A Glass Half Empty? An Afghan Economy Without Women

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Afghanistan Research Network

This series highlights the work and analysis of the Afghanistan Research Network (ARN), a project convened by LSE / PeaceRep, and the Civic Engagement Project (CEP). The network brings together over 20 Afghan researchers (and several non-Afghans) with diverse expertise and backgrounds investigating a range of issues. This project aims to support Afghan researchers who were recently forced to leave Afghanistan; to ensure expert and analytical provision; inform contextually-appropriate international policies and practices on Afghanistan; and to deepen understanding of evolving political, security, and economic dynamics.

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While including Afghan women in the economy is mostly being discussed as a human rights imperative, the Islamic Emirate’s current policies have significant economic ripple effects. Although the Afghan economy has proven more resilient than many expected, with economic indicators plateauing in 2022, its persistent fragility makes it more vulnerable to restrictions on women. Women are complementary rather than substitutable in economies; their role in the economy cannot be simply replaced by increased male economic activity. From different consumption patterns to female entrepreneurship, women exhibit different behavioural patterns when engaging in the economy, fostering diversity and making economies more resilient to shocks. Although some workforce gaps can be filled by men, gender-based exclusion will result in a drop in aggregate demand, as some market sectors will shrink or extinguish. Banning women from both public life and the workplace can also bear negative implications on men’s ability to exercise their work. Afghanistan’s economic recovery is largely contingent on international support, which is fading in light of the escalating restrictions on women’s freedoms.

Key Takeaways

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- Afghanistan’s economic recovery is largely contingent on international support, which is fading in light of the escalating restrictions on women’s freedoms.
Take-over economics: Economic activity under the Taliban

Ostracized from the international markets

The Municipality of Kabul recently unveiled a gigantic, hand-painted globe on Dahan-e-Bagh square, with an oversized Afghanistan claiming the centre of the globe. This new landmark is as telling about the new government’s self-perception as it is arguably inaccurate with regard to its current international standing. When the Taliban took over the country in a dizzying speed, the international community was committed to adopting an unapologetic stance against the new rulers. The response – a firm political and economic isolation of the incumbent government – was, first and foremost, a response to the Taliban’s ideology and repressive policies on women’s rights.

Afghanistan was no economic Eden before the takeover and plenty of economic indicators were pointing downwards. Following consecutive droughts, the effects of the COVID-19 pandemic, and human and capital flight, there was not much cause for optimism. With a GDP of US$20 billion in 2020, Afghanistan’s economy was already on the decline and too feeble to serve a population of 40 million people.

The international community articulated timid hopes after the abrupt political transformation in August 2021. The new Islamic Emirate, unlike the previous one ruling between 1996-2001, might be more modern and moderate. At the very least, economic hardships might pressure them into a Realpolitik mindset. The events unfolding on the ground soon proved them to be wrong.

The resulting international outrage over the removal of Afghan women from public life is largely fuelled by a human rights and gender equality narrative. The restrictions have a dire direct impact on the lives of Afghan women, but this is not the only burden they place on Afghan society. Often overlooked, but nonetheless significant in their outcome, are the concrete economic repercussions inflicted by the policies.

What happens to a war-torn, already fragile economy when women are excluded from it?
Immediate economic consequences post August

Although demands for harsh economic sanctions dominated public debates on how to deal with the new Islamic Emirate, most sanctions currently in place pre-date August 2021 and target Taliban individuals. It is only now that their effects are being felt on a much larger scale, as the individual targets of these sanctions have taken on government roles, hold ministry posts, and head state institutions.

Even though these sanctions do not target the state directly, a majority of political, financial, and aid actors are nonetheless trying to avoid the government and its institutions altogether. Stakeholders seeking to engage in business with Afghan entities are treading particularly cautiously, often bypassing the countries' state institutions and national banks out of fear of being hit by US sanctions. Indeed, the current risk climate has put off many investors and banks from transactions where sanctions might not necessarily have applied. Another severe blow was dealt to the Afghan economy when the US, the World Bank and other governments revoked the credentials of the Da Afghanistan Bank (DAB), making it unable to transact with the international banking system. This move caused the de-facto freezing of almost 9 billion dollars of foreign assets which were parked in other Central Banks’ coffers. As a result, the institution is incapacitated and without liquidity to counter the economic downfall by adjusting monetary policy, engaging in international transactions, and settling payments.

Withdrawing humanitarian aid

For an economy that hinges exceptionally on the inflow of international aid, which provides as much as 75% of the entire government’s budget and 40% of the overall GDP, the halt of development projects and parts of the humanitarian response was particularly painful. The billions of dollars of foreign aid that had been previously swallowed by the former Republic, supposedly aimed at strengthening state capacity, providing basic services, and building infrastructure, turned out to be only a temporary replacement for what should have been, ideally, a functioning government’s responsibility. The withdrawal of these steady inflows, pillars of a shaky house of cards, left the new government with an abruptly shrunken household budget, and many Afghans without income.
According to the World Bank, Afghanistan's GDP contracted by 20.7% after the takeover. Afghanistan is at the highest risk of famine in a quarter of a century, with about half of Afghanistan's population acutely food insecure and 6.1 million people on the brink of famine-like conditions. 28.3 million people – two-thirds of Afghanistan's population – currently require multi-sectoral humanitarian assistance according to the UN.

These sobering and alarming numbers head most news reports on Afghanistan today. Nevertheless, while it was expected that international isolation would wipe out the Afghan economy, it has proven surprisingly resilient. Instead of imploding, economic indicators started plateauing in 2022 at better levels than expected. Inflation more than halved, dropping down to 9.1% in December 2022. Food prices decreased by 14% from their peak in June 2022.¹ The exchange rate (AF to USD) has stabilized and has been back to pre-August levels since Mid-February. Afghanistan is exporting more than in previous years (1.7 billion USD from January to November 2022), and government revenue collection for 2022 was strong.²

**More resilient than assumed?**

While not everyone agrees about what has cushioned the fall of the Afghan economy, the informal economy has certainly played an important role. In war economies, traditional economic performance indicators can be insufficient to capture the full picture. In Afghanistan, the shadow economy, compromising the activities that are not taxed or monitored by the government, has been a crucial side stage.

Empirical evidence shows that sanctions-hit economies tend to expand their informal sectors as individuals and businesses seek to circumvent regulations in search for survival.³ Moreover, while sanctions are mostly intended to impact formal economic activity, they create a direct behavioural incentive for affected market actors, who are more likely to descend into the grey and black markets. The Taliban, already familiar with these restrictions, had decades to adapt to the legal limits of their economic activity.
Prior to the final power grab, the Taliban had already established a sophisticated system for filling their coffers. Although official data on shadow economies is scarce, an insightful ODI study sheds some light on the Taliban's ability to generate revenue by controlling major roads in the province Nimroz, which amounted to ten times more income than the province received in international aid. Trading and taxing fuel and imposing transit fees had become lucrative revenue strategies. Now that the Taliban have almost unimpeded nationwide access, this revenue-generating capacity has likely expanded throughout the country. Although not as much as rumoured, trade with illicit goods, such as arms and drugs, also add to their salary slip.

Subjected to conflict and hardship for decades, Afghanistan's other market actors have also built resilience to shocks and international isolation. While commercial banks are cut from the outside world, informal financial networks, the so-called hawalas, continue to provide work-around alternatives for influx and outflux of money. Businesses are also adjusting quickly. According to a World Bank survey from September 2022, more than 75% of surveyed businesses are (partially) operational again.
Excluding women in an already fragile economy

The plateauing of the economy laid out above might have led some policy-makers to believe that Afghanistan's economy can stay afloat, and perhaps even recover, despite the full exclusion of Afghan women from the workforce. The Taliban Minister of Higher Education, Neda Mohammad Nadim, a member of the government who regularly causes outrage in international media for his hard-line comments, exposed his economic philosophy in a simple, yet telling tweet where he notes that Afghanistan's population is about 40 million, half of which are men. If those 20 million men study and work, so he elucidates his calculations, there is no need for the remaining 20 million (women) to study and work. His views are not uncommon and align with another often-posed question: In a context with high unemployment and scarce job opportunities, where only a fraction of society can be absorbed into the labour force, does the exclusion of women cause economic harm?

Expulsion from the workforce

Official and comprehensive data remains one of the most challenging issues when writing about Afghanistan. With an informal economic sector that is by far superseding the formal one, statements on the labour force are always approximations. According to the International Labour Organisation (ILO) best estimate, however, women made up 19% of the workforce in Afghanistan in 2020, increasing to 22% in 2021.7

Today, women have been barred from most employment sectors. Sometimes this is enforced through official decrees, sometimes through more subtle means such as intimidation, tax increases, or mobility restrictions (i.e. being able to travel to work). How many jobs have been lost so far is unclear. The International Labour Organisation (ILO) recently released a new rapid assessment estimating that employment losses reached about 450,000 workers in the fourth quarter of 2022 since the change of administration. When compared to a hypothetical scenario with no change in administration, employment is lower by 900,000.8 The same study suggested that women's employment has reduced by 25% since August 2021, while men's employment only went down by 7%. It is important to note, however, that these numbers include home-based self-employment such as agriculture, repairing clothes, and other informal sources of income.
Public sector jobs, from positions at the ministerial level down to administrative functions, began evaporating for women as soon as the new Islamic Emirate replaced the Republic. The education sector, however, is the most affected. Not only are girls no longer allowed to attend secondary school and universities, female teachers have also lost their jobs in the nascent gender-segregated education system. Women are also gradually being prevented from working as doctors and nurses. Although not officially banned from practicing, reports from all over the country reveal that the government is making it increasingly difficult for female health workers to report to work.

Women are also facing mounting challenges in the private sectors, including harassment on their commute and spot-check visits from the Ministry for the Promotion of Virtue and Prevention of Vice (PVPV Ministry) at their workplaces. Alternatives, such as remote working, are not readily available in a country with a sweeping lack of electricity. According to World Bank assessments, women’s employment in the private sector is 62% lower than before August 2021.³ Meanwhile, home-based, informal economic activity such as handicrafts and agriculture is on the decline as well, stemming from a pervasive atmosphere of uncertainty and fear.⁴

On December 24, 2022, the Taliban went one step further towards the complete exclusion of women from the workforce by banning all national female NGO staff. They extended the directive on 4 April 2023 to restrict women from working for the United Nations. This escalation has had dire implications for the incomes of many households. Not only are salaries particularly high in this sector, but women holding NGO positions are often the main breadwinners in their household, with many also providing for extended families. Prior to the ban, women made up approximately 20-30% of the aid workforce in the NGO sector, adding up to an estimate of 60,000.¹¹ Most humanitarian actors have resumed their activities, at least partially, since the ban, and the government has theoretically granted exemptions for the health and education sector. Things are far from business as usual, however. The latest UN-led survey revealed that 55% of NGOs have been unable to reinstitute their programmes in full and are struggling with the conditions enforced by local authorities. This scale down of NGO activities is also affecting men, as some organisations have halted their activities in protest of the ban, while others are unable to operate without their female employees. Many INGOs, including the UN, are refusing to replace their female staff to avoid complying with the Taliban’s policies. The total loss of staff in this sector could amount to 20%.¹³
**Where women cannot be replaced**

A 2021 [UNDP report](https://www.undp.org/content/undp/en/home.html) estimates that the potential economic consequences of excluding women from the workforce can be as high as a 5% drop in GDP per year, which in Afghanistan translates roughly into 1 billion USD annually. These calculations were mainly based on the impacts of output loss caused by reduced productivity, where replacement takes time, and less productive men might replace highly skilled women, and employment segregation, which leads to lower economic output. Yet the negative impacts can reach further than the report’s calculations, from suffocating female entrepreneurship to wiping out whole market sectors. To deconstruct the Minister’s argument, we need to take a closer look at the non-substitutable roles that women play in labour, supply, and demand.

In contrast to the Education Minister’s comments, the empirical literature demonstrates that women are complementary rather than substitutable in economies, with gender inclusion resulting in larger economic opportunities than previously thought. This is because women bring different skills to the workplace that are not replaceable by men, particularly so in a society with strict gender roles. This applies to certain types of tailoring, a variety of handicrafts, and beauty services. General output loss from the lack of women’s participation is as estimated to be as high as 20% in Arab countries, which are known for higher (albeit much lower than in Afghanistan) degrees of gender-segregation. **Women also do business differently.** They react differently to market opportunities and show a different risk preference compared to men. This diversity makes economies more sustainable and resilient to shocks. Since entrepreneurship involves creating new products, services, and markets, which generate additional economic activity and employment opportunities, it is distinct from conventional employment and not directly substitutable.

In Afghanistan, where employment segregation is highly rigorous, examples of irretrievable economic harm are plenty.

One area that is particularly affected is female entrepreneurship, which had been thriving before the change in government. In 2021 the Afghanistan Women’s Chamber of Commerce and Industry (AWCCI) indexed almost 17,400 women-owned businesses, mostly employing women (75% of employees), and creating over 130,000 jobs while indirectly benefitting 100,000 female manufacturers.
Around 2,600 women-owned businesses were formally registered in 2021. A total of 26% of these were relatively new, having only been registered since 2017. These numbers show an entrepreneurial momentum that most likely captured the informal sector.

Today, representatives of the PVPV Ministry are increasingly policing businesses, intimidating women at the workplace and, in some cases, ordering them to shut down their shops. Additionally, before the Taliban takeover, NGOs helped women to improve value chains, giving them access to new markets. These projects have been significantly reduced since August 2021, cutting women off from entering new networks. The loss of opportunities, mounting restrictions, and high risks involved in running a venture as a woman have resulted in an increasing trend of business closure. The authorities have set a stark negative incentive for female entrepreneurs.

The general crackdown on interactions between men and women also contribute to losses in demand. Depending on the location and the cultural conservatism, women are restricted from selling to a male audience. In a UN Women survey, 85% of female business owners who had to close their business post August 2021 reported that the main reason was the lack of access to markets for women. In their dogmatic gender-segregation pursuit replete with tragic ironies, the authorities have gradually closed down women-only markets in larger cities such as Kandahar and Mazar-al-Sharif. These were hosting shops run by women exclusively for female consumers. In Kandahar city, seat of the Taliban’s ominous Supreme Leader, the women’s only market with 37 shops had just recently been built in 2020 with the help of 1 million USD in foreign aid. Hundreds of women have been affected by the closure, as the owners often also employed other women to produce handmade soaps, scarves, jackets, jewellery and decoration items.

At the same time, women have to accept a reduced market offer. For example, fewer female clothing shops are now functional. Those that remain offer limited, mostly religiously conservative products. Other types of clothes, particularly Western-styled clothes, are vanishing from the markets, with authorities strictly policing the appropriateness of the garments. Shops that previously sold more liberal fashion have had to close down. Women-related products, specifically cosmetics, are procured and sold significantly less in the market.
The authorities are also raising taxes officially and unofficially, which can function as a means of expelling women from the workplace. Beauty salons, a thriving business before August 2021, are a prime example for this. Some female salon owners have reported that their taxes have tripled.\textsuperscript{16} Already more than half of female business owners are reported not to register their businesses in the first place, due to the lack of financial means. Sector-specific taxes in areas dominated by women are an effective way to push women out of the workforce without directly issuing a decree. Even after the change in administration, 63% of women surveyed in the personal care and cosmetic sector answered that they still made a profit.\textsuperscript{17} Further impediments will drive this number to zero, resulting in further economic losses for Afghanistan’s GDP.

**Reduction in demand through loss of income**

Even if some of the above-described employment gaps can be filled by men, gender-based exclusion will lead to a further drop in aggregate demand. Household incomes are shrinking, in many cases fully evaporating. According to a Save the Children study, 82% of Afghan families reported having lost full or partial wages since August 2021.\textsuperscript{18} Since May 2022, more than 50% of the population experienced an income decrease.\textsuperscript{19}

Taliban’s harsh decrees limiting women’s freedoms will also lead to income loss for other business owners. In a set of decrees, the Taliban have gradually extinguished all opportunities for women to seek entertainment or activities outside of home. Parks, gyms, sport stadiums and bathhouses have all become inaccessible to women, to name a few. Isolating women from the outside world also means cutting them off from communication. Business owners in Ghazni and Uruzgan Province have been reportedly instructed by members of the PVPV Ministry to restrict women from entering their shops and to stop selling SIM cards and other telecommunication services to female costumers.

**Reducing demand by restricting mobility**

In addition, the PVPV Ministry issued a decree in December 2021 heavily curbing the mobility of Afghan women. Since then, women have been limited to short-distance travel and are required to be accompanied by a male family member (mahram) when travelling for more than 72 kilometres. The actual decree, in combination with an increasingly fearful climate inflamed by heightened scrutiny, checks and the random detention of women, is having a notable economic effect.
Many women report feeling insecure and uncomfortable travelling to markets and running other essential errands, often limiting their own mobility to what is strictly necessary. In rural districts, where they usually have to travel longer distances to reach markets, their opportunities to purchase goods are further limited. Female headed households are particularly affected and struggle exceptionally when engaging in market activities. This is significant as, after decades of violence and conflict, 20% of Afghanistan's households do not have an adult male member. Without a man in the family, women face exceedingly high mobility and economic barriers. Their purchasing power, if previously provided by aid programmes, is also at risk as identifying female headed households without female NGO assessors is challenging.

These mobility restrictions unsurprisingly affect the transportation sector. In Afghanistan, taxi drivers – whether cars or the popular rickshaws – are an indispensable part of the ecosystem, particularly in urban areas. With almost no public transport available, taxis are the most common way for Afghans to get around without a car, particularly women who are not allowed to drive. Over time, the clogged streets of the main Afghan cities have remained filled with taxis despite various crises, inflation and fuel shortages. However, Taxi drivers are now suffering greatly under the Taliban’s policies. Without women's daily trips to school, university, workplace and markets, their business is plummeting in many regions.

**Long-term damage**

Restricting women from practicing in their occupation as health workers causes economic harm greater than the mere loss of income. In the culturally sensitive climate under the Taliban, women are discouraged from visiting male physicians or nurses without being accompanied by a male relative. Indeed, before the female NGO staff ban, 31% of women stated in an EMERGENCY study that "family and cultural attitudes" was their primary concern for not acquiring medical assistance. In today’s restricted environment and with reduced female staff, women are unlikely to seek medical care that is not critically needed. Irreversible damage to the economy will also result from the restrictions in the education sector, which will affect Afghan society for decades to come. According to the World Bank, limiting educational opportunities for girls to the extent that the current Afghan administration has, costs countries between 15-30 trillion USD in lost lifetime productivity and earnings. Per UNICEF estimates, the ban on girls’ secondary education could cost the Afghan economy over 500 USD million in one year.
In post-conflict countries that have lost large parts of their adult male population to war, women have historically played an important role in driving economic recovery. Examples range from post-war Germany’s rubble women to Syria’s reconstruction. It is estimated that Syria’s female labor force participation has doubled since 2011 from 13% to 26%, with women shouldering much of the burden of holding together a broken economy. By excluding the female workforce, Afghanistan is losing out on a major driver for post-war recovery.

**Signaling to the international community**

The most significant economic impact of the exclusion of women is undoubtedly Afghanistan’s international isolation. Economic recovery is largely contingent on international support. Harsh restrictions on women will make international actors much less likely to reconsider their current antagonistic stance towards the Taliban. For sustainable long-term recovery that benefits the population, Afghanistan is in dire need of infrastructure development and a functioning, internationally integrated financial system. The current pathway chosen by the Taliban is highly unlikely to entice any donors into more engagement, let alone into unfreezing assets or granting the Taliban access to international financial systems. In fact, many aid and development organization are witnessing a drying up of funds, restricting them in their ability to alleviate the economic suffering.

In the current context, directing development funds to infrastructure projects is out of the question for most relevant aid institutions. Effective, large-scale development projects cannot fully circumvent ministries, municipalities, and other state-led institutions, making them highly unpopular with most donor states. In light of the growing restrictions on women, many organizations are scaling down to life-saving assistance only. Ultimately, this also means that less aid (whether hard cash or electronic transfers) is arriving in the country in 2023. Reduced amounts of foreign currency (USD) have a significant impact on the liquidity in the country, inflation, and the stability of the Afghan currency.
Outlook

While the Taliban is obscuring the country's malfunctions by preventing institutions from producing reliable figures, all measurable indicators suggest that they are trading relevant economic costs for a fully gender segregated society. As outlined in this paper, current policies are causing complex, multi-faceted harm to the economy. From income loss to a drop in aggregate demand and curbed female-focused market sectors, the consequences are manyfold.

In a counterproductive move, the current administration is keeping donors at a distance and dismantling parts of the structures that have helped Afghanistan's weak economy to stay in motion. They are also hindering a more efficient post-war recovery by preventing women from accessing education and contributing to the economy. As hopes for long-term development sputter and the economic standstill protracts, the policymakers are sitting on a wealth of underexploited resources. Women cannot be simply replaced by men – gender exclusion translates into irreversible economic harm, the consequences of which will impact future generations.

As of now, the Taliban is unlikely to be persuaded by the international community to dial back on their draconian restrictions on women's freedoms. Yet through humanitarian and development aid, the international community still has a foot in the door. There is an opportunity to identify and create broader spaces for humanitarian and development interventions supporting, even if indirectly, female empowerment.

In order to explore these spaces efficiently, more empirical research needs to be conducted on the economic effects of excluding women from public life. Additional data would outline the far-reaching consequences of the Taliban's gender-segregating policies, as well as providing a unique case study allowing comparisons to other country contexts. More in-depth research could also serve as a basis for development and aid agencies to engage in a more targeted way, integrating findings into their no-harm approaches and identifying opportunities to open spaces for women, ultimately contributing to a more sustainable recovery path.
Endnotes

5 Ibid.
11 Data based on internal cluster surveys.
13 Internal data based on sectoral surveys.
15 Interviews with retail stakeholders, December 2022, January-February 2023 Kabul/remote.
16 Interviews with beauty shop owners, January-February 2023, Kabul/remote.
19 WFP, Afghanistan Food Security Update, December 2022.
20 Interviews with UN beneficiaries, Kabul, Parwan, Jalalabad, Laghman, January 2023.
21 Interviews, Mazar-al-Sharif, Kabul, November-December 2022.
23 The UN cash inflow amounted to about $2 billion in 2022, 10% of the current GDP.
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