

INCREASING THE PARTICIPATION OF THE AFGHAN CONSTRUCTION INDUSTRY IN PUBLIC PROCUREMENT

Summary of Findings

Procurement describes the various processes associated with identifying, selecting, ordering, purchasing, receiving and monitoring a service or product. At present public spending is focused on the construction of infrastructure that has been damaged and neglected through years of conflict. However, Afghan construction firms currently have a low participation rate in public procurement, with foreign firms and foreign labour securing the bulk of the work. Consequently, much of the economic benefit of a procurement contract leaves Afghanistan in the form of profits and wages.

In order to remedy this situation, a policy investigation was initiated to identify and overcome the problems that prevent the Afghan construction sector from enjoying a significant level of participation in government procurement. As there was very little information other than divergent viewpoints available for this task, it was decided to undertake a survey of the construction sector in order to obtain their input to the policy investigation and to better understand the problems they experience. The survey covered 152 construction firms located in Kabul. All the firms interviewed were Afghan owned and managed. Foreign and foreign-local partnerships were excluded. The survey took place between 29 November and 7 December 2005 and was carried out by trained staff of the Internal Trade Directorate of the Ministry of Commerce (MoC). All the companies were extremely welcoming and keen to participate in the survey, though many were sceptical at the prospect of ever participating in government contracts.

The majority of companies had only been operating for less than 5 years reflecting a relatively immature sector. The companies interviewed collectively employed approximately 5 000 people with 83% of firms employing less than 50 people each. Hence the sample reflected mostly small to medium firms. The companies offered a range of general construction services. Only a small number provided specialist services. Clearly the need to secure work and survive prevented the targeting of niche markets at this early stage in the sector's development.

Some 46% of the companies interviewed were struggling with growth problems, with 21% seemingly unsustainable. Despite companies of different sizes, the obstacles to growth were largely confined to a small number of issues. These included the shortage of affordable industrial land, reliable electricity supply, the transportation and storage of equipment, import duties on equipment, accessing finance and corruption.

A generally negative attitude prevails among Afghan builders towards working for government. Many are of the opinion that the Government is hostile towards Afghan builders believing their work to be of an inferior quality and their companies incapable of entering into formal business relations. There is a widely held belief that

government gives all the contracts to foreign firms because they can offer larger bribes. The main problems in working for government were identified as delays in receiving payments, corruption and weak margins on contracts. Also the sector is not very interested in contract values below 250 000 Afs – the ceiling value for concessions to local small and medium enterprises in the new Procurement Law. Communication with Government was identified as a major issue by. Most respondents were of the opinion that the Ministry must first know of their existence, and secondly the construction sector must know when there is Government work available. Many companies expressed the view that if they were given tendering training and some insight on what government is looking for when they consider proposals, then they would fair much better in the bidding process.

From the information gathered and its analysis a number of policy options emerged that will help overcome many of the problems faced by the construction sector. Of course some issues, such as making industrial land available and providing electricity and reducing customs duties fall outside the mandate of the MoC. The options identified included reserving certain contracts exclusively for Afghan firms, tendering Dari, encouraging joint venture partnerships between foreign and Afghan firms, modifying tender adjudication to cater for bids that are good for Afghanistan and not just the cheapest, facilitating microfinance, minimising corruption, expediting invoice payments, improving communication between government and the sector, and maintaining a register of qualified and competent firms. These options were all subject to workshop evaluation by MoC staff. What emerged was a preferred set of policy options with specific implementation conditions attached to them.

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