

Big plans in pipeline for Afghan contractors

<http://archive.gulfnews.com/articles/09/10/07/10355218.html>

10/06/2009 11:30 PM | By Jane Ferguson, Business Features Writer

Off Kabul's Haji Yaqoub Square in District 4 and up a dusty flight of stairs is not an obvious path to a booming business's office. Through one door at the top however, leather sofas and polished furniture greet guests. Abdul Qadir Latify's Haigh Standard Pipe, a commercial PVC pipe manufacturing company, has come a long way since starting out eight years ago. Winning contracts on Afghanistan's aid-funded development projects has been the key.

This summer Latify's company was invited by a non-profit organisation called the Peace Dividend Trust (PDT) to a trade exhibition in Kabul's Serena hotel where it could display for free to potential buyers.

The PDT, a non-profit organisation funded largely by USAID and Britain's DFID (Department for International Development) aim to channel development aid through local companies. Latify faced surprise from purchasers at the quality of his product.

"When they came, at first they didn't believe this was from Afghanistan."

So far he clinched \$500,000 (Dh1.83 million) worth of contracts just a week later, with various entities including Unicef and the Agha Kahn Foundation.

Snaring such business is a challenge for Afghan companies as they come up against tough international competition, with many construction companies setting up here for a piece of the pie.

As billions of dollars of official development assistance (ODA) pour into the devastated country, administered through military projects and foreign government-affiliated entities, lucrative contracts have been up for grabs for years since the 2001 invasion.

"We're more like a dating service," explained PDT's country director Michael Capstick, an ex-colonel in the Canadian military, from his office in the Kabul Business Centre.

Beyond the plethora of NGO and economic jargon, the concept is simple. Spend the aid money on projects administered by Afghan companies rather than international contractors, and you not only get the infrastructure, but that money is channelled into the country's economy.

A database of around 4,800 businesses has been compiled after inspections and research. About 325 Afghan business representatives visit the NGO's office per month to tender bids.

Competing with international contractors to build, manufacture and provide services is tough for many Afghan companies, so training is provided in how to tender.

In late January 2006 over 60 countries met at the London Conference to sign the Afghanistan Compact, during which donors agreed to use an increasing proportion of Afghan goods and services when administering their aid projects.

Since 2006, says Capstick, the US, which is by far the largest donor, has made this a priority.

US entities would not comment.

Data on how successful the initiative has been is tough to collect in Afghanistan. A report released last July however by the PDT said that of the \$1.36 billion spent by donors in 2005, 31.2 per cent, or \$424 million, was spent on local goods and services. In 2006, said the report, that figure rose to 37.6 per cent, or \$788 million of the \$2.1 billion spent on aid projects that year.

Figures since then are hard to come by but Capstick says US spending, particularly the military spending on construction projects, has been increasingly going to Afghan companies.

"The US military, in their last fiscal year, 70 per cent of the contracts that they gave out in Afghanistan went to Afghan companies," he said. "The dollar value of that was \$1.1 billion."

Of course, persuading the military and aid organisations to use Afghan companies can be a tough task. Capstick argues that it saves them money, especially in security costs which can account for up to a third of a project's costs. International contractors hire expensive, expatriate security staff. Afghan staff are also at risk from Taliban attack but tend to use cheaper, local security options.

The benefits naturally run on both sides of such contracts, he said.

"If you're dealing with the right Afghan companies it saves them money, saves them time, creates local jobs and the other thing it's doing is raising the standard of the Afghan businesses because now they're learning fast that if you're going to deal with the internationals you have to produce to the standards that they're expecting," he said.

According to the CIA World Factbook, unemployment in Afghanistan stood at 40 per cent last year. Successful tender bids from local companies will likely help this. Latify's company employed 15 people when it began in 2001. In the past year or two, the staff has risen to 250, he said. With current contract signings on the up, he plans major expansion next year.

"Next year I hope our staff will be around 500 to 600," he said.

Manufacturing: Maintaining standard

Competition for aid contracts is fierce particularly for local companies. "There are all kinds of problems and all kinds of issues," said Michael Capstick, country director of Peace Dividend Trust.

"Construction is a good example." Proudly displaying the company's internationally-recognised ISO certificate, which arrived the day before, Abdul Qadir Latify of Haigh Standard Pipe explained that competing with international companies on construction projects meant they had to produce goods to a similar standard. "These people are not going to buy from the local bazaar market, without any certificate, without any quality," he said.

They managed to produce quality piping by importing advanced machinery from Germany and China. Latify's company is the only Afghan company in the sector to manufacture water piping to ISO standards and now sells to various international and military affiliated agencies such as USAID and the UN. In the past, the company did as most others in the country do - import it from Pakistan or Iran.

"After one or two years we got to the point where a lot of the money was going out from Afghanistan by buying these pipes," said Latify. "We think ourselves it is better to build a factory and establish in Afghanistan."

Local manufacturing is slowly beginning to take advantage of the contracts available. Afghanistan's manufacturing sector is still tiny, with some estimates finding 90 per cent of materials and products being used in the country being imported. There are however some growth spots.

"There is a rebirth going on in the manufacturing sector here," said Capstick. Alongside insecurity and government corruption, access to credit, particularly for smaller companies, is challenging.

"So they struggle with this all the time," said Capstick. Latify however, who was able to fund his business personally, is happily looking ahead. Even those international contractors who pick up contracts in Afghanistan are filtering them down to some local companies.