

Private Sector Development

A Case Study on Generating Employment through Small and Medium Business Development



Marketplace, Kandahar, June 2022

Background

The collapse of the former government in August 2021 has further deepened the already vast and complex economic crisis, adding a sharp fiscal contraction and decline in demand to the collapse of state institutions and basic service provision, and a rupture in connectivity with domestic and international markets.¹ The abrupt reduction in foreign aid, trade, and investment portended a ruinous financial state in a country where external aid previously accounted for 75 percent of public expenditures in recent years.² The resulting surge in market prices, compounded by widespread unemployment and reduced purchasing power, has resulted in a drastic rise in both urban and rural poverty and increased reliance on harmful coping strategies.³

New restrictions imposed on women's participation in the private and public sectors have also exacerbated inequalities and curbed national economic potential. Multiple studies indicate that Afghanistan is the worst country in the world to be a woman or girl, with the situation only deteriorating since the political takeover.⁴ The move to restrict women from work was estimated to cost the Afghanistan's economy up to \$1 billion – or five percent of its GDP – and will likely have a broader impact on poverty and humanitarian needs across the country.⁵ Within this context, the participation of women in the labor force across Afghanistan remains very low: women represent 16.5% of the overall work force and only 2.2% of Afghan firms are owned by female entrepreneurs.⁶

According to a recent survey by the World Bank, 42 percent of women-led businesses have temporarily closed following the Taliban takeover.⁷ The same study also found a 75 percent drop in women's employment among surveyed firms and a projected increase in women unemployment in the months to come. Pre-existing barriers to launching and growing enterprises have been amplified for women-led businesses following the restriction on women economic activities by the Taliban. These have led to increased failures of early-stage firms and continue to limit the ability of existing MSMEs to contribute to local economic recovery and employment generation.⁸ Mobility restrictions imposed on women, the ban on girls' access to secondary and higher education, reduced access to productive inputs and finance, as well as the overall reduction in market demand for goods and services were the key reasons for women businesses' closure. In light of these limitations, income for female-headed households has drastically reduced in recent years.

Market linkages have been weakened by decades of crisis, with assessment findings identifying insufficient access to necessary inputs, thin primary markets at the district level, limited access to market information, and a high reliance on middlemen – often a male or elderly female family member – as key constraints hindering women-owned MSMEs' potential.⁹ In turn, DRC has identified a need for technical skills and capital to strengthen women employees and entrepreneurs' ability to become decision-makers with regards to their livelihoods and income.

Despite the challenges and uncertain future, the private sector remains as an important source and engine of growth in the country.¹⁰ The small and medium enterprises are necessary to produce goods and services for the local economy, create employment and wealth for the Afghan population and generate vital export earnings.

DRC define SMEs as non-subsiary, independent firms, which generally employ 5- 10 employees (small enterprises) and more than 10 employees (medium enterprises).

¹ World Bank, Afghanistan Development Update, April 2022.

² UNDP, Economic Instability and Uncertainty in Afghanistan after August 15: A Rapid Appraisal, September 2021.

³ UNOCHA, Humanitarian Needs Overview (HNO) 2023, January 2023

⁴ ACAPS, Taliban directives and decrees affecting human rights and humanitarian actors, April 2023

⁵ UNDP, One Year in Review-Afghanistan since August 2021, October 2022.

⁶ World bank, 2023 April, Afghanistan Gender Landscape brief.

⁷ World Bank, Afghanistan Private Sector Rapid Survey Round 1, March 2022.

⁸ World Bank, Afghanistan Private Sector Rapid Survey Round 1, March 2022.

⁹ Ibid.

¹⁰ World Bank, 2013, World Development Report 2013: Jobs.



SPOTLIGHT ON: ZAINAB

Zainab started her business in 2013 at her home with a sewing machine. She herself is an internally displaced person, moving to Jalalabad from Khogiani district 30 years back. She produces specially designed women garments, handcrafted pillow covers, carpets etc. Zainab’s products are sought from customers both inside and outside of Afghanistan. Zainab wanted to expand her business by investing in new overlock machineries, however she lacked the money needed for it.

“My business had the potential to grow because there is a lot of demand for my products. However, I lacked the capital to expand. DRC support helped me expand and diversify my production thanks to the grant but also to the training, which gave me new ideas about how to run my business”

After seeing an advertisement, she applied for DRCs SME business support programme and received 7,000 USD worth of grants and business and financial management training. After the installation of the machines, she has hired 5 new employees and have 15 women working with her now. Her profit and production had increased by 20%. The business and financial training helped her to focus on customer needs and resulted in her introducing new designs which increased her sales. She now better understand how to use social media for advertising her products and reaching out to new customers.

Note: Names of the beneficiaries are changed to protect their identity.

Small and Medium Enterprise Development

DRC's focus on private sector development is underpinned by the assumption that the private sector uses resources more efficiently. Therefore, private sector actors have a self-interest to to expand business activities and sustain their business operation and thus support more people with employment and contribute to the overall national income.

DRC's theory of change for supporting SMEs is as follows: **IF** DRC supports the private-sector SMEs with financial, technical, and marketing support, **THEN** the private sector would expand and create employment opportunities and increase availability of goods and services for local population.

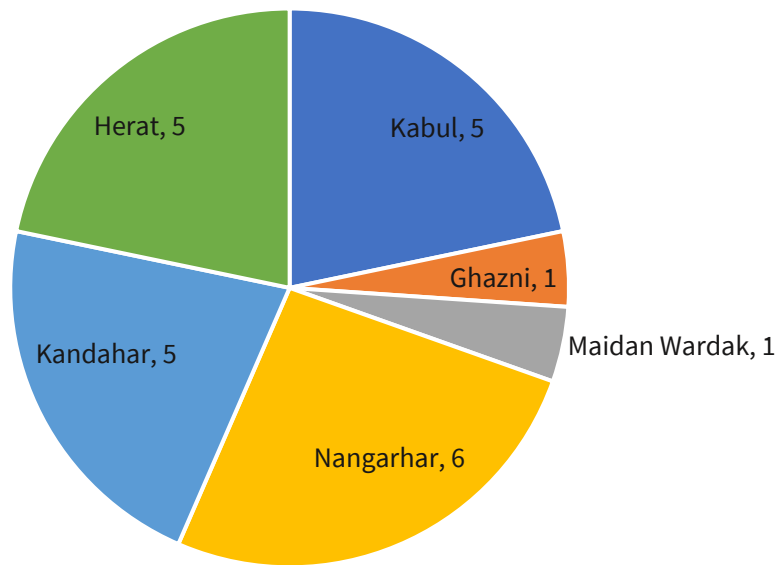
Through the provision of targeted business support to small and medium enterprises (SMEs), DRC aims to help existing businesses improve their capacity and expand business operation, thus increasing their income and generating employment opportunities. Between April 2022 to March 2023 DRC Afghanistan piloted its first SMEs development programme and successfully supported a total of 23 SMEs in Kabul, Ghazni, Maidan Wardak, Nangarhar, Kandahar and Herat provinces of Afghanistan. The SMEs supported through the programme include 12 male-led and 11 female-led businesses. These SMEs received business and financial management training based on ILO's Start and Improve Your Business (SIYB) curriculum, financial assistance ranging from 7,000 USD to 12,000 USD, coaching, and support to participate in regional, national and international market events. The SIYB training programme is provided for emerging entrepreneurs running small enterprises that want to sustain their businesses, increase sales and reduce costs. The training enables the SMEs to set up standardized processes for buying, stock control, record keeping, costing, financial forecasting, marketing and productivity improvements through improved workplace practices etc.

Case Study

Small and Medium Enterprises Support in 2022-2023

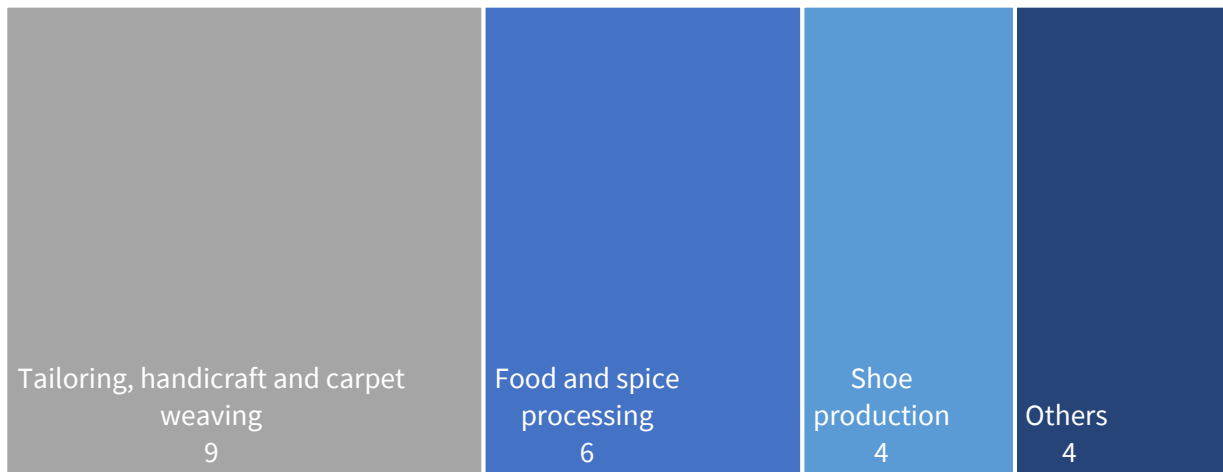
In 2022 and 2023, with funding from UNDP ABADEI 1.0 programme, DRC implemented an SME support programme across our regional offices in the East, Central, South and West. The below table shows the number of SMEs supported across the different regions of the country.

Figure 1: SMEs supported by province



SMEs from diverse sectors were supported and the following table provides an overview of the sectors in which the SMEs operate.

Figure 2: SMEs Supported by type



DRC Approach

DRC supports SMEs with a package interrelated services, as depicted below:

Step 1: Advertisement & SMEs Selection



The process of selecting SMEs commences with the formation of a selection committee. Following the formation of the committee, an open call for expressions of interest will be advertised, inviting potential SMEs to apply through a competitive process. The final selection of SMEs will take place based on the submitted business plans, in consideration of business viability and potential to contribute to social benefits (e.g., employment for women).

Step 2: Business & Financial Management Training



Selected SMEs will attend 10-day business training sessions, where they learn about various aspects of running the business such as calculating production cost and estimating business, forecasting business cash flow, record keeping, workplace practices for productivity improvement etc. At the end of the training participants prepare a business plan and submit to DRC for evaluation. The business plans are the basis for the selection of SMEs for financial support.

Step 3: Provision of Financial Support



DRC provides financial support for selected SMEs ranging from 7,000 – 12,000 USD. The financial support is based on the submitted business plan and takes into account the needs and priorities identified by the entrepreneurs. The grant is provided usually 2-3 installments and conditional upon adherence to the agreed spending plan.

Step 4: Business Coaching



DRC provides routine mentoring and coaching support to selected SMEs to help overcome business challenges. The coaching support focuses on increasing entrepreneurs' awareness and understanding of their own aspirations, opportunities and resources available to them, and the actions they want to take to achieve their goals. Participating SMEs receive six coaching sessions based on an agreed schedule.

Step 5: Market Linkages



DRC also supports SMEs to participate in regional, national and international market events and exhibitions. By participating in market events SMEs acquire new clients, learn about product quality improvement and network with like minded organizations. DR

Step 6: Monitorig & Evaluation



DRC implements a close monitoirng system to ensure targetted SMEs recieve adequate support. Regular biweekly visits by DRC staff enables SMEs to discuss progress, challanges faced and seek advice and guidance to overcome them. Supported SMEs are also evaluated fortheir socioeconmic contribution such as employment creation.

Impact of the assistance

DRC conducted an endline survey during April 2023, to assess the outcome of SME interventions, using an online questionnaire, among the 23 SMEs assisted. Selected SMEs received their first installment during the month November and December 2022, and the second installment was disbursed in February 2023. The assessment took place two months after the financial support was completed. The results of the survey discussed below represent a snapshot of the situation two months after the disbursement of the last installment of the grant.

Financial assistance and usage

All the SMEs reported that the financial assistance provided was sufficient for their expansion plans. The financial assistance was used for various purposes, including the procurement of machineries (96% of SMEs), the purchase of raw materials (79% of SMEs), the payment of salaries (62% of SMEs), etc. All assisted SMEs except for one reported an increase in production, customers, and overall income.

Increased production sales and profits

- 96% of the SMEs supported reported increased production after receiving the grants.
- 96% of the SMEs surveyed reported an increase in the number of customers.
- 96% of SMEs reported increased business income, with 91% reporting an increase in their net profit by more than 21%.
- 13% of the SMEs reported that production increase by more than 50%, and 57% of the SMEs reported that their production increase by more than 25%.
- 13% of the SMEs reported that their sales had increased at least by 50%, while 84% reported at least an increase by 21%.

Installation of new machineries, recruitment of new staff, increased sales due to improved market connections, reliable power supply due to installation of solar panels for electricity, increased customer demand and seasonal sales etc. were the contributing factors for the above increases.

83% of the SMEs (19 SMEs) source raw materials and intermediary goods locally and had reported increase in local sourcing. Increased local sourcing of raw and intermediary goods and services benefit local suppliers, including farmers and traders thus stimulating cash flow and benefitting the overall local economy.

Knowledge gain and learning

As a result of the training and coaching provided, business knowledge and application of new business concepts and practices in the day-to-day business operation had increased. All the participating SMEs reported the trainings had been useful to very useful. The new skills and practices introduced include accurate cost accounting and estimation of profits, realistic forecasting and cash flow estimation, record keeping, better inventory control, product quality improvement etc. The changes had resulted in increased customer satisfaction, cost efficiency, better business planning and reduced risks, on time delivery, employee workplace satisfaction and productivity improvement etc.

Employment

After receiving grants and technical support, the SMEs reported an improved capacity to generate new employment opportunities. Following the provision of assistance by DRC, all SMEs hired new fulltime and parttime employees, including women. In total, the supported SMEs reported a 53% increase in employment, from 316 people employed at the baseline to 482 people employed by the 30th April 2023. The below table provides details of employment.

Table 3: SME employment as of 30th April 2023

Gender of employees	Fulltime	Part time	Total	Age 18-35	Age 36-55	Age Above 55	Total
Male	225	33	258	157	72	29	258
Female	168	56	224	195	29	-	224
Total	393	89	482	352	101	29	482

Some of the SMEs also outsource their work on a piecemeal basis, and in this provide employment to an additional 106 men and 230 women, which are not included in the above estimates.

With an investment of approximately 250,000 USD in financial support to SMEs, 488 new job opportunities for women were created as a result of DRC intervention, as well as 364 new job placements filled by men.

Future growth

SMEs are positive about future growth and prospects. All the SMEs claimed that their business will continue to grow in future, they will be able to sustain their employees, increase production and profit.

SPOTLIGHT ON: FARHANA

Farhana runs a business that produces garments for women, in Kabul, Afghanistan. She has been running the business for over 18 years after her return from Iran, where she was displaced and living with her family. Her thriving business took a huge hit when a fire broke out in her shop in 2017 and destroyed all her belongings. The fire caused an estimated loss of 150,000 USD and was devastating for Farhana. Recovering from the loss, she managed to restart her business. In 2022 she saw DRC’s advertisement offering to support SMEs and applied for it. She received 8,878 USD in financial support and was trained on various business aspects, such business plan preparation, forecasting cash flow, estimating production cost and profit, managing human resources etc.

“After I received the DRC grant, many changes happened in my business, and it changed my whole life. I installed new machinery, increased production and was able to provide employment for women and girls. My net profit has increased by 40%.”

After receiving the grant, she constructed a workspace for women employees and hired 20 new workers, of which 16 are women. She also used the grant to buy machineries. She also provides on-the-job training and is currently training 24 women. In addition, there are around 100 women working from home on a piece meal basis to support her business. On average, Farhana’s enterprise produces around 10,000 pieces of cloths monthly, supplying to 2 wholesalers and 8 retailers in the city. Farhana’s profit had increased by 40% following her business expansion and increased production.

Note: Names of the beneficiaries are changed to protect their identity.

Key persisting challenges

- a. **DYSFUNCTIONAL BANKING SECTOR:** Disruption of the banking sector and international payment systems has affected local and import-export oriented businesses, especially when conducting transactions and receiving payments. Several SMEs reported that they are unable to export their products due to the difficulty of receiving payments. Some SMEs rely on intermediaries for fund transfers which is either risky or reduces their profit.
- b. **MARKET DEMAND:** The local market is affected by a shrinking economy and reduced purchasing power of people. Agriculture commodities are seasonal in nature and the surplus cannot be absorbed by the local economy due to systemic challenges with market linkages and supply chains and this often results in wastage and lower prices of sales.
- c. **ELECTRICITY:** Irregular electricity supplies affect operating businesses' operations, especially those who need to operate machinery. Some of the SMEs have installed solar panels for generating electricity; however, it is costly and requires initial investment which is difficult for most of the SMEs.
- d. **INPUT COST:** Fluctuating exchange rates affect imports of raw materials, intermediary goods, machinery, and tools. Businesses are forced to increase the prices of their produces with a weaker Afghan currency which affects their sales.
- e. **CHEAP IMPORTS FROM OTHER COUNTRIES SUCH AS IRAN OR PAKISTAN:** Cheap imports from Pakistan or Iran affect local production. With relative stable environment infrastructure and government subsidies allow neighboring countries to produce at a lower cost compared to Afghan producers. SMEs are forced to cut their prices in order to compete with imported products which affect their profitability and sustained operation.

Conclusion

Supporting SMEs to create socio-economic benefits to local community is one of the most effective interventions that can currently be implemented in Afghanistan, including for promoting economic benefits and income-generating opportunities for women-led businesses and female employees.

Support to SMEs enable them to increase production and improve the availability of goods and services in the local market and generate employment for local communities. Following the support from DRC, SMEs were able to increase their employment capacity by 53%. Private sector employment is one of the last remaining options for women to participate in economic activities. Support to SMEs will create more lasting impact given the self-interest of the private sector to enhance competitiveness and profitability and the tendency to employ more people with expansion. However, in order for the private sector to be more effective, the critical – and often systemic - constraints outlined above must be addressed. Sustained advocacy efforts and resources are required to improve infrastructure and the regulatory environment. Particular attention is also required for reducing the restrictions imposed on women participation in socio-economic activities.



SPOTLIGHT ON: ABDUL

Abdul produces ice cream cones and operates from Herat, Afghanistan. He has been running the business for 7 years now. Ice cream cones are usually imported from Iran which is bordered with Herat. At the beginning of his business operation many people had discouraged him saying that it has hard to compete with cheap imports from Iran. Abdul wanted to expand his business by purchasing more efficient cone producing machines however he was constrained by the capital required to buy the machine. He applied for the SME business support programme that was run by DRC and got selected for assistance. He used the grants to purchase new machineries that increased his production.

“When I started the business many people discouraged me, but I didn’t give up. I have to compete with imports coming from Iran. With the new machines in stalled, bought with the financial assistance from DRC SME promotion programme I was able to increase my production and reach out to buyers who need bulk supplies. I hired 12 new employees to support the increased production levels”

Following the installation of new machineries Abdul’s production had increased by 25%. The number employees had increased from 15 to 27 including 20 women workers. After attending the business management and financial trainings he had improved documentation and filing systems, improved his communication skills and dealing with customers, increased skills in managing his workers.

Note: Names of the beneficiaries are changed to protect their identity.



Founded in 1956, the Danish Refugee Council (DRC) is Denmark's largest international NGO, with a specific expertise in forced displacement. DRC is present in close to 40 countries and employs 9,000 staff globally.

DRC advocates for the rights of and solutions for displacement-affected communities, and provides assistance during all stages of displacement: In acute crisis, in exile, when settling and integrating in a new place, or upon return. DRC supports displaced persons in becoming self-reliant and included into hosting societies. DRC works with civil society and responsible authorities to promote protection of rights and inclusion.

Our 7,500 volunteers in Denmark make an invaluable difference in integration activities throughout the country.

DRC's code of conduct sits at the core of our organizational mission, and DRC aims at the highest ethical and professional standards. DRC has been certified as meeting the highest quality standards according to the Core Humanitarian Standard on Quality and Accountability.

HRH Crown Princess Mary is DRC's patron.

To read more about what we do, see: www.drc.ngo

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