

PROJECTS IMPLEMENTED BY BUILDING MARKETS (Formerly Peace Dividend Trust)

ABOUT THIS REPORT

Ainsley Butler, Project Director and Lucy Heady, Economist wrote this report.

Other contributors include Kavya Raman, Phil Colgan, Akbar Ahmadzai, and Kate Landry.

Several team members have also contributed directly to reporting through the various programme activities. Although we cannot name them all, we thank them.

Questions and comments should be sent to Ainsley Butler at <u>butler@buildingmarkets.org</u>.

Building Markets is a non-profit organisation that connects entrepreneurs, creates jobs, and sustains peace.

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INTRODUCTION

Building Markets implemented the Peace Dividend Marketplace programme, an innovative approach to increase the economic impact, and the resulting peace dividend, of the massive international military, aid and humanitarian presence in Afghanistan. Starting as a pilot project in Kabul funded by the Canadian International Development Agency (CIDA) in 2006, the Marketplace subsequently expanded to several provinces in Afghanistan, most significantly in Helmand where funding from the UK Department for International Development (DfID) allowed for the set up of a fully-staffed office in LashkarGah, Helmand.

The purpose of this report is to provide more detail on the results that the Marketplace programme has achieved in Afghanistan, focussing on three key performance indicators:

- From feedback from buyers and suppliers, Building Markets recorded 1,364 contracts ♦ worth over \$1 billion ♦ won by at least 680 businesses where help from Building Markets' services was a factor in securing these contracts:
- It is estimated that these contracts have contributed to creating or sustaining approximately 130,000 sixmonth jobs. or 65,000 full-time equivalent jobs.

Data marked with these symbols •, • and • are within the scope of a limited assurance statement provided by KPMG LLP, attached as section 9 of this report.

This report provides limited information about the extent to which suppliers attribute winning contracts to Building Markets activities, survey finds and other linkage effects. A grant effectiveness indicator is established. Overall, donors spent US\$133 for every job created through the project activities. The impact of training and tender distribution services which have been transferred to Afghan institutions are presented. Other activities and specific examples are also discussed.

This report was requested by DfID to meet requests for a deeper assessment of Building Markets' impact in Afghanistan. This report provides greater transparency on the data and methodology that underlie the programme's results. The report and the associated assurance engagement have been made possible through the generous funding of DfID.

Location	Dates of operation (not contract dates)	Funding agency
Kabul	January 2006 to 31 March 2012 (pilot period: January 2006 to April 2008)	CIDA
Helmand	January 2009 to March 2012	DflD
Jalalabad	September 2008 to March 2011	CIDA
Kandahar	July 2008 to March 2011	CIDA
Mazar-e-Sharif	July 2008 to March 2011	CIDA

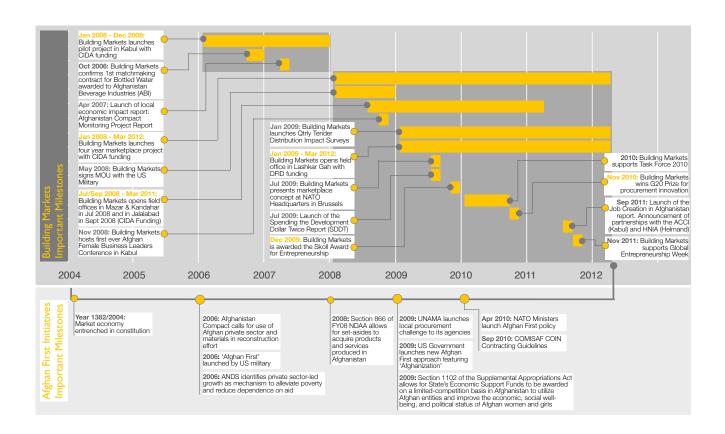
BACKGROUND

During the development and reconstruction phase that Afghanistan experienced from 2006 to 2010, before the transition of security responsibilities to the Government of the Islamic Republic of Afghanistan (GIRoA) during the period of 2011 to 2014, huge financial investments were, and will continue to be required, but are available only from a limited number of sources.

Maximising the involvement of the local market at this stage can contribute to broader economic development and reduce reliance on external inputs. Increased spending in key market sectors helps to "spend the development dollar twice", using development and reconstruction monies to develop industries in the formal economy, which in turn creates local jobs, promotes stronger economic growth and increases government revenues. Spending funds on initiatives that have a local economic impact also benefits other sectors through the Keynesian multiplier effect, the number of times an additional dollar of fiscal stimulus cycles around the economy as a result of increased business activity.

The use of local procurement provides a tremendous opportunity for Afghanistan's continued economic recovery and growth, yet requires substantial encouragement and support to maximise existing and emerging opportunities. The benefits of local procurement are widely recognised and include economic development and job creation. Since 2004, local procurement efforts in Afghanistan have gone from strength to strength (see Figure 1). Nonetheless, the implementation of policies that promote local procurement, such as Afghan First initiatives, remain challenging due to the complexity of the operating environment. Buyers often lack reliable information about the goods and services available in country, and do not know how to effectively access the local marketplace. On the suppliers' side, there is limited knowledge of tendering opportunities (including how to access tenders), a limited understanding of procurement procedures and inexperience with contractual matters. In addition, both buyers and suppliers are hampered by asymmetric information about the marketplace. Addressing the information gap faced by all stakeholders is a key component to develop domestic business capacity and maximise the economic impact of the international presence in Afghanistan.

Figure 1: Key Milestones of the Peace Dividend Marketplace initiatives and Afghan First milestones



STRUCTURE OF THIS REPORT

This report provides an overview of the Marketplace programme's key metrics. It considers the importance of Marketplace services to businesses that won contracts and to what extent these contracts represent new linkages in the Afghan economy.

Due to the use of impact surveys administered to suppliers participating in training and TDS activities, the programme holds the most impact data on these services. The second and third parts of the report present evidence on how and why these activities helped suppliers win contracts. This evidence is not assured, but rather is presented to help strengthen the argument that Marketplace services contribute to businesses winning more contracts, thereby allowing for two significant impacts: (1) for more money to enter into the local economy and (2) to create or sustain jobs for Afghan people. The final section of the report presents survey data related to companies' confidence in selling their goods and services in the future.

MARKETPLACE ACTIVITIES

To help both suppliers and buyers¹ overcome the barriers to local procurement, the Afghanistan Marketplace programme provided the following suite of services:

Training Targeted training seminars were provided to local suppliers in order to increase their understanding of procurement processes and enable them to successfully bid for, and win, contracts. Additional training modules in project management, business accounting, sales and marketing and proposal writing were provided in the last half-year of the programme based on local business requests.

Tender Distribution Service (TDS) The purpose of this service was to collect tender announcements and other business opportunities and distribute them to local companies. To reach the maximum number of businesses, information was disseminated online on the Tender Directory (www.afghanistan.buildingmarkets.org/tenders), by email, or by short message service (SMS). Hard copies of tenders were distributed through the Marketplace offices, as not all companies had internet access.

Business Matchmaking | Business Matchmaking bridges the demand of buyers with the capacity of Afghan businesses by providing custom reports to match institutional buyers' requirements with local providers of goods and services. Additional services such as site visits, organisation of vendor events and networking opportunities were also facilitated through the organisation of events attended by buyers and suppliers, promoting market linkages.

Online Supplier Directory and Business Verification | The Online Supplier Directory provides buyers with information on local businesses. The directory features business profiles that include information related to the company's contact information, organisation and structure, qualifications and licensing, range of operations and past performance. Accessible through the Afghanistan Business Portal (www.afghanistan.buildingmarkets.org), the directory is searchable by sector and location. Marketplace staff initially verified each supplier profiled in the directory through on-site, in-person interviews. Businesses were reverified by telephone every six months to maintain the integrity and the utility of the data.

Market Information and Advocacy | This activity generated data and reports that contributed to a more complete understanding of the impact of local procurement in Afghanistan. These reports, including the publication of newsletters and market information data are available on the Buyer Resources page of the Afghanistan Business Portal (www.afghanistan.buildingmarkets.org/aggregator/sources/12).

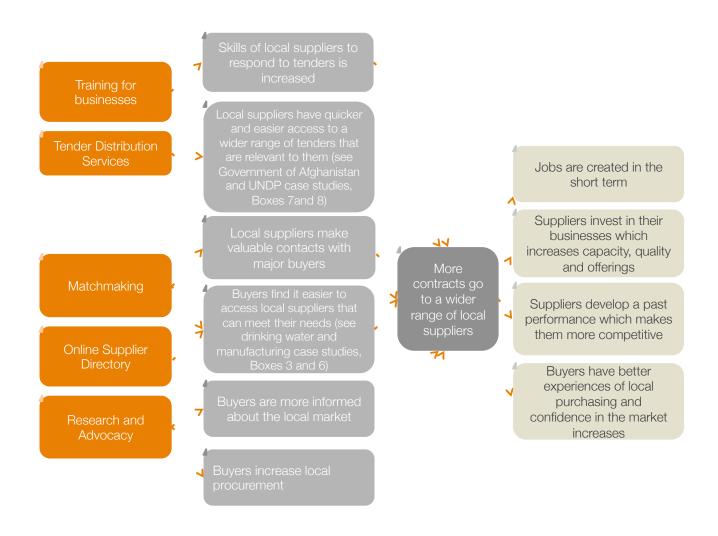
Figure 2 shows how each of the Marketplace services contributed to increasing local procurement. Overall, buyers found it easier to access local suppliers. Local suppliers increased their confidence and developed skills required to work with large buyers. The aim was to change market behaviour over time as buyers were increasingly able to rely on the local market and suppliers became better at competing for contracts.

Building Markets helped local businesses create jobs in Afghanistan since labour inputs were required to deliver on those contracts that were awarded with the help of the Marketplace services. Businesses used profits to invest in physical and human capital, thereby increasing their ability to deliver more contracts in the future. Businesses were able to grow and acquired a track record of successful contract completion, which inspired more investment and confidence in the local market.

¹ In this report, 'suppliers' are Afghan SMEs. 'buyers' is a term used to refer to those organisations seeking to do business with local suppliers, including militaries, UN agencies, international NGOs, the Afghan government and international companies. Buyers can also be local businesses in some cases.

The Afghanistan Marketplace programme approach has been endorsed by a joint report prepared by the World Bank and DflD, which advocated that donors should support the organisation so that the services supporting local procurement continued to be available in Afghanistan².

Figure 2: The Building Markets 'Theory of change'



² Christopher Ward, David Mansfield, Peter Oldham and William Byrd, Afghanistan economic incentives and development initiatives to reduce opium production, February 2008, page 41.

I. KEY PERFORMANCE INDICATORS

A large amount of data was collected for each Marketplace activity from both buyers and suppliers that used the services. This data enabled the Marketplace team to respond to demand, engage in continuous improvement and understand its impact. The three indicators that are most important for understanding the overall programme impact are:

- The number of contracts facilitated;
- The value of these contracts;
- The estimated number of jobs created or sustained through these contracts.

This section gives an overview of the contracts that have been facilitated by each of the Marketplace's services. Building Markets' contribution varies from contract to contract, therefore the level of attribution is also considered alongside how often a contract represented a first connection between a buyer and supplier. This section ends by assessing the employment impact of contracts. Using data from an in-depth survey conducted in Kabul, an estimate is made for the total number of jobs created or sustained in Afghanistan since the Marketplace programme started in 2006.

Key points

- From feedback from buyers and suppliers, Building Markets recorded 1,364 contracts worth over \$1 billion won by at least 680 businesses where help from Building Markets' services was a factor in securing these contracts.
- It is estimated that these contracts have contributed to creating or sustaining approximately 130,000 sixmonth jobs or 65,000 full-time equivalent jobs.

Box 1: A note on accuracy

Errors can occur in the Marketplace list of contracts if the value of the contract is entered wrongly, or if the agreement between a buyer and supplier is altered or cancelled. Inaccuracies may be exacerbated by the lack of third-party procurement data available to the public that prevents more robust checking of Marketplace data records.

We know something about the accuracy of our records from an extensive contract reconfirmation survey carried out in August 2011. Building Markets was able to survey businesses about contracts valued at a total value of \$753,408,037, representing 485 unique contracts. During this review, 63 contracts had the wrong value recorded and their total value was reduced by \$90,657,053 to \$662,750,984.16. Thirty-five contracts worth \$7,127,762.34 were removed from the record altogether. This reduced the total recorded contracts by 13%, suggesting an accuracy rate of 87% when contracts are first recorded by Building Markets.

³ Data marked with these symbols ♠, ♣ and ♠ are within KPMG's limited assurance scope (see KPMG assurance opinion on pages 39, 40 and 41

I.I SOURCES OF ORIGINAL DATA

In order for Building Markets to record that an Afghan business has won a contract with the help of its services, feedback on that contract must be received through one of the surveys that have been carried out with suppliers (see list below), or through feedback received directly from buyers and suppliers at meetings, events or by email. A timeline of these surveys is shown in Figure 3.4

The various data collection methods employed by Building Markets include:

- **Impact surveys:** quarterly telephone surveys to training participants and TDS users.
- Feedback from buyers: regularly solicited feedback from buyers that use the Matchmaking service or the Online Supplier Directory.
- Qualitative feedback: comments received directly from buyers and suppliers at meetings, events or by email.
- The job creation survey: face-to-face survey undertaken between January and March 2011 with 58% of recorded contract-awardees based in Kabul.
- The contract reconfirmation survey: telephone survey undertaken in August 2011 to reconfirm contracts that had been recorded at that time.

Building Markets records contract-related data that is reported by buyers and suppliers. If the buyer or supplier providing feedback was unsure or did not believe Building Markets' services contributed to the contract award, this contract data was not register the programme's records. Therefore, all contracts reported by Building Markets have either been confirmed by a buyer or a supplier. Because the Marketplace programme did not have access to third-party data to further validate these contracts, our records have a margin of error as described in Box 1.

Box 2: Challenges collecting data

In 2007 and 2009, Building Markets carried out research on the economic impact of official development assistance in Afghanistan, in partnership with the Afghan Ministry of Finance.

The analysis conducted for each assessment was hampered by the poor quality of information about spending in Afghanistan provided by bilateral donors.

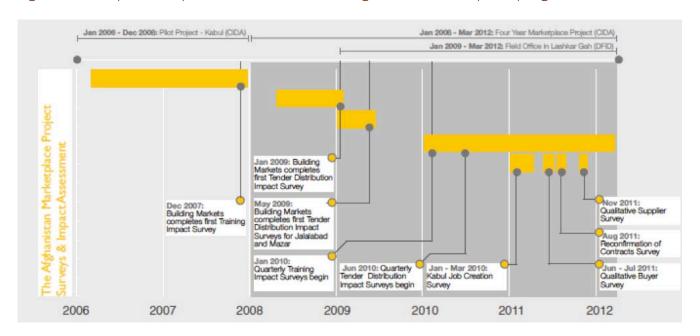
Data was often inconsistent with information that had previously been reported to the Government of Afghanistan, or was reported at a level of aggregation that prevented further analysis on local economic impact.

Problems in data collection and provision can be explained by a number of factors, including lack of capacity, limited availability of adequate resources on the ground, technical challenges and political issues.

Source: Peace Dividend Trust [Now called Building Markets], Spending the Development Dollar Twice, July 2009

⁴ A more detailed description of survey methodologies can be found in Annex 1.Building Markets Impact Report: Afghanistan Marketplace Initiatives 2006 - 2012//

Figure 3: Surveys and impact assessments of the Afghanistan Marketplace programme



Box 3: Drinking water and buying local for cost savings: Building Markets' enduring matchmaking success

The international military forces in Afghanistan are significant consumers of bottled water. Between 2001 and 2006, international military forces imported all bottled water into Afghanistan from neighbouring countries. The US Military estimates having spent US \$58 million on shipments of water in 2006 alone, with the bulk of costs associated with transportation and shipping.

This presented a perfect opportunity for Building Markets' matchmaking team. In recent years, investors have built modern water-bottling plants to provide clean, safe and affordable drinking water in Afghanistan. These investments have provided hundreds of Afghans with access to jobs. One of the larger plants, Afghanistan Beverage Industries, employs over 350 workers. At the request of the US military (CFC-A), Building Markets conducted an initial assessment of the Afghan mineral water bottling sector. Building Markets identified and helped the US military team visit 12 bottling facilities.

In October 2006, the US Military became the largest purchaser of 'Cristal' water, produced by Afghanistan Beverage Industries. "This is a landmark event", said USMC Major David Van Bennekum. "This is the first time an Afghan-based company has met the stringent standards placed on vendors providing food goods to US forces." This represented significant savings for the US Military, as costs were reduced from \$58 million to \$7.2 million per year."

Following the US Military's lead, NATO's International Security Assistance Force (ISAF) also inspected and tested the Afghanistan Beverage Industries plant and products. The first shipment of bottled water was received at ISAF HQ in April 2007. Overall, buyers anticipated savings of over approximately US \$2.8 million per year from buying this commodity locally. Local producers are expected to receive an estimated US \$10 million from these contracts, generating a significant economic impact in Afghanistan. This contractual relationship is ongoing.

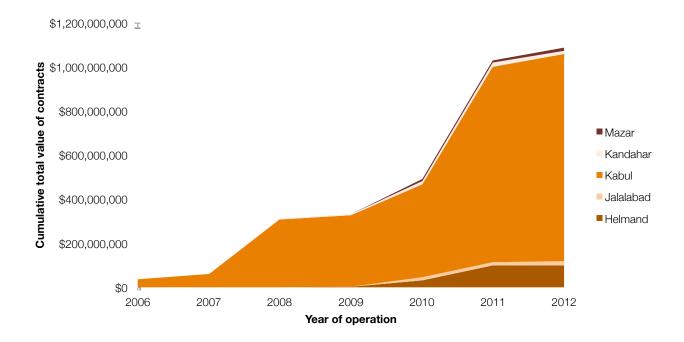
* AFP, Coalition buyer local, helps bolster Afghan economy, Middle East Times, 27 October 2006.

1,2 THE NUMBER AND VALUE OF CONTRACTS

In total 1,364 contracts valued at \$1 billion were recorded from feedback from buyers and suppliers in Afghanistan from January 2006 to February 2012, where help from Building Markets' services was a factor in securing these contracts. In Helmand, from January 2009 to February 2012, 349 contracts were recorded, valued at over \$100 million .

The number and value of contracts are only an estimate as there are a number of factors that are likely to overand under-estimate the true figures. Previous analysis suggests the value of recorded contracts is overestimated by around 13% and the number of contracts recorded is overestimated by about 7% (see page 7). However, the total number of contracts won (including those not recorded) with Building Market support is likely to be an underestimate due to low levels of feedback from buyers and because Building Markets does not have a full list of organisations making use of the Online Supplier Directory and TDS services, as public access was provided for these online resources until June 2011. Figure 4 shows the value of contracts recorded for each year of Building Markets' operations in Afghanistan through all programme locations. Figure 4 shows that the Kabul and Helmand offices had the largest impact. The largest proportion of funding was spent in these locations, when Marketplace services were running at their peak in 2010 and 2011.

Figure 4: Value of contracts facilitated through Building Markets' services by year and office location



To put these numbers into perspective, we can compare them to Afghanistan's GDP (see Table 1, data available up to 2010 only). This shows that the contracts won by local businesses with Building Markets' help are significant on the scale of the national economy.

Table 1: Value of contracts facilitated by Building Markets as compared to GDP⁵

Year	Value of contracts won with the help of Building Markets' services	Equivalent proportion of Afghanistan's GDP that year
2008	\$247,969,298	2%
2009	\$22,668,281	0.32%
2010	\$159,334,416	1%

⁵ The World Bank, Databank, http://databank.worldbank.org/ddp/home.do.
Building Markets Impact Report: Afghanistan Marketplace Initiatives 2006 - 2012//

In addition, it is helpful to compare the contracts won with the help of programme services with the known total value of local spending from international buyers operating in Afghanistan. The table below shows publicly available data on spending from three UN agencies and US government entities, from 2008 to 2010.

Year	Value of contracts won with the help of Building Markets' services	Value of US contracts awarded to Afghan compa- nies	Value of contracts awarded to Afghan companies by three UN agencies
2008	\$247,969,298	\$121,543,636*	\$50,235,424**
2009	\$22,668,281	\$236,374,137*	\$55,329,338***
2010	\$159,334,416	\$378,729,394*	\$80,714,724****

^{*}US government spending as reported through the FPDS, **UNOPS and UNDP, ***UNOPS, UNDP and UNICEF, **** UNOPS and UNICEF

Sources:

UNOPS: http://www.unops.org/english/whatweneed/Pages/Contractawards.aspx

UNDP: http://www.undp.org.af/Operations/Procurement/contracts.htm

Analysis of data from US Federal Procurement Data System, using Afghanistan vendor code only (www.fpds.gov).

ASSESSING THE EXTENT TO WHICH CONTRACT AWARDS CAN BE ATTRIBUTED TO BUILDING MARKETS' INTERVENTION

There are several factors that contribute to a company winning a contract. To assess Building Markets' contribution - i.e. to get feedback from Afghan companies on the extent to which they believe a contract can be attributed to Building Markets' services – from 2007⁶, companies that said Building Markets' services had helped them win a contract were asked to rank Building Markets' contribution on a five-point scale:

- 1 Building Markets did not help at all⁷
- 2 Unsure⁸
- 3 Building Markets helped a little
- 4 Building Markets helped a lot
- 5 Would not have won it without Building Markets

Of those companies that said Building Markets provided some help (i.e. they responded either 3, 4 or 5), 93% reported that Building Markets' services either helped a lot in winning the contract or that they would not have won the contract without Building Markets' donor-funded services. Services appear to have been most crucial to suppliers in Jalalabad, and services were found to have been least crucial in Mazar-e-Sharif (see Figure 5).

An independent review of the Marketplace initiative commissioned by CIDA and DfID and conducted in 2010 determined that "Procurement officers in the field consistently praised the value of the service, primarily citing the time and manpower savings of using it but also recognising the wider range of supplier options and the validation of basic vendor information"9.

⁶ Before this, companies were asked a simple 'yes' or 'no' question to assess whether Building Markets' services had helped in a contract award. If the answer was 'yes', contract data was requested; otherwise, no contract information was logged.

⁷ Contracts scoring a 1 or 2 were not recorded.

⁸ Contracts scoring a 1 or 2 were not recorded.

⁹ Upper Quartile, Review of Peace Dividend Marketplace Afghanistan Final Report, August 2010, page 24.

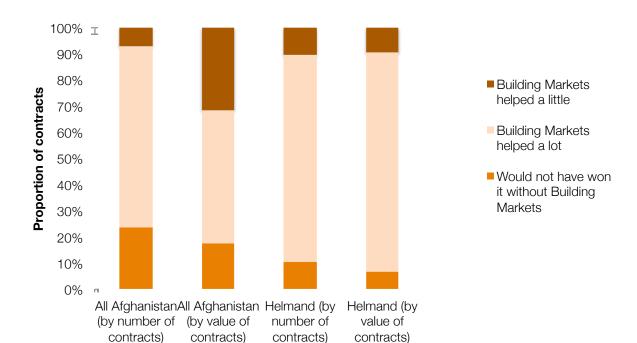


Figure 5: Extent to which suppliers attribute winning contracts to Building Markets¹⁰

Building Markets services are designed to increase the likelihood that buyers will make use of local suppliers. In locations where local suppliers would likely be engaged by buyers due to a lack of options, in field offices for example, we believe our services contribute to increasing the pool of local suppliers receiving contracts, which creates a more diversified and sustainable marketplace.

Building Markets recognises that the attribution data available is based on companies' perceptions of the impact of Building Markets' services, which may differ from the actual impact. It is very challenging to build a control group of companies, also known as a counterfactual, to assess what would have happened without the Building Markets intervention and validate this feedback quantitatively for two main reasons:

- 1. Building Markets aims to effect change across the economy, encouraging spill-over effects within the Afghan market. Therefore, defining a group of companies or buyers that would be excluded, for example, from the Online Supplier Directory for monitoring purposes would be entirely at odds and counterproductive to this mission.
- Companies are often reluctant to share procurement data, as this is typically considered commercially sensitive. Building Markets therefore relies on the goodwill established through the use of its services to obtain such data. Companies that do not benefit from Building Markets' services are very unlikely to share procurement data and the effort required to build this independent control group would be quite costly.

Building Markets is currently considering a range of methodological options for addressing this counterfactual challenge in its future operations. This is likely to include experimental or quasi-experimental evaluation designs. In future programmes, Building Markets will also have the option of using data that shows improvements in understanding from training sessions (see Section 2 for more detail) to take a qualitative approach to assessing attribution. Unfortunately, the small sample of businesses for which both data on improvements in understanding and data on contracts is available means that this analysis is not revealing for the Afghanistan programme.

¹⁰ Data collected through impact surveys. Refers to 772 contracts valued at \$330 million.
Building Markets Impact Report: Afghanistan Marketplace Initiatives 2006 - 2012//

LINKAGE EFFECTS

Many suppliers indicated that the were only able to establish new connections with buyers through the Marketplace services. In order to gather in-depth understanding of the value of Marketplace services from a local business perspective, a qualitative survey was conducted with suppliers in November 2011¹¹. Responses to this supplier survey point to Building Markets' success in bringing about buyer-supplier connections. For instance, only 12 out of 40 suppliers that used the programme services cited a lack of connections with buyers as a key business challenge. This is in contrast to 6 out of 10 (or 60%) of those suppliers that did not use the services citing connections with buyers as a key challenge.

Further compelling evidence of the linkage effects of the Marketplace programme in Afghanistan can be sourced from the contract reconfirmation survey conducted in August 2011, the job creation survey conducted from January to March 2011 and impact surveys conducted since September 2011. In these surveys - relating to 477 contracts - 24% of businesses stated that this was their first international contract and an additional 30% of these contracts were established with a new buyer. Of the repeat contracts in this sample, 27% of the contracts were awarded by a connection initially facilitated by Building Markets. Figure 6 shows how this split varies by region. The contracts recorded by the Kandahar office had the greatest proportion of new connections.

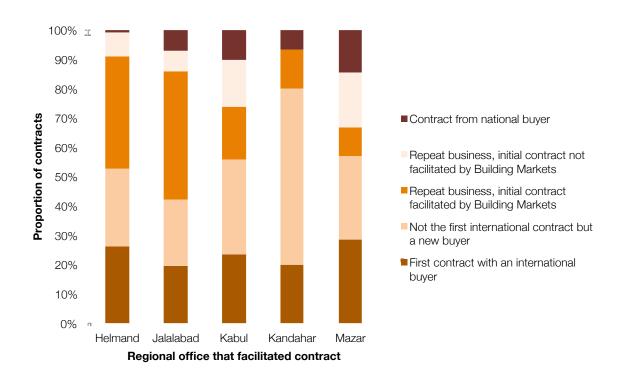
Responses to the contract reconfirmation survey conducted in August 2011 show that 27% of contracts won with the help of Building Markets' services led to another contract. By facilitating new connections for local suppliers, Building Markets' services helped to create the track record required to win repeat business and sustain the working relationships that are the cornerstone of any successful business.

Building Markets established a reach into the Afghan private sector that proved to be a useful resource for large buyers such as the Kabul Regional Contracting Centre, which identified one of its many challenges as conducting effective vendor outreach and networking. Its solution to this constraint was to establish a working relationship with Building Markets. LTC D. Edward Keller Jr. of the US Air Force wrote, "Partnerships with less constrained, more locally accessible organisations vastly increase the effectiveness and range of outreach and networking events" 12.

¹¹ For more details on the supplier survey and all other surveys carried out by Building Markets in Afghanistan please see Annex 1.

¹² LTC D. Edward Keller Jr., USAF, Contracting in Afghanistan – From Strategic Vision to Tactical Implementation, United States Army Acquisition Center, May 2009.

Figure 6: Contracts¹³ broken down by new connections and repeat business



¹³ Data collected through the contract reconfirmation survey, conducted in August 2011, and the job creation survey conducted from January to March 2011 refers to 477 contracts valued at \$297,499,340 million.

1.3 JOBS CREATED OR SUSTAINED

Employment is one of the most important impacts of contracts awarded to Afghan businesses. Creating jobs in crisis and post-crisis countries is fundamental to reducing poverty and rebuilding fragile economies. It is also considered crucial for stability^{14 15}. While there are many ways in which to support private sector growth, sourcing goods and services where possible is an efficient way to jump-start an economy and set off a multiplier effect that leads to job creation.

1.3.1 JOB CREATION: THE BASICS

The Marketplace programme in Afghanistan helped businesses create or sustain an estimated 130,000 sixmonth jobs, or 65,000 full-time equivalent jobs, an increase of 10,000 six-month jobs since the launch of *Job Creation in Afghanistan: Putting Aid to Work* in September 2011. This report refers to jobs lasting six months because this was the average duration of a job in the companies we interviewed. Two six-month jobs are the equivalent of one full-time equivalent job as defined by DFID Afghanistan (see Box 4). '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, total months of employment were used rather than individual jobs or numbers of people hired¹⁶.

Definition of key terms when talking about job creation

Month of employment	The employment of one person for a period of one month.
Job created	Refers to 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 job	Employee who works full time for the duration of a contract.
Temporary job	Employee who does not work full time over the life of a contract.
Skilled	Employee who holds a position requiring specific education or training.
Unskilled	Employee who holds a position requiring no specific education or training.
Ongoing contracts	Contract from any business that participated in the job creation survey that could not provide an end date for their project.

Source: Peace Dividend Trust [now called Building Markets], Job Creation in Afghanistan: Putting Aid to Work

¹⁴ See (among others) Collier, Paul, Breaking the Conflict Trap: Civil War and Development Policy, Oxford: World Bank and Oxford University Press 2003

¹⁵ Office of the Special Representative for Afghanistan and Pakistan, Afghanistan and Pakistan Regional Stabilization Strategy, February 2010.

¹⁶ Peace Dividend Trust [now called Building Markets], Job Creation in Afghanistan: Putting Aid to Work, August 2011, page 5.

I.4 SURVEYS THAT GENERATE JOB DATA

In order to determine the impact of winning an international contract on suppliers, a survey of Kabulbased businesses was administered from January to March 2011. These companies were selected because they had won contracts with the help of a Marketplace service. This survey is the richest source of information available on the employment effects of contracts recorded by the Marketplace programme. These results are described in detail in Building Markets' 2011 job creation report, peer-reviewed by three professional development economists ¹⁷.

The scope of this survey covered 147 contracts worth \$426 million. Businesses reported hiring a total of 9,360 new employees and retaining 15,150 employees. It is unknown whether staff 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 available¹⁸. Only eight businesses did not hire any new employees¹⁹. The average length of a job was six months and over half of the jobs lasted for four months.

On average, businesses increased staff size by 323% during contract periods. This is the average value by which a company expanded its employee base in order to meet the demands of the contract. It excludes only one outlier company that reported having zero staff before the contract and 1,000 staff during the contract. The median value shows that companies on average expanded their employee numbers by 187%.

Box 4: DflD's approach to job creation in Afghanistan

DfID Afghanistan defines full time employment (FTE) or jobs as the number of working hours that represents one full-time employee during a fixed time period, such as one year.

Direct jobs are created with the own efforts of the projects funded by DfID or SMEs supported.

Indirect jobs are created with efforts of DflDfunded projects or SMEs independently.

Jobs measurement by sector

SMEs:

245 days of work/8 hours daily = 1 FTE

Construction:

285 labour days/8 hours daily = 1 FTE

Two 6-month jobs are equivalent to 1 FTE

Figure 7 shows that, on average, smaller businesses experienced a higher percentage of employee growth. 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 from Figure 8, the majority of these new hires were skilled workers and almost all were employed for the full duration of the contract.

¹⁷ The professional development economists that reviewed the report are James K.Boyce, Michael Carnahan and Claudia Nassif.

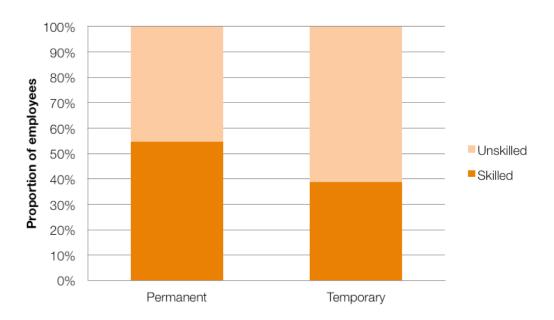
¹⁸ Numbers differ slightly from those in *Job Creation in Afghanistan: Putting Aid to Work* due to a duplicate contract found in subsequent audit of the original data.

¹⁹Five 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.

Figure 7: Average number of previously employed staff and new hires



Figure 8: Breakdown of new skilled or unskilled hires and temporary or permanent jobs²⁰



1.3.2 APPROACH TO ESTIMATING JOBS CREATED OR SUSTAINED ACROSS AFGHANISTAN

The data generated from the job creation survey makes it possible to calculate the value of each contract divided by the total number of full-time months worked. This gives us an estimate for the average contract value it takes to create one month of employment. The average cost of one month of employment was \$1,128 (referred to as the 'mean estimator'),²¹ much higher than the median cost of \$621 per job per month.²²

²⁰ For the purposes of this analysis 'skilled' is defined as a position requiring specific education or training, a 'temporary' job is one that does not last for the full length of the contract and a 'permanent' job is one that lasts for at least the length of the contract.

²¹ The average here is calculated with five outliers removed (all more than three standard deviations from the average). Including outliers, the average increases to \$2,479.

²² These values differ from Building Markets 2011 report due to changes made based on additional information received from suppliers.

In order to estimate a figure for the employment impact of all contracts recorded by Building Markets, we estimate the value of one month of employment for each contract. The total value of the contract is then divided by the value for one month of employment, following the equation below:

<u>Total value of contract</u> = Estimated months of employment Estimate of value of one month of employment

As the average length of a job from the job creation survey was six months, the estimated months of employment divided by six gives the estimate of jobs created by that contract:

<u>Estimated months of employment</u> = estimated number of jobs created 6

Table 2 summarises the estimates for the value of one month of employment used for different categories of contract. Most of these are based on the average from the job creation survey of \$1,128 (referred to as the 'mean estimator') because the data showed no pattern in the value of one month's employment by sector or year of contract. It is clear from the table that every care has been taken to be as conservative as possible when constructing this estimate. If the recorded contract had not been confirmed from the job creation survey, the contract reconfirmation survey or confirmed by the buyer, the value of the contract was reduced by 13% (see box on data accuracy in Section 1). The estimate for jobs created or sustained was also reduced accordingly. For the highest-value contracts (all those over \$20 million) for which there is no data on job creation, a higher estimator was used, based on the job creation data collected for the contract with the highest value of all recorded contracts (\$194 million).

Table 2: Estimators used for calculating total jobs created or sustained in Afghanistan

Types of contract	Estimator used for average and rationale	Number of contracts	Value of con- tracts
All contracts for which data was collected during the Job Creation Survey (JCS)	Raw data	113	\$69,399,279
All contracts going to a business for which data on a different contract was collected	\$-value/number of months worked for contract where data was available. If this value was under \$40 (Afghanistan's minimum wage), then used a \$40 estimator Source for private sector wages: http://www.state.gov/j/drl/rls/hrrpt/2009/sca/136084.htm	195	\$153,197,451
Included in JCS but no value for months of employment recorded	Mean estimator	5	\$35,242,012
Included in JCS but the contract was ongoing, so job months value represents a minimum number of jobs (excluding two largest contracts)	If number of months of employment is higher than if calculated with sample average, use job months data. Otherwise, used sample average.	27	\$28,787,427
All contracts reconfirmed in the contract reconfirmation survey, but not interviewed for the job creation survey, plus contracts confirmed by a buyer	Mean estimator	403	\$116,516,450
Contracts over \$20 million that were not part of the job creation survey	The data is so sensitive to large contracts, used mean estimator for largest contract for which we have job creation data.	8	\$476,271,404
All other contracts	Mean estimator, value of contract reduced by 13%	613	\$206,814,141

1.3.3 ESTIMATED NUMBER OF JOBS CREATED OR SUSTAINED

Using the methodology described above, Building Markets estimates that the number of six-month jobs created or sustained by the contracts won with the help of its services is rounded to 130,000. Table 3 shows the distribution of 131,006 six-month jobs by region and year the contract was recorded by Building Markets. This is equivalent to 65,503 full-time equivalent jobs.

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 115,000 jobs for six months.

Box 5: A note on estimating

Each stage of the estimation process is designed to be conservative, yet there are two key assumptions implicit in each estimation that could affect 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.
- 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.

Table 3: Estimated number of jobs created or sustained through contracts won with the help of Building Markets' services, by regional office and year

Year	Helmand	Jalalabad	Kabul	Kandahar	Mazar-e- Sharif	TOTAL
2006	0	0	3,197	0	0	3,197
2007	0	0	5,216	0	0	5,216
2008	0	0	18,580	174	0	18,754
2009	319	132	5,073	617	336	6,477
2010	4,618	2,239	23,419	1,518	1,351	33,145
2011	9,623	647	48,196	136	72	58,673
2012	305	0	5,229	10	0	5,544
TOTAL	14,866	3,018	108,910	2,455	1,758	131,006�

At the end of the Marketplace programme in March 2012, it was estimated that businesses created or sustained 131,006 six-month jobs through contracts won using Building Markets services. This is equivalent to 65,503 full-time equivalent jobs. These jobs are strongly linked to local procurement, therefore the continuation of high levels of local procurement should be at the heart of any development strategy or government programming moving forward since it helps the private sector add jobs and generates taxable revenue for government authorities. Limiting local procurement is likely to result in the loss of jobs within Afghanistan.

1.3.4 IMPORTANCE OF EMPLOYMENT

The international community is interested in job creation not simply as an end in itself, but also as a way to reduce poverty and stimulate the economy. As part of the supplier survey conducted in November 2011, Building Markets was able to collect information from a small number employees on the importance of their jobs.

It is clear that the income from these jobs is desperately needed, more than half of the respondents were not able to save any of their salary. Those that were able to save, did so for their family, their education or 'the future'. Family and education were the two biggest categories of expenditure. This focus on education is a positive sign in a country where skilled workers are in short supply²³. As well as earning money, employees are gaining skills and experience. General business experience and working in a team were the two most common things employees reported learning at work, followed by finance experience.

1.5 GRANT EFFECTIVENESS INDICATOR

The Grant Effectiveness Indicator²⁴ represents the average spend²⁵ of donor funds from May 2008 to March 2012 per job generated by suppliers supported by the Afghanistan Marketplace programme. This indicator provides a high-level view of the effectiveness of funds disbursed by both DfID and CIDA. DfID's contribution can be correlated to the creation of 14,866 six-month jobs at the cost of GB £86 /US \$138 per job or 7,433 full-time equivalent jobs at the cost of GB £171 or US \$276. CIDA's contribution can be correlated to the creation of 107,618 jobs, with spending at CA \$101 /US \$102 per job. Overall, funds from both donors contributed to the creation of an estimated 131,006 six-month jobs at a spend of US \$106 per job or 65,503 full-time equivalent jobs at the cost US \$212. These figures allow donors to make informed judgements about their return on investment for this programme.

Funding Agency	Location	Project expenditure	Estimated jobs created (jobs lasting 6 months)	Amount spent per each 6- month job created *	Estimated jobs created (equivalent to 1 FTE job for 1 year - DfID's preferred metric)	Amount spent per each full- time equivalent job created
DfID	Helmand	GB £1,273,129	14,866	GB £86 /US \$138	7,433	GB £171 /US \$276
CIDA	Afghanistan (excluding Helmand)	CA \$11,672,097	116,140	CA \$101 /US \$102	58,070	CA \$201 /US \$204
CIDA and DfID	Afghanistan (including Helmand)	US \$13,890,608	131,006	US \$106	65,503	US \$212

²³ World Bank, The Investment Climate In Afghanistan: Exploiting Opportunities in an Uncertain Environment, 2005.

²⁴ Using current exchange rate (rate as of 26 April 2012 from http://www.oanda.com/currency/converter/).

²⁵ The Grant Effectiveness Indicator is calculated using total expenditure rather than the amount provided in the initial grant agreement. Building Markets' expenditure was below the grant agreement amount for both projects. The total grant agreement amounts were GB £1,338,231 for the DfID grant agreement and CA \$12,485,229 for the CIDA grant agreement.

Box 6: Kick-starting Manufacturing: Boots for the Afghan National Army & the Afghan National Police (ANA/ANP), a short-lived success story

Building Markets first verified the Melli company in 2006. The company was a well-known footwear manufacturer before the civil war, having previously won a contract with the former communist government for the production of military boots. During the civil war, the Taliban looted the factory and the family fled to Pakistan where they established a trading company for exporting goods to Afghanistan. Fifteen years later, after returning to Kabul, the company continued to operate its trading company with 10-15 staff.

In 2007, the US Military approached Building Markets to inquire about footwear products that could be sourced in Afghanistan. Through its business matchmaking service, Building Markets introduced Melli to the US Military's Contracting Center in Kabul, and a contract was subsequently awarded. At the time, Melli did not possess the equipment necessary to execute the contract. However, the owners were able to effectively communicate their business plan and guarantee performance based on the company's previous experience with manufacturing boots to order.

The opportunity led to a decision at Melli to invest US \$6 million dollars into purchasing new machinery and increase production capacity. In addition, Melli went on to hire 250 full time employees. The US military awarded Melli a Blank Purchase Agreement (BPA) in September 2007 for the supply of footwear manufactured by Melli. The US Military often uses BPAs to order and pay for supplies and services that are purchased from approved vendors several times a year, simplifying the government purchasing process. Despite being awarded a BPA, additional contracts were not forthcoming for Melli and business stalled.

A few months later, Building Markets arranged a factory site visit with US Military contracting officers. During this visit, the contracting officers were able to meet with and provide valuable feedback to Melli's management. The contracting officers explained that Melli's quality control mechanisms had been substandard, as a result of which Melli had not been awarded any subsequent contracts. Melli's management were keen to make the necessary quality improvements, in order to meet US military standards and win additional contracts. As a result of Building Markets opening the communication channel between the US Military and Melli, the company was successfully awarded a trial contract for manufacturing 2,000 boots. Melli was able to successfully complete this contract to the desired product specifications*.

When the US military issued a new solicitation for locally manufactured boots, Melli was awarded a sole-source contract because it was deemed to be the only company in Afghanistan at that time that had a fully operational boot-making factory. After a nine-month research and contracting process, Melli was awarded an Indefinite Delivery Indefinite Quantity (IDIQ) contract valued at over US\$87m. To complete the contracts, Melli employed 700 Afghan staff on different shifts, according to the factory's management.

Fast forward to 2012. Farhad Safi, the company's chief executive, indicated to the NY Times that Melli has received no new boot orders for eight months. He said: "As the international coalition withdraws and Afghanistan is forced to pay for more of its own equipment, the government [has turned to] buying Chinese and Pakistani boots — which are lower in quality but cost 15 per cent less" **. Although a 15% discount on boots may appear significant, the loss of 700 jobs for Afghans due to a lack of demand has a significant and negative impact on the economy.

^{*} AFP, Coalition buys local, helps bolster Afghan economy, Middle East Times, 27 October 2006

^{**} Graham Bowley, Afghans fear downturn as foreigners withdraw, The New York Times, January 2012.

2. TRAINING

Training sessions are intended to increase suppliers' knowledge of, and their ability to participate in, the procurement procedures of major buyers. This enabled businesses to submit compliant bids that improve their chances of being awarded contracts by international buyers operating in Afghanistan. The majority of this training was focussed on teaching businesses about procurement procedures²⁶.

Feedback data was collected from the businesses that participated in training provided by the Marketplace programme to assess its effectiveness. From 2006 to 2012, the programme team trained employees from 1,556 businesses and collected 861 responses to follow-up surveys.

Figure 9 shows how suppliers rated their understanding on aspects of procurement procedures before the training, after the training and one to four months after the training was delivered. It is clear that understanding increased across all course elements after the training. While this drops at the longer-term follow-up, it remains above the level of understanding reported before participation in the training sessions. Nearly half of suppliers (47%) reported that they had implemented all course elements into their business and 64% report participating in more tendering opportunities. To some extent, suppliers attributed feedback related to 333 contracts worth \$144 million to their participation in the training sessions.

The training service was a valuable source of capacity development within the Afghan marketplace from 2006 to 2012 according to 87% of survey respondents who reported having received no other training. In a letter, the Deputy Commander and Principal Assistant Responsible for Contracting – Afghanistan underscored the utility of the training services by stating that Building Markets had "organised numerous contractor training sessions, vendor days, and a first ever Women's Owned Business Conference in order to promote contractor capabilities and economic growth...each of these important events...have been extremely successful"²⁷.

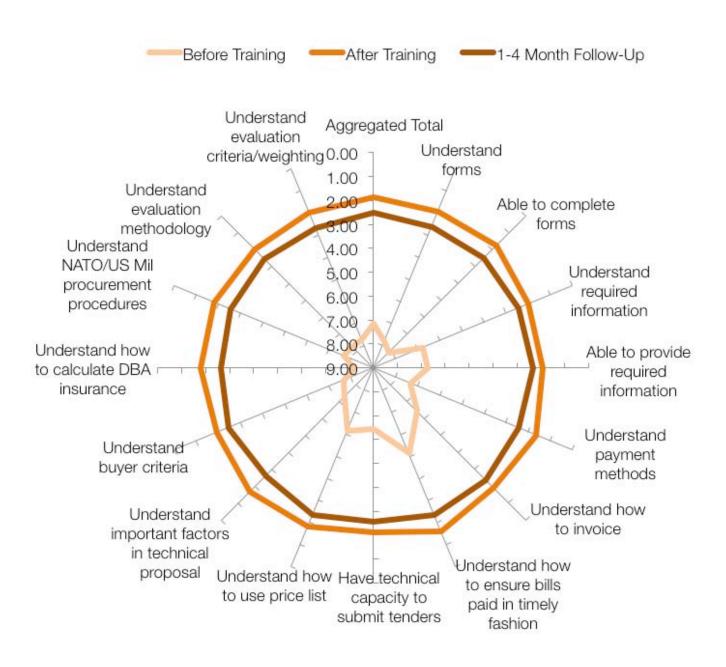
When we want to hire an employee, the first requirement of our company is that the employee must have done [Building Markets'] proposal writing training. If he hasn't done this training, we will send him to [Building Markets'] proposal writing training. After that, he'll be eligible to prepare proposals for our company.

Najibullah Hashimi, Basir Hashimi Construction Co.

²⁶ Due to high levels of demand, since October 2011 Marketplace training has expanded to include modules on business accounting, marketing and sales, project management and proposal writing.

²⁷ Letter from Jeffrey D. Willey, Colonel, United States, Deputy Commander and Principal Assistant Responsible for Contracting – Afghanistan, Bagram Air Field, 29 April 2009.

Figure 9: Self-reported understanding on elements of procurement procedures before, during and I to 4 months after the training session²⁸



²⁸ Suppliers were asked to rate their understanding on a scale from 1 (complete understanding) down to 10 (no understanding). Building Markets Impact Report: Afghanistan Marketplace Initiatives 2006 - 2012//

3. TENDER DISTRIBUTION SERVICES

Tender distribution services (TDS) are intended to increase suppliers' access to, and awareness of, contracting opportunities. Without the ability to find tenders, suppliers stand little chance of being able to bid on and/or win contracts.

In an effort to support suppliers, the online tender directory was developed and launched in the summer of 2010. Prior to this, a weekly notification of open tenders was sent to suppliers, who could pick up the tender documents at programme offices. In total, 7,530 tenders were circulated through the TDS.

Many buyers operating in Afghanistan only publish procurement opportunities on their own websites. A recent audit of Afghan First initiatives found that buyers did not consistently use the same methods to announce opportunities, thereby reducing the visibility and accessibility of tenders available to Afghan businesses²⁹. The TDS team conducted daily research, using over 126 different sources (websites, newspapers, etc.) in order to consolidate opportunities on the online Tender Directory.

Suppliers claim to have won 527 contracts worth \$190 million through access to the TDS. This section presents evidence showing the usefulness of TDS to suppliers in terms of winning contracts, and to buyers in accessing the local market.

Box 7: The Government of Afghanistan - Making use of the Tender Distribution Service

Building Markets has engaged with many buyers to encourage them to use the Tender Distribution Service. In September 2010, a representative at the Afghan Ministry of Defence (MoD) contacted Building Markets because in order to start advertising tenders online. Until the MoD started using the TDS, vendors were required to travel to the MoD office to pick up bidding documents. This was onerous for both vendors and the MoD's acquisition office, which did not have the time or capacity to distribute tenders to businesses.

When the MoD started to route tenders through the TDS, a larger pool of vendors could be reached, and businesses were happy to have easier access to these tenders. Furthermore, the acquisition office found that more suppliers had started bidding on their tenders. MoD's success spurred the Ministry of the Interior (MoI) and the Da Afghanistan Breshna Shirkat to follow suit, as these organisations also started posting tenders on the Tender Directory.

²⁹ Office of the Special Inspector General for Afghanistan, Afghan First Initiative Has Placed Work with Afghan Companies, but Is Affected by Inconsistent Contract Solicitation and Vetting, and Employment Data Is Limited, SIGAR Audit-12-6, page 4.

3.1 IMPACT OF THE TENDER DISTRIBUTION SERVICE ON SUPPLIERS

The TDS impact surveys were conducted periodically between January 2009 and January 2012. These surveys clearly show that the majority of suppliers (84%) use TDS because it saves time. Internet access in Afghanistan can be difficult, therefore businesses value the ability to go to a website where they know they can find opportunities in one place. Indeed, suppliers that attributed contracts to TDS were almost as likely to say that they wouldn't have won the contract without Building Markets (26%) as those that won contracts after receiving training (28%).

Ninety-one per cent of suppliers interviewed for the TDS impact surveys said that they often or always received tenders relevant to their business. Furthermore, 79% of respondents indicated that they had bid on a tender they received through the TDS.

Twenty per cent of suppliers indicated that they had found tenders through TDS that they would not have found elsewhere. Sixty eight percent of TDS users indicated that they would also browse other sites for tender opportunities.

Box 8: Tender Distribution Services: Better outcomes for both buyers and suppliers

When the UNDP procurement office needed hundreds of tables and chairs for an upcoming presidential election in 2009, they knew of three or four companies that could do the job. SNTC wasn't, however, one of them.

The family-run furniture business, operating in Kabul since 2005, had only one regular international client - the US military. "No-one else knew who we were," said SNTC's president, Najib Tawana. "It's very hard for Afghan companies to go to international organisations."

The UNDP decided to put out the tender to source from a wider pool of potential suppliers, which SNTC received through Building Markets' Tender Distribution Service. SNTC's quote came in 70 per cent lower than the handful of companies that the UN had first considered awarding the tender to.

UNDP procurement specialist Hedwige de Trogo said: "I was very happy. We would have never found [SNTC]. We don't even look." After delivering the tables and chairs, SNTC was granted an \$8000 immediate requirement from the UNDP. For Najib Tawana, this presented the perfect opportunity for the company to develop and expand. More importantly, the company was able to form a new business relationship with a major international buyer.

Speaking optimistically, Najib expressed plans to expand the company's 120-strong workforce and construct a large showroom in Kabul. "We want to grow. We want to employ more people", he said. "They [Building Markets] are the bridge to international organisations and they are here to guide us...If PDT [Now called Building Markets] was not in Afghanistan, we would not have got a contract with UNDP."

3.2 IMPACT OF THE TENDER DISTRIBUTION SERVICE ON BUYERS

The importance of the TDS to buyers was highlighted in a survey conducted in June-July 2011. Many buyers indicated that the TDS was helpful in reaching a wide pool of suppliers, allowing them to meet their local purchasing commitments. Four buyers indicated that their internal procedures had been amended to require that their tenders be posted on the directory.

The online Tender Directory provides a means for buyers to increase the transparency and legitimacy of their procurement processes. One respondent said that before they started posting tenders through Building Markets, bids would always be received from the same handful of businesses. Collusion between these businesses ensured that prices were kept high. Posting tenders on the directory ensured access to a broader pool of suppliers. This resulted in increased competition because the small group of bidders no longer knew whom they were competing against and what prices were offered in bids. Different companies were able to benefit from contracting opportunities. The system of collusion was weakened, while the buyer received better-priced bids.

The distribution of 7,530 tenders online, by email or by SMS, has helped to increase the diversity of the supplier base, by ensuring that all relevant Afghan companies listed on the Online Supplier Directory were made aware of tendering opportunities. To illustrate this point, a procurement officer at UN Habitat told Building Markets that "Before [Building Markets] it was difficult for UN Habitat to find qualified and responsive bidders because there were not any sources where we could solicit vendors or contractors to participate in our bidding. I found [Building Markets] one of the best and most useful sources. We now receive sufficient offers from qualified and competitive vendors" 30.

³⁰ Building Markets interview with Ghowsuddin Amirian, UN Habitat Afghanistan, date unknown.
Building Markets Impact Report: Afghanistan Marketplace Initiatives 2006 - 2012//

4. OTHER SERVICES

4.1 THE ONLINE SUPPLIER DIRECTORY

The Online Supplier Directory is intended to increase access to reliable information on the local market for buyers and suppliers. Such information is scarce in Afghanistan and this directory has addressed a gap in knowledge about local businesses, particularly in areas where procurement officers are unable to meet suppliers face-to-face due to security restrictions. The importance of the directory is highlighted in a report from the Special Inspector General for Afghanistan Reconstruction (SIGAR) published in January 2012, which states, "Of the databases used by contracting authorities, only the [Building Markets] database provides information on a prospective awardee's sufficiency of resources."

SIGAR Report analysing databases used by contracting authorities in Afghanistan

Acronym	Database or Information Source	Afghan Ownership	Sufficiency of Resources	Past Performance
AISA	Afghanistan Investment Support Agency	✓		
CPARS	Contractor Performance Assessment Reporting System			✓
EPLS	Excluded Parties List System			✓
FAPIIS	Federal Awardee Performance and Integrity Information System			✓
ICCS	Joint Contingency Contracting System			✓
PDT	Peace Dividend Trust's Registration and Validation Process	✓	✓	✓
PPIRS	Past Performance Information Retrieval System			✓

Source: SIGAR analysis of DOD, State, and USAID documents and interviews, PDT interviews and documents, AISA documents and interviews, and data from CPARS, EPLS, FAPIIS, JCCS.

Note: Sufficiency of resources includes cashflow, equipment, and staffing resources. In March 2011, C-JTSCC implemented an Afghan Business Advisor program utilizing Afghan business advisors to validate Afghan company's business portfolios.

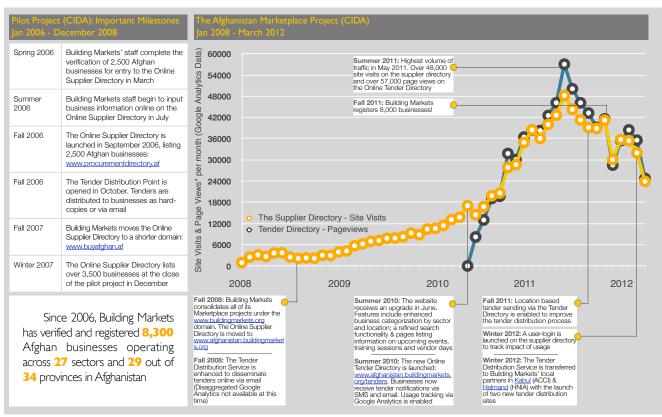
For many organisations, the Online Supplier Directory became an important operational resource and, as Figure 10 shows, it received tens of thousands of site visits each month. For example, the Principal Assistant Responsible for Contracting in Afghanistan (PARC-A) requested that Building Markets provide access to the directory in a Memorandum of Understanding that was signed in March 2008, stating "[Build-

ing Markets] to provide PARC-A and RCCs online access to its business listing that includes recently vetted firms and other information [Building Markets] decides to include to improve the opportunities for increasing business with competent and emerging Afghan firms"31.

[Building Markets] allows us to broaden our contractor database and bring new players into the market that wouldn't otherwise get the chance to contract with the government [J]

³¹ Memorandum of Understanding between Principle Assistant Responsible for Contracting – Afghanistan and Director, Peace Dividend Trust [Now called Building Markets], Ottawa Canada, in Kabul, Afghanistan on 28 March 2008.

Figure 10: The Afghanistan Supplier and Tender Directories - Key Milestones



Site Visits: This field indicates the number of times a visitor has accessed the website over a specified time period. If a user is inactive on the website for 30 minutes or more, any future activity is attributed to a new session
Page Views: This field indicates the number of times a web page is viewed over a specified time period

4.2 BUSINESS MATCHMAKING

The business matchmaking service helps local suppliers establish relationships with international buyers who are seeking to identify goods and services on request and through networking events. In some cases, requests involved creating specialised vendor lists, conducting site visits, collecting samples or organising specialised events. The intent of this service was to turn buyer requests into contracts for local suppliers. In Afghanistan, examples of these activities include the first-ever Female Business Leaders conference and other specialised conferences, site visits to small-scale manufacturers, information sessions and supplier-buyer events. Memoranda of understanding with buyers such as the US military and the UNDP helped to ensure that organisations made use of services to access local suppliers. Examples of business matchmaking can be found in boxes 3 and 6.

5. AFGHAN BUSINESSES: BECOMING SUSTAINABLE

Winning contracts with international organisations has made Afghan businesses more sustainable. Not only have they allowed these businesses to make crucial linkages and build up a track record (see Section 1), the profits generated by these contracts have enabled businesses to invest in both human and physical capital.

The data from the Job Creation Survey presents a positive picture of follow-on investments made by businesses. Seventy-three per cent of suppliers surveyed made investments in their staff, most commonly by providing additional job training.³² Eighty-two per cent invested in physical capital and improvements to the office environment (e.g. office supplies, computers, or furniture). Only 18% of investments were assets associated with the production of goods such as heavy machinery, transportation—including vehicles—and raw materials.

The capacity-building effect of working with the international community was often cited as a means to improving the overall business performance of Afghan SMEs. This is in line with other research on the benefits of establishing connections between businesses based in developing economies with international buyers ³³. Working with international organisations could be an effective way of encouraging increased innovation and use of foreign technologies. Recent research undertaken for the World Bank shows that a lack of innovation may be holding back private sector growth in Afghanistan.³⁴

While the business environment in Afghanistan is likely to remain challenging for years to come, local procurement has increased the capacity of local businesses to cope with these changes. Businesses interviewed for the contract reconfirmation survey displayed notable optimism. Forty two percent of suppliers expressed confidence in their ability to find other markets for their goods and services once the international presence leaves. Twenty seven percent of businesses surveyed indicated that they would probably be able to find other markets.

³² Job training can refer to anything that increases the capacity of the worker to perform a job related task.

³³ Christopher Adam and Stephen O'Connell, Aid versus trade revisited: Donor and recipient policies in the presence of learning-by-doing. The Economic Journal 114, 2004.

³⁴ The World Bank, The Afghanistan Investment Climate in 2008.

6. CONCLUSION

International buyers are increasingly turning to Afghan entrepreneurs, driving job creation and GDP growth. Due to this support, the growing importance of the domestic private sector in reconstruction and other economic opportunities will play an increasingly positive role in stabilizing Afghanistan. As international spending draws down, or shifts towards the extractive industries and other forms of foreign direct investment, the Government of Afghanistan's procurement needs will provide an opportunity to further support the national economy. One strategy could be for the Afghan government to start its own 'Afghan First' programme, taking stock of lessons learned. Since entrepreneurs are responsible for generating 86% of jobs in the developing world, this would be a policy position worth examining ³⁵.

Two Marketplace services - training and TDS - will continue to be provided by Afghan institutions. Both the Afghanistan Chamber of Commerce and Industry and the Helmand National Investors Association began autonomous service provision in April 2012. This is heartening due to the potential economic impact generated through these services. Afghan suppliers that attended training sessions felt they increased their understanding of procurement concepts, bid on more tenders and have, alongside other factors, attributed \$144 million worth of contracts to the training they received from 2006 to 2012. Suppliers using the TDS appreciate the convenience of the website and the relevance of the notifications they received. Businesses have reported winning \$190 million as a result of using this service.

Another significant result of the Afghanistan Marketplace programme is the creation of approximately 130,000 jobs. This provides a grant effectiveness indicator of \$113 dollars spent by donors per six-month job. For the 65,503 full-time equivalent jobs, the grant effectiveness number is \$226 per job. This outcome helps to establish proof of concept that can be applied to other development and reconstruction contexts. Local procurement as a mechanism for stimulating economic development is a practice that is spreading to other development contexts such as Haiti, Liberia, and South Sudan. The Afghan experience provides a wealth of information on an innovative approach that helps lift people out of poverty by 'spending the development dollar twice'.

Building Markets is grateful for the support it has received from the UK Department for International Development.

³⁵ The World Bank Development Research Group, Finance and Private Sector Development Team, Small vs. Young Firms across the World: Contribution to Employment, Job Creation, and Growth, April 2011.

7. ANNEXES

ANNEX I: DATA COLLECTION PROCESS & SOURCES

OVERVIEW OF SURVEYS

Table 4: Summary of Surveys

Survey	When	Purpose	Sample		fNumber and value of contracts discovered/ confirmed	Response rate
Job creation survey	January to March 2011	Estimate job creation and investment effects due to contracts won with the help of Building Markets	Kabul-based businesses that had won contracts with the help of Building Markets' services	survey	Raw data on 147 contracts worth \$426,442,719. Confirmation of 350 contracts worth \$619,640,170	58% of 252 suppliers.
Contract re- confirmation survey	August 2011	Re-verify accuracy of recorded contracts and obtain further follow-up information	Suppliers across Afghani- stan that had won contracts with the help of Building Markets' services	Call center telephone survey	485 contracts worth \$753,408,037	41% of 1043 contracts
	(Training), Janu- ary 2009 (TDS),	Learn about contracts won with the help of Training and TDS and other effects.	All suppliers attending training, picking up tenders from TDS and since September 2011 those stating during re-verification they had used TDS in the previous 6 months.	telephone survey	283 training contracts worth \$136,928,585, and 489 TDS contracts worth \$192,640,112.	Average for TDS surveys—82%. Average for Training surveys—73%.
	Before and after each training session	Understand immediate impact of training (longerterm impact is assessed in the Impact Surveys – see above)	training (since September 2011)	Training at- tendees fill out a paper form distributed by the trainer.	N/A	100%
Buyer survey	June and July 2011	Impact of Marketplace services on buyer's local procurement practices	Procurement officers that had used Building Markets' services.	Qualitative face-to-face	N/A	21 (hand-selected)
Supplier survey	November 2012	Compare the impact of Building Markets' services on suppliers with suppliers that had not received any services.	training or TDS services. 10	Qualitative face-to-face interview	N/A	50 (hand-selected).

Call Center

Building Markets' in-house call center is the backbone of its data collection systems. Call center staff call all of the business registered on the Online Supplier Directory every six months, updating information and removing businesses if they have closed down. Every three months the call center also undertakes impact surveys for training and TDS services. These surveys take place over the phone and respondents are asked a series of questions about the impact of Building Markets' services (see Annex 2).

The call center supervisor re-performs a sample of calls for each survey to confirm accuracy of the recorded data. The deputy country director, who also performs a round of confirmation calls, provides an additional level of oversight.

Over time, Building Markets has refined its call center survey process by taking a 'continuous improvement' approach, which has included improvements such as logging date of calls, recording the name and contact details of interviewees to avoid duplication of surveying and the introduction of 'node numbers'. Node numbers are the unique identifier of a business and were brought in to reduce duplication in the database caused by multiple spellings of business names as well as frequent name changes by business.

Recording data

Data is logged in Excel-based tracking sheets and information about contracts facilitated is then consolidated in a Contracts Matrix controlled by a limited number of staff. Building Markets did not have the budget required under this programme to develop a database to manage its data. A database would allow cross-referencing across operational and impact data, simple aggregation of data, tracking changes over time, recording important information about relationships and how they have evolved, and integrated checking for errors and inconsistencies. Such features would allow for more meaningful analysis of the information collected and, crucially, improved data quality.

In the future, Building Markets will continue to attempt to obtain contract reference numbers to allow use of publicly available information to validate contracts, rather than attempting to re-confirm all data through surveys.

Sources of error

Security challenge

Afghanistan's security environment made it challenging to conduct surveys. Businesses are often hesitant to provide details, especially specific details such as contract reference numbers, 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 might 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 and contract records. The surveys are therefore structured to collect information that respondents were likely to be able to access easily. Building Markets is also keen to avoid any perception that it is linked to tax collection authorities and asking for written evidence can arouse suspicion. Building Markets believes that sources of error may include the (1) the possibility that companies report the same contract twice, creating duplicates in Building Markets' records; (2) at the time of the survey, companies may report a contract that was subsequently cancelled, which Building Markets aims to assess by reconfirming contracts at later points; (3) duplication can occur when companies change their name or misspell their name in English. While some have better systems than others and some are more accurate than others,

the figures presented in this report should not be taken to be precise, but rather as each business owner's best estimate.

Types and duration of contracts

Although most of the contracts reported to Building Markets were not long term, some were still on going in 2012, therefore contract values reported include revenues that companies may only realise after the conclusion of Building Markets' activities in Afghanistan. Also, some contracts are not for a specified value (for example, indefinite delivery, indefinite quantity (IDIQ) contracts), and in these cases, Building Markets obtained data from companies on revenues received from the start of the contract to the point of the survey, contributing to potential under-estimations of contract values.

Accounting for inflation

Contract values are not adjusted for inflation as several contracts do 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 are 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. Building Markets' approach has been to track contract values in US\$.

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 Building Markets' systematic feedback surveys do capture a portion of contracts awarded, this is almost certainly an underestimate. Through implementation of the Job Creation Survey, Building Markets discovered 68 previously undocumented contracts attributed to 45 per cent of all participating businesses. Therefore, the numbers in this report are likely to be an underestimate of the impact of contracts facilitated by Building Markets.

Perception-based data

All of the information that Building Markets collects from Afghan suppliers on the impact of its services beyond the contracts facilitated is self-reported and perception-based. This keeps the data-collection process as light-touch as possible for local businesses and affordable from the perspective of Building Markets' operations.

ANNEX 2: IMPACT SURVEYS

QUARTERLY SURVEYS ABOUT THE TENDER DISTRIBUTION SERVICE

Dates of survey	Questions included	Contract details collected
January 2009 (suppliers that used TDS between May 2008 and November 2008, in-person visitors only)	Why did you visit the TDP? Out of the tenders collected at the TDP, did you bid on any? If yes, on how many? Please list details for all tenders you bid on. If no, why did you chose not to bid? What business skills or services do you think you need to be able to compete more effectively for tenders? For companies that have not returned for over 1 month: Why have you not returned to pick up tenders? (Please explain) On a scale of 1-3, with 1 being the lowest and 3 being the highest, how helpful are the services Building Markets provides for your business? How could [Building Markets'] services be improved?	Did you win the tenders that you bid on? If yes, what was the value of the project? (Specify currency) Why do you think you won? What is your competitive advantage? If no, why do you think you did not win?
used TDS between January 2009 and April 2009 in Mazar-e-Sharif and Jalala-	Why did you visit the TDP? Out of the tenders collected at the TDP, did you bid on any? If yes, on how many? Please list details for all tenders you bid on. If no, why did you chose not to bid? What business skills or services do you think you need to be able to compete more effectively for tenders? For companies that have not returned for over 1 month: Why have you not returned to pick up tenders? (Please explain) On a scale of 1-3, with 1 being the lowest and 3 being the highest, how helpful are the services Building Markets provides for your business? How could [Building Markets'] services be improved?	Did you win the tenders that you bid on? If yes, what was the value of the project? (Specify currency) Why do you think you won? What is your competitive advantage? If no, why do you think you did not win?
, ,	Location of TDP Visit Did you successfully bid on a tender you picked up from TDS?	Date Contract Awarded Contract Value \$USD Good or Service Buyer Name Buyer Category
used TDS between January	How does the company use TDS? (Only picks up tenders from the TDP, Only downloads tenders from the website, Picks up tenders and downloads tenders)	Contract Start Date Contract End Date (For on-going contracts, what is the expected end date?) What kind of contract is this for your company? (First contract with an international buyer; Not the first international contract but a new buyer; Repeat business (initial contract facilitated by Building Markets); Repeat business (initial contract not facilitated by Building Markets); Contract from national buyer.)

that used TDS between April and June 2011, in-	As above plus: Was this tender from the online Tender Directory or did you pick it up from Building Markets' office?	As above plus: Contract Classification (Fixed-term contract, Long-term agreement – BPA, Long-term agreement – IDIQ, Long-
person visitors only)	Do you find tenders on TDS that you would not find elsewhere? Do you find the TDS to be easy to use? Does the TDS have tenders relevant to your busi-	term agreement – Other) How essential was Building Markets in helping you win this contract? Did you invest in your business as a result of this con-
	ness? What can Building Markets do to make the TDS easier to use?	tract? How? How many people were employed for the length of the contract?
	The best thing about TDS is The best way to find out about tenders is	How much of your contract was spent on salaries? (%) Did this contract lead to another contract with the same buyer or a referral to another buyer?
	The best way to receive tender documents is	
January 2012 (suppliers that used TDS between July and December 2011, in-person and online visi- tors)	As above	As above

QUARTERLY SURVEYS ABOUT THE TRAINING SERVICE

Dates of survey	Questions included	Contract details collected
training between April 2006	General Perceptions of Workshop Effectiveness (e.g. what did you likes/dislikes about training; do you think that the session improved your understanding	Have you won any contracts since the [Building Mar- kets] training? Of the contracts mentioned already, which do you feel you won because of your improved knowledge of the procurement process?

•	Type of Training Attended Location of Training Have you won any contracts since attending the training? If yes, how many? What areas would you like Building Markets-A to provide additional training in? Have you attended any training by another service provider? If yes, who was this provider?	Date Contract Awarded Contract Value \$USD Good or Service Buyer Name Buyer Category How essential do you believe the training was helping you to win the contract? (5. Would not have won the contract without attending the training first 4. The training helped a lot 3. The training helped a little 2. Unsure 1. Training played no part)
,	As above plus: If yes, did you pay for this training? If yes, please write the amount.	Contract Start Date Contract End Date (For on-going contracts, what is the expected end date?) What kind of contract is this for your company? (First contract with an international buyer; Not the first international contract but a new buyer; Repeat business (initial contract facilitated by Building Markets); Repeat business (initial contract not facilitated by Building Markets); Contract from national buyer.)
	Since attending training are your bids better quality? If no, why not?	As above plus: Contract Classification (Fixed-term contract, Long-term agreement – BPA, Long-term agreement – IDIQ, Long-term agreement – Other) How essential was Building Markets in helping you win this contract? Did you invest in your business as a result of this contract? How? How many people were employed for the length of the contract? How much of your contract was spent on salaries? (%) Did this contract lead to another contract with the same buyer or a referral to another buyer?
, ,	As above plus: Self-assessed understanding of specific curriculum components (see Section 2)	As above

CONTRACT RECONFIRMATION SURVEY

Conducted once in August 2011. The following items of information were confirmed or asked for the first time (depending on when initial contract was discovered:

PDM-A Service Utilised Estimated Contract Value (USD)

Buyer

Good/Service Provided

Start Date of the Contract

End Date of the Contract

Contract Classification Details (if LTA - Other is chosen)

Type of Contract

How essential was Building Markets in helping you win this contract?

What location were the goods used/service delivered?

Did this contract lead to another contract with the same buyer or a referral to another buyer?

Did you invest in your business as a result of this contract? How?

How many people were employed for the length of the contract?

How much of your contract was spent on salaries? (%)

How confident are you that you will be able to find markets for your services once the international presence leaves?

Would Building Markets be able to contact you again in person to talk about the effect contracts have had on your business?

ANNEX 3: ABOUT BUILDING MARKETS

Building Markets is a non-profit organisation that connects entrepreneurs, creates jobs and sustains peace in developing countries by championing local entrepreneurs and connecting them to new business opportunities. Building Markets' flagship initiative, the Marketplace projects, provide a suite of services proven to catalyse growth and to create, restore, and sustain livelihoods.

Building Markets has received funding from the UK Department for International Development (DfID), the United States Agency for International Development (USAID), the Australian Agency for International Development (AusAID), the Canadian International Development Agency (CIDA), the Canadian Department of International Affairs (DFAIT), GIZ, the Norwegian Ministry of Foreign Affairs, the United Nations Department of Peacekeeping Operations, the Skoll Foundation, the Arsenault Family Foundation, Humanity United, Eni S.p.A., the World Bank and the International Monetary Fund.

In 2010, Building Markets was recognised as one of a handful of social enterprises affecting measurable and sustainable change in the developing world with a Skoll Award for Social Entrepreneurship. In addition, President Obama and other heads of state recently awarded Building Markets the G20 SME Finance Challenge Prize for its Factor Finance for Procurement innovation.

Building Markets is registered as an American 501c3 charity, a Canadian non-profit, and is registered locally in the countries where it operates. In Afghanistan, it is registered with the Ministry of Economy.

9. KPMG ASSURANCE STATEMENT

INDEPENDENT ASSURANCE REPORT TO BUILDING MARKETS (FORMERLY KNOWN AS PEACE DIVIDEND TRUST)

Building Markets engaged KPMG LLP (UK) to provide assurance over selected aspects of the Building Markets Impact Report Afghanistan Marketplace Initiatives 2006 to 2012 ('the Report').

What was included in the scope of our assurance engagement?

		Reporting and assurance criteria
 a) Value of contracts reported to Building Markets (US\$) – total for Afghanistan [and sub-total for the Helmand province]. b) Number of contracts reported to Building Markets – total for Afghanistan and sub-total for the Helmand province. 	surance	Relevant internal report- ing guidelines for the se- lected indicators as set out in Annex 1 of the Re- port.
 Application of Building Markets' Job Creation Methodology to calculate the number of jobs created or sustained by the contracts reported to Building Markets – total for Afghanistan and sub-total for the Helmand province. 	surance	Building Markets' Job Creation Methodology ('the Methodology'), as set out in Sections 1.3 and 1.4 of the Report.
3) Application of the reporting guidelines to calculate the grant effectiveness indicator, which is expressed as the value of the grants and income received by Building Markets from its major donors, DflD and ClDA, divided by the number of estimated jobs created or sustained. Total for Afghanistan and sub-total for the Helmand province.	surance	Relevant internal report- ing guidelines for the se- lected indicator as set out in Section 1.5 of the Re- port.

The nature, timing and extent of evidence gathering procedures for limited assurance is less than for reasonable assurance, and therefore a lower level of assurance is provided.

Responsibilities of Building Markets

Building Markets is responsible for the preparation of its internal reporting guidelines, the Job Creation Methodology, the Report and the information and statements contained therein. It is Building Markets' responsibility to establish and maintain appropriate performance management and internal control systems from which reported information is derived.

Responsibilities of the independent assurance provider

Our responsibility is to express our conclusions to Building Markets based on the findings of our work referred to below, and to examine the text and disclosures in the Report for consistency with our findings.

Our assurance report is made solely to Building Markets in accordance with the terms of our engagement. Our work has been undertaken so that we might state to Building Markets those matters we have been engaged to state in this assurance report and for no other purpose. We do not accept or assume responsibility to anyone other than Building Markets for our work, for this assurance report, or for the conclusions we have reached.

Which assurance standards and criteria did we use?

We conducted our work in accordance with International Standard on Assurance Engagements 3000: Assurance Engagements other than Audits or Reviews of Historical Information, issued by the International Auditing and Assurance Standards Board. That Standard requires that we comply with applicable ethical requirements, including independence requirements, and that we plan and perform the engagement to obtain sufficient, appropriate evidence on which to base our conclusion.

Furthermore, we conducted our work in accordance with the requirements of the IFAC Code of Ethics for Professional Accountants, which requires, among other requirements, that the members of the assurance team (practitioners) as well as the assurance firm (assurance provider) be independent of the assurance client. The IFAC Code also includes detailed requirements for practitioners regarding integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

Our conclusions are based on the appropriate application of the criteria outlined in the table above. There are no established criteria to collect and report procurement data from third parties, nor to estimate the number of jobs associated to contracts. We have therefore assessed Building Markets' guidelines and methodologies in the context of its operations and its reliance on publicly available data, to satisfy ourselves of the suitability of their approach.

Work performed - what did we do to reach our conclusions?

A limited assurance engagement involves performing procedures to obtain sufficient appropriate evidence to give limited assurance over the Data. The procedures selected depend on our judgement, on our understanding of the Data and other engagement circumstances, and our consideration of areas where material misstatements are likely to arise.

The procedures performed included:

- Examining the internal reporting guidelines relevant to our scope of work and the Job Creation Methodology to assess their appropriateness and understand the key assumptions and limitations;
- Conducting interviews with management and other personnel at Building Markets to understand the systems, processes and controls in place during the time period over which the data was collected;
- Examining and testing of the systems, processes and controls in place to generate, aggregate and report the selected data:
- Analysing the contracts data gathered to assess its integrity, checking for missing data and potential duplicate contracts, as well as assessing adherence to the Job Creation Methodology;
- Confirming the total amount of grant awards from the two major donors, DfID and CIDA;
- Confirming contract awards through independent sources. It was noted that confirming individual contracts through publicly available procurement information was not feasible due to buyers' disclosures either not naming suppliers for security reasons or requiring lengthy queries not reasonable within the timeframes of our work. We therefore obtained evidence of relationships between buyers and suppliers through this public data, and sought direct confirmation of a sample of contracts from buyers and suppliers. 13 contracts were confirmed with suppliers and 11 contracts were confirmed with buyers.

The key assumptions and inherent limitations dealt with by Building Markets

Contracts data is often considered commercially sensitive information and the completeness and accuracy of the values reported are outside of Building Markets' control. Therefore, the contracts data is subject to uncertainty in the following key areas:

- Actual revenues from contracts may differ from the original contract values logged by Building Markets as alterations may be agreed between the buyer and the supplier after one of these parties reported the contract to Building Markets. This can include contracts being cancelled.
- Some suppliers and buyers could not be reached and therefore Building Markets was not able to collect data from their operations. Others were not willing to provide feedback, share the value of a contract or name the other party, further limiting Building Markets' ability to keep track of all contracts awarded following the use of its services.

• Building Markets has been developing and improving its contract data collection process since its pilot operations in 2006. The amount of data collected has increased significantly over the years, with only basic information such as company names and contract values being available at the start.

With regards to the estimated job numbers:

• Suppliers were often not able or willing to provide information on jobs created or sustained by specific contracts. Building Markets therefore obtained jobs data³⁶ through an in-depth survey with a sample of suppliers in Kabul. Average estimators were calculated to estimate the number of jobs based on the value of contracts. These estimators were applied to the contracts where no jobs data was available in order to calculate the total estimated number of jobs created/sustained and the grant effectiveness indicator.

What are our conclusions?

The following conclusions should be read in conjunction with the work performed and key assumptions and inherent limitations described above.

Assurance scope 1: on the selected development impact indicators

Recognising the assumptions and inherent limitations set out above, as a result of our work, nothing has come to our attention to suggest that the 2006 to 2012 contracts data marked with the symbol ♠, on pages 1, 6 and 9 of the Report, are not fairly stated, in all material respects, in accordance with the relevant guidelines.

Assurance scope 2: on the application of Building Markets' Job Creation Methodology to calculate the number of jobs created or sustained by the contracts reported to Building Markets

Recognising the assumptions and inherent limitations set out above, as a result of our work, nothing has come to our attention to suggest that the 2006 to 2012 jobs data marked with the symbol •, on pages 1, 6, 15,19 and 20 of the Report, have not been prepared in accordance with the Methodology, in all material respects.

Assurance scope 3: on the application of Building Markets' guidelines to calculate its grant effectiveness Recognising the assumptions and inherent limitations set out above, as a result of our work, nothing has come to our attention to suggest that the 2006 to 2012 grant effectiveness indicator marked with the symbol \$\frac{*}{2}\$, on page 20 of the Report, has not been prepared in accordance with the relevant guidelines, in all material respects.

KPMG LLP Chartered Accountants United Kingdom 15 June 2012

³⁶ Number of jobs before, during and after a contract.