



SMALL TO MEDIUM ENTERPRISE PAPERS

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## **A) Introduction**

- i. Small and Medium Enterprises (SME) development is at the forefront of a country's private sector and trade strengthening initiatives. The Afghan government's vision is to create a globally competitive and socially responsible SME sector, in which sustainable and equitable growth is private-sector led and where government functions help to achieve this goal.
- ii. A vibrant SME sector is considered the backbone of any developed economy. Over the past decades the role of the SME sector has been considered of great importance in accelerating economic growth and development. Developing economies like China, India, Pakistan, and those in the Middle East and Asia Pacific region have considered SME as an important sector in their economies.
- iii. Due to their creativity and innovative approach, SMEs play an important economic, social, and political role in employment creation, resource utilization, and income generation and in helping to promote change in a steady and stable manner.
- iv. In Afghanistan SMEs with fewer than 300 employees make up 80-90 per cent of Afghan businesses and nearly all are in rural areas. SMEs generate over 50 per cent of Gross Domestic Product and employ approximately 50 per cent of the Afghan labor force (Agriculture Paper says 32% GDP and 70-80 % Afghan labor force occupation: which one is correct – check source). A strong and vibrant SME sector is needed if Afghanistan is to realize its vision as a trade and transit hub. Extraction industries and planned transit corridor hubs will require services including retail, machinery rentals, transportation, processing and handling.

### **The Afghan Government is committed to:**

- Developed a national and regional SME policy which will identify priority sectors for SME development and address the major needs of each of those sectors;
- Remove obstacles, bureaucracy and market inefficiencies that inhibit SME growth;
- Ensure that the competitive environment for SME growth remains strong, and that the many forces that influence their growth contribute to that environment
- Help align organizations (donors, NGOs, associations, etc.) that are working to promote SME development.
- This paper identifies four priority areas for regional and international support with concrete recommendations which complement the Afghanistan Development Strategy. They are designed to take forward the regional aspects of outcomes which were supported by regional and international partners at the London and Kabul Conferences.

## **B) Regional Cooperation**

- i. Increasing regionalism has led to closer economic cooperation and integration. SME development is a driver for greater economic integration. In a vibrant SME sector, firms can gain access to new markets; they can increase production and reduce operating costs. At the same time, consumers are able to choose from a wider variety of product at competitive prices.
- ii. Most importantly, local firms can connect with multinational corporations and enhance opportunities for growth and development. For example, local enterprises in Penang, Malaysia have developed linkages with foreign electronic companies. Some of their enterprises have successfully entered the global market.
- iii. Regional Bodies also focus on SME development for their member countries. The Association of Southeast Asian Nations (ASEAN) has a SME Working Group. The Working Group is a forum for SME authorities within the 10 member countries to share experience and jointly develop action plans, strategies, and frameworks for integrated SME development across the region.
- iv. The development of an SME sector benefits Afghanistan and the region. Afghanistan benefits directly due to increased employment opportunities, and higher incomes from growth and new investments. A stronger rural economy with greater job prospects and stable income will provide alternative employment opportunities, helping to tackle the drugs trade and insurgency. Meanwhile, the ripple effect of strong SME sector development in Afghanistan will indirectly benefit regional countries in terms of having a secure, stable and progressive Afghanistan with increasing investment and trade opportunities.

## **C) Three Priorities for Afghan SME Development**

- i. **SME Strategy for Job Creation:** Since the Third Regional Economic Cooperation Conference on Afghanistan (RECCA III), the Ministry of Commerce is finalizing a comprehensive SME Strategy which awaits Afghan Cabinet approval. The strategy identifies opportunities for growth across provinces and regions within Afghanistan. The strategy is a guide and framework for creating an enabling environment for SME development. The approach of the strategy is to focus on priority sectors; identify ways of tackling constraints, formalize enterprises (80 per cent of SME are not formalized), and enhance job-creation (unemployment is at around 40 per cent). This will help the SME sector grow, improve the quality of service delivery, and increase government revenues. Implementation of the strategy will be a priority for the Afghan Government as the Afghan Government has set an ambitious target of creating 1m jobs and \$3bn of GDP by 2016 through the implementation of the SME Strategy.

- ii. **Enabling Laws:** The Afghan government has made some key achievements since 2001 in improving the environment for SME development as part of its wider private sector development strategy, especially through the Ministry of Commerce which is the policy maker for Afghan private sector development. A number of commercial laws have been brought into force, for example the Corporations & Limited Liability Companies Law, Partnership Law, Arbitration Law, and Mediation Law.
- iii. **Gender Representation:** Women play a major role in Afghan industries, such as agriculture, carpets, and embroidery. Improving the environment for women worker is a priority. Strengthening women's associations so that they can represent their workforce and champion the benefits that women should receive from the economy will be a priority, by implementing the National Action Plan for Women of Afghanistan.
- iv. **Sectors:** The Afghan Government has identified six sectors and their associated provinces to be targeted to support the SME sector and the successful implementation of the SME Strategy. These are: Agri-processing (including fresh and dry fruits, nuts and medicinal plants); Carpet weaving, cutting, washing and trading; Marble quarrying, cutting and polishing; Gemstones mining, cutting & polishing and jewelry; Livestock and skins: and Wood, timber and carpentry.

#### **D) Recommendations for Regional and International Partners**

Since 2001, the international community has been at the forefront of strengthening Afghanistan's market economy through technical cooperation for Private Sector Development. At this critical juncture of Afghanistan's private sector development plans, where the Afghan government is ready to move forward with the implementation of SME Strategy, the Afghan Government requests regional and international partners to support the following:

- 1) Provide technical and financial support to SME development through capacity building and technical training as part of national priority programs; support innovation programs and Afghan enterprises, especially in non-trade industries, either through direct investment, or creating SME funds in banks to support Sharia-compliant products or sector-specific products, all with lower interest rates that will be of benefit and value to regional neighbours and international partner countries.
- 2) Provide capital investment to promote access to finance; facilitate exchange visits by private sector groups between neighboring countries to build understanding on SME micro-financing and micro-credit experience.

- 3) Build sector-specific infrastructure, for example, cold storage facilities and provide sector-specific technology that can increase productivity in relevant provinces.
- 4) Provide capacity building to SME implementation groups, such as Women's Business, Entrepreneur and Artisan Groups and sector-specific training to relevant entrepreneurs through regional and international exchanges, and in-country training covering issues such as literacy; management of finances; contracts and procurement.
- 5) Support from regional partners to provide market access and preferential treatment for products which originate from Afghanistan. This will require regional partners to remove the restrictions on Afghan products, reduce and remove tariffs, to complement and add to concessions already provided through regional agreements and mechanisms.