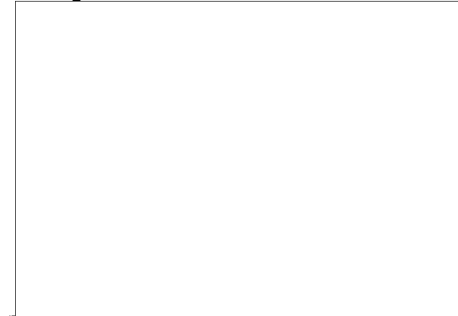




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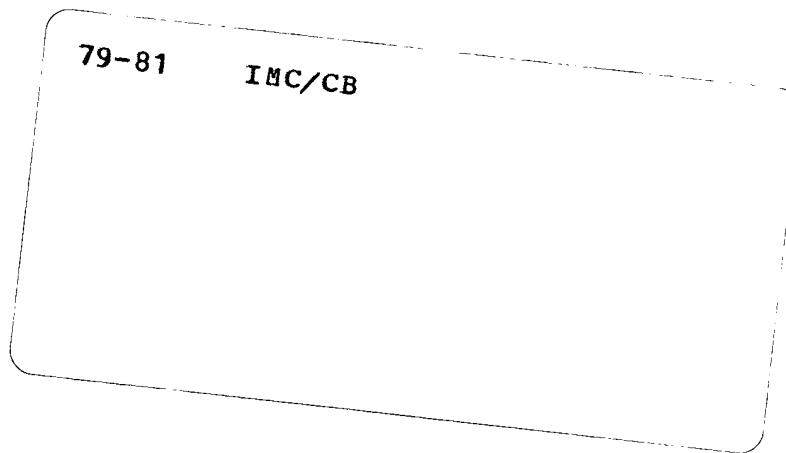
Afghanistan Situation Report



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29 April 1986

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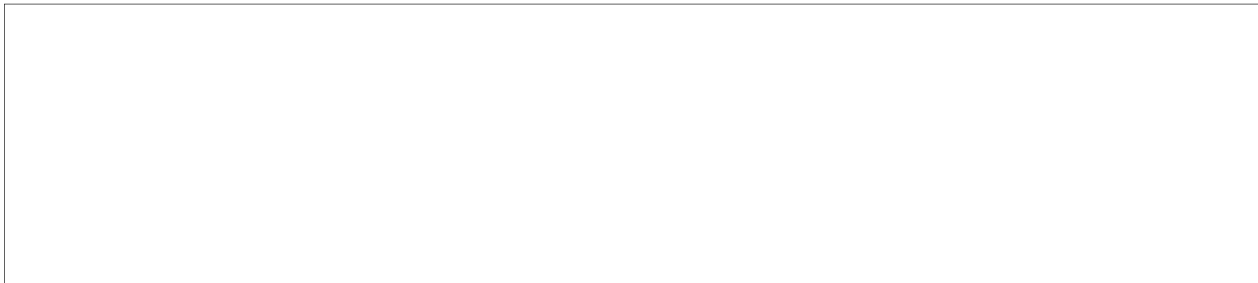
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AFGHANISTAN SITUATION REPORT



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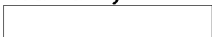
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TROPOSCATTER COMMUNICATIONS NETWORK ESTABLISHED



2 25X1

A troposcatter network, which will improve Afghan military and civilian communications, has been established since last fall. The system links Kabul, Jalalabad, and probably Mazar-e Sharif.



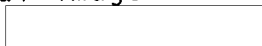
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KABUL GRANTS VISA TO THE RED CROSS



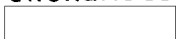
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The Kabul regime's decision to grant a permanent visa to a representative of the International Committee of the Red Cross probably is motivated by the government's desire to improve its international image before the peace talks resume in Geneva.



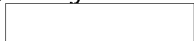
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INCREASED PAKISTANI OPTIMISM OVER RESISTANCE PROSPECTS



4 25X1

A recent public opinion poll conducted by the Pakistani Gallup organization indicates that urban Pakistanis are now more optimistic about the prospects of the Afghan resistance than they were in early 1980.



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IN BRIEF

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PERSPECTIVE

AFGHANISTAN'S FINANCIAL SECTOR: THE IMF VIEW



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The International Monetary Fund's annual report on the Afghan economy--the most exhaustive unclassified study on the subject--describes an economy which has largely stagnated since the Soviet invasion in 1979.



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PERSPECTIVE

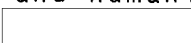
WESTERN EUROPE: NEW PROTESTS OVER AFGHANISTAN



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In recent months, several European governments and publics have expressed renewed concern over the Soviet occupation of Afghanistan. This reflects some dissatisfaction over bilateral issues as well as a reaction to the political and humanitarian implications of the invasion.

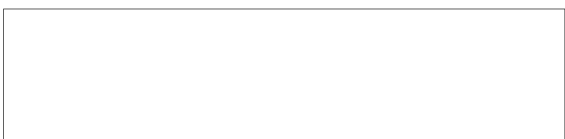


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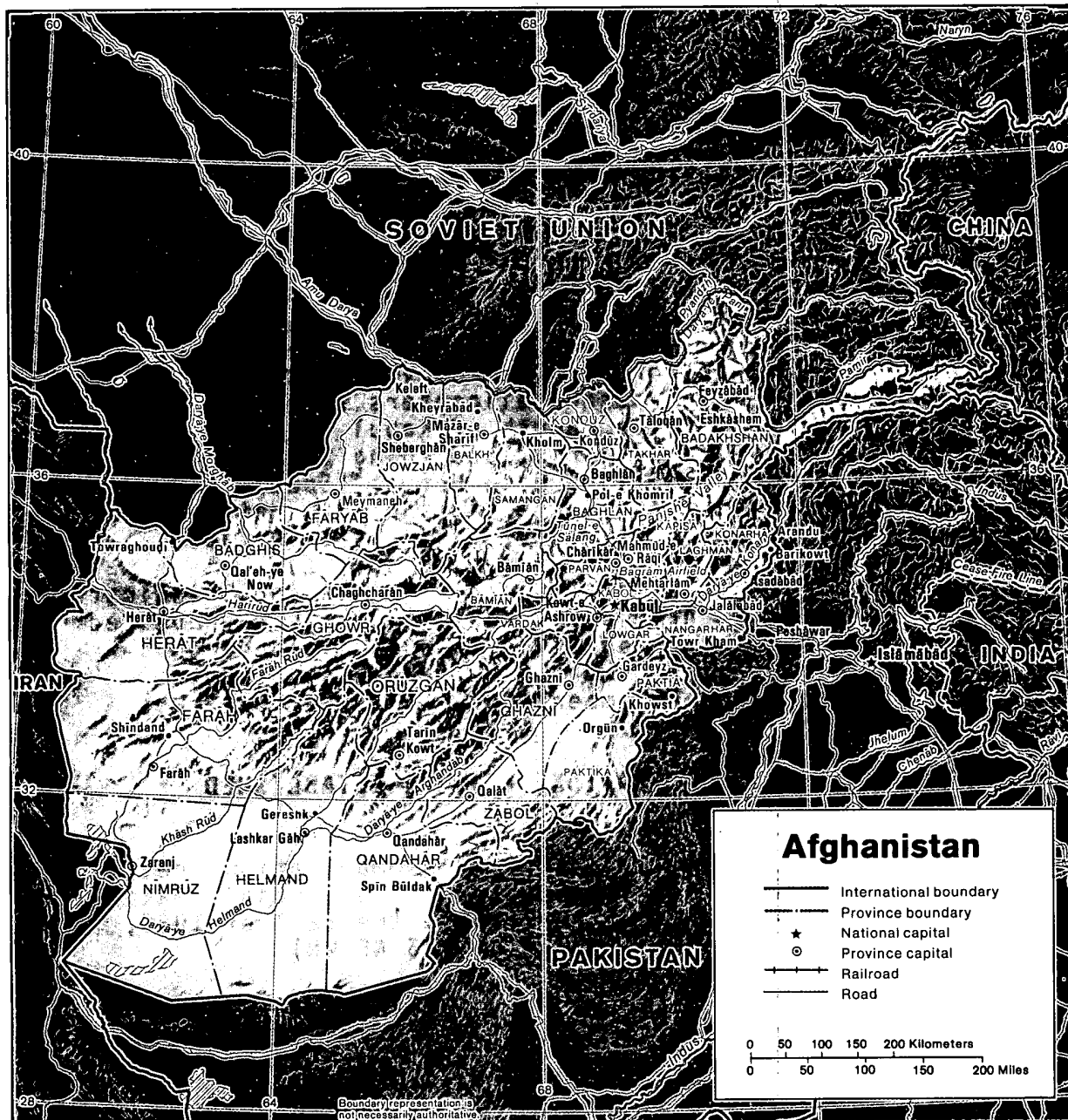
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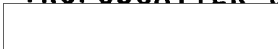


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TROPOSCATTER COMMUNICATIONS NETWORK ESTABLISHED



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An R-410 Twin Plate troposcatter communications relay network--linking Kabul, Jalalabad, and probably Mazar-e Sharif--has been established since the fall of 1985,

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Comment: The new troposcatter system has many advantages over the existing microwave systems, including increased range, greater resistance to jamming, and improved reliability.

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Although the system is primarily for military communications, it probably also supports civilian communications as well.

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KABUL GRANTS VISA TO RED CROSS 

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In mid-April, the Kabul regime granted a permanent visa to a delegate of the International Committee of the Red Cross (ICRC), 

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 It has tentatively agreed to allow the ICRC to provide medical supplies to hospitals in Kabul and to establish a center to provide artificial limbs and therapy to war victims. The regime has also agreed to allow the ICRC to visit insurgent prisoners held in Kabul. The ICRC has not been allowed to operate in Kabul since 1982. 

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Comment: Kabul's receptivity toward the ICRC probably is largely motivated by a desire to improve its image before the Geneva peace talks resume on 5 May. The regime probably believes that the move will help strengthen its claims to legitimacy. It may also hope that granting prisoner visitation rights to the ICRC will result in a reciprocal gesture by the insurgents. Resistance leaders, however, are unlikely to cooperate because of their resentment over Kabul's refusal to participate in ICRC-sponsored prisoner exchange deals in 1984. 

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INCREASED PAKISTANI OPTIMISM OVER RESISTANCE PROSPECTS 

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A recent public opinion poll conducted by the Pakistani Gallup organization in 100 selected towns and cities across Pakistan suggests more optimism among urban Pakistanis toward prospects of the Afghan resistance than existed shortly after the Soviet invasion in 1979. According to the poll, 50 percent of the respondents believed that the resistance will be successful, 10 percent predicted a Soviet victory, 18 percent expected a protracted struggle, and 22 percent did not answer the question. A similar poll in early 1980 indicated that 40 percent believed the resistance would be successful. The new survey also indicated that Pushtuns were less hopeful about the war's outcome, 36 percent predicted a resistance victory, and 28 percent expected a protracted struggle. In addition, the poll showed that 67 percent of the urban sample supported continued Pakistani aid and shelter to Afghan refugees. 

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Comment: The poll's results reflect the reality that the Afghan insurgents have been able to deny the Soviets a



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military victory after more than six years of fighting and the popular view that Islamabad's Afghan policy has worked. The more pessimistic response by Pushtuns, most of whom live in the Northwest-Frontier Province (NWFP) bordering on Afghanistan, may result from proximity to the war and the influx of Afghan refugees into the region. Another factor that may have influenced attitudes in the NWFP is a Soviet and Afghan regime sabotage campaign, which seeks to erode support for the insurgency in Afghanistan.

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IN BRIEF

-- [redacted] Soviet and Afghan regime forces in late March established an observation post on a mountain 35 km northwest of Qandahar. The post provides a panoramic view of major insurgent supply routes into Qandahar, Oruzgan, and Helmand Provinces. On 2 April, an insurgent convoy was spotted from the post and six insurgent supply trucks were captured.

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-- [redacted] in Wroclaw, Poland [redacted] leaflets were recently distributed in the city proclaiming May Day as a day of unity with the freedom fighters in Afghanistan. The leaflets were handed out during demonstrations encouraging "independent" May Day activities.

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-- [redacted] On 22 April, a Soviet MI-8 transport helicopter was shot down near Qandahar airfield while landing.

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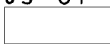
PERSPECTIVE

AFGHANISTAN'S FINANCIAL SECTOR: THE IMF VIEW



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The International Monetary Fund (IMF) recently issued its annual report on the Afghan economy. We believe that the report is the most exhaustive unclassified examination of the Afghan economy available. Our comments on certain parts of the report are contained in the final paragraph.



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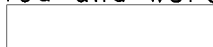
Government Finances

According to the IMF, spending by the Afghan Government has increased substantially during the past five years. Total expenditures increased by more than 77 percent--from Af 29.8 billion to Af 52.7 billion (\$590 million and \$1 billion respectively at official exchange rates)--between 1981 and 1985. Revenues increased little over the period--except those from natural gas exports--leading to progressively larger deficits. Currently, the budget deficit is roughly one-third of total expenditures. It is financed by foreign aid (primarily from the Soviet Union) and increasingly by borrowing from the domestic banking system.



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Defense expenditures--Af 7.9 billion (\$156 million) in 1985--have nearly doubled since 1981 and are currently about 15 percent of government expenditures, according to the IMF. Interest payments on foreign debt--primarily to the Soviet Union--have also increased sharply over the same period and were Af 1.1 billion (\$21.7 million) in 1985.



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Banking and Credit

The banking system in Afghanistan includes Da Afghanistan Bank (DAB)--which operates as a commercial bank and as the country's central bank--three commercial banks, and three specialized development banks. The commercial banks primarily finance foreign trade, while the development banks (the Agricultural Development Bank, the Industrial Development Bank, and



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the Mortgage and Construction Bank) have not been particularly active in recent years. Interest rates charged by the banks for loans are below the annual inflation rate and substantially below the rates in the bazaar. [redacted]

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As in many less-developed countries, a large part of Afghanistan's liquid assets are held outside the banking system. Only a small part of the population has dealings with official financial institutions. For the majority, bazaar merchants play an important role in the financing of domestic trade and other financial transactions. Bazaar dealers freely buy and sell foreign exchange and provide rapid clearing facilities through correspondents abroad. The magnitude of these transactions is unknown, but the bazaars provide a considerable amount of loans to the private sector. The authorities do not interfere in the activities of the money bazaar. [redacted]

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The External Sector

With a narrow export base and a heavy dependence on imports, Afghanistan has traditionally incurred sizable trade deficits. Remittances from Afghans working abroad, tourist income, and foreign aid receipts more than offset the trade deficits until the Soviet occupation, according to the IMF. The small deficit that first developed in 1982 increased rapidly in the following years, largely because of the slow growth in exports relative to imports and a decline in aid flows. [redacted]

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With the exception of a 43 percent increase in exports in 1981 caused almost entirely by a doubling of the price of natural gas, the value of exports rose only 12 percent during the subsequent four-year period. Moreover, the share of gas exports in the total went from 35 percent in 1981 to 49 percent in 1985, as foreign demand for dried and fresh fruits, cotton, wool, and Karakul skins declined. Efforts by the regime to increase exports by such measures as expanding into nontraditional markets and adjusting interest rates to increase the profitability of exports have not succeeded. [redacted]

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Imports provide most of Afghanistan's nonfood consumer

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goods, oil, and capital and intermediate goods. Although most food consumption is domestically produced, some wheat and sugar and all rice and tea are imported. With minor exceptions, there are no prohibitions or qualitative restrictions on imports. Other imports are financed through the purchase of foreign exchange in the bazaars. [redacted]

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According to the IMF, gross aid inflows reached a peak of Af 18 billion (\$355 million) in 1981, declined to an annual average of Af 12.8 billion (\$253 million) in the subsequent three years, and rose again to Af 14.8 billion (\$292 million) in 1985. The total foreign debt outstanding on 20 March 1985 amounted to Af 13.1 billion (\$2.6 million) in disbursed loans. About 80 percent of the total debt is owed to Council for Mutual Economic Assistance countries, which have provided most of Afghanistan's foreign aid since 1978. [redacted]

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Exchange and Trade System

The exchange market is operated by DAB, the commercial banks, and the dealers in the bazaars. Historically, a complex multiple exchange rate system has involved at different times, different exchange rates between DAB, the commercial banks, and the bazaar market, and different exchange rates for different transactions. The official exchange rate is Af 50.6 per US\$1, with the bazaar exchange rate substantially below this. Since August 1981, when this rate was established, a growing proportion of international trade has occurred with foreign exchange purchased on bazaar markets. Even public sector enterprises may purchase foreign exchange on bazaar markets for required imports. [redacted]

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Comment

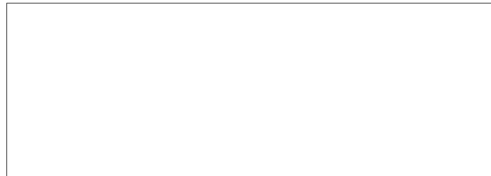
The IMF study presents the most comprehensive view of the Afghan economy available, but it has some shortcomings. One is its concentration on economic activity in official channels and exclusion of black market activities, which constitute a large part of economic activity in Afghanistan. [redacted]

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More importantly, the study relies exclusively on government statistics. Much of the data presented are consistent with other sources, but in one key instance,

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we have identified a substantial difference. The IMF reported defense expenditures as approximately Af 7.9 billion (\$156 million) in 1985. Because some defense expenditures appear in other accounts, such as general administration and public order, and extrabudgetary expenditures are excluded, we believe actual defense expenditures are on the order of Af 26.3 billion (\$520 million).



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PERSPECTIVE**WESTERN EUROPE: NEW PROTESTS OVER AFGHANISTAN** ([redacted])25X1
25X1

West European governments and publics in recent months have expressed renewed concern about the Soviet presence in Afghanistan. Although this activity may reflect dissatisfaction with the Soviet Union in general, we think it also signals skepticism about recent hints that Moscow may be softening its policy in anticipation of the resumption of the UN-sponsored talks on Afghanistan in Geneva next month. We also believe the Europeans are increasingly aware of the public relations value of the resistance's cause and may be displaying a willingness to assist in promoting it. [redacted]

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Afghan Resistance Leader Visits Great Britain

Prime Minister Thatcher and Foreign Secretary Howe extended an official welcome on 12 March to Afghan insurgent leader Abdul Haq. Howe assured Haq that Britain will press for the withdrawal of Soviet troops, although direct assistance to the guerrillas will be limited to humanitarian aid. In fact, recent US diplomatic reporting from London indicates that British officials are now pushing humanitarian aid as one means of both helping the insurgents and marketing their cause in world forums. Labor Party members of Parliament criticized the meeting as contrary to the principle of avoiding contact with political groups engaged in violent activities. Soviet officials in London also lodged complaints with the Thatcher government about holding consultations with a "known terrorist." [redacted]

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Petitions, Hearings, and Demonstrations

Elsewhere in Europe, the Italian Communist Youth Confederation (FGCI) unveiled a country-wide petition campaign against the Soviet presence in Afghanistan during a 5 March press conference. Within hours of the announcement, 50,000 signatures had been collected. The Confederation hopes to obtain 300,000 signatures

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[REDACTED] 25X1

within the next two months, which they will then deliver to the Soviet Embassy in Rome. [REDACTED] 25X1

A Norwegian committee, including leading personalities from the political, educational, and cultural communities, sponsored an international hearing from 14 to 16 March on Soviet war crimes in Afghanistan. Participants heard testimony from Afghan guerrilla leaders, a former Soviet soldier, and civilian war victims. The Counselor of the Soviet Embassy in Oslo delivered a formal protest to the Norwegian Government on 12 March, stating that the last such hearing--held in 1983--was an exercise in anti-Soviet propaganda. The US Embassy in Oslo reports the Soviets seemed particularly upset that a deserter from their own military would be testifying. [REDACTED] 25X1


The West German Bundestag foreign affairs committee and the entire Bundestag convened their own hearings on Afghanistan from 18 to 20 March. Again, witnesses to the conflict, including scientists, physicians, journalists, and Afghan guerrillas presented testimony. In addition, several Social Democratic Party parliamentarians who had visited Pakistan and Afghanistan from 9 to 15 March recounted their findings on the state of the resistance movement and the refugees. The Soviets assailed the Bundestag debates in both their own and the German media. Nonetheless, the normally divisive German political parties demonstrated surprising consensus in their attacks against Soviet human rights abuses. [REDACTED] 25X1

Thousands marched in the streets of Stockholm and across Sweden on 22 March to demand the immediate withdrawal of Soviet troops from Afghanistan. The rallies were sponsored by the Swedish Afghanistan Committee (SAC)--the organization through which most government aid to the resistance is channeled. More than 70 political, labor, and church groups participated, representing all major Swedish parties and ideologies, including the Communists. Along with Afghan guerrillas, the crowd of about 9,000 in Stockholm heard Foreign Minister Undersecretary Pierre Schori vehemently condemn the Soviets' "terrorist war." In addition, for the first time parliamentarians representing every party in the Riksdag--from conservative to Communist--became members of the SAC board. [REDACTED] 25X1


[REDACTED]

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Implications

In some cases, this renewed European concern over Afghanistan may reflect the dissatisfaction of individual governments over bilateral issues with the Soviets. This is especially true of the Swedes, who recently have stepped up criticism of the Soviet Union on several issues--the Raoul Wallenberg case and the treatment of Soviet Jews, as well as Afghanistan--probably in anticipation of Prime Minister Carlsson's trip to Moscow in April. Indeed, Swedish officials have reportedly encouraged speculation that all this tough talk is meant to show their government's unhappiness with Soviet intransigence on maritime boundary disputes and submarine incursions. 


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European governments, nevertheless, are concerned about the humanitarian and political implications of the Afghanistan conflict and are skeptical of recent conciliatory gestures from Moscow. Both publics and governments are squarely behind the cause of the resistance and would like to see a negotiated settlement to the conflict. However, the US Embassy in London reports that British officials believe the Soviets are quite capable of conducting a two-track policy: "Sovietizing" the country while working for a settlement in Geneva that meets Soviet terms. Reports indicate that Norwegian and West German officials concur with this interpretation of Soviet behavior. Furthermore, British officials are convinced that Moscow will not leave Kabul unless a "reliable" regime is firmly in power. Some individuals state that this very fact negates the possibility for a peaceful solution, as Afghan resentment now cuts so deeply that no pro-Soviet government could survive for long on its own. 

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Despite recent pro-Soviet presentations in the British media by spokesmen for the far left, we think most West Europeans see this as a public relations contest that the West could and should win. Although the West must deal with "compassion fatigue" and the difficulty reporters have in gaining access to the situation, Europeans are increasingly eager to have the resistance movement speak for itself. We believe recent activities indicate that European governments would be willing to provide venues for insurgent leaders to voice their cause and that such presentations would be well-received by European publics. 

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Previous West European concern that the resistance not be hurt by perceptions that Afghanistan is merely a staging ground for East-West conflict seems to have decreased, but these governments still warn that the guerrillas must not be too closely associated with the United States. For example, the Italian Government hesitated to support mention of Afghanistan in a coming UNICEF report on children in war for fear it would prompt a list of references identified with Soviet and US interests. These officials changed their minds only after being assured that many other countries were to be specifically cited in the report. Likewise, British officials have told US diplomats that the internationalization of aid financing is critical. These officials said that they sense a reluctance among Europeans to be associated with American efforts and they have indicated a willingness to take the lead in promoting the insurgents' cause, both in Europe and in the Third World. 

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