



Written by [Bob Adelman](#) on September 6, 2010

Will the U.S. Bail Out Kabul Bank?

The bank run at Afghanistan's largest bank, Kabul Bank, was precipitated by the takeover of the bank by Da Afghanistan Bank, the country's central bank, last week. By Friday nearly all of its currency reserves and most of its capital had been withdrawn by nervous customers, with no end in sight.

Afghanistan President Hamid Karzai [blamed](#) the run on the bad press the bank had been getting in the United States ever since a major article about corruption at the bank appeared in the *Washington Post* in February. Last Thursday, the second day of the run on the bank, Karzai said, "The Western press is ... printing out our decision [to take over the bank] in a negative way and in a provocative way. It's sad to hear that. It's unfortunate." Abdul Qadir Fitrat, the country's central bank governor, also claimed that the money-laundering and other allegations were "wrong and baseless."



Attempts to deflect the cause of the run appeared to be failing as the run continued through the end of the week. The *Washington Post's* February article detailed at great length the corruption and self-dealing that involved the now ex-president of the bank, Sherkhan Farnood, and former chief executive officer Khalilullah Ferozi, along with Karzai's brother Mahmood, coincidentally the third-largest stockholder in the bank.

For instance, Farnood defended his taking of more than \$160 million from the bank to buy properties in Dubai for his friends by saying, "What I'm doing is not proper ... but this is Afghanistan." He put the properties in his own personal name because "these people don't want to reveal their names." When pressed for details about the loans, Raja Gopalakrishnan, the bank's chief audit officer, said the monies didn't come directly from Kabul Bank, but instead came from "affiliated entities" controlled by Farnood. He admitted, however, that Farnood "thinks [his bank] is one big pot."

And Farnood's friends think it's just friends doing business with friends. Ahmad Zia Massoud, Afghanistan's first vice president from 2004 until last November, purchased a villa on Palm Jumeirah in Dubai for \$2.3 million and put it in his wife's name, but later transferred it to Farnood. He then claimed that Farnood had always been the owner, but had let his family use it rent-free because Farnood is "my close friend. We have played football together. We have played chess together."

The value of the properties in Dubai are now worth considerably less than the original \$160 million, which has put the bank into a bind, with the run taking it to the edge of insolvency. On Monday, August 30, the bank claimed \$1.3 billion in deposits, with \$1 billion in liabilities, including \$500 million in cash



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reserves. On Wednesday, \$90 million was withdrawn, followed by another \$90 million on Thursday. [Said Ferozi](#), “If this goes on, we won’t survive. If people lose trust in the banks, there will be a revolution in the financial system.”

Central bank governor Fitrat disagreed: “The bank is solvent. Kabul Bank is one of the most important banks of Afghanistan, and the Central Bank and the Afghan government will by no means let Kabul Bank be affected.”

Afghan Finance Minister Omar Zakhilwal tried to assure the bank’s customers as well, saying that fears that the run on the bank will spark a “crisis” are overblown: “We are 100 per cent sure that Kabul Bank is safe. I, as finance minister, am giving you my guarantee that your money is safe — if it’s one Afghani, one dollar, one euro, up to millions ... Kabul Bank is not in danger.”

And the Afghanistan Banks Association issued its own assurances as well, with a notable disclaimer: “The government of Afghanistan guarantees that every penny that they have deposited will be paid back to them if they request it, *but* what we are requesting of the Afghan people is not to rush because rush is not good for them, and it’s not good for the banking system. We guarantee the money.” (Emphasis added.)

One of the branches of Kabul Bank ran out of dollars in the first hour of the run, while limits on withdrawals were placed on customers elsewhere in the Kabul Bank’s branches. One of the customers trying to withdraw his funds said, “I’m nervous and I hope to get my money soon. It’s a big concern for us. Nobody is telling the truth here. We only heard that the bank is corrupted.”

All of this puts the government itself in a bind as its revenues are barely \$1 billion a year, and most of that comes from the U.S. government. And that puts the Obama administration in a bind.

Seeking to “help Afghanistan develop a modern economy,” says the [New York Times](#), the Obama administration has invested more than \$40 billion in the country, along with hundreds of lives of American soldiers. But with increasing pushback from the American people about previous bank bailouts of GNMA, FHLMC, AIG, and others, as well as resistance against the war itself, the administration is running the risk of further alienation, especially in an election year. But the problem with the Kabul Bank is that it is the bank that processes the paychecks for the government contractors to the occupation forces as well as Afghan security forces. Failure of the bank would jeopardize further the administration’s efforts to shore up the credibility of the Afghan government which has itself been awash in a sea of corruption (including \$14 million of Kabul Bank money which was used to back Karzai’s election campaign).

Of course, the U.S. government is officially denying any effort to support the Kabul Bank, aside from sending a “team of advisors” to provide “technical assistance” to the Afghan government in the matter. Said Tommy Vietor, a White House spokesman, “We are taking no steps to bail out Kabul Bank. We support the Afghan Central Bank’s efforts to uphold international standards of transparency and its decisive action in response to reports of fraud at the Kabul Bank.”

Such utterances of non-involvement except in an advisory capacity are farcical but are brought into question more vividly when Mahmood Karzai, brother of the President, and stockholder in the threatened bank, said “America could support Kabul Bank to the last penny, of course that would help. The full faith and credit of the U.S. government behind Kabul Bank — what more do you want?”

The *Wall Street Journal*, in a candid assessment last Friday, [asked](#): “Why shouldn’t the Kabul Bank expect a bailout? Washington provided \$700 billion to rescue U.S. financial institutions in 2008. The



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FDIC has estimated it could cost an additional \$100 billion to cover the costs of banks that have failed since the global financial crisis.... Afghanistan, which is receiving billions in ... military assistance from ... the US ... is arguably a ward [of the US government]. What's a few more billion to back up a failing Afghan bank?"

In his farewell address, President George Washington had the answer:

The great rule of conduct for us in regard to foreign nations is, in extending our commercial relations to have with them as little political connection as possible. So far as we have already formed engagements let them be fulfilled with perfect good faith. Here let us stop.

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