



**Afghan Business Attitudes on the  
Economy, Government, and Business Organizations**

**2009-2010 Afghan Business Survey  
Final Report**



**National Endowment  
for Democracy**

*Supporting freedom around the world*

# TABLE OF CONTENTS

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- Introduction..... 4
- Executive Summary..... 5
- Business Performance ..... 9
  - Chart 1: Perceptions of local economy..... 9
  - Chart 2: Employees and earnings: change since 2008 ..... 10
  - Chart 3: Employees and earnings: change since 2008 – by sector and market..... 10
  - Chart 4: Hiring and business development: expectations for the next six months..... 11
  - Chart 5: Barriers to growth: Afghan business sector..... 12
  - Chart 6: Security compared to last year ..... 13
- Business Financing..... 14
  - Chart 7: Financing resources and primary payment methods..... 14
  - Chart 8: Attempts to borrow..... 15
- Government Services..... 16
  - Chart 9: Satisfaction with government services and improvement since last year ..... 16
  - Chart 10: Business community preferences for government actions..... 17
  - Chart 11: Business community preferences for government priorities ..... 17
  - Chart 12: Workforce needs..... 18
- Business and Politics ..... 19
  - Chart 13: Familiarity with laws and regulations..... 19
  - Chart 14: Knowledge of general market principles..... 20
- Corruption..... 21
  - Chart 15: Views on government corruption and costs spent on bribes ..... 21
  - Chart 16: Bribes paid and to whom ..... 22
  - Chart 17: Transparency in government contracting ..... 23
- Business Organizations..... 24
  - Chart 18: Awareness and membership of local chamber of commerce ..... 24
  - Chart 19: Awareness and membership of local chamber of commerce – by city ..... 25
  - Chart 20: Perceived utility of chambers of commerce and business associations..... 26
  - Chart 21: Ability of business community to influence government policy ..... 26
  - Chart 22: Most important services provided by business associations ..... 27

Chart 23: Most important services desired from business associations.....	27
<b>Media</b> .....	29
Chart 24: Main source for economic and business information.....	29
Chart 25: Most common means of communication.....	30
<b>Appendix I: Business Profile</b> .....	31
Chart 26: Business ownership and market .....	31
Chart 27: Source of materials .....	32
Chart 28: Business age.....	32
Chart 29: Business size: number of employees.....	33
Chart 30: Business revenue.....	34
<b>Appendix II: Methodology</b> .....	35

## Introduction

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The Center for International Private Enterprise (CIPE) commissioned this survey of Afghan business views on the economy, government, and business organizations. CIPE's mission is to strengthen democracy around the globe through private enterprise and market-oriented reform. CIPE is one of the four core institutes of the National Endowment for Democracy. Since 1983, CIPE has worked with business leaders, policymakers, and journalists to build the civic institutions vital to a democratic society. CIPE's key program areas include anti-corruption, advocacy, business associations, corporate governance, democratic governance, access to information, the informal sector and property rights, and women and youth. The goal of this survey is to provide information to assist the Afghan business community in creating a friendly environment for business growth and help it to become a more effective advocate for economic reform and democratic governance. Funding for the study was provided by the National Endowment for Democracy.

This survey was adapted from earlier business attitude surveys CIPE conducted in Iraq from 2004-2007. CIPE and Charney Research in New York together modified the questionnaire to reflect Afghanistan's unique circumstances and its current development challenges. CIPE has been working with the private sector in Afghanistan since 2003 and has maintained an office with local staff in Kabul since then. CIPE's local staff provided critical feedback and suggestions for the field questionnaire, as did discussions CIPE conducted with Afghan businesspeople. Fieldwork was conducted by Altai Consulting, based in Kabul, which also provided useful input thanks to its prior work on a World Bank investment climate survey. All interviews were conducted by experienced Afghan interviewers in Dari or Pashtu, Afghanistan's principal languages, according to the preference of the respondent. Survey results were analyzed by Charney Research, the firm which also authored the final report.

Participants were randomly selected from membership lists provided to CIPE by three Afghan business registry organizations. These included member businesses of the Afghanistan Chamber of Commerce and Industries (ACCI), and businesses registered with the Afghanistan Investment Support Agency (AISA) and/or the Peace Dividend Trust (PDT). Interviews were conducted in person between December 22, 2009 and January 29, 2010 with 738 business owners and executives of formal (registered) businesses in Afghanistan's six principal cities: Kabul (204), Jalalabad (123), Mazar-e-Sharif (113), Herat (111), Kandahar (102) and Khost (85). In cities where the business lists did not contain enough members to complete the minimum number of interviews required to obtain a representative sample of the city's population, a snowball methodology<sup>1</sup> was used to find additional businesspeople for interviews. Random sampling via the business lists was used in 69 percent of the total number of interviews; retail was the only sector where more than one-fifth of respondents were not reached through random sampling using the lists, and Khost was the only city where snowballing accounted for more than 50 percent of the interviews. For more details on methodology, please see Appendix II.

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<sup>1</sup> Snowball methodology involves interviewers randomly selecting a business establishment in one of the appropriate sectors in the city in areas they were already conducting interviews with businesses in other sectors (see Appendix II for more details).

# Executive Summary

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The development of a thriving, dynamic, and resilient commercial sector in Afghanistan is crucial to maintain political stability in the country and achieve long-term security from both internal and external threats. In opinion polls, the Afghan public consistently rates jobs and economic prosperity as the country's greatest need, even ahead of security<sup>2</sup>. In the long run, the nature of the business environment and the ability of Afghan entrepreneurs to pursue economic opportunity will determine if Afghanistan's economy can become self-sustaining and able to deliver jobs and improved standard of living for its people. It is imperative to analyze what obstacles and challenges are currently thwarting investment, entrepreneurship, and commercial activity in Afghanistan and to assist the business community in communicating their needs to the government.

This survey demonstrates that Afghan businesses are generally optimistic about their own and other community business prospects over the coming year. Afghan businesspeople have a clear sense of their own needs and of the policy directions they would like the government to pursue. Security, corruption, and infrastructure deficiencies are by far the greatest areas of concern for the business community. A host of other legal or regulatory issues are also frequently cited as having a negative effect on the business environment.

These survey results highlight the Afghan business community's desire to engage policymakers in Afghanistan on the country's many pressing business development challenges. While chambers of commerce and other business associations exist and the vast majority of Afghan businesspeople recognize their utility and influence, these organizations lack the capacity to provide necessary technical and advocacy services to the business community.

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## Business Performance

### **Businesses are Positive about Economic Performance and Direction**

The Afghan economy improved over the past year with declining inflation, a stable exchange rate and increasing domestic revenues. The Afghan business community is positive about economic conditions in its local communities and its own business performance. During interviews, members of the business community expressed high expectations for their businesses over the following six months and said they were prepared to invest in their firms.

- Over the past year, more businesses say their workforce has increased (37 percent) than that it has decreased (20 percent). However, the results on earnings were slightly more mixed: roughly equal numbers of firms report increases in earnings (38 percent) and decreases (39 percent).
- A consistent three-fourths expect that their sales, number of employees, net profit, and investment will increase during the next six months.

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<sup>2</sup> See ABC News-BBC-ARD Survey results since 2006, available here: [abcnews.go.com/PollingUnit/afghanistan-abc-news-national-survey-poll-show-support/story?id=9511961](http://abcnews.go.com/PollingUnit/afghanistan-abc-news-national-survey-poll-show-support/story?id=9511961).

- 6 in 10 plan to hire more people over the next six months, and nearly 4 in 10 plan to purchase general office equipment. Roughly 3 in 10 plan to make other specific types of investment in their businesses – be it purchasing information technology equipment, training their workforce, or renting or purchasing a new building.

## Business Financing

### Firms Rely on Profits and Savings for Financing

Currently, businesses rely primarily on business profits (75 percent) and private savings (65 percent) for their financing.

- Very few report obtaining loans from either private individuals (7 percent) or banks (6 percent).
- Three-quarters rely on cash as their primary payment method for purchasing goods and services, with just over one in six relying on bank transfers.

## Government Services

### Security Challenges, Corruption, and Unreliable Electricity are Key Obstacles

At present, Afghan businesses face myriad challenges, of which further progress on security is the major one. Other obstacles include infrastructure deficiencies (especially electricity), extensive corruption, and an uneducated and untrained workforce.

- In response to which three factors most adversely affect the growth of the Afghan business sector, the combined top response was insecurity (78 percent), followed by corruption (53 percent) and lack of electricity (44 percent).
- In a separate question, 7 in 10 said security has improved in the past year.
- On the subject of infrastructure, 7 in 10 firms lack water supply systems and 4 in 10 lack electricity.
- Businesses indicate that, when it comes to the Afghan workforce, their greatest needs are an improved education system (32 percent), followed by the creation of specialized training institutes (19 percent), basic literacy in local languages (14 percent), knowledge of international business standards (13 percent), and computer skills training (12 percent).

## Business and Politics

### Business Involvement in Economic Policy is Critical

Firms in Afghanistan believe that businesses can influence policymaking. Business community involvement is critical because they have extensive knowledge of market principles and business practices.

- 4 in 5 businesspeople feel that the Afghan business community can influence government policy (43 percent very much, 37 percent somewhat).
- 4 in 5 survey respondents describe the business community as knowledgeable about market principles and business practices.
- Roughly half of respondents believe that Afghan political leaders, government officials, journalists, or youth know much about general market principles and business practices,

and only one-third think the general public does.

## Corruption

### Firms Call for Stronger Anti-corruption Action

Corruption is one of the most significant negative factors affecting business' confidence in the government and a barrier to business development. Nine out of 10 businesspeople polled agree that corruption is a significant problem and that more needs to be done to combat it.

Government officials whose responsibility should be to protect legal integrity are often seen as the culprits of this pervasive problem.

- Over half (54 percent) of Afghan business leaders polled report that businesses have to pay bribes, unofficial fees, or gifts to operate.
- Of the respondents who report businesses have to pay bribes to operate, local government officials (41 percent) are the most frequently paid-off, followed by customs officials (28 percent), national government officials (26 percent), road police (23 percent), and tax collectors (22 percent).

### Businesses Look to Government to Reform Customs and Contracting

In response to what government actions would be the most helpful to Afghan businesses, the top responses focused on combating corruption and increasing transparency in awarding contracts.

- Businesses pointed to reforming customs procedures and duties (22 percent) and reducing the unfair competition that results from government officials giving preferential treatment to relatives and friends (18 percent) as the top issues.
- Two-thirds overall say that the Afghan Government has not been transparent in awarding contracts through its various ministries. Yet, 6 in 10 are hopeful that the new government will be more transparent in the coming year.

## Business Organizations

### Business Associations Need to Increase Visibility, Promote Benefits

A solid majority of the business community describes chambers of commerce and business associations as useful, but very few individuals can name a *specific* chamber or association as having a significant role in communicating the needs of the business sector to the Afghan Government.

- Three-quarters are aware of a chamber of commerce or business association in their area, and 41 percent are already members.
- Only 14 percent of all businesspeople interviewed visit or contact their chamber of commerce or business association often. Even among members, three-fourths have no or only occasional contact with their organizations.
- About half of chamber of commerce or business association members (52 percent) receive services from their or business association, compared to 22 percent for non-members.
- Respondents place the greatest value of chambers of commerce and business associations in advocating on behalf of businesses (49 percent), followed by advising on business and

investment opportunities (39 percent), and providing information on trade exhibitions, conferences, and seminars (37 percent).

## Media

### **Telecommunications are a Key Medium to Reach Business**

Since the establishment of the first cellular phone network in 2002, tremendous strides have been made in providing telecommunications to Afghan citizens and businesses. The sector has grown to include four cellular phone and five internet service providers, and almost 20 television stations.

- Afghan businesses primarily rely on electronic media – the Internet (32 percent) and television (26 percent) – as sources of economic and business information.
- Cell phones are the key medium by which Afghan businesses communicate; 88 percent of respondents say they use their mobile phones as the most frequent way to communicate for their operations. Just 1 in 10 uses the Internet as their main communications medium.

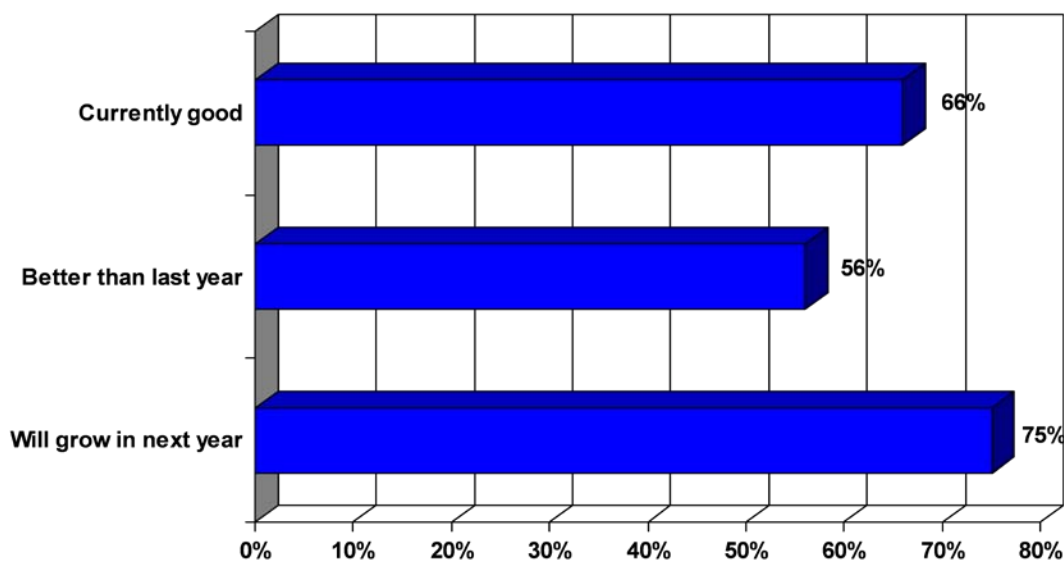


## Business Performance

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Afghanistan’s economic situation has improved – and the mood of business reflects this. Despite a difficult security and political situation during the past year, Afghanistan’s economic performance has improved noticeably, with declining inflation, a stable exchange rate, and increasing domestic revenues. According to the International Monetary Fund (IMF), economic activity expanded by about 15 percent in 2009 due to a “recovery in agriculture, increased donor inflows, and prudent policies.”<sup>3</sup>

**Chart 1: Perceptions of local economy**



Q. 27-29

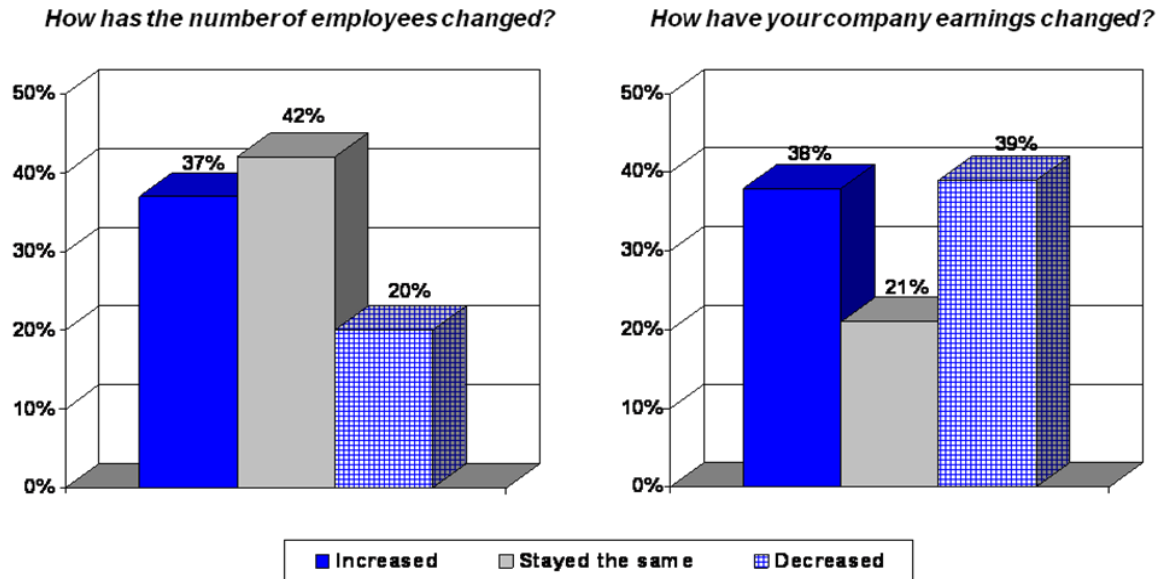
These positive economic trends have helped improve the business community’s mood. (See Chart 1.) Survey results show that Afghan businesses are quite positive about the economic environment, with two-thirds of respondents (66 percent) rating the economy in their community as good (57 percent somewhat good and 9 percent very good). A majority (56 percent) also say that their community’s economy has improved over the past year (39 percent calling it somewhat better and 17 percent saying much better). Expectations are quite high for the coming year, with three-quarters of businesspeople surveyed expecting growth (47 percent expect the economy to grow somewhat, 28 percent grow significantly).<sup>4</sup>

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<sup>3</sup> See “IMF Announces \$1.6 Billion in Debt Relief for Afghanistan,” *IMF Survey Online*, January 26, 2010.

<sup>4</sup> This sense of optimism about the economy is also evident among the Afghan public. An ABC/ News/BBC/ARD National Survey of Afghanistan released in January 2010 shows that after several years of steep declines, there has been a 30-point increase in public views that the country is headed in the right direction (to 70 percent, the most saying so since 2005). Afghans also say that the availability of jobs and economic opportunities have improved by 11 points in the past year (to 4 in 10). Afghans’ expectations that their own lives will be better a year from now have jumped by 20 points to a new high of 71 percent. There has also been a 14-point rise in expectations that the next generation will have a better life, to 61 percent. See [abcnews.go.com/PollingUnit](http://abcnews.go.com/PollingUnit).

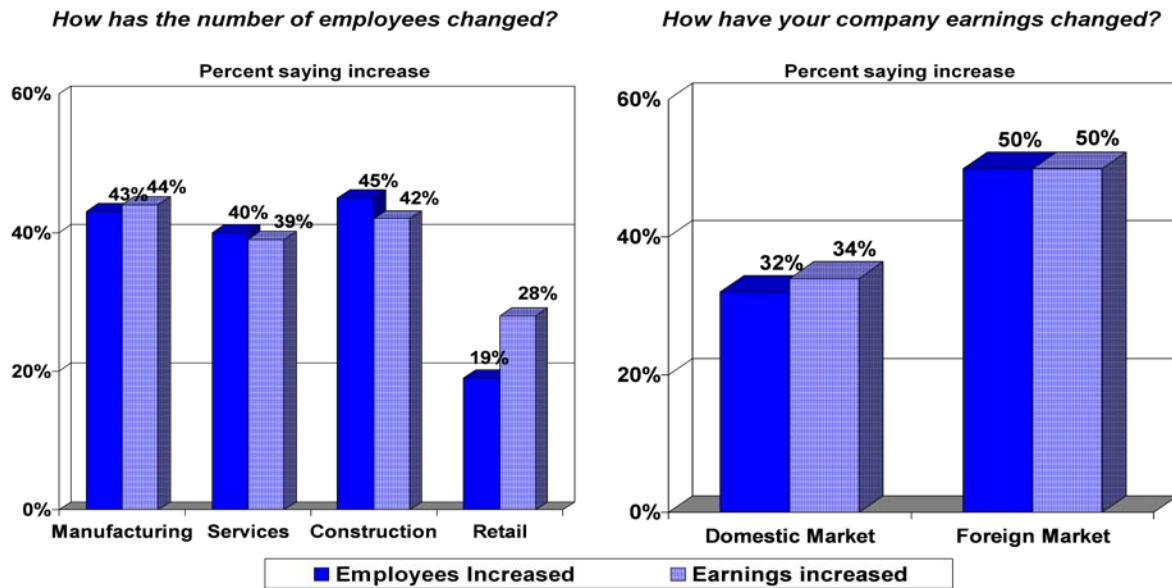
## Chart 2: Employees and earnings: change since 2008



Q. 16, 17

More businesses say that their workforce has increased over the past year (37 percent) than say that it has decreased (20 percent). (See Chart 2.) Gains and losses in earnings were more even, however: nearly equal numbers of firms report increases (38 percent) and decreases (39 percent).

## Chart 3: Employees and earnings: change since 2008 – by sector and market



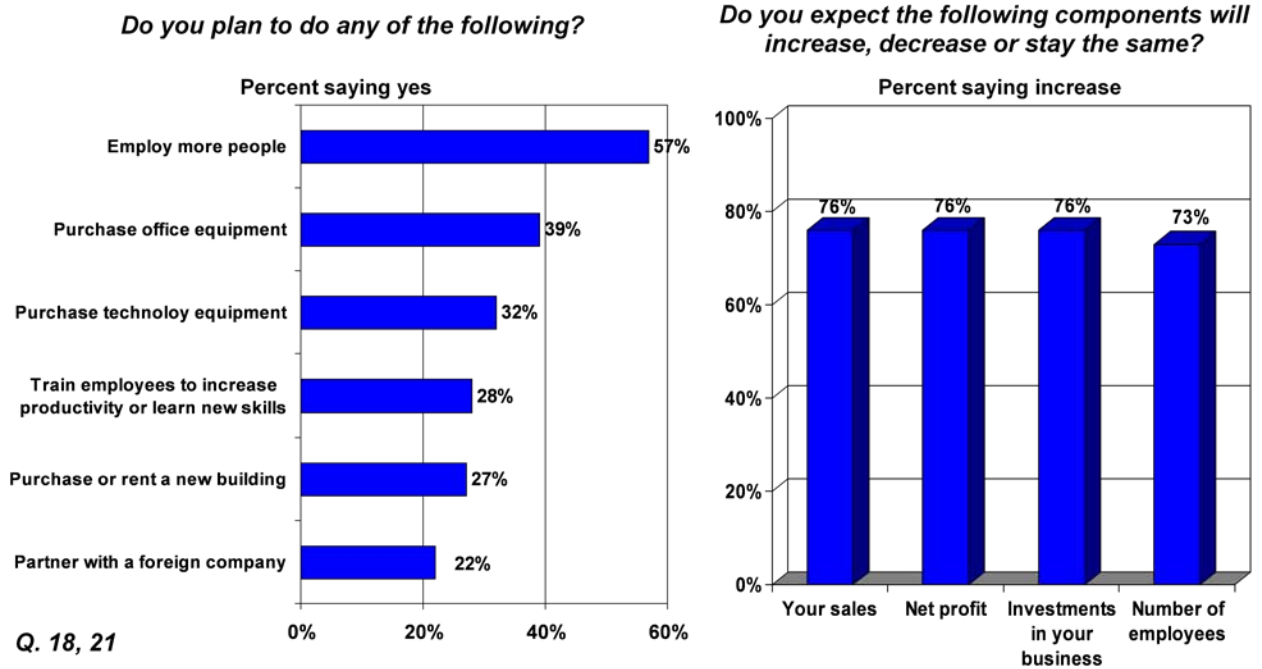
Q. 16, 17

Manufacturing, service, and construction firms are all more likely to report staff and earnings growth than retail businesses. (See Chart 3.) Some 43 percent of manufacturing firms reported increased workforces, as did 40 percent of service sector firms and 45 percent of construction

firms, compared to just 19 percent of retailers. Likewise, 44 percent of manufacturers had increased earnings, along with 39 percent of service firms and 42 percent of construction firms, against just 28 percent of retail outlets.

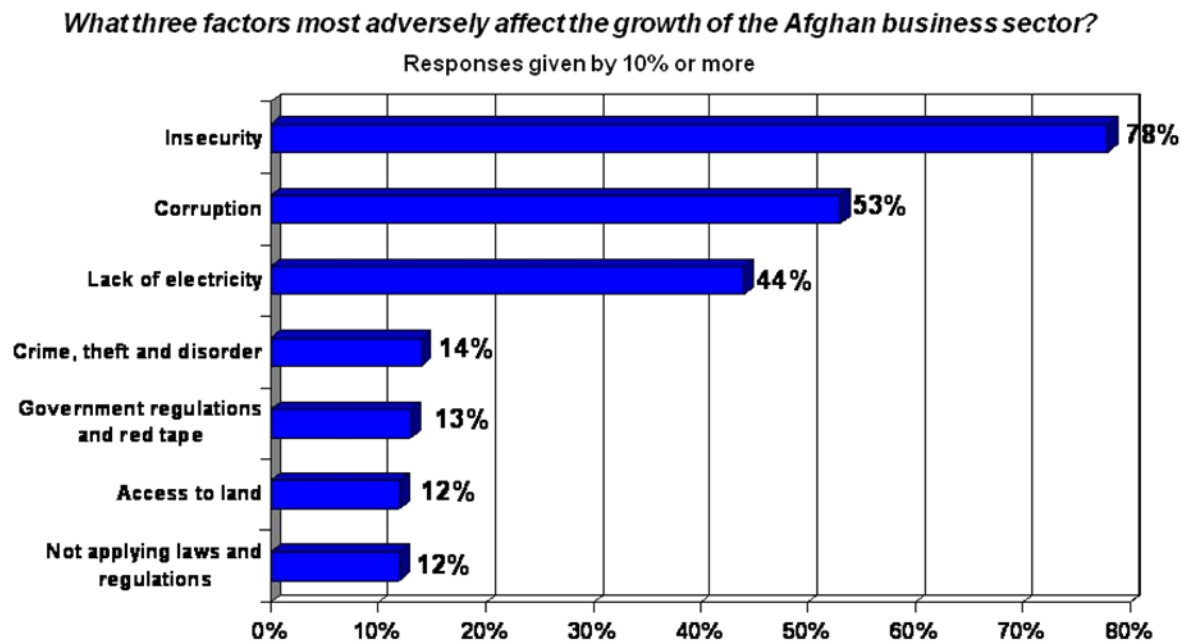
Exporters also reported better business performance than firms with a domestic client base. Among firms selling to foreign markets, 50 percent report a larger workforce and the same proportion says profits rose. Some 32 percent of those selling to the domestic market hired more staff and 34 percent of such firms increased their profits.

### Chart 4: Hiring and business development: expectations for the next six months



A majority (57 percent) of businesspeople polled say they plan to hire more workers in the next six months, and two-fifths (39 percent) intend to buy office equipment. Between one-fifth and one-third of businesses plan to make other types of investment in their businesses, such as purchasing technology equipment (32 percent), training their workforce (28 percent), renting or purchasing a new building (27 percent), or partnering with a foreign company (22 percent). (See Chart 4.) A consistent three-quarters expect that their sales, number of employees, net profit, and investment will increase during the next six months. Here too, retail businesses are less positive than other sectors about making such investments, and companies with primarily foreign clients are more likely to be positive than companies who cater mostly to domestic customers.

## Chart 5: Barriers to growth: Afghan business sector



### Q. 38

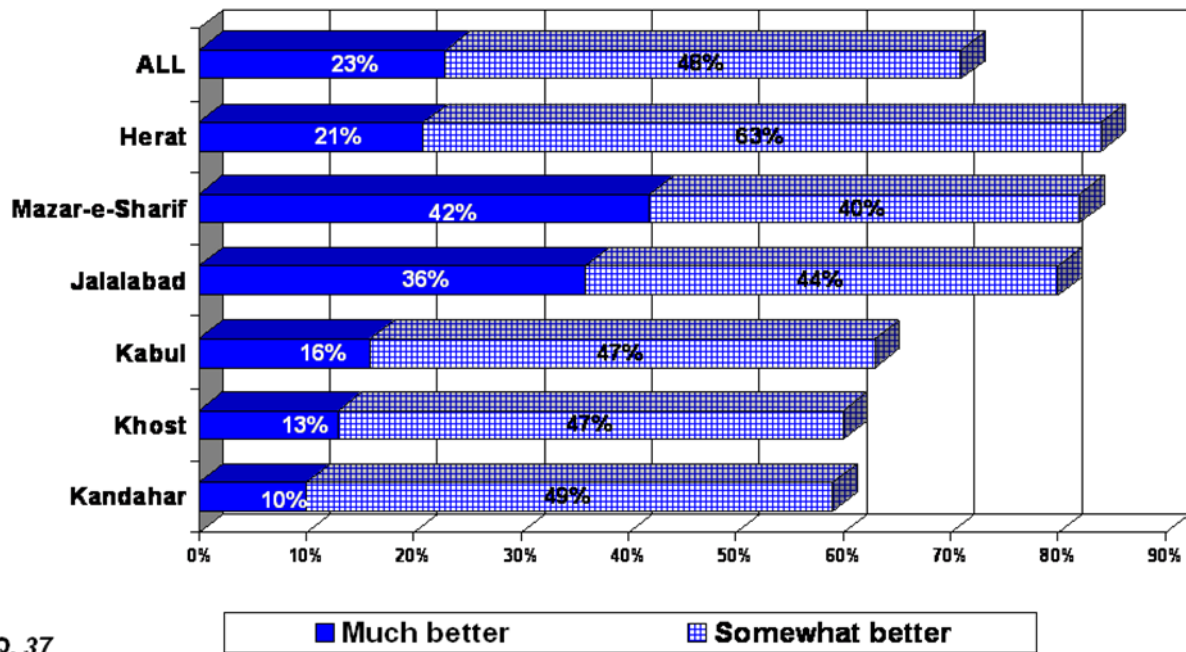
When businesspeople were asked to volunteer which three factors most adversely affect the growth of the Afghan business sector, the top combined response was the lack of security (mentioned by 78 percent). (See Chart 5.) It is followed by corruption (53 percent) and lack of electricity (44 percent). Beyond these top three concerns, no other responses were mentioned by more than 15 percent of respondents, although the following answers were in double figures: crime (14 percent), red tape (13 percent), access to land (12 percent), and failure to apply the law (12 percent). Electricity shortages were the top concern in both Jalalabad and Kandahar; there were no other major geographic differences. In terms of sector, leaders of manufacturing companies, for understandable reasons, are more concerned about electricity (52 percent) than corruption (40 percent). By comparison, construction, services, and retail place more emphasis on corruption.

The World Bank Afghan Enterprise survey, which was conducted among a similarly random selection of firms in Afghanistan in 2008, reported fairly similar results.<sup>5</sup> Crime, theft, and disorder, lack of electricity, lack of access to financing, political instability, lack of access to land, and corruption were the top obstacles (in that order) mentioned by firms in that survey.

<sup>5</sup> “Afghanistan Country Profile 2009,” *Enterprise Surveys*, World Bank; see [www.enterprisesurveys.org/CountryProfiles](http://www.enterprisesurveys.org/CountryProfiles); while data was collected in 2008, the report was released in 2009.

**Chart 6: Security compared to last year**

*Has the security situation in your area gotten much better, somewhat better, somewhat worse or much worse?*

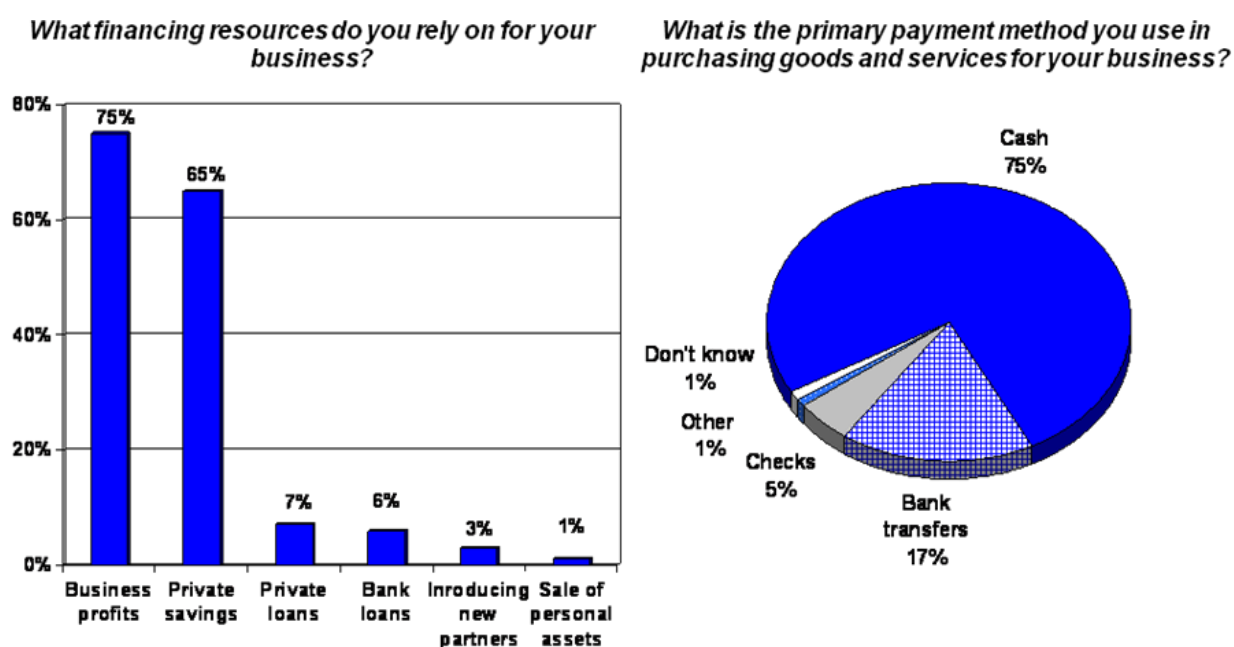


Encouragingly, 7 in 10 businesspeople say the security situation in their area has improved over the past year. (See Chart 6.) About half say it has become somewhat better (48 percent), while almost one-quarter call it much better (23 percent). Though majorities across all cities say security has improved, fewer think the situation has improved in Kabul (63 percent), Kandahar (59 percent) and Khost (60 percent).

## Business Financing

Afghan businesses have very limited sources of capital. As Afghanistan rebuilds, establishing a stable and legitimate banking system – with fair and unencumbered interest rates, collateral requirements, and application procedures – is one of the challenges to long-term development. Currently, businesses rely primarily on business profits (75 percent) and private savings (65 percent) for their financing. (See Chart 7.) Very few use private loans (7 percent), bank loans (6 percent) or introduce new partners (3 percent) or introduce new partners (3 percent) or introduce new partners (3 percent).

**Chart 7: Financing resources and primary payment methods**



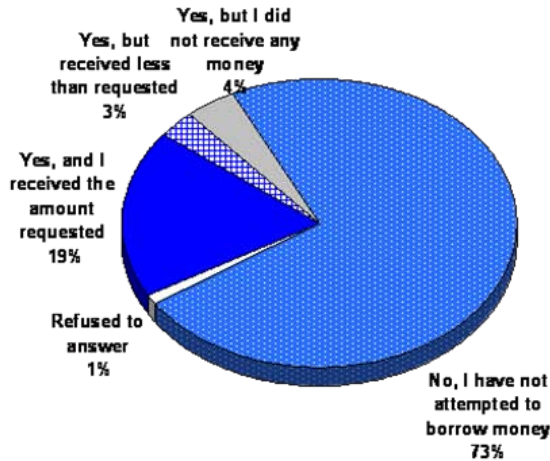
Q. 19, 20

Three-quarters of firms rely on cash as their primary payment method for purchasing goods and services, with just over 1 in 6 (17 percent) relying on bank transfers. Even fewer (5 percent) use bank checks.

Of those who have attempted to borrow money to start or expand their business over the past year (26 percent overall), one-third each approached friends and/or relatives for a loan (33 percent), a private bank (31 percent), or business partners/micro-fund (34 percent). Most of those who attempted to borrow money received the amount they requested. Small businesses that employ no more than five people are more likely to turn to business partners (32 percent) than a private bank (14 percent) for loans; larger businesses turn to private banks most often (between 43 and 59 percent). Businesses with revenues over 500,000 Afghanis (about \$10,000) are more likely to borrow from private banks than companies with revenues below 500,000 Afghanis (58 percent vs. 22 percent).

## Chart 8: Attempts to borrow

*During the past year, have you attempted to borrow money to start or expand your business?*



**Q. 22-24**

Interestingly, one-quarter of respondents in firms that did not attempt to borrow money mentioned the prohibition of interest in Islam as the reason they did not attempt to borrow (26 percent); in fact, this was the top reason after not needing a loan (cited by 75 percent). Others said that interest rates (21 percent), collateral requirements (8 percent), or the size of the loan/maturity terms were unfavorable (10 percent), or that application procedures are too complex (10 percent). (See Chart 8.)

### *Who did you approach to borrow capital?*

Friends and/or relatives	33%
Private bank	31%
Business partners	20%
Micro-fund loan	5%

### *If you have not tried to borrow money, why not?*

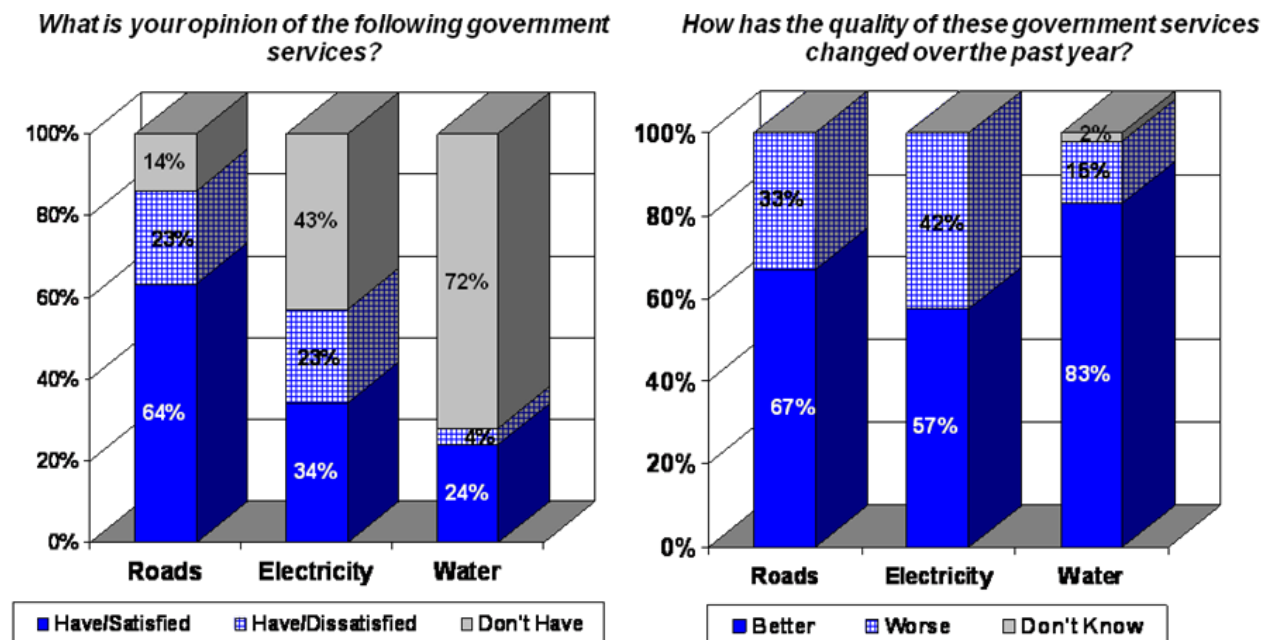
No need for a loan – establishment has sufficient capital	75%
It is prohibited in Islam	26%
Interest rates are not favorable	21%
Application procedures for loans or lines of credit are complex	10%
Size of loan and maturity are insufficient	10%
Collateral requirements are high	8%



## Government Services

Infrastructure has been a major challenge for Afghan business. More than one-third of business leaders (37 percent) are unhappy with local roads. Some 23 percent are dissatisfied with existing roads, and 14 percent say there are no roads in their area. (Surprisingly, the proportion of those complaining of no roads rises to 30 percent in Kabul, the capital).

**Chart 9: Satisfaction with government services and improvement since last year**



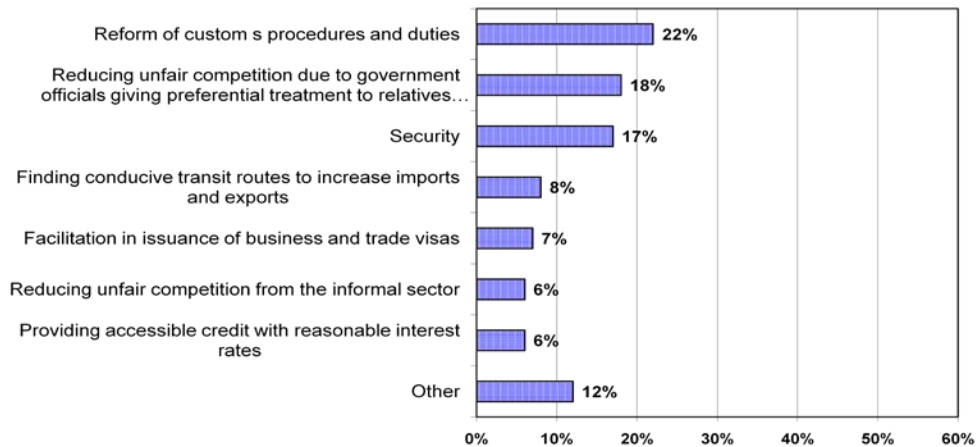
Q. 25, 26

The continued inability of a sizeable portion of the Afghan business community to obtain any reliable electricity service remains a significant hindrance to business development in Afghanistan, with just one-third receiving satisfactory electrical service. (See Chart 9.) Four in 10 say their firms lack electricity altogether, including half or more of businesspeople interviewed in Kabul (52 percent), Khost (53 percent), and Jalalabad (74 percent). Almost 1 in 4 has some power but calls service unsatisfactory. Seven in 10 say their firms lack water service, including large majorities across all cities except Herat. Of those few who do have running water, most are satisfied with the service.



## Chart 10: Business community preferences for government actions

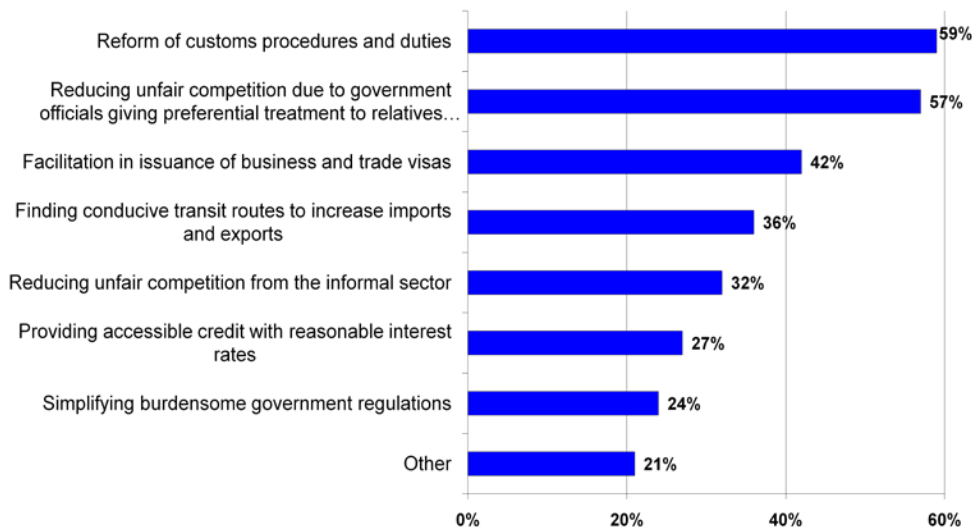
*What single government action would be the most helpful to your business?*



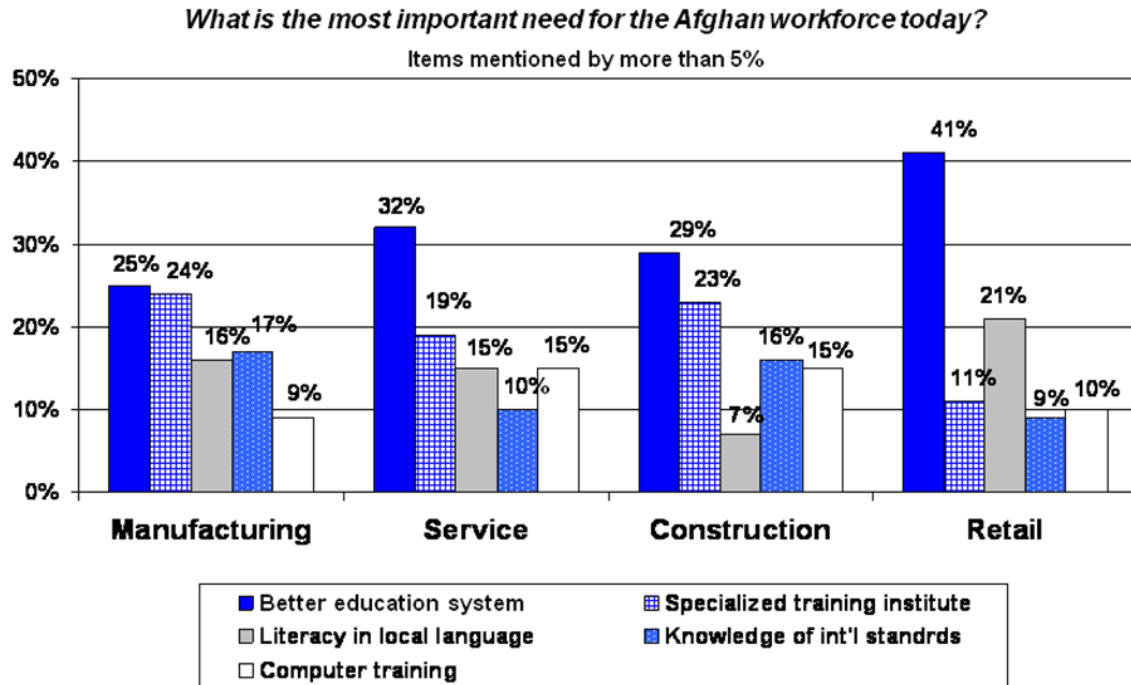
When asked what single government action would be the most helpful to their business, respondents most often point to the reform of customs procedures and duties (22 percent). (See Chart 10.) This was most frequent in the border regions of Kandahar (48 percent) and Khost (41 percent) and among retail businesses (30 percent). The second most cited government action was the unfair competition that results from government officials giving preferential treatment to relatives and friends (18 percent). This was noted particularly among construction firms, the likeliest to bid on official contracts (39 percent, compared to no more than 15 percent in other sectors). Ensuring security (17 percent), finding conducive transit routes (8 percent), facilitating business and trade visas (7 percent), providing accessible credit (6 percent), and reducing unfair competition from the informal sector (6 percent) were further down the list. Responses to a similar question where respondents were asked which three issues the government should prioritize to grow the economy were very similar to those above. (See Chart 11.)

## Chart 11: Business community preferences for government priorities

*Which of the following issues should be among the government's highest priorities in order to promote economic growth and strong private sector? [Up to 3 responses allowed.]*



**Chart 12: Workforce needs**



**Q. 39**

Members of the business community indicate that the greatest need for the Afghan workforce is to improve the educational system (32 percent among all respondents). (See Chart 12, which is disaggregated by sector.) Other needs include the creation of specialized training institutes (19 percent), basic literacy in local languages (14 percent), knowledge of international business standards (13 percent) and computer/software/internet training (12 percent). English-language training (5 percent) and the adoption of better business ethics (3 percent) are less often mentioned.

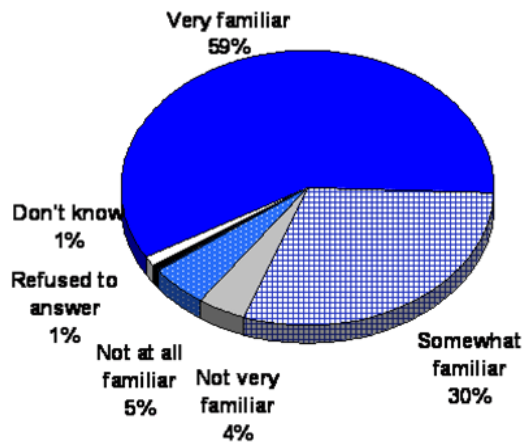
Education and literacy are demanded most by the retail sector and, to a lesser extent, in the service sector, where staff interactions with customers are most important. Construction and manufacturing sectors had almost equally high demand for specialized training institutes.

## Business and Politics

Businesspeople in Afghanistan believe that business has a chance to be an active participant in policymaking. Four in five say that the Afghan business community can influence government policy (43 percent influence very much, 37 percent influence somewhat).

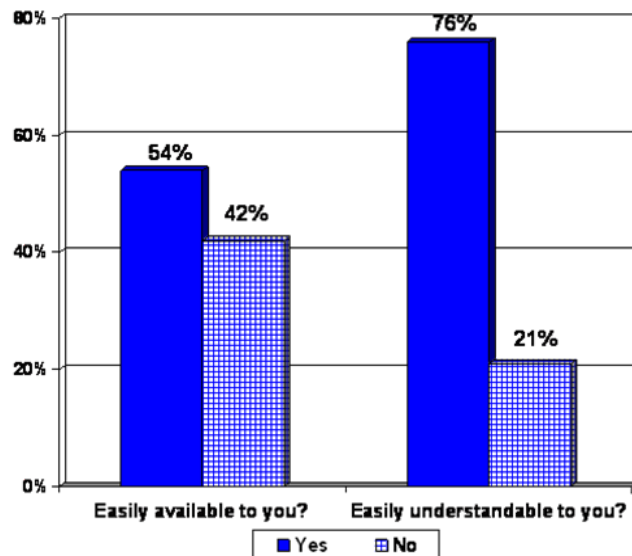
**Chart 13: Familiarity with laws and regulations**

*How familiar are you with the laws and regulations that affect your business?*



Q. 30, 31

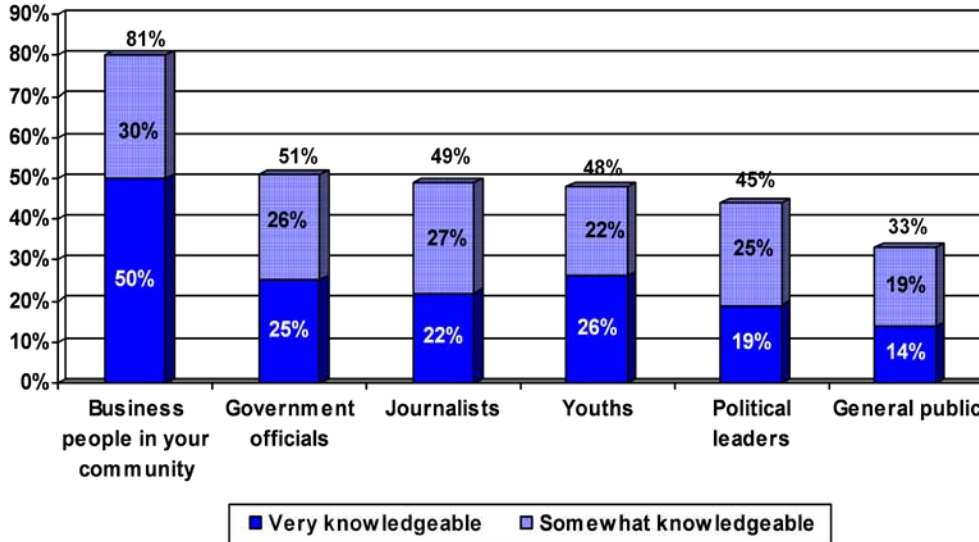
*Are these laws and regulations...*



Nearly all businesspeople (89 percent) say they are generally familiar with the laws and regulations affecting their business (59 percent very familiar and 30 percent somewhat familiar). Large businesses were more likely to say they were very familiar with them than were smaller companies (62 percent vs. 48 percent). While the vast majority of businesspeople say that the laws and regulations affecting their business are easily understandable (76 percent), slightly over half say they are easily available (56 percent). (See Chart 13.)

## Chart 14: Knowledge of general market principles

*How would you rate the knowledge level on general market principles and business practice among the follow groups:*



### Q. 33

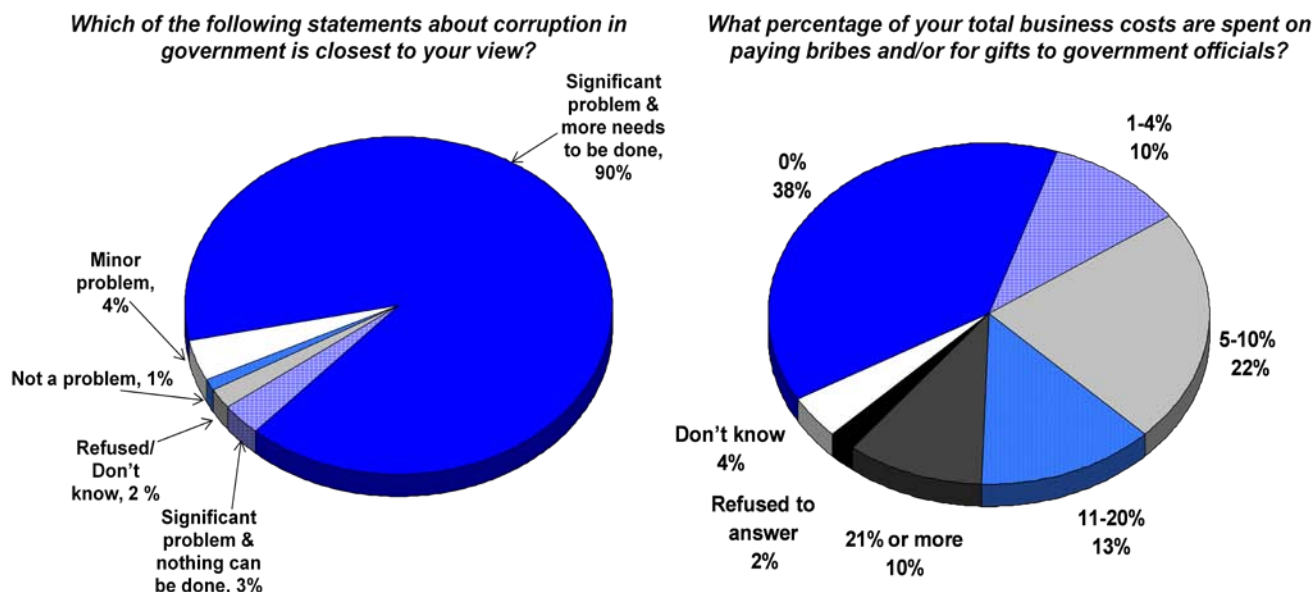
Eight survey respondents in 10 describe the business community as very knowledgeable (50 percent) or somewhat knowledgeable (30 percent) about market principles and business practices. Yet, they are far less convinced that other key players understand these concepts. Only around half of the respondents believe that government officials (51 percent), journalists (49 percent), or youth (48 percent) are knowledgeable about market principles and business practices. Afghan political leaders were rated slightly lower than these groups (44 percent), and only one-third of the businesspeople surveyed think that the general Afghan public is knowledgeable about these matters. (See Chart 14.)

# Corruption

The Afghan business community identifies corruption as one of the most significant obstacles to a healthier business environment and more robust economic growth. It rewards the underproductive and frustrates those who try to play by the rules. It often drives the productive business person or the motivated investor to look elsewhere or simply to sit out. Corruption also undermines confidence in the government’s ability to effectively manage both the government itself and the economy.

Transparency International rated Afghanistan 179 out of 180 countries, making it the second most corrupt country in their 2009 rankings (only “stateless” Somalia was rated more corrupt). The Afghan National Development Strategy acknowledges that corruption is a major impediment to the country’s development. The UN Security Council has also expressed strong concern over the impact corruption has had on “security, good governance, counter-narcotics efforts, and economic development” and called on the Afghan Government to lead the fight against corruption and build a more transparent and accountable administration.<sup>6</sup>

**Chart 15: Views on government corruption and costs spent on bribes**



Q. 45, 46

Nine in 10 businesspeople surveyed agree that corruption is a significant problem and more needs to be done to combat it. (See Chart 15.) One-third (32 percent) of firms report they spent up to 10 percent of total business costs on bribes or gifts to government officials; another quarter (23 percent) paid over 10 percent of their operating costs for illicit payments. Fewer than 4

<sup>6</sup> “Corruption in Afghanistan; Bribery as Reported by the Victims,” UN Office on Drugs and Crime, January 2010.

respondents in 10 (38 percent) say their firms pay no bribes. Variations by sector or city were minor.

These rates of bribery for businesses appear to parallel those of bribe payments among the public at large. According to a UN Office on Drugs and Crime report, one out of every two Afghan citizens pays at least one kickback to a public official.

### Chart 16: Bribes paid and to whom

**Do Afghan business have to pay bribes, unofficial fees or make gifts to operate?**



**If yes, to whom?**

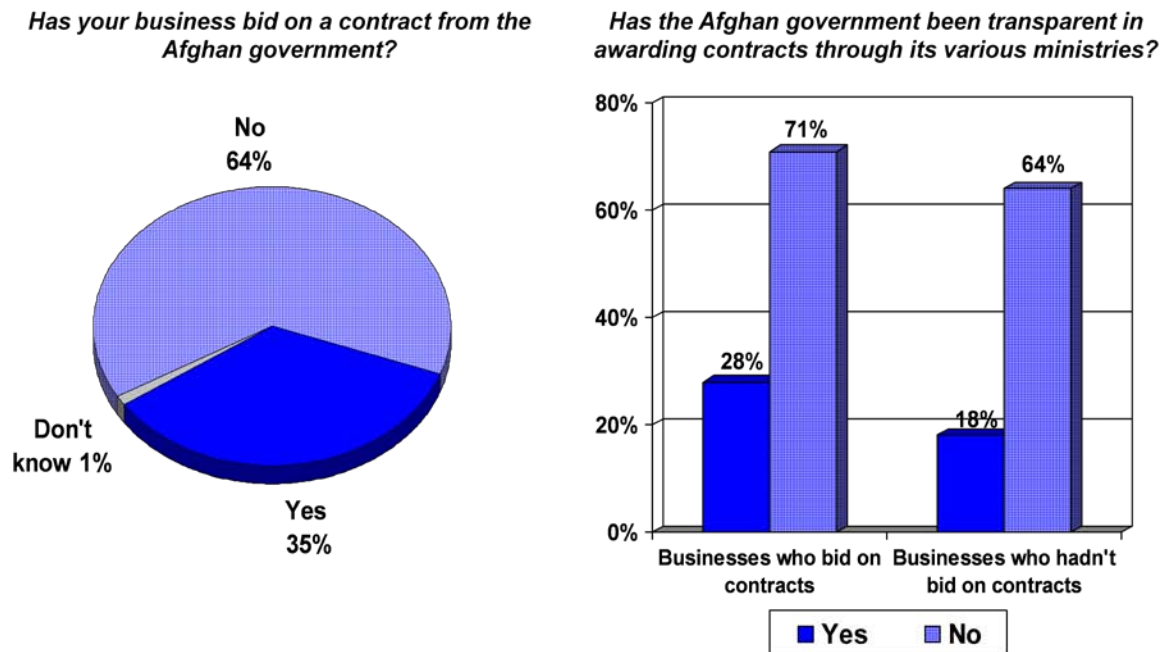
•Local government officials:	41%
•Customs officials:	28%
•National government officials:	26%
•Road police:	23%
•Tax collectors:	22%
•Private representatives of public officials:	17%
•Other security forces:	10%
•Other private individuals:	9%
•Tribal leaders:	8%
•Taliban and other armed groups:	5%

#### Q. 44

According to the roughly half of respondents who say that Afghan businesses have to pay bribes, unofficial fees or gifts to operate, local government officials (41 percent) are most frequently cited for being the recipients of such improper payments or gifts. (See Chart 16.) Those local officials are followed by customs officials (28 percent), national government officials (26 percent), road police (23 percent) and tax collectors (22 percent). After these come officials' private representatives (17 percent), other security forces (10 percent) and private individuals (9 percent), and tribal leaders (8 percent). Just 5 percent of business leaders say they are obliged to pay bribes to the Taliban or other armed groups. There are no significant differences by markets (domestic or foreign) or business sector.

In a separate question, Afghans split on the probity of tax collectors. Only 16 percent businesspeople say that tax collectors are always honest. One-third (32 percent) say they are usually honest. However, the rest say tax collectors are always (20 percent) or usually (27 percent) dishonest. Thus, nearly 8 in 10 (79 percent) say that tax collectors are less than always honest.

## Chart 17: Transparency in government contracting



Q. 41, 40

A key opportunity for corruption in any country lies in the awarding of government contracts. The overall impression among Afghan businesses is that the Afghan Government has not been transparent in awarding contracts through its various ministries. (See Chart 17.) This is true among those who have bid on contracts (71 percent) and those who have not (64 percent). Yet, a majority (58 percent) is surprisingly confident that the new government will be transparent in the coming year.

Only one-third of the businesses surveyed have actually bid on a government contract. However, there are big differences by sector on interaction with government: over two-thirds (69 percent) of construction companies have bid on government contracts, compared to 32 percent of service firms, 28 percent of manufacturers, and just 9 percent of retailers. Firms that have foreign clients are almost twice as likely to have bid as those whose clients are predominantly domestic companies (49 percent vs. 26 percent). Likewise, firms with 6 to 24 employees are far likelier to bid on contracts than the smallest firms with five or fewer employees (42 percent compared to 13 percent).



## Business Organizations

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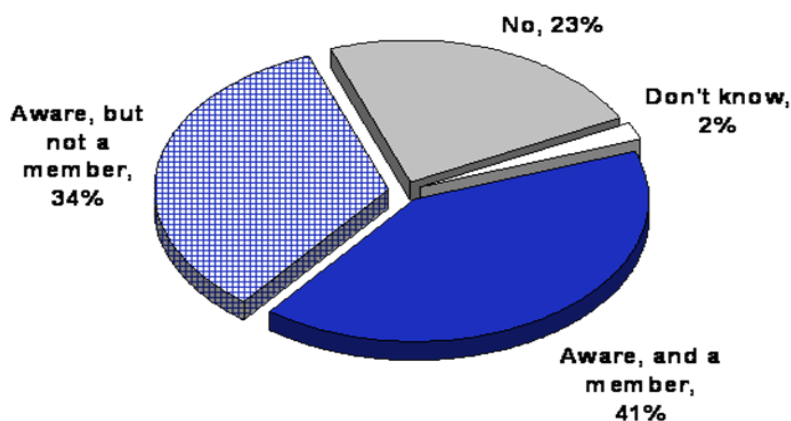
Membership in Afghan business organizations is fairly low. The growth of effective business associations throughout Afghanistan is important for several reasons. Business associations, including chambers of commerce, can provide a variety of services that will help to strengthen the business environment and improve business practices. Business associations can also be valuable suppliers of information and technical skills that boost local business operational capacity. Last, but by no means least, business associations can provide crucial policy guidance and advocacy on behalf of the private sector to government officials and other stakeholders.

While most of the firms surveyed know of business associations and recognize the benefits that they can provide, relatively few actually participate actively in them.

### Chart 18: Awareness and membership of local chamber of commerce

***Are you aware of a chamber of commerce or business association in your area?***

***If yes, is your business a member?***



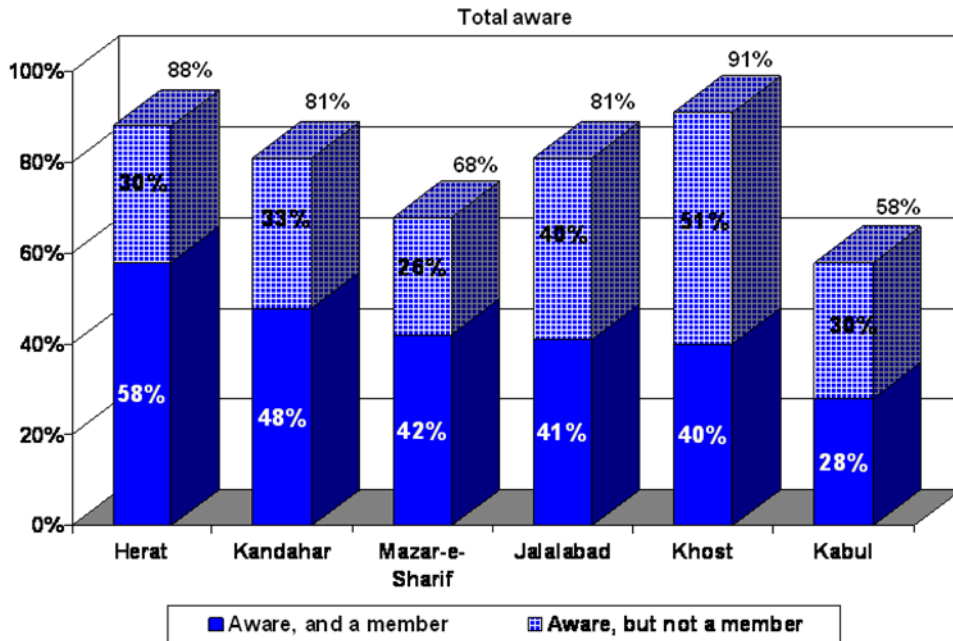
**Q. 47**

Three in four business leaders are aware of a chamber of commerce or business association in their area; however, just 41 percent are currently members. (See Chart 18.)



**Chart 19: Awareness and membership of local chamber of commerce – by city**

*Are you aware of commerce or business association in your area? If yes, is your business a member?*

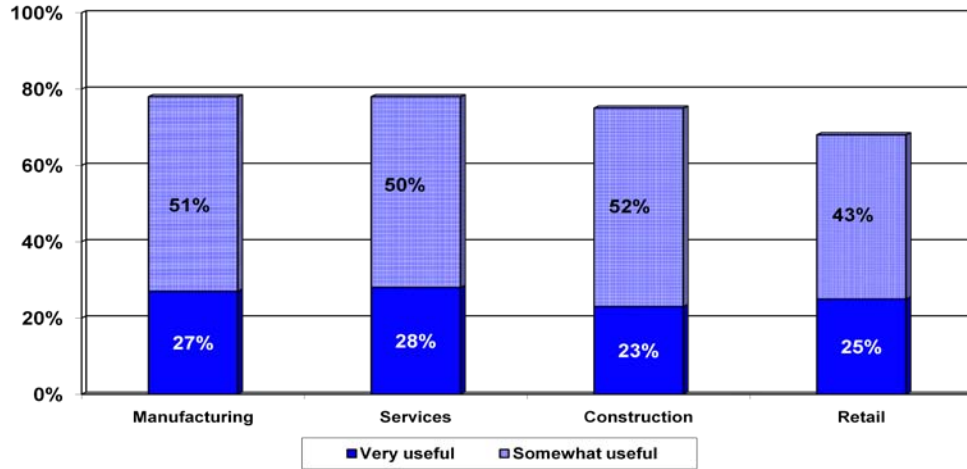


Q. 47

Firms' location, sector, and size all appear to have some bearing on the likelihood of them knowing of or joining business groups. Businesspeople in Kabul are less likely than those in other cities to be aware of such associations (58 percent). Kabul businesses people are also least likely to say that they are members (28 percent), while those in Herat are the most likely to be members (58 percent). (See Chart 19.) Those in retail are less likely to be members of a business association (22 percent) than those in manufacturing (51 percent), services (47 percent), and construction (46percent). Businesses with five or fewer employees are least likely to be members (22 percent, compared to at least 44 percent of larger businesses).

## Chart 20: Perceived utility of business associations

*How useful do you find chambers of commerce and business associations?*



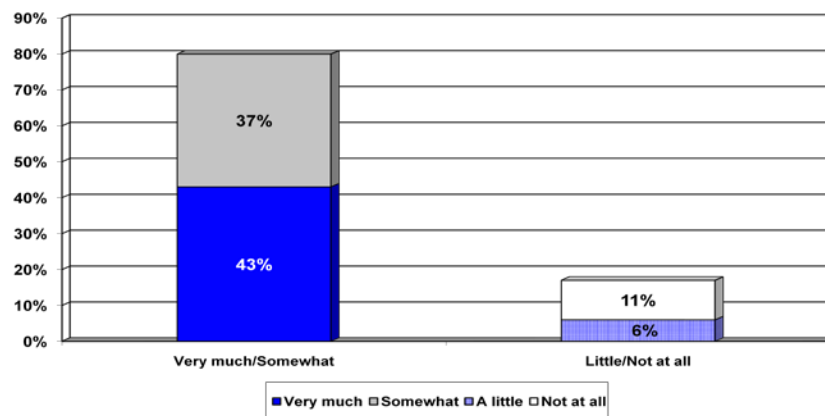
Q. 50

Three-quarters of the Afghan businesspeople surveyed describe chambers of commerce and business associations as useful organizations. (See Chart 20.) However, in a separate question, very few are able to name a *specific* chamber or association as having a significant role in communicating the needs of the business sector to the Afghan Government.

Eight in 10 businesspeople believe that the business community can influence government policy, with 43 percent of all respondents saying that the business community can influence government policy “very much.” (See Chart 21.) Only 11 percent of respondents believed that business would have no influence at all.

## Chart 21: Ability of business community to influence government policy.

*Do you think the Afghan business community can influence government policy?*

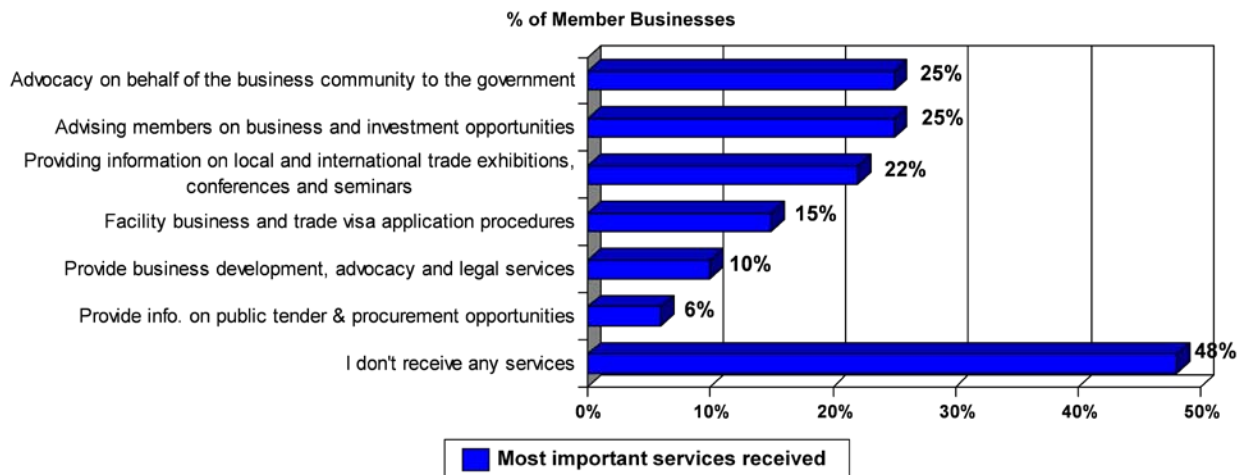


Q. 48

The fact that three-fourths of members are either occasionally, not very often, or never in contact with business associations or chambers of commerce demonstrates the need and opportunity to strengthen their organizational ties by providing more useful services. Nearly half of members report receiving no services. (See Chart 22.) Among those who did report receiving services, the type of services most frequently provided were advocacy (25 percent), advice on opportunities (25 percent), and information about trade exhibitions and conferences (22 percent).

### Chart 22: Most important services provided by business associations

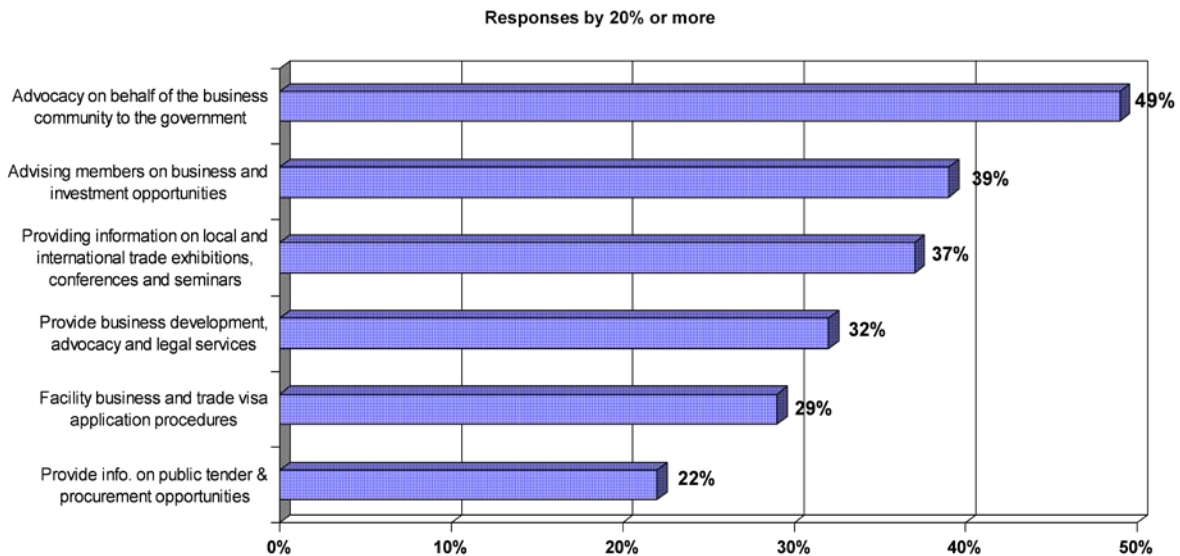
**What are the most important services you get from your chamber of commerce or business association?**



Q. 52

### Chart 23: Most important services desired from business associations

**What are the most important services a chamber of commerce or business association should provide?**



Q. 53

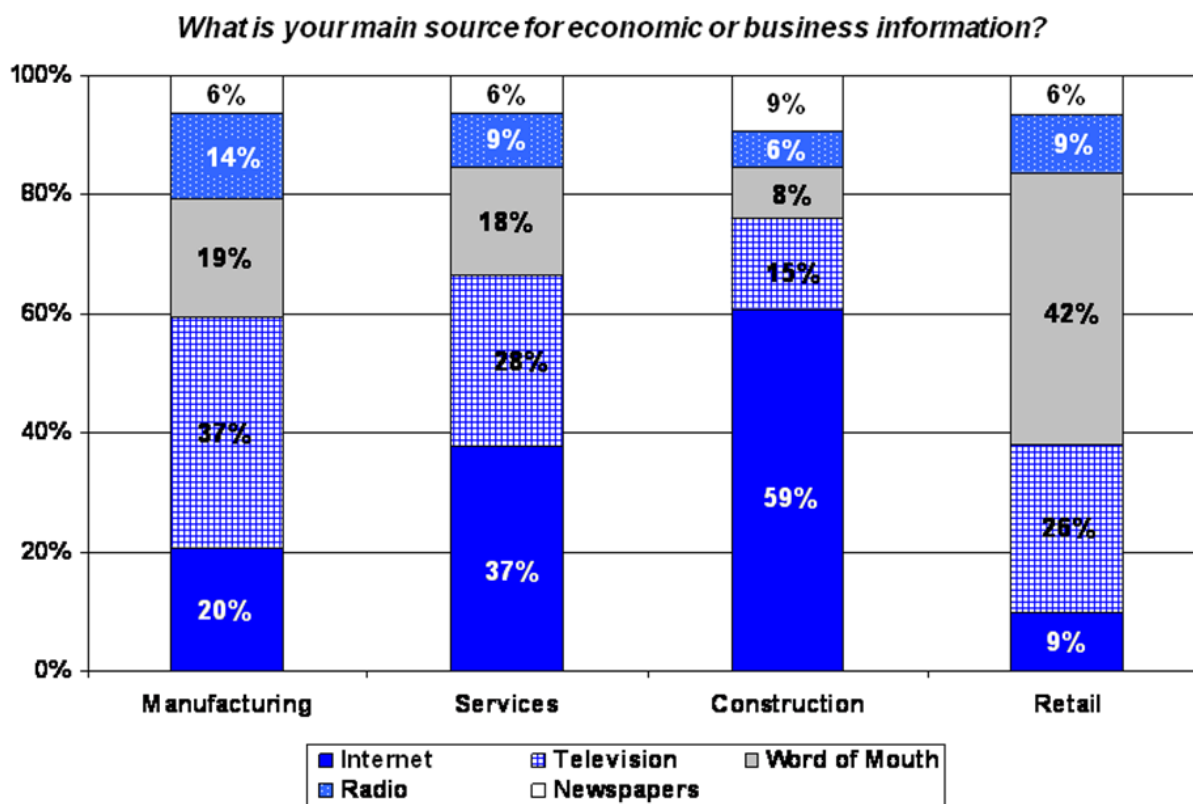
Businesspeople have a clear sense of what services business organizations *should* provide, but most members of these organizations say that they currently do not receive them. (See Charts 22 and 23.)

- About half (49 percent) of all businesspeople surveyed say that the most important service a chamber of commerce or a business associations can provide is to advocate on behalf of businesses to the government. However, only 25 percent of the members surveyed say they currently get this service.
- 4 in 10 (39 percent) say chambers and business associations should advise members on business and investment opportunities, but only 25 percent of current members receive such advice.
- Nearly 4 in 10 (37 percent) businesspeople want such organizations to provide information on trade exhibitions, conferences and seminars, but less than a quarter (22 percent) of members receives such information.
- One-third (32 percent) wants chambers or business associations to provide business development, advocacy and legal services, but only 1 in 10 members say they currently receive this advice.
- 3 in 10 (29 percent) says business associations should facilitate business and trade visa application procedures, but only 15 percent of members receive this service.
- 2 in ten (22 percent) want business associations to provide timely information on public tender and procurement opportunities, while barely 1 in 20 (6 percent) members receive it.

## Media

Communications media in Afghanistan have expanded dramatically since 2002, when 99 percent of the population had no access to telecom services (only five major cities had landline telephone service).<sup>7</sup> At that time, people communicated either face to face or by hand (through letters and notes). Information from outside Afghanistan came largely from foreign and shortwave radio broadcasts. Since then, mobile phone companies, the Internet, radio stations, and television channels have begun operating in the country.<sup>8</sup>

**Chart 24: Main source for economic and business information**



### Q. 54

Afghan businesses primarily rely on electronic media – the Internet (32 percent) and television (26 percent) – as sources of economic and business information. (See Chart 24.) Slightly fewer use radio (9 percent) and print media (7 percent newspaper, 1 percent magazine/journal). Around 22 percent still rely on word of mouth.

Internet is the most widely used information source by the construction (59 percent) and service (37 percent) sectors. Television – which is received mostly in the larger towns – is the primary

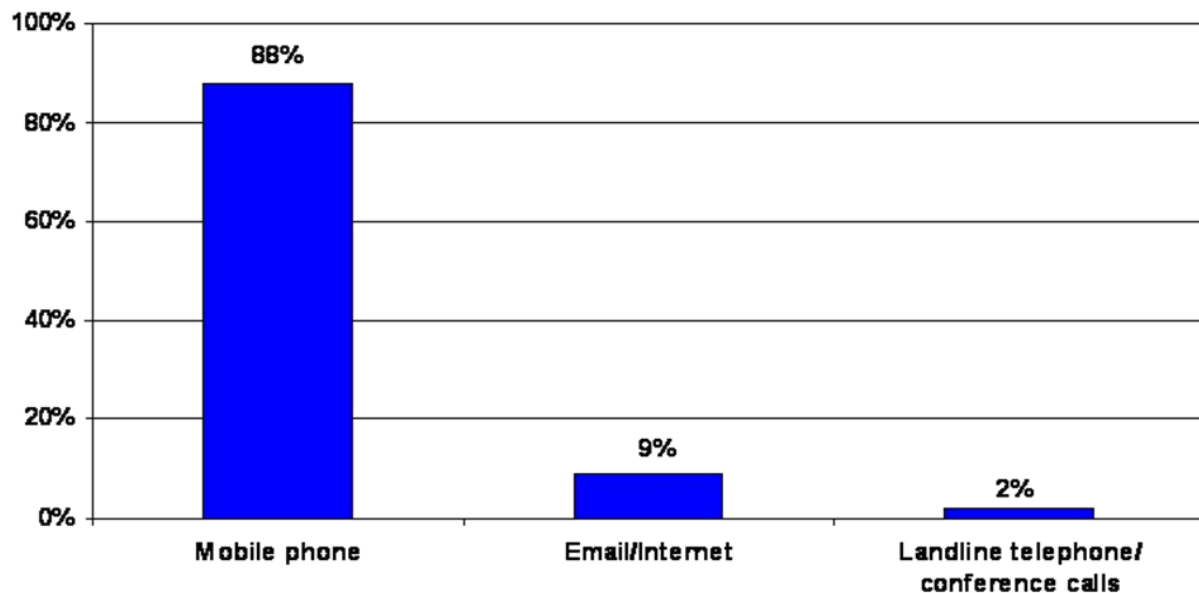
<sup>7</sup> World Bank International Development Agency website; see [go.worldbank.org/6PS0LEHYN0](http://go.worldbank.org/6PS0LEHYN0).

<sup>8</sup> A December 2009 ABC News survey in Afghanistan reported that 60 percent of all Afghan households now have a cell phone. ABC News/BBC/ARD poll. “Afghanistan: Where Things Stand.”

medium for manufacturing (37 percent). Word of mouth is still the most widely used information source for the retail sector (42 percent). Television ranks as the second most widely used source of information for all sectors except manufacturing.

### Chart 25: Most common means of communication

*Which of the following means of communication is used most often by your company to do business?*



#### Q. 55

Mobile phones are the main way Afghan business communicates with clients and vendors. (See Chart 25.) As late as 2001 under Taliban rule, there were no mobile phones and only about 40,000 landlines, mostly in Kabul.<sup>9</sup> Today, mobile phones are in overwhelming use among Afghan businesses; 88 percent say they use their mobile phones most often to communicate for their operations, while just 1 in 10 uses e-mail.

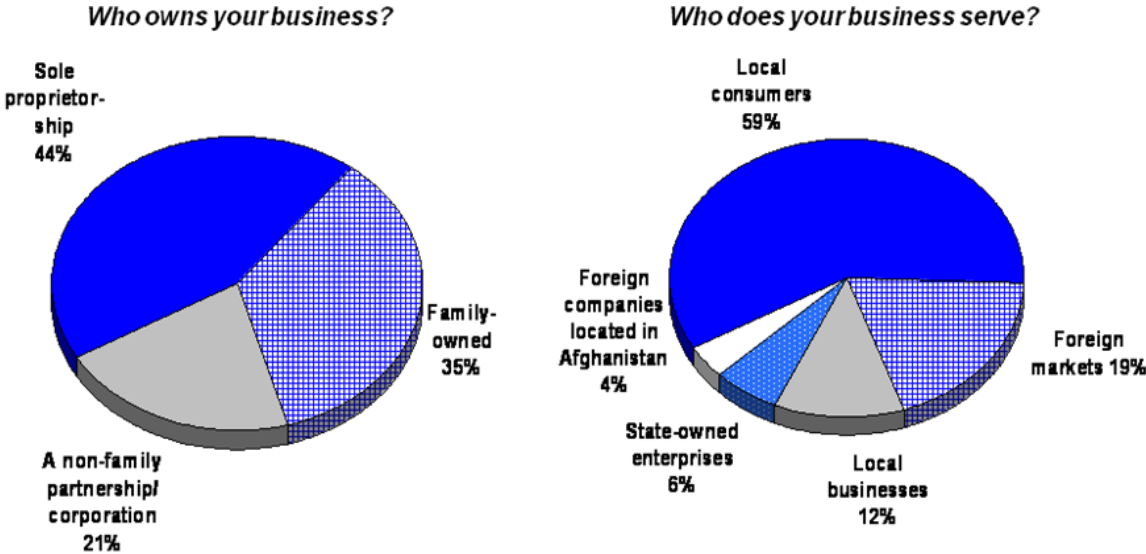
<sup>9</sup> Beam, Christopher, "Does Afghanistan Have Phone Books?" *Slate Magazine*, February 12, 2010.

# Appendix I: Business Profile

This appendix provides demographic details for the Afghan firms in our survey.

Most of the businesses in this survey are either sole proprietorships (44 percent) or family-owned (35 percent) companies. (See Chart 26.) Just 2 in 10 (21 percent) of those firms surveyed are non-family partnerships. Retail businesses are most likely to be sole proprietorships (61 percent).

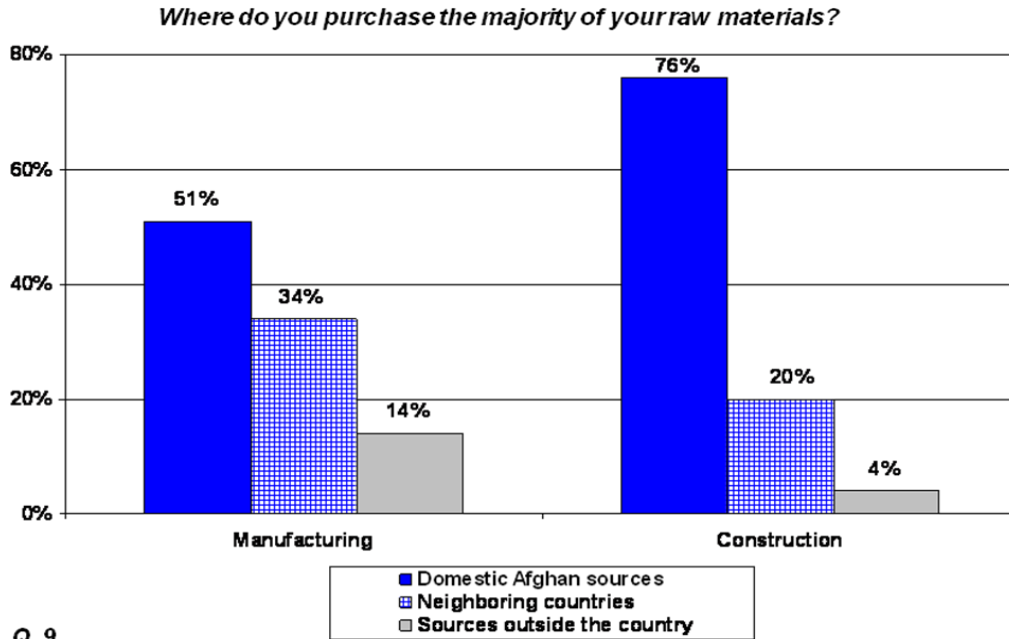
**Chart 26: Business ownership and market**



Q. 10, 11

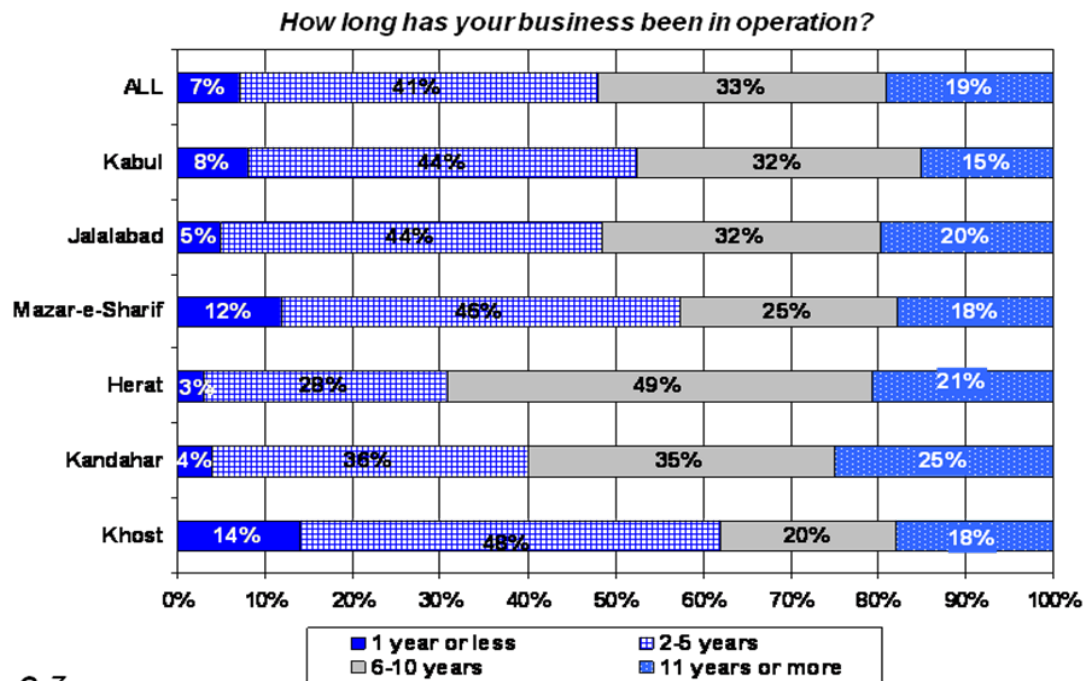
A clear majority of the businesses interviewed serves local Afghan consumers (59 percent), while a smaller number (12 percent) serves local businesses (12 percent). Roughly one-quarter has a foreign customer base, either foreign markets (19 percent) or foreign companies working in Afghanistan (4 percent). An additional 6 percent sell to state-owned enterprises. Construction companies are more likely than other sectors to have foreign “clients” – be it markets outside the country or companies in Afghanistan.

**Chart 27: Source of raw materials**



Construction and manufacturing companies mainly use local sources. (See Chart 27.) Manufacturing companies also use neighboring countries for some materials. (This question was not asked among businesspeople in the other two business sectors).

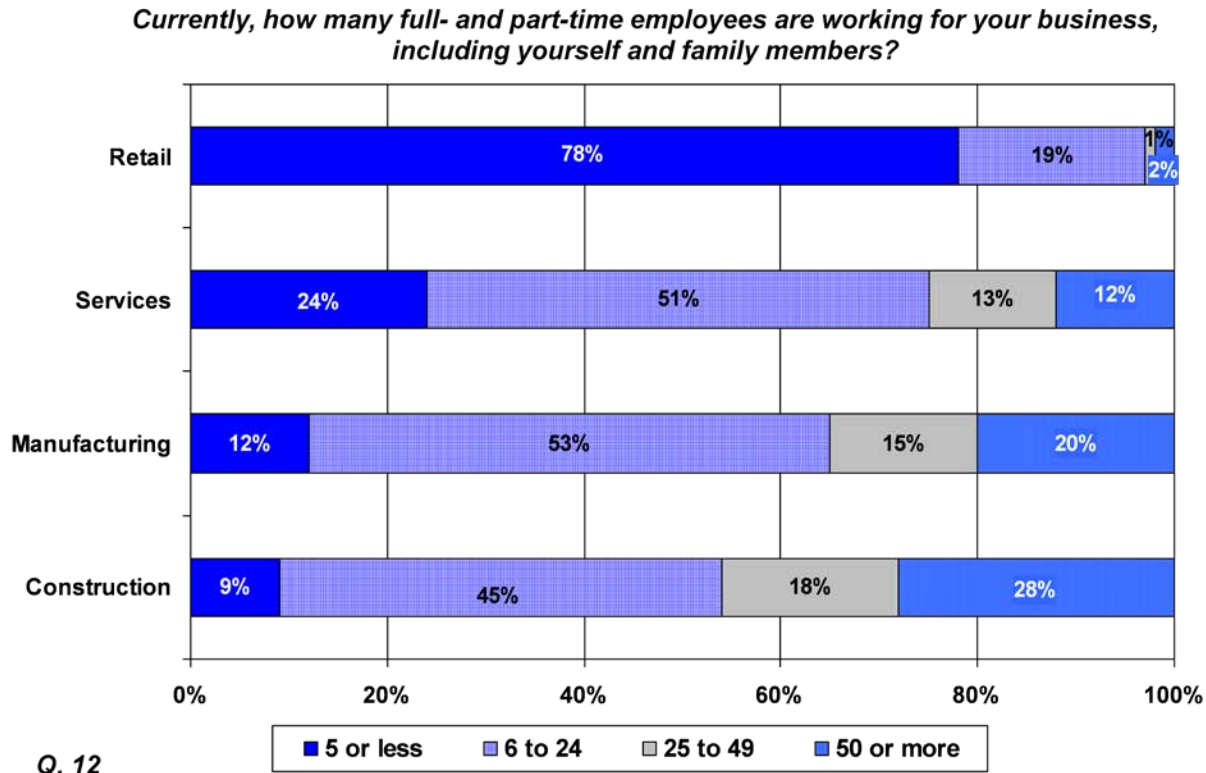
**Chart 28: Business age**





Almost half the firms whose leaders were surveyed are five years old or less and 7 percent were established in the past year. (See Chart 28.) Businesses in Herat and Kandahar have been operating longer than in other cities, while the newest firms are to be found in Khost and Mazar. Construction businesses are the most recently established companies: 62 percent have been founded in the past five years, compared to 48 percent in services, 44 percent in manufacturing and 41 percent in retail.

**Chart 29: Business size: number of employees**



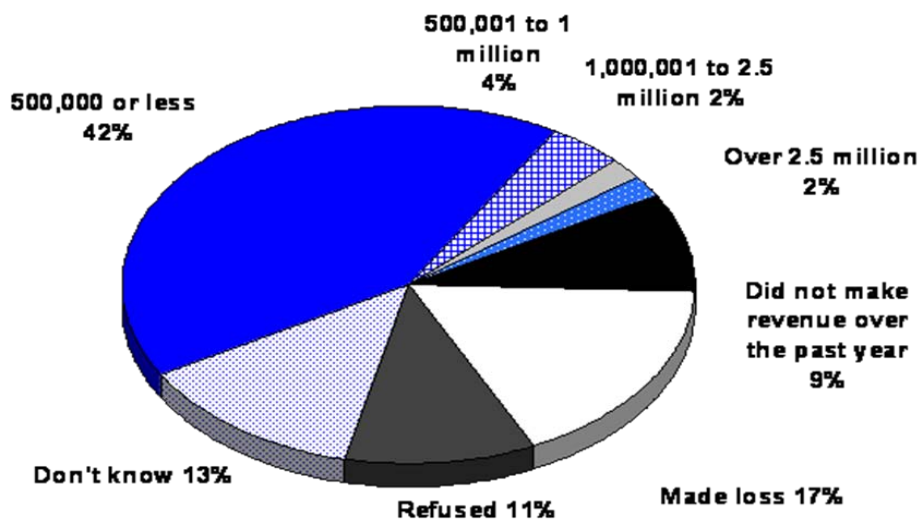
Most of the firms surveyed are small. Almost three-fourths (73 percent) of the businesses have under 25 workers and 3 in 10 (31 percent) have five or fewer employees. Just over two in five (42 percent) of firms surveyed in the study employ between 6 and 24 workers. There are major differences in firm size by sector. (See Chart 29.) Retail businesses are much more likely to employ five or fewer, with nearly four in five (78 percent) in this smallest category. Construction companies are most likely to have a greater workforce, with 43 percent employing more than 25. The same is true for 35 percent of the manufacturers surveyed.

Afghan businesses have few women employees. The greater the size of the firm, the more likely it is that they employ women – although even then the likelihood remains low. Among businesses with 50 or more staff, 12 percent of employees were women, the highest proportion in the survey. Among firms with 6 to 49 workers, 6 percent were female, while only a single firm with five or fewer employees employed a woman. Women workers were least common in retail businesses, whatever their size.

Business owners are also overwhelmingly men in Afghanistan. Only 3 percent of all the registered businesses in this study are owned by women. Of this very small group, however, two-thirds had 25 workers or more.

### Chart 30: Business revenue

*What is the annual revenue of your business over the past year?*



#### Q. 56

In terms of gross revenue, only 8 percent of all businesses surveyed grossed more than 500,000 Afghanis a year (roughly equivalent to \$10,000). Of the rest, 42 percent of companies earned 500,000 Afghanis or less, 17 percent reported losses for the year, and 9 percent reported no earnings. Another quarter did not respond to the question (11 percent refused, while 13 percent said they did not know their firm's revenue). (See Chart 29).

# Appendix II: Methodology

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This appendix provides details on the roles of the organizations involved and the survey methodology used in this study.

## Sample size

The overall sample size is 738. Respondents were recruited with a screening questionnaire that targeted individuals who are key decision-makers, within the firm contacted, in dealings with banks, businesses, and other government agencies. Any enterprises that were government-owned or non-governmental organizations were excluded from this sample. Agricultural enterprises were also excluded from the survey, because they are not a priority sector for CIPE and would have formed the bulk of the representative sample if included, given the size of the rural and agricultural sectors in the economy. Businesses that dealt with distribution or processing of agricultural products, however, were included.

## Location

The survey sample was designed to focus on areas with the greatest concentration of the population and private sector activity. It covered the following cities with their respective subsamples:

<b>Herat</b>	111
<b>Jalalabad</b>	123
<b>Kabul</b>	204
<b>Kandahar</b>	102
<b>Khost</b>	85
<b>Mazar-e-Sharif</b>	113

Khost had a very small pool of businesses on the lists from which the sample was drawn. As a result, we decided to undersample in this city rather than resort completely to the ‘snowball’ method (see end of methodology section for explanation). Even with undersampling, Khost was the only city where more than half (58 percent) of the sample was selected using snowballing.

## Sampling

The population surveyed was formal businesses recruited using member lists from the following government and business umbrella organizations:

- Afghanistan Chamber of Commerce and Industries (ACCI), provided by CIPE
- Afghanistan Investment Support Agency (AISA), provided by CIPE
- Peace Dividend Trust (PDT), obtained by Altai.

ACCI is the main national apex business association in Afghanistan. PDT is a non-profit that encourages the international community and foreign aid organizations to use local sourcing in their operations. AISA is an Afghan Government agency. For businesses to be a part of ACCI and PDT, they also have to be registered with AISA. However, since AISA lists are not always current or complete, ACCI and PDT lists were also used for recruitment.

To ensure that all core business sectors were included in the sample, a random stratified approach was used. Originally the sample was divided equally into four equal sized sectors (manufacturing, retail, construction, and services) as used for the World Bank Investment Climate Survey in 2008. The chart below shows this along with the final sample sizes used.

	<b>Overall percent</b>	<b>Total Interviews</b>
<b>Manufacturing</b>	25 percent	173
<b>Services</b>	25 percent	183
<b>Construction</b>	25 percent	192
<b>Retail</b>	25 percent	190

The methodology used did not assign a quota by the size of the business, but instead relied on random sampling to account for companies of all sizes.

The chart below outlines the sectoral composition of the sample in each city, which remained fairly close to the initial quotes.

<b>City</b>	<b>Manufacturing (percent)</b>	<b>Services (percent)</b>	<b>Construction (percent)</b>	<b>Retail (percent)</b>	<b>Total Interviews</b>
Kabul	24	26	25	25	204
Khost	9	31	31	29	85
Kandahar	25	25	25	25	102
Balkh	30	24	22	24	113
Herat	30	23	24	23	111
Jalalabad	20	21	31	28	123
<b>Total Interviews</b>	<b>173</b>	<b>183</b>	<b>192</b>	<b>190</b>	<b>738</b>

Within each stratum, random sampling was applied to the merged ACCI, AISA, and PDT lists in order to achieve a representative sample of the various types of businesses.

## **Limitations**

2. Random sampling was used in 86 percent of interviews for the manufacturing sector, 79 percent of interviews for the services sector, 98 percent of interviews for the construction sector, and 14 percent of those in the retail sector. It should be noted that the retail sector, composed mostly of small shops and other retail outlets, had a relatively small representation in these three lists, and therefore the majority of retail businesses in the sample were found through the snowball method. This is likely to reflect the high proportion among retailers of unregistered firms who were excluded from this survey. All retail outlets where business people were interviewed were officially

registered with government institutions (usually the local municipality). Snowball sampling was also used in the manufacturing, services, and construction sectors, where much higher proportions of firms are registered, only once the three lists had been completely exhausted. The chart below provides a summary of this data.

	<b>Manufacturing</b>	<b>Services</b>	<b>Construction</b>	<b>Retail</b>
Business found through snowballing	25	39	3	164
percent of total sample	14 percent	21 percent	2 percent	86 percent

3. Khost had a particularly small pool of businesses available through the three lists due to its unique circumstances. Though its registered business sector is small, it was included in the survey because it has a relatively well-educated population with one of the best universities outside of Kabul. After using the snowball method for a proportion of the businesses, it was decided to under-sample in this city rather than continue to the snowball method for most of the total sample.

4. The snowball method that was used involved the interviewers selecting a retail establishment (or one from the other three sectors where appropriate) at random in the city in areas they were already conducting interviews in other sectors. For example, for each interview conducted, the interviewer randomly selected a close-by retail business. Only businesses that were formally registered with a government institution (AISA or the local municipality) were used for interviews.



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*For more information, contact:*

Center for International Private Enterprise  
1155 15th Street, NW, Suite 700  
Washington, DC 20005  
USA  
ph: (202) 721-9200  
fax: (202) 721-9250  
[www.cipe.org](http://www.cipe.org)  
[cipe@cipe.org](mailto:cipe@cipe.org)

Charney Research  
1133 Broadway, Suite 1321  
New York, NY 10010  
USA  
(212) 929-6933  
[www.charneyresearch.com](http://www.charneyresearch.com)  
[hailey@charneyresearch.com](mailto:hailey@charneyresearch.com)

*Contributors:*

Center for International Private Enterprise:

John D. Sullivan, Ph.D.  
Andrew Wilson  
Gregg Willhauck  
Mohammad Nasib  
Mohammad Naim  
Tim Wallace

Charney Research:

Craig Charney  
Dina Smeltz  
Justin Gale  
Hailey Davis

Altai Consulting:

Sarah-Jean Cunningham