

## Mapping informal economies in informal settlements as a local integration pathway for IDPs

### OVERVIEW

The informal economy, comprising activities that have market value and would add to tax revenue and GDP if recorded, is an important contributor to the GDP and provides job opportunities in low-income countries. In Afghanistan, the total value of the informal sector in July 2024 is estimated to be 73.6% of the GDP – approximately USD 127 billion at GDP purchasing power parity levels. To put this into perspective, the value for Pakistan – Afghanistan’s neighbour and primary trading partner – is 35.7% (World Economics accessed 24/07/2024).

Significant displacement and a decline in jobs in the formal economy drive the size and importance of the informal economy, especially since the Interim Taliban Authority (ITA) returned to power in August 2021 (IDMC 15/08/2022). Previous World Bank assessments infer economic incentives to be important pull factors for people seeking better jobs and livelihoods, including IDPs. Many of those displaced have moved to informal settlements (ISETs) near urban centres in Herat, Kabul, and Kandahar (WB 01/05/2011). Most IDPs have no intention of returning to their place of origin, citing factors including the inaccessibility of housing and land, financial assistance, and sustainable employment (RID 27/06/2024).

Conditions in ISETs are difficult, and IDPs engage in the informal economy to overcome or adapt to these challenges through casual labour or small businesses (UN-Habitat 2018). Because the informal economy offers access to low-tier jobs – e.g. jobs that require less formal training and documentation or certification and those that have fewer barriers for employment – it absorbs IDPs and returnees who tend to lack these requirements (WB 07/10/2019). Humanitarian organisations have asked the relevant authorities to consider longer-term settlement solutions that uphold their obligations under international humanitarian and human rights law, as well as Afghan national policy that protects IDPs from forced eviction (NRC 04/06/2024). Like the previous Government, however, the ITA views ISETs as places of deprivation and exclusion and seeks to remove them (GiHA 20/12/2022). The ITA’s preference for reintegration in places of origin as the durable solution for IDPs effectively provides justification for their eviction from ISETs, hastening voluntary and forced returns to mostly rural areas (IIED 05/02/2024).

Since the ITA takeover and economic downturn, ISET inhabitants – mainly economic migrants, IDPs, and returned refugees – have become increasingly active in the informal economy (World Economics accessed 24/07/2024). The ITA’s policy of reclaiming illegally appropriated land has resulted in the targeting of IDPs in ISETs for enforced return to their places of origin, possibly because the authorities deem them to be the least locally integrated (ACAPS 27/02/2023). That said, the economic importance of ISETs in contributing to Afghanistan’s GDP and alleviating poverty underscores the need for nuanced approaches for those wanting to locally integrate or return to their place of origin (IIED 05/02/2024).

### PURPOSE OF THE REPORT

This report examines IDPs’ economic integration into host communities. Economic integration occurs through access to labour markets (e.g. through self-employment, service provision, etc.) and supply chains, allowing IDPs to sustain their livelihoods (BMZ/DEval 08/12/2020). Recent consultations with humanitarian organisations operating in Afghanistan suggest the need to map the economic activities of ISET inhabitants and identify pathways to foster the economic independence of IDPs. The findings of this report provide humanitarian organisations with indicative evidence of the local integration of IDPs to support humanitarian efforts in finding durable solutions (ADSP 13/05/2024).

### Methodology

This report combines a secondary data review with primary, non-representative data collection. This secondary data review engaged publicly available reports by humanitarian and research organisations, national and international media, and the ITA.

The Norwegian Refugee Council facilitated the primary data collection. This comprised six gender-segregated focus group discussions (FGDs) – two each in Herat, Jalalabad, and Kabul – with 47 participants in three ISETs. All data collectors (men and women) were sensitised on Protection from Sexual Exploitation and Abuse principles, protection referral systems, and gender-based violence and child protection disclosures. Data collectors were also trained to identify and mitigate biases in data collection processes.

## Limitations

This report scopes contemporary understandings of IDP economic integration in ISETs. It does not provide representative findings or conclusive views of informal economies in ISETs. The general lack of sex- and age-disaggregated data in Afghanistan, together with the small sample of women in this study, also hinders a comprehensive understanding of gender-disaggregated needs and disparities.

The primary data collection for this report was constrained within IDP camp locations in ISETs where the Norwegian Refugee Council has an operational footprint. At the same time, the small amount of current and reliable information available on IDP economic activities in ISET communities limited the secondary data collection.

## TABLE OF CONTENTS

Background .....	3
Policy frameworks relevant to IDPs .....	3
Extent of informal economy in Afghanistan.....	3
Understanding informal settlements.....	3
Challenges of living in informal settlements.....	3
Current situation of IDPs in Afghanistan.....	4
Recent IDP figures .....	4
Risk of eviction and lack of reintegration support.....	4
IDP participation in the informal economy.....	4
Women and the economy .....	4
Child labour and ethnic minorities .....	4
Are IDPs locally integrating through the economy?.....	5
Business type and gendered differences .....	6
Business continuity .....	7
Economic integration mechanisms .....	7
Implications for humanitarian responders: ‘Economic integration’ as local integration.....	8

## KEY FINDINGS

- IDP economic activities are varied and spread within and outside ISETs into host communities in formal urban areas.
- IDPs are creating informal-formal market links through contract agreements with wholesalers in the host community and, to a lesser extent, providing goods and services to host communities as well as within their ISETs.
- Both men and women are very active in the informal sector, largely out of necessity; worsening economic conditions necessitate employment at the same time that access to secure, well-paid jobs in the formal sector is difficult for IDPs, who often lack documentation and are in competition with the host population.
- Restrictions on women severely reduce the range of enterprises they can access.
- Cultural, systemic, and regulatory barriers pose challenges for women (from both IDP and host communities) to scale up their businesses. For instance, forced returns to their areas of origin, where they would have fewer opportunities to earn an income, have direct implications on women’s economic empowerment and increased social and economic vulnerability. In this regard, men face fewer restrictions and can more easily grow their enterprises.
- All respondents said that they preferred to continue operating their business in their current location, but some acknowledged that they could continue their business in their place of origin if forced to relocate. Others did not believe that a suitable market existed for their products or services in their place of origin to enable them to continue their trade.
- The prospect of taxation was not a concern among self-employed IDPs, as they are tax-exempt given their low or lack of profit.
- Enablers of IDP businesses included personal savings, loans (accessible only to men), and cash assistance. Although women were more disadvantaged – culturally and financially – than men in establishing a business, some have managed to obtain a licence to operate a home-based business, albeit with no opportunities to scale up.
- For many IDPs, it takes time to become economically active depending on enabling factors such as savings and loans. Once started, businesses can persist for several years. Our findings showed no disparity in the length of operations between businesses started by men and those by women and among varying business types.
- IDPs have demonstrated their ability to adapt and integrate into the local economy and are making significant contributions. The advantages of maintaining and even enhancing the economic activities of inhabitants should inform policies on the future of ISETs.

## BACKGROUND

### Policy frameworks relevant to IDPs

In February 2014, the previous Government launched a national policy on IDPs (UNHCR 11/02/2014). At the time, it was intended as a national instrument to safeguard the rights of displaced Afghans (828,000 based on December 2014 estimates) (Samuel Hall 08/04/2015). The national policy, reflecting the displacement solutions developed in the Inter-Agency Standing Committee Framework for Durable Solutions for Internally Displaced Persons, states three durable solutions that must be the voluntary, safe, and dignified decision of IDPs as Afghan citizens: (1) reintegration (to places of origin), (2) local integration (in the host community where the displaced is taking refuge), and (3) resettlement (elsewhere in the country) (IASC 05/04/2010; Samuel Hall 08/04/2015). A durable solution is achieved when IDPs no longer have specific assistance and protection needs linked to their displacement and can enjoy their human rights without discrimination resulting from their displacement (NRC 11/2019).

The national policy further stipulates that displacement ends when the voluntary and safe choice of return, local integration, or settlement accompanies security of tenure, restitution, or compensation for loss of property, access to basic services and livelihood opportunities, and the fulfilment of rights as Afghan citizens (Samuel Hall 08/04/2015). Such a pathway would adopt the guidance and principles of international human rights law in the 1998 Guiding Principles on Internal Displacement, which include “sustainable local integration in areas where internally displaced persons take refuge” (ADSP 13/05/2024; IASC 05/04/2010). In line with these principles, the ITA has made supportive statements and recommendations calling for private businesses to assist in the local integration of displaced Afghans (evicted from Iran and Pakistan) with job opportunities, along with plans to distribute land at discounted rates for rent (ADSP 13/05/2024). Findings from our scoping study suggest that these statements and recommendations at the national level have not been implemented at the municipal level. Instead, municipal authorities have continued with a forced eviction policy for IDPs in peri-urban settlements (NRC 04/06/2024). For reasons not entirely clear from our scoping study, municipal authorities either do not want IDPs or have determined that they do not have the capacity to integrate locally.

### Extent of informal economy in Afghanistan

Around 80% of economic activity in Afghanistan is informal. On the one hand, the informal economy is untaxed and easily accessible for workers (UNDP 19/01/2021). On the other, the lack of taxation results in a loss of revenue for municipal upgrades, infrastructure, and other state expenses, and it is low-paid, exploitative, and discriminatory for workers (OECD/ILO 21/05/2019).

Women and children make up a significant portion of the informal economy, and the ITA’s restrictions on women from working have increased the number of children working (RFE/RL 17/05/2023). An estimated 20% of Afghan children are engaged in child labour (including those who combine work and school), primarily in carpet weaving (especially girls) (US DOL 2022; STC 14/02/2022). There is some evidence to suggest that women-headed households are more likely to have a child member working than men-headed households (REACH 20/09/2022).

### Understanding informal settlements

There is no agreed definition of what constitutes an ISET in Afghanistan, but generally, it pertains to unofficial settlements where migratory populations from outside the area tend to settle, with or without the support of host communities. ISETs are often the result of rapid urbanisation, internal displacement by previous conflicts, natural disasters, and economic crises (NRC 30/06/2022). The rate of urbanisation in Afghanistan is estimated to be almost twice the global rate (1.73%) at 3.35% for 2020–2025 (CIA accessed 22/06/2024). This rate translates to more than 350,000 people moving from rural to urban areas each year. In Kabul, an estimated 80% of the total population lives in ISETs, including over 56,000 IDPs (UN-Habitat 05/2017; GIHA 23/10/2023).

### Challenges of living in informal settlements

ISET residents face many challenges, including inadequate housing; limited access to education, healthcare, and formal sector employment; vulnerability to natural hazards; and the threat of eviction (ACAPS 27/02/2023). IDPs relocate to urban areas expecting access to and the availability of better services and livelihood options, but often, ISETs offer poor access to basic services, such as water, sanitation, and electricity, as well as a lack of security of tenure and the legal right to occupy shelter or land (REACH 25/11/2020; IIED 05/02/2024).

## CURRENT SITUATION OF IDPS IN AFGHANISTAN

### Recent IDP figures

At the end of 2023, 5.7 million people were living in protracted displacement in Afghanistan (4.2 million because of conflict and violence, 1.5 million because of natural hazards) (IDMC 14/05/2024; NRC 02/06/2024). By March 2024, an estimated 450,000 households among these IDPs – or nearly three million people based on UNDP’s estimated average household size of 6.6 people – including recent returnees from Pakistan were residing in 893 ISETs across the country (Shelter Cluster 03/2024).

### Risk of eviction and lack of reintegration support

IDPs residing in ISETs experience challenges in accessing land and, because of the ITA’s preferred durable solution of reintegration, are at risk of eviction (IIED 05/02/2024; UNDP 18/04/2023; RID 27/06/2024). While the ITA believes that IDPs can reintegrate with humanitarian support, the current humanitarian system does not have the capacity to provide planning and long-term support across the country. Funding has declined since the ITA takeover, and reintegration across the country would mean an increase in needs. Currently, support is geared towards short-term emergency interventions targeting more recently displaced people and host communities (ADSP 17/10/2022).

### IDP participation in the informal economy

The informal economy is widely acknowledged to be a contributor to non-agricultural GDP and of low-cost labour, inputs, goods, and services to both formal and informal enterprises and households (WIEGO accessed 24/07/2024). The threat of forced eviction may overshadow the economic and social contributions of ISET residents to urban growth and daily urban life (AREU 08/2006).

In a previous World Bank study, the IDPs from rural Afghanistan surveyed found economic and social integration in cities/urban areas difficult because of a gap in skills, lower literacy rates, and lower formal education levels compared to urban citizens. The IDPs also had limited skills to adapt to the urban economic environment, as almost all were engaged in agriculture or livestock production prior to displacement (WB 01/05/2011). Regional differences may exist in the potential and opportunities for IDPs to integrate. In a UN study, interviews with host community elders in Kandahar highlighted the diverse skills and land investments brought by IDPs as positive gains to the social and economic life of host communities (UN 10/2020).

Another study citing the contribution of IDP activities in urban life recommended transparent licensing for IDP street vendors as protection from “unscrupulous rent-seeking” (AREU 08/2006). IDPs have also mentioned corruption, injustice, nepotism, and fear of the Taliban and the armed group Islamic State – Khorasan Province as barriers to formal employment (Kamruzzaman et al. 02/2022).

IDPs (both men and women) who find employment in urban areas tend to work as daily labourers in construction or marginal occupations (characterised by low wages and short durations) in the service sector. Their counterparts from the host community tend to work more evenly across all economic sectors (WB 01/05/2011). Male IDPs tend to work as street vendors, whereas female IDPs engage in domestic duties or tailoring for other families (Kamruzzaman et al. 02/2022).

### Women and the economy

Women and children make up a significant portion of the informal economy, and Afghan women overwhelmingly work in the informal sector. The disadvantages associated with the informal economy mean working women are less likely to have access to fair wages or benefits (FES 20/05/2021). Women’s economic participation has also dropped more than men’s economic participation since the ITA’s return to power (ILO 07/03/2023). The Mahram requirement (banning women from travelling outside the home without a male chaperone) and fear of abuse and harassment are also major barriers to employment (Kamruzzaman et al. 02/2022).

Lack of access to loans and challenges in running businesses mean fewer women are economically engaged. Given that migration abroad tends to be gendered, women and girls are also often left behind. Bans on girls’ and women’s education further limit their income-generating opportunities in the future and have a direct impact on poverty levels (OHCHR 08/03/2023; Devpolicy Blog 09/02/2024). One consequence of the increased dependence of women and girls on male family members is their inability to leave if they experience violence at home (IDSA 03/01/2023).

### Child labour and ethnic minorities

The ITA’s ban on women from working has likely contributed to a rise in the number of children working. According to ILO estimates, women’s participation in the formal labour force fell from 18.4% in 2019 to 4.8% in 2023 (WB accessed 15/07/2024). At the same time, increasing poverty and associated food insecurity have led to an increasing number of children working (GPC 22/05/2024; IIED 05/02/2024). Estimates of the proportion of children vary, with up to 20% of Afghan children thought to be working (including those who combine work and school) (US DOL 2022; STC 14/02/2022; UN 18/05/2023).

Women often rely on their children to sell their products outside their homes (either accompanying their mothers or on their own), and children can also be paid to work in other businesses – for example, by obtaining customers for rickshaw drivers or in carpet weaving (especially girls) (IIED 05/02/2024).

Women-headed households are almost twice as likely to have a child working than men-headed households (REACH 20/09/2022; UNDP 18/01/2024). As child labour is closely associated with poverty, it can be assumed that child labour rates may be higher among IDPs in ISETs because their families tend to be more economically vulnerable.

IDPs from minority ethnic groups may also experience barriers to accessing livelihood opportunities. In one local integration assessment of some Kandahar ISETs, ethnic bias prevented IDPs from Badghis from accessing employment opportunities open to IDPs from other regions of Afghanistan. This restriction has led them to resort to garbage collection to earn their living, generally disadvantaging them from locally integrating (ADSP 23/04/2023).

## ARE IDPS LOCALLY INTEGRATING THROUGH THE ECONOMY?

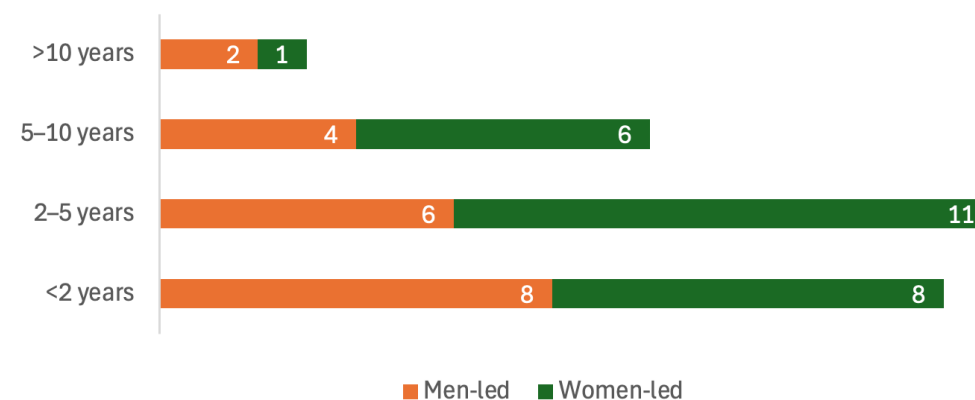
This section is based on data collected via six gender-segregated FGDs with 47 participants in Herat, Kabul, and Nangarhar provinces. The FGD participants provided insights into their business activities, customer bases, enablers, and challenges. While the small sample in this study is not representative of the broader ISET population, the findings outlined below are indicative of the issues that IDPs in business may be facing within all ISETs.

### Time to start up a business and key enablers

When IDPs first arrive in a new location, they face challenges in economic and social integration. Eventually, with protracted displacement (five years, sometimes decades), IDPs seek longer-term employment and often no longer intend to return to their place of origin (UNHCR 28/01/2020; Kamruzzaman et al. 02/2022). To survive, support their families, and become self-sufficient, many IDPs are willing and able to undertake any work opportunities that arise, but they must often rely on multiple income sources and need to borrow money to try and make ends meet (Kamruzzaman et al. 02/2022).

Although many IDPs take time to become economically active (Figure 1), once started, businesses may persist for many years (16–20 years in Jalalabad and up to 25 years in Kabul). Our findings showed no disparity in a business’s longevity between those started by men and those by women and among business types.

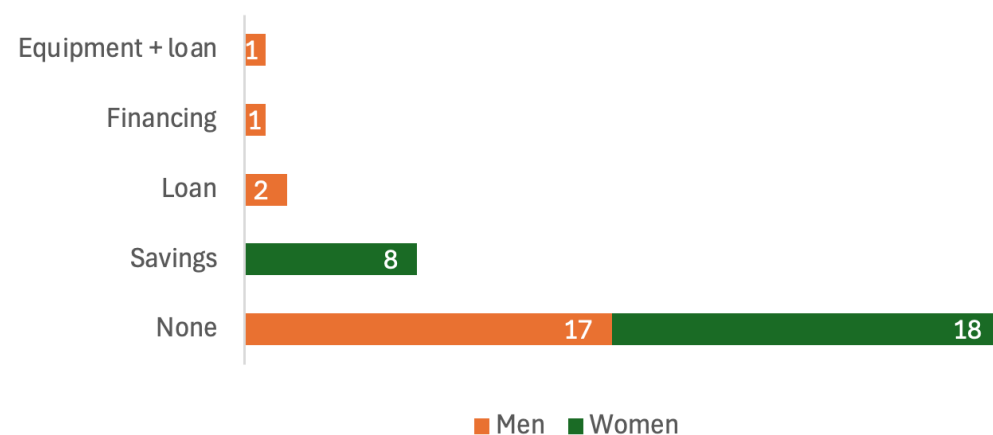
Figure 1. Duration of businesses among FGD participants



Source: ACAPS

FGD participants cited different factors influencing the pace at which they became economically active, primarily a lack of access to financial capital to start businesses. Because access to well-paid, secure jobs is difficult for IDPs (given the lack of documentation, for example), starting a business offers an attractive alternative. Of the 47 participants, only four (less than 9%) used a loan, while eight used personal savings (Figure 2). The latter was the main enabler among female participants to start up a business, while a few of the men were able to access loans and credit.

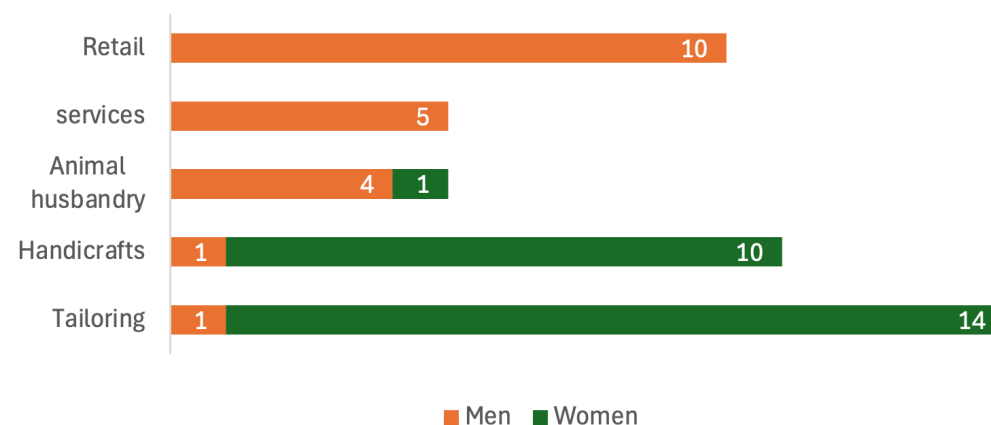
Figure 2. Number of FGD participants citing business start-up enablers



Source: ACAPS

## Business type and gendered differences

Figure 3. Employment category of FGD participants



Source: ACAPS

FGD participants living in ISETs had businesses across a range of sectors, suggesting a multifaceted economic base (Figure 3). Male participants were active in multiple trades and services. Female participants focused on tailoring, handicrafts, and aviculture, indicating involvement in both the textile and agricultural sectors.

A significant increase in economic activity between 2021–2022 resulted, in part, from the reduced ability of IDPs to borrow money given the economic downturn following the ITA takeover, which drove the need for people to become more economically self-sufficient. This triggered “a determined effort by the population, especially women, to seek economic opportunities” (IIED 05/02/2024). This issue emerged in our study, as female FGD participants in Herat, Jalalabad, and Kabul all had less access to economic support than male participants. Lack of access to bank and microfinance loans and credits provided additional challenges for women to establish businesses, with women forced to rely on loans from members of their social networks (UNDP 16/04/2024). Because IDPs, especially women, are less likely to be able to access financial or social support from host communities and are reliant on other IDPs, their ability to secure private loans can be assumed to be reduced as well (ACAPS 03/06/2024). In Jalalabad, it was noted that the ITA had shuttered some areas of business that women focused on, such as beauty salons and education centres. Women also noted restrictive gender norms, societal barriers, and ITA regulations that have resulted in discrimination as significant challenges to working (IUFAP 29/05/2023; UNSC 08/03/2022; CARE 03/06/2024; UNDP 16/04/2024).

## Business continuity

### Taxation

While few respondents expressed concern that they would be required to pay taxes, there was general agreement that anything above a minimal level of taxation would threaten the viability of businesses given how small profit margins were, especially for women.

### Returning to areas of origin

The ITA had approached only six of the respondents (all men; five from Jalalabad and one from Kabul) about eviction and returning to their area of origin. When asked whether they would be able to maintain their businesses if forced to return to their area of origin, the respondents gave mixed responses. All women in Herat said they would not be able to transfer their enterprises, citing a lack of suitable customers (there being a lack of demand in rural areas for the type and quality of clothing and handicrafts they produced), while women in Jalalabad and Kabul said they could if necessary. Likewise, there were mixed responses from the men. Overall, the main challenge would be re-establishing a customer base, which would take time and require the adaptation of services/goods provided to meet a different consumer profile. There would also likely be fewer opportunities for wholesale selling.

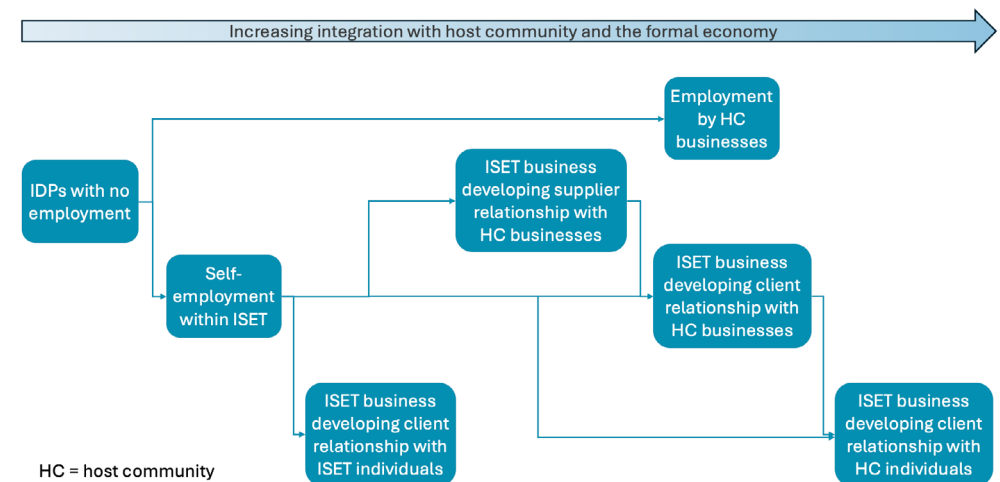
### Financial barriers

All respondents cited a lack of capital to invest in their business as the main reason for not expanding. Women are also limited in the size of business they can build. With the Mahram requirement and work restrictions, women have limited access to networks and connections with potential investors and unequal access to financial education and resources. Access to capital would enable resellers (e.g. shopkeepers) to purchase additional stock; farmers to purchase additional livestock, feed, fodder, and animal shelter; and manufacturing and service business owners to purchase additional machinery or tools (e.g. sewing machines, solar panels for electrical supply). The lack of cash has also prevented some respondents from accessing suppliers or markets further from their settlements. Conceivably, the scale-up of IDP economic activity could generate some cause for concern among host community businesses in terms of unwanted competition.

## Economic integration mechanisms

It may take time for IDPs to begin establishing economic activities, but once they do, their business can serve as a mechanism to slowly integrate ISET inhabitants into the wider host community. This could happen first as a supplier and then distributor before direct sales relationships are finally formed. That said, these relationships are informal and lack formal partnerships or agreements.

Figure 4. Mapping of the economic integration pathways of IDPs in ISETs



Source: ACAPS

Of the 47 business owners from our FGDs, 42 purchased raw materials or stock from suppliers in the host community, usually having identified them by word of mouth and making in-person agreements. All participants provided their services or goods to fellow IDPs and returnees living in their ISET. Many also sold to people from other ISETs. Around half indicated selling to businesses or resellers outside the ISET in the host community – specifically female respondents who reported agreements with resellers who would bulk-buy handicrafts for resale to the host community. Male respondents in all three cities also reported selling directly to the host community. This finding is important, as it indicates informal-formal linkages in the local economy. These linkages effectively indicate the deepening local integration of IDPs into the host community.

## IMPLICATIONS FOR HUMANITARIAN RESPONDERS: 'ECONOMIC INTEGRATION' AS LOCAL INTEGRATION

---

From our scoping study, all IDPs interviewed were integrating into the host community through the local economy, mostly through self-employment activities located in informal and formal urban areas. Where the informal sector is widely recognised as contributing to the GDP and local economy, humanitarian organisations can bridge what could be an information gap regarding local integration as a durable solution for IDPs and other ISET inhabitants. Despite operating under precarious social and economic circumstances, the IDPs interviewed for this study demonstrated their ability to adapt and integrate into the local economy. For humanitarian organisations advocating local durable solutions, there is increasing consensus among IDPs and municipal stakeholders on the viability of local integration (IIED 05/02/2024).

Where there is political will, upgrading ISET infrastructure can bridge informal-formal sectors and improve the wider local economy by fostering new economic opportunities (UN-Habitat 2018). Through their economic activities, IDPs in Afghanistan can demonstrate their capacity for local integration as a longer-term durable solution (IIED 05/02/2024). The current ITA preference for the reintegration of IDPs back to their place of origin undermines their opportunities for deepening self-sufficiency, as well as their potentially highly productive contributions to the local economy and the host community where they reside (UN-Habitat 07/03/2017). Future ACAPS reports will engage in durable solutions as a key topic more deeply to further explore pathways for humanitarian organisations to advocate local integration more effectively as a viable alternative to reintegration.

Did you like the report? Help us improve!

**Take a quick survey here.**