



COMCEC ProjectFunding

May 2015

Department of International Programs and Projects

COMCEC Coordination Office

E-mail: pcm@comcec.org

Web : pcm.comcec.org

Address: Necatibey Caddesi No: 110/A Yüce-tepe-Ankara TURKEY



ISLAMIC REPUBLIC OF AFGHANISTAN
MINISTRY OF COMMERCE & INDUSTRY

Research Report

Small & Medium Enterprises, Access to Finance, Export Promotion Potential and Formalization

Mohammad Sabir Siddiqui and Tariq Naeem

11/1/2014

This report was prepared under the project “Capacity Building in Trade Institutions of Central Asian Countries of COMCEC” Project No: 2013–AFGTRAD–0107 funded by COMCEC

© 2015 Ministry of Commerce and Industry (MoCI), Government of the Islamic Republic of Afghanistan



Table of Contents

1-INTRODUCTION	7
1.2. DEFINITION.....	9
1.3. RESEARCH APPROACH	9
1.4. RESEARCH QUESTIONS	10
1.5. QUALITATIVE TECHNIQUES:.....	10
1.6. AFGHAN ECONOMY BEFORE 2001	10
1.7. AFGHAN ECONOMY SINCE 2001.....	12
1.8. SMALL & MEDIUM ENTERPRISES IN AFGHANISTAN.....	14
2.1. ACCESS TO FINANCE.....	16
2.2. LOAN PORTFOLIO	17
2.3. SOURCES OF FINANCE IN AFGHANISTAN BY SMES.....	18
2.4. GROSS LOAN PORTFOLIO OF MFIS IN AFGHANISTAN	20
2.5. GROWTH OF LOANS	20
2.6. INTERNATIONAL FINANCIAL COOPERATION	21
2.7. AFGHANISTAN MICRO-FINANCE INITIATIVE	21
2.8. AFGHANISTAN RURAL MICROCREDIT PROGRAM (ARMP).....	23
2.9. BANGLADESH RURAL ADVANCEMENT COMMITTEE-AFGHANISTAN	25
2.10. CHILD FUND AFGHANISTAN (CFA).....	26
2.11. OXUS AFGHANISTAN	28



2.12. MADRAC.....	30
2.13. ARIANA FINANCIAL SERVICES.....	33
2.14. RECOMMENDATIONS FOR ACCESS TO FINANCE.....	34
3.1. EXPORT PROMOTION POTENTIAL	35
3.2. AFGHANISTAN'S TRADE BALANCE.....	35
3.3. IMPORTANCE OF EXPORTS FOR	37
3.4. EMPLOYMENT:.....	37
3.5. ECONOMIC GROWTH:	37
3.6. CURRENT ACCOUNT DEFICIT:.....	37
3.7. WHAT DETERMINES THE LEVEL OF EXPORTS?	37
3.8. EXPORTS PRODUCT-WISE	38
3.9. EXPORT OVERVIEW:.....	41
3.10. EXPORTS OF AFGHANISTAN BY COUNTRY SINCE 2009-2013	41
3.11. EXPORT FROM AFGHANISTAN TO PAKISTAN BY PRODUCT.....	43
3.12. EXPORTS FROM AFGHANISTAN TO IRAN BY PRODUCT	44
3.13. CENTRAL ASIAN REPUBLICS AND AFGHANISTAN TRADE SCENARIO	45
EXPORTS BY COUNTRIES (USD MILLION)	46
3.14. AFGHAN-TURKEY TRADE RELATION:	47
3.15. INTERNATIONAL TRADE TURNOVER OF THE REPUBLIC OF TAJIKISTAN	47
WITH THE ISLAMIC REPUBLIC OF AFGHANISTAN.....	47



**THE MAIN INDICATORS OF FOREIGN TRADE TURNOVER OF THE REPUBLIC
OF TAJIKISTAN WITH THE ISLAMIC REPUBLIC OF AFGHANISTAN FOR 2011-2014 48**

3.15. CHALLENGES FOR EXPORT PROMOTION.....31...48

**3.16. POLICY RECOMMENDATIONS FOR INCREASING AFGHAN EXPORTS TO SOUTH AND
CENTRAL ASIA AND BEYOND 49**

3.17. AFGHANISTAN AND REGIONAL INTEGRATION..... 51

4.1. FORMALIZATION..... 52

4.2. RECOMMENDATIONS FOR TACKLING INFORMALITY 54

APPENDICES: 55

ANNEX 1..... 55

ANNEX 2..... 59

ANNEX 3..... 67

ANNEX 4..... 71

ANNEX 5..... 78

ANNEX 6..... 79

LIST OF REFERENCES:..... 87



Executive Summary

Faced with the challenges brought about by globalization and a rising demand for a post-conflict reform in particular by the poorer, relatively disadvantaged and vulnerable Afghans, the government of Afghanistan as a least-income country is endeavoring to improve its economic performance. Doing so, one key focus is placed on global trade expansion. The government has made policies and enacted regulations in the area of trade, in addition to its membership in numerous regional trade integration agreements. To boost job-creating trade-driven growth, private sector development, as in the rest of the developing world, is given a major role in Afghanistan. To develop and strengthen the private sector, among other things, effective policies directed at Small and Medium Sized Enterprises (SMEs) need to be formulated and implemented. This research which is part of the capacity building in trade institutions of central Asian countries of COMCEC project which is funded by COMCEC- OIC. The research is investigates the status of SMEs in Afghanistan in terms of access to finance, export promotion and formalization and it is status with the member countries of COMCEC particularly those part of the project which are : Pakistan, Iran, Tajikistan, Uzbekistan and Turkmenistan. The method used in this research is both quantitative and qualitative. The experts has done a desk research and also gathered data relevant to the mentioned areas and has founded their findings based on the data analyzed.



1-Introduction

Faced with the challenges brought about by globalization and a rising demand for a post-conflict

Government of Afghanistan as a least-income country is endeavoring to improve its economic performance.

Doing so, one key focus is placed on global trade. The government has made policies and enacted regulations in the area of trade, in addition to its membership in numerous regional trade integration agreements.

International trade openness can be of less value unless it results in tangible outcomes in terms of jobs, growth rate of GDP and a higher standard of living for all Afghans. Due to limited data it is not known how many jobs depend on imports and exports. Notwithstanding this shortcoming, from retail to wholesale, trade does play a major role in creating jobs across Afghanistan. But the contribution of trade to growth is weak considering the health of the Afghan economy, reflected in its rate of annual gross domestic product.

To boost trade-driven economic growth, private sector development, as in the rest of the developing world, is given a major role in Afghanistan. To develop and strengthen the private sector, among other things, effective policies directed at Small and Medium Sized Enterprises (SMEs) need to be formulated and implemented.

By socioeconomic level of development, Afghanistan was one of the poorest countries in the region in 2001. Afghanistan's annual growth rate was less than 1% in 2000. With the change in political regime and a foreign aid supported new Afghan administration, the growth rate started a sudden upward trend. Although, the rate of growth of gross domestic product started to register positive improvements, the economic activity (led by agricultural production) had a highly fluctuation nature with ups and downs associated with the prevailing security and the resulting slump in investor and consumer confidence.

Growing at a peak rate of 21% in 2009, GDP declined to 8.4%, 6.1% in 2010 and 2011 respectively. In 2012 GDP started to improve registering 14.4 % increase while in 2013 it reached to 4.6 % (World Bank).

In Afghanistan's economic development, SMEs have played a vital role from the very beginning, even before the US invasion and collapse of Taliban. SMEs make up the backbone of the Afghan economy in terms of its employment generation potential, poverty alleviation and contribution to national economic performance.

With the coming into being of the new Afghan administration, turned to free-market economy (Capitalism) in 2001, private sector approximately, 80-85 % of which was SMEs. Small and Medium Enterprises were announced engine of economic growth. Afghan government's focus on development of SMEs was distracted due to flow of huge amount of foreign aid. This made the government to an extent failed to focus on sectorial SME competitiveness, access to finance &



market, export promotion potential and formalization which would have guaranteed sustainable economic growth in the long run.

International community and donor agencies gave small and medium enterprise development prior attention due to its capability of employment generation opportunities, income level growth and investment. Many financial institutions were established to support small and medium enterprise access to finance, market creation, competitiveness and new investments.

Throughout the years, Ministry of Commerce & Industries, government of Islamic republic of Afghanistan, has been working tirelessly to build national level SME strategy and was finalized in 2009. According to the mentioned strategy, the SME's of Afghanistan were classified into 6 sectors and from them only Agribusiness and Cashmere were approved by the Economic Committee of Cabinet (ECC). Working groups on Agri-business, Leather, Cashmere, Carpet, Marble, precious and semi-precious stones and construction sectors have been initiated. Afghan government recognizes the importance of trade development and trade diversification on overall economic-related activities.

In recent years Afghanistan has highly recommended for inter-regional and international trade between south, east, west and central Asian countries and from there to Europe. Access to finance of SMEs is considered important to their growth and in investment in exports. Transit agreement between Afghanistan-Pakistan (APTA) was signed in recent years.

This study is based on the existing literature and face to face interviews with sectorial officials; the report hopes to bring to the light the current situation of SMEs in Afghanistan, their access to finance, export promotion potential and formalization, the state of Afghanistan's trade with OIC member countries. The research also looks at the trade relation Exports to regional as well as COMCEC member countries, the challenges and recommends policy measures to overcome such bottlenecks.

Small and medium enterprises not like large enterprises are the largest employment generators in Afghanistan. SME provide almost 80% of employment to Afghanistan's labor force.

SME development is a very strong factor to accelerate economic activity and enhance internal as well external trade. SME growth can help poverty alleviation and also promotes democracy through investor's participation in overall economic, political and social dimensions of the country.

Afghan Economy recorded fast and brilliant growth in terms of real gross domestic product (GDP) since the fall of Taliban government (Real GDP growth is now projected at 8 % in 2004/05, compared with 16 % in 2003/04, and 29 % in 2002/03). This growth rate started to slow down due to unexpected political reasons. International community recognizes the sustainability of private sector as important as business conduct itself. Thus SME sector development support is considered a key factor in any private sector development-growth strategy.

For the Full Report
Please Contact
COMCEC Coordination Office
at
pcm@comcec.org



COMCEC
ProjectFunding