ADVANCE EDITION

AFGHANISTAN: Socio-Economic Outlook 2021-2022

AVERTING A BASIC NEEDS CRISIS

UNDP AFGHANISTAN COUNTRY OFFICE

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Contents

EXECUTIVE SUMMARY....1

1. INTRODUCTION AND SUMMARY....3
1.1 OBJECTIVE OF THIS REPORT....3
1.2 THE SOCIAL CONDITIONS IN 2020 AND THE THEN-REQUIRED AMOUNT OF AID....3
1.3 POST-AUGUST 2021: A 'WAIT-AND-SEE' SITUATION....3
1.4 THE INITIAL IMPACT OF ASSET FREEZE AND REDUCED AID ON THE ECONOMY....4
1.5 THE IMPACT ON SOCIAL CONDITIONS....4
1.6 UNDP'S PROJECTIONS AND THE PROSPECTS FOR HUMANITARIAN RELIEF....4
1.7 OUTLINE OF THE REPORT AND KEY POLICY PROPOSALS....6

2. MULTIPLE SHOCKS TO AN ALREADY WEAK AND DETERIORATING ECONOMY....7
2.1 THE MACROECONOMIC SITUATION IN 2021 AND THE SHORT-TERM OUTLOOK....7
2.2 THE ROLE THE PRIVATE SECTOR AND BANKING DURING THE HUMANITARIAN CRISIS (AND BEYOND)....10
2.3 ENERGY: A KEY SECTOR FOR HOUSEHOLD WELFARE AND PRODUCTION....12

3. AN INTENSIFYING HUMANITARIAN CRISIS....15
3.1 POVERTY HAS INCREASED SHARPLY....15
3.2 GENDER: A HUMAN RIGHTS ISSUE WITH SIGNIFICANT EFFECTS ON THE ECONOMY AND HOUSEHOLD INCOMES....16
3.3 SDGS: THEIR ATTAINMENT WAS ALREADY OFF COURSE WITH FURTHER DERAILMENT EXPECTED....19
3.4 SOCIAL PROTECTION: STARTING FROM NEARLY ZERO BASE BUT CAN MAKE AN IMPACT....20

4. CONCLUDING REMARKS....23

ANNEXES....24
ENDNOTES....39

LIST OF TABLES

Table 1: Effects on household consumption from a reduction in female employment....18
Table 2: Summary of the three options for providing social protection transfers....21
Appendix Table A- 1: Summary of the three options for providing social protection transfers....26

LIST OF FIGURES

Annex Figure A- 1: Illustration of children entering a child benefit at 0-3 years in 2022....25
Annex Figure A- 2: Budget required each year for the three social protection options,....26
Annex Figure A- 3: Number of direct recipients of the social protection benefits, over 5 years....27

LIST OF ANNEXES

ANNEX 1: The Poverty Gap....24
ANNEX 2: Social Protection: Alternative cash transfer options....25

Abbreviations

A-GTAP	Afghanistan Global Trade Analysis Project
A-SAM	Afghanistan Social Accounting Matrix
ABADEI	Area-Based Approach to Development Emergency Initiatives
ABP	Area-based Programme
ADB	Asian Development Bank
AFN	Afghan Afghanis
ALCS	Afghanistan Living Conditions Survey
C-CGE	Country (Afghanistan) Computable General Equilibrium
CEDAW	UN Convention on the Elimination of All Forms of Discrimination
CO(2)	Carbon Monoxide (Dioxide)
COVID-19	Coronavirus Disease 2019
CPA	Country Programmable Aid
DAB	Afghanistan Central Bank
DABS	Da Afghanistan Breshna Sherkat (energy company)
DSSI	Debt Service Suspension Initiative
ESRA	Energy Sector Regulatory Authority
FAO	Food and Agriculture Organization
GDI	Gender Development Index
GDP	Gross Domestic Product
GHGs	Greenhouse Gases
HCI	Human Capital Index
HDP	Humanitarian-Development-Peace nexus
HRP	Humanitarian Response Plan
ICIEC	Islamic Corporation for the Insurance of Investment and Export Credit
ICRC	International Committee of the Red Cross
IDP	Internally Displaced Person

IELFS	Income, Expenditure and Labor Force Survey (2019-2020)
IEO	Independent Evaluation Office (UNDP)
ILO	International Labour Organization
IMF	International Monetary Fund
IOM	International Organization for Migration
IsDB	Islamic Development Bank
MDB	Multilateral Development Bank
MDPP	Martyrs and Disabled Pension Programme
MIGA	Multilateral Investment Guarantee Agency
MOWA	Ministry of Women's Affairs
MTFF	Medium-term Fiscal Framework
NIS	National Institute of Statistics (Afghanistan)
NOx	Nitrogen Oxides
NTMs	Non-tariff Measures
OCHA	United Nations Office for the Coordination of Humanitarian Affairs
OECD	Organization for Economic Cooperation and Development
OFAC	Office of Foreign Assets Control (USA)
PARRs	Priority Areas for of Return and Reintegration
RBAP	(UNDP) Regional Bureau for Asia and the Pacific
SDGs	Sustainable Development Goals
SME	Small and Medium-sized Enterprise
SOx	Sulphur Oxides
TEF	Transitional Engagement Framework
UBI	Universal Basic Income (social protection)
UNAMA	United Nations Assistance Mission, Afghanistan
UNCTAD	United National Conference on Trade and Development
UNDP	United Nations Development Programme
UNFPA	United Nations Population Fund
UNHCR	United Nations High Commissioner for Refugees
UNICEF	United Nations International Children's Emergency Fund
WFP	United Nations World Food Programme
WHO	World Health Organization
WTO	World Trade Organization

Executive Summary

Afghanistan ended 2020 with significant economic and development challenges. The country's international partners assessed the extent of these challenges at the time and pledged more than US$13 billion in November 2020 over the following four years. This amount, which is indicative of the scale of the challenges facing the country, was expected to be augmented by an increase in domestic resources derived from a revival in growth. However, not only would this have required significant domestic reforms to improve governance, promote the private sector and reduce corruption, but it is unlikely that sufficient additional revenue could have been generated by a revival in growth alone to satisfy the needs of the country, including those for reducing poverty and improving social conditions

The political change on 15 August 2021, has created new conditions. The de facto authority headed by the Taliban has yet to be internationally recognized. This, combined with the uncertainty arising from the divergence between official announcements and actions on the ground, has led to a sudden stop in international aid and the freezing of Afghan reserves held abroad. The drop in foreign aid that previously accounted for 40 percent of GDP, has had an immediate and significant impact on the economy, which was already in decline. The country is also having to cope with one of the most severe droughts in decades, the impacts of the pandemic, and the rapidly increasing levels of food insecurity. As a result, Afghanistan has already entered a twin humanitarian and development crisis that is becoming graver and needs to be immediately addressed to save lives and protect livelihoods.

To assist the humanitarian effort, this UNDP report examines the likely impact of the sudden stop in external financial support to social sectors. The results of an assessment of the economic outlook for the country are alarming. Although there is considerable uncertainty regarding the future course of the country, the estimates suggest an economic contraction by around 20 percent of GDP within a year, a decline that may reach 30 percent in the following years. The sizeable imports upon which Afghanistan critically depends for its energy and food need, may drop by half. Inflation has accelerated and the exchange rate has already depreciated considerably. The absence of foreign aid has taken its toll on investment and therefore on current and future production, as well as on private consumption. The banking sector also is very much under stress, raising the risk of financial instability.

The report's findings paint a bleak prospect for social sectors. The combination of falling incomes and a growing population may more than double the 'poverty gap', requiring an estimated US$2 billion to lift the incomes of all poor people up to the poverty line. This alone is indicative of the relief required to avoid a humanitarian catastrophe of an unprecedented scale. COVID-19 is damaging lives, livelihoods, basic and essential health care, emergency responses and efforts to eradicate polio. Having barely recovered from the 2018 drought, Afghanistan declared a national drought last summer that may turn out to be the worst the country has had in decades. The number of people that would require food assistance is expected to reach a record of nearly 23 million, more than half of the population. The prices for food, cooking oil and fuel have risen sharply; wages have fallen; and unemployment may double over the next couple of years.

Using the Sustainable Development Goals (SDGs) as a summary measure for economic and social progress, the findings of this report suggest that the most severe impacts are likely to be felt on poverty (SDG 1), hunger (SDG 2), clean water and sanitation (SDG 6), employment (SDG 8) and inequality (SDG 10). Education (SDG 4) has already taken a hit as girls are not being allowed to return to their schools. Related, past gains in gender equality (SDG 5) have been swiftly reversed by restricting women from working and, more generally, depriving them of representation and confining them in the private sphere, where they are afforded few of their internationally recognized human rights. This report estimates that restricting female employment may inflict an immediate economic loss of between US$600 million and US$1 billion (3 to 5 percent of GDP). The income of households with working women will fall accordingly. This estimate can be compared with an earlier one by UNDP in 2020 that showed that, prior to 2021, Afghanistan would have needed US$300 million a year to meet the SDGs by 2030. The expected loss of output can be an underestimate, as it ignores the adverse effects on productivity from the acute gender segregation in employment that restricts women from working in certain sectors and positions and thereby reduces their productivity and limiting their potential contribution

to the economy. It also ignores that failing to adequately educate half of the population today, namely girls, will compromise Afghanistan's prospects as the economic impact of educating a girl in Afghanistan (the 'rate of return to education') is more than double that for educating a boy.

Based on the developments since August 2021, this report provides a preliminary assessment of their likely economic impact and then focuses on their effect on different social sectors. It also considers two other sectors that can support the humanitarian effort and are also critical for economic growth. One of them is banking, including Islamic finance, which can be used as a channel for funding humanitarian assistance. The other sector is energy, which is critical for both household welfare and production and would be difficult to finance from domestic sources alone since international aid has stopped and most energy is imported. An interruption of electricity imports might leave over 10 million people, a quarter of the population, in the dark. International humanitarian assistance to Afghanistan should ensure that electricity imports are not cut, but that, if they are, whatever little energy is produced internally will continue and therefore ease the stark everyday energy poverty of ordinary households.

Against this background, UNDP is reorienting its operations to focus on mitigating and hopefully averting the immediate impacts of the crisis on lives and livelihoods. UNDP has estimated that supporting households through modest cash transfers at an annual cost of US$300 million can have a significant impact on poverty. The selection of households for support would be based on the number of household members who are children, elderly or people with disabilities. This programme can be complemented by a 'cash-for-work' programme at an annual cost of about US$100 million and by a 'cash-for-markets' programme of transfers to small businesses, whose costs would be US$90 million per year.

Although nobody can expect to solve, in a year or two, problems that have not been solved for decades, it is now recognized by the international, regional and bilateral partners of Afghanistan that the dialogue with the Taliban should continue and focus on the immediate humanitarian needs. This should be done without violating international laws or compromising established principles. While providing support to the humanitarian effort in Afghanistan, the international community and several countries that have generously donated significant amounts of development and humanitarian aid to Afghanistan in the past, are expecting the Taliban to adhere to their announcements and demonstrate respect for human rights, with women's rights being at the centre.

1. INTRODUCTION AND SUMMARY

1.1 Objective of this report

Afghanistan's political change on 15 August 2021, took place while the country was already in need of significant development and humanitarian support. The political uncertainty that has ensued and continues as the current de facto authorities have not yet been internationally recognized, adds to the challenges that ordinary citizens face. The economic conditions have worsened from the previously already low levels. Both the Taliban and the international community acknowledge the urgent need for alleviating the economic impact on social sectors. This report aims to provide an initial assessment of the likely course of the economy and the implications for humanitarian relief in the short run, albeit a tentative one, given the uncertainties surrounding the Taliban's intentions and the future role of international donors. Its objective is not restricted to awareness-raising but also offers a basis for a productive dialogue and joint action among the involved stakeholders and identifies areas for partnerships and modalities for joint programming to increase resource mobilization to avoid the unfolding humanitarian crisis.

1.2 The social conditions in 2020 and the then-required amount of aid

By 2020, economic growth had stalled, and annual per capita income had declined precipitously to just over US$500 compared to nearly US$650 in 2012. Internal displacement arising from conflict and environmental crises had affected 3.5 million people, posing serious challenges for housing and livelihoods. The advent of COVID-19 had a direct impact on lives, affecting livelihoods through lockouts, social distancing and disrupted economic activities. This had ripple effects on the availability of basic and essential care as well as on emergency responses while millions of children remained unvaccinated and the risks of measles, acute watery diarrhoea and malnutrition were rising. The poverty rate was estimated to have increased to more than 70 percent after the pandemic compared to 47 percent before. Overall, the number of those in need of humanitarian assistance was estimated to be 18 million by the end of 2020s, nearly half of the population, most of them children.

It was estimated that Afghanistan required US$6 billion to US$8 billion in international grants per year between 2020 and 2024 to fund basic services, support faster economic growth, and consolidate and sustain the then-expected peace settlement with the Taliban.[1] Though well short of this figure, the international community at the Geneva Conference (November 2020) pledged more than US$13 billion over the same four-year period. As this amount would have not been enough to turn the economy around, the Conference also acknowledged that there should be an increase in domestic resource mobilization through growth, a reduction in corruption, improved governance, and significant structural reforms. Still, that amount of donor support is indicative, first, that Afghanistan has been facing many real development and humanitarian challenges Afghanistan; second, that Afghanistan could not face the future without significant external support; and, third, that international partners remain engaged, at least with respect to humanitarian needs.[2]

1.3 Post-August 2021: A "wait and see" situation

The announcements made by the Taliban soon after they took power suggested that there would be significant differences between the 'Taliban of yesterday' and the 'Taliban of the future'. The announcements included granting a 'general amnesty' to those who had been associated with the previous regime, such as civil servants, judges and those who had worked with foreign forces, as well as promises for inclusive approaches and respect for human rights – notably allowing girls to continue their education and women to work.

However, the situation on the ground has reportedly started to divert from the official announcements regarding the way justice is being administered, house-to-house searches for former officials, the treatment of ethnic and religious minorities, what forms of entertainment are acceptable, and whether males should grow beards. Women have been excluded from public life, including from positions that the de facto authorities have created as ministers or at deputy minister level. Women working in the public sector have been told not to return to work "until procedures are in place to ensure their safety".[3] They are required to be accompanied by a male

family member in public places, something that also applies to female aid workers in the very few provinces where they are allowed to work. Girls have been barred from returning to schools, especially those above the age of 12. These differences are being seen as 'broken promises', hindering the international recognition of the de facto authorities.[4]

The Taliban have stated that they welcome foreign assistance and trade. However, they face an increasing credibility gap in terms of commitments and practices. The differences between announcements and actions have resulted in a 'wait-and-see' reaction by global and regional leaders. The previous international partners of Afghanistan as well as prospective ones, such as China, Iran, Pakistan and Russia as well as its regional neighbours such as Tajikistan, Uzbekistan and Turkmenistan, have yet to recognize the de facto authorities. The result so far is that there is no consensus on how and when to fully resume vital financial assistance, and this has brought the transfer of foreign funds upon which Afghanistan heavily relies to a halt.

1.4 The initial impact of asset freeze and reduced aid on the economy

The foreign exchange reserves of Afghanistan's central bank held abroad have been frozen while international organizations and other donors have paused planned disbursements. The economy is facing a shock from the sudden drop in aid that has led to cash shortages, with local banks having restricted withdrawals and a weakened banking sector.[5] The national currency has depreciated; inflation has accelerated, particularly with respect to food, cooking oil and fuel; trade has declined; and much of the country's imported electricity remains unpaid.

These effects have taken place while the economy already was in decline since 2020 and, in combination of the expected severe drought, the continuing effects of the COVID-19 pandemic and the incomplete political transition are likely to result in a cumulative reduction of GDP by up to 30 percent, according to the IMF.[6] Similar results have been reported by the World Bank and the Asian Development Bank. In parallel, UNDP has conducted its own analysis and the results presented in this report support the view that the adverse impact of shutting off foreign aid are imminent and massive, both on the economy and the social sectors (see Section 2).

1.5 The impact on social conditions

In the words of the Secretary-General of the UN, Afghanistan is facing "an epic humanitarian crisis and is on the verge of a development catastrophe".[7] Having barely recovered from a drought in 2018, a national drought was officially declared this year, one of the worst in three decades, with 80 percent of the country now classified as being in either severe or serious drought.[8] According to recent estimates, only 5 percent of the population has enough to eat, while the number of those facing acute hunger is now estimated to have a reached a record 23 million.[9] Almost 14 million children are likely to face crisis or emergency levels of food insecurity this winter, with 3.5 million children under the age of five expected to suffer from acute malnutrition,[10] and one million children risk dying from hunger and low temperatures.[11] By the end of October 2021, the number of internally displaced civilians had reached 700,000 and the number of returnees had exceeded one million. Already many of previous and current ordinary government employees as well as thousands of soldiers, police and security personnel reportedly are not being paid their salaries. For those still at work, wages have declined by between 8 percent and 10 percent.[12] Health services are under threat, including those aiming to contain the pandemic, eradicate polio and cater for maternal and child health.[13]

1.6 UNDP's projections and the prospects for humanitarian relief

UNDP's projections show that poverty may become nearly universal, affecting more than 90 percent of the population by mid-2022. The combination of falling incomes and a growing population may more than double the depth of poverty ('poverty gap'), requiring an estimated US$2 billion to lift the incomes of all people in extreme poverty up to the poverty line. The restrictions on female employment can reduce production by between US$600 million and US$1 billion and shave off nearly US$500 million a year from household consumption.

Last year, UNDP had assessed that the attainment of the SDGs, a good framework for assessing economic and social progress and the guiding rod of the international community, was already off course before 2021. The recent developments are likely to derail further, and to a significant extent, the progress towards the SDGs, especially with respect to the top goals of no poverty, zero hunger, good health and well-being, quality education, and gender equality (see Section 3). Restrictions on female education will reduce output further in the future by lowering the human capital investment on half of the country's population. This will adversely affect the SDG for inclusive and sustainable economic growth and will reduce the prospects for productive employment and decent work for future generations.

While the international recognition of the de facto authorities is pending, donors have vowed to sustain delivery of the much-needed humanitarian aid to Afghans and to support the continued provision of basic services. The UN has already pledged U$1.3 billion and this amount is expected to be supplemented by several bilateral funds; in fact, it is already accelerating and expanding its humanitarian activities (Box 1). The US is now permitting humanitarian assistance to flow into Afghanistan and is to provide US$500 million in aid in Afghanistan and for Afghan refugees in the region.[14] Other bilateral donors and neighbouring countries, including China, India, Pakistan, Russia and Iran, have already provided or plan to dispatch relief assistance to tackle the humanitarian crisis.

The pledged funds are unlikely to match the pre-existing and looming humanitarian needs. It is therefore most important that they be spent in a way that ensures the maximum impact and that are directly channelled to Afghan citizens, until the de facto authorities are recognized internationally, and their plans and actions are known. This calls for a coordinated and swift approach that can contribute to the humanitarian relief, especially for food and medical supplies, "without violating international laws or compromising established principles".[15] All in all, while outsiders should not think that they can "solve the problems they couldn't solve for decades [...] it is important to engage", in the words of the UN Secretary-General, António Guterres.[16]

Box 1: The UN humanitarian response to the crisis

The UN is maintaining its strong humanitarian support to Afghanistan and already has plans to substantially increase it, as pledged funds are received, and expand its coverage to the extent security conditions allow.

Other parts of this report refer extensively to how social conditions have been affected since the economic crisis that began in August 2021. The following statistics can be used to summarize the immediate prospects of the social sectors as averting a famine but cannot be a precondition for achieving all other objectives of humanitarian assistance. According to the Integrated Food Security classification, 19 million had already reached high food insecurity levels by October 2021, with nearly 7 million classified as being in Phase 4 (one level before the highest level, Phase 5: 'catastrophe/famine'). And the FAO is distributing wheat cultivation packages for Afghanistan's winter wheat season across 31 of 34 provinces.[1]

These numbers are projected to increase respectively to 23 million and nearly 9 million by March 2022. Specifically for food security, the World Food Programme (WFP) calls for humanitarian assistance to be scaled up especially for populations already in Crisis 3 phase (IPC 3) and Emergency phase (IPC Phase 4) to prevent them from sliding into higher levels of food insecurity. This assistance should be augmented to provide livelihood support during the winter wheat season, the spring season crops, and vulnerable herding households to prevent further deterioration of conditions of the rural population. There efforts should also include priority interventions for women and children, with programmes targeting pregnant and lactating women and children under the age of five.[2]

The latest OCHA report covering activities between 1 September and 31 October 2021 reveals that 4 million people received food assistance across 34 provinces, nearly 90,000 children and 35,000 lactating women received treatment for acute malnutrition across 27 provinces, and another 90,000 received Emergency Shelter/Non-Food Items (NFI) assistance.[3] With respect to health, more than

700,000 people received emergency medical kits to meet urgent needs, 600,000 benefited from primary and secondary health care, and 150,000 people were reached with health promotion and COVID-19 risk communication activities. In addition, hygiene promotion and hygiene kits reached 340,000 people and trucks delivered water to 200,000 drought affected people. Additional support was provided to education (e.g., in the form of new community-based classes).
UNICEF has restarted a polio vaccination programme after more than 3 million children missed polio vaccination in the last three years.[4] More would, however, be required to be done. WHO estimates that, as of the end of October 2021, only 2.4 million people had received at least one dose of the COVID-19 vaccine and all elements of the COVID-19 response have declined, including a significant drop in testing at public laboratories. In the meantime, there are 1.6 million unused doses of the vaccine that need to be urgently utilized before they expire. The officially 155,000 confirmed cases of COVID-19 and 7,200 deaths as of October 2021 are recognized as underestimates due to underreporting of cases and limited testing.[5]

Sources: UNDP staff compilation including from:
1/ http://www.ipcinfo.org/ipcinfo-website/alerts-archive/issue-49/en/; https://news.un.org/en/story/2021/11/1106212
2/ https://www.wfp.org/news/half-afghanistans-population-face-acute-hunger-humanitarian-needs-grow-record-levels
3/ https://reliefweb.int/sites/reliefweb.int/files/resources/ocha-afg-humanitarianresponse-20211104.pdf
4/ https://www.aljazeera.com/news/2021/11/8/polio-vaccination-programme-resumes-in-afghanistan
5/ http://www.emro.who.int/images/stories/afghanistan/Situation-Report_Issue-7-9-oct-2021.pdf?ua=1

1.7 Outline of the report and key policy proposals

This report expands on these observations. In line with the recommendations of the UN Executive Committee working group on Afghanistan,[17] the humanitarian relief should be swift, well-coordinated, grounded in partnerships and based on the One-UN concept by using the combined resources and collective knowledge of the development partners.[18] The proposals in this report aim to address the multidimensional aspects of poverty and vulnerability, to deepen social cohesion and to enable the rehabilitation of critical infrastructure, local markets and livelihood opportunities that may come under threat due to economic collapse.

A key recommendation of this report is the introduction of several social protection measures such as 'cash transfers' (e.g., for families with children, elderly members and persons with disabilities), 'cash-for-markets' (e.g., to support small businesses), and 'cash-for-work' (e.g., for maintenance or building community infrastructure). UNDP has estimated that the cash transfers can cost US$300 million per year with a significant impact on poverty, and the 'cash-for-markets' programme can cost US$90 million per year. The annual costs of the 'cash-for-work' programme would be around US$100 million. From their side, the Taliban launched a 'food-for-work' programme in Kabul in October 2021, offering wheat in exchange for labour to more than 40,000 unemployed men, with the intention to progressively expand it to other areas.[19] This indicates that there are areas of common concern that can be addressed to limit the impact of the humanitarian crisis (see Section 3 and Annex).

The sections that follow present a likely future course of the economy with its implications for humanitarian needs amid the political, economic and social uncertainties that the country faces. This is followed by a short description of the social conditions that prevailed in Afghanistan prior to August 2021 and a discussion of their prospects. The report concludes by presenting the case for introducing a basic social protection system in Afghanistan.

2. MULTIPLE SHOCKS TO AN ALREADY WEAK AND DETERIORATING ECONOMY

2.1 The macroeconomic situation in 2021 and the short-term outlook

At US$20 billion in 2020, Afghanistan's economic base is too small for supporting a population of around 40 million people. International aid has been contributing as much as 40 percent of GDP and 80 percent of the budget expenditures that were equally split between civilian and security objectives, the latter being 10 times higher as a share of GDP than in the average low-income country.[20]The limited fiscal space combined with weak institutions and rule of law, especially in rural areas, and with anaemic drivers for private sector development, rudimentary infrastructure, including for the energy sector, and extensive corruption, have all stalled economic growth. The 2019 global Corruption Perception Index (CPI) scored Afghanistan 173rd among 180 countries.[21] Corruption has been consistently cited by Afghans as one of the biggest frustrations of their daily lives[22] while significant amounts of donor funds have not been used for their intended purposes or have been leaked to safe havens aboard.[23] Bribes have been estimated at almost 9 percent of GDP.[24] In addition, Afghanistan is the low-income country most affected by natural disasters, being second only to Haiti in the number of fatalities in the last four decades.

Following the events of 15 August, economic conditions have been deteriorating quickly and sharply. The economy was already in decline before (GDP declined by about 2 percent in 2020). Though its size and duration are still to be determined, the sudden drop of aid will further reduce the level of GDP and diminish the prospects of economic growth. Moreover, as of now, the US Treasury has frozen about US$9 billion of Afghanistan's central bank reserves (Da Afghanistan Bank: DAB), an amount that could sustain around 15 months of imports. The International Monetary Fund (IMF) has suspended Afghanistan's access to financial support until the de facto authorities gain international recognition as a government. The World Bank, which administers a massive, internationally backed trust fund, has paused its disbursements to Afghanistan.

The short-term outlook is highly pessimistic. Already, the latest available statistics for 2021 indicate a slowdown in trade, with a reduction in the imports from Pakistan alone reaching 40 percent since August; a 14-percent depreciation of the national currency since the beginning of August; accelerating inflation, with the price of wheat reaching more than 20 percent year-on-year, the price of flour increasing by 31 percent and the prices of cooking oil and of fuel rising by 69 percent and 74 percent, respectively; and wages declining by between 8 percent and 10 percent since last year. Daily custom revenues are reported to have reached AFN220 million (almost equal to AFN235 million average daily customs collections in 2020), but this is the result of ending the previous 30-percent 'discount' on duties. [25]

The downward economic trend will accelerate for reasons other than the drop in foreign inflows and the freeze on DAB's reserves and continuing sanctions (Box 2). Debt servicing problems could intensify once the Debt Service Suspension Initiative (DSSI) by the G20 expires at the end of 2021, perhaps leading to default on sovereign debt, undermining the chances of a resumption of assistance from the international financial institutions and global banking services.[26] Although public debt is low (at 7.5 percent of GDP at end-2020),[27] the IMF and World Bank have classified Afghanistan as a country at high risk of distress.[28] In addition, conditions in the banking system are deteriorating sharply due to liquidity pressures and balance-sheet deterioration.[29] Banks are now experiencing a run on deposits, and deposit withdrawals limits (initially set at US$200 per week and now increased to US$400 per week) have been introduced, though this ceiling might only be relevant for large depositors in a country where the per capita income is barely US$500 per year. [30]

Box 2: The role of the uncertain course of sanctions in Afghanistan

There is a strong direct and indirect effect of sanctions on humanitarian needs. Though sanctions typically target the governing authorities of the day, they also impact the private sector and ordinary citizens. They are decided by governments but generally operate through restrictions affecting the private sector that is coerced to refrain from operations in the targeted country. They constrain economic growth and impoverish people, mainly those in greatest need. They reduce the fiscal space for providing public services and deprive the poor from income-generating opportunities. They affect not only the private sector in sanctioned countries but also those in the countries that prescribed the sanction as well as the operation of non-profit organizations in both countries. Sanctions have collateral impacts that are far beyond those intended by those who impose them, irrespective of whether sanctions are driven by justified concerns or driven by foreign policy considerations. Their enforcement ranges from the prohibition of selling products and providing services domestically to the prohibition of conducting global financial transactions.

The post-August 2021 political change in Afghanistan has been accompanied by an exacerbation of the already dire economic situation of the country due to cutting off the external support that used to be as much as 40 percent of GDP. There has already been a massive macroeconomic effect on inflation, trade, balance of payments and the exchange rate. This effect is cascading across the economy, the social sectors and poverty, creating a development emergency leading to a humanitarian crisis. Yet there is global agreement to ensure that ordinary Afghan citizens are not victimized by being denied access to humanitarian relief.

Human rights violations, including against girls' education and women's work as well as against ethnic and religious groups, create conditions for resisting the removal of existing sanctions on the Taliban and the Haqqani Network, whose members have assumed senior roles in the de facto authorities since August 2021. While these sanctions may be clear in some narrow legal way, they can be less clear to guide what can or cannot be done by the private sector, international and non-government organizations (NGOs), and governments other than those that imposed the sanctions. Their unintended effects, at least with respect to their intensity, are equally difficult to assess.

The case of Afghanistan regarding sanctions is an even more complex, if not unique, one compared to other countries subject to them. It does not apply just to individuals or some organizations but also to a previously rebel group that has become the de facto authority of the country: "There has never been a case [...] in which a designated terrorist group has assumed the control of an entire jurisdiction. Exactly what the Taliban's status as a sanctioned entity means for the Afghanistan government and for the jurisdiction of Afghanistan is uncertain."* This uncertainty is likely to constrain foreign and domestic investors all the way to the global banking community, which faces a web of fiduciary obligations.

Beyond this general uncertainty, it is not clear how the Taliban will be seen in the future and what specific sanctions will be applied and to whom. For example, the sanctions can be limited to specific parties such as those identified to be working with the Taliban but will not extend to the Government of Afghanistan or the jurisdiction of Afghanistan, a recent case of such type being Burma after the 2021 coup against its elected government.** Alternatively, sanctions can apply to the Taliban government but not to the entire jurisdiction of Afghanistan as long as activities are undertaken outside the government and do not involve sanctioned individuals or entities or certain prohibited activities, an approach adopted in the case of Venezuela.*** Finally, in the most severe form, sanctions can extend to both the government and the jurisdiction of Afghanistan that would amount to an embargo and prohibition of any transactions within Afghanistan in a way similar to those imposed on Iran, Cuba, North Korea and Syria.

The future course of sanctions in Afghanistan, in terms of existing ones or introducing new ones and with what intensity, is not clear. The frozen assets of DAB in the US can be interpreted as a sanction that applies to the entire Government of Afghanistan though DAB is not a sanctioned entity. However, together with the UN and other international and regional donors, the US is permitting humanitarian activities to parties seeking to deliver humanitarian assistance such as food, medicine and related items.

Either way, whatever approach is adopted, sanctions should, first, be flexible to allow the maximum and best humanitarian relief ordinary Afghans can receive; second, reduce uncertainty to the private sector and non-government organizations as well as the international community; and third, be adjusted to changing realities. In the words of the UN Secretary-General, "Injecting liquidity into the Afghan economy can be done without violating international laws or compromising principles."****

* US Senate Committee on Banking, Housing, and Urban Affairs (2021). Hearing "Afghanistan's Future: Assessing the National Security, Humanitarian, and Economic Implications of the Taliban Takeover". Testimony of Adam M. Smith. October 5.
** US Executive Order 14014, "Blocking Property with Respect to the Situation in Burma," February 10, 2021.
*** US Executive Order 13884, "Blocking Property of the Government of Venezuela," August 5, 2019.
**** https://news.un.org/en/story/2021/10/1104102

The analysis by UNDP is based on two different computable general equilibrium models (CGE). The first model, Afghanistan – Global Trade Analysis Project (A-GTAP CGE), is a multi-country, multi-regional dynamic computable general equilibrium model to which detailed simulation modules have been added to analyse changes in the banking and the financial sectors. The second model, a Country Computable General Equilibrium (C-CGE), is a conventional dynamic general equilibrium model. These models consider the effect of the sudden stop of foreign funds on Afghanistan's external position, including foreign exchange reserves and imports; the depreciation of the exchange rate; public finance; investment; private sector production; and private consumption.

The key results of these models are as follows:

- GDP may contract by around 20 percent within a year (from US$20 billion in 2020 to US$16 billion), a decline that may reach 30 percent in the following years.
- The contraction in GDP could be higher by 3 to 5 percentage points (that is, up to US$1 billion), depending on the severity of restrictions on female employment. [31]
- Per capita income may decline by nearly one-third, from just over US$500 in 2020 to about US$350 by 2022, if the resident population increases as in the recent past (2.5 percent annually).
- The budget deficit could double as a percentage of GDP and reach US$660 million in 2021. [32]
- Imports could fall by almost half to US$3.2 billion in 2021. This will significantly affect food and energy consumption, with attendant humanitarian implications.
- Investment could fall from US$3 billion to almost US$1 billion next year and even decrease to just a couple of hundred million dollars the year after.
- Male unemployment may almost double from 15.2 percent in 2019 to 29 percent by 2022. [33]

UNDP analysis also suggests that economic growth will not turn positive in the near term unless several conditions are met. These include: (1) the removal of restrictions on female employment; (2) aid for combatting COVID-19 of US$250 million per year continues; and (3) the easing of sanctions to allow for humanitarian assistance. Additional conditions include improvements in trade and transport, an increase in imports and partial revival of business and financial services. Still, such a turnaround may not take place in less than two to three years partly because the economy was in a downturn even before August 2021.

These scenarios are, of course, subject to a wide margin of error because much depends on the policy course that the Taliban will pursue and the corresponding response from the international community, especially with respect to sanctions. Yet, these estimates clearly imply that the economic shock could be significant, and humanitarian aid would be vital for Afghanistan to make a real difference in the lives of the ordinary Afghan people.

The UNDP's pessimistic outlook is shared by international financial institutions. The IMF has indicated that Afghanistan may experience a contraction of GDP of up to 30 percent.[34] The World Bank foresees a contraction of similar magnitude.[35] The Asian Development Bank (ADB) has also prepared several scenarios.[36] Under the

worst-case scenario, a prolonged suspension of development and humanitarian assistance, combined with a continued freeze of the DAB's foreign reserves and the imposition of economic sanctions, could lead to a decline in real GDP by up to 30 percent. Under a less pessimistic scenario premised on some strengthening of economic and commercial ties with those countries granting recognition to the new regime, some inflows of foreign investment from some countries, particularly in the utilities and mining sectors, and the international community's support for humanitarian relief, could lead to a short-term decline of up to 20 percent in real GDP.

2.2 The role the private sector and banking during the humanitarian crisis (and beyond)

Promoting economic growth is one of the two fundamental roles the government plays in any society, the other being making, enforcing and maintaining law and order. With respect to economic growth, a prerequisite is the availability and quality of public goods, in addition to reducing red tape and corruption and applying the rule of just law, including the enforceability of contracts. Public goods include roads, community infrastructure, education, health and energy, among others, all of which can reduce the costs of private production.

Yet, public goods have been in short supply while a lack of security has held back the growth of the private sector. As a result, the private sector has remained small and poorly diversified in terms of production and sources of financing and will therefore not be able to contribute adequately to alleviating the humanitarian crisis. The Afghan economy consists of a complex mix of informal, formal, illicit, and aid-sustained elements. Small establishments are dominant and the 500,000 micro-enterprises, with fewer than five employees, are largely in the informal sector and employ 90 percent of Afghans workers. On the latest accounts, the formal private sector contributed a mere 10 to 12 percent to the country's official gross domestic product.[37] The small size of the formal private sector, combined with illicit activities and smuggling across the country's external borders and internal channels, is constraining the tax base from growing, thereby limiting the domestic mobilization of funds that could be used for productive and social purposes.

The private sector faces a difficult business environment. There are numerous regulatory and non-regulatory barriers, including corruption, limited access to finance, burdensome regulations, lack of coordinated support for local industry and illicit activities influenced by local warlords. Poor connectivity with its neighbours reduces the potential benefits from trade. Domestic connectivity is constrained by lack of safe and reliable transportation and, more broadly, of critical infrastructure, particularly in rural Afghanistan; such infrastructure includes irrigation systems, which given the economic importance of agriculture is essential for domestic consumption and can reduce food insecurity and increase exports, if value-chain development projects are implemented. Exports have remained basic (mostly agricultural), with their value being less than one-fifth the value of imports. Notwithstanding some progress since the early 2000s,[38] the private sector has played a minimal role as a force for economic growth, which has been driven predominantly by external grants (both on- and off-budget). The private sector can also act as a conducive mechanism for the attainment of the SDGs, as many of them are dependent on it, including for employment creation and sustainable livelihoods

In addition to weak institutions, the growth of the private sector has been hindered by geographical segregation, lack of physical and logistical infrastructure and conflict across the whole country. As a result, the private sector is affected by 'bad fragmentation'.[39] The legacy of conflict has given rise to rentier behaviour in different areas of the country, resulting in 'atomistic' production benefiting certain groups of different importance, as well as of different political and economic objectives that may not be compatible with the interests of the nation. In addition to this division, there is acute segregation between women and men in public life and employment, which further reduces possibilities for taking advantage of low local labour costs.

The prospects for private sector-led economic growth, and a significant contribution to the alleviation of the current humanitarian difficulties, are not favourable. The sudden political transition has created uncertainty, led to a loss of private sector qualified managers and professionals, and resulted in the freezing of the country's reserves held abroad, all of which, together with the onset of recurring droughts, have added new challenges to the private sector. Though Afghanistan has large quantities of minerals, most projects in extractive activities have a five-to-ten-year lead-time and will require significant improvements in security and a more investor-friendly regulatory environment. The same is true for any transformative efforts on transit-trade development.

Thus, for some time, the economy will rely on basic activities and agriculture in which opiate production accounts for a large part despite efforts that have proved insufficient or unsustainable.[40] Furthermore, agricultural growth is hampered by recurring droughts and will require major investments in irrigation and more effective water management, both of which have long lead-times.

However, channelling aid through the private sector by supporting women-led enterprises, innovative and start-ups, SMEs and trade companies can be a viable and practical way to make an impact. Hence, supporting the private sector is crucial for absorbing the shock and boosting 'domestic financing'. The sanctions might complicate this task, but it will be possible to deliver support to the private sector "without violating international laws or compromising principles"[41] in an approach characterized by 'informed risk tolerance' combined with flexible and proactive measures to get around implementation obstacles and constraints. For example, the US is now allowing American humanitarian aid to continue, creating a way around legal restrictions that carry the threat of penalties on those who do business with the Taliban and that could discourage aid. It has also determined that personal remittances from Afghans and others outside the country to relatives and other Afghans in need are important to maintain and carry a minimal risk of being diverted to the Taliban.[42] However, in early November, the Taliban announced a complete ban on the use of foreign currency in Afghanistan. This can cause further disruption to the private sector and more broadly to the economy, thus accentuating the already substantial adverse impact arising from the withdrawal of international financial support.[43]

Historically, the banking sector has made a limited contribution to economic growth. Lending to the private sector has been subdued, with credit to the private sector at barely 4 percent of GDP compared to nearly 30 percent on average in low-income countries. The loan-to-deposit ratio is particularly low at 15 percent. This means that banks rely on their own deposits to make loans to their customers and may not be earning as much or growing as they could. Foreign Direct Investment (FDI) and Public-Private Partnerships (PPPs) have been constrained by the weak rule of law and lack of contract enforceability, thereby failing to attract ventures and to enhance state-owned enterprise performance and facilitate trade. This situation has induced many Afghan business groups, even those headquartered overseas, to maintain a strong commercial base in their region of origin, where they often have ties to the ethno-political establishment. Although this practice helps businesses to reduce risk in the volatile and insecure environment and to maintain investment in the Afghan economy, it adds to the economic fragmentation by perpetuating the existing configuration of interests and by side-lining entrepreneurs.[44] With the necessary requirements in place, Islamic finance can play a role in addressing several of these issues (see Box 3).

Box 3: The Role of Islamic Finance

Islamic banking in Afghanistan is far from its potential. Based on real economic activities and assets underlying transactions, together with its five principles,* it can be a suitable vehicle for supporting the humanitarian and development of effort of Afghanistan. It can promote financial inclusion in the predominantly Muslim country by encouraging people, women included, to use more the banking system through deposits and loans. It can also reduce the recourse to non-banking transactions, like the traditional system of hawala, whereby money is paid to an agent who then instructs an associate in the relevant country or area to pay the final recipient.

The private sector can play a major role for the development of the Islamic banking industry by creating new Shariah-compliant financial institutions or by promoting and investing in existing and new ones. This requires the realization of conditions and the overcoming of challenges such as the absence of Shariah audits in financial institutions, the lack of qualified Shariah supervisory board members in banks, weak research and development in the field of Islamic finance and economics, inadequate training for staff, the lack of public awareness and the absence of guidelines.

The Islamic Development Bank has been contributing to the support of the Afghan economy through the extension of concessional loans and investments in different crucial development sectors of the country. ICIEC, the Islamic Corporation of Investment Insurance and Export Credit, the sovereign risk insurance arm of the Islamic Development Bank (IsDB), continues to offer sovereign risk cover for foreign investors in the country. In case the de facto authorities respect the agreements signed by the ousted Islamic Republic of Afghanistan Government, this source of support to the national economy and the private sector can become a critical tool of support to Afghanistan's economic growth. The same principles are applied to agreements previously signed with the Multilateral Investment Guarantee Agency (MIGA), the World Bank, the Asian Development Bank (ADB), other multilateral development banks (MDBs) and donors.

Though the Taliban did not establish risk-sharing, anti-usury Islamic financial principles for the banking system the last time they were in power, the de facto authorities of today may expand the Islamic finance framework, building on what already exists with considerable implications for bank intermediation. DAB, Afghanistan's Central Bank, already has in place a regulatory framework for Islamic banking and several Afghan banks have been operating Islamic finance windows as a part of their operations. It issued its first fully Islamic banking license in 2018.

From a humanitarian perspective, channelling the aid and benefits of the ABADEI Programme through the Islamic banking system can produce a higher impact by benefiting from the advantages of the five principles of the Islamic finance in addition to the wider acceptance of the Islamic Finance principles by a very large proportion of the population. Furthermore, the establishment of Shariah-compliant humanitarian funds like the women-led SMEs Fund, the Innovative and Start-ups Fund, the Export SMEs Fund and the Strategic Impact Investment Fund, would allow the country to benefit from the growing Islamic finance instruments available in the global markets.

* The principles are: Sharing (profit, loss and risk); No unfair gain; No speculation; No uncertainty; and No investments that are not in the public interest.

The economic and humanitarian crises are also being aggravated by the deteriorating conditions in the banking sector. With the changes since 15 August, the banking sector is in very serious difficulty, raising the risks of financial instability. The pandemic had already weakened Afghanistan's small banking system. Although banks had an overall strong capital adequacy ratio, non-performing loans had risen, weakening bank profitability. Now, banks are facing a liquidity crisis, as depositors are trying to redeem their funds, and the prospects of further declines in asset quality are considerable, given borrowers' currency and credit risks. According to a UNDP report, total deposits had already fallen to US$2 billion as of September 2021 from US$2.8 billion and non-performing loans had nearly doubled to 60 percent compared to a year earlier.[45] Local bank executives acknowledge that this can create an "existential crisis"[46] with harmful impact on bank intermediation, especially for SMEs, and on economic growth. Moreover, banks' operations and profits are likely to be hurt by financial sanctions abroad and cuts in correspondent banking relations. These could divert some financial transactions, such as remittances, away from banks to the informal hawala system.[47]

2.3 Energy: A key sector for household welfare and production

The availability and reliability of energy are generally a development matter, as they are a key input and a significant cost of production. In addition, they have major implications for the welfare of families, especially during humanitarian crises.

The energy sector in Afghanistan is dependent on high amounts of imports of electric power and petroleum products. Households make extensive use of traditional fuels for cooking and space heating. The electrical power grid provides electricity to about 40 percent of the population, almost exclusively in cities (80 percent

of the urban residents) and in few rural ones. The latter mostly rely on solar home systems and solar end-use devices, such as solar lanterns or kits for lighting and battery charging. For cooking and space heating, most households (including many in cities) rely on traditional fuels, such as firewood.

The production and consumption of energy from conventional sources have some deleterious effects, notably pollution in the form of greenhouse gases (GHGs), carbon monoxide (CO), nitrogen oxides (NOx), sulphur oxides (SOx) and others. Traditional fuels (including renewable wood fuels) used in food preparation, and often space heating, also create indoor air pollution (CO, CO2, smoke/soot/particulates) that can be particularly harmful to women and girls, who typically cook and spend most of their time at home. Modern fuels for cities, kerosene and LPG are entirely imported and may also have been negatively impacted by the instability that has drastically reduced the external transfers that financed these imports, among others. As in other crisis-affected cities, cooking in urban areas of Afghanistan, even in high-rise buildings, may revert to firewood.

Energy consumption affects welfare at several levels. At the most elementary, energy is necessary for basic survival, as it must be used to cook food. The availability of sustainable, affordable and clean energy for all is enshrined in SDG 7. It would be ironic if Afghan households were able to procure food but had no way to cook it. As such, energy supply is therefore intimately linked to food security (SDG 2) and is of considerable importance. For instance, modern lighting is credited with making evening work and activity safer, especially for women, who were often preyed upon under the cover of darkness. At another level, energy conditions production and, by facilitating and empowering most productive processes, is essential for employment and income generation and hence for economic activity generally. An interruption or major reduction in energy supply, as may happen should imports of electricity be cut, can therefore inflict grievous harm on socio-economic systems and human welfare by stopping most productive processes.

Afghanistan imports about 80 percent of its total electricity consumption,[48] recently costing about US$220 million annually[49] Promising alternatives for renewable energy, including hydro, solar and, to a lesser extent, wind, remained largely unexploited. As rivers in Afghanistan are shared with neighbouring countries, the absence of water-sharing agreements among the countries of the region has hampered hydroelectric development. Moreover, hydro generation in Afghanistan is seasonal due to low rainfall and the fact that most hydroelectric plants are run-of-river and have little or no storage. Against its sizeable hydroelectric potential, only 1 percent has been harnessed.[50] Solar energy is just beginning to be exploited for electricity generation. The recent addition of a solar photovoltaic grid-sized plant (solarPV) and a gas-fired generating plant have not significantly altered the picture. The discovery of commercially viable gas deposits in the northern part of the country holds promise for cheap, quick electricity generation using this fuel, but this has yet to bear fruit.[51] The diesel/heavy fuel oil (HFO) plants are mostly small and inefficient as well as highly polluting; hence, they are barely used. In early 2021, a number of projects for solar and hydro generation were under consideration or at various stages of preparation; their fate is now even more aleatory.

Overall, the energy sector also suffers from various other shortcomings. A main issue is an institutional (and regulatory) vacuum since the Ministry of Energy and Water was abolished in 2020. This has been replaced by the Forum for the Coordination of Energy Sector Stakeholders (FORCES), which is essentially run by Da Afghanistan Breshna Sherkat (DABS), the vertically integrated, state-owned monopoly utility company, together with ESRA (Energy Sector Regulatory Authority), whose affiliation is unclear. However, DABS, which essentially runs FORCES,[52] has an obvious conflict of interest, being a participant in the electric power industry and its de facto regulator. Moreover, there is no clear legislation allowing private investors to build power plants and sell their electricity, though it seems that private generators must only sell to DABS and not directly to any other large user – say, a manufacturing plant or a city utility – for further distribution.

The electricity supply has recently been further threatened because DABS is unable to pay its foreign suppliers and has been accumulating arrears. DABS revenues have dropped significantly because sales at subsidized rates for small residential customers, who are least likely to pay, have risen while demand by industrial and commercial customers, who paid higher tariffs and paid more punctually, has fallen by 30 percent. Government customers were already not paying in 2020 and have presumably not paid since. With millions in arrears

already owed by DABS, neighbouring countries may not be willing to continue supplying energy to Afghanistan for much longer unless the accounts are settled or some of the arrears are cleared.

In conclusion, international humanitarian assistance to Afghanistan would need to consider supporting the maintenance and continued development of energy supply and help maintain what little production is still going on, as well as ease the stark everyday energy poverty of ordinary households. A large reduction in energy supply, as may happen in Afghanistan should imports of electricity be cut, can therefore inflict grievous harm on socio-economic systems and human welfare by stopping most productive processes and might leave over 10 million people, a quarter of the population, in the dark, especially in cities.

3. AN INTENSIFYING HUMANITARIAN CRISIS

The situation in the social sectors was wanting even before 2021. The already low per capita income, one of the lowest in the world, has been declining for nearly a decade. Now, food insecurity has been rising amid increases in the prices of food and basic goods and loss of income, including among public sector workers. Hundreds of thousands of soldiers are also now jobless. The housing sector has been under pressure due to the large population displacement. The social protection system has been grossly inadequate to meet the needs of the country's 40 million people. Health series have equally been inadequate in terms of coverage and quality and have been further stressed with the advent of the COVID-19 pandemic. Social indicators, including those for education and health, are among the lowest in the world, though they had been improving during the last two decades. Among the few countries so burdened outside Africa, Afghanistan has one of the highest rates of orphaning, reaching 10 percent.[53] The ultimate manifestation of poverty is the selling of girls to reduce poverty among the remaining 'family' members. Sexual violence, also against boys, is not always seen as a crime in some communities. Those who allege cultural irregularities can be exposed to death threats.[54] Even before the crisis, Afghanistan had one of the lowest scores in the Human Development Index, being ranked 169 among the 182 countries assessed by UNDP in 2019, with practically all countries below Afghanistan being in Africa.[55] It was estimated that Afghanistan would have required US$6 billion to US$8 billion in international grants per year between 2020 and 2024 to fund basic services, support faster economic growth, and consolidate and sustain the then-expected peace settlement with the Taliban. [56]

The situation is expected to worsen following the emerging humanitarian crisis. ADB has estimated that, under its worst-case scenario, unemployment would increase by more than 40 percent in the short run and household consumption could contract by 44 percent. In the less pessimistic scenario, unemployment would increase to 26 percent and household consumption would fall by 27 percent. Described below, these results are supplemented by UNDP's own analysis focusing on poverty, gender, the impact on the future course of the SDGs and the potential role of social protection.

3.1 Poverty has increased sharply

Afghanistan's per capita income was estimated at US$507 in 2019,[57] having decreased from a peak of US$641 in 2012. This suggests that poverty must have increased before the advent of COVID-19 in March 2020 as well as after international grants were frozen in August 2021. Indeed, official data show that the national poverty headcount rate is high and has been rising. The national poverty headcount rate was 34 percent in 2007/2008 and rose to 55 percent by 2017.[58] Somewhat unexpectedly, given the overall decline in per capita incomes and the severe drought of 2018, the latest Income, Expenditure and Labor Force Survey (IELFS 2019-2020) suggests that the percentage of those below the poverty line was 47 percent. Since then, following the pandemic, the poverty headcount rate has likely risen to more than 70 percent.[59] According to the latest estimates by UNDP, assuming a 10 to 13 percent reduction in GDP, poverty may increase by mid-July 2022 to as much as 97 percent of the population.[60]

The latest available estimates (2017) for those Afghans below or around the poverty line indicated that 81 percent of the population was living daily on less than AFN57 (US$0.74).[61] In fact, the poorest half of the population was living on less than AFN30 (US$0.39) per day, indicating an extreme level of deprivation. Even the 5 percent of the population at the top of the distribution averaged only US$2 per day per person. Following the onset of the pandemic, only 31 percent of those in the top 20 percent of the income distribution were assessed to be non-vulnerable.[62] Household incomes have been widely fluctuating over short periods of time. In 2017 nearly 60 percent of households had been negatively impacted by a shock in the previous 12 months. COVID-19 has exacerbated the crisis since March 2020. [63] The increase in the poverty gap has been considerable (see Box 4). [64]

Box 4: The poverty gap has doubled since 2019

The IELFS 2019-2020 estimated the poverty headcount rate to be 0.47, or nearly 19 million Afghans. The same survey set the poverty line at AFN 2,268 per person per month, and the poverty gap at 13.5 percent (that is, the average income of the poor was 13. 5 percent lower than the poverty line income).

To eliminate the poverty gap would have required US$900 million annually or 5 percent of the then GDP, assuming perfect targeting and no implementation costs.

Under the assumptions that (a) the poverty gap had stayed at 13.5 percent, (b) GDP had not declined and (c) the population had not increased. The increase in the poverty rate to 0.72 after COVID-19 has raised the poverty gap to US$1.4 billion (or 7.6 percent of the then GDP).

In the absence of policy measures and humanitarian aid, an increase in the poverty rate to 0.97 post-August 2021 would increase the fiscal outlay to nearly US$2 billion (or 10 percent of GDP in 2019 or nearly 15 percent of GDP, if its post-August 2021 contraction reaches 30 percent).

Source: UNDP staff estimates, ANNEX 1.

Thus, the fiscal resources needed to eliminate the poverty gap have more than doubled since three years ago. The percentage of the population who are in poverty and food insecure was already predicted to rise drastically by the end of 2020. [65] This estimate was driven by a combination of the increasing number of internally displaced people, fast population growth and rapid urbanization, environmental impacts (especially droughts) and the COVID-19 pandemic. These factors are still present and have grown: 40 percent of crops have been lost in 2021, with resulting increases in food prices. [66]

The latest estimate by FAO and the WFP brings the number of those that would require food assistance in 2022 to a record of nearly 23 million people, or more than a half of Afghanistan's population. The increase in poverty and rising food insecurity have therefore added to the challenges of the past. Even prior to the onset of the COVID-19 pandemic, on any given day as many as 70 percent of children aged between 6 and 23 months did not consume iron-rich foods; over three-quarters of children aged 6 to 23 months were unable to access a minimally acceptable diet; and 41 percent of children under five years of age were stunted while nearly 10 percent were wasted.[67]

The pandemic has also revealed the fragility of the health system and more generally has limited the access to essential services including education. Even before the pandemic, only 70 percent of boys and 50 percent of girls aged 7 to 12 years attended school, with the proportions dropping to 50 percent of boys and 25 percent of girls among children aged 13 to 18 years.[68] After the onset of the pandemic, the number of children out of school likely rose from 5.6 million to 9.7 million.[69] This number has worsened since the Taliban have restricted girls from attending school. According to WHO, the post-August 2021 economic crisis is threatening the heath sector, including the closing of almost all (90 percent) of the Sehatmandi-supported clinics that provide health, nutrition, and family planning services across Afghanistan. [70]

3.2 Gender: A human rights issue with significant effects on the economy and household incomes

Significant gains had been made in ensuring women and girls rights over the last two decades. Through local and donor support, the number of girls in primary schools alone rose to over 2.5 million from practically zero in 2001, raising the share of girls to four out of 10 students.[71] The number of girls in higher education increased from around 5,000 in 2001 to more than 90,000 in 2018. The female literacy rate more than doubled from 13 percent in 2000 to 30 in 2018.[72] Schools and universities employed nearly 80,000 women instructors, including over 2,000 university professors. Thousands of women were employed as health professionals, journalists, media presenters, civil society representatives, judges, prosecutors, defence attorneys, police and army personnel, and entrepreneurs. Maternal mortality has declined from 1,600 to 638 per 100,000 live births and women's life expectancy has risen by 20 percent – a gain of 10 years. [73]

In the last elections, millions of women voted and 89 of the 352 members of parliament were women. Women held 13 seats as ministers and deputy ministers and four served as ambassadors. Eight women served as deputy governors, mayors and deputy mayors, including two as district governors. Overall, of the nearly 400,000 civil servants, more than 100,000 were women. [74]

These gains in gender equality are under threat of being reversed, notwithstanding the fact that Afghanistan was ranked last (except for Yemen) with respect to gender equality among the 182 countries assessed by UNDP in 2019. [75] Despite early announcements, the situation has been turned around in the short period of two months after the Taliban took power. Soon after the political change, they stated, "We assure the international community that there will be no discrimination against women, but, of course, within the frameworks we have."[76] However, in practice, the Taliban's frameworks have taken precedence over what the international conventions consider discrimination, including the Convention on the Elimination of All Forms of Discrimination (CEDAW) that Afghanistan signed in 1980 and ratified in 2003. [77]

The Taliban have effectively barred women from the public sphere. Together with most forms of entertainment, the Taliban have banned women from participating in sports and their presence in stadia.[78] They have also banned girls from going to school, especially after the age of 12. [79] Female government employees have been told not to go back to work until officials prepare a 'new plan'.[80] The hijab (head covering) has become part of a compulsory dress code and it is not yet clear whether this will be extended to the niqab (face covering) or the burka (covering the whole body from head to feet). [81] Women are now expected to be accompanied by a male relative when outside the home. Afghan women have been completely excluded from ministerial positions in the de facto authorities that the Taliban announced in September 2021, including at the deputy minister level. The Ministry of Women's Affairs (MoWA) has been abolished and the Ministry for Propagation of Virtue and Prevention of Vice has been reinstated.[82]

The restrictions on women's employment will affect both the economy and society. Losing existing workers and their experience and forbidding new young and educated females to enter the labour market will reduce the number of workers, productivity and the rate economic growth. It will also reduce the incomes of households whose female members are working, thereby reducing their consumption at the micro-level and aggregate demand at the macro-level.

UNDP has estimated the impact of restricting employment on GDP and on household consumption. These results are tentative, as the scope and severity of the enforcement of restrictions that apply to female employment are not yet clear. For example, according to statements made so far, the restrictions do not include women in the health and education sectors, although the latter is of little relevance if, as might happen, girls cannot attend schools and female teachers are replaced by male teachers.[83] The Taliban have said that women will also continue to work at police stations and in passport offices across the country as "they are needed, according to the Islamic law". [84] However, the Taliban's approach to women's rights in areas that used to be under their control before the political change last August had not been uniform: in some districts, they did not allow girls to go to schools, while, in others, women were granted waivers to attend university. And, after August 2021, female aid workers in a handful of provinces have been allowed to offer their services, but, in other provinces, they are prohibited from doing so or, if they are allowed, they must be escorted by a male family member. [85]

Afghan women workers amounted to 20 percent of employment before the crisis.[86] At face value, the employment restrictions apply to female government employees and to an uncertain number of women in the private sector. In fact, it will be difficult to enforce the restrictions in the informal sector, agriculture, and family work. However, reducing the number of female workers in the government and the formal sectors, can disproportionally affect production relative to their numbers, as women workers in these sectors tend to be more educated than their counterparts employed in other sectors of the labour market.

A complete ban on female employees, who account for about 3 percent of total employment, may reduce output by the same percentage in the immediate short run. [87] This will be so because the labour market takes some time to adjust. Moreover, it is not necessarily the case that the replacement of women who lost their

jobs would be by men who are equally qualified, experienced or motivated. Typically, when the labour force participation rate of women is low, as in the case of Afghanistan, these women workers are a 'self-selected' group of among women, in the sense that they are those who have more education and higher ambitions, drive and capacities and are more productive. It is these qualities, rather than the level of wages per se, that bring them to the labour market. As the GDP of Afghanistan is around US$20 billion, losing 3 percent of its workers can, therefore, reduce production also by 3 percent, or US$600 million. This is not an amount the country can afford to forfeit in view of the predicted deep and likely prolonged contraction of GDP.

To this estimate, two relevant statistics can be added, though there are not specific estimates for Afghanistan. First, the empirical literature suggests that, when women are not paid like men and do not work in the same jobs as men, the output loss averages across different world regions from 3 percent to 6 percent. In Afghanistan, employment segregation is probably the most acute in the world, and output loss arising from it is likely to be at the highest end of these regional averages and probably higher than them.[88] Second, also as suggested by the international literature, there can be an output loss from the low rate of women's participation in the labour force. For South Asia, such a loss averages 17 percent of GDP and, among Arab countries, which also have Islamic values, it reaches 20 percent.[89] Again, such a loss in the case of Afghanistan can be higher than even for those in the Arab region, given the stricter interpretation of Shariah regarding women's employment and, more generally, how the position of women is regarded in public and private lives.

From the perspective of household consumption, the UNDP has estimated that the GDP contraction from the foreign assets freeze and reduction in aid post-August 2021 can be lower by 3 to 5 percentage points if there are no restrictions on female employment.[90] Alternatively, the cumulative loss in output from a reduction in female employment by half (that is, 10 percent of total employment) may reach US$1.5 billion between 2022 and 2024.[91] Overall, there can be a reduction in consumption by 5 percent. This will be additional to the reduction in consumption that will be inflicted from other factors on the economy. The impact will be greater for more affluent households (Table 1). This is in line with the facts that most female employees live in households of higher socio-economic status and that there is a relatively low level of inequality in Afghanistan, where most households are at or around the poverty line and the Gini inequality index is also relatively low.[92] The consumption of the top quantile will be reduced by nearly 4 percent, while that for the other four quantiles will be reduced by 2 percent. This can provoke political economy reactions by the better-off Afghans, while the majority, who are already poor, can hardly afford any reduction in their consumption.

Table 1: Effects on household consumption from a reduction in female employment

Quintile	Consumption (millions, US$)		Share in losses (%)
	in 2020	Average Decrease, 2022-2024	
Q1 (poorest)	1,456	-30	6%
Q2	2,112	-44	9%
Q3	2,734	-58	12%
Q4	3,666	-79	16%
Q5 (richest)	7,549	-276	57%
Total	17,517	-487	100%

Source: UNDP staff estimates based on the C-CGE

All in all, upholding the human rights of Afghan women (as well as those of children and ethnic and religious minorities) is an issue not only of human rights, but also of sound economics. Restrictions on women's employment are bound to affect current production adversely, though the extent of output loss is hard to predict in the absence of knowledge about their scope and the intensity of their enforcement. Restrictions on female education will reduce output further in the future by lowering the human capital investment on half of the country's population: the rate of return on education for Afghan females has been estimated to be more than double that for Afghan males.[93]

Whether there will be significant changes in the practices of the Taliban in the near term remains to be seen. What is certain is that the Security Council unanimously adopted a resolution that renewed the mandate of the UN Assistance Mission in Afghanistan (UNAMA) and acknowledged that women's "equal and meaningful participation" in public life has been restricted under the Taliban and required "all parties to allow full, safe and unhindered humanitarian access".[94] The humanitarian challenge will become graver if women continue to be excluded from employment, with consequential effects for household incomes today. The need for humanitarian relief can also persist in the future, as long as female education is restricted, thus compromising productivity gains and the prospects for economic growth.

3.3 SDGs: Their attainment was already off course with further derailment expected

The attainment of the Sustainable Development Goals in Afghanistan had been off-track even prior to 2021. The compounding effects of the Covid-19 pandemic, the political transition and the already sizeable economic impact from the reduction in aid are amplifying the existing socio-economic challenges. Previous gains in the key goals for poverty eradication, zero hunger, good health and well-being, quality education, gender equality, access to clean water employment are likely to be reversed.

UNDP has estimated the effect of the post-August 2021 sudden stop in international financial assistance to Afghanistan on selected SDGs. The estimates are subject to many qualifications as they are subject to many data deficiencies and various assumptions of how an economic shock can affect each SDG and all of them together, in addition to the fact that changes in one SDG can independently affect another. The discussion below summarizes the state of selected SDGs as of 2020 followed by their likely course in the short term.

SDG 1 Poverty: About half of the population was already living below the national poverty line even before the pandemic and the recent increase in poverty (ANNEX 1). Regional disparities are prevalent, and poverty remains largely a rural phenomenon. Three out of four people living in poverty are in rural areas.[95] Child poverty was more pronounced, with nearly 60 percent of children living in poverty[96] in 2019. Under a 'sudden stop' of grants scenario and with a decline in GDP by up to 30 percent, more than 90 percent of the population can be pushed below the poverty line.[97]

Goal 2 No hunger: The estimates for the number of those facing food insecurity in 2020 have been revised upwards and now suggest that the number may reach 23 million during the winter season (November-March). In the 2021 Global Hunger Index, Afghanistan was already ranked 103 out of the 116 most food-insecure countries. On average, food consumption absorbed more than 80 percent of a household's income, and the decline in incomes, fast-rising prices for wheat and cooking oil, among others, and the expected severe drought are bound to adversely affect food security further.

SDG 3 Health: The already limited outreach and low quality of health services have been severely compromised since the onset of the COVID-19 pandemic. Maternal and child health services have taken a hit. More than 3 million children have not been vaccinated against polio since 2018.[98] The risks of measles, acute watery diarrhoea and malnutrition, especially among children, have been rising. As of end-October 2021, only 2.4 million people have received at least one dose of the COVID-19 vaccine, but all elements of the COVID-19 response have declined, including a significant drop in testing at public laboratories. According to a recent report, life expectancy in Afghanistan is now the lowest in the world, lagging behind 22 developing countries, all in sub-Sahara Africa.[99]

SDG 4 Education: Since the start of the pandemic, up to 13 percent of lifetime schooling has been lost, a figure that reaches 21 percent for girls.[100] This number has worsened during the current academic year (2021/2022) following the Taliban's banning of girls from attending secondary schools. Unlike the impact on poverty that is mainly due to economic reasons, the regression on the SDG on education is the result of a deliberate policy by the de facto authorities.

SDG 5 Gender Equality: Afghanistan was already ranked fifth-lowest in the world with respect to gender equality in 2019, only above Mali, Central African Republic, Chad and Yemen.[101] The recent restrictions on girls' education and women's work do not augur well for an improved score in the future.

SDG 6 Clean Water: Access to improved drinking water had increased from 48 percent of the population in 2010 to 67 percent in 2017.[102] Yet, droughts and poor water resources management are causing water shortages and large regional disparities between urban and rural areas: 96 percent of the urban population is covered, compared to only 57 percent of rural areas.[103] The effects of the economic crisis on investment (see Section 2) are likely to lead to a deterioration in maintenance services while major investments in irrigation and more effective water management can be significantly delayed and both have long lead-times to show results.

SDG 9 Decent Work and Economic Growth: One out of four Afghans is officially unemployed, with more being discouraged from seeking employment, and many are underemployed. [104] Returnees – around 1.5 million over the last two years – and a similar number of internally displaced persons further add to the pressure on the labour market. Seasonality and informality affect most Afghans. While unemployment is expected to nearly double in the next couple of years, wages have fallen year-on-year by between 8 percent and 10 percent. The restrictions on women's employment are bound to affect the incomes of households with female working members

In 2020, UNDP estimated that Afghanistan would need US$300 million a year to meet the SDGs. Post-August 2021, the financial gap to make progress toward the SDGs has increased considerably. Given the immediate pressure for providing humanitarian relief, which can continue for several years, the attainment of the SDGs seems more remote today than it seemed just over a year ago.

3.4 Social protection: Starting from nearly zero base but can make an impact

Current conditions

Afghanistan's formal social protection system is small compared to the population of nearly 40 million. A Public Service Pension programme provides a pension to 114,000 former public servants, with nearly 60 percent of recipients being under 50 years of age and less than 15 percent over 60 years of age.[105] Of the recipients, only 10 percent are females. The other main programme is the Martyrs and Disabled Pension Programme (MDPP), which provides benefits to 90,000 persons with disabilities and 220,000 others affected by the conflict, mainly survivors.[106] These two schemes reached only 1.5 percent of individuals directly and less than 10 percent of the entire population (when other household members are regarded as indirect recipients).

Therefore, most older people were particularly vulnerable.[107] In the absence of a comprehensive old-age pension system, older people have either had to continue working or, as they become increasingly frail, been obliged to depend on others for their subsistence. Women, as they age and are widowed, are in a particularly vulnerable position, as they do not have a history of independently generating their own incomes and become increasingly dependent on others.

The percentage of the population living with a severe disability is 3.2 percent. Nearly 20 percent of households have a person with disability among their members. Many have faced discrimination and other challenges in accessing employment, while they have substantially higher costs than the rest of the population, due to their disability. These expenses comprise, for example, higher expenditure on transport, education, rehabilitation, assistive devices, medicines and care needs.

Overall, standards of living in households comprising older people, persons with disabilities and children, who are another vulnerable group, are almost certainly lower than among the rest of the population. More than one-third of households include an older person, with 85 percent of older persons living in a household with at least one child aged 14 years or under.

The onset of the pandemic exacerbated the crisis with its impact on lives and livelihoods; employees in small establishments, as well as the retail, construction, agriculture and personal services sectors have been hit particularly hard. [108]

Advancing the humanitarian agenda

The simplest means of addressing poverty during the current crisis would, in principle, be a Universal Basic Income (UBI). Poverty targeting is not a sensible option, given that the poverty rate is extremely high and there is significant churning above and below the poverty line. The main concern with a UBI is its fiscal cost. At US$3 per person per month, it would cost US$ 1.3 billion, or 7.5 percent of GDP. [109]

As this fiscal outlay is beyond the current means of Afghanistan, an alternative option would be to select members of society who would be regarded by the rest of the population as 'deserving', so that their selection is accepted within communities. The three clearest population categories would be children, persons with disabilities and older persons. Children and older persons would be relatively easy to identify, while a methodology for assessing disability would have to be developed to identify persons with disabilities. These three groups, alongside the costs of their respective measures, are summarized in Table 2. The total annual cost of the measures outlined here would be around US$300 million. If additional funding were available, the age of eligibility for the child benefit could be increased.

Alongside the cash transfers outlined above, complementary cash support could be provided to support employment and businesses. Two options are set out below.

A 'cash-for-work' programme could be offered to young women and men. By providing seasonal/short-term employment, this programme could serve a double objective: first, a social one addressing poverty and unemployment and, second, an economic/development one by strengthening community infrastructure that would protect against natural disasters deriving from climate change or by providing care services to the most vulnerable members of society. Employment could be offered for up to 75 days per year to each participant at a daily wage of US$3 per day. Offering jobs to 500,000 people per year would require US$113 million, plus administrative costs.

Table 2: Three options for providing social protection transfers

Benefit	Age of eligibility	Monthly transfer value (US$)	Monthly transfer value (US$ PPP)	Annual cost
(US$ million)				
Child benefit	0-3 in year 1	US$3	US$13.50	US$93
Disability benefit	0-64	US$8	US$36.00	US$150
Old age benefit	65+	US$8	US$36.00	US$56
Total				US$299
Note: The estimates are for 2021 and assume 90 percent coverage for the child and old age benefits. They exclude administrative costs that can be of the order of 10 percent of the total cost assuming no fraud or abuse by either the providers or the recipients. Source: UNDP staff estimates.				

A ‘cash-for-markets’ programme could address gaps in existing markets, focusing primarily on access to goods, employment generation and support to businesses. Cash subsidies could be given to 300,000 small businesses each year, run by both women and men, so that they can grow their businesses, increase their incomes and offer jobs to others within their communities. If an average of US$300 per year were given to beneficiary businesses, the total budget would be US$90 million per year, plus administrative costs.

In conclusion, the total cost of the above schemes would be significantly lower than a UBI. They would, however, increase as the population increases. For example, assuming no children are removed from the child benefit, the required budget would rise from US$299 million in the first year to US$470 million in the fifth year. With the expansion in the child benefit, the system’s effectiveness in supporting families would increase significantly, as would broader positive impacts on economic growth, employment and tax revenues. Moreover, the administrative overheads could also decline over time due to learning-by-doing and developing more advanced mechanisms for the selection of beneficiaries – for example, among persons with disabilities, and better monitoring implementation.

4. CONCLUDING REMARKS

Global and regional leaders have underscored their concerns regarding the humanitarian impact of the political change in August 2021 and of the economic crisis that has ensued. However, while the country plunges deeper into economic crisis, there is no consensus on how and when to fully resume vital financial assistance. Against this background, the UN and the international community have promised to continue humanitarian aid to Afghans in need while also outlining the conditions under which financial support may be granted in the future, including the containment of terrorism, as well as the protection of the rights of girls, women, and ethnic and religious minorities.

The humanitarian response must save lives and livelihoods. In doing so, policies and aid must ensure that the combined effects of the economic crunch, the drought and the pandemic do not turn a crisis into a catastrophe. To avoid this, the international support to Afghanistan should first and foremost contribute to food security and help Afghans cope during the harsh winter season. The vaccination effort should intensify, not only for COVID-19 but also for the millions of children who have gone unvaccinated for polio in recent years. Targeting pregnant and lactating women and children under the age of five should be a priority. Many UN agencies and other organizations are already active in these areas. However, these efforts should be complemented and supported by Afghanistan's de facto authorities by providing safe access and support to aid workers, including local ones. The recently imposed restrictions on the deployment of female aid workers go against the spirit of such cooperation.

The UNDP recognizes that local economies should remain functional and that people should have a safe shelter, be able to stay and work in their communities and be protected from environmental disasters. They should be able to earn a decent income and have access to adequate public social services. These objectives are difficult to meet adequately while the massive humanitarian effort required for people to just survive in the immediate future is ongoing. However, the seeds for achieving these objectives should be sown as early as possible. All available domestic resources should be mobilized to their full extent. In this respect, reducing the economic role of women, who are one-fifth of the labor force, and marginalizing the role that they can play in the future by restricting girls' education will not only have an immediate adverse impact on households today but also will compromise Afghanistan's future economic and social development.

The three social protection measures proposed by UNDP meet the twin objectives of meeting immediate basic needs and setting the foundation for future economic and social development. The cash transfer programme, though modest in nominal terms, will lead to a significant increase in household real incomes in purchasing power parity terms. The public works programme can provide employment and contribute to infrastructure maintenance and building. The cash for markets programme can add to private sector activities and, in doing so, provide employment and incomes.

However, more will need to be done. Safeguarding the supply of energy, which is very scarce and import-dependent and is now threatened due to the foreign exchange and fiscal crunch, cannot be overlooked. Also, the collapse of the banking sector would need to be averted so that the economy is not paralyzed. One precondition for both is the early engagement between the Taliban and the international community to pave the way for the resumption of financial assistance to Afghanistan.

ANNEXES

ANNEX 1: The Poverty Gap

The upper part of the table shows the calculations for the poverty headcount rate of 0.47 before the pandemic. The lower part shows simulations for the other two poverty headcount rates (post-COVID-19 and post-August 2021). The latter two have not been adjusted for population growth, decline in GDP or the likely increase in the poverty gap.

		2020	Respective rows
1	GDP pc (current AFN)	34,696	
2	Poverty rate	0.47	
3	Population	40,000,000	
4	Number of poor	18,800,000	3x4
5	Poverty line (AFN monthly, per person)	2,268	
6	Poverty gap	0.135	
7	Poverty gap in AFN monthly per person	306	5x6
8	Total poverty gap in AFN, annual	9,074,208,000	4x7x12 months
9	GDP in AFN	1,387,845,119,572	1x3
10	Poverty gap % of GDP	5.0%	8/9
11	GDP in US$	18,094,460,489.9	x-rate 76.7 (avg 2020)
12	Poverty gap in US$	900,576,375	10*11
	Poverty headcount rate	Poverty gap % of GDP	US$ million
2020	0.47	5.0%	901
Post-COVID	0.72	7.6%	1,380
Post-2021	0.97	10.3%	1,859

Sources:
Population: https://data.worldbank.org/indicator/SP.POP.TOTL?locations=AF
GDP: https://data.worldbank.org/indicator/NY.GDP.PCAP.CD?locations=AF
Exchange rate: https://www.moore.af/resources/taxation-resources/exchange-rates
Poverty measures:
0.47 Income, Expenditure and Labor Force Survey 2019-2020: Afghanistan NIS
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ANNEX 2: Social Protection: Alternative cash transfer options

This Annex supplements the results presented in Table 2 of this report that discussed the basic social protection option for the immediate humanitarian response. The discussion rests on the same principles as those underlying the basic option, which are that the measures would need to be as simple as possible and would need to be backed up by administrative systems that ensure that the right people receive the right amount of cash at the right time.

Costs

As discussed in the text, the cost of a Universal Basic Income (UBI) in its first year of operations would be US$1.3 billion. This cost is based on providing a cash benefit of US$3 to every person in Afghanistan each month.

A more modest option would be to select members of society who would be regarded by the rest of the population as 'deserving', so that their selection is accepted within communities. The three clearest categories would be children, persons with disabilities and older persons. Children and older persons would be relatively easy to identify, although a simple methodology for assessing disability would have to be employed to identify persons with disabilities.

Three cases are presented below, from low to high cost. The eligibility criteria for children, disability and old age benefits would be:

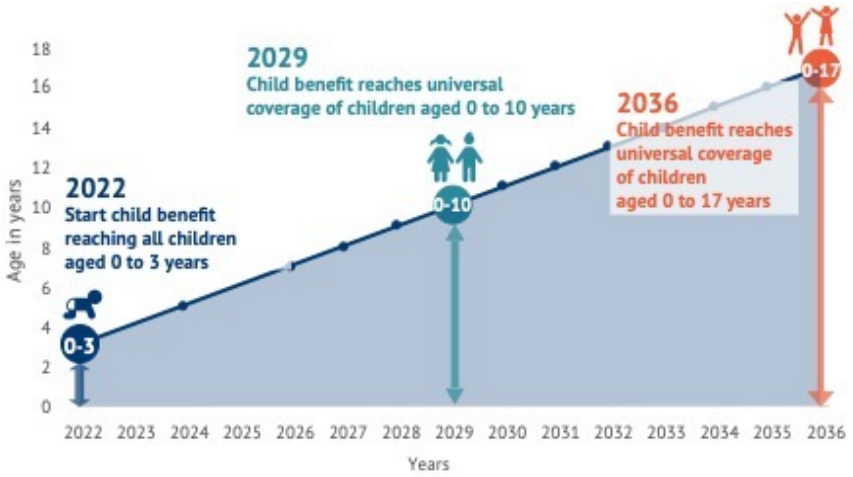
- **Children:** Their ages can vary.
- **Older persons:** The benefit would be provided to everyone aged 65 years and above and to
- **Persons with disabilities:** the benefit would be provided to all persons with severe disabilities –children and adults – up to 64 years of age.[110] Children with disabilities would be able to receive the disability benefit and the child benefit, since these benefits have different purposes.

The options would therefore vary in terms of the age of eligibility of children in the first year:

- **Option 1:** All children aged 0-3 years. This option would prioritize reaching the youngest children, given that the first few years of life are the most important period for a child's development.
- **Option 2:** All children aged 0-7 years. This option would also cover children of early primary school age to ensure a good start to education.
- **Option 3:** All children aged 0-11 years. This option would offer support to all children from birth up to the end of primary school.

To ensure that all children who enter the child benefit receive long-term support and that all new-born children can enter the scheme in future years, no child would be removed until he or she reaches 18 years of age (assuming the programme continues long-term). How this would work for Option 1 is illustrated by Annex Figure A-1, and the same principle would be applied to the other two options.

Annex Figure A- 1: Illustration of children entering a child benefit at 0-3 years in 2022 and remaining on the scheme until their 18th birthday



The transfer values would be the same for each option, at US$3 per month for children and US$8 per month for persons with disabilities (children and adults) and older persons. These would be the equivalent of US$13.50 and US$36 per month in purchasing power parity terms. Each household could receive multiple transfers, with more vulnerable households receiving higher amounts. For example:

- A household with one older person, one person with disabilities and one eligible child would receive US$19 per month, the equivalent of US$85.50 in purchasing power parity terms.
- A household with two older persons, a person with disabilities and two eligible children would receive US$30 per month, the equivalent of US$135 per month in purchasing power parity terms.

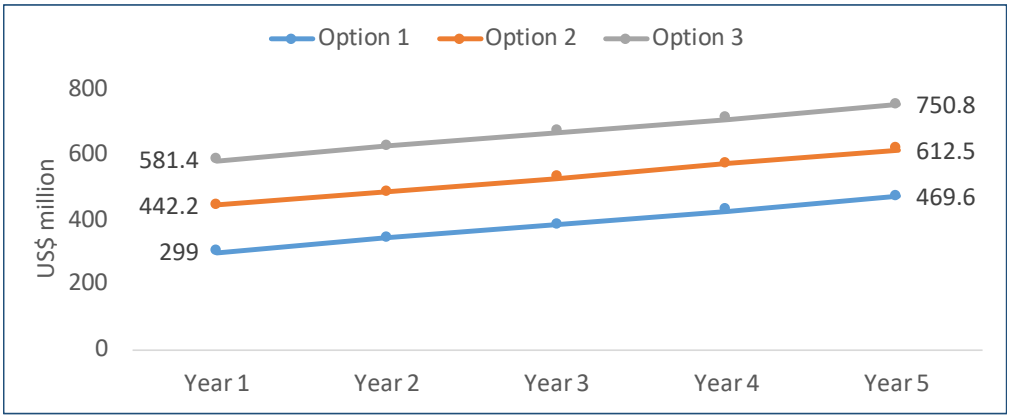
To address the challenge of inflation, the value of the transfers in the Afghani (AFN) would be calculated in US dollars each month and converted to the national currency on the day of the transfer. The three options are summarized in Appendix Table A-1, assuming 90 percent coverage for the child and old age benefits (the disability and old age benefits are not repeated for Options 2 and 3).

Appendix Table A- 1: Summary of the three options for providing social protection transfers

Benefit	Age of eligibility	Monthly transfer value (US$)	Monthly transfer value (US$ PPP)	Annual cost (US$ million)
Option 1				
Child benefit	0-3 in year 1	US$3	US$13.50	US$92.9m
Disability benefit	0-64	US$8	US$36.00	US$149.8m
Old age benefit	65+	US$8	US$36.00	US$56.2m
Total				US$299m
Option 2				
Child benefit	0-7 in year 1	US$3	US$13.50	US$293m
Total				US$442.2m
Option 3				
Child benefit	0-11 in year 1	US$3	US$13.50	US$432.3m
Total				US$581.4

The total cost of the schemes would be significantly less than a UBI, with Option 1, incorporating children aged 0-3 years, costing US$299 million over the first year, as also was reported in the report (see Table 2). Option 3, the most expensive option, would be US$581 million. Assuming no children are removed from the child benefit, the required budget would rise year on year (Annex Figure A-2). However, the impacts from the schemes would also increase, as the budget and coverage grow.

Annex Figure A- 2: Budget required each year for the three social protection options, assuming that no children are removed from the child benefit



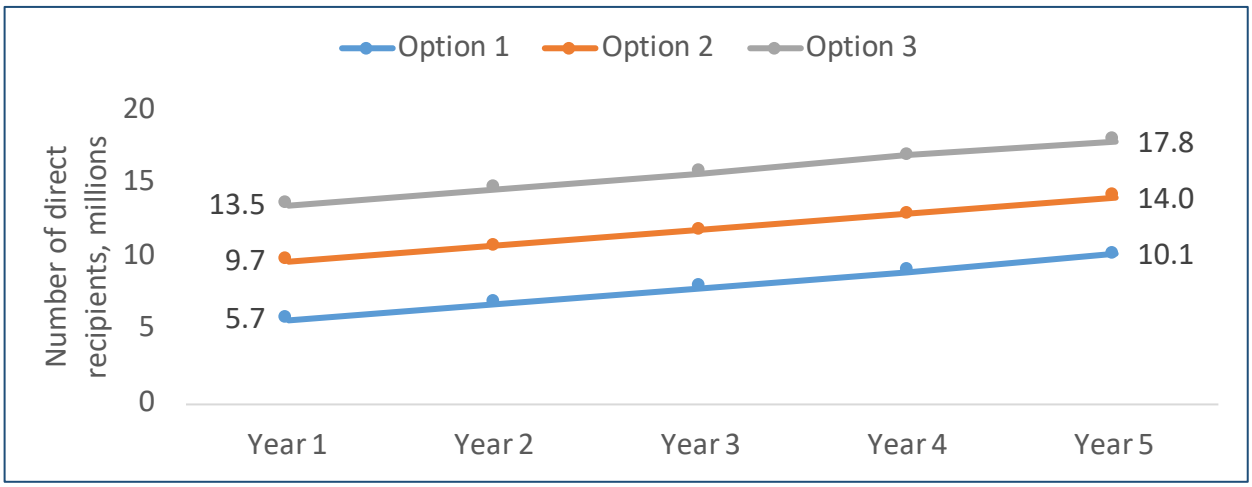
It will be necessary to add administrative costs to the transfer budget. At this stage in the design process, it is not possible to estimate the administrative costs accurately. However, as a benchmark, an additional 10 percent could be added to the transfer budget in Year 1 and 5 percent in subsequent years.

Number of recipients
The number of direct recipients of the schemes would increase year on year, as newborn children enter the child benefit. The approximate number of direct recipients each year is set out in Annex Figure A- 3. Option 1 would begin with 5.7 million direct recipients and, by year 5, would increase to 10.1 million. Coverage would be much higher under Option 3: it would begin with 13.5 million direct recipients, or around one-third of the population, and increase to 17.8 million by year 5. The proportion of households in receipt of the schemes would be much higher and would likely reach over 90 percent in Option 3.

Implementation requirements
Establishing a system of social protection outside government channels will not be easy, but it is possible. This section outlines some of the core measures that can be taken to build the system.

United Nations' role: The social protection system can be established under the leadership and supervision of the United Nations, with different agencies working together under the coordination of UNDP. It would be necessary to gain the agreement with the de facto authorities to set up the social protection system, but it would be implemented outside their control. A central programme office can be established to oversee all aspects of the implementation.

Annex Figure A- 3: Number of direct recipients of the social protection benefits, over 5 years



Partnerships with NGOs: The programme will require local capacity to oversee the registration of recipients alongside subsequent case management, local monitoring and complaints from recipients and applicants. There is a range of NGOs operating across Afghanistan and, in each local area, an NGO will be selected to be responsible for local management. UN agencies have a large number of provincial offices and, as a result, will be well placed to oversee the NGO implementation.

Digital management information system: The operations of the social protection transfers will be facilitated by a digital management information system (MIS), which will be based in the central programme office but will be accessible by UN provincial offices and the local NGO implementers. As a result, registration, case management and complaints information will be entered into the digital database at local level and directly uploaded to the central MIS. This will not require a continuous mobile phone network, since data could be entered off-line and uploaded once the network is accessible. The MIS would be able to provide a monthly payroll list that will be given to the payment service providers, who will be paid the funds prior to making the transfers. The reconciliation of payments will happen after the payments are made and, if there are any

discrepancies, they will be adjusted in the next transfer of funds. Finally, an effective MIS will help reduce the fiduciary risk to the programme, but it will have to be backed up by robust monitoring mechanisms.

Payment service providers: As far as possible, the social protection system will use electronic payment systems, such as mobile money, although, in urban areas, banks may be an option. The use of electronic payments, in particular mobile money, will mean that recipients will be able to receive their cash at any location across Afghanistan. Therefore, the internally displaced population will be able to fully participate in the social protection system, as will those who migrate internally in search of employment. However, in some areas, the physical distribution of cash may be required, although this will be assessed during programme design.

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30. The rising demand for liquidity—including from those who seek to leave the country—is pushing down real estate prices, a key household asset. In a press release on 11 September 2021, the central bank announced that commercial banking activities had resumed in Kabul and provinces (Central Bank of Afghanistan, DAB, Press Release, 11 September 2021).
31. The lower estimate of output loss (3 percent) assumes that the restrictions on women's employment only

applies to female employees while the higher estimate (5 percent) assumes that half of female workers will leave the labour market.

32. An underlying assumption of the model is that the larger deficit would be financed from the use of the government's cash balances with DAB, something that may only in part be feasible.
33. The male unemployment is a more predictable indicator than the female rate now that many women are now facing employment restrictions.
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35. World Bank (2021), Afghanistan in Crisis: Development Risks and Mitigation Options.
36. ADB (2021), Asian Development Outlook 2021 Update: Transforming Agriculture in Asia, September 2021, p. 163 ADB (2021),
37. Stockholm International Peace Research Institute (2015), Afghanistan's Private Sector Status and Ways Forward, October 2015.
38. UNDP (2021), April.
39. Economic fragmentation can be 'good' when the economy is competitive and dynamic, and in a position to profit from cost reductions between the cheapest places to source inputs and the places where the finished goods and services are used.
40. Afghanistan remains the world's largest supplier of illegal opiates. Opium is one of the few reliable cash crops that Afghan farmers can grow and remains an attractive activity as a nonperishable, low-weight, high-value substance with a store of value. The crop generates between US$1.5 billion and US$3 billion per year at farm gate provides more than 500,000 full-time-equivalent jobs. The estimated value of the opiate economy exceeded Afghanistan's officially recorded licit exports of goods and services benefiting local powerbrokers as well as national political actors (The Guardian, It's our lifeline: the Taliban are back but Afghans say opium is here to stay, 11 November 2021).
41. UN (2021), Act swiftly and with determination on Afghanistan, UN chief urges, story, 27 October 2021.
42. The Washington Post (2021), Looming economic crisis overshadows Afghanistan talks at U.N., 23 September 2021.
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44. Sabri, Fawaz (2020). Afghanistan Private Sector. Paper presented to the Pledge Conference, Geneva November 2020.
45. UNDP (2021), Policy Brief: The Afghan Banking and Financial System Situation Report, 22 November 2021 UNDP. 2021. Policy Brief: The Afghan Banking and Financial System Situation Report. November 22.
46. BBC (2021), Taliban: Afghanistan bank boss warns sector near collapse, 28 September 2021. Also, Reuters (2021), U.N. warns of 'colossal' collapse of Afghan banking system, 23 November 2021.
47. Afghanistan was removed from the gray list of the Financial Action Task Force (FATF) in 2017. Considering the events since 15 August, there may be increased risks of money laundering and the financing of terrorism, prompting a reassessment of Afghanistan's compliance with FATF standards.
48. Total consumption is about 5000 Giga Watt hours (GWh), of which about 4000 GWh are imported. About one-third, or 1300 GWh, was imported from Uzbekistan, almost another third from Turkmenistan and the last third from Iran and Tajikistan. Prices varied between US$0.02 and 0.06 per kWh, but rose to higher levels recently. DABS pays about US$25 million per month for electricity imports. Source: DABS, Status during COVID Pandemic, April 2020.
49. DABS, Forces Meetings, 2021.
50. World Bank (2018), Afghanistan Renewable Energy Development Issues and Options, January 2018 World Bank; Renewable Energy Development, Issues and Options. Washington DC, 26 June 2018.
51. The 68 MW gas-fired generation plant, if run for the full year, would generate approximately 500 GWh, or 50 percent of the entire current generation of Afghanistan.
52. FORCES (mainly DABS and ESRA) received presidential authority to 'coordinate' energy sector investment, whatever that may mean, including, say, permit the construction of power plants, set tariffs, etc.
53. World Bank (2008), For Protection and Promotion: The Design and Implementation of Effective Safety Nets). "For Protection and Promotion": p. 358.
54. Al Jazeera (2019), Amnesty urges release of Afghan men who exposed paedophile ring, 25 November 2019.
55. According to UNDP Human Development Report 2019, the female HDI value for Afghanistan was 0.39 in

contrast with 0.60 for males, resulting in a GDI value of 0.66. In comparison, GDI values for Nepal, Pakistan and South Asia as a group were 0.93, 0.75 and 0.82, respectively.

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57. World Bank (2021), GDP per capita (current US$) – Afghanistan 1960 - 2020.
58. Central Statistics Organization of the Islamic Republic of Afghanistan (2018), Afghanistan Living Conditions Survey 2016-17. Kabul, CSO. Afghanistan Living Conditions Survey - ALCS 2016-17.
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62. World Bank (2020), Afghanistan Development Update July 2020: Surviving the Storm, July 2020 World Bank (2020). Afghanistan Development Update July 2020: Surviving the Storm. July
63. Ibid.
64. The 'poverty headcount rate' shows the incidence of poverty, that is, the percentage of the population whose incomes are below the poverty line. A more comprehensive measure that takes into account both the incidence and depth of poverty is the 'poverty gap' that measures the difference between the poverty line and the average income of the poor. This difference usually is expressed as a percentage of the poverty line, but its absolute value, when multiplied by the number of the poor, indicates the amount of money that, if given to the poor, would theoretically end poverty – omitting administrative costs and leakages due to fraud or abuse.
65. OCHA (2020), Afghanistan Humanitarian Needs Overview, December 2020.
66. Guardian (2021), Afghanistan could start to run out of food by September, UN warns, 23 August 2021.
67. UNDP (2020), Afghanistan: Potential impact of the coronavirus pandemic on SDG attainment, Kabul, Afghanistan. UNDP. (2020). Afghanistan: Potential impact of the coronavirus pandemic on SDG attainment. UNDP Afghanistan. Kabul, Afghanistan.
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69. UNDP (2021), Achieving Afghanistan's Long-term Goals amid Short-term Adversities, April 2021 UNDP (2021). "Achieving Afghanistan's Long-term Goals amid Short-term Adversities".
70. Sehatmandi Project for Afghanistan is a US$600 million project supported by the World Bank, which aims to increase the utilization and quality of health services across the country. See Devex, 13 September 2021: "Guterres warns Afghanistan faces dramatic humanitarian crisis"; and World Bank: Afghanistan Sehatmandi Project Details.
71. Still, only 69 percent of boys and 50 percent of girls aged 7-12 years attended school, with the proportions dropping to 50 percent of boys and 25 percent of girls among children aged 13-18. And only 16 percent of Afghanistan's schools were girls-only. With the COVID-19 crisis, the number of children out of school had been expected to rise from 5.6 million to 9.7 million (Source: UNICEF, Providing Education for All).
72. UNESCO (2021), UNESCO sounds a warning on what is at stake for education in Afghanistan, Press Release, 9 October 2021.
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79. After taking control, the Taliban allowed boys and male teachers to go back to schools. Some schools reopened for girls up to the end of primary education but not for high schools (Source: Hindustan Times, 13 November 2021, "Taliban claim 75% of girl students back in Afghanistan schools".
80. According to the acting representative for higher education, women can attend university but only in gender-segregated classrooms and in Islamic dress (Voanews: Taliban women can study in gender segregated schools, 13 September 2021; and Washington Post: Taliban tells Kabul's female city government employees not to come to work, 21 October 2021).
81. Deutsche Welle (2021), Afghanistan: Taliban announce new rules for women and girls' education, 12 September 2021.
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109. Given the average household size of around eight members, a UBI set at US$3 per person per month is equivalent to an average monthly payment US$24 per household. For comparison, this would be the equivalent of almost 40 percent of the minimum wage and, in purchasing power parity terms, would be the equivalent of US$108 per month.

110. For the purposes of the costings, it is assumed that 1 percent of children and 2 percent of working-age adults would be reached by the disability benefits.

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