Solidarity Committee

Report

Impact of Sanctions, International Isolation and Aid Conditionality on Afghanistan

By Obaidullah Baheer

Introduction

The Taliban's total victory and military takeover in 2021, after the Doha agreement signed with the U.S. in February of that year, was bound to have economic consequences for a country that was extraordinarily dependent on aid for two decades. (UNDP 2022a) Prior to the Taliban takeover, foreign grants financed approximately 75% of public expenditure and were equivalent to roughly around 40% of GDP. (UNDP 2022b) This financing supported not only humanitarian and development programs but also the functioning of the public sector and the provision of basic services. The World Bank had warned prior to the Taliban takeover that a rapid reduction in grant support would result in a collapse of public services, economic activity and living standards. (World Bank 2019)

In April 2022, following the Taliban's return to power, the World Bank reported that per-capita incomes had likely fallen by approximately one-third in the final months of 2021 and identified the contraction in international grants, loss of access to central-bank assets, disruption of international banking relationships and loss of investment confidence as principal drivers of the economic collapse. (World Bank 2022) The United Nations Development Programme (UNDP) similarly warned shortly after the Taliban takeover that up to 97% of the population could fall below the poverty line under an adverse economic scenario. (UNDP 2021) Subsequent UNDP analysis estimated that Afghanistan's economy contracted by approximately 20 percent between 2020 and 2021, representing an estimated US$5 billion loss. The post-2021 crisis therefore represented not simply a deterioration in humanitarian conditions but a systemic economic shock in which the interruption of external financing interacted with financial restrictions, institutional disruption and the loss of international economic linkages. Understanding these overlapping mechanisms is essential when assessing the impact of sanctions and related measures on Afghanistan.

Afghanistan's economic situation following the Taliban's return to power in August 2021 presents an unusual challenge for the analysis of international sanctions.

At one level, it is inaccurate to describe Afghanistan as being under a comprehensive international sanctions' regime. The U.S. explicitly states that Afghanistan is not subject to comprehensive sanctions, while the United Nations Security Council's (UNSC) sanctions regime is directed at designated Taliban-associated individuals and entities rather than the Afghan economy as a whole. (OFAC 2022) The United States had, however, promised to review the targeted sanctions against Taliban members upon the initiation of intra-Afghan negotiations. (U.S. Department of State 2020) Neither the negotiations nor the review of sanctions ever occurred. The EU, beyond the UNSC sanctions, imposed further sanctions on four Taliban members in 2013 citing serious human rights violations, particularly restrictions affecting women and girls, as grounds for these designations. (EU 2023) In 2019, The International Peace Institute (IPI) conducted a study on the impact of targeted sanctions on the Taliban and the unintended challenges it presented to humanitarian aid work in areas controlled by the Taliban. (Debarre 2019) The situation since then has become even more complicated.

At another level, however, Afghanistan has experienced an extraordinary degree of economic isolation since 2021. Foreign assets have been frozen; Afghanistan's central bank has faced severe restrictions on its access to international financial infrastructure; commercial bank reserves held by the central bank have been inaccessible, international correspondent banks have withdrawn or restricted relationships with Afghan banks (World Bank 2026-a); development assistance has been suspended or redirected; and international donors have conditioned elements of future assistance on changes in Taliban policy.

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

This distinction matters because conventional sanctions analysis can underestimate the effects on a highly aid-dependent economy when it counts only measures formally

designated as sanctions. Academic research increasingly recognizes that development-aid suspensions can constitute a distinct form of economic coercion/aid conditionality. (Portela & Mora-Sanguinetti 2023)

The purpose of this report is therefore threefold:

1. to assess the direct and indirect economic effects of sanctions and associated financial restrictions on Afghanistan;
2. to examine the suspension and conditionality of development assistance as a form of economic coercion or "aid sanctions";
3. to examine consequences for financial transfers, remittances, climate finance and disaster-risk financing.

Defining Sanctions

Economic sanctions are generally understood as deliberate measures designed to impose economic costs on a target to induce a change in their behavior. Under Article 41 of Chapter VII of the United Nations Charter, the UN Security Council is authorized to adopt measures not involving the use of armed force to give effect to its decisions. Such measures may include the interruption of economic relations, restrictions on communications and transport, and the severance of diplomatic relations. In practice, UN sanctions have evolved to include targeted financial restrictions, asset freezes, travel bans, and arms embargoes. (UNSC n.d.-a) Debarre (2019) similarly describes sanctions as foreign-policy instruments used to pursue objectives such as political change, non-proliferation, and counterterrorism. (IPI 2019) Hufbauer et al describes economic sanctions as the deliberate, government-inspired withdrawal or threat of withdrawal of customary trade or financial relations. The authors identify punishment, deterrence and rehabilitation among the principal purposes of sanctions. (Prusa, T.J. 2008)

The sanctions literature therefore contains several important elements:

- deliberate action by a government or international organization;
- withdrawal, restriction or threat of withdrawal of an economic relationship or benefit;
- a target against which the measure is directed; and
- an intention to influence the target's behavior.

Sanctions may take many forms. They can restrict trade, financial transactions, investment, access to banking systems, foreign assets, development assistance, travel and arms transfers.

They can also be comprehensive, affecting an entire economy, or targeted, affecting individuals, organizations or sectors. This distinction is fundamental to Afghanistan.

Methodology

This report employs a qualitative methodology combining desk-based research, analysis of official documents and economic data, and semi-structured stakeholder interviews. Sources include United Nations resolutions, national sanctions frameworks, government statements, academic literature, and publications from international organizations, including the World Bank and UN agencies. The analysis focuses on measures affecting Afghanistan since August 2021, including targeted sanctions, central-bank reserves, banking restrictions, development assistance, remittances, and climate finance. Interviews with Afghan officials, foreign representatives, individuals involved with the Afghan Fund, and other relevant stakeholders complement documentary evidence. Where information is incomplete or contested, findings are triangulated across multiple sources where possible.

Afghanistan is not under Comprehensive Sanctions

The UN Security Council's sanctions regime concerning the Taliban is a targeted sanctions regime. Resolution 1988 (2011) established measures against individuals, groups and entities associated with the Taliban. These measures include asset freezing, travel bans and arms embargos. As of August 2026, the UN's 1988 sanctions list contained 135 individuals and five entities. (UNSC n.d. -b)

The Security Council has continued to reaffirm these measures. Resolution 2816, adopted in February 2026, reaffirmed the asset freeze, travel ban and arms embargo

against designated individuals, groups and entities associated with the Taliban. (UNSC 2026)

The United States operates a similar targeted approach. The U.S. Treasury's Office of Foreign Assets Control (OFAC) states unequivocally that there are no comprehensive sanctions on Afghanistan. OFAC explains that transactions involving Afghanistan are not categorically prohibited, provided that they do not involve sanctioned individuals, entities or blocked property. At the same time, 74 members of the Taliban individuals and entities remain subject to U.S. sanctions U.S. Treasury (OFAC) and Executive Order 13224 frameworks. (U.S. Department of the Treasury 2018)

This distinction is not merely semantic. It means that it would be inaccurate to characterize Afghanistan in the same way as Iran, North Korea or Cuba, which have been subject to comprehensive U.S. sanctions regimes. The appropriate description is instead a targeted sanctions regime operating within a much broader system of international economic restrictions.

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[1] -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 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. 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.

Economic Effects of Targeted Sanctions on Afghanistan

The distinction between targeted sanctions and comprehensive sanctions does not mean that targeted sanctions are economically confined to their named targets. Afghanistan demonstrates the phenomenon of over-compliance and financial de-risking. Banks outside Afghanistan may be legally permitted to process a transaction involving Afghanistan, provided no sanctioned party is involved. However, determining whether a transaction ultimately benefits a sanctioned Taliban individual can be difficult.

Banks therefore face:

- compliance costs
- uncertainty about beneficial ownership
- reputational risks
- regulatory risks
- potential exposure to U.S. enforcement
- difficulty identifying sanctioned individuals operating within government institutions.

Consequently, banks may choose not to deal with Afghanistan even where transactions are legally permissible. Human Rights Watch documented this mechanism following the Taliban takeover. Although the sanctions formally targeted the Taliban and designated individuals rather than Afghanistan itself, international banks and financial institutions restricted or blocked transactions involving Afghan banks because of concerns that they might violate U.S. or UN sanctions. (Human Rights Watch 2022)

The World Bank subsequently documented the same phenomenon from the perspective of the Afghan financial system. Its 2026 Afghanistan Development Update found that most international banks did not have the risk appe-

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

tite to transact with the Afghan financial system. (World Bank 2026- a)

Correspondent banks had significantly reduced or limited transactions with Afghan banks, producing delays and high costs for the international payments that remained available. Trade finance had also effectively stalled. This is the phenomenon generally described as financial de-risking. Financial de-risking has a major negative effect on Afghanistan, a country that heavily relies on inward foreign remittance.

The international community has taken important steps to prevent sanctions from blocking humanitarian assistance. UN Security Council (UNSC) Resolution 2615 of December 2021 clarified that humanitarian assistance to Afghanistan does not constitute a violation of the Taliban sanctions regime and permitted the processing of payments and provision of goods and services necessary to deliver humanitarian assistance. (UNSC 2021)

The United States subsequently issued licenses and guidance permitting humanitarian transactions and other activities supporting basic human needs. OFAC also states that U.S. sanctions on the Taliban do not prohibit personal remittances to Afghanistan.

These measures are significant and should be recognized in any balanced assessment. They do not, however, eliminate the effects of de-risking. Human Rights Watch found that banks continued to restrict transactions because of perceived sanctions exposure even where transactions were legally permissible. The World Bank similarly found that Afghanistan remained effectively isolated from normal international payment channels despite the humanitarian exemptions. The persistence of de-risking despite exemptions suggests that legal permission alone is insufficient. The problem therefore appears to extend beyond uncertainty about what is legally permissible to banks' assessment of enforcement, reputational and political risk.

Financial de-risking, Remittances and Hawala

Remittances constitute another critical channel through which international financial restrictions affect Afghanistan. Officially recorded remittances substantially underestimate Afghanistan's true inflows because a large proportion of transfers traditionally occur through informal systems such as hawala.[2]

World Bank research has previously noted that official statistics significantly underestimated remittances because of extensive reliance on informal channels, with some estimates suggesting actual flows could be ten times higher than recorded figures. (World Bank 2018) It is worth noting that the World Bank's warning about discrepancies in estimates was before the Taliban takeover and financial de-risking, the deviation between reported and actual numbers is likely to be much higher now.

More recent International Organization for Migration (IOM) analysis provides an indication of the disruption following the Taliban takeover. Formal remittances were estimated at approximately $829 million in 2019, but fell to around $320 million in 2023. IOM links part of this decline to restrictions on money pickup and withdrawal following the Taliban takeover, which encouraged greater reliance on hawala. (IMO 2024) The decline in formal remittances should not be interpreted as equivalent to a disappearance of remittances. Rather, a significant portion of the flow appears to have shifted toward informal mechanisms.

The expansion of hawala since August 2021 should not be interpreted as evidence that the system itself is problematic or illicit. Hawala has long been an integral component of Afghanistan's financial infrastructure, operating alongside the formal banking sector and providing money transfers, foreign exchange, savings, and trade finance. Following the deterioration of the banking sector after 2021, its importance increased substantially as households, businesses, humanitarian organizations and others sought alternative channels for domestic and international payments. The Consultative Group to Assist the Poor (CGAP), a Washington D.C. based think-tank, and World Bank study; Trust in Transition: Afghanistan's Hawala System in Crisis and Recovery, concludes that hawala should be understood not merely as a temporary response to the banking crisis but as a fundamental and enduring part of

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

Afghanistan's financial sector. (Cook, Lennox & Hakimzay 2024) The study also emphasizes that the system is based on longstanding relationships and trust and provides services that are particularly important in areas where formal banking has limited reach.

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The challenge for international financial oversight arises from the structure of these transactions rather than from hawala itself. Because hawala relies heavily on personal and business relationships and often operates outside conventional banking channels, transactions, particularly those involving international counterparties, can be more difficult for external institutions to trace, verify and monitor. This concern is particularly relevant in the context of sanctions and financial de-risking: as international banks become more reluctant to maintain correspondent relationships with Afghan financial institutions, a greater share of cross-border financial activity may move through channels that are less visible to international compliance systems. The CGAP study notes that the international community's concerns regarding hawala relate primarily to limited transparency and regulatory oversight, while also documenting that Afghan hawala operators maintain transaction records and operate within a regulatory framework overseen by Da Afghanistan Bank (DAB).

Hawala remains an essential part of Afghanistan's financial infrastructure, but its reliance on trust-based and cross-border transactions can make activity more difficult for external institutions to monitor. Although Afghan authorities and hawala operators maintain regulatory, record keeping and screening mechanisms, this information is not always readily visible to foreign banks and regulators. There is little visibility to the fiscal amount of hawalas coming into Afghanistan every year. As reliance on hawala has increased alongside constraints on formal banking, this limited external visibility can reinforce concerns around financial transparency and, in the broader context, contribute to the challenges of assessing the Taliban authorities' fiscal activities.

Lack of Recognition of Taliban de-facto Regime

Since the Taliban's return to power in August 2021, the international recognition of Afghanistan's de facto authorities has remained limited, despite increasing diplomatic engagement with regional and international partners. In July 2025, Russia became the first country to formally recognize the Taliban government, marking a significant development in its international relations. However, as of October 2026, formal recognition remains exceptional rather than widespread. Countries including China, the United Arab Emirates, Uzbekistan, and Pakistan have maintained diplomatic relations or accepted Taliban-appointed representatives without necessarily extending formal recognition. More recently, The EU and individual European states have engaged with and hosted Taliban delegations to discuss the issue of deportation of migrants. (Peltier & Tankersley 2026) This distinction between diplomatic engagement and legal recognition is important, as practical cooperation does not automatically imply acceptance of the Taliban authorities as Afghanistan's legitimate government.

The reluctance of many governments to grant recognition has been associated with concerns regarding political inclusivity, counterterrorism commitments, and respect for human rights, particularly the rights of women and girls. The Taliban authorities have also not secured Afghanistan's representation at the United Nations through their own appointed delegation. Nevertheless, international organizations and foreign governments continue to engage with the de facto authorities on humanitarian assistance, security, migration, and certain economic matters.

Frozen Assets and Restrictions affecting Da Afghanistan Bank

The freezing of Afghanistan's foreign assets after August 2021 has been one of the most consequential financial restrictions affecting the Afghan economy. It is important, however, to distinguish between central-bank reserves and government treasury funds. DAB is the monetary authority responsible for maintaining foreign-exchange reserves, supporting exchange-rate and monetary stability, facilitat-

ing international payments, and providing liquidity to the financial system; it is not the equivalent of the Ministry of Finance, from which the government's ordinary day-to-day expenditures are paid. The reserves therefore should not be understood simply as a government spending account. Their importance to the wider economy lies in their role as the underlying foreign-exchange and liquidity buffer of the financial system. Before the Taliban takeover, DAB held approximately US$9.5 billion in international reserves, including large deposits by commercial banks, most of which were held outside Afghanistan. (Congressional Research Service 2023) The best publicly available information indicates that approximately US$7 billion was held in the U.S., principally through assets at the Federal Reserve Bank of New York. Contemporary reporting also identified approximately US$525 million in Germany, including around US$431 million with Commerzbank and US$94 million with the Bundesbank, and approximately US$660 million at the Bank for International Settlements in Switzerland. Public information on the precise distribution of the remaining reserves, including holdings in the United Kingdom and other European jurisdictions and other countries such as the UAE, is considerably less complete; therefore, estimates should be treated as indicative rather than as a definitive country-by-country inventory. Despite the Central Bank originally promising to share accurate numbers regarding the reserves, they would later state that the information was confidential and could not be shared. (O'Donnell, 2021)

The significance of these reserves became particularly clear after the takeover because the freezing of DAB assets constrained the central bank's ability to perform functions that indirectly support the entire banking system. Commercial banks held funds and foreign-currency deposits within the financial system that depended, in part, on DAB's ability to provide liquidity and settle international transactions. The freezing of central-bank assets therefore contributed to withdrawal restrictions, liquidity shortages and a broader deterioration in confidence in the banking sector. The CGAP/World Bank study on Afghanistan's hawala system similarly documents how the freezing of DAB assets and the resulting difficulties in the banking sector pushed greater financial activity toward hawala, while hawala operators themselves reported difficulty accessing funds previously held in banks. (Cook, Lennox & Hakimzay 2024) This is an important distinction for understanding the economic impact: the assets were not simply a pool of money available for government consumption, but part of the financial infrastructure that enabled the central bank to maintain monetary stability and supported the functioning of commercial banks and international payments. The UN's cash deliveries and measures taken by the Taliban, including ensured that the Afghan currency remained stable despite the challenges. (Qalandari 2026)

This is an important distinction for understanding the economic impact: the assets were not simply a pool of money available for government consumption, but part of the financial infrastructure that enabled the central bank to maintain monetary stability and supported the functioning of commercial banks and international payments.

Afghan officials interviewed for this study consistently described the reserves as belonging to the Afghan people and maintained that they would not permit the funds to be used for purposes other than those benefiting Afghanistan. At the same time, some international governments have framed the issue differently, arguing that the problem is not necessarily that the assets have been confiscated, but that control over them cannot presently be transferred to the authorities in Kabul because there is no internationally recognized Afghan government able to exercise that authority. This distinction between ownership, custody and control has contributed to considerable ambiguity in the public debate. It has also meant that discussions concerning the reserves have frequently become intertwined with the question of recognition of the Taliban authorities, even though the two issues are conceptually separable.

The creation of the Fund for the Afghan People (Afghan Fund) in Switzerland illustrates this tension. In September 2022, US$3.5 billion of the Afghan central-bank reserves previously held in the United States was placed into the Swiss-based fund, with the stated purpose of preserving the assets and making targeted disbursements to support Afghanistan's macroeconomic and financial stability. (U.S. Department of State 2022) The Fund is held at the

Bank for International Settlements and is governed by a four-member Board of Trustees comprising two Afghan economic experts, a representative of the U.S. government and a representative of the Swiss government. Crucially, decisions on disbursement require unanimous approval. The structure therefore gives each trustee an effective veto; in practical terms, the presence of the U.S. government representative means that U.S. agreement is necessary for a disbursement to proceed. This does not mean that the United States legally owns the assets or that every decision is formally made by Washington, but it does demonstrate the extent to which access to a portion of Afghanistan's reserves remains dependent upon a governance structure in which the United States has decisive blocking power.

The Fund was designed with a number of potential uses that illustrate the economic importance of the reserves. These included supporting exchange-rate stability, providing liquidity to Afghan financial institutions, paying Afghanistan's arrears to international financial institutions, financing critical imports such as electricity, and covering essential central-banking services. Public documentation also identified the potential use of funds for the printing of Afghan currency. Interviews conducted for this report indicate that the Fund has at various points considered using interest generated on the approximately US$3.5 billion principal for practical needs, including outstanding electricity payments to Central Asian suppliers, the printing of Afghan currency in Europe and, following natural disasters, potentially providing resources for disaster response. According to participants in a meeting held in Tashkent between representatives of the Afghan Fund, the Afghan Foreign Minister and the head of DAB, these proposals were not accepted by the Afghan authorities. As per statement by the Afghan Fund, the amount of the fund had accumulated interest and increased to $4.11 billion by the end of 2025.

The conditions surrounding the potential return of the assets to DAB also demonstrate how the issue has become connected to broader questions of governance, sanctions and international recognition. In its public statements, the United States has identified several requirements before supporting the return of funds to DAB, including demonstrating the bank's independence from political interference, establishing adequate anti-money-laundering and counter-terrorist-financing controls, and completing a third-party assessment and establishing third-party monitoring. (U.S. Department of State 2022) Interviews undertaken for this report indicate that earlier discussions with U.S. officials identified the absence of a sanctioned individual at the head of DAB, an effective monitoring mechanism and regular auditing among the principal requirements discussed, while also making clear that these were not necessarily the only conditions. Though the new appointment of Noor Ahmad Agha as DAB governor in place of the sanctioned Taliban-appointed governor Abdul Qadir Badri has left another sanctioned member of the movement in charge of the bank, DAB has accepted auditing arrangements with external audits having taken place, according to officials interviewed for this report. DAB has also accepted auditing arrangements with external audits having taken place, according to officials interviewed for this report. Afghan officials further stated that approximately 85% of DAB's personnel from the previous government remain employed by the institution. These developments are relevant because they suggest that the question is not simply whether safeguards are possible or that mechanisms can be established that allow the reserves to serve their monetary and financial functions but a lack of political will on the host countries' part and the absence of any meaningful technical talks regarding the future status of these funds.

The experience of the Afghan Fund therefore raises a broader policy question about whether financial stabilization and political recognition need to remain on the same track. Governments have frequently discussed the frozen reserves alongside the question of whether and under what circumstances the Taliban authorities should be recognized. Yet the two questions are not necessarily identical. The reserves can be structured, monitored and audited in ways that protect against diversion while still allowing them to perform legitimate central-bank functions. Several interviewees described the U.S. as the principal gatekeeper of the frozen reserves, while suggesting that European governments could potentially pursue a somewhat more independent approach to their own holdings. The available evidence also suggests that government-to-government discussions over the reserves have at times been limited and that the technical question of how to restore access has been complicated by the wider diplomatic dispute over recognition. Separating the technical management and stabilization of Afghanistan's financial

system from the political question of recognition could therefore provide greater scope for addressing the economic consequences of the frozen assets without requiring governments to resolve the recognition question first.

Withholding Development Aid as Aid Sanctions

The most important conceptual extension for Afghanistan concerns development assistance. Traditional sanctions literature has tended to focus on trade and financial restrictions. Recent scholarship, however, argues that aid suspensions should be incorporated into the study of sanctions and economic coercion. Nielsen's 2013 study, *Rewarding Human Rights? Selective Aid Sanctions against Repressive States*, explicitly examine whether donors use what Nielsen´s calls "aid sanctions" to punish governments for human-rights violations. Using bilateral aid data for 118 developing countries, Nielsen finds that donors do impose aid sanctions and that their use varies with political relationships and the visibility and consequences of human-rights violations. (Nielsen 2013)

More recently, Portela and Mora-Sanguinetti study *Sanctions effectiveness, development and regime type: Are aid suspensions and economic sanctions alike?*, from 2023, directly addressed the question of whether aid suspensions constitute sanctions. They argue that aid cutoffs satisfy the definitional criteria for a subtype of sanctions where they deliberately restrict an economic relationship in pursuit of political objectives. (Portela & Mora-Sanguinetti 2023) Their argument is particularly relevant because they identify human rights, democracy and rule of law as examples of the political objectives that can motivate aid sanctions.

Mertens' 2024 study similarly treats foreign-aid suspensions as a form of economic coercion, distinct from but comparable to conventional economic sanctions. His analysis argues that aid suspensions can be particularly powerful because they directly affect government resources and cannot easily be replaced by alternative donors. (Mertens 2024) The EU's Article 96 of the EU-ACP[3] Cotonou agreement explicitly imposes political conditionality on development aid in case of human rights violations by certain African states, conditionality that Crawford and Kacarska lable as aid sanctions. (Crawford & Kacarska 2019) The literature listed provides a strong conceptual basis for including development-aid suspensions in an assessment of sanctions-related economic pressure on Afghanistan.

Status Development Aid for Afghanistan Post 2021

Following the Taliban takeover in August 2021, the United Kingdom (UK) suspended development cooperation with the Afghan government while continuing assistance to the Afghan population principally through international organizations and other implementing partners. The relationship between development assistance and human rights has become more explicit in subsequent UK policy statements. In July 2026, while announcing £105 million per year in assistance to Afghanistan for 2026 to 2029, Parliamentary Under-Secretary of State Hamish Falconer stated that the Taliban's restrictions on women and girls represented "a significant barrier to Afghanistan's long-term development, stability and prosperity." (UK Parliament 2026a) The government further stated that the UK "do[es] not have a development partnership with the Taliban" and that the £105 million annual allocation would instead be delivered through implementing partners on the ground, including the United Nations. (UK Parliament 2026b) The Afghanistan-specific statement also committed the UK to increasing engagement with non-Taliban-affiliated Afghan partners and identified women and girls as central to its approach. (UK Parliament 2026a) These priorities are consistent with the UK's wider 2026 development policy, which identifies women's and girls' rights as important to sustainable development and commits to increasing the integration of gender equality across bilateral development programmes. (Foreign, Commonwealth & Development Office 2026) While these statements do not explicitly condition the restoration of direct development cooperation on specified human rights reforms, they demonstrate a clear relationship between human rights considerations, particularly the treatment of women and girls, and the UK's current approach to development engagement with Afghanistan. (UK Parliament 2026a, UK Parliament 2026b)

3 The "EU-ACP Cotonou Agreement", is a partnership agreement between the EU and countries in Africa, the Caribbean and the Pacific (ACP).

In the case of Germany, on 21 September 2021, Foreign Minister Heiko Maas stated that any potential future cooperation with Afghanistan, be it economic engagement or development assistance, depended on the human rights situation in Afghanistan. (Federal Foreign Office 2021) The statement was made in the context of Taliban restrictions affecting women and girls. German officials subsequently confirmed that Germany had suspended comprehensive development cooperation and stabilization support after the Taliban takeover, while continuing humanitarian assistance and support for basic services. Unlike the UK, Germany explicitly tied its future development cooperation to the human rights situation in Afghanistan. This is a strong case of political conditionality and aid sanctions on the country.

The EU has adopted a similar but more nuanced model. In April 2022, EU and international special representatives stated explicitly that the type and scope of future non-humanitarian development assistance to Afghanistan will be determined in large part by the Taliban's actions and their upholding of the rights of all Afghans, particularly women, girls and members of minority groups. (European Union et al., 2022) This statement, to which the U.S. was also a party, explicitly tied future non-humanitarian development assistance with the Taliban's respect for human rights. Furthermore, the EU Foreign Affairs Council, in September of 2021, conditioned its engagement with the Taliban authorities on five benchmarks that included among others respect for human rights and the establishment of an inclusive government. It later reaffirmed its commitment to these benchmarks whilst issuing a condemnation of systematic violations of human rights in March of 2023. (Council of the European Union n.d.)

The EU has subsequently shifted its assistance toward basic needs and livelihoods and has deliberately avoided channeling funding through Taliban-controlled authorities. Its current policy states that no EU financing passes through or benefits the Taliban-run de facto authorities, while EU engagement continues to emphasize human rights, particularly the rights of women and girls. (EEAS 2026) The EU, unlike the United States that has cut off all aid to Afghanistan under President Trump, continues its conditional engagement rather than complete ceasing assistance to the country.

The Canadian approach in 2022 was slightly different with questions raised about how strictly longer-term assistance should be conditioned on Taliban behavior concerning rights. (Global Affairs Canada 2022) Canada was simultaneously assessing how development assistance could continue through international organizations and NGOs. (Global Affairs Canada 2026) They have, however, recently been more explicit in linking future engagement with the Taliban reversing its repression of women and girls. The Canadian government has also stressed that assistance to the country be delivered outside the control of the de facto authorities. This raises an important question of whether such a model could work for development aid? Delivering humanitarian assistance inevitably requires some degree of operational engagement with the de facto authorities. The relevant policy question is therefore how such engagement can take place while preserving humanitarian principles, maintaining independent implementation and preventing the diversion of assistance.

Denmark explicitly froze development assistance delivered through Afghan government structures following the Taliban takeover, while increasing humanitarian assistance. (Ministry of Foreign Affairs of Denmark n.d.) Sweden similarly stated after August 2021 that it would redirect parts of its development assistance, while maintaining a policy focus on democracy and human rights, including women's and girls' rights. (Ministry for Foreign Affairs 2021)

Why Aid Suspensions Matter Economically

The economic importance of aid suspension is particularly high in Afghanistan because foreign assistance was not simply a supplementary source of funding. It financed public-sector wages, health services, education, food-security programs, infrastructure, social protection, government operating expenditures and development projects. Human Rights Watch documented the immediate consequences of suspending support for essential salaries and large-scale poverty-alleviation mechanisms. (Human Rights Watch 2022) The World Bank subsequently established mechanisms to provide support outside Taliban government systems. By September 2024, the World Bank reported that it had provided more than $1.7 billion since

August 2021, with funds kept outside the control of the Taliban authorities and focused heavily on service delivery to women and girls. (World Bank 2024)

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The shift illustrates the fundamental transformation of some aid that could be classified as development aid through independent implementing partners that are not the Afghan state. Though this has preserved substantial assistance to Afghan civilians, but it has simultaneously removed a major source of fiscal and institutional support from the Afghan state. For an economy where public spending and employment had been heavily dependent on aid, this represented a major macroeconomic shock.

The Denial of Climate Finance to Afghanistan

Afghanistan's financial isolation is particularly problematic because the country faces significant climate and disaster risks. Afghanistan's own climate commitments identify severe exposure to drought, flooding, heat waves, water insecurity, glacial-lake related hazards and climate related agricultural losses. Afghanistan's Nationally Determined Contribution[4] states that the country's economy and food security are heavily dependent on natural resources and that climate change threatens those foundations. (Government of the Islamic Republic of Afghanistan 2015) The country's disaster exposure is also considerable. The World Bank reports that since 1980, natural hazards have affected approximately 9 million people and caused more than 20,000 deaths. (World Bank n.d.) Kabul, Afghanistan's capital, risks becoming the first modern day capital to run out of water yet there is little to no international level discussion or support to help avoid such a catastrophe. (Amini 2025) These risks create a particularly strong case for access to international climate adaptation and disaster-risk financing.

The UN's 2024 results reporting sheds some important light on the issue. It states that since 2021, financing from major climate and environmental vertical funds, including the Green Climate Fund (GEF) and Adaptation Fund, had been paused or suspended. No new projects were approved by the three funds in 2022 or 2023. The situation has since begun to change. In June 2024, the GEF conditionally approved a $8.98 million grant to UNDP for a community-based climate-resilience project, representing the first grant from a major climate/environmental vertical fund to Afghanistan since August 2021. The project uses direct implementation arrangements rather than funding Taliban authorities. The UN reported that GCF funding remained suspended. (Greenfield & Dickie 2024) Reuters similarly reported in November 2024 that the UN was working to restart climate financing that had been blocked following the Taliban takeover. (Greenfield & Dickie 2024)

The consequences of Afghanistan's exclusion from climate funding is potentially substantial. Climate finance is intended to fund irrigation and water management, drought resilience, flood protection, climate-resilient agriculture, renewable energy, watershed management, ecosystem restoration, early-warning systems and disaster-risk reduction. These preventative measures save human lives, the ecology as well as cutting the costs of emergency aid required after disasters have occurred.

Consequently, restricting access to climate finance can create a cycle in which limited climate investment leads to greater exposure to climate shocks that cause greater agricultural losses which in turn causes greater food insecurity resulting in greater humanitarian dependence and greater demand for emergency assistance.

This is particularly important for Afghanistan because climate vulnerability intersects with poverty, agricultural dependence and limited fiscal capacity. The moral question should be whether a country of over 40 million people should continue to face the deadly effects of a climate disaster they had little role in causing because of a government that rules them that they did not choose. The limited progress in influencing Taliban policies, combined

4 Afghanistan's Nationally Determined Contribution (NDC) is Afghanistan's nationally determined climate commitment under the United Nations Framework Convention on Climate Change (UNFCCC) and the Paris Agreement.

with Afghanistan's deteriorating economic and humanitarian conditions, raises legitimate questions about the effectiveness and unintended consequences of the current international approach. This warrants further examination of how international engagement could better protect the Afghan population without compromising human rights objectives.

The Three Legs of the Stool that is Economic Coercion

The evidence suggests that Afghanistan should not be analyzed using a binary distinction between "sanctioned" and "not sanctioned". Three categories are more useful.
Category I: Formal targeted UN Security Council sanctions against Taliban officials

These include the following actions taken by UN member states:

- freeze assets;
- travel bans;
- arms embargo;
- Taliban officials and Haqqani sanctions;
- comparable national measures.

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.

Category II: Associated financial restrictions

These include:

- restrictions affecting DAB;
- blocked or inaccessible reserves;
- correspondent-bank withdrawal;
- financial de-risking;
- increased compliance costs;
- restrictions 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.
Category III: Aid suspension and conditionality

These include:

- suspension of bilateral development cooperation;
- withholding of development finance;
- redirection of aid through UN agencies and NGOs;
- conditioning assistance on Taliban policy;
- restrictions on assistance benefiting Taliban-controlled institutions.

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.

Policy Implications

The evidence suggests several areas in which international policy could reduce unintended economic costs without abandoning sanctions objectives.

1. Improve correspondent-banking certainty

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. 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. (World Bank 2026-b)

2. Preserve regulated remittance channels

Given the importance of remittances to Afghan households, maintaining legitimate banking and money-transfer channels is important. Continued financial exclusion risks increasing reliance on informal financial channels, thereby reducing the visibility of cross-border financial transactions. Improving access to regulated payment mechanisms, alongside stronger transparency and oversight, should therefore be an international priority.

3. Increase humanitarian aid and starting thinking development aid

Humanitarian assistance should remain needs-based and guided by humanitarian principles, rather than conditioned on political concessions, while maintaining appropriate safeguards against diversion and misuse. At the same time, development assistance can be disbursed through independent third-parties. The World Bank and UN experience demonstrates that assistance can be delivered without transferring resources directly to Taliban authorities. This provides a potential model for climate finance, disaster-risk reduction, health, education, food security and infrastructure.

A permanent and total working-around-the-Taliban model is difficult to sustain in the long run. The international community can engage with elements of the Taliban that understand the necessity of this aid and smaller scale projects could be piloted with strict external monitoring to pave way for larger implementation. This can begin with policy reviews by international actors and technical talks held with the de facto authorities regarding conditions for possible implementation. EU member states are already engaged in technical discussions with the Taliban regarding migrant deportation. Meaningful support for development inside Afghanistan will not only slow down the flow of migrants but will also help in avoiding the above mentioned consequences of the aid conditionality. This is a strong ethical argument to engage further whilst continuing to demand improvements on human rights.

4. Restore access to climate finance through safeguards

The climate-finance architecture should explore mechanisms that allow Afghanistan to access adaptation and disaster-risk funding while preventing unrestricted transfers to sanctioned or otherwise ineligible authorities. The existing GEF/UNDP model provides evidence that this can be done in practice.

5. Initiate Technical Talks with the de facto authorities regarding Afghanistan's foreign reserves

Concerned governments and banks need to initiate technical talks with DAB 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.

Conclusion

Afghanistan's post-2021 economic experience demonstrates the limitations of assessing sanctions through a simple distinction between countries that are "sanctioned" and those that are not. Afghanistan is not subject to a comprehensive country-wide sanctions regime. The formal sanctions imposed by the UN and other governments are principally targeted at designated Taliban individuals and entities. Nevertheless, these targeted measures have operated alongside restrictions on Afghanistan's foreign reserves, the deterioration of correspondent-banking relationships, financial de-risking, the suspension and redirection of development assistance, and the wider consequences of international non-recognition. Together, these measures have substantially altered Afghanistan's access to international finance and economic resources.

The evidence presented in this report suggests that the economic consequences of these measures extend beyond the individuals and entities formally designated by sanctions regimes. Financial institutions have responded to the uncertainty and compliance risks surrounding Afghanistan by reducing their exposure to Afghan banks, making international payments more difficult and increasing the cost of legitimate financial transactions. The resulting constraints have encouraged greater reliance on hawala, which remains an essential component of Afghanistan's financial infrastructure but is less readily visible to international fi-

nancial institutions. At the same time, the restricted access to central-bank reserves has weakened the financial system's liquidity and its ability to perform normal monetary and international payment functions. These effects illustrate the distinction between the legal scope of sanctions and their practical effects on a wider economy.

The report also argues that development assistance requires greater consideration within sanctions analysis. Academic literature has established the concept of "aid sanctions" to describe politically motivated suspensions or withdrawals of development assistance. Afghanistan provides a particularly important case because of its exceptional dependence on foreign grants before 2021. Where donors have explicitly linked development assistance to Taliban policies concerning human rights, governance or other political conditions, the resulting suspension or restriction of assistance can reasonably be understood within this framework. This does not mean that every reduction or redirection of aid constitutes a sanction. Rather, it demonstrates that politically motivated restrictions on development assistance should not automatically be excluded from an assessment of economic coercion simply because they are administered through development-policy instruments rather than traditional sanctions regimes.

The consequences are particularly significant because the restrictions examined in this report interact with Afghanistan's existing vulnerabilities. Reduced access to international banking, lower formal remittance flows, dependence on alternative financial channels, constrained development financing and limited access to climate and disaster-risk finance can reinforce one another. In the case of climate finance, the consequences extend beyond the immediate economic effects of financial exclusion. Limited investment in drought resilience, water management, flood protection, agriculture and disaster-risk reduction can increase Afghanistan's exposure to future shocks and, in turn, increase humanitarian needs.

None of this removes the policy objectives underlying targeted sanctions or the concerns that have led governments to condition assistance and restrict financial access to Taliban-controlled institutions. Nor does it establish that all of Afghanistan's economic difficulties since 2021 are attributable to sanctions or international restrictions. Domestic economic policies, restrictions on women's participation in the economy, institutional weaknesses, political uncertainty and other factors have also contributed to Afghanistan's economic conditions. The central finding is instead that the interaction between these factors and international economic restrictions deserves greater recognition.

The policy challenge is therefore to distinguish more carefully between measures intended to place pressure on Taliban decision-makers and measures that unintentionally restrict the economic and financial capacity of the wider Afghan population.

The policy challenge is therefore to distinguish more carefully between measures intended to place pressure on Taliban decision-makers and measures that unintentionally restrict the economic and financial capacity of the wider Afghan population. Targeted sanctions can coexist with clearer channels for legitimate commercial transactions, remittances and humanitarian activity. Development and climate finance can potentially be delivered through independently monitored institutions without transferring unrestricted resources to Taliban authorities. Similarly, mechanisms for managing Afghanistan's foreign reserves can be designed around appropriate safeguards, auditing and financial controls while separating technical financial stabilization from the broader political question of recognition.

Ultimately, Afghanistan demonstrates that the economic impact of sanctions cannot be understood solely by examining what the law formally prohibits. The relevant question is also how sanctions, financial restrictions, aid conditionality and institutional isolation interact within the financial and economic structure of the target country. For a country as dependent on external assistance and international financial connectivity as Afghanistan, these indirect effects can be substantial. A more differentiated approach, one that preserves targeted measures while reducing unnecessary barriers to legitimate financial activity, development assistance, remittances and climate finance, would allow the international community to pursue its political objectives while more carefully limiting the wider economic costs borne by the Afghan population.

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