

FACT SHEET
Micro contracting
- capacity building for a viable future

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Herat - DDR metal workers sit behind the sample they used to bid for a USAID School's project



Mazar-i-Sharif - an IOM DDR school desks and chair project to furnish a USAID school



Jalalabad – DDR court room furniture purchased by MSI for a USAID Court

PHOTO: POST CONFLICT REFORMS

The concept – to link the customer to the in country end producer to remove the middle man. This is to ensure that the investment hits the grass roots in the local communities. The investment then produces a multiplier effect that will boost the legitimate Afghan economy in the mid term, providing the justification for the initial investment by the local suppliers necessary to win the contract and the time to develop more long term local markets.

The UN ANBP program has funded 14,000 former combatant's (FC's) to participate in vocational and on the job training. It has funded a further 23,600 agricultural packages and 13,000 new business options for FC's who decided to immediately work for themselves. Collectively, these three groups of people comprise almost 83% of the DDR population and are effectively 50,000 new businesses. There is however, no significant push by donors to link the international communities in country expenditure to the DDR'd former combatants small businesses - that were funded through the UNDP ANBP program at a cost of \$6m+.

Proactively matching the customers expenditure with the in country suppliers and producers to develop their capacity would provide a significant boost in the mid term to the Afghan economy. Meeting this demand would in turn, quickly develop in country supply chains that could use the timeframe and demand as a cushion to justify sufficient investment to develop the local markets for locally produced goods as part of a wider buy afghan marketing initiative aimed at reducing imports. The government meanwhile could develop revenue collection systems and increase collection rates – reducing funding demands of the same donors.

The vast majority of the profit derived from the in country expenditure by the Embassies, Military, Aid Agencies and NGO's, despite best intentions, does not stay in Country but bounces overseas – avoiding taxes and benefiting very few in country Afghans.

The Peace Dividend Trust's "Economic Impact of Peace Keeping Report's" "experience in Timor – Leste estimated that *“an additional \$133m was spent in Timor – Leste but did not remain in the economy. It was either spent directly to purchase imported goods, paid wages for international workers or was repatriated as profits by foreign firms”*.

All agencies have remits to procure locally, where possible, but in reality spend little time or efforts in making this happen. An expat Afghan living overseas, finding a Request For Proposals on the internet and then procuring goods electronically, is not an example of local procurement – yet too many, operating local procurement schemes, his contract goes down as a tick in the “local” box.

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Assistance to Afghanistan (continued)

It is additional work for the Client but it is known in the trade as “capacity building”.

USAID has invested the time to pilot working with suitable DDR'd personnel to demonstrate that with time and effort, capacity can be developed to meet the customer's needs. Examples of successful procurements comprise school, court-room and clinic furniture.

FC's were identified and provided with photographs, plans, specifications and timescales and asked to make samples. In parallel, IP's were identified, such as IoM, UNOPS, and MSI and convinced to agree to set aside appropriate contracts to place them locally with suitable, DDR'd FC's small businesses.

The FC's samples were inspected and if accepted, small contracts were subsequently given. The firms in turn had to formally register as businesses and deliver the required quality on time at the agreed price – no exceptions. In the long run, no one is helped if standards are allowed to fall – otherwise the country will be left with metal workers that can't weld and school children sitting on broken desks.

Capacity building - Lessons learnt need to be observed by those wishing to invest the time if the international community is to use its spending power to build local capacity to ensure that local firms learn and develop the ability to competitively bid for contracts in the future at home and overseas.

Initially, day to day oversight is required to build confidence and capacity and nip any issues in the bud before they become an issue for the client.

All businesses thrive or expire on cash flow. A contract is enough for most businesses to obtain credit but credit costs. Up front and or timely part payments are preferable for a new business looking to make a profit. An incompetent administration department could mean the end for a small business once full of potential.

The quality of the product may become an issue if the client and contractor don't work together to help each other. Sensible delivery dates allow the contractor time to buy and dry the hard wood. Last minute contracts and unforgiving delivery dates place undue pressure on a contractor, with little negotiating power, leading to problems later on.

Storage is often an issue for a small business that has to pay for the space that it rents. Just in Time arrangements for regular collection of the widgets, in accordance with a clear contract “written in the local language” setting out how many and by when - assists both parties and avoid problems later on.

Results - Many FC's were found to be working on a day to day basis. They were only employed whilst there was a contract. FC businessmen that were assisted learnt how to register their businesses, deal with westerners, comply with contractual terms and appreciate that they have to spend time networking and sourcing new contracts, before the old contract expired, to keep their skilled workforce employed and the business making money. The FC's meanwhile continued to perfect their vocational skills and enjoyed a regular income.

Assistance to Afghanistan (continued)

The way forward - Political will, time and patience is needed by donors that really want to develop local procurement processes. Dedicated in house teams within the contracting dept should be established to be mandated to identify what can be procured locally and preference or competitive advantage given to reflect the additional benefits of spending funds locally. The same principle can be applied to larger RFP's requiring bidders to state how much of the bid will be procured locally and understand that the pledge will be actively policed.

A 10% micro contracting clause should be implemented by all Donors to stimulate the SME's to develop the local capacity in the mid to long term and indirectly boost the Country's GDP. The US Governments total committed in 2005 to Afghanistan alone was \$15bn – a fraction of which could have been specifically set aside for FC's small businesses.

Care however, has to be taken to ensure that the wealth is spread around to avoid local suppliers becoming over dependent on international contracts. Work needs to be ongoing to continue to develop the capacity of new firms whilst providing complimentary supporting business advice to those that have prospered to assist them to develop their businesses by marketing their new skills.

The multiplier effect of a \$30,000 contract in a community where the average wage maybe \$30 - \$50 a month can be seen everywhere. The company buys its materials locally, its local employees' families shop locally and in many cases the products are for local projects – such as schools and clinics which collectively creates ownership amongst the community and the grounds for a long lasting future.

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Further detailed information is available on www.ddrafg.com