Bloomberg

Afghans Start to Take the Money and Run

By Eltaf Najafizada

07/13/2012

Afghan central bank inspector Fahim Satari stands in Kabul International Airport in front of a local businessman headed for Dubai, counting by hand the stack of $100 bills police found the passenger carrying to the gate. Satari declares the cash to be under the $20,000 per passenger limit imposed to stem the flood of money leaving through the terminal. In the year to March, $4.6 billion fled via the airport, a sum equal to almost one-quarter of the country's gross domestic product. The year before, $2.3 billion in cash left via the airport.

The lost billions are undercutting U.S. efforts to stabilize the country as it prepares to withdraw its troops by 2014. "The money leaving the country shows that Afghans fear the war will escalate after NATO troops leave," says Saifuddin Saihoon, an economics professor at Kabul University.

Omar Zakhilwal, President Hamid Karzai's finance minister, said on June 28 at an investment summit for Afghanistan held in New Delhi that the airport curbs were meant to force people to use easy-to-monitor banks when moving money abroad. Yet only 7 percent of Afghans have bank accounts. And they have another option. Inside a scruffy three-story building guarded by police in central Kabul, the hawaladars of Sarai Shahzada market, an eight-decade-old institution based on trust and a deeply ingrained emphasis on honor, are busy at work.

When approached to transfer funds overseas, a hawaladar typically accepts the cash, then calls a counterpart in Dubai, Pakistan, or Iran, where an equal amount is handed in person to the intended recipient. Transfers can be completed in minutes. Debts between brokers are settled later.

"Since the airport restrictions came in, more people are demanding our services," says Najeeb Ullah Akhtary, the president of the currency-exchange union, which counts the hawaladars as members. In February and March, the hawala business was up 10 percent, with one transfer of $700,000. The hawala networks flourish in Afghanistan, where the reputation of formal banks was savaged by the 2010 Kabul Bank scandal: The lender's politically connected owners lost more than $900 million of depositors' money through insider loans. "People don't trust banks very much, and the banks can't send money as quickly as we do," Akhtary says.

Inspector Satari's decision to monitor cash-toting travelers at Afghanistan's biggest international terminal was triggered by a spike in capital flight in the latest fiscal year. Just $800 million in capital arrived at the airport, vs. the $4.6 billion that passengers carried out, says Mustafa Maqsudi, chief of the bank's financial intelligence unit.

The capital flight stems from the increasing insecurity across Afghanistan. A June 22 raid by the Taliban on a luxury hotel near Kabul killed 18 people. More than 3,000 civilians died in attacks in 2011, and a further 579 were killed through April, according to a May 31 Congressional Research Service report. The U.S.-led International Security Assistance Force in Afghanistan reported on June 26 that Taliban strikes rose 21 percent in May from the same month a year earlier.

Reflecting the uncertainty that awaits Afghanistan, prices of Kabul's best properties have declined by 25 to 30 percent. A year ago, "a luxury residential building could have been sold for $1 million in Wazir Akbar Khan," a Kabul neighborhood of villas rented by many foreign companies, aid groups, and embassies, says property dealer Naser Behzad. "But now we can't sell them for $800,000."

In Dubai, long a refuge for wealthy Afghans fleeing the war, the prices of villa developments are rising, helping the desert sheikhdom emerge from a three-year property slump. "Virtually all of the money that is being invested in the United Arab Emirates property market from Afghanistan is going into 100-percent-cash transactions," says Jean-Luc Desbois, founder of the Home Matters mortgage consultancy in Dubai. "There are still significant numbers of Afghan property purchases going on." From January through May, Home Matters alone fielded 14 inquiries from Afghan buyers.

Clients are mostly affluent and are buying multiple properties costing between 3 million dirhams ($817,000) and 6 million dirhams in locations such as Palm Jumeirah, a man-made archipelago shaped like a palm tree. "Many Afghans with significant assets are concerned about what will happen once they fully govern themselves," says Desbois.

The U.S. has prodded Afghanistan to better control cash flows that may be linked to corruption as well as the drug trade, which accounts for 15 percent of the economy, according to a United Nations survey. Hawaladars in Kandahar city, the birthplace of the Taliban, and in opium-producing Helmand province may handle $1 billion in drug money a year, according to a U.S. Bureau of International Narcotics and Law Enforcement Affairs report.

Over the past three years, the central bank has built its first-ever hawala registry, requiring the brokers to submit monthly reports. Maqsudi, the bank intelligence official, says the greater transparency has reduced the laundering of opium money. Akhtary, the currency union chief for the hawaladars, says he's concerned that the money he helps move out of Afghanistan might undermine the economy. "But transferring cash abroad is a better option than losing it after 2014."

The bottom line: As the pullout date for U.S. troops approaches, wealthy Afghans are developing an exit strategy that involves moving their cash abroad.