

Doing Business in Afghanistan 2017



COMPARING BUSINESS REGULATION FOR DOMESTIC FIRMS IN
5 AFGHAN PROVINCES AND 189 OTHER ECONOMIES



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Global Indicators Group – Development Economics
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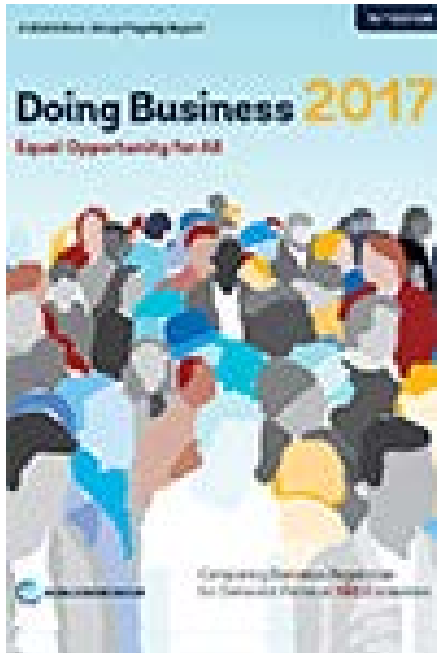
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- I. ABOUT DOING BUSINESS AND SUBNATIONAL DOING BUSINESS
- II. WHAT *DOING BUSINESS IN AFGHANISTAN 2017* MEASURES
- III. FINDINGS
- IV. THE WAY FORWARD



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What does *Doing Business* measure?



Doing Business indicators:

- ✓ Focus on regulations relevant to the life cycle of a small to medium-sized domestic business.
- ✓ Are built on standardized case scenarios.
- ✓ Are measured for the most populous city in each country, and the second largest business city in countries with more than 100 million inhabitants.
- ✓ Are focused on the formal sector.

DO NOT measure all aspects of the business environment such as security, macroeconomic stability, prevalence of bribery and corruption, level of training and skills of the labor force, proximity to markets, regulations specific to foreign investment or the state of the financial system.

The 11 areas of business regulation measured by *Doing Business* affect firms throughout their life cycle

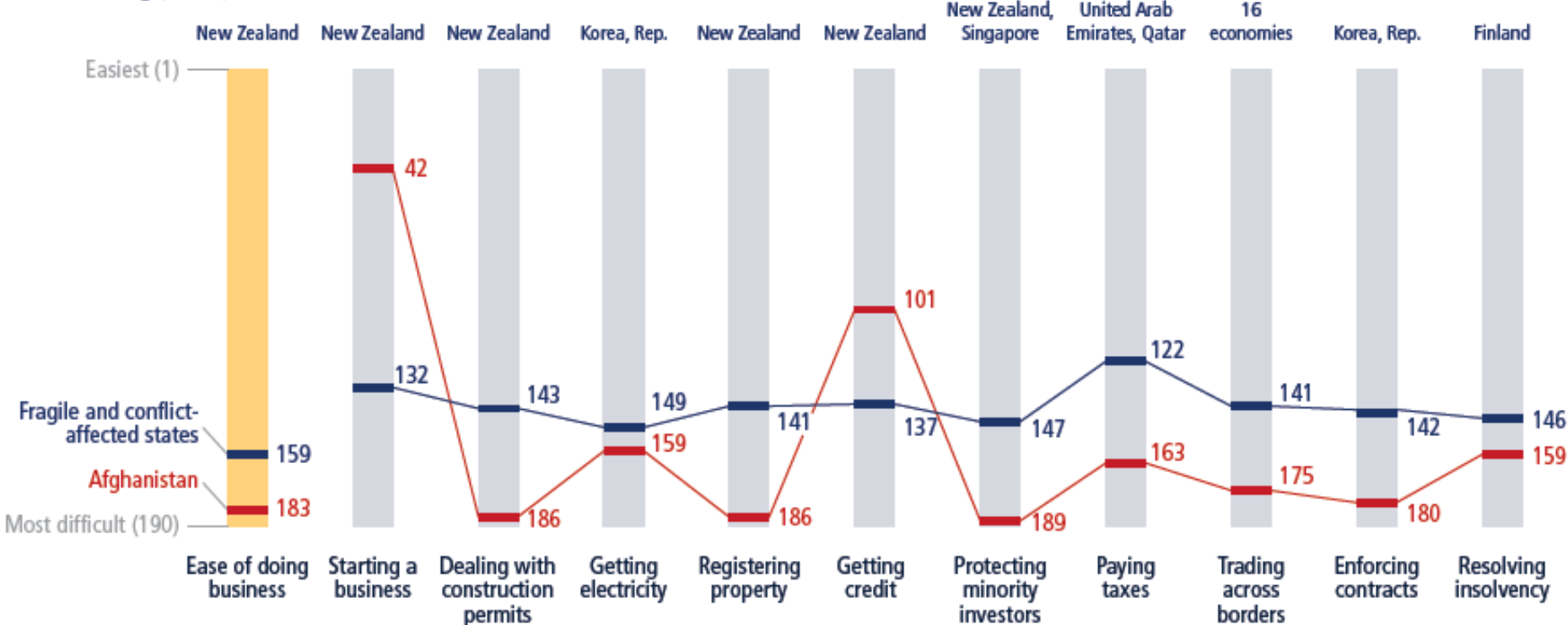


Afghanistan ranks 183 in *Doing Business 2017*

Topics	DB2017 rank
<i>Starting a Business</i>	42
<i>Dealing with Construction Permits</i>	186
<i>Getting Electricity</i>	159
<i>Registering Property</i>	186
<i>Getting Credit</i>	101
<i>Protecting Minority Investors</i>	189
<i>Paying Taxes</i>	163
<i>Trading Across Borders</i>	175
<i>Enforcing Contracts</i>	180
<i>Resolving Insolvency</i>	159

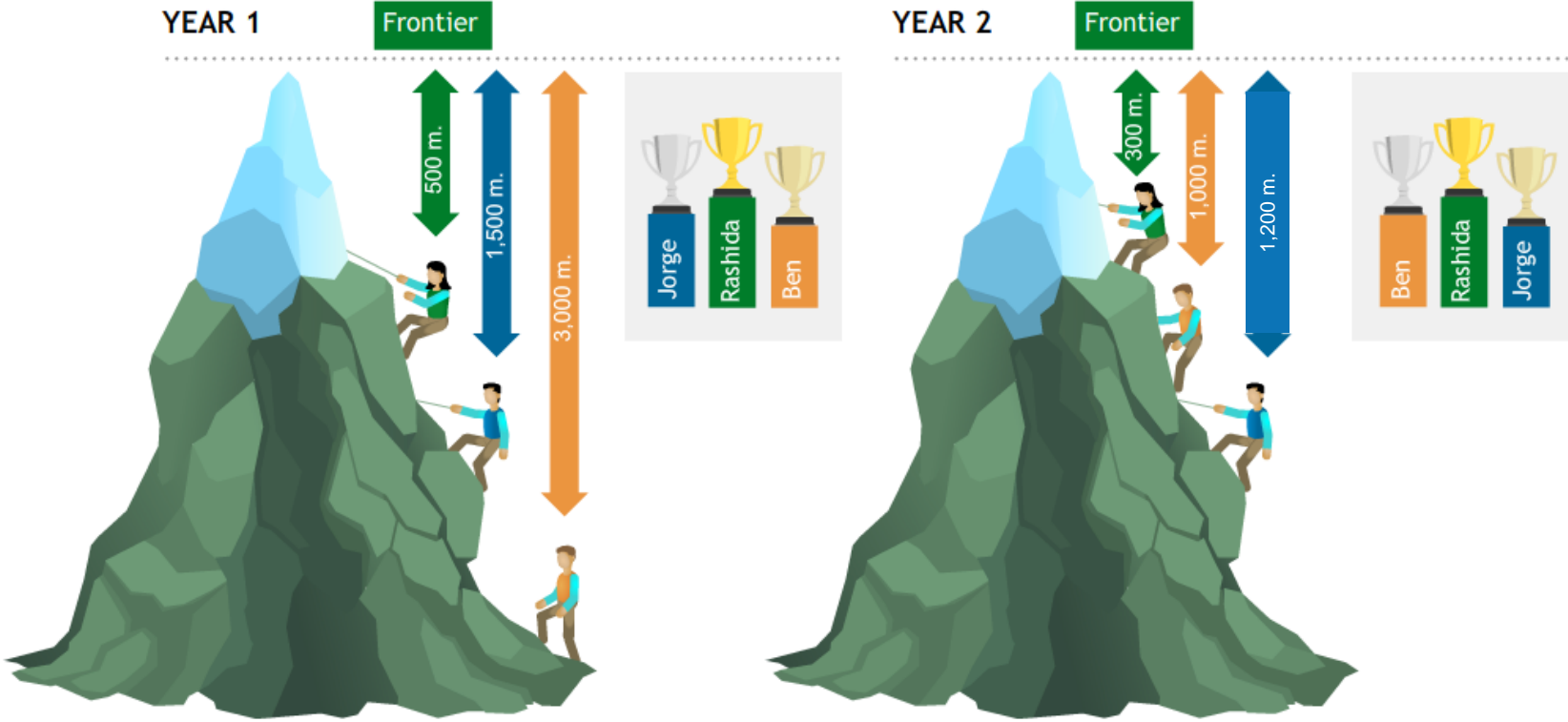
Afghanistan's performance compared with the average for fragile and conflict affected states

Global ranking (1–190)



The distance-to-frontier ranking

Let's say 3 climbers are trying to reach a mountain.



The closer to the frontier (the top), the higher the DTF score.

The benefits of *Subnational Doing Business*

Generates micro-level data on business regulations globally comparable.

1
Diagnostic Tool

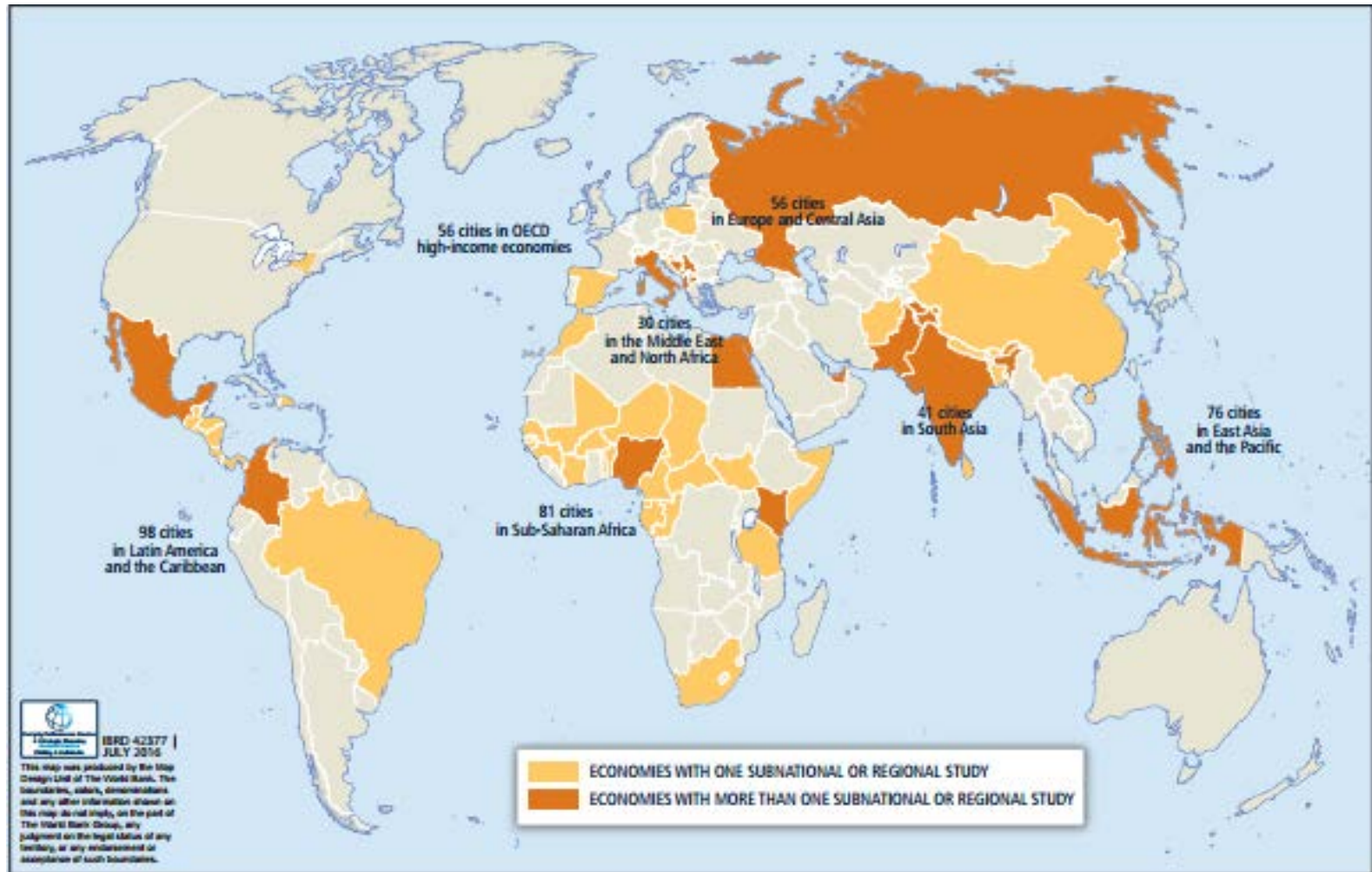
2
Reform Instrument

Identifies bottlenecks, highlights opportunities for improvement and presents good practices.

3
Monitoring Device

Creates baseline that can be used to measure progress over time.

Demand for *Subnational Doing Business* in all regions and all income levels

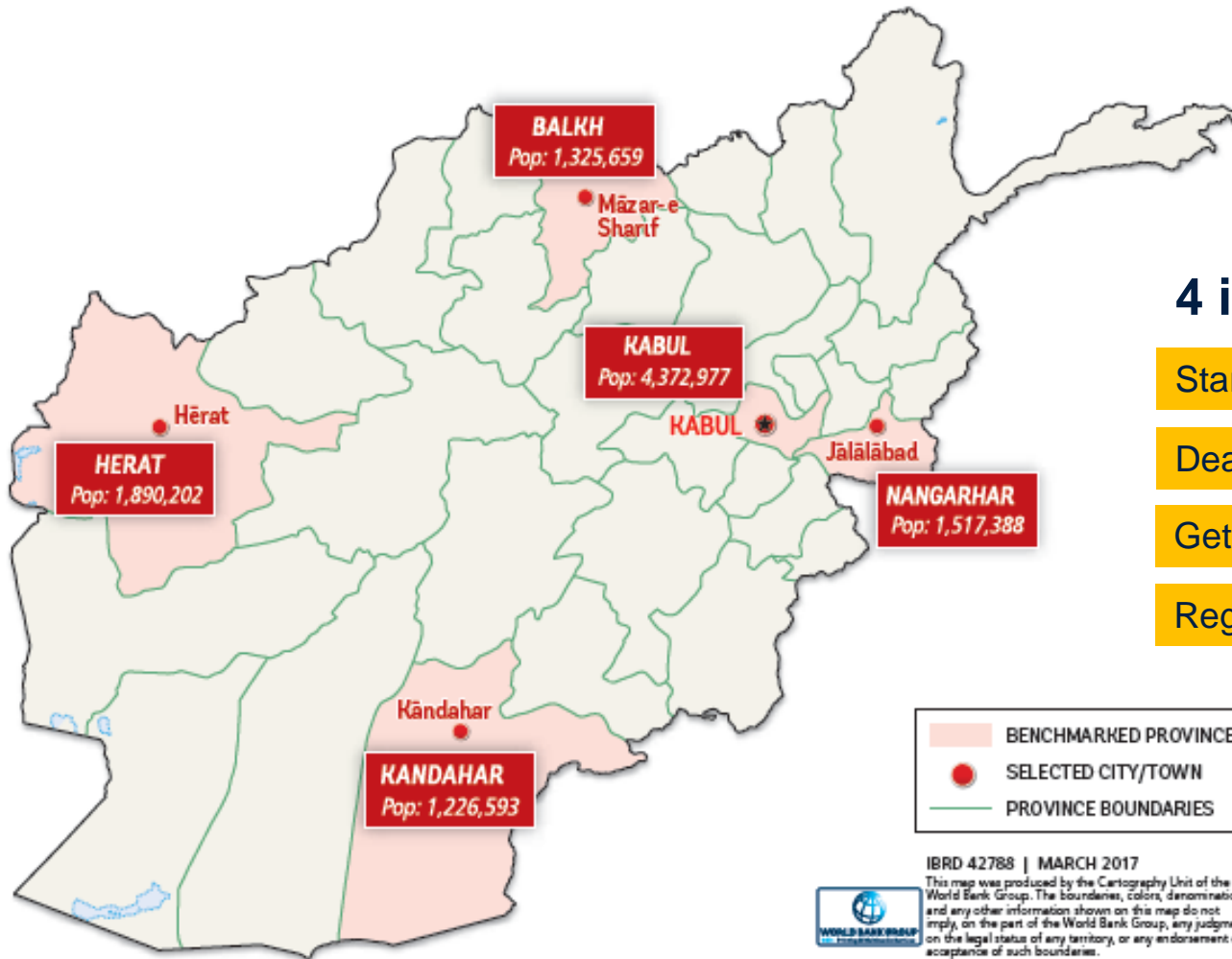


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Measuring 4 provinces and Kabul across 4 indicators



4 indicators

Starting a business

Dealing with construction permits

Getting electricity

Registering property

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Where is doing business easier in Afghanistan—and where not?

Province (City)	Starting a business		Dealing with construction permits		Getting electricity		Registering property	
	DTF score	Rank	DTF score	Rank	DTF score	Rank	DTF score	Rank
Balkh (<i>Mazar-i-Sharif</i>)	86.19	2	38.43	2	44.03	2	36.72	2
Herat (<i>Herat</i>)	85.94	4	27.62	4	38.95	5	24.17	5
Kabul (<i>Kabul</i>)	92.08	1	22.39	5	45.04	1	27.50	4
Kandahar (<i>Kandahar</i>)	86.19	2	39.29	1	42.36	4	40.31	1
Nangarhar (<i>Jalalabad</i>)	85.94	4	31.71	3	42.94	3	35.60	3

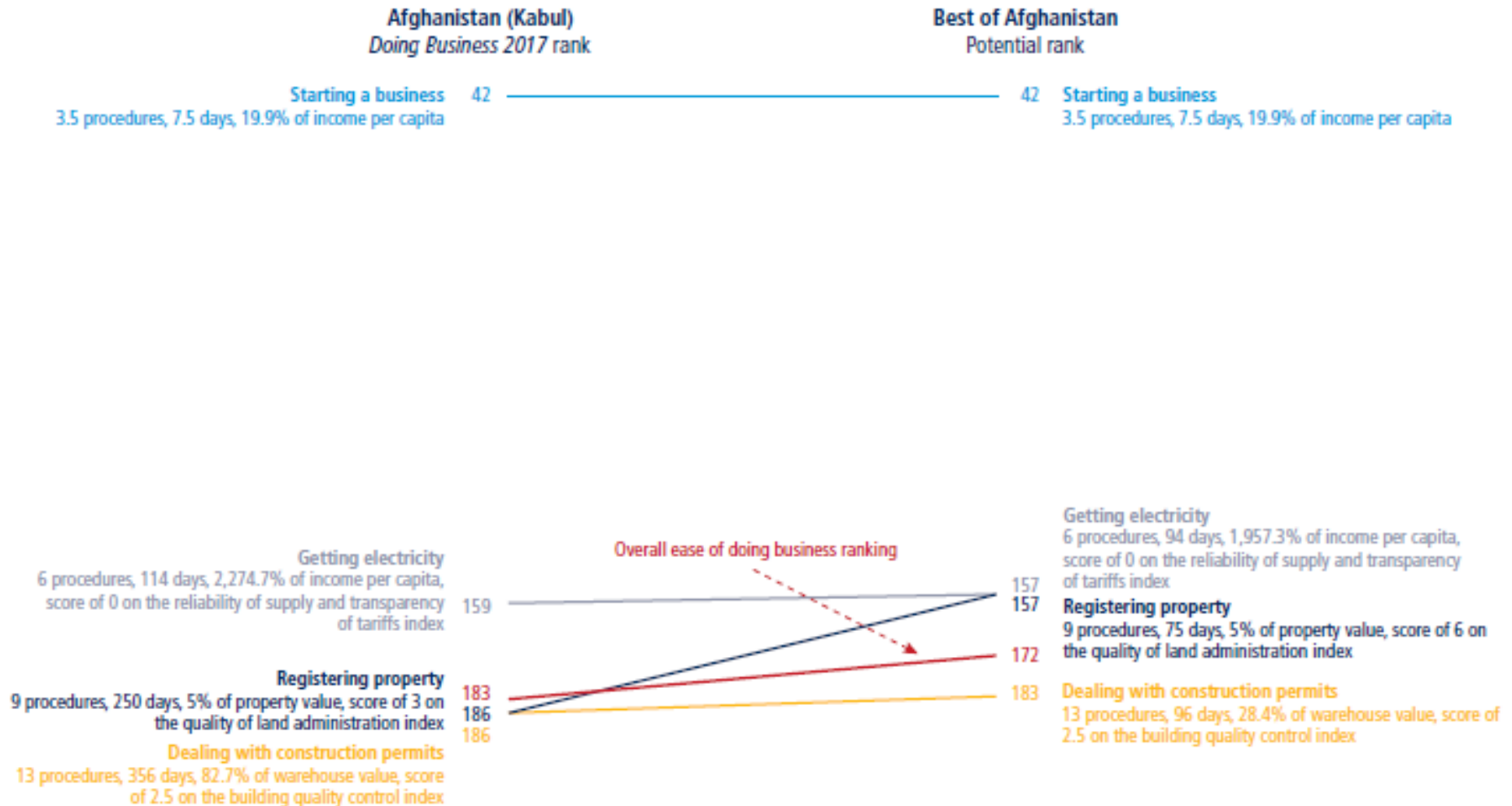
Source: Doing Business database.

Note: Rankings for the four areas measured are based on the distance to frontier (DTF) score, which shows how far a province is from the best performance achieved by any economy on each Doing Business indicator. The distance to frontier score is normalized to range from 0 to 100, with 100 representing the frontier of best practices (the higher the score, the better). For more information, see the chapter “About Doing Business and Doing Business in Afghanistan 2017” and the data notes.

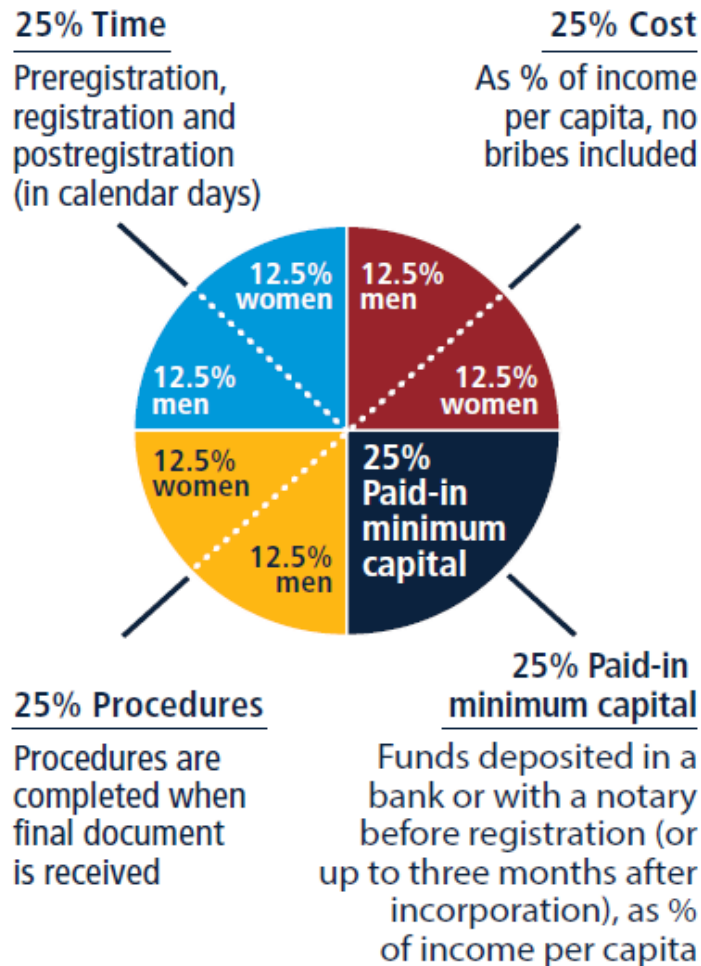
Doing Business in Afghanistan 2017: what are the main findings?

- ✓ Good practices can be found across Afghanistan in all four areas of regulation. Reform-minded policy makers can make tangible improvements by replicating measures already successfully implemented within the country.
- ✓ Kabul's top rankings in starting a business and getting electricity reflect reforms that were implemented only in the capital. Rolling these reforms out across Afghanistan would benefit entrepreneurs in other provinces and urban centers. Stronger local governments would enhance efficiency in the provinces and at the same time liberate resources in Kabul, where many bureaucratic processes are centralized.
- ✓ In areas of regulation where there is more subnational autonomy, local agencies in other provinces offer examples of good practice in how to reduce the time, cost and complexity of bureaucratic processes.
- ✓ By adopting all the good practices found at the subnational level, Afghanistan would move substantially closer to the frontier of regulatory best practices—and jump 11 places in the global ranking of 190 economies on the ease of doing business, moving up from 183 to 172.

Potential Afghanistan global ranking



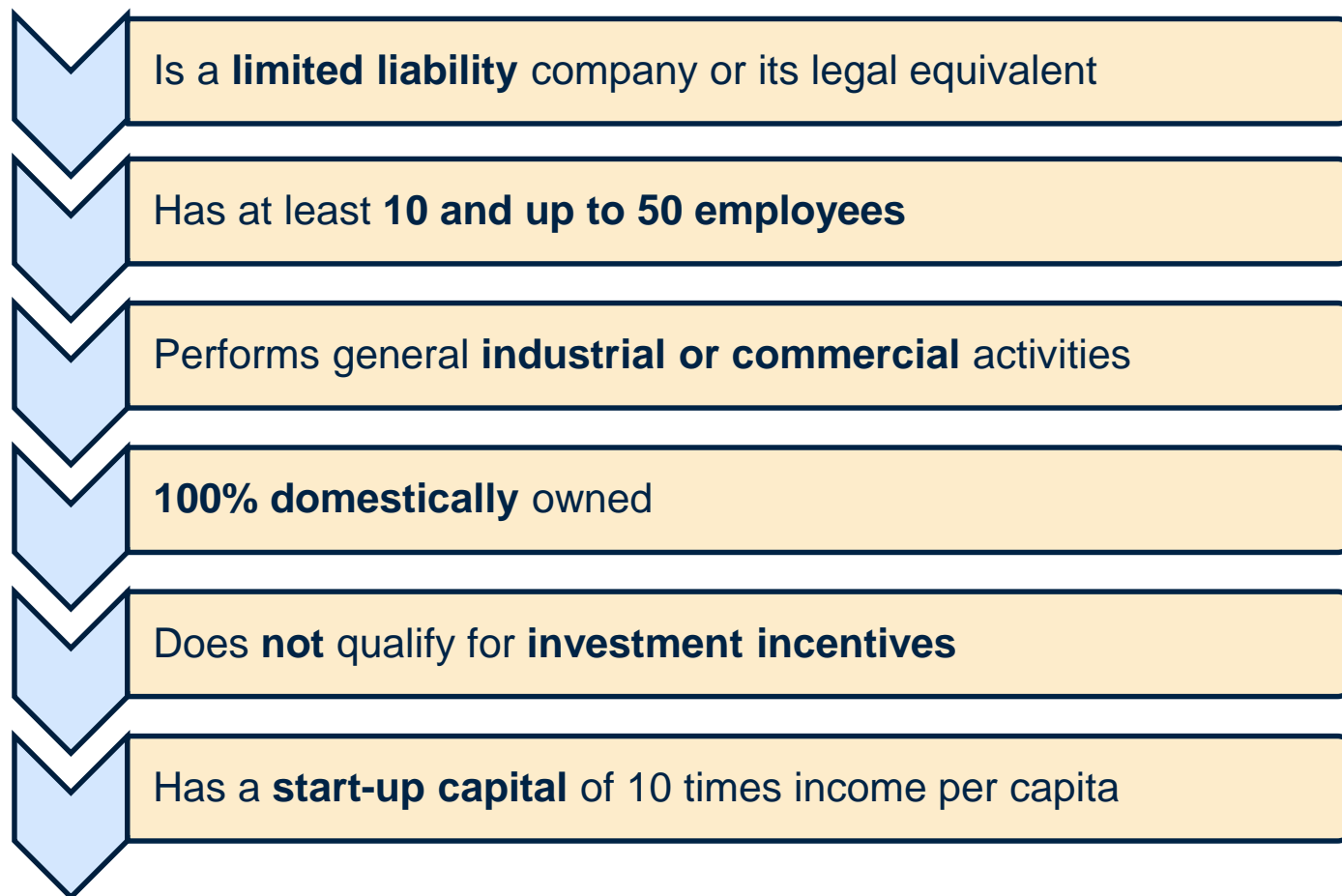
What does Starting a Business measure?



Rankings are based on distance to frontier for 7 indicators:

- ❖ Procedure Women (12.5%) **New**
- ❖ Procedure Men (12.5%)
- ❖ Cost Women (12.5%) **New**
- ❖ Cost Men (12.5%)
- ❖ Time Women (12.5%) **New**
- ❖ Time Men (12.5%)
- ❖ Paid-in minimum capital (25%)

Case study assumptions about the company



Starting a Business: main findings

- Afghanistan has made important strides since 2008 in simplifying the start-up process. Yet the cost remains high by regional comparison.
- Recent changes aimed at abolishing dual licensing requirements for local businesses have the potential to make the start-up process more efficient across the country.
- Among the five provinces benchmarked, starting a business is easier in Kabul than in the other four. In these four provinces the lack of a one-stop shop means that starting a business requires twice as many procedures. But the process still takes the same amount of time as in Kabul and less than in Karachi, Pakistan, or in Mumbai, India.

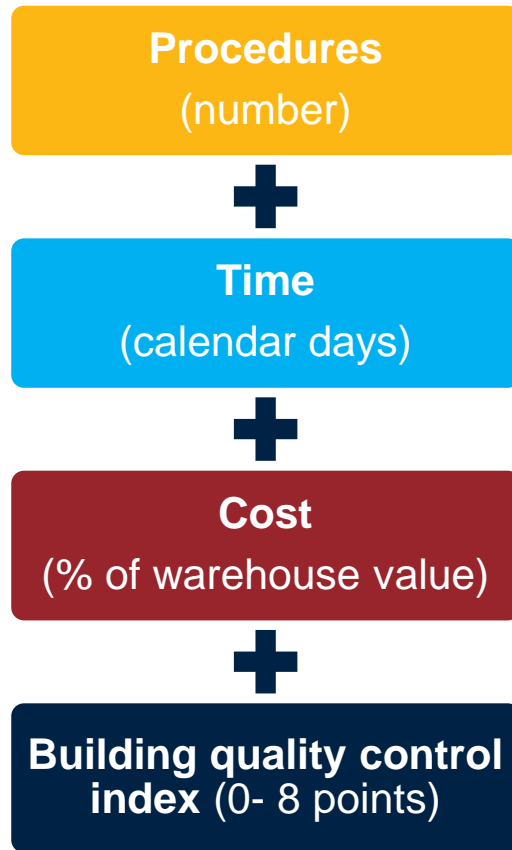
Starting a Business: ranking

Starting a business:

- Is easiest in Kabul (3.5 procedures)
- Is fastest in Balkh, Kabul and Kandahar (7.5 days).
- Has the same cost across provinces

Province (City)	Rank	Distance to frontier score (0–100)	Procedures (number)		Time (days)		Cost (% of income per capita)
			Men	Women	Men	Women	
Kabul (Kabul)	1	92.08	3	4	7	8	19.9
Balkh (Mazar-i-Sharif)	2	86.19	7	8	7	8	19.9
Kandahar (Kandahar)	2	86.19	7	8	7	8	19.9
Herat (Herat)	4	85.94	7	8	8	9	19.9
Nangarhar (Jalalabad)	4	85.94	7	8	8	9	19.9

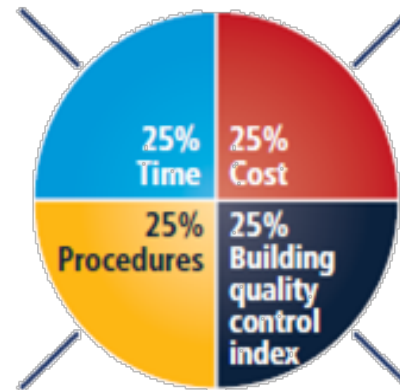
What does dealing with construction permits measure?



Rankings are based on distance to frontier scores for four indicators

Days to comply with formalities to build a warehouse

Cost to comply with formalities, as % of warehouse value



Steps to comply with formalities; completed when final document is received

Quality of building regulation and its implementation

Case study assumptions

Construction company

Is a **limited liability company**

100% **domestically and privately** owned

Has 5 owners, none of whom is a legal entity

Is **fully licensed** and insured to carry out construction projects

Has **60 builders** and other employees, all **nationals** with technical expertise and professional experience necessary to obtain construction permits and approvals

Case study assumptions (continued)

Warehouse

Will be used for **general storage activities** (e.g., books)

2 stories; 1,300.6 m²

Located on a land plot of 929 m², **100% owned** by BuildCo

Valued at 50 times income per capita

Water and sewerage connections

150 m from the existing water source and sewer tap

If there is no water delivery infrastructure, a borehole will be dug

Building quality control index

Components	Score
Clarity and accessibility of regulations	0-2
Quality control before construction	0-1
Quality control during construction	0-3
Quality control after completion of construction	0-3
Liability and insurance	0-2
Professional certification	0-4

Dealing with Construction Permits: main findings

- On average in the five Afghan provinces surveyed, completing the construction permitting process for a simple warehouse takes five weeks less than the regional average for South Asia—but it costs more than twice as much as a share of the value of the warehouse.
- Among the five provinces, Kandahar has the fastest and least costly process, requiring around three months and 28.4% of the value of the warehouse. In Kabul it takes almost nine months longer and costs three times as much.
- Among the main constraints to greater efficiency and quality in construction permitting in Afghanistan are fragmented and outdated regulations and poor transparency. This situation sustains the alarming rates of illegal construction in the country.

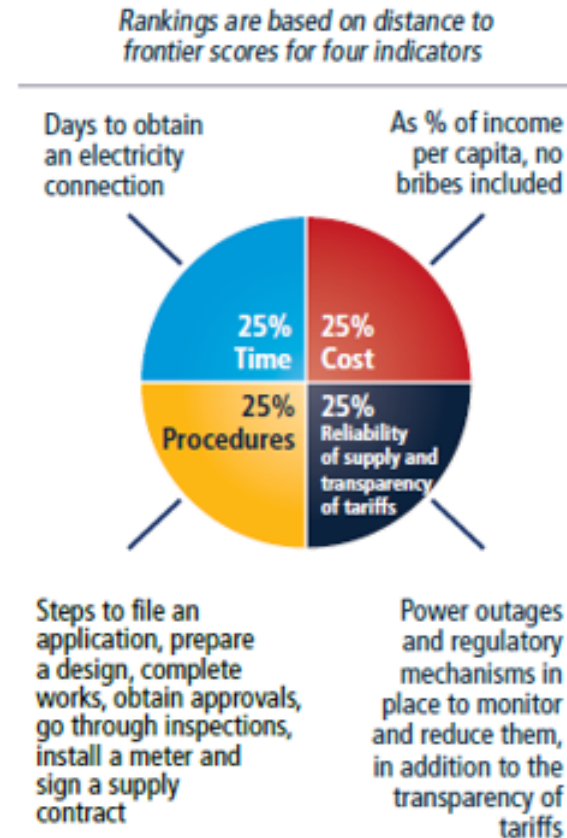
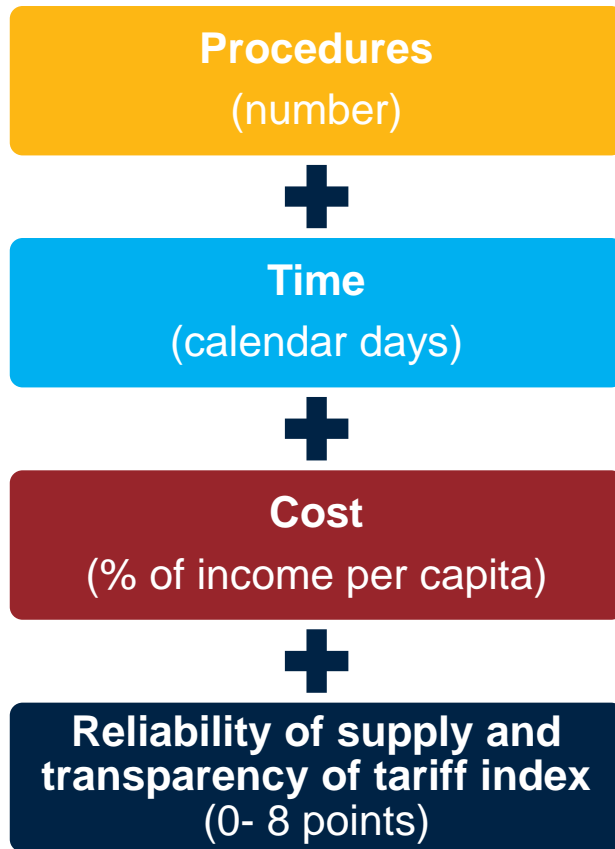
Dealing with Construction Permits: ranking

Construction permitting is:

- Easiest and better regulated in Kabul (13 procedures, 2.5 in the Building Quality Control Index)
- Cheapest and fastest in Kandahar (96 days, 28.4% of warehouse)

Province (City)	Rank	Distance to frontier score (0–100)	Procedures (number)	Time (days)	Cost (% of ware- house value)	Building quality control index (0–15)
Kandahar (Kandahar)	1	39.29	14	96	28.4	2
Balkh (Mazar-i-Sharif)	2	38.43	14	108	31.8	2
Nangarhar (Jalalabad)	3	31.71	21	104	34.3	2
Herat (Herat)	4	27.62	23	133	32.1	2
Kabul (Kabul)	5	22.39	13	356	82.7	2.5

What does getting electricity measure?



Case study assumptions

Warehouse

Owned by a **local entrepreneur**

Located in an area where similar warehouses are **typically located**

Located in an area with **no physical constraints**

New construction and is connected to electricity **for the first time**

Used for **storage of goods**

Electricity connection

New 3-phase, 4-wire Y, 140-kilovolt-ampere (kVA) connection

150 meters long; either low or medium voltage

Either overhead or underground

Requires works crossing of a 10m road, carried out on public land

Does not involve work to install the internal electrical wiring (completed)

Monthly electricity consumption of 26,880 kWh.

Reliability of supply and transparency of tariff index

Components	Score
SAIDI and SAIFI values	0-3
Tools used by the distribution utility to monitor power outages	0-1
Tools used by the distribution utility to restore power supply	0-1
Whether a regulator monitors the utility's performance on reliability of supply	0-1
Financial deterrents to limit outages	0-1
Transparency and availability of electricity tariffs	0-1

Getting Electricity: main findings

- On average in the five Afghan provinces surveyed, getting an electricity connection takes three weeks less than the regional average for South Asia. But it costs almost 70% more as a share of income per capita. One substantial expense is the substation distribution transformer, which because of insufficient capacity needs to be purchased and installed in the vast majority of cases.
- Among the five Afghan provinces, it is easiest to obtain an electricity connection in Kabul, where the headquarters of the state distribution utility are located.
- While all five Afghan provinces receive a score of 0 on a *Doing Business* measure of the reliability of electricity supply, power shortages are particularly severe in the South, which lacks connectivity with the rest of the country and with potential exporting states.

Getting Electricity: ranking

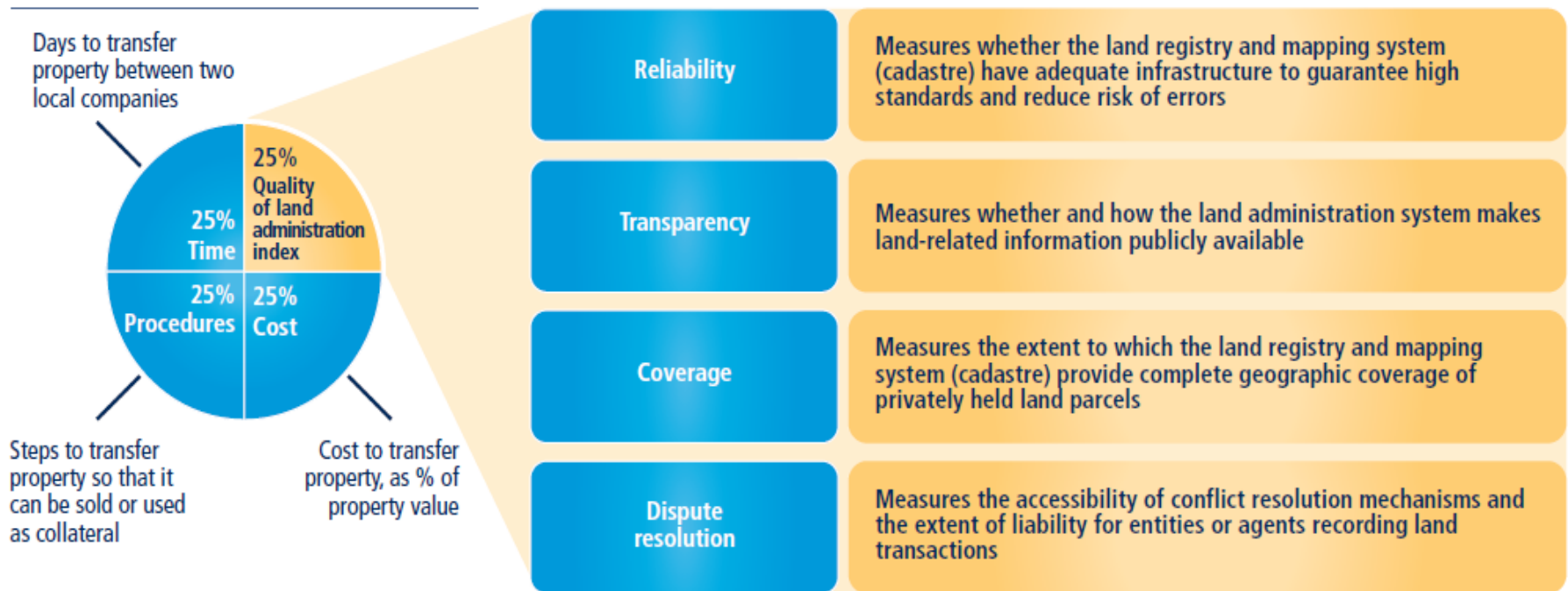
Getting electricity is:

- Easiest in Kabul (6 procedures)
- Fastest in Balkh (94 days)
- Cheapest in Balkh and Nangarhar (1,957.3% of income per capita)
- All provinces score 0/8 on the Index

Province (City)	Rank	Distance to frontier score (0–100)	Procedures (number)	Time (days)	Cost (% of income per capita)	Reliability of supply and transparency of tariffs index (0–8)
Kabul (Kabul)	1	45.04	6	114	2,274.7	0
Balkh (Mazar-i-Sharif)	2	44.03	7	94	1,957.3	0
Nangarhar (Jalalabad)	3	42.94	7	104	1,957.3	0
Kandahar (Kandahar)	4	42.36	7	109	1,970.6	0
Herat (Herat)	5	38.95	7	140	1,983.9	0

Registering property – methodology

Rankings are based on distance to frontier scores for four indicators



Case study assumptions

Parties (buyer and seller)

100% **domestic** limited liability **SME**

The seller has owned the warehouse for 10 years

Transfer

Transfer of **existing** title of land and building – i.e. not initial registration

Property

Has a **value** of 50 times income per capita; **sale price** equals the value.

Is **registered** in land registry and/or cadaster

Is **free of title disputes** and/or mortgages

Registering Property: main findings

- Faced with the challenge of having less than 30% of urban land formally registered, Afghanistan remains one of the most difficult places globally to transfer land.
- There is potential to do better. Data show that transferring property takes only 2.5 months in Kandahar, compared with more than 8 months in Kabul.
- Procedural complexity, low levels of transparency and lack of adequate record-keeping infrastructure are some of the major obstacles to improving the reliability of the land administration system.

Registering Property: ranking

Construction permitting is:

- Is easiest in Kabul (9 procedures)
- Is fastest in Kandahar (75 days)
- Has the same cost across the 5 provinces (5% of property value)
- Better regulated in Balkh (6/30 in the Quality index)

Province (City)	Rank	Distance to frontier score (0–100)	Procedures (number)	Time (days)	Cost (% of property value)	Quality of land administration index (0–30)
Kandahar (Kandahar)	1	40.31	11	75	5	4.0
Balkh (Mazar-i-Sharif)	2	36.72	11	119	5	6.0
Nangarhar (Jalalabad)	3	35.60	12	97	5	4.0
Kabul (Kabul)	4	27.50	9	250	5	3.0
Herat (Herat)	5	24.17	11	236	5	4.0

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What can be improved: Starting a Business

- Eliminating the requirement of publication in the Gazette.
- Implement reforms beyond the capital city.
- Continue simplifying licensing requirements for local businesses.

Relevant agencies and other stakeholders

Afghanistan Central Business Registry and Intellectual Property (ACBRIP)

Ministry of Commerce and Industries

Ministry of Finance

Provincial offices of ACBRIP

What can be improved: Dealing with Construction Permits

- Adopt simple fee schedules based on objective criteria for issuing building permits.
- Overhaul the system for inspections during construction.
- Merge the functions of municipalities and Departments of Urban Development, as in Kabul.
- Introduce stricter standards for the professionals involved in the permitting process.
- Modernize the legislative framework and make the permitting process more transparent, following the reform process started by the Kabul Municipality.

Relevant agencies and other stakeholders

Independent Directorate for Local Governance

Ministry of Urban Development Subnational

Municipal building office

Professional associations (architects and engineers)

What can be improved: Getting Electricity

- Reduce the up-front cost of obtaining a new connection.
- Improve the transparency of connection requirements and consumption tariffs.
- Introduce independent regulatory oversight to monitor utility reliability.
- Improve coordination between DABS headquarters and regional offices, as in Balkh and Nangarhar.
- Transfer the authority to issue approvals for new transformers to DABS regional offices

Relevant agencies and other stakeholders

Da Afghanistan Breshna Sherkat (DABS)

Ministry of Energy and Water

Authorized electrical installation companies

Professional associations (engineers)

What can be improved: Registering Property

- Make property registration an administrative process, as in the pilot project announced for Herat and Kabul.
- Make standardized forms and fee schedules available.
- Digitize land-related records and processes.
- Improve tenure security and dispute resolution mechanisms for land.
- Replace the property valuation process with a standardized schedule of property values.
- Streamline internal processes within municipalities, following Kabul example.
- Make transparency of information a priority.

Relevant agencies and other stakeholders

Ministry of Justice

Afghanistan Independent Land Authority (Arazi)

Primary courts

Makhzan (appeals court archives)

Mustofiat (Ministry of Finance's provincial revenue department)

Milkiat-ha (municipal property office)

Thank you!

Questions



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