Based largely on in-person interviews with 422 firms in five provinces, Round 3 of the PSRS provides an updated assessment of key business constraints in the context of a “new normal” for Afghanistan’s private sector.

Sample Distribution
Although Round 3 of the PSRS used a statistically representative sample at the regional level, sample weights were adjusted to ensure representativeness among sectors and gender of the firm owner. The sample selection used a quota approach, selecting 5,000 firms randomly from the central business registry and then contacting and interviewing firms until reaching the predetermined number in each group.

Operating Status
Business operations are recovering but remain below the levels seen before the ITA takeover. While more firms surveyed in Round 3 are fully operational than in the previous year, over one-third operate below capacity and 8%, notably women-owned, closed temporarily or permanently. This trend affects firms of all sizes.

Consumer Demand and Revenue
Most surveyed firms experienced a drop in demand for goods and services in 2023, with 4 out of 5 firms in Round 3 reporting a decline in the past six months. The decrease in demand was particularly notable for small and medium firms, with 80% reporting reduced demand, compared to 69% among large firms.

Constraints and Coping Strategies
The survey found that businesses continue to struggle with low consumer demand and banking challenges. There has been a notable increase in the share of respondents citing uncertainty about the future as a major constraint. Many firms are responding to these challenges by cutting back on investments and reducing their trade volume.
Employment
The employment gap compared to before August 2021 is at -58%. Round 3 firms report a 9% decrease in staff compared to Round 2, indicating a mismatch between labor supply and firm capacity. Despite households enlisting more workers, mainly youth and women, high unemployment persists due to the labor market's limited absorption capacity.

Business Payment Challenges
Compared to before the ITA takeover, payment trends confirm a shift away from banking services for both domestic and international payments, with Afghan firms preferring Hawala and cash transactions since the launch of the PSRS. Overall, these channels now represent more than 90% of business payments in Afghanistan.

Challenges in Accessing Inputs
Obtaining inputs produced within Afghanistan has proved more challenging for 57% of surveyed firms that in the previous year, owing to increased transportation costs, higher input prices, and limited local availability. In an import-dependent economy like Afghanistan, 79% of surveyed firms use imported inputs, and 73% of those reported facing greater difficulties in accessing imported inputs compared to June 2022. This represents a slight improvement from 85% in Round 2.

Unofficial Payments
Survey results suggest a low level of unofficial payments and bribes since the ITA takeover, with 92% of respondents reporting making no unofficial payments to the ITA. Taliban efforts to centralize revenue collection disrupted patronage-based politics. However, such practices persist in customs clearance and tax payment processes.

Dialogue
Fewer firms engaged in discussions with the ITA to address business challenges in Round 3 compared to Round 2, with only 10% of those firms reporting a successful resolution of the issue. Small businesses were less likely to engage with the ITA and faced more challenges when they did, while over 40% of women-owned firms found such engagement "difficult."