocate for sustainable development goals and the co-founder of Alibaba Group Holding, is donating protective masks and test kits around the world. The Bill & Melinda Gates Foundation, Wellcome, and Mastercard partnered will contribute up to \$125 million in seed funding to speed-up the response to the COVID-19 pandemic by identifying, assessing, developing, and scaling-up treatments.

36. Take immediate action to benefit from newly created initiatives and funds to fight the outbreak of COVID-19 like:
- a. Tencent this week announced the launch of the Global Anti-Pandemic Fund, a \$100 million effort designed to help curb the devastating spread of COVID-19. The news follows the launch of \$100 million funds from fellow tech giants Netflix and Facebook. The initial funding will go to practical and vitally important health supply donations, including protective gear and other products for hospitals and healthcare first responders.
 - b. Abu Dhabi launches donation programme to support fight against Covid-19. It will put collected funds towards medical and educational aid and food supplies and anything else that will benefit the community.
 - c. The Global Fund is enabling countries to use up to 5% of approved grant funding to help protect and treat vulnerable communities. Approximately US\$500 million is available to help protect and treat vulnerable communities around the world.
 - d. Under the new guidelines, the Global Fund is encouraging countries to redeploy underutilized assets, repurpose grant savings and, in exceptional cases, reprogram funding from existing grants. Activities under the new COVID-19 guidelines include, but are not limited to, epidemic preparedness assessment, laboratory testing, sample transportation, use of surveillance infrastructure, infection control in health facilities, and information campaigns.
 - e. The Global Fund continues to work closely with partners at global, regional and country levels on COVID-19 preparedness and response, from resource mobilization for CEPI (Coalition for Epidemic Preparedness Innovation), mobilizing the private sector, securing the supply of vital medical products and expediting the development of diagnostics, to support WHO's overall leadership of the global response.

Textbox 1: Country budgetary responses to the corona virus pandemic

While the corona pandemic is still spreading, governments have already started making additional budgetary allocations to contain its health and economic effects. These allocations are extremely large by historical standards, for example, compared to those made after the Global Financial Crisis of 2008. The USA has already allocated \$2 trillion (just over 10% of GDP) to fighting the pandemic but there is considerable consensus that more may be needed.

Germany foresees \$170 billion in new government debt this year, around 100 billion more than would have been permitted under Germany's very strict debt ceiling that limits annual borrowing. It is setting aside a far larger sum of around \$650 billion to provide emergency help to companies in the form of the government taking on the liability for bridging loans these companies might need. The two allocations come to just over 20% of GDP, though more can be spent to mitigate other effects. /1

In the UK the budget deficit will more than triple to over €210 billion (nearly 10% of GDP). The combined cost of measures to support public services, the self-employed, wage subsidies, unemployment benefits, loan guarantees, deferrals of tax payments etc., is expected to exceed \$800 billion (almost one-third of GDP). /2

There is limited information on such spending in developing countries. The IMF has created a "Policy Tracker" that lists developing country responses to the pandemic /3.

For brevity, taking Morocco as an example where the population is roughly equal to Afghanistan (36m), \$200 million has been set aside to fight the pandemic. This is almost equal to Afghanistan's estimate for (only) the health response to the pandemic in the middle scenario envisaged by the Government. /4 However, Morocco will also benefit from \$500m pledged aid by the EU. It aims to increase the number of intensive care beds to 3,000 from 1,640 with accompanying increases in testing kits, medicine and equipment. It will set up a special fund for its coronavirus response expected to be topped up with private donations that would provide stipends to (a) every head of a household operating in the informal sector whose activity was impacted by the lockdown, and (b) those who were members of social security but lost their jobs (\$200/month till June). In parallel the government is introducing austerity measures such as suspension of staff promotions and hiring in the public sector, except in the security and health sectors. /5

All in all, the crisis has made revisions in budgets necessary. Judgment on fiscal costs and social benefits of various policy options is replacing the conventional (non-emergency) approaches to fiscal discipline, macroeconomic management and private sector support and development. The current very low levels of borrowing costs for most governments facilitates this response. Other than epidemiologists whose forecasts may still be subject to wild errors, government and economists alike are flying largely blind through a pandemic. While the health policy response varies across high-income countries (e.g. late enforcement of social distancing or the rate of increasing production for protection equipment and so on), as a precaution little is being spared in terms of fiscal outlays for fighting the pandemic.

Some donor countries have already reduced and others are already contemplating to scale back their aid to developing countries though the latter are in even more tight fiscal situation as many have preexisting imbalances while they cannot borrow or issue bonds as easily or cheaply as high income countries. Moreover, their medical preparedness is very limited.

Sources:

1/ <https://www.dw.com/en/whats-in-germanys-emergency-coronavirus-budget/a-52917360>

2/ <https://www.instituteforgovernment.org.uk/coronavirus-government-response>

3/ <https://www.imf.org/en/Topics/imf-and-covid19/Policy-Responses-to-COVID-19#U>

4/ Ministry of Public Health. National Emergency for Coronavirus 2020. March, 3 2020.

Textbox 2: Recent Government Announcements (22 March 2020)

At the recommendation of the Independent Civil Services and Administrative Reforms Commission (ICSARC) the cabinet has approved measures for reduced working hours of government employees and increased precautionary measures for applicants. The measures would go into effect in all provincial and central government institutions apart from the Ministry of Public Health (MoPH).

Accordingly, the working hours in the government sector will be between 8:00am and 1:00pm without any break, with the possibility of introducing morning and afternoon shifts if needed and exemptions for critical staff and focal points.

Employees above the age of 58 to 65 as well as pregnant women and women whose children are in government kindergartens have been advised to work from home.

Government institutions had been asked to avoid gathering of more people and ensure at least one-meter distance between employees in offices. They have also been asked to conduct their meetings conferences through video, voice calls and other available resources.

Source:

<https://menafn.com/1099896387/Afghanistan-Corona-Virus-Strategy-Comes-into-Effect-to-Facilitate-Government-Employees>

Appendix Table A-1: Estimates of Infected People and Costs of Treatment

The National Emergency Response Plan for Corona Virus (MoPH, 2020: p. 15) envisages the following three scenarios of infected people and the costs of treatment:

Scenario 1: with total cases 46,000

Scenario 2: With total cases 110,000

Scenario 3: with total cases 190,000

Summary Budget Plan for Three Scenarios - COVID 19 Operation			
Scenarios	Scenario I	Scenario II	Scenario III
Items Cost (\$, Million)			
Medical Equipment (Existing Wards)	10	31	59
Consumables, Medicines and Supplies	31	82	156
Telemedicine	2	1	2
Laboratory Certification and Accreditation	0.7	0.7	0.7
Surveillance	24	24	24
Establishment of Isolation Wards in Provinces	50	80	137
Risk Communication	4	6	11
Total Cost (\$, Million)	122	225	390



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