

Proposal for SMEs Development in Afghanistan Based on Turkey Experiences (New Zabulian Doctrine)

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Abstract: *Afghanistan as an underdeveloped country needs to follow the experiences of other developing countries which are successful in achieving economic development and poverty reduction through private sector promotion. Private sector development may take many different forms, but the results may be quite different in terms of equitable development and social inclusiveness. One of the most efficient ways of private sector development is the promotion of SMEs instead of large firms. Turkey as a historical and currently a large economy has valuable experiences in industrial sector especially on SME development. SMEs play a significant role in economic growth and poverty reduction of Turkey. All manufacturing SMEs of Turkey operate in 280 organized industrial zones (OIZs), which are located in different parts of the country. One of the unique SME development methods of Turkey is called OSTIM SME development model. Since the OSTIM model has been recognized as a pattern of capital formation for poverty reduction by many economists. currently, a number of developing countries are interested to use the experiences of OSTIM for private SME sector development in their economies. I also through this research found a critical compatibility between the objectives of Afghanistan's (2015-2020) SME development strategy and the OSTIM SME development model. Therefore, I strongly propose the implementation of the OSTIM SME development model for Afghanistan private SME sector development under the name of New Zabulian doctrine.*

Keywords: Unbalanced Capital Formation, Inter-industrial linkages, Sharing Economy, Business Cooperative, New Zabulian Doctrine

1. Introduction

Turkey as a historical and currently a large economy has valuable experiences in industrial sector especially on SME development. Turkey with a GDP of \$841.21 billion, and exporting \$141.21 billion in the global market has been ranked as the 17th largest economy in term of GDP and 29th largest exporter country in 2016 respectively (1). In achieving such a robust ranking of Turkey in the world economy, the SMEs with 1-249 employees have a contribution of 59.2% in the total exports, 75.8% of employment, 54.1% of wage and salary income, and 53.9 % in value added. Hence a significant role in economic growth and poverty reduction of Turkey (2). All of manufacturing SMEs operate in 280 organized industrial zones (OIZs), which are located in different parts of the country (3).

Above mentioned that Turkey has developed different methods of industrialization during economic development and has valuable experiences in SME development. Recently many developing and underdeveloped countries such as Mongolia, Kazakhstan, Ukraine, Palestinian, Egypt, Azerbaijan, Iraq, and some other countries are interested, and they want to use the experiences of Turkey in private SME sector development (4).

One of the unique SME development methods of Turkey is called OSTIM SME development model. The OSTIM model has been developed by a group of Turkish entrepreneurs based on the principles of sharing economy since 1967. The founders of OSTIM came together and proposed the OSTIM SME development cooperative at the end of the 1960s. They started their business activities based on cooperation and competition in the mid of the 1980s by establishing and managing joint venture enterprises according to their common belief and worldviews. Nowadays OSTIM evolved

to an SME city with its own well-known international brand value and recognized as a solution center not only for the domestic needs but also for the global customers and subcontractors (2).

Since the OSTIM model has been recognized as a pattern of capital formation for poverty reduction by many economist (5). I strongly propose the implementation of the OSTIM model for

Afghanistan private SME sector development. Indeed, I have realized strong compatibility between the objectives of Afghanistan's (2015-2020) SME development strategy and the OSTIM SME development model. In fact, Afghanistan SME development strategy has built based on the following components (6):

- 1) Implementation of a well-established value chain approach.
- 2) Improvement the accessibility of SMEs in financial resources.
- 3) Simplifying the registration process of SMEs.
- 4) Development of necessary infrastructure for SME.
- 5) Coordinating governance and policy support for SME.

Afghanistan SME development strategy does not describe that based on which specific, functional, and practical mechanism the authorities will implement their plan. Thus, there are many questions about the success of this strategy. Therefore, I think there are serious shortcomings in the strategy itself and needs a complete improvement. Furthermore, in the action plan (2015-2020) of SME development which is prepared by Afghanistan's SME Development Directorate (ASMED) has predicted several ways to support SMEs, while most of the anticipated mechanisms do not have any compatibility with the current economic situation of Afghanistan. For example, the loan

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guarantee policy for SMEs development is one of the mechanisms that ASMED has predicted to support SMEs. Currently, this mechanism is very risky for the Afghan government. Thus, it is not a functional way.

The second mechanism that ASMED has planned for the SMEs support is the implementation of the SMEs credit accessibility policy according to Islamic Sharia. ASMED tries to implement this policy through the encouragement of the commercial banks in providing credit services for the SMEs based on Islamic Sharia (6). This policy is an advantageous mechanism, but its implementation is not easy. In a conventional financing method commercial banks are not interested in serving the SMEs in developing countries, and the SMEs commonly are known as the non-bankable customers to the banks, because these enterprises do not have adequate collaterals to obtain loans from the banks (7).

Here I powerfully recommend the OSTIM SME development model for Afghanistan. I do believe that it is possible for Afghan entrepreneurs to develop a cooperative base SME development method based on the sharing of benefit and cost principles, and according to their beliefs and worldview. Implementation of this model allows our entrepreneurs to justly mobilize human and natural resources and actively increase their contributions to national economic growth and development.

2. Unbalanced Capital Formation as the Research theory

Hirschman (1958) employed the term of unbalanced growth in his major work on economic development. Since Hirschman's seminal work has published considerably later than the Rodan and Nurkse ideas, hence, their doctrines have some similarities and dissimilarities. First, Hirschman also supported an industrialization strategy; secondly, he has accepted the existence of the vicious circle of poverty in developing economies. Also, he shared an optimistic opinion that less developed countries have significant hidden and talent resources. Nonetheless, in contrast to Rodan and Nurkse ideas, Hirschman advocated a big push for only limited certain key sectors. With the idea that by inducing development in key sectors first, overcapacity would be created in these key sectors, while supply bottlenecks would simultaneously increase production difficulties elsewhere in the economic structure. These bottlenecks will cause new investments opportunities for private sectors to resolve the supply bottlenecks (8). In this way Hirschman deliberately supported the unbalancing of the economy, creating disequilibrium situations, based on the following reasons.

First, Hirschman mentioned that there are limited resources in less developed countries, and this limitation would necessitate prioritizing some areas of the industry over other for the use of limited human and financial investment funds. So, unlike the advice of both Big Push and Balanced growth theories; it is not possible to simultaneously improve all economic sectors in developing countries.

Second: deliberately unbalancing the economy and creating excess capacity in some area and intensifying shortages in

other areas, he believed that the pressures created would result in subsequent reactions that would speed the development process by opening profitable investment opportunities for new entrepreneurs, through backward and forward linkages.

In Hirschman's discussion linkages was an integral part of his analysis. These linkages refer to the effects of one investment on the possibility of new investment at earlier and later stages of production. For example, through forward linkages investment in a firm can motivate new investment in another firm that uses the first firm's output as an input in its production process. Similarly, through backward linkages, one firm's investment can motivate investment in the second firm, which produces input for the first firm (9). That is why that Hirschman advocated industrialization in leading sectors instead of simultaneously industrialization in several sectors, and then through backward and forward linkages, the leading sectors spark industrialization to the rest of the economy. This growth is called unbalanced, because it does not occur everywhere, but happens only in specific sectors, which then pulls the others along.

3. Research Methodology

In this research inter-industrial (backward and forward) linkages method is used as the research method. These linkages refer to the effects of one investment on the profitability of another investment in upstream or downstream of the production process. Therefore, investment by SMEs through forwarding linkages will cause an increase in the investment of others that use the former SMEs output as an input in their production process. Likewise, the same is true for backward linkages that SMEs' investment can motivate private investors to in new SMEs, which produce inputs to other firms (9).

According to unbalance capital formation theory the channels that SMEs can effects on capital formation in developing countries are extensive. Hirschman as the founder of unbalanced growth theory distinguished between two categories of capital formation, the Social overhead Capital (SOC), and the Direct Productive Activities (DPA). He believes that the distinction between these two categories of capital formation has to be judged, not by their logic, which is far from compelling. In fact, the judgment must be based on their theoretical and practical usefulness. SOC includes those principal services that in the absence of them the function of primary, secondary, and tertiary productive activities is not possible. According to this broad definition, the SOC comprises all public services such as law and orders, education, public health, power supply and water supply, irrigation system, drainage system and so on. While capital formation through DPA includes different types of private sector investment, which are done in all economic sectors like manufacturing, agriculture, commerce and services sectors (10)

In order to accelerate capital formation in developing countries through direct productivity activities, Hirschman encourages private enterprises

(SMEs) to invest in leading sectors of the economy. Although he has accepted the existence of vicious circle of poverty in developing countries; However, he argued that industrialization through some certain key sectors in developing countries is possible, and then these key sectors will positively affect other sectors in the economy, through backward and forward linkages (9).

Hirschman proposed and structured a mechanism for capital formation based on inter-industrial linkages.

Hirschman recognized and appreciated the role of governments in the motivation of capital formation in developing countries. Nevertheless, he recognized that the government is rarely an autonomous agent in capital formation, but the government can alter the pattern of investment by its regulatory interventions. For example, through tariff and taxes. Thus, he says that the structure of capital formation in developing countries is the product of an interaction between private entrepreneurs' activities, individuals and the public sectors who are also responsible for creating specific public-enterprise capital and complementing, regulating, encouraging private capital formation (9).

Hirschman formulated a typology of linkages which are affecting capital formation. Some other economists examined this pattern of capital formation and industrialization of developing countries. They also support the idea of investment in leading sectors. They suggest that other things being equal, any sector whose industrialization has a significant role in reducing the production cost of the final good, this sector is a key sector. Investment growth in the key sectors will cause to change the vicious circle of poverty into a virtuous one.

4. Role of SMEs in Economic Development of Afghanistan

Afghanistan has accepted market economy since 2001. In this economy, the private sector plays a significant role in economic prosperity and SMEs are considered as the engine of economic growth and development (11). In Afghanistan SMEs with less than 100 workers represent 80 to 90 % of all economic enterprises, these enterprises produce 50% of GDP, 75% of employment (12). In Afghanistan SMEs development is vital because of two main reasons; first, to reduce the high unemployment rate of the economy. Secondly, to achieve economic growth and development to alleviate poverty.

Currently one of the most significant challenges that Afghanistan's economy is faced is the high unemployment rate. This problem becomes worst as the economic growth rate goes down and the fertility rate of population increases. According to the Afghanistan Poverty Status Update report, Afghanistan has the fastest increasing population rate (above five children per woman), highest dependency rate, and the largest young population among the South Asian countries. Afghanistan's population structure causes noticeable challenges in public finance and the labor market. It is estimated that each year 400,000 new workers join to Afghan labor force, and the government must establish

400,000 new jobs in order to accommodate new workers. As a result, it is estimated that currently 1.9 millions of Afghans labor force to be unemployed and the unemployment rate in this country reaches 22.6%. Afghanistan's unemployment rate severely increases among the specific social groups. For example, the unemployment rate is 27.9% among the youths, increase to 36% among the women, and the unemployment rate increases to 45.6% among the people who are below the age of 25 years (13).

The information mentioned above indicates that a strong private SME sector development is critically important to reduce the unemployment rate in Afghanistan. On the other hand, huge unemployment youth bulge with a low rate of wages is considered to be a complementary factor for SME development in Afghanistan to increase economic development and reduce poverty.

Furthermore, sustainable economic growth and poverty reduction in the country needs a robust private sector through SME development. Otherwise, economic growth will be very fragile, and poverty reduction is not possible. For example, Afghanistan has experienced steady economic growth from 2001 until 2012. which is called transition period. The transition period is a particular time in recent history of Afghanistan that the security responsibility of the country transferred from international military forces to Afghan military forces. Indeed, real GDP grew at an average rate of 10.5% between 2005-2012. The main reason for the real GDP growth in Afghanistan was not related to real economic sectors development. However, the growth was fueled by the presence of the international community and their troops in Afghanistan, which has caused a huge amount of spending. In fact, during this period a significant portion of the service sector such as construction and logistics services grow through the military and development aid (11). However, by completing the transition period, as the international troops began to withdraw, growth in GDP significantly declined from 10.9% in 2012 to -1.7% in 2014. Resulting poverty increased from 35.8% in 2012 to 39.1% in 2014 (13).

This point leads us to a conclusion that sustainable economic growth is not possible without constant improvement in gross national capital formation. Particularly in a market economy, it is not feasible to achieve the goals of economic growth and development in the absence of a comprehensive private sector development strategy.

5. SME Development in Afghanistan

While SMEs play an important role in Afghanistan's economy in term of GDP growth and employment generation, but this country did not have a precise definition of SMEs and a comprehensive strategy for SME development up to 2009. Even, the SME development strategy which was developed in 2009, was not implemented until the formation of SME development directorate in 2011. Afghanistan SME Development Directorate (ASMED) was formed within the Ministry of Commerce and Industry in 2011 with 12 staff, and currently, has 24 employees. ASMED is responsible for coordination of activities concerning SME development in Afghanistan (11).

ASMED carries specific objectives such as, increasing the competitiveness and productive power of SMEs in a free market framework, development of modern institutions and infrastructures for SMEs, enhancing the SMEs accessibility to resources, entrepreneurship development and particularly supporting and promoting women entrepreneurship, cluster development, focusing on untapped sectors of the economy, supporting research & development activities through connecting SMEs with academic institutions (14.).

ASMED supports SMEs by fulfilling the following functions (12):

- 1) Implementation and monitoring the SME strategy and industrial policy.
- 2) Supporting all industrial parks in the country to improve the infrastructures and increase the number of industrial parks.
- 3) Organizing and applying programs to stimulate the SMEs to formalize their operations.
- 4) Contribution in development and implementation of regional and multilateral trade and transit agreements.

Recently Afghanistan accepted a general definition for SMEs. According to this definition, the SMEs are characterized by two criteria the number of employees and the amount of investment.

Table 5.1: SMEs Classification in Afghanistan

Enterprises	Number of workers	Manufacturing sector Investment in plant	Services Sector Investment in Equipment
MiroEnterprise	1-5	Up to AFN 2.5 million	AFN1 million
small	5-19	AFN 2.5 –5 million	< 2 million AFN
Medium	20-99	AFN 5 –10 million	<5 million AFN
Large	> 100	< AFN 10 million	< 5 million AFN

Source (12)

According to the above definition, currently, almost all enterprises in the rural area and a considerable proportion of business units in urban centers of Afghanistan are SMEs with different level of formalization (15). It is estimated that 90% of Afghanistan's SMEs have less than five employees, and a large percentage of those are self-employed enterprises (16). In addition, the informal economic sector is the dominant sector in the Afghan economy in term of both economic activities and employment generation. It is also estimated that currently, 80-90% of economic activities occur in the informal sector (17).

In term of employment generation, the informal sector has a significant role. The contribution of the formal sector in employment generation is meager, which is only 29% of total employment in Afghanistan. The share of formal private sectors is estimated at only 9% and remaining related to the public sector (16).

The total contribution of Afghanistan's industrial sector in total GDP was 21.5 % in 2016-17. Most of the Afghan industrial enterprises produce for national market consumption (18). The manufacturing sector in Afghanistan is underdeveloped, export-orientation is low, a clear majority of producers except some agro-processors are heavily dependent on the foreign raw material. Investment in

the manufacturing sector is seen to be very risky, with more substantial upfront and fixed investment, lower growth rate, dependence on a more complex production supply chain (16).

To increase the contribution of industrial sectors in total GDP, employment generation as well as resource mobilization, the Afghan government has decided to establish industrial parks. Currently, there are 25 industrial parks from which 9 of those are operational, 10 under construction and 6 of those are still in the planed stage. These industrial parks are located in major cities of Afghanistan like Kabul, Nangarhar, Kandahar, Heart, Balkh, Helmand, and some other provinces (19).

6. Challenges that SMEs are Faced in Afghanistan

SMEs in Afghanistan are in a fragile situation. The main reason for this weakness is mostly related to lack of attention in SME development in the past due to prolonged war and political instability in the country. Owing to this reason currently SMEs are faced with various challenges. All challenges can be ranked into two categories of macro and micro levels.

6.1 Macro Level Challenges of Private Sector Development in Afghanistan

In Afghanistan like any other less developed countries, SMEs are faced with many challenges, which cannot be solved by the managers of SMEs, such as political instability, government regulations, competitions, unfriendly business environment, the national economic condition of the countries, etc.

Political instability is one of the most challenges that SMEs are faced in Afghanistan. The annual peace report (2017 Fragile States Index), ranked Afghanistan as the 9th high alert country out of 187 countries while in 2015 it was classified as 8th country on the list of top fragile states, it means Afghanistan has improved its position by one step (20). Furthermore, as Afghanistan's enterprises survey report, which was conducted in 2014 by the World Bank indicates that for the Afghan private sector the problem of political instability was the most significant problem. Indeed, it was considered as the biggest business environment obstacle (21).

In addition, a poor business environment is another obstacle that prevents the flourishing of private SMEs in Afghanistan. Despite that Afghanistan's business environment has improved substantially since 2001. The government continually has been trying to improve business institutions, eliminating barriers to trade, and simplifying procedures for business registration and has developed an effective legal framework for private investment; still, this country acquired 160th position out of 183 countries in the world Doing Business Indicators in 2012 (17). However, Afghanistan lost its position in Doing

Business index 2018, which has been ranked 183th out of 190 countries (22). It shows that Afghanistan has to improve stronger the conditions of doing business environment.

Moreover, private sector development suffers from the high level of corruption. Unfortunately, Afghanistan was ranked as the world's most corrupt countries. According to the World Corruption Perception Index in 2016 Afghanistan was ranked as 15th the most corrupt country in the world and 8th highest corrupt country in Pacific Asia (23). Indeed, lack of functional policies to encourage SMEs to record their economic activities and the existing complicated bureaucracy and corruption caused that a large percentage of SMEs, which is estimated to be 70-80% remained informal.

6.2 Micro-Level Private Sector Development Challenges

Many studies reveal the SMEs' firms level challenges that SMEs in Afghanistan are confronted, and these challenges hindered the success of SMEs in this economy. According to Mashal(11) and Ghiasy et al., (16), the most important of these challenges are as follows:

- Low level of competitiveness.
- Limited access to credit.
- Lack of industrial level energy.
- Lack of quality control and creativity.
- Limited product diversity.
- Limited access to markets.
- Low level of marketing activities.
- The absence of research and development.
- Inadequate infrastructure.
- Low accessibility to skilled workers.
- Low level of managerial skill.

1) Sharing Economy as a Fundamental Remedy for SME Development in Afghanistan

The phenomenon of the sharing economy, which has experienced sizable development since the 2008 financial crisis is not a new concept. The knowledge of the sharing economy has been existed for thousands of years. However, the internet has supported the sharing economy in developed countries in recent years through a more straightforward connection between customer and providers and reducing of transaction costs (24).

The term of the new sharing economy has described differently by the economists and scientific institutions. For instance, Cody Carlton (2017) describes the sharing economy as an economic model in which people borrow or rent assets, goods or services that are belonged to other people. Institute for Sustainable Futures (ISF) describes the sharing economy as an economic model that involves the sharing of physical, financial, human capital among a number of individuals without transferring possession, through a digital platform in order to generate value at least for two parties (25). These classifications of sharing economy seems to be very narrow.

However, the concept of sharing economy is a form of socio-economic ecosystem that develop everywhere by sharing of productive factors such as human, physical, and financial resources, and can take place in various forms of

shared creation such as shared production, distribution, trade, and goods and services among different individuals and enterprises (26).

Islamic Economics also heavily relies on sharing economy based on the parallel interest of the owner of factors of production. This school of economic clearly believe that poverty is neither the result of natural resource scarcity nor due to the absence of appropriate harmonization between the method of production and distribution. While instead, Islamic economy recognized that poverty is a problem, which arises as a result of unused economic resources, unutilized capacities, extravagancies expenditures, and refusing the payment of what lawfully belongs to the poor (7).

Islamic Economics for economic prosperity and poverty reduction explicitly emphasizes financial inclusion through the principles of cost-benefit sharing and redistribution of wealth. Cost-benefit sharing principles which include mudarabah, musharakah, murabahah, and ajarah. While redistribution principle is zakah (7). These cost-benefit sharing tools represent different types of contracts that form the basis of a variety of Shariah Compliant substitution instruments to current financing solution of conventional corporate and trade (27).

Recently researchers estimated that globally there are \$5.35 trillion idle and underutilized resources that could be used in different economic activities like trade, exchange, and sharing (25).

In the case of Afghanistan, there are a significant amount of idle and unutilized physical, financial, and human resources. As has been mentioned in the previous discussions about 80-90% of Afghan SMEs, operate in the informal economic sector. Moreover, 22.6% of Afghan labor force are unemployed. While the unemployment rate substantially increases to 27.9 among the youths and sharply jump to 45.6 among the youth with bellow 25 years old.

Financial inclusion, which is considered as a critical element for business development in Afghanistan economy like any other economy. Formal financial inclusion in Afghanistan is not very strong because of the existing a dominated informal financing.

Formal sources of finance that consist of all commercial banks, microfinance institutions, and other financial institutions have developed significantly since 2002. Presently there are 17 active commercial banks including three public commercial banks, and five foreign bank branches. The commercial banks offer both conventional and Islamic banking services (17). In addition to the commercial banks and their 750 branches in all 34 provinces, 9 formal microfinance institutions operate in 23 provinces of Afghanistan (28).

Nevertheless, the formal financial sector does not play an important role in SMEs sector development in Afghanistan. This sector considered to be very liquid. As the data indicates total deposit amounts of commercial banks in 2012 was \$3.6 billion, while total banks loan was \$828 million in

2012. In the same year, there were only 2.653 million deposit accounts, but just 67,742 of creditor accounts were in the whole banking system out of 30 million of Afghanistan population. The data shows only less than 10% of the Afghan population are using banking deposits services. According to the World Bank information, just 5.7% of the Afghan enterprises have a banking credit, and 2.2% of firms are able to use banking credit services for financing purposes (29).

Consequently, the above information reveals that financial inclusion in Afghanistan is very low because of voluntary and involuntary exclusions.

Voluntary exclusion occurs because of a high interest rate which is between 18-20% for SMEs, sizeable collateral which is 200% of the loan, and religious conflicts (17). Involuntary exclusion occurs because 90% of Afghan SMEs are micro and they are considered as non-bankable enterprises.

To conclude all discussion mentioned above indicates that there are vast amounts of idle and underutilized physical, financial, and human resources in Afghanistan that we can efficiently use under the philosophy of sharing economy.

2) Role of Sharing Economy in Capital Formation and Private Sector Development in Afghanistan

Sharing economy in a country like Afghanistan in which 99.7% of its population is Muslim could be a common method. However, the official application of sharing economy as an economic model for the capital formation and private sector development in Afghanistan turns to 1930s, with the doctrines of Abdul Majid Zabuli the first National Economic Minister of Afghanistan (30). Since the 1930s this method is prevalent in both the formal and informal economic sectors of Afghanistan (17).

Abdul Majid Khan Zabuli (1896-1998) was a well-known entrepreneur in the country. He had established the first joint-stock company in Afghanistan in 1924 before his official work as the economic minister of Afghanistan (30). Zabuli with a group of Afghan entrepreneurs founded the first joint-stock enterprises to facilitate trade between Afghanistan and the Soviet Union. He lived in Moscow as the representative of their company during 1924-1929 (31). According to Azizi and Haruna (32), when King Mohammad Nader Shah in October 1929 took the power of the government and became king in Afghanistan, the Afghan economy was very in disorder. In addition, there were not official military, police, and paper currency. Transportation and communication facilities were in traditional level and unreliable. There was no industrial activity, except few handicrafts and meager trade. The central government did not have complete control over the country. The economic resources were destroyed by different types of conflicts among the ethnics, tribes, and religious groups. Thus, the King Mohammad Nader Shah immediately sought to implement nationalistic economic policy. The Afghan king in his extraordinary speech, which is called Khate-i-Mashi, had put a great emphasis on the development of vast natural resources, misfortunes elimination, unemployment

reduction, improvement of economic conditions and making the economy as a self-sufficient economy in the region.

In 1929 the King directly invited Abdul Majid Zabuli into Kabul and wanted him to design an economic development strategy to encourage all Afghan people toward economic activities (33). Zabuli returned to Afghanistan in 1929, and he met with the king. In the first meeting, the king mentioned that all essential economic activities such as import, export, transportation, brokerage, and everything else are in the control of foreigners, but our people are doing the simplest economic activities like shopkeeping. This situation is not tolerable anymore, and we must find solutions to cut off the control of foreigners in our economy (30). Zabuli accepted the orders and stayed for a few months in Kabul to prepare the strategy. In the strategy Zabuli had proposed the foundation of a bank to issue paper currency, giving credit and facilitates economic development. The King had supported the Zabuli's economic development strategy, but he refused the establishment of the bank because of the religious conflicts. Finally, the strategy was completed based on Public Private Partnership according to the principle of sharing economy in 1930 (31).

Although, Zabuli was interested in establishing a bank, because of religious conflicts instead of the bank he proposed the foundation of an investment company based on public-private partnership principle (30). However, the company was established in 1930 under the brand name of Shirkat-i-Sahmi-i-Afghan. The Shirkat started its economic activity with a total capital of AFs 2.5 million, out of which, the government financed AFs 1.7 million, and the private investors financed the rest. In 1931 again Zabuli had put emphasize to evolves the company into a bank. Consequently, the King gave him permission of foundation of the bank. However, the bank must operate according to the principles of the interest-free loans. Instead of charging an interest rate on the loans, they had found a unique solution which was called pule ticket (money ticket). Based on that principle loans had given without interest, but the debtors had to buy a stamp (money ticket), to be attached to each repayment receipt in order to compensate the bank profit rather than paying interest (31).

In 1932 Shirkat-i-Sahmi-i-Afghan evolved to Bank-i-Milli Afghan. The Bank immediately increased its capital to AFs 7.1 million and then to AFs 60 million in 1937. As the result of the government supports, bank-i-millie Afghan grew very fast during the 1930s and onward (33). During 1930s bank-i-millie

Afghan operated as a monopolist institution to regulate the foreign trade and foreign exchange rate, as well as the expansion of international trade and industrial development. Consequently, the bank becomes a major investor in manufacturing, trade, and banking sectors in the country. Thus, the bank capital continuously increased year by year (34). According to Fry (31), the bank capital reached to AFs 500 million by 1950, then to AFs 519 million in 1952 and to AFs 839 million in 1972, and the bank's stockholders increased to 2000 stockholders. By 1947 the bank had invested in 125 private trading and industrial companies. Also, bank-i-milli Afghan in 1939 cooperated with the

Afghan government in the establishment of the central bank in Afghanistan which is called (Da Afghanistan Bank) and then, bank-i-millie Afghan had played a critical role in the development of banking system in Afghanistan.

Bank-i-millie Afghan continued its investment in large trading and industrial enterprises. The most important of these enterprises was include the sugar refining, textile manufacturing, cement ginning, spare part producing company (Jangalak), edible oil extraction companies. Also, the bank continued to be the major investor in export promotion through its joint-investment in many large joint-stock trading companies like Karakul skin Exporting Company, Wool Exporting Company, Carpets Exporting Companies, the Cotton Companies, and several other companies (34).

Ultimately Bank-i-Milli Afghan in 1976 with its nine domestic branches and six foreign branches in New York, London, Hamburg, Karachi, Peshawar, Chaman, and with total assets of \$51 million and had \$19 million reserves including its subsidiaries industrial companies were nationalized (34).

3) New Zabulian Doctrine Based on OSTIM Model for Capital Formation through SME Development

Afghanistan as a less developed nation has experienced different official methods of capital formation for poverty reduction during its recent history. New Zabulian Doctrine is proposed and formulated according to the experiences of OSTIM SME Development Model. Indeed, New Zabulian Doctrine as a community development model has designed based on the business cooperative method by establishing a voluntary and autonomous cooperative based institution under the brand name of Afghan Industrial Investment & Business development union. In order to develop the first organized industrial zone in Afghanistan.

To realize the importance of capital formation for poverty reduction through SME development according to OSTIM Model in Afghanistan, I prefer, to have a general landscape in the different capital formation models that have implemented in Afghanistan since the 1930s.

4) Historical Overview on Capital Formation Strategies in Afghanistan

The first capital formation strategy for economic development and poverty reduction was prepared by Abdul Majid Zabuli and his team in 1930, according to the principle of sharing economy in the form of public private partnership (31).

The second strategy of capital formation was introduced in 1955. This strategy had emphasized on a strong role of government in business control. The aim was to increase the government contribution in the economy by shrinking the leading role of Bank-i-Melli Afghan, which followed a laissez-faire economic policy in promoting the private sector in Afghanistan. For instance, the state had put pressure on bank-i-milli Afghan to sell 51% of its stock in different businesses to the government. Based on this strategy public banking system had developed, and some ministries was

established commercial and specialized banks in the country to compete with bank-i-millie Afghan (33, and 31).

The third strategy was announced, by the Afghanistan Prime Minister Dr. Muhammad Yousuf in 1963. He renewed national constitution, and according to the new constitution, he developed and declared the third economic development strategy. The strategy was developed based on five-year-development plans. This economic development strategy put more emphasis to further supporting and encouraging the private sector. The strategy pursued in subsequent time until the end of the royal political system of Afghanistan in 1973 (33).

In 1973 Sardar Mohammad Daoud abolished the monarchy governance system and introduced republic system in Afghanistan. He ruled the country through decree with complete control on the economy until issuing a new constitution in 1977. According to this constitution, the president of the Republic of Afghanistan focused on socialist economic principles in 1977. Therefore from 1977 till 2002, which is called lost time for the Afghan private sector, the government did not develop a written capital formation strategy based on private sector development (33).

The fourth strategy of private sector development was built based on market economy and according to capitalism mentality during the first decade of the 21st century. Following the political developments in late 2001 the government of Afghanistan officially committed to develop an inclusive and productive private sector in a competitive environment of the market economy. Through the 2002 National Development Plan, the government committed in the creation of sustainable economic growth through a competitive private sector, which becomes both the motor of economic growth and a tool for social integration (16).

Through this commitment it can be realized that the private sector is regarded as the engine of economic growth and development and a tool of poverty reduction in Afghanistan. Since at the heart of the private sector is SME development, thus the government has been trying to support the SMEs sector. Consequently, in 2009 SME development strategy was prepared by the Ministry of Commerce and Industry of Islamic Republic of Afghanistan but implemented in 2011 (11). I ranked this strategy as the fourth private sector development strategy in Afghanistan.

However, after 16 years and devoting a massive amount of foreign aids, unfortunately, this sector neither has been the engine of economic growth nor became a tool of social inclusion. By contrast, the contribution of the Afghan private sector remained very low at an estimated rate of 10-12% of the total GDP. The private sector was not able to generate enough new job opportunity for existing and new entrants to the labor market, the contribution of private sector in formal employment is estimated to be only 9%, so unemployment rate remained very high at a rate of 22.6% of the Afghan labor force, and 45.6% of the young population. Financial inclusion is worst, and it is less than 10% of the total population basis, and only 5.7% of the firm has access to the banking system (29).

Poverty increased from 36.5% in 2011-2012 to 39.1% in 2013-2014. The government tries to improve private sector situations through institutions improvement. For example, in 2016 the government approved the Public-Private Partnership, and established the executive committee on private sector department, and promoting cooperation between public and private sectors; also, the government emphasizes on private sector reform priorities (35).

With a simple comparison of the various methods of capital formation strategies, which have been implemented based on different mentalities such as sharing economy, socialism, and capitalism in Afghanistan since 1930. We will be found that the most suitable capital formation strategy in Afghanistan can be a capital formation strategy based on the sharing economic principles. Since the principles of the sharing economics have more compatibility with the economic, social, and religious mentality of the Afghans citizens.

Hence, Afghanistan needs a conducive SME development strategy to link all economic sectors together, mobilize different types of idle economic resources, increase employment, and reduce poverty. To develop such a useful SME development strategy, it is necessary to take into account many aspects of Afghanistan's economy. Therefore, I suggest a new SME Development strategy, which is very similar to Zabulian capital formation model. Hence, I named the suggested strategy as the New Zabulian Doctrine for capital formation and economic development. Both strategies (Zabulian and New Zabulian) getting up from one root which is sharing economy, but with different methods.

5) New Zabulian Doctrine for Capital Formation

This Model is a community development method based on cooperative. Indeed, the term of cooperative and its model is common in Afghanistan. Nevertheless, proposing an SME development model through a business cooperative is entirely new in Afghanistan.

For the purpose of this model, it is necessary to clarify the terms of community and the community development. A community is defined as different groups of people who are living in a specific location or place. The place could be a neighborhood city or a country. In our model location or place is defined as the different provinces of Afghanistan in a decentralized method.

Community development is described, differently by different economists. Some economist defines community development as a process that supports a community to maintain itself socially, economically, and environmentally. Other groups of economists see community development as a cooperative effort of the local people to increase the control on their socio-economic destiny. Nevertheless, other groups of economists define community development as a process that community members attempt to achieve their priorities, or they try to achieve the goals, which is established by themselves, usually based on their common geography, common experiences, or based

on their common values and believes (36). Though their perspectives are not the same, it can be realized from their

descriptions that there is a general agreement among the economist concerning to community development that it has to involve the community members and meet their needs.

In New Zabulian development method the community members are Afghanistan citizens. The primary need of Afghan people is poverty reduction, through the achievement of the following goals:

- 1) Reducing the rate of unemployment.
- 2) Reducing trade unbalances either through export expansion or import substitution.
- 3) Increasing financial inclusion.

When the people specified their needs and the goals, the second step is to seek how to obtain their needs and achieve their goals in a market economy?

At first glance, the answer would be that our problems could be solved by accelerating our community development through private sector expansion and promoting SMEs growth. However, as the shreds of evidence show SMEs in Afghanistan are in a fragile state. Therefore, the number of registered private enterprises remained very low. According to Ghiasy et al. (16), the total number of formal private enterprises in Afghanistan were 65000 enterprises in 2014, though, they themselves were suspected about the reality of the data. They argued that the figure may not correctly indicates the myriad businesses that may be registered with local governments or with municipalities, even the data may not be updated.

On the other hand, the contribution of formal private SME in export is only 10% of imports (35). The role of registered SMEs in job creation is very poor, just 9% of Afghan formal labor force are salaried workers. As we noted before, financial inclusion of private sector is too low, a large percentage of SMEs are considered as nonbankable economic units, so they excluded from the using of banking credits in their project. The voice of SMEs is quite low. Therefore, this sector is faced with ample of problems at both macro and micro levels.

Consequently, the private sector improvement in Afghanistan needs a powerful SMEs development strategy. This strategy will mobilize the vast amount of idle domestic resources such as human, natural, financial, and social capitals to provide a strong inter-industrial and inter-sectoral linkages; to connect the domestic SMEs with national and international economic institutions; to stimulate further private investment; and to increase the voice of SMEs and reduce their ample problems.

To develop a strong private sector through SME development in Afghanistan business cooperative would be the most efficient method. This model helps the Afghans policymakers in the establishment of organized industrial zones like OSTIM model in Afghanistan. This model would be the most efficient method in the utilization of idle economic resources and provides powerful inter-sectoral linkages as well as links the local SMEs with domestic and foreign large firms. Investigation about the role of business cooperative in SME development is not a new phenomenon. It is approximately more than a century that researchers have been talked and written about the role of cooperatives in

economic development. While many researchers have long recognized the vital role of different forms of capital assets such as human, natural, physical, financial, and social assets in community development, in fact relatively few numbers of the scholars have expressed the role of cooperative in the formation of these assets, especially in communities which have limited resources.

Business cooperative develops social networks among the SMEs, improves their access to financial capital, enhances SMEs political influences, and supports them to increase their voice, in turn, facilitate human capital development. Furthermore, cooperative help the SMEs in reaching outside resources, which are critically important for SME development. To clarify the role of business cooperative in SMEs development I use the arguments of Woolcock and Narayan (2000), in their investigation about the role of business cooperatives in capital formation through SMEs development, they distinguished between two types of social capital (bonding and bridging) that produce by business cooperatives. Bonding means horizontal social capital, refers a powerful social linkage (network, norm, and trust) that grow between homogenous firms. Horizontal linkages among the SMEs enable them to maintain their routine activities. However, a strong bonding social capital among SMEs with limited resources will not probably equipped them with enough resources to get ahead. On the other hand, the business cooperatives connect their members SMEs with outside resources by providing bridges. These types of linkage are critically important for SME development in less developed countries (36)

Business cooperatives are supported nearly by almost all religious in all economic system. Today business cooperative actively operates almost throughout the world. For example, there is more than 29000 business cooperatives in the United States. They actively operate nearly in all sectors, employed more than 850,000 workers, by having \$3 trillion of the asset, and they produce more than \$500 billion annual revenue (36).

In European Union member countries, there are 250,000 business cooperatives with 163 million members, employed 5.4 million workers, ([www.European Commission.com](http://www.EuropeanCommission.com)). The total annual turnover of business cooperatives in EU member countries is €1,004.83 billion (37). Cooperative further supported by Islamic laws, because cooperative business provides the opportunity to individuals and SMEs to contribute their roles in the society and enable them to obtain loans from the pooled of the fund without paying interest rate.

Roadmap of New Zabulian Doctrine: Implementation of New Zabulian Doctrine for private sector development and poverty reduction through SME development suggests, the mobilization of Afghanistan's idle resources through foundation a voluntary and autonomous association such as Afghan industrial investment & Business development union. The establishment of this institution makes enable the investors to mobilize their idle financial, physical, human, and social resources into prioritized economic sectors. The autonomous investments in the selected key sectors produce various type of linkages effects like backward effects and

forward effects in different economic sectors. These linkages encourage new investment in upstream and downstream industries. In addition, stimulates investment in other sectors by providing inter-sectoral linkages. Thus, constituting of business cooperative mobilize Afghans idle resources, increase employment, generate new income, enhances the contribution of SMEs in total GDP. Hence reduce poverty.

6) Policy Recommendations for SMEs Development in Afghanistan

The first primarily task of the Afghan government, and its international partners for private sector development through SMEs promotion is to create an enabling economic environment in which a dynamic, legal private sector could thrive, building confidence in the stability of the economy, and encouraging the private investment in the SMEs sector of the economy.

There is not any doubt that the international community and global organizations through their technical and financial aids have supported the government of Afghanistan in lunging several policy reforms to provide a conducive business environment. Despite experiencing significant reform, poor governance, confusion, lack of transparency in the tax system, and the low rate of financial inclusion have restricted the development of formal SMEs sector in Afghanistan. Thus, to facilitate the process of formal SMEs development in Afghanistan, the following policies are recommended.

- **Expand Afghanistan's Small and Medium-size Enterprises Development (ASMED):** SME development Directorate established in 2011 within the Ministry of Commerce & Industries of Islamic Republic of Afghanistan. ASMED operates as part of the General Directorate of Private Sector Development. This directorate is responsible for collaborating with private sector stakeholders and other government agencies to implement SME development strategies. The SMEs constitute 80-90 of all Afghan business and generates 50% of the GDP and provide job opportunities for more than 75% of Afghan labor force. Thus, ASMED has a great responsibility in private sector development in Afghanistan, but currently, ASMED with 24 staffs operates in Kabul without any branches in other provinces.

As Turkey experiences in SME development indicate, the Afghanistan government needs to support ASMED directorate by coordinating different stakeholders like universities, financial institutions, investors, civil societies, etc. ASMED should also develop reliable SMEs development strategies and action plans. Moreover, it is necessary that ASMED establish its branches at least in large cities of the country.

- **Development of Business Cooperatives:** There is a common belief that effective development can take place through cooperation and partnership. Individuals always have limited capital, knowledge (know-how), and capacity. However, through cooperation and mutual responsibility, people can achieve more and reach the goals which are not possible to achieve individually. In Afghanistan, individual investors have limited financial ability to invest in

productive sectors. Therefore, the development of business cooperatives like OSTIM plays a critical role to pool capital and invest in programs that stimulate economic development and reduce poverty.

- **Development of Organized Industrial Zones:** Organized industrial zones support SMEs by providing huge economic and technical opportunities. The OIZs help to integrate knowledge, experience, and talent of workers, engineers, and entrepreneurs in different manufacturing companies. OIZ continue their economic activities in at least optimum levels owing to the skilled labor and management at recession periods or lack of capital. This is because in organized industrial zones firms have strong backward and forward linkages. Thus collaborative, cooperative, and integrated industrial zone provide not only economic but also political, cultural, and social benefits.

- **Development of Clusters and network of SME:** in present time, trade liberalization and globalization processes have considerably increased consumers expectation and competition between the firms. To respond to the increased pressures by globalization process and benefit from global market opportunities in less developed economies like Afghanistan, policymakers have to increase the SMEs competitiveness through the development of clusters and network of SMEs.

- **Project support Program of SMEs:** through project support program the government launches a project culture and awareness between SMEs and support the projects prepared by SMEs. The aim is to solve the challenges of SMEs and increase the SMEs capacities by using different support mechanisms. All SMEs support mechanism (technical and financial) are needed for SME development in Afghanistan because Afghan SMEs are confronted by multilevel bottlenecks including management, marketing, finance, and information management etc.

- **Technological Support:** One of the most important challenges of the SME sector in Afghanistan is their poor technological foundation that has negatively affected the quality of goods and services, the prices, and competition in the local and global markets. Hence, government and other stakeholders should give maximum attention to develop and support the technological foundation of SME sector in Afghanistan. Government and SMEs should invest more in research and development. To support research and development the SMEs should integrate with higher academic and research institutions.

- **Provide Interest-Free Credit:** Many entrepreneurs in Afghanistan do not use credit from formal financial institutions. This is because most banks and other conventional financial institutions use interest for credit. Due to cultural reasons, a large number of SMEs are not benefiting from the existing financial and credit system. For example, only 2.2% of firms in Afghanistan use credit from banks. On the other hand, 80-90% of Afghan SMEs operate in the informal sector. Therefore, government and other stakeholders should devise a system that can provide credit to SMEs based on the principles of profit loss sharing.

7. Conclusion

Afghanistan has accepted market economy since 2001. In this economy, the private sector plays an important role in economic prosperity. SMEs considered as the engine of economic growth and development. In this country SMEs with less than 100 employees involve 80 to 90 percent of all economic activities, these enterprises produce 50 % of GDP, 75% of employment.

In a less developed country like Afghanistan, SME development is vital because of two very reasons. First, SMEs' development helps to reduce the high unemployment rate of the country. Secondly, the development of SMEs accelerates economic growth and reduce poverty. While SME promotion has a significant impact on economic development and poverty reduction in Afghanistan's economy, but this country did not have a precise definition of SMEs and a comprehensive strategy for SME development up to 2009. Even, the SME development strategy, which developed in 2009 was not implemented until the formation of SME development directorate in 2011. Afghanistan SME Development Directorate (ASMED) has only 24 employees and does not have any sub directorate in other provinces. On the other hand, the strategy itself has many serious problems. For instance, the strategy does not clarify that based on which functional SME development method the government will support the SMEs. Therefore, SMEs in Afghanistan are faced with different types of challenges in micro and macro level.

In order to facilitate the process of SME development in Afghanistan, it is needed to use the successful experiences of other developing countries, like Turkey, South Korea, Indonesia, Malaysia and so on. In this study I proposed an SME development strategy based on Turkey experiences under the name of New Zabulian doctrine.

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