

ANNEX A:

The Investment Climate Survey

A.1 Sample

The Afghanistan Investment Climate Survey (ICS) sampled 338 private sector enterprises spread across five major cities in May through July 2005. The survey was conducted through face-to-face interviews at the establishment level. At the time of the survey there was no accurate available list of enterprises in Afghanistan from which to construct a sample frame. The best list was provided by AISA, stating registered enterprises and enterprises previously registered with local chambers of commerce. Unfortunately, this list was completely inaccurate. Many of the listed enterprises no longer existed and for those that did, the location, size, and other information were inaccurate. More problematic was the fact that many of the active enterprises were not on the list. Currently, only large enterprises, foreign enterprises, or those that want to do business with the government has an incentive to register with

AISA. Lists of registered importers and exporters could not be accessed.

Because there was no valid sample frame, the survey proceeded by sampling based on a sector's share of the estimated gross domestic product (GDP) with a quota for size of firm. The survey included manufacturing, trade and wholesale, other services, transport, and shipping and construction companies. It excluded healthcare, security, consulting, and financial sector enterprises. Agriculture processors were included in manufacturing but farms were excluded. Manufacturing was overweighted to make the sample more comparable to other ICSs. The sample was distributed geographically based roughly on population estimates in each city. For consistency with the sample from other countries included in the World Bank's Investment Climate Database, the sample was restricted to enterprises of five or more workers. Smaller enterprises do not show many of the organizational elements of a firm.

Table A.1: Sector Distribution: Afghanistan ICS 2005

Sector	% of Sample	Cities	Number of Establishments
Manufacturing	34	Kabul	99
Construction	15	Kandahar	55
Construction material	6	Herat	62
Services	17	Jalalabad	59
Trade and wholesale	23	Mazar-e-Sharif	63
Transport and communications	5		

A.2 Selection of enterprises

Because of the lack of a sample frame, the implementing agency (Altai Consulting) was forced to rely largely on a list of enterprises it had compiled in the course of conducting other research on the Afghan private sector and a "snowball" approach. The Altai list is limited because it consists of companies that Altai had already contacted and interviewed, in some cases multiple times. It also focuses on the sectors of interest for previous projects, including poultry, cumin and saffron, gems, services related to construction and construction materials, wheat-based products, cashmere, soap, shampoo, and laundry detergents. However, the effect of this bias was minimized by the fact that cited sectors represent a large proportion of the Afghan private sector and the list included many of the known medium-to-large companies in the country. In addition, the snowball method mitigated the bias. The snowball method entailed asking interviewed firms

and other contacts for suggestions of firms that met the sampling criteria. These new firms were in turn asked for their suggestions.

A.3 Overall attitude of respondents

The survey lasted an average of 1 to 1.5 hours. Despite this length, the survey firm reported that the majority of respondents were interested in and cooperative with the survey and understood its purpose. Because of the low number of national businesses of significant size, many of the respondents have been interviewed before, some multiple times, on similar topics. These continuing studies have raised expectations; however, there has not yet been a corresponding level of visible activity to help the private sector. This lack of progress has caused a growing number of businesspeople to question the effectiveness of contributing their time and energies to further interviews and of the implementing agencies in general.

Table A.2: City Distribution: Afghanistan ICS 2005

City	No. of Observations	% of Sample
Kabul	99	30
Herat	62	18
Kandahar	55	16
Mazar-e-Sharif	63	19
Jalalabad	59	17
Total	338	100

Table A.3: Size Distribution (number of full-time workers): Afghanistan ICS 2005

Sector	% of Sample
Fewer than 20	55
20-49	25
50-99	10
100 or more	10
Average number of full-time employees	37

A.4 Interviewer profile

The interviewers trained for the survey were generally college-educated in Afghanistan or a neighboring country and/or had previous experience with conducting interviews in the country. However, it was not possible to find interviewers that had previous exposure to the level of business or financial concepts or terminology used in the questionnaire. The practical result of this limitation was that the presurvey training did not fully prepare the interviewers to conduct what for Afghanistan was a complex and sophisticated survey. In many cases, the interviewers may not have completely understood the implicit logic of the survey's structure and may not

have realized its significance or function as an analytic instrument.

A.5 Respondent profile

All respondents were men. The large majority are owner-operators of their companies, which is typical in Afghanistan where large companies are few and most management staffs do not exceed a few individuals. Many are in business for the first time and nearly none have had formal management or business training. Few have had more than a basic general education. However, because of their relatively high position in a hierarchical society, some interviewers may have felt uncomfortable asking sensitive questions or pushing for more complete answers.

ANNEX B: Managers' Perceptions of Major Constraints

Figure B.1: Afghanistan: Percentage of Firms Citing Constraint as Major or Severe

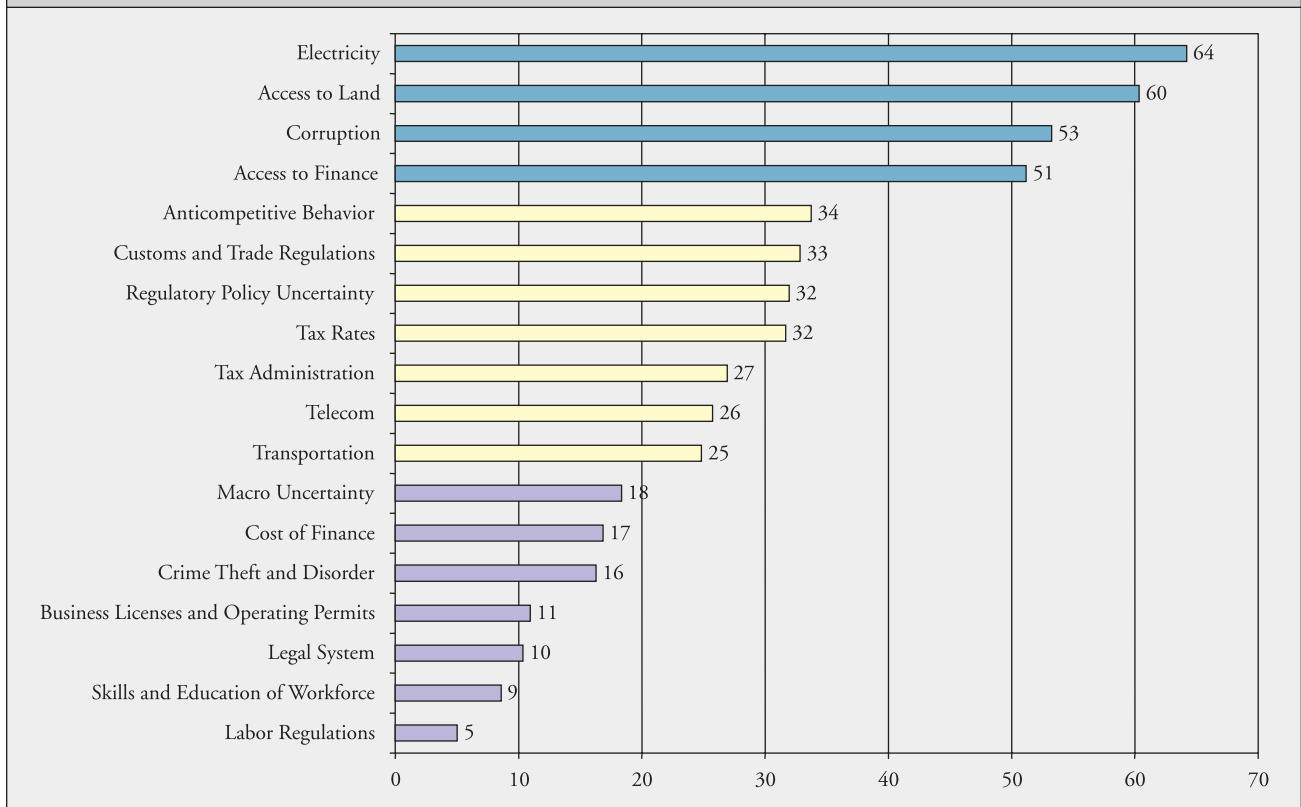


Figure B.2: Kabul: Percentage of Firms Citing Constraint as Major or Severe

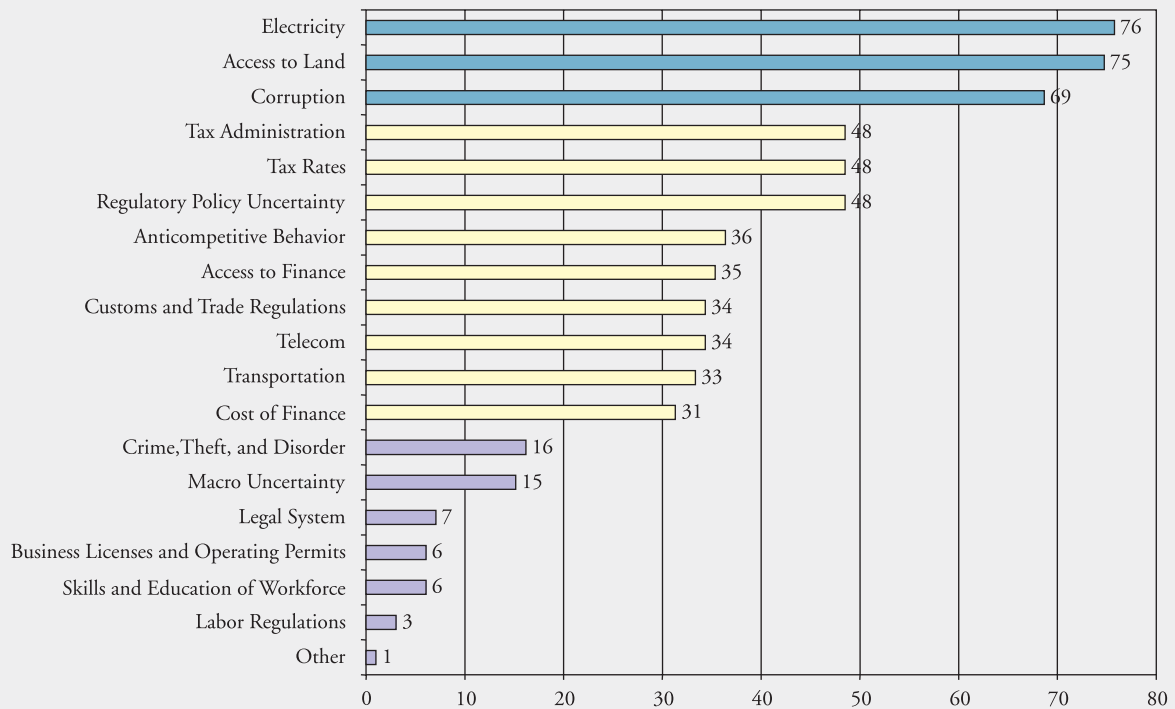


Figure B.3: Mazar-e-Sharif: Percentage of Firms Citing Constraint as Major or Severe

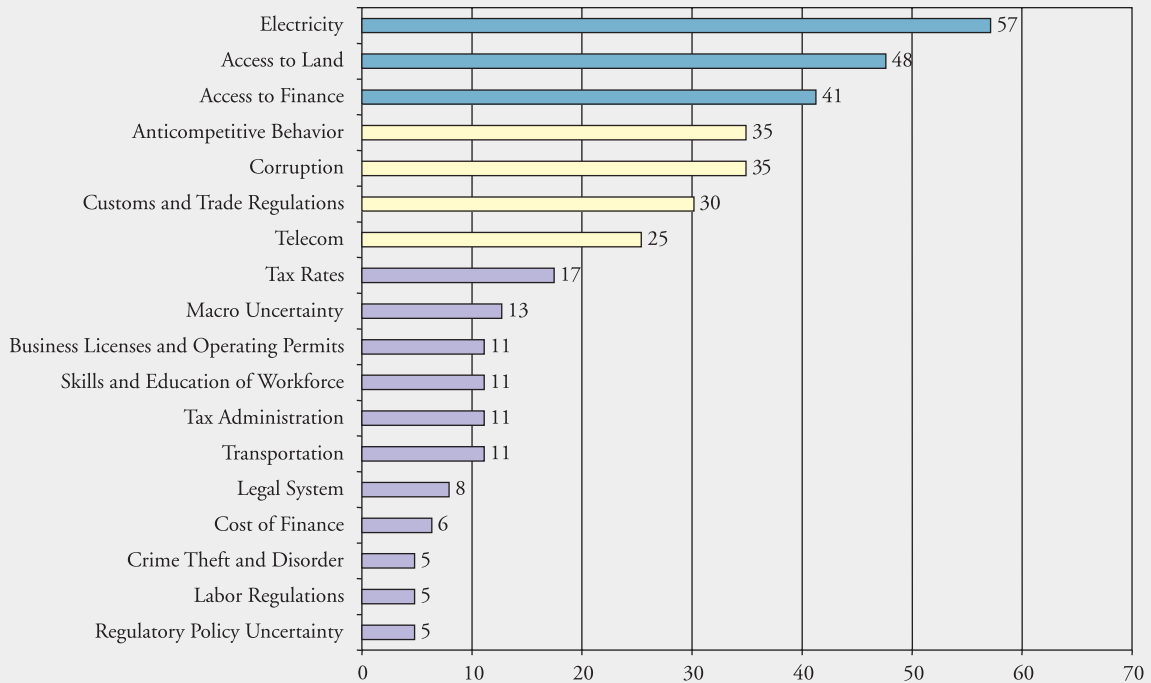


Figure B.4: Herat: Percentage of Firms Citing Constraint as Major or Severe

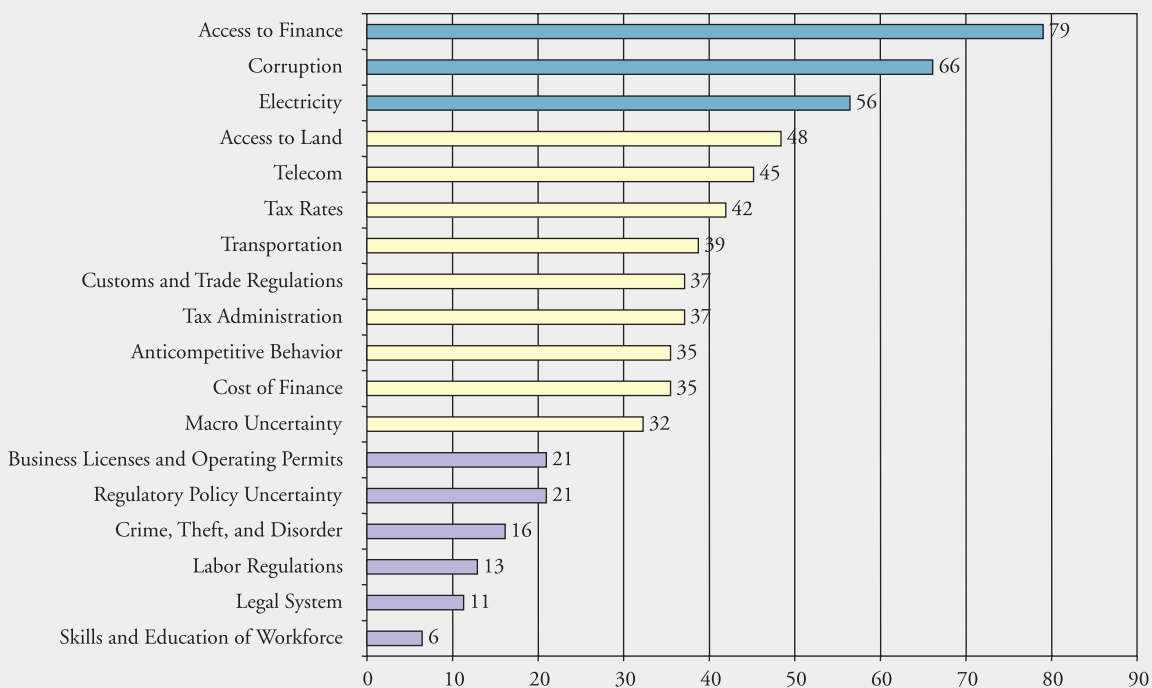


Figure B.5: Kandahar: Percentage of Firms Citing Constraint as Major or Severe

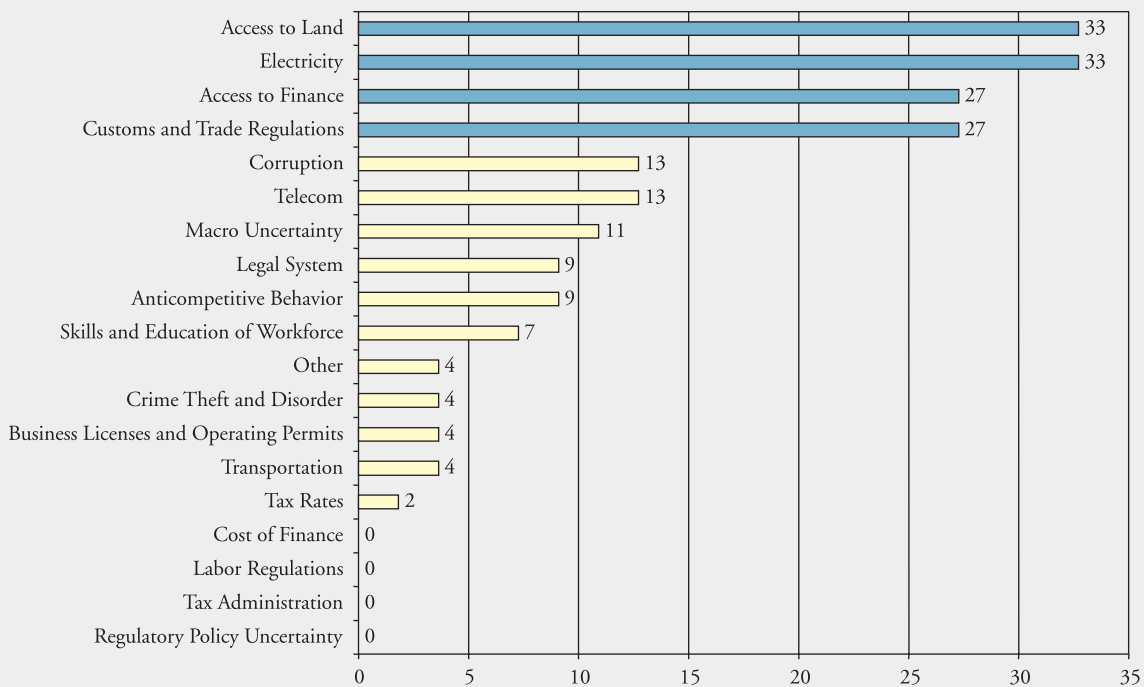
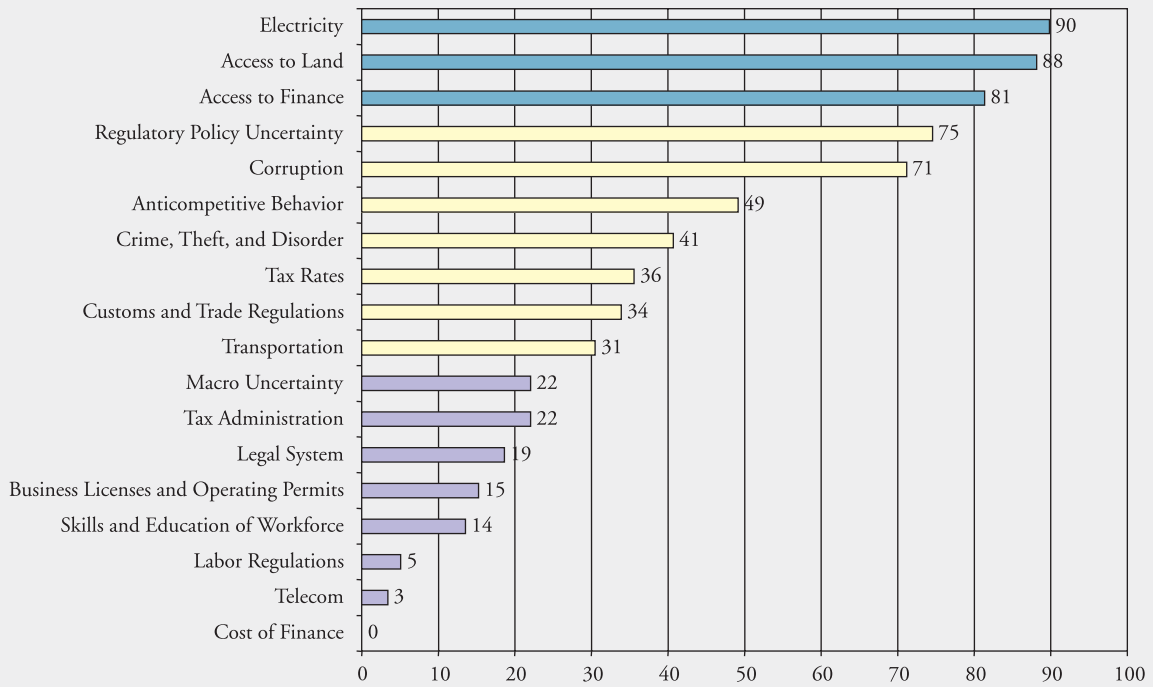


Figure B.6: Jalalabad: Percentage of Firms Citing Constraint as Major or Severe



ANNEX C: Doing Business in Afghanistan

Afghanistan

Region: South Asia

Income category: Low income

Population: 23.9 million

GNI per capita (US\$): 250

Ease of...	Economy rank	Best performer	Worst performer
Doing Business	122	New Zealand	Congo, Dem. Rep.
Starting a Business	16	Canada	Angola
Dealing with Licenses	..	Palau	Tanzania
Hiring and Firing	25	Palau	Burkina Faso
Registering Property	150	New Zealand	Nigeria
Getting Credit	153	United Kingdom	Cambodia
Protecting Investors	145	New Zealand	Afghanistan
Paying Taxes	7	Maldives	Belarus
Trading across Borders	128	Denmark	Iraq
Enforcing Contracts	93	Norway	Timor-Leste
Closing a Business	142	Japan	West Bank and Gaza

Starting a Business (2005)

The challenges of launching a business in Afghanistan are shown below. Entrepreneurs can expect to go through 1 step to launch a business over 7 days on average, at a cost equal to 52.8 percent of gross national income (GNI) per capita. No minimum deposit is required to obtain a business registration number.

Indicator	Afghanistan	Region	OECD
Procedures (number)	1	7	6
Time (days)	7	35	19
Cost (percentage of income per capita)	52.8	39.7	6.5
Min. capital (percentage of income per capita)	0.0	0.8	28.9

Hiring & Firing Workers (2005)

The difficulties that employers in Afghanistan face in hiring and firing workers are shown below. Each index assigns values between 0 and 100, with higher values representing more rigid regulations. The Rigidity of Employment Index is an average of the three indices. For Afghanistan, the overall index is 39.

Indicator	Afghanistan	Region	OECD
Difficulty of Hiring Index	67	37.6	29.5
Rigidity of Hours Index	20	35.0	50.0
Difficulty of Firing Index	30	42.5	27.3
Rigidity of Employment Index	39	38.5	35.7
Hiring cost (percentage of salary)	0	5.1	20.8
Firing costs (weeks of wages)	4.0	75.0	32.6

Registering Property (2005)

The ease with which businesses can secure rights to property is measured below. In Afghanistan, it takes 11 steps and 252 days to register property. The cost to register property there is 9.5 percent of overall property value.

Indicator	Afghanistan	Region	OECD
Procedures (number)	11	6	4
Time (days)	252	124	33
Cost (percentage of property value)	9.5	6.3	4.7

Getting Credit (2005)

Measures on credit information sharing and the legal rights of borrowers and lenders in Afghanistan are shown below. The Legal Rights Index ranges from 0 to 10, with higher scores indicating that those laws are better designed to expand access to credit. The Credit Information Index measures the scope, access, and quality of credit information available through public registries or private bureaus. It ranges from 0 to 6, with higher values indicating that more credit information is available from a public registry or private bureau.

Indicator	Afghanistan	Region	OECD
Legal Rights Index	0	3.8	6.3
Credit Information Index	0	1.8	5.0
Public registry coverage (percentage of adults)	0	0.1	7.8
Private bureau coverage (percentage of adults)	0	0.6	58.0

Protecting Investors (2005)

The indicators below describe three dimensions of investor protection: transparency of transactions (Extent of Disclosure Index), liability for self-dealing (Extent of Director Liability Index), shareholders' ability to sue officers and directors for misconduct (Ease of Shareholder Suits Index and Strength of Investor Protection Index). The indexes vary between 0 and 10, with higher values indicating greater disclosure, greater liability of directors, greater powers of shareholders to challenge the transaction, and better investor protection.

Indicator	Afghanistan	Region	OECD
Disclosure Index	0	4.1	6.0
Director Liability Index	0	4.6	5.3
Shareholder Suits Index	2	6.4	6.7
Investor Protection Index	0.7	5.0	6.0

Paying Taxes (2005)

The effective tax that a medium-size company in Afghanistan must pay or withhold within a year is shown below. Entrepreneurs there must make 2 payments, spend 80 hours, and pay 21.4 percent of gross profit in taxes.

Indicator	Afghanistan	Region	OECD
Payments (number)	2	25	16
Time (hours)	80	331	192
Total tax payable (percentage of gross profit)	21.4	35.3	46.1

Trading across Borders (2005)

The costs and procedures involved in importing and exporting a standardized shipment of goods in Afghanistan are detailed under this topic. Every official procedure involved is recorded, starting from the final contractual agreement between the two parties and ending with the delivery of the goods.

Indicator	Afghanistan	Region	OECD
Documents for export (number)	..	8	5
Signatures for export (number)	..	12	3
Time for export (days)	..	33	12
Documents for import (number)	10	12	6
Signatures for import (number)	57	24	3
Time for import (days)	97	46	14

Enforcing Contracts (2005)

The ease or difficulty of enforcing commercial contracts in Afghanistan is measured below. It takes 400 days to enforce contracts there. The cost of enforcing contracts is 24.0 percent of debt.

Indicator	Afghanistan	Region	OECD
Procedures (number)	..	29	19
Time (days)	400	385	232
Cost (percentage of debt)	24.0	36.7	10.9

Closing a Business (2005)

The time and cost required to resolve bankruptcies is shown below. The recovery rate, expressed in terms of how many cents on the dollar claimants recover from the insolvent firm, is 0.

Indicator	Afghanistan	Region	OECD
Time (years)	No practice	4.2	1.5
Cost (percentage of estate)	No practice	7.3	7.6
Recovery rate (cents on the dollar)	0.0	19.7	73.5

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