

## Too few development dollars actually spent in Afghanistan

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KABUL -- Six years after the fall of the Taliban, the reconstruction of Afghanistan is a booming business for the private sector, but much of the work is still going to big foreign firms, say Afghan officials and development workers.

The building boom is no more evident than in Afghanistan's capital, where a five-star hotel, western-style mall and revamped U.S. Embassy have sprouted up in recent years.

"Construction is one of the motors of the economy," said Afghan Economy Minister Mohammad Jalil Shams. "Four years ago, Kabul was nothing like it is now."

Reconstruction is also moving forward in the more secure regions of the country, such as the areas around Herat in the west and Mazar-e-Sharif in the north.

But much of the rebuilding is funded by foreign aid agencies, which often award contracts to a select pool of multinational companies based outside Afghanistan.

"The biggest amount, let's say about two-thirds or even three-quarters, is going through the foreign budgets," Shams explained in an interview. "They, of course, choose their contractors."

Major donor nations, including Canada, spent about \$1.36 billion in official development assistance to Afghanistan over a one-year period ending March 2006.

But only \$424 million, or about 31 per cent, had a "local impact," according to a study released this spring. Peace Dividend Trust, an Ottawa non-profit agency, conducted the study for the Afghan Ministry of Finance. Local impact is defined as the proportion of aid money spent locally on goods and services.

Even Canada, where the Conservative government frequently trumpets the importance of development alongside security, has spent only 43 per cent of its development money with Afghan companies.

Compared with the U.S. and Germany, Canada generated much more local impact through its development aid, but was well behind the leader, Britain, which had a local



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Day 5 - A construction workers work on a new five star hotel which will be called The Kabul Serena Hotel January 27, 2003 in Kabul, Afghanistan. The Agha Khan Fund for Economic Development (AKFED) is revitalizing the 50-year-old Soviet-era Kabul hotel in the hopes of attracting tourism. The project is expected to be completed November 2003.

impact of about 60 per cent.

"CIDA takes a lot of heat, but this is one area where they're actually very progressive," said Scott Gilmore, executive director of Peace Dividend, referring to the Canadian International Development Agency.

Canada has committed to spending \$1.2 billion in Afghanistan between 2001 and 2011, making it the single largest recipient of Canadian aid. Last fiscal year, CIDA shelled out over \$139 million in development assistance to Afghanistan.

"You can hire someone in Virginia, or you can hire someone locally," said Gilmore. "When you hire locally, it has so many positive multiplier effects on the economy."

Afghan firms are often hired as subcontractors on such work, but the "vast majority of funds are used to pay for international staff and the procurement of international materials," states the report.

"It's the path of least resistance," said Gilmore. "It's often easier for the procurement officer to pick up the Dubai yellow pages than it is to find an Afghan company to do the job."

Germany and the United States relied most on international contracts. In fact, nearly half the aid money spent by the United States Agency for International Development (USAID) went to five big U.S. firms.

Peace Dividend declined to identify the firms, due to confidentiality agreements with the countries that provided data. But the big U.S. names in Afghanistan's reconstruction industry are well known: firms such as Bechtel, Louis Berger Group and BearingPoint.

A 2003 study by the Center for Public Integrity also found that most companies awarded the biggest contracts in Afghanistan or Iraq employed former high-ranking U.S. officials or had close ties to the government.

The U.S. Government Accountability Office has since found that almost all war-zone reconstruction contracts are tendered competitively.

Even so, multinational firms tend to have a natural advantage, said Omar Zakhilwal, president of the Afghanistan Investment Support Agency, which registers companies that set up shop in Afghanistan.

"They win the big contracts, because they have a better presentation, they have a better understanding of the contracting process," he said.

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