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Iranian Currency Traders Find a Haven in Afghanistan

By Annie Lowrey and Matthew Rosenberg

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KABUL - With American and European sanctions spurring a currency crisis in Iran, officials say a growing number of Iranians are packing trucks with devalued rials and heading to the freewheeling currency market next door in American-occupied Afghanistan, to trade for dollars.



The rial has lost more than half its value against the dollar, and cross-border bank transfers and currency exchanges have become difficult, as sanctions have slashed Iran's vital oil revenue and cut the country off from international financial markets. Iranian businesses and individuals are desperate to avoid further losses, by converting their money and moving it out for safekeeping. At the same time, the government is trying to find alternate ways to bring in hard currency.

Enter Afghanistan, where dollars function as a second national currency after years of Western spending and where financial oversight is so lax that billions of dollars in cash leave the country every year. Though Afghan and Western officials say they cannot put a precise figure on the trade with Iran, they see it as a potential challenge to the sanctions, and one that the United States, as Afghanistan's main benefactor, helped create.

The Iranians are "in essence using our own money, and they're getting around what we're trying to enforce," one American official said.

It is a new iteration of an enduring problem in Afghanistan, where Western officials are already struggling to quell a storm of corruption that has undercut the war effort. In the years since the invasion, the country has become a smuggler's dream, with a booming opium economy and pervasive government graft that is widely believed to be a factor in funneling Western aid money to the Taliban.

On its own, the rush of Iranian money to Afghanistan is unlikely to be enough to undercut the sanctions, which are the cornerstone of Western efforts to coerce Iran into abandoning its nuclear program. But it is clear that American officials are worried. In one indication, President Obama last month quietly strengthened the sanctions by giving the Treasury Department the capacity to punish any person who buys dollars or precious metals, like gold, on behalf of the Iranian government.

"We are taking steps to make it more difficult for the government of Iran to satisfy its heightened demand for dollars — and making it clear to anyone who provides dollars to the government that they face sanctions," said David S. Cohen, the Treasury Department under secretary for terrorism and financial intelligence.

Afghan money traders said they were told this month by American officials to not conduct business with Arian Bank, an Afghan bank owned by a pair of Iranian banks. The Treasury Department has maintained sanctions against the Afghan and Iranian banks in the past few years, and the traders said they had been recently told that the Afghan bank was being used by the Iranian government to move cash in and out of Afghanistan.

Western and Afghan officials, as well as traders in Afghan money markets, said that a number of Iranians had started seeking to buy dollars and euros with their rials as American and European sanctions tightened over the past year.

The purchases are part of efforts by wealthy and middle-class Iranians to protect their savings and business profits by moving them offshore. But with legitimate transfers out of Iran virtually

impossible because of the sanctions, Iranians are instead converting their rials in Afghanistan, and then moving the money to banks in the Persian Gulf and beyond.

“The middle class is in a panic about what to do right now,” said Djavad Salehi-Isfahani, an economist at Virginia Tech and an expert on Iran’s economy.

More troublingly, in the eyes of Western officials, the Iranian government is seeking to bolster its reserves of dollars, euros and precious metals to stabilize its exchange rates and ensure that it can pay for imports. Iran had about \$110 billion in foreign currency and precious metal reserves in 2011, and those are believed to be dwindling now.

Afghan traders have proved more than willing to trade dollars for rials, usable as a currency in many parts of western Afghanistan, at advantageous exchange rates.

Hajji Najeeb Ullah Akhtary, the president of Afghanistan’s Money Exchange Union, an association of traditional money transfer and exchange businesses that are known as hawalas, said he and his members had seen a steady increase in Iranians bringing cash into Afghanistan over the past year. That comes on top of routine transfers made by Afghans living and working in Iran, including more than one million impoverished refugees, and the regular supply of rials that circulates in Afghanistan.

The cash “comes across in trucks,” he said, with transfers arranged by Afghan middlemen who take a 5 to 7 percent commission.

Iranians were converting rials into dollars in Kabul, the western border city of Herat and in the southern cities of Kandahar and Ghazni, Mr. Akhtary said. The transactions were largely conducted through hawalas, which allow people to transfer large sums of money for small fees to relatives or business associates in distant locales within minutes. The dealers in various places cover one another to make the system work, and settle up after the fact.

The markets are often ramshackle affairs that give little hint of the vast sums being moved. Kabul’s hawala market, for instance, is little more than a few dingy lanes hidden away on the banks of the Kabul River, a trickle of fetid water that winds along trash-strewn banks. But it does huge business. Outside its storefronts, men sit on the pavement behind rickety tables piled high with afghanis, Pakistani rupees, American dollars and Iranian rials, among other currencies.

One hawala dealer, Hajji Ahmed Shah Hakimi, said two routes were primarily used to bring cash in from Iran: one directly across the border with Iran and another through Pakistan.

Both he and Mr. Akhtary insisted that they were not involved in smuggling cash for Iranians or anyone else, but that other hawala traders were.

Mr. Hakimi said the sanctions on Iran were seen in Afghanistan as an American issue, and that is why some Afghans had no problem smuggling money for Iranians. Some Afghan officials echoed that view, saying the Iranian money flow was not a top concern, though the broader problem of bulk cash smuggling was.

The flow of cash in and out of Afghanistan goes largely unmonitored and unimpeded, a “country-sized” money-laundering operation, said a European forensic auditor who has tracked financial crime in Afghanistan and spoke on the condition of anonymity.

In 2011, an estimated \$4.6 billion, a sum equivalent to roughly a third of Afghanistan’s gross domestic product, was stuffed into suitcases, shrink-wrapped onto pallets or packed into boxes and flown out of Kabul’s airport on commercial airline flights, most of them headed for Dubai, United Arab Emirates, according to the central bank.

Though new rules and better enforcement have begun to cut into the cash flying out of Kabul, it is anyone’s guess how much moved out of Afghanistan overland on trucks or on twice-weekly flights to Dubai from Kandahar in southern Afghanistan, said an Afghan official who tracks suspicious financial transactions and spoke on the condition of anonymity.

“Kandahar?” he said. “We have no idea what is going there.”