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# International Economics and Finance Journal

ISSN :0973-5259

Volume 14 • Number 2 • July to December 2019

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## The Assessment of Manufacturing SMEs Job Creation Ability in Afghanistan: The case of Kabul, Afghanistan AISA Record from 2003 – 2016

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### ABSTRACT

Small and Medium-sized Enterprises (SMEs) play a significant role in the job creation process of countries. Based on statistics 80% of total employment in China related to SMEs while in most OECD countries SMEs account for 60 to 70% of all jobs. Nations such as Singapore has proved that SMEs development is critical for job creation and poverty alleviation.

In Afghanistan, 85% of private sector made up of SMEs were defined as the engine for job creation and economic growth in the absence of large-size enterprises since 2003 that the country has turned to market economy. Meanwhile, SMEs generate over 50% of Afghanistan GDP and 75% of employment.

According to the research findings, manufacturing SMEs has had the highest job creation ability among all types of SMEs in the period of 2003 to 2016. As an average manufacturing SMEs can create 1 job with the amount of \$4046 investment while for creating one job construction, service, mining, agriculture, and energy and water SMEs need respectively \$5178, \$5808, \$7030, \$4075, and \$8192. It means manufacturing SMEs need less amount of investment to create one job in compare to other sector SMEs. Therefore, in order to create more job opportunities the private sector investors should invest more on manufacturing SMEs and government should provide the needed facilities to them such as special loan package with low interest rate, energy, capacity building training, opportunity of establishing saving groups, and land in industrial park with low price.

Key Words: SMEs, Manufacturing, Manufacturing SMEs, Job Creation, AISA, SWOT Analysis.

## 1. INTRODUCTION

### Background of Study

Afghanistan has suffered in recent years from high unemployment rate especially after 2014, when in

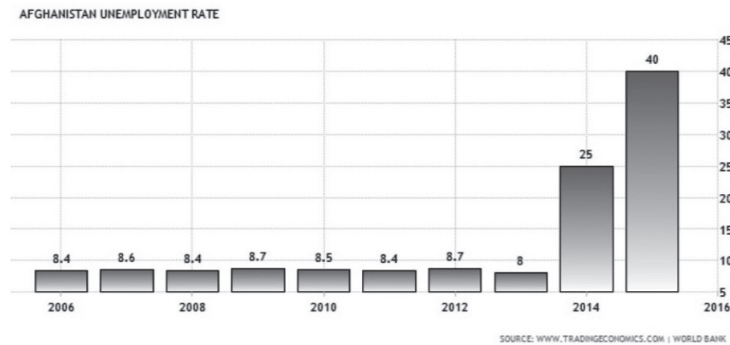
the Central/ Kabul region, the number of high-wage jobs that was provided by foreign development organizations has declined. This is exacerbated the brain drain and frustration people about the future.

Afghanistan in 2015 ranked as a third country with a high rate of migration with 250000 illegal immigrants (IOM, 2015). Also because of high unemployment rate 63.3% of people are disappointed about the future of Afghanistan (Asia Foundation, 2015). Unemployment rate in 2016 is around 40% and it is growing. So, because of high unemployment rate job creation must be the primary goal of development strategy (MOCI, 2016). The bellow graph shows the trend of unemployment rate in Afghanistan since 2006, it shows a growing trend of unemployment. Unemployment Rate in Afghanistan increased to 40 percent in 2015 from 25 percent in 2014. Unemployment Rate in Afghanistan averaged 10.40 percent from 1991 until 2015, reaching an all-time high of 40.00 percent in 2015 and a record low of 8.00 percent in 2013.

Encouraging and increasing of investment is one of the alternative ways for foreign aid to create jobs, reduce the unemployment rate and finally, to accelerate economic growth in Afghanistan.

Why I chose manufacturing SMEs as a source of job creation in Afghanistan is due to the following reasons:

1. Statistics show that China's share of SMEs in total employment is 80%.



2. Can be started with little capital (MOCI, 2015).
3. By providing better, faster and cheaper services they create an atmosphere of healthy competition in the economy.
4. Small and medium-sized enterprises (SMEs) represent 99% of all businesses in the European Union (EU, 2003).
5. They make up over 95% of enterprises and account for 60 to 70% of all jobs in most OECD countries (OECD, 2000).

As well as according to Ministry of Commerce and Industries of Afghanistan Report in 2015:

- SMEs with under 300 employees make up 80 – 90% of Afghan businesses,
- SMEs generate over 50% of GDP, and 75% of Employment
- Nations such as Singapore have shown that SMEs development is critical for job creation and poverty reduction.

In Afghanistan's turn to market economy since 2001, the private sector, 85% of which made up of SMEs, was defined as the engine for growth in the absence of large investments. Due to the country's unpredictable economic climate, SMEs are more adaptive to current conditions, as they make up half of the country's GDP and employ more than one third of the country's labor force.

Most believe that Afghanistan is an agricultural country and investment in this sector can create more job opportunities with high job creation ability. The draft of SMEs development strategy which is made by MOCI, has more focused on agriculture SMEs and less on manufacturing SMEs.

But some analysts believe, Because of the abundant natural resources Afghanistan should be a manufacturing industrial country rather than agricultural. They emphasize that international experiences have shown that Manufacturing SMEs has more job creation ability than others. And also for better agriculture first we need better manufacturing industry. Manufacturing SMEs play an important role in the job creation process since they account for between 40 to 80% of total manufacturing employment.

### **Objectives and Significance of the study**

The main objective for this research is to find out the role of manufacturing SMEs for Job Creation in Kabul, Afghanistan to help the government specially Ministry of Commerce and Industries (MOCI) in making useful SME Development Strategy by providing a well substantiated-research based recommendation to our policy makers; because recently MOCI decided to develop SME Development Strategy for those sectors with bellow factors:

- A. Afghanistan competitive advantage
- B. Sectors` ability to create jobs (labor intensive)
- C. Sector Growth

Due to abundant natural resources Afghanistan can have competitive advantage in manufacturing SMEs as well as this sector has a good potential of growth. Thus, in this research I want find out the ability of job creation by manufacturing SMEs, to help the government to reduce the unemployment rate.

### **Research Questions**

The main research question is: How is the role of manufacturing SMEs for job creation in Kabul, Afghanistan during 2003 –2016?

Based on the main question I developed the following sub-questions to know the real ability of manufacturing SMEs in job creation in Kabul, Afghanistan:

- Which type of Manufacturing Enterprises created more job during 2003 – 2016? (SMEs or Large Size Enterprises)
- Did Manufacturing SMEs create more job than other types of SMEs during 2003 – 2016?
- Did manufacturing SMEs have more Job creation ability than other sectors SMEs during 2003 – 2016?
- How is the Manufacturing SMEs Job Creation direction during 2003 – 2016?
- What are the biggest financial and managerial challenges for Manufacturing SMEs in Afghanistan?

## 2. LITERATURE REVIEW, HYPOTHESIS DEVELOPMENT AND SITE ANALYSIS

### Definition of SMEs

The SMEs is stand for Small and Medium Size Enterprises. SME has no standard definition. SMEs have been identified differently by various individuals and organizations, such that an enterprise that is considered small and medium in one country is viewed differently in another country. Even within a country, the definition changes over time. Some common indicators employed in the various definitions include total assets, size of the labor force employed, and annual turnover and capital investments (Baenol, 1994). In addition, no single definition of SMEs exists among officials of multilateral development institutions because each thinks within the context of the official definition of his own institution (Gibson et al. 2008). I bring here two definitions of SMEs to know the basic concept of this economic term.

### *The European Union defined SMEs as follow:*

SMEs is made up of enterprises which employ fewer than 250 persons and which have an annual turnover not exceeding EUR 50 m, and/or an annual balance sheet total not exceeding EUR 43m (*EU-CSES, Sep 2012*).

### *SMEs Definition in Afghanistan:*

In view of the number of employees, Micro- enterprises have less than 10 employees, between 11 and 50 employee Small Enterprises, between 51 and 300 employees Medium-sized enterprises and more than 300 employees called large-sized enterprises (*MOCI, 2009*).

Based on literature review, Manufacturing SMEs has the following advantage for economy of a country:

- 1- One of the best ways to reduce unemployment rate and raise the level of job creation in the country.
- 2- Due to their high flexibility in the face of economic fluctuations these enterprises are resistant.
- 3- These enterprises increase productivity in the economy and more favorable field for inventions, innovations and entrepreneurships (*Afghanistan Today Daily, 2011*).

### Research Hypothesis

Based on research questions I developed the following hypothesis:

H1: Manufacturing SMEs created more job than large-sized manufacturing enterprises during 2003 – 2016.

H2: Manufacturing SMEs has created more job than other types of SMEs in past 9 years.

H3: Manufacturing SMEs has had the highest job creation ability among all types of SMEs.

H4: the job creation direction of manufacturing SMEs is upward trend.

H5: The biggest financial challenge is short-term and high interest rate loan and the biggest managerial challenge is insufficient skillfulness.

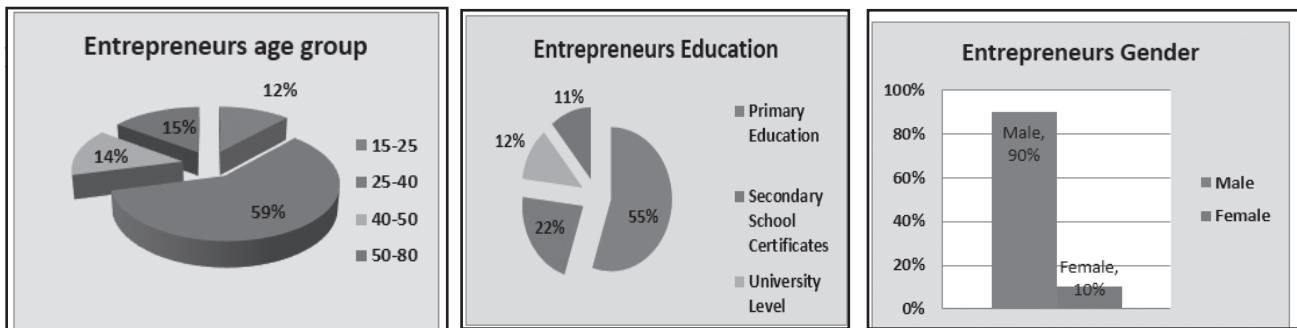
## Research Methodology

- Research Methodology: Mixed Method (quantitative – qualitative)
- Research Type: Applied Research
- Research Method: Document record analysis and Mathematical Analysis
- Method of data collection: This article is a secondary research based on a review of existing data in AISA record document. (Monitoring and Communication study)
- Question Crystallization: Formal study (Test hypothesis and answer the research question)
- Data Analysis Tools: SPSS, MS. Excel and Scientific Calculator ..... Etc.....
- Time dimension: Longitudinal Approach/ Time-series Approach
- Research Environment: Field setting

## Site Analysis

My research site is Kabul city the capital of Afghanistan. Kabul province is the capital of Afghanistan which has 14 districts, more than 3 million population and central city (Kabul). My research site is just the Kabul city.

## 3. RESULT OF STUDY



Demographic profile of research population shows that according to age level the most part of entrepreneurs are among young people, like 59% between 25 to 40 years old, but unfortunately most of them just have primary education level (55%). According to gender 90% of entrepreneurs are male and just 10% are females.

## Results of Hypothesis Test

- H1 (Accept): Manufacturing SMEs created more job than large-sized manufacturing enterprises during 2003–2016.
- H2 (Reject): Manufacturing SMEs has created more job than other types of SMEs in past 9 years.
- H3 (Accept): Manufacturing SMEs has had the highest job creation ability among all types of SMEs.
- H4 (Reject): The job creation direction of manufacturing SMEs is upward trend.

H5 (Accept): The biggest financial challenge is short-term and high interest rate loan and the biggest managerial challenge is insufficient skillfulness

H1 to H4 data taken from Afghanistan Investment Support Agency (AISA) registration Document Nov,2016 and H5 data taken from MOCI Report March,2016.

#### 4. CONCLUSION AND IMPLICATION

##### Conclusion

H1 (Accepted): Manufacturing SMEs created more job than large-sized manufacturing enterprises during 2003 – 2016.

The Figure (4-1) shows that manufacturing SMEs created 165,873 jobs and Large-sized manufacturing sector just created 21589 jobs out of 187462. The figure (4-2) shows that out of 100% of job which created by manufacturing enterprises, 88.50 % created by SMEs and only 11.50% by large enterprises. As a result, manufacturing -SMEs created more jobs than large-sized manufacturing enterprises during 2003 – 2016, So H1 accepted.

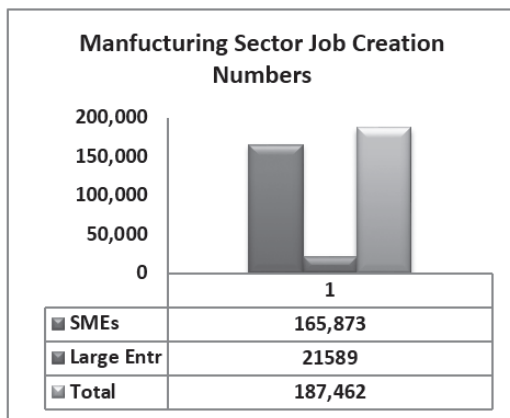


Figure (4-1)

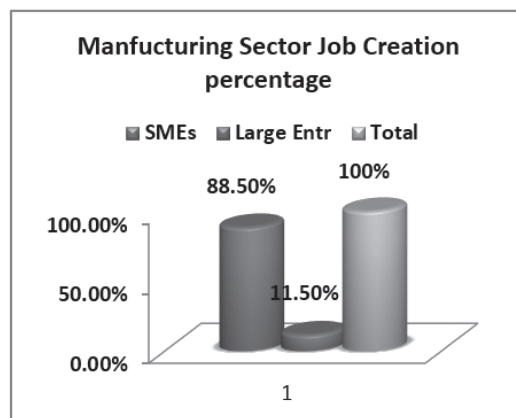
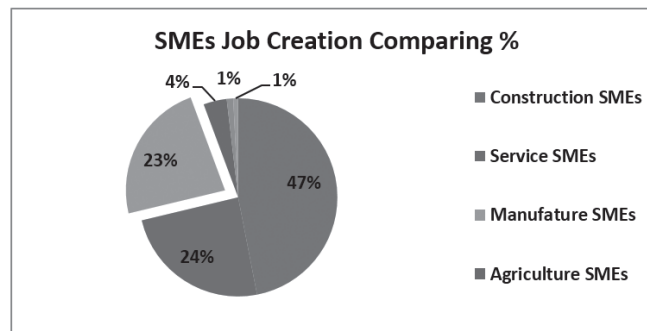


Figure (4-2)

H2 (Rejected): Manufacturing SMEs has created more job than other types of SMEs in past 9 years.

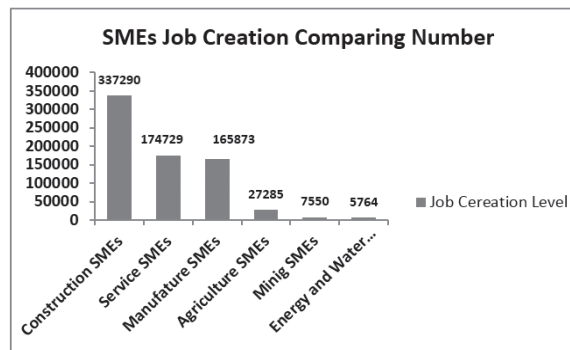


Figure(4-4)

According to the % of Job which created by different types of SMEs construction with 47% , services

with 24% and Manufacturing with 23% are respectively in the first, second and third steps. According to job creation number and percentage manufacturing -SMEs are in the third between all sectors SMEs rank not in first, so the H2 rejected.

Manufacturing SMEs with 165,873 jobs after construction and service SMEs created more jobs than Agriculture, Mining and Energy and water SMEs; But not in the first rank.



H3 (Accept): Manufacturing SMEs has had the highest job creation ability among all types of SMEs.

With \$4046.4 which manufacturing -SMEs could create one Job other SMEs couldn't. It means they need more investment to create one job, Figure (4-5) .

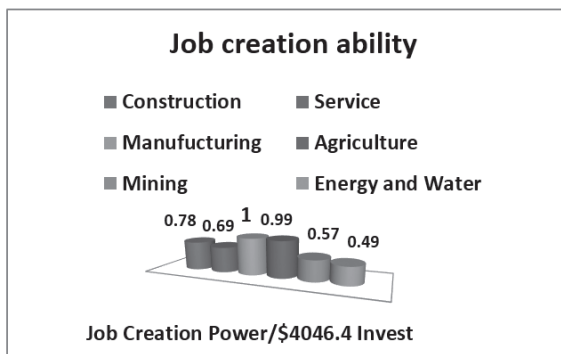


Figure (4-5)

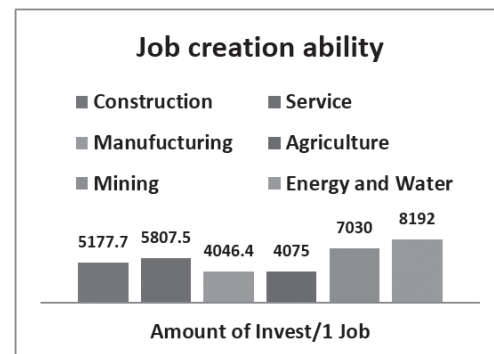


Figure (4-6)

Among all SMEs, manufacturing -SMEs need less amount of investment to create one job, Figure (4-6).

H4 (Rejected): The job creation direction of Manufacturing SMEs is upward trend.

The bellow curve (4-7) show which the job creation direction of manufacturing -SMEs is downward trend not upward. So, the H4 is rejected.

When we use the rate 1 for 2016 (1530) this curve shows which in all years before 2016 manufacturing -SMEs has created more job than 2016. Direction of this cure is downward trend.



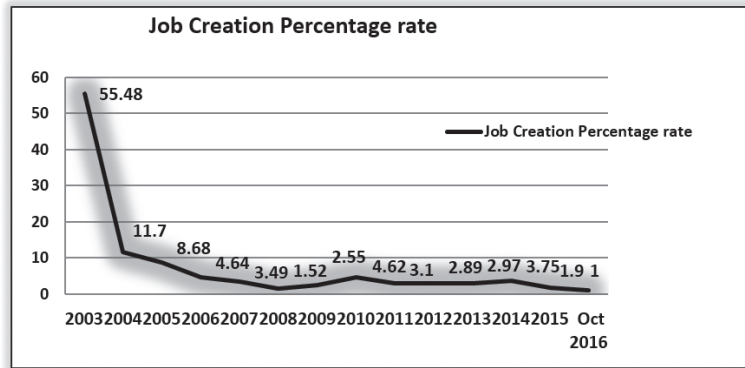
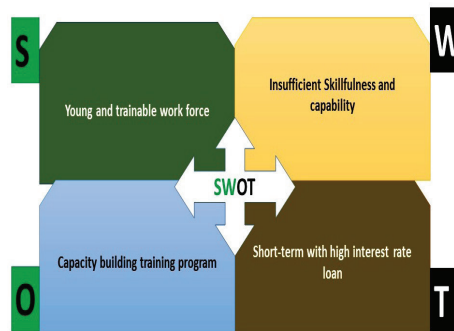


Figure (4-7)



H5 (Accepted): The biggest financial challenge is short-term and high interest rate loan and the biggest managerial challenge is insufficient skillfulness

By using SWOT analysis, I got that insufficient skillfulness and lack of capability is the most important managerial weaknesses. Short-term with interest rate loan (6 to 36 months period with 18 to 20% loan ranging from \$200 to \$100,000) is the biggest financial challenge for SMEs enterprises.

**Summary**

SMEs are important economic sectors that have high capacity to create jobs and have significant contribution in the GDP of countries. We can define as engine of growth for developing countries. Currently, there are 23 million SMEs in 25 European countries which have been created 75 million jobs.

In Afghanistan SMEs generate over 50% of GDP, and 75% of Employment. Manufacturing SMEs is one of the important types of SMEs in Afghanistan. Even though created less job than construction and services SMEs but has more job creation ability than Cons & Sers and other SMEs. Nowadays MOCI is trying to make a SMEs Development Strategy with title of (1 million jobs with \$3 Billion GDP). Manufacturing SMEs job creation direction and start-up enterprises are declining due to political uncertainty and Economic insecurity after 2003.

**Recommendations**

The result of this research shows that manufacturing-SMEs have more Job creation ability than other sector SMEs. So, I suggest the following policy to government and people to support manufacturing-SMEs to increase employment rate:



### *For Policy Makers:*

For increasing employment, the government should concentrate more on manufacturing SMEs to reduce joblessness problems, by undertaking the Following:

- 1- To encourage private and national bank to provide “Special Loan Package” for manufacturing-SMEs for long-term and low interest rate.
- 2- The government should convert the Afghan National Bank to Industrial Development Bank.
- 3- MOCI should try to make special capacity building training program for Manufacturing SMEs employees.
- 4- The government should start “national campaign for saving”, because one the reason for high interest rate loan is lack of formal saving in the financial system.

### **Limitation of the study**

- No consideration of control variables like gender, products etc.
- Various agencies for registration of enterprises (AISA, MOCI and Municipality). This research is based on AISA registration documents and I don't know about other agencies. So it is difficult to generalize.
- Unregistered enterprises, there is many SMEs which they work without formalization and it is difficult to know the exact number of manufacturing-SMEs in Kabul city.

### **Further Study**

This topic needs further studies as follow!

- For all formalized manufacturing-SMEs which registered by MOCI, AISA and Municipality as well as non-formalized manufacturing-SMEs.
- For all provinces and cities to know the whole job creation ability in entire the country.
- To study about innovation and invention ability of manufacturing-SMEs.
- To study about the role of manufacturing-SMEs in GDP.

### **Contributions of the Study**

- For the MOCI and ACCI to make a better SMEs Development Strategy
- For the manufacturing-SMEs entrepreneurs to by using this topic SWOT strategy they can reduce some of their challenges.
- For the International Organizations which support SMEs in Afghanistan.

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