

Policy Brief

Impact of Sanctions, International Isolation and Aid Conditionality on Afghanistan

Obaidullah Baheer¹

Key recommendations

- Move beyond regulatory clarification alone by examining stronger financial de-risking instruments, including publicly supported or state-underwritten correspondent channel through which screened commercial, humanitarian and other legitimate payments can be processed.²
- Preserve regulated remittance channels and encourage greater transparency in the informal hawala sector, with the objective of moving legitimate transfers into channels that are visible, affordable and accessible rather than allowing financial exclusion to push more activity outside formal systems.
- Protect humanitarian assistance from political conditionality to the maximum extent possible and restore carefully designed development assistance to Afghans through independent third parties, while piloting monitored forms of engagement with the de facto authorities where necessary for longer-term sustainability.
- Restore Afghanistan's access to climate adaptation and disaster-risk finance through safeguards and independent implementation arrangements. The GEF and UNDP model demonstrates that climate finance can be delivered without unrestricted transfers to the de facto authorities.
- Initiate technical talks with Da Afghanistan Bank and reserve-holding authorities to address risks and conditions preventing access to the reserves. The technical management of Afghanistan's central-bank reserves should be separated from discussion regarding the political recognition of the de facto government of Afghanistan. Independent audits, monitoring and financial safeguards should be discussed.

Introduction

The Taliban's military takeover in 2021 produced an economic shock in a country that had been extraordinarily dependent on external assistance for two decades. Before

the takeover, foreign grants financed approximately 75% of public expenditure and were equivalent to roughly 40% of GDP. This financing supported not only humanitarian and development programs, but also public-sector functions and basic services. The abrupt contraction of grants, loss of access to central-bank assets deposited abroad, disrup-

¹ Obaidullah Baheer is a political analyst and adjunct lecturer at the American University of Afghanistan, based in Kabul. N.B. that the responsibility for the content is solely the responsibility of Solidarity Committee for Afghanistan and the author.

² There is a useful precedent for this kind of ring-fencing in Afghanistan. The World Bank restarted CASA-1000 using an arrangement under which payments and revenues are kept outside Taliban control, with offshore accounts, third-party monitoring and independent invoice verification. It is not a correspondent-banking solution, but it demonstrates that international actors are already willing to construct protected financial architecture when ordinary channels are considered too risky. <https://www.worldbank.org/en/brief/2026/01/15/updated-q-a-on-casa-1000-resumption-in-afghanistan>

tion of international banking relationships and decline in investment confidence therefore affected the economy simultaneously. The World Bank reported in 2022 that per-capita incomes had likely fallen by approximately one-third in the final months of 2021, while United Nations Development Programme (UNDP) estimated that the economy contracted by approximately 20% between 2020 and 2021 (UNDP 2022a, UNDP 2022b, World Bank 2019, World Bank 2022, UNDP 2021).

Afghanistan's post-2021 experience presents an unusual challenge for sanctions analysis. It is inaccurate to describe the country as being under comprehensive international sanctions. The United States (U.S.) explicitly states that Afghanistan is not subject to comprehensive sanctions, and the United Nations Security Council's (UNSC) 1988 (2011) regime targets designated Taliban-associated individuals and entities rather than the Afghan economy as a whole (OFAC 2021). Yet Afghanistan has experienced an extraordinary degree of economic isolation. Foreign assets of the Central Bank have been frozen, Afghanistan's Central Bank "Da Afghanistan Bank" (DAB) has faced restrictions on access to international financial infrastructure, foreign correspondent banks have withdrawn or limited relationships with Afghan banks, development assistance has been suspended or redirected, and donors have conditioned elements of future assistance on changes in Taliban policy (World Bank 2026).

The resulting policy environment is, therefore, better understood as a combination of targeted sanctions, associated financial restrictions, aid conditionality and non-recognition.

The resulting policy environment is, therefore, better understood as a combination of targeted sanctions, associated financial restrictions, aid conditionality and non-recognition. This distinction matters because the current focus on measures formally designated as sanctions in a more limited understanding of the concept, can underestimate their effects on an economy that was heavily dependent on aid and international financial connectivity. Recent scholarship also provide a basis for treating politically moti-

vated development-aid suspensions as a form of economic coercion or aid conditionality (Portela & Mora-Sanguinetti 2023).

Afghanistan Is Not Under Comprehensive Sanctions

Economic sanctions are generally understood as deliberate measures that withdraw, restrict or threaten customary trade or financial relations to impose costs and influence the behavior of a target. Sanctions can affect trade, financial transactions, investment, banking access, foreign assets, development assistance, travel and arms transfers. They can be comprehensive, affecting an economy broadly, or targeted at individuals, organizations or sectors (Prusa 2008). Since the 1990s, the United Nations (UN) has moved away from comprehensive sanctions towards targeted sanctions as part of its sanctions reform.

The distinction is fundamental in Afghanistan. The UN Security Council's (UNSC) sanctions regime concerning the Taliban is targeted. UNSC Resolution 1988 (2011) established asset freezes, travel bans and an arms embargo against listed individuals, groups and entities associated with the Taliban. As of August 2026, the UN list contained 135 individuals and five entities. UNSC Resolution 2816 (2026), adopted in February 2026, reaffirmed these measures (UNSC 2011, UNSC 2026). The U.S. similarly maintains targeted sanctions against Taliban and Haqqani Network³ individuals and entities, while the U.S. Office of Foreign Assets Control (OFAC) states that transactions involving Afghanistan are not categorically prohibited when they do not involve sanctioned persons, entities or blocked property (OFAC 2021).

These sanctions measures should not, however, be assessed against a single policy objective. The UN sanctions regime is formally concerned with threats to Afghanistan's peace, stability and security. U.S. sanctions against Taliban and Haqqani-linked actors operate substantially within a counter-terrorism framework. European restrictions on development cooperation and political conditionality have increasingly been linked to human rights, particularly the rights of women and girls. Assessing effectiveness therefore requires distinguishing between these objectives

³ The Haqqani Network is a militant group affiliated with the Taliban.

rather than treating “sanctions” as one policy instrument pursuing one outcome. Afghanistan is subject not merely to different coercive instruments, but to instruments pursuing different objectives whose economic effects overlap.

The description of the regime as “targeted” therefore requires an important qualification. It accurately describes its legal architecture, but not necessarily its institutional footprint.

The description of the regime as “targeted” therefore requires an important qualification. It accurately describes its legal architecture, but not necessarily its institutional footprint. Where designated individuals occupy senior positions within ministries and public institutions, counterparties may struggle to separate transactions with an institution from possible dealings with or benefits to listed persons.

The policy problem is that the legal scope of sanctions and their practical economic effects are not the same. Targeted sanctions can produce effects well beyond the people formally designated when financial institutions conclude that the compliance risks of dealing with Afghanistan are too high.

Financial De-risking, Remittances and Hawala

The case of Afghanistan demonstrates the impact of over-compliance and financial de-risking. A foreign bank may legally be permitted to process an Afghanistan-related transaction. However, at the same time still face compliance costs, uncertainty about beneficial ownership, reputational and regulatory risks, potential exposure to enforcement, and difficulty determining whether a transaction benefits a sanctioned individual operating within a de facto government institution. The rational response for most banks has been to avoid Afghanistan altogether. Human Rights Watch documented this mechanism after the takeover, and the World Bank's

2026 Afghanistan Development Update found that most international banks did not have the risk appetite to transact with the Afghan financial system. Correspondent bank relationships have been reduced, remaining international payments are slower and more expensive, and trade finance⁴ has effectively stalled. (World Bank 2026, Human Rights Watch (2022))

The international community has taken steps to allow financial transfers to fund humanitarian aid delivery. UNSC Resolution 2615 (2021) clarified that humanitarian assistance does not violate the Taliban sanctions regime and permits payments, goods and services necessary for humanitarian delivery. The United States has also issued licenses and guidance covering humanitarian transactions and basic human needs, and OFAC states that U.S. sanctions do not prohibit personal remittances to Afghanistan (UNSC 2021). These measures matter, but they have not eliminated de-risking by international private banks. The Afghanistan case therefore illustrates the difference between legal permission and practical financial access.

The persistence of de-risking despite these exemptions suggests that legal permission alone is insufficient. OFAC General License 20, issued in February 2022, broadly authorised transactions involving Afghanistan and its governing institutions, subject to important exclusions concerning sanctioned individuals and transfers to the Taliban, Haqqani Network and blocked entities. Yet correspondent banking relationships have not recovered accordingly. The problem therefore appears to extend beyond uncertainty about what is legally permissible to banks' assessment of enforcement, reputational and political risk.

Remittances are particularly important. Official statistics have historically underestimated Afghanistan's true remittance inflows because a large share of transfers takes place through informal systems. World Bank research before 2021 noted that some estimates placed actual flows at many times the recorded figure (World Bank 2018). UN International Organization for Migration (IOM) estimates indicate that formally recorded remittances fell from approximately US\$829 million in 2019 to around US\$320 million in 2023⁵, with restrictions on money

⁴ These are services provided by banks to make domestic and international trade easier including providing of Letters of Credit (LC) which mitigate risk of trading.

pickup and withdrawals contributing to greater reliance on the informal money transfer system called hawala (IOM 2024).

Hawala⁶ should not be interpreted inherently as problematic or illicit. It has long played an important role in Afghanistan's financial infrastructure, particularly where formal banking has limited reach. A Consultative Group to Assist the Poor (CGAP) and World Bank study based on field research in 2023 describes hawala as an enduring part of Afghanistan's financial sector rather than simply a temporary response to the banking crisis (Cook, Lennox, Hakimzay 2024). As formal banking relationships shrink, more cross-border activity may move through channels that are harder to trace, verify and monitor. Greater reliance on hawala helps households, businesses and humanitarian actors continue to function, but makes transactions less transparent and harder to monitor from the outside. Financial exclusion can therefore create the very transparency problems that compliance systems seek to reduce.

Frozen Central-bank Assets and Financial Stability

The freezing of Afghanistan's foreign assets after August 2021 has been one of the most consequential financial restrictions affecting the economy. Central-bank reserves should be distinguished from ordinary government treasury funds. Da Afghanistan Bank (DAB) is responsible for foreign-exchange reserves, exchange-rate and monetary stability, international payments and financial-system liquidity. Its reserves are therefore part of the infrastructure of the financial system rather than simply a government spending account.

Before the Taliban takeover, DAB held approximately US\$9.5 billion in international reserves, mostly outside Afghanistan. Publicly available information indicates that approximately US\$7 billion was held in the U.S., with additional holdings in Germany, Switzerland and other

jurisdictions. The precise country-by-country distribution is not fully public and should be treated as indicative rather than definitive (Congressional Research Service 2023). The loss of access to these assets constrained DAB's ability to provide liquidity and settle international transactions, contributing to withdrawal restrictions, liquidity shortages and declining confidence in the banking sector. The deterioration of formal banking also pushed more activity toward hawala (Cook, Lennox, Hakimzay 2024).

In September 2022, US\$3.5 billion of Afghan central-bank reserves previously held in the U.S. was transferred to the Swiss-based Fund for the Afghan People. The fund was established to preserve the assets and potentially support macroeconomic and financial stability. It is governed by four trustees, and disbursement decisions require unanimous approval. Potential uses identified in public documentation have included exchange-rate stability, liquidity support, arrears to international financial institutions, critical imports, central-banking services and currency printing. By the end of 2025, the fund stated that the assets had grown to US\$4.11 billion through accumulated interest (U.S. Department of the Treasury 2022). As per interviews conducted for the report⁷, no part of the original fund or the accumulated interest has been used due to lack of unanimous agreement within the board and the Taliban's unwillingness to recognize the Fund or transactions.

The dispute over the reserves has become intertwined with the question of political recognition. U.S. statements have identified central-bank independence, anti-money-laundering and counter-terrorist-financing controls, third-party assessment and monitoring among the requirements relevant to restoring access (U.S. Department of the Treasury 2022). These are legitimate safeguards to consider, but financial stabilization does not need to depend on political recognition. Reserves can be monitored, audited and structured to reduce diversion risks while still being used for legitimate central-bank functions. Separating the financial management of the financial system from the wider recognition dispute would

⁵ Part of the recorded decline may reflect migration from formal transfer channels toward hawala and other informal mechanisms, for which comprehensive data is unavailable.

⁶ Hawala is an informal system for transferring money through a network of trusted intermediaries, without using traditional banks in Afghanistan.

⁷ Semi-structured stakeholder interviews were conducted with Afghan officials' foreign representatives, individuals involved with the Afghan Fund, lobby groups and other relevant stakeholders for the data collected regarding the Afghan foreign reserves.

create more room for practical solutions. Some of the safeguards discussed internationally have changed in practice. Interviews conducted for the report indicate that DAB has accepted external auditing arrangements, while Afghan officials stated that a large majority of the bank's pre-2021 personnel remain employed. The appointment of Noor Ahmad Agha as governor of DAB also complicates the situation, as he himself remains subject to international sanctions.

These developments strengthen the case for renewed technical talks focused on auditing, monitoring and the conditions under which the reserves could again support legitimate central-bank functions. The report's interviews also suggest that meaningful government-to-government technical discussions over the future of the funds have remained limited.

Development Aid as a Form of Economic Coercion

The most important conceptual extension in the Afghanistan case, concerns development assistance. Traditional sanctions analysis has focused primarily on trade and financial restrictions, but scholarship increasingly treats politically motivated aid suspensions as a distinct form of economic coercion. Although aid suspensions differ from traditional sanctions, they can serve a similar purpose or have a similar effect. Aid coercion/conditionality can also be used as part of political conditionality in development cooperation (Nielsen 2013, Portela & Mora-Sanguinetti 2023, Mertens 2024, Crawford & Kacarska 2019).

This framework is highly relevant to Afghanistan because development assistance was not merely supplementary source of financing before 2021. It supported public-sector wages, health and education services, food security, infrastructure, social protection, government operating expenditure and development projects. Following the Taliban takeover, donors suspended or redirected large parts of this support.

Donors have however continued to finance certain

activities in Afghanistan, particularly humanitarian assistance, basic services and livelihoods, while avoiding direct funding to Taliban-controlled structures in varied ways.

These arrangements have protected important assistance to civilians. The World Bank reported in September 2024 that it had provided more than US\$1.7 billion to Afghanistan since August 2021, with funds kept outside the control of Taliban authorities and focused on services, including for women and girls (World Bank 2024). Yet the shift has removed a major source of institutional support from the Afghan state, with significant macroeconomic consequences in an aid-dependent economy (Human Rights Watch 2022). A permanent and total working-around-the-Taliban model is difficult to sustain. Independent third-party delivery remains important, but carefully monitored small-scale projects involving technical engagement with relevant authorities could be piloted where necessary, with the objective to protect the population and preserve accountability.

Climate Finance and Disaster Risk

Afghanistan's financial isolation is especially consequential given its severe climate and disaster risks, including drought, flooding, water insecurity, climate-related agricultural losses, etc. (Government of Afghanistan 2016). Since 1980, natural hazards have affected approximately 9 million people and caused over 20,000 deaths (World Bank 2017).

Kabul also faces an acute water crisis, with reporting warning that it could become the first modern capital to run out of water (Taylor 2025). Yet major climate and environmental funding was paused after 2021 because of the non-recognition of the regime. UN reporting states that financing from the Global Environment Facility, Green Climate Fund (GEF) and Adaptation Fund were paused or suspended, with no new projects approved by the three funds in 2022 or 2023. In June 2024, the GEF conditionally approved an US\$8.98 million grant to UNDP for a community-based climate-resilience project, the first grant from a major climate or

environmental vertical fund to Afghanistan since August 2021. The project uses direct implementation rather than transferring funding to Taliban authorities (United Nations in Afghanistan 2024). In November 2024 it was reported that the UN was working to restart blocked climate financing (Reuters 2024).

Exclusion from climate finance affects adaptation support such as water management, drought resilience, flood protection, climate-resilient agriculture, ecosystem restoration, early-warning systems and disaster-risk reduction. Underinvestment in adaptation can therefore increase future humanitarian needs and costs. The central question is whether more than 40 million Afghans should bear the effects of climate disasters they had little role in causing because of the de facto government that currently rules them. The present approach needs review, with the Afghan welfare at the center. Climate finance is an area where safeguards and third-party implementation can reduce political and fiduciary risks without excluding the country from preventative investment.

The Three Interacting Forms of Economic Coercion

Afghanistan should not be analyzed simply through a binary distinction between being sanctioned and not sanctioned. Three interacting categories provide a more accurate picture.

Formal targeted sanctions: UN asset freezes, travel bans and arms restrictions, together with U.S. and comparable national sanctions against designated Taliban and Haqqani Network individuals and entities. These measures formally target named persons and entities but can generate indirect effects through over compliance by international banks and financial institutions. Sanctioned Taliban leaders holding important government positions makes Afghanistan an unusually difficult environment in which to maintain the distinction between individual and institutional targeting.

Associated financial restrictions: Restrictions affecting DAB, inaccessible reserves, correspondent-bank

withdrawal, financial de-risking, higher compliance costs and constraints on international payment channels. These are not all sanctions in the strict legal sense, but rather a well-documented side-effect of targeted sanction, due to their “chilling effects” such as derisking over-compliance by financial institutions, but sanctions risk and non-recognition contribute to their economic effects.

Aid suspension and conditionality: Suspension of bilateral development cooperation, withholding or redirection of development finance, delivery through UN agencies and NGOs, conditioning assistance on Taliban policy, and restrictions on assistance benefiting Taliban-controlled institutions. Academic research provides a basis for treating politically motivated aid suspensions as aid conditionality or a closely related form of economic coercion or, some would label, economic diplomacy.

The importance of these categories lies in their interaction. Afghanistan's economic vulnerability is not produced by one instrument alone. Targeted sanctions, financial isolation, aid conditionality and non-recognition reinforce one another in an economy that was already highly dependent on external financing and international connectivity.

Conclusions

Afghanistan's post-2021 experience demonstrates the limitations of assessing sanctions through a simple distinction between countries that are sanctioned and those that are not. Afghanistan is not under a comprehensive country-wide sanctions regime. Formal sanctions principally target designated Taliban individuals and entities. Nevertheless, those measures operate alongside inaccessible foreign reserves, reduced correspondent banking, financial de-risking, suspended or redirected development assistance and the wider consequences of non-recognition. Together, these restrictions have substantially reduced Afghanistan's access to international finance and economic resources.

The economic effects extend beyond formally sanction entities. Financial institutions have reduced ties to Afghan banks, making payments slower, more expensive and

sometimes unavailable. Increase in reliance on hawala sustains economic activity but reduces transaction transparency and oversight. Restrictions on central-bank reserves have limited financial operations. This demonstrates why the legal scope of sanctions cannot be treated as equivalent to their economic footprint.

Development assistance also deserves a more central place in broader sanctions analysis. Where donors deliberately condition or suspend development assistance in pursuit of political objectives, such aid conditionality provides a useful analytical framework. This does not mean that every reduction or redirection of aid is a sanction, nor does it mean that Afghanistan's economic difficulties can be attributed solely to international restrictions. Domestic economic policies, restrictions on women's economic participation, institutional weaknesses and political and legal uncertainty also contribute to present conditions. A broader policy question is how these domestic factors interact with external economic restrictions.

A more differentiated approach would maintain pressure on designated decision-makers while reducing unnecessary barriers for the wider population. Clearer banking guidance, regulated remittance, monitored development and climate finance, and safeguarded mechanisms for central-bank functions can all reduce unintended costs without requiring unrestricted transfers to Taliban authorities.

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