



Analysis of Public Procurement Methods in Growth of Small and Medium Sized-Enterprises in Afghanistan (Evidence from Kabul SMEs)

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Abstract: Public procurement has become an important tool for economic recovery and for supporting domestic industries in many countries. It plays a significant role in national and global economic activities. Small and medium-sized enterprises drive economic growth, job creation and economic diversification. As a post-conflict country, Afghanistan requires strong promotion of SMEs. SMEs in Afghanistan face structural and institutional challenges that limit their participation in procurement opportunities. The objective of this study is to assess the challenges and opportunities of current procurement methods in supporting SME growth. This study adopts an interpretivist paradigm and a qualitative exploratory approach. Data were collected through semi-structured interviews from 10 SMEs in different sectors and analyzed using thematic analysis. The findings identified several key barriers, including limited access to financial resources, bureaucracy, strict tender requirements such as banking guarantees and annual income conditions, limited knowledge of procurement regulations, and intense competition from non-sector firms in open bidding processes. These challenges often reduce SME profits and sometimes result in financial losses or minimal returns. The study suggests that procurement policy and practice should be reformed to improve SMEs participation. Most participants suggested establishing procurement quotas or reserved contracts for SMEs, revising tender requirements, promoting sector-based participation in open bidding, improving access to financial resources and simplifying administrative procedures. These reforms could enhance the role of SMEs in economic growth and contribute to employment generation in Afghanistan.

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INTRODUCTION

Administrative operation and infrastructure development are essential expenditures for any government, and they form a large part of total public spending. To improve efficiency, many governments involve the private sector in providing services and expertise. This process, in

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which governments contract with private firms, is referred to as public procurement (Yaqadam & Helaj, 2016 (1395)). These expenditures are financed through public funds and managed under public expenditure systems. When procurement policies are properly designed, they reduce waste of resources, protect public funds, and promote private sector growth. However, weak policies may produce the opposite results (Mwandobo, 2013).

Small and Medium Enterprises (SMEs) are important drivers of sustainable economic growth. They adapt quickly to market changes due to private ownership and strong entrepreneurial capacity. SMEs also play a major role in employment, diversification of economic activities, and growth of trade and exports. For example, SMEs account for 60–70% of employment in Italy, 80% in Greece, and contribute about 50% of GDP in high-income countries (Mutunga, 2021; OECD, 2023; OECD, 2018). In both OECD member and non-member countries, supporting SMEs through procurement is a primary government objective. Therefore, governments have developed internal policies to increase SMEs' access to procurement markets (OECD, 2018).

Public procurement represents a significant share of both national and global economies. According to the World Bank, in 2019 global procurement spending reached 15% of world GDP, equivalent to about 13 trillion USD (World Bank, 2021). In OECD countries, procurement accounts for about 13% of domestic GDP (OECD Public Governance Policy Papers, 2023). The Asian Development Bank also reports that government purchasing plays a key role in national income and helps achieve socio-economic goals, such as job creation and support for domestic industries (Intaher , 2019).

Procurement policy is therefore a powerful tool to support start-ups, increase economic diversity, and promote development. It enables governments to address market failures and create stable demand for goods and services produced by SMEs. A historical example is the Great Recession in the United States, where Keynesian fiscal policy emphasized procurement to stimulate demand and restore economic stability. Globally, SMEs constitute about 99% of firms and provide 80% of employment in many economies, including OECD members, Brazil, and China. In developing countries, SMEs provide nearly 86% of employment. In the European Union, SMEs generate about 66% of total employment, equal to 137 million jobs (Abuselidze & Beridze, 2020; Becker et al., 2019; Mahuwi & Israel, 2023).

Previous studies consistently identify public procurement as an effective policy instrument for promoting the growth of SMEs. Beyond its traditional function of acquiring goods and services, procurement has increasingly been used to expand SMEs' access to public markets, strengthen domestic industries, and support long-term economic development (OECD, 2018). International evidence further suggests that the effectiveness of procurement depends not only on the availability of procurement opportunities but also on the design and implementation of different procurement methods. These methods influence the level of competition, transparency, market accessibility, and ultimately the extent to which SMEs can participate in public procurement and contribute to economic growth.

International evidence suggests that different procurement methods influence SME participation in different ways. Open bidding is widely recognized for promoting transparency, competition, and equal market access, thereby creating greater opportunities for SMEs while improving value for money. A World Bank survey covering 88 countries and more than 34,000 firms reported that open procurement significantly reduced bribery and strengthened transparency (Open Contracting Partnership, n.d). Similar outcomes have been observed in Paraguay, Colombia, Ukraine, Peru, the Philippines, Cabo Verde, South Korea, and several OECD countries, where procurement reforms increased SME participation, reduced procurement costs, and encouraged innovation. Ukraine's electronic procurement platform, Prozorro, provides one notable example, increasing the number of participating suppliers by 45% while reducing medical procurement costs by approximately 40% (Open Contracting Partnership, 2021, 2023; DCED, 2017; OECD, 2018).

Governments have also introduced targeted procurement measures to address structural disadvantages faced by SMEs. Instruments such as restricted bidding, contract set-asides, and bid price preferences have been implemented in countries including Brazil, the United States, India, South Africa, the United Kingdom, Zambia, Ghana, and Paraguay to improve SME participation and achieve broader social and economic objectives for instance, in South Africa this method used in supporting of underserved communities (e.g., race, gender, location) in case of social goals and justice. But weak enforcement and complex procedures reduce effectiveness (Abadi, Kitheka, & Chogo, 2019; ITC, n.d; Federation of Small Business, 2013).

The Request for Quotation (RFQ) method has also been identified as an effective mechanism for increasing SME participation, particularly in the procurement of low-value and standardized goods. Its simplified procedures reduce administrative costs and encourage participation by smaller firms. Evidence from South Africa, Ghana, Nigeria, Italy, Australia, and several Asian economies demonstrates that RFQ procedures, particularly when implemented through digital procurement platforms such as Italy's MePA or South Korea's SME-restricted procurement system, can substantially improve SMEs' access to public contracts (Kyeremeh, 2014; Akubuilu & Akubuilu, 2022; OECD, 2018; DCED, 2017). In contrast, single-source procurement, while risky due to limited competition, has supported SMEs during emergencies and economic crises in countries such as Kazakhstan, Ukraine, Ghana, Nepal, East Timor, South Sudan, and the United States. U.S. set-aside programs demonstrate how direct contracting can promote SME inclusion when accompanied by strong oversight. International institutions emphasize that strict safeguards are essential to prevent corruption and protect transparency if direct contracting is to support SMEs without compromising public trust (Open Contracting Partnership, 2021; Bhatta & Dr Sain, 2023; Samantha, 2014).

The Afghan context presents a different institutional environment. Afghanistan's Procurement Law recognizes four methods: Open, Restricted, Request for Quotation (RFQ), and Single-Source. Open bidding is competitive and promotes fair participation and transparency (Runeson, n.d.). Restricted bidding is a two-stage pre-qualification process for complex procurements (UNCITRAL, 1994, 2011; SIGMA, 2011). RFQ is an informal method for

low-value, regularly purchased goods (KENTON, 2025; UN Procurement Manual, 2024). Single-source procurement, while efficient for emergencies, carries high corruption risks (Bhatta & Sain, 2023; Samantha, 2014). The legal framework provides preferential margins for domestic firms, yet weak oversight and governance concerns undermine effectiveness (Bhatta & Dr Sain, 2023). SMEs represent 80% of registered businesses, nearly half of Afghanistan's GDP and employing nearly one-third of the labor force (Abdullah, 2021). In this study, SME growth is measured through sales, profit, and employment (Berisha & Pula, 2015)), with the World Bank classifying SMEs by employee size: small (5-19), medium (20-99), and large (100+). Despite their economic importance, SMEs face severe financial constraints globally, 65 million MSMEs lack adequate financing, while Afghanistan's outstanding SME loans were only USD 422,352 in 2011 (World Bank, 2011). Beyond finance, limited access to credit, weak business capacity, delayed payments, legal complexity, and procurement rules favoring larger firms continue to restrict SME participation (Abdullah, 2021; Mohammadi et al., 2019). Although previous studies have examined procurement regulations and general SME challenges, limited attention has been given to how different procurement methods influence SME growth from the perspective of participating enterprises. This research seeks to address that gap by exploring the experiences of SMEs engaged in Afghanistan's public procurement system.

The importance of this issue is particularly evident in post-conflict economies such as Afghanistan, where effective procurement policy can strengthen the private sector, increase GDP and national income, expand employment, and reduce poverty. Due to its importance and the existing research gap in Afghanistan, this study aims to provide practical and valuable insights in this field. Specifically, this study examines the challenges, weaknesses, and strengths of current procurement practices in supporting SMEs. Since Afghanistan faces serious economic problems such as low GDP, low GDP per capita, and high unemployment, this research focuses on identifying the role of government in economic recovery through SME development using procurement policy. The findings are expected to provide policy-relevant insights for improving SME growth under current economic conditions.

THEORETICAL FRAMEWORK

Today, governments play an active role in markets and the economy through fiscal policy, trade policy, and other policy tools. Public procurement is one of the key fiscal instruments that influences economic performance and supports the growth of SMEs in order to achieve economic sustainability.

The Developmental State Theory is appropriate for Afghanistan's current situation, as the country needs rapid development of the private sector as the main engine of economic growth. Therefore, this theory provides a useful framework for government policy decisions related to SMEs.

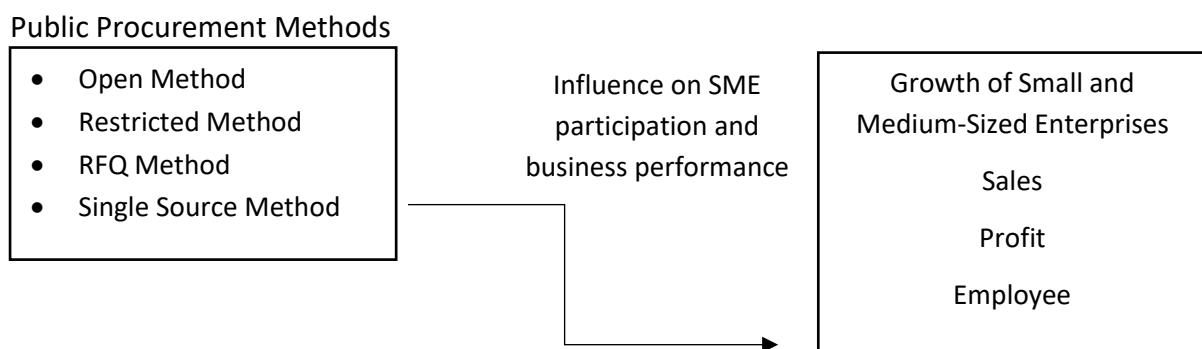
Developmental State Theory

The Developmental State Theory was introduced by Chalmers Johnson (1982) based on the industrialization experience of Japan after World War II. The theory explains how strong cooperation between political, bureaucratic, and financial institutions supported industrial development in East Asia. Governments used policy tools such as subsidies, tariffs, and state control to promote productive sectors.

This model was also applied in other regions, including Latin America in the 1970s, Europe in the 18th and 19th centuries, and the United States in the 19th century (BOLESTA, 2007), (Caldentey, 2008). East Asian countries were among the most successful, with their economies doubling every decade. The theory later expanded to include social welfare policies (DPME, 2017). Johnson described Japan's industrial policy in two parts: one is Industrial Rationalization Policy, which improves efficiency at the microeconomic level, another is Industrial Structure Policy, which focuses on identifying strategic sectors for development. In Japan and South Korea, governments guided private sector activity through performance-based incentives linked to production and trade. These incentives were temporary and competitive, which increased international competitiveness. The key features of the developmental state are competent bureaucracy and embedded autonomy. A capable bureaucracy designs and manages development policies, while embedded autonomy ensures strong links between the state and society without allowing private interests to dominate (Kasahara, 2013).

Conceptual Framework

This study explores how different public procurement methods relate to the growth of small and medium-sized enterprises (SMEs). Figure 1 presents the conceptual framework, illustrating the procurement methods examined in the study and their relationship with key dimensions of SME growth, including sales, profit, and employment.



Source: Developed by the authors based on the reviewed literature.

RESEARCH METHOD

This study adopts an Interpretivism Paradigm which rooted in symbolic interactionism and phenomenology. This paradigm stated that realities do not exist without meaning and that people's perceptions shape the nature of objects. In this researchers are encouraged to

investigate experiences and multiple interpretations within specific social contexts for deeper understanding (Junjie & Yingxin, 2022). This study uses interpretivism approach to explore challenges and opportunities of the procurement which affect growth of SMEs to deeply understand participant's subjective experiences.

The target population of this study consisted of SMEs participating in Afghanistan's public procurement system, data were collected from 10 SMEs through interview. A purposive sampling technique was employed to select SMEs with experience in procurement participation. Interviewees were across various sectors and procurement methods. Data was collected via face-to-face and phone interviews to uncover socially constructed realities from experiences of participants. Due to structural challenges and theoretical saturation; the sample size was limited to 10, but sufficient for in-depth insights without new concepts emerging in later interviews.

In this study, participants were given a brief introduction and assured confidentiality about the study. Demographic questions were asked in helping prepare respondents for the main interview questions.

Semi-structured interviews were used to gather information from SMEs. Interviews were transcribed and checked against recordings to ensure validity and reliability, after completion.

As this study is qualitative approach, exploratory research method applied to explore data in depth. Thematic analysis used to analysis of procurement status and growth of SMEs, it is a validated descriptive method, identifies key themes and allows deep interpretation of interview data. The study followed Braun & Clarke's six-step thematic analysis process:

1. Familiarization with data (transcription and repeated reading)
2. Initial coding with color codes
3. Development themes (9 main themes, 27 sub-themes)
4. Reviewing and merging repeated themes
5. Defining and naming final themes
6. Reporting findings organized by final themes

FINDINGS

This study discusses the objectives of participation in procurements, the procurement status and methods, the role of the government, reforms and potential privileges in the methods, laws, processes, and procedures for SMEs that impact growing of the SMEs, as well as the most significant challenges faced by SMEs.

Table 4: Results of thematic analysis based on nine themes and several sub-themes which derived from Interview Data

Main Theme	Sub-Theme	Key Code	Participants
Purpose of Participation	Participation in National Development	Better services in technological sector	6 out of 10
		Better services to the government	
		Quality Service and products	

Procurement Status	Growth of the business	Self-Sufficiency Profit making Expanding business activity	9 out of 10
	Livelihood	To cover basic needs	2 out of 10
	Justice and Transparency	Fairly	5 out of 10
		Not fairly	5 out of 10
	Execution quality	Competition Bureaucracy	1 out of 10 All 10
Procurement methods status	Open Method		6 out of 10
	Restricted Method	Satisfaction and Dissatisfaction	2 out of 10
	RFQ		2 out of 10
Business status after winning contracts	Single Source		2 out of 10
	Employees	Increase	9 out of 10
		Depend on project	1 out of 10
	Profit	Increases	5 out of 10
		Losses	2 out of 10
		Break-even point	3 out of 10
	Sales	Increases	All of 10
Role of the Government	Supporting	Dis-active	8 out of 10
		Active	2 out of 10
	Law	Lack of Clarity	2 out of 10
		None Facilitates	2 out of 10
		Quotes	3 out of 10
Proposed privileges (Incentives)	Supportive schemes	Removing competition	5 out of 10
		Removing work experience	5 out of 10
		Prioritizing	2 out of 10
		Financial facilities	2 out of 10
		Simplifying of the process	3 out of 10
Proposed Reformation in procurement Methods	Open	Make transparent	4 out of 10
		Expanding	2 out of 10
	Restrict	Making supportive	4 out of 10
		Elimination experience condition	1 out of 10
	RFQ		
	Single source	Expanding	4 out of 10

Reformation in Law and process	Transparency and simplicity	Declining of Bureaucracy	4 out of 10
		Full information disclosing	1 out of 10
		Simplify registration	1 out of 10
	Preferential regulation for SMEs	Supporting of domestic enterprises	3 out of 10
		Making quota in projects for SMEs	3 out of 10
		Financial and banking guarantee Facilities	3 out of 10
	Capacity building and training	Launching seminars	1 out of 10
	Developing digital infrastructures	Electronic procurement	2 out of 10
	Accessibility to financial sources	Create digital platform	1 out of 10
		Lack of capital	9 out of 10
Most Significant challenges for SMEs	Difficult criteria of tender	Work experience	3 out of 10
		Annual income	1 out of 10
		Guarantees	2 out of 10
	Knowledge of procurement	Lack of awareness from law	7 out of 10
	Quality execution	Incomplete information publication	2 out of 10
		Bureaucracy	All 10

Source: Survey, 2025

Purpose of Participation in Procurement

The results reveal three main purposes for SME participation in public procurement: national development, business growth, and livelihood support. More than half of the participants emphasized that their involvement in procurement is not only for profit but also to contribute to national development, improve service quality (especially in the technology sector), strengthen self-sufficiency, and enhance regional competitiveness. Typical responses included: *“We want to provide better services to the country”* and *“We want to Play a better role in reconstruction of the country”*.

This shows that SME participation in procurement supports both private growth and national economic objectives. Almost all participants recognized profitability and business growth as their primary motivation. This is a natural objective for enterprises and is directly linked to investment, innovation, job creation, and economic stability. One participant stated: *“We want to increase business experience and gain economic opportunities”*. Given Afghanistan’s unstable market conditions, procurement plays a critical role in sustaining SME growth and inclusive economic development. However, smaller group of participants viewed procurement mainly as a way to secure basic income. One respondent explained: *“We want to earn Halal income”*. This reflects the difficult economic and political environment, where survival concerns influence business motivation, even though SMEs remain central to employment and GDP growth.

Situation of Procurement in Afghanistan

Participants expressed mixed views regarding to fairness, transparency, and execution quality. Half of the respondents believed that procurement is generally fair but with serious problems, while the other half stated that the system is unfair toward SMEs. The main concerns were limited access for small businesses, few opportunities, and the strong pricing power of large companies. Typical responses included: *"Procurement is fair, but there are problems,"* and *"Small companies do not have equal access"*. Respondents also described an environment of high competition caused by a decline in project opportunities, especially after recent political changes and the reduction of international support. As one participant stated: *"There are fewer projects, high competition, and increased pressure on small companies"*. All participants expressed dissatisfaction with the execution quality of procurement, mainly due to excessive bureaucracy, long procedures, and delayed payments. One respondent explained: *"Long processes and delayed payments cause financial problems"*. These issues discourage SME participation, reduce investment motivation, and increase financial vulnerability. The findings highlight the urgent need for reforms in procurement execution to strengthen SMEs' role in economic growth.

Procurement Methods in Afghanistan

Participants expressed different views about procurement methods, which can be grouped into satisfaction and dissatisfaction. More than half of the participants were generally satisfied with the variety of procurement methods. They viewed open bidding as simple and competitive, and single-source procurement as efficient in specific situations. Restricted bidding was also seen as useful for protecting new SMEs from intense competition. However, deeper discussions revealed that this satisfaction is limited due to structural weaknesses remain, particularly when transparency and regulation are weak. Some participants criticized open bidding, describing it as ineffective and non-specialized. One respondent stated: *"Open method is not correct, because non-sectoral business participates. It must restrict to business sector"*. This practice allows unqualified firms to win contracts through low pricing and subcontracting, which reduces service quality and shifts focus from quality to price. Others expressed concerns about RFQ and single-source methods, describing them as unclear and sometimes biased. One participant explained: *"I am satisfying only with open method and all bidding must be in open method"*. In overall, SMEs emphasized in adjusting of procurement methods that: match project requirements with company expertise, protect new and inexperienced SMEs, and ensure transparency and fairness.

Business Situation after Winning Tenders

Participants reported mixed outcomes after winning tenders. While most experienced higher sales, increased employment, and business growth, but profitability showed different result. Almost all participants reported hiring more staff after winning contracts, although some noted that employment depended on project size and needs. This is significant for Afghanistan, where youth unemployment is high and strongly linked to migration. Supporting

SMEs through procurement therefore directly contributes to national employment objectives. All respondents reported increased sales after securing contracts. One participant stated: *“Sales improving significantly”*. This result strengthens investment motivation and confirms the positive role of procurement in SME expansion and growth.

Profitability was the most debated outcome. About half of participants reported increased profits, while others experienced losses or zero profit. Key reasons included delayed payments, changes in project requirements, and higher input costs due to sanctions. One participant explained that specification changes after contract award affect expected profit and created serious financial risk. These findings indicate that while employment and sales may rise, profit remains the core indicator of business sustainability. Without stable profits, investment declines, growth slows, and business survival is threatened. Therefore, improving procurement processes and protecting reasonable profit margins is essential for long-term SME development and overall economic stability.

Role of Government in Supporting SMEs Through Procurement

Participants criticized the government's role in supporting SMEs, comprehensively, these criticized are on two main areas; one is support mechanisms and second is legislation. Almost all respondents described the government's role as passive. They perceived procurement as limited to announcing tenders, without sector-specific support policies. According to participants, large companies capture most benefits, while SMEs receive little protection. Several respondents questioned the government's understanding of procurement and the way tender information is communicated. Typical views included: *“The government only announces the projects, there is no protection against large companies,”* and *“Big companies benefit more”*. Participants also linked weak support to declining international aid, which has reduced the government's capacity to assist SMEs. Only a few respondents viewed the government's role as relatively active, mainly in terms of reduced corruption and fairer project allocation.

About half of the participants criticized procurement laws and procedures for their lack of clarity and absence of specific SME support mechanisms. While the law mentions encouraging small businesses, it provides no concrete implementation tools. This contrasts with international experiences where procurement legislation actively promotes SME participation. Respondents also highlighted strict experience requirements as major barriers for new firms and described existing government facilitation is insufficient.

Proposed Privileges (incentives) for SMEs in Procurement

Participants strongly emphasized in supporting and fair incentive mechanisms to enhance SME participation and growth. They proposed several practical reforms. Several participants recommended assigning Specific Quotas to SMEs based on project value. This approach reflects international practice and aims to ensure fair market access. One participant expressed: *“Projects must be value assessed and specific quotes determined”*. Removing Work Experience Barriers emphasized by many respondents and identified strict experience

requirements as major obstacles, especially for startups and financially weak firms. They argued that these conditions contradict government claims of supporting SMEs. As one participant stated: *“Work experience is the key barrier in winning of bidding”*. Others suggested limiting competition for new firms to allow them to survive and grow. Participants proposed separating tenders by firm size, allowing SMEs to compete for smaller projects while reserving large projects for large companies. This would prevent financially powerful firms from underbidding SMEs. This Project Prioritization is successful practice in most countries in supporting of SMEs. One respondent explained: *“Small projects should assign to SMEs, not to large companies because of its more financial capacity”*. Participants proposed Financial Facilitation a key factor in support of SMEs such as, advance payments which widely recommended to address SMEs’ limited capital and strengthen their project capacity. This practice is used in countries like South Korea, were viewed as effective tools for private-sector development.

Reducing Bureaucracy, all participants identified bureaucracy as a fundamental challenge. They called for simplified procedures and faster processing, emphasizing that excessive bureaucracy contradicts developmental state principles that promote private-sector growth. Overall, respondents stressed that a fair incentive framework should include restricting large firms from low-value projects, easing experience requirements for low-risk contracts, and streamlining procurement procedures to expand SME participation and sustainability.

Proposed Reforms of Procurement Methods by SMEs

Participants strongly called for reforms in procurement methods to better support SME participation and protect them from dominance by large firms. The proposed reforms focused on specialization, transparency, and targeted use of procurement approaches. The main concern with open tenders is excessive openness and lack of specialization, where agencies prioritize low prices over technical expertise. Four out of ten participants recommended restricting open tenders based on sectoral expertise. As one participant stated: *“Only tech companies should participate in technology tenders”*.

However, a few participants still viewed open tendering as the most transparent approach when properly regulated. Half of the participants supported expanding restricted tenders, particularly by removing strict experience requirements. They argued that this semi-competitive method could significantly help startups build experience and market presence. Typical views included: *“It should be used to support new businesses,”* and *“We do not have experience, it needs changes”*. No significant comments were made regarding RFQs; therefore, this method was excluded from detailed analysis. Four out of ten participants recommended broader use of single-source procurement to reduce destructive competition and protect reasonable profit margins, particularly for new or vulnerable firms. Participants noted: *“Should use in supporting of startup enterprises,”* and *“It is useful where competition becomes harmful”*. They stated that Single-Source should apply to low-risk projects or highly vulnerable firms where hostile competition exists. These reforms aim to balance competition

with protection, enabling SMEs to grow sustainably within Afghanistan's procurement system.

Amendments to Laws, Procedures, and Processes

Participants emphasized that reforms in laws, procedures, and administrative processes are essential to resolve existing procurement challenges. The proposed amendments focus on simplification, preferential regulations for SMEs, capacity building, and digitalization.

Nearly half of the participants identified bureaucracy as a major obstacle, citing lengthy and complex procedures that delay projects and increase costs. As one participant noted, *"Ensure transparency."*

Others criticized the lack of complete information disclosure, which creates unfair competition and financial risk. One respondent stated, *"Clear and complete information is not disclosed"*.

Simplifying registration procedures was also suggested to improve SME participation. Several participants advocated for stronger legal support for domestic firms. Three companies requested clear preferential treatment for local businesses and the creation of project quotas for SMEs. Additionally, three participants stressed the need to ease financial and banking guarantee requirements, noting that high upfront guarantees and lengthy renewal processes limit SME participation. As one respondent explained, *"Current government require 500,000 AFN guarantee to get license"*.

Although only one participant explicitly proposed training programs, the discussion highlighted the need for better understanding of procurement rules. One interviewee emphasized: *"SMEs and government sit together to focus on problems"*. Participants supported the establishment of electronic procurement systems and digital platforms to improve transparency, speed, and access to information while reducing bureaucracy. Overall, these proposed reforms, grounded in SME experience, aim to create a fairer and more inclusive procurement environment that supports sustainable economic growth.

Main Challenges for SMEs in Tender Participation

Participants identified four major challenge areas limiting SME participation in procurement: financial constraints, restrictive bidding conditions, limited procurement knowledge, and weak execution quality.

Almost all companies reported insufficient capital as the most serious obstacle to competing in tenders. Many SMEs avoid bidding altogether due to financial weakness. This problem is particularly severe in Afghanistan, where most SMEs rely on informal loans from family and friends rather than formal financial markets. Previous studies show that nearly 80% of Afghan SMEs fail due to financing constraints, making improved access to financial resources the most critical requirement for sustainable growth.

Several restrictive bidding conditions exclude SMEs from participation:

Work Experience Requirements: Identified by three companies as a major barrier, particularly for startups. *"Many tenders require experience, which prevents us in participation."*

Annual Revenue Requirements: Mentioned as excluding small firms from opportunities. *"Mentioning annual income as a requirement cause problem."*

Guarantee Letters: Bank guarantees were described as costly, time-consuming, and restrictive for SMEs. *"Bank guarantee till release in contracts causes financial problems".*

Participants reported limited awareness of procurement laws and procedures, often discovering legal requirements only after facing disputes. Others criticized unclear and incomplete bidding information, which leads to mispricing and project failure. One respondent explained *"First announce items, then get full details specification after winning which causes SMEs failure"*. All companies emphasized excessive bureaucracy throughout the procurement cycle, from bidding to final payment. This environment encourages corruption and bribery, described in previous studies as an "informal tax." Bureaucracy discourages SME participation, reduces profitability, and weakens national economic objectives, demonstrating the urgency of administrative reform.

DISCUSSION

This study examined the challenges and opportunities in Afghanistan's public procurement system affecting SME growth. Interviews with 10 SMEs in Kabul revealed that financial constraints are the biggest barrier, reported by nine out of ten participants. SMEs lack capital to compete in tenders and provide banking guarantees, with one participant stating: "Bank guarantee till release in contracts causes financial problems." Bureaucracy came second, with all participants complaining about long procedures and delayed payments, which cause serious financial problems and discourage participation. Regarding procurement methods, opinions were mixed. Open bidding was criticized for allowing non-sectoral firms to participate, with one participant stating: "Open method is not correct, because non-sectoral business participates." Restricted bidding was seen as helpful but limited by strict experience requirements, while single-source procurement received some support for protecting new SMEs. Business outcomes showed an interesting pattern. All participants reported increased sales and nine out of ten hired more staff, but profitability was mixed with only five reporting profit increases, two suffering losses, and three breaking even. Regarding the government's role, most participants were critical, with eight out of ten describing the government as passive and only two seeing it as relatively active.

What do these findings actually mean? Shortly, the Afghanistan's procurement system works more as an administrative process than a tool for economic development. This creates an uneven playing field where large firms can handle barriers more easily than small businesses. The financial problems reflect deeper issues in Afghanistan's banking system.

Banks are reluctant to lend to small businesses, forcing SMEs to borrow from family and friends. This creates a cycle where SMEs cannot compete due to lack of capital.

The frustration with bureaucracy shows a gap between procurement procedures and SME capacities. Long processes and late payments are especially harmful because SMEs operate on thin cash reserves. This environment also creates opportunities for corruption. The mixed profitability results are worrying. While procurement creates jobs and business activity, it does not reliably produce sustainable enterprises. When SMEs bid very low just to win contracts, they often end up with little or no profit. The passive government role shows a gap between policy and reality. While procurement law includes support for domestic firms, these provisions do not translate into real benefits. About half of participants said the laws are unclear and lack specific mechanisms to help SMEs.

These findings support earlier research on Afghan SMEs. The financial problems match Mohammadi et al. (2019) on weak business readiness among Afghan SMEs. The reliance on informal financing also supports Abdullah (2021), who found that nearly half of Afghan SMEs operate informally. Similarly, the bureaucratic obstacles confirm Mohammadi et al.'s (2019) observations about legal complexity and delayed payments. The link between bureaucracy and corruption aligns with Bhatta and Sain (2023), who argued that procurement rules contribute to monopoly formation. The mixed profitability results reflect the poor business environment described by Mohammadi et al. (2019), and the study also supports Abdullah's (2021) claim that SMEs are highly vulnerable to shocks. The dissatisfaction with procurement methods matches earlier findings that procurement rules tend to favor larger firms. The reforms proposed by participants also build on previous recommendations for better access to finance and more active government support (Abdullah, 2021; Mohammadi et al., 2019; Bhatta & Sain, 2023).

What challenges limit SME participation? Four main challenges emerged: limited access to money, strict tender requirements (experience, income, guarantees), limited knowledge of procurement rules, and excessive bureaucracy identified by all participants. When asked how procurement methods affect SME growth, respondents pointed out that open bidding allows non-sectoral firms to participate, which reduces quality; restricted bidding offers some protection but comes with tough requirements; and single-source procurement can help new SMEs but carries risks. Overall, procurement tends to increase sales and employment, but its effect on profit remains uncertain. As for reforms, participants called for simpler procedures, procurement quotas for SMEs, reduced financial guarantees, removal of experience barriers, training programs, and digital platforms.

This study has several limitations. The sample was limited to 10 SMEs in Kabul, so findings may not represent other provinces. The qualitative approach does not allow for statistical generalization. Future research should expand to other provinces, use mixed methods, conduct long-term studies, compare different sectors, and examine digital procurement platforms in Afghanistan

CONCLUSION

This study examined the challenges and opportunities in Afghanistan's public procurement system affecting SME growth. Interviews with 10 SMEs in Kabul revealed several important findings. Financial constraints came up as the most serious barrier, reported by nine out of ten participants. SMEs simply lack the capital needed to compete in tenders and provide banking guarantees. As one participant explained, "Bank guarantee till release in contracts causes financial problems." Bureaucracy was a closed second, with all participants complaining about long procedures and delayed payments, which create cash flow problems and discourage participation. Regarding procurement methods, opinions were divided. Open bidding was criticized for allowing non-sectoral firms to participate, with one participant stating: "Open method is not correct, because non-sectoral business participates." Restricted bidding was viewed as helpful but limited by strict experience requirements. Single-source procurement received some support for protecting new SMEs, though concerns about transparency remained. As for business outcomes, the picture was mixed, all participants reported increased sales and nine out of ten hired more staff. However, profitability was uncertain. Only five participants saw profit increases, two suffered losses, and three broke even. Delayed payments, changes in project requirements, and higher input costs were the main reasons for losses. The government's role also drew heavy criticism, eight out of ten described it as passive, saying it only announces tenders without real support for SMEs. Only two participants viewed the government as relatively active. Based on these challenges, participants proposed several practical reforms. These include setting procurement quotas for SMEs, removing strict experience requirements, simplifying procedures, reducing bureaucracy, relaxing financial guarantee requirements, and developing digital platforms to improve transparency.

Overall, these findings suggest that Afghanistan's procurement system needs to move beyond simple administration toward a genuine development tool that supports SME growth. Without addressing the challenges identified in this study, SMEs will continue to struggle in contributing to Afghanistan's economic recovery and job creation.

Recommendation

Based on the findings, the following practical recommendations are proposed to strengthen Afghanistan's public procurement system in support of SMEs:

1. Ease financial and banking guarantee requirements by reducing guarantee amounts and providing advance payments linked to project completion.
2. Reduce administrative bureaucracy by implementing digital platforms to streamline procedures and limit corruption.
3. Ensure full information disclosure through digital publication of procurement data and by organizing training seminars on procurement laws and procedures.

4. Establish annual procurement quotas for SMEs, allocating for example 15–20% of the total procurement budget (e.g., AFN 100 billion) specifically to SME participation.
5. Redesign the open procurement method by dividing procurements into value-based categories, reserving lower-value projects exclusively for SMEs.
6. Reform the restricted method by allowing newly established SMEs without prior project experience to participate in low-value tenders, with clear criteria based on registration date, sector, and limited experience.
7. Implement RFQ with geographic targeting by assigning frequently purchased items (such as stationery and furniture) to SMEs located near government institutions.
8. Apply single-source procurement selectively and transparently to support newly established and vulnerable SMEs and enterprises owned by marginalized groups, including disabled persons, veterans, and retirees.

Authors' Contribution

Hassib Andar developed the research idea, reviewed the literature, collected and analyzed the data, interpreted the findings and wrote the first draft of the manuscript. Ahsanullah Barakzai supervised the research process, provided academic guidance, reviewed the methodology, and revised the manuscript. Both authors read and approved the final version of the article

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Data Availability Statement

The data supporting the findings of this study are available from the corresponding author upon reasonable request. Interview transcripts are not publicly available because they contain information that could affect participant confidentiality.

Conflict Of Interest

The authors declare that they have no conflict of interest regarding the publication of this paper.

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