

**UNLEASHING ENTREPRENEURSHIP:  
NURTURING AN ENABLING ENVIRONMENT FOR SME  
DEVELOPMENT IN AFGHANISTAN**

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Background paper prepared for the Enabling Environment Conference by:

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**I. INTRODUCTION**

In his message to the international conference “Afghanistan and the International Community - A Partnership for the Future”, held in Berlin from 31 March to 1 April 2004, President Karzai averred the commitment “to create the enabling environment for both the domestic private sector, including the Afghan diaspora, and the international private sector to thrive in our country”. This commitment has been reiterated in a series of national strategy documents – especially in Afghanistan’s National Development Strategy (ANDS) of 2005 – and is being implemented at different levels of government in various sectors of production.

Whatever their persuasions, governments frequently view small and medium enterprises (SMEs) as critical to private sector development, as they can help economies attain more broad-based uniform growth, and help encourage an entrepreneurial mentality in the business sector. Afghanistan’s current socio-economic stage of development is characterised by a low absorption capacity and large-scale investment requirements to rebuild the country’s infrastructure. This is a process which may take a long time to complete; however, given SMEs’ resilience, adaptability and scalability, they are arguably best suited to Afghanistan’s current stage of development and

natural partners for a step-by-step approach to economic development. Promoting a favourable climate for SMEs to thrive is therefore key to the successful and lasting economic development of Afghanistan.

In view of the importance of SMEs, this paper focuses on the impediments which SMEs face, and proposes ways to tackle them (many of which are already in progress). It follows the blueprint set out in **UNDP’s Unleashing Entrepreneurship 2004 report** and concentrates on ways to create an enabling environment for private sector development (PSD) in general, and SME development in particular – a process which was identified as crucial by numerous private and public sector stakeholders across the country.

The paper’s arguments and recommendations focus on a set of **five issues** identified as central to the successful promotion of SME development in Afghanistan:

- i. Taxes, tariffs and customs
- ii. Land registration
- iii. Skills and knowledge development
- iv. Trade promotion
- v. Standards and certification

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**Box 1: UNDP Afghanistan's approach to private sector development**

UNDP's assistance to private sector development will focus on strengthening national and local capacities to create micro and small enterprises leading to enhanced income and employment opportunities. UNDP will support the creation of an enabling environment for the promotion of SMEs and the development of Afghanistan's traditional export strengths by: encouraging the development of commercial crafts (through support for the formulation of a Small Enterprise Development policy); promoting entrepreneurship; providing education and export skills; and setting up Internet Business Resource Centres to promote livelihood opportunities for the poor (particularly poor women).

To this end, UNDP favours a "bottom up", community-based approach buttressed by:

- Targeted technical assistance attending to impediments to SME growth
  - An accelerated build-up of local capacity and physical infrastructure
  - The scaling-up of assisted financing to serve SME needs, in line with multi-stakeholder initiatives akin to those exposed [The investment climate in Afghanistan 2005; compare Lister and Pain 2004]
  - The recollection and study of good practices for SME development which have been successfully applied in other developing countries especially Central, South, Southeast and Eastern Asia
  - A moratorium until 2020 for corporate tax compliance and effective trade liberalisation for SMEs, as defined in a specific enabling regime
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Although issues of access to electricity and finance are key areas affecting SME development in Afghanistan, these areas of concern will not be treated here as they are covered by other papers that have been prepared for the Enabling Environment Conference. Corruption is a theme that cuts across nearly all points of contact between the private and the public sector. Unlike micro- and family enterprises, many SMEs are "too big to hide and too small to fight".<sup>1</sup> Not surprisingly, an overwhelming majority of 95 to 99 percent of respondents in a recent nationwide poll affirmed that government policies should prioritise the fight against corruption, enforce the rule of law and assure equal treatment to all regions.<sup>2</sup> While it is recognised that overcoming corruption is an important aspect of creating an enabling environment for SMEs, it is felt that the problem is not specific to SMEs, and too complex to be addressed in this paper. Issues related to the security situation are beyond this paper's scope.

Section II sets out key factors that need addressing in order to create an enabling environment for SME development in Afghanistan. Section III selects a number of particularly promising sectors that could be a special focus of SME promotion policies, and section IV summarises key recommendations.

## II. UNLEASHING ENTREPRENEURSHIP IN AFGHANISTAN – CLEARING THE PATH<sup>3</sup>

The case study of Arya Co. Ltd. illustrates a range of key problems faced by SMEs and sets the stage

for the following discussion of key issues pertaining to SME development in Afghanistan.

### Taxes, tariffs and customs

Afghan entrepreneurs big and small for the most part complain that the tax burden they bear is excessive and that tariffs on their imported inputs are high and unpredictable due to lack of transparency in customs valuation and clearance procedures. Moreover, they claim that, as government is not duly performing its duties, it lacks the moral standing to impose such a load on the productive sector. Although these complaints by the business sector are justified, the gross profit tax rate it is liable for in Afghanistan reaches only 21.4 percent, while the average for the region is 35 percent, and that of industrial countries more than twice as high.

If authorities want to favour SME development through fiscal policy rather than tinkering with the liability side of the tax system, they may introduce explicit tax rebates, devolutions and drawbacks that can go a long way in mitigating tax incidence and cash flow problems in the private sector. For instance, the Private Investment Law, currently in force as published in the Afghan Official Gazette No. 869 of 21 December 2005, does not seem to exempt from import duties the importation of production machinery for approved investments. However, whether in the case of import and export duty exemptions or of tax breaks, subsidisation requires government expertise build-up and discrete attention in the permanent quest against administrative and political corruption.

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### Case Study 1: Creeping costs, dumping and government neglect, or poor business planning?

Arya Co. Ltd., established in 2002, is the largest flour mill in Afghanistan. It employs 220 workers in a compound within the city limits of Herat, and about 80 at the border with Turkmenistan to pack imported wheat. The property of 35 *jerib* (about seven hectares), the installations and the German and Turkish machinery in operation represent an investment of around US\$ 5 million, totally self-financed. Although close to Herat's industrial park that already groups 167 factories established after its investment, the Arya Co. has not benefited from the subsidised land and facilities granted to other companies within such a perimeter.

The mill works only nine hours a day because it cannot place any surplus production. Power from Iran and Pakistan is plentiful but expensive (AFN 5 per kW against AFN 2 per kW for non-commercial users), with frequent blackouts and voltage fluctuations, which can cause machinery malfunction. The tax and tariff burden is forcing the Arya Co. and other companies out of the market, especially because of the well-oiled public-private response to competition in Iran and Pakistan.<sup>4</sup> Apart from these deadweight costs, an additional 15 percent needs to be paid to sort out corrupt practices, without counting private security.

For Arya Co. Ltd to inspect the quality of its wheat imports (70 percent), it would need to send samples to Kazakh or Turkish laboratories. The company would only need US\$ 30,000 to US\$ 100,000 to set up a laboratory of its own but faces prohibitive bank interest rates in the range of 20 to 25 percent per annum to finance it. In a textbook case of lacking support to PSD, the firm claims that the government could do a lot to reduce the tax, utility, private security and corruption bills, subsidise the arrangements for its laboratory and facilitate access to international organisation (IO) and donor procurement. To be sure, practically all flour distributed by IOs, inter-governmental organisations (IGOs) and NGOs in Afghanistan, including the World Food Programme (WFP), is imported.

At the time of a visit to Arya's premises by this research team in October 2006, some bankers in Afghanistan did not seem to know about Arya's plight and the company was not aware of the existence of two seed quality testing laboratories in Badam Bagh (Kabul) and Jalalabad and two satellite stations in Kunduz and Baghlan set up by ICARDA to ensure seed quality. Was this due to a lack of resources or lack of public-private cooperation and coordination?

*The key issues are:*

- ◆ Unreliable electricity at high costs
- ◆ Unfair competition (dumping) from Iran and Pakistan
- ◆ High tax and tariff burden and additional high costs of corruption
- ◆ No access to formal credit

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### Land registration

Evidence abounds that Afghan land registries are unreliable and the object of recurrent fraudulent manipulation, while other property registries (industrial property and copyright, for example) are simply not operational. Uncertainty in land tenure prevents many international corporate investors and bankers (who are governed by their countries' restrictive legislation of incorporation) from entering the Afghan market altogether. SMEs are particularly vulnerable to rule of law deficiencies in an environment of land appreciation and legal opacity as they find themselves impotent against the discretionary power of government officials when trying to resolve titling and zoning matters. Afghan entrepreneurs cannot revert to the courts for the resolution of commercial controversies and no alternative adjudication mechanisms are available to them other than informal or traditional ones.

A majority of Afghans have no legal title to their homes. Moreover, the destruction of public records and the existence of conflicting titles to property are well known in countries that, like Afghanistan, have undergone protracted civil and international wars. This is usually addressed through the creation of administrative or judicial bodies especially dedicated to the verification and issuance of definitive titles, not only to land but also to fixed installations and agricultural machinery, for example. The Land Titling and Economic Restructuring in Afghanistan (LTERA) project, implemented for USAID by the Emerging Markets Group (EMG), is engaged in a series of similar initiatives, like the introduction of a new Land Information System (LIS) to address shortcomings in land registration and titling systems. It has already processed over 5.4 million legal documents

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## Case Study 2: Access and title to land

The Kabul Fruits and Nuts Consortia are a group of Afghan wholesalers (from all over the country) who export raisins, almonds, pistachios and other fruits and nuts to India, Dubai and some European Union countries. Each of the member companies employs around 10 salaried staff and, depending on the season, between 20 to 50 labourers (paid by the day) for processing and packing at headquarters, and about 10 procurement agents in the provinces (paid on a commission basis). Most daily labourers are women, half of them regular, who are trained by other, more skilled workers. Their aggregate exports reach more than US\$ 80 million a year. There are other similar consortia for other products.

They are very proud of the quality of their exports (which contain no chemical additives), and consider them far superior to those of their competitors in China, Turkey and Syria. They only pre-pack for export as final packaging and labelling is done in the countries of destination, with explicit mention of its prestigious origin.

However, the following impediments affect their competitiveness: the cost of power, difficulties in acquiring appropriate machinery, lack of proper health and quality standards, and transportation costs. All the cargo travelling over roads needs to be transhipped at the border, including those sealed for maritime dispatch via ports in Pakistan and Iran. Controls en route are usually dealt with through arrangements *sub rosa* and corruption is embedded in the price and considered a condition for “regular” operation.

However, the main problem claimed by this group is the lack of access to land within a 100 km radius of Kabul’s centre to set up its processing and packing plant with new machinery from India. The authorisation to do this rests with the capital’s municipality and provincial authorities, and is subject to conflicting, non-transparent zoning regulations. The companies are prepared to pay cash for the area of two jerib (about 4,000 m<sup>2</sup>) they need, but require unambiguous title to it to protect their collective investment in machinery. This is a problem that also affects some industrial parks already in operation. Considerable growth resulting from expansion directly depends on tackling this basic pre-requisite.

*The key issues raised are:*

- ◆ High production costs due to high electricity costs
- ◆ Difficult to procure machinery
- ◆ Lack of health and quality standards affects international competitiveness
- ◆ Endemic corruption
- ◆ Lack of access to land results in lack of access to credit

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(*wasayeq*) throughout the country, including some 540,000 restored title deeds. The work includes the use of traditional methods for improving tenure security of urban and rural dwellings, like the use of customary documents (*orfi*) and working in cooperation with village councils (*shuras*).<sup>5</sup> The nostrum here is more of the same.

### Skills and knowledge development

As the Afghan economy acquires a higher degree of sophistication, capacity building will become a key component of long-term growth. And as businesses acquire scale, planning, manning and scanning, the mantra of SME development nowadays will take centre stage in Afghanistan, putting pressure on the organisation and coordination abilities of Afghan entrepreneurs and government authorities.<sup>6</sup>

*SME development heavily depends on an effective public-private interaction that includes civil society*

*to foster capacity building. This will require the allocation of substantial resources. Key areas for business skills and knowledge development that will need much more attention include:*

- ◆ Investment in productive capacity – best exemplified by the Integrated Framework for Trade-Related Technical Assistance to Least-Developed Countries (IF) initiative
- ◆ Targeted programmes to mitigate risk for SMEs
- ◆ The advancement of flexible financial markets
- ◆ Access to and development of online data banks for national trade-support institutions (TSIs)

Many Afghan entrepreneurs and professional associations do not seem to be aware of these challenges and, as a first step, it would be the responsibility of the Government to raise awareness amongst the business community and civil society.

**Technical assistance and capacity building (TA/CB)** - International organisations, NGOs, foreign government agencies, universities and specialised think tanks in Afghanistan have been engaged in TA/CB for years. Apart from the merits of their substantive work, they should take special care to involve relevant public sector officials in their initiatives from the planning stage onwards, so that local ownership is nurtured early on. Moreover, all should be interconnected through an informal, forum-like scheme, which encourages information sharing and fosters good practices that show viability.

### Trade promotion

It is tempting to envisage SME development in Afghanistan as a process primarily targeting the build-up of scale in the domestic market; the promotion of certain sectors that could produce quick results; the favouring of a Buy Afghan focus for inputs; the repatriation of the value-added production segments that have been moved abroad due to lack of equipment technology, qualified personnel or know-how (import substitution); and then, and only then, the targeting of export markets. Nevertheless, the scenario is more complicated than that. Afghanistan's competitive advantage concentrates, precisely, on being at the crossroads of trade routes that have existed for thousands of years – the “roundabout of the ancient world”, in the words of historian Arnold Toynbee – and will not be phased out by government decree.

Moreover, a land-locked country that is not self-sufficient in energy and food, and is badly dependent on foreign inputs for its incipient and reconstructing industries, will inevitably need to rely on voluntary exchanges involving increasingly complex economic, legal and logistical arrangements. The fact is that improving SME access to imported inputs, especially capital goods, ranks very high among the concerns manifested by Afghan entrepreneurs. There is also increasing evidence of the “born-international” nature of SMEs in a globalised economy (SMEX).<sup>7</sup> It is hard to envisage an alternative path for Afghanistan to an enlightened international trade policy aimed at capturing new opportunities and diversifying its export markets (now skewed in favour of a few neighbouring countries).<sup>8</sup>

*Missing the vanguard of MNE subsidiaries and large national corporations shooting for export volume, what role can Afghan SMEs play in world markets? The options boil down to two, namely:*

- ◆ **Joining regional or international value chains**, so that Afghan products and services can reach

economies of scale and gain access to advanced export markets.

- ◆ **Pursuing market niches for highly differentiated products** like organic farming, biocultivation, handmade carpets, tapestry, blankets and shawls, “exotic” gems and jewellery, and unique animals like the Afghan hound and the Buzkashi horse.<sup>9</sup>

A number of innovative initiatives of this sort are being pursued at the moment in various parts of the country, all of them rural, either to foster import substitution or to capture foreign markets. Promoting trade will do little good for a land-locked country like Afghanistan if the movement of goods through connecting countries remains too difficult and costly. Trade and transport facilitation in Afghanistan constitutes a multifaceted endeavour, requiring considerable financial and qualified human resources, and extensive negotiations with neighbours (especially Iran and Pakistan for improved access to the closest ports in the Arabian Sea). The Emergency Customs Modernisation and Trade Facilitation (ECMTF) project, initiated in 2004, focuses on the development of physical infrastructure at border crossing stations, inland clearance depots and transit checkpoints. Customs infrastructure development is already in progress in Kabul, Jalalabad, Torkham, Hairatan, Mazar-e-Sharif, Islam Qala, Herat and Torghundi. The creation of the Asycuda central database promises to provide top management at the Afghan Customs Department and the Ministry of Finance with comprehensive information about customs activity at the country level in both Asycuda computerised and non-computerised customs offices.<sup>10</sup>

Also, **close cooperation with highly-advanced trading countries**, like Singapore and Malaysia, could speed up the process of skills development in trade facilitation in Afghanistan – a multi-pronged tool to simplify and accelerate import and export procedures, give transparency to the application of customs legislation, regulations and rulings, fight corruption, increase revenue, reduce frictional costs in the transportation and handling of merchandise, and assist in the overall modernisation of the export sector. All countries in Central and South Asia are pursuing efforts toward simplifying and harmonising of international trade procedures and their automation. However, none would seem suitable to serve as a model for Afghanistan. A land-locked country like Afghanistan should place top priority with the trade facilitation agenda, especially the segment on the harmonisation and simplification of trade procedures with neighbouring countries in Central and South Asia. This process requires the dedicated involvement of the private sector, including trade promotion

organisations, professional associations (PAs) and other national, regional and international business groupings. Similarly, doing away with market-unfriendly die-hards, like government-run chambers of commerce and industry that broadcast the wrong message, is part of the task.

*The specific recommendations contained in a recent World Bank publication on economic cooperation in the wider central Asian region should be adopted at once, by namely:*

- ◆ Developing funding and logistical schemes for the formalisation and control of the cross-border transit of goods and people, including the signing of bilateral or sub-regional agreements.
- ◆ Harmonising customs legislation and practices, including the adoption of the Revised Kyoto Convention on the Simplification and Harmonisation of Customs procedures, and improving coordination between law enforcement agencies at cross-border checkpoints.<sup>11</sup>

**International trade negotiations** - Joining the multilateral trade system (MTS) can sometimes trigger a boom in foreign direct investment (FDI), as in the case of Viet Nam, WTO's newest, 150th member. Indeed, largely as a consequence of WTO accession by the end of 2006, FDI in Viet Nam may reach an all-time yearly high of US\$ 8.27 billion. However, it is important to reflect that Viet Nam applied for membership in January 1995 and that the Russian Federation which applied in June 1993 is still on the waiting list. In other words, the WTO accession process is long, complicated and demands human talents which are seldom within the easy reach of an LDC. Although Afghanistan applied for membership to the WTO in November 2004, together with Iraq, it is unlikely that there will be major progress about it in the near future, the Afghan government being expected to submit the required Memorandum on the Foreign Trade Regime of the country to the working party established for accession discussions by mid-2007.<sup>12</sup>

Afghanistan may also conclude **bilateral trade agreements** with Germany, Turkey, Uzbekistan and the United States, after having negotiated investment agreements with them; become a party to the South Asia Free Trade Agreement (SAFTA) of 2004, after having joined the South Asian Association for Regional Cooperation (SAARC) in November 2005; and adhere to the Global System of Trade Preferences among Developing Countries initiative, among other available options. In each case, the Afghan government and its business community will have to make a cost-benefit analysis and determine which paths constitute a priority, allocate scarce human resources

accordingly, and discard those options that will not produce quantifiable results in the medium-run.

## Standards and certification

Largely as a result of the Uruguay Round of multilateral trade negotiations (MTNs) concluded in 1994, import and export duties and quantitative restrictions (such as quotas and import licences) have been drastically reduced or eliminated altogether in a number of countries. Afghanistan, for instance, now has a six-band structure for ad-valorem tariffs, with a maximum rate of 16 percent.<sup>13</sup> This has shifted the attention of policymakers and producers to issues like product and process standards, technical regulations and trade facilitation. Standards and technical regulations mostly apply to the mitigation of health and environmental risks but also to prevent deceptive practices, by advancing benchmarks for quality, safety, authenticity, good practices, sustainability, traceability, and the like. It is true that their costs of implementation can break the back of many an Afghan SME, but the World Trade Organization has adopted two such multilateral agreements and ultimately Afghanistan will have to adhere to them upon accession – no matter the leeway for implementation granted to LDCs. Afghanistan is a member of the organisations that promote health-related standards: the Food and Agriculture Organization, the World Organisation for Animal Health and the World Health Organization.<sup>14</sup>

In this context, many Afghan products are technologically handicapped and its industries, short of the mark to compete in international markets. This was the *raison d'être* for the establishment, with the support of the World Bank's International Development Association (IDA), the United Nations Office for Project Services (UNOPS) and the United Nations Industrial Development Organization (UNIDO), of the Afghanistan National Standardization Authority (ANSA) in 2005. Although not yet fully operational, the initiative is in execution under the framework of the Emergency Customs Modernization and Trade Facilitation Project in Afghanistan (ECMTF).<sup>15</sup>

This is an incremental and continuing process that is costly to both the public and private sectors of Afghanistan. However, facing no other choice, the expectation is that Afghan entrepreneurs will understand the relevance of these efforts when exposed to the business opportunities that they miss because of non-compliance and that can open to them upon compliance. **Awareness-raising and capacity building** can be accelerated through national membership to dedicated organisations,

like the Asian Productivity Organization (APO).<sup>16</sup> For example, some LDCs in the region boast frontline SMEs that have cleaved their way into international value chains and the humanitarian and development procurement of sovereign donors, IOs, IGOs and NGOs, some in medium-to-high value-added sectors such as generic and brand-named drugs, food and beverages, and construction materials.<sup>17</sup>

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### Box 2: CSR-compliant products

An impressive and growing number of consumers in leading OECD countries are reportedly prepared to pay a premium for CSR-compliant products, especially identified as such. This is a new development, bound for kindling non-tariff barrier (NTB) claims from developing countries but unlikely to go away. This can also be seen as an opportunity. For instance, the RugMark programme, which currently covers India, Nepal and Pakistan, could be extended to Afghanistan, the fourth largest producer in the world. By agreeing to adhere to RugMark's child labour guidelines, manufacturers receive the right to put the RugMark label on their carpets, thus opening the door to the procurement of large department store chains in Europe and North America. [www.rugmark.com](http://www.rugmark.com)

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In a world where consumer whims rule, customer satisfaction has become the litmus test for the production and delivery of goods and services. Firms need to be concerned not only about the price and quality of what they offer in the marketplace, but also about design, packaging and the differentiation of their brands. An increasing number of consumers are worried about production processes along international value chains not only out of personal health and safety considerations, but also with respect to the observance of labour and human rights, environmental conservation and the control of corrupt practices in developing countries.

### Other

*From a practical viewpoint, once a consensus is reached on the main impediments to PSD and SME development, and their ranking of priority, it is necessary to set up a procedure for the:*

- ◆ Reporting on impediments and the operation of action mechanisms to deal with impediments
- ◆ Ongoing identification of new impediments and the monitoring of old ones
- ◆ Identification of best practices in support programmes for SMEs and PSD

- ◆ Gathering and elaboration of information on markets, products and services so that entrepreneurs can spot opportunities and act upon them
- ◆ Monitoring of the labour intensity of public policy (and of publicly subsidised or guaranteed private endeavours) to prevent “jobless growth” – a constant peril in an economy more prone to wealth circulation than production like that of Afghanistan.<sup>18</sup>

To accelerate progress in SME development, an **ad hoc organisation needs to be established** to provide direction, vision and coordination of efforts. The structure should be a combination of public-private responsibilities, very much like the AISA model, and once the trade facilitation project in Afghanistan with UNCTAD, UNOPS and UNIDO reaches a more advanced stage, with the resulting National Trade and Transport Facilitation Committee (NTTFC).

### III. SUMMARY OF RECOMMENDATIONS

*The following recommendations point to priority interventions in the public, private and civil society spheres:*

#### Taxes, tariffs and customs

1. Promote a moratorium to year 2020 in favour of SMEs with respect to corporate tax compliance and trade liberalisation, as defined in a specific enabling regime.

#### Land registration

2. Strengthen and expand land titling initiatives as a pre-requisite for investments and privatisations.

#### Skills and knowledge development

3. Promote the gathering and elaboration of information on promising markets, products and services so that SMEs can spot opportunities and act upon them.
4. Establish a repository of good practices for SME development that have been successfully applied in other developing countries, especially in central, south, southeast and eastern Asia.
5. Raise the awareness of the business community and civil society about capacity building in SME development, including programmes to mitigate

risk, monitor the labour intensity of public policy, develop flexible financial markets and facilitate access to data banks for trade promotion.

6. Create mechanisms for mutual information exchange and coordinated dialogue among key actors in technical assistance and capacity building in Afghanistan.

7. Establish close South-South cooperation with highly advanced trading countries in the Asian region, like Singapore and Malaysia, to speed up the process of skills development in trade facilitation in Afghanistan.

### Trade promotion

8. Aim for harmonising customs legislation and practices in central and south Asia, including the adoption of the Revised Kyoto Convention, and improve coordination between law enforcement agencies at cross-border checkpoints.

9. Develop funding and logistical schemes for the formalisation and control of the cross-border transit of goods and people, including the signing of bilateral or sub-regional agreements.

10. Reach agreement on multi-year power trading arrangements in the region and accelerate the development of transmission facilities and regional energy markets.

### Standards and certification

11. Join organisations and tap resources that can add value to product research, development, production, packaging, design and marketing, like the Asian Productivity Organization.

12. Raise awareness on product and process standards and technical regulations as well as on the business opportunities that are missed because of non-compliance.

### Other

13. Enact framework legislation fostering an enabling environment for SME development, including the scaling up of assisted financing to serve specific SME needs, in line with existing multi-stakeholder initiatives.

14. Create a mechanism for the ongoing identification of impediments to SME development, and for the identification and operationalisation of best practices in support programmes for SMEs.

15. Adopt an incremental, “bottom up” approach for key production and trading sectors, like dried fruits, carpets and light machinery.

16. Establish an ad hoc organisation to provide direction, vision and coordination of SME-development efforts, including the set up of a virtual single window for trade, investment, technology and tourism. This should encompass easy access to relevant information by traders, investors, sectoral experts, service providers and the public at large.

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### Case study 3: Carving a scalable niche in humanitarian and development procurement

It is estimated that traditional donors, IOs, IGOs and NGOs procure goods and services worldwide in excess of US\$ 100 billion per annum. The UN system alone procured US\$ 8.3 billion for operational activities in 2005, including technical cooperation, humanitarian assistance and peacekeeping operations. It is extremely difficult to anticipate demand in this market as it largely depends on imponderable natural and man-made calamities and the aid agencies’ procurement officials’ rule-of-thumb projections. In other words, personal contact with procurement officials of key organisations is critical to penetration. Above all, firms in cooperation with their governments need to develop a long-term strategy that works in this highly competitive and politicised environment.

Since January 2006, the Canadian NGO Peace Dividend Trust has been operating the Peace Dividend Marketplace project in Afghanistan, with support from CIDA, DFID and USAID. It has implemented an online procurement directory that already includes 2,600 registered Afghan suppliers and producers of goods and services, including seeds, dairy products, handicrafts and business-related services. Due to these screening, divulging and matchmaking efforts geared toward Buying Afghan, in October 2006, the U.S. forces in Afghanistan awarded Afghan Beverage Industries (the local subsidiary of a Dubai company that employs more than 300 nationals) a contract worth over US\$ 600,000 per month to provide bottled water to Coalition troops throughout the country. It is a promising first step given the fact that total water purchases for the Coalition forces reach as much as US\$ 58 million a year.

<sup>1</sup> *The investment climate in Afghanistan* 2005.

<sup>2</sup> *Global corruption report 2006*, Afghanistan Competitiveness Project 2005, Kaufmann, Kraay and Mastruzzi 2006.

<sup>3</sup> The paper adheres to the tenets of UNDP's *Unleashing entrepreneurship* 2004 report as applicable to the Afghan milieu, including that the private sector can help alleviate poverty in Afghanistan by contributing to economic growth, job creation and poor people's incomes as well as by empowering the poor to acquire more products and services at affordable prices (*bottom-of-the-pyramid* markets); that Afghan SMEs can be engines of job creation; and that the primary responsibility for achieving growth and equitable socio-economic development ultimately lies with the Afghan people, including creating the conditions for mustering financial capital for productive investment.

<sup>4</sup> According to Afghan entrepreneurs, Iranian and Pakistani businesses even resort to dumping with the discernible aim of keeping the Afghan markets captive. The assertion is very serious, widespread, requires empirical corroboration by an independent party, and should be the subject of regional and international discussions if proved correct.

<sup>5</sup> Wily 2004; <http://www.litera.org/>

<sup>6</sup> *Scanning* refers to the gathering and elaboration of information on markets, national and international, and determining the focus for production and marketing. OECD-APEC 2006.

<sup>7</sup> Most merchandise-exporting SMEs are surprisingly small, usually having fewer than 20 employees, even in developed countries. OECD-APEC 2006; Etemad and Wright 2003; *Asia-Pacific human development report 2006*; *The investment climate in Afghanistan* 2005.

<sup>8</sup> According to Da Afghanistan Bank (2006), almost three-quarters of Afghanistan's imports in 2005 originated in the CIS (20.79 percent), Japan (17.99), Pakistan (15.17), China (12.12), the EU (3.61) and India (2.96) while almost 80 percent of Afghanistan's exports in 2005 had as destinations Pakistan (67.84), India (6.04), the CIS (3.17) and the EU (1.05).

<sup>9</sup> That promoting the export of *Buzkashi* horses has not occurred to foreigners does not mean that diligent central Asian entrepreneurs have not pursued it for generations. The question is how to give it a branding of international cachet. *Buzkashi* is not only the national sport of Afghanistan and the Kyrgyz Republic but also an immensely popular entertainment within the wider Central Asian region. Pato-horseball – the national sport of Argentina and Uruguay, which is astonishingly similar to *Buzkashi* – is now professionally played in Argentina, Brazil, Canada, a number of European countries and the United States. Furthermore, it is the polo pony horses of Argentina, Uruguay and Brazil which supply their horses, the product of over a 100 years' specialised breeding, to the top polo and pato tournaments of the world.

<sup>10</sup> <http://www.adb.org/Documents/TARs/AFG/i39571-AFG-TAR.pdf>; <http://www.commerce.gov.af/UNCTAD.asp>; <http://www.asycuda.org/asycum/wfiles/AFG%20-%20Coord%20Mission.pdf>; *Central Asia: increasing gains from trade* 2006.

<sup>11</sup> Members to the Revised Kyoto Convention in the region are: Azerbaijan, China, India, Japan, Korea, Mongolia, Pakistan, Sri Lanka and Turkey.

[http://www.wcoomd.org/ie/en/Topics\\_Issues/FacilitationCustomsProcedures/Kyoto\\_New/Content/content.html](http://www.wcoomd.org/ie/en/Topics_Issues/FacilitationCustomsProcedures/Kyoto_New/Content/content.html);

<sup>12</sup> WTO's country webpage [http://www.wto.org/english/thewto\\_e/acc\\_e/a1\\_afghanist an\\_e.htm](http://www.wto.org/english/thewto_e/acc_e/a1_afghanist an_e.htm). *Central Asia: increasing gains from trade* 2006.

<sup>13</sup> *The investment climate in Afghanistan* 2005.

<sup>14</sup> The Standards and Trade Development Facility (STDF), a financing and a coordinating mechanism introduced in 2004 by the World Bank, is a global programme in capacity building and technical assistance to support developing countries in the implementation of international sanitary and phyto-sanitary measures established by FAO, OIE, WHO, WB and WTO to improve human, animal and plant health conditions. The WTO Secretariat administers the STDF trust fund that finances the programme.

[http://www.wto.org/english/thewto\\_e/whatis\\_e/tif\\_e/agr m4\\_e.htm](http://www.wto.org/english/thewto_e/whatis_e/tif_e/agr m4_e.htm), <http://www.standardsfacility.org/>

<sup>15</sup> *The investment climate in Afghanistan* 2005. <http://www.commerce.gov.af/pdf/ANSA%20newsletter%20Sept%202005.pdf>

<sup>16</sup> APO, a regional intergovernmental organisation headquartered in Tokyo that is open to UNESCAP members, like Afghanistan, and has Bangladesh, Cambodia, Iran, Mongolia, Nepal and Pakistan among them. [http://www.apotokyo.org/01about\\_conv.htm](http://www.apotokyo.org/01about_conv.htm)

<sup>17</sup> <http://www.procurementdirectory.af/index.phphttp://www.e-ariana.com/ariana/eariana.nsf/be77f8366cbd693387256b790077e1df/913de13582f24bf d87257203003dcd7f?OpenDocument>

<sup>18</sup> *Asia-Pacific human development report* 2006.

