



# AFGHANISTAN SOCIO-ECONOMIC OUTLOOK

2023





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# Contents

|   |    |
|---|----|
| ACKNOWLEDGEMENTS.....                         | 1  |
| ACRONYMS.....                                 | 6  |
| FOREWORD.....                                 | 9  |
| EXECUTIVE SUMMARY.....                        | 12 |
| Economic Developments since August 2021.....  | 13 |
| Economic Outlook for 2023 and Beyond.....     | 14 |
| Impact on Social Conditions.....              | 14 |
| Food Affordability and Poverty Trends.....    | 14 |
| Multiple Shocks Faced by Households.....      | 15 |
| Household Coping Strategies.....              | 15 |
| The Impact of Humanitarian Relief.....        | 15 |
| Social Outlook for 2023 and Beyond.....       | 16 |
| Bolder Policy Directions for the Future?..... | 17 |
| KEY FINDINGS AND MESSAGES OF THIS REPORT..... | 18 |
| INTRODUCTION.....                             | 21 |

23

## 1. ECONOMIC COLLAPSE AND FUTURE PROSPECTS

- Introduction
- Pre-existing Conditions in Afghanistan
- The Pivotal Moment: August 15, 2021
- Exchange Rate and Balance of Payments
- Inflation Dynamics
- Public Finance Challenges
- Financial Sector Crisis
- Monetary Policy Dilemmas
- Impediments to private sector development
- Recent Stabilization Signs but Grim Near-term Outlook
- Longer-Term Growth Challenges
- Conclusions
- KEY FINDINGS AND MESSAGES

39

## 2. THE DECLINE IN INCOMES HAS BROUGHT MILLIONS BELOW THE 2020 POVERTY LINE

- Introduction
- Per capita incomes and poverty in the last 10 years
- Poverty estimates since 2020.
- IE&LFS2020 and WoAA2022: A comparison
- How many Afghans in 2022 were below the 2020 poverty line of AFN2,268?
- Funding the gap to bring per capita expenditures in 2022 to the 2020 poverty line
- Conclusions
- KEY FINDINGS AND MESSAGES

49

### 3. FOOD, JOBS, RESTRICTIONS ON WOMEN'S WORK: THE MANY SHOCKS HOUSEHOLDS FACE

- Introduction
- Major shocks
- Priority Needs
- Conclusions
- KEY FINDINGS AND MESSAGES

61

### 4. CRIPPLING DEBT AND CHILD BRIDES: COPING MECHANISMS

- Introduction
- How do households cope with the current situation compared to 2020?
- Many households have run out of coping mechanisms
- Some households are in a better position than others
- The limited role of income from employment
- Conclusions
- KEY FINDINGS AND MESSAGES

72

### 5. WHAT CAN AND DOES HUMANITARIAN ASSISTANCE PROVIDE?

- Introduction
- The extent and characteristics of humanitarian assistance
- Impact of humanitarian assistance
- Conclusions
- KEY FINDINGS AND MESSAGES

80

### 6. POLICY DIRECTIONS

- Introduction
- Policy Objective
- Macroeconomic Priorities
- Private Sector
- Banking and Finance
- Sanctions
- Energy
- Opium
- Gender
- Governance and Institutions
- Conclusions
- Policy Directions

|                 |    |
|-----------------|----|
| REFERENCES..... | 89 |
| ENDNOTES.....   | 93 |



## List of Figures

|   |    |
|---|----|
| Figure 1: Real GDP decline, overall and by sector, 2020-2021 (in percent).....                      | 25 |
| Figure 2: Exchange rate (AFN per US\$, monthly averages).....                                       | 26 |
| Figure 3: International trade in goods (in billions of US\$).....                                   | 27 |
| Figure 4: Price index (2015=100).....   | 28 |
| Figure 5: Inflation rate (y/y percentage change).....   | 28 |
| Figure 6: Real GDP level (2019=100).....  | 33 |
| Figure 7: Per capita income (in current US\$).....  | 33 |
| Figure 8: Per capita GDP in US\$ adjusted by the exchange rate.....                                 | 39 |
| Figure 9: The per capita distribution of expenditures (August/September 2022).....                  | 40 |
| Figure 10: GDP per capita and poverty rate (right axis).....  | 41 |
| Figure 11: Food Price Index (September 2020 = 100).....   | 41 |
| Figure 12: % of households and persons below selected levels of monthly per capita expenditure..... | 44 |
| Figure 13: Households affected by major adverse event in the last 6 months (in millions).....       | 49 |
| Figure 14: Type of impact of specific events on households (in millions).....                       | 50 |
| Figure 15: % and number of households that experienced at least one shock by type of impact.....    | 50 |
| Figure 16: Listed priorities by households (% of households).....                                   | 53 |
| Figure 17: Share of households with water, cooking and sanitation issues.....                       | 54 |
| Figure 18: Access to electricity (% of households).....   | 54 |
| Figure 19: Use of heating sources (% of households).....  | 55 |
| Figure 20: Share of households with shelter issues.....   | 55 |
| Figure 21: % of households who cannot use a specific coping strategy for securing food.....         | 63 |
| Figure 22: Ratio of debt to expenditures of indebted households, by decile.....                     | 64 |
| Figure 23: Distribution of workers within HHs by gender and age.....                                | 66 |
| Figure 24: Workers by size of households with at least one man/woman working..                      | 66 |
| Figure 25: Reasons for lower incomes in the past 30 days compared to usual income..                 | 67 |
| Figure 26: Problems women and men face at work.....   | 67 |
| Figure 27: Percentage of households that received humanitarian assistance in the last month.....    | 72 |
| Figure 28: Awareness of households regarding from where to obtain information about assistance..... | 73 |
| Figure 29: Information channels that women use to access assistance.....                            | 73 |
| Figure 30: Assistance queries among households.....   | 73 |
| Figure 31: An approach for economic recovery.....   | 83 |

## List of Tables

|  |    |
|--|----|
| Table 1: Macroeconomic indicators and projections, 2019-24.....  | 24 |
| Table 2. Public finances, 2019-22 (in billions of Afghanis).....   | 29 |
| Table 3: Countries with the lowest per capita income in the world (in US\$).....                         | 43 |
| Table 4: % of households potentially affected by various events and their impact on the population*..... | 52 |
| Table 5: Coping strategies of households to mitigate shocks against food insecurity.....                 | 62 |
| Table 6: % of households who were able to use a strategy and number of households.....                   | 64 |
| Table 7: Selected indicators among better off households.....  | 65 |
| Table 8: Households that receive humanitarian assistance.....  | 74 |
| Table 9: Policy Recommendations.....   | 85 |

## List of Textboxes

|  |    |
|--|----|
| TEXTBOX 1: The significant progress in gender equality in the last 20 years..... | 19 |
| TEXTBOX 2: Noticeable economic trends since August 15, 2021.....                 | 37 |
| TEXTBOX 3: Demographic and employment differences between HHs.....               | 47 |
| TEXTBOX 4: Gender differences in perceived needs and education.....              | 58 |
| TEXTBOX 5: The implications of restrictions on women's work.....                 | 70 |
| TEXTBOX 6: Women are affected differently by shocks compared to men.....         | 77 |

## ACRONYMS

|                   |  |
|-------------------|--|
| <b>ABADEI</b>     | <b>Area Based Approach for Development Emergency Initiatives</b> |
| <b>ACG</b>        | <b>Afghanistan Coordination Group</b>                            |
| <b>AFN</b>        | <b>Afghani (national currency)</b>                               |
| <b>ALCS</b>       | <b>Afghanistan Living Conditions Survey (2016-17)</b>            |
| <b>AML</b>        | <b>Anti-Money Laundering</b>                                     |
| <b>ASYCUDA</b>    | <b>UNCTAD Automated System for Customs Data</b>                  |
| <b>BIS</b>        | <b>Bank for International Settlement</b>                         |
| <b>CFT</b>        | <b>Combating the Financing of Terrorism</b>                      |
| <b>COVID-19</b>   | <b>Coronavirus Disease 2019</b>                                  |
| <b>CPD</b>        | <b>Country Program Document</b>                                  |
| <b>CPI</b>        | <b>Consumer Price Index</b>                                      |
| <b>DAB</b>        | <b>Da Afghanistan Bank (Central Bank)</b>                        |
| <b>DABS</b>       | <b>Da Afghanistan Breshna Sherkat (electricity company)</b>      |
| <b>DFA</b>        | <b>De Facto Administration</b>                                   |
| <b>DSSI</b>       | <b>Debt Service Suspension Initiative</b>                        |
| <b>EPZs</b>       | <b>Export Processing Zones</b>                                   |
| <b>ERWs</b>       | <b>Explosive remnants of war</b>                                 |
| <b>ES</b>         | <b>Emergency Shelter</b>   |
| <b>G-20</b>       | <b>Group of 19 largest economies plus the EU</b>                 |
| <b>GDP</b>        | <b>Gross Domestic Product</b>                                    |
| <b>GNI</b>        | <b>Gross National Income</b>                                     |
| <b>HH</b>         | <b>Household</b>   |
| <b>HNO</b>        | <b>Humanitarian Needs Overview</b>                               |
| <b>HPC</b>        | <b>Humanitarian Programme Cycle</b>                              |
| <b>HRP</b>        | <b>Humanitarian Response Plan</b>                                |
| <b>IDPs</b>       | <b>Internally Displaced Persons</b>                              |
| <b>IE&amp;LFS</b> | <b>Income Expenditure and Labor Force Survey (2019-20)</b>       |
| <b>IED</b>        | <b>Improvised explosive device</b>                               |
| <b>ILO</b>        | <b>International Labour Organization</b>                         |
| <b>IMF</b>        | <b>International Monetary Fund</b>                               |
| <b>IPC</b>        | <b>Integrated Food Security Phase Classification</b>             |
| <b>IPP</b>        | <b>Independent Power Producers</b>                               |
| <b>KFW</b>        | <b>National Development Bank (Germany)</b>                       |
| <b>KNOMAD</b>     | <b>World Bank database</b>                                       |
| <b>LCS</b>        | <b>Livelihood Coping Strategy</b>                                |
| <b>MAIL</b>       | <b>Ministry of Agriculture, Irrigation and Livestock</b>         |
| <b>MFI</b>        | <b>Microfinance Institutions</b>                                 |
| <b>MoEW</b>       | <b>Ministry of Energy and Water</b>                              |
| <b>MoF</b>        | <b>Ministry of Finance</b>                                       |



|               |  |
|---------------|--|
| <b>MoIC</b>   | <b>Ministry of Industry and Commerce</b>                                   |
| <b>MSME</b>   | <b>Micro and Small-Medium Enterprises</b>                                  |
| <b>NFIs</b>   | <b>Non-food Items</b>  |
| <b>NGO</b>    | <b>Non-governmental Organization</b>                                       |
| <b>NRVA</b>   | <b>National Risk and Vulnerability Assessment, (2007-08) and (2011-12)</b> |
| <b>NSIA</b>   | <b>National Statistic and Information Authority (Afghanistan)</b>          |
| <b>OCHA</b>   | <b>United Nations Office for the Coordination of Humanitarian Affairs</b>  |
| <b>PPIEDs</b> | <b>Pressure plate improvised explosive device (IED)</b>                    |
| <b>PPP</b>    | <b>Purchasing Power Parity</b>   |
| <b>PPPs</b>   | <b>Public-Private Partnerships</b>   |
| <b>SDGs</b>   | <b>Sustainable Development Goals</b>                                       |
| <b>SME</b>    | <b>Small and Medium Enterprises</b>  |
| <b>TBI</b>    | <b>Temporary Basic Income</b>  |
| <b>UN</b>     | <b>United Nations</b>  |
| <b>UNAMA</b>  | <b>UN Assistance Mission in Afghanistan</b>                                |
| <b>UNDP</b>   | <b>United Nations Development Programme</b>                                |
| <b>UNCDF</b>  | <b>United Nations Capital Development Fund</b>                             |
| <b>UNICEF</b> | <b>United Nations International Children’s Emergency Fund</b>              |
| <b>WASH</b>   | <b>Water, Sanitation and Hygiene</b>                                       |
| <b>WFP</b>    | <b>World Food Program</b>  |
| <b>WoAA</b>   | <b>Whole of Afghanistan Assessment</b>                                     |



## FOREWORD

Afghan people continue grappling with the unprecedented humanitarian and socio-economic crises that have been causing destitution for an overwhelming majority of the population since the past few years. Humanitarian assistance to the tune of US\$3.7 billion in 2022 is helping contain the humanitarian catastrophe and is quickening the pace of economic recovery from an enormous contraction in 2021. But this crucial lifeline for the people of Afghanistan is being severely threatened by the restrictions on women's rights which has culminated in a ban on women's employment with the UN. It is already evident that humanitarian aid to Afghanistan in 2023 will be lessened in response to the curtailment of women's rights as the Humanitarian Response Plan 2023 has received significantly less amount of funding compared to a similar period in 2022.

This report demonstrates that the economy and poverty situations are greatly sensitive to humanitarian assistance. Simulations presented in this report show that if humanitarian assistance is cut by 30 percent this year, the economy would continue a declining trend. If, however, aid is not reduced growth will return but at very low levels. In both scenarios, the population outgrows the economy locking Afghanistan into a poverty trap for the foreseeable future. Per capita income will keep falling and the costs of raising the poor up to the poverty line will keep increasing, as a result.

Although the humanitarian and poverty crises will be contained by continued humanitarian and basic human needs aid, the solution rests with the de facto government willingness to shift policies and revamp institutions to spur greater and sustainable growth that could qualify for development assistance by the international community. The restructuring of the economy toward agricultural output, not necessarily because of productivity gains in agriculture rather due to shrinkages in non-agricultural sectors caused by the recent shocks, is unhelpful for the kind of growth model that Afghanistan needs given its growing population and intensifying poverty.

The macroeconomic contraction is translating into extremely difficult socio-economic conditions for Afghan households. A fresh survey that collected detailed and thematic household data in 2022 show that 84 percent of the population spend less than AFN2,268 per person per month – the national poverty line. If considered in terms of only food poverty line and adjusted for different locational characteristics and food inflation, the percentage of population unable to spend on basic items as much as

AFN1,330 per person per month increases to more than 90 percent. This means, inter alia, that funding needed to cover the poverty gap has increased to about US\$5 billion in 2022 from US\$900 million in 2020. This report further shows that more than three quarters of Afghan population are borrowing food or money to buy food and spend the remainder, if any at all, on essential healthcare and tertiary basic needs.

Compared to 2020 when 41 percent of the households did not need to employ strenuous coping mechanisms to manage the socio-economic hardships, 2022 has been profoundly challenging when only 8 percent of households did not need coping strategies.

To make matters worse, Afghan households remain profusely prone to natural disasters and vulnerable to climatic shocks. The recent survey shows that 3.9 million of total 5.1 million households in the country were affected by drought, two thirds of the households live in mud houses or partially damaged shelters. Afghanistan has the highest number of fatalities caused by natural disasters in the last 40 years – among low-income countries and is ranked 5th among the most climate at-risk countries worldwide.

There are few positive developments, nonetheless, including increased exports, appreciation in the value of Afghani against the US\$, decreasing inflation and corruption. However, all these positive developments are products of the economic recovery that has been made possible largely due to the humanitarian assistance in 2022. The restrictions on women's rights to education and work is rapidly arriving at a point beyond which the continuation of humanitarian assistance, the driving force behind the economic recovery, without any reductions is highly unlikely.

In the two analytical scenarios for economic recovery that the report considers for the 2023 and 2024, humanitarian assistance support to basic human needs is a determinant factor of the fate of the economy. In a scenario where aid is assumed to continue at the 2022 level, the economy is projected to have positive but negligible growth rates in 2023 and 2024. On the other hand, a reduction of humanitarian aid by 30 percent will force the economy to contract by about half a percent this year instead of growing as in the first scenario.

The report concludes by offering an array of sectorial policy recommendations, aimed at strengthening the economic recovery, for resolving pressing barriers of the banking and financial system and improving sectoral performance and output.

I am pleased to present the Afghanistan Socio-Economic Outlook 2023 which is the second publication in a series of socio-economic outlooks for Afghanistan. We hope this knowledge product will be useful to national and international stakeholders, in planning and delivering efforts for the benefit of the Afghan people.



Abdallah Al Dardari  
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## Executive Summary

**August 15, 2021** marked a seminal point in Afghanistan's long history and a somber day for human development, as the Taliban's takeover of the state unleashed an economic and social catastrophe. In the upheaval, girls and women – half of the country's 40 million people – have been dispossessed of basic rights and freedoms, stifling their agency and participation in public life. The massive collapse of the economy immediately after the takeover, combined with the adverse effects of an unusually severe drought, have accelerated Afghanistan's decade-long slide into poverty, and turned it into one of the poorest countries in the world.

The economic collapse triggered a staggering drop in per capita income. The economy contracted by 20.7 percent in 2021, followed by a further contraction of 3.6 percent in 2022. Considering a population growth rate around 2 percent, per capita income is estimated to have fallen by a staggering 30 percent between 2020 and 2022. Recent indicators suggest a degree of economic stabilization, the exchange rate more stable and inflation more muted, but relative stabilization has happened at a significantly lower level of economic activity.

For an overwhelming majority of ordinary Afghans, the country's turmoil translated into personal adversity. With limited coping mechanisms available, impoverished Afghans have had to reduce consumption (including food), borrow heavily, beg, and take extreme measures to survive. Some have been compelled to sell their homes, land, or assets that generate income; others have resorted to the distressing practice of commodifying their own family members, turning children into laborers and young daughters into brides.

In the aftermath of the Taliban takeover, international aid has proven crucial in averting even more dire humanitarian and economic conditions. The provision of aid has supported essential services and facilitated the delivery of vital resources to the most vulnerable segments of the population. Yet, the restrictions and bans on women's employment and presence in public life continue to make the situation worse, and depriving girls from secondary schools and universities is limiting the prospects for recovery for generations to come.

This report traces the social and economic developments in Afghanistan from August 15, 2021 through December 2022. It analyses the repercussions of the policy and financing realities of that period on the outlook for the socio-economic progress of Afghanistan in 2023; and proposes policy directions for economic stabilization and recovery, as well as for addressing the country's immediate humanitarian crisis. It provides evidence for the urgent and continued need for critical humanitarian assistance and livelihood support. And it demonstrates that without the full scope and continuity for girls' education and women's ability to pursue work and learning across all disciplines and sectors, the country's progress will remain severely muted.

## Economic Developments since August 2021

**The August 2021 transition in authority fundamentally altered the political and economic landscape of Afghanistan.** Following the takeover, the country has faced considerable economic turmoil alongside a structural shift toward agriculture at the expense of manufacturing and services, which largely catered to the foreign presence since 2001. The country has also entered a period of profound uncertainty about the social and economic role of women.

**Afghanistan is currently grappling with a fiscal crisis.** The cutoff in foreign assistance that previously accounted for almost 70 percent of the government budget, has resulted in a sizable squeeze of public finances. Lacking foreign revenues and reserves, the DFA has lost much fiscal space to alleviate economic hardships. In 2022, the budget deficit was estimated to be 28 percent larger than in 2020, while development spending dropped by 80 percent compared to 2020.

**The central bank (DAB) has lost most of its tools, and hence its ability, to affect economic events.** Hindered by the ability to print money and the freezing of its foreign assets, the DAB struggled to provide adequate liquidity to banks. However, the DAB's capital controls and deposit withdrawal limits have prevented the complete collapse of the banking system. Overall inflation rose considerably after August 2021 reflecting in good part the depreciation of the exchange rate and the subsequent increase in global food and fuel prices due to the war in Ukraine.

**The banking system has faced a severe liquidity crisis.** Reasons include the cutbacks in foreign aid, DAB's inability to provide liquidity, heavy deposit withdrawals, and concerns about anti-money laundering and combating financing of terrorism issues (AML/CFT). Bank transfers have become more difficult and more expensive, hindering not only private sector operations but also humanitarian support activities. The microfinance sector, previously reliant on donor grants, shrunk by about half between August 2021 and the end of 2022, harming prospects for micro enterprises and the poor. This is particularly concerning in a country where local economies depend heavily on the vibrancy of micro and small businesses.

**Several improvements have recently emerged contributing to economic stabilization, albeit at a much-lower level of activity.** Domestic revenues, historically small, are projected to increase due to better collections at customs and some expansion of domestic taxes to businesses such as small vendors. Cross border trade is also picking up. Inflation slowed from 18.3 percent in July 2022 to 5.2 percent in December 2022 and corruption reduced as shown by Transparency International's Corruption Perception Index 2022

**Bank deposit limitations have been somewhat relaxed, although not all banks allow withdrawals in line with these limits.** Some banks have recently improved their liquidity position due to collection efforts and by not lending. The hawala system has proven resilient and transactions have risen, facilitating remittances, import financing, and NGO transactions. However, this system may also contribute to capital flight. The U.S. has released US\$3.5 billion of Afghanistan's official reserves to a new vehicle, the Afghan Fund, allowing targeted disbursements to help stabilize the Afghan economy. The Fund may be used for disbursements including for critical imports, such as electricity, arrears payment to international financial institutions, and essential banking services such as SWIFT payments.

## Economic Outlook for 2023 and Beyond

**Afghanistan's economic outlook for 2023 remains very challenging, particularly as recent restrictions on women's education and employment may further reduce international aid.** This would exacerbate pressures on the exchange rate and inflation, especially for imported food items, result in a decline in imports, and lower revenues from customs, a major source of budget revenue. Acquiring raw materials for manufacturing may become increasingly difficult, and liquidity may decrease, and international transactions could become harder. Energy imports may also face obstacles. In short, incomes would be very likely to fall, unemployment to increase, and poverty to deepen. The recent restrictions on women working at the UN and in NGOs also undermine delivery of humanitarian aid and basic needs assistance, potentially jeopardizing assistance provided by the international community to Afghanistan. These factors could exacerbate the already dismal social conditions and make Afghanistan fall further behind in reaching the SDG goals.

**UNDP projects real GDP growth of 1.3 percent in 2023 and 0.4 percent in 2024, with GDP per capita expected to decline from US\$359 in 2022 to US\$345 in 2024, intensifying the hardships faced by Afghans.** These projections assume that international support for Afghanistan will remain at the 2022 level of US\$3.7 billion. However, this outlook faces significant downside risks due to the DFA's restrictive policies towards women, which could prompt a reduction in international aid, economic difficulties in neighboring countries, a deterioration in domestic security conditions, and weather conditions.

**Afghanistan's longer-term future confronts a demanding landscape, as pre-existing constraints have intensified alongside fresh challenges.** The ban on women, governance issues, limited fiscal space, disruptions to banking and international finance, and energy-related impediments will all restrict the country's ability to maintain non-inflationary growth.

**The private sector's role in rebuilding infrastructure is critical for Afghanistan's economic future.** Prolonged compression in development spending will restrict the public sector's capacity to undertake infrastructure projects and enhance agriculture's scale and productivity. Without investments in infrastructure, including agriculture, transit trade, and mining (a promising sector), private sector development will be weak. The banking system's limited role in providing credit will further hinder private sector development.

## Impact on Social Conditions

### Food Affordability and Poverty Trends

**Securing food has become the prime concern of households as poverty has increased significantly.** The latest available poverty estimates before August 2021 were based on the Income, Expenditure and Labor Force Survey (IE&LFS2020) conducted by the national statistical authority (NSIA) between October 2019 and September 2020, which reported a poverty rate of 47.5 percent. Subsequent estimates, mainly aiming to assess the impact of the COVID-19 pandemic, raised the rate to around 70 percent. Applying the IE&LFS official poverty thresholds for overall poverty and for food poverty in 2020 to the latest survey results reported in the Whole of Afghanistan Assessment as of September 2022 (WoAA2022), suggests that around 85 percent of Afghans were below the poverty threshold of 2020 and more than 90 percent were below the food poverty threshold adopted in 2020.



## Multiple Shocks Faced by Households

The high proportion of those with current expenditures below the 2020 poverty thresholds is due to a series of events (“shocks”). These events include the economic shocks in the last couple of years, multiple natural disasters - droughts, floods, earthquakes, avalanches and heavy snowfall -, conflict and the lingering effects of the pandemic.

Only around 12 percent of households reported that they had not been subjected to any of the above shocks since early 2022. Most households experienced more than one shock (averaging 1.6 of shocks per household). Natural disasters affected 4.1 million households. The economic shocks that ensued, in combination with the massive reduction in GDP, impacted 3.3 million households. For those affected, loss of income and access to food were the heaviest burdens to bear. Around 4.8 million households reported lost income, and 3.4 million went into debt.

## Household Coping Strategies

The crisis has left most households with few coping mechanisms. Only 8 percent of households reported not needing to use any coping mechanism in 2022. Among the remaining 92 percent, many had no coping mechanisms at all, either because they had depleted them or because such mechanisms were not applicable to them. For example, 24 percent of households had no savings and another 12 percent had depleted them in the past. More than 30 percent had no property, house, land, income-generating equipment or other assets (such as means of transport) to sell, which itself would be a desperate act in the short-term at the expense of longer-term income-generating prospects. Most households (91 percent) listed food as their top current priority. And 77 percent of households mentioned that food prices are too high, despite some reports, admittedly not nationally representative, suggesting that food availability stands at 98 percent. This suggests that household incomes are too low to afford available food items.

Most households used one or more mechanisms to cope with their current conditions, often at the cost of their future. The most common way to cope was to borrow (nearly 80 percent of affected households), followed by decreased expenditures on less pressing priorities than food, such as health and education (45 percent). As many as 40 percent drew upon whatever savings they had available, 34 percent sold household assets, and many others sold productive assets such as their last female animals (27 percent) and other income-generating assets (16 percent), with almost 10 percent selling land or a house at distressed prices. Extrapolating to the national population, nearly 470,000 households may have engaged in begging or relied on charity, 850,000 sent their children to work outside the home, and almost 80,000 households married their daughters earlier than intended.

## The Impact of Humanitarian Relief

Had it not been for the continuing international humanitarian assistance since 2021, the economy would have gone into a faster and deeper dive and humanitarian conditions would have been worse. Humanitarian relief reached 30 percent of all households and nearly 40 percent of female-headed households in the month prior to the data collection August/September, 2022 and, according to UN estimates, more than double that percentage throughout the year.

The assistance has also been well targeted: recipients in 2022 below the 2020 poverty threshold had lower average incomes than their counterparts who did not receive assistance. The assistance was also effective - those who received assistance did not need to deploy coping strategies as often, and were better able to address their hunger needs, than those who did not receive this assistance.

## Social Outlook for 2023 and Beyond

The current economic and social conditions in Afghanistan offer little optimism for substantial and swift changes for the better in 2023. Even if the economy does not decline further, the population keeps increasing annually at 2 percent or more, thereby reducing the per capita GDP on average by the same.

In addition to the dim prospects for rising real incomes, without significant intervention, the massive adverse effects from natural disasters persist. And this cannot be addressed by relief assistance alone. The results indicate that 4.1 million households (around 27 million Afghans) were affected in 2022 by natural disasters that resulted in lost incomes, reduced food security, and the greater need to borrow at the detriment of their future economic and human security.

Being deprived of coping strategies, households have little ability to increase income through employment. The average household has 6.6 members of whom 1.6 work, mainly men (1.19). The other working family members include adult women (0.15) and children (boys: 0.23 compared to only 0.03 girls). Among households with male workers, 32 percent reported minimum or no savings from their day-to-day activities, and 15 percent do not receive their salaries or payments on time. Only 10 percent of households have home-based income-generating activities. It is worth noting that households have, on average, more boys working than women. This is not unexpected given that women's employment faces many restrictions fueled by strong views regarding gender roles in society, and further exacerbated by the recent bans. More than 70 percent of female-headed households cited social and cultural restrictions as the main barrier to women's employment, as well as the bans introduced by the Taliban since August 2021.

Humanitarian aid since 2021 has helped avert a deeper economic collapse and further deterioration in social conditions. Much of the humanitarian assistance has been delivered through NGOs. The recently introduced ban on women working for NGOs and international organizations risks a significant reduction in the amount of aid that can keep the economy from contracting further, and it will deprive access to Afghan women to services that can only be provided to them by women workers. As many as 94 per cent of 127 national organizations surveyed either fully or partially ceased operations immediately after the ban was imposed in December 2022, and 150 NGOs and aid agencies have suspended all or part of their work. If the outreach of humanitarian assistance from national organizations is reduced further, it will adversely affect millions of Afghans in need.

Given the difficulties households face, humanitarian assistance will remain critical to prevent the most vulnerable from falling further behind. For 2020, the UNDP estimated that the number of Afghans below the poverty line was 19 million, the poverty gap US\$900 million (5 percent of GDP in 2020), and the number of people in need of food assistance nearly 23 million. A similar exercise today suggests that the number of Afghans in need may have reached 34 million (an increase of 15 million) and the poverty gap US\$5.3 billion (nearly 35 percent of the current GDP). Even if the

UN Appeal for international assistance reaches the US\$4.6 billion asked for in 2023, it still falls short of what is needed to improve basic living conditions for millions of Afghans currently on the edge.

## Bolder Policy Directions for the Future?

**Afghanistan urgently needs massive physical and social infrastructure development** - to reduce the direct impact of natural disasters, to enhance sustainable food production, and to provide social services, including social protection to those deeply affected. This will depend to a large extent on growing the domestic private sector, with backward and forward linkages that attract foreign investment. This, in turn, demands deep institutional reforms that improve the rule of law, business transparency and accountabilities, including the ability to follow-the-money.

**None of this is do-able without a new social contract that demonstrates respect for the rights of girls and women, as equal members of society.** By dismantling the obstacles that prevent girls and women from fully engaging in all aspects of society, Afghanistan can unlock untapped potential, boost productivity, and stimulate innovation. This social contract must prioritize inclusivity, ensuring that women have equal opportunities to participate in decision-making processes, thereby fostering more inclusive and representative governance. To accomplish these objectives, the collaboration of all stakeholders, including the government, civil society, and the international community, is essential.

**In light of this, the stakeholders should consider prioritizing policies that attract international humanitarian and basic needs assistance towards supporting the most vulnerable households.** This includes lifting the bans on girls secondary education and women's work and continued learning and training. The Afghan economy remains overwhelmingly dependent on international support. Over the next year or two, the livelihoods of ordinary Afghans will depend on the volume and targeted outreach of humanitarian assistance and meeting the development basic needs.

**International assistance not only saves lives but also helps create temporary jobs and livelihood opportunities that could benefit over a million Afghans each year.** It can also contribute to a temporary universal basic income (UBI), a social protection measure that is highly preferred by Afghans in dire need.

**In the short to medium term, the DFA would need to consider implementing policies focused on macroeconomic stabilization, private sector development, banking and finance, to foster the economic revival of the country.** This is essential for supporting the population and preventing further outward migration. Renewable energy is a sector with immediate investment potential and high returns, given the growing costs of electricity required to power critical sectors that have to advance rapidly.

**If aid is reduced, the already grave conditions facing ordinary Afghan citizens, especially women and girls, will deteriorate further.** UNDP continue their efforts in direct support of the Afghan people. UNDP proposes several policies and programs (see Chapter 6) including scaling the tested area-based approach (Area-Based Approach to Development Emergency Initiatives: ABADEI), complementing the work of other UN agencies and partners. The aim for the coming years is to relieve poverty and to create and sustain livelihood opportunities, so Afghan women and men, can expand their capabilities and lead their own pathways out of poverty, and define their country's progress.

## KEY FINDINGS AND MESSAGES OF THIS REPORT



- **The economic situation in Afghanistan continues to spiral down**, with GDP estimated to have further declined by 3.6 percent in 2022 after the 20.7 contraction in 2021. With a population estimated by the UN at about 40 million and GDP of US\$14.3 billion in 2021, Afghanistan is among the countries with the lowest per capita income in the world.



- **Despite this, there are signs of stabilization in some areas, albeit at a much lower level of economic activity:** a rise in exports, an expected 35 percent increase in domestic fiscal revenue, a more stable exchange rate, and reduced inflation. These improvements have been supported by substantial international assistance of US\$3.7 billion in 2022, of which US\$3.2 billion was provided by the UN.



- **The country faces considerable headwinds** due to adverse geopolitical factors and economic difficulties in neighboring countries, which could spill over into Afghanistan in the form of repatriating nationals, imported inflation for staples such as food and fuel, and heightened security risks.



- **The recovery remains weak, unsustainable and insufficient in the long-term.** In a baseline scenario developed by UNDP, GDP is projected to increase by 1.3 percent in 2023, and 0.4 percent in 2024. Both are well below the population growth rate that exceeds 2 percent, implying that per capita incomes will keep declining.



- **A further scaling back of aid would be disastrous.** UNDP simulations suggest that if aid were to drop by 30 percent, which is a possibility given current DFA decisions, GDP could contract by 0.4 percent in 2023 and inflation rate could reach about 10 percent in 2024. Per capita incomes could then decline to a projected US\$306 compared to US\$512 in 2020 – a drop of 40 percent.



- **In fact, the near-term economic and social outlook hinges critically on the scale of foreign aid.** Survey results suggest that around 85 percent of the population has per capita expenditures below the 2020 poverty line. Foreign aid will be crucial to scale up the humanitarian response.



- **The UN Appeal for US\$4.6 billion in international assistance for 2023 is the minimum required to help Afghans in need.** The number of poor people has risen to 34 million in 2022 (from 19 million in 2020), and the funding needed to maintain expenditures of all Afghans above the 2020 poverty line may have reached US\$5.3 billion (nearly 35 percent of the current GDP) from US\$900 million (5 percent of the GDP) two years ago.



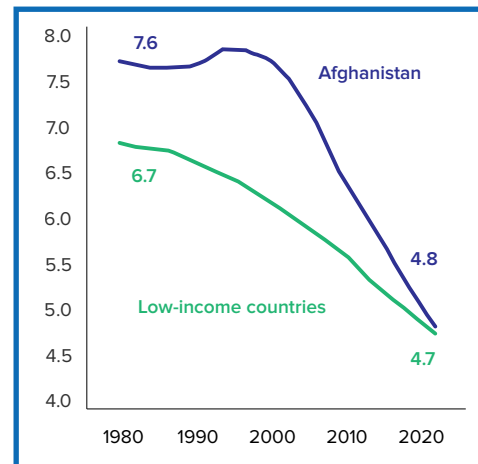
- **Any reduction in international aid during 2023-2024 will worsen Afghanistan's economic prospects and perpetuate extreme poverty for decades.** It is also clear that the economy and social conditions cannot be revived if women cannot learn and earn. Future economic growth and human development progress of Afghanistan will be severely undermined by underinvestment in girls' and women's education and opportunities for work and well-being.

**TEXTBOX 1: The significant progress in gender equality in the last 20 years has been swiftly reversed by actions and proclamations since August 2021**

Women and girls had made several gains during the two decades before 2021. Their enrolments in schools and universities, and their work as teachers, health professionals, journalists, media presenters, civil society representatives, judges, prosecutors, defense attorneys, police and army personnel, entrepreneurs, increased at high rates. Their literacy and life expectancy increased, while maternal mortality decreased together with a substantial decline in the fertility rate, which had increased during Taliban rule in the late 1990s.

This near 40 percent drop in the fertility rate in just 20 years can be compared with the global decline in fertility over 40 to 50 years.

**Total Fertility Rate  
(births per women 1980-2020)**



Soon after the political change, the Taliban stated: “We assure the international community there will be no discrimination against women, but, of course, within the frameworks we have.” Within a month, the Taliban had completely excluded women from any position in the first formation of the DFA and:

1. Abolished the Ministry of Women’s Affairs (17 September 2021) and reestablished the Ministry for Propagation of Virtue and Prevention of Vice
2. Announced that secondary schools will not reopen for girls, while boys were allowed to enroll, effectively turning girls’ education into a crime (also on 17 September 2021) and
3. Told female civil servants to stay at home until officials prepare a “new plan” (19 September 2021).

These early actions against girls and women have since been followed by sweeping new bans and restrictions on women, effectively reversing two decades of hard-won gains in gender equality. An indicative timeline of the additional measures includes the following:

4. Women barred from parks and amusement parks without a mahram (11 November 2021)
5. Women barred from travelling more than 72 kilometers without a mahram (26 December 2021)
6. Strict dress code for women introduced: The hijab (head covering) has become compulsory, including either the chadori or black Iranian-style chador as the preferred attire (10 January 2022)
7. Universities became gender-segregated (26 February 2022)
8. Reversal of promise to reopen girls’ high schools (23 March 2022)
9. Gender segregation of parks (28 March 2022)

10. Women barred from driving (3 May 2022)
11. Women required to cover their faces in public (7 May 2022)
12. The Afghanistan Independent Human Rights Commission (AIHRC) abolished (17 May 2022)
13. Female TV presenters told to cover their faces on air (21 May 2022)
14. Female students barred from selecting civil engineering, journalism, veterinary studies, agriculture, and geology in annual university entry exams (14 October 2022)
15. Women barred from parks, gyms, and public baths (13 November 2022)
16. First official flogging of three women for moral crimes after full implementation of sharia law (14 November 2022)
17. Women barred from universities and education centers (20 December 2022)
18. Women banned from working for NGOs (24 December 2022)
19. Taliban authorities reportedly outlawed contraception medicines (February 2023)
20. Afghan women who are UN staff members also barred from continuing to work (4 April 2023)

*Sources: UNDP staff compilation from reports of international and national organizations and local reports*

## INTRODUCTION

August 15, 2021 was a seminal point in Afghanistan's long history: a takeover of the state that unleashed overnight an economic and social catastrophe. In the upheaval, girls and women – half of the country's 40 million people – have been dispossessed of basic rights and freedoms, stifling their agency and participation in economic activities. The massive collapse of the economy immediately after the takeover, combined with the adverse effects of an unusually severe drought, have accelerated Afghanistan's decade-long slide into poverty, and turned it into one of the poorest countries in the world.

The vast majority of ordinary Afghans, with few coping mechanisms at their disposal, have been plunged into crisis. Beyond the headlines, poor Afghans are being forced to beg, borrow heavily, and resort to desperate measures to survive. Some sell their homes, land, or income-generating assets; others end up commodifying their own family members, turning children into laborers and young daughters into brides.

After the takeover, Afghanistan's GDP immediately contracted by 20.7 percent. Since that time, there have been signs of economic stabilization, albeit at a much-reduced level of activity. The exchange rate stabilized, and inflation muted. With large amounts of UN and international aid, the economy stabilized somewhat, and GDP is estimated to have contracted by 3.6 percent in 2022. When coupled with a population increase of more than 2 percent, average real per capita income of ordinary Afghans by the end of 2022 was estimated to have declined to 28 percent of 2020 levels. The restrictions and bans on women's employment and presence in public life are making the situation worse. Depriving girls from attending secondary schools and universities is limiting the prospects for recovery for generations to come. The need for humanitarian assistance and livelihood support remains urgent.

This report traces the economic and social developments in Afghanistan since August 2021. It is part of a series that annually reviews and updates the situation on the ground that is evolving at a fast pace.

The report has six chapters. First, it provides a snapshot of the latest state of the macroeconomy and the likely path of the economy in the short run. Second, based on the drop in GDP and survey results, it evaluates how many Afghans in late 2022 had expenditure levels below the national poverty thresholds adopted in 2020. Third, it examines the impact of recent shocks (such as economic and environmental ones, and those arising from conflict and the pandemic) on the social conditions of ordinary Afghans and, in chapter four, the coping mechanisms available to households. The fifth chapter reviews the impact of international assistance.

The sixth chapter offers a menu of policies that, if adopted, can lay the foundation for economic stabilization and recovery, as well as the phasing in of livelihood support that could reduce the need for humanitarian assistance. The process will be long and may take much of the coming decade, if not longer, underscoring the urgency of its implementation.



**ECONOMIC COLLAPSE AND  
FUTURE PROSPECTS**



## Introduction

The Afghan economy has since August 2021 experienced shocks of great magnitude. With cuts in official development assistance, the freezing of Afghanistan's official reserves held abroad, sanctions, and banking and financial system paralysis, the economy has been stagnating. These developments, together with the policies adopted by the Taliban, especially restrictions on women, have affected the level and nature of economic activity. The economy has contracted, and per capita incomes have declined sharply, with profound implications for human development.

Recent improvements in security and international assistance have helped stabilize the economy to some extent, albeit still far from its pre-August 2021 position. Humanitarian assistance from the UN and other donors, some delivered through NGOs, has helped avert even deeper economic collapse and humanitarian losses. But these gains are now being jeopardized by recent restrictions on women working for NGOs, which undermines the architecture of humanitarian aid delivery and puts at risk the humanitarian aid provided by the international community.

## Pre-existing Conditions in Afghanistan

The country had suffered from prolonged conflict, fragility of state and non-state institutions, corruption, the Covid-19 pandemic, a drought in 2021, and widespread poverty. The economy, small, mainly agricultural and service-oriented, had been shaped by two decades of foreign presence and heavy foreign transfers for both security and civilian purposes. Some of those transfers went through the Afghan budget while others were spent directly by the foreign presence operating in the country. Those transfers, amounting in recent years to about 40 percent of GDP, played an important role in shaping economic incentives and structures.

*Afghanistan was a fragile state even before August 2021. Conditions were already arduous. The country had suffered from prolonged conflict, fragility of state and non-state institutions, corruption, the Covid-19 pandemic, a drought in 2021, and widespread poverty.*

Afghanistan received considerable financial support from the international financial and development institutions, especially the Asian Development Bank, the International Monetary Fund, and the World Bank. A host of NGOs provided social and humanitarian services.

There was also a large illicit economy, mainly around opium cultivation and exports. The financial system was small and played a negligible role in financing the private sector.

While gains were being made in some respects, including women's education and participation in the labor force, a significant number of Afghans emigrated or were displaced over the decades. On the eve of the advent of the Taliban, the country was struggling with the dual challenges of the COVID-19 pandemic and a severe drought.

## The Critical Moment: August 15, 2021

The seismic shift in Afghanistan's political and economic landscape in August 2021 thrust its 20 million women and girls into a perilous future, with fundamental rights and public involvement jeopardized. The global community has refrained from acknowledging the Taliban's rule, considering them de facto authorities. This stance prompted an abrupt halt to foreign financial support, thereby causing a drastic decline in the nation's economic activity.

*The takeover in August 15, 2021, fundamentally altered the politics and economics of Afghanistan.*

Real GDP shrank by 20.7 percent in 2021 and it is estimated to have contracted by 3.6 percent in 2022 (Table 1, Figure 1).<sup>1</sup> Much of the decline was due to the cutback in international financial support, political uncertainty, a freeze on foreign reserves, and a banking crisis, including the severing of international banking relations. In addition, the drought caused a large decline in

agricultural output. The services sector, which had benefited the most from international aid, shrank by 30.1 percent in 2021. Industry declined by 12.8 percent, due mostly to a 35.4 percent decline in construction activities previously driven by public expenditures and international activities in Afghanistan. The decline in agriculture was 9.8 percent, contributing to the increase in poverty. Nominal per capita income declined from US\$512 in 2020 to US\$356 in 2021.<sup>i</sup> Unemployment rose for both skilled and unskilled workers, with lower nominal and real wages for both groups.

**Table 1: Macroeconomic indicators and projections, 2019-24  
(Fiscal years, April-March)**

|  | 2019  | 2020  | 2021  | 2022  | 2023  | 2024  |
|--|-------|-------|-------|-------|-------|-------|
|  |       |       |       | Est.  | Proj. | Proj. |
| <b>GDP nominal (AFN billions)</b>                      | 1,506 | 1,535 | 1,251 | 1,314 | 1,377 | 1,456 |
| <b>GDP nominal (US\$ billions)</b>                     | 19.3  | 20.0  | 14.3  | 14.8  | 14.9  | 15.0  |
| <b>GDP real (AFN billions)</b>                         | 1,419 | 1,390 | 1,101 | 1,062 | 1,076 | 1,080 |
| <b>Real GDP growth rate (%)</b>                        | 3.9   | -2.1  | -20.7 | -3.6  | 1.3   | 0.5   |
| <b>Population (millions)</b>                           | 37.8  | 39.0  | 40.1  | 41.1  | 42.2  | 43.4  |
| <b>Per Capita Income (Current US\$)</b>                | 510   | 512   | 356   | 359   | 352   | 345   |
| <b>Average CPI Inflation (%)</b>                       | 3.0   | 5.8   | 7.8   | 11.2  | 3.5   | 5.3   |
| <b>Trade Balance (US\$ billions)</b>                   | -5.8  | -5.5  | -4.9  | -5.0  | -5.0  | -5.0  |
| <b>Exports of goods &amp; services (US\$ billions)</b> | 1.5   | 1.5   | 1.3   | 2.2   | 2.2   | 2.2   |
| <b>Imports of goods &amp; services (US\$ billions)</b> | 7.4   | 7.0   | 6.2   | 7.2   | 7.2   | 7.2   |

Notes: (1) All variables are for Afghan fiscal years covering March to March periods, except for trade figures which cover January to December.

(2) In the absence of population consensus, the National Statistic and Information Authority (NSIA) and the UN provide different population estimates: The NSIA Afghanistan population estimate for 2021 is 33.6 million, but the UN estimate is 40.1 million. This report uses UN population estimates.

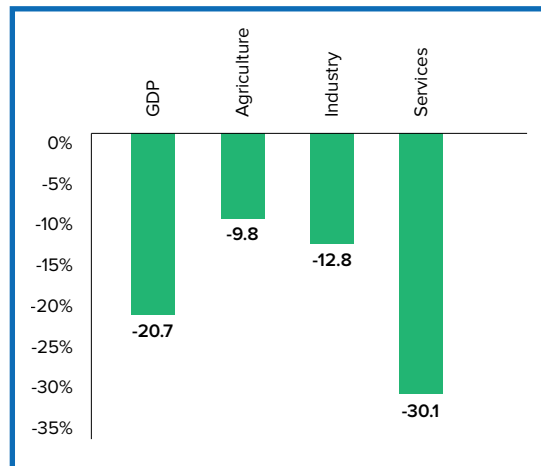
Sources: NSIA GDP data, UNDP estimates and projections

i. When the NSIA population estimates are used instead of the UN population estimate, per capita income declined to \$425 in 2021 from \$607 in 2020.

The government, deprived of foreign receipts and reserves, has little fiscal space to support economic activity and address humanitarian needs. It has been forced to compress development spending significantly. At the same time, with the freeze on its foreign assets and a prolonged inability to issue new currency, the central bank (DAB) lost most of its wherewithal to affect economic events.

*The government, deprived of its foreign receipts and reserves, has lost much fiscal space to support economic activity and address humanitarian needs.*

**Figure 1: GDP growth rates, overall and by sector, 2021 (in percent)**



Source: National Statistic and Information Authority (NSIA)

The banking system has fallen into a severe liquidity crisis, necessitating restrictions on deposit withdrawals and other financial transactions. These developments, reinforced by capital flight, led, in the months after August 2021, to considerable pressures on the foreign exchange rate, which together with increases in global food prices pushed up consumer prices.

The confluence of crises has had a detrimental effect on human development, significantly heightening the urgency for humanitarian support. Poverty was expected to reach near-universal levels in 2022, but international support, which reached US\$3.7 billion, including US\$3.2 billion from the UN, helped avert this outcome. Aid has worked through two channels. First, it has directly targeted the poorest segment of society through cash and in-kind supports. Second, it has provided liquidity, supporting economic activity, the exchange rate, and financial stability. Still, according to this report, more than 90 percent of Afghans were below the 2020 food poverty line as of the second half of 2022, prompting a new wave of Afghans, including skilled workers, to emigrate.

Above all, the restrictions on women’s work and education have inflicted severe pain on the population, undercutting social and economic conditions and prospects, as well as the government’s administrative capacities. These restrictions have hurt foreign assistance and normalization of international financial and economic relations. The Sustainable Development Goals for Afghanistan, already elusive, are now further out of reach.<sup>2</sup>

Regarding unemployment, there is no updated official data. In the Income, Expenditure, Labor Force Survey conducted by the National Statistic and Information Authority (NSIA) in 2019-2020, total unemployment rate was reported as 18.6 percent, 15.2 percent for men and 32 percent for women.<sup>3</sup> However, the Private Sector Rapid Survey conducted by the World Bank for small, medium, and large firms reports the employment declined 61 percent in October 2021 relative to pre-August 2021 period. The decline in men’s employment was 48 percent, and the decline in women’s employment was 75 percent, broadly consistent with the significant decline in economic activity since August 2021. The data clearly show that women were affected much worse by the crisis. However, according to a survey conducted in June 2022, in line with the (feeble) economic recovery, employment has improved slightly.<sup>4</sup> Similarly,

ILO reports a weak improvement in employment in 2022 relative to end of 2021.

There have been some recent signs of economic stabilization in 2022, albeit at a much lower level than before. Demand for labor has risen slightly. The exchange rate has been stable since February 2022. This exchange rate stability has muted inflation pressures. However, the banking sector continues to atrophy.

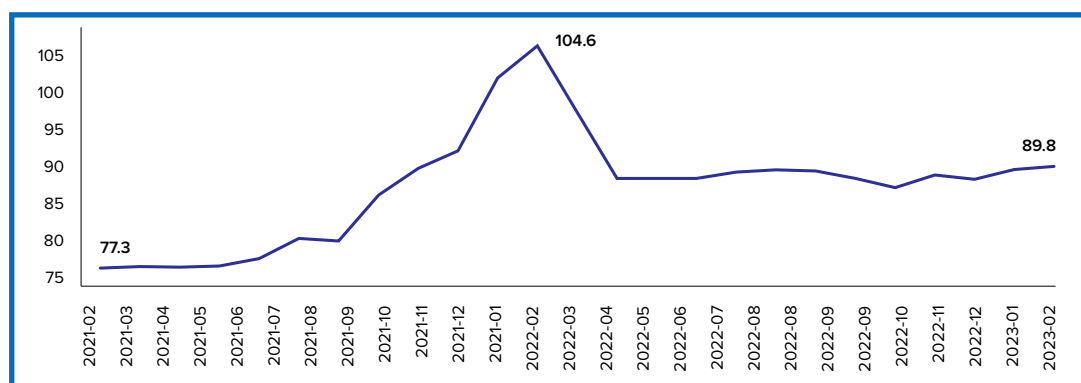
Yet, the economy remains in a deep recession and vulnerable to significant risks, including inflation of imported goods, especially food and fuel; economic difficulties in neighboring countries, which could spill over to Afghanistan, including through a return of some Afghan migrants; and pressures in the foreign currency market.

*There have been some improvements in economic conditions in 2022. Demand for labor has risen slightly. The exchange rate has been stable since February 2022. This exchange rate stability has muted inflation pressures. However, the banking sector continues to atrophy.*

### Exchange Rate and Balance of Payments

With the political change, the cutoff in budget support and development aid, the freeze on DAB foreign reserves by the U.S., capital flight and the paralysis of the Afghan financial system, the Afghani (AFN) has depreciated sharply (Figure 2). It fell by 54 percent in the first four months after August 15, subsequently appreciated, and has been stable since February 2022. This stability has been due to crisis management measures taken by DAB, such as restrictions on withdrawals from bank deposits, capital outflows, and imports; UN cash delivery for humanitarian programs; and a recovery in exports. While the nominal exchange rate has been stable, the real effective exchange rate of the AFN has likely appreciated in recent months because of currency depreciations among major trade partners.

**Figure 2: Exchange rate (AFN per US\$, monthly averages)**

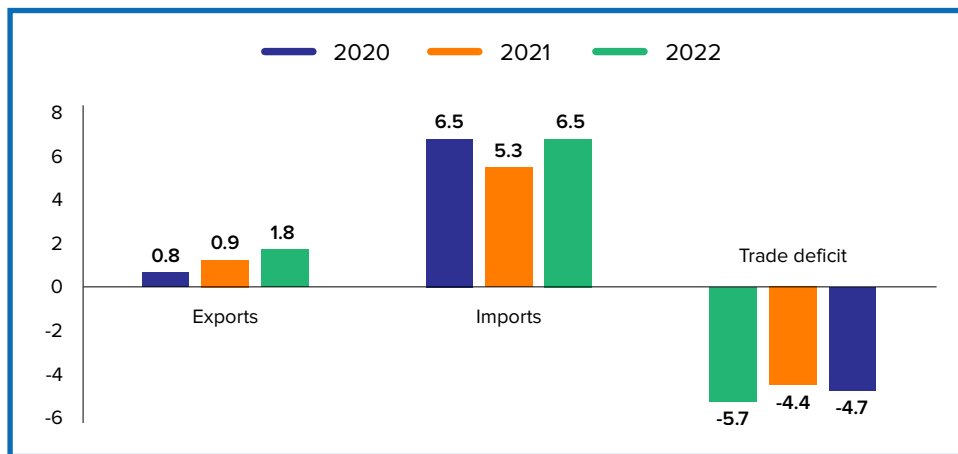


Sources: NSIA and UNDP calculations

Available data on the balance of payments shows that imports of goods fell in 2021 but recovered in 2022 (Figure 3). Exports of goods increased slightly in 2021 then rose sharply in 2022, including exports of coal to Pakistan. According to preliminary data, while exports of goods increased to US\$1.8 billion, imports of goods increased to US\$6.5 billion in 2022. The trade deficit is estimated to have reached about US\$5 billion in 2022.

It should be noted that available trade data must be used with caution. In particular, the increase in imports may be due in part to a decline in corruption and better border control from 2021, which likely allowed more comprehensive data on imports. The sizable trade deficit, which reached about US\$5 billion in 2022, is likely financed by illicit revenues and remittances, in addition to strong international aid.

**Figure 3: International trade in goods (in billions of US\$)**



Sources: Data from NSIA and ASYCUDA. UNDP calculations

In an important development that could ease Afghanistan’s foreign exchange liquidity difficulties, the U.S. has released US\$3.5 billion of Afghanistan’s official reserves to a new vehicle, the Afghan Fund, which would allow targeted disbursements to safeguard Afghanistan’s reserves and help stabilize the economy the Afghan economy. The Fund maintains an account at the Bank for International Settlement (BIS) based in Switzerland, outside the reach of the Taliban. The Fund could be used to make disbursements for critical imports such as electricity, payment of arrears to international financial institutions, and essential banking services such as SWIFT payments. The Fund can also be used to receive and disburse DAB reserves frozen in other countries.<sup>5</sup>

*In an important development that could ease Afghanistan’s foreign exchange liquidity difficulties, the U.S. has released US\$3.5 billion of Afghanistan’s official reserves to a new vehicle, the Afghan Fund, which would allow targeted disbursements to help stabilize the Afghan economy.*

### Inflation Dynamics

Exchange rate stability has helped keep inflation down, averting an even more widespread slide into poverty. Nonetheless, overall inflation rose considerably following the events of August 2021, reflecting the depreciation of the exchange rate and the rise in global food and fuel prices due to the war in Ukraine.

More recently, inflation has fallen from 18.3 percent in July 2022 to 5.2 percent in December 2022, reflecting a decline in world prices of food and energy (Figure 4 and Figure 5).

Figure 4: Price index (2015=100)

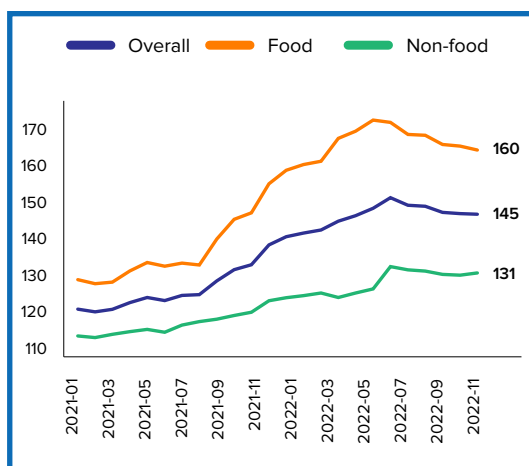
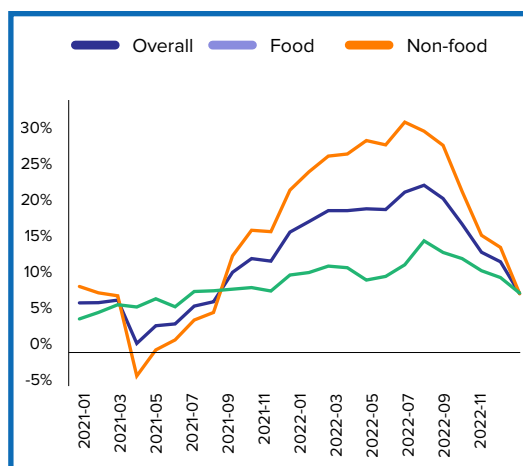


Figure 5: Inflation rate (y/y percentage change)



Sources: NSIA data and UNDP staff calculations

## Public Finance Challenges

Prior to August 15, 2021, Afghanistan’s public finances suffered from heavy reliance on external support. Non-aid revenues were stymied by weak administrative capacity, and corruption. Expenditure management was also weak. Furthermore, the absence of a domestic bond market limited the government’s scope for domestic borrowing.

*Since August 15, Afghanistan has been in a fiscal crisis. According to World Bank, revenue collection between end-December 2021 and end-October 2022 exceeded that in 2020 and 2021.*

Since August 15, Afghanistan has been in a fiscal crisis. The cutoff in foreign assistance created a sizable decline in government operations. This shrinkage will have a lasting impact on the ability of the public sector to undertake investment and provide services. The extent to which the private sector and the international community can cover the shortfall in public services remains an open question.

The DFA initially issued a budget for the first quarter of 2022, followed by one for the 2022 fiscal year (March 21, 2022 - March 20, 2023). This is a break from past practice, in which the Afghan authorities would prepare a three-year policy framework detailing policy priorities and macroeconomic management. The DFA’s policy priorities therefore remain unclear.<sup>6</sup>

Moreover, data collection has waned. For example, there is no public information on the performance of state-owned enterprises.<sup>7</sup> The 2022 budget deficit is estimated to be 27.7 percent larger than in 2020 (Table 2). With the reduction of aid, revenues forecast in 2022 were less than half of those in 2020. However, domestic revenues, historically small, are projected to be up by 8 percent, due to better collection (perhaps due to lower corruption) at customs and the levying of domestic taxes on businesses such as small vendors. According to the World Bank, revenue collection between end-December 2021 and end-October 2022 exceeded that in 2020 and 2021.<sup>8</sup>

**Table 2. Public finances, 2019-22 (in billions of Afghanis)**

|  | 2019 | 2020 | 2021 | 2022   | 2022                 |
|--|------|------|------|--------|----------------------|
|  |      |      |      | Budget | Change over 2020 (%) |
| <b>Revenues and grants</b>                     | 396  | 398  | 359  | 187    | -53.0                |
| <b>Domestic revenues</b>                       | 207  | 173  | 140  | 187    | 7.9                  |
| <b>Grants to operating budget</b>              | 80   | 83   | 107  | 0      | -100                 |
| <b>Grants to development budget</b>            | 109  | 142  | 112  | 0      | -100                 |
| <b>Total expenditures</b>                      | 411  | 432  | 473  | 231    | -46.6                |
| <b>Operating expenditures</b>                  | 272  | 285  | 311  | 203    | -28.9                |
| <b>Development expenditures</b>                | 139  | 147  | 162  | 28     | -80.9                |
| <b>Overall budget deficit including grants</b> | 15   | 34   | 38   | 44     | 27.7                 |

*Source: DFA data and UNDP calculations*

Deprived of foreign assistance, the DFA has had to compress spending. Development outlays were 80 percent lower in the 2022 budget compared with 2020. This will limit the ability of the public sector to undertake infrastructure projects and provide public services, which in turn will hamper the development of transit trade and mining, thereby weakening the prospects for private sector development. The sources of financing of the budget deficit are not identified.<sup>9</sup>

The DFA has not been servicing Afghanistan's external debt, estimated at about US\$1.7 billion in 2022.<sup>10</sup> Afghanistan has obligations to both multilateral institutions and bilateral creditors. It had gained some temporary relief under the G-20 Debt Service Suspension Initiative (DSSI), but with the expiry of that initiative in December 2021, debt service payments are coming due. The World Bank has reported that Afghanistan has already failed to make debt service payments to the multilateral agencies over late 2021 and early 2022.<sup>11</sup> Continued failure to service those obligations would further compromise external relations, including the ability to borrow from multilateral institutions.

## Financial Sector Crisis

Afghanistan's financial sector has been historically underdeveloped, and primarily oriented toward handling foreign transfers and public sector wages and salaries. Bank lending for working capital has been low.

*Since the Taliban takeover, the banking sector has been in a deep liquidity crisis. Bank transfers have become harder and more expensive, hindering not only private sector activity but also humanitarian and basic human needs support activities.*

Since the Taliban takeover, the banking sector has been in a deep liquidity crisis. With pervasive uncertainty raising demand for currency and capital flight, the freeze on banks' foreign reserves held with the central bank, and cuts in correspondence banking relations due to sanctions and anti-money laundering/counterterrorism issues, banks have been facing liquidity shortages.<sup>12</sup> They have faced runs on deposits, requiring deposit limits. These limits have been relaxed over time, but there is anecdotal evidence that because of continuing liquidity

problems, not all banks allow withdrawals in line with those limits. Bank transfers have become harder and more expensive, hindering not only private sector activity but also humanitarian support activities. Several banks have lost technical expertise and staff.

Lending has come to a halt due to banks' inability to collect outstanding loans and a decline in the value of loan collateral (mainly real estate). There is also a lack of clarity on new and prospective regulations, including the transition to Islamic banking. AFN and foreign currency loans dropped, by 9.8 percent and 6.1 percent, respectively, over the period July - December 2021. DAB is unable to supply adequate liquidity to banks because of an inability to print currency (see below) and the freeze on its foreign assets. Broad and reserve money have fallen considerably.<sup>13</sup>

*The microfinance sector, previously dependent on donor grants, has also shrunk by about half since August 2021, harming the prospects for micro enterprises and the poor.*

The microfinance sector, which once relied heavily on donor grants, has experienced a significant contraction of nearly 50 percent since August 2021, adversely affecting the prospects of micro-enterprises. This downturn poses a considerable threat in a country where local economies have long been sustained by the dynamism of micro and small businesses. The number of microfinance institutions has declined from 10 to six as of June 2022, and their loan portfolio has contracted from AFN9.5 billion to AFN4.4 billion. Importantly, the proportion of women clients has also dropped, from 56 percent to 29 percent. These institutions have had difficulties collecting interest and principal payments

On a positive note, the hawala system has proven resilient. A UNDP survey conducted in June 2022 shows that the number of hawala transactions has risen, facilitating remittances, import financing, NGO transactions, and perhaps capital flight.<sup>14</sup>

DAB's capital controls and deposit withdrawal limits have prevented the complete collapse of the banking system, but the crisis is far from over. The banking system will likely need to be restructured. Some banks have recently improved liquidity by strengthening collection efforts and placing a moratorium on lending. Nonperforming loans (NPLs) have risen sharply. Based on UNDP interviews with major banks, NPLs now range from 10 to 65 percent, depending on the type of bank and loan. To manage the banking crisis, after August 2021, DAB encouraged banks to extend credit maturities and provided flexibility regarding loan provisioning, first through June 2022, and then until February 2023. NPLs are likely to rise further as this regulatory forbearance is terminated.

*Over the medium term, restructurings, mergers, consolidations, and even some bank closures may be needed.*

With deteriorating balance sheets and an inability to facilitate transactions related to foreign assistance, the banking system appears set to shrink. Restructurings, mergers, consolidations, and even some closures may be needed. Any recapitalizations will likely be constrained by the paucity of fiscal space.



## Monetary Policy Dilemmas

Prior to August 2021, DAB's monetary policy was geared toward achieving low inflation. However, its ability to affect macroeconomic developments was limited by the country's low level of financial development and the absence of adequate instruments, such as a developed bond market.

*Prior to the August 2021, DAB's monetary policy was geared toward achieving low inflation. Since August 15, DAB's monetary policy objectives and framework have been unclear.*

Since August 2021, DAB's monetary policy objectives and framework have been unclear. Its key objective has been to stabilize the foreign exchange market through controls. It has been using the foreign and domestic currencies in its vaults to affect dollar and Afghani liquidity conditions. But DAB's ability to expand liquidity is hampered by its lack of access to international reserves, as well as by its inability to print money and act as the banking system's lender of last resort. This has reinforced banks' unwillingness to lend, further constraining liquidity. According to World Bank data, monetary aggregates shrank in 2021: broad money by 6.1 percent and reserve money by 1.4 percent.<sup>15</sup>

Further complicating the situation is the need to print new currency to replace worn-out notes, as DAB has recently done. While helpful to swap out old currency, if currency printing is done in amounts much larger than that needed to replace old currency, there is considerable risk that the government will rely on seigniorage to finance its operations, resulting in the loss of value of the Afghani and higher inflation.

## Impediments to private sector development

The economic outlook presented above underscores the need for measures to generate economic recovery in Afghanistan. Prior to the Taliban takeover, arguably the biggest constraints to private sector activity included, in order of priority:

- Domestic conflict and insecurity. These diverted many resources to defense and security, hindering private capital formation.
- Governance failures. These include a short political and policy horizon among authorities and donors; corruption and the limited application of rule of law to build confidence for longer-term investment; corruption; risks of macroeconomic instability; and a failure to take actions that would increase returns on investment (e.g., better infrastructure, energy supply, and human capital formation).
- High cost of finance. Low domestic finance and a weak and corrupt banking system.

*Since August 15, while corruption has decreased, the other constraints have all likely become more binding and has set Afghanistan on a much more difficult trajectory.*

Since August 2021, while corruption has reportedly decreased, other constraints have become more binding. The Taliban's social and economic policies, weak business confidence, the exodus of skilled labor from the public and private sectors, international sanctions, and the freeze on most financial assistance from international financial institutions have ushered in a difficult period of social, humanitarian, and economic crisis that seems set to last. In the absence of international financial support, the Afghan private sector will need to play a greater role in resuming growth and arresting the decline in humanitarian conditions.

**Key short-term constraints to be alleviated include:**

- Addressing urgent governance issues, especially regarding the rights and roles of women. Restrictions on women's education and work, including the recent ban on women working for NGOs, not only directly hurts immediate and future growth by limiting female labor force participation and aid delivery, but also will likely curtail the inflow of international financial support and normalization of global economic relations.
- Lack of fiscal space. Unblocking humanitarian assistance and development spending will require both better domestic revenue mobilization and external assistance.
- Shortage of bank liquidity and lending, and restrictions on domestic and international bank transfers. Central bank capacities must be upgraded, correspondence banking relations resumed, digital banking expanded, and MSME financing encouraged. Interruptions in financial services have also affected NGOs' access to financial services. Immediate steps are needed to clarify and extend any transition to Islamic finance to reduce regulatory uncertainty.
- Tight foreign exchange constraint. This could be alleviated by releasing some of Afghanistan's frozen assets and by upgrading AML/CFT measures to improve correspondent banking relations. Foreign exchange could also be stimulated through measures to encourage international trade such as better financing, improved connectivity, and better infrastructure for agriculture and mining.
- Energy supply problems. Difficulties include rising global fuel prices; risks due to Afghanistan's heavy dependence on electricity imports, due to foreign exchange shortages; and the deteriorating finances of the state-owned monopoly utility company. There are also weaknesses in the regulatory framework.<sup>16</sup>

**Recent Stabilization Signs but Grim Near-term Outlook**

Afghanistan's economic outlook remains grim, especially if the new restrictions on women's employment in NGOs continue to depress international assistance in Afghanistan's aid-dependent economy. To the extent that donors cut back support further, Afghans will experience much greater difficulties. Direct aid, going to the poorest segments of the population, will be curtailed. Lower foreign assistance will also exacerbate the pressures on the exchange rate and inflation, especially of imported food items. The drop in imports that could result from lower growth and exchange rate depreciation would lower the DFA's revenues from customs, a major source of government income. Acquiring raw materials for manufacturing will become more difficult. Bank liquidity will become more scarce and international transactions could become harder, especially if the sanctions on Afghanistan are tightened and the scope for the Afghan Fund is curtailed. Energy imports will also be hindered. In short, incomes will very likely fall, unemployment will increase, and poverty will deteriorate. All these could exacerbate the already dismal social and political conditions, resulting in more refugees and internally displaced persons, and perhaps civil conflict. Moreover, Afghanistan will fall further behind in reaching the SDG goals.

*Afghanistan's economic outlook remains grim, especially if the new restrictions on women's employment in NGOs lead to a significant drop in international assistance.*

Assessing current conditions and making future projections can be difficult. In addition to persistent uncertainty regarding economic policies and political developments, the DFA has left unpublished some critical macroeconomic and financial data. Compounding the unpredictability is the country’s largely agrarian economy, which relies on uncertain weather conditions and government development expenditures.

*There are also significant uncertainties about economic policies and political developments.*

Against this backdrop, UNDP has prepared baseline projections for key economic indicators for 2023 and 2024, based on available data (Table 1). These projections assume that international support for Afghanistan will remain at US\$3.7 billion per year in 2023 and 2024. With this key assumption, GDP is projected to grow by 1.3 percent in 2023, and 0.4 percent in 2024, well below the population growth rate that exceeds 2 percent. Under this scenario, real GDP in 2023 and 2024 will be about 23 percent lower than level of 2020 (Figure 6). The average CPI inflation is expected to be 3.5 percent in 2023 and 5.3 percent in 2024. GDP per capita is expected to decline from US\$359 in 2022 to US\$352 in 2023 and US\$345 in 2024 (Figure 7). Under this baseline scenario, there will be no improvement in per capita income, and per capita income will be significantly lower than the US\$512 in 2020.

However, there is a chance that the international community may lower aid levels in response to the Taliban’s restrictions on women, including those working in NGOs. Such a drop would have important implications for exchange rate stability, inflation, economic activity, and the country’s humanitarian outlook. For example, if international aid

*A drop in aid will have important implications for exchange rate stability, inflation, economic activity, and the country’s humanitarian outlook.*

were to fall by 30 percent to US\$2.6 billion in 2023 and 2024, GDP could contract by 0.4 percent in 2023, and grow by 0.5 percent in 2024. Under this scenario, average CPI inflation could increase to high single digits in 2023 and about 10 percent in 2024. In such a case, GDP per capita would decline from US\$512 in 2020 to US\$332 in 2023 and US\$306 in 2024, indicating increased hardship for Afghans.

Figure 6: Real GDP level (2019=100)

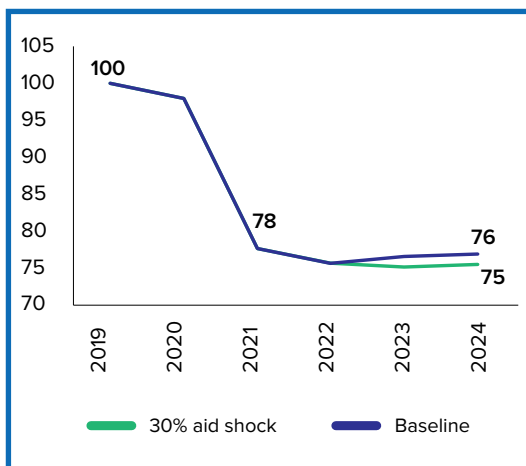
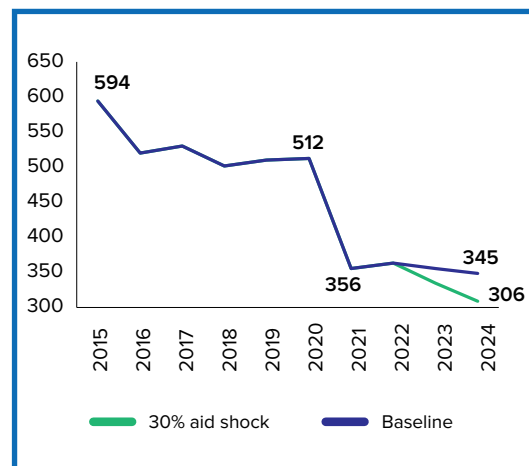


Figure 7: Per capita income (in current US\$)



Sources: NSIA data. UNDP projections

In addition to risks to the flow of international aid, there are risks to the outlook due to possible economic difficulties in neighboring countries, adverse weather conditions, higher world food and fuel prices, and a deterioration in security conditions in Afghanistan.

## Conclusions

Afghanistan has been on a very difficult trajectory of economic recovery and human development progress well before August 2021, and these trends have only exacerbated since August 2021. The DFA's social and economic policies, weak business confidence, the exodus of skilled labor from the public and private sectors, international sanctions, and the freeze on most financial assistance from the international financial institutions have entailed multiple social, humanitarian, and economic crises.

The immediate economic outlook for 2023 and 2024 is severely challenged. Although security and corruption problems have attenuated somewhat and there are signs of intermittent economic recovery in some sectors, such as with the pick-up of cross border trade, the country's overall development prospects remain dire and are likely to endure without significant policy shifts and investments.

Looking further ahead, the longer-term outlook for Afghanistan has become more challenging and poses a considerable threat to human development, as various pre-existing constraints have intensified alongside the emergence of new obstacles. The ban on women, alongside other governance issues, the insufficient fiscal capacity, the disruptions to banking and international finance, and the complications on the energy front will all reduce the ability of the country to deliver non-inflationary growth over the longer term and create a conducive backdrop for human development.

## KEY FINDINGS AND MESSAGES



- Afghanistan’s 2021 economic collapse triggered a staggering 30 percent drop in per capita incomes. Output shrank by 20.7 percent in 2021 and is estimated to have declined by 3.6 percent in 2022, accompanied by a notable shift in production from services towards agriculture. Considering a population growth rate of more than 2 percent, GDP per capita is estimated to have plunged from US\$512 in 2020 to US\$359 in 2022.



- In the aftermath of the Taliban takeover, international aid has proven crucial in averting even more dire humanitarian and economic conditions. The provision of aid has supported essential services and facilitated the delivery of vital resources to the most vulnerable segments of the population. The magnitude of international aid will remain a critical factor in preventing increased poverty levels and maintaining macroeconomic stability.



- Recent indicators suggest a degree of economic stabilization, albeit occurring at a significantly reduced level of activity. Demand for labor has risen slightly, in line with a weak economic recovery. The exchange rate has been stable since February 2022, which has muted inflation and lowered the pressures on poverty conditions. However, the banking sector continues to atrophy. The DFA’s very small fiscal space is starving development spending.



- UNDP foresees a distressing and continuous decline in per capita incomes during 2023 and 2024, further deteriorating human development outcomes. While the economy is stabilizing, the outlook remains difficult, with growth returning at low rates. UNDP baseline projections indicate that real GDP will grow by 1.3 percent in 2023 and 0.4 percent in 2024 assuming that international support for Afghanistan will remain at the 2022 level of US\$3.7 billion (US\$3.2 billion from the UN, and US\$500 million in other international aid). Annual average Inflation is projected to fall to mid-single digits in 2023 and 2024, due mainly to global food and fuel prices declining from the highs following the start of the war in Ukraine and exchange rate stability. However, with more than 2 percent increase in population, GDP per capita is projected to fall from US\$512 in 2020 to US\$352 in 2023 and US\$345 in 2024.

| GDP (actual 2020/21 and projected 2022/24) |       |        |       |                        |       |
|--|-------|--------|-------|------------------------|-------|
|  | 2020  | 2021   | 2022  | 2023                   | 2024  |
|  |       |        |       | Aid at US\$3.7 billion |       |
| <b>GDP growth</b>                          | -2.1% | -20.7% | -3.6% | 1.3%                   | 0.4%  |
| <b>GDP per capita</b>                      | \$512 | \$356  | \$359 | \$352                  | \$345 |
|  |       |        |       | Aid at US\$2.6 billion |       |
| <b>GDP growth</b>                          |       |        |       | -0.4%                  | 0.5%  |
| <b>GDP per capita</b>                      |       |        |       | \$332                  | \$306 |



- **Considerable downside risks surround the near-term economic outlook.** The continued flow of international aid and aid delivery are at risk because of the Taliban's restrictions on women working for NGOs. If international aid were to fall by 30 percent (to US\$2.6 billion in 2023 and 2024), the impact in per capita incomes is projected to be even greater while it would have important implications for exchange rate stability, inflation, economic activity, and the humanitarian outlook of Afghanistan. The outlook may also be subject to adverse geopolitical factors and economic difficulties in the neighboring countries, which could spill over into Afghanistan.



- **Afghanistan's longer-term future now faces a more demanding landscape, as various pre-existing constraints have intensified alongside the emergence of fresh obstacles.** The ban on women, alongside other governance issues, the lack of fiscal space, disruptions to banking and international finance, and energy-related impediments, will all limit the country's capacity to sustain non-inflationary growth in the long term.

**TEXTBOX 2: Noticeable economic trends since August 15, 2021**

Amid the ongoing polycrisis in the country, there have been several positive economic trends since 2021:

**1. Exchange Rate Stability**

The capital control measures such as limitations on cash withdrawals, prevention of cash smuggling, controlling imports in addition to regular dollar auctions in the financial market have played a critical role in maintaining exchange rate stability.

**2. Mining Sector Investments**

The de facto Ministry of Mines and Petroleum has been issuing several contracts including the Amu Darya oil contract a Chinese company. A 25-year long contract with an undertaking of China National Petroleum Corporation (CNPC) in January 2023 to extract oil from the Amu Darya basin in the north of the country.

**3. Infrastructure Development**

On the capital projects, the de facto authorities have expressed willingness to allocate resources to several infrastructural projects such as the national ring road, water dams, agriculture, and irrigation projects such as Qoshtepa canal in the northwest of the country which will bolster agricultural production and livelihoods.

**4. Reduced Corruption**

The reduction in level of corruption as reported by the Transparency International's Corruption Perception Index CPI 2022, is an encouraging positive development.



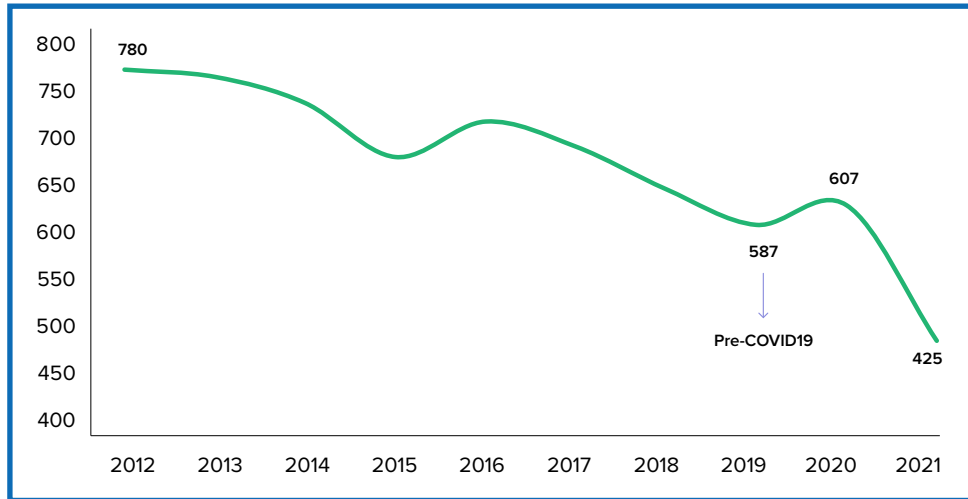
**THE DECLINE IN INCOMES  
HAS BROUGHT MILLIONS  
BELOW THE 2020 POVERTY  
LINE**



## Introduction

Household incomes have been low and declining over time. The decline has been almost linear over the years, with the exception of the sudden drop in 2021 (Figure 8). Of the 45 percent drop in per capita incomes since 2012, two-thirds of the decline took place in 2021.

**Figure 8: Per capita GDP in US\$ adjusted by the exchange rate**



Source: NSIA for both GDP and population

According to the Survey, average monthly household income was only AFN6,489 ( US\$75) in the 30 days prior to August/September 2022, or AFN978 ( US\$11.2) per person per month. Median incomes were AFN6,000 ( US\$69) for households and AFN833 ( US\$9.6) per person<sup>17</sup>. Some 4 percent of households reported that they had no income, while a large share of households (55 percent) had expenditures in excess of what they earn, the deficit on average being AFN4,217 ( US\$48) per household per month.

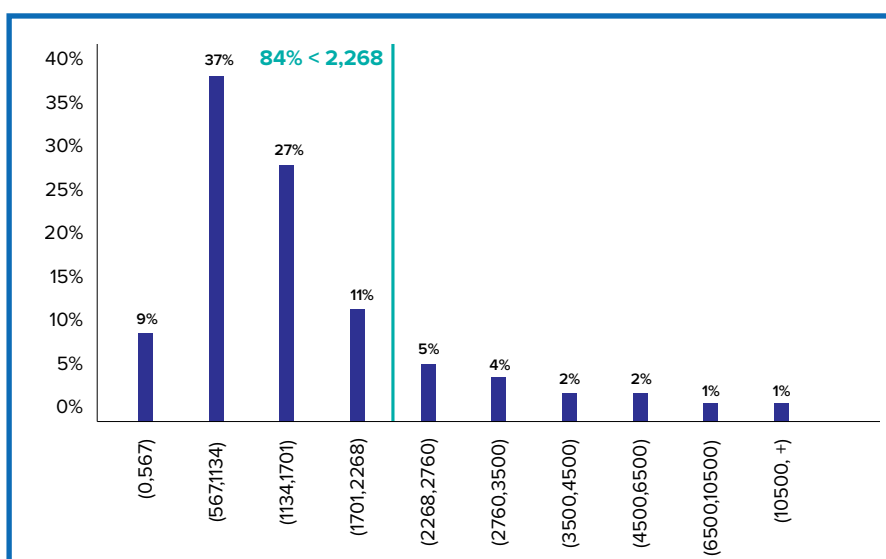
*Household incomes have been low and declining during the decade before 2021 with two-thirds of the decline taking place in 2021.*

The Income Expenditure and Labor Force Survey 2019-20 (IE&LFS2020) set the poverty line at monthly expenditure per person per month of AFN2,268 ( US\$26).<sup>ii</sup> By September 2022 84 percent of Afghans had nominal expenditures below the nominal poverty line of 2020 (Figure 9). Taking into account the inflation rate between these two years and also the regional price variation and expenditure on

edurables, raises the percentage of those below the 2020 poverty threshold to 87 percent (Figure 12).<sup>18</sup>

ii. The Income Expenditure and Labor Force Survey 2019-2020 was primarily conducted during 2020 (from October 2019 to September 2020). For brevity, this report refers to it as IE&LFS2020.

**Figure 9: The per capita distribution of expenditures (August/September 2020)**



Note: 84% applying the 2020 AFN2,268 poverty line – see Figure 12

Source: WoAA2022

These broad comparisons are used below in the absence of any recent estimates for poverty. Poverty estimates have been infrequently reported and are based on varying methodologies and data. However, practically all surveys suggest that poverty is very high and has been rising over time.

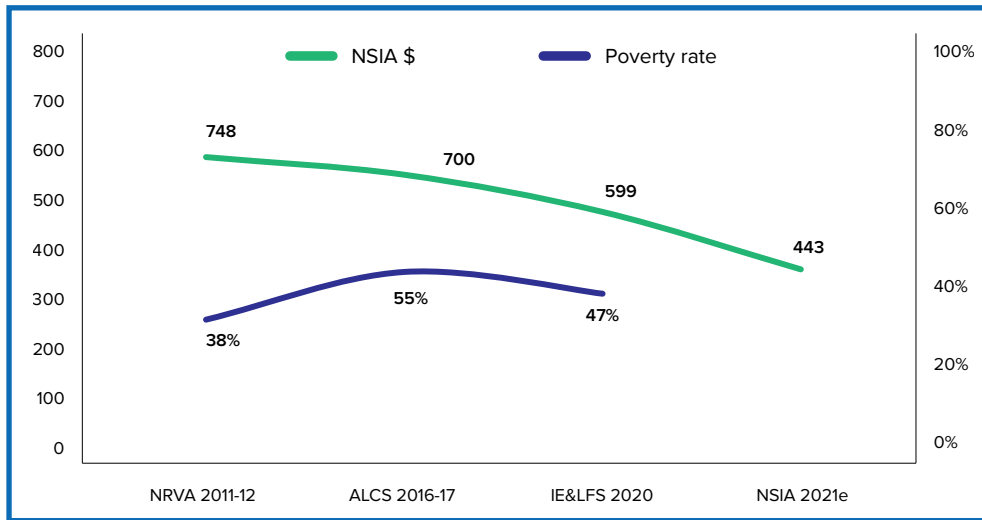
The following section presents in more detail the poverty changes over the last 10 years, and then focuses on developments since 2020. This is followed by a presentation of differences between the 2020 and 2022 surveys to establish the comparability between them. The next two sections benchmark expenditures in 2022 to the overall poverty level and the food poverty level in 2020, and then present how much the expenditures should increase to reach these thresholds in an attempt to estimate the depth of poverty (the poverty gap).

### Per capita incomes and poverty in the last 10 years

The last 10 years have seen a continuous decline in Afghanistan’s per capita income in current US dollars as measured by the NSIA (top line in Figure 10). During the same period, the annual inflation rate (CPI) averaged around 5 percent and the population increased annually at a rate of around 2.5 percent<sup>19</sup>.

According to national estimates, the poverty rate increased by 45 percent (from 38 percent to 55 percent) during the first half of 2010s<sup>20</sup>. However, in the second half of 2010s the official poverty rate is reported to have decreased by 15 percent (from 55 percent to 47 percent), notwithstanding the fact that per capita incomes also declined by 14 percent during the same period.<sup>21</sup> This apparent inconsistency is examined below.

**Figure 10: GDP per capita and poverty rate (right axis)**



Sources: Respective surveys for poverty; NSIA for GDP

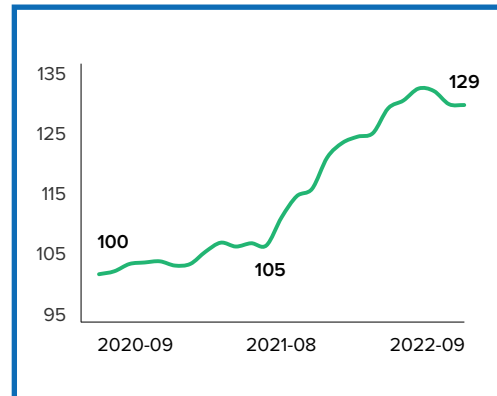
### Poverty estimates since 2020

Other, mainly ad hoc surveys conducted alongside or after the IE&LFS2020 suggest that poverty increased soon afterward, partly because of the lingering impact of COVID-19. The World Bank quoted a rate of 50 percent for the partially overlapping six-month period from April to September 2020.<sup>22</sup> After the onset of the COVID-19 pandemic, the World Bank estimated that poverty might increase up to 72 percent.<sup>23</sup> UNDP reported a slightly lower but effectively similar estimate of 68 percent.<sup>24</sup>

For 2021, the World Bank reported that “economic hardship”, meaning the percentage of households that could not cover basic expenses, could be as high as 70 percent.<sup>25</sup> And in less than a month after the political change on 15 August 2021, UNDP conducted a rapid appraisal that took into account the adverse effect on poverty from the expected drop in GDP, the sudden stop in aid, the interruption to trade with Afghanistan’s major partners, the lingering effects of the pandemic, and the prolonged drought. Using a computable general equilibrium (CGE) model tailored to Afghanistan, UNDP estimated a worst-case scenario under which the poverty rate might increase up to 97 percent.<sup>26</sup>

Looking at the 2020-2022 period, food prices increased by almost 30 percent (Figure 11), and food accounted for more than half of household expenditures. Though there are no updated estimates for economic growth, both the national authorities and international organizations

**Figure 11: Food inflation (September 2020 = 100)**



Source: NSIA

*Looking at the 2020 – 2022 period, food prices increased by almost 30 percent amid declining household incomes, and food accounted for more than half of household expenditures.*

are in broad agreement that total GDP dropped to about US\$15 billion in 2022 from US\$20 billion in 2020, a 25 percent decline compared with the increase in the population by more than 5 percent during the same period.

Alternative estimates confirm that the decline in GDP has been of similar magnitude. GDP per capita valued at PPP constant local currency units fell from AFN1,968 in 2020 to AFN1,516 in 2021, a 23 percent decline, reverting Afghanistan to 2006 levels. The World Bank reports that in current US\$, GDP per capita now stands at US\$369, or almost US\$1/day.<sup>27</sup> Though Afghanistan's national authorities estimate the current per capita income to be higher, at US\$443 (due to using a smaller population size), this level corresponds to a 28 percent drop compared to its level in 2020 (US\$612).<sup>28</sup> Focusing on the decline in GDP in 2021 may understate the extent of the impact on households: according to NSIA, the 21 percent decrease in GDP in 2021 was associated with a drop in household consumption by 25 percent.<sup>29</sup>

Though the results of the IE&LFS2020 need to be better understood, it is the most recent nationally produced basis for anchoring developments since 2020. Nevertheless, the IE&LFS2020 reported an increase in the urban poverty rate by nearly 10 percent (from 42 percent to 46 percent) between 2016-17 and 2019-20. With some caveats, its results are presented and extensively discussed below in comparison to the results of the September 2022, which concluded in September 2022, as a general indicator of the change in welfare over the two-year period.

## IE&LFS2020 and WoAA2022: A comparison

Both surveys were designed to be nationally representative covering the 34 provinces.<sup>30</sup> They were similar in coverage: the IE&LFS2020 sampled 20,400 households and the WoAA2022 just over 17,200 households (An ANNEX is available upon request about the scopes of the surveys).

The IE&LFS2020 survey recorded household expenditures throughout a period of 12 months, from October 2019 till September 2020. Its expenditure estimates were based on the 2007-08 consumption bundle by households adjusted for prices as of end 2019 using the national consumer price index (CPI). The IE&LFS2020 did not directly report average expenditure per household.<sup>31</sup> This can be inferred indirectly from other information in the survey and comes to AFN18,523.<sup>32</sup> Given that the average household size was 7.3, the per capita expenditure comes to AFN2,537. The poverty line was set 11 percent below that average at AFN2,268. That survey additionally included 600 households among the nomadic Kuchi population (based on their distribution in 2003-04). For the Kuchis poverty line was set at AFN1,943 that is 14 percent lower than the then national line.

The WoAA2022 recorded household expenditures 30 days prior to the survey. It reported the average monthly household expenditure to be AFN10,706 in August/September 2022. The corresponding per capita expenditure was AFN1,614. This average slightly overestimates the level of expenditures as the survey did not sample the Kuchi population that has lower expenditures. Another difference is that the 2020 survey included expenditures for durable goods that were omitted from the 2022 survey. Conversely, the 2022 survey included expenditures on health.

According to the NSIA and assuming a population size of 40 million, GDP per capita income declined from US\$607 in 2020 to US\$425 in 2021, a drop of 30 percent. There are no actual data for 2022 but according to the World Bank, Afghanistan's GDP has "fallen by one-third after the events of August 2021 [and] Afghanistan's per

*According to the NSIA, GDP per capita income declined from US\$607 in 2020 to US\$425 in 2021, a drop of 30 percent.*

capita income could now rank among the bottom two or three in the world”<sup>33</sup> (see Table 3). The per capita nominal expenditures as reported above by the two surveys confirm the decline has been of the order of 30 percent.<sup>34</sup>

**Table 3: Countries with the lowest per capita income in the world (in US\$)**

| Country            | IMF        |             | World Bank |             | UN         |             |
|--------------------|------------|-------------|------------|-------------|------------|-------------|
|                    | Income     | Year        | Income     | Year        | Income     | Year        |
| Yemen              | 874        | 2022        | 702        | 2018        | 302        | 2021        |
| Burundi            | 293        | 2022        | 222        | 2021        | 311        | 2021        |
| <b>Afghanistan</b> | <b>611</b> | <b>2020</b> | <b>369</b> | <b>2021</b> | <b>356</b> | <b>2021</b> |
| South Sudan        | 328        | 2022        | 1072       | 2015        | 400        | 2021        |
| Afghanistan's rank | 3rd lowest |             | 2nd lowest |             | 3rd lowest |             |

*Sources: Respective organizations*

In distributional terms, the NSIA reported that “inequality narrowed from 2016-17 to 2019-20, with the Gini index falling from 0.312 to 0.301”. This is a small decline that can be compared with an earlier NSIA estimate for 2007, which put the value of the Gini at 0.28 in 2007, suggesting a slight increase in inequality over time.<sup>35</sup> However, data from 2022 indicate a much higher value of the Gini index at 0.411 for households and 0.396 for the population.<sup>36</sup> There is no difference in inequality with respect to expenditures between urban and rural households.

### How many Afghans in 2022 were below the 2020 poverty line of AFN2,268?

The IE&LFS estimated the food poverty line and a non-food threshold. The former was derived from “the cost of consuming a food bundle corresponding to a minimum caloric requirement of 2,100 kilocalories”.<sup>37</sup> The food expenditure component averaged AFN1,330 ( US\$17) per person per month. The non-food requirement to satisfy a minimum standard of living was set at AFN937 ( US\$12) per person per month, implying a national poverty line of AFN2,268 ( US\$29) per person per month. As prices differ across Afghanistan’s eight regions and between urban and rural areas, different poverty lines were adopted for each region and urban/rural location – in all 14 of them (as South and West-Central were taken to have only rural regions).<sup>38</sup> Per capita monthly expenditure was calculated by dividing the total household expenditure by the total number of household members. If the per capita expenditure fell below the poverty threshold applied to a person located in a specific region, then the person was deemed to be poor. Based on the above considerations, the poverty rate was found to be 47.5 percent of all Afghans, or just over 15 million of the NSIA-estimated population of 32.2 million. The same approach can be used for estimating the percentage of persons below the 2020 national poverty line using the results for 2022.

*According to the WoAA, in August/September 2022, 84 percent of Afghans had per capita expenditures below AFN2,268, the national poverty line in 2020.*

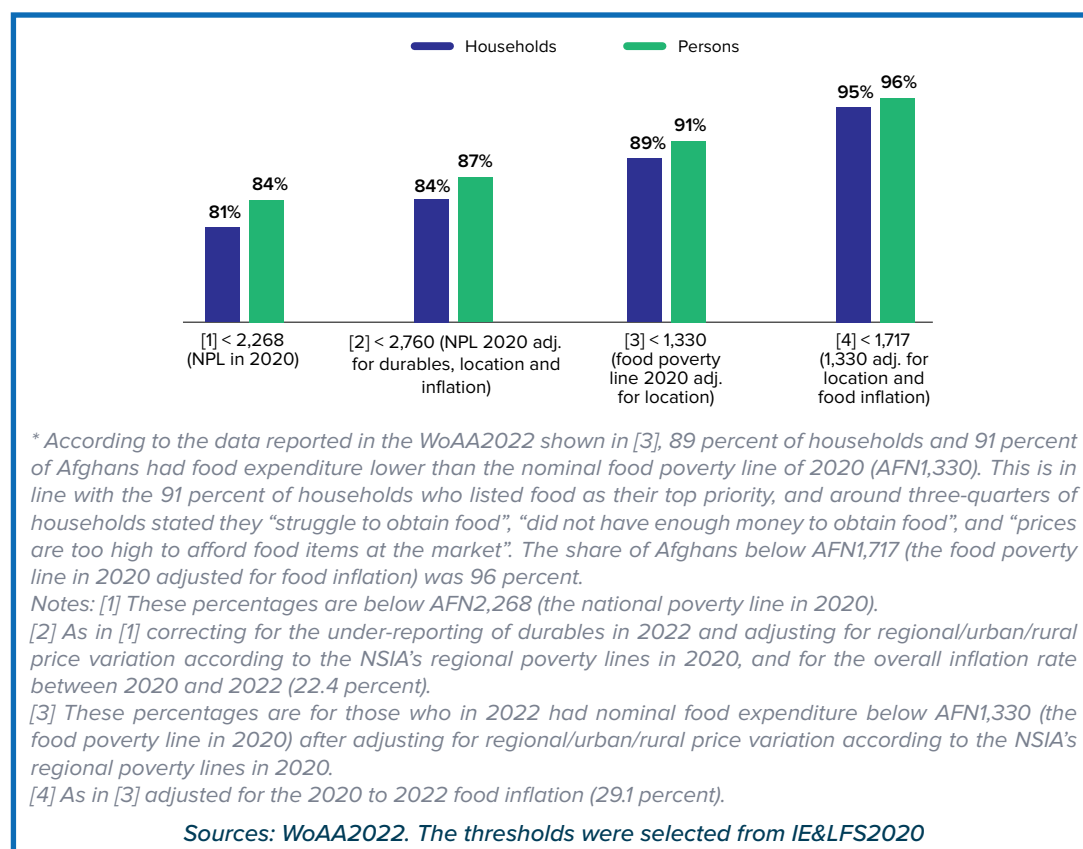
By 2022, 81 percent of households and 84 percent of Afghans reported per capita expenditures below AFN2,268, the national poverty line in 2020.<sup>39</sup> Adjusting that figure for expenditure on durables, which were not taken into account in 2022, as well as for the regional/urban/rural price variation and inflation (22.4 percent),

respectively.<sup>iii</sup> It should be noted that the WoAA2022 included health expenditures that at 13.8 percent of expenditures were significantly higher than the expenditure on durables in 2020 (4.4 percent of household expenditures). If anything, this should increase the reported rates (Figure 12).

*The level of per capita expenditure deemed to be the minimum to avoid food poverty was AFN1,330 in 2020. At that level 91 percent of Afghans were below it in 2022.*

The level of per capita expenditure deemed to be the minimum to avoid food poverty was AFN1,330 in 2020. At that nominal level, 89 percent of households and 91 percent of Afghans were below it in 2022.<sup>40</sup> Taking into account the food inflation since 2020 brings both percentages to the mid-90s<sup>41</sup>

**Figure 12: % of households and persons below selected levels of monthly per capita expenditure, September 2022 (in Afghanis)\***



## Funding the gap to bring per capita expenditures in 2022 to the 2020 poverty line

The IE&LFS2020 estimated “the poverty gap”, i.e., the mean shortfall from the poverty line in the population, to be 13.5 percent.<sup>42</sup> This translates to an average expenditure of those below the then poverty line of AFN1,962 ( US\$25) compared to the 2020 poverty line of AFN2,268 a difference of AFN306 (US\$3.9) per person per month. Using the UN population estimate of around 40 million and the then poverty rate of 47.5 percent, the number of poor in 2020 was 19 million. To bring all those below the poverty line to the level of the poverty line would have required paying them in total almost US\$900 million (5 percent of the then GDP), assuming perfect targeting and no implementation costs.<sup>43</sup>

iii. For brevity, this report refers to the percentage of poor being 85 percent – this being between the percentage of poor households and poor people.

*Using the UN population figure of 40 million and the share of those below the 2020 poverty line of around 85 percent suggests, first, that 34 million Afghans have monthly per capita expenditures below the poverty line of 2020 and, second, that the expenditure shortfall has risen to US\$5.3 billion.*

According to the 2022 data, the shortfall among those persons whose expenditures are below the 2020 poverty line comes to AFN1,145 ( US\$13). Using the UN population figure of 40 million and 85 percent population share of those with expenditures below the 2020 poverty line implies, first, that the number of poor has increased to 34 million by end 2022 (from 19 million in 2020) and, second, that their expenditure shortfall has risen to US\$5.3 billion (35 percent of the US\$15 billion GDP in 2022). If so, the funding

gap exceeds the total amount of US\$3.7 billion that the international community gave to Afghanistan in 2022, and also the US\$4.6 billion that the UN and partners are seeking to assist the Afghan population in 2023.<sup>44</sup>

## Conclusions

The cumulative decline in per capita GDP since 2020 is likely to have lowered the level of spending households can afford. Price increases have been significant, especially for food. Even in local currency units and in PPP terms, per capita incomes declined by around 25 percent. The World Food Programme (WFP), which assisted 23 million Afghans by distributing more than 1 million metric tons of unconditional, fortified, and nutritionally balanced food in 2022, estimates that 20 million will face acute food insecurity in 2023, with malnutrition being above emergency thresholds in 25 out of 34 provinces, and that the situation is expected to worsen.<sup>45</sup> For 2023, both WFP and UNICEF estimate that more than 28 million Afghans might require assistance.<sup>46</sup>

By September 2022, 15 million more Afghans were likely to have fallen below the 2020 poverty line – an increase to 34 million from just under 19 million. The expenditure shortfall among those Afghans has increased from US\$900 million (5 percent of GDP) in 2020 to US\$5.3 billion (35 percent of GDP) in 2022. The latter figure is more than 40 percent the UN humanitarian assistance given to Afghanistan in 2022.

The estimates presented above clearly indicate that Afghanistan faces an imminent basic needs crisis. The crisis can further deteriorate if international aid for humanitarian purposes is curtailed in response to increasingly severe bans imposed on girls' education and women working in NGOs. Numerical estimates aside, there are several qualitative indicators on the conditions households are currently facing. A most telling and comprehensive finding is that 91 percent of households identified food as their most pressing priority. This is in line with numerical estimate presented in this chapter, which shows that for 96 percent of Afghans the real expenditure on food in 2022 is below the food poverty line in 2020.

## KEY FINDINGS AND MESSAGES



- In September 2021, UNDP estimated the massive economic shock post-August 2021 might increase poverty by 25 percentage points from the then projected 72 percent estimate as its base, cautioning this is the worst case scenario – something that did not materialize in great part because of massive international assistance that swiftly flew into the country to avoid a massive humanitarian crisis.



- In December 2021, UNDP estimated that the number of Afghans below the poverty line was 19 million with an implied poverty gap of US\$900 million, or 5 percent of the then GDP.



- The estimates presented in this chapter do not correspond to the conventional “poverty rate” but suggest that around 85 percent of Afghans have expenditures below the minimum set in the IE&LFS2020 and as many as 95 percent may be facing food insecurity.



- These estimates suggest that 34 million Afghans have monthly per capita expenditures below the poverty line of 2020 (an increase of 15 million since 2020), and the expenditure shortfall has risen to US\$5.3 billion (from US\$900 million in 2020) or nearly 35 percent of GDP in late 2022.

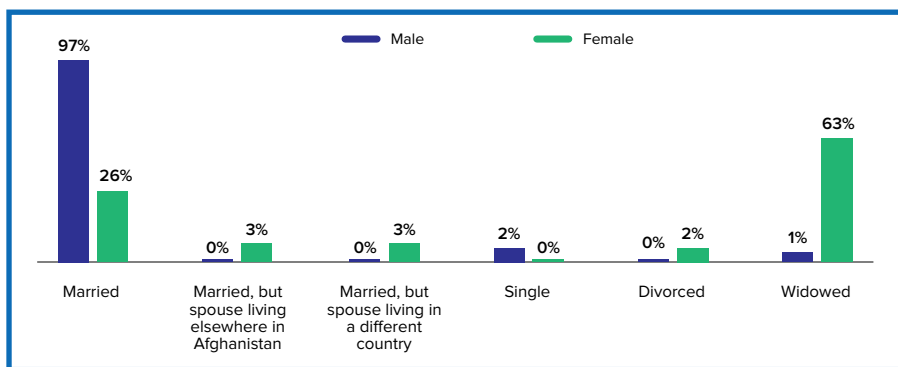


**TEXTBOX 3: Demographic and employment differences between MHHs and FHHs:**

**The importance of female work for poverty reduction cannot be overstated**

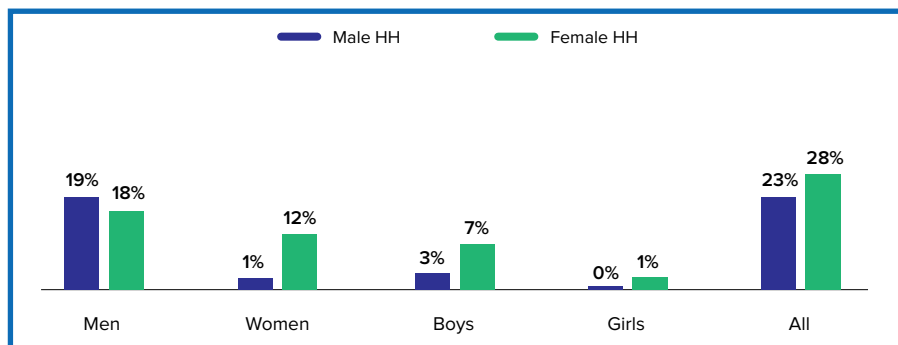
On average, male headed households (MHHs) have 6.9 members, compared to 5.5 members in female headed households (FHHs). MHHs have one adult and 0.3 children more. However, as a share of all family members, FHHs cater for more children (52 percent of their members are children versus 44 percent). The male heads are older than the female heads (46 years compared to 42.5 years for women). Despite their younger age, most female headed households are led by widows – nearly two-thirds of them. The remaining are married (26 percent) or divorced (2 percent) with another 8 percent leading their households in the absence of their husbands/mahrams who have migrated internally (3 percent) or abroad (5 percent). Male heads are much more homogenous, with nearly all of them being married (97 percent), 2 percent single and 1 percent widowed.

**Marital status of head of household by gender**



Female headed households have both more adults and more children working. In male headed households only 40 percent of adult members work, partly because too few women work. In female headed households this share rises to 50 percent – a difference of 25 percent. The difference is bigger by 50 percent with respect to working children.

**Shares of workers in male or female headed household (% of all household members)**



MHHs had incomes (and also expenditures) that are 25 percent higher than in FHHs. Accounting for the smaller household size in the latter, the difference is reduced to 7 percent. This lower figure is, however, due to the fact that FHHs have proportionately more working members, especially women workers and girls who are practically absent in MHHs.

*Source: UNDP staff estimates from the WoAA2022*



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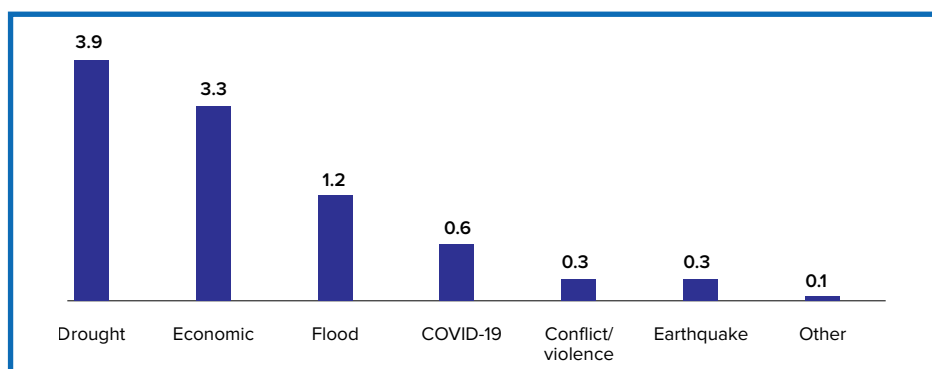
**FOOD, JOBS, RESTRICTIONS  
ON WOMEN'S WORK:  
THE MANY SHOCKS  
HOUSEHOLDS FACE**

## Introduction

This chapter presents the latest information available on the shocks suffered by Afghan households over the reporting period, conditions as of August/September 2022, and the coping mechanisms available to them. It covers issues pertaining to incomes, food insecurity, health, shelter, water and sanitation, energy, and education. The evidence is presented at the national level, ignoring for now the substantial differences between female-headed household and male-headed households.<sup>47</sup>

The survey asked households whether they have been affected by four specific events in the middle six months of 2022: economic crises, COVID-19, conflict, and natural disasters (droughts, floods, earthquakes, avalanches, and heavy snowfall). According to the survey, only 12 percent of households reported they have not experienced any of these events which corresponds to only 740,000 households.<sup>iv</sup> However, many households experienced more than one event, on average 1.6 events, and among them the prominent was drought followed by economic shock (Figure 13).

**Figure 13: Households affected by major adverse event in the last 6 months (in millions)**



Note: "Other" includes avalanches and heavy snowfall.

Source: WoAA2022

These responses confirm that Afghanistan remains one of the low-income countries most affected by natural disasters, being second only to Haiti in the number of fatalities in the last four decades<sup>48</sup>, the fourth most at-risk country for humanitarian crises and disasters, the eighth most vulnerable to climate change and the least prepared to adapt.<sup>49</sup> It also has a higher warming rate than the global average.<sup>50</sup>

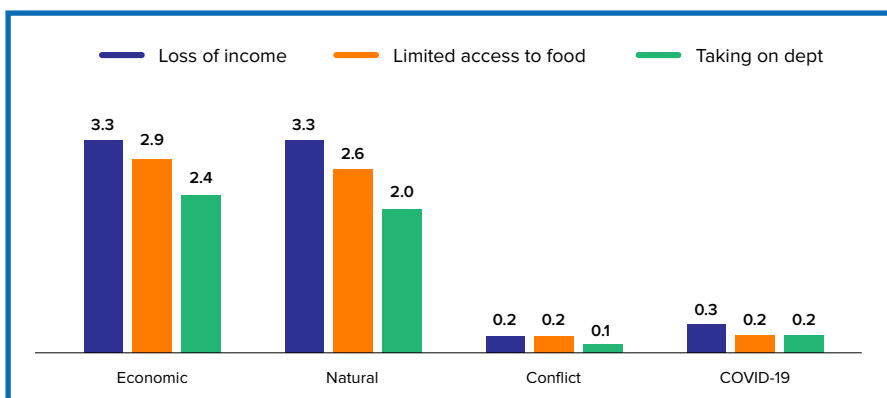
The effects of COVID-19 appear to be enduring among 600,000 households. Another 300,000 households (5 percent nationally) reported being affected by conflict, which corresponds to 2 million Afghans of all ages. As many as 3.3 million households (54 percent nationally) reported experiencing economic shocks.

*Afghanistan remains one of the two most affected low-income countries by natural disasters and is ranked the 4th most at risk country for humanitarian crises and disasters worldwide.*

Overall, loss of income, limited access to food, and being forced to borrow have been the three most significant impacts on households (Figure 14).<sup>51</sup>

iv. The average household size is 6.6 members (of whom 1.5 are children 6-12 years and 0.99 are between 13 and 17). It is assumed the population is 40 million and these numbers are used to convert household incidence to persons.

**Figure 14: Type of impact of specific events on households (in millions)**



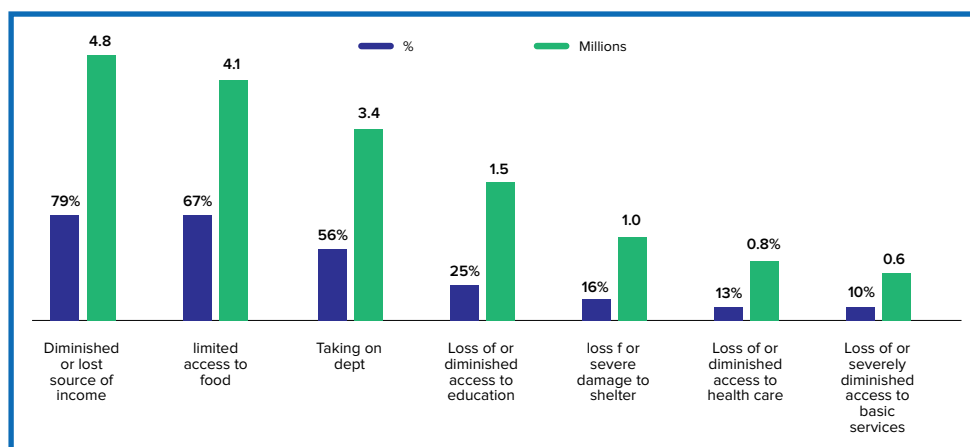
Source: WoAA2022

Other impacts were more specific to a particular event. For example, 62 percent of those impacted by COVID-19 reported an unmet need for water and sanitation, and 11 percent had a recent death in the family. Among those households affected by conflict, 32 percent reported loss of shelter, 27 percent lost basic services, 19 percent lost health care, and 11 percent experienced an injury or death among their members. However, the loss of shelter from conflict has affected fewer households (96,000) than those for natural disasters (677,000) (see Table 4).

Other than loss of income, access to food, and taking on debt, the most significant impact of natural disasters has been on education (Figure 15). The results of the survey suggest that 25 percent of affected households incurred education losses. This corresponds to more than 1.5 million households, a significant number as households have on average 2.5 children of school age.

The dire economic situation is not fully reflected in the numbers shown in the table, as lost income was not included under the umbrella of economic events considered by survey respondents (Figure 13). Still, 3.4 million answers provided related to taking on debt.

**Figure 15: % and number of households that experienced at least one shock by type of impact**



Source: WoAA2022

## Priority Needs

The gravity of the situation is more clearly shown in Table 4. Column 1 shows the percentage of all households who reported experiencing an impact from an event, while Column 2 across households that experienced the event. Column 3 shows the number of households affected, and Column 4 shows the resulting number of Afghans affected.

It is obvious most households are in great need of incomes and food. While the data presented above relates to the first six months of 2022, the survey also asked whether monthly household income had changed in the past 30 days. Only 3 percent of households responded that their income had risen, while 77 percent stated it was lower, with 20 percent saying it had stayed at the same level. It is therefore not surprising that most households are concerned about food security and their livelihoods (Figure 16).

*Most households are in great need of food and income but in 2022, only 3 percent of households reported that their income had risen, 20 percent said their income had stayed the same and as many as 77 percent stated that their income had declined.*

This finding is consistent with the observation that high acute food insecurity persists across Afghanistan. It has been reported that the combination of a collapsing economy and drought deprived nearly 20 million Afghans of food, classified in Crisis or Emergency (IPC Phases 3 or 4), between March and May 2022 (the lean season). Among these are about 6.6 million people in Emergency (IPC Phase 4) and 13 million in Crisis (IPC Phase 3).<sup>52</sup> The UN World Food Programme estimates the number of people facing acute food insecurity at 22.8 million.<sup>53</sup> And the most recent estimate reported by the World Bank suggests that the share of the population with insufficient food has stayed above 90 percent. This is despite the fact that food items are reportedly widely available.<sup>54</sup>

**Table 4: % of households potentially affected by various events and their impact on the population\***

| Event    | Impact   | Reporting | Affected | HH        | Population |
|----------|--|-----------|----------|-----------|------------|
|          |  | (1)       | (2)      | (3)       | (4)        |
| Natural  | Diminished or lost source of income                        | 55.0%     | 79.5%    | 3,335,216 | 22,012,428 |
| Econ     | Diminished or lost source of income                        | 54.2%     | 100%**   | 3,284,907 | 21,680,385 |
| Econ     | Limited access to food                                     | 48.2%     | 88.2%    | 2,920,482 | 19,275,183 |
| Natural  | Limited access to food                                     | 43.5%     | 62.9%    | 2,637,978 | 17,410,654 |
| Econ     | Taking on debt   | 39.9%     | 73.1%    | 2,419,295 | 15,967,349 |
| Natural  | Taking on debt   | 33.4%     | 48.2%    | 2,023,417 | 13,354,552 |
| Natural  | Loss of or diminished access to education                  | 21.8%     | 31.5%    | 1,319,722 | 3,286,109  |
| Natural  | Loss of or severe damage to shelter                        | 11.2%     | 16.2%    | 677,448   | 4,471,157  |
| Econ     | Loss of or diminished access to health care                | 8.3%      | 15.1%    | 500,960   | 3,306,338  |
| Econ     | Loss of or diminished access to education                  | 8.1%      | 14.8%    | 489,065   | 1,217,773  |
| Econ     | Loss of or severely diminished access to basic services    | 6.1%      | 11.2%    | 372,284   | 2,457,075  |
| Econ     | Loss of shelter  | 5.9%      | 10.8%    | 358,680   | 2,367,285  |
| COVID    | Increased unmet need for clean water and sanitation        | 5.9%      | 61.6%    | 355,290   | 2,344,914  |
| Natural  | Loss of or diminished access to health care                | 4.8%      | 6.9%     | 291,384   | 1,923,137  |
| COVID    | Diminished or lost source of income                        | 4.2%      | 44.3%    | 255,452   | 1,685,983  |
| Natural  | Loss of or severely diminished access to basic services    | 3.9%      | 5.7%     | 238,018   | 1,570,920  |
| Natural  | Loss of or diminished access to clean water and sanitation | 3.5%      | 5.1%     | 212,133   | 1,400,076  |
| Conflict | Diminished or lost source of income                        | 3.4%      | 67.4%    | 203,375   | 1,342,274  |
| COVID    | Limited access to food                                     | 3.2%      | 33.8%    | 195,204   | 1,288,345  |
| COVID    | Taking on debt   | 3.2%      | 33.1%    | 191,231   | 1,262,123  |
| Conflict | Limited access to food                                     | 2.5%      | 51.1%    | 154,256   | 1,018,089  |
| Econ     | Increased unmet need for clean water and sanitation        | 2.4%      | 4.4%     | 145,533   | 960,516    |
| Conflict | Taking on debt   | 1.9%      | 38.2%    | 115,211   | 760,390    |
| Econ     | Loss of or severely diminished access to heating source    | 1.8%      | 3.3%     | 108,626   | 716,931    |
| Conflict | Loss of or severe damage to shelter                        | 1.6%      | 31.9%    | 96,285    | 635,479    |
| Conflict | Loss of or severely diminished access to basic services    | 1.3%      | 26.8%    | 80,847    | 533,591    |
| COVID    | Loss of or diminished access to health care                | 1.3%      | 13.6%    | 78,618    | 518,878    |
| COVID    | Death of household members                                 | 1.0%      | 10.9%    | 62,972    | 415,614    |
| COVID    | Loss of or severely diminished access to basic services    | 1.0%      | 10.6%    | 61,151    | 403,598    |
| Conflict | Loss of or diminished access to health care                | 0.9%      | 18.8%    | 56,852    | 375,221    |
| Conflict | Injury or death of household members                       | 0.5%      | 10.9%    | 33,018    | 217,921    |
| COVID    | Children required to work                                  | 0.4%      | 4.3%     | 24,562    | 61,160     |
| Natural  | Injury or death of household members                       | 0.4%      | 0.5%     | 22,827    | 150,660    |
| COVID    | Loss of or diminished access to education                  | 0.4%      | 3.9%     | 22,430    | 55,851     |
| Conflict | Loss of or diminished access to clean water and sanitation | 0.3%      | 5.1%     | 15,396    | 101,613    |
| Conflict | New presence of mines, ERWs, PPIEDs in the community       | 0.2%      | 3.6%     | 10,767    | 71,060     |
| Conflict | Loss of or diminished access to education                  | 0.2%      | 3.5%     | 10,476    | 26,085     |
| COVID    | Additional family members forced to work                   | 0.2%      | 1.8%     | 10,436    | 68,879     |
| COVID    | Loss of shelter  | 0.1%      | 0.9%     | 5,468     | 36,092     |

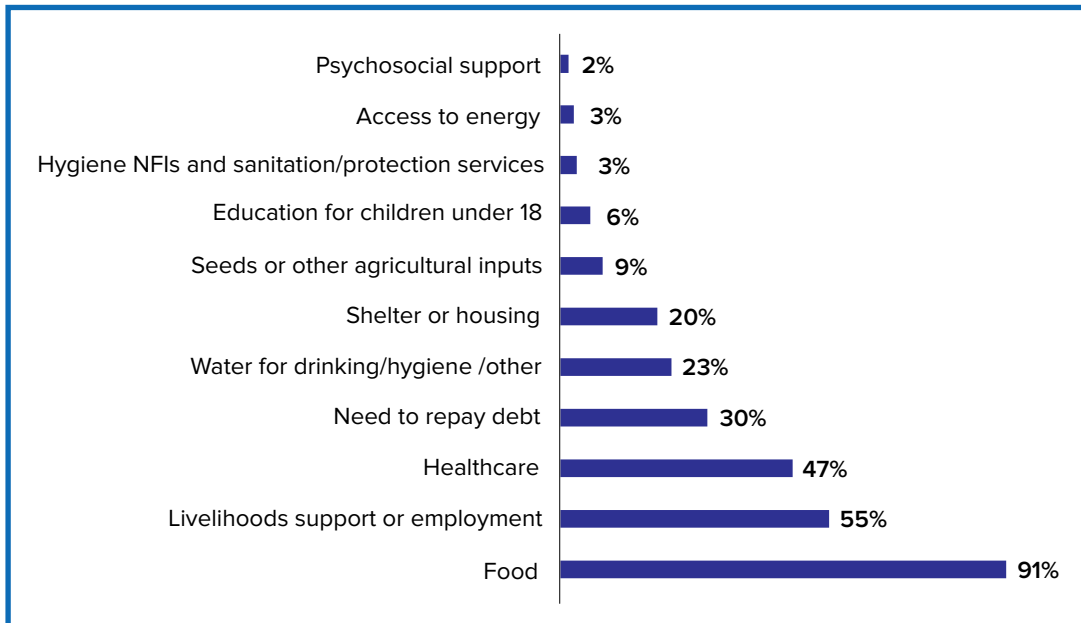
\* The population estimate is based on the number of households reporting multiplied by the average household size but for education it is multiplied by the average number of children in the household aged 6 to 17 years.

\*\* Loss of income was not included in the WoAA2022 questionnaire as an impact due to an economic event and is assumed that it has affected all those who selected an economic event.

Source: WoAA2022

When households were asked to list their three most pressing needs, food topped the list by a great margin, at 91 percent of responses. Livelihood support and employment came second, at 55 percent. Healthcare, listed by just under half of households, was third at 47 percent. The fourth most common priority was the need to repay debts – another indicator of the dire situation of households that had to incur debt in the absence of opportunities for productive livelihoods.

**Figure 16: Listed priorities by households (% of households)**



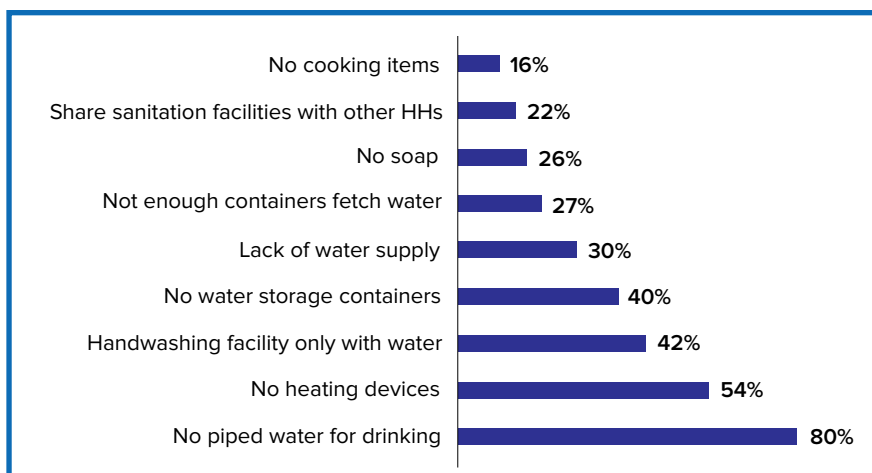
Source: WoAA2022

Regarding social conditions, drinking water and sanitation as well as hygiene products came to 26 percent (23 and 3 percent respectively) with concerns for shelter and housing being not far behind at 20 percent.

*When households were asked to list their three more pressing priority needs, food topped the list by a great margin, at 91 percent of responses, followed by livelihood support and employment, and health care.*

Households face a plethora of problems related to water and sanitation (Figure 17). Four in five households lack piped water for drinking, 40 percent do not have water storage containers, and nearly 30 percent do not have enough containers to fetch water. With respect to cooking, more than half of households lack heating devices and 16 percent have no cooking items.

**Figure 17: Share of households with water, cooking and sanitation issues**



Source: WoAA2022

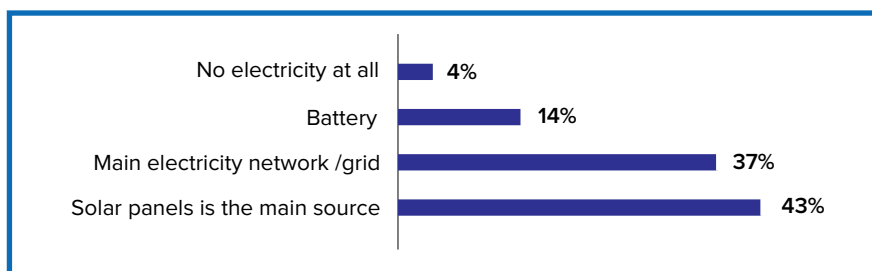
The energy situation is precarious<sup>55</sup>. Ninety-six percent of households use electricity, with 37 percent being connected to the national grid and 43 percent using solar power (Figure 18). Households use electricity for nine hours daily which is less than the length of night – and in some provinces the use of electricity extends no more than a couple of hours a day. It is likely that the energy supply, when available, is too weak to support more than a few light bulbs or a telephone charger.

The lack of electricity supply is also suggested by the sources of heating material households use. Only 1 percent of households use electricity to this effect and just 2 percent use liquid petroleum gas (LPG) (Figure 19).

The majority of households report not having adequate winter clothing for all their members. The average number of blankets per household nationally is one per person, with the average in some provinces being only 0.8 per person. Deaths from the cold are common in Afghanistan because of the scarcity of infrastructure and basic services, as well as the low quality of housing, especially for the country’s poorest, many of whom live in tents.<sup>56</sup>

*While 96 percent of households use electricity, the daily use of electricity averages only nine hours, which is less than the length of night, and too weak to support much other than a couple of light bulbs or a telephone charger. Only 1 percent of households use electricity for heating and just 2 percent use liquid petroleum gas (LPG).*

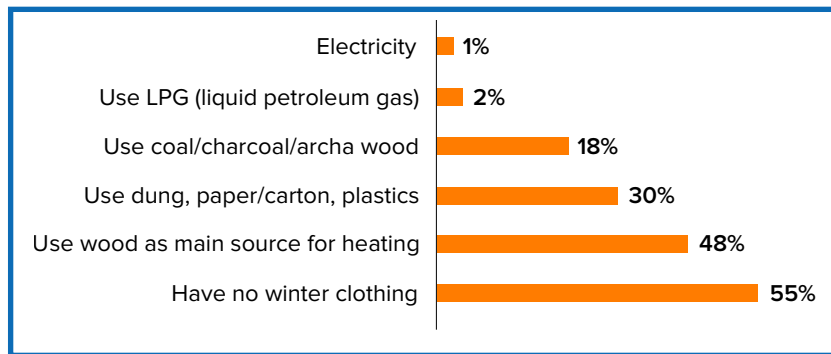
**Figure 18: Access to electricity (% of households)**



Source: WoAA2022



**Figure 19: Use of heating sources (% of households)**

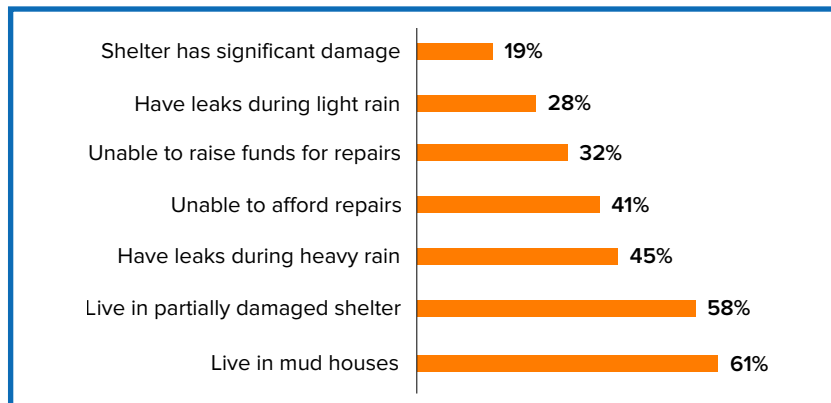


Source: WoAA2022

In addition to water and energy, many households face several issues regarding shelter and housing (Figure 20). Almost two-thirds of households live in mud houses and one in five households live in shelters that have been severely damaged. Nearly half experience leaks during heavy rain, and nearly 30 percent even during light rain. Over 40 percent cannot afford repairs and one in three cannot raise funds to this effect.

*Almost two-thirds of households live in mud houses and nearly as many in partially damaged ones. More than half experience leaks when it rains.*

**Figure 20: Share of households with shelter issues**



Source: WoAA2022

## Conclusions

Afghanistan is known to be affected by natural disasters and seasonal effects. Their impact has persisted throughout the decades, as the country has been unable to develop infrastructure and basic services that could reduce or mitigate the risks arising from environmental effects.

Today the vast majority of Afghans face a wide range of basic needs that are practically impossible to satisfy, even partially, without assistance. They are exposed to a wide range of significant adversities. Some cannot be prevented (such as natural disasters) and require consistent infrastructure development spending and the introduction of climate adaptation measures over many years. The effects of others can be mitigated with humanitarian assistance in the near term while setting the foundation for the development of social protection in the longer term.

Fundamental causes of many social concerns are the lack of economic opportunities and the deterioration of economic conditions in the recent past, several of them inflicted by the increasing restrictions imposed on women's work. As the next chapter shows, the people of Afghanistan have few coping mechanisms to counter the calamities they face, leading to extensive borrowing for securing food.

## KEY FINDINGS AND MESSAGES



- Afghanistan is one of the most natural disaster prone and climate-risk countries in the world. The country's climate risk is ranked fifth worldwide, with a higher warming rate than the global average.



- The findings suggest that adverse natural shocks, mainly from droughts and floods, have led to more hardship than that arising from other sources. These two events combined are contributing to the poor quality of shelter and inability of households to finance improvements.



- These shocks have resulted in high rates of debt, reduced school attendance (in addition to those affecting girls due to recent restrictions regarding attending secondary education), limited access to health care services and more generally to basic services.



- The share of those affected by conflict is 5 percent though the uncertainty and fear it may create remains unknown. The impact of the pandemic seems to be waning.



- Among top priorities, most households list food first (91 percent) followed by livelihoods and employment (55 percent) and health care (47 percent). This suggests that most Afghans are in a battle for survival, facing tight economic and labour market conditions.



- Debt repayment came a rather distant 4th priority (30 percent) compared to the more immediate pressures of food and health care.



- Water issues remain a priority, with 80 percent of households lacking access to piped water, 40 percent do not have water storage containers, and nearly 30 percent do not have enough water containers to fetch water. Sanitation facilities and soap availability are wanting.



- Electricity, heating and winter clothing are all in very short supply. More than half of households reported not having winter clothing while blankets average one per person nationwide.



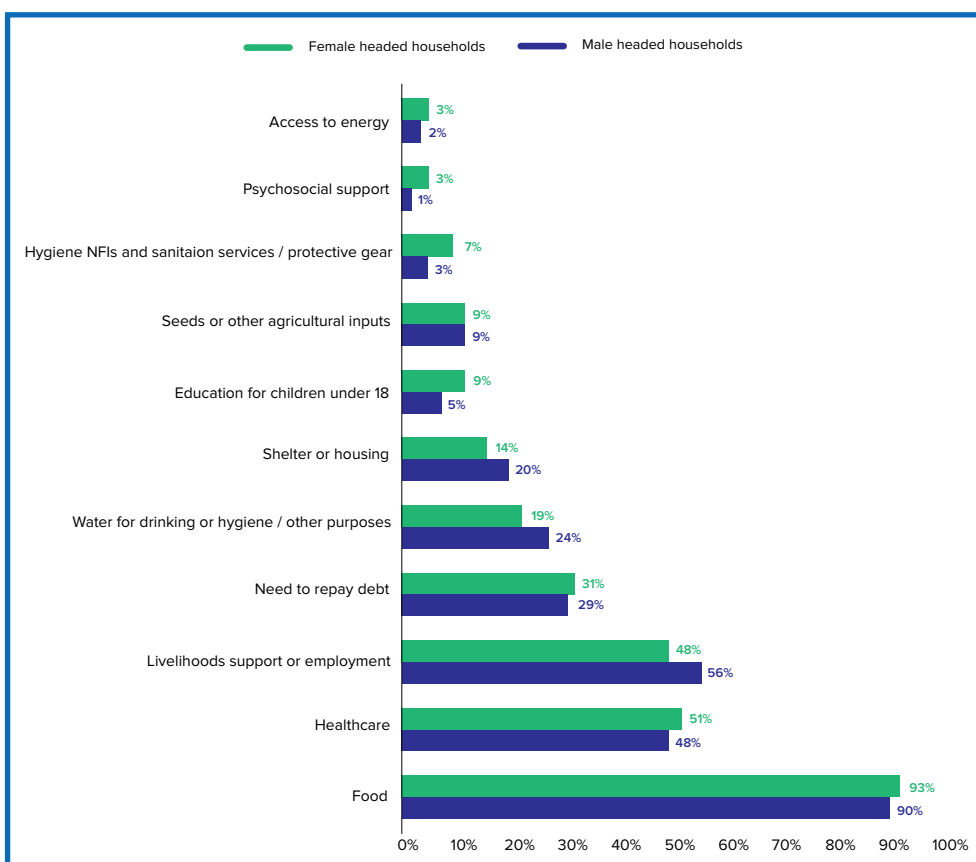
- Nearly two-thirds of shelters are made of mud (61 percent) and as many are partially damaged. Leaks during rain are common under both heavy rain (45 percent) and light rain (28 percent). Predictably, households are unable to afford repairs – most are indebted for the sake of securing food.

- Together, these factors paint a bleak picture of extreme deprivation.

### TEXTBOX 4: Gender differences in perceived needs and education

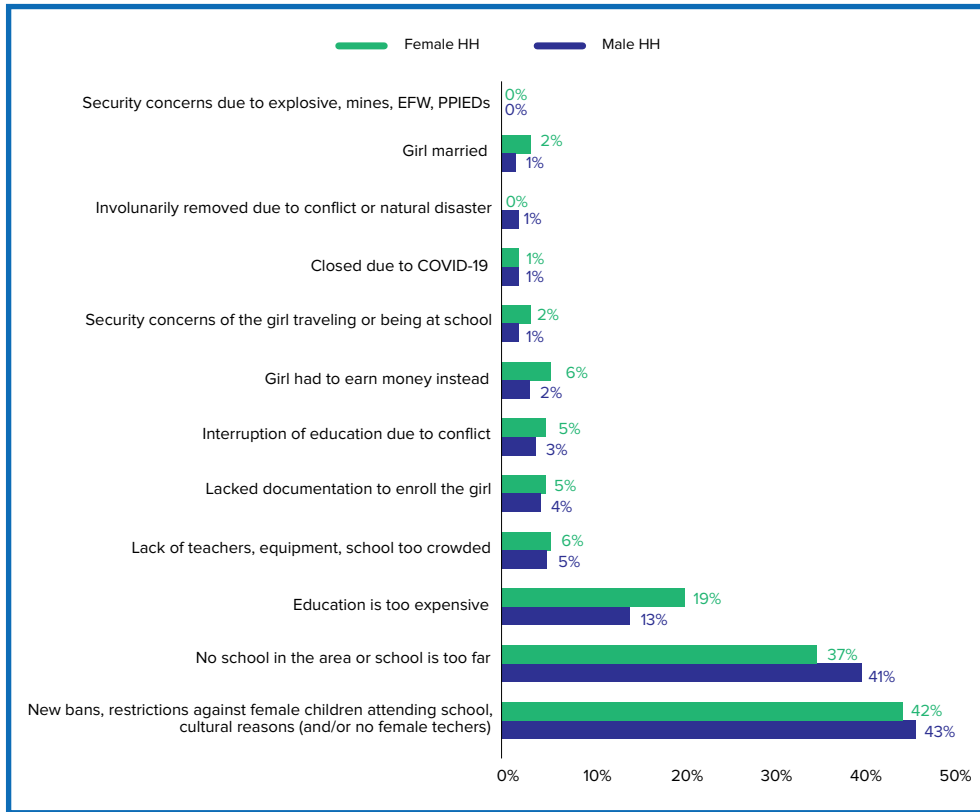
FHHs have more workers and are poorer than MHHs. Women’s household priority needs also differ from those of men. Of the 11 categories of need asked in the WoAA, the importance of needs in FHHs exceeded those in MHHs for 7 of them: food, health care, debt repayment, education for children, hygiene and sanitation, psychosocial support and access to energy. The male priorities are more in accordance with the traditional breadwinner and provider roles, such as to ensure the livelihoods of their families, being themselves employed and having shelter for their household members.

Priority needs of households by gender (% of HHs, multiple answers)



Having lower incomes, FHHs consider girls’ education to be more expensive and more frequently resort to making use of their daughters’ work or marrying them earlier than MHHs. However, both types of households agree that the social, cultural and Taliban-imposed restrictions are the main factor for the low school enrolment rates of girls.

**Reasons for girls (6-17) not attending school in the past six months  
(% of HHs, multiple answers)**



Yet, school enrolment and attendance rates of girls in FHHs exceed those in MHHs by 20 percent. And more FHHs consider that children feel unsafe “going to or when in school” because of harassment (38 percent) and child abuse (25 percent) than MHHs (27 percent and 8 percent respectively).

*Source: UNDP staff estimates from the WoAA2022*



**CRIPPLING DEBT AND  
CHILD BRIDES: COPING  
MECHANISMS**

## Introduction

Other than food, the most important priorities among households relate to livelihoods and employment and debt repayment. However, deteriorating economic conditions, especially during the last two years, have eliminated many employment opportunities.

*This situation has only worsened with the recent restrictions on women's employment. A complete ban on women working in formal employment would reduce the incomes of the households in which they live by nearly 50 percent.*

This situation has only worsened with the recent restrictions on women's employment. Though Afghan women are marginalized in public life, those who work make a substantial contribution to household incomes. Using the information on the sources of household incomes from August/September 2022, a total ban on all women's work will reduce household incomes nationwide by 6 percent. This is a significant figure given the exceptionally high poverty rate. Yet, school enrolment and attendance rates of girls in FHHs exceed those in MHHs

The above figures may not fully capture the additional side effects of the recent restrictions imposed on women. For example, the requirement that women be accompanied by their mahram while in public, whether for work or travel, imposes additional barriers on women that may not easily have a mahram, and taxes the time of men and diverts them from productive activities

Below is a comparison between the coping mechanisms deployed by households in 2020 and 2022, followed by an examination of the coping mechanisms available to households, including the role of debt and income from employment.

### How do households cope with the current situation compared to 2020?

During the last decade, all but one survey shows that poverty has been widespread and increasing. The most recent survey used in this chapter, shows that around 95 percent of Afghans are below the food poverty line established in 2020 adjusted for inflation and location. Were the poverty line and the food poverty line set too low in the IE&LFS2020? A positive answer might explain the rather paradoxical decline in poverty since 2016-17. In any case, survey estimates should be compared and checked with information from other sources<sup>57</sup>. However, it is more likely than not that the welfare of households has declined considerably between 2020 and 2022, as even the lowest estimate in Figure 12 shows. This is confirmed by the qualitative answers provided by the households as summarized below in Table 5.

Several questions in 2022 were similar to those asked in the IE&LFS in 2020. A common catch-all question was whether households needed to deploy a coping strategy to compensate for the food insecurity they face. In 2020, as many as 41 percent of households stated that they needed no such strategy throughout the year, compared to only 7.8 percent during the 30 days prior to the 2022 survey. As expected, households in urban areas faced more food insecurity than those in rural areas.

**Table 5: Coping strategies of households to mitigate shocks against food insecurity: National comparisons between 2020 and 2022**

| IE&LFS (October 2019-September 2020)   |     | WoAA<br>(30 days prior to August/September 2022) |   |
|--|-----|--|---|
| “Did not need to do anything to compensate”  | 41% | 7.8%   | “No need to use any coping strategy”*   |
| Urban  | 25% | 6.1%   | Urban   |
| Rural  | 45% | 8.4%   | Rural   |
| “Sold house or female reproductive livestock”  | 4%  | 5%<br>18%  | “Sold house or land”<br>“Sold last female animals”                                  |
| “Sold assets”<br>(asked, not reported)   |     | 25%<br>10%                                       | “Sold household assets”<br>“Sold income generating equipment or means of transport” |
| “Took loan”  | 5%  | 78%  | “Does the household currently have debt?”   |
| “Purchased food on credit from traders”  | 6%  | 57%  | “What is your household’s main reason behind taking on debt?”<br>Answer “Food”***   |
| “Decreased expenditures”   | 21% | 39%  | “Decreased expenditures on health, education etc.”                                  |
| “Received help from others in the community”   | 7%  | 75%  | “Borrowed for food or rely on help from a relative or friend”***                    |
| “Sold labour in advance or rented out or mortgaged out farmland”<br>(asked, not reported)  |     | 26%  | “Spent savings”   |
| “Children who were not working started working” (asked, not reported)  |     | 14%  | “Sent children to work outside home”  |
| (not asked)  |     | 12%  | “Engaged in extreme or high-risk activities”  |
| (asked, not reported)  |     | 8%   | “Begging or relying on charity”   |
| “Reduced quality of diet”  | 15% | 94%  | “Relied on less preferred and less expensive food”***                               |
| “Reduced the amount of food or skipping meals”   | 3%  | 63%<br>50%                                       | “Limited portion size of meals”****<br>Reduce number of meals in a day”****         |
| <p>* Any of the coping strategies asked – see Figure 21 and Table 6.<br/> ** Overall, 88 percent of households experienced one or more shocks in the last six months. The percentages who took debt for specific shocks (among those who cited a specific impact) are: 73 percent due to an economic shock (of 54 percent total population affected), 48 percent due to a natural disaster (of 64 percent affected by drought; 20 percent by floods; and 4 percent by earthquakes), 38 percent due to conflict (of 5 percent affected), and 33 percent for COVID-19 (of 9 percent affected).<br/> *** In the last 7 days.<br/> Notes:<br/> 1/ The IE&amp;LFS2020 included additional answers (not reported separately): (i) reduced quality of diet/ amount of food/ skipped meals; (ii) children taken out of school; (iii) marriage of a child; (iv) decreased farm gate prices; and (v) members of HH went elsewhere to find work.<br/> 2/ Both surveys allowed multiple answers.</p> |     |  |   |
| Sources: IE&LFS2020, Table 6.9 and Questionnaire Section 10; WoAA2022  |     |  |   |

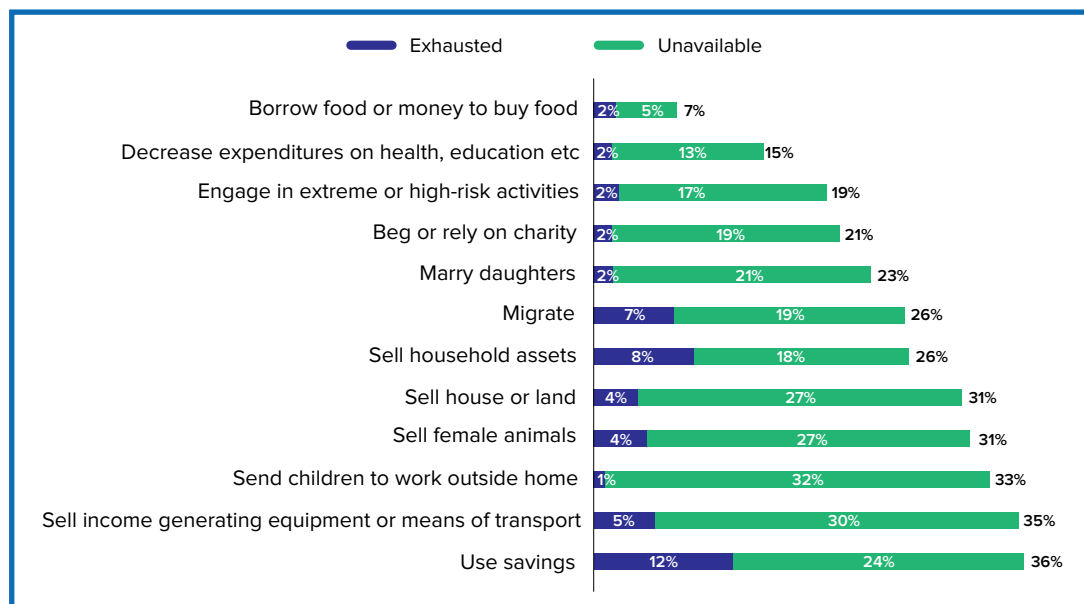


Certain figures in the table stand out, especially those indicating the high percentages of households that borrowed for food, consumed less preferred and less expensive food, and reduced the size and numbers of meals. Most notable is the share of households who borrowed for food or relied on help from a relative or friend to reduce food insecurity (75 percent).

### Many households have run out of coping mechanisms

The percentages in Table 5 are estimated over the total number of households. This is for comparability purposes between the two surveys. The households were also asked to identify the coping strategies available to them (Figure 21). For example, more than one-third of households could not use savings, as they either never had savings or had depleted them. Others did not have (or no longer had) land or female animals, were unable to further lower expenditures on health and education, or had no avenues for borrowing.

**Figure 21: % of households who cannot use a specific coping strategy for securing food (Strategy used and exhausted previously, or unavailable to the household)**



Source: WoAA2022

Table 5 shows that 26 percent of all households drew upon their savings in the last 30 days (and probably more during the year). However, 36 percent of households could not use any savings, either because they had none (24 percent) or because they had exhausted them before the survey (12 percent) (Figure 21). If expressed as a share of the 64 percent that could have used savings as a coping strategy, the percentage of those who used their savings during the 30 days prior to the survey rises from 26 percent to 41 percent.

*A most telling finding is that more than 4.3 million households have borrowed simply for securing food.*

Strikingly, more than 4.3 million households have borrowed simply for securing food (Table 6). Many households have mortgaged their future, having sold productive assets such as their last female animals (1.1 million) or other income-generating equipment or means of transport (over 0.6 million), and even their houses or land (over 0.3 million). In many cases, households were forced to mortgage their children’s future by seeking

recourse to child labor (more than 850,000)<sup>58</sup> or marrying their daughters earlier than intended (nearly 80,000), to combat extreme food insecurity<sup>v</sup>.

**Table 6: % of households who were able to use a strategy and number of households that used a food coping strategy in the last 30 days**

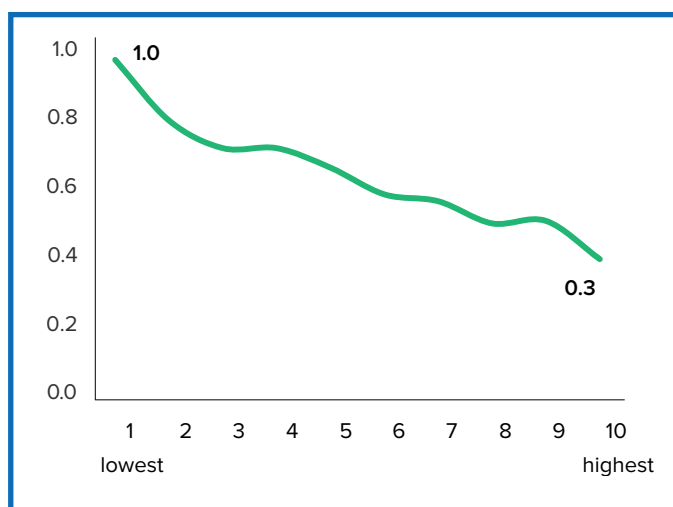
| Coping strategy  | % who used it | Number of HHs |
|--|---------------|---------------|
| Borrowed food or money to buy food                     | 77%           | 4,364,421     |
| Decreased expenditures on health, education etc.       | 45%           | 2,363,904     |
| Spent savings  | 41%           | 1,578,884     |
| Sold household assets                                  | 34%           | 1,528,924     |
| Sold last female animals                               | 27%           | 1,111,782     |
| Sent children to work outside home                     | 21%           | 859,562       |
| Engage in extreme or high-risk activities              | 14%           | 706,535       |
| Sold income generating equipment or means of transport | 16%           | 631,239       |
| Begging or relying on charity                          | 10%           | 466,432       |
| Sold house or land                                     | 8%            | 319,580       |
| Entire household migrated                              | 4%            | 161,618       |
| Marriage of daughters earlier than intended            | 2%            | 79,467        |

Source: WoAA2022

As Figure 21 shows, more than one-third of households either have no savings to draw from or have exhausted them. Many households also reported having no assets. Under such circumstances, borrowing becomes the first line of defense.

The data from 2022 indicates that the debt-to-expenditure ratio is highest among the poorest households (lowest decile) and declines continuously across the other deciles, reaching its lowest value among those in the top decile (Figure 22). It is likely that only around 10 percent of households feel any semblance of economic security regarding their future.

**Figure 22: Ratio of debt to expenditures of indebted households, by decile**



Source: WoAA2022

v. The numbers of children impacted may be higher than the reported numbers of households, as a household may have used this strategy to more than one boy or daughter.

## Some households are in a better position than others

Most households live under conditions that give rise to concerns. Table 7 shows that with respect to responses that relate to issues that can vary from month to month, only 8 percent of households did not need a coping strategy during the 30 days prior to the survey. Other responses related to short-term well-being generally ranged from 10 percent to around 20 percent of households, such as those regarding food consumption, access to health care, barriers to markets and availability of seasonal clothing. In terms of more permanent issues, about one in five households live in shelters that are not damaged though only 6 percent live in shelters with robust materials. Only one in five can use piped water for drinking.

**Table 7: Selected indicators among better off households**

|   |
|---|
| 6% live in permanent shelter with robust materials                  |
| 8% did not need to use a coping strategy in the last 30 days        |
| 11% do not face barriers to access markets                          |
| 12% did not experience a major adverse event in the last six months |
| 16% have no enclosure problems with shelter                         |
| 18% have winter clothing for all children in the household          |
| 20% have no barrier to accessing health care                        |
| 20% use public piped water for drinking                             |
| 21% have acceptable food consumption                                |
| 23% live in no damaged shelter                                      |

Source: WoAA2022

Based on these responses, it may be inferred that around 8 percent of households live under overall adequate conditions. This relatively low number may reflect the fact that only 12 percent of households reported experiencing no major adverse event in the last six months, such as conflict, COVID-19, natural disaster, and/or economic shock. Some households also may have answered one question positively and another negatively.

## The limited role of income from employment

*Only 12 percent of households stated that they did not experience a major adverse event in the last six months, such as conflict, COVID-19, natural disaster, and/or an economic shock, and more than 80 percent do not have winter clothing for all children in the household. On average, there is only one blanket per person and in some provinces lower than that.*

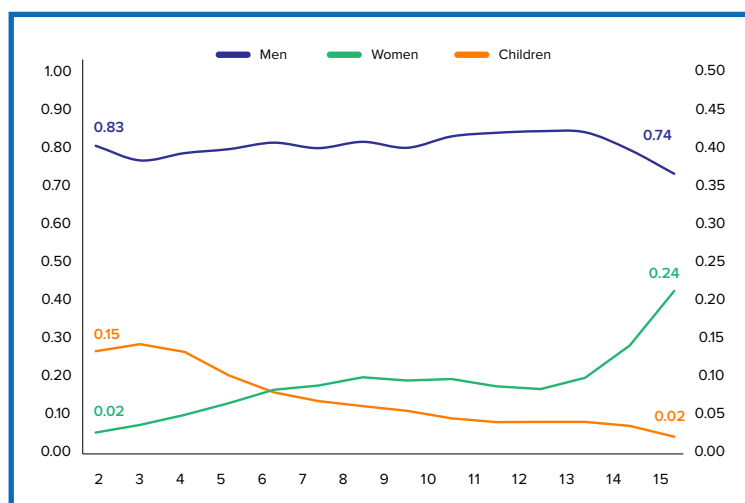
For the less well off, one way to bridge the gap between basic needs and the expenditures required to meet them is through income from work. However, few members of households work. One reason is that many members are children, as 88 percent of households have children. The average household size is 6.6 comprising 3.21 adults (18-59), 0.26 elderly (60+) and 3.13 children (below 18). In the average household, only 1.6 members work outside the home: 1.19 men, 0.15 women, 0.23 boys and 0.03 girls.

*One way to bridge the gap between basic needs and needed expenditures is through income from work. However, few household members work, among them more boys than adult women.*

It is notable that households rely more on work from children (almost all being boys) than from adult women (Figure 23). As household size increases, the share of working male members remains relatively constant at approximately three-quarters. The converse is true with respect to women workers, whose share decreases from nearly one in six to practically zero (2 percent). Disturbingly, children’s share increases as household size increases, from a low 2 percent to nearly 25 percent. Though not shown, both female-headed households and male-headed households have the same share of working men among their employed members, but the share of working women in female-headed households is 10 times higher than that in male-headed

households (more than 40 percent compared to 4 percent).

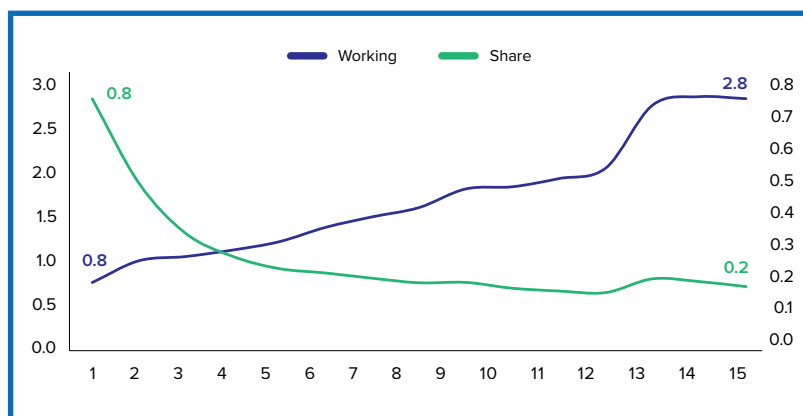
**Figure 23: Distribution of workers within HHs by gender and age (men - left axis, women and children - right axis)**



Source: WoAA2022

As might be expected, the number of workers increases with the size of the household, if not by much. For example, among households with two members, one member works, but this number rises to only 2.8 in households with 15 members (Figure 24).

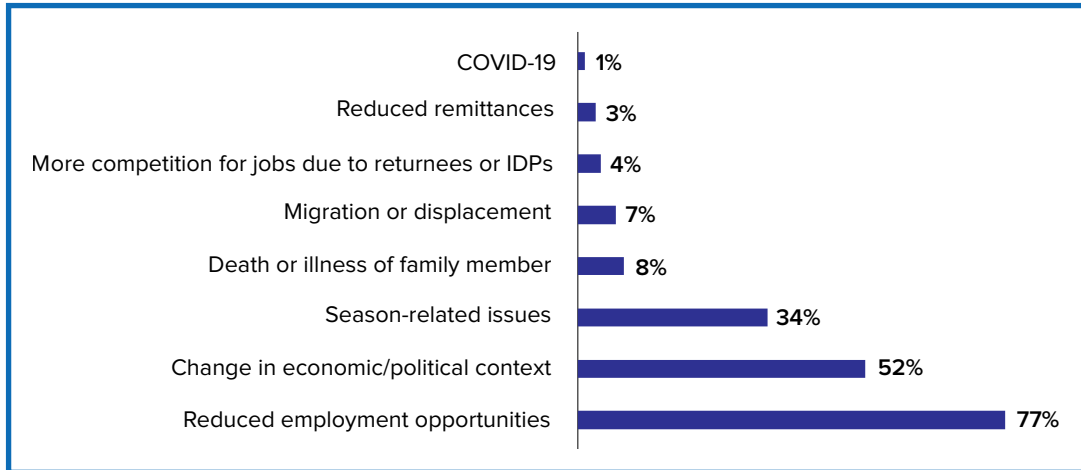
**Figure 24: Workers by size of households with at least one man/woman working in last 30 days (number - left axis, and as share of total HH members - right axis)**



Source: WoAA2022

While it is true that households typically face adverse environmental and seasonal events, the current dire employment situation is driven by recent political and economic changes (Figure 25). And while the low work output of households is partly attributed to the high number of children, the limited engagement of women in the labour market impacts significantly on households’ ability to raise income.

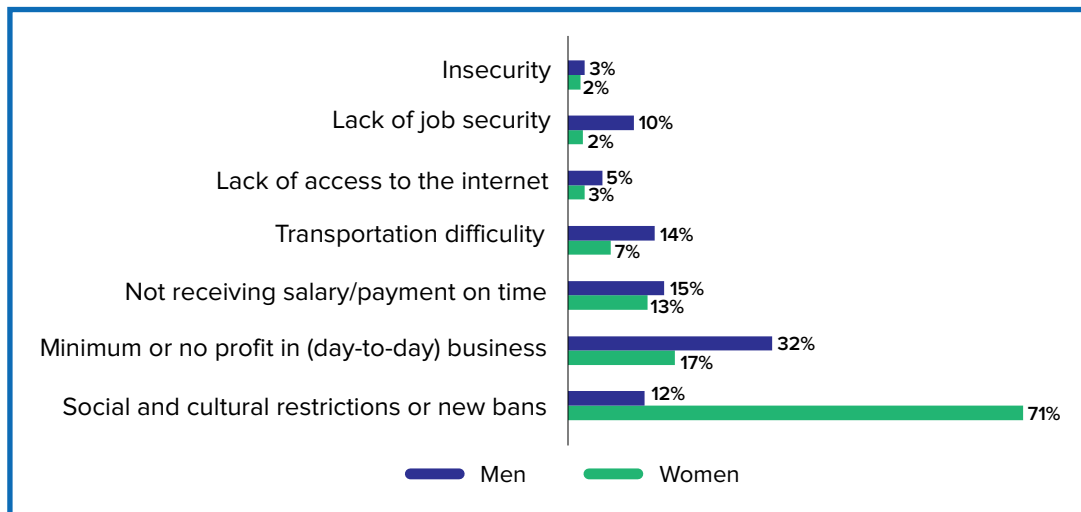
**Figure 25: Reasons for lower incomes in the past 30 days compared to usual income**



Source: WoAA2022

When at work, the problems household members face differ significantly between women and men (Figure 26). By far the most important reported problem for women’s employment in female-headed households are social and cultural restrictions as well as new bans. Like men, a large percentage of women have low or no profits and face delays in getting paid. They also face transportation issues when they need to travel due to restrictions on movement. Working men’s problems are more uniformly distributed across all reported categories.

**Figure 26: Problems women and men face at work  
(% of households with at least one man/woman working in last 30 days)**



Note: As reported for men by male heads of households and for women by female heads of households.

Source: WoAA2022

*There are effectively no shortages of either food or non-food items, but households are too poor to buy them.*

Overall, around 30 percent of households reported that the activities of their male working members, often the only adult working member, fetch low or no profits on a daily basis, while 14 percent face transportation difficulties. It is therefore unsurprising that the most important barrier reported by households is high food prices (77 percent). Not much lower, at 68 percent, was the share of households stating that prices are too high

on non-food items (NFIs). The inability of households to buy needed items can be compared with the results of a survey conducted by the World Bank in December 2022, which suggested that the availability of food and non-food items stood at 98 percent for the former and 99 percent for the latter.<sup>59</sup>

These comparisons suggest that there are effectively no shortages of either food or NFIs, but rather an inability among households to buy them due to low incomes and widespread indebtedness (78 percent)<sup>60</sup>. The four most important reasons for borrowing are food (57 percent), healthcare (18 percent), weddings and celebrations (10 percent) and shelter repairs (5 percent).

## Conclusions

Between 2020 and 2022, households have exhausted their coping strategies while their economic situation has sharply deteriorated. Though structural factors account for much of the low income and high indebtedness reported, the restrictions on women's ability to work and an extensive reliance on child labor contribute to reduced work output among households. The situation has been made worse by additional recent restrictions placed on women's work. Nearly half of women in salaried work have lost their employment and female unemployment may have now reached 40 percent.<sup>61</sup> This results in a dual loss – loss in production and loss in investment in education. The situation for many households is unlikely to improve in the short-term without assistance, discussed in the next chapter.

## KEY FINDINGS AND MESSAGES



- The systemic environmental and economic factors leading to poor social conditions in Afghanistan make it difficult for households to cope with the many challenges of everyday life, and the situation has significantly worsened between 2020 and 2022.



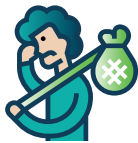
- Lack of work and the change in the economic and political situation accounted for the top two reported reasons for loss of income in 2022. Seasonal-related issues came a distant third as an answer to this question.



- While in 2020 as many as 40 percent of households did not have to use a coping strategy, this share had dwindled to 8 percent by 2022.
- By September 2022, nearly 80 percent of households have had to incur debt in order to secure food.



- The poorer the household, the higher the debt burden. Debt as a percentage of annual expenditure increases as household expenditure declines: it is 100 percent among those in the poorest decile (10 percent of households) but declines to reach only 30 percent in the top decile.



- Many lack or have exhausted their options: savings, selling income generating equipment, land, houses, or other assets; using child labor; or marrying off their daughters early. Decreasing food expenditure, having fewer and smaller meals per day, cutting back on health care, and resorting to begging remain among the few options available to them.



- Traditional households headed by men have few women workers – in fact, more boys than women work in these households. Both female-headed households and male-headed households have the same share of working men among their employed members, but the share of working women in female-headed households is 10 times higher than that in male-headed households (more than 40 percent compared to 4 percent).



- Women's employment faces many restrictions fueled by strong views regarding gender roles in society, exacerbated by the recent bans. More than 70 percent of female-headed households cited social and cultural restrictions as the main barrier to women's employment, as well as the bans introduced since August 2021.

**TEXTBOX 5: The implications of restrictions on women’s work**

The restrictions imposed by the Taliban on women’s employment is bound to have an effect on current production (GDP level), future economic growth and household incomes.

Earlier estimates by UNDP (December 2021) suggested that the economic impact of restrictions on female employment could be a reduction in GDP between US\$600 million and US\$1 billion, equivalent to between 3 and 5 percent of the country’s GDP at the time (US\$20 billion), with a similar reduction in household consumption. More recently, UNICEF has estimated that the loss from girls missing education for just the current year could translate to a loss of US\$500 million (3.3 percent of the current GDP of US\$15 billion). However, taking into account the lifetime losses from underinvestment in education, the total lost income to the economy can reach US\$1.3 billion.

The results from the WoAA2022 analyzed in this report show the importance of the contribution of women workers to household incomes. Households with at least one female worker have on average higher incomes than those that do not have any working women, and the difference is significant no matter the type of work women do.

The restrictions on female work, including the ban on women’s employment in NGOs, are bound to adversely affect household incomes, among households that rely on female earnings – especially those that have women in formal employment. Since August 2021, the number of women in salaried jobs is estimated to have been reduced by half.

If women in formal employment are prevented from working, the per capita incomes of their households will be reduced on average by almost half (48 percent from AFN2,066 to AFN1,080). If women working in small businesses are prevented and included in the above group, the decrease will be almost similar (41 percent). Additional losses can be inflicted from restrictions on the work of female daily laborers (likely to be the lowest paid workers in the private sector), which could reduce household incomes to 13 percent – still a significant figure given the exceptionally high poverty rate.

**Per capita incomes of households that have women workers by type of work (AFN/month)**

| Type of work                    | Per capita income in HHS |                      | % reduction in income if women are banned from work by type of work |
|---------------------------------|--------------------------|----------------------|---|
|                                 | with female worker(s)    | if no such worker(s) |   |
| Formal                          | 2,066                    | 1,080                | 48%   |
| As above plus in small business | 1,833                    | 1,076                | 41%   |
| As above plus daily work*       | 1,247                    | 1,080                | 13%   |

\* Includes daily workers in agriculture, livestock, small business and all other types of daily work.

Source: WoAA2022

There can be additional side effects of the restrictions imposed on women not captured by the above figures. For example, the requirement of women to be accompanied by their mahram when they are in public places, whether for work or travel, is bound to tax the time of men and divert them from productive activities.

Source: UNDP staff compilation from UNDP (2021c), UNICEF (2022), World Bank (2022a, 2023)





**WHAT CAN AND  
DOES HUMANITARIAN  
ASSISTANCE PROVIDE?**

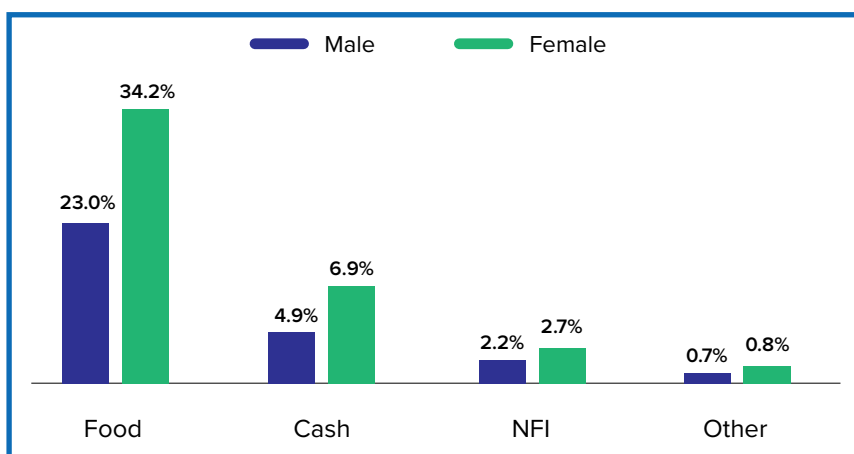
## Introduction

This chapter examines the impact of such assistance to livelihoods, especially with respect to food security and poverty.

### The extent and characteristics of humanitarian assistance

In the 30 days prior to the 2022 survey, 30 percent of households received humanitarian assistance. Nearly 40 percent of female-headed households received assistance, compared to 28 percent of male-headed households. Most assistance was in the form of food, with cash a distant second. Fewer than 3 percent nationwide have received non-food items: almost none have received assistance through vouchers, or cash through cards, banks or mobile money (Figure 27). Among all households, less than 1 percent stated that they do not want to receive humanitarian assistance.

**Figure 27: Percentage of households that received humanitarian assistance in the last month by type of assistance and gender of household head**



Note: "Other" includes vouchers, services, and cash via cards, banks or mobile money.

Source: WoAA2022

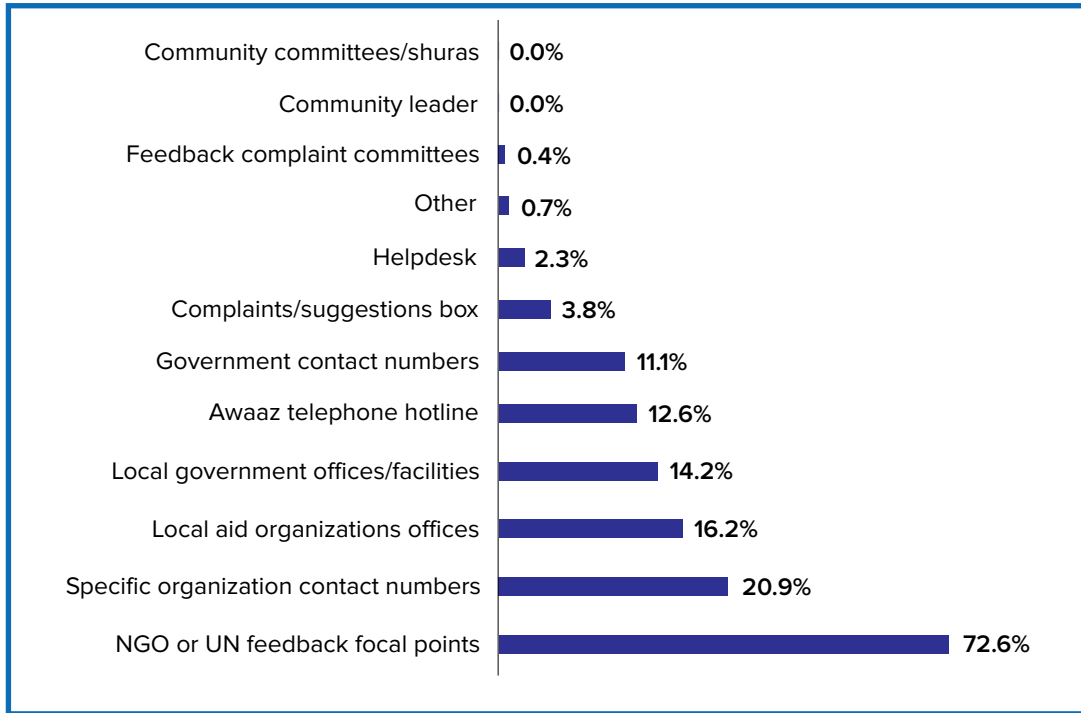
*The most preferred type of humanitarian assistance is in cash.*

Cash is the most preferred type of humanitarian assistance. More than two-thirds of households (69 percent) stated that they would prefer to receive cash assistance, while only a quarter of households (26 percent) preferred assistance in the form of food. The remaining 5 percent consisted of in-kind NFIs, vouchers, services, cash via bank transfer, prepaid cards and mobile money, each accounting for around 1 percent or less.

Women in need have an even stronger preference for cash assistance. Three-quarters of female members of male-headed households (74 percent) state that they would prefer to get assistance in the form of physical cash, 22 percent as food, and 2 percent in-kind NFIs. Other forms of assistance combined barely amounted to 2 percent. This reinforces the case, on the one hand, for introducing a benefit in the form of cash assistance and, on the other hand, to prioritize as beneficiaries women whose position is economically inferior compared to men's. Humanitarian assistance constituted the main source of income in 5 percent of male-headed households, but more than double that percentage among female-headed households (12 percent).

Not all households were aware of how to contact aid providers to learn what assistance was available or to report misbehavior or misconduct among aid workers. Among those who were aware (one in three households), a significant majority indicated that they were aware of NGOs and UN agencies (73 percent). Considerably fewer households reported being aware of local aid and specific organizations or government and community agencies (Figure 28).

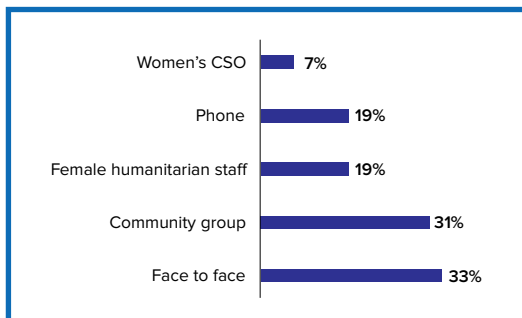
**Figure 28: Awareness of households regarding from where to obtain information about assistance**



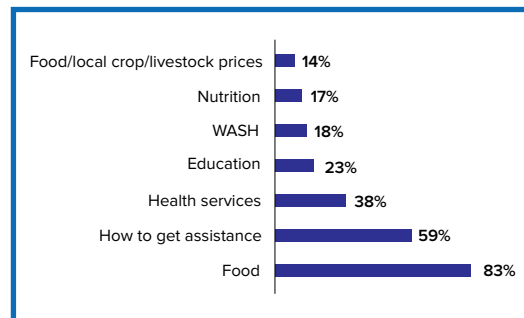
Source: WoAA2022

The most accessible channels of assistance for female members of male-headed households are face-to-face interactions (33 percent) and community groups (31 percent) (Figure 29). Some 26 percent cited gender-specific providers, such as female humanitarian staff (19 percent) and local women’s civil society organizations (7 percent). Unsurprisingly, the top query among households related to food assistance (Figure 30).

**Figure 29: Information channels that women use to access assistance**



**Figure 30: Assistance queries among households**



Source: WoAA2022

## Impact of humanitarian assistance

Humanitarian assistance is well targeted. Among households classified as poor on the basis of per capita income (i.e., the 96 percent of households with monthly per capita income of AFN2,778<sup>62</sup> or less), those receiving humanitarian assistance had per capita incomes that were 5.3 percent lower than those not receiving assistance.

Despite having lower incomes even after receiving assistance, the recipient households are better able to cope with adversities or avoid hunger compared to higher-income households that do not receive assistance. The value of the Coping Strategy Index is higher by nearly one-quarter (22 percent) in the former households compared to the latter. The difference is expectedly smaller (10 percent) when measured in the Hunger Scale as both types of households prioritize food.<sup>63</sup>

Whether social conditions will deteriorate further in the immediate future will very much depend on the amount and delivery modalities of humanitarian assistance. Humanitarian aid since 2021 has helped avert a deeper economic collapse and further deterioration in social conditions.

Much of the humanitarian assistance has been delivered through NGOs. The recently introduced ban on women working for NGOs and international organizations not only risks a reduction in the amount of aid that can keep the economy from contracting further, but also will deprive Afghan women in need of critical interaction with women workers. As many as 94 per cent of 127 national organizations surveyed either fully or partially ceased operations immediately after the ban was imposed in December 2022, and 150 NGOs and aid agencies have suspended all or part of their work.

*Humanitarian assistance is well targeted. Since 2021, it has prevented further deterioration in social conditions while it helped avert a deeper economic collapse.*

The lost support from these national organizations across 17 provinces is estimated to adversely affect more than one million Afghan women and girls in need of assistance.<sup>64</sup>

**Table 8: Households that receive humanitarian assistance cope better and face less hunger than those that do not receive such assistance, though they have lower incomes and spend equally on food**

|  | Received <sup>1</sup> | Did not receive <sup>1</sup> |
|--|-----------------------|------------------------------|
| Monthly income per capita (AFN)  | 941                   | 991                          |
| Reduced Coping Strategy Index (rCSI) <sup>2</sup>  | 11.26                 | 13.76                        |
| Household Hunger Scale (HHS) <sup>3</sup>  | 1.03                  | 1.13                         |
| Food share of expenditure  | 50.2%                 | 49.8%                        |
| Food Consumption Score (FCS) <sup>4</sup>  | 32.23                 | 32.12                        |
| Notes:   |                       |                              |
| 1/ The sample sizes were 4,715 for those that received assistance and 10,561 for those that did not. |                       |                              |
| 2/ The lower the reduced coping strategy index the better off is the household.                      |                       |                              |
| 3/ The lower the household hunger scale the better off is the household.                             |                       |                              |
| 4/ The higher the food consumption score the better off is the household.                            |                       |                              |
| Source: WoAA2022   |                       |                              |

## Conclusions

Humanitarian assistance is widespread, well targeted, enhances the coping ability of low-income households, and reduces the incidence of hunger among the households below the poverty line who seem to fair better in this respect than households with higher incomes that do not receive assistance.

Many households do not know where to seek assistance. Of those who do know, most are aware of the assistance offered by UN organizations, NGOs and local aid organizations. Female household members strongly prefer interacting with female humanitarian workers. To the extent that humanitarian assistance is provided through NGOs or international organizations, the recent ban on women working in NGOs can severely reduce outreach.

Despite the stabilization of the economy, the analysis of this report suggests that around 32 million Afghans lived in households that reported diminished or lost sources of income in the six months prior to the 2022 survey. Reducing the amount or outreach of humanitarian assistance can significantly curtail the ability of households to cope with adversity and can increase the incidence of hunger. Other estimates suggest that as many as 28 million Afghans, nearly half of them children (15 million), will need humanitarian assistance in 2023<sup>65</sup>. To avoid a deepening humanitarian crisis, Afghanistan will need more than the annual aid it has received in the past.<sup>66</sup> The UN considers the 2023 aid appeal for US\$4.6 billion to be the “largest single country aid appeal ever”. Still, that amount would be lower than the US\$5.3 billion estimated in this report that would be required to bring those with very low levels of expenditure to the 2020 national poverty line.

## KEY FINDINGS AND MESSAGES



- Humanitarian assistance has been widespread and provides Afghans with significant support in terms of food, livelihood support and employment, and health services – preventing the worsening of humanitarian conditions.



- This assistance has been well targeted and effective, allowing poorer Afghans to avoid deploying coping strategies as often and to better address hunger than those who did not receive such assistance.



- Many households seek assistance from UN organizations, NGOs, and local community leaders. Women clearly prefer to access aid through women aid workers. The ban on women’s work in NGOs can severely reduce outreach and result in devastating consequences for the most vulnerable - women and children.



- Overall, cutting assistance would put millions of lives at risk. UNDP projects that nearly 85 percent of the population – or 34 million people – cannot spend as much as what was considered to be the poverty threshold in 2020.



- Food prices have increased, incomes decreased, and livelihoods have disappeared because of the change in the economic and political context in addition to the deliberate restrictions on female employment. Poverty in Afghanistan is pervasive and deep, taking toll on virtually every household.



- The UN considers the 2023 aid appeal for US\$4.6 billion to be the “largest single country aid appeal ever”. Still, that amount would be lower than the US\$5.3 billion estimated in this report that would be required to bring those with very low current expenditures to the 2020 national poverty line.

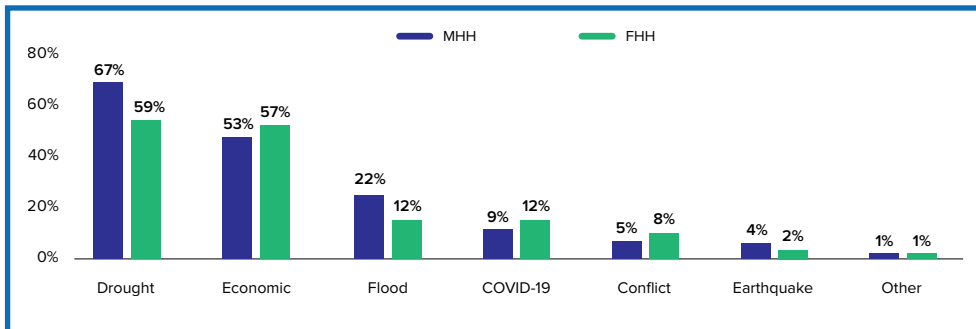


- Humanitarian assistance has played a critical role in preventing the worsening of humanitarian conditions. It has also provided liquidity and supported economic activity, the exchange rate, financial stability and prevented poverty from rising further.

**TEXTBOX 6: Women are affected differently by shocks compared to men, and much depends on their household arrangements**

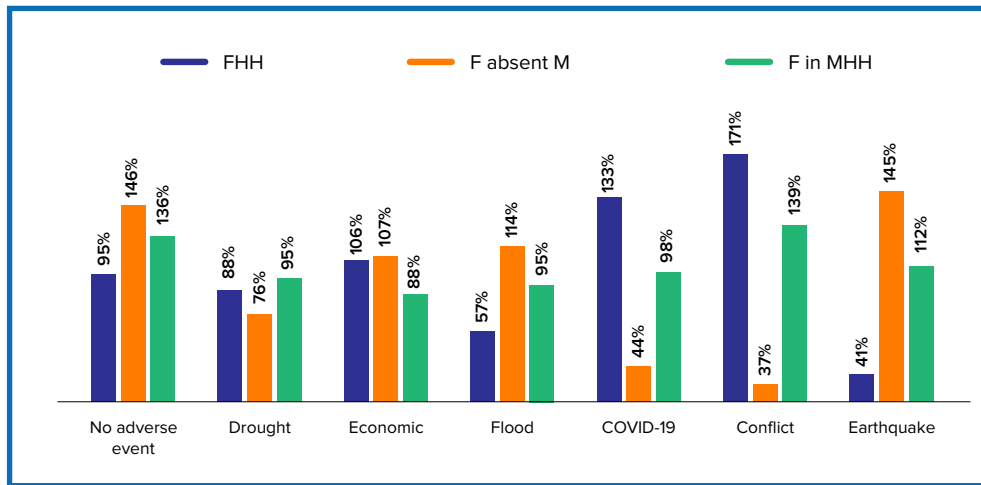
The same percentage of female headed households (FHH) and male headed households (MHH) reported that they did not experience any major shock in the last six months (11 percent). However, a higher share of male headed households reported that they were affected by natural disasters such as drought, floods and earthquakes. The converse is true with respect to economic shocks, COVID-19 and conflict.

**% of households affected by adverse events by gender of the head of household**



This “on average” gender comparison masks the fact that shocks affect different groups of women differently. The WoAA2022 has three groups of women responding: Those who head their households (FHH), those in male households (likely to be wives) (F in MHH), and those in male headed households from which male head is absent (F absent M). When the answers given by these three groups of women are expressed as an index based on the percentage of the answers given by male heads of households, they show considerable variation. Importantly, very few FHHs appear to have not been affected by an adverse event, while COVID-19, conflict and economic events have affected them most. Generally, women in MHHs seem to be faring better with women in households where the male head is absent, falling in the middle (with the exception of earthquakes and floods, possibly because both events result in damage to shelter, for which repairs require physical strength).

**% difference in reporting adverse events (relative to the answers provide by MHHs) by women with different household arrangements reporting the same event**



*Note: The comparison of “F in MHH” is with the male heads in the same household. The results for “F in MHH” and “F absent M” are indicative as such households are not nationally representative.*

It is obvious that Afghan women are not a homogenous group but are affected differently by different shocks depending on their household arrangements. This has implications for policies, especially those aiming to meet basic needs.

Source: WoAA2022





# POLICY DIRECTIONS

## Introduction

The gravity of the enormous polycrisis is overwhelming the internationally supported response, with 34 million people in dire need of assistance out of a total population of approximately 40 million. The barely functional banking and financial system is undergoing an undefined conversion to an Islamic banking system. Public institutions are being restructured and overhauled by the new realities on the ground and by priorities of the DFA. The suspension of the constitution and the ensuing legal vacuum are eroding business confidence and stifling private sector recovery. Nonetheless, the security situation and the level of corruption are reportedly improving, and exports are slowly picking up while continued UN cash arrivals to the country are maintaining the exchange rate stability. According to Transparency International's Corruption Perception Index (CPI), Afghanistan's ranking improved by 24 scores from 174 in 2021 to 150 in 2022 out of 180 countries ranked<sup>67</sup>.

The multiple crises require a comprehensive, persistent, and well-sequenced policy response involving public, private, and international actors. This chapter presents a mix of thematic policy priorities for the country and for the international community to respond to the polycrisis.

### Policy Objective

The overarching objective of this policy matrix is to identify a set of priorities to consider in addressing Afghanistan's economic and developmental constraints, with the aim of fostering a viable recovery that complements the ongoing humanitarian basic needs response.

### Macroeconomic Priorities

The top priorities include the restricted and isolated banking sector, frozen assets, and the labor policy banning women from working with NGOs that may deter humanitarian funding. The Central Bank has put restrictions on deposit withdrawals from individual and corporate accounts and has completely stopped international transfers except for small weekly or monthly withdrawals and transfers for imported goods such as pharmaceuticals and consumables.

These issues call for concerted efforts to challenge restrictions on women's rights to work, rebuild trust in the banking system, and allow targeted disbursements from the Afghan Fund to support trade transactions, private sector recovery, and overall economic stability.

The UN can lead efforts to release disbursements from the Afghan Fund by rebuilding trust in the banking sector, backing trade transactions, and paying key outstanding arrears, among other actions.

### Private Sector

As the economy has shifted toward subsistence-based activities, the agriculture sector should be at the core of any policy response. Agricultural value chains must be developed and productivity enhanced to lead private sector recovery. Barriers

emanating from trade restrictions, lack of infrastructure and financial services continue to constrain agricultural and non-agricultural performance and growth. Above all, women's participation in the economy and their equitable access to opportunities must be prioritized.

The DFA should prioritize mobilizing resources to develop agro-infrastructure, value chains and markets, and to increase land under cultivation.

The UN and other development partners should focus on reducing post-harvest waste, including through off-grid cold storage systems, and on facilitating the supply of inputs, access to markets and financial services, and food processing to support livelihoods and stimulate recovery.

## Banking and Finance

Despite some positive developments, including the establishment of the new Afghan Fund by the release of US\$3.5 billion of frozen reserves by the United States, serious problems and risks persist. The banking and finance sector's institutional capacity has been weakened by the post-August 2021 brain drain.

The international community and DFA should prioritize disbursements from the Afghan Fund, including to their original private sector owners, revive and improve DAB's ability to conduct monetary policy, and incentivize or enforce recapitalization of the weakened private banks and institutions to support the sector's revival and resilience.

The UN should focus on building sector capacity for long-term stabilization. Further, the UN might play a role in providing guarantees for new deposits and loans, to restore the eroded trust in the banking and financial system. Additionally, private banks' ability to facilitate international transfers should be strengthened to build confidence in Afghanistan's international trade and business partners.

## Sanctions

The fall of the Islamic Republic in August 2021 was immediately followed by suspension of Afghan banks' correspondent banking relationships with foreign banks, which paralyzed international transfers and severely impacted Afghanistan's trade activities. The international community and the DFA should prioritize, with UN facilitation, reviving the correspondent banking relationships.

## Energy

The energy challenge of Afghanistan is not the potential for hydro, thermal and renewable energy. It is the planning, infrastructure needs, resources, and political will to generate and manage energy supply. While the international community can help with some technical and financial assistance, the DFA and the regional actors, public and private, should focus on the larger problem of sustainable energy generation, distribution, and management.

Targeted technical assistance to institutions, within the limits of the prevalent political reality, such as DABS and the de facto ministry of energy and water, and partnering with private investors to facilitate designing and implementing multi-stakeholder

partnerships for energy is critical for improving livelihoods and economic recovery. Additionally, the UN may solarize essential service providers such as clinics, Technical and Vocational Education and Training institutes, educational centers, and MSMEs.

## Opium

The opium trade is estimated to have generated US\$1.7 billion in 2022 income for farmers – a 32 percent increase compared to a year before. However, in 2022 the DFA imposed a ban on poppy cultivation, processing, and trading, the effects of which remain to be seen.

The UN could provide expertise in facilitating the country's institutional capacity to execute and manage the National Drug Control Strategy and explore ways to develop and promote alternative crops that are low maintenance and viable for the Afghan soil and weather

## Gender

Women in Afghanistan have been experiencing major backslides in their rights to education and work. The restrictions on women's participation in workforce and the overall economy aggravate the humanitarian situation, strain the economy, and increase vulnerabilities across the board.

The international community should continue to push for the reversal of decrees banning women from secondary and tertiary education and from working with NGOs. Further, the international community should continue funding important and impactful programmatic interventions that support women's socio-economic conditions, including women's economic empowerment.

The UN should continue supporting women's enterprises and livelihoods by increasingly focusing on the rural households and areas with greater vulnerabilities.

## Governance and Institutions

In January 2022, the DFA announced a market-based economy, where growth would be led by the country's private sector. However, since that announcement, the de facto authorities have taken little to no action to implement that vision. Worse, the institutions, in particular economic entities such as the central bank (Da Afghanistan Bank DAB), the de facto Ministry of Finance, and others have seen an exodus of technical expertise. The result is a prolonged legal, regulative and policy ambiguity which is hindering recovery.

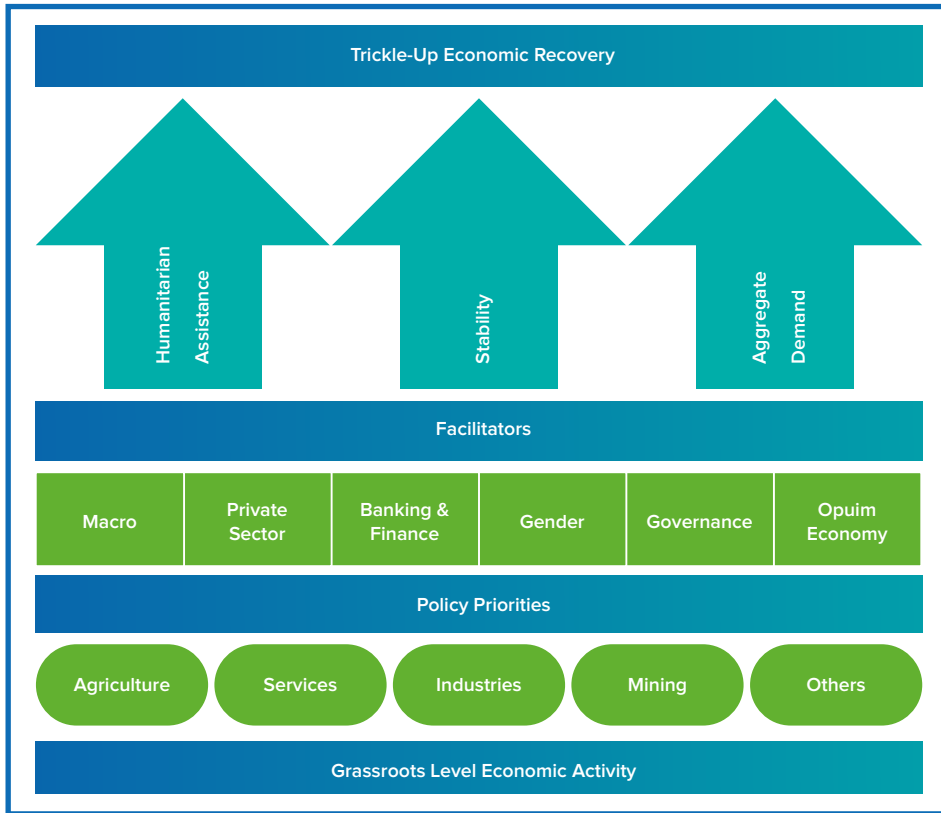
Ideally, those institutions could play a pivotal role in ensuring sustainability and ownership of the assistance, supported by the international community.

As permitted by the political context, the UN might consider exploring feasible options of supporting institutional reforms intended for strengthening economic recovery.

The economy prior to the August 15 events was heavily dependent on foreign aid where the public military and civilian expenditure predominated the GDP. With that donor dependence and sizable aid inflows disappeared on August 15, economic recovery needs to be bottom-up and based on the agriculture, extractives, and private

sectors and will require an array of policy actions and facilitators to materialize and last. Figure 31 and table 9 below discuss these policy priorities and recommendations in detail.

**Figure 31: An approach for economic recovery**



Source: WoAA2022

## Conclusions

Bottoming out of an unprecedented and dramatic contraction since 2020, the economy is bouncing back up toward stagnation. Further, economic activity is restructuring toward agrarian output and an equilibrium which is not capable of sufficiently providing for a growing and increasingly poor population. The stakeholders should take an array of multi-sectoral policy actions in order to put the economy on a path to recovery before growth and sustainable development can be aspired or strategized. Continued humanitarian assistance, agricultural and private sector development, export competitiveness and possible technical engagement to address institutional barriers should be at the forefront of the roadmap to economic recovery.

The momentum needed to enable recovery will be impossible without international community's assistance for humanitarian response and essential services, women's full participation to the economy and social development as both producers and consumers, revitalized banking and financial system and private sector.

**Table 9: Policy Recommendations**

| Policy Focus Area  | Priorities for Economic Recovery   | Recommendations   |
|--|--|---|
| <b>Macroeconomy</b>  |  |   |
| 1. Addressing the liquidity problems   | <ul style="list-style-type: none"> <li>Address liquidity needs of the banks</li> </ul>   | <ul style="list-style-type: none"> <li>Facilitate use of UN funds via multiple banks and/or financial institutions</li> <li>Prepare a banking sector resolution strategy</li> </ul>   |
| 2. Clarifying the role of Afghan Fund  | <ul style="list-style-type: none"> <li>Determine the criteria for disbursements from the Afghan Fund for economic stability</li> </ul>   | <ul style="list-style-type: none"> <li>Explore, with private sector entities, reasonable disbursement options for the consideration of the Afghan Fund to support economic activities</li> </ul>  |
| 3. Removing the restrictions on women's rights to work and access to education to achieve equitable and sustainable growth | <ul style="list-style-type: none"> <li>Rescind restrictions on women's education and employment</li> </ul>   | <ul style="list-style-type: none"> <li>Lead technical interactions and engagement with DFAs to reverse restrictions on women's rights</li> </ul>  |
| 4. Improving Budget Transparency   | <ul style="list-style-type: none"> <li>Clarify budget processes and see if any new currency issued can be used for budget financing (in small amounts)</li> </ul>  | <ul style="list-style-type: none"> <li>Explore ways to technically engage the DFA ministry of finance to improve budgeting and expenditure management</li> </ul>  |
| 5. Enforcing AML/CFT safeguards  | <ul style="list-style-type: none"> <li>Enhance Anti-Money Laundry and Countering the Financing of Terrorism safeguards at DAB to allow use of resources from the Afghan Fund and ease banking restrictions</li> </ul>  | <ul style="list-style-type: none"> <li>Promote and possibly support efforts aimed at enhancing AML/CFT safeguards for improved and increased business and financial transactions supporting economic recovery</li> </ul>  |
| <b>The Private Sector</b>  |  |   |
| 6. Agricultural Value Chains   | <ul style="list-style-type: none"> <li>Develop and expand export value chains</li> <li>Increase land under cultivation</li> <li>Improve productivity</li> <li>Mechanize agricultural sector</li> <li>Modernize farming and irrigation systems</li> </ul>   | <ul style="list-style-type: none"> <li>Promote post-harvest management to reduce waste</li> <li>Promote food processing within value chains</li> <li>Improve handling, transportation, loading/unloading, washing, packing, and storing.</li> <li>Improve water use efficiency</li> </ul>   |
| 7. Trade Facilitation  | <ul style="list-style-type: none"> <li>Revive the trade (air and land) corridors</li> <li>Pursue freer trade mechanisms</li> <li>Diversify exports</li> <li>Improve and increase trade finance</li> <li>Diversify transportation channels</li> <li>Export guarantee funds to restore international trust and confidence in Afghan exports and exporters</li> </ul>       | <ul style="list-style-type: none"> <li>Provide support for Afghan firms to resume presence at regional and global trade fairs</li> <li>Improve access to export markets</li> <li>Improve access to inputs</li> <li>Improve TIR awareness</li> </ul>   |
| 8. Basic Infrastructure  | <ul style="list-style-type: none"> <li>Rehabilitate productive infrastructure</li> <li>Rehabilitate community and agricultural infrastructure</li> <li>Construct new roads</li> <li>Build Export Processing Facilities</li> <li>Provide support for Afghan firms to resume presence at regional and global trade fairs</li> <li>Improve access to electricity</li> </ul> | <ul style="list-style-type: none"> <li>Improve basic market infrastructure (cold storage, cold chain, packaging centers, marketplaces) Mini solar grids to small enterprises</li> <li>Rehabilitate irrigation canals in export-oriented value chains and production</li> </ul>  |
| 9. Financial Inclusion   | <ul style="list-style-type: none"> <li>Increase bankability</li> <li>Reduce costs of banking services</li> <li>Develop financial and banking literacy and awareness</li> </ul>   | <ul style="list-style-type: none"> <li>Support the transformation into Islamic Financing schemes (products, information)</li> <li>Recapitalize financial institutions providing credit guarantees, supporting with capacity building programs</li> </ul>  |
| 10. Manufacturing  | <ul style="list-style-type: none"> <li>Reform tax policies to incentivize private investments</li> <li>Develop skills</li> <li>Undertake business enabling environment reforms</li> <li>Reform appropriate trade policies to responsibly protect and grow domestic production</li> </ul>   | <ul style="list-style-type: none"> <li>Increase and facilitate access to affordable energy for productive means (IPPs, Industrial Parks, Proposals etc.) including renewables</li> <li>Improve inter-industry linkages of manufacturing sector across Provinces</li> <li>Support and advocate for the implementation of WTO regulations, particularly those for low-income countries</li> </ul> |
| 11. Women-owned MSMEs  | <ul style="list-style-type: none"> <li>Repeal gender-discriminatory policies to allow women full participation in the economy</li> <li>Stimulate demand for women-owned MSMEs</li> <li>Ensure access to finance for women-owned MSMEs</li> </ul>   | <ul style="list-style-type: none"> <li>Support women entrepreneurs affected by Mahram Laws.</li> <li>Improve access to markets (for example sales apps)</li> <li>Support with the logistics of international travel for trade fairs</li> <li>Support with attainment of collateral and other barriers for women entrepreneurs to attain finance</li> </ul>                                      |

| <b>Banking</b>   |   |  |
|--|---|--|
| 12. Frozen assets  | <ul style="list-style-type: none"> <li>Advocate for the release of frozen foreign exchange reserves to the original owners</li> </ul>   | <ul style="list-style-type: none"> <li>Work with the private sector entities to determine options for releasing funds from the frozen assets in support of private sector efforts aimed job creation, livelihoods development, trade activities that directly support recovery</li> </ul>  |
| 13. New banknotes  | <ul style="list-style-type: none"> <li>Print and distribute new AFN Banknotes</li> </ul>  | <ul style="list-style-type: none"> <li>Promote and possibly support mechanisms in support of printing and distributing new banknotes to support market confidence, foreign exchange stability</li> </ul>   |
| 14. Diversifying channels of aid cash delivery and management  | <ul style="list-style-type: none"> <li>Distribute aid through different banks and mechanisms</li> </ul>   | <ul style="list-style-type: none"> <li>Explore different ways of cash assistance delivery including digital payment systems for financial aid distribution to remote areas</li> </ul>  |
| 15. Recapitalization of the private banks  | <ul style="list-style-type: none"> <li>Inject capital by owners (or intervention by DAB) to non-viable banks</li> </ul>   | <ul style="list-style-type: none"> <li>Identify and support recapitalization options for higher risk banks to restore trust and avert total collapse of the banking system</li> </ul>  |
| 16. Fiscal and monetary discipline   | <ul style="list-style-type: none"> <li>Improve and ensure monetary and fiscal discipline:</li> </ul>  | <ul style="list-style-type: none"> <li>Promote budget transparency</li> </ul>  |
| 17. Insurance and guarantee schemes  | <ul style="list-style-type: none"> <li>Provide deposit insurance and credit guarantees for banking system:</li> </ul>   | <ul style="list-style-type: none"> <li>Explore options for credit guarantee schemes supporting credit to MSMEs, new deposits, private sector investments</li> </ul>  |
| 18. Institutional development  | <ul style="list-style-type: none"> <li>Provide capacity building in brain-drained institutions with economic development mandates</li> </ul>  | <ul style="list-style-type: none"> <li>Identify ways and options for providing capacity support to entities that support economic activity</li> </ul>  |
| <b>Sanctions</b>   |   |  |
| 19. Reestablishing Correspondent Banking Relationships   | <ul style="list-style-type: none"> <li>Revive the Correspondent Banking Relationships specifically to support private sector transactions such as trade and investment activities</li> </ul>  | <ul style="list-style-type: none"> <li>Work with the concerned private sector entities to explore ways of reviving banks' linkages and partnerships with foreign banks, particularly those in the region or in the trade partner countries</li> </ul>  |
| 20. Improving due diligence and compliance procedures  | <ul style="list-style-type: none"> <li>Understand and explain the sanctions and provide supervision and or guidelines to commercial banks and financial institutions</li> </ul>   | <ul style="list-style-type: none"> <li>Support banks, particularly those that are supporting trade and business transactions, in their efforts to comply with the restrictions and take any possible actions that can potentially encourage reduction in restrictions</li> </ul>   |
| <b>Energy</b>  |   |  |
| 21. Gap the energy deficit by domestic generation including from hydro, solar and thermal sources through facilitation of private investment and where possible PPP models | <ul style="list-style-type: none"> <li>Boost energy generation</li> <li>Develop fresh infrastructure, maintain existing infrastructure</li> <li>Diversify sources of energy</li> <li>Export surplus energy to neighbors</li> <li>Bolster private investment</li> <li>Improve energy consumption efficiency and waste management</li> </ul>  | <ul style="list-style-type: none"> <li>Invest in productive uses of clean energy enabled for communities</li> <li>Invest in clean energy technologies for MSMEs, industries</li> <li>Support innovative energy services' delivery models for social, institutional, industrial and consumers</li> <li>Support institutional capacity to facilitate investment environment for renewables</li> </ul>  |
| <b>Opium</b>   |   |  |
| 22. Clear Strategy towards the opiates in Afghanistan  | <ul style="list-style-type: none"> <li>Develop the new National Drug Control Strategy</li> <li>Prepare and endorse the National Drug Action Plan</li> <li>Provide multidimensional support and care to drug addicts, particularly women, children, youth and girls</li> </ul>   | <ul style="list-style-type: none"> <li>Develop and implement a clear national strategy for drug control</li> <li>Promote regional cooperation on drug control through creating alternative approaches to generate income and livelihood</li> <li>Reduce drug demand</li> </ul>   |
| 23. Providing alternative ways of livelihood and income generating opportunities   | <ul style="list-style-type: none"> <li>Increase the agriculture productivity through promoting sustainable irrigation, agriculture mechanization, improved agricultural inputs such as seeds, fertilizers, training and market connections</li> <li>Promote and possibly support a "guaranteed purchase" system for agricultural produces</li> <li>Create and expand market linkages for the licit agricultural crops and products</li> </ul> | <ul style="list-style-type: none"> <li>Increase farmers and agricultural industries' access to finance</li> <li>Improve irrigation system by establishment of new canals and rehabilitation of existing canals</li> <li>Provide agricultural inputs such as seeds, fertilizers and toolkit</li> <li>Provide training and awareness to farmers</li> <li>Support the producers of high value crops and manufacturers of vegetable oil with machinery and technical training</li> </ul> |
| <b>Gender</b>  |   |  |
| 24. Economic and business opportunities for women owned MSMEs  | <ul style="list-style-type: none"> <li>Rescind discriminatory and restrictive policies against women's work</li> <li>Provide multidimensional support and services to women and girls</li> </ul>  | <ul style="list-style-type: none"> <li>Advocate for and promote women's rights</li> <li>Support developmental efforts aimed at women empowerment and gender equality</li> <li>Support women-dominated sectors and industries such as textiles, high value crops and carpets among others</li> </ul>  |



|  |  |   |
|--|--|---|
| 25. Social Protection for vulnerable women | <ul style="list-style-type: none"> <li>• Return women’s access to education, work and movement</li> </ul>  | <ul style="list-style-type: none"> <li>• Provide cash for work, for market, for production, for raising family, for food, for healthcare, for education and for unpaid work</li> <li>• Consider initiatives such as Temporary Basic Income (TBI) (cash transfers to adult women in the country)</li> </ul>  |
| 26. Jobs                                   | <ul style="list-style-type: none"> <li>• Ensure gender equality and equitable opportunities for women</li> </ul>   | <ul style="list-style-type: none"> <li>• Create jobs, improve existing jobs, assist with placement programs in partnership with NGOs, companies, associations, service providers, traders</li> </ul>  |
| <b>Governance and institutions</b>         |  |   |
| 27. Institutions for Recovery              | <ul style="list-style-type: none"> <li>• Ensure and increase capacity for the delivery of essential services and humanitarian assistance</li> <li>• Reduce delivery costs and involve community and local social institutions in delivery and management of humanitarian assistance and basic human needs assistance including support to MSMEs, women-owned businesses, agricultural development etc</li> </ul> | <ul style="list-style-type: none"> <li>• Facilitate technical and operational engagement with economic entities of the DFAs such as MoF, DAB, MoIC, MoEW, MAIL and the donors’ from Afghanistan Coordination Group (ACG) initiative to galvanize attention and support for ongoing crisis response efforts</li> <li>• Involve and support local social entities such as community councils, women’s associations, private sector associations in humanitarian assistance delivery and monitoring</li> <li>• Advocate for and promote increasing basic development efforts such as market development, enhancement of productive industries and sectors, exports and energy generation, credit support to the private sector entities among others.</li> </ul> |
| 28. Institutions for Growth                | <ul style="list-style-type: none"> <li>• Build capacity for macroeconomic policy design, execution, and management</li> <li>• Develop and implement a comprehensive private sector development strategy</li> <li>• Improve service delivery</li> <li>• Support infrastructure development initiatives</li> <li>• Increase export competitiveness</li> </ul>  | <ul style="list-style-type: none"> <li>• Advocate for and promote competence-based appointments in the economic and planning entities of the public sector</li> <li>• Support private sector development initiatives and priorities</li> <li>• Develop and implement a practical and contextualized growth strategy</li> </ul>  |
| 29. Institutions for Sustainability        | <ul style="list-style-type: none"> <li>• Capacity for sustainable production, consumption, and trade</li> <li>• Develop a national development framework to guide any development efforts</li> </ul>   | <ul style="list-style-type: none"> <li>• Develop and implement guidelines and safeguards for environmentally and socially responsible production and consumption across all sectors of the economy</li> <li>• Provide capacity support and resources to the concerned public entities</li> <li>• Promote afforestation and greenery by incentivizing plantations</li> </ul>   |
| 30. Institutions for Inclusiveness         | <ul style="list-style-type: none"> <li>• Promotion of human rights</li> <li>• Promotion of civil participation</li> <li>• Promotion of non-discrimination</li> </ul>   | <ul style="list-style-type: none"> <li>• Develop simplified institutional policies, guidelines and regulations that aim at ensuring compliance with human rights</li> <li>• Establish channels of communication and participation mechanisms for the public to monitor and support public service delivery in urban and rural areas</li> <li>• Ensure equitable access to opportunities, resources and benefits for all strata’s of the society particularly the poorest, women, girls, youth, drug addicts and other vulnerable groups</li> </ul>  |

## Policy Directions

- Reverse the restrictions on women's rights to work, education, and movement for the economy to regain its strengths and recover in more equitable and sustainable ways.
- Collaborate with domestic private sector entities to identify practical options for disbursements from the Afghan Fund to enhance investments in basic economic and social infrastructure, including for local food production and energy supply. For example, for improved basic market infrastructure (cold storage, cold chain, packaging centers, marketplaces), mini solar grids to small enterprises, rehabilitating irrigation canals in export-oriented value chains and production.
- Enhance anti-money laundering and countering the financing of terrorism safeguards at the Central Bank of Afghanistan (DAB) to ease domestic banking and finance restrictions to restore confidence of investors.
- Explore efficient, accountable cash assistance delivery mechanisms, including expanded use of tested digital payment systems for financial aid distribution and temporary basic income to vulnerable households and remote areas.
- Invest in clean energy technologies for MSMEs as high priority, high return investment to expand services and industry and lower cost of electricity and power-generation. Include innovative renewable energy services' delivery models for social services, industrial and household needs.
- Promote increasing capabilities and systems to support market development, enhancement of select productive sectors, and finance sector enhancements to help grow local economic activity.
- Advocate for and promote learning and skills development, and equal opportunity appointments for women and men, in the public sector, to regain and retain the capabilities and trust in public services and administration.
- Establish mechanisms and channels for public to participate in monitoring and supporting delivery of public services in the urban and rural areas

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## ENDNOTES

1. The drop in real per capita incomes is estimated to have been 24 percent between 2020 and 2022.
2. UNDP (2021b).
3. This remains the latest estimate reported by NSIA in 2022. However, both UNAMA and ILO report a female unemployment rate of around 40 percent as of mid-2022 (ILO 2022).
4. World Bank. 2022d.
5. For more details, including about the governance of the Fund, see <https://www.state.gov/the-United-states-and-partners-announce-establishment-of-fund-for-the-people-of-afghanistan/>
6. Some insight could be gained by examining the Taliban's tax policies in the areas they controlled prior to August 15, 2021. See Amiri and Jackson (2022).
7. The five largest nonbank state-owned entities are Da Afghanistan Breshna Sherkat, Afghan Telecom, Ariana Airlines, Afghanistan Urban Water Supply, Afghan National Insurance Company. See IMF (2021).
8. World Bank Afghanistan Economic Monitor, November 21, 2022.
9. Prior to the takeover of the Taliban, the Afghan government had planned to issue a sukuk. The fate of that plan is unclear. To boost revenues, they also intended to adopt a VAT in 2022.
10. World Bank (2022a).
11. Under the DSSI, Afghanistan received relief from the multilateral agencies, as well as from Bulgaria, Kuwait, Russia, and Saudi Arabia. See World Bank (2022b).
12. Financial sector disruptions have also contributed to a decline in workers' remittance inflows. Remittances fell from about US\$800 million in 2020 to US\$300 million in 2021 but expected to have recovered in 2022 (World Bank KNOMAD database).
13. World Bank (2022b).
14. UNDP (2022).
15. World Bank (2022b).
16. Afghanistan's long-standing and recent energy sector problems are discussed in UNDP (2021a).
17. Per capita average and median incomes/expenditures are calculated using individual (not household) weights and an exchange rate of 87AFN to 1US\$.
18. See Figure 12.
19. World Bank Development Indicators:  
<https://data.worldbank.org/indicator/FP.CPI.TOTL.ZG?locations=AF>
20. The respective surveys for these two years are the National Risk and Vulnerability Assessment (NRVA2011-12) and the Afghanistan Living Conditions Survey (ALCS2016-17).
21. The decline was 6 percent according to the World Bank in constant 2015 US\$. The difference between the estimates by NSIA and World Bank arises from using different population sizes and nominal versus constant dollars. According to the NSIA, between 2011 and 2020 the size of the population increased from 29 million to 32.2 million while international estimates bring the latter estimate to around 40 million (and expected to reach 48 million by 2030). The exchange rate rose from AFN48 to one US\$ in 2011 to AFN77 in 2020.
22. World Bank (2021).
23. Canchotejesh and Pradhan (2020).
24. UNDP (2020).
25. World Bank (2022a).
26. UNDP (2021b).
27. World Bank Development Indicators.
28. The NSIA estimates the current (2022) population to be 34.3 million and the latest annual growth rate (2021 to 2022) at 2.1 percent. The United Nations estimates these two figures to be 41 million and 2.6 percent. Also during the last 10 years, NSIA's estimates for the annual population growth rate averaged around 2.5 percent while according to the World Bank the rate averaged 3.4 percent (until 2021) and is expected to increase at an annual rate of 1.8 percent reaching 48 million by 2030  
(see: <https://data.worldbank.org/indicator/SP.POP.TOTL?locations=AF>).



29. NSIA estimates as of November 2022.
30. The WoAA2022 survey did not cover urban households in Kandahar.
31. Neither did it report, in its published form, incomes despite its title.
32. The IE&LFS2020 reports that household expenditure on durable goods was AFN815 “which accounts for about 4.4 percent of total nominal household expenditures in 2020”.
33. World Bank (2022b).
34. However, this do not take into account that, also according to NSIA, the overall inflation rate has been 22.4 percent between these two years (September to September) consisting of 29.1 percent of the food inflation and 15.7 percent of the non-food inflation
35. See <https://www.helgilibrary.com/indicators/gini-index/afghanistan/>
36. The estimates for the Gini are based on expenditures.
37. IE&LSF2020 p. 82. It goes on to say “The typical consumption pattern was defined as the average food consumption of the population between the second and the fifth consumption deciles in the NRVA 2007-08” p. 258.
38. For example, West-Central had the lowest poverty line at AFN1,762 (US\$22.9) and the urban Central region the highest at AFN3,290 (US\$42.7).
39. Households that have more members tend to have lower per capita income and expenditures.
40. These do not imply that only 10 percent of households have adequate food consumption. In fact, as shown in Chapter 4, 21 percent of households stated that they had acceptable food consumption. The difference can be explained by the fact that households may consume home grown food not included in their responses, but this still leaves 80 percent of the households with inadequate food consumption.
41. With respect to urban/rural differences, when comparing expenditures below AFN2,760 (see Figure 12) the urban population share is 90 percent and the rural population share is 86 percent. When comparing only food expenditures (AFN1,717), the urban population share is 98 percent and the rural population share is 95 percent.
42. Though the IE&LFS2020 suggests that the percentage of those below the poverty line is 47 percent, which still is a rather high number, the corresponding estimate was 55 percent only four years before (ALCS 2016-17). According to the latter survey, 81 percent of the population was living on less than AFN57 (US\$0.74) per day while the poorest half of the population was living on less than AFN30 (US\$0.39) per day, which indicates an extreme level of deprivation. Even the 5 percent of the population at the top of the distribution averaged only US\$2/day per person (UNDP 2021a). Following the onset of the pandemic, only 31 percent of those in the top 20 percent of the income distribution were considered to be non-vulnerable (World Bank 2020).
43. Annex 1 in UNDP (2021c).
44. UN (2023a) for 2022 and OCHA (2023) for 2023.
45. WFP (2023a).
46. WFP (2023b), UNICEF (2023) and Kropf (2023).
47. For example, female-headed households are struggling the most and resort to drastic crisis-coping measures more often than men (WFP 2022).
48. UNDP (2021a).
49. WFP (2023c).
50. World Bank (2022d).
51. Loss of income is assumed to have affected all households reporting that they were affected by an economic event.
52. IPC (2022).
53. Reuters (2021).
54. World Bank (2023c).
55. World Bank (2019).
56. See <https://www.laprensalatina.com/at-least-17-die-in-northeast-afghanistan-amid-cold-snap/>
57. For example, food availability is reported to have been 98 percent when the WoAA2022 was conducted (August-September). This was based on data in 48 markets in 21 provinces. See World Bank (2023).
58. According to Save the Children (2022), a fifth of starving families sent children to work as incomes plummeted in past six months.



59. The survey collected data from 48 markets in 21 provinces and its results “suggest that most basic food and non-food items remain available” (World Bank 2023).
60. The monthly expenditures of households exceed their reported incomes on average by AFN4,217 (US\$48.5).
61. World Bank (2022a) and World Bank (2023).
62. This is the 2020 poverty line adjusted for inflation.
63. The Coping Strategies Index (CSI) aggregates in a simple numeric score several answers to the question: “What do you do when you don’t have adequate food and don’t have the money to buy any?” See <https://www.spring-nutrition.org/publications/tool-summaries/coping-strategies-index-field-methods-manual-2nd-edition#:~:text=Brief%20Description%3A%20The%20Coping%20Strategies,in%20a%20simple%20numeric%20score.>
64. UNWOMEN (2023), OCHA (2023a).
65. See <https://www.unicef.org/media/131871/file/2023-HAC-Afghanistan.pdf>
66. See <https://www.usip.org/publications/2022/08/one-year-later-taliban-unable-reverse-afghanistans-economic-decline>
67. See <https://www.transparency.org/en/countries/afghanistan?redirected=1>
68. OCHA (2022). The previous surveys are not comparable in coverage, sample composition and purpose with the one used in this report that were obtained in mid-December 2022.
69. There is no separate identification of the Kuchi population that comes to 1.5 million or 4.4 percent of the 34 million total population as per latest estimate by the NSIA.
70. The WoAA2022 is nationally representative (“weighted”) with respect to the number of households by province and location (urban/rural). The share of male headed households (including female representatives of male households) is 84.6 percent and that for female headed households are 15.4 percent though in reality the share of female headed households is lower though probably poorly accounted for. For example, the IE&LFS2020 suggests a share of female-headed household of 1.6 percent but a more recent survey raises that share to 4 percent (WFP 2022). The oversampling of female-headed households by the WoAA provides more statistical accuracy to the results presented in this report while it does not affect its national estimates.
71. The exchange rate used in Chapters 2 to 5 is taken to be 87AFN to 1US\$.



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