

Dr. Shah Mohammad Mehrabi

How To Avoid a Collapsing Economy and A Humanitarian Crisis in Afghanistan

This is the edited transcript of Dr. Shah Mohammad Mehrabi's presentation to Panel 2, "The Science of Physical Economy" of the Schiller Institute's November 13-14 conference, "All Moral Resources of Humanity Have To Be Called Up: Mankind Must Be the Immortal Species!" Dr. Mehrabi is a Member of the Board of Governors of the Da Afghanistan Bank (the Central Bank of Afghanistan), and Chairman of its Audit Committee. Subheads have been added.



Dr. Shah Mohammad Mehrabi

Good evening to our colleagues in Europe, and good afternoon to our listeners and participants in the United States. I'm very pleased to be here in this important role convening as an international community, pleading in trying to rescue Afghanistan from further collapse in its economy, which is now in a state of free-fall.

The Context

To set up the context of what I would like to talk about, I would like to briefly raise three issues.

First, what existed prior to August 15 in regard to the economy? I'm an economist, so most of my focus will be with regard to the economy. Now, I think a lot of people need to realize that economic conditions that existed prior to August 15 were deteriorating gradually, and substantially.

Of the factors responsible for bringing about this downturn, one was drought. A majority of the provinces were affected. I think it was 25 out of 34. That created quite a rough problem, because in Afghanistan, we don't really have irrigated systems, so we rely heavily on rainfall and snow. The impact of this drought was already felt by both rain-fed farming as well as the livestock. So, the agriculture sector had already contracted, and the limited irrigated farming that we have, had also experienced a substantially low growth rate.

Also, we had only a limited investment in irrigation rehabilitation. That also clearly was in a state of decline in food and agriculture production; what food processing production there was, also technically came to a full stop.

The severe drought and lack of confidence, and also lack of investment because of conflict, resulted in a negative growth for the economy. Depending on how you look at it, the projection, is anywhere between a negative 10% to 12%. Some

have projected that indeed it could go up to 30%—a negative growth of 30% could materialize if something is not done to the economy.

So, you are looking at this contraction, and the impact of that on the population: immense poverty, starvation, and famine. Afghanistan's economy relied heavily on donors' assistance. The government, during the 20 years that the United States was in Afghanistan, could not generate enough revenue to be able to pay its operating costs. Between 40 and 60% of the operating expense money came from the United States; and the rest of this came from customs and the revenue of income taxes and so on. So, you had a situation that the economy was not self-sufficient to begin with.

U.S. Exodus Deepens Crisis

Now, then you had this crisis of the massive exodus of the United States. As a result of that, the international community embarked on freezing Afghanistan's assets. Also, the IMF blocked Afghanistan's access to \$460 million in CRs (credit reserves). The World Bank stopped funding the projects and improvements in the health and education sectors, and the salaries for those people actually were stopped.

I had argued on August 16 or 17 in my writings

as well as in my interviews with Reuters, BBC, CNN, and Bloomberg, that unless the Central Bank of Afghanistan was allowed to access its own dollar reserves—this is not the taxpayers’ money of the United States, this is Afghanistan’s earned money, that belongs to the people of Afghanistan—I argued at that time that those should be released by the

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Federal Reserve Bank of New York. I argued that otherwise, based on the data that we had at our disposal, I projected that we would see a spiral of price increases, which we have. I said that there would be food shortages, which we have. I also said that the Afghan currency (the afghani) would depreciate, which it has; and that bank closures would come into being.

To some extent, we have been somewhat lucky, as there were some reserves left in our central bank. When the new regime came into power, as the Chairman of the Audit Committee of the Bank, I got my comptroller general to lock the vault and give an accounting of all the domestic currency as well as foreign reserves that we had, along with the gold. So, we had a good

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accounting of what existed, and then sealed the bank until the new regime came. Then we opened it, and we actually have a good accounting of everything that was in the vault prior to closure.

In that context, we had some cushion. However, that cushion is not going to last long to bring price stability. What happens here, is that the Central Bank of Afghanistan has limited monetary tools to be able to control prices. The instrument that has been used in the 20 years that I’ve been there—a very effective instrument—was to be able to auction off dollars in

order to accumulate afghanis to therefore reduce the impact on currency depreciation and bring stability in prices. That has given Afghanistan a very good record with regard to bringing down inflation to single-digit figures.

As a matter of fact, if one were to compare prices of goods in Afghanistan to Pakistan, Iran, and other neighboring countries, Afghanistan had a good record in achieving price stability. That has not continued, as I projected it would not continue.

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The afghani has depreciated; prices have gone up—food, fuel, shelter—the media constantly talk about that. It continues. The lack of dollars in the market has caused importers not to be able to pay for the basic necessities. That is why the regime restricted the amount of goods that could be imported because of lack of hard currency to pay for those particular imports.

Another safeguard is not allowing people to have as much access to their savings, because having too much access to savings would dwindle the limited amount of reserves that are there.

What Needs To Be Done

What needs to be done at this stage, is that we should—as I’ve also argued—allow this reserve to be released on a limited basis. As I have said here, and argued very effectively, I think, and has been carried out by most of the media as well, in the exact point that I said it has to be, is that we have to allow limited, monitored release of reserves to pay for essential imports, and to allow the central bank to engage in what I call an “auction process” to be able to control currency depreciation and to stabilize prices.

After all, inflation affects the poor people, it affects the children, it affects the women who need to feed their children, it affects everyone. So, why put a strangle-hold on the economy overall? Why not allow this dollar auction to prop up the value of the afghani? It could help with the needs of ordinary Afghans.

I suggested \$150 million—less than half of what we used to auction. You could monitor that. We have an international auditing firm, and on top of that, the auction is an electronic auction. It is very transparent; it is very easy to monitor. To top it off, you can get an international auditing firm [that] can give assurances and verify that indeed the money is used for that particular purpose.

The needs of the ordinary Afghans facing food insecurity would have to be the main target and focus point here. I've argued that political recognition should be delayed. Allow this process to go, get engaged with the Taliban as the United States is engaging with the Taliban on many other fronts. As a matter of fact, Qatar will now be representing the U.S. interests in Doha, and they are also engaged in the process of trying to get people out. The United States is trying to coordinate efforts to attack ISIS. If you can engage on all these other activities, why can't you engage in a process to make it easier to bring about economic security for the populace? I think this is an important point that I have talked about.

Afghanistan has a central bank that is independent. At least since the new regime has come into being, they have also brought in money that they collected from corrupt regime rulers of the past. As a matter of fact, they have brought about \$50 million into the central bank. If there was some motive that they had, at least it hasn't been shown yet. Also, they have collected about \$5.2 million from another source. Maybe that's not substantial, but nevertheless, it shows that indeed a building of trust could come into being by engaging with this particular entity. I think that's an important point.

The focus here [in the United States—ed.] is mostly only on humanitarian aid. I've argued that humanitarian aid is a noble cause; I think we need to pursue that. It is not a permanent solution. It is a short gap measure. The United States has invested 20 years with a lot of the taxpayers' money. Institutions were built. Why cripple these particular institutions? Channel these things to the structures that are in existence right now. Those structures have got talented people who have learned how to manage and run the institutions, and how to go ahead in the central bank to be able to contract monetary policy. I think it's a way that you can go ahead and establish that. This is important.

I have argued also for donor support in health and education programs. They were channeled through Afghan state structures, in particular, through what is called the World Bank Afghanistan Reconstruction Trust Fund (ARTF). Through that mechanism, a health and nutrition program was funded by ARTF through the World Bank. It was implemented through the Ministry of Health. That is a much better structure than dashing out money to individuals where it doesn't become permanent. So, building an institution was done to a great extent, so the Ministry of Public Health was able to cover 60% of the health funding, and so on. Those kinds of structures are there; let's go ahead and use them. Why not go ahead and use those for those particular situations?

Summary of Recommendations

I will now summarize some of the recommendations that I have had. One important point: The international community will have to get engaged in trying to release the reserves. The total is \$9.5 billion of which the United States has got \$7.1 billion; the rest is in Europe. I have also talked about the release of these funds from the German Commerzbank and Deutsche Bank. A reporter has contacted them, but they have not responded. I have given the exact amount of how many millions that the central bank [of Afghanistan—ed.] has in Deutsche Bank, and also in Commerzbank in Germany, as well as in London. All of that is clear, I don't want to cite those things again.

The international community has invested significantly in these [Afghan] institutions. I think they should continue to try, not to destroy those institutions but to build them. The release of the reserves to these areas will have to be done.

Engagement will have to take place. The cooperation of the regional group is very important and was brought up. As a matter of fact, the current regime decided that since they did not have adequate funds to pay for electricity from the North, from Uzbekistan, and so on, they signed an agreement with Iran to buy electricity.

Besides cooperation from the United States and Europe, regional cooperation is very critical to get the economy moving again. Europe and the United States have a vested interest in this, because otherwise, there will be massive refugees. It will affect the neighboring countries. It will affect Europe. They are all going to

go there, and Europe will bear a huge cost. Afghans go first to Turkey and then to Europe, and go to Iran and Pakistan as well. There will be a massive exodus of people. There are 35 million people that could lose their lives, and so on.

So, the important point, again, to finalize, there is a great urgency for action that is needed, *not only* to avert a humanitarian crisis, but action to be able to—

as I have argued—to bring stability for the economy overall, by reviewing the sanction regimes that have been devised, and come up with a conditional approach of the kind of the release of the reserves as I have suggested, so that those reserves can be given back to the Afghan people.

I will stop here and be happy to entertain any questions.

Iliad Alexander Terra

The Great Game Must Finally Come to an End

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Schiller Institute

Iliad Alexander Terra

The Council on Global Relations has been involved in Afghanistan for over two decades in the capacity of supporting the Afghan people. From our perspective, what is needed is a new narrative, a narrative that states that the winning formula is peace, and that this is what we need to engage in on the road from war to peace. This is fundamental, and the time for this is now. There is, from our perspective, no excuse and no justification not to enter in this space.

The current crisis that the Afghan people are facing is quite bleak. Not only has their economy collapsed, not only are they facing multiple threats from regional influences, but they also have failed infrastructure and an institutional lack of experience. And the list goes on. We've all heard stories about Afghan families selling their children so that they pay for food. This

is not acceptable; this is not normal in modern societies and the modern world community. We need to ask the question: Why is this happening?

To understand why we are at this point in the crossroads, we need to have a deeper memory, and look at the Afghan crisis in its historic context. Not just these past twenty years, not the past two months; not just these past forty years in which there have been constant wars and struggles in the country. But going back centuries, Afghanistan has been

the subject of the so-called Great Game, torn to shreds, divided, with repeated attempts to conquer Afghanistan by various stakeholders.

Why has this formula been in play, and in force? Obviously, Afghanistan's geopolitical location, its natural resources, and even its human capital of highly intelligent, capable, and—currently—tech-savvy population of youth. Why is it that this region has been decimated? Why is this country, and these people struggling in this way?

An honest and transparent investigation and exploration needs to be done on this and shared as a way to educate and inform policy, and inform solutions.