

Short on Money, Legal and Otherwise, the Taliban Face a Crisis

The group has long tapped underground banks and opium to fund Afghanistan's insurgency. Fixing the nation's problems will require a lot more than that.



By Alexandra Stevenson

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As Afghans pay surging prices for eggs and flour and stand in long lines at the bank, money changers like Enayatullah and his underground financial lifeline have found themselves in desperate demand.

Enayatullah — his family name withheld — holds down a tiny point in a sprawling global network of informal lenders and back-room bankers called hawala. The Taliban used hawala to help fund their ultimately successful insurgency. Many households use it to get help from relatives in Istanbul, London and Doha. Without cash from hawala, economic life in whole swaths of Afghanistan would come to a crashing halt.

That is now a very real possibility. Foreign aid has dried up. Prices are surging. The value of the afghani currency is tumbling. The country's \$9.4 billion in reserves have been frozen.

And hawala won't be enough, said Enayatullah, who says people's need for money has become so desperate in the last week he raised his commission to 4 percent per transaction, about eight times his usual rate. The system is now struggling with a lack of money, leading the Taliban and dealers themselves to rein in activity to preserve cash.

"The demand," Enayatullah said, "is too much."

The Taliban won the war in Afghanistan, and an economic crisis may be their prize. They have been cut off from the international banking system and from the country's previous funding sources, like the International Monetary Fund, the World Bank and the United States government. Foreign aid makes up nearly half of economic output.

Without other sources of money, millions of Afghan people could lose the gains they made, in fits and starts, over the past two decades. Already, drought conditions have created a real risk of hunger.

"We have conflict. We have war. This is another misery," said Shah Mehrabi, a board member of Afghanistan's central bank. "You will have a financial crisis and it will push families further into poverty."



Food prices soared last week after the Taliban took over, at a market in Kabul, Afghanistan. Jim Huylebroek for The New York Times

Long before Afghanistan had formal institutions like banks, it had the hawala system. Millions of Afghans, shut out from formal banking, used it to send and receive remittances, as have migrant workers and others around the world.

The system functions on the premise that people want to send equivalent amounts of money between two locations. Loans and transfers are recorded on ledgers, but money doesn't have to change hands. Those features make it useful for evading taxes, paying bribes and laundering ill-gotten gains.

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Hawala was a necessity under the Taliban-led Afghanistan of two decades ago, before the American invasion in 2001, when money from illicit sources greased the country's financial wheels. In addition to hawala, opium from the country's vast poppy fields and smuggling brought the country money from the rest of the world, offsetting weak trade. As insurgents, the Taliban funded themselves by taxing smuggled goods like televisions and fuel, in transactions often financed through hawala, and through the drug trade.

But the Afghanistan of 2021 is a country transformed. The economy, though its growth has been unsteady over the past decade, is five times the size it was in the early 2000s. Once scarce in most places, electricity is now widely available. Smartphones and internet access are common.

Foreign money helped. Over the two decades, the United States spent more than \$145 billion on reconstruction activities in Afghanistan, according to the U.S. government. Much of it was used to build the Afghan security forces, but funds also went toward large-scale infrastructure projects and an economic support fund. More than three quarters of the Afghan government's \$11 billion annual public expenditures was paid for by donor funding.

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The Taliban will be hard-pressed to make up that shortfall.

Since taking over Afghanistan, the Taliban have said they will stop production of opium. But for the hawala system to work, Afghanistan must ultimately find sources of hard currency to lubricate the lines of credit that would snake back into the country. With exports in 2019 of about \$870 million — mostly carpets, plus figs, licorice and other agricultural products — Afghanistan has little to offer on a large scale that is as lucrative as opium.

The Taliban could see support from governments like Pakistan, Iran and China that might have their own reasons for keeping relations with Afghanistan warm. Trade has already started up again with Iran, said David Mansfield, an independent consultant and an expert on rural Afghanistan, citing satellite imagery of fuel tankers and transit trucks moving across the border. He has estimated that during its insurgency, the Taliban was able to raise more than \$100 million a year from informally taxing goods from Iran and southern Afghanistan.

Even if the Taliban raised several multiples more than that, it would mean a return to the minimalist state like the 1990s.

“Economic crisis, humanitarian disaster, more refugees,” Mr. Mansfield said. “The other side of this is we have an Afghan population in the past 20 years who have seen some degree of transformation. Their livelihoods have improved.”



People stood in line outside Azizi bank in Kabul on Sunday, the first day banks reopened in Afghanistan's capital. Jim Huylebroek for The New York Times

The hawala system, though central to life in Afghanistan, won't be enough on its own. While many hawala transactions exist only on ledgers, they are ultimately backed by cold, hard cash often held by hawala dealers called hawaladars. In Afghanistan, say experts, hawaladars regularly use the local currency, the afghani, to buy American dollars from Afghanistan's central bank, a transaction that can help stabilize the afghani's value.

Understand the Taliban Takeover in Afghanistan

Who are the Taliban? The Taliban arose in 1994 amid the turmoil that came after the withdrawal of Soviet forces from Afghanistan in 1989. They used brutal public punishments, including floggings, amputations and mass executions, to enforce their rules. Here's more on their origin story and their record as rulers.

"The hawaladars are not discriminating," said Haroun Rahimi, an assistant professor of economic and commercial law at the American University of Afghanistan who has studied the hawala system. "If you are someone who needs to send money from the U.S. for your family to host a wedding, you're welcome. If you're a terrorist looking to fund an attack in Kabul, you're welcome."

In Afghanistan, it accounts for more than three quarters of trade, by some estimates, though by nature it is hard to trace.

"The political and economic power of the hawala industry dramatically overshadows the formal banking industry," said Alex Zerden, the Treasury Department's financial attaché at the U.S. Embassy in Kabul from 2018 to 2019. "They can move money abroad and get money in from abroad much faster than the formal banking system."

But the central bank can't access its reserves held abroad, and basic financial life in Afghanistan has gone awry. The price of flour has jumped more than 10 percent over the past week, while sugar and eggs are roughly one-fifth higher, said Mr. Mehrabi, citing data from the central bank.



Afghanistan needs to export goods to bolster its economy but it has little to offer on a large scale that is as lucrative as opium. Ghulamullah Habibi/EPA, via Shutterstock

Under the Taliban and its new central bank governor, the country's 12 state-owned and commercial banks were ordered to open their doors on Sunday. Since then, lines of people waiting to withdraw money snake around corners, interrupted only by side streets and driveways. Limits have been placed on how much each person is allowed to withdraw.

The new banking rules do not allow businesses to withdraw cash from their bank accounts, so salaries and bills are paid by transfers between accounts and also subject to limits. Many civil servants from the previous government have lost their jobs, as have the many people who were employed by the U.S. military and other foreign governments, nonprofit organizations and media companies.

When Pashtany Bank opened its doors for the first time in nearly two weeks last Sunday, depositors were already waiting at the doors, said Ahmad Javed Wafa, its chief executive, who is currently in Istanbul. His bank will accommodate the daily demands of customers as long as the central bank, which stores much of its cash, can continue to make deliveries, Mr. Wafa said. But at some point the central bank will run out of cash.

Though the Taliban have kept a wary eye on hawala dealers since taking over, they may reach a deal to secure trade in exchange for new funding channels.

"The informal economy," Mr. Wafa said, "is the only source for the Taliban to survive."

Jim Huylebroek contributed reporting.

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