

AUG 2014 FIRST EDITION

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- Capitalism and freedom: Milton friedman
- Common sense economics: D. Gwartney, L.Stroup, R.Lee
- Morality of capitalism: Tom G. palmer
- What is seen and what is not seen: Fredric Bastiat

## Publisher's message:

AELSO as a cultural educational and researcher organization in the ground of introducing educational market economy and it's legal studies that it was established in 2009 by publishing educational books, radio programs, creating educational seminars to different university's students and making short term educational programs. And we're happy for establishing our first monthly electrical economics bulletin.

We hope by compile, collect and analyzing Afghanistan economics achievements, problems and by effective economic creations to serve to economists, researchers, and economic students

Our organization is welcomed your suggestions, objections, and good ideas

## Inauguration of academic human rights training:

AELSO with another initial and following it's previous educational programs this time implements a human rights academic training. This program that was warmly welcomed and interested by the youth and more than 200 people applied to attend the course fortunately we could select 27 of them those who are working in different fields like human rights activists, journalists, civil activists and university students that was started, and this academic training will be held in future too. The aim of the course is to build capacity and to teach for those who are interested to participate the advocacy and human rights matters.



### From small and steady to big plans: Afghan businesswoman enjoys modest success



USAID-IDEA-NEW: Nazifa Hofiani's fruit and vegetable processing business has gone from small but steady sales to big expansion plans, thanks to a timely investment in management, planning and marketing skills.

When Ms. Hofiani started the Women's Vocational Training and Agriculture Service Organization in the eastern Afghan province of Parwan in 2006, its fruit juices, pickled vegetables, spices, jams and chutneys enjoyed modest success. But she always thought it could do better and in mid-2013, jumped at the chance to work with USAID's Incentives Driving Economic Alternatives for the North, East and West (IDEA-NEW) program.

IDEA-NEW helps Afghan agribusiness improve market access and processing capacity and Ms. Hofiani's team learnt about finance and accounting, developing a business plan, food safety and marketing.

The training enabled the company to break into new markets in Kapisa, Kabul and Panjshir provinces. By year-end, revenue had risen more than 30% and staff numbers nearly doubled. Ms. Hofiani plans to expand to supermarkets in Mazar-e-Sharif, Jalalabad and Herat.

It is a measure of the company's success that it is now able to pay for the printing of its product labels, for the first time ever.

### International transactions still an issue for Afghan private banks



Afghan private banks are still

facing problems with transferring money from abroad to Afghanistan despite the approval of the Anti-Money Laundering and Financing Terrorism Prevention Laws.

A number of foreign banks have reportedly refused to transfer money into Afghanistan through Afghan banks.

The Afghan parliament approved the anti-money laundering legislation last month as mandated by the Financial Action Task Force (FATF).

Afghanistan was warned by the FATF, an international body that sets standards on how countries combat money laundering, for failing to pass key measures on curbing money laundering.

Afghanistan was close to getting blacklisted if the laws were not passed in time.

While the laws saved Afghanistan from being blacklisted, they did not mend the relations between Afghan banks and international banks, who are still at distrust with the Afghan banking system.

## Breshna Company collects only 50% of electricity bills in Helmand



Afghanistan's national power utility, Da Afghanistan Breshna Sherkat (DABS), manages to collect only 50% of electricity bills in southern Helmand province.

DABS official Mirwais Alemi said half of the company's income from electricity bills in Helmand was lost, as there were problems in collecting bills in districts like Sangin and Musa Qala, where Taliban have control.

According to Helmand officials, the Taliban have diversified their sources of income by taking over a number of illegal mines and public infrastructures like electricity to fund their weapons.

One of the major challenges facing Afghanistan's self-sustainability is the country's inability to gather government revenues. Problems with collecting taxes and electricity bills cost the government significant losses in national revenues.

## Iran plans to export more fuel to Afghanistan and Iraq



Iran plans to supply more fuel to Afghanistan and Iraq in an attempt to boost its export revenues.

Managing Director of National Iranian Oil Products Distribution Company (NIOPDC), Mostafa Kashkouli, said Iran expected a significant boost in its volume of liquid fuel, would be available for export to neighboring countries, after seeing an enhancement of 100mn cubic meters a day in natural gas production in new phases of South Pars gas field

Located in the Persian Gulf, the South Pars gas field is divided into 28 phases and is estimated to hold 14 trillion cubic meters of gas as well as 18bn barrels of condensates.

Iran has already finalized a deal for gas oil delivery to Afghanistan and is assessing the conditions for exporting liquefied petroleum gas (LPG) to Afghanistan and Iraq.

## Sericulture reviving in Western Afghanistan



Agriculture officials in Herat reported that sericulture has witnessed an unprecedented growth.

Faqir Ahmad Bayangar, Head of the agriculture department in Herat, said farmers obtained 250 tons of silkworms, which indicated an extraordinary growth when compared with previous years.

According to the figures from the agriculture department in Herat, more than 50mn AFN

was generated in revenue from sericulture.

Herat offers fertile soil and suitable weather for production of silk, owed to the presence mulberry trees which the silkworms feed on.

The Agriculture Department in Herat has enhanced their efforts to bring the thousand-year old sericulture business back to life in Afghanistan.

Over 5000 silkworm boxes have been provided to several districts in Herat in a bid to revive silk production in the region.

The silk industry has recently been hit by cheap imports from neighboring countries. A kilo gram of pure silk costs more than 3,000 AFN, while synthetic silk from Pakistan is sold at 420AFN per kilo in the markets.

Herat silk is expected to mark the renaissance of the 'Silk Road' legacy. Afghanistan was once an essential segment of the Silk Road—a historical network of interlinking trade routes across Afro-Eurasian landmass that connected, East, South and Western Asia with the Mediterranean

and European world, as well as parts of North and East Africa.

## Prolonged election process hurting mining industry in Kunduz



Mines and Petroleum department in Kunduz have reported a significant decline in the province's mining revenue, with the figure dropping from 2.8mn AFN in 2013 to 900,000 AFN this year.

Eng. Mirza Mohammad Sultani, director of the provincial Mines and Petroleum, linked the drop in mining revenue to the prolonged election process and withdrawal of foreign troops.

Stucco, stones, gravel and sand mine are excavated in Chahar Dara, Khanabad, Aliabad and Qala-e-Zal districts of Kunduz for construction purposes.

According to Sultani, procurement of construction materials by foreign troops were a major source of income. However, much of the revenue has been lost as a result of absence of contracts for procurement of construction materials after withdrawal of the foreign forces.

The extended election process has added to the misery of the business activities in the province as a number of businessmen are concerned about the security situation.

Unemployment and insurgency have increased due to the faltering political situation.

## Concerns Over Decrease in National Revenue



Analysts claim that with the current decrease in the national revenue, the Afghan



government will not be able to pay the salaries of government employees in the next two months.

A number of House of Representative members have expressed concerns, saying that with the 21 billion AFS decrease in the government budget and the national revenue, the government is facing severe financial problems. The decrease indicates that corruption has increased in the administrations responsible for gathering the revenue.

The Ministry of Finance (MoF) has confirmed the dramatic decrease in the national revenue, but maintains that it would not affect the salaries of government employees.

"We are aware of the problems," Deputy of the Financial and Budget Commission at the House of Representatives, Azim Mohseni, said. "If the government does not prevent financial difficulties and is unable to pay the salaries of its employees in the next months, the country could face devastating economic

problems."

House of Representative members say the reasons behind the decrease in revenue are the prolongation of the elections, extension of corruption, absence of justice in customs and wastage of government revenue. They add that MoF officials have exaggerated the national revenue in the past 12 years.

"Unfortunately, MoF is facing many problems," a member of the Economic Committee at the House of Representatives, Ramazan Juma Zada, said. "Corruption in customs and wastage of national revenue are very alarming to the people."

Meanwhile, MoF spokesman Abdul Qader Jilani has said that the main reason behind the decrease in the national revenue is the current election problems and the ambiguous political situation in the country. Jilani asserted that MoF is not facing shortage in its usual budget.

"There is a 21 billion AFS decrease in the government development budget and about 10 million AFS decrease in our revenue.

However, this does not mean that we are facing shortage in our normal budget; it does not mean we would not be able to pay salary," Jilani said. "The main reason behind the decrease in the national revenue is the prolonged election process."

This year's budget was approved for 428 billion AFS of which 280 billion AFS was for the standard budget, while 148 billion AFS was for the development budget.

## **Afghan Finance Ministry accused of miscalculating income taxes**



Shopkeepers in Kabul have accused Ministry of Finance (MoF) of miscalculating taxes and eliciting extra taxes for personal gains.

According to Tolo News, MoF officials had forced shopkeepers to pay up to 100,000 AFG in income taxes this year, while last year they

paid 10,000 AFN in income tax.

As per Afghan tax laws, retailers who earn 60,000 AFN annually are not obligated to pay income tax. But those earning 250,000 AFN annually pay 2,000 AFG a year and those making 500,000 AFN must pay 8,000 AFN. For those who earn over 500,000 AFN, the income tax is calculated as 3 percent of what they make.

In the meantime, MoF officials acknowledged presence of corruption in the Afghan tax system but called on the citizens to cooperate with the Ministry and report any MoF employee that violates the law.

## Vote count delay results in lower Afghan national revenue



The House of Representatives expressed concerns over the decline in the national revenue, fearing the government would not be

able to pay the salaries of the government employees.

“Economic problems are inevitable if our government does not tackle the national revenue issue and fail to pay salaries of its employees,” said Azim Mohseni, Deputy of the Financial and Budget Commission at the House of Representatives.

Corruption in customs and mismanagement of national revenues were attributed to the decay in Afghanistan’s national revenue.

The Afghan government is currently facing a 21bn AFN decrease in the government development budget and about 10mn AFN decrease in revenue.

In the meantime, Ministry of Finance (MoF) spokesperson Abdul Qader Jelani linked the decrease in revenue to the prolonged election process.

## Afghanistan’s political impasse hits construction projects



The prolonged election process has hit the nation’s housing scheme, said Ministry of Urban Development (MoUD) official.

In an exclusive interview with the Pajhwok Afghan News (PAN), MoUD Deputy Minister Eng. Mohammad Akbar Ahmadi said various projects were underway through Public-Private-Partnership in Kabul, Balkh, Nangarhar, Kunduz, Khost, Badakhshan, Kandahar and Herat provinces for constructing residential buildings and then selling them at affordable prices to deserving families.

He added implementation of the projects had been stalled due to delays in the election process.

According to Ahmadi, the decision to suspend execution of the projects was made by the Council of Ministers.

The decision came after the private sector had planned to

invest USD 500mn in the construction of residential buildings, but uncertainty concerning Afghanistan's political situation weakened the investors' confidence.

He added the ministry had 97 strategic plans and seven master plans for big cities to be launched during the ongoing year.

### **Pakistan's cement exports to Afghanistan decline by 58%**



All Pakistan Cement Manufacturers Association (APCMA) have reported a 58% decline in the country's cement exports to Afghanistan.

According to the figures by APCMA, cement exports to Afghanistan declined from 441,812 tons in July 2013 to 183,927 tons in July 2014.

This drops the overall cement exports figures from 749,000 tons in July of last year to

503,000 tons in the month this year.

Officials have linked the drop in cements exports to Pakistan's weakening competitiveness in the international market, as other regional markets' products are penetrating into the market, like Iran.

The withdrawing of the North Atlantic Treaty Organization (NATO) has also been cited as a factor in the diminishing cement exports to Afghanistan.

In addition, the high duty on imported coal has increased the cost of cement business after massive hikes in power and energy tariffs. Cement industry is the main user of imported coal.

### **New mining law a bridge to finalize the iron ore project in Afghanistan**



The new mining law, which was approved by the Afghan

Parliament two months ago, is going to serve a bridge to finalize the ambitious iron ore project in Afghanistan's Hajigak province.

Led by the state-owned Steel Authority of India Ltd (SAIL), the Afghan Iron and Steel Consortium (AIFSCO) won the tender for mining 3 iron mines at Hajigak last year with an initial investment plan of USD 10.8bn for a mega steel plant and a captive power unit.

Upon the establishment of the mining law, which is yet to be signed by President Hamid Karzai, the consortium has filed a little over USD 1bn. The scaling down of the investment plan was a result of the shaky security situation in the concerned mining sits.

The final negotiation of the project between the Afghan Government and AIFSCO is going to take place after the stalemate over President Karzai's successor is resolved.

The Hajigak deposit contains an estimated 1.8 billion tons of ore, with an iron concentration of 62%, according to the ministry,

basing its figures on a survey carried out in the 1960s.

### Grape harvest pleases Sar-e-Pul farmers but low prices disappoint them



Farmers in Sar-e-Pul have witnessed a considerable growth in their grape production this year; however, low prices of their product in the market have disappointed them.

Lack of sufficient cold storage and electricity supply has been cited as the farmers' major challenges hindering the success of grape business in the province.

The farmers are compelled to sell their grapes before they rot away due to lack of cold storages in the province.

According to Pajhwok Afghan News (PAN), a farmer collected the crop and sold it in line with market demand. "This has resultin 7 kilograms

of grapes selling for only to 120 AFN (less than USD 2.00)."

The farmers called on the government to establish cold storage facilities and set up juice-manufacturing factories to help generate more income to the growers.

In the meantime, Agriculture and Livestock Director Mohammad Jafar Amirzai confirmed the growers' problem and said the Ministry had planned to construct two huge cold storages in the province; however, shortage of electricity impeded execution of the projects.

### Salang Tunnel Deteriorated Despite Repeated Repairs



Both commercial and regular Afghan drivers have expressed frustration with the condition of the Salang highway, particularly the

tunnel stretch, which they say is virtually destroyed despite the supposed repairs that the government has made to it over the past couple years.

Although the Ministry of Public Works has said that reconstruction will start inside the tunnel soon, some have accused the government of wasting money on haphazard renovations in the past that failed to keep the highway in drivable condition.

The Salang tunnel has been reconstructed four times since it was originally built. The last time it was repaired with the help of the international forces, who the Ministry of Public works maintains originally contracted the tunnel.

"Every time they reconstructed it, it was worse than the last time, we don't know what they are doing," said Gul Muhammad, a frequent traveler along the highway.

"With all the money together, they could build another tunnel, this road was not reconstructed," another driver named Agha Muhammad said.



Road engineers have said the low quality materials used to originally build the tunnel, as well as the lack of proper maintenance, is what has led to its rapid deterioration.

The winter months are said to be the worst for the Salang tunnel, as water, snow and ice help deteriorate the road further by cracking paved ground and creating potholes. What's more, if the tunnel gets worse over the next few months, the entire thing could be shut down for the entire season.

"I don't know what we are going to do in the winter, this road is very bad and no one is thinking about it," a shopkeeper in Salang named Peer Muhammad told TOLONews.

Not all blame the Afghan government for the disrepair of the highway, however. Some have said overweight vehicles use the tunnel too often.

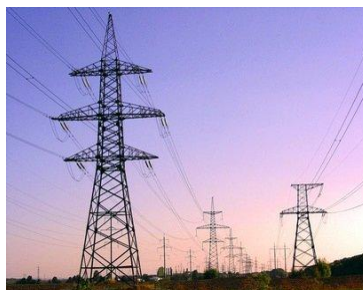
"We are not the only ones who have heavy weights, everyone does it, you can see that the driver doesn't load less than 60 tons and no one is controlling it," one driver named Waly Khan said.

"Currently, you see that there are no heavy weight scales in Afghanistan."

While acknowledging the poor quality of the Salang tunnel, as well as the feebleness of the efforts to maintain it, officials at the Ministry of Public Works have suggested the International Security Assistance Force (ISAF) are to blame.

"ISAF contracted this road, and we had suggested the quality of the work then, but it was not accepted," Ministry spokesman Muhammad Suhail Kakar said. "We will try to reconstruct the road from our own developing budget."

### **CASA 1000, is expected to kick-off this month**



A regional electricity project, called CASA 1000, is expected to kick-off this month once a trade

agreement is signed by the participating countries.

Afghanistan, being one of the participants, expects the project to yield new infrastructure and lower costs nationwide.

According to the Breshna Company, which is overseeing the implementation of the CASA 1000 project, electricity trade will start between Pakistan, Afghanistan, Tajikistan and Kyrgyzstan within nine days of the agreement's signing.

"We will sign this agreement with our partners on the 18Th of August, and with it, implementation of the project will start in four countries," said Mirwais Alemi of the Breshna Company.

The Breshna Company has said that the project will include the building of new electrical lines from source to target, furnishing helpful power-grid updates. The full construction process is expected to take two years.

Breshna has said that agreement provides for 1,300 megawatts of electricity to be imported through Afghanistan

to Pakistan from Uzbekistan within the first seven months.

"Because the line will not be used for seven months, we can purchase heat generated electricity from Uzbekistan and sell it to Pakistan because there is need for it and there is capacity as well," Alemi said.

CASA 1000 was first formed eight years ago, and based on the project, 1,300 megawatts of electricity will be sent to Afghanistan and Pakistan from Kyrgyzstan and Tajikistan. In addition to transit fees, Afghanistan will then be able to make purchases of 300 megawatts at low prices.

The original project was expected to be fully functioning by 2018, but officials at Breshna have said that it will likely be finished before then.

### **Afghanistan's agriculture system to be modernized**



Officials of the Agriculture and Livestock Ministry believe that the traditional methods of agriculture would change once the capacity of the officials and farmers is strengthened.

The Agriculture and Higher Education Ministers signed an agreement through which the agriculture system of Afghanistan would become modernized, which will have a positive impact on agricultural products.

Agriculture Minister Mohammad Asif Rahimi said the Higher Education Ministry would improve the Agriculture Ministry's officials' capacity through technical and scientific trainings, as per the agreement.

He added vacant lands have been dedicated in all provinces for agricultural and education activities and training of staff, students and farmers by agriculture specialists.

In the meantime, Higher Education Minister Ubaidullah Ubaid said his Ministry was committed to cooperate and assist with the growth of agriculture in the country.

"The agreement is valid for five years, which would be extended. Our cooperation will stay with the Agriculture Ministry in the areas of scientific research, apprenticeship for students who are about to graduate, scholarships for teachers and students, and consultation using the capacity and expertise of our teachers," said Ubaid.

According to officials, the Agriculture Ministry has also signed agreements with four American universities on providing trainings in Kabul, Nangarhar, Balkh, Herat, Samangan and Kapisa.

Meanwhile, a number of economic pundits criticized the government for failing to take necessary measures towards improving the agriculture sector despite the influx of billions of dollars in aid in the past 13 years. They regarded the agriculture sector as a key sector in achieving economic self-sufficiency.

## New Saudi Regulation Could Ban Afghan Airlines, Posing Problem for Hajj



Recent air traffic regulations set by Saudi Arabia, disallowing aircrafts over 25 years old from flying to any location in the country, could pose a problem for Afghan Airlines that transport thousands of Afghans making the Hajj pilgrimage to Mecca every year.

The Afghanistan Civil Aviation Authority (ACCA) has said it will attempt to negotiate with the Saudi Arabian government in order to arrange a deal in which Afghan airlines could be excluded from the new standard. Most planes operated by Afghan airlines are older models, many of them over 25 years old.

"In past years, there was an operational plan for aircrafts over 20 years of age, and

Saudi had no problem with them, but this year, Saudi officials have said that planes 25 years old will not be allowed to transport Hajj pilgrims," said ACCA chief Hamid Zahir. Zahir has said he plans to enter into direct negotiations with Saudi officials.

The Acting Chief Executive Officer of Safi Airways, John Brayford, said they were made aware of the new regulation several months ago. Safi is one of the Afghan airlines that is popular among Hajj participants, but would be adversely effected by the new standards.

The General Authority of Civil Aviation (GACA) is Saudi Arabia's aviation authority that is charged with ensuring air traffic within the country abides by international standards, and is responsible for the new regulation.

## Budget Problems Stall Development Projects



Officials from the Ministry of Agriculture, Irrigation & Livestock (MAIL) on Monday reported major development projects have been shutdown on account of the current revenue deficit problems at the Ministry of Finance (MoF).

"Since the beginning of the year [Persian Year], because of the revenue deficit problem in the Ministry of Finance, most of our development projects like the Saffron project, irrigation and forest protection have been effected," Minister Mohammad Asif Rahimi said.

Meanwhile, the Ministry of Finance has blamed the controversy around this year's presidential election for its revenue shortages, budget deficits and the delays in international aid payments.

"We do not have cash flows so we're having trouble and our projects have been

slowed," MoF spokesman Abdul Qadir Jilani said.

Economic analysts have also suggested the troubled election process has caused foreign investment and aid to Afghanistan to decline, in turn hindering development projects.

"Budget deficits and decrease of domestic revenues are one of the problems and there is also a political vacuum and donors like the US, International Monetary Fund (IMF), cannot provide financial support, which effects development projects," Sayed Masoud Kabul, an university economics lecturer, told TOLONews.

Experts have said the mechanization of agricultural production in Afghanistan is the best possible option for economic growth in Afghanistan at the moment, but they have also criticized the government for not giving it more attention over the past 13 years.

### Business climate deteriorated in Afghanistan: ACCI

### Business Tendency Survey Report



The Business Tendency survey report by the Afghan Chamber of Commerce and Industries (ACCI) indicated a negative business climate for major cities of Afghanistan during the last three months.

The business climate is an indicator for Gross Domestic Product (GDP) growth, constructed from the judgments of company managers using arithmetic mean of balance value of the present situation of their businesses and balance value of their expectations in the next six months.

The managers are requested to report on their present business situation as well as on their expectations for the next six months. They may judge their situation to be "better than normal", "normal" or "worse than normal". On their expectations they may answer that the situation will "improve", "remain the same" or "deteriorate". The balance

value of the present situation is the difference of the percentage shares of the answers "better than normal" and "worse than normal". The balance value for the expectations is the difference of the percentage shares of the answers "improve" and "deteriorate".

The overall business climate indicator in March 2014 for Kabul, Balkh, Kandahar and Nangarhar regions altogether valued (27) points and in July 2014 it decreased to (-0.02). Since Herat region has shown a comparatively better climate therefore the overall business climate indicator for all five regions in July 2014 is (0.78) points.

The regional business climate in July 2014 shows that Nangarhar (18.18) enjoys the best climate, followed by Kandahar (10, 34) and Herat (4.02). Balkh (-21.11) stands at the lowest point of the regional ranking followed by Kabul (-7.5).

The integrated business climate in Kabul, Balkh, Kandahar and Nangarhar show lower value compared to the last survey in March 2014. This negative inclination might be caused



by the electoral deadlocks and the ongoing political confusions.

This survey shows a sharp decline in all four sectors. Construction is in the worst condition while manufacturing tops in sectoral ranking; although in comparison to the last survey (March 2014) the later has also experienced a severe deterioration of business climate.

Small Medium Enterprises (SMEs) and large companies in Kabul, Balkh, Kandahar and Nangarhar is highly declined. The SMEs have suffered more from a volatile and unstable business condition which means they are more vulnerable to changes in business climate caused by politics, security and climate factors.

According to the survey, insecurity is considered to be the first indicator of business climate followed by lack of market and demand, poor infrastructure, administrative burdens and lack of access to finance.

A considerable number of companies reported to be closed or downsized. At least 9.9 percent of the employees

of the surveyed companies had lost their jobs in a most favorable season of the year.

### **Afghan farmers report a higher wheat harvest**



Farmers in Afghanistan have reported higher production of wheat than last year, with grain harvest being above-average for third consecutive year.

Winter and spring precipitation provided enough irrigation water for winter crops, and the spring rains supported the growth of spring crops. A strong start of the spring rains resulted in higher planted area for spring wheat on rainfed land, particularly in the Northeast. The rains continued to occur regularly during the spring though at times temperatures were lower than normal, leading to mostly normal or slightly slower than usual crop growth over the course of the season. The wheat harvest started in late May in

the lowlands, and by the end of July, most areas had harvested except in high elevation areas such as the central highlands and Badakhshan Province where the harvest is later. In areas where wheat has been harvested, farmers and other local observers are reporting adequate to above-average quality and production.

Whereas heavy precipitation supported the development of spring crops, it also triggered flash flooding in many parts of the country, particularly the Northeast and Northwest. Steady precipitation during last part of wet season in May and June provided sufficient irrigation water for planting second crops like rice, vegetables, melons, and watermelon. For example, planted area under melon was doubled from 3,000 hectares last year to 6,000 hectares this year in Jawzjan Province, which is the province that had the most flooding this year.

Wheat grain prices decreased in many markets when the harvest started in lowland areas in early June and started to enter markets. Wheat flour prices are still

stable at a higher level than last year in most markets. This is primarily due to stagnant trade due to the current political uncertainty and associated risks which has led to a lower than usual volume of wheat flour imported from Pakistan.

According to many forecasts, the remainder of the June to September Indian monsoon is expected to bring some moderate amounts of rain to eastern Afghanistan. However, the total amount of rainfall will likely be somewhat lower than usual due to the developing El Niño and the slower than usual progress of the monsoon. No unusually heavy rains that would lead to large-scale flooding are expected in eastern Afghanistan.

The start of the October 2014 to May 2015 wet season is expected to have average to above average amounts of rainfall and snowfall from October to December, in part due to the developing El Niño.

As the presidential election process and transfer of power become clearer over the next several months, it is likely that local and international private

sector investors will return to Afghanistan's markets, especially to investments related to domestic and foreign trade, construction, and other sectors. However, construction labor is not likely to fully recover to the levels seen in recent years.

Imports of wheat flour from Pakistan and Kazakhstan will continue at a seasonally normal rates for the foreseeable future.

As considered likely following the pre-harvest assessment, Afghanistan will likely have an above average grain harvest for third year in row. In areas where grain has not been harvested yet, farmers and other observers report current crop conditions are mostly normal, and they tend to think that more production will come this year, in the absence of any new shocks. Of course, depending on elevation, some areas will not harvest until September. There are five provinces where the harvest is not yet nearing completion and further crop monitoring may be needed in Badakhshan, Bamyan, Daykundi, Ghor, and Ghazni. With higher grain production, rural households

could stock more than normal volumes of grain for the coming 2015 lean season and for the winter. Similarly, wheat grain and flour prices will decrease in coming months, and they will be closer to around average from now until December 2014, assisting those households who rely on market purchases. Households engaged in livestock keeping will also likely see higher prices over the coming months, both due to high demand for major holidays/festivals and due to the good body conditions of the livestock.

### Afghanistan's internal revenue drops by 27%



Afghan Ministry of Finance (MoF) has again warned about the prolonged elections process lowering down the country's internal revenue.

According to MoF, the internal revenue of Afghanistan has dropped by over 27% in the first six months of this year.

More than 5 months have passed since the first round of presidential elections in Afghanistan and the result is still unclear. In addition to political problems, the marathon presidential election has also impacted the country's economy negatively.

The year 2014 was considered crucial for Afghanistan for two reasons: withdrawal of foreign forces and the holding of the elections. And, now in the first six months the nation's economy is facing a major blow.

MoF had aimed USD 1.1bn for this year's internal revenue, but the internal revenue has witnessed a 27.5% decline in the first two quarters of the year.

While the exact figures of the internal revenue have not been made public yet, MoF officials have pointed to a decline of USD 500-USD 600mn.

MoF spokesperson, Abdul Qadir Jelani, said the country would face serious problems that would be beyond the Ministry's control, if elections process headed towards bedlam.

"The country's exports have decreased by 12%-15%. Afghanistan generates 45%-48% of its revenue from the customs. We have, as a result, fallen behind our target by 25%," said Jelani.

MoF called on both presidential elections to come to an agreement and put an end to the impasse.

In the meantime, Afghanistan Chamber of Commerce and Industries (ACCI) also commented on the disappointing exports figures for this year.

According to ACCI official Hashim Rassouli, Afghanistan's exports stood at around USD 90mn in the first quarter, while the exports would hit USD 110mn in the same quarter in previous years.

Alarm about the salary issue had also been raised, but the MoF spokesperson said there currently was no such risk.

However, stalling of development projects including road and school buildings projects could be startling.

The North Atlantic Treaty Organization (NATO) is due to meet on the 4<sup>th</sup> and 5<sup>th</sup> of September in Wales, United Kingdom to confer on the future of Afghanistan. Participation of Afghanistan's new president in the conference will highly be crucial; however, the result of the elections remains unknown with only 3 weeks left till the conference.

NATO had warned that foreign forces would be fully pulled out, if Afghanistan failed to elect its president and signed the Bilateral Security Agreement (BSA).

## Mines Minister calls on investors to invest in Afghanistan



Afghan Mines Minister

Mohammad Akbar Barezai called on foreign and local investors to invest in Afghanistan.

Barezai said the new mining law offered numerous facilities for investors.

The Law on Mines faced a political impasse for the longest time until it was approved by the Parliament.

Minister Barezai requested investors to utilize the Law and begin investing in Afghanistan's mining sector—a fledgling yet promising sector for Afghanistan's economy.

He added investment in Afghanistan's mining sector was stalled due to absence of this law.

Meanwhile, Economy Minister Abdul Hadi Arghandiwal urged the government to make the law operational.

The Law on Mines, with its 20 chapters and 117 articles, is expected to bring growth to the mining sector of Afghanistan. However, with the foreign troops pulling out of Afghanistan uncertainty surrounding the future of the Afghan economy remains.

### Afghanistan, Turkmenistan discuss economic cooperation



On a working visit to Turkmenistan, Afghan Commerce and Industries Minister Mohammad Shaker Kargar met with Turkmen Foreign Affairs Minister to confer on cooperation ties in various spheres.

The sides discussed prospects of bilateral relations in energy, transport and communications sectors.

Both parties emphasized on the importance of the Turkmenistan-Afghanistan-Pakistan-India gas pipeline projects and highlighted that it could contribute to restoring of Afghanistan.

In addition, the two countries are exploring the possibility of creating a transit and transport corridor of Afghanistan-Turkmenistan-Azerbaijan-Georgia.

### USAID donates USD 92mn to Afghanistan's Higher Education



A new \$92 million project to improve Afghan higher-education administration and academic standards launched on Aug. 13, officials in Kabul said on Tuesday.

Representatives from the Afghan Ministry of Higher Education (MoHE), the Ministry of Economy and United States Agency for International Development (USAID) contractor FHI 360 signed a Memorandum of Understanding on the University Support and Workforce Development Program (USWDP) project, during an August 13 signing ceremony in the Afghan capital.

"This represents a milestone in improving the higher education system in Afghanistan," Minister of Higher Education Obaidullah Obaid said.



USWDP will improve administration and academic quality in Afghan universities by training faculty members and students to international standards, improving the quality and relevance of academic programs, and enhancing the accreditation system within the Ministry of Higher Education.

The project will also support international university partnerships and exchange initiatives to help Afghanistan create a higher education system matching international standards.

The contracting company, FHI 360, will execute the five-year USWDP project.

Improving Afghanistan's educational system is an important and long-term priority for the United States.

From 2002-2013, USAID committed more than \$1.1 billion dollars to all levels of education in Afghanistan. In higher education, USAID assisted 12 public and 11 private universities, trained 1410 faculty members (29% female) and helped 145 faculty members (46% female) receive master degrees in education.

### Afghanistan's first ever grape festival held in Herat



Herat, known as being the home for over 70 different kinds of grapes, hosted Afghanistan's first ever grape festival.

The festival was held to provide an opportunity for orchard owners to display their products and encourage customers to buy their products and to create an atmosphere of peace for the residents.

While Herat offers the suitable weather and water condition for grape production, the farmers complained about the lack of cold storage facilities.

Farmers also urged the government to assist with provision of fertilizers and better water resources during water shortage seasons to enhance grape production in the province.

In the meantime, residents of Herat and cultural educators welcomed the exhibition and found it to be a great stride towards promoting Afghan products.

"Herat's local products are in dire need of marketing and such exhibitions are highly valuable for our producers," said Feriadoon Azhand, one of the province's cultural educators.

According to figures from Herat's agriculture department, about 8,000 hectares of land in the province grew grapes, of which almost 100,000 tons of grapes were cultivated.

A total of 1,500 kg of grapes were displayed at the festival. According to Herat's municipality, the displayed grapes would be distributed among prisoners and orphans in child care centers.

This year, about 45% of Herat's grapes were processed into raisins and the remaining of the fruit was sold as fresh fruit in the market.

### Afghan Finance Minister warns of economic crisis



In an exclusive interview with BBC News, Afghan Finance Minister Hazrat Omar Zakhilwal warned of a possible economic crisis to hit Afghanistan as a result of the election deadlock.

According to Zakhilwal, the political impasse has resulted in capital flight which amounts to almost USD 6bn.

He warned the government would be forced to downsize and reduce salaries of employees in case of an economic crisis.

"If [the succession crisis] goes into September and even beyond, then we could run into a situation where we would find it difficult to pay salaries," said Zakhilwal, who supports Presidential candidate Dr. Ashraf Ghani.

President Karzai called on the candidates to put an end to the monthslong standoff over election results and announced Sunday that a

new president must take office on 02 September.

This comes after the Finance Ministry had announced a 20% reduction in government revenues this year amid the delays in the election process.

### **Afghanistan's saffron export to Europe and Asia increases by 67%**



Export Promotion Agency of Afghanistan (EPAA) has reported a 67% increase in Afghanistan's saffron export to Europe and Asia.

According to Najla Habib, head of the EPAA, Afghanistan's saffron export has reached USD 1mn.

EPAA officials called on the government to support farmers and traders to boost saffron export by subsidizing saffron seeds and providing markets for the valuable spice.

Afghanistan's saffron is sold at around USD 1,400 to USD 2,000 per kilogram and there is a high demand for this product in the international market.

The Agriculture Development Department expects that 5,000 ton saffron will be harvested in 32 provinces of Afghanistan this year.

The spice is certainly a lucrative business to the farmers and given its ability to be grown in a dry environment, it may be a viable alternative for the poppy cultivation in the country.

The plant is drought resistant and only needs irrigation twice or three times a year, compared to poppy plants irrigated six times a year. Another advantage is that growing saffron is legal in Islam, unlike poppy that is prohibited.

It is normally cultivated in summer and collected in the last month of fall. It is used in making medicines, adding flavor to food, appetizers, and hot drinks and making perfume. It grows best in areas with light winter

weather and dry, hot summers.

Saffron is yet to emerge as a major alternative to poppy cultivation in Afghanistan due to the presence of international drug lords, who control the lucrative drug commerce.

## **Afghan government's treasury emptied due to protracted presidential elections**



The long-drawn-out election process has hit the Afghan government's treasury that is currently meeting budgetary needs only through day-to-day revenue collection.

Afghan Deputy Finance Minister Mustafa Mastoor said the government would be unable to pay public servant salaries if the situation persisted.

Finance Ministry officials have reported that the government has already used

up close to USD 500mn that was held in the treasury.

"The money we collect is spent on a daily basis. We have already spent USD 496mn that was held in the treasury in the beginning of the year, but we had to use it as we faced a budget deficit," said Mastoor.

The election process has cost the Afghan economy some USD 5bn with another USD 6bn gone to foreign countries.

While pessimism surrounding Afghanistan's economy is spreading across the country, some experts believe that western allies would stand by Afghanistan during such hard situations and extend a helping hand.

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