



The Place of Small Business In Afghanistan

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ABSTRACT

The objective of this study was to determine an endeavor to evaluate the challenges faced by Startups and Small Enterprises in Kabul Afghanistan during 2018 . It outlines an approach to learning how startups perceive the impact of input constraints related to market, finance, labor, regulation, technical, etc. on their success.

The article recommends specific measures suggested by the related authorities from the government and nongovernment sectors to secure the survival and growth of startups. Prevalence of government regulation, including but not limited to; taxation, bureaucratic licensing, along with complicated procedures are some of the specific challenges faced by Startups and Small business in Kabul.

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I. Introduction

85 percent of it made up of Small and Medium Enterprises (SMEs), was defined as the engine for growth. But the flow of tremendous aid and money tied to the military presence distracted the government from focusing on the development of SMEs and facilitating their access to market, which would ensure the sustainability of the economy in the long run. The Afghan government's current SME strategy, which was not finalized until 2009, has sought to focus on target sectors that could develop alternatives to imports. Meanwhile, large challenges facing SMEs raise questions about their competitiveness, ingenuity, and their ability to survive the transition. The uncertainty and unpredictability of the business environment, dependence on donor organizations, lack of industrial - level energy, access to market, and a lack of clear link between the market - needs and what the education system offers are the main issues in Afghanistan .

But Small business are regarded as the backbone in the developing countries as these constitute a large portion of their economies. However, there are numerous publications on the importance, contribution, and challenges of small business in Afghanistan specially focusing on the financial challenges faced by Small business; there is little written on startups. Startups are the building blocks of SB, which currently face numerous problems not only in terms of financial and technical support but also in terms of the government's support and the role of non-state actors, on the one hand, and the challenges. According to the failure rate of small business is higher in developing states. Therefore, as it is evident that the challenges faced by startups are different from those faced by more established firms, the current paper will focus on the challenges that are faced by startups in Kabul from both the state and non-state actors. In this paper, the research findings are based on

Those Challenges that Small business faced on it and to find the ways of improving small business in Afghanistan and government should take action according laws and support Small business in the country.

II. References And Methods

Some challenges will lead to slow growth and possibly failure of most of the established startups. These challenges range from cultural, political, legal, and economic to social factors that hinder the growth of SB. Cultural and social factors include the terrible image of Afghan products, unfair competition, and less value to contract enforcement. The label of "Made in Afghanistan" has earned a bad image in the Afghan market, which has encouraged some of the producers in the market to label their products as made-in-Iran and made-in-Uzbekistan. Because consumers do not trust the Afghan brands; they trust brands of other countries more than Afghanistan. Meanwhile, competition practices in the Afghan market ignore and surpasses lawful and ethical competition. Competitors use any illegal means to hinder competition; or create barriers to entry. For example, the established producers in the market refuse to trade with startups. Others produce without getting a license. However, some startups have managed to keep up with the demand in the market, but others have suffered and even closed their businesses. Economic factors include expensive capital, high taxes, the requirement of standard marks, and lower consumer confidence. The interest rate is exceptionally high; it makes only the high return businesses viable in the market. Meanwhile, capital-intensive firms cannot be established with ease. In addition to that, not only tax holidays are not given to startups; they have to pay equal taxes as large industries. There is no difference between the taxes paid by startups and large industries, which may be considered a barrier to entry. Furthermore, the lack of a proper local online payment system is another issue that has shrunken the market. Especially the youth who has access to internet are interested in online purchases. While online sales are a very lucrative market place for

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startups, they cannot sell products online, because of the lack of local online payment systems. Some of the startups, who does sell through Facebook and other platforms, still use cash payment on delivery. Political factors include weak support for Small business and startups in the National Unity Government (NUG). Currently, there are no or limited schemes available to support startups, more than 100 newly established companies have been closed in Herat and Kabul in the years 2018 and more than 400 have been closed in 2019. Additionally, ACCI is currently monopolized, and it serves the interests of only a few large sharks in the market. Afghanistan Chamber of Commerce & Industries (ACCI) does not have any plans or programs to support startups. A separate body should be created to unite the startups and small businesses so that these businesses can help each other in the market by buying each other's goods and services. Once the startups are united, they will be able to crowd fund, enter contracts with each other, support each other, and provide technical assistance to each other. To conclude, rebranding the Afghan products, fair competition in the market, tax holidays, lower interest rates, better banking practices, countering corruption, and better management practices in Afghanistan Chamber of Commerce & Industries (ACCI) may prove to be useful in the establishment of startups.

However, most of the participants are of the view that the climate for entrepreneurs has improved recently, but there are still lots of problems and issues that have to be addressed. These problems range from legal requirements to market access. The government could efficiently address most of the problems, while others are related to entrepreneurs and businesses themselves. For example, one such problem is the troublesome procedure of payments to the contractors by the government. Payment made by the government to the contractors takes a very long time that is why most of the Small business are not interested in engaging in contracts with the government, let alone the startups. Since startups have little capital, they cannot afford to wait for months for the payment. Therefore, the startups are excluded from enjoying the benefits of government contracts. In addition to that, insecurity and uncertainty in the market are the other two factors that complicate the environment of doing small business in Afghanistan. For example, when a market catches fire, or if there is a bomb blast nearby, startups suffer the most. Not only because of the physical damage.

Furthermore, the procurement law of Afghanistan discourages small businesses from participating in procurement contracts of the government. The procurement law favors large companies over small; for example, from one side, to win contract companies are required to show similar experience, which startups lack, and on the other side, such contracts require a minimum amount of balance with banks, which is usually more than what a startup may have. Similar legal requirements block startups from getting government procurement contracts. Furthermore, the write-up and text of the law are not easy to comprehend, which results in a shallow rate of reading and understanding of the law. Text of the available laws in Afghanistan especially those that are intended for the public should be rewritten for better comprehension; otherwise its enforcement rate will stay low. The consensus is that a new wave of entrepreneurs, who are committed to the rule of law, is spreading over the market. These new entrepreneurs are motivated and committed to the rights of their employees, interest of the public, and government obligations. On the other hand, it is complicated to start a small business in Afghanistan. The requirement of licenses, contracts of renting an office, having a large amount of money in the bank (One million AFN), and many more requirements by the licensing agency make it difficult for people to license their businesses in the first place. For example, startups are currently required to fill all the tax forms and report to the taxation agency even if they do not have any activity, which has resulted in extra payments to the brokers who fill the required documents and forms for startups, which increases expenses and thus the prices. Because of this, there is a black market of unlicensed startups shaping up in the market, which leads to market failure and unfair competition. The existence of unlicensed firms has made business difficult for licensed businesses. The licensed business

has to pay taxes, pay brokers, and pay other fees that result in higher prices and low competitiveness. As a result, rewriting and amendment of the law to address the current challenges may prove to be useful.

III. Discussion And Results

The emerged themes suggest that startups and SMEs are facing challenges on many grounds. The related authorities could immediately address some of the challenges, however, other challenges take time to be addressed. The emerged themes resulted in summarizing the legal, economic, social, and political problems of startups. The most prominent of these problems and concerns on the government side was a less-supportive treatment of startups. In other words, startups were treated the same as established SMEs in terms of taxation, licensing, documentation, and government procurement contracting. Meanwhile, the participants insisted the lack of a supportive policy for startups, which may have included compulsory technical, financial, and market support of the government for such small businesses. For example, the government should create a Standardizing Agency that can accredit the high-quality producers in an attempt to increase consumer trust for the Afghan brands and separate the good from bad quality products and services in the market. However, International standardization agencies and licenses are not easy to get, and sometimes quality goes down after such licenses are achieved. Meanwhile, the government Standardizing Agency should work on creating better image for domestic products that are certified by them, which will not only increase consumer confidence in the afghan products but also ensure Most of the participants agreed that the government had ignored the cottage industry of the country. However, Small business holders created substantial employment opportunities and produced above 80 percent of the GDP; they insisted that government had paid little attention or did not implement policies to support Small business in Afghanistan. They suggested that government should develop a specific policy to support Small business, establish sectorial banks such as agriculture banks, investment banks, services bank and export banks in Afghanistan.

Other participants asked the government for technical support to sustainable development and growth of the established Small businesses. Such support will enable small businesses to grow larger and be able to compete in the market. Accordingly, most of the participants who have either had a business or wanted to start one suggested a union of the small business. This union would agree on certain privileges to the members, such as charging small fees for services, being a customer to each other, and attract the government's support for startups and improvement of small business in the country.

Conclusion

Attention is bound to shift to the deficiencies of the country's economic structure. The heavy reliance on aid and spending tied to the military presence has meant that the private sector, the engine of growth for the country's economy, has not received timely attention. As the uncertain political and security climate will continue to limit large investments, Small business will remain at the core of the Afghan private sector. However, Small business lacked a government strategy until as late as 2009, and even then, implementation did not begin until 2011. With adequate attention, Small business could have developed more capacity and self - sufficiency. However, corruption, real and perceived, and a lack of clear benefits have kept a majority of small business and improvement of small business in the country.

Other sight projects that are either run by the government or larger companies. Small business involved and faced multiple problems that hamper their expansion. The most serious of these are political and security uncertainty and problems transiting in the country.

Recommendation:

- Provide direct and immediate support to small businesses to ensure continued operation;
- Provide direct and immediate support to workers and those most vulnerable;
- Ensure support reaches SMEs and their workers quickly;
- Adapt existing Government-led social programs;
- Ensure open and the expedited flow of essential goods across borders;
- Implement formal and informal channels for dialogues between government, employers, workers and communities.

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