



Peace Dividend Trust
Building a Better Peace

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JOB CREATION IN AFGHANISTAN: PUTTING AID TO WORK

Local procurement setting in motion employment and investment

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Peace Dividend Trust is a non-profit organization that builds markets, creates jobs and sustains peace in developing countries by championing local entrepreneurs and connecting them to new business opportunities.

PREFACE AND ACKNOWLEDGEMENTS

This report was researched and written by Lucy Heady, Senior Economist; Karla Newendorp, Research Consultant; Hamid Ibrahimkail, Research Assistant; and Saboor Arghandiwal, Research Assistant, all of Peace Dividend Trust.

The findings presented in this report offer the first assessment of jobs created or sustained in Afghanistan as a result of international spending. Results are based on a survey undertaken with Kabul businesses that won international contracts with the help of Peace Dividend Trust's Peace Dividend Marketplace from 2006 to 2011. The survey was administered in Kabul, Afghanistan, from March 2011 to May 2011.

This report should not be read solely as a statement on the impact of the Peace Dividend Marketplace on job creation, but rather as an attempt to understand the effects that locally awarded contracts have on Afghan businesses. While the results presented here do not quantify the impact of Peace Dividend Trust, they do help to understand the ways in which the organisation's services benefit local businesses and will feed into the design and provision of more effective services and resources. Furthermore, findings in this report provide new data and insights for the wider international community on the positive effects that local procurement can have on crisis and post-crisis countries.

Of note, the lack of data on employment effects in Afghanistan from non-locally awarded contracts means that we cannot say how many of the jobs created or sustained from local procurement would not have existed had contracts not gone to local businesses.

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EXECUTIVE SUMMARY

This report provides the first analysis of jobs created or sustained in Afghanistan through local procurement. Creating jobs in crisis and post-crisis countries is fundamental to reducing poverty and rebuilding fragile economies. It is also considered crucial for stability and undermining the appeal of violent extremists.^{1,2}

Results presented in this report are based on a survey undertaken with Kabul businesses that won international contracts with the help of Peace Dividend Trust's Peace Dividend Marketplace Afghanistan³. Based on the survey results, it is estimated that from 2006 until the end of March 2011, approximately 118,000 jobs were created or sustained through Marketplace activities. In the first three months of 2011 alone, locally awarded contracts from international organisations led to the creation of the equivalent of 35,000 jobs lasting for six months. This is comparable to the 50,000 people currently employed by Afghanistan's fast-growing telecoms industry.

OTHER KEY FINDINGS

In Kabul alone, 148 contracts have generated \$210m in revenue for 146 businesses since 2006 and created or sustained 26,000 jobs. The survey also revealed that:

- During contracts, businesses expanded their employee base on average by over 300%. Smaller businesses increased employment by the greatest proportion.
- The majority of jobs went to skilled workers.⁴
- For the typical contract, one month of employment was created or sustained for every \$600 spent. This includes all non-employment expenses such as materials and running costs.
- The majority of businesses invested profits in both physical capital (purchase of equipment, etc.) and increasing the skills of their staff.
- The biggest challenges reported by businesses were corruption, security, and access to capital.

RECOMMENDATIONS

While local procurement has had a positive effect, in order for this to be sustained international organisations need to create a predictable and stable environment for Afghan businesses by:

- Increasing transparency in contracting including making acquisition plans available so that businesses have time to adjust their operation including retaining employees with necessary skills.
- Continuing to procure locally where ever possible with an increased view towards the most labour-intensive and sustainable industries.
- Actively providing references for businesses with good track records to enhance their ability to find other markets for their services.
- Apply lessons from other Islamic countries on providing capital to businesses so that Afghan companies can compete for larger contracts.
- Allow businesses to bid in their local language.

¹ Afghanistan and Pakistan Regional Stabilization Strategy.

² See (among others) Collier, Paul. (2003) *Breaking the Conflict Trap: Civil War and Development Policy*, Oxford: World Bank and Oxford University Press.

³ Through a set of services and products, the Peace Dividend Marketplace Afghanistan facilitates business relationships between buyers looking for goods and services and verified local suppliers that can meet their requirements. See section 2.2 and Annex 2 for more details. Hereafter, the Peace Dividend Marketplace will be referred to as "the Marketplace."

⁴ For the purposes of this research, skilled workers are defined as employees in positions requiring specific education or training.

I. INTRODUCTION AND OVERVIEW

Since 2001, the international community has disbursed hundreds of billions of dollars for military and development operations in Afghanistan. This unprecedented spending has resulted in significant progress in terms of reconstruction and the restoration of critical services. Unfortunately, the security situation has deteriorated, and both unemployment and underemployment remain high – raising alarms about Afghanistan’s future as a drawdown in international operations begins.

Many argue that despite the international community’s contributions and investments, one of the most obvious and essential keys to success has been given too little attention – the Afghan private sector. As Peace Dividend Trust (PDT) has witnessed since 2006, the local private sector has the ability to catalyse economic growth and, in particular, stimulate much-needed jobs.

While there are many ways in which to support private sector growth, sourcing goods and services where possible is a fast and easy way both to jumpstart an economy and set off a multiplier effect that leads to job creation. By offering services that facilitate an increased number of contracts between Afghan businesses and the international community, PDT has seen the impact of job creation on engendering stability and improving local communities. Jobs are income, for both the individual and the state. More importantly, jobs are vital to the social contract that binds individuals to a community. With a job, one can rely on a paycheck that not only generates a livelihood, but also buys a stake in the growth and success of one’s own country. That stake sets in motion a cycle of productivity, market activity, capacity, capability, and, most critically, security. Local procurement is one key to jumpstarting that cycle.

Doing business with small-and medium-sized firms expands employment and other opportunities in a community. According to the United States Small Business Administration (SBA), small firms generated 64 per cent of net new jobs in the United States over the past 15 years. This has contributed to a sizeable portion of the U.S. GDP. Given the opportunity, small businesses can have a similar impact in places such as Afghanistan.

The United States Government (USG) has been the leader in this regard, adopting a ground-breaking ‘Afghan First’ policy in 2009.⁵ While many other international actors have also committed to increasing local spending, for a number of reasons, this movement has yet to be fully realised. In an unregulated economy, corruption and misuse of funds remain a key concern for international stakeholders – even those mandated to ‘buy local.’ Related to, and compounding this issue, is a lack of information about Afghan businesses, including impact of local spending. Is local purchasing creating jobs? Is it stimulating growth? Is it improving the business environment in Afghanistan? The answers to those questions are largely unknown, as hard evidence of impact has been severely lacking. As a result, international organisations continue to rely heavily on imported goods and services to carry out and sustain their operations. This bypasses a critical opportunity to employ Afghans and build a market that can be sustainable beyond the military and development presence.

⁵ Eikenberry, Karl. (2009). New Approach to the Delivery of US Assistance to Afghanistan in support of the President’s Strategy, Unclassified Memo.

1.1 PURPOSE OF THIS REPORT

This report adds to the current body of knowledge on jobs created through local procurement. It describes the impact that 'host-nation first' policies and approaches have had on job creation in Afghanistan, and describes the nature of these jobs. It shows how, in the first three months of 2011 alone, locally procured contracts are estimated to employ the equivalent of 35,000 people for jobs lasting six months. This is nearly the same number of people currently employed in Afghanistan's fast-growing telecoms industry.⁶ However, the lack of data on job creation in Afghanistan by international contracts means that PDT cannot quantify how many extra jobs would have been created had these contracts gone to non-Afghan-owned businesses. The report also presents data on investments made by these businesses as a result of winning contracts.

The results presented fill an important gap in studies undertaken on this topic – including new quantitative data and perspectives provided directly by local businesses. The report also offers insight into investments made by these businesses, the broader impact of winning international contracts on businesses, and the most significant challenges faced by the Kabul private sector.

The evidence presented in this report comes from a survey undertaken with Kabul-based firms that won international contracts with the help of PDT, a non-profit organisation that has been operating in Afghanistan since 2006. It is principally aimed at buyers and policy-makers.

1.2 STRUCTURE OF THIS REPORT

The rest of this report is structured as follows: Section 2 provides background on the genesis of the 'buy local' movement and efforts to support its implementation. Section 3 details how 'job creation' is defined for the purposes of this research. It also outlines typical patterns of employment amongst the Marketplace businesses. Section 4 features the survey results and analysis undertaken for this research. Section 5 presents the results from the analyses of the data obtained. Finally, Section 6 offers conclusions and specific recommendations both for donors and for PDT, based on the report's findings.

2. BUYING LOCAL IN AFGHANISTAN

2.1 BACKGROUND

In recent years, numerous governments have formally recognised the importance of increasing the amount of money spent in the countries they are trying to help, particularly in fragile states.^{7,8,9} Some have even instituted landmark policies to ensure that aid and development money is not only spent on a country but in that country.

In 2006, the U.S. military informally developed an 'Afghan First' approach to encourage local procurement of goods and services from Afghan-owned vendors. The effort was intended to promote economic growth, support private sector development, and create jobs. The USG instituted this policy across all of its government agencies in late 2009.^{10,11} This has prompted others, including an ever-increasing number of international organisations and United Nations agencies, to encourage and practise local procurement.

⁶ <http://www.goodafghannews.com/2011/02/17/afghanistan-wins-gsma-government-leadership-award/>

⁷ Through the Paris Declaration on Aid Effectiveness (2005); Afghanistan Compact (2006); Accra Agenda for Action (2008) and Dili Declaration (2010), donors have committed to increasing local procurement.

⁸ Improving the effectiveness of aid to Afghanistan. William Byrd, Adviser, South Asia Region, The World Bank.

⁹ House of Commons Foreign Affairs Committee. The UK's Foreign Policy Approach to Afghanistan and Pakistan, Fourth Report of Session 2010-2011. See: <http://www.publications.parliament.uk/pa/cm201011/cmsselect/cmfa/514/514vw.pdf>

¹⁰ Afghan First: Building a Stable Economy through Strategic Acquisition. Rhyne, Maj. Darren, USAF. Defense AT&L: May-June 2011.

¹¹ In April 2010 NATO also adopted an Afghan First policy, see NATO Afghan First Policy: Supporting Afghan Economic Development. 23 April, 2010. See: http://www.nato.int/cps/en/natolive/official_texts_62851.htm

Table I summarises the rewards and risks of buying local. Of all the benefits of local procurement, job creation is at the top of the policy agenda. Creating jobs is fundamental to reducing poverty and rebuilding fragile economies. It is also considered crucial for stability and undermining the appeal of violent extremists.¹²

Table I: Potential benefits and challenges of buying local

Benefits of buying local ^{13, 14, 15}	Challenges of buying local ^{16, 17, 18, 19}
<ul style="list-style-type: none"> • Creates jobs • Reduced costs and faster delivery for some goods and services • Wins trust from the local community • Injects cash into the local economy • Can increase competition in the local market • Increases capacity of local businesses 	<ul style="list-style-type: none"> • Quality of goods and services can be unreliable • Risk of losing funds through corruption • Risk of funding insurgents • Supply chain can be vulnerable to security risks • Local market may become over-reliant on development agencies • Lack of information about the marketplace

The results outlined in this report describe the jobs created or sustained by 'buy local' policies in Afghanistan. As the military and the international development community start to draw down, both entities must work to ensure that local procurement remain a priority, and assist local businesses in finding new markets for their goods and services.

2.2 EFFORTS TO SUPPORT LOCAL PROCUREMENT

In addition to corruption and a long legacy of using foreign contractors, basic challenges exist that prevent greater amounts of local sourcing. Buyers lack information to help them navigate the local market, and suppliers lack understanding about international procurement procedures and expectations to do business with international entities. Therefore, in order for host-nation first policies and commitments to take effect, resources and services are required both to support the international community's ability to operationalise these goals and the capacity of local businesses to meet procurement demands.

One example of this is the work of PDT in Afghanistan. Since 2006, PDT has worked to support international buyers operating in Afghanistan to increase their local procurement. Through its Peace Dividend Marketplace model, PDT provides resources that address the information and access barriers that prevent local sourcing.

¹² See (among others) Collier, Paul. (2003) *Breaking the Conflict Trap: Civil War and Development Policy*, Oxford: World Bank and Oxford University Press.

¹³ Carnahan, Michael, William Durch and Scott Gilmore. (March 2006). *The Economic Impact of Peacekeeping*.

¹⁴ Dagdeiren, H. (2006). *Revisiting Privatization in the Context of Privatization of Poverty Alleviation: The Case of Sudan*, *Journal of International Development* 18: 469-488.

¹⁵ Horton, S., Kanbur, and D. Mazumdar, eds. (1994) *Labour markets in an era of adjustment*, Vols. 1, 2. EDI Development Studies. Washington D.C.: World Bank.

¹⁶ Many of these risks can be mitigated if managed carefully. Butler, Ainsley and Jennifer P. Holt (August 2010) *Risk and Opportunity: Local Procurement in Conflict-Affected and Fragile States*. Background paper for a forthcoming publication: Organisation for Economic Cooperation and Development. (2011) *The Price of Success? Aid Risks and Risk-Taking in Fragile and Transitional Contexts*.

¹⁷ See, for example, Transparency International's Corruption Perceptions Index http://www.transparency.org/policy_research/surveys_indices/cpi/2010 and Schultz, Jessica and T. Soreide. "Corruption in Emergency Procurement", *Anti-Corruption Resource Center*, U4, 2009: Issue 7.

¹⁸ Angle, Susan, Richard Bontjer and Jennifer P. Holt. "Spending the Development Dollar Twice", 2009, 24. See: http://www.peacedividendtrust.org/en/Spending_the_Development_Dollar_Twice.html

¹⁹ Tchirley, D. and de Castillo, A. M. (2007) *Local and Regional Food Aid Procurement: An Assessment of Experience in Africa and Elements of Good Donor Practice*, MSU International Development Working Paper.

Through training initiatives and its tender distribution service, PDT provides local suppliers with the tools and information required to bid on contracts from international buyers. For buyers, PDT provides market information and vetted lists of businesses with the capacity to meet project specifications and capacity requirements.²⁰

These services lead to increased numbers of local businesses bidding for, and winning, contracts from international organisations. They also reduce the cost and time required for buyers to access the local market. From its inception, the Marketplace has facilitated the award of over 1,200 contracts across Afghanistan, directing over \$1 billion into the local economy. The effectiveness of the Marketplace ultimately rests not only on the dollar value of money spent in the local economy as a result of contract facilitation, but also on the jobs created or sustained and the long-term impact on local businesses.

3. WHAT IS A JOB ANYWAY?

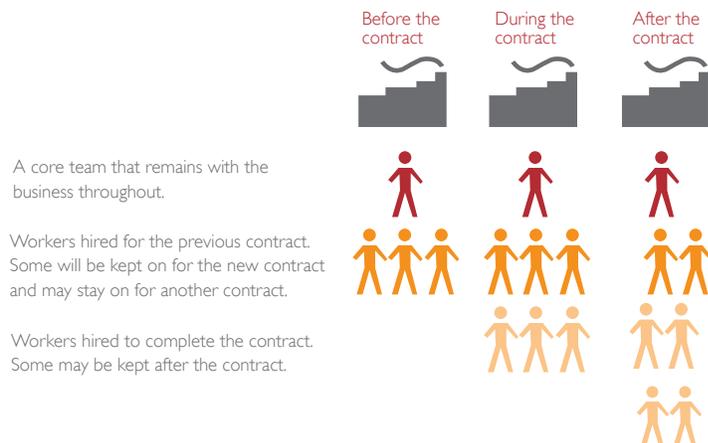
3.1 PATTERNS OF JOB CREATION

Official unemployment in Afghanistan is estimated at about 8%. However, underemployment (people working fewer than 35 hours per week but who would like to work full time) is a huge issue and estimated at around 48%.²¹ Hence, there is a large pool of workers whom businesses can hire quickly when they win contracts. When a business in Kabul wins a contract from an international buyer, it typically needs to hire employees to meet the increased demand for labour. Figure 1 below gives a simplified illustration of employment patterns for the typical Marketplace business.

In analysing employment, this report has two main focuses: (1) how many people were employed during the contract examined and (2) how many people were employed after that contract. Those employed during a contract include the core team that runs the business, any contract-based staff from previous contracts that were retained, and new staff hired for the new contract. In this report, 'jobs created or sustained by a contract' refers to total employment required to complete the contract analysed. To compare total employment created or sustained across contracts, this report uses total months of employment rather than individual jobs or numbers of people hired.

If the number of employees for a given business is greater after the issuance of a new contract than it was prior to that contract, then staff numbers have expanded. This is normally only the case if the business has another contract lined up after the current contract has expired. In some cases, research showed that employment decreased between the start and end dates of this survey. This generally occurred when the contract of interest was smaller than the previous contract or when the business had no contract or a smaller contract lined up after the contract of interest concluded.

Figure 1: Basic model for contract-based employment



²⁰ More detail on all of these services can be found in Annex 2.

²¹ ICON-INSTITUTE (2008) National Risk and Vulnerability Assessment 2007/8: A profile of Afghanistan.

3.2 ARE CONTRACTS ACTUALLY ‘CREATING’ JOBS?

This research found that since 2006, approximately 26,000 jobs were created or sustained in Kabul as a result of Marketplace contracts. From these numbers it is estimated that through PDT’s Marketplace, 118,000 jobs have been created or sustained across Afghanistan (see more details on results in Section 5). It is clear that contracts analysed for this research provided employment for many Afghans. However, it is not known if the same number of jobs would have been created or sustained had contracts gone to businesses that were not Afghan owned. This is due to a lack of available data on jobs generated as a result of contracts won by non-Afghan-owned entities in the same sectors as Afghan-owned entities.

Since accurate time series data on unemployment rates in Afghanistan do not exist, it was also not possible to compare employment trends within Marketplace businesses to national trends.

While this lack of data makes it difficult to quantify both the extent of PDT’s impact and the number of jobs created or sustained as a result of the international community’s spending in Afghanistan, outcomes from this survey do offer an indication of how and what kinds of jobs are being created or sustained by contracts facilitated through PDT’s Marketplace operations.

3.3 DEFINING KEY TERMS

Month of employment:	Defined as the employment of one person for a period of one month.
Job created:	Defined as an employee who worked the lifetime of a contract. It includes employees who were newly hired and those previously employed, but only includes employees identified as working on that specific contract.
Permanent:	Defined as an employee who works full time for the duration of a contract.
Temporary:	Defined as an employee who does not work full time over the life of a contract.
Skilled:	Defined as an employee who holds a position requiring specific education or training.
Unskilled:	Defined as an employee who holds a position requiring no specific education or training.
Ongoing contracts:	Defined as a contract from any business that participated in this survey that could not provide an end date for their project.

4. SURVEY METHODOLOGY

4.1 SURVEY SAMPLE AND RESPONSE RATE

PDT administered a survey²² from March 2011 to May 2011 to all 252 Kabul-based suppliers that won contracts with international buyers through its Marketplace services. Contracts analysed were executed from the inception of PDT's operations in January 2006 to January 2011. 146 businesses took part in the survey, providing data on 148 contracts (this represented 44% of contracts they had won over the period analysed).²³ This sample represents 30% of confirmed contracts won by Kabul-based businesses facilitated through PDT's Marketplace. The reasons that the other 106 businesses did not take part in the survey are outlined below in Table 2.

Table 2: Category of respondents and non-respondents

Category of respondents and non-respondents	Number of businesses	Number of contracts	Value of contracts
Participated in the survey	146	148	\$441,339,719
Other contracts won by survey participants (but no details given)	91	189	\$190,841,195
Unwilling to participate	10	22	\$9,418,400
Unreachable	30	54	\$44,268,073
Claimed they never won a contract ²⁴	14	17	\$20,485,846
Business closed down	6	7	\$962,750
Buyer reported but kept business anonymous	24	24	\$98,898,384
No record of business found ²⁵	26	30	\$43,627,610

4.2 COLLECTING DATA ON CONTRACTS

The most common way PDT finds out about contracts awarded to companies who have used Marketplace services is through impact surveys that the organisation executes on a quarterly basis. These surveys are administered to businesses that receive tenders from PDT and to businesses that attend PDT training courses. Surveys are conducted over the phone and used to determine the number and types of contracts that each business has won over the previous quarter. PDT staff also solicits information from buyers about contracts they have awarded to Afghan businesses using Marketplace services and networks.²⁶

²² A complete list of survey questions is included in Annex 1.

²³ Almost all businesses were only prepared to give out information on one contract. Low levels of feedback mean that the number of contracts in our records is likely to be underestimated.

²⁴ The company may have been withholding the truth for security reasons, or it could have been a data entry error.

²⁵ PDT was unable to match the company with the supplier database (likely the name noted was not the company's registered name, or its acronym was incorrect).

²⁶ More information on how PDT collects feedback on contracts can be found in Annex 3.

4.3 ADMINISTERING THE SURVEY

The research team contacted by telephone all businesses that reported winning contracts through Marketplace services, and attempted to arrange face-to-face appointments with each. Due to security concerns, PDT conducted surveys at the site of each business in order to explain, in-person, the anonymity of their participation and the purpose of the research. The research team collected data through structured interviews with the owner or senior level manager of each supplier where a standard set of 31 questions was administered.²⁷ Since most businesses surveyed were not accustomed to this kind of data collection, the questionnaire was designed to be as simple and straightforward as possible to help ensure the accuracy of the facts and figures provided.

4.4 SOURCES OF ERROR

Security challenge

Kabul's security environment made it challenging to conduct a survey of this nature. Businesses were often hesitant to provide details to an outside organisation. Some mentioned that they feared information provided would fall into the hands of tax collectors who may choose to tax them unfairly. Others revealed that sharing details about their involvement in international contracting may make them vulnerable to retribution or violence for supporting the international presence in Afghanistan.

Administrative capacity of businesses

Many Afghan enterprises lack strong administrative and financial procedures, making it uncommon for a business to have detailed historical employee records. This is unsurprising, considering the size of businesses in this study – 65% of those interviewed for this survey had fewer than 20 employees before winning the contract about which they were being interviewed. The questionnaire administered for this research was therefore structured to collect information that respondents were likely to be able to access easily. Nonetheless, while some had better systems than others, the figures presented in this report should not be taken to be precise, but rather as each business owner's best estimate.

Defining sectors

Businesses in Afghanistan that want to cater to international buyers frequently offer a wider variety of products and services that fall across sectors, as opposed to specialising in one specific product or service. Therefore, as a company grows, it becomes more difficult to define its sector. An example of muddled sector classifications can be seen with the many new "logistics" companies proliferating across Kabul. Businesses often reinvent themselves as logistics companies, which could mean that they are not only able to build a road, but can also provide armoured cars, drivers, security, cooks, and cleaners.

This issue also surfaced during PDT's research. Sectors assigned to contracts were sometimes ambiguous, and the majority of contracts evaluated were awarded in the construction sector, so it was not possible to analyse how responses to the survey varied by sector.

Contract dates

Twenty-four per cent of the participant businesses surveyed for this study were unable to report accurate start and end dates for the contracts they won. Consequently, it was not possible to determine the length of employment generated by these contracts. This is important, as the impact of a job is highly dependent on its length. In some cases this occurred due to the inability to project the length of contracted projects due to:

- Blanket Purchase Agreements that do not mandate that buyers make an offer or vendors accept one.
- Indefinite Delivery/Indefinite Quantity (IDIQ) contracts that allow for indefinite quantities of products and services to be provided at indefinite intervals during a definitive period of time.

²⁷ Please see Annex 1.

- Long-Term Agreements (LTA) that specify that the vendor provide goods and services as needed over a defined time period, with the quantity to be determined.

For these types of contracts the research team asked businesses to estimate how much money had been received from the contract up to the time that they were interviewed.

Accounting for inflation

Contract values have not been adjusted for inflation as several contracts did not have accurate start dates, and inflation rates are extremely volatile, driven by changes in food and oil prices rather than by wages. In addition, there were no observable increases in the nominal costs of employment over time. However, this could be due to low levels of data, particularly between 2006 and 2008.

Low levels of feedback

Not all awarded contracts were recorded because businesses were not eager to share information regarding annual revenues, and many buyers do not provide regular feedback to suppliers. While PDT's systematic feedback surveys do capture a portion of contracts awarded, this is almost certainly an underestimate. Through implementation of the Kabul Job Creation Survey, PDT discovered 68 previously undocumented contracts attributed to 45% of all participating businesses. Therefore, the numbers in this report are likely to be an underestimate of the impact of contracts facilitated by PDT.²⁸

5. THE IMPACT OF CONTRACTS FROM INTERNATIONAL ORGANISATIONS ON JOB CREATION

5.1 OVERVIEW

This section begins by outlining the results of this research. It then reviews levels of employment before, during, and after contracts were completed. It outlines the estimation of the number of jobs created or sustained across Afghanistan by buyers using PDT's Marketplace. The section ends with a description of challenges faced by Kabul-based businesses.

Results from this research show that since 2006, 148 contracts have generated \$210m in revenue for 146 businesses and created or sustained 26,000 jobs in Kabul. From these numbers it is estimated that 118,000 jobs have been created or sustained across Afghanistan by PDT's Marketplace and 35,000 in the first three months of 2011 alone. Other key findings include:

- During contracts, businesses expanded their employee base on average by 323%.²⁹ Smaller businesses increased employment by the greatest proportion.
- The majority of jobs went to skilled workers (see Section 3.3 for definition of 'skilled').
- For the typical contract, one month of employment was created or sustained for every \$600.
- The majority of businesses invested their profits in both physical capital and increasing the skills of their staff.
- The biggest challenges reported by businesses were corruption, security, and access to capital.

²⁸ More information can be found in Annex 3.

²⁹ This value takes the mean value of expansion and discounts and outlier business that increased employment by 100,000%. The mean value including the outlier is an expansion of 996%, and the median value is 187%.

5.2 CONTRACTS

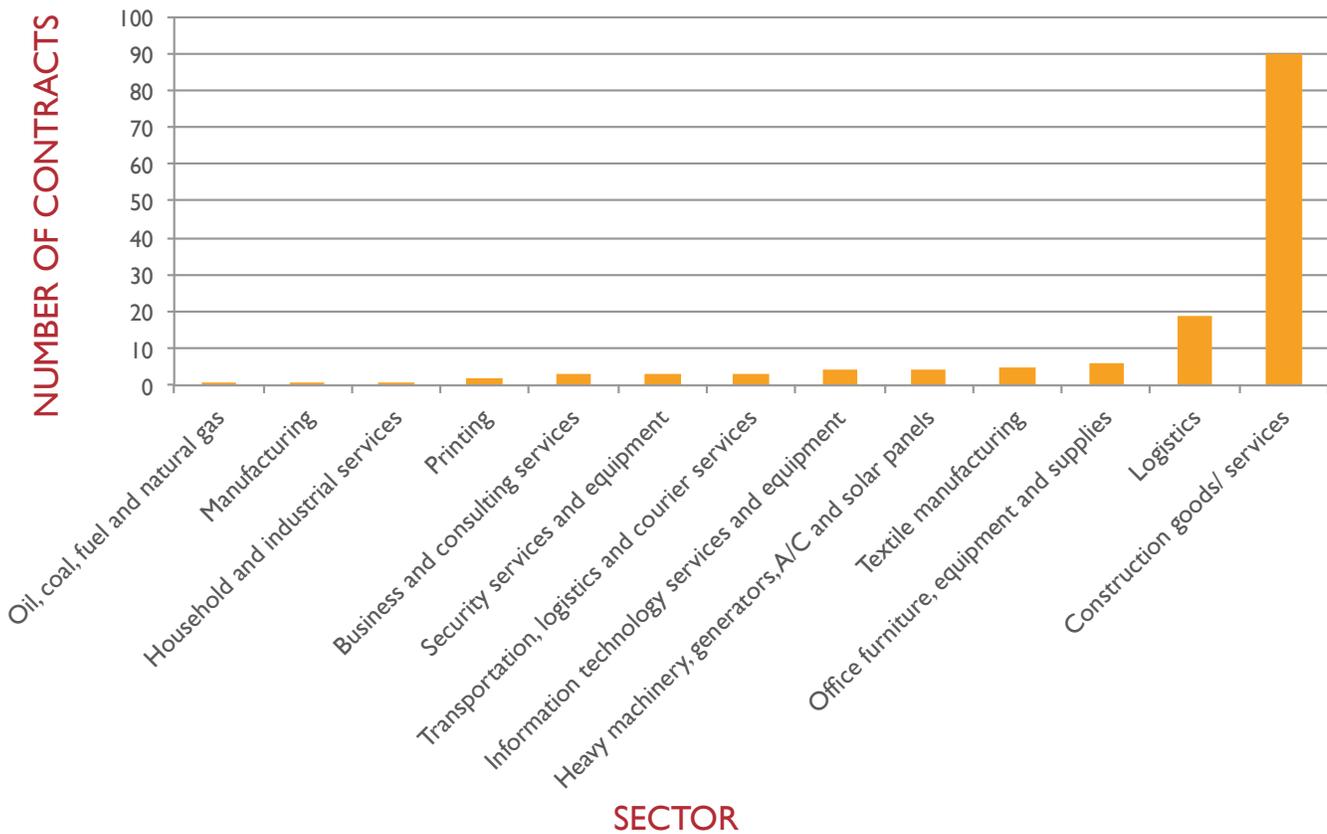
There is a wide range of contract values, ranging from \$1,000 to \$194 million (see Annex 5 or the full distribution). Contracts under \$100,000 make up nearly half of the sample, but they account for just one per cent of total contract value, as illustrated in Table 3 below. The vast majority of these contracts is in the construction sector (see Figure 2). Most contracts were awarded in 2010.

Table 3: Distribution of contracts according to size and year

Contract size	Number of contracts	% of total number of contracts	Total value of contracts	% of total value of contracts
\$1,000 - \$100,000	63	43%	\$2,802,193	1%
\$100,001 - \$200,000	28	19%	\$4,149,475	1%
\$200,001 - \$500,000	21	14%	\$7,111,547	2%
\$500,001 - \$1,000,000	12	8%	\$9,559,824	2%
\$1,000,001 - \$5,000,000	15	10%	\$28,450,670	6%
\$5,000,001+	9	6%	\$389,266,010	88%
Year of contract				
2006	2	1%	\$533,000	0.1%
2007	6	4%	\$1,921,780	0.4%
2008	9	6%	\$42,284,100	10%
2009	18	12%	\$3,179,250	1%
2010	46	31%	\$22,135,539	5%
2011 ³⁰	67	45%	\$371,286,050	84%
Total	148	100%	\$441,339,719	100%

³⁰ It is important to note that surveys were conducted from March through May of 2011, so taking into account the fewer available months of participation in 2011, this year has yielded impressive results.

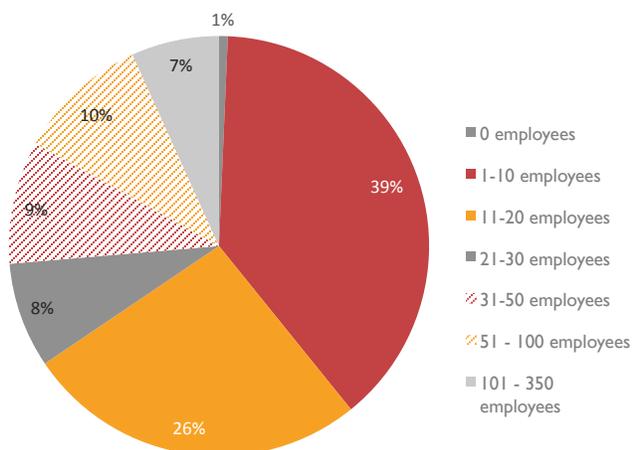
Figure 2: Spread of contract sectors in survey



5.3 EMPLOYMENT BEFORE WINNING CONTRACTS

The majority of businesses that participated in this research had fewer than 20 employees before winning Marketplace-facilitated contracts, and nearly two in five had fewer than 10 (see Figure 3). Only one business reported having zero employees prior to a contract, and the business with the most employees had 350. This offers a substantial counter to the notion that Afghan First contracts are awarded to large, established firms and do not benefit the wider market.

Figure 3: Number of employees before winning contracts



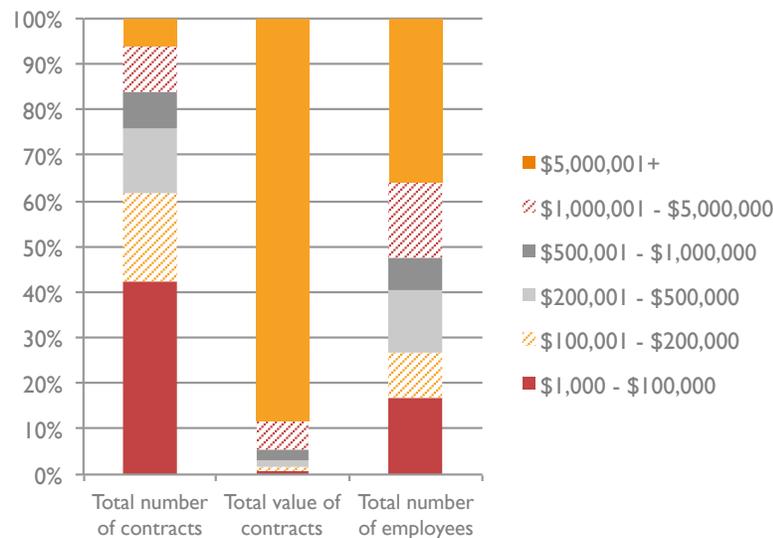
5.4 JOBS CREATED OR SUSTAINED DURING CONTRACTS

5.4.1 Number of people employed on contracts

Smaller contracts, on average, employ more people per dollar than large contracts. Figure 4 shows that 15% of people were employed on contracts under \$100,000; this despite accounting for just 1% of total contract value. By contrast, contracts above \$5 million account for 88% of total contract value and nearly 35% of people employed. Despite hiring more people per dollar, smaller contracts did not lead to more total months of employment per dollar than larger contracts.

After winning contracts, participating businesses reported hiring a total of 9,935 new employees and retaining 15,175 employees.³¹ Eight businesses did not hire any new employees³² and two businesses were outliers, hiring 860 employees and 1,000 employees respectively.

Figure 4: Number of contracts, value of contracts, and people employed on contracts



³¹It is unknown whether employees previously employed would have lost their jobs had the contract never been awarded, but it is known that because of the contract their job remained available.

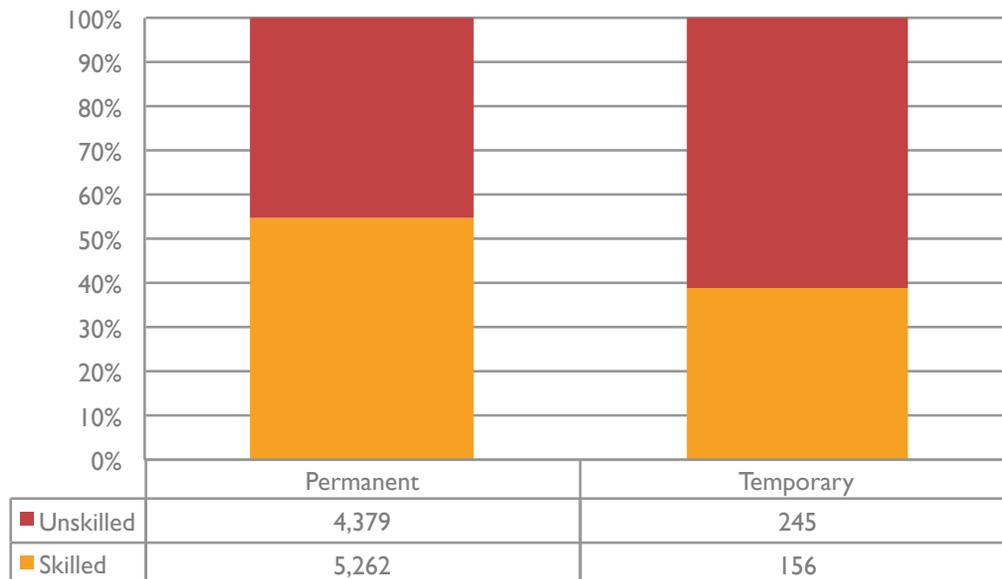
³²Five of the eight businesses that did not hire any employees have completed their contract and all five of these have kept their entire staff since completing the contract. These businesses do not fit our 'standard model' of contract-based job creation. This could be because they have more permanent buyers and market outlets or because they are not labour intensive and act more as middlemen, such as a logistics firm.

On average, businesses increased staff size by 323% during contract periods.³³ Smaller businesses experienced a higher percentage of employee growth on average (see Figure 5 below). This might indicate that smaller firms had a less steady supply of contracts and were therefore less able to retain a permanent core team. As can be seen in Figure 6 (page 14), the majority of these new hires were skilled workers and almost all were employed for the full duration of the contract.

Figure 5: Average number of previously employed and new hires



Figure 6: Breakdown of new hires



³³This is the average value by which a company expanded its employee base in order to meet the demands of the contract. It excludes one outlier company who reported having zero staff before the contract and 1,000 staff during the contract. The median value shows that companies on average expand their employee numbers by 187%.

5.4.2 Months of employment created or sustained by contracts

The total number of months of employment created or sustained by contracts analysed for this research was equivalent to 26,403 jobs, each lasting six months. The mean length of a job was six months and over half of the jobs lasted for four months. The duration of jobs varied widely and so in order directly to compare employment effects of different contracts, the total number of months of employment each contract created or sustained was calculated by multiplying the number of people employed for the duration of the contract by the number of months that contract lasted.

The distribution of total months of employment has a long positive tail (see Annex 5) and so while the median number of months of employment a contract created or sustained was 176, the mean number of months of employment created or sustained was 631.

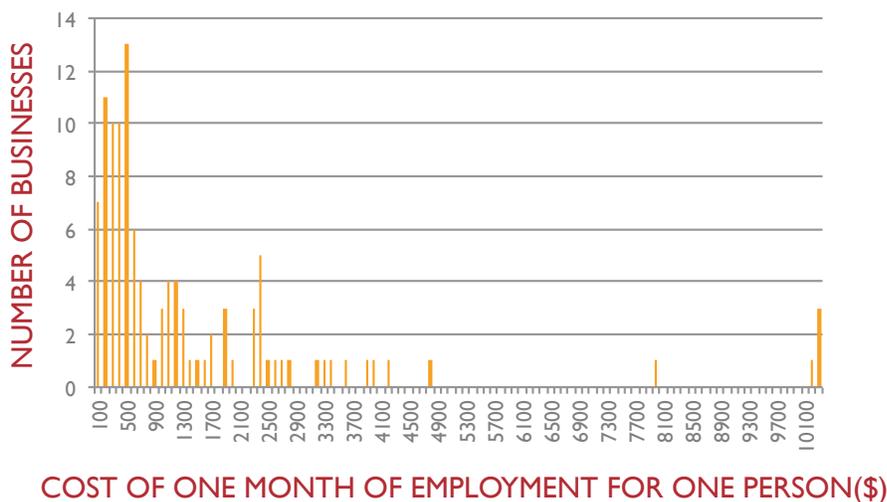
5.4.3 Cost of employment

The goal of local procurement is to increase jobs and jump start local economic activity. Hence, it is important for those procuring locally to understand how much employment a given contract or group of contracts is likely to create. In general, the larger a contract is, the more months of employment it will generate.

The mean value of the cost of creating a single job for one month is \$1,108,³⁴ much higher than the median value of \$585 (the distribution has a long positive tail, see Figure 7). These costs are derived directly from dividing the contract value by the number of months of employment. The wide range of values is probably due to the fact that there are no data available to account for non-labour costs. Since labour is inexpensive in Afghanistan, much of the cost of the contract could be going towards goods or equipment.

We can calculate a rough benchmark for the cost of these jobs by dividing Afghanistan's total GDP in 2008 (\$11.757bn)³⁵ by its approximate labour force in 2008 (7,468,000).³⁶ This gives a value of approximately \$130 per month. This suggests that the jobs created or sustained through contracts facilitated by the Marketplace are expensive by local standards. This could be because employees are more likely to be employed full time, because international organisations tend to pay higher prices, or because contracts with international organisations require workers with better skills, higher-quality materials, or more sophisticated machinery.

Figure 7: Distribution of the costs of one month of employment



³⁴The mean here is calculated with four outliers removed (all more than three standard deviations from the mean). Including outliers, the mean increases to \$1,545.

³⁵World Bank World Development Indicators.

³⁶ICON-INSTITUTE (2008) National Risk and Vulnerability Assessment 2007/8: A profile of Afghanistan.

5.5 ESTIMATING JOB CREATION ACROSS AFGHANISTAN

Using the average cost of one month of employment it is possible to estimate that the amount of employment created or sustained by contracts facilitated across Afghanistan by PDT's Marketplace exceeds 118,000 jobs since 2006 and over 35,000 jobs in the first quarter of 2011 alone. This is comparable to the estimated 50,000 people employed in the Afghan mobile phone industry.³⁷

5.5.1 Estimation approach

The number of months of employment generated by each contract was estimated as the value of the contracted divided by the average cost of one month's employment. The data showed no patterns in the cost of one month of employment with size of contract, sector or year. Hence, the same estimate for the cost of one month's employment was used for all confirmed contracts won by non-interviewed businesses (\$1,108).³⁸ A detailed description of the estimation methodology can be found in Annex 4. The \$1,108 is a conservative estimator; it is nearly twice the median value of the cost of one month of employment. When it is used to calculate jobs created or sustained from contracts in the interview sample for which we have complete data, the number of jobs for six months is estimated at 6,602, rather than the reported value of 11,782 jobs for six months.

5.5.2 Results

Table 4 summarises the estimation results for contracts facilitated through PDT's offices in Kabul, Mazar-e-Sharif, Jalalabad, Kandahar, and Helmand.

Table 4: Summary of estimation results

Region of contract	Number of contracts	Total value of contracts	Estimated number of months of employment ³⁹	Equivalent number of jobs lasting six months
Kabul (interviewed)	148	\$441,339,719	158,421	26,404
Kabul (not interviewed)	299	\$304,158,449	197,838	32,973
Kabul (business interviewed but details of all contracts not disclosed)	191	\$190,910,195	259,920	43,320
Helmand	318	\$106,395,947	61,339	10,223
Jalalabad	135	\$17,505,155	12,821	2,137
Kandahar	69	\$18,318,318	9,766	1,628
Mazar-e-Sharif	43	\$12,461,003	9,143	1,524
Year of contract				
Before 2009	166	\$224,613,530	263,270	43,878
2009	177	\$86,305,058	95,629	15,938
2010	590	\$356,366,552	138,886	23,148
2011	270	\$423,803,645	211,465	35,244
Total	1203	\$1,091,088,786	709,249	118,208

Using the mean value for the cost of one month of employment gives us an estimate of an equivalent of 118,000 jobs lasting 6 months created or sustained. If we use the median value, this estimate increases to 172,000.

³⁷<http://www.goodafghannews.com/2011/02/17/afghanistan-wins-gsma-government-leadership-award>.

³⁸A more conservative estimate was used for contracts that were not re-confirmed. See Annex 4 for more details.

³⁹For contracts that started before March 2011 but had not finished by that date, only employment already created was counted.

5.5.3 Sensitivity and assumptions

As would be expected, the estimated number of jobs created or sustained across Afghanistan is highly sensitive to the value used for the cost of one month's employment. When a value is calculated including outliers, the estimate reduces to the equivalent of 79,233 jobs for six months.

Each stage of the estimation process is designed to be as conservative as possible. However, there are key assumptions implicit in this estimation that could affect its validity:

1. Wages are assumed to be the same across the country. If, in fact, they are higher in Kabul it is conservative to extrapolate from Kabul data to the rest of Afghanistan. Evidence on this is mixed. One paper suggests that wages in Kabul were the same as or higher than those in other regions in 2002,⁴⁰ while another points to poppy production pushing up the cost of unskilled labour in poppy-producing regions above the levels seen in Kabul.⁴¹
2. Contracts outside Kabul follow a similar distribution according to size and sector. While no pattern was found in the cost of employment across these variables, this could be due to a lack of data.

5.6 AFTER CONTRACTS

5.6.1 Jobs lasting beyond the contract

On average, businesses had 65% more employees after a contract ended than before it began. Through the relationship made with the buyer during the contract, 37% (41) of those businesses with completed contracts were able to line up a follow-on contract. All of the businesses that participated in in-depth interviews for this research discussed the importance of winning their first international contract. They often commented that once they had a track record and knew the quality and standards expected by the international community, they found it much easier to win future contracts.

Table 5 shows that businesses with fewer staff after a contract than before it were much less likely to have had a follow-on contract. This fits with the fact that businesses reported that they only employ staff when contracts are awarded or to replace existing employees. Businesses do not hire 'speculatively' in the hope of generating new business. Of the 112 businesses that completed their contracts, all but four retained some employees. Of the workers remaining with the company, just under half (48%), were skilled.

	Number of businesses	% change in employees before and after contracts	% of businesses having another contract with or through the buyer
Businesses with no change in employees	37	0%	16%
Businesses with fewer employees than before contract	17	-65%	4%
Businesses with more employees than before the contract	58	122% ⁴²	17%
Total	112	65%	37%

⁴⁰Hector Maletta, WAGES OF WAR, WAGES OF PEACE: Food prices and unskilled labour pay in Afghanistan, 1996-2002, (2002).

⁴¹United Nations Office on Drugs and Crime, Farmers' Intentions Survey 2003/2004, (2004).

⁴²This value shows that, on average, businesses that increased their employee base did so by 22 times its original size. This value excludes one outlier business that reported having zero employees before the contract and 1,020 after.

5.6.2 Investment

Almost all businesses reinvested the profits from contracts in some way, demonstrating that local procurement increases investment by Afghan businesses. Businesses reported a wide range of investments, including purchasing physical capital, offering new services, and opening offices in other regions or provinces. Businesses also invested in their staff by offering benefits, bonuses, or training courses to increase the efficiency, expertise, and morale of employees. Figure 8 gives a breakdown of these investments. It is clear that investment patterns varied depending on whether businesses expanded employment, kept it constant, or contracted. All businesses tended to invest in physical capital. Firms that reduced employment after completing a contract, however, were far less likely to invest in training courses for their staff. Larger businesses, with more employees during a contract, tended to invest more often in both physical and human capital than smaller businesses with fewer employees during a contract (see Table 6).

Figure 8: Types of investments

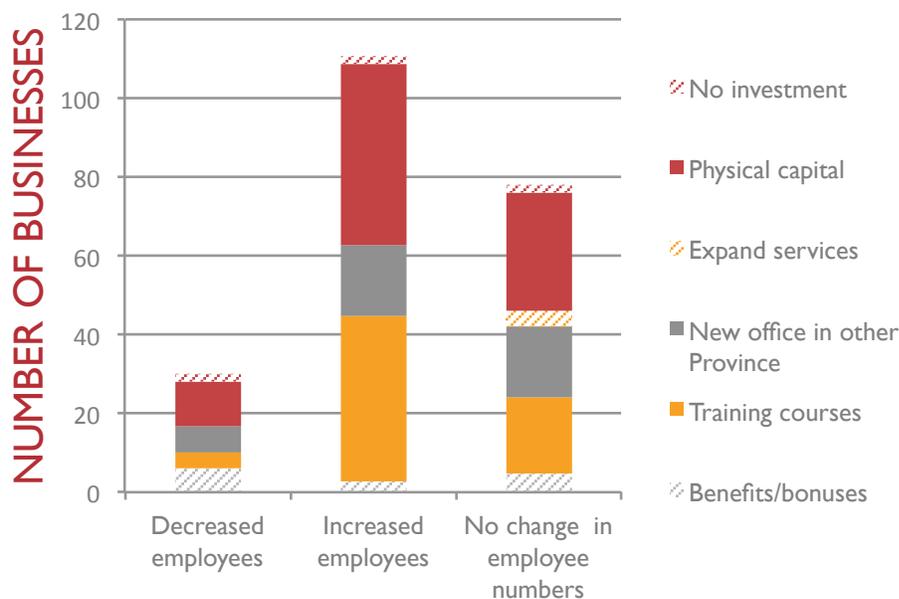


Table 6: Size of businesses that did and did not invest

Physical capital		
Total staff during contract	Businesses that invested (68%)	Businesses that did not invest (32%)
Median number of staff	45	24
Human capital		
Total staff during contract	Businesses that invested (73%)	Businesses that did not invest (27%)
Median number of staff	43	35

Figure 9 and Figure 10 below illustrate the extent to which businesses invested in specific types of physical and human capital. One hundred and seven businesses made investments in their staff, most commonly by providing further job training.⁴³ Eighty-two per cent of investment in physical capital was made to improve the office environment (e.g. office supplies, computers, or furniture). Only 18% of investments were assets associated with production of goods such as heavy machinery, transportation - including trucks - and raw materials.

Many international buyers who work with the Marketplace mistakenly believe that local businesses are expanding into areas where they do not have expertise. It is therefore interesting that the results from this survey show little such investment in service expansion. Many of the businesses interviewed in more depth recommended that businesses stay in the sector in which they are trained and only bid on contracts that they are confident they can complete successfully.

Figure 9: Investments in human capital

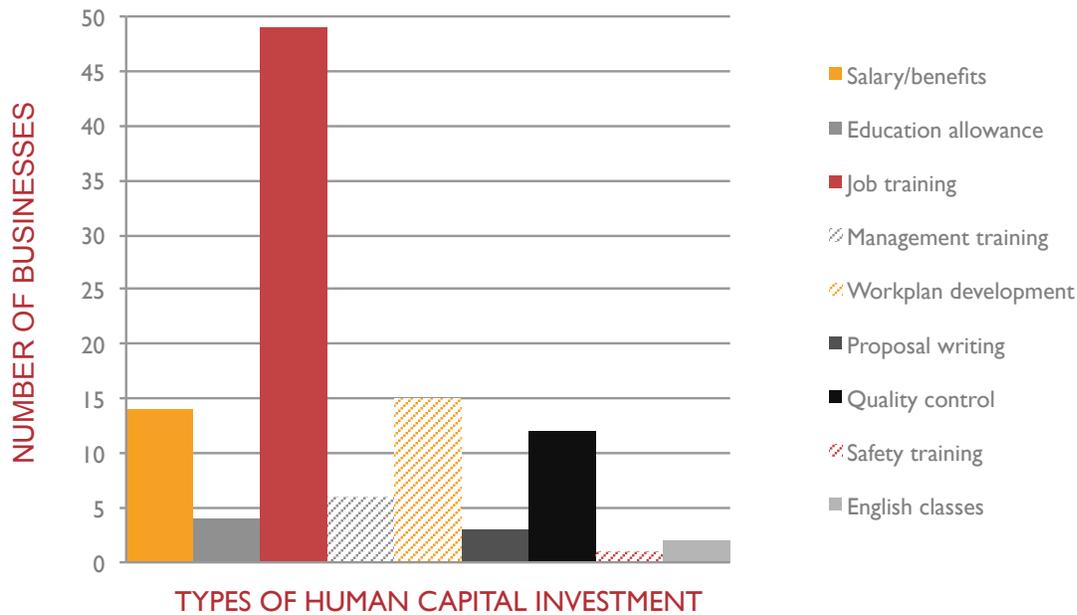
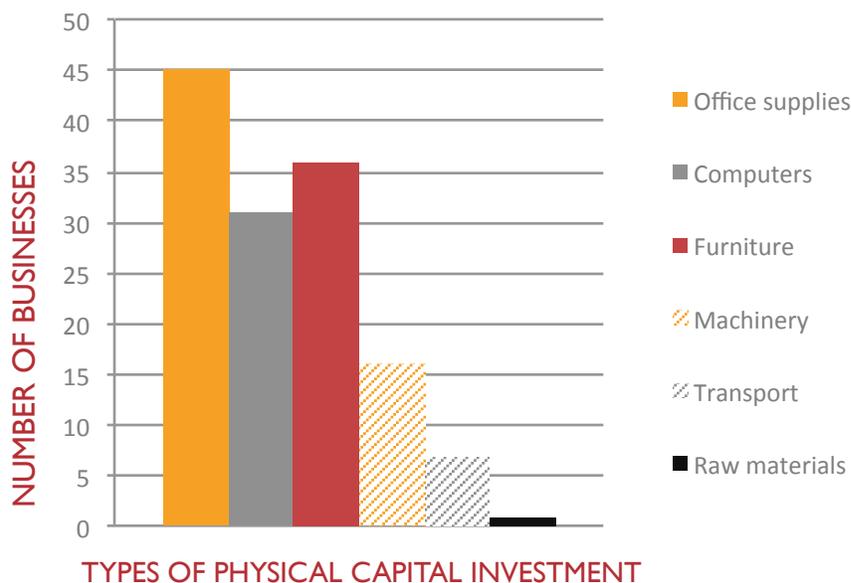


Figure 10: Investments in physical capital



⁴³Job training can refer to anything that increases the capacity of the worker to perform a job related task.

The capacity-building effect of working with the international community was often noted and businesses reported that it allowed them to improve standards. Buyers themselves have spoken of the improvements they have seen in local businesses' ability to bid for work and carry it out.⁴⁴ This is in line with other research on the benefits of connecting developing economies with international buyers.⁴⁵ Recent research undertaken for the World Bank shows that a lack of innovation may be holding back private sector growth in Afghanistan.⁴⁶ Working with international organisations could be an effective way of encouraging increased innovation and use of foreign technologies.

5.6.3 Personal impact of winning the contract

The Afghanistan National Development Strategy opens with this statement: *"The overriding objective of the ANDS is to substantially reduce poverty, improve the lives of the Afghan people, and create the foundation for a secure and stable country."*⁴⁷ In an effort to gauge the extent to which the lives of contract-winning businessmen and women were improved, qualitative questions about the personal impact of winning a contract, beyond job creation and generation of profits, were posed.

Not surprisingly, the biggest personal impact of winning a contract was the ability to save/start saving. More specific answers showed that increased income was spent on buying land, helping the family, and getting married.

Many business owners responded that winning contracts simply led to a "better life", while other respondents mentioned that they felt national pride and were more hopeful about the future. As one female director of a Kabul-based logistics company told interviewers, "When I got the first contract my morale changed and I was very happy. All the employees were happy."

While 80 business owners noted positive effects, eight businesses reported that winning the contract had negative implications. Two business owners noted that they now need to travel with private security because their lives are at risk due to working with international buyers. Three businesses complained that they were not paid or that the buyer delayed payment after services were completed.⁴⁸

5.7 Challenges to doing business

The majority of business owners reported corruption as the most significant challenge to doing business (see Figure 11). The international community was repeatedly perceived as corrupt, with complaints that international buyers have biased selection processes when awarding contracts. Corruption was also attributed to the government and to other businesses in the private sector. This is ironic considering that corruption is one of the barriers to local procurement cited by international organisations.

The security situation was the second most frequently noted challenge. Companies often do not want to be associated with working with the international community, especially the U.S. Military, for fear of being targeted by insurgents.

Capital was also frequently cited as a major difficulty in doing business, as it has been in previous research.^{49,50} Many entrepreneurs reported that they self-fund from family resources rather than borrow from a financial institution. The most common explanation for this was that, as Muslims, they observe Islamic finance laws. These laws prohibit the payment or acceptance of interest or fees on loans. These responses are consistent with findings from recent World Bank surveys.^{51,52}

⁴⁴ Interviews undertaken by Marketplace staff with international buyers in Kabul and Helmand 2011.

⁴⁵ Adam, C. and O'Connell, S. (2004) Aid versus trade revisited: Donor and recipient policies in the presence of learning-by-doing. *The Economic Journal* 114.

⁴⁶ The World Bank (2009) *The Afghanistan Investment Climate in 2008*.

⁴⁷ Afghanistan National Development Strategy, Islamic Republic of Afghanistan, Pg. 5.

⁴⁸ A breakdown of responses is given in Annex 6.2.

⁴⁹ Center for International Enterprise, *Afghan Business Attitudes on the Economy, Government, and Business Organizations: 2009-2010 Afghan Business Survey*, 2010, p. 6.

⁵⁰ Schultz, Jessica and T. Soreide. "Corruption in Emergency Procurement", *Anti-Corruption Resource Center*, U4, 2009: Issue 7.

⁵¹ The World Bank (2009) *The Afghanistan Investment Climate in 2008*.

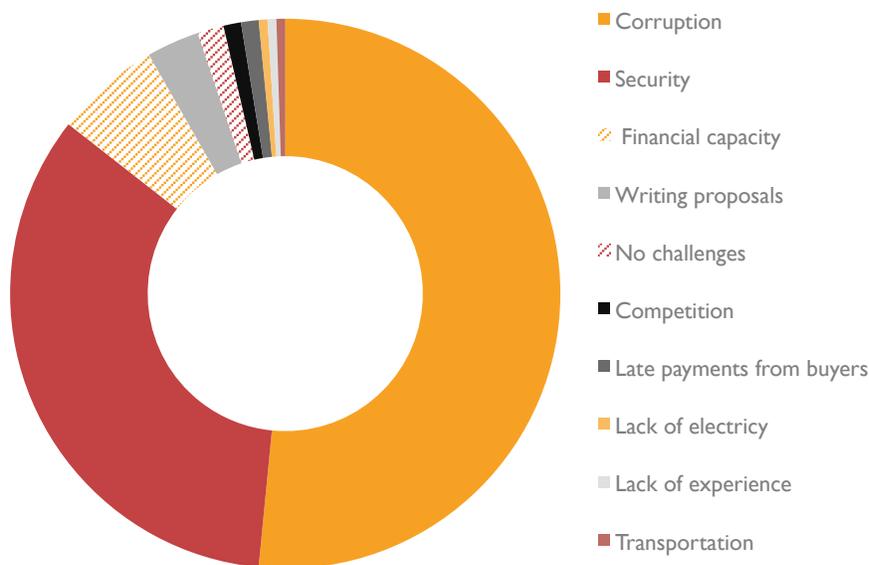
⁵² The World Bank (2011) *A Window to the Construction Sector in Afghanistan: Initial Results from a Construction Survey*.

This suggests that the problem of low levels of capital investment will not be overcome simply by increasing the amount of credit available to these businesses through formal financial institutions.

Proposal writing was another challenge.⁵³ Businesses stated that they do not always feel confident writing proposals in English and do not want to spend resources to produce a good proposal since they believe they will not win the contract anyway, due to corrupt procurement processes. Further study is needed on what buyers look for in proposal writing. Training courses that increase awareness among businesses of proposal requirements could decrease the perceptions of corruption in the international community.

The challenges described by entrepreneurs in our survey contrast with responses to the World Bank Enterprise Survey. While that survey also showed that corruption, security, and access to finance were serious constraints to doing business, a lack of policy enforcement and poor electricity infrastructure were identified as additional serious constraints in Kabul. These differences are probably due to the fact that the survey described in this report focused on doing business with the international community and so the constraints reported are probably more specific to winning international contracts rather than doing business in general.

Figure 11: Challenges to doing business



⁵³This is consistent with feedback gathered from Marketplace training sessions.

6. CONCLUSION AND RECOMMENDATIONS

Based on data collected for this report, findings show that since 2006, the procurement of Afghan goods and services by the international community has created or sustained an estimated 118,000 jobs in Afghanistan. This has provided much-needed income for hundreds of thousands of Afghans. Local procurement has also allowed firms to increase their capacity by investing profits from contracts to expand their business and increase the skills of their staff. Looking ahead, however, as the international community draws down its presence, these results are up in the air. But they are not forgone.

The international community's eventual drawdown is not a *fait accompli*. Through this report and the data collected from it, PDT has created a platform to understand better the kinds of jobs created, the conditions in which they were created, and the ensuing results of their creation. They are results that fill an important gap in information both about Afghanistan's marketplace and the impact of the international community's spending. This information provides the tools to develop a roadmap for building and, more significantly, scaling up Afghanistan's economy.

Scaling up Afghanistan's economy will take effort. The gains made so far are fragile. The findings in this report show that many of the jobs created through local procurement are transient. In order to ensure that Afghans continue to create jobs and expand businesses greater investments in sourcing goods and services from Afghan entrepreneurs must be made. The jobs described in this report are the result of \$1.1bn worth of local procurement over five years. With US Department of Defense spending over \$6bn every month in Afghanistan, there is clear potential to increase local spending.

Increasing the volume of contracts to Afghan businesses beyond the international community is one of the key solutions that will enable Afghans to continue to create jobs and expand businesses. PDT's findings indicate that given an increase in the number of contracts facilitated, Afghans would be more inclined to expand small firms, hire more labour and provide employee training in order to innovate and compete for more contracts. Such investments would increase business capacity and, alongside the multiplier effects of increased local spending, enable a reduction in foreign assistance while setting off a cycle of productivity, market activity, capacity, capability, and security that will help move Afghanistan⁵⁴ forward and allow it to become an active player in the global marketplace.

How do we sustain this cycle?

With a drawdown in military and development efforts under way in Afghanistan, it is critical that the international community not only continue to source from Afghan firms wherever possible, but work with the local private sector to find new markets. This will help ensure the legacy of the extraordinary investments made in Afghanistan, including the sustainability of the burgeoning Afghan economy.

It is universally accepted that small- and medium-sized businesses are vital job creators in most economies. To get there, small businesses need a steady stream of clients and customers. For the past several years the international community has been that stream in Afghanistan. While it is inevitable to see a turnover in that customer base, it is imperative that the international community assists Afghans in attracting new clients and customers and business opportunities that will meet the demands of Afghanistan and its people. Afghanistan cannot do this alone. But neither can it continue to depend on foreign assistance. Local procurement can set in motion the employment and investment required to achieve a sustainable economy.

⁵⁴ Belasco, A. (2011) The Cost of Iraq, Afghanistan, and Other Global War on Terror Operations Since 9/11

6.1 RECOMMENDATIONS

For international organisations

While local procurement has had a positive effect, in order for this to be sustained international organisations need to create a predictable and stable environment for Afghan businesses by:

- Increasing transparency in contracting including making acquisition plans available so that businesses have time to adjust their operations including retaining employees with necessary skills.
- Continuing to procure locally where ever possible with an increased view towards the most labour-intensive and sustainable industries.
- Actively providing references for businesses with good track records to enhance their ability to find other markets for their services.

International organisations also have a role to play in helping businesses overcome the barriers identified in Section 5.7. They should:

- Apply lessons from other Islamic countries on providing capital to businesses so that Afghan companies can compete for larger contracts.
- Allow businesses to bid in their local language.

For Peace Dividend Trust

This research also provides valuable lessons for PDT as it seeks to continue its work in Afghanistan. PDT should:

- Increase awareness among local businesses of international organisations' procurement procedures.
- Increase matchmaking efforts to connect Afghan businesses with demand from other Afghan businesses and with the national government.
- Improve collection and feed back of data to international buyers on the local economic impact of their procurement.

6.2 Future research

This report represents just one side of the story. It looks at businesses that have been successful in winning contracts. In order to understand properly the impact of local procurement on employment, more research is necessary on those businesses that have not won contracts from the international community. A closer look at the investments made by businesses and how transferable these are to other markets would help to determine the long-term benefit of these investments. Research into whether businesses that have won contracts are better at accessing markets not related to military or development agencies would also be useful.

7. ANNEXES

ANNEX I: KABUL JOB CREATION QUESTIONNAIRE

<p>Section 1: Contact Information</p>	<p>PEACE DIVIDEND TRUST KABUL JOB CREATION SURVEY QUESTIONNAIRE</p> <p>Node number:</p> <p>Company name:</p> <p>Email:</p> <p>Phone:</p> <p>Address:</p> <p>Contacted?:</p> <p>Agreed to participate?:</p> <p>Number of contracts won through PDT</p>
<p>Section 2: Background</p>	<p>BRIEF INTRODUCTION ABOUT PDT & SURVEY FOLLOWED BY QUESTIONS</p> <p>1 How many contracts have you won that were facilitated by PDT?</p> <p>2 When did the contract begin and how long was the contract?</p> <p>3 What was the value of the contract won?</p> <p>4 How many employees did you have before winning the contract?</p>
<p>Section 3: During the Contract</p>	<p>5 How many staff did you hire once you won the contract?</p> <p>6 How many days is the average work week, and how many hours a day do staff normally work?</p> <p>7 How many new staff worked full time for the duration of the contract?</p> <p>8 Of these newly hired full time employees, how many were skilled labour?</p> <p>9 How many were unskilled labour?</p> <p>10 How many new staff were temporary (work a few days, weekly or as needed)?</p> <p>11 On average how many temporary workers do you have working per day?</p> <p>12 Of these temporary staff how many were skilled labour?</p> <p>13 How many were unskilled labour?</p> <p>14 Do you feel that PDT's services helped you to win the contract? (Not at all, somewhat, yes)</p>
<p>Section 4: After the Contract</p>	<p>15 Has the contract finished? If no, skip to question 23.</p> <p>16 How many full-time employees did you keep on after the contract ended?</p> <p>17 How many of these are skilled labour?</p> <p>18 How many of these are unskilled labour?</p> <p>19 How many temporary employees did you keep on?</p> <p>20 How many of these are skilled labour?</p> <p>21 How many of these are unskilled labour?</p> <p>22 Besides winning contracts, are there any other reasons that you hire people?</p>
<p>Section 5: Employment Information</p>	<p>23 As a result of the contract, have you purchased anything for your business, or do you plan to in the future? What?</p> <p>24 As a result of the contract have you offered training or benefits to staff? If so, what kind?</p> <p>25 As a result of the contract have you expanded departments or services? If so, what kind of service/department?</p> <p>26 Have you won any other contracts as a result of this contract, either from this buyer or another buyer they referred you to? If yes, what's the value of the contract?</p> <p>27 What is the largest contract you have had?</p> <p>28 What was your annual revenue before the contract? An estimate is fine.</p> <p>29 What was your annual revenue after the contract? An estimate is fine.</p> <p>30 What is the most difficult challenge in expanding your business?</p> <p>31 How has winning this contract impacted your life on a personal level?</p>

ANNEX 2: PEACE DIVIDEND MARKETPLACE SERVICES IN DETAIL

LOCAL SUPPLIER DIRECTORY AND BUSINESS PORTAL

The Afghanistan Local Supplier Directory, which is located on a Business Portal www.afghanistan.buildingmarkets.org along with other useful information and resources, contains a comprehensive listing of verified Afghan suppliers (over 7,000) that have been registered by PDT. To register with PDT, each new business must undergo a detailed onsite interview by one of PDT's verification officers. This is done in person to confirm that each supplier operates out of a standing office, but also to ensure that businesses meet other criteria such as being majority Afghan-owned and registered with a recognized licencing entity. Once a new supplier meets all verification criteria, a unique profile is generated by PDT staff and uploaded to the Afghanistan Local Supplier Directory. Typically, the business verification team conducts anywhere between 50 - 60 verification site visits in a week. Every six months, PDT's Call Centre re-verifies each business in the directory to maintain the integrity of information published in the Directory.

BUSINESS MATCHMAKING

Business matchmaking facilitates business relationships between verified local suppliers and international buyers through on-demand vendor identification, events, matchmaking reports, and demand/supply analysis. International and institutional buyers submit a request to PDT for needed goods or services. PDT's matchmaking team then identifies and contacts suitable Afghan suppliers that would be able to meet the requirement. The matchmaking team then contacts each of these suppliers to confirm their interest in being considered for the contract as part of the buyer's tendering process. Once confirmed, the matchmaking team puts together a report that is forwarded to the buyer.

TENDER DISTRIBUTION SERVICE

Tender Distribution Services (TDS) are intended to break down information barriers that often prevent Afghan businesses from competing for contracts. TDS provides local businesses with free and easy access to tenders, Requests for Quotations, and other solicitations. Tenders are distributed to suppliers through PDT's Tender Distribution Point at its Kabul office and via its Tender Directory (available through the Afghanistan Business Portal at www.afghanistan.buildingmarkets.org/tenders). When solicitations are received from buyers during business hours, the turnaround time for tenders to be posted to the Tender Directory on the Business Portal is usually less than one hour. Email and short message notifications are sent using PDT's tender sending platform. These notifications target businesses by sector and location, notifying them that a new opportunity exists in their area of work.

TRAINING

PDT trainings are intended to increase the capacity and ability of Afghan businesses to compete for, win, and deliver successful contracts. Training is focused on broadening the understanding of procurement procedures and contracting processes. On average, training seminars are offered twice monthly at PDT's Kabul office. In addition to a general training on procurement and contracting, PDT has developed specialized modules on U.S. Military, UNICEF, UNDP, and NATO procurement procedures. The general procurement training sessions cover an introduction to the principles of procurement (including types of contracts), the contracting cycle, common bidder mistakes, delivery procedures, claims and protests, debriefing on unsuccessful bids, and a module on technical proposal development.

MARKET RESEARCH AND ADVOCACY

Market research and advocacy focuses on influencing key stakeholders and ensuring that their operations have a positive impact on the development of the Afghan private sector through local procurement, investment, and support for credible Afghan institutions. PDT does this through the research and production of reports on the Afghan economy and business environment, marketing campaigns, and special events.

ANNEX 3: COLLECTING DATA ON CONTRACTS

Table 7: Methods of collecting feedback on contracts

Marketplace service	Process of learning about contracts	Unaccounted for information
Local Supplier Directory	If a business is only registered on the portal but does not use any other service, there is no way for its success at winning contracts to be measured.	There is no tracking system set up to see if buyers are awarding contracts to businesses they have found on the Portal. The Directory's main use is to support the other services.
Business Matchmaking	Buyers are asked to report back to the Business Matchmaking Officer to let them know if a business was selected. Emails are sent out to ask for buyer feedback.	Not all buyers report back on which business was selected for the contract.
Tender Distribution	Every quarter, Impact Surveys are launched. The Business Call Centre calls every business that physically came in to pick up a tender during the previous quarter. Businesses are asked if they won any contracts from the bid upon tenders they received from the Marketplace.	Prior to June 2011, all businesses that downloaded tenders were unaccounted for. If a business had not won a contract at the time of the survey, it was not called again unless a representative picked up a tender at the office. If that business were to win a contract after the survey, it would remain unaccounted for.
Training	Every quarter, Impact Surveys are launched. The Business Call Centre calls every business that attended a training session during the previous quarter. Businesses are asked if they won any contracts related to the training they had received.	If a business had not won a contract at the time of the survey, it was not called again unless a representative picked up a tender at the office. If that business were to win a contract after the survey, it would remain unaccounted for.
Market research and advocacy	After events, attendees are called and successful contracts are recorded.	Not all attendees register, and not all are called back. Once they have been called back, no future calls are made to see if other contracts were awarded.

ANNEX 4: DETAILED ESTIMATION METHODOLOGY

When estimating employment numbers for contracts not covered by the survey, the cost of one month of employment was estimated using the mean value from the survey sample (\$1,108). This allows for a safe underestimation of jobs created or sustained for all businesses that did not participate in the survey. For contracts on which there is less information, the estimate for the number of months of employment created or sustained was halved in order to make the estimate more conservative. Contracts awarded to businesses outside Kabul were confirmed in a survey undertaken in August 2011.

Table 8: Estimation strategies for contracts facilitated through PDT's Marketplace

Businesses that won contracts	Estimation strategy	Number of contracts	Value of contracts
Participated in survey	No estimator - used survey data	142	\$391,097,707
Participated in survey but no dates for contract	Used survey data mean to estimate cost of employment.	6	\$50,242,012
Other contracts of survey participants	Used the same cost of one month of employment as for other contract for that business.	191 ⁵⁵	\$190,910,195
Contracts confirmed in contract confirmation survey August 2011	Used survey data mean to estimate cost of employment.	305	\$133,121,805
Contract confirmed by buyer but business kept anonymous	Used survey data mean to estimate cost of employment.	26	\$52,692,404
Business not reached, closed down, no record of business found, business denied receiving contract despite previously confirming	Used survey data mean to estimate cost of employment. Halved estimated months of employment as records are less likely to be accurate. If contract was cancelled then contract not counted.	533	\$273,157,663

⁵⁵ This is inconsistent with Table 2 as two extra contracts were discovered during the August survey to confirm existing contracts.

ANNEX 5: SUPPLEMENTARY DATA

Figure 12: Distribution of contract values

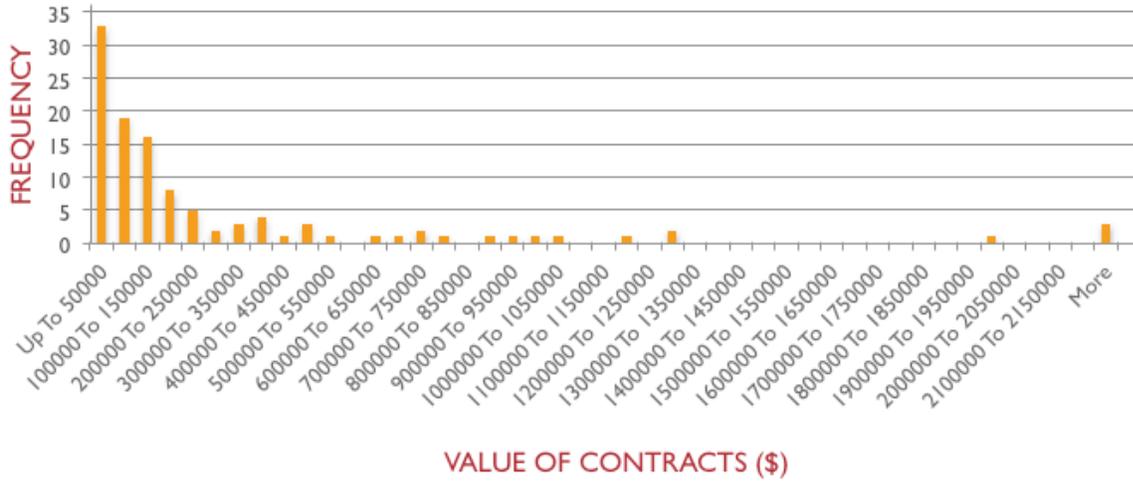


Table 9: Staff numbers before winning contracts

Range of employees	Number of businesses	Number of employees
0	1	0
1-10	57	354
11-20	39	610
21-30	12	316
31-50	14	552
51 - 100	15	1,238
101 - 350	10	2,170
Total	148	5,240

ANNEX 5: SUPPLEMENTARY DATA

Table 10: Staff numbers during contracts and number of jobs created or sustained

Before contract			During contract	
Range of staff per business	Number of businesses	Number of staff before contract	Total number of staff hired	Total number of staff during contract
0 to 10	58	354	2,559	2,913
11 to 20	39	610	1,096	1,706
21 to 30	12	316	1,046	1,362
31 to 50	14	552	934	1,486
51 to 100	15	1,238	2,923	4,161
101+	10	2,170	1,377	3,547
Total	148	5,240	9,935	15,175

Figure 13: Number of months completed contracts lasted



ANNEX 5: SUPPLEMENTARY DATA

Table 11: Numbers and values of contracts of Marketplace Regional Offices

Office of operation	Years of operation	Number of contracts	Total contract values
Kabul	2006 – 2012	639	\$935,760,443
Helmand	2008 –2011	322	\$108,521,432
Jalalabad	2008 – 2011	142	\$23,803,756
Kandahar	2008 – 2011	69	\$17,953,380
Mazar-e-Sharif	2008 – 2011	52	\$13,031,716
Total		1224	\$1,099,070,727.00

ANNEX 6: ANSWERS TO QUALITATIVE QUESTIONS

Table 12: Personal impact of winning contracts

These were open-ended responses from participating business owners who wished to give feedback. Many were able to list more than one impact and challenge.

Personal impact	Number of businessmen/women
Increase in personal savings	30
Better life	14
Bought land/ house/ car	8
Busy	4
Work experience	4
Helped family	4
Developed business	3
No impact	3
Financial security	2
Went on vacation	2
Optimistic for the future	2
National pride	2
Started an organisation for women	1
Got engaged	1
Negative - Can't see family	1
Negative - Angered family	1
Negative - Taxes outweighed profits	1
Negative - Need security now	2
Negative - Donor delayed/blocked payment	3

Table 13: Challenges to doing business in Afghanistan

Challenges	Number of businesses
Corruption	100
Security	66
Financial capacity	12
Writing proposals	6
No challenges	3
Competition	2
Late payments from buyers	2
Lack of electricity	1
Lack of experience	1
Transportation	1