



# AFGHANISTAN PRIVATE SECTOR RAPID SURVEY

## An Assessment of the Business Environment – Round 3

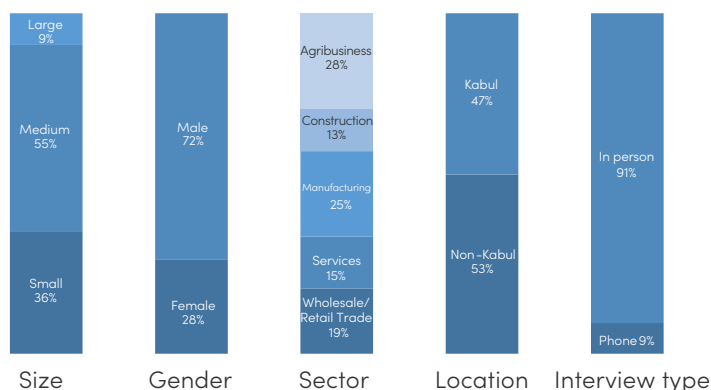
February 2024

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.

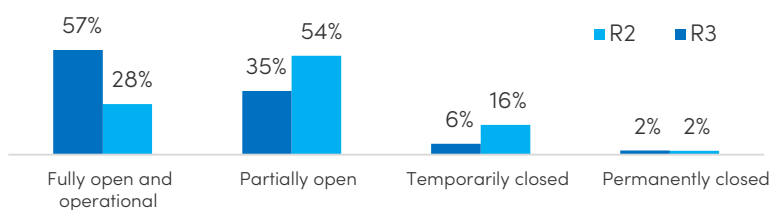
Sample distribution, Round 3 (% of respondents)



### 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.

Operating status of firms (% of respondents) R2 and R3



### 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.

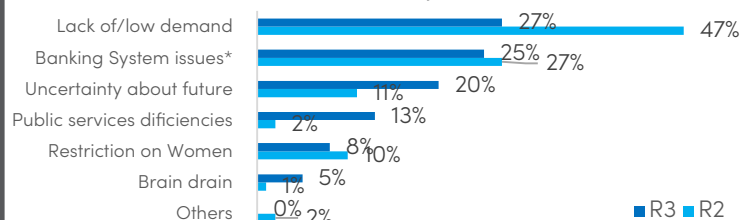
Consumer demand for goods and services (% of respondents) R2 and R3



### 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.

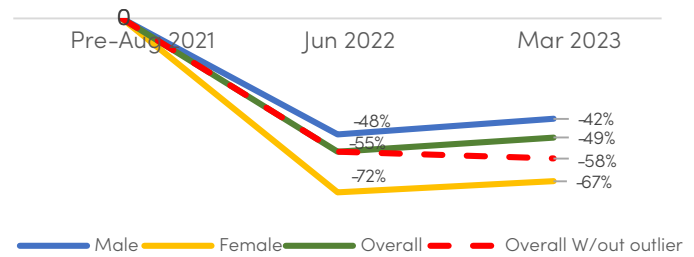
Top constraints faced by businesses (% respondents listing top 3 constraints) R2 and R3



### 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.

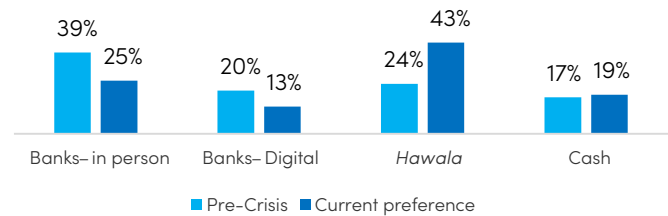
Average % change in employment R3 and R2



### 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

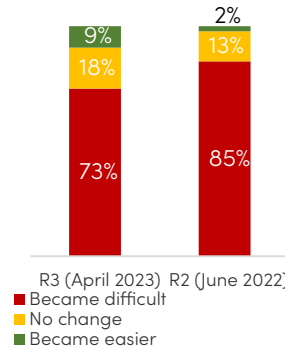
Channels used and preferred for international payments (% of respondents)



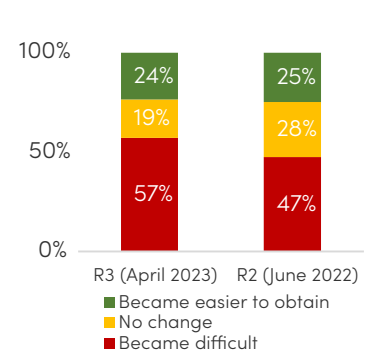
### Challenges in Accessing Inputs

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.

Access to Imported Inputs (% of respondents) R2 and R3



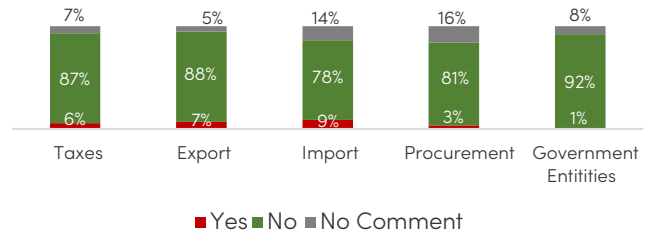
Access to domestically produced inputs (% of respondents) R2 and R3



### 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.

Unofficial payments/bribes reported (% of respondents)



### 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."

Outcome of discussions with the ITA (% of respondents) R3

