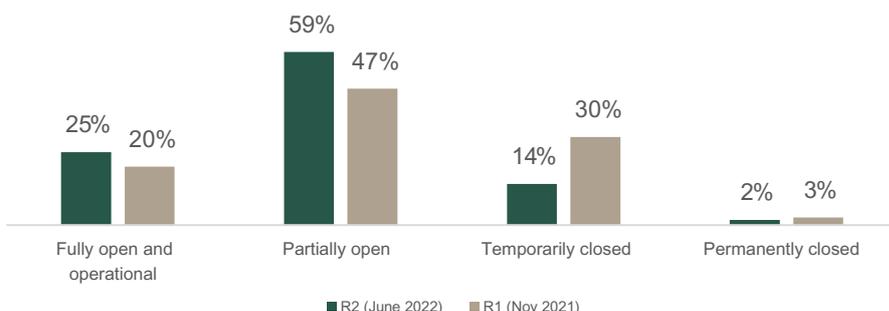


A follow-up survey of the private sector in Afghanistan was conducted in May-June 2022 to assess the changing business environment in the country and the impact of the political crisis of August 2021. This survey of 265 formally registered business was conducted across 5 provinces and will be followed by a third round. Results of the first round were published in March 2022.

Operating Status

Businesses are adjusting to the new realities of the business environment, and many firms have resumed operations. Whereas 33% of surveyed firms had closed operations immediately after August 2021 due to high uncertainty and lack of demand, a large number have resumed operations since November 2021—albeit well below full capacity.

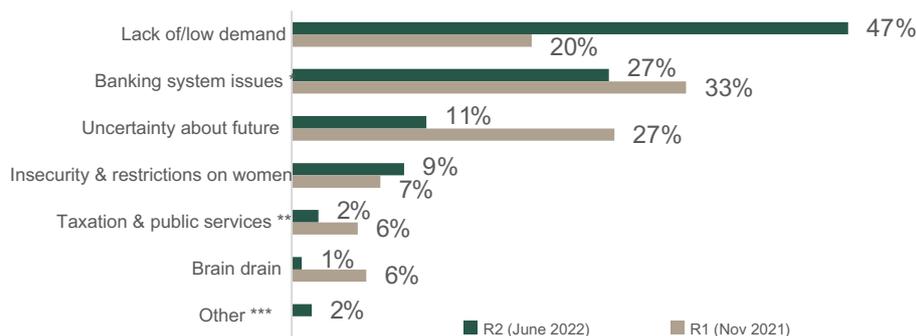
Operating status of firms (% of respondents) - R2 and R1



Constraints and Coping Strategies

Businesses' uncertainty about the future has subsided slightly, but the demand crisis and banking sector issues are weighing on business activities and consumer demand. Businesses have coped with challenges by laying off employees, shrinking investments, and shifting away from formal channels toward greater use of cash and Hawala for business transactions.

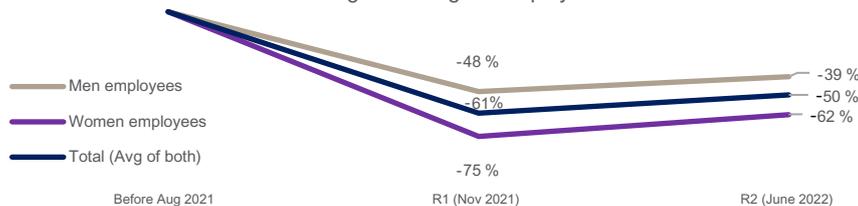
Top constraints faced by businesses (% of respondents listing top 3 constraints) - R2 and R1



Employment

Employment in some surveyed firms has increased slightly since November 2021 but remains far below pre-crisis levels.

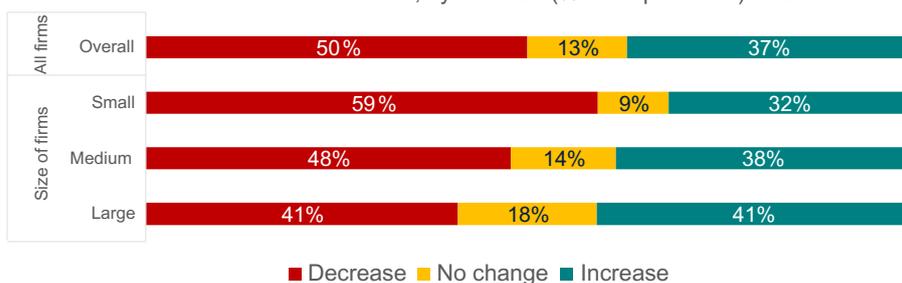
Average % change in employment - R2 and R1



Consumer Demand and Revenue

The steep decline in demand immediately after August 2021 appears to have tapered off slightly, although demand is still significantly low. For the panel firms, revenue losses have not been as bad as expected in Round 1.

Consumer demand, by firm size (% of respondents) - R2



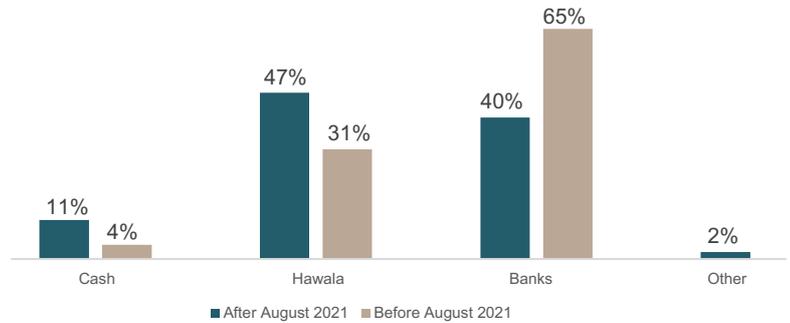
82% Expected (R1) ➔ Revenue Losses ➔ **51%** Actual (R2)

Business Payment Challenges

The lack of liquidity in the financial sector continues to pose difficulties for domestic payments, while international payment systems have been disrupted mainly by the loss of correspondent banking relationships.

Restrictions on the banking sector have forced businesses to use **cash** for domestic transactions and to rely increasingly on **Hawala** for international transactions.

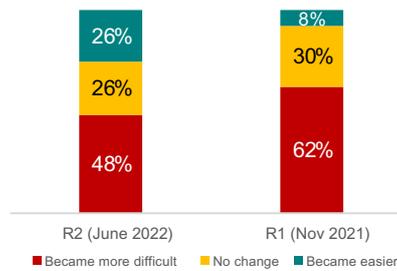
Channels used and preferred for international payments (% of respondents) - R2



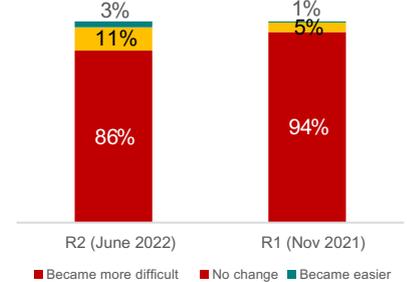
Challenges in Accessing Inputs

Imported inputs have become costlier and more difficult to obtain since November 2021. The main reasons are abrupt border closures, unavailability in local markets and difficulties in making payments to vendors abroad. Access to **domestically produced inputs** remains difficult, owing mainly to price inflation and the closure of suppliers' businesses.

Access to domestically produced inputs (% of respondents) - R2 and R1



Access to imported inputs (% of respondents) - R2 and R1

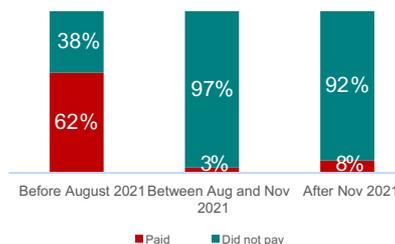


A higher proportion of men-owned firms (71%) reported that **security** had improved since November 2021, compared to women-owned firms (45%). Around 41% of women-owned firms reported deterioration.

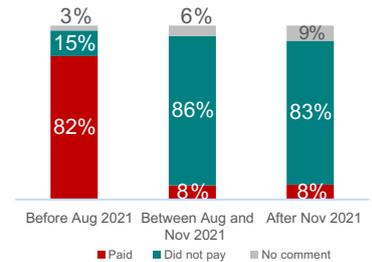
Corruption

Although unofficial payments in the process of filing taxes and clearing goods through customs dropped significantly after August 2021, they still occur.

Unofficial payments (% of respondents) - revenue department - R2



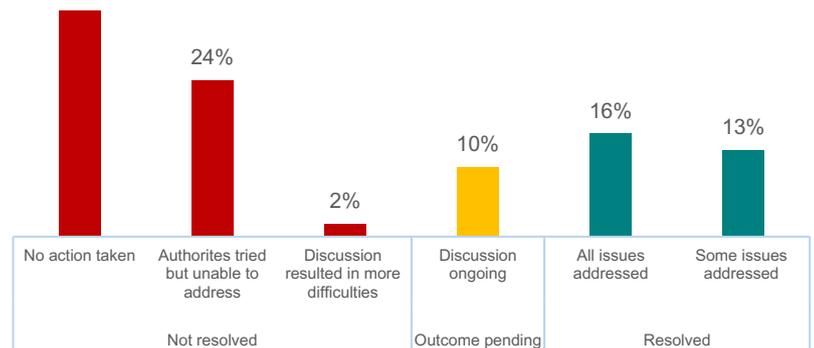
Unofficial payments (% of respondents) - customs department - R2



Dialogue

Approaching the Interim Taliban Administration (ITA) to help resolve business challenges has not proven effective for surveyed firms in recent months. More than half of surveyed firms reported having approached the ITA, and in most cases they did not or were not able to resolve firms' difficulties.

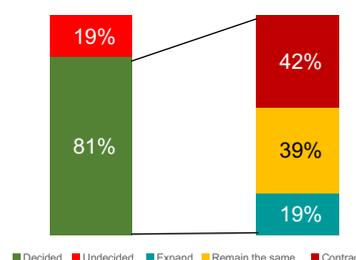
Outcome of discussions with the ITA (% of respondents) - R2



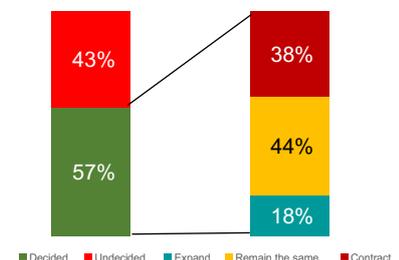
Outlook

Although the level of uncertainty faced by businesses has subsided in recent months, this has not prompted a major shift in their investment decisions. A smaller share of businesses indicated plans to shrink in size, and a slightly larger share to expand, than in November 2021.

Future investment prospects (% of respondents) - R2



Future investment prospects (% of respondents) - R1



Notes: Panel firms are those that participated in both rounds of the survey.