



# Business Climate Survey

June 2020

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*This survey is conducted by the Afghanistan Chamber of Commerce and Investment with technical support from the Afghanistan Investment Climate Program AICP, which is administered by Harakat – Afghanistan Investment Climate Facility Organization (H-AICFO). H-AICFO is funded by the UK through the Department for International Development (DFID) and Sweden through the Swedish International Cooperation Agency (SIDA). The views, expressed in this report, do not necessarily reflect the views of DFID or Her Majesty Government and SIDA or the Government of the Kingdom of Sweden.*

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# ABOUT

## **Afghanistan Chamber of Commerce and Investment (ACCI)**

The ACCI has 88 years of history serving the private sector in the country. The Regulatory Law for ACCI was developed and ratified in 2019. The law defined ACCI is an independent, non-governmental, non-political, and none for-profit entity. It was the desired step to improve collaboration between the private sector and the Government of the Islamic Republic of Afghanistan (GIROA) to create a fair-trade environment for the private sector across the country. ACCI has more than 23,500 active members and has 281 associations, unions, and cooperatives as organizational members throughout the country.

The ACCI through its Head Quarter in Kabul and provincial offices in 25 provinces and two districts deliver services to the private sector. Nowadays, the ACCI via its unique position is endeavoring to institutionalize the economic reform and development in the country. We support the private sector to achieve their goals by playing the role of a bridge connecting the public sector, investors, donors, media outlets, and foreign partners with each other.

We cooperating with the GIROA in the process of formulating economic policies by providing necessary and constructive advice to the GIROA officials, taking into consideration strategies to increase GIROA revenues, safeguarding the interests of the private sector and the purchasing ability of the public. In order to expand the trade and investment opportunities, the Chamber is going to undertake a number of programs for valuing domestic products and introducing new markets to increase trade in the country. By expanding its relations with the international partners, the Chamber will secure the conditions for the private sector community to have access to important international information.

## **About Harakat – Afghanistan Investment Climate Facility Organization (H – AICFO)**

H-AICFO is an independent, Afghan run, Afghan-led and Afghan-owned entity registered with the Ministry of Economy, GIROA. It has its own operating policies and procedures. The executives at Harakat develop policies and the Harakat Board enact them all before they become operational.

DFID set Harakat up and funded 100% of the set-up costs in 2008. DFID was the solitary donor of Harakat and funded both its running and program cost from 2008 to June 2016 through a £30mn Afghanistan Investment Climate Facility (AICF) program, which delivered positive results. H-AICFO is a non-profit organization working to make it easier to do business in Afghanistan. The organization works closely with government, civil society and private sector partners.

Harakat follows on the successes of Harakat Afghanistan Investment Climate Facility, a program funded by the UK Department of International Development (DFID) from 2009-2016. This program's 36 projects laid the foundation for a better business environment in Afghanistan. H-AICFO mission is to increase private sector investment and economic growth in Afghanistan. Its vision is making Afghanistan's business environment transparent, predictable, easy to comply with, provides equal opportunities and encourages fair competition.

## **EXECUTIVE SUMMARY**

Since 2012, the ACCI has been conducting the Business Climate Surveys and Business Barriers Surveys. The second-quarter survey of 2020 is being conducted quarterly to assess the existing business status and its future expectations in the country. Data and facts obtained from the companies are being shared with decision-

makers, trade forums, and other beneficiaries. The second-quarter survey of 2020 has been conducted with the financial and technical support of H – AICFO. This survey has a particular focus on assessing the COVID-19 effects on the private sector and their business activities using specific indicators.

The Business Statue Survey in the second quarter of 2020 shows that the COVID-19 pandemic, unfortunately, had a profound effect on the Afghan private sector activities. As a whole, the overall business conditions that have been calculated based on the current ratio of the business and the future expectations from the Afghan private sector (based on the arithmetic ratio) has been (-14). The COVID-19 pandemic has been having a severe impact on the following sector respectively: Trade sector (-25), services (-19), manufacturing (-12), constructions (-11) and agriculture (-3.1). Geographically, Kabul was rated (-21), Balkh (-17), Herat (-14), Nangarhar (-7.1) and Kandahar (-5.3).

The key finding of the study includes:

- The COVID-19 condition has deteriorated business confidence compared to the same quarter of last year, but their expectations to improve business activities have raised for the next six months;
- Due to COVID-19, the number of orders and sales have declined significantly in the country, as the figures show, the lowest rates comparing to the previous years is in Balkh province (-89.56), and Herat province (-84.35). In general, it shows a frustrating situation comparing to the same period of last year;
- According to the data gathered, COVID-19 has affected businesses differently, the extent of its impact on small-scale business is (-19) and on large-scale business is (-7.5). The figures show a negative trend comparing to the same period last year.
- Unemployment had drastically increased. The construction sector has the highest unemployment rate (-80.95) and trade (-60) has the lowest unemployment rate in terms of sectorial ranking. The agriculture sector with a rate of (5.9) has the highest expectations of the employment post-COVID-19 and construction sector with a rate of (-8.6) which is a considerably improved expectation but still with the negative trend.
- Recommendations of the private sector to bring back the activities rapidly to normal post COVID-19 are security and administration reforms. In addition, they have stated that access to market and loans remain the main of the two largest challenges.

## **1. INTRODUCTION**

This study, which is conducted, with the technical and financial support of H – AICFO, Focuses on the impact of COVID-19 on businesses, the current business climate, and the expectations of the business climate in Afghanistan for the next six months. In order to analyze the ongoing situation of the private sector and determining the impacts of COVID-19 on the business, the current situation is compared to the same period of last year, we conducted in-depth study of the impact of the COVID-19 on five sectors (Trade, services, agriculture, construction and Manufacturing) on Small-Medium and Large Enterprises in five zones (Kabul, Herat, Balkh, Nangarhar, and Kandahar). We analyze the extent of the impact of COVID-19 on private sector activities and their future expectations based on five indices (decrease in employment due to COVID-19, the expectation of an increased employment post-COVID-19, decrease in orders and sales due to COVID-19, the current business climate, and factors that affect private sector activities post COVID-19).

Since the prime objective of the ACCI and H – AICFO is to support the private sector to create a safe environment for attracting in-ward investment (domestic and foreign) into Afghanistan. The two organizations,

therefore, studied the investment climate and the impact of COVID-19 on businesses and propose recommendations to the GIROA and its international society in that regard.

## **2. DESIGN OF STUDY**

It's well known that the COVID-19 pandemic has negatively impacted businesses around the world, but the extent of the impact differs from one country to another. In developed countries where they have online markets, developed financial markets, good political and security situations, and the private sector has the support of their governments the extent of this impact is much lesser than the Least Developed Countries (LDCs). Obviously, Afghanistan is more vulnerable comparing to regional and other developed countries and the impact of COVID-19 severe.

## **3. OBJECTIVE OF THE STUDY**

The main objectives of this study are as follow:

1. Measuring the impact of COVID-19 on the current situation of the private sector in Afghanistan;
2. Identifying main barriers of international and domestic investments in Afghanistan and determining the main challenges and problems ahead of Afghanistan private sector development;
3. Identifying the main problems of Afghanistan private sector since spreading of COVID-19 and beginning of quarantines in regional and abroad countries;
4. Sharing main suggestions of Afghanistan private sector for improving the business enabling environment and the investment environment in Afghanistan;
5. Sharing findings of this study and survey with relevant Afghanistan authorities, international society in order to overcome the obstacles and barriers to unlock investment opportunities and improve the investment climate.

## **4. SCOPE OF THE STUDY**

The scope of this study is to:

According to Issue: Identify the current climate of business and the impact of COVID-19 on it;

According to Finance: this study is conducted with the financial support of HAKARAT organization;

According to Covered locations: focus on five zones (Kabul, Herat, Balkh, Nangarhar, and Kandahar);

Time-bound: the study is focusing on 2nd quarter of 2020;

Scope of findings:

- To determine the extent of unemployment due to COVID-19;
- To determine the extent of the decrease in orders and volume of sales: and
- To identify the expectation of the private sector post-COVID-19.

## **5. LIMITATION OF THE STUDY**

It's obvious that every study has some limitations and this study is not an exception, so this study had some limitations too, which are:

1. This study is conducted through phone calls;
2. It's obvious that education level of Afghan businessmen is not at the level of developed countries, hence they are not able to provide sufficient answers for the questions asked;
3. Most of the Afghan businessmen were infected by a COVID-19, so usually, their assistant answered the phone call and responded to our questions;
4. The timeframe was limited;
5. Limitation of the area of the study (taking in to account the feasibility of the study, it was conducted only on five zones Kabul, Herat, Balkh, Kandahar, and Nangarhar);

## **6. DATA COLLECTION & METHODOLOGY**

During this survey, 705 firms in three different scales from five zones, which were selected purposively are surveyed through telephonic communication. Before the interview, the respondents were developed with interview duration to provide a brief introduction to the study objectives and purpose. Before conducting the study, the respondents were informed about the interview along with the interview duration which was about 30 minutes through email and telephonic communication. In this survey, a data collection tool (questionnaire forms) developed and included with the open-ended and close-ended questions to get more insights of respondents. After completion of interviewed the Collected data is analyzed by research and survey software in correspondence with the set objectives, and finally, the key results and findings of the survey will be shared with the government of Afghanistan, civil society, and international partners to address the barriers of investment in the country and contribute to relevant government policies.

## **7. RESEARCH DATA**

The data used in this study (research) is primary data which is collected through ACCI surveyors from five zones (Kabul, Herat, Balkh, Kandahar, and Nangarhar) within five sectors (Production, trade, services, construction, and agriculture) at three scales (Large, Medium, and Small). This data is from the second quarter of 2020, and it is analyzed by an ACCI designed model, to find out the relationship between COVID-19 and Afghan business climate. Findings of the survey are deemed credible and vital and can be used in developing governmental policies, international partners and all relevant partners of this survey.

## **8. RESEARCH AREA**

It's well accepted the survey is limited to a geographical area which is called the Research area. The research area of the beforehand survey is limited to five zones including, Kabul, Herat, Balkh, Kandahar, Nangarhar and five sectors including, Manufacturing, Trade, Services, Construction and Agriculture.

## **9. SAMPLING**

Considering the research area and the feasibility of the study, sampling of this research limits to a total number of 705 firms of small, medium and big scale, from which 245 are from Kabul, and 115 companies from each zone. Details are shown in the following table:

*Table 2: Sample size based on province and sector*

Sectors	Kabul	Balkh	Herat	Kandahar	Nangarhar
Manufacturing	65	25	25	25	25
Construction	45	15	15	15	15
Services	45	25	25	25	25
Trade	45	25	25	25	25
Agriculture	45	25	25	25	25

Findings of the research from the conditions of the business during COVID-19 pandemic

## 10. THE CONCEPT & NATURE OF BUSINESS CLIMATE

The business climate is an indicator for GDP growth tendencies. Usually, this indicator predicts the changes in GDP level for a few of the next months, provided that there won't be any unpredictable changes during this period on the general state of the economy.

The business climate indicator is based on the judgment of companies' officials about the statue of business and their trade expectation for the next six months, which is calculated in accordance with the accepted standardized international formula (for more information on this please refer to the annex attached at the end of this report).

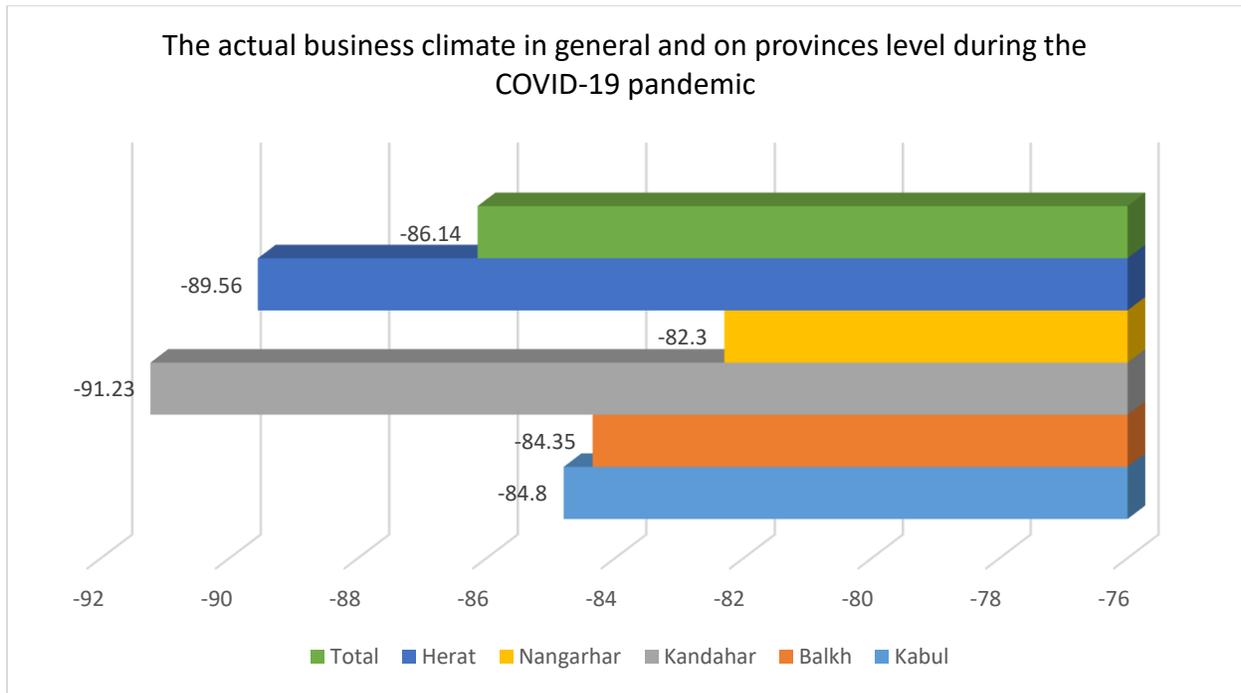
The price range of these indicators are between plus 100 and minus, while zero is known as a normal concept and from zero to plus100 it is considered as a positive business climate and from zero to minus100 it is considered as a negative climate of the business.

### 10.1 EXAMING THE SEVERING EFFECTS OF COVID-19 ON BUSINESS IN AFGHANISTAN

#### 10.1.1 General Conditions of Business and Business Conditions for each Province during COVID-19 Pandemic

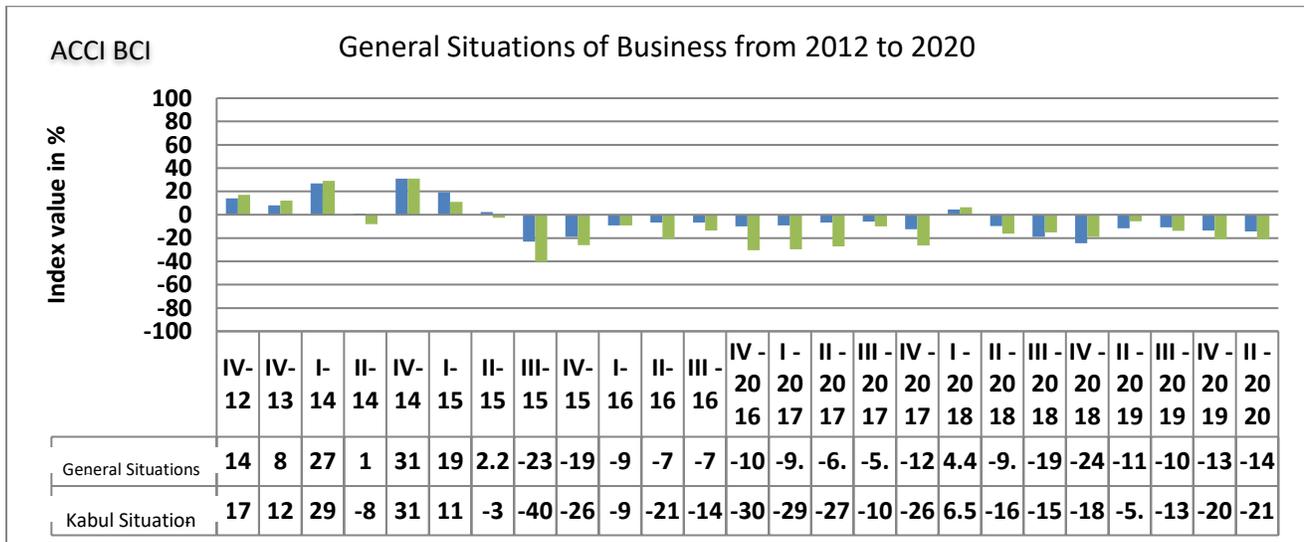
The result of the Business Climate Survey conducted by ACCI with the financial cooperation of HAKARAT shows that the business climate during the COVID-19 pandemic (2<sup>nd</sup> quarter of 2020) was valued at -86.14 points, which represents the worst business climate during the last six years. Besides, on the provinces level, Kandahar with having -91.23 points and Nangarhar with having -82.3 points, respectively represents the worst and best business climate.

*Figure 1: The actual business climate in general and on provinces level during the COVID-19 pandemic*



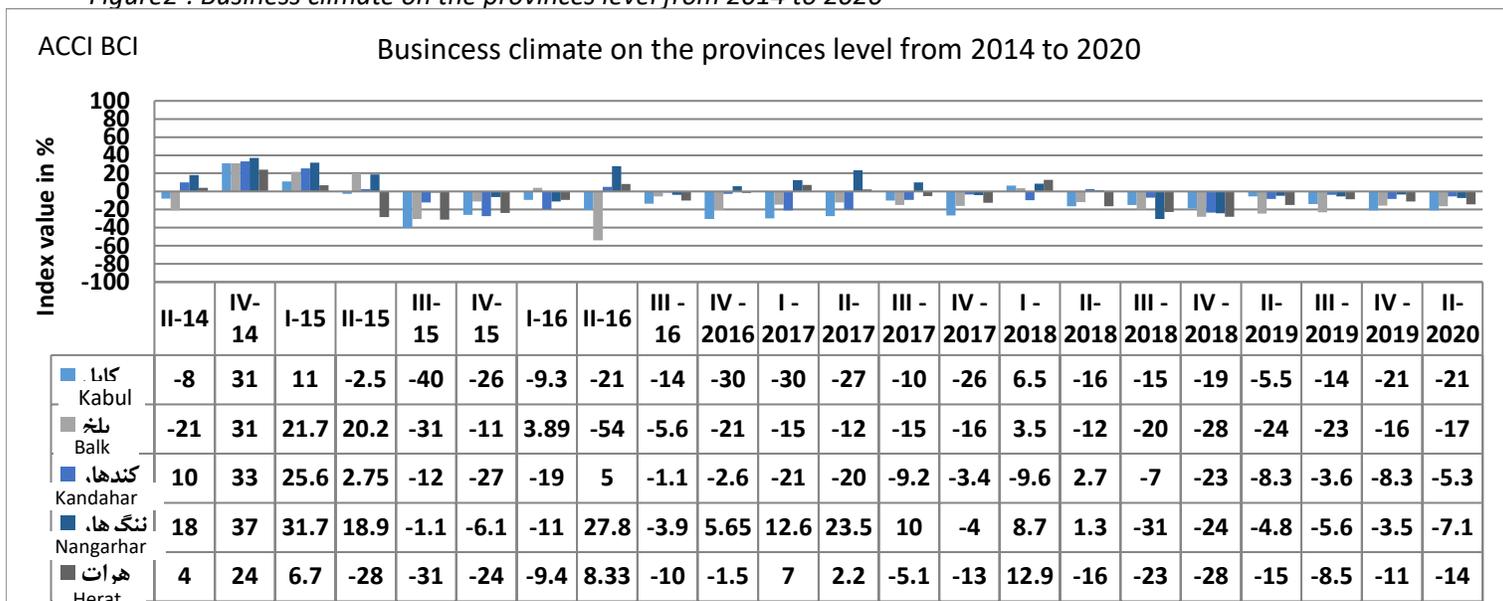
The general business climate indicator as per comparison of real conditions and expectations of respondents in the second quarter of 2020 is (-14.4), while in the previous survey this figure was (-13.5), which means that the business climate has decreased and COVID-19 caused this reduction. The point to be made in this survey is an eye-catching reduction in the actual activities caused by the coronavirus (-28.71 → -86.14) and the noticeable increase in expectations of the respondents (1.75 → 57.28).

Figure 1: General situations of business from 2012 to 2020



Province based comparison of the real business condition with expectations of the respondents showcases that the business indicators of all the surveyed provinces are negative and the severity of this issue in all the provinces except Kandahar is more than the previous period which represents the negative impact of Coronavirus on business activities.

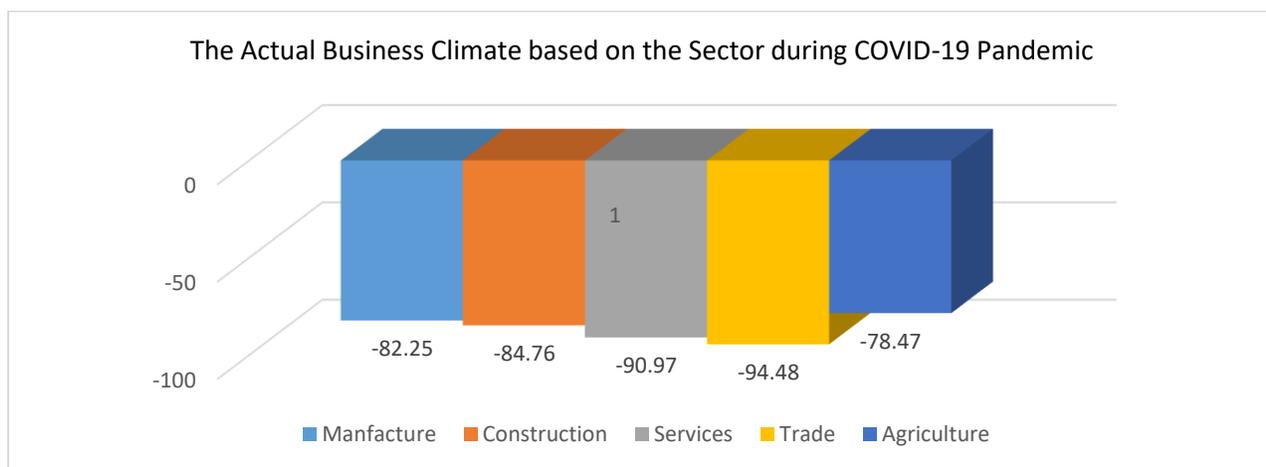
Figure2 : Business climate on the provinces level from 2014 to 2020



### 10.1.2 Business Conditions by Sector

COVID-19 has caused the real condition of business activities in all five surveyed sectors to be very negative as the virus had the highest negative impact on commercial activities (-94.48) and the lowest negative impact on the agriculture sector (-78.47). But as it is showcased below, generally, the COVID-19 pandemic had a negative impact on the activities of all the sectors.

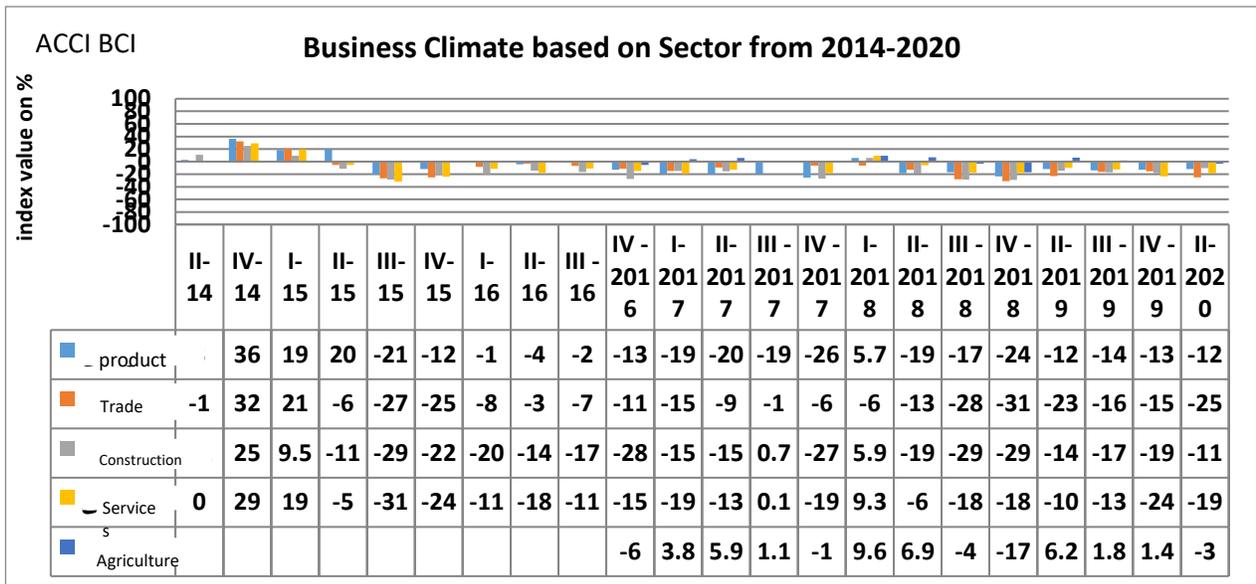
Figure 3: The actual business climate based on the sector during COVID-19 pandemic



It is clear from the comparison of real business conditions and expectations of the respondents that the virus pandemic caused the business climate in all sectors to be negative so far. As it impacted the agriculture sector for the first time to have a negative indicator comparing to its previous year same quarter report and each of

the sectors respectively reported negative indicator of their business as the following: trade (-24.8), services (-18.7), manufacturing (-11.8), construction (-10.5), and agriculture (-3.1).

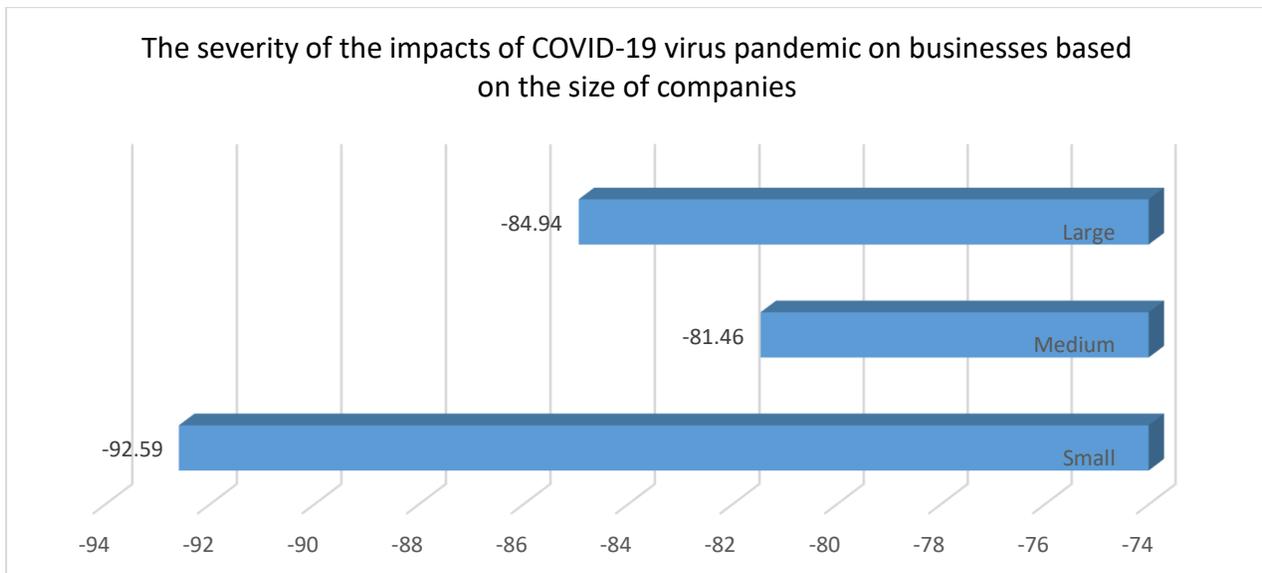
Figure 4: Business climate based on the sector from 2014 to 2020



### 10.1.3 Business Climate by Company Size

As it is showed below, the COVID-19 pandemic had a negative impact on all size companies in Afghanistan, but this survey found that the Coronavirus put the most negative impact on SMEs in Afghanistan (-92.59).

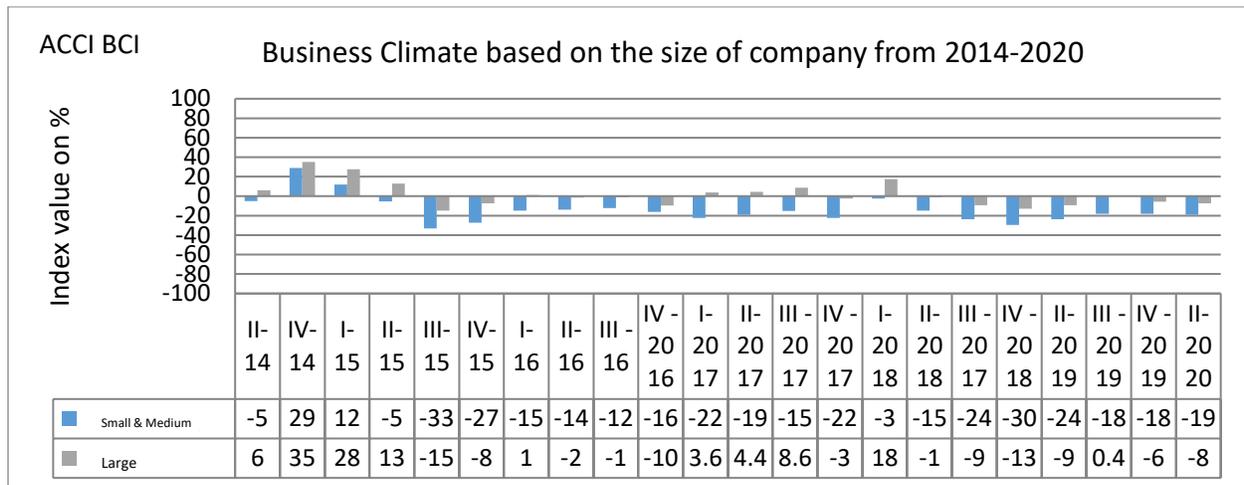
Figure 5: The severity of the impacts of COVID-19 virus pandemic on businesses based on the size of companies



The current research shows that expectations of the small, medium and large enterprises have increased a bit more alongside their real condition, but despite the increased expectations of respondents, the COVID-19

pandemic caused the business conditions to have a negative trend in all three levels of enterprises and the most negative trend is felt by SMEs (-19).

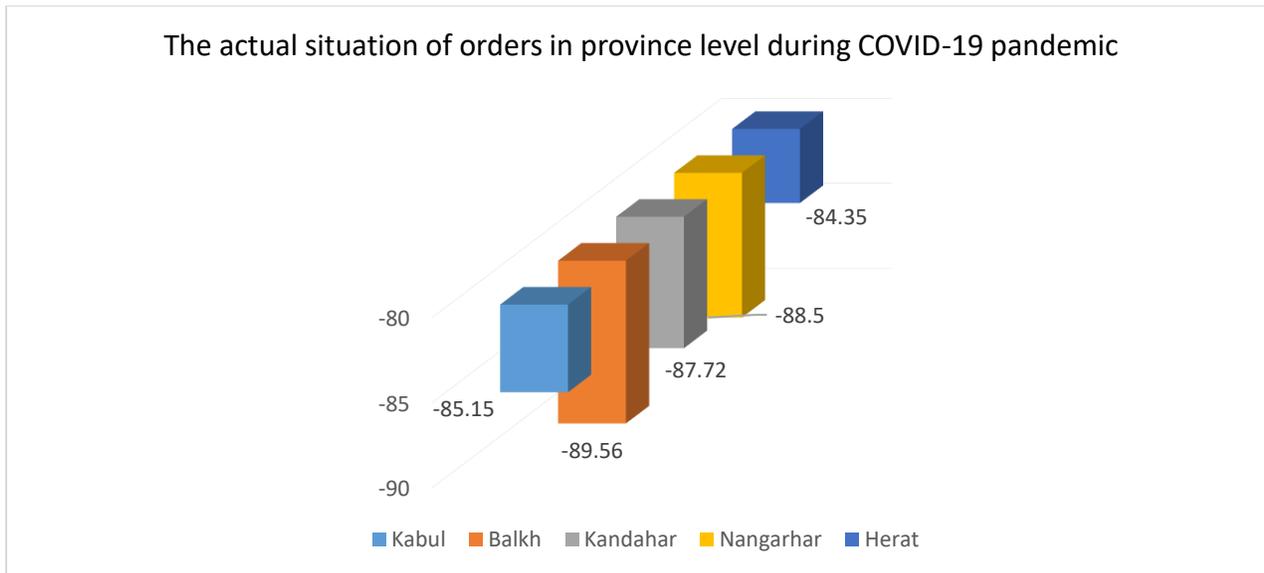
Figure 6: Business climate based on the size of the company from 2014 to 2020



### 10.1.4 Orders Book Situation uring COVID-19

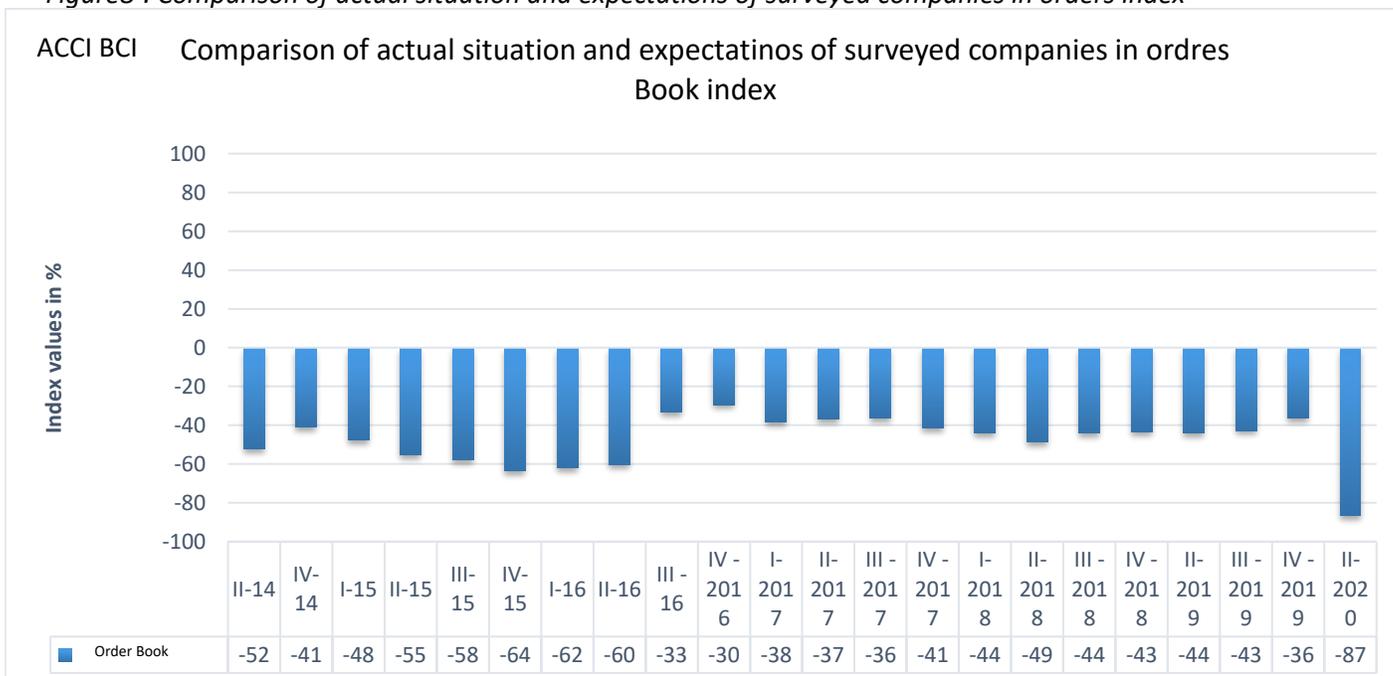
The result of this survey shows the negative impact of COVID-19 on order book and sales of all surveyed provinces; However, the highest intensity of negative effects was in Balkh province (-89.56) and the least negative effects were on Herat province (-84.35).

Figure 7: The actual situation of orders in province-level during COVID-19 pandemic



Orders have been reported negatively in all previous surveys conducted by ACCI, and the severity of these negative trends in orders has been varied over time. As it is shown below; the severity of the negative impacts in the second quarter of the year 2020 (COVID-19 period) reported (-87) which is an unprecedented result ever.

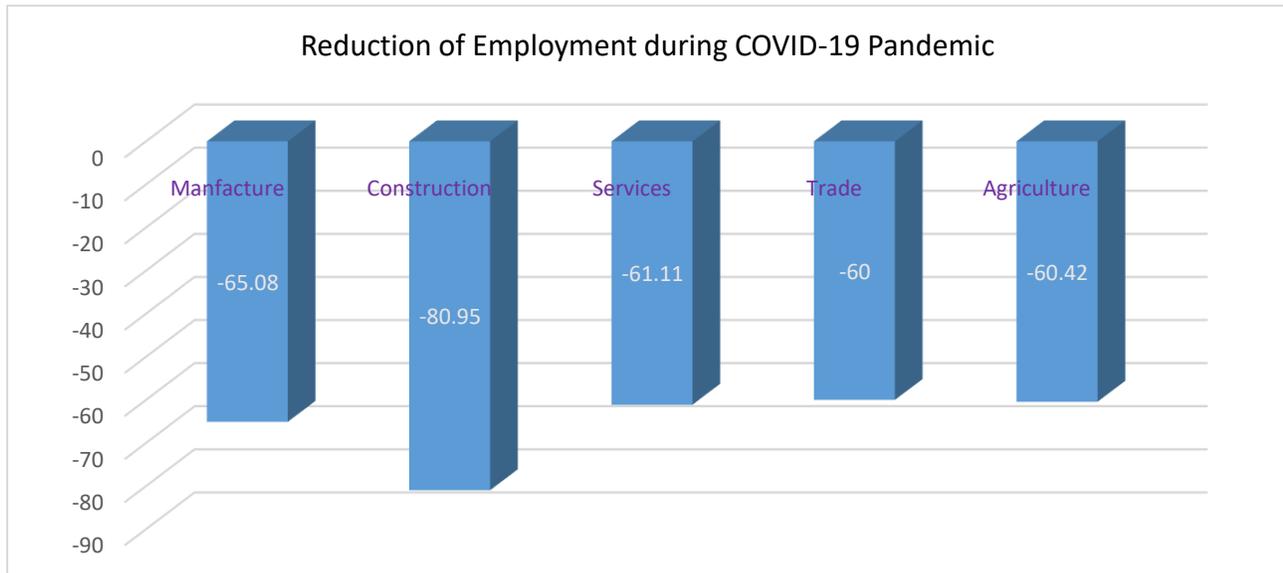
Figure8 : Comparison of actual situation and expectations of surveyed companies in orders index



### 10.1.5 Employment Situation during COVID-19

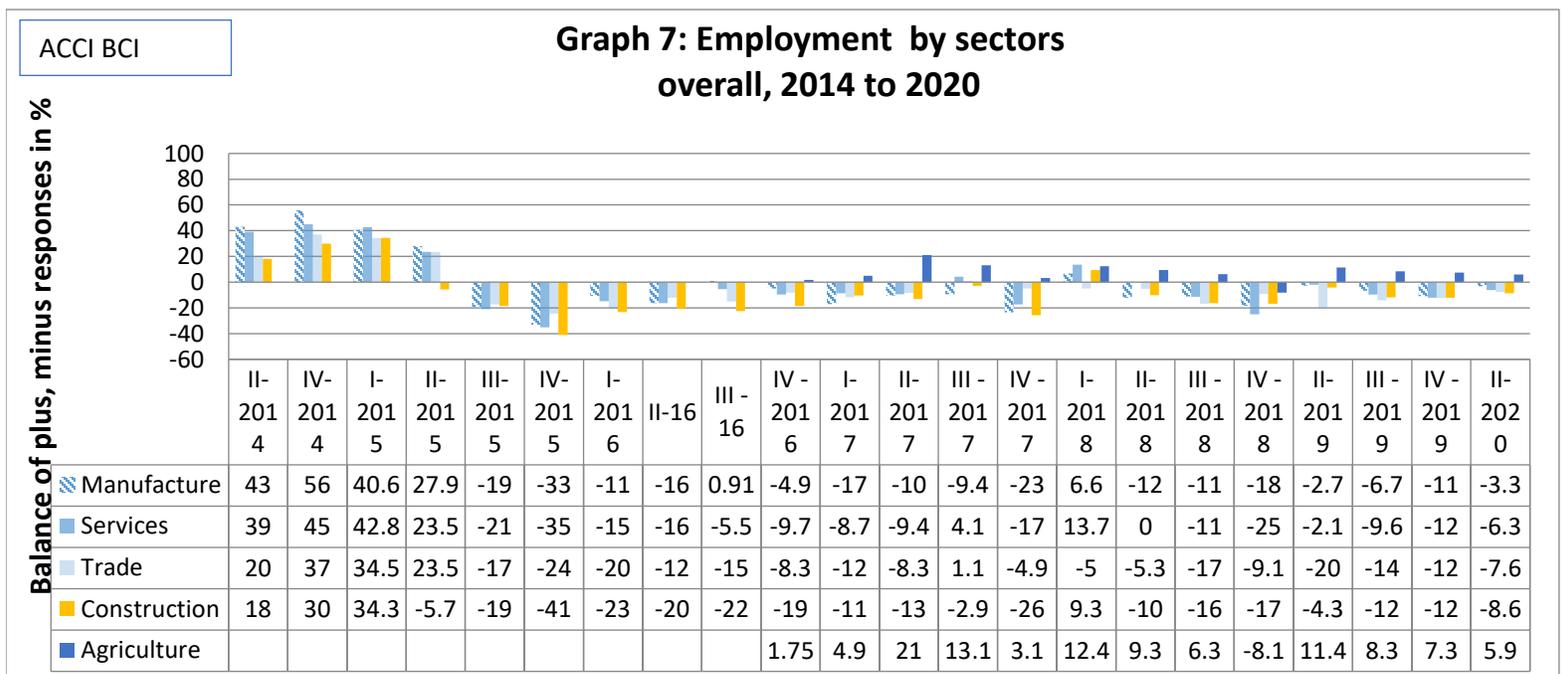
Employment is considered as one of the key indicators in the present study. As it is shown below, the COVID-19 pandemic has caused the largest decrease in employment in the construction sector (-80.95), followed by the manufacturing sector (-65.08), the service sector (-61.11), agriculture sector (-60.42) and trade sector (-60) have experienced the biggest loss in terms of their labors.

Figure 9: Reduction of employment during COVID-19 pandemic



The employment expectations for all the sectors surveyed are positive in the post-Corona situation, which compares the current employment of companies and their expectations for employment in the next three months. Employment has a negative trend despite the high expectation of employment businesses. As there will be a considerable decrease in employment conditions post-Corona in the construction sector (-8.6), but the agriculture sector would have a positive prospect for employment (5.9) in the post-Corona situation.

Figure 10: Total expectations of employment from 2014 to 2020



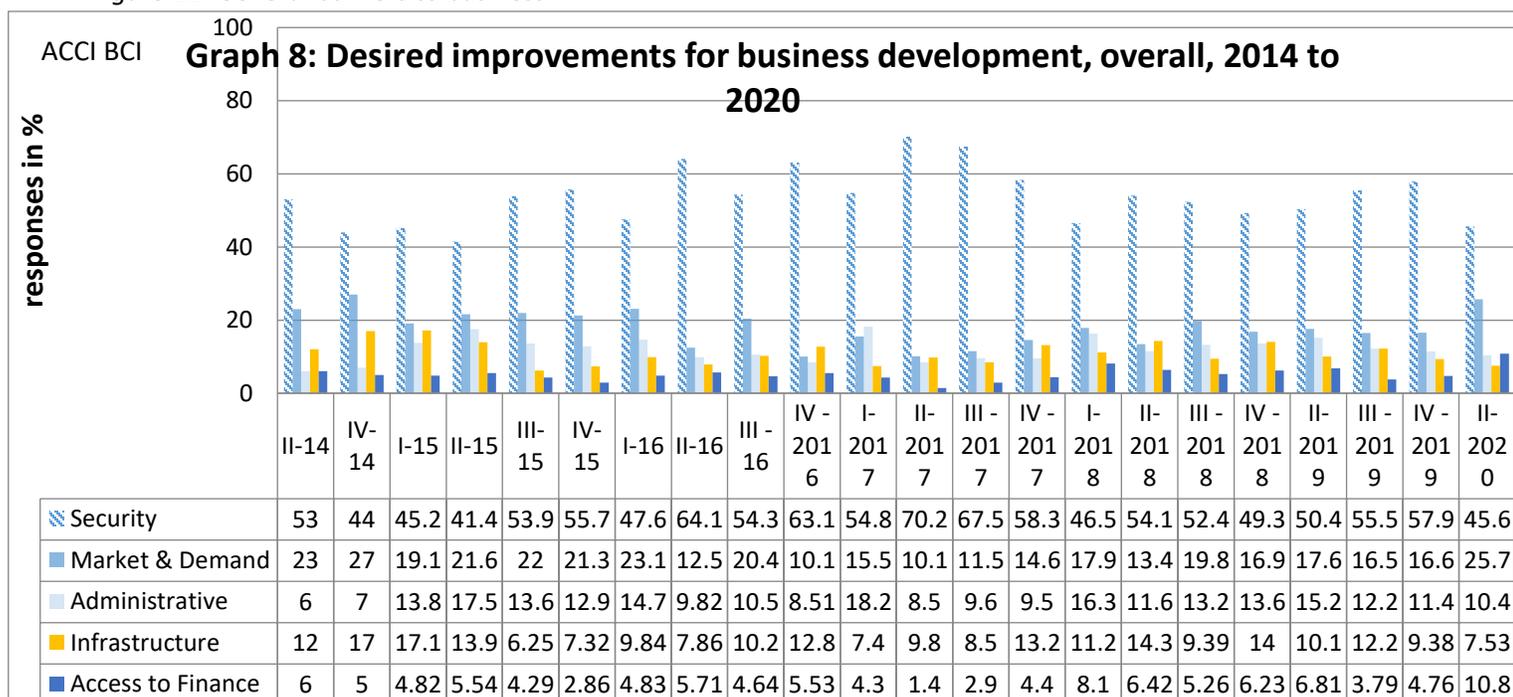
## 11. Analysis of Barriers to Business and Investment in Afghanistan

### 11.1 Barriers to Business

Business barriers have always been the biggest challenge for the private sector in Afghanistan, these barriers are observed important for positive change in activities of the private sector. Therefore, to prioritize and follow up on these barriers, the business barriers indicator has been included in this survey.

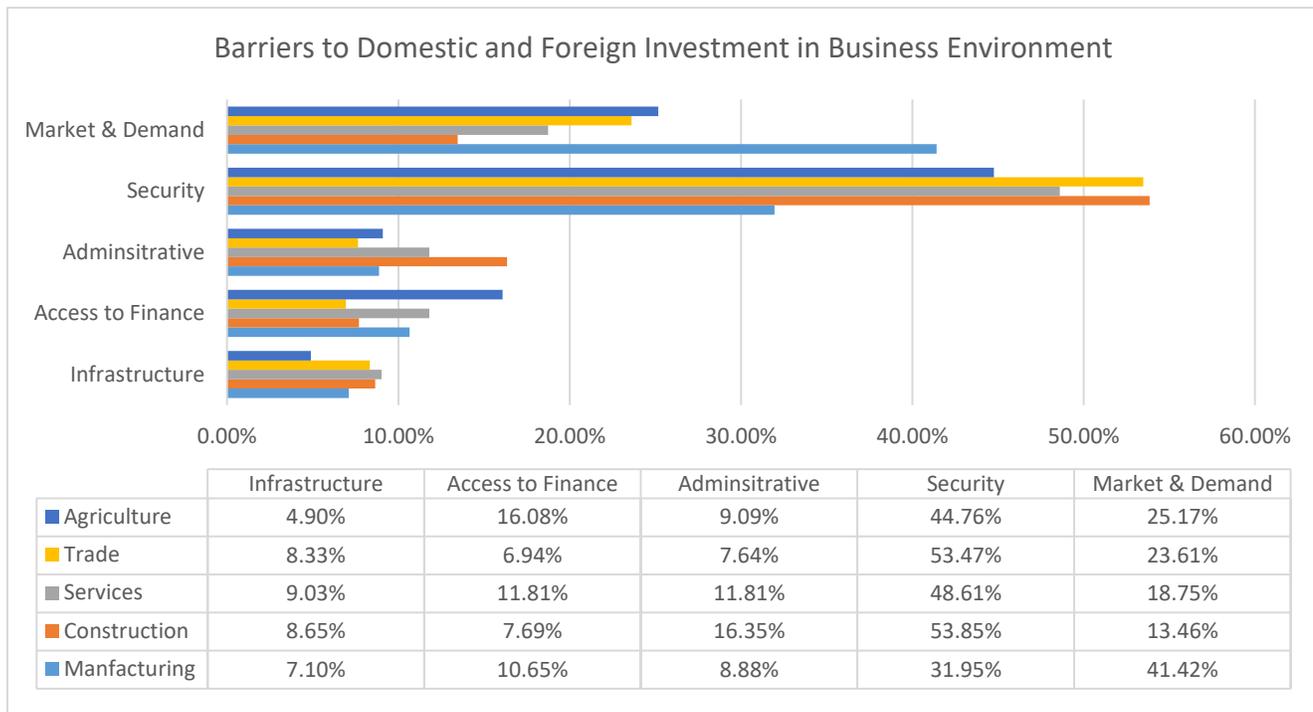
As it is shown below; as always, lack of security (45.5) is reported as the biggest barrier against businesses in Afghanistan. Followed by a lack of supply and demands (25.7), lack of access to financial resources (10.8), administrative reform (10.4), and lack of infrastructure (7.53) respectively are the major barriers against businesses.

Figure 12: General barriers to business



## 11.2 Barriers to Domestic and Foreign Investments

Figure 11: Barriers to domestic and foreign investment in business environment



## 12. CONCLUSION

Undoubtedly, the proper situation of the business climate in each country can cause the macroeconomic components of each country to have a positive leap from one hand, and on the other hand, it will have a significant impact on the management of economic fluctuation, price control, employment growth, balancing the payments, environmental protection and eventually, will have its impact on public welfare.

Afghanistan is currently experiencing the deficit in the balance of payments and trade as well as volatile monetary and financial fluctuation and has a low level of employment, meanwhile, the COVID-19 pandemic has added to these challenges, thus focusing on creating a suitable business climate can play an increasing role in the reduction of the aforementioned challenges. By recognizing the importance of the issue, ACCI has conducted the Business Climate Survey in close coordination with HAKARAT Organization focused on the impact of COVID-19 on business as well as it has touched the general situation of the business in the country.

The result of this survey due to its objectives shows that the severity of the impacts of the COVID-19 virus on the collective activities of the private sector is (-14) points, which represents the unfavorable economic situation in comparison to previous periods. Among these, Kandahar province with an indicator (-91) has the highest loss among the five surveyed regions. Besides, the survey has found that the biggest obstacle to domestic investment is the security which is followed by lack of market (supply and demand), corruption, access to debt, and lack of better infrastructure. In general, ensuring the security for investors and business activities remain as the main suggestions of the private sector to create a favorable environment and to reduce the further disadvantages of the COVID-19.

Additionally, access to market and proper debt, reduction and elimination of corruption, removing the quarantine, resumption of economic activities with observing the health tips, speeding up the peace process, providing taxation facilities, creating and expanding better infrastructure and provision of raw materials constitute their main suggestions.

As the studies of the ACCI show, there was not a favorable business climate nor was a proper environment for investment in Afghanistan during the periods that had been studied and there was always a negative trend and that has been added due to the recent COVID-19 pandemic. The services, manufacturing, trade, agriculture, and construction sector in Kabul, Herat, Nangarhar, Balkh, and Kandahar provinces reported a negative impact of the COVID-19 on their business activities.

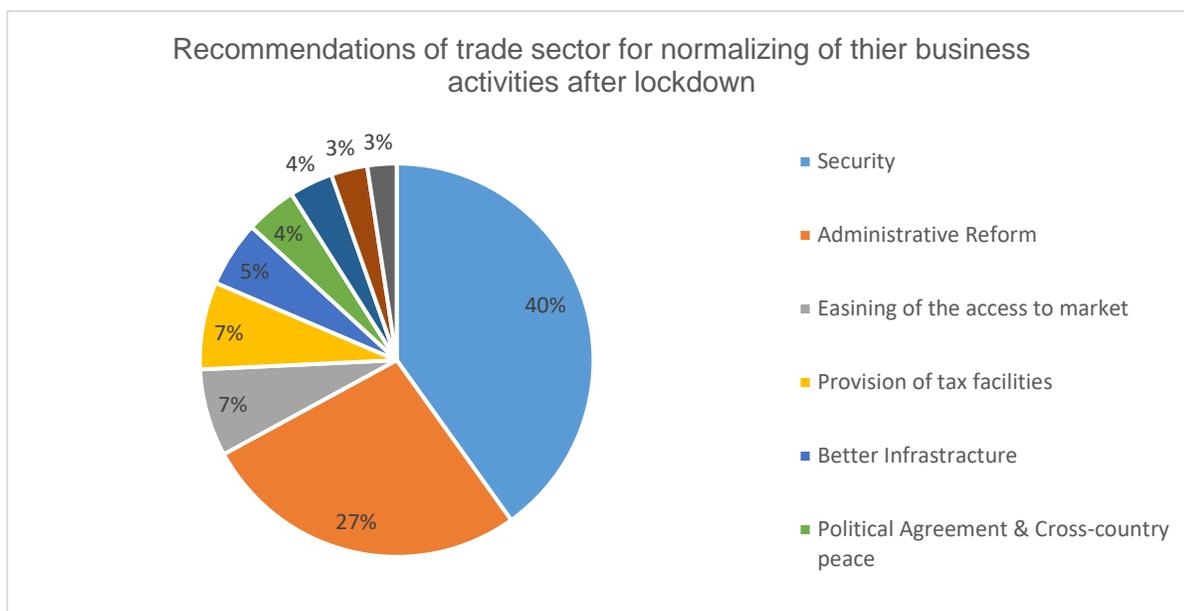
### 13. RECOMMENDATIONS

While the ACCI in close coordination with HAKARAT organization has surveyed on the impact of COVID-19 on business activities and revision of the business situation in Afghanistan, it has also analyzed the private sector suggestions in order to remove barriers to domestic and foreign investments, the appropriate facilitation of investment and to get the business activities back to normal on the post-corona era which is summarized as the following:

#### 1: Recommendations by the Studied Sectors in order to get back their Business Activities to Normal

##### 1.1 Trade Sector

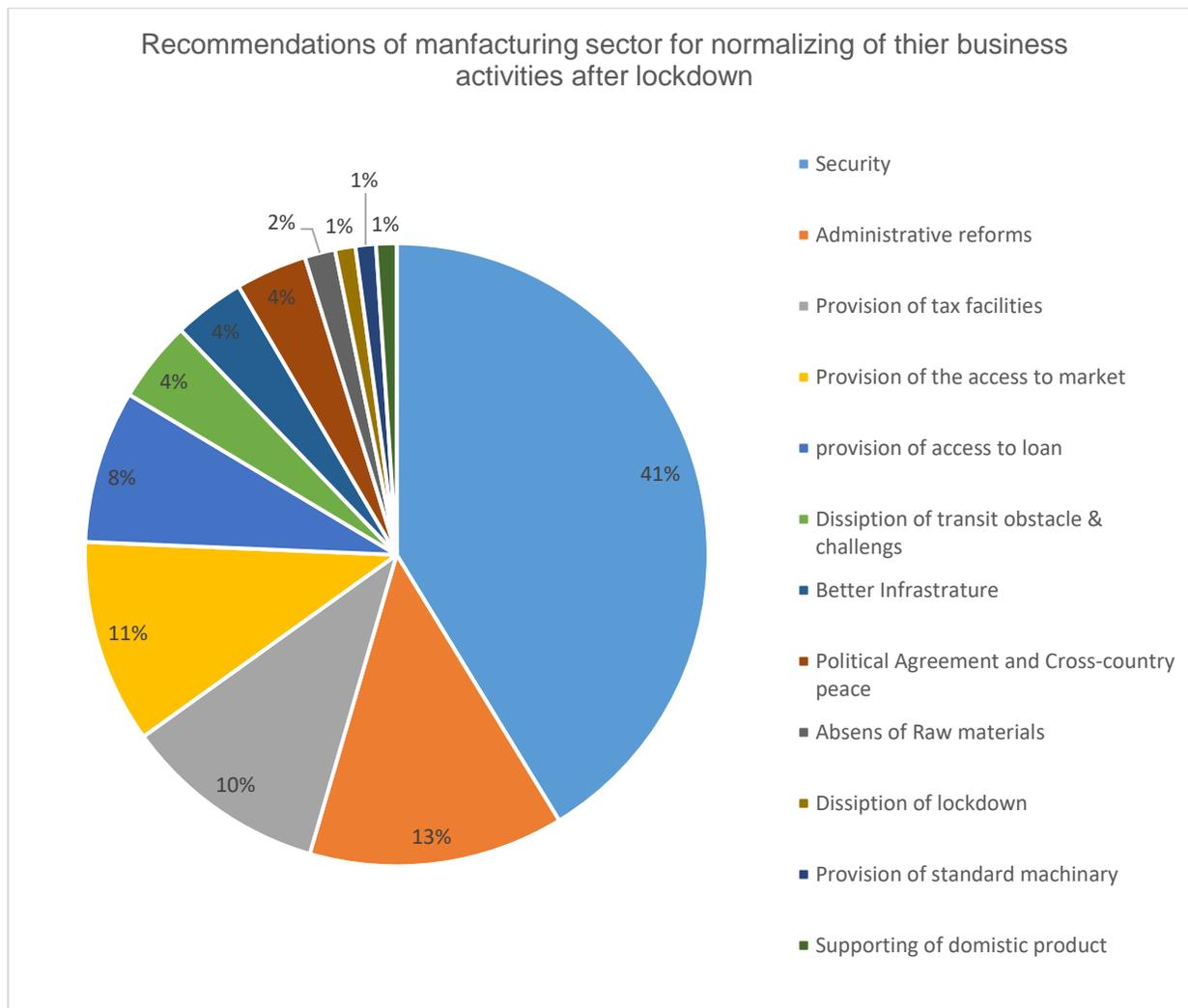
Figure 12: Recommendations of the trade sector in order to get back their business activities to normal on post- COVID-19 era.



The above figure shows that 40% of those surveyed companies reported that ensuring security is vital for the success of their business and getting back to normal followed by administrative reforms, access to market and searching for new markets, provision of taxation facilities, infrastructure investments, and peace.

##### 1.2 Recommendations by Manufacturing Sector

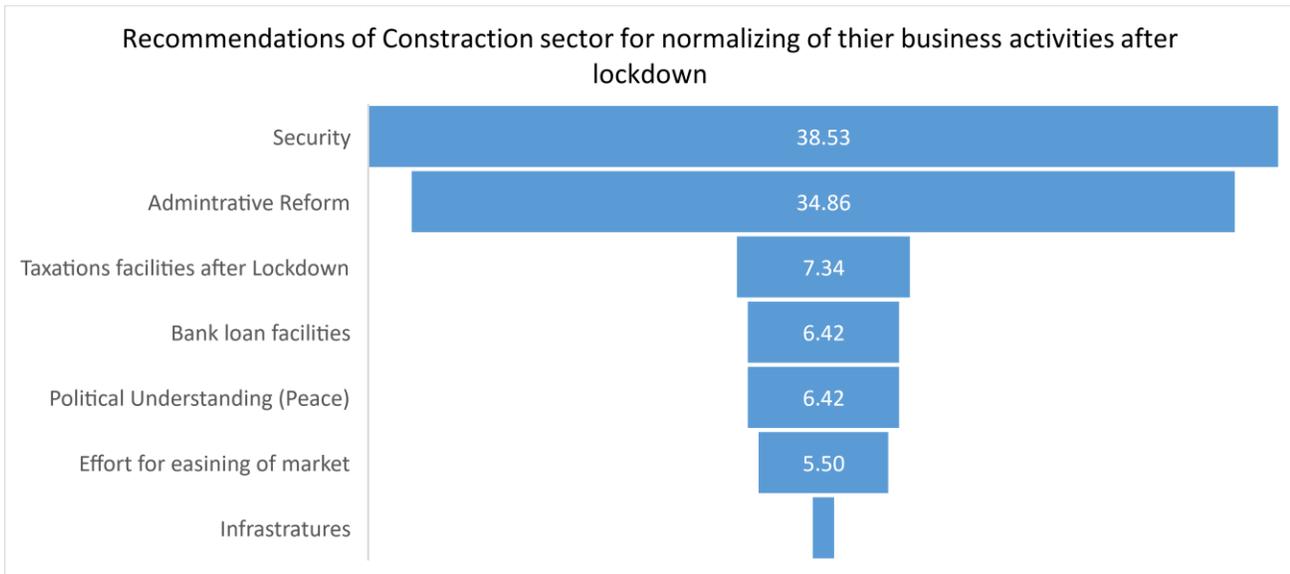
Figure 13: Recommendations of the manufacturing sector in order to get back their business activities to normal on post-COVID-19 era.



The manufacturing companies also recommended ensuring of security (41%) as an effective way for their business success followed by administrative reforms and reduction of corruption, provision of taxation facilities and access to the market for reducing the negative impact of COVID-19 virus.

### 1.3 Recommendations by Construction Sector

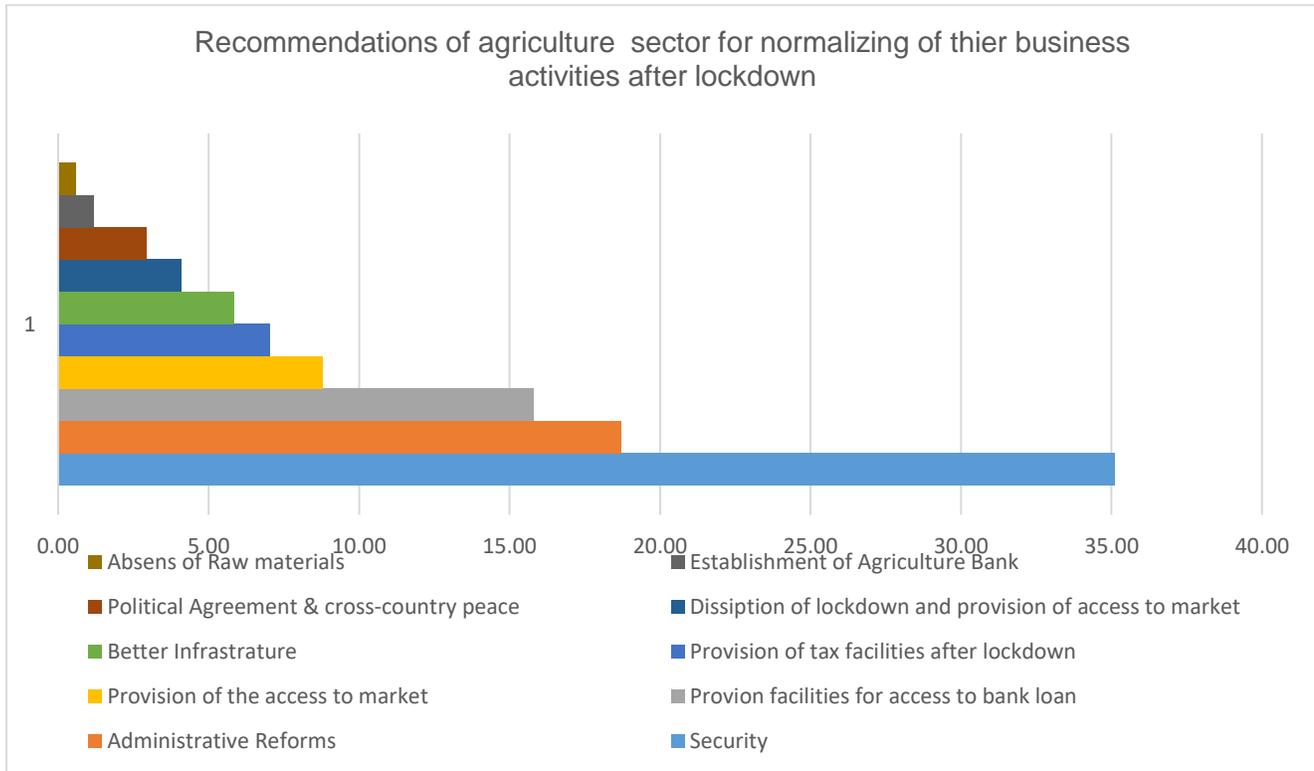
Figure 14: Recommendations of the construction sector in order to get back their business activities to normal on post- COVID-19 era



Similar to the trade and product sector, the construction sector also reported security as their main wish for the growth of their activities. Followed by a reduction and elimination of corruption, provision of tax incentives, provision of suitable bank loans, and overall peace, access to market, and better infrastructure.

#### 1.4 Recommendations by the Agriculture Sector

Figure 15: Recommendations of the agriculture sector in order to get back their business activities to normal on post- COVID-19 era

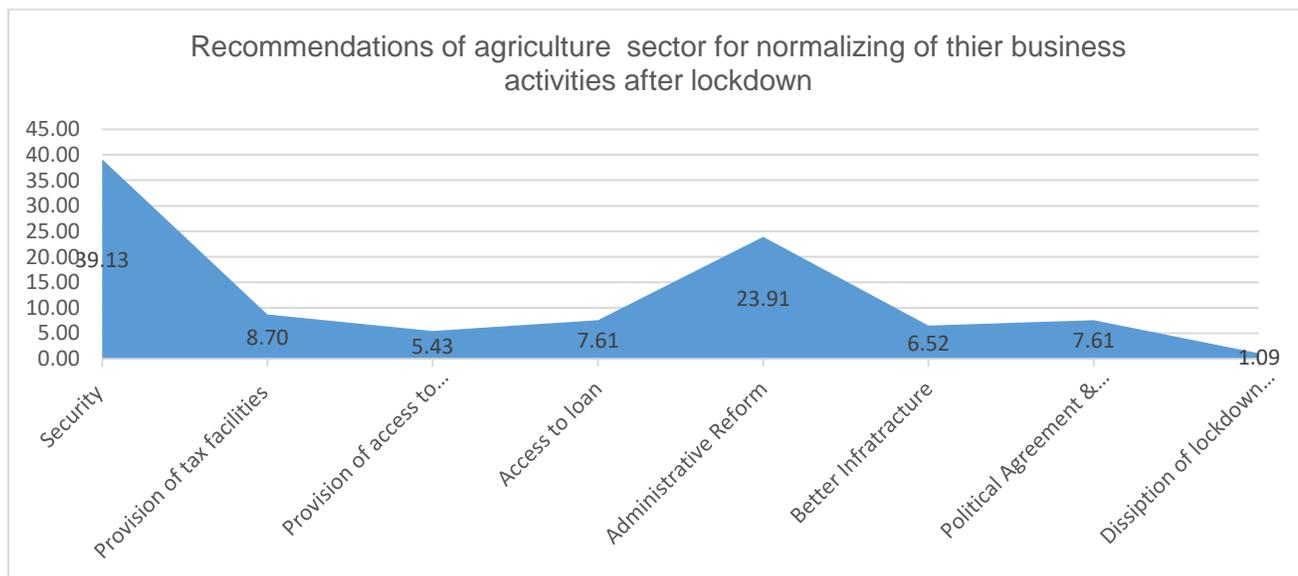


35% of surveyed business owner in the agricultural sector reported the security has very vital role in normalizing of business activities, additionally they recommended decrease of corruption, access to bank loans with ease conditions, providing tax facilities, creating better infrastructure, access to the market for selling

their products, reaching to a political agreement and peace, establishing the agricultural bank and access to standard raw materials.

### 1.5 Recommendations by the Services Sector

Figure 16: Recommendations of the services sector in order to get back their business activities to normal on post- COVID-19 era



The services sector also puts the security with a 39.13 percentage on top of their suggestions; it is followed by providing tax facilitation, access to market and removing the quarantine, access to bank loans, decrease of corruption, better infrastructure and favorable market and demand.

Annex:

## **The Definition of Business Climate**

The business climate is determined by a periodical survey of the manufacturing, constructional, services, trade and agricultural companies. Companies' officials are requested to report on their present business situation as well as on their expectations for the next six months. They may judge their situation to be "better than normal, normal or worse than normal". On their expectations, they may answer that the situation will "improve, remain the same or deteriorate".

We consider the "better than normal" option as a plus and the "worse than normal" option as a minus. The present condition indicator is obtained from the subtracting of the percentages of plus and minus answers. At the same time, the expectation indicator can be obtained from the difference between the percentage of options "improve" and "deteriorate".

Business conditions are the arithmetic mean of the business climate and expectations. In graphical presentations for the first survey rounds the "normal" and "remain the same" options are taken as the zero lines. The business conditions indicator may change between zero to positive 100 (the most) and negative 100 (the less). Later, when the time series established, the "zero" line will be based on a normal year business climate with due care to the survey results of the year and the following years will be measured based on that.

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