The Role of Private Sector in Resource Mobilization and SME Financing in Afghanistan
Afghanistan Private Sector

- As a landlocked economy, the Afghan private sector is strongly dependent on its neighbors for access to world markets.
- Limited and unequal access to economic resources (land and capital) and the lack of skilled labor and physical resources (infrastructure and electricity) pose major hurdles for inclusive economic development.
- Increasingly more equitable access to economic resources and providing more and better critical infrastructure is necessary.
- Currently a PPP (Public Private Partnership) project is designed to motivate the private sector to invest in government projects. A range of long-term contracts among public and private entities in the context of infrastructure and other public services.
- Afghanistan is one of the top 10 improvers in doing business alongside China, India, Azerbaijan. Afghanistan climbed 16 positions in the rankings from last year, advancing from 183rd in 2018 to 167th in the 2019 report.
Economic resources

1. **Access to land and physical resource**
   - The absence of discernable land ownership, usage characterizations, definitions, and corresponding rights hurts the private sector and negatively affects many commercial issues
   - A modern, efficient, and transparent policy on land and property rights is required to make sure that the creation of wealth is not limited to the economic elite

2. **Access to finance**
   - As the influx of international community-related expenditures diminishes, Afghanistan is seeing a reconfiguration of its potential sources of investment capital for SMEs
   - Only relatively limited amounts of aid gone directly into private sector development
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- Afghanistan is an outlier among least developed countries (LDCs) in the low financing rate through banks

3. Human resources
- With almost half of the population under 15 years of age, Afghanistan has one of the world’s youngest populations and is a labor intensive country
- Only a fraction of the female population participates in the labor force
- In 2017 nearly 23.9 percent of the total labor force was estimated to be unemployed or underemployed

4. Critical Infrastructure
- Critical infrastructure is a fundamental enabler for the private sector
- The poor state of Afghanistan’s infrastructure is detrimental to private sector activity, as most of the country lacks decent quality roads. The Afghan energy sector suffers from low power generation capacity
- A recent study pegged natural resources in the country as worth at least $3 trillion
Afghan Small Medium Enterprises (SME)

- Afghanistan's small and medium enterprises hold the key to the future economic development and growth in this landlocked and capital-deficient country.

- In countries from Asia to Africa and Latin America, it is the SMEs that form the backbone of the economy and provide livelihoods to billions of people. The under-developed and resource-constrained economy of Afghanistan has a structure largely similar to these countries.

- They range from lack of access to capital or affordable capital to regulatory and government-related constraints that are a burden to their viability.

- In 2017 Government of Afghanistan prepared the Export Strategy Mines extraction and exploration Strategy but still Afghanistan has an import oriented economy, although there are opportunities for private sector to invest.

- Potential foreign investors would find a positive view of the business environment in Afghanistan. Afghanistan is a land of opportunities.
Challenges

The problems faced by Afghanistan's nascent and challenged SMEs are many and diverse

- Potential political and economic risks given by 2014 withdrawal of foreign forces and uncertainty about the timing of extractive industry investments
- Lack of insurance, infrastructure and electricity to factories and a good and secure environment for investors specially for foreign investors.
- Many local companies are keen to work in mining oil and gas, but need better access to information, business connections and a secure environment, so they can more strategically invest in the capabilities needed to reach sufficient quality levels
- Currently, the Afghan government is unable to provide high quality public services to the people. Reasons are many fold and include lack of financial resources, technical capacity, and state of the art technology
- Government and financial institutes are not able to provide loans to SMEs and private sector