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afgazad@gmail.com

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Reuters

Insight: Afghans seek shelter in Dubai ahead of pullout

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Not long ago, [Mohammed Daoud](#) was making good money hiring out halls for wedding parties thrown by a new class of Afghan war entrepreneurs.

Today, he is using some of the profits to buy a \$160,000 apartment nestled amid the skyscrapers and shopping malls of [Dubai](#).

Daoud sees his 27th-floor bolt-hole as both a canny investment and the ultimate insurance policy against the darkest scenarios he can envisage for his homeland when the bulk of foreign forces leave.

"Nobody knows what's going to happen after 2014," he told Reuters in [Kabul](#). "If something happens with the security situation here, I can take my family. We feel safe in Dubai."

Wealthy Afghans have sharply increased the pace of investment in property in the Gulf Emirate, motivated by a mix of hard-headed commercial calculations and more nebulous security fears sparked by the drawdown.

AFGHAN SHOPPING SPREES

Afghan buyers spent 220 million dirhams (\$60.7 million) on property in Dubai in the first six months of this year, a 27 percent increase compared with the same period in 2011, according to

Dubai government data obtained by Reuters. Some are spending up to 20 million dirhams on shopping sprees for multiple villas, while many buy million-dollar homes in cash, dealers say.

The growth outpaced a 21 percent rise in total property transactions in Dubai by both local and foreign investors in the same period. The interest was driven in part by a steep decline in prices in the Emirate's once white-hot property market.

The figures will make troubling reading for Western allies struggling to convince an uneasy Afghan population the transition will not be a prelude to international abandonment or an escalation in fighting with the Taliban.

Haji Obaidullah Sader Khail, chairman of the Afghan-Dubai Business Council, said the true scale of Afghan investment could be four times higher than the data suggests because many transactions may not have been registered.

"I know people who have bought 15 to 20 villas," he said.

According to the official figures, the number of properties Afghans bought in Dubai jumped to 114 in the first half compared to 76 in the same period in 2011.

BILLIONS IN SUITCASES

Reports from real estate agents that Afghans routinely buy luxury homes in cash will do little to ease concerns that some of the billions of dollars the United States and its allies spend to bankroll the government and security forces is seeping abroad.

[Afghanistan's](#) central bank says that Afghans carried \$4.5 billion in cash from Kabul airport last year in declared currency exports, double the amount in 2010. The bank estimates that the total amount of cash leaving Afghanistan each year could be as much as \$8 billion -- almost twice the size of last year's budget.

The exodus of money is even larger than the \$6.37 billion in net official development assistance Afghanistan received in 2010 -- 45 percent of gross domestic product -- making it one of the world's most aid-dependent countries.

The central bank imposed new rules limiting the amount of cash an individual can take out of the country to \$20,000 in March, but officials say cash is finding alternative paths, such as the poorly-supervised airport in Kandahar in the south.

"People are still taking physical cash from Afghanistan," deputy central bank governor Khan Afzal Hadawal told Reuters. "We are working on a mechanism to ensure the money is channeled through the banking sector."

While much of the outflow may represent the proceeds of regional currency trading or licit commerce in a cash-based economy, Afghan and Western officials believe a share is derived from government corruption, the theft of aid or heroin trafficking.

"With the U.S. pulling out of Afghanistan a feeling of insecurity is setting in," said Parvees Gafur, chief executive of Dubai-based Propsquare Real Estate. "They want to invest before it's too late."

"TRADERS ARE LIKE BIRDS"

The legacy of the West's adventure in Afghanistan will not depend solely on the fight against the Taliban; if growth stalls it may be harder for the state to consolidate its authority as most foreign troops return home.

The flood of cash leaving Kabul airport in boxes and suitcases has stoked fears that entrenched graft and persistent capital flight will make it harder to put a booming but fragile war economy on a more sustainable path.

A U.S. government audit report last year found it was almost impossible to track where much of the billions of dollars spent on security and development projects in the last decade had gone given the country's weak financial tracking system and poor bank oversight. Afghanistan ranks near the bottom of Transparency International's 2011 Corruption Perceptions Index.

Afghanistan's power elite has long cherished second, third or fourth homes in Dubai as footholds in a land of designer boutiques and safe neighborhoods less than a three-hour flight from the more unpredictable streets of Kabul.

Since the United States ousted the Taliban in 2001, lucrative and often badly-supervised contracting opportunities offered by NATO forces or civilian agencies have spawned a new breed of oligarchs who boast ostentatious addresses. With international forces scaling back, growth is sure to slow.

"Spending from the U.S. and international community is going to decrease," said Ajmal Saifi, chief executive of Prestige Real Estate in Dubai, part of an Afghan family-run conglomerate that includes construction and retail interests in Afghanistan.

UNCERTAINTY AFTER KARZAI

Uncertainty about who will replace [President Hamid Karzai](#), due to step down in 2014, has compounded investor anxieties in a patronage-driven economy where fortunes are won or lost as the political landscape shifts.

Under pressure from aid donors, Karzai has ordered ministries to take steps to fight corruption and told the Supreme Court to accelerate investigations into long-standing graft cases.

Although few believe his call will have much impact, the announcements have caused jitters among Afghan plutocrats.

Western countries have pledged durable support to the Afghan government, keen to allay fears of a replay of the slow-motion collapse and civil war that followed the Soviet withdrawal in 1989.

But Afghan investors are wary of risking their savings to build factories or farm projects that could help reduce Afghanistan's chronic dependence on foreign aid while the country is in flux.

"The traders are like birds, always looking for greener and more suitable places. But now they are flying from Afghanistan," said Khan Jan Alokozai, one of Afghanistan's most prominent traders and Vice-Chairman of the country's chamber of commerce.

"They all fear that if the government starts to crack down on corruption, they will lose all they have earned. So it's a good time to take out as much as they can," he said.

"ALWAYS CASH BUYS"

Buyers jetting in from Kabul are mainly purchasing property worth between three million dirhams (\$816,800) and four million dirhams (\$1.09 million), according to Gafur, the dealer.

Some have found their dream home in the Palm Jumeirah, a frond-shaped development of luxury seafront villas whose vista of passing yachts cuts a stark contrast with the panorama of tawny hills encircling Kabul.

Others have sought an abode in up-market developments with names like Emirates Living and Business Bay and in the needle-shaped Burj Khalifa, the world's tallest building.

In spite of the sums involved, Afghans often prefer to pay cash to avoid the higher fees and greater scrutiny required to move money through the banking system, dealers say.

"They are always on cash buys," said Said Quaid Abbas, managing partner at Mideast Properties, a Dubai-based [real estate](#) firm, which counts some Afghans among its clientele. "They don't deal through banks."

BARGAIN HUNTING

Security concerns have motivated many Afghan house-hunters to buy in Dubai, but some are primarily looking for bargains.

Dubai real estate prices slumped by more than 60 percent from their peak in 2008 after the global economic crisis triggered a collapse in the Emirate's property market.

Prices have started to recover. The total value of real estate transactions in Dubai topped 63 billion dirhams (\$17.2 billion) in the first half of 2012, a 21 percent increase over the same period in the previous year, according to the data.

Foreign investors bought 22 billion dirhams of the total, buying 12,875 properties.

Indians, Pakistanis and Britons were the top three investors in Dubai real estate, followed by Iranians, Russians and Saudis. The government only ranks the top ten most active buyers by nationality and Afghans do not figure on that list.

Middle Eastern investors seeking a haven from the turmoil of the Arab Spring are also snapping up houses, estate agents say.

In Afghanistan, a sharp slowdown in the property market has encouraged investment in Dubai.

Haji Shir Shah Ahmadzai, managing director of a real estate company in Kabul, said property prices in Afghanistan had fallen by about 35 to 50 per cent in the past year. "The only people who are selling properties are people who need money fast," he said.

BANK SCANDAL

The propensity of rich Afghans to acquire assets in Dubai fell under the spotlight after a run at Kabul Bank, the country's biggest private lender, in 2010.

Dubai villas account for about \$160 million of some \$900 million in assets auditors are trying to recover from the collapsed bank, which extended unsecured loans to a roster of well-connected individuals, according to a former senior Afghan official.

In June, the Afghan government told the International Monetary Fund that it had managed to retrieve properties in Dubai worth an estimated \$44 million.

Afghans' faith in their financial system has yet to recover from the Kabul Bank scandal. It is a measure of the lack of confidence in the Afghani that some 70 per cent of deposits in Afghan banks are held in dollars, according to central bank officials.

Not everyone is gloomy. "We can't expect some John, or Matt, or others to build our country ... we have to do it and lead ourselves," said Ajmal Saifi, whose family business continues to invest in Afghanistan.

In Kabul, Daoud's laborers toil at the concrete skeleton of a new hall he is building in the belief that the top tier of Afghan society still has many more wedding parties ahead. He rests a little easier in the knowledge that there are at least six flights a day to his second home in Dubai.