



 KCS Country Risk & Threat Advisory

KCS Group Europe
Risk & Threat Advisory Paper

Political Risk Advisory Briefing: Islamic Emirate of
Afghanistan
September 2021

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Country: Afghanistan
Population: 40 million
GDP 2021: \$20.46bn USD (estimated)

Afghanistan has a risk rating of 6.

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| 6 Very High | The assorted threats described in the report are almost certain to have a derogatory effect. |
| 5 High | The threats are extremely likely to negatively affect the business. |
| 4 Very Possible | There is a strong likelihood of problems arising in this country. |
| 3 Possible | There is a fair chance of problems arising in this country. |
| 2 Low | There is a low likelihood of any threats impacting business. |
| 1 Very Low | There are virtually no impediments to successful business in this country. |



Overview

With Afghanistan being taken over by the Taliban once more, and with the likely prospect that this will last longer than it did in 1996, almost all countries now are deciding what is to be done with Afghanistan and the Taliban. Seeing as the US is mainly responsible for the Taliban takeover, the world is looking at the Biden administration for them to pave the way for a new 'relationship' with the Islamic Emirate of Afghanistan.

Many Western nations are naturally refusing to acknowledge this new terrorist-run state and will, of course, not engage in diplomatic relations with the Taliban. However, possibly one of the most bizarre options being seriously suggested by the UK and US government is to have discussions with the Taliban and even do business with them. So, this paper will explore the risks, of which there are too many to count, that will come with Western firms doing business in Afghanistan.

Politics – the Taliban in power, again

If we are to assess what the political situation will be in Afghanistan now that it is under Taliban control, we only need to look back twenty years ago. In 1996, the Taliban imposed a strict interpretation of Sharia law. Most notably, this included the banning of almost all forms of culture and recreational activities. Women were banned from working, girls were forbidden to attend schools or universities, and were to be accompanied outside their households by male relatives. Women were practically banned from public life, denied access to health care, education, work and were not allowed to laugh in a manner they could be heard by others; those who violated these restrictions were punished.

In terms of upkeeping the law, the Taliban, without any real court or hearing, cut people's hands or arms off when accused of theft. Taliban hit squads from the infamous "Ministry for Promotion of Virtue and Prevention of Vice" surveyed the streets, conducting brutal and public beatings of citizens, and in some cases executions, when they saw what they considered as un-Islamic behaviour.

It seems now that nothing much has changed over the past 20 years. The Taliban has recently formed their interim government, which not only consists of men exclusively, but also contains many of the hardliners who were in power in the late 1990s. The interim Prime Minister is Mullah Hasan Akhund, the former deputy Prime Minister of Afghanistan in 1996 and the post

of Defence Secretary was given to Mullah Mohammad Yaqoob, the son of Taliban founder Mullah Mohammad Omar.

One of the most infamous appointments is Sirajuddin Haqqani, who is on the FBI's most wanted list with a \$10m USD bounty on his head. Haqqani was made Afghanistan's Interior Minister, which makes sense (from the perspective of the Taliban) as he heads the Haqqani network. The Haqqani network, a guerrilla insurgent group, is semi-autonomous from the Taliban. As Ministry of Interior handles law enforcement and civil order, it makes complete sense for the Haqqani and his network to run the ministry.

Couple these appointments with the fact that there are no women in a position of power, overtly shows that the Taliban have not reformed, and they show no signs of doing so. It is incredibly likely that Taliban rule now will be very similar to what it was twenty years ago, which does not bode well for most Afghans. It is no wonder why two million Afghans have already emigrated since Kabul fell.

Economy – I though opium was a perfume?

Many countries, human rights organisations and NGOs are worried about the future of the Afghan economy under the Taliban rule. Even before the Taliban takeover, Afghanistan's economy was in disarray. Being one of the poorest countries in the world, Afghan citizens were suffering from the rising prices of basic necessities like food, water, and fuel. Since 2001, Afghanistan's economy has been propped up by the US, foreign aid, and development assistance, which made up more than 42% of the country's GDP in 2020 and funded three-quarters of public expenditure.

That aid has been shrinking over recent years, and few private companies have been willing to invest in a state which has not had a break from war since the Soviet invasion of 1979. With the Taliban's return to power, the US, UK, International Monetary Fund (IMF), World Bank and EU have been among the donors who have already suspended the development funds they planned to give Afghanistan. They may continue to provide humanitarian aid through charities rather than giving it directly to the Taliban.

While funds from Western countries is likely to be minimal or cease all together, we can expect Afghanistan to receive funds and aid from other nations, who have a vested interest in the new regime. Over the years, Western nations accused countries, like Pakistan, Russia, Saudi

Arabia and Iran of giving financial aid to the Taliban. Naturally, these accusations have been denied. However, a significant portion of the Taliban's revenue is heavily suspected to come from private individuals in Pakistan, UAE, Qatar and the states mentioned above. While no exact amount can be proven, liberal estimates of these contributions total \$500m USD a year. Now that the Taliban are in control again, it can be expected that the money coming from the nations mentioned above is likely to discreetly increase now that funds from the West have now stopped. This most likely will not change Afghanistan's FDI levels, which is plummeting as Western nations are ceasing their investments and donations.

One of the main reasons why the Taliban have been able to fight the US military for so long is because they have been able to fund their fight continuously over the past two decades. The main source of income for the Taliban has been through the drug trade. Afghanistan is the world's largest producer of opium which is commonly refined to make heroin. It is estimated that the opium that is exported from Afghanistan has an annual value of \$1.5bn-\$3bn USD. The Taliban tax the opium being collected by farmers and from the laboratories that convert opium into heroin. Estimates of the Taliban income from the drug trade ranges from \$100m to \$400m USD. So, if countries and private businesses wish to do business in Afghanistan and with the Taliban, then one of the more lucrative avenues they can go down is the trading of opium. However, seeing as this is illegal in almost every country, opium trafficking does not seem like a sensible business decision.

Security and Terrorism – who would have thought a terrorist state would be unsafe?

It does not need to be repeated that a country governed by a terrorist group is unsafe to conduct business in, let alone travel there. Afghanistan was not exactly safe before the Taliban took control. For the past twenty years the country has been a warzone, with it consistently having the most terrorist attacks of any other country in the world. In 2019, there were 1,750 terrorist attacks in Afghanistan, which was one fifth of the world's terrorist attacks that year.

Suffice it to say, the security situation is showing no signs of improvement. Days after Kabul fell, there were three explosions at Kabul Airport, where thousands of Afghans were (and still are) waiting for an opportunity to be evacuated. The attack was believed to be carried out by ISIS, and at least 60 people have been killed, with many more injured. The Taliban will most likely turn Afghanistan into more of a hotbed of terrorism than it already was. More 'training camps' are popping up by the day and groups like ISIS and Al-Qaeda are setting up base in Afghanistan. Could Afghanistan become a state where we see a coalition of terrorist groups

forming? Potentially, but that is the concern of Western governments and intelligence agencies.

If the information above is not enough of a reason not to go near Afghanistan, the Foreign and Commonwealth Office (FCO) “*advises against all travel to Afghanistan,*” due to the “*ongoing and high threat of terrorist attack.*” That is putting it lightly. To do business in Afghanistan is simply unsafe and illogical.

Legal

The Taliban is governed by a strict interpretation of Sharia law. As mentioned above, the Taliban’s laws from 1996 to 2001 resembled puritan England under Oliver Cromwell, although much harsher and more barbaric. However, everyone can breathe a sigh of relief because the Taliban has changed, or so they say.

Once they declared victory, the Taliban reinstated Sharia law as the legal system of Afghanistan but have claimed that it will not be as strict as it was two decades earlier. One of the main ways in which they say it will be different is how women will be treated. Under the previous Taliban rule, women are not allowed to work or receive an education and were essentially barred from entering the public arena. However, this same treatment of women is already happening, despite the claims women will have a place in the Taliban’s Afghanistan. However, this claim is always “in the context of Sharia law”, but we know that context. The world saw what happened to women under the Taliban’s interpretation of Sharia law and we are seeing it yet again.

Social

There is little that the Afghan people can do now unfortunately. Without trying to sound too nihilistic, protesting against Taliban rule will not amount to much. Now that the US has jumped shipped and abandoned the Afghan people, there is little anyone can do to fight the Taliban without going to war with them. Protests will be met with violent suppression, activists and opposition leaders and figureheads will either be imprisoned or executed. As soon as the Taliban entered Kabul, they began looking for anyone who assisted the US or the previous Afghan government in anyway. The fate of those brave individuals and their families, if caught, is death. This is how the Taliban deal with opposition.

Human rights or lack thereof...

Where to start? The main concerns that almost everyone in the Western world and the citizens of Afghanistan have, are the human rights violations the Taliban has committed against women. To call it a violation is an understatement, how the Taliban see and treat women is downright savagery and nothing short of barbaric. As soon as the Taliban entered Kabul, professional women started to leave their jobs and young women burned diplomas out of fear of being killed for even daring to get an education. Despite what the Taliban say, they are not reformed, and they will not come through on their promises on allowing women in professional roles and getting an education. Anyone who believes this, is either painfully naïve or simply knows nothing about the Taliban. I doubt Malala Yousafzai believes the group has reformed.

The Taliban govern by Sharia law and have implemented this into Afghan law. For women this greatly reduces their rights. At the very worst Sharia law allows the killing of women (by stoning) if they commit adultery. Other, non-fatal laws, include men being allowed to strike and hit their wives if the wife disobeys the man and number of times, women's testimonies are half that of a man, women are allowed to inherit half that of their male relatives and that women cannot reveal their beauty beyond their family.

The very same politicians and governments that allowed Afghanistan to deteriorate so quickly are looking for the tiniest shred of an opportunity to salvage something from one of the greatest foreign policy omnishambles of the twenty first century. So, if the Taliban claim they are reformed and that they are more "progressive" and are open for cooperation, anyone of the foolish Western states who caused this calamity *cough, USA, cough*, will gladly seize this opportunity to ensure something was gained from America's longest war.

Western companies and governments are very much committed to providing equal opportunities for men and women in business and in society, pushing for a more egalitarian society. However, to even consider legitimising the Taliban government and doing business with them, demonstrates that this commitment to equality only applies to those women in the West. Naturally, no Western firm will consider doing business with the Taliban as that would be reputational suicide.

Summary

Not much thought is required would be required in the debate of whether to do business in Afghanistan and with the Taliban. It would be cataclysmic for a Western company to be seen

doing business with the Taliban from a reputational standpoint at home, as well as a safety one in-country. If any Western firm were to be seen conducting business with the Taliban, regardless of it being a recognised representation of the country or not, then there most likely be investigations into said firm by law enforcement, intelligence services, the media and activists. Being investigated for funding terrorism is naturally bad for business. It is unsafe to go any near Afghanistan at present.

The country and its citizens are going through a historic transition of power, whereby the new regime is in complete control of all aspects of government, society, and business. Disenfranchised groups, however, will not go quietly into the night. While the Taliban are in control now, those disenfranchised groups will prove to become a security issue for the new Afghan government. While America's war is over, the same can not be said for Afghanistan.

GREY AREA DYNAMICS

Over the years, KCS has made it their business to find workable solutions to impossible problems. To do this, KCS has sought to establish clearly the intelligence gap between perception and reality.

In today's market where terrorism, organised crime, cybercrime and government sponsored cyber espionage and war appear to confront us daily, we need reliable tools to identify the risks well in advance. It was for these reasons that KCS created and developed the analysis of risk by Grey Area Dynamics or GAD's, as they are often referred.

GADs are all the risks, weakness and threats that will, at one time or another, interfere, disrupt or at worst close down businesses. In the projects and work in which KCS have been involved in all over the world, it has been evident that the GAD's identified, can and do kill. This method of risk assessment and measurement goes well beyond standard due diligence and is a collective description of factors, which can be passive and non-passive, legal and illegal. Because GADs are difficult to quantify or assess from a purely economic viewpoint, these considerations do not normally feature in most credit ratings, investment and banking reports, which focus only on sovereign risk.

The main categories of Grey Area Dynamics usually encountered are:

Passive/Legal

- Language & Dialects
- Local Customs & Traditions
- Local Staff – motivation and training
- Tribalism and Integration
- Cultural & Local sentiment
- Regulations, Taxes and Duties
- Currency & Capital exposure – payment methods and banking practice
- Environmental Hazards
- Pressure Groups
- Media Relations

Non-Passive/Legal

- Industrial & Labour Relations

- Absence or effectiveness of Legal Safeguards
- Government Policy and Nationalisation
- Overt and disguised/beneficial ownership
- Bureaucracy and Local Government
- Public or Media hostility

Passive/Illegal

- Bribery & Corruption
- Vested Interests and Cronyism
- Patronage
- Product diversion
- Parallel Trading
- Hidden Barriers to entry

Non-Passive/Illegal

- Counterfeit & Fraud
- Pilferage
- Unfair Market Competition
- Product Piracy
- Ethics and Corporate Espionage
- Organised Crime
- Threats to physical assets
- Kidnap & Extortion
- Religious Extremism
- Terrorism
- Civil Unrest
- Product Contamination

For a risk assessment to be thorough, it must encompass the potential for a broad array of economic, political and business situations that might affect a business venture. Evaluations limited just to political issues or financial factors may be completely misleading.

The degree of severity of a risk portfolio will also depend on the origin of the investing entity; for example, European companies often face different risk profiles to American corporations considering the same investment opportunity.

Grey Area Dynamics pose a challenge of diagnosis¹. The key to avoiding problems before they occur, or solving them after they have begun to take a toll on performance, lies in their early identification and evaluation. Ignoring the impact of GAD's can be a costly business.

¹ KCS Group Europe won the European Service Provider of the Year, 1999-2000 at the European Risk Management Awards magazine International Risk Management for their work on GAD's. In 2004, the company won an award for Product of the Year from StrategicRisk.