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Exploring Cross-Border Partnerships to Empower Afghan SMEs: Accessing Resources, Technologies, and Expertise Through Regional Collaborations

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Abstract

This paper examines cross-border partnerships' role in empowering small and medium enterprises in Afghanistan. The study, specifically, examines cross-border partnerships for empowering existing SMEs through regional collaborations with special reference to accessing resources, technologies, and expertise. Qualitative methodology was applied by combining primary and secondary data. Primary data via focus group discussion has been collected to explore the strategies that can lead to the development of SMEs in Afghanistan. In contrast, secondary data is collected to describe the cross-border partnerships that empower existing SMEs. Content analysis is utilised for secondary and primary data. The study's results are discussed, along with recommendations and limitations.

Keywords: SMEs, cross-border partnerships, mixed method, Afghanistan

1. Introduction

Small and Medium Enterprises (SMEs) significantly drive economic recovery and foster sustainable development in Afghanistan. SMEs are influential in GDP growth and the creation of jobs in emerging economies, making them significant to the post-conflict economic revitalization of Afghanistan (Rasa, 2020). However, Afghan SMEs' growth and potential are significantly restricted by different challenges, including political instability, out-of-date technologies, lack of public confidence in investment, limited access to fundamental resources, brain drain and, more significantly, the non-recognition of the current government of Islamic Emirate of Afghanistan (Bahij, 2021). These constraints restrict their ability to compete effectively in the regional and global markets and limit their operational efficiency (Central Statistic Organization, 2019). Despite the challenges, the ray of hope is that peace in Afghanistan prevails. Therefore, bolstering SMEs is even more important given Afghanistan's socio-political landscape. Literature and policy recommendations suggest various approaches to fostering SME empowerment; however, one of the best strategies is the SME's cross-border partnerships with neighbouring countries. Afghanistan's neighbouring countries, such as Iran, Pakistan, and Central Asian states, possess skilled labour, plentiful resources, and advanced technological capabilities that can complement the needs of SMEs in Afghanistan (Abdullah, 2021; Hassas, 2017). Studies have highlighted the significance of collaborations at the regional level in overcoming the structural limitations SMEs face in developing nations (Rasoli et al., 2019).

Establishing cross-border partnerships with businesses in these countries presents a unique opportunity for SMEs in Afghanistan to address their resource gaps and boost their competitive edge (Buccieri et al., 2020). These collaborations can result in access to skilled expertise, infrastructural support, financial investment and innovative technologies, all of which are critical to enabling SMEs in Afghanistan to scale their operations and attain sustainable growth (Khan et al., 2019). Such partnerships result in the exchange of best practices and knowledge, allowing Afghan SMEs to modernize their processes and implement modern business models (Habibi, 2016). SMEs can diversify their customer base, expand their access to the market and reduce dependence on local market volatilities due to cross-border trade (World Bank, 2019). In sectors like manufacturing, agriculture, and services, these partnerships could be particularly valuable, whereas Afghanistan has not yet tapped potential and lacks the essential resources to exploit it fully (Buse et al., 2019).

Nevertheless, addressing underlying policy and structural challenges that hinder such partnerships is mandatory to realize all the benefits of cross-border partnerships. This includes improving infrastructure for cross-border trade, fostering an environment of cooperation and trust among neighbouring countries, and creating a supportive regulatory framework (UNESCAP, 2019). By overcoming these barriers, Afghan SMEs can become a driving force for regional integration, job creation and economic stability, thus contributing to the broader goal of regional sustainable development. Nonetheless, the question remains: What factors can facilitate cross-border collaborations to empower SMEs in Afghanistan? The current study represents one of the efforts in this area to address this inquiry.

This article contributes to the discussion by offering empirical insights from primary and secondary data collection. It provides a detailed analysis of how Afghanistan's small and medium-sized enterprises (SMEs) can be empowered through strategic partnerships with SMEs in neighbouring countries. The findings of this study address the gap between theory and practice, highlighting actionable strategies that can strengthen SMEs despite challenging conditions. The remainder of the article discusses the theoretical background and prior literature in the context of SMEs in Afghanistan. Subsequent sections then discuss the methodology, results and discussion along with limitations and recommendations of the study.

2. Theoretical Underpinnings and Literature Review

The basis of the current study is rooted in network theory. This theory signifies relationships and networks that allow people to access resources and knowledge and explore opportunities for mutual advantages. In the context of empowering Afghan SMEs, Network Theory helps to explain how to form and sustain partnerships with international entities to empower Afghanistan's SMEs. Specifically, the theory provides the base for ascertaining the relationships in a network to enable access to resources (e.g., funding, technology, expertise) and the role of mutual trust, mutual benefits, and knowledge-sharing in fostering successful collaboration. For SMEs in Afghanistan, it is essential to realize the importance of cross-border partnerships for enhancing their technical capabilities, promoting innovation, improving operational efficiency, and accessing international markets for mutual benefits (Mohammadi, 2024). Prior studies (Mirza et al., 2024; Mosavi, 2024) suggest that worldwide alliances with neighbouring countries have enabled SMEs to benefit from technology transfer, shared infrastructure,

and co-development of products or services. Numerous cases from other developing regions showed the effectiveness of partnerships. International SME partnerships have played a tremendous role in transforming the economies of developing and underdeveloped countries (Mohammadi, 2024). For instance, in Bangladesh, many garment firms have partnered with international brands for worldwide market accessibility, improving Bangladesh's overall economy. Similarly, many of India's SMEs that are relevant to agri-tech have joined with international firms like Bayer and Syngenta to adopt modern farming technologies to enhance their products' value chain (Kurter et al., 2021). Similarly, renewable energy for South African SMEs has partnered with European companies to solve energy issues and develop locally. Vietnamese small and medium-sized manufacturing enterprises have formed joint ventures with companies from Japan and South Korea to acquire cutting-edge manufacturing technologies and broaden their global presence.

Rwanda's coffee industry is partnering with multinational brands like Starbucks and Nespresso to empower local farmers to bring changes in their quality of life and recover from the 1994 genocide (Fakhar, 2022). Firms in Iraq are partnering with Iran, China, and Turkey in agriculture and energy (Hussain et al., 2021). These partnerships and collaborations have improved trade and resource optimization. The discussion shows that strategic collaborations can unleash economic potential, leading to the fastest recovery, even in hard times. Literature suggests (Haqbin et al., 2023) that Afghanistan's strategic position is a hub for regional connectivity. With its manufacturing expertise, neighbouring countries such as Uzbekistan, Tajikistan, Pakistan, Iran, and China, known for technological innovation in specific industries, offer potential synergies for Afghan SMEs. Studies highlight that collaborations in logistics, energy, and agriculture could drive significant growth for Afghan businesses.

2.1 Context of Afghanistan

The definition of SMEs varies by country context, as there is no universally agreed-upon standard. In Afghanistan, micro, small, and medium enterprises (MSMEs) are categorized based on the number of employees and the level of capital investment (Abdullah, 2021). According to the Organization for Economic Cooperation and Development (OECD), MSMEs in Afghanistan's services and manufacturing sectors are defined as businesses with fewer than 100 employees and an investment of less than 10 million Afghanis (approximately \$150,000) (OECD, 2019).

SMEs comprise nearly 80% of Afghan businesses, contribute to half of the GDP, and employ over one-third of the workforce (Mashal, 2014). Around 70% of SMEs operate in rural areas, most functioning informally without licenses or registration, primarily due to Afghanistan's fragile economy and vulnerability to crises like COVID-19. Many rural SMEs generate minimal profits, discouraging formalization and compliance with government regulations. The government supports SMEs to compensate for limited large-scale investments, seeking international aid to improve their operations and boost economic growth. By 2020, 40,598 businesses were registered, but data on closures remains unclear, with 92.59% of small enterprises heavily affected by COVID-19. In 2022 and 2023, funded by the UNDP ABADEI 1.0 program, the Danish Refugee Council (DRC) implemented an SME support initiative through its regional offices in the East, Central,

South, and West (DRC, 2022). All the SMEs reported that their financial assistance was sufficient for their expansion plans. This assistance was utilized for various purposes, including the procurement of machinery (96% of SMEs), the purchase of raw materials (79% of SMEs), and the payment of salaries (62% of SMEs), among others. All assisted SMEs, except for one, reported increased production, customer base, and overall income. Supporting SMEs is a key strategy to drive socio-economic benefits in Afghanistan, including creating opportunities for women-led businesses and female employees. SME support boosts production, improves local market goods and services, and generates employment, with DRC-backed SMEs increasing their employment capacity by 53%. Private-sector employment offers a few avenues for women's economic participation (DRC, 2022). However, addressing systemic challenges, improving infrastructure, easing regulations, and reducing restrictions on women's involvement is crucial for maximizing SME impact. Sustained advocacy and resources are needed to unlock their full potential. However, challenges like international banking and the non-recognition of the Islamic Emirate government persist, as do informal businesses. Low levels of investors' trust in female participation and their education remain big challenges. One of the solutions to enhance SMES empowerment in Afghanistan is cross-border partnerships to address SMES changes in Afghanistan. The current study explores strategies to pave the way for cross-border collaborations.

3. Methodology

A mixed methodology is employed to achieve the research objectives of the current study. As mentioned earlier, this study examines cross-border partnerships for empowering existing SMEs through regional collaborations with special reference to accessing resources, technologies, and expertise. For this purpose, we employed secondary data (Desk review) and primary data collection via focus group discussion to fulfil the objective of cross-border partnerships. The individuals selected in the focus group discussion were based on convenience sampling. Therefore, the findings may be generalized with caution. To collect secondary data, we downloaded academic articles via Google Scholar and focused on articles published in Afghanistan and other developing countries. We searched articles using keywords such as Afghanistan SMEs, cross-border strategic and economic collaborations, and war-ravaged countries and SMEs in politically unstable countries. We then developed inclusion and exclusion criteria for the articles for analysis purposes. Table 1 Below is the self-explanation of inclusion and exclusion criteria. The inclusion and exclusion criteria were established to ensure the selection of relevant and focused articles for this study on small and medium-sized enterprises (SMEs) in Afghanistan. Articles published between 2016 and December 2024 in academic journals and the English language were included in the study. The emphasis was on SMEs in war-affected countries, particularly Afghanistan, and articles discussing strategic collaborations with neighbouring countries. The exclusion criteria eliminated articles published before 2016, those focusing on developed countries, publications in languages other than English, and any articles unrelated to the study's context.

Table 1*Final Inclusion and Exclusion Criteria*

Inclusion Criteria	Exclusion Criteria
<ul style="list-style-type: none"> Published from 2016- December 2024. Published in the context of SMEs of war-ravaged countries with special reference to Afghanistan Published in the English language in academic journals. Published in the context of strategic collaborations with neighbouring countries 	<ul style="list-style-type: none"> Excluded articles published before 2016. Published in the context of developed countries Published in other languages Published in other contexts

Moreover, we also collected primary data via focus group discussions (Hereafter, FGDs). Eight (08) individuals from different walks of life participated, and the discussion took almost two hours and fifteen minutes. One of the eight individuals owned an SME, and the second was an employee of the same SME working in precious stones and providing training to individuals in the same business. Three individuals were from different international NGOs; one member of this discussion worked at the Afghanistan Railway Authority, and two worked in private sector organizations. The focus group discussion was semi-structured, where the individuals were adequately briefed about the purpose of the discussion. The issues discussed were:

1. How can Afghanistan's SMEs be empowered via cross-border partnerships?
2. Ways to empower existing SMEs in Afghanistan.

Follow-up questions and detailed discussions with participants were conducted on all these issues.

The study's results are presented in the section below.

4. Results

As discussed in the methodology part of this article, the current study has employed qualitative methodology, and therefore, the results are drawn from both primary and secondary qualitative data. The results of the current Thematic analysis of both types of data have been merged to identify commonalities and differences. After merging both data types, key themes, partnerships, and collaborations that may benefit Afghan SMEs are identified. Figure 1 below depicts all the strategies that may pave the way for SMEs in Afghanistan. It can be observed that cross-border partnerships are the article's central theme, and the remaining nodes show the ways of SME empowerment. The main strategies identified are a collaborative regulatory framework, Technology Transfer and Innovation Partnerships, Supply Chain Integration, Capacity Building and Training Programs, Joint Ventures and Market Entry, addressing political barriers, and SME diplomacy. Each one of these strategies is discussed in the following.

4.1 Collaborative Regulatory Framework

A collaborative regulatory framework is essential for cross-border partnerships between Afghanistan's SMEs and neighbouring countries to streamline trade, reduce bureaucracy, and build trust among regional businesses. This is possible via developing regional trade

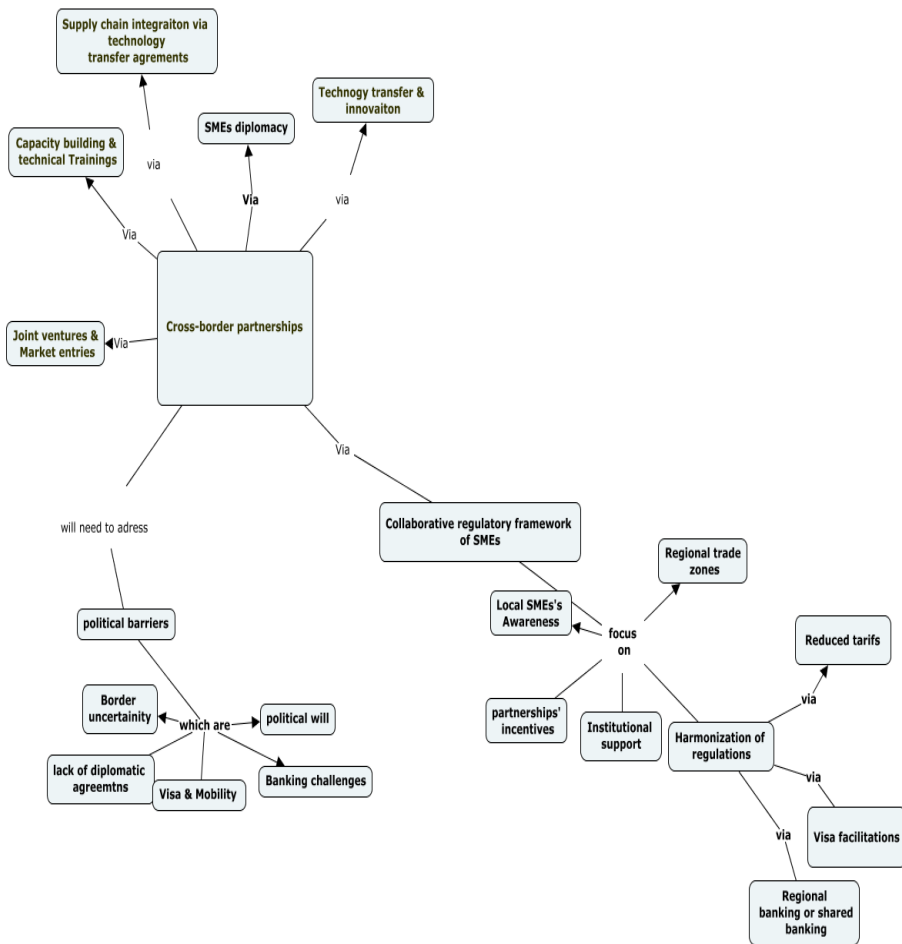
zones, share markets, institutional support for implementation, partnership incentives, harmonizing rules and regulations, visa facilitation centres, and regional or shared banking.

4.2 Technology Transfer and Innovation Partnerships

SMEs in Afghanistan can significantly benefit from collaborating with firms in neighbouring countries to gain access to advanced machinery, software, and innovative production techniques. Such partnerships, mainly through technology-sharing agreements like licensing or joint R&D programs, can enhance productivity in critical sectors such as agriculture and textiles. By leveraging the expertise of regional technology leaders, Afghan SMEs could adopt modern tools and practices to improve operational efficiency and product quality, fostering a culture of innovation that boosts competitiveness in local and international markets.

Figure 1

Strategies to Empower SMEs



4.3 Supply Chain Integration

Cross-border supply chain collaborations will allow Afghan SMEs to access other markets and reduce operational costs. For instance, collaboration with Pakistani logistics

firms could streamline transportation and distribution networks, making it easier to deliver goods efficiently. To promote interdependence markets to bolster SMEs' economies of scale, establishing regional economic hubs in border areas would strengthen the economic partnership and lead to mutual economic benefits. This integration optimizes resources and enhances the regional trade ecosystem by creating beneficial networks.

4.4 Capacity Building and Training Programs

Collaborative technical and industry-based training initiatives, such as training in manufacturing machines, agri-business technology, and other technical production training in various sectors, can bolster SMEs in Afghanistan. This can empower Afghan SMEs with the technical and managerial skills to compete in a market. For example, Iranian expertise in renewable energy and Pakistani proficiency in textile manufacturing could be leveraged to design comprehensive training programs. Similarly, Uzbekistan, Tajikistan and China may initiate capacity-building programs and agreements. These capacity-building efforts would enhance workforce competence, promote knowledge sharing, and encourage sustainable practices, ultimately improving Afghan SMEs' overall performance and resilience.

4.5 Joint Ventures and Market Entry

Regional markets and joining ventures offer a strategic pathway to entering larger markets and reaping the benefits of sharing investments and risks. By forming such partnerships, Afghan SMEs could leverage regional expertise to expand their reach into central Asian markets. Shared branding and marketing strategies would further enhance visibility and appeal, enabling Afghan businesses to establish a stronger foothold in competitive marketplaces. These ventures foster economic growth by creating opportunities for mutual benefit and long-term collaboration.

5. Discussion and Implications

Cross-border partnerships represent a practical solution to address Afghan SMEs' resource and expertise gaps. By leveraging the strengths of neighbouring countries, SMEs can achieve economies of scale, improve competitiveness, and access global value chains. Successful partnerships require trust-building measures, regulatory alignment, and institutional support to address existing challenges, consistent with network theory, emphasizing that trust and building collaborative relationships lead to greater results. Moreover, the current study supports the previous studies (Muhammadi., 2024; Haqbin., 2023), positing that institutional support is crucial for fostering cross-border partnerships for Afghan SMEs. The Afghanistan Chamber of Commerce and Industry (ACCI) should establish dedicated platforms to connect Afghan SMEs with potential regional partners, creating opportunities for collaboration. Governments can further encourage these partnerships by introducing financial incentives, such as tax breaks, to reduce the cost burden for businesses. Harmonizing regulations, including streamlining customs procedures and tariff structures, will facilitate smoother and more efficient collaboration across borders. Additionally, awareness campaigns are essential to educating Afghan SMEs about available resources and partnership opportunities in neighbouring countries, enabling them to tap into regional networks effectively. Most importantly, all these

efforts depend on political will and the effective management of political relationships with neighbouring countries.

5.1 Limitations and Recommendations for Future Research

Every study has some limitations; this study also has many limitations. Firstly, the study findings are based on primary data collection via FGDs. The participants of the FGDs did not represent the government, Afghanistan Chamber of Commerce, or industry perspectives. Secondly, secondary data may not fully capture cross-border partnerships' dynamic and evolving nature in Afghanistan. Future research should include interviews or focus groups to validate the findings and develop holistic recommendations.

Conclusion

The main purpose of this study was to explore strategies for empowering Afghanistan's SMEs via strategic collaborations with neighbouring countries. For this purpose, we used a mixed methodology combining qualitative primary and secondary data. The study concludes that Partnerships and collaborations with neighbouring countries hold immense potential for Afghan SMEs to access new resources, technologies, and expertise. Afghanistan can unlock significant economic opportunities and build a resilient SME sector by fostering cross-border cooperation. This study's findings provide a roadmap for policymakers, stakeholders, and regional organizations to design effective partnership models and policies, contributing to Afghanistan's long-term economic development.

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