



## A Taxing Narrative: Miscalculating Revenues and Misunderstanding the Conflict in Afghanistan

For more than two decades, illicit drug production has been seen by the UN, as well as some in western governments and the media, as synonymous with the Taliban. The estimates proffered of the amount of money the Taliban earns from drugs are staggering and often amount to hundreds of millions of dollars per year. For example, the United Nations Office on Drug Control (UNODC) reported that the Taliban earned US\$14.5 million in taxes on opium cultivation and up to \$113 million on the manufacturing and trafficking of opiates in 2019; the United Nations Sanctions Monitoring Team and other analysts put the figure at as much as \$400 million.

The assumption that the Taliban collected significant amounts of money taxing the cultivation of opium, the production of opiates, and on the smuggling of drugs across Afghanistan's borders is the bedrock on which a narrative of a narco-insurgency was constructed. Allegations of the involvement of some of its senior leadership in drugs trafficking cement this narrative to the point where some Western military leaders have argued that the Taliban was little more than a criminal enterprise whose territorial ambitions were primarily driven by its involvement in the drugs business. Even the Taliban's prohibition of opium in 2000—described by a senior member of UNODC at the time as “one of the most remarkable successes ever”—is viewed by parts of the UN, western analysts, and some donors as a cynical ploy designed to increase prices and the value of what was believed to be an accumulated stock, due to the belief that the Taliban's primary source of finance was illegal drugs.

In stark contrast to this conventional wisdom on Taliban funding sits detailed analysis of the costs of the production of opium and the processing and smuggling of opiates, ephedrine and methamphetamine collected over more than two decades with those directly involved in the production and trade of illegal drugs in Afghanistan. This body of work shows that the tax rates levied on drugs are significantly less than the UN and others claim. Farmers in the south and southwest, for example, where almost three-quarters of the country's opium is produced, pay a fixed amount of opium to the Taliban per unit of land that amounts to around 2.5 percent of the final yield, significantly less than the 10 percent “ushr” that is typically reported. Similarly, the combined tax imposed on the production and trade of 1 kg of heroin base is less than \$6, a fraction of the sale price of between \$1,400 and \$1,900. In fact, if taxes were to be levied at 10 percent of value as claimed, the production of heroin base would become unprofitable. This work points to the administrative and economic infeasibility of a tax rate based on 10 percent of price.

This fine-grained analysis points to revenues from the tax on opiates that would amount to \$19 million in 2020, with the potential for a further \$15 million from the production and trade in cannabis and methamphetamine. This is significantly less than the monies the Taliban earned imposing taxes on the movement of legal goods, including an estimated \$83.4 million a year on the trade in fuel and transit goods in 2019 from Iran alone. In Nimroz, an area where both opiate and methamphetamine production are concentrated, and a major conduit for drugs being smuggled into Pakistan and Iran, it is estimated that Taliban earned \$5.1 million per annum from drugs in 2020, 9 percent of the total monies it earned in taxes in the province, compared to \$40.1 million from taxing the trade in legal goods on the highway between Ziranj and Delarem.

In the current climate, with the Taliban now in Kabul, and a humanitarian disaster unfolding, there is a danger that an a more accurate assessment of their funding is viewed as partisan, particularly when it challenges the prevailing narrative of illegal drugs as the Taliban's primary source of revenue. This is not the case: correctly describing the Taliban's finances does not imply sympathising with the Taliban regime. This paper represents a detailed empirical account of the monies earned by the Taliban and an appeal that future assessments of funding for state and non-state actors, not just in Afghanistan but in other Fragile and Conflict-Affected States, are grounded in evidence that is built on appropriate methods rather than informed by flawed assumptions.

In Afghanistan, inaccurate estimates of the Taliban's finances and the depiction of the movement as a narco-insurgency have not been helpful. Misconceptions hurt the ability of Western diplomatic and military officials to understand the insurgency: its resources, motives, supporters and political ambitions. Flawed narratives drove policies that alienated the rural population, such as forced eradication of opium and the bombing of heroin labs, which led to farmers giving help to the Taliban, believing the insurgents could defend them against the counternarcotics policies of the Afghan government and its foreign backers. Anti-Taliban propaganda failed to resonate with the Afghan population, whose own experiences involved more government officials than Taliban soliciting payments and trafficking drugs. The failure to address this corruption and the Taliban's other sources of financial support, including that of foreign donors, left the US and its allies blind to the risks to the Afghan Republic and ill-equipped to counter the rise of the Taliban as a political and military force.

In the coming months, the international community needs to consider how Afghanistan could avoid state collapse. The growing economic crisis—a function of drought, the coronavirus disease (COVID-19), sanctions and the Taliban's decision to nominate a government that will do little to instil the confidence of donors and private investors—could lead to even further political instability. In the current environment it is difficult to see how the Taliban will be able to generate more than \$0.75 billion per annum in revenues and there is a high risk of a return to the minimalist state of the 1990s, where the regime focused solely on security and justice, and basic services were provided under the rubric of humanitarian assistance.

The Taliban have few revenue-earning options to make up for the shortfall in domestic revenues, let alone the absence of international aid. The cross-border trade in legal goods has clearly been critical to the Taliban's finances and continues despite disruption, but will be impacted by the economic crisis. The trade of legal goods is likely to become more important for the Taliban government after it captured all the major official and unofficial trade routes. Leverage over the Taliban will rest primarily with neighbouring states because actions that restrict trade between Afghanistan and its neighbours could further increase the risk of a humanitarian disaster.

The Taliban have also proven effective at extending their tax base into rural areas, levying taxes on land, crops (not just opium), and in some areas, the use of groundwater. This strategy served to build links to the rural population and diversify its tax base, something the former government failed to do, preferring to draw on donor funds. This, too, will be a valuable source of revenue for the new government. The drugs trade, although not the primary source of revenue for the Taliban, will continue to be a major source of livelihood for an important rural constituency, particularly in the wake of a dramatic economic downturn. Pressing the Taliban to prohibit production in the absence of economic alternatives will serve little purpose, and greater focus should be on tackling problem-drug use and addressing the most deleterious effects of organized crime along the supply chain.

Finally, we all need to be far more discerning in our consumption and use of data, even data provided by august bodies such as the UN. There remain significant challenges in producing robust data, particularly in fragile and conflict-affected states like Afghanistan, but with the advent of high-resolution satellite imagery and a far better understanding of the how local economies in countries like Afghanistan function, there is an increased capability to correct the narratives and data produced by the institutions that make policy and deliver programmes. To fail to be more critical in our assessment of the data we are presented with, particularly at a time when there are growing demands for both sanctions and increased humanitarian assistance, is to simply repeat the errors of the past designing policy that is not only not fit for purpose but could make matters worse.

## Recommendations:

International actors need to recognise that leverage with the Taliban primarily lies in its trading relationships with its neighbours and the wider region. Research points to the overwhelming importance of the cross-border trade in legal goods to the revenue of the Taliban. There are significant investments being made to expand cross-border trade, including renegotiation of the Afghanistan Pakistan Transit Trade Agreement, the opening of official crossings between Pakistan and Afghanistan, and facilitating trade between Central Asia and Pakistan via Afghanistan, many supported by bilateral and multilateral donors. These are initiatives that can benefit both the Afghan population but also the Taliban regime, the implications of which need closer consideration.

There is no place for conditioning development assistance on the agreement that reductions in drug crop cultivation take place; it does not work. The lessons learned from the experiences of the Taliban prohibiting opium production in 2001, and the subsequent bans implemented under the Karzai governments, need to be applied. International donors should give greater focus to tackling drugs use and addressing the most deleterious effects of organised crime along the supply chain.

The structure and analytical capacity of the UNSMT needs reforming. The UNSMT lacked the analytical capacity to advise member states of the amounts earned by the Taliban. It relied far too heavily on the official narratives of governments and the views of UN agencies and failed to draw on in-depth research on the workings of the Afghan economy, including geospatial analysis. In the likelihood of continued sanctions and the need for monitoring how future humanitarian aid and development monies are spent, there is need for an immediate review of the UNSMT's capacity so that it can adequately fulfil its function.

More broadly, scholarly articles and media work on Taliban funding lack rigour and need to be challenged by officials. Too often, these estimates are speculative and fail to account for the high cost of doing business in FCAS, resulting in grossly exaggerated estimates of rebel funding. Hearsay and rumour, even when in published peer-reviewed journals, is not a substitute for rigorous in-depth research. In the case of Afghanistan, much of the data on Taliban funding have been misleading and helped shape policies that have alienated the rural population and left donors blind to the risks to the Afghan Republic and ill-equipped to counter the rise of the Taliban as a political and military force. Officials need to be much more discerning consumers of data and the methodologies deployed to generate it, investing in more robust methods where required.

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