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House of Karzai

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A bank run exposes more murky financial and political dealings

Kabul - PALM JUMEIRAH, the giant palm-shaped peninsula in the Persian Gulf, is famous for its luxury homes. In Kabul one frond is known as Little Afghanistan because so many of the country's political and business elite have set up there. Mahmoud Karzai, a brother of the Afghan president, Hamid Karzai, is a prominent figure there. Luckily for him, he had help paying for it. As with other luminaries, the bill was picked up by ordinary Afghans who put money into Kabul Bank, a scandal-wracked institution of which the brother is the third-biggest shareholder.

For years bank assets (of over \$1 billion at one point) have been spent as shareholders saw fit, often defying bank regulations designed to stop risky investments. Hundreds of millions went into Dubai properties then handed to shareholders and their friends (Mahmoud Karzai says he made a profit of at least \$800,000 after buying a villa in Dubai in 2007, using a loan from Kabul Bank). More went to loss-making firms, including an airline and a cement factory, run by shareholders and friends.

Most oddly, Mahmoud Karzai bought his 7% share of the bank with a \$5m loan that the bank itself provided. He is yet to repay it and does not view the arrangement as unusual. Some suggest that it was a ploy by the bank to buy political cover from the Karzai family. Others who have benefited include the brother of a Tajik warlord, Marshal Fahim, who happens also to be the country's vice-president.

The financial regulator, the Central Bank, insists that routine audits showed the bank was in rude health. But businessmen and some diplomats have for the past two years asked when the house of cards would tumble. Wobbles began in recent weeks, as its founder fought for control of the bank with another big shareholder (who was also chief executive). Both have now been forced from their positions by the Central Bank. The governor claimed there was no cause for alarm but his own staff suggested that Kabul Bank's terrible investments led to losses of some \$300m.

Depositors promptly rushed to withdraw their money. Some queued for days and were denied their cash, or were allowed a limit of \$10,000 for corporate accounts and \$300 for individuals. On September 8th, a week after the bank run began, police were still beating back anxious customers at the main Kabul branch.

The timing was terrible, ahead of Eid when Afghans need to withdraw enough money to celebrate the end of Ramadan. The exposure of the murky relationship between financiers and the Karzai family does nothing to ease the despair of policymakers in Washington who see Afghanistan's government as irredeemably corrupt and unwilling to do anything about it.

Of a total cash pile of around \$500m in the bank, at least half has been withdrawn. Mahmoud Karzai appealed for an American bail-out, which was promptly turned down. Instead the Afghan government said it would give the bank whatever it needed from its own reserves. But that is controversial, too. Abdullah Abdullah, the opposition leader, asks why public money should be used to rescue a bank part-owned by the president's brother and which also contributed millions of dollars to Hamid Karzai's re-election campaign.

The answer is that the bank, though tiny, is too important to fail. Its collapse would shatter whatever confidence remains in the financial system, starving Afghanistan of what little private investment capital is available. It would also enrage almost a quarter of a million armed customers—the soldiers and police who get their salaries through the bank.

American officials have pushed for its near nationalisation, the purging of managers and a thorough inquiry into what went wrong. Such a probe would embarrass the government, which is why officials are resisting one. However, some welcome steps have been taken, including a freeze on properties in Afghanistan bought by shareholders with loans from the bank. But although Kabul's municipality has been told to block sales of any such houses, no similar step has been taken in the United Arab Emirates where much of the depositors' savings are tied up, beside the glittering beaches of Palm Jumeirah.