

## OVERALL FINDINGS

**2.1** The key finding is that enterprises are showing surprising levels of dynamism in the face of a poor and deteriorating governance environment, continuing severe problems with factor inputs, and a lack of innovation by firms.

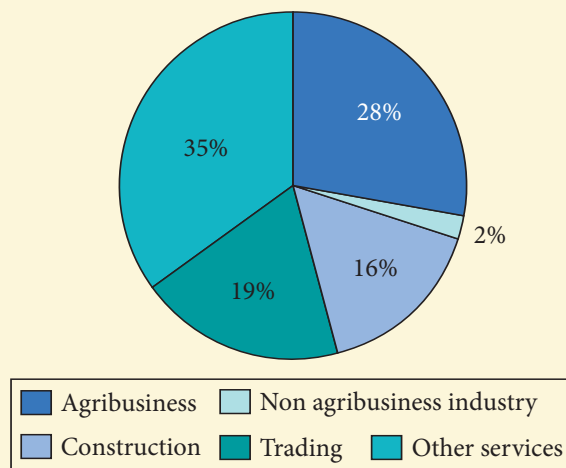
**2.2** *The private sector in Afghanistan is in a formative stage, with the following characteristics:*

- The private sector is dominated by agribusiness, construction, and trading firms (figure 2). Private industry’s share of the economy is quite small, with National Risk and Vulnerability Assessment (NRVA) data suggesting that only a little over 5 percent of households earn income from industrial activity.<sup>6</sup>
- There are few registered firms—the Afghanistan Investment Support Agency (AISA) database listed just over 5,000 firms in the ten surveyed cities. Furthermore, there are very few large firms—we were able to identify only 74 firms with more than 100 employees.

FIGURE 2

### Sectoral Profile of GDP in Afghanistan

Sectoral Share of Private Sector GDP

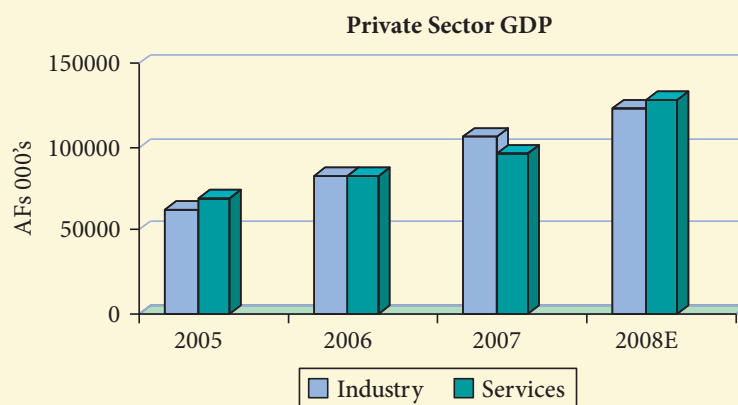


<sup>6</sup> National Risk and Vulnerability Assessment 2005, Afghanistan Central Statistics Office.

- Afghan firms primarily produce for the domestic market. In our 2008 sample, less than 1 percent of firms reported selling their products mainly in international markets; less than 1 percent of the sales were direct exports, while indirect exports accounted for 5 percent.<sup>7</sup> The survey also found that retail firms have a substantial presence in terms of indirect exports: 21 percent of retail firms reported such sales compared with 2 percent of manufacturing firms and 0.04 percent of construction firms.
- Less than 2 percent of the firms surveyed in 2008 were foreign owned, which is an indicator of the low levels of foreign direct investment (FDI) flows into Afghanistan.
- Afghan firms in general do not engage in innovative or productivity-enhancing behaviors such as quality certification or technology licensing.

**2.3 The survey shows that Afghan businesses have been growing and want to grow more.** Afghan businesses are ambitious in their expansion plans: 77 percent of respondents plan to expand in 2009. Between 2005 and 2008, the average growth in sales for the panel firms was 220 percent and median growth was 92 percent, with two-thirds of panel firms recording consistent growth. This is further corroborated by national accounts data, which report a doubling of industrial and service sector GDP since 2005 (figure 3). The strong

FIGURE 3  
**Growth in Private Sector GDP**



Source: Afghanistan Central Statistics Office.

<sup>7</sup> An example of indirect exports here is re-exports.

firms are getting stronger: the intention to expand is greater for large and medium-sized firms than for micro and small firms, and for registered firms than for unregistered firms. This is particularly true for Kabul-based firms. Eight percent of all firms say they plan to expand internationally.

**2.4 Analyzing the single biggest obstacle identified by firms supports the notion of latent dynamism in the private sector.** When firms were asked to pick just one constraint that is the single biggest obstacle to their business, factor markets led the way. Access to finance was identified as the single biggest problem for 22 percent of the sample, followed closely by electricity (21%), and access to land (13%). The governance-related indicators—crime, theft, and disorder (17%), policy enforcement (15%), and corruption (6%)—were cited as the single biggest obstacle less often than finance or electricity.

**2.5 However, when firms were asked to rate the severity of individual constraints, both governance and factor markets emerged as major issues** (figure 4). The following are the top six constraints:

- Policy enforcement
- Electricity
- Crime, theft, and disorder
- Corruption
- Access to land
- Access to finance

**2.6 The main constraints are consistent across the survey.**<sup>8</sup> These constraints rank higher than others not only for Afghanistan as a whole but across all sectors, across all firm sizes except small firms, across most cities, and irrespective of firm type or market.<sup>9</sup> However,

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<sup>8</sup> One constraint ranks higher in severity than another constraint if the percentage of firms that cite it as a major or very severe obstacle is higher than the percentage of firms that cite the other constraint as major or very severe.

<sup>9</sup> Ninety-four percent of the surveyed firms reported one of these six constraints as their single biggest obstacle.

FIGURE 4

**Major Business Problems**

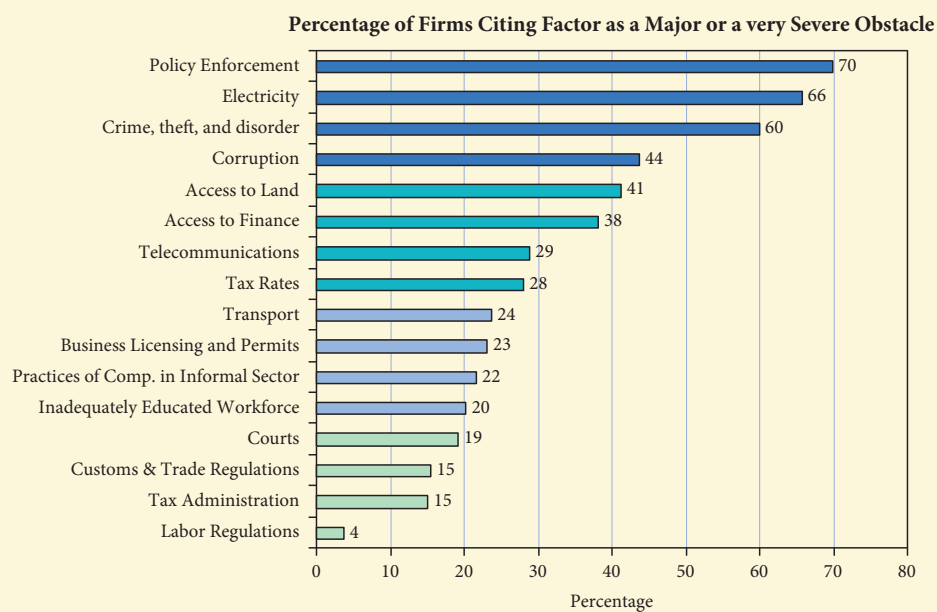


TABLE 1

**Ranking of the top six investment climate constraints by sector**

|               | Policy Enforcement | Electricity | Crime, Theft, & Disorder | Access to Finance | Corruption | Access to Land |
|---------------|--------------------|-------------|--------------------------|-------------------|------------|----------------|
| Manufacturing | 1                  | 2           | 3                        | 4                 | 5          | 6              |
| Construction  | 1                  | 4           | 3                        | 6                 | 2          | 5              |
| Retail        | 1                  | 3           | 2                        | 5                 | 4          | 6              |

TABLE 2

**Ranking of the top six investment climate constraints by firm size**

|        | Policy Enforcement | Electricity | Crime, Theft, & Disorder | Access to Finance | Corruption | Access to Land |
|--------|--------------------|-------------|--------------------------|-------------------|------------|----------------|
| Micro  | 1                  | 3           | 2                        | 4                 | 6          | 5              |
| Small  | 2                  | 3           | 4                        | 7                 | 6          | 5              |
| Medium | 1                  | 2           | 3                        | 6                 | 4          | 5              |
| Large  | 1                  | 3           | 2                        | 5                 | 4          | 6              |

TABLE 3

**Ranking of the top six investment climate constraints by city**

|                | Policy Enforcement | Electricity | Crime, Theft, & Disorder | Access to Finance | Corruption | Access to Land |
|----------------|--------------------|-------------|--------------------------|-------------------|------------|----------------|
| Kabul          | 1                  | 2           | 3                        | 5                 | 4          | 6              |
| Herat          | 1                  | 5           | 2                        | 4                 | 3          | 7              |
| Kandahar       | 1                  | 2           | 3                        | 13                | 4          | 6              |
| Mazar-e-Sharif | 1                  | 4           | 2                        | 3                 | 7          | 8              |
| Jalalabad      | 3                  | 1           | 2                        | 10                | 4          | 11             |

TABLE 4

**Ranking of severe constraints by firm type**

|              | Policy Enforcement | Electricity | Crime, Theft, & Disorder | Access to Finance | Corruption | Access to Land |
|--------------|--------------------|-------------|--------------------------|-------------------|------------|----------------|
| Registered   | 1                  | 2           | 3                        | 6                 | 4          | 5              |
| Unregistered | 1                  | 2           | 3                        | 5                 | 6          | 4              |

TABLE 5

**Ranking of severe constraints by market**

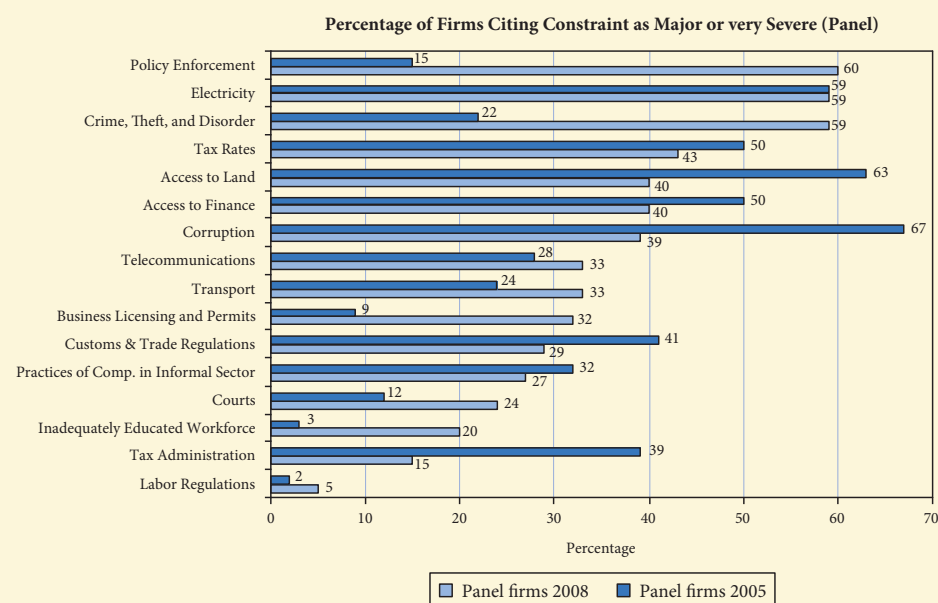
|              | Policy Enforcement | Electricity | Crime, Theft, & Disorder | Access to Finance | Corruption | Access to Land |
|--------------|--------------------|-------------|--------------------------|-------------------|------------|----------------|
| Exporter     | 1                  | 3           | 2                        | 6                 | 4          | 5              |
| Non-exporter | 1                  | 2           | 3                        | 6                 | 4          | 5              |

the ordering of the top six constraints varies within each group with policy enforcement almost always emerging as the top constraint. We have defined the most severe constraint—policy enforcement—as meaning “state ineffectiveness in designing and implementing consistent policies.” Comparing these findings with a recent Department for International Development (DFID) study on binding constraints is illuminating. The DFID report highlighted the failure of governance: “From a public policy perspective, the most relevant result is confirmation that in Afghanistan, private investment decisions are being negatively affected by the uncertain environment, absence of rule of law, unpredictable tax structures and by widespread

corruption.”<sup>10</sup> While our survey confirms these findings, it also points to weak factor inputs and lack of innovation by firms as acute shortcomings in the country.

**2.7 Since 2005, there has been a serious decline in the perception of policy enforcement and crime prevention, and not much improvement elsewhere** (figure 5). This is consistent with security statistics, which include coalition military deaths as one measure (figure 6). Even though perception data indicate that some issues had become less of a problem, the quantitative measures show little improvement in any category. For example, with respect to land, the *Doing Business* results showed no reduction between 2008 and 2005 in the 252 days it took to register property in Kabul, yet the enterprise survey recorded improved perceptions. In the area of corruption, there was a 20 percent increase in the informal payment required to secure a contract, yet surveyed perceptions improved. This could reflect the relative importance of other issues, as well as the maturation of businesses, many of whom started in the post-Taliban period (figure 7). The older firms have resolved—or, more likely, learned to live with—these constraints.

FIGURE 5  
**Major Business Problems (Panel)**



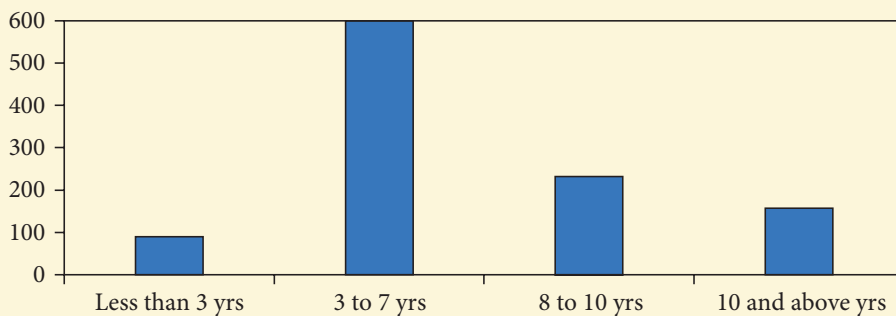
<sup>10</sup> *Understanding Afghanistan Report*, DFID, 2008.

FIGURE 6

**Coalition Fatalities**

Source: HSRP; iCasualties.org.

FIGURE 7

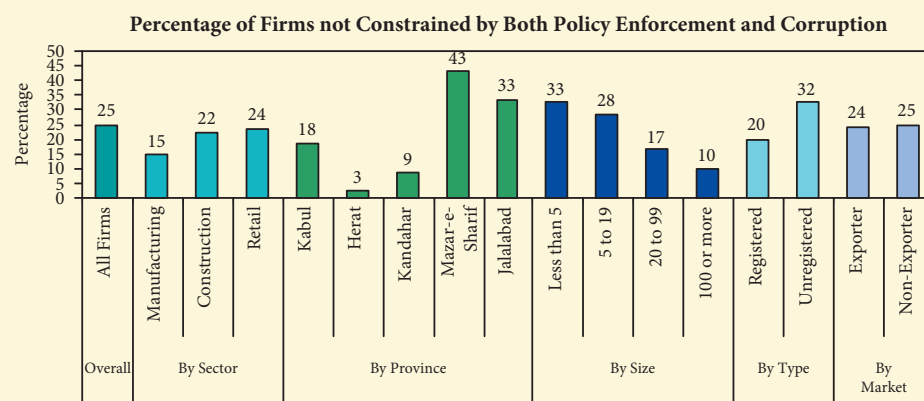
**Ages of Surveyed Firms**

**2.8 The aging profile of surveyed firms is unusual.** Figure 7 shows that very few surveyed firms entered the market in the past two years. While the survey does not explain this phenomenon, it is relatively unexpected for a country that is moving from a command economy toward a market economy.

**2.9 A review of firms constrained neither in terms of policy enforcement nor corruption identifies “below-the-radar” firms** (figure 8). Such firms (one in every four surveyed), we believe, should enjoy strong productivity benefits relative to their peers. These are typically smaller firms located in relatively secure and politically stable areas. According to our analysis, firms that are constrained by weak policy enforcement are 32 percent less productive than firms that are not, and those constrained by corruption are 26 percent less productive. For policymakers, the analysis suggests the need to support larger firms, which in most economies are the engines of productivity and innovation. The security

FIGURE 8

**Firms Not Constrained by Policy Enforcement or Corruption**



findings are also sobering and illustrate the benefit the private sector will gain from improved security.

**2.10 While the main constraints are consistent across the five main cities, some interesting differences emerge.**

In general, the same top six constraints (policy enforcement, electricity, crime and theft, corruption, land, and finance) are reported as the biggest problems in all five cities, although the order varies (table 3; figure 9). And when firms identified their single biggest obstacle, strong differences emerged among the cities (figure 10). Some of these differences can be explained; for example, electricity is a major problem in Jalalabad because it is not connected to the national transmission grid, and access to finance in Kabul because it is the most economically dynamic city and there is a greater unmet need for finance.

FIGURE 9

**Main Constraints Faced by Firms in Each City**

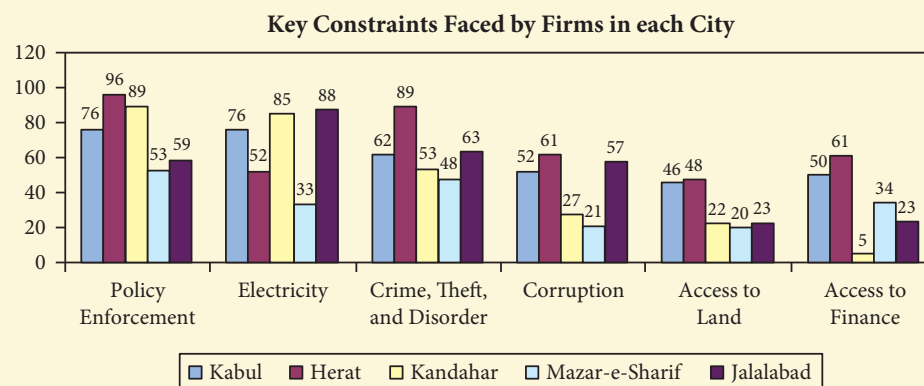
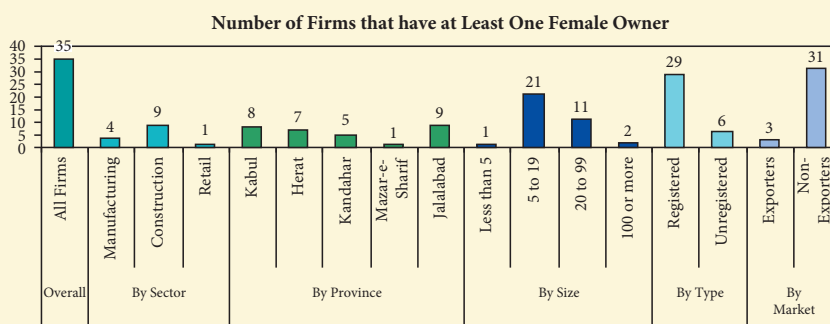


FIGURE 10

**Single Biggest Obstacle in Each City**

**2.11** *While Mazar-e-Sharif reports better perceptions compared with the national average in 14 of 16 constraints, the quantitative indicators reveal a mixed picture.* The difference is most marked for electricity, which just one in three Mazar-e-Sharif firms considers a severe constraint, compared with two out of three firms in the overall survey. Other areas in which Mazar-e-Sharif fares significantly better than the national average are corruption, access to land, and transport. However, while the quantitative governance indicators for Mazar-e-Sharif are strong and support the perception findings, this is not true for access to finance and access to land. For instance, of the 142 surveyed firms in Mazar-e-Sharif, only 4 applied for additional land and 1 applied for a construction permit. The survey also reveals that the largest percentage of firms in Mazar-e-Sharif (39%) reported land as the single biggest obstacle. This, combined with the finding that Mazar-e-Sharif reports the lowest percentage of firms that plan to expand in the near future, raises the question as to why businesses are not growing or showing the dynamism they should in Mazar-e-Sharif (given its strong perception and governance indicators). It could be hypothesized that Mazar-e-Sharif's obvious strengths on governance have resulted in the perception that it has a relatively good business environment, but its weakness in factor inputs may be causing disinterest in the private sector in further investing and expanding in Mazar-e-Sharif. One clear finding of the survey is that different cities have different investment climates.

FIGURE 11

**Number of Firms that have One or More Women as Owners**

**2.12 Registered firms<sup>11</sup> and exporters<sup>12</sup> perceive themselves as more constrained in several ways.** Registered firms are more constrained than unregistered firms in perceptions of all factors except access to finance and courts. Exporters find themselves more constrained than non-exporters with respect to crime, corruption, customs and trade regulations, an inadequately educated workforce, transport, and telecommunications.

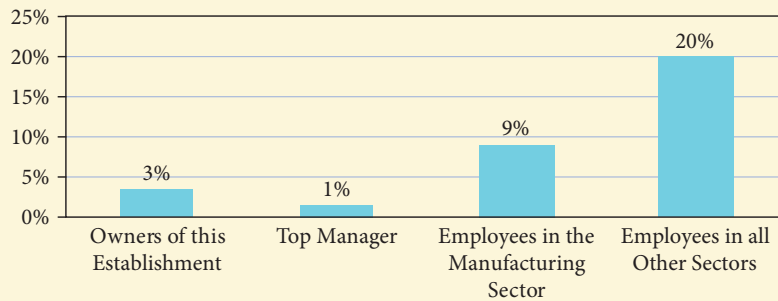
**2.13 The number of firms with at least one woman as the owner has increased since 2005** from 6 firms (2% of the sample) to 35 firms (3% of the sample) (figure 11). Such firms are mostly small, registered, and non-exporting firms.

**2.14 Women are participating in the Afghan private sector, but not in large numbers.** Women constituted 1 percent of top managers, 3 percent of permanent full-time production employees, and about 2 percent of permanent full-time nonproduction employees in the surveyed firms. Of the 15 top women managers, 12 were from the professional, technical, or scientific sector, including teaching and health professionals. The 9 percent of manufacturers that employ women are from a more eclectic mix of business activities, spanning production of biscuits, rugs, cabinets, handicrafts and electrical appliances, amongst others (figure 12).

<sup>11</sup> In this survey, a “registered firm” is a business that is registered with a central government body; for example, the Afghanistan Investment Support Agency (AISA) or any government ministry. An “unregistered firm” is a business that is not registered with any organization or only registered with the local municipality, business association, or union. The 2008 Enterprise Survey included 419 unregistered firms (39% of the surveyed sample). There could be a correlation between registered and formal firms, and between unregistered and informal firms; however, formality cannot be assumed on the basis of registration status.

<sup>12</sup> Firms are classified as “exporters” if they report a higher proportion of sales that are direct or indirect exports, and as “non-exporter firms” if all their sales are national sales. The 2008 sample includes 72 exporter firms and 981 non-exporter firms.

FIGURE 12  
**Roles of Women in the Surveyed Firms**



**2.15 Women-owned firms, where there is at least one female owner, are more constrained as compared to the typical Afghan firm.** Perceptions of constraint severity in such firms are higher for 15 of the 16 constraints; although the top 5 constraints are the same as those for the overall sample (figure 13). Access to finance was ranked as the single biggest obstacle by the majority of these women-owned firms.

**2.16 A comparison of Afghanistan with comparator countries reveals similarities in the major constraints and the degree of dissatisfaction.** Table 6 shows that emerging market economies such as Thailand can be a source of best practices. (See annex 4 for more comparisons.) Afghanistan can learn much from other developing countries.

**2.17 A simple productivity analysis of manufacturing firms reveals the extent to which specific factors can constrain performance.** Effective

FIGURE 13  
**Constraints Faced by Firms with at least One Female Owner**

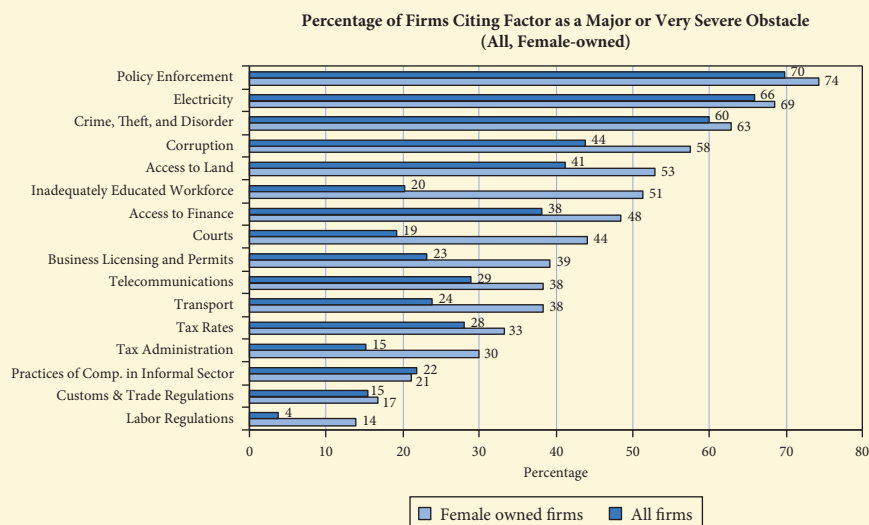


TABLE 6

**A Snapshot of Quantitative Indicators Across Comparator Countries\***

| <i>Doing Business</i><br>2009 Rankings<br>(181 countries) | Duration of<br>power outages<br>(hours) | Annual cost<br>of security<br>(% of sales) | % contract<br>value paid<br>as informal<br>payment<br>to secure<br>contract | % total<br>annual sales<br>to get things<br>done | % senior<br>management<br>time spent on<br>government<br>regulations | % new<br>investment<br>from banks | % firms with<br>internationally<br>recognized<br>quality<br>certification | % firms using<br>technology<br>licensed from<br>foreign<br>companies | % firms<br>that have<br>a website |
|---|---|--|---|--|--|-----------------------------------|---|--|-----------------------------------|
| <b>Afghanistan</b>  | 11                                      | 3  | 6   | 2  | 7  | 2                                 | 5   | 6  | 15                                |
| <b>Yemen</b>  | 3                                       | -  | 16  | 9  | 16   | 9                                 | 19  | 17   | -                                 |
| <b>Pakistan</b>   | 2                                       | 4  | 1   | 34   | 2  | -                                 | 9   | 3  | 95                                |
| <b>Ethiopia</b>   | -                                       | 1  | -   | -  | 4  | 11                                | 4   | 4  | 18                                |
| <b>Tajikistan</b>   | -                                       | 3  | -   | -  | 12   | 21                                | 17  | 25   | 21                                |
| <b>Thailand</b>   | -                                       | -  | -   | -  | 1  | 75                                | 45  | -  | 34                                |
| <b>DR Congo</b>   | 18                                      | 3  | 81  | 84   | 6  | 3                                 | 4   | 4  | 6                                 |

\*Note: Yellow boxes indicate best practices, while red boxes indicate worst practices.

policies, a reduction in corruption levels, a secure environment, power, technology, and modern management practices are all critical factors that drive productivity. Details of the methodology are presented in annex 3. The key findings are shown in box 2.

BOX 2

### **Key Findings From the Productivity Analysis\***

- ***Firms that have access to the grid are 49 percent more productive than firms that do not.*** Not having electricity negatively and significantly affects productivity.
- ***Corruption and weak policy enforcement negatively affect productivity.*** A negative correlation can be established between productivity and perceptions relating to corruption and weak policy enforcement. Firms that perceive policy enforcement as a major or very severe constraint are 32 percent less productive, while firms constrained by corruption are 26 percent less productive. However, the perception estimates are only moderately significant.
- ***Firms that reported losses from theft, robbery, arson, or vandalism are less productive than firms that have not reported such losses.*** This result is invariant to different regression specifications and is statistically significant in all results. In our final specification, a firm reporting output losses due to crime, theft, and disorder was found to be 63 percent less productive than a firm that did not suffer such losses.
- ***Younger firms and firms that have an import license have higher productivity.*** Firms that have an import license<sup>1</sup> are 88 percent more productive than firms that do not. Younger firms were found to be more dynamic and productive than older firms.
- ***Mazar-e-Sharif emerges as the most productive city.*** The productivity gap between firms located in Mazar-e-Sharif and those in other cities covered by the survey was 170 percent and was statistically significant.
- ***Unregistered firms and micro firms are only slightly less productive.*** Registered firms were found to be just 2 percent more productive than unregistered firms, but this estimate is not statistically significant. Small, medium, and large firms fare better than micro firms with respect to productivity; this estimate is also not statistically significant.

\* There could be a problem of measurement errors in this analysis due to limited sample size and possible data quality issues; also, there are econometric issues that cannot be resolved without panel data. We have nonetheless attempted a limited productivity analysis within the existing constraints, with the caveat that the findings should be viewed strictly as indicative. However, given that most of the productivity analysis findings triangulate well with the perception survey results, as well as with other studies on Afghanistan, there is a certain degree of confidence in the broad messages emerging from the productivity analysis.

<sup>1</sup> In Afghanistan, a Trade License is issued to allow businesses to engage in both import and export activities.

TABLE 7

**Firms Face Huge Productivity Taxes**

| Problem Area   | Indicator    |
|--|--------------|
| <b>SALES</b>   |              |
| Output losses due to power outages                     | 9% of sales  |
| Output losses from theft, robbery, arson, or vandalism | 11% of sales |
| <b>COST OF SALES AND OVERHEADS</b>                     |              |
| Cost of security                                       | 3% of sales  |
| Percentage of contract value paid to secure contract   | 6% of sales  |
| Bribes to get things done                              | 2% of sales  |

**2.18 *The impact of productivity taxes on firms is huge.*** The survey identified a number of productivity taxes that directly affect firms' bottom lines (table 7). There could be other productivity taxes that were not captured by the survey.

**2.19 *Several strong positive findings bode well for the future.*** While significant challenges remain to be overcome, the survey identifies some good news for entrepreneurs and investors—see box 3.

## THE GOVERNANCE CHALLENGE

**2.20 *The survey highlights governance<sup>13</sup> issues of policy enforcement, corruption and crime, and security as major problem areas.*** As the survey shows, these factors impose a tax on productivity and competitiveness. Poor governance also limits the predictability of government interactions. The fundamental connection between governance and development is illustrated in figure 14. This finding is

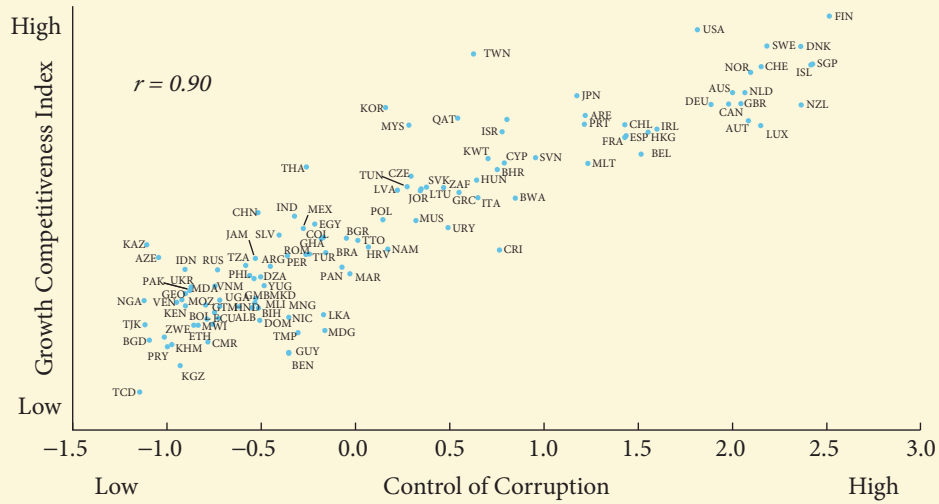
<sup>13</sup> "Governance" refers to the traditions and institutions by which authority is exercised in a country. This includes the process by which governments are selected, monitored, and replaced; the capacity of the government to effectively formulate and implement sound policies; and the respect of citizens and the state for the institutions that govern economic and social interactions among them (<http://info.worldbank.org/governance/wgi/index.asp>).

BOX 3

**Celebrating the Good News in the Survey**

- ***Private sector exhibits latent dynamism.*** There is clear evidence of latent growth and investment potential in Afghanistan. Seventy-seven percent of firms plan to expand in 2009, and 8 percent plan to expand internationally. Two out of three panel firms recorded growth, with average sales growth at 220 percent. Growth was higher among large and medium-sized firms, registered firms, and firms based in Kabul.
- ***Overall findings are positive.*** Panel firms recorded improved perceptions on several key indicators since 2005, including corruption, skills, access to finance, access to land, transport, tax rates and administration, and customs and trade regulations. Moreover, some Doing Business indicators including starting a business, employing workers and paying taxes – reinforce the survey findings that business licensing and permits, lack of skills, tax rates and tax administration are not perceived by firms as severe constraints. Afghanistan also performs better than comparator countries on several quantitative indicators. Mazar-e-Sharif reports better perceptions compared with the national average in 14 of 16 constraints, and the productivity gap between firms in Mazar-e-Sharif and those in other surveyed cities is 170 percent. The number of firms where at least one owner is female has increased since 2005.
- ***Governance displays elements of hope.*** The survey showed that in areas where security and services are better, productivity improves dramatically.
- ***Factor markets lead the way.*** Rigidities in labor markets and availability of skills are not generally perceived to be a problem. The majority of workers in Afghan firms is literate. Although only half of all firms have a bank account, this is an improvement over 2005. Several indicators of physical infrastructure—including transport, telecommunications, and water—were not found to be big issues.
- ***Innovative and productivity-enhancing behaviors exist in some Afghan firms.*** The survey established that firms that use technology and modern management practices, and those that trade internationally, do better. About 14 percent of the firms offer formal training, up from 5 percent in 2005. Since 2005, the proportion of firms using e-mail has doubled and the proportion of firms that have a website has risen by 67 percent. Twenty-one percent of retail firms reported sales via indirect exports.

FIGURE 14  
**Governance and Competitiveness**

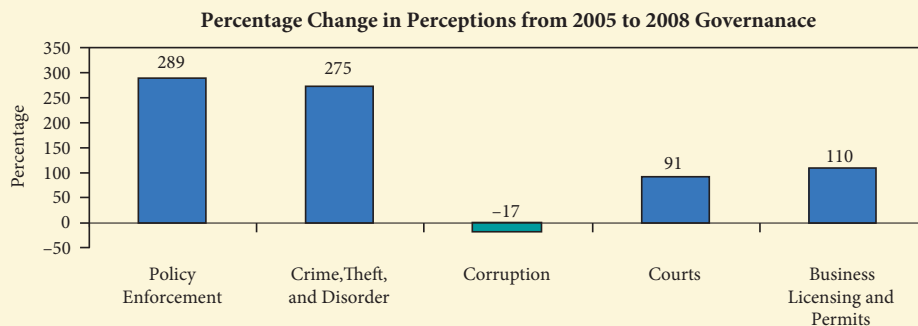


Source: GCI is based on 2006 data of the World Economic Forum; control of corruption is for 2004, from Kaufmann et al. 2005.

supported by other analyses: Afghanistan ranks 162nd of 181 countries in the World Bank’s *Doing Business 2009* report and 176th of 180 countries in Transparency International’s *Corruption Perception Index 2008* (annex 4).

**2.21 Perceptions regarding governance appear to have deteriorated significantly since 2005.** Figure 15 shows that severity perceptions on all governance indicators except corruption declined dramatically between 2005 and 2008.

FIGURE 15  
**Change in Perceptions on Governance Indicators Between 2005 and 2008**



**2.22 Of the governance indicators, policy enforcement<sup>14</sup> ranks highest in the percentage of enterprises that perceive it as a major or very severe constraint.** This is true across all sectors (manufacturing, construction, retail); for all firm types (registered and unregistered); for all firm size categories except small firms; and for most cities covered by the survey. Overall, 70 percent of the sample considers *policy enforcement* to be a major or very severe obstacle to their operations. It is noteworthy that its close kin— macroeconomic instability—did not rate as an issue in 2005.<sup>15</sup>

**2.23 Only 14 percent of respondent firms agreed that laws are interpreted consistently and predictably by government officials.** Across all sectors and cities—and irrespective of firm size, type, or market—at least 70 percent of firms reported a lack of consistency and predictability (relating to their establishments) on the part of government officials. Overall confidence in the judicial system is also low, with 84 percent of Afghan businesses finding the court system corrupt and unfair.

**2.24 There has been a marked deterioration since 2005 in the way crime, theft, and disorder are perceived by Afghan firms.** In 2005, crime was cited by just 16 percent of the sample as a major problem and ranked outside the top 10 constraints. In 2008, crime ranks third, after policy enforcement and electricity, and is perceived as a serious obstacle by 60 percent of Afghan enterprises. This is corroborated by

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<sup>14</sup> What is “policy enforcement”? The 2008 Enterprise Survey asked firms whether “political instability” (not “policy enforcement”) was a constraint. However, discussions with the government and other stakeholders revealed that this term—especially in view of the fact that it emerged as the number one constraint—could have several sensitive political connotations that were not necessarily implied by the questionnaire. To clarify the issue, 10 firms that reported “political instability” as the biggest obstacle to their business were recontacted to ask what they understood the phrase to mean, and three independent Dari-English bilingual speakers were asked to translate and interpret the phrase. Broadly, the phrase was understood to imply an unstable government or political turmoil leading to frequent policy reversals and weak enforcement of policies. This understanding was discussed in detail with key stakeholders, and a consensus emerged to rename this constraint “policy enforcement,” which would imply “state ineffectiveness in designing and implementing consistent policies.” It has also been agreed that future enterprise surveys will attempt to unpackage this indicator to better understand its exact impact on private sector enterprises.

<sup>15</sup>An exact comparison of policy enforcement cannot be made with the 2005 survey, in which respondents were asked about “macroeconomic instability,” which may have been interpreted differently. In 2005, only 18 percent of firms ranked macroeconomic instability as a major constraint. In fact, this constraint did not even rank among the top 10 in the 2005 survey.

panel firms: 22 percent complained about severity in crime in 2005, and 59 percent complained in 2008. Crime ranks among the top four constraints for all sectors, cities, firm sizes types, and for both exporters and non-exporters.

**2.25 One in ten surveyed firms reported losses due to theft, robbery, vandalism, or arson** (figure 16). Moreover, 36 percent of Afghan enterprises pay for their own security, including equipment, personnel, and professional security services. The average annual cost of security was 140,525 Afghanis (US\$2,679). However, security costs fell from 15 percent of sales in 2005 to just 3 percent in 2008. Six percent of surveyed companies also reported making protection payments to government officials or military commanders (figure 17).

FIGURE 16  
**Many Afghan Firms Are Victims of Theft and Vandalism**

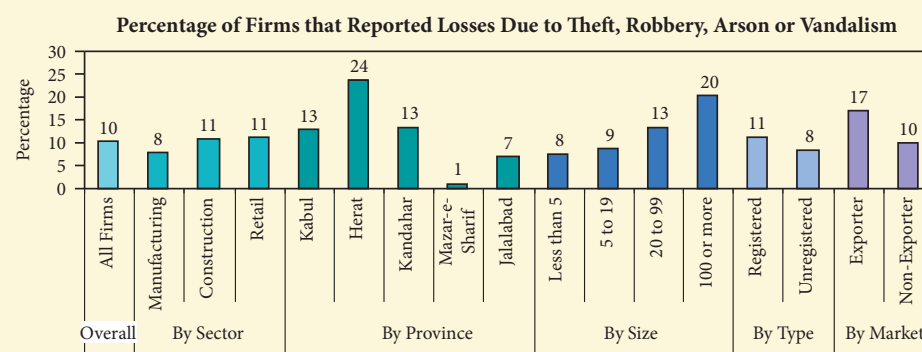


FIGURE 17  
**Some Afghan Firms Make Protection Payments to Government Officials or Military Commanders**

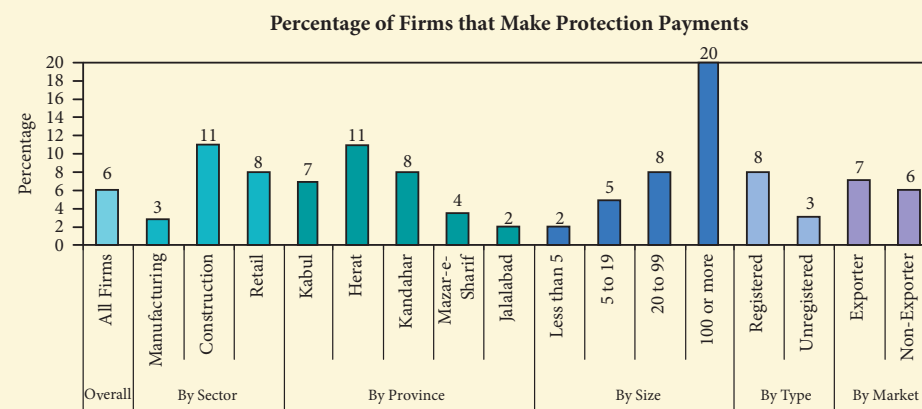
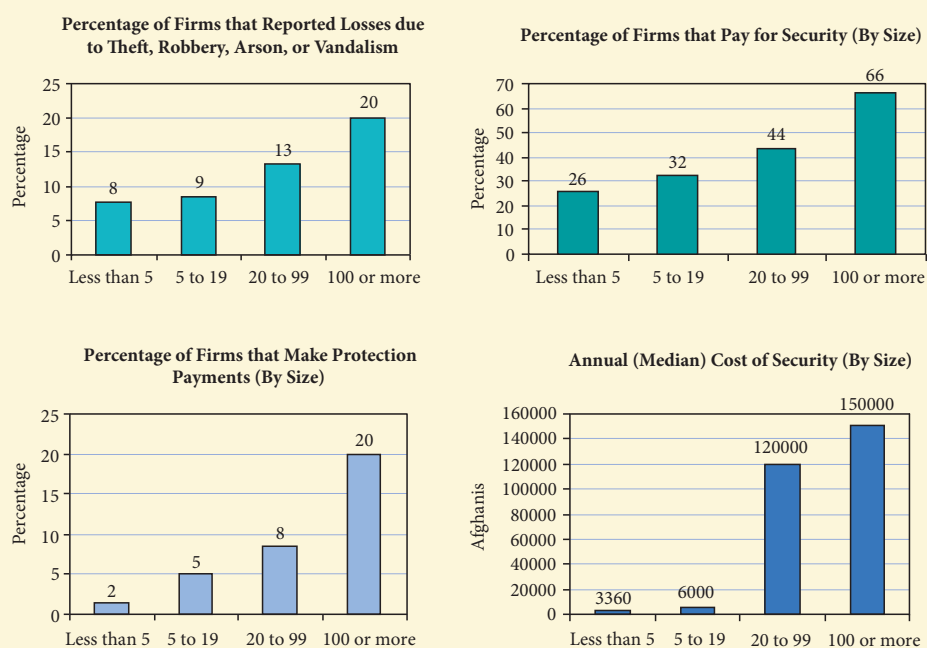


FIGURE 18  
**Effect of Crime on Different-Sized Firms**



**2.26 Crime significantly affects larger firms.** Medium-sized and large firms tend to perceive crime, theft, and disorder as severe more often than micro and small firms. This perception is validated by the fact that the percentage of larger firms reporting losses from theft is more than double that of micro and small firms. Larger firms are more likely than smaller firms to pay for security or make protection payments, and they incur a higher annual average cost for security (figure 18).

**2.27 Nearly 90 percent of firms in Herat cited crime as a major obstacle.** Many firms in Kabul and Jalalabad also cited crime as a major obstacle. In these three cities, compared with other cities, a larger percentage of firms had to pay for security. Herat also had the largest percentage of firms that reported losses as a result of theft, robbery, arson, or vandalism. Mazar-e-Sharif fared best among the five cities, with just 1 percent of firms facing such losses.

**2.28 Crime poses a relatively more serious obstacle for the retail sector and for construction firms.** Eleven percent of firms in construction and retail (compared with 8% in manufacturing) suffered losses as a

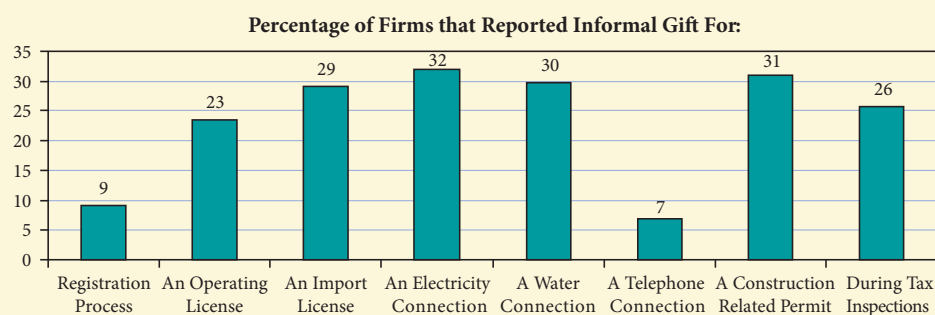
result of crime, theft, arson, or vandalism. Construction firms were more likely than manufacturing or retail firms to pay for their own security or making protection payments. The median cost of security was also higher for construction firms: 90,000 Afghanis, compared with 24,500 Afghanis for manufacturing and 6,000 Afghanis for retail firms. Crime, theft, and disorder pose a major challenge to medium-sized and large manufacturing firms, micro construction firms, and medium-sized retail firms in particular.

**2.29 Exporter firms are relatively more constrained with respect to crime.** Exporters are more likely to spend on security and make protection payments as compared to non-exporters. 17 percent of exporting firms, as opposed to 10 percent of non-exporting firms, also reported losses on account of theft, robbery, arson or vandalism. About 5 percent of the consignment value of exported products is lost in transit owing to theft.

**2.30 While perception of corruption has improved since 2005, the 2008 quantitative indicators for corruption indicate that it is still a serious issue.** In their dealings with public officials, Afghan enterprises pay over 2 percent of their sales as bribes to “get things done.” Afghan businesses were asked whether an informal gift was expected or requested in the course of their business transactions and the responses are indicative of the extent of corruption (figure 19). Firms are more likely to report an informal gift for an electricity connection, construction permit, or water connection. Corruption seems to be alive and well in Afghanistan, as also reported in the *Transparency International 2009* rankings (annex 4).

FIGURE 19

### Informal Gifts Are Common Practice in Afghanistan



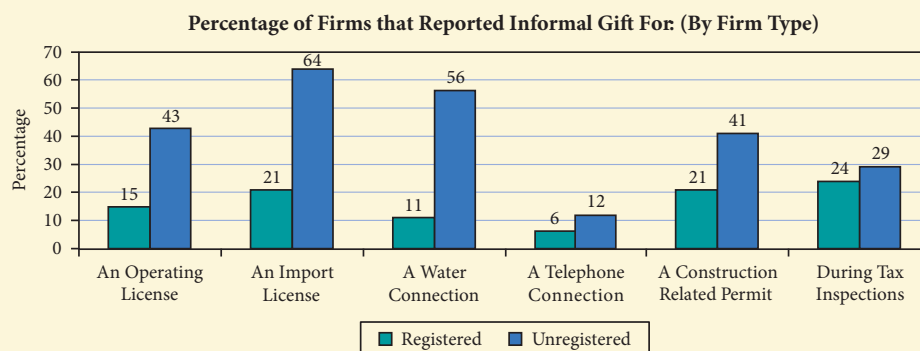
**2.31 Corruption exists throughout the country, but its impact is uneven across firms of different sizes and across different cities.**

Larger firms generally perceive corruption as a bigger issue, although many small firms report informal gifts or payments in their dealings with public officials, especially for the registration process, securing operating licenses, or obtaining a water connection. Over half the firms in Herat, Jalalabad, and Kabul reported corruption as a severe constraint. Over 20 percent of firms in Herat, Kandahar, and Mazar-e-Sharif (compared with just 4% of firms in Kabul and 6% of those in Jalalabad) reported that an informal gift was expected or requested for the registration process. For an operating license, two out of three firms in Mazar-e-Sharif and two out of five in Jalalabad report paying bribes. To secure an import license, about half of the firms in Mazar-e-Sharif and Herat, and a third of those in Jalalabad, pay a bribe or make a gift.

**2.32 Almost all quantitative indicators of corruption suggest that this factor is a more severe constraint for unregistered firms than for registered firms.<sup>16</sup>** A larger percentage of unregistered firms than registered firms pay bribes in most kinds of dealings with public officials (figure 20).

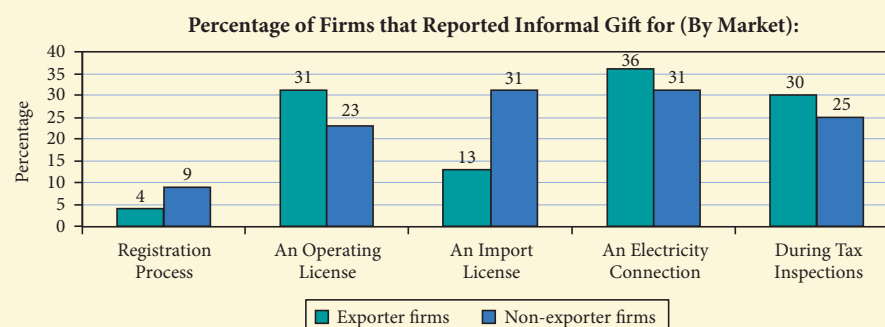
FIGURE 20

**Corruption Indicators for Registered and Unregistered Firms**



<sup>16</sup> This finding is in contrast with the perception data, in which corruption is perceived as a major or very severe constraint by 50 percent of registered firms and just 33 percent of unregistered firms. Corruption is also ranked higher for registered firms (fourth) than for unregistered firms (sixth).

FIGURE 21

**Exporting Firms Face Higher Pressures From Corruption****2.33 Corruption is a very serious constraint for construction firms.**

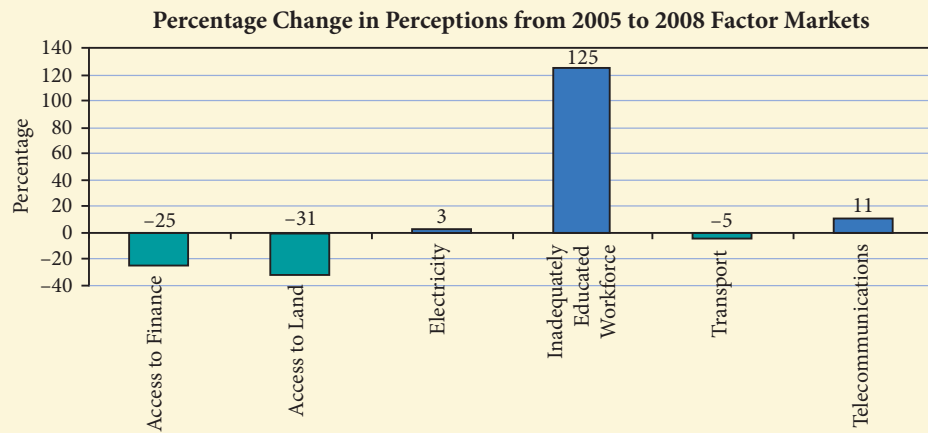
Sixty percent of enterprises in the construction sector perceive corruption as posing a severe obstacle to their operations—much higher than in manufacturing (43%) or retail (48%). An analysis by size of construction firms reveals that small firms are relatively better placed. Less than half of the small construction firms complained about corruption; in all other size categories, the figure was over 70 percent. Even though perceptions relating to corruption are better for manufacturing, 60 percent of medium-sized manufacturing firms cite corruption as a serious obstacle. In retail, there appears to be a direct correlation between the size of the firm and the perception of constraint severity with respect to corruption.

**2.34 Exporters are more likely to make an informal gift or payment to get things done, except for registration and procuring an import license** (figure 21). Exporters also pay a smaller proportion of the contract value as informal payment in order to secure contracts.

## GETTING FACTOR MARKETS TO WORK BETTER

**2.35 Factor markets have seen mixed improvements since 2005** (figure 22). The need to get factor markets to work better is another key message from this survey. We look at the traditional factor markets of capital, labor, and land. We define land as serviced industrial land, with electricity and water as the fundamental services.

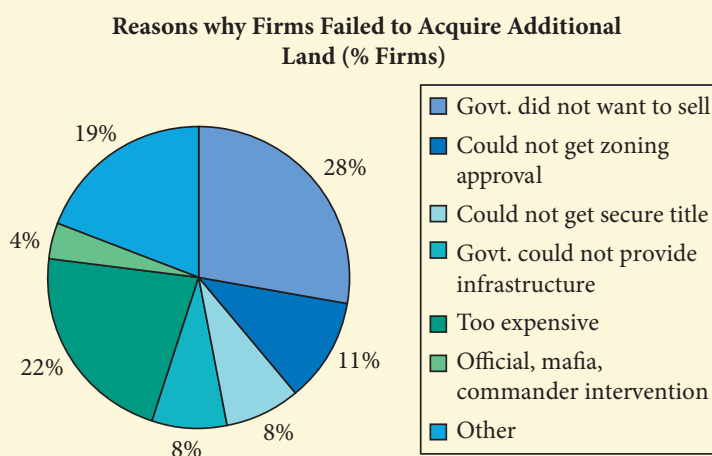
FIGURE 22

**Change in Perceptions of Factor Market Indicators Between 2005 and 2008****SERVICED LAND**

**2.36** *In 2008, 41 percent of surveyed firms reported access to land as a major or very severe constraint to their business operations.* While perceptions relating to the severity of this constraint have improved since 2005—when access to land ranked second after electricity—it is now perceived as the fifth most important constraint. The only major deviations from the overall ranking are seen in smaller cities, where as many as 65 percent of firms complain about land; and, conversely, in Jalalabad, where only 23 percent complain. Medium-sized and large firms (compared with micro and small firms) and the construction sector (compared with other sectors) are relatively more constrained by land access.

**2.37** *Additional land is not easy to obtain—68 percent of the respondents who tried to acquire new land in the past three years failed to do so.* In fact, the figure for Kabul is as high as 83 percent. Overall, it took an average of 192 days to obtain land. Inability to acquire land can be attributed to several factors, primarily because the government did not want to sell it. One in five firms also found buying new land too expensive. Failure to obtain zoning approval, failure to get a secure title, and mafia-related issues were also cited as reasons for the inability to acquire land (figure 23). The fact that 4 percent of respondents

FIGURE 23

**Reasons for Inability to Acquire Additional Land**

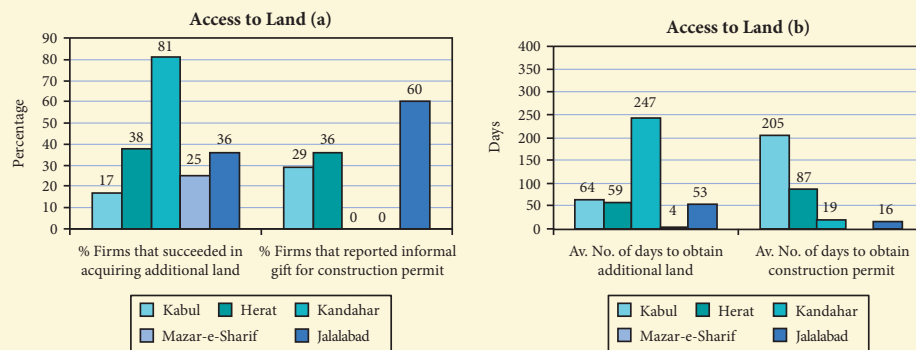
reported being unable to acquire land because of mafia or military commander intervention may indicate a correlation between access to land and crime/security; however, the survey does not have enough information to confirm or refute this hypothesis.

**2.38 It took firms an average of 88 days to obtain a construction permit.** Among Afghan businesses that applied for construction-related permits, 31 percent reported that an informal gift was expected or requested.

**2.39 Obtaining additional land appears to be less of a challenge in Kandahar, although it takes longer.** Of the firms that attempted to acquire land in this region, 81 percent succeeded. As a matter of fact, Mazar-e-Sharif, Kandahar, and Jalalabad reported a lower percentage of firms that cited land access as a major or very severe constraint compared with the overall average of 41 percent. However, it can take an average of 247 days to obtain land in Kandahar, compared with the 4 days reported by one firm in Mazar-e-Sharif.<sup>17</sup> Kabul reported the highest percentage of firms that failed to acquire additional land; the main reason was the unwillingness of the government to sell. Kabul also fared

<sup>17</sup> In Mazar-e-Sharif, only 4 out of 142 firms applied for additional land. Of these, only 1 firm succeeded in acquiring it. The other three firms found the land to be too expensive. Only one firm applied for a construction permit.

FIGURE 24  
**City Variations on Access to Land Indicators**



worst in the number of days needed to obtain a construction permit. Jalalabad was worst in terms of corruption related to construction permits (figure 24).<sup>18</sup>

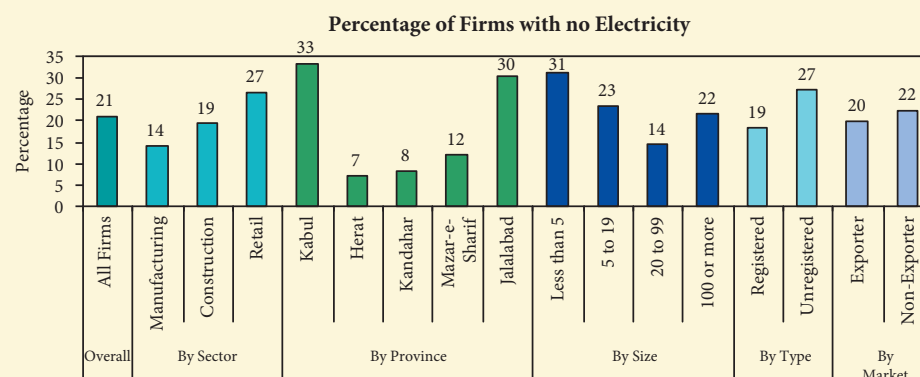
**2.40 The construction sector is relatively more constrained than others with respect to land access.** The severity of this constraint is reported to be higher for medium-sized and large firms than for small and micro firms. A smaller proportion of construction firms than manufacturing or retail firms succeeded in acquiring new land. Failure to acquire land because of an inability to get zoning approvals was also cited by more construction firms than manufacturing or retail firms

**2.41 Electricity is a constraint for most firms, despite some improvements.** This result is virtually unchanged from the last survey. In 2008, 66 percent of the sample cited electricity as a major or very severe obstacle to doing business. In 2005, the figure was 64 percent. Although several quantitative indicators for electricity show an improvement from 2005, it remains a serious obstacle constraining business operations.

**2.42 Firms are either unconnected or suffer from unreliable connections.** About 20 percent of surveyed firms do not have access to the grid. The problem is more acute for retail firms than for other sectors;

<sup>18</sup> There were only a small number of responses to these questions, therefore further study is recommended to properly dimension this issue.

FIGURE 25

**Many Firms Have No Access to a Public Supply of Electricity**

for Kabul and Jalalabad than for other cities;<sup>19</sup> for micro firms than larger firms; for unregistered firms than registered firms; and for non-exporters than exporters (figure 25).

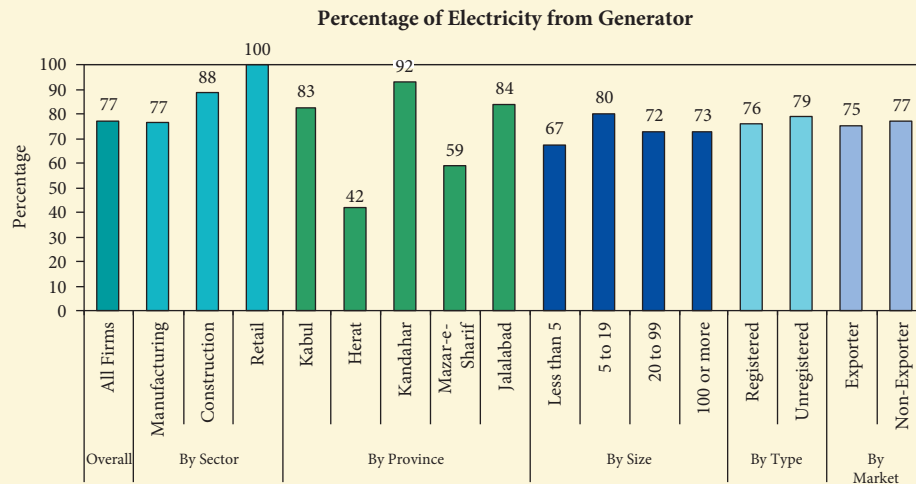
#### **2.43 Power outages are a regular feature for Afghan businesses.**

Among firms having access to the grid, 73 percent reported suffering power outages, with an average of 23 outages per month, each lasting about 11 hours. However, the situation has improved substantially since 2005. In the 2005 survey, firms reported having power for an average of just six and a half hours a day. For the panel firms, outage duration dropped from 20 hours in 2005 to 8 hours in 2008. Despite this, firms in 2008 reported output losses from power outages averaging 9 percent of sales. There is enormous dependence on privately generated electricity. Seventy-five percent of Afghan enterprises report having a generator, with 77 percent of electricity coming from private sources of power (figure 26). This is costly for firms—the industrial tariff for getting electricity from the grid is about US\$0.20 per KW hour, while private generation can cost upwards of US\$0.30 per KW hour.<sup>20</sup>

<sup>19</sup> When our survey ended in December 2008, Kabul received a total of 30MW of power per hour. In January 2009, a power line constructed between Kabul and Uzbekistan became active, delivering an extra 40MW of power per hour to Kabul. The availability of power is expected to increase further. Under a project funded by the Asian Development Bank (ADB), a transmission line will be constructed from Kabul to Jalalabad over the next two years to provide power to Jalalabad.

<sup>20</sup> These are approximate estimates; the cost varies by region.

FIGURE 26

**Most Enterprises Rely on Self-Generated Power**

\*Note: The 100 percent figure for Retail is based on responses obtained from only 2 retail firms in the sample.

**2.44 Perceptions relating to electricity are worse for manufacturing firms than for construction and retail firms.** Managers in manufacturing firms are more likely to perceive electricity as a serious constraint compared with managers in construction and retail activities. In all three sectors, micro firms are less constrained by electricity problems.

**2.45 Water is not as serious an issue as electricity for Afghan firms.** About 8 percent of the firms reported experiencing insufficient water supply. Public sources of water account for 17 percent of the water used in the production process. The main problem with regard to water as a factor input is corruption—30 percent of surveyed firms said that an informal gift or payment was expected or requested for a water connection. This problem appears to be more acute for the construction sector, in Jalalabad and Kabul, for smaller firms, and for unregistered firms.

**2.46 Lack of serviced land is a serious problem.** Firms identified electricity as the second biggest problem and availability of land as the fifth. While steps are being undertaken to provide electricity for the entire country, tackling the issue of serviced land would deal with both these issues in a reasonably quick and practical way.

## ACCESS TO FINANCE

**2.47 Access to finance was perceived as a major or very severe constraint to doing business by 38 percent of the sample in 2008, compared with 51 percent in 2005.** The corresponding figures for panel firms are 40 percent for 2008 and 50 percent for 2005. Despite improvement since 2005, Afghanistan performs poorly relative to comparator countries on quantitative indicators of access to finance (annex 4).

**2.48 Afghanistan has made some progress in terms of financial deepening, but there is a long way to go.** Only 51 percent of enterprises reported having a bank account, although this is a marked improvement since 2005, when only 30 percent had a bank account. Exporters (compared with non-exporters), registered firms (compared with unregistered firms), larger companies (compared with smaller companies), and firms in the construction industry (compared with manufacturing and retail) are more likely to have a bank account (figure 27). Moreover, 97 percent of enterprises that do have bank accounts are very satisfied or quite satisfied with the services provided by their banks—this sentiment is expressed across sectors, cities, firm sizes, firm types, and markets. Thirty-four percent of enterprises that use banking services also reported having an overdraft facility. However, electronic banking mechanisms need strengthening—only 1 percent, 5 percent, and 1 percent of the respondents reported using ATM cards, credit cards, and payment services, respectively.

FIGURE 27

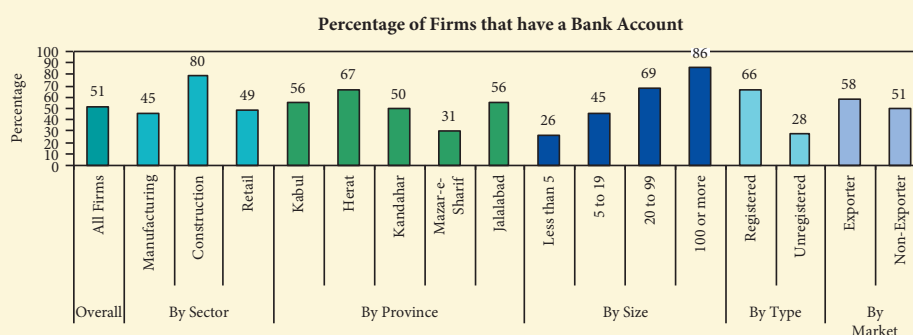
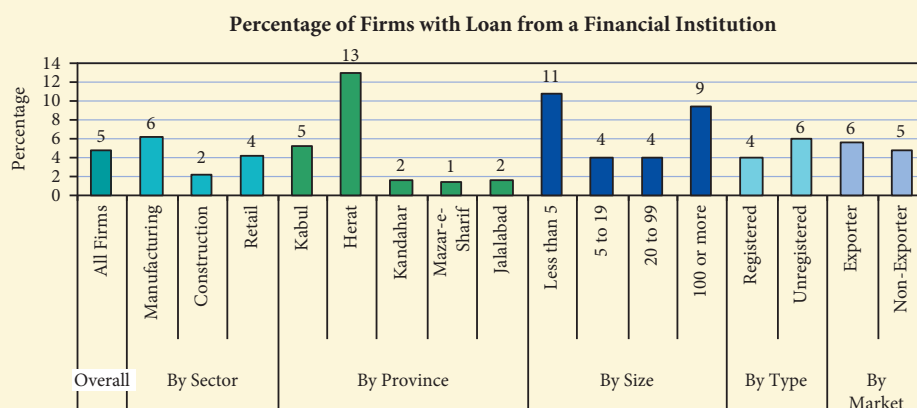
**Percentage of Afghan Firms That Have a Bank Account**

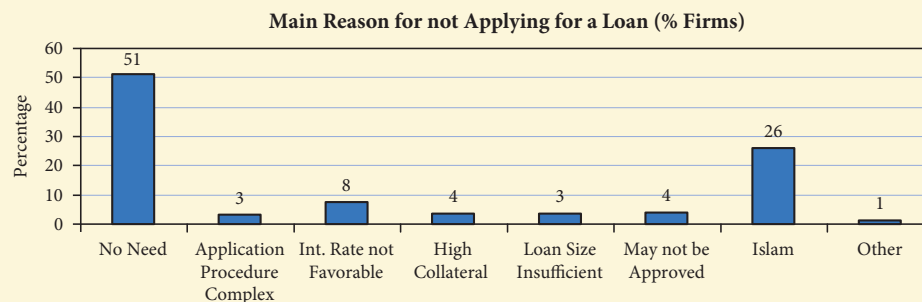
FIGURE 28  
**Percentage of Firms Accessing Formal Credit**



**2.49 Only 5 percent of Afghan enterprises have a loan with a financial institution** (figure 28). This finding is reinforced by the World Bank’s *Doing Business 2009* report, which ranks Afghanistan 178th of 181 countries in “getting credit.” A major proportion of these loans is provided by private commercial banks (45%), followed by non-banking financial institutions (NBFIs) (29%). Nine in 10 surveyed firms had to supply collateral against their loans; just over half of the firms reported using personal assets, while just under half used land as collateral.

**2.50 Close to half of all firms felt the need to access formal credit but did not do so.** The reasons varied widely, as illustrated in figure 29. The finding that 51 percent of firms reported having no need for formal credit warrants further research.

FIGURE 29  
**Reasons for Not Accessing Formal Credit**



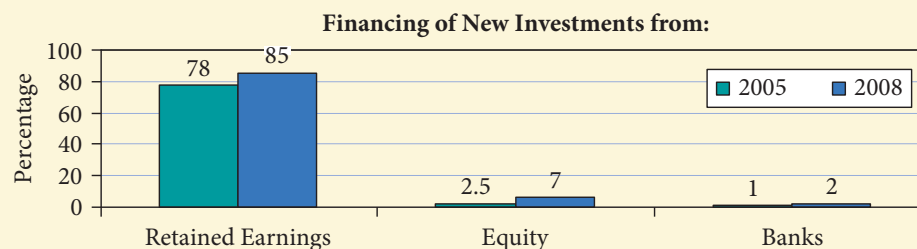
**2.51 Working capital is overwhelmingly obtained from non-formal sources of finance.** Firms across all sectors, cities, size categories, and firm types report financing between 80 and 90 percent of their working capital from retained earnings. Dependence on banks and NBFIs is just 2 percent.

**2.52 Only 7 percent of fixed-asset purchases are made out of owners' contributions or issuance of new equity shares.** This is an improvement over the 3 percent figure reported in 2005. Equity financing is relatively more important in manufacturing and retail than in construction; for smaller firms; and for registered firms compared with unregistered firms. Retained earnings are the primary source of financing, accounting for 85 percent of all fixed-asset purchases. Overall, dependence on banks, NBFIs, credit purchases, and other sources (friends, relatives, moneylenders) is miniscule. In fact, no micro firm reported purchasing fixed assets through financing from banks, NBFIs, or on credit.

**2.53 Between 2005 and 2008, financing of new investments from retained earnings for all firms increased from 78 percent to 85 percent.** While equity financing has shown a slight improvement, little progress is seen with regard to bank credit (figure 30).

**2.54 Perceptions relating to access to finance are better for construction firms than for manufacturing or retail firms.** Finance indicators reveal a mixed picture on access to and availability of financing across sectors. Four in five construction firms have a bank account—a higher proportion than that of firms in other sectors.

FIGURE 30  
**Source of Financing for New Investments**

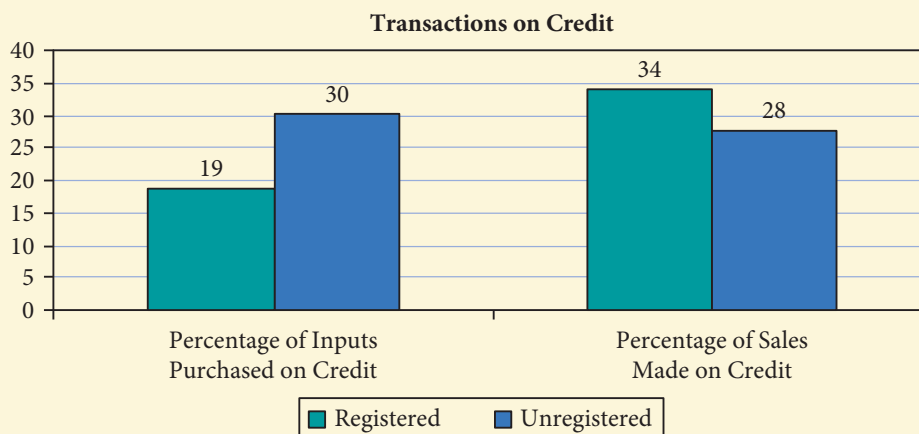


However, construction firms are least likely to have a loan with a financial institution (figure 28). Construction reports a higher percentage of sales made on credit, followed by manufacturing and then retail.

**2.55 *The quantitative indicators for access to finance place unregistered firms in a weaker position.*** Although the difference in perceptions is marginal with respect to access to financing, only 28 percent of unregistered firms reported having a bank account, compared with 66 percent of registered firms. Among the unregistered firms that do have a bank account, ATM or credit card use was nil. Relatively fewer unregistered businesses have an overdraft facility than registered firms. Furthermore, a higher proportion of inputs are purchased on credit by unregistered firms than by registered firms. The proportion of sales made on credit, however, is higher for registered firms (figure 31).

**2.56 *Unregistered firms are more likely to depend on NBFIs for a loan.*** Half of all unregistered firms reported obtaining a loan from an NBFi, compared with 12 percent of registered enterprises, which relied more on private commercial banks or state banks for loans. Virtually every respondent in the unregistered sector was required to provide some collateral, compared with 80 percent of registered firms. The majority of unregistered firms used personal assets (e.g., a house) as collateral, while most registered firms used land.

FIGURE 31

**Transactions on Credit by Firm Type**

**2.57 A comparison of finance indicators with other countries reveals a mixed picture.** Afghanistan has a larger percentage of firms with a bank account than Yemen does, but it has a long way to go to achieve, for example, the 94 percent figure of Jordan (figure 32). Afghanistan also has the lowest percentage of firms with loans from a financial institution (figure 33). With regard to new investments from banks and other financial institutions, Afghanistan, Jordan, and the West Bank and Gaza are comparable (figure 34). And even though Yemeni

FIGURE 32  
**Country Statistics on Firms With a Bank Account**

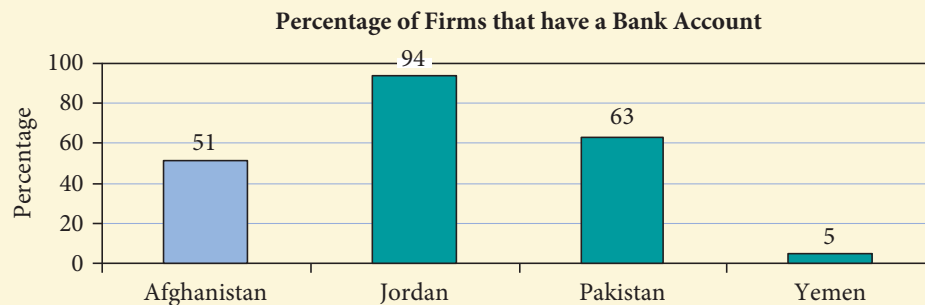


FIGURE 33  
**Country Statistics on Loans From Financial Institutions**

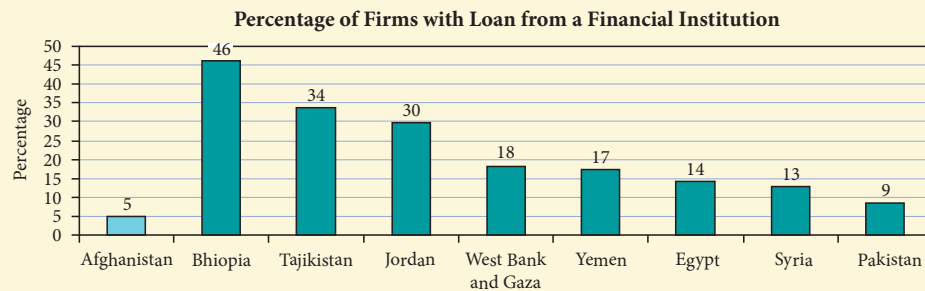
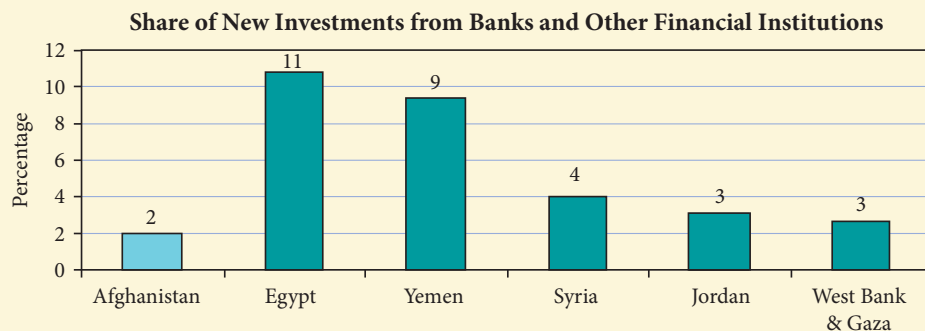


FIGURE 34  
**Country Statistics on Share of New Investments From Formal Sources**



firms are less likely to have a bank account, they are more likely to have loans or new investment from banks and financial institutions.

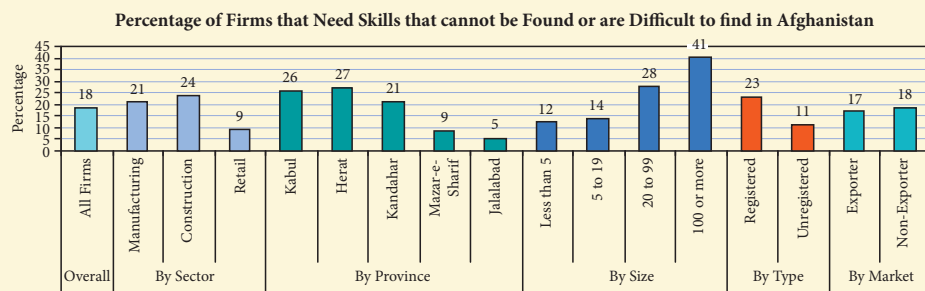
**2.58 While there has been improvement, access to formal finance remains a problem.** Access to finance was the single biggest obstacle reported by Afghan businesses, and it is generally recognized as a major problem area. The reform agenda is complicated and will take years to implement. In the meantime, it would be useful for policy-makers to develop practical solutions to improve access to finance for the underserved.

## LABOR MARKETS

**2.59 Rigidities in labor markets or in the availability of skills are not generally perceived to be a problem.** While an inadequately educated workforce does not figure among the top investment climate constraints for Afghanistan, a comparison across sectors shows that construction firms are relatively more constrained than manufacturing and retail with respect to skills and education of the workforce.

**2.60 While the majority of workers across the board is literate, less than one in three has a secondary education.** Only 1 of the 220 manufacturing firms that reported the level of educational attainment of its workers said “college education.” While more than 80 percent of firms do not perceive lack of skills as an issue, a number of them—especially large and registered firms—report being constrained in terms of the availability of skilled professionals and experts (figure 35).

FIGURE 35  
**Some Afghan Firms Face Skill Shortages**



## INNOVATIVE AND PRODUCTIVITY-ENHANCING BEHAVIORS

### 2.61 *A key message of this report is that Afghan firms are not sufficiently exhibiting innovative and productivity-enhancing behaviors.*

While the survey indicates that the high growth witnessed by Afghanistan's private sector may continue in the short term, a lack of innovative and productivity-enhancing behaviors on the part of Afghan firms could adversely impact the growth pattern of the private sector in the medium and long term. Some of these behaviors are examined below in terms of (a) education and training indicators of the workforce, especially IT skills; (b) efforts by businesses to improve their technology or product quality; and (c) expansion plans of Afghan businesses.

**2.62 *About 14 percent of the surveyed firms offer formal training*** (figure 36). This is an improvement over the 5 percent figure reported in 2005. There is a steady increase with firm size in the percentage of firms that train their permanent full-time employees. Formal training in computers is provided by over half of all surveyed firms. Registered firms do better on training and report a marginally higher staff literacy rate.

**2.63 *Computer and Internet use is weak.*** This is particularly true for micro and small firms, unregistered firms, and manufacturing and

FIGURE 36  
**Firms That Provide Formal Training for Employees**

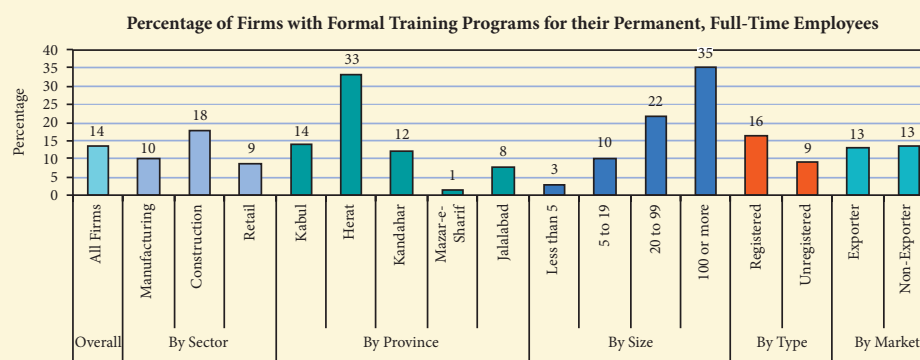


FIGURE 37  
**Computer and Internet Use Varies Widely Among Afghan Firms**

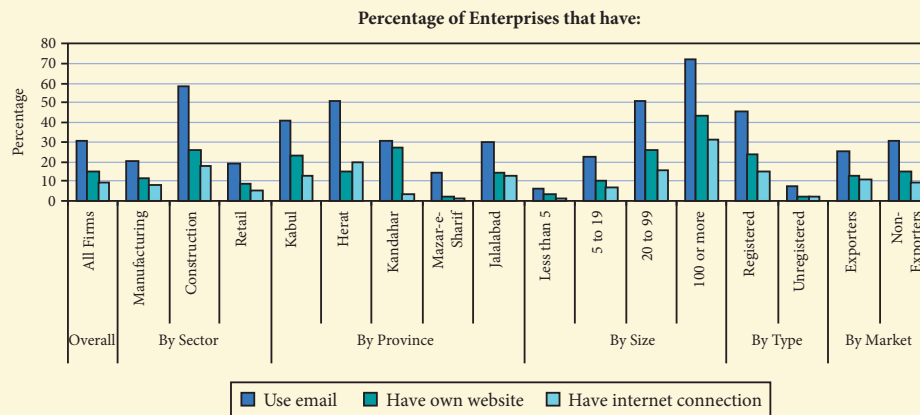
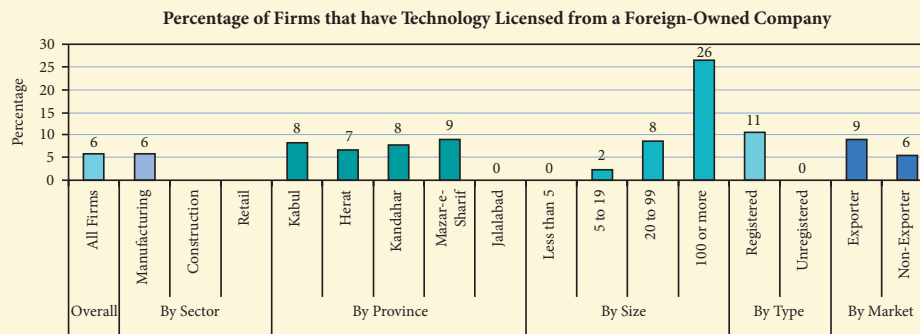


FIGURE 38  
**Percentage of Firms That Use Foreign-Licensed Technology**



retail sectors (figure 37). There has been some improvement, however, since 2005: the proportion of firms that use e-mail has doubled and the proportion that have their own website has risen by 67 percent. Internet connectivity is a challenge: over half of all responding firms reported interruptions in Internet service, lasting an average of 50 hours (median) with a frequency of 13 interruptions each month. Very few Afghan firms report using technologies licensed from foreign-owned companies (figure 38).

**2.64 Afghan firms primarily produce for the domestic market** (figure 39). A larger proportion of retail firms and a higher incidence of Jalalabad-based firms applied for an import license. Exposure to international markets promotes productivity enhancing behaviors such as

FIGURE 39

**Percentage of Afghan Firms That Applied for an Import License**

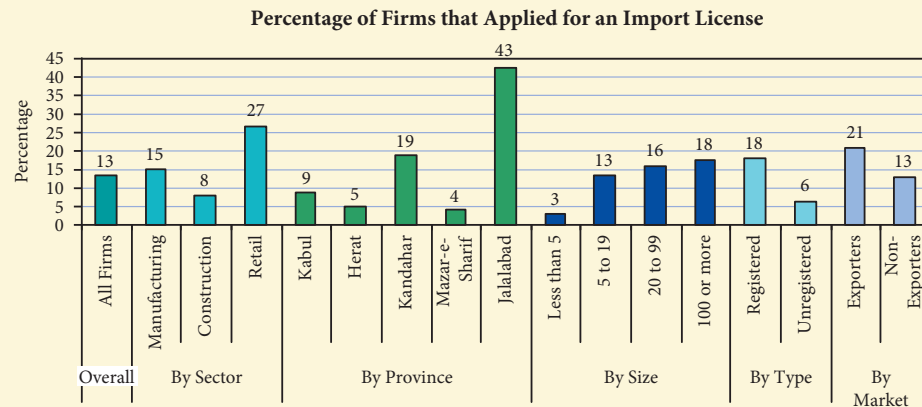
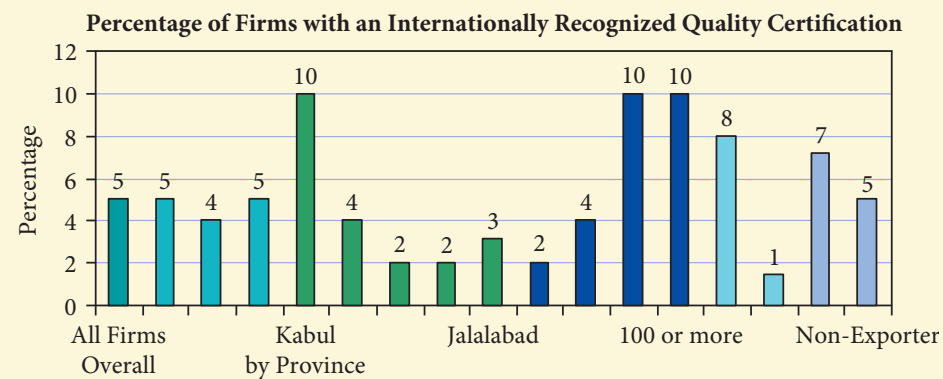


FIGURE 40

**Percentage of Afghan Firms With Quality Certification**



acquiring quality certifications. However, the incidence of this is very low in Afghanistan (figure 40).

**CONCLUSIONS**

**2.65** The survey findings in general validate the Afghan government's current reform program. The government is making efforts to (1) improve governance through better business regulation and stronger institutions, and (2) strengthen factor markets by improving access to finance, providing industrial land, and addressing infrastructure and

human capital issues. More efforts are required, as the survey reports little measurable progress.

**2.66** Within the cluster of reform efforts, the one striking finding of the survey is in the area of policy enforcement. The matter has been discussed in detail with stakeholders, and many anecdotes emerged of policy reversals and failure to uphold commitments with respect to land access or licenses. As noted earlier, investors will not tolerate a lack of predictability; it is a key reason why Afghanistan has not attracted investment despite the potential for attractive returns and the existence of some relatively secure locations to do business.

**2.67** The survey and the associated analysis also identify a group of emerging issues that require some attention. These include the interlinked issues of competitiveness, innovation, and diversification. Despite strong business growth, policymakers should be concerned about the recent lack of new firms, especially foreign firms, entering the market. The scarcity of new entrants and the lack of innovative behavior by firms are strong indicators of a lack of competitiveness; these areas warrant additional research. Another concern is the undiversified industrial sector, which is overwhelmingly (approximately 95%) linked to the agriculture and agro-processing sectors.

**2.68** The strong growth also needs deeper evaluation. A thorough understanding of the key drivers of growth will be helpful for policymakers. In our experience, no country that has weak governance, poor factor markets, and non-innovative firms achieves long-term sustainable growth. The transition from what seems to be a catch-up and aid-driven demand growth to a more normal growth pattern requires careful planning.

**2.69** The following chart lists the issues discussed in this report, summarizes the reform status, and suggests some next steps. The next steps include further analytic work, dialogue, and strengthening the ongoing reform efforts of the government. We suggest that the enterprise survey be repeated regularly to assess the impact of government policies on private sector growth and productivity.

**Afghanistan Enterprise Survey—Review of Findings and Next Steps**

| Issue  | Current Status   | Next Steps  |
|--|--|---|
| <b>Overall Findings</b>  |  |   |
| The quality and sustainability of current levels of growth is not clear.               | Very few growth diagnostics are available  | Carry out a “sources of growth” study.<br><br>Carry out an economic diversification study to explore potential areas and identify any policy, regulatory, or structural impediments to their development. |
| The investment climate in Afghanistan shows important regional variations.             | No regional or city-level economic development strategies are available.   | Undertake a dialogue to review local economic development opportunities.  |
| Competitiveness challenges exist.  | The topic of competitiveness has not received much attention.  | Carry out a competitiveness study that looks at firm entry and exit.  |
| Some topics were not adequately covered in this survey.                                | These topics include rural enterprises located outside the 10 surveyed cities, gender, worker skills, and the predictability problem.  | Ensure that these topics are properly covered in future surveys.  |
| <b>Governance</b>  |  |   |
| Government policy and regulatory predictability are very weak.                         | There is a general awareness of the need for predictability, but the importance of the issue is not well understood by policymakers and there is no systematic approach to address it. | Undertake a high-level dialogue with stakeholders on this topic.  |
| Corruption is widespread and shows no signs of abating.                                | This topic is being addressed, but measures in place appear inadequate to reduce corruption.   | Continue to monitor and report on the impact of corruption on the private sector.<br><br>Undertake a dialogue to determine whether the private sector itself could take measures to manage corruption.    |
| Crime, theft, arson, and vandalism problems are increasingly perceived as constraints. | This issue is receiving substantial attention and significant international support being made available to help.  | Continue to monitor and report on the impact of these problems on the private sector.   |
| Business regulation is weak.   | A substantial amount of work is being done on this topic.  | Continue to monitor and report on the impact of weak regulation on the private sector.  |

*(continued)*

| Issue  | Current Status   | Next Steps   |
|--|--|--|
| Court effectiveness is poor but not rated as a constraint, which suggests the use of parallel informal mechanisms. | Work is being done to encourage judicial reform. No work is being done on parallel informal mechanisms that deal with commercial and financial disputes.                                   | Develop a deeper understanding of whether and how informal measures are used to resolve disputes and establish property rights.  |
| <b>Factor Market</b>   |  |  |
| Accessing Land is difficult<br>Accessing serviced land is very difficult   | In parallel with efforts to reform the overall land registration system, there are plans to develop various types of special economic zones (industrial parks etc) throughout the country. | Continue to monitor and report on the impact on the private sector.  |
| Electric power in the quantities and quality needed is not available   | There is a substantial electricity infrastructure development program.   | Continue to monitor and report on the impact on the private sector.  |
| In general infrastructure needs to be strengthened.  | There are development programs in all infrastructure sectors.  | Continue to monitor and report on the impact of this issue on the private sector.  |
| Access to finance is constrained.  | A number of important efforts in the financial sector are beginning to produce results, including a number of programs designed to increase the availability of finance.                   | Carry out financial sector update.<br>Continue to monitor and report on the impact of this issue on the private sector.  |
| Human resource skills are weak   | A number of vocational programs are under way, but their impact has yet to be felt.  | Undertake a dialogue to develop a private sector-led approach to vocational training.<br>Continue to monitor and report on the impact of this issue on the private sector. |
| <b>Innovation</b>  |  |  |
| There are a number of indicators of weak firm-level innovation.  | This topic has not received any attention, with the exception of export development.   | Undertake a dialogue to develop an integrated industrial innovation policy.<br>Start monitoring and reporting on the impact of this issue on the private sector.           |