



# From Humanitarian Response to Economic Recovery: recommendations for addressing acute needs and the root causes of the humanitarian crisis in Afghanistan

May 2022

## Summary

In Afghanistan, state failure and economic collapse are now the primary drivers of a humanitarian catastrophe unfolding at breakneck speed. Unemployment and poverty are now the greatest drivers of internal displacement.<sup>1</sup> The International Rescue Committee (IRC) has been providing assistance in Afghanistan for three decades, working today in 11 provinces. We see firsthand that while humanitarian aid saves lives, it cannot replace a functioning economy and state. In Afghanistan, the collapse of both is driving 97 per cent of the population into poverty. The severity of the situation facing ordinary Afghans requires more than humanitarian solutions. The current humanitarian crisis could kill far more Afghans than the past 20 years of war.

To date, the US and other Western governments have focused on providing humanitarian funding based on a famine prevention strategy, putting in place important humanitarian exemptions and offering much-needed clarity on sanctions regimes at the bilateral and multilateral levels. These steps helped avert the immediate threat of famine this past winter and have led to marginally improved food security projections over the coming months. The carveouts and clarity enabled agencies like the IRC to scale up lifesaving humanitarian assistance across Afghanistan, including districts that had long been inaccessible to humanitarian agencies.

However, the crisis in Afghanistan is evolving into a catastrophe of choice as these same governments maintain policies of economic isolation that are pushing the Afghan economy to the brink and causing nearly 19m Afghans to experience high levels of acute food insecurity in the coming months. Access to Afghanistan's foreign reserves remain frozen, the banking system grounded, and development assistance, which financed most government

services, on pause. These policies have had knock-on impacts across the economy, reducing public spending from around 55 per cent of GDP in 2020 to around 11 per cent post-Taliban takeover. The impact has been swift and catastrophic for ordinary Afghans, compounding an already dire economic and humanitarian situation. The international community can and should do much more to safeguard the lives and livelihoods of innocent Afghans, with action on the economy urgently needed.

### Recommendations for immediate actions to support public service delivery and the humanitarian response include:

- ▶ **Fully fund the humanitarian appeal and quickly translate humanitarian donor pledges into funding** for frontline responders and support their ability to operate.
- ▶ **Launch the UN's Humanitarian Exchange Facility (HEF)** as a temporary mechanism to provide liquidity.
- ▶ **Disperse the Afghanistan Reconstruction Trust Fund (ARTF) immediately** to support critical service delivery, including health, livelihoods, agriculture and education services which remain available; commit to replenish the ARTF.

### Steps needed towards international engagement in support of the Afghan economy include:

- ▶ **Urgently convene key stakeholders including IFIs, UN and key donors** on the Afghan economy.
- ▶ **Deploy technical assistance** to Da Afghanistan Bank (DAB).
- ▶ **Provide guidance and reassurance to the private and banking sector.**

<sup>1</sup> Mid-Year Whole of Afghanistan Assessment 2022 Key Findings Presentation. Kabul, 05 May 2022.

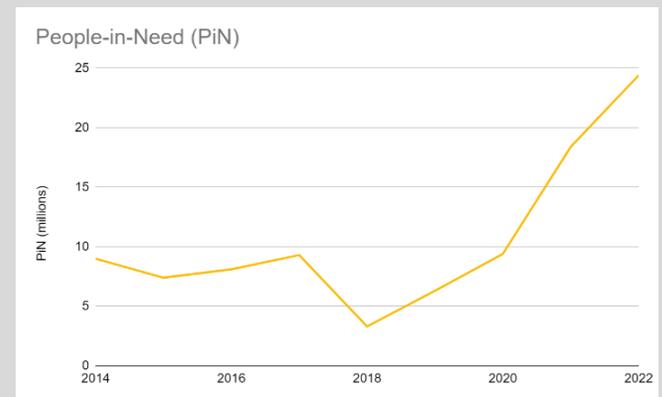
# Addressing the root causes of humanitarian catastrophe

Donor funding and efforts to facilitate humanitarian aid have saved Afghan lives. Yet unless major donors build on these efforts and take key steps to address the root cause of the humanitarian crisis through reviving the Afghan economy, needs will continue to rise at record speed, outpacing the humanitarian response and unraveling two decades of development. The UN's Emergency Relief Coordinator warned that if insufficient action is taken now to treat the cause and not just the symptoms of the humanitarian crisis, next year's humanitarian funding needs - already record-setting - could double to US\$10 billion.

Broad political and economic engagement is challenging policy positions of the Taliban and continuing questions over political recognition. Yet, the interconnected nature of the crisis and the catastrophic ripple effects on the Afghan population from decisions made by both the Taliban and the international community should prompt smaller steps that can be taken now to alleviate suffering and create a basis for broader and more sustainable engagement.

The relationship between civil servant salary payments and poverty provides an example of the interconnections that underpin the crisis. In 2017, there were 417,000 Afghan civil servants (22.5 percent were women)<sup>2</sup> providing an important source of formal sector employment. Combined with those employed in the security sector (272,500 in 2019<sup>3</sup>), the total government workforce was approximately 689,500. The sudden loss of civil servant incomes has heavily impacted aggregate income (a loss of approximately US\$154.4m per month<sup>4</sup>) putting pressure on sectors dependent on consumer spending, not to mention the disastrous impacts on the delivery of health, education and agricultural extension services once provided by these civil servants. For example, within one month of Sehatmandi health service funding being suspended by the World Bank in August 2021, just 17 percent of health facilities were still fully functional.

Now a vicious cycle is playing out across the country. Rising poverty is further reducing demand for goods, forcing Afghan companies out of business, and contributing to further unemployment. The United Nations (UN) has projected that 24.4 million people will be in humanitarian need in 2022, up from 18.4 million people at the start of 2021.



A recent World Bank survey highlighted that nearly 100% of businesses reported declines in demand, including 75% of large firms; one-quarter of businesses had at least temporarily closed operations and on average had laid off two-thirds of their staff. Small and women-owned firms were more likely to have closed operations, while women have been disproportionately impacted by job losses.<sup>5</sup>

The impacts of the economic collapse on Afghans are clear and extreme. The public sector is on the brink of collapse because salaries cannot be paid. While the limit on withdrawals has been officially lifted, in practice banks continue to restrict customer withdrawals to US\$200 per week due to a lack of currency. The government and private companies are unable to pay for imports; businesses cannot pay wages, and informal work opportunities have evaporated, leaving many ordinary Afghans unable to meet their basic needs and pay for food and medicine. UNDP has projected 97 percent of Afghans could be living below the poverty line by mid-2022.

<sup>2</sup> <https://documents1.worldbank.org/curated/en/225341531481888297/pdf/Afghanistan-Issues-Note-Managing-the-Civilian-Wage-Bill.pdf>

<sup>3</sup> <https://www.statista.com/statistics/1258555/afghanistan-number-of-security-forces-on-duty/>

<sup>4</sup> According to a [World Bank report](#), monthly salary scale for the civilian workforce ranged between AFN 5,000 to AFN 32,500 in 2017/18. We

have used a median salary of 15,000 divided by the 2018 USD exchange rate which is the year the report was produced to derive the total figure.

<sup>5</sup> <https://thedocs.worldbank.org/en/doc/ced9ff1a094dd92886271f532f3c9754-0310062022/original/AFG-Private-Sector-Rapid-Survey-Report-Apr-2022-Final.pdf>

This economic collapse, combined with drought, is depriving nearly 20 million Afghans of food across Afghanistan. The IRC and other humanitarian agencies are seeing record cases of malnourished children, child

labor, and young girls being sold into marriage - nearly all of these trends are driven by families' lack of access to cash to buy the food they need to survive.

## Shared responsibility: Transcending transactional diplomacy

The policy approaches needed to slow and ultimately halt and reverse the humanitarian and economic freefall and facilitate an adjustment to the new economic and development realities in Afghanistan that go beyond humanitarian aid, are politically sensitive. International financial institutions, such as the IMF, who could play a critical role in supporting the Afghan economy, financial institutions, and Central Bank to start functioning are effectively blocked from doing so due to political considerations. At the same time, Afghan assets, which will be central to settle international payments, provide public services and manage the supply and demand of Afghans and US dollars to manage inflation, maintain liquidity, and stabilize market prices, remain frozen in Western capitals.



While the international community seeks to use all levers of influence to protect the rights of Afghans, including girls' rights to education, the current approach risks missing the bigger picture of rising needs and increasing desperation that poses a far greater threat to the futures of Afghans, the survival of the state, and commitments to protect the development gains of the last twenty years.

The decision to suspend girls above the age of 13 from attending school is deplorable and a catastrophic

step backwards for Afghan society. Similarly, deeply concerning reports of human rights violations cannot be overlooked. However, the human costs of holding the entire population to ransom over Taliban positions is increasingly indefensible. Girls need and deserve to go to school - but they and their families also need and deserve access to clean water, food, health care, and economic opportunities.

The chilling effect the decision on girls' education is having on international engagement is only working to ensure all Afghans, but particularly women and girls, pay twice for the Taliban's actions. And, at the same time, isolation policies run the risk of emboldening the hardest line elements within the Taliban.

A new approach is needed. Political dialogue must continue to seek to reverse the decision on girls' education, but the current transactional approach to influencing the Taliban that uses aid as a lever for often not clearly defined policy reform should be replaced with efforts to establish shared responsibilities and priorities for safeguarding the lives and livelihoods of Afghans.

Humanitarian aid delivery provides an important starting point for building cooperation and trust. The de-facto authorities have allowed humanitarian actors to work, with access to populations in need actually improving since the Taliban took control in August. However, there is a real risk of this cooperation weakening, and interference from the Taliban in the delivery of humanitarian assistance increasing, as isolation tactics continue without clear benchmarks for engagement.

Donors should lay the groundwork for engagement with the Taliban on the economy, which do not prejudice efforts to pressure the Taliban and can be expanded as political conditions allow. Without this intervention, the economic crisis and humanitarian needs will continue to deteriorate, outpacing the humanitarian response, with severe impacts on Afghans, including and especially on women and girls.

# Immediate actions to support public service delivery and the humanitarian response

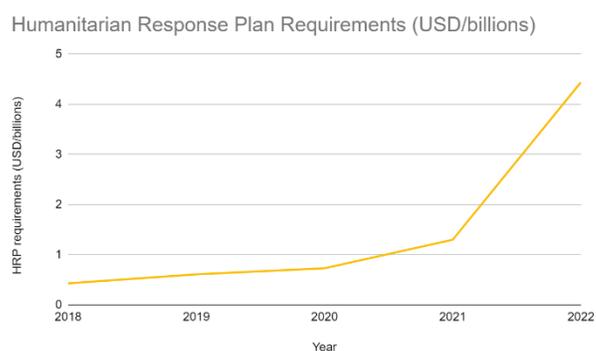
The immediate priorities and actions of the international community should focus on alleviating the acute and deteriorating humanitarian crisis by injecting large scale humanitarian financing and securing immediate, if short-term, sources of liquidity and support for Afghans beyond aid. These steps should be pursued alongside efforts to lay the groundwork for longer term economic support.

## 1 Quickly translate humanitarian donor pledges into funding for frontline responders and support their ability to operate

*The Afghanistan donor conference raised US\$2.4 billion, leaving a massive US\$2 billion funding shortfall for the humanitarian response. Donors should work to rapidly translate pledges into allocations to frontline delivery partners in Afghanistan, while investing in urgent efforts to improve financial access. This will ensure Afghans have access to lifesaving assistance at the same time as facilitating agencies to inject short term liquidity into the Afghan economy and scale up cash programming.*

The humanitarian deterioration in Afghanistan has happened at a terrifying speed. 24.4 million people are in humanitarian need – more than half the population – resulting in the largest funding request in history (US\$4.4 billion), triple the size of last year's appeal. Four times more people are in need of assistance as compared to just three years ago. Afghanistan also now has the highest number of people in emergency food insecurity in the world – a 35 per cent increase from the same time last year.<sup>6</sup> A staggering 90 percent of Afghan households now report food as their primary need<sup>7</sup>, and families who could support themselves six months ago are now entirely dependent on aid to survive. Between 2021 and 2022, average household incomes have dropped 14 per cent, while the number of household reporting debt has risen from 78 to 82 percent in the same period primarily driven by the need to buy food.<sup>8</sup> With each week that goes by, more families are forced to make unimaginable choices to survive, with devastating consequences for women and girls. Since August, the number of Afghans resorting to negative coping capacities has reportedly risen, this includes selling young daughters into marriage, pulling children out of school to work, selling organs, skipping meals or taking on high levels of debt.<sup>9</sup>

While the humanitarian response alone is not sufficient to address the wider economic challenges driving



humanitarian need across Afghanistan, without sufficient funding to scale up and reach those in need in the immediate term, Afghans will continue to suffer and humanitarians will struggle to avert famine and preventable deaths in the coming weeks.

Humanitarian aid must be designed to save lives, but its role in supporting short term injections of liquidity into the economy cannot be overlooked. In Afghanistan, it is the lack of liquidity that is stopping families from buying food on local markets. A well-funded humanitarian response would allow NGOs to scale up to the levels needed to avert immediate suffering, including through essential support such as cash programming. Humanitarian cash transfers are a proven, effective means of addressing basic needs and steadily encouraging economic recovery. Through

<sup>6</sup> <https://reliefweb.int/report/afghanistan/afghanistan-humanitarian-response-plan-2022-january-2022>

<sup>7</sup> Mid-Year Whole of Afghanistan Assessment 2022 Key Findings Presentation  
Kabul, 05 May 2022

<sup>8</sup> Mid-Year Whole of Afghanistan Assessment 2022 Key Findings Presentation. Kabul, 05 May 2022

<sup>9</sup> [https://reliefweb.int/sites/reliefweb.int/files/resources/protection\\_analysis\\_update\\_q4.pdf](https://reliefweb.int/sites/reliefweb.int/files/resources/protection_analysis_update_q4.pdf)

supporting people to purchase food and other essential items, cash can strengthen local markets and offer a small-scale source of liquidity for Afghanistan's economy. Moreover, in other contexts, cash transfer programmes have helped to mitigate the exclusion of women and marginalised populations by giving them more independence and control over resources.

Supporting a scale up in cash assistance and humanitarian programming more broadly will require continued efforts to improve financial access. The collapse of the banking system has left humanitarian actors almost exclusively reliant on hawalas - a vital but expensive option for money transfer that is often inaccessible for national NGOs without international bank accounts.

To ensure humanitarian agencies of all sizes are able to operate and reach those in need donors should:

- ▶ **Fully fund the humanitarian appeal** and ensure funds are dispersed quickly.
- ▶ **Ensure that humanitarian grants include appropriate overheads** to cover the additional costs of moving money into and around Afghanistan via hawalas.
- ▶ **Ensure all sanctions regimes include effective humanitarian exemptions.**
- ▶ **Support interim financial solutions to ensure aid actors can access cash in-country**, including the UN financial airbridge and Humanitarian Exchange Facility (HEF), ensuring both mechanisms are available to national partners.

## **2 Support the UN's Humanitarian Exchange Facility (HEF) as temporary mechanism to provide liquidity**

*The UN has proposed a Humanitarian Exchange Facility (HEF) to help address the lack of access to physical dollars and afghanis, and to support both humanitarians in their operations and private sector actors in importing essential goods. The Humanitarian Exchange Facility, while necessary and useful for a short period to support aid provision, should be phased out as commercial banking becomes viable again to avoid distorting the financial markets.*

The HEF would allow Afghan private sector companies to deposit their afghanis into banks for UN agencies and NGOs to access inside Afghanistan to pay for operational costs. Afghan companies would then receive the equivalent of their afghani deposits in US dollars abroad to pay foreign suppliers for imports. While not a scalable or long-term solution for the wider economic crisis, the HEF represents a potential means of injecting much needed liquidity into the Afghan economy in the immediate term, supporting imports, and facilitating the humanitarian response. However, the medium-term relevance of the HEF should be assessed in relation to the long-term negative implications of establishing parallel banking structures in Afghanistan.

In the medium term, the HEF risks distorting financial markets by increasing demand for Afghanis, and unintentionally encouraging capital flight. It is vital therefore to maintain simultaneous efforts to restore the commercial banking sector (a step that demands support to the capacity of Da Afghanistan Bank, including its regulatory and supervisory functions) allowing these institutions to fulfil their pre-August roles in managing international and domestic fund transfers, and hence the phasing out the HEF.

## **3 Disperse ARTF funds immediately to support critical service delivery; commit to replenish the ARTF; establish roles for NGOs in the governance structure of ARTF**

*The bank should urgently disburse funding in support of health, education, agriculture, and livelihood activities to avoid public sector, and especially the health service collapse. Afghans, including women and girls, should not be denied access to essential health, primary education or investments in agriculture and community development that can provide a vital safety net for the poorest and most at risk. The Bank should also review the role of civil society organizations (CSOs) in the ARTF's governance, design, and delivery. ARTF donors should outline plans for the replenishment of the fund to maintain essential development and macroeconomic support to Afghanistan.*

Pre-August, 75 percent of public spending came from international funding. As outlined above, the loss of support to civil servant salaries has contributed to a decrease in aggregate demand and undermined essential service provisions. Health and nutrition services contracted out to NGOs, mainly through the ARTF Sehatmandi project, have been the backbone of Afghanistan's health care system and are essential to prevent the system's total collapse. Further most of the 265,366 public primary, secondary and high school teachers in Afghanistan were reliant on ARTF funding. As a tested mechanism, ARTF and the World Bank as its administrator has an important role to play in ensuring the scope of funding is broadened beyond humanitarian assistance to encompass supporting the provision of basic public services and other livelihood activities that will provide a much-needed economic resuscitation.

The decision of the World Bank to re-program US\$1 billion of the remaining ARTF finances will play an important role in offsetting the impacts of the loss of development aid and inject much needed liquidity into the economy. Donors should push for ARTF funding for both education and non-education programs to resume urgently following its recent suspension. At the same time, ARTF donors and the Bank should continue to refine their approach to support the delivery of development aid to reflect the current political environment, relative experience and expertise of CSOs, and have the flexibility to re-engage in high-impact sectors.

First, the Bank should publish details of the modalities for spending ARTF programmatic funding, ensuring funds are channeled to those best able to sustainably reach populations in need. In this regard, NGOs and consortiums of NGOs should be considered as potential partners. The bank should also recognise the role CSOs can play in ensuring the structure of the new fund reflects the changed operational context and needs in Afghanistan.

With no national development strategy for the ARTF to align with, actions are needed to ensure the fund remains synced with the needs and priorities of local communities. With extensive community networks and relationships, and established mechanisms for community engagement. NGOs can play a key role in ensuring the interests of Afghan people are reflected in the design of the ARTF and its programs.

In order for this to happen, the Bank, in consultation with its donors, should:



- ▶ **Establish roles for NGOs in the governance structure of ARTF & integrate NGOs into the ARTF working groups responsible for portfolio design**
- ▶ **Consider the role that NGO-led community consultation can play in improving ARTF Results Monitoring and Reporting**
- ▶ **Ensure that NGOs are engaged to support Community Development Councils when they create their development plans.**

Second, the Bank should ensure civil servant salary support is all paid as stipends on top of salaries that the Taliban have agreed to pay, albeit at a reduced scale. This approach can contribute to building existing systems for service delivery, preserving local institutional capacity built over the last 20 years, while boosting local spending.

Third, while Afghanistan will not be funded to the same degree as it was pre-August, donors should announce a process for the replenishment of the ARTF in light of ongoing needs, and as part of a strategy to support the country to adapt to the new economic and development reality it faces.

# A roadmap for international engagement in support of the Afghan economy

To address the root causes of the humanitarian unravelling in Afghanistan, donors must take steps to support the formal structures of the economy. Sanctions clarity offered by the US and UN Security Council removed legal barriers and ambiguities for humanitarians and the private sector and paved the way for the necessary engagement with Afghan ministries and its Central Bank. This section outlines a range of steps donors can begin to take immediately, and once political conditions allow, to support Afghanistan's economic recovery.

In response to the Taliban takeover, Afghanistan's access to approximately US\$9 billion of its foreign reserves was restricted and the US stopped shipments of cash to the country. These policies have had profound effects on the Afghan economy and the delivery of public services, and therefore the lives of ordinary Afghans. While the freezing of Afghanistan's foreign assets is not the primary cause of the economic crisis (the loss of development assistance had a greater and more immediate impact on GDP and economic demand), establishing a clear roadmap towards the release of assets to recapitalise DAB without causing further damage to Afghanistan's economy, will form a key pillar of efforts to set the economy on a path to greater self-reliance.

Without access to US dollars due to the freeze in assets, the ability of DAB to fulfil its basic fiscal management roles has been hindered. Currency auctions - the primary mechanism used to manage the money supply and control the afghani's exchange rate - could not be sustained, nor could DAB control inflation or fill the fiscal gap created by the sudden halt in development grants.

Shortages of afghanis, DAB's restriction on bank withdrawals (designed to reduce capital outflows), and the reluctance of corresponding banks to engage in transactions due to the chilling effect of sanctions, have left banks largely unable to process international transactions, drastically impacting imports. More broadly, a lack of consumer access to deposits has adversely affected market supply and demand for goods and services, undermining economic growth and private sector employment opportunities.

Domestically, restrictions on currency withdrawals have destroyed consumer confidence in the banking system - a trend with long term implications for the viability of commercial banks. At the same time, the lack of payments to civil servants mean banks are experiencing an outflow of funds, and no deposits. As a result, many banks have closed and the health of the commercial banking sector overall remains a major, and as yet not fully understood, concern.

The complexity of the challenges facing Afghanistan and the political sensitivity of engagement with the Taliban has led to proposals to bypass DAB through privatisation. Such efforts should be resisted for risk of distorting the financial sector in Afghanistan and undermining DAB's regulatory supervision role, which is essential for the revival of commercial banking. If the Afghan economy is going to be set on a path to greater self-reliance, state capacity and the formal structures of the economy, including the role of the central bank, must be maintained and supported in the short and medium term.

The steps outlined below are the key steps needed to chart a path towards unfreezing assets, recapitalising the central bank, and restoring basic economic functioning and alleviate humanitarian needs.

## **1** Urgent convening of key stakeholders to establish a clear picture of the current economic situation in Afghanistan & coordinate a way forward

*Halting the economic collapse requires a shared understanding of the current status and function of Afghanistan's economy. Key stakeholders including major donors, IFIs, the UN, regional actors and NGOs should commit to holding an initial tabletop exercise on the Afghan economy to establish a clear picture of the current economic situation in Afghanistan and drivers of the crisis, as a step towards agreeing to a roadmap and coordinated approach towards benchmarked support to the Afghan economy.*

The economy needs to adjust to the new economic and development reality that Afghanistan faces. The de-facto authorities will be required to mobilise domestic revenues to run the government, complemented by international grants to boost spending in support of the delivery of essential public services. Yet, there is currently little understanding of how the Taliban are running the economy.

Efforts should be made to gather a joint understanding of levels of revenue collection and taxation, the role of the illicit and informal economies and whether illicit income is gathered in parallel to legitimate revenue collection, and drivers of the humanitarian crisis. This knowledge is critical to understand how and where to most effectively channel donor funds to support ordinary Afghans and improve essential public services, the efforts required to improve the governance of financial institutions, and to create a better understanding of where economic power rests within the Taliban movement.

## 2 Deploy technical assistance

*The international community should provide direct technical assistance to DAB, drawing on the expertise and long experience of the IMF and World Bank in Afghanistan. Such assistance is essential to maintain macroeconomic stability, implement necessary structural reforms, restore confidence in the banking system and mitigate money laundering and terrorist financing risks to enable restarting international transactions. The UN Assistance Mission in Afghanistan has the mandate to play a central role in coordinating dialogue and facilitating technical assistance between IFIs, Afghan financial institutions and the Taliban, without inferring recognition of the authorities.*

Following the Taliban takeover, many of DAB's professional staff either left the country or are not working due to a lack of salary payments. Combined with the impacts of the loss of foreign reserve access, DAB is unable to function as a regulator or fulfil its monetary policy responsibilities without external technical support.

The private sector's reluctance to engage in high-risk financial transactions involving Afghanistan will remain without efforts to preserve DAB's infrastructure and rebuild lost capacity. Building confidence amongst international banks that DAB can fill the current economic regulatory vacuum is vital to addressing concerns over Anti-Money Laundering (AML) and Counter Terrorist Financing (CTF) risks, and ensure Afghanistan can reconnect to the global banking system. Building confidence will also be key for preventing capital flight when liquidity is restored.

With US clarification of sanctions, and the recognition that DAB is not a sanctioned entity, space for technical engagement has increased. Key priorities for technical engagement should include supporting

This forum should also seek to define the parameters and approach the international community will take to supporting the economy, ensuring clarity for member states and the de-facto authorities alike. Specifically, stakeholders should aim to:

- ▶ **Establish clear roles and responsibilities of international partners** to avoid duplication in efforts or creation of parallel and competing international assistance to the central bank.
- ▶ **Clearly define the conditions for international engagement with the Taliban on the economy**, including the mechanism for dialogue to understand their approach to economic management.
- ▶ **Agree a road map and conditions under which assets can be released** to recapitalise the central bank.

DAB's: Financial Intelligence Unit (to control risks of money laundering), Monetary Policy Department (to control inflation), Banking Supervision Directorate (to regulate other banks), Banking Operations Department (to provide banking services to commercial banks), Market Operations Department (to conduct currency auctions and ensure foreign exchange liquidity, allowing DAB to manage the impacts of reduced liquidity), DAB's resolution and crisis management frameworks (as several commercial banks are on the brink of collapse), and financial consumer protection (to protect people's deposits).

While embedding international audit firms to monitor DAB's activity may be a good short-term assurance measure, DAB's functions should not be replaced by any third-party organisation. Instead, all technical assistance should be designed and implemented in consultation with the IMF and World Bank to ensure they build rather than duplicate past efforts. The IMF and World Bank have a natural comparative advantage to advise and direct technical assistance to DAB, however, political challenges persist to their engagement with Afghanistan while the Taliban

remain unrecognised. UNAMA should therefore play a key bridging role coordinating dialogue and facilitating assistance.

Another critical tool is the World Bank's US\$100 million grant that has been in place since 2020 to help Afghanistan stabilise its financial sector. Previous focus areas of support included supporting the Central Bank in financial system regulation, financial infrastructure and modernising information technology. The majority of these funds (reportedly US\$80 million) have not been spent yet. This assistance could resume immediately with donor support and support a coordinated effort to help restore confidence and encourage deposits.

Proposals to privatise DAB's functions are neither feasible nor sustainable. Carrying out DAB's function through third party organisations or a commercial bank will distort the financial market and create an expensive and inefficient parallel structure and further erode DAB's capacity. DAB has extensive hard and soft infrastructure to distribute money efficiently to all 34 provinces. No commercial bank is able to manage

the scale of money distribution needed to meet the nationwide demand for cash. Furthermore, a sovereign third party entity is required to manage inter-bank payments. No commercial bank is able to fulfil the clearing and settlement functions of DAB nor are they willing to take such risk. Finally, DAB's regulatory supervision role cannot be privatised as it will create a conflict of interest with one commercial bank regulating others, which will in turn undermine confidence in the banking sector.



### 3

## Immediate action to provide guidance and reassurance to the private and banking sector

*Member States should provide more public, proactive, forward leaning legal guidance to address the chilling effect of sanctions on private actors, including through efforts to encourage financial institutions to engage with Afghanistan, and intensify senior-level engagement with financial institutions, the World Bank, IMF, UN and major donors to encourage them to move forward on allowable activities, particularly those aimed at paying civil servants and building confidence in the banking system.*

Where this has not yet been done, states should clarify the distinction between sanctions on the Taliban and their application to the new government of Afghanistan, particularly the Central Bank and line ministries critical to service delivery including Ministries of Public Health and of Education. They

should also issue additional sanctions clarifications on the essential regulatory supervision and monetary management roles of DAB and expand the scope of sanctions relief to cover commercial and private sector transactions.

**Once the above measures have been taken, states should begin a phased and need-based release of Afghanistan's frozen foreign assets.** Released assets should be used to capitalise the central bank in order to settle international payments, provide public services and manage the supply and demand of afghanis and US dollars to manage inflation, maintain liquidity and stabilise market prices.