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SME DEVELOPMENT WORKSHOP REPORT: Achievements, Challenges and Suggested Next Steps

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List of Acronyms

ABA	Afghanistan Bankers' Association
ACCA	Afghan Consulting Companies Association
ACCI	Afghan Chamber of Commerce and Industry
ACSP	Afghanistan Credit Support Program
ADP	Alternative Development Program
AGO	Attorney General's Office
AIB	Afghanistan International Bank
AIHRC	Afghanistan Independent Human Rights Commission
AISA	Afghanistan Investment Support Agency
ARIES	Agriculture, Rural Investment and Enterprise Strengthening
ASMED	Afghanistan Small and Medium Enterprise Development
BDS	Business Development Services
DAB	Da Afghanistan Bank (Central Bank of Afghanistan)
DFID	Department for International Development
FMFB	First Microfinance Bank
GIAAC	General and Independent Administration against Corruption and Bribery
GIRoA	Government of the Islamic Republic of Afghanistan
HR	Human Resources
IARCSC	Independent Administrative Reform and Civil Service Commission
IDEA-NEW	Incentives Driving Economic Alternatives for the North, East, and West
IDLG	Independent Directorate for Local Governance
IFC	International Finance Corporation
IIFC	Islamic Investment and Finance Cooperatives
INGO	International Non Governmental Organization
MAIL	Ministry of Agriculture, Irrigation and Livestock
M&E	Monitoring and Evaluation
MFI	Microfinance Institution
MISFA	Microfinance Investment Support Facility for Afghanistan
MoCI	Ministry of Commerce and Industries
MoEd	Ministry of Education
MoEW	Ministry of Energy and Water
MoF	Ministry of Finance
MoHE	Ministry of Higher Education
Mol	Ministry of Interior
MoJ	Ministry of Justice
MoLSAMD	Ministry of Labor, Social Affairs, Martyrs and the Disabled
MoUD	Ministry of Urban Development
MRRD	Ministry of Rural Rehabilitation and Development
NBFI	Non-Bank Financial Institution
NGO	Non Governmental Organization
NSDP	National Skills Development Program
PPP	Public-Private Partnership
PSD	Private Sector Development

RAMP	Rebuilding Agricultural Markets Program
ROI	Return on Investment
SME	Small and Medium Enterprise
SROI	Social Return on Investment
TA	Technical assistance
UCC	Uniform Commercial Codes
UNDP	United National Development Program
US\$	United States dollar
USAID	United States Agency for International Development
WOCCU	World Council of Credit Unions

Executive Summary

Introduction

The United States Agency for International Development (USAID)/Afghanistan's Agriculture, Rural Investment and Enterprise Strengthening Program (ARIES) Program co-hosted, with its partner, the Microfinance Investment Support Facility for Afghanistan (MISFA), the Small and Medium Enterprise (SME) Development Workshop at the Serena Hotel in Kabul, Afghanistan on July 20-21, 2009. The Workshop's objectives were to bring together relevant stakeholders with experience and influence in the SME sector, share achievements to date with regard to Government of the Islamic Republic of Afghanistan (GIROA) and donor funded interventions, and prioritize next steps needed to address remaining challenges to SME development and growth. Over 100 participants attended the Workshop representing views of GIROA, donors, implementing agencies, apex organizations (including associations and NGOs), financial institutions, business consulting firms and other local private companies. Participants proposed concrete, actionable steps to increase coordination and improve SME access to sustainable financial and business development services (BDS) to contribute to job creation and economic growth throughout Afghanistan.

ARIES is a \$100 million, three-year initiative (September 2006 – December 2009) managed by the Academy for Educational Development (AED) and implemented in partnership with ACDI/VOCA, the World Council of Credit Unions (WOCCU), MISFA, FINCA and ShoreBank International (SBI). The ARIES Program is working to improve the lives of Afghans by promoting the development of a sustainable rural finance sector. It supports USAID/Afghanistan's strategic objective of "promoting a licit economy led by the private sector" by increasing access to microfinance and SME financial services to farm and non-farm businesses operating in the Alternative Development Program (ADP) regions throughout Afghanistan, thereby reducing the dependence of Afghanistan's rural economy on poppy production for illicit use. ARIES builds on and benefits from lessons learned from USAID precursor programs, particularly the Rebuilding Agricultural Markets Program (RAMP), a \$150 million initiative implemented in 13 Afghan provinces during 2003 – 2006.

Afghanistan's Environment for SME Development

Afghanistan regularly ranks at the bottom of the United Nations Human Development Index in all major socio-economic indicators. Human, physical and institutional infrastructure has been degraded by more than 30 years of war and instability. Even from this weak starting point, however, participants widely recognized that a strengthened SME sector can offer numerous benefits for Afghanistan. A larger private sector creates more jobs (directly and indirectly), increases wages – building wealth, generating taxes, fueling a more hopeful civil society and contributing to a healthier nation.

Numerous important initial steps to understand and develop Afghanistan's SME sector have been taken. For example, some important basic information about the SME sector is now available. There are more than 5,000 SMEs registered in Afghanistan, about 3,000 of which are

considered active (in that they seek relicensing on an annual basis, as is required). Most SMEs prefer to operate informally; however, with an estimated total population of at least 250,000 SMEs operating throughout Afghanistan. Assuming about 250,000 SMEs have a need for credit in the range of \$30,000, the total SME credit demand can be estimated at \$7.5 billion. Outstanding credit to the SME sector is at most \$45 million, which indicates less than 1% market penetration.

In order to improve the environment for SME operation, including access to financial services, improvements in the policies and laws affecting SMEs have been enacted in the last few years, such as the Law on Central Bank and the Law on Banking in 2003, Income Tax Law in 2005, Company Law in 2007 and, most recently, the Mortgage Law and Movable Property Law in 2009. DAB has initiated work on developing a credit information bureau and a collateral registry as well as legislation related to leasing and Shari’a-compliant finance. The financial sector has expanded with new entrants, an expanded branch network and new products designed specifically for SMEs. In addition, a cadre of BDS firms has emerged in recent years catering to SME business consulting needs and an association of BDS firms was recently established.

SME Development Challenges and Recommended Stakeholder Actions

Workshop participants were asked to consider in break-out groups the remaining challenges and courses of action by stakeholder in three areas: i) Creating an Enabling Environment for SME Development; ii) Increasing SME Access to Financial Services; and iii) Enhancing SME Access to BDS. Each breakout group included experts from across the stakeholder spectrum to solicit broad input and ensure that recommendations were pragmatic implementable. Following are the highlights of major challenges and key recommendations identified by the technical area-specific working groups. The body of this report lists primary stakeholders responsible for implementation of the recommended actions and the expected timeframes for doing so.

A. Creating an Enabling Environment for SME Development: This break-out group focused on the country context in which SMEs operate and to what extent the following “enable” SME development: macroeconomic and fiscal policies; legal and regulatory environment; and access to skilled labor and infrastructure services (especially electricity).

Challenges	Recommended Actions
Public corruption and insecurity reduces private investment	Full and timely implement the National Anti-Corruption Strategy and Roadmap developed as part of the ANDS
Policies and laws are developed in a vacuum, with insufficient consultant of SME views	Establish the principle and formalize a standard process to consult with the private sector (businesses, associations and civil society, including traditional community leadership structures) in a meaningful and timely manner during the process of drafting policies and laws
Unreliable electricity generation and distribution increases SME costs and restricts SME activities	Ensure the evolving legal framework to permit and encourage power generation and distribution by the private sector, including through the establishments of Public-Private Partnerships (PPPs). In addition, launch pilot initiatives in non-grid small and medium-scale provision in smaller towns and

	in community-based rural power, including micro-hydro power.
Absence of proper land registration system, and inadequate legal instruments and institutions	Timely and fully implement the recommended actions elaborated in the ANDS strategy for Urban Development and Land Management
Weak capacity of legal structures, systems and capacity, including mediation and arbitration tribunals	Endorse the authority of mediation and arbitration tribunals to resolve private-private and private-public disputes, including land issues. In addition, ensure competency and transparency by establishing standards and building the capacity of arbitrators, mediators and lawyers
Adverse tax environment for SMEs	Continue to eliminate nuisance taxes and reform the tax system to make it simpler, fairer and easier to comply with. In addition, consider tax incentives to promote FDI and local SME investment and expansion, including possible reduction of the BRT tax of 5%
Lack of reliable national identity system	Establish civil registry with a single national identity document
Lack of skilled labor pool	Establish a coherent national policy framework to guide professional and vocational education, facilitate private sector involvement to offer short-cycle certificate-level education for school leavers and create tax or other incentives for private sector to invest in educations specific to skills, mentoring and on-the-job training
Lack of up-to-date, useful data regarding SMEs	Organize regular SME sector surveys, analysis and reporting

B. Increasing SME Access to Financial Services: This break-out group considered a wide range of financial services as they impact the SME sector, including loans, leasing, insurance, and deposit services from a variety of financial institutions.

Challenges	Recommended Actions
Inadequate regulatory environment to support expanded SME lending	Enact appropriate laws, including drafting of four laws: Islamic Banking, Secured Transactions, Leasing and Negotiable Instruments. In addition, review current regulations to ensure they do not unnecessarily hamper SME lending
Shallow labor pool of people skilled in banking and finance	Build capacity in the financial sector by establishing an independent banking and business training institute as a joint commercial bank-DAB initiative. In addition, retain good staff by implementing employee incentive systems
Lack of information about borrowers and potential borrowers	Establish a credit information bureau to facilitate commercial and consumer lending
Lack of information about collateral that has been pledged	Establish central collateral registry for immovable and movable collateral to verify ownership of pledged assets and whether they are encumbered
Inability to quickly resolve financial disputes	Establish a financial tribunal to provide swift legal decisions on financial disputes
Low market penetration rate of commercial banks, lack of products developed to	Conduct necessary market research and adapt international best practices regarding farm and non-farm SME lending,

mitigate risk and technologies to decrease cost of delivering financial services to rural areas	including lowering collateral requirements once other risk mitigation measures are in place. In addition, invest in appropriate technologies such as mobile money to reduce the cost of finance service delivery, particularly in rural areas
Lack of customer service orientation, especially with regard to potential SME clients	Bankers need to be more proactive in marketing and customer service
Limited cooperation between financial institutions and organizations/programs that could serve as a resource for good client referrals	Bankers should build relationships with donor-funded BDS programs like ASMED and with SME organizations that vet their members such as the Peace Dividend Trust
Potential for duplication of effort, especially with regard to loan guarantee services	ACSP, MISFA and DAB should work closely together to avoid duplication of guarantee services. Funnel valuable information and market learning back to relevant donors. This 'feedback loop' keeps decision-making most pertinent to those impacted.
Underutilization of country-wide branch networks of two state-owned banks	Lending should ultimately be provided through a competitive and privately owned financial sector. As an interim measure, restructuring needs to commence, on an urgent basis, within Bank Millie and Bank Pashtany. They represent the only branch network that currently provides banking services throughout the country.

C. Enhancing SME Access to BDS: business development services (BDS), business support, technical assistance (TA), consulting, including training, networking, advice, mentoring, capacity -building, etc.

Challenges	Recommended Actions
SME owners/mgrs often do not see value in business consulting services	Ensure course offerings are market-based and demand driven. Build effective demand through SME education and marketing efforts. Given the range of languages, cultures, and low literacy rate, successful messaging is a needed local competency. Radio is a logical medium. Cell phone and short-form messaging (like Twitter) are newer technologies reaching people where old standards – newspapers and television – do not. BDS firms and their funders should market the successes of both the local BDS firms and the SMEs they assist so as to leverage the positive demonstration effects
Heavy donor funding to the BDS firm subsector has diminished “market-based” mentality of BDS providers	Government and donor funding should be tied to BDS firm gradual cost-recovery, professionalism of service provision and other monitoring and evaluation (M&E) system indicators. In addition, consideration should be given to local BDS providers to implement development programs via Public-Private Partnerships (PPP) instead of directly by government line agencies
BDS providers generally have only a limited range of courses and delivery formats	Additional market research of SME demand for BDS should inform future efforts to provide focused technical assistance and training to BDS providers (training of trainers) so they may be able to provide a variety of courses and delivery methods ranging from traditional classroom-based instruction to practical, hands-on, experiential classes (e.g. IFC’s Business

	Edge curriculum). Linkages with financial institutions should also be explored.
Assistance to BDS firm subsector is disorganized and the range of courses available from various BDS providers are not well known	An offering list or training universe map should be created and maintained annually by ACCA and compiled into a national Directory of BDS providers, contact info and courses.
ACCA still has low institutional capacity to play an important role in moving the BDS firm subsector forward	Provide capacity building assistance to ACCA so that it may effectively provide a range of demand-driven services to members and gradually become a sustainable association

Conclusion

The series of next steps presented here to develop SMEs in Afghanistan is ambitious but doable. This report has laid out an ambitious plan for further development of Afghanistan’s SME sector. Many of these recommendations are also included in the ANDS. Despite it being an ambitious agenda, most workshop participants consider the actions implementable within the timeframes specified. Their completion will allow the country to more fully capitalize on the tremendous spirit of entrepreneurship of the Afghan people and their strong resolve to better their lives despite having to work in difficult conditions.

In terms of improving the enabling environment, perhaps the most important initiative will be timely and full implementation of the anti-corruption measures as detailed in the ANDS. Perceptions about the high level of corruption in Afghanistan deter and distort private investment and diminish the effective functioning, credibility, and legitimacy of the state. Consequently, SMEs, which could be strong drivers of Afghanistan’s private sector-led job creation, economic growth and poverty reduction, remain underserved and underdeveloped.

Additional assistance with market research and product development should help financial institutions engage in greater agricultural and non-farm SME lending but other institutional alternatives may also need to be considered. ABA has a crucial “bridging role” to play in facilitating contacts among key players, including among DAB, GIROA ministries and agencies, donors and private sector business groups in terms of advancing market research, product development and expansion of SME lending by commercial banks. However, as commercial banks still face many internal and external hurdles to be able to significantly expand their SME lending at least in the short term, it may be prudent to evaluate support for other options, including both debt (e.g. loan) and equity (e.g. venture capital) from existing institutions and value chain participants or new ones (e.g. creation of a SME loan brokerage service or establishing the legal framework to support the development of a rural banking system).

The market for BDS is particularly young and needs substantial additional support before SMEs widely recognize the value that business consulting firms can provide and before BDS providers can operate on a sustainable basis. ACCA appears to be the most suitable place to funnel additional funding and technical assistance support to engage in further market research to

better identify BDS demand and to assist in the marketing of courses that BDS firms can offer on an increasing cost-recovery basis to satisfy demand.

A focal point is needed to clarify and push forward the SME development agenda laid out here for government and donors as well as various private sector stakeholders. The best suited government GIRA ministry to take on this task appears to be the Ministry of Commerce and Industries, which has recently established a Private Sector Development Directorate. The main task of the Directorate is to provide PSD policy development, implementation and monitoring within the Ministry. The MoCI in turn, will have responsibility for guiding and co-coordinating PSD policy across government, ministries and agencies, to encourage the development of a flourishing private sector.

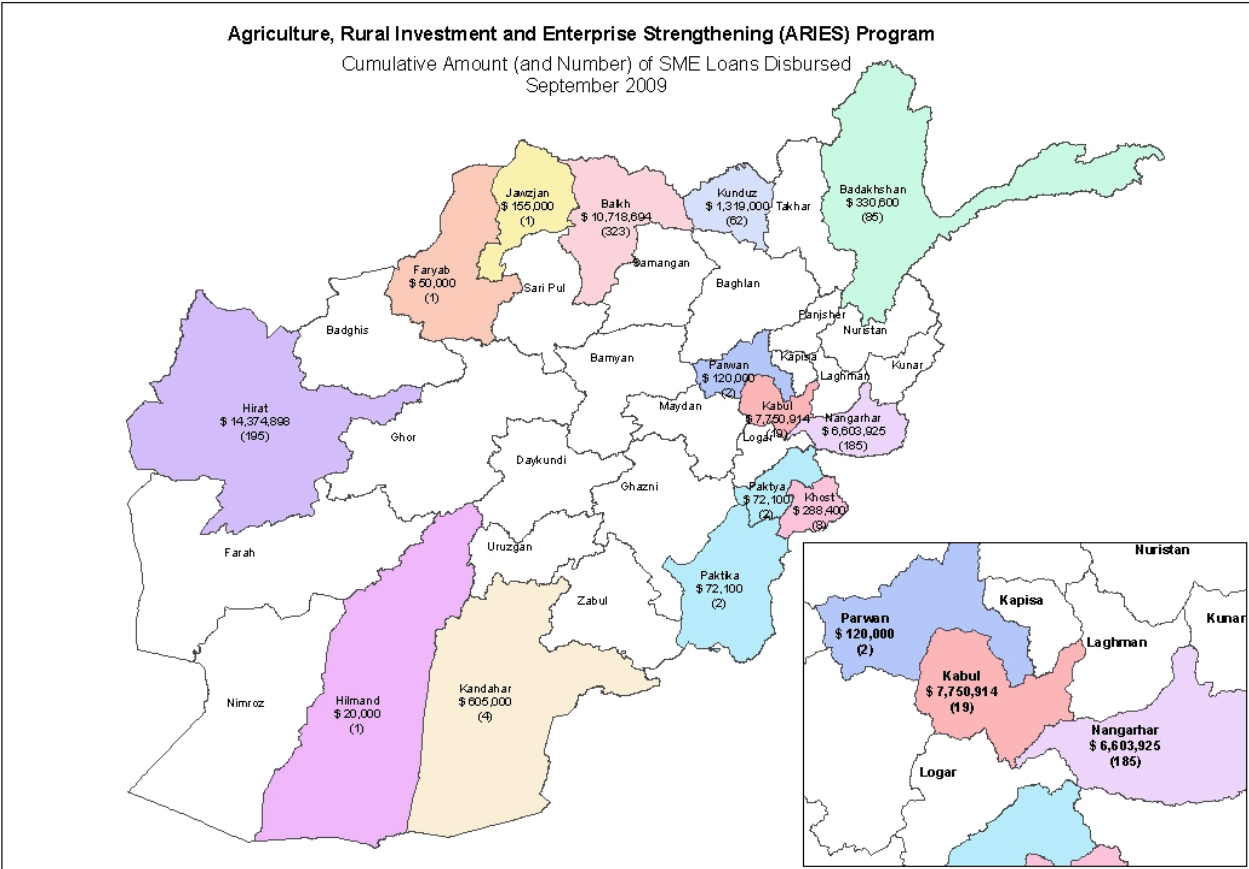
I. Introduction

A. USAID's ARIES Program

United States Agency for International Development (USAID)/Afghanistan's Agriculture, Rural Investment and Enterprise Strengthening Program (ARIES) Program is working to improve the lives of Afghans by promoting the development of a sustainable rural finance sector. It supports USAID/Afghanistan's strategic objective of "promoting a licit economy led by the private sector" by increasing access to microfinance and small and medium enterprise (SME) financial services to farm and non-farm businesses operating in the Alternative Development Program (ADP) regions throughout Afghanistan, thereby reducing the dependence of Afghanistan's rural economy on poppy production.

ARIES is a \$100 million, three-year initiative (September 2006 – December 2009) managed by the Academy for Educational Development (AED) and implemented in partnership with ACDI/VOCA, the World Council of Credit Unions (WOCCU), the Microfinance Investment Support Facility for Afghanistan (MISFA), FINCA and ShoreBank International (SBI). ARIES builds on and benefits from lessons learned from USAID precursor programs, particularly RAMP, a \$150 million initiative implemented in 13 Afghan provinces during 2003 – 2006.

Each ARIES partner focuses upon a different component of the financial landscape, from microloans of less than US\$200 to loans of over US\$1 million to larger-scale SMEs. SME lending by ARIES partners comprises loans disbursed between \$3,000 – \$300,000 (domestic currency equivalent) by: Afghanistan International Bank (AIB), Afghanistan Rural Finance Company (ARFC), Afghanistan Rural Microcredit Program (ARMP), BRAC Afghanistan Bank (BAB), Bank Alfalah (BAL), and First MicroFinance Bank (FMFB). As part of their work to expand SME lending, ARIES partners have disbursed 839 loans worth \$39.1 million on a cumulative basis through September 2009, spread throughout the provinces as depicted below.



Source: ARIES Program

B. SME Development Workshop Objectives

The ARIES Program co-hosted, with its partner MISFA, an SME Development Workshop at the Serena Hotel in Kabul, Afghanistan on July 20-21, 2009. The Workshop’s objectives were to bring together relevant practitioners with experience and influence in the SME sector, share achievements to date with regard to government and donor funded interventions and prioritize next steps needed to address remaining challenges to SME development and growth. Over 100 participants attended the Workshop representing views of government, donors, implementing agencies, apex organizations (including associations and NGOs), financial institutions, business consulting firms and other local private companies. The agenda is attached as Annex 1 and the participant list is included Annex 2.

The Workshop was designed to maximize interaction and dialogue among participants through a mix of plenary sessions and break-out group discussions. Numerous stakeholders made presentations that shared new data and analyses regarding SME development. Participants proposed concrete and actionable steps to overcome barriers, increase coordination and improve SME access to sustainable financial and business development services that is expected to contribute to job growth and economic development. A list of the materials presented at the Workshop is provided in Annex 3. This report summarizes the Workshop

proceedings and seeks to establish a roadmap of practical next steps for various stakeholders to take in the next chapter of SME development in Afghanistan.

C. SME Context in Afghanistan

It is important to consider the local historical context and current business environment in Afghanistan as a starting point before documenting SME development successes, barriers or recommended solutions, all of which are addressed in subsequent sections of this paper. Progress has been made with numerous achievements to point out in the last three years and these are elaborated in each of the next three Sections. But, there is still a long way to go to develop SMEs in Afghanistan and much remains to be done. As was noted by more than one Workshop participant, business activities in Afghanistan did not start in 2002 with the fall of the Taliban. The country has a long and storied history of trade and exchange along the Silk Road between Asia and Europe. Crafts, especially carpets, jewelry, and fabrics, have been important economic activities for centuries, as has agriculture and animal husbandry. Kabul has been and remains a culturally and economically important city in the region, even through periods of unrest and war.

However, the political instability and violence that has characterized the last 30+ years has destroyed critical infrastructure (e.g. electricity, water, sanitation, roads, etc.), limited educational opportunities for most of the population (particularly schooling of girls) and severely hampered opportunities for broad-based economic growth. All major indicators of well-being and economic activity place Afghanistan near the bottom of the United Nations Human Development Index (HDI), recently ranking Afghanistan only above the African nation of Niger.¹ Per the World Bank, 2008 GNI per capita was near US\$300, less than US\$1/day. Infrastructure in 2002 was meager, and today it remains weak (except for successes in telecommunications). For example, in 2008, 57% of SMEs reported inconsistent power and 75% own or share access to a power generator.² Human capital is very low, literacy rates are around 30%, with violence and emigration of millions of displaced people compounding a weak economic basis for growth.

Even from this weak starting point, a strengthened SME sector can offer numerous benefits for Afghanistan. A larger private sector creates more jobs (directly and indirectly), increases wages – building wealth, generating taxes, fueling a more hopeful civil society and contributing to a healthier nation. Even in the United States, it is estimated greater than 90% of all businesses are SMEs that employ the majority of people and account for one-half of private sector output.³

¹ 2009 Human Development Index (HDI) is a measure of life expectancy, literacy, education and standards of living for countries worldwide.

² 2008 Investment Climate Survey conducted by Harakat, formerly known as the Afghanistan Investment Climate Facility (AICF).

³ Banking and SME Financing in the United States Charles Ou, Ph.D., United States Small Business Administration (US SBA), 2006.

Plenary participants voiced substantial concerns; however, about the challenges of a “Western Style” approach to SME development and financial systems given the current context of Afghanistan. Reasons for this include: the legacy of violence stunting economic activities; the critical importance of personal trust and contacts as a factor for lending and borrowing money; concern that formal financial institutions are perceived as more risky and expensive; and worries about financial service consistency with Shari’a law. Even in Western countries, the development of formal business structures and finance has been a gradual process and it is no surprise that business groups in Afghanistan exhibit reticence and caution with development efforts and formal financial institutions.

Nevertheless, progress has been made and was often cited. For example, important improvements in the policies and laws affecting SMEs have been made in the last few years such as Law on Central Bank and the Law on Banking in 2003, Income Tax Law in 2005, Company Law in 2007 and most recently the Mortgage Law and Movable Property Law in 2009. As discussed in more detail in Section III, the financial sector has expanded with new entrants, an expanded branch network and new products designed specifically for SMEs. In addition, a cadre of business development service (BDS) firms has emerged in recent years catering to SME business consulting needs and an association of BDS firms was recently established.

Some important basic information about the SME sector is now available. For example, there are now more than 5,000 SMEs registered in Afghanistan, about 3,000 of which are considered active (in that they seek relicensing on an annual basis, as is required). Most SMEs prefer to operate informally; however, with an estimated total population of at least 250,000 SMEs operating throughout Afghanistan.⁴ Recent SME surveys by Harakat and the Afghanistan Rural Enterprise Development Program (AREDP of the Ministry of Rural Rehabilitation and Development, or MRRD) provide new visibility into the SME marketplace. Harakat’s 2008 survey included 1,066 businesses evenly distributed between sectors across 10 provinces with over 90% being micro, small or medium – less than 10% of businesses surveyed had over 100 employees. AREDP interviewed 1,087 SMEs in 31 provinces from more than 80 sub-sectors.

The surveys indicate that the SME sector is small, with few foreign firms (less than 2%), few exporters and few firms owned by women. In the last few years, new firm entry appears to be significantly lower than immediately after the fall of the Taliban. Nevertheless, the private sector is growing strongly – average revenue growth of the Harakat surveyed firms is much higher at 220% because of some very strong performers. Moreover, the Harakat survey suggests this growth will continue as 77% of firms plan to grow in the near future.

Over half of the Harakat surveyed businesses reported having a bank account, skewing towards the larger, formal firms. Assuming about 250,000 SMEs have a need for credit in the range of \$30,000, the total SME credit demand can be estimated at \$7.5 billion. Outstanding credit to the SME sector is at most \$45 million (roughly \$30 million of SME outstanding credit is from

⁴ According to the 2006 study completed by Altai Consulting that estimated there were between 250,000 – 750,000 SMEs active in Afghanistan.

commercial banks and \$14 million is from ARFC as of September 30, 2009) which indicates less than 1% market penetration. Construction firms were most likely to be banked; professional services least likely. Only 5% of Harakat companies reported having financing. 13% interviewed by AREDP had applied for a loan (and only 7% reporting receiving one). Surveys revealed most owners finance through savings, family/friends, and “boot-strap” expansion. High numbers of respondents expressed interest in borrowing and many cited access to finance as one of the biggest obstacles (i.e. Harakat 22% and AREDP 46%).

Many business assistance needs were also identified. Educational levels appear crucial to management, with more educated personnel sought. Employee literacy rates are more than double the national average. In training matters, 40% of AREDP interviewees cited technical skills as the greatest constraint; 30% regarded business development services as most needed.

D. Report Structure

The rest of this report is organized around three key themes from the Workshop:

1. The Enabling Environment for SME Development: improving the policy, legal and regulatory environment for SMEs
2. SME Financial Services: increasing the supply of market-based, sustainable financial services for SMEs
3. SME Business Development Services: increasing the effective demand for and the supply of demand-driven, cost-effective business support services.

Each of the chapters defines the topic area, provides background regarding the subject, summarizes major achievements to date, details remaining challenges and recommends specific action items by stakeholder to mitigate constraints.

II. Creating an Enabling Environment for SME Development

This section focuses on the country context in which SMEs operate and to what extent the following “enable” SME development: macroeconomic and fiscal policies; legal and regulatory environment; and access to skilled labor and infrastructure services (especially electricity).⁵

A. Background and Achievements To Date

Extensive work has been done since 2001 at the national level to develop enabling policy, legal and regulatory framework for SME development. Since 2002, the central bank of Afghanistan (Da Afghanistan Bank, or DAB) has maintained prudent monetary policies in an effort to contribute to macroeconomic stability and private sector-led growth. Indeed, per DAB and World Bank statistics, economic growth has averaged 10% over the past seven years. DAB financing government deficits was outlawed in 2003, providing greater fiscal discipline and curbing inflation.

While still low-ranked as a place to do business, Afghanistan did ratchet up – from 168 to 160 – among 183 countries ranked by the World Bank in its recent Doing Business Report for 2010. Afghanistan was also the only country in South Asia to improve its ranking. Three main indicators contributed to its improved standing – Access to Credit (due mainly to passing laws on secured transactions and moveable property), Registering Property (by simplifying the property registration process and reducing property transfer tax from five to two percent of the property value) and Starting a Business (by taking company registration out of the commercial courts and establishing a new company registry that acts as a one-stop shop, combining company registration, tax registration and publication in the official gazette for one flat registration fee).

Some critical initial steps have been taken with regard to the tax code as well as its enforcement. The Income Tax Law passed in 2005 gave tax administration at the Ministry of Finance basic administrative and enforcement powers. To add clarity to the tax regime, a law removing “nuisance” taxes, reforming the business receipts tax, and simplifying income tax and fixed taxes for small businesses has been submitted to Parliament. Also under development is the “Tax Code”, including fundamental “tax administration law” provisions.

⁵ The 2009 SME Development Workshop partially built off the 2007 Conference on the Enabling Environment for Effective Private Sector Contribution to Development in Afghanistan co-sponsored by the GIROA and the Aga Khan Development Network, in partnership with the World Bank, the United Nations Development Program (UNDP) and the Asian Development Bank (ADB). This Conference recognized that “the fundamental elements of an enabling environment for an effective private sector contribution will be characterized by political stability; confidence in the future; mutual trust, understanding, dialogue and collaboration among stakeholders; the rule of law; protection of the rights of citizens; a diversity of stable, democratic institutions; and a streamlined legal, fiscal, regulatory and administrative framework governing all spheres of private initiative, which is predictably, consistently and impartially applied.”

DAB has initiated work on developing a credit information bureau and a collateral registry as well as legislation related to leasing and Shari’a-compliant finance. DAB is also investigating the legal framework for microfinance institutions to be able to mobilize public deposits as a means to permit massive, sustainable delivery of financial services to the small businesses that dominate the farming, manufacturing and services sectors in Afghanistan. Banks and other financial institutions offering SME finance could also benefit from specific prudential regulations and tax regimes to encourage the offering of SME specific products and services.

Much early work has been done to improve land titling and enhance property rights. Numerous other initiatives have begun to support the financial system and foster business growth, including investigation of branchless banking/mobile money using cell phone technology as well as greater investment in business development services and vocational training, among others.

B. Remaining Challenges and Recommended Stakeholder Actions⁶

Challenges	Recommended Actions	Timeframe for Implementation			Responsible Stakeholders
		0-6 mos.	6-12 mos.	12-18 mos.	
Public corruption and insecurity reduces private investment	Full and timely implement the National Anti-Corruption Strategy and Roadmap developed as part of the ANDS			√	IARCSC, Control and Audit Office and the MoF, MoJ and Supreme Court, AGO, the GIAAC, and MoI, AIHRC and the National Assembly as well as donors like UNDP working on these issues
Policies and laws are developed in a vacuum, with insufficient consultant of SME views	Establish the principle and formalize a standard process to consult with the private sector (businesses, associations and civil society, including traditional community leadership structures) in a meaningful and timely manner during the process of drafting policies and laws	√			Cabinet, DAB, and National Assembly, donors working on the policies and laws, ABA, ACCA and Afghan Chambers of Commerce
Unreliable electricity generation and distribution increases SME costs and restricts	Ensure the evolving legal framework to permit and encourage power generation and distribution by the private sector, including through the establishments of Public-Private Partnerships (PPPs). In addition,		√		MoEW and donors working in this area

⁶ The challenges and recommended stakeholder actions listed here are drawn not only from the 2009 SME Development Workshop but also the 2007 Enabling Environment Conference as well as the 2007 report, “Fighting Corruption in Afghanistan: A Roadmap for Strategy and Action” and the 2008-2013 Afghanistan National Development Strategy (ANDS).

		Timeframe for Implementation			
SME activities	launch pilot initiatives in non-grid small and medium-scale provision in smaller towns and in community-based rural power, including micro-hydro power.				
Absence of proper land registration system, and inadequate legal instruments and institutions	Timely and fully implement the recommended actions elaborated in the ANDS strategy for Urban Development and Land Management			√	MoUD, MRRD and donors working in this area
Weak capacity of legal structures, systems and capacity, including mediation and arbitration tribunals	Endorse the authority of mediation and arbitration tribunals to resolve private-private and private-public disputes, including land issues. In addition, ensure competency and transparency by establishing standards and building the capacity of arbitrators, mediators and lawyers			√	MoJ, MoUD, MAIL and donors working in this area
Adverse tax environment for SMEs	Continue to eliminate nuisance taxes and reform the tax system to make it simpler, fairer and easier to comply with. In addition, consider tax incentives to promote FDI and local SME investment and expansion, including possible reduction of the BRT tax of 5%	√			MoF, MoCI, AISA and donors working in this area
Lack of reliable national identity system	Establish civil registry with a single national identity document			√	MoI, IDLG
Lack of skilled labor pool	Establish a coherent national policy framework to guide professional and vocational education, facilitate private sector involvement to offer short-cycle certificate-level education for school leavers and create tax or other incentives for private sector to invest in educations specific to skills, mentoring and on-the-job training	√			MoEd, MoCI, MoHE, MoLSAMD, ABA, ACCA NSDP and donors working in this area
Lack of up-to-date, useful data regarding SMEs	Organize regular SME sector surveys, analysis and reporting			√	MoCI, MAIL, MRRD, ACCI, AISA and donors focused on the sector

III. Increasing SME Access to Financial Services

This section covers the umbrella of financial services as they impact the SME sector, including loans, leasing, insurance, and deposit services with emphasis on lending by commercial banks. Non-bank financial institutions, MFIs (including limited liability companies and credit unions) and apex facilities (e.g. MISFA and the Afghanistan Credit Support Program [ACSP]), among others are also included as they contribute to increasing SME access to financial services.

A. Background and Achievements To Date

Since the passage of the Law on Banking in 2003, 17 banks, 111 money service providers and 373 foreign exchange dealers have been licensed. Total deposits of the banking sector currently exceed US\$ 2.1 billion and commercial bank lending to more than 79,000 businesses, virtually all of which are SMEs, has reached about US\$1 billion. Banks are now active in more than 30 out of 34 provinces of Afghanistan with a branch network of more than 244 full service and limited service branches providing financial intermediation and facilitating payments throughout the country. Thirteen banks are also members of the Afghanistan Banks Association (ABA) that was established in 2004.

Based on research completed by ARIES partner, ShoreBank International (SBI), outstanding credit to the SME sector is at most \$45 million (roughly \$30 million of SME outstanding credit is from commercial banks and \$14 million is from the Afghanistan Rural Finance Company [ARFC] as of September 30, 2009) which indicates less than 1% market penetration. At most, around \$60 million in loans have been disbursed to SMEs over the past four years, the approximate age of the young Afghan banking sector. About \$42.5 million (or 70%) was disbursed by ARIES partners. Much of the remainder can be attributed to efforts of ACSP, begun in 2005.

ARIES SME lending efforts have focused on select partners, with the primary objective to expand the frontier of the financial system into more rural areas. Hence, ARIES SME data includes provincial branch disbursements exclusive of Kabul. The ARIES supported ACDI/VOCA founded ARFC, primarily lending to lead firms in agricultural value chains. ARFC has disbursed 84 loans worth \$19.2 million on a cumulative basis, through September 2009. The ARIES supported MISFA SME Unit has leveraged the initial \$15 million in loan capital with technical assistance provided by SBI to partner with seven institutions (four banks and three MFIs) to reach SMEs. MISFA SME lending partners have disbursed 806 loans worth \$23.2 million cumulative, through September 2009. ACSP largely provides guarantees coupled with intensive technical assistance. Jointly supported by USAID and KfW, its focus is narrower than ARIES, concentrating on select institutional partners like AIB and FMFB, however with a national reach, including Kabul.

Despite the efforts of these two government and donor-supported initiatives,⁷ the SME outstanding portfolio represents less than 1% of demand estimated to be around \$7.5 billion from at least 250,000 SMEs on a combined basis, with loans to SMEs accounting for less than 3% of total bank loan portfolios.⁸ Financial sector institutions have made great strides in serving SMEs, but outreach to the sector remains severely limited. Consequently, SMEs, which could be strong drivers of Afghanistan’s private sector-led economic growth, job creation and poverty reduction, remain underserved and underdeveloped.

B. Remaining Challenges and Recommended Stakeholder Actions

Challenges	Recommended Actions	Timeframe for Implementation			Responsible Stakeholders
		0-6 mos.	6-12 mos.	12-18 mos.	
Inadequate regulatory environment to support expanded SME lending	Enact appropriate laws, including drafting of four laws: Islamic Banking ⁹ , Secured Transactions, Leasing and Negotiable Instruments. In addition, review current regulations to ensure they do not unnecessarily hamper SME lending ¹⁰		√		DAB, ABA, MISFA and donors working in the technical area
Shallow labor pool of people skilled in banking and finance	Build capacity in the financial sector by establishing an independent banking and business training institute as a joint commercial bank-DAB initiative. In addition, retain good staff by implementing employee incentive systems	√			DAB, ABA, MISFA, commercial banks and donors working in the area
Lack of information about borrowers and potential	Establish a credit information bureau to facilitate commercial	√			DAB, ABA, MISFA and donors

⁷ MISFA is a Limited Liability Company (LLC) fully owned by the Afghan Government’s Ministry of Finance (MoF). It was established in 2003 as a vehicle through which the Afghan Government and international donors could channel technical assistance and funding to build and strengthen Afghanistan’s microfinance sector, as well as the lower ranges of SME lending.

⁸ SBI, “Banks as Conduits for SME Lending in Afghanistan.” June, 2009.

⁹ A point several participants expressed was that still more important than Shari’a compliance is the need for financial institutions to embrace “principles of Islamic lending.” It is more than just having a specific law (once passed) or a Shari’a-compliant financial product, although both are incremental good first steps. It is responding to customer interests and doing so in accordance with Islamic tenets. In the Harakat survey, 23% of businesses who did not take a loan cited it as un-Islamic. Once an Islamic Banking Law is enacted, a significant public education/outreach effort will be needed to educate consumers.

¹⁰ An example is the requirement for original paper diplomas of SME CEOs and foreign managers. This should be left to the private entity to address, not government. DAB’s “four day wash rule” on lines of credit is another example, as DAB regulations stipulate a borrower’s 20% equity portion be in cash on hand at least four days a month, i.e. if the loan is \$1 million, \$200,000 must be in the bank for at least four days. Internal bank policies would unlikely otherwise require this. Overall efficiencies can be had in amending existing laws.

		Timeframe for Implementation			
borrowers	and consumer lending				working in the area
Lack of information about collateral that has been pledged	Establish central collateral registry for immovable and movable collateral to verify ownership of pledged assets and whether they are encumbered	√			DAB, ABA, MISFA and donors working in the area
Inability to quickly resolve financial disputes	Establish a financial tribunal to provide swift legal decisions on financial disputes	√			DAB, MoJ
Low market penetration rate of commercial banks, lack of products developed to mitigate risk and technologies to decrease cost of delivering financial services to rural areas	Conduct necessary market research and adapt international best practices regarding farm and non-farm SME lending, including lowering collateral requirements once other risk mitigation measures are in place. In addition, invest in appropriate technologies such as mobile money to reduce the cost of finance service delivery, particularly in rural areas		√		DAB, ABA, MAIL, MRRD, MISFA and donors working in the area
Lack of customer service orientation, especially with regard to potential SME clients	Bankers need to be more proactive in marketing and customer service ¹¹	√			ABA, commercial banks and donors working in this area
Limited cooperation between financial institutions and organizations/programs that could serve as a resource for good client referrals	Bankers should build relationships with donor-funded BDS programs like ASMED and with SME organizations that vet their members such as the Peace Dividend Trust	√			ABA, commercial banks, various SME membership organizations and donors working in the area
Potential for duplication of effort, especially with regard to loan guarantee services	ACSP, MISFA and DAB should work closely together to avoid duplication of guarantee services. Funnel valuable information and market learning back to relevant donors. This 'feedback loop' keeps decision-making most pertinent to	√			ACSP, MISFA, DAB, ABA and donors working in this area

¹¹ Customers, even if denied a loan, should have positive staff engagement. In The Harakat survey identified 38% of applicants had a loan request denied (50% in Kabul and 100% in Jalalabad). SME activity, limited due to perceived reputational risk, as cited by SBI, can be turned into a market differentiator by the bank becoming known as an institution that helps solve business's problems. For example, financial institutions can link struggling applicants to BDS providers. In addition, loan documents should be available in all local languages; document checklists should be minimal and simplified.

		Timeframe for Implementation			
	those impacted.				
Underutilization of country-wide branch networks of two state-owned banks	Lending should ultimately be provided through a competitive and privately owned financial sector. As an interim measure, restructuring needs to commence, on an urgent basis, within Bank Millie and Bank Pashtany. They represent the only branch network that currently provides banking services throughout the country.		√		DAB, MoF and donors working in this area

IV. Enhancing SME Access to BDS

This section encompasses a wide range of non-financial services for SMEs, including business consulting, support and technical assistance. It includes training, networking, advice, mentoring, capacity building and other services.

A. Background and Achievements To Date

Efforts to support and develop SMEs are nascent in Afghanistan. As with banking, current challenges are to be expected given the sector's youth, enabling environment constraints and local shortcomings – particularly for skilled labor. Market limitations facing entrepreneurs looking to start or grow their businesses are many. While BDS entities do exist, these entities themselves sometimes suffer from SMEs challenges.

Donor and implementing agency attention have resulted in positive advances. Implementing efforts by USAID's ASMED Program, IFC's Business Edge Program, MRRD's AREDP, and numerous NGOs have generated substantial results. For example, ASMED financed trainings have reached 17,000 people in 22 provinces. IFC's Business Edge has licensed three firms for BDS training of trainers and translated 17 modules into local language and context.

A cadre of firms that provide critical BDS to a range of SMEs has been supported to enabling companies to attain higher value, larger volume or higher quality. Today more than 45 business consulting firms now operate throughout Afghanistan, up from only eight that could be identified by ASMED in 2006.

In 2009, the Afghan Consulting Companies Association (ACCA) was formed to improve quality and diversity of services provided by members, promote sustainable growth of business consulting firms, diversify the SME client base and provide advocacy services. Each of these achievements has assisted in the development of SMEs, which in turn has contributed to economic growth, job creation and poverty alleviation.

Looking ahead, with the provision of BDS encompassing such a wide, disparate field, recommendations are built around sector understanding, stakeholder coordination/promotion, and movement towards market-oriented practices. Together, these suggest next steps can create a solid foundation for BDS firms to able to grow more on their own initiative and less due to government or donor support.

B. Remaining Challenges and Recommended Stakeholder Actions

Challenges	Recommended Actions	Timeframe for Implementation			Responsible Stakeholders
		0-6 mos.	6-12 mos.	12-18 mos.	

		Timeframe for Implementation			
				mos.	
SME owners/mgrs often do not see value in business consulting services	Ensure course offerings are market-based and demand driven. Build effective demand through SME education and marketing efforts. Given the range of languages, cultures, and low literacy rate, successful messaging is a needed local competency. Radio is a logical medium. Cell phone and short-form messaging (like Twitter) are newer technologies reaching people where old standards – newspapers and television – do not. BDS firms and their funders should market the successes of both the local BDS firms and the SMEs they assist so as to leverage the positive demonstration effects		√		ACCA, MoCI, ASMED, business consulting firms, industry associations and other relevant donor programs (e.g. IFC’s Business Edge, USAID’s ADP/SW, IDEA-NEW, etc.)
Heavy donor funding to the BDS firm subsector has diminished “market-based” mentality of BDS providers	Government and donor funding should be tied to BDS firm gradual cost-recovery, professionalism of service provision and other monitoring and evaluation (M&E) system indicators. ¹² In addition, consideration should be given to local BDS providers to implement development programs via Public-Private Partnerships (PPP) instead of directly by government line agencies	√			MoCI and donors working in this technical area
BDS providers generally have only a limited range of courses and delivery formats	Additional market research of SME demand for BDS should inform future efforts to provide focused technical assistance and training to BDS providers (training of trainers) so they may be able to provide a variety of courses and delivery methods ranging from traditional classroom-based instruction to practical, hands-		√		ACCA, MoCI, ASMED, business consulting firms, industry associations and other relevant donor programs

¹² M&E should track outputs (like material bought, marketing material created, number of trainings held), outcomes (number of people who received marketing materials; total hours of training people received), and impact (evidence of changed behavior or documented improvement in performance as a result of training). It would be helpful if stakeholders use similar metrics and common indicators. This would enable like comparisons between BDS providers. A uniform reporting process by donors for local firms reduces necessary compliance time. This can be addressed through BDS coordination efforts such as a working group. Best practices should be agreed upon and then followed. To the extent a central place for business enhancement is possible in the marketplace, as MISFA is to financial institutions, it should be encouraged.

		Timeframe for Implementation			
	on, experiential classes (e.g. IFC's Business Edge curriculum). Linkages with financial institutions should also be explored. ¹³				
Assistance to BDS firm subsector is disorganized and the range of courses available from various BDS providers are not well known	An offering list or training universe map should be created and maintained annually by ACCA and compiled into a national Directory of BDS providers, contact info and courses.	√			ACCA, MoCI, ASMED, business consulting firms, industry associations and other relevant donor programs
ACCA still has low institutional capacity to play an important role in moving the BDS firm subsector forward	Provide capacity building assistance to ACCA so that it may effectively provide a range of demand-driven services to members and gradually become a sustainable association	√			MoCI and donors, like IFC and USAID, working in this technical area

¹³ A cadre of professionals who have sector or region-specific knowledge can help banks expand their SME lending. This holds promise to reduce the high number of businesses turned down for loans. A set fee (say 1%) could be paid by the borrower and added onto the loan taken from loan proceeds or 1% could be paid by the lender to the business consulting firm from their fees. The nature of the relationship and intermediary requirement would need to be specified for all parties based on additional market research.

V. Conclusion

The series of next steps presented here to develop SMEs in Afghanistan is ambitious but doable. This report has laid out an ambitious plan for further development of Afghanistan's SME sector. Many of these recommendations are also included in the ANDS. Despite it being an ambitious agenda, we at ARIES consider the actions implementable within the timeframes specified. Their completion will allow the country to more fully capitalize on the tremendous spirit of entrepreneurship of the Afghan people and their strong resolve to better their lives despite having to work in difficult conditions.

Timely and full accomplishment of the National Anti-corruption Strategy may be the most important element of improving the business environment for SMEs. In terms of improving the enabling environment, perhaps the most important initiative will be timely and full implementation of the anti-corruption¹⁴ measures as highlighted and above and elaborated in the ANDS. Perceptions about the high level of corruption in Afghanistan deter and distort private investment and diminish the effective functioning, credibility, and legitimacy of the state. The National Anti-corruption Strategy is based on the following key goals: (i) enhancing government anti-corruption commitment and leadership; (ii) raising awareness of corruption and evaluating the effectiveness of anticorruption measures; (iii) mainstreaming anticorruption into government reforms and national development, and (iv) strengthening the legal framework for fighting corruption and building an institutional capacity for effective implementation of the United Nations Convention Against Corruption (UNCAC).

Additional assistance with market research and product development should help financial institutions engage in greater agricultural and non-farm SME lending but other institutional alternatives may also need to be considered. ABA has a crucial "bridging role" to play in facilitating contacts among key players, including among DAB, GIRoA ministries and agencies, donors and private sector business groups in terms of advancing market research, product development and expansion of SME lending by commercial banks. However, as commercial banks still face many internal and external hurdles to be able to significantly expand their SME lending at least in the short term, it may be prudent to evaluate support for other options, including both debt (e.g. loan) and equity (e.g. venture capital) from existing institutions and value chain participants or new ones (e.g. creation of a brokerage service¹⁵ or rural banking system¹⁶).

¹⁴ Corruption is defined as "the abuse of public position for private gain."

¹⁵ A rural financial services brokerage would assemble loans, collect documentation and securities, package similar loan requests, identify receptive lenders, share risk and ensure recovery. The brokerage service will have the greatest impact in an environment where banks, finance companies or leasing companies lack the skills and human resources to expand their financial service provision to agricultural enterprises. For example, a rural credit brokerage in Niger has facilitated SME access to commercial credit for 12 years (Kokari, CGAP, 2002).

¹⁶ Legislation would need to be drafted to support a rural banking system comprised of privately-owned rural banks. Worldwide, commercial banks have difficulty penetrating the SME sector, and agricultural markets in particular. An alternative is the creating of a regulatory framework for smaller rural or regional banks. These banks would be able to mobilize deposits, be licensed to operate only in specific geographic areas and have significantly

Further support to develop the BDS sub-sector should be channeled through ASSA to strengthen the association and to ensure a level playing field among BDS providers. The market for BDS is particularly young and needs substantial additional support before SMEs widely recognize the value that business consulting firms can provide and before BDS providers can operate on a sustainable basis. ACCA appears to be the most suitable place to funnel additional funding and technical assistance support to engage in further market research to better identify BDS demand and to assist in the marketing of courses that BDS firms can offer on an increasing cost-recovery basis to satisfy demand.

The Ministry of Commerce and Industries appears best positioned to move this agenda forward. A focal point is needed to clarify and push forward the SME development agenda laid out here for government and donors as well as various private sector stakeholders. The best suited government GIRoA ministry to take on this task appears to be the Ministry of Commerce and Industries, which has recently established a Private Sector Development Directorate. The main task of the Directorate is to provide PSD policy development, implementation and monitoring within the Ministry. The MoCI in turn, will have responsibility for guiding and co-ordinating PSD policy across government, ministries and agencies, to encourage the development of a flourishing private sector delivering economic growth and reducing poverty.

lower capital requirements than the \$5 million required to obtain a commercial bank license in Afghanistan. Because rural or regional banks have much smaller capital bases they often face lending ceilings that limit their clientele to micro or small businesses. That said, there is perceived to be a large unmet demand for finance at this level in Afghanistan.

APPENDIX 1:

SME Development Workshop

July 20-21, 2009

Serena Hotel, Kabul

DAY 1: Learning about successes/challenges and prioritizing remaining challenges to overcome obstacles

TIME	ACTIVITY	SPEAKER/FACILITATOR
8:00 am	Registration opens	
9:00 - 9:30am	Welcome and workshop orientation: opening remarks from ARIES and MISFA	SME Workshop Facilitator Drew Tulchin, ARIES COP Stephanie Charitonenko, MISFA MD Katrin Fakiri
9:30 - 9:45 am	DAB Opening address – What DAB is doing to support increased access to SME finance	DAB Governor Fitrat (TBD)
9:45 - 10:15am	Presentation: Challenges and Innovations in SME Financing	Shore Bank International (SBI)
10:15 - 10:30am	Q&A on Shorebank’s Presentation	SBI and Participants
10:30 - 10:45am	Coffee/tea break: networking	
10:45 am - 12:30 pm	Concurrent Session I – SME Finance: Presentations by SME sector representatives (each 10 minutes) on experiences in facilitating SME finance. Q&A after each speaker and open discussion, if time is available.	MISFA, ARFC, ACSP, FMFB
10:45am-12:30 pm	Concurrent Session II – BDS for SMEs: Presentations by SME sector representatives (each 10 minutes) on experiences in facilitating BDS/TA for SMEs. Q&A after each speaker and open discussion, if time is available.	ASMED, IFC Business Edge, PDT Global, AREDP
12:30 - 12: 40pm	(Overview of Afternoon Break-out Sessions and Preview of Day 2)	Workshop Facilitator –Drew Tulchin
12:40 - 1:30 pm	Lunch: Discussion and networking	
1:30 - 3:30pm	Breakout Groups: Targeted, facilitated discussion of achievements, current limitations and opportunities to increase access to demand-driven and sustainable financial services and BDS for SMEs.	Break-out Group Facilitators drawn from ARIES, MISFA and other program staff. Groups are color coded by nametag for each session.
3:30 - 3:45pm	Wrap-Up, Overview of Day 2	

APPENDIX 1 Continued:

SME Development Workshop

July 20-21, 2009

Serena Hotel, Kabul

DAY 2: Building consensus on key opportunities, next steps needed to tackle the most pressing challenges, ultimate goals, new activities and methods used.

TIME	ACTIVITY	SPEAKER/FACILITATOR
9:00-9:20 am	Morning Plenary Session: Afghanistan's Investment Climate and its impact on SME Development	AICF
9:20am-9:40am	Current work of ACCI in overcoming key challenges to SME development (focus on capacity building of SMEs and lobbying for enabling environment)	Afghan Chamber of Commerce and Industry (ACCI)
9:40am-10:00am	Current opportunities for expanding SME finance	SBI
10:00am-10:30 am	Q&A with Morning plenary speakers	Workshop Facilitator and Participants
10:30am-10:45am	Coffee/tea break: Networking	
10:45am-11:00am	Day 1 facilitator feedback: Presentation of break-out group results on key challenges and opportunities	Workshop Facilitator
11:00am-12:30pm	Breakout Groups: Targeted, facilitated discussion of achievements, current limitations and opportunities to increase access to demand-driven and sustainable financial services and BDS for SMEs.	Break-out Group Facilitators drawn from ARIES, MISFA and other program staff. Groups are color coded by nametag for each session.
12:30 - 1:30pm	Lunch: Networking and discussion	
1:30 - 3:00pm	Panel presentation: Donors working in the area of SME development to present their major initiatives to be implemented over the next 1-2 years with brief Q&A (<u>just for points of clarification</u>) following each (5 minutes)	Donor Panel: DFID, USAID, WB
3:00-3:30 pm	Q&A with panel speakers	Workshop Facilitator and Participants
3:30 - 3:45pm	Coffee/tea break: networking	
3:45 - 4:30pm	Thank you and closing remarks	Workshop Facilitator, ARIES COP Stephanie Charitonenko, MoF (TBD)

APPENDIX 2:

List of Participants

Category/Organization	Name
Government of Afghanistan/Agencies	
Ministry of Agriculture	Ghulam Mustafa Jawad
MOE	Dr. Naseer M.
LUA	Gulrah Manquazi
Ministry of Finance	Dr. Shah Mehrabi
Ministry of Commerce and Industry	Peter O'Brien Shakib Noori rahmatullah Kawsary Shaila Khan Ahmad Nabi
MRRD	Minister Ehsan Zia Wais Ahmad Barmak Javaid Zeerak Mahmood Ajmiri Mohammed Haroom Chakhansuri
DAB	Governor Abdul Qadeer Fitrat Isar Ansa Atheer Muhammad Qaseem Rahimi Mohibullah Safi Ali Kahn Zulfiqar
MISFA	
MISFA BOD	Noorullah Delwari Minister Ehsan Zia Dr. Mustafa Mastoor
MISFA HQ	Katrin Fakiri Dale Lampe Matthew Robinson Fe Kagahastian
MISFA SME	Anwar Alvi Reshad Rasooli Fraidoon Samim Ahmad Sunil
Donors	

Category/Organization	Name
USAID/EG	Kimberly Rosen Geoff Minott Zack Ratemo Zdravko Sami Erin Pacific Mohammad Waheed Etabar Franscesca Nelson
USAID/AOG	Dorvin Stockdale John Pennell
CIDA	Mariam Wafa Ingrid Knutson
DFID	Marshal Elliott Vel Gnanendran Shakif Noori Andrew Kidd Chris Bold
GTZ	Chris Prior, Rauof Modaqiq Giti Sadat
German Embassy	Martin Schuldes
Danish Embassy	Gorm Pedersen Tarana Wafi Cher
KFW	Michael Gruber
World Bank	Nazir Ahmad Richard Nash Reazul Islam Ms. Zishan Karim
IFC Business Edge	Joseph Desquens Michael Botzung J. Christopher Razook Parwana Nasiri Kaiser H. Naseem
The Dutch	Marten de Boer Wieje Elfferich
Italian Embassy	Maurizio Dicalisto
OPIC	John Aldonas
US Embassy	Melissa Kehoe Abdul Kadir Danish
French Embassy	Jean Francois Fitou

Programs/Implementing Partners	
ARIES-AED	Don Henry Stephanie Charitonenko Larry Hendricks Fiona Shukri Caitlin Reinhard Claudia Gray Bonnie Barhyte Bahram Barzin
ARIES-WOCCU	Barry Lennon Randall Spears Mahir Momand Curtis Slover
ARIES-ARFC	Brian McGill Quinton Collier
ARIES-SBI	Laurie Spengler Jesse Fripp Amjad Arbab Michael Osegge Paul Wendland
ASMED (DAI)	John McElwaine John Brown Faisal Mashraf Atiqullah Nusrat Neelab Sarwary Rohia Jalali Rouzbeh Shure Catherine Johnston
ASAP	Dan Mooney Beb Friedmand Ehsan Ullah Shamsi Michael Kimes
DAB	See above invitees
ACSP	Bernd Liedner Federico Bilder
IDEA-NEW	Tom Brown Nooralam Hakinyar
ADP/SW (ARD)	Greg Olson
ADP/S	Henry Koner Abrajam Guillen

SME Lenders	
AIB	Shadzad Heider Md. Hashinur Rahman
FMFB	Muslimal Haq Ismail Mohomed Ismail A. Mohomed Duston Richards Ben Botha
BRAC Bank	M. Nazul Islam Mr.KKM Abidullah Mr. Salke Ahmmad
Bank Alfalah	Atta Ullah
AUB	Syed Mahmood-ul-Hassan Bashir Ahmad
BRAC MFI	Fazlul Hoque
Oxus	Alexis Lebel (Julien Mahuzier will attend)
AGF	Mustafa Kazim
AFC	Sameh Panah
Other: Apex Organizations/ BDS Providers/ Research Orgs	
Afghan Bankers Association	Najibullah Amiri
Ghazanfar Bank Ghazanfar Bank	Muhammed Naveed Hadawal Ali Mushtaq
AICF (Harakat)	Suleman Fatimie Yar Taraky Gemma Stevenson
ACCI	Kabir Haqjo Zabidullah Ziarmal
APPRO	Saeed Parto Anastasiya Hozyainova
AUA - 10,000 Women program	Kelly O'Connell
AWBF	Gul Jan Zmarai
Peace Dividend Trust	Elizabeth Vallette Akbar Ahmadzai Joanna Buckley
Others	
RC(S) CIVMIL Cell	Russell Grant Marcus Knuth
Deloitte	Oliver Dziggel Tracy Lane

AREDP MAIL	Ahmed Javaid Zeerak Haroon Chakhansuri Mahmood Ajmiri Qasi Azmat Isa
MAIL	Abdul Ghani Ghuriani Abdul Wodood Ghorbandi
EPAA	Ahmad Jawaid Sayed Masoud Sadat
APEA	Obaidullah Ramin Fraidoon Noorzad
AKDN	Kevin Moorhead
CRS	Scott Braunschweig
P2K	Jerry Turnbull
Agha Kahn Foundation	Chris Eaton Michael Leung
AWIEC	Seema Ghani Kamela Sediqi
PDT Global	Elizabeth Vallette
Munik & Munik Consultants	Yousuf Saqib, Bisharat Khudodad, Mary Munnik
ISAF	Joshua Wells
ABDC Consultants	Doctor Abdullah Abed Samiullah (Sohail)
Beacon Consulting	Noorullah
ACCA	Dr. Abdullah Ahmed
FADILAT Consulting Group	Ms. Toubia Alam Edriss Raha
Kabul Group Consulting	Sayed Jawed
Pioneer Consulting	Abhatullah Akbarzad
Skill Tree Consulting	Abdul Hameed Rasouly
HBL Afghanistan	Shams-ul-Qayyum
Maiwand Bank	Mr Sabiri Rehmatullah Mr Edris Karimyar
Afghanistan Secure Futures	Dr. James A. Williams
Social Enterprise Associates	Andrew (Drew) Tulchin

APPENDIX 3:

Workshop Presentations and Papers **Organization Name, Author (if identified), Title (if titled)**

One Pager Information Sheets

1. Afghanistan Rural Enterprise Development Program (AREDP)
2. Afghanistan Rural Finance Company (ARFC)
3. German Investment and Development Company (DEG) – SME Credit Guarantee Facility for Afghanistan (ACSP)
4. The First Microfinance Bank (FMFB)
5. MISFA SME-Lending Unit, Program Summary

Papers

1. ShoreBank International, SME Team, “Banks as Conduits for SME Lending In Afghanistan”
2. Microfinance Investment Support Facility for Afghanistan (MISFA), ShoreBank International SME Team, “Loans to Women: Moving Beyond Microfinance”
3. Microfinance Investment Support Facility for Afghanistan (MISFA), “Factsheet: MISFA Small and Medium Enterprise Wholesale Lending Department”

Day 1 Presentations:

1. ACSP, DEG – SME Credit Guarantee Facility for Afghanistan
2. ACDI/VOCA & Afghanistan Rural Finance Company, Agriculture, Rural Investment & Enterprise Strengthening Program (ARIES)
3. Academy for Educational Development, Stephanie Charitonenko, SME Development Workshop
4. The First Microfinance Bank, SME Development Workshop
5. Microfinance Investment Support Facility for Afghanistan, MISFA SME Lending Unit, SME Development Workshop
6. ShoreBank International, Laurie Spengler, Challenges and Next Steps in SME Financing in Afghanistan

Day 2 Presentations:

1. AED, USAID – ARIES Program SME Development Workshop Day 1 Summary
2. HAKARAT, Gemma Stevenson, SME Development Workshop: Understanding the Challenges
3. ShoreBank International, Paul Wendland, Current Opportunities for Expanding SME Financing
4. USAID Afghanistan, Office of Economic Growth