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Preface

War, insecurity and political instability have spread their shadow on Afghanistan's economy during the history; the poor state of economy has played its role on the country's instability, also. Regarding the afghan economy, it has developed in the past once decade; however, the country's economic situation has faced ups and downs in the latest years, once again.

Afghanistan's economic situation was day by day negatively influenced due to latest Presidential Elections and disputes among the leaders of NUG. By the way, the decline in economic growth, shortfall in the budget, reduces in investment and depreciation of Afghani is worth mentioning. You are going to read about the country's economic situation and its future prospects in this weekly analysis.

In the second part of the analysis, you are going to read about operations started by first vice-president, Gen. Dostum in the North of the country. Nearly one month ago, Gen. Dostum moved to the Northern Afghanistan and started operations against the anti-government elements (AGEs) in Faryab and neighboring provinces; but, after the operations started, news are published that Dostum's militia forces are taking part in these operations and the local residents received damages as a result of these operations, also.

These are the issues which will be discussed in details in this issue of weekly analysis.

Afghanistan Economic Update: the current scenario and the future prospects



According to World Bank statistics, the economy of Afghanistan was somehow going well from 2003 to 2009. But, as the war intensified, political instability increased, and investment decreased due to the announcement of withdrawal of foreign Security forces; the country's economy moved into recession in 2013 and 2014.

Due to political differences in 2014 and with the Establishment of the National Unity Government (NUG), failing to make a Cabinet on time, the current insecurity, expansion of insurgent activities in the Northern part of the country, and the continuous falling down of districts to Taliban will have negative impacts on Afghan economy in the current year (2015) and next.

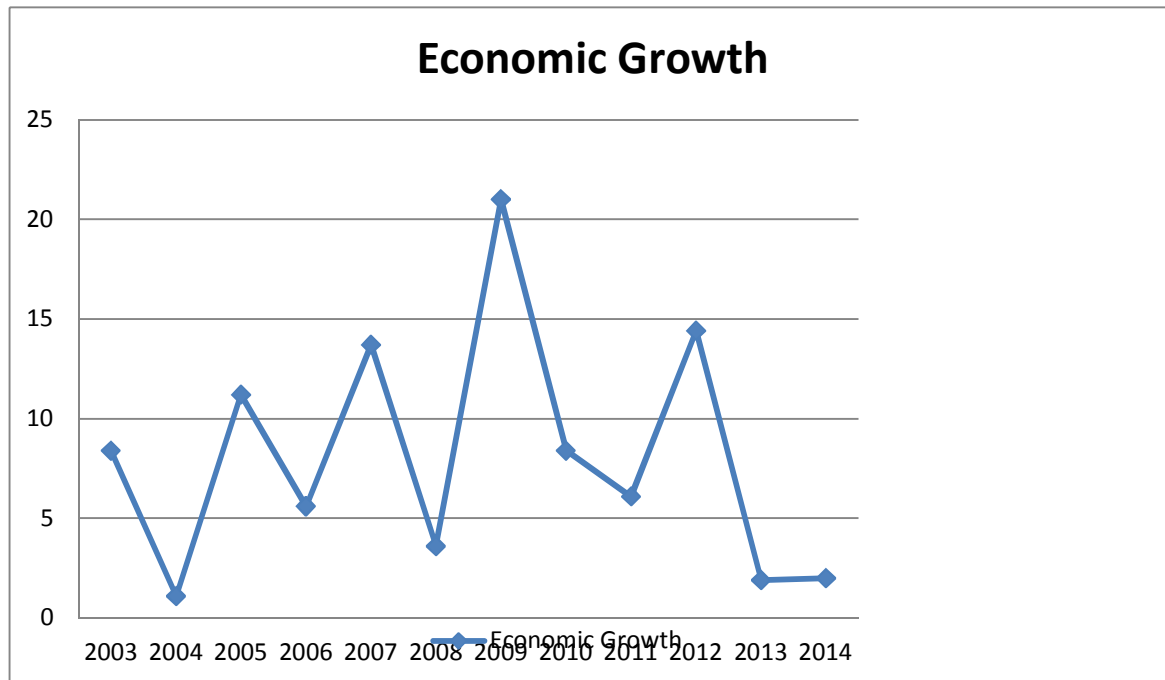
Now, Afghanistan faces not only security and political instability, but it is in a very bad economic condition as well. The economic growth is too low, the rate of unemployment increases each day, financial crisis is looming over, private investment is nil and the Afghani (Afghan currency) depreciates day by day. If we consider the last one week (22-29 August), we would realize that Afghani, for the first time in the past ten years, is depreciating against US Dollar by such a large margin.

In this regard, the researchers in the Center for Strategic and Regional Studies (CSRS) have studied and analyzed the current economic situation of the country in this weekly analysis.

Economic Growth

From 2001 to 2012, Afghanistan's annual average economic growth was 9%. The best year, in this entire period, was 2009, where the economic growth was 21%. But, the economic growth has decreased since 2009. The economic growth was 8.4% in 2010, 6.1% in 2011, 14.4% in 2012, 1.9% in 2013 and 2% in 2014.¹

Figure 1: Afghanistan Economic Growth (2003-2014)



Source: Statistics for Afghanistan's Economic Growth are taken from the website of the World Bank.

The reasons of Afghanistan's low economic growth since 2009 are:

- In 2009, the USA announced their withdrawal from Afghanistan that caused distrust in the field of business;
- From this year, Afghanistan faces insecurity and instability that is increasing day by day.
- The economic growth reached to 14.4% in 2012 only, its main reason was, that year Afghanistan was having good harvest year.
- The businessmen lose confidence in 2013. In this year, disagreements for not signing the Security Agreement became increased with the USA, the country faced security and political instability, the amount of investment decreased, and

¹ The statics related to Afghanistan's Economic Growth are taken from the website of the World Bank.

the investors were worried about the future; as a result, the economic growth for this year was 1.9%.

- The economic growth was 2% in 2014. The reasons behind the lower rate of economic growth in this year were insecurity, political instability, and delay in making the new government after the Presidential Elections; decrease in some expenses of foreign forces after its withdrawal have impacted the economy, also.

According to Asian Development Bank (ADB)'s estimation, Afghanistan's economic growth for the current year would be 2.5%. ADB assumes this would be only possible, if the security and political environment is stable.; However, if we consider the present conditions, it would be really difficult for government to achieve the 2.5% economic growth.

Financial Budget

According to the semi-annual performance report of the Finance Ministry, domestic revenues both tax and non-tax reached to Afs 52.37B in the six months of 1394 FY showing a shortfall of 5% against the target of Afs. 55.35 B for the six months. Compared with the annual target of 1394(Afs.123.01B) it has completed 43% of it. Relative to six months revenues of last year, Afs 47.4B, it shows an increase of 10%.²

Core budget/national budget for 1394 is Afs 436.857B (operating budget Afs 283.969B and core development budget Afs 152.888B). According to what the government claims, domestic revenues shall cover 28% of the core budget in 1394 while the short fall of 72% shall be covered by donors' assistance to core budget; domestic revenues covered 54 % of the total operating expenditures in the first six months of the year, also.³

During the six months of 1394FY, the core budget faced a short fall of Afs 384.4 B. This crisis has increased since 2012. After peaking at 11.6 percent of GDP in 2011/12, Afghanistan's domestic revenue stagnated in nominal terms and declined precipitously as a share of GDP, to 8.4 percent in 2014. Toward the end of the year the government was running out of cash and announced a fiscal shortfall of \$537 million for 2014 as a

² For further details see the semi-annual performance report 1394 online at:<
<http://mof.gov.af/Content/files/MoF%20SEMI%20ANNUAL%20PERFORMANCE%20REPORT%201394%20RIMU.pdf>

>
³ For further details see the semi-annual performance report 1394 online at:
<<http://mof.gov.af/Content/files/MoF%20SEMI%20ANNUAL%20PERFORMANCE%20REPORT%201394%20RIMU.pdf>>

whole (after existing security and civilian aid). Exceptional financial assistance to cover this gap was requested, and donors provided some \$190 million, the remaining shortfall was managed by drastically cutting non-wage operating expenditure (O&M) and stopping discretionary development projects.⁴

Major progress would only be possible if the Afghan government and international partners strongly prioritize bringing about a fiscal turnaround and the government engages in bold actions with proactive international support.⁵ An international conference on attracting financial assistance is going to be held in Kabul in the next month; the Presidential Palace (ARG) has already held some meetings regarding this. However, the main hindrance for the government to get international financial assistance is corruption, which needs to be addressed. Of course, the government would consider the filing against 6 high-level officials from the Ministry of Urban Development Affairs & Housing and recovering 50% of Kabul Bank assets as their big achievements; and, both of these incidents would play a role in attracting international assistance.⁶

Trade

The situation of trade in Afghanistan for the first quarter of 1394 was as below:

Afghanistan's exports were \$116.22 Million and its imports were \$1.91 B in this quarter. In the first quarter of 1394, most of the imports were from Pakistan which was worth \$471 Million. Imports from Iran were worth \$453 Million and imports from China were \$253 Million.⁷ Most of Afghanistan's imports were including wheat, vegetable oil, diesel, cement, steel, electronic tools, cars, spare parts and construction material.

Similarity, most of Afghanistan's exports were to Pakistan which were worth \$50 Million and then to India which were worth \$20 Million. The reason behind increase in

⁴ For further details see William A. Byrd, Afghanistan's continuing fiscal crisis: No end in sight, United States Institute of Peace, Peace Brief 185, May 2015, see it online:< <http://www.usip.org/sites/default/files/PB185-Afghanistans-Continuing-Fiscal-Crisis-No-End-In-Sight.pdf>>

⁵ Ibid

⁶ Weesa Daily

⁷ For 1394 first quarter exports see the quarterly reports of Center for Statistics Organization:

<http://cso.gov.af/Content/files/%D8%B1%D8%A8%D8%B9%20%D8%A7%D9%88%D9%84%20%D9%88%D8%A7%D8%B1%D8%AF%D8%A7%D8%AA%201394.xlsx>

Afghanistan's exports to Pakistan in the first quarter is the lack of rain in Pakistan, that's why exportation of agricultural goods has increased to Pakistan.⁸

The exports of Afghanistan have increased by 61% in the first quarter of 1394; the main reason is increase in licorices rate in the international market. The other reason behind increase in Afghani exports is that the amount of rain in Afghanistan became higher in the past few years and so the agricultural product is increased, then. That's why most of Afghanistan's exports are consists of dry fruits, fresh fruits, licorice, vegetables and seeds.⁹

Overall, Afghanistan's total trade in the first quarter was worth \$2032 Million and its trade deficit was \$1799 Million.

The Depreciation of Afghani (Currency)

In 2002-2003, a currency reform occurred in Afghanistan and new Afghani, the Afghan currency, was brought to market. One US Dollar was equivalent to 48 Afghanis in January 2005; but, this increased to 58.27 in 2013. The value of Afghani got better (56.33) in the beginning of 2014; however, it lost its value in the upcoming months due to some reasons including political instability, insecurity and etc.; and on January 2015, the value of Afghani against USD was 60.1 and now (on August 27th) it values 65.16 which is unexampled in the past 14 years.¹⁰

Here are the main reasons behind the depreciation of Afghani::

- Previously, the value of Afghani was not that much high due to the country's poor state of economy. Most of the time, Afghani had an artificial values and was dependent on USD.
- The current political and security instability and tangled situation;¹¹

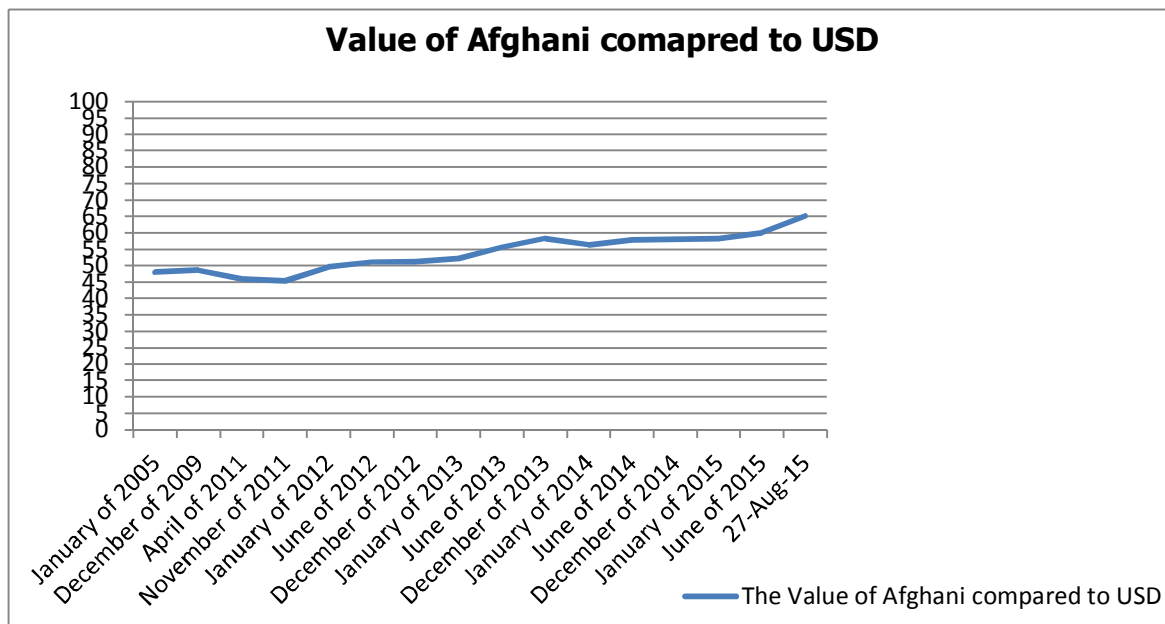
⁸ For 1394 first quarter exports see the quarterly reports of Center for Statistics Organization: <http://cso.gov.af/Content/files/%D8%B1%D8%A8%D8%B9%20%20%D8%A7%D9%88%D9%84%20%D8%B5%D8%A7%D8%AF%D8%B1%D8%A7%D8%AA1394.xlsx>

⁹ See online: <http://www.pashtovoa.com/content/afghan-exports-increase-127727043/1199996.html>

¹⁰ the above data is taken from Afghanistan's central bank (Da afghanistan bank), see it online: <http://dab.gov.af/en/DAB/currency>

¹¹ Saraye Shahzada's exchange union says that due to political and security instability the currency has been badly influenced. see it online: <http://www.spogmairadio.af/spogmai-news/economical/5101-2015-08-11-03-34-50>

- Lack of demand for Afghani in the market; before that, a lot of Afghans were working with foreigners and were receiving salary with USD. They were supplying dollars to the market and were receiving Afghani in exchange. This process that included demand for Afghani and the Afghan government was also supplying dollars to the market in order to appreciate the Afghani, so this was increasing the demand for Afghani in the market which spontaneously was keeping the value of Afghani high, then. Now, as a lot of NGOs are closed or their employees are reduced, so, the demand for Afghani has decreases in the market.
- Increasing the value of USD in the international market and reduce in foreign financial assistance to the country are other reasons for decline in the value of Afghani,¹²



Source: The webpage of DAB <http://dab.gov.af/en/DAB/currency>

¹² to read specialists views on this subject, see it online: http://www.bbc.com/pashto/afghanistan/2015/08/150818_ma_dollar_rates_increas_in_afghaistan

Unemployment

As there is not accurate statistics for unemployment in Afghanistan, however, some months ago, the head of National Workers Union in a ceremony held for workers international day told Pajhwok News agency that now; almost 13 million people are unemployed or underemployed.¹³ The amount of unemployment in Afghanistan is questionable; however, neglecting these statistics, the issue of unemployment is so serious and the number of unemployed people is increasing day by day.

To curb down unemployment temporarily, the agriculture sector should be focused on, because a lot of people in Afghanistan are connected to agriculture. Besides that, Afghanistan's mine sector has a lot of potentials and it can play an important role in providing employment opportunities.

¹³ See online: http://www.dailyafghanistan.com/national_detail.php?post_id=127558

The impacts of Almas Operations in the North



In recent few weeks, Gen. Abdul Rasheed Dostum, the First Vice-President arrived in North in order to remove Taliban from Faryab province. It looked like he was intended to command the Afghan armed forces and fight against the Taliban; however, it did not happen in action.¹⁴

He spent some time in Jawzjan Province and continuously said that this war is against Pakistan and Pakistani intelligence agency (ISI).¹⁵ He, dramatically, brought his sons, wearing military uniforms, to the battle ground in order to take benefit from media's propaganda.

This action of Dostum has alarmed the danger of arrival of militias to the battle ground of Afghanistan and, it empowered the beliefs that Afghanistan will return to its past ominous experiences which had harshly castrated the national unity in the country.

¹⁴ Weesa Daily No. 78, 1st Sunbula, 1394

¹⁵ See online:

<http://da.azadiradio.org/content/article/27198552.html>

Experience of Militia-Making

In the last years of the Communist government in Afghanistan, the country's security forces were faced with the lack of morale in the war. Afghanistan's armed forces were not face with the lack of military equipment at that time, but, the army soldiers were taken to battle ground by force and they did not have any kind of motivation for fighting; as a result, the government, for filling this gap, started to create militias. At first, there were propagandas that the militias will not act indecently and they would be under the control of national military forces. (This is exactly what the country's security officials say about Arbaki-making and named it as Local Police or as Upraised People Forces recently.)

Militias that were created on the base of nationality during Dr. Najeeb's era, gradually, achieved power and, eventually, they contacted the foreign intelligence services and with a compromise, removed Dr. Najeeb from power and made him to refuge to UN office in Kabul.

These militias had important role in making the Civil War and its aftermath to be continued by changing their side from the Mujahedeen's government to its opponents during the Civil War.

The Aftermath of Almas Operations

Gen. Dostum, after a series of propaganda, threatens and necessary preparedness, eventually, marched toward insecure northern Faryab Province on the third of August, 2015. He was being accompanied by 2000 armed motorcyclists under the name of (upraised people's forces).

The people living in Faryab's villages located near the border of Badghis province came under attack, loot and cruelty of these militias happen in the areas under the control of Taliban.¹⁶

The people complain that the Taliban had control of their areas due to the weaknesses of the Afghan security forces, and the people that were unarmed, did not have power to resist the Taliban; however, the forces under the command of Gen. Dostum that have attacked the area, treat the people like they were Taliban in their captivity.

¹⁶ for further studies see online: <http://da.azadiradio.org/content/article/27204290.html>

Ethnic Disputes

Performing such action by so-called forces, the defenders of the government signify the complete weakness of the National Unity Government (NUG). Considering that war against Taliban as a tribal issue, hurt the sovereignty of the government and limits its power. The interesting thing is that once upon a time, President Ghani called Dostum “a murderer of Afghans” for his methods.¹⁷

It should not be imagined that the government has kept the national security forces from these tendencies away; in the past, Pashtun citizens were complaining that the government, intentionally, sent non-Pashtun soldiers for operations in that areas. For example, killing of Hazara local police forces in Wardak province, or killing of soldiers other than Pashtun in Tagab and Uzbeen districts of Helmand and Ghazni provinces, all of them could point a big danger that the NUG, from a very long time, empower the motivation of war against the Taliban on ethnic tendencies that results enmity between ethnicities in the country.

The Pretext of Pakistanis' Presence

Dostum was talking about killing a Pakistani general so-called Sheikh in order to show that this is a war against Pakistan. He said, Sheikh was responsible for the war in four provinces, Faryab, Jawzjan, Sar-i Pul and Badghis, however, the local people say that Seikh is originally from Farah province and he is alive. In the presence of media, Gen Dostum called the murder of Pakistani general as a direct war against Pakistan in Afghanistan.

Azadi Radio, quoting the local people, reported that people have complaints against the upraised people's force that are under command of Gen. Dostum and say that they have looted their houses, but, officials in Faryab province rejects these allegations and call it Taliban's propaganda; moreover, the officials do not let the local people to attend Kabul in order to raise their concerns with higher authorities.¹⁸

¹⁷ see online:

<http://web.archive.org/web/20100103162326/http://ashrafghani.af/campaign/archives/1221>

¹⁸

<http://da.azadiradio.org/content/article/27204290.html>

Pajhwok News agency reported that Gen. Dostum's men put fire to houses after they looted the entire goods from them.¹⁹

The Daily Weesa quoting the elders of Khwaja Kando, Sakh, Konjak, Do Abi, Ghami Khan Kalai, Bashal Mast, Ghojghar and Ashab-e Kahf that did not want to name themselves due to security reasons reported that 2000 motorcyclates leading by four commanders named Commander Shamal from Maimana, Commander Nazar Mohammed, Commander Hashim and Commander Nizamuddin well-known with Nezam-e Gaw came to Qaysar and our area, looted our houses and mistreated our people.²⁰

The Consequences of Almas Operations

The Almas operations was conducted by Gen. Dostum in Faryab on the 23 August, unlike propaganda, did not cause a lot of damages to Taliban because they had left the area before the start of the operations, however, the civilians in the area have suffered a lot of casualties, and even their houses became looted and burned.

The experience of Gorilla fighting has a long history in Afghanistan and it had proved that malitia can take some area back from the enemy in special cases, but keeping these areas for a long time is so difficult and challenging because they, with their negative actions, make people stand against them. As a result, the local people, even if they do not want it from their hearts, join the insurgency in order to rescue themselves, and it is in the benefit of the armed opposition.

On the other hand, the so-called forces of the government, whether they are called malitia or upraised people's forces, do not obey the central command, and the forces under the command of Gen. Dostum that were well-known with Gilimjam were doing whatever they want in their conquered areas, from loot and rape to murder. It was the main motivation for fighting and it looks likes this is going to be promoted once again.

¹⁹ See online:

http://www.pajhwok.com/dr/subscription-required?redirect_from=430329

²⁰ Weesa Daily No. 80

The Constitution and General Dostum's Operations

The thing Dostum is doing in the North has clear opposition with the Constitution of Afghanistan. The Constitution states that the national security forces are responsible to defend the country and shaping other forces than ANSF is prohibited. Therefore, DDR and Dayak spent millions of dollars to disarm irresponsible armed forces, however, there is no one to ask Dostum that where all these weapons came from and why it was distributed in his men that are meanwhile members of his Party and had campaigned for Ashraf Ghani during the latest Presidential Elections too.

According to the Constitution, establishing political parties is allowed in Afghanistan; however, the political parties should have not a military wing. Meanwhile, establishing political parties based on ethnic are prohibited in Afghanistan, also.

The End

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