Online-business in Afghanistan, current trend and challenges ahead: A conceptual study

Accepted 3rd September 2018

ABSTRACT

This is a conceptual paper about the current trend and challenges of online business in Afghanistan. Since, more than 10% of the population in Afghanistan has access to the internet, there are some businesses that grab this opportunity and offer different products online in the capital and some big cities. The author observed that these businesses are formed based on Cash on Delivery Model (COD) and they use social media platforms like Facebook and website to offer their products to the customers. Furthermore, the challenges which online businesses are facing have been discussed in three different but interconnected factors namely: entrepreneurs, government and the society. This article highlighted the main challenges such as lack of opportunity entrepreneurs, security, low purchasing power, corruption, lack of infrastructure and regulatory initiatives, official and clear house addressing, IT literacy, social trust, lack of broadly accessible online financial transaction services and quality education that are ahead of online business development in Afghanistan.

Key words: Afghanistan, online business, online shopping, challenges, cash on delivery.

INTRODUCTION

Humans are living in an era where everything is changing very fast. Technology makes this happen. Advancement in technology have affected all industries-communication, business, manufacturing, transportation, medical and mining; technology changes every aspect of life. As earlier mentioned, one of the important sectors which is mostly being affected by technology is business. The advance communication technology enables people to buy and sell products 24/7 around the world. Online-businesses help both buyers and sellers to create an alternative model for traditional business models. According to United Nation Conference on Trade and Development (UNCTAD) report (2017), the value of global e-commerce has increased from $16 trillion in 2013 to $ 25 trillion in 2015. It was noticed that at the early stage of development the Business to Customer (B2C) was the dominant model which has lost the ground from Business to Business (B2B) model.

Online-business is not only being commonly used in the west but many other continents especially in Asia. In particular, online-businesses are growing beyond the
expectation in the east, south east and south of Asia. For instance, China is the biggest subscribers to this type of business model. However, due to several reasons such as infrastructure and production capacity, number of subscribers in the central Asia which Afghanistan is part of that, is among the lowest in the world.

METHODOLOGY, SIGNIFICANCE AND OBJECTIVES OF THIS STUDY

This paper tries to curiously look at the online-business in Afghanistan and conceptually analyze the trend, models and their challenges. The importance of the paper is that more than 10% of Afghan population actively uses the internet and there are many online businesses in the country but no one has written about this model of business, neither conceptually nor empirically. The author can confidently claim that this is the first academic paper written about online business in Afghanistan as the first step to cover this gap in the literature. In the case of implication, the paper gives insight about the challenges faced by online businesses in their ascent development process in Afghanistan which will help the policymakers and researchers to pay more attention to online business from policy and academic point of view. Furthermore, some recommendations were given for better and faster development of online business in Afghanistan in the recommendation and all other mentioned issues like moderation and current socio and economic situation of Afghanistan taken into consideration.

GLOBAL TREND OF ONLINE-BUSINESSES (THEORY AND PRACTICE)

E-commerce has been expanding pari-passu with technology and communication and getting improved. Based on Investopedia, website online business or e-commerce "is a type of business model or segment of large business model that enables a firm or individual to conduct business over an electronic network, typically the internet". From academic perspective, researchers and academicians started to write both theoretical papers and conducted empirical studies from early 1990s when the internet was invented for the first time. To review a few, online economic activities are a combination of online and real-world social network which is being shaped based on trust. In theory, communal shopping online is the short form of a general relationship between economic behavior and social structure in addition to the dynamic of those economic actions which generated from interpersonal roles of a society (Chong, 2008). Like any other economic activities, doing online business has both benefits and challenges which can be found in the literature. In one of the first study regarding the role of internet in the business, Fojit (1994) pointed out some challenges the businesses will face in the process of adoption with the internet as lack of knowledge of executives about this phenomenon to assess its impacts on the businesses. In order for them to assess the consequences they have to understand the differences between traditional way of business and doing it through internet. At the same time, they need to know the usage of content, context and infrastructure of which a business takes its value from.

In addition, Haynes (1998) who looked at the issue from another perspective concluded that in the early stage of entering internet in the market unlike big and small enterprises the adaption speed of mid-sized businesses which is a type of "stuck in the middle" scenario will be slow. They will be under a huge compilation pressure till they optimize using the internet in their business by investing on their Information Technology (IT). Empirical evidences of a study conducted by Barber and Odean (2002) focus on people who changed the phone-based business to online business showed that availability of lots of information-illusion of knowledge lead to overconfidence which sometimes could be harmful. At the same time, the issues such as understanding of the technology, high skilled employee, rules and regulation and high switching cost are some other challenges of online business (Khatibi and Thyagarajan, 2003). Finally, Awoyelu and Tangba (2010) discussed the online business from technical point of view and concluded that the traditional business models are associated with lots of challenges for both buyers and sellers such as high level of time consumption in shopping, physical presence requirement and price discrimination.

Similarly, many authors presented the advantages of using internet in their studies. Fojit (1994) opined that fast growing technologies-disruptive are changing the way people do business and the following actions are suggested: confirm the expected interest, developing what your business stands for, improve the current infrastructure, have an offensive and defensive strategies or look beyond a simple customer-supplier relationship and finally building creative partnership. Moreover, in a profound study Hoffman and Novak (1995) conceptually analyzed the impact of internet on businesses. They believed that offering the products through the internet turned the businesses to be consumer driven, enable the customers to compare different products, save the shopping time, reduce shopping cost, enhance the quality and increase the variations of the products as the result of tough competition initiated by internet. In addition, doing business online creates numerous benefits for firms at least in three aspects namely; distribution, marketing communication and operation. Some digital products can be sold and delivered easily through direct communication between producer and customer; some intermediary or distribution cost, some marketing cost and cost of transferring information to customers- distribution cost will be reduced. In marketing related issues, the
information about the company and its products will be available 24/7 for customers. A website can be functioning as customer relation tool which enable customers to communicate with the company through e-mail or filling some forms. Finally, in their paper they argued that online businesses reduce errors, time and some overhead costs, enable the companies to expand their market segments or penetrate to new markets which are geographically far away. Analyzing the effects of internet on the business and changing the behavior and the decision making, Barber and Odean (2002) argued that availability of more and accurate information helps the people to anticipate the issues and do not only rely on their confidence in decision making. Khatibi and Thyagarajan (2003) concluded in their paper that competitiveness, efficient process and information system and better image can be added to the list of advantages of using online business. Moreover, Awoyelu and Tangha (2010) believed that lots of the negative points and shortage of traditional business models could be reduced significantly with online business platforms which are safer, comfortable and contain lots of information about the parties, products and delivery. Finally, these platforms enable the small business to compete with larger business. Hence, taking into account the opinions and arguments of the respected authors and the real practice of online business one can understand that the e-commerce sector is getting improved and expanded providing tremendous benefits despite its minor negative effects. To realize the scope of e-commerce expansion based on UNCTAD information economy (2017) report, global e-commerce has increased from $16 trillion of 2013 to $25 trillion of 2015. This data includes both B2C and B2B e-commerce. In the early stage of online business revolution-starting by invention of internet, B2C was the dominant online market. Generally, online businesses utilize different methods of payment namely: credit card, debit card, e-Wallet, mobile payment, bank transfer and cash on delivery (COD). Interestingly, UNCTAD (2017) B2C index report indicates that 31, 25, 17, 10, 7 and 10% of the payments in 2015 executed through e-Wallet, Debit card, Credit Card, bank transfer, COD and other methods of payment, respectively. Finally, Edquid (2017) listed the top 10 biggest E-commerce markets in terms of country in which China, USA and UK are at the top followed by Japan, Germany and France.

To make it specific, the improvement of B2C online business in Asia has been quite significant from 2013 to 2018 which was mostly driven by the China market. There are many factors behind this progress; changes in information technology and communication business model, initiating new business supportive laws to name a few (Rillo, 2016). Considering Central Asia, Rillo (2016) added that more than 50% of firms have their own websites. Moreover, except Afghanistan, all the countries in the region have electronic transaction legislation (Dicaprio and Procak, 2016). In order to execute an online deal, one seller and buyer must be connected to the internet. Based on International Telecommunication Union (2017), the percentages of internet users in Afghanistan, Azerbaijan, Kazakhstan, Mongolia, Tajikistan, Turkmenistan and Uzbekistan was 10.6, 78.2, 72.5, 22.27, 20.47, 17.94 and 76.79%, respectively in 2016. Nevertheless, it should be noted that the online businesses are in their early stage of development in the region. Mostly buyers and dominant online platforms are coming from outside the local marketplace. The most popular websites in the region are Aliexpress.com, ebay.com and Amazon.com. Considering the online business in countries level, Kazakhstan and Azerbaijan are two of the top countries in online retail business where online retail shopping accounted 2 and 1% of total retail sales based on the 2015 statistics (Ali partnership, 2016). Considering the percentage of internet users and the proportion of online retail in total retail market of Central Asia countries, one can understand the existence of a close relationship between percentage of individuals using internet and online business in the region. In short, considering the definition of e-commerce it can be claimed that accessibility of the citizens to the internet is the most important factor of improvement of online businesses as the story of doing business online has been started by internet in the first place.

ONLINE-BUSINESS IN AFGHANISTAN

Afghanistan is one of the poorest countries but full of potentials located in a strategic location of Asia. As a result of its geographical location, Afghanistan got the chance to become a member of several regional trade and economic agreements namely: Economic Cooperation Organization (ECO), Central Asia Regional Economic Cooperation (AREC), South Asian Association for Regional Cooperation (SAARC) and actively serves as a Contract Group in Shanghai Cooperation Organization (SCO) (Afghanistan Ministry of Foreign Affairs, http://mfa.gov.af/en/page/about-afghanistan/4109).

According to World Bank annual report (2017), Afghanistan’s GDP grew 2.2% and reached $19.47 billion in 2016. The report has projected 2.6 and 3.2% GDP growth for 2017 and 2018, respectively which are far behind the average 9.5% annual growth before 2014. The latest available statistics related to annual trade of Afghanistan shows more than 90% deficit (Central Statistic of Afghanistan, 2016).

To recall, by 2016, 10.6% of population use internet in the country (International Communication Union, 2017). Most of the internet users are living in the five big cities-Kabul, Herat, Mazar, Kandahar and Jalalabad which are considered the business centers of Afghanistan. Despite the dominance of traditional business models in the marketplace of the country, role and effects of communication and technology is remarkable in the
country. Previous and current generation of entrepreneurs and managers are trying to utilize the technology for starting and boosting their businesses. They try to create websites for their businesses and use social media platforms in order to be connected to the customers-a mixture of traditional and modern business model. New business models emerged in the country several years ago which were unknown in Afghanistan but common in most countries around the world- online business world. Even though there is no specific data about the number of companies that have website, Figure 1 shows that except the 3% Gov.af extension which is only being used for the governmental websites, the rest are being used by the business in Afghanistan.

To date, there are several online-shopping platforms in Afghanistan, from highly professional designed websites such as “Farsales.com” to “Click.af” which is a page in Facebook, managed from inside and outside Afghanistan. Although, there are websites allowing the customers to make the payment online- this website is mostly managed from outside the country and most of the websites are using COD payment model due to lack of online transaction services in Afghanistan. Despite the elevated risk associated with this model, entrepreneurs chose this model because based on current situation this model is among the few practical available options. Basically, COD has two scenarios, in one hand the online platform which functions as an intermediary should confirm the order placed by customer and on the other hand should confirm the availability of the product in the stock by contacting the seller (Bride, 2017). Immediately after the confirmation, the agent will inform the producer to confirm the availability of the product in the stock and if the product is available it will be shipped to the confirmed address otherwise the sales agent will inform the customer about new delivery date and renegotiate the new delivery date; the process will continue based on the result of the negotiation. It goes into note that sometimes it may happen that the supplier delivers the product to an agreed address where the delivery personal receives the product and then ship it out to the customer which rarely occurs less often. By contrast, most of the time the delivery personnel of the online business platform will collect the product from the supplier stock and ship it out to the customer. There is a third scenario where the online platform has its own stock and delivers them to the customer directly; in this case, the online platform is the supplier and there is no intermediary (Bride, 2017). Figures 2 and 3 show diagrams through which one can understand the process of COD online business model in details.

Despite all existed serious obstacles such as limited online transactions Bride’s report (2017) shows that there are young entrepreneurs who consider the online business as an opportunity and are struggling against obstacles in their daily job. Table 1 shows a list of active online shopping websites based on Afghanistan. As earlier mentioned, the main payment method is COD and they have high quality and user-friendly websites where they offer different categories of products. Some of these websites such as AzadBazar.af and AfghanBazar.com are used as platforms which enable businesses and individuals to post their items for sale from all parts of Afghanistan while others play an intermediary role between customers and suppliers or sellers.

CHALLENGES

The challenges can be discussed in three categories, those related to the entrepreneurs, society and finally, those attached to the government. When the entrepreneurs are concerned, one should differentiate between necessity entrepreneur and opportunity entrepreneur (Fairlie and Fosseni, 2018; Calderon et al, 2016). Necessity entrepreneur is defined as those who do not have any job before running a business while the opportunity
Figure 2: Interaction between online platform personal and customer. Source: Adapted based on click.af business model
entrepreneur is not unemployed or in other words are not active job seekers (Fairlie and Fosseni, 2018). These definitions could be generalized for all business as a whole and online business entrepreneur in specific. There are many entrepreneurs who started online business without having any special job to handle or any other type of business, this means that running an online business platform is due to necessity and unemployment. This can be supported by 40% unemployment rate which was announced by Central Statistical Organization of Afghanistan for year 2016 (Tolo news, 2017). Entrepreneurs under this category are not resilient against the tough time and pressure of the market-bearing initial costs without any remarkable return in the early stage of the business. As a result, online platform will generally be short or with a poor growth and performance profile. This
is because he or she is always looking for a job with a fixed salary or another business opportunity; once they get any of them they stop their businesses and the process becomes interrupted. Such a mindset has tremendous effect on short and long term performance of the online platforms like any other business. Generally, the businesses of entrepreneurs under this category are not profitable as a result of weak management (Calderon et al., 2016). In a country such as Afghanistan, lack of managerial ability, IT, marketing, negotiations, fundraising skills and unavailability of financial resources which are results of a back warded backward education and financial system can be added as well. On the other hand, there are opportunity entrepreneurs which unlike necessity entrepreneurs are more resilient to the hardship and toughness faced in online businesses. Unlike, the opportunity category their businesses are more profitable and growth-oriented (Calderon et al., 2016). The owners of platforms which their founders are under this category are more educated, skillful and are able to lead the online businesses to profitability even though the profit is not remarkable (Bride, 2017); (Tolo news, 2017). For instance, the founder of “Farsale.com” is HamedRohani, a full stack web developer, data scientists, a university lecturer and has a decade of experience in finance, HR and project management (Rohani, 2018). Based on opportunity definition and his profile his name can be placed under the opportunity entrepreneurs. Furthermore, considering the current situation of Afghanistan-economic infrastructure and political situation, especially the security condition one can easily understand that there are few opportunity entrepreneurs because they cannot take advantage of identified opportunities when there is no security. Nonetheless, Fairlie and Fossen (2018) found that both necessity and opportunity entrepreneurs are source of business creation in an economy.

Secondly, whenever the reasons behind the slow growth of online business industry in Afghanistan are being analyzed beside the entrepreneurs, one should consider the challenges rooted in the society and the quality of governance. First and foremost, everybody’s concern at the moment is security and peace in Afghanistan including business community and those outside business communities. According to data being recorded in Global Terrorism Database (2017), there are about 500 non-military attacks such as attacks to private citizens and property, media, education institutions, public transportation, highways and bridges, water and electricity supply system and other infrastructures. However, this challenge turns to an opportunity to some online business platforms. The family members of high ranking government officials are named as one of the groups which prefer to order online rather than going for physical shopping (Tolo news, 2017). It goes into note that volatile security condition affects the daily life of people in Afghanistan especially from economic aspects. According to world bank database (2018), GDP per capita of Afghanistan is $570 of 2016 and unfortunately according to the world bank report gross domestic saving as percentage of GDP has been negative since 2002; -24.42 of 2016. Figure 4 shows only a proportion of the weak economic foundations of the society and challenges which are preventing Government and entrepreneurs to invest on technology and IT infrastructures. To all mentioned challenges one can add more obstacles such as lack of access to bank account and electronic transaction options. Currently, three telecommunication companies namely Etisalat, Roshahn and AWCC companies offer electronic money services which enable the customers to conduct electronic transaction (finTRACA, https://www.fintraca.gov.af/EMI.html). This is a great opportunity for business communities of Afghanistan. Moreover, all banks currently do not have ATMs and online payment systems, some banks such as AIB, Azizi and Maiwand bank offer MasterCard and some other cards under certain conditions and for certain types of bank accounts which all enable the customers to carry out online and electronic transactions. However, as a result of low income and low saving rate, illiteracy, security, culture and

<table>
<thead>
<tr>
<th>Website</th>
<th>#categories</th>
<th>Main category /categories</th>
<th>Price in</th>
<th>Language/ languages</th>
<th>Payment method/methods</th>
<th>Quality*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Azadbazar.af**</td>
<td>12</td>
<td>Automotive and Real estate</td>
<td>AF***&amp; $</td>
<td>3</td>
<td>COD</td>
<td>Low</td>
</tr>
<tr>
<td>Goharshad.af</td>
<td>9</td>
<td>Watch and Fashion</td>
<td>AF</td>
<td>2</td>
<td>COD</td>
<td>High</td>
</tr>
<tr>
<td>Entekhabman.com</td>
<td>7</td>
<td>Fashion and Electronics</td>
<td>AF</td>
<td>1</td>
<td>online</td>
<td>High</td>
</tr>
<tr>
<td>Afghan mart.com.af</td>
<td>14</td>
<td>Home necessities</td>
<td>AF&amp; $</td>
<td>3</td>
<td>COD &amp;online</td>
<td>High</td>
</tr>
<tr>
<td>Afghanbazar.com**</td>
<td>8</td>
<td>Automotive and Electronics</td>
<td>AF &amp;$</td>
<td>2</td>
<td>COD</td>
<td>High</td>
</tr>
<tr>
<td>Arzanqemat.com</td>
<td>5</td>
<td>Cloths</td>
<td>AF &amp;$</td>
<td>2</td>
<td>COD</td>
<td>High</td>
</tr>
<tr>
<td>Mechid.af</td>
<td>8</td>
<td>Electronics and Fashion</td>
<td>USD, EUR and AUD</td>
<td>4</td>
<td>Online &amp;COD</td>
<td>High</td>
</tr>
</tbody>
</table>

Note: *, High quality represents those websites which have contact number, email ID and term & policy, good quality picture of the products; websites under the average quality have only contact number and email ID and finally those under the low quality have neither of mentioned attributes; **, They are C2C platform.
sensitivity of people to conventional banks—the first Islamic Bank of Afghanistan established in April, 2018, are the main reasons for lack of financial inclusion in Afghanistan which leads to less developed e-commerce sector in the country. Finally, challenge is the profile of a country which mostly does not have exact official addresses which creates serious problem for both customers-increase the delivery time and for online platforms-reduce the delivery cost; differentiating real orders from the feck (Bride, 2017; Tolo news, 2017).

Discussing at a micro level, when the online business is a concern regardless of all mentioned issues and challenges, in order for customers to be able to purchase products online in the first place, he or she needs a device such as smartphone, laptop or note and internet; more importantly knows how to use these resources—Basic computer and IT literacy. According to ministry of information and communication (2018), 10% of the population has access to internet; currently, the target of online businesses is a proportion of this 10% which are living in the cities, and the price of 1 Mbps internet decreased from 50000 USD of 2002 to currently 67 USD. Compared to the rest of the world this numbers are not impressive and yet build a strong e-commerce sector.

To proceed further, trust and social capital are considered crucial for the social and economic life of humans. This notion is supported by Paratono et al. (2016) who found that social capital and marketing capability have a complementary effect on firm performance. Moreover, the result of an empirical study on the performance of firms after 2008 to 2009 by Lins et al. (2017) showed that "the trust between a firm and both its stakeholders and investors, built through investments in social capital, pays off when the overall level of trust in corporations and markets suffers a negative shock".

However, when trust and social capital in Afghanistan is in concern, it was undermined by one of the long last and worse reputation of corruption in the world. According to the Transparency International report (2017), Afghanistan ranking is 177/180 in the world transparency index. Obviously, when the corruption increases the trust will decline and negatively affect the business environment. The issue of trust tends to be more significant when it comes to online business where the parties cannot see each other; the customer cannot see and touch the item physically. The challenge of trust and social capital gets worse when the online business customers understand that unlike most of foreign neighbors and developed countries, Afghanistan does not have either of required legislation namely electronic transactions (drafted), consumer protection, privacy and data protection and cybercrime to protect and support e-commerce in the country (Dicaprio and Procak, 2016). All these factors can negatively affect e-commerce sector resulting from weak governance and a backward society. Hence, increase in market share, a close cooperation between entrepreneurs and the government

Figure 4: All the challenges in one frame: Society - Entrepreneurs - Government. Source: The author.
and society is required to move the online business market to the next stage of development.

**CONCLUSION AND POLICY RECOMMENDATION**

Technology is the factor which has been changing the way humans live. This changes gets faster by advancement of the communication technology and internet. Like other sectors, it has remarkably affected the economic sector. It has been a long time that the advancements of technology reached a point where it enables customers to buy and sell product only by entering some numbers and pressing a button. Since online-business was created in the early 1990s, the global value of e-commerce is getting increased as the years goes by. Countries such as China, the USA, Germany, Japan and other western, east and south East Asia countries laid down a strong infrastructure to promote and support online businesses.

Some regions such as Africa and Central Asia are far behind due to some social and economic reasons. Of all Asian countries, despite all potentials, Afghanistan is a country which owned one of the weakest economic, social and political foundations for doing online business. Currently, dozens of online shopping platforms operate in major cities of Afghanistan. These online platforms are actively based on capital in contexts of websites and Facebook pages using different methods of payments and having different qualities. Even though, some websites offer online payment, COD is the main method of payment which online-businesses built their businesses upon.

Generally, COD consists of two parts managed by online platforms as intermediary; confirming the order and address with customers and confirming the availability of the item with stock which in most of the case is a supplier; sometimes online platforms have their own stocks. This model is very risky and costly for online platforms. With the challenges, they are categorized under three categories although they are integrated; challenges come from entrepreneurs and the society and challenges related to the government. Challenges which are attached to the entrepreneur is excessive subscription of necessity entrepreneurs which is not long lasting and are not growth oriented. On the other hand, the number of opportunity entrepreneurs which are qualified and can build a growth oriented online business is limited due to security problems. In the case of challenges rooted in society and government; security, poverty and lack of physical and intellectual-social capital and trust, infrastructure, need to be highlighted first. Moreover, lack of access to bank account and online transaction, legislations which protect the online business parties and lack of entrepreneurial mindset are considered as the main obstacles that slow down the improvement of e-commerce in Afghanistan.

In order to tackle these challenges and get benefit from the potentials, each of the mentioned parties should first work together-creating a cooperative mindset. This is because everyone should take responsibility otherwise the upcoming recommendations will not be helpful. Considering the mentioned conditions, to gradually solve the challenges ahead based on the current situation of Afghanistan there are some recommendations:

1) Whatever political cost required or will be required, the government should try to bring peace in Afghanistan;
2) Elimination of corruption should be declared as an obligation (Fardeh), by religious scholars and government not only by words but should be shown and proven and every member of the society especially those from government and business communities should really fight against this cancer;
3) Different investment funds- government, foreign investors and public private partnership should be channeled into infrastructures especially to the internet, communication and online transaction infrastructures;
4) In order to bring confidence to the sector, required legislation should be initiated and implemented to support both parties in the e-commerce such as electronic transactions, consumer protection, privacy and data protection and cybercrime;
5) Spreading an entrepreneurial mindset in the society through quality education and professional trainings is a necessity.

**ACKNOWLEDGEMENT**

The author would like to thank Dr. Noor Ihsan Mohamad for his valuable comments and instructions.

**REFERENCES**


Rillo AD (2016). The Development Dimension of E-Commerce in Asia: Opportunities and Challenges.

Cite this article as:
Submit your manuscript at http://www.academiapublishing.org/journals/jbem