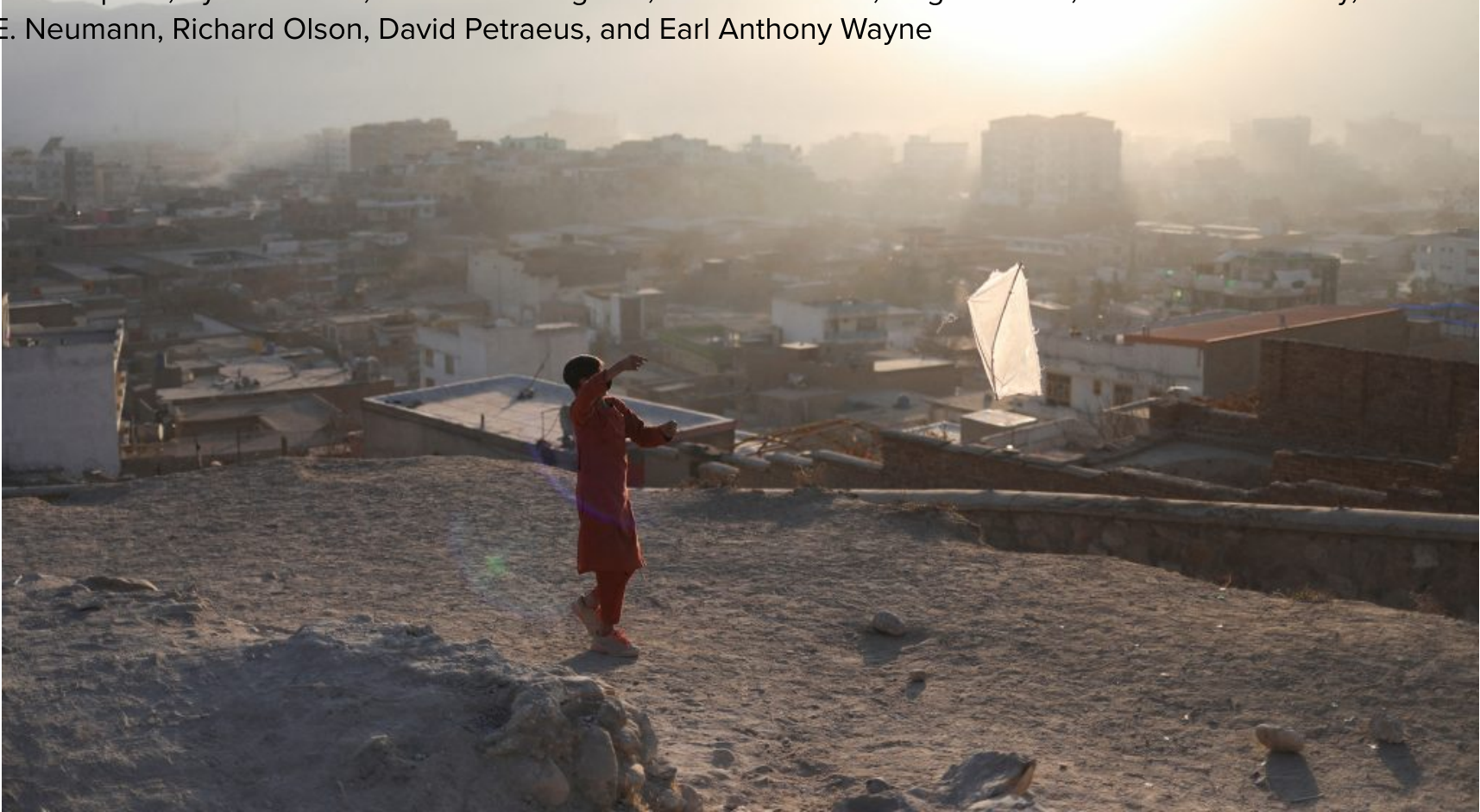


New Atlanticist December 13, 2021

Afghanistan is about to collapse. Here's what the US must do about it.

By John F. Campbell, Ryan Crocker, James Cunningham, James Dobbins, Hugo Llorens, P. Michael McKinley, John Nicholson, Ronald E. Neumann, Richard Olson, David Petraeus, and Earl Anthony Wayne



This post was updated on December 14, 2021.

The alarm bells are sounding.

The United Nations, the World Bank, the International Monetary Fund, and the donor community have all been warning of the humanitarian catastrophe emerging with the imminent collapse of the Afghan economy. The withdrawal of US and allied forces from the country, which led to the disintegration of the Islamic Republic of Afghanistan and the Taliban takeover, has been followed by the cutoff of most external assistance and the freezing of most of Afghanistan's monetary reserves, thereby **eliminating** 40 percent of the country's gross domestic product and 75 percent of the government's budget. The banking system is on the verge of collapse as well, and the currency (the afghani) is losing value rapidly. Add to this a prolonged drought, a raging COVID-19 pandemic, and the disintegration of government services. The United Nations Development Program **has warned** that "Afghanistan teeters on the brink of universal poverty," with as much as 97 percent of the population in danger of falling below the poverty line by mid-2022. The World Food Program **estimates** that only 5 percent of Afghan households have sufficient food to eat each day and **predicts** that Afghanistan is poised to become the world's largest humanitarian crisis. The UN's humanitarian chief **laments** that Afghanistan's economy is unraveling "before our eyes."

The international community is gearing up to provide increased humanitarian assistance to Afghanistan, and the World Bank **is releasing some funds** to support this effort. But more help is needed to stave off disaster. In addition to food and medicine, Afghanistan needs a stable medium of exchange and a functioning banking system to avoid experiencing widespread economic and governance failure. Health professionals, teachers, and other essential workers need to be paid if the most basic functions of the state are to be maintained. Ordinary Afghans deserve access to their own funds, now frozen in banks wary of US and international sanctions and the potential collapse of the Afghan financial system. Afghans abroad need the financial mechanisms to send remittances to their relatives, some of whom are being left behind by cumbersome US rules on who qualifies for refugee and immigrant status.

The Biden administration, like other donors to Afghanistan, is rightly reluctant to do anything that helps the Taliban impose its repressive rule on the country, underscored by **recent reports** of extrajudicial killings and disappearances.

Nevertheless, discussions are underway in Washington and elsewhere to explore various means of stabilizing the Afghan currency and averting the collapse of the banking system without providing the Taliban with discretionary resources that could be used for nefarious purposes. Good ideas for how to do so are available, including proposals by former **US ambassadors**, **USAID directors**, and **World Bank officials**, among others. Because any scheme along these lines will be very controversial, and no system of controls will be perfect, what is needed is the courage to act. The longer decisions are postponed, the more difficult it will become to prevent the looming humanitarian catastrophe in the country and the deaths of many Afghans.

During the past twenty years, all of us have led American diplomatic and military efforts to support the emergence of a more modern, prosperous, and democratic Afghanistan. We are much more than dissatisfied with the results, and many of us disagreed with the US decision to withdraw from the country. We believe the United States and its allies can and should be working in a more concerted manner both behind the scenes and publicly to send clear messages to Taliban leaders relating to core issues like counterterrorism cooperation, broadening non-Taliban representation within the government, and upholding the basic rights of women, people of all ethnic groups, notably minorities, and Afghans closely associated with the United States and other partners. Our personal experience has also left us with indelible respect and affection for the millions of Afghans who joined in this enterprise—fighting, teaching, voting, ministering to the sick, sending their children to school, running for office, founding new businesses, and building the freest and most vibrant media environment in Central Asia.

We believe the United States has a reputational interest and a moral obligation in vigorously joining efforts to help the Afghan people preserve at least some of the social and economic gains made over the last twenty years. We believe that ways to do so can be found, while erecting barriers to assistance being diverted to purposes other than those for which it is intended. Afghan civil society continues to exist, and it is important that the United States and other international donors continue to work with it.

We therefore recommend that the Biden administration expedite its consideration of these issues and, working in close coordination with key allies, come forward with tangible proposals to help stabilize the Afghan economy for discussion with other donors and ultimately presentation to the Taliban. Delay will only fuel more death and suffering.

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Image: A boy flies a kite on Nadir Khan hill in Kabul, Afghanistan on December 10, 2021. Photo via REUTERS/Ali Khara.



FOREIGN AFFAIRS

Afghanistan's Looming Catastrophe

Why the United States and Its Allies Must Act Now to Prevent a Humanitarian Disaster

BY P. MICHAEL MCKINLEY

December 3, 2021

P. MICHAEL MCKINLEY, a Nonresident Senior Adviser at the Center for Strategic and International Studies, served as U.S. Ambassador to Afghanistan from 2014 to 2016.

On December 1, a United Nations official said that Afghanistan may be facing the most rapid economic collapse in modern history. Since the Taliban takeover in late August, government revenues have all but disappeared and the country's cash-based economy has shrunk at dizzying rates. The World Food Program estimates that up to 23 million Afghans—more than half the population—may not have enough to eat by the end of the year. Public-sector workers have not been paid in months, and three million children under the age of five face acute malnutrition, an almost unfathomable number. As winter begins, Afghanistan is on the brink of a humanitarian catastrophe.

The challenge is providing relief on the necessary scale to meet the unprecedented needs of the Afghan people. The United States and its allies rightly seek to deny the Taliban government any legitimacy or

funding until it provides guarantees for the rights of women, girls, and minorities and unequivocally cuts its ties to international terrorism. The U.S. Treasury, international donors, and organizations have frozen billions of dollars of Afghan assets and seek to channel humanitarian aid through UN relief agencies and the nongovernmental organizations (NGOs) still operating, with difficulty, inside the country. Meanwhile, despite the growing crisis, the Taliban have shown little sign of changing their behavior.

Confronted with this impasse, Western governments and international organizations are being forced to reconsider how they can deliver assistance more effectively. Doing so requires broadening the definition of basic humanitarian activities that are permitted under the sanctions regime and addressing the all-consuming question of cash liquidity for emergency operations. The time for decision is now: the window is closing for millions of Afghans as the humanitarian emergency on the ground intensifies by the day.

A DIFFERENT KIND OF CRISIS

In contrast to the Taliban takeover, Afghanistan's humanitarian situation has unfolded with far less media attention, in part because there are not millions of refugees fleeing across the country's borders; there is no raging civil war; the country on the surface appears to be relatively peaceful; and some members of the former political elite are still inside the country.

The view from the ground, however, is very different. Even before Kabul fell on August 15, the Afghan economy was precarious. Under the democratically elected government, Western governments and aid agencies provided billions of dollars in humanitarian and development assistance, funds that amounted to more than 40 percent of the country's GDP and 75 percent of public spending. Yet even with this support, per

capita income remained one of the very lowest in the world, declining from \$642 in 2012 to \$509 in 2020. Then, large parts of the country were stricken by one of the worst droughts in years as well as deteriorating security, and, by mid-2021, almost half the population, or 18.4 million people, required humanitarian assistance. The UNDP is now estimating annual per capita income could drop further to a disastrous \$350 by next year, which would place Afghanistan at or near the bottom of the World Bank low-income country rankings.

In the three months since the Taliban took power, these problems have dramatically escalated. Millions more now require humanitarian assistance. And with international aid flows cut off and the banking system largely frozen, the International Monetary Fund estimates that the economy will shrink by as much as 30 percent by the end of the year. The financial collapse is compounded by a Taliban government that seems to have no coherent plan for running the economy and has devoted much of its sparse revenues to paying Taliban fighters, as a recent report by the Afghanistan Analysts Network has suggested. At the same time, the regime has been unwilling to make concessions on human rights and security to receive international assistance. Afghanistan's financial links to the world have been severed, almost literally from one day to the next.

The effects on the population have already been stark. Noting that “food security has all but collapsed,” a recent World Food Program report finds that millions of Afghans will have to choose this winter between migration or starvation. Across Afghanistan, there is a high risk of famine, both in cities and in the countryside. In large urban centers such as Kabul, and in provincial capitals, hundreds of thousands of civil servants, teachers, and health workers are no longer being paid, leaving their families with little or no basic income; in rural areas, drought, the lack of cash and markets, and now the onset of winter threaten disaster.

MAKING ROOM FOR RELIEF

In responding to the crisis, Western governments and international organizations are faced with difficult choices. Any expanded assistance to Afghanistan risks the charge that it is consolidating the Taliban in power and weakening leverage to influence their behavior, thereby provoking a likely political backlash in the United States and elsewhere. There is also the risk of inadvertent sanctions violations as international organizations provide emergency relief inside Afghanistan.

Of course, diplomatic and political preconditions on engagement with the Taliban can and should remain in effect. But it should also be possible for the United States and its international partners to augment their emergency response to help ordinary Afghans without making concessions to Afghanistan's new rulers. The pledges already made by donors to UN agencies and NGOs are important to ensuring humanitarian operations can proceed. Given the outsize dimensions of the crisis, however, these organizations will need clearer authorization and guidance from the international community if they are to respond quickly and effectively to the country's urgent and multiple needs.

To address these challenges, the existing international framework for dealing with the Taliban needs to be adjusted. UN Security Council Resolution 1988, which established the Afghan sanctions regime, was passed in 2011, but built on over a decade of measures targeting the Taliban and their finances. In current circumstances, with the Taliban now in control of the country, the UN could make it clearer that UNSC 1988, although still in effect, does not apply to humanitarian work.

Discussions at the Security Council are currently underway, and the creation of a humanitarian exception to the 1988 sanctions regime may soon emerge. But to be effective, it must allow relief organizations to address the collapse of the country's health services and the Taliban's

systematic restrictions on female education and women in the workforce, which have added another terrible dimension to the crisis. Such action, however, would require these organizations to deal with the Taliban regime in these areas. To reach the girls and women who are most vulnerable in the current crisis, there must be room for international aid efforts to operate in the spheres that affect them most.

Some donors, such as the World Bank, Germany, and the Netherlands, have suggested waivers that would allow workers in the health sector to be paid, with the World Bank reportedly considering releasing up to \$500 million in funding. The lack of salaries for medical personnel has deeply hampered the most basic health services, a problem that has had a particularly direct impact on vulnerable children.

In such a new resolution, the “carve out” language could authorize UN agencies and NGOs to work in these defined sectors as well as providing more traditional humanitarian relief. Without such specified areas in which to operate, relief organizations and the World Bank will be at continual risk of the application of sanctions to their activities in Afghanistan. As the humanitarian strategist and former senior U.S. official Sue Eckert proposed in her recent testimony to the U.S. Senate Banking Committee, the Department of the Treasury also has tools—General License Nos. 14 and 15—that could provide broader authorizations for humanitarian operations in this situation. The Treasury Department has previously used this approach in Yemen, Ethiopia, and Venezuela, defining humanitarian relief to include working in multiple sectors such as education and the provision of health services.

CREATING CASH FLOWS

But it is not enough to broaden the scope of emergency relief. Getting funds into Afghanistan has become extremely challenging in part because financial institutions themselves are fearful of running afoul of

sanctions. Humanitarian operations require a regular cash flow to sustain themselves: to pay for transport; to pay for shelter; to pay the salaries of those who work with relief agencies or in the education and health-care sectors; to pay for the establishment of distribution centers; to pay for fuel and medicine. Yet in the current situation, it has been tough for aid operations to access and distribute such funds.

The challenge remains daunting. Afghanistan's \$9 billion in reserves will and should remain frozen for the foreseeable future. Transferring any currency into the country faces numerous difficulties, and engaging with what remains of the private banking system is highly risky for correspondent banks. And flying in U.S. currency is neither a safe nor a sustainable option.

There are, however, short-term options that could promote emergency assistance for humanitarian relief through the winter. Safe payment mechanisms to ensure the transfer of funds for humanitarian operations are necessary. Among recent proposals to address the cash-flow problem, those made by former World Bank economist William Byrd and former Treasury official Alex Zerden stand out. They have both suggested, for example, working through private banks that still operate in Afghanistan.

Although not all their proposals may be feasible, they suggest creative approaches to bring funds into the country by working through the private sector banks and companies that still operate in Afghanistan, introducing Afghan banknotes, using digital transfers to individual households, and facilitating the commercial imports of essential goods under the Treasury Department's General License No. 15. The Afghan-American Chamber of Commerce has also proposed that the United States and the International Monetary Fund unfreeze \$1 billion in assets belonging to Afghan private citizens.

Whichever approach is taken, the United States and other donors must act quickly. In late November, the UN warned that the breadth of the Afghan crisis—the lack of currency and inability to access private accounts, take out loans, or pay for the imports that the economy depends on and that were previously financed by external aid money—will lead to a complete collapse of the country's financial system within months.

A CHANCE TO ACT—BEFORE IT IS TOO LATE

Given the deep and justified concerns about the Taliban deriving benefit from international assistance, expanding the scope for assistance will not be easy. The Taliban's long—and recent—record of repressive actions, their affiliation with international terrorist groups, and the presence of sanctioned terrorists in their government cannot be waved away. For the United States and its allies, which only recently evacuated their troops, embassies, and citizens from Kabul, there is a strong sense that a humanitarian response to Afghanistan's crisis must coincide with corresponding pressure on the Taliban.

Without immediate action, however, there is the risk of a humanitarian disaster of historic proportions by mid-winter. Such an outcome would not only cause great suffering to the Afghan people but also heighten the contradictions of the 20-year international engagement in Afghanistan. We should not wait for that disaster to respond to the challenges that are evident now. The United States and its allies cannot undo the failures that led to the fall of Kabul in August. But they can ensure that ordinary Afghans know we will not turn our backs on them at a time of extraordinary need.

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THE EDITORIAL BOARD

Let Innocent Afghans Have Their Money

Jan. 14, 2022

By The Editorial Board

The editorial board is a group of opinion journalists whose views are informed by expertise, research, debate and certain longstanding values. It is separate from the newsroom.

Malnourished children with withered arms have been arriving at clinics in Afghanistan for months now. Although the markets are full of food, too many people lack the money to buy it. Since U.S. forces withdrew and the Taliban seized control in August, prices have skyrocketed. Even those people lucky enough to have savings in the bank have to line up for hours to withdraw a small fraction of it. Banks are so low on cash that they have placed a limit on withdrawals.

Some of this is the inevitable result of the Taliban takeover. The Afghan government had been heavily dependent on foreign aid, which was largely cut off when the Taliban took power. International assistance made up 45 percent of Afghanistan's gross national product and funded 75 percent of the government's budget. Doctors, nurses, teachers and other essential government workers haven't been paid in months, and it's not clear when they will ever be. The Taliban remain on the U.S. sanctions list, so the international community has refused to give them money.

Targeted financial sanctions are an appropriate and powerful tool to punish bad actors and odious regimes. The mere threat of them can achieve results. But too often their cumulative effect over time is indistinguishable from collective punishment.

Right now the entire financial system in Afghanistan risks collapse. Ordinary people who have nothing to do with the Taliban have been largely cut off from the international banking system, simply because they live in Afghanistan. Even though U.S. Treasury Department officials say that the central bank of Afghanistan is not under sanctions, financial institutions around the world are treating it as if was. Foreign banks are refusing to wire money to Afghanistan, not only because they don't want to deal with the reputational risk, but also because they fear that the long arm of the U.S. Treasury might one day punish them for it. Many banks say it is not worth the hassle. As a result, it has been difficult to get cash into the country.

Anwar Khan, president of Islamic Relief USA, a Virginia-based nonprofit organization that supports thousands of female-headed households in Afghanistan, among other projects, said his group was forced to halt cash payments to vulnerable families because of the difficulty getting money into the country. When the group tried to wire money to its account in Afghanistan, intermediary banks returned the funds. Mr. Khan said the group is distributing food instead, which has been easier to organize.

The International Rescue Committee, which has 1,700 staff members in Afghanistan, has been forced to rely on local money brokers who charge high fees. If the formal banking system in Afghanistan collapses, then the entire economy could be driven into the shadows, where illicit activities like kidnapping and drug trafficking would play an even bigger role than they do now. Entrepreneurs who could be a counterweight to the Taliban would struggle to survive.

The Biden administration was right to offer aid to stave off the immediate humanitarian crisis caused by hunger, drought and a harsh winter. The administration has also issued a flurry of licenses to allow personal remittances and humanitarian aid to pass through banks unmolested. But the very existence of those licenses implies that the rest of Afghanistan's economy is off limits. That means shopkeepers can't open lines of credit to import goods, and farmers can't receive payment for their crops through international banks. Aid is not enough. Commercial activity is what feeds a nation.

"The economy is not just in free fall; it's being strangled," said David Miliband, president and chief executive of the International Rescue Committee. "We're a humanitarian agency. But we want to say loud and clear that you can't solve this problem of mass malnutrition only with a humanitarian effort."

Lack of confidence in the Taliban has led many Afghans to take money out of the bank and hide it under the mattress or spirit it out of the country. But commercial activity is also being suppressed by fear of what the U.S. Treasury Department will do to Afghan banks. In August, the U.S. government froze roughly \$7 billion that the Afghan central bank held in reserves in the United States; at issue is who is legally authorized to withdraw the money. (Roughly \$2.5 billion more is said to be held in banks in Europe.) Since then, groups of victims of the Sept. 11, 2001, terrorist attacks have laid claim to the money that is being held in New York to enforce prior judgments they secured against the Taliban, complicating the issue of who can legally collect it. The U.S. government has been negotiating with the victims' lawyers behind closed doors in an attempt to strike a deal that could lead to some of the money being donated to a humanitarian fund for the Afghan people. The U.S. government is slated to report its view of what should happen to those funds on Jan. 28.

But even a deal that funnels some money into a humanitarian trust fund for Afghanistan seems unlikely to shore up Afghanistan's central bank, which needs foreign currency to perform its core functions. The bank, which is modeled on the New York Federal

Reserve, sets monetary policy and the exchange rate and stabilizes prices by periodically auctioning off dollars to private banks. Longtime civil servants who remained in Kabul have continued to perform the bank's core functions, conducting electronic auctions with the cash they have on hand, according to Shah Mehrabi, a member of the Afghan central bank's governing board who is also an economics professor at Montgomery College in Maryland. But the bank could soon run out of foreign cash. The entire banking system could fall apart.

Mr. Mehrabi has proposed that the Biden administration allow monthly transfers of small amounts of the frozen funds for the sole purpose of auctioning off dollars to private banks. Such auctions are easy to monitor and could be cut off if the money was used for any other purpose, he said. Such an arrangement would bolster the hand of technocrats who have continued to work under the Taliban. It could be conditioned on their independence from the Taliban or on hiring certain technical staff members. Refusing to release any portion of the funds as long as the Taliban are in power would remove the money as a source of leverage.

Given the Sept. 11 lawsuit, it may not be possible to free up the funds frozen in New York in time to stave off a crisis. It may be more realistic for funds to be released from the banks in Europe, which hold a smaller but still significant amount of the Afghanistan central bank's money. Since commercial banks in Afghanistan are required to keep some reserves in the central bank, hundreds of millions of dollars in the frozen overseas accounts are part of the life savings of Afghan citizens, which should not be rendered inaccessible because the Taliban took over the country.

It would not cost American taxpayers a dime to issue letters of comfort to European banks to make it clear that they will not be punished for giving private Afghan citizens access to their money. If this doesn't happen, the world will be treated to the spectacle of Americans and Europeans paying to mitigate a humanitarian disaster caused, in part, by the fact that many Afghans have been cut off from their own money.

There are other things the U.S. government can do on the margins to ease the liquidity crisis. Before the Taliban took over, the Afghan central bank inked a contract with a Polish company to print about \$8.5 million worth of bank notes. One batch of notes has been delivered, but the rest remain in Poland. That contract should be fulfilled. In the medium term, international agencies are proposing to pay Afghan civil servants directly, bypassing the Taliban-led Ministries of Education and Health. Last month, the World Bank unfroze \$280 million in Afghan reconstruction funds that could soon be used for this purpose.

Such efforts would certainly help. But they won't make a dent in the human suffering if the banking system collapses. When banks splinter and fail, they exacerbate crises, as happened in Yemen, according to Dave Harden, an expert on the economies of countries in conflict.

Reasonable people can disagree about how much aid the United States should give Afghanistan after two heartbreaking decades of blood and treasure. It is tempting to walk away entirely. But self-interest dictates that Americans think clearly about long-term costs. Small efforts now could avoid big problems later — such as another mass migration in Europe. They could also preserve a toehold in the country. The war has been lost, but that doesn't mean every institution that Americans worked with is destined to disappear. There's still time to save Afghanistan's central bank.

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