

# SME'S IN AFGHANISTAN & INDIA, A COMPARATIVE STUDY

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## Abstract

*In the history of the world economy, SMEs (small and medium-sized enterprises) have been crucial. Significant effects are seen on economic activity by SMEs, which are the driving force behind economic growth. This study aims to compare the performance of small and medium-sized enterprises (SMEs) in Afghanistan and India in order to determine the significance of SMEs in both countries and the main factors influencing their operations, and to suggest policy recommendations for government's entities and policy makers for the support of SMEs in both the countries.*

**Keywords:** Small and Medium Enterprises (SMEs), challenges, opportunities and policy recommendations

## INTRODUCTION

### IMPORTANCE OF SMES IN THE WORLD ECONOMY

- **Employment Generation:** SMEs are significant contributors to job creation globally, employing a substantial portion of the workforce in various sectors.
- **Innovation Hubs:** They often serve as hotbeds for innovation, fostering creativity and novel ideas due to their agility and flexibility.
- **Economic Growth:** SMEs play a crucial role in driving economic growth by enhancing productivity, fostering competition, and contributing to GDP.
- **Regional Development:** They are instrumental in the development of local and regional economies, especially in rural areas, by providing livelihoods and supporting communities.
- **Entrepreneurship and Diversity:** SMEs promote entrepreneurship by offering opportunities for diverse ideas and individuals, contributing to a more dynamic business landscape.
- **Supply Chain Integration:** They often form critical links in supply chains, both as suppliers to larger enterprises and as buyers from smaller businesses, enhancing economic interdependence.
- **Adaptability and Resilience:** SMEs are more adaptable to market changes and disruptions due to their smaller size, often displaying greater resilience during economic fluctuations.
- **Global Trade and Export:** Many SMEs engage in international trade, contributing significantly to export activities and enhancing a country's trade balance.
- **Inclusive Growth:** They promote inclusive growth by offering opportunities to various socio-economic segments, including women entrepreneurs and marginalized communities.
- **Influence on Innovation and Technology:** SMEs are often at the forefront of adopting new technologies and driving innovation due to their agility and readiness to embrace change.

**TABLE 1: SMES COMPARATIVE TABLE (INDIA-AFGHANISTAN)**

Comparative Table		
#	SMEs in Afghanistan	SMEs in India
1	<b>Emerging sector:</b> Afghanistan's SME sector is nascent (young) but growing, primarily concentrated in sectors such as agriculture, handicrafts, and small-scale manufacturing.	<b>Vast and diverse:</b> India has a large and diverse SME sector, encompassing various industries such as manufacturing, services, and IT.
2	<b>Economic recovery:</b> SMEs play a crucial role in Afghanistan's economic recovery efforts	<b>Economic contribution:</b> SMEs contribute significantly to India's GDP, employment generation, and exports.

	post- conflict, contributing to job creation and poverty alleviation.	
3	<b>Challenges:</b> SMEs in Afghanistan face numerous challenges, including political instability, security concerns, lack of infrastructure, and limited access to finance	<b>Regulatory environment:</b> India has established policies and regulatory frameworks to support SME growth, including financial assistance, tax incentives, and ease of doing business reforms.
4	<b>Informal economy:</b> A significant portion of Afghanistan's SMEs operates in the informal sector due to regulatory constraints and security issues.	<b>Technology adoption:</b> Many Indian SMEs are adopting technology to enhance productivity and competitiveness, especially in sectors like IT and e-commerce.
5	<b>International support:</b> Various international organizations and donor agencies provide support and assistance to Afghan SMEs through capacity-building programs, access to finance initiatives, and market linkages.	<b>Access to finance:</b> Despite improvements, SMEs in India often face challenges in accessing finance, particularly from formal sources.

### SME INTRODUCTION IN AFGHANISTAN

Massive spending associated with the international military presence has been central to Afghanistan's economic growth over the past decade. As military withdrawal began, attention shifted toward the long-term sustainability of the private sector, now widely regarded as the primary driver of future economic growth. This transition has coincided with a noticeable economic slowdown, particularly in construction and services—sectors heavily dependent on military aid. These changes have occurred while Afghanistan's market economy, introduced after 2001, remains underdeveloped.

The large inflow of foreign aid over the last decade reduced public pressure on the government to actively promote private-sector development. As military-related aid declines, the government faces increasing criticism for its limited capacity to support business growth and job creation, particularly in the absence of a clear policy narrative defining the state's role in the market economy. Investment remains constrained by persistent insecurity and economic instability, with Afghanistan ranked 164th out of 189 economies in the World Bank's ease-of-doing-business index.

Small and medium-sized enterprises (SMEs) form the backbone of Afghanistan's private sector due to their adaptability to volatile conditions. SMEs account for approximately 85 percent of enterprises, contribute nearly half of GDP, and employ over one-third of the workforce. However, 70–80 percent of SMEs remain unregistered, largely because the benefits of formalization are outweighed by corruption, administrative burdens, and weak institutional incentives. Informality exposes many SMEs—especially export-oriented firms—to exploitation by intermediaries, limiting their market access and profitability.

Although the private sector was identified as the engine of growth following the 2001 transition to a market economy, government attention was diverted by extensive aid inflows linked to the military presence. As a result, SME development and market integration received limited policy focus. The national SME strategy, formalized only in 2009, prioritized import-substituting industries but failed to address structural challenges affecting competitiveness, innovation, and resilience. Key obstacles include an unstable business environment, dependence on donor support, limited access to reliable energy, weak market linkages, and misalignment between education outputs and labor-market needs. Women-led SMEs face additional constraints due to declining social support for women's participation in economic activities.

Afghanistan's trade has expanded gradually but remains concentrated in traditional commodities, with a persistent trade imbalance. Recorded exports increased from approximately USD 100 million in 2002 to USD 470 million in 2012. In recent years, Afghanistan has been promoted as a regional trade corridor linking South, East, and Central Asia with Europe. Despite improvements in domestic infrastructure, Central Asian countries remain hesitant to expand trade ties due to security concerns, shared borders spanning nearly 2,000 kilometers, and unresolved procedural issues such as customs systems and border management. Consequently, trade volumes with Central Asia are unlikely to increase significantly amid continued uncertainty over long-term regional stability.

This article aims to examine the current state of SMEs in Afghanistan and India and to compare selected SMEs in both countries to identify key performance determinants and shared challenges.

### THE SME STRATEGY IN AFGHANISTAN

During the first eight years following the U.S. invasion, Afghanistan lacked a coherent and comprehensive SME strategy. Although a national SME strategy was finalized in 2009, effective implementation and oversight began only in 2011 with the establishment of the SME Directorate within the Ministry of Industry and Commerce (MoIC). Initially staffed by 12 personnel, the Directorate expanded rapidly but has remained understaffed

relative to the complexity and scale of its responsibilities. Owing to Afghanistan's substantial trade deficit, the strategy prioritized import substitution in the short to medium term. The MoIC identified eight key sectors for SME development, including agribusiness, carpets, cashmere, gemstones, marble, wood processing, and poultry. Export promotion was not considered a priority in the medium term, as exports remained limited to traditional commodities. While the strategy continues to emphasize import substitution over the medium to long term, it also highlights mineral exports as a potential growth area. Policymakers involved in SME development have expressed concern over the absence of a clear public awareness campaign regarding the new market economy, limited attention to value-chain development, and weak coordination with broader economic policies. As a result, SME growth has largely occurred in an ad hoc, donor-driven manner. According to a World Bank enterprise survey conducted in 2008 across Afghanistan's ten largest cities, SMEs constitute the backbone of the national economy, accounting for approximately 85–90 percent of enterprises and employing a substantial share of the industrial workforce. Sectoral contributions to GDP indicate that agriculture accounted for 26.74 percent, industry for 21.39 percent, services for 36 percent, and public services for 12.36 percent, underscoring the central role of SMEs across key sectors of the Afghan economy.

### MSME DEFINITION

Generally, a standard definition for SMEs is an important component in developing a national strategy and is typically devised to achieve one or several objectives including

(1) Statistical data: analysis of the country's economic structure and development of associated strategies, (2) Directing state aid to specific tranches of enterprises, (3) Defining thresholds for regulatory and administrative facilitation and exemptions from a broad range of obligations (e.g., simplified tax procedures), (4) Targeting policy measures to take advantage of qualities specific to SMEs, and (5) Provision of quotas for government contracts and procurement.

Traditionally, SME definitions have been set by using the number of employees as an indicator. Today, most benchmarked countries use a combination of financial indicators and employees. For instance, the European Union uses a combination of headcount and either annual turnover or assets on the balance sheet. The US took a more sophisticated statistical methodology, considering industry specificities and standard sizes within each. The diagram below shows examples of both models.

Moreover, it is noteworthy to highlight that SME definitions vary among countries, with typically higher thresholds set in more developed countries (as shown in the chart below), owing to the naturally larger enterprise.

### SUGGESTED REVISED MSME DEFINITION IN AFGHANISTAN

The old SME definition which has been issued in the SME Strategy 2011 is mentioned above. In this section, you can see the revised SME Definition which is recently added to the MSME Development Road Map by the Ministry of Industry and Commerce (MoIC) of Afghanistan. The MSME ROAD-MAP was recently developed by the Ministry of Industry and Commerce of Afghanistan and is awaiting approval from the High Economic Council (HEC). MSMEs will be classified based on three factors: revenue, employee count, and time since the operation began in business. To be defined as an entrepreneur, firms must have revenues less than AFN100,000 fewer than 10 employees, and must have started operations less than 3 years prior. To be defined as an MSME, firms must have revenues less than AFN1 million and fewer than 50 employees. There are no sector criteria to be included in the definition of entrepreneurs or MSMEs.

**Table 1.2** Suggested Revised Drafted MSME Definition in Afghanistan

Type	Revenues	Employees	Years of Operations
Entrepreneurs	<AFN100,000	<10	< 3 years
Small	<AFN500,000	<25	No limit
Medium	<AFN1,000,000	<50	No limit

**Table 1.3** Previous SME Classification in Afghanistan by World Bank

Investment in the industries of manufacturing and services			
Sectors	Number of Employees	Manufacturing industries	Service industries
Micro	5-1	2.5 Million AFN	1 Million AFN
Small	19-5	2.5 - 5 million AFN	1- 2 Million AFN
Medium	99-20	5-10 Million AFN	More than 2 million AFN
Large	More than100	More than 10 million	More than 2 million

### Recent Initiatives of the Ministry of Industry and Commerce on SME Development in 2020

To develop the Micro Small and Medium Enterprises (MSMEs) in Afghanistan the Ministry of Industry and Commerce (MoIC) recently drafted, (1) MSME Development Roadmap, (2) MSME Access to Market Policy, (3) MSME Access to Finance Policy, (4) MSME Innovation & Tech Up gradation Policy, (5) Entrepreneurship Policy, this is worth mentioning that above recent policies were drafted and it was in the process of approving through HEC (High Economic Council) of the Islamic Republic of Afghanistan cabinet before the Taliban take control of Afghanistan.

### INTRODUCTION OF SMES IN INDIA

The Micro, Small, and Medium Enterprises (MSME) sector has emerged as a very important sector of the Indian economy, contributing significantly to employment generation, innovation, exports, and inclusive growth of the economy. Micro, Small, and Medium Enterprises (MSME) are the backbone of the socio-economic development of the country. It also accounts for 45 % of total industrial production, and 40% of total exports and contributes very significantly to the GDP. The manufacturing segment within the MSME contributes 7.09% of GDP. MSMEs also contribute to 30.50% of services. The total contribution of MSMEs to the GDP is 37.54.

The Small and Medium Enterprise (SME) sector is the real engine of growth for the Indian Economy in the New Millennium. It provides gainful employment to a large chunk of respondents. The share of the SME sector in the manufacturing output and export is significant and has been growing consistently. The Government has recognized its importance for the economy and intends promotion of SMEs as reflected in various Industrial Policy Resolutions right from the year 1948. The most important factor for the economic development of a country is its industrialization. In the process of industrialization, importance is given to the three major groups of industries: large- scale industries, small-scale industries, and cottage industries. Small and Medium Enterprises (SMEs) are showing their impact on national and regional economies throughout the world. Industrial development in a backward area can only be achieved by the rapid development and promotion of small-scale industries. Besides economic aspects, the social role of small-scale and cottage industrial units is quite significant in achieving various social goals such as removal of poverty, attainment of self-reliance, reduction in disparities in income, wealth, and standard of living, and regional imbalances. Small and medium-sized enterprises (SMEs) play a vital role in the economic development of nations. Therefore, it is vital to evaluate the performance of SMEs to support that role. Current SME performance models suffer from several disadvantages (Vasa, J. R. 2016).

Over the last five decades, the Indian Economy's Micro, Small, and Medium Enterprises (MSME) sector has grown into a vibrant and active segment. It makes a substantial contribution to the country's economic and social growth by encouraging entrepreneurship and creating vast employment prospects at low capital costs, second only to agriculture. MSMEs act as support units for larger businesses, and this sector makes a significant contribution to the country's inclusive industrial development. MSMEs are increasing their economic sphere of influence, producing a diverse range of products and services to meet the needs of both domestic and international markets. The following pages provide an overview and performance of the country's MSME sector, (2) The Ministry of Micro, Small, and Medium Enterprises (M/o MSME) envisions a progressive MSME sector by promoting the sector's growth and development, including Khadi, Village, and Coir Industries, by assisting existing businesses, implementing cutting-edge technology, and encouraging the establishment of new businesses in collaboration with relevant Ministries/Departments, State Governments, and other stakeholders. The Ministry's organizational chart is described in the paragraph below, as is information on the Ministry's recent operations, (3) The Ministry of MSME oversees several statutory and non-statutory organizations. The Khadi and Village Industries Commission (KVIC) and the Coir Board, as well as the National Small Industries Corporation (NSIC), National Institute for Micro, Small and Medium Enterprises (NI-MSME), and among these organizations, is the Mahatma Gandhi Institute for Rural Industrialization (MGIRI). The following sections provide details on the mandates and activities of various bodies. (4) Financial aid, technical assistance and up-gradation, infrastructure development, talent development and training, boosting competitiveness, and market assistance are all programmes handled by the Ministry of MSME. The following pages contain a comprehensive list of schemes, and (5) The Ministry is committed to an inclusive development plan, and it has implemented several initiatives and measures to ensure that individuals who are demographically and geographically disadvantaged benefit from its efforts. The sections that follow provide an overview of such attempts. Mistry is also dedicated to increasing the usage of the official language "Hindi" in all the M/o MSME's connected offices. In addition, continuing measures on vigilance, RTI, and sexual harassment prevention can be found on the following pages.

### MANDATE OF THE MINISTRY OF MSME, INDIA

The Ministry of Micro, Small, and Medium Enterprises (M/o MSME) was established on May 9, 2007, when the

Ministry of Small-Scale Industries and the Ministry of Agro and Rural Industries amalgamated. To support MSMEs and help them scale up, the Ministry develops policies to promote/facilitate initiatives, projects, and schemes, as well as oversee their execution. In 2006, the Micro, Small, and Medium Enterprises Development (MSMED) Act was enacted to address several concerns facing MSMEs, including the sector's coverage and investment ceiling. The MSMED Act aims to boost these businesses' competitiveness while also facilitating their growth. The following are the main provisions of the MSMED Act: (1) The Minister for Micro, Small, and Medium Enterprises will chair a National Board for Micro, Small, and Medium Enterprises. The Board's duty is to investigate the causes impacting MSMEs' promotion and development, assess the Central Government's policies and programmes, and offer recommendations on how to facilitate their promotion and growth while also increasing their competitiveness. (2) It establishes a legal framework for recognizing the concept of "enterprise," which includes both manufacturing and service businesses. For the first time, it identifies medium enterprises and attempts to merge the three categories of these businesses, namely Micro, Small, and Medium, and (3) It gives the central government the authority to implement programmes and issue guidelines and instructions to help MSMEs develop and improve their competitiveness.

### GOVERNMENT POLICIES FOR ENTREPRENEURSHIP DEVELOPMENT

The finest government policies for SMEs in India: (1) *Market Development Assistance Scheme for MSMEs*, (2) *Mini Tools Room and Training Centre Scheme*, (3) *Credit Guarantee Fund Scheme for MSEs (CGMSE)*, (4) *National Award Scheme*, and (5) *Credit Link Capital Subsidy Scheme for Technology Up-gradation*

India is currently thought to be the only genuinely developing market in the world. Some aspects of this development are driven by India's expanding SME sector. Almost 40% of the GDP is made up of small and medium-sized businesses, which continue to be an important source of employment for India's expanding population. Realizing the importance of local SMEs, the government has introduced several initiatives to support the SME industry. India is consequently seeing a surge in startups across many sectors, including IT, service delivery, wellness, technology, and more. The government has introduced several initiatives to speed up the procedure so that young entrepreneurs can build startup businesses that will ultimately lead to job possibilities. Most of these programmes provide prospective people and organizations with financial assistance in the form of loans and subsidies.

### DEFINITION OF MICRO, SMALL, AND MEDIUM ENTERPRISES:

Micro, Small, and Medium Enterprises (MSME) are classified as follows under the Micro, Small and Medium Enterprises Development (MSMED) Act, 2006: (1) A micro- enterprise, with an investment in plant and machinery or equipment of less than one crore rupees and a turnover of less than five crore rupees; (2) a small business, with an investment in plant and machinery or equipment of less than ten crore rupees and a turnover of less than fifty crore rupees; and (3) a medium enterprise, with an investment in plant and machinery or equipment of less than fifty crore rupees and a turnover of less than fifty crore rupees.

The new categorization has taken effect on July 1, 2020. The MSMED Act of 2006 had a previous criterion for classifying MSMEs that was based on investment in plant and machinery/equipment. Manufacturing and service units were treated differently. In terms of financial constraints, it was likewise quite low. The economy has seen substantial changes since then. On the 13th of May 2020, the Aatmnirbhar Bharat package announced a modification in the MSME classification criteria. This was done to be realistic with time, build an objective classification system, and make doing business easier. As a result, on June 26, 2020, a new composite criterion of classification for manufacturing and service units was announced, along with composite criteria guidelines to assist current and future entrepreneurs. There will no longer be a distinction between the manufacturing and service industries. In addition, a new turnover requirement has been introduced to the prior classification criteria based only on plant and machinery investment. The new criteria are expected to have several advantages that will help MSMEs thrive. It has also been agreed that export turnover will not be included in the turnover restrictions for any type of MSME unit, whether micro, small, or medium. This is simply another step in the direction of making doing business easier.

This will help the MSME sector in attracting investments and creating more jobs. The adjustment in the criterion for identifying MSMEs is expected to provide significant relief to exporters. The government has eliminated the distinction between manufacturing and services with this adjustment in MSMEs classification criteria.

Table 1.4 Revised Classification applicable w.e.f 1st July 2020

Classification of Micro, Small and Medium Enterprise (MSME) Sector			
Composite Criteria			
Investment in Plant & Machinery/equipment and Annual Turnover			
Classification	Micro	Small	Medium

<b>Manufacturing and Service Enterprises</b>	<b>and Sector</b>	Investment in Plant & Machinery or Equipment up to Rs. 1 crore and annual Turnover does not exceed Rs. 5 crores	Investment in Plant and Machinery or Equipment up to Rs.10 crore and Annual Turnover	Investment in Plant and Machinery or Equipment up to Rs.50 crore and Annual Turnover
			Does not exceed Rs. 50 crores	Does not exceed Rs. 250 crores

\*Source from Ministry of MSME India

### CHALLENGES FACED BY MSMES IN INDIA

Usage of obsolete technology, (2) Nonprofessional entrepreneurship and management, (3) Massive competition from large-scale industries and imports, (4) Inadequate infrastructure, especially in rural areas, (5) Harder to achieve economies of scale, and (6) Difficulty in marketing products.

### GOVERNMENT LOAN SCHEMES FOR SMALL BUSINESSES IN INDIA

India has been identified as the nation with the greatest concentration of SMEs worldwide. According to the demands of business owners, government regulations for small-scale enterprises are rather diverse. Examining some of the government initiatives for SMEs in India: (1) MSME Business Loans in 59 Minutes- Announced in September 2018, under which you get financial assistance for MSME growth. This process takes 8-12 days to complete when public sector banks grant the funds, (2) Credit Link Capital Subsidy Scheme for Technology Upgradation- It also is known as CLCSS and strives to bring down the cost of producing goods and services for small and medium-sized businesses. The Ministry of Small-Scale Industry approved this programme, and oversees its administration, (3) MUDRA Loans- 'Paying the underfunded' was the sole goal of this program's debut. Three categories—Sishu Loans, Tarun Loans, and Kishor Loans—make up their organizational structure, (4) National Small Industries Corporation Subsidy- Also known as NSIC and provides financial rewards for marketing and raw material assistance., (5) Credit Guarantee Fund Scheme for Micro and Small Enterprises- It is a financial support programme for all MSMEs in India that was introduced in the year 2000. For both new and established firms, it provides working capital loans in the neighborhood of ten lakh rupees, and (6) Government Policies for Business in India, every other day, there are new entrepreneurs in the nation, and the ruling parties craft laws to support their expansion.

### TOP GOVERNMENT POLICIES FOR BUSINESS IN INDIA:

Incentives and Subsidies for Home Industries, (2) Conducting Routine Quality Inspections, (3) Commercial Technology Transfer, (4) Developmental Assistance to Small Scale Industries, (5) Timely Information Supply, (6) Basic Infrastructure Provision, (7) Balancing Regional Growth & Development, (8) Rendering Monetary System, (9) Sustaining Law and Order, and (10) Establishing & Implementing Law

### GOVERNMENTS SUPPORT FOR SMES IN INDIA & AFGHANISTAN

Country	Supporting programs
<b>Afghanistan</b>	<ul style="list-style-type: none"> <li>• <b>SME Development Strategy:</b> Aims to create an enabling environment for SMEs through policy reforms, capacity building, and access to finance.</li> <li>• <b>Access to Finance:</b> Provides financial support through microfinance institutions and commercial banks to facilitate access to credit for SMEs.</li> <li>• <b>Business Development Services:</b> Offers training, mentoring, and advisory services to SMEs to enhance their business skills and competitiveness.</li> <li>• <b>Market Access and Export Promotion:</b> Facilitates market linkages and export opportunities for SMEs through trade fairs, exhibitions, and business matchmaking events.</li> <li>• <b>Simplified Business Registration:</b> Streamlines the business registration process to encourage SME formalization and ease of doing business</li> </ul>
<b>India</b>	<ul style="list-style-type: none"> <li>• <b>Make in India Initiative:</b> Encourages domestic manufacturing and promotes investment in various sectors, including SMEs.</li> <li>• <b>Start-up India:</b> Provides financial support, tax benefits, and mentorship to start-ups, including SMEs.</li> </ul>

<https://www.gapinterdisciplinaries.org/>

	<ul style="list-style-type: none"> <li>• <b>Credit Guarantee Fund Scheme:</b> Facilitates collateral-free credit to SMEs by providing a credit guarantee to banks and financial institutions.</li> <li>• <b>Technology Up-gradation Fund Scheme:</b> Offers financial assistance for the up-gradation of technology and Competitiveness of SMEs.</li> </ul>
	<ul style="list-style-type: none"> <li>• <b>Cluster Development Program:</b> Promotes the Development of industrial clusters to enhance the competitiveness of SMEs.</li> </ul>

## LITERATURE REVIEW

The purpose of this extensive literature review was to identify the key gaps and factors influencing SME performance globally, particularly in underdeveloped countries (India and Afghanistan, 90 literature reviews have been conducted related to this topic

### 1. Financial Support for SMEs in India

**Sharma and Singh (2024)** examine the role of formal financial institutions in supporting SMEs in India and highlight the importance of government-backed credit schemes such as MUDRA and CGTMSE. Their study finds that although access to finance has improved, many SMEs continue to face challenges related to collateral requirements, delayed loan approvals, and limited financial literacy. Nevertheless, the structured banking environment in India provides SMEs with greater financial stability than in many developing economies.

### 2. Financial Constraints of SMEs in Afghanistan

**Ahmad and Rahimi (2023)** analyze SME financing in Afghanistan and report that limited access to formal banking remains one of the most significant constraints. Due to political instability, weak financial institutions, and low investor confidence, Afghan SMEs depend heavily on microfinance institutions and donor-funded programs. The authors argue that the absence of risk-mitigation mechanisms severely restricts long-term SME growth.

### 3. Contribution of SMEs to India's Economic Development

**(Ministry of MSME, Government of India, 2022)** According to the Ministry of MSME (2022), SMEs play a critical role in India's economy by contributing significantly to employment, industrial output, and exports. The report emphasizes that SMEs are formally integrated into India's national development strategy through targeted policies, incentives, and digital platforms, which enhance their sustainability and competitiveness.

### 4. Role of SMEs in Afghanistan's Economy

**Khan and Noori (2023)** explore the role of SMEs in Afghanistan's economic structure and find that SMEs employ a substantial portion of the labor force and serve as a primary source of household income. However, the study notes that weak policy implementation, lack of infrastructure, and political uncertainty prevent SMEs from reaching their full economic potential compared to those in more stable economies such as India.

### 5. Barriers to SME Growth in Afghanistan

**Noorzad et al. (2022)** identify major barriers to SME development in Afghanistan, including insecurity, unreliable electricity, shortage of skilled labor, and complex taxation systems. Their findings indicate that these structural challenges significantly increase operational costs and business failure rates, particularly when compared with countries that offer institutional and infrastructural support to SMEs.

### 6. Challenges Faced by Indian SMEs

**Reddy (2021)** investigates the challenges facing Indian SMEs and highlights issues such as compliance burden, limited access to advanced technology, and intense market competition. Despite these challenges, the author notes that Indian SMEs benefit from a relatively stable regulatory environment and government-sponsored training and cluster development programs.

### 7. SME Survival and Failure in Afghanistan

**Rahimi and Akbari (2023)** analyze SME survival rates in Afghanistan and report that nearly 60 percent of SMEs fail within the first three years of operation. The study attributes this high failure rate to inadequate financial management skills, limited access to capital, and an unstable business environment, underscoring the fragility of the Afghan SME sector.

### 8. Legal Framework for SMEs in India

**(Government of India, 2006)** The Micro, Small and Medium Enterprises Development Act (2006) establishes a comprehensive legal framework for SMEs in India. The Act provides guidelines for enterprise classification, access to credit, dispute resolution, and promotional measures, creating a predictable regulatory environment that supports SME growth and formalization.

### 9. Women Entrepreneurship and SMEs in Afghanistan

**UN Women (2022)** examine women-owned SMEs in Afghanistan and highlight the role of microfinance and NGO-led initiatives in enabling women's economic participation. The report notes that cultural constraints, mobility restrictions, and limited access to formal finance continue to hinder women entrepreneurs, making their business sustainability more challenging than in countries with stronger institutional support.

10. Globalization and Indian SMEs

**Singh and Narwal (2021)** analyze the impact of globalization on Indian SMEs and find that increased foreign competition has created both opportunities and challenges. While Indian SMEs face pressure to modernize and improve efficiency, government export incentives and trade facilitation programs have enabled many firms to integrate into global value chains.

## RESEARCH GAP

After reviewing the literature on SME performance across different countries, including India and Afghanistan, it becomes evident that a wide range of factors influence SME performance globally. While SMEs are widely recognized as key drivers of economic growth and employment generation, the determinants affecting their performance are largely consistent across contexts. In contrast, government policies and economic strategies often reflect a comparatively lower dependence on SMEs.

## RESEARCH METHODOLOGY

### METHODS (QUALITATIVE & QUANTITATIVE METHODS)

Data for this research was collected in two ways: (1) Primary data collection, and (2) Secondary data collection. (a) Primary data collection activity is combined through a questionnaire method a random sampling of 200 Selected Small and Medium Enterprises (SMEs) are chosen from both India and Afghanistan (100 each) from various sectors to identify the main factors affecting their performance and (b) Secondary data are referred and collected through journals, newspapers, magazines, reports, and information from websites, around 100 literature reviews are reviewed from different countries on SMEs performances.

### SAMPLE SIZE AND SAMPLING METHOD

A random sampling of 200 SMEs are targeted from the selected SMEs of various sectors in both countries (India and Afghanistan, 100 each) to identify the main factors affecting their performance. This sample size has been taken so that a wide range of selected SMEs can be covered in both India and Afghanistan in this survey. An exact estimate of the sample size could not be taken as the standard deviation of the population and the population demographics cannot be exactly determined beforehand.

### SAMPLING METHOD

The Convenience sampling technique is applied for the data collection from 200 selected SMEs in India and Afghanistan.

### OBJECTIVES

The general objective of the study is to evaluate a comparison study of the Selected Small and Medium Enterprises (SMEs) between India and Afghanistan, to understand the role of the Government and its policies and strategies in promoting SMEs, to explore the current strategies and policies applied for SME development in both countries and to identify the contribution of SMEs to the standard of living or well-being of individuals and Families.

(The case of selected SMEs). To address the general objectives, the study is being carried out with the following specific objectives in mind:

**Table 1.4: RESEARCH OBJECTIVES AND HYPOTHESIS**

#	OBJECTIVE	NULL HYPOTHESIS (H1)	ALTERNATIVE HYPOTHESIS (H0)
1	<b>Objective 1:</b> To explore the factors (challenges) affecting SMEs' performance in both countries (AFG-IND)	There are no significant differences in the factors affecting SMEs' performance in India and Afghanistan	There are significant differences in the factors affecting SMEs' performance in India and Afghanistan
2	<b>Objective 2:</b> To know the perception of entrepreneurs about SMEs in both countries (AFG-IND)	There are significant differences in the perception of entrepreneurs about SMEs in India and Afghanistan	There are no significant differences in the perception of Entrepreneurs about SMEs. in India and Afghanistan

3	<b>Objective 3:</b> To find out the opportunities for SMEs development in India and Afghanistan	There are no significant differences in the opportunities provided for SMEs development in India and Afghanistan	There are significant differences in the opportunities provided for SMEs development in India and Afghanistan
4	<b>Objective 4:</b> To find out the contribution of SMEs to employment generation in India and Afghanistan	There is no significant difference in the contribution of SMEs to employment generation in India and Afghanistan	There is a significant difference in the contribution of SMEs to employment generation in India and Afghanistan

## RESEARCH DESIGN (QUALITATIVE & QUANTITATIVE RESEARCH DESIGN)

Data for this research was collected in two ways: (1) Primary data collection, and (2) Secondary data collection. (a) Primary data collection activity was collected through a questionnaire method a random sampling of 200 SMEs will be selected from both India and Afghanistan (100 each) from various sectors to identify the main factors affecting their performance and (b) Secondary data was referred and collected through journals, newspapers, magazines, and information from websites around 85 literature reviews are reviewed from different countries on SMEs.

## LIMITATIONS OF THE STUDY

Due to the high cost, energy, and time needed, all the SMEs are not included in India and Afghanistan, and only Selected SMEs are targeted in this study in both countries. And the data are collected only from 200 Selected SMEs.

## ANALYSIS AND INTERPRETATION

The information's collected from law enforcement (Gazettes, Strategies, policies, laws, Journals, regulations, and annual reports) and through primary data collection of 200 Selected SMEs from both the countries (India and Afghanistan) and applied the independent t-test to confirm the objectives and hypotheses.

## CONTRIBUTION OF PROPOSED RESEARCH WORK

In this research valuable recommendations are provided for SME development in India and Afghanistan, hopefully, both governments apply and consider the suggested recommendations and help the SMEs to perform well in the future and strategize their needs in the findings of this research.

## RESEARCH ANALYSIS

### DATA ANALYSIS AND PROCESSING

This part of the research covers the data analysis and its interpretation using the actual data gathered from the Selected SMEs (Respondents) both from Afghanistan and India. Data analysis is carried out to test the hypothesis provided in the previous chapter. There are however several statistical tools applied to verify the theory and to understand the profile and the main factors (challenges) affecting SMEs performance in both countries.

### SAMPLE CHOICE

This study compares **200 Selected SMEs from Afghanistan and India**. The samples are drawn from both nations' official websites, for instance. Selected SMEs from Afghanistan are approached by the SME Development Directorate of the Afghanistan Ministry of Industry and Commerce (MoIC) and the Afghanistan Chamber of Commerce and Investment (ACCI), while Selected SMEs from India are chosen via the official websites of the BSE or NSE.

### SECONDARY DATA ANALYSIS

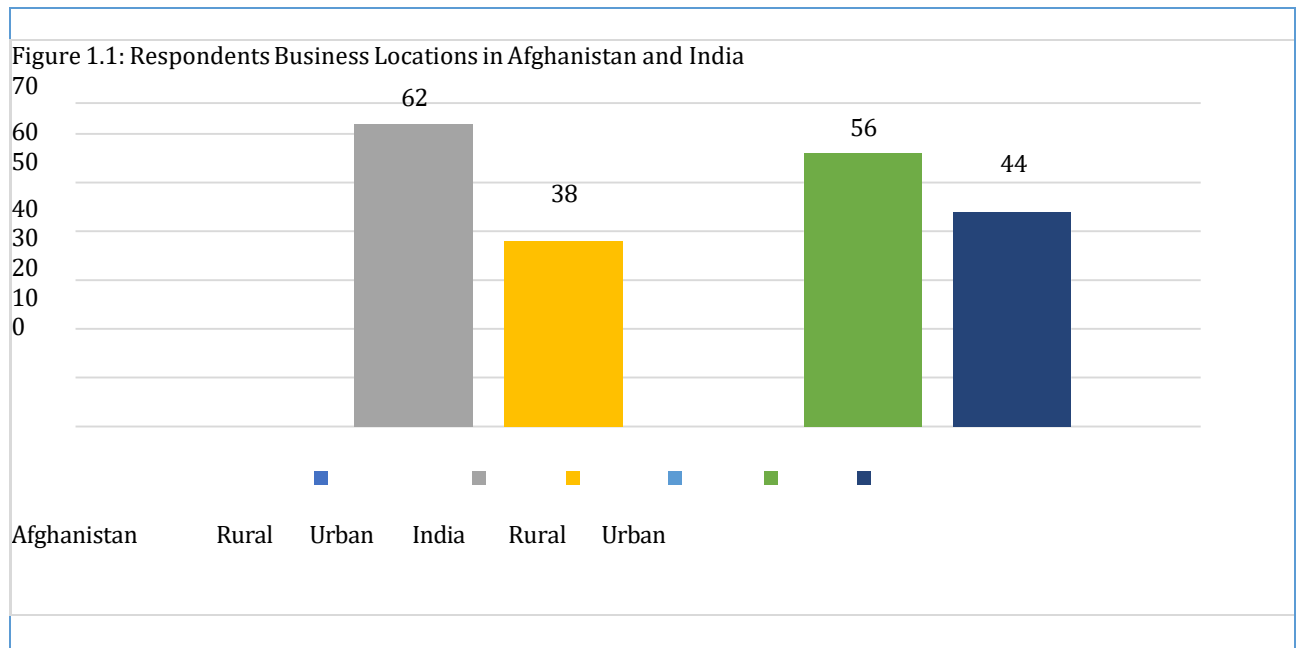
To gather trustworthy information (Reliable Data) for this study, a variety of associated documents, including SME development strategies and policies, annual reports, and financial reports of SMEs in both countries (India and Afghanistan), were examined to identify the key factors (Challenges) affecting SMEs' performance in both the countries.

### PRIMARY DATA ANALYSIS

Primary sources of data are collected via semi-structured interviews and online survey data. The survey respondents were 200 Selected SMEs from Afghanistan and India. During the survey phase, online questionnaire data were collected by email requests, requests by sending Google Forms links, and using voluntary help from some known sources.

**Table 1.5.** Demography of Respondents Selected SMEs both from India and Afghanistan

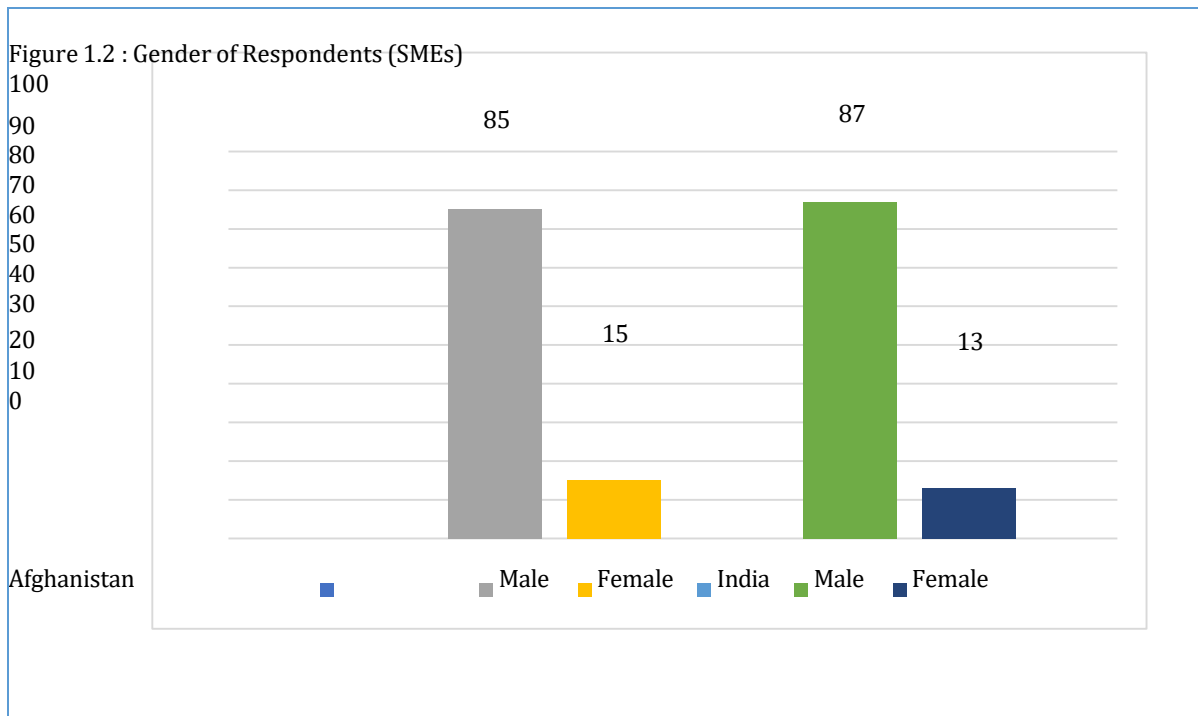
Respondents' Business Locations in Afghanistan and India				Percent	Valid Percent	Cumulative Percent
Afghanistan	Valid	Rural	62	62.0	62.0	62.0
		Urban	38	38.0	38.0	100.0
		Total	100	100.0	100.0	
India	Valid	Rural	56	56.0	56.0	56.0
		Urban	44	44.0	44.0	100.0
		Total	100	100.0	100.0	



**Interpretation Figure 1.1** The above chart shows selected small and medium-sized enterprises (SMEs) that answered the questionnaire from both rural and urban areas, with 62 respondents coming from rural India and 38 from urban areas. In comparison, 56 selected SMEs from Afghanistan answered from rural and 44 from urban areas.

**Table 1.6 Gender** of the Selected Respondents (SMEs) from both Afghanistan and India

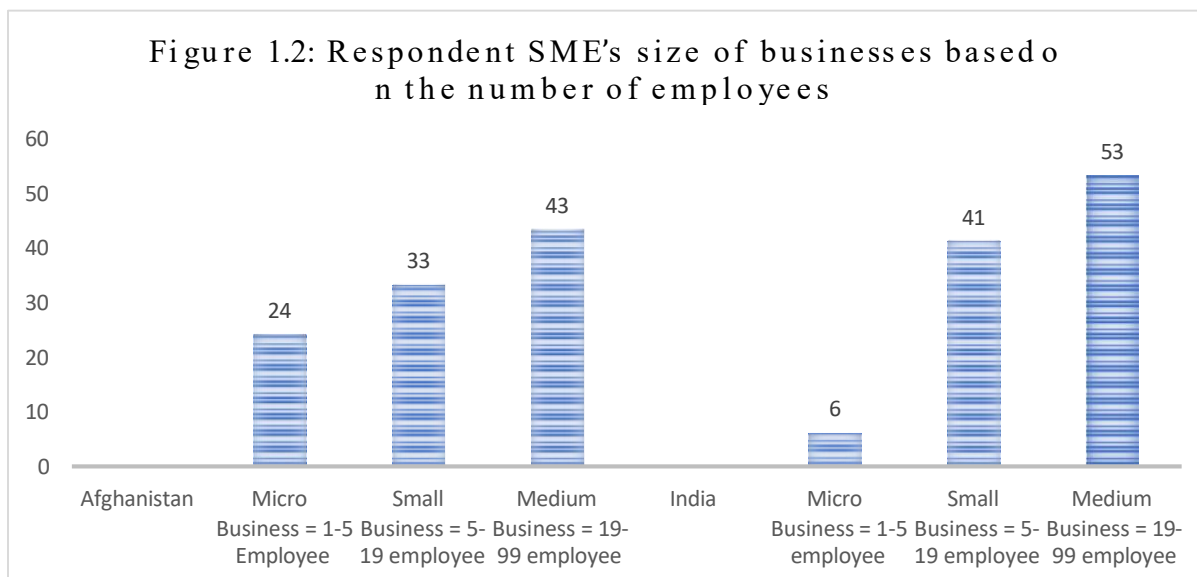
Gender of SMEs (Respondents) in Afghanistan and India				Percent	Valid Percent	Cumulative Percent
Afghanistan	Valid	Male	85	85.0	85.0	85.0
		Female	15	15.0	15.0	100.0
		Total	100	100.0	100.0	
India	Valid	Male	87	87.0	87.0	87.0
		Female	13	13.0	13.0	100.0
		Total	100	100.0	100.0	



**Interpretation Figure 1.2:** The above table and chart indicate the selected small and medium-sized enterprises (SMEs) answered the questionnaire from both Males and females, with 85 respondents coming from males in India and 15 from females in comparison, 87 selected SMEs from Afghanistan answering from males and 13 from females.

**Table 1.6** Respondents Selected SMEs Size of Businesses Based on the Number of Employees

Respondent SME's size of businesses based on the number of employees					
Micro Business = 1-5 employees		Small Business = 5-19 employees		Medium Business = 19-99 employees	
Country Name	Afghanistan	24	33	43	100
	India	6	41	53	100
Total		30	74	96	200

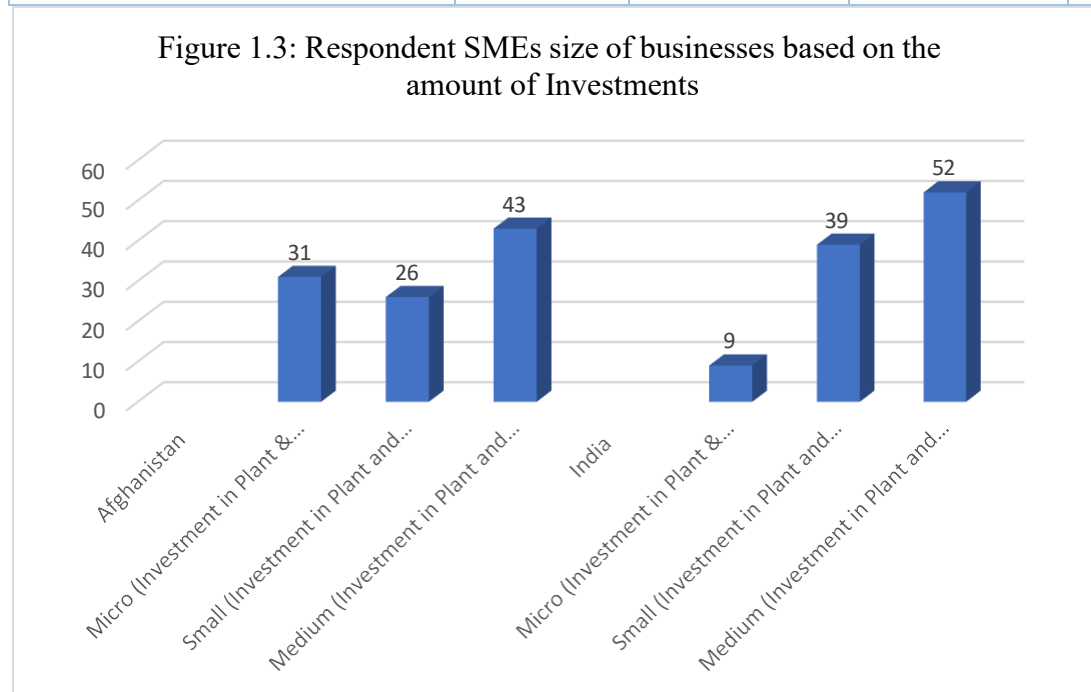


**Interpretation Figure 1.2:** The above table and the chart shows, the selected small and medium-sized enterprises (SMEs) answered the questionnaire from three categories (Micro, Small, and Medium-Size SMEs), with 6 respondents coming from Micro, 41 from Small, and 53 from Medium Size SMEs in India. In comparison, 24 Micro, 33 Small, and 43 Medium Enterprises from Afghanistan answered the questionnaire. This category of SMEs is selected based on the number of employees.

**Table 1.7:** Respondents Selected SMEs' size of business based on the amount of investments.

Respondent SME's size of businesses based on the amount of investments					
Country Name	Micro (Investment in Plant & Machinery or equipment up to 10 million)	Small (Investment in Plant and Machinery up to 100 million)	Medium (Investment in Plant and Machinery up to 500 million)	Total	
Afghanistan	31	26	43	100	
India	9	39	52	100	
<b>Total</b>	<b>40</b>	<b>65</b>	<b>95</b>	<b>200</b>	

**Figure 1.3:** Respondent SMEs size of businesses based on the amount of Investments



**Interpretation Figure 1.3:** The above table and chart describe, the selected small and medium-sized enterprises (SMEs) enterprise size based on the amount of investments in three categories (Micro, Small, and Medium-Size SMEs), where 31 respondents came from Micro, 26 from Small, and 52 from Medium Size SMEs in Afghanistan. In comparison, 9 Micro, 39 Small, and 43 Medium Enterprises from India answered the questionnaire. This category of SMEs is selected based on the number of employees.

Note: SMEs are categorized based on the SME definitions from the Ministry of Industry and Commerce in Afghanistan and the SME definitions from the Ministry of MSME in India, both country's SME definitions are mentioned in Chapter One of this research.

**Table 1.8:** Reliability Test

S.NO	Variables	No of Items	Cronbach's Alpha (Reliability Test)
1	SMEs (Challenges)	19	0.776
2	Entrepreneurs Perception	10	0.735
3	SMEs Opportunities in India & Afghanistan	16	0.823
4	SME's Contribution to Employment Generation	4	0.790

**Interpretation Table 4.5:** The table displays the results of a reliability test conducted on four variables related to small and Medium-sized Enterprises (SMEs). The four variables are SMEs (Challenges), Entrepreneur's Perception, SMEs Opportunities in India and Afghanistan, and SMEs' contribution to employment generation.

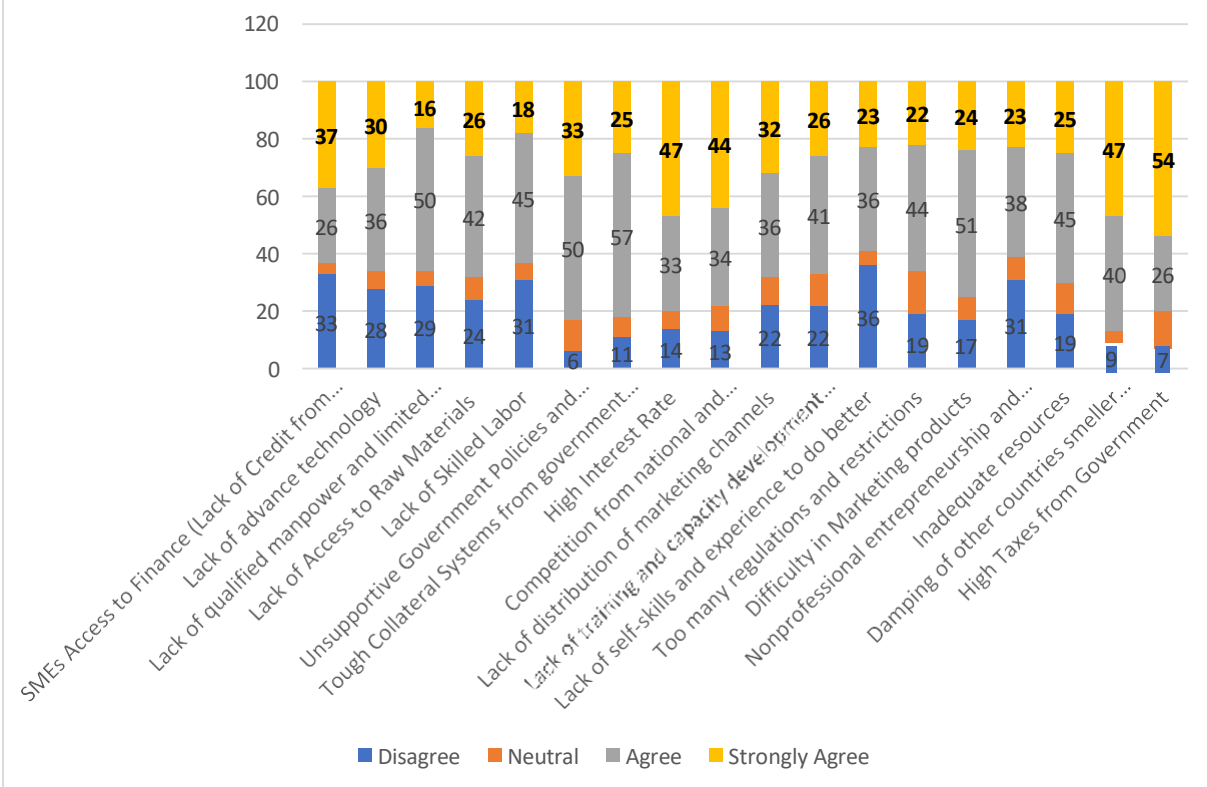
The table provides information on the number of items in each variable and Cronbach's alpha measure of reliability for that variable.

Cronbach's alpha measure of reliability is a statistical test that assesses the internal consistency of a set of items in a scale or questionnaire. It indicates the extent to which the items in a scale measure the same underlying construct or concept. A Cronbach's alpha value of 0.7 or higher is generally considered acceptable for research purposes.

Based on the table, the variable with the highest reliability score is SMEs Opportunities, with a Cronbach's alpha value of 0.823. This indicates that the 16 items in this variable measure the same construct and are internally consistent. The variable with the second- highest reliability score is SMEs (Challenges), with a Cronbach's alpha value of 0.776. The third variable, Entrepreneur's Perception, also has an acceptable reliability score of 0.735. The variable with the reliability score is SMEs contribution, with a Cronbach's alpha value of 0.790.

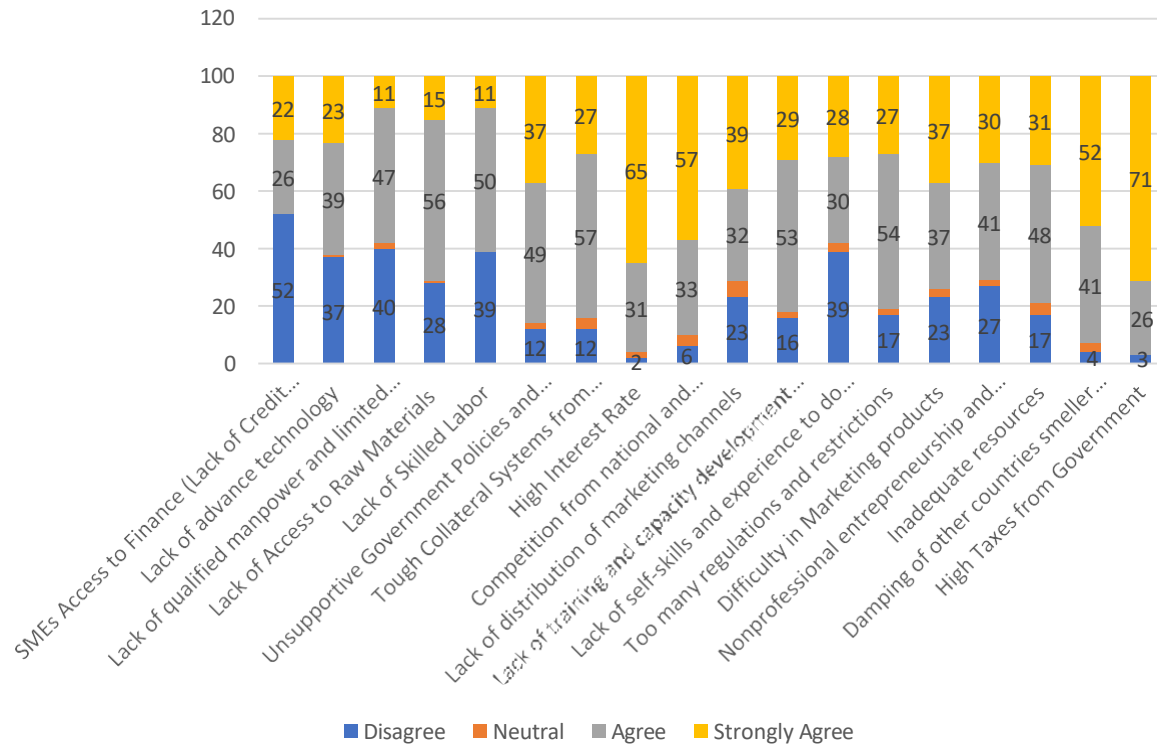
In summary, the table suggests that the four variables have acceptable levels of internal consistency and can be used in research related to select SMEs comparison in India and Afghanistan.

Figure 1.4: Main Factors Affecting SMEs Performance in Afghanistan



**Interpretation Figure 1.4:** According to the SMEs in Afghanistan who responded to the survey shown above, the main factors that have a significant impact on their performance are (1) high government taxes, (2) high bank interest rates, (3) dampening of other nations with smaller products, (4) competition from domestic and international businesses, (5) strict collateral systems from government and non-governmental banks, and (6) unsupportive government policies and strategies for SME development in Afghanistan. Therefore, As a result, I recommend the Afghan government prioritize and address the aforementioned challenges, as SMEs are the only segment that fosters the growth of the country. Since SMEs account for 85% of the Afghan economy, produce 50% of the nation's GDP, and generate more than a third of all jobs in Afghanistan, they are better able to adapt to shifting conditions and maintain economic stability in the country. To conclude: The lack of qualified technicians and employees, poor management skills of business owners, a lack of quality assurance, a lack of resources, a high staff turnover rate, a lack of market access, and violent conflict and political instability in Afghanistan are additional sources of uncertainty for investors that impede investment and undermine business confidence.

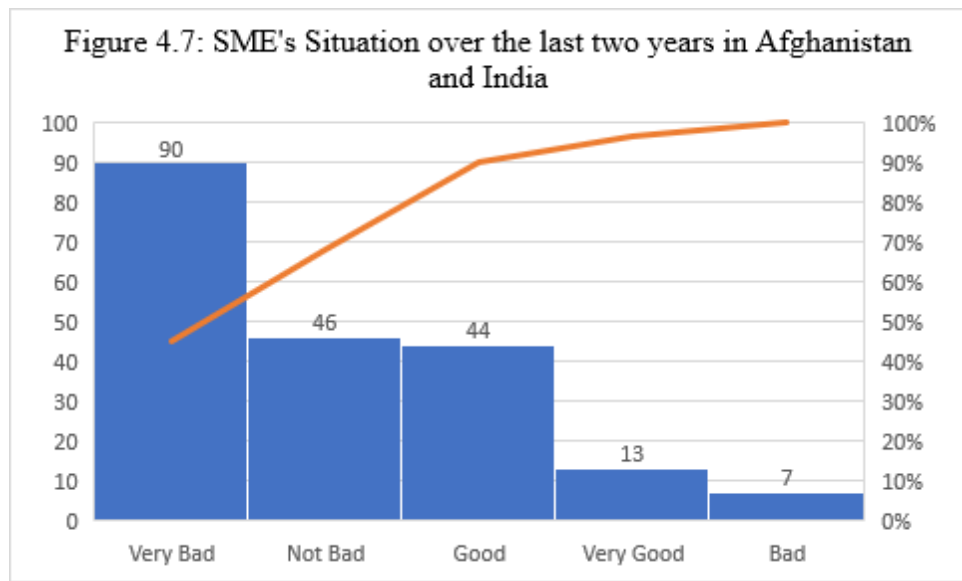
Figure 1.5: Main Factors Affecting SMEs Performance in India



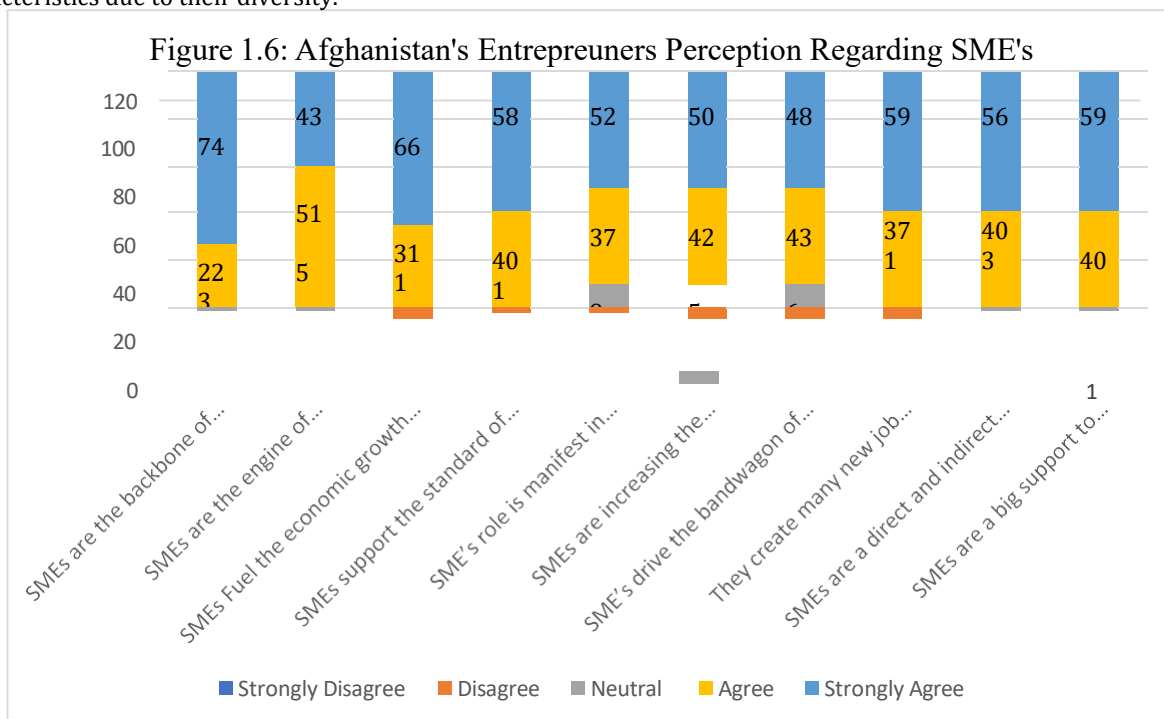
**Interpretation Figure 1.5:** According to the SMEs in India who responded to the survey depicted above, the primary factors that have a significant impact on their performance are: (1) High Bank Interest Rates; (2) Competition from national and multinational businesses; (3) Lack of qualified manpower and limited resources; and (4) High Taxes from the Government. Though in comparison to SMEs in Afghanistan, access to financing and access to national and international markets is easier for SMEs in India.

**Table 1.9.** SMEs situation over the last two years in Afghanistan and India

		How would you rate the performance of your business over the last two years?					
		Very Bad	Bad	Not Bad	Good	Very Good	Total
Country Name	Afghanistan	50	6	24	15	5	100
	India	40	1	22	29	8	100
<b>Total</b>		<b>90</b>	<b>7</b>	<b>46</b>	<b>44</b>	<b>13</b>	<b>200</b>

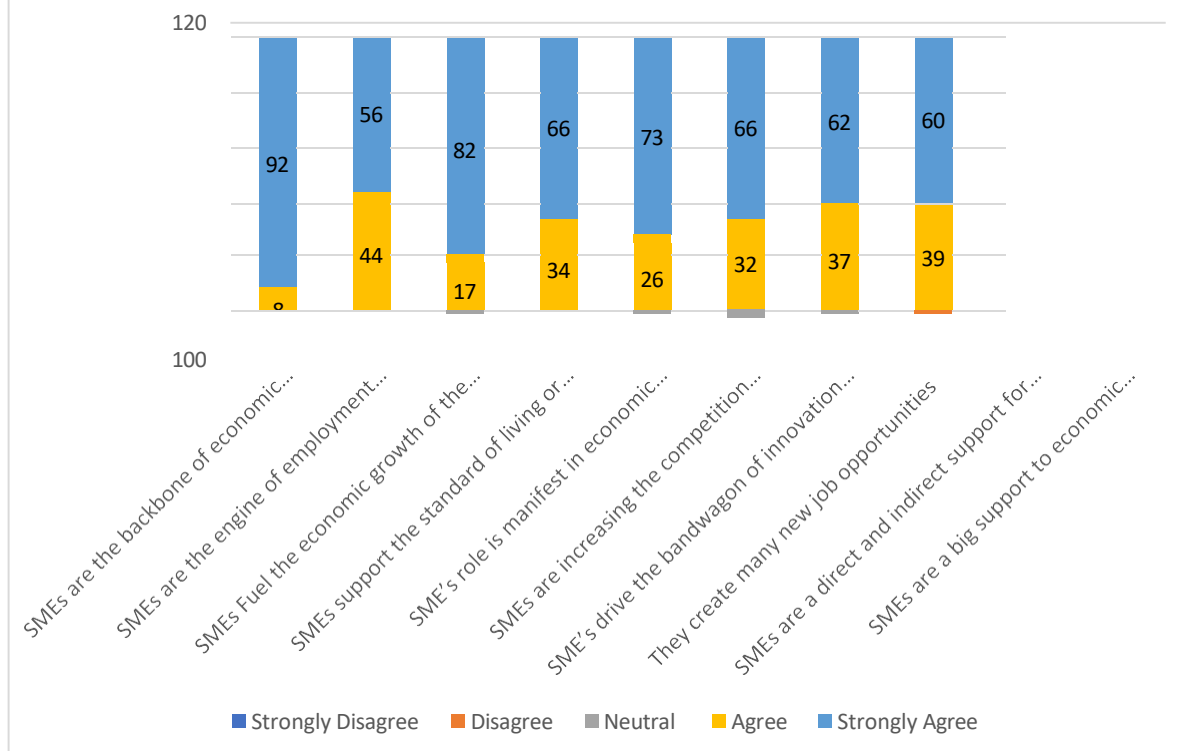


**Interpretation Figure 4.7:** According to the responses, just 44% of SMEs regarded their business status as satisfactory during the past two years, and 64% of them stated that their business situations were not good. The primary cause of this would be the impact of COVID-19, however, many governments started providing financial and other types of support to MSMEs and their employees soon after the COVID-19 pandemic broke out. The intensity of the pandemic's impact on MSMEs, however, varies greatly depending on their unique characteristics due to their diversity.



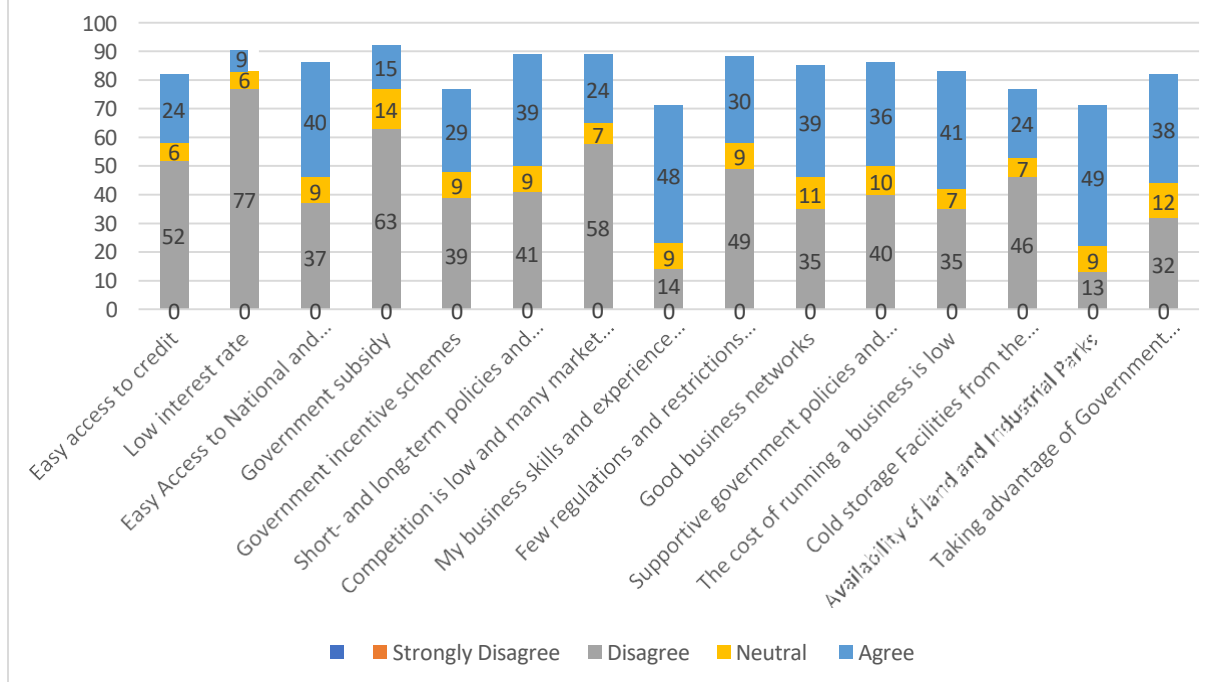
**Interpretation Figure 1.6:** Since SMEs account for 85% of Afghan businesses, 50% of the nation's GDP, and more than one-third of its labor force, therefore, 74% of respondents to a survey I conducted in this research responded, that SMEs are the backbone of economic development in Afghanistan, and 66% said that they are the engine driving the nation's economic growth.

Figure 1.7: India's Entrepreneurs Perception Regarding SME's



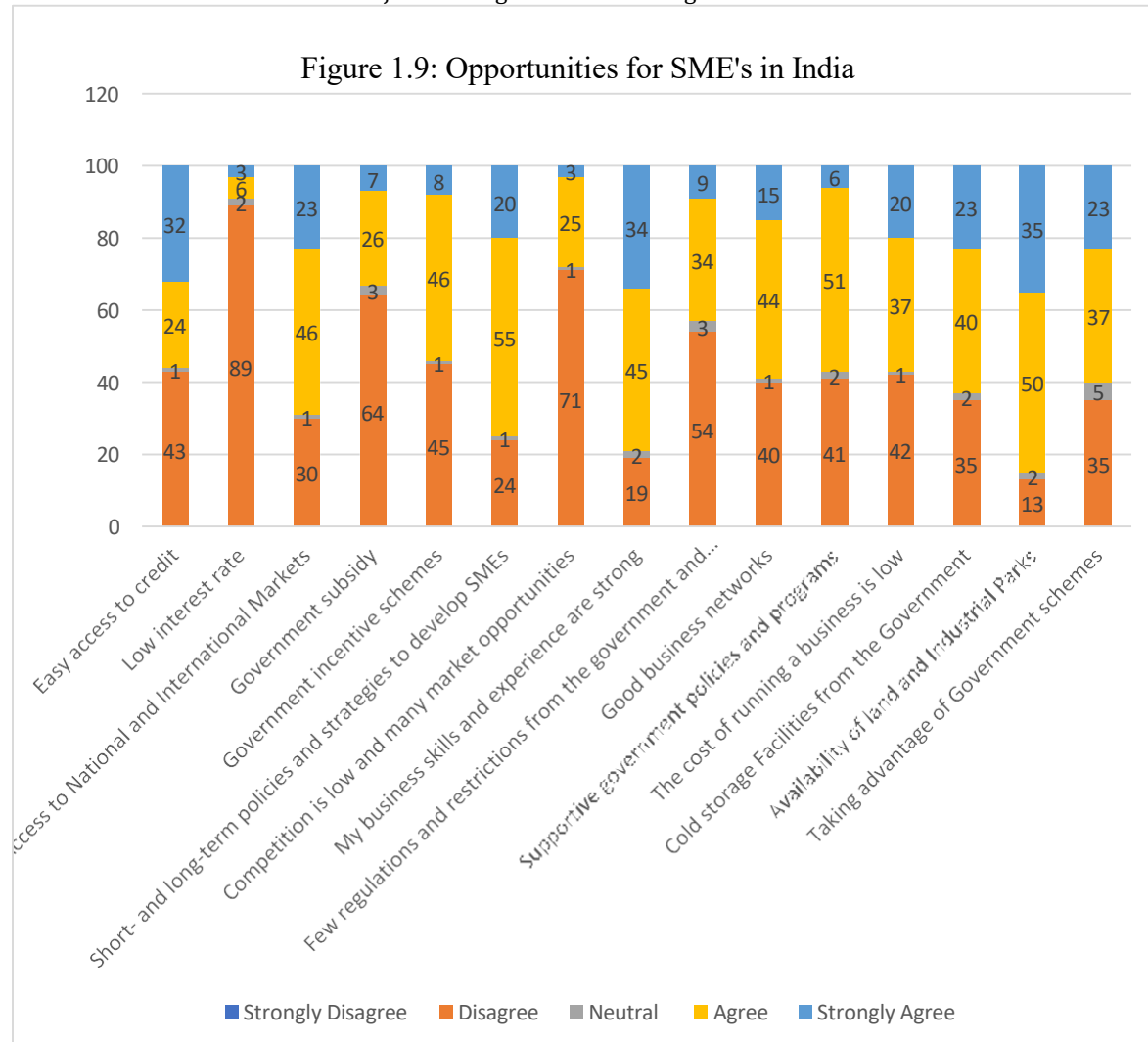
**Interpretation Figure 1.7:** Since SMEs in India account for 45 % of total industrial production, and 40% of total exports, and contribute very significantly to the GDP. The manufacturing segment within the MSME contributes to 7.09% of GDP. MSMEs also contribute to 30.50% of services. The total contribution of MSMEs to the GDP is 37.54. Therefore, 92% of respondents to a survey conducted on this research responded that SMEs are the backbone of economic development and 82% said that SMEs are the engine of growth in India.

Figure 1.8: Opportunities for SME's in Afghanistan



<https://www.gapinterdisciplinaries.org/>

**Interpretation Figure 1.8:** In this survey, SMEs are asked to report the available opportunities for SMEs in Afghanistan. Thus, 41% of SMEs agreed that the cost of operating a business is low, while the remaining 49% agreed to the availability of Industrial parks, and finally 40% of them agreed with easy access to national and international markets in recent years. However, the lack of cold storage, SME clusters, high-interest rates, and access to finance seem to be the major challenges for SMEs in Afghanistan.



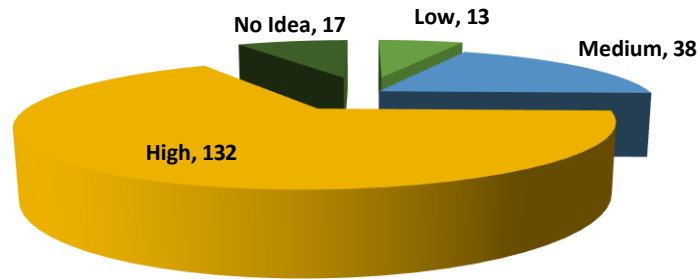
**Interpretation Figure 1.9:** According to a survey conducted for this study, SMEs reported opportunities for SMEs in India. As a result, 55% of SMEs agreed that there were short- and long-term policies, strategies, and SME development schemes, while the remaining 46% of SMEs mentioned that access to national and international markets was one of the biggest opportunities for SMEs in India. They also mentioned the availability of SME clusters, cold storage facilities, and industrial parks as other significant opportunities

**Table 1.10: The contribution of SMEs to employment generation in your country?**

According to you what is the contribution of SMEs to employment generation in your country?

		Low	Medium	High	No Idea	Total
Country Name	Afghanistan	11	26	54	9	100
	India	2	12	78	8	100
Total		13	38	132	17	200

Figure 1.10 Respondents Idea on SME's Contribution in employment Generation



**Interpretation Figure 1.10:** Regarding the contribution of SMEs to the creation of jobs in both Afghanistan and India, 132 out of 200 respondents to a survey question that asked the same question indicated that the contribution of SMEs in employment creation is significant and high. And as a result, of the literature reviews, the Micro, Small, and Medium Enterprise (MSME) sector has emerged as a crucial sector of the Indian economy, significantly boosting employment generation, and it is the only means of supporting job creation and economic growth in the nation. It is assumed that there are 633.9 lakh MSMEs in India. Same here, SMEs in Afghanistan, are the only segment that fosters the growth of the country. Since SMEs account for 85% of the Afghan economy, produce 50% of the nation's GDP, and generate more than a third of all jobs in Afghanistan, they are better able to adapt to shifting conditions and maintain economic stability in the country.

### HYPOTHESIS NO.1 (ANALYSIS)

- 1) H1 - There are significant differences in the factors affecting SMEs performance in India and Afghanistan  
H0 - There are no significant differences in the factors affecting SMEs' performance in India and Afghanistan

**Table 1.11: Independent-Samples t-test (Hypothesis #1)**

Group Statistics and Independent Samples t-Test

Main Factors (Challenges) Affecting SMEs Performance in Afghanistan and India

	N	M	SD	t	df	p. v
Afghanistan	100	72.0700	9.13120	.582	198	.582
India	100	72.8100	8.84855	.582	197.805	

\* $p > .01$ .  $N=200$ . T-test is no significant difference in the main factors (Challenges) affecting SMEs performance in India and Afghanistan at the .05 level (2-tailed).

**Interpretation Hypothesis No.1:** An independent-sample t-test among the two countries (Afghanistan and India) on finding the difference in the main factors affecting SMEs performance in both countries was conducted and the result shows that the mean scores for Afghanistan ( $M=72.0700$ ,  $SD= 9.13120$ ) and for India ( $M=72.8100$ ,  $SD=8.84855$ ) conditions;  $t (-.582)$ ,  $p > .01$ . These results suggest that there is no significant difference in the factors affecting SMEs performance in Afghanistan and India, so H1 is rejected and H0 (Null Hypothesis) is retained.

Table 1.12: Nonparametric Tests (Hypothesis #1)

Hypothesis Test Summary

No	Null Hypotheses	Test	Sig.	Decision
1	The medians of H1 are the same across categories of Country names.	Independent Samples Median Test	.777	Retain the null hypothesis
2	The distributions of H1 are the same across categories of Country Name	Independent. Samples Mann-Whitney U Test	.796	Retain the null hypothesis

Asymptotic significances are displayed. The significance level is .05.

**Interpretation:** Besides the independent-sample t-test for hypothesis Number 1 a nonparametric test was also conducted and it shows the same result as the independent-sample t-test and it retains the null hypothesis and rejects H1

### HYPOTHESIS NO.2 (ANALYSIS)

2) H1 - There are significant differences in the perception of entrepreneurs about SMEs in India and Afghanistan

H0 - There are no significant differences in the perception of entrepreneurs about SMEs in India and Afghanistan

Table 1.13: Independent-Samples t-test (Hypothesis #2)

Group Statistics and Independent Samples t-Test on the differences in the perception of entrepreneurs about SMEs in India and Afghanistan.

	N	SD	M	SD	t	df	p. v
Afghanistan	100	44.960	44.960	3.7495	-4.243	.42427	.000
India	100	46.760	46.760	1.9854	-4.243	.42427	

$P < .05$ .  $N=200$ . T-test is not significant in the differences in the perceptions of entrepreneurs about SMEs in India and Afghanistan. At the 0.05 level (2-tailed).

**Interpretation (Hypothesis #2):** An independent-samples t-test among the two countries (Afghanistan and India) on the differences in the perception of entrepreneurs about SMEs in India and Afghanistan was conducted and the result shows that the mean scores for Afghanistan ( $M=44.9600$ ,  $SD= 3.74953$ ) and for India ( $M=46.7600$ ,  $SD=1.98540$ ) conditions;  $t (-4.243)$ ,  $p < .01$ . These results suggest that there is a significant difference in the perception of entrepreneurs about SMEs in both countries (Afghanistan and India), so H1. Is retained and H0 (Null Hypothesis) is rejected.

Table 1.14: Nonparametric Tests (Hypothesis #2)

Hypothesis Test Summary				
No	Null Hypotheses	Test	Sig.	Decision
1	The medians of H2 are the same across categories of Country names.	Independent Samples Median Test	.030	Retain the null hypothesis
2	The distributions of H2 are the same across categories of Country Name	Independent. Samples Mann-Whitney U Test	.001	Retain the null hypothesis

Asymptotic significances are displayed. The significance level is .05.

**Interpretation:** Besides the independent-sample t-test for hypothesis Number 2 a nonparametric test was also conducted and it shows the same result as the independent-sample t-test and rejects the null hypothesis.

### HYPOTHESIS NO.3 (ANALYSIS)

3) There are significant differences in the opportunities provided for SMEs development in India and Afghanistan

H0- There are no significant differences in the opportunities provided for SMEs development in India and Afghanistan

Table 1.15: Independent-Samples t-test (Hypothesis #3)

*Group Statistics and Independent Samples t-Test  
Differences in the opportunities provided for SMEs development in India and  
Afghanistan*

	N	M	SD	t	df	P. V
Afghanistan	100	48.5400	9.62889	.582	-.89000	.471
India	100	49.4300	8.48678	.582	1.28351	

\* $p > .01$ .  $N=200$ . T-test is no significant difference in the opportunities provided for SME development in India and Afghanistan at the 0.05 level (2-tailed).

**Interpretation (Hypothesis #3):** An independent-sample t-test among the two countries (Afghanistan and India) on the opportunities provided for SMEs development in India and Afghanistan was conducted and the results show that the mean scores for Afghanistan ( $M=48.5400$ ,  $SD= 9.62889$ ) and for India ( $M=49.4300$ ,  $SD=8.48678$ ) conditions;  $t (-.693)$ ,  $p > .01$ . These results suggest that there is no significant difference in the opportunities provided for SMEs development in India and Afghanistan. So  $H_1$  is rejected and  $H_0$  (Null Hypothesis) is retained (accepted).

Table 1.16: Nonparametric Tests (Hypothesis #3)

Hypothesis Test Summary				
No	Null Hypotheses	Test	Sig.	Decision
1	The medians of H3 are the same across categories of Country names.	Independent Samples Median Test	.065	Retain the null hypothesis
2	The distributions of H3 are the same across categories of Country Name	Independent. Samples. Mann-Whitney U Test	.195	Retain the null hypothesis

Asymptotic significances are displayed. The significance level is .05.

**Interpretation:** Besides the independent-sample t-test for hypothesis Number 3 a Nonparametric test was also conducted and it shows the same result as the independent-sample t-test and it reth $H_{1ns}$  the null hypothesis and rejects  $H_1$ .

**HYPOTHESIS NO.4 (ANALYSIS)**

- 4) There is a significant difference in the contribution of SMEs to employment generation in India and Afghanistan  
 $H_0$ - There is no significant difference in the contribution of SMEs to employment generation in India and Afghanistan.

Table 1.17: Independent-Samples t-test (Hypothesis #4)

*Group Statistics and Independent Samples t-Test on the difference in the contribution of SMEs to employment generation in India and Afghanistan*

	N	M	SD	t	df	p. v
Afghanistan	100	2.52	.689	-3.968	.081	.000
India	100	2.84	.420	-3.968	.081	

$P < .05$ .  $N=200$ . T-test is a significant difference in the contribution of SMEs to employment generation in India and Afghanistan. at the 0.05 level (2-tailed).

**Interpretation (Hypothesis #4):** An independent-sample t-test among the two countries (Afghanistan and India) on the difference in the contribution of SMEs to employment generation in India and Afghanistan was conducted and the result shows that the mean scores for Afghanistan ( $M= 2.52$ ,  $SD= .698$ ) and for India ( $M= 2.84$ ,  $SD=.420$ ) conditions;  $t (-3.968)$ ,  $P < .01$ . These results suggest that there is a significant difference in the

contribution of SMEs to employment generation in India and Afghanistan, so H1. Is retained and H0 (Null Hypothesis) is rejected.

Table 1.18: Nonparametric Tests (Hypothesis #4)

Hypothesis Test Summary				
No	Null Hypotheses	Test	Sig.	Decision
1	The distribution of H4 (according to what is the contribution of SMEs to employment generation in your country?) is the same across categories of Country names.	Independent Samples Mann-Whitney U Test	.000	Reject the null hypothesis
2	The distributions of H4 (according to what is the contribution of SMEs to employment generation in your country?) are the same across categories of Country Name	Independent. Samples Mann-Whitney U Test	.000	Reject the null hypothesis

Asymptotic significances are displayed. The significance level is .05.

**Interpretation:** Besides the independent sample t-test for hypothesis # 4 a nonparametric test was also conducted, and it shows the same result as the independent-sample t-test and it rejects the Null Hypothesis and retains H1.

### SUMMARY OF MAJOR FINDINGS

The SMEs are very crucial for the overall economic growth of each country, especially underdeveloped and developing countries because compared to large business companies, SMEs, particularly small-sized enterprises, don't need huge investment, rich experience, and developed technologies, and thus there are not riskier in fragile countries. That's mostly true in the case of Afghanistan, a country with a fragile and poor economy as well as poor security. This part discusses the findings of face-to-face and virtual interviews with SME owners, governmental and non-governmental organizations, financial institutions, and university professors.

### CONCLUSIONS AND POLICY RECOMMENDATIONS FOR SMES IN AFGHANISTAN & INDIA

Recommendations			
#	Recommendation for SMEs Development in Afghanistan	Recommendation for SMEs Development in India	
1	<ul style="list-style-type: none"> <li><b>Access to Finance:</b> (1) Establish dedicated financial institutions or funds to provide accessible loans and credit facilities for SMEs, (2) Introduce microfinance programs tailored to needs of Afghan SMEs, particularly those in rural areas, and (3) Implement financial literacy programs to enhance SME owners' understanding of financial management and investment opportunities.</li> </ul>	<ul style="list-style-type: none"> <li><b>Access to Finance:</b> (1) Establish dedicated funds and financial support programs for SMEs, (2) Encourage the development of alternative financing options, such as venture capital and angel investments, and (3) Simplify and expedite loan approval processes for SMEs.</li> </ul>	
2	<ul style="list-style-type: none"> <li><b>Policy Support and Regulatory Reforms:</b> Implement policies and regulations that create a conducive environment for SME growth and investment, including streamlined business registration processes and tax incentives</li> </ul>	<ul style="list-style-type: none"> <li><b>Regulatory Reforms:</b> (1) Simplify and streamline regulatory processes for setting up and running SMEs, (2) Implement a single-window clearance system to reduce bureaucratic hurdles, and (3) Regularly review and update regulations to align with evolving business needs.</li> </ul>	
3	<ul style="list-style-type: none"> <li><b>Infrastructure Development:</b> (1) Invest in improving basic infrastructure such as roads, electricity, and internet connectivity in key industrial zones and rural areas where SMEs are located, (2) Establish industrial parks and zones with modern facilities and utilities to attract SME investment and promote cluster development, and (3) Enhance access to reliable transportation and logistics networks to facilitate the movement of goods and raw materials for SMEs.</li> </ul>	<ul style="list-style-type: none"> <li><b>Technology Adoption:</b> (1) Provide incentives for SMEs to adopt and integrate digital technologies, (2) Facilitate access to affordable and user-friendly technology solutions, and (3) Create awareness campaigns on the benefits of technology adoption for business growth.</li> </ul>	
4	<ul style="list-style-type: none"> <li><b>Access to Technology and Innovation:</b> Promote the adoption of technology and innovation among Afghan SMEs through training programs,</li> </ul>	<ul style="list-style-type: none"> <li><b>Export Promotion:</b> (1) Offer financial incentives and support for SMEs entering international markets, (2) Provide export training</li> </ul>	

	subsidies for technology adoption, and support for research and development initiatives (2) Establish innovation hubs and incubators to provide entrepreneurs with access to mentorship, funding, and collaborative spaces for developing new ideas and products	and market intelligence to SMEs, (3) Simplify export procedures and documentation to facilitate global trade.
5	<ul style="list-style-type: none"> <li><b>Export Promotion:</b> (1) Offer financial incentives and support for SMEs entering international markets, (2) Provide export training and market intelligence to SMEs, (3) Simplify export procedures and documentation to facilitate global trade.</li> </ul>	<ul style="list-style-type: none"> <li><b>Skill Development:</b> (1) Implement training programs to enhance the skills of SME owners and employees, (2) Foster collaboration between educational institutions and SMEs for specialized training, and (3) Promote digital literacy to enable SMEs to leverage technology effectively.</li> </ul>
6	<ul style="list-style-type: none"> <li><b>Development of Schemes from government</b></li> </ul>	<ul style="list-style-type: none"> <li><b>Government Support Programs:</b> (1) Expand and promote existing government support schemes for SMEs, (2) Introduce new initiatives to address specific challenges faced by SMEs, and (3) Ensure transparent and easy access to information about available support programs.</li> </ul>
7	<ul style="list-style-type: none"> <li><b>Market Access:</b> (1) Facilitate SME participation in trade exhibitions and business networking events to showcase Afghan products and services to potential buyers and investors, (2) Develop online platforms and e-commerce infrastructure to connect Afghan SMEs with domestic and international markets, especially given the challenges of physical trade routes, and (3) Support SMEs in obtaining certifications and complying with quality standards to meet export requirements and access new markets.</li> </ul>	<ul style="list-style-type: none"> <li><b>Infrastructure Development:</b> (1) Invest in improving physical and digital infrastructure in industrial clusters, (2) Develop dedicated industrial zones with modern facilities for SMEs, and (3) Enhance logistics and transportation networks to reduce operational costs.</li> </ul>
8	<ul style="list-style-type: none"> <li><b>Security and Stability:</b> (1) Strengthen security measures in key economic zones and along transportation routes to safeguard SMEs and their assets from security threats and disruptions, (2) Collaborate with international partners and regional stakeholders to address cross-border security challenges and promote regional economic integration</li> </ul>	<ul style="list-style-type: none"> <li><b>Market Access:</b> (1) Facilitate participation of SMEs in domestic and international trade fairs, (2) Develop online platforms to connect SMEs with potential buyers and partners, and (3) Foster collaborations between SMEs and large enterprises for mutual growth.</li> </ul>
9	<ul style="list-style-type: none"> <li><b>Government Support Programs:</b> (1) Expand and promote existing government support schemes for SMEs, (2) Introduce new initiatives to address specific challenges faced by SMEs, and (3) Ensure transparent and easy access to information about available support programs.</li> </ul>	
10	<ul style="list-style-type: none"> <li><b>Cluster Development:</b> (1) Encourage the formation of industry clusters for better resource sharing and collaboration, (2) Provide infrastructure support and incentives for cluster development, and (3) Foster networking opportunities within clusters for knowledge exchange.</li> </ul>	

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