

The Need for More Local Procurement in Haiti

Julie Walz and Vijaya Ramachandran

Regenerating the private sector is critical to postconflict or postdisaster recovery. Yet, out of every \$100 spent by the US government for reconstruction following the 2010 earthquake in Haiti, only \$1.33 went directly to Haitian companies. USAID has pledged support to micro, small, and medium enterprises. It has also invested in the development of Caracol Industrial Park.¹ But there is little direct procurement from local businesses.

Procurement of goods and services is a necessary step in development and peacebuilding projects. UN Secretary-General Ban Ki-moon writes that “procurement can and should be more than [an operational step]. It should be a crucial tool in the development itself. It should stimulate

local markets and drive innovation.”² Local procurement in development projects and peacekeeping missions is a way to “spend the development dollar twice,” and create a multiplier effect for each reconstruction dollar.³ Hiring a national or local firm grows the local private sector, spurring long-term income and job creation. Buying locally in the immediate aftermath of a disaster may also help local entrepreneurs and firms to compete with outsiders. Local procurement has a long list of benefits, including fostering the local private sector, building local capacity and increasing sustainability, strengthening local government, increasing

1. “Caracol Industrial Park” (November 2011), available at haiti.usaid.gov/work/docs/haiti_book_3rd_draft_112411.pdf.

2. United Nations Office for Project Services (UNOPS), *2010 Annual Statistical Report on United Nations Procurement* (2011), www.unops.org/Publications/Documents/ASR_2010.pdf.

3. Peace Dividend Trust, *Spending the Development Dollar Twice: The Local Economic Impact of Procurement in Afghanistan* (New York, 2009), http://buildingmarkets.org/sites/default/files/pdm_reports/pdt_spending_dev_twice_report_0709.pdf.

Julie Walz is a policy analyst at the Center for Global Development.

Vijaya Ramachandran is a senior fellow at the Center for Global Development.
[@vijoramachandran](https://twitter.com/vijoramachandran)



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Summary

Despite an emphasis on rebuilding the private sector in Haiti, there has been very little direct procurement of goods or services from local businesses. Only \$1.33 of every \$100 spent by the US government in Haiti following the 2010 earthquake went directly to Haitian companies, missing a huge opportunity to spur long-term growth. Local procurement does double duty; it not only purchases immediately needed goods or services but, by doing so locally, helps grow the private sector, create jobs, and encourage entrepreneurs. Spending more money in this way can multiply the effect of US assistance. In this brief, we identify three ways to do so:

1. Follow local procurement best practice.
2. Scale up the Building Markets model.
3. Continue USAID’s Implementation and Procurement Reform.

accountability between government and citizens, and improving the cost effectiveness of aid.

US Local Procurement in Haiti

It is difficult to quantify how much relief and reconstruction spending in Haiti has gone to local firms and the Haitian private sector. In a May 2012 CGD Policy Paper, we found a dramatic lack of transparency surrounding reconstruction spending in Haiti.⁴ USASpending.gov reports a total of 2,434 contracts totaling \$756 million for Haiti's reconstruction as of January 22, 2013.⁵ Only \$10 million was spent directly on contracts with Haitian firms, which means that *only \$1.33 out of every \$100 spent on reconstruction contracts went to Haitian companies*. American firms received 95 percent of the allocated funds. These data are based only on *direct* US government contracts; data are not available at the subcontracting level to make any calculations on indirect contracts to Haitian firms.

Only 36 Haitian firms received direct contracts for reconstruction, and most of these companies received contracts for only a few thousand dollars. Sixty-nine percent of the \$10 million awarded to Haitian firms went to three of the largest Haitian companies: Opérateurs Portuaires Réunis (OPR), GDG Belton, and Construction, and Sol Haiti.

To its credit, USAID has taken steps to increase transparency about its local partners, and has released a spreadsheet with the names of 22 Haitian organizations that it has partnered with (for a total of \$9.45 million in contracts). An additional \$17 million went to Haitian-American companies.⁶ But no details are provided on which sectors the firms are in, whether the contracts were direct or indirect (subcontracts), or when the contracts were signed.

4. Vijaya Ramachandran and Julie Walz, "Haiti: Where has all the Money Gone?" CGD Policy Paper 004 (Washington: Center for global Development, 2012), www.cgdev.org/content/publications/detail/1426185.

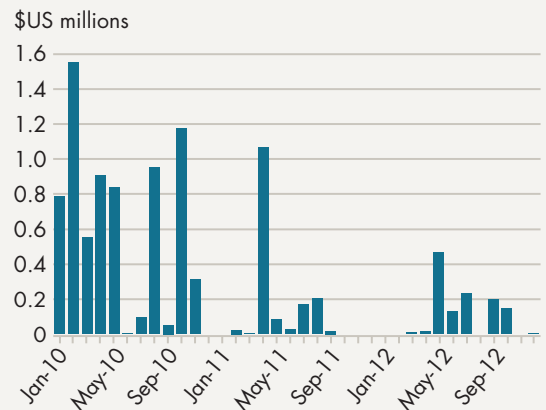
5. USASpending.gov aggregates US government and prime-recipient spending data from several sources to report prime- and subcontract-level data for all funding from the US federal government. Data is from the Federal Procurement Data System, Federal Assistance Award Data System, Smart pay, Census Bureau, and the FFATA Subaward Reporting System, among others.

6. USAID, "Our Local Haitian and Haitian-American Partners," http://haiti.usaid.gov/opportunities/haitian_partners.php, accessed January 20, 2013.

In the immediate aftermath of the earthquake, it was not surprising that the international community took charge of relief efforts. As Haiti recovered and relief turned into reconstruction, local firms would have been able to carry out some of the reconstruction activity. Yet we observe the opposite—a large number of contracts were signed with Haitian firms during the first six months after the earthquake, and 47 percent of the total amount obligated to Haitian companies was disbursed between January and June 2010. Direct contracts to Haitian firms petered off over time: four-and-a-half times less money was contracted to Haitian firms in 2011 than 2010. Even a year or two after the quake, there were months when not a single Haitian firm received a direct contract for reconstruction. The decline in contracts to Haitian firms does not proportionately reflect the overall decline in recovery funding to Haiti (see figure 1).

The majority of Haitian companies with direct contracts were in sectors such as marine cargo handling and petroleum, presumably to assist with the movement of goods in the immediate recovery phase. What is troubling is that the share of no-bid contracts given directly to American companies actually increased as time went on. No-bid contracts were 15.5 percent of all contracts in January 2010, rising to 42.5 percent between

Figure 1. Direct US Contracts with Haitian Firms Decreased over Time



Source: USASpending Prime Award Contracts in Haiti from January 2010 through December 2012. Data are only for direct US government contracts; sufficient data at the subcontracting level are not available. Dates are effective dates of contracts.

December and April 2011.⁷ The data appear to indicate that direct contracts to Haitian companies were not necessarily a priority, even after the Haitian private sector had time to rebuild its capacity to deliver goods and services.

The Scope for Local Procurement— Building Markets in Haiti

Building Markets (formerly Peace Dividend Trust) is an organization founded to increase local procurement and has developed a unique model that could pave the way for procurement reform on a broader scale. Building Markets created the Sustainable Marketplace Initiative (SMI) to increase the flow of information required for a healthy market. The initiative connects local suppliers to large international and national buyers by training local businesses in procurement processes, collecting and distributing tender announcements and business opportunities, connecting buyers and suppliers, and generating data and reports on the local market. It also runs a supplier directory to provide information on local businesses searchable by sector and location. Staff members verify each supplier in the directory through onsite interviews to collect information such as sector, location, size, capacity, and past experience. Businesses are re-verified every six months to maintain the integrity and the utility of the data.

In Haiti, SMI verified and published the details of over 1,700 domestic suppliers in its supplier directory. These suppliers operate in sectors from IT to agriculture, from printing to textile manufacturing. For the majority of these businesses, SMI's directory is their only online presence. Building Markets efforts have also included training 965 Haitian businesses in international procurement procedures. Overall, local businesses and international buyers have reported over 1,400 contracts worth over \$30 million with the help of Marketplace services. Nearly one-fifth of these contracts represent a crucial first connection between a

business and a client. A recent survey of businesses showed that 199 of these contracts had provided work for over 9,800 employees, including over 1,600 new hires. Unfortunately, the Marketplace in Haiti closed at the end of June 2012 because of a lack of funding.⁸

Recommendations

Spending more money on local procurement can multiply the effect of US assistance. Our recommendations to do so include following best practices, scaling up the Building Markets model, and continuing procurement reforms in USAID.

1. US government agencies and prime contractors should follow best practice in local procurement.

Analysis from Building Markets and official International Security Assistance Force (ISAF) and US Forces Afghanistan (USFOR-A) policy in Afghanistan codifies best practices to increase local procurement. Recommendations and the “menu” of options include the following:

Use transparent bidding and selection processes. Clarify bidding requirements and debrief unsuccessful bidders. Such feedback is crucial to building the capacity of local firms. Many are inexperienced with the complex international regulations and procedures, and can use feedback to improve their bidding skills.

Limit the use of prequalification lists and Indefinite Quantity Contracts (IQCs). An open bidding process allows new companies to enter the dialogue, encourages competition, and reduces collusion. Prices may also be lowered with increased competition and transparency.

Improve communications. Produce documents in Creole, French, and English. Simplify documents and identify people who can liaise between Creole and English speakers. Advertise in local communities and share information about standards and future plans.

Pay vendors on time. Most Haitian businesses are unable to obtain a line of credit; vendors must therefore make payments in a timely

7. Haiti Relief and Reconstruction Watch (Center for Economic and Policy Research), “Haitian Companies still Sidelined from Reconstruction Contracts,” blog post April 19, 2011, www.cepr.net/index.php/blogs/relief-and-reconstruction-watch/haitian-companies-still-sidelined-from-reconstruction-contracts.

8. Lucy Heady, former Building Markets staff, personal communication with authors, June–July 2012.



Julie Walz is a policy analyst at the Center for Global Development.

Vijaya Ramachandran is a senior fellow at the Center for Global Development.

[@vijayaramachandran](#)

manner so that businesses are able to pay staff or purchase materials for the next job. In one survey by Building Markets, only 40 percent of Haitian businesses reported receiving payments on schedule always or most of the time. Advance payments should be prioritized to make a larger portion of funds available upon signing or after the first set of deliverables.

Reduce the size of contracts. Breaking up contracts and dividing them by region or sector will allow for more competition from local companies. Larger awards that bundle related services prove difficult for small and medium businesses to deliver and limit the number of local vendors that can make bids.

2. Scale up the Building Markets model.

The model pioneered by Building Markets is an ideal way to increase local procurement both in Haiti and globally. Training, tender distribution services, and business match-making are all crucial steps in helping the Haitian private sector flourish and gain more international contracts. Most importantly, a single, comprehensive business registry and tender distribution service is needed to connect local providers with donors and contracting agencies. Businesses listed on the registry must be independently verified on a routine basis to ensure the quality and integrity of the marketplace. Whether the registry is run by Building Markets or another organization, a third party should take overall responsibility for the project to ensure not only independent verification but the creation of a standalone tender distribution website that can be run by full-time staff. The creation of an extensive marketplace should be a coordinated effort to reduce duplication and confusion, not least with the local Ministry of Commerce and other partners.

3. USAID should continue Implementation and Procurement Reform (IPR).

One of the main tenets of Administrator Raj Shah's ambitious USAID Forward agenda is Implementation and Procurement Reform (IPR). IPR aims to help USAID strengthen partner country capacity by providing more grants and contracts to local firms and organizations, increasing competition, broadening USAID's partner base, and creating stronger partnerships.⁹ The procurement reform plan is to be implemented over five years, and there are ambitious targets to obligate a much larger percentage of program funds through partner country systems by FY 2015. There is also some willingness to reduce the number of Indefinite Quantity Contracts (IQC) to large American development firms and contractors by limiting the scope, size, and geographic coverage of IQCs.¹⁰ Understandably, the Coalition of International Development Companies and other lobbying firms are resistant to these changes, but the current system very much needs IPR. Such reforms should be continued, to the benefit of the local private sector in Haiti and other postconflict and postdisaster countries.

9. USAID, "USAID Forward: Implementation and Procurement Reform," <http://forward.usaid.gov/reform-agenda/implementation-and-procurement> (site discontinued), last accessed October 2012, archive from May 5, 2012, available at web.archive.org/web/20120505154033/http://forward.usaid.gov/reform-agenda/implementation-and-procurement. Text also available at <http://www.cgdev.org/doc/implementation-procurement-reform.pdf>.

10. USAID, "Frequently Asked Questions on Implementation and Procurement Reform (IPR)," <http://forward.usaid.gov/sites/default/files/FAQs%20on%20Implementation%20and%20Procurement%20Reform.pdf> (site discontinued), last accessed October 2012, archive from May 5, 2012, available at <http://web.archive.org/web/20111015055606/http://forward.usaid.gov/sites/default/files/FAQs%20on%20Implementation%20and%20Procurement%20Reform.pdf>. Also available at www.cgdev.org/doc/FAQs-on-Implementation-and-Procurement-Reform.pdf.



1800 Massachusetts Ave NW
Third Floor
Washington DC 20036
202-416-4000

www.cgdev.org

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