

# Assessing Key Trends in The Afghan Economy Three Years into The Taliban Rule

A Policy Paper

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## Executive Summary

**Three years into Taliban rule, Afghanistan’s economy is stagnant and fragile.** While the sharp 18-month economic contraction that followed the 2021 regime change has ended, the current lower-level economic equilibrium is unstable. Taliban policies continue to create high uncertainty, making recovery prospects illusive. Afghanistan’s ‘pre-existing’ challenges, like entrenched poverty and lack of inclusive growth, are compounded by the forced return of Afghan refugees from Pakistan and Iran, adding pressure on humanitarian aid resources that are declining sharply in 2024.

**The short and medium-term outlook is bleak.** The country faces weak demand, shrinking humanitarian aid, and ongoing international isolation. The Taliban’s restrictive policies, especially toward women, further undermine human capital development – which is at the foundation of any economic growth strategy. Furthermore, the private sector is unlikely to create jobs and drive growth in the medium term as it faces several binding constraints. High exposure to natural disasters is also an ongoing risk to the agriculture sector – a sector that is critical to poverty reduction, food security, and rural income.

### Key Findings

1. **The Afghan economy is likely to remain stagnant.** Afghanistan’s GDP per capita has fallen back to the levels it saw in 2008. While GDP growth of 2.7 percent was reported in 2023, this economic equilibrium is fragile and unsustainable unless profound policy changes are made.<sup>1</sup>
2. **Poverty seems entrenched, with the Taliban shutting down policy levers.** Poverty remains a persistent challenge, with at least half the population below the poverty line. The dismantling of community-based institutions, like the Community Development Councils (CDCs), has eliminated mechanisms that could have helped reduce poverty, leaving the Taliban with no policy reduction instruments. A rural poverty reduction program, which should be funded through national resources, is needed.



3. **Afghans will likely face uncertainty and hardships in the short run.** Registering 5.5 million refugees and people in ‘refugee-like situations’ in 2024, Afghans make up the largest refugee population.<sup>2</sup> With 3.2 million Afghans internally displaced, deportations from Iran and Pakistan are adding further strain to already scarce resources.<sup>3</sup> Humanitarian aid has fallen off sharply, with only 31 percent of the funding needed for 2024 being secured.<sup>4</sup>
4. **The economy is at an unstable equilibrium.** While it showed signs of stabilization in 2023, the Taliban’s policies—like banning women’s education and abruptly banning opium—are likely to dampen demand and could easily disrupt the fragile economy. Without a formal economic framework in place, households and businesses are left to navigate a constantly shifting policy landscape.
5. **The Taliban restricts access to and controls the release of official data, limiting transparency and independent verification.** The Taliban has not made key economic data, like the national budget, available to the public or international community. This lack of transparency makes it difficult to trust the data being shared, especially given the Taliban’s control over information and suppression of Afghan media.
6. **Pre- and post-Taliban comparisons do not accurately account for the contextual changes since 2021.** Direct comparisons between the Taliban regime and the pre-2021 government are misleading because the two operated under entirely different conditions. The Afghan Republic operated in an environment of intense conflict, which limited growth, revenue collection, and stability. The Taliban faces other challenges, such as international non-recognition, frozen assets, and a sharp drop in aid. Therefore, the performance of Taliban policies should be evaluated on merits rather than comparisons.
7. **The private sector is on life support and unlikely to drive economic growth in the short to medium term.** With limited access to finance, shrinking demand, and isolation from international markets, businesses cannot drive economic recovery.



8. **Women are the primary target of the Taliban’s Sharia compliance and suffer disproportionately.** A simplified estimate based on the World Bank Private Sector Survey 2023 and the 2020 labor force survey shows that in 2023, firms reported reducing 42 percent male and 67 percent female employment.<sup>5</sup> Applying these estimates to the economy, women lost 240,000 more jobs than they would have if they had been impacted the same way as men. In other words, women were 1.6 times more likely to lose their jobs than men were.

Summary Estimates of Job Losses 2021-2023

Category	Men	Women	Total
Pre-Taliban Jobs (2020 IELF)	4,760,538	956,762	5,717,300
Reported Job Loss after Taliban Takeover (%) (WB PSRS 3, 2023)	-42%	-67%	
Estimated Job Loss (Number)	1,999,426	641,028	2,640,454
Excess Job Loss for Women (%) (compared to men)		<b>59.5%</b>	
Excess Jobs Lost by Women (Number)		<b>(239,190)</b>	

9. **Supporting Women in the Private Sector is critical, but Taliban restrictions and a lack of mechanisms for targeted support hinder efforts.** Few mechanisms exist to support women-owned businesses, which limits their ability to survive in the current economic climate.

### Key Recommendations for Donors

**Learn from 20 Years of Experience:** Donors must take the lessons from the past two decades seriously. We’ve seen what doesn’t work—poor targeting and unsustainable programs—especially in private sector development and agriculture. In an even more rigid environment, learning from the past is critical. Focus on sustainability, transparency, and effective targeting, and build on the few things that did work.

**Push for Transparency on Budget and Revenue Figures:** Donors should keep pressing the Taliban to release transparent and verifiable budget and revenue figures. Transparency in national



revenues and expenditures is critical to holding the Taliban accountable for using public resources and poverty alleviation efforts.

**Verify Public Sector Data:** Public sector data needs to be independently verified before being used for decision-making. The Taliban controls information and suppresses free speech. Since 2021, the public sector has lost much technical capacity, making it hard to trust official statistics. Without access to reliable data, it's impossible to get a clear picture of Afghanistan's economic situation or measure the impact of aid.

**Strengthen Community-Driven Approaches for Aid Delivery and Accountability:** Donors should focus on bottom-up accountability by putting communities at the center of decision-making. This includes working directly with them on beneficiary selection, grievance redress, and monitoring aid programs. Getting communities involved makes aid delivery more transparent, responsive, and effective. With less aid, more bottom-up engagement is critical.

**Prioritize Support for Refugees, Returnees, and the Most Vulnerable:** Donors need to target the most vulnerable populations, especially refugees, returnees, and internally displaced people. Community-driven approaches are critical here – they help identify and support those most in need. Linking these community-led initiatives to broader humanitarian and development efforts ensures that aid is effective and reaches those most in need.

**Focus on Enabling Services and Infrastructure to Support Women's Participation in the Private Sector:** Donors should prioritize infrastructure that supports women's participation in education, capacity building, and economic activities. This means focusing on telecommunications, internet access, and irrigation that benefit women and the broader economy. Infrastructure designed with women's needs in mind is crucial for giving them the tools to participate in the private sector and improve their livelihoods. Sectoral support in the carpet industry and horticulture, where many women still work, is also critical.

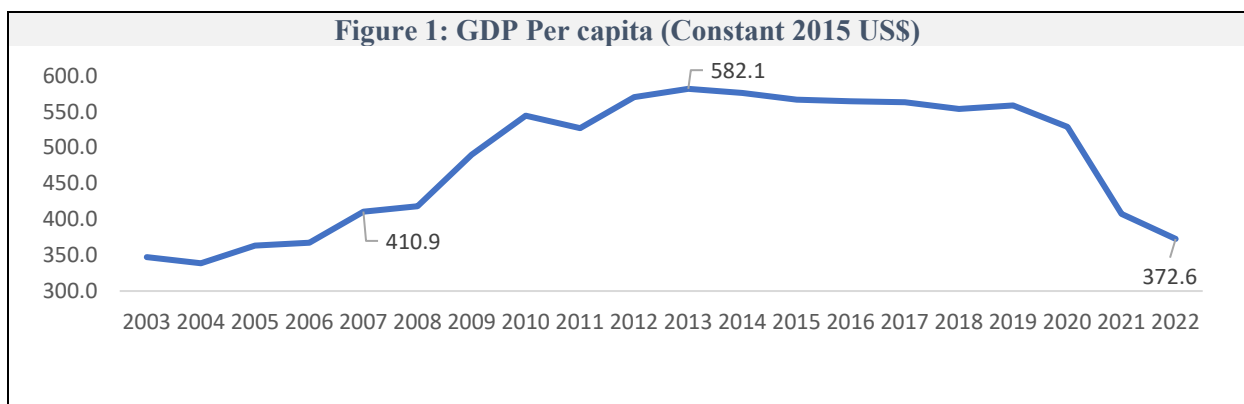


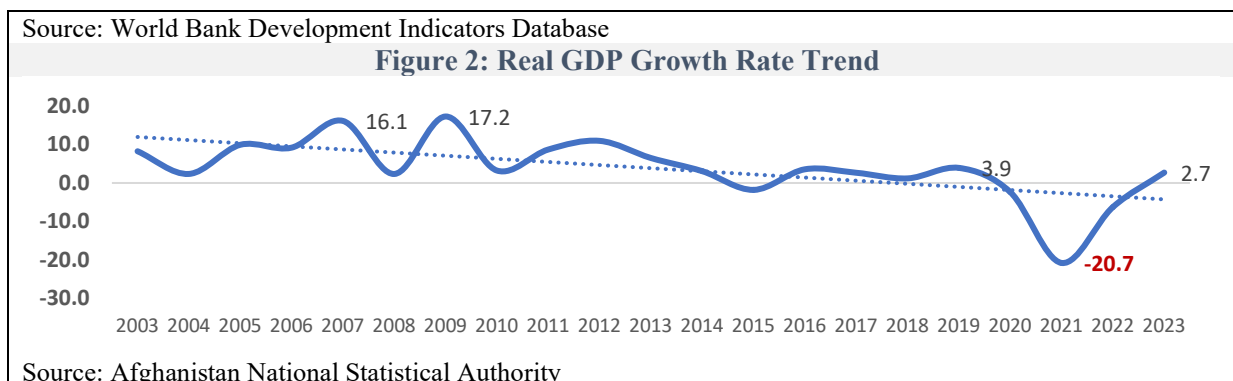
# PART One: The State of the Afghan Economy

## Key Message 1: The Afghan economy is likely to remain stagnant<sup>6</sup>

With a GDP per capita of USD 372 in 2022, corresponding to the 2008 levels, Afghanistan has slipped backward to be amongst the poorest countries in the world (figure 1).<sup>7</sup> While 2003 to 2012 witnessed GDP growth averaging 9 percent annually, this expansion decelerated significantly between 2013 and 2020, recording an average growth rate of approximately 2 percent—falling below the 3 percent population growth rate (figure 2). Despite economic expansion, poverty remained high. Four household surveys conducted between 2007 and 2020 reported a persistent poverty rate of 34-38 percent, increasing to 56 percent in 2017 before recovering to 46 percent in 2020.

**The Taliban's takeover in August 2021 triggered a series of economic shocks.** The abrupt institutional transition, aid reductions, heightened political uncertainty, and restrictions on foreign reserves precipitated a 27 percent contraction in GDP across 2021 and 2022. Although the economy is reported to have stabilized around 70 percent of the pre-2021 output levels, the medium-term outlook is uncertain. It is also becoming clear that the free movement of people, goods, and services alone, resulting from a significant reduction in conflict since the Taliban regained power, is not enough for economic growth. Economic growth and poverty reduction need sound economic policies guided by enabling institutions.





**In terms of sectoral indicators, the agriculture sector, following consecutive contractions of 9.8 percent in 2021 and 6.6 percent in 2022, is reported to grow by 2.1 percent in 2023.** The rebound is primarily driven by the 13 percent increase in cereal production, though production remains below 2020.<sup>8</sup> Historically, the agriculture sector has a high correlation with growth and remains vulnerable to climate change, significantly threatening food security and long-term agricultural productivity (Figure 7).<sup>9</sup> Increased agriculture output is also the most significant reducer of rural poverty.

**The industry sector grew by 2.6 percent in 2023 after contracting for three consecutive years,** driven primarily by growth in mining and utilities. The construction subsector, a key indicator of economic activity and investment, continued its decline, contracting by at least 40 percent since 2019. This persistent contraction reflects the ongoing demand shock reported by the World Bank in 2024.<sup>10</sup>

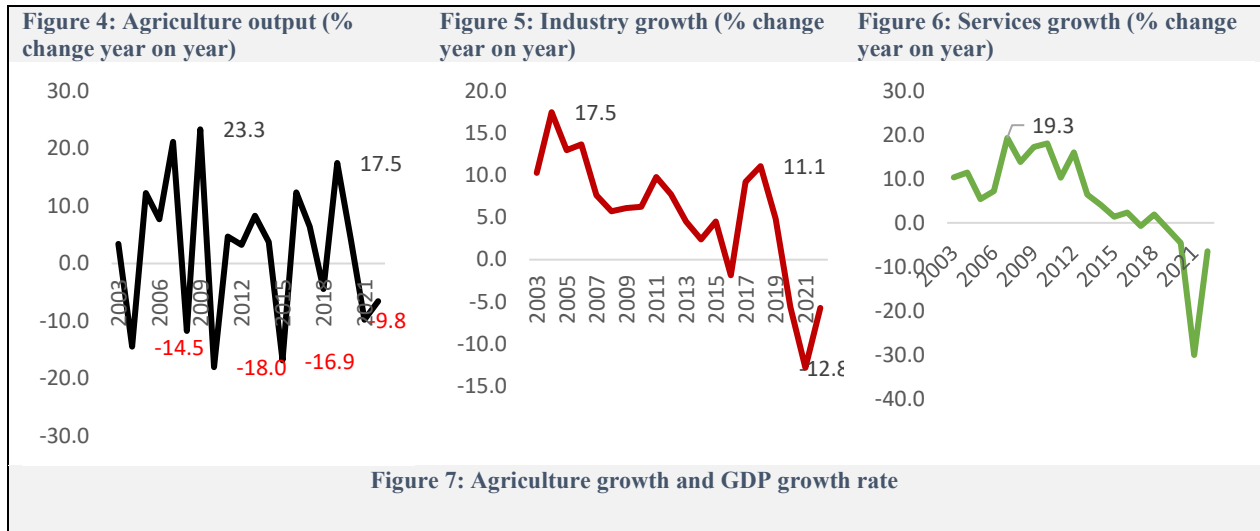
**Historically, the services sector has relied heavily on aid flows.** It has suffered a 41 percent contraction, losing roughly half its value-added over three years before registering a reported 2.3 percent growth in 2023. While wholesale and retail trade and transportation services grew, the real estate sector continued to contract, further indicating economic uncertainty and the demand shock the economy is currently experiencing.<sup>11</sup>

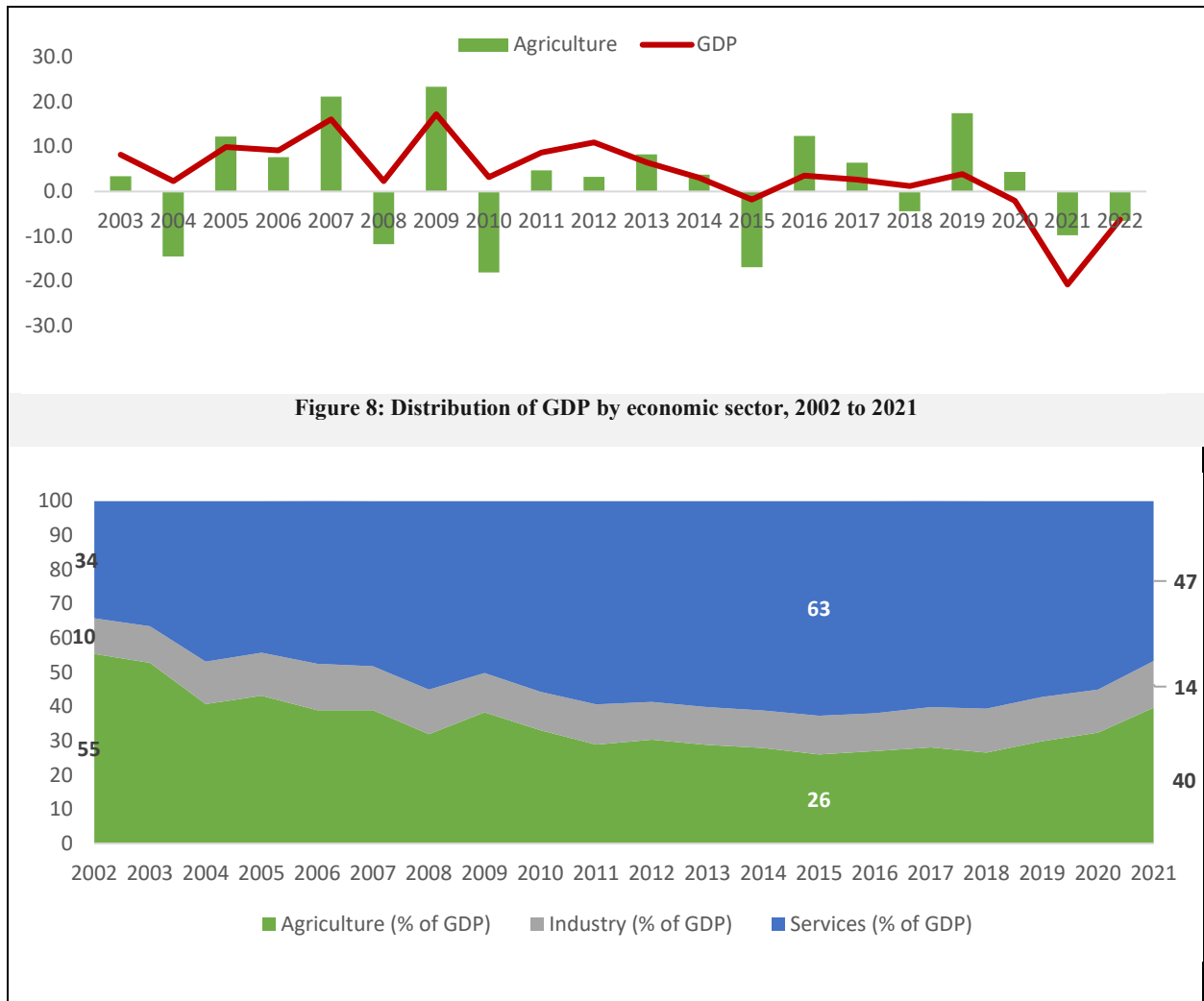


Figure 3: Real GDP Growth by Sector

Sectors	2020	2021	2022	2023
<b>Agriculture</b>	<b>4.4</b>	<b>-9.8</b>	<b>-6.6</b>	<b>2.1</b>
<b>Industry</b>	<b>-5.6</b>	<b>-12.8</b>	<b>-5.7</b>	<b>2.6</b>
Mining & Quarrying	1.4	1.7	4.1	6.9
Manufacturing	-7.2	-10.3	-10.0	1.7
Food and Beverages	2.7	2.2	-9.5	1.7
Non-Food Manufacturing	-19.2	-29.4	-11.1	1.6
Electricity, Gas and Water	-3.4	-5.8	-3.0	5.0
Construction	-6.4	-35.4	-0.8	-0.9
<b>Service</b>	<b>-4.6</b>	<b>-30.1</b>	<b>-6.5</b>	<b>2.3</b>
Wholesale & retail trade	-2.1	-14.8	-8.6	17.9
Transport, Repair of Vehicles & Storage	-18.0	-37.4	-0.4	5.9
Restaurants & hotels	-38.1	-42.8	-4.9	1.6
Post and telecommunications	1.0	-18.6	-4.7	1.4
Finance and Insurance	-9.0	-30.0	-6.6	1.6
Real Estate	-0.2	-12.9	-5.2	-5.0
Other Service	-2.0	-37.9	-7.7	-0.8
<b>Plus, Import Duties</b>	<b>-5.4</b>	<b>-16.5</b>	<b>-3.0</b>	<b>11.4</b>
<b>Totals / GDP at Market Prices</b>	<b>-2.1</b>	<b>-20.7</b>	<b>-6.2</b>	<b>2.7</b>

Source: National Statistics and Information Authority 2024 (2019=100)





### Key Message 2: Poverty seems to be entrenched, with policy levers shutting down

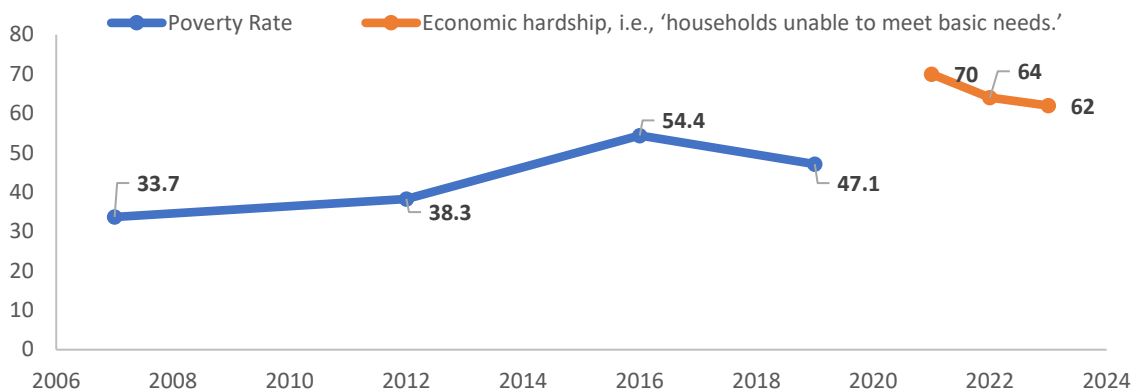
**The Taliban's capacity and willingness to conduct comprehensive poverty surveys, like before 2021, is uncertain.** Therefore, various and conflicting estimates have been made depending on the estimation method and its associated limitations, ranging from close to half the population to three-quarters of the population. For instance, based on phone interviews, the World Bank's third welfare monitoring survey estimated monetary poverty at 48.3 percent in 2023.<sup>12</sup>

**In contrast, UN agencies using food poverty thresholds estimate 70 percent and 85 percent of the population falling below the poverty line in 2021 and 2022, respectively.** These estimates align more closely with the World Bank's assessment of "welfare poverty," which focuses on

households unable to meet basic needs—which for 2023 was reported to be 62 percent.<sup>13</sup> The UN's identification of 29.2 million Afghans needing humanitarian assistance in 2023 further corroborates the prevalence of widespread poverty under the Taliban regime.<sup>14</sup> While the precise magnitude of poverty remains uncertain, the available evidence strongly suggests that at least half the population faces significant economic hardship

**The shortfall in development aid and limited fiscal space**, combined with the Taliban's decision to dismantle Community Development Councils, has removed any instruments that could be used for large-scale pro-poor targeting and spending.<sup>15</sup> As poverty remains widespread, it is unclear how the Taliban expects to reduce poverty in the country. While UN agencies can provide short-term emergency humanitarian programming, they are neither equipped nor designed to reduce poverty. A rural poverty reduction program, which should be funded through national resources, is needed. To ensure transparent and accountable targeting, there will also be a need to re-establish a new form of community-level representative group, which includes women, youth, and people experiencing poverty.

**Figure 9: Trends in poverty rate and economic hardships (percent Households)**



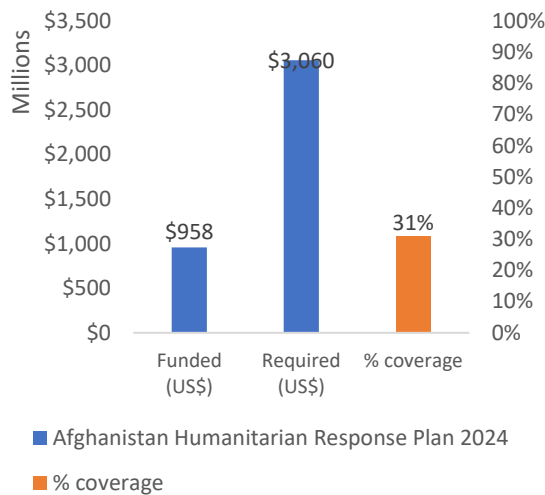
Source: Poverty rates are from the NSIA household surveys 2007-2020. Economic hardship figures are from the World Bank Welfare Monitoring Survey 2021-2023

Key Message 3: Afghans are likely to face uncertainty and hardships in the short run

The humanitarian crisis emanating from Afghanistan is intensifying, with Afghans now constituting the world's largest refugee population. An estimated 5.5 million Afghans are refugees, over 90 percent of whom reside in neighboring Iran and Pakistan.<sup>16</sup> Deportations from both countries have been increasing in 2024, adding to the already substantial number of internally displaced persons within Afghanistan, which also stands at 3.2 million.<sup>17</sup> This rapid influx strains resources that already face a significant shortfall in 2024.

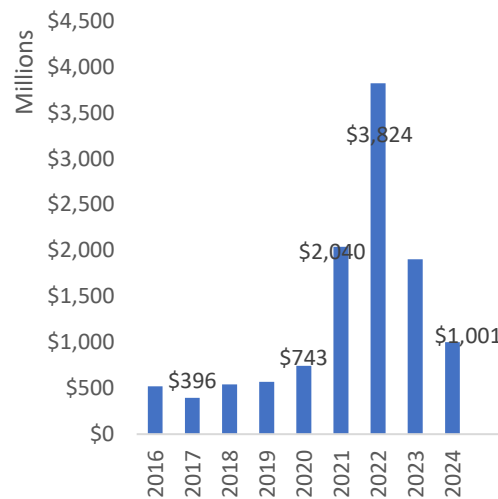
Despite the growing needs, humanitarian funding is declining precipitously. While aid initially increased following the Taliban takeover in 2021, reaching USD 3.8 billion in 2022, it has fallen sharply in 2024.<sup>18</sup> As of October 2024, only 31 percent of the required USD 3 billion funding has been secured. This shortfall severely restricts the ability of humanitarian agencies to provide essential services to millions of vulnerable Afghans, further deepening poverty and exacerbating the humanitarian crisis.

Figure 10: Afghanistan Humanitarian Response Plan 2024 Funding Levels



Source: Afghanistan Financial Tracking System OCHA

Figure 11: Humanitarian Funding Levels



Source: Afghanistan Financial Tracking System OCHA

**On the global stage, the global refugee crisis, compounded by the ongoing war in Ukraine, has intensified competition for humanitarian funding.** While official development assistance (ODA) levels have increased, much of this is directed towards in-donor refugee costs and the Ukrainian crisis, leaving Afghanistan with a critical funding gap. This shortfall, coupled with the Taliban's restrictive policies, creates a dire situation for ordinary Afghans, who face increasing poverty, displacement, and humanitarian needs.

**Contrary to popular belief, total aid (development plus humanitarian) to Afghanistan did not drastically dry up after the Taliban's takeover in 2021.** While security and on-budget development assistance ceased altogether, humanitarian aid increased fivefold between 2020 and 2022 from USD 0.7 billion to USD 3.8 billion, and off-budget development aid has continued - putting overall inflows (excluding security, including humanitarian) to Afghanistan at comparable levels before 2021 (Figure 13). Excluding security grants, overall aid levels from 2021 to 2024 have declined incrementally rather than plummeting dramatically. Statistics from 2024, however, show a rapid decline in humanitarian aid.

**Figure 13: Aid trends and Fiscal envelope (in Billion USD)**

<u>Year</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>
<b>Security Aid (SIGAR)</b>	3.69	4.36	4.84	4.02	3.11			
<b>Total ODA (OECD DAC CRS 2016-2020, ARTF 2022 -2023)</b>	4.45	4.03	3.80	4.39	4.73		0.50	0.50
US share ODA (SIGAR)	0.92	0.87	0.53	0.20	0.17		0.22	0.19
<b>Total Humanitarian (OCHA FTS)</b>	0.52	0.40	0.54	0.60	0.74		3.82	1.90
US Share Humanitarian (SIGAR)	0.15	0.19	0.20	0.24	0.33		1.08	0.66
<b>Domestic revenue (MOF)</b>	2.08	2.41	2.52	2.62	2.03		2.26	2.80
Grants Including Security	<b>8.66</b>	<b>8.78</b>	<b>9.19</b>	<b>9.01</b>	<b>8.59</b>		<b>4.32</b>	<b>2.40</b>
Grants Excluding security	4.97	4.43	4.34	4.99	5.47		4.32	2.40
<b>Total Revenue (Domestic + Civilian Grants)</b>	<b>7.05</b>	<b>6.84</b>	<b>6.86</b>	<b>7.61</b>	<b>7.50</b>		<b>6.58</b>	<b>5.20</b>

Source: Table compiled from statistics on grants from SIGAR, OECD CRS, OCHA FTS, and Ministry of Finance Afghanistan.

#### Key Message 4: The economy is at an unstable equilibrium

**The reported GDP growth of 2.7 percent in 2023 might suggest a stabilization at a lower equilibrium.** However, if the Taliban continues enacting policies restricting incentives and economic freedoms, the fragile equilibrium could be easily disrupted, leading to renewed volatility



in economic activity. For instance, the Taliban's ban on women's secondary education, the 'vice and virtue' law's restrictions on women, and the abrupt opium ban without securing alternative livelihoods are most likely to dampen demand in the economy, limiting growth.

**The Taliban's economic vision is a derivative of their interpretation of Sharia Law.** However, there is no codified and comprehensive framework for Sharia-compliant economic practices in Afghanistan or elsewhere in Muslim countries. Therefore, there is little policy stability as the Taliban has yet to introduce a formal constitution or a comprehensive economic governance framework. The Taliban have ruled through both centralized top-down decrees to decentralized directives and unchecked verbal and written-off local officials.<sup>19</sup> Their decrees and edicts are not functional substitutes for laws developed in two decades and engender low confidence in their understanding of financial needs. Amidst such a constant flux of policy uncertainty, households, businesses, and individuals must constantly adapt and adjust their expectations.

**Furthermore, selective retention of some aspects of the previous regime's public financial management (PFM) architecture** – adds to the confusion over what laws, policies, and systems are Sharia-compliant. Thus far, determining what is Sharia-compliant and what is not is solely at the discretion of their religious authorities. Therefore, any claim of economic recovery or a new equilibrium is premature – as the downside risk from the Taliban's new policies is substantial. The Afghan economy will likely remain volatile until a more predictable and inclusive institutional framework is established.

**Key Message 5: The Taliban restricts access to and controls the release of official data, limiting transparency and independent verification**

**The technical capacity of civil servants, even during the republic, was vastly limited.** It is likely, especially with Taliban political appointees and placement of religious cadres in the civil service, that technical capacity has depleted over the three years. Before the Taliban takeover, most ministries' development projects and technical and fiduciary functions were performed by approximately 18,000 plus National Technical Assistance (NTA) staff with higher qualifications and up to ten times better pay than civil servants.<sup>20</sup> These positions were financed by on-budget donor funding and have since disappeared altogether, with large numbers leaving the country.



**Additionally, severe restrictions have been imposed on journalists and media outlets,** including detentions, closures, and censorship, creating an environment where information is tightly controlled, and critical reporting is suppressed. In three years, 141 journalists were detained or imprisoned by the Taliban.<sup>21</sup> More than 300 media outlets have closed since 2021, and two-thirds of journalists from an estimated 12,000 Afghan journalists have left the country.<sup>22</sup> Those who remain are censored; their stories need permission from the authorities, and they cannot access official sources.<sup>23</sup> The Taliban have also banned live broadcasting and provided TV stations with a pre-approved list of analysts to select from. The authorities fully control information flow and ban criticism of their policies.<sup>24</sup>

**Capacity drain, lack of media freedom, and the Taliban’s suppression of constructive criticism prevent independent scrutiny of official data.** While specific data, such as revenue figures collected through the AFMIS and trade statistics from ASYCUDA, may be relatively verifiable due to their automated nature, other statistics, particularly those requiring technical skills and subjective assessments, are more susceptible to manipulation or bias. The NSIA's historical reliance on donor-funded technical assistance, which has ceased since 2021, raises concerns about its current capacity to generate reliable statistics. Taliban authorities have not shared the national budget information even with the World Bank—which they routinely praise for accurately broadcasting Taliban-released statistics.<sup>25</sup> In addition, relying solely on a narrow set of macroeconomic indicators without considering the broader context, including the political economy dynamics, the erosion of institutional capacity, and the severe restrictions on information flow, provides an incomplete and potentially misleading picture of Afghanistan's economic reality.<sup>26</sup>

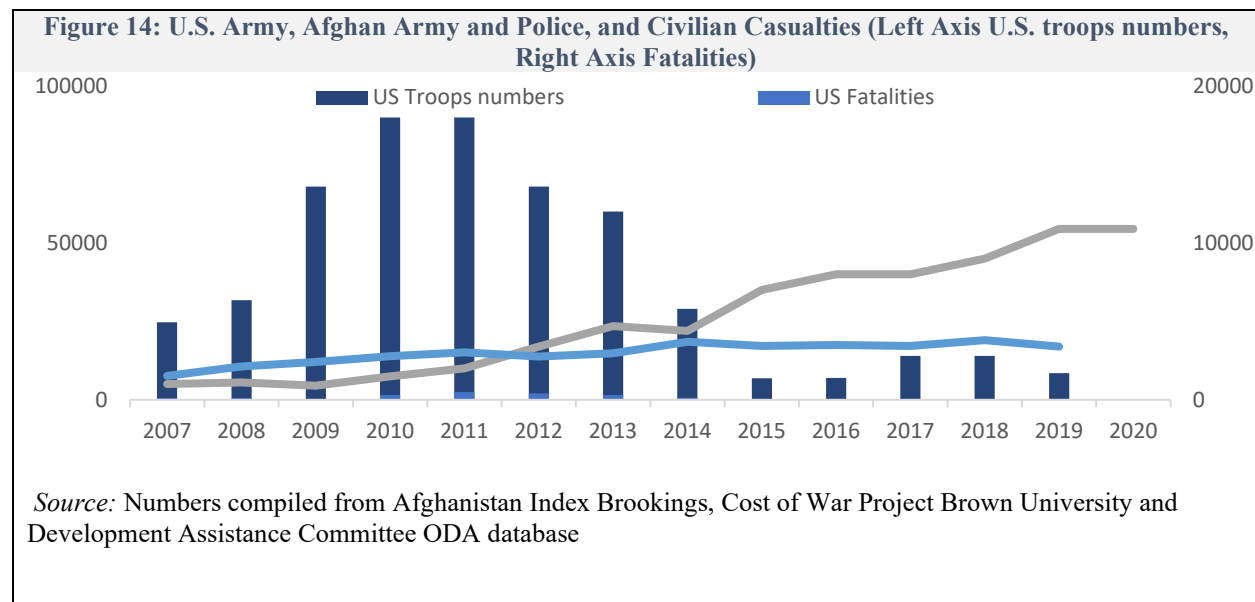
**Key Message 6: Comparing Pre- and Post-Taliban metrics fails to account for vastly different contexts.**

**Simplistic comparisons between the Taliban and pre-Taliban years fail to account for the vastly different contexts.** From 2002 to 2021, Afghanistan remained embroiled in a violent conflict, to which the Taliban was the belligerent party, that exacted a substantial human toll and



severely constrained development. The fatalities of Afghan Security Forces increased from 4400 per year in 2014 to 10,900 a year in 2019 (figure 14).<sup>27</sup> The casualties on the Taliban side were likely as significant. Annual civilian casualties were averaging at 3800 per year - with hundreds of attacks per day across the country.<sup>28</sup> The lack of baseline security throughout the country was a significant constraint for development – which donor evaluations such as SIGAR (2021) or the Zurcher (2020) meta-evaluations corroborate. Furthermore, empirical evidence suggests conflict reduces GDP per capita by 18 percent and GDP growth by 5 -10 percent annually.<sup>29</sup> Therefore, comparing the Taliban's revenue collection to the previous government without adequately accounting for insecurity and the Taliban's access to parallel revenue streams can lead to misleading comparisons.<sup>30</sup>

**The international community's non-recognition**, limited financial capacity due to freezing the central bank's assets, decline in aid, and institutional and structural transformation post-2021 further make pre- and post-comparisons mired with flaws. Rather than making inaccurate comparisons, the Taliban's policies can be evaluated by their merits to determine their efficacy.





Key Message 7: The Taliban's restrictive policies on education and women's rights are perpetuating poverty, preventing economic growth, and limiting aid

**The Taliban's stance on women's secondary education and the enforcement of the 'vice and virtue' laws further perpetuate poverty, prevent economic growth and limit foreign aid.** Joya et al. (2022) identify several key factors associated with poverty in Afghanistan, including female-headed households, high dependency ratios, reliance on agriculture, limited access to education and healthcare, conflict-related vulnerability, and aid levels.<sup>31</sup> Except for conflict, the Taliban's policies directly worsen these factors, likely entrenching poverty, primarily by restricting education, which is a crucial determinant of poverty

**Education is crucial for economic growth and poverty reduction, especially for women.** Joya et al. also identified education as Afghanistan's 'most important correlate' of poverty.<sup>32</sup> Global empirical evidence further shows that each additional year of schooling increases annual income by 10 percent.<sup>33</sup> Limiting women's education directly reduces their income and increases the likelihood and severity of poverty. In the medium to long term, it degrades human capital and accumulation of skills. Reducing the number of income earners per household also increases Afghanistan's already high dependency ratio, leaving fewer resources for savings and investment.

**The Taliban's policies also deter foreign aid and investment.** While external factors like rising refugee costs and global competition for resources have reduced aid, the Taliban's restrictive measures, especially against women, have alienated the international community. Joya et al. (2022) estimate that a 1 percent increase in aid reduces poverty by 6 percent, making the loss of aid especially harmful to vulnerable households.<sup>34</sup> Additionally, losing women's contributions to critical sectors like agriculture and healthcare undermines productivity and service delivery. This labor shortage also deters foreign direct investment, as investors prioritize environments with a skilled and inclusive workforce. Paradoxically, while the Taliban aim to attract foreign investment, their policies limit human capital development and reduce the economy's absorptive capacity, which depends on the skills of its labor force.

**In addition, labor migration to the Gulf Cooperation Council (GCC) countries,** which in times of peace had the potential to be a vital economic safety valve, is likely becoming limited as the



Taliban's ideology and actions increasingly associate Afghans with religious extremism. The medium-term prospects of sending labor abroad and increasing remittances to support households are mute.

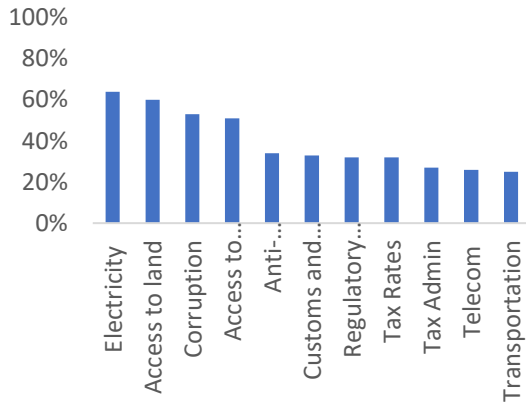
Key Message 8: Given its constraints, the private sector is on life support and unlikely to drive economic growth in the short to medium term.

**The Afghan private sector has long struggled due to infrastructure, financial, and human capital gaps.** Historically, informality, conflict, and shifting institutions have limited its development. Firms face various binding constraints, from limited access to electricity to insecure land ownership and a lack of access to finance, forcing them to rely on informal arrangements that, while providing short-term solutions, ultimately hinder long-term growth. Surveys conducted by the World Bank over the years consistently highlight these constraints. As early as 2005, firms identified electricity, access to land, corruption, and access to finance as significant obstacles (figure 15). These challenges continued to plague the sector in subsequent surveys in 2008 and 2014 (Figures 16 and 17).

**The Taliban's takeover has introduced a new set of constraints.** Three rounds of the World Bank's Private Sector Surveys reveal a contraction in the private sector, suppressed consumer demand, job losses, business closures, and challenges in accessing finance and credit (figure 18).<sup>35</sup> While the operating environment has shown signs of stabilization in 2024, businesses continue to face a lack of demand, limited access to credit, and isolation from regional and global markets. Furthermore, the intermittent border closures with Pakistan also severely affect trade.

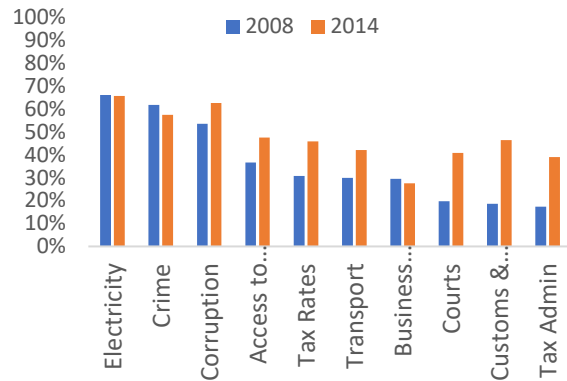


**Figure 15: Percentage of firms citing constraints as severe: 2005 Investment Survey (N = 338 Firms)**



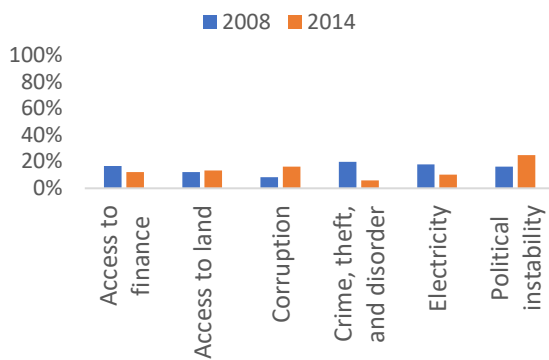
Source: World Bank Afghanistan 2005 Investment Survey

**Figure 16: Percentage of firms identifying significant constraints: Business Enterprise Survey**



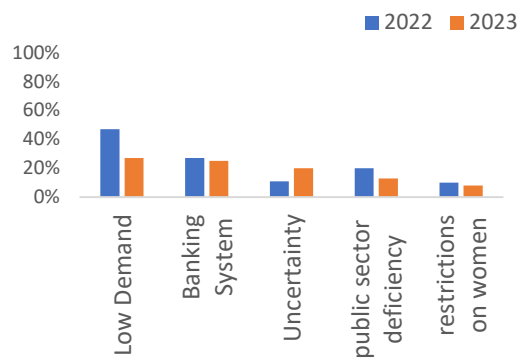
Source: World Bank Afghanistan 2008 & 2014 Business Enterprise Survey

**Figure 17: Percent of firms choosing their single most significant obstacle: Business enterprise survey**



Source: World Bank Afghanistan 2008 & 2014 Business Enterprise Survey

**Figure 18: Top 3 constraints reported by firms**



Source: World Bank Afghanistan 2023 Private Sector Rapid Survey

**Key Message 9: Supporting Women in the Private Sector is critical, but efforts are hampered due to Taliban restrictions and lack of mechanisms for targeted support.**

**Policy options to directly support women in economic activities are constrained by Taliban bans on women's participation and the costs businesses face to comply with segregation requirements.** However, there are still opportunities in export-oriented sectors, such as carpet weaving and fresh and dry fruits, where women can participate. Access to micro-credit, including Sharia-compliant options, could alleviate some hardships for women still engaged in these sectors. **Since the Taliban takeover,** it is estimated that more women have shifted to carpet weaving to cope with the loss of formal and other sectoral employment. Furthermore, most weavers are

women, so it is an ideal sector where sector-wide support throughout its value chains may be helpful.

**Support the revival of export-oriented businesses**, particularly in sectors where women have a significant presence, such as carpet weaving, handicrafts, and agriculture processing. This can be achieved through market linkages, trade facilitation, and capacity building for women entrepreneurs. Firms with export capacity may be able to comply with the segregation requirement in the short run by passing on the cost of compliance to end customers. While it may reduce the competitiveness of Afghan products, donors can channel support to mitigate some of these costs in the short and medium term. For instance, Afghanistan—Competitiveness of Export Oriented Businesses Activity (ACEBA) carpet sector apprenticeship program for Afghan women is an example of a program where women receive an apprenticeship and a working wage.

**Women-owned businesses primarily employ other women**, so a critical step is to collaborate with the Afghan Women's Chamber of Commerce to identify currently active women-owned firms.<sup>36</sup> This will help better ascertain how the Taliban policies impact women-owned businesses and identify mechanisms to channel support to these businesses.

**Taliban restrictions and job losses have meant women have lost their primary sources of income.** Microfinance, especially Sharia-compliant microfinance, may provide a policy support avenue to alleviate some pressure. Working with partners such as the Microfinance Investment Support Facility for Afghanistan (MISFA), MISFA reported that 35 percent of its borrowers were women in 2024.<sup>37</sup>

**Learn from lessons of the past decade by avoiding direct support to businesses that are not sustainable**, for which due diligence and beneficiary selection are difficult. Experience of the past two decades of private sector development shows that sector support rather than individual enterprise support may be warranted. Furthermore, avoid wasting money on generic capacity-building programs in management and basic accounting. Focus on connecting Afghan businesses



to markets abroad and direct capacity building in digital marketing, understanding the market's needs, and selling abroad, for example.

## PART Two: A Simplified Estimation of The Impact of Restrictions on The Labor Market

**From August 2021 to early 2024, the Taliban issued at least 80 decrees suppressing all aspects of women's lives, including travel, education, employment, and women's role in society.**<sup>38</sup>

The Taliban's decrees have confined the economic activities that women can participate in - rapidly reversing decades of slow progress and effectively preventing women from any human capital accumulation gains.

**Some restrictions that impact women's skills and jobs are as follows.** In 2021, the Taliban ordered women to stay home, prevented women from entering public offices, banned co-education and men from teaching women, banned women journalists from working in state-owned media; banned women in Kabul municipality from work; banned secondary education for girls; Banned women from attending and teaching at Kabul University; Banned women from working in the NGOs; Banned women run bakeries in Kabul.<sup>39</sup> In 2022, the Taliban further banned women from accessing public transport without a chaperone; banned from selecting agriculture, engineering, and journalism for women; banned from working in NGOs, both local and international; banned women-run bakeries; fired all female flight attendants.<sup>40</sup> In 2023, women were banned from being outside after 7 pm from university entrance exams; universities were prohibited from issuing certificates or transcripts to female graduates; medical centers run by women were shut down; and beauty parlors were shut down.<sup>41</sup> In 2024, the 'vice and virtue' laws limit women's mobility outside the house to necessity only.<sup>42</sup>

**The Taliban's insistence on gender segregation in all aspects of economic life imposes significant costs on businesses and further marginalizes Afghan women.** Their decrees, which either ban women from certain occupations or mandate segregated workplaces, create



disincentives for firms to hire women. The Afghan economy, already fragile, lacks the necessary resources and infrastructure to support a segregated market model. The opportunity cost of male guardians accompanying women also represents a significant economic burden on households and society.

**The restrictions on women have forced many into informal**, home-based work, limiting their access to markets and growth potential. If women want to formalize and register their business, they are either asked to physically verify their workspace, which in most cases is their home, or to pay large sums of license fees, which are unrealistic to afford for home-based work. This reinforces informality and perpetuates the marginalization of women in the Afghan private sector.

**While gender gaps existed in Afghanistan before the Taliban takeover**, the current policies of the Taliban will ensure that not only is the gender gap the biggest in Afghan history but also anywhere in the world. Using data from the 2020 Income Expenditure and Labor Force survey on women in the labor force and the World Bank Private Sector Survey Round Three 2023, this section estimates the number of jobs lost by Afghan women directly due to Taliban policies.

### **I. A Simplified Estimation Approach**

**Availability and transparency of data on the welfare of women in Afghanistan are becoming increasingly scarce under the Taliban rule.**<sup>43</sup> A plethora of decrees directly targeting women's economic activities, occupations, and sectors has essentially reduced women's employment to zero in the decreed areas. For instance, there are no women-run bakeries, beauty parlors, or employment opportunities for women in NGOs in compliance with decrees by the Taliban banning occupations. Therefore, there will be zero employment for women in these prohibited occupations. For the broader economy, however, it is unclear how many jobs may be lost. This paper uses two nationally representative survey datasets to estimate job losses.

**First, the pre-Taliban takeover baseline of the labor force was created using microdata from** the Afghanistan Labor Force Survey 2020 conducted by the Afghanistan National Statistics



Information Authority (NSIA) – a year before the Taliban takeover in 2021.<sup>44</sup> The household survey is part of a comprehensive series of national household surveys covering income, expenditure, and labor force in Afghanistan over seven rounds.

**Second, the World Bank's Private Sector Rapid Survey (PSRS) 2023 is used to estimate the impact of Taliban policies on jobs.**<sup>45</sup> The PSRS series, starting in 2021, provides insights into Afghanistan's formal private sector post-Taliban takeover, covering firm employment, demand, operations, banking and payment, access to finance, trade, business constraints, and coping mechanisms. Thus far, three rounds of surveys have been conducted. The second and third rounds of the surveys are nationally and regionally representative, surveying 265 and 420 firms, respectively. The third round of surveys conducted in 2023 covered 84 women-owned and 336 men-owned businesses.

**Using the two different survey instruments gives us an estimate.** However, some methodological limitations make the estimate uncertain. First, the unit of analysis for the household surveys is the household, and for the private sector surveys, it is firms. The labor force survey captures informal and part-time jobs, while the firm-level survey reports formal jobs as the firms were registered with the Afghan Business Registry. So, the job losses reported in the World Bank survey are formal sector jobs lost and do not cover the informal sector. Secondly, the firm survey may have recall bias as job losses were not verified and were only verbally reported to the surveyors. Ideally, formal and informal sector jobs would be separated in analysis, and statistical techniques would be applied to determine the difference between pre-Taliban and post-Taliban trends. Despite the limitations, ample evidence, such as the Taliban's numerous bans, as accounted in the section earlier, can support the estimate. Furthermore, the paper's objective is not to come up with a precise estimate but rather to estimate the range of job losses—such estimates are currently missing from policy discussions.

## **II. A Baseline of Gender Disparities Before August 2021**

**Understanding the structural issues of the Afghan labor force before the Taliban takeover is critical to better contextualizing the impact of Taliban decrees on women in the labor force.** Five baseline statistics are essential. First, Afghanistan has one of the highest age dependency



ratios in the world, at 104.6 percent in 2020.<sup>46</sup> A high dependency ratio means a more significant proportion of the population depends on the workforce.

**Second, the gender composition of the labor force was profoundly unequal.** Women's labor force participation rate, which measures the proportion of the working-age population that is economically active, was 16 percent compared to 66 percent for men. Of the 5.6 million employed, less than a million were women. In other words, only one woman was hired for every five men employed. Men constituted 85.6% of the employed population, while women were just 14.4%.<sup>47</sup>

**Third, the agriculture sector was the largest employer with 45.7% or 2.6 million jobs,** followed by community and social services at 16.7% or close to a million jobs, followed by wholesale, retail, restaurants, and hotels with 10.8% or just above half a million jobs in the economy. Women were predominantly working in manufacturing (53%), agriculture (19%), and community and social service sectors (18%) (figure 19). In 2020, women accounted for 64% of the manufacturing workforce, 33% in agriculture, and 10% in community, social, and personal services. However, their presence was negligible in the construction, transport, mining, and utilities sectors.

**Figure 19: Employment of Women by Sector: Income, Expenditure, and Labor Force Survey**

	%share of total employed	Total Employed	% women	# of women
<b>Community, social services</b>	<b>16.7%</b>	954,789	<b>18.1%</b>	<b>172,817</b>
Finance, insurance, real estate	1.2%	68,608	4.8%	3,293
Transport, storage, and ICT	7.0%	400,211	0.1%	400
Wholesale, retail, restaurants and hotels	<b>10.8%</b>	617,468	1.5%	9,262
Construction	9.5%	543,144	1.4%	7,604
Electricity, gas, and water	0.1%	5,717	0.0%	-
<b>Manufacturing</b>	8.2%	468,819	<b>53.5%</b>	<b>250,818</b>
Mining and quarrying	0.8%	45,738	1.0%	457
<b>Agriculture</b>	<b>45.7%</b>	2,612,806	<b>19.6%</b>	<b>512,110</b>
<b>Sum</b>	<b>100.00%</b>	<b>5717300</b>	<b>100%</b>	<b>956,762</b>

Source: IELS 2020 microdata 13<sup>th</sup> ICLS definitions

**Fourth, in terms of occupations, women accounted for 33% of craft and related trades workers, 22% of professionals, and 20% of skilled agricultural, forestry, and fishery workers**





– see Annex Two Table Three. However, their representation was minimal in other occupations, such as plant and machine operators, armed forces, and managerial positions. Women's employment also varied significantly across sectors. And five, in 2020, 75% of the female working-age population had no schooling, compared to 50% of the male population. This educational gap posed a significant challenge for women's economic participation, as a lack of skills limits their employment opportunities.

### III. The Impact: Estimated Jobs Lost

Using firms' responses on employment losses from the World Bank Private Sector Survey, we can roughly approximate how many jobs may have been lost due to the economic shock of the Taliban takeover and excess job losses that can be attributed directly to Taliban bans on women in the labor force. For instance, when businesses were asked about the change in the number of employees and their gender in 2021, they reported laying three out of four female employees compared to one out of 2 male employees (Figure 20). In 2023, as the economy had adjusted to the new realities under the Taliban, the firm reported a similar disproportionate level of layoffs. Low economic demand, restrictions on women, and uncertainty were key constraints facing businesses that negatively impacted the firms' operations.

Figure 20: Percentage change in employment reported by firms compared to Pre-Taliban 2021

Year	2021	2022	2023
Survey Round	R1	R2*	R3*
# of Firms	100 firms	265 firms	420 firms
Men	-48%	-48%	-42%
Women	-75%	-72%	-67%

Source: The World Bank PSRS 1-3, \*R2 and R3 representative at national and provincial levels

In 2020, the IELF reported that men held 4,760,538 jobs and women held approximately 956,762. According to the firms surveyed in the World Bank Private Sector Survey Round Three in 2023, men experienced a job loss rate of 42%, and women faced a significantly higher job loss rate of 67 percent since the Taliban took over in 2021. Corresponding these figures to the baseline



figures translates to 2 million jobs lost by men and 641,028 jobs lost by women. The disparity between the genders means an excess loss of 239,190 jobs for women beyond what would be expected if they had experienced the same job loss rate as men (figure 21).

**Figure 21: Estimated Job Losses as a result of Taliban policies**

Category	Men	Women	Total
Jobs (2020 IELF)	4,760,538	956,762	5,717,300
Reported Job Loss (%) (WB PSRS 3, 2023)	-42%	-67%	
Estimated Job Loss (Number)	1,999,426	641,028	2,640,454
Excess Job Loss for Women (%) (compared to men)		<b>59.5%</b>	
Excess Jobs Lost by Women (Number)		<b>(239,190)</b>	

**In terms of sectoral coverage, Job losses were reported across all sectors.** Wholesale, retail, and trade sector businesses reported reducing employment by 43 percent compared to pre-Taliban levels (figure 22). The construction sector reported the highest reductions at 62 percent. In the Manufacturing sector, which accounted for half of women's employment, 57 percent of jobs were lost – severely impacting women.

**Figure 22: Job Loss Estimates by Sector**

Sectors	Number of women Employed IELF 2020	Estimated losses WB PSRS	Est Losses (Number)	Remaining Jobs Est Jobs
Community, social services	172817	-44%	-76790	96027
Finance, insurance, real estate	3293	-44%	-1463	1830
Transport, storage, and ICT	400	-44%	-178	222
Wholesale, retail, restaurants and hotels	9262	-44%	-4062	5200
Construction	7604	-63%	-4755	2849
Manufacturing	250818	-58%	-146148	104670
Agriculture	512110	-51%	-258747	253363
<b>Total</b>	<b>956762</b>	<b>-67%</b>	<b>-641030</b>	<b>315731</b>

**Two factors are at play in explaining job losses.** First, the Afghan economy contracted by an estimated 30 percent after the Taliban takeover – as discussed in the earlier sections.<sup>48</sup> The second factor, especially for women, is the impact of the formal decrees banning women and the informal attitude and behavior prohibiting women from participating in economic activities outside the household. While some may argue that jobs are not lost but have been shifted to the informal, in-home production and informal sector, there is little evidence, and such activities, at any rate, are low pay, intermittent, and have very little protection.

**The estimate shows that over the two years of Taliban rule, a total of 2.6 million jobs may be lost,** of which 1.9 million were held by men and 641,000 by women. Women are also disproportionately impacted by the Taliban's policies and may have lost 239,000 plus excess jobs directly due to such policies. In other words, at least two-thirds of the jobs held by women in the Afghan economy have vanished within two years of the Taliban rule. In the absence of national statistics and records tracking the welfare of Afghan women in the economy, these estimates may help guide policy discussions to support Afghan women. Though limited, there may be some policy space in select sectors and issues to provide much-needed lifelines to Afghan women in the private sector.



## PART Three: Outlook

**Although the economy’s freefall has ended**, it is not on a path toward prosperity. Afghanistan's economy had severe ‘pre-existing’ conditions of low overall growth, aid dependence, and increasing poverty in the final years before the Taliban takeover. Since the Taliban's takeover, many of the preconditions have worsened – sometimes directly due to the Taliban’s policies. Furthermore, the short- and medium-term outlook for the economy remains bleak. As the Taliban double down on their exclusionary policies in politics and discriminatory policies towards women’s education and role in the marketplace, the much-needed injection of humanitarian aid is likely to decline further, continuing the prospects of a no-growth economy and the hardships of the people even further.

### Short term risks

**The Afghan economy is exposed to several short-term risks amidst the regime’s continued reluctance to respect human rights and political and social inclusion.** The latest World Bank development update on Afghanistan indicated that the economy is experiencing a demand shock as households and businesses do not have enough purchasing power.<sup>49</sup> Continued deflation is likely going to worsen economic activity, further entrenching poverty. As the earthquake of Herat and annual floods highlight, exposure to natural disasters is very high – especially the risks to agricultural output from climate. Returnees from Iran to Pakistan can potentially exacerbate the humanitarian situation in the winter months.

**The dramatic decline in humanitarian aid in 2024** will push the economy and the people toward a harsh adjustment. The Taliban, too, are yet to disclose the complete set of their laws, the absence of which undermines confidence but whose introduction may cause incremental decline in the economy. Lastly, the Taliban’s policies restricting women's education and employment are actively eroding human capital and productivity. These policies undermine Afghanistan's long-term growth potential and prevent the country from achieving economic self-sufficiency.



## Medium-term

**The Taliban's restrictive policies are laying the foundations for an inefficient, poor, and exclusive economy.** Under the status quo Taliban policies, Afghanistan's economy is likely to remain stagnant. While some factors, such as the government's non-recognition and seizure of central bank reserves, undoubtedly impact the financial and banking sector and therefore limit investment and growth, the Taliban's domestic policies, such as vice and virtue law, effectively limit economic progress from within. Restrictions on women's agency, voice, education, and marketplace access, even in the presence of international recognition and freed reserves, would reduce labor supply, productivity, and household incomes and, therefore, limit Afghanistan's growth far below its potential growth rate.

**While regional countries have started engaging the Taliban,** it is unlikely to result in universal recognition of their regime or the freeing of national reserves. Regional economic integration projects' promise in the medium to long term requires not only security but also a degree of policy predictability and financing by the public sector, which currently, the Taliban do not have the resources to do. With the decline in aid, the unofficial humanitarian budget financed by donors is being defunded. Therefore, all the accountability to provide services, i.e., education, health, and humanitarian, lies with the Taliban as they are the sole collectors of taxes in the economy.

## Looking Ahead

**The raw ingredients securing Afghanistan's economic future are present.** Afghanistan's medium—to long-term growth depends on investments in its people's education and health. The mining sector, assuming peace endures in the medium—to long-term, has the potential to dramatically increase revenues that can be spent on providing essential public goods such as security, basic infrastructure, and basic needs such as education and health. With investments in improved technology and sustainable practices, the agriculture sector can contribute to food security and poverty reduction. Afghanistan needs the right inclusive economic institutions that prioritize its people. Or else the outlook is bleak.



**As the Taliban enter the fourth year of their rule**, they need to be accountable to the public economic governance. The Taliban must be transparent with the national budget process, aggregates, and the outcomes it achieves. It also needs to realize that investment in Afghanistan's human capital is the best growth strategy for the country. Furthermore, the Taliban needs to start taking responsibility for poverty reduction in the country and reverse their poverty-driving policies, such as the restrictions on women's education. As the entity that is in its fourth year of tax collection, the Taliban is entirely liable for the economy, poverty, and welfare of the people.



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<sup>46</sup> Note: Age dependency ratio is the ratio of dependents--people younger than 15 or older than 64--to the working-age population--those ages 15-64

<sup>47</sup> Note: Women's participation in Afghanistan's economy gradually increased, albeit from a shallow base. In 2016, the female labor force participation rate was 26.8%, compared to 80.6% for men. By 2020, both rates had declined, with women's participation falling to 16.5% and men's to 68%. In Afghanistan, the main reason for low female labor force participation has been responsibility for housekeeping and domestic activities, while for men, it is primarily due to education and age-related factors.

<sup>48</sup> World Bank. (2022). *Afghanistan Economic Update April 2022*. Retrieved from <https://documents1.worldbank.org/curated/en/099003304242217623/pdf/IDU024c380d10860504ccc09d560bc1b93d2c649.pdf>.

<sup>49</sup> World Bank (2024). *Afghanistan Development Update: Navigating Challenges and Confronting Economic Recession and Deflation*. Retrieved from <https://thedocs.worldbank.org/en/doc/18a1ccff0457effb0a456c0d4af7cce2-0310012024/original/Afghanistan-Development-Update-April-2024.pdf>

