

\$75 million transited through KIA bound for Dubai in one day during the month of July. The primary currencies identified at the airport for these three months include (in declining order): Saudi riyals, Euros, U.S. dollars, and UAE dirhams. Some Pakistani rupees and British pounds were also declared, but in much smaller amounts. Comparatively, in 2008, approximately \$600 million was declared at KIA and another 100 million Euros and 80 million British pounds were declared bound for Dubai, according to available reports compiled by the Central Bank's Financial Intelligence Unit. According to our sources, established couriers primarily use Pamir Airlines, which is owned by Kabul Bank and influential Afghans such as Mahmood Karzar and Mohammad Fahim who is President Hamid Karzai's current vice-presidential running mate.

One Factor: Election Unease

3. (S) In an October 7 meeting, Afghan Central Bank Governor Abdul Qadeer Fitrat stressed there are no indications of significant capital flight. He pointed to a stable exchange rate and increasing assets in the formal financial system as supporting his perspective. Fitrat also mentioned that the formal banking system is well capitalized and the regulatory capital ratio of all banking institutions is above the minimum threshold (12 percent of risk-weighted assets.) Nevertheless, Fitrat did note the Central Bank was aware roughly \$600 million had left Afghanistan's banking system before the elections, due, he said, taintly as to the outcome of the election and the prospects for the new government. Fitrat could not say what percentage of this money actually left the country. (Note: Nor are there statistics showing how much was withdrawn or transferred through the more informal hawala network. End note.) As of October 7, more than \$200 million has returned to the banking sector according to Fitrat. The Central Bank Governor restated this figure in an October 13 meeting between Fitrat and the Coordinating Director for Development and Economic Affairs (ref B).

4. (C) Separately, and in the same timeframe as the meeting with Fitrat, CEOs from several leading banks approached the Treasury Attache with concerns over significant cash withdrawals and wire transfers to other accounts in Dubai and Europe. In separate meetings October 12, several bankers reported deposits are growing and appeared positive about future prospects. However, the various bankers noted widespread uncertainty about the ongoing election process and overall security situation will likely continue to spook Afghanistan's existing and potential investors, and as a result, undermine growth. One experienced banker flatly said no legitimate business person would keep significant sums of money in Afghanistan right now given the overwhelming risks of doing so.

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Illicit Versus Licit

5. (C) Taking capital out of Afghanistan (physically through cash or value or by using wire transfer) is not illegal, as long as it is declared. For example, formal financial flows (e.g., wire

transfers) over \$10,000 are recorded by banks and submitted to the Central Bank's Financial Intelligence Unit for analysis. All 17 licensed banks submit these reports on a monthly basis. Similarly, cash couriers transiting KIA or crossing the land border must declare carried cash if it exceeds \$20,000. This regulation is better enforced at KIA than along Afghanistan's porous borders, which further complicates full-understanding of this already complex problem-set.

6. (S) While it is impossible to know for sure at this point, our sense is the money leaving Afghanistan is likely a combination of illicit and licit proceeds. Drug traffickers, corrupt officials, and to a large extent licit business owners do not benefit from keeping millions of dollars in Afghanistan and instead are motivated (due to risk and return-on-investment) to move value into accounts and investments outside of Afghanistan. For example, the United Arab Emirates government revealed, as part of an ongoing Drug Enforcement Administration/Afghan Threat Finance Cell investigation, that it had stopped Afghan Vice-President Ahmad Zia Masood entering the country with \$52 million earlier this year -- a significant amount he was ultimately allowed to keep without revealing the money's origin or destination. Moreover, Sher Khan Farnood, the Chairman of Kabul Bank, reportedly owns 39 properties on the Palm Jumeirah in Dubai and has other financial interests spread widely beyond Afghanistan. (Note: Many other notable private individuals and public officials maintain assets (primarily property) outside Afghanistan, suggesting these individuals are extracting as much wealth as possible while conditions permit. End note.)

Comment

7. (S) The sense among Mission elements is that significant volumes of cash leave Afghanistan through wire transfers, the hawala network and physically through the airport. We do not know, however, whether this money is generated within Afghanistan or brought in from other countries such as Pakistan for transfer (Pakistan strictly enforces currency controls, making smuggling through KIA an attractive option.) We also do not know the ratio of licit and illicit monies leaving the country (with the former more likely to return at some point.) Given Afghanistan's general political uncertainty, lack of credible and safe investment opportunities, and unsettled election, we are inclined to believe several individuals moved more money than normal out of the Afghan banking sector and country as a measure of protection before the elections. We will continue to monitor and engage on the issue here. However, input from Washington agencies as well as from other missions in the region will be key in developing a clearer understanding of the composition, size, and directions of these cash flows. End comment.

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