UNDP

ONE YEAR IN REVIEW

AFGHANISTAN
SINCE AUGUST 2021

A SOCIO-ECONOMIC SNAPSHOT

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General disclaimer

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Acknowledgements

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Foreword

Afghanistan continues to await the dawn of its development.

The political change after 15 August 2021 pushed the country into a simultaneous humanitarian and economic crisis. The sudden stop of international aid, which constituted 75 percent of the total expenditure and contributed nearly 40 percent of the gross domestic product (GDP), abruptly suspended development services and support. For a relatively small economy of $20 billion, this resource crunch combined with increasing levels of food insecurity and the lingering effects of the COVID-19 pandemic have had a devastating impact on peoples' lives and livelihoods over the past 12 months.

Last year, UNDP estimated that the GDP could fall by 20 percent within a year and the ensuing inflation, lack of liquidity, disruption in the banking sector, and a significant fall in aggregate demand, could result in almost universal poverty by mid-2022. The country is at this point. As the Taliban de facto authorities (DFA) complete one year, the situation in Afghanistan remains precarious and uncertain and the impact of the multiple crises continue to reverberate across the country.

Using available data from multiple sources, a mixed picture emerges of the changes that have occurred in peoples' lives in Afghanistan since August 2021.

Afghanistan's GDP was already in decline since 2009. The economic shock in August 2021 with the accompanying liquidity constraints and freezing of foreign assets, precipitated a sharp contraction and speeded up this decline. The Afghan economy lost $5 billion after August 2021, wiping out in 10 months what had taken it 10 years to accumulate.

The price of the food basket (the minimum calories needed to escape food poverty) increased 35 percent since August 2021. Poorer households, which spend up to 60 percent of their incomes on food, reportedly sold assets or incurred more debt to survive through the first winter. One in three businesses reported having temporarily ceased operations since August 2021, and nearly 700,000 jobs are estimated to have been lost by mid-2022.

There have been some positive developments. The widely perceived improvement in security and a decrease in conflict-related security incidents and civilian casualties has eased movement, trade and connectivity across the country. Despite numerous challenges, customs revenue is also holding steady at AFN 43 billion. And the tightening of accounting and revenue gathering systems and the direct clamp down on corruption has kept these revenues, albeit inadequate, consistently flowing in.

However, these gains are far outweighed by a host of challenges.

Chief among them is the limited space and freedom for women and girls to enjoy a full education, the right to earn a livelihood, and the right to engage in the country's governance as fully participating members of the economy and society. No country has prospered by leaving half its population behind, and the loss to the Afghan economy alone is estimated at a billion dollars a year – in addition to any future losses through limits placed on education, skills, dignities, and capability investments.

In the absence of external financial support, the national budget is financed entirely by Afghanistan's limited internal revenue. This severely constrains development expenditure and prospects for poverty reduction, which require large-scale investment to lift the population above the poverty line and keep it there. This cannot be done by public revenue or ODA alone; it needs a robust private sector.

The multiple shocks faced have further revealed the structural defects in the Afghan economy that inhibit progress toward sustainable and equitable progress. Two decades of heavy dependence on international aid and imports, a lack of industrialization and competitiveness, and limited mobility and connectivity among regions, among other factors, have hindered Afghanistan's forward momentum. Nonetheless, the Afghan people continue to demonstrate extraordinary resilience by facing these difficulties, despite limited opportunity and significant sacrifice.

One year later, support to basic development needsand to community development activities, including livelihoods creation and protection, has resumed. Humanitarian aid, which was critical for saving lives in the early months and through the first winter, is not sustainable as a way forward. People need decent jobs and working local markets, clean water and a reliable energy supply, functioning health and education systems, and protection against harsh climatic and natural disasters.

At the Afghanistan Economic Conference in January 2022, the DFA presented their vision for achieving greater self-reliance in the medium term, with a focus on international off-budget aid for the humanitarian and development sectors. To stimulate economic development and employment generation, the DFA have reached out to the private sector and foreign investors requesting greater private investment linked also to domestic businesses and local production.

UNDP Afghanistan remains committed to ensuring the recovery and prosperity of the people of Afghanistan, working directly with communities on local economic recovery and investing in resilience building activities and infrastructure across all regions of the country, while complementing humanitarian efforts in-country by other UN agencies. UNDP has launched an area-based approach to development emergency initiatives (ABADEI) centred on creating incomes through cash-for-work projects, local markets and livelihood opportunities in agribusiness, regenerative agriculture infrastructure, and services critical to food security.

This document provides a snapshot of the changes over the past year. Our hope is that it proves useful for both the international community and the DFA to take stock of the current situation, and to plan ahead with greater urgency and inclusiveness to improve the lives of the Afghan people.

Abdallah Al Dardari
Resident Representative

ABBREVIATIONS

ABADEI	Area-based Approach for Development Emergency Initiatives
ACCI	Afghanistan Chamber of Commerce and Investment
ADF	Agricultural Development Fund
AFN	Afghani
AGO	Attorney General's Office
AMA	Afghanistan Microfinance Association
ASYCUDA	Automated System for Customs Data
AWCCI	Afghanistan Women's Chamber of Commerce and Industry
CPI	Consumer Price Index
DAB	Da Afghanistan Bank
DFA	De facto Authorities
DTM	Displacement Tracking Matrix
FAO	Food and Agricultural Organization
FOB	Freight on Board
GDP	Gross Domestic Product
IDPs	Internally Displaced Persons
IOM	International Organization for Migration
IPC	Integrated Food Security Phase Classification
MoEd	Ministry of Education
MoF	Ministry of Finance
MoJ	Ministry of Justice
MoWA	Ministry of Women's Affairs
MSP	Money Service Providers
NSIA	National Statistics and Information Authority
NTA	National Technical Assistance
SAM	Severe Acute Malnutrition
UNCTAD	United Nations Conference for Trade and Development
UNICEF	United Nations Children's Fund
WFP	World Food Programme
WHO	World Health Organization

NOTE ON DATA SOURCES

This review is produced by UNDP Afghanistan, drawing from a range of data sources. Reflecting the limited availability of public data, it draws on third-party data sources and coverage, which are cited for each chart.

Key sources include: (i) official statistics on national accounts and prices produced by the National Statistics and Information Authority (NSIA); (ii) data on prices and wages collected from all provinces by NSIA and the World Food Programme, separately; (iii) data on exchange rates collected and reported by DAB; and (iv) data on trade from the ASYCUDA database managed by UNCTAD; and (v) data on public sector employment and national budget data collected and reported by Ministry of Finance (MoF) and NSIA.

In addition, the report makes extensive use of data from the following sources:

- The fourth Whole of Afghanistan Assessment, an annual multi-sector needs assessment, conducted from August to October 2021.
- Integrated Phase Classification (IPC) analysis, conducted twice a year. The report uses the most recent analysis of March 2022.
- The Displacement Tracking Matrix produced by the IOM, which tracks and monitors displacement and population mobility both within the country and across international borders.

Members of the core team undertook field visits to Herat, Mazar-e-Sharif, and Kandahar where meetings were organized with NGOs, citizen groups such as the local Chambers of Commerce and Industry, groups of women SMEs, money service providers or *hawaladars*, local traders and business persons, and schools and hospitals. These helped the team access local data and gain a more nuanced understanding of the issues.

It is extremely difficult to get a precise idea of the population of Afghanistan. Various estimates are in use, ranging from about 32 million by NSIA, to 39 million by the World Bank, to 41 million by the World Food Programme. This created a challenge in estimating the GDP per capita and so the report records both the NSIA and World Bank estimates. Province-level population data are also broad estimates, and population data by age group is again difficult to estimate precisely. The latter would have been helpful to harmonize data on malnutrition for children under five across provinces, but in the absence of the population for each age cohort, we extrapolated the approximate national-level estimate of 18 percent of children in this age group across all provinces. There is therefore grounds for caution in interpreting the results.

KEY MESSAGES

- The economic shock in August 2021 precipitated a sharp contraction in the licit economy that was already in decline. It lost nearly $5 billion in 12 months, which had taken almost 10 years to add.

- The shrinking of the licit economy after August 2021 has increased the share of the illicit economy in total GDP to 12-18 percent, from about 9-14 percent one year ago.

- Numerous restrictions confine women to the home and prohibit them from entering DFA buildings, and their presence in public spaces is broadly contested. Limitations on women's economic participation will likely have a long-term impact on household well-being and the economy.

- The freeze on the $9 billion in foreign assets and the international sanctions have led to a severe liquidity crisis. Restrictions on deposit withdrawals and other transactions have forced businesses to use cash for domestic and *hawala* for international payments. The microfinance sector is near collapse, harming the prospects of the poor and women borrowers.

- Tightening of systems and the clamp down on corruption by DFA have helped maintain customs revenue; and trade deficit has reduced with the picking up of exports, mostly of coal to Pakistan. Yet Afghanistan may have lost about $60 million in revenue with its coal severely undervalued until July 2022.

- The prospects of poverty reduction and achieving the SDGs are grim, with sharp reduction in development expenditure in the Afghan fiscal year 1401 (2022–2023).

- The food inflation rate has risen sharply since August 2021, driving up the overall inflation rate. The price of the food basket has increased by almost 35 percent on average, which is likely to further increase hunger, food insecurity, and poverty.

- Nearly 20 million people are classified under high and critical levels of food insecurity after August 2021, almost twice the average in the preceding three years. The elevated level of acute food insecurity may become the new normal if urgent steps are not taken.

- Children under five face a serious threat of severe acute malnutrition that is particularly severe in the five provinces in the South region.

- There are almost as many population movements since 2020 as in the previous eight years. Afghanistan is in danger of losing its skilled and young workforce as proportionately twice as many people moved abroad in January–April 2022 as in the period 2012–2020.

- As the DFA has reorganized the governing structures, both average salaries and staff numbers have been cut. There is a mismatch between DFA's stated priorities for Afghanistan's economic recovery and the sharp reduction in the number of technical advisors in key economic ministries.

Afghanistan economy

Gross Domestic Product

Severe disruptions, the lingering effects of the COVID-19 pandemic, and drought in many parts of the country had affected economic activity and livelihoods even before 15 August 2021. The GDP, already on a declining trend since 2009, contracted by 20 percent between 2020 and 2021 with an estimated loss of about $5 billion in one year alone. Within a single year, a decade's worth of hard-won economic gains were wiped out. This staggering economic shock has resulted in near-universal poverty.

Afghanistan's growth trajectory over the past 20 years has been narrow and exclusive: Only selected groups of population have been able to benefit from economic opportunities. After August 2021, these selected groups lost their livelihoods and fell close to or under the poverty line.

Annual per capita incomes have also declined by 14-28 percent between 2020 and 2021.

Economic activities declined significantly as a result of the collapse of the financial and banking sectors, the layoff of government employees and the shrinking of private economic activities.

Illicit opium cultivation continues to be a key part of the economy. In 2021, opiates generated $1.8–2.7 billion of gross income.[1] The shrinking of the licit economy after August 2021 has increased the share of the illicit economy in Afghanistan's GDP to 12–18 percent, up from about 9-14 percent one year ago.

The de facto authorities issued a decree in April 2022 (two months before the 2022 opium harvest) prohibiting the cultivation of poppy and all types of narcotics.[2] While a two-month grace period was granted to enable farmers to harvest the opium gum and sell their 2022 harvest, selective eradication efforts have already been reported. A sharp increase in the prices of various illicit products has also been reported as a result. The likely economic impact of the decree will be observed in the next year.

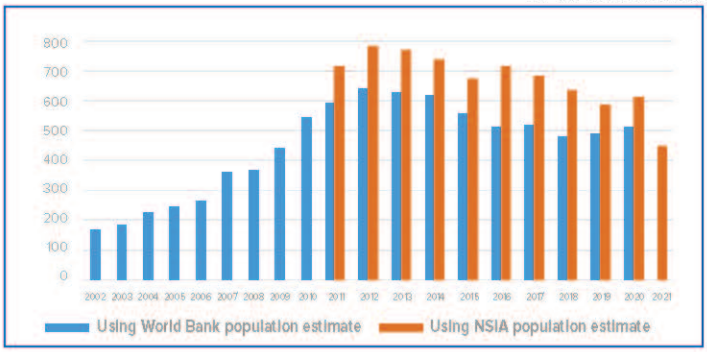
The economic shock in August 2021 precipitated a sharp contraction in the licit economy that was already in decline

Change in GDP (%)

Source: UNDP staff calculation using data from NSIA Statistical Yearbooks, various editions.

Afghanistan's per capita GDP was declining since 2012, the economic shock of August 2021 reduced it by 14–28 percent in one year

GDP per capita ($ current)

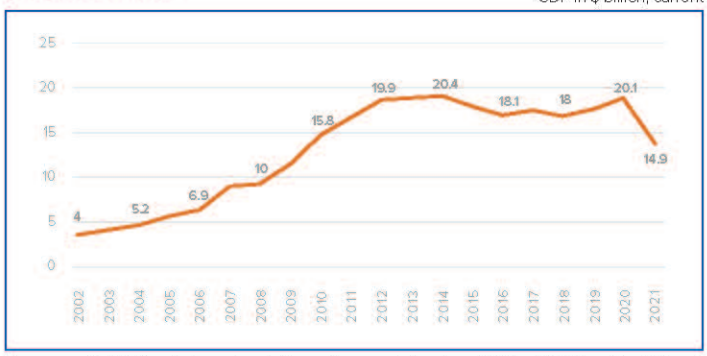


Note: In the absence of a population census, there are two estimates of GDP per capita. The World Bank estimates a population of about 39 million while the NSIA estimates about 32 million.

Source: UNDP staff calculation. The World Bank data (blue bars) are from https://data.worldbank.org/indicator/NY.GDP.PCAP.CD?end=2020&locations=AF&start=2002. The data for the orange bars are from NSIA 2022, *Statistical Yearbook 2021*.

The licit Afghan economy lost about $5 billion in one year, which took more than 10 years to accumulate

GDP in $ billion, current



Source: UNDP staff calculation from data in NSIA, 2022, *Statistical Yearbook, 2021*.

[1] NSIA and UNODC, 2021, Afghanistan opium survey 2019 Socio-economic survey report: Drivers, causes and consequences of opium poppy cultivation, Kabul, Afghanistan

[2] Source: United Nations, General Assembly Security Council, The situation in Afghanistan and its implications for international peace and security, Report of the Secretary General, A/76/862-S/2022/485, 15 June 2022.

There have been changes in the level and structure of economic activity and a noticeable shift toward agriculture. The industry sector's share remained relatively unchanged, as the decline in construction activities was offset by some uptake in extractives sector activities after August 15, though manufacturing faced numerous constraints arising from shortages of electricity supply and availability of imported inputs.

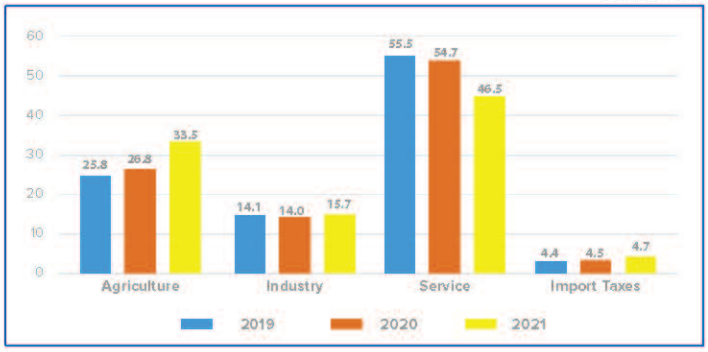
Services have contracted, especially those that catered to foreign presence (e.g., logistics). There has been a drop in construction, with housing prices and rents down sharply. Construction accounted for an estimated 8.9 percent of total employment in 2020. The crisis has jeopardized the employment of around 538,000 workers (99 percent of whom are men) who worked in construction before the current crisis.[3]

Much of this is because without foreign funding, construction and other major infrastructure projects have stalled. Construction companies have suffered massive losses on investments and those with outstanding government contracts remain unpaid.

The share of services sector of GDP declined to 46.5 percent in 2021 from 54.7 percent a year earlier. Consequently, the services sector, which contributed the largest share of GDP, has suffered the sharpest contraction of nearly 33 percent since August 2021.

The recent economic shock may accelerate Afghanistan's shift towards a subsistence-based economy with agriculture's share of total GDP increasing and a declining share of the service sector

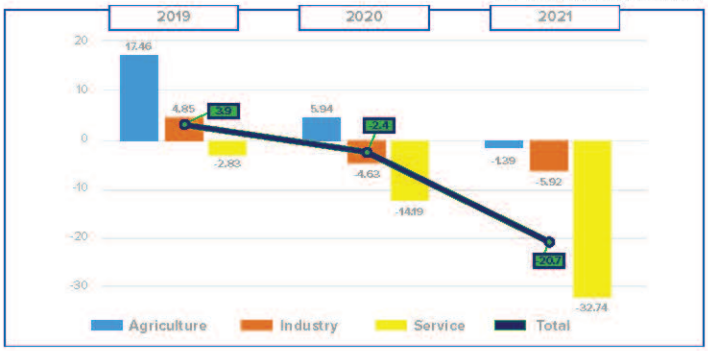
All figures in %



Source: UNDP staff compilation from data in NSIA, 2022, *Statistical Yearbook 2021*.

Service sector, the largest contributor to GDP, has suffered the sharpest contraction

GDP growth rate by sector (%)



Source: UNDP staff estimate from data provided by NSIA.

Industries, services, construction sectors are most affected.

Construction sector in general is seeing up to 80% decrease in investments due to uncertainty and political issues.

- From a discussion at the Herat Chamber of Commerce and Industry, June 2022

National budget

In the absence of external financial support, the national budget is financed entirely by internal revenues. The national budget for the Afghan Fiscal Year 1401 (2022–2023) totalled 231.4 billion AFN ($2.65 billion), including 203.4 billion AFN ($2.33 billion) earmarked for operations and 27.9 billion AFN ($302 million) for development. In its present size, the budget has limited capacity to direct and stimulate growth in the country.

Despite many constraints, DFA's revenue target for 2022 is 186.7 billion AFN ($2.14 billion), which seems unrealistic in light of current revenue collection. Still, it is likely to reach 94 percent of the average of the

[3] International Labour Organization, "Employment prospects in Afghanistan: a rapid impact assessment," 1/2022

previous three years, helped in large part by customs revenue that has held steady at about 43 billion AFN during the first six months of 2022. There is a deficit of 44.7 billion AFN ($512 million) in the 2022 budget.

Expenditures on capital development and social services are severely diminished, and almost all (88 percent) of the expenditure is to meet operational expenses.

The budget does not provide any direction on how social sector expenditure will be financed. These services are at risk of collapse and the prospects of poverty reduction and achieving the SDGs are grim.

The national budget for the Fiscal Year 1401 (2022-2023) is financed entirely by domestic resources with a sharp reduction in development expenditure

	2019	2020	2021	2022	% change (2020-2022)	2022 level as % of the average of 2019-2021
Revenues and grants (billion AFN)	396	398	435	187	-53	46
Domestic revenues	207	173	217	187	8	94
Grants to operating budget	80	83	107	0	-100	0
Grants to development budget	109	142	112	0	-100	0
Total expenditures (billion AFN)	411	498	473	231	-46	53
Operating expenditures	272	285	311	203	-29	70
Development expenditures	139	147	162	28	-81	19
Overall budget balance (Including grants)	-16	-34	-38	-44	-29	

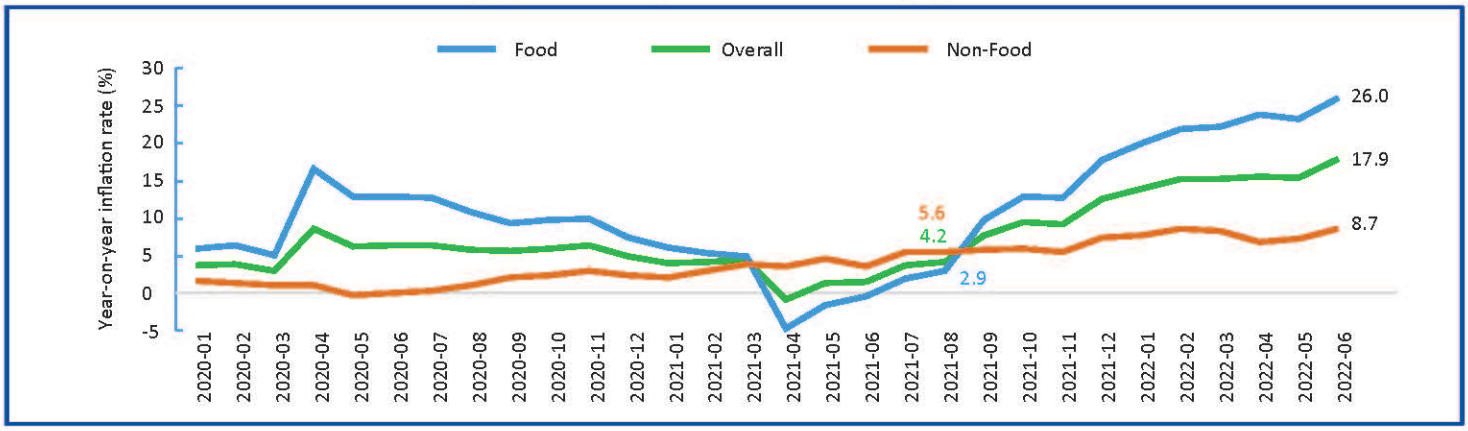
Source: Compiled from national budget document provided by MOF.

Inflation

Overall inflation has increased from 4.2 percent in August 2021 to 17.9 percent in June 2022. Much of this increase is attributable to an increase in food prices, which jumped from 2.9 percent to 26 percent in the same period, reflecting global price hikes in food items, including in neighbouring countries such as Iran and Pakistan. Prices of non-food items rose from 5.6 percent in August 2021 to 8.7 percent in June 2022.

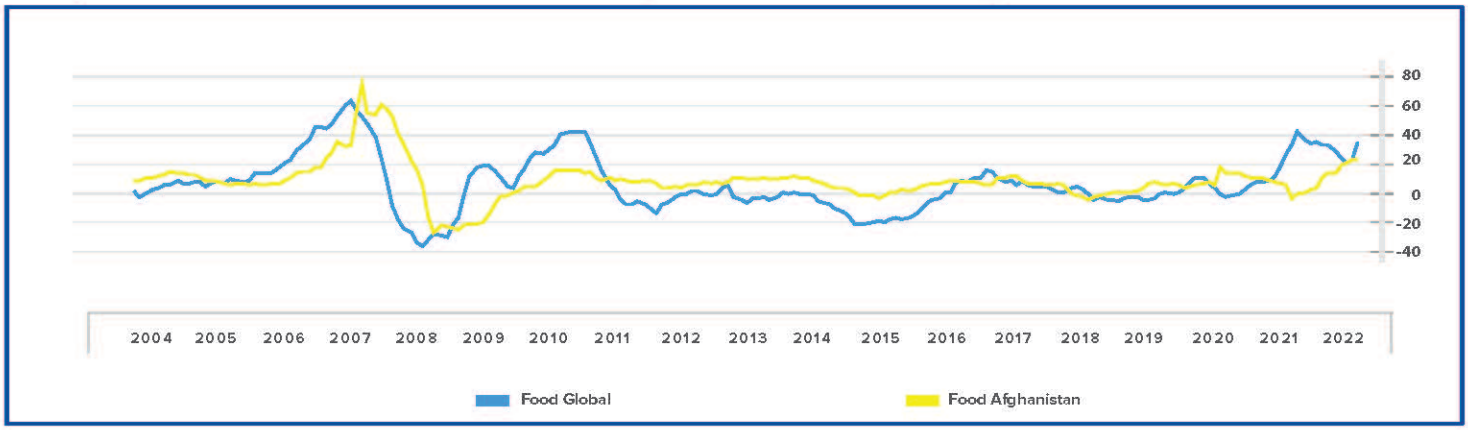
Prices of fuel and basic food commodities including wheat, wheat flour, rice and cooking oil are likely to be under additional pressure from the interruptions in supplies related to the war in Ukraine.

Food inflation rate has risen sharply since August 2021, driving up the overall inflation rate



Source: UNDP staff compilation with monthly CPI data from NSIA, 2022, *Statistical Yearbook 2021*. CPI data for the period after March 2022 from NSIA, personal communication.

Except in recent months, food inflation in Afghanistan has followed global trends



Source: Afghanistan Food price index from NSIA, 2022, *Statistical Yearbook 2021*; Global food price index from Food and Agricultural Organisation database.

Increase in price of the food basket

It is important to assess the impact of the increase in food prices on poor peoples' wallets since they spend nearly 60-70 percent of their incomes on buying food and are more adversely affected by food inflation.

For this we use the basic needs basket, used by NSIA to estimate the poverty line in 2020, to assess the impact of the increasing food prices on peoples' ability to get the minimum calories required for daily subsistence.

The basic needs basket in Afghanistan, which was last estimated by the National Risk and Vulnerability Assessment (NRVA) in 2007–2008, requires an urgent update to reflect the present food habits and preferences and obtain a more precise estimate of the country's poverty line.

NRVA 2007-2008 Basic Needs basket, by food category

Food Category	Kilograms	Kilo-calories
Grains & Bread	0.432	1535
Meat	0.018	33
Dairy	0.103	96
Oil	0.028	247
Vegetables	0.157	77
Fruits	0.041	25
Sweets and Sugar	0.024	85
Beverages	0.006	0
Spices	0.019	02
Total	**0.827**	**2100**

Note: The Basic Needs basket is composed of 85 food items, which were grouped into main food categories in this table. Units expressed in daily per capita consumption.
Source: NSIA, 2020, *Income and Expenditure and Labour Force Survey, 2020*.

We estimate the increase in price of the foods that comprise the Afghan diet for a minimum of 2,100 kilocalories per person per day[4] to be on average 35 percent with wide variation across provinces: from 12 percent in Helmand to 51 percent in Ghazni and Kandahar.

Price of food basket increased by 35 percent since August 2021 with wide variation across provinces

Note: This is an approximation and so should be interpreted with caution.
Source: UNDP staff calculations using data provided by NSIA.

Prices of non-food items

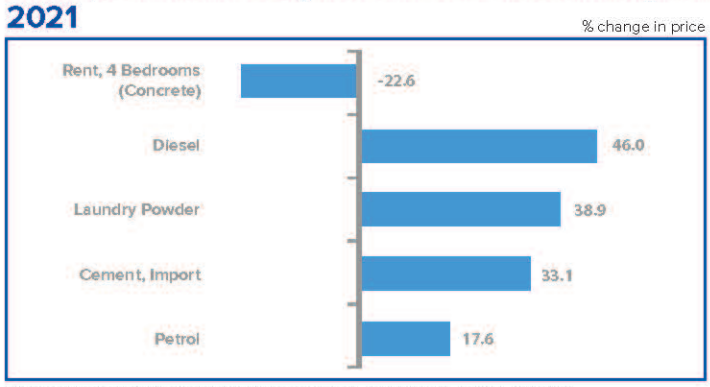
Prices of select non-food items have also risen appreciably since August 2021. Fuel prices have doubled in the past year, exerting upward pressure on prices of both food and non-food items. By May 2022, diesel prices in Kabul had risen by 46 percent and the cost of laundry powder by 39 percent since August 2021.

The price of cement is higher by on average 6 percent nationally since August 2021, with large variations across provinces. In Kabul, a bag of cement is 33 percent costlier in May 2022 than it was in August 2021.

Overall, the construction sector has been subdued by the increasing price of cement, weakening business confidence, declining demand, capital flight, and a suspension order on the transfer of land and property titles and deeds since 15 August 2021.

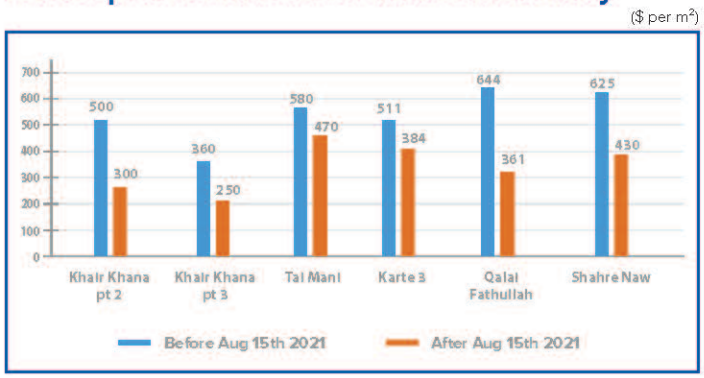
With the general decline in demand for housing, rents have fallen. Rental rates for four-bedroom houses have dropped by 10 percent on average across the country, again with large variations. In Kandahar, prices dropped by more than 60 percent since August 2021. Kabul has seen a drop of 23 percent in this period as foreign contractors have left the country. Interviews with real estate agents in Kabul reveal that sale prices across different areas are down by 33 percent on average since August 2021.

Change in non-food prices in Kabul since August 2021



Source: UNDP staff calculations using data from NSIA (2022).

House prices have fallen across Kabul city



Source: Interviews with real estate agents in Kabul.

[4] This composition covers 2073 kilocalories in the absence of data on prices of fruits and spices.

Exchange rate

The exchange rate had been depreciating steadily since 2010. The Afghan currency (AFN) depreciated sharply in the immediate weeks and months after August 15 because of the magnitude of the political changes and the uncertainties it wrought, the freeze on DAB's foreign reserves by the U.S., and the paralysis of the Afghan financial system.

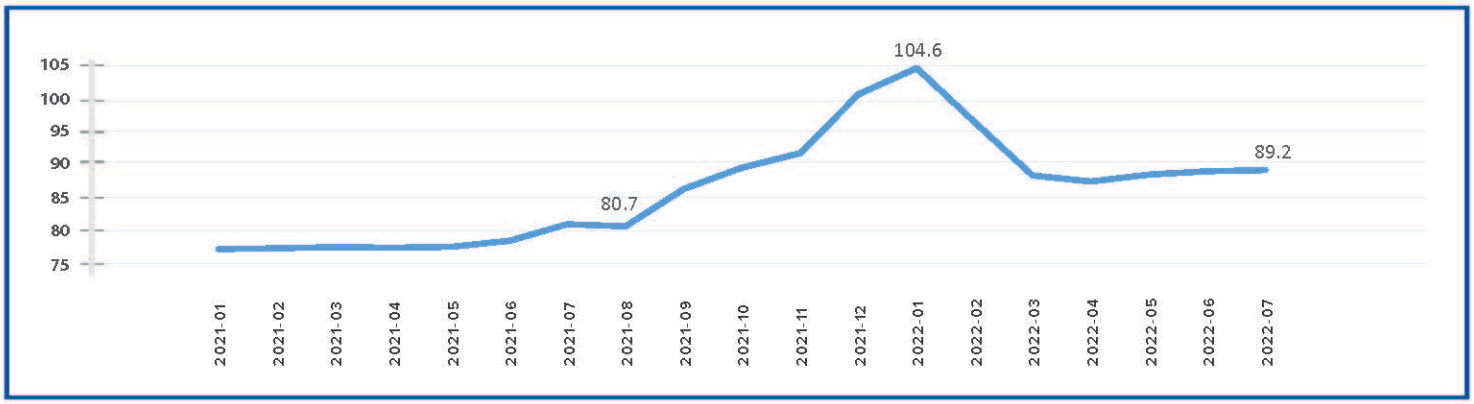
The AFN depreciated by 23 percent from AFN 81 per dollar in August 2021 to AFN 105 per dollar in January 2022. However, the exchange rate appreciated subsequently, and has been holding steady since February 2022 at about AFN 89 to the dollar as of July 2022. This stabilization of the exchange rate has been due to crisis management measures by DAB, such as addressing banks' liquidity problems and placing restrictions on withdrawals from bank deposits and on capital outflows; some recovery in exports; and UN cash delivery to Afghanistan for humanitarian programmes.

Between December 2021 and 9 May 2022, the United Nations transferred $825.6 million in cash that was distributed directly to 19 different United Nations agencies, funds or programmes, the World Bank, and 15 international non-governmental organizations in Afghanistan. The cash delivery helped stabilize the Afghani, giving some impetus to economic activity.[5]

The exchange rate stability has helped avert an even larger increase in inflation than what has occurred since August 2021. However, while the nominal exchange rate has been stable, it is likely that the real effective exchange rate (the value of the AFN in other countries) has appreciated in recent months as a result of currency depreciation in some major trade partners such as Iran and Pakistan. This real exchange rate appreciation could potentially hurt exports.

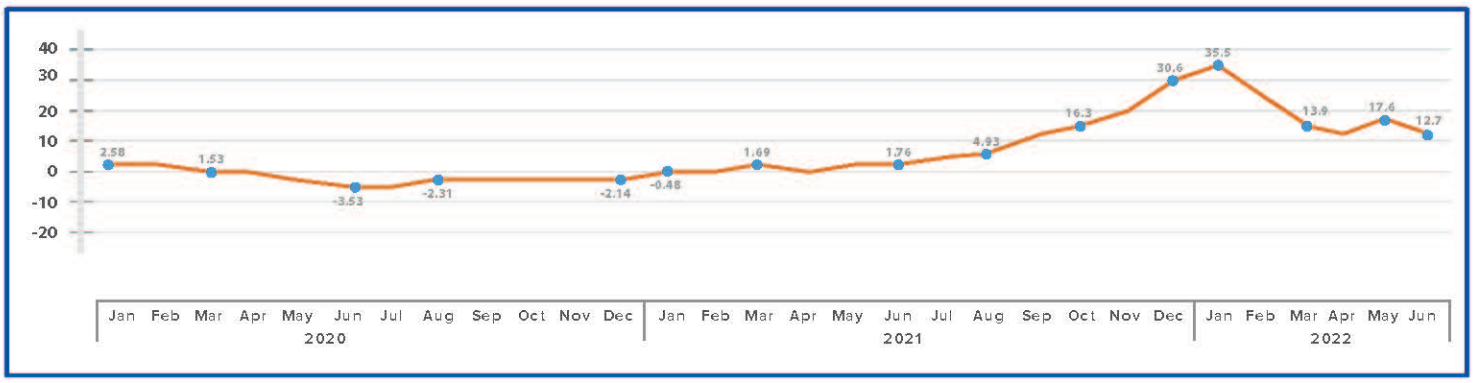
Exchange rate: More stable than expected

Monthly Average Exchange Rate (AFN worth per USD)



Source: UNDP staff calculations using available on DAB website http://www.dab.gov.af.

Year-on-Year change (percent of USD appreciation against AFN)



Source: UNDP staff calculations using data available on DAB website http://www.dab.gov.af.

[5] Source: United Nations, General Assembly Security Council, The situation in Afghanistan and its implications for international peace and security, Report of the Secretary General, A/76/862-S/2022/485, 15 June 2022.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Banking/financial sector

Banks have been facing liquidity shortages and restrictions on deposit withdrawals and wire transfers after the political change of 15 August 2021 that created new conditions, subsequent international sanctions, and a sudden stop of international aid flows. Many banks have lost technical expertise and staff. The total number of bank branches in the country fell from 410 to 370 as operating costs were cut. The Da Afghanistan Bank (DAB) is unable to supply adequate liquidity to banks because of the inability to print money and the freeze on its foreign assets. Broad and reserve money has fallen considerably.[6]

DAB's capital controls and deposit withdrawal limits have prevented the complete collapse of the banking system. But some banks cannot meet customers' requests for funds within the permitted limits. The overall level of bank deposits is down considerably. The few new deposits are only in the stronger banks. This has eroded trust in the banking sector and discouraged businesses from depositing cash in banks. A World Bank survey[7] found that while 82 percent of firms reported depositing cash in banks prior to August 2021, only 12 percent did so after August 2021.

Lending has nearly stopped due to the banks' inability to collect on outstanding loans as well as a lack of clarity regarding new regulations. AFN and foreign currency loans have dropped, by 9.8 percent and 6.1 percent, respectively, between July and December 2021. The loan-to-GDP ratio is now very low: less than 4 percent of Afghan firms use banks to finance working capital, and less than 1 percent use banks to fund investments. The limits on business deposit withdrawals and restrictions on international payments are also hurting economic activity.

Banks' balance sheets have deteriorated due to illiquidity and asset quality decline. Some banks have recently improved their liquidity due to collection efforts and a lending freeze. To manage the banking crisis, after August 2021, DAB encouraged banks to extend credit maturities and provided flexibility regarding loan provisioning, first up to end-June, and then to August 2022.

Rehabilitation of the banking system and activating credit markets are a pre-requisite for economic recovery. This process would be helped by steps such as establishing credit guarantee schemes.

> ***"Our biggest challenge is banks. No one can send money abroad."***
>
> - Miya Ibrahim, who imports flour, cooking oil and rice, now buys goods almost only from Pakistan[8]

Money Service Providers (MSPs)

After the initial shock, and in the absence of the basic banking operations, the MSPs or hawaladars, recovered quickly and facilitated the informal flow of money in and out of the country. The hawala system, a traditional system of informal money transfer based on trust, has proven resilient and facilitated international transfers, including for imports and transactions by NGOs.

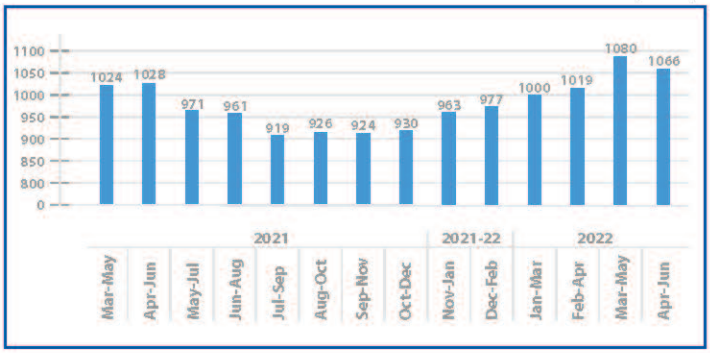
The MSPs played a critical role in allowing aid deliveries to Afghanistan to continue, representing a lifeline in the absence of other available payment channels.

Hawaladars hold deposits, offer loans, and make international payments on behalf of traders. Although *hawaladars* are not licensed to perform these functions, the Afghan central bank has quietly tolerated it. As the evidence from Herat shows,[9] the MSPs quickly recovered to ensure:

- Continued imports of essential goods and services
- Inflow of remittances
- Jobs in the money market
- Cash transfers to provinces by NGOs
- International money transfers.

Number of Money Transfers in Herat quickly bounced back

Three-month moving average



Source: Data collected from a group of 10 *hawaladars* in Herat, June 2022

[6] Data sources for this section include World Bank, Afghanistan Development Update, April 2022; and DAB, Afghanistan Bank Association (ABA) and private banks for capital controls.

[7] World Bank, 2022, *Afghanistan Private Sector Rapid Survey R2*, September 2022, Kabul, Afghanistan.

[8] Quoted in The Wall Street Journal, Afghan Economy Crumbles Since Taliban Takeover, Margherita Stancati, July 17, 2022. Available at: https://www.wsj.com/articles/afghan-economy-crumbles-since-taliban-takeover-11658061588

[9] Discussions with MSPs in Herat, June 2022.

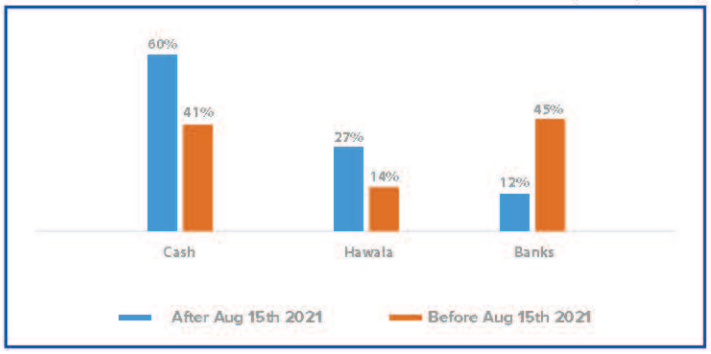
With foreign companies and banks avoiding transactions with Afghanistan to avoid non-compliance with international sanctions, traders are unable to pay for imports through bank transfers. Since August 2021, they have switched from banks to exclusively paying suppliers through hawala networks.

Since August 2021, "*Hawalas* have worked more than they have at any point in the past 20 years," said Haji Zirak, a hawaladar and spokesman for Afghanistan's leading hawala market, Sarai Shahzada in Kabul. "We have kept the economy going." But going through *hawaladars*, who operate in much of the Muslim world, is more expensive and riskier than sending a bank transfer. The U.S. and some other countries consider hawala transactions illegal because they are unregulated and could potentially be used to launder money. Yet their role in the current crisis "may be an indication that the Afghan economy has a fighting chance."[10]

Restrictions on the banking sector have forced businesses to use cash for domestic transactions while increasing reliance on *hawala* for international payments

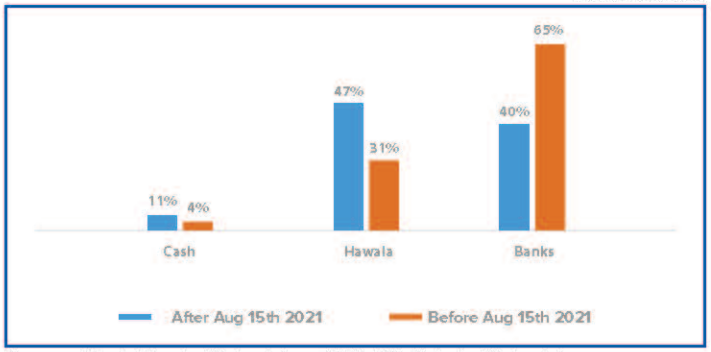
Preferred channels for domestic payments

(% of respondents)



Preferred channel for international payments

(% of respondents)



Source: World Bank, Afghanistan PSRS, R2, Kabul, Afghanistan

Microfinance sector

Like the conventional banking and financial system, the microfinance sector has been hit hard and faces several challenges:

- No interest earnings
- Loss of human resources
- Falling numbers of new loans
- Overall economic decline
- Higher rates of default
- Interest rate collection problems
- Loan collection problems.

The microfinance portfolio has nearly halved from AFN 9.5 billion to AFN 4.4 billion since August 2021, and the number of microfinance institutions has reduced from 10 to 6, harming the prospects for micro enterprises and the poor. Importantly, the proportion of women clients has also dropped from 56 percent of total clients to 29 percent.

Dependent on donor grants, the sector has contracted significantly in all dimensions and needs immediate recapitalization to continue providing essential financial services to the poor.

Changes in Afghanistan's microfinance sector after 15 August 2021

Key Indicators	Before 15 Aug 2021	As of June 2022
No. of Microfinance institutions	10	6
No. of Provinces covered	34	16
No. of Branches	210	107
No. of MF staff	4,270	2,031
% of Women clients	56%	29%
Gross loan portfolio (AFN)	9,584,916,641	4,471,321,394
No. of Clients	924,744	406,160
No. of Active borrowers	298,978	88,543
No. of Active savers	687,444	206,632
Portfolio at risk	551,098,897 (5.7%)	1,577,868,245 (35.3%)

Source: Presentation by Afghanistan Microfinance Association, 22 July 2022.

[10] Choudhury, Nafay (2021A) "Afghanistan's Money Exchangers Are the Economy's Last Best Hope", *Foreign Policy*, 5 September. Available at: https://foreignpolicy.com/2021/09/05/afghanistan-economic-crisis-taliban-takeover-banks-money-exchangers/

Regional trade

There were concerns after 15 August 2021 that the political instability could affect Afghanistan's trade. Yet trade has proven to be one of the most resilient sectors in Afghanistan, albeit mostly limited to the region and immediate neighbours such as Iran and Pakistan. Afghanistan's trade with other countries remains depressed due to the crisis of the financial and banking sector.

Imports have fallen in 2022, which has resulted in corresponding improvements in trade balance; though it should be noted that the reduction in total imports reflects both a contraction in aggregate demand as well as financial system bottlenecks due to the crisis. There is a decline in trade in services, but average per-truck revenue and weight of imported goods have increased.

Total exports in first quarter of 2022 were higher than in the same period in the previous two years and are expected to surpass $1 billion this year.[11] This increase is predominated by coal exports to Pakistan that increased by a factor of 15 (from $9.5 to $146 million) after August 15, 2021.

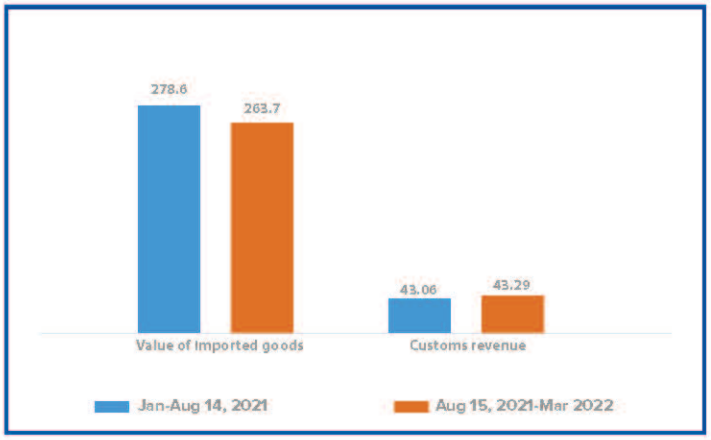
Discussions with groups of traders in Heyratan (Balkh province) and Spin Boldak (Kandahar province) reveal that exports value and export tax revenue have considerably increased in real terms after 15 August 2021, due largely to reduction in corruption and improvement in tax collection efficiencies. Previously, trucks carrying goods across the border would have to pay bribes on each trip leading to big cities. Traders at Herat said that it used to take 25 to 30 days for a container of imported goods to enter the country. Some containers had to wait for 15 days at the gate because of delays. It now takes three to six days to be cleared by customs.

Customs duties have increased compared to before 15 August 2021. Custom duties for some consumables have doubled excluding for wheat, flour, rice and other essential food items, in the past five years.

> ***Our major challenges are due to the sanctions. We cannot trade easily, cannot import raw material, there are difficulties with money transfers.***
>
> - At a meeting with traders in Spin Boldak, June 2022

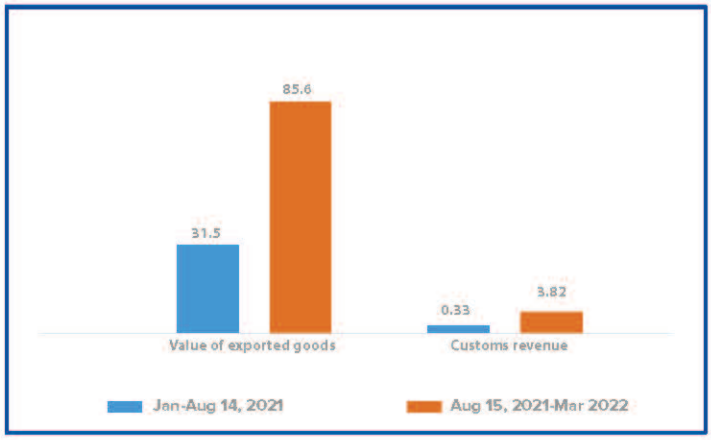
Imports and Revenues (bn AFN), 2021-2022

All figures in billion AFN



Exports and Revenues (bn AFN), 2021-2022

All figures in billion AFN



Source: UNCTAD, Trade Comparative Analysis Report - Pre & Post August 15, June 2022.

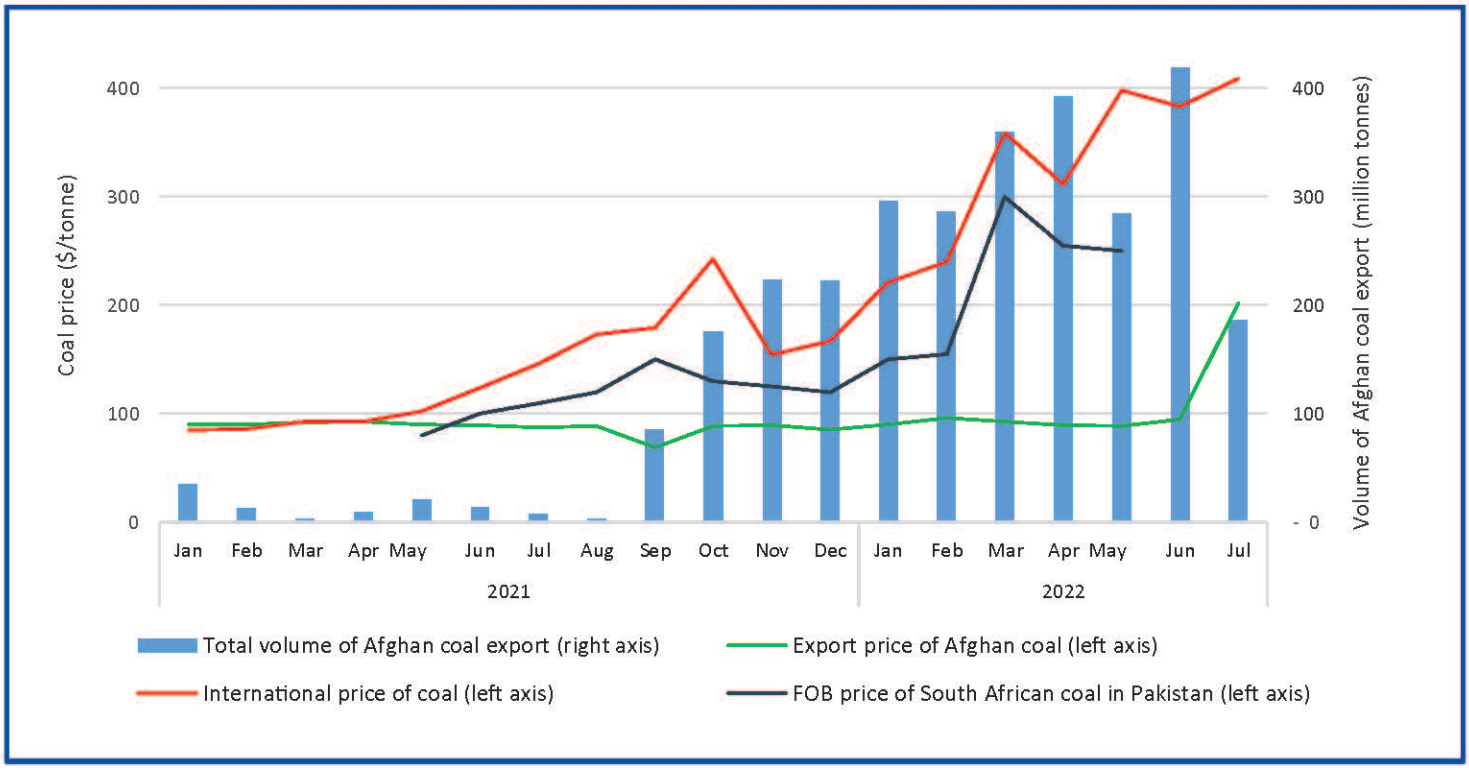
[11] The regional connectivity paper says "During FY2021-22, Afghanistan's exports to Pakistan witnessed a historic rise – increasing from $583 million in the previous fiscal year to more than $800 million."

The issue of coal exports to Pakistan is complex. While increased exports to Pakistan since September 2021 has fetched much-needed revenue, Afghanistan has not benefited from the increase in global prices of coal since May 2021. Afghan traders continued exporting coal to Pakistan at the previous price of $90 per tonne even as international prices began to increase from May-June 2021, and even as Pakistan's import price of South African coal began to increase from July 2021.

In this, Afghanistan may have been a victim of timing. Coal prices started to increase both globally and in Pakistan between May and June 2021, around the time the country was in the throes of political change. As a consequence, Afghanistan is estimated to have lost up to $60 million in export revenue in the last year because its coal was undervalued. This estimate compares Afghanistan's export price with the FOB price Pakistan pays for South African (5500 NAR) coal.

In July 2022, Afghanistan increased the price of its coal to more than $200 per tonne following Pakistan's decision to buy Afghan coal "using local currency, as opposed to dollars, to save foreign reserves."[12] This price increase has led to a sharp decline in total volume of coal exports, though because of the favourable price increase, Afghanistan still made $50 million in export revenue, only slightly less than $53 million it earned in June 2022.

Afghanistan may have lost up to $60 million in revenue as its coal is undervalued



Source: Export value data provided by UNCTAD; International price of coal from https://tradingeconomics.com/commodity/coal; Pakistan coal prices are approximate and estimated from:
https://www.coalmint.com/insights/pakistan-govt-approves-coal-imports-from-afghanistan-in-pakistani-rupee-as-import-prices-soar-332961

[12] https://www.voanews.com/a/taliban-again-raise-coal-prices-amid-booming-exports-to-pakistan/6661469.html

Food security and nutrition

Afghanistan has a persistently high magnitude and severity of food insecurity that seems largely immune to seasonality. Successive droughts and natural hazards, rising food prices, the lingering impact of protracted conflict, and forced displacement have led to nearly 11 million people on average experiencing acute food insecurity (IPC Phases 3 and above) since 2018, with slight variation across seasons.[13]

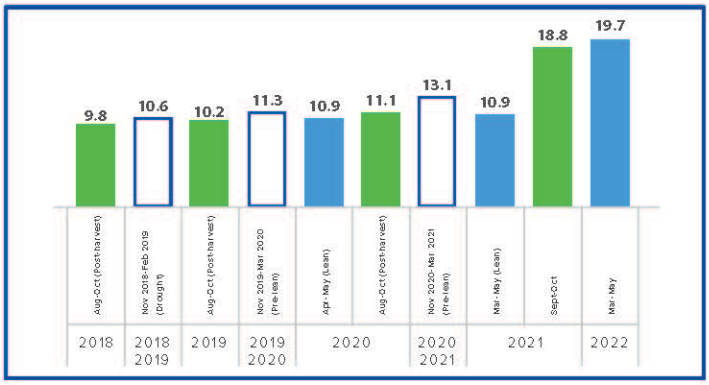
A large proportion of the population across the country has experienced one or more of these shocks and about 60 percent of households have used crisis or emergency livelihood coping techniques such as moving to cities, distress selling of livestock, reducing planting area, skipping meals, or eating poor quality food in the past year. Overuse of such techniques compromises peoples' ability to recover losses of assets and deal with future shocks.

The economic shock resulting from the crisis of August 2021 led to a sharp increase in the number of people experiencing high and critical levels of acute food insecurity (IPC Phases 3 and above) in September and October 2021. Even accounting for seasonality, the average number of people facing acute food security in the lean seasons in the period 2018–2020, shown in green bars in the chart below, is only 10.3 million. This number jumped to 18.8 million in Sep–Oct 2021, an increase of 82 percent likely resulting from GDP contraction, lack of purchasing power and disruption of the agricultural supply chain. The elevated levels of acute food insecurity after August 2021 may become the new normal if urgent steps are not taken.

The ongoing war in Ukraine has only worsened an already difficult situation with further increase of food, fuel and fertilizer prices. Nearly 20 million people, or close to half the country's estimated population, were classified under high and critical levels of acute food insecurity (IPC Phases 3 and above) in March–May 2022. Of these, about 6.6 million people were classified in Emergency (IPC Phase 4), characterized by large large food gaps and/or employing emergency coping strategies to access food. For the first time since the introduction of IPC in Afghanistan, Catastrophe conditions (IPC Phase 5) were detected for 20,000 people in Ghor province.[14]

Acute food insecurity after August 2021

Number of people classified in crisis or worse in IPC Phase 3 or above (in million)



Note: Classification of seasons as per IPC Acute Food Insecurity Analysis, September 2021 - March 2022, issued in October 2021. Green bars refer to post-harvest season; Blue bars refer to the lean season

Source: Compiled by UNDP using data from various issues of IPC Food Security Analysis.

Malnutrition among children[15]

By all accounts, the nutritional situation in Afghanistan has worsened in the last year[16] as the massive increase in food insecurity, precariousness of the socio-economic and political situation, decades of conflict and displacement, droughts, COVID-19 pandemic, and long-unaddressed nutritional needs have combined to drive a surge in acute malnutrition amongst vulnerable populations.

Existing vulnerabilities from low access to basic services and the impact of natural disasters have been exacerbated by the increase in food prices discussed in a previous section. Half of all children under five years of age are facing acute malnutrition[17] and UNICEF estimates that 1.1 million children may suffer from severe acute malnutrition,[18] nearly double the number in 2018 and up from just under 1 million last year.

The number of hospital admissions for children under five suffering from for severe and acute malnutrition (SAM)[19] has increased sharply since August 2021.

[13] Acute food insecurity identifies areas and populations with food deprivation that threatens lives or livelihoods, regardless of the causes, context or duration. IPC classifies food insecurity into phases: (1) Minimal, (2) Stressed, (3) Crisis, (4) Emergency, (5) Catastrophe/Famine.

[14] Humanitarian needs overview Afghanistan: Humanitarian programme cycle 2022 Consolidated by OCHA on behalf of the Humanitarian Country Team (HCT) and partners. Issued January 2022.

[15] Undernutrition contributes to 45 percent of child deaths in Afghanistan.

[16] Apart from the secondary data, primary interviews were conducted at health facilities in Kandahar and Mazar-e-Sharif.

[17] Source: United Nations, General Assembly Security Council, The situation in Afghanistan and its implications for international peace and security, Report of the Secretary General, A/76/667-S/2022/64, 28 January 2022.

[18] Or severe wasting, the most dangerous form of undernutrition in children.

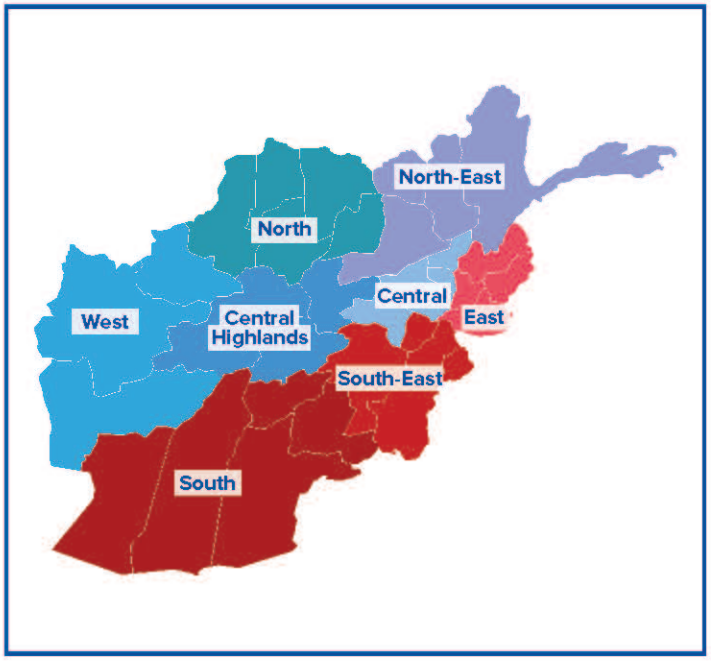
[19] Children suffering from SAM are nine times more likely to die than their healthy peers and those suffering from prolonged undernutrition who survive may become locked in a cycle of recurring illness and faltering growth, with irreversible damage to their development and cognitive abilities

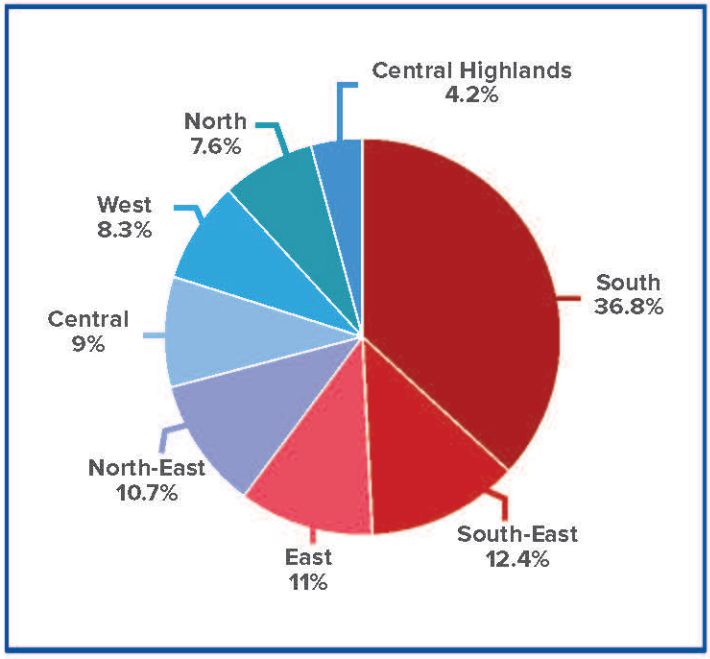
Hospital admissions of children under five years for SAM[20] increased more than 50 percent in the period January–June 2022 as compared to the same period in 2021.

Home to 32 percent of under-five children, the 13 provinces of the South, South-East and East regions of the country[21] accounted for more than 60 percent of hospital admissions for SAM in January–June 2022. This has increased from 53-56 percent in June 2021. Twenty seven percent of all hospital admissions in January–June 2022 came from the three contiguous provinces of Helmand, Uruzgan and Zabul. Infants and girls are particularly vulnerable to malnutrition. In the period January–June 2022, infants under six months accounted for 33 percent of all IPD admissions and 55 percent of all hospital admissions are girls.

Some of the increase in hospital admissions may be due to the improvement in the security environment that has enabled families to seek hospital treatment and care. Nonetheless, a large proportion of children remain without access to nutrition services, as 38 percent of health centres do not provide services for SAM children.[22] Restrictions on women's ability to access nutrition and treatment services, for themselves and their children, may have increased since last year due to *mahram*'s inability to accompany them to facilities in addition to some cultural barriers.[23]

Three regions account for more than 60 percent of all hospital admissions of children under-5 for SAM





Source: UNDP staff compilation using hospital admission data from UNICEF, Afghanistan Nutrition Data: Half-Year Review, July 2022, unpublished.

[20] Hospital admissions include both In-patient and Outpatient admissions and, in both hospitals, and health centres. Data from UNICEF, Afghanistan Nutrition Data: Half-Year Review, July 2022, unpublished.
[21] Helmand, Kandahar, Nimroz, Uruzgan, Zabul (South); Ghazni, Khost, Paktia, Paktika (South East); and Kunar, Laghman, Nangarhar, Nuristan (East).
[22] Humanitarian Needs Overview, op. cit.
[23] Afghanistan Nutrition Cluster. Cash-for-Nutrition Guidance Note, Afghanistan. February 2021. https://www. humanitarianresponse.info/en/operations/afghanistan/document/cash-nutrition-guidance-note-afghanistan

Population movements

Internal displacement and migration, within and outside Afghanistan, have been part of a common survival strategy driven by a complex combination of protracted conflict, food insecurity, natural disasters, and the lack of local employment opportunities.

As discussed earlier, the economy is expected to shrink dramatically in 2022 by up to 20 percent, which, combined with food price inflation and drought conditions in many parts, can result in the extreme case scenario of poverty affecting 95–97 percent of the population.[24] This has contributed to new internal displacement as people move, mostly toward the urban centres, and cross borders seeking livelihoods and better earning opportunities.

The International Organization for Migration (IOM) uses a Displacement Tracking Matrix (DTM) to track the locations, population sizes and periods of displacement of four core target population categories.

Internally Displaced Persons (IDPs) are subdivided into two categories:

- ***Arrival IDPs***

  Afghans who were forced to leave their place of habitual residence and have arrived in the assessed locations within the internationally recognized borders of Afghanistan.

- ***Returned IDPs***

  Afghans who have returned to their habitual residence in the assessed locations from which they had previously fled as IDPs.

Afghans moving internationally are subdivided into two categories:

- ***Persons who moved abroad***

  Afghans who moved abroad, regardless the reason or duration of expatriation (including persons in need of international protection and economic migrants).

- ***Returnees from abroad***

  Afghans who had moved abroad for at least six months and have now returned to Afghanistan.

Analysing the data from the latest round of the DTM, several trends emerge that reveal the changing nature of population movements in Afghanistan both before and after August 2021.

The pace of population movement picked up considerably in recent years, such that there were almost as many population movements between 2020 and up to 30 April 2022 (13.3 million), as there were in the previous eight years 2012–2019 (14 million). In both time periods, returned IDPs were the single largest group, comprising 31 percent of all movements in 2012–2019, which increased to 43 percent of the total since 2020.

Since 2021, there have been 6.4 million arrival IDPs and returnees. This level of population movement in such a short time has two important implications. Displacement drives food insecurity, as it puts pressure on already scarce resources when people are already struggling with rising food prices and loss of incomes. Further, most displaced people move to provincial urban centres, regional capitals and Kabul, which exacerbates the already oversaturated labour market and places further pressure on the limited facilities in those areas.

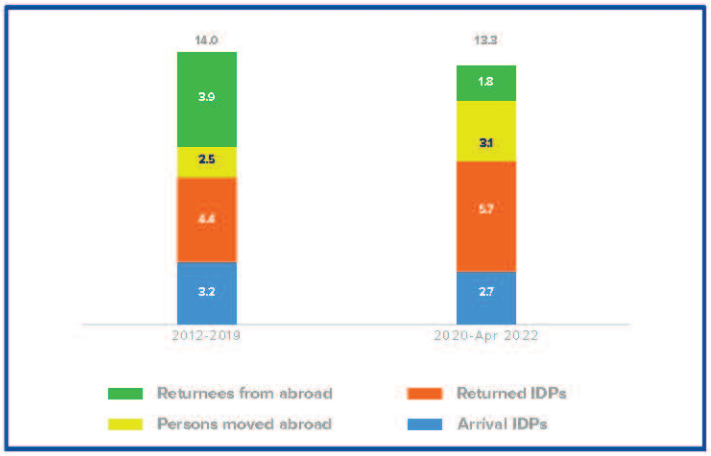
In the period 2012–2018, returnees (both domestic and international) constituted almost 60 percent of all movements. This is understandable, as the average annual GDP growth rate of 10.8 percent during the period 2007–2011 suggested economic opportunities with a relative stable security situation that would attract returnees. This perception is likely to have continued, even as the annual GDP growth started dropping to the 2012-2018 average of 4.1 percent.

Even though data is available only up to the period January–April 2022, it is remarkable to note that 36 percent of all population movements in this period have been of Afghans moving abroad. This follows an earlier trend in which the number of individuals who moved abroad increased by 42 percent in a single year (2019–2020). It is astimated that 2.5 million Afghans moved abroad in 2021 and upto April 2022. This large increase is likely due to an intensifying

[24] UNDP, 2021 *Afghanistan: Socio-Economic Outlook 2021-2022 - Averting a Basic Needs Crisis*. November 2021.

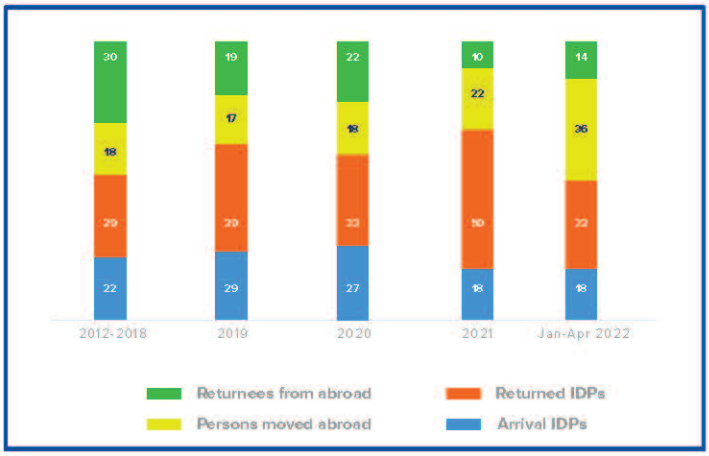
There have almost as many movements of people since 2020 as in the previous eight years

All figures in million



Proportion of people moving abroad has doubled since 2020 suggesting a loss of skilled workers

All figures in % of the year total



Source: IOM, 2022, Baseline *Mobility Assessment and Emergency Community-based Needs Assessment*, Afghanistan, Summary Results Round 15, March-April 2022, Released July 2022.

environment of conflict accompanying the political change that occurred in August 2021. Though it is difficult to get an exact idea of the profile of those moving abroad, it strongly suggests a loss of skilled work force from Afghanistan as up to 73 percent of firms have reported laying off workers[25] because of business uncertainty and demand contraction since 15 August 2021.

Since 2021, more than 2.5 million Afghans have moved abroad while fewer than 1.1 million have returned from abroad. In May 2022, DFA established a Commission for Return and Communication with Former Afghan Officials and Political Figures to promote the return of Afghans from abroad. The results are yet to be seen.

[25] World Bank, 2022, Afghanistan Private Sector Rapid Survey 2, September 2022, Kabul, Afghanistan.

Employment

Afghanistan has been undergoing a severe jobs crisis since August 2021, an outcome of overall macroeconomic conditions that thwart future economic recovery. Moreover, the decision to curb women's access to work has caused a further steep reduction in GDP of up to $1 billion.

The International Labour Organization estimates that more than half a million jobs were lost in Afghanistan between August 2021 and mid–2022. By the third quarter of 2021, employment is estimated to have dropped 8 percent, as workers were pushed out of employment due to ensuing uncertainty of the economic crisis and restrictions on women's participation. Women were hit the hardest, with their employment levels declining by at least 16 percent and estimated to further drop to 21 percent by mid–2022.[26]

The number of people looking for employment has increased, as has the proportion of people relying on informal employment. Some 80 per cent of Afghanistan's labour market is estimated to be in the informal sector. Urban areas were immediately affected as employment opportunities dried up. Key sectors including agriculture, the civil service and the construction industry have been severely affected since August 2021. However, rural areas saw an increase in employment, possibly due to improving security.

People are also likely to have shifted to agriculture, reflected also in the increasing share of agriculture in GDP, in the absence of urban economic opportunities, as daily wages for both skilled and unskilled workers were estimated to have decreased by more than 9 percent by January 2022 as compared to the end of June 2021.[27] Since August 2021, the share of households who are self-employed or casual laborers has risen, and earnings have fallen dramatically for 70 percent of workers, especially the self–employed.[28]

From a rapid survey of 100 businesses, the World Bank estimated that businesses of all sizes and sectors have laid off employees. The drop in employment was particularly high among large firms compared to medium and small ones, and among the surveyed businesses, women employees were laid off more than men.[29] Because of continued demand for whole products (including essential food items), the agribusiness sector laid off fewer employees than businesses in other sectors.[30]

Working women are disproportionately affected

Women's participation in the workforce had slowly increased from 14 percent of the working-age population in 1998 to 22 percent by 2019.[31] While that figure is still very low, it reflects years of social progress. This is now expected to slip back, as opportunities for women are further limited by newly imposed restrictions on their economic participation.

The move to restrict women from work was estimated to cost Afghanistan's economy up to $1 billion, or 5 percent of its GDP,[32] and can have a broader economic impact on poverty and humanitarian need across the country. Indeed, this estimate fails to account for any adverse effects on productivity attributable to the acute gender segregation in employment, which bars women from working in certain sectors and positions and thereby reduces their potential contribution to the economy.

In the private sector, several organizations have reduced the number of female staff, either due to a financial crunch, indirect coercion or as a precautionary measure to avoid controversy. Women-owned businesses were among the worst affected: a recent World Bank survey noted that 42 percent of women-owned businesses in Afghanistan had temporarily closed, compared with 26 percent of the firms owned by men.[33]

As per the last Labour Force Survey in 2020, women are mostly employed in agriculture (53 percent), the manufacturing of textiles and clothes (24 percent), and public administration and social services (18 percent). The latter two sectors are now severely affected, with women

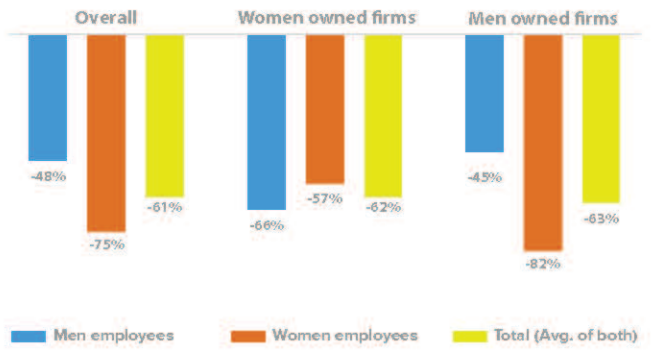
[26] International Labour Organization, "Employment prospects in Afghanistan: a rapid impact assessment," 1/2022.
[27] NSIA, 2022, *Statistical Yearbook 2021.*
[28] ILO Rapid Assessment, 19 January 2022.
[29] Insights on Afghan Labor Markets from WB surveys, June 2022.
[30] World Bank, 2022, *Afghanistan Private Sector Rapid Survey R2*, September 2022, Kabul, Afghanistan.
[31] World Bank, "Labor force participation rate, female (% of population ages 15+) (Modeled ILO estimate) – Afghanistan," 2/8/2022. https://data.worldbank.org/indicator/SL.TLF.CACT. FE.ZS?locations=AF
[32] UNDP, 2021 *Afghanistan: Socio-Economic Outlook 2021-2022 - Averting a Basic Needs Crisis*. November 2021.
[33] World Bank, 2022, Afghanistan Private Sector Rapid Survey 2, September 2022, Kabul, Afghanistan.

Drop in employment

By firm size

Firm Size	Average Number of Employees		Average Layoffs
	Before Aug 15, 2021	As of June 2022	
Large	437	114	-323
Medium	52	20	-31
Small	18	5	-13
Overall	98	30	-68

By gender of the owner



Source: World Bank, Afghanistan PSRS R1, (N = 100), June 2022.

confined to the home even as the economic crisis has reduced demand for goods that can be made at home such as carpets, embroidery, and other goods.[34]

In addition, by early December 2021, some 43 percent of media outlets had closed and 84 percent of women journalists and media workers (compared with 52 percent of men in the sector) had stopped working amid an environment of harassment, violence and censorship.[35] The number of women journalists had shrunk to 410 (compared with 3,950 men), down from a total of 2,490 (compared with 8,290 men) six months earlier. This is not only an issue of reduced women's employment. When women journalists are rendered invisible, the available media content can systematically ignore issues relating to women's rights and gender equality.

Ultimately, the past year has created a disabling environment for women to fully participate in the workforce, private and public alike.

Female employment in Afghanistan by economic sector in 2020

Sector	Female employment ('000)	Total employment ('000)	% of Female in total employment	% Distribution of female employment
Agriculture	598.5	2,714.3	22.0	52.5
Manufacturing	283.2	500.1	56.6	24.8
Of which: Textiles (excl. footwear)	276.0	347.7	79.4	24.2
Non-market services (incl. public administration and social services)	205.6	1,018.9	20.1	18.0
Other sectors	54.0	1,845.2	2.9	4.7
Total	1,140.7	6,078.5	18.8	100

Source: ILO estimates based on Afghanistan Labour Force Survey 2020.

[34] Human Rights Watch, "Afghanistan: Taliban deprive women of livelihoods, identity," 1/18/2022. Available at https://www.hrw.org/news/2022/01/18/ afghanistan-taliban-deprive-women-livelihoods-identity.
[35] Reporters Without Borders. 2022. "Act quickly to protect Afghan journalists, RSF tells new UN special rapporteur.", 11 April 2022.

Public sector employment

The public sector has also shrunk drastically, with more than 1 million men and women workers heavily affected in public administration and social services.[36] This figure also reflects a large drop in the share of public sector workers engaged in security forces and administration, both of which sectors have declined by two thirds. The bulk of workers rely on informal employment or day labour.

The DFA have restructured many institutions as they try to balance their ideological priorities with the imperatives of managing the economy within a shrunken resource envelope.

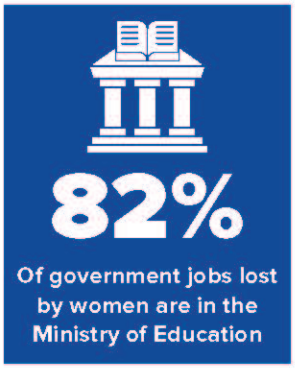
- The justice system has in large part been dismantled, to the disproportionate disadvantage of women both in terms of limiting their access to justice and reducing their employment.
- The Ministry of Women's Affairs (MoWA) was abolished and replaced with the Ministry for Propagation of Virtue and the Prevention of Vice (MPVPV). This not only de-activated the country's gender equality and women's rights machinery[37] but also further curtailed women's opportunities for employment.
- The Afghanistan Independent Human Rights Commission, the Oversight of the Implementation of the Constitution Commission, and the secretariats of the upper and lower houses of Parliament were abolished. The previous Independent Administrative Reform and Civil Service Commission was downsized and merged with the de facto Office of Administrative Affairs.

The DFA has re-organised the governing structures. The administrative changes have resulted in 409,603 staff employed in 63 budget units, including 23 ministries and 28 independent directorates.[38]

Overall, less than 1 percent of jobs in the different budget units have been lost, though civil servants have had to settle for a 7-17 percent salary cut. There is a strong gender dimension in the staff reorganization. In 2022, 15 percent fewer women remain employed, against a 4 percent increase in male employment.

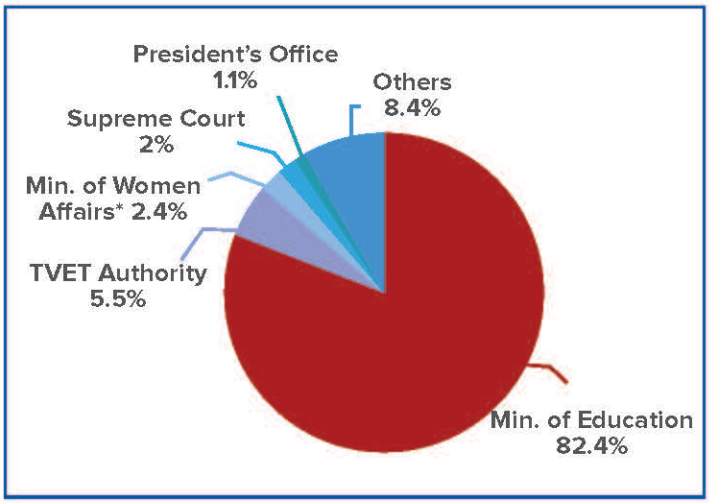
While the DFA have reduced the number of female government employees, there are cases where those that remain are restricted from entering the workplaces, and are payed a significantly reduced salary to stay at home.[39]

> ***"...last month, I received a call from the human resource department, asking me to introduce a male family member to take my place. The HR person said the workload had increased due to the lack of female staff and they wanted to hire men to replace us,"***
>
> - Female Afghan government employee[40]



While secondary education for girls continues to be severely curtailed in most provinces, the education sector as a whole has decimated women's employment. Of all the jobs that women have lost or been affected in government ministries and entities, more than 14,000 – 82 percent of the total are in the Ministry of Education. Many of these are women teachers who lost their jobs after the disruptions to girls' education.

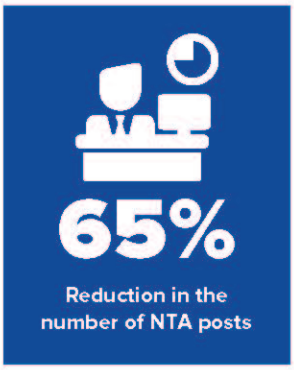
Most of women's job losses or affected in de facto government are in the education sector



Note: The Ministry of Women Affairs was disbanded after
Source: UNDP staff compilation from NSIA, 2022, *Statistical Yearbook 2021*.

[36] Non-market services including public administration and social services accounted for 16.8 percent of total employment in 2020. ILO estimates based on Afghanistan Labour Force Survey 2020, ILO, 2022, Employment prospects in Afghanistan: A rapid impact assessment, ILO Brief, January 2022
[37] UN WOMEN, 2022, Women's rights in Afghanistan one year after the Taliban takeover, *Gender Alert No. 2*, 15 August 2022.
[38] Ibid.
[39] https://www.aljazeera.com/news/2022/8/11/a-year-of-taliban-takeover-the-missing-women-in-afghan-workforce
[40] Ibid.

Faced with a high maternal mortality rate, the DFA have recognized the urgent need for more women to be trained in midwifery.[41] This partially accounts for the nearly 9 percent increase in the number of women employed by the de facto Ministry of Public Health (MoPH) in 2022. Still, three times more men than women are employed in MoPH.

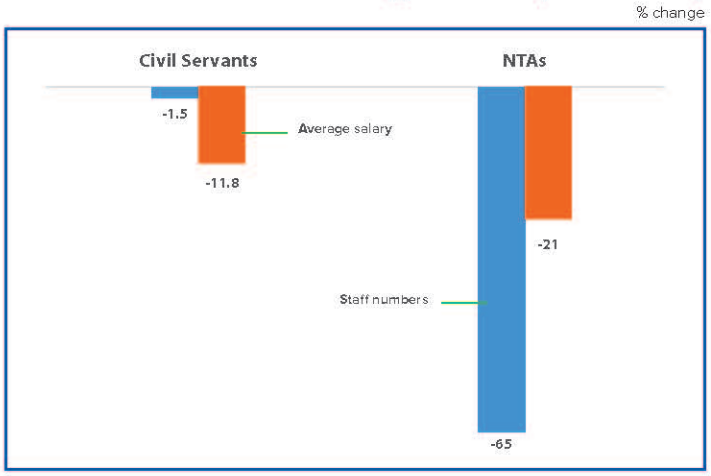


The National Technical Assistance (NTA) staff, a cadre with high expertise in their respective areas of work but who are not part of the official structure of ministries and independent directorates, has witnessed an overall 65 percent reduction in the number of posts, and a 10-35 percent reduction in salaries, from August 2021 levels. The reduction in the number of NTAs extends across all ministries and entities.

The post reductions and salary cuts, driven by limited financial resources and ideology, seem to have resulted in an overall depletion of administrative and technical capacity, with the exodus of many former government officials and experts. The restrictive policies of the DFA regarding girls' education is likely to have also played a role.

While many of these cuts may have been driven by budget constraints, the changes reflect the priorities of the DFA.

NTA positions have had a much larger reduction in both staff numbers and average salaries (2021–2022)



Source: UNDP staff compilation from data provided by MoF and from NSIA, 2022, *Statistical Yearbook 2021*.

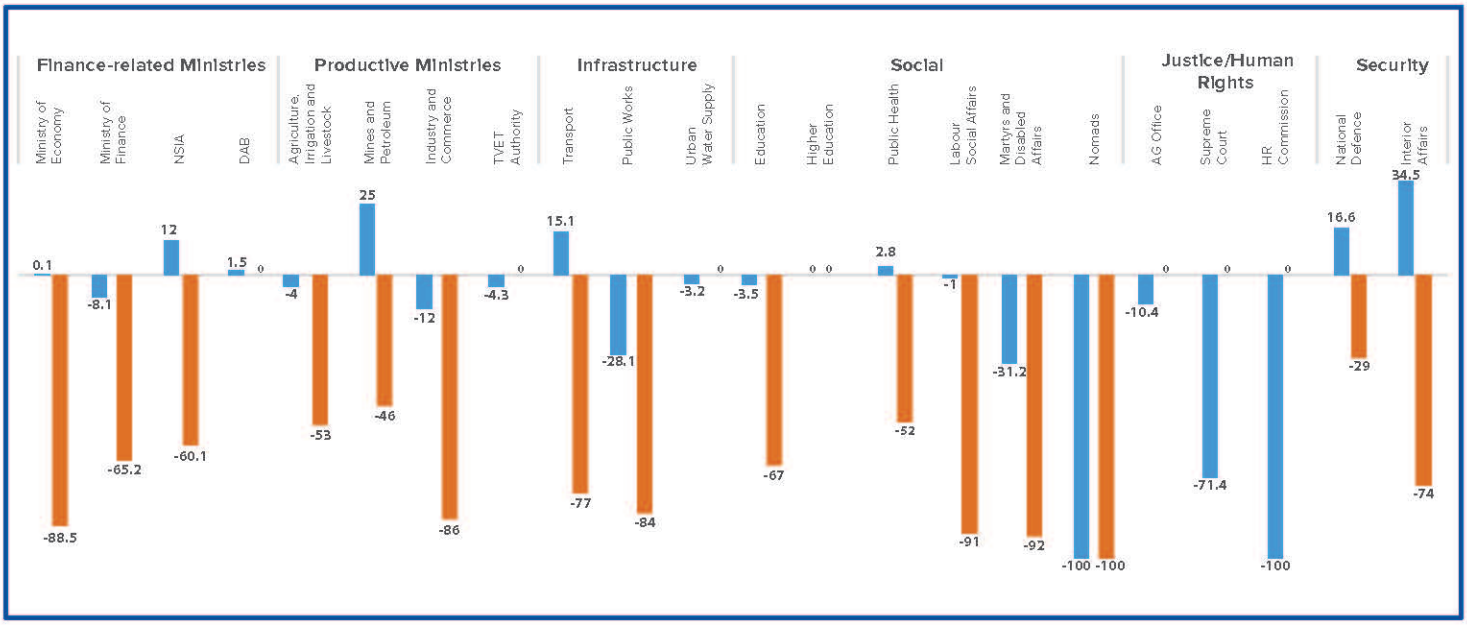
At the Afghanistan Economic Conference in January 2022, the first of its kind organized after 15 August 2021, the DFA presented their vision for achieving greater self-reliance in the medium term with a focus on international off-budget aid for the humanitarian and development sectors.

To stimulate economic development and employment generation, the DFA have reached out to the private sector and foreign investors requesting greater investment and assuring full support and streamlining of business processes. At the conference, three priority areas were highlighted for Afghanistan's rapid economic recovery: agriculture, mining and the private sector.

However, data suggests a mismatch between the DFA's stated priority areas and the allocations of civil servants and the NTA staff. The de facto ministries of Agriculture, Irrigation and Livestock; Mines and Petroleum; and Industry and Commerce, which together are expected to spearhead the DFA's economic recovery initiative, have 46-86 percent fewer technical experts in 2022 than they did in 2021. The number of civil servants in two of these ministries has also reduced. Only the Ministry of Mines and Petroleum has seen a 25 percent increase in the number of civil servants. Finance-related ministries have also lost technical advisors. These trends cast doubt on the DFA's ability to convert its vision for Afghanistan's economic recovery into reality.

[41] TOLOnews, "Health Ministry Pledges to Hire More Midwives," 5/16/2022. Available at https://tolonews.com/health-178032; VOA, "Afghanistan Faces Return to Highest Maternal Mortality Rates," 3/7/2022. Available at https://www.voanews.com/a/afghanistan-faces-return-to-highest-maternal-mortality-rates-/6474248.html

All ministries/entities have lost technical advisors (2021–2022)

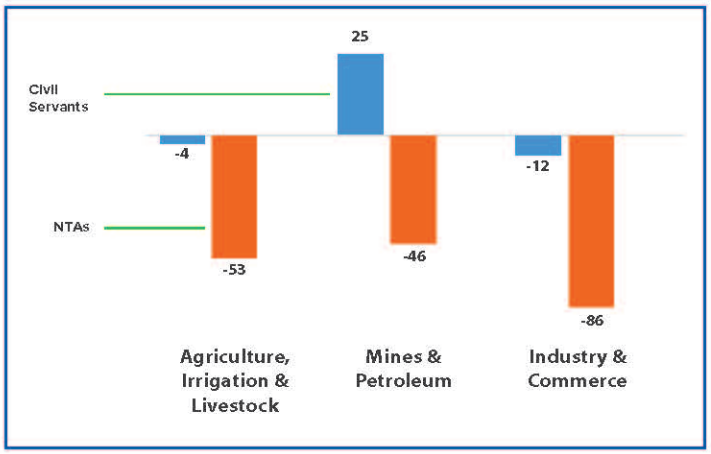


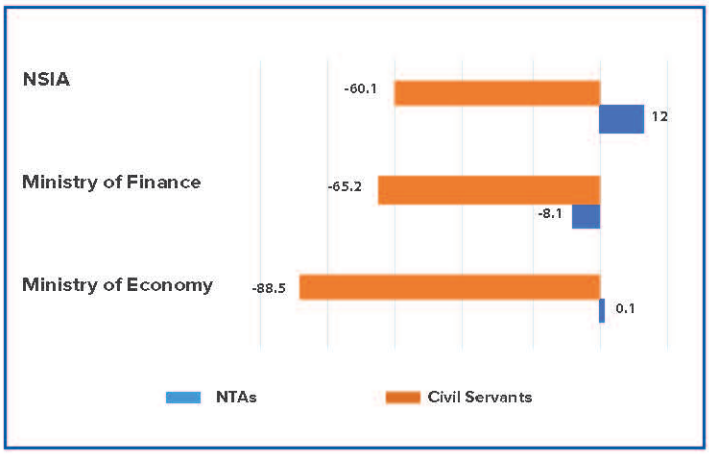
Source: UNDP staff compilation from NSIA, 2022, *Statistical Yearbook, 2021*.

Mismatch between the DFA priorities for economic recovery and staff allocations in key ministries

Even finance-related ministries have lost technical advisors

Percentage change in the number of civil servants and NTAs in (2021–2022)





Source: Based on data from NSIA, 2022, *Statistical Yearbook, 2021*.

Conclusion

The Afghan people have been relentlessly subjected to extremely difficult circumstances. They have survived numerous challenges in the last 40 years and shown enormous resilience. Yet the last 12 months have brought cascading crises: a humanitarian emergency, massive economic contraction, and the crippling of its banking and financial systems in addition to the denying of access to secondary education to girls, the restrictions on women's mobility and their participation in the economy.

As the snapshot of the socio-economic situation in the one year since August 2021 indicates, the country faces immense challenges on almost all fronts. There is little prospect for the economy to resume high growth and recover quickly in the foreseeable future.

Humanitarian aid will not be enough to reverse the deterioration in human development and security; indeed, the availability of humanitarian funding may decline in the face of competing emergencies. Afghanistan must find new pathways to a dignified and sustainable future.

With reduced volumes of international aid, sanctions and restricted access to international payment systems, there are few drivers for a sustained economic recovery. There is an urgent need for creating domestic engines for growth, notwithstanding that reliance on domestic resources alone will be insufficient to effectively meet the needs of the Afghan people.

It is imperative that the issue of unfreezing DAB assets is resolved as soon as possible. However, in the absence of being able to print its money, the unfreezing of assets will not go far in addressing the resource constraint.

Efforts taken by the private sector, including women entrepreneurs, to expand activities are to be welcomed, and the DFA are encouraged to promote private sector development, including the necessary skills training, in particular for women, youth and former civil servants.

Economic recovery and the success of the humanitarian response depend on a functional banking system. Efforts should be made to revive international financial transactions involving private sector operations and trade. The international community should be incentivized to develop innovative mechanisms that allow international financial transactions to go through.

Whatever the status of their legal recognition, the DFA are now in effective control of most of the country. The responsibility for running an inclusive government to ensure livelihoods and well-being of all Afghan people rests with them.

GLOSSARY

Budget deficit
A budgetary deficit is referred to as the situation in which the spending is more than the income. The amount of budget deficit is the total government revenue minus the total expenditure.

Food basket
The food basket contains a number of locally available food items needed to meet the minimum calories required for daily subsistence. The food basket provides 2,100 kilocalories per person which constitutes the required protein, carbohydrate, fat and micronutrients such as vitamins and iron. The food basket used in the report is the one estimated in the NRVA 2007-2008 to estimate the food poverty line and needs to be updated to reflect the current reality.

GDP
Gross domestic product (GDP) is the total monetary or market value of all the finished goods and services produced within a country's borders in a specific time period. As a broad measure of overall domestic production, it functions as a comprehensive scorecard of a given country's economic health.

GDP per capita
GDP per capita is the annual GDP of a specific year divided by mid-year population. It is a measure of a country's economic output that accounts for its number of people. It is a core indicator of economic performance and commonly used as a broad measure of average living standards or economic well-being. Because of varying estimates of population in Afghanistan, there is no agreement on this indicator.

Inflation
Inflation is a rise in prices, which can be translated as the decline of purchasing power over time. Inflation measures how much more expensive a set of goods and services has become over a certain period, usually a year. The rise in prices, which is often expressed as a percentage, means that a unit of currency effectively buys less than it did in prior periods.

IPC Classification
The Integrated Food Security Phase Classification (IPC) is a multi-partner initiative for improving food security and nutrition analysis and decision-making. The IPC was originally developed in 2004 to be used in Somalia by FAO's Food Security and Nutrition Analysis Unit (FSNAU).
IPC classifies food insecurity into five phases: (1) Minimal, (2) Stressed, (3) Crisis, (4) Emergency, (5) Catastrophe/Famine. The IPC classification and analytical approach is used by governments, UN Agencies, NGOs, civil society and other relevant actors to determine the severity and magnitude of acute and chronic food insecurity, and acute malnutrition situations in a country, according to internationally recognized scientific standards.

Liquidity crisis
A liquidity crisis is a financial situation characterized by a lack of cash or easily-convertible-to-cash assets on hand across many businesses or financial institutions simultaneously. A liquidity crisis is a simultaneous increase in demand and decrease in supply of cash.

Non-performing loan
A non-performing loan (NPL) is a sum of borrowed money whose scheduled payments have not been made by the debtor for a period of time.

NTA advisor
The National Technical Assistance (NTA) advisors are government staff with high expertise in their respective areas of work, who are not part of the official structure of the ministries and independent directorates.

Severe Acute Malnutrition
Severe acute malnutrition (SAM) is a serious condition that occurs when the diet does not contain the right amount of nutrients. Among children it is defined by very low weight-for-height/length (Z- score below -3 SD of the median WHO child growth standards), or a mid-upper arm circumference < 115 mm, or by the presence of nutritional oedema. Children suffering from SAM are nine times more likely to die in case of diseases due to their weakened immune system.

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