

FORTUNE

Making money in Afghanistan: Still risky business

Five years after the war, Kabul is showing signs of economic life. But making money in Afghanistan is still risky business.

By: Eric Ellis

October 2006 - It has been half a decade since the U.S. went to war in Afghanistan to oust the Taliban, and the place finally appears to be getting down to business. On Jalalabad Road outside Kabul, where bandits once marauded with impunity, a sparkling \$25 million Coca-Cola bottling plant has appeared. The central bank, its vaults looted by Mullah Omar in 2001, has been rebuilt and boasts \$2 billion in foreign reserves. And across a dusty downtown square, the Aga Khan has built Afghanistan's first five-star hotel.

"Our annual per capita income has gone from \$180 [in 2001] to \$355 today," says President Hamid Karzai. "If you asked me, Has the country succeeded in terms of economic recovery? I would say yes, massively. Afghanistan is reflowering."

But appearances - and statistics - can be deceptive. The most significant reflowering has taken place north of Kabul, where narco-barons are once again cultivating poppies, making the heroin trade Afghanistan's biggest industry, accounting for about a third of the nation's economy. Meanwhile, the Taliban has regrouped in the southern part of the country, which is engulfed in a war that NATO generals describe as "more intense than Iraq." Violence has become so bad that rebuilding projects have been halted and foreign aid workers are too scared to venture outside their compounds. Even the rebuilt highway connecting Kabul and Kandahar, touted as Washington's biggest reconstruction success, has been blocked by hostilities.

The litany of problems goes on. Although \$12 billion in foreign aid has been injected into Afghanistan's economy, the national power grid isn't operating. The Aga Khan's \$30 million Hotel Serena has a 30 percent occupancy rate, even after rates were slashed in half. The new Coke plant, employing 350 Afghans in an economy where few sustainable jobs have been created beyond the aid sector, competes for customers with cheaper untaxed beverages smuggled in from Pakistan. (Its president, Dubai-based Habib Gulzar, also complains that bureaucrats demanded testing of Coke's syrup - the secret formula on which the company's global business is based - before granting a license.) And the central bank governor, Noorullah Delawari, who returned in 2002 after 30 years running banks in California, is fighting a rear-guard action against enemies within his own government.

"Certain people," he says, "see the cash pile we have built here as very attractive."

Growing pains or burgeoning corruption?

Karzai, seated in a wood-paneled office in Kabul's Arg Palace behind seven rings of heavily armed security guards, dismisses such setbacks as "teething problems." But he knows he's in a struggle to retain Washington's confidence and convince Afghans he's up to the job.

"We don't have much time," the 49-year-old leader says. "I'm in a hurry. I want to be a rich country very soon. I want to have all the roads paved. I want to have electricity. That's what I should be delivering to the Afghan people as the leader of this country ... and that is what I did not realize when I started."

It may be too late. With his fluent English and chic traditional garb, the urbane Karzai enjoyed a five-year honeymoon, feted in Western capitals as the man to unify a fractured country, a symbol of hope for war-weary Afghans. But the Karzai gloss has tarnished as real progress proves elusive. Far from moving forward, Afghanistan seems to be reverting to the murderous enmities and intrigues that have plagued its history and led to 9/11. U.S. Secretary of State Condoleezza Rice warned last month that Afghanistan again teeters on the brink of becoming a failed state.

Karzai's administration is beset and embittered, his cabinet divided between returnee technocrats with capability but little authority and warlords lacking the capacity to govern, each side suspicious of the other. "We have not been able to gain quick capacity of our own in the ministries, in the managerial jobs," he acknowledges.

The result is sclerosis. A World Bank official derides some ministers in Karzai's dysfunctional cabinet as a "waste of space" and says he is wary of the corruption that is crippling the government. "There is corruption in the whole system," Karzai admits. "In the ministries, the NGOs, the donors' implementation of projects, in all spheres of the Afghan recovery."

Governing warlords

Meanwhile, powerful Afghans who once supported Karzai now plot against him, telling Washington that the man they backed to lead Afghanistan's transition from war to nationhood can't deliver prosperity or secure peace. "It's time for Karzai to take off his robes and do some work at home," one frustrated Afghan businessman, who asked not to be identified, told *Fortune* as Karzai visited the White House last month. "The best way to maintain foreign support and his own credibility is for him to perform within this country and not before the Washington media."

The limits of Karzai's power are on display at Ariana, the flagship airline. The carrier has long been one of the few cash cows in government ownership. But Afghanistan's long years as a pariah state starved Ariana of skills, parts and management, turning the carrier into a deathtrap. After liberation the airline was hijacked by warlords as the spoils of victory. Ariana pilots tell alarming stories of midnight gun- and drug-running, their

services demanded at gunpoint. Flights were rarely logged, and the airline didn't produce financial statements for years. "Ariana has been one of the most corrupt institutions in a very corrupt country," Ariana president **Dr. Mohammed Nadir Atash** told *Fortune* in June.

Karzai made reform at Ariana a priority. He wanted to prove that government can be clean and that he could break the grip of clan leaders. Atash, a U.S. returnee, was brought in as chief executive, Baltimore lawyer Enayatulla Qasimi was appointed Transport Minister, and Karzai approved a \$5 million contract to hire a German consulting firm to shadow management.

For a while it seemed progress was being made. Ariana flights started leaving on time, new planes were ordered, Kabul's airport was cleaned of smugglers, and there were even sale talks with carriers like Indian Airlines and Emirates. But the warlords, denied their spoils, weren't happy. Qasimi says "dark interests" lobbied to remove him as minister, succeeding when Karzai replaced him in April. Two returnee executives spent last year in jail without charges being filed. And the Germans banked their fees and went home with little achieved.

Last month Atash resigned. Both he and Qasimi have left the country. Today it's not clear who's running the airline, or the airport. Karzai seems embarrassed by the saga. "It's very sad," he says. "That is a case of Afghan capacity - and the absence of that capacity being misused by outsiders."

Still, despite the tribulations, Afghans like central banker Delawari remain convinced the nation can make it. "Whether I will be alive or not, I firmly believe this wave of violence will finish," Delawari says. "We have to work together. We have to find a way to end this."