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# AFGHANISTAN PRIVATE SECTOR RAPID SURVEY

## An Assessment of the Business Environment – Round 3

February 2024

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# ABBREVIATIONS

| | |
|---|---|
| ACBR-IP | Afghanistan Central Business Registry and Intellectual Property |
| AFN | Afghani (currency) |
| AML/CFT | Anti-Money Laundering/Combating the Financing of Terrorism |
| BPS | Business Pulse Survey |
| COVID | Coronavirus Disease |
| DAB | Da Afghanistan Bank |
| GDP | Gross Domestic Product |
| ITA | Interim Taliban Administration |
| PSRS | Private Sector Rapid Survey |
| R1 | Round 1 |
| R2 | Round 2 |
| R3 | Round 3 |
| WBES | World Bank Enterprise Survey |


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# ACKNOWLEDGMENTS

This report on Round 3 of the Afghanistan Private Sector Rapid Survey (PSRS) was prepared by the World Bank Group's Finance, Competitiveness, and Innovation Global Practice.

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The team is grateful to Gabi G. Afram (Finance, Competitiveness, and Innovation Practice Manager, South Asia Region) and Eduardo Olaberria (Senior Economist and Program Leader) for their invaluable guidance, and to Aminta Ndiaye (Senior Economist) and Suhail Kassim (Senior Economist) for their substantive review of the report.

The team benefited from the contributions of Kiran Afzal (Senior Private Sector Specialist), Namoos Zaheer (Senior Financial Sector Specialist), Silvia Redaelli (Senior Economist), Assadullah Nissar (Consultant, IFC), Rafay Khan (Senior Economist), Muhammad Waheed (Senior Economist), Diana Ya-Wai Chung (Senior External Affairs Officer), and Giulio Barcaroli (Consultant). Editorial support was provided by Amanda Green (Consultant).

# EXECUTIVE SUMMARY

i. **Since the Interim Taliban Administration (ITA) assumed control of the country in August 2021, Afghanistan's economy has experienced a significant contraction that affected all sectors.** The declines in international aid, economic output, and employment during this period have been compounded by the adverse effects of climate change, insufficient infrastructure, and the inability of most of the population to afford basic food items. After shrinking by 25 percent in 2021 and 2022, the economy stabilized around a new low-level equilibrium by the end of 2022 and is expected to grow by 1.4 percent in 2023.[1] Over the last year, self-reported household welfare has improved slightly,[2] banking operations have partially resumed, and more businesses are in operation. Despite these marginal improvements, however, the economic outlook remains highly uncertain. The country remains isolated from the global economy, with continued high poverty and tighter restrictions on women's economic activities. Together, these factors hold back the country's economy from reverting to a growth path.[3] Moreover, if the current situation persists, there is a high likelihood of an escalation in widespread and severe poverty, heightened food insecurity, increased displacement, greater vulnerability, a weakened economic base for production and food provision, and heightened political instability.

ii. **In this context, the World Bank continues to monitor the pulse of the country's businesses through iterative implementation of a Private Sector Rapid Survey (PSRS).**[4] To better understand the economic situation on the ground and identify bottlenecks to growth, there is a need for ongoing collection and analysis of reliable micro-level data from the private sector. This report provides a new update on the private sector operating environment in the country, based on the results of Round 3 of the PSRS, implemented in March 2023, in large part (91 percent) through in-person interviews. The survey collected data from a significantly expanded sample of 422 firms in the five provinces of Afghanistan with the highest concentration of formal businesses: Kabul, Balkh, Herat, Kandahar, and Nangarhar. Based on an analysis of survey data, this report aims to identify the most urgent needs of formally registered small, medium, and large enterprises involved in the production of goods and services in Afghanistan. Addressing the most pressing needs of firms and empowering them to fully leverage industry-specific knowledge and technology could boost private sector-led growth and have positive ripple effects on the broader economy. The findings of this report underscore key constraints that prevent Afghanistan's private sector from becoming a self-sustaining endogenous growth engine for economic recovery.

iii. **Business operations are recovering but remain well below pre-crisis levels.** Round 3 survey results suggest that Afghanistan's private sector continues to face important challenges. A larger share of firms reported being in full operation compared to the previous year's survey. Yet, over one-third of firms surveyed in this round are still operating below capacity, and 8 percent—mostly women-owned firms—are either temporarily or permanently closed. This is true for large, medium, and small firms.

iv. **Businesses report a growing sense of apprehension about Afghanistan's economic future.** Issues related to the banking sector—such as limited functionality, lack of liquidity, and difficulties accessing bank loans—and a lack of consumer demand remain the primary business constraints, although there has been a noteworthy increase in the share of respondents citing uncertainty about the future as a major constraint, alongside concerns about restrictions on women's economic activities and challenges imposed by shortcomings in public service delivery. The top three constraints are consistent across businesses owned by men and women.

[1] The World Bank: Education Management Information Systems (EMIS): Afghanistan – Economic Overview.
[2] The World Bank: Afghanistan Welfare Monitoring Survey – October 2023.
[3] The World Bank: Afghanistan Development Update – October 2023.
[4] Round 1 of the PSRS (R1), conducted in October–November 2021, aimed to gather information on the status and concerns of Afghanistan's formal private sector firms in the months following the crisis. Round 2 (R2), implemented in May–June 2022, reported on how firms were adjusting to the new realities of Afghanistan's private sector.

v. **A wide majority of surveyed firms report a drop in demand for goods and services in 2023.** Four of five firms interviewed in Round 3 reported a decline in demand for goods and services over the past six months. This issue was more acute for small and medium firms, among whom 80 percent reported reduced demand, compared to 69 percent among large firms.

vi. **Employment in surveyed firms remains well below August 2021 levels.** Overall, the employment gap compared to the August 2021 baseline expanded slightly from -55 percent in Round 2 to -58 percent in Round 3.[5] According to the welfare monitoring survey published by the World Bank in October 2023, Afghans have responded to the economic scarcity and high poverty caused by the regime change either by leaving the country or by entering the job market, mostly in informal activities. Simultaneously, shrinking demand and the consequent loss of revenue have forced many Afghan firms to pull back on investments and lay off employees. The resulting growth in labor supply has sizably outpaced slackening demand, causing unemployment figures to nearly double since August 2021.[6] The number of surveyed firms reporting zero women employees increased to 50 percent in Round 3.

vii. **Banking sector challenges continue to hamper both domestic and international transactions.** Survey respondents cite the lack of liquidity and limited functionality of the banking system as the main difficulties in making domestic payments and the main reasons for increased use of other payment channels, such as cash and traditional, informal *Hawala* money transfers. On the trade side, correspondent banks have de-risked in response to a lack of clarity on the applicability of anti-money laundering and combating the financing of terrorism (AML/CFT) sanctions by restricting transactions with most Afghan banks.[7] These restrictions have directly affected private sector activities, disrupting trade as firms struggle to access international banking services and thus to pay for imports or receive payments for exports. The restrictions have also increased the due diligence costs incurred by financial institutions when engaging in cross-border payments, resulting in higher transaction costs.

viii. **There has been a surge in the number of firms seeking access to loans to keep their businesses afloat.** In total, over two-thirds of interviewed firms expressed the need for a loan within the next six months to cover operational expenses. The sharp surge in demand for access to finance confirms that financial challenges and revenue losses are significantly affecting Afghanistan's private sector environment.

ix. **Firms' operations are constrained by challenges in obtaining access to inputs.** Over half of firms interviewed in Round 3 indicated that accessing domestically produced inputs has become more challenging, owing to higher transportation costs, elevated prices of related inputs like fuel and electricity, and restricted local availability. Small businesses, particularly those in the construction and the wholesale and retail trade sectors, are more likely to have trouble obtaining domestic inputs. Similarly, over two-thirds of firms that need imported inputs indicate that obtaining them has become more difficult since August 2021,[8] due to higher international prices, border closures, and difficulties in making payments to sellers abroad. The countries from which Afghanistan's imported supplies are sourced appear to be shifting as well, from Iran in the several years before August 2021[9] toward Pakistan and China.[10]

x. **Most firms reported an increase in the overall cost of doing business between June 2022 and March 2023.** The ITA's heightened tax collection procedures and strict application of tax regimes and regulatory obligations have increased the cost of doing business, especially for small and medium-sized firms. Large firms report lower business costs compared to small and medium firms. Half of the respondents in Round 3 noted increased costs for clearing goods through customs and longer fiscal payment procedures, compared to pre-August 2021.

[5] This result excludes an outlier (Figure 10).
[6] The World Bank: Afghanistan Welfare Monitoring Survey – October 2023.
[7] The World Bank: Afghanistan Development Update – October 2023.
[8] Inputs include, but are not limited to, raw materials, semi-finished goods, fuel, electricity, and machinery
[9] The World Bank: Afghanistan Development Update – October 2023.
[10] Before August 2021, the main supplier of imports was the United Arab Emirates, as reported in Statista.

xi. **Nearly half of surveyed companies feel that security conditions have improved since August 2021.** However, perceptions of security improvements vary widely by the size of the firm and the gender of its owner. Women-owned firms are twice as likely to report a deterioration in the overall security environment than men-owned firms. Similarly, small firms are nearly three times more likely to report a deterioration in security compared to large firms.

xii. **Survey results point to a decline in corruption.** A significant share (92 percent) of surveyed firms reported that they did not have to make unofficial payments or pay bribes to complete business obligations. The network of roadside checkpoints has been dismantled, and the smuggling routes that had previously generated revenue for both Taliban factions and local power brokers have been closed. These efforts have substantially reduced corruption and effectively disassembled the previous patronage-based political settlement.[11]

xiii. **Firms are developing new ways to cope with dampened economic activity and persistently low demand.** A majority of firms surveyed in Round 3 cited continued reliance on Hawala as their primary mechanism for coping with business challenges. Additional strategies are coming into play as well, as some firms have reduced their trade volume and scaled back investment. Women-owned firms are more likely to close down (temporarily or permanently) than their male counterparts, suggesting that Afghan women business owners are more vulnerable to the impact of low demand and scarce funding and thus less resilient to economic shocks.

xiv. **Engaging in dialogue with the ITA has not proven to be effective in resolving businesses' difficulties.** Fewer firms reported approaching the ITA to help address business challenges than in previous rounds. Of those firms that did engage with the ITA, over 60 percent indicated either that no action was taken or that the problems persisted. Women-owned firms and small businesses report encountering more challenges in engaging with the ITA and have thus been less likely to resolve business issues through dialogue compared to men-owned and larger businesses.

xv. **As the Afghan economy continues to grapple with uncertainty and fragility in the wake of the ITA takeover in August 2021, it will be necessary to continue monitoring the impacts of this environment on the country's private sector firms.** Although firms appear to be adjusting to the new economic reality, as evidenced by the relatively increased share of surveyed firms that reported operating at full capacity in this round, together with a slight improvement in household welfare and a partial improvement in the functioning of the banking sector, persistently low consumer demand and tighter restrictions on women's activities continue to restrain the country's growth potential. These impacts are compounded by firms' coping strategies in the face of an uncertain future, which see them scaling back investments and dampening trade. Despite signs of improvement in corruption and in the security environment, small firms and those owned by women are more likely to feel that security has deteriorated over time.

[11] XCEPT. 2022. "How the Taliban Regulated Cross-Border Trade and Upended Afghanistan's Political Economy." UK Aid Briefing Paper.

# INTRODUCTION

1. **The aftermath of the Interim Taliban Administration's (ITA) takeover has left the Afghan economy grappling with ongoing uncertainty and fragility.** The economy experienced a cumulative contraction of 25 percent in 2021 and 2022. However, indications of a new low-level equilibrium began to emerge toward the end of 2022, and growth began to pick up slightly by the end of 2023, despite three earthquakes that occurred within a week in mid-October of the same year. The ITA successfully generated US$2.2 billion in revenue for fiscal year 2022, a figure comparable to collections in 2019. In fiscal year 2023, however, revenues fell below targets, primarily as a result of inland revenues struggling amid weakened economic activity and diminished non-tax receipts. Despite a significant volume of merchandise imports in the first ten months of 2023, exports (which peaked at US$1.9 billion in 2022) have been losing momentum since early 2023, largely as a result of reduced exports of food and coal to Pakistan. Consequently, the trade deficit expanded between October 2022 and October 2023.[12] Nevertheless, the Afghani (AFN) appreciated in 2023.[13] Increases in cash shipments, aligned with budgetary requirements for humanitarian and basic service aid, and an uptake in remittance inflows all played a role in stabilizing the economy, ultimately propelling the country toward a growth trajectory.[14]

2. **The private sector continues to adapt to the new reality following the initial shock of the events in August 2021.** The crisis led to a temporary halt in private sector activity in Afghanistan, as businesses grappled with heightened uncertainty and a significant loss of human capital through "brain drain" to other countries. This situation eroded investment confidence and had a negative impact on firms' business outlooks. Now, more than two years into the political and economic crisis, businesses are gradually adjusting to the changed business environment. While the level of uncertainty has diminished, firms still face challenges, such as revenue losses due to declining demand, soaring food and fuel prices, difficulties in the financial sector, and a lack of clarity in policy making. Given the dynamic nature of the situation, it is crucial to monitor Afghanistan's private sector closely to comprehend the ongoing constraints that businesses encounter and identify the support they need to navigate a shifting business landscape.

3. **The Private Sector Rapid Survey (PSRS) was created to collect iterative information on how the events of August 2021 affected businesses in Afghanistan.** Building on insights from the Round 1 survey, conducted in October–November 2021 and published in March 2022, and the Round 2 survey, conducted in May–June 2022 and published in September 2022, this follow-up report aims to offer an updated assessment of the private sector context in Afghanistan. Round 3 was conducted in March 2023 with a significantly expanded sample of 422 businesses, of which 217 were panel firms that had also participated in the first two rounds of the survey (Box 1 and Annex 3) and 205 were new to the survey. Although some time has elapsed since the data collection for the Round 3 survey, the data remain relevant in light of the persistence of key business constraints in the context of a "new normal" for Afghanistan's private sector.

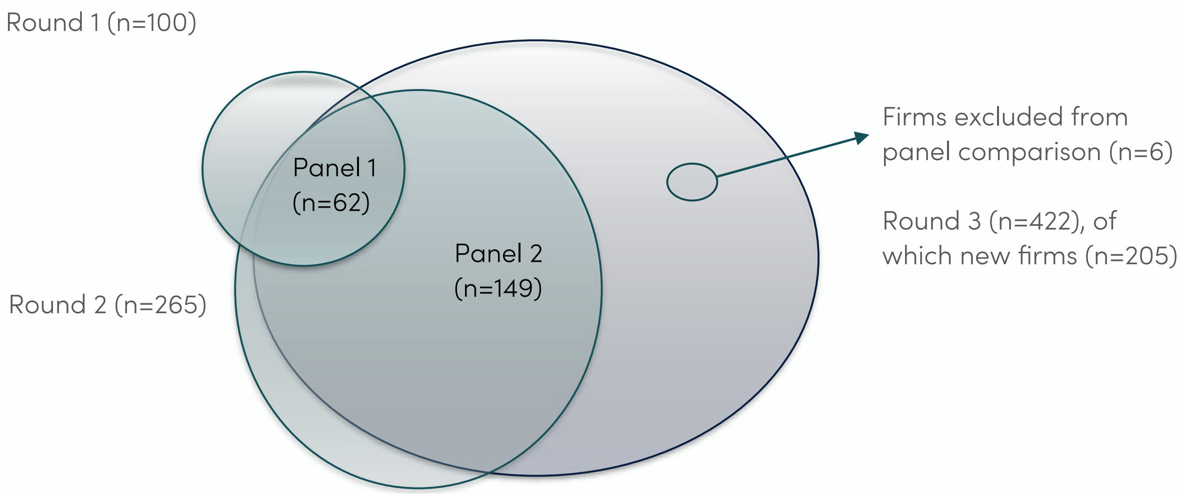
**Box 1: Population, sampling, and stratification**

**The first round of the PSRS aimed to gather information on the status and concerns of Afghanistan's formal private sector firms in the months following the crisis.**[15] A second round was conducted half a year later with a view to providing an update on the business environment and how firms were coping. Building on the Round 2 survey report, published in September 2022,[16] this follow-up report seeks to provide a further update on the private sector context in Afghanistan, based on a survey implemented in March 2023.

[12] The World Bank: Afghanistan Economic Monitor – November 2023.
[13] The World Bank: Afghanistan Development Update – October 2023.
[14] The World Bank - Education Management Information Systems (EMIS): Afghanistan – Economic Overview.
[15] The World Bank: "Afghanistan Private Sector Rapid Survey: A snapshot of the business environment – Round 1" (March 2022).
[16] The World Bank: "Afghanistan Private Sector Rapid Survey: An assessment of the business environment - Round 2 (September 2022).

**Figure 1 displays the comparative samples for all three survey rounds.** The Round 3 survey collected data from a significantly expanded sample of 422 firms, of which 217 were panel firms that had also participated in the first two rounds of the survey (Annex 3) and 205 were new. Owing to some data inconsistencies, however, six firms were removed from the panel comparison, for a total of 211 panel firms in this round in the panel comparison. In Round 3, 305 surveyed firms were owned by men and 117 were owned by women. Respondent firms were based in Kabul and four other major cities with a relatively high concentration of businesses: Balkh, Herat, Kandahar, and Nangarhar (Figure 2). The first two rounds of the PSRS were conducted by telephone, while 91 percent (385 of 422) of Round 3 interviews were conducted in person.

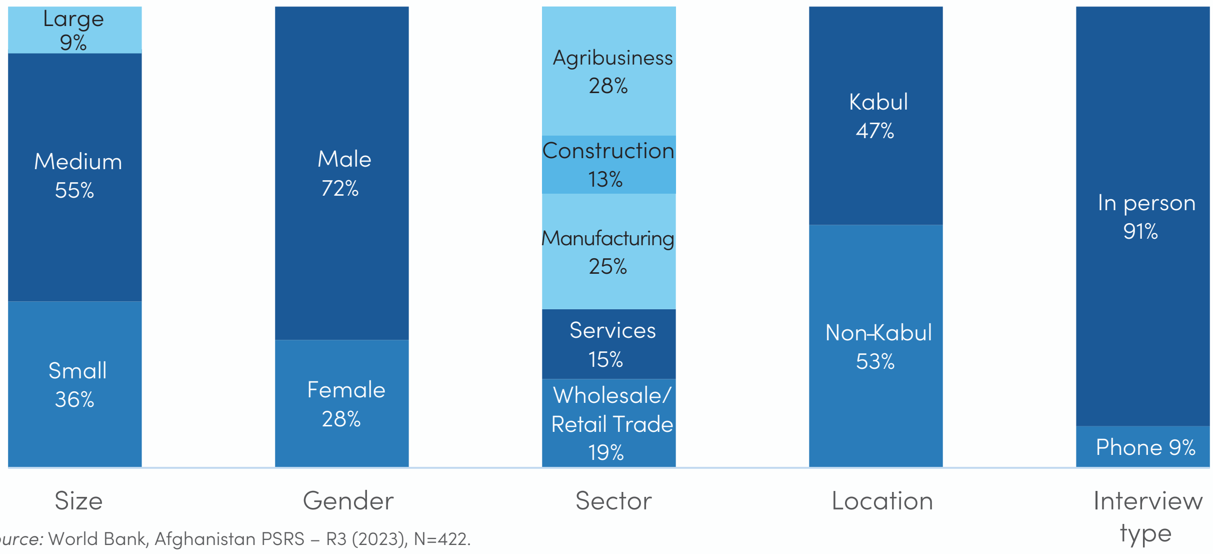
**Figure 1: Sample size, Rounds 1-3**




**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 and occurred in two steps: (i) selecting 5,000 firms randomly from the Afghanistan Central Business Registry and Intellectual Property (ACBR-IP) database, followed by (ii) contacting and interviewing firms until the predetermined number of units was reached in each stratum (group). It is important to note that the quota sampling procedure does not ensure a fully probabilistic sample, as not all units in the sample are assigned a non-zero probability of inclusion. As a result, the number of respondents in certain business sectors is limited in the sample frame, potentially rendering the results unrepresentative of the overall experiences of firms in those sectors. In addition, the representation of women-owned firms was disproportionate compared to the sample size. To address this issue, new weightings were introduced through calibration steps, using totals from the overall Afghan private sector frame (Annex 2). While this procedure aims to ensure the overall representativeness of the sample (Figure 2), it does not explicitly account for the non-response mechanism, meaning that bias affecting the estimates can be reduced but not entirely eliminated,[17] leaving the results of this round exposed to a survival bias. It is therefore more relevant to compare the entire set of observations than to restrict the comparison solely to panel firms in each round. Moreover, comparing data from the same panel firms in Round 2 and Round 3 shows a clear recall bias. For example, the employment section of the survey asked firms to recall the number of staff employed over the previous two years and, since most firms lack the resources for adequate bookkeeping and reporting, there was a likelihood that they would provide different answers to the same question across survey rounds.

[17] Some panel firms could not be reached in Round 3 of the survey, introducing a potential survivorship bias, as the businesses that were unreachable may have closed.

Figure 2: Sample distribution, Round 3 (% of respondents)




*Source:* World Bank, Afghanistan PSRS – R3 (2023), N=422.

**Due to the lack of weighting, the analysis cannot be split between panel and non-panel firms.** While it is possible to produce estimates for only the panel components of the two rounds, as specific weights have been produced for these components and the estimates are therefore representative of the entire population of firms, it is not possible for the non-panel firms, whose weights do not sum up the entire population. As an alternative, the team compared the total sample results with the panel results and concluded that the estimates produced from the total sample were not affected by any bias due to the introduction of new firms. It was therefore agreed to use the total sample, as its larger size improved the reliability of the estimates and reduced sampling variance.

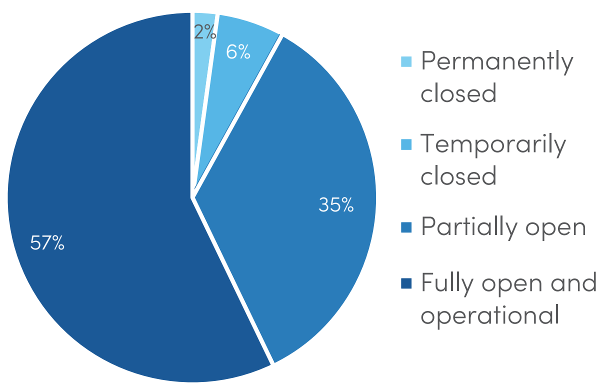
**A comparison across sectors of operation suggests that seasonality may have had some impact on Round 3 results.** Although quantifying its impact is challenging due to a lack of data, the Afghan economy has long been influenced by seasonality, owing largely to its heavy reliance on agribusiness. The Round 2 survey, conducted in June 2022, coincided with the peak of activity in highly seasonal sectors, such as agriculture and construction. By contrast, Round 3 data collection occurred in March 2023, a period when these activities were largely on hold due to the winter season. This timing raised concerns about the potential impact of seasonality on the results of Round 3. However, a comparison between the results of the agribusiness and non-agricultural sectors in this round revealed no significant difference, suggesting that seasonality bias may have had a limited effect on Round 3 results.

# SURVEY RESULTS

## Firm Operations

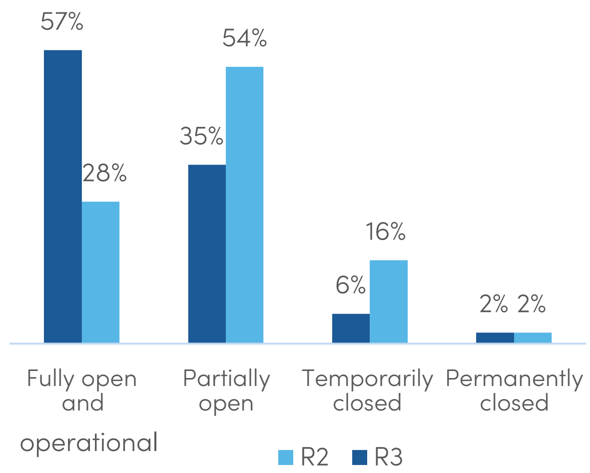
4. **More surveyed firms reported being in operation in Round 3 than in Round 2, albeit at less than full capacity (Figure 3).** In the context of a slight improvement in household welfare amid persistently low demand, businesses continue to adjust to socioeconomic realities in the country. The results of the Round 3 survey show that 57 percent of interviewed firms were fully open and operational, compared to only 28 percent in Round 2 (Figure 4). These figures suggest a slight uptick in economic activity. However, over one-third of respondents indicated that their firm was operating below capacity and another 10 percent that they had closed down, highlighting the difficulties the economy is facing. Data from Round 3 suggest a convergence among differently sized firms in adjusting to shocks, as operating status was broadly similar across small, medium, and large businesses. The improvement in operating status is confirmed when looking specifically at panel firms, of which the share in operation rose from 23 percent in May–June 2022 (Round 2) to 59 percent in March 2023 (Round 3).[18]

Figure 3: Operating status of firms (% of respondents) – R3




*Source:* World Bank, Afghanistan PSRS – R3 (2023), N=422.

Figure 4: Operating status of firms (% of respondents) – R2 and R3




*Source:* World Bank, Afghanistan PSRS – R3 (2023), N=422; R2 (2022), N=265.

5. **There has been overall progress in businesses' operating status since June 2022.** When looking at panel firms individually (Table 1), Round 3 survey results show that operating status improved for 31 percent of panel firms compared to Round 2 (highlighted in green), remained the same for 33 percent (highlighted in orange), and declined for 16 percent (highlighted in red). Data were not available for the remaining 20 percent of panel firms (highlighted in yellow), due mainly to the fact that 54 firms surveyed in Round 2 could not be reached in Round 3, either because their telephone was switched off or because they did not wish to respond. It is possible that some of these businesses have closed, either temporarily or permanently. Consequently, a slight "survival bias" may persist in the Round 3 results.

[18] This analysis suggests that the cross-sectional estimates are dependable and not affected by bias as a result of the introduction of new firms in the Round 3 sample.

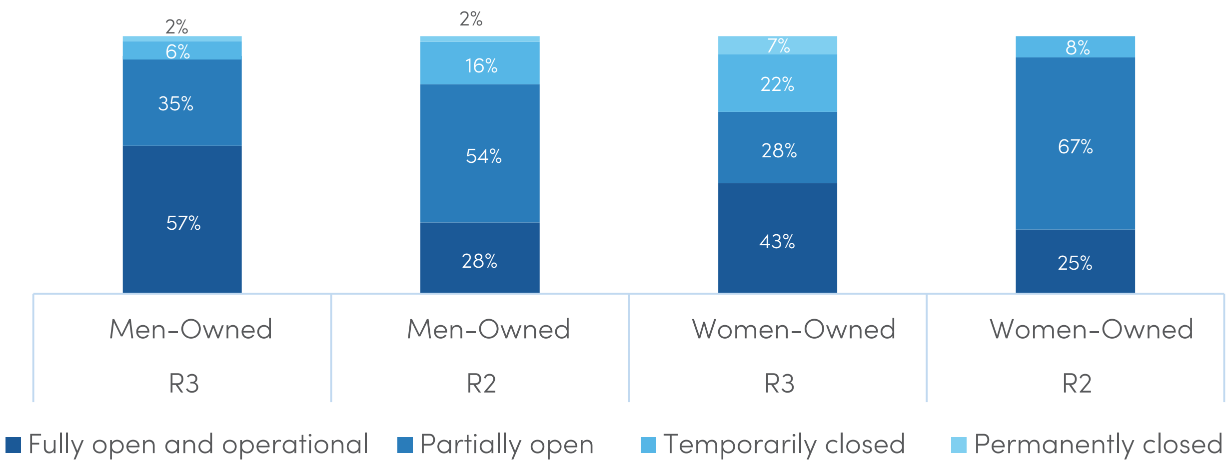
**Table 1:** Operating status (% of businesses), R2 and R3, panel firms

| | STATUS | Round 2 | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | Fully open | Partially open | Temporarily closed | Permanently closed | Data not found in R3 | Match with Pilot-20 | Total |
| Round 3 | Fully open and operational | 16% | 24% | 4% | 0% | 1% | 0% | 44% |
| | Partially open | 6% | 13% | 2% | 1% | 0% | 0% | 23% |
| | Temporarily closed | 1% | 4% | 3% | 0% | 0% | 0% | 9% |
| | Permanently closed | 0% | 3% | 1% | 1% | 0% | 0% | 6% |
| | TOTAL R2 Firms that Participated in R3 | 23% | 44% | 10% | 2% | 1% | 0% | 81% |
| | Client said - Business is closed | 1% | 0% | 0% | 0% | 0% | 0% | 1% |
| | Client said - Don't want to Participate | 1% | 1% | 0% | 0% | 0% | 0% | 3% |
| | No info about this firm | 2% | 2% | 1% | 0% | 0% | 0% | 4% |
| | No contact number | 0.4% | 0.4% | 0% | 0.4% | 0% | 0% | 1% |
| | No info about this firm exist | 0% | 1% | 0% | 0% | 0% | 0% | 1% |
| | Phone switched Off | 0% | 2% | 2% | 0% | 0% | 0% | 4% |
| | Wrong number | 1% | 2% | 1% | 0% | 0% | 0% | 4% |
| | Attrition/None-Participation | | | | | | | 19% |
| | Total | 28% | 53% | 15% | 3% | 1% | 0% | 100% |

*Definitions:* Fully open indicates that firms are fully open and operational; partially open suggests reduced hours of operation, production volume, investment, etc.; temporarily closed suggests that the business is currently closed and may or may not resume operation in future); permanently closed indicates that the firm does not intend to reopen.
*Note:* Green-shaded cells indicate improvement, as firms opened after a temporary closure in Round 2 or moved from partially open in Round 2 to fully open in Round 3. Orange-shaded cells capture those firms whose status neither improved nor deteriorated between survey rounds. Red-shaded cells show deterioration, as firms moved from temporarily closed to permanently closed, from partially open to temporarily closed, or from fully open to partially open or temporarily closed.
*Source:* World Bank, Afghanistan PSRS – R3 (2023), N=422.

6. **Businesses owned by men reported higher operating status than those owned by women.** Among the 117 surveyed firms owned by women, almost half reported full operations, suggesting a slight improvement since Round 2 (Figure 5). Yet nearly one-third (29 percent) reported being permanently or temporarily closed, resulting in a significant disparity compared to surveyed men-owned firms. The restrictions imposed on women's economic activities in Afghanistan could be a key reason for this gender gap,[19] which in turn hampers the country's growth prospects.[20]

Figure 5: Operating status (% of businesses), by gender of owner - R2 and R3



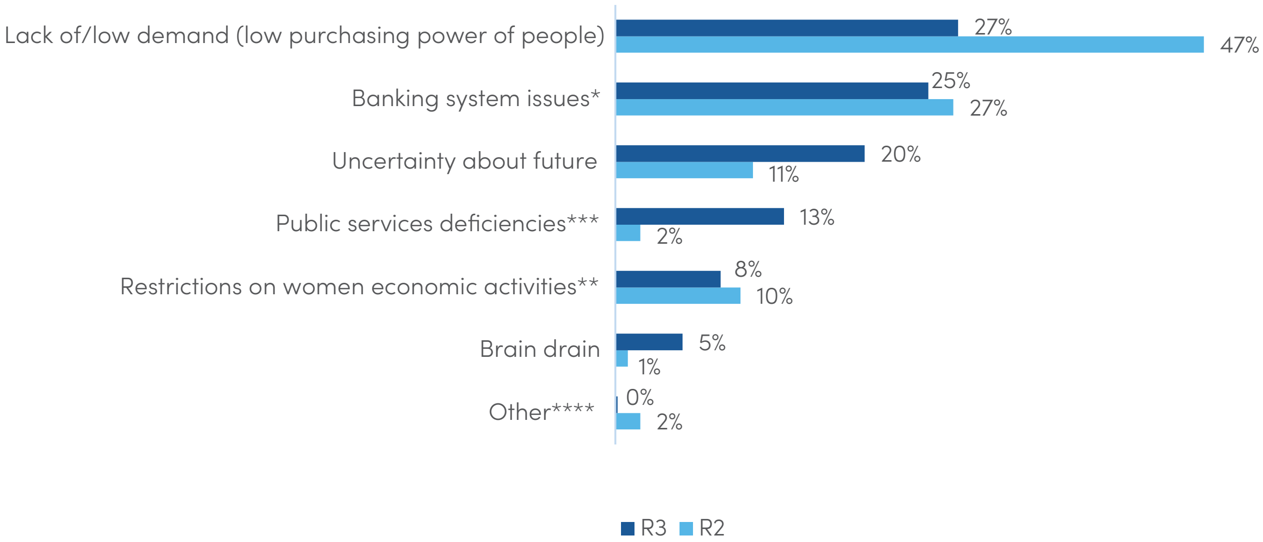

*Source:* World Bank, Afghanistan PSRS – R3 (April 2023), N=422; R2 (June 2022), N=265.t

[19] The World Bank: Afghanistan Gender Monitoring Survey – Baseline Report – February 2023.
[20] The World Bank: Afghanistan Development Update – October 2023.

## Business Constraints

7. **Results indicate that businesses continue to struggle in the face of low consumer demand and banking sector challenges, and face growing concern over Afghanistan's economic outlook and public service delivery.** Dampened consumer demand and banking system issues remain the top two business constraints listed by surveyed firms. Moreover, the share of respondents reporting uncertainty about the future among their top three constraints has increased significantly, followed closely by public service deficiencies (Figure 6).

**Figure 6: Top constraints faced by businesses (% respondents listing top 3 constraints) – R2 and R3**




**Note 1:** * "Banking system issues" includes: (i) limited functionality of the banking system; (ii) lack of liquidity/cash; (iii) constraints in access to bank loans or additional funding; (iv) limited functionality of the *Hawala* system; and (v) lack of funds/grants (e.g., from international community).
**Note 2:** ** "Restrictions on women's economic activities" include: (i) restrictions on economic activities of women; (ii) restrictions on women's employment; and (iii) restrictions on women's movements and appearances in public.
**Note 3:** *** "Public services deficiencies" include: (i) electricity blackouts; (ii) higher unofficial payments; (iii) too many taxes on businesses; (iv) low capacity of authorities; (v) restrictions on business license renewal; (vi) lack of enforcement of existing regulations; (vii) lack of caretaker institutions to tackle irregularities; and (viii) lack of policies to support and promote investments.
**Note 4:** **** "Other" includes: (i) limited internet access, (ii) lack of information technology (IT) capacity, skills, or technology within the business; and (iii) high prices charged by online platforms, marketplaces, or sellers.
*Source:* World Bank, Afghanistan PSRS – R3 (2023), N=404; R2 (2022), N=257. Results normalized to 100%.

8. **Concerns about low demand and uncertainty about the future are consistent across firm size and sector.** Smaller firms appear to be more significantly affected by the lack of consumer demand (81 percent) and restrictions on women's economic activities (19 percent), whereas larger firms are more concerned by uncertainty about the future (62 percent). Low consumer demand was listed as a top business constraint by most firms in the construction (76 percent), manufacturing (76 percent), wholesale and retail trade (73 percent), and agribusiness (60 percent) sectors, while service sector firms were more likely to cite future uncertainty as a top constraint (62 percent).

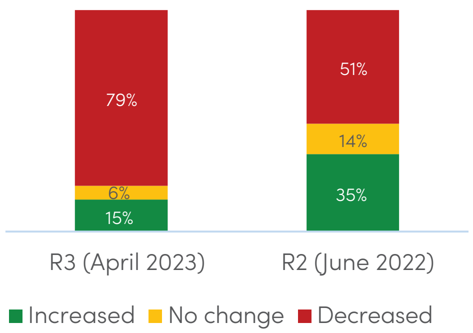
9. **Demand constraints pose business challenges across the country as a whole.** Geographically, businesses in Kabul were particularly constrained by the lack of demand (83 percent), as were those in Balkh (71 percent) and Herat (69 percent). By contrast, firms in Kandahar emphasized the challenges posed by the limited functionality of the banking system (46 percent). Notably, a substantial 81 percent of firms in Nangarhar identified uncertainty about the future as their primary obstacle.

10. **Compared to their male-owned counterparts, a higher proportion of women-owned businesses listed the lack of consumer demand as a primary constraint.** Furthermore, 27 percent of women-owned firms reported being constrained by a lack of funds from the international community, compared to only 14 percent of men-owned firms, confirming the gender gap in vulnerability to economic shocks.

## Consumer Demand

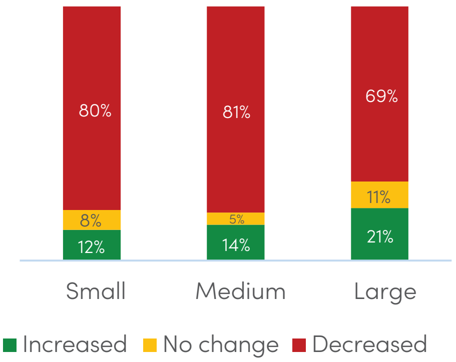
11. **The drop in demand is significant and persistent, as confirmed by businesses surveyed in Round 3.** Four out of five firms report a decrease in demand for goods and services over the past six months (Figure 7) compared to only half in Round 2. This discrepancy can be explained in part by the seasonality of the Afghan economy, although as explained in Box 1, this impact appears to be moderate. High levels of income poverty and isolation from global trade are also behind the drop in aggregate demand. Large firms were more likely to report a positive change in consumer demand compared to small and medium firms (Figure 8).

Figure 7: Consumer demand for goods and services (% of respondents) - R2 and R3




*Source:* World Bank, Afghanistan PSRS – R3 (2023) N=404, R2 2022) N=215

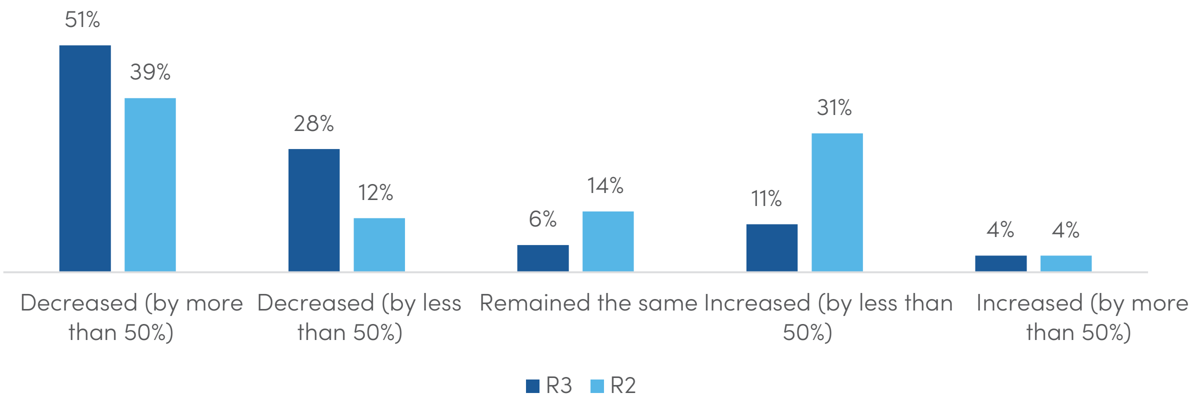
Figure 8: Consumer demand, by firm size (% of respondents) - R3




*Source:* World Bank, Afghanistan PSRS – R3 (2023) N=404,

12. **Half of surveyed firms reported severe impacts as a result of plunging demand.** Over half (51 percent) of respondents reported that demand had dropped by more than 50 percent, compared to 39 percent in Round 2 (Figure 9), reflecting the severity with which some firms have felt the effects of recent economic developments. Women-owned firms reported a slightly grimmer picture of demand for goods and services than men-owned firms. The overall decline in demand may indicate that purchasing power remains low as a result of the overall economic slowdown in the country since the ITA's takeover in August 2021, accompanied by a surge in unemployment and persistent global inflationary pressures.

Figure 9: Overall demand for firms' goods and services (% of respondents) - R2 and R3

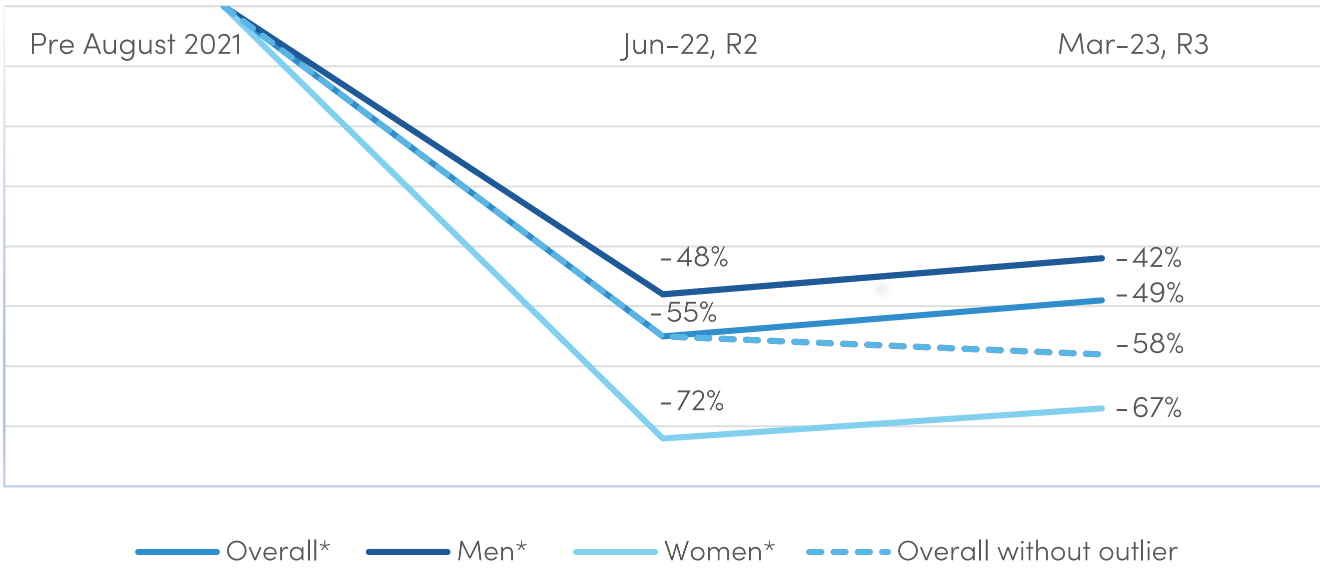



*Source:* World Bank, Afghanistan PSRS R3 (2023), N=404; R2 (2022), N=265.

## Employment

13. **The contraction in Afghanistan's labor market, initiated by the ITA takeover, seems to be enduring.** Overall, the employment gap compared to pre-August 2021 levels is at -58 percent (Figure 10). Firms interviewed in Round 3 reported employing 9 percent fewer staff than those in Round 2, confirming the current imbalance between the supply of labor and the absorption capacity of Afghan firms. Although Afghan households have managed financial challenges and adapted to the economic downturn by enlisting additional workers, primarily youth and women, the labor market's inability to absorb sufficient workers has resulted in persistently high unemployment rates.

Figure 10: Average percentage change in employment - R2 and R3

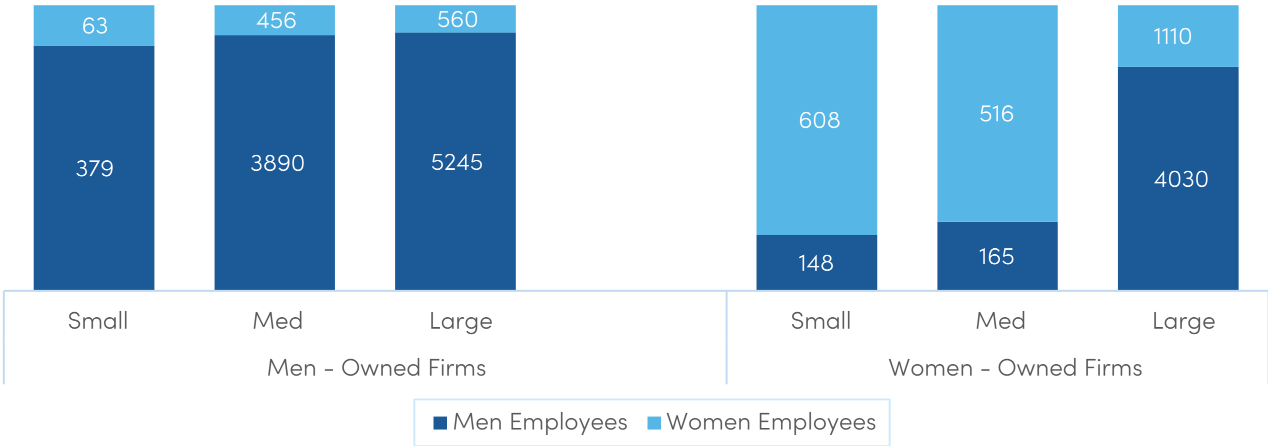



*Note:* *A statistical outlier was observed in R3 results: one large firm, which was able to resume full operations, reported hiring more than ten thousand employees, compromising the consistency of R3 trends and observations. To address this issue, Figure 10 reports the overall results when excluding the outlier (solid lines) and when including it (dashed red line).
*Source:* World Bank, Afghanistan PSRS R3 (2023), N=404; R2 (2022), N=215.

14. **There has been a notable decline in female employment in this round, with a majority of women now working for women-owned businesses.** Consequently, the number of firms without any women employees reached 50 percent of those interviewed in March 2023, compared to 10 percent of firms reporting that they employed no men. Women-owned firms employ the most women (Figure 11). It is important to note that Round 3 of the survey was conducted prior to the imposition of additional restrictions on women,[21] and that the gender gap in employment may have widened even further. Although female labor force participation has grown threefold since 2020, most most women are engaged primarily in in-home production activities (such as garment production and food processing).[22] A literature review supports the conclusion that the departure of significant numbers of women workers from the formal workplace is estimated to have caused US$1 billion in losses to Afghanistan's economy.[23]

[21] See, for example, Al Jazeera. 2023. "Taliban bans women's beauty parlours in Afghanistan" (July 4).
[22] The World Bank: Afghanistan Welfare Monitoring Survey – October 2023.
[23] Norwegian Refugee Council. 2023. "Barriers to Afghanistan's critical private sector recovery" (March). Oslo: Norwegian Refugee Council.

Figure 11: Employment, by gender of worker and business owner - R3



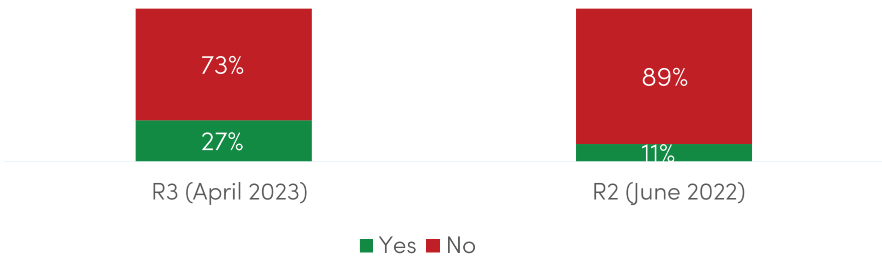

*Source:* World Bank, Afghanistan PSRS R3 (2023), N=404.

## Banking Services and Business Payments

15. **Despite some improvement in banking operations, firms generally continue to display a lack of confidence in the banking sector.** According to the October 2023 edition of the Afghanistan Economic Update, banking sector deposits dropped by over 20 percent in 2021 and an additional 9 percent in 2022. Recently, and due to the expedient use of withdrawal limits by the central bank (Da Afghanistan Bank or DAB), deposits seem to be adjusting slowly and have increased by 5.2 percent.[24] The availability of newly printed Afghani banknotes, and the resulting improvement in depositors' ability to withdraw funds, have contributed to the increase in overall deposits.[25] Liquidity conditions have also eased since the DAB, in May 2023, raised the weekly withdrawal cap for companies that held deposits from before August 2021 to AFN 4.0 million per month, up from AFN 2.5 million previously.[26] However, most firms continue to conduct their business transactions outside of the banking system.

16. **Firms' deposit levels have increased modestly but remain significantly below pre-crisis levels.** Of the 75 percent of firms that reported having a corporate bank account, 27 percent had deposited money into their account since August 2021 (Figure 12), up from 11 percent in Round 2. There is a large variation in the use of formal banking services according to firm size, as close to half of surveyed large firms reported making deposits since August 2021, compared to 20 percent of medium-sized firms and 31 percent of small firms.

Figure 12: Firms that deposited cash in a company bank account after August 15, 2021 (% of respondents) - R2 and R3



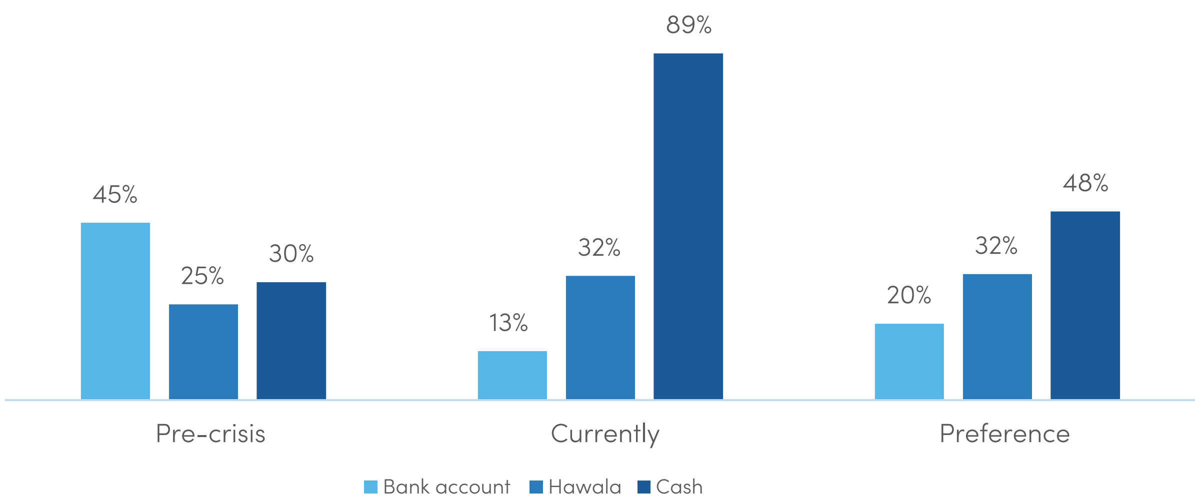

*Source:* World Bank, Afghanistan PSRS R3 (2023), N=422; R2 (2022), N=265.

[24] The World Bank: Afghanistan Development Update – October 2023.
[25] The World Bank: Afghanistan Development Update – October 2023.
[26] The World Bank: Afghanistan Economic Monitor August 2023 (World Bank), Charts 4.6 and 4.7.

## Domestic Payments

17. **The use of formal banking channels for domestic payments continues to decline, with firms opting instead for alternatives, such as cash and informal *Hawala* transfers.** Before August 2021, the use of cash and *Hawala* was prevalent, but most formal businesses reported using traditional banking as their main channel for domestic payments. Since that time, disruptions in the functioning of domestic payment systems have made other channels, such as cash and *Hawala*, more dependable.[27] According to Round 3 results, there has been a dramatic shift in preferences, from formal banking to cash (Figure 13). Overall, these channels now represent more than 90 percent of business payments in Afghanistan. Firms surveyed in Round 3 indicated that their preference for holding cash was due to the lack of reliability and limitations of formal payment channels. This is consistent with the findings of the World Bank's Afghanistan Development Update for October 2023, which indicated that the country's banking sector remains unable to undertake its core functions, compounded by the unguided and mandatory shift to Islamic banking, pushing businesses to rely more often on alternative channels.[28]

**Figure 13: Channels used and preferred for domestic payments (% of respondents)**

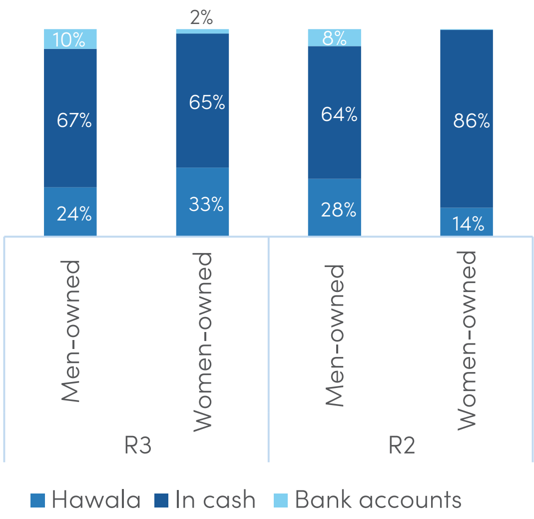



*Source:* World Bank, Afghanistan PSRS – R3 (2023), N=404.

18. **Fewer firms report difficulties in making domestic payments.** Firms owned by women and men both reported increasing their use of cash and Hawala, but only 2 percent of surveyed women-owned businesses reported using banks for domestic payments, compared to 10 percent of men-owned businesses (Figure 14). More than half of surveyed firms reported facing no problems in making domestic payments, which could be explained by the shift toward Hawala and cash payments. Still, 47 percent of firms surveyed in Round 3 faced challenges in making domestic payments (Figure 15), a slight improvement from 57 percent in Round 2.

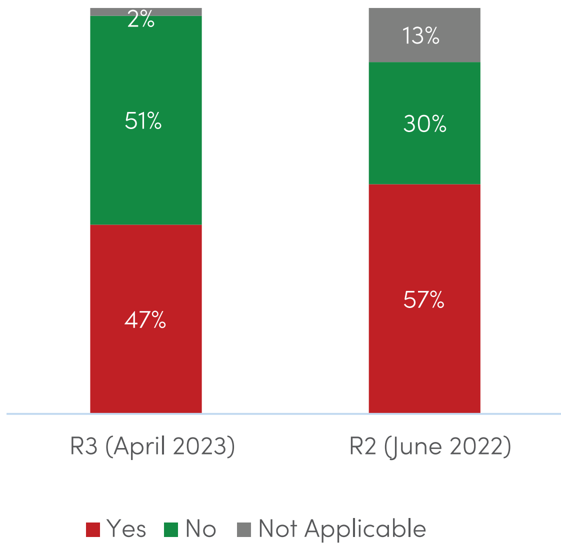
[27] The World Bank: Afghanistan Development Update – October 2023.
[28] The World Bank: Afghanistan Development Update – October 2023.

Figure 14: Channels used for domestic payments, by gender of firm owner (% of respondents) - R2 and R3




*Source:* World Bank, Afghanistan PSRS R3 (2023), N=404; R2 (2022), N=265.

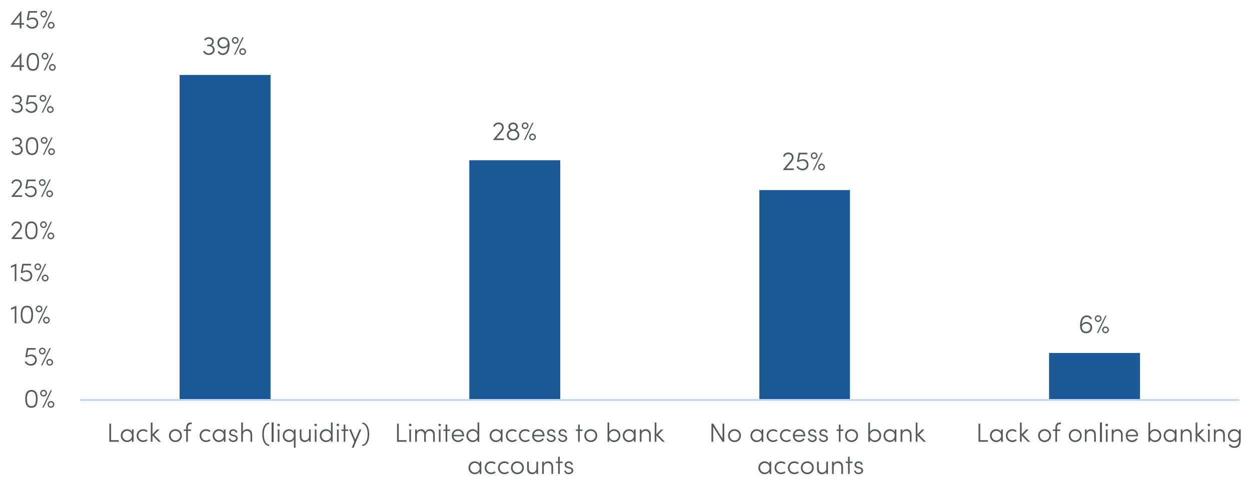
Figure 15: Firms facing difficulties in making domestic payments (% of respondents) - R2 and R3




*Source:* World Bank, Afghanistan PSRS R3 (2023), N=404; R2 (2022), N=265.

19. **More than one-third of surveyed firms cite the lack of liquidity as the main difficulty in making domestic payments**. Of the firms surveyed in this round, 39 percent reported a lack of cash/liquidity in banks as the main challenge to making domestic payments (Figure 16). It remains unclear whether this is because they have tried and failed to make payments or because there is still limited confidence in the banking system. Despite the short-term relief brought by the DAB's quantitative easing operation, banking sector liquidity will remain under strain unless deposits start to grow more meaningfully.[29] Other domestic payment difficulties reported in Round 3 include limited or lack of access to bank accounts.

Figure 16: Main difficulties in making domestic payments (% of respondents)



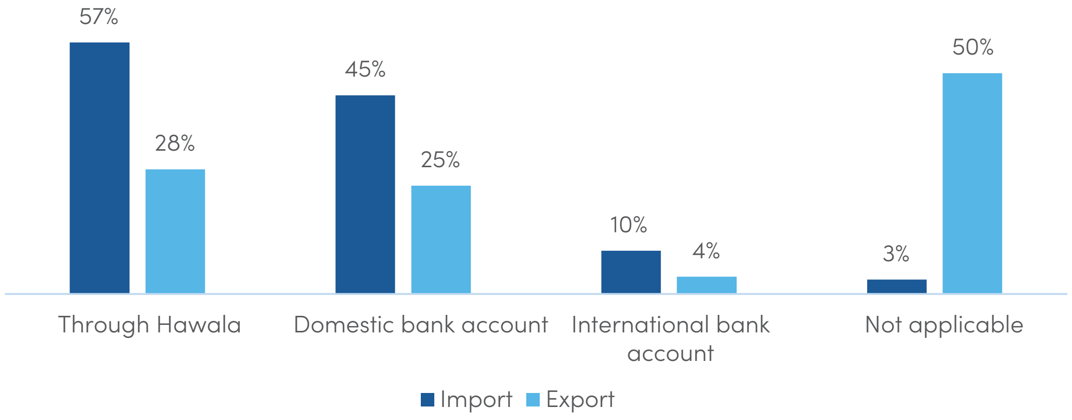

*Source:* World Bank, Afghanistan PSRS – R3, 2022, N=183 firms that reported facing difficulties making domestic payments, multiple responses allowed.

[29] The World Bank: Afghanistan Development Update – October 2023.

## International Payments

20. **Hawala remains the predominant method for conducting international payment transactions.** Among firms that reported making business-related international payments in Round 3, Hawala was the channel most often cited for the payment of imports and exports, followed by domestic and international bank accounts (Figure 17).

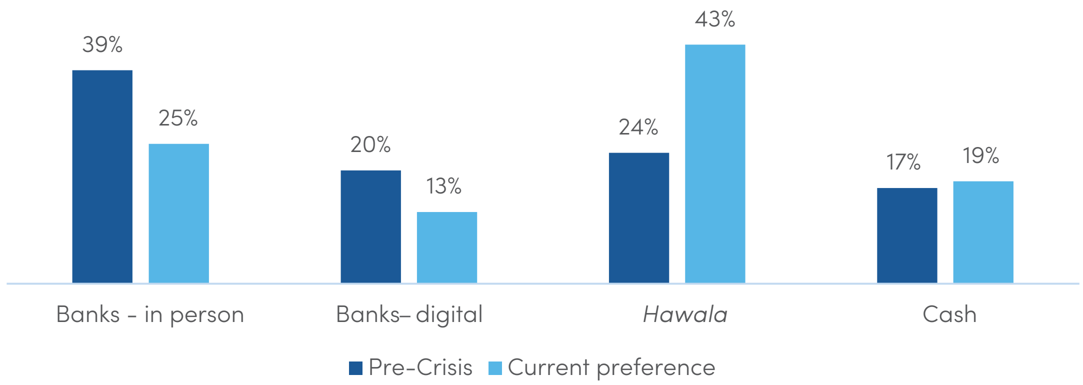
Figure 17: Channels used for international payments (imports and exports) (% of respondents)




*Source:* World Bank, Afghanistan PSRS – R3 (2023), N=112 firms that reported making international payments; multiple responses allowed.

21. **Comparing current and pre-crisis payment trends confirms the reported shift away from banking services for international payments.** Since the launch of the PSRS (Round 1), Afghan firms have displayed a preference for using Hawala and cash transactions, which are considered more dependable, to make international payments (Figure 18).

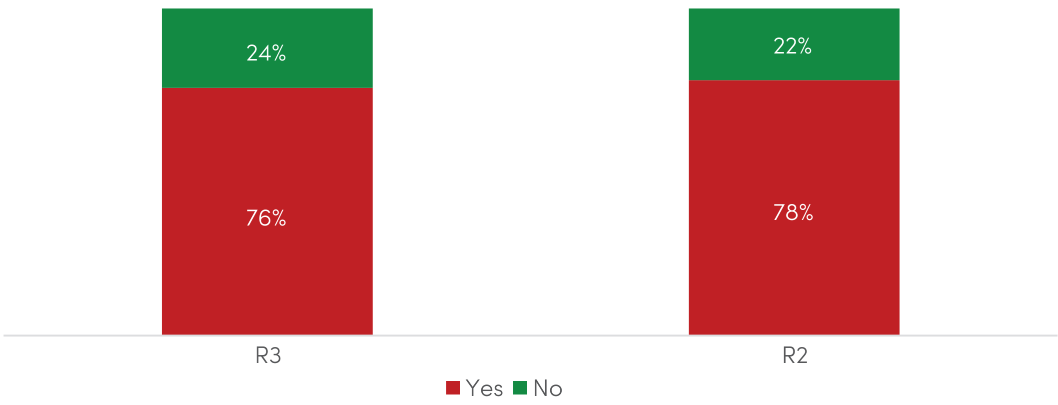
Figure 18: Channels used and preferred for international payments (% of respondents)




*Source:* World Bank, Afghanistan PSRS – R3 (2023), N=341; multiple responses allowed; results not normalized.

22. **Firms face greater difficulties in conducting international transactions, compared to domestic ones.** Results show that there has been almost no improvement in the completion of cross-border transactions between survey rounds (Figure 19). Similar to Round 2, over three-quarters (76 percent) of firms interviewed in Round 3 reported facing difficulties in making or receiving international payments, compared to 47 percent for domestic payments. International payments are subject to enhanced due diligence checks, with ever-increasing compliance costs, resulting in payment delays and dampening the appetite of international correspondent banks for transacting with Afghanistan.

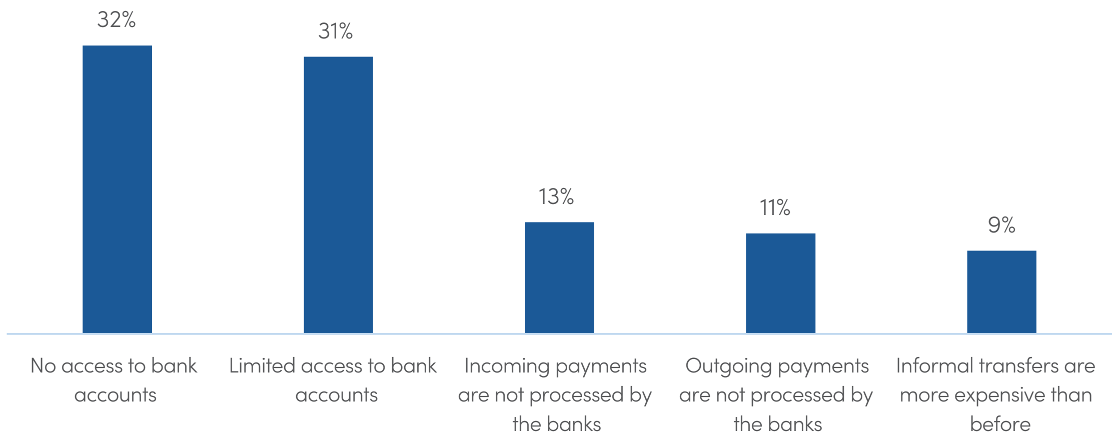
Figure 19: Firms facing difficulties in making international payments (% of respondents) - R2 and R3




*Source:* World Bank, Afghanistan PSRS R3 (2023) N=404; R2 (2022), N=265.

23. **Round 3 results confirm that the loss of correspondent banking relationships has disrupted the functioning of international payment systems.** Given the perception of risk in the current environment,[30] correspondent banks have de-risked significantly and restricted transactions with most Afghan banks. In this context, it is unsurprising that the main reasons cited by surveyed firms for international payment difficulties include limited or no access to bank accounts (more than 30 percent) and issues with banks' inward and outward payments (Figure 20). Round 3 results were similar to those of Round 2. Most small, medium, and large firms reported making international payments through Hawala rather than formal banking systems.

Figure 20: Main difficulties in making or receving international payments (% of respondents)



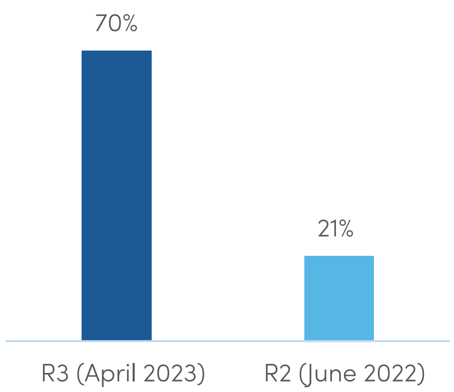

*Source:* World Bank, Afghanistan PSRS – R3, 2022; N=112 firms that reported facing difficulties in making international payments; multiple responses allowed.

[30] Norwegian Refugee Council: Erica Moret - *Barriers to Afghanistan's critical private sector recovery* - March 2023.

## Access to Finance

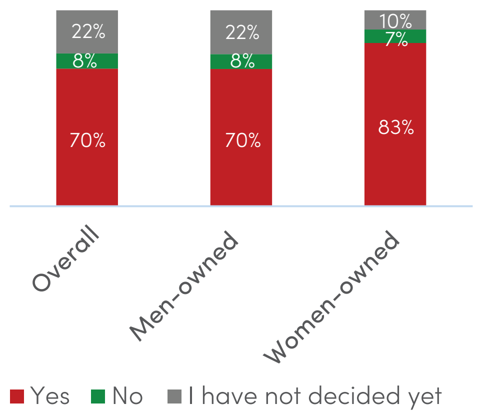
24. **There has been a significant surge in the number of firms reporting a need for loans (Figure 21).** Overall, more than two-thirds of the firms interviewed in Round 3 reported requiring a loan in the next six months to cover operational expenditures, a figure that jumps to 83 percent among women-owned firms (Figure 22). Among firms that reported needing a loan, 62 percent cited a need for funds to cover operational expenses and keep their businesses running. The need for loans was consistent across all sectors, including agribusiness (71 percent), construction (52 percent), manufacturing (63 percent), services (64 percent), and wholesale and retail trade (70 percent).

Figure 21: Need for a loan in the next six months, (% of respondents) - R2 and R3)




*Source:* World Bank, Afghanistan PSRS – R3 (2023), N=397 R2 (2022), N=252.

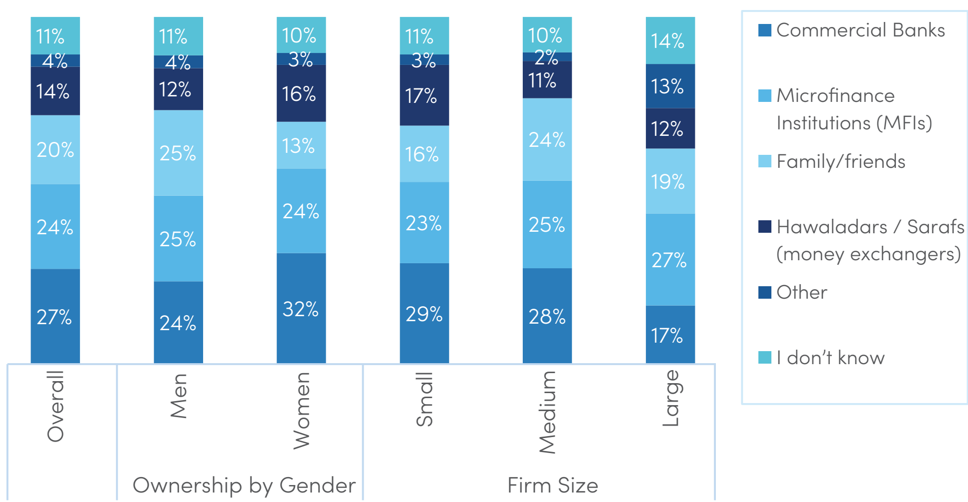
Figure 22: Need for a loan in the next six months, by gender of firm owner (% of respondents)




*Source:* World Bank, Afghanistan PSRS – R3 (2023), N=397.

25. **Just over half of the firms that reported needing a loan indicated a preference for obtaining financing from commercial banks and microfinance institutions.** Based on Round 3 survey results, the largest share of firms in need of a loan expressed a desire to obtain loans from commercial banks (27 percent), preferably with zero interest or through Islamic finance, whereas a quarter of surveyed firms showed preference for microfinance loans and one-fifth would rather obtain a loan from friends and family (Figure 23).

Figure 23: Potential sources of loans, by gender of firm owner and firm size (% of respondents)



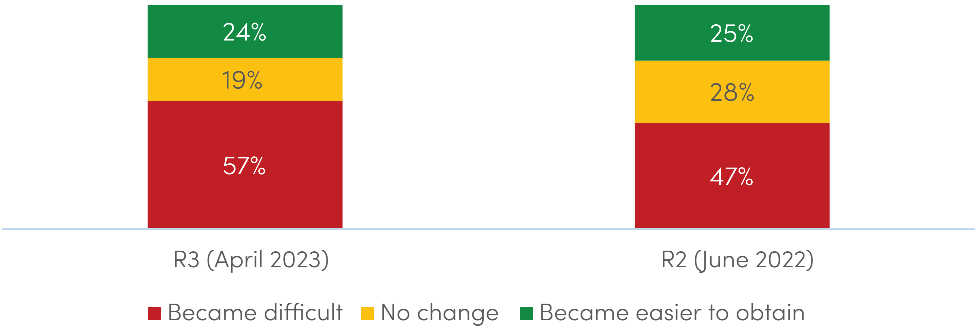

*Note:* Sources identified as "other" include nongovernmental organizations, the United States Agency for International Development, and the World Bank.
*Source:* World Bank, Afghanistan PSRS – R3 (2023), N=397; multiple responses allowed.

# Trade and Access to Inputs

## Domestic Inputs

26. **Obtaining inputs produced within Afghanistan remains difficult for a more than half of surveyed firms.** Of the 73 percent of surveyed firms that reported using domestically produced inputs, 57 percent cited difficulties in accessing these inputs, compared to 47 percent in Round 2 (Figure 24). As in Round 2, only about one-fourth of surveyed firms reported that accessing domestic inputs was easier than in the previous round. Inputs are more expensive, due to increased transportation costs, higher prices of related inputs (such as fuel and electricity), and more limited local availability.

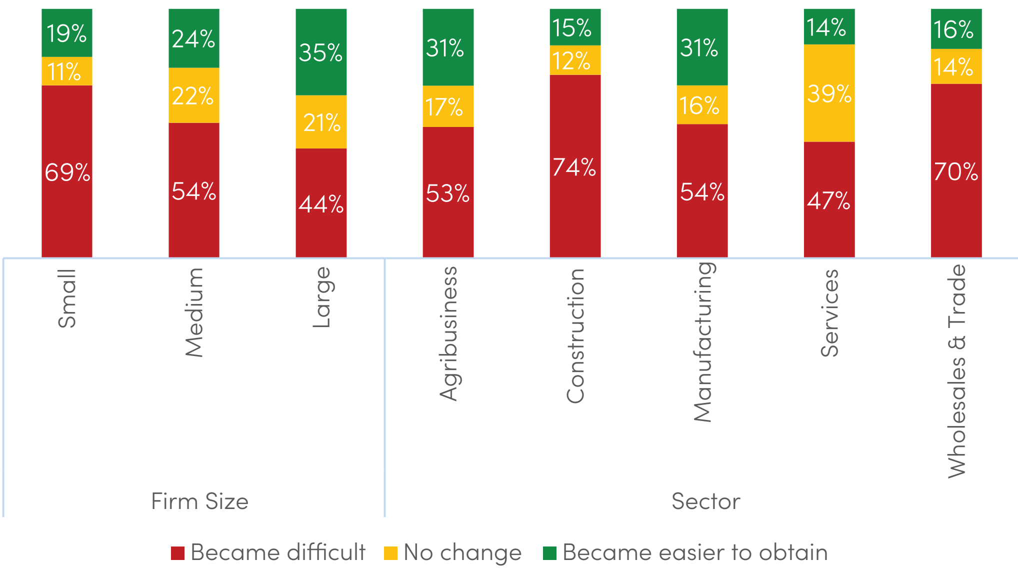
Figure 24: Access to domestically produced inputs (% of respondents) – R2 and R3




*Source:* World Bank, Afghanistan PSRS – R3 (2023), N = 269; R2 (2022), N=125.

27. **Small firms and companies in the construction and trade sectors face greater difficulties in accessing domestic inputs.** Over two-thirds (69 percent) of small firms reported facing more challenges in accessing domestic inputs than in the previous survey round, compared to less than half of large firms. (Figure 25). About one-third of agribusiness sector firms found it easier to access inputs than in June 2022, whereas those in the construction and the wholesale and retail trade sectors, owing to the nature of their industries, appeared to encounter greater difficulties. Firms that reported smoother access to inputs attributed it to security enhancements and increased domestic production.

Figure 25: Access to domestically produced inputs, by firm size and sector (% of respondents)

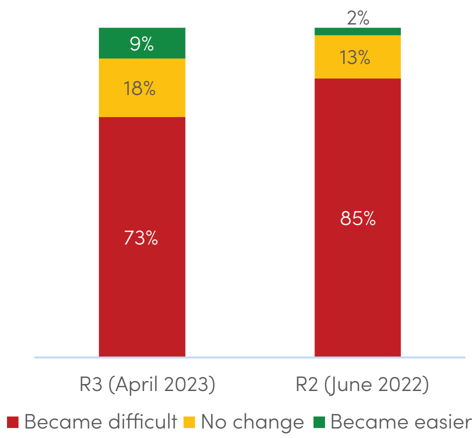



*Source:* World Bank, Afghanistan PSRS – R3 (2023), N=269.

## Imported Inputs

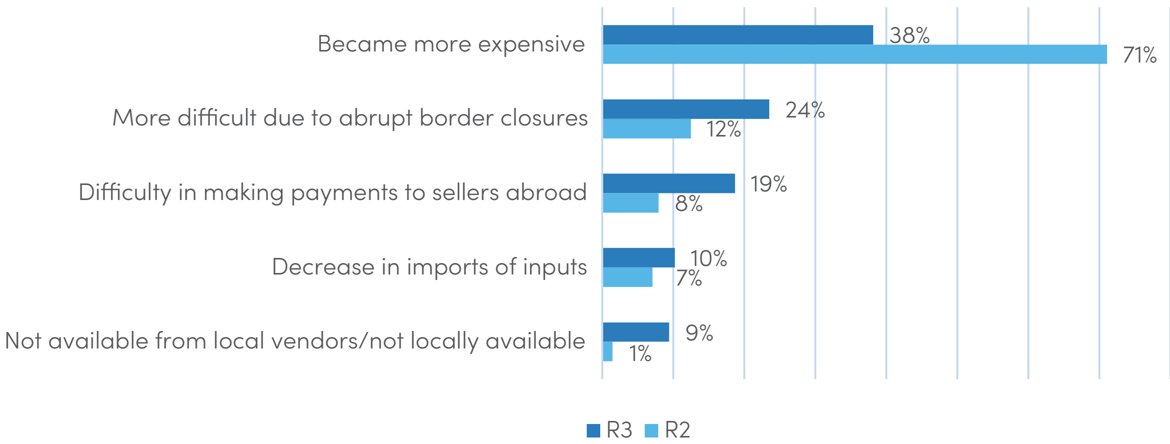
28. **Access to imported inputs remains challenging, with 73 percent of survey respondents reporting increased difficulty compared to June 2022.** As expected in an import-dependent economy like Afghanistan, 79 percent of surveyed firms reported using imported inputs for their operations. Of these firms, 73 percent reported difficulties in accessing those inputs, both immediately after the crisis and in recent months—a slight improvement from 85 percent in Round 2 (Figure 26). The main reasons for these difficulties have remained broadly the same across survey rounds, with some significant variations (Figure 27), including high prices (as a result of global inflation), border closures, and difficulties in making payments to sellers abroad (owing to dysfunctional banking operations). The wholesale and retail trade, agriculture, and construction sectors seem to be most affected by the scarcity of imported inputs. Firms in Balkh and Nangarhar report greater difficulties in accessing inputs, suggesting that firms operating in northern Afghanistan and closer to Pakistan's borders struggle more with the procurement of supplies. a

Figure 26: Access to imported inputs (% of respondents) - R2 and R3




*Source:* World Bank, Afghanistan PSRS – R3 (2023), N=309 R2 (2022), N=199.

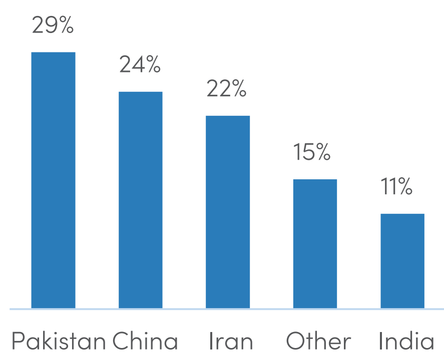
Figure 27: Reasons for difficulties in accessing imported inputs (% of respondents) - R2 and R3




*Note:* Percentages represent the share of respondents who selected each constraint, out of 309 total respondents.
*Source:* World Bank, Afghanistan PSRS – R3 (2023), N = 309; R2 (2022), N=199; multiple selections possible.

29. **There appears to be a shift toward Pakistan and China as Afghanistan's main import suppliers.** In September 2023, imports declined by 12 percent compared to the previous month, affecting all imported items. This decline may continue, as the authorities in Pakistan, Afghanistan's largest trade partner, have imposed restrictions on importing certain items from Afghanistan.[31] Nevertheless, Pakistan remained the principal supplier of imports among interviewed firms (Figure 28), followed by China and Iran (the predominant supplier before August 2021). Other import suppliers included the United States and Turkmenistan.

Figure 28: Reported import suppliers (% of respondents)



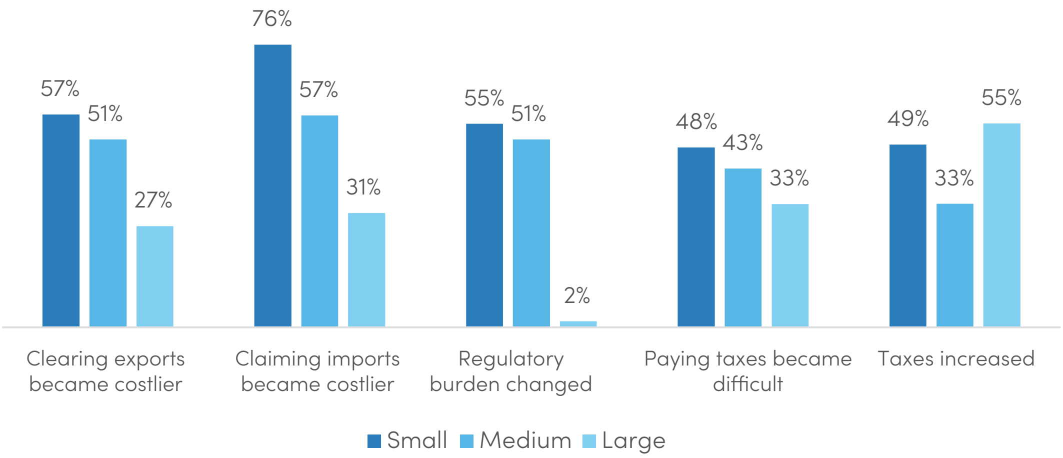

*Source:* World Bank, Afghanistan PSRS – R3 (2023), N = 309.

[31] The World Bank: Afghanistan Economic Monitor – September 2023.

## Cost of Doing Business

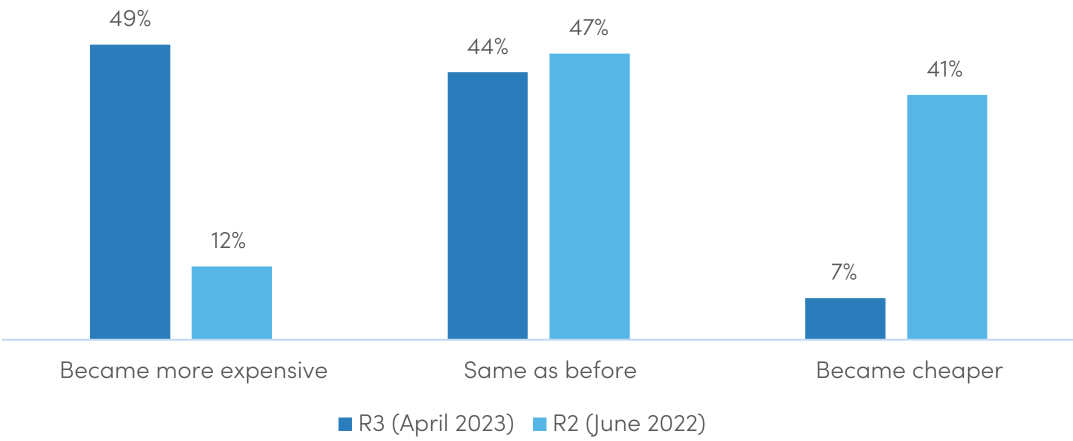
30. **Even with the reduced incidence of unofficial payments, the majority of businesses reported a rise in the overall cost of conducting operations.** The ITA has intensified its tax collection procedures, a practice honed during times of insurgency. Rather than introducing new taxes, this approach involves more fully implementing existing regulations regarding income and business taxes.[32] As a result, most surveyed firms reported an increase in business costs and a greater regulatory burden. Large firms seem to be better equipped to navigate business-related costs, reporting a lower cost of doing business compared to small and medium-sized firms (Figure 29). Half of Round 3 respondents reported that clearing goods through customs had become costlier (Figure 30) and that, overall, fiscal payment procedures had become more time consuming than before August 2021.

Figure 29: Firms reporting increased cost of doing business, by firm size




*Source:* World Bank, Afghanistan PSRS – R3 (2023). The total number of respondents on cost of doing business were exports=107, imports=193, regulatory burden=404, and taxes=342.

Figure 30: Cost of clearing goods through customs, panel firms - R2 and R3



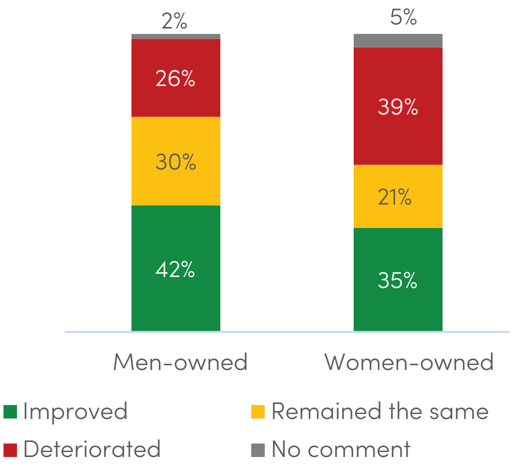

*Source:* World Bank, Afghanistan PSRS – R3 (2023), N=64; R2 (2022), N=22.

31 The World Bank: Afghanistan Economic Monitor – September 2023.
32 Afghanistan Analyst Network: Kate Clark - Special Report, September 2022.

## Security Context

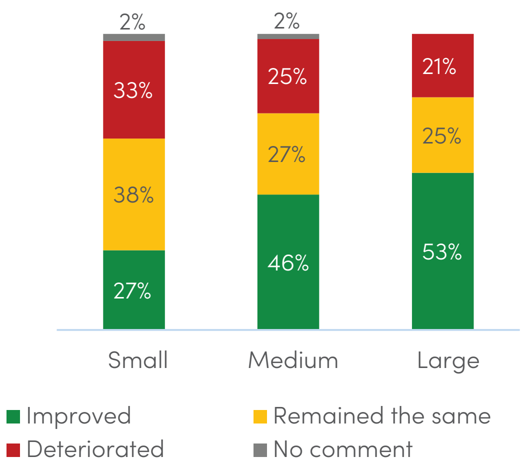
31. **Nearly half (44 percent) of surveyed firms reported that business security had improved since the last round, but with large variations by firm size and gender.** Women-owned firms reported a considerably higher deterioration in security between rounds compared to men-owned firms (Figure 31). Similarly, small firms were nearly three times more likely to report a deterioration in security than large firms (Figure 32). The main concerns cited by respondents about their firm's physical security included restrictions on women-owned businesses (63 percent) and kidnapping (57 percent).

**Figure 31: Business security, by gender of firm owner (% of respondents)**




*Source*: World Bank, Afghanistan PSRS – R3 (2023), N=404.

**Figure 32: Business security, by firm size (% of respondents)**

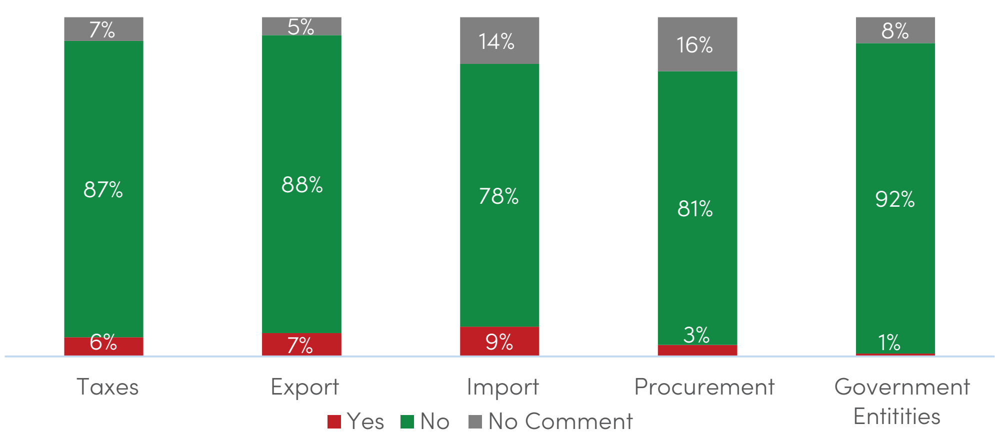



*Source*: World Bank, Afghanistan PSRS – R3 (2023), N=404.

## Unofficial Payments

32. **Respondents continue to report a low level of unofficial payments, confirming perceptions that corruption has declined in Afghanistan since the ITA takeover.** A supplementary literature review[33] underscores the Taliban's rapid efforts to regulate and centralize revenue collection on cross-border trade. This involved replacing officials, enforcing regulatory frameworks, and dismantling roadside checkpoints and smuggling routes. As a result, corruption has reduced significantly, disrupting a political settlement reliant on patronage and affecting power brokers and officials. Round 3 survey results support this conclusion, with 92 percent of respondents reporting that their businesses did not have to make unofficial payments or pay bribes to the ITA. Yet, such practices persist in the process of clearance goods through customs (both for imports and exports) and paying taxes (Figure 33).

**Figure 33: Unofficial payments/bribes reported (% of respondents)**



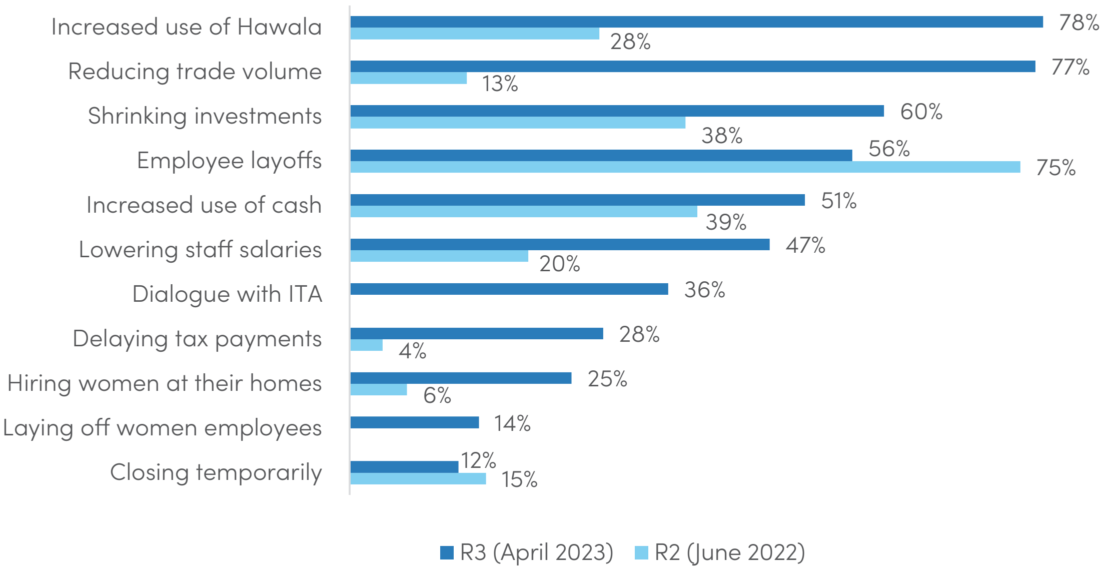

*Source*: World Bank, Afghanistan PSRS – R3 (2023). The total number of respondents on unofficial payments/bribes were: tax=339, exports=107, imports=193, public procurement=85, and government entities=404.

[33] XCEPT. 2022. "How the Taliban Regulated Cross-Border Trade and Upended Afghanistan's Political Economy." UK Aid Briefing Paper.

## Business Coping Strategies

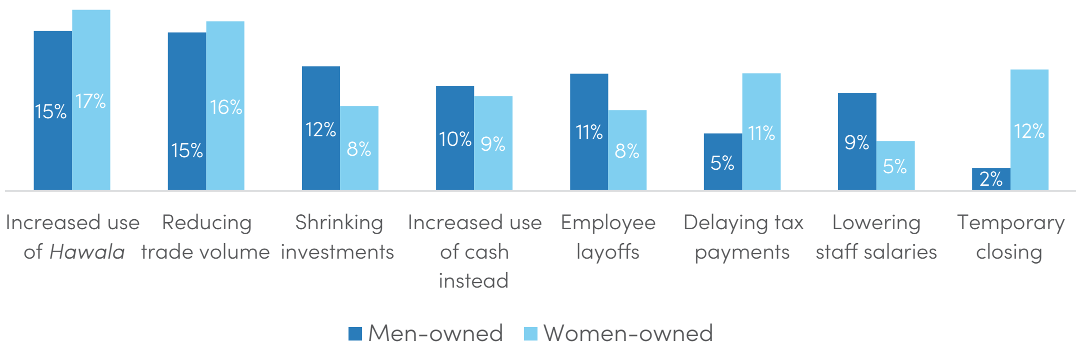
33. **To address the complex challenges they encounter, private sector firms in Afghanistan are increasingly opting to reduce investments and scale down their trade volume.** Round 3 survey results show a notable surge in the adoption of business coping mechanisms since the previous survey. Using Hawala to conduct transactions, lowering the volume of trade, and reducing investment were cited as coping strategies by a significantly larger share of firms than in Round 2 (Figure 34). Employee layoffs were another prevalent strategy, validating the ongoing trend of rising unemployment. Moreover, over half of the respondents in this round acknowledged lowering staff salaries in response to revenue losses and low demand. Women-owned businesses exhibited a higher propensity than men-owned firms to close down temporarily in the face of business difficulties (Figure 35).

Figure 34: Business coping mechanisms (% of respondents)




*Source:* World Bank, Afghanistan PSRS R3 (2023), N=422; R2 (2022), N=265; multiple selections possible. Percentages represent the share of respondents who selected each constraint, out of a total of 422 respondents.

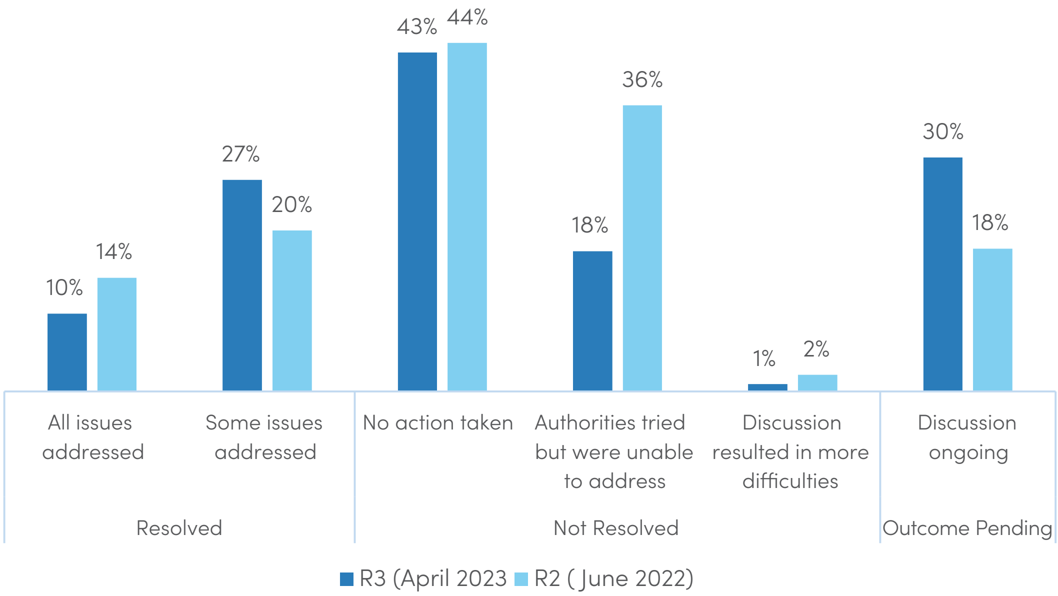
Figure 35: Business coping mechanisms, by gender of firm owner (% of respondents, normalized to 100)




*Source:* World Bank, Afghanistan PSRS R3 (2023), N = 422; multiple selections possible. Percentages represent the share of respondents who selected each constraint, out of a total of 422 respondents; results normalized.

34. **Fewer surveyed firms turned to discussions with the ITA to address business challenges.** While engaging in dialogue with the ITA was the most commonly reported coping strategy in Round 2, fewer firms opted for this approach to resolve problems in Round 3. Among the firms that did engage in discussions with the ITA to resolve a business issue, only 10 percent reported that the issue had been resolved successfully as a result (Figure 36). Small businesses were less likely to engage in dialogue with the ITA and more likely to encounter challenges in doing so, compared to large firms. Similarly, over 40 percent of women-owned firms reported that engagement with the ITA was "difficult."

Figure 36: Outcome of discussions with the ITA (% of respondents)




*Source:* World Bank, Afghanistan PSRS – R3 (2023), N=102; R2 (2022), N=123.

35. **As the Afghan economy continues to grapple with uncertainty and fragility in the wake of the ITA takeover in August 2021, it will be necessary to continue monitoring the impacts of this environment on the country's private sector firms.** Although firms appear to be adjusting to the new economic reality, as evidenced by the relatively increased share of surveyed firms that reported operating at full capacity in this round, together with a slight improvement in household welfare and a partial improvement in the functioning of the banking sector, persistently low consumer demand and tighter restrictions on women's activities continue to restrain the country's growth potential. These impacts are compounded by firms' coping strategies in the face of an uncertain future, which see them scaling back investments and dampening trade. Despite signs of improvements in corruption and the security environment, small firms and those owned by women are more likely to feel that security has deteriorated over time.

# ANNEX 1: WOMEN IN BUSINESS

- Women-owned businesses are 3.5 times more likely to close when faced with vulnerability shocks, indicating a lower level of resilience compared to men-owned firms.
- Less than half of women-owned firms report being in full operation, and almost one-third have permanently or temporarily closed.

- Low demand, lack of funds, and uncertainty about the future are the top three constraints faced by women-owned businesses in Afghanistan.

- Women-owned businesses are more likely to report a lack of demand as a top constraint, compared to men-owned firms.

- Over half of surveyed firms reported having no female employees, compared to only 10 percent reporting no male employees.
- Women-owned firms employ most women.

- Only 2 percent of women-owned businesses reported utilizing banks for domestic payments.
- Women-owned businesses demonstrate a higher need for loans and financing compared to their men-owned counterparts.

- Twelve percent of women-owned businesses reported closing down business as means of coping with business challenges.
- Women-owned businesses faced more challenges interacting with the ITA and were less likely to resolve issues through dialogue compared to men-owned businesses.

- Women-owned firms were twice as likely to report a deterioration in security compared to men-owned firms.

# ANNEX 2: THE PRIVATE SECTOR IN AFGHANISTAN

**Estimates suggest that Afghanistan's private sector contributed to over half of the country's gross domestic product (GDP) in 2018.**[34] According to a Business Establishment Survey,[35] nearly 700,000 establishments (formal and informal) were operating in the private sector. Together, they employed approximately 1.5 million people, around 20 percent of Afghanistan's total employed labor force. Of these, 90 percent were categorized as micro, small, and medium enterprises, with fewer than 10 employees on average.

**Formal businesses in Afghanistan are registered with the Afghanistan Central Business Registry and Intellectual Property (ACBR-IP) database of the Ministry of Industry and Commerce, with municipalities, or with both.** As per official ACBR-IP data, approximately 120,000 large, medium, and small businesses were formally registered in 34 provinces of Afghanistan as of December 2019 (Table A2-1).

Table Table A2-1: Sectors of activity in Afghanistan's private sector

| Sector of Activity | Number of Formally Registered Businesses (as of December 2019) |
|---|---|
| Manufacturing | 64,934 |
| Construction | 17,877 |
| Transportation | 10,807 |
| Wholesale or Retail Trade | 7,389 |
| Services | 6,423 |
| Education | 3,455 |
| Agriculture, forestry, and fishing | 2,700 |
| Information and communication | 1,817 |
| Human Health | 1,039 |
| Mining and quarrying | 942 |
| Energy | 407 |
| Agribusiness | 302 |
| Telecommunications | 60 |
| Petroleum and natural gas | 13 |
| Others | 20 |
| Total | 118,185 |

*Source:* Ministry of Industry and Commerce.

**The majority of Afghanistan's private sector is informal and consists mainly of small and micro enterprises.** Less than 20 percent operate in the formal sector. Despite lower overall productivity and competitiveness, informal businesses have displayed resilience in the face of challenges such as war and political changes, serving as a primary source of income for Afghan households.

**Private sector investment has been hampered by uncertainties in the political and economic landscape.** Domestic investment is concentrated in sectors like manufacturing, construction, trade, transport, agribusiness, and services. Foreign direct investment has averaged 0.4 percent of GDP per year from 2015 to 2020, as the economy relies mostly on international aid.

[34] Afghanistan Central Statistics Organization (2018). Private sector companies represent two-thirds of total manufacturing value-added (21.7 percent of GDP) and are key players in retail trade (8 percent), transport (18.6 percent), telecommunications (6 percent), and agriculture (20.8 percent).

[35] Afghanistan Central Statistics Organization. 2016. "Business Establishment Survey 2015" (December).

# ANNEX 3: SURVEY METHODOLOGY

## Timeline and Rationale

**Round 1 of the Private Sector Rapid Survey (PSRS), conducted in October–November 2021, aimed to gather information on the status and concerns of Afghanistan's formal private sector firms in the months following the crisis.**[36] Round 2, implemented in May–June 2022, reported on how firms were adjusting to the new realities of Afghanistan's private sector.[37] This report provides a new update on the private sector operating environment in the country, based on the results of Round 3 of the PSRS, implemented in March 2023.

**After the success of Round 2, the World Bank Group's Finance, Competitiveness, and Innovation Global Practice confirmed that it would conduct a third round of the PSRS in Afghanistan.** In March 2023, the team surveyed 422 businesses in Kabul and major cities with a higher concentration of businesses, including Balkh, Herat, Kandahar, and Nangarhar. The objectives of Round 3 were twofold: first, to cover a much larger number of firms than in the first two rounds and thus provide a more holistic assessment of the impact of the Taliban's takeover on Afghanistan's private sector; and, second, to use data from panel firms that had participated in both previous rounds to try to assess how the business environment had evolved since the months immediately following the political transition. The survey illuminated the challenges faced by Afghan businesses and the key constraints hindering their activities. Due to implementation challenges posed by the fragile political context at the time, the survey was conducted primarily in person with the possibility of phone-based interviews, supplemented as needed through online resources (such as the use of a Google Form).

## Sampling Approach

**The sampling methodology for the PSRS was chosen to ensure representativeness at both the national level (with respect to the formal private sector economy) and at the level of selected provinces (Table A3-1).** The sampling methodology aimed to ensure that statistically robust analyses could be conducted with a minimum of 7.5 percent precision for 90 percent confidence intervals.[38] The team consulted in detail the methodologies used by the World Bank Enterprise Survey (WBES)[39] and COVID Business Pulse Survey (BPS).[40]

**Available firms were randomly selected and surveyed using a quota sampling design, a procedure that does not ensure a fully probabilistic sample.** To address the representativeness of the sample, results were weighted according to: (i) the estimated number of firms in each economic sector, and (ii) the gender of the firm's owner, based on the Afghanistan Central Business Registry and Intellectual Property (ACBR-IP) database of registered firms as of December 2019. Moreover, of the 422 firms, 211 were panel firms that had participated in Round 2 of the survey and had not been removed from the panel comparison due to data inconsistencies (54 firms surveyed in Round 2 could not be reached in Round 3, leaving room for the possibility of survival bias in the results of this round). The findings are intended to assess the business environment faced by formal private sector firms following the political crisis of August 15, 2021, at periodic intervals. The survey does not assess the business environment faced by or impacts on the informal sector of the economy.

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36 World Bank. 2022. "Afghanistan Private Sector Rapid Survey: A snapshot of the business environment – Round 1."
37 World Bank. 2022. "Afghanistan Private Sector Rapid Survey: A snapshot of the business environment – Round 2."
38 A 7.5% precision of an estimate in a 90% confidence interval means that the population parameter is within a 7.5% range of the observed sample estimate, except in 10% of the cases.
39 https://www.enterprisesurveys.org/en/methodology
40 https://documents.worldbank.org/en/publication/documents-reports/documentdetail/172841613718788462/business-pulse-survey-impact-of-covid-19-on-msmes-in-bangladesh

## Sample Frame

**The PSRS used the ACBR-IP database as the sample frame.** The ACBR-IP is a government agency under the Ministry of Industry and Commerce tasked with registering businesses in the country. The ACBR-IP database also formed the basis of the sample frame used by both WBES and BPS.[41] Per available ACBR-IP data as of December 2019, there are approximately 118,185 formal registered businesses in Afghanistan. This figure does not, however, include approximately 500,000 small and micro businesses registered with municipalities in the country, for which there are no data available from official sources. Table A3-1 provides the geographical distribution of the businesses across Afghanistan's main provincial hubs.

Table A3-1: Number of businesses in Afghanistan as of December 2019

| Province | Number of businesses |
|---|---|
| Kabul | 58,122 |
| Herat | 19,738 |
| Kandahar | 8,576 |
| Nangarhar | 7,742 |
| Balkh | 6,503 |
| Other provinces | 17,504 |
| Total | 118,185 |

## Stratification

**Stratification of the sample was based on key dimensions firm characteristics that the team wanted to analyze and on the availability of relevant information in the sample frame.** The PSRS was stratified by geographical location, gender of firm owner, and sector of activity. Geographical stratification was defined to reflect the distribution of economic activity across the main commercial centers/provinces of Afghanistan, including Kabul, Balkh, Herat, Kandahar, and Nangarhar. Two main geographical strata were identified: Kabul and non-Kabul (including Balkh, Herat, Kandahar, and Nangarhar provinces). The sectoral stratification considered key sectors in the Afghan economy and was divided into five main groups: agribusiness, construction, manufacturing (excluding agribusiness), services (excluding wholesale and retail trade), and wholesale and retail trade.

## Sample Size

**The total sample size was defined at 420 firms, given the available budget.** This total was geographically distributed in the following way: 180 firms in Kabul and 60 in each of the other four regions. Inside each region, units were distributed equally across economic activities. In addition, to ensure representation of women-owned businesses in the survey, their incidence inside each geographical domain was increased up to 20 percent of the total. Table A3-2 reports, for each province/sector, the total population of businesses, the corresponding sample size (divided by men- and women-owned firms), and the corresponding maximum expect relative error, calculated with a confidence level of 90 percent. This has to be considered a maximum because it is related to a proportion estimate of 0.5: all other estimated values that differ from 0.5 should have a relative error lower than the one indicated. At the national level, the expected maximum error is 4 percent, while for Kabul it is 6.14 percent and for the other regions it is around 10.6 percent. For sector estimates in Kabul, the error is around 12 percent, whereas it ranges between 19 and 21 percent for sector estimates in the other regions

[41] The WBES used as a sample frame the database of registered/formal firms with what was then (in 2014) the Afghanistan Investment Support Agency (AISA). The AISA database became part of ACBR-IP database when AISA was merged with ACBR-IP in 2016. The PSRS uses the latest ACBR-IP database as a sample frame. The BPS sample frame was also based on the ACBR-IP, with some updates undertaken by the consulting firm hired to implement the survey.

Table A3-2: Survey sample size, disaggregated by province and sector of activity

| Provinces/sectors | Total population (businesses) | Sample size | Of which,men-owned | Of which, women-owned | Maximum expected error (%) |
|---|---|---|---|---|---|
| Kabul | **58122** | 180 | 144 | 36 | 6.14 |
| Agribusiness | 1737 | 45 | 36 | 9 | 12.14 |
| Manufacturing (excluding Agribusiness) | 25031 | 45 | 36 | 9 | 12.29 |
| Services (excluding Wholesale and Retail trade) | 30926 | 45 | 36 | 9 | 12.29 |
| Wholesale and Retail Trade | 428 | 45 | 36 | 9 | 11.65 |
| Balkh | **6503** | 60 | 48 | 12 | 10.6 |
| Agribusiness | 181 | 15 | 12 | 3 | 20.46 |
| Manufacturing (excluding Agribusiness) | 4403 | 15 | 12 | 3 | 21.27 |
| Services (excluding Wholesale and Retail trade) | 1912 | 15 | 12 | 3 | 21.22 |
| Wholesale and Retail Trade | 7 | 15 | 12 | 3 | - |
| Herat | **19738** | 60 | 48 | 12 | 10.63 |
| Agribusiness | 368 | 15 | 12 | 3 | 20.89 |
| Manufacturing (excluding Agribusiness) | 10620 | 15 | 12 | 3 | 21.29 |
| Services (excluding Wholesale and Retail trade) | 1907 | 15 | 12 | 3 | 21.22 |
| Wholesale and Retail Trade | 6843 | 15 | 12 | 3 | 21.28 |
| Kandahar | **8576** | 60 | 48 | 12 | 10.61 |
| Agribusiness | 115 | 15 | 12 | 3 | 19.95 |
| Manufacturing (excluding Agribusiness) | 7059 | 15 | 12 | 3 | 21.28 |
| Services(excluding Wholesale and Retail trade) | 1393 | 15 | 12 | 3 | 21.19 |
| Wholesale and Retail Trade | 9 | 15 | 12 | 3 | - |
| Nangarhar | **7742** | 60 | 48 | 12 | 10.61 |
| Agribusiness | 263 | 15 | 12 | 3 | 20.72 |
| Manufacturing (excluding Agribusiness) | 5575 | 15 | 12 | 3 | 21.27 |
| Services (excluding Wholesale and Retail trade) | 1900 | 15 | 12 | 3 | 21.22 |
| Wholesale and Retail Trade | 4 | 15 | 12 | 3 | - |
| Total | **100,681** | **420** | **336** | **84** | **4.02** |

*Note:*

1) Agribusiness categories include firms in agribusiness, agriculture, forestry, and fishing.
2) Manufacturing includes manufacturing, mining, and quarrying, energy, and petroleum and natural gas.
3) Services include services, construction, transportation and storage, education, information and communication, and human health.

## Non-response

**In this round, a survival bias might persist due to the non-responsiveness of some panel firms.** In Round 3, 54 panel firms were unreachable. To ensure complete representativeness, these non-responsive firms were not substituted. Instead, they were replaced by the subsequent firm on the list. Consequently, the survey does not explicitly address the non-response mechanism, indicating that any non-response bias affecting the estimates was not mitigated. This leaves the results of this round susceptible to survival bias, as some of these firms may have temporarily or permanently closed.

# Survey Implementation

## Instrument

**The PSRS used a semi-structured questionnaire with 92 questions.** The questionnaire was divided into 11 sections: business profile, firm-level information on sectors of business activities, operating status and employment, business operations, access to finance and business transactions, taxation, trade, governance and public services, risks and constraints to business activities, and perceptions of the future. The survey took around 50 minutes, on average, to administer. The survey was primarily conducted in person. Where needed, phone interviews and online resources were used to conduct the survey. Conducting the survey through online resources was less time-consuming, more efficient, and more convenient for survey respondents. However, the possibility of errors and misfiling of online forms could not be overlooked, which could entail additional time spent on cleaning the data.

## Piloting

**Before starting survey implementation, the team ran a small pilot to test whether the survey worked smoothly and the questions were properly understood.** The aim was to conduct three to four interviews in each of the identified sectors. Lessons from the pilot were used to refine the questionnaire as needed.

## Implementation

**Data collection involved in-person interviews with nearly 95 percent of surveyed firms.** Unlike the previous two rounds, implementation of Round 3 was outsourced to a third-party consultancy firm in Kabul. This decision was made to enable in-person interviews, given improved security conditions and the challenges of remote monitoring due to limited accessibility. The third-party firm trained its enumerators using the PSRS questionnaire. After completing the survey, collected data were cleaned and sent to the World Bank team for analysis and results calculation.

## Survey timeline

The survey was conducted according to the timeline A3-3.

**Table A3-3: Survey timeline**

| Activities | Timeline |
|---|---|
| Finalization of the survey methodology and tools | Jan 30, 2023 |
| Preparation of businesses list for the survey | Jan 30, 2023 |
| Conducting pilot survey with 8-10 businesses | Feb 5, 2023 |
| Pilot survey mock data analysis and repot | Feb 11, 2023 |
| Finalization of the survey tools after the pilot | Feb 16, 2023 |
| Conducting the survey | Feb 28 – Mar 10, 2023 |
| Data analysis | September 05 – 23, 2023 |
| Draft report | December 10, 2023 |
| Final Report | January 30, 2024 |

## Data analysis

**Analysis of PSRS data was conducted using weighted averages based on the number of firms categorized by firm size and gender of firm owner.** This procedure was adopted to reflect the structure of firms registered with the ACBR-IP database at the end of December 2019 (Annex 2). To avoid the introduction of bias in estimates due to the oversampling of women-owned businesses in the survey, a preliminary step of re-weighting was carried out by modifying the initial weights (obtained as the ratio in each stratum of the total number of firms and the number of respondent firms) to reproduce exactly the number of men-owned and women-owned firms in each sector of economic activity.

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