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Political Ties Shielded Bank in Afghanistan

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In early 2009, as President [Hamid Karzai](#) scanned the landscape for potential partners to run in his re-election bid, he was approached from an unusual corner: a bank.

The president's brother, Mahmoud, and another Afghan businessman, Haseen Fahim, were shareholders in Kabul Bank, one of the freewheeling financial institutions that had sprung up over the past decade since the [Taliban's](#) fall.

According to Afghan officials and businessmen in Kabul, Mahmoud Karzai and Mr. Fahim recommended Mr. Fahim's brother, Gen. [Muhammad Qasim Fahim](#), to become the president's running mate.

President Karzai agreed, and in a stroke co-opted his ethnic Tajik opposition and placated an old political foe with a checkered record on human rights and corruption. After the deal, Kabul Bank poured millions into Mr. Karzai's re-election campaign, Afghan officials said. Mahmoud Karzai and Haseen Fahim, drawing on Kabul Bank's resources, were able to enrich their families aided by tens of millions of dollars in loans.

Now, Kabul Bank sits at the center of a financial crisis that has exposed the shadowy workings of the country's business and political elite, and how such connections shielded

the bank from scrutiny. The panic surrounding Kabul Bank is threatening to pull down the Afghan banking system and has drawn in the United States. And it is driving a wedge between the Fahims and the Karzais, the two Afghan political families that benefited most. Now, the financial-familial arrangement is teetering on the edge of collapse.

“The brothers orchestrated the political deal to serve their business interests,” said a prominent Afghan businessman in Kabul who, like virtually everyone interviewed for this article, spoke only on condition of anonymity. “Fahim became vice president, and the bank financed Karzai’s re-election.

“In Kabul, politics is all about money,” he said. “It’s the same thing.”

In an interview, Mahmoud Karzai confirmed that he and Haseen Fahim tried to persuade President Karzai and General Fahim to reunite as running mates, but that there were many other Afghans who did as well.

Mahmoud Karzai said his backing of General Fahim had nothing to do with the fact that he and the future vice president’s brother were business partners.

“Yes, I recommended him,” Mr. Karzai said of General Fahim. “He is a sober man, and he is very brave.”

Haseen Fahim, reached by telephone in Germany, where General Fahim is undergoing medical treatment, declined to comment for this article. A spokesman for President Karzai did not answer requests for comment.

The troubles surrounding Kabul Bank, which Afghan and American officials have been struggling to contain, threaten to strain the Karzai-Fahim alliance. As President Karzai considers measures to support Kabul Bank, and possibly use public funds to bail it out, he must consider the possibility that doing so will open him to accusations of political favoritism.

“There is pressure on Vice President Fahim to bail out the bank because he does not want to lose his brother’s investments,” said an Afghan political leader in Kabul who opposes President Karzai. “If the president does this, it’s proof that his government is corrupt.”

Muhammad Qasim Fahim — also known as Marshal Fahim — was an unlikely candidate to become President Karzai’s running mate in 2009. He was best known as one of the senior military commanders of [Ahmed Shah Massoud](#), the legendary anti-Taliban

commander who was killed by assassins from [Al Qaeda](#) in 2001. With Mr. Massoud's death, General Fahim stepped to the fore.

As the Taliban were being routed from Kabul in 2001, General Fahim was chosen by a gathering of Afghan leaders in Bonn, Germany, to be President Karzai's vice president and defense minister. But the relationship was tense at best, Afghan political leaders in Kabul say, because the two men were so different. President Karzai, an educated ethnic Pashtun, had virtually no military experience. General Fahim was a Tajik warlord with little formal schooling.

The two men also had a past. In the early 1990s, during the tumultuous years of the Afghan civil war, Hamid Karzai was arrested and detained by the Afghan intelligence service — then being run by General Fahim. Mr. Karzai was released, but only after a rocket struck the jail where he was being held.

General Fahim is also suspected of involvement in serious human rights violations during the 1990s, according to several advocacy groups. In particular, he was a key commander during the Ashfar massacre in 1992 in Kabul, when an estimated 800 ethnic Hazaras were killed and raped.

In 2004, as Hamid Karzai prepared to run for president, he dropped General Fahim from his ticket, at the urging of Western allies troubled by his past. General Fahim was devastated by the move, Afghan political figures say.

Over the next several years, during President Karzai's first term, Kabul Bank emerged as one of the country's principal private financial institutions, with Haseen Fahim as a major shareholder. Initially, Mahmoud Karzai, the president's brother, had no stake in the bank.

That changed at least three years ago, when the bank's leaders, including Haseen Fahim, decided to lend Mahmoud Karzai at least \$5 million in order to enable him to take an ownership stake in the bank. In the interview, Mr. Karzai said he thought there was nothing unusual about being lent such a large sum of money by a bank to buy shares in that bank. He said it had nothing to do with the fact that his brother was the president.

"This is the case for everyone who is a partner in the bank," he said.

Mr. Karzai said that his 500 shares of bank stock — equaling about 7 percent of all the company shares — had paid no dividends to date. All of the bank's profits have stayed in the bank, he said.

Another Afghan political figure, speaking on condition of anonymity, said the bank's directors gave Mahmoud Karzai shares in Kabul Bank to gain the protection of the president.

“In [Afghanistan](#), you cannot become a successful business if you are not linked to the political caste,” said the Afghan political leader, who spoke on condition of anonymity. “The only way to get contracts and protection is to have support in the political system, and that is the reason why these two guys were able to get shares in Kabul Bank. They gave Mahmoud a loan of \$5 million. That was political survivalism. They knew they needed a Karzai.”

Mahmoud Karzai has profited directly from his relationship with Kabul Bank. He and Haseen Fahim were part of a group of investors who borrowed \$14 million from Kabul Bank to start Afghan Cement.

In the interview, Mr. Karzai confirmed this transaction.

In 2007, Mr. Karzai took out a loan from the bank to buy a villa on the exclusive island resort of Palm Jumeria in the United Arab Emirates for \$1.9 million, according to a report in *The National*, a leading newspaper there. Eight months later, he sold the villa for \$2.7 million, for a profit of \$800,000.

In an interview, Mr. Karzai said he repaid the loan in full.

For his part, Haseen Fahim has taken out \$92 million in loans for various projects, Afghan banking officials say. The officials say those loans have not been repaid.

In the interview, Mr. Karzai said that neither he nor Mr. Fahim had any say in where Kabul Bank invested. Those decisions, he said, were made exclusively by the bank's two largest shareholders, Sher Khan Farnood and Khalilullah Frozi. According to Afghan bank regulators and American officials, the bank made risky investments, including ones in the Dubai real estate market that collapsed in 2008, as well as questionable loans that skirted collateral and deposit requirements. These troubles helped precipitate the recent collapse.

“We were silent partners,” Mr. Karzai said.

Mr. Farnood declined to comment, and Mr. Frozi could not be reached for comment.

A former Afghan official, who knows both Mahmoud Karzai and Haseen Fahim, said the two men began pushing General Fahim as a vice-presidential choice in meetings with the president.

“Mahmoud brought the message from Karzai to Fahim, and a couple of meetings took place,” the former Afghan official said. “In every meeting, Karzai said, ‘It was a big mistake, and I want to make it up to you.’ And these meetings were facilitated by the brothers.”

The former Afghan official said both men regarded it as important for the bank to secure a political ally in the presidential palace.

“The issue is how to protect the business,” the former Afghan official said. “And the two brothers cannot only have protection for their businesses, but they can flourish and they did flourish afterwards.”

According to Afghan officials, Kabul Bank’s dealings went astray sometime after that. The bank recently posted losses of at least \$300 million, prompting officials at the Central Bank to remove Mr. Farnood and Mr. Frozi as its top executives. The assets of the bank’s major shareholders, including Mahmoud Karzai’s, have been frozen.

“From one side, Kabul Bank looked like a success story,” the former Afghan official said. “But you see deep flaws in it that were covered because of the political allies at the top.”