

RELEASE IN FULL

**From:** Mills, Cheryl D <MillsCD@state.gov>  
**Sent:** Tuesday, March 15, 2011 12:39 PM  
**To:** H  
**Cc:** Sullivan, Jacob J; Reines, Philippe I  
**Subject:** FW: U.S. advisers saw early signs of trouble at Afghan Bank

FYI

**From:** Darcy, Shannon M  
**Sent:** Tuesday, March 15, 2011 11:21 AM  
**To:** RCH\_Comms  
**Subject:** WP: U.S. advisers saw early signs of trouble at Afghan Bank

Article just came out – published an hour ago.

**WP: U.S. advisers saw early signs of trouble at Afghan Bank**  
 By Ernesto Londono and Rajiv Chandrasekaran  
 Tuesday, March 15, 10:06 AM

KABUL — U.S. officials have suspended the contract of an auditing team advising the Afghan Central Bank for failing to disclose early signs of widespread corruption at the country's largest private bank before its revelation last fall triggered a destabilizing crisis.

An inspector general probe commissioned by the Kabul chief of the U.S. Agency for International Development, which paid the advisers, suggests consultants employed by accounting firm Deloitte could have alerted U.S. officials about a pattern of fraudulent loans and cronyism at Kabul Bank before the scandal broke.

The crisis prompted a run on the bank last September and exposed the rotten underworld of a sector that had been hailed as one of America's few success stories in Afghanistan. It also has jeopardized billions of dollars in international aid earmarked for Afghanistan by nations that want to be assured corrupt officials won't steal their money. The investigation provides the first indication that American officials could have taken steps to mitigate the fallout of the banking crisis.

A senior U.S. official familiar with the preliminary findings of the investigation, which has not been made public, called it "damning," for the team of Deloitte accountants assigned to advise executives at Afghanistan's Central Bank. The government-run bank regulates all private banks and sets monetary policy.

The case highlights a dilemma faced by hundreds of U.S.-paid advisors working for the Afghan government: there are no clear rules dictating what type of information they need to report to the U.S. government.

"Some of the Deloitte guys saw signals of corruption and fraud but didn't tell" USAID, said the senior U.S. official, who spoke on condition of anonymity to discuss a politically sensitive issue. The official said the report concluded that American officials "should have known" about the problems at the bank.

Jonathan Gandal, a spokesman for Deloitte, did not say whether the firm's experts saw early signs of the looming crisis, and if so, whom they reported them to.

"We were not Kabul Bank's independent auditor," he said in a statement. "Our services did not include supervising or conducting bank examinations at Kabul Bank prior to Kabul Bank being put in conservatorship in September 2010."

Michele Schimpp, USAID's deputy director for Afghanistan and Pakistan affairs, said the agency cancelled Deloitte's Central Bank contract on Monday.

“We’ve terminated this part of the Deloitte contract and we intend to make sure all of our technical assistance is as effective as possible,” she said.

Facing increasing reluctance from international donors, the Afghan government has agreed to commission a sweeping forensic audit for Kabul Bank and Azizi Bank, the country’s second largest.

Afghan and U.S. officials fear that examination, if conducted thoroughly, could reveal that a far larger number of politically connected Afghans have received loans they have used to gamble on risky investments.

That finding could further roil the cash-strapped nation’s banking system at a time when the international community is trying to demonstrate that Afghanistan is ready to take on more responsibility for security and governance.

President Hamid Karzai ordered the Central Bank to assume control of Kabul Bank last September after he learned that some of the bank’s shareholders, including one of Karzai’s brothers, had taken out loans that were not backed by collateral. The loans were used to invest in luxury real estate projects in Dubai and other dubious ventures.

Kabul Bank officials and western diplomats have said that as much as \$900 million in loans — nearly the equivalent of the Afghan government’s yearly revenue — remains unaccounted for. Afghan and Western officials fear only a fraction of that money might be recovered.

The crisis prompted the International Monetary Fund to suspend its program in Afghanistan. Many donor countries are leery of, if not forbidden from, providing aid to a country where the IMF does not provide a modicum of oversight.

“The Kabul Bank issue is a very serious one,” Staffan de Mistura, the United Nations envoy in Kabul said in a recent interview. “It touches on the concept of accountability that is crucial for the future of investment in Afghanistan. There is a need for the U.S. Congress and parliaments in Europe and other donor countries to be able to feel reassured that when they contribute to Afghanistan, their money is not going to be used in a wrong way.”

Mark Dillen, a spokesman for USAID in Kabul, would not discuss details of the investigation because it has not been concluded. He said, however, that the United States never sought an oversight role over Afghanistan’s banking sector.

“The U.S. does not, and indeed should not, have an operational role in supervising Afghan banks,” Dillen said. “U.S. efforts are appropriately focused on capacity-building, particularly with regard to strengthening the integrity of the financial system.”

Deloitte, which has had the Central Bank project since August 2009, billed the government more than \$657,000 a month for the five experts the firm has at the Central Bank. The contract is renewable for up to four years. Consulting firm Bearing Point, which Deloitte acquired, previously held the contract.

There do not appear to be clear rules dictating the type of behavior and circumstances U.S. advisers should report to American officials. It is possible Deloitte advisers chose to be circumspect because most U.S.-paid advisers sign confidentiality agreements meant to assure Afghan officials that they are not being spied on.

Mohibullah Safi, the deputy director of the Central Bank, said the Deloitte team’s contributions have been enormous. “We have a fantastic relationship with them and with USAID,” he said.