

By NICK LANGER

In mid-2009, Dubai authorities announced the arrest of two top government officials in two separate cases of corruption related to bribes to facilitate the acquisition of properties.

The first arrest involved Hashem Dabel, a leading government official from Dubai Holding, the investment arm of the government.

Believed to have received around US\$270 million, Dabel was arrested for embezzlement and misuse of power in a public post, a crime that has become commonly known in Dubai in the aftermath of its real estate boom. He was indicted on a total of 15 accounts of fraud and abuse of public office.

Dabel was released from custody shortly after handing out nearly US\$36 million to the government of Dubai, although the prosecutor general's office said the investigation continues in what is considered one of the biggest cases of corruption in the history of this wealthy nation.

During the same year, Mohammad Shareef Abdul Razaq, CEO of Dubai Islamic Bank — owned by the government of Dubai — was arrested in fraud-related charges. In March 2010, he was sentenced to three years in prison and a US\$30 million fine.

Even though corruption and financial irregularities are normally carried out by the police, both of these arrests were carried out by the financial regulatory committee, personally chaired by Sheikh Mohammed bin Rashid Al Maktoum, United Arab Emirates (UAE) prime minister and ruler of Dubai.

The regulatory committee has been tasked with investigating suspected corruption cases in the public sector and in companies in which the government is a major stakeholder.

Dubai Holding and Islamic Bank are largely controlled by the government of Dubai, and Dabel's and Abdul Razaq's actions were considered a major threat to Dubai's ongoing efforts to improve its image and leave behind its reputation as an investment safe haven.

For Dubai, which owns little oil compared to its rich neighbour Abu Dhabi, and where foreign investment on real state and gold are key areas of the economy,

corruption of well-paid public officials is not common, and tolerance to such practices even less so.

“The arrests of top officials were meant to warn the investment community of Dubai of the government’s seriousness in fighting corruption and implementing the rule of the law, even against individuals deemed immune from legal retribution due to their close ties with the ruling family,” said Jawad Anani, financial expert on the UAE market and former minister of finance in Jordan.

The government’s efforts have started to pay off. In a 2009 report by Transparency International, the UAE obtained 6.5 points out of ten, an improved status compared to 2008 when it was given 5.9 out of ten.

### The Government’s Interests

However, the iron fist policy against corruption in the public sector can hardly make up for the country’s dubious financial practices, intended to attract cash to the once booming real estate sector.

Most of Dubai’s economy is based on selling property and gold, and the government has big stakes in companies that control both. The government is a major stakeholder or entirely owns 250 companies, including real estate firms such as Emar, Dubai Real Estate, Nakheel, Limitless, Sama Dubai, Tatweer and others.

These firms are behind the construction of more than 80 percent of Dubai’s new towns and towers, including the world’s largest, Khalifa tower, as well as Jumeira Beach, Palm Island and many other projects.

The companies’ boards of directors include officials close to the ruling family or members of the ruling family. Management of such companies involves a liaison with officials from banks such as Dubai Islamic Bank (owned by Dubai Holding) and Emirate Dubai Bank, both financial institutions involved in facilitating financial procedures to complete the acquisition of properties.

Real estate development, promotion and acquisition are facilitated by officials working for the government of Dubai within this set-up, and the reality is that they often avoid asking questions to clients who pay cash.

With Dubai beginning to reel from the global credit crunch and the resulting lack of faith on the part of investors, illicit money traders are seeing an upswing in business.

Banks lack liquidity and are reluctant to offload loans under any type of guarantee. Add in Dubai's tumbling real estate sector and you have an attractive environment for money laundering.

An Iraqi investor, who asked to be identified only as Majeed in this report, said he entered a bank manager's office in Dubai with a bag full of US dollars.

"I want to deposit this money in your bank," Majeed told the manager, who eagerly deposited the US\$5 million Majeed had brought from his home country.

"The manager did not ask me where I got the money. He only wanted to know if I was there to invest. I said yes, and that was it," said Majeed, who invests in real estate.

Real estate agents say they are required by law to report any case of suspected money laundering, but there are many stories like Majeed's. It is clear that many real estate and bank officers turn a blind eye for fear of losing business.

"The real estate sector is in trouble. I don't see why companies would want to hurt their business by reporting possible cases of money laundering when most projects were built on the hope of luring those exact people," said Jane, an English real estate agent from Bar Dubai who asked to remain anonymous.

"It is difficult for Dubai to make the same economic impact and attract so many businesses without relaxing on money laundering," she said.

## New Rules

According to statistics from UAE's Central Bank, in 2009, 1,729 cases of suspected money laundering were investigated, compared to 1,170 in 2008. Moreover, in 2009, anti-money laundering investigators reported nearly 12,000 cases of attempts to bring cash into the UAE through its main airports.

Abdul Rahman al Awadhi, director of the government's anti-money laundering department, announced the figures during a press conference in early 2010 and vehemently rejected reports that the real estate sector is a magnet for money laundering.

"We are not bothered by reports that Dubai real estate companies are a hub for money laundering. Real estate

companies are committed to anti-money laundering law by reporting on any suspected case. The Central Bank continuously observes the market and investigates all dubious actions,” he said.

Under continued international criticism, the UAE has created new money laundering regulations and set up a specialized division affiliated to the Ministry of Defence.

Prominent business experts agree that Dubai needs to amend its financial regulations to improve its tarnished image. On the other hand, questions remain about the government being one of the major players in real estate and gold.

“It is paradoxical that the government is ruling, and at the same time acting as an investor,” said Jawad Anani, a business expert in Dubai.

Time will tell if Dubai’s quick crackdown against Dabel, Marazouq and other top government officials was part of the implementation of new regulations, or just a strategic move to protect its government-owned firms’ ratings in Moody’s Investors Service and Standard & Poor’s.

*\*Nick Langer is a reporter based in Jordan.*

