

Crafting the International Response in Afghanistan: Options to Enable Financial Flows and Promote “Beyond-Humanitarian” Aid

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About the Afghanistan Strategic Learning Initiative

This report draws on a series of events under the Afghanistan Strategic Learning Initiative (ASLI). The initiative was convened with the support of the UK Humanitarian Innovation Hub and the donor, the United Kingdom Foreign, Commonwealth & Development Office, in partnership with the Center for Global Development (CGD), Chatham House, the Institute of Development Studies (IDS), ODI and the Organisation for Economic Co-operation and Development-Development Assistance Committee (OECD-DAC).

Between December 2021 and February 2022, ASLI convened four workshops led by each of the partner organizations in turn. The workshops brought together senior leaders, decision-makers, experts, researchers, and practitioners to discuss what comes next for foreign aid in Afghanistan. The lead organization for each workshop published an accompanying paper, of which this is one.

The **first workshop**, led by Chatham House on December 17, 2021, explored four potential scenarios for Afghanistan’s political, economic, and security trajectory over the next 18-24 months. The **second workshop**, led by IDS on January 28, 2022, explored need and vulnerability, tying the drivers of these conditions to the scenarios outlined by Chatham House. The **third workshop**, led by CGD on February 9, assessed options for future aid instruments and mechanisms to address the financial crisis. The **fourth workshop**, led by ODI on February 28, focused on options for collective action.

Following the workshops and papers, ASLI published a synthesis paper that summarizes options for effective international engagement with a changed Afghanistan.

ASLI seeks to leverage the collective knowledge and experience of leading global think tanks working on Afghanistan and aid issues. Our goal is to make a coherent and evidence-based contribution to emerging and ongoing work addressing development and vulnerability in Afghanistan.

The Taliban takeover of Afghanistan in August 2021 and the international community's policy response plunged the already faltering Afghan economy into crisis and pushed the country into a new, more severe phase of humanitarian crisis. While the international community has committed a significant amount of aid to responding to immediate humanitarian needs, resolving the crisis requires stabilizing the country's financial sector and enabling urgent financial flows.

Without a functioning financial system, Afghans will remain unable to buy essential goods, including food and medicine. Humanitarian agencies and international non-governmental organizations (INGOs) seeking to relieve the effects of these shortages will face higher costs and greater risks moving money into the country to finance their operations. The Afghan economy will slide more deeply into economic and political turmoil, perpetuating the humanitarian crisis and undoubtedly leading to greater external displacement.

At the same time, there is growing recognition that Afghanistan's acute humanitarian crisis will give way to protracted development, governance, and peacebuilding challenges. While humanitarian interventions are critical, they are insufficient to meet current needs, much less to promote broader self-sufficiency or preserve the gains in service delivery and social outcomes achieved through 20 years of international support. So, despite real reservations about engaging in ways that might—or might be seen to—bolster the Taliban, the international community is beginning to explore options for expanding engagement beyond short-term humanitarian relief.

The first section of this note examines the causes and consequences of Afghanistan's financial crisis and lays out policy options the international community can support to enable urgent financial flows and restore the basic functioning of the Afghan financial system. The next section examines prospects for expanding assistance beyond humanitarian relief. It discusses options for aid instruments and identifies key principles for “beyond-humanitarian” aid, centered on the pragmatic expansion of government engagement, empowerment of local actors, and accountability structures that build trust and focus on results.

AFGHANISTAN'S FINANCIAL CRISIS: CAUSES, CONSEQUENCES, AND OPTIONS FOR RESPONSE

Financial flows into Afghanistan, which had already been declining steadily since the withdrawal of the International Security Assistance Force in 2014, collapsed after the Taliban takeover as foreign aid was cut and private sector activity fell sharply. Financial institutions refused to process payments into the country for fear of inadvertently violating sanctions and regulations on anti-money laundering and the countering the financing of terrorism (AML/CFT)—a pattern of behavior often characterized as “de-risking.”¹

Resuming financial flows into Afghanistan is hampered by the exceptional nature of the situation. Never before has an organization designated as a terrorist group by the United States assumed control of an entire jurisdiction.² The United States (US) and other countries responded to this novel situation with a series of measures that cut off the flow of foreign currency into Afghanistan, including freezing

1 Center for Global Development. “Unintended Consequences of Anti-Money Laundering Policies for Poor Countries.” Center for Global Development. 2015.

2 Testimony from Adam M. Smith. Hearing of the US Senate Committee on Banking, Housing, and Urban Affairs. “Afghanistan's Future: Assessing the National Security, Humanitarian and Economic Implications of the Taliban Takeover.” October 5, 2021

the country's foreign exchange reserves held abroad; keeping in place US sanctions that criminalize most transactions with the Taliban; and denying official recognition of the Taliban as the legitimate head of the Afghan state, which prevents the Afghan central bank (Da Afghanistan Bank—DAB) from maintaining correspondent accounts with foreign banks.

Cumulatively, these measures, combined with de-risking by banks and money service providers (collectively, financial service providers—FSPs), have sharply limited access to US dollars in the Afghan economy. This has left Afghan traders unable to pay for the food, fuel, and intermediate input imports that the country relies on. And it has left DAB unable to conduct the dollar auctions it used in the past to support the value of Afghanistan's currency, the afghani, resulting in sharply rising food and commodity prices.

The international community's policy measures have also had knock-on effects on the availability of the local currency. The freezing of DAB's foreign exchange reserves and its inability to maintain correspondent accounts abroad have exacerbated concerns about the solvency of the Afghan banking sector, which experienced bank runs shortly after the Taliban takeover that DAB responded to by placing strict limits on bank withdrawals. Interviews with experts in Afghanistan suggest that at least six of the country's 13 banks have closed due to lack of liquidity and all but two (AIB and Azizi Bank) are insolvent. The perilous state of the country's financial sector has impaired both economic activity and the humanitarian response, as INGOs struggle to access the cash they need to finance their operations and pay salaries. The decision by foreign companies to annul their contracts to print Afghani notes on behalf of DAB further limits the policy levers that DAB has to ameliorate the cash crunch.

The difficulty of moving money into Afghanistan through the formal financial system has pushed businesses and INGOs towards less visible channels, including hawala, an informal money transfer network that extends through much of South Asia and the Middle East. INGOs operating in Afghanistan have long relied on the hawala network to move money within the country, particularly to small towns and rural areas where there are very few bank branches. But only recently have they used the network to move money into the country from abroad at scale.

In a survey conducted by the Norwegian Refugee Council of 72 humanitarian NGOs working in Afghanistan, 85 percent reported having some of their international bank transfers blocked between August and December 2021.³ As a result, less than five percent of the NGOs processed more than five transactions through banks and formal money service providers during this period, while more than 70 processed transactions through hawala, an informal money transfer network that extends through much of South Asia. At the same time, larger aid organizations, including the United Nations (UN), have resorted to airlifting shipments of \$100 bills into the country, while smaller NGOs have used cryptocurrencies to provide aid.⁴

That payments into Afghanistan have been pushed into these channels is a perverse outcome for a global AML/CFT regime intended to increase financial transparency. Although regulation and supervision of hawaladars has improved over the last 20 years, the sector is less regulated than more formal FSPs. The Taliban's disbandment of the Afghan financial intelligence unit, FinTRACA, suggests that

3 Moret, Erica. "Life and Death: NGO Access to Financial Services in Afghanistan." Norwegian Refugee Council. January 27, 2022.

4 Emmot, Robin, John O'Donnell and Jonathan Landay. "Cash Airlifts Planned to Bypass Taliban and Help Afghans—Sources." SWI swissinfo.ch. October 7, 2021; Fang, Lee. "Starving Afghans Use Crypto to Sidestep US Sanctions, Failing Banks, and the Taliban." The Intercept. January 19, 2022.

hawaladars now operate in the country unsupervised.⁵ Together, these factors have left some donors unwilling to fund activities that require the use of hawala, which has led to a dramatic decline in cash programming in the country since the Taliban takeover.

Below we review several categories of options for enabling urgent financial flows into Afghanistan and restoring the basic functioning of the country's financial system.

Reaching a political solution

The US Treasury's Office of Foreign Assets Control (OFAC) has tried to give FSPs greater comfort in processing transactions into Afghanistan by publishing a series of increasingly accommodative general licenses aimed at ensuring US sanctions "do not prevent or inhibit transactions and activities needed to provide aid to and support the basic human needs of the people of Afghanistan."⁶ General License No. 20 explicitly expanded authorizations for commercial and financial transactions in Afghanistan, including with its governing institutions.⁷ International recognition of the Taliban as the legitimate head of the Afghan government could further ease the process of reconnecting Afghanistan to the global financial system by making it easier for DAB and Afghan banks to reestablish correspondent banking accounts. But the measure is understandably divisive given the nature of the Taliban and how it came to power. Key decision-makers continue to find the option politically unpalatable, including the US government, which wields significant power as the steward of the dollar-dominated global economy.

Supporting (or privatizing) key DAB functions

Stabilizing Afghanistan's impaired financial sector requires a functioning central bank. In the absence of international recognition of the Afghan government, innovative solutions to reconnect DAB to the global financial system should be explored, including whether it might be possible to provide neutral technical assistance to the bank, while overseeing its independence from the Taliban-led government. While the International Monetary Fund (IMF), which would normally offer assistance in this area, is unable to work with unrecognized governments, the World Bank has greater flexibility. Pakistan's government is also reportedly considering providing DAB technical assistance.⁸

There has also been some discussion of designating a trusted private Afghan or third-country bank to facilitate dollar auctions. While there are (non-recent) historical precedents for private central banks, this plan has drawn concern that it would negatively impact Afghanistan's longer-term economic health by undermining DAB's ability to carry out its core monetary and financial supervision functions and hollowing out its expertise.

Strengthening AML/CFT supervision in Afghanistan

The Taliban's disbandment of FinTRACA has left AML/CFT risks in the Afghan financial sector largely unsupervised. While the Taliban is extremely unlikely to reestablish an institution that has a mandate and ability to monitor and disrupt transactions involving sanctioned entities in Afghanistan, it may be possible to reconstitute a FinTRACA-like organization outside of Afghanistan to monitor payments

⁵ Zerden, Alex. "Reassessing Counter Terrorism Financing in a Taliban-Controlled Afghanistan" Just Security. September 17, 2021.

⁶ US Department of the Treasury. "US Treasury Issues General License to Facilitate Economic Activity in Afghanistan." 2022.

⁷ *ibid*

⁸ Rana, Shahbaz. "Pakistan Mulls Options to Keep Afghan Banks Afloat." *Tribune*. September 29, 2021.

flowing through Afghan financial institutions, drawing on expertise from the World Bank and other providers of AML/CFT technical assistance. It is particularly important to strengthen oversight of the hawala network in Afghanistan since many humanitarian organizations continue to rely on it to distribute money in the country.

Addressing AML/CFT concerns through heightened due diligence

Most foreign FSPs are reluctant to process transactions in Afghanistan, despite the publication of increasingly accommodative OFAC guidance. In the absence of explicit “comfort letters” from OFAC that FSPs will not be held liable for unknowingly processing transactions that involve sanctioned actors, most will remain unwilling to do business with Afghanistan unless they can be given greater confidence that the transactions they process are unlikely to involve sanctioned actors.

Development and humanitarian organizations are exploring several payment modalities aimed at meeting this need. One approach that appears to be gaining traction is the idea of a Humanitarian Exchange Facility (HEF) being developed by the World Bank and UN.⁹ The goal of the HEF is to match the opposite needs of humanitarian agencies—which have dollars abroad but need afghanis to finance in-country operations—and Afghan businesses—which have afghanis but need dollars to pay for imports. The facility would reduce AML/CFT risks since transactions would not require the movement of funds across the Afghan border and the use of funds would be limited to vetted actors.

Several humanitarian organizations are also exploring using digital payment systems to provide greater transparency of payments including to alleviate AML/CFT concerns:

- Following a successful pilot in Kenya, social enterprise Fintech for International Development (F4ID)—a collaboration between Save the Children, and Barclays and Standard Chartered banks—plans to roll out a pilot in Afghanistan soon that will provide beneficiary families e-vouchers to purchase goods and services from a network of vetted merchants.¹⁰
- Shortly after the Taliban takeover, accountancy and consulting firm Moore Afghanistan introduced *HesabPay*, a payments application and QR-code card-based system that several British NGOs have used to pay staff in Afghanistan. *HesabPay* reports that since November 2021 it has added over 371,000 active users and 3,000 vetted merchants, and processed over two million transactions.

Unlocking Afghanistan’s foreign exchange reserves

In early February 2022, the US Administration announced that it would seek to “facilitate access” to \$3.5 billion of Afghanistan’s foreign exchange reserves held in the United States “for the benefit of the Afghan people,” while holding slightly more than \$3.5 billion pending “ongoing litigation by US victims of terrorism.”¹¹ Many criticized the executive order as detrimental to efforts to stabilize the Afghan economy, while others questioned the legality of the action. At the very least, however, it commits \$3.5 billion of additional resources to the country. To date, the US has not revealed details about how the funds will be used. One model to consider would be for the US to release a tranche of money

9 Landay, Jonathan. “U.N. Aims to Launch New Afghanistan Cash Route in February: U.N. Note.” Reuters. February 11, 2022.

10 Save the Children. “New Fintech Company Creates Tools to Help Communities Thrive.” Press release. November 22, 2021.

11 The White House. “Fact Sheet: Executive Order to Preserve Certain Afghanistan Central Bank Assets for the People of Afghanistan.” February 11, 2022.

to aid agencies importing food and medicines into Afghanistan and allow them to sell a proportion of what they import for afghanis, which they could then use to pay local operational costs, including salaries. If political conditions improve, the Administration should also consider using the funds to support DAB dollar auctions, which would help stabilize the afghani and inject dollars back into the Afghan economy.

While none of these options is sufficient on its own, each warrants attention given the unsustainability of the status quo.

AID TO AFGHANISTAN: EXPANDING ENGAGEMENT BEYOND HUMANITARIAN RELIEF

Since the first weeks after the Taliban takeover, there has been broad international agreement on the need for a robust humanitarian response to the crisis in Afghanistan. The UN's September 2021 \$1.2 billion flash appeal, followed in January 2022 by a \$4.4 billion humanitarian appeal—the largest ever for a single country—illustrates this commitment. However, the extent to which funding will meet the ambitions of the latter appeal is unclear, especially as the world turns its attention to the crisis in Ukraine; at the time of writing, pledges cover just over half of the request.¹²

There has been less consensus around the extent to which the international community should expand its engagement beyond humanitarian relief and how it should structure its assistance to support broader service delivery and livelihoods objectives. Even while professing a desire to help the Afghan people, many donor country governments are deeply reluctant to take actions that might be seen as directly or indirectly benefitting the Taliban. Some are also concerned that providing more aid may free up state resources that the Taliban can use for repression, citing the fungibility of money.¹³

Despite these reservations, the international community has begun to explore how it could expand its efforts in Afghanistan beyond short-term, life-saving relief. Recent carveouts to UN and US sanctions offer scope for interventions beyond humanitarian aid, including transactions involving government agencies. These licenses have permitted multilateral organizations to be somewhat more forward-leaning. The UN has developed a Transitional Engagement Framework for 2022—accompanied by an appeal for an additional \$3.6 billion (which remains largely unfunded)—that emphasizes sustaining essential services and preserving social and community investments.

The World Bank board and contributing donors initially approved the unfreezing and repurposing of over a billion dollars in an existing trust fund to finance similar goals, though funds are once again on hold in light of the Taliban reneging on its commitment to allow girls to attend secondary school.¹⁴ This combination of actions suggests that the international community has some interest in supporting

12 UN Office for the Coordination of Humanitarian Affairs. "Afghanistan Conference 2022 High-level Pledging Event on Supporting the Humanitarian Response in Afghanistan—Financial Announcements." April 1, 2022.

13 International Crisis Group. "Beyond Emergency Relief: Averting Afghanistan's Humanitarian Catastrophe." December 6, 2021.

14 United Nations. "United Nations Transitional Engagement Framework for Afghanistan." January 26, 2022; World Bank. "World Bank Announces Expanded Approach to Supporting the People of Afghanistan." March 1, 2022; US Department of the Treasury. "Afghanistan-related sanctions." Accessed April 1, 2022.

longer-term self-sufficiency goals in Afghanistan—and limiting regional or international spillovers.¹⁵ However, the Taliban’s policy choices continue to make it hard for donors to fully embrace a “humanitarian plus” agenda. In this context, it will be challenging to identify how best to deliver international support.

Aid financing and instruments

Principles of international engagement in fragile states largely center on local ownership, with recognition that the degree and processes of alignment with country priorities and systems will look different depending on the legitimacy and capacity of the government.¹⁶ Donors have a long track record of working in states with low levels of commitment to and capacity for development. But the international community’s lack of recognition of the Taliban as Afghanistan’s legitimate government and the designation of the Taliban as a terrorist group by the United States add an additional layer of complication that pushes many donor organizations against the bounds of their existing policies when it comes to identifying mechanisms for potential engagement.

Decisions about aid instruments will be based, in part, on the choices the Taliban takes over the next 12 to 24 months. Chatham House has outlined four potential scenarios that illustrate how different sets of actions by the Taliban might impact economic, social, peace, and security outcomes, as well as how they might influence international decisions about assistance.¹⁷

Decisions about aid instruments will also be based on donors’ broader political strategies and their overall aims. In many cases, these remain in flux and are unlikely to be uniform across donor countries. Donor strategies will also likely contain multiple—and potentially conflicting—goals: Saving lives, stabilizing the economy, preserving service delivery, controlling migration, countering terrorism, and moderating the Taliban, to name a few.¹⁸ For the foreseeable future, however, of the menu of typical aid instruments used in fragile states, only those that limit state control and fiduciary risk are likely to be palatable to—or legally permissible for—donors working in Afghanistan.¹⁹

Current aid delivery mechanisms

Funding for Afghanistan will come from a combination of bilateral aid, UN agency funding, and multi-donor trust funds. The delivery of bilateral assistance—much of which has been project-based and implemented by INGOs and contractors—may largely continue though likely with a shift in focus and change in level of funding. Since August, the United States and other bilateral donors have worked

15 While financial spillovers of Afghanistan’s economic crisis have so far been limited, the crisis is spurring an increase in emigration which carries the risk of straining neighboring countries (International Monetary Fund. “Regional Economic Outlook: Middle East and Central Asia.” October 2021; Goldbaum, Christina and Yaqoob Akbary. “Over a Million Flee as Afghanistan’s Economy Collapses.” *The New York Times*. February 2, 2022). In addition, the collapse of financial intelligence functions raises risks of money laundering and terrorist financing (Worden, Scott. “Scott Worden on Afghanistan’s Dire Humanitarian and Economic Crises.” *On Peace*, podcast audio, November 1, 2021. United States Institute of Peace and Sirius XM POTUS Ch. 124).

16 Organisation for Economic Co-ordination and Development. “Principles for Good National Engagement in Fragile States and Situations.” April 2007; G7+. “Our Approach.” Accessed April 1, 2022.

17 Brookings, Steve, Hameed Hakimi, and Gareth Price. “Afghanistan Scenarios: Challenges and Ways Forward for Humanitarian Intervention in 2022–2023.” Chatham House. April 2022.

18 Leader, Nicholas and Peter Colenso. “Aid Instruments in Fragile States.” UK Department for International Development. 2005.

19 Manuel, Marcus, Alastair McKechnie, Maia King, Erin Coppin and Lisa Denney. “Innovative Aid Instruments and Flexible Financing: Providing Better Support to Fragile States.” ODI. November 2012.

with their implementing partners to repurpose some of their programs to fit within the legal parameters set by sanctions and other laws.

There is, however, likely to be a shift in the balance between bilateral and multilateral aid delivery mechanisms. Since August, the UN has taken the lead in implementation. Donor governments may continue to rely heavily on multilateral channels that pool risks and have global legitimacy and expertise working in difficult environments.

But multilateral financing tools have also needed to shift. Prior to the Taliban takeover, the largest single source of development finance to Afghanistan—and the main donor coordination platform—was the Afghanistan Reconstruction Trust Fund (ARTF), which is supported by 34 donors and administered by the World Bank. Until August, ARTF funds were largely on budget and government executed, with the Afghan government participating alongside donors in funding decisions. The ARTF financed up to 30 percent of Afghanistan’s civilian budget and supported core functions of the government.²⁰

ARTF allocations were halted in August 2021, but in December ARTF donors agreed to transfer \$280 million to the United Nations children’s Fund (UNICEF) and World Food Programme to support health services and food assistance. In March 2022, the ARTF’s donors agreed, with World Bank approval, to release over a billion dollars from the fund to support “the delivery of essential basic services, protect vulnerable Afghans, help preserve human capital and key economic and social services, and reduce the need for humanitarian assistance in the future.”²¹ An initial set of four projects worth \$600 million was identified, but these were put on hold in late March in response to the Taliban’s decision to continue excluding girls from secondary school.²²

When or if this funding is resumed, the World Bank will release funds to selected INGOs and UN agencies to implement projects, ensuring the money remains outside the control of the de facto Taliban authorities. This type of parallel delivery system is similar to the one the World Bank uses in Yemen, another country where the World Bank is restricted from engaging the de facto authorities and has limited in-country supervision.²³ There, the World Bank and UN have entered into a partnership model in which the World Bank provides funding and technical expertise at the request of the international community, the UN communicates with the de facto authorities, and specialized UN agencies provide implementation support and project supervision.²⁴

But while channeling funding through UN agencies and INGOs is a demonstrated model, especially in situations with restrictions on working with the government, ASLI workshop participants, along with other analysts, have raised several questions about the efficiency and effectiveness of this model as the primary aid delivery mechanism over the longer term. These questions reflect the below concerns.

Reservations about high costs: High administrative costs reduce the portion of the overall aid envelope that directly reaches recipients. However, overhead costs are not inherently bad since overhead alone does not convey information related to value for money (i.e., low overhead does not guarantee

20 Afghanistan Reconstruction Trust Fund. “Who We Are.” Accessed April 1, 2022.

21 World Bank. “World Bank Announces Expanded Approach to Supporting the People of Afghanistan.” March 1, 2022.

22 Shalal, Andrea and Jonathan Landay. “World Bank Freezes Afghan Projects after Taliban Bans Girls from High School.” Reuters. March 29, 2022.

23 Although Afghanistan and Yemen both have governments that are not internationally recognized, in the two contexts are very different in important ways. Notably, Yemen has higher levels of insecurity, as well as continued disagreement on the shape of a political settlement.

24 World Bank. “Country Engagement Note for the Republic of Yemen for the Period FY20-FY21.” April 16, 2019.

strong results). Furthermore, higher costs reflect, in part, the need for implementers to meet stringent requirements in how they manage their funds—which may be welcome in this context. But Afghans and aid overseers in donor countries are right to question the cost-benefit calculus of a UN-based model.

Concerns that bypassing national systems threatens institutional gains and compromises sustainability: Over the last 20 years, the international community invested significantly in developing Afghan state institutions, the Afghan civil service, and local NGO and community-based service delivery mechanisms. While there are questions about the effectiveness and long-term impact of the aid provided to Afghanistan, there is evidence that international support for these structures helped drive tangible improvements, particularly in basic health and education.²⁵ These gains, however, are now at risk in the absence of renewed efforts to strengthen—or at least maintain—Afghan structures and capacity for service delivery. Local institutions have broader national reach and presumably greater longevity than short-term aid delivered through parallel structures. Donors’ ongoing efforts to support civil servant and healthcare worker salaries are important but reflect only a partial approach in the absence of broader institutional and sectoral support, and efforts to strengthen state-managed services that underpin the provision of other services (e.g., electricity). Forward-looking, longer-term solutions should consider ways to work with and through local systems again.

Concerns about the exclusion of local voice: Although working predominantly through the UN and INGOs may be politically palatable and expedient to donors, it risks undermining donor commitments—including the Grand Bargain—to devolve more power and resources to local actors. INGO or UN agency implementers may subcontract or enter into partnership agreements with local partners. But working through international organizations as intermediaries reduces the agency of local actors and risks entrenching aid-centered power dynamics. Already, there are reports that local NGOs are being excluded from decision-making, which risks undermining any empowerment or sustainability goals and may fuel resentment.

Uncertainty about the extent of the UN’s technical and absorptive capacity. The UN has enormous capacity to respond to humanitarian crises. But there are questions about the extent to which specialized agencies have the breadth and depth of expertise necessary to implement the potential range of medium-term priorities, especially in areas historically supported by the World Bank or the IMF. There are also questions of absorptive capacity, with some skepticism that the UN would realistically be able to implement the ambitious scale of the humanitarian response. If fully funded (which they are unlikely to be), the two UN appeals for Afghanistan approach \$8 billion for 2022 alone. Effective implementation of the proposed model will need to consider the areas UN agencies are best equipped to effectively support and the scale of aid different UN operations can expand to meet.

Discomfort with the short-term nature of the approach: As noted above, the UN appeals and associated strategies reflect Afghanistan’s estimated needs just for 2022. Given the uncertainties a dynamic crisis poses, it is hard to know what to expect beyond that.²⁶ A criticism of past aid to Afghanistan was that it was implemented as a series of 20 one-year efforts rather than one 20-year effort.²⁷ The current

25 Samad, Diwa, Ahmad Jan Naem, and Ferozuddin Feroz. “Afghanistan: Health Sector Gains in Peril.” *The Lancet*. September 7, 2021.

26 Brookings, Steve, Hameed Hakimi, and Gareth Price. “Afghanistan Scenarios: Challenges and Ways Forward for Humanitarian Intervention in 2022–2023.” Chatham House. April 2022.

27 Special Inspector General for Afghanistan Reconstruction. “What We Need to Learn: Lessons from Twenty Years of Afghanisan Reconstruction.” August 2021.

context for international support is different now, as are donors' goals. But today's response remains vulnerable to becoming entrenched in repeated single-year response plans. UN-/INGO-based aid delivery will undoubtedly be the dominant mechanism for some time in Afghanistan, but it is not an ideal long-term solution. There is a need to start planning for the longer term—perhaps not 20 years out, but at least three to five years out—with goals and plans for the modalities of engagement that will support them for different scenarios of protracted crisis.

PRINCIPLES OF ENGAGEMENT

All international engagement in Afghanistan—both the current short-term arrangements and any longer-term efforts—will need to center on questions of how to expand engagement with local entities—including the government—and how to establish monitoring and accountability processes that focus on delivering results and building trust.

Expanding engagement with the Afghan state

Regardless of the aid delivery mechanism chosen, international support to Afghanistan will require defining—and ultimately expanding—the parameters for engaging the state. Even with the desire to continue to sideline the Taliban as an ideological or political movement, it is unlikely to be possible—or desirable—to completely avoid the state.²⁸ Indeed, donor partner relations in most countries distinguish between the government and the political parties in power. Outlined below are several reasons the international community might need or want to engage the government.

Keeping informed: It will be important to keep state actors at every level informed of project activities to get support (or at least non-interference) for their implementation and to ensure the safety of staff carrying them out. Implementers have permission for this kind of engagement for humanitarian—and select development-oriented—purposes. They will also need it for any expanded engagement.

Planning and budgeting: Engagement with the de facto authorities will be important for program planning. Even in the absence of aid, the Taliban controls considerable domestic revenues and has allocated a significant portion of its budget to development sectors, covering salaries for teachers, public sector health workers, and other civil servants.²⁹ To avoid duplication or the risk of “absolving” the Taliban of the need to finance public services, it will be important for the international community to have ongoing conversations about domestic spending to help inform decisions about how best to allocate aid resources.

Similarly, donors could consider sharing information about aid in ways that take government budget cycles into account. Even if donors are not prepared to return to on-budget aid, they could endeavor to publish aid information at the same time as government budgeting processes, denominate funds in

28 Deborah Lyons, the Secretary-General's Special Representative for Afghanistan and Head of UNAMA, has said, “we do not believe that we can truly assist the Afghan people without working with the de facto authorities” (“Briefing to the United Nations Security Council by the Secretary-General's Special Representative for Afghanistan, Ms. Deborah Lyons.” March 2, 2022).

29 Ministry of Finance, Islamic Republic of Afghanistan. “Directorate General Budget.” Accessed March 29, 2022; “Briefing to the United Nations Security Council by the Secretary-General's Special Representative for Afghanistan, Ms. Deborah Lyons.” March 2, 2022; Byrd, William. “Taliban are Collecting Revenue—but How are They Spending It?” United States Institute of Peace. February 2, 2022.

local and international currency, use the same budget classifications, and align with the government’s fiscal year—a process known as “shadow alignment”.³⁰

As the key international interlocutor with the de facto Taliban authorities, the UN will play a central role in these conversations, but it may also be useful to establish a formal consultative structure around aid planning and budgeting.

Supporting parallel structures: Even mechanisms designed to bypass the central government will require some degree of engagement with it. For instance, with the World Bank-UN partnership in Yemen, there have been times the World Bank has needed to engage with the government on technical issues. And even mechanisms that work directly with local organizations often rely on public goods that require state involvement—such as functional payment systems—to succeed.

Influencing policy direction: Some people may believe that greater international engagement with the Taliban might shape the de facto authorities’ policy stance in a way that could be more favorable for development outcomes. The theory is that international support for key sectors—attached to a limited set of clear conditions shared across donors—could help empower moderate factions or open space for additional dialogue. So far, though, there is little international consensus on what a conditioned approach to engagement might look like.³¹ More importantly, it is deeply questionable that the international community—especially Western countries—will successfully sway the Taliban’s ideological convictions in the short term. The Taliban’s reversal of its earlier decision to allow secondary education for girls reinforces this perception.³²

Preserving or strengthening state capacity: If supporting service delivery or economic governance is a priority, it will be important to determine how to engage with civil servants and Afghan state institutions, even if many donors continue to need or prefer to avoid directly engaging with or benefiting Taliban leadership. Most state institutions remain largely staffed with the same individuals donor institutions and implementing partners worked with until August 2021, including at senior levels.

At this point, development agencies are not carrying out activities through the government or state institutions. But increasingly it seems as though they could. In February 2022, the US Treasury issued General License No. 20, which authorizes financial transfers to or involving all governing institutions in Afghanistan—even ministries led by a sanctioned individual—in service of meeting basic human needs.³³

Delegating implementation responsibilities to government units, accompanied by external monitoring and oversight, could help build public sector capacity and ensure relevant ministries are attuned to donor-funded projects happening in their respective sectors. There is precedent for the international community to engage in this way with non-recognized governments. The model in Yemen, for example, was designed to preserve the functioning of state institutions; UN agencies implement donor-financed projects through these institutions, though not on budget.

30 Manuel, Marcus, Alastair McKechnie, Maia King, Erin Coppin and Lisa Denney. “Innovative Aid Instruments and Flexible Financing: Providing Better Support to Fragile States.” ODI. November 2012.

31 Brookings, Steve, Hameed Hakimi, and Gareth Price. “Afghanistan Scenarios: Challenges and Ways Forward for Humanitarian Intervention in 2022–2023.” Chatham House. April 2022.

32 Padshah, Safiullah and Christina Goldbaum. “Taliban Renege on Promise to Open Afghan Girls’ Schools.” *The New York Times*. March 23, 2022.

33 US Department of the Treasury. “US Treasury Issues General License to Facilitate Economic Activity in Afghanistan.” February 25, 2022.

More broadly, different donors may have different levels of political comfort with—or legal permissions for—engaging with an Afghan government under Taliban leadership. Understanding what each donor can individually do could help identify opportunities to push beyond the confines of parallel aid mechanisms and experiment with approaches centered on the state that are designed to build its capacity. For example, in Somalia in 2013 Norway created a special financing facility that supported the federal government’s efforts to pay civil service salaries and fund ‘community development projects. The facility demonstrated that it was possible—even if challenging—to deliver and oversee funds channeled through the government while managing fiduciary risk. It ultimately paved the way for similar instruments that were later used in Somalia by the World Bank and others.³⁴

At some point in Afghanistan, there maybe individual bilateral donors—including non-traditional donors—that have more leeway to work through state structures using ringfenced funds. Other donors should welcome opportunities for such demonstration cases, even though they may be unlikely in the near term. As Chatham House noted, there is little to suggest the Taliban has reformed to the point that donors will be comfortable trusting it with assistance.³⁵

To the extent that donors decide to focus on strengthening state institutions and government service delivery, ASLI workshop participants identified the following questions to help guide decisions about whether to undertake a particular type of support:

- How will the activity contribute to overarching objectives?
- What is the value of the structure being supported?
- Is it a function of government that is important to sustain?
- What is the relationship of the activity to what the Taliban is funding with its own revenues?
- Is it additive rather than duplicative?
- Do the de facto authorities agree to the activity?
- Can the activity be conducted in a way that does not benefit sanctioned individuals?
- Will engagement with civil servants pose a risk to them; for example, by putting them into positions that could be perceived by Taliban leaders as unaligned with or potentially threatening to their authority?
- Can implementation be monitored to ensure responsible use of funds and delivery of outcomes?
- Does the structure around the proposed activity help build trust with the de facto authorities?

Decisions about whether and how to engage a Taliban-led government will also require putting on the table difficult political questions around sanctions and international recognition. There is little

34 Manuel, Marcus, Alastair McKechnie, Gregory Wilson, and Rima das Pradhan-Blach. “The New Deal in Somalia: An Independent Review of the Somali Compact, 2014-2016.” ODI. April 2017; Manuel, Marcus, Raphaelle Faure, and Dina Mansour-Ille. “Country Evaluation Brief: Somalia.” Chr. Michelsen Institute and ODI. May 2017.

35 Brookings, Steve, Hameed Hakimi, and Gareth Price. “Afghanistan Scenarios: Challenges and Ways Forward for Humanitarian Intervention in 2022-2023.” Chatham House. April 2022.

political space for these questions right now, but it is useful to start thinking about approaches to answering them. Does the United States evaluate the rationale for sanctions differently—or weigh their costs and benefits differently—now that the Taliban insurgency no longer poses a direct threat to US troops? Is there clarity on what the Taliban would need to do to get off the US sanctions list? Similarly, are there conditions that would need to be met for the Taliban to gain international recognition? Setting out these expectations may not sway the Taliban’s policy choices but doing so could provide more clarity on when and how donors might be able to engage the government differently.

Empowering other local actors

As noted above, UN-/INGO-centered aid delivery risks disempowering local non-governmental and community actors. In Afghanistan, local NGOs and community development councils (CDCs) have strong capacity and a track record of service delivery. They also know the local environment, are incorporated into the community, have a broader reach than traditional humanitarian approaches, and often have experience working with the Taliban. Health service delivery, in particular, has been highly reliant on NGO providers, a model which has demonstrated resiliency during conflict. Supporting these organizations to continue delivering services will need to remain a key part of aid to Afghanistan. In fact, expanding NGO service delivery may be a shared goal of donors, the Taliban, and Afghans, to the extent that regions that were previously excluded from support for security reasons may now be more accessible.

In any engagement with local organizations, the structure of the relationship matters. UN agencies or INGOs may involve local organizations in aid implementation, either as recipients of capacity-strengthening activities or as subcontractors. But the power dynamics that accompany “donor-beneficiary” or “contractor-subcontractor” relations often mean that local organizations are not empowered to set priorities, shape project design, or define success. UN agencies and INGOs will need to be intentional about ensuring that local NGOs and community organizations exercise meaningful leadership in aid decision-making.

However, they must do so with a clear-eyed view of the political economy. When the Taliban were last in power, in the 1990s, they significantly restricted and interfered with NGO activity; there are no signs they will adopt a more progressive stance this time around.³⁶ With political pressure on NGOs likely to increase at national and local levels, the international community must seek to understand how international support changes the risk of political pressure on NGOs that receive aid funding and support them to reduce their vulnerabilities.

Establishing monitoring and accountability structures that build trust and permit flexibility

With heightened concerns about the use of funds in Afghanistan, monitoring both financial management and program performance will be critical components of any aid instrument. Good monitoring is essential for building trust with donors—and their political overseers—that funds will be well spent. The ASLI workshop participants also highlighted the importance of using monitoring to build trust between donors and the de facto government where mutual skepticism—even antagonism—is high.

³⁶ Moore, David. “Taliban Governance of NGOs—What to Expect and How to Respond.” Just Security. October 15, 2021. Some have also noted the Taliban may seek to advance draft legislation introduced during the most recent government that would allow the Ministry of Economy substantial authority over NGO formation and their activities (Jami, Maryam. “Restricting Human Rights: Afghanistan to Amend its Law on Non-Governmental Organizations.” Oxford Human Rights Hub. September 21, 2020).

With limited donor presence in Afghanistan, monitoring becomes more complicated and will likely rely, at least in the short term, on the UN which has an in-country presence and is currently channeling and implementing a significant portion of aid funding. Reviving and enlarging the UN Risk Management Unit in Afghanistan (first established in 2014) could be a useful component of a fiduciary accountability system, accompanied by support to strengthen individual UN agencies' risk management practices.³⁷

In addition to monitoring fiduciary risk, donors will also need to consider accountability for program performance. Donors often default to top-down accountability models, especially in politically risky environments, and impose tight programmatic controls. Unfortunately, while these provide a veneer of accountability, they can stifle learning and problem-solving, and ultimately undermine program performance.³⁸ In Afghanistan, the fluidity of the environment will require activities to be implemented flexibly, with implementers encouraged to adapt their approaches based on regular data collection, and systematic learning about a program's performance and the context in which it is being implemented.

There is no single model for an accountability framework that will both satisfy overseers and allow the flexibility and localized authority needed to enable adaptation. The performance-based contracting model used with Sehatmandi, the major donor-financed health program in Afghanistan, offers one potential model. Performance-based awards can incentivize service providers and provide flexibility in pursuit of identified outcomes. Other possibilities include other flexible award types, looking beyond quantitative metrics, and holding implementers to account for good processes of learning and adaptation.³⁹

CONCLUSION

Afghanistan is in the midst of a major humanitarian and financial crisis with grave human costs. The international community has stepped up to provide humanitarian aid to relieve some of the worst effects. But to end the current emergency and lessen the country's vulnerability to repeat crises, more attention is needed to enable financial flows in the short term and advance self-sufficiency goals over the longer term.

International policymakers must:

- Prioritize efforts to relieve the financial crisis, stabilize the country's financial system, and enable financial flows into and within Afghanistan;
- Consider the areas that UN agencies are best equipped to support and the scale of aid UN operations can expand to meet;

³⁷ International Crisis Group. "Toward a New Mandate for the UN Mission in Afghanistan." January 28, 2022; Special Inspector General for Afghanistan Reconstruction. "The Risk of Doing the Wrong Thing Perfectly: Monitoring and Evaluation of Reconstruction Contracting in Afghanistan." July 2021; Kelly, Luke. "Lessons on the Effectiveness of Risk Management Units in Reducing Fiduciary Risk." K4D. July 31, 2019.

³⁸ Honig, Dan. 2018. *Navigation by Judgment: Why and When Top-Down Management of Foreign Aid Doesn't Work*. Oxford University Press; Campbell, Susanna. 2019. *Global Governance and Local Peace: Accountability and Performance in International Peacebuilding*. Cambridge University Press.

³⁹ Campbell, Susanna, Dan Honig, and Sarah Rose. "Creating an Accountability Framework that Serves the Global Fragility Act's Mission." Center for Global Development. January 2020.

- Begin planning beyond a single-year response, with goals and aid modalities for different scenarios of protracted crisis;
- Better define—and expand—parameters around engaging the Afghan state:
 - Consider establishing a formal consultative structure around aid planning and budgeting and consider pursuing shadow alignment—providing information about aid in ways that reflect state budget processes;
 - Consider delegating implementation responsibilities to government units, accompanied by external monitoring and oversight;
 - Start thinking about approaches to answering the difficult political questions around sanctions and international recognition. Even if there is no political space to answer these now, setting out clear expectations for the factors that could lead to a change in status can help provide more clarity on when and how donors might engage the government differently;
- Prioritize supporting local NGOs and CDCs to continue their track record of service delivery, and ensure these local organizations are empowered to exercise meaningful leadership in priority-setting and decision-making;
- Revive and strengthen the UN Risk Management Unit in Afghanistan and support individual UN agencies’ risk management practices;
- Ensure accountability frameworks build trust—both with donor overseers and the de facto authorities—and allow the flexibility and localized authority needed to enable adaptation.

There are no perfect solutions to the crisis in Afghanistan and the choices that need to be made involve difficult tradeoffs—but the cost of inaction is higher.

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