



Social Enterprise Ecosystem
Country Profile

AFGHANISTAN

Acknowledgments

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AFGHANISTAN

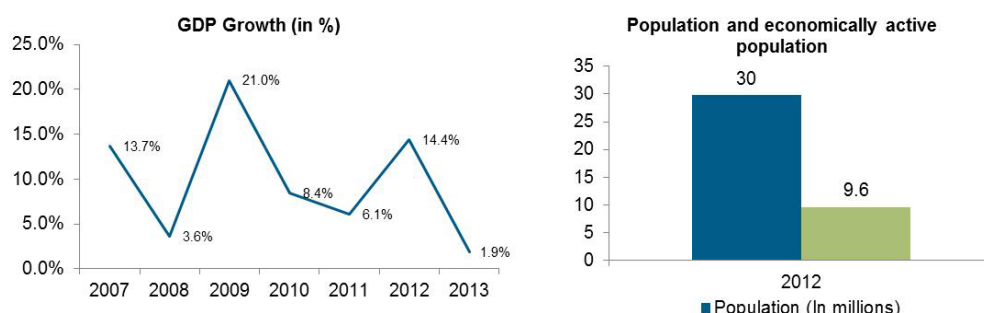
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1. Introduction

Afghanistan is a landlocked country with a population of nearly 30 million¹ that has been the focus of international community and aid agencies in the last decade (Figure 1). Afghanistan is largely a rural society with agriculture providing the means of livelihood for nearly 75 percent of the economically active population. However the contribution of the agriculture sector to the GDP is only 25 percent with services sector contributing 53 percent and industry 22 percent.² Afghanistan has largely benefited from humanitarian and development assistance in the last 10 years, receiving nearly USD 7 billion of assistance in 2012 (nearly 35 percent of the GDP), one of the highest in the world.³ The majority of aid money has gone into developing the macroeconomic environment, infrastructure development and toward capacity building of the government.

Figure 1. GDP growth and population



Given the significant aid money received and a large presence of development agencies/international NGOs in the country, Afghanistan has substantially improved on many development indicators related to access of electricity, reduced mortality rates and access to improved water and sanitation facilities.⁴ However, internal displacement and food security remain a major challenge for many people in the country with an estimated 35 percent of the population living below the poverty line.⁵ There are also significant concerns on the drying up of grant and development funds post 2015, security challenges due to reemergence of militant insurgency and difficulty to reach the last mile due to the rugged mountainous terrain in the country. Development of the private sector and SEs could assist the country in poverty alleviation and mitigate some of these challenges.

SEs (SEs) combine the mission of an NGO with the discipline of a private business. SEs could become crucial players in filling service delivery gaps and ensure sustainable inclusive growth for the Base-of-the-pyramid (BOP) and low-income population. A significant part of the low income population base in the SAARC region is living without basic services such as healthcare and access to electricity. Despite the efforts of the government and NGOs a large part of the basic needs of the low-income population, remain unmet. This supply-demand gap has led to the emergence of SEs across impact sectors.

The objective of this study is to analyze the SE landscape and related ecosystem in Afghanistan for agri-business, healthcare and renewable energy sectors. While analyzing the SE landscape and ecosystem in

¹ World Bank Indicators, 2013

² CIA World Fact Book, 2012 est.

³ Development Co-operation Directorate (DCD-DAC), OECD statistics 2012

⁴ Afghanistan Beyond 2014, Lydia Poole, Briefing paper 2014; World Bank development indicators

⁵ Poverty in Afghanistan, Jordan Kline, available at <http://borgenproject.org/poverty-in-afghanistan/>

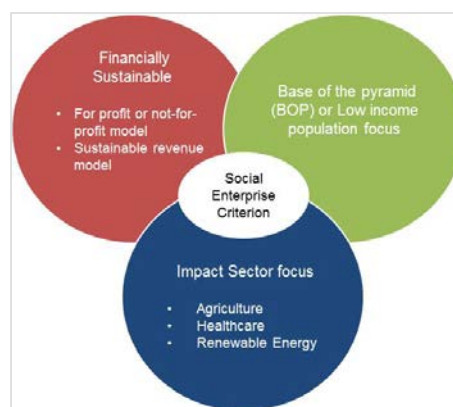
Afghanistan, this report aims to provide insights to various stakeholders to design initiatives for deeper assessment of the priority sectors and segments for promoting social entrepreneurship in the country. This report is part of a broader SE analysis conducted by the Word Bank across seven countries in South Asia: Afghanistan, Bangladesh, Bhutan, Maldives, Nepal, Pakistan and Sri Lanka.

2. Methodology for Analysis of the SE Sector

While being cognizant of these challenges on definition and perception, this report aims to cover all the enterprises that meet the following criterion (Figure 2):

- **Financially sustainable:** The SE operates as an independent registered business and can be either for-profit or a not-for-profit established on a financially sustainable revenue model.
- **Focus on social impact at BOP or low-income population:** Empower population at BOP as producers or providers of income-generating commodities, products or services, as consumers of affordable goods and services, and as independent entrepreneurs.
- **Impact sector focus:** They operate in one or more sectors that have a direct impact on the lives and livelihoods of the BOP population: agriculture, healthcare and renewable energy.

Figure 2. Criterion for SEs



Registered charities and trusts operating purely as charitable organizations delivering a public good/service with no inherent model for financial or revenue sustainability are not considered in the SE criterion for this report. Given the SE definition is still evolving in many countries under study, many private businesses with clear laid out social or environmental goals and that engages with low income communities as customers or as key suppliers has been included in the study.

The research for the study was conducted in two phases. In the first phase an overall SE ecosystem analysis was conducted base on the key dimensions of the SE ecosystem. In the second phase, a sector-level assessment was conducted to capture the current state of sector value chains as relevant for creating an impact at the BOP. A firm-level assessment to map the presence of SEs in various stages of enterprise development was also completed in the first phase.

The ecosystem in which SEs operate refers to interdependent networks of individuals and organizations (actors) and the influencing enterprise environment that act upon those networks, leading to a variety of actors. To this extent, the ecosystem is comprised of enabling or constraints conditions setting the parameters by which SEs operative. Many of these ecosystem conditions result from the decision or behavior of actors or from interactions of actors within the ecosystem and are indeed critical as these can shape the creation, sustainability and scale of SEs. The SE ecosystem was analyzed using a framework covering four key dimensions: a) Market landscape, b) Policy, c) Enablers/Intermediaries and d) Capital that are important for promoting social entrepreneurship. The framework was designed to bring out nuanced and actionable insights on market drivers, need-gaps, challenges and opportunities for SEs as seen across each country (Figure 3).

Comment [CNM1]: Please include annex with full methodology

Figure 3. Dimensions for analysis in this report



This sector-level assessment was completed to discuss the presence of SEs across the sector's value chain and the critical needs that these enterprises are trying to address to create impact on low-income populations. The level of organized activity was rated as high, medium or low depending on the number of SEs active in the sector/sub-sector. For instance, a sub sector was rated as 'High' if ≥ 50 percent of the total SEs in the sector fell within this category. Similarly 25-50 percent was rated as 'Medium' and less than 25 percent was 'Low'. This classification was modified based on information collected for the study from each country.

The framework covers the value chain for the agriculture sector consisting of: provision of inputs (pre-harvest), cultivation and plantation (harvest) and process/packaging and warehousing/distribution (post-harvest) across various critical needs and impact areas for the BOP. Similar value chain analysis for other two sectors have been developed and used across the seven selected countries to identify high potential sub-sectors for SE development.

Based on key findings of the ecosystem assessment, sector- and firm-level assessment, key insights and recommendations have been developed and reviewed with ecosystem stakeholders, social entrepreneurs and sector experts. The main study ("Social Enterprise Ecosystems in South Asian Association for Regional Cooperation Countries") and the associated country profiles provide an overview of opportunities in the SE space across the SAARC region and deeper insights across the three focus sectors of agriculture, renewable energy and healthcare.




Note on Limitations of the Methodology:

The report is constrained by limited availability of consistent data on SEs active across the three sectors in the seven SAARC countries. In the absence of readily available data on the number of SEs in some sectors, the report relies on data from the field and insights from various stakeholders. The SE activity and its representation across the impact areas are based on interviews with sector experts and social entrepreneurs across the SAARC countries. It must also be noted that the report does not extensively cover all of the critical needs of the BOP and impact areas in a sector, but only the promising, potentially high-impact areas for SEs.

3. SEs in Afghanistan—An Overview

The SEs concept is relatively new in Afghanistan but the enterprises have adapted various innovations in business models, distribution channels and financing options to serve their customers. Some enterprises such as Omaid Bahar Group have provided forward linkage to farmers by providing them access to markets to improve their earnings and enhance dependability in income. Afghan Institute of Learning provides both health education and care to ensure that it covers key areas of preventive and curative care. Afghan solar has setup local distribution channels to ensure last mile delivery of its solar energy products to various regions of the country. Figure 3 lists different innovative business models across the focus sectors in Afghanistan and some examples of SEs pursuing these models.

Figure 4. Innovative business models in Afghanistan

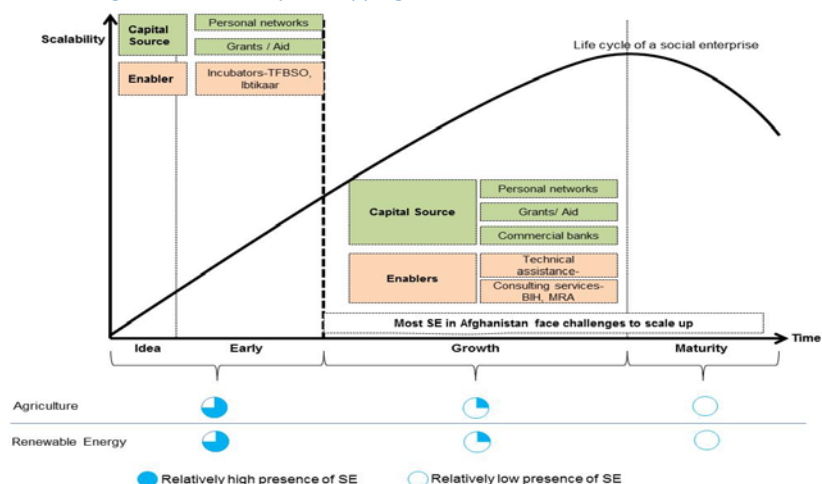
Agriculture 		Healthcare 		Renewable Energy 	
Productivity improvement	Access to technical experts in rural areas Rusnan Zada Co. Ltd	Maternal, infant mortality improvement	Combining health education and care. Afghan Institute of Learning	Improved accessibility	Distribution channels for last mile delivery Afghan Solar
Access to capital	Combining banking and insurance for risk mitigation AAIOO	Primary care	Use of ICT to improve accessibility Aham Health	Higher affordability	Affordable financing options Mander
Better market linkages	Providing forward linkages to farmers Omaid Bahar Group	Reduced Healthcare expenditure	Low cost of services using ICT Aham Health		

Source: Intellectap analysis

The majority of the SEs in Afghanistan have come up in the last few years and hence are in the early stage of development. A few enterprises in the agriculture sector have been in operation for many years on sustainable basis and can be seen in the growth stage.

Afghanistan has slowly recovered from militant insurgency and is now on the path of political stability and economic upheaval. Large volume of donor and grant money has assisted the country to develop its infrastructure and build institutional capacity for implementation of reforms. However, these enablers have been able to create a good environment for promoting the private sector and encouraging social entrepreneurship, scalability of operations and market expansion remains a challenge for many SEs active in the country. The majority of the population in rural areas remains very poor with the inability to pay for healthcare services or for clean energy products and are largely dependent on free or low-cost services. Similarly, enterprises in the agriculture sector have difficulty reaching out to marginalized farmers given the low availability of logistics and transportation infrastructure. However, given that the majority of SEs in the country are in the early phase of operations and are now poised to enter the growth phase, there is an excellent scope for impact investors, donor/development agencies and other key stakeholders to be a part of this future growth potential of the country (Figure 4).

Figure 5. SEs in Afghanistan – Life cycle mapping



Note: The above analysis was conducted based on inputs from investors, SEs, incubators and sector experts in Afghanistan

4. Ecosystem Assessment

The SE landscape in Afghanistan is slowly evolving with majority of enterprises operating as not-for-profits; for-profit models are common in the renewable energy sector.

Landscape	Policy
Capital	Enablers

The concept of SE in Afghanistan is relatively new though there has been a significant presence of not-for-profit organizations, NGOs charities and foundations across impact sectors such as healthcare and education. Majority of these enterprises are funded by the international aid money flowing to the country. A few foundations such as the Aga Khan Foundation (AKF) and funds such as Afghanistan Reconstruction Trust Fund (ARTF) work closely with the government on community development programs with a focus on food security, improving access to education and healthcare, developing new sources of household income and improving transport and communications infrastructure.

Case Box 1 : Examining the case of a fruits processing and packaging enterprise in Afghanistan

Omaid Bahar Group is a fruit processing company in Afghanistan that purchases fruits from over 35,000 farmers. While the company is a profit focused enterprise, it has clear laid out social goals with a vision to improve the life of local farmers and marginalized group of farmers by ensuring they receive the best price for their products while minimizing wastage and increasing income security due to seasonality of fruit supply. The company provides logistical support to farmers by providing its own fleet of transport vehicles to send the produce from the farm gate to the processing plant. The company conducts seminars and other training courses to update knowledge and skills of the farmers and is also involved in the mechanization process to improve production.

SE is a new concept in Afghanistan and many enterprises face challenges in the early stage while scaling up their operations.

After decades of militant insurgency that had impeded the economic growth and stalled private sector activity, there has been some degree of political stability achieved in the last few years that has encouraged the growth of private sector in the country. Currently the SE activity is limited, though a number of private businesses (e.g. the Omaid Bahar Group) with a focus on social goals and that work closely with the low income population groups may be classified as SEs. Many of these private enterprises are family run businesses and are active in the agriculture and associated allied activities that have been traditionally practiced over generations in segments such as fresh fruit, dried fruit and nuts.⁶ In the healthcare segment, medical programs in the country have been implemented by aid or donor agencies such as WHO and Red Cross in coordination with the Afghan military and the government. In addition, there are many NGOs active in the healthcare delivery system running community based programs. In the renewable energy sector, a few for-profit models of SEs such as Afghan Solar and Masdar have emerged in the off-grid solar products space given the high solar irradiance across the country and lower access to grid electricity in many rural parts of the country.

Given the perceived political instability, security concerns and lack of basic infrastructure facilities, Afghanistan ranks a lowly 164 out of the 189 economies in ease of doing business rank. Majority of the small businesses identify lack of electricity as the major constraint to doing business in the country. Though physical security remains a concern, uncertainty and unpredictability in the political systems is seen as more critical given the political transition of the country.⁷

Case Box 2: Examining challenges faced by an enterprise for scaling operations in Afghanistan

A not-for-profit SE active in Afghanistan for nearly 10 years faced severe challenges that derailed its expansion plans in other regions of the country. The enterprise, active in post-harvest segment of semi-processing and packaging of nuts was run by a few social entrepreneurs with foreign nationality. While scaling up the operations to other regions of the country the enterprise had to face severe corruption issues and government red tape. Delay in getting approvals and requirement of 'pay-offs' have stalled the progress of the enterprise. The entrepreneurs felt a greater need of policy intervention to enforce contracts and establishment of an independent monitoring and evaluation systems in the country to resolve conflicts.

Afghanistan has formulated several enabling policies such as Rural Enterprise Development Program, ASMED program and Health Policy Project to promote SE activity.

Landscape	Policy
Capital	Enablers

Given that the concept of SE is relatively new in Afghanistan, there are no specific policies or programs focusing on SEs in Afghanistan. However, the government has formulated several enabling policies and programs to promote private sector activity across impact sectors in the country. The Afghan government's SME Development Policy has sought to focus on target sectors such as food, dairy and poultry production that could ensure food security in the country with less dependency on imports. Health Policy Project (HPP) aims to improve the role of private health providers in the country by building capacity of local organizations to provide high-quality health services.⁸ However, 70 -80 percent of the private enterprises in Afghanistan remain informal and unregistered with the government agencies. Perceived corruption in collection of taxes and difficulty in registration for new business due to

⁶ Intellect interviews with key stakeholders

⁷ Mujib Mashal (2014), Small and Medium Enterprises Development and Regional Trade in Afghanistan

⁸ Health Policy Project (HPP)/ Afghanistan 2010

government red tape are the key challenges that lead to high informality and there is a need for policy intervention in this area.⁹

Table 2. Policies and projects to support SEs in Afghanistan

Policy/Projects	Objectives
Afghanistan small and medium enterprise development (ASMED)¹⁰	<ul style="list-style-type: none"> • ASMED supports private sector growth in Afghanistan with focus on small- and medium-enterprise development and job creation • Target industries include food, vegetable oil, dairy and poultry production • New areas of focus include renewable energy applications for rural, powerless areas and access to low-cost pharmaceuticals
Afghanistan Rural Renewable Energy Policy¹¹	<ul style="list-style-type: none"> • The policy aims to improve private sector investment in the rural energy space in the country • Support the enterprises in mobilizing funds. Enable investment to run pilot energy projects for promotion of entrepreneurship with focus in rural areas
Health Policy Project	<ul style="list-style-type: none"> • Build the capacity of local private health care service providers to provide high-quality and affordable health services • Strengthen government's capacity to oversee and finance nation's health systems and build relationships between public and private health sectors.

SEs in Afghanistan are largely dependent on banks and donor/development agencies for raising capital; access to credit is largely limited to enterprises active in Kabul, Herat or Balkh provinces.

Landscape	Policy
Capital	Enablers

Majority of the SEs in Afghanistan are dependent on aid and grants from international donor and development agencies or personal networks and family for raising capital. For-profit SEs may either reach out to these donor/development agencies or to commercial banks in the country for raising capital. A few of the commercial banks in the country have small business and SME focused loans. Private sector share of total gross loans in the country is slightly more than 88 percent, indicating the relative ease in access of capital for many enterprises in the country. However, nearly all the loans have been allocated in Kabul, Herat or Balkh provinces indicating that enterprises in other provinces have difficulty in obtaining credit. Also post 2015 when the donor /aid money is likely to reduce considerably, many of the SEs with a not-for-profit focus may find it very challenging to raise capital given the high dependency on a few agencies such as USAID.

Other source of capital for SEs such as impact funds, angel/seed investors are slowly emerging in the country. Aga Khan Development Network has established Aga Khan Foundation in the country and has a few investments in the healthcare and financial inclusion segments. The Afghanistan Renewal Fund is another venture capital fund in the country with a focus on SMEs in impacts sectors such as agribusiness, distribution and logistics, and financial services.

⁹ Mujib Mashal (2014), Small and Medium Enterprises Development and Regional Trade in Afghanistan

¹⁰ ASMED Annual report 2009

¹¹ Afghanistan Rural Renewable Energy Policy, 2013

Table 1. Capital infrastructure for SEs in Afghanistan¹²

Investor type	Enterprise
Donor/Development Institutions	<ul style="list-style-type: none"> World Bank, USAID, NATO ANA Trust Fund, UNDP, DFID, GiZ
Venture Capital/Private Equity	<ul style="list-style-type: none"> AKDN, Afghanistan Renewal Fund, Small Enterprise Assistance Funds (SEAF), Afghan Growth Finance, FAIDA, Harakaat
Banks	<ul style="list-style-type: none"> Nine privately-owned commercial banks, three state-owned commercial banks, four foreign commercial banks

Technical assistance programs for SEs are largely run by donor/development agencies; a few incubators and programs/events to promote social entrepreneurship have recently emerged in the country.

Landscape	Policy
Capital	Enablers

The enablers for promoting SEs in Afghanistan are slowly emerging with technical assistance programs run by the government. The concept of incubators/accelerators is relatively new with US Department of Defense's Task Force for Business and Stability Operations (TFBSO) launching the first-ever IT incubator in Afghanistan in 2011. A Technology Startup Incubator called Ibtikaar was established in 2014 by the government to support entrepreneurs in the ICT sector in the country. 'Beyond Aid' is in development stages of launching an incubator hub in Kabul by Jan 2016. There are a few advisory and consulting organizations such as MRA associates and Business Innovation Hub that have come up in the last 2-3 years to promote social entrepreneurship in the country.

Table 2. Incubators and other enablers active in Afghanistan

Incubator type	Enterprise
Promoted by the Government	<ul style="list-style-type: none"> Technology Startup Incubator titled Ibtikaar (initiative) , operated by the Ministry of communications & Information Technology
Incubators/ Accelerators	<ul style="list-style-type: none"> Task Force for Business and Stability Operations (TFBSO) Beyond HUB, incubator with community space planned in Jan 2016
Advisory Services	<ul style="list-style-type: none"> MRA associates, Business Innovation Hub
Technical Assistance	<ul style="list-style-type: none"> Canadian Governance Support Office, ADB, JSDF, World Bank

Development financial institutions have played key role in promoting small business activity in the country. For instance, World Bank's Access to Finance Project aims to improve access to financial services for micro and small enterprises through mechanisms such as credit guarantee facility.¹³ Similarly, USAID works closely with the Afghan government to assist micro and small businesses to receive loans, connect with new markets, and assist in developing new skills.¹⁴ However, most of these initiatives are recent and the ecosystem for social entrepreneurship development would take time to evolve

¹² Note- Sources of finance are not for SEs exclusively

¹³ World Bank: Afghanistan Projects, available at <http://www.worldbank.org/en/country/afghanistan/projects/all>

¹⁴ US AID: Our Work, available at <http://www.usaid.gov/afghanistan/economic-growth>

5. Sector-Level Assessment

This section covers sector-level assessment of the SE activity in Afghanistan across agriculture, healthcare and renewable energy sectors. Each sector assessment study includes a detailed description of the presence of SEs across the sector's value chain and the critical needs that these SEs are trying to address in order to create an impact on the low income population group of the country.

5.1. Agriculture Sector

Agriculture is the key source of livelihood for majority of the population in Afghanistan employing around 4.5 million workers, or 60 percent of the total Afghan workforce.¹⁵ Agriculture in the country is largely subsistence-based with farmers growing crops for their own consumption based on the traditional farming methods. Agriculture productivity in the country in terms of cereal yield (kg per hectare) is one of the lowest in the SAARC region, indicating the low use of quality inputs and extension services. Poppy cultivation historically was a key farming activity for many farmers, however, several programs and initiatives by the government and development agencies have reduced the cultivation and most of the provinces (apart from the north and northeast) are relatively free from poppy.

Agriculture sector in Afghanistan is characterized by small landholding patterns with nearly 60 percent of farmers having small landholdings (less than 1 hectare) and cultivating 22 percent of the crop land.¹⁶ Majority of the other farmers have medium land holdings with very few large land holding farmers. Given smaller land holdings which limit income generation, most of the rural households own some livestock and may also work as paid labors to complement their income. Fragmented land holding patterns coupled with low income of the farmers makes it difficult for the private sector enterprises providing inputs such as seeds or fertilizers to target these farmer groups to scale up their operations. However, for enterprises active in the post-harvest segment, aggregation of produce to achieve economies of scale may be possible given smaller number of farmers cultivating medium to large crop lands in the country.

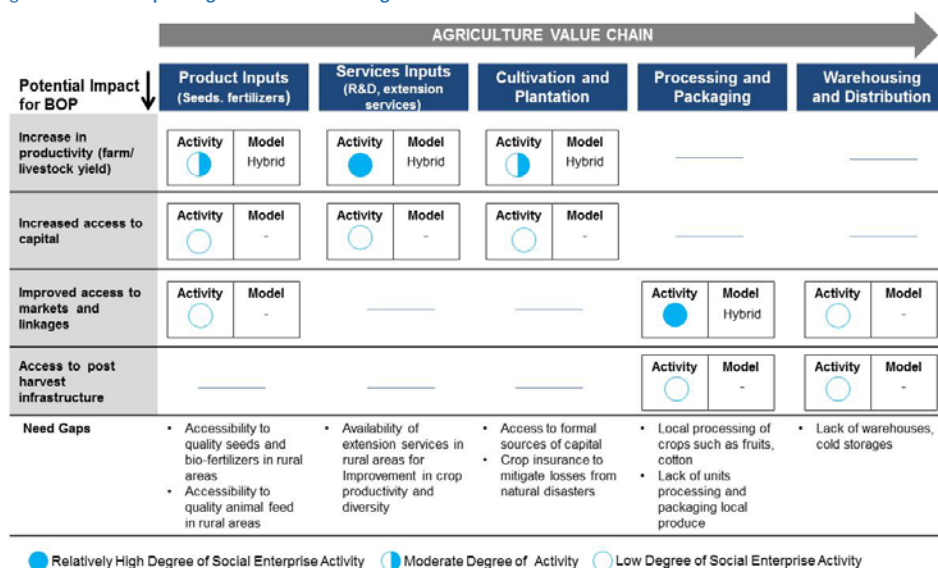
Majority of the SEs in agriculture sector are active in the post-harvest value chain providing forward linkage to farmers for improved access to markets. Many of these enterprises also provide training and advisory services to farmers for improving agriculture productivity.

A number of enterprises, both for-profit and not-for-profit, with clear focus on providing benefits to the farmer groups have emerged in the last few years in the post-harvest value chain of fresh produce items such as fruits and nuts. While these enterprises may not refer themselves as SEs, they work closely with the farmer groups to provide training and advisory services for improving agriculture productivity as well as providing market linkages. For profit enterprises such as Omaid Bahar Group and Hussain Zada Ltd conduct various training courses to update the knowledge and skills of the farmers. Hussain Zada provides consultation to farmers through agricultural specialists and sector experts from Ministry of Agriculture, Irrigation and Livestock. Omaid Bahar provides post-harvest market access to farmers through its transportation network and warehousing facilities to bring the produce to the market on time, thereby reducing wastage. Not for profit Arghand works with farmers in the dry fruits and nuts segment expanding their market access to domestic as well as international markets.

¹⁵ Agriculture in Afghanistan, ARTF 2014

¹⁶ Agriculture in Afghanistan, ARTF 2014

Figure 6. SE landscape in agriculture sector in Afghanistan



Source: Insights from SE ecosystem stakeholders and sector experts, Intelicap analysis

There are a few enterprises active in the provision of inputs such as supply of quality seeds, fertilizers and irrigations systems to improve farm productivity. For-profit Noor Agro Group and not-for-profit Afghan Fertilizer Company aim to empower the local small holding farmers by providing them good quality seeds and training to boost their production.

There are potential opportunities for SEs in providing access to quality inputs, access to capital and improved access to post-harvest infrastructure for agro processing for horticulture products.

There are opportunities for SEs in the pre-harvest value chain for providing access to quality inputs and irrigation solutions to small holder farmers, given the lower farm productivity in the country. Mobile communication technology could be utilized to inform and train farmers on production and marketing strategy based on market signals and incentives available. Access to formal sources of capital to farmers to overcome high investment costs in the cultivation stage and managing working capital requirements during post-harvest phase also provide intervention opportunities. In the post-harvest segment, there is a high development potential of agro-industry in the horticulture segment for fruits/nuts and improvement in household nutrition through production and processing of milk.

SE activity in the agriculture sector in Afghanistan is relatively new, but is gaining foothold by working closely with marginalized small holding farmer groups. These enterprises face several challenges for managing their operations and for scaling up their activities to other parts of the country. Firstly, access to formal sources of capital is largely limited to commercial banks in the country with no specific policy interventions for agricultural finance. Secondly, access to reliable electricity is key challenge for many enterprises in the post-harvest value chain of processing and packaging as there is large demand mismatch between energy demand and supply. Thirdly, corruption and government red tape for majority of approvals hinder the growth of private sector enterprises in the country.

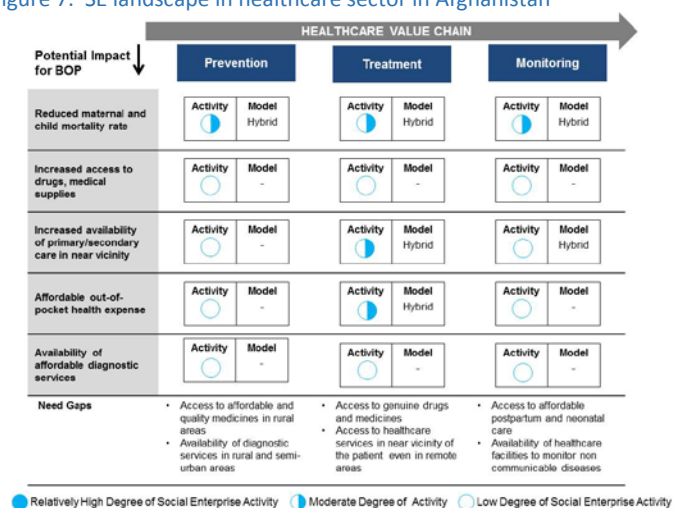
5.2. Healthcare Sector

Afghanistan has one of the lowest life expectancy and one of highest rates of infant and maternal mortality in the world despite improving considerably on these parameters in the last few years. The country suffers from a high incidence of communicable diseases such as diarrhea, tuberculosis, malaria and acute malnutrition in young children. Healthcare services in Afghanistan are largely seen as the responsibility of the government. Under the National Health Policy, government is expected to deliver complete set of health services in both preventive and curative care at all community levels throughout the country. However, public health expenditure in the country remains very low at 1.7 percent of the GDP indicating the high reliance on private sector and high out of pocket healthcare expenses.¹⁷ The capacity limitation of the government in reaching out to various regions of the country especially rural areas has led to high presence of standalone private physicians and high presence of development agencies, NGOs or charities providing healthcare services. Majority of the NGOs and charities are largely dependent on grant or aid money with less focus on sustainable revenue streams.

There is limited SE activity with the government, aid agencies as major provider of health services. Potential opportunities for SEs may be investigated in access to affordable postpartum and neonatal care and preventive care for communicable diseases

The SE activity in the healthcare sector in Afghanistan is very limited with the government, donor/development agencies and private health clinics providing majority of the healthcare services. Majority of the private health clinics are located in the urban areas with little presence in the rural regions. A few SEs have emerged in the last few years offering multitude of healthcare services for preventive and curative care targeting the underserved rural population. Majority of these SEs follow the not-for-profit model and provide services at very low or subsidized costs. Enterprises such as Afghan Institute of Learning combine health education with treatment services and operate health clinics as well as train nurses, midwives, community health workers and rural traditional birth attendants. For profit AlemHealth provides high-quality low-cost diagnostic telemedicine services to local diagnostic centers in Kabul by utilizing its global network of radiologists.

Figure 7. SE landscape in healthcare sector in Afghanistan



¹⁷ World Bank Development Indicators 2013

Source: Insights from SE ecosystem stakeholders and sector experts, Intellectap analysis

Though Afghanistan has improved on various indicators on infant and maternal mortality, a lot remains to be done on child nutrition, preventive care for communicable disease and postpartum and neonatal care in the rural regions amongst others.¹⁸ Potential opportunities for SEs could be investigated in providing affordable special care services for postpartum and neonatal care, diagnostic services and preventive care for water borne disease and malaria. SEs can train female health-workers, mid-wives operating in the rural regions by organizing health education workshops and training sessions.

5.3. Renewable Energy (RE) Sector

Access to electricity is a major challenge in Afghanistan with only 41 percent of the population connected to grid electricity.¹⁹ For the grid connected population, reliability of power supply is a key challenge with long hours of electric power failures. In a 2013 survey by the Afghan Chamber of Commerce and Industries nearly 80 percent of the private sector businesses have identified inconsistent supply of electricity as the key hurdle to doing business. The greater Kabul region accounts for about 50 percent of the country's electricity consumption and two-thirds of the installed power generation capacity. The situation worsens in rural areas, where only 10 percent of the households are connected to the grid.²⁰ The rural population is dependent on fire wood and kerosene supplies for their cooking and heating needs.²¹ Use of firewood as fuel has had led to deforestation, while posing severe health impacts on women and children.

Afghanistan has rugged hilly and mountainous terrain where it is difficult to extend the grid electricity to various rural regions of the country. Smaller scale off grid renewable energy technologies such as small hydro, solar PV, solar energy products can play a significant role meet the energy needs of its population. The country has significant renewable energy resources both in hydropower power and solar energy. The hydropower potential of Afghanistan is estimated at nearly 23,000MW, most of which is untapped and there is good potential for harnessing solar energy in most regions across the country. A number of private sector enterprises offering solar products such as solar PV and solar lanterns have emerged in the last few years to meet the energy demands.

Majority of SEs in the renewable energy sector provide accessibility to clean energy products such as solar PV panels or solar lighting products ensuring last mile delivery.

The SE activity in the renewable energy segment in Afghanistan is slowly emerging, with a number of private enterprises offering accessibility to solar products in rural regions of the country. Majority of these enterprises have been established as for-profit businesses with some degree of achieving social goals by ensuring last mile delivery of their products and services to low income population in the remotest rural areas. For instance, Afghan Solar focuses on serving the rural areas where grid connectivity is not available through establishing local channels for distribution and installation of solar home systems. Zularistan Ltd focuses on installation of solar PV systems in schools and hospitals operating in rural or semi-urban areas for ensuring reliability of power supply.

¹⁸ Global Health Observatory, April 2014, available at <http://apps.who.int/gho/data/node.cco>

¹⁹ World Bank Development Indicators, access to electricity 2010

²⁰ Peter Meisen(2008), Rural Electrification in Afghanistan

²¹ Reegle policy database: Afghanistan, available at <http://www.reegle.info/policy-and-regulatory-overviews/AF>

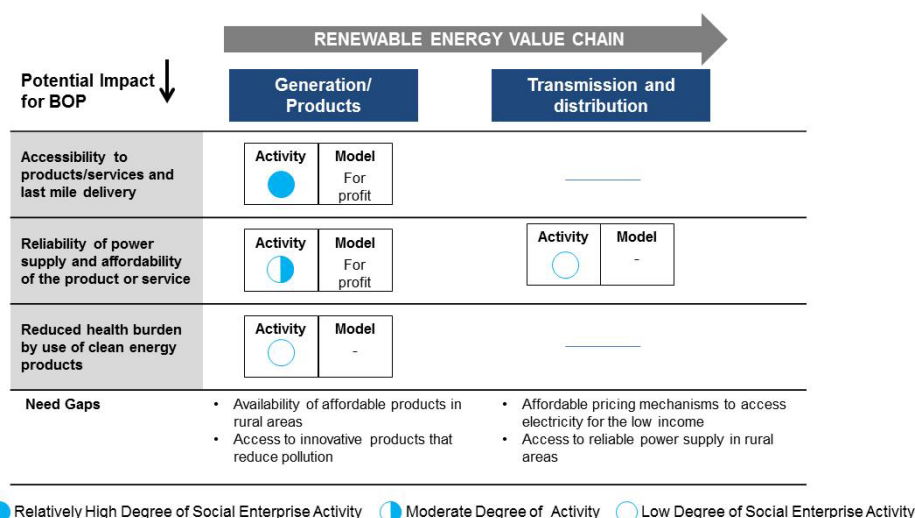


Figure 8. SE landscape in renewable energy sector in Afghanistan

Source: Insights from SE ecosystem stakeholders and sector experts, Intelcap analysis

Potential opportunities for SEs could exist in clean cook stoves and providing affordable solar products or services through access to financial loans.

Traditional energy source such as firewood and kerosene is largely used in rural areas of Afghanistan to meet the needs for cooking and heating. Usage of these could lead to health issues in rural households, especially in women and young children. SEs could investigate the possibility of promoting clean cook stoves in the country or bio-gas plants based on human and animal waste to meet the energy requirements, upon proper training of the households. There are a few enterprises such as Afghan Starlight that offer solar stoves for clean cooking but their presence is limited. Secondly, SEs providing clean energy products in rural areas could potentially improve the affordability of these products using financial loans or schemes by tying up with commercial banks and other donor/development agencies.

Most of the SEs in the renewable energy sector in Afghanistan have emerged in the last few years but their presence and operations seems to be largely concentrated in a few regions of the country. Limited road network, inadequate transportation facilities and physical security concerns limits their growth in the rural areas of the country.

Solar home systems are popular among small businesses and the middle class in Afghanistan as alternatives to diesel generators during load shedding. A major challenge with the private market sources solar products in Afghanistan is that much of it is traded across the border with Pakistan and uncertified, which has resulted in very poor quality and often faulty products flooding the Afghan market. With limited ability to repair and maintain these products in Afghanistan, Solar Home Systems (SHS) has gained a reputation for being poor and unreliable. Since consumer awareness is low, people often go for lower quality imported cheaper substitutes, instead of the products enterprises have to offer with 25 years guarantee. Most of imported goods are disqualified panels imported from Pakistan and India (each month 20-30 containers are imported). The credible companies who have invested in solar sector face severe competition from these imported products.

In Afghanistan, there are neither local investors nor incubators who specifically invest in and support energy enterprises. Social entrepreneurs in Afghanistan instead tap into the support systems available to the International NGOs. Financial support is extremely limited in Afghanistan, with most of the funds for development coming from donors. These funds are provided primarily to NGOs for traditional training and capacity building and generally pass through government. Other support available to entrepreneurs—both financial and non-financial is from friends, family and other informal sources. **SEs in the energy sector in Afghanistan require continued financial support from donors and other international agencies.**




The Ministry of Energy and Water is responsible for supporting and fostering energy access in Afghanistan. It does so through formulating policies, encouraging private investments in the sector and launches large infrastructure projects with the help of international aid agencies and the private sector. The Renewable Energy Department (RED) under the Ministry of Energy and Water (MEW) is responsible for guiding Afghanistan's renewable energy strategy. It supervises the use of available renewable energy resources for social and economic benefit. It takes into consideration the long-term environmental impacts while prioritizing the country's infrastructure development.²² There is no energy policy in Afghanistan. The Electricity Policy 2003 is the only policy under the energy sector. The lack of an energy policy can be attributed to a missing institutional framework coordinating between different Government Ministries and stakeholders.²³ There is no clear institutional framework or policy for rural electrification, the one that exists on the MEW website is in draft form.²⁴ Policies are not implemented well because of lack of coordination between ministries. The private sector is hesitant to partner with the government because they do not pay on time.

6. Conclusions and Recommendations

SE is a relatively new concept in Afghanistan with many enterprises operating as not-for-profits, especially in the agriculture and healthcare sectors while for-profit models are more common in the renewable energy sector. For many SEs, there is a high dependency on aid or grant money, which is expected to dry up in the next few years. It is critical for SEs to pursue financially sustainable revenue models to ensure viability of their operations in the near future.

Table 4 summarizes the key impact areas addressed by SEs in Afghanistan.

Table 4. Key areas for SEs

Agriculture 	Healthcare 	Renewable Energy 
<ul style="list-style-type: none"> ▪ Increase in productivity (farm/livestock yield) ▪ Improved access to markets and linkages 	<ul style="list-style-type: none"> ▪ Reduced maternal and child mortality rate ▪ Increased availability of primary/secondary care ▪ Affordable out-of-pocket health expense 	<ul style="list-style-type: none"> ▪ Accessibility to products/services and last mile delivery ▪ Reliability of power supply and affordability of product/service

²² <http://www.red-mew.gov.af/about-us/introduction/>

²³ <http://eneken.ieej.or.jp/data/3190.pdf>

²⁴ <http://www.reegle.info/policy-and-regulatory-overviews/AF>

Majority of the SEs in Afghanistan have arisen in the last few years and hence are in the early stage of development, with overall levels of SE activity assessed as medium. However, the social impact potential of SEs in the country is comparatively higher given the basic service delivery challenges and constraints faced by the public sector.

While there are several positive trends of government support toward SE development and greater attention to the sector from development agencies, the following recommendations have emerged from the study to further promote and develop the SE ecosystem in Afghanistan:

- **Incorporate SEs into strategic government and donor development agendas:** Service delivery, employment and private sector solutions lend themselves well to government and donor collaboration with SEs and can improve achievement of development targets at larger scale, higher speed and lower cost. For example, supporting SEs active in the post-harvest value chain with backward integration through collaboration with inputs supply players. This could assist the SEs in scaling up their operations while ensuring consistent supply of quality produce. Backward integrated models can be investigated in the horticulture segment for fresh fruits and in the livestock segment for poultry and dairy production.
- **Championing SE agenda:** There is an opportunity by the donor community and government to recognize the potential role of the sector, pilot sector specific initiatives to generate public and private interest toward SEs and generate awareness of their benefits, as well as to incentivize youth and entrepreneurs to start social businesses.
- **Channel targeted grant funding and other financing mechanisms to support the development and growth of SEs.** The donor community could provide targeted funding to SEs linked to specific development challenges and prevailing social issues. For instance, this could include funding SEs that offer training for women nurses, midwives and health workers to work in rural areas for maternal and child health. Given that Afghanistan is a conservative country, male health workers may find it difficult to care for maternal and child health due to social taboos. SEs providing adequate training to women for managing maternal and child health may be more suited in the context of Afghanistan. Encouraging policies such as performance-based awards and recognition for these employees could ensure proper treatment of women visiting health centers in rural areas.
- **Stimulate and support the development of sustainable business models targeting rural populations:** several SEs and NGOs are already providing services to rural populations primarily thanks to donor and development funding. In order to stimulate sustainability and the scale of some successful initiatives capacity development programs and pilot funding should be made available. For example, a possible intervention can be explored in assisting the clean energy and solar product companies to provide cross subsidy and differentiated pricing models especially for serving the rural population to manage the high upfront cost.

7. Annex

7.1. List of Interviewees

Person	Organization
Afghanistan	
Farzad Pouya	Business Innovation Hub
Riffat Manasia	MRA Associates
Bangladesh	
Anwar Faruk	Ministry of Agriculture
Mehedi Sajjad	BRAC Social innovation lab
Ujal Ibrahim	Yunus Centre
Nazmul Haque	IDCOL
Shahab Khan and Parvez A	Bangladesh Enterprise Institute
Mridul Chowdry	m-Power Health
Sanchayan Chakraborty	Aavishkaar fund
Bhutan	
Dorji Tashi	Loden foundation
Daniel Spitzer and Johannes Olejnik	Mountain Hazelnuts
Maldives	
Sandeep Kohli and Somil Nagpal	World Bank
Adam Sack	International Finance Corporation
Nepal*	
Aditi Shrestha	International Finance Corporation
Luna Thankur	Change Fusion Nepal
Shabda Gyawali	Dolma Impact Fund
Moushumi Shrestha	Practical Action
Shrawan Pradhan	Gham Power
Bishal Dhakal	Health at Home
*Note: Data for Nepal from Intellectap's database on a similar study conducted from March to July 2014	
Pakistan	
Saima Irtiza and Noor Ullah	Acumen Fund
Fiza Farhan	Buksh Foundation
Kalsoom Lakhani	impact2innovate
Farhad Hasan	HealthOne
Saim Siddiqui	ProCheck
Yasir Ashfaq	Poverty Alleviation Fund
Humza Khan	Insitor Fund
Sri Lanka	
Niroshan Kurera	Etimos Lanka Pvt. Ltd
Eranada Ginige	British Council
Amanda Kiesen	Good Market
Chamindra Gamage	Bimpu Finance

Person	Organization
German Mueller	GIZ

7.2. Interview Guide

SE EcoSystem Assessment

Market Landscape

- What does the broad SE ecosystem (SEs, investors, supporters, regulators etc.) look like in the country? Which sectors have high potential and scope of development for SEs in the country?
- What is the preferred business model for SEs operating in the country: 'for-profit' model or 'not-for-profit' model? Why is one model preferred over the other? Do the not-for-profit' models have sustainable revenue streams?
- Are there discrete SE-focused support institutions? To what degree does SE support overlap with mainstream SME support?
- What are critical unmet needs of the BoP population? Are there any on-going efforts to address these needs? What types of market infrastructure does the SEs demand – across stages and sectors?
- What types of technical assistance support are available for SE? Who provides this support?
- Is enabling infrastructure such as industry associations, market intelligence data available for SEs

Policy Environment

- What are the policy catalysts for SEs? Is there policy-level recognition of SEs? How is the policy landscape expected to evolve for SEs?
- Are there policies across the three focus sectors that benefit or inhibit SE growth? (e.g. priority sector in financing, budgetary allocation, enabling healthcare policy)
- What are the implications of the current Foreign Investment Policy in the Sector
 - Rules & policies for the sector/sub-sector for foreign investment
 - Attractiveness of the Sector for Foreign Investment

Capital Infrastructure

- What is the state of capital markets and banking infrastructure? How does access to capital differ across enterprise legal structure (cooperatives, joint stock companies etc.), stage, and focus sector?
- How open & transparent are the SEs in the sector to disclose the financial details for effective evaluation?
- What are the main barriers to financing (assess to finance)
 - Requirement of Collateral, security
 - Limited Knowledge or awareness of the industry operations by the finance providers
 - Lack of market information on the sector to make informed decision making
 - Any other reason

Sector Specific Questions

Agriculture

Sector Structure and Value Chain

- How would you classify the Sub-Sectors in the Agriculture sector in the country?
 - Crops and Cereals: Cash Crops/Export Crops or Fruits and Vegetables, Floriculture
 - Livestock based: Processed Meat, Eggs and Fishery products
 - Timber based forest products (such as herbal plants, furniture wood)
- Which of the above sub-sectors presently has seen maximum activity in terms of SE level (profit and not-for profit)? Which of the sectors is likely to see significant SE activity in the next 2-3 years
- What are the most critical unmet needs for the low income population groups in the country that could have the maximum impact :
 - Increase in productivity (farm yield, livestock yield)
 - Improved access to technology/ support services

- Increased access to capital
 - Improved access to market linkages
 - Improve access to post-harvest infrastructure
 - Any other?
- What are the business models of various SEs operating in the sector
 - What is the preferred business model ('for profit' or 'not-for-profit') and why?
 - What are the key challenges that companies face that severely affect their profitability and in-turn investments from external sources.

Market Landscape and Regulatory Framework

- What are the key segments with significant SE level activity (profit and not-for profit) in the country at present across the Agri value chain for key product categories
- Who are the important players in the Key sub-sectors across the Agri value chain?
 - Locally developed enterprises
 - Subsidiaries of foreign companies
 - Govt. or state owned players
- What are the key customer segments for the enterprises in the Agri Sector (retail vs wholesale vs international customers) across the sub-sectors
- What are the implications of the regulatory framework in the sector
 - Key drivers for the regulatory framework in the sector/sub-sectors. How often are these regulations modified/updated?
 - What are the present Government Subsidies in the sector/sub-sectors? Are these subsidies required to compete and remain profitable in the sector?

Growth Drivers and Challenges

- What are the key growth drivers for the Agri sector in the country (indicative list of drivers)
 - Increased local demand due to higher GDP per capita growth and increasing urbanization
 - Improvement in land laws and holding patterns improving accessibility to larger tracts of land in future for cultivation
 - Government spending as a result of higher GDP growth
 - Increased demand from international markets for export oriented products
 - Improved access to finance and credit facilitating private and public investments
- What are the main challenges in the Sub-Sectors in the Agri domain (indicative list of challenges)
 - Inefficient supply chain with number of intermediaries. Lack of market linkage options linking producers with the end wholesale buyers
 - Poor post harvesting infrastructure
 - Increased competition and low productivity due to high fragmentation in land holding
 - Political instability leading to lack of reforms/assess to finance to the sector

Healthcare

Sector Structure and value chain

- How would you classify the key Sub-Sectors in the Healthcare sector in the country?
- What is the geographic presence of healthcare services in various regions?
- What is the urban versus rural concentration of each sub sectors?
- Which of the above sub-sectors presently has seen maximum activity in terms of SE level (profit and not-for profit)? Which of the sectors is likely to see significant SE activity in the next 2-3 years
- What are the most critical unmet needs for the low income population groups in the country that could have the maximum impact :
 - Reduced maternal and child mortality rate
 - Increased access to genuine drugs and nutrition products
 - Increased availability of primary/secondary care in near vicinity

- Affordable out-of-pocket health expense
 - Availability of precision diagnosis and targeted /special care
 - Any other?
- What are the business models of various SEs operating in the sector
 - What is the preferred business model ('for profit' or 'not-for-profit') and why?
 - What are the key challenges that companies face that severely affect their profitability and in-turn investments from external sources.

Market Landscape and Regulatory Framework

- Who are the important players in the key Sub-Sectors?
- What are the key segments with significant enterprise level activity in the country at present across
- What are the implications of the regulatory framework in the sector
 - Key drivers for the regulatory framework in the sector/sub-sectors. How often are these regulations modified/updated?
- What are the present Government Subsidies in the sector/sub-sectors? Are these subsidies required to compete and remain profitable in the sector?
 - What are the current dependencies on Aid Programs for supply of technology/infrastructure?
 - Engagement models of aid programs?

Growth Drivers and Challenges

- What are the key growth drivers
 - Government spending
 - Improved access to finance through private/public investments
 - Increased aid activity
 - Improvement in infrastructure
 - What are the main challenges in the Sub-Sectors? - access to finance, access to markets, access to technology, access to skilled doctors/trained paramedic staff, taxation, regulation, infrastructure: road, electricity, transport, corruption
- What are the implications of the current Foreign Investment Policy in the Sector

Renewable Energy (RE)/Clean Energy (CE)

Sector Structure

- What are the key sources of energy for majority of the population in the country? What is the key reason for using a particular source of energy? - Fuel Wood, Bio Mass/Bio Fuel, Petroleum products such as Kerosene/LPG, Electricity, others
- How would you segment the key Sub-Sectors across the Renewable Energy in the country:
 - Grid Power using Hydro, Solar or geothermal energy
 - Products Category: Solar Home Systems, Lighting Systems, Clean Cook Stoves
- Which of the above sub-sectors presently has seen maximum SE activity (profit and not-for profit)? Which of the sectors is likely to see significant SE activity in the next 2-3 years
- What are the most critical unmet needs for the low income population groups in the country that could have the maximum impact :
 - Accessibility to products/services and last mile delivery
 - Quality and reliability of power supply
 - Affordability of the product and the service
 - Increased availability of after sales support
 - Reduced health burden by use of clean energy products
 - Any other?
- What are the business models of various SEs operating in the sector
 - What is the preferred business model ('for profit' or 'not-for-profit') and why?

- What are the key challenges that companies face that severely affect their profitability and in-turn investments from external sources.

Market Landscape and Regulatory Framework

- What are the key segments with significant SE level activity in the country at present across the Renewable Energy sector
 - Grid Power: Hydro Energy, Solar Energy, Geo Thermal energy
 - Off-Grid Power/Mini /Micro Grids: Solar Energy, Hydro Energy
 - Products: Solar Home Systems/ Solar products/ Clean Cook Stoves
 - Legal Structures/Business Structures: Public sector/ State dominated, private sector dominated or not for profit dominated
- Who are the important players in the Key Sub-Sectors?
 - Locally developed enterprises
 - Subsidiaries of foreign companies
 - Govt. or state owned players
- What are the business models of various SEs operating in the sector
 - What is the preferred business model and why?
 - What are the key challenges that companies face that severely affect their profitability and in-turn investments from external sources.
- What are the implications of the regulatory framework in the sector
 - Regulatory landscape for grid power across generation , transmission and distribution
 - Key drivers for the regulatory framework in the sector/sub-sectors. How often are these regulations modified/updated?
 - What are the present Government Subsidies in the sector/sub-sectors? Are these subsidies required to compete and remain profitable in the sector?

Growth Drivers and Challenges

- What are the key growth drivers for the Renewable Energy sector in the country
 - Access to grid electricity is very low across major geographic regions in the country, use of CE/RE products would be critical
 - Increasing customer demand for reliable sources of energy with rise in the IT and mobile communication penetration in the country and in general increased customer awareness
 - Government focus on the sector with increased spending due to higher GDP growth
- What are the main challenges in the Sub-Sectors in the Renewable Energy sector
 - Absence of manufacturing facility within the country for major RE/CE equipment's. High dependency on imported products
 - Less presence of research facilities to develop new product designs suited for the country
 - Access to finance for developing new products/ promoting products and services focusing on RE/CE technologies